02

Achievement of Short-Term Targets

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

$$\text{Corporate Value} = \frac{\text{Created Value}}{\text{Cost of Capital} - \text{Growth Rate}}$$

Section Highlights

- Trajectory of Steady Corporate Value Enhancement through the Strategies of "Brand-new Deal" Management Plans
- FYE 2023 Business Results: Achievement of Consolidated Net Profit Exceeding ¥800.0 Billion for the Second Consecutive Year
- FYE 2024 Management Plan, Which Covers the Final Fiscal Year of the Medium-Term Management Plan "Brand-new Deal 2023," and Our Strategies to Achieve the Plan While Dealing with Business Risks and Other Risks

Contents

Hiroyuki Naka
Member of the Board,
Executive Officer,
CSO;
General Manager, Group CEO Office

CSO INTERVIEW

We view changes in the business environment as opportunities to utilize our strategy of both "offense" and "defense" to maximize expected value of our stakeholders.

Please explain the current business environment surrounding ITOCHU and the initial plan for FYE 2024.

Although we are in a period of a highly uncertain and unpredictable business environment, our plan reflects ITOCHU's stable earnings foundation that is highly resilient to economic volatility.

Looking back on the business environment over the last few years, the COVID-19 pandemic caused chaos in the global economy, and the situation has remained extremely uncertain and unpredictable due to the prolonged Russian invasion of Ukraine. This has been accompanied by breakdowns in supply chains and soaring prices of resources. High raw material costs that were spurred by these soaring resource prices have led to inflation, and in turn interest rate hikes to curb inflation have brought about dramatic yen depreciation, creating a situation where multiple variables have compounded each other. In addition, real GDP growth was negative in 2020 during the COVID-19 pandemic, but made a huge rebound in 2021. Furthermore, developed, emerging, and developing countries maintained a decent level of growth in 2022 as well. In April, just before ITOCHU announced the FYE 2024 Management Plan, the International Monetary Fund (IMF) predicted that economic recovery will be polarized in 2023 among developed countries, especially with the United States and the Eurozone expected to experience significant deceleration, while emerging and developing countries, especially China and India, are expected to see solid economic recoveries. (▶ Page 74 PEST Analysis (Macroenvironmental Factors through 2030))

The outlook for the Japanese economy is expected to gradually strengthen in 2023. In addition to full-scale "revenge spending" expected to follow the lifting of COVID-19 pandemic-related restrictions, there will also be positive effects from robust inbound travel demand, the continuation of monetary easing measures that will support corporate funding and capital expenditure expansion, rising wages, and the inflation control measures of the government.

Amid this business environment, the initial plan for FYE 2024 is based on conservative assumptions for the gradual normalization of resource prices and foreign exchange rates. The plan also incorporates profit growth in the non-resource sector, which is our Company's strength, and a certain level of returns from growth investments. Our initial plan for core profit, which demonstrates our Company's ability to generate profits, is ¥800.0 billion, and if achieved will be a record high for the third consecutive year. Consolidated net profit in the initial plan is ¥780.0 billion, net of extraordinary gains of ¥30.0 billion, a loss buffer of ¥50.0 billion, which is more conservative than usual, and core profit. Amid the gradual stabilization of resource prices, the plan is suitable for a profit level of ¥800.0 billion and it indicates that ITOCHU's stable earnings generating capability is highly resilient to economic volatility. (▶ Page 48 FYE 2024 Management Plan)

Our business performance in FYE 2024 is already off to a very strong start given that earnings from our businesses are weighted more heavily toward the second half of the fiscal year. As CSO, I will work to firmly achieve our initial plan and continuously enhance our corporate value from both the financial and non-financial aspects by implementing preemptive strategies and countermeasures, while at the same time continuing to pay close attention to rapid changes in our business environment.

What are the points you consider important when making growth investments, and what are the FYE 2024 forecasts for CITIC's performance?

For growth investments, we endeavor to uphold "the Four Lessons for Investments," and expect CITIC's performance to be stable.

We position FYE 2024 as a year in which we will shift the focus of our growth investments with an eye to the next stage of growth beyond the ¥800.0 billion profit level. ITOCHU's exposure to the non-resource sector is around 80% to 90%, and we expect to maintain this level of exposure going forward. Stakeholders, especially investors, sometimes point out that we should place more focus on the non-resource sector, which is our strength. However, we believe that amid the aforementioned business environment, a decentralized portfolio leads to lower risk for our overall business. Furthermore, we gain valuable insights from directly conducting the resource sector business which we can leverage in our non-resource sector business. I believe our "comprehensive strength" as a general trading company is a factor contributing to our "conglomerate premium."

