

Q&A at IR Meeting on “Financial Results for FY2014 and New Medium-Term Management Plan”

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Presenters:

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[Questions and Answers]

<Cash Flow and Investment Plan>

Q. What does the investment plan of 1.2 trillion yen imply?

A. The amount is not a budget to be spent but a guideline.

Each Business Unit has made its investment plan taking account of cash flow projection based on the plan of asset replacement and profit. If we can generate more cash than expected, we may make additional investments.

In addition to plans by Business Units, we are allocating 150 billion yen to the company-wide strategic focus.

Q. If cash flow becomes in surplus, how will you use it?

A. Cash flow surplus will not always be allocated to additional investments. In case of cash flow surplus we may consider returning it to shareholders, though we should not decide how to use cash by looking at cash flow for a single fiscal year.

Q. You explained you would manage post-dividend free cash flow for each fiscal year within the range between -100 billion yen and +100 billion yen. Do you mean the negative cash flow in early stages in the plan, taking the profit plan into account?

A. We will manage cash flow in 3-year total during the Medium-term Management Plan, while we set the range to avoid excessive fluctuation in each fiscal year. It should be practical to manage cash flow within this range, as we will make investments while replacing assets.

Q. How did you make the investment plan, from bottom-up approach or top-down approach?

A. We made the investment plan including investment targets and cash allocation from bottom-up approach through discussion in the Company-wide Committees. As we have various businesses, it will not be appropriate to discuss and judge all projects equally with specific indicators.

Q. Are investment plans consistent with cash flow plans at each Business Unit level?

Are there any concerns on the difference in investment capability among Business Units?

A. Basically cash-in should be corresponded with cash-out at each Business Unit level. We also take measures to keep the balance of the company's business portfolios, such as a system of deployment of cash collected from Business Units on the company-wide strategic focus.

Q. Please let us know the investment strategy of financing business.

A. Financing business is related with various business fields. We have advantages in financing business, especially for transportation systems-related business, on the backdrop of our deep understanding of actual businesses. We will expand the business through measures such as partnership to cover capital needs.

We will be able to combine our existing financing business with other business fields in Indonesia and utilize our expertise and know-how which we acquired in Indonesia in other countries.

<Profit Plan>

Q. With regard to the profit increase from 230 billion yen in FY2015 to 300 billion yen or more in FY2017 under the plan, what will be the main factors of 50 billion yen increase from "Growth of existing businesses and Contribution from recent investments"?

And what will be the main factors of 10-20 billion yen increase from "Recovery in restructuring projects and Contribution from projects in start-up"?

A. The businesses expected to bring traction include, namely, automobile manufacturing and financing business, overseas power infrastructure business, telecommunications business in Myanmar and aluminum-related business.

As for TBC, which we are restructuring, it will be in the red in this fiscal year, but aim to move into the black in the next fiscal year. As for Ambatovy nickel project, which is in a start-up phase, we will do what we can do to decrease its loss such as cost reduction, though the project may be influenced by the fluctuation of nickel price.

Q. What are downside risks to 230 billion yen of the profit plan of FY2015?

A. One of the risk factors is commodity prices. Our assumption on prices is generally conservative compared with the current prices, while the current prices of iron ore, nickel and coking coal are lower than our assumption.

As the basic profit of non-mineral resources business is robust, downside risks other than commodity prices seems to be limited.

<Evaluation standards of investments / Risk management>

Q. What do you think is important to make investments (acquisitions) at reasonable prices?

A. It is necessary to be acquainted with the markets. We have to train and secure personnel of experience and knowledge.

Q. How will you change the evaluation standards of investments?

A. While we have examined IRR of each project in comparison with a hurdle rate which is the company's capitalization rate (consolidated basis), we will examine net present value of each project discounted by weighted average capital cost of the targeting company. We will be able to put more focus on appropriate purchase price by introducing net present value as a new evaluation standard.

Q. What is the time horizon for monetization in the investment standards?

A. We think it will take time for new projects to contribute to profit. Considering the assumption when each project starts contributing to profit, we have made the decision on what projects and when we should invest in.

Q. Is it difficult for the Unit Investment Committee to provide control functions over investments?

A. The personnel in charge of risk management in Business Units will be changed in their belongings from Business Units to Corporate Group so that they can provide control functions over investments more effectively. Large-scale projects will be deliberated more carefully through multi-layer deliberation process including the Unit Investment Committee and the Company-wide Investment Committee.

Q. How do you deal with Ambatovy nickel project after installing cap on exposure per project?

A. We do have large exposure to Ambatovy nickel project. At first, we will try to achieve financial completion of the project by the end of September and then to make it profitable. Thereafter we will take time to discuss the future plan of the project.

<Others>

Q. Do you think oil price has bottomed at current \$60/bbl?

A. We will manage our businesses without any preconceived idea that oil price has bottomed out.

End