Challenges to Date Future Challenges

Around 2010, in the middle of the resource boom, ITOCHU reconsidered its true strengths as a general trading company not affiliated with any of Japan's *Zaibatsu* industrial groups. We were the first to clarify our growth strategy of generating earnings in the non-resource sector, and on that basis we steadily reformed our business models. This section explains how ITOCHU made steady progress to become No. 3 among general trading companies in net profit in FYE 2012 and No. 1 in the non-resource sector in FYE 2015, as well as the Company's path to new growth under "Brand-new Deal 2017" (FYE 2016–2018).

Market Capitalization (including treasury stock)

¥1.3 trillion → ¥2.3 trillion

March 31, 2010 → March 31, 2016

Cash Dividends per Share

¥18 → ¥50

FYE 2011 → FYE 2016

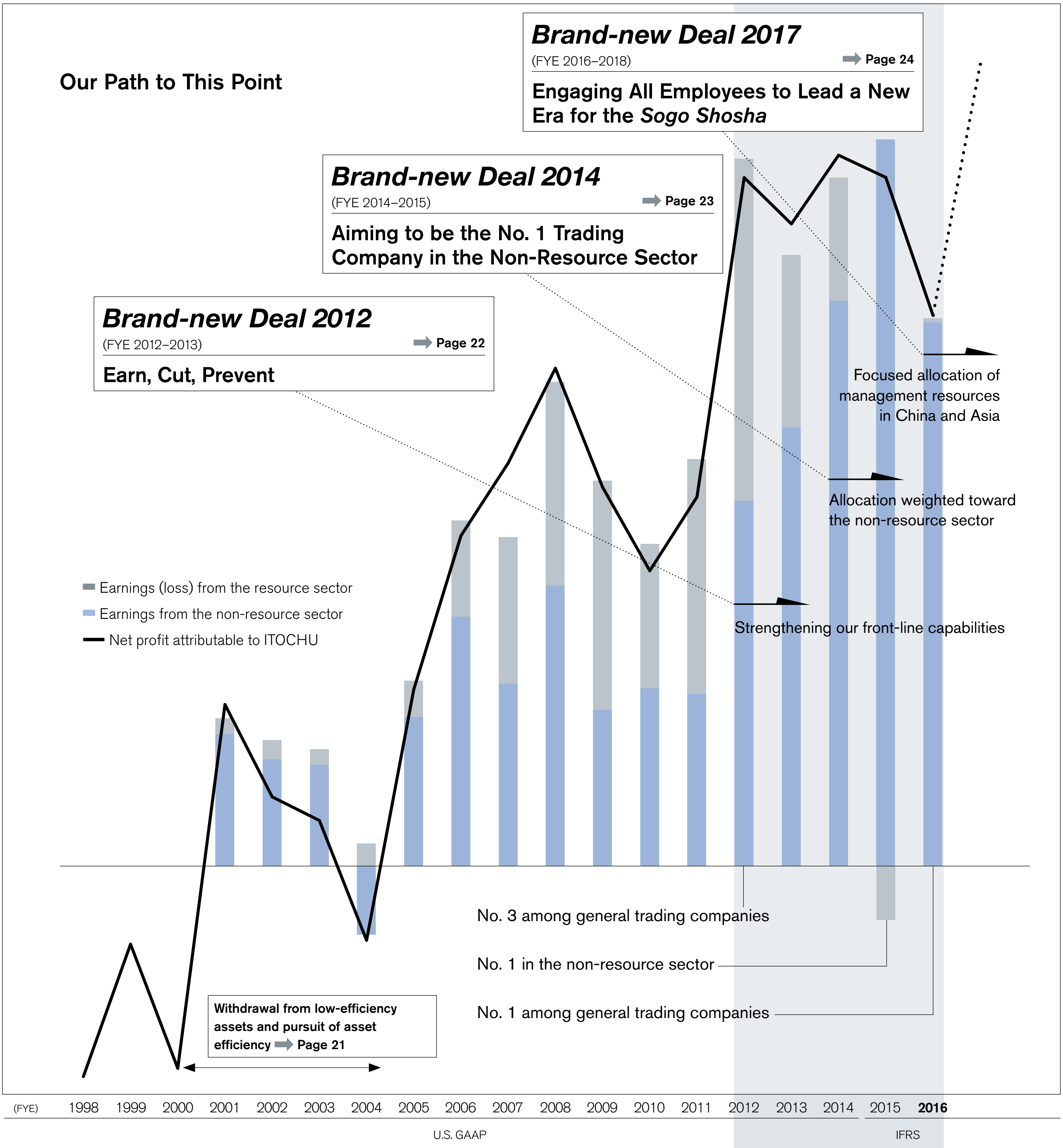
Core Free Cash Flows in FYE 2016, excluding Investment and Loan related to CITIC

Approx. ¥410 billion

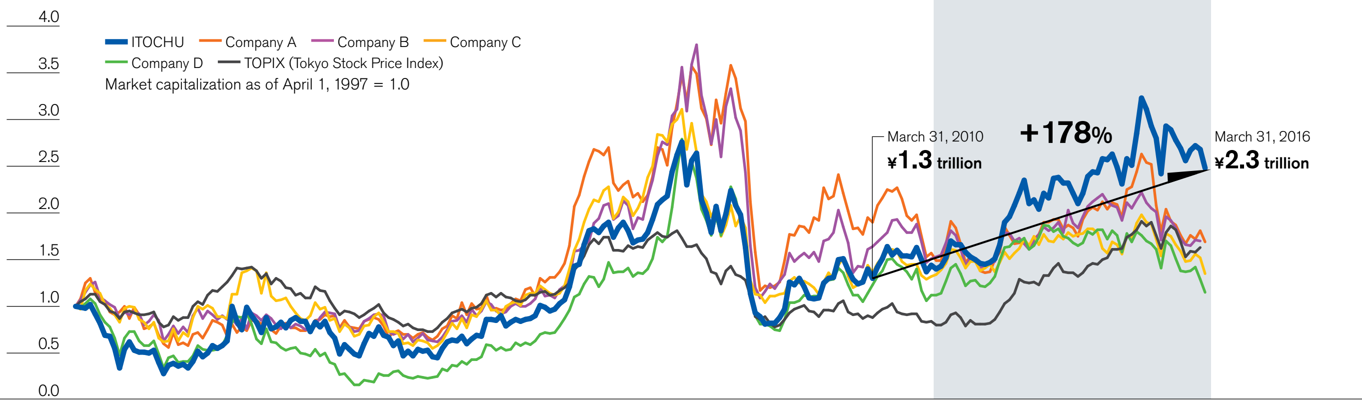
FYE 2016 Net Profit Attributable to ITOCHU

No.1 among General Trading Companies

Our Path to This Point



Market Capitalization of Five General Trading Companies (Monthly)*



* Includes treasury stock

ITOCHU Corporation — Our Present and Future

This section explains ITOCHU's potential for sustained growth in profit in the future by describing the background to the formation of ITOCHU's current approach as well as the true strengths ITOCHU inherited from earlier eras and the turning points the Company faced.

True Strength ❶

Front-line Capabilities and Individual Capabilities

General trading companies can be divided roughly into the *Zaibatsu* affiliated companies, which have strong ties to heavy industry, and the non-*Zaibatsu* affiliated companies, which principally trace their origins to the textile industry, one of Japan's leading industries in the Meiji period. ITOCHU, which was established in 1858 with textiles as its founding industry, is a non-*Zaibatsu* affiliated general trading company. As Japan's industrial structure shifted towards heavy industry, we expanded from our roots in the textile industry and broadened the scope of our operations to include a wide range of fields. The individual capabilities that we cultivated through business activities in fields close to consumers formed ITOCHU's corporate culture, which was compared to that of a merchant band.

