<u>FY2020 1Q Financial Results Analyst Conference Q&A Summary</u>

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

Date: August 2, 2019 (Fri.) 16:15 to 17:30

Respondents: Tsuyoshi Hachimura, Chief Financial Officer;
Tatsuya Izumi, General Manager, General Accounting Control Division

1. Results for the 1st Quarter of FY2020 and Forecasts for Full-Year Results (P/L related)

Q: Please tell us how the worsening macro economy will impact ITOCHU's results, especially in the non-resource sector in the second quarter and onward.

A: In formulating our short-term plan for fiscal 2020, we expected the macroeconomic environment to be rather challenging. However, each group company did a little better than expected, which, together, led to our favorable first quarter results. Yet, economic uncertainty is growing, and forecasting conditions is only growing more difficult. For example, something as sudden as the U.S. president's comments about increasing tariffs on Chinese goods can cause stock prices and resource prices to fall, triggering appreciation of the yen. While such concerns about the external environment remain, ITOCHU is practicing commitment-based management and entered the fiscal year with a ¥30.0 billion buffer built into the plan. As our track record shows, even if one business does poorly, we are often able to make up the difference somewhere else. Based on this approach, we are aiming to reach the plan for consolidated net profit of ¥500.0 billion.

There are a number of group companies where we expected improved results and profit growth this year. Of these, the progress of YANASE and Dole has been a little slow so far. YANASE has shrunk its losses compared with the same period last year, but the supply of highly profitably new automobile models remains tight. At present, the full-year forecast of recovery for YANASE is unchanged. However, in the first quarter, the total number of cars we exported was down 4% year on year, and the environment of the automotive industry is not entirely favorable. We will continue to take particular care in this area, including our business in Panama and the dealer business in Columbia. Dole saw a ¥1.1 billion year-on-year drop in profit, reflecting the particular difficulties of agriculture-related businesses. Specifically, the reduction in profit in the Asian fresh produce business was due in large part to decreased production of bananas and pineapples as a result of El Niño. Packaged foods businesses have also seen worsening profitability due to rising costs. Although we are working to cut costs and withdraw from unprofitable production regions, the first quarter results represent a rough start in terms of the goal of continuously achieving annual profit at ¥10.0 billion. The forecast for the full year, however, is unchanged, and we intend to take the necessary steps to achieve it.

We regularly monitor the performance of group companies in detail so that we can implement countermeasures before a company's results worsen severely. Using this framework, we will continue to assiduously address negative factors in the macro economy as we work toward our plans for the year.

Q: How should we view ITOCHU's strong first-quarter results vis-à-vis the planned ¥500.0 billion in consolidated net profit for the year? Assuming that core profit remains strong and the impact of

ITOCHU's concentration of profit in the second half of the year and additional one-off-gains come into play, will consolidated net profit increase from the second quarter onward? How certain are you that ITOCHU will exceed the annual forecast?

A: While the first quarter results were strong, given the current business environment, there is too much uncertainty to comment on forecasts for the second quarter onward. As part of our commitment-based management, our initial plan of ¥500.0 billion includes a buffer of ¥30.0 billion, so I understand that the market believes that we are in effect planning for profit of ¥530.0 billion. I also understand the approach of multiplying the first-quarter core profit (approximately ¥117.0 billion) by four and then adding in one-off gains and losses to estimate the full-year result, but, going forward, we may also see increased profit from asset replacements and new investments. At the same time, given the uncertain operating environment, if we take a more pessimistic view, were the group companies where we expect to see increased revenues to instead record declining performance, there could be a need to make up the resulting difference. Furthermore, while we are very confident that we will meet the annual forecast of ¥500.0 billion and are conscious of exceeding it, we have only just announced the first quarter results, so making too strong a statement at this point might cause misunderstanding in the market. As we have explained before, we regard the current medium-term management plan as a period in which to build a firm base of ¥500.0 billion in consolidated net profit from which to aim for further growth. Making sure that we achieve ¥500.0 billion in consolidated net profit for fiscal 2020 is very important to ITOCHU's management, and achieving ¥500.0 billion next year, as well, is also a major target for us. All else being equal, I think that ITOCHU is positioned to meet and exceed the target of ¥500.0 billion, but we will continue management efforts while paying close attention to such potential negative factors as the U.S.-China trade frictions and Brexit.

Q: Of the ¥42.0 billion in one-off gains included in the initial plan for the fiscal year, how much did ITOCHU realize in the first quarter? How much of the ¥30.0 billion buffer have been used?

