

01

Driving Force for Sustainable Value Creation

Component of the corporate value calculation formula focused on in this section



Section Highlights

- ✓ ITOCHU's Accumulated Non-Financial Capital
- ✓ Examples of Combinations of Non-Financial Capital in ITOCHU's Businesses
- ✓ Historical Background and Reasons for the Establishment of Our Strengths
- ✓ Special Feature 1: Highly Unique Human Resource Strategy to Enhance Corporate Value

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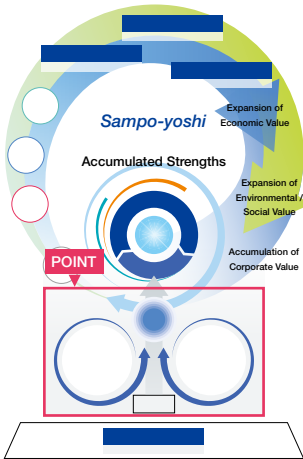


Accumulation of Non-Financial Capital

Sustainable Value Creation through Strengthening of Trust and Creditworthiness

ITOCHU conducts its business through both trade and business investment. In the course of our history over 160 years, we have steadily accumulated internal capital through our business, such as human and organizational capital and business know-how.

We believe that trust and creditworthiness are extremely important for the symbiosis of internal and external capital, which mutually influence each other. By always remaining conscious of trust and creditworthiness in our management practices, we aim to continuously enhance corporate value through realizing growth in both economic value and environmental / social value.



Examples of Key Combinations of Capital in the Businesses Highlighted in the Special Feature of Annual Report 2023

Internal Capital	Explanation of Each Capital (Importance)		Examples of KPI and Monitoring Indicators		Examples of Strengthening Measures	
	Human and Organizational Capital	We strengthen individual capabilities through our human resource strategies and enhance labor productivity. In addition, our business divisions have powerful backing from our administrative divisions, which have quick decision-making systems and high-level expertise, therefore practicing the “earn, cut, prevent” principles.	<ul style="list-style-type: none">• Labor productivity of employees• Company ranking among jobseekers• Monthly average overtime hours• Annual paid leave acquisition rate• Investment in human resource development per employee• Number of employees with Chinese-language qualifications• Engagement survey		<ul style="list-style-type: none">• Realization of Mission and Guideline of Conduct• Business support and control function of administrative divisions• Morning-Focused Flextime System and adoption of the work from home system for all employees• Health management (Support for Balancing the Cancer Care and Work, etc.)• Establishment of the Women’s Advancement Committee as an advisory committee to the Board of Directors• Periodic reviews and improvements through engagement surveys ▶ Page 30 Special Feature 1: Human Resource Strategy to Enhance Corporate Value	
	Business Know-How	With eight Division Companies operating businesses in a diverse range of industries, ITOCHU has accumulated extensive and advanced business know-how. This is a vital intangible asset for creating new businesses and entering into new regions.	<ul style="list-style-type: none">• Number of new businesses formed• Number of years of business with existing customers• Number of contact points with consumers and volume of data• Analysis of various data and proof-of-concept data		<ul style="list-style-type: none">• Creating synergies and new businesses by utilizing ITOCHU’s comprehensive strength• Breaking down product silos and strengthening collaboration among Division Companies• Transforming business models based on a market-oriented perspective• Polishing businesses through hands-on management• Promoting comprehensive digital transformation (DX) support businesses ▶ Page 62 Our Business Model, as Seen through Business Development	
	Business Portfolio	By leveraging one of our advantages of comprehensive strength and ability of self-transformation, ITOCHU optimizes its highly flexible, wide-ranging, and well-balanced business portfolio. Thereby making it possible to adapt quickly to a volatile business environment and diversifying consumer needs.	<ul style="list-style-type: none">• Ratio of Group companies reporting profits• Management efficiency indicators		<ul style="list-style-type: none">• Pursuit of highly efficient management (rigorously selected investments and continuous asset replacement)• Improving profitability of existing businesses (thoroughly implementing the “earn, cut, prevent” principles)• Upholding “the Four Lessons for Investments”• Disclosure and implementation of ITOCHU’s Policy on the Governance of Its Listed Subsidiaries ▶ Page 58 Business Investment ▶ Page 96 Policy on the Governance of Listed Subsidiaries	

Financial Capital

Trust and Creditworthiness

Business Creation through Combinations of Capital

External Capital	Client and Partner Assets	We maintain win-win relationships with our clients and partners, which include a large number of leading companies. This is vital to our ability to rapidly expand into new domains and constantly capture and expand trade. It is our abundant client and partner assets that enable us to realize sustainable earnings growth.	<ul style="list-style-type: none">• Profits from initiatives with blue-chip partners• Number of clients and partners• Expenses reduced and decrease in losses on bad debts		<ul style="list-style-type: none">• Selection and securing of blue-chip partners• Use of cutting-edge technologies and services and business model transformation• Complying with Environment, Health, and Safety (EHS) Guidelines• Building of secure and safe supply chains
	Natural Resources	Through our business in the non-resource and resource sectors, we meet social demand for stable procurement and supply of natural resources, while capturing new business opportunities in responding to social issues outlined in the SDGs.	<ul style="list-style-type: none">• Renewable energy ratio• GHG emissions• Electricity consumption• Water withdrawal• Waste volume		<ul style="list-style-type: none">• Withdrawing completely from thermal coal interests• Continuing to review projects based on engagement• Strengthening of value chain and business investment management from a sustainability perspective• Stepping up contribution to and engagement with the SDGs through eco-friendly businesses, etc.
	Relationships with Society	ITOCHU engages in continuous and constructive communication with its stakeholders, grasping and addressing their expectations and demands toward the Company, thereby making it possible to stably promote business activities in Japan and overseas, and further enhancing corporate value.	<ul style="list-style-type: none">• Number of engagements with stakeholders• Number of sustainability surveys conducted• Number and percentage of employees participating in sustainability and compliance-related internal training• External evaluation by ESG rating agencies, etc., and inclusions to indices• Shareholder returns (dividends and share buybacks) and EPS• Number of compliance violation incidents		<ul style="list-style-type: none">▶ Page 78 Approach to Climate Change and Related Initiatives▶ Page 82 Sustainability Management
	Explanation of Each Capital (Importance)			Examples of KPI and Monitoring Indicators	

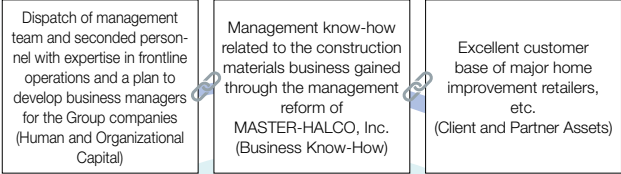
Polishing Value Chain, Starting with FamilyMart and Steppingstones for Further Growth

▶ Page 66



Polishing and Further Expanding the Earnings Base of the North American Construction Materials Business through a Hands-on Management Style

▶ Page 68



Evolution of the Value Chain through Collaboration between CTC and Our Group of Digital Businesses

▶ Page 70



Asset Replacement That Took Advantage of Changes in the Business Environment (Belong Inc.)

