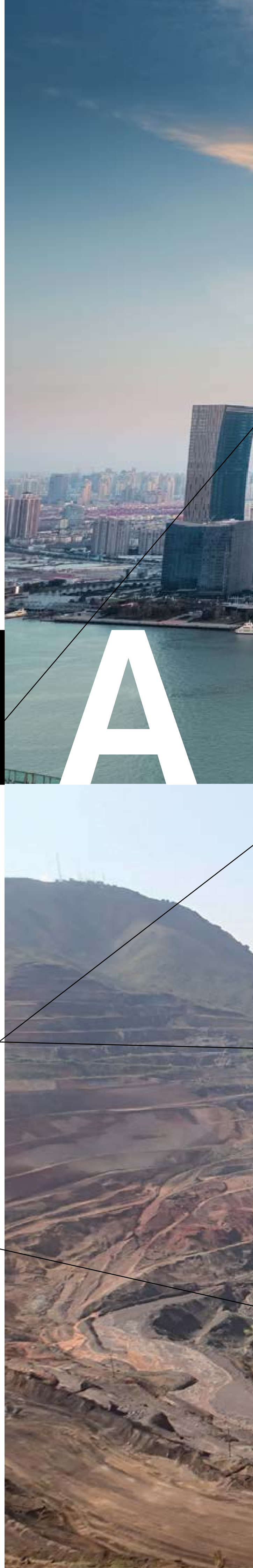
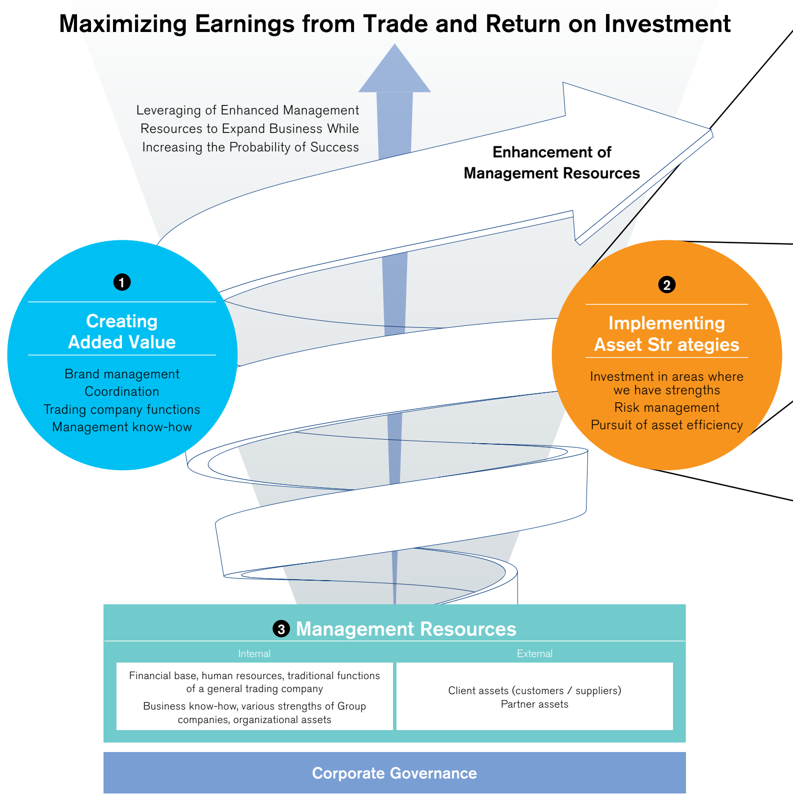
Asset Strategies in a “New Era for the *Sogo Shosha*”

The “Brand-new Deal 2017” medium-term management plan (FYE 2016–2018) clearly sets out ITOCHU’s strategic focus on the non-resource sector in China and Asia, where the Company has strengths. In addition, with an eye toward the target of consistently maintaining ROE of more than 13% while continuing to bolster shareholders’ equity, we are accelerating asset replacement and implementing stringent cash flow management to strengthen our financial position and to further increase asset quality and efficiency. This special feature section explains ITOCHU’s asset strategies, with a focus on the “New Era for the *Sogo Shosha*.”

