CFO Interview

We will maintain our consistency no matter how business environments change and work to win our stakeholders' trust.

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

QUESTION 01

Please provide a general review of the financial and capital strategies under "Brand-new Deal 2017."

We have steadily produced results.

I believe we should tenaciously promote the Company's financial and capital strategies with consistency no matter what kind of changes we face in the business environment. With this way of thinking, we steadily produced results based on our basic policies over our three-year medium-term management plan, "Brand-new Deal 2017." In FYE 2018, the plan's final fiscal year, we were able to fulfill all of the "four commitments" we had announced in the beginning.

First, in terms of "enhancing shareholder returns," we advanced policies of "record-high minimum guarantees for dividends each year" and "performance-linked and progressive dividends" when we first announced "Brand-new Deal 2017." We were able to keep these promises and also increase dividends by ¥15 year on year to ¥70 per share. Furthermore, continuing from the previous fiscal year, we conducted a ¥27.9 billion share buybacks, aiming to expand shareholder returns.

Next, in terms of "core free cash flows," results produced in FYE 2016 and FYE 2017 combined with our strong resolve to steadily implement careful selection and control of investment pushed us to target a value higher than our previous target of "¥100.0 billion." We were able to reach our new target in FYE 2018, with core free cash flows of ¥175.0 billion. Furthermore, our cumulative core free cash flows during "Brand-new Deal 2017" reached levels near ¥900.0 billion, greatly exceeding the approximate ¥600.0 billion we invested in CITIC in FYE 2016.

In terms of "net debt-to-shareholders' equity ratio (NET DER)," we achieved a value of 0.87 times, lower than our target value of 0.9 times. Due partly to steady accumulation of record-high consolidated net profit, shareholders' equity hit an all-time high. Additionally, we promoted improvements in investment control and asset efficiency. Thanks to these factors, net interest-bearing debt decreased compared to the end of the previous fiscal year.

Finally, in terms of ROE, we achieved a result of 15.8%, right in line with initial forecasts, and were able to maintain our position at the top level of general trading companies for the fourth period in a row.

Additionally, we acquired a credit rating of A from Moody's for the first time in about 20 years. With this rating, ITOCHU now has ratings of A or higher from all four major rating agencies. We also received "outlook positive" evaluations from S&P and three other agencies. I believe that these are also great results of our consistent financial and capital strategies.

QUESTION 02

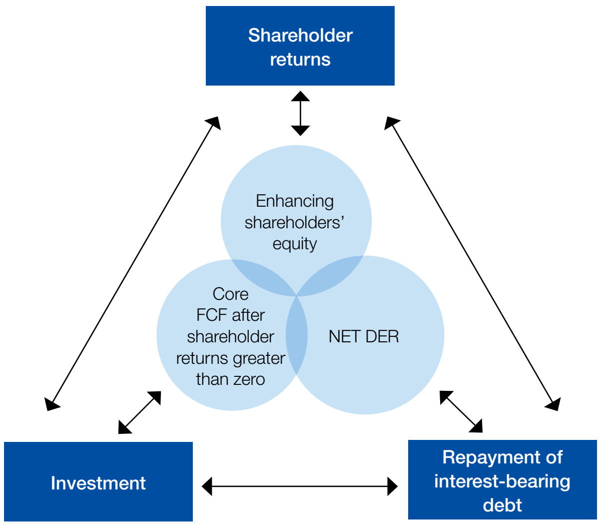
Please inform us about financial and capital strategy points in the new medium-term management plan, "Brand-new Deal 2020."

We will continue the policies of "Brand-new Deal 2017."

In terms of the new medium-term management plan, "Brand-new Deal 2020," we are working out new basic polices, including our policy of "Reinvented Business." However, our fundamental thinking regarding financial and capital strategies remains unchanged and we intend to produce results one by one while being mindful of the appropriate balance between shareholder returns, investment, and repayment of interest-bearing debt.

The low-volatility non-resource sector is at the center of the Company's exposure, so we are not considering drastically lowering NET DER beneath current levels. On the other hand, we intend to aim for continued increases in shareholders' equity. In the medium to long term, the Company will stick to its policy of maintaining high ROE at

Achieve High ROE While Balancing Three Factors



a global level of 13% or higher, which greatly exceeds shareholders' equity cost, through the expansion of consolidated net profit. ROA is an important prerequisite factor for this goal, so we will thoroughly ensure further improvement in asset efficiency for each operating segment.

