

Investors Meeting for Operating Segments (Power & Environmental Solution Division):

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 and time: March 3, 2021 (Wed.) 13:30 to 15:00
Respondents: Keita Ishii, President of Energy & Chemicals Company,
General Manager of Power & Environmental Solution Division
Isao Nakao, General Manager of Planning & Administration Department
Kenji Takai, CFO of Energy & Chemicals Company
Keiichi Imamura, General Manager of Power & Utility Department
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Observer: Tsuyoshi Hachimura, CFO of ITOCHU Corporation
MC: Suguru Amano, General Manager of Investor Relations Division

Note: The following summary includes answers to questions that had not been addressed at the Q&A session due to time restrictions.

1. Overview of the Market for Energy Storage Systems (ESSs) for Household Use (market size, status of market share held by ITOCHU, etc.)

Q. Regarding the household ESS market, could you please go over the fundamentals, such as overall market size and the share held by ITOCHU's Smart Star series? Also, could you name factors contributing to the success of Smart Star?

A. There are three factors that are helping Smart Star achieve sales growth. First, the series was created by taking full advantage of findings from thoroughgoing market needs analyses while applying our partners' technological capabilities to deliver tangible solutions. For example, in addition to anti-blackout assurance, there is a growing need for AI-based functions that analyze and optimally control household energy demand.*1 The need is becoming especially acute as the number of household solar panel owners no longer covered by the Feed-in-Tariff (FIT) scheme *2 is increasing. We have been able to meet this need thanks to the superior technologies of our joint venture partner NF Corporation. The second factor supporting Smart Star is our strong distributor network. And, third, we have developed an "eco system" comprising a call center alongside logistics,*3 insurance, and other peripheral functions to provide distributor support and facilitate product marketing.

These three factors are the result of our longstanding engagement in the energy storage business, which has at times involved some trial and error. In 2020, the number of household ESSs sold domestically stood at 120,000 units,*4 making Japan the largest ESS market in the world. Moreover, it is believed that this market will grow steadily. In addition, the ESS market in the United States is also expected to grow. With this in mind, ITOCHU has implemented measures aimed at supporting the future expansion of its relevant operations overseas, especially in the United States.

*1. Functions that ensure that power outages do not affect household lighting and other electricity use. With a large output capacity of 200V, Smart Star is capable of ensuring constant power for air conditioners and IH cooking equipment and even supporting all-electric housing functions during power outages. Moreover, during power outages Smart Star, which is usually coupled with solar panels, can even operate its solar power generation system at full capacity, generating electricity for household consumption. As they help users secure resilience against disasters, the need for such anti-blackout functions is rapidly growing.

*2 Japan's electricity purchasing scheme, which provides household solar panel owners with fixed-price incentives for electricity sale for fixed periods of time.

*3 As ESSs are vulnerable to vibration, their transportation requires great care. Addressing this issue, ITOCHU has maintained a competitive advantage by entering into exclusive alliances with piano transporters, who have extensive know-how with regard to transporting heavy and delicate equipment for household use.

*4. Looking ahead, more than 250,000 household solar power generation facilities a year are expected to see the expiration of their purchasing periods under the FIT scheme. Furthermore, due to growing environmental awareness among the general public, demand for ESSs is expected to increase steadily. The cumulative number

of the Smart Star series ESSs sold by ITOCHU by the end of 2020 exceeded 40,000 units, and ITOCHU is currently aiming to market a cumulative total of 80,000 units by the end of 2023.

2. Strengths of ITOCHU Products

Q. Please elaborate on the advantages Smart Star offers vis-à-vis competitor products.

A. Our ESSs are equipped with AI-based functions as a standard feature. They are therefore capable of data accumulation. No other products have such functions. Employing these functions, our products can monitor weather reports and automatically set themselves into charging mode once a weather alert is issued. In sum, they have AI-driven machine intelligence. Their resilience against power outages is one reason Smart Star series products have garnered a solid reputation in Japan, a nation that is often hit by natural disasters. In contrast, solar power generation systems attached to other commonly available ESSs can be significantly affected by power outages. In such situations, they are often unable to fully operate solar panels and can feed only a limited number of electrical outlets. Our ESSs, on the other hand, can fully operate solar power generation systems during a complete power outage and provide a 200V power source to feed all types of household appliances. Moreover, their AI-based data accumulation functions place them in an extremely advantageous position. These functions enable the assessment of electricity demand at individual households and the overall analysis of ESS operations at times of emergency, thus helping us optimize our services. Although some competing products are equipped with AI, they are still under development and their capacity is low.

