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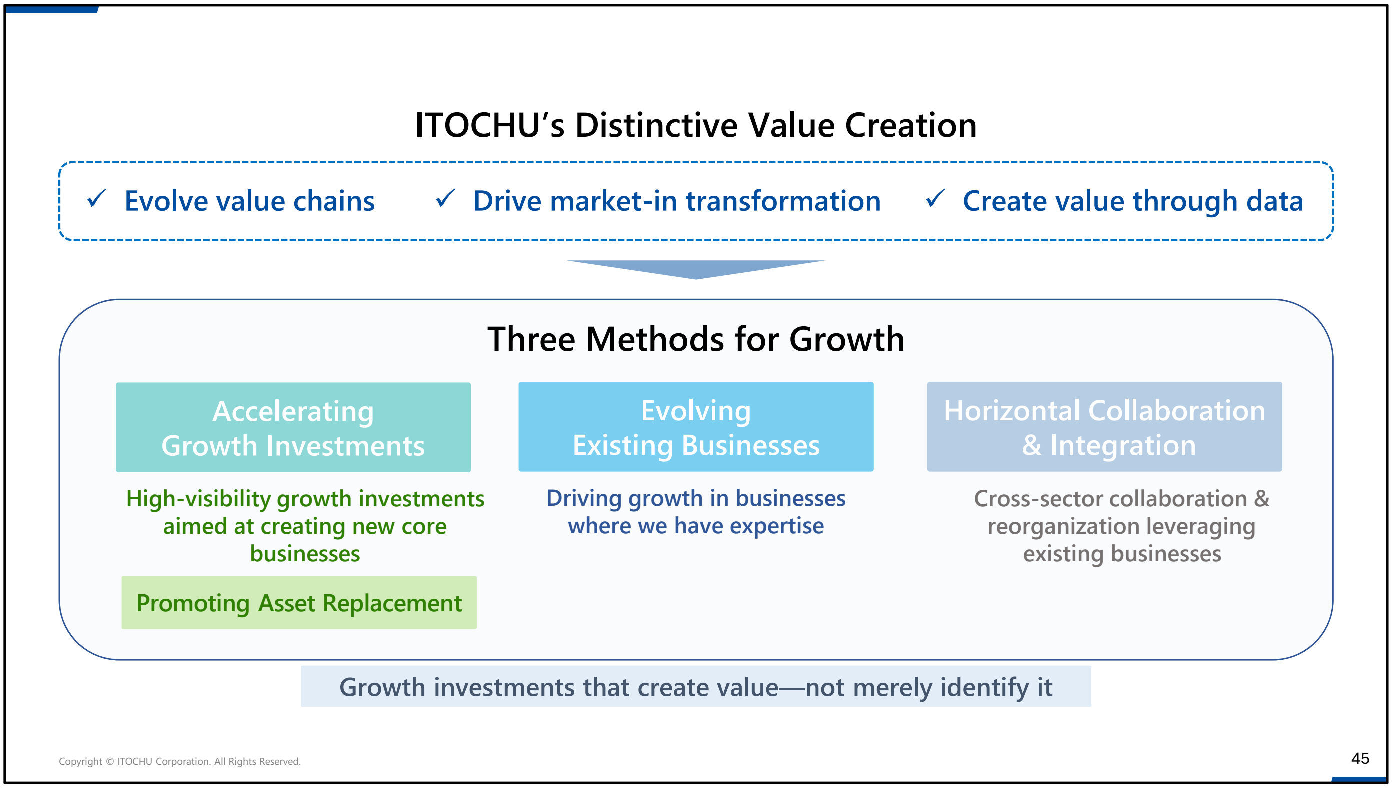
Financial & Capital Strategy for Value Creation

Hiroyuki Naka

Member of the Board
Senior Executive Officer
CFO; (Since 2026)
CXO (Since 2024)

- Joined ITOCHU in 1987; has mainly been involved in the Textile related business and Corporate Planning & Administration Division
- Previously held the positions of Deputy COO of the Food Products Marketing & Distribution Division, General Manager of the Corporate Planning & Administration Division, and CDO, CIO, and CSO
- Since 2024, as CXO, has promoted the transformation of the business scope and format of the entire ITOCHU Group, and advancing the digitalization strategy and overseas policies

To conclude, I would like to speak about our financial and capital strategy.



