Driving Force for Sustainable Value Creation

This section describes the historical background of how and why we have built up strengths and non-financial capital and provides examples of the ways in which we combine different types of non-financial capital. Also, we explain financial and capital strategies, including the business investment and post-investment monitoring process, which is one of two pillars that underpin our business development.

Component of the corporate value calculation formula focused on in this section

$$\text{Corporate Value} = \frac{\text{Created Value}}{\text{Cost of Capital} - \text{Growth Rate}}$$

CONTENTS

Since its founding in 1858, ITOCHU has fostered a unique corporate culture while flexibly changing its business structure, primarily by dynamically allocating management resources to growth areas that shift with time and leveraging business investments to move downstream in the value chain. Our business model, which currently boasts high sustainability, has enabled us to consistently overcome the obstacles we have faced, such as the management reforms in the late 1990s. The driving force behind this model lies in four corporate strengths we have accumulated over our history of more than 160 years.

- Comprehensive Strength and Ability of Self-Transformation
- Individual Capabilities
- Earning Power in the Non-Resource Sector
- Experience and Track Record in China and Other Parts of Asia

Accumulated Strengths

Consolidated Net Profit

Founded–

Focus Mainly on the Textile Sector

Chubei Itoh I commenced linen trading operations via Osaka in Senshu (now the southwestern part of Osaka Prefecture) and Kishu (now Wakayama Prefecture). From a base in Osaka, we expanded business, mainly in the textile sector.


Chubei Itoh I

1950s–

Diversification, Including Automobiles, Petroleum, and Food

We pursued a path of diversification, and as a result non-textile areas accounted for around 40% of trading volume in 1958. In the 1960s, we expanded our business to include energy, machinery, general merchandise projects, and the iron and steel business, becoming a "¥1 trillion trading company." In 1977, we further expanded the iron and steel business through a merger with Ataka & Co., Ltd.

1980s–

Expansion in the ICT Sector

As yen appreciation became a fixture of the economy, we promoted internationalization and globalization. We moved aggressively into the ICT field and entered the satellite business.

Accumulated Strength

Comprehensive Strength and Ability of Self-Transformation

Compound Annual Growth Rate of Consolidated Net Profit 13.0% (FYE 2011–FYE 2023 Plan)

We realize sustainable growth by leveraging our comprehensive strength as a general trading company and flexibly transforming ourselves in response to the external environment.

1990s–

Set the Steppingstones for the Current Business

We took decisive action to dispose of low-efficiency and unprofitable assets to sweep away negative legacy assets from the bubble era. At the same time, we set in place the steppingstones for the future, such as acquiring shares in FamilyMart in 1998.

2010s–

Enhancing Comprehensive Strength by Harnessing Our Ability of Self-Transformation

Ahead of other general trading companies, we began focusing on the non-resource sector. We commenced a strategic business and capital alliance with CITIC and CP Group, strengthened North American construction materials-related businesses, acquired the Dole business, increased stake in major Group companies, and privatized FamilyMart. We have further built up comprehensive strength and promoted self-transformation from a market-oriented perspective in part by entwining our business investments to create multifaceted businesses that connect for synergy, establishing The 8th Company, and developing the value chain of energy storage systems.

Accumulated Strengths

Accumulated Strength

Individual Capabilities

Consolidated Net Profit per Employee (Non-Consolidated)

¥0.20 billion (FYE 2022)

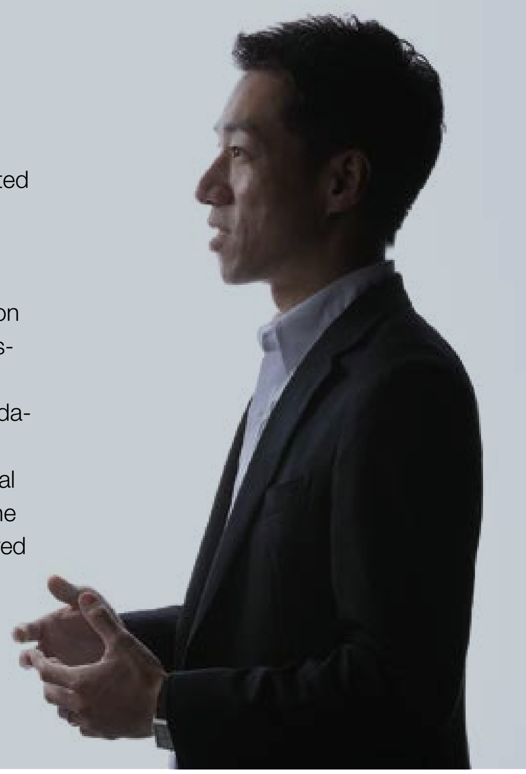
From the Company's founding, merchants developed business by balancing their wares on shoulder poles as they traveled on foot to distant locales. This DNA has been steadily passed down through the eras until the present as "individual capabilities."

(Photo courtesy of Archival Museum for the Faculty of Economics at Shiga University)

Strengthening Our Foundation to Harness Individual Capabilities

Since its founding, ITOCHU did not maintain free-standing stores, but instead cultivated a spirit of creating businesses on its own. Based on this DNA and our core focus on the non-resource sector, which consists of small businesses and a large number of customers, we have cultivated "individual capabilities." The ability of individuals, who are also referred to as "brave warriors," to create business through their own discretion on the front lines is characteristic of the Company and the driving force behind its sustainable value creation.

Under "Brand-new Deal 2012" (FYE 2012–2013), we established our business fundamentals as the strengthening of frontline capabilities and the "earn, cut, prevent" principles, then implemented various internal reforms to draw forth our latent individual capabilities. We subsequently enhanced initiatives for work-style reforms, including the introduction of a Morning-Focused Working System in FYE 2014. As a result, we achieved high labor productivity based on a small select organization of capable individuals. ITOCHU boasts the lowest number of employees (non-consolidated basis) of the general trading companies, but we generate the highest consolidated net profit per employee.



Accumulated Strengths

Accumulated Strength

Earning Power in the Non-Resource Sector

Core Profit in the Non-Resource Sector

¥500.3 billion (FYE 2022)

Although the shape of our business has significantly changed, expanding from linen trading to the development of a value chain that includes SDG-related businesses, the Company's main focus remains on the non-resource sector.

Further Enhancing Earning Power in the Non-Resource Sector

ITOCHU's business originated with textiles. In contrast with the general trading companies associated with the former *zaibatsu* industrial groups, the Company has weaker connections to the national government and companies in heavy industry. We, therefore, inevitably built up strengths in the non-resource sector, centered on clothing, food, and housing, where we have a wealth of expertise.

