



# Macro Environmental PEST Analysis

The management environment surrounding ITOCHU is changing at a constantly accelerating pace. We are conducting PEST analysis to understand the inherent macro environmental risks and opportunities that we will face during the period of our new medium-term management plan, “Brand-new Deal 2020,” and are building a competitive edge by adapting to macro environmental changes.

 <b>P (Political / Legal)</b> Business development when factors that directly inhibit or raise the uncertainty of sustainable growth in the global economy are present.		
Risks		Opportunities
	<b>Political Trends</b>	
Disorder in the United Kingdom and destabilization of financial market	Brexit and Anti-EU Movements	Increased investment in the European continent and supply chain revisions
Coercive political management	Elections (US Mid-Term Elections and the Liberal Democratic Party's Presidential Election in Japan)	Economic stimulus
Economic stagnation due to terrorism and disorder in financial markets	Geopolitical Risks	Upward pressure on crude oil prices due to instability in the Middle East
	<b>Regulatory Changes</b>	
Trade volume decrease	Rising Protectionism (Trade Conflict between the US and China and Reexamination of NAFTA, etc.)	Supply chain revisions
Supply chain revisions	Conclusion of Trade Agreements (Japan-EU Economic Partnership Agreement, TPP11, RCEP, etc.)	Trade volume expansion
Existing energy market shrinkage (coal and crude oil)	Greenhouse Gas Containment Regulations (Paris Agreement, etc.)	New energy market expansion (wind power, solar power, etc.)
Cash flow deterioration in some companies	Chinese Financial Reforms (Strengthening of Shadow Banking Regulations, etc.)	Increasingly transparent market risks
Contracted business in conventional vehicle fields	Conversion to New-Energy Vehicles in China and Europe	Expanded business in related industries
	<b>Tax System Revisions</b>	
Supply chain revisions	International Tax Trends (Lowering of Corporate Taxes, Tax Avoidance Countermeasures)	Improved corporate performance and optimized taxation
Economic stagnation after tax increase	Japanese Consumption Tax Hike	Last-minute demand before tax increase

 <b>E (Economic)</b> Identify impact of maintaining comparatively high growth in the overall global economy due to synergy between expanding advanced economies and recovering emerging economies		
Risks		Opportunities
Rising interest rates connected to financial policy normalization and inhibited growth in Japan due to human resource shortages	<b>Sustained Expansion in Advanced Economies</b>	Expanded business opportunities and trade volume
Destabilization of some emerging currencies affected by rising interest rates in developed countries	<b>Exchange Rate Destabilization</b>	
Inflation and economic downturns due to overheating	<b>Recovery and Accelerated Growth in Emerging Economies</b>	Increased demand for consumer goods connected with improved living standards; expansion in demand for infrastructure and food accompanying population increases; higher prices for resources such as iron ore, coal, and crude oil
Emergence and collapse of asset bubbles	<b>Asset Price Increases (Stocks, Real Estate)</b>	Higher fund-raising capacity due to increased value of own portfolio assets
Steep rises in project prices and sizes	<b>Intensified Investment</b>	Increase in the number of investment projects



## S (Social / Cultural)

Transmitting our "sampo yoshi" philosophy to future generations and reconstructing business while response to social issues with an awareness of ESG points of view remains indispensable

Risks		Opportunities
Decreased fossil fuel demand and business damage due to increasingly abnormal weather	<b>Address Climate Change (Contribute to Realization of Low-Carbon Society)</b>	Increased business opportunity in renewable energy and other fields and customer retention; acquisition due to strengthened supply systems
Labor shortages and personnel losses, harassment and long working hours, and increases in health-related costs	<b>Cultivate a Motivating Workplace Environment</b>	Improved labor productivity, improved health and motivation, and securing of excellent human resources
Project delay and continuity risks due to human rights issues and compliance violations and data leaks	<b>Respect Human Rights and Ensure Compliance</b>	Business stabilization and recruitment through harmonious coexistence with regional communities; construction of a safe and secure product supply system
Decrease in trustworthiness when safety and health issues occur; destabilization of markets and the social security system	<b>Contribute to Healthier and More Enriched Lifestyles</b>	Increased demand for food safety and security; health promotion; expansion of personal consumption and information, financial and distribution services
Occurrence of environmental issues and protest campaigns; industry-wide structural exhaustion as competition drives down prices	<b>Ensure Stable Procurement and Supply</b>	Increased demand for resources in emerging nations; environment-friendly and stable supply of resources and raw materials



