

Macroenvironmental PEST Analysis

The management environment surrounding ITOCHU is changing at a constantly accelerating pace. We are conducting PEST analysis to understand the inherent macroenvironmental risks and opportunities that we will face during the period of our medium-term management plan, “Brand-new Deal 2020,” and are building a competitive edge by adapting to macroenvironmental changes.

P (Political / Legal)		
Risks		Opportunities
	Political Trends	
	← →	
Global economic stagnation; decrease in trade volume; stricter export and investment regulations	U.S.-China Conflict (Trade disputes, forced technology transfer)	Supply chain revisions
Disorder in the United Kingdom and destabilization of financial market	Brexit and Anti-EU Movements	Increase in investment in the European continent Supply chain revisions
Coercive political management	Elections (U.S. presidential and Lower House elections)	Economic stimulus
Economic stagnation due to terrorism Disorder in financial markets	Geopolitical Risks	Upward pressure on crude oil prices due to instability in the Middle East
	Regulatory Changes	
	← →	
Decrease in trade volume	Trade Talks and Trade Agreements (Japan-U.S., U.S.-EU, USMCA, etc.)	Supply chain revisions
Existing energy market shrinkage (coal and crude oil)	Greenhouse Gas Containment Regulations (Paris Agreement, etc.)	Expansion of new energy market (wind power, solar power, etc.)
Business contraction in conventional vehicle fields	Conversion to New-Energy Vehicles in China and Europe	Business expansion in related industries
Rising costs, such as those for establishing data governance Damage and decline of reputation	Tightening Regulations on Handling of Personal Data	End of data monopolies held by existing platformers Expansion of open data availability
	Tax System Revisions	
	← →	
Decrease in existing business transactions	International Tax Trends (Lowering of corporate taxes, tax avoidance countermeasures)	Improvement in corporate performance Optimized taxation
Economic stagnation after tax increase	Japanese Consumption Tax Hike	Last-minute demand before tax increase

Develop businesses amid circumstances that directly impede or raise the uncertainty of sustainable growth in the global economy

E (Economical)		
Risks		Opportunities
	Economic Deceleration in Developed Countries	
	← →	
Decrease in business opportunities and trade volume		Lower interest rates due to monetary easing Improved environment for fund raising
	Depreciation of the U.S. Dollar	
	← →	
Worsening earnings environment due to yen appreciation		Stabilization of emerging market currencies Lower overseas investment costs
	Recovery and Accelerated Growth in Emerging Economies	
	← →	
Inflation and economic downturns due to overheating		Increase in demand for consumer goods connected with improved living standards; expansion of demand for infrastructure and food accompanying population increases; higher prices for resources such as iron ore, coal, and crude oil
	Asset Price Increases (Stocks, real estate)	
	← →	
Emergence and collapse of asset bubbles		Higher fund-raising capacity due to increased value of own portfolio assets
	Change in Investment Environment	
	← →	
Decline in expected returns due to slowing growth and increasing uncertainty		Leveling of previously soaring project costs

Ascertain balance between expected returns and investment costs amid the wane of economic overheating due to deceleration in the economies of developed countries and stabilizing growth in the economies of emerging countries.

S (Social / Cultural)		
Risks		Opportunities
Decrease in fossil fuel demand Business damage due to increasingly abnormal weather	Addressing Climate Change (Contribute to realization of low-carbon society)	Increase in business opportunities in renewable energy, etc. Customer retention and acquisition due to strengthened supply systems
Labor shortages and outflow of personnel; harassment and long working hours; increases in health-related costs	Motivating Workplace Environment	Improvement in labor productivity; improvement in health and motivation; securement of superior human resources
Project delay and continuity risks due to human rights issues Compliance violations and data leaks	Respect for Human Rights and Ensure Compliance	Business stabilization and recruitment through harmonious coexistence with local communities; construction of a safe and secure product supply system
Decrease in creditworthiness when safety and health issues occur; destabilization of markets and the social security system	Contribution to Healthier and More Enriched Lifestyles	Increase in demand for food safety, security, and health promotion; expansion of personal consumption and information, financial, and distribution services
Occurrence of environmental issues and protest campaigns; industry-wide structural exhaustion as competition drives down prices	Stable Procurement and Supply	Increase in demand for resources in emerging nations Stable supply of environment-friendly resources and raw materials
Lowering of corporate value assessment by investors; withdrawal of invested funds; exclusion from investment target; decline in stock prices	Adherence to a Sound and Highly Transparent Corporate Governance System	Rising of corporate value assessment by investors; inflow of investment funds; addition to investment targets; increase in stock prices

Transmit the *sampo yoshi* philosophy for the future and restructure business in light of the growing necessity to not only address conventional social issues but also carry out a response with an awareness of ESG matters

