Q&A Summary of Investors Meeting for FY2016 3rd Quarter Business Results

Presentation Date and Time: February 4, 2015 (Thursday); 18:00 to 19:00
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Abbreviations: Free Cash Flow = FCF; Charoen Pokphand Group = CP Group,
PPA = Purchase Price Allocation

1. Relating to CITIC/CP and China

Q: Could you tell us the breakdown of profit related to CITIC investment in the 3rd quarter, which was slightly more than 20 billion yen? Also, what is next year's image of profit and the situation of cash collection related to CITIC investment?

A: The 20 billion yen profit consists of equity pick up of CITIC and net interest related to the receivable from CP, etc. Currently, we do not have an outlook for next year. However, we have been expecting a 15 to 20 billion yen profit from equity pick up per quarter from the very beginning. Due to a steady fee income, the performance of CITIC Bank, a subsidiary of CITIC Ltd, has been solid, even though there has been an increase in Allowance to Non-Performing Loans. On the other hand, we have concerns about CITIC Bank's resource segment. Therefore, we have doubts about their ability to maintain their current level of profitability. However, we are considering a treatment through PPA to absorb the losses that occurred in their resource segment. For cash, it depends on whether the dividend payout ratio is raised. Payout ratio in the first half of the period was approximately 7%, however, we will continue to make requests to raise this to 20 to 30% going forward.

Q: Are there any bad debts due to the economic slowdown in China and other countries in the Asian region, and is there any action being made to respond to this risk?

A: We faced an increase of bad debts in several businesses, such as the Auto-finance business in Indonesia and the Consumer loan business in Hong Kong. We also faced a slowdown in collection from customers, including in the trading business of the Chemical Segment. On the other hand, 90% of our China-related business is hedged by insurance. Since it is extremely important to control credit to customers, we have an organization in China and other countries in the Asian region to manage credit risk in detail, and this organization consists of expatriates and local hired staff.

2. Relating to Resources

Q: Why the 3rd quarter result of IMEA exceeded the initial annual plan figures?

A: This reason is that we had a very severe assumption related to iron ore prices in this fiscal year. The operation of IMEA coal is in the red; therefore, there is some concern that we may need to recognize a certain amount of impairment loss toward these assets.

Q: Is there room for you to cut the operation cost toward iron ore and coal projects in the next fiscal year?

A: In the projects that have a long history, we have some room for cutting costs due to the fact that we can set the budget assumption giving consideration to the market selling price. However, there is limited room for our coal mines that we acquired in recent years regarding cost cutting.

Q: How big is the scale of exposure for NAMISA after it was converted to other investments? How is the holding policy of other investments in resource companies aside from NAMISA?

A : The exposure of NAMISA is around 20 billion yen at this moment. It is the case that we are unable to collect the cash from the other investments aside from NAMISA. We give consideration to the holding policy from the two perspectives: the growth potential in the future and the way we utilize our functions. NAMISA's mine will be more valuable through the merger with Casa de Pedra Mine. Also, Drummond's mine is still the most competitive mine in South America and can survive in the future, not considering the fact that we bought this asset at a value that is higher than a reasonable price. We are determined to achieve our original goal when we invested in this mine, which is to contribute to sales of coal to China and other countries in the Asian region. We fully understand that the other investments may have an impact on shareholders' equity if we are unable to collect cash from them. Therefore, we will drastically reconsider our approach to risks that damage shareholders' equity. While we will not simply hold these investments, we do understand that it will take a certain amount of time to examine these resource businesses.

3. CF and Investment policy

Q: When the temporary funding for the CP Group is repaid, it is likely that NET DER will return to a level below 1.0 times early in the next fiscal year, and you will have a surplus of cash under the current investment conditions. How do you plan to use this surplus?