## T (Technological)

Creation and evolution in business by adopting new technologies as rapid technological innovations occur and values and living environments change

Risks		Opportunities
Obsolescence and extinction of existing business models that accompanies rise of new technologies such as AI and IoT; leaks of internal data and other threats due to malware (malicious software)	<b>Progress in IT, Leading-Edge Technologies and Infrastructure Development</b>	
	<b>Reinvented Business through Technological Innovation</b>	Improvement of value across the consumer sector's value chain <ul style="list-style-type: none"> <li>• Optimization of value chain from production to sales</li> <li>• Smart distribution systems</li> <li>• Satisfying customer experiences and development of new retail proposals</li> </ul> Evolution of business models utilizing new technologies <ul style="list-style-type: none"> <li>• Optimal energy use and supply</li> <li>• Next-generation mobility society and shift from ownership to use</li> <li>• Improvement of management productivity through new technologies</li> </ul>

# “Brand-new Deal 2017” (FYE 2016–2018) General Review

## Brand-new Deal 2012

(FYE 2012–2013)

— Establish an infrastructure to show “individual capabilities”

## Brand-new Deal 2014

(FYE 2014–2015)

— Enhance earning power by overweighting

### Basic Policies

Strengthen Our Financial Position	Accelerate Asset Replacement	<ul style="list-style-type: none"> <li>Continue asset replacement and rigorous investment selection to further improve quality and efficiency of assets</li> <li>Maintain positive free cash flow after dividend payout by strengthening cash generation capacity and adhering to stringent investment disciplines</li> <li>Thoroughly implement management control to front lines with focus on cost of capital and cash flow management</li> </ul>
	Stringent Cash Flow Management	
Build Solid Earnings Base to Generate ¥400.0 Billion Level Consolidated Net Profit	Enhance Progress Cooperation with Strategic Partners	<ul style="list-style-type: none"> <li>Establish operating capabilities and business areas in China and the Asian region utilizing the strategic alliance with CITIC and CP Group</li> <li>Further strengthen our earnings base utilizing the superiority and competitive edge in the non-resource sector</li> <li>Expand the core profit by thoroughly applying the “Earn,” “Cut,” and “Prevent” principles</li> </ul>
	Further Reinforcement of the Non-Resource Sector	

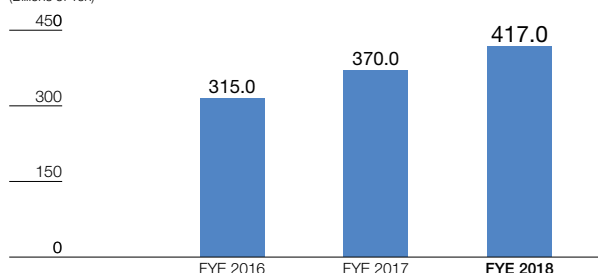
### Profits

- Recorded the highest consolidated net profit among general trading companies for the first time in FYE 2016 and achieved record-high profit in FYE 2017 and then again in FYE 2018, when profit exceeded ¥400.0 billion for the first time, by rigorously implementing “Earn, Cut, Prevent” principles
- Established an earnings base that is resilient to changes in resource prices and became the No. 1 general trading company in the non-resource sector
- Enhanced existing businesses to bring 91% of Group companies reporting profits

Billions of Yen	FYE 2016	FYE 2017	FYE 2018
Consolidated net profit	240.4	352.2	400.3
Gross trading profit	1,069.7	1,093.5	1,210.4
Selling, general and administrative expenses	(835.5)	(801.8)	(890.3)
Equity in earnings of associates and joint ventures	147.7	185.2	216.2
Income tax expense	(46.4)	(125.3)	(106.1)