A: The one-off gains of ¥30.0 billion in the first quarter were almost entirely in line with the ¥42.0 billion built into the initial plan, with minor variations. For example, while we were able to sell certain assets for more than expected, some of the other anticipated sales did not materialize. We have not yet used any of the ¥30.0 billion buffer.

Q: You explained that ITOCHU's distributed business portfolio helped it achieve strong first quarter results in comparison with other general trading companies, but the large portion of the portfolio accounted for by domestic businesses also seems like a significant factor. How much of ITOCHU's consolidated net profit comes from businesses in Japan?

A: About half. The strength of our domestic businesses, mainly in the consumer-related sector, probably insulates us from negative factors in the overseas macro economy. Furthermore, many of our overseas businesses, especially those in the United States, Europe, and China, operate locally and this may also have a similar insulating effect.

Q: The iron ore business contributed significantly to the first quarter results. What were the reasons for the increases in profit in the IMEA iron ore business and at Brazil Japan Iron Ore Corporation, and what is your forecast for them going forward?

A: The main factor behind the increased profit in the IMEA iron ore business was an increase in iron ore prices. Iron ore prices increased by about half, from USD$65 per ton in the first quarter last year to

US$98 per ton this year. While iron ore production is going well in Australia, recovery at Vale will apparently take more time. Meanwhile, there are many uncertain factors going forward, such as the recent remarks of the U.S. president, which have caused spot prices to drop, and whether China will maintain its current level of consumption. As such, ITOCHU expects that, going forward, iron ore prices will fall, rather than remain high. If current prices were to continue, however, the outlook for the Metals & Minerals Company would be bullish.

The increase in profit at Brazil Japan Iron Ore Corporation was due in significant part to the early payment of dividends for the first quarter of the current fiscal year, in addition to those for fiscal 2019. The timing of dividends in the second quarter and onward is uncertain, and it is possible that they may not be paid until fiscal 2021.

Q: Meat markets have been destabilized by African swine fever and other factors. How does this impacted ITOCHU's meat-related businesses?

A: While CPP's first-quarter results were favorable, it has issued a negative profit warning in light of the drop in pork prices in the second quarter and may see profit fall. HyLife posted a ¥0.1 billion year-on-year increase in profit, but may be impacted by the halt of exports from Canada to China. However, HyLife's exports to China comprise mainly the organs, head, and other relatively minor parts, so we do not expect any impact to be large. Although African swine fever in China has caused prices to rise, it is difficult to say exactly what impact it will have on meat-related businesses as a whole going forward. The performance of Prima Meat Packers has been flat year on year, but the profitability of certain products is declining due to cheap sales by competitors, and the company may face challenging conditions in the second half of the fiscal year.

Q: While conditions in the convenience store industry were challenging, FamilyMart UNY's first quarter results were strong. What is your forecast for the rest of the year? Also, please tell us your thoughts on the company's share price, which is about 20% below the price of ITOCHU's takeover bid.

A: The drop in the share price of FamilyMart UNY has occurred rapidly over the past week. However, while the takeover bid price was ¥11,000 per share, after excluding the premium, we recognized the actual book value at around ¥9,500 per share, and, following the 4:1 share split, the company's share price is still not far from one quarter of this. As such, it is not at a level where we are worried about impairment. Currently, in the BtoC convenience store industry, problems related to food waste and the burden of 24-hour operations are receiving major coverage in the media, bringing outsized attention to negative factors. However, we believe that the convenience store business will serve as a platform in the digitized retail sector of the future, leading to wide-ranging business development. Furthermore, if FamilyMart UNY itself can produce additional value in such areas as overseas business and finance, there may be even more room for growth. I suppose the recent share price decrease reflects the market's judgment, but ITOCHU's expectations for the future profitability of FamilyMart UNY have not changed. Having established The 8th Company, we are charting a growth strategy centered on the consumer-related sector, and still position FamilyMart UNY as a core business.

Q: Why did ETEL see increased profit in the first quarter, and what is your forecast for it going forward?

A: The conditions of ETEL's retail and wholesale operations are distinct. While retail has been strong, wholesale has been slower to grow than expected. In retail, despite the entry of unbranded competing tires, e-commerce sales have been firm. In addition, total services other than no-frills sales and tire installation have been strong, contributing to greater profit. The wholesale business struggled with intensifying competition, but ETEL's performance was firm overall. In addition, Brexit has not had a negative impact, and the retail market within the UK has been steady.