Founder — Chubei Itoh I
Chubei Itoh I, the founder of ITOCHU, placed a high value on *sampo yoshi*, the management philosophy of the Ohmi merchants. After more than a century, this philosophy was incorporated into ITOCHU's Corporate Message — I am One with Infinite Missions — which was formulated in 2015, and it has become the foundation of the Company's sustainable growth.

True Strength ❷

Competitive Edge in Textiles, Food, and General Products (Consumer-Related Sector)

At one point, general trading companies were primarily involved in intermediate distribution linking sellers and buyers, but this position was continually threatened by disintermediation. In the 1970s, ITOCHU created a new business model in the textile business that entailed the addition of value in the form of "branding" to the existing business of import and sales of woolen fabrics. This led to a major change in the business models of general trading companies. This pursuit of added value and leveraging of initiative became the driving forces for the transformation of our strengths in areas close to consumers into strengths in the consumer-related sector.

The Company built solid positions in the consumer-related sector. In the textile business, we continue to create added value, and in the food business we have built a value chain that organically extends from food resources to retail. In the forest products & general merchandise business, we have the world's No. 1 pulp trading business.

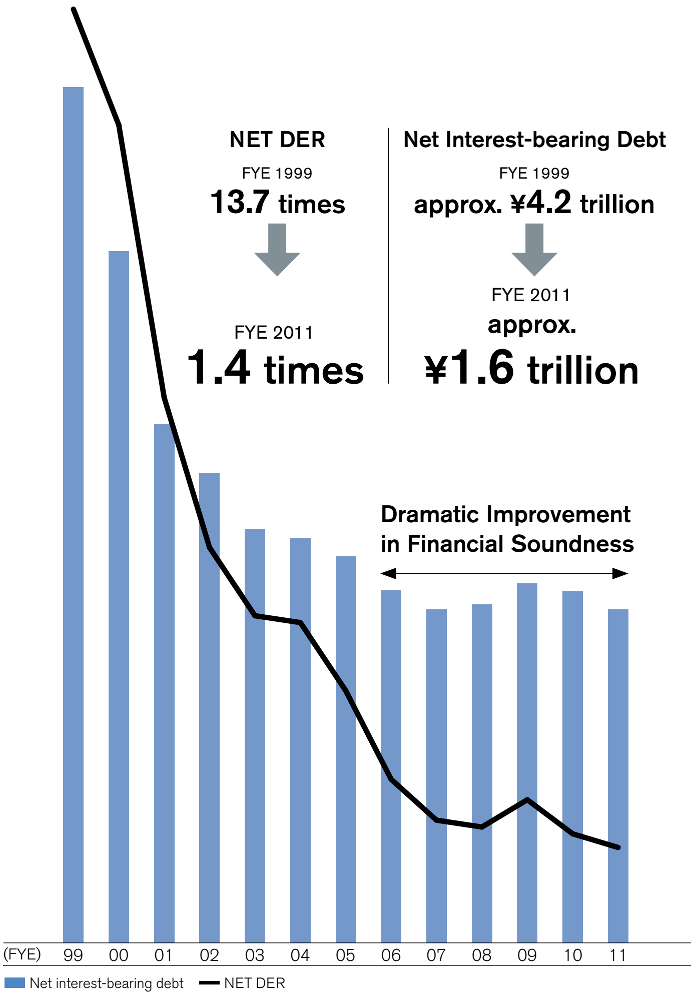
Foundation for Proactive Management

Withdrawal from Low-efficiency Assets and Pursuit of Asset Efficiency

From the late 1990s to the early 2000s, ITOCHU was burdened by large amounts of interest-bearing debt and unprofitable assets. We faced a crisis which threatened our continued existence. From FYE 2000 to FYE 2005, we sold, scaled down, or withdrew from inefficient and unprofitable businesses. In addition, we focused the allocation of our limited management resources on the consumer-related sector and reformed our earnings model. Moreover, in FYE 2000 we introduced risk capital management (RCM), and began to implement quantitative risk management and control. That framework for rigorous management of asset efficiency has since become our current asset strategies, which comprise “investment in areas where we have strengths,” “risk management,” and “pursuit of asset efficiency.” Also, our stable financial foundation, which was strengthened through a rigorous focus on financial discipline up to FYE 2014, has been the foundation for our proactive management from FYE 2011.

In the late 1990s and early 2000s, we focused our investment of management resources on fields in which we have strengths, such as the acquisition of FamilyMart in 1998, which marked the start of our full-scale entry into the retail field. This focus later became the foundation for our overwhelming competitive edge in the consumer-related sector.

Improving Financial Position: FYE 1999–2011



Leveraging Our True Strengths to Take On Challenges

Brand-new Deal 2012 / Brand-new Deal 2014

We implemented structural reforms, such as reorganization measures and a reevaluation of our compensation system. In addition, in FYE 2011 we advanced the processing of inefficient assets and reevaluated our investment criteria. In these ways, we reinforced our footing. From FYE 2012, we made a major change in our course and began to rigorously implement proactive management. Under the "Brand-new Deal 2012" and "Brand-new Deal 2014" plans, we focused on our strengths—individual capabilities and the consumer-related sector.

Brand-new Deal 2012

(FYE 2012–2013)

Earn, Cut, Prevent

In comparison with investment of approximately ¥560.0 billion on a gross basis under the previous medium-term management plan, under this plan we increased cumulative total investment to approximately ¥970.0 billion over two years and we accumulated superior assets. One-half of this amount, approximately ¥485.0 billion, was invested in the non-resource sector, and we made large-scale investments, such as in METSA FIBRE, of Finland, one of the world's leading softwood pulp producers. We strengthened our infrastructure-related businesses, which include wind power and water-related businesses, and our automobile-related businesses, which provide a stable earnings base. In this way, we expanded our machinery business, which had a comparatively small scale of earnings.

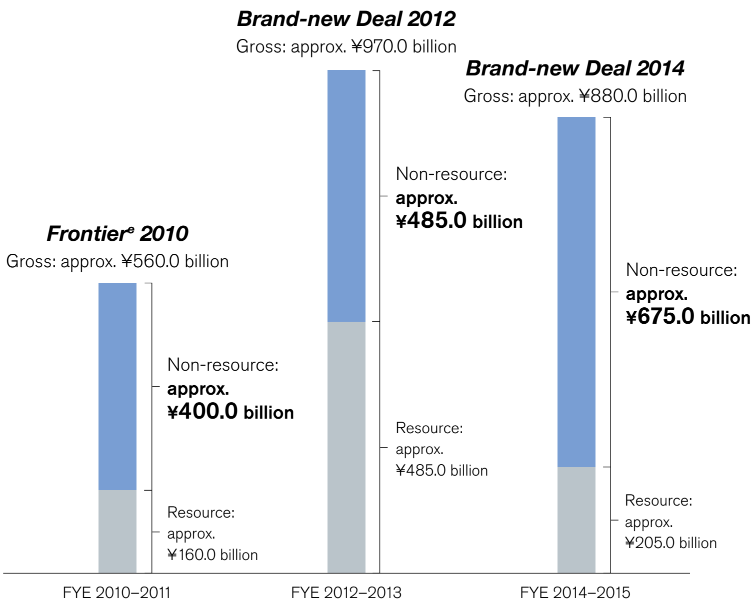
In FYE 2012, we recorded profit of ¥300.5 billion, the highest in ITOCHU's history, and reinforced our position as one of the top three general trading companies. In FYE 2013, with resource prices falling, the non-resource sector recorded solid growth and supported earnings for the entire company. In addition, we also revised our shareholder return policy and instituted a highly transparent policy linked to net profit.