To Lead A



ITOCHU’s Business Model



SPECIAL FEATURE 1

Investing in Areas Where We Have Strengths

ITOCHU's China and Asia strategy—Centered on strategic business alliance and capital participation with CITIC Limited and Charoen Pokphand Group Company Limited

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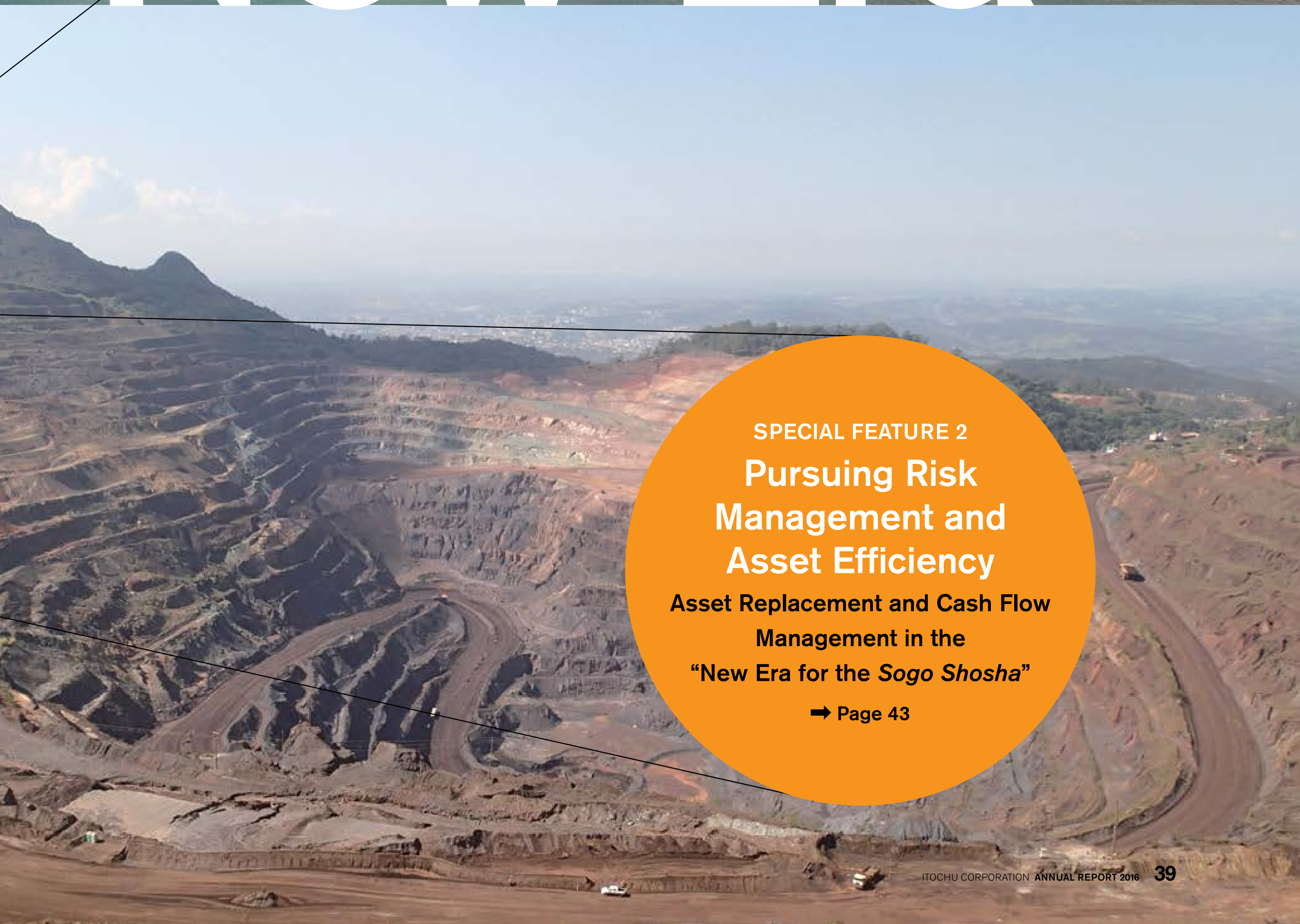
New Era



SPECIAL FEATURE 2

Pursuing Risk Management and Asset Efficiency

Asset Replacement and Cash Flow Management in the "New Era for the *Sogo Shosha*"

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SPECIAL FEATURE 1

To Lead A New Era

Investing in Areas Where We Have Strengths

ITOCHU's China and Asia strategy—Centered on strategic business alliance and capital participation with CITIC Limited and Charoen Pokphand Group Company Limited

We have determined our strategic emphasis in the "New Era for the *Sogo Shosha*." We will focus on the non-resource sector, centered on consumer-related businesses, where we are the strongest company in the industry. Together with the most appropriate partners, we will develop operations in China and Asia, where we have strengths that we have reinforced over many years.

