

Q&A at IR Meeting on Financial Results for FY2015

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Presenters:

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[Questions and Answers]

Profit plan for FY2016 and FY2017

Q. What is the background of the plan?

A. For FY2016, the profit of mineral resources business is forecasted to decrease comparing with FY2015 due to decline in oil and mineral resources prices. The profit of non-mineral resources business excluding tubular products will stay the same as FY2015 since it will be adversely affected by lackluster shipping market, decrease in shares in equity of Automotive Financing Business in Indonesia and decline in automotive distributor business in the Middle East.

For FY2017, the contribution from recent investments, such as overseas power infrastructure business and telecommunications project in Myanmar, and the growth of existing businesses are expected to achieve the forecast of the profit. In addition, mineral resources business and tubular products business will improve owing to some degree of recovery in oil and mineral resources prices.

Modification of cash-flow plan in the medium term management plan

Q. Please tell us the details of the “Cash-in from Asset replacement” which is increased by 500 billion yen to 900 billion yen in the modified medium term management plan.

A. 600 billion yen out of 900 billion yen will be raised by divestment of existing assets, including withdrawal from unprofitable businesses. 300 billion yen, the rest of 900 billion yen, will be raised by decrease in working capital such as reduction of operating assets and inventories. In FY2015, the first year of medium term management plan, divestment and reduction of working capital generated a little more than 200 billion yen of cash respectively.

Q. In which segments do you place a priority when you pick up assets for divestment? Also, please tell us your level of certainty about this increase of “Cash-in from Asset replacement”

A. We have unprofitable assets in each business unit as of now, and so we do not place a priority on certain segment. The assets to be picked up for divestment also include assets which are not expected to contribute to the future growth even if those make a profit presently. We already have budgeted 20 billion yen in each FY2016 and FY2017 respectively for the costs of strategic asset replacement and are determined to proceed with this modified plan.

Q. Do you expect any difficulty in raising 300 billion yen in total at the end of FY2017 by decrease in working capital due to the cyclicality?

A. In FY2015, most of the decrease in working capital derived from tubular products business. When the tubular products business recovers, we will cautiously manage the increase in operating assets and inventories, meeting demand from customers. In addition, we think we can generate cash by decrease in working capital in the other segments.

Q. If you cannot reach the target amount of Cash-in, on which do you place a priority, debt repayment, dividend payment or making investment?

A. As we reiterated from the time when we announced medium term management plan (“BBBO 2017”) last year, if we cannot reach the target amount of “Cash-in”, we will adjust the amount of investment. Since we assume this difficult business climate will continue for the time being, we will prioritize debt repayment to secure financial soundness further. Stable dividend payment for mid-to-long term is our base policy and we will observe it as far as we can.

Investment plan

Q. Please tell us the reason of slow progress of new investment, 40 million yen of Cash-out, comparing with the total planned amount of 400 billion yen during medium term management plan.

A. There are some reasons, including small number of large projects and prolonged discussions about conditions of investments. It is expected that new investments will be made in line with the plan as we have candidates of investment in each segment. As we have not revised our principles of investment, we will thoroughly review those candidates and consider companywide cash flow situation when we decide investments and 400 billion yen of new investment is not a firm number in this meaning.

After we have changed the investment decision making process, while a system of multiple-stage and multiple-layer deliberation on large scale investments are introduced, the authority of business unit general managers are enlarged so that the decision can be made in a timely manner for not large scale investments.

Q. What is the reason for the increase in the planned amount of investment in upstream mineral resources & energy business from 100 billion yen to 140 billion yen during the term of medium term management plan?

A. Comparing with the original plan, the capital injection into the existing ramping up projects has been increased due to decline in mineral resources prices. We have not revised the plan of investment in upstream mineral resources & energy business and the fund have been/will be injected only in the existing ramping up projects during the term of this medium term management plan. (Mr. Takahata answered)

Projects

< Ambatovy >

Q. Please tell us the situation of cash management of this project.

A. After the financial completion on last September, around USD 50 million was funded by us and Kores. On the assumption that current nickel price and operating rates continue, we forecast that almost the same amount of fund will be necessary around

every six month period. Also there is a possibility that the amount could fluctuate due to the plant maintenance legally required around this summer. Regarding the repayment on project finance, we are in a discussion about some sort of arrangement with lenders.
(Mr. Takahata answered)

Q. If this low nickel price stays for longer, which kind of managerial decision will be made?

A. In accordance with the situation, we will explore all alternatives.

<Tubular products business>

Q. Please tell us the concrete measures to recover the profitability.

A. Now we are aiming to strengthen the business further so that we can make profit steadily when the market recovers. In FY2017, the market recovery is expected to be still on the way.

<TBC>

Q. Please tell us the present business situation and progress in the medium term plan.

A. Net profit for FY2016 is planned to recover to zero, as retail segment of TBC, where we had a concern, is making improvement.

Yet, EBITDA budget of FY2016 is 10 to 20% behind the original target, and we keep focusing on further improvement of retail operation to catch up with the target.

<Grain business in Australia>

Q. Please tell us the present business situation and future strategy of grain business as a whole.

A. The decline in profit for FY2015, excluding one off losses, was the result of severe drought in southeast Australia.

We are now considering future strategy of grain business as we have strength in food businesses, such as fruit and vegetables marketing & distribution business.

<Nusa Tenggara Mining>

Q. What is the reason for the decrease in production of FY2016 comparing with FY2015?

A. We conservatively forecast the production considering uncertainty of renewal of export license. (Mr. Takahata answered)

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