Q&A Summary of Investors Meeting for FY2015 3rd Quarter Business Results

Presentation Date and Time: February 5, 2014 (Thursday); 18:00 to 19:30

Speakers: Tadayuki Seki, Executive Vice President, Executive Advisory Officer, CFO & CAO
Koji Takayanagi, Senior Managing Executive Officer, CSO
Kunihiro Nakade, General Manager, General Accounting Control Division

Restated as follows - Charoen Pokphand Group : CP Group, C.P. Pokphand Co. Ltd.: CPP, European Tyre Enterprise Limited : ETEL, Marubeni-Itochu Steel Inc. : MISI

1. Results for the 3rd Quarter of FY2015

(1) Results and Forecast for FY2015

Q1: What is the outlook for each sector achieving the annual forecast for FY2015?

A1: As of the end of the 3rd quarter, the Metals & Minerals company had achieved 90% of the annual forecast. Putting aside the possibility of impairment, the Metals & Minerals company should be able to achieve the forecast due to the increase in iron ore sales volume and improvement in costs in the coal business. The Energy & Chemicals company had achieved 12.9 billion yen, which is 30% of the annual forecast, as of the end of the 3rd quarter. We expect dividends from the LNG business, as in last fiscal year, but we are afraid that it will be difficult to achieve the annual forecast of 43.0 billion yen.

The Textile company was at slightly less than 70% of the forecast of 32 .0 billion yen. We will need 11.0 billion yen in profits in the 4th quarter to achieve the forecast. The result of 4th single quarter excluding impairment loss was approximately 9.0 billion yen in the previous fiscal year. Including the contribution from the new subsidiary EDWIN, we should be able to achieve 32.0 billion yen. The result of Machinery company was 40.2 billion yen and at 93% of the forecast of 43.0 billion yen. We expect the Machinery company to exceed the forecast, because the automobile and plant project businesses are doing very well and the results of associated companies are also good. The Food company was at approximately 70%. Other businesses will need to cover the risk that Dole will not achieve the forecast. The situation is still looking a little difficult, but with a contribution from the grain-related business in North America, we will try to meet the forecast. The ICT, General Products & Realty company was at 81% of the forecast of 70.0 billion yen. ICT subsidiaries are doing well, and we expect results to exceed the forecast. As long as no large impairments arise, the non-resource business sector can cover the shortfall of the resource business sector and we can achieve the 300.0 billion yen forecast, or even more. There are some risks of impairment loss due to current resource prices, but we are already taking countermeasures, including asset replacement, so we haven't changed our forecast from 300.0 billion yen.

Q2: Would you discuss the results of Dole, ETEL and CPP?

A2: For Dole, net profit for the 1st -3rd quarter was 4.5 billion yen, below the initial plan of 10.0 billion yen. The reasons were the higher costs of processed food due to the insufficient production of pineapples and the deterioration of margins in the Japanese market due to the weaker yen. Although we expect an increase in net profit in the 4th quarter, it will be difficult to achieve the forecast, and annual net profit could be 30% to 40% less than the initial target. However, we are implementing measures to increase production of pineapple and improve profitability. We believe that the fundamental earning power is about 10 billion yen per year.

Also, we hear that CPP is performing well currently due to rising livestock prices. We began to record profit from CPP from the 3rd quarter. However, we cannot comment on the actual level because CPP, a listed company, has not yet announced the results.

Net profit for the 1st -3rd quarter from ETEL was 3.7 billion yen, including extraordinary gains. Although this level was a decline from the 4.6 billion yen recorded in the same period of the previous year, when there were positive tax-related factors, it nonetheless substantially exceeded the initial plan. Although the U.K. tyre market is still weak, we expect sales of winter tyres to increase in the 4th quarter.

Q3: What effect will declining oil prices have on the non-resource sector? (e.g. the business of MISI)
A3: MISI is also involved in the pipe business for shale gas development. Currently, the business situation of MISI is still good, but in consideration of the declining oil prices, we think that there may be some effect through the next fiscal year.

Q4: Would you discuss the impact of tax reform (e.g. lower corporate tax rate)? Did you include the impact in the forecast for FY2015?
A4: We recognize that there will be some negative impact due to the increased tax burden related to unallocated surplus. We included the impact in our forecast for FY2015 of 300.0 billion yen.

(2) Resource Sector (including impairment loss risk)

Q5: Is there any possibility of impairment loss in the resource sector in the 4th quarter? What is the book value of the shale oil project after the recognition of the impairment loss in the 3rd quarter?
A5: At current prices, there is no possibility of impairment loss in the iron ore project in Australia. NAMISA has already recognized 10.0 billion yen in impairment losses in the previous fiscal year, and accompanying the consolidation with CSN, will conduct impairment tests based on the production plan, recognizing impairment losses if necessary. Based on the current market value, the possibility of further impairment is undeniable. For Samson (shale), we are implementing the impairment tests in accordance with the development plan, which is reviewed quarterly. There is a possibility of impairment losses in the 4th quarter depending on the test results. The remaining book value at the end of the 3rd quarter was approximately 27.0 billion yen using a rate of 100 yen to the U.S. dollar. There is no possibility of impairment for our upstream projects in Azerbaijan and the North Sea.

