CEO MESSAGE

ITOCHU will seize upon the changes of this era and turn them into major opportunities by relentlessly practicing our "earn, cut, prevent" principles and accelerating our shift to a market-oriented perspective.

In FYE 2021, despite the obstacles the pandemic imposed on business, ITOCHU achieved its first "triple crown" as a general trading company, ranking No. 1 in terms of market capitalization, share price, and consolidated net profit. In FYE 2022, we will continue to set our sights higher as we steadily achieve goal after goal outlined in the new medium-term management plan "Brand-new Deal 2023" and resolutely temper overconfidence.

(➡ Page 56 Medium-Term Management Plan "Brand-new Deal 2023")

Masahiro Okafuji
Chairman & Chief Executive Officer

One Day of Celebration

Since becoming president, I have visited the grave of the founder every year to report the Company's business achievements. This year marked the 11th time I have paid my respects, but the first time I reported that ITOCHU had achieved the "triple crown" in market capitalization, share price, and consolidated net profit for a general trading company. This was the first time since ITOCHU's founding.

Since surging to the top of the general trading company sector in market capitalization and share price in June 2020, the Company ended FYE 2021 without surrendering that top spot even once. Regarding consolidated net profit, we steadily cleared our initial plan. Leveraging our solid earnings base centered on the non-resource sector, we took the challenge head on and seized the No. 1 spot as a general trading company for the first time in five years. Moreover, ITOCHU's consolidated net profit has been No. 1 on a cumulative basis since the end of the resource boom in FYE 2016, and during that time ITOCHU was the only one not to go into the red.

We had taken on the general trading companies associated with the former *zaibatsu* industrial groups before this, but had a history of not quite measuring up. Many of ITOCHU's former managements and employees withstood hardship as they worked to shore up the Company's foundations. We all rejoiced at finally achieving the "triple crown."

Reporting the "triple crown" to Chubei Itoh I and Chubei Itoh II

I have nothing but respect for the Company employees and ITOCHU Group members who gave their all amid adverse business environments.

However, we only celebrated for one day. That was the day we achieved the "triple crown." I must never forget my self-awareness as a "merchant." No matter how much the Company's position rises in the industry, I visit the founder's grave every year to be reminded of our origins. In his book *The Innovator's Dilemma*, American entrepreneur and economist Clayton M. Christensen points out that temporary success can ironically lead to failure. We must always remember that.

We Will Not Tread the Same Paths

What really keeps me on my toes is the fact that, in the past, ITOCHU had a history of repeatedly falling into overconfidence and failure. To achieve "diversification," we pursued a rapid expansion of the non-textile areas and invested in TOA Oil Co., Ltd. from 1966, which led to a massive loss. I talked about this last year, but there is more to this story. In the 1980s, the accepted practice was that the three general trading companies with the highest sales were eligible to participate in international bids so the companies competed furiously for sales. In FYE 1987, the year after the TOA Oil problem was fully resolved, ITOCHU's net sales expanded to the top of the general trading companies, and the Company desperately tried to maintain the top sales spot thereafter. As a result, we moved away from the stable business practices we had pursued until that point and, amid the bubble economy, we went all in on real estate excesses, corporate investment funds, and fund trusts.

Although ITOCHU should have learned its lesson from the TOA Oil failure, the Company then became No. 1 without trying to recall those lessons and ended up making the same mistakes. The Company racked up huge losses from the late 1990s into the 2000s, effectively hitching a heavy anchor to its future. During the resources boom at the start of the 2000s, ITOCHU fell behind due to the gap in financial position that had arisen with the general trading companies connected to former *zaibatsu* industrial groups. The plans and growth strategies that general trading companies formulate when operating results are strong tend to aim unrealistically high. Accordingly, since achieving the "triple crown," we are now, more than ever before, committed to resolutely tempering overconfidence.

Our Basic Stance as a "Merchant"

Recently, I have been getting questions about what our next vision is after achieving the "triple crown," with suggestions that we should set out on a new stage unlike what we have done before. Just because we have achieved the "triple crown" does not mean that we should abandon the way we have done business until now or the direction of our aims.

