Shareholders' Guide "Marubeni"

No.120, Summer 2016

Top Message

Start of the "Global Challenge 2018" Mid-term Management Plan
– Aspiring to be a True Global Company –

I would like to express my sincere gratitude to our shareholders for your continued support.
The following is an overview of the financial results for the fiscal year ended March 31, 2016, announced on May 10, and "Global Challenge 2018," the new Mid-term Management Plan launched in the fiscal year ending March 31, 2017.

Fumiya Kokubu
President & CEO

Overview of Financial Results for the Fiscal Year ended March 31, 2016

Key Points

- Consolidated net profit declined by 43.3 billion yen year on year to 62.3 billion yen, mainly as a result of the recognition of impairment losses accompanying deterioration of resource prices.
- The net debt/equity ratio rose by 0.23 points from the end of the previous fiscal year to 1.95 times because of factors including a decrease in total equity caused by the impact of yen appreciation.
- Free cash flow was a positive 184.5 billion yen as a result of an operating cash flow increase attributable to the optimization of working capital, among other factors.

I will begin with an overview of the business environment during the fiscal year ended March 31, 2016. Although the modest recovery trend in the global economy continued, centered mainly on the U.S., clear indications of slowing of economic growth in China led to further deterioration in resource prices. Plummeting crude oil and copper prices, which have a considerable impact on Marubeni's business results, led to a year of increasingly difficult business conditions.

In this environment, consolidated net profit for the fiscal year ended March 31, 2016 declined by 43.3 billion yen year on year to 62.3 billion yen as a result of the recognition of impairment losses, mainly in resource businesses. Marubeni was unable to achieve the forecast set at the beginning of the fiscal year for a second consecutive year, and I am keenly aware that this is a matter of great concern to our shareholders.

(Ref.) FYE = Fiscal Year Ending/Ended

In light of the adverse business environment, we have made achieving positive free cash flow an important management priority. We were able to achieve positive free cash flow of 184.5 billion yen as the result of undertaking rigorous measures to increase the efficiency of working capital. As a result, net interest-bearing debt decreased by 125.2 billion yen from the end of the previous fiscal year to 2,762.5 billion yen.

Nevertheless, the net debt/equity ratio rose by 0.23 points from the end of the previous fiscal year to 1.95 times because total equity decreased by 263.5 billion yen to 1,415.2 billion yen against a backdrop of yen appreciation and declining stock prices.

Major changes in the global economy have had a negative effect on Marubeni's earnings and balance sheet, and I consider it is important that we duly respond to those changes.

New Mid-term Management Plan “Global Challenge 2018” (FYE 03/2017 – FYE 03/2019) — The Road to 2020

The end of monetary easing in the U.S., resource price stagnation, and other factors have led to significant changes in the external environment. This has resulted in tremendous pressure on Marubeni’s business operations as reflected in worsening financial performance during the period of the previous Mid-term Management Plan.

Marubeni recognizes that it now faces an important turning point. The global macroeconomic growth cycle fueled by monetary easing has come to an end. An era characterized by a heightened sense of uncertainty with many variable factors and high volatility across the board is about to begin.

Our Buisiness Environment

Changes in the External Environment

- End of monetary easing in the U.S., possibility of rising interest rates
- Stagnation in resource prices
- Uncertainty in the Chinese economy, slowing growth in emerging economies
- Renewed economic importance of advanced countries, middle income trap
- Production and service innovations through utilization of IoT and big data
- Progress in the integration of regional economies
- Increase in political and geopolitical risks

- **Change in the growth structure of the global economy has created another turning point for Marubeni. Therefore, a management strategy that is responsive to structural changes in the global economy and a competitive strategy that enables each business to succeed in their respective markets are ever more important.**
- **Marubeni’s competition will not be the other *Sogo Shosha*, but rather the top players in each business field and market we compete in.**

The Marubeni Group’s Road to 2020

What Marubeni must accomplish in these circumstances is thorough reinforcement of overseas functions, overseas operations, and overseas businesses, the starting point of a *Sogo Shosha* (Japanese trading company).

In “Global Challenge 2018” we have articulated a vision for the Marubeni Group in 2020 as **“a true global company that outperforms top players around the world and contributes to both regional economies and society,”** and we aim to develop Marubeni into a company with powerful overseas operations.

