

Q&A at IR Meeting on Financial Results for FY2018 Q1

Presentation Date: August 3rd, 2018

Presenters:

Koichi Takahata	Senior Managing Executive Officer, Chief Financial Officer
Hiroyuki Sugai	Corporate Officer, General Manager, Accounting Controlling Dept.
Tatsuro Tamura	Corporate Officer, General Manager, Investor Relations Dept.

[Questions and Answers]

Results for Q1 and forecasts for FY2018

Q. How do you see the impact of rise in US interest rates?

Although US dollar funding cost is slightly increasing, we do not see particular concern as there is no slowdown in the U.S. economy at this moment and our U.S. business is also steadily progressing.

Q. Profit for Q1 (91.4 billion yen) is in faster pace (29%) against the annual forecast (320.0 billion yen). Do you foresee any upside or downside potentials in your annual forecast?

It is too early to expect upside potential in our annual forecast although it shows good progress. Some mineral resources prices are declining and it may have some impacts, and we also need to closely watch how the U.S. trade policy impacts China and other regions. We will review our annual forecast when the outlook becomes clearer in Q2.

Q. Which business was strong in Q1 against the annual forecast in Non-mineral resources businesses?

In addition to the tubular products business, construction equipment and leasing business have been steady in Transportation & Construction Systems Business Unit. In Infrastructure Business Unit, EPC construction progressed well, and the profit may vary by quarter but it is in line with annual forecasts. Real estate business was also strong as planned although it fluctuates depending on the timing of value realization. Overall, Non-mineral resources businesses are progressing as planned against the annual forecast.

Q. Operating cash flow in Q1 decreased due to the increase in working capital. Will it improve as the fiscal year progresses?

One of the factors of this working capital increase was from tubular products inventory due to higher demand, however, inventory turnover ratio is not declining. Another factor was the trading business of precious metal, as it cumulates the inventory at the beginning of the fiscal year and selling it towards the end of the fiscal year. In full year, it is manageable and we do

not have any concerns on our annual plan. We will continue to control our cash soundly with the basic policy to conduct investments within the cash generated.

Q. Please advise if there are any progress in “Creating the next generation businesses” in your growth strategy in medium-term management plan.

There is no major investment, but we have executed some investments in each field which can lead to new business. For instance, we made investments to a company owns carbon fiber 3D printing technology and to a company owns AI technology for improving production efficiency. We are also considering the utilization of these new technologies to increase efficiency and competitiveness of our existing business, and will drive our initiative for digital transformation throughout the company.

Projects

<Tubular products business>

Q. Why did the Basic profit of Tubular products business increase compared to the same period of the previous year? How do you see the forecasts?

Market indicators are recovering, for instance, US rig count is increased by 100 rigs and the price of tubular products have risen by 20% compared with same period of the previous year, and these changes contributed to our result.

Recent rise of oil prices becomes stable mainly because OPEC agreed to relax the production cuts, but we expect the market indicators would be steady, while we need to keep a close watch on the outcome of international trade policies negotiation.

<Transportation & Construction Systems Business Unit>

Q. Please update us on the current situation of each business line compared to the same period of the previous year.

Situation in each business has not changed significantly from last year. Construction equipment sales & marketing and rental business continues to show solid performance as a whole and has progressed as planned though it varies by region. Leasing and automotive retail finance businesses were also solid. Meanwhile, the automobile sales and marketing business is still struggling especially in the Middle East where's our main market. Excluding one-off foreign exchange loss from reorganization of TBC, overall, the business trend remains similar to last fiscal year.

<TBC>

Q. Please update us on the current situation and outlook.

Equity in earnings of our share (50% basis) in Q1 resulted in a loss of 0.3 billion yen. One-off foreign exchange loss of approximately 1.0 billion from the reorganization was posted as

consolidation adjustments at the parent company and was not included in TBC itself. Regarding the current business situation, we are pursuing to expand sales channels and to reduce costs by integrating wholesale business, and to restructure the retail business by merging two companies' business with Michelin.

<Fyffes and Sumifru Singapore>

Q. Please update us on the current situation and outlook.

Both Fyffes and Sumifru Singapore struggled with lower banana price last year due to over-supply situation. For Q1 this year, the market price recovered as the demand tightened due to adverse weather condition in Latin America. Sumifru Singapore also contributed by increasing their sales in Japan, one of their main market. Both companies increased their profit compared to the same period of the previous year, and showed steady progress against the annual forecast as well.

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

Q. Please tell us the current operating situation and prospects.

As a whole, we are progressing accordingly to our plan. One of the sulfuric acid plants, which had been constraint on operation, was repaired in May-June. Nickel production volume for the period from April to June increased to around 64% of design. The other sulfuric acid plant will be repaired in August-September, and through such initiatives, we aim to increase production to around 80% of design. We still have challenges for stable production, therefore there is a possibility that annual production volume will be slightly lower than our plan. However we expect that our overall results will be in line with our initial budget since the commodity prices has been higher than our assumption.

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

Q. Please tell us the current situation for the Q1 of FY2018.

It is stable operation because amount of throughput was in full capacity with the daily amount of around 110KT, and the recovery rate of molybdenum has improved to our planned level which had been a problem in the past. We are currently conducting feasibility study to increase the amount of throughput and production by putting CAPEX in order to improve the profitability.

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

Q. What is the reasons for the good results of Q1 against the annual plan?

It was mainly due to the changes in terms of sales contracts which led to earlier timing of profit recognition compared to the past condition. Production is progressing accordingly to the annual plan. Although we have not reviewed the annual forecast at this time, we expect it will land as per annual plan considering the current decline in the market prices.

<Participation in Yanacocha gold and copper mining business in Peru and acquisition of producing and developing tight oil asset in the U.S.>

Q. Please tell us the background and meaning of the investment decision.

Regarding upstream mineral resources businesses, we are executing our plan based on medium to long term perspective while we try to improve profitability of existing projects as first priority. We purchased ownership interest of Yanacocha aiming to get the right to participate in the future expansion plan rather than the existing production. We will determine future development after the feasibility study to evaluate its profitability. We also acquired the tight oil asset in the U.S. to gain know-how of operatorship with small investment. Although we do not expect to make a large investment immediately in the shale gas business in the U.S., our aim is to acquire knowledge for future development since we believe that shale gas will still account for a certain weight as a supply source of oil and gas in the U.S.

END