Additionally, in terms of core free cash flows for each fiscal year, we will take one step further than we did previously, with a policy of "maintaining positive results after deducting shareholder returns" as well as applying the policy to each Division Company.

During FYE 2019, the first fiscal year of "Brand-new Deal 2020," we will steadily promote the "four commitments" displayed in the chart below.

In particular, we estimate ROE of 15.9% on the assumption that consolidated net profit reaches ¥450.0 billion. Core operating cash flows, an area of focus for the Company, are expected to exceed the previous fiscal year's value by ¥40.0 billion and reach about ¥500.0 billion. Assuming shareholder returns of about ¥120.0 billion (with a minimum dividend of ¥74 per share), a ¥120.0 billion expenditure for the acquisition, making FamilyMart UNY Holdings Co., Ltd. a consolidated subsidiary, and around ¥130.0 billion in capital expenditure for operating companies during a typical year (the rough median between ¥100.0 billion and ¥150.0 billion), cash outflows will amount to about ¥370.0 billion. Subtracting cash outflows from forecast core operating flows leaves a remainder of about ¥130.0 billion. This figure may vary somewhat due to our continued asset replacement and increasing consolidated net profit but we will basically make considerations regarding investment and additional shareholder returns within this ¥130.0 billion scope. Accordingly, we will continue our policy of making judgments regarding investments extremely carefully.

QUESTION 03

Please describe your thoughts regarding the market reaction immediately following the announcement of "Brand-new Deal 2020."

We will conscientiously explain our pursuit of "new record highs."

When we announced both "Brand-new Deal 2017" and "Brand-new Deal 2020" medium-term management plans,

The Four Commitments

Brand-new Deal 2017 (FYE 2016–2018)	***Brand-new Deal 2020*** (FYE 2019–2021)	**FYE 2022–**
① **Enhancing shareholder returns** • Performance-linked and progressive dividends, with a minimum guarantee of ¥64 per share • Share buybacks remain as an option **FYE 2018 results:** Carried out dividend payments of ¥70 per share and ¥27.9 billion in share buybacks	① **Enhancing shareholder returns** • Aim for record-high dividend payments each year • Flexibly conduct share buybacks **FYE 2019 plan:** Performance-linked and progressive dividends with a minimum dividend of ¥74 per share, the highest in Company history	In the medium to long term, we will continue to maintain **ROE of 13% or higher**, a global level that greatly exceeds shareholders' equity cost.
② **Core free cash flows** • Over ¥100.0 billion + α **FYE 2018 results:** Reached ¥175.0 billion (cumulative total of about ¥900.0 billion over three years)	② **Core free cash flows** • Maintain positive core FCF after deducting shareholder returns **FYE 2019 plan:** A total cash outflow of about ¥370.0 billion has already been confirmed relative to ¥500.0 billion in core operating cash flows.	
③ **NET DER** • Aim to achieve 0.9 times as of March 31, 2018 **FYE 2018 results:** Reached a value of 0.87 times	③ **NET DER** • Continue to increase shareholders' equity **FYE 2019 plan:** 0.82 times	
④ **ROE** • Target ROE of 15.8% at March 31, 2018 **FYE 2018 results:** Reached 15.8%	④ **ROE** • Aim to maintain high ROE through profit growth **FYE 2019 plan:** 15.9%	

CFO Interview

we only specified quantitative targets for the first fiscal year of each plan. However, in “Brand-new Deal 2020” we did not include numerical imagery equivalent to “build solid earnings base to generate ¥400.0 billion level consolidated net profit,” which we advanced as a basic policy in “Brand-new Deal 2017,” nor did we specify a minimum dividend per share for the second and third year. I’m aware that these factors led to a difference in evaluation for the two medium-term management plans.

The record-high consolidated net profit of ¥450.0 billion and minimum dividend of ¥74 per share that we are planning for FYE 2019 are both nothing more than minimum commitments at the present time. Although we have not specified any concrete numbers, there is no change in our aim to achieve record-high consolidated net profit in FYE 2020 and FYE 2021, nor in our policy of progressive dividend increases to accompany these record-high profits. Additionally, there is no change in our policy of continuing to consider share buybacks as an option, as we plan to flexibly conduct them based on conditions such as Company stock prices and cash flows (⇨ Page 40 New Medium-Term Management Plan, Shareholder Returns Policy).

I think the probability that we will achieve quantitative targets for FYE 2019 is extremely high, considering our past performance, conservative assumptions for resource prices and exchange rates, and setting a buffer to cover unexpected losses. We plan to announce specific quantitative targets during the “Brand-new Deal 2020” at the appropriate times.

