CFO Interview

My mission is to consistently and strictly strike a balance between "three factors" regardless of the business environment.

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

Q1 Please provide a general review of the financial and capital strategies in FYE 2019.

A1 We were able to achieve greater results than we had promised the market.

In FYE 2019, the first year of our "Brand-new Deal 2020" medium-term management plan, consolidated net profit reached the ¥500.0-billion level, and we were able to deliver beyond the promises made in our "four commitments," which I described in this section last year.

First, in terms of "enhancing shareholder returns," we increased dividends by ¥13 year on year, ¥9 higher than the initial plan, to a record ¥83 per share. Furthermore, based on the Medium- to Long-Term Shareholder Returns Policy announced in October 2018, we conducted share buybacks totaling ¥68.0 billion, and our total shareholder return ratio was around 40% in FYE 2019. In this way, we were able to enhance shareholder returns. In addition, as a result of a shareholder proposal at the FYE 2018 General Meeting of Shareholders concerning the cancellation of treasury stock eventually being voted down despite receiving a certain degree of support, we cancelled 78 million shares.

Next, in terms of "Core Operating Cash Flows," we posted ¥515.0 billion, a year-on-year increase of ¥55.0 billion. This was a record high for the third consecutive year and exceeded our initial plan of ¥500.0 billion. I believe that this achievement was the result of our continued asset replacement and the steady expansion of core profit accompanying cash flow mainly in the non-resource sector.

In terms of "net debt-to-shareholders' equity ratio (NET DER)," we improved upon the value of 0.87 times at the end of the previous fiscal year to 0.82 times, right in line with our initial plan. In addition to shareholders' equity increasing to almost ¥3 trillion due mainly to the accumulation of consolidated net profit, we believe that this improvement was the result of carefully promoting efforts to improve asset efficiency in individual transactions, and practicing appropriate control of interest-bearing debt by accurately examining the impact of the large-scale and numerous conversions into consolidated subsidiaries.

Finally, in terms of ROE, we achieved a result of 17.9%, improving upon the figure of 15.8% at the end of the previous fiscal year, and significantly exceeding our initial target of 15.9%. We were therefore able to maintain the highest ROE among general trading companies for the fifth period in a row, and we believe that we have continued to meet the market's expectations on the cost of capital.

The results of these consistent financial and capital strategies can be seen in the form of upgrades from credit rating agencies. Beginning with the acquisition of an A credit rating from Moody's Investors Service in November 2017 for the first time in about 20 years, we subsequently improved our credit ratings from S&P Global Ratings, Rating & Investment Information (R&I), and Japan Credit Rating Agency (JCR) in quick succession by August 2018, thereby successfully acquiring A ratings from all four major credit rating agencies within a year. As a result of this achievement, I believe that, on the ratings front, we have gained domestic and international third-party recognition for our status as a leading general trading company.

Q2 Please inform us about the key points of the Medium- to Long-Term Shareholder Returns Policy announced in October 2018.

A2 The most important points are sustainable EPS growth and enhancement of corporate value.

In my preceding answer, when I explained that we were able to achieve more than we had promised, I was taking into consideration the announcement of the Medium- to Long-Term Shareholder Returns Policy and the demonstration of our approach to shareholders.

In addition to clarifying the two aspects of our approach to shareholder returns in the medium to long term (a period of three to four years from the policy's announcement) concerning shareholder dividends and share buybacks, we also set forth a policy that focuses on earnings per share (EPS). We will strive to not only reduce the denominator in the EPS calculation formula through share buybacks but also achieve profit growth, the numerator in the formula. By doing so, we aim to further increase EPS and improve corporate value on a sustainable basis. Furthermore, with regard to dividends during the period of "Brand-new Deal 2020," we have promised a minimum dividend of ¥85 per share for FYE 2020. We have also promised to continue with our progressive dividend policy in FYE 2021.

Accordingly, we will always consider the possibility of increasing dividends while giving consideration to such factors as increases in consolidated net profit, progress of growth investments, and cash flow availability. In addition to the dividend payout ratio, we will focus on the total shareholder return ratio going forward.

