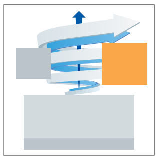
Business Investment

Fundamental Approach



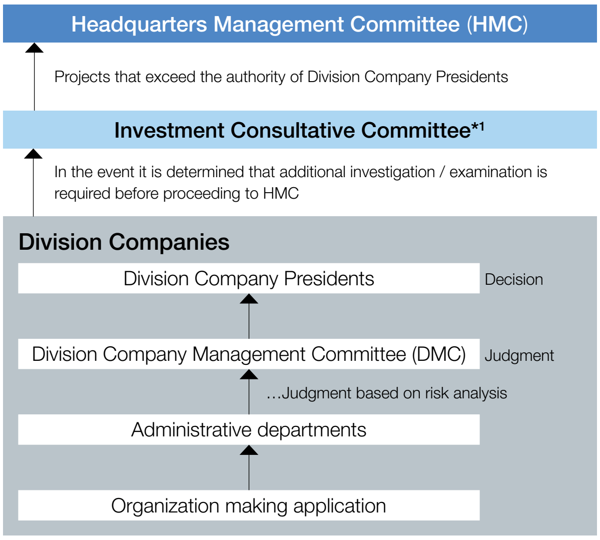
Along with strategic business alliances, business investment is an important means of creating new businesses. Based on our strategic goals, we choose the optimal format from a range of methods and investment ratios, such as establishing a wholly owned subsidiary, implementing joint investment with partners, 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 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

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. In addition to the analysis of quantitative risk, qualitative risk regarding labor, the environment, compliance, and CSR (based on ISO 26000) is also reviewed. Next, related administrative organizations implement screening from various specialized perspectives and express their opinions regarding the application. Following careful discussion by the Division Company Management Committee (DMC), the Division Company President will make a final decision. Projects that exceed the Division Company President's own authority must be approved by the Headquarters Management Committee (HMC). If the project needs further consideration and screening in terms of profitability and strategy, the project is discussed at the Investment Consultative Committee[*1] prior to the HMC. This approach gives a certain level of discretion to the Division Companies and enables quick decision-making, while providing appropriate screening processes in terms of investment return and risk control.

*1 Investment Consultative Committee: Core members include the CSO/CIO[*2], CFO[*3], CAO[*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 CSO/CIO: Chief Strategy & Information Officer
*3 CFO: Chief Financial Officer
*4 CAO: Chief Administrative Officer

Decision-Making Process for New Investments



Investment Process

1 Investment Decisions

Quantitative and qualitative evaluations in accordance with the following investment criteria

Investment decision items

Investment purpose / growth strategies	Risk analysis	Appropriateness of the business plan (acquisition price)	Within investment criteria line	Establishment of exit conditions	Status of internal control

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)

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).

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

Investment

Monitoring

Hold

2 Monitoring

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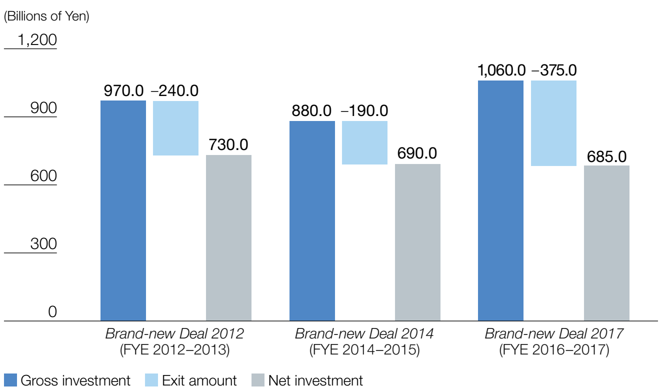
- Implementing review one year after investment
- Implementing periodic annual review for all business investments
- Reevaluating policies from qualitative (strategic significance, etc.) and quantitative (scale of earnings, investment efficiency, etc.) perspectives
- Formulating improvement measures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

Assets that Meet Exit Criteria

EXIT

Continuous Asset Replacement



3 Asset Replacement

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

For More Details

Enhance Investment Management

Exit from Loss-Making Businesses

We are enhancing asset replacement and improving issues of operating companies by monitoring returns against expectations at the time of investment. Moreover, even profitable investments should potentially exited if returns are lower than our cost of capital.

Business Exit Criteria

(1) Cumulative losses over three years

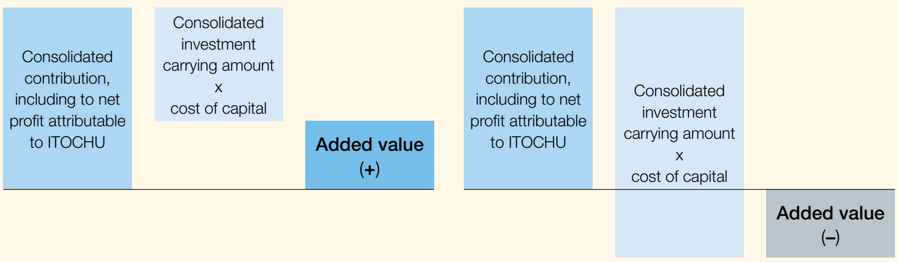
(2) Returns lower than expected at time of investment

(3) Cumulative losses in added value over three years
[consolidated contribution – (consolidated investment carrying amount x cost of capital)]

Positive added value

Negative added value

Consolidated contribution positive but lower than cost of capital = Inefficient investment, so consider exiting even if profitable



If either criteria are met:

Each investing division of the target company discusses on whether to continue or exit from the business.

Requirements:
(1) Improve consolidated returns
(2) Curtail increases in the consolidated investment carrying amount
(3) Prevent negative returns and losses

Continue the business

Apply to the HMC and deliberate whether or not to continue the business
⇒ Enhance asset replacement and improve issues

EXIT

Share of Group companies reporting profits	
FYE 2010	FYE 2017
71.9%	**86.4%**

Profits of Group companies reporting profits	
FYE 2010	FYE 2017
¥166.2 billion	**¥357.4 billion**

Risk Management

Significant Risks to Be Managed on a Consolidated Basis

ITOCHU is exposed to various risks due to the nature of a wide range of its businesses. These risks include unpredictable uncertainties and may have significant effects on its future business and financial performance. We recognize the following 18 items as major risks and have enhanced our risk management policy and risk management methodology to monitor and manage these risks.

Individual Risk Categories (Major Risks)

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

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).

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