If Hideki Matsuyama, the first Japanese winner of the Masters Tournament, were asked about his next goal, I suppose he would say that he would continue on the same path and aim to win a second major championship or achieve No. 1 in the world rankings by carrying on with his diligent practice. Switching analogies to baseball, if ITOCHU had been scoring runs with base hits and then suddenly started overswinging to hit home runs, the Company's form would crumble. Amid the Hanshin Tigers' rise this year, as a fan I was especially happy to see the promising slugger Teruaki Sato playing. However, even he sometimes goes off the rails. After amazingly hitting three home runs in one game, he struck out five times in a row in another game and humiliatingly tied the previous worst record in pro baseball. ITOCHU will have to diligently maintain its basic stance as a "merchant" by slowly and steadily building up profit and not overextending itself.

Under "Brand-new Deal 2023" (FYE 2022–2024), we set out a goal of achieving consolidated net profit of ¥600.0 billion during the term of the plan. Although COVID-19 vaccinations are proceeding apace around the world and economic activities are gradually returning to normal, it is still tremendously difficult to accurately forecast the new business environment at present. We will therefore need to pay much more careful attention to trends in the commodities market and exchange rates, the protracted U.S.–China trade friction, and various other factors. Accordingly, we will constantly monitor the business environment from an objective and conservative perspective. Of our basic fundamentals of "earn, cut, prevent," we will especially concentrate on "cut" and "prevent" while maintaining lean management.

Profit Opportunities Are Shifting Downstream

Amid AI, IoT, and other recent rapid advancements in digital technologies, automobile manufacturers, for example, are developing connected cars, EVs, autonomous cruising vehicles, and other technologies. They are also undertaking full-scale development of completely unique technologies, such as creation of practical flying cars. These manufacturers will need to undertake massive capital investment and R&D expenses to secure market share for their new products. However, if their business sectors grow too large, through diversification or other means, investment could become insufficient. Some sectors may be whittled down through selection and concentration. If the manufacturers do not increase their investment efficiency, they will not survive.

General trading companies, on the other hand, differ in focus from manufacturers that create revolutionary technologies and products that can instantly change the world. We evolve from existing trade, and, for example, assert our presence by increasing added value by combining the functions and know-how cultivated in marketing, logistics, and other fields. General trading companies constantly change shape in line with global trends. Rather than focusing on a few specific areas, it is critically important that we extend feelers into a wide range of fields, accumulate expertise in various industries, and change our organization and resource allocation depending on the situation. ITOCHU's track record of overcoming a multitude of turbulent periods since its founding, as well as its current steady expansion of profit, is a testament to the ability of this kind of general trading company business model to maintain its superiority into the future.

Power is shifting from the supplier side (manufacturers and distributors) to the consumer side, so data accumulated in businesses that engage closely with customers is becoming increasingly important. The value chain is clearly moving in the opposite direction as before. This is the meaning of the phrase "profit opportunities are shifting downstream." Going forward, as general trading companies transform, the key will be how much we can control the downstream flow of the value chain. ITOCHU, which already has strengths in the non-resource sector, especially the consumer-related sector, intends to polish its existing business model and better leverage its competitive advantage to continue taking the initiative in the overall value chain.

Ingraining a Market-Oriented Perspective Through Repetition

Going forward, the most important thing to continue leveraging our competitive advantage downstream will be to successfully switch to and ingrain a market-oriented perspective that transforms and improves our existing businesses. Given growing social demands, such as decarbonization, we will strive to steadily meet significantly changing consumer needs and further expand our business opportunities. It is obvious that this will require a market-oriented perspective. (➔ Page 58 Realizing Business Transformation by Shifting to a Market-Oriented Perspective)

General trading companies, including ITOCHU, have done business from a product-oriented perspective until now, contemplating how to sell the products they handle, within a vertical organization for each product category. It is now becoming more important to analyze consumer needs using data accumulated from customer contact points, and that kind of product-oriented perspective is quickly falling out of step with the new downstream-focused value chain. Changing a long-held mindset is not easy. In recent years, I have been getting out the word myself by repeatedly mentioning the term "market-oriented perspective" again and again in my messages. Similar to how we made "earn, cut, prevent" part of our shared internal language, I will continue in this way while providing specific examples until the shift to this crucial perspective is firmly rooted in our employees. I consider this a major responsibility as a senior manager who aims to further expand business into the future while developing human resources.

