Shareholders' Guide "Marubeni"

No.122, Summer 2017

Top Message

Toward "further reinforcing our financial foundation" and "evolving our business strategy."

I would like to express my sincere gratitude to our shareholders for your continued support.
I will explain an overview of the financial results for the fiscal year ended March 31, 2017 and the revised Mid-term Management Plan "Global Challenge 2018" which entered into its second year.

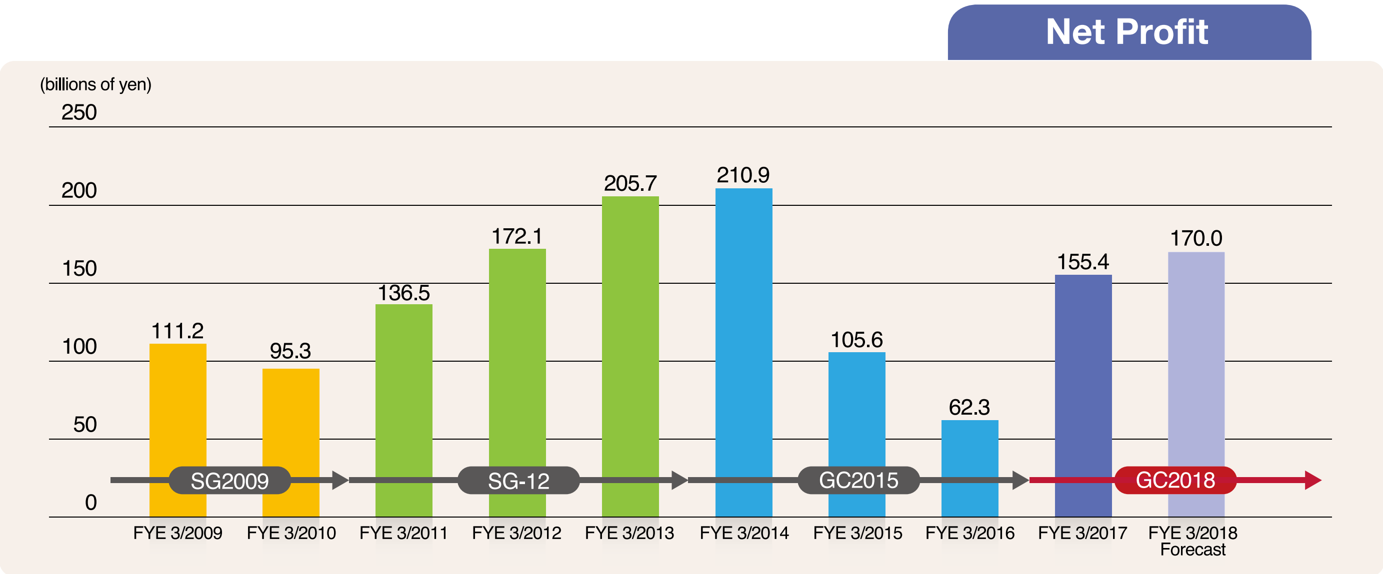
Fumiya Kokubu
President & CEO

Overview of the Financial Results for the Fiscal Year ended March 31, 2017

Consolidated Net Profit

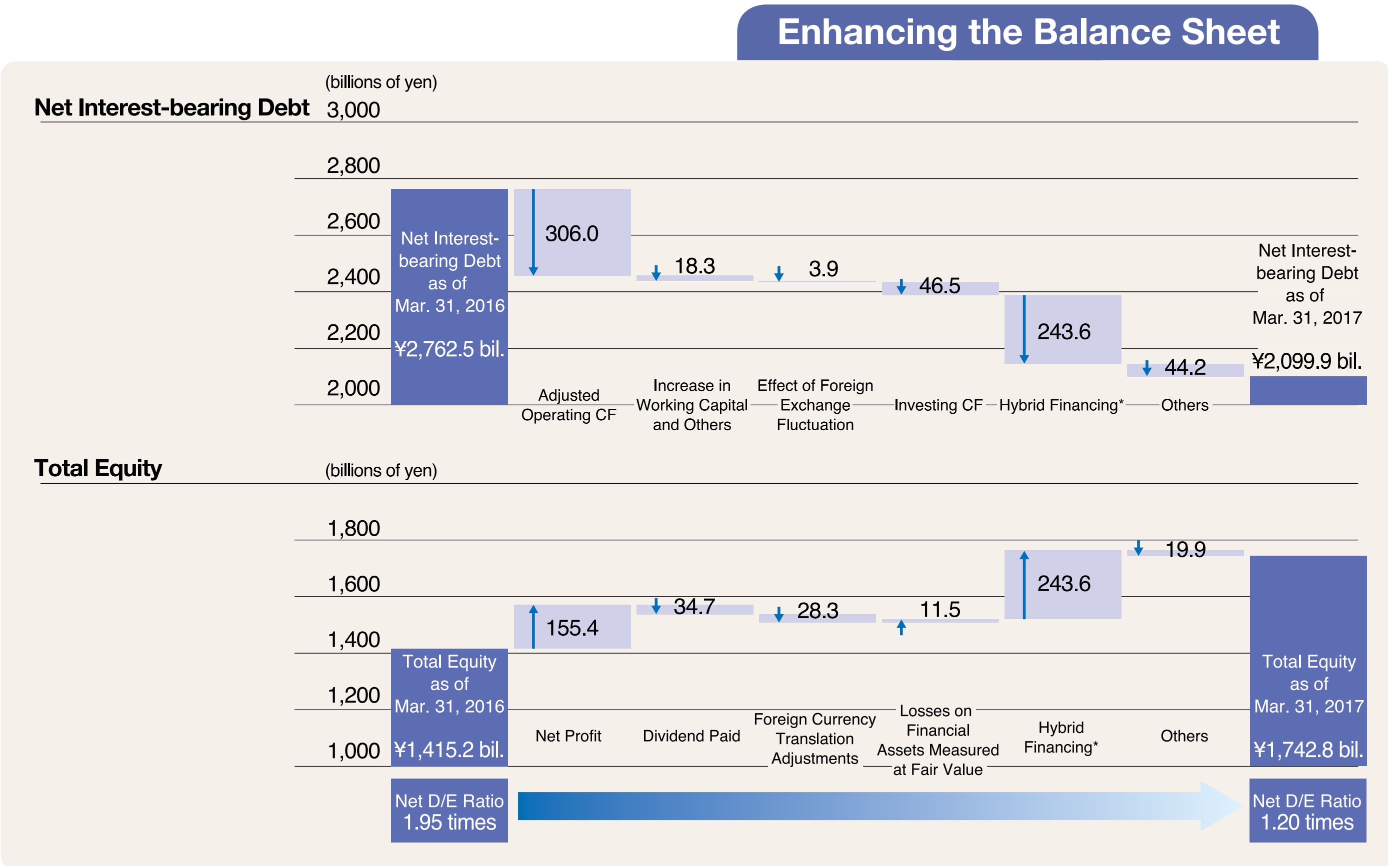
Looking back at the business environment over the period, the global economy slowed up owing to the weakness of the Chinese and other emerging market economies. On the other hand, the economies of the U.S. and other developed countries as a whole continued their moderate recovery.
Furthermore, the financial market became briefly unstable following the results of the UK referendum and U.S. presidential election.

Under this environment, consolidated net profit during the period rose 93.1 billion yen from the previous fiscal year to 155.4 billion yen partly in reaction to the year earlier recognition of the impairment losses, mainly in the resource businesses. As a result, the Company, which suffered a profit decline for two consecutive years, was able to post a profit increase in the period under review.



Reinforcing Our Financial Foundation

Net interest-bearing debt decreased 662.5 billion yen from the end of the previous fiscal year to 2,099.9 billion yen owing to the acceleration of divestments aimed at improving its financial foundation and financing through perpetual subordinated loans, which had taken place last August. Meanwhile, total equity rose 327.6 billion yen from the end of previous fiscal year to 1,742.8 billion yen also due to financing from the same loans as well as the accretion of retained earnings. Accordingly, net debt-to-equity ratio fell 0.75 point from the end of previous fiscal year to 1.2 times enabling the Company to strengthen its financial foundation.



* The Company obtained financing through perpetual subordinated loans in the amount of 250.0 billion yen on August 16, 2016. The loans are classified as other equity financial instruments under IFRS.

Regarding the revision of the Mid-term Management Plan "Global Challenge 2018" (GC2018)

Basic policy regarding the revised GC2018

I will now explain the revisions to GC2018, which got underway in the fiscal year ended March 31, 2017.

We extremely regret having to alter the plan just a year after its implementation. We decided to revise the plan, which positions the direction of the overall company in the medium term, in accordance with the increasingly fast speed of the changes in the management environment.

