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. Even while steering toward growth investments, we will continue to identify various risks and thoroughly scrutinize the appropriateness of business plans and acquisition prices, with our administrative divisions utilizing their expertise and cumulative know-how to conduct even more stringent inspections. 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 and conducting hands-on management. Also, to enhance business earnings and exit quickly from low-efficiency assets, we are further strengthening monitoring procedures centered on instituting more rigorous exit conditions and thoroughly implementing periodic reviews for all business investments. In addition, through cross-divisional internal training across Division Companies, we share the lessons learned from reviewing past investment failures and insights from within the Group, 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)

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Administrative divisions

↓ …Opinion based on risk analysis

Division Company Management Committee (DMC) — Deliberation

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Division Company President — Decision

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 makes a final decision.

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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.

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

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Headquarters Management Committee (HMC)

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

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Board of Directors

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, taken into consideration the Company's cost of equity (8%).
- 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.

▶ Page 68 Exit Criteria for Business Investment

Execution of Investment

Business Divisions / Administrative Divisions

Enhancing corporate value continuously through collaboration between business divisions and administrative divisions

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.

Periodic Monitoring (Including Periodic Reviews for All Business Investments)

In addition to conducting a review one year after investment, we conduct periodic review for all business investment annually to review policies from qualitative (strategic significance, etc.) and quantitative (profit scale, investment efficiency, etc.) perspectives. Also, we formulate improvement measures for Group companies and affiliates with issues related to deficits or dividend payouts, and we follow up on the progress of such companies throughout the year.

Investees Met Exit Criteria for Business Investment

▶ Page 68

Measures after Investees Met Exit Criteria for Business Investment

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 policies for holding business investments, 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.

Decision-Making Process

DMC: After verifying the appropriateness of improvement plans for low-efficiency business investments that meet exit criteria for business investment, the significance of holding respective business investments is carefully analyzed in the context of the Division Company's strategies, and a decision on holding policy is made by the Division Company's President.

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HMC: HMC approval is required if a Division Company's policy is continuing to hold a business investment that meets exit criteria for business investment. In conducting HMC deliberations, the ALM Committee*3 conducts prior deliberations on the appropriateness of the Division Company's retention policy and the possibility of exit implementation.

*3 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.

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Progress Follow-Up

Business Investment to Be Exited	Business Investment to Be Held Continuously
Exit progress is monitored, and each Division Company reports on progress to the CFO monthly.	Improvement measures are advanced. At the periodic review for business investment in the following fiscal year, the progress of improvement plans is checked, and the holding policy is then carefully reanalyzed.

Asset Replacement

Promoting replacement of low-efficiency assets that meet exit criteria for business investment as well as businesses that have lost strategic significance (▶ Page 47 Portfolio Management)

