

# Shareholders' Guide "Marubeni"

No.123, Winter 2017

## Top Message



### Financial Results for the Six-month Period ended September 30, 2017

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 six-month period ended September 30, 2017, announced on November 2, and an explanation of progress with the Mid-term Management Plan "Global Challenge 2018".

**Fumiya Kokubu**  
President & CEO

## Overview of the Financial Results for the Six-month Period ended September 30, 2017

### Substantial Increase in Consolidated Net Profit Achieved

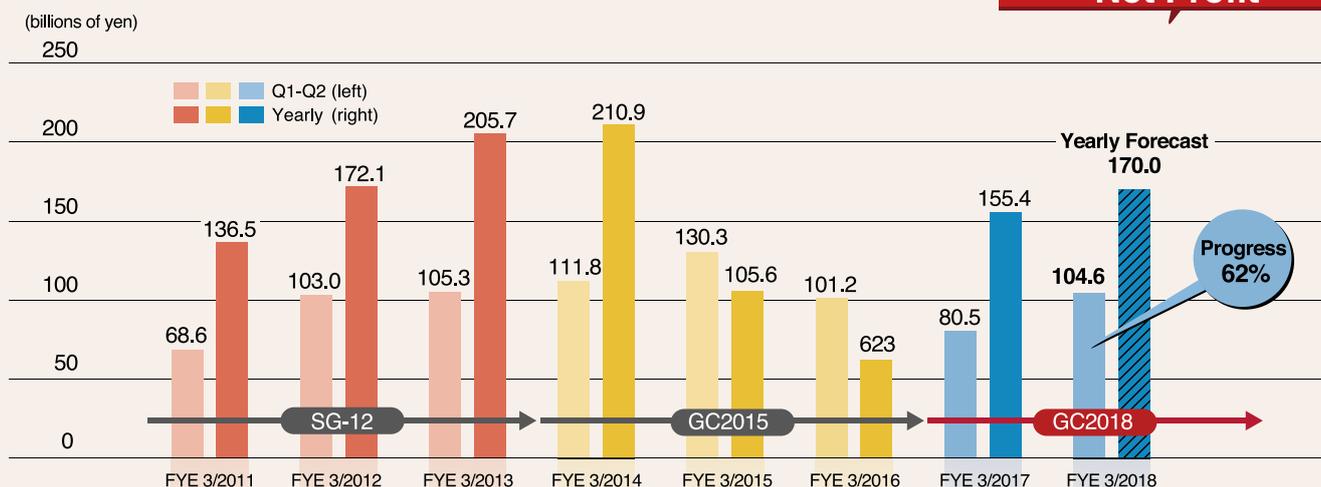
An overview of the business environment in the six-month period ended September 30, 2017 indicates that gradual economic recovery continued in the U.S. as well as other developed countries and that emerging countries such as China showed signs of an economic pickup. As a result, the global economy as a whole saw gradual growth. During the period, the Company benefited from factors that had a positive impact on the financial results, such as increases in copper and coal prices.

In this environment, consolidated net profit in the six-month period ended September 30, 2017 rose sharply by 24.1 billion yen, or 30%, year on year to 104.6 billion yen. Against

the backdrop of the previously mentioned increases in the commodity prices of copper and coal, resource businesses drove the overall profit increase. Excluding one-time losses, profit increased in non-resource businesses as well, and we judge that the Company's earnings power has steadily increased.

We have left the full-year consolidated net profit forecast unchanged at 170.0 billion yen, the level set at the beginning of the fiscal year. Consolidated net profit reached 62% of the forecast in the six-month period ended September 30, 2017, and we are steadily progressing toward achieving the target.

### Net Profit



### Plan to Improve Cash Flow in the Second Half of the Fiscal Year

I will now discuss cash flow. Operating cash flow was an in-flow of 47.6 billion yen and investing cash flow was an out-flow of 101.5 billion yen in the six-month period ended September 30, 2017, resulting in free cash flow of an out-flow of 53.9 billion yen. This is attributable to an increase in seasonal working capital in operating cash flow and the fact that capital expenditures especially in overseas businesses preceded divestments in investment cash flow.

We have set a full-year target for the fiscal year ending March 31, 2018 of achieving positive free cash flow after payment of dividends of 100.0 billion yen. We plan to achieve the target by accumulating additional profits and by promoting cash collection through measures including recovery of working capital and the sale of assets during the remainder of the fiscal year.

