# 03

# Steppingstones to Medium- to Long-Term Value Creation

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

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

## Section Highlights

- Financial and Capital Strategies
- Business Investment Process and Monitoring after Execution
- Overview of Our Business Model and Business Development
- Special Feature 2: Examples of Initiatives That Create Added Value by Polishing Our Existing Business and New Steppingstones

## Contents







Tsuyoshi Hachimura

Member of the Board,
Executive Vice President, CFO

# CFO INTERVIEW

## We will continue to enhance “high-quality management,” maintaining financial and capital strategies that optimally combine “offense,” “defense,” and “preparations,” without letting our guard down against rapid changes in the business environment.

**Please explain your overall assessment of the financial and capital strategies in FYE 2023.**

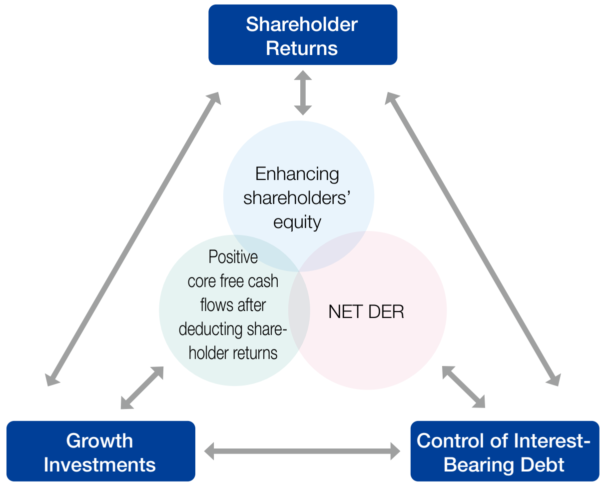
**It was a year in which we saw solid results from our consistent financial and capital strategies.**

Since becoming CFO in FYE 2016, I have repeatedly stated that it is important to balance three factors (shareholder returns, growth investments, and control of interest-bearing debt) by appropriately assessing the business environment at the time. I have therefore focused on realizing high ROE, achieving positive core free cash flows after deducting shareholder returns, and thoroughly conducting hands-on management. It has been especially important these past few years, with the business environment changing rapidly, that we had to be mindful of both the equity side as well as the credit side, which at times conflict with each other, without tilting too much to either side. I believe executing well-balanced and consistent financial and capital strategies leads to highly efficient “high-quality management,” which will ultimately bring sustainability to our corporate value enhancement.

In line with this belief on the equity side, ITOCHU’s share price during the period of the medium-term management plan “Brand-new Deal 2023 (FYE 2022–2024)” set 43 record highs as of August 31, 2023. This was driven by a rise in our profit level to the ¥800.0 billion stage, and the consistent shareholder returns policy laid out subsequently, as well as being buoyed in part by yen depreciation and the “Buffett effect.” We think that this steady increase in share price shows the high expectations of investors and shareholders, as well as the high evaluation they continue to extend to the Company’s management.

We also made progress on the credit side. ITOCHU’s credit rating was upgraded in FYE 2023 by the major overseas rating agency Moody’s, as well as major Japanese rating agencies Rating & Investment Information (R&I) and Japan Credit Rating Agency (JCR). In particular, the upgrade by Moody’s marked the first upgrade in credit rating for Japanese companies with an A rating since FYE 2020. As a result, we have secured the highest rating among general trading companies from every rating agency. Since our rating was last upgraded in FYE 2018, and especially since FYE 2022 when the anticipations of the post-pandemic recovery were heightened, expectations of shareholder returns for general trading companies have been high. To meet the expectations, ITOCHU has steadily enhanced its shareholder returns. However, amid a highly uncertain business environment, I have crafted and implemented consistent financial and capital strategies with the strong belief that

**Achieve High ROE While Balancing Three Factors**




reinforcing shareholders’ equity and improving financial indicators are essential and ultimately ensure stable corporate management and higher corporate value. The fact that ITOCHU refined its highly efficient earnings base and cash generation capability, together with executing financial and capital strategies that create a virtuous cycle leading to the further improvement of our financial indicators and reinforcement of shareholders’ equity, which increases risk resilience, led to the upgrades from the credit rating agencies. This enabled more flexible and diverse funding, further widening our options including bond issuances, and is sure to be a significant advantage to ITOCHU as we continue to consider growth investments, especially while the uncertainties lingering ahead.

Numerous IR activities underpin these efforts. In addition to securing its credit rating, the Company focuses on compiling the annual report as its most fair disclosure tool. ITOCHU delivered solid achievements last fiscal year, including receiving the highest evaluation from all three major awards for the annual report, which was the first accomplishment in Japan. We believe this kind of steady enhancement of non-financial capital, coupled with the aforementioned expansion of financial capital, will lead to higher overall corporate value, and ITOCHU will continue to commit to engaging in proactive IR activities.

**What is the shareholder returns policy for FYE 2024?**

**As always, we commit to the steady enhancement of shareholder returns that are not swayed by economic volatility.**

The two key points of our basic shareholder returns policy during the period of “Brand-new Deal 2023” are, “implementation of incremental increase to the minimum dividend and achieving a dividend payout ratio of 30% by FYE 2024” and “actively and continuously executing share buybacks.” The meaning of “actively and continuously” regarding share buybacks is that, in the event that the dividends based on our progressive dividend policy seem to fall short, we will assess the status of surplus capital at the time and continuously conduct share buybacks in an effort to enhance shareholder returns.

In early October 2022, we announced the “Upward Revision of FYE 2023 Forecast and Additional Shareholder Returns.” After revising our FYE 2023 forecast for consolidated net profit upward to ¥800.0 billion, we announced a ¥30 year-on-year increase in dividend per share (DPS) to ¥140, equivalent to a dividend payout ratio of 25.6%, and share buybacks totaling ¥35.0 billion. As ITOCHU aims to achieve a dividend payout ratio of 30% by FYE 2024, the market seemed to feel that this fell somewhat short. To meet market expectations amid this situation, we announced additional share buybacks of ¥25.0 billion in February 2023 for a cumulative total of ¥60.0 billion. By raising the total payout ratio to 33%, we showed our stance to the market that ITOCHU would stand by its commitment of achieving a dividend payout ratio of 30% by FYE 2024, the final year of our medium-term management plan.

In light of this development, for the initial plan for FYE 2024, we announced a ¥20 year-on-year increase in DPS to ¥160, a dividend payout ratio of 30%, along with consolidated net profit of ¥780.0 billion. At the same time, we stated our policy of ensuring the total payout ratio does not fall below 33%, which we reached in FYE 2023.

As for the share buyback announced in August 2023, our intention is to fulfill the commitment made at the beginning of the fiscal year by conducting the ¥25.0 billion as quickly as possible in the first place. Additionally, by extending our track record for share buybacks to eight consecutive years, we demonstrate the continuity of our policies. We will always focus on “actively and continuously,” and enhance our shareholder returns in FYE 2024.

**A Positive Cycle of Dialogue and Corporate Value Enhancement**

Under the initial plan for FYE 2024, we announced that when we revise the forecast upward during the fiscal year, we would execute additional shareholder returns eyeing a total payout ratio of 40%. In order to meet market expectations for the final year of the medium-term management plan, in which we are at the ¥800.0 billion stage, we will first focus on firmly achieving the second quarter numbers, assess the future progress and growth expectations, and consider an upward revision.

## What is your policy for growth investments in FYE 2024?

**We will continue to consider and promote growth investments that contribute to the interests of all stakeholders.**

The current medium-term management plan is the third plan announced since I became CFO. Under "Brand-new Deal 2017 (FYE 2016–2018)," core operating cash flows for the three-year period comprised inflows of ¥1,255.0 billion and net investment cash outflows of ¥970.0 billion, due in part to our investment in CITIC. Core free cash flows after deducting ¥318.0 billion of shareholder returns were close to zero. Over the three years of this medium-term management plan, the ratio of shareholder returns to investments was approximately one for shareholder returns and three for investments. Next, under "Brand-new Deal 2020 and the FYE 2021 Management Plan (FYE 2019–2021)," core operating cash flows for the three years comprised inflows of ¥1,691.0 billion and net investment cash outflows of ¥1,065.0 billion, due in part to privatization of FamilyMart. Core free cash flows after deducting ¥529.0 billion of shareholder returns turned positive at approximately ¥100.0 billion. Over the three years, the ratio of shareholder returns to investments was approximately one for shareholder returns and two for investments. The ratio of shareholder returns was higher than the ratio during "Brand-new Deal 2017." During the six years of these two medium-term management plans, although we invested in major projects that form our current foundation for growth, including the investment in CITIC and privatization of FamilyMart, we have maintained positive core free cash flows after deducting shareholder returns. In addition, consolidated net profit have almost doubled over these six years, expanding from approximately ¥400.0 billion to approximately ¥800.0 billion.

Finally, due in part to the steady accumulation of operating cash flows, core operating cash flows were approximately ¥1,661.0 billion positive during the previous two years (FYE 2022–2023) under "Brand-new Deal 2023." While net investment cash outflows were approximately ¥346.0 billion, due in part to asset replacements and advanced divestments. Core free cash flows after deducting ¥488.0 billion of shareholder returns for the previous two years remained positive at ¥827.0 billion. Although we have not disclosed a forecast for core operating cash flows in FYE 2024, if the level remains similar to that of the past two years, because we have already committed to a dividend payout ratio of 30% and a total payout ratio of 33%, shareholder returns will be approximately ¥260.0 billion, and core free cash flows after deducting shareholder returns will be ¥500.0–¥600.0 billion. Similar to the two previous medium-term management plans, if core free cash flows after deducting shareholder returns are to be zero or just above zero for the three years of the current medium-term management plan, we would add ¥500.0–¥600.0 billion of core free cash flows after deducting shareholder returns in FYE 2024 to the ¥827.0 billion of core free cash flows after deducting shareholder returns generated in the previous two years. The total, excluding the capital expenditure which occurs regularly and additional shareholder returns, would be the investable amounts in FYE 2024.

