

Q&A Summary of Investors Meeting for the 1st Half of FY2016 Business Results

Presentation Date and Time: November 9, 2015 (Monday); 13:30 to 15:00

Attendee: Masahiro Okafuji, President & Chief Executive Officer

Hitoshi Okamoto, Senior Managing Executive Officer, CSO

Tsuyoshi Hachimura, Managing Executive Officer, CFO

Kunihiro Nakade, Managing Executive Officer, General Manager,

General Accounting Control Division

Hiroyuki Kaizuka, Executive Officer, General Manager,

Corporate Planning & Administration Division

Abbreviations: Free Cash Flow = FCF; Charoen Pokphand Group = CP Group

① 【Financial results for the 1st half of FY2016 and the forecast for the 2nd half of FY2016】

Q: How is the evaluation of this year's results by segment?

A: The Textile Company is doing fairly well even though business conditions are tough. However, it is necessary to take some actions in order to continuously achieve ¥30.0 billion in annual profit. The Machinery Company is performing well too, but we will only focus on the business areas where we perform strongly in going forward. The Metals & Mineral Company will adopt a defensive stance in order to prevent significant losses. As for the Energy & Chemicals Company, chemical related subsidiaries are faring relatively well, but energy-related businesses are struggling. The Food Company is underperforming, and to achieve a recovery in the next fiscal year, we view this fiscal year as a year to solve several issues. In particular, the success of the merger of FamilyMart and the UNY Group is critical. The ICT, General Products & Realty Company still has plenty of room for growth. Specifically, ICT achieved an improvement in profit from the re-allocation of personnel. The Finance and Insurance sectors are also doing well. As a result, the ICT, General Products & Realty Company is driving the solid performance of the non-resource segment, which is in good shape.

Q: What are the specific items of future concern and risk that are expected to be removed within this fiscal year?

A: Items of future concern and risk are mainly resource related. While our competitors are revising their annual forecasts downward, we would like to remove items of future concern as much as we can to achieve our target every year, including this fiscal year.

Q: If net profit exceeds ¥330.0 billion, will there be any changes to the dividend calculation formula?

A: In the event that we exceed that figure, the dividend amount will be calculated based on the original formula, which is written in our Medium-term Management Plan dividend policy. However, our annual net profit forecast of ¥330.0 billion remains unchanged. In addition, as written in our policy, we guarantee ¥50 per share as a minimum dividend for this fiscal year.

② 【CITIC /CP】

Q: What will be the impact to net profit in regard to the equity pickup from CITIC Ltd being carried

out ahead of schedule?

A: The impact will be between ¥15.0 billion to ¥20.0 billion.

Q: Could you tell us about the cash flow situation related to CITIC Ltd and about the request made to CITIC Ltd to raise the dividend pay-out ratio?

A: In regard to our loan to the CP Group, net interest expenses improved due to the interest rate of the USD loan being lower than expected, while the interest income remained the same as scheduled. Currently, our funding is done through bridge finance, which is a short-term loan valid until next June. However, we are aiming by the end of this fiscal year to re-finance this short-term loan into a long-term loan through JBIC and commercial banks. For the dividend pay-out ratio, we are requesting CITIC Ltd's top management to raise the dividend, but the pay-out ratio remains unchanged as of now.

Q: How is the synergy situation with the CP Group?

A: There are already synergies developing in our food trading business. In addition, there are projects in the pipeline, so I would like to ask you to wait a little bit longer to see the results of these synergies.

Q: What are the risks related to the CITIC Ltd equity pick-up, such as volatility of profitability, etc.?

A: The PBR of CITIC Ltd is below 1.0 times, therefore there is a negative goodwill at the time of acquisition. However, based on accounting principles, losses should be allocated to assets of concern, such as Sino Iron and financial receivables. In doing so, even if CITIC Ltd recognizes impairment to these assets in the future, it will not affect our equity pick-up. Of course, purchase price allocation will be based on fair value by a third-party appraisal. Also, we plan on reporting CITIC-related items in our securities report.

Q: What are the future initiatives of your Chinese business?

A: Due to Xi Jinping's anti-corruption campaign, people are keeping a close eye on the situation. Therefore, we will not rush to execute projects, but rather, we will wait and see how the situation develops.

③ 【Cash Flow / Investment Policy】

Q: Investment amounts in the 1st half were low. Were there any changes in the procedure for making decisions on investments?

A: I am instructing our personnel in the field to actively find opportunities for investment. However, on the other hand, I am telling our CSO and CFO to adopt a stricter stance toward new investments. Now, we are focusing on the exit of investments, such as the sale of PrimeSource this fiscal year. Through this sale, we took in approximately ¥100.0 billion in cash. This sale also represents our stance toward asset replacement outside and inside the Company.

Q: What is the outlook of core FCF for the 2nd half of the fiscal year?

A: Due to the cash taken in from the sale of PrimeSource, the progress ratio of the 1st half was high. However, we are expecting more investment payout in the 2nd half than the 1st half. Accordingly, our annual core FCF target will remain at ¥100.0 billion.

④ 【Management change】

Q: Any concerns for the management change?

A: It will be discussed in the Nomination Committee, and the Committee has already pointed out two future issues for us to address. One is to further strengthen the business partnership between CITIC Group, CP Group, and Itochu. This business alliance will move on further next fiscal year. Therefore, we need to follow up on this matter in an appropriate manner. Second is the merger of FamilyMart and the UNY Group. We need to appropriately follow up on the issues geared toward the completion of this merger, which is scheduled for September 2016. We need to think about management change, giving consideration to the appropriate actions to take toward these two issues. We have many talented personnel and, as such, we will give sufficient thought in regard to management change.

⑤ 【Each business area】

Q: Could you please tell us about the partial sale of Shanshan Group shares?

A: We maintained a good relationship with Shanshan Group since our investment in their company in 2009. However, due to their business policy to actively expand into non-textile business fields, we reached a mutual agreement to sell part of our shares in an amicable manner. Please note that our close and friendly relationship will remain unchanged in the future.

Q: How is the situation at Dole?

A: Banana production volume was an issue, but there is now a hope that new production structure can achieve 20% more production volume. Dole's business is often affected by the weather, and we realized that it is difficult for us to handle Dole's business by ourselves. Accordingly, we have been receiving offers from other companies to work together in this business. At the moment, the Food Company has three issues: (1) Dole, (2) TING HSIN(CAYMAN ISLAND) HOLDING CORP., and (3) the merger of FamilyMart and the UNY Group. During this fiscal year, we would like to prioritize our initiatives toward Dole and TING HSIN(CAYMAN ISLAND) HOLDING CORP.

Q: What is the impact of BELLSYSTEM24, Inc. becoming a listed company in terms of business performance?

A: BELLSYSTEM24, Inc. will be listed on November 20, on the 1st section of the Tokyo Stock Exchange. We will continue the stable possession of the company's shares after the listing, and we will continue to contribute to their growth strategy. As gains from the listing have yet to be finalized at this stage, we would like to refrain from commenting in terms of numbers.