

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.

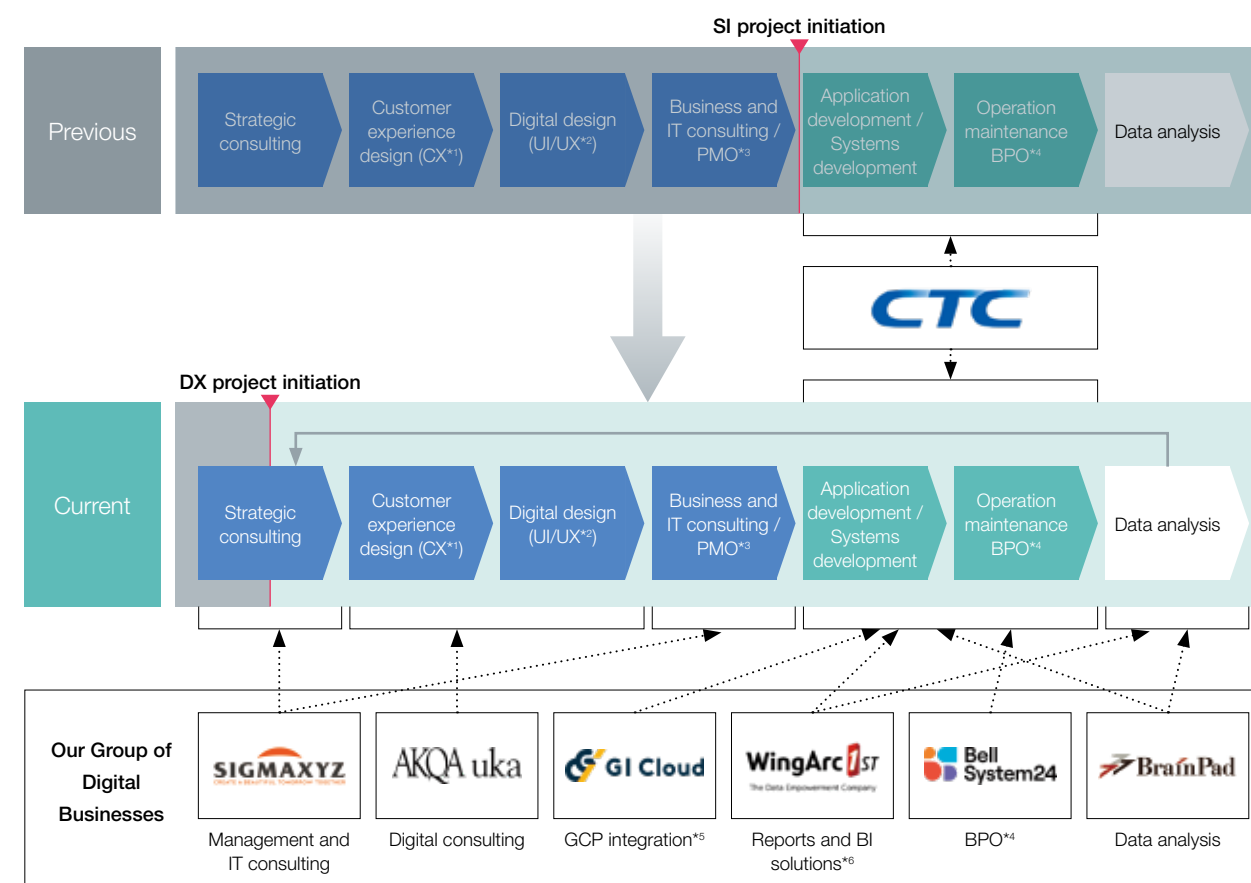
Furthermore, in May 2023, BrainPad Inc., SIGMAXYZ Inc., and CTC jointly launched the "Generative AI Research Lab" project. This initiative harnesses generative AI technologies like ChatGPT to drive corporate process transformation and facilitate the development of innovative business opportunities. In 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)



*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