In FYE 2024, including the tender offer bids (TOB) for CTC and DAIKEN CORPORATION, which were announced in August 2023, we have already built up a highly probable investment pipeline in each sector, and are planning to increase cash allocation to growth investments. We, of course, do not believe we will be able to execute every investments in the pipeline, but will maximize growth investments with the goal of boosting our current profit stage to beyond the ¥800.0 billion level. We will also continue "preparations" to maintain high ROE through sustained profit expansion.

In my ninth year as CFO, I held interviews with investors and shareholders, including members of Berkshire Hathaway Inc., who visited Japan in April 2023. I also represented ITOCHU in discussions with credit rating agencies. With a firm recognition of the significance of these actions, I will fulfill my duties as CFO. As I enter my sixth year as Chair of the Investment Consultative Committee, I promise to consider and promote growth investments that contribute to the interests of all stakeholders, by fully exercising my capabilities, following comprehensive assessments of the current economic situation, the trend toward sustainability, as well as lessons learned from our past investments.

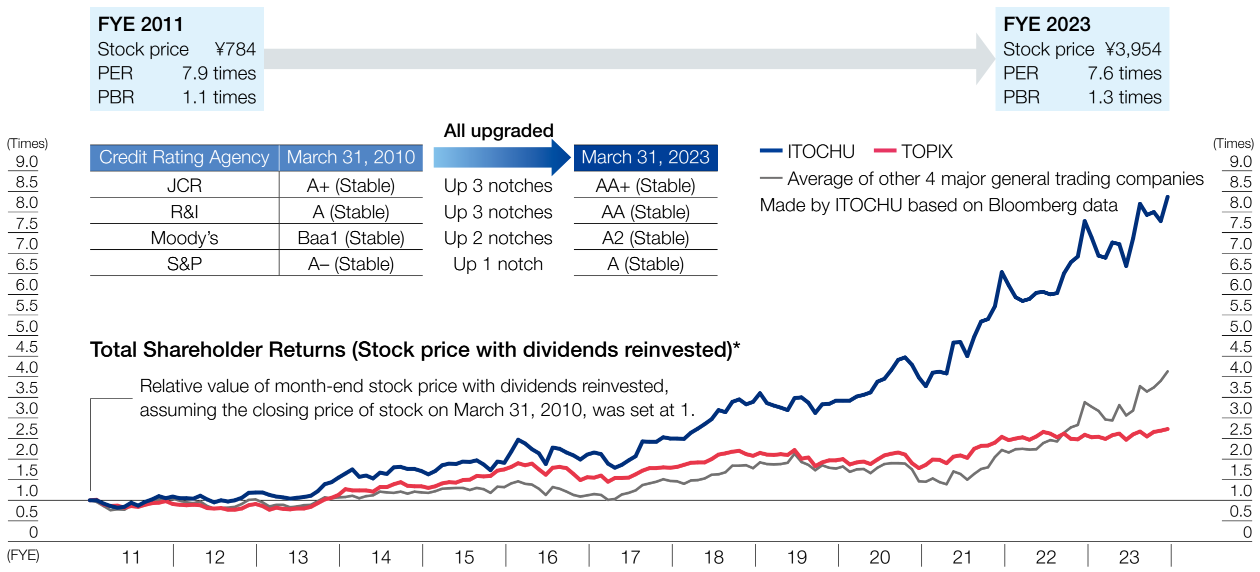
### Business Results of Each Medium-Term Management Plan

| (Billions of yen) | *Brand-new Deal 2017* (FYE 2016–2018) | *Brand-new Deal 2020* & FYE 2021 Management Plan (FYE 2019–2021) | *Brand-new Deal 2023* Two years results among three years plan (FYE 2022–2023) |
|---|---|---|---|
| Consolidated net profit (average) | Approx. 331.0 | Approx. 468.0 | Approx. 810.0 |
| Core profit (average) | Approx. 367.0 | Approx. 470.0 | Approx. 739.0 |
| Core operating cash flows (cumulative) | Approx. 1,255.0 | Approx. 1,691.0 | Approx. 1,661.0 |
| Net investment amount (cumulative) | Approx. (970.0)*1 | Approx. (1,065.0)*2 | Approx. (346.0) |
| Total shareholder returns (cumulative)*3 | Approx. (318.0) | Approx. (529.0) | Approx. (488.0) |
| Core free cash flows after deducting shareholder returns (cumulative) | Approx. (33.0)*1 | Approx. 97.0*2 | Approx. 827.0 |
| EPS (average) | ¥211.3 | ¥309.8 | ¥549.5 |
| ROE (average) | 13.8% | 15.9% | 19.8% |

*1 Including investment in CITIC (approximately ¥600.0 billion)
*2 Including privatization of FamilyMart (approximately ¥520.0 billion)
*3 Total of interim and year-end dividends and share buybacks

### Stock Price / PER / PBR / TSR

Stock price: Annual average of daily trading value
PER: Daily average of (Stock price x Number of issued shares excluding treasury stock ÷ Forecast of consolidated net profit, announced by ITOCHU)
PBR: Daily average of (Stock price x Number of issued shares excluding treasury stock ÷ Most-recent results of shareholders' equity)



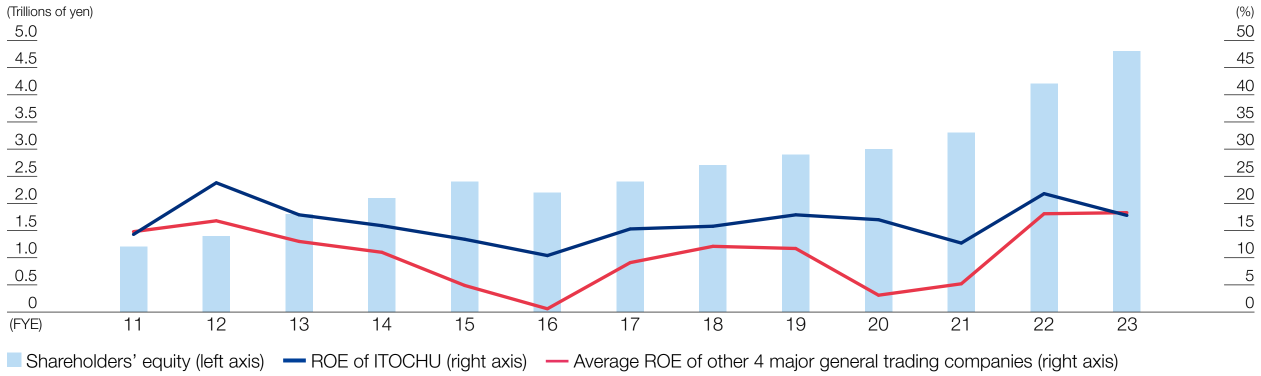

| Credit Rating Agency | March 31, 2010 | All upgraded | March 31, 2023 |
|---|---|---|---|
| JCR | A+ (Stable) | Up 3 notches | AA+ (Stable) |
| R&I | A (Stable) | Up 3 notches | AA (Stable) |
| Moody's | Baa1 (Stable) | Up 2 notches | A2 (Stable) |
| S&P | A– (Stable) | Up 1 notch | A (Stable) |

**TSR* as of March 31, 2023**

| Ownership Period | 1 year | 2 years | 3 years | 4 years | 5 years | 10 years |
|---|---|---|---|---|---|---|
| ITOCHU | 7.5% | 27.9% (13.1%) | 110.4% (28.1%) | 144.5% (25.0%) | 146.6% (19.8%) | 440.4% (18.4%) |
| TOPIX | 5.6% | 7.7% (3.8%) | 53.3% (15.3%) | 38.7% (8.5%) | 31.6% (5.7%) | 141.7% (9.2%) |
| Average of other 4 major general trading companies | 18.6% | 79.0% (33.8%) | 166.3% (38.6%) | 120.7% (21.9%) | 124.3% (17.5%) | 294.2% (14.7%) |

* Total Shareholder Returns (TSR): Returns on investment assuming that dividends are reinvested. The chart above shows relative value of month-end stock price with dividends reinvested, assuming the closing price of stock on March 31, 2010, was set at 1. The table above indicates returns on investment during each period of holdings preceding from March 31, 2023. (Figures in brackets are rate of returns converted to the annual average by the geometric mean.)

### ROE and Shareholders' Equity




03 Steppingstones to Medium- to Long-Term Value Creation

# Business Investment

## Business Investment Process

Along with strategic business alliances, business investment is an important means of creating and expanding businesses. To actively promote strategic investments in areas of strength in a timely manner, we choose the optimal structure from a wide range of methods, such as establishing a wholly owned subsidiary, implementing joint investment with partners, and participating in management through M&As or converting to a consolidated subsidiary. As our investments have become larger and our growth investments have accumulated in recent years, we have been identifying various risks and thoroughly scrutinizing the appropriateness of business plans and acquisition prices, while our administrative divisions have been utilizing their expertise and cumulative know-how to conduct even more stringent inspections. After executing each investment, we work to maximize the investee's corporate value and to expand trading profits and dividends received by fully utilizing our Groupwide capabilities and conducting hands-on management. Also, to enhance business earnings and exit quickly from low-efficiency assets, we are further strengthening monitoring procedures centered on instituting more rigorous exit conditions and thoroughly implementing periodic business investment reviews. In addition, through cross-divisional internal training across Division Companies, we share the lessons learned from reviewing past investment failures, thereby endeavoring to enhance the success rates of future investments.