STEP 1

Toward No. 3 among General Trading Companies

Shift to Full-scale Proactive Management While Shifting Focus to Non-resource Sector

Amount of Investment



And then, we moved on to *"Brand-new Deal 2017."*

STEP 2

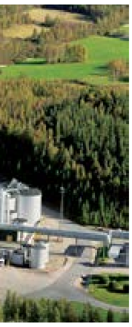
Toward No. 1 in the Non-resource Sector

Brand-new Deal 2014

(FYE 2014–2015)

Aiming to be the No. 1 Trading Company in the Non-Resource Sector

Our next step as one of the top three general trading companies, was the target in "Brand-new Deal 2014"—to become No. 1 in the non-resource sector. Investment was approximately ¥880.0 billion on a gross basis, of which two-thirds was invested in the non-resource sector. We also advanced cash flow management. Moreover, in addition to the consumer-related sector, we also took steps to raise the earnings base in the basic industry-related sector, such as machinery and chemicals. We implemented a range of initiatives during the period covered by this plan, such as making the Dole business and Edwin subsidiaries, implementing an additional acquisition of FamilyMart, and concluding a strategic business alliance and capital participation with CP Group. These initiatives were focused on the next step. In FYE 2014, we once again set a new historical record for profits, and in FYE 2015, despite a significant decline in resource prices, we solidified our position as one of the top general trading companies from the result of our growth in the non-resource sector.



True Strength 3

Leading Japanese Trading Company in China

More than 40 years have passed since 1972, when ITOCHU became the first general trading company ratified to resume trade between Japan and China. ITOCHU has continued to lead Japanese companies and has developed such strengths as business infrastructure, human relations networks, and business know-how. Through strategic business alliance and capital participation agreements with CITIC and the CP Group, we have established a foundation for strengthening our position as the leading Japanese trading company in China.

×

Business Opportunities

Increase in Consumer Spending in China and Asia

We are trying to leverage our strengths in order to grasp two business opportunities. The first is consumer spending in China, where the driving force of economic growth has shifted from investment/exports to internal demand, leading to a transformation in consumer spending from quantity to quality. The second is consumer spending in Asia, where purchasing power is expected to increase substantially against a background of economic growth.

Population of Affluent and Upper Middle Class Consumers

	ASEAN	China
in 2020	160 million	500 million
Average annual growth rate of	8.4%	9.8%
in 2010	70 million	200 million

Source: Ministry of Economy, Trade and Industry, White Paper on International Economy and Trade 2013

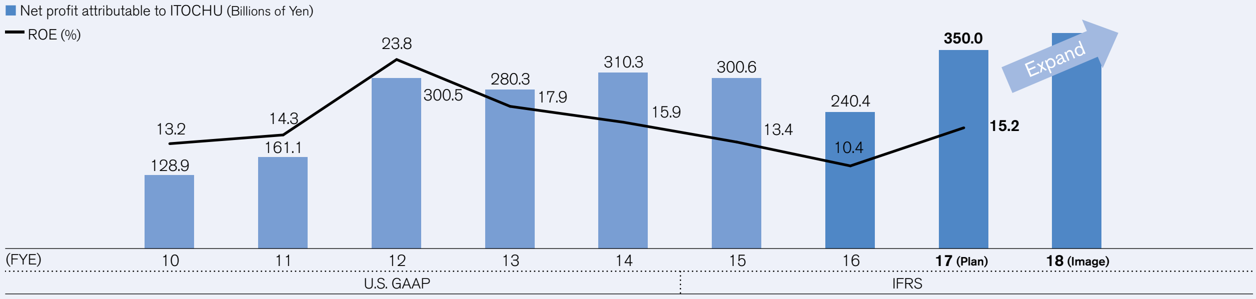
Medium-Term Management Plan

Brand-new Deal 2017: Targets

Medium-Term Management Plan
Brand-new Deal 2017
Engaging All Employees to Lead A New Era for the Sogo Shosha

Build a solid earnings base to generate ¥400.0 billion in net profit by progressing growth strategy especially focused on the non-resource sector.

Pursue to consistently exceed ROE of 13%, whilst further accumulating shareholders' equity.



Frontier[e] 2010 → Brand-new Deal 2012 → Brand-new Deal 2014 → **Brand-new Deal 2017**

Brand-new Deal 2017: Basic Policies

Strengthen Our Financial Position	Accelerate Asset Replacement Stringent Cash Flow Management	■ Accelerate asset replacement to further improve quality and income efficiency of assets. ■ Realize sustainable positive Free Cash Flow by strengthen cash generation capacity and comply investment policy. ■ Thorough corporate management with focus on cost of capital.
Build Solid Earnings Base to Generate ¥400 Billion Level Net Profit	Enhance Progress Cooperation with Strategic Partners Further Reinforcement of the Non-Resource Sector	■ Expand operating capabilities and business areas in China and the Asian region by maximizing synergetic benefits from the strategic alliance with CITIC and CP Group. ■ Further strengthen the earning base utilizing the superiority and business strength in the non-resource sector. ■ Increase profitability by expanding existing business and proceeds from new projects.

Investment Policy

Aggressively pursue synergetic profit derived from the strategic alliance with CITIC and CP Group, especially in China and the ASEAN regions.

New Investments: Cap new investments to be made only within the aggregate amount generated by core operating cash flows*1 and withdrawal from existing projects.

Core Free Cash Flows*2	Consecutively generate in excess of ¥100.0 billion of positive core free cash flows

Core Operating Cash Flows Cash Generated by Withdrawal from Projects	New Investments	■ Investment into joint projects with CITIC and CP Group ■ Other investments

*1 "Operating cash flows" minus "increase/decrease of working capital"
*2 Excludes increase/decrease of working capital

FYE 2016 Results / FYE 2017 Plan

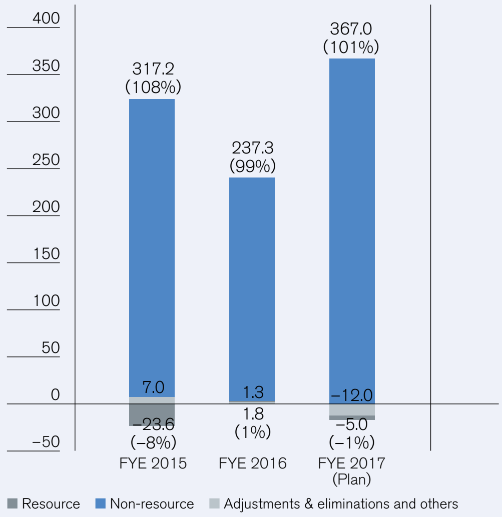
Billions of Yen	FYE 2016 Plan	FYE 2016 Results	FYE 2017 Plan	Increase / Decrease
Gross trading profit	1,100.0	1,069.7	1,080.0	+ 10.3
Trading income	240.0	226.4	240.0	+ 13.6
Equity in earnings of associates and joint ventures	120.0	147.7	180.0	+ 32.3
Net profit attributable to ITOCHU	330.0	240.4	350.0	+ 109.6
Exchange rate (¥/US$, average in the year)	115	121	110	–11 (Appreciation)

Billions of Yen	March 31, 2015 Results	March 31, 2016 Results	March 31, 2017 Plan	Increase / Decrease
Total assets	8,560.7	8,036.4	8,200.0	+ 163.6
Net interest-bearing debt	2,380.5	2,555.6	2,500.0	– 55.6
Total shareholders' equity	2,433.2	2,193.7	2,400.0	+ 206.3
NET DER	0.98 times	1.17 times	1.0 times	improve 0.1 pt.
ROE	13.4%	10.4%	15.2%	+ 4.8pt.

