

## Q&A Summary of Investors Meeting for FY2016 1st Quarter Business Results

Presentation Date and Time: August 4, 2015 (Tuesday); 18:00 to 19:00

Tsuyoshi Hachimura, Managing Executive Officer, CFO

Kunihiro Nakade, Managing Executive Officer, General Manager,  
General Accounting Control Division

### 1. Results for the 1st Quarter of FY2016

Q: The news report on ITOCHU's financial results said that there was a possibility that the FY2016 net profit forecast will be revised upward. What is the reason for this?

A: 1st quarter results made strong progress against the FY2016 forecast. ¥20 billion of the buffer still remains and we do not have any serious concerns about the near future. Therefore, we might revise the forecast for FY2016 net profit. We have some reasons for an upward revision, such as earnings from CITIC Limited being recognized ahead of the initial schedule or interim dividends beyond the initial plan being paid from CITIC Limited. However, we would like to make a decision based on the 1st half of FY2016. In regard to the timing of the conversion of preferred shares to ordinary shares, the conversion will take place after the maintenance of a certain float ratio is assured, based on liquidity maintenance rules of the Hong Kong Stock Exchange. In our view, it will not take much time to complete the conversion.

Q: "Others, adjustments & eliminations" was ¥5.5 billion, while there was +¥8.5 billion from the tax effect related to Samson. What accounts for the -3.0 billion yen?

A: +¥34.0 billion of tax effect related to Samson was recognized in the Energy & Chemicals Company, and of that amount +¥8.5 billion was subsequently transferred to "Others, adjustments & eliminations" as a result of recalculation based on the taxable income of ITOCHU. On the other hand, due to the reduction in taxable income, about -¥40 billion was recognized in "Others, adjustments & eliminations" in relation to tax.

Q: What is the breakdown of the extraordinary gains and losses of ¥53.0 billion by operating segment? Also, what is the situation regarding the progress of IMEA profits, and what are the assumptions for iron ore prices?

A: -¥1.5 billion for the Machinery Company, +¥6.0 billion for the Metals & Minerals Company (from revaluation gain from foreign-currency-denominated assets at NAMISA), +¥24.5 billion for the Energy & Chemicals Company (+¥25.5 billion from Samson and -¥1.0 billion others), -¥0.5 billion for the Food Company, and +¥20.0 billion for the ICT, General Products & Realty Company (gain on sales of PrimeSource). (Please refer to answer above for +¥4.0 billion from "Others, adjustments & eliminations"). For IMEA, the results compared with the 4th quarter of FY2015 were as follows: IMEA iron ore: -¥2.1 billion (from ¥10.1 billion to ¥8.0 billion). This is from the impacts of lower prices (-¥3.0 billion yen) and foreign exchange (+¥1.0 billion). IMEA coal: -¥2.6 billion (from ¥1.4 billion to -¥1.2 billion). This is from the impact of lower prices (-¥1.0 billion), foreign exchange (+¥0.5 billion), and other factors (-¥2.0 billion). Production of IMEA iron ore is going well. The price declined but profits are being generated. We will not release our forecast for iron ore prices.

Q: What is the situation at Dole?

A: The processed foods business was weak in the 1st quarter of FY2015. However, in the 1st quarter of FY2016 Dole recorded substantial improvement, with gains in sales and profits, due to the raising of sales prices in the U.S. and improvement in production costs. On the other hand, the fruit and

vegetables business in Asia is not doing well due to a decrease in the quantity of their major product, bananas, which were affected by unseasonable weather. Nonetheless, overall results increased compared with the same period of the previous fiscal year.

Q: The Textile Company is looking weak and the ICT, General Products & Realty Company is looking strong. What is the background to this situation?

A: For the Textile Company, the womenswear business and sales to department stores face difficult conditions, but sales to Uniqlo are doing well and EDWIN and Korea Descente business is favorable. Overall, the trend for the Textile Company is stable. For the general merchandise sector, Japan Brazil Paper and Pulp Resources Development increased due to the depreciation of the Brazilian real against the U.S. dollar, Metsa Fibre increased due to higher transaction volume, and European Tyre Enterprise increased due to higher sales volume of premium tires. For the ICT sector, the results for ITOCHU Techno-Solutions and CONEXIO were strong, and new associated companies Bellsystem24 and SKY Perfect JSAT Holdings contributed to profits. For the construction, realty & logistics sector, the logistics warehouse-related business and the residential housing sales of ITOCHU Property Development did well. However, for the financial & insurance business sector, there were negative factors, such as the impact of the dilution of Orient Corporation shares and sluggish conditions in the consumer finance business in Hong Kong.

## 2. CITIC/CP

Q: CITIC Limited holds 17% of CITIC Securities, which is now supporting stock prices on Chinese stock markets. Will ITOCHU pick up the profit/loss due to stock market fluctuations in China under IFRS?