▶ Page 64



Creating a Supply Chain of the Ferrous Raw Material for Green Ironmaking with Low Carbon Emission

▶ Page 81



* For PEST items affecting each of the capital items above, please see ▶ Page 74 PEST Analysis (Macroenvironmental Factors through 2030)

▶ Page 116 ESG Data

Logic Tree

(Strategic Framework for Growth in Non-Financial Capital and Corporate Value)

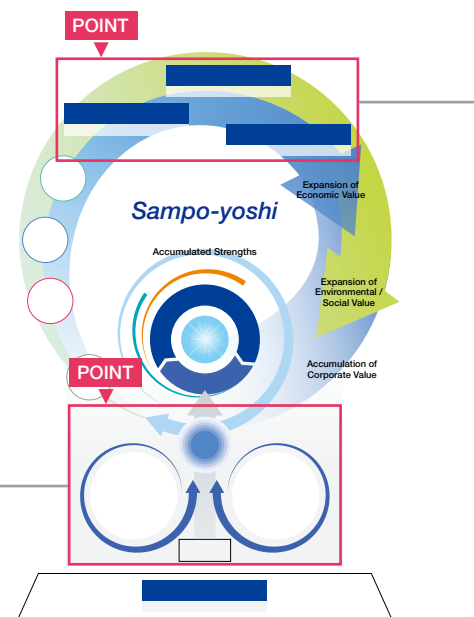
■ Maintaining and Upgrading of Non-Financial Capital and Its Relationship to Material Issues

ITOCHU analyzes the magnitude of opportunities to increase its non-financial capital as well as the magnitude of risks with the potential to damage such capital. Based on its findings, the Company identifies as its material issues those social issues that require prioritized and proactive initiatives by the Company. We then set out to resolve the identified material issues through business operations. By leveraging trust and creditworthiness garnered over many years, we will maintain and further grow our non-financial capital.

Relationships between Non-Financial Capital and Material Issues

Internal Capital	Human and Organizational Capital	○		○	○	○		○
	Business Know-How	○	○	○		○		
	Business Portfolio	○	○			○	○	○
Financial Capital								
External Capital	Client and Partner Assets	○	○		○	○	○	
	Natural Resources		○		○		○	
	Relationships with Society		○	○	○	○		○
		Evolve Businesses through Technological Innovation	Address Climate Change (Contribute to a Decarbonized Society)	Develop a Rewarding Work Environment	Respect and Consider Human Rights	Contribute to Healthier and More Affluent Lifestyles	Ensure Stable Procurement and Supply	Maintain Rigorous Governance Structures
		Material Issues						

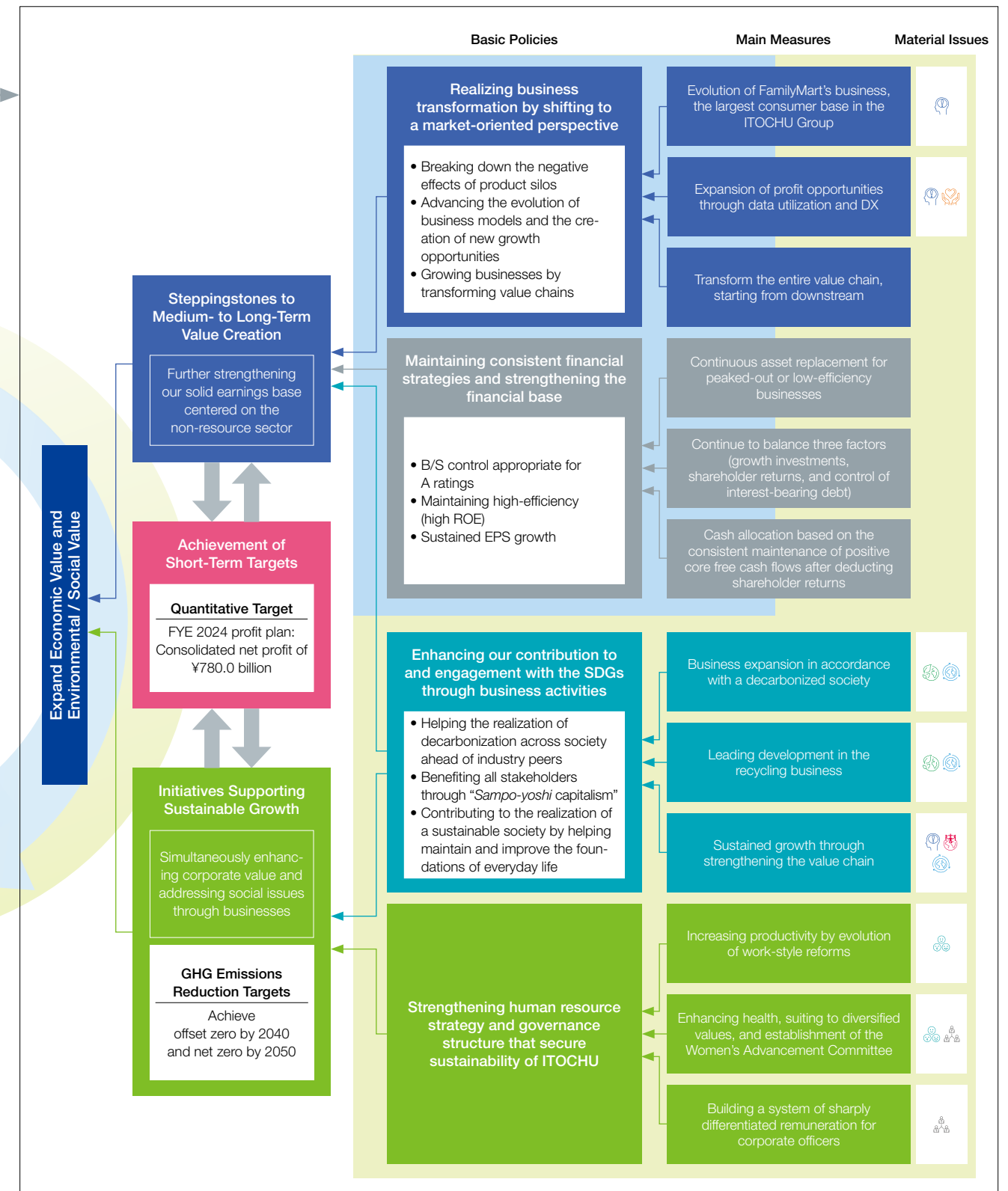
○ Indicates non-financial capital deemed to have particularly high relevance to material issues. We also recognize that trust and creditworthiness are strongly related to all of our material issues.



Leveraging Strengths to Maximize Capital Utilization

■ ITOCHU's Logic Tree for Building Up Corporate Value

Medium-term management plan "Brand-new Deal 2023" establishes further strengthening of our robust earnings base centered on the non-resource sector as a goal and sets a long-term target for reducing GHG emissions. We are steadily advancing initiatives to reach this goal and target. In addition, in FYE 2024, the last year of "Brand-new Deal 2023," the management plan sets short-term targets based on updated quantitative targets. We set a succession of short-term targets to provide milestones for our climb toward medium- to long-term targets. Through commitment-based management that emphasizes the steady achievement of targets in all time frames, we will realize sustained, sure-footed growth in corporate value.



Strengths Accumulated as a Merchant

Since its founding in 1858, ITOCHU has fostered a unique corporate culture while flexibly changing its business structure, primarily by dynamically allocating management resources to growth areas that shift with time and leveraging business investments to enhance in the value chain. Our business model, which currently boasts high sustainability, has enabled us to consistently overcome the obstacles we have faced, such as the management reforms in the late 1990s. The driving force behind this model lies in four strengths we have accumulated over our history of more than 160 years.



(Photo courtesy of Archival Museum for the Faculty of Economics at Shiga University)

Based in the former Ohmi Province (present-day Shiga Prefecture), the merchants of Ohmi transported their wares on shoulder poles, peddling items into neighboring provinces (pursuing business in all parts of Japan from the Kansai region). ITOCHU was started by Chubei Itoh I, who engaged in the linen trade.



Consolidated Net Profit

1970 1980 1990 2000 2010 2020 (FYE)

Accumulated Strength

Comprehensive Strength and Ability of Self-Transformation

Compound Annual Growth Rate of Consolidated Net Profit

12.9%

(FYE 2011–FYE 2024 Plan)

We realize sustainable growth by leveraging our comprehensive strength as a general trading company and flexibly transforming ourselves in response to the external environment.

01 Driving Force for Sustainable Value Creation

Founded—



Chubei Itoh I

Focus Mainly on the Textile Sector

Chubei Itoh I commenced linen trading operations via Osaka in Senshu (now the southwestern part of Osaka Prefecture) and Kishu (now Wakayama Prefecture). From a base in Osaka, we expanded business, mainly in the textile sector.

