Merger & Cash-In

Integration of Brazilian Iron Ore Related Assets

Nacional Minérios S.A. (NAMISA), an iron ore production and sales company in Brazil, operates a project in the state of Minas Gerais in Brazil that was acquired in December 2008, in the middle of the resource boom, through a consortium that ITOCHU established in collaboration with five large domestic iron and steel companies and POSCO, of South Korea.

Competitive strength in the iron ore mine business is determined not only by high-quality iron ore mines but also by infrastructure assets, including railway and port facilities. NAMISA was a project that had limitations on the use of infrastructure under a long-term contract with Companhia Siderúrgica Nacional (CSN). Also, CSN's neighboring Casa de Pedra (CdP) Mine has minable reserves of more than 3.0 billion tons (probable reserves of more than 6.5 billion tons), about 10 times NAMISA's reserves. The investment in NAMISA was initially made with a view toward a management integration with the CdP mine, one of the most competitive mines in the world.

In June 2011, a new business plan was concluded with CSN and the generation of synergies among the two mines was commenced. Full-scale negotiations started from 2012. Internally, centered on the Metals & Mineral Resources Division (currently, the Mineral Resources Division), we formed Team ITOCHU NAMISA, comprising up to 50 professionals from all business areas, including ITOCHU Brasil S.A., NAMISA, ITOCHU Mineral Resources Development Corporation, and the legal, finance, accounting, and tax departments from headquarters. With iron ore prices declining, we focused our Companywide comprehensive strengths on the management integration project, which involved obtaining favorable terms while controlling risk.

Simultaneously Transitioning to Superior Resource Assets and Strengthening Cash Flow Management

In November 2015, the merger was concluded after eight years of effort. ITOCHU's share in the newly merged company is 7.6%, compared with 21.95% in NAMISA. The merged company is a mining company with significant strengths that are competitive, not only within Brazil but on a global basis, in such areas as iron ore resources, quality, production scale, and infrastructure. For ITOCHU, this means that a major earnings pillar has been established in Brazil, on a par with the iron ore mines in Western Australia, among the largest in the world, where we work together with BHP Billiton to conduct development and production. Through this merger, ITOCHU collected US$700 million in cash, and in addition we took a major step forward in the establishment of a higher quality resource asset portfolio that will be less susceptible to future resource price fluctuations.

Sale of Shares of PrimeSource, a Superior Asset

In March 2015, ITOCHU and ITOCHU International Inc. (hereinafter, "III"), concluded an agreement with Platinum Equity, LLC (United States) for the sale of their entire holdings of shares of PrimeSource Building Products, Inc. (hereinafter "PrimeSource"), a building material company in the U.S. and Canada. The sale was concluded in May 2015.

The "niche / low-tech / domination strategy," which aims at the achievement of No. 1 positions in specific fields, is one part of the basic strategy of the Forest Products & General Merchandise Division. In accordance with this strategy, ITOCHU worked to raise the value of PrimeSource, which III acquired in 1998 for $50 million (approximately ¥6.5 billion).

In FYE 2016, the company had a dominant position, with net sales of approximately US$1.3 billion (approximately ¥156.0 billion), 1,300 employees, and 42 distribution bases in the United States. In particular, PrimeSource