

## Machinery Company

We will enhance our business and deliver the best value to our stakeholders with a focus on strategic investment, continuous improvement, and innovation in the existing business value chain.

### Business Fields

- Plant and Power projects (water and environmental, infrastructure, renewable energy, petro-chemical, and IPP)
- Marine and Aerospace (new vessels, secondhand vessels, ship ownership, commercial aircraft, and aircraft leasing)
- Automobile (sales of passenger cars and commercial vehicles in the domestic and international markets, and business investments)
- Construction machinery, Industrial machinery, and Medical devices (sales and business investments in domestic and international markets)



President, Machinery Company

**Masahiro Imai**

### Company Strengths

- Solid business relationships with excellent partners in each field of operations
- Wide-ranging business development leveraging expertise in investment and trading business
- Diverse businesses in advanced countries and business developments in emerging countries with minimal country risk



From left:

**Hiroshi Sato,**

Chief Operating Officer, Plant Project, Marine & Aerospace Division

**Masato Osugi,**

Chief Operating Officer, Automobile, Construction Machinery & Industrial Machinery Division

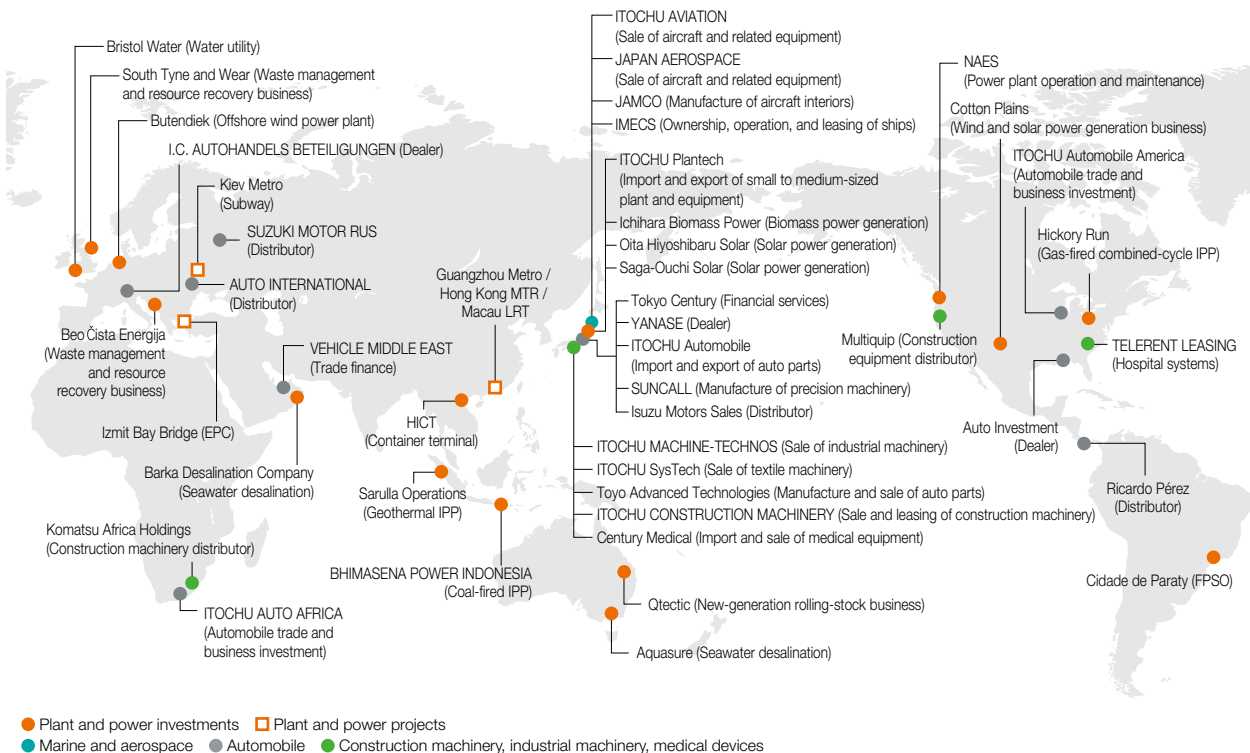