The revisions have factored in the changes of the business and financial environments. First of all, concerning the business environment, we have modified our earnings outlook for non-resource businesses that have been hit harder than we expected by resource prices. This revision is attributable to the impact of fields which will require a longer period of time to recover than we had projected and those that will not be able to post the earnings growth that we had forecast. As for the financial environment, our revisions reflect the impact of the discrepancy between our initial projections and the actual level of currency and interest rates.

The first major pillar of the basic policy of our revisions is to "further reinforce the financial foundation". The Company will retain the reinforcement of its financial foundation as its top priority and lower the net debt-to-equity ratio to approximately 0.8 times by the end of the fiscal year ending March 31, 2021 at the latest. To this end, we will strengthen cash flow management and maximize adjusted operating cash flow*. In addition, the Company will accelerate asset recycling and strategically select new investments.

* An indicator measuring operating cash flow minus changes in working capital. It represents a company's ability to generate cash.

The second pillar is "evolving business strategy". We will strategically select businesses, pursue competitive advantages in each business area and maximize the value of each business. Moreover, the Company will promote the evolution of its group company management. We will do this by appointing the best management talent to maximize the value of each business and promoting clarity about their role as subsidiary company owners. Additionally, Marubeni will strengthen its portfolio management through the promotion of capital allocation for each business model, which is an objective that was also set forth in its initial plan.

Revised quantitative targets

I will now turn to specific revisions to our quantitative targets based on the basic policy mentioned above.

Under our initial plan, we had set a consolidated net profit target of 230.0 billion yen or more in non-resource businesses and aggregated net profit target, which includes profits from resource businesses, of 250.0 billion yen for the fiscal year ending March 31, 2019.

According to our revised plan, we lowered our consolidated net profit forecast to 200.0 billion yen, which comprises net profits of both the non- resource and resource businesses, following a reduction of our non-resource business target by 50.0 billion yen to 180.0 billion yen or more. Roughly half of the 50.0 billion yen downward revision in net profit of non-resource businesses is attributable to the impact of the yen appreciation and increase in U.S. interest rates. The other half of the downward revision stems from expectations that the Company might fall short on its initial profit targets for several fields.

As for free cash flow, we had initially aimed to achieve a positive three-year cumulative free cash flow after dividend payments for the fiscal years ended March 31, 2017 through the year ending March 31, 2019. We accelerated that and set a target of generating positive free cash flow of 400.0 billion yen to 500.0 billion yen after dividend payments. As a result, we also aim to lower the net debt-to-equity ratio by 0.3 point from the initial plan of about 1.3 times to approximately 1.0 times.

We initially earmarked a total of up to 1 trillion yen for use in new investments over a three-year period with the condition that our top priority to meet our free cash flow target stands still. However, we have reduced that three-year target to 400.0 billion yen to 500.0 billion yen in line with the revised free cash flow forecast. The Company has not changed its top priority of meeting its free cash flow target.

Our ROE and consolidated dividend payout ratio targets remain unchanged from our initial forecasts.

Our overview of the revised Mid-term Management Plan is as explained above. We ask for our shareholders' understanding concerning our revised plan, which we will do our utmost to achieve.

Revision of Quantitative Targets

	GC2018	Revised GC2018
Consolidated Net Profit	2018 (FYE 3/2019) ¥250.0 billion (Non-natural resources ¥230.0 billion or more)	2018 (FYE 3/2019) ¥200.0 billion (Non-natural resources ¥180.0 billion or more)
Free Cash Flow (after dividends)	Cumulative total for 2016-2018 (FYE 3/2017-FYE 3/2019) Positive free cash flow (Approximately a net DE ratio of 1.3 times as of March 31, 2019)	Cumulative total for 2016-2018 (FYE 3/2017-FYE 3/2019) Free cash flow (after dividends) of ¥400-500 billion (Approximately a net DE ratio of 1.0 times as of March 31, 2019)
ROE	10% or more	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%	2016-2018 (FYE 3/2017-FYE 3/2019) ¥400-500 billion Strictly evaluate new investments in strong strategic terms mainly in non-natural resources
Consolidated Dividend Payout Ratio	25% or more of consolidated net profit	25% or more of consolidated net profit

