

Condensed Transcript of Q&A Session
at Fiscal 2011 Year-end Results Briefing
(May 9, 2012)

Q: Your ordinary income targets for the Machinery Division are ¥8 billion in fiscal 2012 and ¥14 billion in fiscal 2014. Can you tell us what assumptions you are making about automobile unit sales and conditions in Russia and Venezuela?

A: We expect our automotive business to have another good year around the globe in fiscal 2012. While we are hoping for growth from this business, we also think that the Venezuelan automobile assembly and sales business are still subject to risks from the application of inflation accounting and currency devaluation, and we have factored those risks into our plan. In Russia, we anticipate another solid year from the auto distributor business.

Q: I'd like to ask how your asset replacement initiatives are leading to improvements to the balance sheet and profitability. Are you replacing unprofitable assets, and are the assets related to your trading business or investments?

A: Basically, our asset reshuffle involves both trading business assets and investment-related assets. We are reducing and divesting from low profit or unprofitable assets. Sorry, but I cannot discuss the details as the assets pertain to specific projects. This year's profit plan takes into account an estimated ¥10 billion in extraordinary losses from asset replacement, but we have not yet determined losses related to specific projects. This estimate, however, reflects our strong intention to increase the probability that we will achieve the goals of the medium-term management plan by moving forward with our asset replacement initiatives.

Q: To achieve your quantitative goals, you plan to increase ordinary income in the energy & metal segment by ¥13 billion. Can you tell us how this will increase resource volumes and what you think the impact will be on the bioethanol business as well as providing some indication as to when you think this is likely to happen?

A: Profit in the bioethanol business will be delayed by at least a year. We are now expecting profits from fiscal 2013. The delay is mainly due to a poor sugar cane harvest owing to unseasonable weather. The plant itself is operating as expected. Among other resources, the biggest volume increase will be for coal. Including both direct and indirect holdings, we plan to increase our production volume from 7 million tons to 10 million tons in the medium-term plan's final year. As long as production is not set back by a long rainy season in Australia, we should be able to stay on pace to meet that target. If we include trading in

our coal concessions business, we expect our total handling volume to be about 30 million tons. Among scarce resources, such as rare earths and metals, our molybdenum expansion project is expected to boost our production volumes from fiscal 2013.

Q: I believe that the reversal of deferred tax assets has sharply lowered earnings risk, but your assumed effective tax rate for fiscal 2012 is not below 40%. Does this indicate that you see a risk of additional reversals?

A: We expect deferred tax asset reversals of about ¥1 billion in fiscal 2012. Meanwhile, our forecasted extraordinary losses of ¥10 billion will push down pretax profits, resulting in a higher tax rate. If we exclude this factor, the tax rate would fall. We expect it to fall to about 35% in the final year of the medium-term plan.

Q: Can you explain more concretely how you plan to raise funds efficiency?

A: We plan to raise the efficiency of operating assets, such as inventories.

Q: Can you break down the ¥180 billion in planned investments and loans by segment and region for us?

A: ¥180 billion is the total for our planned investments in business focus areas and existing businesses. The presentation materials show the businesses included in these focus areas. The existing businesses are those not included among the focus areas.

Q: Can you explain why the plans for achieving quantitative targets include rather small profit increases for the Chemicals and Consumer Lifestyle Business divisions?

A: The Chemicals Division generates stable earnings, and our plan assumes steady gains from the division. Consumer Lifestyle Business, meanwhile, is actually the division we hope will grow the most. We want to seize business opportunities in the developing markets of Indonesia and China. Our profit plan, however, focuses on profits at core businesses, such as the fertilizer business. It does not include potential profits from business opportunities seized by opening up new markets. So, our earnings targets for the next three years are based on current businesses.

Q: Please give us an idea of your fund procurement plans during the current medium-term management plan. If conditions at business partners make it hard to proceed with planned asset replacement initiatives, what other ways will you raise needed funds? Or will you

simply not follow through with certain investments?

A: In principle, we will proceed with our asset reshuffle while sharing the information within the company, but we figure that some of our initiatives may not proceed as planned, and the plan takes that into account to some extent.

Q: The plan assumes extraordinary losses totaling ¥15 billion in the next two years. Does this indicate that you plan to accelerate asset replacement?

A: Yes. We believe that accelerating asset replacement is essential to the success of our current medium-term management plan.

Q: The plan envisions an increase in net interest-bearing debt from ¥650 billion in fiscal 2011 to ¥670 billion in fiscal 2014? What should we make of that?

A: Consolidated cash and deposits at the end of fiscal 2011 turned out to be greater than initially planned. This is because we liquidated some assets ahead of plan, and we intend to allocate those funds to new investments and loans. Accordingly, the nominal increase in net interest-bearing debt is due to this planned reduction in cash and deposits. On a gross basis, interest-bearing debt will remain relatively unchanged.

Q: Among the quantitative targets, I believe that you are prioritizing ROA, but looking at your shareholders' equity your ROE is also low. What are your thoughts about ROE?

A: In the past, we stated our ROE target to be 15% and we have not changed our position on this. At present, however, we consider profit generation to be a more pressing management issue, and when looking for an indicator of our profit generation capacity we thought ROA would be an easily understood figure. Our focus on ROA reflects our recognition of the extreme importance of raising asset profitability, but we will, of course, also continue to monitor ROE.

Q: Considering that resource prices have risen significantly from past levels and your current medium-term management plan's targeted levels for investments and loans, can you give us your thoughts on risk management?

A: We are practicing various forms of risk management. For example, we look at country risk and foreign currency risks related to each of the countries we are investing in and then we set ceilings for our investment levels in each of those countries. Executing our investments within such frameworks provides a certain degree of control.

Q: The ordinary income target for fiscal 2014, the final year of your medium-term management plan, is ¥75 billion. Considering your record high of ¥100bn, isn't your profit target a bit conservative? Does the ¥75 billion target indicate that the company is focusing more on balance sheet improvements?

A: We are keenly aware of the need for improving our balance sheet. Last year's sharp yen appreciation and falling stock prices significantly reduced our shareholders' equity. Shareholders' equity is the foundation of a company's strength, and we believe such a reduction in our financial strength should be met with a crisis mentality. To ensure that we have the strength to compete in a global business environment, we must steadfastly manage and add to our capital base. Otherwise, we will find it difficult to respond to sudden changes in our operating environment.

Q: From an ROA perspective, you could also seek to increase profits by adding equity-method affiliates and refrain from building up your asset base. On the other hand, this would disrupt the balance between cash earnings and equity-method income. Are you focusing on cash earnings or on income on the profit/loss sheet?

A: Needless to say, our focus is on cash. Unless we strengthen our cash returns, we cannot effectively reinvest in our future. Consequently, cash returns are the basis for our views on equity-method affiliates.