Q&A Summary at Investors Meeting for FY2014 Business Results

Presentation Date: May 8, 2014 (Thursday) 10:00 to 11:30

Location: Tokyo Head office

Speakers: Masahiro Okafuji, President & Chief Executive Officer

Tadayuki Seki, Executive Vice President, Executive Advisory Officer, CFO & CAO

Koji Takayanagi, Senior Managing Executive Officer, CSO

Kunihiro Nakade, General Manager, General Accounting Control Division

(1) Results for FY2014 and Plan for FY2015

Q: How much were non-recurring profits and losses recognized in the 4th quarter of FY2014 and are included in the plan for FY2015?

A: In the 4th quarter of FY2014, -1 billion yen was recognized on a net basis. The breakdown was gain on investments-net of +12 billion yen, equity in earnings of associated companies of -21 billion yen (including impairment losses in Samson investment company (Samson) of -29 billion yen, decrease of a tax expense in NAMISA of +2 billion yen, and net gain on sales of property and equipment in associated companies), and tax and others of +8 billion yen.

In the whole year of FY2014, non-recurring profits and losses were almost zero on a net basis. The breakdown was gain on investments-net of +35billion yen, loss on property and equipment-net of -2 billion yen, equity in earnings of associated companies of -42 billion yen, and tax and others of +9 billion yen. The breakdown by sector was -49 billion yen in the resource sector, +44.5 billion yen in the non-resource sector, and +4.5 billion yen in adjustments & eliminations and others.

In the plan for FY2015, +10 billion yen in Metals & Minerals Company and +7 billion yen in ICT, General Products & Realty Company are included respectively.

Q: Although ITOCHU achieved the revised forecast for FY2014, did it realize non-recurring profits to cover the impairment losses in Samson recognized in the 4th quarter of FY2014?

A: We did not realize any profits intentionally. Without the impairment losses in Samson, the result for FY2014 would have been much above the revised forecast announced in February.

Q: Is the plan for FY2015 stretched by any target with low feasibility at this moment?

A: We do not set figures which are difficult to be achieved. If we do so, it would cause bad effects afterwards.

Q: How much do you assume the impact on ITOCHU stockholders' equity as well as net income attributable to ITOCHU by the introduction of International Financial Reporting Standards (IFRS)?

A: We are now scrutinizing the impact. At this moment, the impact on ITOCHU stockholders' equity would be an increase by measuring investments in non-marketable equity securities at fair value as well as decreases by using fair value in our opening IFRS statement of financial position as deemed cost and by recognizing impairment losses on property and equipment. The impact on net income attributable to ITOCHU, on the other hand, would be -22 billion yen on a net basis at this moment, the sum of gain on sales of investments of -27 billion yen and net actuarial loss of +5 billion yen both of which are not recognized in IFRS consolidated statements of income.

Q: How much do you assume the impact due to the decrease in depreciation by impairment losses recognized when introducing IFRS?

A: We assume such an impact accompanied with decrease in property and equipment by using fair value in our opening IFRS statement of financial position as deemed cost. At this moment, however, we assume the impact will not be so much, approximately +2 to +3 billion yen annually.

Q: Why the plan of ITOCHU stockholders' equity at the end of March 2015 does not seems to increase so much from the previous year end, given the accumulation of net income on the equity?

A: We assume ITOCHU stockholders' equity at the end of March 2015 will increase by 153 billion yen to 2.3 trillion yen from the previous fiscal year end. The breakdown of the increase is as follows: Net income attributable to ITOCHU +300 billion yen; Cash dividends -75 billion yen; the impact of yen appreciation -40 billion yen (from 103 yen/USD as of the end of March 2014 to 100 yen/USD as of the end of March 2015); and impairment loss recognized when introducing IFRS -20 to -30 billion yen.

Q: Why is the plan of net income of Machinery Company for FY2015 almost the same as the result for the previous year?

A: If we continue to seek for rapid expansion of earnings, Machinery Company will try too hard and might lose momentum. Therefore, we made its plan for FY2015 highly feasible.

Q: Why ICT, General Products & Realty Company showed good performance in FY2014?

A: Net income attributable to ITOCHU of the three Divisions comprising ICT, General Products & Realty Company were approximately 25 billion yen each in FY2014. Therefore, the Division Company's composition of earnings is well-balanced. Especially, Forest Products & General Merchandise Division showed good performance including lower tax expense arising from lower tax rates in ITOCHU FIBRE LIMITED. The other two Divisions also steadily expanded earnings without pushing themselves.

Q: Do you see any impact on consumer-related sector due to the decelerating economic growth in emerging countries?

A: Textile Company and Food Company are negatively affected by higher import cost due to depreciated yen and higher labor cost in emerging countries, rather than by the economic slowdown in emerging countries.

Q: Do you see any impact on your business due to the conflict between the US and Russia over Ukraine? I've heard the Russian government might change its settlement currency to other currencies than USD. Did you hear of that from your clients?

