

Annual Report Briefing: 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: December 17, 2020 (Thur.) 10:00 to 11:30
Respondents: Suguru Amano, General Manager, Investor Relations Department
Yoshihito Tabe, General Manager, Sustainability Management Department
Definitions: Q = question, A = answer, O = opinion

Q: On page 66 of the annual report, the TCFD-based scenario analysis apparently concludes that the earnings impact will be limited in a scenario where global temperatures rise by less than 2°C, for an impact that is not that negative on the business environment. Can you provide more details about assumptions and data used in this analysis?

A: The TCFD-based scenario analysis is challenging in the sense that results can vary significantly depending on the assumptions used. Although we strive to verify the appropriateness of our assumptions, such as for the timing of transition risk emergence and the impact from physical risk caused by changes in temperature and climate patterns, it is difficult to make accurate assumptions. Under the less than 2°C scenario, social restrictions on the regulatory and tax side (i.e., a carbon tax) are likely to become stricter. ITOCHU intends to respond by changing its asset portfolio in a way that profits from such changes in government policy. For example, the Company can address physical risks by changing manufacturing sites and type of products produced, and by expanding the renewable energy business while addressing transition risks. Since general trading companies are involved in a wide range of businesses constituting a diverse portfolio (not a single product), ITOCHU examines the likelihood of securing resilience against changes in the business environment by replacing businesses. We continue with assessments based on the belief there is still room for improvement, including the disclosure of financial impact, for example.

O: As the TCFD protocol is vague, it is understandable that with the less than 2°C scenario, demand forecasts and price assumptions for thermal coal differ by company, making it difficult to calculate financial impact. With that said, we expect ITOCHU to augment its disclosures by following the examples set by other trading companies that are disclosing more information than ITOCHU. While ITOCHU's policy of addressing risk via asset replacement can be considered reasonable, from an investor's point of view, there are some assets that investors fear may become stranded. It would be nice if ITOCHU disclosed more information and explained the financial impact of and its response to such assets.

Q: How has the creation and publication of the annual report added value in terms of business activities, such as reflecting on the areas for improvement noted in the dialogue with Outside Directors, the engagement with stakeholders, and reactions from employees?

A: One feature of the Annual Report 2020 is the focus on facilitating investment judgments, while making the information accessible to a broad range of stakeholders. Since last year, at the direction of Chairman & CEO Okafuji, physical copies of the annual report have been distributed to all employees, Directors and Executives, Executives of Group companies, analysts, investors, financial institutions, and customers and suppliers. Membership in the Company's employee shareholding association is just shy of 100%, so employees are shareholders, too. For the past few years, we have held briefings about the annual report exclusively for employees, with the objective of increasing their awareness of managements' focus, including business policies and ESG initiatives. The management team is heavily involved in the production of the annual report, and instead of leaving everything up to the production company, we get more engaged in its production. For the CEO's message, Chairman

& CEO Okafuji himself proofread several rounds, filling in the details, including the location of specific words. Other officers are also passionate about leaving their mark on the report. In Annual Report 2019, Outside Directors Ms. Muraki and Mr. Kawana held a discussion with the CAO. In this year's report, Mr. Kawana, who has a medical background, commented on the Company's response to the COVID-19 pandemic. The messages from the Outside Directors went beyond a simple presentation of their opinions, and instead talked about how their particular fields of specialization are reflected in management, in light of the Company's business policies.

Q: Please explain current working conditions, as well as work systems and initiatives to prevent the spread of COVID-19 during the pandemic.

A: With regard to work systems, ITOCHU has flexibly responded based on current infection rates. To date, the Company has issued 12 internal notifications about changes in work systems. We are currently restricting the number of employees who can show up to work, encouraging them to work from home. After the declaration of emergency was lifted in Japan, all employees returned to their offices in principle, and at first, we received opinions expressing concerns about our work system. Now, ITOCHU is receiving questions about how to be more flexible in work systems. In addition to distributing thin client laptops and iPads companywide, ITOCHU has coordinated with Group companies to install shielding barriers in cafeterias and workspaces, partnering with Tokyo Women's Medical University Hospital to provide PCR testing, and taken other measures to ensure employees can work safely. These steps have led to the creation of work environments where employees can work without worry, and enabled flexible changes in work systems for employees.

