Business Investment

Business Investment Process

Along with strategic business alliances, business investment is an important means of creating and expanding businesses. To actively promote strategic investments in areas of strength in a timely manner, we choose the optimal structure from a wide range of methods, such as establishing a wholly owned subsidiary, implementing joint investment with partners, and participating in management through M&As or converting to a consolidated subsidiary. In principle, we continuously hold investments. After making each investment, we work to maximize the investee's corporate value and to expand trading profits and dividends received by fully utilizing our Groupwide capabilities. Given such considerations as increases in larger-scale investments in recent years, we are rigorously screening the appropriateness of the business plan and acquisition price. For existing investments, to increase investment earnings and to exit quickly from low-efficiency assets, we are further strengthening monitoring procedures, centered on instituting more rigorous exit conditions and thoroughly implementing periodic investment review.

Investment Decisions

Decision-Making Process

We have established a multilayered decision-making process that achieves quick decision-making by giving a certain level of discretion to the Division Companies while striving to pursue investment return and curb investment risk.

Division Companies

- Applicants (responsible divisions)
- ↓
- Administrative divisions
- ↓ …Opinion based on risk analysis
- Division Company Management Committee (DMC) — Deliberation
- ↓
- Division Company President — Decision
- ↓
- Investment Consultative Committee*
- ↓
- Headquarters Management Committee (HMC)

Related administrative divisions express their opinions from various specialized perspectives regarding the application made by the applicants. Following careful discussion at the DMC, the Division Company President will make a final decision.

If the project needs further consideration and screening in terms of profitability and strategy, the project is discussed at the Investment Consultative Committee prior to the HMC.

* Investment Consultative Committee: CFO serves as the chair. Core members include CAO, General Manager of the Corporate Planning & Administration Division, General Manager of the Legal Division, General Manager of the General Accounting Control Division, General Manager of the Finance Division, and General Manager of the Global Risk Management Division. Meetings are also attended by one full-time Audit & Supervisory Board Member.

Projects that exceed the Division Company President's authority must be approved by the HMC.

Points for Making Decisions

Investment Purpose and Formulation of Growth Strategies	Verification of Business Plan Appropriateness	Compliance with Investment Criteria	Risk Analysis	Verification of Internal Control Status	Setting Exit Conditions

Thoroughly Verifying Appropriateness of Business Plan

- Scrutinizing business plans before making a new investment (including sensitivity analysis)
- Concrete countermeasures for downward divergence from original plan (including setting of exit measures)

Investment Criteria

- Investment efficiency based on Net Present Value (NPV) calculated from investee's free cash flows:
  When calculating NPV, about 70 hurdle rates (by country) are used according to industry.
- Cash inflows into ITOCHU, such as dividends received and earnings from trade activities
- Scale of investee's earnings

* From April 2021, increased from the previous around 40 hurdle rates by industry.

ESG Risk Evaluation

- Evaluate in advance the impact on the environment, society, etc., as well as the corporate governance status of the investment target using an ESG checklist composed of 33 items
- Conduct multifaceted ESG assessments, including on-site surveys, to prevent environmental pollution and other problems among Group companies even following investment

➡ Page 78 ESG Risk Assessment for New Business Investment Projects

Setting Exit Conditions

- Setting clear and feasible exit measures before making investment
  Clear exit conditions:
  Setting quantitative exit conditions that, in principle, call for exiting from the investment if conditions are met
  Feasible exit measures:
  Obtaining advance agreement with partners on exit conditions, etc.

➡ Page 42 "Prevent"—Upgrading Business Investment Management

Asset Replacement

- Promoting replacement of low-efficiency assets that meet exit criteria, as well as businesses that have lost strategic significance

Control of Cash: Continuously focus on our policy to maintain positive core free cash flows after deducting shareholder returns