Significant Potential in the Markets for Textiles, Food, and General Products in China and Asia

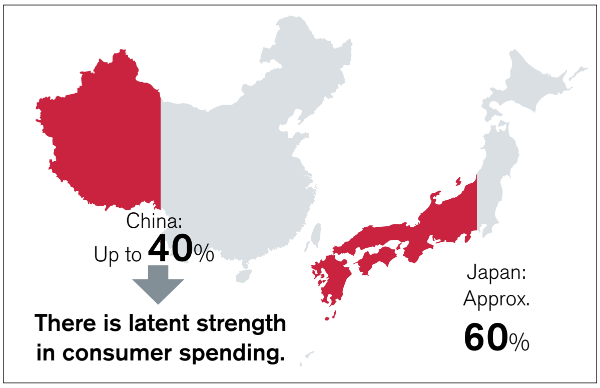
Real GDP growth in China is slowing to 6% to 7%. However, ITOCHU is not pessimistic about the future of economic conditions, including those in China, because the primary objective of our strategic business alliance and capital participation with the CITIC Group, China's largest conglomerate, and the CP Group, Thailand's leading conglomerate and one of the leading conglomerates worldwide, is to address the significant medium to long term potential in the markets for textiles, food, and general products in China and Asia.

In China, there is an ongoing transition in the economic growth model. There is a shift from government-led growth that is dependent on public investment and focused on heavy industry toward stable growth led by the private sector and consumer spending. The vigorous consumer spending has not declined even though there was an adjustment of excessive investment, overproduction, and excessive credit created by the 4 trillion yuan (approximately ¥5.3 trillion applied exchange rate at that time), equivalent to 13% of GDP economic stimulus plan during the 2008 global financial crisis. An increase of the middle class has led to dramatic changes in lifestyles, and consequently consumption behavior has shifted from quantity to quality. In this setting, demand for Japan's safe, secure products has shown notable growth, as seen in the large volumes of expensive products and daily items purchased by visitors to Japan. It is clear that there will be major business opportunities if people are able to purchase Japanese products more easily in China. Looking toward the future, there will be further significant opportunities. Per-capita GDP in China is expected to increase from approximately US$8,000 in 2015 to approximately US$11,400 in 2020.

Per-Person Spending by Chinese Visitors to Japan

Source: Japan Tourism Agency, Consumption Trend Survey for Foreigners Visiting Japan, 2015

Private-Sector Consumption as a Percentage of GDP



Sources: Japan: Cabinet Office. China: National Bureau of Statistics

Currently, private-sector consumption accounts for up to 40% of China's GDP, which is low in comparison with the level in Japan of approximately 60%. In conjunction with the emphasis of economic policies, it is easy to envision a scenario in which this potential becomes the driving force of economic growth.

Investing in Fields Where Two Strengths Overlap

ITOCHU and the CP Group have invested in CITIC, a state-owned company in which the Chinese government effectively owns a majority through the CITIC Group. As one pillar of its reforms of state-owned enterprises, the Chinese government is advancing the "mixed ownership model," which promotes the acceptance of private-sector capital, including capital from overseas, and accelerates the absorption of management know-how and the implementation of international development. Although government is promoting the policy, it is extremely unusual for foreign companies to acquire 20% of the shares of a government-owned asset.

In 1972, when China had just started to follow a course of reform and opening up, ITOCHU became the first Japanese general trading company to be ratified to resume trade between Japan and China. In 1979, we established a representative office in Beijing, and since that time we have stayed ahead of other Japanese general trading companies and accumulated management resources, such as business infrastructure, human networks, and personnel with expertise in the Chinese language and culture. The CP Group, which became the first foreign company to enter China in 1979, has built a foundation in local markets throughout China, centered on such products as poultry, swine, and eggs. This capital participation is unprecedented in China and was made possible by the expectation that the two leading corporate groups would make a contribution to the provision of abundant textiles, food, and general products for the people of China in the future, the same as in the past. For ITOCHU, the significance of this agreement is that two of our strengths cultivated over many years—in "China" and in "consumer-related businesses"—will lead to new opportunities, and our strengths will be further reinforced by the new business opportunities.

