

Q&A at IR Meeting on Financial Results for 2Q/FY2016

Presentation Date: November 2nd, 2016

Presenters:

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[Questions and Answers]

FY2016 2Q results and FY2016 forecasts

Q. What is the reason of the loss in tubular products business, and what is the outlook towards next year?

A. Tubular products business in North America continues to be affected by challenging market condition. While the rig counts started to increase, the pipe price still remains low and it still needs time for the revenue to recover. Therefore we continue to work on cost reduction.

Q. What is the reason of downward earnings estimate for Environment and Infrastructure Segment? Will the expected profit be shifted as increase to FY2017 for the delayed portion from development and construction of new large-scale projects in power infrastructure business?

A. In addition to unexpected delay in projects, there was impact of yen's appreciation against US dollars. Assumption for foreign exchange rate has been revised from 120yen/US\$ at initial forecasts of FY2016 to 100yen/US\$ this time. The revision in the rate has been applied to all the segments. The profit from power infrastructure business will be materialized later than initial plan.

Q. Please explain the outlook for Mineral resources businesses by commodity.

A. We see price increase in most commodities compared to initial forecasts, and revised the earning targets accordingly. Major impacts are from zinc produced in San Cristobal and nickel produced in Ambatovy.

Q. How is the outlook on the usage of Costs for strategic assets replacement allocated in Corporate and Eliminations segment? Looking at the first half results, annual forecasts for the segment seems conservative. Do you expect FY2016 forecasts to be upward?

A. We expect some deals to be closed in second half, and 20bil.yen of cost to be still included in order to encourage asset replacement. The results of Corporate and Eliminations segment for the first half included capital gain from sales of private equity and dividend from other investments, while Costs for strategic asset replacement and costs for company-wide growth strategies are expected in the second half.

Medium-term management plan – Be the Best, Be the One 2017 (BBBO2017)

Q. What is the key driver for profit growth to achieve earning targets of 220bil.yen in FY2017?

A. The earning targets in FY2017 released in May 2016 remains with no major change but to be reviewed along with budget planning from end of 2016 to early 2017.

While we foresee that ship business, automobile distribution and sales business will still be affected by challenging market condition, other business such as media, network, lifestyle related business is delivering solid results and expected to contribute to the earning targets.

Q. Please tell us the investment plan for the remained period for medium-term management plan?

A. The investment plan in each business field remains with no major changes. We expect to see the progress in and after the second half of FY2016.

Q. Is it because of the structure change in company's decision making process that slowing the investment progress? Also, will it affect the return on 380bil.yen of executed investment?

A. We do not consider the structure change has affected the speed of investment. There has been progress for some investments to be executed. And we have enlarged the authority of general manager of business unit so that investment can be executed in timely manner. 380bil.yen consists of 290bil. of additional replacement investment and 90bil. of new investment. The profit contribution expected from new investment will be included in next mid-term management plan and onwards. We consider that structure change in both decision making and follow-up mechanism serves as value-up for investment.

Q. Cumulative post-dividend free cash flow of 570bil.yen already exceeds the plan of 500bil.yen. Do you expect the plan in BBBO2017 to be revised?

A. We see steady growth in basic profit. We consider 500bil.yen in the plan can be maintained even with the investment to progress.

Q. What is the reason of decrease in Core Risk Buffer and Risk-adjusted Assets at the end of FY2015 compared to the start of BBBO2017?

A. There was decline in value due to yen's appreciation and low stock price. In addition, asset replacement and impairment loss incurred are also the reasons.

Risk-adjusted Assets ended Sep. 2016 to be announced at the end of Nov. We will manage to regain the balance of Core Risk Buffer and Risk-adjusted Assets by the end of BBBO2017.

Projects

< Ambatovy >

Q. What made FY2016 forecasts to improve? Do you foresee the possibility of another impairment loss? Also, please tell us about the discussion between Sherritt on capital structure.

A. Although 2Q results is lower than same quarter last year due to lower nickel price and increase in share, there was improvement from initial forecasts driven by price recovery and foreign exchange. We cannot comment on the possibility, but we don't see any indication of impairment loss under current situation. We have continuously discussed the effective alignment among the shareholders, but there is nothing decided about the capital structure.

<Sierra Gorda>

Q. Please update us with the current project situation.

A. We need to admit that there is concern. We have started the discussions with lenders since it is becoming difficult to fulfill the condition for financial completion of the project finance, which is required to be met by the year end. The commodity price is recovering slightly, but the project will still undergo challenging situation.

<San Cristobal>

Q. What is the background of increase in production? And please update the forecasts.

A. The increase in production is mainly contributed by higher content of lead and silver. The improvement in financial result was mainly driven by reduction of unit cash cost which comes from increase in production and various cost reduction effort. We can say that whether the high level of production continues or not depends on the mining area and method, and we continuously review our plan.

<Coal business>

Q. What is the main contract type for coking coal and thermal coal? How does the type of contract impact to financial performance?

A. We would refrain from disclosing breakdown of business by contract type. The price increase has positive impact to our financial performance. However the fluctuation of market price is not directly reflected in our financial results due to variety of contract type.

<TBC>

Q. Please update us with the current status.

A. It is progressing in accordance with the plan. The sales in tire units are growing even with the price down due to decline in raw material price. We expect some time is required till the demand for TBC's main product to increase from around 2018. Meanwhile, cost reduction effort to be continued.

<Ship business>

Q. How do you see the risk for impairment loss in ship business?

A. Our ship businesses have three areas, owning, manufacturing, and trading the vessels. We do see the risk of impairment loss in ship owning business, but the amount will be relatively small.

<Telecommunication business in Myanmar>

Q. Please update the current status and forecasts.

A. The business is steadily growing as planned although costs have increased in sales promotion and additional investment in communication base station as we still have the severe competition in the market.

End