Guided by this policy, we have also executed share buybacks ahead of schedule in FYE 2020, having taken into consideration factors including the forecast of cash generation amount and our share price level. It is extremely unfortunate that the valuation of the shares of general trading companies remains low. However, we hope that our stance of swiftly acting on our commitments will be recognized.

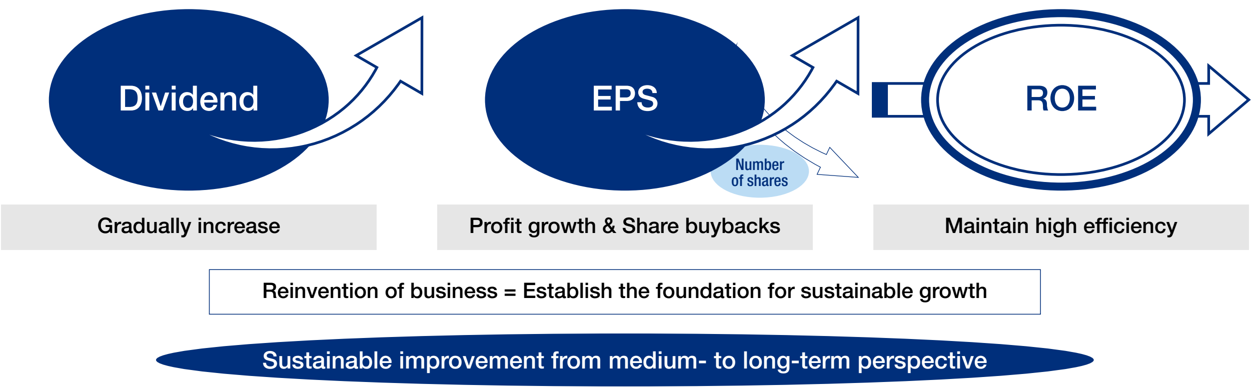
Q3 Consolidated net profit reached the ¥500.0 billion level in the first year of "Brand-new Deal 2020." Are there any changes to the Company's financial and capital strategies?

A3 There is basically no change.

We will continue to be conscious of striking a balance between three factors (growth investments, shareholder returns, and control of interest-bearing debt) while realizing a high ROE. Furthermore, as a general principle, our policy of maintaining positive Core Free Cash Flows after deducting shareholder returns remains unchanged. However, the following points warrant attention for FYE 2020.

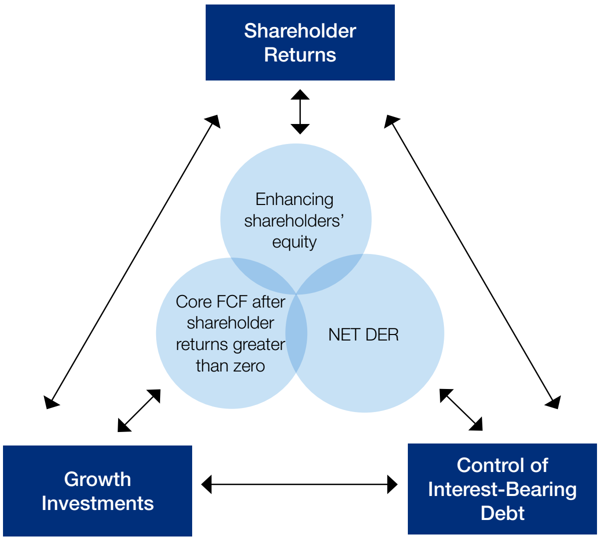
Looking back on our previous medium-term management plan, "Brand-new Deal 2017," we adopted the policy of building a solid earnings base to generate a ¥400.0 billion level consolidated net profit. In other words, we aimed to raise consolidated net profit from ¥300.0 billion to ¥400.0 billion, and we were able to successfully achieve that goal. Under "Brand-new Deal 2020," we immediately reached the ¥500.0-billion mark for consolidated net profit in FYE 2019, the first year of the medium-term management plan. However, since core profit was ¥472.0 billion, falling short of the ¥500.0 billion level, we must first build a solid earnings base from which we can generate ¥500.0

Approach to Enhancing Corporate Value Over the Medium- to Long-Term



Medium- to Long-Term Shareholder Returns Policy	• Gradually increase dividend payout ratio Gradually increase to achieve a future dividend payout ratio of approximately 30% • More actively execute share buybacks Continuously conduct share buybacks while taking cash availability into consideration, targeting a total of approximately 100 million shares

Achieve High ROE While Balancing Three Factors



billion on a stable basis, and then strive to achieve further growth. Looking at general trading companies as a whole, ¥500.0 billion is a very high profit level and, having reached this mark once, it is important that we maintain it.

