# FY2017 Business Results Summary
# FY2018 Management Plan

May 9, 2017

ITOCHU Corporation

This document is an English translation of a statement written initially in Japanese. The Japanese original should be considered as the primary version.

# Opening Remarks

**Masahiro Okafuji**
**President & CEO**



FY2017 business results highlight.

1. Net profit attributable to ITOCHU increased by 47% or ¥111.8 billion, reaching a record high of ¥352.2 billion.
2. Gross trading profit reached the highest record of ¥1,093.5 billion
3. Net profit attributable to ITOCHU after deducting extraordinary gains and losses was approx. ¥370 billion, almost reaching ¥400 billion level.
4. The share of group companies reporting profits was 86.4%. 73 out of 268 group companies recorded historical high profits.
5. Group companies reporting profits on a combined basis generated the record high profits of ¥357.4 billion, so the higher management and the efforts bear fruits one after another.
6. Core operating cash flows wer again record high at ¥420 billion. The record high profit is backed by the strong cash flows. I can really feel the expansion of the core profit base getting stronger and stronger.
7. Total shareholder's equity reached a record high level at ¥2,401.9 billion
8. Ratio of shareholders equity to total assets was 29.6%.
9. Furthermore, in the Brand-new Deal 2017 our medium-term management plan, there were figures to track the progress. Net DER to recover 1.0 and the ratio was accomplished one year before the duration of plan, indeed we were able to record 0.97 time, which was the lowest ever.
10. ROE 15.3% is significantly high percentage in comparison with our peer group.

FY2018 plan and dividends

・For the two business plans Brand-new Deal 2012 and Brand-new Deal 2014, we were able to accomplish the original planned targets. And in the following business plan Brand-new Deal 2017 we wiped out concerns for the future for further growth in the initial year.

・In the FY2017 having accomplished the targeted plans, we were able to brush away concern and to promote further the management so called lower center gravity management.

・In the final year FY2018 based upon the solid standing, a net profit attributable to ITOCHU is targeted at ¥400 billion. Although the business environment continues to be rather opaque, I will make sure that we will commit to the promise made. For Dividend, we raised the guaranteed amount by ¥9 to our record high ¥64 per share.
We indeed would like our shareholders to enjoy our profit growth together.


Aspirations in the FY2018 management plan

The new subtitle is “Infinite Missions Transcending Growth”, meaning that the so called *Sampo Yoshi*, which is the foundation of the founder of ITOCHU and is the requirement of the community, and how we are able to implement that in the actual management of the corporation and is clearly our mission. Not brightly pursuing the profits, but with the quantity of growth, work style, and also the sort of management style, we should meet the requirements and expectations of the community.
Those will be the points that we will keep in mind to therefore lead the new era of general trading companies. So from overall perspectives we will continue to sustainably enhance our corporate value.

In FY2018 we recognize that this is the final year under the current medium-term management plan Brand-new Deal under 2017, and also this is the fiscal period to get ready for the next round of mid-term business plans, very important to consider how we are to be in the future. We embarked on the examinations and study regarding the new stage.

We will continue to listen to stakeholders very eagerly, so that we can come up with particular plans, which will be woven into the next round of medium-term management plans.

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# FY2017 Business Results Summary FY2018 Management Plan

May 9, 2017

ITOCHU Corporation
Tsuyoshi Hachimura
Managing Executive Officer, CFO

# Summary of Net profit attributable to ITOCHU

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(Unit : billion yen)

- **"Net profit attributable to ITOCHU" increased by 47% or ¥111.8 bil. compared with the previous fiscal year to ¥352.2 bil., and achieved a record high.**
  "Gross trading profit" reached the highest record of ¥1,093.5 bil., due to the strong earnings in the Metals & Minerals, Food, ICT and Chemical sectors, despite the appreciation of the yen. Net profit attributable to ITOCHU increased significantly compared with the previous fiscal year, due to the contribution from CITIC Limited and the absence of the extraordinary losses in the previous fiscal year, in addition to the above.
- **"Net profit attributable to ITOCHU" after deducting extraordinary gains and losses** (approximately ¥18.0 bil. loss) was **approximately ¥370.0 bil. and achieved the highest record.**
- **"Profits/Losses of group companies" was ¥328.6 bil., "Share (%) of group companies reporting profits" was 86.4%, both of which achieved the highest record.**
- According to the dividend policy under the medium-term management plan, **we plan to pay a record high annual dividend of ¥ 55 per share.** Making steady progress in cash flow control and strengthening our financial position, we promoted repayment of debt. Resuming the acquisition of treasury stock from November 2016 (¥16.2 bil.), we made a further progress to improve our shareholder returns.

