JX Holdings, Inc. (5020)
Q&A Session at Analysts Meeting on Fiscal 2010 1Q Financial Results

1. Date & time: 16:30-17:30 Tuesday August 3, 2010
2. Place: Auditorium, 2nd Floor, JX Bldg.
3. Number of participants: 202
4. Principal questions

This notice contains certain forward-looking statements.
A cautionary statement is contained in the endnote.

Q. Regarding the petroleum business, what do you see the difference between current margins in the petroleum business and your forecasts for the second quarter? You project lower profits in the second quarter compared with the first, but what sort of margins do you foresee?
A. When we announced our Medium-Term Management Plan in May, we stated that our forecasts were more conservative than actual market prices. Fortunately, for April-June the margin on light petroleum products was about ¥2/liter higher than our forecast. The forecast for the margin in July-September has also not changed much from our forecast in May. In early July the delivered spot price for light petroleum products had fallen very little, while crude oil was down from the June level. Consequently, if market prices remain at the present level, in July-September they are likely to rise above our forecasts.

Q. The forecast of ordinary income from Resource Development of Metals Business for the fiscal 2010 first half was ¥16.0 billion. As profit was ¥10.3 billion for the first quarter, this means that the forecast for the second quarter is ¥5.7 billion, which is a considerable decline. As the second quarter for the Resource Development is April-June, these figures are pretty much finalized, aren't they?
A. Regarding the Resource Development of Metals Business, the "first half" refers to the Jan.-June period, and therefore these figures are virtually finalized.

Q. You have already scrapped the two toppers and are consolidating service stations. Do you expect to post losses on the disposal of assets for this fiscal year?
A. Firstly, as regards the Group's refining capacity, the capacity as of the base point of December 2008 was 1,792,000 B/D, compared with which the refining capacity as of this June was 1,577,000 B/D(for a reduction of 21,000 B/D at Kashima, 24,000 B/D at Oita, 110,000 B/D at Mizushima, and 60,000 B/D at Toyama). By the end of March 2011, we plan a further reduction of 185,000 B/D to 1,392,000 B/D. This will constitute a total reduction of 400,000 B/D, or 22% from the base point. Expenses relating to this process and other integration costs were factored into the fiscal 2009 accounts settlement, and factors that can be estimated have been reflected in the business performance forecasts for fiscal 2010.

Q. In the present report, an amount of ¥63.1 billion within Special Gain has been additionally indicated as current market value portion. What does this consist of, and what is the annual amortization amount?

A. I am afraid I cannot supply a detailed breakdown for ¥63.0 billion of the portion of assets and liabilities assessed by the market value method. The principal items were approximately ¥40.0 billion for mining rights valuation in the Resource Development of Metals Business, just under ¥10 billion for mining rights in the E&P of Oil and Natural Gas, and around ¥40 billion in stock-price valuation gains for Toho Titanium Co., Ltd.

Added together, these figures exceed ¥63 billion, but we have also factored in the negative items such as accounting adjustments and unrealized losses on land holdings. Regarding the impact on goodwill amortization, the negative factor of amortization of mining rights and others in the amount of approximately ¥4 billion has been factored into the present forecast of this fiscal year. The JX Group's total depreciation is estimated at ¥210 billion for the year, and at ¥51 billion for the first quarter.

Q. What about expenses related to the integration?

A. We have earmarked merger expenses of ¥43 billion for this fiscal year. Adding to this ¥16 billion in investments, this gives a cash base of about ¥59 billion. In the first half forecast, expenses for brand integration are included.

Q. Regarding exports, you have explained that margins are improving, but if margins continue as at present, what effects will that have on profits for the first half?

A. As the domestic market was favorable in the April-June period, volume of exports fell by 700,000 kl from the previous year. The export margin for diesel oil between spot price and Dubai crude was $12.3/bbl at the end of July, thus moving higher than our forecast of $11.0/bbl. For this reason, we intend to increase exports from July onward. Regarding the profitability of exports, we cannot express an opinion at the moment, as this is a delicate matter affecting our position with our competitors.

