Q&A at IR Meeting on Financial Results for 3Q/FY2014

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Presenter:

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[Questions and Answers]

Q. Rig counts are falling due to the decline in oil price. Is there any impact to the tubular products business in North America?

A. Rig counts are falling sharply from 1,840 as of the end of Dec 2014 to 1,543 as of the end of Jan 2015. There will be almost no impact on our tubular products business within this fiscal year as we have already signed most of the sales contracts. Although we anticipate a severe business environment next fiscal year, we don’t have concrete figure as we are now drawing up our budget for the next fiscal year considering various factors such as our customers’ situation.

Q. Please advise which businesses have possibilities of additional impairment losses.

A. We will review the details including the necessity of further impairment. Among the initiatives announced in Sep 2014 we think that we need to revaluate the Tight Oil Development Project in the U.S. due to the decline in oil price. The book value of the project was about 300 million dollars as of the end of Dec 2014. As for the iron ore project in Brazil, we are now reviewing the price outlook for iron ore and its production plan. It is possible that the amount of impairment loss could increase from our original forecast of 50 billion yen considering that current iron ore spot price is 60 dollars level while it was 80 dollars and medium-to-long term price was mid-90 dollars level when we announced on Sep 29, 2014. In the other initiatives which are not included in our forecasts, there could be concerns of impairment risk in the Marcellus Shale gas project and the North Sea oilfield interests due to the decline in oil and gas prices. The book value of the Marcellus Shale gas project is around 400 million dollars and that of the North Sea oilfield interests is several hundred million dollars.

Q. Is there any possibility of additional impairment losses in coal mining projects in Australia?

A. No. We are not envisaging it at present.

Q. Is there any possibility that the annual results could fall into red? If it happens, do you change the planned amount of year-end dividend?

A. The profit excluding impairment losses shows good progress against our initial profit forecast of 250 billion yen and at present we expect the annual results would exceed it. However it is possible that the results could fall into red depending on the amount of possible impairment losses. However, as we will review the necessity of impairments or the amount of impairment losses, we are not sure at this time. Even if the annual results would fall into red, we will keep the annual dividend of 50 yen per share for FY2014 as long as the ordinary profit excluding impairment losses shows good performance.

Q. Is there any big concern about downside risk other than the economic slowdown in developing countries, mineral resources interests such as the nickel project in Madagascar and the impact on tubular products business due to the decline in oil price?

A. No. We don’t have any concerns at present.

Q. Could you tell us the situation of TBC?

A. As the retail business has underperformed the original plan made in 2013, TBC reviewed its medium-term plan since last autumn and made a new five-year plan from 2014 to 2018. It will implement the new plan such as further shutdown of existing stores, promotion of human resource development which is necessary for the increase in sales and the reduction of costs through efficiency of logistics system and so on. In the previous plan TBC aimed for EBITDA of 200 billion dollars in FY2015 but in the new plan it will aim the same EBITDA level in FY2016. Based on this new plan we recognized the impairment loss in the 3Q.

Q. How do you view the progress of the plan for investment & loan?

A. The amount of investment & loan for the period from Apr 2013 to Dec 2014 totaled 590 billion yen. As we will make a certain amount of new investments in 4Q, the total amount for the two-year period of BBBO2014 will be 750 billion yen as planned.

Q. Could you tell us the current situation of operation, the profit forecast for FY2014 and the outlook for FY2015 of the nickel project in Madagascar?

A. As the nickel price dropped, the annual results might be worse than the loss forecast of 9.7 billion yen as of Oct 2014. As the production is to increase in FY2015, we are expecting better results but it depends on nickel price. We finished large-scale planned maintenance in the middle of Dec 2014 and current operational rate is approximately 90%. Please refer to further details on the web-site of our partner, Sherritt, which will be announced on Feb 5 (local time).

Q. Please tell us the reasons of low progress rates and the outlook for 4Q in Construction & Real Estate Division and Food & Agriculture Business Division.

A. As for Construction & Real Estate Division, 3Q results include one-off valuation loss. The annual results are anticipated to turn out as originally planned as we expect the increase in condo delivery as well as one-off profit in 4Q. As for Food & Agriculture Business Division, the performance of grain business in Australia fell.

Q. As copper price plunged, is there any possibility of impairment?

A. We are not concerned about impairment of copper interests such as Batu Hijau project in Indonesia under the current copper price level.

Q. The results of silver, zinc and lead business in Bolivia look good. Please tell us why it exceeded the initial forecast.

A. In spite of lower ore grade we manage to keep the same production level as past years by increasing ore throughput through the introduction of large heavy equipments and the promotion of efficiency in plants. Although silver price slightly dropped, its performance has been stable as zinc price kept on moving at higher level.

Q. The level of net cash provided by operating activities looks low. How do you evaluate it? I wonder if there is possible negative impact on cash flow in the future due to the decline in commodity prices and economic slowdown in emerging countries. What do you think of the dividend policy for FY2015?

A. We anticipate that cash flow from operating activities will improve in 4Q as it tend to be lower during each fiscal year due to the increase in account receivables and inventories and then to be higher toward fiscal year end due to cash collection. Our plan of free cash flow for the two-year period of BBBO2014 is 200 billion yen outflow. Free cash flow for the period from Apr 2013 to Dec 2014 amounted to approximately 200 billion yen outflow. As we expect the profit excluding impairment losses remains stable and also expect some asset divestments in 4Q, we are confident of keeping its level within the original plan. As dividend policy for the next fiscal year onward is under discussion, we cannot comment on it now.

Q. Please tell us the current situation of the copper mining business in Indonesia. The results for the nine-month period showed red figure. What is the forecast for 4Q?

A. It has restarted exporting concentrates since the end of Sep 2014. It also resumed production and reached full operation in the middle of Nov 2014. In 3Q we revaluated stockpile inventories taking into account new costs related to the resumption of export and, as a result, we recognized inventory write-down. The performance is expected to improve in 4Q.

Q. Please tell us which investments newly contributed to the results?

A. Several investments have started contributing to the results, such as Edgen Group and 2nd phase of Press Metal in Metal Products Business Unit, J:COM, which integrated with JCN in Media, Network, Lifestyle Related Goods & Services Business Unit, automobile assembly business in Mexico in Transportation & Construction Systems Business Unit and overseas power infrastructure business in Environment & Infrastructure Business Unit.

Q. Is there any business which the decrease in oil price has positive impact on?

A. Although it's difficult to assume economic impact, most businesses except for mineral resources business and tubular products business will benefit indirectly from the decrease in oil price.

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