For FamilyMart, which is positioned as the most important base in ITOCHU's strategy, the market-oriented perspective has become a keyword too. By leveraging flexibility, convenience stores have become the most evolved form of the retail industry. If they continue pursuing functions suited to people's lifestyles, they can evolve even more. For example, I heard customers say that last year they stocked up at supermarkets to minimize outside trips, but currently prefer shopping at nearby convenience stores, buying just what they need to get some exercise and change their mood. To meet that kind of change, I immediately indicated the need for a product lineup adjustment. Complicated theories are not useful for a market-oriented perspective. Look at things from the customer's point of view and seriously think about how you can satisfy the customer. It's that simple. The 8th Company, which was newly founded to break down product silos, is rooted in a market-oriented perspective and steadily increasing cross-divisional functionality. By drafting and implementing new plans such as digital signage, humanoid AI, and data utilization, it will continue helping to improve the profitability of FamilyMart.

Keita Ishii, the new President & COO, maintains this kind of market-oriented perspective and can precisely assess and respond to changing situations. He also received a recommendation from the Nomination Committee as a candidate qualified to be in charge of executing the Company's business. I am looking forward to the results of his skill and strong drive, which has previously built new businesses to meet customer needs, such as developing the environmental businesses of energy storage systems (ESS) and renewable energy.
(➡ Page 82 Outside Director Roundtable Discussion)

A Sense of Urgency Kindled in Europe

I want to talk about the European business trip I took around three years ago. I stayed in a hotel in Milan, and when I went to brush my teeth, I realized there was no toothbrush. When I called the front desk, they told me toothbrushes were only provided upon request, not automatically. Around the same time, I was watching news on the hotel TV about how Starbucks was eliminating plastic straws and would switch exclusively to paper. It dawned on me at that time that these trends were emerging in Europe, which is environmentally conscious, but not in Japan, where like-minded companies and individuals remained in the minority. However, I could not shake that palpable recognition from my European business trip. I believed that a much more proactive environmental response was necessary under the upcoming medium-term management plan, and held many discussions on this topic in preparation. Consequently, without waiting for the public announcement of "Brand-new Deal 2023" scheduled for May, ITOCHU sprinted ahead of others in the industry and, right after the New Year's holiday, announced a policy to contribute to the environment and help realize decarbonization across society.

First, as a reduction of the Company's owned assets with significant GHG emissions, we decided to go beyond our existing policy of not acquiring new thermal coal interests and will instead withdraw from all thermal coal interests during the period of the new medium-term management plan. To get a running start, in April we completed the sale of our interests in the Drummond mine in Colombia, which accounts for 80% of our thermal coal interests. I believe this clearly demonstrates ITOCHU's commitment and reliability. (➡ Page 64 Business Expansion in Accordance with a Decarbonized Society)

Moreover, the non-resource sector is the Group's strong suit and holds an array of new business shoots that are now bursting forth. These will directly lead to reductions in global GHG emissions and also provide immediate potential to turn a profit. We intend to aggressively pursue these with the greatest possible speed. A primary example of these promising shoots is the ESS-related business where we can expand the value chain and reliably count on future profit contributions.

With Ai Tominaga, evangelist of ITOCHU SDGs STUDIO

Soy meat, which is currently garnering global attention, holds such potential as well. Low-fat, high-protein soy meat is a super food that can help solve future food-related challenges. Compared to conventional beef and other meat, it greatly reduces water use and GHG emissions during production and soy meat is already being offered by many food vendors as a processed product. The Group's FUJI OIL CO., LTD. boasts around 50% share of Japan's market for soy meat materials (granulated soy protein), and demand for this product is expected to grow even more going forward. Another shoot is the joint plant established by ITOCHU with the major Finland-based forest industry Metsä Group. Together, we manufacture cellulose fiber from wood that cannot be used for pulp. With the focus on low environmental impact and sustainable natural materials, inquiries are increasing from famous European and U.S. brands (such a Burberry, Zara, and the Kering group, which owns Gucci and Balenciaga) which actively work to protect the environment. The ITOCHU Group will continue working to harness its comprehensive strength and expertise to robustly support the trend of switching to socially demanded low environmental impact products and materials.