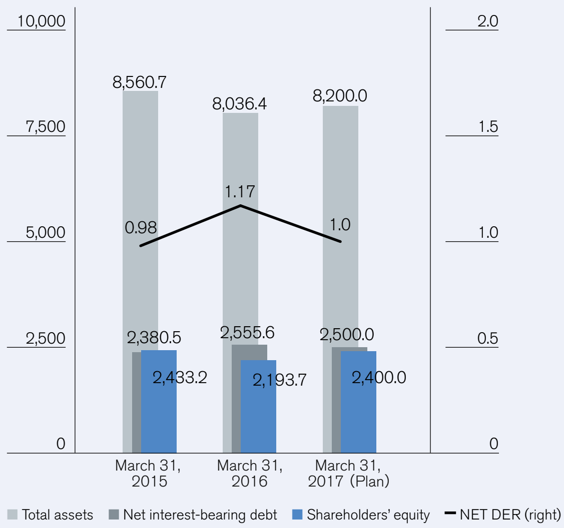
Assumptions	FYE 2015 Results	FYE 2016 Results	FYE 2017 Plan	(Reference) Sensitivities on net profit attributable to ITOCHU
Exchange rate (¥/US$, average in the year)	108	121	110	Approx. –¥1.5 billion (¥1 appreciation against US$)
Exchange rate (¥/US$, at year-end)	120	113	110	
Interest (%) YEN TIBOR 3M, average	0.20%	0.16%	0.20%	Approx. –¥8.5 billion (1% increase)
Crude Oil (US$/BBL)*3	86	49	35	±¥0.33 billion
Iron Ore (US$/TON) (fine ore)	93*4	53*4	N.A.*5	±¥1.18 billion
Hard coking coal (US$/TON)	119*4	93*4	N.A.*5	±¥0.36 billion
Thermal coal (US$/TON)	81.8*4	67.8*4	N.A.*5	

*3 The price of crude oil is the price of Brent crude oil.
*4 FYE 2015 and FYE 2016 prices for iron ore, hard coking coal and thermal coal are prices that ITOCHU regards as general transaction prices based on the market.
*5 In the prices for iron ore, hard coking coal and thermal coal used in the FYE 2017 plan, the prices for FYE 2017 1st quarter are assumed based on the prices that major suppliers and customers have agreed on regarding shipments as follows and current spot prices, and the prices for FYE 2017 2nd to 4th quarter are assumed based on the prices agreed on the 1st quarter. However, the actual sales prices are decided based on negotiations with each customer, ore type and coal type.
Iron Ore US$39/ton, Hard coking coal US$84/ton, Thermal coal US$61.6/ton

Non-Resource / Resource



Balance Sheets

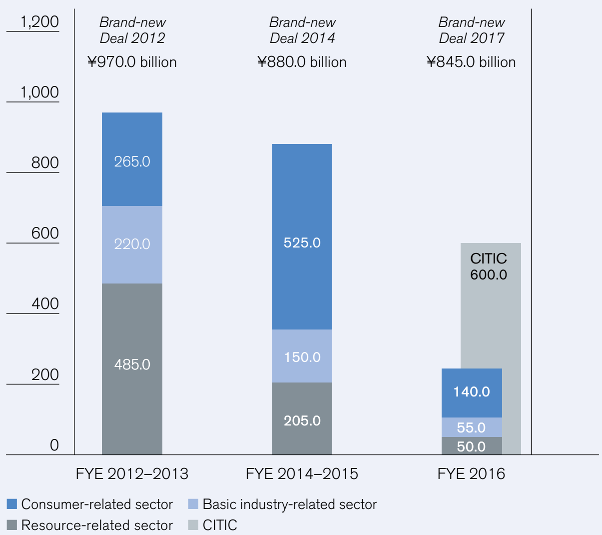


Major Investments in FYE 2016 (excluding CITIC)

Non-Resource Related*6	Additional acquisition of FamilyMart / Bosideng / Provence Huiles / Prima Meat Packers capital increase / METSA FIBRE loan, etc.
Resource-Related	IMEA expansion / ACG investment / BTC pipeline investment, etc.

*6 Non-resource related sector includes consumer-related sector and basic industry-related sector.

Investment (Gross)



CFO Interview

Further Develop Financial and Capital Strategies and Increase Shareholder Value.

Member of the Board,
Managing Executive Officer, CFO
Tsuyoshi Hachimura

Q Would you review the financial and capital strategies implemented in FYE 2016?

A We adhered to the concept of controlling borrowings and made steady progress in "strengthening our financial position."

Under the current medium-term management plan, which started in FYE 2016, our basic policies are to build an earnings base to generate ¥400.0 billion in net profit and to strengthen our financial position. In regard to new investments, our policy is to implement investment within the limits of core operating cash flows and cash generated from exits. Under this policy, our framework is to control investment and use the free cash flows that we generate to provide a return to shareholders and to further reduce debt. In FYE 2016, we steadily accumulated operating cash flows and accelerated asset replacement. As a result, core free cash flows, excluding the CITIC investment, was ¥410.0 billion, substantially exceeding the target figure of ¥100.0 billion. Debt increased accompanying the CITIC investment, but that increase was held to a minimal level, and we moved forward with initiatives targeting NET DER of 1.0 times.

Moreover, ITOCHU is highly sensitive to risk, and one of the characteristics of the Company is an emphasis on always taking action quickly. In consideration of the increasingly uncertain global economic environment, we decided that we needed to take steps to control future risk, and in FYE 2016 we implemented impairment processing. This measure affected our shareholders' equity and various ratios, such as NET DER, but the purpose was to address concerns about the future. I believe that calmly focusing on the economic environment, rapidly taking action, and reducing the management burden are elements of the Company's drive to "strengthen our financial position."

Q Would you discuss key points of financial and capital strategies in FYE 2017?

A We will clarify the four commitments and strive to meet stakeholders' expectations.

As CFO, I have four commitments for financial and capital strategies in FYE 2017.

(1) Enhancing shareholder return (performance-linked and progressive dividends, with minimum guarantee of ¥55 per share, an increase of ¥5 per share year on year)
(2) Achieving core free cash flows in excess of ¥100.0 billion
(3) Working to achieve NET DER of 1.0 times
(4) Achieving ROE of more than 13%

FYE 2017 will be the second year of the current medium-term management plan, and under the framework for this plan I will continue working to implement the four commitments in FYE 2017.

In addition, one of my most important responsibilities as CFO is to maintain and enhance the Company's credit rating so that we can implement smooth fund-raising from a global viewpoint. Against a background of declines in resource prices, the environment for general trading company credit ratings is becoming increasingly severe, but as the Company advances measures to strengthen its financial position, we will demonstrate the differences between ITOCHU and other companies.

Q Please discuss the progress and future outlook for “strengthening cash flow management,” which is a focus for the Company.

A Our unshakable fundamental policy is to achieve core free cash flows of more than ¥100.0 billion.

In FYE 2016, operating cash flows exceeded ¥400.0 billion for the third consecutive year. We implemented aggressive asset replacement measures, including the collection of funds through the sale of PrimeSource and the meregr of NAMISA. In addition, we rigorously selected new investments. Accordingly, the level of cash generated substantially exceeded our initial targets. I believe that these results demonstrate the steady progress that we have made in expanding our earnings capacity and replacing assets, as well as the extent to which “cash flow management” has reached the level of each employee. In accelerating the CITIC/CP Group alliance strategy, in FYE 2017 we will reach a stage at which we will make a certain level of investment. Nonetheless, our unshakable fundamental policy is to achieve core free cash flows of more than ¥100.0 billion. In addition to adhering to our investment policy, we will also continue to advance the strengthening of cash flow management.

Q What are your thoughts about the cost of shareholders’ equity and ROE?

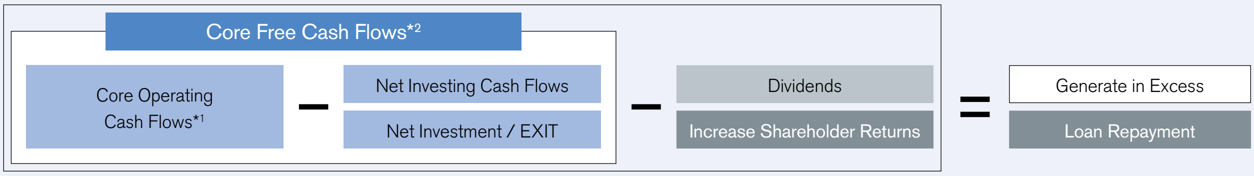
A We will strive to achieve capital efficiency at a level above the cost of shareholders’ equity.

