

Condensed Transcript of Question and Answer Session  
Briefing on Consolidated Results for Q3 of Fiscal Year Ending March 31, 2018

Date: February 6, 2017 (Tuesday)

Reference: Conference Call

Those Present:

Nobuhiro Yabe, Managing Executive Officer, CFO

Hideyoshi Iwane, General Manager, Corporate Accounting Dept.

***Note Regarding Forward-Looking Statements***

*Forward-looking statements in this document, including results forecasts, are based on information available to the Company at the date of publication, as well as certain assumptions the Company judges to be reasonable. Various factors could cause actual results to differ materially from those discussed in forward-looking statements.*

**Main Questions and Answers**

**Accuracy of ¥200.0 billion consolidated net profit forecast for FYE 3/2018 and cushion**

A cushion of several billion yen is factored into the FYE 3/2018 net profit forecast of ¥200.0 billion. Also, we do not expect any impairment losses in resource businesses during the fourth quarter. For these reasons, we are reasonably confident in our forecast.

**Forecast for adjusted net profit for FYE 3/2018 and forecast for FYE 3/2019**

For the full fiscal year, we are projecting adjusted net profit of just over ¥200.0 billion. As for the forecast for FYE 3/2019, we will monitor commodity prices and other trends, and plan to disclose the numbers at the announcement of financial results for FYE 3/2018 in May.

**Key drivers of profit growth through FYE 3/2019**

In non-resources, we expect improvement in the Musi Pulp Project, where eucalyptus cultivation is progressing steadily, and we want to increase earnings by building up solid profits at each operating company. In resources, while production volumes of crude oil and iron ore are on the rise, we do not expect a significant

positive impact on profit if commodity prices remain at recent levels. We will formulate a plan after examining costs, including but not limited to copper.

### **Progress on free cash flow**

While we are targeting free cash flow after dividends of positive ¥100.0 billion for FYE 3/2018, the total for the nine-month period ended December 31, 2017 was negative ¥28.4 billion. The reason for the slow progress is the use of larger working capital, but we have a firm grasp of the causes. We leave our original target unchanged as we have confirmed that we will be able to recover the working capital in the fourth quarter in grains, Helena Chemical, marine products and other businesses, including the influence of seasonal factors.

### **Progress on new investments**

We are carefully selecting and executing strategic investments. The cumulative amount of new investments for the nine-month period ended December 31, 2017 was about ¥70.0 billion, and we expect the total for the full year at the same level as in FYE 3/2017 (approximately ¥110 billion), although the actual amount may be higher or lower depending on bidding results, the progress of projects and other factors.

### **Full-year outlook of three major new investments in FYE 3/2018**

The outlook of the net profit for the full fiscal year at three investment projects – a beef production and sales business in the United States (Creekstone Farms), a design led planning, sourcing and sales of apparel and goods in Turkey (Saide), and a feed additive distribution business in the Netherlands (Orffa) – is a total of ¥2.0 billion to ¥3.0 billion (excluding the effect of U.S. tax reform).

### **Grain and chemical product trading businesses**

In an unfavorable market environment, grain trading margins continued to shrink below past levels. In Brazil, margins tightened in a competitive market environment because farm sales were slow. The harvest has recently begun in Brazil, so we expect margins to improve. Sales to China were in line with our plan, as we switched to sales to customers with low credit risk, but margins have declined. We will decide on the guidelines for the next fiscal year after ascertaining any improvement in margins.

Profit in chemical product trading was significantly impacted by the large year-on-year decline in the first quarter. This decline was a result of both the termination of a contract that was obtaining high margins in FYE 3/2017 and the difficulty of securing margins in the current market environment. The year-on-year decline also reflects the strong numbers in the previous fiscal year. Therefore, we do not expect further deterioration as we head into FYE 3/2019.

### **Business conditions at Helena Chemical**

Net profit on a dollar basis for the nine-month period ended December 31, 2017, excluding the effect of U.S. tax reform, was flat compared with the same period of FYE 3/2017. In the full-year outlook, we also expect little change year-on-year. Helena continues to perform well considering the difficult conditions for margins amid stagnant farm income in the United States.

### **Conditions at energy concession business**

Currently we hold three interests under development in oil and gas fields; two in the U.S. Gulf of Mexico and one in the U.K. North Sea.

In the Gulf of Mexico interests, the results of a reserve evaluation by a third party concluded that impairment is unnecessary. In the North Sea field, the results reflected the current state of development and the price outlook, and although impairment was not necessary, other one-time charges were recorded.

The production forecast for our oil and gas interests is roughly unchanged.

### **Profitability of energy concessions**

The energy concession business posted a loss of ¥28.0 billion for the nine-month period ended December 31, 2017. Of this total, the effect of U.S. tax reform was in the range of negative ¥15.0 billion to ¥16.0 billion. This business remained in the red in the third quarter, even after excluding the effect of U.S. tax reform.

### **Performance at Roy Hill Iron Ore Mine**

Profit after amortization turned positive in the second quarter, and the business turned a cumulative profit for the nine-month period ended December 31, 2017.

### **Reason for raising the forecast in the “Other” segment by ¥24.5 billion**

The main factor is that there was a cushion of about ¥20.0 billion at the time of the full-year forecast in November, but that cushion is largely eliminated in the revised forecast.

**Effect of U.S. tax reform in FYE 3/2019**

We estimate that the reduction of the U.S. corporate tax rate from 35% to 21% will boost net profit in FYE 3/2019 by about ¥6.0 billion.