

**Condensed Transcript of Question and Answer Session**  
**Briefing on Consolidated Results for the Fiscal Year Ended March 31, 2017**

**Date:** May 11, 2017 (Thursday)

**Location:** Nihonbashi Mitsui Hall

**Those Present:**

**Fumiya Kokubu, President and CEO**

**Nobuhiro Yabe, Managing Executive Officer, CFO**

**Hideyoshi Iwane, General Manager, Corporate Accounting Dept.**

***Note Regarding Forward-Looking Statements***

*Forward-looking statements in this document, including results forecasts, are based on information available to the Company at the date of publication, as well as certain assumptions the Company judges to be reasonable. Various factors could cause actual results to differ materially from those discussed in forward-looking statements.*

**Main Questions and Answers**

**Estimate of free cash flow in the revised mid-term plan**

In our revised mid-term plan, our target for free cash flow after dividend payments is a positive three-year cumulative of ¥400–500 billion. We see this as the minimum level, as we have generated some ¥370 billion in free cash flow in FYE 3/2017. We aim to achieve performance that exceeds this target in order to strengthen our financial position ahead of schedule.

For FYE 3/2018, we forecast positive free cash flow after dividend payments of around ¥100 billion. Our forecast is based on estimations of dividend payouts, operating cash in-flow of around ¥250 billion and investing cash out-flow of about ¥100 billion (the expected result of some ¥150 billion in new investments, around ¥100 billion in capital expenditures, and ¥150 billion from divestment).

**Our plans after achieving targeted net DE ratio of 0.8 times by the end of FYE 3/2021**

We consider sustained financial soundness to be the foundation for conducting business. The path to achieving a net DE ratio of 0.8 times is a stepping stone for this foundation, and we do not consider shifting our position back to a highly leveraged one even after we achieve the targeted net DE ratio. We also recognize that the level of leverage is an important factor from the viewpoint of credit rating.

### **The road to achieving ¥180 billion in net profit for the non-resource businesses, as targeted under the revised mid-term plan**

We expect profit growth on the back of cost improvements due to internalization of pulp procurement at the Musi Pulp business and revenue buildup at stable earnings-type businesses. We also anticipate some improvement in profitability due to an upturn in market conditions in the ship and steel products businesses, but we believe that net profit of ¥180 billion in the non-resource businesses is a minimum level and that it is achievable.

### **Purpose of ¥20 billion cushion included in FYE 3/2018 net profit forecast**

The cushion is intended as a safe guard against the risk of fluctuations in exchange rates and commodity prices (resources, pulp, ship, grain, etc.), and is not set as a reserve for a specific project at this stage.

### **Investment strategies going forward**

We intend to achieve profit growth by building up investments based on our business strategies, concentrating on the non-resource businesses. Priority will be given to projects expected to create synergies by connecting with Marubeni's platforms and networks. Our investment in feed additive distributor Orffa International Holding B.V., announced in a press release in February, is a good example. Conversely, the lowest priority will be given to projects having the sole purpose of capturing profits. We will sow the seeds for growth by defining each business strategy based on the idea of ensuring sustainable growth, not on the idea of pursuing immediate profits.

### **Business outlook for Gavilon**

Gavilon's grain and fertilizer businesses marked combined net profit of around \$100 million in FYE 3/2017, roughly double the \$45 million marked in FYE 3/2016. Of the net profit marked in FYE 3/2017, the grain business accounted for about \$70 million and the fertilizer business for about \$30 million. In FYE 3/2018, for the grain business alone, we forecast an increase in profit to about \$90 million, in view of growth in the core North American Grain business and an expected earnings improvement for the Ag-Trading operation, which incurred a loss in FYE 3/2017. Over the medium term, we target some \$150 million for the grain business.

### **Development prospects for oil & gas interests**

We will increase production volume to reach the estimated peak of 38,000 boe/day in FYE 3/2021. With the start of production at development projects, the cost that was capitalized during the development is now recognized, and we note that such costs have become heavy in proportion to production volume. We expect capital expenditures to decline in the future.

**Roy Hill Iron Ore Mine: current conditions and forecasts**

Although operations are slightly behind the initial schedule, the mine is ramping up to full-capacity production, and we do not see any major obstacles to a full-scale production. We expect the project to turn profitable from FYE 3/2018.

**Concerns of resource businesses incurring impairment losses**

While we cannot deny the possibility of impairment losses in the event of a sharp downward revision to our long-term price forecasts, on which our business plans are based, we do not perceive a high risk of impairment losses at this time.

**Initiatives to develop the power projects business**

Within the power projects, IPP businesses with long-term power purchase agreements, in particular, represent a business model for achieving profit growth through the accumulation of assets.

However, the Company is involved in greenfield projects from which we are securing additional premiums by partial divestiture after completion. In addition, we are currently pursuing efficiency improvements for existing power generation assets, and expect that the effect will become evident in a couple of years.

**Shareholder returns**

Although we need to review our policy on shareholder returns after GC2018, for the time being, we intend to maintain the current dividend payout ratio of 25% or more of consolidated net profit.