To date, we have continued to further strengthen our financial position by drawing upon our strengths principally in the non-resource sector, which is resistant to economic fluctuations, and by enhancing our earning power and cash-generating power. Amid those activities, the management team reflects that since having invested in CITIC, the level of investments conducted has been low from the perspective of realizing further growth. Looking back on the last few years, due to the world economy being generally stable, the number of outstanding investment projects that would be suitable candidates for an M&A has been limited, and acquisition prices remained high. However, going forward, these projects are likely to increase in line with the anticipated fluctuation in market sentiment, which is expected to show signs of both strength and weakness.

Taking into account the projected further increase of Core Operating Cash Flows in FYE 2020 and our backstop of ¥300.0 billion of Core Free Cash Flows after deducting shareholder returns in FYE 2019, in FYE 2020 we intend to conduct growth investments when the time is right, while the Investment Consultative Committee, on which I serve as chairman, will conduct thorough screening, paying close attention to such matters as staying away from investments at their peak in order to refrain from unnecessary accumulation of goodwill. In other words, we maintain our policy to strike a good balance between shareholder returns and growth investments as previously mentioned. Furthermore, since we have made good progress toward strengthening our financial position as demonstrated by our improved credit ratings, we intend to control our interest-bearing debt keeping in mind our current leverage going forward.

Q4 Please tell us your approach to cost of capital when considering growth investments.

A4 I believe that it is an important indicator leading to the enhancement of both capital efficiency and sustainable corporate value.

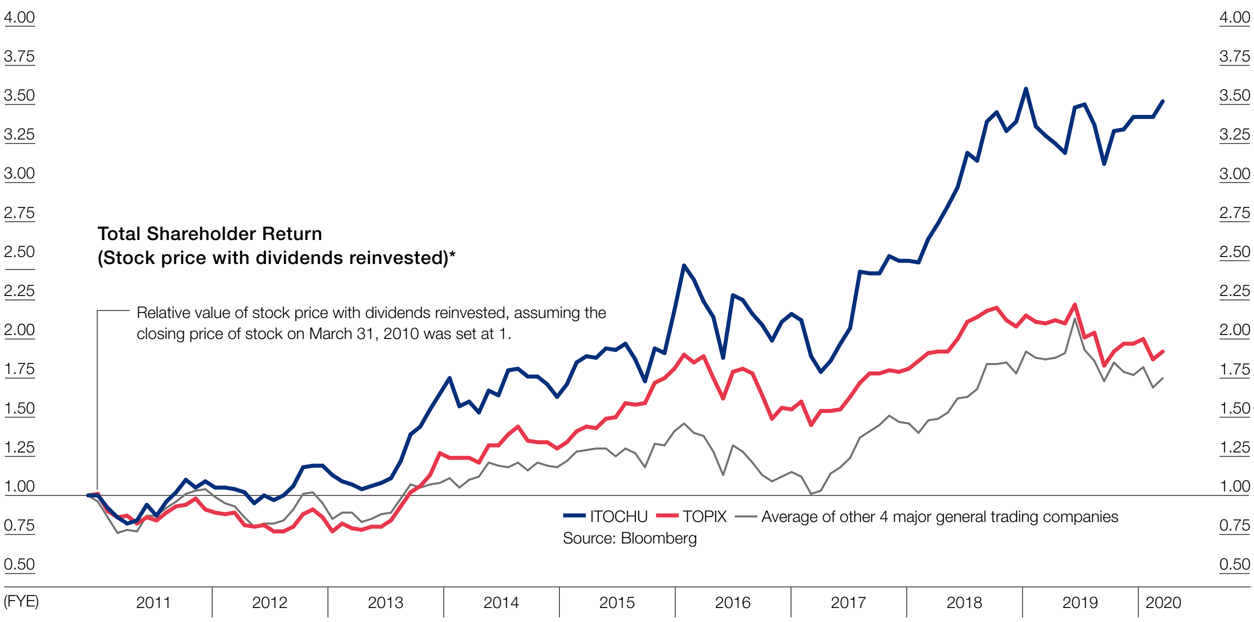
I mentioned the reason why I am committed to striking a balance between the three factors and realizing a high ROE in my answer to question three, and I believe that it is important that ROE exceeds the cost of capital. In other words, it is important to not only improve capital efficiency but also reduce the cost of capital from the perspective of enhancing sustainable corporate value. Since before the demise of the "commodities super cycle," we have largely changed our course toward the more stable non-resource sector and made efforts to enhance our earning power and cash-generating power, as well as promoting asset replacement of low-efficiency or peaked-out assets. This is proof that we are incorporating cost of capital into our management decisions. Looking back, we introduced Risk Capital Management in FYE 2000, when management improvements became a matter of urgency, and set the cost of shareholders' equity at 8%. Since then, the hurdle rates that must be cleared when conducting investments have evolved, and we have now established approximately 40 hurdle rates according to business type (by country) to manage investments meticulously. Furthermore, I believe that it is necessary to thoroughly bear in the mind the impact of non-financial capital on the cost of capital. In particular, the further strengthening of governance, as well as improvements to social and environmental factors regarding ESG, are important debates that will lead to the reduction of obstacles for future growth and of cost of capital. I believe that the initiatives we have taken to promote the diversity of the Board of Directors, such as raising the ratio of outside Directors to more than one-third at all times and transitioning to a monitoring-focused Board of Directors' structure, as well as increasing the number of female outside Directors from one to two, will contribute to the reduction of the cost of capital and the sustainable enhancement of corporate value.