| | FY2016 Result | FY2017 Result | Increase/ Decrease | FY2017 Forecast (Disclosed on Nov, 2) | Achievement |
|---|---|---|---|---|---|
| Net profit attributable to ITOCHU | **240.4** | **352.2** | **+111.8** | **350.0** | **101%** |
| Gross trading profit | 1,069.7 | 1,093.5 | + 23.8 | 1,080.0 | 101% |
| Selling, general and administrative expenses | (835.5) | (801.8) | + 33.7 | (810.0) | 99% |
| Losses on property, plant, equipment and intangible assets | (155.1) | (16.7) | +138.4 | - | - |
| Equity in earnings of associates and joint ventures | 147.7 | 185.2 | + 37.4 | 170.0 | 109% |
| Income tax expense | (46.4) | (125.3) | (78.9) | (103.0) | 122% |

(Reference)

| | FY2016 Result | FY2017 Result | Increase/ Decrease |
|---|---|---|---|
| Extraordinary gains and losses | (75.0) | (18.0) | + 57.0 |
| Net profit attributable to ITOCHU after deducting extraordinary gains and losses | approx. 315.0 | approx. 370.0 | + 55.0 |
| Profits/Losses of group companies | 166.0 | 328.6 | +162.6 |
| Share (%) of group companies reporting profits | 81.9% | 86.4% | Increased 4.5pt |

| Dividend Information (Per Share) | |
|---|---|
| Annual (Planned) | 55.0 yen (minimum) |
| Interim (Paid) | 27.5 yen |

Brand-new Deal 2017



・<u>All figures below are the figures to show our strong result.</u>

1. Net profit attributable to ITOCHU: ¥352.2 billion
2. Gross trading profit: ¥1,093.5 billion
3. Equity in earnings of associates and joint ventures : ¥185.2 billion
4. Net profit attributable to ITOCHU after deducting extraordinary gains and losses: approx. ¥370 billion
5. Profit and losses of group companies: ¥328.6 billion
6. Share of group companies reporting profits: 86.4%

・<u>Extraordinary gains and losses shows minus 18 billion (details are on page 26)</u>

Recognized ¥50 billion losses in the final quarter. Items are the effect from amendment of the Japanese anti-tax haven rules, as well as the fiscal year end impairments loss accounting, as well as the individual provisions and therefore individual deals.

Profit after deducting extraordinary items moved up to ¥370 billion from ¥315 billion an increase of ¥55 billion that is the record high. We have to remember the effects of the Japanese yen strengthening by ¥12.28 in the course of fiscal 2017, with the negative push down and negative effect of ¥14 billion, but still we were able to show the revealing strength in the profitability.

・<u>Among 268 group companies 73 of them renewed the record high profits</u>

Furthermore 75% or 200 companies generating the annual profits of less than ¥2 billion collectively they contributed ¥87 billion from annual profits. This is really a testimony of the well diversified business portfolio and the result of executing low center of gravity management safely and surely such as "cut" and "prevent".

# Net profit attributable to ITOCHU by Segment

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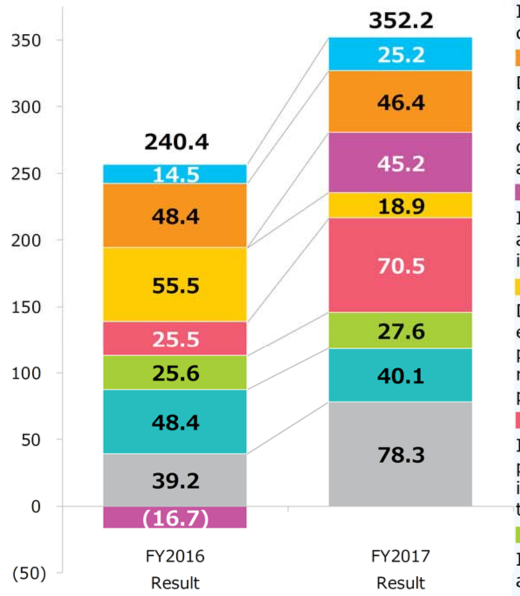
(Unit : billion yen)




| | FY2016 | FY2017 |
|---|---|---|
| Non-Resource | 237.3 | 313.7 |
| Resource | 1.8 | 30.6 |
| Others | 1.3 | 8.0 |
| Non-Resource(%) | 99% | 91% |