Real-time Information that Raises our Competitive Edge to a New Level

This section introduces an example of how ITOCHU's competitive edge will further extend the Company's lead as one of the strongest general trading companies in China. For a general trading company, information is an extremely important factor to launch business rapidly and guide them to steady success. Through the CITIC Group, which has a close relationship with the central government, ITOCHU now has access to real-time information that it was not able to obtain in the past. For example, we are now acquiring detailed information about such matters

The CP Group's Strengths in China

- One of China's largest poultry exporters
- Has established business foundation in 29 of 31 provinces
- Business initiatives implemented by more than 300 companies
- Has earned the strong trust of the government
- Chia Tai brand has widespread name recognition

C.P. GROUP

We will carefully implement major initiatives with a view toward achieving the greatest possible increase in the corporate value of CITIC, a large corporate group.

Senior Managing Executive Officer Yuji Fukuda,
who advanced the alliance negotiations
CEO for Asia & Oceania Bloc;
President & CEO, ITOCHU Singapore Pte Ltd.;
Executive Advisory Officer for CP & CITIC Operations

as the policy direction of the Chinese economy, human networks, and the potential of various projects. Together with the overseas Chinese network of the CP Group, the intangible competitive advantage obtained through this strategic business alliance and capital participation has advanced ITOCHU's China strategy to a new level.

Major Initiatives with an Impact on CITIC's Corporate Value

In this strategic business alliance and capital participation, ITOCHU and the CP Group invested a combined total of about ¥1,200.0 billion in CITIC on a 50:50 basis. The CP Group owns 4.7% of ITOCHU's stock, making the CP Group one of our major shareholders. ITOCHU holds 25% of the stock of C.P. Pokphand Co. Ltd., which is the core company in the CP Group and has feed, livestock, aquaculture, and food processing businesses in China and Vietnam. All three parties share the same destiny.

ITOCHU invested ¥600.0 billion, the largest single investment in the Company's history. To obtain a return commensurate with that level of investment we need to not only participate in the flow of commercial distribution and expand trade but also do our utmost to help increase the corporate values of the CITIC Group and the CP Group and strive to expand earnings and market capitalization.

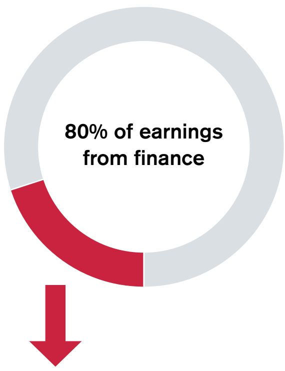
Financial Service Business accounts for 80% of CITIC's earnings. Through growth in non-finance businesses, centered on consumer-related businesses, ITOCHU can contribute to the reform of CITIC's earnings structure. This will have a major impact on the corporate value of the CITIC Group. Synergies can be created in an extremely wide range of fields, such as retail, processed foods, livestock, grains and other foods, brands and other apparel-related areas, communications, and medicine. On the other hand, CITIC, a large corporate group with assets of about ¥110 trillion, generated net profit of about ¥800.0 billion in FYE 2015. Major initiatives suitable for this large scale will be required to influence CITIC's earnings structure. Accordingly, ITOCHU will not rush forward in a hurry to achieve benefits from the tie-up. Rather, we will take a careful approach to projects from a long-term viewpoint.

Generating Synergies over the Long Term with a Commitment to *Sampo Yoshi*

We are moving forward with dispatches and exchanges of personnel from both short-term and long-term perspectives. Through meetings of the Strategic Cooperation Committee, the top management of ITOCHU, CITIC, and the CP Group coordinate the direction of cooperative initiatives. Moreover, management collaboration meetings are also conducted at the senior management level, where detailed discussions are held to foster the generation of full-scale synergies. The key to generating sustained synergies over the long term is the cultivation of relationships of trust at the level of the middle-rank employees, who will support the future. In addition to rigorous employee selection, we are creating opportunities for detailed discussions in a wide range of areas, such as mutual understanding of management policies, values, history, and principal businesses as well as the potential for generating synergies. In this way, the three corporate groups share the concept of working to increase each other's corporate value with a future orientation.