**Satoshi Watanabe,**

Chief Financial Officer

**Hiroshi Ushijima,**

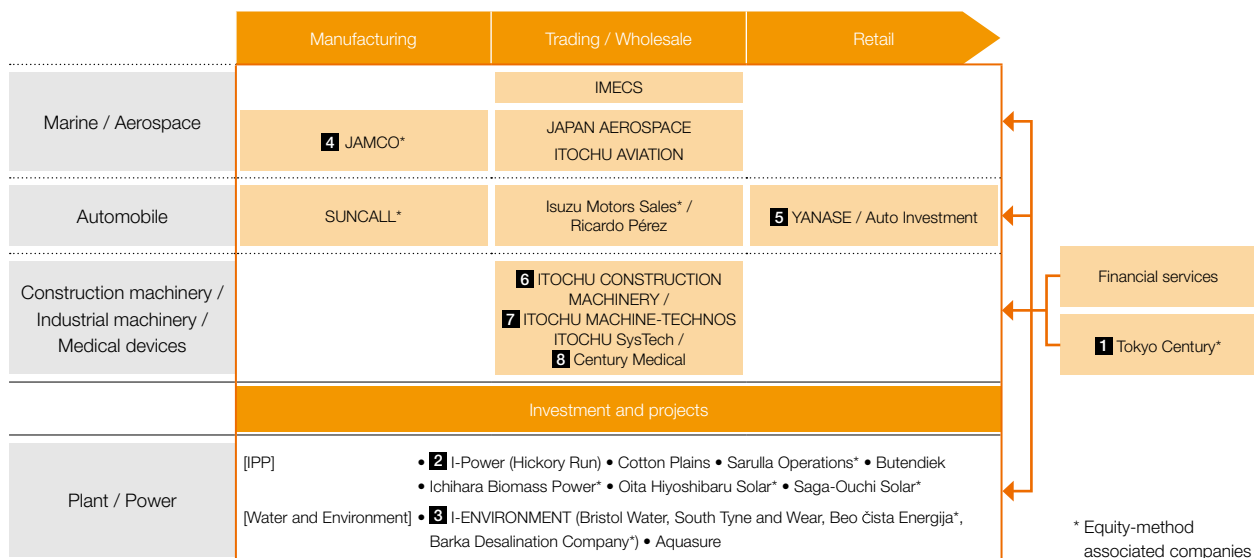
General Manager, Planning & Administration Department

## Business Development

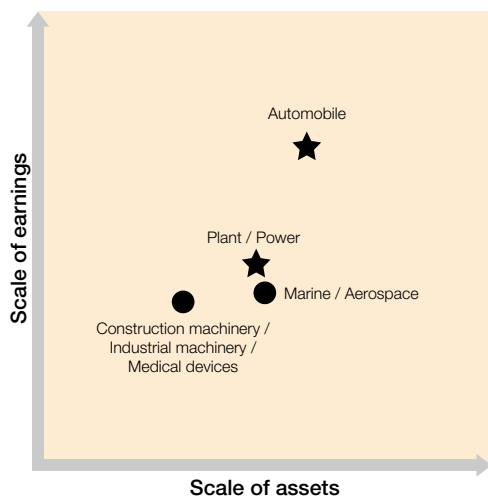


## Major Business Developments in the Value Chain

Note: For more information on official company names that are abbreviated, please refer to the "Performance Trends" section.



## Asset Portfolio and Efficiency



Credit: Boeing

## Performance Trends and Breakdown of Net Profit (Loss) by Major Group Companies

(Billions of Yen)

	2015	2016	2017	2018	2019 (Plan)*1
Consolidated Net Profit (Loss)	54.6	48.4	46.4	57.1	63.0

### Breakdown of Net Profit (Loss) by Major Group Companies

<b>1</b> Tokyo Century Corporation*	9.1	9.6	10.2	12.5	13.0
<b>2</b> I-Power Investment Inc.	2.1	2.1	1.0	5.3	1.9
<b>3</b> I-ENVIRONMENT INVESTMENTS LIMITED	0.9	1.1	0.8	1.9	0.9
<b>4</b> JAMCO Corporation*	1.7	1.5	0.4	0.6	0.6
<b>5</b> YANASE & CO., LTD.	4.8	1.8	2.7	3.7	4.7
<b>6</b> ITOCHU CONSTRUCTION MACHINERY CO., LTD.	0.9	0.8	0.7	0.6	0.6
<b>7</b> ITOCHU MACHINE-TECHNOS CORPORATION	0.5	0.7	1.1	0.8	1.1
<b>8</b> Century Medical, Inc.	1.0	0.3	0.5	0.5	0.6

Total Assets	1,083.6	978.1	989.7	1,218.6	—
ROA (%)	5.4	4.7	4.7	5.2	—
Core Profit	—	55.4	48.9	52.1	—

\*1 "2019 (Plan)" indicates figures announced on May 2, 2018.