### Investment Decisions

#### Decision-Making Process

We have established a multilayered decision-making process that achieves quick decision-making by giving a certain level of discretion to the Division Companies while striving to pursue investment return and curb investment risk.

Division Companies

- Applicants (responsible divisions)
- Administrative divisions …Opinion based on risk analysis
- Division Company Management Committee (DMC) — Deliberation
- Division Company President — Decision

Related administrative divisions express their opinions from various specialized perspectives regarding the application made by the applicants. Following careful discussion at the DMC, the Division Company President makes a final decision.

- Investment Consultative Committee*

If the project needs further consideration and screening in terms of profitability and strategy, the project is discussed at the Investment Consultative Committee prior to the HMC.

* The Investment Consultative Committee is chaired by the CFO, its vice-chairperson is the CSO, and its core members are the CAO, the CDO·CIO, and the General Managers of the Corporate Planning & Administration, Legal, General Accounting Control, Finance, and Global Risk Management divisions. Meetings are also attended by one full-time Audit & Supervisory Board Member.

- Headquarters Management Committee (HMC)

Projects that exceed the Division Company President's authority must be approved by the HMC.

- Board of Directors

Of the projects approved by the HMC, projects of quantitative and qualitative significance must be approved by the Board of Directors.

#### Points for Making Decisions

| Investment Purpose and Formulation of Growth Strategies | Verification of Business Plan Appropriateness | Compliance with Investment Criteria | Risk Analysis | Verification of Internal Control Status | Setting Exit Conditions |
|---|---|---|---|---|---|

**Thoroughly Verifying Appropriateness of Business Plan**
- Scrutinizing business plans before making a new investment (including sensitivity analysis)
- Concrete countermeasures for downward divergence from original plan (including setting of exit measures)

**Investment Criteria**
- Investment efficiency based on Net Present Value (NPV) calculated from investee's free cash flows: When calculating NPV, about 70 hurdle rates (by country) are used according to industry, taken into consideration of the Company's cost of capital (8%).
- Cash inflows into ITOCHU, such as dividends received and earnings from trade activities
- Scale of investee's earnings

**ESG Risk Evaluation**
- Evaluate in advance the impact on the environment, society, etc., as well as the corporate governance status of the investment target using an ESG checklist composed of 28 items
- Conduct multifaceted ESG assessments, including on-site surveys, to prevent environmental pollution and other problems among Group companies even following investment

**Setting Exit Conditions**
- Setting clear and feasible exit measures before making investment
Clear exit conditions:
Setting quantitative exit conditions that, in principle, call for exiting from the investment if conditions are met
Feasible exit measures:
Obtaining advance agreement with partners on exit conditions, etc.

▶ Page 60 Exit Criteria for Business Investment

### Sharing the Lessons Learned

**"Unforgettable" Training Based on Cases of Investment Failures**
We internally share the lessons learned from analyzing past investment failures with the aim of increasing the strength and rigor of our measures to "prevent" unforeseen impairment losses and other negative consequences. In FYE 2023, we conducted five training sessions with specific examples, in which a large number of employees from business divisions and administrative divisions participated.
(▶ Page 60 The Four Lessons for Investments)

### Asset Replacement

Promoting replacement of low-efficiency assets that meet exit criteria for business investment as well as businesses that have lost strategic significance
(▶ Page 64 Asset Replacement That Took Advantage of Changes in the Business Environment (Belong Inc.))

**Control of Cash:** Continuously focus on our policy to maintain positive core free cash flows after deducting shareholder returns

### Measures after Investees Met Exit Criteria for Business Investment

We review our policies for holding business investments annually and carefully confirm the significance of holding them based on comprehensive consideration of the individual circumstances of each investment, industry characteristics, and other factors. We then implement asset replacement with respect to businesses that have low-efficiency, exit early from businesses that are significantly below targets set at the time of investment, and reduce / restructure the operations of loss-making companies.

After the review of policies for holding business investments, administrative divisions periodically monitor the implementation status of exits as well as improvement measures and provide support to ensure the implementation of measures in accordance with the policies.

| Progress Follow-Up | Business Investment to Be Exited | Business Investment to Be Held Continuously |
|---|---|---|
| | Exit progress is monitored, and each Division Company reports on progress to the CFO monthly. | Improvement measures are advanced. At the periodic review for business investment in the following fiscal year, the progress of improvement plans is checked, and the holding policy is then carefully reanalyzed. |

Decision-Making Process

**HMC** HMC approval is required if a Division Company's policy is continuing to hold a business investment that meets exit criteria for business investment. In conducting HMC deliberations, the ALM Committee* conducts prior deliberations on the appropriateness of the Division Company's retention policy and the possibility of exit implementation.

* The ALM (Asset Liability Management) Committee is chaired by the CFO, and its core members are the General Managers of the Corporate Planning & Administration, General Accounting Control, Finance, and Global Risk Management divisions. Meetings are also attended by one full-time Audit & Supervisory Board Member.

**DMC** After verifying the appropriateness of improvement plans for low-efficiency business investments that meet exit criteria for business investment, the significance of holding respective business investments is carefully analyzed in the context of the Division Company's strategies, and a decision on holding policy is made by the Division Company's President.

### Investees Met Exit Criteria for Business Investment

▶ Page 60

### Periodic Monitoring (Including periodic review for business investment)

In addition to conducting a review one year after investment, we conduct periodic review for all business investment annually to review policies from qualitative (strategic significance, etc.) and quantitative (profit scale, investment efficiency, etc.) perspectives. Also, we formulate improvement measures for group companies and affiliates with issues related to deficits or dividend payouts, and we follow up on the progress of such companies throughout the year.

### Execution of Investment

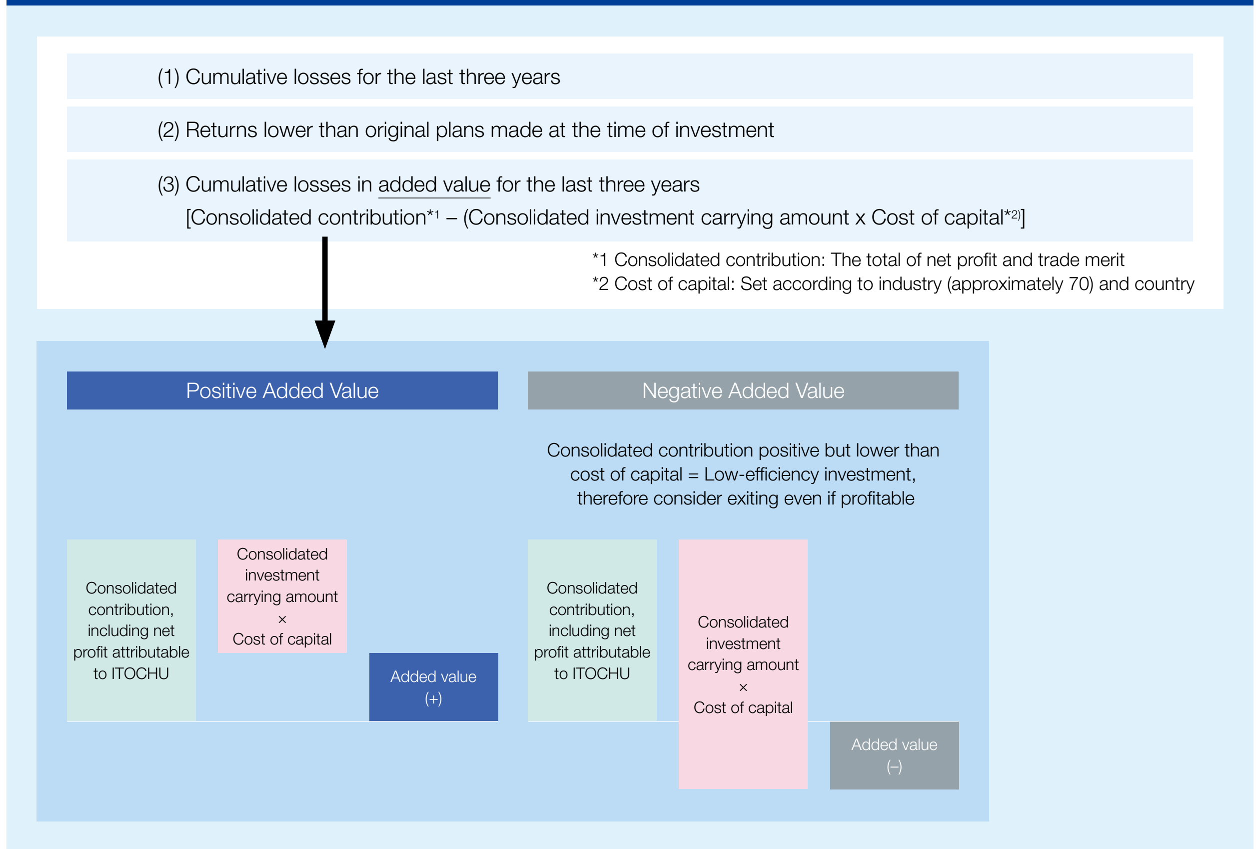
Business Divisions / Administrative Divisions

Enhancing corporate value continuously through collaboration between business divisions and administrative divisions

### Hands-On Management

After executing business investments, we dispatch personnel from our business divisions and administrative divisions to the frontline operations and key positions of investee companies. Through hands-on management that utilizes the individual capabilities of personnel, we enhance the corporate value of investee companies and create synergies that increase our comprehensive strength.
(▶ Page 68 Polishing and Further Expanding the Earnings Base of the North American Construction Materials Business through a Hands-on Management Style)

**Exit Criteria for Business Investment**




## The Four Lessons for Investments

ITOCHU has compiled the lessons learned from past investment failures as "the Four Lessons for Investments" and repeatedly shares the lesson through training sessions based on cases of investment failures and at various management meetings throughout the whole company. In this way, we ensure that the lessons are kept in mind when investment projects are being considered in frontline operations. "The Four Lessons for Investments" are as follows.