When making growth investments, ITOCHU endeavors to uphold "the Four Lessons for Investments" that I explained in detail in my interview last year. These lessons are designed to prevent, 1. Overpaying for investments; 2. Investments aimed at seizing profit from investees; 3. Overdependence on and overconfidence in partners; and 4. Lack of hands-on management. In particular, we always take essential steps to prevent overpaying for acquisitions by conducting careful due diligence and analyses of business plans before investing, securing effective exit strategies, and confirming the management structure of target companies. After making the investment, we make sure to avoid taking a blanket approach to all investments, and manage each investment differently. It is very important that those responsible for the investments visit the front lines of these investments themselves and quickly implement measures to resolve issues in accordance with the real time conditions observed on these front lines. (▶ Page 60 The Four Lessons for Investments)

CITIC's performance remained extremely robust, setting record highs for the eighth consecutive year after ITOCHU invested in it in 2015. CITIC and its subsidiary CITIC Bank have made a solid start in FYE 2024 as well. We need to pay attention to factors such as U.S.–China trade friction, the Taiwan situation, downward pressure on the Chinese economy, financial instability originating from the United States, and low share price valuations. However, the Chinese Government maintains its policy of strengthening state-owned enterprises, and we have determined that CITIC's business foundation is robust. Therefore, we expect it to maintain solid performance in FYE 2024 that is similar to that seen in FYE 2023.

Please explain the background behind newly establishing the Group CEO Office.

We were determined to upgrade the organization in order to be able to quickly and accurately respond to changes in the business environment without being bound by existing frameworks.

The Group CEO Office, which was launched in April 2023, is directly supervised by our Chairman & CEO, and is a virtual organization headed by the CSO, myself. Also, the general managers of the Corporate Planning & Administration, Human Resources & General Affairs, and Global Risk Management divisions, as well as the manager of the CRE Department*, concurrently oversee this organization and invite the officers and employees required for each project to participate in this organization. To further strengthen our Group management, the Group CEO Office selects and trains management personnel, drafts plans to appropriately allocate assets, business expenses, and personnel within our Group, and promotes Groupwide rationalization measures. The Group CEO Office is also in charge of strengthening Group engagement through evaluations and awards. Group companies are essential for us to enhance consolidated management, but the presidents of Group companies are typically individuals who have achieved success at ITOCHU, and tend to be senior to ITOCHU's Division Company Presidents, who in some cases used to be their bosses. Therefore, Division Company Presidents sometimes feel hesitant to reach out to the presidents of Group companies, and Group company presidents may also find it difficult to consult with former subordinates. To prevent these kinds of situations, the Group CEO Office maintains a policy to support both ITOCHU's Division Companies and Group companies based on the Chairman & CEO's direct instructions.

Along with this reorganization, we placed The 8th Company, which was established in July 2019, under the supervision of the Group CEO Office. Although there is no change in the role of The 8th Company, the Chairman & CEO will become more directly than ever involved with guiding and supervising Group companies, and will strengthen relationships between Group companies and resolve issues such as conflicts of interest and unequal treatment. The effective functioning of the huge supply chain is very important for the convenience store business, and I will continue to leverage our comprehensive strength as a general trading company by ensuring our Group companies extend further support to FamilyMart, and by allowing the entire Group to move faster in the same direction.

* CRE Department: A dedicated department for the Jingu Gaien District Urban Redevelopment Project relating to our Tokyo Headquarters.

Trajectory of Corporate Value Enhancement

We have steadily developed an enviable track record accompanied by resilience to economic volatility with the strategies of "Brand-new Deal" management plans, which began with "Brand-new Deal 2012." Under the plans, we have always remained aware of the "earn, cut, prevent" principles in conducting business activities and took measures flexibly and promptly to deal with management issues, etc., and rapid changes in the external environment.

Steadily Continuing to Build Up Results

Brand-new Deal 2012

(FYE 2012–2013)

"Earn, Cut, Prevent"

Basic Policies

Strengthen Our Front-Line Capabilities

Proactively Seek New Opportunities

Expand Our Scale of Operations

Market Capitalization at Fiscal Year-End*1

¥1.8 trillion

Results

- Formulated and implemented the "earn, cut, prevent" principles
- Increased earnings through aggressive new investments
- Strengthened management foundations by reinforcing corporate governance

etc.

Steady Achievement of Targets

FYE	Consolidated Net Profit		Accomplished
	Initial Plan	Results	
2013	¥280.0 billion	**¥280.3 billion**	✓
2012	¥240.0 billion	**¥300.5 billion**	✓

Brand-new Deal 2014

(FYE 2014–2015)

"Aiming to be the No. 1 Trading Company in the Non-Resource Sector"

Basic Policies

Boost Profitability

Pursue Balanced Growth

Maintain Financial Discipline and Lean Management

Market Capitalization at Fiscal Year-End*1

¥2.2 trillion

Results

- Solidified position as the No. 1 non-resource trading company
- Commenced strategic business alliance and capital participation with CITIC and CP Group
- Reformed work styles by introducing the Morning-Focused Working System

etc.

