ITOCHU Corporation

# Financial Section 2018

For the Year Ended March 31, 2018

# Contents



**Forward-Looking Statements**

Data and projections contained in this Annual Report are based on the information available at the time of publication, and various factors may cause actual results to differ materially from those presented in such forward-looking statements. ITOCHU Corporation, therefore, wishes to caution that readers should not practice undue reliance on forward-looking statements, and further, that ITOCHU Corporation has no obligation to update any forward-looking statements as a result of new information, future events or other developments.

# Summary (IFRS)

ITOCHU Corporation and its Subsidiaries
The Consolidated Financial Statements are prepared in conformity with the International Financial Reporting Standards (IFRSs) from the year ended March 31, 2014.
The following indicators are presented in accordance with IFRSs.

| | Millions of Yen | | | | | | Millions of U.S. Dollars (Note 3) |
|---|---|---|---|---|---|---|---|
| Years ended March 31 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2018 |
| **P/L (For the year):** | | | | | | | |
| Revenues | ¥5,510,059 | ¥4,838,464 | ¥5,083,536 | ¥5,591,435 | ¥5,587,526 | ¥4,699,466 | $51,865 |
| Gross trading profit | 1,210,440 | 1,093,462 | 1,069,711 | 1,089,064 | 1,045,022 | 945,778 | 11,394 |
| Net profit attributable to ITOCHU | 400,333 | 352,221 | 240,376 | 300,569 | 245,312 | 258,843 | 3,768 |
| Comprehensive income attributable to ITOCHU | 390,022 | 303,063 | (144,777) | 465,605 | 391,901 | 474,460 | 3,671 |
| Per share (Yen and U.S. Dollars): | | | | | | | |
| Basic earnings attributable to ITOCHU (Note 1) | 257.94 | 223.67 | 152.14 | 189.13 | 155.21 | 163.77 | 2.43 |
| Cash dividends | 70.0 | 55.0 | 50.0 | 46.0 | 46.0 | 40.0 | 0.66 |
| Shareholders' equity (Note 1) | 1,722.06 | 1,532.56 | 1,388.66 | 1,539.55 | 1,293.35 | 1,087.61 | 16.21 |
| **B/S (At year-end):** | | | | | | | |
| Total assets | ¥8,663,937 | ¥8,122,032 | ¥8,036,395 | ¥8,560,701 | ¥7,784,851 | ¥7,198,501 | $81,551 |
| Current interest-bearing debt | 526,867 | 563,033 | 426,820 | 543,660 | 472,667 | 498,816 | 4,959 |
| Long-term interest-bearing debt | 2,252,606 | 2,381,620 | 2,769,345 | 2,548,504 | 2,420,713 | 2,282,067 | 21,203 |
| Interest-bearing debt | 2,779,473 | 2,944,653 | 3,196,165 | 3,092,164 | 2,893,380 | 2,780,883 | 26,162 |
| Net interest-bearing debt | 2,320,418 | 2,330,683 | 2,555,644 | 2,380,504 | 2,231,988 | 2,203,428 | 21,841 |
| Total shareholders' equity | 2,669,483 | 2,401,893 | 2,193,677 | 2,433,202 | 2,044,120 | 1,718,980 | 25,127 |
| **Cash flows (For the year):** | | | | | | | |
| Cash flows from operating activities | ¥ 388,212 | ¥ 389,693 | ¥ 419,404 | ¥ 403,629 | ¥ 428,101 | ¥ 236,517 | $ 3,654 |
| Cash flows from investing activities | (256,350) | (81,306) | (557,260) | (276,103) | (270,377) | (203,811) | (2,413) |
| Cash flows from financing activities | (296,136) | (335,396) | 81,770 | (97,896) | (77,855) | 2,978 | (2,787) |
| Cash and cash equivalents at the end of the year | 432,140 | 605,589 | 632,871 | 700,292 | 653,739 | 570,335 | 4,068 |
| **Ratios:** | | | | | | | |
| ROA (%) | 4.8 | 4.4 | 2.9 | 3.7 | 3.3 | 3.8 | — |
| ROE (%) | 15.8 | 15.3 | 10.4 | 13.4 | 13.0 | 17.1 | — |
| Ratio of shareholders' equity to total assets (%) | 30.8 | 29.6 | 27.3 | 28.4 | 26.3 | 23.9 | — |
| Net debt-to-equity ratio (times) | 0.87 | 0.97 | 1.17 | 0.98 | 1.09 | 1.28 | — |
| Interest coverage (times) (Note 2) | 9.3 | 11.1 | 10.1 | 12.7 | 12.5 | 12.1 | — |
| **Common stock information (For the year):** | | | | | | | |
| Stock price (Yen and U.S. Dollars): | | | | | | | |
| Opening price | ¥ 1,577.0 | ¥ 1,380.0 | ¥ 1,282.0 | ¥ 1,222.0 | ¥ 1,125.0 | ¥ 925.0 | $ 14.84 |
| High | 2,254.0 | 1,674.5 | 1,756.0 | 1,429.0 | 1,568.0 | 1,241.0 | 21.22 |
| Low | 1,478.0 | 1,135.5 | 1,170.0 | 1,118.0 | 1,033.0 | 755.0 | 13.91 |
| Closing price | 2,066.5 | 1,580.0 | 1,386.0 | 1,301.5 | 1,206.0 | 1,131.0 | 19.45 |
| Market capitalization (Yen and U.S. Dollars in billions) | 3,203 | 2,476 | 2,189 | 2,057 | 1,906 | 1,788 | 30.15 |
| Trading volume (yearly, million shares) | 1,240 | 1,604 | 1,886 | 1,782 | 1,782 | 1,783 | — |
| Number of shares of common stock issued (at year-end, 1,000 shares) | 1,662,889 | 1,662,889 | 1,662,889 | 1,662,889 | 1,584,889 | 1,584,889 | — |
| **Exchange rates into U.S. currency** | | | | | | | |
| (Federal Reserve Bank of New York): | | | | | | | |
| At year-end | ¥ 106.20 | ¥ 111.41 | ¥ 112.42 | ¥ 119.96 | ¥ 102.98 | ¥ 94.16 | — |
| Average for the year | 110.80 | 108.25 | 120.04 | 109.75 | 100.46 | 83.26 | — |
| Range: | | | | | | | |
| Low | 114.25 | 118.32 | 125.58 | 121.50 | 105.25 | 96.16 | — |
| High | 104.83 | 100.07 | 111.30 | 101.26 | 92.96 | 77.41 | — |
| **Number of employees (At year-end, consolidated)** | 102,086 | 95,944 | 105,800 | 110,487 | 104,310 | 83,768 | — |

Notes: 1. Basic earnings attributable to ITOCHU and Shareholders' equity per share are calculated by using the number of shares outstanding for each year.
2. Interest coverage = (Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts + Interest income + Dividends received) / Interest expense
3. Figures in yen for the year ended March 31, 2018, (Fiscal Year 2018 or the fiscal year), have been translated into U.S. dollars solely for the convenience of the reader at the rate of ¥106.24 = US$1, the exchange rate prevailing on March 31, 2018.

# Six-year Summary (U.S. GAAP)

ITOCHU Corporation and its Subsidiaries

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| Years ended March 31 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| **P/L (For the year):** | | | | | | |
| Revenue | ¥5,530,895 | ¥4,579,763 | ¥4,197,525 | ¥3,581,795 | ¥3,418,220 | ¥3,419,061 |
| Gross trading profit | 1,028,273 | 915,879 | 956,920 | 906,587 | 860,187 | 1,060,521 |
| Net income attributable to ITOCHU | 310,267 | 280,297 | 300,505 | 161,114 | 128,905 | 165,390 |
| Comprehensive income (loss) attributable to ITOCHU | 446,214 | 475,819 | 249,983 | 106,041 | 270,570 | (92,334) |
| Per share (Yen): | | | | | | |
| Basic net income attributable to ITOCHU (Note 1) | 196.31 | 177.35 | 190.13 | 101.93 | 81.56 | 104.64 |
| Cash dividends | 46.0 | 40.0 | 44.0 | 18.0 | 15.0 | 18.5 |
| Stockholders' equity (Note 1) | 1,358.42 | 1,117.01 | 862.88 | 731.57 | 695.75 | 537.43 |
| **B/S (At year-end):** | | | | | | |
| Total assets | ¥7,848,440 | ¥7,117,446 | ¥6,507,273 | ¥5,676,709 | ¥5,478,873 | ¥5,192,092 |
| Current interest-bearing debt | 464,992 | 482,544 | 450,968 | 288,973 | 289,963 | 628,792 |
| Long-term interest-bearing debt | 2,420,272 | 2,279,915 | 2,082,592 | 1,979,967 | 1,919,588 | 1,760,530 |
| Interest-bearing debt | 2,885,264 | 2,762,459 | 2,533,560 | 2,268,940 | 2,209,551 | 2,389,322 |
| Net interest-bearing debt | 2,224,279 | 2,185,623 | 2,014,898 | 1,630,764 | 1,721,464 | 1,756,764 |
| Long-term debt, excluding current maturities (including long-term interest-bearing debt) | 2,628,937 | 2,447,868 | 2,259,717 | 2,160,772 | 2,108,081 | 1,934,421 |
| Stockholders' equity | 2,146,963 | 1,765,435 | 1,363,797 | 1,156,270 | 1,099,639 | 849,411 |
| **Cash flows (For the year):** | | | | | | |
| Cash flows from operating activities | ¥ 418,396 | ¥ 245,661 | ¥ 212,830 | ¥ 335,361 | ¥ 293,597 | ¥ 276,854 |
| Cash flows from investing activities | (266,692) | (199,990) | (416,315) | (230,866) | (195,698) | (326,033) |
| Cash flows from financing activities | (71,707) | (11,323) | 84,704 | 53,202 | (256,568) | 258,322 |
| Cash and cash equivalents at the end of the year | 653,332 | 569,716 | 513,489 | 633,756 | 480,564 | 628,820 |
| **Ratios:** | | | | | | |
| ROA (%) | 4.1 | 4.1 | 4.9 | 2.9 | 2.4 | 3.2 |
| ROE (%) | 15.9 | 17.9 | 23.8 | 14.3 | 13.2 | 18.1 |
| Ratio of stockholders' equity to total assets (%) | 27.4 | 24.8 | 21.0 | 20.4 | 20.1 | 16.4 |
| Net debt-to-equity ratio (times) | 1.0 | 1.2 | 1.5 | 1.4 | 1.6 | 2.1 |
| Interest coverage (times) (Note 2) | 13.1 | 12.4 | 13.5 | 10.7 | 5.3 | 7.2 |
| **Common stock information (For the year):** | | | | | | |
| Stock price (Yen): | | | | | | |
| Opening price | ¥ 1,125.0 | ¥ 925.0 | ¥ 870.0 | ¥ 829.0 | ¥ 487.0 | ¥ 994.0 |
| High | 1,568.0 | 1,241.0 | 966.0 | 930.0 | 821.0 | 1,337.0 |
| Low | 1,033.0 | 755.0 | 676.0 | 659.0 | 486.0 | 380.0 |
| Closing price | 1,206.0 | 1,131.0 | 903.0 | 871.0 | 819.0 | 478.0 |
| Market capitalization (Yen in billions) | 1,906 | 1,788 | 1,427 | 1,377 | 1,294 | 756 |
| Trading volume (yearly, million shares) | 1,782.0 | 1,783.0 | 1,882.0 | 2,287.0 | 2,616.0 | 2,913.0 |
| Number of shares of common stock issued (at year-end, 1,000 shares) | 1,584,889 | 1,584,889 | 1,584,889 | 1,584,889 | 1,584,889 | 1,584,889 |
| **Exchange rates into U.S. currency** | | | | | | |
| (Federal Reserve Bank of New York): | | | | | | |
| At year-end | ¥ 102.98 | ¥ 94.16 | ¥ 82.41 | ¥ 82.76 | ¥ 93.40 | ¥ 99.15 |
| Average for the year | 100.46 | 83.26 | 78.86 | 85.00 | 92.49 | 100.85 |
| Range: | | | | | | |
| Low | 105.25 | 96.16 | 85.26 | 94.68 | 100.71 | 110.48 |
| High | 92.96 | 77.41 | 75.72 | 78.74 | 86.12 | 87.80 |
| **Number of employees (At year-end, consolidated)** | 102,376 | 77,513 | 70,639 | 62,635 | 62,379 | 55,431 |

Notes: 1. Basic net income attributable to ITOCHU and Stockholders' equity per share are calculated by using the number of shares outstanding for each year.
2. Interest coverage = (Gross trading profit + Selling, general and administrative expenses + Provision for doubtful receivables + interest income + Dividends received) / Interest expense
3. The Consolidated Financial Statements for the year ended March 31, 2014, in accordance with U.S. GAAP are not audited pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act.
4. Certain subsidiaries changed their fiscal periods in the year ended March 31, 2012. The effect of these changes has been reflected in figures of certain items for the years ended March 31, 2011 and 2010.
5. As a result of the ITOCHU Group's integration of the food distribution and marketing business, the items in which distribution cost related to these operations has been included were changed from the beginning of the year ended March 31, 2012. The relevant amounts in the years ended March 31, 2011 and 2010 have been reclassified based on this new classification.
6. With respect to distribution cost related to the ITOCHU Group's food distribution and marketing business, ITOCHU has made a change in presentation in the financial statements related to the ITOCHU Group's portion of operational cost arising at the distribution centers of the ITOCHU Group's customers, such as mass merchandisers, and delivery costs from the distribution centers to the customers' stores since the beginning of the year ended March 31, 2013. The aforementioned distribution cost for the years ended March 31, 2012 and 2011 has been reclassified in the same manner.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

All of the financial information provided herein is based on the Consolidated Financial Statements included in this annual report. These Consolidated Financial Statements have been prepared in conformity with International Financial Reporting Standards (IFRSs).

Figures in yen for the year ended March 31, 2018, (Fiscal Year 2018 or the fiscal year), have been translated into U.S. dollars solely for the convenience of the reader at the rate of ¥106.24 = US$1, the exchange rate prevailing on March 31, 2018.

ITOCHU Corporation is referred to as "ITOCHU" or "the Company" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Descriptions of the outlook for Fiscal Year 2019 and later are forward-looking statements that are based on the management's assumptions and beliefs, considering the information currently available at the end of Fiscal Year 2018. Thus, factors that could cause actual results to differ materially from such statements include, without limitation, the factors stated in the following Risk Information, other potential risks, and uncertain factors.

## Management Policy for the Future

### Outlook for the Next Term

Looking ahead to the next fiscal year ending March 31, 2019, we assume that the global economy will continue to expand. The U.S. economy is remaining on favorable trends, and the European economy is expected to continue to expand as long as the negative effect of the Brexit is limited, while it is uncertain. The emerging countries, while the Chinese economic growth may be suppressed by their structural reforms, will mostly be in favorable conditions due to the stable natural resource price movements and the favorable advanced countries' economies.

In Japan, although economic conditions are expected to improve moderately due to expanding exports and the recovery of consumer expenditures accompanying income growth, the upheavals of circumstances overseas may cause the yen to appreciate and place downward pressure on the Japanese economy.

Under these economic circumstances, ITOCHU expects consolidated Net profit attributable to ITOCHU of ¥450.0 billion for the fiscal year ending March 31, 2019.

### Implementing the Medium-Term Management Plan "Brand-new Deal 2020"

ITOCHU Group will aim for reinventing Trading company to deal with a new era of transformation by innovation proactively by utilizing new technologies drastically and evolving a business model. Meanwhile, we will reinvent work-style to promote employees' productivity and quality. In order to create greater corporate-value and establish a reinvented and sustainable growth model for enhancing returns to shareholders, society and employees, ITOCHU Group has formulated "Brand-new Deal 2020" (the three-year plan covering the period from Fiscal Year 2019 to Fiscal Year 2021).


#### Our Vision

In "Brand-new Deal 2020", our vision is as follows:
ITOCHU Group, the best global partner playing an integral role in supporting prosperous lifestyles, will become Next-Generation Merchant and seek for sustainable growth through a reinvented "*sampo yoshi*" approach, with evolution of a business model through new technology and new partnerships ("Reinvented Business"), and with advancement work-style ("Reinvented Work-Styles"), which reforms to help each employee create greater value through higher productivity and quality.

#### Basic Policies

In "Brand-new Deal 2020", the basic policies to achieve the vision are as follows:

Reinvented Business
- Evolve business model by utilizing new technologies at all division companies
- Improve value across Group value chain centered around FamilyMart UNY Holdings
- Accelerate creation of new businesses in China and other parts of Asia by actively engaging in alliances with strategic partners

Smart Management
- Become an industry leader in terms of management efficiency indicators such as ROE and labor productivity
- Further advance work-style reforms and efficiency

No. 1 Health Management Company
- Ensure employees feel motivated and rewarded in their work and become the best company for employees' families as well
- Improve the health of all employees and energize entire Group

### Investment Policy

We will aim to consistently maintain positive core free cash flows after deducting shareholder returns* by reinventing business through investment in new and next-generation technologies and conducting continuous and disciplined growth investments while considering cash flows.

* "Core operating cash flows" minus "Net investment" minus "Dividends and share buybacks"

## Shareholder Returns Policy and Distribution of the Current Fiscal Year's Profit

### Shareholder Returns Policy

We will continue applying the current performance-linked and progressive dividend policy*; set minimum dividend of ¥74 per share for FY2019 and target record-breaking dividend levels each year as the dividend policy of Brand new-Deal 2020 while adopting a flexible stance toward share buybacks based on factors including the Company's stock price and cash flows to enhance shareholder returns.

* Target a dividend payout ratio of approximately 20% on net profit attributable to ITOCHU up to ¥200.0 billion and a dividend payout ratio of approximately 30% on the portion of net profit attributable to ITOCHU exceeding ¥200.0 billion

### Distribution of the Current Fiscal Year's Profit

ITOCHU Corporation plans to pay dividend of ¥70 per share for the fiscal year ended March 31, 2018 (an interim dividend of ¥32 per share was already paid). For the fiscal year ending March 31, 2019, ITOCHU plans to pay full-year dividend of minimum ¥74 per share, comprising an interim dividend of ¥37 per share and a year-end dividend of ¥37 per share.

## Risk Information

ITOCHU Group is exposed to various risks such as market risks, credit risks and investment risks, due to the nature of a wide range of its businesses. These risks include unpredictable uncertainties and may have significant effects on its future business and financial performance.

ITOCHU Group has enhanced its risk management policy and risk management methodology to monitor and manage these risks, but it is impossible to completely avoid all these risks.

With respect to descriptions about future events, ITOCHU appropriately has determined its assumptions and estimates based on information currently available as of March 31, 2018.

### (1) Risks Associated with Macroeconomic Factors and Business Model

ITOCHU Group involves a wide variety of business ranging from supply of raw materials to manufacturing and sale in each of its business areas. It conducts diverse types of commercial transactions such as purchase and sale of products in the domestic market, import/export trade between overseas affiliates as well as development of energy, metal and mineral resources. For the characteristics of the Group's main areas of business, trade in machinery such as plants, automobiles and construction machineries, trade in mineral resources, energy and chemical products, and investments in development, they are all largely dependent on economic trends in the world, while the domestic economy has a relatively strong influence on the consumer and retail-related segments such as textiles and food. However, economic trends in the world have been more influential even on these consumer and retail-related segments, as economic globalization proceeds.

Furthermore, economic trends, not only overall worldwide economic trends but also specific regional trends, and changes in industrial structures due to rapid technological innovation in recent years could significantly affect the existing business model, financial position and results of operations of ITOCHU Group.

### (2) Market Risk

ITOCHU Group is exposed to market risks such as foreign exchange rate risks, interest rate risks, commodity price risks and stock price risks. Therefore, the Group attempts to minimize risks related to market fluctuations such as changes in foreign exchange rates, interest rates, and commodities by establishing risk management policies such as setting and controlling limits and by utilizing a variety of hedge transactions for hedging purposes.

#### a) Foreign Exchange Rate Risk

ITOCHU Group is exposed to foreign exchange rate risk related to transactions in foreign currencies due to its significant involvement in import/export trading. Therefore, ITOCHU Group works to minimize foreign exchange rate risk through hedge transactions that utilize derivatives, such as foreign exchange forward contacts, however, cannot completely avoid such risk.

Further, ITOCHU's investments in overseas businesses expose ITOCHU Group to the risk that fluctuations in foreign exchange rates could affect shareholders' equity through the accounting for foreign currency translation adjustments and the risk that fluctuations in foreign exchange rates could affect the amount of periodic income when converted to yen. These foreign exchange rate risks could significantly affect the financial position and results of operations of ITOCHU Group.

#### b) Interest Rate Risk

ITOCHU Group is exposed to interest rate risk in both raising and using funds for investing, financing, and operating activities. Among interest insensitive assets, such as investment securities or fixed assets, the part acquired using floating interest loans is considered to be the interest mismatch amount exposed to interest rate risk. ITOCHU seeks to quantify the interest rate risk to control the fluctuation of gains and losses due to interest rate change properly.

To be specific, using the Earnings at Risk (EaR) management method, ITOCHU periodically tracks and monitors the amount of influence on interest payments due to interest rate changes. However, interest rate trends could significantly affect the financial position and results of operations of ITOCHU Group.

#### c) Commodity Price Risk

ITOCHU Group conducts actual demand transactions that are based on the back-to-back transactions of a variety of commodities. In some cases, the Group is exposed to commodity price fluctuation risk, because it holds long or short positions in consideration of market trends. Therefore, the Group analyzes inventories and purchase and sales contracts, and each Division Company has established middle and back offices for major commodities, which establish a balance limit and loss cut limit for each commodity, as well as conduct monitoring, management, and periodic reviews.

In addition, ITOCHU Group participates in development businesses such as mineral resources and energy and other manufacturing businesses. The production in these businesses is also exposed to the same price fluctuation risk noted above.

To reduce these commodity price risks, the Group uses such hedges as futures and forward contracts. However, ITOCHU Group cannot completely avoid commodity price risk. Therefore, commodity price trends could significantly affect the financial position and results of operations of ITOCHU Group.

#### d) Stock Price Risk

ITOCHU Group holds a variety of marketable equity securities, mainly to strengthen relationships with customers, suppliers, and other parties, and to secure business income, and to increase corporate value through means such as making a wide range of proposals to investees, and consequently is exposed to stock price fluctuation risk.

Therefore, using the Value at Risk (VaR) method, ITOCHU Group periodically tracks and monitors the amount of influence on consolidated shareholders' equity. However, stock price trends could significantly affect the financial position and results of operations of ITOCHU Group.

### (3) Credit Risk

Through trade receivables, loans, guarantees, and other formats, ITOCHU Group grants credit to its trading partners, both domestically and overseas. The Group, therefore, bears credit risk in relation to such receivables becoming uncollectible due to the deteriorating credit status or insolvency of the Group's partners, and in relation to assuming responsibilities to fulfill contracts where an involved party is unable to continue its business and therefore cannot fulfill its obligations under the contracts.

Therefore, when granting credit, ITOCHU Group works to reduce risk by conducting risk management through the establishment of credit limits and the acquisition of collateral or guarantees as needed. At the same time, the Group establishes an allowance for doubtful accounts based on the creditworthiness, the status of collection, and the status of receivables in arrears of business partners. However, such management cannot completely avoid the actualization of credit risks, which could significantly affect the financial position and results of operations of ITOCHU Group.

### (4) Country Risk

ITOCHU Group conducts transactions and business activities in various countries and regions overseas. The Group is exposed to country risk, including unforeseen situations arising from the political, economic and social conditions of these countries and regions and national expropriation or remittance suspension due to changes in various laws and regulations. In addition to taking appropriate countermeasures for each transaction, with the aim of avoiding a concentration of exposure, ITOCHU Group works to reduce risk by setting total limit guidelines and limits for each country and setting credit policies appropriate to each country. However, the Group cannot completely avoid such risk.

The actualization of such risk could delay or incapacitate debt collection or operational implementation and could significantly affect the financial position and results of operations of ITOCHU Group.

### (5) Investment Risk

ITOCHU Group invests in various businesses and in these investment activities, there are risks such as being unable to achieve expected earnings due to changes in business conditions or deterioration in the business results of its partners and investees; the likelihood of investment recovery is lowered due to poor corporate results of investees, or stock prices are expected to drop below a specified level for a considerable period of time, which may lead to necessities that the whole or partial investment is recognized as a loss, and that the infusion of additional funds is required. Also, there are investment risks that the Group may be unable to withdraw from a business or restructure the business under a timeframe or method that it desires due to differences in business management policy with partners or the low liquidity of investments; or the Group may be put at a disadvantage because it is unable to receive appropriate information from an investee. Therefore, ITOCHU works to reduce risk through decision making based on the establishment of investment standards for the implementation of new investments while monitoring existing investments periodically and promoting asset replacement through the application of exit standards to investments with low investment efficiency that it has little reason to hold.

However, such management cannot completely avoid the investment risks, and such occurrences could significantly affect the financial position and results of operations of ITOCHU Group.

### (6) Risks Associated with Impairment Loss on Fixed Assets

ITOCHU Group is exposed to impairment loss risks on fixed assets held, such as real estate, aircraft, ships, assets related to natural resource development, goodwill and intangible assets. ITOCHU at present has recognized necessary impairment losses.

However, ITOCHU Group might be required to recognize further impairment losses should the economic value of fixed assets deteriorate due to deterioration in market conditions for each of the assets, decreased demand or changes in development plans. Such occurrences could significantly affect the financial position and results of operations of ITOCHU Group.

### (7) Risks Associated with Fund-raising

ITOCHU Group procures the necessary funding for its businesses through debt from domestic and international financial institutions, as well as the issuance of commercial papers and debentures. However, should ITOCHU's credit worthiness in the capital market deteriorate due to a significant lowering of the Company's credit rating, or should there be an upheaval in the financial systems in major financial markets, there are risks that the Group may experience an inability to raise funds from financial institutions or investors when necessary or under desirable conditions and may consequently experience an increase in funding costs. Therefore, while securing adequate liquidity by utilizing cash deposits and commitment line, the Group has taken steps to diversify its sources of funds and methods of fundraising, however, cannot completely avoid such risks. The actualization of such risks could significantly affect the financial position and results of operations of ITOCHU Group.

### (8) Risks Associated with Pension Cost and Projected Benefit Obligations

The pension cost and projected benefit obligations of ITOCHU Group are calculated based on actuarial calculations that utilize a variety of assumptions. However, should it become necessary to change the assumptions on which the actuarial calculations are based or should pension assets be affected by deterioration in the stock market, it is possible that pension cost and projected benefit obligations could increase and additional contributions to pension assets might be necessary. Such occurrences could significantly affect the financial position and results of operations of ITOCHU Group.

### (9) Risks Associated with Deferred Taxes

Deferred tax assets are an important factor in ITOCHU Group's consolidated balance sheets, and accounting judgment on evaluation of deferred tax assets has a substantial impact on ITOCHU Group's Consolidated Financial Statements.

Therefore, ITOCHU Group recognizes the realizable amount of deferred tax assets, taking into consideration future taxable income and feasible tax planning strategies.

However, the amount of deferred tax assets may increase or decrease depending on changes in estimated taxable income in tax planning, changes in the tax system including changes in tax rates, and changes in tax planning strategies. Such occurrences could significantly affect the financial position and results of operations of ITOCHU Group.

### (10) Risks Due to Competition

As ITOCHU Group handles a vast array of products and services, the Group is open to competition from many different companies, both domestic and overseas, including competition from other general trading companies. ITOCHU Group cannot deny other companies that are in a position to provide products and services that meet customer needs more than ITOCHU Group could newly emerge. Moreover, ever-greater competition from companies in newly developing countries is gradually emerging in addition to ongoing competition from companies in European and North American industrialized countries due to economic globalization. Furthermore, the competitiveness of ITOCHU Group could also be affected accompanying changes in the business environment such as deregulation and entering into other industries. The advent of such risks could significantly affect the financial position and results of operations of ITOCHU Group.

### (11) Risks Associated with Significant Lawsuits

There is no significant, currently pending lawsuit, arbitration, or other legal proceeding that may significantly affect the financial position and results of the operations of ITOCHU Group.

However, there is a possibility that domestic or overseas business activities of ITOCHU Group may become subject to any of such lawsuits, arbitrations or other legal proceedings, and significantly affect the future financial position and results of operations of ITOCHU Group.

### (12) Risks Associated with Laws and Regulations

ITOCHU Group is subject to a number of diverse laws and regulations both domestically and overseas due to the vast array of products and services the Group provides.

To be specific, ITOCHU Group is required to adhere to laws and regulations such as the laws for each industry, including companies act, financial instruments and exchange laws, and tax laws, as well as all laws pertaining to trade such as foreign exchange control laws, antitrust laws, intellectual property laws, environmental-related laws, anti-bribery-related laws and the laws of each country in which ITOCHU Group conducts business overseas. ITOCHU Group has made every effort to observe these laws and regulations by reinforcing the compliance system, being aware that the observance of laws and regulations is a serious obligation of the Group. With all these measures, however, there is a possibility of the situation where, including personal misconduct by directors and employees, risks associated with compliance or suffering social disgrace cannot be avoided.

Also, ITOCHU cannot deny that unexpected, additional enactment or change in laws and regulations by legislative, judicial, and regulatory bodies are a possibility both domestically and overseas, and there are possibilities of major change in laws and regulations by political/economical changes. Such occurrences could significantly affect the financial position and results of operations of ITOCHU Group.

### (13) Risks Associated with the Environment

ITOCHU Group has designated global environmental issues as one of the most important elements of its management policy. The Group is actively working on environmental issues. These efforts include establishing an environmental policy and building an environmental management system in order to minimize environmental risk, such as the risk of infringement of laws and regulations in the handling of goods the provision of services, and business investment. However, the occurrence of environmental pollution due to ITOCHU Group's business activities could lead to the delay or suspension of operations, the incurring of pollution disposal expenses or expenses due to compensation for damage, or the lowering of society's evaluation of the Group and could significantly affect the financial position and results of operations of ITOCHU Group.

### (14) Risks Associated with Natural Disasters, Climate Change, and Other Factors

In the countries and regions in which ITOCHU Group conducts business activities, natural disasters, such as earthquakes, or infectious diseases, such as new types of influenza, may adversely affect its business activities. ITOCHU has implemented measures such as developing Business Continuity Plans (BCPs) for large-scale disasters and the outbreak of new types of influenza, introducing a safety confirmation system, and conducting emergency drills. Also, various measures have been implemented individually in each Group company. However, since ITOCHU Group conducts business activities across a wide range of regions, when damage arises due to disasters or infectious diseases such as new types of influenza, it cannot completely avoid such damage. Therefore, such occurrences could significantly affect the financial position and results of operations of ITOCHU Group.

In addition, abnormal weather arising from climate change could affect ITOCHU Group's business activities adversely and could significantly affect the financial position and results of operations of ITOCHU Group.

### (15) Risks Associated with Information Systems and Information Security

In ITOCHU Group, a code of conduct concerning the handling of information is enforced on all directors and employees and high priority is placed on maintaining a high information security level. ITOCHU Group has established and operates information systems to facilitate the sharing of information and to improve the efficiency of operations. In order to maintain a secure operation of its information systems, ITOCHU Group has established security guidelines and has developed crisis control measures considering cyber security risks.

Despite these measures, ITOCHU Group cannot completely avoid the risk of sensitive information leakage due to unauthorized access from the outside or computer viruses, and the risk of the stoppage of information systems due to equipment damage or problems with telecommunications circuitry. Depending on the scale of the damage, such occurrences could significantly affect the financial position and results of operations of ITOCHU Group.

## Overview

In Fiscal Year 2018, the global economy showed an overall trend of expansion reflecting continued stable growth of the U.S. economy due to the improvements in domestic employment and income levels, the European economies' smooth recovery despite certain concerns over the progress of Brexit talks, and signs of the improvement of emerging countries, especially Asian countries, such as China, ASEAN and India. The WTI crude oil price, although it had fallen from the US$50 level per barrel in May to the mid-US$40s level in June, recovered to the US$60 level at the end of December due to decreasing inventories in the U.S. market and another extension of the period of oil production curtailment by major oil-producing countries including OPEC, with the positive expectation of higher demands accompanying the favorable global economy. The price has stayed around the US$60-65 range from the end of December onwards.

The Japanese economy expanded moderately overall due to a continuing upward trend in exports and companies' capital investment, despite ups and downs in consumer spending.

The yen had appreciated against the U.S. dollar in early September mainly due to increasing tensions with North Korea. Although the yen temporarily depreciated on the back of the further growth expectation of the U.S. economy, the yen surged against the U.S. dollar to below the ¥105 temporarily due to concerns over the protectionist U.S. trade policy, remaining at the ¥106 level at the end of March. The Nikkei Stock Average surged from the ¥18,000 level in April to the ¥24,000 level in January due to the rise in the U.S. stock market and the depreciation of the yen. However, it slipped to the ¥21,000 level at the end of March reflecting the fall in the U.S. stock market and the appreciation of the yen. The yield on 10-year Japanese government bonds had temporarily dipped below zero in early September, but recovered to nearly 0.1% to the end of January. At the end of March, it dropped to 0.04% due to the appreciation of the yen and the fall in stock markets.

Under the medium-term management plan, "Brand-new Deal 2017" (Three-Year Plan from Fiscal Year 2016 to Fiscal Year 2018), the ITOCHU Group has two basic policies — "reinforcing our financial position" and "building a platform for earnings of ¥400.0 billion."

The following shows specific results in the final year of "Brand-new Deal 2017".

### Textile Company

**Expanding and Strengthening Our Brand Business**

ITOCHU acquired the exclusive import and marketing rights for MooRER, a luxury brand created in Verona, Italy in 1999 with commitment to every detail of products, from raw materials to sewing. From the 2018 spring/summer season we will roll out the down jackets at the center of the brand and other Italian top-quality products, primarily in major department stores and select shops throughout the country.

In addition, we acquired exclusive import and marketing rights, master license rights, and trademark rights for a variety of brands, including the outerwear brands GRENFELL and GLOVERALL (U.K.), the jeans brand CIMARRON and the shoe brand PALOMA BARCELÓ (Spain), and the surf brand Lightning Bolt (U.S.A.).

Among other business expansion initiatives tailored to the times, we also undertook a new concept shop for HUNTING WORLD, a New York bag brand now in its 50th year, and began EC business of made-to-order suits for the global high-end menswear brand SCABAL.

### Machinery Company

**Participation in sales of Toyota and Lexus in Panama**

ITOCHU made the decision to acquire 70% of the shares and effective control of Ricardo Pérez S.A., an exclusive distributor for Toyota and Lexus in Panama. Established in 1956, Ricardo Pérez S.A. has maintained the top position for more than 20 years in the

Panamanian market for new cars. ITOCHU will leverage its experience in automobile dealer management in countries around the world to further expand Ricardo Pérez S.A.'s share and raise its corporate value.

#### ITOCHU signs a waste management and power generation contract in the first major PPP project in the Republic of Serbia

ITOCHU signed an agreement for 25-year waste management and power generation project as the first major Public Private Partnership (PPP) project in Serbia. Through the construction and operation of an energy-from-waste facility, the project will incinerate municipal waste from the city of Belgrade and use the resulting heat for power generation and heat supply. The adoption of waste treatment with low environmental impact will reduce waste landfill volume and emissions of greenhouse gases, contributing to environmental conservation in Serbia.

### Metals & Minerals Company

#### Mt. Whaleback Iron Ore Mine in Western Australia hits 50th year of development

The Mt. Whaleback Iron Ore Mine, a backbone of the Western Australia iron ore business in which ITOCHU is engaged, marked 50 years of development in 2017. In September, major customers from Japan, China, South Korea, and other nations were invited to a commemorative ceremony. Since the start of production in 1969, the mine has met iron ore demand in Japan, China, and elsewhere in Asia as the world's largest open-pit iron ore mine. We will continue to make use of these superior assets to contribute to economic development in Western Australia and to the stable supply of raw materials to the steel industry.

#### Ichihara Biomass Power Plant project

ITOCHU, Osaka Gas Co., Ltd., and Mitsui Engineering & Shipbuilding Co., Ltd. (MES) have agreed to construct one of Japan's largest biomass power plants, and established an operating company named Ichihara Biomass Power Co., Ltd. in a three-way joint venture. ITOCHU will continue to actively pursue projects making use of renewable energy both domestically and internationally, to address global warming and to contribute to the recycling-oriented society of the future.

### Energy & Chemicals Company

#### Oil development project in the Republic of Iraq

ITOCHU has acquired a 19.6% stake in the West Qurna 1 Oil Field project. The oil field, located in southern Iraq and one of the world's largest oil fields with estimated recoverable reserves of over 20 billion barrels, is currently producing and is operated under the extensive experience of ExxonMobil Corporation. In addition, as the project is resistant to the oil price fluctuations risk due to conditions of the agreement relating to the project, the project is expected to contribute to stable earnings over the medium to long term.

#### ITOCHU signs capital and business tie-up with Moixa (UK)

ITOCHU has signed a capital and business tie-up with Moixa Energy Holdings Ltd., a UK company that operates a platform business that applies AI technologies to energy storage systems. ITOCHU has also acquired exclusive marketing rights in Japan for the Company's platform technology software, Gridshare Client. In conjunction with storage batteries, the software performs optimal control of energy for customers at multiple levels, including general consumers, power producers, and power transmission and distribution utilities. Our aim for this next-generation business is to achieve the No. 1 share in the Japanese market for storage battery systems, as we contribute to the realization of a distributed energy society.

### Food Company

#### FamilyMart UNY Holdings Co., Ltd. signs capital and business tie-up with Don Quijote Holdings Co., Ltd.

In August 2017, FamilyMart UNY Holdings Co., Ltd. and Don Quijote Holdings Co., Ltd. concluded a capital and business alliance agreement aimed at leveraging the strengths and know-how of both Groups to strengthen their respective businesses. In February 2018, the companies opened the first new form of store concentrating the strengths of both Groups, the MEGA Don Quijote UNY Oguchi store, and expanded the number of new stores to six by the end of March. As the largest shareholder, ITOCHU is supporting FamilyMart UNY Holdings Co., Ltd.'s pursuit of improvement in its medium- to long-term corporate value.

#### Additional investment in Fuji Oil Co., Ltd.

Fuji Oil Holdings Inc. is a leading company with world-class technological capabilities in the fields of chocolate, fats, and soya.

In 2017, ITOCHU increased its holdings of shares of the Company to 33.4%, further strengthening the relationship with the company. By continuing to support the active overseas expansion of the company while making maximum use of the ITOCHU Group's manufacturing and marketing infrastructure, we aim to further improve the corporate value of the companies.

### General Products & Realty Company

#### ITOCHU acquires 100% membership interests of Alta Forest Products

Alta has built a No. 1 position in the North American wooden fence manufacturing industry through high productivity in specialized fence manufacturing. Through our U.S. subsidiary Master-Halco Inc., ITOCHU has established the leading position in the U.S. fence wholesaling industry. Through the acquisition, ITOCHU foresees synergies between the sales networks of Alta and Master-Halco. Focused on these two companies, we will further strengthen our fence business in the North American residential market, which is expected to remain robust.

#### Metsä Fibre Corporation completes construction of new Äänekoski plant

Increased production following the completion of a new plant in August 2017 has made Metsä Fibre Corporation the world's largest manufacturer of commercial softwood pulp for paper making.

The majority of the increased 800,000 tons of production will be sold in China and Asia through ITOCHU, further solidifying our position as a leading global pulp trader.

## ICT & Financial Business Company

**Investment in Inagora Co., Limited**

In order to facilitate entry into the Japan-China cross-border e-commerce market, ITOCHU made an additional acquisition of shares of Inagora Co., Limited, a cross-border e-commerce business for China, through the third-party allocation of shares, etc. in November 2017. ITOCHU will utilize its assets to expand the business in Southeast Asia and other regions beyond China, accelerating the growth of Inagora and also strengthening its initiatives in the cross-border e-commerce market.

**Increase in investment ratio in Pocket Card Co., Ltd.**

ITOCHU and FamilyMart Co., Ltd. have raised their investment ratio in POCKET CARD CO., LTD to 46% through a tender offer for common stock of the company. This action aims to further strengthen the financial business and increase the corporate value of POCKET CARD CO., LTD. and to strengthen initiatives with FamilyMart UNY Holdings Co., Ltd. in the ICT and finance sectors, promoting the capture and expansion of new markets.

## Others

**ITOCHU China 1,000-Talents Gathering held**

To promote collaboration with Charoen Pokphand Group (CP) and CITIC Limited (CITIC) and to train human resources to expand our business in China, ITOCHU has set a goal of training 1,000 persons with Chinese language skills over the three years from Fiscal Year 2016 to the end of Fiscal Year 2018. After developing measures including the development of Chinese language learning environments for employees, the Company has achieved the goal, with 1,043 employees having acquired internal qualifications in Chinese as of March 2018.