Q. What action have you taken in response to the official guidance from METI with respect to the capital equipment ratio of cracking units?

A. If JX Holdings implements an additional reduction of 200,000 B/D by March 2014, for a total reduction of 600,000 B/D, we believe this will satisfy METI's criteria. We have been requested to submit a plan by the end of October, and we are currently putting our full efforts into this, but we are not yet at the stage where we can make specific comments.

Q. What is the present situation with respect to your petrochemicals operations?

A. Regarding paraxylene, demand for polyester itself is basically holding firm, but paraxylene price has slackened off somewhat due to the inflow from the Middle East, and the situation is expected to remain severe for the rest of this fiscal year. On the other hand, in China, the capacity of PTA(purified terephthalic acid), which is downstream of paraxylene, is scheduling increases as a result of which we expect the start of a recovery trend sometime within the next six months. Regarding benzene, demand is firm, but supply volume is also ample, and the market continues to show oversupply. Depending on market conditions, we may need to adjust our future production volume in response to demand. Spreads have been reduced by more than in the Group's fiscal budget plan, but they remain to a certain extent. Demand for derivatives of propylene shows an extremely firm undertone, and problems at facilities in Taiwan have recently caused a fairly strong upsurge in demand in excess of our forecasts.

Q. What are the trends with respect to TC/RC margins and margins on sulfuric acid in your Smelting & Refining Business?

A. Companies in China continue to increase their production capacity, and there is no change in the tight situation regarding copper concentrates, so we cannot expect an improvement in treatment and refining charges (TC/RCs) anytime soon. Regarding sulfuric acid, the situation improved compared with the start of the year, and was extremely good at the beginning of spring. Despite deteriorating thereafter, it still remains better than our initial forecasts.

Q. What progress is being made in the trials of the N-Chlo Process being conducted in Australia?

A. We began the trials last year, and we plan to continue testing and evaluation for the whole of this year. The evaluation process is currently underway, and we are not yet able to cite specific results.

Q. What progress has been made in integrating the operations of Nippon Oil and Nippon Mining Holdings?

A. In addition to synergistic benefits on the order of ¥21 billion for fiscal 2010, we expect an additional ¥9 billion from improved refinery efficiency, for a total of ¥30 billion. Regarding improved refinery efficiency of ¥9 billion through energy conservation and a reduction in repair and maintenance costs、 of this, ¥1.7 billion was realized in the first quarter. Regarding the benefits of the integration, we are working on the assumption that two separate units of expense, at each of the two former companies, will be reduced to just one shared expense—in other words, one plus one will equal one. The operating companies were merged under the holding company at the start of July, and we expect to be able to discuss this in greater detail at the analyst meeting on the second quarter financial results.

Q. Regarding the E&P of Oil and Natural Gas business, I understand that the Group will suffer no direct impact from the BP oil spill, but what sort of effect do you envisage in the medium-to-long term?

A. There has been no particular impact on the Group's operations, but from the medium- or long-term perspective, we may be affected by tighter restrictions on the oil industry imposed by the United States government, particularly in the Gulf of Mexico.

Q. Your forecast for the market copper price in July-September shows 280 cents per pound, but will the actual price for the April-June period (319 cents/lb) affect your first-half performance, won't it?

A. Our forecast for the July-September quarter is 280 cents/lb. This is unchanged from our previous forecast, but it will have an impact on the business performance of our Smelting & Refining, and Recycling & Environmental Services. Regarding our Resource Development, the first-half period is January to June, and the April-June copper price has already been reflected in first-half forecast.

Q. You have effectively revised upward your forecast for the first half, but I would like to hear an explanation in which the portion already realized in the first quarter, and the portion involved in the revision of the second-quarter forecast are clearly separated.

A. For the most part, we have not changed our forecasts for the second-quarter business performance, and thus the effect of the first-quarter increase on this upward revision of the first-half results is substantial. Regarding our forecasts for the second quarter, we have already discounted certain negative factors such as spreads among certain petrochemical products.