Investor Briefing on FYE 2021 Business Results and New Medium-Term Management Plan: Q&A Summary

This document is an English translation of a statement written originally in Japanese. The Japanese original should be considered as the primary version.

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Respondents: Keita Ishii, Chief Operating Officer
Tsuyoshi Hachimura, Chief Financial Officer
Hiroyuki Naka, Chief Digital & Information Officer, General Manager of Corporate Planning & Administration Division
Kazuaki Yamaguchi, Deputy CFO, General Manager of General Accounting Control Division

1. Investment and Shareholder Returns (Cash Allocation) Related

Q: With ¥600.0 billion in consolidated net profit to be achieved during the medium-term management plan, dividends of ¥100 per share would mean a dividend payout ratio of around 25%, which is a low level, whether talking about the general trading company sector or any other industry. It was explained that ¥100 per share is not an upper limit, but after the announcement of the new management plan, investors were especially discouraged by that point. What do you think about the difference with ITOCHU's future target of raising its payout ratio to 30% as outlined in the Medium- to Long-term Shareholder Returns Policy announced in FYE 2019? Is there room for the level of dividends to be revised upward going forward?

A: While there is no change in our policy to raise the payout ratio over the medium to long term, we currently think that rather than pinning down a time frame during the medium-term management plan, it is important to make it clear that we will steadily raise the actual dividend amount. Our ongoing policy is to maintain positive core free cash flows after shareholder returns and to strike a balance among shareholder returns, growth investments, and interest-bearing debt control. We realize that this policy contributes to the current share price valuation. Also, we are aware that our policy of progressive dividends and targeting sustainable EPS growth through profit growth is helping us build our reputation with investors. ¥94 per share is the minimum for FYE 2022 and includes the potential for upward revision as mentioned in our released materials, and we are focused on steadily raising dividends on an actual basis. Our payout ratios may appear relatively weaker than other general trading companies. However, we aim to achieve ¥100 per share sometime during the medium-term management plan. This ¥100 per share is similarly a minimum for the plan's period. Considering cash allocation, relative to shareholder equity that is not robust enough compared with other general trading companies, we need to work to achieve a certain level of enhancement. Furthermore, considering that we will need to steadily pursue growth investments for business model transformation, we cannot overly focus only on allocations to shareholder returns and will need to achieve balance. Based on the progress in growth investments and accumulation of core operating cash flows, we will strive to more closely approach a payout ratio of 30%.

Q: Regarding the investment policy under the medium-term management plan, could you tell me the assumed investment areas and large-scale projects? In addition, the NET DER is around 0.7 times, but what is the cash allocation policy if investment does not proceed as expected?

A: We consider the balance between dividends and investment, and it is not our policy to prioritize investment and decrease dividends. As for investments in FYE 2021, besides the large investment in FamilyMart, we invested ¥165.0 billion in CAPEX, for which we normally spend around ¥150.0 to ¥200.0 billion every year, purchased additional shares in listed affiliates to provide support in light of the uncertain business environment, invested in PPIH through FamilyMart, and also conducted multiple small investments. During the medium-term management plan, we need to achieve a major business transformation, but we do not intend to change investment criteria just as we have not changed those for next-generation investments in preceding fiscal years, whether SDG- or GHG-related. Each Division Company is planning many investments for business transformation. There are no investments over ¥100.0 billion, but there are multiple investments in the tens of billions of yen. The gross total is in line with an investment plan exceeding FYE 2019 and FYE 2020. Division Companies are considering investment areas, and headquarters has no policy to specifically limit these. We believe that NET DER is sufficient at around 0.7 to 0.8, and we will not deliberately lower the current level. On the other hand, we want to expand the shareholder equity ratio to at least 30% and believe that the current level is insufficient. As for surplus funds to be secured in cases where investments fail to move forward, we are not yet positioned to make a clear judgment unless we make headway under the medium-term management plan. In FYE 2021, given the large investment in FamilyMart, we set a strict investment selection policy for other Division Companies, but in FYE 2022, we will not work to discourage investment among Division Companies.

2. Growth Strategy and GHG Related

Q: Could you tell me the specific measures that will act as a growth driver for raising the ¥500.0 billion in consolidated net profit, which was the level recorded in FYE 2019 and FYE 2020 prior to the pandemic, up to ¥600.0 billion as outlined in the basic policies of the medium-term management plan?