Our ROE is No. 1 in the industry, and we have established a dominant position in comparison with other general trading companies. Moving forward, we will not aim to maintain and enhance ROE by reducing shareholders’ equity or increasing leverage. There will be no change to our approach of aiming to achieve ROE of more than 13% through growth in profits. There is a clear distinction between ITOCHU and other general trading companies that emphasize resource portfolios. We have established a business portfolio that is centered on the consumer-related sector, where volatility is comparatively low. The cost of shareholders’ equity as determined by the market currently contains a certain level of risk premium for general trading companies. However, we will clear this and continue to secure a level of ROE that is overwhelmingly superior to those of other general trading companies.

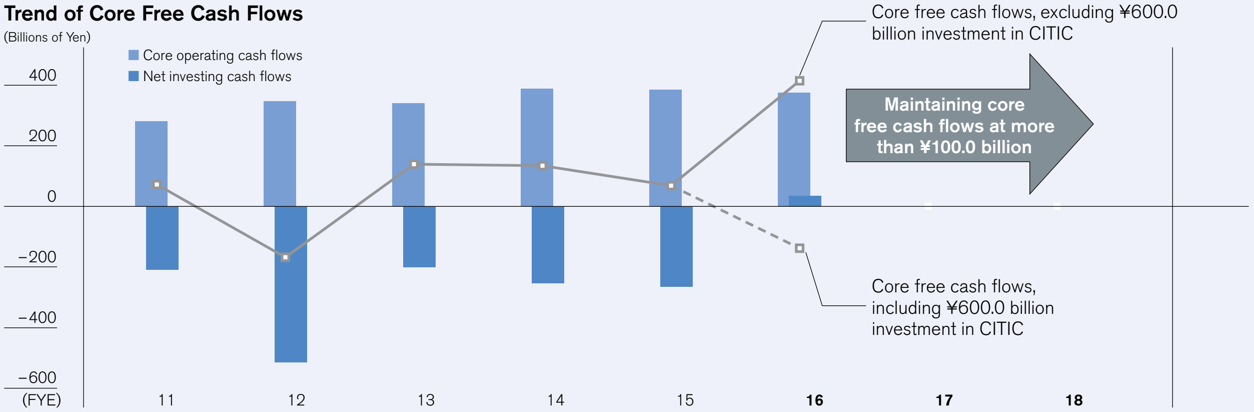
In the future, we will take steps to foster a deeper understanding of our businesses through communication with the markets. We will make progress in reducing the cost of shareholders’ equity, and at the same time we will increase shareholder value while paying constant attention to the cost of shareholders’ equity.

Stringent Cash Flow Management and Financial Position

We will maintain core free cash flows at more than ¥100.0 billion and allocate it to shareholder returns through dividends and to further repayment of borrowings. Moving forward, we will manage cash flows in a manner that is easier to understand and more clear.



Trend of Core Free Cash Flows



*1 “Operating cash flows” minus “increase/decrease of working capital”
*2 Excludes increase/decrease of working capital

Shareholder Value

Shareholder Return Policy, FYE 2016 Dividends, and Dividend Forecast for FYE 2017

Under the medium-term management plan, "Brand-new Deal 2017," ITOCHU has guaranteed a minimum per-share dividend of ¥50 in FYE 2016, ¥55 in FYE 2017, and ¥60 in FYE 2018, surpassing our record-high dividend each year. In addition, the Company will maintain its performance-linked and progressive dividend policy. Under this policy, to share results with shareholders in line with growth in net profit, we target a dividend payout ratio of 20% on net profit attributable to ITOCHU up to ¥200 billion, and a dividend payout ratio of approximately 30% on the portion of net profit attributable to ITOCHU exceeding ¥200 billion.

In accordance with this policy, annual per-share dividends of ¥50 (interim: ¥25, year-end: ¥25) were paid for FYE 2016.

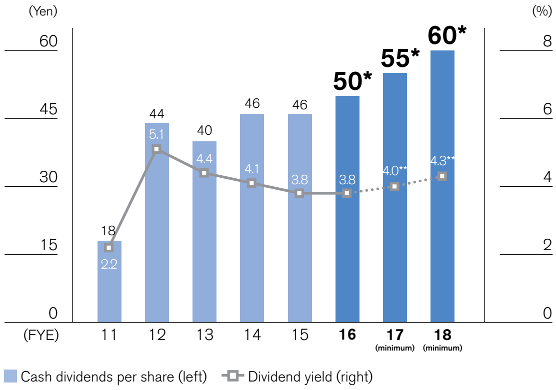
The dividend forecast for FYE 2017 calls for annual per-share dividends of ¥55 (interim: ¥27.5, year-end: ¥27.5).

"Aiming to Annually Surpass Our Record-high Dividend"

Brand-new Deal 2017

minimum guaranteed
FYE 2016: ¥50
FYE 2017: ¥55
FYE 2018: ¥60

Cash Dividends per Share / Dividend Yield



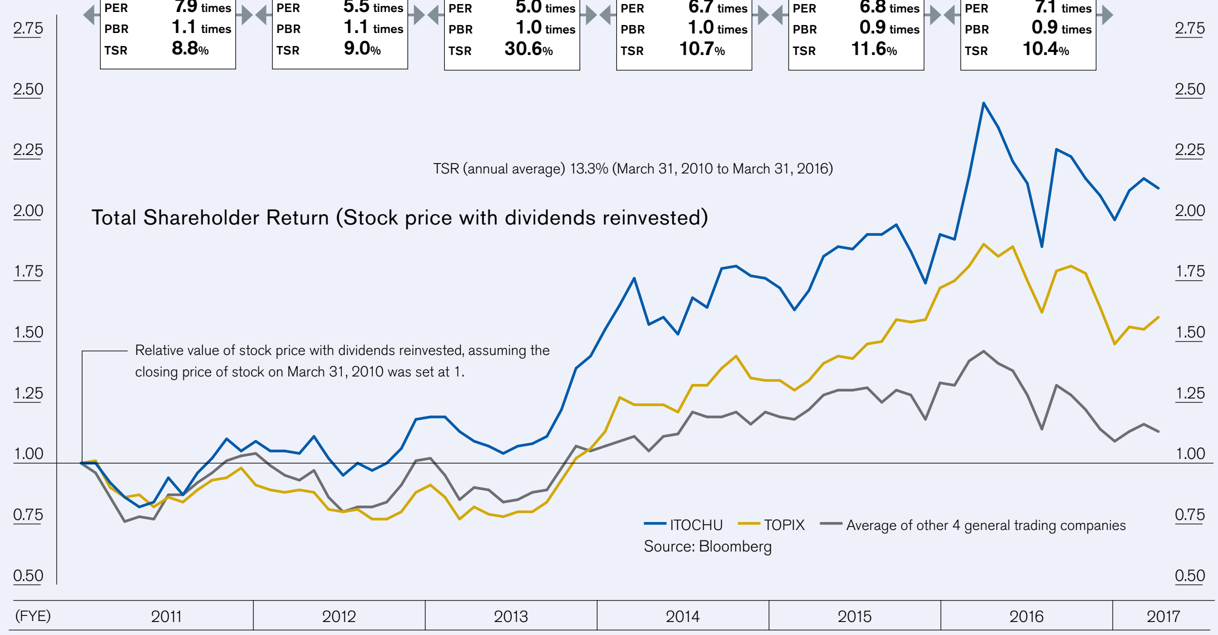
Cash dividends per share (left) Dividend yield (right)
* Minimum per-share dividend
** Dividend yield is calculated using the March 31, 2016, stock price of ¥1,386.0.
Dividend yield = Annual per-share dividends ÷ Stock price at previous fiscal year-end

Stock Price / PER / PBR / TSR

In TSR, ITOCHU has significantly outperformed TOPIX and the average for the other four general trading companies. In the future, we will continue working to steadily increase shareholder value.