Note:% composition is calculated using the total of Non-Resource and Resource sectors as 100%.

## Summary of changes from the same period of the previous fiscal year

**Textile [Inc/Dec : ¥+10.7 bil.]**
Increase due to the reduction of expenses and the improvement of extraordinary gains/losses, despite the unfavorable sales in apparel-related companies.

**Machinery [Inc/Dec : ¥(1.9) bil.]**
Decrease due to the deterioration in profitability in ship-related business affected by stagnant market conditions, the lower transaction volume in automobile-related transactions, an extraordinary loss in ship-related business, and the appreciation of the yen, despite the gain on sales of a medical-device-related company and the increase in equity in earnings of associates and joint ventures.

**Metals & Minerals [Inc/Dec : ¥+61.9 bil.]**
Increase due to the higher iron ore and coal prices, and the absence of the impairment loss and the loss accompanying the sale of certain assets in the Australian coal-related business in the previous fiscal year, despite the appreciation of the yen.

**Energy & Chemicals [Inc/Dec : ¥(36.6) bil.]**
Decrease due to the decline in dividends received, the absence of the improvement in tax expenses accompanying the disposal of a U.S. oil and gas development company in the previous fiscal year, and the negative effects of the amendment to Japanese anti-tax haven rules, despite the absence of the impairment loss in the North Sea oil fields development project in the previous fiscal year.

**Food [Inc/Dec : ¥+45.0 bil.]**
Increase due to the improvement in profitability and the absence of the impairment loss in the previous fiscal year in fresh-food-related companies, the higher transaction volume and the improvement in profitability in food-distribution-related companies, and the gain accompanying the changes in equity resulting from the merger of FamilyMart and UNY Holdings.

**General Products & Realty [Inc/Dec : ¥+2.0 bil.]**
Increase due to the less extraordinary loss in European tire-related companies, despite the absence of the gain on sales of a housing-materials-related company in the U.S. in the previous fiscal year, the negative effects of the amendment to Japanese anti-tax haven rules, the decrease in equity in earnings of associates and joint ventures due to the stagnant market conditions in foreign pulp-related companies, and the appreciation of the yen.

**ICT & Financial Business [Inc/Dec : ¥(8.3) bil.]**
Decrease due to the absence of an extraordinary gain regarding a finance-related company in the previous fiscal year and the negative effects of the amendment to Japanese anti-tax haven rules, despite the higher transaction volume in domestic ICT-related companies.

**Others, Adjustments & Eliminations [Inc/Dec : ¥+39.1 bil.]**
Increase due to the start of equity pick-up of CITIC Limited from the third quarter of the previous fiscal year.

* Inc/Dec: Increase/Decrease



1. Food: Dole  International Holdings has improved business conditions, after management reforms progressed as scheduled. Food and distribution related operator Nippon Access renewed the record high profit. Furthermore, there was an increase in profits taken in relating to FamilyMart UNY Holdings. There also was an effect of repercussion from the previous fiscal year's impairment loss. Altogether increased year-on-year by ¥45 billion to ¥70.5 billion.

2. Others, adjustments and eliminations: CITIC related profits were reflected on the full year basis, which was ¥62.9 billion, moved up by 22.4 billion.

3. Metals and minerals : Backed by the strengthening of the resource markets for iron ore or coal, and also the repercussions which worked positively coming out of the previous fiscal period impairment loss increased by ¥61.9 billion to ¥45.2 billion.

4. Others, such as textile, machinery, energy and chemicals, general products and reality, and ICT and the financial business all had combined factors of extra ordinary losses or the repercussion coming from the previous year; overall showed revealing strengths into the profit, so ITOCHU as a whole booked the historical high net profit of ¥352.2 billion.