A: We think that as we move out of the worst part of the pandemic and as vaccines become more accessible, ITOCHU's operations as a whole will be back to normal, especially in the apparel, tire and aircraft-related businesses, which had been heavily impacted. Furthermore, against a backdrop of an acceleration toward remote services, demand is expanding for digitization as companies aim to achieve more efficient management and transform business models. In the ICT and financial field, where ITOCHU holds a competitive advantage, we project continued strong performance in the system development and operation business, as well as consulting, run by ITOCHU Techno-Solutions and BELLSYSTEM24 Holdings. Regarding our business transformation via a shift to a market-oriented perspective, we are working to construct a value chain stemming from the largest insurance shop HOKEN NO MADOGUCHI GROUP, digitize the unlisted FamilyMart and build a data management platform (DMP). Regarding SDGs, although hydrogen- and ammonia-related businesses take time, several measures in midstream and downstream areas, which are ITOCHU's area of expertise, are heading toward generating revenues during the period of the medium-term management plan. In addition to the representative Energy Storage Systems (ESSs), we can expect revenues from the decarbonization business, such as CO_2 capture, utilization and storage (CCUS); eco-friendly fuels; recycled textiles; waste steel recycling, non-ferrous recycling, and high-tension materials; and Energy from Waste businesses. Our endeavors from two to three years ago are starting to be established as businesses. These businesses are contributing to profit, and we believe it is sufficiently possible to raise consolidated net profit by ¥100.0 billion, from ¥500.0 billion up to ¥600.0 billion.

Q: Can you tell me about the reason for the year-on-year increase in profit for FYE 2021 in the Power & Environmental Solution Division as well as the profit scale and timeline going forward?

A: As for Energy Storage Systems (ESSs), although sales from in-person marketing were harsh due to the pandemic, performance only declined slightly year on year due to higher environmental awareness and emergency preparedness demand (BCPs, etc.). In addition, FYE 2021 results were higher than expected due mainly to an increase in profit earned by startup companies we invested in as well as strong sales of raw materials owing to the start of operations of biomass power stations. Our policy is to continue focusing on this area, and we will work to further enhance the convenience of ESSs and expand future business by connecting micro networks to small networks through the Company's ESSs. In May 2021, based on consumer needs, we will release ESSs equipped with increased storage capacity (9.8 kWh to 13.1 kWh) and EV charging functions. These products will also provide enhanced convenience, enabling users to acquire environmental value points through CO_2 reductions. Expanding our network through these measures will also help expand our new electric power supply chains and our electric power sales network. VPP Japan plans to undertake a pilot project to capture demand for roof borrowing solar PPAs (power purchase agreements). In addition, we are already working to further expand our network by recycling the retired batteries procured from BYD in China into container batteries of around 100 kWh. 24M is set to begin the mass production of a new highly flame-retardant and convenient semi-solid battery. In addition to employing this product in our ESS business, we will build a network supporting future business expansion by, for example, researching and developing fire extinguishing sheets for liquid state batteries, and creating stronger battery components. Furthermore, 24M technologies are adopted by Japanese manufacturers taking on mass-production, and the contracts allow ITOCHU to preferentially sell 24M batteries, except for a certain number allocated to such manufacturers for their own use. We aim to achieve profit of around ¥15.0 billion to ¥20.0 billion under the medium-term management plan though revenues from initiatives discussed above, in addition to those from ESS production, marketing fees due to an increase in sales volume, and increased revenue due to an increase in the number of AI system users.

Q: ITOCHU has announced the development of hydrogen and ammonia value chains as a key endeavor contributing to reduction in CO_2 emissions. In order to take advantage of ITOCHU's strengths in this area, what aspects does the Company intend to focus on during the medium-term management plan?

A: In Japan, we intend to engage in the production, transportation and storage of blue ammonia. As this endeavor is expected to become an extremely large project, ITOCHU will not be able to handle every related operation. Therefore, this will require collaboration with consumers, transporters and, if necessary, other general trading companies. It may eventually become something resembling a national project. In the midstream and downstream of such value chains, we aim to be involved in businesses related to hydrogen vehicles (including trucks and busses) as well as hydrogen distribution, such as hydrogen stations. We believe that ITOCHU has advantages in these operations due to the presence of our subsidiary, ITOCHU ENEX. Also, efficiently converting hydrogen into energy is a matter of importance. In this regard, we are considering the incorporation of hydrogen power generation units into ITOCHU's grid networks, employing such units as one of the distributed power sources.

