Q&A Summary of Investors Meeting for the Business Results in the 1st Half of FY2017

Presentation Date and Time: November 7, 2016 (Monday), 13:30 to 15:00

Speakers: Masahiro Okafuji, President & Chief Executive Officer

Hitoshi Okamoto, Chief Strategy & Information Officer

Tsuyoshi Hachimura, Chief Financial Officer

Mamoru Seki, General Manager, General Accounting Control Division

Hiroyuki Kaizuka, General Manager, Corporate Planning & Administration Division

Abbreviations: Cash Flow = CF, Free Cash Flow = FCF

① 【Financial Forecast for FY2017 and FY2018】

Q: What is your outlook for the 2nd half of FY2017 and how confident are you in achieving each segment's targets?

A: The Food Company is doing very well, and improvements are being made at affiliate companies. The Metals & Mineral Company could potentially exceed its target as our forecast is conservative. The Energy & Chemicals Company may also exceed the forecast, but it may be difficult for the Textile Company to do so. The Machinery Company should be able to achieve the forecast even though the Company is impacted by fluctuations in exchange rates and shipping market conditions. We do not foresee the General Products & Realty Company exceeding the forecast due to pulp market conditions. As a result, we will be able to achieve our FY2017 target of 350 billion yen for the entire company.

Q：How will you increase profit going into FY2018? Will the dividend amount be unchanged?

A：There is still room for improvement in profitability through improved operation at affiliate companies. Initially, we thought it would be difficult to aim for a net profit of 400.0 billion yen for next fiscal year. However, we now feel it could be possible given our current momentum. We will continue to generate steady profits next fiscal year, allowing us to pay dividends, which we have guaranteed at 60 yen per share.

Q: How did you set the assumptions of commodity prices in yearly forecast of IMEA? What is the reason behind the volume increases at NAMISA and ICA?

A: The forecast was set with conservative assumption prices. NAMISA increased its volume after the business merger that occurred last year. The volume at Drummond increased steadily due to infrastructure improvements.

② 【Free Cash Flows and Shareholder Return】

Q：What was the background of the share buyback? How do you approach the policy for share buybacks in the future?

A：Our shareholders, especially institutional shareholders, are changing their way of thinking toward cross-shareholdings following the further implementation of Japan's Corporate Governance Code. Our management is concerned that our share price is currently undervalued. Due to the accumulation of operating cash flows, we now can secure adequate cash flows. Therefore, although it was small amount, we announced the share buyback. There are two sides to the share buyback: shareholders return and equity efficiency. Regarding shareholders return, we already announced progressive dividend policy with guaranteed minimum per-share dividend in our medium-term management plan. Therefore, basically the foundation of our shareholder return is dividend payments. Regarding equity efficiency, we will focus on accumulating profit, rather than reducing our equity. No changes will be made to this policy. However, since the flexibility of deciding to buy Company share is secured through approval by the Board of Directors in the event we accumulate more cash than expected, or in unforeseen circumstances, we would like to leave the option of share buybacks open.

Q: What is the annual forecast for core free cash flows and how do you approach new investment?

A: We will mainly focus on making improvements to existing businesses. But, it is true that there are currently some potential candidates for big investments in each operating segment. While we are selective in our investments, we will make new investments if we can expect to see solid profits. On the other hand, we are becoming even more confident that we can secure over 100.0 billion yen in core free cash flows. We do not have the budget for gross investment and exit amounts. Hence we cannot comment on the exact exit amount at this moment.

Q: Last year, you sold PrimeSource, which was still a profitable investment, because you believed the timing was right. Going forward, will you carry out further asset replacements in the same manner as PrimeSource?

A: We do not hold on to investments simply because they are contributing, even in a small amount, to profits. Rather, our approach is to generate cash through asset replacement and invest in new businesses. We will promote more asset replacements, and we currently have some potential candidates.

③ 【Regarding CITIC / CP】

Q: What were the reasons behind choosing medical- and health-related businesses as a synergy project with CITIC?

A: The State Council of China announced "Health China 2030," which includes targets such as extending the life expectancy in China by three years. This reflects the Chinese government's view of health and medicine as a core nationwide project. Since improving the standard of living for Chinese citizens through the introduction of Japanese technology is one of the main purposes of our alliance with CITIC, a synergy project in medical- and health-related businesses fits well. We would like to make this synergy project a success for our further business expansion.

Q: According to the explanation given at the beginning of this fiscal year, the earning power of CITIC was between 600 to 800 billion yen. How do you assess their current earning power?

A: Although CITIC is affected by such factors as commodity prices and financial market conditions, we already took these factors into consideration through Purchase Price Allocation. We therefore consider the earning power of CITIC unchanged. While the situation by segment may vary, we recognize that the overall performance of CITIC is steady.

Q: Why was there a downward revision made to the annual forecast for CITIC-related profit? Are you expecting that CITIC will recognize a loss?

A: We revised the forecast from a conservative point of view. Although CITIC Limited does not disclose their annual forecast, giving consideration to the possibility that CITIC may allot their profit from the sales of certain real estate projects toward achieving their initial target, we have excluded amounts not recognized within the profit from sales on our side due to Purchase Price Allocation and other factors in our annual forecast.

Q: What is the progress of Bosideng, and is there potential for any other synergy projects going forward?

A: The initial scheme has been approved at the Extraordinary General Meeting of Shareholders held in November. Although we are already involved in Bosideng's management through the assignment of staff, the scheme is now finalized. As a result of our involvement, profit at Bosideng increased 112.5% compared with the previous year. Discussions for multiple synergy projects are now proceeding in each segment. If there is a decline in the price of resource projects, there is a possibility of a synergy project involving resource businesses. We are currently discussing specifically.

Q: What is your stance toward new investments in synergy projects with CITIC? Have there been any changes from the reluctant stance you have taken due to the anticorruption campaign by the Chinese government?

A: There was some change around August and September. Now CITIC is proactively offering us projects. The Chinese government is hoping for good results as CITIC represents the first reformation and internationalization of a state-owned company.

④ 【Regarding Merger of Uny and FamilyMart】

Q: Are there any difficulties arising from the business integration of Uny and FamilyMart? How do you expect the merger will contribute to profits from the next fiscal year?

A: As FamilyMart UNY Holdings Co., Ltd. is a listed company, we will refrain from commenting on the details. While there is no difficulty arising from their business integration, it takes time to develop a mutual understanding. Our group companies are involved in FamilyMart –related businesses in various ways and we expect more involvement after the merger. This merger of Uny and FamilyMart is very important for us.

Q: Is the business of Uny and FamilyMart affected by other companies converting their own CVS businesses into subsidiaries?

A: We understand it is difficult to manage the retail business with human resources that are better fit for general trading companies like us. We respect the independence of Uny and FamilyMart, and we do not intend to make FamilyMart UNY Holdings our subsidiary at the moment.