Financial Results Forecasts for the Fiscal Year ending March 31, 2018

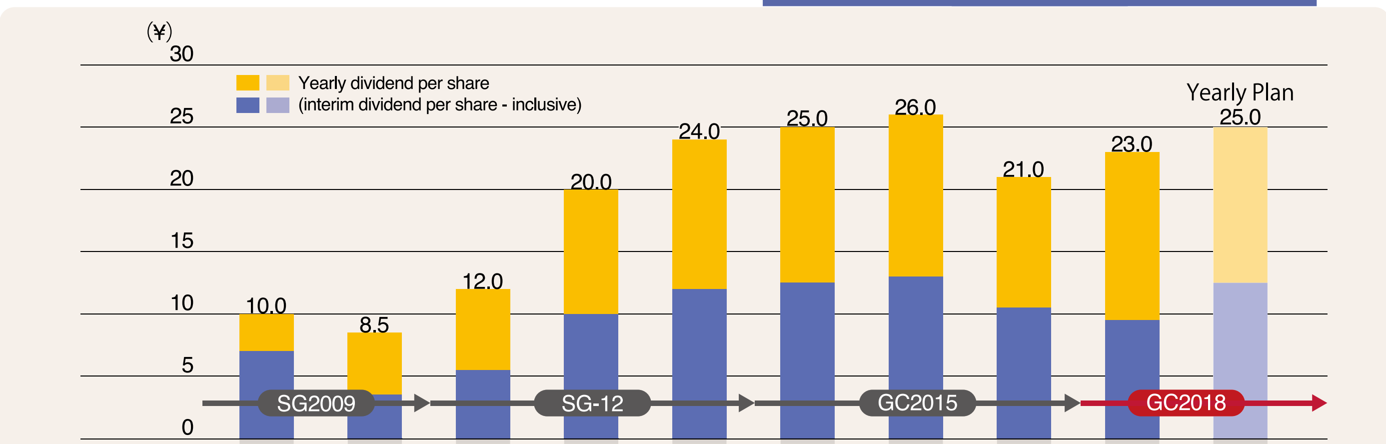
We forecast that consolidated net profit for the fiscal year ending March 31, 2018 will increase 14.7 billion yen from the previous fiscal year to 170.0 billion yen. With respect to our balance sheet, we plan to further reinforce our financial foundation by maintaining a positive free cash flow after dividend payments, which would reduce the net debt-to-equity ratio by 0.1 point from the end of fiscal year ended March 31, 2017 to approximately 1.1 times.

On Dividends

We have decided to pay an annual dividend of 23 yen per share (interim dividend: 9.5 yen, year-end dividend: 13.5 yen) for the fiscal year ended March 31, 2017. This represents a 2 yen increase from the annual dividend of 21 yen the Company had announced on February 6, 2017 that it would pay. The increase is in accordance with our basic policy of a consolidated dividend payout ratio of 25% or more.

We plan to distribute an annual dividend of 25 yen per share for the fiscal year ending March 31, 2018, up by 2 yen from the 23 yen for the previous fiscal year based on the same policy.

Dividend Amount per Share



	FYE 3/2009	FYE 3/2010	FYE 3/2011	FYE 3/2012	FYE 3/2013	FYE 3/2014	FYE 3/2015	FYE 3/2016	FYE 3/2017	FYE 3/2018
annual dividend per share	¥10	¥8.5	¥12	¥20	¥24	¥25	¥26	¥21	¥23	¥25 (plan)
(interim dividend per share)	(¥7)	(¥3.5)	(¥5.5)	(¥10)	(¥12)	(¥12.5)	(¥13)	(¥10.5)	(¥9.5)	(¥12.5 (plan))

Toward the Achievement of GC2018 Targets

The fiscal year ending March 31, 2018, which is the second year of the GC2018, is considered to be a significant year as it is the run-up to the final year of the plan. We will steadily strive to ensure that we achieve each of our revised targets in GC2018 through “further reinforcing our financial foundation” and “evolving our business strategy.”

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

Fumiya Kokubu
President & CEO

Special Feature :

Regarding Marubeni's Cash Flow Management

We set "cash flow management" as a priority in the Mid-term Management Plan "Global Challenge 2018". Here, we will give you an overview of our cash flow management and explain our objectives along with actual cash flow of the fiscal year ended March 31, 2017 and latest revised quantitative targets.

Nobuhiro Yabe
CFO

Cash Flow Management Pursued by Marubeni

Our definition of cash flow management in the Mid-term Management Plan "Global Challenge 2018" (GC2018), currently underway, is as follows.

