Q&A at IR Meeting on Financial Results for 1Q/FY2017

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Presenters:

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[Questions and Answers]

Results for Q1 and forecasts for FY2017

Q. What is the breakdown of 6.0bil.yen of one-off profits for the first quarter of FY2017?

One-off profits were posted in Environment & Infrastructure Business Unit (renewable energy power generation business) and Mineral Resources, Energy, Chemical & Electronics Business Unit. We refrain from disclosing exact projects and breakdown in amount.

Q. What is the reason of improvement in the Basic profit 77.4bil.yen for the first quarter of FY2017, compared to the same period in the previous year (41.1.bil.yen) and fourth quarter in the previous year (74.1bil.yen)?

Do you expect Basic profit will possibly exceed 260.0bil.yen of annual forecasts at the end of fiscal year?

Basic profit of Mineral resources businesses and Tubular products business hit the bottom in the third and fourth quarter in FY2015, and started to recover around the third quarter FY2016, and we've seen further improvement recently. The level of Basic profit per quarter improved to around 70.0bil.yen as overall for company. Core businesses in each business line are improving and growing its profitability, rather than being driven by certain business.

We expect 260.0bil.yen of initial plan for full year is achievable, but we cannot judge that just based on the result of the first quarter, considering possibility of changes in business environment. We will evaluate that after the second quarter.

Q. It seems Costs for strategic asset replacement has not been used yet. Is there any change from the initial plan on usage of this cost?

20.0bil.yen of Costs for strategic asset replacement was included in the budget. This is to support asset replacement under the policy in BBBO2017 to improve the quality of portfolio even with the unexpected financial loss incurred by currency exchange etc. It wasn't used in this period, and so far, we don't foresee any major loss in remainder of the year. But the costs will be still included as per initial plan in order to encourage asset replacement.

Q. How do you evaluate the progress in Basic profit for Non-mineral resources businesses against the initial plan?

It is progressing as planned, and we expect it will steadily progress towards the end of the fiscal year as well. In Environment & Infrastructure Business Unit, profit increase is expected in the second half of the fiscal year, as the development and construction of large-scale projects in power infrastructure business will progress in Asia and Africa, which had the delay last year. Also SCSK will contribute to the profit in Media, ICT, Lifestyle Related Goods & Services Business Unit as well. On the other hand, there are some businesses which are still struggling with weak market condition. Shipping market has not fully recovered though it's improving, and Middle East and African market still remains weak for automotive distribution and sales business. Thus, as overall, it will steadily progress as planned in Non-mineral resources businesses.

Q. Why did the gross profit decrease in segment basis for Transportation & Construction Systems Business Unit?

The shares in TBC and construction equipment rental business, and others were transferred from this segment to Overseas Subsidiaries and Branches segment. There is no change in company basis.

Q. How are the recent commodity prices moving and what are the forecasts?

Please refer to IR Supplemental Material. Although coking coal price rose after the cyclone, we expect it will decline to the level we expected in initial plan, considering supply and demand in China and India. We are also keeping a close watch on the changes in nickel price, which has a significant impact on our business, as uncertainties still remain even after the recent recovery to around US$4.60/lb.

Cash Flows Plan

Q. What is the reason of "Others" to be -160.0bil yen for the first quarter of FY2017?

One is due to short-term trading business for precious metal. As ordinary business trend, it increases the inventory during the first quarter and selling it toward the end of the year. The second one is a seasonal factor derived from business like agrichemical distribution as transactions increase in early spring. Half of the 160.0bil.yen is related to these two transitory factors, and it will be smaller towards the end of the fiscal year. Rest of half is the result of business improvements and increase of working capital along with it.

Despite of the increase from initial assumption, it is manageable level as a whole considering current progress in Basic profit cash flow and depreciation.

Q. It seems repayment of interest-bearing liabilities decreased. Is it in line with the plan? Is there any plan to increase the investment or is it becoming necessary to increase the funds after the second quarter?

The figures stated as repayment of interest-bearing liabilities in the cash flow plan are the values subtracted dividends and investments and loans from the total amount of cash in, and are not representing amount actually repaid. Repayments are done based on timing of refinancing. Currently, it is within the range to be able to achieve the target of 2,700.0bil.yen of net interest-bearing liabilities at the end of BBBO2017. We are not considering changing the investment and asset replacement plan based on result of first quarter. We continue to manage investment and return on shareholders within our own cash generation rather than depending on finance from outside, while we achieve 500.0bil.yen of repayment of interest-bearing liabilities.

In terms of 1,000.0bil.yen of investment plan, we judge whether to execute or not by examining profitability and risk amount and its quality, rather than having priority on the 1,000.0bil yen of target. Meanwhile, we also continue to carry out the asset replacement one by one by making certain targeted businesses, and working towards 600.0bil.yen of cash generation.