A: It is true that the pace of new investment, including synergy projects, is slowing down due to our cautious attitude toward investing at the moment. There is the possibility that core FCF would be above 100 billion yen, which is more than we expected at the end of the 1st half of this fiscal year. However, the current forecast of NET DER at the end of this fiscal year remains at 1.1 times as it is more than likely that new investments in the 4th Quarter will not yet be decided. We are giving consideration internally as to how we will use cash in the event that NET DER falls below 1.0 times. We recognize that the level of 3.7 trillion yen in interest-bearing debt is quite large. Given the possibility that the interest rate of foreign currency could rise over the medium to long term, we would like to repay debts in order to control the level of interest-bearing debt. On the other hand, we always keep in mind that our current payout ratio is limited to around 25%. We will keep our dividend policy under the current medium-term management plan, and we will also consider further improvements in the return to shareholders in the event that we have a cash surplus.

Q: The results for core FCF at the end of the 3rd Quarter in this fiscal year were impressive. What is the image of FCF going forward?

A: Our policy of generating over 100 billion yen of positive core FCF in the current medium-term management plan remains unchanged. When aiming to increase the amount of positive FCF, the improvement of cash-in from associates and joint ventures is important.

4. Individual businesses

Q: How is the situation at Dole? Are there any reasons why the results are looking as if they may not keep up with the initial plan? How would you improve the situation? Are there any risks of an impairment loss?

A: The Fresh Fruits Business in Asia is not doing well due to unseasonable weather. As banana production volume was lower than expected and costs have increased, the profit from the main business toward Japan and Asia did not grow as much as we anticipated, which held back overall progress. The Packaged Food Business is increasing sales prices and improving production costs. However, its profit is not enough to cover the decline of the Fresh Fruits Business in Asia and, as such, it is extremely difficult to achieve the initial plan. However, this does not mean that there is no future for DOLE as a whole. We believe that we need to be take actions such as acquiring plantations and improving quality. We are also continuing to examine overseas business partnerships with companies that excel at sales. Going forward, we do not intend to record an impairment loss for this fiscal year.

Q: What is the background of the dividend you counted as one-time profit from BTC pipeline, and the additional share acquisition in this 3rd quarter?

A: We were originally holding 3.4% shares for this project. One of the partners withdrew from the pipeline business and sold 2.5% of its interests. Therefore, we purchased their shares at around 8.0 billion yen. The dividend we counted as a one-time profit was the special divided from the project.

Q: How will you support the growth of UNY and FamilyMart, and how will you create synergies in the future?

A: We have high expectations to both UNY and FamilyMart being the major companies in our consumer-related sector. We would like to increase their corporate value from this merger through actions such as dispatching employees. In the same way as the previous additional share purchase, we believe that it is important to hold the veto right. We are determined to work together with FamilyMart and UNY to increase their corporate value.

5. Others

Q: What will be the driver for the growth in the Non-Resource Sector next year?

A: As we are still formulating next year's business plan, we do not have specific figures. However, according to the formulas in our current medium-term management plan, which calculate a minimum dividend amount of 55 yen for the next fiscal year, net profit amount will be around 350 to 360 billion yen. It is unlikely that the Resource Sector will make a recovery; but, it is also unlikely that it will suffer from a further impairment loss. By segment, we expect a growth sales growth in the ICT, General Products & Realty (especially environment) Segment. However, the Textile Segment may struggle. The Machinery Segment will have more opportunities to make investments for further profit since its presence is increasing in size. For our Trading Business, we believe that there will be further growth in the Chemical Segment. For Food Segment adding to stable and solid profitability, we expect a recovery at Dole and, growth in the domestic retail business related to FamilyMart.

Q: Is there potential for upside in the ICT, General Products & Realty Segment?

A: We are expecting this segment's net profit to reach approximately 100 billion yen. The base profits for this segment are 80 billion yen, and next year will likely be the same. Even if the segment is divided into two divisional companies, we believe this segment will be big enough to still be considered a segment considering the size of its profits.