### The Four Lessons for Investments (To Rigorously Prevent Below)

| | |
|---|---|
| (1) Overpaying for investments | • Make investments at a low price to minimize future risk of impairment loss |
| (2) Investments aimed at seizing profit from investees | • Avoid shortsighted investments in a field or area with limited insight that only target current profit contributions |
| (3) Overdependence on and overconfidence in partners | • Do not engage in projects where ITOCHU must rely on partners or sales from the specific customers |
| (4) Lack of hands-on management | • Do not engage in projects where ITOCHU cannot seize management control or take the initiative |

Training sessions based on cases of investment failures aim to understand the essence of past investment failures so that we avoid repeating the mistakes that led to them. The Global Risk Management Division prepares training materials based on interviews with relevant parties regarding the decision-making process at the time of investment and regarding discussions at the DMC*1 and the HMC*2. In FYE 2023, the training sessions included five specific examples, such as points to keep in mind in relation to projects purchased from investment funds or introduced by investment banks and examples of failures in overseas business investment. In the past, only mid-career employees participated in the training sessions. Beginning from FYE 2023, however, the scope was expanded to all employees, and a large number of employees participated in each training session. Through training sessions based on cases of investment failures, we will continue to utilize the lessons learned from the past in investment decisions and monitoring. In this way, we will strengthen and increase the rigor of measures that "prevent" the occurrence of unforeseen impairment losses, thereby heightening the success rate of investments.

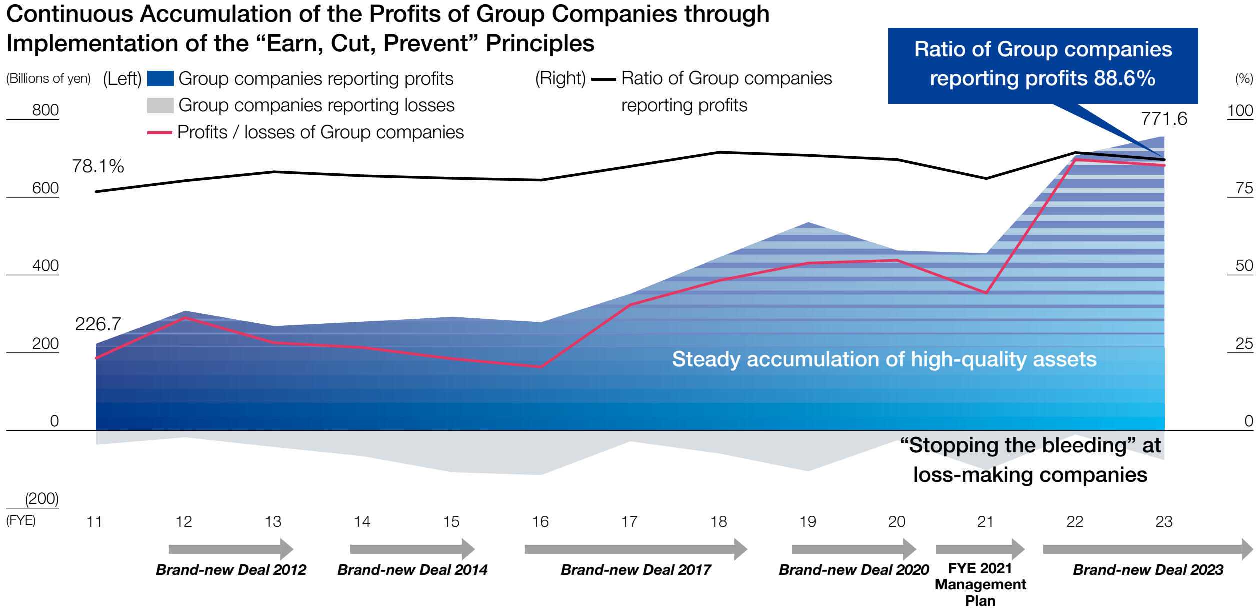
*1 Division Company Management Committee
*2 Headquarters Management Committee



## Enhancing the Corporate Value of Group Companies

ITOCHU enhances the corporate value of Group companies by rigorously implementing the "earn, cut, prevent" principles and strengthening monitoring, which is based on various types of assessments. For example, we steadily accumulate high-quality assets by conducting qualitative and quantitative verifications that consider synergies in assessing investment efficiency and the strategic significance and earnings scale of business investments. Moreover, in relation to concern over possible future losses, at an early stage, we evaluate investments and take appropriate measures by consistently applying conservative premises both for credit management and evaluations of the recoverability of various types of assets. Thanks to these activities, we have built a robust earnings base that is diversified across a wide range of business areas mainly in the non-resource sector. Even in an uncertain business environment, the ratio of Group companies reporting profits remains at the high level of approximately 90%.

**Continuous Accumulation of the Profits of Group Companies through Implementation of the "Earn, Cut, Prevent" Principles**




### Group Companies Management Awards Program

ITOCHU has a Group Companies Management Awards Program that is aimed at invigorating the Group's management. The following is an overview of the awards for this program.

| | |
|---|---|
| Best Management of the Year Award | Group companies (with profit from investees of ¥1.0 billion or more) that have achieved outstanding management results and helped enhance ITOCHU's consolidated financial results and the ITOCHU Group's value |
| Management Award | Group companies (with profit from investees of ¥0.2 billion or more) that have endeavored to improve management through market development, product or technology development, rationalization, and other measures to strengthen management efficiency |
| Chairman & CEO Special Award | Group companies that have realized noteworthy qualitative achievements |

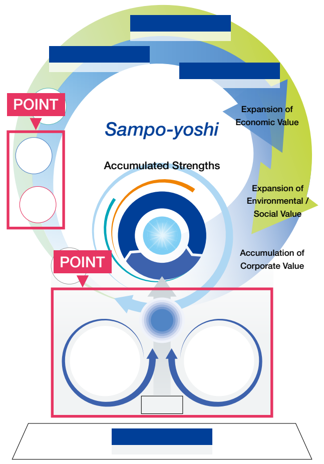
The criteria for selections include quantitative target achievement and year-on-year increase in profit from investees in relation to the "earn" principle as well as year-on-year improvement in the ratio of SG&A expenses to gross trading profit in relation to the "cut" principle, with Group companies required to satisfy multiple criteria.

Each Division Company nominates Group companies that satisfy both qualitative and quantitative criteria, and the final award winners are determined by the HMC. At the awards ceremony, prize money is also granted to the award-winning company to allow executives and employees of the companies to share in their joy and contribute to heighten their motivation.

The 37th Group Companies Management Awards ceremony

# Our Business Model, as Seen through Business Development

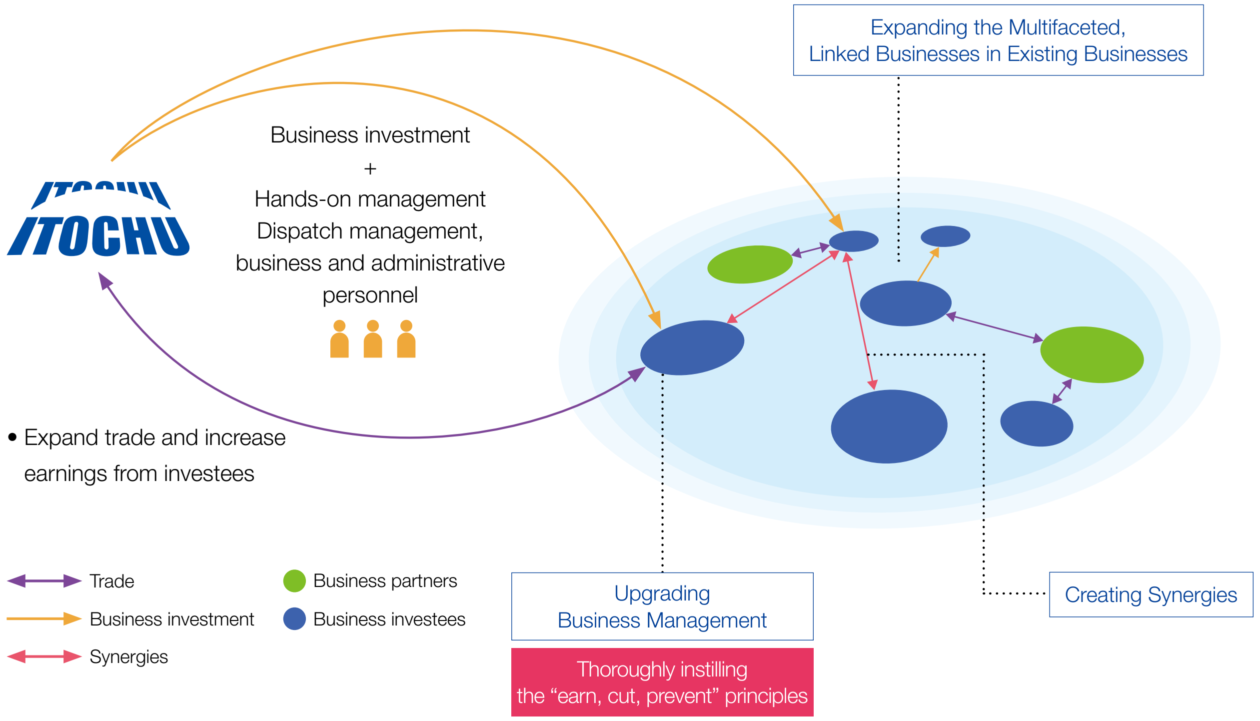
By utilizing financial and non-financial capital, focusing on fields where we can demonstrate strengths, and creating multifaceted, linked businesses, we strive to enhance the earning power of our trade and business investment. By leveraging our business know-how and client and partner assets, we expand trade by creating added value and invest in fields where we have knowledge and can control risk. Amid rapid changes in the business environment, we are also strengthening our earnings base through timely strategic investments and continuous asset replacement for businesses that have passed their peak and / or are low-efficiency. Going forward, we will sustain value creation by maximizing synergies and upgrading our businesses through business transformation that starts from downstream and is driven by market-oriented perspectives, while thoroughly instilling the "earn, cut, prevent" principles.




