

## **Q&A at Investor Meeting**

### **Financial Results for the Six Months Ended September 2016**

Presentation Date: November 8, 2016 (Tuesday), 16:00 to 17:30

Presenters:

Takehiko Kakiuchi: President

Kazuyuki Masu: Executive Vice President, Chief Financial Officer

Yoshifumi Hachiya: General Manager, Corporate Accounting Department

Hiroshi Takehisa: General Manager, Investor Relations Dept.

#### **[Questions and Answers**

##### **(1) Performance/Management**

**Q. You have revised your operating performance forecast upward; do you plan to raise dividends or conduct share buybacks?**

- A.
- As our Midterm Corporate Strategy 2018 states, our basic policy is one of progressive dividends, in which we increase dividends in line with sustainable profit growth.
  - The current revision in operating performance incorporates recent increases in resource prices, which cannot be considered a sustainable increase in profit. Accordingly, for the present we maintain our dividend at ¥60 per share.
  - In the event of surplus funds during the Midterm Corporate Strategy period, we will consider share buybacks as an option for additional shareholder returns.

**Q. How would you use surplus funds, if generated? Also, have there been any changes in your investment policy?**

- A.
- We will invest in areas where we can generate excess returns, centering on growing business domains. In addition, as described in Midterm Corporate Strategy 2018, we will pay down debt in order to maintain a solid A rating.
  - Furthermore, with regard to additional shareholder returns, we will make any decisions to increase dividends in line with sustainable profit growth based on a progressive dividend scheme.
  - If there was a surplus amount of cash generated, there would be no change in our investment policy or evaluation criteria; we will continue to invest with discipline.

**Q. What is the progress on the portfolio reshaping indicated in your medium-term plan?**

- A.
- We have ranked business according to business lifecycle. In addition to categorizing business domains, we have also completed our categorization considering the business investment aspect. We discuss strategies and action plans by category with the respective Business Group management.

## (2) Individual Items

**Q. Profits are up year on year in the MDP business. Could you provide a breakdown of the reasons? Also, are you making progress on cutting costs?**

- A.
- Last fiscal year, this business accounted for negative net income of ¥13.5 billion. It has improved by ¥35.8 billion year on year, to a positive ¥22.3 billion.
  - Of this amount, prices and US and Australian dollar foreign exchange factors accounted for +¥16.4 billion, and volume and cost factors for +¥19.4 billion.
  - In addition to reductions of one-off costs, we implemented measures that contributed to increases in operating efficiency, undertaking initiatives that should enable us to sustain low-cost operations. Although we do not disclose specific production costs, we improved unit costs by reducing costs at existing mining operations, cutting headquarters costs, and raising production volumes through the introduction of productivity-enhancement measures.

**Q. To what extent does your revised forecast take into account forecast prices on coking coal?**

- A.
- We do not disclose our coking coal price forecasts. We will continue to monitor trends.

**Q. Please provide some information on the impairment losses in the ship business.**

- A.
- In the ship business, long-term sluggishness continues to pervade the bulk carrier market, with an oversupply of ships and lackluster growth in marine cargo volumes having worsened the supply/demand balance for ships.
  - With charter hire prices remaining low, we are carefully scrutinizing the assets we own. Our forecasts take into account the possibility of losses in the second half of the fiscal year.
  - We will move ahead discussing how to re-erect the ship business, not ruling out any possibilities.

**Q. What measures are you taking to strengthen your structure so that you will not be affected by fluctuating market prices in the salmon farming business?**

- A.
- A fall in the market price of salmon tends to stimulate demand, while lower market prices cause supplies to fall. Such supply/demand adjustments tend to act over a three-year cycle. The market is structurally different from the energy and metal resources markets, which are affected substantially by macroeconomic factors.
  - At our subsidiaries, we are looking at joint purchases of feed and aquaculture equipment in order to lower farming costs. We are implementing various other measures, as well, such as innovations in mixed feed, ways to raise efficiency through joint licensing and the use of processing plants and freshwater farms, as well as flexibility in sales.

**Q. You have announced the conversion of Lawson to a subsidiary. What is the meaning of your participation in the management of this business investment?**

- A.
- Lawson is particularly important for us, because it provides a connection with consumers. We also believe the convenience store industry still has ample room for growth, and for these reasons we made the decision to convert the company to a subsidiary. We will maximize our provision of human resources and networks. Any people we dispatch will work to enhance Lawson's corporate value by leveraging their originality and ingenuity, and we believe that this will furthermore be instrumental to our growth.
  - Specifically, we expect to enhance product characteristics through our food raw material procurement network, and we anticipate increased efficiencies in wholesale and distribution, such as through Mitsubishi Shokuhin. We will also cultivate new business overseas by leveraging the comprehensive capabilities of our overseas network.