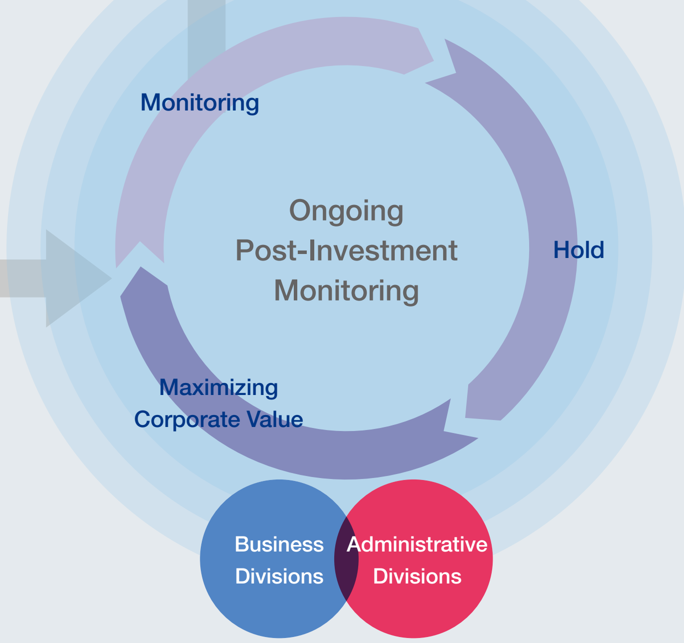
Exit Criteria

Monitoring

- Implementing review one year after investment
- Implementing periodic review for all business investments annually
- Reevaluating policies from qualitative (strategic significance, etc.) and quantitative (scale of earnings, investment efficiency, etc.) perspectives
- Formulating improvement measures for subsidiaries and affiliates with issues of deficits or dividends payout
- Following up throughout the year on policies and issue-improvement measures formulated in periodic review