5. Profit from resource segments went up to 9%, because of the stronger resource market,  and backed also by the repercussion of the one off losses in previous year. The resource assets as a percentage of total assets was no more than 10% to 15%, more or less the same over the year. We are not relying on highly volatile net profit generation from resource business, but we have rather stable profit and the foundation.

# Cash Flows

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(Unit : billion yen)

■ **Operating Cash Flows and Free Cash Flows:**
**"Cash flows from operating activities"** was a net cash-inflow of **¥389.7 bil.,** resulting from the stable performance in operating revenue. It was close to ¥400.0 bil. which we had achieved for the third consecutive years until the previous fiscal year, and continued to create ample operating cash flows.
**"Free cash flows"** resulted a net cash-inflow of **¥308.4 bil.** due to rigorously selected investments.

■ **Core Free Cash Flows:**
**"Core operating cash flows"**, after deducting increase and decrease of working capital from "Cash flows from operating activities", was a net cash-inflow of **¥420.0 bil., which was the highest record**. **"Core free cash flows"** resulted a net cash-inflow of **¥300.0 bil., and achieved over ¥100.0 bil. which has been committed in the medium-term management plan.**

| Cash Flows | FY2016 Result | FY2017 Result |
|---|---|---|
| Cash flows from operating activities | 419.4 | 389.7 |
| Cash flows from investing activities | (557.3) | (81.3) |
| *Free cash flows* | *(137.9)* | *308.4* |
| Cash flows from financing activities | 81.8 | (335.4) |

| Core Free Cash Flows | FY2016 Result | FY2017 Result |
|---|---|---|
| Core operating cash flows(Note1) | 375.0 | 420.0 |
| Net investment cash flows(Note2) | 35.0 | (120.0) |
| Core free cash flows | 410.0 | 300.0 |
| Shareholder returns (dividend and share buyback) | (75.0) | (99.0) |
| Core free cash flows after return to shareholders | 335.0 | 201.0 |

### Core Free Cash Flows


Note 1: "Operating Cash Flows" minus "increase/decrease of working capital"
Note 2: Payments and collections for substantive investment and capital expenditure
"Investment Cash Flows" plus "Equity transactions with non-controlling interests" minus "increase/decrease of loan receivables", etc.
Exclude investment into CITIC Limited



・<u>Cash flows from operating activities</u>
Towards the end of the fiscal period in machinery and general products and reality, working capital requirements have went up.
The stable tone of generating the 400 billion cash flows from operating activities ever since FY2014. Core operating cash flows were the record high at ¥420 billion.

・<u>Core free cash flows</u>
As a result of stringent investment decisions, net investment cash flows was an outflow of ¥120 billion. The core free cash flows were ¥300 billion, meaning significantly above the plan.

・Under the medium-term management plan, each year more than ¥100 billion of core and free cash flows has been intended to be generated. In FY2017 we were able to generate core free cash flows which exceeded the basic assumption. Having paid out the plan dividends and having paid down interest bearing debt, we used remaining surplus to return to shareholders by doing approx. ¥30 billion of share buyback.

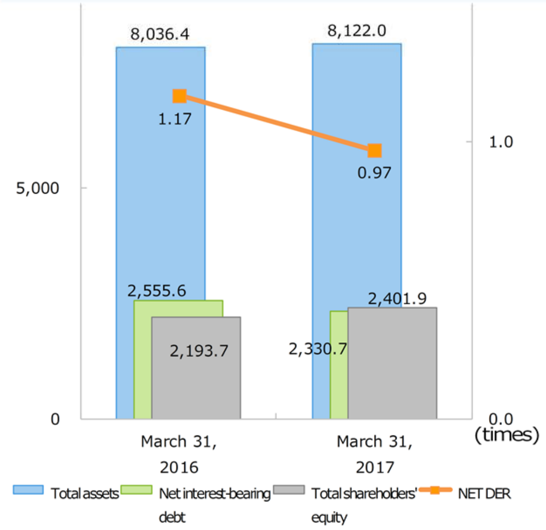
・By the way on this page it says that shareholder returns was ¥99 billion, but it doesn't include the share buyback we executed on May. Which means altogether approx. ¥130 billion was used for shareholder return after debt repayment of ¥250 billion.