By “a true global company,” we mean a corporate group that doesn’t merely engage in business in countries and regions around the world, but also has strong locally rooted business foundations and operating bases. It is a group that exerts a presence as a powerful local player.

To accomplish this, we have adopted the slogan “Combining all our individual strengths to create a more powerful Marubeni Group.” The Marubeni Group already has a number of businesses that are individual strengths, such as the overseas IPP (independent power producer), agricultural materials, grain trading, and transportation machinery businesses. Our policy is to build a greater number of strong businesses that can prevail in global competition.

Quantitative Targets (2016-2018)

Consolidated Net Profit
2018 (FYE 3/2019) **¥250.0 billion**
(Non-Natural Resources ¥230.0 billion or more)

Free Cash Flow (after dividends)
Cumulative total for 2016-2018 (FYE 3/2017– FYE 3/2019)
Positive free cash flow
(⇒ Approximately 1.3 times the net D/E ratio as of March 31, 2019)

ROE
10% or more

New Investments
2016-2018 (FYE 3/2017– FYE 3/2019) **¥1 trillion**

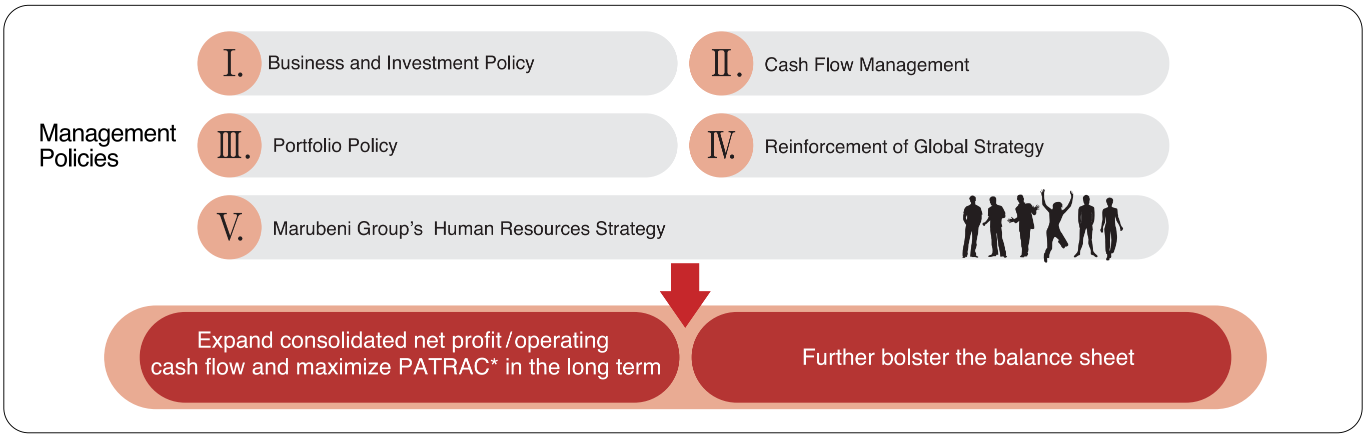
(Breakdown)	
Distribution Businesses	30%
Finance Businesses	20%
Stable Earnings - Type Businesses	40%
Natural Resource Investments	10%

Consolidated Dividend Payout Ratio
25% or more of consolidated net profit

The Marubeni Group's Road to 2020

Combining all our individual strengths to create a more powerful Marubeni Group

Under "Global Challenge 2018," we have established five new management policies as the Marubeni Group's Road to 2020.



* PATRAC (=Profit After Tax less Risk Asset Cost):
Marubeni's proprietary management index for measuring the degree to which the return on a risk exceeds a minimum target.

I. Business and Investment Policy

Marubeni will clearly define and thoroughly implement management policies for individual business models. We have categorized four business models—Distribution Businesses, Finance Businesses, Stable Earnings-Type Businesses, and Natural Resource Investments—and will promote business and investment strategies adapted to the operating environment and business characteristics of each business model.

II. Cash Flow Management

Marubeni will work to maximize operating cash flow by increasing adjusted operating cash flow and boosting working capital efficiency. We will promote recovery of investments offering no significant growth prospects and reinvest the funds in next-generation growth businesses.