Steady Achievement of Targets

FYE	Consolidated Net Profit		Accomplished
	Initial Plan	Results	
2015	¥300.0 billion	**¥300.6 billion**	✓
2014	¥290.0 billion	**¥310.3 billion**	✓

Brand-new Deal 2017

(FYE 2016–2018)

"Challenge"

"Engaging All Employees to Lead a New Era for the *Sogo Shosha*"

"Infinite Missions Transcending Growth"

Basic Policies

Strengthen Our Financial Position

Build Solid Earnings Base to Generate ¥400.0 Billion Level Consolidated Net Profit

Market Capitalization at Fiscal Year-End*1

¥3.4 trillion

Results

- Built an earnings base for consolidated net profit of ¥400.0 billion
- Received Moody's A rating for the first time in roughly 20 years
- Entrenched work-style reforms and increased the Outside Directors' ratio to at least one-third

etc.

Steady Achievement of Targets

FYE	Consolidated Net Profit		Accomplished
	Initial Plan	Results	
2018	¥400.0 billion	**¥400.3 billion**	✓
2017	¥350.0 billion	**¥352.2 billion**	✓
2016	¥330.0 billion	**¥240.4 billion**	

Brand-new Deal 2020

(FYE 2019–2020)

ITOCHU: INFINITE MISSIONS: INNOVATION

"Evolution to Next-Generation Growth Models"

\+

"Medium- to Long-Term Shareholder Returns Policy (October 2018)"

Basic Policies

Reinvention of Business

Smart Management

No. 1 Health Management

Market Capitalization at Fiscal Year-End*1

¥3.6 trillion

Results

- Established a foothold for consolidated net profit of ¥500.0 billion
- Made FamilyMart a consolidated subsidiary and established The 8th Company
- Revised the Group corporate mission

etc.

Steady Achievement of Targets

FYE	Consolidated Net Profit		Accomplished
	Initial Plan	Results	
2020	¥500.0 billion	**¥501.3 billion**	✓
2019	¥450.0 billion	**¥500.5 billion**	✓

FYE 2021 Management Plan

Single-year plan reflecting the COVID-19 pandemic

Basic Policies

Thoroughly instilling the "earn, cut, prevent" principles as the core of our business

Market Capitalization at Fiscal Year-End*1

¥5.7 trillion

Results

- Achieved the "triple crown*2" of general trading companies
- Privatized FamilyMart
- Became the first general trading company to be included in all ESG-related investment indices adopted by the Government Pension Investment Fund (GPIF)

etc.

Steady Achievement of Targets

FYE	Consolidated Net Profit		Accomplished
	Initial Plan	Results	
2021	¥400.0 billion	**¥401.4 billion**	✓

Brand-new Deal 2023

(FYE 2022–FYE 2024)

Establish the "Profit Stage of ¥800.0 Billion"

\+

Strengthen Balanced Financial and Non-Financial Capital

Basic Policies

Realizing business transformation by shifting to a market-oriented perspective

Profit opportunities are shifting downstream

Enhancing our contribution to and engagement with the SDGs through business activities

"*Sampo-yoshi* capitalism"

Results until FYE 2023

- Achieved consolidated net profit of over ¥800.0 billion for the second consecutive year
- Upgraded by Moody's, etc.
- Established the Women's Advancement Committee and evolved unique work-style reforms measures

etc.

Steady Achievement of Targets

FYE	Consolidated Net Profit		Accomplished
	Initial Plan	Results	
2024	¥780.0 billion	In progress	
2023	¥700.0 billion	**¥800.5 billion**	✓
2022	¥550.0 billion	**¥820.3 billion**	✓

External Environment
Management Issues, etc.

Uncertain outlook due to slumping resource prices

Temporary deterioration in financial indicators due to an investment in CITIC

Concerns over obsolescence of existing businesses caused by the Fourth Industrial Revolution

Uncertain outlook due to the COVID-19 pandemic

Setting out growth strategies in anticipation of post-COVID-19 society

Flexibly Adapting to Changes and Issues

*1 Including treasury stock *2 Market capitalization, stock price, and consolidated net profit

Business Results for FYE 2023

FYE 2023 General Review (Quantitative Targets)

- Achieved consolidated net profit of over ¥800.0 billion for the second consecutive year and continued “commitment-based management”
- Expanded shareholder returns by executing an increase in dividends and active share buybacks and maintained strong financial position at record high level

		FYE 2023 Initial Targets	FYE 2023 Results		
Quantitative Targets	Consolidated net profit	¥700.0 billion	¥800.5 billion		Overachieved all the initial targets
	Cash flows	Consistent maintenance of positive core free cash flows after deducting shareholder returns	Positive of ¥213.0 billion		
	NET DER	About 0.7–0.8 times	0.50 times (Best record)		
	ROE	About 13–16%	17.8%		
	Dividend per share	Minimum of ¥130	¥140	• Progressive dividend policy (increase in dividends)	
	Share buybacks	Actively and continuously execute	¥60.0 billion	• Total payout ratio of 33%	

FYE 2023 General Review (Qualitative Targets)

- Evolved business models and created growth opportunities through ascertaining potential needs of market and society, under the basic policy “Realizing business transformation by shifting to a market-oriented perspective” and “Enhancing our contribution to and engagement with the SDGs through business activities” of the medium-term management plan
- Strengthened business sustainability and stability by evolvement of measures to support earnings base such as human resource strategy, etc.