To celebrate these qualification holders and to connect their accomplishment to further expansion of our China business, the Company held the “ITOCHU China 1,000-Talents Gathering.” With Chinese Ambassador to Japan Cheng Yonghua and his wife in attendance, along with Vice Chairman Yang Xiaoping of CP Group and Vice President Pu Jian of CITIC Group, about 850 employees participated in the grand event that drew multiple media sources from both Japan and China.

# Analysis of Results of Operations in Fiscal Year 2018

The analysis of the financial position and results of operations for Fiscal Year 2018 were as follows.

### Revenues

Revenues for the fiscal year ended March 31, 2018 increased by 13.9%, or ¥671.6 billion, compared with the previous fiscal year to ¥5,510.1 billion (US$51,865 million). Revenues increased in the Machinery Company due to the conversion of YANASE into a consolidated subsidiary and the favorable performance in aircraft-related and plant-related companies; in the Energy & Chemicals Company due to the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei and higher sales prices in energy-related companies; and in the Food Company due to the higher transaction volume with FamilyMart UNY Holdings in fresh-food-related and provisions-related transactions and food-distribution-related companies, and fresh-food-related companies. Furthermore, the breakdown of Revenues for the year ended March 31, 2018 was ¥4,719.5 billion (US$44,423 million) for Revenues from sale of goods, and ¥790.6 billion (US$7,442 million) for Revenues from rendering of services and royalties.

### Gross Trading Profit

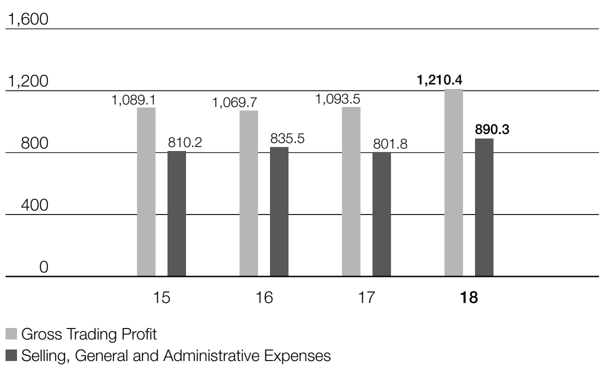
Gross trading profit increased by 10.7%, or ¥117.0 billion, compared with the previous fiscal year to ¥1,210.4 billion (US$11,394 million). Gross trading profits increased in the Machinery Company due to the conversion of YANASE into a consolidated subsidiary, the favorable performance in aircraft-related and plant-related companies, and the absence of deterioration in profitability in ship-related business affected by stagnant market conditions in the previous fiscal year; in the Metals & Minerals Company due to higher iron ore and coal prices, and higher sales volume in iron ore-related business; and in the Energy & Chemicals Company due to the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei and the favorable performance in chemical-related transactions despite the deterioration in profitability in energy trading transactions.

Furthermore, the effect on Gross trading profit due to the acquisitions resulted in a ¥66.9 billion (US$630 million) increase; the effect of foreign exchange fluctuations resulted in a ¥10.4 billion (US$98 million) increase; and the effect of de-consolidation of certain subsidiaries resulted in a ¥10.3 billion (US$97 million) decrease. Excluding these factors, the increase in Gross trading profit for the existing subsidiaries was ¥49.9 billion (US$470 million).

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 11.0%, or ¥88.4 billion, compared with the previous fiscal year to ¥890.3 billion (US$8,380 million), due to the conversion of YANASE into a consolidated subsidiary, the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei and other factors.

**Gross Trading Profit;**
**Selling, General and Administrative Expenses**




* For fiscal years

Furthermore, the effect on Selling, general and administrative expenses due to the acquisitions resulted in a ¥58.4 billion (US$550 million) increase; the effect of foreign exchange fluctuations for the fiscal year ended March 31, 2018 resulted in a ¥5.4 billion (US$51 million) increase; and the effect of de-consolidation of certain subsidiaries resulted in a ¥8.5 billion (US$80 million) decrease. Excluding these factors, the increase in Selling, general and administrative expenses for the existing subsidiaries was ¥33.1 billion (US$311 million).

### Provision for Doubtful Accounts

Provision for doubtful accounts remained nearly at the same level compared with the previous fiscal year, at a loss of ¥3.2 billion (US$30 million).

### Gains on Investments

Gains on investments decreased by 78.0%, or ¥25.1 billion, compared with the previous fiscal year to a gain of ¥7.1 billion (US$67 million), due to the impairment loss on C.P. Pokphand and the absence of the gain on sales of a medical device-related company in the previous fiscal year and the gain accompanying the changes in equity resulting from the merger of FamilyMart and UNY Holdings despite the gain accompanying the merger of C. I. Kasei and Takiron, and the gain accompanying the partial sales of a Chinese fresh-food-related company.

### Losses on Property, Plant, Equipment and Intangible Assets

Losses on property, plant, equipment and intangible assets deteriorated by ¥12.9 billion, compared with the previous fiscal year to a loss of ¥29.6 billion (US$279 million), due to impairment losses in apparel-related and fresh-food-related companies, despite the absence of the impairment loss in European tire-related companies in the previous fiscal year.

### Other–net

Other-net increased by ¥5.1 billion to a loss of ¥0.3 billion (US$3 million), due to the absence of the decline in foreign currency translation resulting from the appreciation of the yen in the previous fiscal year.

### Total Financial Income (Net of Interest Income, Interest Expense, and Dividends Received)

Net interest expenses, which is the total of Interest income and Interest expense, deteriorated by ¥3.1 billion compared with the previous fiscal year to expenses of ¥6.7 billion (US$63 million) due to the lengthening terms of certain borrowings and the rise in the U.S. dollar interest rates. Dividends received increased by 72.2%, or ¥14.4 billion, compared with the previous fiscal year to ¥34.3 billion (US$322 million), due to increase in dividends from a coal-related investments, and oil and LNG projects. Consequently, Net financial income, which is the total of Net interest expenses and Dividends received, increased by ¥11.3 billion compared with the previous fiscal year to a gain of ¥27.5 billion (US$259 million).

### Equity in Earnings of Associates and Joint Ventures

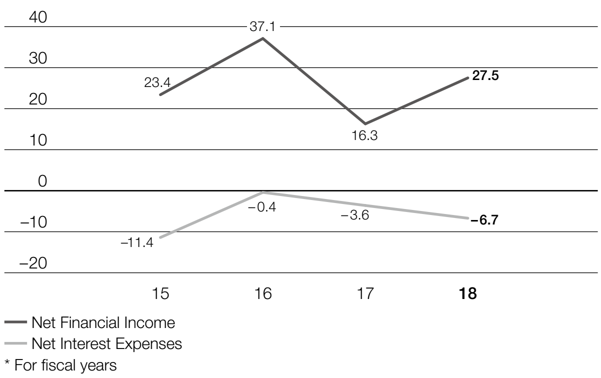
Equity in earnings of associates and joint ventures increased by 16.8%, or ¥31.1 billion, compared with the previous fiscal year to ¥216.2 billion (US$2,035 million). In the Food Company, the increase was attributable to the higher operating revenues resulting from the merger of FamilyMart and UNY Holdings and the improvement in tax expenses, despite the impairment losses in the company; in the ICT & Financial Business Company, due to the recovery of foreign finance-related companies; and in the General Product & Realty Company, due to the improvement in the market conditions in foreign pulp-related companies.

### Net Profit Attributable to ITOCHU

Consequently, Profit before tax increased by 7.6%, or ¥38.0 billion, compared with the previous fiscal year to ¥537.9 billion (US$5,063 million). Income tax expense decreased by 15.3%, or ¥19.1 billion, compared with the previous fiscal year to ¥106.1 billion (US$999 million), due to the positive effects of the U.S. tax reform and the decrease in tax expenses in pulp-related companies, despite stable growth in profits. Net profit, which is calculated as profit before tax of ¥537.9 billion minus income tax expense of ¥106.1 billion, increased by 15.3%, or ¥57.1 billion, compared with the previous fiscal year to ¥431.7 billion (US$4,064 million). Net profit attributable to ITOCHU, which is calculated as Net profit minus Net profit attributable to non-controlling interests of ¥31.4 billion (US$296 million), increased by 13.7%, or ¥48.1 billion, compared with the previous fiscal year to ¥400.3 billion (US$3,768 million).

(Reference)
"Trading income" in accordance with Japanese accounting practices ("Trading income" = "Gross trading profit" + "Selling, general and administrative expenses" + "Provision for doubtful accounts") increased by 9.9%, or ¥28.5 billion, compared with the previous fiscal year to ¥316.9 billion (US$2,984 million). This increase was attributable to the higher iron ore and coal prices, and the higher sales volume in iron ore-related business from the Metals & Minerals Company.

### Net Financial Income




* For fiscal years
Net Financial Income = Net Interest Expenses + Dividends Received
Net Interest Expenses = Interest Income + Interest Expense

## Operating Segment Information

Business results by operating segment are as follows. ITOCHU uses a Division Company system, and the following is in accordance with the categories of that system. Further, revenues of Division Companies exclude inter-segment transactions.

### Textile

Revenues decreased by 1.1%, or ¥5.6 billion, to ¥522.4 billion (US$4,918 million), due to the unfavorable sales and the sales of a company in apparel-related business, despite the higher transaction volume in textile material-related transactions. Gross trading profit decreased by 7.9%, or ¥10.4 billion, to ¥122.0 billion (US$1,148 million), due to the unfavorable sales and the sales of a company in apparel-related business. Net profit attributable to ITOCHU decreased by 50.4%, or ¥12.7 billion, to ¥12.5 billion (US$118 million), due to the unfavorable sales and the impairment losses in apparel-related business, despite lower expenses. Total assets decreased by 4.2%, or ¥21.0 billion, to ¥474.9 billion (US$4,470 million), due to the sales of an apparel-related company.

### Machinery

Revenues increased by 99.7%, or ¥360.8 billion, to ¥722.8 billion (US$6,804 million), due to the conversion of YANASE into a consolidated subsidiary and the favorable performance in aircraft-related and plant-related companies. Gross trading profit increased by 66.8%, or ¥68.9 billion, to ¥171.9 billion (US$1,618 million), due to the conversion of YANASE into a consolidated subsidiary, the favorable performance in aircraft-related and plant-related companies, and the absence of deterioration in profitability in ship-related business affected by stagnant market conditions in the previous fiscal year. Net profit attributable to ITOCHU increased by 22.8%, or ¥10.6 billion, to ¥57.1 billion (US$537 million), due to the favorable performance in aircraft-related and plant-related companies, the absence of deterioration in profitability in ship-related business affected by stagnant market conditions in the previous fiscal year, and lower tax expenses, despite the absence of the gain on sales of a medical-device-related company in the previous fiscal year. Total assets increased by 23.1%, or ¥228.9 billion, to ¥1,218.6 billion (US$11,470 million), due to the conversion of YANASE into a consolidated subsidiary and the investments in IPP-related companies, despite the decreased inventories in aircraft-related companies and the collection of trade receivables.

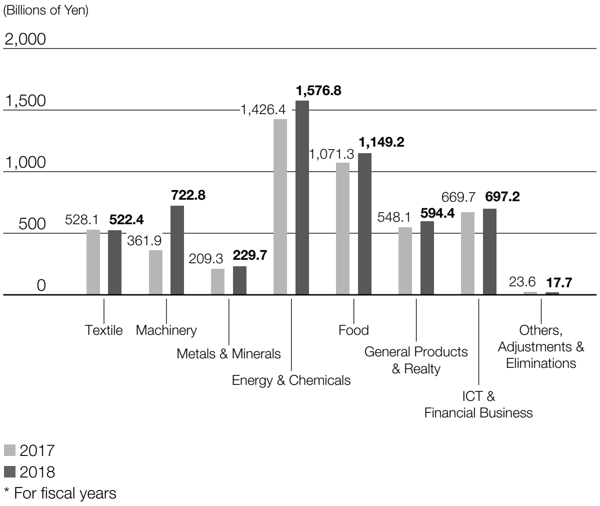
### Metals & Minerals

Revenues increased by 9.7%, or ¥20.4 billion, to ¥229.7 billion (US$2,162 million), due to the higher iron ore and coal prices, and the higher sales volume in iron ore-related business. Gross trading profit increased by 34.3%, or ¥23.9 billion, to ¥93.5 billion (US$880 million), due to the same reason noted above. Net profit attributable to ITOCHU increased by 82.3%, or ¥37.2 billion, to ¥82.5 billion (US$776 million), due to the higher iron ore and coal prices, the higher sales volume in iron ore-related business, and dividends from a coal-related investment. Total assets decreased by 0.5%, or ¥4.6 billion, to ¥850.3 billion (US$8,003 million), due to the decline in the fair value of investment securities, despite the higher revenues accompanying the higher prices in iron ore and coal-related business, and the increased trade receivables in non-ferrous-related companies.

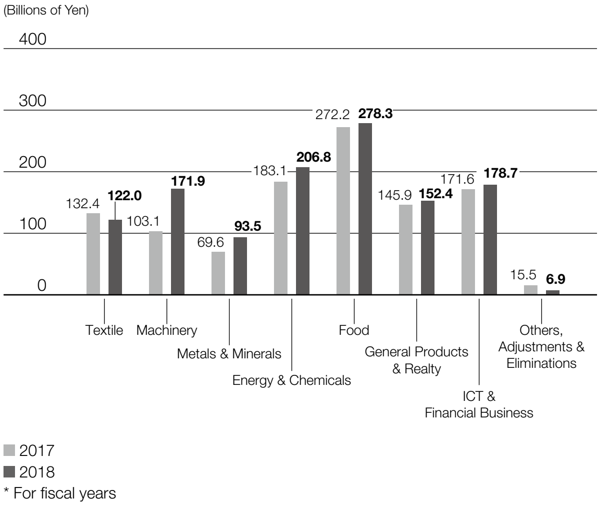
### Energy & Chemicals

Revenues increased by 10.5%, or ¥150.3 billion, to ¥1,576.8 billion (US$14,841 million), due to the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei and the higher sales prices in energy-related companies. Gross trading profit increased by 12.9%, or ¥23.6 billion, to ¥206.8 billion (US$1,946 million), due to the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei and the favorable performance in chemical-related transactions, despite the deterioration in profitability in energy trading transactions. Net profit attributable to ITOCHU increased by 95.5%, or ¥18.0 billion, to ¥36.9 billion (US$347 million), due to the favorable performance in chemical-related transactions, higher dividends from oil and LNG projects, the gain accompanying the merger between C. I. Kasei

**Revenues by Operating Segment**




**Gross Trading Profit by Operating Segment**



and Takiron, and lower tax expenses, despite the deterioration in profitability in energy trading transactions. Total assets increased by 15.9%, or ¥186.2 billion, to ¥1,355.7 billion (US$12,761 million), due to the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei, and the acquisition of the stake of Iraqi oil fields.

### Food

Revenues increased by 7.3%, or ¥77.9 billion, to ¥1,149.2 billion (US$10,817 million), due to the higher transaction volume with FamilyMart UNY Holdings in fresh-food-related and provisions-related transactions and food-distribution-related companies, and fresh-food-related companies. Gross trading profit increased by 2.2%, or ¥6.1 billion, to ¥278.3 billion (US$2,619 million), due to the higher production volume in fresh-food-related companies, and the higher transaction volume in fresh-food-related transactions and food-distribution-related companies. Net profit attributable to ITOCHU increased by 14.1%, or ¥10.0 billion, to ¥80.5 billion (US$757 million), due to the higher equity in earnings of associates and joint ventures accompanying the merger of FamilyMart and UNY Holdings, and an extraordinary gain accompanying the partial sales of a Chinese fresh-food-related company, despite the impairment loss in a fresh-food-related company and the absence of extraordinary gains in the previous fiscal year. Total assets increased by 10.7%, or ¥189.0 billion, to ¥1,962.2 billion (US$18,469 million), due to the increased trade receivables in food-distribution-related companies with the effect of the last day falling on a weekend, and the additional investments in FamilyMart UNY Holdings and a provisions-related company.

### General Products & Realty

Revenues increased by 8.4%, or ¥46.3 billion, to ¥594.4 billion (US$5,595 million), due to the higher transaction volume in North American facility-materials-related, European tire-related, natural-rubber-related, and North American building-materials-related companies. Gross trading profit increased by 4.5%, or ¥6.6 billion, to ¥152.4 billion (US$1,435 million), due to the higher transaction volume in European tire-related, natural-rubber-related, and North American building-materials-related companies. Net profit attributable to ITOCHU increased by 101.7%, or ¥28.1 billion, to ¥55.7 billion (US$524 million), due to the higher transaction volume in European tire-related, natural-rubber-related, and North American building-materials-related companies, the stable performance in foreign pulp-related companies, lower tax expenses, the gain accompanying the partial sales of an asset-management-related company, and the absence of an extraordinary loss in the previous fiscal year. Total assets increased by 16.5%, or ¥138.4 billion, to ¥978.8 billion (US$9,213 million), due to increased trade receivables and inventories such as real properties for sale, the acquisition of a North American facility-materials-related company, and the appreciation of the Euro and the Great Britain Pound.

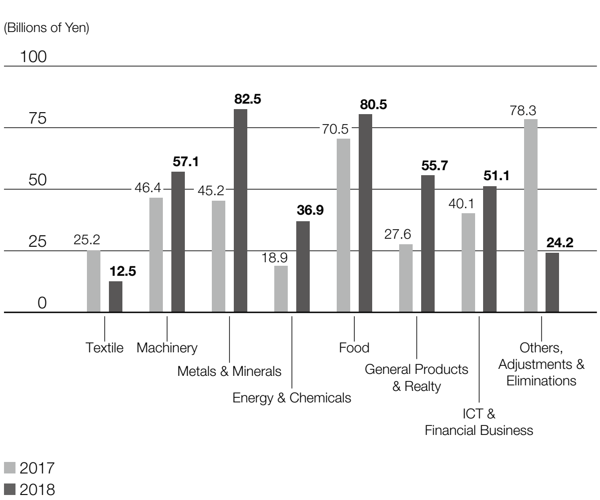
### ICT & Financial Business

Revenues increased by 4.1%, or ¥27.5 billion, to ¥697.2 billion (US$6,562 million), due to the higher transaction volume in domestic ICT-related companies. Gross trading profit increased by 4.1%, or ¥7.1 billion, to ¥178.7 billion (US$1,683 million), due to the higher transaction volume in domestic ICT-related companies and the stable performance in mobile-phone-related and CRO-business-related companies. Net profit attributable to ITOCHU increased by 27.6%, or ¥11.0 billion, to ¥51.1 billion (US$481 million), due to the higher transaction volume in domestic ICT-related companies, the stable performance in mobile-phone-related and CRO-business-related companies, the recovery of foreign finance-related companies, and lower tax expenses. Total assets increased by 6.6%, or ¥47.6 billion, to ¥766.2 billion (US$7,212 million), due to the increased trade receivables accompanying the higher transaction volume in domestic ICT-related companies and the additional investment in a domestic finance-related company.

### Others, Adjustments & Eliminations

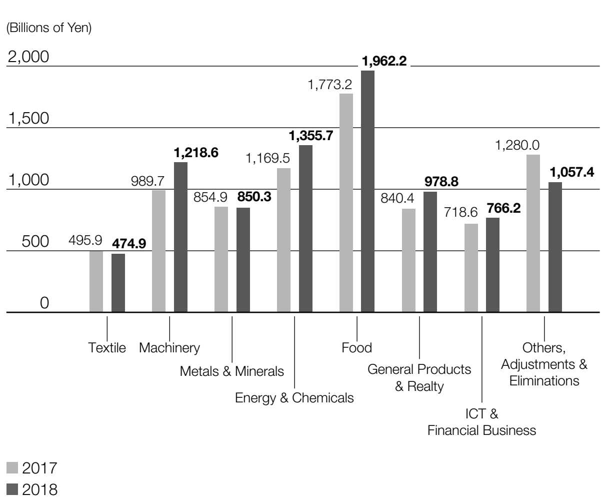
Net profit attributable to ITOCHU decreased by 69.1%, or ¥54.1 billion, to ¥24.2 billion (US$228 million), due to the impairment loss on C.P. Pokphand, the attribution of the internal tax, and foreign currency translation.

#### Net Profit by Operating Segment




* For fiscal years

#### Total Assets by Operating Segment



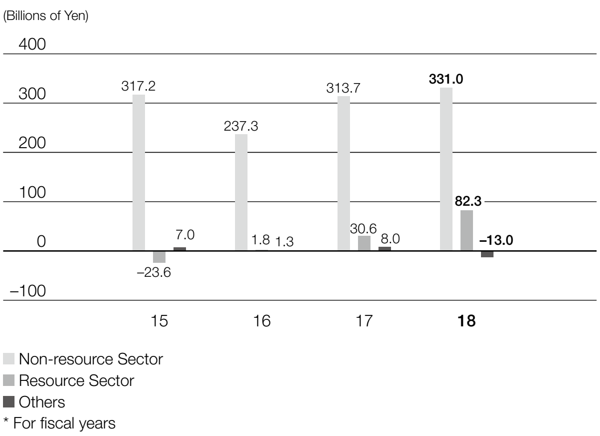

* As of March 31

## Segment Information

| Years ended March 31 | Billions of Yen 2018 | Billions of Yen 2017 | Millions of U.S. Dollars 2018 |
|---|---|---|---|
| Revenues: | | | |
| Textile | ¥ 522.4 | ¥ 528.1 | $ 4,918 |
| Machinery | 722.8 | 361.9 | 6,804 |
| Metals & Minerals | 229.7 | 209.3 | 2,162 |
| Energy & Chemicals | 1,576.8 | 1,426.4 | 14,841 |
| Food | 1,149.2 | 1,071.3 | 10,817 |
| General Products & Realty | 594.4 | 548.1 | 5,595 |
| ICT & Financial Business | 697.2 | 669.7 | 6,562 |
| Others, Adjustments & Eliminations | 17.7 | 23.6 | 166 |
| Total | ¥5,510.1 | ¥4,838.5 | $51,865 |
| Gross trading profit: | | | |
| Textile | ¥ 122.0 | ¥ 132.4 | $ 1,148 |
| Machinery | 171.9 | 103.1 | 1,618 |
| Metals & Minerals | 93.5 | 69.6 | 880 |
| Energy & Chemicals | 206.8 | 183.1 | 1,946 |
| Food | 278.3 | 272.2 | 2,619 |
| General Products & Realty | 152.4 | 145.9 | 1,435 |
| ICT & Financial Business | 178.7 | 171.6 | 1,683 |
| Others, Adjustments & Eliminations | 6.9 | 15.5 | 65 |
| Total | ¥1,210.4 | ¥1,093.5 | $11,394 |
| Net profit attributable to ITOCHU: | | | |
| Textile | ¥ 12.5 | ¥ 25.2 | $ 118 |
| Machinery | 57.1 | 46.4 | 537 |
| Metals & Minerals | 82.5 | 45.2 | 776 |
| Energy & Chemicals | 36.9 | 18.9 | 347 |
| Food | 80.5 | 70.5 | 757 |
| General Products & Realty | 55.7 | 27.6 | 524 |
| ICT & Financial Business | 51.1 | 40.1 | 481 |
| Others, Adjustments & Eliminations | 24.2 | 78.3 | 228 |
| Total | ¥ 400.3 | ¥ 352.2 | $ 3,768 |
| Total assets as of March 31: | | | |
| Textile | ¥ 474.9 | ¥ 495.9 | $ 4,470 |
| Machinery | 1,218.6 | 989.7 | 11,470 |
| Metals & Minerals | 850.3 | 854.9 | 8,003 |
| Energy & Chemicals | 1,355.7 | 1,169.5 | 12,761 |
| Food | 1,962.2 | 1,773.2 | 18,469 |
| General Products & Realty | 978.8 | 840.4 | 9,213 |
| ICT & Financial Business | 766.2 | 718.6 | 7,212 |
| Others, Adjustments & Eliminations | 1,057.4 | 1,280.0 | 9,953 |
| Total | ¥8,663.9 | ¥8,122.0 | $81,551 |

Note: Others, Adjustments & Eliminations includes gains and losses which do not belong to any operating segment and internal eliminations between operating segments. The investments in CITIC Limited and C.P. Pokphand Co. Ltd. and the profits and losses from them are included in this segment.

### Earnings from Non-resource / Resource Sectors



## Performance of Subsidiaries, Associates, and Joint Ventures

### Group Companies Reporting Profits / Losses

Billions of Yen

| | 2018 | | | 2017 | | | Changes | | |
|---|---|---|---|---|---|---|---|---|---|
| Years ended March 31 | Profitable | Unprofitable | Total | Profitable | Unprofitable | Total | Profitable | Unprofitable | Total |
| Group companies excluding overseas trading subsidiaries | **¥387.0** | **¥(60.6)** | **¥326.4** | ¥321.6 | ¥(28.6) | ¥293.0 | ¥65.4 | ¥(32.0) | ¥33.3 |
| Overseas trading subsidiaries | **65.9** | **(0.0)** | **65.9** | 35.8 | (0.1) | 35.6 | 30.2 | 0.1 | 30.3 |
| Total | **¥452.9** | **¥(60.6)** | **¥392.3** | ¥357.4 | ¥(28.7) | ¥328.6 | ¥95.5 | ¥(31.9) | ¥63.6 |

### Share of Group Companies Reporting Profits

| | 2018 | | | 2017 | | | Changes | | |
|---|---|---|---|---|---|---|---|---|---|
| Years ended March 31 | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| No. of companies reporting profits | **115** | **158** | **273** | 114 | 152 | 266 | 1 | 6 | 7 |
| No. of Group companies | **121** | **179** | **300** | 126 | 182 | 308 | (5) | (3) | (8) |
| Share | **95.0%** | **88.3%** | **91.0%** | 90.5% | 83.5% | 86.4% | 4.6 pts. | 4.8 pts. | 4.6 pts. |

Note: Investment companies which are considered as part of the parent company (181 companies), and companies other than those which are directly invested by the Company and its overseas trading subsidiaries (458 companies) are not included in the number of companies.

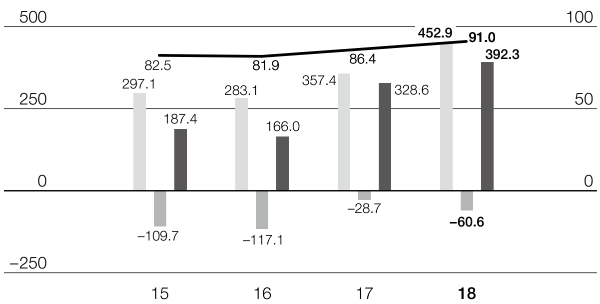
In this fiscal year, net profit from subsidiaries, associates, and joint ventures (aggregate profit / loss of subsidiaries, associates, and joint ventures excluding overseas trading subsidiaries) increased by ¥33.3 billion to ¥326.4 billion (US$3,072 million).

Profits from overseas trading subsidiaries increased by ¥30.3 billion to ¥65.9 billion (US$620 million).

The aggregate profit from Group companies (subsidiaries, associates and joint ventures, and overseas trading subsidiaries) reporting profits increased by ¥95.5 billion to ¥452.9 billion (US$4,263 million), due to the increase of ITOCHU Minerals & Energy of Australia Pty Ltd. as a result of the higher iron ore and coal prices, the higher sales volume of iron ore, and the absence of an extraordinary loss in the previous fiscal year, and the increase of ITOCHU (CHINA) HOLDING CO., LTD. due to an extraordinary gain accompanying the partial sales of a fresh-food-related company. Meanwhile, the aggregate loss from Group companies reporting losses increased by ¥31.9 billion to ¥60.6 billion (US$570 million), due to the deterioration of C.P. Pokphand Co. Ltd. caused by the impairment loss on investment accounted for by the equity method.

Share (%) of Group companies reporting profits further improved, and increased by 4.6 points, from 86.4% to 91.0% due to the decrease of the number of Group companies in low profitability or reporting losses.

### Net Profit (Loss) from Subsidiaries and Equity-method Associated Companies




Companies reporting profits (left) Companies reporting losses (left)
Net profit (loss) from subsidiaries and equity-method associated companies (left)
Share of Group companies reporting profits*1 (right)
* For fiscal years
*1 Number of Group companies reporting profits as a percentage of the number of companies included in consolidation

Major Group companies reporting profits or losses for the years ended March 31, 2018 and 2017 were as follows:

**Major Group Companies Reporting Profits**

| Years ended March 31 | Shares | Net income (loss) attributable to ITOCHU *1 (Billions of Yen) 2018 | 2017 | Changes | Reasons for changes |
|---|---|---|---|---|---|
| **Domestic Subsidiaries** | | | | | |
| ITOCHU Techno-Solutions Corporation | 58.2% | **¥ 13.6** | ¥12.6 | ¥ 1.0 | Increase due to the favorable performance in distribution & enterprise segment |
| NIPPON ACCESS, INC. | 93.8% | **9.8** | 12.2 | (2.5) | Decrease due to higher logistics-related costs and impairment losses on property, plant and equipment, despite higher revenues accompanying higher transaction volume |
| ITOCHU ENEX CO., LTD. | 54.0% | **6.0** | 5.5 | 0.5 | Increase due to the improvement in profitability in life energy & logistics business and the gain accompanying the business restructuring in home life business |
| CONEXIO Corporation | 60.3% | **4.1** | 3.9 | 0.2 | Increase due to the improvement in earnings in mobile phone units sales and the favorable performance in solution service for corporates |
| ITOCHU PLASTICS INC. | 100.0% | **4.0** | 4.2 | (0.1) | Nearly at the same level due to the stable performance of industrial-material and electronics-material sales |
| YANASE & CO., LTD. | 66.0% | **3.7** | 2.7 | 1.1 | Increase due to the increase in shares accompanying the conversion into a consolidated subsidiary, despite the decrease in sales of new cars and higher expenses, and the absence of the gain on sales of land in the previous fiscal year |
| ITOCHU CHEMICAL FRONTIER Corporation | 100.0% | **3.7** | 3.1 | 0.6 | Increase due to the favorable performance in polymer material trading and the stable performance in silicone (silicon resin) sales and medical-related business |
| Brazil Japan Iron Ore Corporation | 75.7% | **3.3** | (2.9) | 6.2 | Improvement due to the higher dividends and the absence of an extraordinary loss |
| Dole International Holdings, Inc. | 100.0% | **3.2** | 8.3 | (5.1) | Decrease due to the impairment losses in packaged food business, despite the higher production volume in fresh food business and the improvement in tax expenses |
| C.I.TAKIRON Corporation *2 | 51.2% | **3.0** | 5.4 | (2.4) | Decrease due to the absence of the gain on sales of affiliates in C.I. Kasei in the previous fiscal year, despite the stable performance in high functional materials sales and specialty films business |
| ITOCHU LOGISTICS CORP. | 99.0% | **2.7** | 2.4 | 0.3 | Increase due to the stable performance in ocean freight forwarding and domestic logistics |
| **Overseas Subsidiaries** | | | | | |
| Orchid Alliance Holdings Limited *3 | 100.0% | **67.9** | 62.9 | 5.0 | Increase due to the higher equity in earnings of CITIC Limited |
| ITOCHU Minerals & Energy of Australia Pty Ltd | 100.0% | **62.3** | 42.8 | 19.5 | Increase due to the higher iron ore and coal prices, the higher sales volume of iron ore, and the absence of an extraordinary loss in the previous fiscal year |
| ITOCHU (CHINA) HOLDING CO., LTD. | 100.0% | **21.9** | 4.8 | 17.1 | Increase due to an extraordinary gain accompanying the partial sales of a fresh-food-related company |
| ITOCHU International Inc. | 100.0% | **20.0** | 12.9 | 7.1 | Increase due to the stable performance in facility-materials-related companies and the improvement in tax expenses accompanying the U.S. tax reform |
| ITOCHU FIBRE LIMITED *4 | 100.0% | **9.9** | 4.3 | 5.7 | Increase due to the improvement in market conditions of pulp |
| ITOCHU Hong Kong Ltd. | 100.0% | **6.1** | 5.0 | 1.2 | Increase due to the higher equity in earnings of finance-related companies, despite the lower transaction volume in forest products & general merchandise-related transactions |
| European Tyre Enterprise Limited *4 | 100.0% | **5.8** | (5.2) | 11.0 | Improvement due to the stable performance in retail business in the U.K. and the absence of an extraordinary loss in the previous fiscal year |
| I-Power Investment Inc. | 100.0% | **5.3** | 1.0 | 4.4 | Increase due to the partial sales of IPP-related assets and the improvement in tax expenses accompanying the U.S. tax reform |
| ITOCHU Europe PLC *4 | 100.0% | **5.3** | 2.3 | 3.0 | Increase due to the higher equity in earnings of water & environment-related and pulp-related companies, and the absence of an extraordinary loss in the previous fiscal year |
| ITOCHU (Thailand) Ltd. | 100.0% | **4.8** | 3.6 | 1.2 | Increase due to the higher equity in earnings of finance-related companies and the stable performance in chemical-related transactions |

| Years ended March 31 | Shares | Net income (loss) attributable to ITOCHU *1 (Billions of Yen) 2018 | 2017 | Changes | Reasons for changes |
|---|---|---|---|---|---|
| **Domestic Associates and Joint Ventures** | | | | | |
| Tokyo Century Corporation | 25.2% | ¥ 12.5 | ¥10.2 | ¥ 2.2 | Increase due to the stable performance in North American leasing business, aircraft leasing and automobile leasing, and the improvement in tax expenses accompanying the U.S. tax reform |
| FamilyMart UNY Holdings Co.,Ltd. *5 | 40.9% | 11.8 | 7.4 | 4.4 | Increase due to the higher operating revenues resulting from the merger with UNY Group Holdings Co., Ltd. and the improvement in tax expenses accompanying the introduction of the consolidated tax system, despite the impairment losses |
| Marubeni-Itochu Steel Inc. | 50.0% | 9.2 | 7.6 | 1.7 | Increase due to the stable performance in domestic transactions and group companies accompanying the recovery in steel market conditions, and the recovery of overseas group companies accompanying a bottoming-out of tubular product market conditions |
| Japan Brazil Paper and Pulp Resources Development Co., Ltd. | 33.3% | 4.2 | 2.9 | 1.3 | Increase due to the improvement in profitability accompanying the improved pulp market conditions and tax expenses |
| Orient Corporation | 16.5% | 4.2 | 5.0 | (0.8) | Decrease due to the higher expenses relating to doubtful accounts, despite the higher revenues in bank loan guarantees and settlement and guarantee business |
| FUJI OIL HOLDINGS INC. *6 | 34.0% | 4.2 | 2.7 | 1.5 | Increase due to the stable performance in foreign subsidiaries in confectionery and bakery ingredients business and increase in shares |
| Prima Meat Packers, Ltd. | 39.8% | 4.1 | 3.7 | 0.5 | Increase due to the stable performance in ham/sausage sales and the gain on sales of affiliates, despite higher manufacturing cost in processed foods business |
| Japan South Sakha Oil Co., Ltd. | 25.2% | 4.0 | 1.1 | 2.9 | Increase due to the higher equity in earnings of an Eastern Siberia oil exploration-related company accompanying the higher production volume of crude oil |
| **Overseas Associates and Joint Ventures** | | | | | |
| HYLIFE GROUP HOLDINGS LTD. | 49.9% | 3.7 | 2.7 | 0.9 | Increase due to the stable performance in transactions to Japan and other Asian countries |

**Major Group Companies Reporting Losses**

| Years ended March 31 | Shares | Net income (loss) attributable to ITOCHU *1 (Billions of Yen) 2018 | 2017 | Changes | Reasons for changes |
|---|---|---|---|---|---|
| **Domestic Subsidiary** | | | | | |
| EDWIN CO., LTD. | 98.5% | ¥(12.9) | ¥ 0.7 | ¥(13.7) | Deterioration due to the impairment loss on intangible assets recognized at the acquisition |
| **Overseas Subsidiaries** | | | | | |
| CIECO Exploration and Production (UK) Limited | 100.0% | (4.7) | (0.6) | (4.1) | Deterioration due to the reversal of deferred tax assets |
| IPC EUROPE LTD. | 100.0% | (2.1) | 0.3 | (2.4) | Deterioration due to the loss accompanying the withdrawal of heavy oil trading companies |
| ITOCHU PETROLEUM CO., (SINGAPORE) PTE. LTD. | 100.0% | (1.8) | 1.8 | (3.7) | Deterioration due to the unfavorable performance in crude oil and petroleum products trading business |
| **Overseas Associates and Joint Ventures** | | | | | |
| C.P. Pokphand Co. Ltd. | 23.8% | (29.8) | 4.9 | (34.6) | Deterioration due to the impairment loss on investment accounted for by the equity method |

*1. Net profit (losses) attributable to ITOCHU is the figure after adjusting to IFRS, which may be different from the figures each company announces.
*2. Takiron Co., Ltd. and C.I. Kasei Company, Limited merged and formed C.I. TAKIRON Corporation on April 1, 2017. Therefore, the figures of C.I. TAKIRON Corporation for FY2017 provided above shows the aggregate amounts of both companies.
*3. The figures of Orchid Alliance Holdings Limited include related tax effects and other factors.
*4. The figures of ITOCHU Europe PLC include 20.0% of net profit from European Tyre Enterprise Limited and 10.0% of net profit from ITOCHU FIBRE LIMITED.
*5. ITOCHU made a resolution at its board of directors meeting held on April 19, 2018 to acquire the shares of FamilyMart UNY Holdings Co., Ltd. by way of a tender offer, for the purpose of making it a consolidated subsidiary of ITOCHU.
*6. ITOCHU Corporation holds the shares of FUJI OIL HOLDINGS INC. through ITOCHU FOOD INVESTMENT, LLC, which is a subsidiary of ITOCHU Corporation.

## Liquidity and Capital Resources

### Basic Funding Policy

The Company aims to ensure flexibility in funding in response to changes in financial conditions and to take advantage of opportunities to lower its overall financing costs. Also, as a means of enhancing the stability of its financing, the Company seeks to maintain funding through long-term sources and endeavors to find the optimum balance in its funding structure through diversified funding sources and methods. Further, the Company works to improve consolidated capital efficiency and funding structure by concentrating funding for domestic subsidiaries on Group Finance funded by the Company and a domestic Group Finance managing company. Moreover, the Company established a Group Finance scheme utilizing Group Finance managing companies based in Asia, Europe and the United States for the funding of overseas subsidiaries. As a result, as of the end of the fiscal year, funding by the parent Company, and domestic and overseas Group Finance managing companies accounted for approximately 68% of consolidated interest-bearing debt.

Regarding funding methods, the Company uses indirect financing such as bank loans and direct financing such as bond issuance. As to indirect financing, the Company maintains favorable and wide-ranging relationships with various financial institutions, which enables it to raise required funds. As to direct financing, the Company registered a new issuance of bonds up to ¥300.0 billion, covering the two-year period from August 2017 to August 2019, in accordance with the bond-issuance registration system in Japan. Also, the Company undertakes funding through commercial paper to heighten capital efficiency and lower capital costs. The Company and Group Finance managing companies have registered a total of US$5,000 million in a Euro Medium Term Note Programme (Euro MTN).

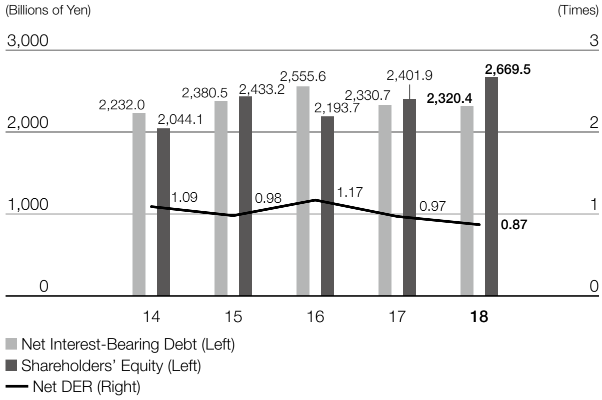
Ratings of the Company's long-term debt and short-term debt as of March 31, 2018 were as follows. Aiming to secure even higher ratings, the Company will strengthen profitability, improve financial position, and implement a thorough risk management.

| Credit Rating Agency | Long-term Debt | Short-term Debt |
|---|---|---|
| Japan Credit Rating Agency (JCR) | AA– / Positive | J-1+ |
| Rating & Investment Information (R&I) | A+ / Positive | a-1 |
| Moody's Investors Service | A3 / Stable | P-2 |
| Standard & Poor's (S&P) | A– / Positive | A-2 |

### Interest-Bearing Debt

Interest-bearing debt as of March 31, 2018 decreased by 5.6%, or ¥165.2 billion, compared with March 31, 2017 to ¥2,779.5 billion (US$26,162 million). Net interest-bearing debt (Interest-bearing debt after deducting Cash and cash equivalents and Time deposits) decreased by 0.4%, or ¥10.3 billion, to ¥2,320.4 billion (US$21,841 million). NET DER (debt-to-equity ratio) improved to 0.87 times from 0.97. Furthermore, the ratio of long-term interest-bearing debt to total interest-bearing debt was 81%, nearly at the same level compared with March 31, 2017.

