Condensed Transcript of Q&A Session at Fiscal 2012 First-Quarter Results Briefing (August 2, 2012)

Q: First, I would like to ask about overall business performance. Considering the worsening of macro-economic conditions and performance during the first quarter, do you feel that it will be difficult to meet your forecasts for fiscal 2012?

A: Our forecasts for fiscal 2012 initially called for low performance down to the ordinary income line during the first quarter. Conversely, our net income forecast did not account for the recording of loss on revaluation of securities of ¥3.2 billion, and actual figures fell below forecasts accordingly. It is conceivable that this loss will disappear if stock prices recover by the end of the fiscal year. However, the current operating environment does not present an optimistic outlook due to the combined effects of the sovereign debt crisis in Europe and the economic slowdown in China. We realize the difficulties this environment presents; we are thus approaching it with necessary caution. At present, we do feel as though it may be more difficult to meet our full-year forecasts than initially expected, but we will continue to work toward achieving our full-year targets.

Q: How are conditions for the bioethanol business in Brazil? Based on the current conditions, should we assume that the rate of profitability improvement will begin to slow starting in fiscal 2013?

A: Since fiscal 2011, harvest volumes for sugar canes in this business have been declining to a greater extent than anticipated, primarily due to unseasonable weather conditions. Going forward, it will be important for us to carefully monitor crop yield and harvest volumes. If the unseasonable weather conditions cease and harvest volumes are consistent with expectations from fiscal 2013 onward, we believe that performance will improve.

Q: Are conditions in the bioethanol business in Brazil trending in a positive direction, or are harsh conditions persisting?

A: While we had initially forecasted improved performance in this business during fiscal 2012, the heavy rainfall during harvest times prevented us from harvesting sugar canes according to plans. If weather conditions recover and crop production is able to progress smoothly, we should be able to improve lower performance. Still, crop yield will be slightly lower than we had anticipated due to the period of sparse rainfall that began in the fiscal 2011. We thus realize that is will be important to carefully monitor harvest conditions going forward.

Q: The Medium-term Management Plan presently under way calls for the recording of net extraordinary loss of ¥10 billion in fiscal 2012 and ¥5.0 billion in fiscal 2013, which is be incurred due to the replacement of assets. How is this plan progressing? Also, in the first quarter, unplanned loss on revaluation of securities of ¥3.2 billion was recorded under extraordinary loss. Does this mean that net extraordinary loss in fiscal 2012 will be ¥13.2 billion, rather than ¥10.0 billion?

A: The loss on revaluation of securities of ¥3.2 billion was contrary to our expectations. While we are planning extraordinary loss of ¥10 for the replacement of assets, there was little progress on this front during the first quarter. This extraordinary loss of ¥10 is expected to be recorded in the second quarter or later, as this is when we will be replacing assets.

Q: Why was performance poor in the Machinery Division?
A: The Automotive Unit of the Machinery Division is developing its operations in Venezuela, Russia, Thailand, and the Philippines as well as Puerto Rico. Sales in the first quarter were in line with forecasts. However, there is concern for future business performance in Russia, as the sovereign debt crisis in Europe is enabling to European automobile manufacturers to sell their products in the Russian market at lower prices. Conversely, performance was strong in Thailand, the Philippines, and Puerto Rico. In Venezuela, first-quarter production and sales volumes were as planned, but we realize that we must be wary with regard to the presidential election in October and the potential subsequent change in political climate. In the Infrastructure Project & Industrial Machinery Unit, meanwhile, performance in the first quarter was lackluster, but we are projecting a rise in earnings in the infrastructure plant-related business during the second half of the fiscal year. The Marine & Aerospace Unit saw results that were very much as anticipated. First-quarter performance of the IT Business Unit was unimpressive, but this is because the business of consolidated subsidiary Nissho Electronics Corporation is structured in a way that results in sales being concentrated during the second half of fiscal years. In this manner, performance could not be called strong in any business, and the area in which we feel particular need for concern is the

automotive business in Russia.

Q: In the first quarter, the net debt equity ratio rose to 2.3 times. Full-year forecasts projected a net debt equity ratio of 2.1 times; will you be able to accomplish this during the second half of fiscal 2012?

A: The net debt equity ratio is determined based on the impacts on the capital account of factors such as declines in foreign currency translation adjustments due to the strong yen and decreases in valuation difference on available-for-sale securities following stock price drops. Accordingly, the current global economic climate is not conducive to recovering the net debt equity ratio, but we will work to improve earnings over the period of the current medium-term management plan with the aim of bringing this ratio to around 2 times by the final year of the plan.

Q: There has been little progress toward meeting full-year forecasts in the Energy & Metal Division, but how are conditions in the coal business? As market conditions are expected to deteriorate, what are your forecasts for the remainder of the fiscal year?

A: In the first quarter, the coal business achieved performance equating to approximately 20% of the values forecasted for the full year. However, the falling price of coal may cause full-year results to fall slightly below forecasts, and we thus realize the need to be conservative in our performance outlooks.

Q: Short-term interest-bearing debt is on the rise; is this intentional? Also, operating cash flows are in the red. Is there a need to increase interest-bearing debt during this year even in consideration of this situation?

A: In fiscal 2012, we plan to issue a total of ¥25 billion worth of bonds. On July 31, 2012, ¥10 billion worth of three-year bonds was issued, leaving the remaining ¥15 billion to be issued later in the fiscal year. This will result in the long-term debt ratio recovering to 70% by the end of the fiscal year. The minus in operating cash flows is largely due to a rise in inventories of tobacco and fertilizer products. However, the strong sales of these products seen in the first quarter are expected to continue into the second quarter, enabling us to quickly rectify the cash flow situation.

Q: Distribution of chemical products seems to have grown sluggish. How are the sovereign debt crisis in Europe and the resulting economic slowdown in China impacting other trading businesses?

A: Plastic resin products have the largest impact on performance in the Chemicals Division. In China, production of construction equipment has dropped significantly, but as the Chinese operations of the Company’s Machinery Division are rather small, we do not expect any notable impacts for the time being.