

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, 2021 (Fri.) 10:00 to 11:10
Respondents: Suguru Amano, General Manager of the Investor Relations Division
Yoshihito Tabe, General Manager of the Sustainability Management Division
Definitions: GHG: Greenhouse Gas, SBT: Science Based Targets (GHG emission reduction targets consistent with the Paris Agreement)

Q: Although having a high ROE makes ITOCHU attractive, compared to other general trading companies, the trigger for deciding shareholder returns is harder to discern. When you were determining the “New Dividend Policy,” what was the nature of your internal discussions?

A: When the current medium-term management plan was revealed, there was a gap between our shareholder returns policy and market expectations. Therefore, after the plan was announced, our shares continued to underperform compared to the TOPIX. In internal discussions about meeting market expectations, we confirmed our policy to sustainably achieve high ROE and EPS going forward through the expansion of consolidated net profit. The discussions also confirmed that the cash generated by profit growth is being directed toward shareholder returns and growth investments. Our basic policy under the current medium-term management plan is to build an earnings base centered on the non-resource sector with consolidated net profit amounting to ¥600.0 billion, even amid the pandemic. Over time, consolidated net profit has grown steadily, reaching ¥300.0 billion, ¥400.0 billion, and, most recently, ¥500.0 billion. Now, even as we aim even higher for ¥600.0 billion, we acknowledge that our growth investments have been insufficient and that maintaining A ratings will be a prerequisite for growth investments going forward. As of September 30, 2021, our NET DER achieved a record high of 0.61 times, well below the 0.7 to 0.8 times target value in the current medium-term management plan. This was the result of efforts to maintain lean management and intentionally prioritizing exits in asset replacement. Taking into consideration our achieving a business recovery and profit growth amid the pandemic, particularly in the non-resource sector, in addition to further improving our financial position, we determined it is possible to expand both growth investments and shareholder returns going forward. While the business environment is still very uncertain, ITOCHU, which uses commitment-based management, determined that the “New Dividend Policy” is achievable and thus announced it. Furthermore, we have not changed our policy for growth investments focused on the non-resource sector. There are multiple pipelines, and we will announce decisions regarding investments in a timely manner.

Q: How aware are you that overseas investors also read ITOCHU’s annual report? There are many Japanese-specific expressions used in the report, and I would think that translation poses many challenges. What kind of thought do you put into the creation of the report?

A: I think that it is not easy for overseas investors in particular to understand the business model of a general trading company, and we are keenly aware that they also read the annual report. Of course, holding IR events is also important, but it is difficult to comprehensively explain the business as a whole in the limited time available, so we cannot but focus on explaining certain businesses and situations. However, although the pandemic has made data acquisition by investors more difficult and fragmented, we are able to use the annual report to comprehensively explain our business, from the corporate mission to the business model. Also, to ensure that investors can access the annual report as soon as possible, ITOCHU publishes both Japanese and English versions by the end of August each year, even during the pandemic. The most important point in creating the English version is accurately conveying the essence of ITOCHU’s management. We do not leave everything up to the translation company. We have the report checked by the staff at overseas offices who fully understand the key points of ITOCHU’s management, ensuring that ideas contained in the Japanese version are correctly reflected.

Q: Regarding “presenting specific results of the FamilyMart Business and collaboration with CITIC and CP Group,” I want ITOCHU to continually provide explanations, including the specific qualitative and quantitative KPIs of each business. In addition, going forward, please continue to provide detailed explanations of other large-scale investments, not just CITIC and FamilyMart.

A: ITOCHU flexibly adjusts its exposure and staff numbers to control the positive and negative impacts on businesses of economic volatility and changing trends. In this way, we have leveraged our overall capability as a general trading company to remain a going concern for over 160 years. Accordingly, ITOCHU considers it more important to achieve our commitment to the Company-wide KPIs of ROE, EPS, and consolidated net profit rather than the various KPIs of individual segments. However, opinions are very valuable. In response to the previously stated opinion that we should be “presenting the success rate of investments,” we provide explanations with diagrams of the trends of the profits and losses of Group companies. We will consider reflecting this opinion in the creation of the next annual report onward.

Q: Regarding “expanding our disclosures and building up our track record related to climate change, such as GHG reduction results,” what are the thoughts behind these moves? In addition, is ITOCHU considering acquiring SBT certification?