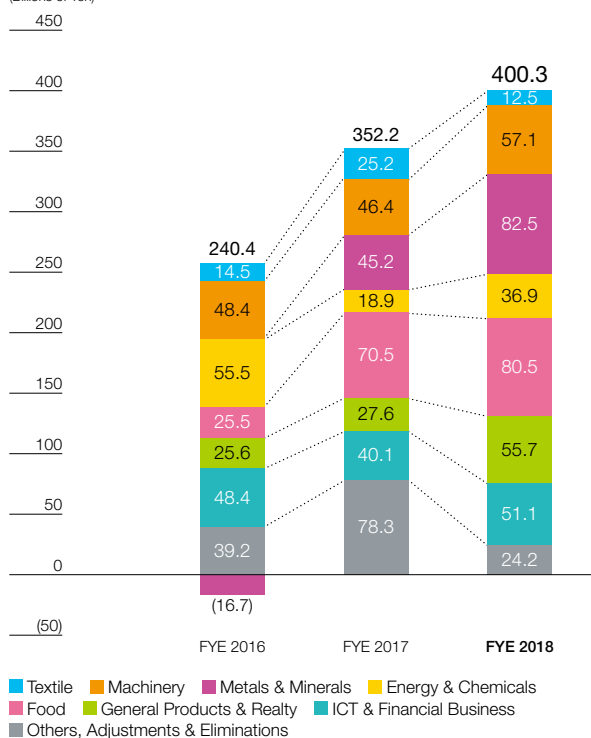
### Core Profit

(Billions of Yen)



### Consolidated Net Profit (Loss) by Operating Segment

(Billions of Yen)



## Brand-new Deal 2017

(FYE 2016–2018)

— Set strategic steppingstones to the Chinese and other Asian markets

### B/S, Cash Flows, and Investments

- ▶ Further improved already industry-leading ROE (15.8% in FYE 2018) while increasing total shareholders' equity
- ▶ Accomplished financial position targets earlier than projected, have achieved core free cash flows of more than ¥100.0 billion for three consecutive years, and was awarded credit ratings of A or higher from all rating agencies
- ▶ Practiced strict management to control new investment within the scope of core operating cash flows and investment inflows

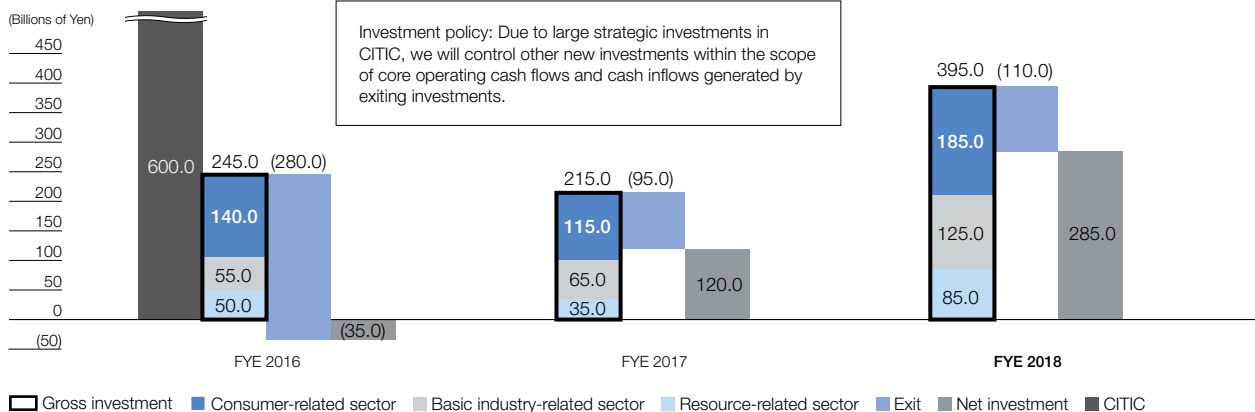
Billions of Yen	March 31, 2016	March 31, 2017	March 31, 2018
Total assets	8,036.4	8,122.0	8,663.9
Net interest-bearing debt	2,555.6	2,330.7	2,320.4
Total shareholders' equity	2,193.7	2,401.9	2,669.5
NET DER (times)	1.17	0.97	0.87
ROE	10.4%	15.3%	15.8%

Billions of Yen	FYE 2016	FYE 2017	FYE 2018
Core operating cash flows*1	375.0	420.0	460.0
Net investment cash flows*2	35.0	(120.0)	(285.0)
Core free cash flows	410.0	300.0	175.0

\*1 "Operating cash flows" minus "increase/decrease of working capital"

\*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. Excludes investment in CITIC

### Investments



**Investment in CITIC:** Following the investment, CITIC has performed favorably in each term, taking in profits exceeding ¥60.0 billion on an annual basis. On the other hand, despite the fact that the investment in CITIC was made in anticipation of medium- to long-term expansion, we acknowledge that progress in synergy projects has been slower than initial projections. We will continue to refrain from hastily demanding results, but carefully identifying projects that contribute to mutual increase in corporate value and steadily identifying that value. Additionally, we are aware that CITIC's sluggish stock prices are in need of continued attention.