ITOCHU has been at the vanguard of services involving the AI-based operational optimization of energy storage, thanks to its partnership with Moixa Energy Holdings Ltd., a company boasting a solid track record in the United Kingdom, the first country in the world to privatize state-owned utilities. In sum, we are an industry forerunner. That being said, we do think that we still need to advance our business model. Therefore, we are engaged in data analysis to assess the energy use status of households, which includes electric vehicles (EVs).

Q. Could you describe the new features of the Smart Star 3, a newly released product, and what distinguishes it from the competition?

A. In addition to offering EV charging functions, Smart Star 3 will be coupled with a scheme aimed at granting users with points in step with the non-fossil environmental value created. Thus far, we have seen no competing product equipped with such a feature. Furthermore, as regions throughout Japan are increasingly being affected by natural disaster-induced, large-scale, long-term blackouts, we have expanded our ESS's output capacity to approximately 13kWh to accommodate customer requests for greater resilience against power outages.

We also expect to see a growing need for transactions of environmental value. As the need increases, the value of environmental value points will rise as well. Reflecting this dynamic, we will develop an even more sophisticated model via, for example, the combination of diverse businesses, to create greater value.

Q. Could you list some specific benefits consumers may enjoy via the use of GridShare Points, which are granted in step with the amount of environmental value they create? Also, what motivates consumers to purchase Smart Star 3?

A. With regard to GridShare Points, we are at the final phase of designing a scheme capable of better attracting consumer interest, with plans calling for its release in May 2021. Accordingly, we would like to refrain from disclosing details. However, we intend to expand our product lineup to capture demand for ESS installation in new housing and existing housing complexes. By doing so, we will be pursuing a broader range of opportunities in addition to customers whose facilities are no longer covered by the FIT scheme. Moreover, we are also diversifying our sales methods to include leasing and third-party ownership plans along with marketing via distributors. Although the sales target is challenging, our odds of achieving it through the initiatives discussed above are good.

In addition, Smart Star 3* is capable of charging EVs, effectively eliminating the need to additionally install a household EV charger. This is yet another motivating feature for the purchase of Smart Star 3 as the use of EVs is expected to become increasingly widespread going forward.

*<https://www.itochu.co.jp/en/news/press/2021/210303.html>

3. Current Status of Profitability and Future Outlook (quantitative analysis, etc.)

Q. Could you name the businesses that have been contributing to FY2021 operating results? Also, please share your thoughts on the expected level of profit for the final year of the new medium-term management plan, which spans three years and is slated to start from FY2022, as well as your general projection on the proportions of profits that domestic and overseas operations will account for.

A. Currently, the Power & Utility Business Department accounts for around half the Power & Environmental Solution Division's profitability, while the Sustainable Energy Business Department contributes the other half. Going forward, we will strive to raise the division's profitability to make it an earnings pillar profitable enough to organize a Division Company. Looking at domestic and overseas profits, due to our current dependence on earnings from energy storage manufacturing and sales, domestic profit is expected to remain a major contributor over the next three years. On the other hand, we expect overseas profit to grow in step with a rise in energy storage demand and the growing momentum of carbon-free initiatives, especially in the United States.

Q. ITOCHU's energy storage-related business comprises a variety of operations. In what areas do you specifically expect to earn profit?

A. Currently, our main source of profitability lies in energy storage manufacturing and sales. Therefore, our immediate policy is to focus on strengthening ESS marketing. At the same time, we will expand the scope of ESSs overseen by our integrated control system, with the aim of building big data via the accumulation of data on energy use. We will then need to connect micro networks of deployed ESSs and develop them into small networks. At this point we will launch the aggregation business.* As electricity is expected to assume even broader utility functions for households, data on electricity use will help us capture data associated with consumers' daily lives. Accordingly, we aim to employ this data to develop a new service model in collaboration with the ICT & Financial Business, Machinery, The 8th and other Division Companies.