A: We are considering enhancing disclosure while carefully considering compliance with new disclosure standards promoted by the TCFD and IFRS. This means expanding the scope of scenario analyses of climate change impacts in line with the TCFD recommendations and the disclosure of those results. ITOCHU has completed scenario analyses of five segments (power generation, the energy business, coal operations, Dole (the core business of fresh food products), and the pulp business directly connected to forest resources) and disclosed the results. Going forward, we will continue enhancing disclosures related to GHG emissions in addition to the scope of scenario analyses and quantitative disclosures. As for Scope 3 disclosures, there is room for interpretation in the GHG protocols (calculation methods, disclosure scope, etc.), and we are sincerely considering expanding disclosure while carefully assessing the appropriateness of said disclosure. In addition, as for acquiring SBT certification, we have been thinking about this since considering GHG emission reduction targets in the current medium-term management plan. The application itself is not difficult, but it is necessary to set GHG emission reduction targets for Scopes 1, 2, and 3 that are recognized as SBTs, and it is also necessary for the targets to be attainable by the Company. We also need to think about the trends of existing businesses and the impact of GHG emissions from new businesses and are sincerely verifying that.

Q: Will it be possible to introduce an internal carbon pricing system?

A: We recognize that such a system is one effective measure for reducing and reining in the total GHG emissions of a company. It will take some time because we will need to conduct a comprehensive study about whether that is the best measure to think about profitability if we were to introduce such a system and not just reduce GHG emissions.

Q: Are there specific initiatives in investments that will lead to a lower cost of capital, and how will you quantify this moving forward?

A: ITOCHU uses the “ESG checklist” when deciding on investments and does its due diligence, including on the sustainability promotion and compliance systems of potential investee companies. In addition, regarding human resource strategies, ITOCHU takes various human resource measures, such as the morning-focused working system, and some measures have been adopted by Group companies. Although we think these initiatives will lead to a lower cost of capital, it will be difficult to quantify to what degree they will contribute to a lower cost of capital.

Q: Will setting a target framework for ESG-related and other investments lead to a lower cost of capital?

A: When we were drawing up the previous medium-term management plan, there were concerns related to next-generation investments, namely, that if a target framework is set for investments, there is a risk that the framework itself will become the purpose, prompting the insufficient deliberation of projects and eventually leading to high acquisition prices and the incurrence of future risk associated with impairment loss. From the perspective of investors, we fully understand that the target framework itself for ESG-related investment is valuable quantitative information, and we intend to continue holding internal discussions and studying what kind of measures can be delivered.

Q: The annual report is very comprehensive. The CEO message in particular cleared up key points of ITOCHU’s management and deepened my understanding. I also appreciate ITOCHU holding this kind of briefing. I think increasing opportunities for dialogue between Chairman & CEO Okafuji and stakeholders would further enhance understanding of ITOCHU. I would like ITOCHU to consider the creation of dialogue opportunities at briefings moving forward.

A: Thank you very much for the valuable opinion. The CEO message in the annual report was carefully crafted by the Chairman & CEO himself in his own words so that stakeholders could understand ITOCHU’s management strategies and policies. The annual report is one of the means for important dialogue, and we send out copies of the report so that all stakeholders can hold it in their hands and read it. In fact, we sent the report to Mr. Warren Buffett and he shared with the Chairman & CEO that our annual report was definitely one of the best after reading it over the night.

Q: What are the good effects of ITOCHU continuing to distribute its annual report to all employees?

A: We have long distributed the annual report to not only all of the Company’s executives and employees but also the senior management of Group companies in an effort to thoroughly bolster understanding of the content every year. Nearly 100% of the Company’s employees have joined the shareholding association. ITOCHU encourages employees to be aware of management from the stance of a shareholder and an employee at the same time. For example, there are instances where young sales people do not fully understand business expansion in division companies besides those that they belong to. ITOCHU aims to achieve business expansion rooted in a market-oriented perspective and to break down the walls between division companies, especially The 8th Company. It is very important that employees understand senior management’s policies and the strategies and initiatives of other division companies when it comes to executing business. We think this will ultimately lead to further generation of synergy throughout the Group and across division companies.