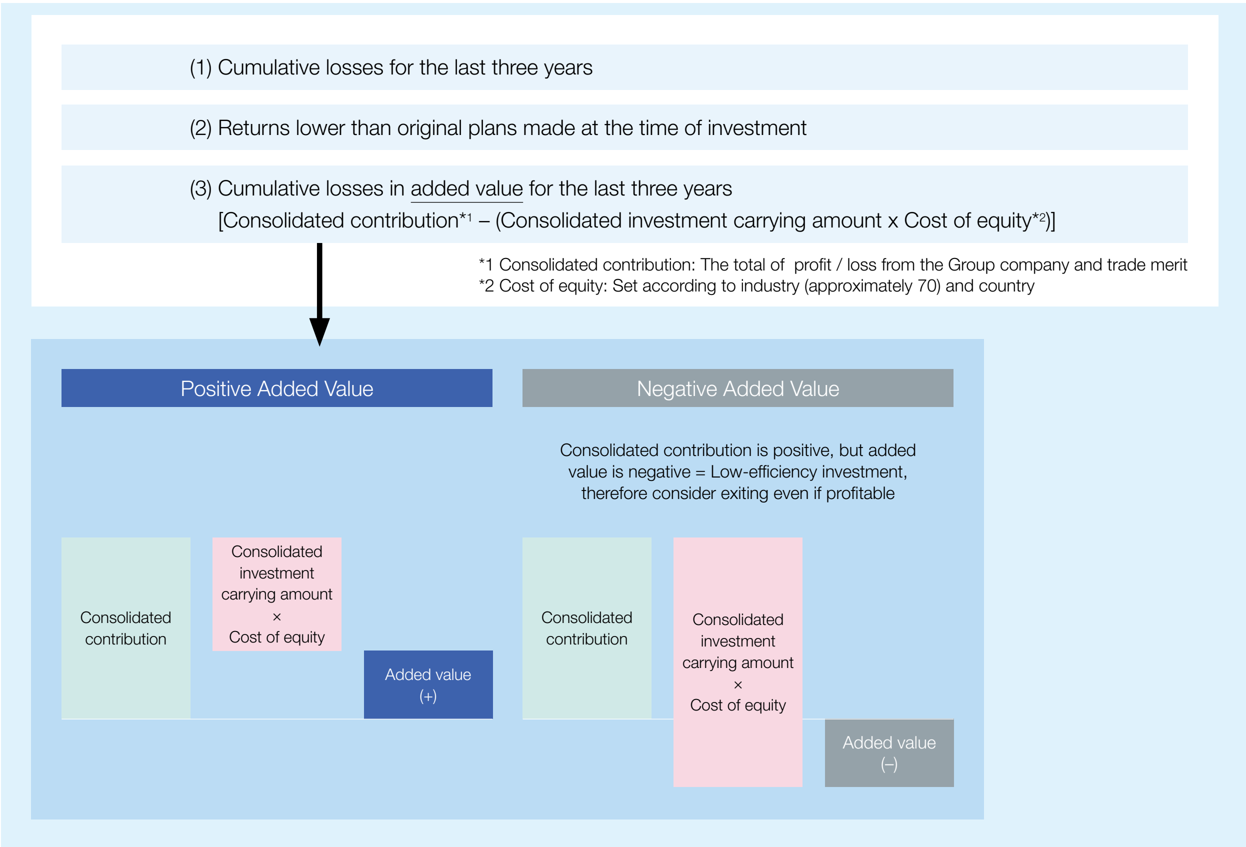
Sharing the Lessons Learned

Unforgettable Training Based on Cases of Investment Failures

We internally share the lessons learned from analyzing 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 2024, we conducted five specific case studies of investment projects in regions such as Latin America and China during our training sessions, which saw participation from a large number of employees from both business and administrative divisions.

(▶ Page 69 The Four Lessons for Investments, Training on Investment Failure Cases and PMI*2 Case Studies) *2 PMI: Post-Merger Integration

Exit Criteria for Business Investment



Toward Enhancing the Corporate Value of Group Companies

ITOCHU enhances 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. Centered on the non-resource sector, we have built a robust and diversified earnings base that is resilient to economic fluctuations. As of the end of FYE 2024, we had 263 Group companies, with a ratio of Group companies reporting profits of 92%. (▶Page 38 Track Record of Profit Growth under "Brand-new Deal" Strategies)

Additionally, our Chairman & CEO, as well as the President & COO, actively visit Group companies and hold meetings with their management teams. Through direct interaction with our Group companies, we obtain firsthand information from the front lines, enabling swift and flexible management decisions. Furthermore, we have a Group Companies Management Awards Program that is aimed at invigorating the Group's management. The criteria for selections include quantitative target achievement and year-on-year increase in profit from investees in relation to the "earn" principle as well as year-on-year improvement in the ratio of SG&A expenses to gross trading profit in relation to the "cut" principle, with Group companies required to satisfy multiple criteria. At the awards ceremony, prize money is also granted to the award-winning company to allow executives and employees of the companies to share in their joy and contribute to heightening their motivation.

The 38th Group Companies Management Awards ceremony

The Four Lessons for Investments

ITOCHU has compiled the lessons learned from past investment failures as the Four Lessons for Investments and repeatedly shares these lessons through training sessions based on cases of investment failures and at various management meetings across the company. This approach ensures that these lessons are considered during the initial evaluation phase of investment opportunities on the front lines, fostering a culture of continuous learning and improvement.

The Four Lessons for Investments (To Rigorously Prevent Below)

(1) Overpaying for investments	• Make investments at a low price to minimize future risk of impairment loss
(2) Investments aimed at seizing profit from investees	• Avoid shortsighted investments that only target current profit contributions
(3) Overdependence on and overconfidence in partners	• Do not engage in projects where ITOCHU must rely on partners or sales from the specific customers
(4) Fields with limited insight	• Do not engage in projects where ITOCHU has limited experience or expertise

Training on Investment Failure Cases and PMI*3 Case Studies

Training sessions based on cases of investment failures aim to understand the essence of past investment failures so that we avoid repeating the mistakes that led to them. These sessions are conducted for all employees. The Global Risk Management Division prepares training materials based on interviews with relevant parties regarding the decision-making process at the time of investment and regarding discussions at the DMC*4 and the HMC*5. In FYE 2024, we addressed five specific case studies, including investment projects in Latin America and China as well as buyout projects from owners. Additionally, we analyzed past case studies to identify reflections and lessons learned, categorizing them by business stage. We then organized the common points across multiple failure cases into a comprehensive guide titled "Key Considerations for Each Stage of Business Investment."

Key Considerations for Each Stage of Business Investment

Phase	(1) Establishment	(2) Development	(3) Exit
Stage	1. Feasibility Study (FS) 2. Due Diligence (DD) 3. Evaluation of Business Plan 4. Contract Execution 5. Alignment on Business Strategy	6. Post-Merger Integration (PMI) 7. Establishing Communication 8. Management Review	9. Evaluating Success or Failure
Key Considerations	Thorough Evaluation of Business Plans Precise Assessment of Business Operations	Establishing an Appropriate Governance Structure Deploying Personnel with Industry Expertise	Careful Assessment of Investment Continuation Feasibility Timely Exit Decisions

In order to lead investments to success and realize expected synergies early, hands-on actions immediately after the investment execution are crucial. To share knowledge and expertise on this vital process of PMI within the Group, we have introduced a new training program focused on PMI case studies. This program is structured in two parts: an "Introduction" section for systematically learning the basics of PMI and a "Case Study" section. The Case Study section covers four cases, both in Japan and overseas, and includes interviews with individuals who were directly involved in PMI, summarizing key management points, considerations for directors dispatched to the integrated companies, and examples of successful business integrations.

Through these training sessions, we will continue to leverage lessons from the past failure in our investment decisions and monitoring. After executing investments, we will promptly implement hands-on PMI to not only drive the principles of "earn" and "cut" but also strengthen and ensure the "prevent" principles, including avoiding unexpected impairment losses, thereby increasing the success rate of our investments.

*3 PMI: Post-Merger Integration
*4 DMC: Division Company Management Committee
*5 HMC: Headquarters Management Committee