Condensed Transcript of Q&A Session at Fiscal 2008 Year-end Results Briefing (May 1, 2009)

Q: Although you do not announce an earnings forecast for the first half of fiscal 2009, could you give us some idea of your earnings outlook between the first and second halves or by quarter?

A: Though we aim to even out to our quarterly earnings, we recognize that we face an adverse economic and operating environment in the fiscal first half. We expect earnings to progressively improve every quarter through fiscal year-end.

Q: You said that inventory valuation losses appear to have run their course for now in the real estate, fertilizer, automotive, and other businesses. From the standpoint of current inventory levels, market prices, and demand trends, when will inventory levels be normalized?

A: We expect fertilizer inventories to be back to normal this June. The automotive business will probably take a year to recover. In the real estate development business, inventories of real estate for sale ended March are slightly over ¥120 billion. Of these inventories, measures of condominium inventories are nearly complete. In other properties business, we have completed necessary inventory writedowns by the LCM (lower of cost or market) and other methods. We will take exit of these inventories as soon as possible, but we expect the process to take about two years.

Q: At the time of your third-quarter conference, you stated that you intended to reduce your inventories, which were then over ¥400 billion, by about 50%. In the fourth quarter, inventories were reduced by about ¥50 billion. Will you continue reducing inventories down to somewhere above the ¥200 billion level? Also, how much inventory losses do you expect to incur in fiscal 2009?

A: We plan to lower inventory levels without fail, beginning with real estate inventories, where reductions will have the biggest impact, but also including other inventories too. Reducing inventories has two aims. One aim of normalizing excess inventories is to rapidly free up cash to capture on business opportunities such as new investments. The other aim is to reduce risk assets in accord with our continued policy to reducing the ratio of risk assets to shareholders' equity to below 1.0. We consider ¥200 billion to be a indicative level for managing inventories from the standpoint of both raising cash and reducing risk assets. In addition, we don’t expect any specific losses for inventories and when the losses be caused, definitive impact to be prospected.

Q: Your projected fiscal 2009 dividend level of ¥5 per share equates to a dividend payout ratio of over 30%. Previously, you had a target of raising your dividend payout ratio to 20%. What is your current dividend target in either payout ratio or yen terms?

A: We plan to pay ¥5 per share based on a comprehensive assessment of our net income forecast ¥20 billion in fiscal 2009, the stable, continuous payment of dividends and accumulation of shareholders' equity and other relevant considerations. We consider that we should now focus on returning as soon as possible to pursuing our previous target of a 20% dividend payout ratio while increasing net income.

Q: Regarding the 3% ROA and 15% ROE targets in your new medium-term management plan, are these targets that you aim to achieve by the plan's final year or targets that you aim to eventually achieve by taking action over the course of the new plan's term?

A: These figures are future targets that extend beyond the new medium-term plan, but we by no means consider them to be unreachable.

Q: You previously said that net interest income expense would improve by virtue of your credit rating upgrade, but in actuality there was not much change. Is this because your cost of funds did not decline as much as you expected? Please discuss the funding environment in your answer.

A: This is because interest income has decreased more than interest expense with central banks around the world lowering their bank rates. We believe that we have in fact reduced our cost of funds for the past three years.

Q: In comparison with the revised forecast that you issued in the fiscal third quarter, your full-year results fell short of forecast by a larger margin than other companies' did. Why?

A: It was largely attributable to the impact of LCM valuation of real estate inventories. The commodity price slump and equity market downturn were also contributing factors. Other contributing factors include that the fourth-quarter results of group companies with a December fiscal year-end were converted to yen based on exchange rates at end-December. In addition, we booked impairment losses on certain natural gas assets in response to oil and gas prices' substantial declines and the result stress testing indicated.

Q: Will fiscal 2008 earnings' large shortfall relative to the previous medium-term plan's targets have any impact on deferred tax assets?

A: We see no need for reversal of any deferred tax assets because we rigorously treat them based on tax planning and CPA check.

Q: The economic downturn in the second half of last year was extremely severe. It is also the first recession since you began introducing risk assets method. Were your losses on risk assets worse than you anticipated? And have you any point to be improved or changed your approach to risk assets in response?

A: We do not believe that we have erred in our investments to date. In terms of risk and return, the key point is returns and cash flow over the long-term. Amid the recent market turmoil, equity and other asset prices fell precipitously over a short timeframe. We believe that we cannot compare these simply.

Q: In terms of achieving balance between risk assets and shareholders' equity, how will you deal with factors beyond your control, such as valuation and translation adjustments?

A: The Portfolio Committee established on April 1, 2009 will look into specific measures to minimize the impact of these factors through such means as cash flow management, reassessment of ownership relationships with overseas subsidiaries and affiliates, and reassessment of the rationale behind holding certain assets, mainly listed equities.

Q: Regarding funding, you are not projecting much of a decrease in net interest-bearing debt, but how do you see the long-term funding environment today?

A: In the fourth-quarter we raised in long-term debt financing. Also we currently hold cash and deposits of some ¥420 billion. Our target is to maintain liquidity on hand of ¥350 billion, equivalent to about 80% of our short-term interest-bearing debt. We accordingly believe that we have an ample liquidity cushion. Additionally, we also have access to supplemental liquidity in the form of a ¥100 billion commitment line of credit. We believe that we can adequately meet our funding requirements without increasing our interest-bearing debt.

Q: How did you arrive at the figure of ¥70 billion in new investments, and to what extent have you already identified these investments?

A: The ¥70 billion is a tally of the screened investment proposals that have arisen in the course of operations. The breakdown is 45% resource-related, including investments related to nuclear power, and 55% non-resource-related. However, not all of the ¥70 billion in proposals will be approved. We will vet the proposed investments’ commercial prospects before we proceed with any of them.

Q: Regarding the reorganization of your business segments from fiscal 2009, do you know what the fiscal 2008 gross trading profit and recurring profit would have been if you had reported earnings for the new segments with overseas subsidiaries' earnings allocated to the segments?

A: In terms of how much profit was allocated to each segment from overseas subsidiaries is not a large number in fiscal 2009.

Q: The currency translation adjustment account is a major source of volatility in the measure of equity you use to calculate your net debt-to-equity ratio. Which currency had the biggest impact? And what is the breakdown of the overall impact by currency?

A: Basically the US dollar had the biggest impact, accounting for nearly 50% of the change in the currency translation account. The next biggest was the pound sterling, which accounted for 15%, followed by the Australian dollar, Thai baht, and euro. The biggest factor behind the most recent change in the currency translation adjustment account was overseas subsidiaries' large cash holdings, not qualitative deterioration. We intend to have the Portfolio Committee look into how to optimally manage these cash holdings to minimize the amount of currency risk.

Q: You have substantial assets in Asia and Oceania. What was the impact of Asian currencies?

A: Among Asian currencies, the Thai baht had a large impact, but overall the impact of Asian currencies was not large.