

CFO Interview

Further Develop Financial and Capital Strategies and Increase Shareholder Value.

Member of the Board,
Managing Executive Officer, CFO
Tsuyoshi Hachimura



Q Would you review the financial and capital strategies implemented in FYE 2016?

A We adhered to the concept of controlling borrowings and made steady progress in “strengthening our financial position.”

Under the current medium-term management plan, which started in FYE 2016, our basic policies are to build an earnings base to generate ¥400.0 billion in net profit and to strengthen our financial position. In regard to new investments, our policy is to implement investment within the limits of core operating cash flows and cash generated from exits. Under this policy, our framework is to control investment and use the free cash flows that we generate to provide a return to shareholders and to further reduce debt. In FYE 2016, we steadily accumulated operating cash flows and accelerated asset replacement. As a result, core free cash flows, excluding the CITIC investment, was ¥410.0 billion, substantially exceeding the target figure of ¥100.0 billion. Debt increased accompanying the CITIC investment, but that increase was held to a minimal level, and we moved forward with initiatives targeting NET DER of 1.0 times.

Moreover, ITOCHU is highly sensitive to risk, and one of the characteristics of the Company is an emphasis on always taking action quickly. In consideration of the increasingly uncertain global economic environment, we decided that we needed to take steps to control future risk, and in FYE 2016 we implemented impairment processing. This measure affected our shareholders' equity and various ratios, such as NET DER, but the purpose was to address concerns about the future. I believe that calmly focusing on the economic environment, rapidly taking action, and reducing the management burden are elements of the Company's drive to “strengthen our financial position.”

Q Would you discuss key points of financial and capital strategies in FYE 2017?

A We will clarify the four commitments and strive to meet stakeholders' expectations.

As CFO, I have four commitments for financial and capital strategies in FYE 2017.

- (1) Enhancing shareholder return (performance-linked and progressive dividends, with minimum guarantee of ¥55 per share, an increase of ¥5 per share year on year)
- (2) Achieving core free cash flows in excess of ¥100.0 billion
- (3) Working to achieve NET DER of 1.0 times
- (4) Achieving ROE of more than 13%

FYE 2017 will be the second year of the current medium-term management plan, and under the framework for this plan I will continue working to implement the four commitments in FYE 2017.

In addition, one of my most important responsibilities as CFO is to maintain and enhance the Company's credit rating so that we can implement smooth fund-raising from a global viewpoint. Against a background of declines in resource prices, the environment for general trading company credit ratings is becoming increasingly severe, but as the Company advances measures to strengthen its financial position, we will demonstrate the differences between ITOCHU and other companies.