Annual Report Briefing Q&A Summary

This document is an English translation of a statement written originally in Japanese. The Japanese original should be considered as the primary version.

Date: December 12, 2022 (Mon.) 13:00 to 14:30
Respondents: Suguru Amano, General Manager of the Investor Relations Division
Yoshihito Tabe, General Manager of the Sustainability Management Division
Definitions: GHG: Greenhouse Gas, SBT: Science Based Targets (GHG emission reduction targets consistent with the Paris Agreement)

Q: Today's briefing has helped me better understand the changes from Annual Report 2021 and the initiatives ITOCHU is currently focusing on. In particular, in the CEO message, I felt that there was an increased emphasis on ITOCHU's stance on shareholder returns and the importance of dialogue. What prompted this emphasis?

A: The annual report is designed with a focus on content of particular interest to investors and their point of view. This was because we decided that conveying the message from an investor viewpoint would be the easiest way for both investors and other various stakeholders to understand the Company's strategies and policies. Chairman & CEO Okafuji put a lot of thought into his message. He reworked it over and over to hone it into an important text that can organize and convey his thoughts and ideas as a business leader to stakeholders. In addition, the annual report was sent to Mr. Warren Buffett of Berkshire Hathaway, and Chairman & CEO Okafuji received a highly positive letter in response. There was not any specific impetus behind emphasizing our stance on shareholder returns and the importance of dialogue. Rather, in light of the growing interest in our annual report each year, Chairman & CEO Okafuji crafted the CEO message conscious of ITOCHU's overall growth story and based on a strong sense of duty to accurately convey his thoughts and ideas as a business leader to stakeholders.

Q: Based on the disclosures on human rights due diligence and supply chain sustainability surveys, it is obvious that the Company has expanded the scope and the number of supply chain companies surveyed. I assume that these surveys are costly and that their cost is passed on in sale prices. It is my understanding that this has not affected overall profitability. Is that right? If there were an impact on profitability, I assume you have realistic ways of dealing with it, such as restricting the scope of the surveys to transactions significant enough to merit the cost, but what is the policy going forward on survey costs, scope, depth, and so on?

A: Each survey is conducted so as not to have a significant negative impact on overall profitability. For human rights due diligence and supply chain sustainability surveys, it is essential that we take proactive action, and, if there is a problem, correct it. If a human rights problem arises, it can threaten business continuity itself, posing a risk that far outweighs the issue of cost. In addition, survey results could lead to divestment from an ESG investment perspective, resulting in a financial impact. The scope of surveys related to human rights is expanding and the number of subject companies is increasing. The expenses of each survey include hiring external experts, but the amount is not so much that it would have an impact on overall profitability. One of the issues uncovered in the course of our human rights due diligence in FYE 2021 and FYE 2022 was building a grievance mechanism. By joining the remedy platform JaCER, which was established in June 2022, we were able to create a mechanism for the Company while keeping costs low. This creative solution has enabled us to ensure sufficient response without incurring more costs than necessary. We think it is important to instill each sales department with the mindset that taking action in this area is important, even if it requires time and cost.

Q: I think disclosure based on the TCFD recommendations will help enhance corporate value. What is the current status of efforts in this area?

A: In addition to the five businesses that already disclosed based on the TCFD recommendations in FYE 2022, four new businesses plan to conduct scenario analyses in FYE 2023, for a total of nine. I think the TCFD recommendations present two challenges. The first is that because general trading companies handle a wide range of products, it is difficult to encompass the entire company in one scenario, and we have to fully consider the comprehensiveness of the scenarios. The second is enhancing information that was already disclosed. From the perspective of GHG emissions, the nine businesses for which we will now conduct analyses account for around 80% of the Company's total emissions, and I think we can fully meet the requirements, such as for the annual securities report ,going forward based on our current initiatives. Regarding enhancing information already disclosed, we need to revise assumptions and conduct detailed analyses as appropriate in light of changes in the external environment and our initiatives. For example, we need to continually revise transition risk assumptions, such as those related to carbon taxes and CCUS requirements, based on changes in the external environment, including the Russia-Ukraine situation. Regarding the disclosure of non-financial information, we strongly recognize that appropriately addressing the demands for disclosure, including SBTs, will help enhance corporate value. As a general trading company, we regard changes in the business environment as opportunities and work to expand revenues. We will strive to enhance corporate value while appropriately disclosing how we expand revenues and non-financial information in a timely manner.

Q: With “*Sampo-yoshi*” as its corporate mission, ITOCHU’s existing strategy has enabled it to grow by steadily expanding revenues in the non-resource sector, which has been its steadfast strength. The Company announced it would invest in Canadian iron ore interests on December 7. At first glance, this appears to stray from the existing strategy. What led to this investment in the resource sector?

A: Some investors have suggested that we should completely withdraw from the resource sector and just specialize exclusively in the non-resource sector, which is our strength. However, as stated in the COO message in Annual Report 2022, we believe that ITOCHU’s expansive business portfolios help provide a “conglomerate premium.” We therefore intend to maintain roughly our current level of exposure to the resource sector, at around 10% to 20%. We have continued the Machinery, Metals & Minerals, Chemicals, Real Estate, and other businesses without any interruption even when they were struggling after the collapse of the Japan’s economic bubble, and now they have become growth drivers leading revenues for the entire Company. For example, owning oil and gas interests enables us to indirectly utilize the knowledge and insight these provide in many areas, such as in the chemicals and the automobiles, which use crude oil for raw materials and fuel; and the steel pipes, which serves the oil and gas industry. Generally, it is difficult for general trading companies, by the nature of their businesses, to completely exclude the effects of the economic cycle. ITOCHU does not seek to select and concentrate its portfolio. We utilize resource sector knowledge even in the non-resource sector and will continue working hard to achieve further growth by generating revenues that outperform the relevant industries in each segment. In addition, in terms of where we will invest, as we have explained, we are centering investment on the non-resource sector, especially on our strength of the consumer sector, and focusing on Japan in light of the current yen depreciation. Recently announced investments include Hitachi Construction Machinery Co., Ltd., Nishimatsu Construction Co., Ltd., and Canadian iron ore interests. It may be hard to shake your surprise that these are not in the consumer sector, but they simply happened to be the investments we were able to announce first. There is no change to our strategy of steadily expanding revenues in the non-resource sector, which is our strength, as we strive for sustainable growth, centering all our efforts on the corporate mission, “*Sampo-yoshi*.”