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)

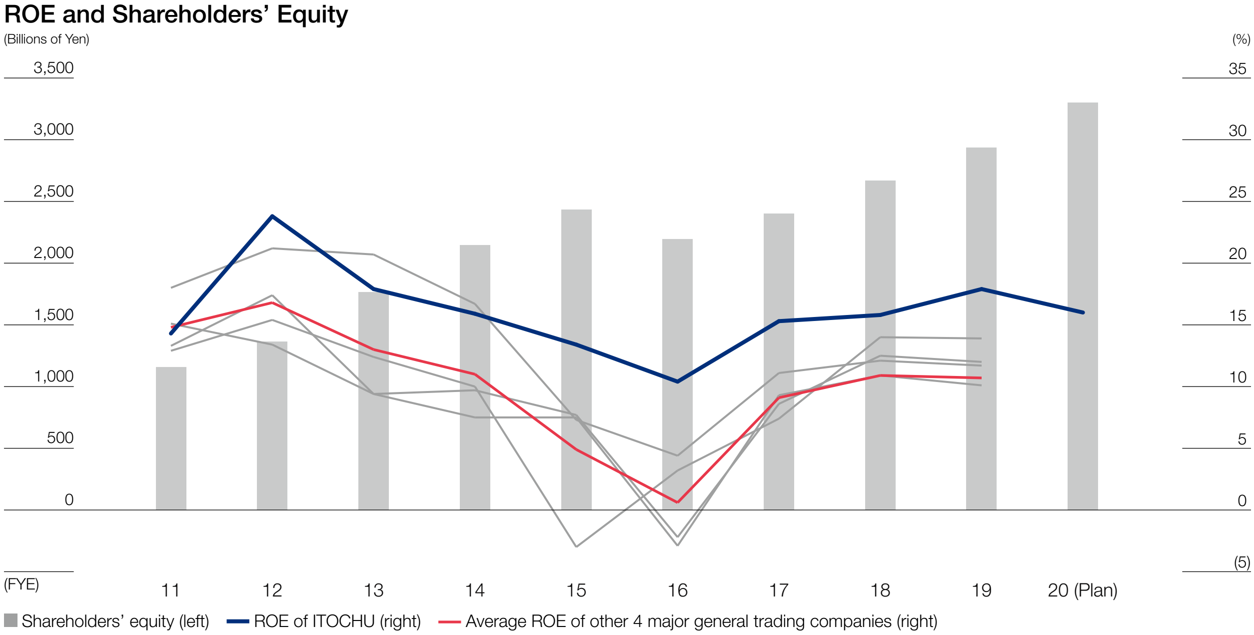
	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FYE 2019
Stock price	¥784	¥824	¥890	¥1,229	¥1,280	¥1,466	¥1,408	¥1,843	¥2,029
PER	7.9 times	5.5 times	5.0 times	6.7 times	6.8 times	7.1 times	6.4 times	7.2 times	6.7 times
PBR	1.1 times	1.1 times	1.0 times	1.0 times	0.9 times	0.9 times	1.0 times	1.1 times	1.1 times



