FY2018 2Q Financial Results Investors Meeting: Q&A Summary

Date: November 6, 2017 (Mon.) 13:00 to 14:30

Respondents: Masahiro Okafuji, President & Chief Executive Officer; Hitoshi Okamoto, Chief Strategy & Information Officer; Tsuyoshi Hachimura, Chief Financial Officer; Mamoru Seki, General Manager, General Accounting Control Division; Shunsuke Noda, General Manager, Corporate Planning & Administration Division

1. Results for the 2nd Quarter of FY2018, and the Current Medium-Term Management Plan

Q. Although the results for the first half of the fiscal year were quite strong compared to the full-year forecast, are there concerns regarding temporary losses and other negative factors in the second half?

A. ITOCHU has continued to quickly deal with concerns, as it has always done, and there are no major concerns at this time.

Q. With regard to the Dole business, why were the results lower in 2Q than in 1Q?

A. In the first half, Dole recorded ¥6.3 billion in net profit, up ¥0.4 billion year on year. In the Asian fresh food business, the banana yield is continuing to increase, thanks to a range of efforts that include enhancing irrigation equipment and using disease-resistant varieties. However, due to inherent seasonal factors, standalone results for the Asian fresh food business tend to be weaker in 2Q than in 1Q. In the packaged foods business, results remained steady due in part to reduced expenses. As for Dole overall, we are working hard to exceed both the previous record high profit of ¥8.3 billion posted in FY2017 as well as the full-year target of ¥9.7 billion.

Q. Is there any particular reason why the 2Q results for coal at ITOCHU Minerals & Energy of Australia (IMEA) were weak compared to the strong market?

A. Compared to 1Q, iron ore had weaker results relative to the market. The three main reasons for this were lower production due in part to fire incidents, the Australian dollar's strength against the U.S. dollar, and hedges, made before the market began to surge, that did not benefit from the change in resource prices.

Q. At the beginning of the fiscal year, it was explained that investment would prioritize increasing stakes in current holdings, but what about investment going forward?

A. To date, the benefits of increasing stakes in our current businesses have been the security brought by in-depth knowledge of the business activities of our investments, as well as generating synergies with ITOCHU. This kind of investment alone is not necessarily enough, but for this year our policy is to rein in investment. Next year, we will concentrate on investment on a scale that befits our strategy to create a new stage for the Company as a whole.

2. Direction of the Next Medium-Term Management Plan

Q. In his message in this year's annual report, the President mentioned his resolve for ITOCHU to take the industry lead as a company appreciated by all stakeholders. To ensure that this is connected to the Company's share price, moving forward, what kind of case do you intend to make to investors and shareholders? As a wider range of business opportunities begin to come into focus, are there any plans for a change in policy?

A. Although we have taken various measures in the consumer-related sector, the main challenge now is our efforts in the e-commerce sector. Using FamilyMart as a base, the test is how much synergy we can generate in e-commerce. If we can do that, we can also solve our issues with CITIC and CP Group. Our aim is to spur greater growth by forming a new group in the industry through the alliance with FamilyMart, UNY and Don Quijote, by integrating an internet-based business. Unlike other general trading companies, we are able to take these kinds of measures thanks to the resources we have accumulated thus far. In the next management plan, we intend to steadily carry out these measures. Amid discussions about distributing surplus cash, we have been executing the current plan while balancing three priorities: ensuring shareholder returns, unveiling growth strategies, and repaying interest-bearing debt to raise our soundness. We have received quite positive feedback regarding the way we balance these things. While general trading companies sometimes need large investment to grow, we conduct discussions in light of the prevalent trend to control investment within the scope of cash flows. This does not indicate there is any significant change in our policy regarding the balance of the three previously mentioned aspects.

Q. It's been mentioned that the e-commerce business (with its alliance with CITIC) could become a major pillar of the next management plan. Does that mean you will build a foundation for the business or that the business will begin to bear fruit?

A. We will simultaneously promote the e-commerce business in Japan and China. However, we will promote the business in China over a somewhat extended time frame. By making sufficient preparations, we expect to be able to seize various business opportunities over the medium and long term. In Japan, however, we need to create businesses that will quickly turn a profit.

Q. ITOCHU's consolidated net profit has steadily grown to ¥400.0 billion, but other general trading companies have been stagnating at this same level. Could you tell me about your policy toward the speed of growth moving ahead?

A. ITOCHU has been steadily accumulating income centered on non-resource businesses, so I'm not at all worried that the bottom will fall out. However, regarding FamilyMart, I don't know what the situation will be like five years from now. Amazon and other online retailers could grow even bigger than they are now, and the convenience store industry as a whole might begin to decline. We therefore need to strike the appropriate response to deal with Amazon and other e-tailers. If we play our cards right, this could be a major business opportunity. And then the next ¥500.0 billion could come into view.