President Ishii and the Division Company Presidents have shared concrete examples of how we are creating value. In this section, I would like to summarize our approach to growth into three methods. These are the same methods we presented in the materials released at the time of our earnings announcement in May.

The first is to accelerate growth investments with high visibility, together with the active promotion of asset replacements. The second is the evolution of existing businesses, where we further enhance growth in businesses where we have expertise through hands-on management. The third is the horizontal collaboration and reorganization across sectors. By combining these three methods, we will achieve steady growth that is distinctive to ITOCHU.

For investors in the stock market, investing typically means identifying undervalued assets, holding them until they reach fair value or become overvalued, and realizing returns through their sale. For us, however, investment means something fundamentally different. By combining these three approaches, we continuously create value ourselves. Although both are described as "investment," the substance is entirely different. Our business model is built on continuously enhancing the value of our investments through our own initiatives, regardless of the management environment.

Maintaining 15% ROE

- Maintaining highly efficient management

Approx.
ROE 15%

- Sustainable EPS growth

Matrix of growth rate, total payout ratio, and ROE

An image of the profit growth rate required to maintain an ROE of 15% or higher

		Total payout ratio		
		60%	50%	40%
ROE	13%	5%	7%	8%
	14%	6%	7%	8%
	15%	**6.0%**	**7.5%**	**9.0%**
	16%	6%	8%	10%
	17%	7%	9%	10%