T (Technological)		
Risks		Opportunities
Obsolescence and extinction of existing business models Leaks of internal data and other threats due to malware (malicious software)	Progress in IT, Leading-Edge Technologies and Infrastructure Development	
	Evolution to Next-Generation Growth Models	<p>Consumer-related Business (Non-resource Sector)</p> <ul style="list-style-type: none"> • Speed up in investment in next-generation retail models, strengthening of capabilities of physical stores • Improvement in consumer value chain; transformation and streamlining of retail, wholesale, and logistics functions • Development of new fintech / Advertising / Marketing fields, utilizing customer contact points • Full-fledged entry into Chinese retail business <p>Basic industry-related Business (Non-resource Sector)</p> <ul style="list-style-type: none"> • Evolution of existing business foundation by strengthening customer contact points • Strengthening of water, environment, and renewable energy fields with an awareness of ESG • Multifaceted development of next-generation mobility fields • Reinforcement of next-generation electricity fields, centered on storage batteries • Development of healthcare-related treatment businesses in China and Asia <p>Resource Sector</p> <ul style="list-style-type: none"> • Acquisition of high-quality assets in resource fields that show promise

Create and evolve in businesses through the incorporation of new technologies and services in accordance with the current era as rapid technological innovations occur and values and living environments change

Macroenvironmental PEST Analysis

Focus efforts on establishing an earnings base to secure a stable consolidated net profit of ¥500.0 billion and creating “a new vision of what a trading company can achieve,” under an uncertain business environment

FYE 2020 Management Plan

Brand-new Deal 2020 FYE 2020 Management Plan Evolution to Next-Generation Growth Models



I am One with Infinite Missions

Fundamental Policy for FYE 2020 Plan

Development of Foundations for Sustainable Growth

Actively Promote Growth Investments, and Maintain High Efficiency (⇒ Page 67)

Actively promote investments to
Next-Generation Growth Models and replace from
the business in peak-out stage or low-returns

Realizing “a New Vision of What a Trading Company Can Achieve” (⇒ Page 60)

(Market-oriented perspective and
Escape from vertically-oriented mindset)
Establishment of The 8th Company
Measures for invigorating human resources

Balanced Cash Allocation (⇒ Page 34)

Growth investments, Shareholder returns,
Control of interest-bearing debt,
Balancing three factors

Steady Advancement of Sustainability Initiatives (⇒ Page 50)

Smart and Health Management,
Governance, Address climate change

FYE 2019 Review and FYE 2020 Plan

Quantitative Targets

FYE 2019 Review

- Upward revision to initial forecast, third consecutive year of record-breaking consolidated net profit with figure of ¥500.5 billion
- Fourth consecutive year of record-breaking core profit with figure of approx. ¥472.0 billion thanks to growth centered on the non-resource sector
- Profit achieved over 90% of Group companies, a record-high level maintained due to thorough application of the “earn, cut, prevent” principles
- Record-breaking Core Operating Cash Flows exceeding ¥500.0 billion, massively positive Core Free Cash Flows after deducting shareholder returns achieved due to exits from large-scale investments
- Achieved upgrade by all four major credit rating agencies in a one-year period, historic best NET DER of 0.82 times, strong financial position maintained

FYE 2020 Plan

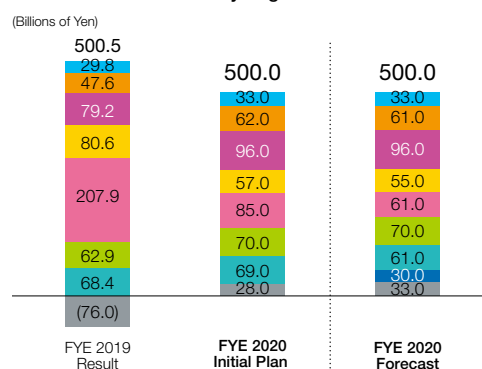
- Profit Plan:** Consolidated net profit of ¥500.0 billion (More growth in the non-resource sector which is more resistant to economic fluctuations.)
- Cash Flows Plan:** Balanced Cash Allocation (Growth investments, Shareholder returns, Control of interest-bearing debt)
- Ratio & B/S Plan:** Maintain high efficiency and control B/S for maintaining A ratings

Billions of Yen	FYE 2019 Result	FYE 2020 Plan
Consolidated net profit	500.5	500.0
Gross trading profit	1,563.8	1,864.0
Total of selling, general and administrative expenses	(1,193.3)	(1,416.0)
Equity in earnings of associates and joint ventures	98.1	229.0
Income tax expense	(149.7)	(137.0)

Billions of Yen	FYE 2019 Result	FYE 2020 Plan
Net interest-bearing debt	2,406.8	Approx. 2,400.0+α *
Total shareholders' equity	2,936.9	Increase total shareholders' equity and improve ratio of shareholders' equity to total assets Approx. 3,300.0 *
NET DER (times)	0.82	Gradually decrease
ROE	17.9%	Approx. 16%
ROA	5.3%	Approx. 5% *