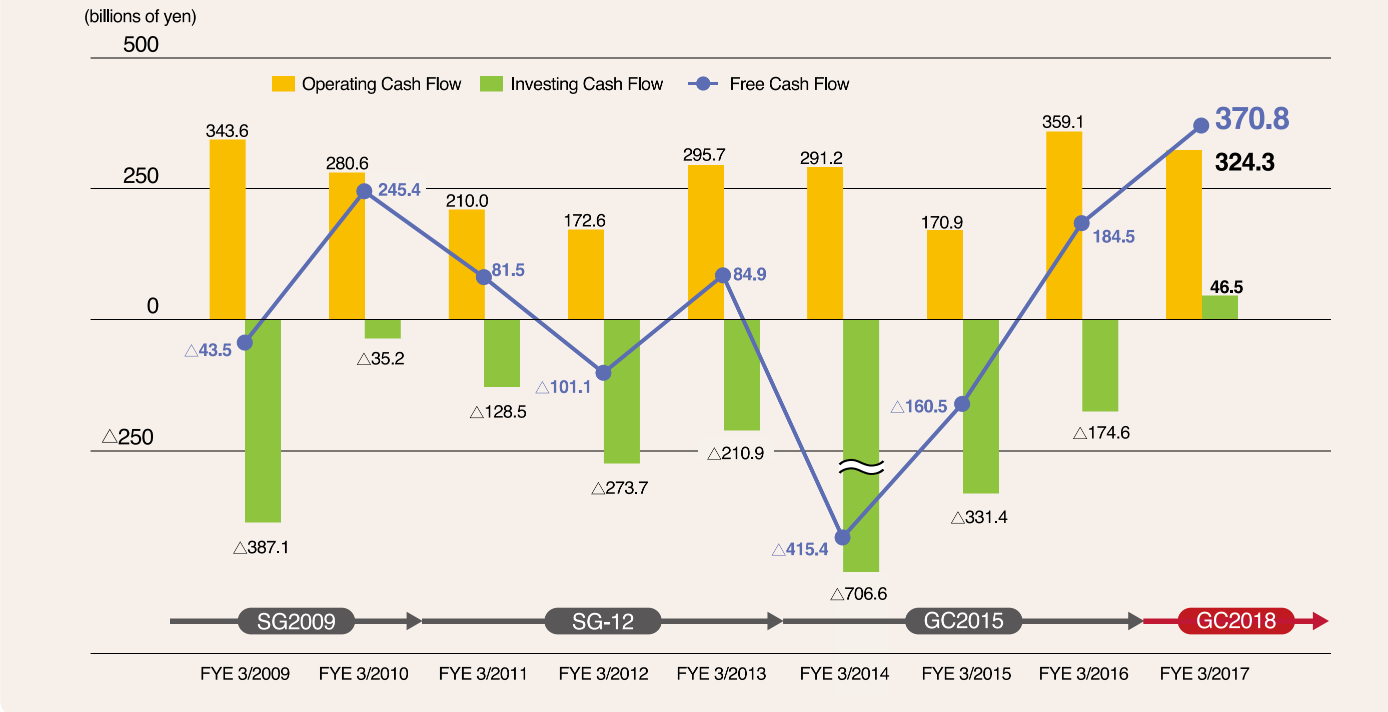
- **Increase available funds for growth investments by maximizing operating cash flow.**
  Work to maximize corporate value through the further generation of profits and cash from new business investments.
- **Better utilize cash flow within the Group.**
  Reinvest cash generated from businesses that are not expecting significant growth into next-generation growth businesses.

Our concept is to generate capital for investing in growth areas by maximizing cash flow from existing businesses, instead of using borrowings and other interest-bearing debt as capital for growth investment. In other words, under GC2018, we aim to circulate cash flow to maximize corporate value and achieve growth with the cash we generate. Maximizing cash flow is an extremely vital managerial issue in that we pay dividends with the cash that we earn from this approach.

Generating Record High Level of Free Cash Flow

In the fiscal year ended March 31, 2017, we implemented various initiatives to meet our top management priority of strengthening our balance sheet and cash flow management aimed at improving our financial foundation. As a result, we generated a large positive cash flow.
Specifically, operating cash flow and investing cash flow both turned positive at 324.3 billion yen and 46.5 billion yen respectively. Free cash flow, the sum of net cash provided by operating and investing activities, was positive at 370.8 billion yen. We hope that our shareholders recognize the extent of our recoupment as this represents the largest free cash flow that the Company has generated since the fiscal year ended March 31, 2001.

