Condensed Transcript of Q&A Session at Fiscal 2011 Second Quarter Results Briefing (November 1, 2011)

Q: You have lowered your full-year earnings guidance for the Energy & Metal Division, but breaking the numbers down to first and second-half forecasts indicates that you expect a ¥5 billion improvement in the latter half of the year. What areas are you expecting the improvement to come from?

A: We are looking forward to a profit contribution from newly acquired rights in our coal business. The profit contribution in the first quarter was negligible, partially due to the effect of heavy rains in Australia, but production has been improving since the second quarter, helping the coal business to secure higher output volumes. We think the business will continue to catch up to our original estimates.

Q: Moody's has proposed changes to its ratings methodology for general trading companies. How do you view this and the prospect of having your rating downgraded?

A: Moody's has proposed assessing Japan's general trading companies as financial companies. However, general trading companies have diverse sources of earnings, which distinguish them from monoline financial companies that generate the majority of their income from one business and its products. We think it would be a stretch to place us in the same industry as a finance company that provides financial services related to leases and loans.

Q: You evidently expect deterioration in the Consumer Lifestyle Business Division's results in the second half. Please explain the differences in the conditions for each business in the first and second half of the year.

A: In the first half, demand for lumber and plywood was brisk in the aftermath of the quake and tsunami. As a result, earnings were stronger than we expected. However, reconstruction projects are moving slowly, and we think lumber and plywood inventories need some adjusting, which we believe will cause demand to fall in the second half. In addition, we had expected a strong second half from the fertilizer business, but the Thai floods have forced us to cut back on sales activities during Thailand's peak farming season. We anticipate that the Thai floods will have a rather severe impact on the fertilizer business. Consequently, while the Consumer Lifestyle Business Division advanced strongly toward its full-year target during the first half, changes in the business environment force us to take a less optimistic view of second-half prospects. We therefore have left our full-year profit target at the initial level.

Q: Can you give us some details on the impact of the Thai floods?

A: The flooding's impact is mainly being felt in our fertilizer, automotive, and plastics-related businesses. At this moment, we estimate the combined loss suffered by these businesses to be somewhere between ¥1.5 billion and ¥2 billion.

Q: Can you provide a bit more detail about the flooding's impact on the Thai fertilizer business?

A: The main impact is expected to be a reduction in sales volumes, which will likely lead to the business falling short of our earnings targets. Meanwhile, reports from Thailand indicate that the damage to our fertilizer plant is not very extensive.

Q: The automotive business is rebounding, but could you give us more information on the current situation? In particular, what can we expect from the currently stable Russia and Venezuela businesses?

A: The automotive business is doing well, with unit sales up 50% year on year. The current trend should continue, as long as we do not run into any major unforeseen difficulties. We do have some concern that the Russian business could be somewhat affected by Europe's fiscal problems, but the Russian economy is holding strong, and automobile sales have shown no signs of slowing down. The Venezuelan operations are also stable.

Q: Although your target net debt-equity ratio is around 2x, as of end-September it was around 2.3x. How do you plan to bring it down to the targeted level?

A: Well, for one thing, we have partially hedged our forex exposures to prevent currency fluctuations from reducing our capital. In addition, we are reviewing inventories in all our businesses with a view toward reducing them and achieving lower working capital levels. Through these reviews of forex risk and inventory levels, we plan to improve our net cash position. Rather than selling off valuable assets to reduce the debt-equity ratio, we are focusing on improving the ratio while maintaining the profitability of our normal business operations.