Business Investment

Business Investment Process

Along with strategic business alliances, business investment is an important means of creating and expanding businesses. To actively promote strategic investments in areas of strength in a timely manner, we choose the optimal structure 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 continuously hold investments. After executing each investment, we work to maximize the investee's corporate value and to expand trading profits and dividends received by fully utilizing our Groupwide capabilities. Given such considerations as increases in larger-scale investments in recent years, we are rigorously screening the validity of the business plan and acquisition price. 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 conditions and thoroughly implementing periodic investment reviews. In addition, through cross-divisional training across Division Companies, we share the lessons learned from reviewing specific past investment failures, thereby endeavoring to enhance the success rates of future investments.

Investment Decisions

Decision-Making Process

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.

Division Companies

- Applicants (responsible divisions)
- ↓
- Administrative divisions
- ↓ …Opinion based on risk analysis
- Division Company Management Committee (DMC) — Deliberation
- ↓
- Division Company President — Decision
- ↓
- Investment Consultative Committee*
- ↓
- Headquarters Management Committee (HMC)
- ↓
- Board of Directors

Related administrative divisions 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.

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.

* The Investment Consultative Committee is chaired by the CFO, and its core members are the CAO and the General Managers of the Corporate Planning & Administration, Legal, General Accounting Control, Finance, and Global Risk Management divisions. Meetings are also attended by one full-time Audit & Supervisory Board Member.

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

Of the projects approved by the HMC, projects of quantitative and qualitative significance must be approved by the Board of Directors.

Points for Making Decisions

Investment Purpose and Formulation of Growth Strategies	Verification of Business Plan Appropriateness	Compliance with Investment Criteria	Risk Analysis	Verification of Internal Control Status	Setting Exit Conditions

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 setting of exit measures)

Investment Criteria
- Investment efficiency based on Net Present Value (NPV) calculated from investee's free cash flows:
  When calculating NPV, about 70 hurdle rates (by country) are used according to industry.
- Cash inflows into ITOCHU, such as dividends received and earnings from trade activities
- Scale of investee's earnings

ESG Risk Evaluation
- Evaluate in advance the impact on the environment, society, etc., as well as the corporate governance status of the investment target using an ESG checklist composed of 28 items
- Conduct multifaceted ESG assessments, including on-site surveys, to prevent environmental pollution and other problems among Group companies even following investment

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.

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Sharing the Lessons Learned

Training Based on "Unforgettable" Cases of Investment Failure

We share the lessons learned from reviewing specific past investment failures with the aim of increasing the strength and rigor of our measures to "prevent" unforeseen impairment losses and other negative consequences. In FYE 2022, we held a total of 20 training sessions, in which approximately 1,900 employees cumulatively from business divisions and administrative divisions participated.

(Page 56 CSO Interview)

Asset Replacement

Promoting replacement of low-return assets that meet exit criteria as well as businesses that have lost strategic significance

Control of Cash: Continuously focus on our policy to maintain positive core free cash flows after deducting shareholder returns

Exit Criteria

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 of deficits or dividends payout
- Following up throughout the year on policies and issue-improvement measures formulated in periodic review

For details
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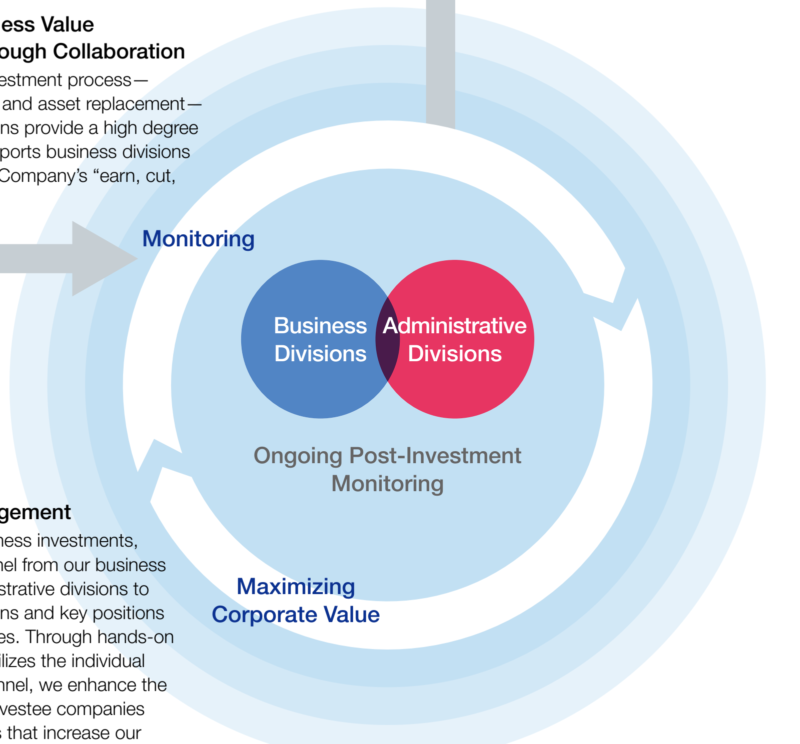
Execution of Investment

Enhancing Business Value Continuously through Collaboration

In each business investment process—including monitoring and asset replacement—administrative divisions provide a high degree of expertise that supports business divisions in implementing the Company's "earn, cut, prevent" principles.



