FY2017 Results and FY2018 Short-Term Management Plan Presentation: Q&A Summary

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

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Respondents: Masahiro Okafuji, President & Chief Executive Officer; Hitoshi Okamoto, Chief Strategy & Information Officer; Tsuyoshi Hachimura, Chief Financial Officer; Mamoru Seki, General Manager, General Accounting Control Division; Shunsuke Noda, General Manager, Corporate Planning & Administration Division

1. Fiscal 2017 Results and Plan for Fiscal 2018

Q: In fiscal 2018, what factors do you foresee raising base earnings above fiscal 2017's ¥370 billion?

A: In addition to a roughly ¥15 billion increase in base earnings mainly from the Food, General Products & Realty, and ICT & Financial Business companies, we expect ¥35 billion in extraordinary gains and a buffer of -¥20 billion. We have forecast that profit from the resource sector and unfavorable exchange rates will have small negative effects, but I think actual results may be somewhat more positive.

Q: How confident are you that net profit will reach the ¥400 billion level planned for fiscal 2018?

A: We have a track record of reaching our targets, and I am confident that we will attain ¥400 billion. Our base earnings power has been growing, so if we suppress losses that arise during the fiscal year, ¥400 billion in net profit seems quite obtainable.

2. Investment Policy, Free Cash Flows, and Shareholder Returns

Q: ITOCHU's investment in fiscal 2017 was restrained. What is your approach to investment going forward?

A: Investments focused on shoring up areas of weakness often fail. Investments in areas that are strong to begin with, however, are more resilient and manageable, even in the face of difficulty. When investing, we concentrate first on targets that align with our long-term strategy, prioritizing low-risk, high-profitability opportunities, such as additional investment in existing successful businesses. In addition, we also seek to make carefully selected investments based on solid long-term strategy. We did not invest so much during fiscal 2016 or 2017, but I think we will probably see a somewhat higher level in fiscal 2018.

Q: In both fiscal 2016 and 2017, ITOCHU's annual gross investment was somewhat over ¥200 billion. Do you think this level is adequate? And are you able to effectively ensure investment returns?

A: Our general policy is to always invest when good opportunities present themselves; we don't set investment plan. We invest a lot in the consumer-related sector, but we may also invest in the Machinery or ICT & Financial Business fields. While it may be difficult to, for example, acquire a controlling stake and make a company we invest in a subsidiary right off the bat, there are opportunities to steadily increase our holdings in investment targets and thus increase profits. Also, the ¥200 billion in investments in fiscal 2016 and 2017 included things like capex for resource business and investment in fixed assets related to the consumer-related sector—not everything was a brand new investment target. That ¥200 billion also included the acquisition of an additional stake in FamilyMart (FamilyMart UNY Holdings) and the Prima Meat Packers capital increase. I think that investment of this kind contributes amply to earnings.

Q: Given ITOCHU's core operating cash flows of ¥420 billion in fiscal 2017, what is your plan for core operating cash flows in fiscal 2018?

A: We expect core operating cash flows in fiscal 2018 to be more or less the same as in fiscal 2017. Our somewhat conservative estimates of resource prices do lead to a projected decrease, but we expect this to be cancelled out

by the non-resource sector. In addition, cash control is an important policy point under the current medium-term management plan, and, as in fiscal 2017, we will invest very selectively. We are planning for core free cash flows in fiscal 2018 surpassing ¥100 billion. Barring any large-scale investments, however, I think they may end up around ¥200 billion.

Q: In what segments are core operating cash flows growing?

A: We don't disclose such details by segment, but I can tell you that the increase in resource prices has caused significant growth in the Metals & Minerals segment, and the Textile, Food, ICT & Financial Business segments also saw year-on-year gains. However, we recorded year-on-year decreases in General Products & Realty segment due to decreased pulp prices; in Energy sector due to a return to normal from an extraordinary profit in the previous year; and in Machinery segment due to a drop in automobile sales.

Q: What went into the decision announced on May 2 to undertake a ¥30 billion share buyback? Was it related to considerations of the overall shareholder return ratio?