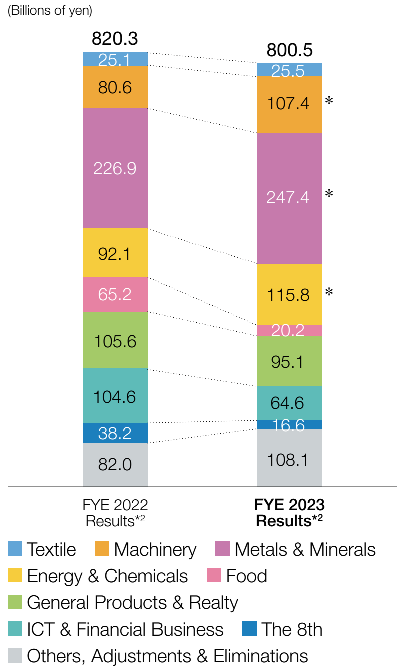
Qualitative Targets	New Investments	• Accelerated expansion of the construction machinery business through the investment in Hitachi Construction Machinery Co., Ltd. and the launch of the North American business • Expanded the North American construction materials business through the acquisition of the engineered wood products company • Contributed to decarbonization of the steel industry by the investment in the high-grade iron ore business in Canada • Expanded the sports-related business through the acquisition of the Under Armour business in Japan
	Existing Business Polishment	• Strengthened alignment with YANASE & CO., LTD. and HOKEN NO MADOGUCHI GROUP INC. through capital restructuring • Accelerated the expansion of the renewable energy business with the energy storage systems-related business as the core, including the sale of renewable electricity to Amazon and other companies • Expanded advertising and media business utilizing FamilyMart stores and customer base to establish new image of convenience store
	Credit Ratings	• Received A2 from Moody’s on the long-term rating scale along with the upgrades from Rating & Investment Information (R&I) and Japan Credit Rating Agency (JCR), and obtained the highest credit rating among the trading companies from all major credit rating agencies
	Human Resource Strategy	• Pursued further labor productivity through establishment of the Morning-Focused Flextime System and other measures • Revised personnel system to enhance “job satisfaction,” including the selection of junior employees based on job duties and responsibilities, and support for women’s advancement
	Others	• Newly established a cybersecurity company to strengthen the Group’s cybersecurity measures • Obtained the highest score among all industries in the FTSE ESG assessment. Maintained the No. 1 ESG investment amount among the trading companies by the GPIF

Business Results

(Billions of yen)	FYE 2022 Results	FYE 2023 Results	Increase / Decrease
Consolidated net profit	820.3	800.5	(19.8)
Extraordinary gains and losses	130.0	13.0	(117.0)
Core profit	Approx. 690.0	*Approx. 787.5	Approx. +97.5
Core profit excluding the impact of COVID-19	*(Approx. 727.0)*	*(Approx. 799.5)*	*(Approx. +72.5)*
Non-resource	610.3	587.8	(22.5)
Resource	221.6	215.6	(6.0)
Others	(11.6)	(2.8)	+8.7
Non-resource*1	73%	73%	Almost no change
Profits / losses of Group companies	708.9	693.7	(15.1)
Ratio of Group companies reporting profits	90.9%	88.6%	Decreased 2.3pt
EPS	¥552.86	¥546.10	(¥6.76)

*1 % composition is calculated using the total of non-resource and resource sectors as 100%.
*2 On July 1, 2019, The 8th Company was established, and ITOCHU began mutual holdings in which The 8th Company was the minority shareholder and the other Division Companies were the majority shareholders. On October 1, 2022, ITOCHU dissolved such mutual holdings. Therefore, the results from FYE 2022 to FYE 2023 have been presented based on the dissolution of the mutual holdings.
* Record high

Consolidated Net Profit by Segment



Cash Flows

Cash Flows

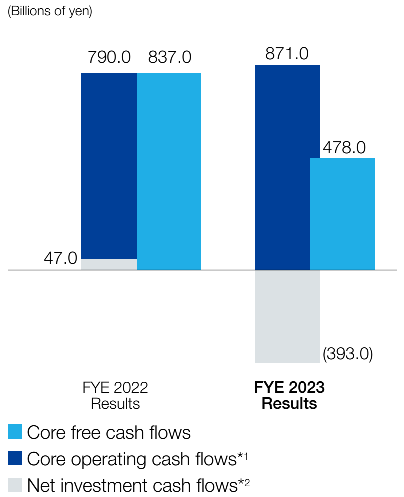
(Billions of yen)	FYE 2022 Results	FYE 2023 Results
Cash flows from operating activities	801.2	* 938.1
Cash flows from investing activities	38.6	(453.8)
Free cash flows	*839.8*	*484.3*
Cash flows from financing activities	(846.7)	(500.1)