1950s—



Diversification, Including Automobiles, Petroleum, and Food

We pursued a path of diversification, and as a result non-textile areas accounted for around 40% of trading volume in 1958. In the 1960s, we expanded our business to include energy, machinery, general merchandise projects, and the iron and steel business, becoming a “¥1 trillion trading company.” In 1977, we further expanded the iron and steel business through a merger with Ataka & Co., Ltd.

1980s—



Expansion in the ICT Sector

As yen appreciation became a fixture of the economy, we promoted internationalization and globalization. We moved aggressively into the ICT field and entered the satellite business.

1990s—



Set the Steppingstones for the Current Business

We took decisive action to dispose of low-efficiency and unprofitable assets to sweep away negative legacy assets from the bubble era. At the same time, we set in place the steppingstones for the future, such as acquiring shares in FamilyMart in 1998.

2010s—



Enhancing Comprehensive Strength by Harnessing Our Ability of Self-Transformation

Ahead of other general trading companies, we began focusing on the non-resource sector. We commenced a strategic business and capital alliance with CITIC and CP Group, strengthened North American construction materials-related businesses, acquired the Dole business, increased stake in major Group companies, and privatized FamilyMart. We have further built up comprehensive strength and promoted self-transformation from a market-oriented perspective in part by entwining our business investments to create multifaceted businesses that connect for synergy, establishing The 8th Company, and developing the value chain of energy storage systems.

Accumulated Strength

Earning Power in the Non-Resource Sector

► Page 65 Special Feature 2

Further Enhancing Earning Power in the Non-Resource Sector

ITOCHU's business originated with textiles. In contrast with the general trading companies associated with the former *zaibatsu* industrial groups, the Company has weaker connections to the national government and companies in heavy industry. We, therefore, inevitably built up strengths in the non-resource sector, centered on clothing, food, and housing, where we have a wealth of expertise.

"Brand-new Deal 2014" (FYE 2014–2015) was subtitled, "Aiming to be the No. 1 Trading Company in the Non-Resource Sector." Under it, ITOCHU did, in fact, become the No. 1 general trading company in the non-resource sector. We attribute this success to our efforts to enhance the returns from major investments completed, improve the profitability of existing businesses, and revise investment criteria directing slightly lower than 80% of new investment to the non-resource sector. Following that, we continued to accumulate strengths in the non-resource sector and strengthen an earnings base that is diversified across many fields and more resilient to economic volatility, thereby enabling the stable generation of cash flows.



Core Profit in the Non-Resource Sector

¥574.5 billion
(FYE 2023)

Although the shape of our business has significantly changed from its foundation, expanding from linen trading to the development of a value chain that includes SDGs-related businesses, the Company's main focus remains on the non-resource sector.

Expanding Business into China

1972

In 1972, then-President Masakazu Echigo headed a mission to China and attempted to make an early start at cultivating the Chinese market. This led to our current business results and relationships of trust.



Accumulated Strength

Experience and Track Record in China and Other Parts of Asia

Laying a Strategic Foundation for the Future in Markets in China and Other Parts of Asia

ITOCHU was the first major general trading company to be accepted to restart trading between Japan and China. This early success in building a bridgehead in China has led to our current strength of "experience and track record in China and other parts of Asia."

Under "Brand-new Deal 2017" (FYE 2016–2018), we sought to enhance corporate value sustainably from a longer-term perspective. We worked with the CP Group to make a joint investment in CITIC, the largest investment in ITOCHU's history (approximately ¥600.0 billion), and placed a major strategic steppingstone in the world's largest consumer markets of China and other parts of Asia. CITIC is the largest Chinese state-owned conglomerate, and the CP Group is the largest conglomerate in Thailand, which has built up various businesses across China. Working with these two reputable partners, we strive to develop businesses which will lead to improving the earning power in our strong non-resource sector.



Accumulated Strength

Individual Capabilities

► Page 30 Special Feature 1: Human Resource Strategy to Enhance Corporate Value

Strengthening Our Foundation to Harness Individual Capabilities

Since its founding, ITOCHU did not maintain freestanding stores, but instead cultivated a spirit of creating businesses on its own. Based on this DNA and our core focus on the non-resource sector, which consists of small businesses and a large number of customers, we have cultivated "individual capabilities." The ability of individuals, who are also referred to as "brave warriors," to create business through their own discretion on the front lines is characteristic of the Company and the driving force behind its sustainable value creation.

Under "Brand-new Deal 2012" (FYE 2012–2013), we established our business fundamentals as the strengthening of front-line capabilities and the "earn, cut, prevent" principles, then implemented various internal reforms to draw forth our latent individual capabilities. We subsequently enhanced initiatives for work-style reforms, including the introduction of the Morning-Focused Working System in FYE 2014. As a result, we achieve high labor productivity based on a small organization comprising select individuals. In fact, ITOCHU has the lowest number of employees on a non-consolidated basis among Japan's general trading companies.



Photo courtesy of Archival Museum for the Faculty of Economics at Shiga University

Consolidated Net Profit per Employee (Non-Consolidated)

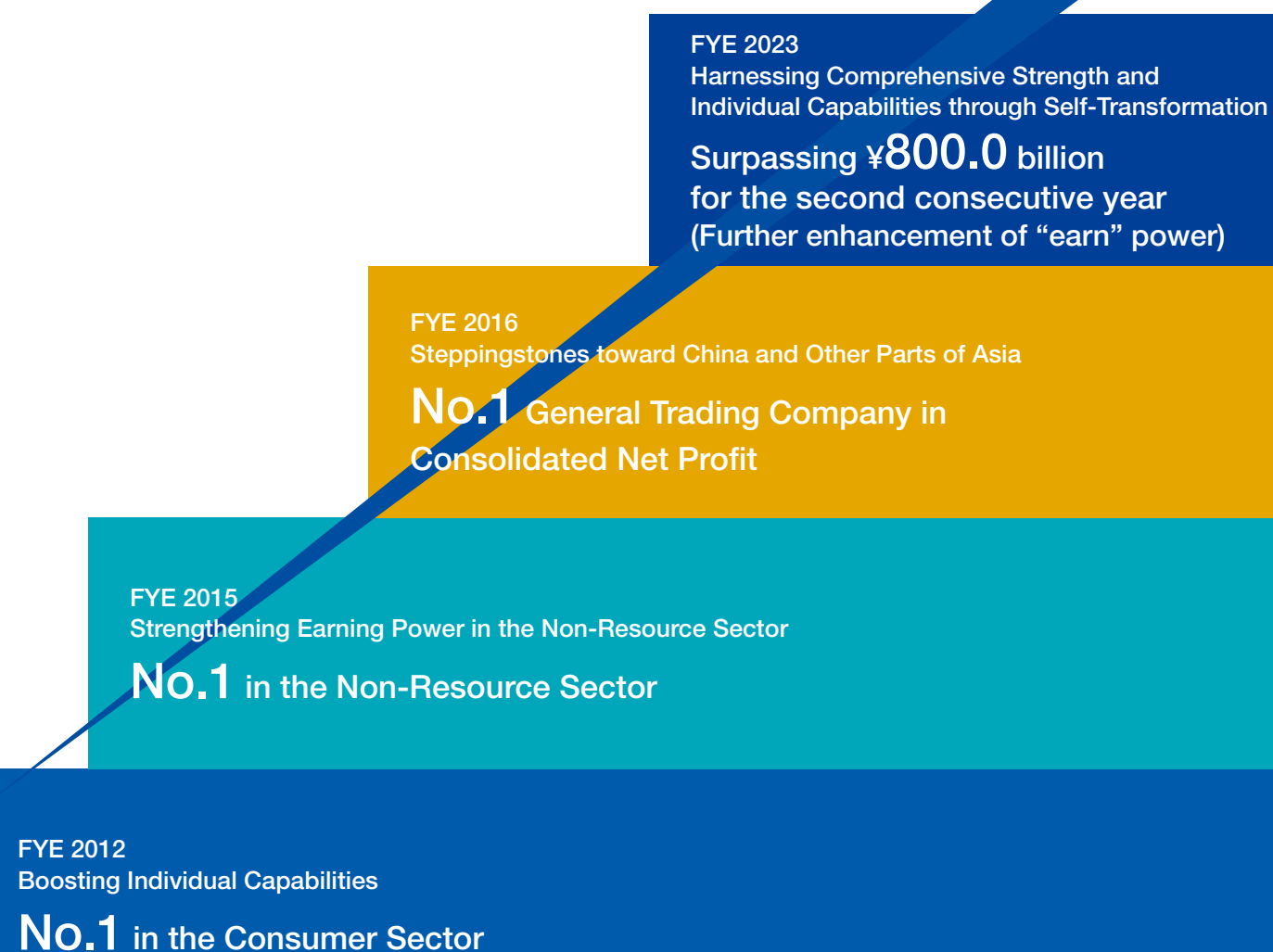
¥0.19 billion
(FYE 2023)

From the Company's founding, merchants developed business by balancing their wares on shoulder poles as they traveled on foot to distant locales.