Q. The current ROE target is 13% or higher. Will this increase over the medium to long term?

A. As we gear up for the next management plan, a key point will be how much profit we can generate. In regard to investment, on the other hand, if we have some investment targets that need the attention of the whole Company, we can somewhat control other investments. At present, we will not maintain our ROE simply by using leverage to increase our liabilities. Management is keenly aware that one of the reasons ITOCHU's stock price is so high is the current high level of ROE at around 15%. We will continue discussions about how to maintain a high ROE going forward.

Q. There was a comment about leveraging the Company's strengths to raise productivity and then return the benefit to customers. By what measure do you think we should evaluate productivity increases?

A. It is very difficult to define a KPI to measure increases in productivity. The Group has subsidiaries with labor-intensive operations, and it might be a mistake to evaluate productivity by dividing income by the number of personnel. ROE is one way to evaluate efficiency in terms of the stock market, and it's easy for everyone to understand. Under the next plan, we will continue to debate how much we can expand profits between the FY2018 year-end target of 15.8% and the medium- to long-term target of 13% or higher. In addition, we will also similarly continue to debate how best to return built-up equity to shareholders.

Q. In regard to your measures with CITIC and CP Group, it was explained that the reason synergy businesses stalled was because of the situation in China. Has there been any change there since the National Congress of the Communist Party came to a close?

A. The economic policy that Xi Jinping unveiled after the National Congress clearly laid the intention to strengthen state-owned enterprises going forward. Non-state-owned companies, which include foreign-owned companies, will continue to develop healthily, and so the alliance with CITIC is logical and will bear fruit eventually.

Q. What is the Company's stance regarding the new business models (excluding the growth strategies) of general trading companies, which have gained the attention of all stakeholders.

A. ITOCHU's commitment to the spirit of *sampo yoshi* is unchanging. Based on this, we are currently carrying out concrete studies and individual interviews regarding the next plan. For example, this includes our perspective on ESG, which puts eco-conscious business at the center of profits, and our measures to reform working styles. We will continue to improve employee productivity and raise customer satisfaction. By getting our employees excited through morning-focused working system and "dress-down days" will rub off on our customers.

3. Others

Q. Around the time you announced your decision to extend your term as President, you spoke of the need to pay attention to a few concerns, including the merger of UNY and FamilyMart as well as China. Can you provide more details?

A. Although it did cross my mind that I might regret extending my term, I think it was a good idea in the end. Because management is a continuous job, no matter how brilliant the next president might be, it would still take some time for them to be fully effective. In the first year of the current plan, we have become the number one general trading company in terms of consolidated net profit, and can now reliably bring in ¥400.0 billion. Our stock price has just exceeded ¥2,000, and all the measures of our current management plan have proceeded without a hitch. In regard to the merger of UNY and FamilyMart, by bringing in Don Quijote, the general merchandise store (GMS) problem also looks to be largely resolved. However, the problem now is that the average age of the very capable managers of our Group companies has risen. This will be an issue we will need to think about how to solve.

Q. In the field of the Internet of Things (IoT) and artificial intelligence (AI), what are ITOCHU's strengths and how does ITOCHU differentiate itself from other general trading companies?

A. We lead the trading industry because we have such Group companies as CTC and CONEXIO. We can make use of these companies and fully leverage our strengths. For example, we possess the consumer-related business that serves as an earnings base and have a foothold in the massive market of China. However, our current business resources in the information industry are insufficient. Going forward, we will continue to make venture investments and work with consumer-related business partners through the investment pipeline.

Q. What is the capital policy towards FamilyMart UNY Holdings, which forms the core of the consumer-related business?

A. The policy is decided from time to time. Right now, we are doing what we have to do.

Q. As for the business in China, now that Longda Foodstuff Group (Longda), Ting Hsin (CAYMAN ISLANDS) HOLDING CORP, and Shanshan Group have been converted from “associates and joint ventures” to “other investment”, does it look like initiatives with businesses other than CITIC will stop?

A. Going forward, our policy is to continue business in China, centered on CITIC, and carry out measures aimed at selection and concentration. We are now able to sell Longda shares, and our policy is to continue converting these to cash when we can. Our policy will be the same for other similar investments.

Q. Textiles seem to have stagnated for the past few years, but what do you think are the prospects for growth?

A. We don’t want to use the bad apparel market environment as an excuse. There are apparel-related businesses like ZOZOTOWN that are growing. The products we handle are the same, so I think there is still ample room for growth if we change our plan of action.