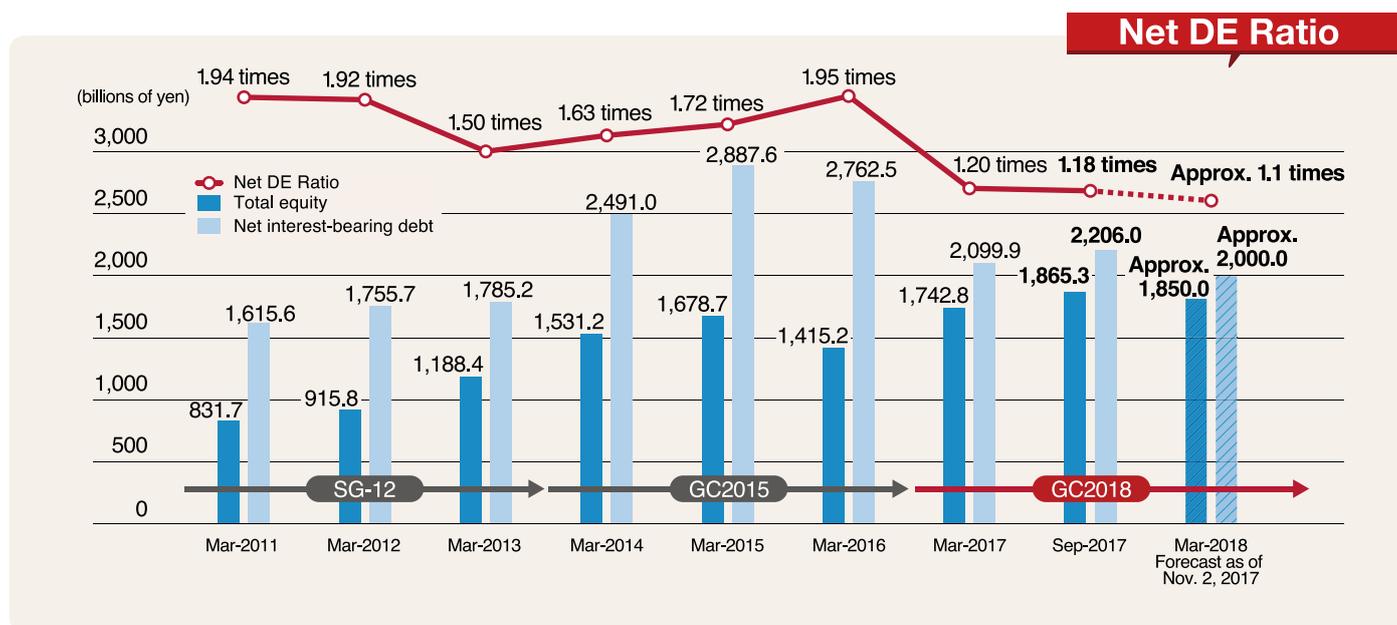
### Net Debt-to-Equity Ratio Improvement through Equity Accumulation

Total equity as of September 30, 2017 increased 122.6 billion yen from the end of the previous fiscal year to 1,865.3 billion yen, mainly as a result of profit accumulation. At the same time, net interest-bearing debt increased 106.1 billion yen to 2,206.0 billion yen. The change in net interest-bearing debt occurred against a backdrop of payment of the year-end dividend for the previous fiscal year in addition to the previously mentioned increase in seasonal operating capital and capital expenditures in overseas businesses.

year of improving the net debt-to-equity ratio to 1.1 times by March 31, 2018. We will endeavor to improve the net debt-to-equity ratio by achieving our consolidated net profit and cash flow targets.

In accordance with the policy of "Further reinforcement of our financial foundation" positioned as a key priority in the Mid-term Management Plan "Global Challenge 2018", we intend to undertake continuous improvement in the debt-to-equity ratio even after achieving a ratio of 1.1 times by March 31, 2018, with the aim of achieving a ratio of 0.8 times by March 31, 2021 at the latest.