# Financial Position



(Unit : billion yen)

- **Making steady progress in further strengthening financial position, all major indicators improved significantly.**
  - ･**Ratio of shareholders' equity to total assets** increased by 2.3 points compared with March 31, 2016 to **29.6%, which was the highest record.**
  - ･**NET DER (Net debt-to-shareholders' equity ratio)** improved compared with both March 31, 2016 and the forecast disclosed on May 6 to **0.97, which was the lowest record.**
  - ･**ROE** increased by 4.9 points compared with the previous fiscal year to **15.3%, which surpassed by far our ROE target of 13% in the medium-term management plan.**
- **Total assets** increased by ¥85.6 bil., compared with March 31, 2016 to **¥8,122.0 bil.** due to the increased trade receivables accompanying the rise in oil prices during the second half towards the end of this fiscal year compared with the same period of the previous fiscal year in energy-related companies and energy trading transactions, and the additional investments and merging transaction relating to FamilyMart and UNY Holdings, despite the effect of foreign currency translation.
  **Net interest-bearing debt** decreased by ¥225.0 bil., compared with March 31, 2016 to **¥2,330.7 bil.** due to promoting the repayment of debt accompanying the large surplus of free cash flows through the stable performance in operating revenue and steady collections.
  **Total shareholders' equity** increased by ¥208.2 bil., compared with March 31, 2016 to **¥2,401.9 bil.** due to the increase in Net profit attributable to ITOCHU, despite the dividend payments, the negative effect of foreign currency translation, and the acquisition of treasury stock.




| | March 31, 2016 | March 31, 2017 | Increase/ Decrease | FY2017 Forecast (Disclosed on Nov, 2) |
|---|---|---|---|---|
| Total assets | 8,036.4 | 8,122.0 | + 85.6 | 8,000.0 |
| Net interest-bearing debt | 2,555.6 | 2,330.7 | (225.0) | 2,350.0 |
| Total shareholders' equity | 2,193.7 | 2,401.9 | +208.2 | 2,350.0 |
| Ratio of shareholders' equity to total assets | 27.3% | 29.6% | Increased 2.3pt | 29.4% |
| NET DER (times) | 1.17 | 0.97 | Improved 0.2pt | 1.0 |
| ROE | 10.4% | 15.3% | Increased 4.9pt | 15.4% |