III. Portfolio Policy

Marubeni will build a business portfolio that can grow earnings over the long term and secure consolidated net profit of 300.0 billion yen even in an adverse business environment while looking to maintain a balanced portfolio of businesses that deliver growth, businesses that generate stable earnings businesses, and businesses subject to volatility. We will reliably achieve our growth target by bolstering the earnings power of existing businesses and improve the quality of assets by exiting non-core businesses.

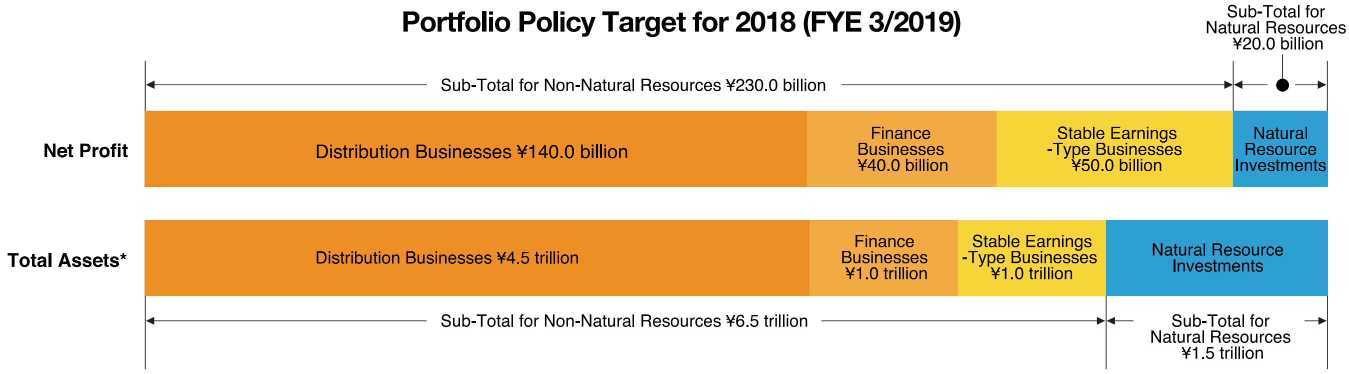
IV. Reinforcement of Global Strategy

The Group will further reinforce business fields in which we excel—the agri-related business, infrastructure business, and transport-related business—while strategically promoting new businesses at the same time. We will position developed countries, mainly the U.S., and the ASEAN region that has a growing middle class as our key markets. We will also strengthen activities in the sub-Saharan region as a strategic move for the future.

V. Marubeni Group's Human Resources Strategy

The Group will develop and promote human resources capable of successfully competing on the global stage and further promote diversity within the Group.

Portfolio Policy Target for 2018 (FYE 3/2019)



Assumptions for 2018: crude oil US$60/bbl, copper US$6,000/t

* Excludes headquarter accounts
(Ref.) Total Assets including headquarters accounts for 2018 (FYE3/2019) is targeted at ¥9.0 trillion.

Financial Results Forecast for the Fiscal Year Ending March 31, 2017

As a result of careful examination of the outlook for financial results on the assumption of an adverse business environment, we forecast consolidated net profit of 130.0 billion yen for the fiscal year ending March 31, 2017. Resource price stagnation remains a cause for concern about earnings and is expected to have a negative impact not only on resource businesses, but also on non-resource businesses such as ships and construction machinery.

With regard to the balance sheet, we plan to improve the net debt/equity ratio to 1.7 times or lower by focusing on maximizing free cash flow and actively reducing interest-bearing debt. In an environment fraught with uncertainty about the future, we will accelerate improvement of working capital efficiency and recovery of investments and undertake reinforcement of the financial base.

Dividends

As explained at the time of the revision to the consolidated financial results forecast announced on April 18, the Company has declared an annual dividend for the fiscal year ended March 31, 2016 of 21 yen per share (a year-end dividend of 10.5 yen), unchanged from the initial forecast.

The Company plans to pay an annual dividend of 19 yen per share for the fiscal year ending March 31, 2017 in accordance with the dividend policy of maintaining a consolidated dividend payout ratio of 25% or higher indicated in “Global Challenge 2018.” Although the planned dividend decrease is regrettable, we will aim to exceed the results forecast and make every effort to increase the dividend amount.