This DNA has been steadily passed down through the eras until the present as "individual capabilities."

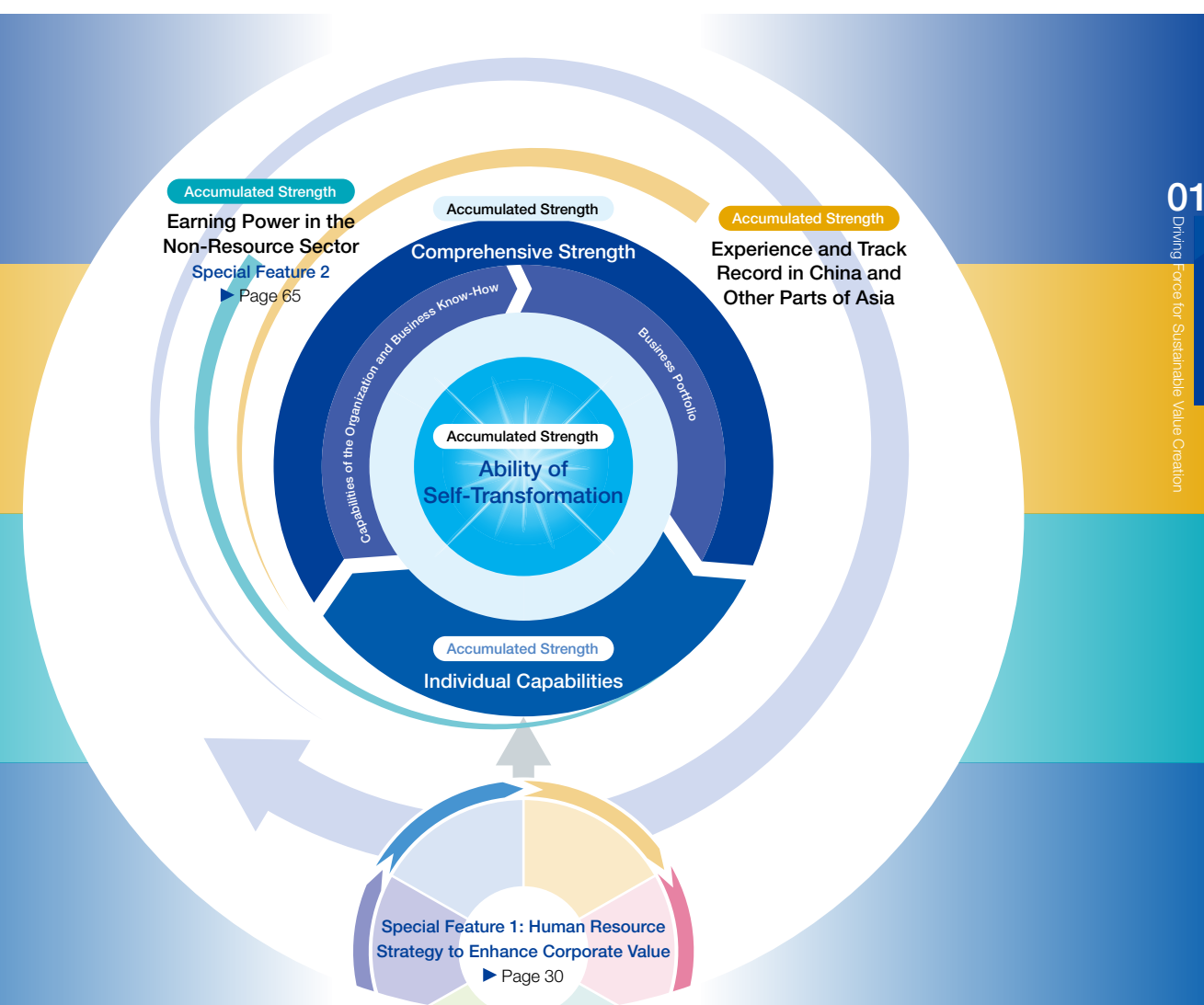


Unwaveringly Continuing Build Up Strengths



Virtuous Cycle That Increases the Sustainability of Strengths

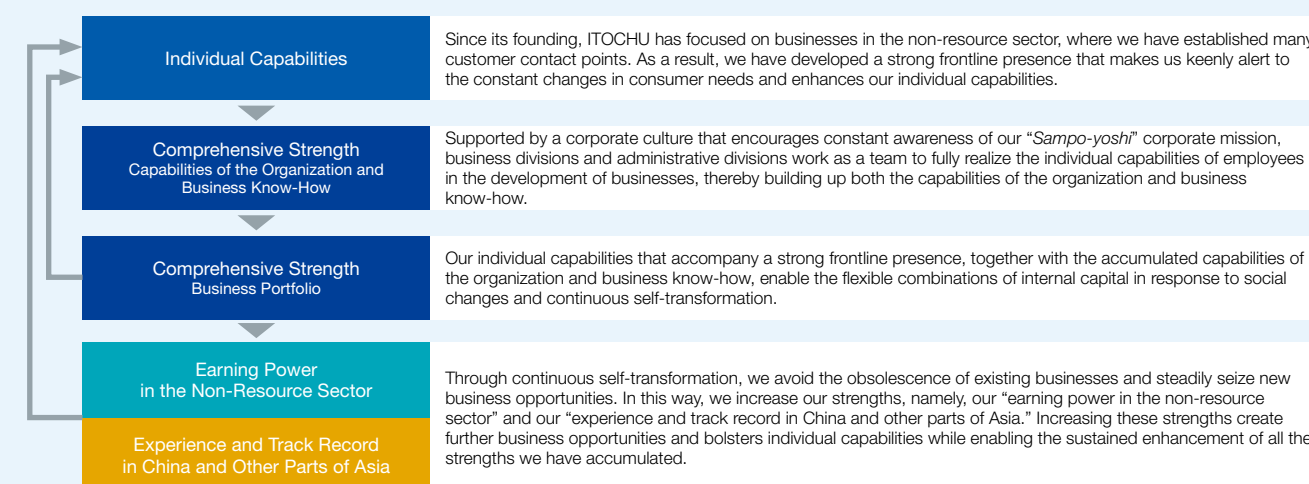
Overcoming numerous adversities during a history spanning more than 160 years, we have built up four strengths, which have become more sustainable by interacting with each other while growing together as part of a virtuous cycle. Going forward, we will augment these four strengths even further and sustainably enhance corporate value through continuous self-transformation in step with the emerging trends and currents in society.



■ Toward Establishment of a Robust Earnings Base

In FYE 2023, we achieved consolidated net profit of more than ¥800.0 billion for the second consecutive year by further growing our core profit in the non-resource sector through augmentation of existing strengths and the steady stepping up of our performance.

Currently, while COVID-19 pandemic-related restrictions were lifted in Japan, the business environment is becoming increasingly unpredictable due to the continuation of a mix of multiple causes for uncertainty, including geopolitical risks, such as the unresolved Russia–Ukraine situation, concerns about an economic slowdown due to persistently high interest rate levels and further inflation, which are centered on North America and Europe, and foreign exchange rate volatility. Responding flexibly to changes in this business environment by utilizing our accumulated four strengths as the driving forces, we will both envision the next profit stage to the consolidated net profit at the ¥800.0 billion level and seek further dramatic advances by rigorously applying the “earn, cut, prevent” principles again that serve as our business fundamentals and by building a robust earnings base through steadily laying the steppingstones.