"Brand-new Deal 2014" (FYE 2014–2015) was subtitled, "Aiming to be the No. 1 Trading Company in the Non-Resource Sector." Under it, ITOCHU did, in fact, become the No. 1 general trading company in the non-resource sector. We attribute this success to our efforts to enhance the returns from major investments completed, improve the profitability of existing businesses, and revise investment criteria directing slightly lower than 80% of new investment to the non-resource sector. Following that, we continued to accumulate strengths in the non-resource sector and strengthen an earnings base that is diversified across many fields and more resilient to economic volatility, thereby enabling the stable generation of cash flows.

Accumulated Strength

Experience and Track Record in China and Other Parts of Asia

Expanding Business into China 1972

In 1972, then-President Masakazu Echigo headed a mission to China and attempted to make an early start at cultivating the Chinese market. This led to our current valued partnerships.

Laying a Strategic Foundation for the Future in Markets in China and Other Parts of Asia

ITOCHU was the first major general trading company to be accepted to restart trading between Japan and China. This early success in building a bridgehead in China has led to our current strength of "experience and track record in China and other parts of Asia."

Under "Brand-new Deal 2017" (FYE 2016–2018), we sought to enhance corporate value sustainably from a longer-term perspective. We worked with the CP Group to make a joint investment in CITIC, the largest investment in ITOCHU's history (approximately ¥600.0 billion), and placed a major strategic steppingstone in the world's largest consumer markets of China and other parts of Asia. CITIC is the largest Chinese state-owned conglomerate, and CP Group is the largest conglomerate in Thailand which has built up various businesses across China. Working with these two reputable partners, we strive to develop businesses which will lead to improving the earning power in our strong non-resource sector.

Accumulated Strengths

By adding new strengths to proven strengths and steadily advancing its position, ITOCHU dramatically increased its capacity to "earn" and achieved consolidated net profit of ¥820.3 billion in FYE 2022, a significant record-high for the Company.

In FYE 2023, we expect an uncertain business environment characterized by a mix of multiple causes for concern, such as the effect of an as yet uncontained COVID-19 pandemic, geopolitical risks, and supply chain disruption in addition to increases in interest rates, foreign exchange rate fluctuation, and inflation that entails continued high resource prices and hikes in raw material prices and logistics costs. Despite these business conditions, we will unwaveringly build up the four strengths as the driving force to enhance corporate value even further.

Building Up

Unwaveringly Building Up Strengths

FYE 2022

Enhancing Comprehensive Strength through Self-Transformation

Shattering the Previous **Profit Record**
(Enhancing Our "Earn" Power)

FYE 2016

Steppingstones toward China and Other Parts of Asia

No.1 General Trading Company in Consolidated Net Profit

FYE 2015

Strengthening Earning Power in the Non-Resource Sector

No.1 in the Non-Resource Sector

FYE 2012

Harnessing Individual Capabilities

No.1 in the Consumer Sector

Virtuous Cycle That Increases the Sustainability of Strengths

Overcoming numerous adversities during a history spanning more than 160 years, we have built up four strengths, which have become more sustainable by interacting with each other while growing together as part of a virtuous cycle. Going forward, we will augment these four strengths even further and sustainably enhance corporate value through continuous self-transformation in step with emerging trends and currents in society.

Individual Capabilities	Since its founding, ITOCHU has focused on businesses in the non-resource sector, where we have established many customer contact points. As a result, we have developed a strong frontline presence that makes us keenly alert to the constant changes in consumer needs and enhances our individual capabilities.
Comprehensive Strength Capabilities of the Organization and Business Know-How	Supported by a corporate culture that encourages constant awareness of our "*Sampo-yoshi*" corporate mission, business divisions and administrative divisions work as a team to fully realize the "individual capabilities" of employees in the development of businesses, thereby building up both the capabilities of the organization and business know-how.
Comprehensive Strength Business Portfolio	Our individual capabilities that accompany a strong frontline presence, together with the accumulated capabilities of the organization and business know-how, enable the flexible combinations of internal capital in response to social changes and continuous self-transformation.
Earning Power in the Non-Resource Sector Experience and Track Record in China and Other Parts of Asia	Through continuous self-transformation, we avoid the obsolescence of existing businesses and steadily seize new business opportunities. In this way, we increase our strengths, namely, our "earning power in the non-resource sector" and our "experience and track record in China and other parts of Asia." Increasing these strengths creates further business opportunities and bolsters "individual capabilities" while enabling the sustained enhancement of all the strengths we have accumulated.

* For an explanation of the importance of the internal capital that contains our strengths, please see Page 34 Accumulation of Non-Financial Capital

Accumulation of Non-Financial Capital

Sustainable Value Creation through Strengthening of Trust and Creditworthiness

ITOCHU conducts its business through both trade and business investment. In the course of its history over 160 years, we have steadily accumulated internal capital through our business, such as human and organizational capital and business know-how.

We believe that trust and creditworthiness are extremely important for symbiosis of internal and external capital which mutually influence each other. By always remaining cautious of trust and creditworthiness in our management practice, we aim to continuously expand corporate value through realizing increases in both economic value and environmental / social value.

		Explanation of Each Capital (Importance)	Examples of KPI and Monitoring Indicators	Examples of Strengthening Measures
Internal Capital	Human and Organizational Capital	We increase individual capabilities through our human resource strategies and enhance labor productivity. In addition, our business divisions have powerful backing from our administrative divisions, which have rapid decision-making systems and high-level expertise, therefore practicing the "earn, cut, prevent" principles.	• Labor productivity of employees • Engagement Survey • Average training cost per employee • Number of employees with Chinese-language qualifications • Monthly average overtime hours • Annual paid leave acquisition rate • Company ranking among job-seekers	• Realization of ITOCHU Mission and Guideline of Conduct • Morning-Focused Flextime System and adoption of a work from home system for all employees • Health management (Support Measures for Balancing Cancer Care and Work, etc.) • Business support and control function of administrative divisions • Changing work system flexibly during the COVID-19 pandemic ➲ Page 92 Human Resource Strategy
	Business Know-How	With eight Division Companies operating businesses in diverse industries, ITOCHU has accumulated extensive and advanced business know-how. This is a vital intangible asset for creating new businesses and entering into new regions.	• Number of new businesses formed • Number of years of business with existing customers • Number of contact points with consumers and volume of data • Analysis of various data and proof-of-concept data	• Creating synergies and new businesses by utilizing ITOCHU's comprehensive strength • Breaking down product silos and strengthening collaboration among Division Companies • Transforming business models based on a market-oriented perspective • Acquiring new knowledge through venture investments, etc. • Promoting comprehensive DX support businesses
	Business Portfolio	Leveraging comprehensive strength and ability of self-transformation enables ITOCHU to optimize its business portfolio by increasing its flexibility, range, and balance even further. Moreover, these advantages allow us to adapt quickly to a volatile business environment and diversifying consumer needs.	• Ratio of Group companies reporting profits • Management efficiency indicators	• Pursuit of highly efficient management (rigorously selected investments and continuous asset replacement) • Improving profitability of existing businesses (thoroughly instilling the "earn, cut, prevent" principles) • Implementation of ITOCHU's Policy on the Governance of Its Listed Subsidiaries ➲ Page 40 Business Investment ➲ Page 101 Policy on the Governance of Listed Subsidiaries

