

**IR Meeting on Financial Results for the Three-Month Period Ended June 30, 2015**  
**Questions and Answers**

1. **Date & Time:** August 6, 2015 (Thu), 16:30-17:30
2. **Location:** Conference call
3. **Speakers:** Keigo Matsubara, Executive Managing Officer, Chief Financial Officer  
Kimiro Shiotani, Managing Officer, Global Controller  
Michihiro Nose, General Manager, Investor Relations Division

**4. Questions and Answers:**

- Q: You have included “Divestiture & Evaluation Profit/Loss” and “Others” as factors for year on year changes. Which of these factors were taken into account in your forecast for the year ending March 2016?
- A: “Divestiture & Evaluation Profit/Loss” includes gains on sales of equity in automotive business, and gains on the sale of real estate in Japan. These factors were taken into account in our forecast. “Others” include gains/losses on securities relating to Hutchinson MediPharma, a change in the accounting method for leases, and a difference between estimated losses and the actual figures related to Toyo Engineering Corporation, and these factors were not taken into account in our forecast. Our investment in Hutchinson MediPharma is handled by a unit specializing in the venture capital investment business. The gain was attributable to a rise in the company’s fair value measurement due to an increase in corporate value resulting from progress on new drug development.
- Q: At the presentation on the financial results for the year ended March 2015, which was held in May 2015, I recall that you stated that your policy was to maintain continuous and stable dividends unless there were major deviations from your cash flow plan for the next three years in the New Medium-term Management Plan. Are there any signs of major deviation or changes in that plan at present?
- A: At this stage we are looking at the results for the three-month period ended June 30, 2015, so we have not revised our forecast for the year ending March 31, 2016. For this reason, we have not yet carried out a detailed analysis of our yearly cash flow forecast. However, resource prices are currently within the range assumed in our forecasts for the year ending March 31, 2016, and we are not aware of any drastic changes in cash flows that would necessitate a change in the dividend policy.
- Q: Your estimates of core operating cash flow and core free cash flow seem strong. As far as investment cash outflow is concerned, total cash-out from “Existing Business” and “Projects in the pipeline” was ¥85 billion, which is slow compared with your initial forecast of ¥500 billion in May. Is there a particular reason for this? What are the projected amounts for individual “Existing Business” and “Projects in the pipeline”?
- A: Our cash flow plan is based on cumulative totals for the three-year period covered by the New Medium-term Management Plan, and it would not be realistic simply to multiply the figure for the first quarter by four. Our deal flow is substantial, and our initial investment estimate remains unchanged. We cannot disclose forecasts for individual “Existing Business” and “Projects in the pipeline”.
- Q: Your overseas methionine manufacturing business is performing extremely well for the first quarter. Would you analyze the situation in the first quarter and the outlook going forward?

- A: The supply-demand situation has been tight since last summer because of problems at other manufacturers' methionine plants and other factors. This has caused the price to rise, and the selling price remained high in the first quarter. Another contributing factor is raw material cost reductions from a fall in gas prices in North America. Price negotiations with major customers are mostly complete, and we expect income to remain high level in the second quarter. The supply-demand environment is likely to change in the second half as other manufacturers' plants come back on line.
- Q: The effect of increased energy production is estimated in the annual forecast at +¥2 billion, but the first-quarter result was +¥7 billion. Would you comment on the outlook?
- A: As for the energy field, there was relatively slow progress with respect to exploration expenses, and we saw good performances in oil trading and other areas. As a result, our progress in the first quarter was good compared with the figure in the annual forecast. Oil and gas production were moderately higher than the level in the annual forecast.
- Q: Given the current weakness of resource-producing countries' currencies, such as the Brazilian real and the Australian dollar, are there any changes that will require caution going forward?
- A: There are no major concerns in particular. However, Multigrain Trading and Xingu Agri both use the U.S. dollar as their functional currency but pay their taxes in Brazilian real. The weakness of the real will therefore cause their tax burden to increase, although the magnitude of the impact that may have on our consolidated financial results is not so large.
- Q: There are items categorized in "Divestiture & Evaluation Profit/Loss", and factors that are close to one-time profit or loss but have been included in the "Others" category. Which of these categories includes gains on the sale of a video streaming business in China and gains on the sale of fixed assets belonging to Tri-net Logistics? Also, you have not disclosed changes in the accounting method for the lease on the Mexican LNG terminal and the difference between loss estimates and actual amounts on Toyo Engineering Corporation. Can you provide a rough indication of the magnitude of gains and losses for each item?
- A: These gain and loss on securities and other investments are related to venture capital investments that form part of our business activities. Rather than one-time factors, they should be characterized as an ordinary profit or loss. We will continue to measure the fair value of these shares each quarter, and to include losses or gains on these fair values in our profit and loss as ordinary gains or losses. The business of buying and managing buildings, finding tenants and selling the properties after increasing their values is also treated as an ordinary activity, even though the time periods involved are long. Loss or gain on disposal or sales of fixed assets have traditionally been treated as one-time items in the "Divestiture & Evaluation Profit/Loss" category, but the sale of the video streaming business in China has been included in "Others" for the reasons I have just stated. The effect of the change in lease accounting treatment was +¥3 billion after tax. The financial impact of Toyo Engineering Corporation was smaller than that.
- Q: Has the recent rapid fall in the oil price caused any changes to the timing for LNG and oil development projects?
- A: Our initiatives in the upstream oil and gas business are fundamentally based on long-term perspectives, and we do not change our policy concerning investment and loans and asset recycling or our exploration initiatives on the basis of short-term trends in oil and gas prices. We will continue to increment our reserves interest and production volume. Of course, we are also taking steps to reduce costs through decreasing of investment amount for development and more stringent selection of exploration opportunities. However, these measures are considered in accordance with long-term policies, and we are not making any changes at present.