* For an explanation of the importance of the internal capital that contains our strengths, please see ▶ Page 20 Accumulation of Non-Financial Capital

Special Feature 1 Human Resource Strategy to Enhance Corporate Value

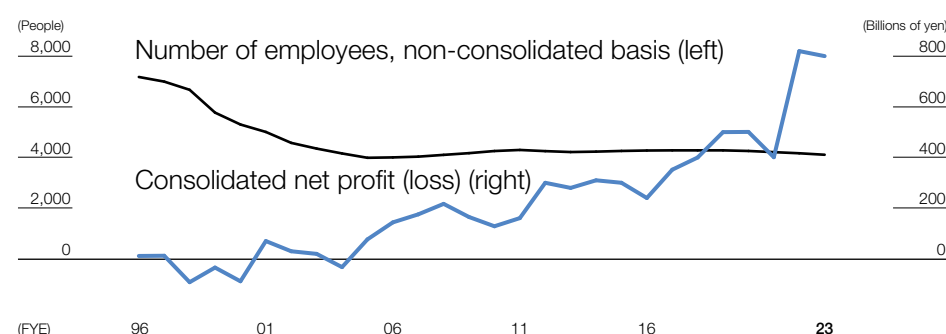
■ Develop a Rewarding Work Environment

Having clearly identified human resource strategy as a key component of its management strategy, ITOCHU's management team is committed to creating a company that is challenging but rewarding to work for, where meeting the demands of work is not only challenging but also rewarding in many different ways.

ITOCHU disclosed detailed content of its suite of unique work-style reforms, which began from 2010, to pique the interest of society and meet its expectations. We try to connect this action to the benefit of society as described in the Company's corporate mission of "Sampo-yoshi."

As well as improving employee motivation and labor productivity, our successful creation of a frontline-focused rewarding workplace environment in which every employees can fully realize their capabilities, while strengthening our front-line capabilities, is creating a virtuous cycle that results in a favorable external reputation enabling us to recruit outstanding human resources.

Enhance Corporate Value through Improved Labor Productivity



Improving Employees' Motivation and Willingness to Contribute



Recruiting Outstanding Human Resources

Enhancing corporate brand and the value of human resources

The number of non-consolidated employees at ITOCHU is the lowest among Japan's general trading companies, and the Company will, as a policy, remain a small select organization of capable individuals. To rack up even more successful accomplishments with a small number of non-consolidated employees, we are focusing our recruitment activities on securing excellent human resources who embrace the corporate mission of "Sampo-yoshi."

In recent years, ITOCHU has clinched the top spots in company rankings among jobseekers, which is proof that students regard ITOCHU as a sustainable company worthy of entrusting their own lives to.

Company ranking among jobseekers according to seven major institutions*

"All Industries" - two consecutive years - No.1 (from four institutions)	"General Trading Companies" - four consecutive years - No.1 (from seven institutions)
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* From 2024 graduates, the Company ranked No.1 among all industries in the survey of four institutions; the Asahi Shimbun, the Yomiuri Shimbun / Toyo Keizai, the Sankei Shimbun, and Shukan Diamond, and ranked No.1 among general trading companies in the survey of four institutions mentioned above as well as seven institutions including the Nippon Keizai Shimbun, Nikkei Business (Rakuten), and Nikkei Business (DISCO).



Evolving Work Styles

Pursuing efficiency through Morning-Focused Working System, etc.

The first measure for our unique work-style reforms was to establish "I-Kids," which is a childcare center for employees, in January 2010. At the time, there were such social problems as rising numbers of children on waiting lists due to a shortage of certified daycare facilities. We decided to open "I-Kids" next to our Tokyo Headquarters, with the aim of removing barriers to continued employment and bolstering employee motivation to keep working after childbirth. After then-President Okafuji became president in April 2010, a suite of work-style reforms was begun in full gear.

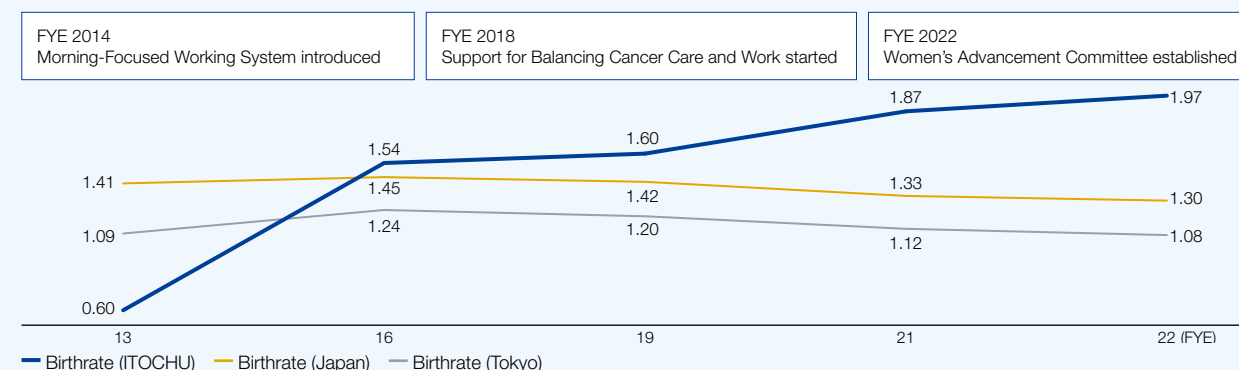
Following the Great East Japan Earthquake in 2011, we also decided to return to work styles focused on the front lines where we would be close to customers, and so we abolished the flextime system. Then, in FYE 2014, we introduced the Morning-Focused Working System. We prohibited overtime work past 8:00 p.m., in principle, and if people had to work overtime, we encouraged them to instead do so early the next morning between 5:00 a.m. and 8:00 a.m. By coming in early, they have enough time to prepare for sales consultations with customers and can work more effectively. We urged employees to change their behavior by providing employees who begin work

before 8:00 a.m. with a higher wage rate and free breakfast, as an incentive. In the ensuing decade, the Morning-Focused Working System has become entrenched in the Company. This has not only changed employee mindsets regarding time but also supported the activities of employees who have restrictions on their work hours due to childcare, nursing care, illnesses, or other factors. The system has also helped enhance employee job satisfaction in part by creating time to spend with family and for self-improvement.

Recently, the declining birthrate is becoming a major social issue in entire Japan. Since ITOCHU introduced the Morning-Focused Working System, the birthrate for female employees has risen. In FYE 2022, the rate was 1.97, compared with a national figure of 1.30* and 1.08* in Tokyo. We consider this a major accomplishment of our suite of work-style reforms, especially the Morning-Focused Working System. We will continue striving to further enhance labor productivity through the evolution of work styles in line with the diverse values of employees.

* Total annual fertility rate for 2021 in demographic statistics released by the Ministry of Health, Labour and Welfare

Trend in Birthrates





Enhancing Health

Developing an environment where employees can continue working with peace of mind

We consider enhancing health the foundation of strengthening personnel capabilities to achieve the Guideline of Conduct: "I am One with Infinite Missions." Accordingly, we have formulated the ITOCHU Health Charter and promoted many measures related to health and safety, such as Support Measures for Balancing Cancer Care and Work. This measure was introduced in FYE 2018 in an effort to create an environment where employees can work with peace of mind. They include regular special screenings conducted in cooperation with the National Cancer Center Research Institute, support for educational costs to graduate school in the event that there are bereaved children, and work support within the Group for bereaved children and spouses.

Moreover, the cancer incidence rate is higher for women in their working years. Therefore, we are promoting Support for Balancing Cancer Care and Work, which are also expected to support the advancement of women. To establish a work environment where women can actively work over the long term, we encourage

female employees under 34 years old to get cervical cancer tests. These are typically compulsory for women 35 years and older at ITOCHU, but we have been providing a subsidy to cover the test fees since FYE 2021. In FYE 2023, we established a help desk where employees can anonymously consult with external midwives hired by ITOCHU on matters related to women-specific health concerns, as well as issues of balancing work and life.