Financial Capital

		Explanation of Each Capital (Importance)	Examples of KPI and Monitoring Indicators	Examples of Strengthening Measures
External Capital	Client and Partner Assets	We maintain win–win relationships with our clients and partners, which include a large number of leading companies. This is vital to our ability to rapidly expand into new domains and constantly capture and expand trade. It is our abundant client and partner assets that enable us to realize sustainable earnings growth.	• Profits from initiatives with blue-chip partners • Number of clients and partners • Expenses reduced and decrease in losses on bad debts	• Selection and securing of blue-chip partners • Use of cutting-edge technologies and services and business model transformation • Complying with Environment, Health, and Safety (EHS) Guidelines • Building of safe and secure supply chains
	Natural Resources	Through business in the non-resource and resource sectors, we meet social demand for stable procurement and supply of natural resources, while capturing new business opportunities in responding to social issues outlined in the SDGs.	• Renewable energy ratio • GHG emissions • Electricity consumption • Water usage • Waste volume	• Withdrawing completely from thermal coal interests • Continuing to review projects based on engagement • Strengthening of value chains and business investment management based on a sustainability point of view • Stepping up contribution to and engagement with the SDGs through eco-friendly businesses, etc. ➲ Page 86 Approach to Climate Change and Related Initiatives ➲ Page 90 Sustainability Management
	Relationships with Society	We practice continuous and constructive communication with our stakeholders, ascertaining their expectations and demands of the Company and solving them. Through this effort, we promote stable business activities in Japan and overseas and realize further enhancement in corporate value.	• Number of engagements with stakeholders • Number of sustainability surveys conducted • Number and percentage of employees participating in sustainability and compliance-related internal training • External evaluation by ESG rating agencies, etc., and additions to indices • Shareholder returns (dividends and share buybacks) and EPS • Number of compliance violation incidents	
		Explanation of Each Capital (Importance)	Examples of KPI and Monitoring Indicators	Examples of Strengthening Measures

* For PEST items affecting each capital above, please see
➲ Page 76 PEST Analysis (Macroenvironmental Factors through 2030)

➲ Page 126 Data Section

Examples of Key Combinations of Capital in the Businesses Highlighted in the SPECIAL FEATURE "Merchants Who Continue to Transform" (➲ Page 58)

TRANSFORMATION 1 FamilyMart's Goal of Renewed Growth Evolution of Value Chains, Starting with FamilyMart

Evolution of value chains using DX (Business Know-How)	Robust value chains through collaboration within the Group (Business Portfolio)	The Group's largest customer contact points (Client and Partner Assets)

TRANSFORMATION 2 Self-Transformation in Anticipation of Changes in the Market of the ICT & Financial Business Company

Venture investment know-how and new business development capabilities cultivated since the 1990s (Business Know-How)	Group of digital technology businesses that enable support for customers' DX (Business Portfolio)	Responses for DX due to digitalization of society (Relationships with Society)

TRANSFORMATION 3 Polishing Business through a Hands-On Management Style (DESCENTE LTD.)

Dispatching of management and seconded personnel with expertise in frontline operations (Human and Organizational Capital)	Our experience and track record in China (Business Know-How)	Increase in sports-related demand due to rising health consciousness (Relationships with Society)

TRANSFORMATION 3 Polishing Business through a Hands-On Management Style (YANASE & CO., LTD.)

Dispatching of management and seconded personnel with expertise in frontline operations (Human and Organizational Capital)	Management know-how of automobile dealers globally (Business Know-How)	The customer base of YANASE & CO., LTD., mainly comprising the wealthy class (Client and Partner Assets)

Business Creation through Combinations of Capital

TRANSFORMATION 4 New Steppingstones for the Advancement of the Construction Machinery Business (Hitachi Construction Machinery Co., Ltd.)

Finance function of Tokyo Century Corporation (Business Know-How)	Technology capabilities of Hitachi Construction Machinery Co., Ltd. (Business Know-How)	The customer base of MULTIQUIP INC., comprising construction machinery rental companies, etc. (Client and Partner Assets)

TRANSFORMATION 5 Business Expansion in Accordance with a Decarbonized Society (Distributed Power System Supply Platform)

Track record of initiatives in energy storage systems businesses stretching back more than 20 years (Business Know-How)	Major partners with advanced technological capabilities (Client and Partner Assets)	Expansion of renewable energy by moving away from fossil fuels (Natural Resources)

TRANSFORMATION 6 Sustained Growth through Strengthening the Value Chain (Natural Rubber and Tire Business)

One of the largest tire value chains in Europe (Business Portfolio)	Stable procurement and supply of natural rubber (Natural Resources)	Respect for the human rights of natural rubber farmers (Relationships with Society)

CFO Interview

Tsuyoshi Hachimura
Member of the Board,
Executive Vice President, CFO

Amid the uncertain business environment, we will continue to further enhance the quality of management and ensure the replicability of highly effective management by firmly maintaining our financial and capital strategies to balance three factors.

What is your overall assessment of the financial and capital strategies in FYE 2022?

We accelerated the expansion of our financial and capital foundations, which will underpin our growth strategies going forward.

Every year, when I write this message, I get the urge to sit up even straighter, in part because this is where I am called to report the results of the commitments I made, whether it was in the previous year's annual report or during dialogue with market participants. This year, though, I feel a sense of relief because we steadfastly achieved our commitments. In FYE 2022, the economy was expected to recover from the COVID-19 pandemic, and a somewhat optimistic mood began circulating in the market. However, we did not actually find a way out of the prolonged pandemic, and, by the end of the fiscal year, geopolitical risks shot to the fore following the Russian invasion of Ukraine. Due mainly to these factors, the fiscal year ended with persistent uncertainty for the future. During the year, we were called on to take more timely and appropriate action on offense and defense while monitoring trends in COVID-19 case numbers and commodity prices. Amid that kind of business environment, I would first like to highlight that I worked hard on consistent financial and capital strategies as the CFO and that we were able to accelerate the expansion of our financial and capital foundations, which will underpin our growth strategies going forward.

