

Q Please discuss the progress and future outlook for “strengthening cash flow management,” which is a focus for the Company.

A Our unshakable fundamental policy is to achieve core free cash flows of more than ¥100.0 billion.

In FYE 2016, operating cash flows exceeded ¥400.0 billion for the third consecutive year. We implemented aggressive asset replacement measures, including the collection of funds through the sale of PrimeSource and the merger of NAMISA. In addition, we rigorously selected new investments. Accordingly, the level of cash generated substantially exceeded our initial targets. I believe that these results demonstrate the steady progress that we have made in expanding our earnings capacity and replacing assets, as well as the extent to which “cash flow management” has reached the level of each employee. In accelerating the CITIC/CP Group alliance strategy, in FYE 2017 we will reach a stage at which we will make a certain level of investment. Nonetheless, our unshakable fundamental policy is to achieve core free cash flows of more than ¥100.0 billion. In addition to adhering to our investment policy, we will also continue to advance the strengthening of cash flow management.

Q What are your thoughts about the cost of shareholders' equity and ROE?

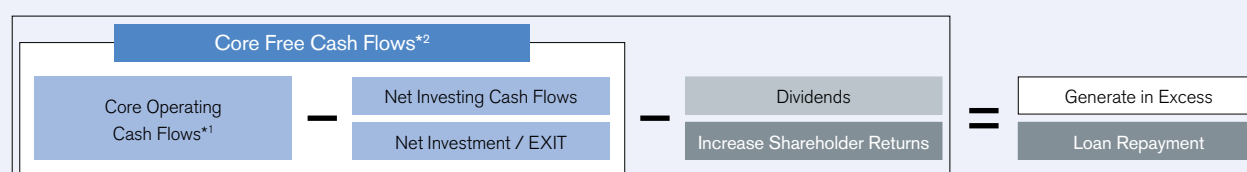
A We will strive to achieve capital efficiency at a level above the cost of shareholders' equity.

Our ROE is No. 1 in the industry, and we have established a dominant position in comparison with other general trading companies. Moving forward, we will not aim to maintain and enhance ROE by reducing shareholders' equity or increasing leverage. There will be no change to our approach of aiming to achieve ROE of more than 13% through growth in profits. There is a clear distinction between ITOCHU and other general trading companies that emphasize resource portfolios. We have established a business portfolio that is centered on the consumer-related sector, where volatility is comparatively low. The cost of shareholders' equity as determined by the market currently contains a certain level of risk premium for general trading companies. However, we will clear this and continue to secure a level of ROE that is overwhelmingly superior to those of other general trading companies.

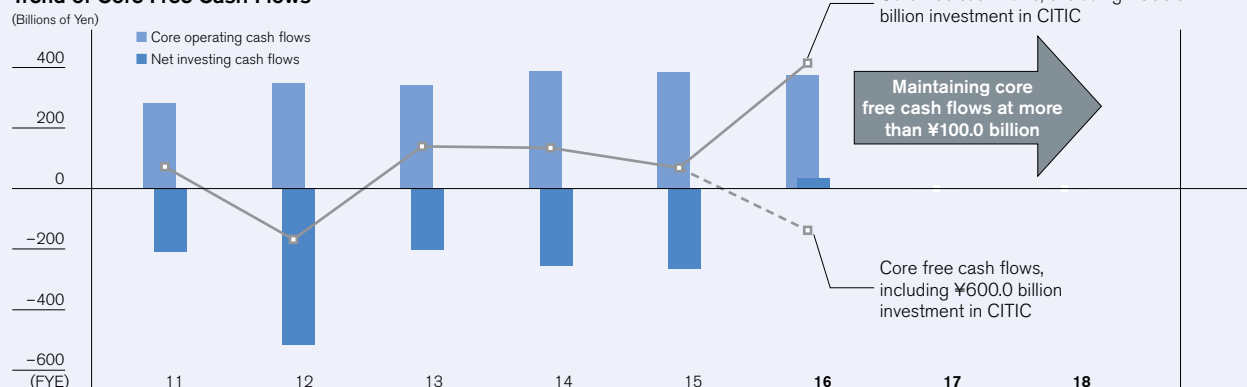
In the future, we will take steps to foster a deeper understanding of our businesses through communication with the markets. We will make progress in reducing the cost of shareholders' equity, and at the same time we will increase shareholder value while paying constant attention to the cost of shareholders' equity.

Stringent Cash Flow Management and Financial Position

We will maintain core free cash flows at more than ¥100.0 billion and allocate it to shareholder returns through dividends and to further repayment of borrowings. Moving forward, we will manage cash flows in a manner that is easier to understand and more clear.



Trend of Core Free Cash Flows



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

*2 Excludes increase/decrease of working capital