Priority actions to be taken in 2016 (FYE 3/2017)

Strengthen Balance Sheet and Cash Flow Management

- Maximize positive free cash flow for 2016 (FYE3/2017) on a single year basis
- Place the highest priority on strengthening balance sheet
- Strictly select new investment

Further Reinforce Existing Businesses

- Further reinforce our strong business fields (agri-related, infrastructure, transport-related businesses, etc.)
- Upgrade existing businesses
- Strategically exit from non-core businesses (unprofitable, peaking out, low-growth)

Preparing to Achieve the Goals in “Global Challenge 2018”

To achieve the goals set forth in “Global Challenge 2018,” in the fiscal year ending March 31, 2017, the first year of the plan, the Marubeni Group will mount a united effort to strengthen balance sheet and cash flow management and bolster the earnings power of existing businesses.

In an adverse business environment, we intend to further strengthen the financial base and earnings foundation and to solidify the business foundation with a view to the future. We will meet the expectations of our shareholders by steadily accomplishing these measures and returning Marubeni to a growth trajectory.

I request the continued support of our shareholders in the coming years.

Fumiya Kokubu
President & CEO

Special Feature :

Domestic Power Projects

Marubeni has operated the domestic electricity retailing business for approximately fifteen years. Accompanying full liberalization of the retail electricity market in April 2016, Marubeni has transferred this business to wholly owned subsidiary Marubeni Power Retail Corporation. In this special feature, we introduce the Marubeni Group's domestic power projects for generating and retailing electricity.

Solar Power | Wind Power | Biomass Power | Hydroelectric Power | Natural Gas-Fired Power | Coal-Fired Power

Business Development as a Long-Established Power Producer and Supplier

Marubeni entered the overseas IPP (independent power producer) business during the 1990s, adding the IPP business to its power plant engineering, procurement, and construction (EPC) projects. We have developed long-term, stable power supplies in 22 countries around the world, including Japan, acting as a project leader in every phase from construction to operation.

In the Japanese market, Marubeni submitted notification as a power producer and supplier (the second in Japan) in March 2000, at the time of the start of partial liberalization of the retail electricity market, and acquired Mibugawa Electric Power, a hydroelectric power plant in Nagano Prefecture.

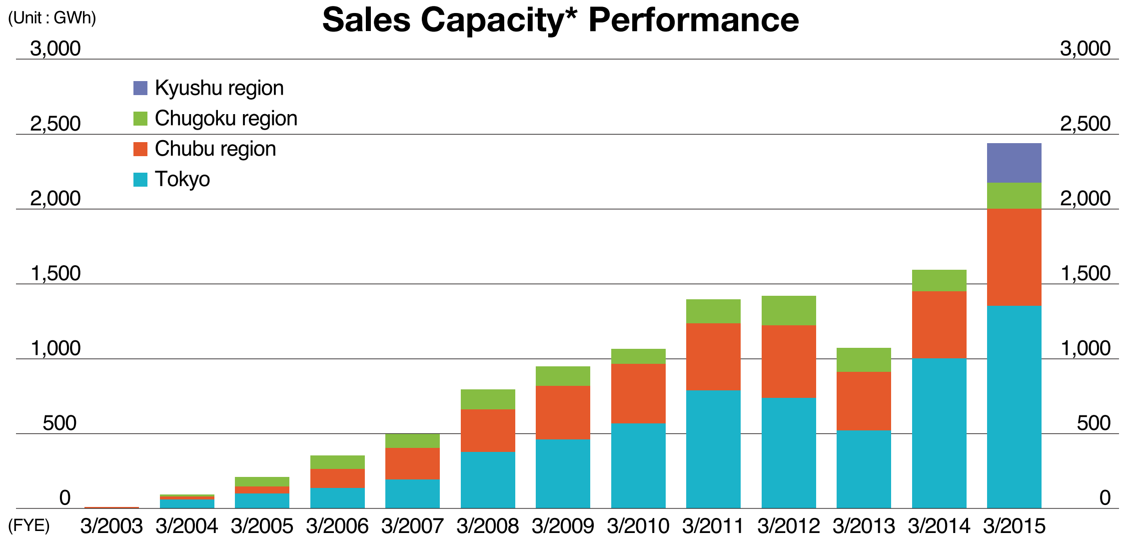
Marubeni entered the electricity retailing business on a full-scale basis in 2002 and has subsequently expanded the scale of sales in step with progress in market liberalization.

