

Countermeasures for Business Risks and Other Risks

Due to the diverse and extensive nature of its businesses, the ITOCHU Group is exposed to a range of risks, including complex market-related risk, credit risk, and investment risk. As unpredictable uncertainties are inherent in such risks, they may have significant effects on the Group's future financial position and business performance.

Viewing risk control as an important management task, we have established basic policies, administrative systems, and methods for managing the risks that we face.



Risk Description	Countermeasures
(1) Risks Associated with Macroeconomic Factors and Business Model <ul style="list-style-type: none"> Impact of changes in the business environment (economic trends, rapid technological innovation, deregulation, intensified competition, etc.) on existing business models and competitiveness ➔ Page 72 PEST Analysis (Macroeconomic Factors Through 2030) 	<ul style="list-style-type: none"> Changing business format based on "Realizing business transformation by shifting to a market-oriented perspective" and "Enhancing our contribution to and engagement with the SDGs through business activities" ➔ Page 56 Medium-Term Management Plan "Brand-new Deal 2023"
(2) Market Risk	
a) Foreign Exchange Rate Risk <ul style="list-style-type: none"> Foreign exchange rate risk related to foreign currency-based transactions Risk of changes in periodic profit or loss and shareholders' equity through foreign currency translation adjustments 	<ul style="list-style-type: none"> Hedging transactions that use derivatives such as forward exchange contracts Monitoring the balance of net investments in foreign entities, which causes changes in foreign currency translation adjustments
b) Interest Rate Risk <ul style="list-style-type: none"> Risk of fluctuation in interest rates in both the raising and using of funds for investing, financing, and operating activities Impact of interest rate index reform related to the permanent suspension of Libor publication 	<ul style="list-style-type: none"> Quantifying interest rate mismatch amount and interest rate fluctuation risk Periodic analysis of interest rate trends Using Earnings at Risk (EaR) in monitoring the impact of interest rate fluctuations on interest payments Monitoring regulatory and market trends related to the transition to alternative interest rate indices
c) Commodity Price Risk <ul style="list-style-type: none"> Price fluctuation risk due to the holding of long or short positions in relation to actual demand transactions Risk of fluctuation in the prices of products of manufacturing businesses or businesses engaged in the development of metal, mineral resources, and energy 	<ul style="list-style-type: none"> Analyzing inventories, sales and purchase contracts, etc. Establishing commodity balance limits and loss cut limits, monitoring transactions, and implementing periodic reviews at middle and back offices Hedging transactions using commodity futures and forward contracts, etc. Using Value at Risk (VaR) to analyze and monitor market-sensitive commodity transaction risks
d) Stock Price Risk <ul style="list-style-type: none"> Risk of price fluctuation of listed stocks held 	<ul style="list-style-type: none"> Using VaR to periodically analyze and monitor the effect of stock price fluctuations on consolidated shareholders' equity
(3) Investment Risk <ul style="list-style-type: none"> Risk of failing to generate expected profits due to stagnation of the business of an investee and the risk of partial or total loss of an investment or the need to contribute additional funds Risk of being unable to exit or restructure a business at the desired time or manner Risk of being disadvantaged by an inability to obtain appropriate information from an investee 	<ul style="list-style-type: none"> Implementing new investments through decision-making based on investment criteria Periodic monitoring of existing investments Replacing assets through the application of criteria for determining exit from investments with low investment efficiency, etc. ➔ Page 40 Business Investment
(4) Risks Associated with Impairment Loss on Fixed Assets <ul style="list-style-type: none"> Risk of impairment loss on real estate, resource development-related assets, aircraft and ships, goodwill, and intangible assets, etc. due to declines in profitability, market downturns, changes in R&D policies, drops in asset values, or additional unplanned capital contributions, etc. 	<ul style="list-style-type: none"> Replacing assets flexibly and building foundations for sustained growth through investment Making investment decisions after thorough deliberation on the appropriateness of acquisition prices Periodic monitoring after investments
(5) Credit Risk <ul style="list-style-type: none"> Credit risk in relation to debt, etc., becoming uncollectible or assuming responsibility for the fulfillment of contracts due to the deteriorating credit status or insolvency, etc., of business partners 	<ul style="list-style-type: none"> Managing risks through the setting of credit limits and the obtaining of necessary collateral and guarantees, etc. Establishing allowances for doubtful receivables based on estimates of expected credit losses in light of the creditworthiness, the status of collection, and the status of receivables in arrears of business partners
(6) Country Risk <ul style="list-style-type: none"> Risk of unforeseen situations arising from political, economic, and social conditions, etc. and national expropriation or remittance suspension due to changes in various laws and regulations 	<ul style="list-style-type: none"> Establishing total limit guidelines on total exposure to each country and using in-house country credit ratings as the basis for establishing guidelines on limits for each country
(7) Risks Associated with Fundraising <ul style="list-style-type: none"> Risk of being unable to raise funds from institutions or investors under desirable terms and an increase in funding costs due to decline of creditworthiness in the financial markets or disruption to the financial systems of major financial markets 	<ul style="list-style-type: none"> Securing sufficient liquidity through the use of cash and deposits, commitment lines, etc. Diversifying funding sources and methods

