JX Holdings, Inc. (5020)

Q&A Session at Analysts Meeting on Fiscal 2010 2Q Financial Results

1. Date & time: 17:15 – 18:15, Friday November 5, 2010
2. Place: Auditorium, 2nd Floor, JX Bldg.
3. Number of participants: 229
4. Principal questions

This notice contains certain forward-looking statements.

A cautionary statement is contained in the endnote.

Q. How have you factored in petroleum products and petrochemicals margins as well as copper price assumptions into your second half business performance forecast?

A. As for petroleum products in the second half, margins for our four light oil products remained unchanged from the levels announced in May. Petroleum companies are planning regular shutdowns and production cutbacks in the second half, and recent inventory levels are also low. So far, just as in the first half, margins continue to be relatively good. Consequently, if we take into account recent demand conditions, our full-year forecast assumptions are relatively solid.

Market conditions for petrochemicals are currently upbeat. In the second half, we expect paraxylene to have a spread of $480 per ton against Dubai crude, therefore, if the current price of $600-$640 per ton can be maintained, the impact will be positive. A $100 per ton spread change in paraxylene would have a ¥1.5 billion impact on monthly earnings.

Our performance forecast for second half copper prices assumes a price of 320 cents per pound, however, recent prices have been between 380 to 390 cents per pound. A 10 cent rise in copper prices would have a ¥1.0 billion positive impact in the second half.

Generally speaking, compared to current market conditions, our performance forecast assumptions are relatively solid. Nevertheless, because crude oil prices are on an upward trend and there is a risk of shrinking margins, the situation is unpredictable. Furthermore, it bears noting that a strong yen is not necessarily a positive for JX Holdings.

Q. What about margin levels for the four light oil products?

A. The performance assumptions for second half margins for these products have been set slightly lower than first half results. In the first half, second quarter (July-September) margins were better than the first quarters' (April-June). We see second half performance as largely in line with that of the first quarter.

Q. When can you announce specifics about the additional 200,000 barrel per day of capacity reduction? Also, is it possible that synergistic benefits from the merger could top ¥80 billion?

A. The deadline for the 200,000 barrel per day capacity reduction is March 2014, which is more than three years from now. We will make a decision after taking into account changes in future oil demand, the breakdown of oil by type and other factors. In addition, our target of achieving ¥80 billion in merger synergies in fiscal 2012 is no easy matter. For the time being, we will work hard to achieve this target as early as possible, instead of trying to increase the amount.

Q. Could the 90% utilization rate, excluding the impact of periodic repair, be considered full operation?

A. The current utilization rate is nearly 93%. If you take into account such factors as minor operational problems, then it is virtually full operation.

Q. With ordinary income for E&P of Oil and Natural Gas amounting to ¥32.1 billion in the first half, and ¥46.0 billion for the full year, ordinary income for this segment amounted to ¥14.0 billion in the second half. What was the reason for the profit decline in the second half?

A. Sales declined ¥10.0 billion due to the effects of volume decreases and the strong yen. In addition, costs of ¥5.0 billion were sifted from the first half to the second half.

Q. What progress has been made on the Caserones and Quechua copper deposit projects?

Caserones is a large-scale project spanning 28 years beginning from 2013 and we are now ordering key machinery for it. The development of infrastructure such as electric power to support the project is proceeding smoothly, as is project financing. When the mine begins production, we will raise our self-sufficiency ratio by the equity entitled copper mine production from the current 20% to 50%. Quechua is a 17-year project beginning from 2014 that is currently undergoing economic feasibility studies. When the mine begins production, we will raise our self-sufficiency ratio by an additional 10% to 60%. Although our medium-term management plan for fiscal 2010-2012 does not include any potential earnings from this project, we have great expectations for it after it commences.

Q. Although you have denied the possibility of any near-term equity finance, your stock price is low. If you have better-than-expected earnings and cash flow, will you buyback Company shares? Also, while you are planning to pay a first-half dividend of ¥7.5 and an annual dividend of ¥15, are you considering a dividend increase based on performance?

A. As indicated in our medium-term management plan, reducing interest-bearing debt and improving our financial position are current priority issues. We will not buy back Company shares this fiscal year. Since we are now in the midst of the fiscal period, it's too early to comment on dividend payments. However, we think the annual dividend of ¥15 is at the favorable level. If we exclude negative goodwill, the dividend payout ratio is 40% and the dividend yield is 3%.

Q. Why do you expect to post a ¥35.0 billion inventory valuation loss in the Petroleum Refining and Marketing segment for the full year?

A. We incurred an inventory valuation loss of nearly ¥35 billion in the first half. Included in this amount was ¥13-14 billion based on the lower-of-cost-or-market-value method due to the yen's sharp appreciation. In other words, the yen's appreciation was factored in at an exchange rate of up to ¥80 per U.S. dollar. For the second half, we assumed an exchange rate of ¥80 per U.S. dollar and $80 per barrel for crude oil. Given those assumptions, we do not think there would be an additional inventory valuation gain or loss.