For details
See Page 42

Execution of Investment

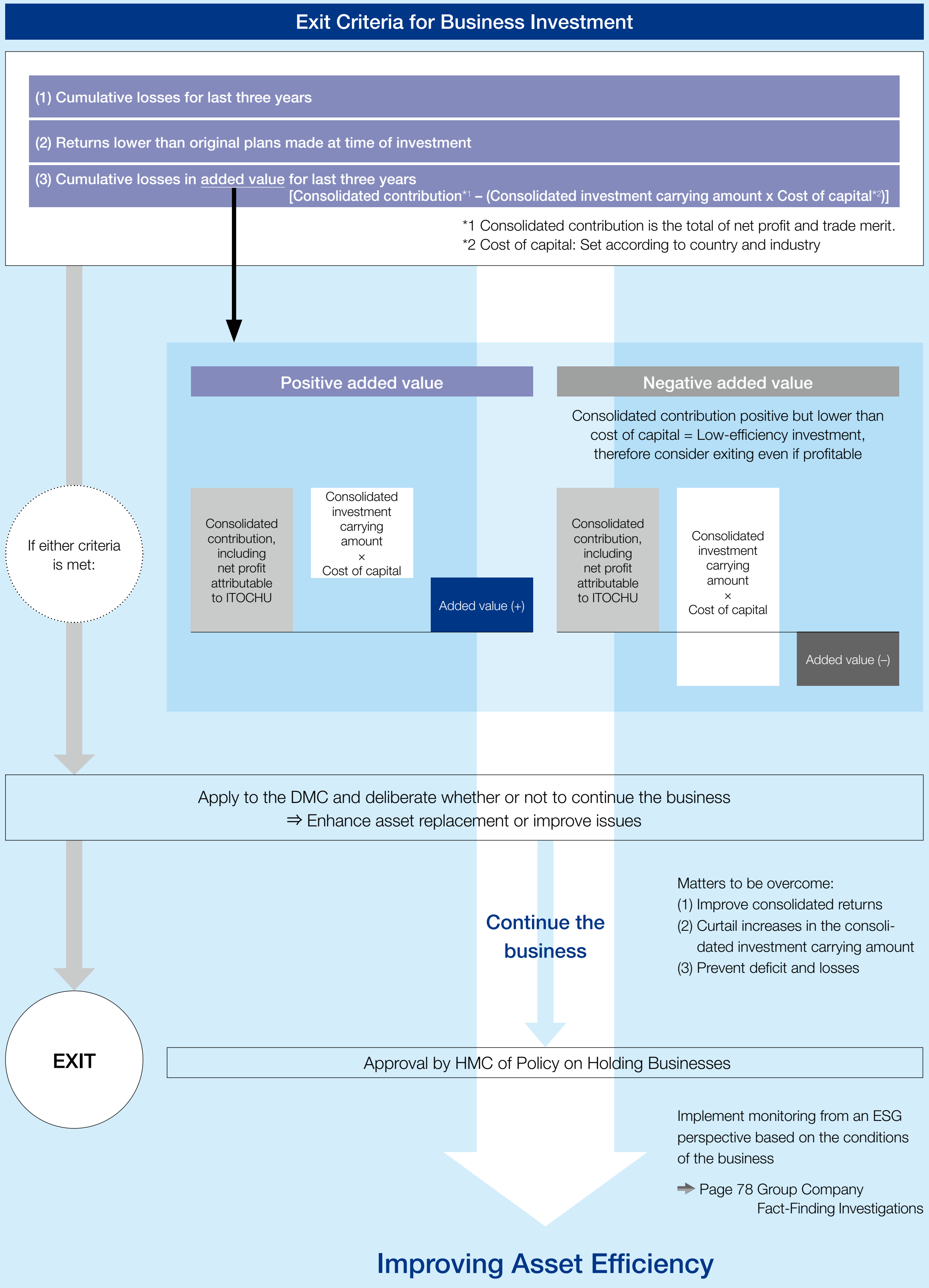


Enhancing Business Value Continuously through Collaboration

In each business investment process—including investment decisions and execution, monitoring, and asset replacement—administrative divisions provide a high degree of expertise that supports business divisions in implementing the Company's fundamental "earn, cut, prevent" principles.

For details **"Prevent"—Upgrading Business Investment Management**

We are enhancing asset replacement and improving issues of subsidiaries and affiliates by monitoring returns against original plans made at the time of investment. Moreover, even Group companies reporting profits should potentially be exited if returns are lower than the cost of capital.

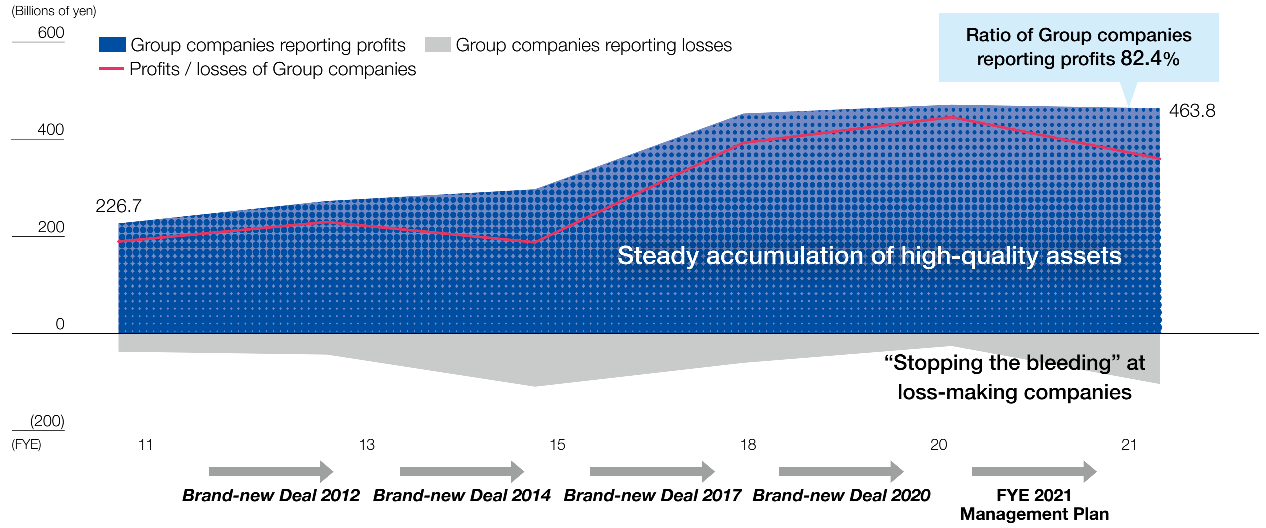


Enhancing the Corporate Value of Group Companies

ITOCHU increases the corporate value of Group companies by rigorously implementing the "earn, cut, prevent" fundamental business principles and strengthening monitoring, which is based on various types of assessments. For example, we steadily accumulate high-quality assets by conducting qualitative and quantitative verifications that take into consideration synergies in assessing investment efficiency and the strategic significance and earnings scale of business investments. Moreover, in relation to concern over possible future losses, at an early stage we evaluate investments and take appropriate measures by consistently applying conservative premises both for credit management and evaluations of the recoverability of various types of assets. Thanks to these activities, we have built a robust earnings base that is diversified across a wide range of business areas mainly in the non-resource sector and which is therefore highly resilient to economic volatility.