Stock price: Annual average of daily trading value
PER: Daily average of (Stock price x Number of issued shares excluding treasury stock ÷ Outlook for net profit attributable to ITOCHU, announced by ITOCHU)
PBR: Daily average of (Stock price x Number of issued shares excluding treasury stock ÷ Most-recent results of shareholders' equity)
TSR (total shareholder return): Return on investment assuming that dividends are reinvested

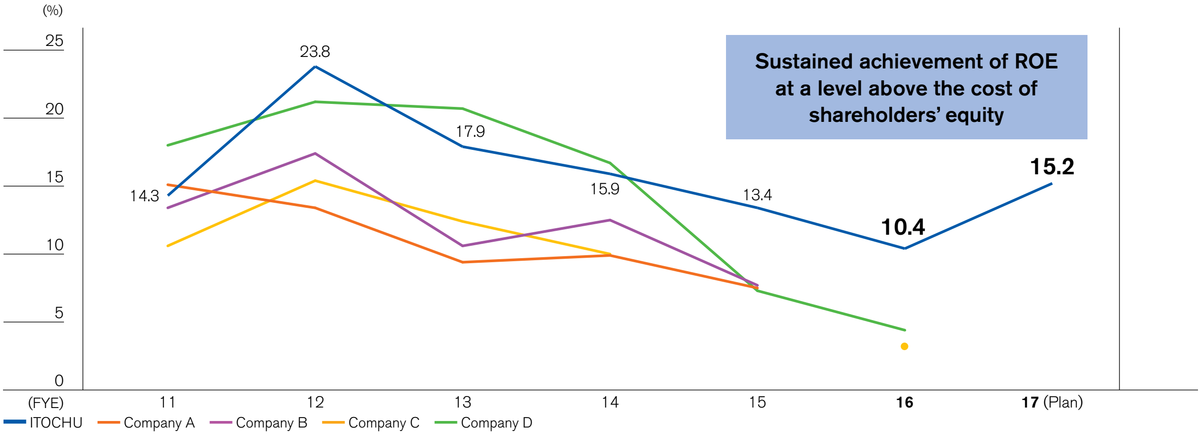
	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
Stock price	¥784	¥824	¥890	¥1,229	¥1,280	¥1,466
PER	7.9 times	5.5 times	5.0 times	6.7 times	6.8 times	7.1 times
PBR	1.1 times	1.1 times	1.0 times	1.0 times	0.9 times	0.9 times
TSR	8.8%	9.0%	30.6%	10.7%	11.6%	10.4%



ROE and Shareholders' Equity

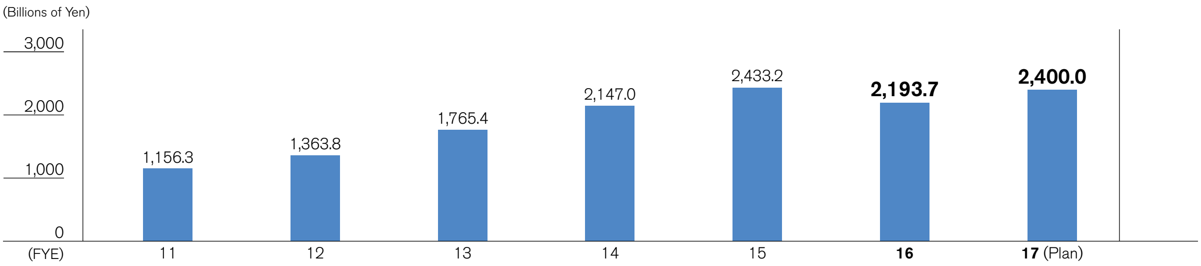
We currently have the No. 1 ROE in the industry, and moving forward we will aim to achieve ROE of more than 13% by recording growth in profits while enhancing shareholders' equity.

ROE of Five General Trading Companies



Our basic policy calls for ROE of more than 13% while steadily accumulating shareholders' equity and achieving profit growth. For FYE 2017, our plans call for ROE of 15.2%.

Shareholders' Equity



Stock and Shareholder Information

Basic Information about Our Stock

Stock listing	Tokyo
Category	Trade
Stock code	8001
Minimum number of stocks allowed per trade	100
Fiscal year	From April 1 to March 31
Shareholder fixed day for dividend payment	March 31 (Interim: September 30)
Number of common shares issued	1,662,889,504 shares (As of March 31, 2016)
Treasury stock (owned by ITOCHU)	82,161,959 shares (As of March 31, 2016)

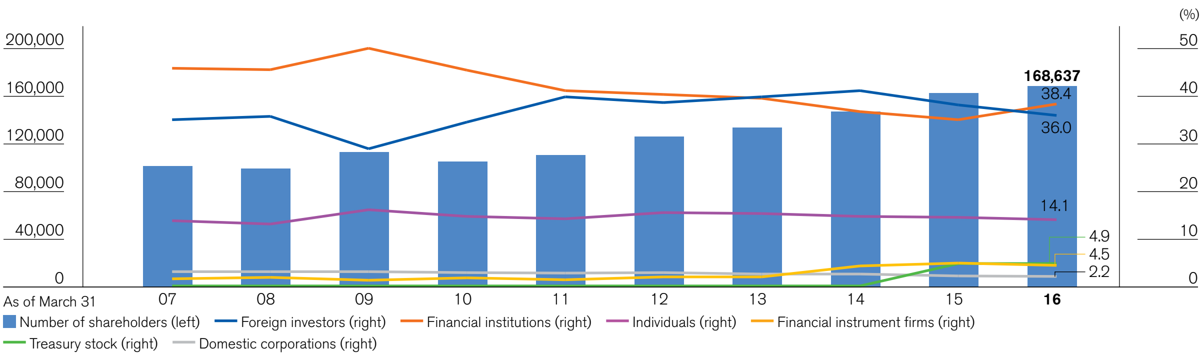
Major Shareholders*1

As of March 31, 2016

Name	Number of shares held (1,000 shares)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd. (trust account)	89,461	5.38
The Master Trust Bank of Japan, Ltd. (trust account)	75,894	4.56
CP WORLDWIDE INVESTMENT COMPANY LIMITED*2	63,500	3.82
Mizuho Bank, Ltd.	39,200	2.36
Nippon Life Insurance Company	34,056	2.05
Mitsui Sumitomo Insurance Company, Limited	30,400	1.83
Sompo Japan Nipponkoa Insurance Inc.	26,336	1.58
Barclays Securities Japan Limited	25,000	1.50
Asahi Mutual Life Insurance Company	23,400	1.41
Japan Trustee Service Bank, Ltd. (trust account9)	22,369	1.35

*1 Our treasury stock of 81,238 thousand shares (shareholding ratio 4.89%) has been excluded from the above list.
*2 In addition, En-CP Growth Investment L.P. holds 14,500 thousand shares (shareholding ratio 0.87%), for a combined shareholding ratio of 4.69% for the CP Group.

Trends in Number of Shareholders and Breakdown of Shareholders (% of shares)



Business Investment

Fundamental Approach

Along with strategic business alliances, business investment is an important means of creating new businesses. Based on our strategic goals, we choose the optimal format from a range of methods and investment ratios, such as establishing a wholly owned subsidiary, implementing joint investment with partners, and participating in management through M&A transactions. In principle, we hold assets with a goal of long-term investment. After making each investment, we work to maximize its corporate value and to expand trade and investment return through the full utilization of our Groupwide capabilities.

With larger-scale investments and increases in acquisition prices in recent years, we are rigorously screening the appropriateness of the business plan and acquisition price when we invest. 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” criteria and thoroughly implementing regular investment review.