As a result, the net debt-to-equity ratio improved by 0.02 points from the previous fiscal year-end to 1.18 times. There is no change in the policy set at the beginning of the fiscal

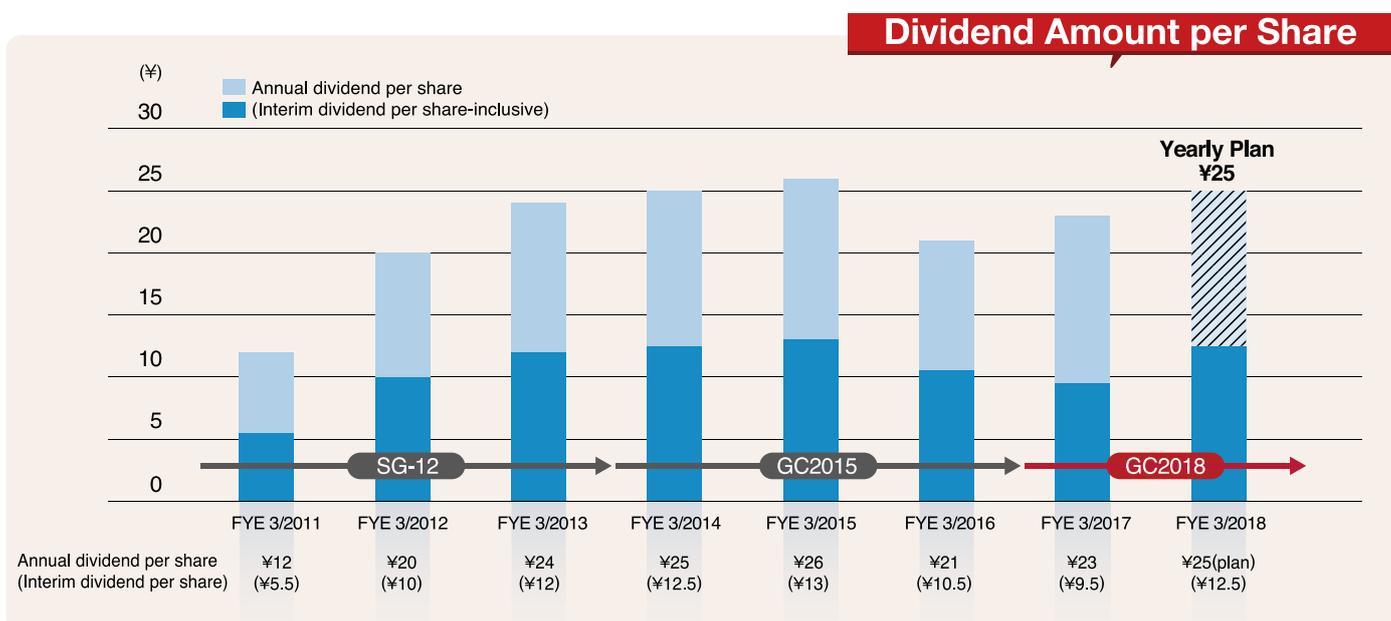


## Interim Dividend Set at 12.5 Yen per Share

The Company has adopted the concept of linking dividends to the financial results of each fiscal year and has a basic policy of determining specific dividend amounts while maintaining a consolidated dividend payout ratio of 25% or higher. Since we anticipate consolidated net profit of 170.0 billion yen in the fiscal year ending March 31, 2018, in accordance with the above basic policy, we plan to pay an annual dividend of 25 yen per share, in line with the dividend forecast at the beginning of the period. We set the interim dividend at 12.5 yen per share, as per the dividend forecast,

and will commence payment on December 1.

The Company will utilize retained earnings (internal reserves) after payment of dividends to build a strong financial base in accordance with the policy "Further reinforcement of our financial foundation." We will also allocate internal reserves to investment in growth sectors to realize an "Evolving business strategy," another key priority in the Mid-term Management Plan, and enhance corporate value.



## Progress with the Mid-term Management Plan "Global Challenge 2018"

The fiscal year ending March 31, 2018 marks the midpoint of the "Global Challenge 2018", the three-year mid-term management plan launched in the fiscal year ended March 31, 2017. We judge that we are making steady progress in preparation for the final year of the plan, as indicated by the restoration of consolidated net profit to the 100.0 billion yen mark in the six-month period ended September 30, 2017, following a decline below this level in the previous fiscal year.

At the same time, the business environment is at its major turning point, changing at an increasingly rapid pace. The nature of globalism and the financial environment have changed dramatically. The wave of the information

technology revolution, which has been called the fourth industrial revolution, is a representative example of a profound transformation, as exemplified by the Internet of Things (IoT), Big Data and such.