QUESTION 04

Please tell us about your investment policy aimed at “Reinvented Business.”

We do not plan to conduct large-scale investments.

Although there are some who are concerned that we may conduct unrealistically large-scale investments in leading-edge technology because we are advancing “Reinvented Business” in “Brand-new Deal 2020,” we are not planning to do so. Our Chief Strategy Officer will be the central figure involved in discussions about investments in next-generation or leading-edge technology fields. We plan to conduct venture investments within a defined scope. Our Company has the strong points of having branched out into venture investments since the early 1990s, conducted IT initiatives that were pioneering among general trading companies, highly developed judgement and a strong network. Accordingly, although we may not have a large amount of money available from an asset-scale perspective, we believe that we can efficiently conduct venture investment.

Additionally, since before the demise of the “commodities super cycle,” we have largely changed our course and conducted investment in the non-resource sector, which mainly revolves around the consumer-related sector. Regarding large-scale projects in particular, we have achieved results above a certain level as a result of working out various measures to improve profitability for each project. We are investing in “Reinvented Business” to further upgrade existing businesses that we have refined over time.

Furthermore, starting in FYE 2019 I am also serving in the position of chairman for the Investment Consultative Committee and plan to raise cash control effectiveness to higher levels than before. As mentioned in the preceding section, we plan to exercise extreme care when making investment decisions.

QUESTION 05

Please tell us about your operating company’s management direction.

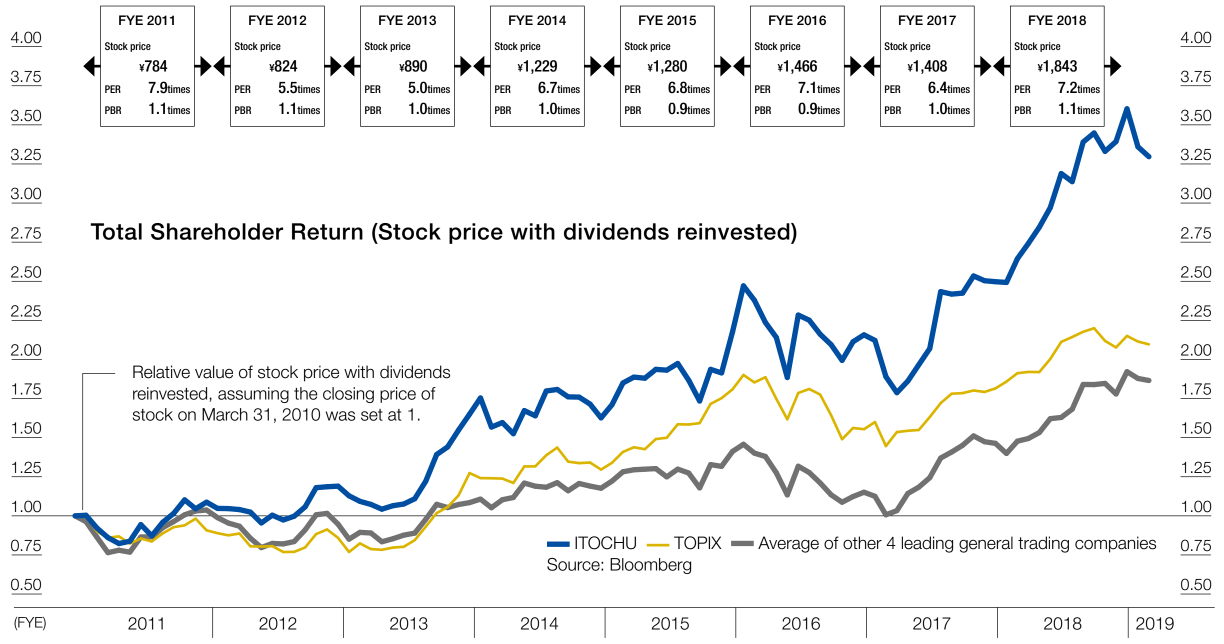
There is still much room for improvement.

ITOCHU’s share of Group companies reporting profits in FYE 2018 was 91%. Although we are aware that this ratio is extremely high compared to other general trading companies, we want to further raise this value in FYE 2019. Out of our 300 operating companies, only a few reported profit of ¥10.0 billion or more, while about two thirds reported profit of ¥2.0 billion or less. The fact that earnings are not concentrated into specific operating companies but spread throughout them is one of the Group’s greatest strengths. We plan to continue upgrading investment management (⇨ Page 46 Business Investment), thoroughly adhere to our “earn, cut, and prevent” principles, implement meticulous hands-on management, and build an earnings base that is even stronger and more resistant to economic fluctuations. With regard to improving existing operating companies, some people say that we will reach our limit soon but I think that with the upgrades will come with “Reinvented Business” there is still a lot of room for improvement.