Projects

＜Tubular products business＞

Q. What is the current business environment and how do you see the forecasts?

In the first quarter, Basic profit turned positive resulting 2.4bil.yen, partially owing to concentration of delivery for large project in non-US regions.

The rig count in North America is gradually recovering (around 960 rigs at the end of July), and demands are coming back. But the recovery in price varies depending on customers. At the initial plan, we expected the Basic profit to be zero for the full year assuming the business environment would recover from second half of the year, but in the U.S, the recovery took place earlier than initially expected. However, we are cautious on whether this recovery will continue or not considering recent weak oil price. We will pay close attention and take necessary measures to some key movement, such as U.S. government policies on import restrictions and anti-dumping duties, and start-up of new mills in the U.S.

Q. What are the forecasts for Edgen Group and Eryngium?

In each company, the result for the first quarter of FY2017 was -0.2bil.yen comparing with the annual forecasts of -0.3bil.yen. Although business environment in the U.S is recovering, it remains slow in non-U.S.

＜Aluminium smelting business in Malaysia＞

Q. What is the background of good progress and how do you see the forecasts?

Currently, it is running smoothly with full capacity, after the new plant ramped up last fiscal year.

The increase in aluminium market price is also increasing the profit, compared to the same period of the previous year. We expect it will progress as per the initial plan throughout the year.

＜TBC＞

Q. What is progress against the annual forecats?

The result for first quarter in FY2017 was -0.4bil.yen against the annual forecasts of 0.8bil.yen. We expect it will catch up in the high seasons like summer. While distribution and franchise businesses are stable, retailing business is still struggling.

But we expect annual forecasts will remain as per initially planned, as there are some positive outlook such as possible increase in sales price due to rise in raw material price and increase in number of miles driven in U.S.

＜J:COM＞

Q. What is the reason of decrease in profit for J:COM from 9.7bil.yen in the same period of the previous year to 8.8bil.yen for the first quarter in FY2017?

It is due to the absence of one-off profit posted in relation to tax reduction in the same period of the previous year. Also, sales promotion cost increased for enhancing additional service. We expect it will progress as per initial plan towards the end of fiscal year.

＜Real estate business＞

Q. How was the performance in the first quarter of FY2017?

The results for Materials, Supplies & Real Estate Division was 10.6bil.yen, an increase of 7.4 bil.yen compared to the same period of the previous year. In the office building business in the U.S, profit for asset sales was posted, contributed by the business model that we are pursuing in which we increase the value of acquired properties by improving occupancy rates and incorporate it into the fund.

It is the basic concept in our real estate rental business, not to rely solely on rent income, but to carry out continuous asset replacement while accumulating high-quality assets.

The full year budget is set in line with this concept, and we expect it will progress as per initial plan although the quarterly profit fluctuates depending on the timing of asset sale.

＜Food business＞

Q. What is the current status in food business including Fyffes?

The result for Food & Agriculture Business Division was 1.3bil.yen, an increase of 1.5bil.yen compared to the same period of the previous year. Sumifru Singapore resulted in red owing to the price decline in Japanese market due to temporary over-supply, while production volume is recovering from drought in the last year. Grain business in Australia had better harvest and improved the profit to 0.2bil.yen compared to the same period of the previous year. As to Fyffes acquired this February, the figures cannot be disclosed since PPA is not completed and amortization is not fixed. The project itself is progressing steadily in line with the plan. PMI has been carried out having a large number of personnel on the project, and we have confirmed again that product portfolio is better than the initial assumption.

＜Ambatovy＞

Q. What is current status and forecasts? What is the impact of price increase in cobalt?

In the initial plan, we targeted an operating rate of over 80% against the design capacity of 60KT p.a. throughout the year. But it stayed at around 60% for the first half year, mainly due to impacts from issues in the sulfuric acid plant. We will operate second half of the year at around 80% level, and aim to bring the full year operating rate to be 70%. In light of strong cobalt prices, shortfall in production volume has been offset, and cash cost has improved.

The process of sponsor structural change is proceeding as planned, and our share is expected to increase from the third quarter.

Therefore, annual forecast remains with -18.0bil yen as per the initial plan.

＜San Cristobal＞

Q. What is current status and forecasts?

The result for the first quarter was 8.9 billion yen, with around 30% progress against the annual plan of 29.3 billion yen. This high progress was due to the concentration of shipping volume in this period, and we expect it will progress as per the initial plan towards the end of fiscal year.

On the operational side, we will continue to work on achieving the targeted production volume as originally budgeted.

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