Q: Please explain the positioning of collaborative initiatives to be carried out in tandem with CITIC during the medium-term management plan.

A: Collaboration with CITIC is intended to be a medium- to long-term endeavor. Its positioning as a key component of ITOCHU's China strategies is unchanged. Our medium-term management plan sets forth two basic policies, namely, "taking a market-oriented perspective" and "addressing SDGs." We believe that collaboration with CITIC is consistent with these two major policies. CITIC announced an annual profit target of 100.0 billion Hong Kong dollars, approximately two times higher than the current level, as part of its own medium-term management plan spanning 2021 to 2025. In line with this plan, CITIC specified five priority fields ("comprehensive finance," "new retail," "innovative materials," "innovative manufacturing" and "smart city"). For ITOCHU to practice a "market-oriented perspective," collaboration with CITIC will thus involve the development of a retail business in China via the promotion of digital transformation (DX). This business will target the fields of insurance, which is a part of "comprehensive finance," and "new retail." At the same time, CITIC, along with CP, publicized its target of achieving carbon neutrality in 2050 and initiated discussion regarding how to address SDGs. CITIC's approach thus coincides with ITOCHU's policy of addressing SDGs. Although we are not positioned to discuss a specific project, ITOCHU and CITIC are considering collaborative initiatives in next-generation energy, renewable energy, waste treatment and other fields. With CP, we are considering initiatives in recycling, solar power generation and biomass. Initiatives in "comprehensive finance" and "new retail" have already started. We look forward to disclosing such initiatives during the period of this medium-term management plan.

Q: With regard to FamiPay and other initiatives associated with FamilyMart, please explain future growth strategies for these operations, the expected size of profit arising from them and the time frame for achieving such profit.

A: Core profit to be earned by FamilyMart alone in FYE 2022 is estimated at ¥31.0 billion (¥14.0 billion in FYE 2021). Previously, however, FamilyMart had stated a profit target of ¥60.0 billion. We will strive to raise FamilyMart's profit to this level at the earliest possible date. With a new president taking office, FamilyMart is particularly focused on three points: developing new products; pursuing customer convenience; and making its stores a more familiar place to the general public. Compared with FYE 2020 results, FamilyMart's daily store sales have yet to recover, and the ongoing impact of the COVID-19 pandemic is expected to remain even in FYE 2022. Addressing these issues, we are striving to streamline logistics expenses for the entire ITOCHU Group while pushing ahead with overseas expansion, advertising and other business endeavors. We are also working to enhance the financial functions offered by FamilyMart stores. Although FamiPay app has achieved 8,090,000 downloads as of March 31, 2021, improving user convenience and increasing the number of users will be a key to its success. To this end, we have already announced loan payments, deferred payments and other micro finance solutions available via FamiPay. Taking full advantage of ITOCHU's financial business know-how in consumer finance and settlement-related operations, we will make ongoing efforts to develop these financial functions even beyond the period of the medium-term management plan so they contribute more to the profit target of ¥60.0 billion. On the other hand, the delisting of FamilyMart enabled it to push ahead at a faster pace than ever with the reduction of logistics expenses, development of AI-based ordering system, and the utilization of store spaces as an advertising medium. From these initiatives, we expect a substantial positive effect to emerge during the period of the medium-term management plan.

Q: Did you factor the effect of FamilyMart's overseas expansion into the medium-term management plan? Also, could you describe the expected level of FYE 2022 profit earned by CPP?

A: With regard to operations in China, FamilyMart is engaged in ongoing litigation with Ting Hsin, but expecting to reach earlier settlement. In China, the introduction of new technologies in convenience store businesses has been progressing faster than our estimate. Although we may possibly partner with overseas platform operators or other external players, such possibilities are not factored into the medium-term management plan. CPP will be affected by the absence of extraordinary profit associated with the reorganization of its Chinese livestock-related business carried out in FYE 2021, while current surges in pork prices in China and Vietnam are likely to peak. Accordingly, CPP's core profit is expected to somewhat decrease from the FYE 2021 level.