Keeping an eye on the post-pandemic world even amid the pandemic, our policy is to continue further solidifying our earnings base centered on the stable non-resource sector.

Sampo-yoshi Capitalism

To date, shareholder capitalism, which states that companies belong to shareholders, has been the dominant ideology. But recently, stakeholder capitalism is becoming more mainstream in the belief that the scope should be broadened to include not just shareholders but also society as a whole, customers, employees, and others. *Sampo-yoshi* capitalism outlined in "Brand-new Deal 2023" makes it clear that ITOCHU, which outlines "*Sampo-yoshi*" in its corporate mission, heads in the same direction as all its stakeholders and shares the fruit of its labor over the long term.
(➡ Page 44 CAO Interview)

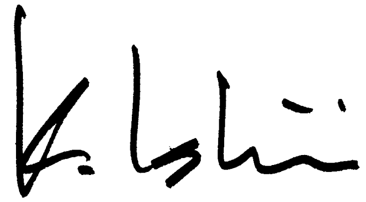
If companies aim to realize a sustainable society, an obvious prerequisite is that the companies themselves must remain sustainable. This has to be implemented by upper management. I believe it is important to promote balanced business strategies that do not benefit only specific stakeholders but rather consider the perspectives of all stakeholders.

That, however, should not suggest that we do not value our investors and shareholders before or now. The executive officers of ITOCHU hold many more shares than those of other general trading companies, and nearly 100% of its employees are enrolled in the Employee Shareholding Association. Since announcing a progressive dividend policy in FYE 2016, executives and employees share the same perspective as investors and shareholders, and we have steadily increased dividends. As can be inferred from the fact that a large number of companies in FYE 2021 decreased or forewent dividends, under a dividend policy that only focuses on the dividend payout ratio, it is possible that if there is a temporary decrease in profit, the dividend amount may decrease and betray investor and shareholder expectations. Accordingly, under this especially unclear business environment at present, I considered it appropriate as a senior manager to continue stably and steadily raising progressive dividends as before. However, in response to the market expectations, we are considering the announcement of a dividend increase for FYE 2022 based on the first-half results and the higher dividend payout ratio during "Brand-new Deal 2023."
(➡ Page 36 CFO Interview)

Taking into account the abnormal surge in resource prices and the significant progress made in the first quarter, many people are expecting profit to exceed ¥600.0 billion in FYE 2022. Keeping an eye on the post-pandemic world even amid the pandemic, our policy is to continue further solidifying our earnings base centered on the stable non-resource sector. To this end, ITOCHU will steadfastly and thoroughly practice its "earn, cut, prevent" principles and accelerate its shift to a market-oriented perspective in order to continue evolving as it uses well-grounded management to implement *Sampo-yoshi* capitalism.

Leading ITOCHU's new challenges on the front lines, I will continue to fulfill the responsibility passed down from 164 years of tradition.

I place high value on the "front lines" and "trust," and intend to continue comprehensively enhancing sustainable corporate value for ITOCHU by creating a positive feedback loop to solve social issues and expand our earning power.



Keita Ishii
President & Chief Operating Officer

We Value the "Front Lines" and "Trust"

I was named President & COO in April. When I joined the company in 1983, I was assigned to the Chemicals Division, mainly working in the trade of petrochemical products. Since then, I have experienced two overseas assignments in North America and Thailand, held specialized roles in the chemical field, serving as the chief operating officer of the Chemicals Division and the president of the Energy & Chemicals Company. ITOCHU has adopted a management system that assigns roles to the Chairman & CEO, who drafts Groupwide strategies, and the President & COO, who implements and promotes those strategies. I pledge to fulfill these responsibilities. Firmly upholding the baton passed from President & COO Suzuki, I will sprint ahead with 164 years of inherited ITOCHU tradition.

Since being confirmed as President & COO, media outlets have highlighted my time as a rugby player when I was a student. This is somewhat puzzling since, by no means, did I join ITOCHU as a rugby player. Still, the truth of the matter is that the lessons I learned during those formative years laid the foundation of my corporate life. This includes the importance of being a team player, which is dependent on strong relationships of trust with your teammates; ambition to single-mindedly strive for victory; and a shared strategy based on meticulous analysis.