Action Principles

## Forming Domains and Expanding Multifaceted, Linked Business through Trade and Business Investment

We utilize our accumulated financial and non-financial capital to develop businesses through both trade and business investment. Our goal is to increase our earning power of trade and business investment. To this end, we upgrade business management by instilling the "earn, cut, prevent" principles and implementing a hands-on management, while creating multifaceted, linked businesses through new trade and creating synergies.




**Trade**
- Building networks with clients and partners
- Buying, selling, and brokering of products
- Providing logistics and financial functions

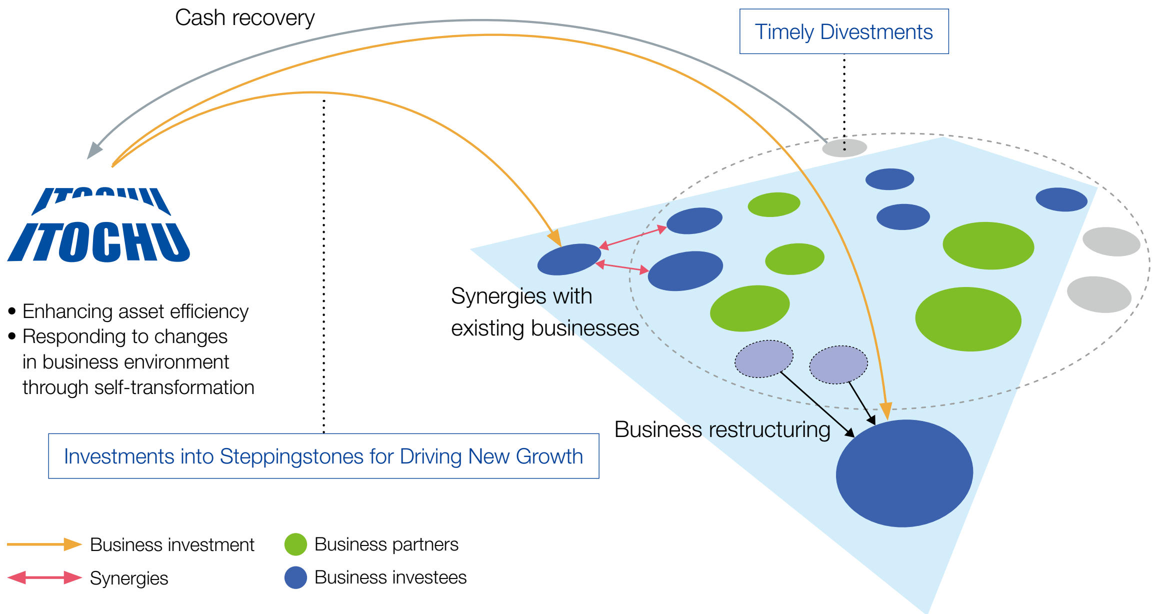

**Business Investment**
- Concentrating capital in fields and regions where we have expertise
- Securing goods (raw materials and products)
- Acquiring customer contact points

▶ Page 64 Frequently Asked Questions about Our Business Model

Responding to Changes in the Business Environment

## Building a Robust Earnings Base through Asset Replacement

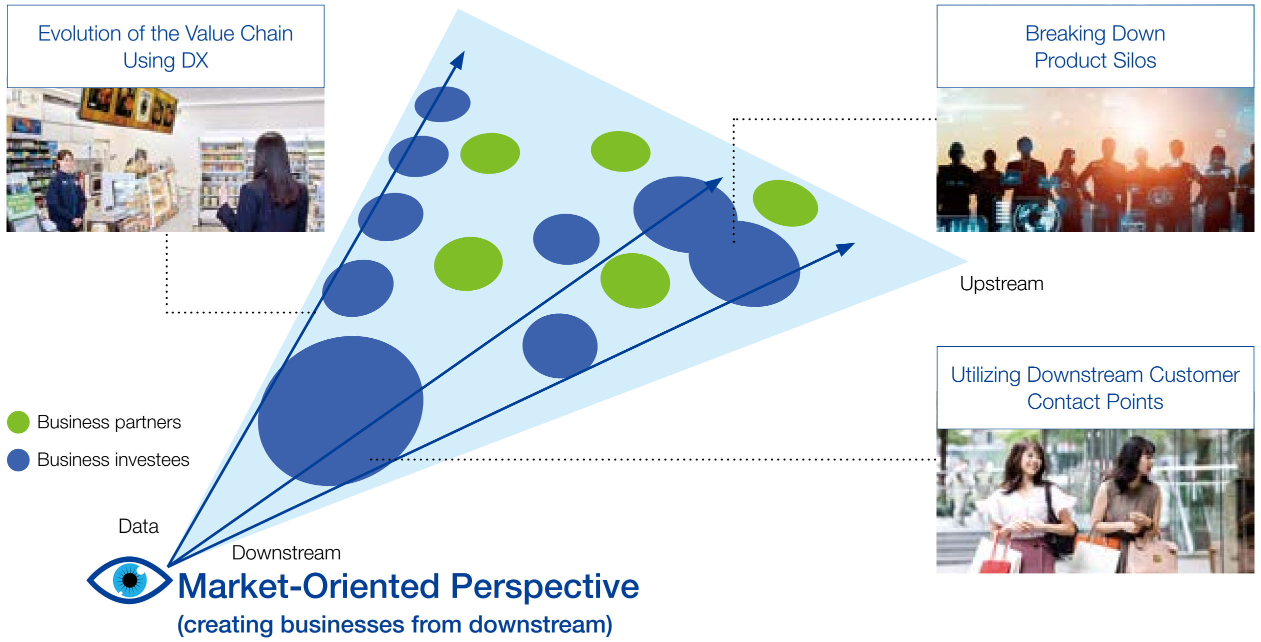
We precisely assess changes in the business environment and execute cash recovery by business restructuring and exiting from assets that have lost strategic significance from the viewpoint of asset efficiency and risk management. By reinvesting the recovered funds into new strategic areas, we are building a more robust earnings base.




Meeting Consumer and Social Needs

## Upgrading Our Business Model from a Market-Oriented Perspective

We will build a business model that caters to consumer and social needs by shifting to a downstream-centered market-oriented perspective and by strengthening collaboration among Division Companies through breaking down product silos. Furthermore, we aim to expand our earnings base and improve asset efficiency through optimization of value chain by fully utilizing our real and digital customer contact points, and new technologies and data.



## Frequently Asked Questions about Our Business Model

This section explains the key features of our business model and provides examples of it with the aim of addressing questions that are often asked by investors, shareholders, and other stakeholders.

### Q1. What are differences between investment business of ITOCHU and typical private equity fund?

There are certain similar aspects, such as the desire to contribute proactively to investees' management and maximize the corporate value of investees. However, we are aware that there are differences in terms of dispatching our personnel, focusing on generating synergies with existing businesses, and enjoying returns centered on trading profits and dividends.

| | Typical Private Equity Fund | ITOCHU |
|---|---|---|
| Investee Liquidity | In principle, unlisted | Either listed or unlisted |
| Investee Ownership Ratio | In principle, majority stake up to 100% | Decided individually, based on business conditions and market environment |
| Investee Ownership Period | Buy and hold with an exit strategy | Buy and hold |
| Personnel Secondment to Investee | Outside managers dispatched | ITOCHU personnel dispatched to management or frontline operations |
| Synergies | In principle, none | Create synergies with existing businesses |
| Returns | Capital gains and dividends | In principle, trading profits and dividends |

### Q2. What are differences between trading business of ITOCHU and typical commodity trading companies?

Traditionally, general trading companies' core businesses are engaged in trade. By buying, selling, and brokering products, we build relationships with customers and partners, and form sales channel of all kinds of products and information networks that have global reach. Although there exist similarities in the trading of such resources as crude oil and iron ore, and grains that is handled by ITOCHU and typical commodity trading companies in terms of buying, selling, and brokering products through global networks, we are aware that there are differences in terms of the products handled, nature of trading and volatility, etc.

| | Typical Commodity Trading Companies | ITOCHU |
|---|---|---|
| Products Handled | In principle, upstream market-sensitive commodities | All types of products, from upstream to downstream |
| Nature of Trading | Trading for speculative purposes and / or based on actual demand | In principle, trading based on actual demand |
| Volatility of Returns | High | Low |
| Personnel Attributes | In principle, expertise in a single product | In addition to expertise in a single product, knowledge of peripheral businesses |
| Synergies | In principle, none | Creation of synergies through broad value chains |

### Q3. Could you describe a specific case of asset replacement that took advantage of changes in the business environment?