A: Under the current medium-term management plan, our approach has been to put surplus cash first toward paying dividends and then use the remainder to pay down interest-bearing debt. However, in November 2016, we executed a share repurchase, marking a major shift toward considering the possibility of share buybacks as a way of returning surplus cash to shareholders. Following that, ongoing dialog with the market revealed that there were considerable expectations of further share repurchases. We thus felt it important to not stop after just one round, but to continue returning cash to shareholders through repurchases, regardless of the amount, in order to show our intention. The recent buyback was about ¥30 billion. Together with the previous round, this adds up to almost ¥50 billion in share buybacks. The scale of the second repurchase was also calculated to signal our intention to continue this practice into fiscal 2018.

Q: What is your policy for distributing surplus funds as you approach the next medium-term management plan?

A: Shareholder returns are a priority for ITOCHU. However, we think the most important thing is to maintain balance with such factors as credit ratings. As we approach the next medium-term management plan, we are looking at how to balance such considerations as enhancing shareholders' equity, repaying debt, improving the net DER, improving credit ratings, maintaining a high ROE, enhancing shareholder returns and raising the share price. Under the current management plan, we committed to ROE of more than 13%, net DER of 1.0 times, and a minimum dividend guarantee, and we have executed on these commitments. Looking to provide something more in fiscal 2018, the final year of the management plan, we will strive to generate free cash flows not just at the ¥100 billion level, but in excess of that level. Reflecting ITOCHU's tradition of *sampo yoshi* (Good for 3 ways, Good for the Seller, Good for the Buyer, and Good for the Society), we value shareholder returns, and in fiscal 2017 implemented a share repurchase. We hope to maintain this approach going forward. Unlike other trading companies, however, our credit rating from a certain credit rating agency has not been upgraded since 2006. We will therefore also focus on identifying and taking the necessary steps to receive an A rating.

Q: I get the impression that you've already brushed up your existing businesses quite a bit. Is there still room for improvement?

A: In fiscal 2017, 73 of our operating companies posted record high profits. This was the fruit of the business and management improvements we've been advancing, but, yes, there is still room for improvement. At the Special Headquarters Management Committee in April 2017, we formulated and considered lists of the investment targets in which each company could still invest more. We also continue to exit unsuccessful businesses. I think that there is more that we can do by applying these methods.

3. CITIC and CP

Q: What are you discussing at your trilateral meetings with CITIC and CP?

A: We had a meeting in early May in Thailand. In particular, we strongly urged CITIC to quickly implement measures to improve corporate value, including raising dividends. We also discussed concrete details regarding areas where we can generate synergies, to which we are taking a long-term perspective.

Q: Please tell us about your collaboration with CITIC Medical.

A: In fiscal 2018, we are planning to launch the first project. We hope to select a hospital under CITIC Medical and work to improve its management, particularly by introducing new non-clinical services. Although the range of non-clinical services is wide, we have decided to introduce a similar service as we have been implementing at Kobe City Medical Center General Hospital, after CITIC has been observing and studying this private finance initiative. Depending on how this initial project plays out, we hope to roll this service out in Mainland China beginning in fiscal 2019. Concretely, plans call for testing to begin around July, with the actual service launching in September.

4. Others

Q: How did you decide to not just pursue profit growth but consider new business models and modes of operation?

A: ITOCHU's current business framework is not subject to major swings due to fluctuations in resource prices and can steadily produce ¥400 billion in annual net profit. Given that, we feel it necessary to do more than compete in terms of profit with other trading companies; we wish to improve the quality of our growth, improve the ways our employees work and live, and to strive to be a company that our partners are proud to work with. We want to make sure that ITOCHU is worthy of the regard of our employees and all stakeholders.

Q: Please tell us how you judge the progress of the merger of FamilyMart and UNY. CEO previously commented that he would wait to bring in a new CEO for ITOCHU until merger of FamilyMart&Uny and CITIC were on track. What kind of obstacles and prospects do you see now?

A: The merger is going smoothly. However, I think we can still bring in ancillary businesses. These businesses have room for improvement in profitability, so we will continue pushing forward.

Q: European Tyre Enterprises(ETEL), a company engaged in tire-related business in Europe, has posted significant impairment losses two year in a row. Please tell us about the factors behind this and how confident you are that ETEL can live up to your plans for fiscal 2018.

A: There is large balance of goodwill for ETEL, but the company is turning a steady profit. In light of the impact of BREXIT, exchange rates, falling tire sales volumes and other factors, however, we decided to record impairment losses. SG&A expense reductions have been very effective, and ETEL's profits are growing.