Q&A at Investor Meeting of Financial Results for the Six Months Ended September 2014

Presentation Date: November 11, 2014 (Tuesday) 16:00 to 17:30

Presenters:
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[Questions and Answers]

(1) Financial Results for the Six Months Ended September 2014

Q. With the strong momentum from the first half performance, what are your thoughts with regard to the full-year forecast for this fiscal year?
Also, what impact will the current decline in oil prices have on performance in the fiscal year ending March 2016?

A.

- At this point we are maintaining our full-year forecast at 400 billion yen. The main reasons are because the majority of the revenues from dividend income from resource-related investees and the fund-investment business forecast for this year have already been booked in the first half, and because in the second half we expect mining expenses to increase while the resource-related business is currently experiencing a slump.
- Our operating results forecast for the fiscal year ending March 2016 is going to be drafted around March as usual, so at this time we do not have any specific figures.

Q. What is your thought with regard to impairment risk at this time? What potential is there for write-downs in your energy business or

metal resources investments?

A.

- In metal resources investments, we do not envisage any impairment losses at this point because our assets are very cost competitive.
- In resource projects in the energy business, we can't rule out the possibility of write-downs on small-scale investments, but since the scale is small, the impact will be negligible.

Q. Will the tax system reforms in Chile have an impact on operating results?

A.

- Basically there will be no impact since the tax rate for foreign corporate shareholders will remain unchanged. However, we will be checking on potential impacts from the investment schemes depending on which options are selected.

Q. Is the strong performance in the Living Essentials Group a temporary effect, or will it continue?

A.

- In the Living Essentials Group we are aggressively making new investments and reshaping our portfolio.
- We expect to accrue earnings from various proactive investments such as a Norwegian salmon farming and processing company, and at the same time to improve the quality of our assets by reshaping our portfolio in order to promote continued growth.

Q. What is your achievement forecast for operating results in the Machinery Group and Chemicals Group?

A.

- The fall in automobile sales volumes in Asian automobile operations, mainly in Thailand, was already factored into our initial forecast. Neither the Machinery Group nor the Chemicals Group can afford to be overly optimistic; but we expect them to achieve the initial forecast.

(2) Shareholder return-related (share buybacks, dividends, etc.)

Q. What is your thinking on the full-year forecast for free cash flow, and on share buy-backs in the event of positive free cash flow?

A.

- In the second half of the fiscal year we envisage making more new investments than in the first half, such as an investment in a Norwegian salmon farming and processing company. We assume that the free cash flow will be reduced. However, since free cash flow includes factors such as the burden of working capital, it is difficult to forecast.
- We have planned to control total net investments for the three years covered by New Strategic Direction to be within our own profit, and in deciding on additional shareholder returns, we will also consider the overall status in terms of this three-year framework.

Q. What is your approach to share buybacks and dividends as part of returns to shareholders?

A.

- Since the dividend policy is linked to performance, our first priority is to focus on increasing our earnings. Failure to achieve our envisaged earnings also means that capital efficiency is poor, so we may conduct share buybacks to increase capital efficiency rather than pay dividends.

Q. What is your view on the first-half operating cash flow of 300.6 billion yen?

A.

- Operating cash flows reported for the first quarter provided very little net cash, at 2.9 billion yen, mainly due to the postponement of LNG dividends to the three months ended September 2014 and the payment of income taxes for the year ended March 2014. However, operating activities provided net cash of 300.6 billion yen for the six months ended September 2014, mainly due to cash flows from operating transactions and dividend income in the three months ended September 2014.

- Overall, operating cash flow for the three months ended September 2014 approached the standard level more than did the three months ended June 2014. However, it was lower than usual due to the payment of taxes relating to gains on the sale of shares in the previous fiscal year (amounting to several 10-billions of yen).

(3) Investment Plans/Portfolio Reshaping

Q. While equity is steadily increasing, interest-bearing debt remains level. Financial discipline has been mentioned as a priority issue, but is there a possibility that you will increase interest-bearing debt going forward?

A.

- During the period of the previous medium-term management plan, we increased interest-bearing debt to make investments to serve as the foundations for future growth, with a focus on the field of resources. Under New Strategic Direction, we plan to fund investments within our own profit by actively reshaping our portfolio—this policy has not changed.
- If we reap the envisaged gains from the resource-field investments made under the previous medium-term management plan, and they contribute to our earnings, then we may need to review the balance of our equity and interest-bearing debt.

Q. What effect will portfolio reshaping have on your profit and loss? Please answer in reference to the Living Essentials Group in particular.

A.

- Our portfolio reshaping activities in the fiscal year ending March 2015 have generated gains on sales of assets, particularly in shipping.
- We are not necessarily focusing on the Living Essentials Group in our portfolio reshaping activities, and since the previous fiscal year we have been proceeding with portfolio reshaping by selling shares.

(4) Individual Projects

Q. What was your aim in acquiring a Norwegian salmon farming and processing company, what is the scale of its contribution to earnings, and what risk factors, if any, are associated with this business?

A.

- With this acquisition, together with our existing salmon farming and processing business in Chile, we will become the second largest salmon farming and processing bases in the world, with production sites in Norway, Chile, and Canada. With this scale and our distributed production bases, we will strengthen our supply structure for the markets of Asia, such as China, where demand is expected to increase, and for the existing major markets of Europe and the U.S.
- This business is influenced by market conditions, and we expect a certain degree of volatility. However, in the medium-term we are aiming to achieve consolidated net income in the order of 15 to 20 billion yen.

Q. What is the current business environment for the coking coal business (MDP), and the full-year forecast?

A.

- While we cannot expect a rapid recovery in sales prices, we are working to reduce cost and increase productivity. The other day we opened a new coal mine that is cost competitive as part of our efforts to secure production volumes. We are also preparing for a recovery in sales prices over the medium to long term.
- The effects of cost cuts, such as reducing staff, and productivity improvements should begin to tell in the second half of the fiscal year, so that we expect the losses to improve compared with the first half, although we do not expect to be able to prevent some degree of losses even in the second half due to the slump in the market.

Q. The Australian dollar has fallen against the U.S. dollar. What effects do you see the foreign exchange rate having on the MDP business

performance in the second half?

A.

- If the Australian dollar trends even lower than the recent rate, then it will help to improve performance.

Q. What are the details of the announced MDP personnel reduction plan, and when do you expect the effects to become apparent?

A.

- In addition to the announced 700 job cuts, there are plans for further personnel reductions, and we expect our costs to balloon in the second half with one-time expenses related to these additional cuts.
- In the fiscal year ending March 2016, these one-time expenses will have passed, and the positive impact of the personnel reduction will be fully apparent. If the market trends continue as they are, there is a possibility of recording losses in the fiscal year ending March 2016 also, but we would expect the degree of such losses to be significantly smaller.