

Q&A at IR Meeting on Financial Results for 1Q/FY2016

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Presenters:

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[Questions and Answers]

Results for 1Q and forecasts for FY2016

Q. What is the breakdown of the results for each segment and potential downside risk in forecasts for FY2016?

A. In Metal Products segment, although tubular products business was in red in the 1Q, we expect it will gradually recover in the 2H. Transportation & Construction Systems segment is in low progress due to three elements, one-off loss of around 2 billion yen, lackluster shipping market and decline in automobile distribution and sales in emerging countries. Environment & Infrastructure segment is slow in start but we expect results will be duly delivered in the 2H by percentage of completion method as the new large EPC projects make progress.

In Media, Network, Lifestyle Related Goods & Services segment, strong result was delivered by domestic major group companies, which had large contribution to this segment overall, although grain business in Australia and banana business were in slow progress. In Mineral Resources, Energy, Chemical & Electronics segment, although we had one-off loss by tax provisions in San Cristobal silver-zinc-lead mining project in Bolivia, it is supposed to be set off by higher mineral resources prices which are trending above the expected level in the beginning of FY2016. In terms of companywide basic profit of 1Q, we have achieved around 40 billion yen and we will make continuous progress to meet the annual forecasts for FY 2016.

Q. What is the factor for the deficit in Americas in Overseas Four Broad Regions?

A. The downturn of the tubular products business is the main factor. Also a part of tax provisions in San Cristobal silver-zinc-lead mining project in Bolivia was proportionally recognized in Americas.

Q. Have the “Costs for structural improvement” of 20 billion yen already been allocated to each project? Is the one-off loss by tax provisions in San Cristobal silver-zinc-lead mining project in Bolivia included in the “Costs for structural improvement”?

A. Now we are reviewing which assets should be replaced, including the timing for execution. After that review, the usage of “Costs for structural improvement” would be determined accordingly. One-off loss by tax provisions in San Cristobal silver-zinc-lead mining project in Bolivia is not part of the “Costs for structural improvement” when we made the forecasts for FY 2016 and 2017.

Cash Flow

Q. Please tell us the progress and forecast of “Cash-in from Asset replacement”.

A. While the “Cash-in from Asset replacement” resulted in around 10 billion yen in 1Q (accumulated total amount is 240 billion yen), the plan remains to generate 900 billion yen in 3 years total by the end of Mar, 2018, including 600 billion yen from “Cash-in from Asset replacement” and 300 billion yen from “Others”.

Q. The amount of “Investment & Loan” seems small, and please tell us the forecast.

A. The total amount of “Investment & Loan” for 1Q is 60 billion yen, including 40 billion yen of “New investment” and 20 billion yen of “Additional and replacement investment to existing projects”. Investment in existing projects will be managed in accordance with the mid-term management plan. “New investment” will be reviewed and controlled, should cash generation become insufficient.

Q. Why the “Dividend from investments accounted for using the equity method” is almost the same as that of 1Q, FY2015?

A. Large part of “Dividend from investments accounted for using the equity method” was contributed by J:COM, SMFL, Jupiter Shop Channel, Sumitomo Mitsui Auto Service, who continued to have solid performance as well as last year.

Yen's appreciation

Q. Please tell us the effect of yen's appreciation on the profit for this year and the balance sheet.

A. Regarding the sensitivity, if yen is appreciated by 1 yen against US\$, the profit for the year will be decreased by 500 million yen. In terms of the balance sheet, if yen is appreciated by 1 yen against US\$, total asset will be decreased by 20 billion yen and shareholders' equity will be decreased by 10 billion yen. (Shareholders' equity is almost the same amount as the risk-buffer). In spite of decrease in the amount of risk-buffer due to yen's appreciation, we will regain the balance between core risk-buffer and risk-adjusted assets by the end of Mar, 2018.

Projects

< Ambatovy >

Q. Please tell us the situation of current operation and repayment for the project financing.

A. Production was impacted by a tailings pipe blockage and subsequent decision to bring forward the planned periodical plant shutdown. It also resulted in the higher cash cost comparing with the previous quarter. As this maintenance shutdown was already finished, operating rate is expected to recover to the previous level. Total production for the year is expected to slightly decrease.

As we are now in the discussion with the lenders about the principal payment deferral, we refrain from making detailed explanation on this matter. The necessary fund for the operation, including interest payment of project financing, has been provided by KORES and us.

<Sierra Gorda>

Q. Please update the future development of this project.

A. Now we are reviewing the life of mine plan considering that the recovery rate of copper and molybdenum has not reached the expected level yet. After discussion among partners of the project, we will decide the direction forward, including the execution of phase II expansion.

<Companies related to coal business in Australia>

Q. What is the reason for good results for 1Q, comparing with the annual forecasts?

A. The reason is that coal price is higher than expected in the forecast and also part of cost was lowered.

<Tubular products business>

Q. Do you expect gradual recovery of this business in the 2H?

A. While it seems that the rig count in the U.S. has bottomed out, the oil price still has uncertainties as it declined to 40 US\$/bbl after a slight recovery. We expect gradual recovery as the fundamentals recover.

<TBC>

Q. Please update the current situation.

A. Although the result for 1Q was in red due to warm winter, it started to recover from June and onward. As this business, including retail, is now in the recovery trend, we need to keep this trend further.

<J:COM>

Q. What is the factor of increase in profit for 1Q comparing with that of 1Q, 2015?

A. After the business reorganization on previous fiscal year, J:COM started to recognize 50% share of profit of Jupiter Shop Channel by equity method. In addition to that, good performance of main business, including cost reduction, and revision of Japanese income tax rate have contributed to the increase in the profit.

<Banana Business>

Q. What is the cause of the decrease in the profit of Banana business for 1Q, comparing with that of 1Q, 2015?

A. There are three causes which delivered the decrease against the 1Q 2015. First, the effect of decrease in production affected by drought last year still continued in this quarter. Second, change in accounting consolidation period from Apr-Mar to Jan-Dec and business reorganization have affected the figure and the profit for 3 month period of Sumifru Japan has not been recognized in this quarter. (Sumifru was reorganized as fully owned subsidiary company of Sumifru Singapore and the company name has been

changed to Sumifru Japan in Feb, 2016.) Third, because of change in consolidated period, the result for 1Q, 2016 reflected the actual performance of Jan-Mar, while the result for 1Q, 2015 reflected the performance of Apr-Jun which is the relatively high performance period throughout the year.

<Telecommunication business in Myanmar>

Q. Please tell us the update on this business.

A. The growth in numbers of subscribers continues and it reached 20 million. On the other hand, our competitors are also increasing their subscribers and competition is getting severer, which has slightly affected our profitability in the 1Q. As the penetration of cell phone has already reached high level in this country, we intend to enhance our competitiveness by targeting at start-up for 4th generation services.

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