TSR*	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years
ITOCHU	0.8%	36.7%	61.9%	78.8%	99.6%	121.0%	188.6%	214.7%	242.2%
TOPIX	(5.1%)	10.0%	26.2%	12.5%	47.0%	74.3%	115.9%	117.2%	97.1%
Average of other 4 major general trading companies	0.6%	21.3%	58.6%	34.6%	52.0%	70.3%	75.8%	70.4%	77.0%

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

ROE and Shareholders' Equity



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 wide range of methods, such as establishing a wholly owned subsidiary, implementing joint investment with partners, and participating in management through M&As or converting to a consolidated subsidiary. In principle, we hold investments continuously. After making each investment, we work to maximize the investee's 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

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

HMC (Headquarters Management Committee) — 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 — Related administrative organizations express their opinions from various specialized perspectives regarding the application made by the applicants. Following careful discussion at the DMC, the Division Company President will make a final decision.

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

*1 Investment Consultative Committee: The CFO*2 serves as the committee chairman. Core members include the CAO*3, CDO & 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 CAO: Chief Administrative Officer

*4 CDO & CIO: Chief Digital & 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 criteria 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 verifying 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
- Verification of internal control status
- Verification of business plan appropriateness
- Establishment of exit conditions
- ESG risk evaluation

Execution of Investment

Monitoring

- Implementing review one year after investment
- Implementing periodic review for all business investments annually
- Reevaluating policies from qualitative (strategic significance, etc.) and quantitative (scale of earnings, investment efficiency, etc.) perspectives
- Formulating improvement measures for subsidiaries and affiliates with issues 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 Appropriateness of Business Plan

- Scrutinizing 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, etc.

ESG Risk Evaluation

- Evaluate in advance the impact on the environment, society, and other areas as well as the corporate governance status of the investment target using an ESG checklist composed of 33 categories

* In the event of a concern, we will only proceed with the investment after due diligence carried out by an expert has confirmed that there is no problem.

Exit Criteria

See page 40 for more information

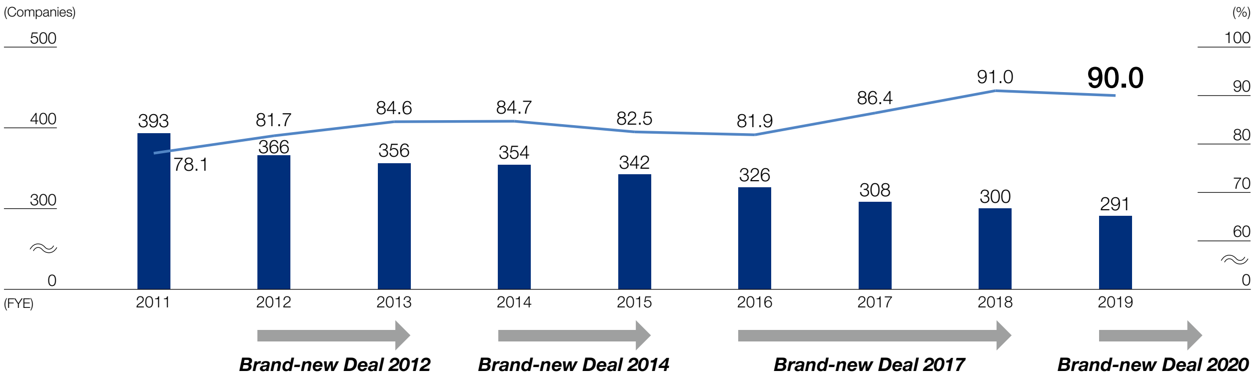
Covenant Management

- In principle, we will continue to aim for positive Core Free Cash Flows after shareholder returns during the period of "Brand-new Deal 2020."