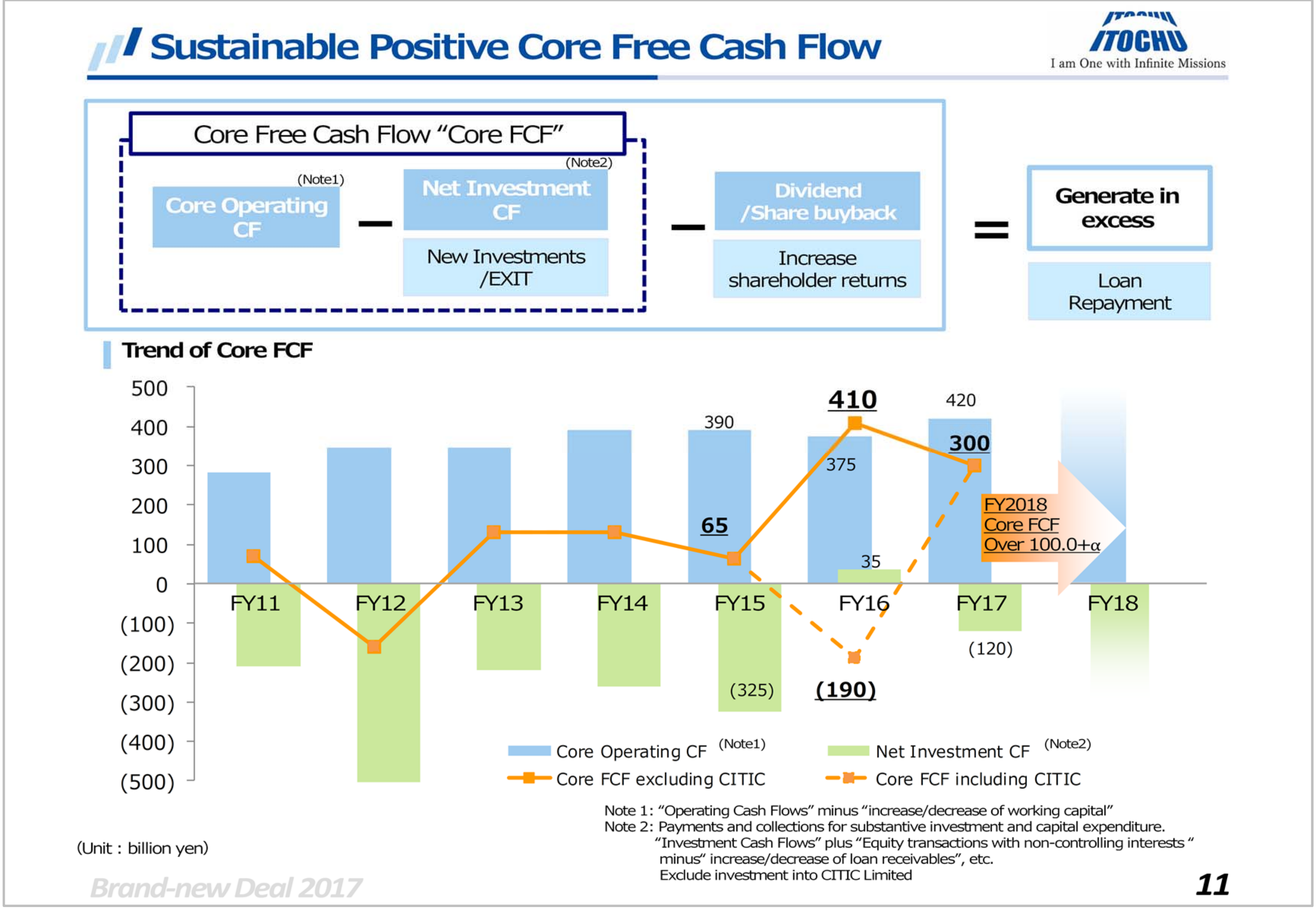



1. Net interest-bearing debt was ¥2,330.7 billion.
   Backed by the strong free cash flow generation, and having controlled down the cash at hands we reduced the gross interest-bearing debts by ¥250 billion.

2. The total shareholder's equity was accumulated further to reach the record high level of ¥2,401.9 billion with the total shareholders the equity ratio of 29.6%, again the highest percentage.

3. Net DER conditions improved, we were able to come beneath 1.0 which was the level immediately prior to the investment in the CITIC, the lowest level of 0.97.

4. ROE was 15.3% in FY2017, which was significantly above the 13% level which was advocated in the medium-term management plan.




1. Core free cash flows
On a continued basis there was a generation of strong cash flows from operating activities and highly selective investments, and also FY2018 we will assume for the generation of a strong core free cash flow. This is reflected in this expression of core free cash flows of ¥100 billion plus alpha. We will continue to execute a dividend payouts or the share buyback for shareholder return retaining the "positive". While paying down the interest-bearing debt we will be mindful of the level of DER.

2. New medium-term management plan
Share buyback is one means of shareholder return. Concerning Net debt reduction, DER & ROE balance, and more, we will get ready for the new medium-term management plan which will commence in April 2018.

# FY2017 Business Results Summary
# FY2018 Management Plan

May 9, 2017

ITOCHU Corporation
Hitoshi Okamoto
Senior Managing Executive Officer, CSO･CIO

# Others, Adjustments & Eliminations

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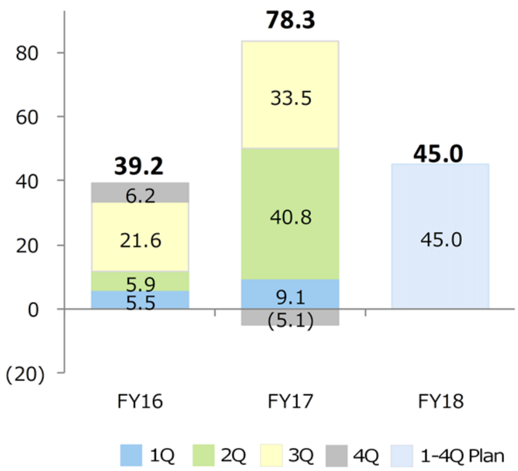
(Unit : billion yen)