**Net Interest-Bearing Debt, Shareholders' Equity and Net DER (Debt-to-Equity Ratio)**



* For fiscal years

Details of interest-bearing debt as of March 31, 2018 and 2017 were as follows:

| Years ended March 31 | Billions of Yen 2018 | Billions of Yen 2017 | Millions of U.S. Dollars 2018 |
|---|---|---|---|
| Short-term debentures and borrowings | | | |
| Short-term and current maturities of long-term loans mainly from banks | ¥ 463.4 | ¥ 481.1 | $ 4,362 |
| Commercial paper | 13.1 | 12.0 | 123 |
| Current maturities of debentures | 50.4 | 70.0 | 474 |
| Short-term total | 526.9 | 563.0 | 4,959 |
| Long-term debentures and borrowings | | | |
| Long-term loans mainly from banks, less current maturities | 1,949.7 | 2,038.2 | 18,352 |
| Debentures | 302.9 | 343.4 | 2,851 |
| Long-term total | 2,252.6 | 2,381.6 | 21,203 |
| Total interest-bearing debt | 2,779.5 | 2,944.7 | 26,162 |
| Cash and cash equivalents, time deposits | 459.1 | 614.0 | 4,321 |
| Net interest-bearing debt | ¥2,320.4 | ¥2,330.7 | $21,841 |

## Financial Position

Total assets as of March 31, 2018 increased by 6.7%, or ¥541.9 billion, compared with March 31, 2017 to ¥8,663.9 billion (US$81,551 million), due to the conversion of YANASE into a consolidated subsidiary, the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei, the acquisition of the stake of Iraqi oil fields, the increased trade receivables in food-distribution-related companies with the effect of the last day falling on a weekend, and the increase in investments accounted for by the equity method.

Total shareholders' equity increased by 11.1%, or ¥267.6 billion, compared with March 31, 2017 to ¥2,669.5 billion (US$25,127 million), due to Net profit attributable to ITOCHU during this fiscal year, despite dividend payments and acquisition of treasury stock.

As a result, the Ratio of shareholders' equity to total assets increased by 1.2 points to 30.8% from March 31, 2017. Total equity, or the sum of Total shareholders' equity and Non-controlling interests, increased by 12.1%, or ¥321.5 billion, compared with March 31, 2017 to ¥2,984.4 billion (US$28,091 million).

The main increases and decreases in respective items of the Consolidated Statement of Financial Position compared with those of the previous fiscal year-end are as follows:

**Trade receivables** increased by ¥234.3 billion to ¥2,183.3 billion (US$20,551 million), due to the effect of the last day falling on a weekend in food-distribution-related companies, the conversion of YANASE into a consolidated subsidiary, and the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei.

**Inventories** increased by ¥95.0 billion to ¥870.4 billion (US$8,192 million), due to the conversion of YANASE into a consolidated subsidiary, the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei, and increased real properties for sale.

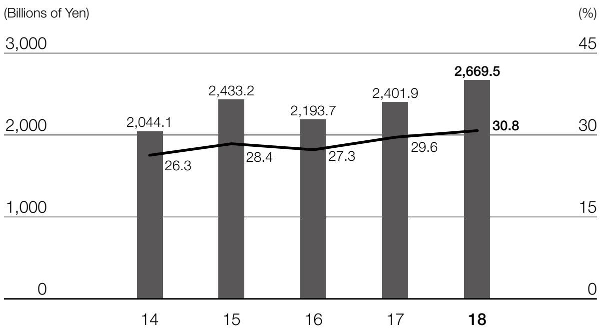
**Investments accounted for by the equity method** increased by ¥218.3 billion to ¥1,844.9 billion (US$17,365 million), due to the investments in IPP-related companies, the additional investments in FamilyMart UNY Holdings and a provisions-related company, and accumulation of equity in earnings of associates and joint ventures, despite the decrease due to the conversion of YANASE into a consolidated subsidiary and the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei.

**Property, plant and equipment** increased by ¥132.9 billion to ¥813.3 billion (US$7,655 million), due to the conversion of YANASE into a consolidated subsidiary, the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei, and the acquisition of the stake of Iraqi oil fields.

**Trade payables** increased by ¥237.1 billion to ¥1,825.9 billion (US$17,186 million), due to the effect of the last day falling on a weekend in food-distribution-related companies, the conversion of YANASE into a consolidated subsidiary, and the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei.

**Deferred tax liabilities** increased by ¥6.2 billion to ¥129.6 billion (US$1,220 million). Furthermore, the net of deferred tax liabilities and deferred tax assets decreased by ¥1.4 billion to ¥67.3 billion (US$634 million).

### Ratio of Shareholders' Equity to Total Assets




■ Shareholders' Equity (Left)
— Ratio of Shareholders' Equity to Total Assets (Right)
* For fiscal years

## Reserves for Liquidity

ITOCHU Group works to ensure an adequate amount of reserves in order to cope with unpredictable events, such as deterioration in the financing environment.

As of March 31, 2018, against the necessary liquidity amount, which is the total of short-term interest-bearing debt and contingent liabilities of ¥701.1 billion (US$6,599 million), the amount of reserves, which is the sum of cash, cash equivalents, time deposits (¥459.1billion), and the unutilized commitment line (yen: ¥200.0 billion, multiple currency: US$1,700 million) was ¥839.7 billion (US$7,904 million). The Company believes that this amount constitutes adequate reserves for liquidity. In addition, the amount held as other assets that can be converted to cash in a short period of time, such as available-for-sale securities, is ¥693.6 billion (US$6,529 million).

| | Billions of Yen | Millions of U.S. Dollars |
|---|---|---|
| | 2018 | 2018 |
| Year ended March 31 | Liquidity Reserves | Liquidity Reserves |
| 1. Cash and cash equivalents, time deposits | **¥459.1** | **$4,321** |
| 2. Commitment line | **¥380.6** | **$3,583** |
| Total primary liquidity reserves | **¥839.7** | **$7,904** |

| | Billions of Yen | Millions of U.S. Dollars |
|---|---|---|
| Year ended March 31 | 2018 | 2018 |
| Short-term debentures and borrowings | **¥526.9** | **$4,959** |
| Long-term debentures and borrowings | **65.8*** | **620** |
| Contingent liabilities (Financial guarantees (substantial risk) of associates and joint ventures, customers) | **108.4** | **1,020** |
| Total | **¥701.1** | **$6,599** |

* Current maturities related to long-term commitment line are presented as Long-term debentures and borrowings in the Consolidated Statement of Financial Position.

### Capital Resources

The fundamental policy is to finance new expenditures for investment activities from operating revenue, disposal / collection of existing assets, and loans and the issuance of bonds while maintaining financial soundness.

During Brand-new Deal 2017, ITOCHU Group's medium-term management plan (the three-year plan covering the period from Fiscal Year 2016 to Fiscal Year 2018), we implemented large strategic investments with the CITIC Limited. On that basis, we implemented other new investments within the scope of adjusted operating cash flow* and cash flow resulting from investment exits.

* "Cash flows from operating activities" after the deduction of changes in assets and liabilities

Cash flows from operating activities for the year ended March 31, 2018 was a net cash-inflow of ¥388.2 billion (US$3,654 million), resulting from the stable performance in operating revenues in the Metals & Minerals, Food, Energy, Machinery and ICT sectors. Cash flows from operating activities for the year ended March 31, 2017 was a net cash-inflow of ¥389.7 billion.

Cash flows from investing activities was a net cash-outflow of ¥256.4 billion (US$2,413 million), due to the additional investments in FamilyMart and UNY Holdings and a provisions-related company, the acquisition of the stake of Iraqi oil fields, the investments in IPP-related companies, and the acquisition of fixed assets mainly in the Food, Energy, Metals & Minerals and Machinery sectors, despite the increase in cash resulting from the conversion of Takiron into a consolidated subsidiary as a result of its merger with C. I. Kasei. Cash flows from investing activities for the year ended March 31, 2017 was a net cash-outflow of ¥81.3 billion.

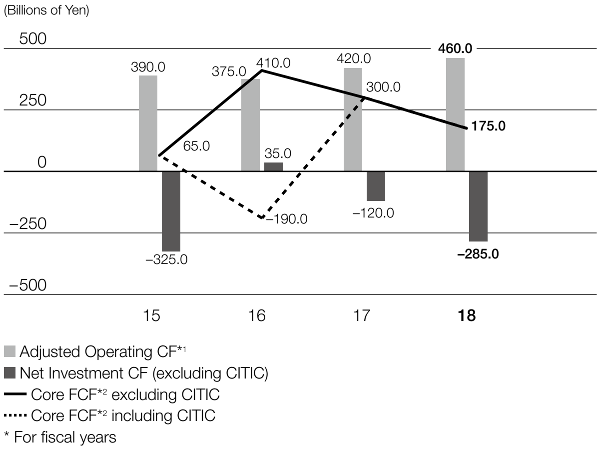
Cash flows from financing activities was a net cash-outflow of ¥296.1 billion (US$2,787 million), due to the repayment of borrowings, dividend payments, and acquisition of treasury stock. Cash flows from financing activities for the year ended March 31, 2017 was a net cash-outflow of ¥335.4 billion.

Consequently, Cash and cash equivalents as of March 31, 2018 decreased by 28.6%, or ¥173.4 billion, to ¥432.1 billion (US$4,068 million), compared with March 31, 2017.

A summary of cash flows for the years ended March 31, 2018 and 2017 were as follows:

| | Billions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| Years ended March 31 | 2018 | 2017 | 2018 |
| Cash flows from operating activities | **¥ 388.2** | ¥ 389.7 | **$ 3,654** |
| Cash flows from investing activities | **(256.4)** | (81.3) | **(2,413)** |
| Cash flows from financing activities | **(296.1)** | (335.4) | **(2,787)** |
| Net change in cash and cash equivalents | **(164.3)** | (27.0) | **(1,546)** |
| Cash and cash equivalents at the beginning of the year | **605.6** | 632.9 | **5,700** |
| Effect of exchange rate changes on cash and cash equivalents | **(9.2)** | (0.3) | **(86)** |
| Cash and cash equivalents at the end of the year | **¥ 432.1** | ¥ 605.6 | **$ 4,068** |

### Core Free Cash Flows (excluding CITIC)




* For fiscal years
*1: "Operating Cash Flows" minus "increase/decrease of working capital"
*2: Exclude investment & loan relating to CITIC and increase/decrease of working capital

## Significant Accounting Policies

The Company's Consolidated Financial Statements are prepared in conformity with the International Financial Reporting Standards (IFRSs). In preparing the Consolidated Financial Statements, the management of the Company is required to make a number of estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, contingent assets and liabilities as of each date of financial position, and revenues and expenses in each reporting period. Management periodically verifies and reviews its estimates, judgments and assumptions based on the available information that is considered to be reasonable, judging from historical experiences and circumstances. These estimates, judgments and assumptions, however, which are often accompanied by uncertainties, may differ from actual results. These differences may have an effect on the Company's Consolidated Financial Statements and the performance of every operating segment.

The following accounting policies relate to estimates, judgments and assumptions that management believes may materially affect the Consolidated Financial Statements.

Please refer to the Notes to Consolidated Financial Statements regarding the amounts of assets, liabilities, income, and expenses related to the following accounting policies.

### Measurement of the fair value of unlisted financial assets

Among financial assets measured at fair value, the fair value of unlisted stocks is measured by using the market comparable method, with reference to published information about listed stocks that belong to the same industry as the investee's industry, or by using the discounted cash flow method, which calculates the fair value by discounting the estimates of future cash flows related to dividends from investees to the present value. Changes in uncertain future economic conditions may affect the multiple applied for the market comparable method or the estimates of future cash flows and the discount rate applied for the discounted cash flow method. Accordingly, there are risks that such changes could result in material adjustments to the measurements of fair value of unlisted financial assets in the future accounting periods.

### Recoverable amount of financial assets that are measured at amortized cost and have indications of impairment

The recoverable amounts of financial assets that are measured at amortized cost and have indications of impairment are recognized as the related estimated future cash flows of the financial assets discounted at the initial effective interest rate to the present value. Changes in uncertain future economic conditions may affect the future cash flows related to the financial assets. Accordingly, there are risks that such changes could result in material adjustments to impairment losses related to financial assets measured at amortized cost in the future accounting periods.

### Recoverable amounts of property, plant and equipment, investment property, goodwill, intangible assets, and investments in associates and joint ventures measured through impairment tests

In impairment tests of property, plant and equipment, investment property, goodwill, intangible assets, and investments in associates and joint ventures, after identifying the related cash-generating units, their recoverable amount is recognized as the higher of the fair value less costs to sell or the value in use of the cash-generating units. Changes in uncertain future economic conditions may affect assumptions used to calculate the fair value less costs to sell or expected future cash flows and assumed discount rates that will result from the period of use and subsequent disposal of cash-generating units, which underlie the calculation of value in use. Accordingly, there are risks that such changes could result in material adjustments to the impairment losses of property, plant and equipment, investment property, goodwill, intangible assets, and investments in associates and joint ventures in the future accounting periods.

### Measurement of fair value of defined benefit plan liabilities and assets in post-employment defined benefit plans

For post-employment defined benefit plans, the fair value of defined benefit plan liabilities net of assets is recognized as liabilities or assets. Defined benefit plan liabilities are calculated based on the same types of assumptions used in the actuarial calculation, which include estimates of the discount rate, the retirement rate, the mortality rate, and the rate of compensation increase. These assumptions are established by comprehensively judging a variety of available information, including market trends, such as interest rate changes. Uncertain future economic conditions or changes in social conditions may affect the assumptions used in the actuarial calculation. Accordingly, there are risks that such changes could result in material adjustments to the measurements of the fair value of defined benefit plan liabilities and assets in future accounting periods.

### Measurement of provisions

Provisions are measured based on the best estimate at the end of the period of the expenditures expected to be required to settle the future obligations. Estimates of expenditures expected to be required to settle future obligations are calculated based on a comprehensive consideration of possible future outcomes. Changes in uncertain future economic conditions may affect assumptions used to calculate the provisions. Accordingly, there are risks that such changes could result in material adjustments to measurements of provisions in the future accounting periods.

#### Estimates of income taxes

To calculate income taxes, estimates and judgments about a variety of factors have to be made, including interpretation of tax regulations and the experience of past tax audits. Therefore, the income taxes that are estimated at the end of each period and the income taxes actually paid may differ. Such an eventuality could materially affect income taxes recognized from the next accounting period onward.

Further, deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be used. However, judgments on the recoverable amounts are made based on estimates of taxable amounts for each future fiscal year, which are determined based on the business plans of the Company and its subsidiaries. Changes in uncertain future economic conditions may affect the estimates of taxable amounts for future fiscal years. Accordingly, there are risks that such changes could result in material adjustments to the recognition of deferred tax assets in the future accounting periods.

Accounting areas where the judgment on application of accounting policies significantly affects the amounts of assets, liabilities, income, and expenses are mainly as follows:

- Scope of subsidiaries or associates and joint ventures
- Classification of financial assets measured at amortized cost, FVTOCI financial assets, and FVTPL financial assets in financial assets other than derivatives
- Judgment about whether, in light of their economic nature, transactions are lease transactions
- Evaluation of whether there are indications of impairment or whether there are indications of reversals of impairment of financial assets measured at amortized cost
- Identification of cash-generating units in conducting impairment tests for property, plant and equipment, investment property, goodwill, intangible assets, and investments in associates and joint ventures
- Evaluation of whether there are indications of impairment of property, plant and equipment, investment property, goodwill, intangible assets, and investments in associates and joint ventures
- Evaluation of whether there are indications of reversals of impairment of property, plant and equipment, investment property, intangible assets, and investments in associates and joint ventures
- Recognition of provisions
- Judgment about the timing of revenue recognition and whether to present revenue as gross basis or net basis

# Consolidated Statement of Financial Position

ITOCHU Corporation and its Subsidiaries
As of March 31, 2018 and 2017
Prepared in conformity with IFRSs

| Assets | Millions of Yen 2018 | Millions of Yen 2017 | Millions of U.S. Dollars 2018 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | **¥ 432,140** | ¥ 605,589 | **$ 4,068** |
| Time deposits | **26,915** | 8,381 | **253** |
| Trade receivables (Note 6) | **2,183,349** | 1,949,049 | **20,551** |
| Other current receivables (Note 6) | **84,146** | 74,322 | **792** |
| Other current financial assets (Note 12) | **34,329** | 28,999 | **323** |
| Inventories (Note 7) | **870,352** | 775,396 | **8,192** |
| Advances to suppliers | **179,760** | 161,855 | **1,692** |
| Other current assets | **112,370** | 97,224 | **1,058** |
| Total current assets | **3,923,361** | 3,700,815 | **36,929** |
| **Non-current assets** | | | |
| Investments accounted for by the equity method (Note 13) | **1,844,871** | 1,626,583 | **17,365** |
| Other investments (Note 12) | **816,510** | 793,589 | **7,686** |
| Non-current receivables (Note 6) | **617,719** | 656,774 | **5,814** |
| Non-current financial assets other than investments and receivables | **82,379** | 118,511 | **776** |
| Property, plant and equipment (Notes 8 and 16) | **813,294** | 680,375 | **7,655** |
| Investment property (Note 9) | **19,134** | 26,605 | **180** |
| Goodwill (Note 11) | **129,283** | 131,662 | **1,217** |
| Intangible assets (Note 11) | **233,288** | 237,716 | **2,196** |
| Deferred tax assets (Note 19) | **62,259** | 54,660 | **586** |
| Other non-current assets | **121,839** | 94,742 | **1,147** |
| Total non-current assets | **4,740,576** | 4,421,217 | **44,622** |
| **Total assets** (Note 4) | **¥8,663,937** | ¥8,122,032 | **$81,551** |

Refer to Notes to Consolidated Financial Statements.

| Liabilities and Equity | Millions of Yen 2018 | Millions of Yen 2017 | Millions of U.S. Dollars 2018 |
|---|---|---|---|
| **Current liabilities** | | | |
| Short-term debentures and borrowings (Notes 15 and 32) | **¥ 526,867** | ¥ 563,033 | **$ 4,959** |
| Trade payables (Note 14) | **1,825,859** | 1,588,783 | **17,186** |
| Other current payables (Note 14) | **79,200** | 53,494 | **746** |
| Other current financial liabilities | **26,791** | 15,729 | **252** |
| Current tax liabilities (Note 19) | **53,241** | 40,660 | **501** |
| Advances from customers | **157,167** | 149,921 | **1,479** |
| Other current liabilities (Note 18) | **319,777** | 288,785 | **3,010** |
| Total current liabilities | **2,988,902** | 2,700,405 | **28,133** |
| **Non-current liabilities** | | | |
| Long-term debentures and borrowings (Notes 15 and 32) | **2,252,606** | 2,381,620 | **21,203** |
| Other non-current financial liabilities (Note 14) | **114,627** | 108,333 | **1,079** |
| Non-current liabilities for employee benefits (Note 17) | **97,955** | 59,614 | **922** |
| Deferred tax liabilities (Note 19) | **129,579** | 123,374 | **1,220** |
| Other non-current liabilities (Note 18) | **95,917** | 85,875 | **903** |
| Total non-current liabilities | **2,690,684** | 2,758,816 | **25,327** |
| Total liabilities | **5,679,586** | 5,459,221 | **53,460** |
| **Equity** | | | |
| Common stock (Note 21) | **253,448** | 253,448 | **2,386** |
| Capital surplus (Note 21) | **160,271** | 162,038 | **1,509** |
| Retained earnings (Notes 21 and 22) | **2,324,766** | 2,020,018 | **21,882** |
| Other components of equity (Note 23) | | | |
| Translation adjustments | **136,729** | 137,085 | **1,287** |
| FVTOCI financial assets (Note 12) | **(61,484)** | (50,353) | **(579)** |
| Cash flow hedges (Note 25) | **5,961** | 1,997 | **56** |
| Total other components of equity | **81,206** | 88,729 | **764** |
| Treasury stock (Note 21) | **(150,208)** | (122,340) | **(1,414)** |
| Total shareholders' equity | **2,669,483** | 2,401,893 | **25,127** |
| Non-controlling interests | **314,868** | 260,918 | **2,964** |
| Total equity | **2,984,351** | 2,662,811 | **28,091** |
| **Total liabilities and equity** | **¥8,663,937** | ¥8,122,032 | **$81,551** |

# Consolidated Statement of Comprehensive Income

ITOCHU Corporation and its Subsidiaries
Years ended March 31, 2018 and 2017
Prepared in conformity with IFRSs

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| **Revenues** (Note 4) | | | |
| Revenues from sale of goods | ¥ 4,719,460 | ¥ 4,115,568 | $ 44,423 |
| Revenues from rendering of services and royalties | 790,599 | 722,896 | 7,442 |
| Total revenues | 5,510,059 | 4,838,464 | 51,865 |
| **Cost** | | | |
| Cost of sale of goods | (3,706,873) | (3,209,289) | (34,892) |
| Cost of rendering of services and royalties | (592,746) | (535,713) | (5,579) |
| Total cost | (4,299,619) | (3,745,002) | (40,471) |
| **Gross trading profit** (Note 4) | 1,210,440 | 1,093,462 | 11,394 |
| **Other gains (losses)** | | | |
| Selling, general and administrative expenses (Notes 17 and 27) | (890,276) | (801,837) | (8,380) |
| Provision for doubtful accounts | (3,231) | (3,226) | (30) |
| Gains on investments (Note 28) | 7,080 | 32,144 | 67 |
| Losses on property, plant, equipment and intangible assets (Notes 8, 11 and 29) | (29,629) | (16,696) | (279) |
| Other–net (Note 30) | (280) | (5,425) | (3) |
| Total other losses | (916,336) | (795,040) | (8,625) |
| **Financial income (loss)** (Note 31) | | | |
| Interest income | 34,702 | 26,625 | 327 |
| Dividends received | 34,273 | 19,901 | 322 |
| Interest expense | (41,449) | (30,251) | (390) |
| Total financial income | 27,526 | 16,275 | 259 |
| Equity in earnings of associates and joint ventures (Notes 4 and 13) | 216,228 | 185,158 | 2,035 |
| **Profit before tax** | 537,858 | 499,855 | 5,063 |
| Income tax expense (Note 19) | (106,138) | (125,262) | (999) |
| **Net profit** | 431,720 | 374,593 | 4,064 |
| **Net profit attributable to ITOCHU** (Note 4) | ¥ 400,333 | ¥ 352,221 | $ 3,768 |
| Net profit attributable to non-controlling interests | 31,387 | 22,372 | 296 |

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| **Other comprehensive income net of tax** (Note 23) | | | |
| Items that will not be reclassified to profit or loss | | | |
| FVTOCI financial assets (Note 26) | **¥ (23,100)** | ¥ 263 | **$ (218)** |
| Remeasurement of net defined pension liability (Note 17) | **3,252** | 6,017 | **31** |
| Other comprehensive income in associates and joint ventures (Note 13) | **1,333** | (4,115) | **12** |
| Items that will be reclassified to profit or loss | | | |
| Translation adjustments (Note 26) | **(38,452)** | (11,789) | **(362)** |
| Cash flow hedges (Note 25) | **495** | 5,674 | **5** |
| Other comprehensive income in associates and joint ventures (Note 13) | **40,354** | (47,278) | **380** |
| Total other comprehensive income net of tax | **(16,118)** | (51,228) | **(152)** |
| **Total comprehensive income** | **415,602** | 323,365 | **3,912** |
| **Total comprehensive income attributable to ITOCHU** | **¥390,022** | ¥303,063 | **$3,671** |
| Total comprehensive income attributable to non-controlling interests | **25,580** | 20,302 | **241** |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Basic earnings per share attributable to ITOCHU (Note 20) | **¥257.94** | ¥223.67 | **$2.43** |
| Diluted earnings per share attributable to ITOCHU (Note 20) | **¥257.94** | ¥223.67 | **$2.43** |

Refer to Notes to Consolidated Financial Statements.

# Consolidated Statement of Changes in Equity

ITOCHU Corporation and its Subsidiaries
Years ended March 31, 2018 and 2017
Prepared in conformity with IFRSs

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| **Common stock** (Note 21) | | | |
| Balance at the beginning of the year | **¥ 253,448** | ¥ 253,448 | **$ 2,386** |
| Balance at the end of the year | **253,448** | 253,448 | **2,386** |
| **Capital surplus** (Note 21) | | | |
| Balance at the beginning of the year | **162,038** | 156,688 | **1,525** |
| Net change in sale (purchase) of subsidiary shares to (from) non-controlling interests | **(1,767)** | 5,350 | **(16)** |
| Balance at the end of the year | **160,271** | 162,038 | **1,509** |
| **Retained earnings** (Note 21) | | | |
| Balance at the beginning of the year | **2,020,018** | 1,748,375 | **19,014** |
| Net profit attributable to ITOCHU | **400,333** | 352,221 | **3,768** |
| Transfer from other components of equity | **(2,740)** | 2,459 | **(26)** |
| Cash dividends (Note 22) | **(92,845)** | (83,037) | **(874)** |
| Balance at the end of the year | **2,324,766** | 2,020,018 | **21,882** |
| **Other components of equity** (Note 23) | | | |
| Balance at the beginning of the year | **88,729** | 140,750 | **835** |
| Other comprehensive income attributable to ITOCHU | **(10,311)** | (49,158) | **(97)** |
| Transfer to retained earnings | **2,740** | (2,459) | **26** |
| Net change in sale (purchase) of subsidiary shares to (from) non-controlling interests | **48** | (404) | **0** |
| Balance at the end of the year | **81,206** | 88,729 | **764** |
| **Treasury stock** (Note 21) | | | |
| Balance at the beginning of the year | **(122,340)** | (105,584) | **(1,152)** |
| Net change in treasury stock | **(27,868)** | (16,756) | **(262)** |
| Balance at the end of the year | **(150,208)** | (122,340) | **(1,414)** |
| **Total shareholders' equity** | **2,669,483** | 2,401,893 | **25,127** |
| **Non-controlling interests** | | | |
| Balance at the beginning of the year | **260,918** | 258,378 | **2,456** |
| Net profit attributable to non-controlling interests | **31,387** | 22,372 | **296** |
| Other comprehensive income attributable to non-controlling interests (Note 23) | **(5,807)** | (2,070) | **(55)** |
| Cash dividends to non-controlling interests | **(10,732)** | (9,726) | **(101)** |
| Net change in sale (purchase) of subsidiary shares to (from) non-controlling interests | **39,102** | (8,036) | **368** |
| Balance at the end of the year | **314,868** | 260,918 | **2,964** |
| **Total equity** | **¥2,984,351** | ¥2,662,811 | **$28,091** |

Refer to Notes to Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

ITOCHU Corporation and its Subsidiaries
Years ended March 31, 2018 and 2017
Prepared in conformity with IFRSs

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| **Cash flows from operating activities** | | | |
| Net profit | ¥ 431,720 | ¥ 374,593 | $ 4,064 |
| Adjustments to reconcile net profit to net cash provided by operating activities | | | |
| Depreciation and amortization | 114,102 | 107,046 | 1,074 |
| (Gains) losses on investments | (7,080) | (32,144) | (67) |
| (Gains) losses on property, plant, equipment and intangible assets | 29,629 | 16,696 | 279 |
| Financial (income) loss | (27,526) | (16,275) | (259) |
| Equity in earnings of associates and joint ventures | (216,228) | (185,158) | (2,035) |
| Income tax expense | 106,138 | 125,262 | 999 |
| Provision for doubtful accounts and other provisions | 12,995 | 3,599 | 122 |
| Change in trade receivables | (185,873) | (117,284) | (1,750) |
| Change in inventories | (53,414) | (65,085) | (503) |
| Change in trade payables | 171,562 | 129,978 | 1,615 |
| Other–net | (5,117) | 22,349 | (48) |
| Proceeds from interest | 31,321 | 26,693 | 295 |
| Proceeds from dividends | 110,518 | 88,498 | 1,040 |
| Payments for interest | (38,703) | (27,757) | (364) |
| Payments for income taxes | (85,832) | (61,318) | (808) |
| Net cash provided by (used in) operating activities | 388,212 | 389,693 | 3,654 |
| **Cash flows from investing activities** | | | |
| Payments for purchase of investments accounted for by the equity method | (136,420) | (51,993) | (1,284) |
| Proceeds from sale of investments accounted for by the equity method | 11,274 | 34,878 | 106 |
| Payments for purchase of other investments | (76,641) | (43,933) | (721) |
| Proceeds from sale of other investments | 58,698 | 38,656 | 552 |
| Acquisitions of subsidiaries, net of cash acquired (Note 32) | (38,890) | — | (366) |
| Origination of loans receivable | (21,899) | (45,805) | (206) |
| Collections of loans receivable | 43,206 | 74,955 | 407 |
| Payments for purchase of property, plant, equipment and intangible assets | (107,829) | (89,317) | (1,015) |
| Proceeds from sale of property, plant, equipment and intangible assets | 20,810 | 12,473 | 196 |
| Net change in time deposits | (8,659) | (11,220) | (82) |
| Net cash provided by (used in) investing activities | (256,350) | (81,306) | (2,413) |
| **Cash flows from financing activities** | | | |
| Proceeds from debentures and loans payable (Note 32) | 739,832 | 1,030,444 | 6,964 |
| Repayments of debentures and loans payable (Note 32) | (916,755) | (1,242,701) | (8,629) |
| Net change in other loans payable (Note 32) | 16,065 | (14,290) | 151 |
| Equity transactions with non-controlling interests | (3,806) | 670 | (36) |
| Cash dividends (Note 22) | (92,845) | (83,037) | (874) |
| Cash dividends to non-controlling interests | (10,732) | (9,726) | (101) |
| Net change in treasury stock | (27,895) | (16,756) | (262) |
| Net cash provided by (used in) financing activities | (296,136) | (335,396) | (2,787) |
| **Net change in cash and cash equivalents** | (164,274) | (27,009) | (1,546) |
| **Cash and cash equivalents at the beginning of the year** | 605,589 | 632,871 | 5,700 |
| **Effect of exchange rate changes on cash and cash equivalents** | (9,175) | (273) | (86) |
| **Cash and cash equivalents at the end of the year** | ¥ 432,140 | ¥ 605,589 | $ 4,068 |

Refer to Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

ITOCHU Corporation and its Subsidiaries

## 1. Reporting Entity

ITOCHU Corporation (the Company) is a general trading company located in Japan that conducts trading, finance, and logistics involving a wide variety of products, as well as project planning and coordination. Also, the Company has cultivated a diverse range of functions and expertise through investments in resource development and other projects.

By leveraging these comprehensive capabilities and via global networks spanning seven Division Companies, the Company operates in a wide range of industries.

The Consumer-Related Sector covers textiles, food, general products & realty and ICT & financial business; the Basic Industry-Related Sector includes machinery, chemicals, petroleum products and steel products; and the Natural Resource-Related Sector includes metal and energy resources.

## 2. Basis of Preparation of Consolidated Financial Statements

### (1) Statement of Compliance with IFRSs

The Company prepares its Consolidated Financial Statements, with a consolidated accounting period from April 1 to March 31 of the following year, in conformity with International Financial Reporting Standards (IFRSs*).

To conform to IFRSs, the accompanying Consolidated Financial Statements have been prepared by making certain adjustments to the financial statements of the Company and its subsidiaries, which have been prepared in accordance with the accounting principles prevailing in their countries of incorporation.

* IFRSs are standards and interpretations issued by the International Accounting Standards Board (IASB). They comprise International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations and SIC Interpretations.

### (2) Basis of Measurement

The Company prepares the Consolidated Financial Statements based on historical cost, except for the cases stated separately in Note 3 Significant Accounting Policies.

### (3) Presentation Currency

The Company presents the Consolidated Financial Statements in Japanese yen, which is its functional currency.

Further, in its Consolidated Financial Statements, the Company rounds amounts of less than one million yen to the nearest million yen by rounding up 5 and higher fractions and rounding down 4 and lower fractions.

The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2018 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥106.24 = US$1, the exchange rate prevailing on March 31, 2018.

### (4) Changes in Presentation for the Consolidated Statement of Cash Flows

From the fiscal year ended March 31, 2018, Provision for doubtful accounts and other provisions reflects the changes of other provisions in addition to Provision for doubtful accounts which was previously presented.

Accompanying the change, the amounts on the Consolidated Statement of Cash Flows for the fiscal year ended March 31, 2017 have been reclassified in the same way, and the cash-inflow of ¥373 million that was previously included in Other-net is presented in Provision for doubtful accounts and other provisions.

### (5) Changes in Accounting Policies

The Company and its subsidiaries have applied standards or interpretations in IFRSs which are required to be applied from the fiscal year ended March 31, 2018.

### (6) New or Amended IFRSs or Interpretations Not Yet Applied

Of the new or amended standards or interpretations in IFRSs published by the date of approval of the Consolidated Financial Statements, the Company has not applied the following standards or interpretations as of March 31, 2018.

| Standard | Title | Mandatory application (from fiscal years beginning on or after) | Fiscal year in which the Company will apply standard | Summary of new or revised standard |
|---|---|---|---|---|
| IFRS 9 | *Financial Instruments* | January 1, 2018 | Year ending March 2019 | Amendments of classification and measurement of financial assets / Introduction of an expected loss impairment model for financial assets |
| IFRS 15 | *Revenue from Contracts with Customers* | January 1, 2018 | Year ending March 2019 | Establishment of accounting and disclosure requirements for "Revenue from Contracts with Customers" |
| IFRS 16 | *Leases* | January 1, 2019 | Year ending March 2020 | Amendments of lease accounting and enhanced disclosure requirements |

With regard to the application of IFRS 9 *"Financial Instruments"*, no significant impact is anticipated on the Consolidated Financial Statements.

With regard to the application of IFRS 15 *"Revenue from Contracts with Customers"*, no significant impact other than the presented amounts of Revenues is anticipated on the Consolidated Financial Statements. Under IFRS 15, an entity shall determine a transaction whether by gross or net presentation, based on whether or not the entity obtains control to the goods or services before transferring. The presented amounts of Revenues are anticipated to increase from the fiscal year ending March 31, 2019 onwards. The potential impacts on the Consolidated Financial Statements are currently under evaluation and not estimable.

With regard to the application of IFRS 16 *"Leases"*, the potential impacts on the Consolidated Financial Statements are currently under evaluation and not estimable.

## 3. Significant Accounting Policies

### (1) Basis of Consolidation

#### 1) Business combinations

The Company and its subsidiaries apply the acquisition method in accordance with IFRS 3 "Business Combinations". That is, one of the parties to the business combination, as the acquirer, recognizes the acquisition-date fair value of the identifiable assets acquired from the acquiree, the liabilities assumed from the acquiree, and any non-controlling interest in the acquiree. (However, assets and liabilities that need to be measured at other than fair value in accordance with IFRS 3, such as deferred tax assets, deferred tax liabilities, and assets / liabilities related to employee benefit arrangements, are recognized at the amount stipulated in IFRS 3.) Any previously held equity interest or non-controlling interest is remeasured at acquisition-date fair value. Goodwill is then recognized as of the acquisition date, measured as the excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. In addition, for business combinations resulting in a bargain purchase, that is, for transactions where the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3, exceeds the aggregate of the consideration transferred, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, and the fair value of any non-controlling interest in the acquiree, the excess amount is recognized as profit in the Consolidated Statement of Comprehensive Income.

Costs that are incurred by the acquirer in relation to the completion of a business combination are expensed when they are incurred, except for costs related to the issuance of debt instruments or equity instruments, which are capitalized as issuance costs if allowed under other IFRSs guidance.

In the event that the initial accounting treatment for a business combination is not completed by the end of the fiscal year in which the business combination occurs, the items for which the accounting treatment is incomplete are measured at provisional amounts based on best estimates. The period during which these provisional amounts can be revised is the one-year period from the date of acquisition (the measurement period). If new information is obtained during the measurement period and that information would have had an effect on the measurement of amounts recognized as of the date of acquisition, then the provisional amounts recognized as of the date of acquisition are revised retrospectively.

#### 2) Subsidiaries

Subsidiaries are entities that are controlled by the Company. Decisions as to whether or not the Company and its subsidiaries have control over an entity are based on comprehensive consideration of various elements that indicate the possibility of control, including not only the holding of voting rights but also the existence of potential voting rights that are actually exercisable and whether employees dispatched from the Company or its subsidiaries account for a majority of the directors.

The financial statements of subsidiaries are consolidated into the Consolidated Financial Statements of the Company from the date of acquisition of control to the date of loss of control. If the accounting policies of a subsidiary differ from those of the Company, adjustments are made as necessary to bring them into conformity with the accounting policies of the Company.

The Consolidated Financial Statements include the financial statements of certain subsidiaries that have been prepared as of a reporting period end that differs from the Company's reporting period end, because it is impracticable to unify the reporting period ends. The reasons why it is impracticable include the impossibility of doing so under the legal codes of regions in which the subsidiaries are located. However, the difference between the end of the reporting period of these subsidiaries and the end of the reporting period of the Company does not exceed three months. If the reporting period end for the financial statements of subsidiaries used in the preparation of the Consolidated Financial Statements differs from the reporting period end of the Company, adjustments are made to reflect significant transactions or events that occur during the period between the subsidiaries' reporting period-end and the Company's reporting period-end.

Changes in the ownership interest in a subsidiary, such as through increase or disposal of interests, are accounted for as equity transactions if control over the subsidiary is maintained, and any difference between the amount by which non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in shareholders' equity.

#### 3) Loss of control

If control over a subsidiary is lost, the Company derecognizes the subsidiary's assets and liabilities and the non-controlling interests related to the subsidiary. Interest retained after the loss of control is remeasured at fair value as of the date of the loss of control, and any gain or loss on such remeasurement is recognized in profit or loss as well as the gain or loss on disposal of the interest sold.

#### 4) Business combinations under common control

For business combinations in which all of the parties to the business combination are under the control of the Company or its subsidiaries, both prior to the combination and after the combination, the carrying amounts of the acquiree's assets and liabilities are transferred to the acquirer.

#### 5) Associates and joint ventures

Associates are companies, other than joint ventures or joint operations, over which the Company and its subsidiaries exercise influence, on such matters as management strategies and financial policies, that is significant but does not reach the level of control. Decisions as to whether or not the Company and its subsidiaries have significant influence over an entity are based on comprehensive consideration of various elements. These elements include the holding of voting rights (if 20% to 50% of the voting rights of the investee company are held directly or indirectly, then there is a presumption of significant influence over the investee company), as well as the existence of potential voting rights that are actually exercisable, and the percentage of directors who have been dispatched from the Company or its subsidiaries.

A joint arrangement is a contractual arrangement in which multiple venturers undertake economic activities under joint control, and all significant operating and financial decisions require unanimous consent of parties sharing control. A joint venture is a specific type of joint arrangement under which operations are independent from each of the investing companies and the investing companies have rights only to the net assets of the arrangement.

The equity method is applied to investments in associates and joint ventures. These investments are recognized at cost. Subsequent to acquisition, the Company and its subsidiaries recognize, in profit or loss and other comprehensive income, their share of the investee's profit or loss and other comprehensive income, and the carrying amount of the investment is increased or decreased accordingly. The balance of goodwill recognized on acquisition is included in the carrying amount of the investment. Also, dividends received from associates and joint ventures reduce the carrying amounts of the related investments. If the accounting policies of such investee differ from those of the Company, adjustments are made as necessary to bring them into conformity with the accounting policies of the Company.

The Consolidated Financial Statements include investments in associates and joint ventures with reporting period ends that differ from that of the Company because it is impracticable to unify the reporting period ends. The reasons why it is impracticable include the existence of a shareholder that has control over the associates or undertakes economic activities under the joint arrangement but has a reporting period that differs from the Company's reporting period, and the impossibility of doing so under the legal codes of regions in which the associates and joint ventures are located. However, the difference between the end of the reporting period of these associates and joint ventures and the end of the reporting period of the Company does not exceed three months. Adjustments are made to reflect significant transactions or events that result from the difference in the reporting period ends.

If significant influence over associates or joint venture is lost and the application of the equity method is discontinued, gain or loss on disposal of investments in associates and joint ventures is recognized in profit or loss. The remaining interest is remeasured at fair value, and any gain or loss on such remeasurement is recognized in profit or loss as well.