\*2 Asterisks indicate equity-method associated companies



## Review of “Brand-new Deal 2017”

In the IPP field, we increased assets in developed countries, including investment in a wind and solar development project in Texas, US. We also promoted development projects in emerging countries such as Indonesia, where the Sarulla Geothermal IPP project began commercial operations.

In the water and environment fields, we proceeded with ESG investments, participating in the largest seawater desalination project in Oman and taking part in a waste management and resource recovery project in the Republic of Serbia, the nation’s first major public–private partnership (PPP).

Aiming to expand advantageous trade and strengthen our value chain business in the automobile field, we acquired additional shares in YANASE & CO., LTD. to convert it into a

consolidated subsidiary and also participated in Toyota and Lexus distribution and dealership in Panama.

We also reached an agreement with CITIC Pacific, a wholly owned subsidiary of CITIC Limited, as a strategic business partner to facilitate the renewable energy business. Including the acquisition of equity interest in Germany’s Butendiek offshore wind power plant, we conducted joint investments and expanded trade business in collaboration with the CITIC Group and the CP Group.

In FYE 2018, the final fiscal year of “Brand-new Deal 2017,” we achieved record-high profit as a result of investment returns and trading earnings growth in domestic and overseas trading.

## Important Steps under “Brand-new Deal 2017”

### Participation in Sales of Toyota and Lexus in Panama

We acquired 70% of the shares and effective control of Ricardo Pérez, S.A., an exclusive distributor for Toyota and Lexus in Panama. Established in 1956, Ricardo Pérez has maintained the top position for many years in the Panamanian market for new cars. We will leverage our experience in automobile dealer management in countries around the world to further expand Ricardo Pérez’s share and raise its corporate value in Panama.

As the automobile industry enters a period of enormous structural shift, we aim to support both development of the country and the evolution of its automobile industry not only managing and expanding the activities of existing distributors but also creating new business models focused on the next-generation mobility business domain, as well as contributing to society and the environment.



Lexus showroom (outside)



Lexus showroom (inside)

**RICARDO PEREZ, S.A.**

## Strategic Direction

### Growth Opportunities

Growing demand for global infrastructure driven by population increase and economic growth in emerging countries



### Strategies (Specific Measures)

Enhancement and replacement of existing assets and new investments mainly in the water and environment, IPP, and automobile fields

Innovations, changes in people's values and living environments



Transformation of existing value chains with a focus on the automobile industry and evolve toward a next-generation mobility business model

Increase in global economic interdependence and growing complexity of business models



Pursuit of synergies and cooperation with strategic partners

### Obstacles to Medium- to Long-Term Growth from an ESG Perspective

Stricter regulation and decrease in demand for coal-fired power generation business due to greenhouse gas emissions



### Responses

Pursue investment opportunities in renewable energy generation, taking into account the energy situations in individual countries and regions

Tighter regulations regarding the sale of automobiles with internal combustion engines due to CO<sub>2</sub> and NO<sub>x</sub> emissions



Increase electric vehicles (EVs), hybrid vehicles (HVs), and environment-friendly vehicles businesses

Poor crop yields caused by water shortage, spread of disease, and harmful effects on ecosystem and human health due to declining water quality and inappropriate waste disposal



Expand water and environment projects to promote the appropriate use and treatment of water and the effective utilization of resources, and reduce the environmental impact

(⇒ Page 64 Sustainability)

## Initiatives for Reducing ESG Risks

### Signed a Waste Management Contract with the City of Belgrade

Together with France-based SUEZ, we signed the public-private partnership (PPP) contract with the city of Belgrade, the Republic of Serbia, for a 25-year waste management and resource recovery project. The project involves building and operating an energy-from-waste facility to treat 340,000 tons of municipal waste annually, equivalent to around 70% of the total municipal waste generated in Belgrade, and generate renewable heat and electricity. The project scope also includes the closure and remediation of the existing landfill, as well as construction and operation of a new leachate-controlled landfill site.