Billions of Yen	FYE 2019 Result	FYE 2020 Plan
Core Operating Cash Flows	515.0	Over ¥580.0 as target
Net Investment Cash Flows	(20.0)	Actively promote growth investments and asset replacements
Core Free Cash Flows	495.0	Maintain positive
Dividends	(127.5)	Steady implementation of the medium- to long-term shareholder returns policy (Full-year minimum dividend of ¥85 per share)
Share buybacks	(68.0)	
Core Free Cash Flows after deducting shareholder returns	Approx. 300.0	Maintain positive Utilize Core Free Cash Flows of FYE 2019 (approx. 300.0) for growth investments and shareholder returns

Consolidated Net Profit by Segment



■ Textile ■ Machinery ■ Metals & Minerals
■ Energy & Chemicals ■ Food
■ General Products & Realty ■ ICT & Financial Business
■ The 8th ■ Others, Adjustments & Eliminations

	FYE 2019 Result	FYE 2020 Plan
Non-Resource	378.0	420.0
Resource	115.5	110.0
Others	7.1	(30.0)

* Excluding the impact of IFRS 16 (Leases)

Assumptions for FYE 2019 Result and FYE 2020 Plan

	FYE 2019 Result	FYE 2020 Plan	(Reference) Sensitivities on consolidated net profit
Exchange rate (Yen/US\$) average	110.56	110.00	Approx. ¥(2.5) billion (1 yen appreciation against US\$)
Exchange rate (Yen/US\$) closing	110.99	110.00	—
Interest (%) US\$ LIBOR 3M	2.50%	3.20%	Approx. ¥(3.0) billion (1% increase)
Crude oil (Brent) (US\$/BBL)	70.86	65	±0.58 billion
Iron ore (CFR China) (US\$/ton)	71*	N.A.**	±1.33 billion
Hard coking coal (FOB Australia) (US\$/ton)	202*	N.A.**	
Thermal coal (FOB Australia) (US\$/ton)	106*	N.A.**	±0.22 billion

(The above effect varies according to changes in sales volume, foreign exchange rates, and production costs.)

* FYE 2019 prices for iron ore, hard coking coal, and thermal coal are prices that ITOCHU regards as general transaction prices based on the market.

** The prices for iron ore, hard coking coal, and thermal coal used in the FYE 2020 Plan are assumed in consideration for general transaction prices based on the market. The figures are not presented since the actual sales prices are decided based on negotiations with each customer, ore type, and coal type.

Smart and Health Management

FYE 2019 Review

- Improvement of work efficiency through introduction of the Companywide integrated data infrastructure, RPAs and Company-wide deployment of highly secure mobile PCs, transition from awareness-based work-style reforms to process-based reforms
- Execution of unique healthcare initiatives including expansion of Support Measures for Balancing Cancer Care and Work, provision of compensation for brain examinations, etc.

FYE 2020 Plan

- Improvement of productivity by thoroughly establishing efficient and healthy work styles
 - Evolution of work-style reforms supporting smart management
 - Evolution of industry-leading health management

Sustainability

FYE 2019 Review

- Establishment of coal business policies stating that no new coal-fired power generation business or thermal coal mine interests will be developed to move toward a carbon-free society
- Decision to keep the ratio of outside Directors more than one-third at all times in consideration for Board of Directors' diversity

FYE 2020 Plan

- Steady advancement of sustainability initiatives and acceleration of initiatives for resolving social issues and creating social value to achieve targeted sustainable growth
- Focus on enhancing measures for addressing climate change (environment), cultivating workplace environments (society), and maintaining rigorous governance structures (governance) in FYE 2020

Shareholder Returns

FYE 2019 Review

- FYE 2019 dividends increased from initial plan of ¥74 per share to record high of ¥83 per share
- Medium- to Long-Term Shareholder Returns Policy announced along with commitment to acquire 100 million shares of treasury stock, proactive acquisition of treasury stock commenced ahead of schedule in FYE 2019 together with treasury stock cancellations (78 million shares)
- Framework for enhancing corporate value disclosed (gradual increase of dividends, sustainable increase of EPS, and maintain high ROE).

FYE 2020 Plan

Shareholder Returns Policy	Medium- to Long-Term Policy (Announced in October 2018)	<ul style="list-style-type: none"> • Gradually increase dividend payout ratio Gradually increase dividend payout ratio, targeting up to approx. 30% • More actively execute share buybacks Continuously execute share buybacks of approx. 100 million shares in total, while considering cash flow availability*
	Dividend	<ul style="list-style-type: none"> • Pay a minimum dividend of ¥85 per share for FYE 2020, our highest dividend level ever • Continue progressive dividend, targeting further increase in dividend amount and dividend payout ratio (Existing dividend formula abolished)
	Share Buybacks	<ul style="list-style-type: none"> • Actively and continuously execute in accordance with the policy*

* Execute share repurchases of up to 40 million shares, ¥70.0 billion, in the period until June 11, 2020.

Besides, based on the Medium- to Long-Term Shareholder Returns Policy, share buybacks of 65 million shares, ¥130.0 billion were executed by June 2019. Of these, 34 million shares, (¥68.0 billion) were repurchased in FYE 2019.

Dividend per Share

