Q&A at IR Meeting on Financial Results for Q3/FY2016

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Presenters:

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[Questions and Answers]

FY2016 Q3 results and annual forecasts

Q. What is the outlook for FY2016 annual forecasts based on current business status of each segment?

A. In Non-mineral resources businesses, Transportation & Construction Systems Business Unit progressed 84% to the annual forecasts as leasing business and construction equipment rental business in the U.S. had robust performance. Environment & Infrastructure Business Unit already progressed 91% to annual forecasts and expecting profit contribution from EPC project and asset replacement. So we expect those segments will deliver strong result. Media, ICT, Lifestyle Related Goods & Services Business Unit also showed stable performance with 78% of progress. So we expect the Basic profit of Non-mineral resources businesses will slightly exceed 200bil yen.

In Mineral resources businesses, we guided in the second quarter earnings announcement that there would be around 30bil yen of uplift in terms of Basic profit compared with initial forecast of -40bil yen owing to higher commodity prices and cost reduction. If the prices remain with current level we further expect an uplift of around 20bil yen.

On the other hand, for Tubular products business, we started to see some improvement in the market conditions but it won’t rapidly turn the profit positive. Consequently we expect the full year Basic profit to be around zero in total of Mineral resources businesses and Tubular products business.

Q. What is the breakdown of -15bil yen of one-off losses for the third quarter of FY2016, and what is the guidance for the full year FY2016?

A. Profit from tax effect of the past impairment losses and realized gain of sales of Soukai

Drug partially offset the impairment loss in Sierra Gorda project, and one-off profits/losses in the third quarter resulted as -15bil. We refrain to comment on exact figure, but we foresee some possible impairment losses in the fourth quarter of FY2016 from ship business, tubular products business, and TBC, while one-off profits are also expected from some asset replacement. Considering current Basic profit level, we expect annual net profit of 130bil yen is achievable even those losses would incur. Also we are not expecting to use “Costs for structural improvement” for large scale project in FY2016 at this moment.

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

Q. We understand D/E ratio reached the target set in BBBO2017. What is the view on next target?

A. In BBBO2017, we aim to manage cash-out for investment and dividend within the cash-in gained from profit generated by operating activities and asset replacement. In addition, we plan to repay 500bil yen of interest bearing liabilities. As a result, we expect the D/E Ratio to be 1.1 at the end of BBBO2017 (March 2018), and current cash flow is within our expectation. Next target will be discussed and nothing we can comment at this moment.

Q. Is the investment plan in progress as planned in BBBO 2017? What is Free cash flow guidance for year-end of FY2016?

A. We expect investments will be within our expectation at the end of FY2016, considering acquisition of Fyffes and some expected cash out in the fourth quarter. It will show negative figure in the fourth quarter, but we expect free cash flow after dividend at the end of FY2016 to be positive.

Projects

< Ambatovy >

Q. Please update on the discussion between Sherrit about capital structure.

A. There is nothing decided and the plan remains to support the project with current three partners. Regarding the overall project status, the production rate is increasing and cash cost is now improved to around US$3.1/lb.

<San Cristobal>

Q. Despite the uptrend in zinc and lead prices, what is affecting the third quarter net income of -0.1bil yen?

A. As the market stayed stable and operation was running well, the revenue from ordinary business stayed the same level as the second quarter. However it was offset by tax cost related to sales costs in the past years. In terms of tax issues, all the cases are now closed for the time being.

<Sierra Gorda>

Q. What are the assumptions used for the impairment loss?
How do you plan to reduce the cash cost?
How much is the remaining balance of exposure after the impairment loss, and how do you forecast the profit level in case the copper price stays at current level?

A. The impairment loss was posted based on the new business plan reviewed with the consideration of current production level, cost and geological condition. First, the copper price assumption is revised from the level slightly above US$3/lb. to slightly lower than US$ 3/lb. Second, the expansion plan is changed from large scale expansion (Phase2) to mid-small scale expansion which improves the production level to 110KT annually with restrained Capex.

In order to reduce the cash cost, we need to reduce the total cost by improving molybdenum recovery rate and efficiency of the operation along with geological condition.

Although we expect an improvement in FY2017 financials as the depreciation cost will be reduced by 2bil yen after impairment loss, it is still difficult to have positive figures under current price level. The exposure is approximately US$ 550mil which includes US$ 250mil of guarantee on financial completion of the project finance.

<Pipe business>

Q. Please update us with the current status and forecasts for profit recovery.

A. We do see improvement in supply and demand balance as the rig count increased over 700 and the OCTG stock in North America market started to reduce to the level around 5 months. The price also seems bottomed out, but it still needs time for the profit recovery.

<Auto mobile manufacturing business in Mexico>

Q. What is the current status and outlook for automobile manufacturing business with Mazda in Mexico?

A. We intend to strengthen the automobile manufacturing business, and the production is running well. Although we need to watch carefully how the change of government in the U.S affects our existing business in Mexico, we cannot comment on quantitative impact at this moment due to many uncertainties.

End