As discussed in the Special Feature of this newsletter, to respond to this digital transformation, the Company established the IoT-Big Data Strategy Department in April of this year. The purpose of the new department is to optimize existing businesses and generate new businesses that will create new value by utilizing leading-edge technologies such as the IoT and artificial intelligence (AI). I invite you to read through this interesting Special Feature.

Please see P.5-8



Here, I am pleased to report on a major milestone reached in a Marubeni business project. In the six-month period ended September 30, 2017, Roy Hill, an Australian iron ore miner, reached its nameplate production capacity, which we have been developing since acquiring an interest in the project in 2012. Marubeni will contribute to the steel industry in Japan and all of Asia through the stable supply of high-quality iron ore produced in this project.

**Overview of the Roy Hill Iron Ore Project**

<b>Location:</b>	Pilbara region of Western Australia
<b>Total resources:</b>	Approx. 2.3 billion tons
<b>Start of production:</b>	2014
<b>Annual production capacity:</b>	55 million tons
<b>Marubeni's equity interest:</b>	15%



Railway transporting Roy Hill iron ore



This concludes my explanation of business conditions at Marubeni. We will steadily and surely achieve the targets in "Global Challenge 2018" by continuing to undertake "Further reinforcement of our financial foundation" and "Evolving business strategy," the key priorities set forth in the plan.

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

**Fumiya Kokubu**  
President & CEO



## IoT-Big Data Strategy Department (IB Strategy Department)

### Mission

The mission of the IB Strategy Department is to closely watch changes in the business environment resulting from rapid advances in digital technology, promote utilization of leading-edge digital technologies such as IoT and AI in all of the Marubeni Group's business domains, and drive optimization of existing business and creation of new business models.

The Marubeni Group is now implementing differentiation strategies to increase business uniqueness and bolster strengths in each business domain. There are various approaches to differentiation, and the objective of the IB Strategy Department is to enhance the value of the Marubeni Group's existing businesses and peripheral businesses through an approach involving utilization of digital technologies.

### Functions and Activities

The IB Strategy Department is making full use of networks within and beyond the Marubeni Group to pursue enhancement of the Group's business value by combining a vertical approach (product axis) and a horizontal approach (group-level axis).

The vertical approach involves formulating and promoting digital strategies, providing business seeds that make use of leading-edge digital technologies, and assisting with proof of concept (PoC) of business ideas on behalf of Marubeni's divisions and corporate staff departments.

The horizontal approach in the other hand involves taking up project themes that are important from a groupwide perspective and considering their utilization within the Marubeni Group. The department is currently addressing a number of such themes, including predictive maintenance, optimal operation, operational efficiency improvement, and digital marketing, and is gradually adding new themes.

#### The IB Strategy Department's Principal Activities

##### ●Formulation and promotion of digital strategy

Formulation and promotion of utilized digital strategy aligned with groupwide strategies and strategic vectors

##### ●Incubation

Assistance in embodying bottom-up ideas that boost new value creation

##### ●Fusion of digital technologies and existing businesses

Maximization of value dormant in the Marubeni Group and response to changes that transcend the product axis



**Takayuki Furuya**

General Manager,  
IoT Big Data Strategy Department

### Eight Months after the Launch — Feeling the Passion in Workplaces

Our initiatives to enhance business value from the perspective of digital technologies involve rethinking from the ground up how to increase earnings. Many of our businesses have made existing resources, networks that span the globe, and information gathering capabilities as their source of competitiveness. With differentiation strategies, however, we are required to use ideas to earn profits more efficiently. What's important is not digital technologies themselves, but how we create new value by skillfully using them as tools. Eight months after the launch of the IB Strategy Department, we have received many business ideas involving the use of digital technology and feel the power of ideas and passion in Group workplaces.

Use Case

1



## Video Study

### Searching for a “Success Formula” Using Video Analysis — Start of a Demonstration Experiment at MERRELL Stores —

#### Visualizing Customer Approaches with Video and POS Data, with a View to Future Utilization of AI

Since the efficiency of retail store operation depends largely on the experience of store employees, Marubeni started a project in response to workplaces’ desire to quantify the effectiveness of various selling methods and devise a “success formula”.