Since becoming CFO in FYE 2016, I have committed to the "Policy to achieve high ROE while balancing three factors (shareholder returns, growth investments, and control of interest-bearing debt)" and continued implementing strategic balance sheet management.

Over the last seven years, shareholders' equity, which is an important indicator of the Company's resilience to risk, increased by ¥1.8 trillion to ¥4.2 trillion, and the ratio of shareholders' equity to total assets improved by 6.1 points to 34.6% as of March 31, 2022, with both record-ing historical highs.

In addition, regarding growth investments, we are working to carefully select projects in regions and fields where we have expertise while being careful to avoid accumulating goodwill that accompanies overly high-priced acquisitions. We promote proactive asset replacement for low-efficiency assets or those that have peaked out. We have managed large-scale investments within the scope of cash flow generated each fiscal year or the span of the each medium-term management plan. Through this kind of control, over the past seven years, total assets have increased by ¥3.6 trillion to ¥12.2 trillion, but net interest-bearing debt has held steady at ¥2.3 trillion (down ¥0.1 trillion). We also set our best record for net debt-to-share-holders' equity ratio (NET DER) with 0.54 times (an improvement of 0.43 points). Taken together with the aforementioned shareholders' equity and the ratio of shareholders' equity to total assets, ITOCHU's financial soundness and stability have drastically improved in a very visible way.

Moreover, from the perspective of cash-generating power, over the past seven years, core operating cash flows more than doubled to approximately ¥790.0 billion (up approximately ¥404.0 billion). We steadily disposed of assets with concerns, while conducting asset replace-ment, both in the non-resource sector and the resource sector. Our ardent efforts to improve asset quality have borne fruit.

Lastly, regarding ROE, since I first stepped into the CFO role, ITOCHU has outlined a policy of maintaining an ROE level of 13% or more over the medium- to long-term. This level is in line with a global standard and also significantly exceeds ITOCHU's cost of capital of 8%. ROE in FYE 2022 soared to 21.8%, which could be con-strued as too good, but my overall evaluation is that we have a track record of generally achieving a level exceed-ing our policy. (➔Page 50 Business Results for FYE 2022)

What led you to the decision on the New Dividend Policy announced in FYE 2022?

The decision was made by incorporating opinions from the market into the Company's strong will on management.

As previously mentioned, the Company is steadily enhancing its cash-generating power. We are always conscious of growth investments moving forward and the level of shareholders' equity as a risk buffer that enables those investments. At the same time, we are striving to expand shareholder returns.

Under the medium-term management plan "Brand-new Deal 2023," which was released in May 2021, we announced a policy with a minimum dividend per share (DPS) of ¥94 in FYE 2022 and an aim to reach ¥100 with a progressive dividend policy every fiscal year during the plan. We had announced a share buyback up to ¥70.0 billion, but only executed ¥13.5 billion of them before announcing a reset in June 2021, which created a significant gap between the Company's shareholder returns policy and market expectations. While, with these announcements, we also laid out our policy to actively and continuously execute share buybacks and dividend increases if and when there is an upward revision to our consolidated net profit plan, which had initially been set conservatively during the pandemic, it is true that this was a policy that was somewhat hard to understand and lacking in strength, looking at it from ITOCHU's defining and distinctive commitment-based management perspective.

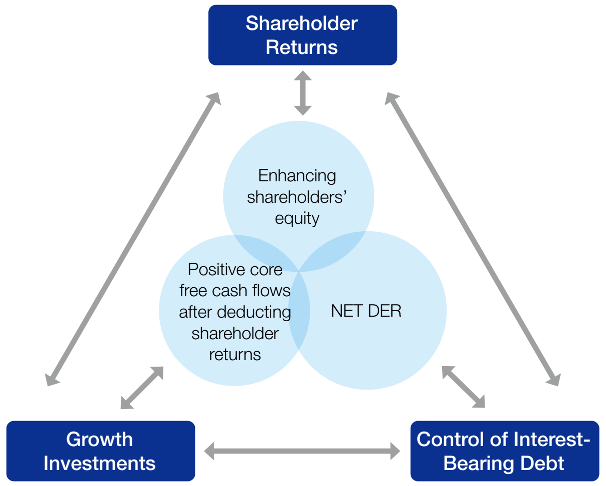
Through dialogue with investors and shareholders, we thoroughly considered market expectations and care-fully analyzed the consolidated net profit target during the medium-term management plan. Afterward, we swiftly re-announced a "new dividend policy" for the plan at the end of the second quarter of FYE 2022.

Rather than a dividend payout ratio that causes a decrease in dividends if profit declines, we have priori-tized, with a strong emphasis, a progressive dividend wherein actual dividend amounts are guaranteed to increase from the previous fiscal year. We have main-tained this focus since FYE 2016. On the other hand, we have heard opinions from the market that if we do not present a dividend payout ratio, which serves as a refer-ence point, it would be difficult for investors to make decisions from a fund / portfolio management standpoint, so the Company presented a new dividend policy which aims to fulfill both: a progressive dividend and enhance-ment of the dividend payout ratio.

Specifically, we will maintain our progressive dividend policy, setting minimum DPS at ¥110 for FYE 2022, ¥120 for FYE 2023, and ¥130 for FYE 2024, the last year of the plan. We also commit to achieving a dividend payout ratio of 30% by FYE 2024.

The reason DPS in FYE 2024 will be higher than FYE 2023 is not solely because of the progressive dividend. Even if persistently high resource prices come back

Achieve High ROE While Balancing Three Factors



CFO Interview

down, leading to a decline in profit in the resource sector, the Company will expand profit in the non-resource sector, which is ITOCHU's strength. I want to emphasize that the Company is confident of achieving an increase in consolidated net profit.

We announced this at the end of the second quarter of FYE 2022 as a "new dividend policy," but not as a "new shareholder returns policy," because we had already assumed the possibility of a share buyback with a maximum limit of ¥60.0 billion, which we did announce a couple months later in January 2022. We never forgot our original promise, although the resumption of buybacks was taken as a positive surprise by market participants. After carefully assessing progress on growth investments in FYE 2022, we determined the timing to be right and successfully completed the share buyback totaling ¥60.0 billion during FYE 2022.

Since presenting this series of shareholder return measures, our share price in FYE 2022 reached record highs 19 times, garnering some acclaim from investors and shareholders.

