

Q&A at IR Meeting on Financial Results for 2Q/FY2015

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Presenters:

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[Questions and Answers]

FY 2015 Forecasts

Q. As you have revised downward the basic profit for FY 2015 from 230 billion yen to 210 billion yen, do you expect any impact on the financial results for FY 2017 which is the last year of the medium term management plan?

A. The recovery of the tubular products business will be delayed. At the beginning of BBBO 2017, the oil price was expected to recover from the latter half of this fiscal year, but now we think the oil price will stay low for a while. Although the price of tubular products has declined, our tubular products business does not face severe situation in Europe and Middle East. The tubular products business in the US is severely affected.

We strive to recover profitability of our tubular products business, promoting the growth of non mineral resources business to make up for the decline in profit.

Managerial Reforms

Q. Do you have any favorable results and forthcoming challenges in the “promotion of managerial reforms” listed in your medium term management plan BBBO 2017?

A. As we have established a Business Unit Investment Committee within each business unit, the discussion among divisions in each business unit is getting livelier than before

and it leads to the flexibility in re-allocating business resources among divisions.

In the board of directors, active discussion with outside directors is being held about not only the matters which require resolution by the board but also matters which are newly included as reporting matters to the board.

From now on, we will make our colleagues, including non-managerial staffs, fully understand the points of the managerial reforms.

Q. Now that the 1st half of FY 2015 has ended, we have an impression that you have not made a progress in making investment against the initial plan. Do you have any changes in your investment activity?

A. We have a lot of projects under consideration. In decision making process about investment, the conclusion comes to be made after holding discussion from various perspectives comparing to the previous process.

Dividend Policy

Q. In case impairment losses occur, can you keep your dividend policy with 50 yen per share as annual minimum amount?

A. Considering our strength to earn the basic profit, we will not change the minimum dividend policy during the 3 year period of medium term management plan BBBO 2017 except in the most unusual circumstances

Cash Flow

Q. You mentioned that the post-dividend free cash flow will be managed within a range between -100 billion yen and +100 billion yen in each fiscal year. What is your outlook for FY 2015?

A. In the 1st half of FY 2015, a large part of increase in cash came from the reduction in working capital mainly in tubular products business, but we have no intention to use it

for investment. Positive post-dividend free cash flow is expected as for FY 2015.

Q. Taking into account of the uncertainty of cash generation, do you consider any additional countermeasures such as additional asset sales?

A. We will keep on advancing the replacement of inefficient assets and striving to optimize inventories and trade receivables.

Risk of Impairment Losses

Q. In the “Highlights” released on Oct 30th, you have raised “the risk of impairment losses on some projects”. Which projects have such risks?

A. Under the current price circumstance of mineral resources, we believe it is fair to publish our concerns about impairment losses especially in mineral resources businesses among our affiliated companies. Indications of impairment losses were confirmed on quarter basis and whether impairment losses are recognized depends on future mineral resources prices and business plans.

Projects

<OTO/SOF>

Q. What is the aim of this business reorganization?

A. OTO/SOF will cooperate with Indonesian commercial bank, BTPN in which Sumitomo Cooperation has some shares. OTO/SOF have strong customer base outstanding in Indonesia, which can contribute to expand its business cooperating with business partners.

Automotive retail finance business needs large assets. We can expand the business further and materialize higher asset efficiency by this business reorganization.

<Ambatovy>

Q. Could you tell us the current status of the project?

A. The project is running well in terms of operation. As the production increases, unit cash cost decreases. Although we face the weak nickel price, we will respond to this situation with every possible means, including cost reduction. We believe that this project is promising in medium to long term perspective.

In short term, it is necessary to secure funds to make repayments to the project financing lenders and the certain amount has been already reserved. In addition, further cost reduction would contribute to generate cash to make repayment. If the project itself cannot generate enough cash, we need to consider various alternatives, such as funding from sponsors and/or cooperation from project financing lenders.

Although sometimes lenders' position is different from sponsors' one, the most important point is how we can make a success in this long term project in Madagascar. We will discuss thoroughly among all the parties concerned.

In conducting impairment test, the value of the project will be evaluated against the total cost of the project. The medium to long term nickel price forecast is a key factor for the valuation. We are paying careful attention on the medium to long term price forecasts prevailing in the market, which are not revised downward as of now, but the point is whether that forecast will be revised downward in future. Basically all sponsors are in line with the valuation.

Q. Could you tell us the background of the downward revision of the forecast of this project for FY 2015?

A. We plan to change the consolidated periods for Ambatovy project and we will consolidate 15 month (Jan 2015 - Mar 2016) results for FY 2015. Consequently, we will recognize a loss of 4billion yen as our consolidated basis for 3month period from Jan to Mar, 2016.

Q. Could you tell us the exposure to the project?

A. The exposure to this project has decreased from approx USD 2.7 billion to USD 2.4 billion due to the financial completion of the project and purchase of 5% share which SNC-Lavalin divested after exercising their put option.

<Edgen>

Q. Could you tell us the current status of the project?

A. Whether impairment loss will be recognized will depend on its revised business plan which reflects the progress of the integration of our existing tubular products business and the business of Edgen group. It is not expected to have so large impact even if the impairment losses occur. Anyway, it is important to make the company profitable.

<MUSA>

Q. Could you tell us the current status of the project?

A. In response to the decline in iron ore price, now the project has decreased its production and focused on domestic market. We will promote sound operation responding to decreased demand.

Under the decrease in demand, we plan to revise the business plan at the end of the year or the beginning of next year. We will cautiously conduct impairment test taking it into account that the situation of the customer, Usiminas will affect the revision of the business plan.

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