# **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. As our investments have become larger and our growth investments have accumulated in recent years, we have been identifying various risks and thoroughly scrutinizing the appropriateness of business plans and acquisition prices, while our administrative divisions have been utilizing their expertise and cumulative know-how to conduct even more stringent inspections. After

**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) 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. .. Opinion based on risk analysis If the project needs further consideration and screening in ivision Company Management Committee (DMC) Deliberation 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, Division Company President Decision its vice-chairperson is the CSO, and its core members are the CAO, the CDO·CIO, and the General Managers of the Corporate Planning & Administration, Legal, General Accounting Control, Finance, and Global Risk Management divisions. Meetings are Investment Consultative Committee\* also attended by one full-time Audit & Supervisory Board Member Projects that exceed the Division Company President's author-Headquarters Management Committee (HMC) ity must be approved by the HMC Of the projects approved by the HMC, projects of quantitative Board of Directors and qualitative significance must be approved by the Board of Directors Points for Making Decisions Investment Purpose Verification of Verification of Compliance with Setting Exit Risk Analysis and Formulation of Rusiness Plan Internal Control Investment Criteria Conditions Growth Strategies Appropriateness Status Thoroughly Verifying Investment Criteria **ESG Risk Evaluation** Setting Exit Conditions • Investment efficiency based Evaluate in advance the • Setting clear and feasible exit on Net Present Value (NPV) impact on the environment measures before making Scrutinizing business plans calculated from investee's free society etc. as well as the investment before making a new investcash flows: When calculating Clear exit conditions: corporate governance status ment (including sensitivity NPV, about 70 hurdle rates (by of the investment target using Setting quantitative exit conditions that, in principle, call for country) are used according to an ESG checklist composed analysis' Concrete countermeasures for industry, taken into considerexiting from the investment if of 28 items Conduct multifaceted ESG downward divergence from ation of the Company's cost conditions are met original plan (including setting of capital (8%). assessments, including on-site Feasible exit measures: Cash inflows into ITOCHU, Obtaining advance agreement of exit measures) surveys, to prevent environsuch as dividends received and mental pollution and other with partners on exit condiearnings from trade activities problems among Group tions, etc. Scale of investee's earnings companies even following investment

▶ Page 60 Exit Criteria for Business

Investment

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 business investment reviews. In addition, through cross-divisional internal training across Division Companies, we share the lessons learned from reviewing past investment failures, thereby endeavoring to enhance the success rates of future investments.

#### 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 2023, we conducted five training sessions with specific examples, in which a large number of employees from business divisions and administrative divisions participated.

( Page 60 The Four Lessons for Investments)

#### **Asset Replacement**

Promoting replacement of low-efficiency assets that meet exit criteria for business investment as well as businesses that have lost strategic

( Page 64 Asset Replacement That Took Advantage of Changes in the Business Environment (Belong Inc.))

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

# 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.

### 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 progress of improvement plans is checked, and the holding policy is then carefully reanalyzed.

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\* conducts prior deliberations on the appropriateness of the Division Company's retention policy and the possibility of exit implementation.

\* 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.

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.

#### Investees Met Exit Criteria for Business Investment

Page 60

# Periodic Monitoring (Including periodic review for business investment)

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.

### **Execution of** Investment

**Business Administrativ Divisions** 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. ► Page 68 Polishing and Further Expanding the Earnings Base of the North

American Construction Materials Business through a Hands-on Management Style)