When announcing the management plan for FYE 2023, the forecast for consolidated net profit increased from assumptions at the end of the second quarter of FYE 2022, and we, therefore, considered again expanding shareholder returns in FYE 2023. We took into consideration our total payout ratio in FYE 2022, commitments for FYE 2024, and other factors, in addition to discussions of whether dividend increases or share buybacks would be more appropriate. We ultimately announced an increase of our planned minimum DPS for FYE 2023 from ¥120 to ¥130, effectively pulling forward the DPS target originally planned for FYE 2024. At the same time, we also announced our plan to maintain the progressive dividend in FYE 2024. Regarding our shareholder returns policy from FYE 2023 onward, we will not change our stance of determining ideal shareholder returns based upon accumulating consolidated net profit, progress on growth investments, the market environment, etc., while remaining attentive to market feedback. (Page 52 FYE 2023 Management Plan)

As the CFO, based on the business environment, what do you need to pay attention to in FYE 2023?

It is important to implement consistent financial and capital strategies of "Balancing Three Factors."

There are countless points that need attention when you review the business environment in FYE 2023, but some examples include the chaos-inducing the Russia–Ukraine situation, repeated surges in COVID-19 cases, rising inflation, increasing interest rates (mainly in Europe and the United States), protracted yen depreciation, and volatile share prices. (Page 76 PEST Analysis (Macro-environmental Factors through 2030))

After increasing with unusual rapidity, commodity prices are showing signs of moderation for now, but the price outlook remains unclear. As of this moment, it goes without saying that it is virtually impossible to forecast the business environment for the next few years with any accuracy. Thus, being overly biased toward any particular direction will be a risk. Therefore, amid this kind of volatility, it will be important in FYE 2023 to continue "balancing three factors," while continuing financial and capital strategies that maintain highly efficient management (high ROE) and achieve sustainable growth in earnings per share (EPS).

The accomplishments of the Company's financial and capital strategies are evident in assessment of credit rating agencies. Moody's changed its outlook to positive in January 2022. In July, Japan Credit Rating Agency (JCR) announced an upgrade while Rating & Investment Information (R&I) is conducting a review based on the improvement in the Company's underlying financial capabilities (as of July 31). The current trend of interest rate hikes to rein in inflation will ultimately result in a higher cost of funding. For corporate management, this is not necessarily a positive development, but we think that this will provide more stages to demonstrate the effectiveness of the preparations we have been making to improve ratings in consideration of the possibility of future interest rate hikes.

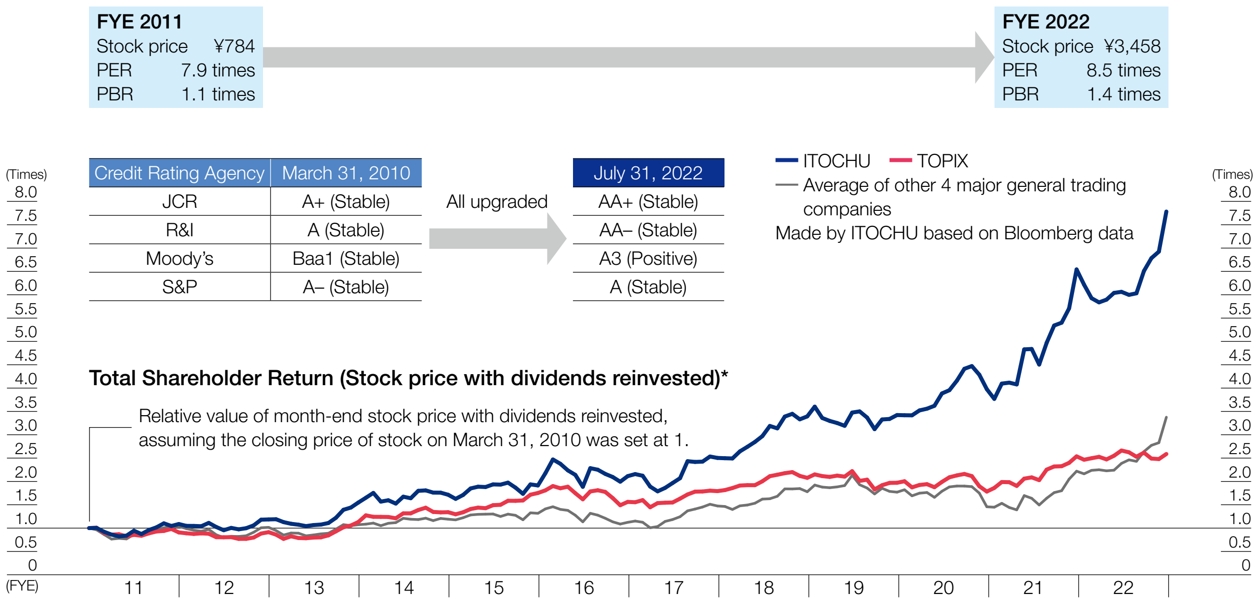
Upon the aforementioned preparations, our discussions for analysis of investment projects focus not only on profitability but also on various angles. This is why it is significant that the CFO has served as chair of the Investment Consultative Committee for five consecutive years. I intend to continue leading effective discussions while taking a bird's-eye view, with an objective and conservative perspective of the business environment.

Lastly, regarding FYE 2023, I would like to "promise" that I will spearhead constructive dialogue and continue promoting proactive IR activities. I am not just listening to opinions from the market. Nor am I merely conveying the ideas of ITOCHU's management. My mission is to hold dialogues that are fruitful for both the market and ITOCHU. By promoting IR activities that the market deems highly trustworthy, I will work to reduce the cost of capital and thereby help enhance corporate value sustainably. (Page 25 A Positive Cycle of Dialogue and Corporate Value Enhancement)

A Positive Cycle of Dialogue and Corporate Value Enhancement

Stock Price / PER / PBR / TSR

Stock price: Annual average of daily trading value
PER: Daily average of (Stock price x Number of issued shares excluding treasury stock ÷ Forecast of consolidated net profit, announced by ITOCHU)
PBR: Daily average of (Stock price x Number of issued shares excluding treasury stock ÷ Most-recent results of shareholders' equity)



Credit Rating Agency	March 31, 2010	July 31, 2022
JCR	A+ (Stable)	AA+ (Stable)
R&I	A (Stable)	AA– (Stable)
Moody's	Baa1 (Stable)	A3 (Positive)
S&P	A– (Stable)	A (Stable)