Decision-Making Process

The department making the application first gives due consideration to such factors as the purpose of the investment, growth strategies, risk analysis, business plans, the appropriateness of the acquisition price, the state of conformance with investment criteria, the establishment of exit conditions, and the status of internal control. Risk analysis includes CSR and environmental checks, such as for labor, environmental, and compliance risks; and checks to exclude antisocial forces in addition to analyze quantitative risk. Next, related administrative organizations implement screening from various specialized perspectives and attach their results to the application. After deliberation by the Division Company Management Committee (DMC), the application is

PROCESS FOR INVESTMENTS

1 Investment Decisions

Quantitative and qualitative evaluations in accordance with the following investment criteria

Investment decision items
Purpose of investment / growth strategies
Risk analysis
Appropriateness of the business plan (acquisition price)
Application of investment criteria
Establishment of exit conditions
Status of internal control

Thorough Verification of the Appropriateness of the Business Plan
- Screening of business plans at the time of new investment (including sensitivity analysis)
- Advance preparation of countermeasures for downward divergence from plan (including establishment of exit measures)

Investment Criteria
- Investment efficiency in accordance with Net Present Value (NPV*) based on investee’s free cash flows
- Cash inflows into ITOCHU, such as dividends received and earnings from trade activities
- Scale of investee’s earnings

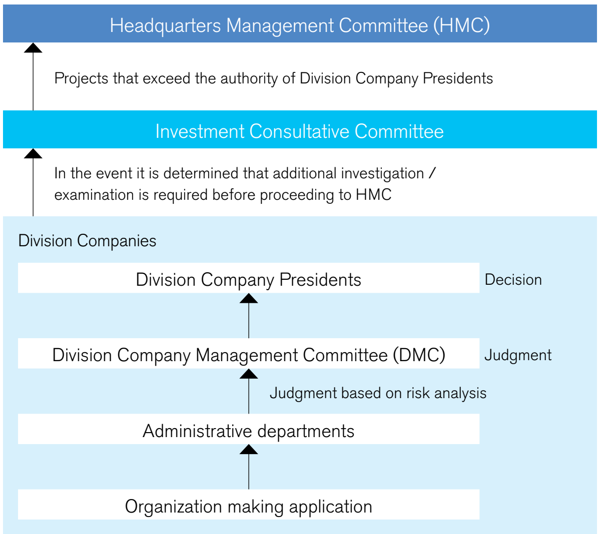
* NPV calculations utilize hurdle rates set by country and industry sector

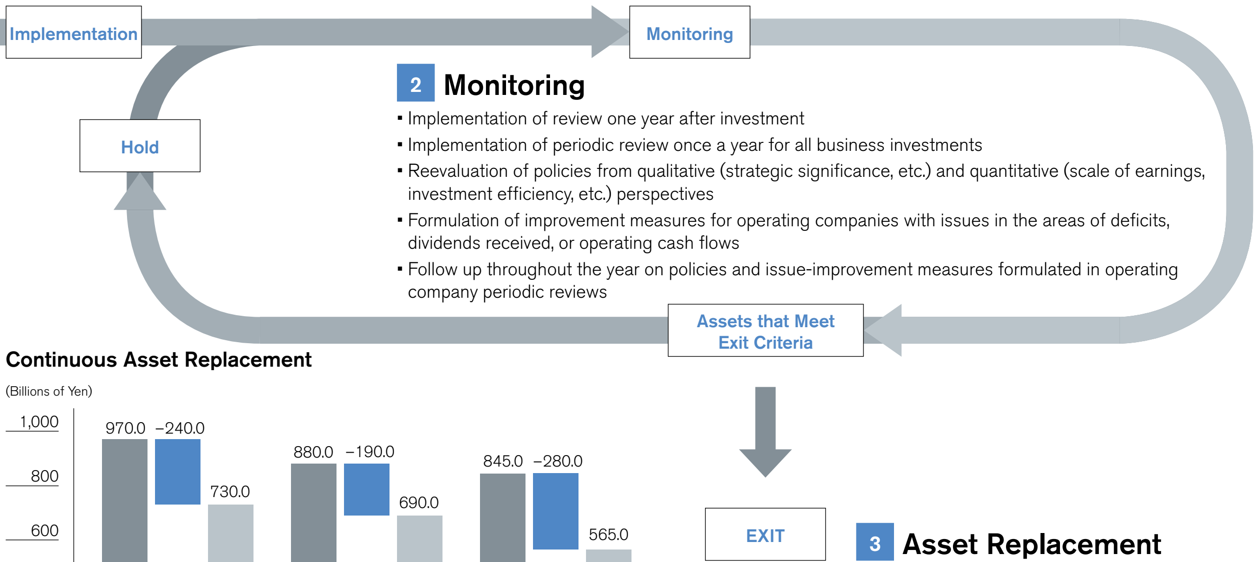
Exit Criteria
- Last three-year cumulative consolidated net profit is negative
- Cumulative Consolidated Investment Return is significantly below the original projection.
- Last three-year cumulative Value Added (Return minus Cost of Equity) is negative.

submitted to the Division Company President for a final decision. Projects that exceed the Division Company President's authority must be approved by the Headquarters Management Committee (HMC). If additional consideration and screening of an investment's profitability and strategy are needed prior to the HMC, the application is sent to the Investment Consultative Committee*1 for deliberation. After discussing the application, this committee puts the matter before the HMC. This approach devolves authority to the Division Companies and speeds decision-making, while at the same time providing appropriate screening processes to pursue return on investments and also control investment risk.

*1 Investment Consultative Committee: Core members include the CSO·CIO*2, CFO*3, CAO*4, General Counsel, General Manager of the General Accounting Control Division, General Manager of the Corporate Planning & Administration Division, General Manager of the Global Risk Management Division, and Corporate Auditors
*2 CSO·CIO: Chief Strategy & Information Officer
*3 CFO: Chief Financial Officer
*4 CAO: Chief Administrative Officer

Decision-Making Process for New Investments





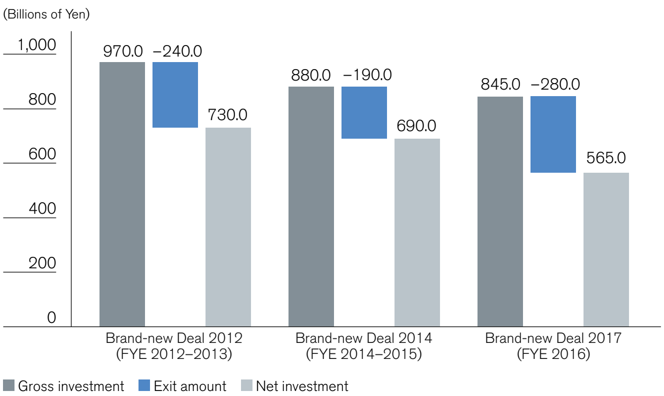
2 Monitoring

- Implementation of review one year after investment
- Implementation of periodic review once a year for all business investments
- Reevaluation of policies from qualitative (strategic significance, etc.) and quantitative (scale of earnings, investment efficiency, etc.) perspectives
- Formulation of improvement measures for operating companies with issues in the areas of deficits, dividends received, or operating cash flows
- Follow up throughout the year on policies and issue-improvement measures formulated in operating company periodic reviews

3 Asset Replacement

- To strengthen financial position, promote replacement of low-efficiency assets that meet exit criteria, in consideration of the cost of capital and other factors, and of businesses that have lost strategic holding significance

Continuous Asset Replacement



Business Investment and Risk Management

Risk Management

Risk Capital Management and Management of Concentrated Risks

Risk Capital Management

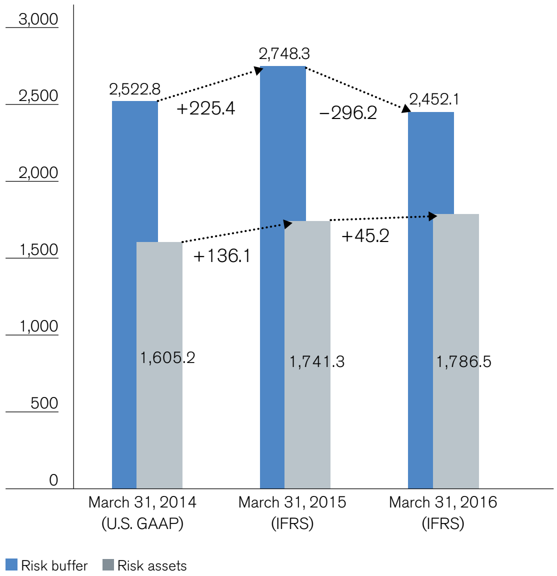
We have introduced, and are utilizing, a Risk Capital Management (RCM) strategy. Under this strategy, we first calculate "risk assets" based on the maximum amount of the possible future losses from all assets on the balance sheet including investments, and all off-balance-sheet transactions. Second, we manage to control the quantity of risk assets within the limits of our "risk buffer" (consolidated shareholders' equity + noncontrolling interests). At the end of March 2016, the amount of risk assets stood at 73% of the risk buffer.