We will contribute to Serbia's environmental conservation by reducing waste volume landfilled and greenhouse gas emissions with the introduction of a proper waste treatment facility.

Please also see the sustainability pages of ITOCHU's website.

<https://www.itochu.co.jp/en/csr/activities/machinery/>



Rendering of Energy-from-Waste facility

### Key Financial (Ubiquitous) Risks

1	Compliance Risks	10	Foreign Exchange Rate Risks
2	Legal Risks (Excluding Compliance Risks)	11	Interest Rate Risks
3	Risks Associated with Trade Security Policy Management	12	Financing Risks
4	Risks Associated with Customs	13	Information System Risks
5	Country Risks	14	Information Security Risks
6	Commodity Price Risks (Specific, Important Product)	15	Labor Management Risks
7	Credit Risks	16	Human Resources Risks
8	Investment Risks	17	Risks Associated with the Appropriateness of Financial Reporting
9	Stock Price Risks	18	Risks Associated with Internal Control



# Business Portfolio and Financial Summary

## Segment Overview

Percentage of the Total for ITOCHU (3-year average)			
Core profit	Total assets	Core operating cash flows	Number of employees (Consolidated)

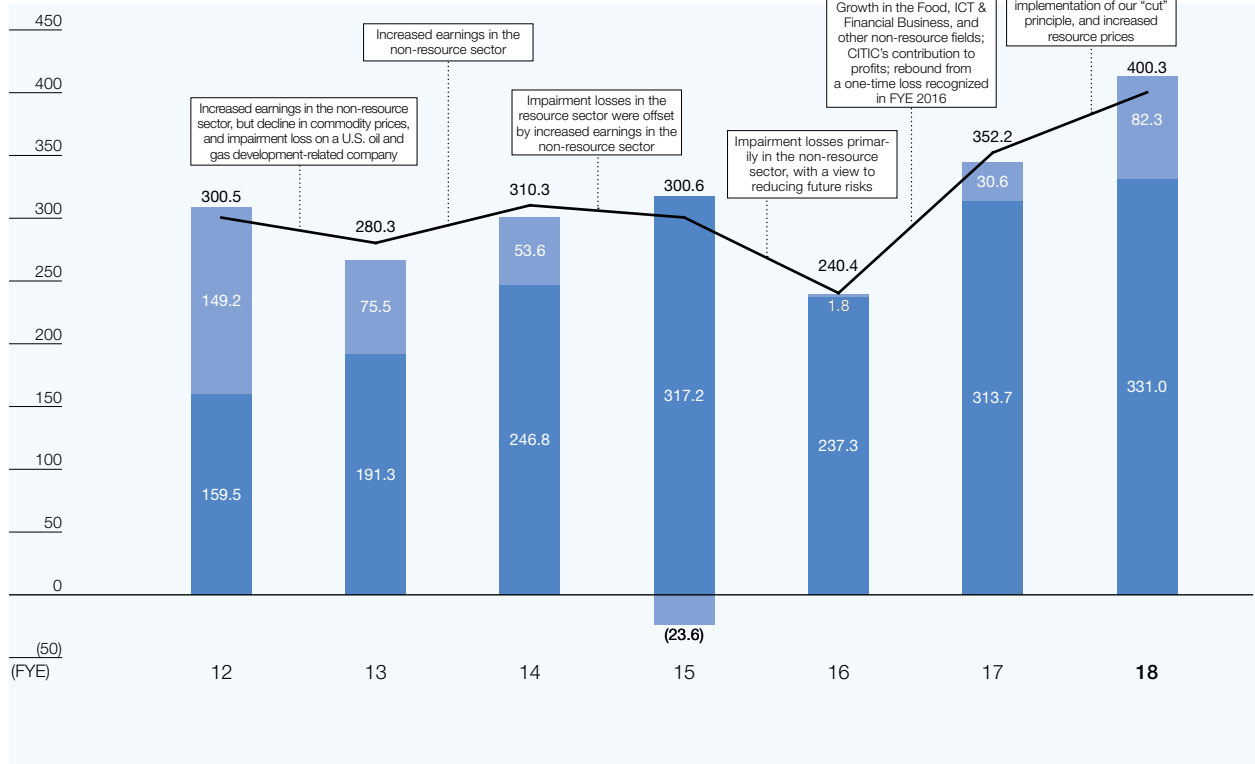


Non-resource	85.8%	88.4%	72.4%	93.3%
Resource	14.2%	11.6%	27.6%	6.7%

\* Based on U.S. GAAP through FYE 2014, IFRS from FYE 2015

### Consolidated Net Profit (Non-Resource / Resource)

(Billions of Yen)

