Condensed Transcript of Question and Answer Session
Briefing on Consolidated Results for the Fiscal Year Ended March 31, 2019 and Medium-Term Management Strategy GC2021

Date: May 14, 2019 (Tuesday)
Location: Palace Hotel Tokyo
Those Present: Masumi Kakinoki, President and CEO
Nobuhiro Yabe, Senior Managing Executive Officer, CFO
Hideyoshi Iwane, General Manager, Corporate Accounting Dept.

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<1st questioner>
Connection between consolidated net profit and core operating cash flow in the new medium-term management strategy GC2021
Our quantitative target for core operating cash flow is a three-year cumulative total of ¥1,200 billion, which averages out to ¥400 billion per year. Given the recent level, I think that is very attainable.

You have pointed out that considering the levels of consolidated net profit and core operating cash flow forecast for FYE 3/2020, the three-year cumulative core operating cash flow should have been targeted a little higher, but the ¥1,200 billion target includes factors such as one-time items and rounding.

Reason for keeping the dividend payout ratio at 25% in GC2021
Our top priority is improving our financial foundation, and we first want to achieve a net DE ratio of around 0.8 times. After we achieve that, we will specifically look to initiate share buybacks, but we also understand that a dividend payout ratio of 30% is not an impossible goal.
Examples of platform businesses in Horizon 3 of GC2021
In the Power Business, for example, our businesses involve sizable investments and assets, but we are now also pursuing businesses from a perspective that will allow us to capture peripheral business. One example is our entry into the community-based power business through investment in WASSHA in Tanzania (announced in August 2018).

Direction after achieving net DE ratio of around 0.8 times
After we achieve a net DE ratio of around 0.8 times, our first priority will be to at least generate positive free cash flow after delivery of shareholder returns. We are formulating a plan to gradually improve the net DE ratio by increasing retained earnings without increasing interest-bearing debt.

Amount of investments in each horizon in GC2021
The ¥200 billion in Horizon 1 will be for essential capital expenditures that will also extend the useful life of existing assets. Horizon 1 investments and Horizon 2 investments (¥500 billion), which we will conduct with discipline, are the investments that will support the three years of GC2021 (FYE 3/2020–FYE 3/2022). For Horizon 3, we decided on ¥200 billion because we judged that investment commensurate to the task of cultivating future core businesses will be needed. We may not see any results from Horizon 3 during the three years of GC2021, but we will think about investments and the related criteria in order to take on new challenges. In the three years through FYE 3/2019, the discipline to carefully screen investments was instilled throughout the Company, so I am emphasizing to our employees that I want them to attempt new business models by adding the free-thinking approach of the “horizon” concept to the vertical evolution of existing businesses.

Recent effects of U.S.–China trade friction
Regarding U.S.–China trade tensions, the fact is that grain exports to China do not make up that large a share of our profits in the agriculture business overall, including the Agri-Input Business. However, any disruption in the movement of goods would probably have an impact on our grain origination business. We think there will be some impact in the Agri-Input Business, but a scenario in which farmers stop sowing seeds and the agriculture business comes to a complete halt in the U.S. is implausible. Fertilizer will always be needed. Volume may decrease to some extent, and purchase timing may be pushed back, but we do not believe there will be a major impact. For reference, soybean exports from the U.S. to China were around 30–35 million tons a year before the U.S.–China trade friction, but 8 million tons in 2018. At the time we were preparing our budget for FYE 3/2020, we foresaw an improvement in U.S.–China relations and anticipated the effect of that improvement to an extent. However, as yet there is no resolution in current U.S.–China negotiations, and there may be a ¥1–¥2 billion impact on our profits. Nevertheless, we think that the degree of impact can be absorbed across our business as a whole.
<4th questioner>
Asset recycling policy in GC2021
In GC2018, the previous medium-term management plan, we disposed of assets for which we saw no clear strategic way forward, or that had no potential for future development, and recovered a considerable amount as a result. We will likely maintain that pace with divestments of ¥250 billion in the three years of GC2021.

How GC2021 reflects the president’s own thoughts
As president, my view of the “Sogo Shosha” or the general trading company business model is that it should be enterprising and take the field as a global precedent but if the situation develops where the world is moving faster than the company, then some may question whether this kind of company is really necessary. My feeling is that we should not be afraid to fail; we should move first, even to stay only half a step ahead. I want us to operate with the assumption that more than half of the business models of our existing businesses will have been replaced 10 years from now. We need to be more like a lean startup and just get moving, even if everything is not perfect, and adapt to the various changes along the way. If we only start after doing perfect due diligence and after all the preparations are complete, the world may have changed in the meantime. I am emphasizing to employees that I want them to approach business with this mentality.

<5th questioner>
Impairment loss in Power Business
The impairment loss in the power generation business in Singapore was due to numerous structural factors. The Singapore government introduced incentives about five or six years ago to encourage diversification in procurement of fuel for power generation. As a result, there was an oversupply of power generation assets, and market prices fell. However, we think these structural issues will improve in FYE 3/2024.

Merchant-type IPP projects in North America
There is still an excess of power generation facilities in North America, so unless the terms are very favorable, we will refrain from making any major investments.

Domains not focused on in GC2021
As a “Sogo Shosha” or a general trading company, it is preferable that all of our businesses make a balanced contribution. We know that the circumstances under which a certain business model stands out lack in resilience. However, undertaking measures based on an all-rounder mind has unappealing aspects as well, so I want to show that our businesses have substance. If we conduct our businesses in line with the new business policies (Strategy, Prime, Platform) laid out in GC2021, I think we will get results.
Path to consolidated net profit of ¥300 billion in final year of GC2021
To get from ¥240 billion, the projected net profit in FYE 3/2020, to ¥300 billion, the target for the final year of GC2021, we will need additional profit of ¥60 billion. Of that ¥60 billion, we estimate that about ¥50 billion will come from organic growth (increased profit of roughly ¥10 billion in each of the Consumer Products Group; the Food, Agriculture & Chemicals Group; the Machinery, Infrastructure & Financial Business Group; the Power Business; and Energy and Metals & Mineral Resources combined), and ¥10–¥20 billion from new investments, with a cushion of around ¥10 billion built in.

Reason for the FYE 3/2020 CAPEX (¥140 billion) plan being greater than usual
We expect greater CAPEX than in most years in our oil and gas interests and at Helena in North America during FYE 3/2020. We also expect CAPEX related to expansion of facilities for sales growth at Creekstone, Marubeni Nisshin Feed, and Wellfam Foods.