We believe that sustained growth in profits for ITOCHU will result from efforts to give concrete expression to *sampo yoshi* (Good for the seller, Good for the buyer, and Good for the society), which is the foundation of our business. Through these efforts, we will work to benefit all of our partners, including CITIC and the CP Group, and contribute to abundance for the people of China and Asia.

Expanding the Non-finance Business of the CITIC Group through the Generation of Synergies



中信
CITIC

FYE 2015 Results

Consolidated Total Assets	Approx. **¥110 trillion**
Consolidated Net Profit	Approx. **¥650.0 billion**
Moody's Rating	**A3**

Expanding non-finance businesses

To Lead A New Era

Pursuing Risk Management and Asset Efficiency

Asset Replacement and Cash Flow Management in the "New Era for the *Sogo Shosha*"

In FYE 2016, ITOCHU moved quickly to replace low efficient assets and further strengthened its cash flow management. In addition, we conducted detailed analyses in both the non-resource and resource sectors and took a thorough approach to recording losses in order to reduce future risks. The purpose of those initiatives was to build a more solid foundation that will be able to withstand changes in the economic environment in order to lead in the "New Era for the *Sogo Shosha*."

Increasing Asset Quality through the Strengthening of Our Financial Position

ITOCHU has continually taken steps from an early stage to address future potential risks. In FYE 2016, we determined uncertainty in the economic environment was increasing, and we decided to record approximately ¥90.0 billion in losses.

In the resources sector, we rigorously selected businesses, and we decided to sell certain coal interests in Australia. In addition, we conservatively revised our outlook for commodity prices over the long term, and recorded impairment losses at IMEA and a North Sea crude oil project.

In addition to the resource sector, we also conducted detailed analyses of asset values in the non-resource sector, where we have a competitive edge, and worked to clear away concerns about the future. For example, at LeSportsac, which earns nearly 15% of the trademark rights value in the textile business, we recognized impairment losses when we implemented replacement to introduce products with higher added value. In addition, we decided to withdraw from Bramhope, a major UK-based manufacturer and wholesaler of apparel. Moreover, for Dole, where impairment losses were anticipated due to insufficient harvests, we conservatively reevaluated the uncertainty of agricultural products and recognized additional impairment for the entire amount of goodwill and a portion of intangible assets. For ETEL, a tire wholesaler and retailer in Europe, we conservatively took into consideration the forecast for tire demand over the medium to long term and recorded impairment losses of ¥31.0 billion on goodwill. The various types of impairment loss processing that we implemented in FYE 2016 were one facet of our efforts to "strengthen our financial position," a basic policy of the medium-term management plan.

The next section introduces examples of asset replacement that were implemented from the viewpoint of corporate value that is suitable for the "New Era for the *Sogo Shosha*."

Loss Processing Implemented in FYE 2016

- **One facet of efforts to "strengthen our financial position"**
- **Reducing factors that will affect earnings in the future**
- **Increasing asset quality**

WIDP (impairment)	approx. –¥18.0 billion
IMEA coal (impairment)	approx. –¥18.0 billion
Dole (impairment)	approx. –¥6.0 billion
Total	approx. –¥42.0 billion

Total amount of additional losses **approx. –¥90.0 billion**

Textile approx. –¥17.0 billion	Bramhope exit	approx. –¥6.0 billion
	Java/LeSportsac (impairment)	approx. –¥8.5 billion, etc.
Metals & Minerals approx. –¥22.0 billion	IMEA/sale of certain coal interests	approx. –¥17.0 billion
	Indonesia coal loss	approx. –¥2.5 billion, etc.
	IMEA coal (impairment) (additional)	approx. –¥2.5 billion
Food approx. –¥14.5 billion	Dole (impairment) (additional)	approx. –¥11.5 billion
	Dole Australia exit	approx. –¥2.0 billion, etc.
Forest Products and General Merchandise approx. –¥31.0 billion	ETEL (impairment)	approx. –¥31.0 billion

Others: Approx. –¥5.5 billion

Integration of Brazilian Iron Ore Related Assets

Nacional Minérios S.A. (NAMISA), an iron ore production and sales company in Brazil, operates a project in the state of Minas Gerais in Brazil that was acquired in December 2008, in the middle of the resource boom, through a consortium that ITOCHU established in collaboration with five large domestic iron and steel companies and POSCO, of South Korea.