* A business that, via the integrated control of distributed energy resources as well as power resources offered by consumers, provides various services, including those that give users the ability to adjust their energy supply and demand, prevent supply-demand imbalances, reduce electricity rates, and avoid the limitation of output capacity. Targeted customers include general electricity transmission and distribution operators, electricity retailers and consumers as well as renewable energy generators.

Q. Could you name businesses that will become earnings pillars in, say, five years? Also, do you see a need for massive investment to enable the adjustment of energy demand and supply and the expansion of the grid network?

A. Over the next five years, we expect 24M Technologies, Inc. to make significant progress in the development and mass-production of its next-generation semisolid batteries and anticipate positive outcomes from the marketing of these batteries. We also expect new partners to come forward and work with us as we strive to penetrate markets overseas. Moreover, we will speed up the introduction of technologies that will realize the supply-demand adjustment system, which is an integral component of the aggregation business, thereby completing our unique grid network connecting a large number of customer ESSs. Once this system is complete, we will leverage our supply-demand adjustment functions to augment our earnings power in the area of electricity trading. As for the electricity storage business, we will step up the marketing of next-generation batteries while strengthening the capacities offered by our products.

In addition, we are currently engaged in the verification testing of battery recycling technologies. In one year, we expect to be able to export these technologies in packaged product form while installing large power storage systems composed of reused batteries in medium-sized cities in Japan. We are also aware of a potentially significant problem that could arise in times of emergency, such as during natural disasters, should our grid network fail to align its energy demand with supply offered by conventional power companies. Accordingly, we deem it essential to build a system for interconnecting conventional grid networks with ours. However, we do not expect this task to require massive investment.

Q. Currently, the domestic trading of non-fossil value remains stagnant. Given this situation, do you really think the ITOCHU business model is viable?

A. Although it depends on the future appreciation of environmental value, we do think our model is feasible as environmental value is naturally calculated on the basis of the difference between costs attributable to renewable energy sources and costs associated with conventional energy sources.

Q. There was an approximately threefold increase in the division's total assets compared with the end of FY2020, while its ROA stood at approximately 13%, which represents a substantially high level of ROA among non-resource sector divisions. What are reasons behind the increase in assets and higher profitability?

A. The increase in assets is mainly attributable to the growing volume of investment in our excellent partners, including those who have been introduced today. Higher profitability is due in part to ITOCHU's consistent positioning of ROA as an important management indicator. Also, the division is in possession of a number of prime assets, which, in turn, help it to maintain superior profitability.

4. Measures Being Undertaken to Support the Creation of New Services (including overseas related)

Q. In actively promoting virtual power plant (VPP)-related operations and peer-to-peer (P2P) businesses, do you see any barriers attributable to laws, regulations, or other factors?

A. As VPP is a regulated business, we must wait for the current regulatory environment to develop and mature before significantly expanding our operations. The P2P business, on the other hand, can be implemented via electricity retailers but only if we pay the wheeling fees associated with the use of transmission cables. In line with its policy of pursuing the realization of a society powered by distributed energy sources, ITOCHU entered a capital and business alliance with TRENDE Inc., a subsidiary of Tokyo Electric Power Company Holdings, Inc. As TRENDE has succeeded in confirming the effectiveness of P2P technology via a joint verification testing project with Toyota Motor Corporation, ITOCHU considers this technology to have significant potential.

Q. What are your future plans for collaboration with convenience stores (e.g. the FamilyMart chain) operating in regions nationwide? Also, please share your thoughts on expected synergies arising from such collaboration.

A. We expect Smart Star 3 will facilitate collaboration with convenience stores. The retail and distribution sector, to which this chain belongs, is already engaged in initiatives highly conscious of the realization of a carbon-free society. Decarbonization requires complex and highly specialized expertise and ITOCHU is well positioned to support this sector through the provision of supplemental functions. From the cost perspective, utility costs account for a significant proportion in costs for running convenience stores and, therefore, represent a critically important element affecting these operations. With electricity offered by conventional power companies as a core source, we will also strive to help operators to raise their renewable energy usage ratios while promoting the use of renewable energy generation systems for self-consumption and the installation of eco-friendly charging systems.