#### 6) Joint operations

Joint operations are a specific type of joint arrangement in which the participating investors directly have rights to the related assets and obligations for the related liabilities.

The Consolidated Financial Statements include amounts related to joint operations. These are the assets to which the Company and its subsidiaries have rights, the liabilities and expenses for which the Company and its subsidiaries have obligations, and the share of the Company and its subsidiaries in profits that have been earned.

#### 7) Transactions eliminated on consolidation

Receivable and payable balances and transaction volumes among the Company and its subsidiaries, and unrealized gains and losses resulting from transactions among the Company and its subsidiaries, are eliminated in the preparation of the Consolidated Financial Statements.

Unrealized gains and losses arising from transactions between the Company and its subsidiaries and its associates and joint ventures are eliminated to the extent of the interest in the investee held by the Company and its subsidiaries.

### (2) Foreign Currency Translation

#### 1) Foreign currency transactions

Foreign currency transactions are translated into functional currencies using the spot foreign exchange rate as of the date of the transaction.

As of the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated into functional currencies using the spot foreign exchange rate as of the end of the reporting period. Non-monetary items that are denominated and measured at fair value in foreign currencies are retranslated into functional currencies using the spot foreign exchange rate as of the date on which the fair value was determined.

Exchange differences resulting from retranslation are recognized in profit or loss. However, exchange differences resulting from retranslation of financial assets which changes in fair value after acquisition are recorded in other comprehensive income and exchange differences resulting from cash flow hedges are recognized as other comprehensive income.

2) Translation of foreign currency denominated financial statements of foreign subsidiaries and foreign associates and joint ventures

In translating the foreign currency denominated financial statements of foreign subsidiaries and foreign associates and joint ventures (foreign operations) into the reporting currency, the spot foreign exchange rate as of the end of the reporting period is used to translate assets and liabilities and the periodic average foreign exchange rate for the accounting period is used to translate revenues and expenses.

Differences resulting from the translation of the foreign currency denominated financial statements of foreign operations into the reporting currency are recognized in other comprehensive income (Translation adjustments).

When a foreign operation is disposed of, cumulative translation adjustments related to that foreign operation are reclassified to profit or loss at the point when the gain or loss on disposal is recognized. However, the portion of cumulative translation adjustments attributed to non-controlling interest reduces non-controlling interests.

3) Hedges of a net investment in foreign operations

For net investment in certain foreign operations, the Company and its subsidiaries apply hedge accounting to exchange differences that arise between the functional currencies of the foreign operations and the functional currency of the parent company.

The effective portion of changes in the fair value of hedging instruments for a net investment in foreign operations is recognized in other comprehensive income (Translation adjustments). The ineffective portion of the hedge is recognized as profit or loss.

When foreign operations are disposed of, the changes in the fair value of the hedging instruments that had been recorded in other comprehensive income are reclassified to profit or loss as part of gains or losses on disposal.

### (3) Financial Instruments

1) Financial assets other than derivatives

In accordance with IFRS 9 “Financial Instruments”, the Company and its subsidiaries initially recognize financial assets other than derivatives on the accrual date for trade receivables and other receivables, and on the transaction date for sales and purchase of other financial assets. An overview of the classification and measurement models of financial assets other than derivatives is as follows.

At the point of initial recognition of the financial assets, those that meet both of the two conditions below are categorized as financial assets measured at amortized cost, and others are categorized as financial assets measured at fair value.

- The policy regarding the holding of these assets is that they are held with the objective of collecting contractual cash flows; and
- The contractual cash flows associated with these financial assets comprise only payments of principal and interest on the outstanding principal balance, and the dates of those cash flows are specified.

At the point of recognition, financial assets measured at amortized cost are measured at fair value plus costs directly related to the acquisition. At the end of each reporting period, they are measured at amortized cost using the effective interest method.

Financial assets measured at fair value are further categorized into those for which changes in fair value after acquisition are recorded in profit or loss (FVTPL financial assets) and those for which changes in fair value after acquisition are recorded in other comprehensive income (FVTOCI financial assets).

Within financial assets measured at fair value, equity instruments with the objective of obtaining gains on short-term sales or debt instruments are categorized as FVTPL financial assets, and other equity instruments held long-term primarily with the objective of strengthening transaction relationships are categorized as FVTOCI financial assets.

Financial assets measured at fair value are measured at fair value at the point of initial recognition. Costs directly related to the acquisition are included in the initial recognition amount for FVTOCI financial assets, but for FVTPL financial assets, these costs are recognized in profit or loss when they occur and are not included in the initial recognition amount.

Financial assets measured at fair value are remeasured at fair value at the end of each reporting period. Changes in fair value are recognized in profit or loss for FVTPL financial assets and in other comprehensive income for FVTOCI financial assets. For both FVTPL financial assets and FVTOCI financial assets, dividends received are recognized in profit or loss.

When a FVTOCI financial asset is sold, the difference between the carrying amount and the consideration received is recognized as other comprehensive income (FVTOCI financial assets), and the balance of accumulated other comprehensive income on the FVTOCI financial asset recognized through the point of the sale (accumulated FVTOCI financial assets) is reclassified to retained earnings.

A financial asset is derecognized when the contractual rights to the cash flows from a financial asset expire, or when the contractual rights to receive cash flows from a financial asset are transferred in such a manner that all of the risks and economic value are effectively transferred.

2) Cash equivalents

Cash equivalents include short-term investments (original maturities of three months or less) that are highly liquid, readily convertible, and have only an insignificant risk of change in value, as well as short-term time deposits (original maturities of three months or less).

3) Financial liabilities other than derivatives

Financial liabilities other than derivatives are measured at fair value less costs directly related to the issuance of the liability, at the point when the contractual liability arises.

Financial liabilities other than derivatives are classified as financial liabilities measured at fair value or financial liabilities measured at amortized cost.

Financial liabilities measured at fair value are remeasured at fair value at the end of each reporting period, and changes in fair value are recognized in profit or loss, while those measured at amortized cost are measured at amortized cost based on the effective interest method.

Financial liabilities are derecognized when the obligor pays the obligee and the obligation is discharged, or when the contractual obligation is cancelled or expires.

#### 4) Derivative instruments and hedging activities

The Company and its subsidiaries hold derivatives, including foreign exchange forward contracts, interest rate swap contracts, and commodity futures contracts, with the principal objective of hedging risks such as foreign exchange rate risk, interest rate risk, and commodity price risk. Derivatives are recognized at fair value as either assets or liabilities, regardless of the purpose or intent for holding them. The accounting treatment for changes in fair value depends on the intended use of the derivatives and the resulting hedge effectiveness.

- A hedge of the variability of the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that is expected to be highly effective and for which the hedging relationship, risk management objective, and hedge implementation strategy are documented at the inception of the hedge, is designated as a fair value hedge. Changes in the fair value of the derivatives, as well as changes in the fair value of the hedged items, are recognized in profit or loss (or other comprehensive income when FVTOCI financial assets are designated as hedges).
- A hedge of the variability of future cash flows arising in relation to a forecasted transaction or a recognized asset or liability, that is expected to be highly effective and for which the hedging relationship, risk management objective, and hedge implementation strategy are documented at the inception of the hedge, is designated as a cash flow hedge. For those designated as cash flow hedges, changes in the fair value of the derivative are recognized in other comprehensive income as Cash flow hedges. This treatment is continued until the variability in future cash flows arising in relation to the forecasted transactions or the recognized assets or liabilities are realized. The ineffective portion of the hedge is recognized in profit or loss.
- Changes in the fair value of hedging instruments for a net investment in foreign operations are handled as described in "3) Hedges of a net investment in foreign operations" of "(2) Foreign Currency Translation".
- Changes in the fair value of derivatives other than those above are recognized in profit or loss.

The Company and its subsidiaries, in applying the rules above for fair value hedges, cash flow hedges, and hedges of a net investment in foreign operations, evaluate at the inception of the hedge whether or not the hedge will be effective. In addition, the Company and its subsidiaries subsequently continue to evaluate whether or not the derivative will be effective in offsetting changes in the fair value or future cash flows of the hedged item.

Hedge accounting is discontinued for ineffective hedges, if any.

#### 5) Presentation of financial assets and liabilities

When both of the following conditions are met, financial assets and financial liabilities are offset and the net amount is presented in the Consolidated Statement of Financial Position.

- The Company currently has a legally enforceable right to offset the recognized amounts; and
- The Company intends to settle on a net amount basis or to simultaneously realize the asset and settle the liability.

### (4) Inventories

Inventories mainly comprise selling products, finished goods, real estate for sale, raw materials, and work in progress.

Inventories held for purposes other than trading are measured at the lower of cost or net realizable value and any change in the carrying amount of inventories due to remeasurement is recognized in cost of sales. Net realizable value is calculated by using the sale value or the estimated selling price in the ordinary course of business less the estimated costs and estimated costs to sell required until completion.

Inventories held for trading purposes are measured at fair value less costs to sell. Any change in fair value is recognized in profit or loss for the period in which it arose.

The cost of inventories is measured using the specific identification method if inventories are not ordinarily interchangeable, or mainly using the weighted average method if inventories are ordinarily interchangeable.

### (5) Property, Plant and Equipment

#### 1) Recognition and measurement

The cost model is applied, and property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes estimates of installation cost and cost directly attributable to bringing property, plant and equipment to working condition and cost of dismantling or removing property, plant and equipment and restoring sites on which they are located and includes borrowing costs requiring capitalization pursuant to IAS 23 "Borrowing Costs".

If multiple differing and significant components of property, plant and equipment can be identified, for each of the components, a residual value, useful life, and depreciation method is determined, and it is accounted for as a separate item of property, plant and equipment.

The difference between the net proceeds from the disposal of an item of property, plant and equipment and the carrying amount of the item is recognized in profit or loss.

#### 2) Depreciation

Except for items that are not subject to depreciation, such as land, property, plant and equipment are mainly depreciated using the straight-line method or the unit-of-production method over their estimated useful lives (buildings and structures: 2–60 years, machinery and vehicles: 2–33 years, fixtures, fittings and office equipment: 2–20 years) from the time when they become available for use.

A leased asset is depreciated over its estimated useful life if there is a provision for ownership transfer or a bargain purchase option, and in other cases a leased asset is depreciated over the shorter of the lease period or the estimated useful life.

At the end of each period, the residual value, useful lives, and depreciation methods of property, plant and equipment are reviewed and the impact is adjusted prospectively.

### (6) Investment Property

Investment property is property held either to earn rental income or for gain on resale due to an increase in real estate prices or property held for both purposes. Investment property does not include real estate that is sold in the ordinary course of business or used in the production or supply of goods or services or for administrative purposes.

A cost model is applied, and investment property is measured at cost less accumulated depreciation and accumulated impairment losses.

Except for items that are not subject to depreciation, such as land, investment property is depreciated mainly using the straight-line method over its estimated useful life (2–50 years) from the time when it becomes available for use.

### (7) Goodwill and Intangible Assets

#### 1) Goodwill

Goodwill is not amortized. Impairment tests of goodwill are conducted based on cash-generating units at least once a year, or whenever there are changes in situations or events that indicate the possibility of impairment.

#### 2) Intangible assets

A cost model is applied, and intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Further, development expenditures are recognized as intangible assets if development costs can be measured reliably, future economic benefits are probable, and the Company or its subsidiaries intend and have sufficient resources to complete development and use or sell the result of the development.

Except for intangible assets for which useful lives cannot be determined, intangible assets are mainly depreciated using the straight-line method over their estimated useful lives (trademarks and other intangible assets: 5–42 years, and software: 3–5 years) from the time when they become available for use. The amortization expenses allocated to each accounting period are recognized in profit or loss.

At the end of each period, the residual value, useful lives, and depreciation methods of intangible assets are reviewed and the impact is adjusted prospectively.

The Company and its subsidiaries have trademarks and other intangible assets for which the useful life cannot be determined. Intangible assets for which the useful life cannot be determined are not amortized. Impairment tests of intangible assets for which the useful life cannot be determined are conducted based on cash-generating units at least once a year, or whenever there are changes in situations or events that indicate the possibility of impairment.

### (8) Leases

#### 1) Leases as lessee

The Company and its subsidiaries lease property, plant and equipment and intangible assets as lessees.

Whether or not an agreement is a lease and whether or not an agreement includes a lease is decided based on examination of the economic nature of transactions and regardless of whether or not an agreement's legal form is that of a lease agreement.

Among the lease transactions that substantially transfer all the risks and rewards of ownership to the Company or its subsidiaries are classified as finance lease agreements, and leases other than finance leases are classified as operating leases.

For finance leases, leased assets (presented in Property, plant and equipment or respective accounts of Intangible assets) and lease obligations (presented in Other current payables and Other non-current liabilities) are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments. Further, lease payments are categorized into amounts equivalent to the principal and interest of lease obligations, and the effective interest method is used to calculate the amount equivalent to the interest of each lease payment. The amount equivalent to the interest of each payment is presented in Interest expense.

For operating leases, leased properties are not recognized as assets, and lease payments are recognized over the lease term on a straight line basis.

#### 2) Leases as lessor

The Company and its subsidiaries operate businesses that lease property, plant and equipment and intangible assets as lessors.

Whether or not an agreement is a lease and whether or not an agreement includes a lease is decided based on examination of the economic nature of transactions, regardless of whether or not an agreement's legal form is that of a lease agreement.

For finance leases, net investments in finance leases are recognized as lease receivables. Lease payments receivable are categorized into amounts equivalent to the principal and interest of lease receivables, and the effective interest method is used to calculate the amount equivalent to the interest of each lease payment receivable. The amount equivalent to the interest of each lease payment receivable is presented in Interest income. Further, if the main purpose of a finance lease is the sale of goods and the finance leases has been implemented in accordance with sales policies, the lower of the fair value of the assets subject to leases or minimum lease payments receivable discounted at the market rate of interest is recognized as profit, and the purchase price of the assets subject to leases is recognized in cost of sales.

For operating leases, lease payments receivable are recognized over the lease term on a straight line basis.

### (9) Impairment

#### 1) Financial assets measured at amortized cost

At the end of each period, based on individual assets or assets grouped according to credit risk, financial assets measured at amortized cost are assessed to determine whether there are any indications of impairment. Indications of impairment of financial assets measured at amortized cost include default on or reschedule of payment of principal or interest, reduction of or exemption from repayments or postponement of repayment schedules, marked deterioration of the debtor's financial position, and bankruptcy of the debtor.

If there are indications of impairment of financial assets measured at amortized cost, the difference between the carrying amount of the assets and the recoverable amount, which is the present value of estimated future cash flows discounted at the assets' initial effective rate of interest, is recognized as impairment loss in profit or loss.

Further, if in periods after the recognition of impairment of financial assets measured at amortized cost, impairment losses decrease, and this decrease can be objectively attributed to events that occurred after recognition of impairment, the impairment losses are reversed based on the amortized cost method and to the extent of the carrying amount.

#### 2) Property, plant and equipment, investment property, goodwill, intangible assets, and investment in associates and joint ventures

At the end of each quarter, property, plant and equipment, investment property, goodwill, intangible assets, and investment in associates and joint ventures are assessed to determine whether there are any indications of impairment. If it is determined that there are indications of impairment, the impairment tests stated below are conducted. In addition, regardless of whether or not there are indications of impairment, impairment tests of goodwill and intangible assets for which the useful life cannot be determined and for intangible assets that are not available for use, are conducted periodically at least once a year.

Impairment tests for each cash-generating unit are conducted. Regarding the identification of cash-generating units, if an individual asset's cash flows independent from those of other assets can be identified, the individual asset is classified as a cash-generating unit. If an individual asset's cash flows independent from those of other assets cannot be identified, assets are grouped together into the smallest group of assets that can be identified as generating independent cash flows, and designated as a cash-generating unit. For goodwill, using units equal to operating segments or smaller units, cash-generating units are determined based on the lowest level at which internal management of goodwill is conducted.

When conducting impairment tests of cash-generating units that include goodwill, impairment tests of assets other than goodwill are first conducted. After any required impairment of the assets other than goodwill has been recognized, impairment tests of goodwill are conducted.

Conducting impairment tests entails estimating the recoverable amount of the cash-generating units. The recoverable amount is the higher of fair value less costs to sell or value in use. Furthermore, value in use is the total present value of future cash flows expected from the continued use and disposal after use of the cash-generating units.

If the recoverable amount of cash-generating units is less than the related carrying amount, the carrying amount is reduced to the recoverable amount, and impairment losses are recognized in profit or loss. Impairment losses are first allocated to reduce the carrying amount of goodwill allocated to cash-generating units. Impairment losses are then allocated to reduce the carrying amount of each asset, excluding goodwill, in cash-generating units on a pro-rata basis.

Because corporate assets do not generate independent cash flows, when conducting impairment tests of corporate assets, a reasonable method is used to allocate the carrying amount of corporate assets to each cash-generating unit. Then, the carrying amount of cash-generating units is compared, including the carrying amount of the portion of corporate assets allocated to them, with their recoverable amounts.

If there are indications that the impairment losses recognized in past fiscal years have clearly decreased or may not exist, when the estimated recoverable amount of the assets surpasses the carrying amount, impairment losses are reversed. An upper limit for reversals of impairment losses is set as the carrying amount less amortization or depreciation if impairment losses had not been recognized. However, impairment losses on goodwill are not reversed.

Goodwill relating to the acquisition of associates and joint ventures is not classified separately, but included as part of the carrying amount of the investments. Investments in associates are recognized as undistinguishable assets that are subject to impairment.

### (10) Employee Benefits

#### 1) Post-employment defined benefit plans

Post-employment defined benefit plans are benefit plans other than the post-employment defined contribution plans stated in the paragraphs below.

For post-employment defined benefit plans, the present value of defined benefit obligations net of the fair value of plan assets are recognized as either liabilities or assets. To calculate the present value of defined benefit plan obligations and related service cost, in principle, the projected unit credit method is used. The discount rate used to calculate the present value of defined benefit plan obligations, in principle, is determined by referring to market yields on highly rated corporate bonds at the end of the period consistent with the expected life of the defined benefit plan obligations.

Changes in the present value of defined benefit plan obligations related to the service of employees in past periods due to amendment of defined benefit plans are recognized in the period of the amendment in profit or loss.

Further, the Company and its subsidiaries recognize all actuarial gains or losses arising from post-employment defined benefit plans in other comprehensive income (Remeasurement of net defined pension liability) and immediately reclassify them into Retained earnings.

#### 2) Post-employment defined contribution plans

Post-employment defined contribution plans are benefit plans in which fixed contributions are paid to an independent entity and do not assume legal or constructive obligations for payments that exceed these contributions.

Post-employment defined contribution plans are accounted for, on an accrual basis, and contributions corresponding to the period employees rendered the related services are recognized in profit or loss.

#### 3) Multi-employer plans

Certain subsidiaries participate in multi-employer plans. In accordance with the regulations of the plans, multi-employer plans are classified as post-employment defined benefit plans or post-employment defined contribution plans, and an accounting treatment appropriate for each type of post-employment benefit plan is undertaken. However, if sufficient information about multi-employer plans classified as post-employment defined benefit plans cannot be obtained to undertake an accounting treatment appropriate for post-employment defined benefit plans, the accounting treatment appropriate for post-employment defined contribution plans is applied.

#### 4) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis, and recognized in profit or loss as benefits expected to be paid as compensation for service that employees render during the accounting period.

Estimated bonus payments are recognized in liabilities, if the Company or its subsidiaries have legal or constructive obligations for which they should make payments, and if the obligations can be estimated reliably.

### (11) Provisions

Provisions are recognized if the Company and its subsidiaries have present obligations (legal or constructive obligations) as a result of past events, if it is probable that settling the obligations will require outflows of resources embodying economic benefits, and if the obligations can be estimated reliably.

If the effect of the time value of money is significant, provisions are measured as the present value of payments expected to be required to settle the obligations. To calculate the present value, a pre-tax risk-free discount rate corresponding to the period in which future cash flows will arise is used. In estimates of future cash flows, the uncertainty of the occurrence of events subject to provisions is reflected.

#### 1) Provisions for asset retirement obligations

The estimated cost of dismantling or removing property, plant and equipment and restoring sites on which they are located is recognized as a provision for asset retirement obligations, if there are legal or contractual obligations to dismantle or remove property, plant and equipment and restore sites on which they are located, or if it has been stated that in accordance with industry practices, published policies, or written statements that obligations to dismantle or remove property, plant and equipment and restore sites on which they are located will be fulfilled, or if it is presumed that outside third parties expect the obligations to be fulfilled.

#### 2) Restructuring provisions

If there is a detailed formal plan, restructuring provisions are recognized when implementation of a restructuring plan has begun or when a plan is announced. For the provision, only the following direct expenditures that arise from restructuring are subject to recognition:

- Items necessarily entailed by the restructuring
- Items not associated with the ongoing activities of the entity

#### 3) Provisions for losses on lawsuits

For provisions for losses due to payment of compensation for damages that could arise as a result of lawsuits, the estimated loss resulting from the payment of compensation for damages is recognized, if it is probable that compensation for damages to an outside third party will have to be paid.

#### 4) Provisions for losses on guarantees

For provisions for loss that could be incurred as a result of fulfilling debt guarantee agreements, the estimated loss that could be incurred is recognized, if the guarantee (the guaranteed party) has defaulted on a specified debt, and if the guarantor has concluded an agreement according to which it promises to repay the debt on behalf of the guarantee or provide monetary compensation, and if it is probable that loss will be incurred as a result of fulfilling the agreement.

#### 5) Levies

Levies are outflows of resource embodying economic benefits, which governments levy on companies in accordance with laws and regulations, and the estimated amount of payments for levies is recognized when the obligation to pay arises.

### (12) Equity

Common stock is classified as equity. Incidental expenses related to the issuance of common stock (net after tax) are deducted from equity.

Treasury stock is recognized as a deduction from equity. If treasury stock is acquired, the consideration paid and incidental expenses (net after tax) are deducted from equity. If treasury stock is sold, the consideration received is recognized as an addition to equity.

### (13) Revenues

#### 1) Sales of products

Sales of products are recognized when all of the following conditions are satisfied:

- The significant risks and rewards of ownership of the goods are transferred to the customer;
- Neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold is retained;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company and its subsidiaries; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at fair value of the consideration received, after deducting sales tax that the Company and its subsidiaries have a direct obligation to collect and pay to third parties such as tax authorities.

The specific criteria for revenue recognition for each type of transaction are as follows.

Revenues from product sales include wholesale, retail sales, manufactured product sales, processed product sales, and the sale of real estate. Revenues from product sales are recognized at the time the delivery conditions agreed with customers are met. These conditions are usually considered to have been met when goods are received by the customer, the warehouse receipts are transferred, or the acceptance from the customer is received.

Revenues from the sale of real estate are recognized at the time the conditions of transfer stipulated in agreements are met.

**2) Rendering of services and royalty transactions**

The revenues from rendering of services and royalty transactions are recognized in accordance with the progress of transactions as of the end of the period when the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company and its subsidiaries;
- The progress of the transaction at the end of the reporting period can be measured reliably; and
- The costs arising from the transaction and costs required to complete the transaction can be measured reliably.

Revenues from rendering of services include the production of software to order, software maintenance, leasing of aircraft, real estate, and industrial machinery. Further, royalty transactions are transactions that grant intellectual property rights to customers.

Revenues from royalty transactions are recognized over the period in which customers are granted the right to use intellectual property rights.

Revenues from the production of software made to order are recognized based on the accumulated actual cost incurred at the end of the period as a percentage of estimated total cost, if the order amount or the total costs required until completion can be estimated reliably. If the order amount or the total costs required until completion cannot be estimated reliably, revenues equivalent to the portion of costs incurred that are judged to be recoverable are recognized. Further, revenues from software maintenance are recognized over the period that services are rendered.

Revenues from operating leases are recognized by being allocated equally over the lease period of future lease payments receivable.

Revenues from other services are recognized in accordance with the progress of transactions as of the end of the period.

**3) Presentation of revenue (gross basis versus net basis)**

For transactions in which the Company and its subsidiaries act as principal and have capabilities to heighten the added value of the actual goods or services provided, and for which they assume significant risk related to the transactions, the gross transaction amount of the sales contracts with customers is presented as Revenue in the Consolidated Statement of Comprehensive Income.

Meanwhile, for the following transactions, the gross transaction amount of the sales contracts less cost (i.e., net amount) is presented as Revenue in the Consolidated Statement of Comprehensive Income:

- Transactions in which the Company and its subsidiaries act as an agent to enable a third party to sell goods or render services;
- Transactions in which, although the Company and its subsidiaries are involved as principal in legal form, the Company and its subsidiaries do not have capabilities to heighten the added value of the actual goods or services provided and do not assume significant risk related to the transactions.

### (14) Finance Income and Costs

Finance income comprises interest income and dividend income. Interest income is recognized when it arises according to the effective interest method. Dividend income is recognized when the right of the Company and its subsidiaries to receive payment is established.

Finance costs comprise interest expense. Interest expense is recognized when it is incurred according to the effective interest method.

### (15) Income Taxes

Income taxes comprise current taxes and deferred taxes, which reflect changes in deferred tax assets and liabilities. Income taxes are recognized in profit or loss, except in the following cases:

- Income taxes that relate to items that are recognized in other comprehensive income or directly in equity;
- Deferred taxes arising from the recognition of identifiable assets and liabilities in business combinations are recognized and included in the amount of goodwill arising from the business combinations.

Tax expenses for the period are measured based on taxes payable on the period’s taxable profit and taxable losses expected to be paid or refunded. These tax amounts are calculated based on tax rates established, or substantially established, at the end of the period.

Deferred tax assets and deferred tax liabilities are recognized based on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax bases. Deferred tax assets for items that will mitigate the tax burden of future tax returns, such as deductible temporary differences, unused tax losses and unused tax credits, and unused foreign tax credits, are recognized to the extent that it is probable that future taxable profit will be available against which they can be used. Meanwhile, deferred tax liabilities for taxable temporary differences are recognized. However, deferred tax assets or deferred tax liabilities are not recognized for the following temporary differences:

- Deferred tax liabilities are not recognized for taxable temporary differences arising from the initial recognition of goodwill in a business combination;
- No deferred tax assets or deferred tax liabilities are recognized for differences that arise from the initial recognition of assets or liabilities in transactions other than business combinations where such temporary differences at the time of the transaction affect neither accounting profit nor taxable profit.

Taxable temporary differences arising from investments in subsidiaries, associates, and joint ventures are not recognized as deferred tax liabilities if the Company and its subsidiaries are able to control the timing of the reversal of the temporary differences, and it is probable that the taxable temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for deductible temporary differences arising from investments in subsidiaries, associates, and joint ventures, if the deductible temporary differences will reverse in the foreseeable future and only to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are calculated pursuant to statutory laws and regulations for income taxes in force, or substantially in force, at the end of the period and based on the tax rates that are expected to apply in the period in which the deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset and recognized in the Consolidated Statement of Financial Position, if the Company and its subsidiaries have a legally enforceable right to offset current tax assets against current tax liabilities, and if the same taxation authority levies income taxes either on the same taxable entity, or on different taxable entities that intend either to settle current tax assets and liabilities on a net basis or to realize the current tax assets and current tax liabilities simultaneously.

### (16) Earnings per Share

Basic earnings (losses) per share are calculated by dividing Net profit attributable to ITOCHU by the weighted-average number of common shares (excluding treasury stock) outstanding during the reporting period. Diluted earnings per share are calculated by adjusting for the effects of dilutive potential common shares.

### (17) Mining Operations

Among expenditures incurred during the exploration and evaluation phases of mining projects, expenditures for the acquisition of assets used for exploration and evaluation are recognized in non-current assets, and other expenditures are in principle recognized when they are incurred in profit or loss.

For expenditures incurred during the development phase, projects proven as commercially viable are recognized in Property, plant and equipment or Intangible assets, according to the nature of the expenses, and then amortized using the unit-of-production method from the time production begins. During the production phase, stripping costs are capitalized and amortized using the unit-of-production method, if saleable minerals have not been extracted in the period under review, but it is probable that as a result of stripping activities, the economic benefits associated with specific mineral deposits will flow to the Company and costs can be measured reliably. Stripping costs associated with saleable minerals are recognized in the period under review as cost of inventory.

### (18) Agriculture

In principle, agricultural produce is measured at fair value less costs to sell at the point of harvest. Accumulated cost until the point of harvest is recognized in cost of sales for the period in which it arose.

If the fair value of biological assets excluding bearer plants can be reliably measured, fair value less costs to sell are measured at initial recognition and at the end of each period. The change in fair value resulting from this accounting is recognized in profit or loss. Meanwhile, if the fair value of biological assets cannot be reliably measured, they are measured at cost less accumulated depreciation and accumulated impairment losses.

For bearer plants which are classified as property, plant and equipment, the cost model is applied, and bearer plants are measured at cost less accumulated depreciation and accumulated impairment losses.

### (19) Use of Estimates and Judgments

To prepare the Consolidated Financial Statements, the Company and its subsidiaries make a variety of estimates and judgments. These estimates and judgments affect disclosures of amounts recognized for assets, liabilities, income, and expenses. Further, actual results may differ from these estimates and their underlying assumptions.

Estimates and their underlying assumptions are reviewed on an ongoing basis. The effect of revisions to accounting estimates are reflected in the period in which the estimates are revised and in any future periods affected.

Assumptions and estimates that have a risk of resulting in material adjustments in the future accounting periods are mainly as follows. Also, please refer to the respective relevant notes hereinafter about the following items that relate to balances of assets and liabilities in the accounting period under review.

#### Measurement of the fair value of unlisted financial assets

Among financial assets measured at fair value, the fair value of unlisted stocks is measured by using the market comparable method, with reference to published information about listed stocks that belong to the same industry as the investee's industry, or by using the discounted cash flow method, which calculates the fair value by discounting the estimates of future cash flows related to dividends from investees to the present value. Changes in uncertain future economic conditions may affect the multiple applied for the market comparable method or the estimates of future cash flows and the discount rate applied for the discounted cash flow method. Accordingly, there are risks that such changes could result in material adjustments to the measurements of fair value of unlisted financial assets in the future accounting periods. (Refer to Note 12 Securities and Other Investments and Note 26 Financial Instruments Measured at Fair Value)

#### Recoverable amount of financial assets that are measured at amortized cost and have indications of impairment

The recoverable amounts of financial assets that are measured at amortized cost and have indications of impairment are recognized as the related estimated future cash flows of the financial assets discounted at the initial effective interest rate to the present value. Changes in uncertain future economic conditions may affect the future cash flows related to the financial assets. Accordingly, there are risks that such changes could result in material adjustments to impairment losses related to financial assets measured at amortized cost in the future accounting periods. (Refer to Note 12 Securities and Other Investments)

### Recoverable amounts of property, plant and equipment, investment property, goodwill, intangible assets, and investments in associates and joint ventures measured through impairment tests

In impairment tests of property, plant and equipment, investment property, goodwill, intangible assets, and investments in associates and joint ventures, after identifying the related cash-generating units, their recoverable amount is recognized as the higher of the fair value less costs to sell or the value in use of the cash-generating units. Changes in uncertain future economic conditions may affect assumptions used to calculate the fair value less costs to sell or expected future cash flows and assumed discount rates that will result from the period of use and subsequent disposal of cash-generating units, which underlie the calculation of value in use. Accordingly, there are risks that such changes could result in material adjustments to the impairment losses of property, plant and equipment, investment property, goodwill, intangible assets, and investments in associates and joint ventures in the future accounting periods. (Refer to Note 8 Property, Plant and Equipment, Note 9 Investment Property, Note 11 Goodwill and Intangible Assets, and Note 13 Associates and Joint Ventures)

### Measurement of fair value of defined benefit plan liabilities and assets in post-employment defined benefit plans

For post-employment defined benefit plans, the fair value of defined benefit plan liabilities net of assets is recognized as liabilities or assets. Defined benefit plan liabilities are calculated based on the same types of assumptions used in the actuarial calculation, which include estimates of the discount rate, the retirement rate, the mortality rate, and the rate of compensation increase. These assumptions are established by comprehensively judging a variety of available information, including market trends, such as interest rate changes. Uncertain future economic conditions or changes in social conditions may affect the assumptions used in the actuarial calculation. Accordingly, there are risks that such changes could result in material adjustments to the measurements of the fair value of defined benefit plan liabilities and assets in future accounting periods. (Refer to Note 17 Retirement and Severance Benefits)

### Measurement of provisions

Provisions are measured based on the best estimate at the end of the period of the expenditures expected to be required to settle the future obligations. Estimates of expenditures expected to be required to settle future obligations are calculated based on a comprehensive consideration of possible future outcomes. Changes in uncertain future economic conditions may affect assumptions used to calculate the provisions. Accordingly, there are risks that such changes could result in material adjustments to measurements of provisions in the future accounting periods. (Refer to Note 18 Provisions)

### Estimates of income taxes

To calculate income taxes, estimates and judgments about a variety of factors have to be made, including interpretation of tax regulations and the experience of past tax audits. Therefore, the income taxes that are estimated at the end of each period and the income taxes actually paid may differ. Such an eventuality could materially affect income taxes recognized from the next accounting period onward.

Further, deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be used. However, judgments on the recoverable amounts are made based on estimates of taxable amounts for each future fiscal year, which are determined based on the business plans of the Company and its subsidiaries. Changes in uncertain future economic conditions may affect the estimates of taxable amounts for future fiscal years. Accordingly, there are risks that such changes could result in material adjustments to the recognition of deferred tax assets in the future accounting periods. (Refer to Note 19 Income Taxes)

Accounting areas where the judgment on application of accounting policies significantly affects the amounts of assets, liabilities, income, and expenses are mainly as follows:

- Scope of subsidiaries or associates and joint ventures (Refer to Note 13 Associates and Joint Ventures and Note 33 Parent's Ownership Interest in Subsidiaries)
- Classification of financial assets measured at amortized cost, FVTOCI financial assets, and FVTPL financial assets in financial assets other than derivatives (Refer to Note 12 Securities and Other Investments)
- Judgment about whether, in light of their economic nature, transactions are lease transactions (Refer to Note 16 Leases)
- Evaluation of whether there are indications of impairment or whether there are indications of reversals of impairment of financial assets measured at amortized cost (Refer to Note 12 Securities and Other Investments)
- Identification of cash-generating units in conducting impairment tests for property, plant and equipment, investment property, goodwill, intangible assets, and investments in associates and joint ventures (Refer to Note 8 Property, Plant and Equipment, Note 9 Investment Property, Note 11 Goodwill and Intangible Assets, and Note 13 Associates and Joint Ventures)
- Evaluation of whether there are indications of impairment of property, plant and equipment, investment property, goodwill, intangible assets, and investments in associates and joint ventures (Refer to Note 8 Property, Plant and Equipment, Note 9 Investment Property, Note 11 Goodwill and Intangible Assets, and Note 13 Associates and Joint Ventures)
- Evaluation of whether there are indications of reversals of impairment of property, plant and equipment, investment property, intangible assets, and investments in associates and joint ventures (Refer to Note 8 Property, Plant and Equipment, Note 9 Investment Property, Note 11 Goodwill and Intangible Assets, and Note 13 Associates and Joint Ventures)
- Recognition of provisions (Refer to Note 18 Provisions)
- Judgment about the timing of revenue recognition and whether to present revenue as gross basis or net basis (Refer to Note 4 Segment Information and Note 13 Associates and Joint Ventures)

## 4. Segment Information

### (1) Operating Segments

The Company and its subsidiaries conduct trading, finance, and logistics involving a wide variety of products, as well as project planning and coordination. The Company and its subsidiaries also have cultivated a diverse range of functions and expertise through investments in resource development and other projects.

By leveraging these comprehensive capabilities and via global networks spanning seven Division Companies, the Company and its subsidiaries operate in a wide range of industries. The Consumer-Related Sector covers textiles, food, general products & realty, and ICT & financial business; the Basic Industry-Related Sector includes machinery, chemicals, petroleum products and steel products; and the Natural Resource-Related Sector includes metal and energy resources.

The Company implements diverse business activities across a broad span of industries. To engage in these diverse business activities, the Company has established a system of seven Division Companies organized in line with their respective industries, principal products, and services—Textile, Machinery, Metals & Minerals, Energy & Chemicals, Food, General Products & Realty, and ICT & Financial Business. Under this system, each Division Company has responsibility for business execution in its business field. These Division Companies are the segment units for which the Company's management determines management strategies and the allocation of management resources. Results are managed at the Division Company level in accordance with a number of indicators, such as Net profit attributable to ITOCHU.

In consideration of the above, segment information is presented below, with these seven Division Companies comprising the reportable segments.

The types of products and services that are the sources of revenue for each reportable segment are as follows:

Textile

The Textile segment is engaged in the production and sales of all stages of the textile business from raw materials, threads, textiles to the final products for garments, home furnishings, and industrial materials, on a worldwide scale. In addition, the segment promotes overseas brand businesses and retail operations related to Internet shopping.

Machinery

The Machinery segment is engaged in business activities for projects and related services and production of equipment for plants, bridges, railways, and other infrastructures; IPP and water resources and environment-related equipment; trading of ships, aircraft, automobiles, construction machinery, industrial machinery, machine tools, environmental equipment, electronic devices, and related equipment; and environmental business activities such as renewable and alternative energy businesses. In addition, the segment engages in medical device transactions in medical-related business areas.

Metals & Minerals

The Metals & Minerals segment is engaged in metal and mineral resource development, processing of steel products, solar power generation / solar thermal power generation business, environmental business including trading in greenhouse gas emissions, and trading in iron ore, coal, pig iron and ferrous raw materials, non-ferrous and light metals, steel products, nuclear fuels, and solar power generation / solar thermal power generation in Japan and overseas.

Energy & Chemicals

The Energy & Chemicals segment is engaged in trading of energy-related products such as oil, petroleum products, LPG, LNG, natural gas, and electric power, as well as related projects, the exploration, development, and production of petroleum and gas-related projects, and the business and trading in organic chemicals, inorganic chemicals, pharmaceutical products, plastics, fine chemicals, and electronic materials.

Food

The Food segment pursues efficiency-oriented operations from production and distribution to retail in all areas of food from raw materials to finished products both in Japan and overseas.

General Products & Realty

The General Products & Realty segment is engaged in the general products sector such as building products & materials business, pulp and paper business, natural rubber business and tire business; in the construction and distribution sector such as development, sales, lease, and operation of real estate and logistics business.

ICT & Financial Business

The ICT & Financial Business segment is engaged in the ICT sector such as IT solutions, internet-related services, and distribution of mobile phone devices and after-sales services; and in the finance and insurance sector such as various financial services and insurance business.