As part of my training upon entering the Company, I watched a video on the merchants of Ohmi that depicted how they lived. Even now, I vividly remember feeling that if I further polish my ability to build strong relationships and a foundation of trust that I cultivated when I was a student, I could also become someone who is trusted in the business world. Since then, I have valued the terms "front lines" and "trust" in conducting business. I visited customers faster than anyone, saw their requests through to the end, and built up trust. I remember it as a muscle memory, a subconscious reflex. This stance comes naturally now and expands connections with people, regardless of nationality, and ultimately expands business. The characteristic of the chemical business is to provide a wide range of raw materials to various business fields. Over the years, the connections I have built with people have expanded to become an irreplaceable asset, and have helped to swiftly pick up on trends in the ever-changing market. Going forward, my playing field expands to the entire Group, but I will continue to unwaveringly value connections with people.

So far, I have had numerous opportunities to help rectify projects and organizations facing difficulties. I have strived to serve as a role model and unify organizations to overcome challenges. We have achieved new business by brainstorming with all team members, forecasting the future of the market, establishing milestones for achieving our big vision, determining each role, and continuing to pour passion into these efforts. Let me illustrate in more detail on how the energy storage systems (ESS) business continues to expand through this kind of approach.

The ESS Born of Customer Feedback

Although there is some overlap in the period, the ESS business has developed in five distinct stages, namely the: 1) Development of ESS; 2) Installation of AI in ESS; 3) VPP construction and expansion of ESS sales; 4) Construction of reuse and recycling systems; and 5) Foundation for the next level of development and expansion.

At each of these stages, every member of the team thoroughly debated our vision for the next few years based on expected future trends and demand. We created a roadmap showing the way to achieving our vision, added subtle revisions in response to the changing situation, and swiftly and carefully upgraded and expanded necessary resources.

Stage 1: Development of ESS. Around 2010, with the intention of withdrawing from the simple sales business of battery materials, we began developing and selling ESS for household use, but it did not go well at first. A turning point was customer feedback indicating demand for ESS that can power all appliances even during a power outage. Due to lower capacity, other ESS on the market limit the appliances that can be used to 100V during a power outage. We began to build a high-capacity ESS unlike any other company. Even during a power outage, it enables the use of all appliances up to 200V. As a result, from around 2017, we were able to put sales on track.

Stage 2: Installation of AI in ESS. This was a major fork in the road in terms of developing the business for ESS. With an eye on the gradual end to the feed-in tariff (FIT) system for renewable energy after 2019, we thought it would be necessary to install AI in ESS and successfully accomplished this through a capital and business alliance with the UK-based Moixa Energy Holdings Ltd. Due to this effort, the AI analyzes various sources of information, including weather data and forecasts of energy use and power generation, to enable the control of the optimal charge and discharge for ESS. This drastically improves customer convenience and provides access to data related to the power use patterns of each household.

Stage 3: VPP construction and expansion of ESS sales. At this stage, the AI installation has gained more meaning. By bundling individual ESS together, centrally managing data accumulated from the AI in stage two, and optimizing control, we can, in the near future, build a virtual power plant (VPP), which is a distributed power supply platform. Our industry-leading sales figures of ESS broke 43,000 units as of March 31, 2021, and we are accelerating sales toward our FYE 2024 target of 80,000 units. Sales of individual ESS are directly related to current profit, and the increase in the number of ESS installed contributes to the expansion of the overall next-generation power network, and this business model connects to our future vision.

Stage 4: Construction of reuse and recycling systems. This stage of the story is about lithium-ion batteries used in ESS that have been promoted in tandem with stages 2 and 3. Actually, lithium-ion batteries are a bunch of chemicals. Leveraging the know-how that we used in the battery materials business, our policy is to promote two businesses going forward. The first is “reuse,” in which we take lithium-ion batteries used for EV applications and reuse them for ESS. The second is “recycle,” in which we collect materials from used ESS, such as nickel, lithium, and other rare metals, and return them into the raw material and battery material chain. We aim to complete a true circular system to ensure the stable supply of lithium-ion batteries and cost competitiveness.

Stage 5: Foundation for the next level of development and expansion. We are steadily promoting initiatives aimed at realizing the business expansion we envision for the next few years based on global trends.