In recognition of these steadfast efforts, we garnered high praise from society. For example, we received the medical exam category award for FYE 2023, from the Ministry of Health, Labour and Welfare's Cancer Countermeasure Promotion Company Action program, and ITOCHU was selected as a Health & Productivity Management Outstanding Organization (White 500) for the seventh consecutive year since FYE 2017. Going forward, we will continue to prioritize the health of every employee and realize a work environment where employees can work with peace of mind.

Women's Advancement

In October 2021, to further accelerate women's advancement, we established the Women's Advancement Committee as an advisory committee for the Board of Directors. The committee was chaired by Atsuko Muraki*, who was at the time an Outside Director, and half of its members are outside officers. In addition to investigating various measures the Company has taken to date, the committee hears the opinions of employees and the front lines. It also holds regular deliberations on necessary countermeasures, as well as the future direction for policies on accelerating training for managerial promotions and evolving toward flexible workstyles.

Going forward, after meticulously assessing the situation of every female employee, we will continue to steadily encourage female employees as we work to perpetuate the cycle of collaboration with the front lines, discussions at the Women's Advancement Committee, and reporting to the Board of Directors.



Discussion at the Women's Advancement Committee

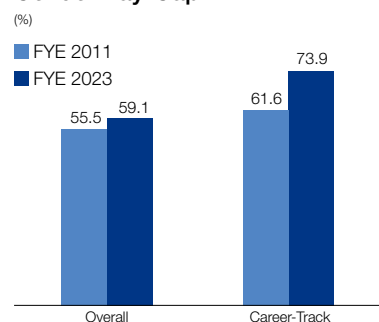
* Atsuko Muraki, former Outside Director of the Company, provides advice on the business management of the Company in her capacity as a member of the Advisory Board, enabling her extensive experience and expertise to be utilized in the business management of the Company.

Gender Pay-Gap

Nearly 80% of career-track female employees, who are assigned core roles of ITOCHU, are still in their 20s and 30s. While the primary factor behind the gender pay-gap is the low percentage of women in managerial positions. There is, however, no gender pay-gap for the same position and duties under the Company's human resource system.

ITOCHU set quantitative targets for the total number of career-track women recruited in the early 2000s. While we succeeded with certain hiring targets, we failed to establish a receptive environment on the front lines, which led to attrition. In light of this situation, we consider it necessary to establish a work environment, rooted in the front lines, that enables career-track women to work actively over the long term. Since 2010, we have promoted a suite of work-style reforms. At present, we are steadily advancing promotions. Career-track female employees who joined the Company since the late 2000s, when recruitment numbers expanded, have built up their careers and they are successfully cultivated. The appointment of female employees to manager positions has been promoted, and for example, a female president was appointed to overseas office in April 2023.

Gender Pay-Gap



Supporting Employee-Led Career Development

Creating growth opportunities based on each individual's aptitudes

ITOCHU provides each employee with opportunities for self-directed study and challenging experiences, and promotes Groupwide career-building support and personnel development suited to diverse capabilities and characteristics. The Company systematically provides locations for diverse experiences beyond the boundaries of the headquarters, such as dispatches to Group companies and overseas experience by the eighth year of joining the Company. Since FYE 2000, we have positioned training costs as human capital investments for the sustainable enhancement of corporate value and invested around ¥1.0 billion every year. We conduct periodic reviews across the Company to help create more effective personnel training measures. In addition, in support of career

development, we introduced elective online training programs with roughly 9,500 courses that can be taken freely with no limits on time or location. The programs are also provided overseas, not just for employees stationed overseas, and are utilized every year by around 1,000 employees of overseas offices and branches. In addition, we expanded the Challenge Career System (in-house recruitment system), which enables employees to transfer between organizations, and introduced the Virtual Office (in-house dual jobs system) as a platform for cross-organization collaboration.

Strengthening of its Femtech Initiatives with Virtual Office

<https://www.itochu.co.jp/en/news/press/2023/230727.html>



Virtual Office

Cross-organization collaboration platform to promote projects across organizations and accelerate the creation of new businesses



In line with the decisions of employees who are highly passionate about projects



Connecting organizations virtually beyond the barriers of departments



Effectively promoting projects in the short term while mutually sharing know-how



Providing Evaluation and Compensation Commensurate with Results

Promoting growth by increasing feedback and level of understanding

ITOCHU introduced a salary structure highly linked to the Company's performance. In line with the steady expansion of the Company's results, average yearly income was ¥17.30 million in FYE 2023, firmly in the top level in Japan. From FYE 2025, to increase employee motivation and competitiveness for recruitment, we will focus on personnel evaluations and rewards based on achievement by revising personnel system.

In addition, from FYE 2014, we introduced the excellent employee award system to honor employees who have made notable quantitative and qualitative contributions.

In FYE 2021, we introduced the Infinite Missions Award to honor teams who have made major accomplishments or promoted SDGs initiatives and businesses based on a market-oriented perspective. We have also introduced systems that help enhance the job satisfaction of Group employees, such as the Excellent CEO Club, to honor the presidents of the Group companies who demonstrate excellent management skills, and the "Group Companies Management Awards Program (▶ Page 61)" for the Group companies that helped enhance corporate value of the Group.



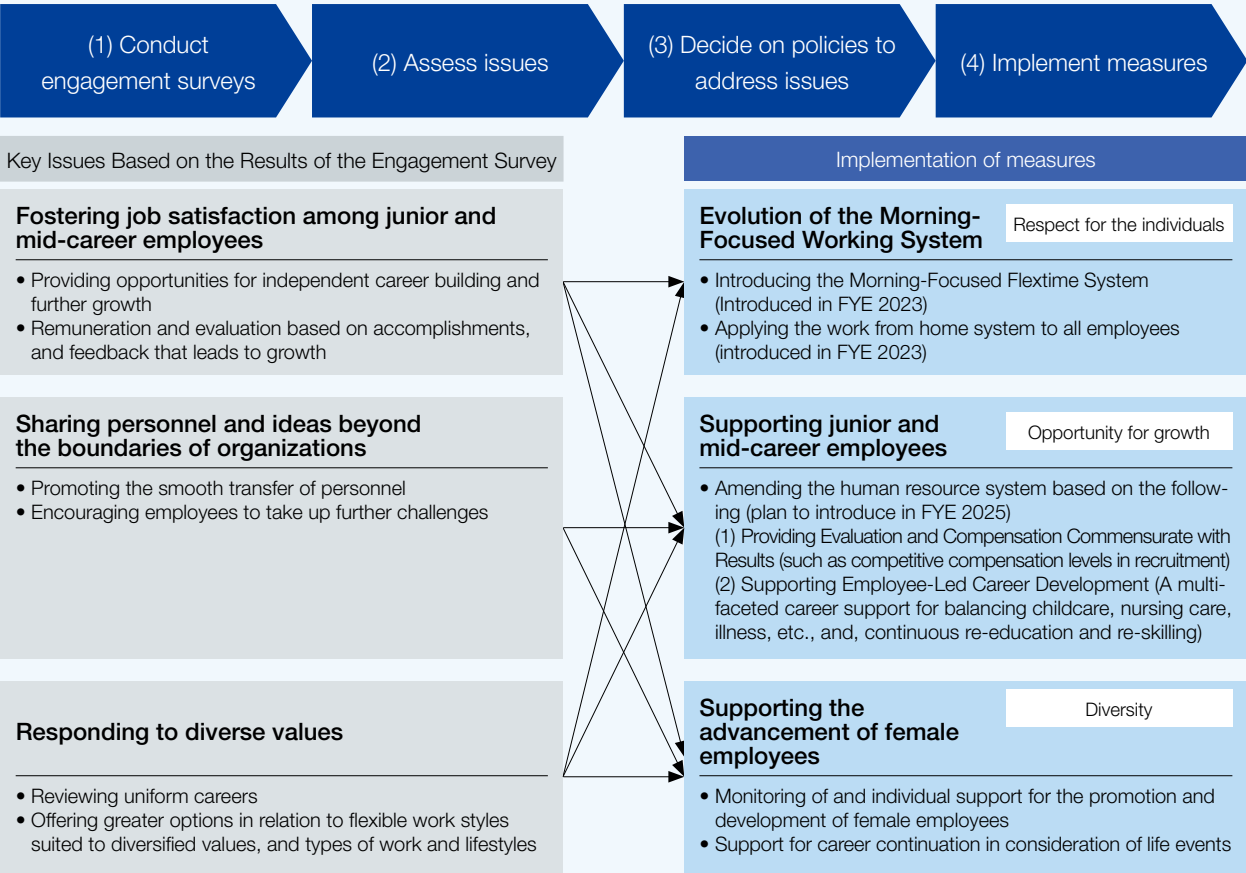
Increasing Awareness of Participation in Management