In partnership with Konica Minolta, Inc., the department is conducting a demonstration experiment that involves installing cameras in retail stores operated by MERRELL, a U.S. outdoor clothing and footwear company, analyzing data on the number of customers in stores, their movements, and their purchase behavior, identifying correlations among the data, and attempting to link the findings to examination and visualization of marketing measures.

Marubeni plans to visualize the impact of layout changes, sales promotions, and other measures and analyze factors such as the correlation between customer service or trying on products and purchasing of merchandise. This will also be beneficial in preparation

of demand forecasts that combine weather and other external data in discovering key factors that contribute to purchasing.

Utilization of AI is expected to further expand the scope of application in the future to include store improvement proposals, trend study through analysis of store visitor images, sophisticated forecasting of customer behavior, and other ideas, limited only by the imagination.

Camera installed in stores



Stores carrying out demonstration experiment

- 1 MERRELL Futakotamagawa store
- 2 MERRELL Kichijoji store



Use Case

2

## Image Diagnosis System

### Contributing to the Development of Medical Technology in Japan — A Business Partnership with a Leader in AI Diagnostic Imaging in the U.S. —

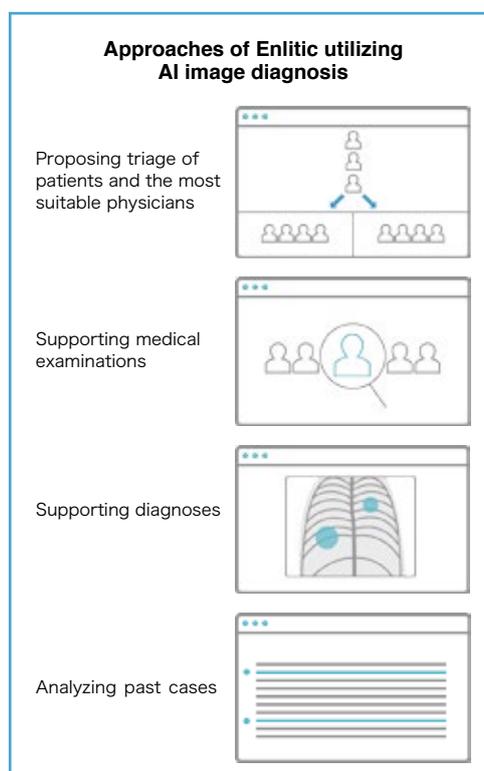
#### Utilizing AI Technology to Support Image Diagnosis by Physicians

Marubeni has concluded an exclusive business partnership agreement with U.S.-based Enlitic, Inc. to support business development in the Japanese market for an image diagnosis system developed by Enlitic that uses AI technology.

While Japan is said to be the world leader in the number of CT and MRI systems per capita, there is a shortage of radiologists who perform image diagnosis, while image diagnosis using AI has not yet been commercially applied. Enlitic's image diagnosis system is equipped with deep learning artificial intelligence that examines more than 200 million images, is capable of automatic

and early discrimination of malignancies and other diseases from chest X-ray and CT data, and can support image diagnosis by physicians. The system is expected to not only contribute to the early detection of diseases as an excellent diagnostic aid, but also to have great social significance as a means of reducing medical costs.

Under this business partnership, Marubeni will promote business development of the system by joining forces with partners that sell medical equipment to proceed with verification in preparing for commercialization in Japan and by assisting with the regulatory approval process.



#### The Opportunity for Digital Technologies in the Marubeni Group

The Marubeni Group began digital technology utilization initiatives on a full-scale basis in the previous fiscal year. However, while there was enthusiasm in the workplace for new value creation through utilization of AI and other technologies, there were times when employees didn't clearly know what to do nor could they find the appropriate data. In these circumstances, in supporting various programs, the IB Strategy Department serves as a guide in defining issues and goals and properly proceeding on the basis of hypotheses. At the same time, since nothing is created when the generation of ideas slows down, the department intends to place importance on motivation and enthusiasm at workplaces and engage in initiatives that balance these factors.

There are two scenarios for AI utilization in the Marubeni Group in the future. One is to utilize AI to increase internal productivity. The other is to leverage our advantage of doing business around the world to create a brand new form of businesses utilizing AI and other new technologies. This can be considered the mission of the Marubeni Group. Since the functions of the IB Strategy Department will become increasingly necessary, the department will collaborate with internal and external organizations and continue striving to become a dependable partner in the Group.