[Example] – Minimum profit growth: 7-8%
– Total payout ratio: 50%

Maintaining 15% ROE

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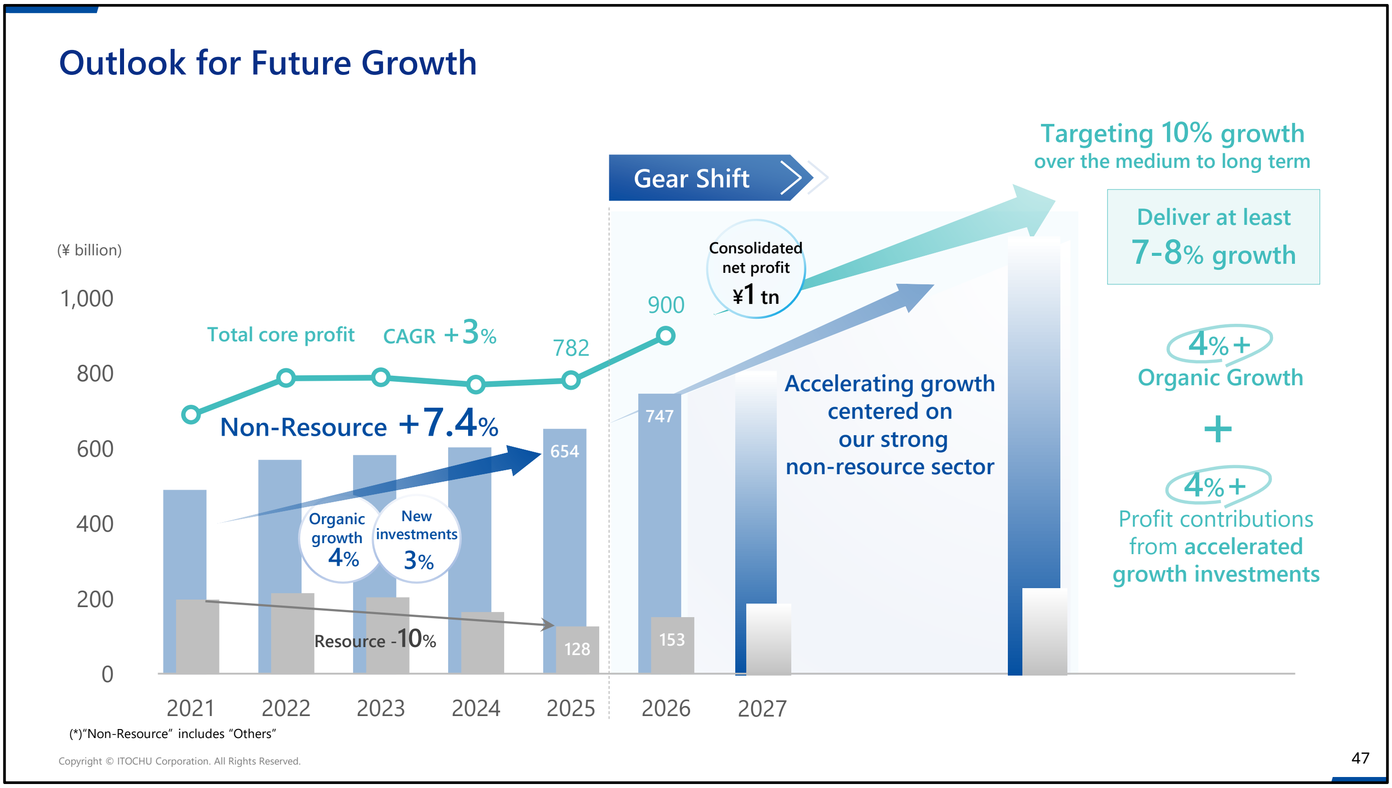
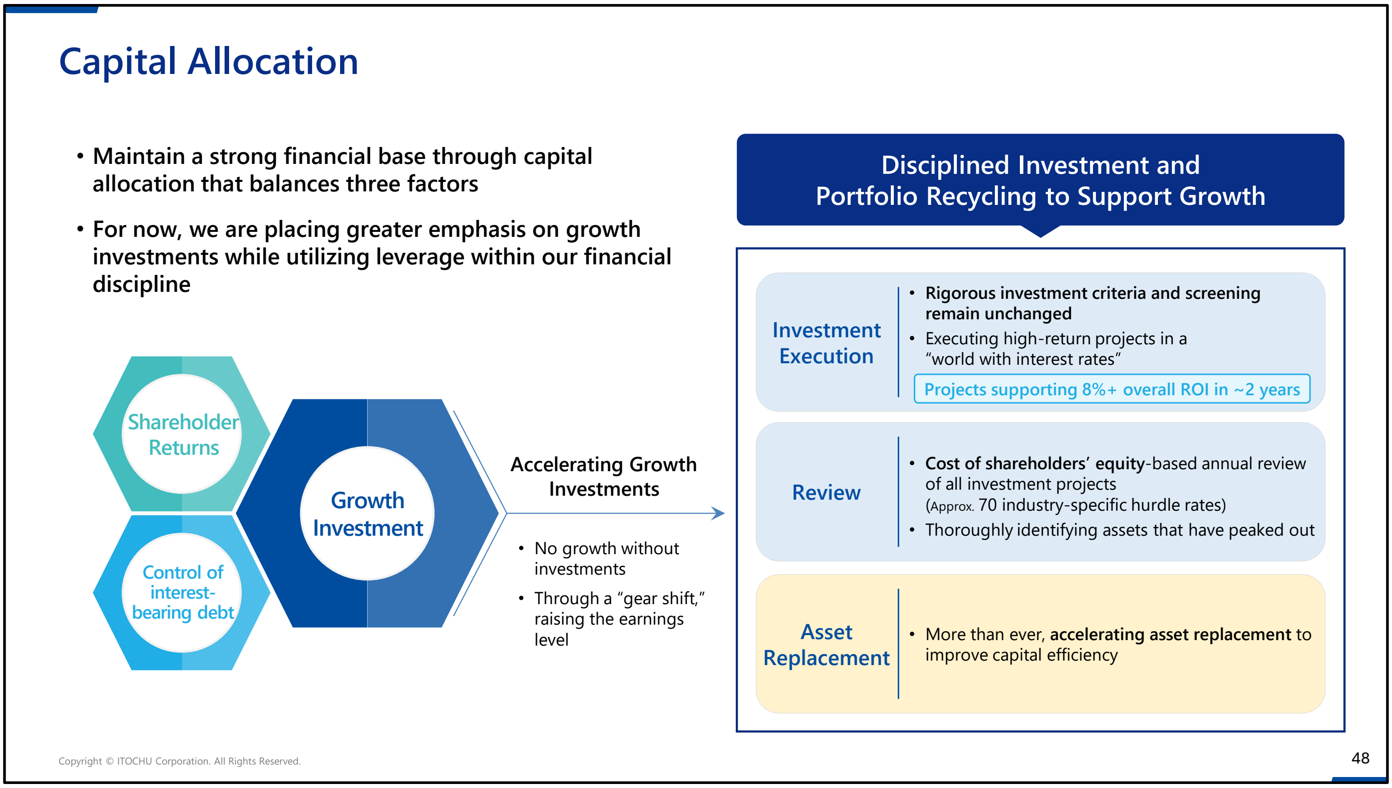
Let me once again reaffirm our basic policy.
We remain committed to maintaining highly efficient management, as reflected in our focus on sustaining an ROE of 15% level, while delivering sustainable EPS growth.
For example, assuming profit growth of at least 7–8% and a total payout ratio of 50%, we can maintain an ROE level of 15%. While we seek to achieve a high ROE through an appropriate balance between profit growth and shareholder returns, our fundamental approach remains unchanged: to sustain a high ROE primarily through continued profit growth.



