Q&A Summary of Investors Meeting for FY2016 Business Results and FY2017 Management Plan

Speakers: Masahiro Okafuji, President & Chief Executive Officer
Hitoshi Okamoto, Senior Managing Executive Officer, CSO/CIO
Tsuyoshi Hachimura, Managing Executive Officer, CFO
Mamoru Seki, Executive Officer, General Manager, General Accounting Control Division
Hiroyuki Kaizuka, General Manager, Corporate Planning & Administration Division

Abbreviations: Cash Flow = CF, Free Cash Flow = FCF, Charoen Pokphand Group = CP Group

1. FY2016 Results/FY2017 Plan

Q: How will the Company achieve the 400 billion yen target for net income, announced in the Medium-Term Management Plan?

A: Our assumptions for this short-term plan were set conservatively. However, if we apply the same assumptions as the original Medium-Term Management Plan and also exclude the 20 billion yen buffer, we would plan on reaching a substantial 400 billion yen level. Therefore, we would like to focus on steadily achieving this year's plan of 350 billion yen, and then we can make a plan that exceeds that level in FY2018.

Q: Could you tell us about the timing in regard to the Company's decision to record the impairment losses for FY2016 as well as the possibility of additional impairment losses?

A: Some of the impairment losses were already included in our initial forecast. However, we recognized additional impairment losses based on conservative assumption in the fourth quarter to prepare ourselves for FY2017. As a result, we are confident that we will achieve our plan for 350 billion yen in FY2017.

Q: Please give us the breakdown of the 220 billion yen decrease in "FVTOCI financial assets".

A: There was a 240 billion yen decrease in total shareholders' equity. In net profit attributable to ITOCHU, there was a 240 billion yen increase, from which 79 billion yen was used for the dividend payment. There was also 390 billion yen decrease in other components of equity due to fluctuations in stock prices and foreign exchange rates. There was an approximate 200 billion decrease related to "FVTOCI financial assets," which was included in other components of equity, and a 80 billion yen decrease in Drummond as well as a decrease in other stockholdings and other investments.

Q: Regarding basic profitability, after excluding factors such as foreign exchange and commodity prices, in which segments can we expect to see the growth?

A: We expect the Non-Resource Sector to grow to 367 billion yen in FY 2017, compared to 240 billion yen in FY2016. For individual segments, the Machinery Company will grow from 48.4 billion yen to 60.0 billion yen, and the General Products & Realty Company and other segments will also become stronger.

2. Related to Cash Flows

Q: How is the forecast for investing CF in FY2017? What areas will you focus on regarding investing CF?

A: We made a large investment in CITIC in FY2016, and therefore controlled other investment activities. However, we will take a more proactive stance towards investment starting from this fiscal year. We will continue to focus on the Non-Resource Sector, especially consumer-related areas. This policy remains unchanged. The segment we will focus on the most aggressively is the Machinery Company. We will seek out areas in which we excel in the machinery business and invest into those areas.

Q: What is the Company's way of thinking toward CF throughout the Medium-Term Management Plan? What is the forecast for core FCF from this fiscal year and on?

A: In the FY2017 plan for CF, we assumed that operating CF in FY2017 would be at the same level as FY2016. We haven't changed the policy set in our Medium-Term Management Plan of keeping +100.0 billion yen in core FCF every year throughout the plan. Core FCF in FY2016, the first year of Medium-Term Management Plan, stood at 400 billion yen, and the basis for core FCF in FY2017 and FY2018 are 100.0 billion for each fiscal year. Depending on our approach to investment, Core FCF may become a bit tight if there is a promising project. However, we maintain a basic policy of keeping +100.0 billion yen in core FCF every year throughout the Medium-Term Management Plan. Accordingly, we believe that the total amount of core FCF in the three years covered by the Medium-Term Management Plan will be more than the initial plan of 300.0 billion yen.

3. <u>CITIC/CP and China related</u>

Q: Could you explain the outlook for synergy progress in FY2017 as well as where your target areas are and when synergy projects are expected to contribute to profits?

A: As the temporary funding to CP Group was repaid at the end of March 2016, concerns related to new investments have disappeared. There is a synergy project we would like to settle during the first half of FY2017. We would like to concentrate our efforts to realize this project.

Q: Could you tell us about the assumptions for calculating 70 billion yen in CITIC-related profit for the FY2017 plan?

A: CITIC steadily generates an annual net profit of about 800 billion yen. While there are concerns that CITIC will recognize additional impairment losses in resource-related areas, we have already reflected the applicable impairment losses as a part of valuation at the time of acquisition of CITIC shares. We assume an equity pick up of 10% from net profit of 800 billion yen, and deduct 10 billion yen for interests and tax expenses, etc.

Q: What do you think about CP Group's financing as well as the repayment risk regarding the 40 billion yen loan to CP Group?

A: Given consideration to the size of CP Group's assets, we have no concern about the repayment of our 40 billion yen loan to them. CP Group has mentioned about an intention to consider an early repayment.

Q: What is the Company's outlook for its Chinese businesses?

A: As we adopt the policy of expanding our consumer-related businesses, there is no other market that can take place of the Chinese market, even though the Chinese economy is not doing so well. We recognize that the Chinese economy will not grow at the same pace as it used to, and we need to consider various ways to take initiatives toward businesses in China. We can address various risks by effectively leveraging the information that CITIC possesses to make investments. CP Group also has business know-how, and we would like to draw upon that know-how when we consider doing business with Chinese companies.

Q: What would the impact be if CITIC were to recognize more impairment losses going forward?

A: As we recognized impairment for assets such as Sino Iron and financial assets through Purchase Price Allocation, we have already, for the most part, addressed any risks that would arise from that situation.

4. <u>Others</u>

Q: In regard to the situation of Dole, how does the company expect to recover profitability in its Asian fresh food business?

A: The packaged food business is doing well. In regard to pineapples for the Asian fresh food business, we do not see any issues as we have worked to acquire a plantation, in addition to other efforts. On the other hand, bananas have been experiencing difficulties in production due to typhoons and infectious diseases in the main production area, the Philippines. We are currently giving consideration to purchasing new plantations in the Philippines where there is no concern of diseases, and are looking to secure plantations. Also, we are determined to make efforts in restructuring, which have been delayed at Dole. In these ways, we will promptly put the business of Dole back on a track for growth.

Q: What is the assumption for iron ore prices in the FY2017 plan?

A: We are not disclosing our actual assumptions for prices. However, our assumptions wouldn’t be much different than the FY2017 first quarter market price stated in the presentation materials.

Q: How do you feel about the upcoming term for the CEO, Mr. Okafuji?

A: We recognize the necessity of determining a successor, after deciding the management system of FamilyMart and UNY which is scheduled within this fiscal year along with some restructuring and also we make CP & CITIC projects on track.