For example, we invested in a company developing SemiSolid batteries that are low-cost, highly safe, and recyclable next-generation lithium-ion batteries; conducted proof-of-concept tests for realizing peer-to-peer (P2P) electric power transactions using blockchain; installed functions in ESS for charging EVs and measuring environmental value (points); and connected with FamilyMart and other retail stores. We will continue establishing a foundation step by step for vertically and horizontally developing business based on ESS.

The businesses built up by implementing these systematic initiatives create a positive feedback loop that draws in new businesses. Many companies are focusing attention on our business development that centers on ESS, and we have already launched various collaborations. These companies span various industries, including not only electric power companies but also housing, automotive, appliance and other manufacturers, as well as telecommunications-related companies. (➡ Page 66 Development of a Distributed Power Supply Platform Centered on ESS)

Balancing the Solution of Social Issues with Business Feasibility

Under “Brand-new Deal 2023” (FYE 2022–2024), we outline the basic policies of “Realizing business transformation by shifting to a market-oriented perspective” and “Enhancing our contribution to and engagement with the SDGs through business activities.”
(➡ Page 56 Medium-Term Management Plan “Brand-new Deal 2023”)

By fully leveraging the characteristics of our strong non-resource sector, we will accelerate initiatives for the next stage of consolidated net profit of ¥600.0 billion.

These qualitative policies demonstrate our stance of taking on current global changes and issues by leveraging the Company’s business characteristics and strengths. These are not two completely independent policies; they are highly interrelated.

Around three years ago, when Chairman & CEO Okafuji had just returned from a business trip in Europe, he asked me, “Are we doing anything for the plastic waste problem?” At that time, concern for this issue was low in Japan, and we had only been thinking of selling existing products. Spurred on by that question, however, we immediately began searching for business possibilities for biodegradable plastic and recycling. We are accelerating initiatives for the plastic recycling business as represented by our capital and business alliance with U.S.-based TerraCycle, Inc., which is garnering attention from the general public for collecting materials that are conventionally difficult to recycle and then recycling them into various products. We have entered the PET bottle business, developed garbage bags made from marine waste, and concluded a licensing agreement for technology enabling the chemical recycling of polyester. We will continue striving to create new business models while bringing in our partners.

In addition, we began next-generation fuel business initiatives, namely the currently topical hydrogen and ammonia. Going forward, these businesses are dependent upon legal and regulatory amendments, as well as infrastructure upgrades. It is possible that it will be necessary to collaborate with multiple companies. Accordingly, because it will take some time until business becomes practical and profitable, our policy is to seriously assess their feasibility and establish a foundation over the long term. In addition, at each Division Company, we are searching for and implementing various businesses and initiatives that balance responses to social issues with business feasibility. As shown by the example of the aforementioned ESS business, the most important point is to systematically implement businesses and initiatives established in a market-oriented perspective based on global trends. Leveraging my experience, I will implement a meticulous response and promote each project as President & COO responsible for execution.

Under “Brand-new Deal 2023,” we outline targets such as offsetting CO_2 to zero by 2040 and achieving net zero GHG emissions by 2050. However, even if we announce a medium- to long-term vision spectacularly in line with social demands, we will not fulfill our responsibility as a company unless we guarantee the continuation of the Company itself and its own future growth. We will steadily address social demands that need to be resolved while increasing our earning power. By fully leveraging the characteristics of our strong non-resource sector, we will accelerate initiatives for the next stage of consolidated net profit of ¥600.0 billion.

Enhancing Sustainable Corporate Value

Around the time I joined the Company, the general trading companies associated with the former *zaibatsu* industrial groups had imposing presence. To close the huge gap, I worked very hard on my sales activities. Without relying on the activities of just a few outstanding companies or divisions, we, including former managements and employees, diligently built up our business foundation through steady efforts. Our collective efforts have resulted in ITOCHU attaining the “triple crown” of general trading companies in FYE 2021.

However, new battles are already underway in FYE 2022, and any momentary slip could decide our fate. We will remain ever vigilant and, by creating a positive feedback loop for solving social issues and expanding earning power, we will continue comprehensively enhancing sustainable corporate value for ITOCHU.

I would like to thank all our stakeholders for your continued support.