Pursuing Sustainable Increase in Shareholder Value

Stock Price / PER / PBR / TSR

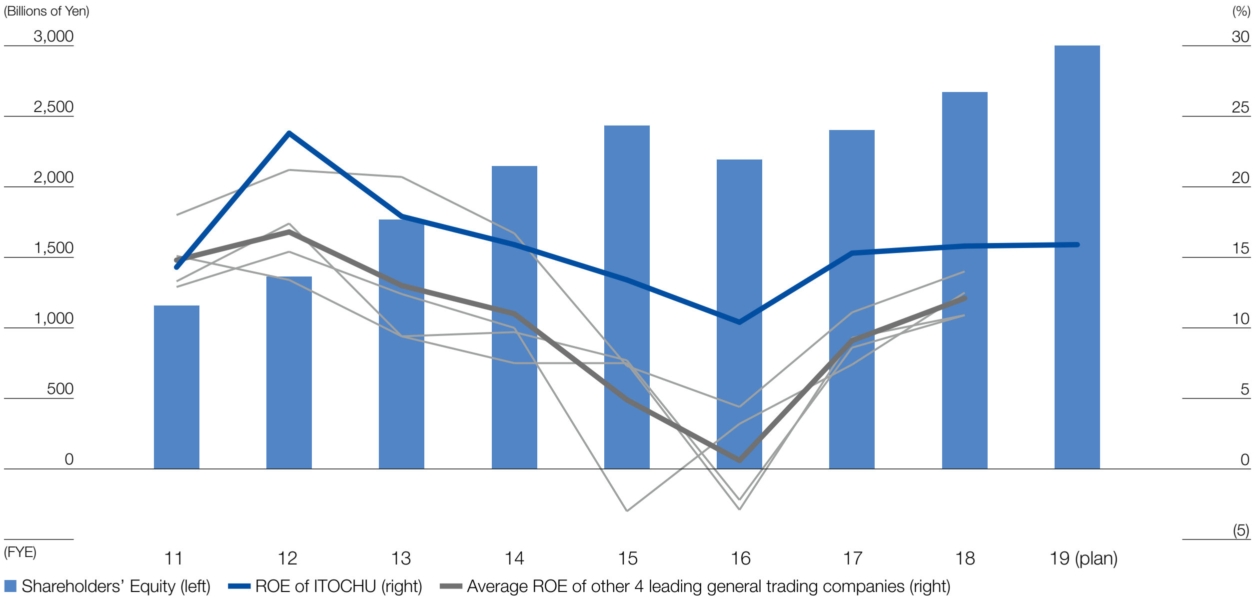
Stock price: Annual average of daily trading value
PER: Daily average of (Stock price x Number of issued shares excluding treasury stock ÷ Outlook for consolidated net profit, announced by ITOCHU)
PBR: Daily average of (Stock price x Number of issued shares excluding treasury stock ÷ Most-recent results of shareholders' equity)



TSR	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years
ITOCHU	35.6%	60.6%	77.3%	97.9%	119.1%	186.1%	212.0%	239.3%
TOPIX	15.9%	33.0%	18.5%	54.9%	83.6%	127.5%	128.8%	107.7%
Average of other 4 leading general trading companies	20.6%	58.0%	34.6%	51.0%	69.3%	75.0%	70.5%	77.9%

TSR (total shareholder return): Return on investment assuming that dividends are reinvested

ROE and Shareholders' Equity



Continuation of Financial and Capital Strategies

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, such as establishing a wholly owned subsidiary, implementing joint investment with partners, and participating in management through M&As. In principle, we hold assets with a goal of long-term investment. After making each investment, we work to maximize our corporate value and to expand trade and dividends received 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 periodic investment review.

Decision-Making Process for New Investments

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.

Headquarters Management Committee (HMC)

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

↑

Investment Consultative Committee*1

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.

↑

Division Companies

- Division Company Presidents — Decision
- ↑
- Division Company Management Committee (DMC) — Deliberation
- ↑ … Opinion based on risk analysis
- Administrative departments
- ↑
- Applicant (responsible department)

Related administrative organizations implement screening from various specialized perspectives and express their opinions regarding the application made by the department. Following careful discussion by the DMC, the Division Company President will make a final decision.