Competitive strength in the iron ore mine business is determined not only by high-quality iron ore mines but also by infrastructure assets, including railway and port facilities. NAMISA was a project that had limitations on the use of infrastructure under a long-term contract with Companhia Siderúrgica Nacional (CSN). Also, CSN's neighboring Casa de Pedra (CdP) Mine has minable reserves of more than 3.0 billion tons (probable reserves of more than 6.5 billion tons), about 10 times NAMISA's reserves. The investment in NAMISA was initially made with a view toward a management integration with the CdP mine, one of the most competitive mines in the world.

In June 2011, a new business plan was concluded with CSN and the generation of synergies among the two mines was commenced. Full-scale negotiations started from 2012. Internally, centered on the Metals & Mineral Resources Division (currently, the Mineral Resources Division), we formed Team ITOCHU NAMISA, comprising up to 50 professionals from all business areas, including ITOCHU Brasil S.A., NAMISA, ITOCHU Mineral Resources Development Corporation, and the legal, finance, accounting, and tax departments from headquarters. With iron ore prices declining, we focused our Companywide comprehensive strengths on the management integration project, which involved obtaining favorable terms while controlling risk.

Merger & Cash-In

Simultaneously Transitioning to Superior Resource Assets and Strengthening Cash Flow Management

In November 2015, the merger was concluded after eight years of effort. ITOCHU's share in the newly merged company is 7.6%, compared with 21.95% in NAMISA. The merged company is a mining company with significant strengths that are competitive, not only within Brazil but on a global basis, in such areas as iron ore resources, quality, production scale, and infrastructure. For ITOCHU, this means that a major earnings pillar has been established in Brazil, on a par with the iron ore mines in Western Australia, among the largest in the world, where we work together with BHP Billiton to conduct development and production. Through this merger, ITOCHU collected US$700 million in cash, and in addition we took a major step forward in the establishment of a higher quality resource asset portfolio that will be less susceptible to future resource price fluctuations.

Sale of Shares of PrimeSource, a Superior Asset

In March 2015, ITOCHU and ITOCHU International Inc. (hereinafter, "III"), concluded an agreement with Platinum Equity, LLC (United States) for the sale of their entire holdings of shares of PrimeSource Building Products, Inc. (hereinafter "PrimeSource"), a building material company in the U.S. and Canada. The sale was concluded in May 2015.

The "niche / low-tech / domination strategy," which aims at the achievement of No. 1 positions in specific fields, is one part of the basic strategy of the Forest Products & General Merchandise Division. In accordance with this strategy, ITOCHU worked to raise the value of PrimeSource, which III acquired in 1998 for $50 million (approximately ¥6.5 billion).

In FYE 2016, the company had a dominant position, with net sales of approximately US$1.3 billion (approximately ¥156.0 billion), 1,300 employees, and 42 distribution bases in the United States. In particular, PrimeSource earned an overwhelming top share of the U.S. market for nail and screw distribution, and its share of nails imported into the United States reached 27.4%.

ITOCHU's aggregate earnings from PrimeSource reached a total of approximately ¥75.0 billion and dividends were approximately ¥45.0 billion. PrimeSource made a large contribution to cumulative consolidated profit after tax for the Forest Products & General Merchandise Division over the same period.

Thanks to the booming economy and monetary easing around the world, the North American M&A market was active around 2014, when ITOCHU began to consider selling its PrimeSource shares. The housing and building products market was recording steady growth, and the valuations of the companies similar to PrimeSource in the M&A market were increasing.

In consideration of the need for new ownership for further reinforcement of PrimeSource's competitiveness, ITOCHU decided that it was a good time to replace this asset and thus began to take steps toward the divestiture.

Returns—Cash Recovery and Practical Know-how

In November 2014, ITOCHU approached 60 potential buyers, and after management presentations, due diligence was conducted for four companies. In March 2015, final bids were submitted by three companies, and the contract negotiations were subsequently started with one of these three, Platinum Equity. ITOCHU first identified its mandates, and subsequently, persistent negotiations were continued and reached a conclusion at a price that was basically in line with the initial mandates. The deal was closed in May 2015.

Through the completion of this project, ITOCHU obtained economic returns—cash of approximately ¥110.0 billion, net profit on sale of approximately ¥20.0 billion, and aggregate earnings and dividends of approximately ¥100.0 billion—as well as intangible returns through the process.

This project is an example of recovering cash with a view to utilizing the cash for asset replacement in a strategic area by selling the company while the corporate value was increasing instead of withdrawing from the business due to a marked decline in performance.