A: We do not see any material impact on our business due to the situation in Ukraine at this moment. For example, although we've received the order of subway cars in Ukraine, we do not see any material impact on it. Besides, we are hedging the country risk by letter of credit issued by first class banks or trade insurance. Regarding the sales of steel pipes for gas pipelines, we are watching the local situation carefully. We've not heard of the change of Russia's settlement currency from our clients.

(2) Investment and Exit Policy

Q: Is there any possibility of making investments up to the remaining limit in your investment plan of approximately gross 570 billion yen in FY2015?

A: We have specific projects of approximately 200 billion yen out of the whole amount of gross 570 billion yen at this moment. We can expect various projects and would like to continue investments proactively for the remaining limit.

Q: How much return do you expect from potential investments?

A: We have to further expand profitability of investments. Although we cannot always earn the expected return from projects as soon as making investments in them, we will earn the return two years after investments. For example, ITOCHU FIBRE LIMITED in which we made investments in FY2013 substancially expanded earnings in FY2014.

Q: What is your strategy in the non-resource sector for further earning growth?

A: We will identify growing markets and consider specific tactics to enter into them. Especially in the consumer-related sector, centered on Asian countries including China, we will make such investments as leading to other various businesses. We will continue to expand earnings in the non-resource sector to achieve net income attributable to ITOCHU of 350 billion yen as a next growth stage.

Q: What is your investment policy in metal resources?

A: We expect more investment opportunities than before, given any equity interests whose owners have to sell due to particular reasons under the current circumstances of sluggish commodity prices. Therefore, we will not limit the scope of important business sectors and will consider investments of realistic scale in superior projects if any.

Q: What is your strategy in the energy sector whose scale of operations has substantial difference from that of the leading general trading companies belonging to Japan's *Zaibatsu* industrial groups?

A: Although we will not withdraw from the sector, it would be risky to advance the energy-related businesses in the same manner as those companies which are different from ITOCHU in terms of history and scale of investment capital. Therefore, we think it is important how to catch up with those companies in different ways.

(3) Financial Strategy

Q: What were the factors behind the improvement in cash flows from operating activities in FY2014? What is your outlook for cash flows from operating activities and free cash flows (FCF) in FY2015?

A: The special factors of approximately +70 billion yen in total were included in cash flows of operating activities in FY2014. Advances from customers in the ship trade business, collecting cash from trading receivables in the automobile–related business, and other factors account for +40 billion yen, and the impact of the realization of losses in tax basis accounts for the remaining +30 to +40 billion yen. In FY2015, we assume approximately 300 billion yen of cash flows from operation activities, the same level of net income attributable to ITOCHU. Thus, if we make investments of about 500 billion yen on a net basis in accordance with our current medium-term management plan, FCF would be negative theoretically.

Q: What was the difference between cash flows from investment activities and investment amount on a net basis in FY2014?

A: The difference was gain on sales of investments. EXIT amount was calculated on a book basis.

Q: How do you think of the balance between investment and shareholder returns? Will you increase dividends?

A: We will continue the current policy in FY2015, the second year of the current medium-term management plan. We would like to consider enhancing shareholder returns from mid-term perspective when making the next medium-term management plan. The plan of dividend per share in FY2015 is the same as in FY2014. Although we would like to increase dividends basically by increasing earnings, we will also try to boost dividends with further addition of a fixed amount like in FY2015.

Q: How do you think of a potential share buyback?

A: We will consider a share buyback in the next medium-term management plan after checking our investment policy and the trend in FCF.

Q: What is your target ROE?

A: We would like to maintain minimum 12%.

Q: How do you think of the priority of the credit ratings in your management?

A: We would like to realize our credit ratings to be raised. We, however, would not like to lower the priority of shareholder returns. Since our credit ratings are evaluated and determined by credit rating agencies, we have to humbly wait for the result of their evaluation.

Q: How do you think of the appropriate ratio of risk assets to risk buffer?

A: The ratio of risk assets to risk buffer improved from 69.7% at the end of March 2013 to 63.6% at the end of March 2014.Our basic policy is to control the increase in risk assets within that in risk buffer. We do not have the appropriate ratio in mind specifically.

(4) Individual Projects

Q: You assume a year-on-year decline in profit of ITOCHU Minerals & Energy of Australia Pty Ltd in FY2015 despite the increase in sales volume. Is the assumption of sales prices conservative?

A: A year-on-year decline in profit of the subsidiary is mainly due to the sales price decreases. We are not sure whether our sales price assumption would be conservative or not, but we do not expect a sharp decline in spot prices from the current low level.

Q: Do you see potential further impairment losses in undeveloped mining areas of Samson?

A: We cannot say there is no possibility of further impairment losses. For your reference, the remaining book value of our investment in Samson is approximately 38 billion yen, the sum of developed and undeveloped portions. The book value of the undeveloped portion has fairly decreased due to the previous impairment losses.

Q: How do you think of the potential gas supply from the Sakhalin-1 project to the Vladivostok LNG Project?

A: The discussion about that is continuing among the related parties. We do not see substantial progress at this moment, partially because of the Ukraine issue.