Core Free Cash Flows

(Billions of yen)	FYE 2022 Results	FYE 2023 Results
Core operating cash flows*1	790.0	* 871.0
Net investment cash flows*2	47.0	(393.0)
Core free cash flows	837.0	478.0

*1 “Cash flows from operating activities” – “Changes in working capital” + “Repayment of lease liabilities, etc.”
*2 Payments and collections for substantive investment and capital expenditure
“Investment cash flows” + “Equity transactions with non-controlling interests” – “Changes in loan receivables,” etc.
* Record high

Core Free Cash Flows

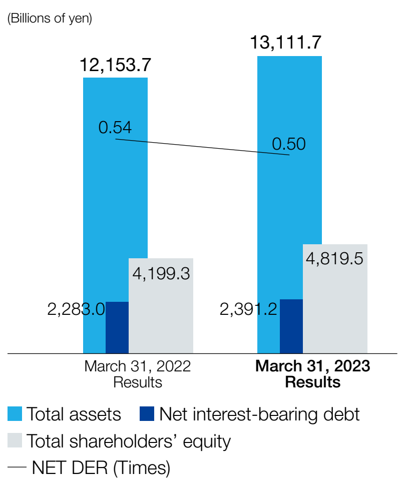


Financial Position

(Billions of yen)	March 31, 2022	March 31, 2023	Increase / Decrease
Total assets	12,153.7	* 13,111.7	+958.0
Net interest-bearing debt	2,283.0	2,391.2	+108.2
Total shareholders’ equity	4,199.3	* 4,819.5	+620.2
Ratio of shareholders’ equity to total assets	34.6%	* 36.8%	Increased 2.2pt
NET DER	0.54 times	* 0.50 times	Improved 0.05
ROE	21.8%	17.8%	Decreased 4.1pt

* Record high (NET DER : Best record, Total assets and Total shareholders’ equity are record high as fiscal year end)

Financial Position



FYE 2024 Management Plan

In FYE 2024, the final year of "Brand-new Deal 2023," Japan's economy is expected to recover to a certain degree due to such factors as continuing low interest rates, wage rises and higher consumer spending, and an increase in demand from visitors to Japan. Overseas, however, the business environment is expected to remain extremely uncertain, with concerns about downward pressure on the global economy being caused by such factors as an economic slowdown due to further inflation and the persistently high interest rate level that is resulting from the monetary tightening policies being pursued mainly by major North American and European central banks, the slow pace of economic recovery in China due to sluggish export growth, etc., and uncertainty over geopolitical risks, including the unresolved Russia–Ukraine situation. In this business environment, ITOCHU will realize sustained enhancement of corporate value by stepping up measures in line with its basic policies of "Realizing business transformation by shifting to a market-oriented perspective" and "Enhancing our contribution to and engagement with the SDGs through business activities."

Quantitative and Qualitative Targets

Quantitative Targets

FYE 2024 profit plan: Consolidated net profit of ¥780.0 billion

Core profit expected to reach ¥800.0 billion, which renews the highest record for the third consecutive year due to the growth in the non-resource sector.