The Company's segment information was as follows. Intersegment transactions are priced with reference to prices applicable to transactions with unaffiliated parties. There were no significant transactions that generated revenue with any single external customer for the years ended March 31, 2018 and 2017.

| | Millions of Yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | | | |
| | Textile | Machinery | Metals & Minerals | Energy & Chemicals | Food | General Products & Realty | ICT & Financial Business | Others, Adjustments & Eliminations | Total |
| Revenues from external customers | ¥522,427 | ¥ 722,774 | ¥229,661 | ¥1,576,750 | ¥1,149,176 | ¥594,420 | ¥697,187 | ¥ 17,664 | ¥5,510,059 |
| Intersegment revenues | 42 | 27 | — | 1,097 | 460 | 12,876 | 6,965 | (21,467) | — |
| Total revenues | 522,469 | 722,801 | 229,661 | 1,577,847 | 1,149,636 | 607,296 | 704,152 | (3,803) | 5,510,059 |
| Gross trading profit | 121,978 | 171,934 | 93,464 | 206,756 | 278,279 | 152,428 | 178,741 | 6,860 | 1,210,440 |
| Equity in earnings of associates and joint ventures | 7,046 | 25,068 | 20,779 | 6,249 | 33,584 | 18,076 | 37,369 | 68,057 | 216,228 |
| Net profit attributable to ITOCHU | 12,499 | 57,052 | 82,460 | 36,882 | 80,466 | 55,683 | 51,099 | 24,192 | 400,333 |
| Reportable segment assets | ¥474,856 | ¥1,218,556 | ¥850,295 | ¥1,355,712 | ¥1,962,169 | ¥978,777 | ¥766,159 | ¥1,057,413 | ¥8,663,937 |

| | Millions of Yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | | | | | |
| | Textile | Machinery | Metals & Minerals | Energy & Chemicals | Food | General Products & Realty | ICT & Financial Business | Others, Adjustments & Eliminations | Total |
| Revenues from external customers | ¥528,050 | ¥361,945 | ¥209,286 | ¥1,426,409 | ¥1,071,299 | ¥548,125 | ¥669,713 | ¥ 23,637 | ¥4,838,464 |
| Intersegment revenues | 510 | 1 | — | 910 | 382 | 13,531 | 6,920 | (22,254) | — |
| Total revenues | 528,560 | 361,946 | 209,286 | 1,427,319 | 1,071,681 | 561,656 | 676,633 | 1,383 | 4,838,464 |
| Gross trading profit | 132,396 | 103,068 | 69,600 | 183,124 | 272,222 | 145,876 | 171,648 | 15,528 | 1,093,462 |
| Equity in earnings of associates and joint ventures | 6,853 | 24,781 | 17,627 | 4,648 | 18,973 | 12,695 | 30,897 | 68,684 | 185,158 |
| Net profit attributable to ITOCHU | 25,215 | 46,446 | 45,242 | 18,864 | 70,511 | 27,609 | 40,052 | 78,282 | 352,221 |
| Reportable segment assets | ¥495,892 | ¥989,662 | ¥854,905 | ¥1,169,503 | ¥1,773,166 | ¥840,350 | ¥718,594 | ¥1,279,960 | ¥8,122,032 |

| | Millions of U.S. Dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | | | |
| | Textile | Machinery | Metals & Minerals | Energy & Chemicals | Food | General Products & Realty | ICT & Financial Business | Others, Adjustments & Eliminations | Total |
| Revenues from external customers | $4,918 | $ 6,804 | $2,162 | $14,841 | $10,817 | $5,595 | $6,562 | $ 166 | $51,865 |
| Intersegment revenues | 0 | 0 | — | 11 | 4 | 121 | 66 | (202) | — |
| Total revenues | 4,918 | 6,804 | 2,162 | 14,852 | 10,821 | 5,716 | 6,628 | (36) | 51,865 |
| Gross trading profit | 1,148 | 1,618 | 880 | 1,946 | 2,619 | 1,435 | 1,683 | 65 | 11,394 |
| Equity in earnings of associates and joint ventures | 66 | 236 | 195 | 59 | 316 | 170 | 352 | 641 | 2,035 |
| Net profit attributable to ITOCHU | 118 | 537 | 776 | 347 | 757 | 524 | 481 | 228 | 3,768 |
| Reportable segment assets | $4,470 | $11,470 | $8,003 | $12,761 | $18,469 | $9,213 | $7,212 | $9,953 | $81,551 |

Note: Others, Adjustments & Eliminations includes gains and losses which do not belong to any operating segment and internal eliminations between operating segments. The investments in CITIC Limited and C.P. Pokphand Co. Ltd. and the profits and losses from them are included in this segment.

### (2) Information about Geographical Areas

The breakdown of consolidated revenues by geographical area were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Japan | ¥3,773,299 | ¥3,270,757 | $35,517 |
| United States | 693,109 | 638,109 | 6,524 |
| Singapore | 327,748 | 309,046 | 3,085 |
| Australia | 181,149 | 160,775 | 1,705 |
| United Kingdom | 174,553 | 170,364 | 1,643 |
| Others | 360,201 | 289,413 | 3,391 |
| Total | ¥5,510,059 | ¥4,838,464 | $51,865 |

The breakdown of the carrying amounts of the Company's non-current assets (excluding financial instruments, deferred tax assets, post-employment benefit assets, and rights arising from insurance contracts) by geographical area were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Japan | ¥ 645,108 | ¥ 563,041 | $ 6,072 |
| Australia | 167,268 | 183,017 | 1,575 |
| United Kingdom | 140,063 | 124,401 | 1,318 |
| Singapore | 123,353 | 130,896 | 1,161 |
| United States | 89,700 | 75,977 | 844 |
| Others | 146,610 | 89,788 | 1,380 |
| Total | ¥1,312,102 | ¥1,167,120 | $12,350 |

Notes: 1. Information about geographical areas above was grouped taking into consideration the actual conditions of transactions and placement of management resources of each business in the Company and its subsidiaries.
2. The information about products and services by segment is not available.

## 5. Business Combinations

There were no major business combinations for the years ended March 31, 2017.

Major business combinations for the year ended March 31, 2018 were as follows:

**(Business Integration between Takiron Co., Ltd. and C. I. Kasei Company, Limited)**

On April 1, 2017 (the Acquisition Date), C. I. Kasei Company, Limited (CIK), a subsidiary in which the Company holds 98.3% of the voting rights, carried out a business integration (the Merger) with Takiron Co., Ltd. (TAKIRON), an associated company accounted for by the equity method that conducts the manufacture and sale of plastics and plastic products and in which the Company held 33.7% of the voting rights, and formed C.I. TAKIRON Corporation (C.I. TAKIRON). The Merger was an absorption-type merger in which TAKIRON represents the surviving company and CIK represents the absorbed company. Through the Merger, TAKIRON allocated 26,468,325 ordinary shares to CIK's shareholders. The allocation was determined with reference to the results of calculations of the stock exchange ratio by third parties. As a result of the Merger, the Company's voting rights in C.I. TAKIRON has become 51.2% in combination with the previously held equity interests in TAKIRON, and C.I. TAKIRON has become a subsidiary of the Company.

Going forward, by utilizing the management know-how and global sales structure, the Company will actively support the various measures of C.I. TAKIRON to expand its business foundation and improve corporate value (strengthening its sales force and customer base, accelerating global expansion, etc.). In doing so, the Company will contribute to the growth of C.I. TAKIRON.

The following table summarizes the fair values of consideration paid, previously held equity interests, non-controlling interests, assets acquired and liabilities assumed of TAKIRON at the acquisition date. No contingent consideration was recognized.

| | Millions of Yen | Millions of U.S. Dollars |
|---|---|---|
| Fair value of consideration paid (Note) | ¥ 7,224 | $ 68 |
| Fair value of previously held equity interests (Note) | 13,825 | 130 |
| Fair value of non-controlling interests (Note) | 20,779 | 196 |
| Total | ¥ 41,828 | $ 394 |
| Fair value of assets acquired and liabilities assumed | | |
| Current assets | 55,540 | 523 |
| Property, plant and equipment | 17,814 | 168 |
| Other non-current assets | 10,460 | 98 |
| Current liabilities | (24,378) | (229) |
| Non-current liabilities | (14,820) | (140) |
| Net assets | ¥ 44,616 | $ 420 |

Note: Amounts were measured based on the current value of the ordinary shares of CIK that the Company delivered at the acquisition date.

As shown above, the fair values of assets acquired and liabilities assumed of TAKIRON exceeded the total of fair values of consideration paid, previously held equity interests and non-controlling interests by ¥2,788 million (US$26 million). This reflects the assessment of the fair values of the assets acquired and liabilities assumed, making full use of the information available. The Company recorded the entire amount of this difference in Gains on investments in the Consolidated Statement of Comprehensive Income for the year ended March 31, 2018.

The fair value of assets acquired, liabilities assumed, and non-controlling interests were determined based on the analysis of financial status and asset conditions conducted through due diligence by a third party and a corporate valuation conducted using the discounted cash flow method by a financial advisor.

The operating performance included in the Consolidated Statements of Comprehensive Income for the year ended March 31, 2018, of TAKIRON from the Acquisition Date is not presented because it is impractical to segregate the individual amount due to business integration.

**(Acquisition of YANASE & CO., LTD.)**

The Company issued a tender offer for the ordinary shares of YANASE & CO., LTD. (“YANASE”), an associated company accounted for by the equity method of which the Company holds 39.5% of the voting rights. On August 3, 2017 (the Acquisition Date), the Company acquired an additional 26.6% of voting rights in YANASE. These rights, added to its previously held equity interest, raised the Company’s ownership of YANASE to 66.1% of voting rights, and YANASE has become a subsidiary of the Company.

The principal business of YANASE is to sell imported cars including German cars and their parts/accessories as well as maintenance and services. The Company will further cooperate with the company and promote collaboration and synergies for domestic and overseas business development, sharing the Group’s business resources such as assets, know-how and customer base, and aim to further enhance corporate value.

The following table summarizes the fair values of consideration paid, previously held equity interests, non-controlling interests, assets acquired and liabilities assumed at the Acquisition Date. No contingent consideration was recognized.

| | Millions of Yen | Millions of U.S. Dollars |
|---|---|---|
| Fair value of consideration paid (Note 1) | ¥ 6,782 | $ 64 |
| Fair value of previously held equity interests | 14,075 | 132 |
| Fair value of non-controlling interests (Note 2) | 8,664 | 82 |
| Total | ¥ 29,521 | $ 278 |
| Fair value of assets acquired and liabilities assumed | | |
| Current assets | 74,205 | 699 |
| Property, plant and equipment | 75,552 | 711 |
| Other non-current assets | 19,329 | 182 |
| Current liabilities | (74,568) | (702) |
| Non-current liabilities | (58,840) | (554) |
| Net assets | ¥ 35,678 | $ 336 |

Notes: 1. All consideration was paid in cash.
2. The amount was measured based on the purchase price set force for the tender offer.

As shown above, the fair values of assets acquired and liabilities assumed exceeded the total of fair values of consideration paid, previously held equity interests and non-controlling interests by ¥6,157 million (US$58 million). This reflects the assessment of the fair values of the assets acquired and liabilities assumed making full use of the information available. The Company recognized this difference as a gain from bargain purchase and recorded the entire amount in Gains on investments in the Consolidated Statement of Comprehensive Income for the year ended March 31, 2018. Upon remeasuring its previously held equity interest at its acquisition-date fair value, the Company recorded a loss of ¥5,830 million (US$55 million) in Gains on investments, and a gain of ¥327 million (US$3 million) is recorded together with a gain from bargain purchase.

The fair value of assets acquired and liabilities assumed were determined based on the analysis of financial status and asset conditions conducted through due diligence by a third party.

The following table presents operating performance included in the Consolidated Statement of Comprehensive Income for the year ended March 31, 2018 of YANASE from the Acquisition Date.

| | Millions of Yen | Millions of U.S. Dollars |
|---|---|---|
| Total revenues | ¥321,475 | $3,026 |
| Net profit | 5,978 | 56 |
| Net profit attributable to ITOCHU | 3,946 | 37 |

**(Acquisition of Alta Forest Products, LLC.)**

On January 12, 2018 (the Acquisition Date), the Company acquired all of the membership interests, 100% of the voting rights, in Alta Forest Products, LLC (“Alta”), which is the largest wood fence board manufacturer in North America from E.R. Probyn Ltd., a Canadian corporation, and Welco Lumber Company, a U.S. corporation, and Alta has become a subsidiary of the Company. In the acquisition, the Company acquired all of the shares in TMI Forest Products Inc., which holds 60% of the membership interests in Alta from E.R. Probyn Ltd., and ITOCHU International Inc., a subsidiary of the Company, acquired 40% of membership interests from Welco Lumber Company. The consideration was ¥24,508 million (US$231 million) as a result of adjustment based on the share and membership interest purchase agreement, and was paid in cash. No contingent consideration was recognized.

The Company has been a leader in the North American fence distribution industry through ITOCHU International Inc.’s ownership of MASTER-HALCO, INC. (“MASTER-HALCO”), which operates 5 chain link fence manufacturing plants and 53 distribution centers in North America. Through this business combination, the Company aims to strengthen its fencing business in North America and further enhance corporate value, capitalizing on the expected synergies between Alta and MASTER-HALCO’s sales and distribution network.

For this business combination, the fair value measurement of assets acquired and liabilities assumed has not yet been completed. The assets acquired and liabilities assumed at the Acquisition Date which were recorded at an estimable amount, are ¥27,904 million (US$263 million) and ¥9,146 million (US$86 million), respectively, breaking down mainly into Inventories, Property, plant and equipment, Intangible assets, and Debentures and borrowings. These amounts are subject to change as it is in the fair value measurement period.

The following table presents operating performance of Alta included in the Consolidated Statement of Comprehensive Income for the year ended March 31, 2018 from the Acquisition Date.

| | Millions of Yen | Millions of U.S. Dollars |
|---|---|---|
| Total revenues | ¥7,029 | $66 |
| Net profit | 148 | 1 |
| Net profit attributable to ITOCHU | 148 | 1 |

**(Pro forma information)**

The unaudited pro forma results of operations, as if the business combination involving YANASE & CO., LTD. and Alta Forest Products, LLC. had occurred on April 1, 2017, are not presented due to low importance.

A major business combination after the year ended March 31, 2018 was as follows:

**(Acquisition of RICARDO PÉREZ, S.A.)**

On April 13, 2018, the Company acquired from Grupo Corporativo Pérez, S.A. 70.0% of the shares of RICARDO PÉREZ, S.A. (“RICARDO PÉREZ”), which is an exclusive distributor for the Toyota and Lexus in Panama, and RICARDO PÉREZ has become a subsidiary of the Company. Consideration was US$192 million and it was paid in cash during the year ended March 31, 2018, and included in Payments for purchase of other investments in the Consolidated Statement of Cash Flows. The amount will be adjusted in the future based on the share purchase agreement.

Since becoming an exclusive distributor for Toyota cars in 1956, RICARDO PÉREZ has maintained the top position for more than 20 years in the Panamanian market for new cars. The Company has been operating automobile distributors in many countries around the world since the 1970s. By leveraging this experience, it will seek to further popularize the Toyota and Lexus brand in Panama, while at the same time gaining support from Toyota Motor Corporation. The Company aims to further enhance corporate value through synergies and development of next-generation business with the Company, which has a wide range of business globally.

As for the business combination, the initial fair value measurement of the assets acquired and liabilities assumed has not yet been completed as of June 22, 2018, when this report was submitted.

## 6. Trade and Other Receivables

The breakdown of trade receivables as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Notes receivable | ¥ 195,813 | ¥ 157,608 | $ 1,843 |
| Trade accounts receivable | 1,818,736 | 1,623,023 | 17,119 |
| Service fees receivable | 173,306 | 173,749 | 1,631 |
| Allowance for doubtful accounts (current) | (4,506) | (5,331) | (42) |
| Total | ¥2,183,349 | ¥1,949,049 | $20,551 |

The breakdown of other current receivables as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Short-term loans receivable | ¥24,779 | ¥25,564 | $233 |
| Other accounts receivable | 19,176 | 19,931 | 181 |
| Allowance for doubtful accounts (current) | (490) | (2,004) | (5) |
| Others | 40,681 | 30,831 | 383 |
| Total | ¥84,146 | ¥74,322 | $792 |

The breakdown of non-current receivables as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Long-term loans receivable | ¥614,218 | ¥652,475 | $5,781 |
| Others | 23,323 | 19,208 | 220 |
| Allowance for doubtful accounts (non-current) | (19,822) | (14,909) | (187) |
| Total | ¥617,719 | ¥656,774 | $5,814 |

## 7. Inventories

The breakdown of Inventories as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Merchandise | ¥562,002 | ¥493,764 | $5,290 |
| Finished goods | 78,269 | 82,806 | 737 |
| Real estate for sale | 154,677 | 121,299 | 1,456 |
| Raw materials and supplies | 48,035 | 51,782 | 452 |
| Work in progress | 27,369 | 25,745 | 257 |
| Total | ¥870,352 | ¥775,396 | $8,192 |

The write-downs of inventories to net realizable value were ¥5,389 million (US$51 million) and ¥7,271 million as of March 31, 2018 and 2017, respectively. The write-down is included in Cost of sale of goods in the Consolidated Statement of Comprehensive Income.

## 8. Property, Plant and Equipment

The cost, accumulated depreciation and accumulated impairment losses, and carrying amount of property, plant and equipment, for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Buildings and structures | Machinery and vehicles | Fixtures, fittings, and office equipment | Mineral rights | Construction in progress | Others | Total |
| Balance as of March 31, 2018 | | | | | | | | |
| Cost | ¥165,710 | ¥449,157 | ¥597,507 | ¥106,508 | ¥138,740 | ¥27,837 | ¥27,415 | ¥1,512,874 |
| Accumulated depreciation and accumulated impairment losses | (6,930) | (223,500) | (334,527) | (71,923) | (45,577) | (695) | (16,428) | (699,580) |
| Carrying amount | 158,780 | 225,657 | 262,980 | 34,585 | 93,163 | 27,142 | 10,987 | 813,294 |

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Buildings and structures | Machinery and vehicles | Fixtures, fittings, and office equipment | Mineral rights | Construction in progress | Others | Total |
| Balance as of March 31, 2017 | | | | | | | | |
| Cost | ¥108,640 | ¥407,827 | ¥589,966 | ¥104,644 | ¥79,547 | ¥25,494 | ¥21,699 | ¥1,337,817 |
| Accumulated depreciation and accumulated impairment losses | (8,227) | (204,254) | (318,192) | (69,092) | (45,472) | (366) | (11,839) | (657,442) |
| Carrying amount | 100,413 | 203,573 | 271,774 | 35,552 | 34,075 | 25,128 | 9,860 | 680,375 |

| | Millions of U.S. Dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Buildings and structures | Machinery and vehicles | Fixtures, fittings, and office equipment | Mineral rights | Construction in progress | Others | Total |
| Balance as of March 31, 2018 | | | | | | | | |
| Cost | $1,560 | $ 4,228 | $ 5,624 | $1,003 | $1,306 | $262 | $ 257 | $14,240 |
| Accumulated depreciation and accumulated impairment losses | (65) | (2,104) | (3,149) | (677) | (429) | (7) | (154) | (6,585) |
| Carrying amount | 1,495 | 2,124 | 2,475 | 326 | 877 | 255 | 103 | 7,655 |

The changes in the carrying amount of property, plant and equipment for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Buildings and structures | Machinery and vehicles | Fixtures, fittings, and office equipment | Mineral rights | Construction in progress | Others | Total |
| Balance as of April 1, 2017 | ¥100,413 | ¥203,573 | ¥271,774 | ¥ 35,552 | ¥34,075 | ¥ 25,128 | ¥ 9,860 | ¥680,375 |
| Acquisitions through business combinations | **58,044** | **26,435** | **11,242** | **3,749** | **—** | **1,221** | **459** | **101,150** |
| Individual acquisitions | **2,344** | **16,877** | **18,631** | **10,536** | **65,928** | **44,695** | **8,410** | **167,421** |
| Disposals and decreases through divestitures | **(8,412)** | **(5,707)** | **(3,420)** | **(2,075)** | **—** | **(1,329)** | **(247)** | **(21,190)** |
| Depreciation | **—** | **(18,716)** | **(41,829)** | **(11,993)** | **(2,252)** | **—** | **(7,400)** | **(82,190)** |
| Impairment losses recognized in profit or loss | **(712)** | **(11,346)** | **(3,132)** | **(1,220)** | **—** | **(329)** | **(36)** | **(16,775)** |
| Effect of foreign currency exchange differences | **(157)** | **(1,731)** | **(6,848)** | **212** | **(4,588)** | **(1,161)** | **(536)** | **(14,809)** |
| Others | **7,260** | **16,272** | **16,562** | **(176)** | **—** | **(41,083)** | **477** | **(688)** |
| Balance as of March 31, 2018 | **¥158,780** | **¥225,657** | **¥262,980** | **¥ 34,585** | **¥93,163** | **¥ 27,142** | **¥10,987** | **¥813,294** |

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Buildings and structures | Machinery and vehicles | Fixtures, fittings, and office equipment | Mineral rights | Construction in progress | Others | Total |
| Balance as of April 1, 2016 | ¥104,199 | ¥209,063 | ¥287,600 | ¥ 36,356 | ¥36,454 | ¥ 21,235 | ¥6,658 | ¥701,565 |
| Acquisitions through business combinations | 1,116 | 149 | 155 | 49 | — | — | — | 1,469 |
| Individual acquisitions | 1,326 | 12,268 | 16,649 | 10,490 | 59 | 35,914 | 6,494 | 83,200 |
| Disposals and decreases through divestitures | (5,031) | (3,488) | (13,113) | (1,305) | — | (131) | (89) | (23,157) |
| Depreciation | — | (16,810) | (35,628) | (11,323) | (2,180) | — | (5,459) | (71,400) |
| Impairment losses recognized in profit or loss | (937) | (1,984) | (2,495) | (159) | — | (266) | (3) | (5,844) |
| Effect of foreign currency exchange differences | (488) | (2,653) | (3,186) | (588) | (258) | (70) | 71 | (7,172) |
| Others | 228 | 7,028 | 21,792 | 2,032 | — | (31,554) | 2,188 | 1,714 |
| Balance as of March 31, 2017 | ¥100,413 | ¥203,573 | ¥271,774 | ¥ 35,552 | ¥34,075 | ¥ 25,128 | ¥9,860 | ¥680,375 |

| | Millions of U.S. Dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Buildings and structures | Machinery and vehicles | Fixtures, fittings, and office equipment | Mineral rights | Construction in progress | Others | Total |
| Balance as of April 1, 2017 | $ 945 | $1,916 | $2,558 | $ 335 | $320 | $ 237 | $ 93 | $6,404 |
| Acquisitions through business combinations | **547** | **249** | **106** | **35** | **—** | **11** | **4** | **952** |
| Individual acquisitions | **22** | **159** | **175** | **99** | **621** | **421** | **79** | **1,576** |
| Disposals and decreases through divestitures | **(79)** | **(54)** | **(32)** | **(19)** | **—** | **(13)** | **(2)** | **(199)** |
| Depreciation | **—** | **(176)** | **(394)** | **(113)** | **(21)** | **—** | **(70)** | **(774)** |
| Impairment losses recognized in profit or loss | **(7)** | **(107)** | **(30)** | **(11)** | **—** | **(3)** | **(0)** | **(158)** |
| Effect of foreign currency exchange differences | **(2)** | **(16)** | **(64)** | **2** | **(43)** | **(11)** | **(5)** | **(139)** |
| Others | **69** | **153** | **156** | **(2)** | **—** | **(387)** | **4** | **(7)** |
| Balance as of March 31, 2018 | **$1,495** | **$2,124** | **$2,475** | **$ 326** | **$877** | **$ 255** | **$103** | **$7,655** |

Depreciation of property, plant and equipment is recognized in Cost of sale of goods, Cost of rendering of services and royalties, and Selling, general and administrative expenses in the Consolidated Statement of Comprehensive Income.

The amount of the impairment losses during the year ended March 31, 2018 was ¥16,775 million (US$158 million).

The amount of the impairment losses during the year ended March 31, 2017 was ¥5,844 million.

The impairment losses were recognized in Losses on property, plant, equipment and intangible assets in the Consolidated Statement of Comprehensive Income.

The recoverable amounts used in impairment tests for property, plant and equipment are calculated based on value in use or fair value less costs to sell with the support of an independent expert. Value in use is calculated by discounting the estimated amount of future cash flows based on the business plans approved by the Board of Directors. In principle, business plans are limited to five years and are formulated in a manner that reflects past experience and are consistent with external information. The growth rate is determined with reference to the long-term average growth rate of the markets or countries to which the cash-generating unit belongs. The discount rate is determined with reference to such factors as the weighted average cost of capital for each cash generating unit (approximately 4–12%).

## 9. Investment Property

The cost, accumulated depreciation and accumulated impairment losses, and carrying amount of investment property for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen |
|---|---|
| | Investment property |
| Balance as of March 31, 2018 | |
| Cost | **¥ 40,507** |
| Accumulated depreciation and accumulated impairment losses | **(21,373)** |
| Carrying amount | **19,134** |

| | Millions of Yen |
|---|---|
| | Investment property |
| Balance as of March 31, 2017 | |
| Cost | ¥ 53,282 |
| Accumulated depreciation and accumulated impairment losses | (26,677) |
| Carrying amount | 26,605 |

| | Millions of U.S. Dollars |
|---|---|
| | Investment property |
| Balance as of March 31, 2018 | |
| Cost | **$ 381** |
| Accumulated depreciation and accumulated impairment losses | **(201)** |
| Carrying amount | **180** |

The changes in the carrying amount of investment property for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Beginning of the year | ¥26,605 | ¥29,132 | $250 |
| Acquisitions through business combinations | 29 | — | 0 |
| Individual acquisitions | 511 | 350 | 5 |
| Disposals and decreases through divestitures | (2,414) | (1,504) | (23) |
| Depreciation | (344) | (995) | (3) |
| Impairment losses recognized in profit or loss | — | (346) | — |
| Effect of foreign currency exchange differences | (142) | (76) | (1) |
| Transfers to and from property, plant and equipment | (4,929) | (314) | (46) |
| Others | (182) | 358 | (2) |
| End of the year | ¥19,134 | ¥26,605 | $180 |

Fair values of investment property for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Fair Value | ¥21,127 | ¥26,705 | $199 |

Fair values of investment property are mainly measured by the discounted cash flow method, conducted by independent real estate appraisers, and are classified as Level 3 under IFRS 13 Fair Value Measurement.

Rental income from investment property for the years ended March 31, 2018 and 2017 were ¥5,335 million (US$50 million) and ¥6,790 million, respectively, and were reported in Revenues in the Consolidated Statement of Comprehensive Income. Expenses directly attributable to generating rental income for the years ended March 31, 2018 and 2017 were ¥2,614 million (US$25 million) and ¥3,304 million, respectively, and were included mainly in Cost in the Consolidated Statements of Comprehensive Income.

## 10. Pledged Assets

The following assets were pledged as collateral as of March 31, 2018 and 2017:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Cash and cash equivalents, and Time deposits | ¥ — | ¥ 90 | $ — |
| Trade receivables and others | 9,101 | 7,854 | 86 |
| Inventories | 60,450 | 12,261 | 569 |
| Investments and Non-current receivables | 31,851 | 18,532 | 300 |
| Property, plant and equipment, and others | 17,802 | 18,114 | 167 |
| Total | ¥119,204 | ¥56,851 | $1,122 |

Collateral was pledged to secure the following obligations as of March 31, 2018 and 2017:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Short-term borrowings (Note) | ¥ 3,110 | ¥ 2,931 | $ 29 |
| Trade payables and others | 49,985 | 3,908 | 471 |
| Long-term borrowings | 17,200 | 14,403 | 162 |
| Total | ¥70,295 | ¥21,242 | $662 |

Note: Short-term borrowings as of March 31, 2018 and 2017 included the current portion of Long-term borrowings of ¥1,283 million (US$12 million) and ¥1,308 million, respectively.

In addition, merchandise imported and / or sales proceeds resulting from sales of such merchandise are pledged as collateral to banks through trust receipts issued under acceptances of import bills included in Trade payables. However, it is not practicable to determine the total amount of assets covered by outstanding trust receipts due to the large volume of import transactions. The Company has borrowings under certain provisions of loan agreements with lenders which customarily specify that collateral and / or a guarantor are to be provided upon the request of the lenders, and the lenders may treat any collateral, whether pledged for specific loans or otherwise, as collateral for present and future debt. With respect to most bank borrowings, banks have rights to offset deposits against any matured debt (including debt arising out of contingent obligations) or debt which has become due before maturity by default.

## 11. Goodwill and Intangible Assets

### (1) Goodwill

The cost, accumulated impairment losses, and carrying amount of goodwill for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Textile | Machinery | Metals & Minerals | Energy & Chemicals | Food | General Products & Realty | ICT & Financial Business | Others, Adjustments & Eliminations | Total |
| Balance as of March 31, 2018 | | | | | | | | | |
| Cost | **¥ 9,311** | **¥14,980** | **¥—** | **¥886** | **¥ 53,180** | **¥ 69,853** | **¥45,896** | **¥ 1,617** | **¥195,723** |
| Accumulated impairment losses | **(1,764)** | **(6,559)** | **—** | **(83)** | **(21,325)** | **(35,092)** | **—** | **(1,617)** | **(66,440)** |
| Carrying amount | **7,547** | **8,421** | **—** | **803** | **31,855** | **34,761** | **45,896** | **—** | **129,283** |

| | Millions of Yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Textile | Machinery | Metals & Minerals | Energy & Chemicals | Food | General Products & Realty | ICT & Financial Business | Others, Adjustments & Eliminations | Total |
| Balance as of March 31, 2017 | | | | | | | | | |
| Cost | ¥ 21,172 | ¥15,525 | ¥— | ¥937 | ¥ 55,123 | ¥ 60,816 | ¥45,326 | ¥ 1,709 | ¥200,608 |
| Accumulated impairment losses | (12,173) | (6,847) | — | (88) | (15,103) | (33,026) | — | (1,709) | (68,946) |
| Carrying amount | 8,999 | 8,678 | — | 849 | 40,020 | 27,790 | 45,326 | — | 131,662 |

| | Millions of U.S. Dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Textile | Machinery | Metals & Minerals | Energy & Chemicals | Food | General Products & Realty | ICT & Financial Business | Others, Adjustments & Eliminations | Total |
| Balance as of March 31, 2018 | | | | | | | | | |
| Cost | **$ 87** | **$141** | **$—** | **$ 9** | **$ 501** | **$ 657** | **$432** | **$ 15** | **$1,842** |
| Accumulated impairment losses | **(16)** | **(62)** | **—** | **(1)** | **(201)** | **(330)** | **—** | **(15)** | **(625)** |
| Carrying amount | **71** | **79** | **—** | **8** | **300** | **327** | **432** | **—** | **1,217** |

The changes in the carrying amount of goodwill for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Textile | Machinery | Metals & Minerals | Energy & Chemicals | Food | General Products & Realty | ICT & Financial Business | Others, Adjustments & Eliminations | Total |
| Balance as of April 1, 2017 | ¥ 8,999 | ¥8,678 | ¥— | ¥849 | ¥40,020 | ¥27,790 | ¥45,326 | ¥— | ¥131,662 |
| Acquisitions through business combinations | — | 210 | — | — | — | 5,482 | 361 | — | 6,053 |
| Decrease through divestitures | — | — | — | — | — | — | — | — | — |
| Impairment losses recognized in profit or loss | (1,452) | — | — | — | (7,464) | — | — | — | (8,916) |
| Effect of foreign currency exchange differences, and others | — | (467) | — | (46) | (701) | 1,489 | 209 | — | 484 |
| Balance as of March 31, 2018 | **¥ 7,547** | **¥8,421** | **¥—** | **¥803** | **¥31,855** | **¥34,761** | **¥45,896** | **¥—** | **¥129,283** |

| | Millions of Yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Textile | Machinery | Metals & Minerals | Energy & Chemicals | Food | General Products & Realty | ICT & Financial Business | Others, Adjustments & Eliminations | Total |
| Balance as of April 1, 2016 | ¥8,999 | ¥6,049 | ¥— | ¥854 | ¥40,292 | ¥42,971 | ¥44,891 | ¥— | ¥144,056 |
| Acquisitions through business combinations | — | 2,565 | — | — | — | — | 781 | — | 3,346 |
| Decrease through divestitures | — | — | — | — | — | — | — | — | — |
| Impairment losses recognized in profit or loss | — | — | — | — | — | (9,602) | — | — | (9,602) |
| Effect of foreign currency exchange differences, and others | — | 64 | — | (5) | (272) | (5,579) | (346) | — | (6,138) |
| Balance as of March 31, 2017 | ¥8,999 | ¥8,678 | ¥— | ¥849 | ¥40,020 | ¥27,790 | ¥45,326 | ¥— | ¥131,662 |

| | Millions of U.S. Dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Textile | Machinery | Metals & Minerals | Energy & Chemicals | Food | General Products & Realty | ICT & Financial Business | Others, Adjustments & Eliminations | Total |
| Balance as of April 1, 2017 | $ 85 | $81 | $— | $ 8 | $377 | $261 | $427 | $— | $1,239 |
| Acquisitions through business combinations | — | 2 | — | — | — | 52 | 3 | — | 57 |
| Decrease through divestitures | — | — | — | — | — | — | — | — | — |
| Impairment losses recognized in profit or loss | (14) | — | — | — | (70) | — | — | — | (84) |
| Effect of foreign currency exchange differences, and others | — | (4) | — | (0) | (7) | 14 | 2 | — | 5 |
| Balance as of March 31, 2018 | **$ 71** | **$79** | **$—** | **$ 8** | **$300** | **$327** | **$432** | **$—** | **$1,217** |

The goodwill balance as of March 31, 2018 and 2017 included goodwill resulting from the acquisition of the Kwik-Fit Group in the General Products & Realty segment and the Dole business in the Food segment.

The goodwill balance resulting from the acquisition of the Kwik-Fit Group as of March 31, 2018 and 2017 were ¥29,528 million (US$278 million) and ¥27,790 million, respectively.

The goodwill balance resulting from the acquisition of the Dole business as of March 31, 2018 and 2017 were ¥7,911 million (US$74 million) and ¥16,231 million, respectively. The decrease in the goodwill balance is mainly due to impairment.

As a result of impairment tests for goodwill, the amount of the impairment losses during the year ended March 31, 2018 was ¥8,916 million (US$84 million).

Regarding the goodwill balance resulting from the acquisition of the Dole business, the Company revised the business plans for Dole considering intensifying competition in frozen fruits business in North America. Accordingly, an impairment loss of ¥7,464 million (US$70 million) was recorded on goodwill related to packaged food business of the companies.

As a result of impairment tests for goodwill, the amount of the impairment losses during the year ended March 31, 2017 was ¥9,602 million.

Regarding the goodwill balance resulting from the acquisition of the Kwik-Fit Group, in the European tire-related companies, the Company conducted a comprehensive review of the short to medium-term demand forecast in reaction to the slump in sales of tires for passenger cars in the U.K. with slowing U.K. real retail sales and rising purchase costs accompanying further depreciation of the Great Britain Pound over concerns about the outlook for the European economy, including that of the U.K., given the Brexit decision. Accordingly, an impairment loss of ¥9,602 million was recorded on goodwill related to the companies.

The impairment losses were recognized in Losses on property, plant, equipment and intangible assets in the Consolidated Statement of Comprehensive Income.

The recoverable amounts used in impairment tests for goodwill are based on value in use calculated with the support by independent appraisers. Value in use is calculated by discounting the estimated amount of future cash flows based on the business plans approved by the Board of Directors. In principle, business plans are limited to five years and are formulated in a manner that reflects past experience and are consistent with external information. The growth rate is determined with reference to the long-term average growth rate of the markets or countries to which the cash-generating unit belongs. The discount rate is determined with reference to such factors as the weighted average cost of capital for each cash-generating unit (approximately 5–20%).

### (2) Intangible Assets

The cost, accumulated amortization and accumulated impairment losses, and carrying amount of intangible assets for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Trademarks | Software | Others | Total |
| Balance as of March 31, 2018 | | | | |
| Cost | **¥151,387** | **¥116,412** | **¥104,194** | **¥371,993** |
| Accumulated amortization and accumulated impairment losses | **(23,560)** | **(74,772)** | **(40,373)** | **(138,705)** |
| Carrying amount | **127,827** | **41,640** | **63,821** | **233,288** |

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Trademarks | Software | Others | Total |
| Balance as of March 31, 2017 | | | | |
| Cost | ¥155,904 | ¥106,748 | ¥109,650 | ¥ 372,302 |
| Accumulated amortization and accumulated impairment losses | (17,830) | (68,330) | (48,426) | (134,586) |
| Carrying amount | 138,074 | 38,418 | 61,224 | 237,716 |

| | Millions of U.S. Dollars | | | |
|---|---|---|---|---|
| | Trademarks | Software | Others | Total |
| Balance as of March 31, 2018 | | | | |
| Cost | **$1,425** | **$1,096** | **$ 980** | **$ 3,501** |
| Accumulated amortization and accumulated impairment losses | **(222)** | **(704)** | **(379)** | **(1,305)** |
| Carrying amount | **1,203** | **392** | **601** | **2,196** |

The changes in the carrying amount of intangible assets for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Trademarks | Software | Others | Total |
| Balance as of April 1, 2017 | ¥138,074 | ¥ 38,418 | ¥61,224 | ¥237,716 |
| Acquisitions through business combinations | 552 | 1,121 | 12,725 | 14,398 |
| Individual acquisitions | 865 | 14,234 | 4,208 | 19,307 |
| Disposals | (105) | (426) | (479) | (1,010) |
| Decrease through divestitures | (267) | (605) | (3,436) | (4,308) |
| Amortization expenses | (2,274) | (11,685) | (5,645) | (19,604) |
| Impairment losses recognized in profit or loss | (8,424) | (409) | (2,048) | (10,881) |
| Effect of foreign currency exchange differences, and others | (594) | 992 | (2,728) | (2,330) |
| Balance as of March 31, 2018 | ¥127,827 | ¥ 41,640 | ¥63,821 | ¥233,288 |

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Trademarks | Software | Others | Total |
| Balance as of April 1, 2016 | ¥149,668 | ¥ 35,850 | ¥ 76,288 | ¥261,806 |
| Acquisitions through business combinations | 146 | 23 | 2,252 | 2,421 |
| Individual acquisitions | 384 | 15,977 | 3,347 | 19,708 |
| Disposals | (19) | (399) | (1,399) | (1,817) |
| Decrease through divestitures | (3,653) | (459) | (11,978) | (16,090) |
| Amortization expenses | (2,093) | (11,277) | (6,183) | (19,553) |
| Impairment losses recognized in profit or loss | — | (119) | (275) | (394) |
| Effect of foreign currency exchange differences, and others | (6,359) | (1,178) | (828) | (8,365) |
| Balance as of March 31, 2017 | ¥138,074 | ¥ 38,418 | ¥ 61,224 | ¥237,716 |

| | Millions of U.S. Dollars | | | |
|---|---|---|---|---|
| | Trademarks | Software | Others | Total |
| Balance as of April 1, 2017 | $1,300 | $ 362 | $576 | $2,238 |
| Acquisitions through business combinations | 5 | 11 | 120 | 136 |
| Individual acquisitions | 8 | 134 | 40 | 182 |
| Disposals | (1) | (4) | (5) | (10) |
| Decrease through divestitures | (3) | (6) | (32) | (41) |
| Amortization expenses | (21) | (110) | (53) | (184) |
| Impairment losses recognized in profit or loss | (79) | (4) | (19) | (102) |
| Effect of foreign currency exchange differences, and others | (6) | 9 | (26) | (23) |
| Balance as of March 31, 2018 | $1,203 | $ 392 | $601 | $2,196 |

Amortization expenses for intangible assets are recognized in Cost of sale of goods, Cost of rendering of services and royalties and Selling, general and administrative expenses in the Consolidated Statement of Comprehensive Income.

The amount of impairment losses during the year ended March 31, 2018 was ¥10,881 million (US$102 million). Regarding trademarks and customer relationships in the domestic apparel business of the Textile segment, performance continued to fall below planned levels as a result of stagnant domestic apparel market conditions. Based on this environment, the Company revised the business plans. Consequently, an impairment loss of ¥6,890 million (US$65 million) has been recognized.

The amount of impairment losses during the year ended March 31, 2017 was ¥394 million.

The impairment losses were recognized in Losses on property, plant, equipment and intangible assets in the Consolidated Statement of Comprehensive Income.

The carrying amount of “Others” as of March 31, 2018 included ¥10,900 million (US$103 million) of customer relationships in TMI Forest Products Inc., ¥10,074 million (US$95 million) of sales network in CONEXIO Corporation and ¥8,342 million (US$79 million) of customer relationships in Dole International Holdings, Inc.

The carrying amount of “Others” as of March 31, 2017 included ¥10,877 million of sales network in CONEXIO Corporation and ¥9,492 million of customer relationships in Dole International Holdings, Inc.

The carrying amount of intangible assets with indefinite useful lives for the years ended March 31, 2018 and 2017 were ¥99,711 million (US$939 million) and ¥100,381 million, respectively. The balance of intangible assets with indefinite useful lives for the year ended March 31, 2018, included ¥55,025 million (US$518 million) of trademarks of Dole and ¥41,434 million (US$390 million) of trademarks of Kwik-Fit. The balance of intangible assets with indefinite useful lives for the year ended March 31, 2017 included ¥58,107 million of trademarks of Dole and ¥38,995 million of trademarks of Kwik-Fit. The fluctuation in the balance of trademarks of Dole and Kwik-Fit are mainly due to the foreign currency exchange differences. These trademarks were acquired through business combinations and will basically continue to exist as long as the businesses that use them continue to operate. Accordingly, the Company considers them to have indefinite useful lives.

The recoverable amounts used in impairment tests for intangible assets are based on value in use calculated with the support of independent appraisers. Value in use is calculated by discounting the estimated amount of future cash flows based on the business plans approved by the Board of Directors. In principle, business plans are limited to five years and are formulated in a manner that reflects past experience and are consistent with external information. The growth rate is determined with reference to the long-term average growth rate of the markets or countries to which the cash-generating unit belongs. The discount rate is determined with reference to such factors as the weighted average cost of capital for each cash-generating unit (approximately 5–20%).