Investments in Next-Generation

To promote the reinvention of business, entrust investment decisions to the CDO & CIO and do not apply the existing investment criteria with respect to investments in start-up companies. Set an investment budget of ¥30.0 billion and limit risk. Conduct a review one year after investment execution.

Number of Consolidated Group Companies and Share of Group Companies Reporting Profits



■ Number of consolidated Group companies — Share of Group companies reporting profits

“Prevent”—Upgrading Business Investment Management

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

Exit Criteria for Consolidated Investment

(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)]

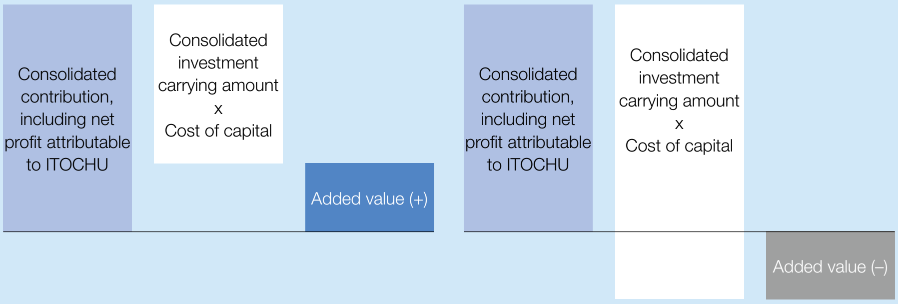
* Consolidated contribution is the total of net profit and trade merit.

Positive added value

Negative added value

Consolidated contribution positive but lower than cost of capital

= Low-efficiency investment, so consider exiting even if profitable



If either criteria is met:

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

Continue the business

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

EXIT

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

Implement monitoring from an ESG perspective based on the conditions of the business

Share of Group companies reporting profits	
FYE 2011	FYE 2019
78.1%	**90.0%**

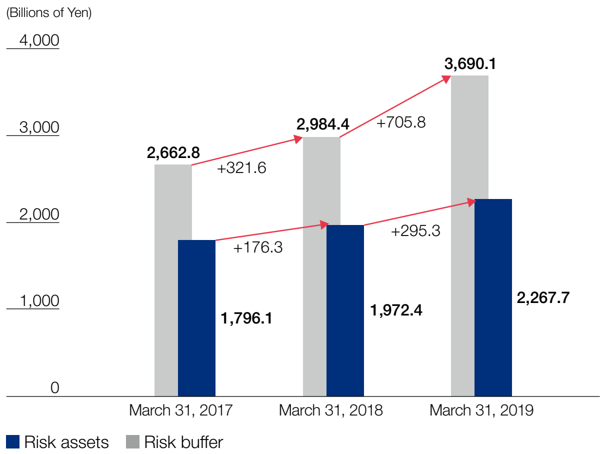
Profits of Group companies reporting profits	
FYE 2011	FYE 2019
¥226.7 billion	**¥545.3 billion**

Risk Capital Management and Management of Concentrated Risks

Strict Management of Risk Assets

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 (Total shareholders' equity + Non-controlling interests). As we promote investments that will lead to the reinvention of business 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 multiple risks in markets, credit risks, 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 methods. 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)

		Textile	Machinery	Metals & Minerals	Energy & Chemicals	Food	General Products & Realty	ICT & Financial Business
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							
6	Commodity Price Risks (Specific Important Commodities)							
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							
15	Labor Management Risks							
16	Human Resource Risks							
17	Risks Associated with the Appropriateness of Financial Reporting							
18	Risks Associated with Internal Control							

* The above information was compiled based on the Division Companies and products handled as of March 31, 2019

Organizational Assets

The Workings of Administrative Divisions in the Business Investment Process

ITOCHU is pursuing a business model that balances trade and business investment. We have honed sophisticated levels of specialization and accumulated know-how in administrative divisions, including law, risk management, tax and accounting, and finance. Rather than acting simply as “back office” entities that serve as checks on business divisions, our administrative divisions support business divisions’ “earn, cut, prevent” efforts. Here, we show some examples of how administrative divisions support each business investment process (⇨ Page 39), which is key in developing our business.