Through the release of Smart Star 3, we will promote a next-generation convenience store chain chosen by customers for its point-granting scheme that benefits shoppers. We will also push ahead with the development of a circular business model in which the generation and use of "green" energy leads to the creation of new value. We are also considering installing EV chargers at these stores for the use of shoppers while equipping them with a market function for the trading of electricity generated by household ESSs. Thus, we expect to create a convenience store chain known as "convenience stores for electricity" that functions as a hub supporting grid networks.

Q. What are your policies on ITOCHU's involvement in 24M? Please also provide us with your plans for monetization.

A. Growth in EV demand has been accompanied by a rise in concern about the shortage of battery supply. As part of efforts to address this issue, we have launched a partnership with 24M. While 24M is engaged in technological licensing, ITOCHU is in charge of identifying potential licensees and supplying battery components. We are also looking to commercialize our own brand of batteries via the procurement of semisolid batteries. The strengthening of our ties with 24M will position us to enjoy a wide range of promising future business opportunities, such as entry into the EV-mounted battery business.

Q. Please explain differences between semisolid batteries and other batteries, such as lithium ion and all-solid-state batteries, in terms of cost competitiveness.

A. We consider semisolid batteries to be the most realistic candidate for next-generation batteries. We also recognize the significant effectiveness of all-solid-state battery technologies, but these technologies still need to overcome various challenges in such aspects as mass production methods and costs. As has been mentioned earlier, some manufacturers are expected to begin mass-production of semisolid batteries in 2021. However, note that the development of semisolid batteries for vehicle-mounted use is still under way and expected to take some time to complete. Accordingly, we believe that in the three- to five-year time frame, existing lithium ion batteries will retain the advantage in the field of vehicle-mounted batteries. Nevertheless, we are confident that the competitive potential of semisolid batteries is significant and requires our attention as they will enable manufacturers to drastically shorten the mass-production process and reduce manufacturing costs. Once vehicle-mounted semisolid batteries are possible, we expect them to become quite promising products.

5. Other

Q. Although ITOCHU intends to contribute to the realization of the United Nations Sustainable Development Goals (SDGs) and will therefore step up relevant initiatives, could you explain your thoughts on the approximate size of planned investment in this field?

A. We will execute investment within the scope of the budget afforded by our core operating cash flows. We have deliberately refrained from predetermining the size of investment in each business segment. This reflects our belief that any promising project, no matter what area it aims to address, should be given a chance as long as it exceeds the threshold defined by investment criteria. Moreover, in line with basic policies under the new medium-term management plan, which include contributing to the SDGs and stepping up relevant initiatives, we stated at the recent financial results briefing that ITOCHU is considering the issuance of SDG bonds denominated in foreign currencies. We anticipate a solid level of demand from investors, as proceeds from these bonds will be appropriated for energy storage, solar and wind power generation, fair trade, and other businesses highly relevant to SDGs. We expect to issue these bonds by the end of March 2021. In addition to working to optimize the timing of their release, we are considering the issuance of SDG bonds worth several tens of billions of yen. This will set a benchmark suggesting the size of investment ITOCHU will execute in the field of SDGs under its new medium-term management plan. Also, ITOCHU's core investing cash flows usually range from ¥250 billion to ¥300 billion at times when there are no specific plans for massive spending. Given this and the overall value of the SDG bonds, we believe stakeholders can understand that the size of investment considered by ITOCHU will not be insignificant.

Q. Could you explain your projection regarding the extent of ITOCHU's contribution to a carbon-free society via the development of distributed power source network that enables consumers to exercise demand-supply adjustment functions?

A. Although the Japanese government announced such targets as raising the ratio of renewable energy to 50% by 2030 and achieving carbon neutrality by 2050, the pursuit of these targets will entail, we believe, taking on extremely tough challenges. In reality, energy producers' efforts to increase the proportion of renewable energy will not suffice to achieve these targets. Above all, the increasing popularization of EVs is expected to drive up electricity demand. These trends will eventually necessitate measures to enable energy consumers to exercise robust control over their demand. We will strive to help address issues discussed above, thereby maintaining our position as a contributor in this field.