## 12. Securities and Other Investments

Securities included in Other current financial assets, and Other investments in the Consolidated Statement of Financial Position were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Securities: | | | |
| FVTPL financial assets | ¥ — | ¥ 22 | $ — |
| FVTOCI financial assets | — | — | — |
| Amortized cost* | 143 | 28 | 1 |
| Total | ¥ 143 | ¥ 50 | $ 1 |
| Other Investments: | | | |
| FVTPL financial assets | 52,387 | 47,854 | 493 |
| FVTOCI financial assets | 754,142 | 736,716 | 7,099 |
| Amortized cost* | 9,981 | 9,019 | 94 |
| Total | ¥816,510 | ¥793,589 | $7,686 |

* Of the securities included in Other current financial assets and Other investments, financial assets measured at amortized cost are primarily public and corporate bonds for which the fair values approximate their carrying amounts.

The breakdown of the above FVTOCI financial assets into marketable and non-marketable equity securities were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Marketable equity securities | ¥328,851 | ¥271,213 | $3,096 |
| Non-marketable equity securities | 425,291 | 465,503 | 4,003 |
| Total | ¥754,142 | ¥736,716 | $7,099 |

The Non-marketable equity securities mainly consisted of investments in TING HSIN (CAYMAN ISLANDS) HOLDING CORP. and natural resource-related sectors, such as metal and mineral resources, petroleum, and natural gas. The total fair value of the investments in such natural resource-related sectors as of March 31, 2018 and 2017 were ¥279,287 million (US$2,629 million) and ¥314,080 million, respectively. These investments included Drummond International, LLC, BHP Iron Ore (Jimblebar) Pty Ltd, Sakhalin Oil and Gas Development Co., Ltd., RAS LAFFAN LIQUEFIED NATURAL GAS COMPANY LIMITED, and CSN Mineração S.A..

The main marketable equity securities that the Company and its subsidiaries owned as FVTOCI financial assets as of March 31, 2018 and 2017 were as follows:

March 31, 2018

| Stock | Millions of Yen | Millions of U.S. Dollars |
|---|---|---|
| Isuzu Motors Limited | **¥86,395** | **$813** |
| NISSIN FOODS HOLDINGS CO., LTD. | **40,200** | **378** |
| Shandong Longda Meat Foodstuff Co.,Ltd. | **23,055** | **217** |
| Seven & i Holdings Co., Ltd. | **14,591** | **137** |
| Advance Residence Investment Corporation | **9,683** | **91** |
| Mazda Motor Corporation | **8,511** | **80** |
| Showa Sangyo Co., Ltd. | **7,026** | **66** |
| Chubu Shiryo Co., Ltd. | **4,556** | **43** |
| Honma Golf Limited | **4,354** | **41** |
| Internet Initiative Japan Inc. | **4,210** | **40** |
| H2O RETAILING CORPORATION | **4,132** | **39** |
| Nippon Flour Mills Co., Ltd. | **3,765** | **35** |
| Benefit One Inc. | **3,613** | **34** |
| NICHIHA CORPORATION | **3,376** | **32** |
| Mizuho Financial Group, Inc. | **3,137** | **30** |

March 31, 2017

| Stock | Millions of Yen |
|---|---|
| Isuzu Motors Limited | ¥77,951 |
| NISSIN FOODS HOLDINGS CO., LTD. | 33,608 |
| Seven & i Holdings Co., Ltd. | 13,918 |
| Advance Residence Investment Corporation | 10,719 |
| Mazda Motor Corporation | 9,700 |
| Showa Sangyo Co., Ltd. | 7,468 |
| SINANEN HOLDINGS CO., LTD. | 4,440 |
| Mizuho Financial Group, Inc. | 3,935 |
| Internet Initiative Japan Inc. | 3,922 |
| H2O RETAILING CORPORATION | 3,783 |
| Nippon Flour Mills Co., Ltd. | 3,749 |
| Kanemi Co., Ltd. | 3,365 |
| SEIBU HOLDINGS INC. | 2,998 |
| NICHIHA CORPORATION | 2,716 |
| MEGMILK SNOW BRAND Co.,Ltd. | 2,574 |

FVTOCI financial assets which the Company derecognized in the years ended March 31, 2018 and 2017 were as follows:

| Millions of Yen | | | | | | Millions of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|
| 2018 | | | 2017 | | | 2018 | | |
| Fair value at date of sale | Cumulative gains (losses) | Dividends | Fair value at date of sale | Cumulative gains (losses) | Dividends | Fair value at date of sale | Cumulative gains (losses) | Dividends |
| **¥26,601** | **¥(9,096)** | **¥699** | ¥22,774 | ¥(5,484) | ¥273 | **$250** | **$(86)** | **$7** |

Cumulative gains (losses) (net of tax) reclassified from other comprehensive income (loss) (FVTOCI financial assets) to retained earnings for the years ended March 31, 2018 and 2017 due to derecognition of FVTOCI financial assets were ¥7,828 million (US$74 million) (loss) and ¥3,558 million (loss), respectively. The reclassification was mainly due to the derecognition of FVTOCI financial assets caused by sale of equity securities as a result of reconsideration of business relationships and the change in classification of equity securities from FVTOCI financial assets to investments in subsidiaries or associates.

## 13. Associates and Joint Ventures

### (1) The total carrying amounts of investments in associates and joint ventures

For investments in associates and joint ventures, the total carrying amounts in the Consolidated Statement of Financial Position as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Investment | | | |
| Associates | ¥1,334,800 | ¥1,243,926 | $12,564 |
| Joint ventures | 510,071 | 382,657 | 4,801 |
| Total | ¥1,844,871 | ¥1,626,583 | $17,365 |

The differences between the carrying amounts of the investments in associates and joint ventures and the Company and its subsidiaries' equity interest in the underlying net assets of such associates and joint ventures were ¥285,970 million (US$2,692 million) and ¥291,434 million as of March 31, 2018 and 2017, respectively. The differences consist of certain fair value adjustments (net of tax) at the time of the investments in associates, and goodwill. The fair value adjustments are primarily attributed to intangible assets.

Certain associates and joint ventures raise funds through project financing and there are usage restrictions on deposits.

### (2) The share of profit and other comprehensive income of associates and joint ventures

For investments in associates and joint ventures, the share of profit and other comprehensive income of associates and joint ventures in comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Associates | | | |
| Share of profit or loss | ¥126,108 | ¥105,808 | $1,187 |
| Share of other comprehensive income | 13,835 | (9,560) | 130 |
| Subtotal | 139,943 | 96,248 | 1,317 |
| Joint ventures | | | |
| Share of profit or loss | 90,120 | 79,350 | 848 |
| Share of other comprehensive income | 27,852 | (41,833) | 262 |
| Subtotal | 117,972 | 37,517 | 1,110 |
| Share of comprehensive income | | | |
| Total share of profit or loss of associates and joint ventures | 216,228 | 185,158 | 2,035 |
| Total share of other comprehensive income of associates and joint ventures | 41,687 | (51,393) | 392 |
| Total | ¥257,915 | ¥133,765 | $2,427 |

In Investments accounted for by the equity method, the Company recognized impairment losses of ¥35,556 million (US$335 million) and ¥8,519 million for the years ended March 31, 2018 and 2017, respectively. The impairment losses were included in Gains on investments in the Consolidated Statement of Comprehensive Income. The Company recognized an impairment loss of ¥28,959 million (US$273 million) on C.P. Pokphand Co. Ltd. for the year ended March 31, 2018, in response to the deterioration of earnings due to the depressed market prices of swine in Vietnam, and the decline in stock price.

The recoverable amounts used in impairment tests for investments in associates and joint ventures are calculated by comprehensive consideration, referencing value in use calculated with the support of independent appraisers or stock prices. Value in use is calculated by discounting the estimated amount of future cash flows based on the business plans approved by the Board of Directors. In principle, business plans are limited to five years and are formulated in a manner that reflects past experience and is consistent with external information. The growth rate is determined with reference to the long-term average growth rate of the markets or countries to which the cash-generating unit belongs. The discount rate is determined with reference to such factors as the weighted average cost of capital for each cash-generating unit (approximately 3–14%).

### (3) The balances of receivables and payables involving associates and joint ventures

For investments in associates and joint ventures, the balances of receivables and payables for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Balance of receivables | | | |
| Associates | ¥215,980 | ¥221,953 | $2,033 |
| Joint ventures | 536,970 | 569,445 | 5,054 |
| Total | ¥752,950 | ¥791,398 | $7,087 |
| Balance of payables | | | |
| Associates | 54,581 | 53,068 | 514 |
| Joint ventures | 2,110 | 2,169 | 20 |
| Total | ¥ 56,691 | ¥ 55,237 | $ 534 |

### (4) Total revenues and total purchases from associates and joint ventures

For investments in associates and joint ventures, total revenues and total purchases included in Cost for the years ended March 31, 2018 and 2017 as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Revenues | | | |
| Associates | ¥205,833 | ¥170,294 | $1,938 |
| Joint ventures | 18,401 | 20,962 | 173 |
| Total | ¥224,234 | ¥191,256 | $2,111 |
| Purchases | | | |
| Associates | 355,971 | 285,099 | 3,351 |
| Joint ventures | 20,953 | 19,900 | 197 |
| Total | ¥376,924 | ¥304,999 | $3,548 |

### (5) Others

(Investments in associates and joint ventures with a reporting period end that differs from that of the Company)

The Consolidated Financial Statements include investments in associates and joint ventures with a reporting period end that differs from that of the Company because it is impracticable to unify the reporting period ends, due to reasons including the existence of a shareholder that has control over the associates and joint ventures for which the reporting period is different from that of the Company, or the impossibility of doing so under the legal system of regions in which the associates and joint ventures are located. The difference between the end of the reporting period of these associates and joint ventures and the end of the reporting period of the Company does not exceed three months. Adjustments are made to reflect significant transactions or events that result from the difference in the reporting period ends. Major investments in such associates and joint ventures include CITIC Limited (reporting period ends in December) and FamilyMart UNY Holdings Co., Ltd. (reporting period ends in February).

(Financial information about the material joint ventures and associates)

Chia Tai Bright Investment Company Limited (CTB), a company in which ITOCHU and Charoen Pokphand Group Company Limited each invested 50%, owns 20% of ordinary shares in CITIC Limited and applies the equity method to CITIC Limited.

The difference between the consideration paid for CITIC Limited shares acquired by CTB and CTB's share of the book value of CITIC Limited's net assets at the time of share acquisition was appropriately allocated to CITIC Limited's assets and liabilities based on those fair values and the amount of the difference was HK$11,127 million as of March 31, 2018.

The summarized financial information of CITIC Limited based on the disclosed financial statements as of December 31, 2017 and 2016 were as follows:

| | Millions of HK Dollars | |
|---|---|---|
| | 2017 | 2016 |
| Total assets | $7,520,739 | $7,237,995 |
| Total liabilities | $6,727,098 | $6,542,144 |
| Total equity | $ 793,641 | $ 695,851 |

| | Millions of HK Dollars | |
|---|---|---|
| | 2017 | 2016 |
| Total revenues | $450,536 | $380,822 |
| Net profit | 65,096 | 62,639 |
| Total other comprehensive income for the year, net of tax | 37,457 | (49,127) |
| Total comprehensive income for the year | $102,553 | $ 13,512 |

(Judgment on significant influence)

While the Company holds 16.53% of voting rights in Orient Corporation, the Company participates in the determination of sales and financial directions by dispatching its Directors, including its Representative Directors, to the Board of Directors of Orient Corporation. Accordingly, the Company exercises significant influence and applies the equity method to Orient Corporation.

The Company, through a subsidiary, holds 20% interest in Drummond International, LLC (DIL), which conducts mining operations and related infrastructure that are currently being operated in Colombia. The subsidiary does not have approval authority over significant matters for resolution regarding DIL, such as for budgets and capital expenditures, and cannot exercise significant influence over the operations and financial policies of DIL. Accordingly the equity method is not applied to the Company's investment in DIL.

## 14. Trade and Other Payables

The breakdown of trade payables as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Notes payable | ¥ 212,989 | ¥ 210,674 | $ 2,005 |
| Trade accounts payable | 1,480,378 | 1,281,365 | 13,934 |
| Other accounts payable | 132,492 | 96,744 | 1,247 |
| Total | ¥1,825,859 | ¥1,588,783 | $17,186 |

The breakdown of other current payables as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Other accounts payable | ¥38,130 | ¥14,146 | $359 |
| Lease obligations (current) | 13,771 | 14,546 | 130 |
| Deposits received | 27,299 | 24,802 | 257 |
| Total | ¥79,200 | ¥53,494 | $746 |

The breakdown of other non-current financial liabilities as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Lease obligations (non-current) | ¥ 65,234 | ¥ 60,287 | $ 614 |
| Others | 49,393 | 48,046 | 465 |
| Total | ¥114,627 | ¥108,333 | $1,079 |

## 15. Debentures and Borrowings

The breakdown of Short-term debentures and borrowings as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | Interest rate (%) | Millions of Yen | Interest rate (%) | Millions of U.S. Dollars |
|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 |
| Current loans from financial institutions | ¥281,284 | 1.8% | ¥278,148 | 1.3% | $2,647 |
| Commercial paper | 13,050 | 0.0% | 11,982 | 0.0% | 123 |
| Subtotal | 294,334 | — | 290,130 | — | 2,770 |
| Current portion of long-term debentures and borrowings | 232,533 | — | 272,903 | — | 2,189 |
| Total | ¥526,867 | — | ¥563,033 | — | $4,959 |

Note: Interest rates represent the weighted average interest rates based on balances as of March 31, 2018 and 2017. The interest rates of the Current portion of long-term debentures and borrowings are included in the breakdown of Long-term debentures and borrowings below.

The breakdown of Long-term debentures and borrowings as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Borrowings | | | |
| Secured | | | |
| Due 2017–2037, interest rate mainly 0.0%–3.5% | ¥ 18,483 | ¥ 15,711 | $ 174 |
| Unsecured | | | |
| Due 2017–2031, interest rate mainly 0.0%–7.1% | 2,101,917 | 2,211,459 | 19,785 |
| Debentures | | | |
| Unsecured bonds and notes | | | |
| Year of issuance, Coupon, Type of bond, Maturity | | | |
| Issued in 2007–2015, 0.3%–2.3% Yen Bonds due 2017–2027 | 295,000 | 365,000 | 2,777 |
| Issued in 2012, floating rate Yen Bonds due 2022 | 10,000 | 10,000 | 94 |
| Issued in 2014, floating rate U.S. Dollar Bonds due 2019 | 10,624 | 11,219 | 100 |
| Issued in and after 2012, debentures issued by subsidiaries and others maturing through 2023 | 28,796 | 14,881 | 271 |
| Subtotal | 2,464,820 | 2,628,270 | 23,201 |
| Fair value hedge and discontinuation of hedge adjustment | 20,319 | 26,253 | 191 |
| Total | 2,485,139 | 2,654,523 | 23,392 |
| Less: Current portion of long-term debentures and borrowings | (232,533) | (272,903) | (2,189) |
| Long-term debentures and borrowings | ¥2,252,606 | ¥2,381,620 | $21,203 |

The agreements for certain loans from the Japan Bank for International Cooperation (JBIC), which are included in long-term debt from banks and other financial institutions, require the borrower, upon request from the lender, through its earnings from business operations, or through proceeds from the sale of common stock or debentures, to repay a certain portion of the loans outstanding before the scheduled maturity dates. The Company has never received such requests and does not expect that any such request will be made.

## 16. Leases

### (1) Lessor

The Company and its subsidiaries lease aircrafts, real estate, and certain other assets under operating leases.

The schedule of future minimum lease payments receivable under non-cancelable operating leases as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Less than 1 year | ¥12,206 | ¥11,652 | $115 |
| 1–5 years | 35,058 | 35,917 | 330 |
| More than 5 years | 15,697 | 16,842 | 148 |
| Total | ¥62,961 | ¥64,411 | $593 |

The Company and its subsidiaries lease ICT-related equipment, machinery and equipment, and certain other assets under finance leases. The schedule of gross investment in the lease and present value of minimum lease payments receivable as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|---|---|---|
| | Gross investment in the lease | | | Present value of minimum lease payments receivable | | |
| | 2018 | 2017 | 2018 | 2018 | 2017 | 2018 |
| Less than 1 year | ¥10,765 | ¥ 9,342 | $101 | ¥ 9,910 | ¥ 8,392 | $ 94 |
| 1–5 years | 26,516 | 25,577 | 250 | 24,242 | 23,468 | 228 |
| More than 5 years | 11,649 | 10,819 | 110 | 9,676 | 8,949 | 91 |
| Total | 48,930 | 45,738 | 461 | ¥43,828 | ¥40,809 | $413 |
| [Unguaranteed residual value] | [379] | [300] | [4] | | | |
| Less: Unearned finance income | (4,845) | (4,741) | (46) | | | |
| Less: Present value of unguaranteed residual value | (257) | (188) | (2) | | | |
| Present value of minimum lease payments receivable | ¥43,828 | ¥40,809 | $413 | | | |

There are contracts which contain a clause that amends the amount of lease payment to be received to move in tandem with the Libor rate every 6 months. However, contingent rents recognized as income were immaterial.

### (2) Lessee

The Company and its subsidiaries lease real estate, machinery and equipment, and certain other assets under operating leases.

The schedule of future minimum lease payments under non-cancelable operating leases as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Less than 1 year | ¥ 49,845 | ¥ 47,690 | $ 469 |
| 1–5 years | 136,276 | 137,347 | 1,283 |
| More than 5 years | 159,562 | 160,578 | 1,502 |
| Total | ¥345,683 | ¥345,615 | $3,254 |

As of March 31, 2018 and 2017, the total of future minimum lease payments to be received under non-cancelable subleases were ¥57,902 million (US$545 million) and ¥57,474 million, respectively.

In the years ended March 31, 2018 and 2017, lease payments under operating leases recognized as an expense were ¥102,213 million (US$962 million) and ¥91,919 million, respectively, and sublease payments received were ¥10,646 million (US$100 million) and ¥11,172 million, respectively.

The Company and its subsidiaries lease buildings, machinery and equipment, and certain other assets under finance leases. The cost, accumulated depreciation and accumulated impairment losses, and carrying amount of such leased assets by class as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Cost | Accumulated depreciation and Accumulated impairment losses | Carrying amount | Cost | Accumulated depreciation and Accumulated impairment losses | Carrying amount |
| Buildings and structures | ¥ 58,284 | ¥27,625 | ¥30,659 | ¥ 54,252 | ¥26,510 | ¥27,742 |
| Machinery and equipment | 26,403 | 13,049 | 13,354 | 27,089 | 14,472 | 12,617 |
| Others | 19,419 | 12,055 | 7,364 | 20,341 | 11,743 | 8,598 |
| Total | ¥104,106 | ¥52,729 | ¥51,377 | ¥101,682 | ¥52,725 | ¥48,957 |

| | Millions of U.S. Dollars | | |
|---|---|---|---|
| | 2018 | | |
| | Cost | Accumulated depreciation and Accumulated impairment losses | Carrying amount |
| Buildings and structures | $549 | $260 | $289 |
| Machinery and equipment | 249 | 123 | 126 |
| Others | 182 | 113 | 69 |
| Total | $980 | $496 | $484 |

The present value of future minimum lease payments, and the amount of future financial cost as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|---|---|---|
| | Future minimum lease payments | | | Present value of future minimum lease payments | | |
| | 2018 | 2017 | 2018 | 2018 | 2017 | 2018 |
| Less than 1 year | ¥15,206 | ¥16,420 | $143 | ¥13,771 | ¥14,546 | $130 |
| 1–5 years | 42,588 | 40,598 | 401 | 39,712 | 37,970 | 374 |
| More than 5 years | 29,270 | 26,011 | 276 | 25,522 | 22,317 | 240 |
| Total | 87,064 | 83,029 | 820 | ¥79,005 | ¥74,833 | $744 |
| Less: Future financial cost | (8,059) | (8,196) | (76) | | | |
| Present value of future minimum lease payments | ¥79,005 | ¥74,833 | $744 | | | |

As of March 31, 2018 and 2017, the total future minimum lease payments to be received under non-cancelable subleases were ¥29,830 million (US$281 million) and ¥25,632 million, respectively.

There are lease contracts as a lessee which contain a renewal or purchase option. However, there are no significant lease contracts which contain an escalation clause. Also, there are contracts which contain a clause that amends the amount of lease payment to move in tandem with the long-term prime lending rate every 5 years. However, contingent rents recognized as an expense were immaterial.

## 17. Retirement and Severance Benefits

The Company and certain subsidiaries have defined benefit pension plans (e.g., the Corporate Pension Fund) covering substantially all of their employees. Benefits under these pension plans are based on years of service and certain other factors.

Plan assets are comprised primarily of marketable equity securities, debt, and other interest-bearing securities, and are exposed to stock price and interest rate risks. In addition, the Company and certain subsidiaries have both unfunded retirement and severance plans, which provide lump-sum payment benefits to their employees, and defined contribution plans.

Certain subsidiaries and associates participate in the ITOCHU United Pension Fund.

The ITOCHU United Pension Fund differs from a single employer plan with respect to the following points:

(1) Assets that an employer contributes to the multiemployer plan could be used for the benefits of employees of other participating employers.

(2) If one participating employer stops premium contributions, other participating employers could be required to absorb unfunded obligations additionally.

(3) If a participating employer withdraws from the multiemployer plan, the employer could be required to contribute the amount of the unfunded obligation as a special withdrawal premium.

The ITOCHU United Pension Fund is a defined benefit multiemployer plan that is operated in accordance with the rules above. Events occurring at participating companies influence the allocation of plan assets and expenses to other participating companies, and consequently, there is no consistent basis for that allocation. Accordingly, because it is not possible to obtain sufficient information to account for this plan as a defined benefit plan, it is accounted for as a defined contribution plan. In regard to the special premium for this plan, at the time when the periodical revaluation is conducted, the difference from the previous revaluation is added and the amount is recognized as a liability, and subsequently, that liability is reversed when the special premium is paid.

As of March 31, 2017, the ITOCHU United Pension Fund was underfunded by ¥7,314 million. The ITOCHU United Pension Fund obtained approval from the Minister of Health, Labor and Welfare on April 1, 2013, for an exemption from the obligation to pay benefits for future employee services related to the substitutional portion, which would result in the transfer of pension obligations and related assets to the government. As a result of the periodical revaluation and revision of the premium, it is expected that the amount by which the fund is underfunded will be supplemented by the revised premium.

The amount of contributions of participating subsidiaries to the ITOCHU United Pension Fund were ¥2,157 million (US$20 million) and ¥2,100 million for the years ended March 31, 2018 and 2017, respectively. The planned amount of contributions in the year ending March 31, 2019 is approximately ¥2,000 million. The portion of participating subsidiaries' contributions as a percentage of all contributions to the ITOCHU United Pension Fund was approximately 70% in the year ended March 31, 2018.

Changes in the defined benefit obligations were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Projected benefit obligations at the beginning of the year | **¥344,621** | ¥356,629 | **$3,244** |
| Service cost | **10,535** | 11,075 | **99** |
| Current service cost | **13,331** | 10,877 | **125** |
| Prior service cost | **(2,796)** | 198 | **(26)** |
| Interest cost | **3,144** | 2,486 | **30** |
| Plan participants' contributions | **634** | 632 | **6** |
| Remeasurements | **3,746** | (910) | **35** |
| Benefits paid from plan assets | **(16,070)** | (15,056) | **(151)** |
| Benefits paid by employer | **(5,599)** | (4,317) | **(53)** |
| Foreign currency translation adjustments | **(1,047)** | (2,137) | **(10)** |
| Acquisitions and divestitures | **53,441** | (3,781) | **503** |
| Settlements | **—** | — | **—** |
| Projected benefit obligations at the end of the year | **¥393,405** | ¥344,621 | **$3,703** |

Changes in the fair value of plan assets were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Fair value of plan assets at the beginning of the year | ¥296,894 | ¥300,473 | $2,795 |
| Interest income | 2,537 | 2,145 | 24 |
| Remeasurements | 8,318 | 7,904 | 78 |
| Employer contributions | 4,763 | 3,944 | 45 |
| Plan participants' contributions | 634 | 632 | 6 |
| Benefits paid from plan assets | (16,070) | (15,056) | (151) |
| Foreign currency translation adjustments | 698 | (1,873) | 6 |
| Acquisitions and divestitures | 11,702 | (1,275) | 110 |
| Fair value of plan assets at the end of the year | ¥309,476 | ¥296,894 | $2,913 |

As of March 31, 2018 and 2017, plan assets held by the Company and its subsidiaries by category were as follows. For information used to measure fair value, please refer to Note 26 Financial Instruments Measured at Fair Value.

| | Millions of Yen | | |
|---|---|---|---|
| | 2018 | | |
| | Level 1 | Level 2 | Total |
| Equity instruments: | | | |
| Domestic | ¥ 32,747 | ¥ 29,728 | ¥ 62,475 |
| Overseas | 4,950 | 22,316 | 27,266 |
| Debt instruments: | | | |
| Domestic | 34,435 | 51,094 | 85,529 |
| Overseas | 14,258 | 29,530 | 43,788 |
| Other assets: | | | |
| Cash and cash equivalents | 31,865 | — | 31,865 |
| Life insurance company general accounts | — | 30,690 | 30,690 |
| Others | — | 27,863 | 27,863 |
| Total | ¥118,255 | ¥191,221 | ¥309,476 |

| | Millions of Yen | | |
|---|---|---|---|
| | 2017 | | |
| | Level 1 | Level 2 | Total |
| Equity instruments: | | | |
| Domestic | ¥ 22,228 | ¥ 24,785 | ¥ 47,013 |
| Overseas | 5,690 | 13,753 | 19,443 |
| Debt instruments: | | | |
| Domestic | 26,705 | 44,825 | 71,530 |
| Overseas | 15,609 | 29,050 | 44,659 |
| Other assets: | | | |
| Cash and cash equivalents | 50,639 | — | 50,639 |
| Life insurance company general accounts | — | 34,374 | 34,374 |
| Others | — | 29,236 | 29,236 |
| Total | ¥120,871 | ¥176,023 | ¥296,894 |

| | Millions of U.S. Dollars | | |
|---|---|---|---|
| | 2018 | | |
| | Level 1 | Level 2 | Total |
| Equity instruments: | | | |
| Domestic | $ 308 | $ 280 | $ 588 |
| Overseas | 47 | 210 | 257 |
| Debt instruments: | | | |
| Domestic | 324 | 481 | 805 |
| Overseas | 134 | 278 | 412 |
| Other assets: | | | |
| Cash and cash equivalents | 300 | — | 300 |
| Life insurance company general accounts | — | 289 | 289 |
| Others | — | 262 | 262 |
| Total | $1,113 | $1,800 | $2,913 |

In setting its portfolio investment policy for plan assets, the Company, on a long-term basis, focuses on securing investment returns that are sufficient to provide for future benefit payments for employees in the context of a tolerable level of risk control. In order to achieve the objectives of the investment policy, the Company establishes the most appropriate portfolio considering the past return results as well as the estimated returns on invested assets, and manages the portfolio.

The Company's investment policy for its portfolio of plan assets is to invest approximately 65% in domestic and overseas debt securities, approximately 25% in domestic and overseas equity securities, and approximately 10% in alternative investments. The Company's allocation of assets may also include Cash and cash equivalents, and Life insurance company general accounts, as appropriate. The Company's basic policy is to emphasize asset liquidity and a thorough diversification of its investments. In addition, the Company has established an employee pension trust mainly comprised of domestic equity securities as a part of plan assets. The Company's holdings of equity instruments consist primarily of shares in listed companies. Debt instruments principally comprise highly-rated government bonds. The Insurance Business Law Enforcement Regulations stipulate that the investment of assets in life insurance company general accounts be conducted in a manner that provides a specific assumed interest rate and a principal guarantee.

Information about the maturity profile of retirement benefits is as follows:

The Projected benefit obligation is calculated based on the estimated amount of future benefits that have been incurred as of the present. The amount of those future payments is discounted back from the expected time of future payment to the present. Accordingly, the timing of benefit payments influences the amounts of the projected benefit obligation and service costs, and consequently, disclosure of information regarding the distribution of the timing of benefit payments is required under IAS 19 Employee Benefits. The Company believes that it meets this requirement in an effective manner through the disclosure of the weighted-average duration of the projected benefit obligation, which takes into account the amount, timing, and discount rate. The weighted average duration of the Company's projected benefit obligation is 12 years.

The Company and certain subsidiaries have plans that are underfunded, and this under-funded status could result in substantial differences between future contributions and current service cost. To eliminate this deficit, premium contributions will be accumulated over a defined period of time and reviewed periodically, as calculated in accordance with the retirement benefit rules of each company.

The planned amount of contributions for all defined benefit pension plans in the year ending March 31, 2019 is approximately ¥4,400 million.

The assumptions regarding the defined benefit obligation were as follows:

| | 2018 | 2017 |
|---|---|---|
| Discount rate | 0.6% | 0.7% |
| Rate of compensation increase | 3.7% | 3.7% |
| Mortality rate | 0.02–0.73% | 0.02–0.73% |
| Retirement rate | 0.9–13.7% | 0.9–13.7% |
| Lump sum election rate | 29.7% | 28.4% |

Among the above actuarial assumptions, the calculations related to the defined benefit plan are sensitive to the influence of the discount rate assumption.

As of March 31, 2018, a movement of 1% in the discount rate would have an effect of ¥23,293 million (US$219 million) on the defined benefit obligation and an effect of ¥651 million (US$6 million) (before tax effect) on service cost. This analysis is based on the premise that the actuarial assumptions other than the discount rate do not fluctuate and that only the discount rate fluctuates. This method of analysis is based on assumptions, and it is possible that the actual calculation could be influenced by fluctuations in other variables.

The Company and certain subsidiaries have defined contribution plans. In regard to these plans, the obligations of the Company and its subsidiaries are limited to the contribution amounts that are stipulated in the retirement benefit rules, which are determined on a company-by-company basis.

The recognized expenses with respect to the defined contribution plan for the years ended March 31, 2018 and 2017 were ¥6,285 million (US$59 million) and ¥4,725 million, respectively.

### Details of Compensation

Details of compensation and bonuses for the Company's directors in the year ended March 31, 2018 were as follows:

| | | Millions of Yen | Millions of U.S. Dollars | |
|---|---|---|---|---|
| Type | Number of people | Amount paid | Amount paid | Details |
| Directors<br>(Outside directors) | 9<br>(4) | ¥1,431<br>¥ (45) | $13<br>$ (0) | (1) Monthly compensation: ¥501 million<br>(2) Directors' bonuses accrued and payable for the fiscal year ended March 31, 2018: ¥687 million<br>(3) Special bounuses: ¥166 million<br>(4) Share-based remuneration: ¥76 million |

Notes: 1. Maximum compensation paid to all directors: ¥1.2 billion per year as total monthly compensation (including ¥50 million per year as a portion to the outside directors) and ¥1.0 billion per year as total bonuses paid to all directors (excluding the outside directors) under a framework different from the preceding maximum compensation amount (both resolved at the General Meeting of Shareholders on June 24, 2011).

2. In response to fiscal year 2018 consolidated net profit attributable to ITOCHU of ¥400.3 billion, an amount exceeding the ¥400.0 billion forecast for the full year and a record high for the Company, the Company has decided to pay a special bonus. This bonus is in accordance with the resolution of the Board of Directors held on February 2, 2018 after being examined by the Governance and Remuneration Committee, and it is to be paid for the purpose of providing incentive to further improve the Company's operating performance. The amount of special bonus paid shall be inside a range whereby the amount of special bonus and Director bonus combined (Note 1) does not exceed the bonus limit (1.0 billion yen per year).

3. The introduction of performance-linked and share-based remuneration for Directors (Board Incentive Plan Trust "BIP") was approved at the 92nd Ordinary General Meeting of Shareholders held on June 24, 2016. The total amount of share-based remuneration in the table is the recorded amount of expenses involving share granted points granted during this fiscal year related to BIP.

4. The retirement benefits system for directors was abolished on the date of the 81st Ordinary General Meeting of Shareholders held on June 29, 2005, and it was resolved that directors retaining their positions after the conclusion of the said General Meeting of Shareholders shall be presented with retirement benefits on the date of their retirement for the period up to the time the retirement benefits system was abolished.

## 18. Provisions

The changes in provisions in Other current liabilities and Other non-current liabilities for the year ended March 31, 2018 were as follows:

| | Millions of Yen | | |
|---|---|---|---|
| | Provisions for asset retirement obligations | Other provisions | Total |
| Balance as of April 1, 2017 | ¥50,801 | ¥11,505 | ¥62,306 |
| Provisions | **8,624** | **19,363** | **27,987** |
| Provisions charged-off | **(877)** | **(8,161)** | **(9,038)** |
| Provisions reversed | **(3,206)** | **(955)** | **(4,161)** |
| Accretion expense | **1,458** | **—** | **1,458** |
| The effect of changing in the discount rate | **731** | **—** | **731** |
| Others | **(1,745)** | **(1,650)** | **(3,395)** |
| Balance as of March 31, 2018 | **¥55,786** | **¥20,102** | **¥75,888** |

| | Millions of U.S. Dollars | | |
|---|---|---|---|
| | Provisions for asset retirement obligations | Other provisions | Total |
| Balance as of April 1, 2017 | $478 | $108 | $586 |
| Provisions | **81** | **182** | **263** |
| Provisions charged-off | **(8)** | **(77)** | **(85)** |
| Provisions reversed | **(30)** | **(9)** | **(39)** |
| Accretion expense | **14** | **—** | **14** |
| The effect of changing in the discount rate | **7** | **—** | **7** |
| Others | **(17)** | **(15)** | **(32)** |
| Balance as of March 31, 2018 | **$525** | **$189** | **$714** |

The provisions for asset retirement obligations are principally related to the costs of dismantlement of coal mining, iron-ore mining, and crude oil drilling facilities of subsidiaries. Others include provision for loss on guarantees.

The breakdown of the provisions in Other current liabilities and Other non-current liabilities in the Consolidated Statement of Financial Position was as follows:

| | Millions of Yen | Millions of U.S. Dollars |
|---|---|---|
| | 2018 | 2018 |
| Other current liabilities | ¥ 8,394 | $ 79 |
| Other non-current liabilities | 67,494 | 635 |
| Total | ¥75,888 | $714 |

## 19. Income Taxes

The Company and its domestic subsidiaries are subject to corporate, inhabitant, and enterprise taxes, which are based on income. The statutory effective tax rate for the fiscal years ended March 31, 2018 and 2017, which have been calculated based on the statutory tax rate, is 31.0%.

Commencing with the fiscal year ended March 31, 2003, the Company adopted a consolidated taxation system. Foreign subsidiaries are subject to income taxes of the countries where they operate.

Amounts provided for income taxes for the years ended March 31, 2018 and 2017 were allocated as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Income tax expense | | | |
| Current tax expense | ¥(100,975) | ¥ (81,591) | $(950) |
| Deferred tax expense (*) | (5,163) | (43,671) | (49) |
| Total | (106,138) | (125,262) | (999) |
| Income taxes recognized directly in equity | (52) | (30) | (0) |
| Total | (52) | (30) | (0) |
| Income tax related to each component of other comprehensive income | | | |
| Translation adjustments | (432) | (84) | (4) |
| Remeasurement of net defined pension liability | (1,320) | (2,797) | (12) |
| FVTOCI financial assets | (8,192) | (2,758) | (77) |
| Cash flow hedges | (797) | (1,511) | (8) |
| Other comprehensive income in associates and joint ventures | 1,670 | 612 | 16 |
| Total | ¥ (9,071) | ¥ (6,538) | $ (85) |

Notes: 1. Deferred tax expense relating to the origination and reversal of temporary differences recognized, tax loss carryforwards and tax credit carryforwards for the years ended March 31, 2018 and 2017 were ¥8,301 million (US$78 million) (expense) and ¥25,618 million (expense), respectively.
2. Deferred tax expense relating to changes of tax regulations for the years ended March 31, 2018 and 2017 were ¥12,146 million (US$114 million) (income) and ¥15,542 million (expense), respectively.
3. Deferred tax expense relating to the reassessment of the realizability of deferred tax assets for the years ended March 31, 2018 and 2017 were ¥9,008 million (US$85 million) (expense) and ¥2,511 million (expense), respectively.

The reconciliations between the statutory effective tax rate and the effective tax rate of income tax expense in the Consolidated Statement of Comprehensive Income for the years ended March 31, 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|---|---|
| Statutory effective tax rate | 31.0% | 31.0% |
| Items not deductible or not taxable for tax purposes | 0.7 | 1.0 |
| Difference of tax rates for foreign subsidiaries | (0.7) | (0.0) |
| Tax effect on dividends received | (0.2) | (0.1) |
| Effect on deferred tax assets and deferred tax liabilities from a change in the tax regulation | (2.3) | 3.1 |
| Change in temporary differences for which no deferred tax asset is recognized | 1.7 | 0.5 |
| Equity in earnings of associates and joint ventures | (12.5) | (11.5) |
| Tax effect on equity interests in subsidiaries, associates and joint ventures | 2.3 | 0.9 |
| Others | (0.3) | 0.2 |
| Effective tax rate in the Consolidated Statement of Comprehensive Income | 19.7% | 25.1% |

Deferred tax assets are not recognized for temporary differences, tax loss carryforwards and tax credit carryforwards if they are not probable to be realized based on the estimates of future taxable income for each taxable entity. Temporary differences, tax loss carryforwards and tax credit carryforwards for which no deferred tax assets were recognized for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Deductible temporary differences | ¥428,206 | ¥343,195 | $4,031 |
| Tax loss carryforwards / tax credit carryforwards | 225,760 | 195,710 | 2,125 |
| Total | ¥653,966 | ¥538,905 | $6,156 |

The expiration schedule for tax loss carryforwards and tax credit carryforwards for which deferred tax assets were not recognized were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Within 1 year | ¥ 264 | ¥ 810 | $ 2 |
| Within 2 years | 1,022 | 383 | 10 |
| Within 3 years | 13,174 | 2,971 | 124 |
| Within 4 years | 4,590 | 3,808 | 43 |
| Within 5 years | 6,986 | 5,006 | 66 |
| After 5 to 10 years | 145,763 | 148,140 | 1,372 |
| After 10 years (or no expiration date) | 53,961 | 34,592 | 508 |
| Total | ¥225,760 | ¥195,710 | $2,125 |

The total amount of taxable temporary differences arising from investments in subsidiaries, associates, and joint ventures, for which deferred tax liabilities have not been recognized as of March 31, 2018 and 2017, were immaterial.

Significant components of deferred tax assets and deferred tax liabilities for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Deferred tax assets: | | | |
| Inventories and Property, plant and equipment | ¥ 58,198 | ¥ 51,921 | $ 548 |
| Allowance for doubtful accounts | 4,686 | 7,608 | 44 |
| Tax loss carryforwards | 17,815 | 21,780 | 168 |
| Non-current liabilities for employee benefits | 62,303 | 51,856 | 586 |
| Securities and investments | 159 | 480 | 2 |
| Others | 50,938 | 48,752 | 479 |
| Total deferred tax assets | 194,099 | 182,397 | 1,827 |
| Deferred tax liabilities: | | | |
| Non-current liabilities for employee benefits | (37,977) | (37,222) | (357) |
| Securities and investments | (50,311) | (43,804) | (474) |
| Equity interests in subsidiaries, associates, and joint ventures | (80,580) | (80,949) | (759) |
| Property, plant and equipment and Intangible assets | (69,573) | (76,339) | (655) |
| Others | (22,978) | (12,797) | (216) |
| Total deferred tax liabilities | (261,419) | (251,111) | (2,461) |
| Net deferred tax assets (liabilities) | ¥ (67,320) | ¥ (68,714) | $ (634) |

Among the above changes of deferred tax assets and deferred tax liabilities for the years ended March 31, 2018 and 2017, the changes recognized through other comprehensive income are mainly FVTOCI financial assets, which are included in Securities and investments. In addition, the effect of deferred tax assets and deferred tax liabilities incurred due to business combinations was immaterial.

