Condensed Transcript of Question and Answer Session
Briefing on Consolidated Results for Q1 of Fiscal Year Ending March 31, 2017

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Main Questions and Answers

Assessment of first quarter results

Although results reflected the performance of some businesses that generate profits especially in the first quarter for its seasonal factors, such as Helena Chemical, even taking those operations into consideration, earnings are trending favorably with respect to achieving our full-term forecast for ¥130 billion. We estimate earnings potential adjusted to exclude one-time factors (+¥8 billion) works out to around ¥40 billion.

New investments and capital expenditures

Our foremost priority is to achieve positive free cash flow; we aim to realize ¥200 billion of new investments for the current fiscal year if cash recovery proceeds as expected. In the first quarter, we curtailed investments because we had some uncertainty about whether cash recovery would proceed as anticipated.
On the issue of capex, of the ¥50 billion in cash outflow in the first quarter, around one-third of the amount was related to resources. Also, a portion of cash outflow was brought forward ahead of schedule.

Details of ¥250 billion in perpetual subordinated loans

Financing will be obtained through two tranches of perpetual subordinated loans: tranche A worth ¥100 billion for which call options will be exercisable in five years and tranche B worth ¥150 billion for which call options will be exercisable in seven years. The interest rate spread will average around 180 bps, and each tranche provides for a step-up in interest at two times: 10 and 25 years after closing of the loan for tranche A, and 10 and 27 years after closing of the loan for tranche B. As the loans will be included as part of the Company's "equity," interest payments will not be accounted for as interest expense on the income statement, but adjusted as equity in the same manner as for dividends.

Why opt for perpetual subordinated loans at this time? Also, what about the repayment schedule?
The main reason for selecting perpetual subordinated loans is because the environment surrounding the Company is growing increasingly volatile, and we deemed it important to build up equity and improve the debt/equity ratio to maintain the business. Moreover, we concluded that the current negative interest rate policy provides an exceptionally favorable environment for procuring funds via such instruments. As for repayment, our basic plan is to choose replacement, but repayment would also be an option if the Company could accumulate enough revenue to maintain an adequate debt/equity ratio and credit rating even in the event of repayment.

Targeted debt/equity ratio going forward
We aim to achieve our debt/equity ratio target of 1.3 under our mid-term management plan without including the perpetual subordinated loans. However, with the ongoing appreciation of the yen, the challenge to achieve the target of 1.3 has become more difficult compared to the time of the announcement of the mid-term management plan.

Perpetual subordinated loans and calculation of ROE
As ROE is an indicator of returns for shareholders who own common shares, the perpetual subordinated loans will not be included in shareholders' equity.

Pace of paying down interest-bearing debt
Net interest-bearing debt decreased by around ¥150 billion compared to the end of the previous fiscal year due to the positive free cash flow, in which roughly ¥110 billion from the effect of yen appreciation is included.

Current circumstances at the Roy Hill Mine project
The project itself has been completed, and shipments began last year. Currently, the mine is ramping up to reach full-capacity production and there are no major delays in the production schedule. If the price of iron ore trends above the current level of $50 per tonne, we expect there should be no major negative impact on net income for this fiscal year.

Regarding the year-on-year decrease in profits at Helena Chemical and Musi Pulp
Helena Chemical: The sluggishness of grain prices is having an impact on farmers' buying inclination, but in preparation for the recovery of prices going forward, we are making forward investments in various facilities, including IT. Even when the market environment is unfavorable, this business generates a respectable amount of profits, so we do not think the earnings foundation is weakening.

Musi Pulp: The business, which is engaged in pulp production and sales, is experiencing the direct impact of sharply lower pulp prices compared to the same period a year earlier. However, as it is apparent that the deterioration is not attributable to productivity or sales factors, we see the possibility of a recovery depending on market conditions.

Earnings trends at Gavilon versus start-of-term outlook and conditions at the trading business

The operating loss of US$18 million incurred at the trading business was very severe compared to the start-of-term forecast. However, the North American Grain and International businesses are improving, and as such, we expect the outcome of personnel revamp and measures aimed at strengthening earnings to prove effective. However, due to extremely volatile grain prices in the first quarter and seasonal factors affecting the business strongly, we think it is premature to forecast an outlook for the full year based on the first three months alone. We will form an outlook for the future after analyzing the impact of lower grain prices in the second fiscal quarter.

At the trading business, we do not expect to see the kind of large swing in earnings that we saw in the quarter under review, in view of an overhaul of the operation, including the level of loss-cut transactions.

Risk of downward revision to start-of-term outlook for the energy segment

The operation is being revamped in light of the considerable earnings downturn at the trading business in the first quarter. We thus do not expect the poor performance of the first quarter to continue into the second quarter and beyond.

Regarding the cushion

As first quarter results markedly exceeded in-house estimates, we recognize that a cushion still remains.

Conditions for recouping investments (including withdrawal from non-core businesses)

For the first fiscal quarter, actual recoupment amounted to roughly ¥50 billion. Recoupment of investments is proceeding steadily with the aggregation of small projects, in addition to the few large-scale investment projects.