### Stock Price and Shareholder Returns

- ▶ Renewed a record-high stock price and market capitalization reached ¥3.0 trillion, the highest ever
- ▶ Maintained performance-linked progressive dividend policy and set the highest minimum dividend guarantee ever of ¥70 per share in FYE 2018
- ▶ Conducted flexible share buybacks to enhance shareholder returns

### Work-Style Reforms and Corporate Governance

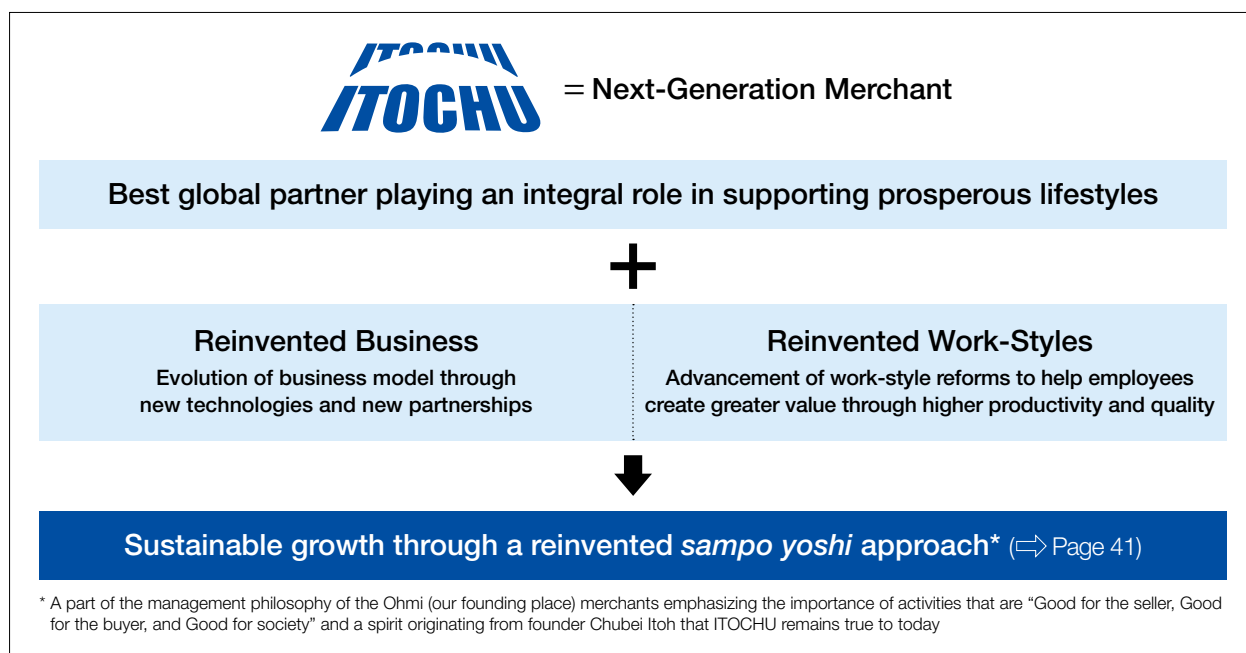
- ▶ Accelerated work-style reforms by improving productivity and placing emphasis on customers through implementing morning-focused working systems, policies related to health management, and living with cancer. Redesigned and executed compensation policies to reward performance
- ▶ Raised ratio of outside directors to above 1/3 and transitioned to monitoring-focused Board of Directors' structure to strengthen corporate governance

# New Medium-Term Management Plan

**Brand-new Deal 2020** (FYE 2019–2021)  
 — ITOCHU : Infinite Missions : Innovation

## Vision

We will upgrade ourselves through “Reinvented Business” and “Reinvented Work-Styles,” and achieve ongoing sustainable increase in corporate value through a “reinvented *sampo yoshi*.”