Q: On page 9 of the briefing materials, in the section about the report's focus on facilitating investment judgments, it says that reductions in the cost of capital will lead to higher corporate value. In terms of the environment, where it seems initiatives are lagging, please explain how ITOCHU intends to reduce the cost of capital and accelerate growth rates. Also, please highlight some noteworthy changes in non-financial information.

A: Internally, we have already calculated Scope 3 figure. However, it is extremely difficult to disclose more detailed information about the environment because the figures vary significantly depending on the assumptions used. The figures are also impacted by calculations made at manufacturers and other business partners, and the wide variety of products handled by ITOCHU due to its strong presence in the consumer sector makes the calculation even more challenging. Compared with the rules for disclosing financial information, the rules for the disclosure of environmental information are still in the process of development. Therefore, it seems the disclosure of such information is heavily influenced by the decisions of companies with regard to interpreting the rules. Of course, we follow the disclosure rules, but it is more important to focus on how to steadily promote our efforts to solve SDGs and yield solid results. At this stage, we are evaluating the content and timing of disclosures in the context of our objectives, targets, and measurement of results. Some of our businesses do not meet greenhouse gas protocols due to our position as a general trading company and the nature of our businesses. Since reduction targets should not be mere slogans, the Company intends to proactively step up disclosures after scrutinizing and evaluating reduction measures.

We believe growth rates should be disclosed for both non-financial and financial aspects. While we are still focused on expanding profits, ROE, and EPS, there is a possibility that our investments will fail to produce the expected returns should an investment project be hastily greenlighted. Moreover, we need to take a more prudent stance by carefully assessing the impact of the COVID-19 pandemic and changes in the business environment. From both qualitative and quantitative approaches, ITOCHU considers measures that will translate into higher economic value and social value, and intends to disclose such measures in its upcoming new medium-term management plan, due out next spring.

Instead of presenting slogans, we will of course be fully committed to the targets under the plan.

Q: Each Division Company is described on pages 88-103 of the annual report, but why was there little information about the characteristics, issues, and earnings trends for each Division Company?

A: In the past, the report talked about characteristics and issues in the framework of risks and opportunities. After receiving opinions that this format made it hard to draw connections to companywide measures, we decided to include issues in the review of fiscal 2019 and the future initiatives sections. Moreover, although our past editions had featured quantitative indicators on each Division Company page, we received many comments that it would be easier to understand if the information were presented in a table format. As a result, it is now presented on pages 86-87 and in the financial fact book. With that said, we will consider your opinion in future reports.

Q: We were briefed that ITOCHU received an AA ESG rating from the MSCI Japan ESG Select Leaders Index, which is considered investment-grade. When was this obtained? Also, I understand this is a first for a general trading company. What improvements were made that led to this ranking?

A: In June 2020, ITOCHU's rating was raised from A to AA. Among general trading companies, only ITOCHU is included in all four ESG indexes used by GPIF. ITOCHU became the No. 1 trading company in terms of ESG investment amounts by GPIF. Since the disclosed information is judged, it seems that the rating was raised as a result of ITOCHU increasing the information available in its ESG Report and on its website by steadily expanding the scope of items subject to disclosure via discussion with each Division Company.

Q: Many companies talk about improving corporate value as a result of advancing ESG. However, it is hard to differentiate between approaches taken by each company. This naturally makes investors concerned about extent to which ESG actually did contribute to profits. The largest discount factor for general trading companies is the paucity of returns despite massive investments. Given that ITOCHU generates relatively better returns, the Company can aim to reduce the cost of capital by visualizing returns on past investments. Shouldn't this lead to a higher valuation? None of the other trading companies are disclosing as much information, and this is a point of differentiation for ITOCHU.

A: We attempted to disclose this information in the past, but unless synergies can be factored in, returns may appear smaller than reality, which could be misleading, so we decided to stop such disclosures. We understand your point, and will continue to examine this issue.

Q: Issues to address from 2021 include "concrete discussions by the Nomination Committee." One of the biggest issues affecting ITOCHU's corporate value is succession, in my opinion. What is management's stance on disclosing information about this issue?

A: Disclosing specific discussions by the Nomination Committee is challenging. However, we intend to give a better explanation of succession plans for Chairman & CEO Okafuji, a point of concern for investors. For example, many investors seem concerned about the profitability of Group companies after changes in top management, and our grip on operations. However, our "earn, cut, prevent" principles have already been instilled in ITOCHU's corporate culture among employees and Group companies. We are confident that this will stay the same even after changes in top management.