Managing Concentrated Risks

We also manage overall country risk exposure to non-industrialized countries and manage individual country risk based on internal country rating standards. Country limits are deliberated by the Asset Liability Management (ALM) Committee and approved by the HMC.

Risk Assets

(Billions of Yen)



<Reference> The ITOCHU Group's Major Business Risks and Countermeasures

Risks		Overview	Countermeasures
Market Risk	Foreign Exchange Rate Risk	• Foreign exchange rate risk related to transactions in foreign currencies in import/export trading • In regard to investments in overseas businesses, risk that fluctuations in foreign exchange rates could affect shareholders' equity through the accounting for foreign currency translation adjustments and risk that fluctuations in foreign exchange rates could affect the amount of periodic income when converted to yen	• The Group implements hedge transactions that utilize such derivatives as forward exchange contracts.
Market Risk	Interest Rate Risk	• Interest rate risk in both raising and using money for investing, financing, and operating activities	• Among the interest insensitive assets such as investment securities or fixed assets, the part acquired using floating interest loans is considered to be the interest mismatch amount exposed to interest rate risk. ITOCHU is working to quantify the interest rate risk to control the fluctuation of gains and losses due to interest rate change properly. • To be specific, using the Earnings at Risk (EaR) method, ITOCHU has set a certain limit (Loss Cut Limit) for interest expense and has executed hedging transactions primarily in the form of interest rate swaps to manage interest rate risk.
Market Risk	Commodity Price Risk	• Commodity price fluctuation risk arising from the holding of long or short positions in a variety of commodities • Price fluctuation risk due to participation in development businesses such as mineral resources and energy and other manufacturing businesses	• The Group has analyzed inventories and purchase and sales contracts, and each Division Company has established middle and back offices for major commodities, which establish a balance limit and loss cut limit for each commodity and conduct monitoring, management, and periodic reviews. • The Group implements hedging transactions, such as commodity futures and forward contracts.
Market Risk	Stock Price Risk	• Stock price fluctuation risk associated with the holding of various marketable stocks that are held in order to pursue business earnings and corporate value by strengthening relationships with customers and suppliers and by submitting various proposals to investees	• The Group uses the Value at Risk (VaR) method to analyze and monitor the effect of stock price fluctuations on consolidated shareholders' equity periodically.

Risks	Overview	Countermeasures
Credit Risk	• Credit risk in relation to credit becoming uncollectible due to the deteriorating credit status or insolvency of the Group's trading partners, both domestically and overseas	• When granting credit, the Group conducts risk management through the establishment of credit limits and the acquisition of collateral or guarantees as needed. • The Group establishes allowances for doubtful receivables based on the creditworthiness, the status of collection, and the status of receivables in arrears of business partners.
Country Risk	• Risk such as unforeseen situations arising from political, economic, and social conditions in various countries and regions overseas, and national expropriation or remittance suspension due to changes in various laws and regulations	• The Group formulates risk countermeasures for each transaction. • With the aim of avoiding a concentration of exposure, the Group works to reduce risk by setting total limit guidelines and limits for each country and setting credit policies appropriate to each country.
Risks Associated with Fund-raising	• Risk of experiencing an inability to raise funds from financial institutions or investors when necessary or under desirable conditions and consequently experiencing an increase in funding costs should ITOCHU's credit worthiness in the capital market deteriorate due to a significant lowering of the Company's credit rating, or should there be an upheaval in the financial systems in major financial markets	• To secure stable funds and reduce the cost of funds, the Group works to increase the long-term fund-raising ratio, to diversify funding sources, and to diversify fund-raising methods and instruments. In accordance with changes in financial situations, the Group flexibly utilizes indirect financing, such as bank loans, and direct financing, such as commercial paper and debentures. • Through commitment line contracts with financial institutions, the Group secures liquidity in preparation for unforeseen situations.
Risks Associated with Laws and Regulations, Compliance, and Significant Lawsuits	• Risk of unexpected, additional enactment, or change in laws and regulations by legislative, judicial, and regulatory bodies both domestically and overseas • Risk of major change in laws and regulations by political/economical changes • Risk associated with personal misconduct by directors and employees and risk associated with suffering social disgrace	• Being aware that the observance of laws and regulations is a serious obligation of the Group, the Group has taken a thorough approach to the observance of laws and regulations by reinforcing the compliance system. • Through networks among legal circles, the Group works to obtain, at an early stage, information related to enactment or changes in laws and regulations, to reflect that information in internal systems, and to implement training for employees at an early stage.
Risks Associated with the Environment	• Risk that the occurrence of environmental pollution due to the Group's business activity could lead to the delay or suspension of operations, the incurring of pollution disposal expenses or expenses due to compensation for damage, or the lowering of society's evaluation of the Group	• The Group has designated global environmental issues as one of the most important elements of its management policy, and the Group has established an environmental policy. • The Group has built an environmental management system in order to minimize environmental risk, such as the risk of infringement of laws and regulations in the handling of goods the provision of services, and business investment.
Risks Associated with Natural Disasters, Climate Change, and Other Factors	• Risk of damage from natural disasters; infectious diseases, such as new types of influenza; and abnormal weather arising from climate change, etc.	• ITOCHU has implemented measures such as developing Business Continuity Plans (BCPs) for large-scale disasters and the outbreak of new types of influenza. • ITOCHU has introduced a safety confirmation system and conducts emergency drills. • To reduce the influence of abnormal weather, the Group has diversified its sources of supply for raw materials, such as food resources. • The Group is implementing initiatives in renewable energy, including geothermal and wind power, and water-related businesses.
Investment Risk	• Risk such as being unable to achieve expected earnings due to changes in business conditions or deterioration in the business results of partners and investees • Risk such as the likelihood of investment recovery are lowered due to poor corporate results of investees, or stock prices are expected to drop below a specified level for a considerable period of time which may lead to necessities that the whole or partial investment is recognized as a loss, and that the infusion of additional funds is required • Risk of being unable to withdraw from a business or restructure the business under a timeframe or method that the Group desires due to differences in business management policy with partners or the low liquidity of investments	• ITOCHU works to reduce risk through decision-making based on the establishment of investment criteria for the implementation of new investments while monitoring existing investments periodically. • ITOCHU promotes asset replacement through the application of exit standards to investments with low investment efficiency that it has little reason to hold.
Risks Associated with Information Systems and Information Security	• Risk of sensitive information leakage due to unauthorized access from the outside or computer viruses and the risk of the stoppage of information systems due to equipment damage or problems with telecommunications circuitry	• The Group has formulated a code of conduct concerning the handling of information for all directors and employees and has secured high information security level. • In order to maintain secure operation of its information systems, the ITOCHU Group has established security guidelines and has developed crisis control measures.

* Excerpt / reorganization of the "Risk Information" section of the Consolidated Financial Results (*kessan tanshin*) and the Annual Securities Report (*yuka shoken hokokusho*).