One example of asset replacement in FYE 2023 was the sale of CONEXIO Corporation (CONEXIO). CONEXIO was a Group company that was originally spun off from ITOCHU's mobile phone agency business, and it had been contributed to the Group's profits over many years. However, as the business environment grew harsher in the mobile phone sales industry, such as declining sales of new devices, ITOCHU determined that accepting a tender offer for CONEXIO disclosed in FYE 2023 would further enhance the corporate value of both CONEXIO and the Company, and so we decided to implement strategic asset replacement. (▶ Page 95 Discussions at Meetings of the Board of Directors Related to an Individual Project)


Operation center at Belong Inc.

On the other hand, to take advantage of the growth in the used mobile phone device market against a backdrop of increasingly expensive new mobile devices and SDGs trends, we founded Belong Inc. in February 2019 as a foundation for building a new profit base. Leveraging the expertise that ITOCHU accumulated through the mobile phone device trade, along with the know-how and supplier network cultivated through mobile phone agency business, Belong Inc. buys back and sells used mobile phones and tablets with its own operation center for inspection, repair, storage, and delivery. In addition, Belong Inc. launched a business to rent out and buy back devices from corporate customers to address their needs for used mobile phones and tablets mainly due to rising prices of new devices. Furthermore, the company is working to diversify its businesses, such as starting an initiative to promote sustainability in food delivery businesses with Uber Eats Japan, Inc., with whom we are collaborating on a project to collect and reuse tablets.





By focusing on fields where we can demonstrate strengths, and creating multifaceted, linked businesses, we strive to achieve sustainable value creation. In this special feature, we will illustrate examples in which we create new added values by thoroughly polishing existing business and steadily setting new steppingstones.

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


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


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

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

In the convenience store business starting with FamilyMart, ITOCHU Group companies are collaborating to build and strengthen value chains that extend from downstream to upstream areas. These collaborative initiatives are not limited to procuring high-value-added food products and their ingredients but also help increase the appeal of a wide range of products. For example, collaborative initiatives are contributing to the rollouts of the new "FAMIMARU" private brand for daily necessities and *Convenience Wear* apparel, which features differentiated designs. In many different fields, ITOCHU is leveraging its business foundations to transcend Division Company boundaries and enhance entire value chains. These efforts include strengthening efficient and stable logistics functions, building systems, and providing construction materials. As for new steppingstones aimed at sustained growth, The 8th Company is actively engaged in collaborative efforts to create new earnings sources, including advertising, media, and finance businesses.

## Polishing Existing Business


FamilyMart socks: Launched in March 2021, 14 million pairs have sold, cumulatively

FamilyMartVision digital signage: aiming for introduction to 10,000 stores by 2023

"Famipay" app: Achieved 15 million downloads in March 2023, cumulatively

## "Steppingstones" for Further Growth

### Expansion of New Businesses by Leveraging Foundations

In new businesses, ITOCHU is accelerating the realization of profits by using stores as media through the installation of digital signage, by creating digital advertising businesses that leverages physical stores, and by strengthening finance businesses that utilize the "Famipay" app. Through the combination of digital media—including digital signage, apps, and digital advertising—as well as the fusion of digital and real, we aim to provide further value to our customers.

### Reinforcement of the Foundations of the Convenience Store Business

We will provide superior customer experience value and enhance store profitability by fostering the new "FAMIMARU" private brand, developing more signature products, pursuing brand value enhancement that includes the strengthening of mainstay products, and expanding the customer base through stepped-up marketing approach based on the "Famipay" app and customer data analysis. In addition, by lowering store operating costs through utilizing new technologies such as AI to reduce manpower, we aim to expand and enhance store infrastructure.



## Food Product and Peripheral Business

| Food Products | |
|---|---|
| Ready-to-eat products (rice balls, boxed lunches, etc.) | ■ Japan Food Supply Co., Ltd.<br>■ ITOCHU Food Sales and Marketing Co., Ltd.<br>■ ITOCHU FEED MILLS CO., LTD.<br>◆ CP Group, etc. |
| FAMICHIKI (fried chicken) | ● ITOCHU |
| FAMIMA CAFÉ (over-the-counter coffee) | ■ UNEX (GUATEMALA), S.A., etc. |
| Bananas | ■ Dole |
| Eggs | ■ ITOCHU FEED MILLS CO., LTD. |
| Soy meat and general raw materials for confectioneries, etc. | ▲ FUJI OIL CO., LTD. |
| Rooibos tea | ■ ITOCHU Food Sales and Marketing Co., Ltd. |
| **Containers and Packaging** | |
| Rice ball wrapping films and recycled PET boxed lunch containers, etc. | ■ ITOCHU PLASTICS INC. |
| To-go item containers (coffee cups, etc.) | ■ ITOCHU Retail Link Corporation, etc. |

## Intermediate Distribution

| | |
|---|---|
| Wholesale / Logistics | ■ NIPPON ACCESS, INC. |
| Comprehensive logistics services | ■ ITOCHU LOGISTICS CORP. |
| Delivery vans | ▲ NIPPON CAR SOLUTIONS CO., LTD. |
| Fuel for delivery vans (renewable diesel) | ■ ITOCHU ENEX CO., LTD. |

## Advertising and Media Business

| | |
|---|---|
| Targeting advertisement | ■ Data One Corp. |
| Digital signage | ■ Gate One Corp. |

## Non-Food Product

| Supplies (Store items supporting operation, etc.) | |
|---|---|
| Chopsticks, individual-use hand towels, plastic bags, cleaning supplies | ■ ITOCHU Retail Link Corporation |
| Uniforms | ● ITOCHU |
| Cash register rolls, copy paper, ATM paper | ■ ITOCHU Retail Link Corporation, etc. |
| **Daily Necessities** | |
| FAMIMARU daily necessities | ■ ITOCHU Retail Link Corporation<br>■ Sanipak Company Of Japan, Ltd. |
| Convenience Wear (basic apparel and lifestyle sundries, etc.) | ● ITOCHU |

## Operational Support

| | |
|---|---|
| Systems development | ■ CTC |
| Electricity supply | ■ ITOCHU Plantech Inc. |
| Construction materials | ■ ITOCHU KENZAI CORPORATION |
| 3Rs+W service* | ■ ITOCHU Metals Corporation |
| Contact centers | ▲ BELLSYSTEM24, Inc. |
| Leasing of store fixtures | ▲ Tokyo Century Corporation |

* Reduce, Reuse, Recycle, and Waste management

## Service

| | |
|---|---|
| Famima T Cards | ■ POCKET CARD CO., LTD. |
| Motorbike liability insurance, one-day automobile insurance, FamilyMart coupons | ● ITOCHU |
| FamiPay (Payment function, pay in next-month, retail finance) | ■ Famima Digital One Co., Ltd. |

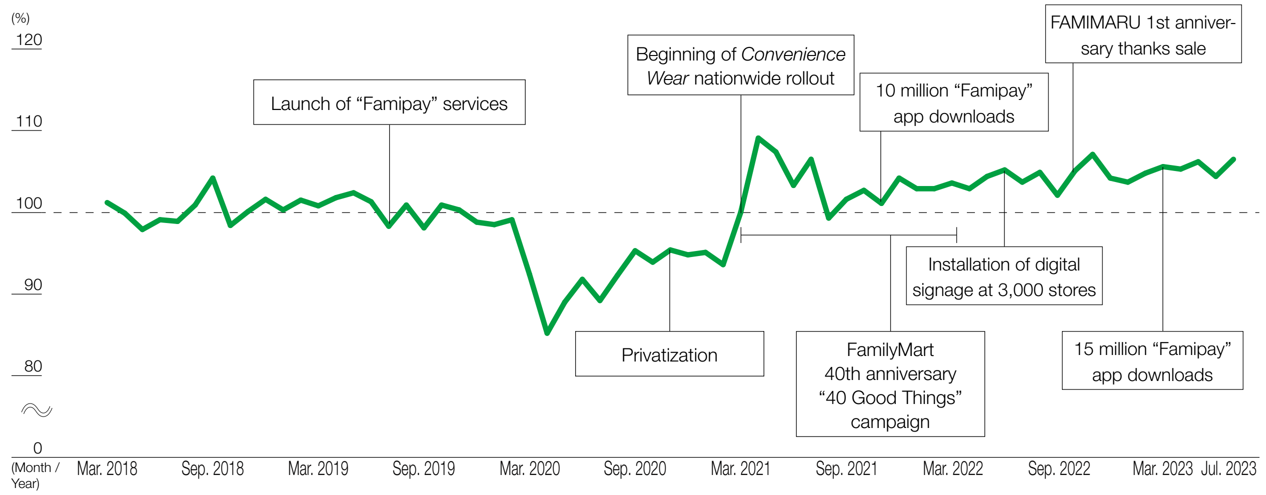
* All of the products and services listed are provided by ITOCHU Group (ITOCHU, subsidiaries, and affiliates) and ITOCHU's business partners.

■ Subsidiary ▲ Affiliated company ◆ Business partner ● ITOCHU

### Daily Sales at Existing FamilyMart Stores (year on year)

The FYE 2021 privatization has enabled expedited implementation of product development and marketing measures more speedily than in the past. Thanks to the success of these measures, daily sales have increased year on year for 23 consecutive months.