As of January 2016, the Marubeni Group has power supply contracts to supply a total of approximately 1,440 megawatts of power to more than 4,000 customers, including office buildings, public facilities, supermarkets, and department stores, in the areas supplied by Hokkaido Electric Power, Tokyo Electric Power, Chubu Electric Power, Kansai Electric Power, Chugoku Electric Power, and Kyushu Electric Power. The Group also began supplying power to customers in the supply area of Tohoku Electric Power in April 2016.

Successfully Competing in a Liberalized Market by Leveraging Supply and Demand Operation Expertise Cultivated through a Wealth of Experience

With the full liberalization of the retail electricity market in April 2016, Marubeni expanded its customer base to include low-voltage customers (such as households and small retail businesses) and transferred the electricity retailing business to wholly owned subsidiary Marubeni Power Retail Corporation.

As of April, more than 280 companies had entered the electricity retailing business in Japan. At a time of such intensifying competition to acquire new customers and retain existing customers, Marubeni takes advantage of key strengths in supply and demand operation and the Group's own power plants located across Japan.



*Generated Power × Time (unit: watt-hour, kWh, MWh, GWh, etc.)

Sophisticated Expertise in Supply and Demand Operation

Electricity retailers must balance electricity supply and demand every thirty minutes. Since this requires sophisticated systems and operating expertise, it is a high hurdle for new market entrants to overcome. The Marubeni Group has supply and demand operation skills cultivated over some fifteen years in the electricity retailing business and has constructed a system for effectively utilizing feed-in-tariffs (FITs) based renewable energy sources with unstable output. In addition, by undertaking supply and demand operation on a contract basis for new market entrants that lack this know-how, we have positioned this expertise as a new source of earnings and help vitalize the market by promoting entry into the electricity retailing business.

Marubeni Group's Extensive Electric Power Sources

The Group acquired Mibugawa Electric Power, a hydroelectric power plant operator in Japan, in 2000 and has constructed micro hydro power plants nationwide. We have also opened renewable energy power plants, by constructing mega-solar power plants with output capacity of more than 200 megawatts and participating in the Fukushima Floating Offshore Wind Farm Demonstration Project. We also plan to start operation of a biomass power plant which is under construction in Tsuruga City, Fukui Prefecture, in the summer of 2017. By combining these renewable energy sources with our thermal power plants, the Group is constructing a system capable of stably supplying electric power.


Nakasode Clean Power
(Chiba Prefecture)


Tomakomai Yufutsu Mega-solar
(Hokkaido)


Kisosaki Mega-solar
(Mie Prefecture, Aichi Prefecture)