## Basic Policies

We will combine our abundant superior assets with new technologies and new business models to build modern business models and expand earnings. We will also pursue management efficiency and health management.



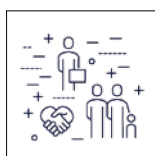
### Reinvented Business (⇒ Page 51)

- ▣ Evolve business model by utilizing new technologies at all division companies
- ▣ Improve value across Group value chain centered on FamilyMart UNY Holdings
- ▣ Accelerate creation of new businesses in China and other parts of Asia by actively engaging in alliances with strategic partners



### Smart Management (⇒ Pages 42, 58)

- ▣ Become an industry leader in terms of management efficiency indicators such as ROE and labor productivity
- ▣ Further advance work-style reforms and efficiency



### No. 1 Health Management Company (⇒ Page 58)

- ▣ Ensure employees feel motivated and rewarded in their work and become the best company for employees’ families as well
- ▣ Improve the health of all employees and energize the entire Group

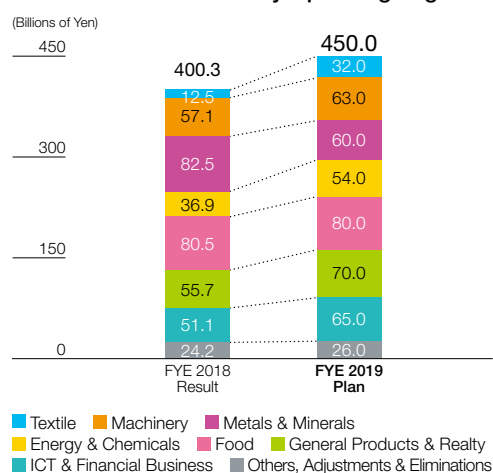
## Quantitative Targets for FYE 2019

- ▣ Project consistent growth in core profit and target record-breaking consolidated net profit of ¥450.0 billion
- ▣ Continue financial strategy for conducting disciplined growth investments and maintaining high capital efficiency  
(⇒ Page 42 CFO Interview)

Billions of Yen	FYE 2018 Result	FYE 2019 Plan	Increase/Decrease
Consolidated net profit	400.3	450.0	+ 49.7
Gross trading profit	1,210.4	1,593.0	+ 382.6
Trading income	316.9	377.0	+ 60.1
Equity in earnings of associates and joint ventures	216.2	214.0	(2.2)

Billions of Yen	March 31, 2018 Result	March 31, 2019 Plan	Increase/Decrease
Total assets	8,663.9	10,600.0	+ 1,936.1
Net interest-bearing debt	2,320.4	2,450.0	+ 129.6
Total shareholders' equity	2,669.5	3,000.0	+ 330.5
NET DER (times)	0.87	0.82	Improve 0.05 pt.
ROE	15.8%	15.9%	Increase 0.1 pt.

## Consolidated Net Profit by Operating Segment



## Investment Policy

We will continue our policy of disciplined growth investment cognizant of cash flows while conducting active investment aimed at "Reinvented Business."

Reinvent business through investment in new and next-generation technologies

Conduct continuous and disciplined growth investments while considering cash flows



Consistently maintain positive core free cash flows after deducting shareholder returns\*

\* "Core operating cash flows" minus "Net investment cash flows" minus "Dividends and share buybacks"

Billions of Yen	FYE 2016 Result	FYE 2017 Result	FYE 2018 Result	FYE 2019 Image
Core operating cash flows	375.0	420.0	460.0	Approx. 500.0
Net investment cash flows	35.0	(120.0)	(285.0)	
Core free cash flows	410.0	300.0	175.0	More than 120.0
Dividends	(75.0)	(83.0)	(93.0)	Approx. (120.0)
Share buybacks	—	(16.0)	(28.0)	Conduct flexibly
Core free cash flows after deducting shareholder returns	335.0	201.0	54.0	Maintain positive