| | FY2016 Result a | FY2017 Result b | Increase/ Decrease b-a | FY2018 Plan |
|---|---|---|---|---|
| Gross trading profit | 9.6 | 15.5 | +6.0 | 10.0 |
| Equity in earnings of associates and joint ventures | 40.5 | 68.7 | +28.1 | |
| **Net profit attributable to ITOCHU** | **39.2** | **78.3** | **+39.1** | **45.0** |

| | Mar. 2016 Result | Mar. 2017 Result | Increase/ Decrease |
|---|---|---|---|
| Total assets | 1,361.7 | 1,280.0 | (81.8) |

## Net profit attributable to ITOCHU




## Profits/Losses from Main Group Companies

| | FY2016 Result | FY2017 Result | FY2018 Plan |
|---|---|---|---|
| Orchid Alliance Holdings Limited * | 40.4 | 62.9 | 60.0 |
| C.P. Pokphand Co. Ltd. | 5.0 | 4.9 | ** |

* Figures are "CITIC related profit" which includes related tax effects etc.
** Plan is not disclosed by the company therefore the plan above is not presented.

## Updates on Business Alliance with CITIC & CP Group

- Synergy with CITIC Medical
  - A joint trial business with CITIC Medical is planned to start from early September. Business scope of the trial will be fixed by early July and new joint venture with CITIC Medical will be established before the trial.
  - Once the business model is fixed through the trial, goal is to spread this model throughout China, as well as Asia in the future.
- Entering flexible packaging business in Thailand
  - Toppan Printing and ITOCHU have jointly concluded a capital and business alliance agreement with TPN Group, operating an integrated packaging business in Thailand.
  - Expand the trading business with CP Group through selling the high value added packaging materials, produced by TPN Group.
- Cross -border EC business targeting China`s affluent segment
  - ITOCHU founded a wholly owned subsidiary to manage the cross border E-commerce website jointly developed with CITIC Ltd.
  - ITOCHU has prepared more than 3,000 items of processed foods as a trial and will gradually expand the product categories into cosmetics and apparel products, etc. after the launch of official sales which is targeted to start after FY18 2nd quarter.
- Personnel exchange
  - Personnel exchanges have begun among all three companies from March 2017, with a second joint training program at Beijing scheduled in May.



1. CITIC-related profit for FY2017 was ¥62.9 billion.
   On top of equity pick up from CITIC limited, we incorporated PPA as well as interest burden to bear.
   In addition  we incorporated a part of gains related to the sales in the real estate related operations.

2. For FY2018 we assume the ¥2.9 billion decline at ¥60 billion.
   CITIC Limited on their part has not revealed their plan; however, it is our expectation that ranging between ¥600 to ¥800 billion CITIC Limited basic profitability will continue. Also we consider the current interest level as well as depreciation of the Chinese yuan.

3. For CPP,  ¥4.9 billion worth of profits was booked.
   In the final quarter in Vietnam pig or pork market declined. However, fiscal year as a whole showed a favorable performance of pig farming operation in Vietnam, had a strong performance.

4. FY 2017 plans, CPP does not disclose the plans, so we refrain from making the comments.

# Others, Adjustments & Eliminations

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(Unit : billion yen)

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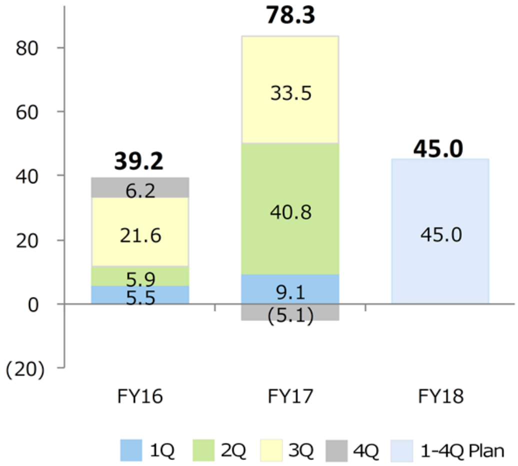


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- Cross -border EC business targeting China`s affluent segment
  - ITOCHU founded a wholly owned subsidiary to manage the cross border E-commerce website jointly developed with CITIC Ltd.
  - ITOCHU has prepared more than 3,000 items of processed foods as a trial and will gradually expand the product categories into cosmetics and apparel products, etc. after the launch of official sales which is targeted to start after FY18 2nd quarter.
- Personnel exchange
  - Personnel exchanges have begun among all three companies from March 2017, with a second joint training program at Beijing scheduled in May.