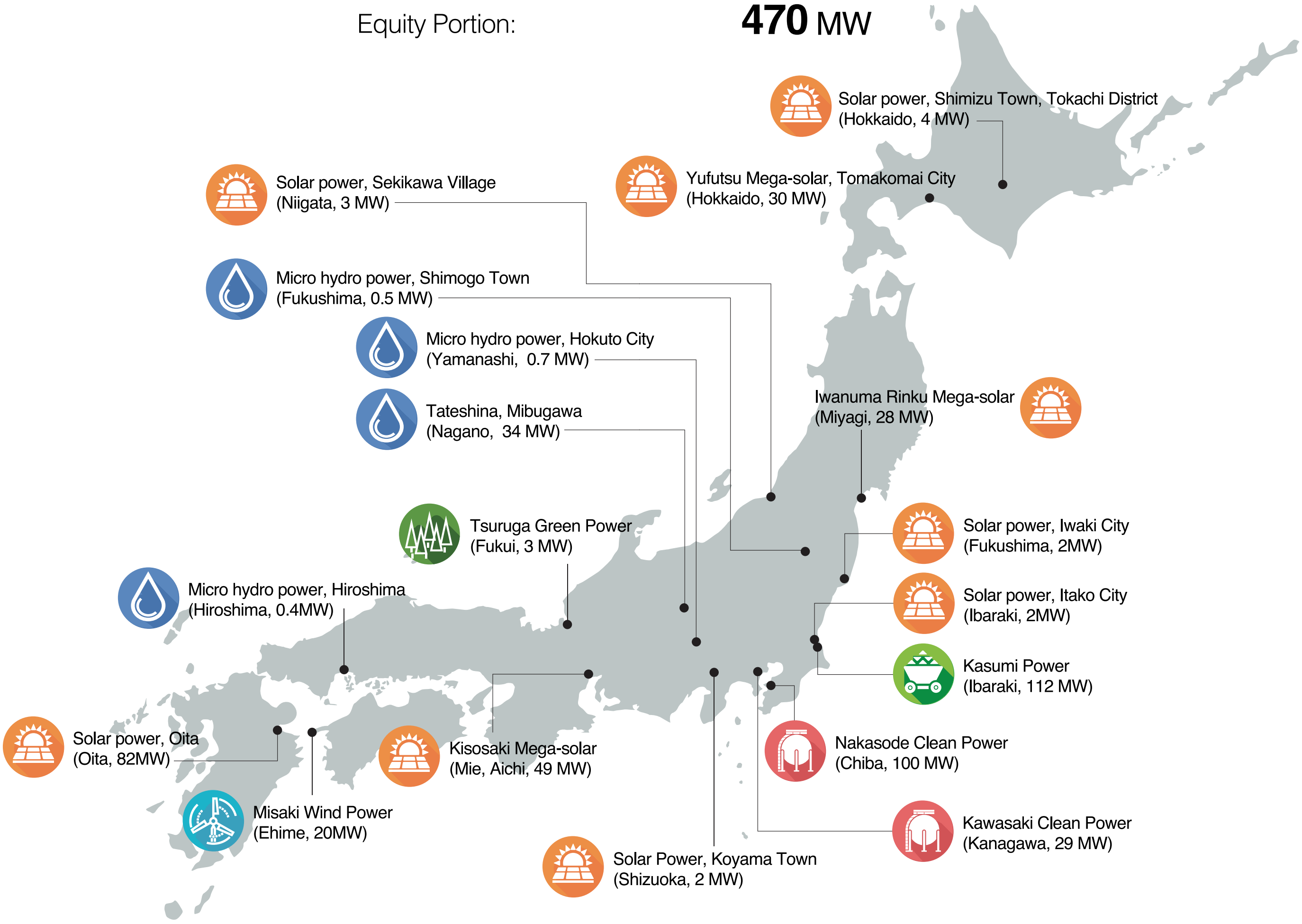

Itako Mega-solar
(Ibaraki Prefecture)

Marubeni Group's Domestic Power Generating Projects

18 Domestic Projects

Total Power Generating Capacity: **536** MW

Equity Portion: **470** MW



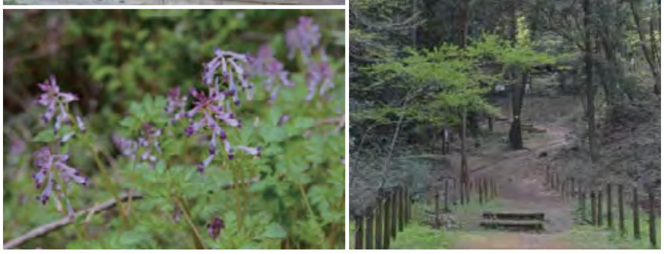
Offering New Services Grounded in Uncompromising Customer Orientation

Marubeni Power Retail Corporation began retail sales of electricity to low-voltage customers in April 2016 and has prepared two electricity rate plans: Plan S, a price-oriented plan, and Plan G, a value-added plan.

Plan S provides inexpensive electricity charges by applying 5-10% discounts, mainly on the third-stage energy charge. This is a plan that offers price benefits for customers such as households with three or more residents, which are comparatively heavy electricity users.

Plan G is a unique electricity rate plan based on a tie-up with Studio Ghibli and structured so that a portion of electricity charges are allocated to forest and greenery preservation activities. This plan enables customers, Studio Ghibli, and Marubeni Power Retail Corporation to join forces in activities to preserve Japan's original landscape for future generations. Marubeni intends to consider environmental problems, social problems in Japan, and the energy situation together with users. We are also planning on enjoyable events as well as power plant tours for our customers.

Marubeni Power Retail Corporation will uncompromisingly pursue customer orientation and provide a stable supply of electricity in ways that meet customer wants and needs.



Top left: Totoro's Forest Kurosuke's House (Saitama Prefecture)
Bottom left and Right: Totoro's Forest, where a portion of electricity charges are allocated to forest preservation activities (Saitama Prefecture)