

Addressing Climate Change

ITOCHU uses the scenario analysis* in the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to analyze the impact of climate change on the Group's businesses and their continuity, and to build business strategies based on the various opportunities and risks associated with climate change. We use the "under 2°C" scenario mainly for businesses related to fossil fuels, which will be heavily impacted by transition risk arising from changes in policies, technologies, and markets following the transition to a low-carbon society. Meanwhile, we use the "around 4°C" scenario for businesses in the consumer-related sector, which will be heavily impacted by physical risk arising from increases in average temperatures and changes in weather patterns. In this way, the TCFD scenarios allow a well-balanced analysis covering all of our asset portfolio. Taking the impacts from the above scenarios on each business into account, we will take appropriate steps to prepare for the future, and work to further enhance the continuity of our robust earnings base centered on our businesses in the consumer sector.

Risks and Opportunities

Risks	Opportunities
<p>Transition risk</p> <ul style="list-style-type: none"> Reduction in demand for fossil fuels due to business restrictions on GHG emissions <p>Physical risk</p> <ul style="list-style-type: none"> Damage to business due to the increase in abnormal weather (e.g., droughts, flooding, typhoons, and hurricanes) 	<ul style="list-style-type: none"> Increase in renewable energy and other business opportunities which will contribute to alleviating climate change Retention and acquisition of customers by strengthening supply structures that can adapt to abnormal weather flexibly

Governance

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Metrics and Targets

Metrics	Targets	FYE 2020 Results
Electricity consumption of Tokyo and Osaka headquarters, branches and offices in Japan, and other business facilities in Japan	Reduction of 30% compared with FYE 2011 levels in FYE 2021	Reduction of 44% compared with FYE 2011 levels
	Average annual reduction of at least 1%	Reduction of 2.3% compared with FYE 2019 levels
Renewable energy ratio	More than 20% by FYE 2031	12.5%

Risk Management

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Strategy

• ITOCHU recognizes that the various risks and opportunities associated with climate change are an important perspective for business strategy.

* Scenario Analysis

- In considering scenarios analysis, we established the two scenarios, making reference to the International Energy Agency (IEA) and Intergovernmental Panel on Climate Change (IPCC): one where average temperature increase by the end of this century is "under 2°C" and one where it is "around 4°C."
- In terms of transition and physical risks, we have identified financially important businesses that could potentially be affected heavily by climate change.

Agreement with the TCFD Recommendations and Policy on Coal-Related Businesses

In May 2019, ITOCHU announced its endorsement of the TCFD recommendations after conducting a scenario analysis* based on the recommendations with regard to its power generation-related business with support from the Ministry of the Environment. At the same time, we also participated in the TCFD Consortium established by the Ministry of Economy, Trade and Industry, the Ministry of the Environment, and the Financial Services Agency, as a body for promoting discussion and deliberation among companies and financial institutions supporting the TCFD mission. Our policy going forward is to continue analyzing the impacts of climate change on our overall business in line with the TCFD recommendations and to provide timely, appropriate disclosure of relevant information. Moreover, we recognize that the coal-related business has a particularly significant impact on our business and stakeholders. We therefore conducted scenario

analysis an urgent priority, and in February 2019 announced a policy of neither developing any new coal-fired power generation business nor acquiring any new thermal coal mining interest.

We will conduct ongoing reviews and asset replacement with regard to our existing thermal coal mining business, while continuing to respond to social demand from customers in Japan and overseas for a stable supply of energy. At the same time, we will maintain our participation in technological research that contributes to reducing GHG emissions. Our goal in doing so is to contribute to the development of a sustainable society.

* Please see the website below for details on scenario analysis and business impact evaluation.
Ministry of the Environment "Practical guide for Scenario Analysis in line with TCFD recommendations":

<http://www.env.go.jp/en/headline/2396.html>

Scenario Analysis

Division Companies									
Machinery		Metals & Minerals		Energy & Chemicals		Food		General Products & Realty	
Business									
Power Generation		Coal		Oil & Gas Upstream Business Development		Dole		Pulp	
Main risks									
Transition risk*					Physical risk				
* The impact under the "around 4°C" scenario on businesses with a significant transition risk is limited.									
Business environment									
4°C	<2°C	4°C	<2°C	4°C	<2°C	4°C	<2°C	4°C	<2°C
→	→	→	→	→	→	→	→	→	→
<ul style="list-style-type: none"> Even in the "under 2°C" scenario, we can maintain and grow revenue by increasing the number of new renewable energy plants. 		<ul style="list-style-type: none"> In the "under 2°C" scenario, use of fossil fuels will be reduced as a result of technological innovation and changes in regulatory trends, but demand for high-grade coal, which has a relatively lower environmental impact, will remain at a certain level. 		<ul style="list-style-type: none"> Demand for crude oil is expected to shrink across the world in the "under 2°C" scenario. Nevertheless, we will be able to increase revenue by capturing the opportunities of the global increase in demand for LNG and the increase in demand for new energies (e.g., biofuels). 		<ul style="list-style-type: none"> We expect climate change (the impact on the amount of harvest per unit area due to the increase in the average temperature) to have the impact of reducing revenue under both the "around 4°C" and "under 2°C" scenarios. Nevertheless, we will be able to increase revenue by dispersing risks with diversification of production areas (e.g., Sierra Leone) and by striving to improve our cultivation technologies and cultivation efficiency. 		<ul style="list-style-type: none"> We will partially increase revenue due to an increase in pulp production output in some afforestation areas where production output is expected to expand under the "around 4°C" scenario. Nevertheless, our analysis shows that our overall revenue will decrease due to the impact of the reduction in production output in most afforestation areas with the rise in the average global temperature. We will maintain production output at a certain level in afforestation areas with the suppression in the rise of the average temperature in the "under 2°C" scenario. If the carbon prices are introduced in pulp manufacturing factories using biomass energy, we will be able to curtail costs. In addition, we will be able to increase profit by augmenting revenue with an increase in our pulp production output in afforestation areas where production output is expected to expand. 	
Policies and efforts									
<ul style="list-style-type: none"> We aim to achieve a renewable energy ratio of more than 20% (equity interest basis) by FYE 2031 and will reflect this in the future strategy. We will not develop any new coal-fired power generation business. 		<ul style="list-style-type: none"> We will not acquire new thermal coal mining interests. Regarding the existing thermal coal mining projects, we will continue to review it and contribute to the development of a sustainable society while responding to the social demands of stable supply of energy to customers in Japan and overseas. We will continue to be involved in the development of technologies to contribute to reduction of GHG emissions, including carbon capture and storage (CCS) and carbon capture and utilization (CCU). 		<ul style="list-style-type: none"> We will carefully examine an expansion of our crude oil assets. We will aim to stabilize business by participating in excellent projects. We will then examine investment opportunities in gas projects (e.g., LNG). We will examine a business portfolio that anticipates an increase in demand in the new energies field (e.g., the capture of biofuel and hydrogen-related business opportunities). 		<ul style="list-style-type: none"> We will diversify production areas (expand production in Sierra Leone). We will increase the yield by researching and selecting varieties and by improving production methods (e.g., by improving seedling cultivation methods). We will contribute to a low-carbon society through the promotion of biogas power generation utilizing pineapple dregs and solar power generation utilizing factory rooftops. We will aim to further improve the Dole brand and product superiority with the support of highly environmentally conscious consumers. We will implement irrigation as necessary. 		<ul style="list-style-type: none"> We will examine a selection of varieties to respond to climate change. We will conduct on-site monitoring to examine measures before the impact of climate change becomes significant. 	