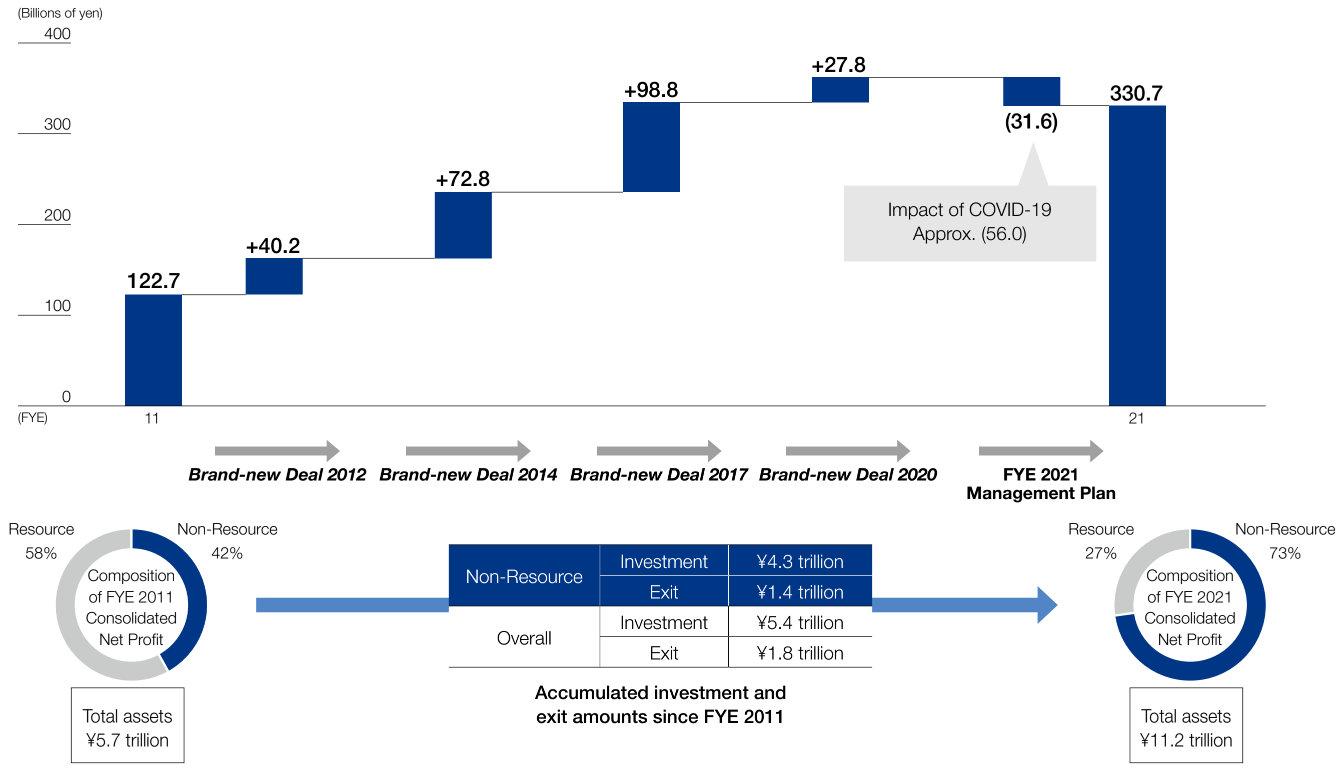
Achievement (1)

Continuous Accumulation of the Profits of Group Companies Through Implementation of "Earn, Cut, Prevent" Principles



Achievement (2)

Improvement in Core Profit-Making Power in the Non-Resource Sector Through Flexible, Continuous Asset Replacement



Non-Resource	Investment	¥4.3 trillion
	Exit	¥1.4 trillion
Overall	Investment	¥5.4 trillion
	Exit	¥1.8 trillion

Accumulated investment and exit amounts since FYE 2011