Utilizing the Employee Shareholding Association to enable medium- to long-term asset formation

To raise awareness of participation in management among employees, we provide financial incentives for owning ITOCHU stock through the Employee Shareholding Association. Since FYE 2020, we have provided special financial incentives through this mechanism when the Company's results exceed a certain threshold as ITOCHU introduced a stock compensation scheme that provides a commensurate amount of shares. Through these

measures, the participation rate is almost 100%, at the high level rarely seen in Japan. This supports the asset formation of our employees, and successfully links the Company's performance with their own personal assets, ensuring employees stay attuned to changes in share price and management. In this way, individual employees and the Company will work in unison in an ongoing effort to enhance corporate value going forward.

PDCA Cycle for Promoting Human Resource Strategy





Ken Shibusawa

CEO, Shibusawa and Company, Inc.

After gaining extensive market experience at foreign financial institutions and hedge funds over many years, Ken Shibusawa set out on his own in 2001 to found Shibusawa and Company, Inc., where he assumed the role of CEO. In 2007, he founded Commons, Inc., which was subsequently renamed Commons Asset Management, Inc. in 2008, and took on the position of Chair. In January 2023, he founded &Capital Inc., where he currently is Representative Director & CEO. Furthermore, he is active in a wide variety of roles, including his positions as member of various government panels such as the Council of New Form of Capitalism Realization. He is also the great-great-grandson of Eiichi Shibusawa, who is widely known as “the father of Japanese capitalism.”

Fumihiko Kobayashi

Member of the Board,
Executive Vice President, CAO*

* Chief Administrative Officer

CAO
DIALOGUE

“*RONGO (Ethics) and SOROBAN (Economy)*” and “*Sampo-yoshi*”

Mr. Ken Shibusawa and CAO Kobayashi talked about visualizing the “non-visible value” of companies and the way sustainability runs through the past, present, and future.

A Sense of Mission Shared by Entrepreneurs Who Lived in the Same Era

Kobayashi:

ITOCHU is proud of our 165 year history of sustained operations since our founding in 1858, when Chubei Itoh I commenced linen trading operations. Counting from when he opened the first store called “Benchu” in Osaka’s Honmachi area in 1872, 2022 marked the 150th anniversary of our Company. Notably, that was also around the same time that Eiichi Shibusawa, regarded as “the father of Japanese capitalism,” resigned from the Ministry of Finance, entered the business world, and launched his own business. Shibusawa’s book, “*RONGO (Ethics) and SOROBAN (Economy)*,” details a management philosophy that explains how businesses are destined to fail if the balance between profits and morality is

not achieved. Chubei Itoh I also adhered to the philosophy that trade is a “compassionate business,” and that a business will fail if it does not equally benefit the seller, the buyer, and society—also commonly known in Japan as the philosophy called “*Sampo-yoshi*.” I think these two men had a lot in common regarding their business policies and philosophies.

Shibusawa:

Yes, indeed. Firstly, the Shibusawas were originally farmers of indigo and silkworms, so they were involved in the textile business and shared that in common with the Itohs. As Japan’s modernization progressed amid the drastic changes of the era, both men broadened their perspectives beyond their family businesses to embrace a common sense of duty to help enrich the world through business. I also believe that they worried about society’s divergence away from the “*bushido*” philosophy and

morality, and embracing a philosophy focused solely on putting profits first.

Kobayashi:

Turning now to the modern era, Japanese companies have been adopting concepts and systems based on European and American shareholder capitalism. To date, they mainly undertake management with maximizing shareholder returns as its mission. Now, however, in line with the idea that the pursuit of shareholder profit alone cannot guarantee the sustainability of companies, “stakeholder capitalism” is being increasingly emphasized, starting with Europe and the United States. This revives the spirit and sense of mission that our two founding fathers held close to their hearts, and their mission of enriching the world through business. With a universality transcending both eras and borders, their vision is making a comeback.

Shibusawa:

To avoid simply replicating superficial imitations of European and American concepts, and also to uphold our own traditional Japanese spirit, Eiichi Shibusawa professed that we should value not just the “How,” but also the “Why.” Companies will not exist in perpetuity if they only have good management processes and methods. I believe that the “power of human” is the source of a company’s sustainability. ITOCHU has now grown to become a huge company, despite its humble beginnings as a small start-up when it was founded. Over the long course of over 160 years since its founding, I believe ITOCHU has been able to sustain its operations by maintaining a trailblazing spirit throughout each new era, and also by endeavoring to meet the diverse and changing needs.

Sustainability Unique to General Trading Companies

Kobayashi:

In the pursuit of progress with our sustainability going forward, we remain well aware of the need to avoid merely continuing to do the same things as in the past in order to ensure the sustainability of our Company. I would be very grateful if you could offer your advice and guidance related to ITOCHU’s vision and the direction in which our Company should head.

Shibusawa:

When we talk about sustainability, companies and stakeholders need a “common language.” General trading companies operate a wide range of businesses across diverse industries, with varying positions in the business flow process ranging from upstream to downstream. Also, the businesses of trading companies are intricately woven into people’s day-to-day lives. Consequently, there has been an organic increase in the external demands and expectations which general trading companies need to consider.

Accordingly, there are many sustainability issues that need to be addressed, and I am sure ITOCHU receives various guidance on them. But I think what ITOCHU needs to avoid is just passively responding to this multitude of issues. Instead, ITOCHU should proactively advocate its core philosophies that have enabled it to establish a strong track record of sustainability reflected in its over 160 years of operations. For example, the differing positions on and status of GHG emissions reductions in each country make it a difficult course to navigate. And while developed countries aim to withdraw from fossil fuel burning activities, emerging and developing countries will still need coal and other inexpensive sources of fuel for their ongoing development. I think it is somewhat unrealistic to expect these countries to avoid the use of any fossil fuels, but I expect ITOCHU to work on resolving issues in various countries by providing new technologies and solutions cultivated from its involvement in a diverse range of businesses.

Kobayashi:

In accordance with our medium-term management plan, ITOCHU has laid out “Enhancing our contribution to and engagement with the SDGs through business activities” as one of our basic policies. Our Company was the only one among the general trading companies to have disclosed information on GHG emissions from all of its related fossil fuel businesses and interests. Moreover, we formulated targets that newly include the concept of “offsets” in the context of GHG emissions reduction. By FYE 2022, we sold three of four thermal coal interests that we held in FYE 2019 as part of our efforts to reduce GHG emissions from fossil fuel businesses and interests. Our Company aims to achieve the Japanese Government’s “2050 Carbon Neutral” goal 10 years ahead of schedule, in 2040, by leveraging business expansion in areas such as renewable energy to help offset and reduce our Company’s own GHG emissions. However, I feel that Scope3 emissions disclosure poses a major challenge for ITOCHU because it operates businesses with a huge number of companies across supply chains in a wide range of business fields. (▶ Page 78 Approach to Climate Change and Related Initiatives)

Shibusawa:

This appears to be an issue that is unique to general trading companies. When I have conversations with overseas experts, it is assumed to disclose estimates; however, people in Japan worry about how accurately they can disclose GHG emissions from the upstream to the downstream. The criteria for Scope3 emissions disclosure is still being discussed overseas as well, so for example by conducting flexible initiatives such as proactively identifying the range of Scope3 emissions to be disclosed based on the characteristics of its businesses and demonstrating the relationship with financial information, I think ITOCHU could become a leading model for companies facing similar issues.