## New Medium-Term Management Plan

**Brand-new Deal 2020** (FYE 2019–2021)

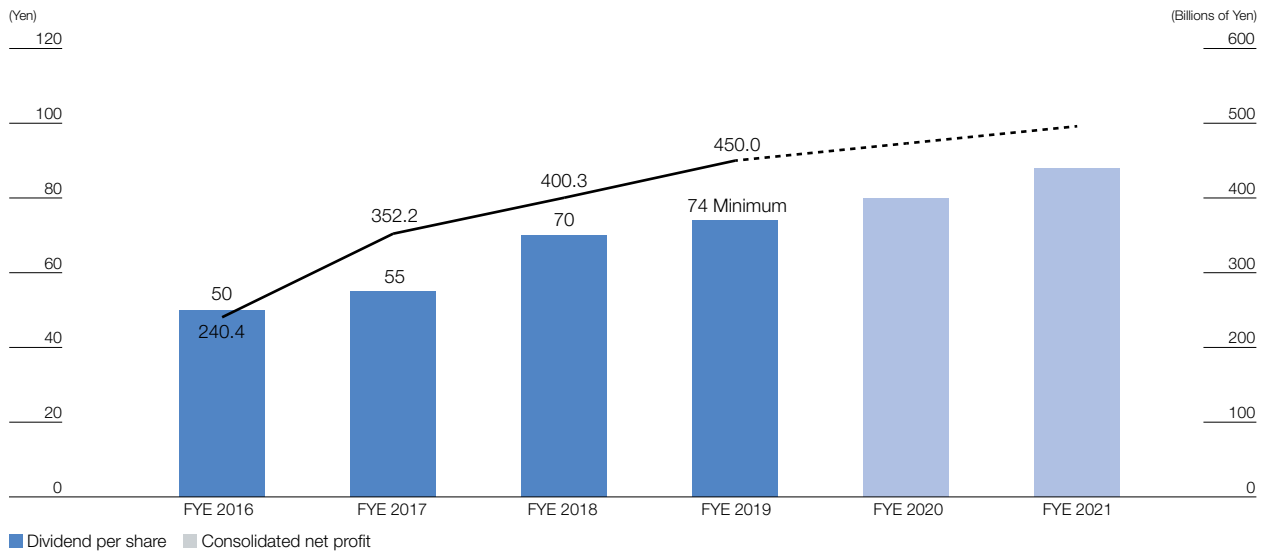
— ITOCHU : Infinite Missions : Innovation

## Shareholder Returns Policy

Continue applying the current performance-linked and progressive dividend policy\*; set minimum dividend of ¥74 per share for FYE 2019 and target record-breaking dividend levels each year as the dividend policy of "Brand-new Deal 2020" while adopting a flexible stance toward share buybacks based on factors including the Company's stock price and cash flows to enhance shareholder returns.

\* Target a dividend payout ratio of approx. 20% on consolidated net profit up to ¥200.0 billion and a dividend payout ratio of approx. 30% on the portion of consolidated net profit exceeding ¥200.0 billion

## Dividend per Share



## Assumptions for FYE 2019 Plan

	FYE 2017 Result	FYE 2018 Result	FYE 2019 Plan	(Reference) Sensitivities on consolidated net profit for FYE 2019
Exchange rate (YEN / US\$) average	108.37	111.30	105	Approx. ¥(2.3) billion (1 yen appreciation against US\$)
Exchange rate (YEN / US\$) closing	112.19	106.24	105	—
Interest JPY TIBOR 3M	0.061%	0.062%	0.10%	Approx. ¥(4.0) billion (1% increase)
Crude oil (Brent) (US\$/BBL)	49.88	57.85	55	±¥0.40 billion
Iron ore (CFR China) (US\$/ton)	66*	68*	N.A**	±¥1.27 billion
Hard coking coal (FOB Australia) (US\$/ton)	165*	204*	N.A**	±¥0.35 billion
Thermal coal (FOB Australia) (US\$/ton)	74*	94*	N.A**	

(The above effect varies according to changes in sales volume, foreign exchange rates, and production costs.)

\* FYE 2017 and FYE 2018 prices for iron ore, hard coking coal, and thermal coal are prices that ITOCHU regards as general transaction prices based on the market.

\*\* The prices for iron ore, hard coking coal, and thermal coal used in the FYE 2019 Plan are assumed in consideration for general transaction prices based on the market. The figures are not presented since the actual sales prices are decided based on negotiations with each customer, ore type and coal type.

## Roadmap toward Sustainable Increases in Corporate Value

We will achieve sustainable increases in corporate value by “Reinvented Business” and “Smart Management,” cognizant of management efficiency and labor productivity. We will also reinvent our “*sampo yoshi*” philosophy and promote ESG management.