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

Business Investment Process

Under "Brand-new Deal 2017," we achieved a 90% and higher share of Group companies reporting profits for the first time through a revision of exit standards and by upgrading business investment management. Through "Brand-new Deal 2020," we plan to build a strong earnings base with high risk tolerance and further improve the share of Group companies reporting profits by moving forward with our existing investment process, thoroughly inspecting the appropriateness of business plans, and conducting prioritized monitoring of sub-subsidiaries.

Points for Making Investment Decisions

- Compliance with investment criteria
- Investment purpose and formulation of growth strategies
- Risk analysis
- Inspection of internal control status
- Verification of business plan appropriateness
- Establishment of exit conditions

Execution of Investment

Monitoring

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

Hold

Asset Replacement

- We promote replacing low-efficiency assets that meet exit criteria, as well as businesses that have lost strategic significance.

Investment Criteria

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

* When calculating NPV, approximately 40 hurdle rates are used according to business type (by country).

Thoroughly Verifying Appropriate Business Plan

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

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

Exit Criteria

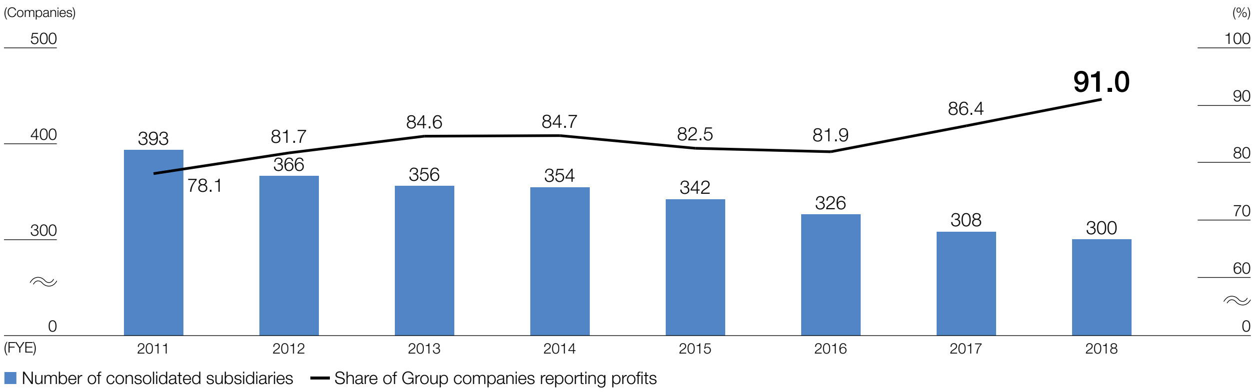
- Cumulative losses over three years
- Returns lower than expected at time of investment
- Cumulative losses in added value* over three years

* Consolidated contribution – (consolidated investment carrying amount x cost of capital)

Covenant Management

- We will aim for positive core free cash flows at all Division Companies during each fiscal year of "Brand-new Deal 2020."

Raised Share of Group Companies Reporting Profits by Promoting Asset Replacement and Issue Improvement