Cash Flows



First of all, with respect to operating cash flow, adjusted operating cash flow, which shows its ability to generate cash, remained at a high level of 306.0 billion yen. Furthermore, we achieved positive investing cash-in-flow of approximately 300.0 billion yen due to the sharp acceleration of divestments. As a result, investing cash flow, including rigorously selected growth investment, at 46.5 billion yen, turned positive, as mentioned above, for the first time since the fiscal year ended March 31, 2005.

Here, we will briefly introduce an example of a new investment, which we decided in the previous fiscal year, our acquisition of a stake in Orffa International Holding B.V. ("Orffa"), one of the largest distributors of feed additives in Europe. We issued a news release on this purchase on February 2017.

Orffa, based in the Netherlands, is a distributor of feed additives*[1]. Marubeni will support the global expansion of Orffa's business, especially in the Asian market, by utilizing Marubeni's network of agriculture, animal husbandry, and fisheries fields and intend to accelerate its growth.

*[1] Feed additives are used for the purpose of supplementing nutritional ingredients to livestock feed, promoting the effective utilization of feed ingredients, and preventing feed quality deterioration.

According to our management policies under GC2018 for each business model, Marubeni positions Orffa's businesses as the "Distribution Businesses" and primarily acquires majority stakes in them for the purpose of actively controlling their management and cash flow. The Company has purchased a majority, namely 60%, stake in "Orffa" and will endeavor to maximize the adjusted operating cash flow of the Group as a whole by actively engaging in Orffa's management.

Outline of Orffa International Holding B.V.

Location	Netherlands
Established	1967
Business	Sales of feed additives
Employees	Approximately 100
Marubeni's investment ratio	60%*[2]

ORFFA

*[2] completion in acquiring stake on April 2017

Revised Targets in Mid-term Management Plan

Next, I will explain our revised free cash flow targets that are among the quantitative targets in the revised GC2018. As discussed in the Top message, we had initially aimed to achieve a positive three-year cumulative free cash flow after dividend payments. We have revised that target to achieving a cumulative total positive free cash flow of 400.0 billion yen to 500.0 billion yen over a three-year period. By generating a large positive cash flow, we aim to “further reinforce our financial foundation”.

Based on this policy, we will lower the net debt-to-equity ratio to approximately 0.8 times by the end of the fiscal year ending March 31, 2021 at the latest. In the process, we will endeavor to attain a net debt-to-equity ratio of approximately 1.0 times as a transit point at the end of the fiscal year ending March 31, 2019, the final year of GC2018. Although we revised our target for the cumulative total of new investment capital over a three-year period to 400.0 billion yen to 500.0 billion yen, we will strictly evaluate new investments in strong strategic terms mainly in non-resource businesses.

Additionally, we believe that our new “evolving business strategy” announced along with the revision of GC2018 is also extremely significant from the perspective of maximizing adjusted operating cash flow. The Marubeni Group will strive to both efficiently allocate and maximize cash flow by thoroughly reviewing its business strategy and carrying out and recouping investments based on that strategy.

My explanation of our cash flow management is as above. As the CFO, I will continue to manage the Company through maintaining a well-balanced offensive and defensive approach. We request the continued support of our shareholders in the coming years.

New Investments and Divestment

(billions of yen)

		FYE 3/2017	FYE 3/2017 Major Projects	Revised GC2018Total (Plan)
New Investments		Approx. -110.0	—	-400.0 to -500.0 Strictly evaluate new investmentsin strong strategic termsmainly in non-resources
	Non-resources	Approx. -110.0	・Natural gas fired power generation business (North America) ・Power, water and steam supply businesses (Middle East) ・Renewable energy businesses (Asia/South America) ・Aviation parts businesses (North America) ・Gas distribution business (Portugal) ・Tire distribution business (Mexico) ・FPSO vessel chartering business (Brazil)	
	Resources	Approx. -0.0	—	
CAPEX *3		Approx. -140.0	・Energy concession businesses (North America/UK) ・Transportation machinery-related leasing and rental businesses (North America) ・Agrichemical storage facilities, etc. (North America)	
Divestment		Approx. +300.0	・Railcar leasing business (North America) ・Automotive sector business (North America) ・Investment securities (North America/Japan) ・Natural gas-fired power generation business (North America) ・Solar power generation businesses (Japan) ・Company properties (Japan)	

*3 Additional capital spending to maintain/improve business values of existing projects.
(notes) + indicates cash-in. – indicates cash-out.