The details of changes in deferred tax assets and deferred tax liabilities for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Net deferred tax assets (liabilities) | | | |
| Balance at the beginning of the year | ¥(68,714) | ¥(15,823) | $(647) |
| Deferred tax expense for the current period | (5,163) | (43,671) | (49) |
| Deferred taxes recognized directly in equity | | | |
| Capital surplus | (50) | (27) | (0) |
| Deferred tax related to each component of other comprehensive income | | | |
| Translation adjustments | (277) | (82) | (3) |
| Remeasurement of net defined pension liability | (1,320) | (2,797) | (12) |
| FVTOCI financial assets | (8,037) | (3,437) | (76) |
| Cash flow hedges | (797) | (1,511) | (8) |
| Other comprehensive income in associates and joint ventures | 1,670 | 612 | 16 |
| Changes in deferred tax assets (liabilities) accompanying business combination | 15,368 | (1,978) | 145 |
| Balance at the end of the year | ¥(67,320) | ¥(68,714) | $(634) |

## 20. Earnings per Share Attributable to ITOCHU

The basic and diluted earnings per share attributable to ITOCHU for the years ended March 31, 2018 and 2017 were as follows:

| | Yen | | U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Earnings per share | | | |
| Basic earnings per share attributable to ITOCHU | ¥257.94 | ¥223.67 | $2.43 |
| Diluted earnings per share attributable to ITOCHU | ¥257.94 | ¥223.67 | $2.43 |

The base data to calculate the basic and diluted earnings per share attributable to ITOCHU for March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| (Numerator) | 2018 | 2017 | 2018 |
| Net profit attributable to ITOCHU | ¥400,333 | ¥352,221 | $3,768 |
| Effect of dilutive securities | — | — | — |
| Diluted net profit attributable to ITOCHU | ¥400,333 | ¥352,221 | $3,768 |

| | Number of Shares | |
|---|---|---|
| (Denominator) | 2018 | 2017 |
| Weighted-average number of common shares outstanding | 1,552,027,460 | 1,574,707,759 |

## 21. Common Stock, Capital Surplus, and Retained Earnings

### (1) Common Stock

The number of shares authorized and issued were as follows:

| | Number of Shares | |
|---|---|---|
| | 2018 | 2017 |
| Authorized | | |
| Common stock | **3,000,000,000** | 3,000,000,000 |
| Issued | | |
| Balance at the beginning of the year | **1,662,889,504** | 1,662,889,504 |
| Net changes in the year | **—** | — |
| Balance at the end of the year | **1,662,889,504** | 1,662,889,504 |

The number of shares of treasury stock included in the number of shares issued above as of March 31, 2018 and 2017 were 112,725,195 shares and 95,642,000 shares, respectively. The number of shares of treasury stock as of March 31, 2018 includes 902,200 shares of the Company held in the trust account for the benefit share ESOP and 457,433 shares of the Company held in the BIP trust account for officer remuneration, and the number of shares of treasury stock as of March 31, 2017 includes 912,000 shares of the Company held in the trust account for the benefit share ESOP and 467,400 shares of the Company held in the BIP trust account for officer remuneration.

The issued shares stated above are fully paid, and the common stock issued has no par value.

### (2) Capital Surplus and Retained Earnings

The Companies Act of Japan (the Companies Act) provides that upon payment of dividends, an amount equal to 10% of the paid dividends must be appropriated as additional paid-in capital (a component of Capital surplus) or as legal reserve (a component of Retained earnings) if the payment of such dividends is charged to Retained earnings, until the total aggregate amount of additional paid-in capital and legal reserve equals 25% of the Common stock.

The Companies Act provides a limit to the amount that can be distributed as dividends and the amount available for the purchase of treasury stock. This amount is based on the amount recorded in the Company's statutory stand-alone financial statements in accordance with the accounting standards in Japan. The adjustments to conform with IFRSs included in the Consolidated Financial Statements have no effect on the determination of the available balance of dividends or the purchase of treasury stock under the Companies Act. The amount available as dividends or for the purchase of treasury stock under the Companies Act was ¥563,239 million (US$5,302 million) as of March 31, 2018. This amount available as dividends or for the purchase of treasury stock might change as a result of certain actions, such as the purchase of treasury stock thereafter.

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having a Board of Corporate Auditors, (3) appointing independent auditors, and (4) the term of service of the directors being prescribed as one year, the Board of Directors may decide dividends (except for dividends-in-kind) if the company has prescribed so in its articles of incorporation. Companies under the Board of Directors' system may declare dividends once during the fiscal year by resolution of the Board of Directors (cash dividends only) if the company has prescribed so in its articles of incorporation.

The Companies Act also provides for companies, provided it is resolved by the Board of Directors, to dispose of treasury stock or to purchase it as prescribed in their articles of incorporation. The amount of treasury stock to be purchased must be within the amount available as previously described.

The Companies Act permits reclassification among Common stock, Capital surplus, and Retained earnings by resolution of the shareholders' meeting, such as the transfer of a portion or all of Retained earnings to the Common stock account.

## 22. Dividends

(1) Dividends paid during the years ended March 31, 2018 and 2017 were as follows:

| Resolution | Class of shares | Millions of Yen (Millions of U.S. Dollars) Amount of dividends | Source of dividends | Yen (U.S. Dollars) Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| Ordinary general meeting of shareholders held on June 24, 2016 | Ordinary shares | ¥39,541 | Retained earnings | ¥25.00 | March 31, 2016 | June 27, 2016 |
| Board of Directors' meeting held on November 2, 2016 | Ordinary shares | ¥43,495 | Retained earnings | ¥27.50 | September 30, 2016 | December 2, 2016 |
| Ordinary general meeting of shareholders held on June 23, 2017 | Ordinary shares | ¥43,165 ($406) | Retained earnings | ¥27.50 ($0.26) | March 31, 2017 | June 26, 2017 |
| Board of Directors' meeting held on November 2, 2017 | Ordinary shares | ¥49,680 ($468) | Retained earnings | ¥32.00 ($0.30) | September 30, 2017 | December 4, 2017 |

(2) Dividends for which the record date is in the current fiscal year but the effective date is in the following fiscal year are as follows:

| Resolution | Class of shares | Millions of Yen (Millions of U.S. Dollars) Amount of dividends | Source of dividends | Yen (U.S. Dollars) Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| Ordinary general meeting of shareholders held on June 22, 2018 | Ordinary shares | ¥58,995 ($555) | Retained earnings | ¥38.00 ($0.36) | March 31, 2018 | June 25, 2018 |

## 23. Other Components of Equity and Other Comprehensive Income (Loss)

### (1) Other Components of Equity

Changes in other components of equity were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Translation adjustments | | | |
| Balance at the beginning of the year | **¥137,085** | ¥202,795 | **$1,290** |
| Adjustment for the year | **(356)** | (65,710) | **(3)** |
| Balance at the end of the year | **136,729** | 137,085 | **1,287** |
| FVTOCI financial assets | | | |
| Balance at the beginning of the year | **(50,353)** | (51,630) | **(474)** |
| Adjustment for the year | **(17,957)** | (1,960) | **(169)** |
| Transfer to retained earnings | **6,826** | 3,237 | **64** |
| Balance at the end of the year | **(61,484)** | (50,353) | **(579)** |
| Cash flow hedges | | | |
| Balance at the beginning of the year | **1,997** | (10,415) | **19** |
| Adjustment for the year | **3,964** | 12,412 | **37** |
| Balance at the end of the year | **5,961** | 1,997 | **56** |
| Remeasurement of net defined pension liability | | | |
| Balance at the beginning of the year | **—** | — | **—** |
| Adjustment for the year | **4,086** | 5,696 | **38** |
| Transfer to retained earnings | **(4,086)** | (5,696) | **(38)** |
| Balance at the end of the year | **—** | — | **—** |
| Other components of equity | | | |
| Balance at the beginning of the year | **88,729** | 140,750 | **835** |
| Adjustment for the year | **(10,263)** | (49,562) | **(97)** |
| Transfer to retained earnings | **2,740** | (2,459) | **26** |
| Balance at the end of the year | **¥ 81,206** | ¥ 88,729 | **$ 764** |

### (2) Other Comprehensive Income (Loss)

The breakdown of items in other comprehensive income (loss) and their respective associated tax effects (including Non-controlling interests) were as follows:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Before tax effects | Tax effects | Net of tax effects | Before tax effects | Tax effects | Net of tax effects |
| Items that will not be reclassified to profit or loss | | | | | | |
| FVTOCI financial assets | | | | | | |
| Amount arising during the year on FVTOCI financial assets | ¥(14,908) | ¥(8,192) | ¥(23,100) | ¥ 3,021 | ¥(2,758) | ¥ 263 |
| Adjustment for the year | (14,908) | (8,192) | (23,100) | 3,021 | (2,758) | 263 |
| Remeasurement of net defined pension liability | | | | | | |
| Amount arising during the year on net defined pension liability | 4,572 | (1,320) | 3,252 | 8,814 | (2,797) | 6,017 |
| Adjustment for the year | 4,572 | (1,320) | 3,252 | 8,814 | (2,797) | 6,017 |
| Other comprehensive income in associates and joint ventures | | | | | | |
| Amount arising during the year | 1,393 | (60) | 1,333 | (4,008) | (107) | (4,115) |
| Adjustment for the year | 1,393 | (60) | 1,333 | (4,008) | (107) | (4,115) |
| Items that will be reclassified to profit or loss | | | | | | |
| Translation adjustments | | | | | | |
| Amount arising during the year on translation adjustment | (37,588) | (438) | (38,026) | (11,019) | (87) | (11,106) |
| Reclassification to profit or loss for the year | (432) | 6 | (426) | (686) | 3 | (683) |
| Adjustment for the year | (38,020) | (432) | (38,452) | (11,705) | (84) | (11,789) |
| Cash flow hedges | | | | | | |
| Amount arising during the year on derivative instruments for cash flow hedges | 3,065 | (1,350) | 1,715 | 7,856 | (1,716) | 6,140 |
| Reclassification to profit or loss for the year | (1,773) | 553 | (1,220) | (671) | 205 | (466) |
| Adjustment for the year | 1,292 | (797) | 495 | 7,185 | (1,511) | 5,674 |
| Other comprehensive income in associates and joint ventures | | | | | | |
| Amount arising during the year | 38,126 | 1,732 | 39,858 | (47,620) | 523 | (47,097) |
| Reclassification to profit or loss for the year | 498 | (2) | 496 | (377) | 196 | (181) |
| Adjustment for the year | 38,624 | 1,730 | 40,354 | (47,997) | 719 | (47,278) |
| Total other comprehensive income for the year, net of tax | ¥ (7,047) | ¥(9,071) | ¥(16,118) | ¥(44,690) | ¥(6,538) | ¥(51,228) |

| | Millions of U.S. Dollars | | |
|---|---|---|---|
| | 2018 | | |
| | Before tax effects | Tax effects | Net of tax effects |
| Items that will not be reclassified to profit or loss | | | |
| FVTOCI financial assets | | | |
| Amount arising during the year on FVTOCI financial assets | $(141) | $(77) | $(218) |
| Adjustment for the year | (141) | (77) | (218) |
| Remeasurement of net defined pension liability | | | |
| Amount arising during the year on net defined pension liability | 43 | (12) | 31 |
| Adjustment for the year | 43 | (12) | 31 |
| Other comprehensive income in associates and joint ventures | | | |
| Amount arising during the year | 13 | (1) | 12 |
| Adjustment for the year | 13 | (1) | 12 |
| Items that will be reclassified to profit or loss | | | |
| Translation adjustments | | | |
| Amount arising during the year on translation adjustment | (354) | (4) | (358) |
| Reclassification to profit or loss for the year | (4) | 0 | (4) |
| Adjustment for the year | (358) | (4) | (362) |
| Cash flow hedges | | | |
| Amount arising during the year on derivative instruments for cash flow hedges | 29 | (13) | 16 |
| Reclassification to profit or loss for the year | (16) | 5 | (11) |
| Adjustment for the year | 13 | (8) | 5 |
| Other comprehensive income in associates and joint ventures | | | |
| Amount arising during the year | 358 | 17 | 375 |
| Reclassification to profit or loss for the year | 5 | (0) | 5 |
| Adjustment for the year | 363 | 17 | 380 |
| Total other comprehensive income for the year, net of tax | $ (67) | $(85) | $(152) |

Note: The amounts of hedge income (loss) in other comprehensive income, arising from the changes in the fair value of currency derivatives designated as the hedging instruments for the cash flow hedges, where the currency risk of borrowings in foreign currency is designated as the hedged items, for the years ended March 31, 2018 and 2017 were ¥19,077 million (US$180 million) (loss) and ¥13,455 million (loss) (before tax effect), respectively (¥13,163 million (US$124 million) (loss) and ¥9,284 million (loss) (net of tax), respectively). These amounts were reclassified from Other components of equity in the period in which the borrowings in foreign currencies designated as the hedged items are translated. They are not included in the amount arising during the year on derivative instruments for cash flow hedges or reclassification to profit or loss for the year.

## 24. Financial Instruments

### (1) Capital Management

The Company and its subsidiaries have chosen NET DER*1 as an important indicator for financial soundness, and the Company and its subsidiaries work to maintain financial soundness by controlling interest-bearing debt and by increasing consolidated shareholders' equity through the accumulation of profits. In addition, the Company and its subsidiaries have introduced and are implementing Risk Capital Management, under which the basic principle is to control risk assets*2 within the limit of the risk buffer (consolidated shareholders' equity + non-controlling interests), and the Company and its subsidiaries also strictly maintain financial discipline. In this way, the Company and its subsidiaries aim to achieve sustainable expansion and growth in profits.

Notes: 1. NET DER (Net debt-to-equity ratio) = Net interest-bearing debt / Shareholders' equity. Net interest-bearing debt is calculated by subtracting Cash and cash equivalents, and Time deposits from the total of Interest-bearing debt, Debentures and Borrowings (Short-term and Long-term).
2. Risk assets are calculated based on the maximum amount of possible future losses from all assets on the Consolidated Statement of Financial Position, including investments, as well as for all off-balance-sheet transactions.

The Net interest-bearing debt, Shareholders' equity and NET DER for the Company and its subsidiaries as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Interest-bearing debt | ¥2,779,473 | ¥2,944,653 | $26,162 |
| Cash and cash equivalents | 432,140 | 605,589 | 4,068 |
| Time deposit | 26,915 | 8,381 | 253 |
| Net Interest-bearing debt | 2,320,418 | 2,330,683 | 21,841 |
| Shareholders' equity | 2,669,483 | 2,401,893 | 25,127 |
| NET DER (times) | 0.87 | 0.97 | 0.87 |

The Company and its subsidiaries are not subject to the application of any major capital requirements (except for general requirements, such as those in the Companies Act of Japan).

### (2) Financial Risk Management Policy

The Company and its subsidiaries conduct business transactions and operations in regions around the world, and consequently are exposed to foreign exchange rate risk, interest rate risk, commodity price risk, stock price risk, credit risk, and liquidity risk. The Company and its subsidiaries utilize periodic monitoring and other means to manage these risks.

#### 1) Foreign exchange rate risk management

The Company and its subsidiaries are exposed to foreign exchange rate risk related to transactions in foreign currencies due to their significant involvement in import/export trading. Therefore, the Company and its subsidiaries work to minimize foreign exchange rate risk through hedge transactions that utilize derivatives, such as foreign exchange forward contracts.

The net exposures to foreign exchange rate risk of the Company and its subsidiaries as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | U.S. dollar | Euro | Pound | Yuan | Australian dollar | Brazilian real | Other | Total |
| Short-term balance | ¥16,322 | ¥(1,383) | ¥ 6,271 | ¥2,016 | ¥(6,908) | ¥(112) | ¥2,222 | ¥18,428 |
| Long-term balance | 18,840 | 1,770 | (1,312) | (32) | (2,411) | — | 1,320 | 18,175 |
| Total | ¥35,162 | ¥ 387 | ¥ 4,959 | ¥1,984 | ¥(9,319) | ¥(112) | ¥3,542 | ¥36,603 |

| | Millions of Yen 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | U.S. dollar | Euro | Pound | Yuan | Australian dollar | Brazilian real | Other | Total |
| Short-term balance | ¥(13,457) | ¥(7,803) | ¥15,987 | ¥5,210 | ¥ (5,567) | ¥8,925 | ¥ 5,753 | ¥ 9,048 |
| Long-term balance | 23,363 | 6,280 | (2,041) | 30 | (4,891) | — | 10,204 | 32,945 |
| Total | ¥ 9,906 | ¥(1,523) | ¥13,946 | ¥5,240 | ¥(10,458) | ¥8,925 | ¥15,957 | ¥41,993 |

Notes: 1. The balance of positions exposed to foreign exchange rate risk are the amounts in foreign currencies, of foreign-currency-denominated receivables and payables and foreign-currency-denominated firm commitments arising from export/import transactions for which foreign exchange rate risk has not been hedged using forward exchange contracts, etc. Balances with a settlement period of one year or less are classified into short-term balances, and balances with a settlement period of more than one year are classified into long-term balances.
2. Positive balances indicate a receivable position, and negative balances indicate a payable position.

For the Company's and its subsidiaries' short-term and long-term balances of positions exposed to foreign exchange rate risk as of March 31, 2018, the effect (loss) from a 1% increase in the Japanese yen would be ¥366 million (US$3 million) for the Company's and its subsidiaries' profit before tax. This analysis is based on the assumption that other variable factors such as balances and interest rates were constant.

The Company's and its subsidiaries' investments in overseas businesses expose the Company and its subsidiaries to the risk that fluctuations in foreign exchange rates could affect Shareholders' equity through the accounting of foreign currency translation adjustments and the risk that fluctuations in foreign exchange rates could affect the amount of periodic income when converted to Japanese yen. In addition, there are risks that fluctuations in foreign exchange rates could affect Shareholders' equity for FVTOCI financial assets in foreign currency.

#### 2) Interest rate risk management

The Company and its subsidiaries are exposed to interest rate risk in both raising and using funds for investing, financing, and operating activities. Among interest insensitive assets, such as investment securities or fixed assets, the portion acquired using floating interest loans is considered to be the interest mismatch amount exposed to interest rate risk. The Company and its subsidiaries seek to quantify the interest rate risk to better control the fluctuation of gains and losses due to interest rate changes. As of March 31, 2018, the interest rate mismatch amount was ¥570,762 million (US$5,372 million), and the effect on interest expense from a 1% increase in interest rate would be ¥5,708 million (US$54 million) (profit before tax). This amount was calculated by multiplying the interest mismatch balance of the Company and its subsidiaries as of March 31, 2018, by 1%. This analysis was made without consideration of factors, such as future changes in the balance, foreign exchange rate fluctuations, and dispersing effects of floating-rate borrowings derived from the interest rate reset date, and was based on the assumption that all other variable factors were constant.

To be specific, using the Earnings at Risk (EaR) management method, the Company and its subsidiaries periodically track and monitor the amount of influence on interest payments due to interest rate changes.

#### 3) Commodity price risk management

The Company and its subsidiaries conduct actual demand transactions that are based on the back-to-back transactions of a variety of commodities. In some cases, the Company and its subsidiaries are exposed to commodity price fluctuation risk, because it holds long or short positions in consideration of market trends. Therefore, the Company and its subsidiaries analyze inventories and purchase and sales contracts, and each Division Company has established middle and back offices for major commodities, which establish a balance limit and loss cut limit for each commodity, as well as conduct monitoring, management, and periodic reviews.

To reduce commodity price risks, the Company and its subsidiaries use such hedges as futures and forward contracts.

Commodity price risk exposures as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | | | Millions of U.S. Dollars | |
|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | |
| | Long | Short | Long | Short | Long | Short |
| Commodity | **¥14,571** | **¥1,535** | ¥11,888 | ¥36 | **$137** | **$14** |

### Commodity price sensitivity analysis

The Company and its subsidiaries use the Value at Risk (VaR) method to measure the risk of commodity transactions that are sensitive to market conditions. The following table shows year-end and average VaR figures as of March 31, 2018 and 2017. (Method: variance-covariance method / confidence interval 99% / holding period: 5 days / measurement frequency: weekly)

| | Millions of Yen | | | | Millions of U.S. Dollars | |
|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | |
| | March 31 | Average | March 31 | Average | March 31 | Average |
| Commodity | **¥397** | **¥295** | ¥588 | ¥485 | **$4** | **$3** |

### 4) Stock price risk management

The Company and its subsidiaries hold a variety of marketable equity securities, mainly to strengthen relationships with customers, suppliers, and other parties, and to secure business income, and to increase corporate value through means such as making a wide range of proposals to investees, and consequently are exposed to stock price fluctuation risk.

Therefore, the Company and its subsidiaries, using the VaR method, periodically track and monitor the amount of influence on consolidated shareholders' equity.

The fair values of marketable equity securities (total of FVTOCI and FVTPL financial assets) held as of March 31, 2018 and 2017 were ¥329,641 million (US$3,103 million) and ¥271,234 million, respectively.

## Stock price sensitivity analysis

The Company and its subsidiaries use the VaR method to measure stock price risk. The following table shows year-end VaR figures as of March 31, 2018 and 2017. (Method: variance-covariance method / confidence interval 99% / holding period: 10 days / measurement frequency: monthly)

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Marketable equity securities | **¥14,783** | ¥18,620 | **$139** |

VaR is used to measure commodity price risk and stock price risk. VaR employs statistical methods to estimate the maximum loss that could occur in a defined period of time in the future based on market fluctuation data for a defined period of time in the past. It is possible that actual results could differ substantially from the above estimates.

The Company and its subsidiaries periodically conduct back-testing in which VaR is compared with actual gains or losses.

### 5) Credit risk management

Through trade receivables, loans, guarantees, and other formats, the Company and its subsidiaries grant credit to their trading partners, both domestically and overseas. The Company and its subsidiaries, therefore, bear credit risk in relation to such receivables becoming uncollectible due to the deteriorating credit status or insolvency of the Company's and its subsidiaries' partners, and in relation to assuming responsibilities to fulfill contracts where an involved party is unable to continue its business and therefore cannot fulfill its obligations under the contracts.

Therefore, when granting credit, the Company and its subsidiaries work to reduce risk by conducting risk management through the establishment of credit limits and the acquisition of collateral or guarantees as needed. At the same time, the Company and its subsidiaries establish an allowance for doubtful accounts based on the creditworthiness, the status of receivable collection, and the status of receivables in arrears of business partners. The Company and its subsidiaries, having transactions in a broad range of business across a wide range of regions, are not exposed to credit risk that is significantly concentrated on any individual counterparty.

In the Consolidated Financial Statements, the carrying amounts of financial assets after impairment and the contract amounts for guarantees and financing commitments are the maximum amount of credit risk exposure associated with the Company's and its subsidiaries' financial assets, and do not include the valuation of collateral that has been obtained.

The maximum exposure to credit risk as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Trade receivables (including doubtful accounts receivable) | **¥2,211,112** | ¥1,973,588 | **$20,812** |
| Loans | **638,997** | 678,039 | **6,015** |
| Guarantees (substantial risk) | **122,481** | 128,606 | **1,153** |
| Other | **177,905** | 203,273 | **1,675** |
| The maximum exposure | **¥3,150,495** | ¥2,983,506 | **$29,655** |
| | | | |
| Less: Allowance for doubtful accounts | **(26,235)** | (27,295) | **(247)** |
| The maximum exposure (after allowance for doubtful accounts) | **¥3,124,260** | ¥2,956,211 | **$29,408** |

The credit risk exposures for each operating segment as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | | | |
| | Trade receivables | Loans | Guarantees (substantial risk) | Other | Allowance for doubtful accounts | Total |
| Textile | ¥ 161,851 | ¥ 2,456 | ¥ 468 | ¥ 9,069 | ¥ (2,635) | ¥ 171,209 |
| Machinery | 214,338 | 57,312 | 71,521 | 23,269 | (8,637) | 357,803 |
| Metals & Minerals | 103,851 | 15,628 | — | 10,888 | (919) | 129,448 |
| Energy & Chemicals | 617,276 | 6,851 | 6,375 | 53,385 | (4,053) | 679,834 |
| Food | 686,140 | 1,883 | 16,739 | 39,338 | (7,263) | 736,837 |
| General Products & Realty | 219,278 | 36,132 | 23,858 | 14,986 | (1,598) | 292,656 |
| ICT & Financial Business | 202,348 | 21,300 | 2,182 | 17,310 | (957) | 242,183 |
| Other | 6,030 | 497,435 | 1,338 | 9,660 | (173) | 514,290 |
| Total | ¥2,211,112 | ¥638,997 | ¥122,481 | ¥177,905 | ¥(26,235) | ¥3,124,260 |

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | | | |
| | Trade receivables | Loans | Guarantees (substantial risk) | Other | Allowance for doubtful accounts | Total |
| Textile | ¥ 160,997 | ¥ 5,290 | ¥ 450 | ¥ 12,925 | ¥ (2,419) | ¥ 177,243 |
| Machinery | 197,745 | 65,019 | 85,702 | 13,553 | (6,079) | 355,940 |
| Metals & Minerals | 82,873 | 18,685 | 2,404 | 20,953 | (5,020) | 119,895 |
| Energy & Chemicals | 547,481 | 10,941 | 7,915 | 49,098 | (4,036) | 611,399 |
| Food | 591,505 | 1,838 | 18,272 | 40,942 | (5,505) | 647,052 |
| General Products & Realty | 200,168 | 33,662 | 10,105 | 14,870 | (1,779) | 257,026 |
| ICT & Financial Business | 187,150 | 17,305 | 2,152 | 14,025 | (1,290) | 219,342 |
| Other | 5,669 | 525,299 | 1,606 | 36,907 | (1,167) | 568,314 |
| Total | ¥1,973,588 | ¥678,039 | ¥128,606 | ¥203,273 | ¥(27,295) | ¥2,956,211 |

| | Millions of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | | | |
| | Trade receivables | Loans | Guarantees (substantial risk) | Other | Allowance for doubtful accounts | Total |
| Textile | $ 1,523 | $ 24 | $ 4 | $ 86 | $ (25) | $ 1,612 |
| Machinery | 2,017 | 540 | 673 | 219 | (81) | 3,368 |
| Metals & Minerals | 978 | 147 | — | 102 | (9) | 1,218 |
| Energy & Chemicals | 5,810 | 64 | 60 | 503 | (38) | 6,399 |
| Food | 6,458 | 18 | 158 | 370 | (68) | 6,936 |
| General Products & Realty | 2,064 | 340 | 225 | 141 | (15) | 2,755 |
| ICT & Financial Business | 1,905 | 200 | 21 | 163 | (9) | 2,280 |
| Other | 57 | 4,682 | 12 | 91 | (2) | 4,840 |
| Total | $20,812 | $6,015 | $1,153 | $1,675 | $(247) | $29,408 |

For the loans included above, as of March 31, 2018 and 2017, collateral had been secured in the amounts of ¥4,933 million (US$46 million) and ¥2,889 million, respectively. Properties and other credit enhancements held by the Company and its subsidiaries as collateral are assessed at fair value.

An aging analysis of receivables that were past due at the reporting date, but not impaired as of March 31, 2018 and 2017, were as follows. The following includes amounts that are expected to be recoverable due to insurance or the acquisition of collateral. At this point, the Company and its subsidiaries have concluded that it is not necessary to recognize impairment.

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Less than 90 days | ¥11,499 | ¥ 8,817 | $108 |
| 90 days–1 year | 933 | 825 | 9 |
| More than 1 year | 212 | 1,068 | 2 |
| Total | ¥12,644 | ¥10,710 | $119 |

The changes in Allowance for doubtful accounts for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Balance at the beginning of the year | ¥(27,295) | ¥(31,836) | $(257) |
| Provision for doubtful accounts | (3,231) | (3,226) | (30) |
| Charge-offs | 2,177 | 2,641 | 20 |
| Exchange differences on translation of foreign operations and others | 2,114 | 5,126 | 20 |
| Balance at the end of the year | ¥(26,235) | ¥(27,295) | $(247) |

The balances of impaired receivables as of March 31, 2018 and 2017 were ¥24,336 million (US$229 million) and ¥29,044 million, respectively, and the corresponding allowances for doubtful accounts were ¥17,687 million (US$166 million) and ¥16,698 million, respectively.

### 6) Liquidity risk management

The Company and its subsidiaries are exposed to liquidity risk in both raising and using funds for investing, financing, and operating activities, as well as repayments of borrowings.

In addition to securing flexibility in fund-raising in response to changes in financial conditions and reducing the cost of funds, the Company and its subsidiaries have taken steps to diversify their sources of funds and methods of fund-raising. In regards to liquidity, in addition to Cash and cash equivalents, and Time deposits of ¥459,055 million (US$4,321 million) as of March 31, 2018, the Company and its subsidiaries have the unutilized commitment line (Yen: ¥200,000 million; multiple currency: US$1,700 million).

As of March 31, 2018 and 2017, the remaining contractual maturities of the Company's and its subsidiaries' Debentures and borrowings (Short-term and Long-term), Trade payables, other current payables, and other financial liabilities (Short-term and Long-term), and Contingent liabilities (guarantee for substantial risk for monetary indebtedness of associates and customers) were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Less than 1 year | 1–5 years | More than 5 years | Total |
| Debentures and borrowings (Short-term and Long-term) | ¥ 526,867 | ¥1,533,206 | ¥719,400 | ¥2,779,473 |
| Trade payables, other current payables, and other financial liabilities (Short-term and Long-term) | 1,940,545 | 65,435 | 40,497 | 2,046,477 |
| Contingent liabilities | 17,642 | 76,092 | 28,747 | 122,481 |

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2017 | | | |
| | Less than 1 year | 1–5 years | More than 5 years | Total |
| Debentures and borrowings (Short-term and Long-term) | ¥ 563,033 | ¥1,352,165 | ¥1,029,455 | ¥2,944,653 |
| Trade payables, other current payables, and other financial liabilities (Short-term and Long-term) | 1,669,381 | 63,781 | 33,177 | 1,766,339 |
| Contingent liabilities | 17,727 | 67,156 | 43,723 | 128,606 |

| | Millions of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Less than 1 year | 1–5 years | More than 5 years | Total |
| Debentures and borrowings (Short-term and Long-term) | $ 4,959 | $14,432 | $6,771 | $26,162 |
| Trade payables, other current payables, and other financial liabilities (Short-term and Long-term) | 18,266 | 616 | 381 | 19,263 |
| Contingent liabilities | 166 | 716 | 271 | 1,153 |

The remaining contractual maturities of derivatives for the Company and its subsidiaries as of March 31, 2018 and 2017 were as follows: The amounts for derivatives that will be net settled with other contracts are also presented in gross amounts.

| | | Millions of Yen | | | |
|---|---|---|---|---|---|
| | | 2018 | | | |
| | | Less than 1 year | 1–5 years | More than 5 years | Total |
| Currency derivatives | Income | ¥ 5,218 | ¥ 493 | ¥ — | ¥ 5,711 |
| | Expenditures | (7,185) | (8,459) | (1) | (15,645) |
| Interest rate derivatives | Income | 133 | 6,013 | 4,787 | 10,933 |
| | Expenditures | (68) | (453) | (396) | (917) |
| Commodity derivatives | Income | 19,060 | 25 | — | 19,085 |
| | Expenditures | (13,201) | (8) | — | (13,209) |

| | | Millions of Yen | | | |
|---|---|---|---|---|---|
| | | 2017 | | | |
| | | Less than 1 year | 1–5 years | More than 5 years | Total |
| Currency derivatives | Income | ¥ 4,647 | ¥15,977 | ¥ — | ¥ 20,624 |
| | Expenditures | (3,003) | (4,552) | (8) | (7,563) |
| Interest rate derivatives | Income | 22 | 5,508 | 5,170 | 10,700 |
| | Expenditures | (71) | (412) | (458) | (941) |
| Commodity derivatives | Income | 14,553 | 17 | — | 14,570 |
| | Expenditures | (10,636) | (307) | — | (10,943) |

| | | Millions of U.S. Dollars | | | |
|---|---|---|---|---|---|
| | | 2018 | | | |
| | | Less than 1 year | 1–5 years | More than 5 years | Total |
| Currency derivatives | Income | $ 49 | $ 5 | $ — | $ 54 |
| | Expenditures | (68) | (79) | (0) | (147) |
| Interest rate derivatives | Income | 1 | 57 | 45 | 103 |
| | Expenditures | (1) | (4) | (4) | (9) |
| Commodity derivatives | Income | 179 | 0 | — | 179 |
| | Expenditures | (124) | (0) | — | (124) |

### (3) Fair Value of Financial Instruments

The Company and its subsidiaries have various financial instruments, which are exposed to credit losses in the event of non-performance by counterparties.

The Company and its subsidiaries are engaged in transactions with numerous counterparties to avoid excessive concentration of credit risk to a certain counterparty or a group of counterparties.

The carrying amounts and estimated fair values for the purpose of the disclosure requirements of IFRS 13 Fair Value Measurement, and valuation techniques for Non-current receivables, Non-current financial assets other than investments and receivables (excluding derivative assets), Long-term debentures and borrowings, and Other non-current financial liabilities (excluding derivative liabilities) as of March 31, 2018 and 2017 were as follows (For fair value and valuation techniques of Short-term investments and Other investments, refer to Note 12 Securities and Other Investments and Note 26 Financial Instruments Measured at Fair Value, respectively. For fair value and valuation techniques of derivative asset / liability, refer to Note 26 Financial Instruments Measured at Fair Value.):

| | Millions of Yen | |
|---|---|---|
| | 2018 | |
| | Carrying amount | Fair value |
| Financial assets: | | |
| Non-current receivables and Non-current financial assets other than investments and receivables (excluding derivative assets) | ¥ 191,344 | ¥ 191,758 |
| Financial liabilities: | | |
| Long-term debentures and borrowings and Other non-current financial liabilities (excluding derivative liabilities) | ¥2,357,899 | ¥2,357,612 |

| | Millions of Yen | |
|---|---|---|
| | 2017 | |
| | Carrying amount | Fair value |
| Financial assets: | | |
| Non-current receivables and Non-current financial assets other than investments and receivables (excluding derivative assets) | ¥ 223,348 | ¥ 223,946 |
| Financial liabilities: | | |
| Long-term debentures and borrowings and Other non-current financial liabilities (excluding derivative liabilities) | ¥2,484,103 | ¥2,484,158 |

| | Millions of U.S. Dollars | |
|---|---|---|
| | 2018 | |
| | Carrying amount | Fair value |
| Financial assets: | | |
| Non-current receivables and Non-current financial assets other than investments and receivables (excluding derivative assets) | **$ 1,801** | **$ 1,805** |
| Financial liabilities: | | |
| Long-term debentures and borrowings and Other non-current financial liabilities (excluding derivative liabilities) | **$22,194** | **$22,191** |

Note: Of the "Non-current receivables" reflected on the Consolidated Statement of Financial Position, the shareholder loan to Chia Tai Bright Investment Company Limited ("CTB") accompanying the acquisition of CITIC Limited shares is not included above, and the information concerning the said financial instrument is described in 2) below.

**1) Valuation techniques for fair values of financial instruments**

The valuation techniques for fair values of Non-current receivables and Non-current financial assets other than investments and receivables (excluding derivative assets) are as follows:

The fair values of Non-current receivables and Non-current financial assets other than investments and receivables (excluding derivative assets) are estimated based on the present value of future cash flows discounted using the current rates of loans or receivables with similar terms, conditions, and maturities being offered to borrowers or customers with similar credit ratings and are classified as Level 2.

Non-current receivables and Non-current financial assets other than investments and receivables, for which the Company and its subsidiaries recognized an allowance for doubtful accounts, are classified as Level 3.

The valuation techniques for fair values of Long-term debentures and borrowings and Other non-current financial liabilities (excluding derivative liabilities) are as follows:

The fair values of Long-term debentures and borrowings and Other non-current financial liabilities (excluding derivative liabilities) are based on the present value of future cash flows discounted using the current borrowing rates of similar debt instruments having comparable maturities and are classified as Level 2.

The carrying amounts of current financial assets and liabilities other than those mentioned above are approximately the same as their fair values mainly because of their short maturities.

**2) Shareholder loan to CTB accompanying the acquisition of CITIC Limited shares**

CTB, a company in which the Company and Charoen Pokphand Group Company Limited each invested 50%, owns 5,818 million CITIC Limited shares, which equates to 20% of that company's ordinary shares, and CTB applied the equity method. In order for CTB to procure the necessary funds for the acquisition of CITIC Limited shares, the Company provided investment and a shareholder loan to CTB.

As of March 31, 2018 and 2017, the balance of the investment to CTB accompanying the acquisition of CITIC Limited shares amounted to US$514 million (¥54,574 million) and US$514 million (¥57,631 million), respectively. The shareholder loan to CTB accompanying the acquisition of CITIC Limited shares amounted to US$4,682 million (¥497,397 million) and US$4,682 million (¥525,254 million), respectively. The balance of the shareholder loan is presented under "Non-current receivables" on the Consolidated Statement of Financial Position.

As of March 31, 2018 and 2017, the closing price of CITIC Limited shares on the Hong Kong Stock Exchange were HK$10.98 and HK$11.08 per share, respectively. The value obtained by multiplying the number of CITIC Limited shares that CTB owns by the said share prices are HK$63,882 million (¥864,965 million) and HK$64,464 million (¥930,861 million), respectively. In addition, the amount obtained by multiplying this value by 50%, which is the Company's ownership interest in CTB, are HK$31,941 million (¥432,483 million) and HK$32,232 million (¥465,430 million), respectively.

## (4) Offsetting of Financial Assets and Financial Liabilities

The Company and its subsidiaries have financial assets and financial liabilities under a master netting arrangement or similar arrangement. These legally enforceable master netting agreements or similar arrangements give the Company and its subsidiaries, in the event of default by the counterparty, the right to offset receivables and payables with the same counterparty.

The following table provides offsetting information of financial assets and financial liabilities with the same counterparty as of March 31, 2018 and 2017.

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| The amount of financial assets | **¥4,303,722** | ¥4,262,509 | **$40,510** |
| The amount of possible offsetting under master netting arrangement or similar arrangement | **(190,684)** | (148,401) | **(1,795)** |
| Cash collateral paid | **(302)** | (85) | **(3)** |
| Net | **¥4,112,736** | ¥4,114,023 | **$38,712** |

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| The amount of financial liabilities | **¥4,825,950** | ¥4,710,992 | **$45,425** |
| The amount of possible offsetting under master netting arrangement or similar arrangement | **(190,684)** | (148,401) | **(1,795)** |
| Cash collateral received | **(87)** | (1,940) | **(1)** |
| Net | **¥4,635,179** | ¥4,560,651 | **$43,629** |

The amount which was offset in accordance with the criteria for offsetting financial assets and financial liabilities in the Consolidated Statement of Financial Position was immaterial.

## 25. Hedging Activities

**Fair value hedges:**

A fair value hedge is a hedge of the variability of fair value of a recognized asset or liability or of an unrecognized firm commitment. The changes in fair value of recognized assets or liabilities, or unrecognized firm commitments and related hedging instruments that are designated and qualify as fair value hedges, are recognized in profit or loss if the hedges are considered effective. For the years ended March 31, 2018 and 2017, amounts of the net profit (losses) related to hedge ineffectiveness and the portion excluded from the assessment of hedge effectiveness were immaterial.

The Company and its subsidiaries use currency derivatives to hedge the risk of variability in the fair value of unrecognized firm commitments and the hedging terms are basically within one year. Further, the Company and its subsidiaries use interest rate derivatives to hedge the risk of variability in the fair value of loan receivables and borrowings, for which they agree to receive or pay interest on a fixed rate basis, and the hedging terms are nearly the same as the maturity of the loan receivables and borrowings. The Company and its subsidiaries use commodity derivatives to hedge the risk of variability in the fair value of unrecognized firm commitments and inventories and the hedging terms are basically within one year. The prices of hedging instruments are close to the quoted prices in transactions taking place in the principal markets or in the most advantageous markets where each hedging instrument is actively traded.

**Cash flow hedges:**

Cash flow hedges are hedges of the variability of cash flows to be received or paid related to forecasted transactions, or recognized assets or liabilities. The changes in fair value of hedging instruments that are designated and qualify as cash flow hedges are recognized in other comprehensive income if the hedges are considered effective. This treatment is continued until profit or loss is affected by the variability in cash flows to be received or paid related to the unrecognized forecasted transactions or the recognized assets or liabilities designated as the hedged items. The ineffective portion of the hedge is included in profit or loss. For the years ended March 31, 2018 and 2017, amounts of the net profit (losses) related to hedge ineffectiveness and the portion excluded from the assessment of hedge effectiveness were immaterial.

The Company and its subsidiaries hold currency derivatives and commodity derivatives to hedge the risk of variability in cash flows to be received or paid related to forecasted transactions, or recognized assets or liabilities, and the hedging terms are basically within one year. Further, the Company and its subsidiaries hold interest rate derivatives and currency derivatives to hedge the risk of variability in cash flows due to variability of interest rates and currency rates in the future, and the hedging terms are nearly the same as the maturity of the loan receivables and borrowings. The prices of hedging instruments are close to the quoted prices in transactions taking place in the principal markets or in the most advantageous markets where each hedging instrument is actively traded.

For the years ended March 31, 2018 and 2017, the amounts reclassified from other comprehensive income into profit or loss, because it is no longer probable that forecasted transactions would occur, were immaterial.