As President Ishii explained earlier, the core profit in the non-resource sector achieved a CAGR of 7.4% over the five fiscal years from FY2021 through FY2025.

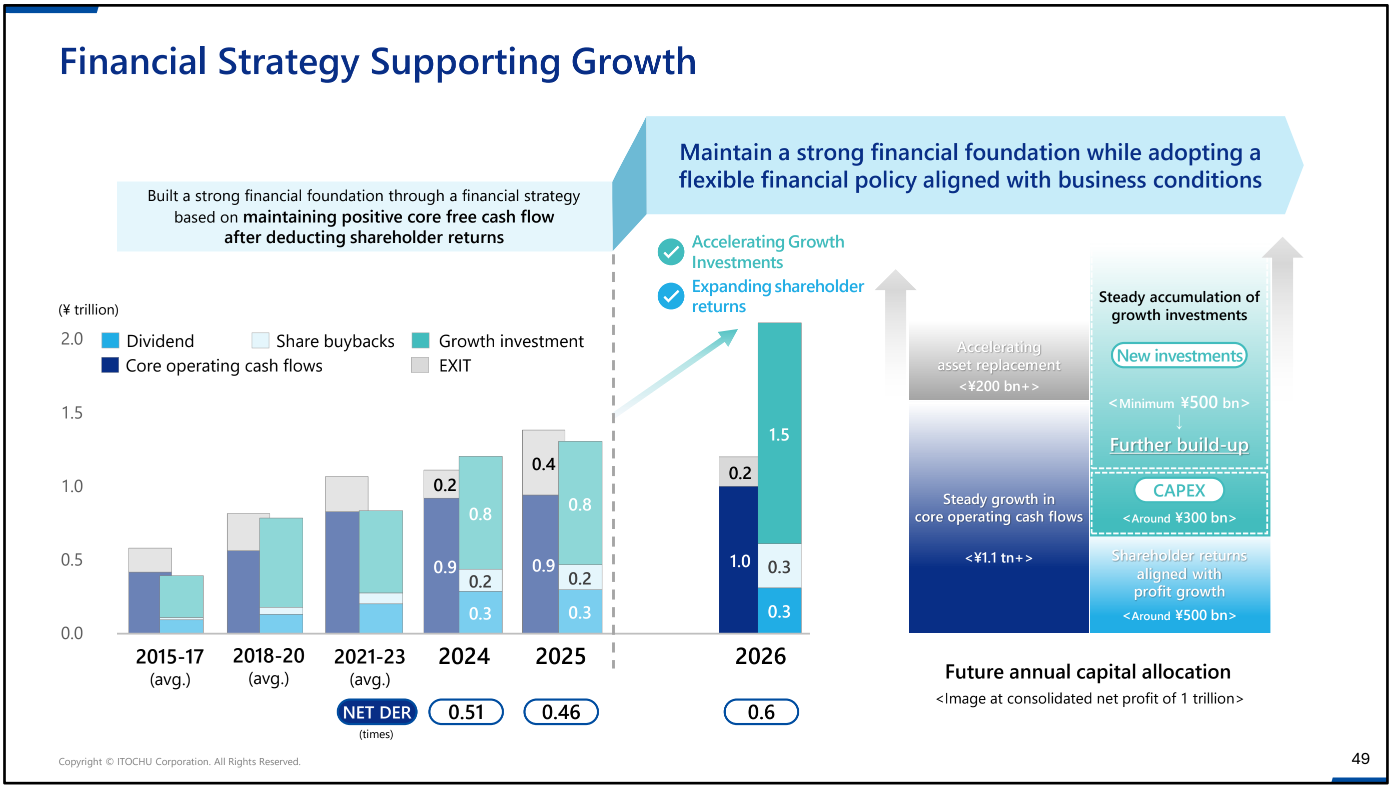
Based on our analysis, this can be broadly attributed to two sources: approximately 4% from organic growth and approximately 3% from contributions from new investments. Building on this track record and leveraging our strength in the non-resource sector, we aim to achieve organic growth of at least 4%, followed by at least another 4% from increased profit contributions from growth investments. In other words, we intend to secure profit growth of at least 7–8%. Over the medium to long term, we are targeting profit growth of 10% and will continue executing the growth strategy and approaches I have outlined today.