Brand-new Deal 2023 Basic Policy Qualitative Targets

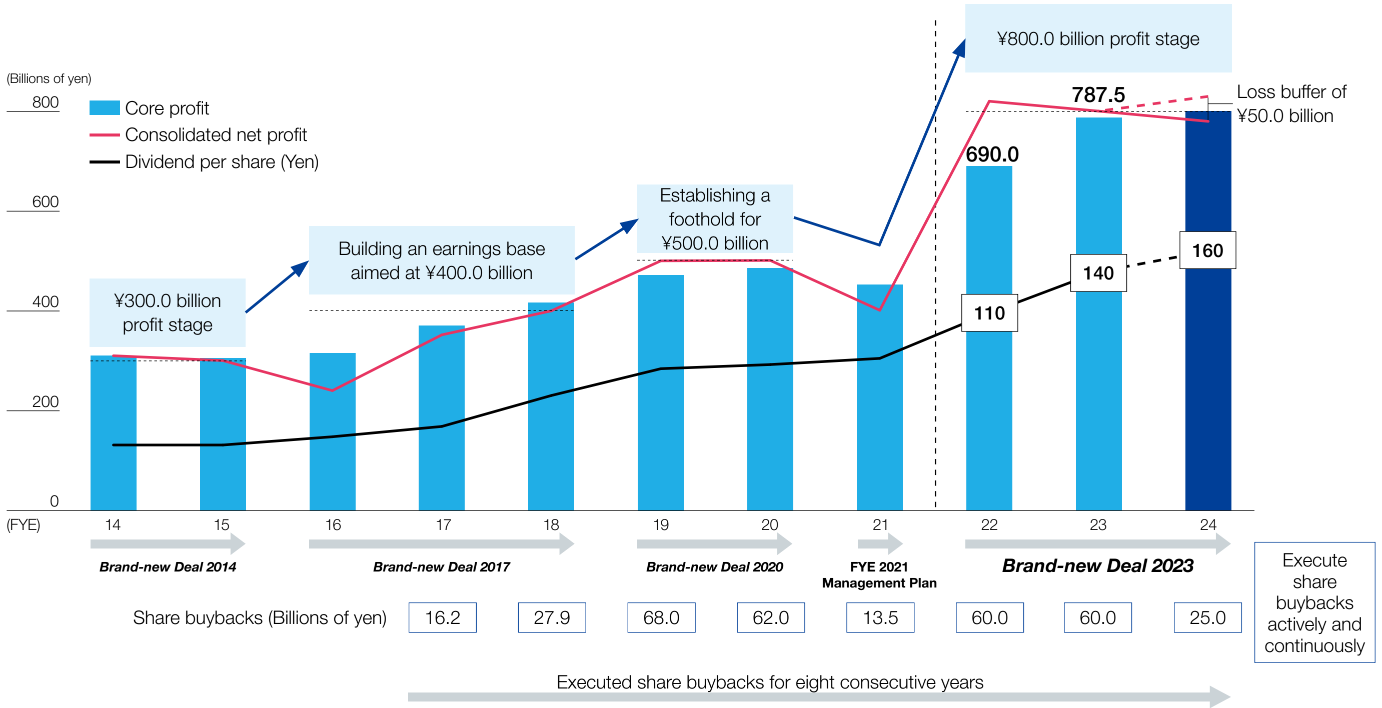
Realizing business transformation by shifting to a market-oriented perspective
Profit opportunities are shifting downstream

Profit sources are shifting from upstream to downstream. Breaking down the negative effects caused by silos is an urgent task. We will advance business model evolution and growth opportunity creation.

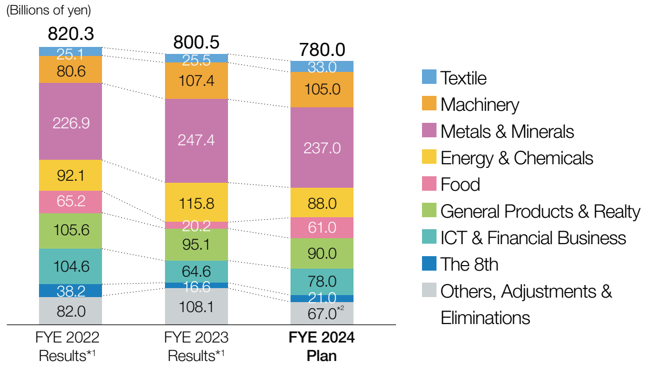
Enhancing our contribution to and engagement with the SDGs through business activities
"*Sampo-yoshi* capitalism"

To realize a sustainable society, we embrace an approach to capitalism with greater emphasis on serving all stakeholders. Through our business activities, we will contribute to the achievement of the SDGs in such ways as maintaining the foundations of everyday life and protecting the environment.

Profit Growth under "Brand-New Deal 2023"



Consolidated Net Profit by Segment



(Billions of yen)		FYE 2022 Results	FYE 2023 Results	FYE 2024 Plan
Non-resource	Core profit	Approx. 500.0	Approx. 574.5	Approx. 590.0
	Extraordinary gains and losses	110.0	13.5	30.0
	Consolidated net profit	610.3	587.8	620.0
Resource	Core profit	Approx. 199.0	Approx. 216.5	Approx. 210.0
	Extraordinary gains and losses	22.5	(1.0)	0.0
	Consolidated net profit	221.6	215.6	210.0
Others	Consolidated net profit	(11.6)	(2.8)	(50.0)*2
Non-resource (%)*3	Core profit	72%	73%	74%

*1 On July 1, 2019, The 8th Company was established, and ITOCHU began mutual holdings in which The 8th Company was the minority shareholder and the other Division Companies were the majority shareholders. On October 1, 2022, ITOCHU dissolved such mutual holdings. Therefore, the results from FYE 2022 to FYE 2023 have been presented based on the dissolution of the mutual holdings.
*2 Includes a loss buffer of ¥50.0 billion
*3 % composition is calculated using the total of non-resource and resource sectors as 100%.