Q: Which ESG evaluations are you particularly conscious of? What is the timeline for working on SDG and ESG issues?

A: ESG evaluations differ by institution depending on which aspects of ESG they emphasize. The similarity between evaluation institutions is not on par with that of credit rating agencies. Accordingly, while we are strongly conscious of ESG indices selected by GPIF, which has been a leader in ESG investment in Japan, based on engagement with investors, we seek to maintain a balance in our efforts, not overly biased toward the evaluations of any specific indicators. In addition, the Company's Sustainability Action Plan is a medium- to long-term plan. We have set targets for reducing GHG emissions for 2030, 2040, and 2050, and targets for the SDGs for 2030. We intend to continue working to achieve these targets while controlling the transition effects on our business.

Q: Regarding the scenario analyses recommended by the TCFD, currently, ITOCHU uses EBITDA indicators for quantitative effect disclosure, but going forward, is there any possibility that the disclosure will include the actual EBITDA?

A: We have not currently decided on a clear policy. By disclosing the percent change in EBITDA, you can see major trends. We are currently studying whether we can disclose more detailed information than we have already done for segment information. We are fully aware of what is being sought, and, going forward, we will continue to work toward expanding disclosure.

Q: By disclosing, for example, returns on investments, including those from synergy with business investments, or your contribution to GHG emissions reduction, including Scope 3 in the annual report, I think ITOCHU could bolster the market's evaluation. Might you consider disclosing quantitative figures?

A: One of the purposes of the annual report briefing is to reduce the cost of capital. Specifically, I understand the opinion that if we can clearly show the effects of lower cost of capital, we can expect further improvement. However, the question of how to explain this externally is very much a vexing one. As for successes of our business investments, we need to conduct analyses that cover several years because there are various ways these investments can generate a return. For example, there are projects that perform favorably right away, projects that improve after some time despite struggling initially, and projects where we achieve a capital gain through a sale despite racking up repeated losses. Furthermore, because there are also cyclical effects, although we have promoted internal discussions aimed at disclosure regarding the reaping of the fruits of business investments, we decided not to make such disclosure for now. Going forward, we will continue to consider expanding disclosure. Regarding GHG emission reduction, it is important that we simultaneously reduce GHG emissions related to owned assets and promote businesses that help reduce GHG emissions. The investment in Canadian iron ore interests announced on December 7 constitutes a business that will help reduce GHG emissions in the near future. Iron ore itself does not emit GHGs, but the steel manufacturing process generates emissions. This interest produces high-quality iron ore. Although some of the projected reduction relies on the development of steel manufacturing technologies to come, because this ore can be used with production methods that produce less GHG emissions than the current mainstream blast furnace method, its environmental burden is lower, and we can expect a reduction of GHG emissions in the near future. ITOCHU will work in close cooperation with the industries we serve to continue promoting businesses that contribute to the reduction of GHG emissions.

There are no definitive calculation standards for Scope 3 GHG emissions. Because we cannot make direct comparisons of each company's figures, we are conducting careful studies. In addition, because the use of carbon pricing has swiftly expanded, the GHG emission amounts disclosed could be financially quantified with carbon pricing. The GX-ETS (an emissions trading scheme), which begins from 2023, covers Scope 1 emissions, but, internationally speaking, Scope 3 emissions are the most important. We are becoming more and more aware of the need to quantify contributions to reduce GHG emissions. We outlined goals for reducing CO_2 emissions to zero using offsets by 2040 and net zero by 2050 and are currently considering formulating a roadmap to achieve these goals. To this end, we need to build a system to calculate to the degree to which the clean-tech businesses we are promoting can reduce GHG emissions. To begin with, we intend to continue steadily promoting clean-tech businesses with the aim of reducing CO_2 emissions to zero using offsets by 2040.

Q: You outlined projects that have synergy with CITIC and succession plans of top management as issues to address in the following year and beyond. These were also pointed out at previous annual report briefings, so has there been any specific progress yet?

A: Regarding the CITIC investment, in addition to equity in earnings of associates and dividends, we expect profit contributions from synergy. Currently, however, we have not yet realized a major project that stands out as a good example we can highlight. Nevertheless, from a medium- to long-term perspective, there is no change in our big-picture plan to continue collaborating on expansion in China, such as in the convenience store business. The fact is that we held back on investment in China over the last few years in consideration of effects of the COVID-19 pandemic and U.S.-China economic friction in addition to the political risks prior to the National Congress of the Chinese Communist Party. Moreover, to promote the convenience store business in China, we were studying the feasibility of collaboration with major private companies, but now we are taking a more cautious approach after a comprehensive assessment of such factors as the stance of the Chinese government toward major private companies and the yen depreciation. However, it is still true that the Chinese market is attractive, and our policy is to promote expansion in China with a sharp eye on the timing. Regarding succession plans, we understand that possible difficulties caused by the lengthy terms of current top management could be an issue, but the current management team has garnered high acclaim from the market, and we need to consider that their presence may provide a premium to ITOCHU’s share price. This is a difficult issue, but we will continue to consider appropriate disclosure.