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CITIC Medical

・Through the feasibility study, the concentrated purchase of medical equipment and supplies, laundry service and also the hospital periphery business operations having carried out. Also we agreed to have the execution of specialist and operation such as dialysis.

・The hospitals under the umbrella of CITIC medical, and we are going to commence the management administration service. We will establish the implementation plan in the beginning of July , and will establish the new joint venture with CITIC Medical in September.

・We will deploy the so called hospital related business operations starting in the next fiscal year throughout China and throughout Asia for the future as well.

Cross-border EC business targeting China affluent segment

・Together with CITIC Limited we developed the cross-border e-commerce website, and also established a wholly owned subsidiary of ITOCHU to manage that.

・We have prepared more than 3,000 processed food items and after the official launch of sales we will expand the portfolio of products to include cosmetics as well as apparel on that goods. In doing that we also would like to reveal not only under the high quality, safety and assurance of made in Japan goods but also arrangements with the local areas of Japan to retailers we would like to reveal uniquely local products available, so that we can positively differentiate our EC site from the rest.
At the starting phase in the Kansai area with Hankyu Department Store, in Kyushu area with JR Hakata City and we expand that to other areas including Okinawa, Hokkaido, Tohoku and Shikoku.

# Others, Adjustments & Eliminations

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(Unit : billion yen)

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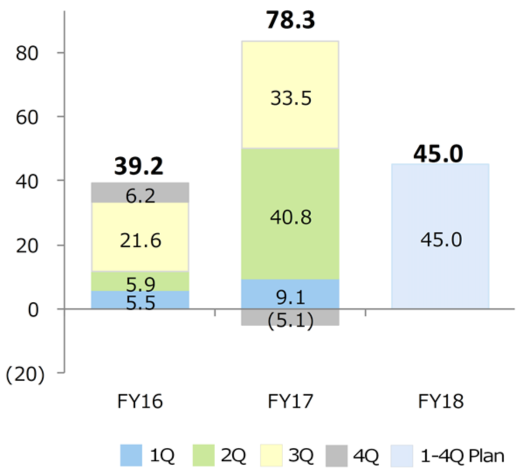


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  - ITOCHU has prepared more than 3,000 items of processed foods as a trial and will gradually expand the product categories into cosmetics and apparel products, etc. after the launch of official sales which is targeted to start after FY18 2nd quarter.
- Personnel exchange
  - Personnel exchanges have begun among all three companies from March 2017, with a second joint training program at Beijing scheduled in May.



Entering Flexible packaging business in Thailand
・Together with Toppan Printing company we have signed an agreement to have capital and business alliance agreements with TPN Food Packaging, the top ranked integrated packaging company and the 10.7% on the stake has been undertaken by us and with that we entered into the target market in Thailand. Seeing the progress of the business plans we may increase our stake to take major take over the management together with Toppan Printing.

・Already with the CP Group that we have various transactions referring to various types of food packaging materials but with this investment it was qualitatively and quantitatively and will be able to expand our production capabilities, thus as a CP group Seven-eleven stores in Thailand or the demand coming from the overseas destination markets, so we will make sure that we will carry out our business activities broadly but carefully.

Furthermore
・With our intention of tricking down this business alliance into the actual working level, and we have commenced the personal exchange in order to strengthen relationship over a long period of time, so we have picked out mid-level employees, and having been dispatched since March they have already started to work under this plan. And we are going to have the second round of joint training program in Beijing.

Trading businesses
On the various trading examples with these two groups although not mentioned in today's presentation deck.

Capital and business alliance with CITIC and CP is long term so we would like to make sure that we do not hasten and not to fail. We will scrutinize and promote the prime deals selectively and cautiously.