For this fiscal year, our core profit forecast is ¥900.0 billion, representing 15% growth from the previous fiscal year and marking the beginning of our "Gear Shift." More importantly, we are committed to maintaining this growth trajectory in the years ahead.



Our fundamental policy of maintaining a strong financial foundation by balancing three factors—growth investments, shareholder returns and controlling interest-bearing debt—remains unchanged.
In the near term, however, to accelerate our "gear shift," we will place greater emphasis on growth investments by utilizing leverage within the boundaries of financial discipline.

Even so, our disciplined approach to capital allocation and investment execution remains unchanged. Our investment criteria are also unchanged. Although hurdle rates will inevitably rise in a higher interest rate environment, we will continue to pursue high-conviction growth investments with strong earnings visibility. It is also essential to realize highly achievable synergies and enable horizontal collaboration through every investment. In addition, we intend to pursue asset replacements more actively than before. As Chair of the ALM (Asset Liability Management) Committee, I have already instructed each Division Company to take concrete steps toward executing strategic asset replacement.



Finally, let me share our image of annual cash allocation assuming consolidated net profit reaches ¥1 trillion. Under the assumption that core operating cash flows exceeds ¥1.1 trillion, we also expect asset replacements to exceed the historical average of approximately ¥200.0 billion. We assume shareholder returns of around ¥500 billion and CAPEX of around ¥300.0 billion.

Even under the assumption that cash inflows and outflows remain broadly balanced, in other words, even if we continue gradually to reduce NET DER going forward, we believe it would still be possible to execute at least ¥500.0 billion of growth investments annually. Furthermore, with continued growth in operating cash flows, the acceleration of asset replacements, and the use of leverage, we believe growth investments can significantly exceed this level.

Even if growth investments were to remain at the minimum level of ¥500.0 billion, assuming an ROI of 8%, they would generate approximately ¥40.0 billion in profit contributions. This gives us confidence that sustaining annual profit growth of at least 7–8% is well within reach. By accelerating new investments, evolving our existing businesses, and realizing horizontal collaboration and integration across the Group, we believe our target of 10% growth is well within reach.

Looking ahead, we expect to have opportunities to explain the details of this fiscal year's planned ¥1.5 trillion in growth investments. For us, the ¥1 trillion milestone in consolidated net profit is no more than a waypoint. By continuing to deliver sustainable profit growth, we will further enhance our market capitalization and create greater value for our shareholders. We sincerely appreciate your continued support and look forward to your ongoing confidence in our management.