Total Shareholder Return (Stock price with dividends reinvested)*

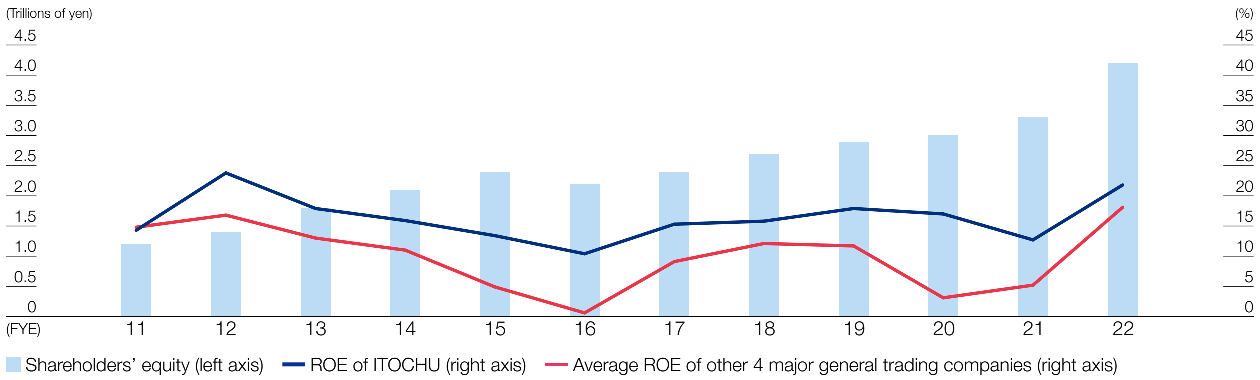
Relative value of month-end stock price with dividends reinvested, assuming the closing price of stock on March 31, 2010 was set at 1.

TSR* as of March 31, 2022

Ownership Period	1 year	2 years	3 years	4 years	5 years	10 years
ITOCHU	19.0%	95.7% (39.9%)	127.4% (31.5%)	129.3% (23.1%)	210.9% (25.5%)	556.2% (20.7%)
TOPIX	2.0%	45.1% (20.5%)	31.3% (9.5%)	24.6% (5.7%)	44.4% (7.6%)	183.5% (11.0%)
Average of other 4 major general trading companies	50.9%	124.5% (49.8%)	86.1% (23.0%)	89.1% (17.3%)	129.7% (18.1%)	235.6% (12.9%)

* Total Shareholder Return (TSR): Return on investment assuming that dividends are reinvested. The chart above shows relative value of month-end stock price with dividends reinvested, assuming the closing price of stock on March 31, 2010 was set at 1. The table above indicates returns on investment during each period of holdings preceding from March 31, 2022. (Figures in brackets are rate of returns converted to the annual average by the geometric mean.)

ROE and Shareholders' Equity



Business Investment

Business Investment Process

Along with strategic business alliances, business investment is an important means of creating and expanding businesses. To actively promote strategic investments in areas of strength in a timely manner, we choose the optimal structure from a wide range of methods, such as establishing a wholly owned subsidiary, implementing joint investment with partners, and participating in management through M&As or converting to a consolidated subsidiary. In principle, we continuously hold investments. After executing each investment, we work to maximize the investee's corporate value and to expand trading profits and dividends received by fully utilizing our Groupwide capabilities. Given such considerations as increases in larger-scale investments in recent years, we are rigorously screening the validity of the business plan and acquisition price. For existing investments, to increase investment earnings and to exit quickly from low-efficiency assets, we are further strengthening monitoring procedures centered on instituting more rigorous exit conditions and thoroughly implementing periodic investment reviews. In addition, through cross-divisional training across Division Companies, we share the lessons learned from reviewing specific past investment failures, thereby endeavoring to enhance the success rates of future investments.

Investment Decisions

Decision-Making Process

We have established a multilayered decision-making process that achieves quick decision-making by giving a certain level of discretion to the Division Companies while striving to pursue investment return and curb investment risk.

Division Companies

- Applicants (responsible divisions)
- Administrative divisions …Opinion based on risk analysis
- Division Company Management Committee (DMC) — Deliberation
- Division Company President — Decision
- Investment Consultative Committee*
- Headquarters Management Committee (HMC)
- Board of Directors

Related administrative divisions express their opinions from various specialized perspectives regarding the application made by the applicants. Following careful discussion at the DMC, the Division Company President will make a final decision.

If the project needs further consideration and screening in terms of profitability and strategy, the project is discussed at the Investment Consultative Committee prior to the HMC.

* The Investment Consultative Committee is chaired by the CFO, and its core members are the CAO and the General Managers of the Corporate Planning & Administration, Legal, General Accounting Control, Finance, and Global Risk Management divisions. Meetings are also attended by one full-time Audit & Supervisory Board Member.

Projects that exceed the Division Company President's authority must be approved by the HMC.

Of the projects approved by the HMC, projects of quantitative and qualitative significance must be approved by the Board of Directors.

Points for Making Decisions

Investment Purpose and Formulation of Growth Strategies	Verification of Business Plan Appropriateness	Compliance with Investment Criteria	Risk Analysis	Verification of Internal Control Status	Setting Exit Conditions

Thoroughly Verifying Appropriateness of Business Plan
- Scrutinizing business plans before making a new investment (including sensitivity analysis)
- Concrete countermeasures for downward divergence from original plan (including setting of exit measures)

Investment Criteria
- Investment efficiency based on Net Present Value (NPV) calculated from investee's free cash flows:
  When calculating NPV, about 70 hurdle rates (by country) are used according to industry.
- Cash inflows into ITOCHU, such as dividends received and earnings from trade activities
- Scale of investee's earnings

ESG Risk Evaluation
- Evaluate in advance the impact on the environment, society, etc., as well as the corporate governance status of the investment target using an ESG checklist composed of 28 items
- Conduct multifaceted ESG assessments, including on-site surveys, to prevent environmental pollution and other problems among Group companies even following investment

Setting Exit Conditions
- Setting clear and feasible exit measures before making investment
  Clear exit conditions: Setting quantitative exit conditions that, in principle, call for exiting from the investment if conditions are met
  Feasible exit measures: Obtaining advance agreement with partners on exit conditions, etc.

Page 42 In-Depth: Monitoring

Sharing the Lessons Learned

Training Based on "Unforgettable" Cases of Investment Failure

We share the lessons learned from reviewing specific past investment failures with the aim of increasing the strength and rigor of our measures to "prevent" unforeseen impairment losses and other negative consequences. In FYE 2022, we held a total of 20 training sessions, in which approximately 1,900 employees cumulatively from business divisions and administrative divisions participated.