- Q: The scale of the "Divestiture & Evaluation Profit/Loss" in the first quarter was substantial. Does this mean that the one-time items projected for the whole year in the annual forecast have been largely booked already?
- A: Most of the items that have large impacts appeared in the first-quarter results. However, we would like to refrain from stating whether everything factored into the annual forecast were included.
- Q: The financial results for your affiliated company in the Chlor-Alkali business in the United States appear to show a loss. Is this attributable to the deterioration of current market conditions, or does it include any one-time losses? Will you incur a loss if you exit from this business?
- A: The present losses are due to unfavorable market conditions. Our partner, Dow, has announced that it will sell the business to Olin, and we intend to exercise our tag-along right, and we are selling and exiting from the business. This is subject to the completion of an agreement between Dow and Olin. Dow expects that the deal will be completed this year, and that will also determine the timing of our exit. We expect to show a moderate gain at the time of exit and sale.
- Q: Would you comment on whether or not there was a dividend from the Sakhalin Project in the first quarter? Would you also speak about your future investment plans?
- A: There was no dividend from Sakhalin Project in the first quarter. As far as future investment plans are concerned, as it was reported in the media in June 2015, we are moving toward the supply of source gas from Sakhalin 3 in accordance with the MOU between Shell and Gazprom. We are continuing with our work, targeting to start FEED by the end of 2015.
- Q: What progress are you making on large-scale investment projects, such as the Moatize coal and infrastructure development and the LNG project in Mozambique, and the Tempa Rossa project in Italy, and what is cash-out outlook?
- A: As far as the Mozambique LNG project is concerned, we are moving forward steadily toward an FID in the current year. Once that takes place, the investment will also increase. The Closing for the Moatize project will come after the fulfillment of the prerequisites of the contract terms and conditions, so we anticipate cash-out during the period covered by the New Medium-term Management Plan, either in the current fiscal year or the next one. As for Tempa Rossa, we aim to start production in 2016. There have been delays in some stages of the construction work, and completion may be slightly behind schedule.
- Q: What are the prerequisites for the Moatize project? There has been a substantial fall in the price of coking coal. Is it possible that the overall development plan will be revised?
- A: I am not able to provide detailed information about the prerequisites. However, the mine itself is almost complete, and progress on project will not change because of short-term shifts in commodity prices. We consider our invested amount to be reasonable, since there is a clause providing for adjustments according to the quality and quantity of the coal.
- Q: The first-quarter progress ratios for metal resources and energy were both very high. Is it possible that we will see an upswing in the annual profit forecast? Also, while energy-related dividends were decreasing, the figures for JAL-MIMI and MOECO seemed unexpectedly strong. Were there any special factors involved?
- A: Despite the stagnation of resource prices, we have improved earnings from metal resources through various cost-cutting efforts. This was reflected in the high progress ratios in the first quarter. While we believe that resource prices are too low at present, some aspects of the outlook remain uncertain. We will need to take a cautious stance on the achievement of the targets in our forecast if prices fall further or remain at their present levels. As for energy, MOECO's income was higher than that in the fourth quarter of the last fiscal year because of a moderate increase in production volumes. JAL-MIMI's results are not for disclosure, but its production volumes are rising steadily.

- Q: The positive year on year trends in non-resource areas were in many cases due primarily to gains on sales of assets or similar factors. Would you speak about the progress made in core operations in the Lifestyle, Machinery & Infrastructure, Iron & Steel and Chemicals segments, and about the business environment compared with your annual forecast?
- A: The situation in the Iron & Steel Products segment is quite challenging. There is a glut of products, and our margins are decreasing, with the result the progress ratio was an 18%. However, we will continue to work hard to achieve the target. The progress ratio for the Machinery & Infrastructure segment was higher because of Divestiture & Evaluation profit recorded by the Infrastructure Projects Business Unit. The Integrated Transportation Systems Business Unit also performed well, and even without Divestiture & Evaluation factors, trends in this segment have been generally firm. Trading business of the Chemicals segment was generally good. Among the petrochemicals, ethylene and benzene showed good results. As for the performance chemicals, automotive plastics for the North American market and agrichemicals trading had good results. The overall progress ratio was good, despite the negative factor for the Chlor-Alkali business. In the Lifestyle segment, the Food Products & Services Business Unit, business for Seven-Eleven is going steadily. Despite a negative result for Multigrain Trading, the overall pace of progress in this segment was good.

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