Q: Could you discuss the expected volume of ITOCHU's GHG emissions in 2030 and 2040, based on figures after the divestment of Drummond's interest. Please also explain ITOCHU's action plans, milestones and promotion structure for achieving its 2030 and 2040 reduction targets.

A: Our reduction targets for GHG emissions are defined using the FYE 2019 level as a benchmark. Therefore, the reduction of 16 million tons attributable to the divestment of Drummond's interest is already factored into our 2030 target of reducing GHG emissions by 40%. For general trading companies, their achievements in reducing GHG emissions will be impacted mostly by how much they curbed Scope 3 emissions. This, however, positions them to face difficulties in achieving their targets. Curbing Scope 3 emissions one way or the other requires suspending some of our businesses, even though doing so would entail a loss of profit. Although reduction targets for GHG emissions tend to be largely premised on technological innovation, we have concluded that the earlier disclosure of a policy of voluntarily withdrawing from existing emission-intensive operations is of the utmost importance. That's why we have announced the targets. To this end, we have earmarked our thermal coal interests and coal-fired power generation for divestment, as both draw particular criticism among operations typically run by general trading companies. ITOCHU has thus become the first domestic general trading company to disclose the volume of its GHG emissions from fossil fuel-related operations and interests, including those held via its subsidiaries, affiliates, and general investments. Thanks to the divestment of Drummond's interest, we expect to reduce GHG emissions down to 21 million tons in FYE 2022, compared with 37 million tons recorded in FYE 2019. With regard to the remaining Australian thermal coal interest, we have already secured an allowance for exit-related costs in FYE 2021. We are thus aiming to completely withdraw from thermal coal interests during the medium-term management plan, thereby expecting to halve the volume of GHG emissions from the FYE 2019 level to between 16–18 million tons. Other reduction measures that can be voluntarily carried out are limited, but we also expect the industry as a whole to pursue a similar shift toward becoming "emission-free." Accordingly, our reduction targets reflect the estimated amount of reduction that will come from such a shift based on GHG protocols.

3. Other

Q: Please elaborate on the impact of the COVID-19 pandemic on the FYE 2021 results, including positive factors arising from this phenomenon. Also, please give your projections on business areas that would be affected in FYE 2022.

A: In FYE 2021, the Textile and Chemicals companies were positively affected by growing needs for healthcare- and hygiene-related offerings, respectively. Economic stimulus packages carried out by each country served as another positive factor. Nevertheless, the pandemic's overall financial impact amounted to a negative

¥56.0 billion, excluding the negative effect of commodity prices. For FYE 2022, although we anticipate economic recovery in step with progress in vaccination, along with the ongoing recovery trend in the Chinese economy, the current situation does not allow us to become optimistic due to such factors as the state of emergency, the third such round, declared by Japan in April. Therefore, we need to transform our operations in line with the businesses and daily life with COVID-19. We forecast that our results in FYE 2022 will be substantially affected by the pandemic in the first half, but we expect its fallout to start tapering off in the second half. With this in mind, we anticipate a negative ¥40.0 billion impact arising from the pandemic's fallout in terms of full-year results. Of this amount, negative financial impacts to be recorded by our domestic operations will account for around 80%. With regard to the convenience store business, we don't believe it will be impacted as hard as it had been in FYE 2021. However, the negative financial impact on this business is nevertheless estimated at around ¥13.0 billion. Also, in the Textile Company, which is expected to benefit from growing e-commerce needs, we assume an approximately negative ¥7.0 billion impact due to the pandemic's fallout as restrictions on in-person sales remain in place. In the Food Company, moreover, we assume an approximately negative ¥3.0 billion impact due to the pandemic, as demand for products targeting convenience stores, restaurants and other fields has yet to be fully recovered. The European tire business run by the General Products & Realty Company already recorded impairment in light of lockdowns and other prevailing circumstances, and it will take a little more time to bring this business to full recovery. The aircraft leasing business managed by the Machinery Company is currently subject to the ongoing impact of movement restrictions. Similarly, conditions surrounding the automobile business, especially in terms of retailing and exports, leave no room for optimism. Accordingly, we maintain a cautious stance with regard to its future outlook.