(Page 56 CSO Interview)

Asset Replacement

Promoting replacement of low-return assets that meet exit criteria as well as businesses that have lost strategic significance

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

Exit Criteria

Monitoring

- Implementing review one year after investment
- Implementing periodic review for all business investments annually
- Reevaluating policies from qualitative (strategic significance, etc.) and quantitative (scale of earnings, investment efficiency, etc.) perspectives
- Formulating improvement measures for subsidiaries and affiliates with issues of deficits or dividends payout
- Following up throughout the year on policies and issue-improvement measures formulated in periodic review

For details
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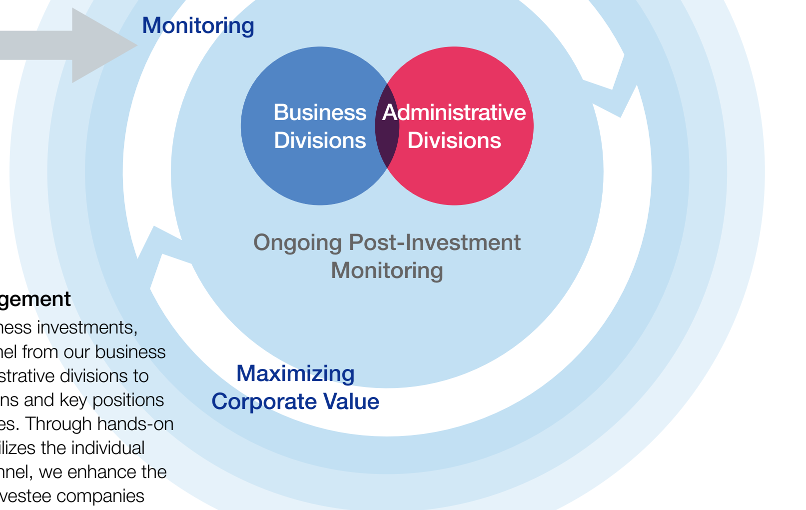
Execution of Investment

Enhancing Business Value Continuously through Collaboration

In each business investment process—including monitoring and asset replacement—administrative divisions provide a high degree of expertise that supports business divisions in implementing the Company's "earn, cut, prevent" principles.



Hands-On Management

After executing business investments, we dispatch personnel from our business divisions and administrative divisions to the frontline operations and key positions of investee companies. Through hands-on management that utilizes the individual capabilities of personnel, we enhance the corporate value of investee companies and create synergies that increase our comprehensive strength.

Business Investment

In-Depth: Monitoring

We review our policies for holding business investments annually and carefully confirm the significance of holding them based on comprehensive consideration of the individual circumstances of each investment, industry characteristics, and other factors. We then implement asset replacement with respect to businesses that have low-efficiency, exit early from businesses that are significantly below targets set at the time of investment, and reduce / restructure the operations of loss-making companies.

After the review of holding policies, administrative divisions periodically monitor the implementation status of exits as well as improvement measures and provide support to ensure the implementation of measures in accordance with the policies.

Periodic Reviews for All Business Investments

Decision-Making Process

Division Company

- **Prior Consultation**: The validity of improvement plans for low-efficiency business investments that hit exit criteria is examined. For business investments with no prospect of improvement, administrative divisions monitor if business divisions are working toward an early exit.

  ...Opinion based on exit criteria

- **DMC**: The significance of holding respective business investments is carefully analyzed in the context of the Division Company's strategies. By taking into account the consultative opinion, the President of Division Company decides on the Division Company's holding policy.

ALM Committee*: Before submission to the HMC, the validity of the Division Company's holding policy and the feasibility of exit are deliberated.

HMC: If a Division Company decides on a policy of continuing to hold a business investment that hits exit criteria, the approval of the HMC is required.

Progress Follow-Up

Business Investment to Be Exited: Exit progress is monitored, and each Division Company reports on progress to the CFO monthly.

Business investment to Be Held Continuously: Improvement measures are advanced. At the periodic review for business investment in the following fiscal year, the achievement of improvement plans is checked, and the holding policy is then carefully reanalyzed.

* The ALM (Asset Liability Management) Committee is chaired by the CFO, and its core members are the General Managers of the Corporate Planning & Administration, General Accounting Control, Finance, and Global Risk Management divisions. Meetings are also attended by one full-time Audit & Supervisory Board Member. (Page 95 Activities of Internal Committees)

How ITOCHU Differs from a General Private Equity Fund

As we consider business investment to be a powerful tool, our business model is often compared to that of a private equity fund. There are certain similar aspects, such as the desire to contribute proactively to investees' management and enhance the corporate value of investees. However, the differences are that we focus on generating synergies with existing businesses and enjoy returns centered on trading profits and dividends.

	Investee Liquidity	Investee Ownership Ratio	Investee Ownership Period	Synergies	Returns
General Private Equity Fund	In principle, unlisted	In principle, majority stake up to 100%	Buy and hold having an exit strategy	In principle, none	Capital gains and dividends
ITOCHU	Either listed or unlisted	Decided individually, based on business conditions and market environment	Buy and hold	Create synergies with existing businesses	In principle, trading profits and dividends

Exit Criteria for Business Investment

(1) Cumulative losses for the last three years

(2) Returns lower than original plans made at the time of investment

(3) Cumulative losses in added value for the last three years
[Consolidated contribution*1 – (Consolidated investment carrying amount x Cost of capital*2)]

*1 Consolidated contribution is the total of net profit and trade merit.
*2 Cost of capital: Set according to industry (approximately 7%) and country

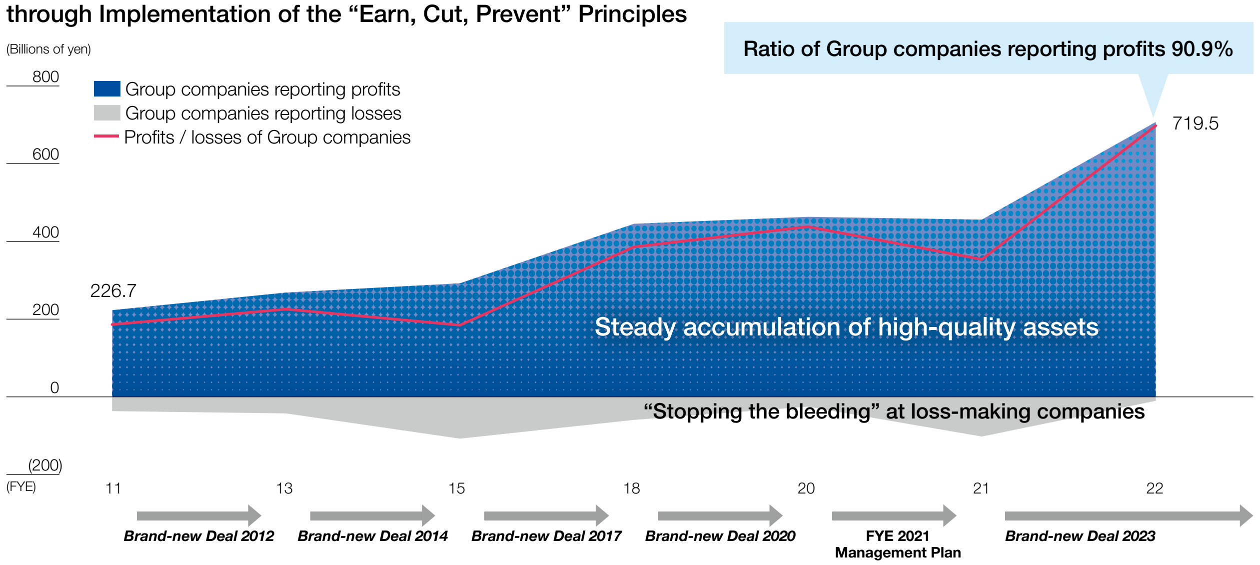
Positive Added Value: Consolidated contribution, including net profit attributable to ITOCHU − Consolidated investment carrying amount × Cost of capital = Added value (+)