Investment Decisions

Division Company

Division Company CFO

Makoto Kyoda

We are dispatched from headquarters, take overall charge of accounting, affiliate administration, and risk management of each Division Company. We vet the investment application, validate the potential investee’s business plan, and conduct a risk analysis by comparing with internal investment criteria, etc. We check and provide support for the applicants through providing suitable advices.

Administrative Division: Headquarters

Corporate Planning & Administration Division

Yoriko Ota

We are in charge of planning and proposing Companywide management policy and plans, as well as running important meetings such as Board of Directors. On business investment projects, we conduct advance screening and consider consistency with management policy. We help the management team make appropriate decisions smoothly, by highlighting salient points and providing explanations, etc.

Finance Division

Shino Tadashima

From searching for potential business investment projects to making investments, we leverage our network of financial institutions to support M&A execution. We work alongside the applicants to create an optimal acquisition scheme, verify valuations from a market perspective, work to lower financing costs, and support the steady execution of growth investments.

Legal Division

Grace Gentilli

Participating from the initial stage of business investment projects, we provide advice and may join in handling negotiations, helping to secure more favorable terms in negotiations with the legal representatives of the counterparty. In addition to checking the laws of the country of investee, non-compete obligations, antimonopoly legislation, and compliance, we provide a wide range of support for the applicants.

General Accounting Control Division

Shunta Watanabe

Communicating with related departments, we make proposals to ensure the best investments scheme for the Group, by considering accounting treatment based on discussions with the external auditor, as well as optimal tax planning based on Japanese and overseas tax systems. Following investment execution, we introduce consolidated accounting procedures and respond to statutory disclosure requirements.

Sustainability Management Department

Keiko Mayuzumi

As an organization reporting directly to the CAO, we promote a full range of environment- and society-related sustainability measures. All new business investment projects must pass advance validation from an ESG perspective. We conduct such verification and highlight follow-up points and opinions arising from discussion. We ensure that investment decisions reflect an ESG perspective, as well as the business plan.

Global Risk Management Division

We take responsibility for the planning and operation of investment-related policies and systems, handling the formulation and operation of investment criteria. Based on investment applications from Division Companies, we take a Companywide perspective and decide hurdle rates that take into account cost of capital in around 40 business types (by country). For large projects, we screen projects from the perspective of Companywide risk management and Group management control.

Execution of Investment → Monitoring

Division Company

Corporate Communications Division

Daisuke Yoshida

We facilitate the timely and accurate disclosure of information to such stakeholders as newspapers, magazines, television, and other mass media via press conferences, websites, and other means. By fielding interview requests, we foster two-way communications with the mass media that help deepen their understanding of business investment projects and promote increases in corporate value.

Global Risk Management Division

Toshio Wakamatsu

We control a comprehensive review of all investment projects once each fiscal year. During this review, we check that exit criteria are being strictly applied, encourage monitoring that reflects current management issues, and work to improve management through extensive discussions with Division Companies. Such efforts help to maintain and enhance a high percentage of Group companies reporting profits.

Investor Relations Department

Aiko Ano

We are in charge of disseminating information to stakeholders through timely disclosures and annual reports. When an investment is executed, we disclose such information in a timely and easy-to-understand manner to help deepen stakeholder understanding about the objectives and strategies. We also provide feedback from the market to the management team, helping to achieve further increases in corporate value.

Division Company CFO

As partners of applicants, CFOs of Division Companies provide support and checks at all phases: when investments are executed, during post-investment management control, and when exiting from investments. In addition to everyday monitoring through our role as part-time Audit & Supervisory Board Members, at annual reviews we work under the supervision of the Global Risk Management Division and discuss future policies and improvement plans with applicants, taking any conflicts with exit criteria into account and coordinating Division Company policy.