Q6: Don't you need to recognize an impairment loss at Drummond? What is the situation with regard to dividends from Drummond?

A6: In consideration of coal price declines and the strike history, we began to study how to control our exposure to Drummond, and in October 2014 we concluded a change to the joint venture agreement. Under the contract, while we did not accept cash call, preferred stocks were issued to our partner. In case of the resulting dilution if they convert to common stocks, our share might fall below 20%, therefore our investment was deemed to be FVTOCI financial assets instead of associates and joint ventures. Although we revalued the investment at the end of September based on production forecasts, we did not recognize profit or loss from revaluation. Hereafter, we will measure fair value every quarter and profit recognition will be in dividends only. It will be difficult to recover the investment by means of dividends only, but we have the option of achieving recovery by exiting from the investment. However, in that event, profit or loss related to the exit will not be recognized, as the investment is an FVTOCI financial asset. Although we do not expect dividends at the current price level, we anticipate receiving dividends in the range of USD 50 million to 100 million in 4 to 5 years,, based on the assumption that prices rise and costs improve.

Q7: What is the reason for increasing net profit from the 2nd quarter to the 3rd quarter in IMEA?
A7: Iron ore +4.2 billion yen [7.3→11.5] : Absence of loss related to 2nd quarter MRRT DTA +6.0 [billion yen], Price decline -4.3 billion yen, Foreign exchange +2.4 billion yen. Coal +1.1 billion yen [-0.6→0.6] : Cost +1.5 billion yen, Other -0.4 billion yen

(3) Cash Flow

Q8: What are the estimated amounts of investing cash flows (out-flow and exits) in the 4th quarter?
A8: The amount of out-flows will be around 50.0 billion yen and exits will be around 20.0 to 30.0 billion yen.

Q9: Why did operating cash flow decrease compared with the same period of the previous fiscal year?
A9: Advances to suppliers related to aircraft and related equipment business were recognized in the 3rd quarter, but plans call for these advances to be recovered in the 4th quarter. Basic operating cash flow remains steady. We think the decrease in operating cash flow was temporary. We have maintained our annual forecast for operating cash flow at 300.0 billion yen.

Q10: What are the current policy and approach toward the retirement of treasury stock?
A10: At this point, it has not been decided. It will be an issue under discussion in the next medium-term management plan.

2. Strategic cooperation with CITIC and CP

Q1: CEO Okafuji mentioned the increased dividend at the previous meeting. However, even if you have equity profit from CITIC, you can't expect cash from them until the synergies take effect. Your FCF forecast of positive 100.0 billion yen seems optimistic. There is also the risk of operating cash flow declining due to a fall in resource prices. To what extent have you committed to increasing dividends?

A1: We are assuming that our plan of ¥50 per share for next fiscal year according to our dividend policy will not be difficult. If our net profit scale reaches 400.0 billion yen after starting to pick up the equity earnings from CITIC, the dividend will be ¥60 per share, which means we will need dividend resources of 90.0 billion yen. In the next medium-term management plan, we are planning for 100.0 billion yen in positive FCF every fiscal year except for CITIC investment, and the dividend will be paid from those funds. If FCF does not reach positive 100.0 billion yen as planned, we will still pay the dividends in accordance with our dividend policy.

Q2: Will CITIC become to an equity-method affiliate of ITOCHU even though ITOCHU's share % will be net 10%, after being split with CP Group?
A2: This has already been confirmed by CPAs.

Q3: The amount of the investment in CITIC seems to be too large. From the viewpoint of reducing concentrated risk, will you consider, for example, selling half of the 600.0 billion yen investment?
A3: It is not completely off the table, but we are not considering that option at this time.

Q4: How will you get along with the Ting Hsin Group and CITIC in China? Where will you invest more, in China or in other regions?
A4: Since we invested in the CP Group, we have considered how we might cooperate successfully with the Ting Hsin Group and the CP Group. Hereafter, when we find a project candidate, we will probably first consult with CITIC and the CP Group. We think investment in China will grow for a while, except in the resource sector.

Q5: When you made the decision to invest, what were your thoughts about CITIC's structure as a conglomerate?
A5: From a risk management point of view, the conglomerate structure is not a negative factor because the portfolios are dispersed. Our judgment was that the financial industry in China is stable with low volatility. CITIC desires to expand in the non-financial-related sector, hence we can see the synergies. Although they recorded some impairment losses on Sino-Iron, our valuation was based on our strict estimates, not based on the same assumption used for Sino-Iron's impairment losses at this time.