Negative Added Value: Consolidated contribution positive but lower than cost of capital = Low-efficiency investment, therefore consider exiting even if profitable. Consolidated contribution, including net profit attributable to ITOCHU − Consolidated investment carrying amount × Cost of capital = Added value (−)

Enhancing the Corporate Value of Group Companies

ITOCHU increases the corporate value of Group companies by rigorously implementing the "earn, cut, prevent" principles and strengthening monitoring, which is based on various types of assessments. For example, we steadily accumulate high-quality assets by conducting qualitative and quantitative verifications that consider synergies in assessing investment efficiency and the strategic significance and earnings scale of business investments. Moreover, in relation to concern over possible future losses, at an early stage, we evaluate investments and take appropriate measures by consistently applying conservative premises both for credit management and evaluations of the recoverability of various types of assets. Thanks to these activities, we have built a robust earnings base that is diversified across a wide range of business areas mainly in the non-resource sector, and which is therefore highly resilient to economic volatility. As a result, in FYE 2022, the ratio of Group companies reporting profits was 90.9%, achieving the same level as FYE 2018, which is the highest.

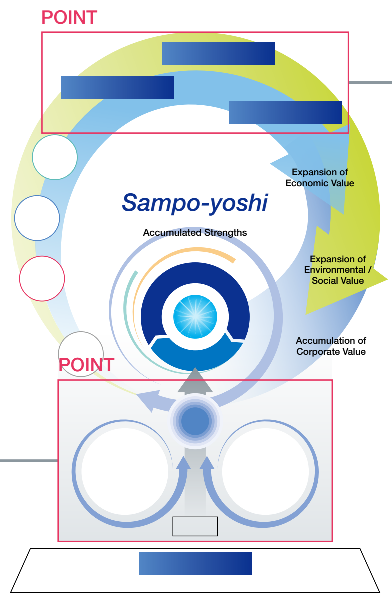
Continuous Accumulation of the Profits of Group Companies through Implementation of the "Earn, Cut, Prevent" Principles



Logic Tree
(Strategic Framework for Growth in Non-Financial Capital and Corporate Value)

Maintaining and Upgrading of Non-Financial Capital and Its Relationship to Material Issues

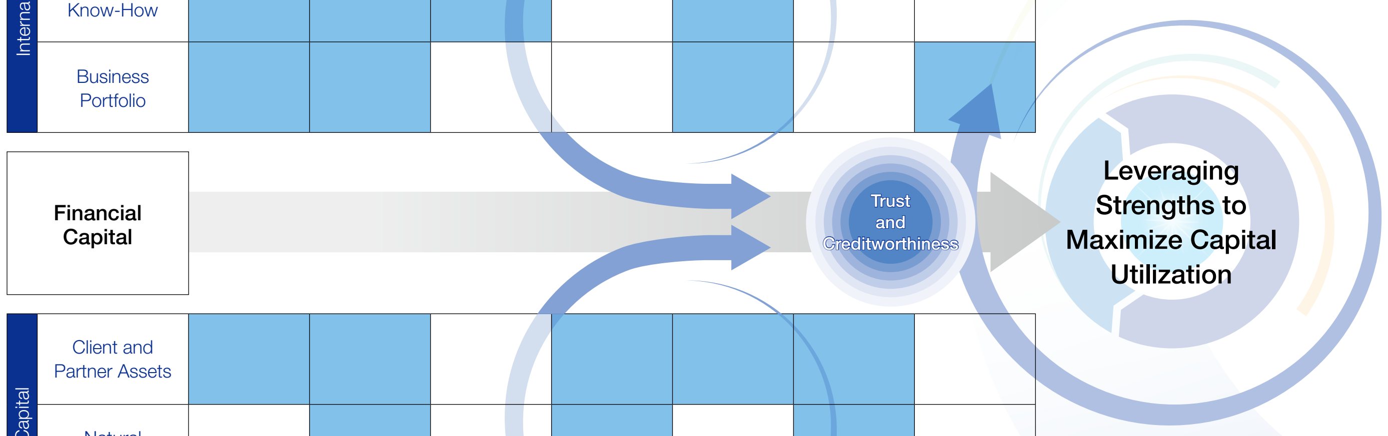
ITOCHU analyzes the magnitude of opportunities to increase its non-financial capital as well as the magnitude of risks with the potential to damage such capital. Based on its findings, the Company identifies as its material issues those social issues that require prioritized and proactive initiatives by the Company. We then set to solve the identified material issues through business operations. By leveraging trust and creditworthiness garnered over many years, we will maintain and further grow our non-financial capital.



Relationships between Non-Financial Capital and Material Issues

		Evolve Businesses through Technological Innovation	Address Climate Change (Contribute to a Decarbonized Society)	Develop a Rewarding Work Environment	Respect and Consider Human Rights	Contribute to Healthier and More Affluent Lifestyles	Ensure Stable Procurement and Supply	Maintain Rigorous Governance Structures
Internal Capital	Human and Organizational Capital	■		■		■		■
Internal Capital	Business Know-How	■	■	■		■		
Internal Capital	Business Portfolio	■	■			■		■
External Capital	Client and Partner Assets	■	■		■	■	■	
External Capital	Natural Resources		■		■		■	
External Capital	Relationships with Society		■		■	■		■

Material Issues



■ Indicates non-financial capital deemed to have particularly high relevance to material issues.
We also recognize that trust and creditworthiness are strongly related to all of our material issues.

ITOCHU's Logic Tree for Building Up Corporate Value

Our medium-term management plan "Brand-new Deal 2023" sets a long-term target for reducing GHG emissions, and we have already begun initiatives to reach this target. Further, the FYE 2023 management plan sets short-term targets based on updated quantitative targets. We set a succession of short-term targets to provide steps for our climb toward medium- to long-term targets. Through commitment-based management that emphasizes the steady achievement of targets in all time frames, we will realize sustained, sure-footed growth in corporate value.