CAO Dialogue

Kobayashi:

Thank you for your sound advice. We have spent considerable time discussing our mission of “achieving the SDGs,” including decarbonization, and consider this a crucial social responsibility in which we need to not only deal with immediate issues but also educate and raise awareness among the next generation. In keeping with this responsibility, we established the ITOCHU SDGs STUDIO next to our Tokyo Headquarters as a base to disseminate information about the SDGs. The studio also features a facility where children can learn through play about SDGs concepts and their connections to society. We are happy to be able to report that many people are making use of this facility. (▶ Page 76 New Facilities Opened at the ITOCHU SDGs STUDIO)

Shibusawa:

To contribute to the sustainability of society, educating children, who will be responsible for determining the future, is an important mission for companies.

Human Capital as a Source of “Non-Visible Value”

Kobayashi:

From FYE 2023, it has become mandatory to disclose more extensive human capital-related disclosure in annual securities reports, but at the same time freedom over voluntary disclosure has also increased in certain aspects. ITOCHU's score on the engagement survey conducted in FYE 2022 was high compared to the average Japanese company, but was slightly lower than our score recorded in FYE 2019. In particular, scores of junior employees have been on a downward trend, and our analysis has found certain key issues such as the desire for more flexible work styles, adverse effects of vertical organizational silos, and limitations of existing educational and training programs that require special attention. We disclose the results of our analysis both internally and externally, and we need to develop specific countermeasures to help resolve these key issues. Consequently, we sought first to realize more flexible work styles. In full consideration of the front lines of our work where we interact with our customers, we introduced the Morning-Focused Flextime System, which combines the flextime system with ITOCHU's hallmark Morning-Focused Working System. We also expanded the work from home system to all employees. With regards to the issue of vertical organizational silos, which seems to be a common characteristic of all general trading companies, we are working to steadily eliminate these silos by introducing systems where employees can transfer more flexibly between Division Companies, as well as implementing the new Virtual Office system, which enables employees to hold dual jobs within ITOCHU. Frankly, we were unsure if we should disclose the issues identified in the engagement survey. However, by also disclosing our suite of



countermeasures and clearly showing ITOCHU's commitment to making improvements, we were able to garner acclaim from outside our Company as well as from our employees. In addition, the Company has set labor productivity as an indicator to measure the effectiveness of our human resource investments. And because ITOCHU has fewer employees compared to our competitors, we need to increase the labor productivity of each of our employees, whom collectively comprise our greatest management resource, in order to continue to enhance our corporate value. To this end, we have taken a variety of measures, such as reducing the number of meetings and documents to improve productivity and introducing our Morning-Focused Working System to enhance efficiency. Consequently, labor productivity in FYE 2023 improved by approximately five times when compared with FYE 2011.

Shibusawa:

Five times is astounding! Corporate disclosure can be an effective tool for a dialogue to communicate policies, directions, and other important information to stakeholders. As an investor, we are interested not in what a company is accomplishing today, but rather where it is heading and what challenges the company is taking on, especially demonstrated quantitatively, to become able to do what it cannot do today. Showing ambition toward achieving its goals, together with a concrete roadmap will be a favorable tool for future corporate value creation. I think there is a limit to the “Showa-style” employment structure of lifetime employment, seniority-based promotions, and mass hiring of new graduates. While large companies tend to focus on lowering their voluntary resignation rate, I do not think that is always the right mentality. The “New Form of Capitalism” announced by the current Japanese Government cites the objective of smoothing mobility in the labor market. I believe Japan's labor market can grow significantly by realizing conditions that allow personnel to seamlessly transfer between companies. For example, a virtuous cycle could be created where ITOCHU's corporate value increases further when employees bearing ITOCHU's DNA leave the Company and then either return to the Company later with new skills and knowledge acquired from their time spent outside, or even if they do not return to the Company they instead directly contribute to society using their skills and knowledge acquired as an ITOCHU alumnus. Based on this train of thought, I believe it would be interesting for ITOCHU to establish an indicator using not just the employee

resignation rate, but also the re-employment rate. Japanese companies still lack diversity in terms of gender, nationality, and seniority. Many companies are increasing the number of female outside directors, but because ITOCHU has a large number of excellent and talented personnel in-house, the Company should also increase the number of females assigned to executive officer-level positions.

Kobayashi:

As you suggest, using the re-employment rate as an indicator seems to be a novel approach. As you also pointed out, ITOCHU considers the promotion of women's advancement as an important management priority. In FYE 2022, the Company established the Women's Advancement Committee as an advisory committee to the Board of Directors, and it has begun full-scale efforts to develop measures to promote women. However, the majority of career-track female employees are still in their 20s and 30s, which is a little inexperienced to become a manager and not something that can be easily remedied. We are not just setting quantitative targets, but are also steadily promoting measures to support the advancement of women while listening to the opinions of our female employees. Because we enable employees to tap into their full potential, health management is the most important concern for our Company. We established the ITOCHU Health Charter in FYE 2017 and have fostered an environment where employees can work with peace of mind. With regards to our operations related to employee health, we employ a total of around 50 medical professionals, including three full-time doctors. Thanks to this internalized medical function, we provided comprehensive support day and night, 365 days a year during the pandemic, and were able to prevent the outbreak of any cluster infections in the office or severe cases. And in recognition of our medical staffs' efforts throughout the pandemic, we presented special employee awards to the medical personnel just the other day.

Shibusawa:

As you said, I think employees can only create value when they are first able to work without any concerns for their health. Personnel costs, benefits, and other similar expenses can be considered a long-term investment. And yet under current financial accounting, they are ultimately recognized as costs, and positioned as factors that reduce corporate value. Thinking about it another



way, the value of people is not quantifiable financially; they have “non-visible value” and can be considered as an expected value that can be realized in the future. Looking at it from a capital markets perspective, a price-to-book ratio (PBR) of 1 time indicates a state where “visible value = market expectations,” completely absent of any “non-visible value.” The point where PBR exceeds 1 time marks the point at which “non-visible value = people” first appears in this valuation indicator, and reflects future growth expectations. ITOCHU has focused on human capital from early on and has achieved the highest PBR of all the general trading companies. I think this shows how there is a positive correlation between human capital and PBR.

Kobayashi:

Thank you. I am extremely glad that ITOCHU's “non-visible value” is being lauded by the market.

Promoting “Sampo-yoshi” around the World and into the Future

Shibusawa:

Let's expand our perspective to include the world of investment, and also consider the “New Form of Capitalism” philosophy put forth by the Japanese Government. In addition to the two conventional dimensions of “risk” and “return,” we will continue incorporating the concept of “impact investing” to visualize a third dimension of positive and negative impacts on the environment and society from the perspective of corporate management. ITOCHU's “Sampo-yoshi” corporate mission is not just about doing “good,” and interesting if you could figure out a way to measure the “good” done. Although I think the value as a seller can be visualized to some extent, if it is somehow possible to visualize the impact of the value to the buyers and society, then it would also be possible to show the impact to society. And this could become a “common language” unlike any other in the world.

Kobayashi:

When vaccines were being provided at workplaces during the COVID-19 pandemic, ITOCHU continually disclosed daily reports of its own vaccination program so that other vaccination centers might benefit from this information. Our Company also discloses all content related to our many unique initiatives and human resource measures. These activities have had a major impact in some cases on a wide segment of Japanese society, and may be referred to as ITOCHU's unique “impact.” Just as I have received many clues through today's dialogue with you, I have found a renewed awareness of our ability to enrich the world through our businesses. And we will remain committed to practicing our unwavering philosophy of “Sampo-yoshi” and strive to further enhance ITOCHU's sustainability. Thank you for your time today.