Risk Description	Countermeasures
(8) Risks Associated with Taxes <ul style="list-style-type: none"> Changes in estimates of taxable income due to tax planning Changes in tax planning Changes in the tax code, including changes in tax rates, etc. Changes in accounting judgments regarding the valuation of deferred tax assets 	<ul style="list-style-type: none"> Establishment of a Group tax policy and appropriate tax payments complying with tax laws and tax treaties, etc., in each country Maintaining fair relationships with tax authorities in each country and region through constructive dialogue Recording recoverable amounts of DTA by taking future taxable income and viable tax planning into consideration
(9) Risks Associated with Significant Lawsuits	<ul style="list-style-type: none"> Conducting appropriate reviews prior to transactions and managing and responding to lawsuits, etc.
(10) Risks Associated with Laws and Regulations <ul style="list-style-type: none"> Risk of the Group's domestic or overseas business activities, etc., becoming subject to significant lawsuits, etc. Risk related to compliance, including personal misconduct by corporate officers or employees, and risk of damage to social trust Risk of the unexpected enactment, amendment, or repeal of laws and regulations by governmental, judicial, or regulatory authorities, etc., in Japan or overseas Risk of significant changes in various regulations due to marked changes in the social and economic environment, etc. 	<ul style="list-style-type: none"> Developing, managing, and reinforcing compliance systems continuously and responding to trends in laws and regulations in a timely, appropriate manner
(11) Risks Associated with Human Resources <ul style="list-style-type: none"> Risk of not being able to respond sufficiently to opportunities for new business creation or business expansion due to shortages of personnel with the advanced knowledge and experience required for specific fields 	<ul style="list-style-type: none"> Securing diverse human resources Realizing placement of the right people in the right positions through continuous skills development, including collaboration with Group companies, and developing rewarding workplace environments ➔ Page 80 Human Resource Strategy
(12) Risks Associated with the Environment and Society <ul style="list-style-type: none"> Risk of delay or suspension of businesses, incurrence of countermeasure costs, and decline in social reputation, etc., in the event of environmental pollution, human rights violations, or other environmental or social issues 	<ul style="list-style-type: none"> Establishing the ITOCHU Group Sustainability Policy and identifying material sustainability issues Acquiring environmental management system (ISO 14001) certification Conducting sustainability surveys of supply chains Assessing and identifying the human rights impact of business operations and building a human rights due diligence process Risk management for new investments by using an ESG checklist Analyzing and disclosing the impact of climate change on business and its performance and countermeasures based on TCFD, calculating and setting targets and measures for the reduction of GHG emissions. ➔ Page 76 Initiatives to Promote Sustainability ➔ Page 64 Business Expansion in Accordance with a Decarbonized Society
(13) Risks Associated with Natural Disasters <ul style="list-style-type: none"> Impact on business activities of natural disasters, such as earthquakes and outbreaks of infectious disease 	<ul style="list-style-type: none"> Developing Business Continuity Plans (BCP) for large-scale disasters and outbreaks of infectious disease Introducing a safety confirmation system Conducting disaster prevention drills
(14) Risks Associated with Information Systems and Information Security <ul style="list-style-type: none"> Risk of the leakage of confidential or personal information due to unauthorized access from outside or penetration by computer viruses, etc., and the risk of the stoppage of information systems due to equipment damage or problems with telecommunications circuitry, etc. 	<ul style="list-style-type: none"> Establishing a code of conduct on the handling of information Establishing a Companywide informatization strategy for digitalization and data utilization Building and managing IT systems that promote information sharing and operational efficiency Establishing security guidelines considering cybersecurity risks Developing an IT environment Strengthening technical security countermeasures for malware, etc., and capabilities of a cybersecurity response team
(15) Risks Associated with the Outbreak of COVID-19 <ul style="list-style-type: none"> Impact of business environment changes in various fields Impact of fluctuations in foreign exchange rates, interest rates, commodity prices, stock prices, etc. 	<ul style="list-style-type: none"> Ensuring the safety of employees and related parties and preventing the spread of infection Contributing to the stability of daily life in society as a whole through the maintenance of supply chains in various fields Conducting detailed monitoring and implementing "cut, prevent" principles even more rigorously Evolving business models with an eye on post-COVID-19 society