Hands-On Management

After executing business investments, we dispatch personnel from our business divisions and administrative divisions to the frontline operations and key positions of investee companies. Through hands-on management that utilizes the individual capabilities of personnel, we enhance the corporate value of investee companies and create synergies that increase our comprehensive strength.

Business Investment

In-Depth: Monitoring

We review our policies for holding business investments annually and carefully confirm the significance of holding them based on comprehensive consideration of the individual circumstances of each investment, industry characteristics, and other factors. We then implement asset replacement with respect to businesses that have low-efficiency, exit early from businesses that are significantly below targets set at the time of investment, and reduce / restructure the operations of loss-making companies.

After the review of holding policies, administrative divisions periodically monitor the implementation status of exits as well as improvement measures and provide support to ensure the implementation of measures in accordance with the policies.

Periodic Reviews for All Business Investments

Decision-Making Process

Division Company

Prior Consultation: The validity of improvement plans for low-efficiency business investments that hit exit criteria is examined. For business investments with no prospect of improvement, administrative divisions monitor if business divisions are working toward an early exit.

...Opinion based on exit criteria

DMC: The significance of holding respective business investments is carefully analyzed in the context of the Division Company's strategies. By taking into account the consultative opinion, the President of Division Company decides on the Division Company's holding policy.

ALM Committee*: Before submission to the HMC, the validity of the Division Company's holding policy and the feasibility of exit are deliberated.

HMC: If a Division Company decides on a policy of continuing to hold a business investment that hits exit criteria, the approval of the HMC is required.

Progress Follow-Up

Business Investment to Be Exited: Exit progress is monitored, and each Division Company reports on progress to the CFO monthly.

Business investment to Be Held Continuously: Improvement measures are advanced. At the periodic review for business investment in the following fiscal year, the achievement of improvement plans is checked, and the holding policy is then carefully reanalyzed.

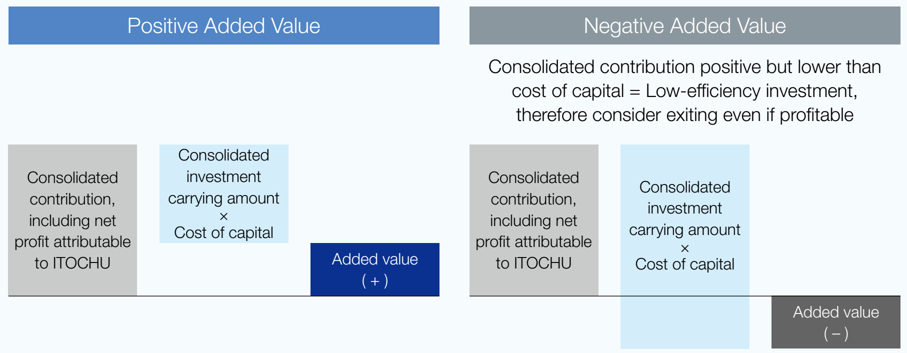
Exit Criteria for Business Investment

(1) Cumulative losses for the last three years

(2) Returns lower than original plans made at the time of investment

(3) Cumulative losses in added value for the last three years
[Consolidated contribution*1 – (Consolidated investment carrying amount x Cost of capital*2)]

*1 Consolidated contribution is the total of net profit and trade merit.
*2 Cost of capital: Set according to industry (approximately 70) and country



* The ALM (Asset Liability Management) Committee is chaired by the CFO, and its core members are the General Managers of the Corporate Planning & Administration, General Accounting Control, Finance, and Global Risk Management divisions. Meetings are also attended by one full-time Audit & Supervisory Board Member. (➡ Page 95 Activities of Internal Committees)

How ITOCHU Differs from a General Private Equity Fund

As we consider business investment to be a powerful tool, our business model is often compared to that of a private equity fund. There are certain similar aspects, such as the desire to contribute proactively to investees' management and enhance the corporate value of investees. However, the differences are that we focus on generating synergies with existing businesses and enjoy returns centered on trading profits and dividends.

	Investee Liquidity	Investee Ownership Ratio	Investee Ownership Period	Synergies	Returns
General Private Equity Fund	In principle, unlisted	In principle, majority stake up to 100%	Buy and hold having an exit strategy	In principle, none	Capital gains and dividends
ITOCHU	Either listed or unlisted	Decided individually, based on business conditions and market environment	Buy and hold	Create synergies with existing businesses	In principle, trading profits and dividends

Enhancing the Corporate Value of Group Companies

ITOCHU increases the corporate value of Group companies by rigorously implementing the "earn, cut, prevent" principles and strengthening monitoring, which is based on various types of assessments. For example, we steadily accumulate high-quality assets by conducting qualitative and quantitative verifications that consider synergies in assessing investment efficiency and the strategic significance and earnings scale of business investments. Moreover, in relation to concern over possible future losses, at an early stage, we evaluate investments and take appropriate measures by consistently applying conservative premises both for credit management and evaluations of the recoverability of various types of assets. Thanks to these activities, we have built a robust earnings base that is diversified across a wide range of business areas mainly in the non-resource sector, and which is therefore highly resilient to economic volatility. As a result, in FYE 2022, the ratio of Group companies reporting profits was 90.9%, achieving the same level as FYE 2018, which is the highest.

Continuous Accumulation of the Profits of Group Companies through Implementation of the "Earn, Cut, Prevent" Principles