Q: When do you expect prices in the pulp market to bottom out?

A: Hardwood pulp prices, for example, fell more than 10% year on year, and while Brazil's largest suppliers are apparently taking aggressive steps to increase sales, it is difficult to say at present when prices will turn around.

Q: In the second quarter of fiscal 2019, ITOCHU recorded impairment of approximately ¥140 billion on its investment in CITIC Limited, and CITIC's share price is now about 10% lower than it was then. Is there a possibility of further impairment based on share price, even if CITIC's operating performance is strong?

A: CITIC Limited's falling share price, despite its favorable performance mainly in the financial field, may seem similar to what happened a year ago. However, as we explained when we recorded the impairment then, the decision to record impairment is not based solely on share price, but on a comprehensive consideration of various factors, including the likelihood of recovering our investment and results forecasts. In the first quarter, we adequately assessed CITIC for signs of impairment and found none at present. Share prices are deemed a sign of impairment when they decrease a certain amount and that decrease lasts for a certain period of time, so we will have to continue to monitor the situation. It has not yet been a year since the previous write-down, and there is currently no concern of impairment, on the whole. We are discussing measures that CITIC should take to improve its share price at our management meetings, as well. Going forward, we will continue efforts to work with CITIC and the Chinese government.

2. Shareholder Returns, Cash Flows and Investments

Q. The repurchase of treasury stock announced on June 12 will, when executed, complete the repurchase of 100 million shares targeted in the Medium- to Long-Term Shareholder Returns Policy announced on October 1, 2018. What will be your approach to shareholder returns after that?

A: The recently announced buyback has just begun, and we will carry it out over the coming year (until June 11, 2020) while maintaining a balance with rising EPS due to earnings growth. As for our policy after that, we still have a year and three quarters left in the current medium-term management plan, so please understand that we will seek to meet market expectations for shareholder returns while balancing growth investments, shareholder returns, and interest-bearing debt control.

Q: What led to the decision to implement this share repurchase? Was it because you were confident that you would exceed the forecast of more than ¥580 billion in core operating cash flows for the year? Please tell us about the timing and reasoning of the decision to implement share buybacks, including such implications for the future.

A: As we were considering cash allocation, we felt that we were making good progress toward the annual plan of more than ¥580 billion in core operating cash flows. In line with our management policy of aggressively investing in promising projects, we move ahead of schedule with our investment pipeline, but at the same time, shareholder returns are always an important priority. Seeking to complete the repurchase of 100 million shares targeted in the Medium- to Long-Term Shareholder Returns Policy as quickly as possible, we determined that, if carried it out over a whole year, we could execute up to ¥70.0 billion in repurchases. Part of the reason for this decision was that our top management seeks to quickly meet the commitment that we announced. Although no repurchases were executed in June or July, the repurchase period has just begun, and we will advance flexibly by June of the coming year while considering share price and other factors, leaving the specific timing to the discretion of the securities company to thoroughly manage insider trading risks. We have reached 65% of the target of 100 million shares, and I think the policy for after June 2020 will be developed as part of our short-term plan for the coming fiscal year and/or the new medium-term management plan that will start from fiscal 2022.

Q: In the first quarter, ITOCHU exited investments totaling around ¥60.0 billion. Do you plan to advance asset replacement at the same pace in the second quarter and onward?

A: In the first quarter, we moved forward with asset replacements in the overseas businesses of the General Products & Realty Company as well as the domestic businesses of the ICT & Financial Business Company, with exits proceeding a little faster than investment. We also exited a considerable amount of investments in the previous fiscal year. While we are not yet certain if exits will come to the same level this year, we do not expect exits to remain steady at around ¥60.0 billion each quarter. Our policy will be to maintain careful control, deciding based on net investment cash flows.

3. The 8th Company

Q: The 8th Company mutually holds interests in subsidiaries and affiliates with other Division Companies, but what kind of changes should we expect going forward? Are you expecting any large investments?

A: We aim to start new projects under the leadership of The 8th Company as quickly as possible. We are not planning any investments that would negatively impact our financial discipline. That said, the 40 or so employees we have assigned to The 8th Company are, indeed, examining new investment opportunities. When we move ahead with investments, we may do so in cooperation with FamilyMart UNY or NIPPON ACCESS which are our business platforms, or with our partner CITIC and CP.