Financial Position, Cash Flows, and Ratio Plan

	FYE 2022	FYE 2023	*Brand-new Deal 2023* FYE 2024 Plan
Core operating cash flows (Billions of yen)	790.0	871.0	Cash allocation based on the consistent maintenance of positive core free cash flows after deducting shareholder returns
Net investment cash flows (Billions of yen)	47.0	(393.0)	Actively promote strategic investments in a timely manner and accelerate asset replacement through business transformation
Core free cash flows after deducting shareholder returns (Billions of yen)	614.0	213.0	
NET DER (Times)	0.54	0.50	B/S control appropriate for A ratings [NET DER: about 0.7–0.8 times]
Shareholders' equity (Trillions of yen)	4.2	4.8	
ROE (%)	21.8	17.8	Maintaining high-efficiency [ROE: about 13–16%]

Shareholder Returns Policy

Dividends

- Dividend per share is ¥160 per share, an increase of ¥20 from the previous fiscal year. Achieving the progressive dividend policy (consecutive increase in dividends) and 30% payout ratio.

Share Buybacks

- Actively and continuously execute share buybacks in consideration of the market conditions and situation of cash allocation, achieving a total payout ratio of 33% or more.

Based on our conservative initial profit plan, we will execute additional shareholder returns, aiming at 40% total payout ratio when we revise upward the forecast during the fiscal year.

Assumptions

	FYE 2022 Results	FYE 2023 Results	FYE 2024 Plan	(Reference) Sensitivities on consolidated net profit for FYE 2024
Exchange rate (Yen/US$ Average)	111.54	134.48	130	Approx. ¥(3.3) billion (1 yen appreciation against US$)
Exchange rate (Yen/US$ Closing)	122.39	133.53	125	—
Interest rate (%) TIBOR 3M (¥)	0.06%	0.07%	0.1%	Approx. ¥(0.4) billion (0.1% increase)
Interest rate (%) LIBOR 3M (US$)*1	0.24%	3.52%	—	—
Interest rate (%) SOFR 3M (US$)*1	—	3.29%	5.0%	Approx. ¥(0.3) billion (0.1% increase)
Crude oil (Brent) (US$/BBL)	79.92	95.07	75	±¥0.27 billion*4
Iron ore (CFR China) (US$/ton)	154*2	117*2	N.A.*3	±¥1.54 billion*4

*1 Due to the cessation of LIBOR publication in June 2023, the US$ benchmark interest rate has been changed to Term SOFR.
*2 FYE 2022 and FYE 2023 prices for iron ore are prices that ITOCHU regards as general transaction prices based on the market.
*3 The prices of iron ore used in the FYE 2024 Plan are assumptions made in consideration of general transaction prices based on the market. The actual prices are not presented, as they are subject to negotiation with individual customers and vary by ore type.
*4 The above sensitivities vary according to changes in sales volume, foreign exchange rates, production cost, etc.

02 Achievement of Short-Term Targets

Countermeasures for Business Risks and Other Risks

Due to the diverse and extensive nature of its businesses, the Group is exposed to a wide range of risks, including complex market-related risk, credit risk, and investment risk. As uncertainties that are highly difficult to predict are inherent with our businesses, 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	
(1) Risks Associated with Macroeconomic Factors and Business Model	▶ Page 74
(2) Market Risk	
a) Foreign Exchange Rate Risk	
b) Interest Rate Risk	
c) Commodity Price Risk	
d) Stock Price Risk	
(3) Investment Risk	▶ Page 58
(4) Risks Associated with Impairment Loss on Fixed Assets	
(5) Credit Risk	
(6) Country Risk	
(7) Risks Associated with Fund-raising	▶ Page 54

Risk Description	
(8) Risks Associated with Taxes	
(9) Risks Associated with Significant Lawsuits	
(10) Risks Associated with Laws and Regulations	
(11) Risks Associated with Human Resources	▶ Page 30
(12) Risks Associated with the Environment and Society	▶ Page 76
(13) Risks Associated with Natural Disasters	
(14) Risks Associated with Information Systems and Information Security	

For details, please refer to "Risk Information" in the Financial Information Report.
https://www.itochu.co.jp/en/files/FIR2023E.pdf

RISK 6
Country Risk

The ITOCHU Group is exposed to various country risks, including unforeseen situations arising from the political, economic, and social conditions of the overseas countries and regions in which the Group conducts product transactions and business activities. Country risk also includes the potential for state expropriation of assets owned by investees or remittance suspension due to changes in various laws and regulations. To control the aforementioned risks, the Group takes appropriate risk mitigation measures for each project while using in-house country credit ratings to establish Groupwide guidelines on limits for each country, and to maintain overall exposure to each country at a level that is appropriate considering the Group's financial strength.

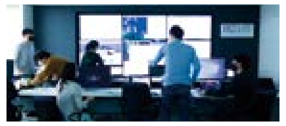
(1) Russia-Related Business

As of March 31, 2023, ITOCHU's exposure to Russia was ¥35.0 billion. ITOCHU swiftly responded to the current Russia–Ukraine situation and quickly implemented "prevent" measures in an effort to reduce future risks, such as conducting reviews of assets owned in Russia. An affiliated company of ITOCHU is involved in aircraft leasing and other businesses in Russia, and had already recognized all relevant losses in FYE 2023 based on then-current situation. From the perspective of stably securing energy sources for Japan, the Company owns an interest in part of the Sakhalin-1 crude oil concession in Russia through a joint venture led by the Japanese Government. However, in light of recent developments, the Company has already implemented conservative provisions for future concerns related to this project. Regarding policies going forward, we will continue to collaborate closely with relevant parties such as the Japanese Government, which is the largest shareholder in the joint venture, and other partners.