The fair values of hedging instruments as of March 31, 2018 and 2017 were as follows:

On the Consolidated Statement of Financial Position, the fair value of assets related to hedging instruments is included in Other current financial assets or in Non-current financial assets other than investments and receivables, and the fair value of liabilities related to hedging instruments is included in Other current financial liabilities or in Other non-current financial liabilities.

| | | Millions of Yen | | |
|---|---|---|---|---|
| | | 2018 | | |
| Type of hedge accounting | Hedging instruments | Notional amounts | Assets | Liabilities |
| Fair value hedges | Currency derivatives | ¥ 56,809 | ¥ 290 | ¥ 699 |
| | Interest rate derivatives | 131,500 | 5,764 | — |
| | Commodity derivatives | 146,901 | 2,626 | 710 |
| Cash flow hedges | Currency derivatives | ¥259,289 | ¥ 578 | ¥9,691 |
| | Interest rate derivatives | 315,603 | 5,169 | 917 |
| | Commodity derivatives | 25,944 | 2,728 | 717 |

| | | Millions of Yen | | |
|---|---|---|---|---|
| | | 2017 | | |
| Type of hedge accounting | Hedging instruments | Notional amounts | Assets | Liabilities |
| Fair value hedges | Currency derivatives | ¥ 49,515 | ¥ 365 | ¥ 451 |
| | Interest rate derivatives | 141,500 | 7,163 | — |
| | Commodity derivatives | 183,772 | 3,490 | 1,544 |
| Cash flow hedges | Currency derivatives | ¥208,722 | ¥16,193 | ¥4,776 |
| | Interest rate derivatives | 171,709 | 3,535 | 938 |
| | Commodity derivatives | 12,444 | 909 | 44 |

| | | Millions of U.S. Dollars | | |
|---|---|---|---|---|
| | | 2018 | | |
| Type of hedge accounting | Hedging instruments | Notional amounts | Assets | Liabilities |
| Fair value hedges | Currency derivatives | $ 535 | $ 3 | $ 7 |
| | Interest rate derivatives | 1,238 | 54 | — |
| | Commodity derivatives | 1,383 | 25 | 7 |
| Cash flow hedges | Currency derivatives | $2,441 | $ 5 | $91 |
| | Interest rate derivatives | 2,971 | 49 | 9 |
| | Commodity derivatives | 244 | 26 | 7 |

In the years ended March 31, 2018 and 2017, the amounts of hedged items designated as fair value hedges were as follows:

| | | Millions of Yen | |
|---|---|---|---|
| | | 2018 | |
| Risk category | Main account on Consolidated Statement of Financial Position | Carrying amount | Accumulated amount of fair value hedge adjustments included in the carrying amount |
| Currency risk | Trade receivables | ¥ 825 | ¥ 20 |
| | Trade payables | 1,048 | 23 |
| | Other current assets | 679 | 679 |
| | Other current liabilities | 267 | 267 |
| Interest rate risk | Debentures and borrowings | ¥137,264 | ¥5,764 |
| Commodity price risk | Inventories | ¥ 15,805 | ¥ 23 |
| | Other current assets | 488 | 488 |
| | Other current liabilities | 2,427 | 2,427 |

| Risk category | Main account on Consolidated Statement of Financial Position | Carrying amount | Accumulated amount of fair value hedge adjustments included in the carrying amount |
|---|---|---|---|
| | | Millions of Yen | |
| | | 2017 | |
| Currency risk | Trade receivables | ¥ 1,846 | ¥ 1 |
| | Trade payables | 2,851 | 4 |
| | Other current assets | 438 | 438 |
| | Other current liabilities | 349 | 349 |
| Interest rate risk | Debentures and borrowings | ¥148,663 | ¥7,163 |
| Commodity price risk | Inventories | ¥ 19,513 | ¥ (687) |
| | Other current assets | 1,537 | 1,537 |
| | Other current liabilities | 2,796 | 2,796 |

| Risk category | Main account on Consolidated Statement of Financial Position | Carrying amount | Accumulated amount of fair value hedge adjustments included in the carrying amount |
|---|---|---|---|
| | | Millions of U.S. Dollars | |
| | | 2018 | |
| Currency risk | Trade receivables | **$ 8** | **$ 0** |
| | Trade payables | **10** | **0** |
| | Other current assets | **6** | **6** |
| | Other current liabilities | **3** | **3** |
| Interest rate risk | Debentures and borrowings | **$1,292** | **$54** |
| Commodity price risk | Inventories | **$ 149** | **$ 0** |
| | Other current assets | **5** | **5** |
| | Other current liabilities | **23** | **23** |

Note: In the years ended March 31, 2018, and 2017, the accumulated amounts of fair value hedge adjustments related to the hedged items on which the hedging transactions have been ceased totaled ¥14,555 million (US$137 million) and ¥19,090 million, respectively. These amounts are included in Short-term debentures and borrowings and Long-term debentures and borrowings.

In the years ended March 31, 2018 and 2017, the amounts of the Company and its subsidiaries' Other components of equity and the income (losses) associated with hedging instruments designated as cash flow hedges were as follows:

| Risk category | Amount of cash flow hedge reserve | Amount of hedge income (loss) recognized in OCI* | Main account of profit or loss reclassified from Other components of equity | Amount of profit or loss reclassified from Other components of equity |
|---|---|---|---|---|
| | | | Millions of Yen | |
| | | | 2018 | |
| Currency risk | **¥ (333)** | **¥ 653** | Other–net | **¥(2,111)** |
| Interest rate risk | **3,141** | **1,545** | Interest expense | **60** |
| Commodity price risk | **683** | **867** | Revenues from sale of goods | **278** |
| Total | **¥3,491** | **¥3,065** | | **¥(1,773)** |

| Risk category | Amount of cash flow hedge reserve | Amount of hedge income (loss) recognized in OCI* | Main account of profit or loss reclassified from Other components of equity | Amount of profit or loss reclassified from Other components of equity |
|---|---|---|---|---|
| | | | Millions of Yen | |
| | | | 2017 | |
| Currency risk | ¥ 3 | ¥3,100 | Other–net | ¥(765) |
| Interest rate risk | 2,542 | 4,048 | Interest expense | 92 |
| Commodity price risk | 721 | 708 | Revenues from sale of goods | 2 |
| Total | ¥3,266 | ¥7,856 | | ¥(671) |

| Risk category | Amount of cash flow hedge reserve | Amount of hedge income (loss) recognized in OCI* | Main account of profit or loss reclassified from Other components of equity | Amount of profit or loss reclassified from Other components of equity |
|---|---|---|---|---|
| | | | Millions of U.S. Dollars | |
| | | | 2018 | |
| Currency risk | **$ (3)** | **$ 6** | Other–net | **$(20)** |
| Interest rate risk | **30** | **15** | Interest expense | **1** |
| Commodity price risk | **6** | **8** | Revenues from sale of goods | **3** |
| Total | **$33** | **$29** | | **$(16)** |

The amounts of hedge income (loss) in other comprehensive income, arising from the changes in the fair value of currency derivatives designated as the hedging instruments for the cash flow hedges, where the currency risk of borrowings in foreign currency is designated as the hedged items, for the years ended March 31, 2018 and 2017 were ¥19,077 million (US$180 million) (loss) and ¥13,455 million (loss) (before tax effect), respectively. These amounts were reclassified from Other components of equity in the period in which the borrowings in foreign currencies designated as the hedged items are translated. These amounts are not included above.

## 26. Financial Instruments Measured at Fair Value

IFRS 13 Fair Value Measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also establishes a hierarchy for inputs used in measuring fair value and requires that each fair value be categorized into one of the following three levels based on its observability of inputs:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for identical assets or liabilities.

The Company and its subsidiaries use the following valuation techniques for assets and liabilities that are measured at fair value on a recurring basis.

The cash equivalents that are measured at fair value on a recurring basis consist primarily of commercial paper with original maturities of three months or less. The Company and its subsidiaries measure the fair value using the quoted market prices and classify them as Level 2.

The inventories that are measured at fair value primarily consist of products which are principally acquired for the purpose of selling in the short-term and generating a profit from fluctuations in price. The Company and its subsidiaries measure the fair value using the price formula based on commodity transaction prices and classify them as Level 2.

The financial instruments classified as FVTPL and FVTOCI financial assets consist of securities and alternative investments. Securities that are listed on exchanges are measured using quoted market prices. When quoted prices in active markets in which transactions occur with sufficient frequency are available, they are classified as Level 1. On the other hand, instruments that are measured at quoted prices in markets in which there are relatively few transactions are classified as Level 2.

Securities that are not listed on exchanges are measured mainly using the discounted cash flow and modified net assets methods based on comprehensive consideration of various inputs that are available to the Company and its subsidiaries, including expectation of future income of the investee, the net asset value of the subject stock, and the actual value of significant assets held by the said investee. If the amount affected by unobservable inputs covers a significant proportion of the fair value, the security is classified as Level 3, and if the amount affected by unobservable inputs does not cover a significant proportion of fair value, the security is classified as Level 2.

Derivative assets and derivative liabilities consist of currency derivatives, interest rate derivatives, and commodity derivatives. The derivative instruments that are traded in the active market are valued at quoted market prices and classified as Level 1. The other derivative instruments that are measured using commonly used fair value pricing models, such as the Black-Scholes model, based upon observable inputs only, are classified as Level 2.

Based on the policies and procedures defined by the Company, the Company and its subsidiaries apply the best available valuation techniques and inputs to measure the fair value of assets and liabilities by considering their nature, features, and risk. The assets and liabilities that are classified as Level 3 are mainly measured by the discounted cash flow and modified net assets methods. In addition, the result of the measurement of the fair value has been approved by the appropriate authority in each division company.

The fair value of assets and liabilities that are measured by discounted cash flow fluctuates depending on the discount rates that are applied. These discount rates are applied to each financial asset by calculating the risk free rate, which includes country risk premium, etc. (Approximately 6–11%)

If the unobservable inputs have been changed to reflect reasonably possible alternative assumptions, the effect is expected to be insignificant.

The Company and its subsidiaries recognize transfers of assets or liabilities between levels of the fair value hierarchy as of the end of each quarterly reporting period when the transfer occurs.

The information by level for assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2018 and 2017 was as follows:

For the years ended March 31, 2018 and 2017, there were no significant transfers between Level 1 and 2.

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Cash equivalents | ¥ — | ¥ — | ¥ — | ¥ — |
| Inventories | — | 7,951 | — | 7,951 |
| Securities and other investments | | | | |
| FVTPL financial assets | 790 | 11,645 | 39,952 | 52,387 |
| FVTOCI financial assets | 328,851 | — | 425,291 | 754,142 |
| Derivative assets | 8,346 | 27,383 | — | 35,729 |
| Liabilities | | | | |
| Derivative liabilities | 6,837 | 22,934 | — | 29,771 |

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2017 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Cash equivalents | ¥ — | ¥ — | ¥ — | ¥ — |
| Inventories | — | 27,135 | — | 27,135 |
| Securities and other investments | | | | |
| FVTPL financial assets | 21 | 13,193 | 34,662 | 47,876 |
| FVTOCI financial assets | 271,213 | — | 465,503 | 736,716 |
| Derivative assets | 5,796 | 40,098 | — | 45,894 |
| Liabilities | | | | |
| Derivative liabilities | 3,426 | 16,021 | — | 19,447 |

| | Millions of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Cash equivalents | $ — | $ — | $ — | $ — |
| Inventories | — | 75 | — | 75 |
| Securities and other investments | | | | |
| FVTPL financial assets | 7 | 110 | 376 | 493 |
| FVTOCI financial assets | 3,096 | — | 4,003 | 7,099 |
| Derivative assets | 78 | 258 | — | 336 |
| Liabilities | | | | |
| Derivative liabilities | 64 | 216 | — | 280 |

The changes in Level 3 items for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | |
|---|---|---|
| | 2018 | |
| | FVTPL financial assets | FVTOCI financial assets |
| Beginning Balance | ¥34,662 | ¥465,503 |
| Total gains or losses | 3,626 | (57,976) |
| Included in gains on investments | 3,626 | — |
| Included in other comprehensive income (loss) (FVTOCI financial assets) | — | (46,065) |
| Included in other comprehensive income (loss) (Translation adjustments) | — | (11,911) |
| Purchases | 1,517 | 11,600 |
| Sales | (1,151) | (4,252) |
| Transfers into Level 3 | — | — |
| Transfers out of Level 3 | — | (914) |
| Others | 1,298 | 11,330 |
| Ending balance | 39,952 | 425,291 |
| The amount of gains (losses) on investments for the period relating to assets still held as of March 31, 2018 | ¥ 3,589 | ¥ — |

| | Millions of Yen | |
|---|---|---|
| | 2017 | |
| | FVTPL financial assets | FVTOCI financial assets |
| Beginning Balance | ¥38,765 | ¥489,738 |
| Total gains or losses | 642 | (18,580) |
| Included in gains on investments | 642 | — |
| Included in other comprehensive income (loss) (FVTOCI financial assets) | — | (16,638) |
| Included in other comprehensive income (loss) (Translation adjustments) | — | (1,942) |
| Purchases | 1,178 | 6,268 |
| Sales | (21) | (5,255) |
| Transfers into Level 3 | — | — |
| Transfers out of Level 3 | — | (467) |
| Others | (5,902) | (6,201) |
| Ending balance | 34,662 | 465,503 |
| The amount of gains (losses) on investments for the period relating to assets still held as of March 31, 2017 | ¥ 3,362 | ¥ — |

| | Millions of U.S. Dollars | |
|---|---|---|
| | 2018 | |
| | FVTPL financial assets | FVTOCI financial assets |
| Beginning Balance | $326 | $4,382 |
| Total gains or losses | 34 | (546) |
| Included in gains on investments | 34 | — |
| Included in other comprehensive income (loss) (FVTOCI financial assets) | — | (434) |
| Included in other comprehensive income (loss) (Translation adjustments) | — | (112) |
| Purchases | 14 | 109 |
| Sales | (11) | (40) |
| Transfers into Level 3 | — | — |
| Transfers out of Level 3 | — | (9) |
| Others | 13 | 107 |
| Ending balance | 376 | 4,003 |
| The amount of gains (losses) on investments for the period relating to assets still held as of March 31, 2018 | $ 34 | $ — |

The transfers out of Level 3 for FVTOCI financial assets recognized for the years ended March 31, 2018 and 2017 were due to the fact that the fair value of equity securities becoming measurable using the quoted market price resulting from listing on exchanges.

## 27. Selling, General and Administrative Expenses

The breakdown of Selling, general and administrative expenses for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Personnel expenses | ¥453,453 | ¥414,120 | $4,268 |
| Depreciation | 32,643 | 27,063 | 307 |
| Amortization | 10,453 | 10,887 | 99 |
| Service charge | 82,036 | 72,275 | 772 |
| Distribution costs | 72,136 | 66,035 | 679 |
| Rent and operating lease expenses | 72,111 | 60,495 | 679 |
| Others | 167,444 | 150,962 | 1,576 |
| Total | ¥890,276 | ¥801,837 | $8,380 |

## 28. Gains on Investments

The breakdown of Gains on investments for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Investments in subsidiaries, associates and joint ventures | ¥ (262) | ¥35,915 | $ (2) |
| FVTPL financial assets | 7,439 | 470 | 70 |
| Financial assets measured at amortized cost (Note) | (97) | (4,241) | (1) |
| Total | ¥7,080 | ¥32,144 | $67 |

Note: The Financial assets measured at amortized cost includes losses arising from impairment loss on the financial assets measured at amortized cost of ¥91 million (US$1 million) for the year ended March 31, 2018, and ¥4,241 million for the year ended March 31, 2017, and losses arising from the derecognition of financial assets measured at amortized cost of ¥6 million (US$0 million).

## 29. Losses on Property, Plant, Equipment and Intangible Assets

The breakdown of Losses on property, plant, equipment and intangible assets for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Gains on sales of property, plant and equipment | ¥ 9,446 | ¥ 2,071 | $ 89 |
| Losses on disposal and sales of property, plant and equipment | (2,726) | (2,255) | (26) |
| Impairment losses on property, plant and equipment | (28,537) | (7,813) | (268) |
| Impairment losses on goodwill | (8,916) | (9,602) | (84) |
| Others | 1,104 | 903 | 10 |
| Total | ¥(29,629) | ¥(16,696) | $(279) |

## 30. Other–Net

The breakdown of Other–net for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Net foreign exchange gains (losses) | ¥ 1,732 | ¥(7,901) | $16 |
| Others | (2,012) | 2,476 | (19) |
| Total | ¥ (280) | ¥(5,425) | $ (3) |

## 31. Financial Income (Loss)

The breakdown of Financial income (loss) for the years ended March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Interest income | | | |
| Financial assets measured at amortized cost | ¥ 34,702 | ¥ 26,625 | $ 327 |
| Subtotal | 34,702 | 26,625 | 327 |
| Dividends received | | | |
| FVTPL financial assets | 107 | 99 | 1 |
| FVTOCI financial assets | 34,166 | 19,802 | 321 |
| Subtotal | 34,273 | 19,901 | 322 |
| Interest expense | | | |
| Financial liabilities measured at amortized cost | (44,176) | (12,986) | (416) |
| Derivatives | 4,792 | (15,551) | 45 |
| Others | (2,065) | (1,714) | (19) |
| Subtotal | (41,449) | (30,251) | (390) |
| Total | ¥ 27,526 | ¥ 16,275 | $ 259 |

## 32. Cash Flow Information

### (1) Acquisitions and Sales of subsidiaries

(Acquisitions of subsidiaries)

There was no acquisition of major subsidiaries for the year ended March 31, 2017.

The Acquisitions of major subsidiaries for the year ended March 31, 2018 were that of business integration between Takiron Co., Ltd. and C. I. Kasei Company, Limited, the acquisition of YANASE & CO., LTD., Alta Forest Products, LLC. and the stake of Iraqi oil fields.

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Acquisitions of subsidiaries | | | |
| Fair value of assets acquired | ¥ 348,135 | ¥— | $ 3,277 |
| Fair value of liabilities acquired | (204,687) | — | (1,927) |
| Net assets, before deduction of cash | 143,448 | — | 1,350 |
| Fair value of previously held equity interests | (27,900) | — | (263) |
| Goodwill and Non-controlling interests | (32,638) | — | (307) |
| Fair value of consideration | 82,910 | — | 780 |
| Non-cash consideration paid | (7,224) | — | (68) |
| Outstanding balance of consideration | (4,213) | — | (40) |
| Effect of exchange rate changes | (62) | — | (0) |
| Cash acquired | (32,521) | — | (306) |
| Acquisitions of subsidiaries, net of cash acquired (Negative figure indicates proceeds) | ¥ 38,890 | ¥— | $ 366 |

(Sales of subsidiaries)

There was no sale of major subsidiaries for the years ended March 31, 2018 and 2017.

### (2) Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities for the year ended March 31, 2018 were as follows;

| | Millions of Yen | | |
|---|---|---|---|
| | Debentures and Borrowings | Lease obligations and the others | Total |
| Beginning of the year | ¥2,944,653 | ¥ 69,771 | ¥3,014,424 |
| Cash flow | (150,120) | (10,738) | (160,858) |
| Non-cash changes | | | |
| Increase through acquisitions | 65,653 | 450 | 66,103 |
| Decrease through divestitures | (4,637) | (1,198) | (5,835) |
| New leases | — | 21,819 | 21,819 |
| Effect of foreign currency exchange differences | (70,331) | (148) | (70,479) |
| Fair value changes | (5,756) | — | (5,756) |
| Others | 11 | (708) | (697) |
| End of the year | ¥2,779,473 | ¥ 79,248 | ¥2,858,721 |

| | Millions of U.S. Dollars | | |
|---|---|---|---|
| | Debentures and Borrowings | Lease obligations and the others | Total |
| Beginning of the year | $27,717 | $ 657 | $28,374 |
| Cash flow | (1,413) | (101) | (1,514) |
| Non-cash changes | | | |
| Increase through acquisitions | 618 | 4 | 622 |
| Decrease through divestitures | (44) | (11) | (55) |
| New leases | — | 205 | 205 |
| Effect of foreign currency exchange differences | (662) | (1) | (663) |
| Fair value changes | (54) | — | (54) |
| Others | 0 | (7) | (7) |
| End of the year | $26,162 | $ 746 | $26,908 |

## 33. Parent's Ownership Interest in Subsidiaries

Subsidiaries of the Company as of March 31, 2018 were as follows:

| Name | Location | Voting shares (%) |
|---|---|---|
| **Textile** | | |
| SANKEI COMPANY LIMITED | Koto-ku, Tokyo | 100.0 |
| EDWIN CO., LTD. | Arakawa-ku, Tokyo | 98.5<br>(1.0) |
| JOI'X CORPORATION | Chiyoda-ku, Tokyo | 100.0 |
| LEILIAN CO., LTD. | Setagaya-ku, Tokyo | 99.2 |
| ITOCHU Textile Prominent (ASIA) Ltd. | Hong Kong, China | 100.0<br>(50.0) |
| ITOCHU TEXTILE (CHINA) CO., LTD. | Shanghai, China | 100.0<br>(40.0) |
| 50 other companies | | |

| Name | Location | Voting shares (%) |
|---|---|---|
| **Machinery** | | |
| IMECS CO., LTD. | Minato-ku, Tokyo | 100.0 |
| ITOCHU AVIATION, CO., LTD. | Minato-ku, Tokyo | 100.0 |
| ITOCHU Plantech Inc. | Minato-ku, Tokyo | 100.0 |
| JAPAN AEROSPACE CORPORATION | Minato-ku, Tokyo | 100.0 |
| YANASE & CO., LTD. | Minato-ku, Tokyo | 66.1 |
| ITOCHU CONSTRUCTION MACHINERY CO., LTD. | Chuo-ku, Tokyo | 100.0 |
| ITOCHU MACHINE-TECHNOS CORP. | Chiyoda-ku, Tokyo | 100.0 |
| Century Medical, Inc. | Shinagawa-ku, Tokyo | 100.0 |
| I-Power Investment, Inc. | Wilmington, Delaware, U.S.A. | 100.0 |
| I-ENVIRONMENT INVESTMENTS LIMITED | London, U.K. | 100.0<br>(30.0) |
| Auto Investment Inc. | Birmingham, Alabama, U.S.A. | 100.0 |
| ITOCHU Automobile America Inc. | Detroit, Michigan, U.S.A. | 100.0 |
| VEHICLES MIDDLE EAST FZCO | Dubai, U.A.E. | 100.0 |
| MULTIQUIP INC. | Carson, California, U.S.A. | 100.0<br>(80.0) |
| 92 other companies | | |
| **Metals & Minerals** | | |
| Brazil Japan Iron Ore Corporation | Minato-ku, Tokyo | 75.7 |
| ITOCHU Metals Corporation | Minato-ku, Tokyo | 100.0 |
| ITC Platinum Development Ltd | London, U.K. | 75.0 |
| ITOCHU Coal Americas Inc. | Wilmington, Delaware, U.S.A. | 100.0 |
| ITOCHU Minerals & Energy of Australia Pty Ltd | Perth, W.A., Australia | 100.0<br>(3.7) |
| 6 other companies | | |
| **Energy & Chemicals** | | |
| ITOCHU ENEX CO., LTD. | Minato-ku, Tokyo | 54.0 |
| ITOCHU PLASTICS INC. | Chiyoda-ku, Tokyo | 100.0 |
| ITOCHU CHEMICAL FRONTIER Corporation | Minato-ku, Tokyo | 100.0 |
| C.I. TAKIRON Corporation | Kita-ku, Osaka | 51.1<br>(0.1) |
| ITOCHU Retail Link Corporation | Chuo-ku, Tokyo | 100.0 |
| ITOCHU PETROLEUM CO., (SINGAPORE) PTE. LTD. | Singapore | 100.0 |
| CIECO Exploration and Production (UK) Limited | London, U.K. | 100.0 |
| ITOCHU Oil Exploration (Azerbaijan) Inc. | Grand Cayman, Cayman Islands | 100.0 |
| IPC (USA), Inc. | Santa Ana, California, U.S.A. | 100.0 |
| CIECO West Qurna Limited | London, U.K. | 100.0 |
| ITOCHU Plastics Pte., Ltd. | Singapore | 100.0<br>(30.0) |
| PTAGENT. CORPORATION | Shanghai, China | 100.0<br>(40.0) |
| 123 other companies | | |
| **Food** | | |
| ITOCHU SUGAR CO., LTD. | Hekinan, Aichi | 100.0 |
| ITOCHU FEED MILLS CO., LTD. | Koto-ku, Tokyo | 99.9<br>(0.0) |
| ITOCHU Food Sales and Marketing Co., Ltd. | Minato-ku, Tokyo | 100.0 |
| ITOCHU FOOD INVESTMENT, LLC | Minato-ku, Tokyo | 100.0<br>(10.0) |
| Dole International Holdings, Inc. | Minato-ku, Tokyo | 100.0 |
| ITOCHU-SHOKUHIN Co., Ltd. | Chuo-ku, Osaka | 52.3<br>(0.1) |
| NIPPON ACCESS, INC. | Shinagawa-ku, Tokyo | 93.8 |
| 86 other companies | | |

| Name | Location | Voting shares (%) |
|---|---|---|
| **General Products & Realty** | | |
| ITOCHU KENZAI CORPORATION | Chuo-ku, Tokyo | 100.0 |
| ITOCHU PULP & PAPER CORPORATION | Chuo-ku, Tokyo | 100.0 |
| ITOCHU LOGISTICS CORP. | Minato-ku, Tokyo | 99.0 |
| ITOCHU PROPERTY DEVELOPMENT, LTD. | Minato-ku, Tokyo | 99.8 |
| P.T. ANEKA BUMI PRATAMA | Palembang, Indonesia | 100.0<br>(0.5) |
| European Tyre Enterprise Limited | Letchworth, U.K. | 100.0<br>(20.0) |
| ITOCHU FIBRE LIMITED | London, U.K. | 100.0<br>(10.0) |
| TMI Forest Products Inc. | Chehalis, Washington, U.S.A. | 100.0 |
| 70 other companies | | |
| **ICT & Financial Business** | | |
| ITOCHU Techno-Solutions Corporation | Chiyoda-ku, Tokyo | 58.3 |
| CONEXIO Corporation | Shinjuku-ku, Tokyo | 60.4 |
| ITOCHU Fuji Partners, Inc. | Minato-ku, Tokyo | 63.0 |
| GIT Corporation | Minato-ku, Tokyo | 100.0 |
| 31 other companies | | |
| **Headquarters** | | |
| ITOCHU Treasury Corporation | Minato-ku, Tokyo | 100.0 |
| Orchid Alliance Holdings Limited | BR. Virgin Islands | 100.0 |
| 18 other companies | | |
| **Overseas Trading Subsidiaries** | | |
| ITOCHU International Inc. | New York, N.Y., U.S.A. | 100.0 |
| ITOCHU Europe PLC | London, U.K. | 100.0 |
| ITOCHU Singapore Pte Ltd | Singapore | 100.0 |
| ITOCHU KOREA LTD. | Seoul, Korea | 100.0 |
| ITOCHU (Thailand) Ltd. | Bangkok, Thailand | 100.0 |
| ITOCHU Hong Kong Ltd. | Hong Kong, China | 100.0 |
| ITOCHU Latin America, S.A. | Panama, Republic of Panama | 100.0 |
| ITOCHU Brasil S.A. | Sao Paulo, Brazil | 100.0 |
| ITOCHU Australia Ltd. | Sydney, N.S.W., Australia | 100.0 |
| ITOCHU Middle East FZE | Dubai, U.A.E. | 100.0 |
| ITOCHU (CHINA) HOLDING CO., LTD. | Beijing, China | 100.0 |
| ITOCHU Taiwan Corporation | Taipei, Taiwan | 100.0 |
| 19 other companies | | |

Notes: 1. The above numbers of subsidiaries do not include investment companies considered part of the parent (181 companies).
2. Figures in parentheses are indirect voting share percentages.
3. Takiron Co., Ltd. and C. I. Kasei Company, Limited merged and formed C.I. TAKIRON Corporation on April 1, 2017.

(The loss of control of subsidiaries)

There were no major losses of control of subsidiaries for the years ended March 31, 2018 and 2017.

## 34. Structured Entities

A structured entity, as defined in IFRS 12 Disclosure of Interests in Other Entities, is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. If a structured entity is substantively controlled by the Company and its subsidiaries, the Company and its subsidiaries consolidate the structured entity.

The structured entities are funded in the aim of running businesses such as ocean plying vessels, real estate-related businesses, and infrastructure-related businesses, and the Company and its subsidiaries are involved through investments, loans and others.

Meanwhile, as of March 31, 2018 and 2017, the total assets of unconsolidated structured entities, for which it is possible for the Company and its subsidiaries to bear additional losses exceeding the total amount of investments and loans provided by the Company and its subsidiaries (the unconsolidated structured entities), were ¥537,421 million (US$5,059 million), and ¥454,488 million, respectively. The unconsolidated structured entities primarily raise funds through loans from banks.

The book values of assets in the Consolidated Statement of Financial Position as of March 31, 2018 and 2017 which the Company and its subsidiaries recognized with regard to the involvement in the unconsolidated structured entities were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Other current receivables | ¥ 1,320 | ¥ 1,790 | $ 12 |
| Investments accounted for by the equity method | 23,807 | 20,913 | 224 |
| Non-current receivables | 16,657 | 16,394 | 157 |
| Total | ¥41,784 | ¥39,097 | $393 |

In addition, as of March 31, 2018 and 2017, the maximum exposure to losses in relation to the unconsolidated structured entities were ¥123,969 million (US$1,167 million) and ¥121,224 million, respectively. The differences between the maximum exposure to losses and the amounts of assets recognized in the Consolidated Statement of Financial Position were mainly due to guarantees.

## 35. Contingent Liabilities

The Company and its subsidiaries issue various guarantees for indebtedness of associates, joint ventures, and customers. If a guaranteed party fails to fulfill its obligation, the Company and its subsidiaries would be required to execute payments. The maximum potential amount of future payments and the amount of substantial risk as of March 31, 2018 and 2017 were as follows:

| | Millions of Yen | | |
|---|---|---|---|
| | 2018 | | |
| | Financial guarantees | Guarantees for performance transactions | Total |
| Guarantees for associates and joint ventures: | | | |
| Maximum potential amount of future payments | ¥ 99,318 | ¥10,249 | ¥109,567 |
| Amount of substantial risk | 89,553 | 10,249 | 99,802 |
| Guarantees for customers: | | | |
| Maximum potential amount of future payments | 42,094 | 10,457 | 52,551 |
| Amount of substantial risk | 18,847 | 3,832 | 22,679 |
| Total: | | | |
| Maximum potential amount of future payments | ¥141,412 | ¥20,706 | ¥162,118 |
| Amount of substantial risk | 108,400 | 14,081 | 122,481 |

| | Millions of Yen | | |
|---|---|---|---|
| | 2017 | | |
| | Financial guarantees | Guarantees for performance transactions | Total |
| Guarantees for associates and joint ventures: | | | |
| Maximum potential amount of future payments | ¥ 98,207 | ¥12,468 | ¥110,675 |
| Amount of substantial risk | 86,208 | 12,468 | 98,676 |
| Guarantees for customers: | | | |
| Maximum potential amount of future payments | 45,554 | 8,017 | 53,571 |
| Amount of substantial risk | 27,051 | 2,879 | 29,930 |
| Total: | | | |
| Maximum potential amount of future payments | ¥143,761 | ¥20,485 | ¥164,246 |
| Amount of substantial risk | 113,259 | 15,347 | 128,606 |

| | Millions of U.S. Dollars | | |
|---|---|---|---|
| | 2018 | | |
| | Financial guarantees | Guarantees for performance transactions | Total |
| Guarantees for associates and joint ventures: | | | |
| Maximum potential amount of future payments | $ 935 | $ 96 | $1,031 |
| Amount of substantial risk | 843 | 96 | 939 |
| Guarantees for customers: | | | |
| Maximum potential amount of future payments | 396 | 99 | 495 |
| Amount of substantial risk | 177 | 37 | 214 |
| Total: | | | |
| Maximum potential amount of future payments | $1,331 | $195 | $1,526 |
| Amount of substantial risk | 1,020 | 133 | 1,153 |

The maximum potential amount of future payments represents the amounts that the Company and its subsidiaries could be obliged to pay if there were defaults.

The amount of substantial risk represents the actual amount of liability incurred by the guaranteed parties within the maximum potential amount of future payments. The amounts that may be reassured from third parties have been excluded in determining the amount of substantial risk.

Within the maximum potential amount of future payments, the amounts that may be reassured from third parties were ¥11,857 million (US$112 million) and ¥11,772 million as of March 31, 2018 and 2017, respectively.

Under these guarantees, adequate allowance to cover losses expected from probable performance is recognized as liabilities. As of March 31, 2018, the Company and its subsidiaries are not required to perform significant guarantees, nor does the Company expect an increase of guarantee amounts due to the deterioration of business conditions of the guaranteed parties for these guarantees, except for those recognized as liabilities.

Brazil Japan Iron Ore Corporation, a subsidiary of the Company, currently holds the shares of CSN Mineração S.A. (CM) which is recorded in Other investments accompanying the merger of Nacional Minérios S.A. (NAMISA), which was a joint venture of the Company, and the Casa de Pedra Mine and railway company shares and port facility usage rights owned by Companhia Siderúrgica Nacional, the major Brazilian steel producer which is the parent company of NAMISA, in November 2015. NAMISA received a tax assessment notice in December 2012 from the Brazilian tax authorities relating to corporation tax and social contributions attributable to income for the period from 2009 to 2011 related to the deductibility of the amortization of goodwill for tax purposes over the period from August 2009 to July 2014. CM, which took over this assessment, filed suit in Brazilian federal court in September 2017 upon exhausting the administrative appeal procedures. With regards to the tax assessment, the impact on Brazil Japan Iron Ore Corporation will be ¥27,700 million (US$261 million) in the event that the amortization of goodwill for tax purposes is not deductible. The Company's proportionate interest related to the tax assessment is ¥18,696 million (US$176 million), including interest and penalties of ¥14,082 million (US$133 million). CM, which took over the tax litigation, recorded no liabilities related to this assessment.

Other than that above, there are currently no significant pending lawsuits, arbitrations, or other legal proceedings that may materially affect the financial position or results of operations of the Company and its subsidiaries.

However, there is no assurance that domestic or overseas business activities of the Company and its subsidiaries may not become subject to any such lawsuits, arbitrations, or other legal proceedings in the future that could have adverse effects on the financial position or results of operations of the Company and its subsidiaries.

## 36. Approval of Consolidated Financial Statements

The consolidated financial statements were approved at the Board of Directors' meeting held on June 13, 2018.

## 37. Material Subsequent Events

The Company evaluated subsequent events through June 22, 2018, when the consolidated financial statements are available to be issued. There are no subsequent events to report.

Deloitte.

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ITOCHU Corporation:

We have audited the accompanying consolidated financial statements of ITOCHU Corporation and its subsidiaries, which comprise the consolidated statement of financial position as of March 31, 2018, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements (all expressed in Japanese yen).

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ITOCHU Corporation and its subsidiaries as of March 31, 2018, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 2 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

## Report on Management's Report on Internal Control over Financial Reporting

Notwithstanding the second paragraph of the "Auditor's Responsibility" section, we have performed an audit of management's report on internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act of Japan. A translated copy of management's report on ICFR along with a translated copy of our report is included within this annual report as information for readers.

Deloitte Touche Tohmatsu LLC

June 22, 2018

# Supplementary Explanation

**Internal Controls over Financial Reporting in Japan**

The Financial Instruments and Exchange Act in Japan ("the Act") requires the management of Japanese public companies to annually evaluate whether internal controls over financial reporting ("ICFR") are effective as of each fiscal year-end and to disclose the assessment to investors in "Management Internal Control Report." The Act also requires that the independent auditor of the financial statements of these companies report on management's assessment of the effectiveness of ICFR in an Independent Auditor's Report ("indirect reporting"). Under the Act these reports are required for fiscal years beginning on or after April 1, 2008.

We have thus evaluated its internal controls over financial reporting as of March 31, 2018 in accordance with "On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

As a result of conducting an evaluation of internal controls over financial reporting in the fiscal year ended March 31, 2018, we concluded that its internal control system over financial reporting as of March 31, 2018 was effective and reported such in its Management Internal Control Report.

Our Independent Auditors, Deloitte Touche Tohmatsu LLC, performed an audit of the Management Internal Control Report under the Act. An English translation of the Management Internal Control Report and the Independent Auditor's Report filed under the Act is attached on the following pages.

ITOCHU Corporation

# Management Internal Control Report (Translation)

NOTE TO READERS:

Following is an English translation of management's report on internal control over financial reporting ("ICFR") filed under the Financial Instruments and Exchange Act of Japan. This report is presented merely as supplemental information.

(TRANSLATION)

**1. [Matters relating to the basic framework for internal control over financial reporting]**

Yoshihisa Suzuki, President & Chief Operating Officer and Tsuyoshi Hachimura, Chief Financial Officer are responsible for designing and operating effective internal control over financial reporting of our company (the "Company") and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in "On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that material misstatements may not be completely prevented or detected by internal control over financial reporting.

**2. [Matters relating to the scope of assessment, the basis date of assessment and the assessment procedures]**

The assessment of internal control over financial reporting was performed as of March 31, 2018, which is the end of this fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on our entire financial reporting on a consolidation basis ("company-level controls") and based on the results of this assessment, we selected business processes to be tested. We analyzed these selected business processes, identified key controls that may have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of the Company.

We determined the required scope of assessment of internal control over financial reporting for the Company, as well as its consolidated subsidiaries and associated companies, from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality that may affect the reliability of the financial reporting is determined taking into account the materiality of quantitative and qualitative impacts on financial reporting based upon four key financial figures: "Revenues", "Gross trading profit", "Total assets" (for associated companies, carrying amount of investments in associated companies), and "Profit before tax" before elimination of inter-company transactions for the year ended March 31, 2018. The Company and 109 consolidated subsidiaries and associated companies (the "109 entities", see Note) were in the scope of our assessment and represented approximately 95% on a consolidated basis of the four key financial figures. Based on the assessment of company-level controls conducted for the Company and the 109 entities, we reasonably determined the required scope of assessment of internal controls over business processes.

(Note) The 109 entities are directly owned by the Company. The assessment of these entities includes their own consolidated subsidiaries, if any. In addition, we did not include special purpose entities in the 109 entities, however we included major special purpose entities into the scope of assessment. Regarding entities other than the 109 entities and the major special purpose entities, we concluded that they do not have any material impact on the consolidated financial statements and, thus, we did not include them in the scope of assessment of company-level controls.

Regarding the scope of assessment of internal control over business processes, we selected locations and business units to be tested based upon revenue and gross trading profit (before elimination of inter-company transactions). In addition, we also added locations and business units by considering qualitative aspects such as business processes having greater materiality, business processes relating to (i) greater likelihood of material misstatements and/or (ii) significant accounts involving estimates and the management's judgment and/or (iii) a business or operation dealing with high-risk transactions, taking into account their impact on the financial reporting. We selected the Company and 39 entities as "significant locations and/or business units". We verified that combined revenue and gross trading profit of entities in scope exceeded two thirds of totals for the year ended March 31, 2018. We included in the scope of assessment, at the selected significant locations and/or business units, business processes relating to revenue, gross trading profit, accounts receivable, inventories, and investments as significant accounts that may have a material impact on the business objectives of the Company.

**3. [Matters relating to the results of the assessment]**

As a result of the assessment described above, as of the end of this fiscal year, we concluded that the Company's internal control over financial reporting was effectively maintained.

**4. [Remarks]**

We have nothing to be reported as remarks.

**5. [Points to be noted]**

We have nothing to be reported as points to be not

# Independent Auditor's Report (filed under the Financial Instruments and Exchange Act of Japan)

NOTE TO READERS:

Following is an English translation of the Independent Auditor's Report filed under the Financial Instruments and Exchange Act of Japan. This report is presented merely as supplemental information.

(TRANSLATION)

## INDEPENDENT AUDITOR'S REPORT

(filed under the Financial Instruments and Exchange Act of Japan)

June 22, 2018

To the Board of Directors of ITOCHU Corporation:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Masahiro Ishizuka

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koichi Okubo

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Hiroyuki Yamada

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Tadashi Nakayasu

### [Audit of Financial Statements]

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated statement of financial position as of March 31, 2018 of ITOCHU Corporation (the "Company") and its consolidated subsidiaries, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from April 1, 2017 to March 31, 2018, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ITOCHU Corporation and its consolidated subsidiaries as of March 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

## [Audit of Internal Control]

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of ITOCHU Corporation as of March 31, 2018.

### Management's Responsibility for the Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

### Auditor's Responsibility

Our responsibility is to express an opinion on management's report on internal control based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes examining representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of ITOCHU Corporation as of March 31, 2018 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

### Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

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