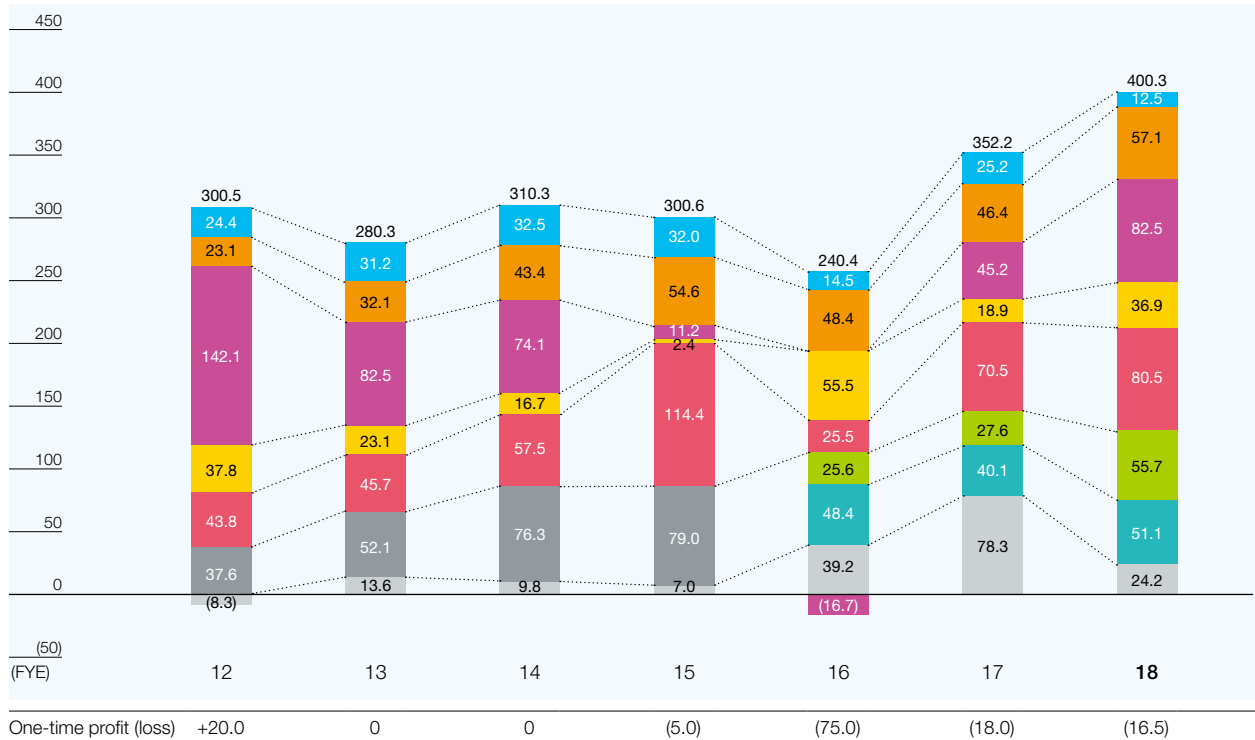


— Consolidated net profit ■ Earnings from the non-resource sector ■ Earnings (loss) from the resource sector

\* Others, Adjustments & Eliminations is not included in earnings from the non-resource / resource sectors.

### Consolidated Net Profit by Operating Segment

(Billions of Yen)



One-time profit (loss) +20.0 0 0 (5.0) (75.0) (18.0) (16.5)

■ Textile ■ Machinery ■ Metals & Minerals ■ Energy & Chemicals ■ Food ■ ICT, General Products & Realty (FYE 2012–2015)  
 ■ General Products & Realty (from FYE 2016) ■ ICT & Financial Business (from FYE 2016) ■ Others, Adjustments & Eliminations

\* In April 2016, the ICT, General Products & Realty Company was reorganized into the General Products & Realty Company and the ICT & Financial Business Company.