(2) China-Related Business

As of March 31, 2023, exposure to China was ¥1,330.1 billion. China's current economic state suggests that consumer activity has returned to normal following the lifting of the zero-COVID policy. However, the recovery in consumer spending and real estate investment has been lower than forecast, due to delayed improvement in employment, income levels and real estate markets. Furthermore, the economy is expected to face the stagnation of exports due to a slowdown in the economies of Europe and the United States.

ITOCHU has three types of China-related businesses: investment to CITIC, iron ore trading to China, and other trade and business investments. Given that it is a Chinese state-owned conglomerate, CITIC is expected to perform steadily thanks in part to the Chinese Government's longstanding policy of strengthening state-owned enterprises. We are working to reduce risks related to iron ore trading to China, such as using price hedging when appropriate while paying close attention to the balance of supply and demand, including trends in the Chinese Government's economic stimulus policies. As for other trade and business investments, the Company is mainly engaged in China's domestic consumer sector and is not engaged in businesses related to areas such as advanced technologies, which is currently the subject of concern over the effect of trade friction between the United States and China.



RISK 14
Risks Associated with Information Systems and Information Security

The Company strives to establish security rules and enhance its security infrastructure. ITOCHU Group companies have long been required to meet the ITOCHU Group Information Security Minimum Standards as a minimum level of compliance. Furthermore, we have strengthened information security measures by establishing the ITOCHU Computer Emergency Readiness, Response & Recovery Team (ITCCERT). This permanent in-house cybersecurity team is mainly comprised of advanced cybersecurity analysts.

Furthermore, in FYE 2023, in order to further strengthen cybersecurity, we introduced a new framework that can judge the cybersecurity risks of each Group company based on the industry, business model, company size, etc., and determine the effective measures and operation systems based on the results. To support the operations of ITOCHU and each Group company's sustainable and effective cybersecurity structure based on the framework, we established ITOCHU Cyber & Intelligence Inc. in February 2023 and transferred and expanded ITCCERT's functions. This company has a highly specialized cybersecurity team that collects information on the latest threats, analyzes risks, monitors security, and practices drills for simulated attacks on its systems. The company also provides cybersecurity programs that package together operations that require a wide range of advanced expertise. This company has already provided these programs to ITOCHU, seven overseas offices, and about 50 Group companies. We plan to expand the scope of these programs to cover around 200 Group companies by FYE 2026 in an ongoing effort to strengthen the Group's resilience in relation to information security.

Tomoyuki Takada
CDO·CIO*;
Executive Advisory Officer for Corporate Communications Division
* Chief Digital & Information Officer

CDO·CIO COMMENT

Strengthen the Business Foundation through Utilizing Specialized Personnel

I was newly named the CDO·CIO.

The CDO·CIO supervises the IT & Digital Strategy Division, which is responsible for the Group's information security measures and digitalization strategies, and the Research & Business Development Division, which is responsible for creating overseas policies and taking care of diplomatic relations with foreign dignitaries. These are two highly specialized fields that underpin the Company's businesses. Given my career having served for a long time in positions related to corporate communication, I have been engaged in a wide range of fields, such as the Company's business overall, and analysis and research of economic trends, politics, and the latest technologies.

After becoming the CDO·CIO and supervising such tasks as creating information security measures, digitalization strategies, and overseas policies, I have come to understand the true importance of specialized personnel who have a wealth of expertise related to the constantly changing economic trends, political landscape, technologies, and other matters including the knowledge for the Company's businesses overall. In order to be able to hire highly skilled personnel in these specialized fields, ITOCHU adopts special employment conditions for each of companies, such as salary and commuting systems, which are different from ITOCHU. Under the IT & Digital Strategy Division, ITOCHU Cyber & Intelligence Inc. has a team of cybersecurity analysts who understand the Group's diverse business fields support the cybersecurity operations of the Company and Group companies. In addition, the Research & Business Development Division has ITOCHU Research Institute Inc., which is the Group's in-house think tank. Economists specializing in specific regions and industries provide information relating to macroeconomics and politics in Japan and major regions of the world, and analysis of industrial and business trends to support the Group. Going forward, we will proactively train and cultivate the next generation of specialized personnel, for which demand is expected to grow.

Amid this uncertain business environment and in my role as the CDO·CIO, I will continue to accurately assess the rapidly changing social conditions with the support of our highly skilled personnel with expertise in specialized fields, and strengthen the Group's business foundation.