A: Under IFRS, profit/loss on investment held for trading is recognized in P/L. However, for CITIC Securities, this will be recorded in its own settlement, while ITOCHU will pick up the consolidated profit/loss of CITIC Limited through the equity method, including CITIC Securities' financial results, and hence ITOCHU will not directly pick up the revaluation gain/loss of CITIC Securities due to the stock market fluctuation in China. For the impairment loss regarding the resource part of CITIC, we will implement the asset allocation process based on the purchase price. Now, I will make a comment because there are some concerns regarding the movement of the entire CITIC group, including CITIC Securities. CITIC will announce their first-half consolidated financial results in the second half of August. With a 10% shareholding, ITOCHU and CP haven't heard of any serious matters regarding the 1<sup>st</sup> half settlement. The 1st quarter unaudited financial results of CITIC Corporation, a 100% subsidiary of CITIC Limited and a holding company for such financial companies as CITIC Bank and CITIC Securities, increased by approximately +¥150.0 billion to ¥297.0 billion.. At this point, the business initiatives with CITIC are under wide-ranging discussion and consideration, and our understanding is that their business itself is also strong.

Q: For the 1st quarter, ITOCHU had more interest income than interest expense due to the provision of loans related to the acquisition of CITIC shares. Can we assume this trend will continue in the 2nd quarter and thereafter? I understand that this funding is in U.S. Dollars. Do you have a forward exchange contract for this amount? Will the yen depreciation have an impact?

A: The net interest from our funding and the loan to the joint venture with CP is recognized as profit. The amount of net interest for the 2nd quarter and thereafter will depend on the timing of the collection. We borrow U.S. Dollars and exchange into Hong Kong Dollars at the time when we invested into CITIC, hence there will be no impact from foreign exchange regarding the loan repayment from CP.

Q: How do you see the future growth of CITIC's business?

A: CITIC's strategy is to expand the ratio of the non-financial sector to the financial sector from the current 50/50 to 80/20. We understand that there are some concerns about the financial sector in China, but CITIC Corporation's figures appear favorable, and controls seem to be effective. However, we invested in CITIC for CITIC's growth in the non-financial sector, not in the financial sector, and we can contribute to business in the consumer-related sector like Bosideng, the food related business, etc. In some cases, we will work together with CITIC in the business of infrastructure and machinery. But we will not always work together with them and we will select the projects one by one. For example, we recognize that it may be hard to do business together in the resource sector, such as the non-ferrous, mixed metal, and iron ore businesses. In any case, we will select and decide on each project carefully.

Q: What is the status of collaboration with Bosideng?

A: We have already started business with Bosideng, and we have started to provide samples of licensed products. The reason why our proposal to invest to Bosideng was rejected at Bosideng's shareholders' meeting is that, excluding the 65% accounted for by owner shares of total shares (which is ruled in Hong Kong Stock Exchange), 11% of the remaining 35% of shares were voted, and more than half of 11% were opposed. Moving forward, we will consider various measures, such as gaining the approval of the opposing investors or acquiring shares from the owner.

Q: Do you see signs of a slowdown in the Company's business in China and Southeast Asia under current conditions, with the Chinese economy slowing and commodities prices declining?

A: In General, Chinese GDP is on the level of 7% in 2Q 2015, but actually we feel the slowdown of the Chinese economy in the exports and consumer spending. In our Chinese business, for example, there are some declines in the trade of steel plates for automobiles and chemical products. On the other hand, our main businesses in China are consumer-related businesses like textiles and food. Therefore, there is a time lag after the general slowdown of Chinese economy. The profit from Chinese business in 1Q FY2016 is at the same level compared 1Q FY2015, combining positive and negative elements, such as the fact that China Foods Investment Corp (that held the share of TING HSIN) is no longer an affiliate of ITOCHU as of the end of FY2015, the slow-down in the consumer finance business, etc. We have some concerns that the slowdown in the Indonesian economy will influence our businesses.

### 3. Others

Q: What is the forecast for production volume in NAMISA, given the decline in production volume in 1Q FY2016 ? Also, what is the status of progress with the consolidation with CSN, the mining site of Casa de Pedra (CdP), and the future possibilities for revaluation losses from this project?

A: The production volume in NAMISA is declining, due production adjustments against a backdrop of weak commodities prices. NAMISA is focusing on the competitiveness of this project through the reduction of production costs and the utilization of facilities. The consolidation with CSN is on schedule for completion at the end of this year. We don't anticipate revaluation losses from this project at this point, and our understanding is that we can achieve our announced forecast for net profit, ¥330 billion, due to a good performance in the non-resource sector, even if something unexpected happens in the resource-related sector.