Closely collaborating sales, product development, and marketing to continue the implementation of consistent measures



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

The hands-on management style practiced by ITOCHU is able to carefully refine each business by deploying ITOCHU's management, sales and administrative personnel to key positions and frontline operations at investee companies. Once positioned overseas, our employees become deeply embedded into the local operations as part of our hands-on management style. The Company's employees work closely with local employees to expand their company's business and sustainably enhance its corporate value after learning about the trade customs and cultures of a particular country.

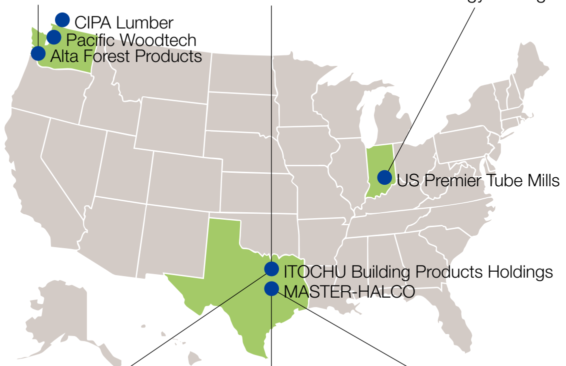
## The North American Construction Materials Business: In the Early 2010s

MASTER-HALCO, Inc. (MH) engages in the manufacturing and wholesale of chain link fences at its own manufacturing facilities and through its own sales offices and distribution network covering all of North America. Despite having a network of prime customers including major home improvement retailers, MH continued to see losses in its operations since the global recession of 2008. ITOCHU had considered exiting the business. However, given the robust forecast called for continued strong growth in the North American market, etc., we decided to implement efforts to restructure MH by dispatching personnel well-versed in the North American business, and utilizing its hands-on management style.

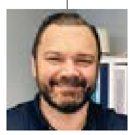
**Scott Suh**
Director,
President & CEO

**Kotaro Yamamoto**
Director,
President & CEO

**Anan Ogawa**
Business Analysis and
Sales Strategy Manager




**Michiru Nakagawa**
Director of New
Business Development



**Glenn Shenk**
Senior Vice President of
Sales and Operations

**Saiki Matsui**
Distribution Resource
Planning Specialist

### Transition of the North American Construction Materials Business

| | FYE 2016 | FYE 2023 |
|---|---|---|
| Number of locations | 63 | 93 |
| Number of employees | 886 | 2,160 |
| Number of seconded employees | 11 | 26 |
| Consolidated net income (Billions of yen) | 1.4 | 21.7 |

## Refining MH Business through a Hands-On Management Style: After the Late 2010s

### Management Reform of MH

The top priority was to urgently eliminate the losses, so ITOCHU dispatched personnel experienced in practicing our "cut" and "prevent" principles to a wide range of positions, including top management and the front lines. In addition to closing unprofitable factories and branches, which had consistently generated losses in the past, we revamped MH's backbone system (ERP) that had not been renewed in about 20 years. We also established a management system capable of making detailed demand forecasts. These efforts succeeded, and we achieved profitability in FYE 2017. And to build an even more robust earnings base, we continued to promote further reforms. Utilizing our know-how gained from the business investment and trade, ITOCHU introduced refined pricing strategies, strict inventory management, and remuneration systems linked to profit rather than sales. In addition to these measures, marketing and sales activities were conducted mainly by local employees with a deep understanding of North American trade practices. As a result, our profit margin steadily improved, and we worked hard to strengthen our earnings base.

### Expanding the Multifaceted, Linked Businesses in Existing Businesses

To achieve further profit growth and enhance customer services, multiple investments have been made in order to create synergies related to MH. We did not rely solely on acquisition candidates recommended by external sources, but instead conducted active research on our own to identify potential target companies based on our experiences and knowledge derived from our involvement with frontline operations, including the customers, competitors, and suppliers. Thus, we avoided overpaying and utilized know-how gained from the business reforms implemented at MH to improve its performance and swiftly realize latent synergies. In the North American construction materials business, we pursued multiple strategic acquisitions and swiftly identified market trends and consumer needs by thoroughly conducting hands-on management and strengthening frontline operations. Sharing such information among our relevant group companies has helped us to successfully reform businesses using a market-oriented perspective to rapidly reflect market trends in the management of each company, and to establish a business foundation, capable of implementing effective initiatives throughout the entire supply chain.

### Acquisition of Alta Forest Products LLC (ALTA), a leading U.S. Wooden Fence Manufacturer

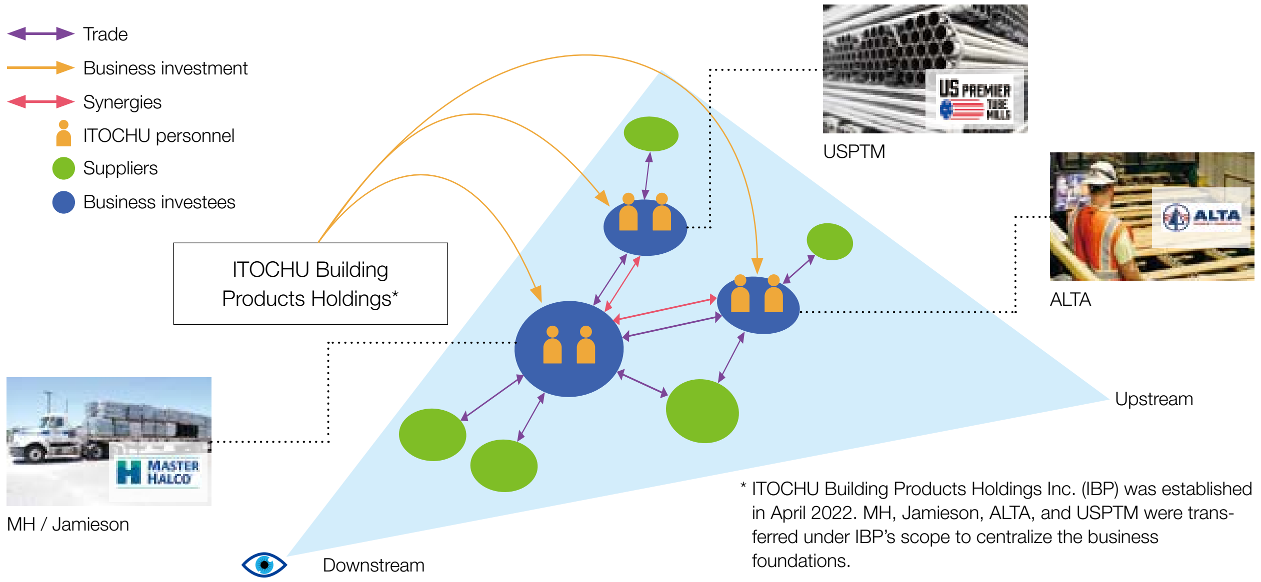
In FYE 2018, ITOCHU and ITOCHU International Inc. acquired a wooden fence manufacturer ALTA. Given that MH's mainstay product was chain link fences for commercial facilities and with an eye to the residential fence market, which was expected to see robust growth due in part to the rising population, we constructed a new pillar of revenue through this acquisition successfully. ALTA commands an overwhelming presence in the production of residential fences made with high-grade western red cedar. This type of wood is considered to be a premium material and is very popular among affluent customers. Moreover, after buying ALTA we succeeded in improving profitability through effective data management, development of attractive products using MH's market data, and strengthened relationships with major home improvement retailers through efforts to improve the product brand awareness. Consequently, these efforts enabled us to expand the earnings base of ALTA.

### Acquisition of Jamieson Manufacturing Co. (Jamieson), a U.S. Fence Manufacturer and Wholesaler

In FYE 2020, MH acquired its industry peer Jamieson and quickly went to work to successfully expand its sales channels and cultivate new customers. Subsequently, MH fully integrated Jamieson in FYE 2021, thereby merging their sales strategies and further expanding the earnings base. Furthermore, the number of consumer contact points increased through an expanded network of major home improvement retailers afforded by the integration, and has led to stronger product development that accurately identifies customer needs.

### Acquisition of US Premier Tube Mills LLC (USPTM), a U.S. Chain Link Fence Pipe Manufacturer

In FYE 2021, MH acquired USPTM, which was a supplier of pipes for chain link fences. The founder of USPTM had been considering a business transfer due to his age, and he approached MH for a direct sale after recognizing that MH had developed a strong presence in the chain link fence industry after the acquisition of Jamieson. By acquiring USPTM, MH expanded its supply chain and enabled the in-house production of major components for chain link fences.




* ITOCHU Building Products Holdings Inc. (IBP) was established in April 2022. MH, Jamieson, ALTA, and USPTM were transferred under IBP's scope to centralize the business foundations.

## Steppingstones for Creating New Added Value

IBP was founded in April 2022, and centralization of group companies, their business administrative functions (such as accounting, human resources, and IT), and infrastructure (such as ERP systems) under IBP was undertaken to raise the earnings generating capabilities of this group of companies. Also, IBP established systems to make various business decisions, including those regarding acquisitions, in a quicker and more effective manner by consolidating information gained from the front lines of relevant group companies.

