

Q&A at IR Meeting on Financial Results for Q3/FY2017

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Presenters:

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[Questions and Answers]

FY2017 Q3 results and FY2017 forecasts

Q. What are the forecasts for Profit for the year and Basic profit?

Basic profit steadily increased in Q3 and it is firmly progressing. We expected it to exceed our forecasts slightly in Q4 rather than decelerate. We will carry out impairment tests in various projects in Q4, but we do not foresee large losses at this moment either. Taking all these into account, we think that both Profit for the year and Basic profit are slightly strong against our current forecasts.

Q. Please tell us about the progress and forecast of Basic profit for Non-mineral resources businesses.

In Metal Products Business Unit, overseas steel service centers showed stable performances. In Transportation & Construction Systems Business Unit, leasing business showed stable performance, and shipping market has bottomed out. Also construction equipment sales & marketing and rental business maintained robust performance across almost all regions. In Environment & Infrastructure Business Unit, there are progresses in development and construction of large-scale projects in power infrastructure business. In Media, ICT, Lifestyle Related Goods & Services, domestic major group companies such as Jupiter Telecommunications Co., Ltd. (J:COM), SCSK Corporation (SCSK), Jupiter Shop Channel Co., Ltd. are delivering strong results. We expect that Basic profit will continue this increasing trend in and after FY2018.

Q. What is the financial impact of the U.S. tax reform in and after FY2018?

We have various businesses in the U.S. Lower corporate tax rate will positively effect Subsidiaries and Associated companies with profit, but we do not have any concrete figures at this moment.

Projects

<Tubular products business>

Q. Please tell us the business condition in North America and other regions, and what is the outlook for FY2018?

The business environment has not changed significantly since Q1. The rig count in the U.S. has been stable and there may be room for increase, while activities still remain slow in other regions and we will watch it cautiously. In terms of profit, we expect the Basic profit in FY2018 will exceed current FY2017 forecast of 7.5 bil. yen.

<TBC Corporation>

Q. What is the EBITDA by sector, and please tell us the strategy of alliance with Michelin.

Among three sectors of wholesale, retail, and franchise, wholesale business contributes a large portion of total EBITDA. The retail business is struggling because they haven't been able to pass the steep rise in raw material price on to selling price.

Based on this joint venture and strategic alliance with Michelin, we will strengthen the retail business by expanding customer base through enhancement in express delivery service, e-commerce sales and fleet services with Michelin's knowledge, as well as the wholesale business.

<SCSK Corporation>

Q. Please tell us the Q3 accumulated results of 19.0 bil. yen including the impact of one-off profit.

There is around 12.0 bil. yen of one-off profit related to sale of QUO CARD Co., Ltd. included in the Q3 accumulated results of 19.0 bil. yen. Part of profit from this deal will be eliminated from our consolidation as internal transaction within the group since SCSK Corporation is selling it to one of our affiliated company, T-Gaia Corporation. Considering other consolidation adjustment, the net impact is around +6.0 billion yen as our consolidated profit. As of the profit excluding one-off profit, it decreased slightly compared to the same period of the previous year due to the impact of precedent R&D cost.

<Nickel mining and refining business in Madagascar (Ambatovy)>

Q. Please tell us the current operating situation of Ambatovy and its outlook.

Production up to Q3 was around 60% of design. Although operation was temporarily stopped due to the cyclone in January, we managed to produce some nickel by utilizing process inventory and the end result for production in January was around 20% of design. It is ramping up at the moment, and production is expected to recover to a little over 40% in February. We aim to raise the production level to a little over 70% in March, and thus the average production level in Q4 is expected to be a little below 50%.

In terms of cash cost, it has benefited from the steady rise in cobalt price and was US\$3.83 for

2017 full year, improving to US\$3.26 in Q3.

In January, our partner Sherritt announced its 2018 forecast: 40KT to 43KT in production, which is around 60 to 70% of design, and US\$ 3.0 to 3.5/lb in cash cost. This is on a calendar year basis which includes the impact of the temporary halt on production in January. Thus we expect the figures to be slightly better in our financial year (April to March).

Equity in earnings has been recognized on a 47.7% basis since last December as a result of the sponsor structural change.

<Copper and molybdenum mining business in Chile (Sierra Gorda)>

Q. What is current status?

The equity in earnings is expected to improve from current annual forecast of -3.0bil. yen, as copper price currently remains higher than our assumption. In addition, the operation is going well as the molybdenum recovery rate is stabilized. The project is still in loss in cash basis, but the additional cash call decreased from US\$ 500 mil. in 2016 to US\$ 280 mil. for the entire project and US\$ 38 mil. for our share in 2017. This is due to stable operation and higher copper price. We are considering increasing the copper throughput. Although the specific time is undecided, we aim to achieve breakeven as early as possible by cost reduction.

<Silver, zinc and lead business companies in Bolivia (San Cristobal)>

Q. What are current status and forecast in terms of production volume?

As to the annual production volume in FY2017, lead is expected to increase slightly against the initial forecast due to higher ore grade and recovery rate, while zinc and silver is expected to decrease against the initial forecast due to the decline in ore grade and recovery rate. The ore grade has been higher this year, but we expect some slight decline in ore grade and production volume in FY2018.

<MUSA>

Q. What is current production status?

In Q3, the shipping volume (in equity share basis) was 0.4 mil MT, and we expect 0.5 mil MT in Q4. The project started export in larger scale as the necessary conditions were set after the delay in the port construction. Annual forecast for shipping volume is also revised from 1.1 mil MT to 1.4 mil MT.

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