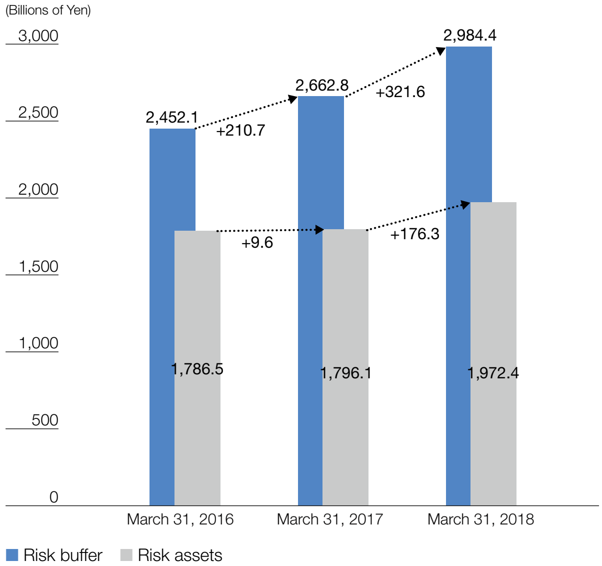
Risk Management

Risk Capital Management and Management of Concentrated Risks

Risk Capital Management

We introduced Risk Capital Management in FYE 2000, when we were carrying large amounts of interest-bearing debt and inefficient assets, making far-reaching management reforms a matter of urgency. Since then, we have pressed forward with that spirit and understand risk quantitatively, and conduct control continuously and rigorously even now that our financial position has improved. Specifically, our basic operational policy involves first calculating risk assets based on the maximum amount of possible future losses from all assets on the balance sheet including investments and all off-balance-sheet transactions. Second, we manage the quantity of risk assets within the limits of our risk buffer (consolidated shareholders' equity + non-controlling interests). As we promote investment in new and next-generation technologies moving forward, we will work to maintain risk assets within the limits of our risk buffer, conduct strict risk management, and further strengthen our financial position.

Risk Assets and Risk Buffer



Significant Risks to Be Managed on a Consolidated Basis

The ITOCHU Group is exposed to various risks due to its wide range of business natures, such as market, credit, and investment risks. These risks include unpredictable uncertainties and may have significant effects on the Group's future financial position and business performance.

We acknowledge risk management as a key management issue. Therefore, we have established our basic risk management policy and develop necessary risk management systems and techniques. Specifically, we have defined the following 18 risks as major risks and are responding to them by building information management and monitoring systems at each department responsible for managing these risks on a consolidated basis. In addition, we periodically review the effectiveness of management systems through our internal committees.

Individual Risk Categories (Major Risks)

1	Compliance Risks
2	Legal Risks (Excluding Compliance Risks)
3	Risks Associated with Trade Security Policy Management
4	Risks Associated with Customs
5	Country Risks (⇨Page 49)
6	Commodity Price Risks (Specific, Important Product)
7	Credit Risks
8	Investment Risks
9	Stock Price Risks
10	Foreign Exchange Rate Risks
11	Interest Rate Risks
12	Financing Risks
13	Information System Risks
14	Information Security Risks (⇨Page 49)
15	Labor Management Risks
16	Human Resources Risks
17	Risks Associated with the Appropriateness of Financial Reporting
18	Risks Associated with Internal Control

(⇨Pages 74–101 Key Financial (Ubiquitous) Risks)

RISK 5: Examples of Response to Country Risk

Strict Country Risk Management

The ITOCHU Group is actively expanding its business in countries and regions overseas and is therefore exposed to various country risks that arise as a result of political, economic, or societal circumstances in those countries and regions. Managing country risk is extremely important because negative factors, such as delay or inhibition of debt collection or operational implementation, can occur all at once and cause large losses.

To respond to these risks, we formulate appropriate risk countermeasures for each individual project and evaluate and analyze risk tolerance. We also establish Groupwide country risk management regulations from the standpoint of preventing excessive concentration of risk in specific countries or regions. Additionally, we work toward risk management by setting limits for each country that are based on internal country rating standards and maintain overall exposure at a level that is appropriate for the Group's financial strength.

Furthermore, we assign exposure limits to countries independent of deliberation processes concerning individual projects and conduct strict country risk management through measures such as not allowing related projects to proceed when country limits have not been assigned.

Additionally, we proactively work to reduce risk by formulating credit policies appropriate for each country according to need and stationing country risk management officials at each Division Company who collaborate with headquarters and manage risk for those Companies.

A dedicated space for ITCCERT

RISK 14: Examples of Response to Information Security Risks

Responses to Information Security Risks Aimed at "Not Stopping the Business Activities of ITOCHU"

In the past, our computers were infected with malware (malicious software), resulting in an external leak of client information. We have since focused on countermeasures aimed at preventing this from reoccurring. We have strengthened these preventative countermeasures by expanding security infrastructure for monitoring and defense, drastically revising the structure of our cybersecurity countermeasures team (ITCCERT: ITOCHU Computer Emergency Readiness, Response & Recovery Team), and hiring expert advanced cybersecurity analysts.

We routinely collect the latest information regarding threats through analysis of system logs and malware and conduct preventative measures. Additionally, when accidents (incidents) do occur, we respond instantly by investigating their causes, discussing possible countermeasures, and restoring services. In FYE 2018, we established an exclusive space for ITCCERT within our IT Planning Division and are working to strengthen security countermeasures across the entire Group and develop security countermeasure personnel. We also dispatch analysts to Chiba University under cross-appointment contracts (mixed-wage systems) in an effort to train and develop the cybersecurity countermeasure technicians that society needs. There are few examples of user companies in Japan that are working as actively as we are to develop systems and respond to information security risk. We plan to proceed with initiatives supporting sustained growth moving forward.