Q&A at IR Meeting on Financial Results for 3Q/FY2015

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Presenters:

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[Questions and Answers]

Forecasts

Q. The difficult situation of tubular products business in North America and mineral resources business is expected to continue, how do you keep the level of basic profit as for FY 2016?

A. In this period (Apr-Dec, FY 2015), the basic profit excluding impairment losses totaled 160 billion yen. We forecast it to total 200 billion yen as for FY 2015.

Now we are in the budgeting process for FY 2016, and we can say that the profit growth continues in our non-mineral resources businesses excluding tubular products business. In the tubular products business, we expect a recovery to some extent for FY 2016 in spite of present difficult business situation.

The key is the profit growth in our non-mineral resources businesses excluding tubular products business as we do not assume the businesses relating to mineral resources will improve dramatically in the next fiscal year.

Q. Do you have any additional concern in your businesses other than mineral resources and tubular products?

A. In terms of the amount, we do not have large concern about FY 2016, but it is necessary to keep advancing the medium term plan of Tire Business in the U.S.(TBC) In FY 2015 we forecast that the business will make loss due to non-recurring loss of unprofitable shops closure and we will take care of that business to get recover as planned.

Q. How much do you expect the total one-off profit for FY 2015?

A. The expected amount of one-off profit is 70 billion yen which includes one-off profit from reorganization of auto finance business in Indonesia.

Please note that in Q4, FY 2015, the profit due to asset replacements is expected mainly in our renewable power generation business and real estate business.

Impairment losses

Q. Could you tell us the book value of each project which suffered impairment losses in this period (Apr-Dec, 2015)?

A. After the recognition of impairment losses, the exposure to Sierra Gorda Project totals approximately USD 800 million including the completion guarantee of project financing. With regard to the projects other than Sierra Gorda and Ambatovy, the amount of exposure is not disclosed due to various business reasons.

Q. What is the reason of the impairment losses in the Iron Ore Mining Project in Sourth Africa (Oresteel)?

A. We indirectly own the Assmang, the project company which is partially owned by Assore Ltd. listed on the stock exchange in South Africa. Assore Ltd. is also partially owned by Oresteel Investments Ltd where we have shares. The decrease in share price of Assore Ltd. was an indication of impairment losses. We conducted impairment test using low medium to long term price which reflects present situation and reviewing the future project cash flow. Consequently, we did recognize the impairment loss.

Q. If the present low mineral resources prices continue, is it possible that those projects which already recognized impairment losses in FY 2015 would suffer impairment losses again?

A. We need to conduct impairment tests, using the medium to long term price forecasts at that time each time the life of mine plan is updated. In this time, we used the price forecasts which show gradual recovery to the year 2020. However if we should face the situation which needs us to change the price forecasts dramatically, it would be possible to make impairment losses again in the same projects.

Q. Could you tell us your forecast about the decrease in the depreciation amount from FY 2016 onwards after the impairment losses which were already recognized and will be recognized in FY 2015?

A. The decrease in the depreciation amount of the annual result of the Nickel project in Madagascar (Ambatovy) would be 4 billion yen but the results of the other projects are not expected to be affected so much by the decrease in the amount of depreciation.

Cash Flow

Q. It seems that the cash has been generated more than you planned in your medium term management plan, as you forecasted 300 to 400 billion yen of free cash flow for this FY 2015, how do you allocate the cash generated?

A. The amount of cash generated from decrease in operating assets in tubular products business was large in this period. We are not considering allocating the cash provided by this way for investments. To decide the allocation of the cash for investments, we will carefully watch the situation of cash generation in the second and third year of medium term management plan.

When we announced the medium term management plan, we planned to pay dividends and make investments with cash generated without increasing debt. Since we are facing the change in business climate, we will consider decreasing the gross amount of interest bearing liabilities, using the cash generated by the acceleration of asset replacements.

Q. Do you expect any risks that the basic profit cash flow will not reach the planned amount? If it should not reach your plan, will you address such situation by refrain from making investments?

A. In this medium term management plan we originally planned that we would flexibly adjust the amount of investments, considering the situation of cash generation and external business climate. As the business climate is getting more difficult than expected, we will generate cash to make investments and repayments by accelerating the asset replacements more than before.

Q. If the amount of the basic profit cash flow should not reach your plan, can you maintain your dividend policy of 50 yen per share as a minimum dividend payment?

A. Although the business climate for tubular products business in North America and mineral resources business is getting more difficult, we still can maintain that dividend policy and manage post-dividend free cash flow to be positive by controlling the amount of investments to some extent. We have no concern about the level of the retained earnings which is the fund of making dividends.

Q. FY 2016 afterwards, do you also expect that the amount of cash generated by asset replacements and decrease in operating assets will be more than you expected in your medium term management plan?

A. In this FY 2015, we expect the cash provided by asset replacements will total approximately 200 billion yen and that is almost the same amount as the amount in the previous years. FY 2016 afterwards, we will consider to accelerate the asset replacements and more large amount of cash is expected to be generated in this regard. On the other hand, the cash provided by decrease in operating assets will not be so large as this FY 2015 because in this FY 2015, facing the change in the business climate, we have dramatically reduced the operating assets in tubular products business.

Projects

< Tubular Products business >

Q. What is the present situation and forecast of the tubular products business?

A. During the third quarter, the oil price plummeted and the basic profit of that business was lower than that of the second quarter. The difficult business climate of the tubular business is expected to continue in the fourth quarter as we explained.

< Ambatovy >

Q. Can we understand the USD 50 million of the latest cash call from the project is enough to cover the quarterly expenses to be spent? As you explained, Sherritt has not fund the project and do you have any concern about the cash shortage in the project?

A. Although the project is in the stable operation and the cost of the operation is getting reduced, the project could not generate enough cash to cover expenses due to the decline in nickel price and at this time the project made cash call for the sponsors at first time after the completion.

Sherritt did not fund the project, but we and Kores have sent fund of USD 30 million. That fund of USD 30 million is enough to cover expenses for this quarter of the project and we expect almost the same amount of fund would be necessary for the project in each quarter onwards.

This funding by us and Kores will not trigger the change in the equity share of the project. (funding is made in the form of sponsor's loan)

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