Going forward, in addition to investing in outdoor residential-related businesses such as decking, which is expected to have synergy with the existing fence business, IBP is considering entering the residential wood business, etc., by combining the product development capabilities and factory operation know-how of DAIKEN CORPORATION [in August 2023, ITOCHU announced a tender offer bid for DAIKEN CORPORATION], a business partner in the housing structural materials business (CIPA Lumber Co. Ltd. and Pacific Woodtech Corporation), with our customer and distribution network and business management know-how. We intend to further expand our product lineup and value chain and strengthen our earnings base. (▶ Page 111 Acquisition of North American Engineered Wood Products (Posts and Beams) Business)

At the same time, we will continue to focus on training managers to fortify their sense of international perspective and hands-on management style, which are necessary for our business expansion. In the North American construction materials business, we have conducted systematic personnel training. We dispatch junior employees to the front lines so that they can gain an understanding of industry practices and the nature of the businesses while accumulating frontline operational experience. We then promote them to management levels within the Group companies. Going forward, we will endeavor to create an optimal structure through methods such as training personnel who can apply ITOCHU's unique hands-on management style to local workplaces. We will continue building a robust management system to fortify the earnings generating capabilities of the North American construction materials business.

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

There has been increasing of needs for transforming companies' business model by using digital technologies to follow changes of social environment accelerated mainly by the COVID-19 pandemic. Promoting digital transformation (DX), which has been essential for business model transformation, in addition to conventionally developing systems to meet customer's demand, it requires high-value-added solution proposal capabilities throughout the value chain, based on a market-oriented perspective, such as consulting and data analysis to clarify frontline issues in accordance with customers' situation.

ITOCHU has capital and business alliances with multiple digital businesses which have a wide range of DX-related capabilities. By accelerating strengthening of the collaboration between CTC and those digital businesses, we are expanding our value chain in digital fields and identifying society's DX needs. Through such initiatives, we will diligently work to further enhance our earnings base.

## Polishing CTC and Building a Digital Value Chain

The ICT & Financial Business Company is a segment that has become a distinctive and major strength of ITOCHU. CTC is one of the major system integrators (SI) in Japan, and our Group company which plays a core role in business of the ICT & Financial Business Company. To date, CTC has been polishing its businesses and accumulated advanced technological expertise by system developments using the latest technologies and solutions cultivated through ITOCHU's investments in venture capital funds, including investments in companies operating in Silicon Valley. As a result, CTC has a robust customer base of over 10,000 companies, mainly telecommunication carriers and other major companies. By leveraging its robust customer base, CTC provides a wide range of services encompassing the design and development capabilities for high-level IT infrastructure and systems for customers, as well as the sale and maintenance of IT-related products. Furthermore, CTC also establishes stable earnings base unlike its competitors.

In line with recent structural changes, including rising demand for DX technologies in business strategy areas exceeding conventional internal systems and the shift toward cloud services for IT infrastructure, the functions that customers seek are becoming more diverse and complex, going beyond standard system design and development. When promoting DX technologies that are focused on business model transformation, we first provide consulting to explore issues that customers face, and conduct a cost-benefit analysis of DX. We then propose solutions based on customer data analysis. Next, we begin system development based on our findings. To comprehensively address customers' needs by leveraging CTC's accumulated strengths, ITOCHU will strengthen its organization to be able to provide a wide range of functions from upstream to downstream, in part through our capital and business alliances with our group of digital businesses.

## Creating Added Value through Collaborations between CTC and Our Group of Digital Businesses

CTC and our digital businesses are enhancing their collaborations by jointly undertaking DX projects that introduce systems and solve issues faced by ITOCHU and its Group companies. One example of these collaborative efforts is an initiative for AI automated ordering systems at NIPPON ACCESS, INC. (NIPPON ACCESS) which calculates the recommended order volume of 1,500 products destined for FamilyMart using AI technologies to analyze operational data from FamilyMart and NIPPON ACCESS. This system was built through an alliance between CTC and BrainPad Inc., which has strengths in data analysis. Utilizing AI automated ordering systems is expected to reduce food losses, enhance efficiency of ordering operations at distribution centers of NIPPON ACCESS, and optimize inventory control.

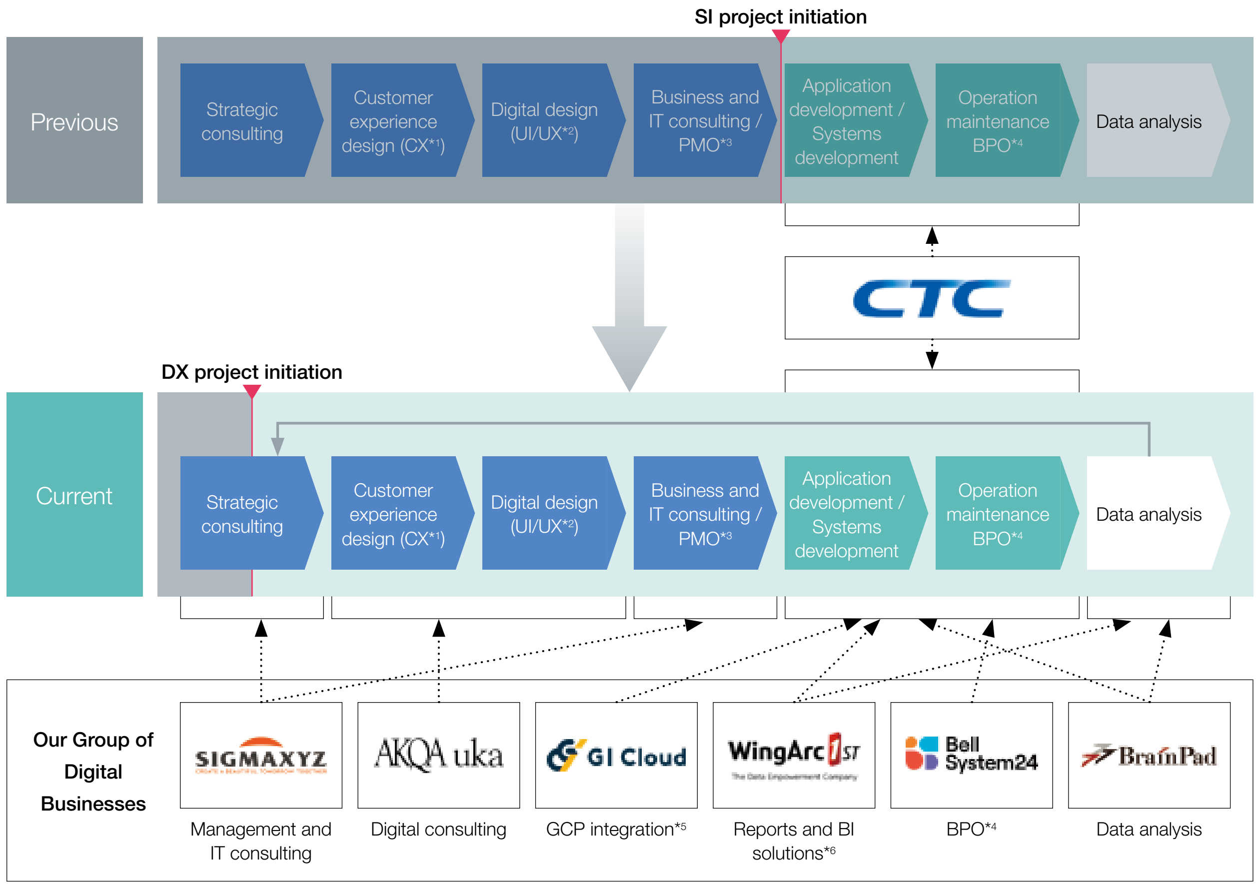
Furthermore, in May 2023, BrainPad Inc., SIGMAXYZ Inc., and CTC jointly launched the "Generative AI Research Lab" project. This initiative harnesses generative AI technologies like ChatGPT to drive corporate process transformation and facilitate the development of innovative business opportunities. In July 2023, we introduced a secure environment allowing our employees to leverage ChatGPT while ensuring data confidentiality. Already, this capability has been adopted by a user base exceeding 1,000 employees. Looking ahead, we have plans to not only integrate this technology with our operational systems and expand its usage within our Group but also to embark on new initiatives utilizing generative AI. These include proposing optimal products and services tailored to customer attributes in the consumer sector. The promotion of DX on the front lines of Group companies in the consumer sector, which is a strength of ITOCHU, has become a rich testing ground for digital businesses, contributed to the accumulation of expertise and know-how, and strengthened alliance with CTC. ITOCHU, CTC, and other participants in our group of digital businesses are promoting collaboration in terms of human resources through the mutual dispatch of about 50 personnel in total, and working to construct a more robust DX promotion system.

## Deepening and Evolution of the Digital Value Chain

In the consumer sector, which is a strength of ITOCHU, we urgently need to strengthen our ability to make proposals based on analysis of the massive amount of data gained from customer contact points to uncover latent customer needs, and to be able to provide high-value-added products and services. Recognizing the need for our corporate Group to swiftly and accurately respond to such customer needs, we announced the tender offer bid for CTC in August 2023. CTC and our digital businesses will leverage the expertise and know-how gained within our Group related to DX applications in the consumer sector, and then apply and develop for all customers, thereby further expanding our profits. Moreover, CTC and our digital businesses are not restricted to only the consumer sector. We aim to strengthen our business foundations a step further by leveraging ITOCHU's expansive domestic and international network to cultivate the latent DX needs of our highly diverse range of customers.

### CTC's Strengths (As of April 2023)

| | | | | |
|---|---|---|---|---|
| 40 years R&D track record in Silicon Valley | Global partners More than 300 companies | Customers Approx. 10,000 companies | Customer satisfaction 89% | Number of Engineers 7,234 |




*1 Customer Experience
*2 User Interface / User Experience
*3 Project Management Office
*4 Business Process Outsourcing: Outsourcing of some business processes, from planning and designing to operation
*5 GCP integration: Provide a full range of services from system development to operation and maintenance based on Google Cloud
*6 BI solutions: Problem-solving through the use of Business-Intelligence tools