

## COO MESSAGE

and restarts of numerous coal-fired power plants, which can generate low-cost electricity, have been announced. Even in Japan, demand for alternative sources of thermal coal to replace Russian-produced coal is rising due to high demand from electric power companies, and is stalling current decarbonization efforts. ITOCHU announced its complete withdrawal from thermal coal interests during the current medium-term management plan period, and from FYE 2019 our Company has sold three of its four thermal coal interests ahead of similar moves by other general trading companies. While there is no change in our plan to sell the remaining thermal coal interest to achieve a complete withdrawal from this business, we seek to achieve an appropriate withdrawal at the right time after fully considering such factors as our responsibility for stable supply as a general trading company and economic rationale, namely what would be a fair sale price for the remaining interest amid the current decline in thermal coal prices. Regarding the progress of this sale going forward, we will provide briefings to stakeholders when appropriate. (► Page 78 Approach to Climate Change and Related Initiatives)

ITOCHU's policy is to reduce GHG emissions through its main business of trade and business investment. However, to sustainably and steadily reduce GHG emissions, we need to take into account our business profitability that is subject to any GHG emissions reduction activities as part of our overall SDGs-related business that is firmly connected to the "earn" principle, to ensure that we maintain our current earnings generation capability and sustainability of our Company. Since regulations to reduce GHG emissions have been formulated in the aviation industry, demand for sustainable fuels has been growing. ITOCHU is steadily promoting activities for the

start of sustainable aviation fuel (SAF) supplies to replace existing jet fuels to aviation companies in Japan and overseas. The supply of SAF does not require large-scale capital expenditure because we can leverage the business know-how we have already built up through our trading business. This is the well-grounded way for us to promote SDGs-related businesses. In addition, ITOCHU serves the steel industry, which is facing pressure to reduce its high levels of GHG emissions and decarbonize. And to help our steel industry customers meet these environmental demands, we invested in high-grade Canadian iron ore interests to supply low-carbon raw materials of direct reduced iron in FYE 2023. Some people may have felt it odd that ITOCHU, which is focusing on the non-resource sector in Japan, invested in this overseas resource sector project. However, our Company was able to purchase this project under preferential terms because it was related to one of our long-time business partners. And without these bonds of trust, we would not have been able to acquire this resource business, which has a high value for its scarcity and excellent cost competitiveness. Not only the contribution for short-term profits, but over the medium- to long-term, we expect further expansion of business opportunities by building a supply chain that can provide low-carbon direct reduced iron, which uses high-grade iron ore as raw material. Thus, in addition to the "earn" principle, we will provide solutions for addressing issues in various industries. In other words, we will simultaneously pursue economic value as well as environmental / social value as we steadily fortify our SDGs-related business. (► Page 81 Creating a Supply Chain of the Ferrous Raw Material for Green Ironmaking with Low Carbon Emission)

## Breaking Down the "Three Walls"

When conducting business, we need to be alert to the tendency of unconsciously erecting walls based upon differences in organizations to which we belong, generational gaps, career paths we have taken, and other factors that may separate us. I believe breaking down these walls will help further enhance ITOCHU's comprehensive strength. I have noticed "Three Walls" since becoming President & COO.

The first wall is the organizational structure. General trading companies usually build vertical structures in line with each industry and product line. When visiting customers, I envision the functions and expertise our partners require from our Company, and then bring along multiple employees from different Division Companies to be able to respond to as wide a range of their needs as possible. For example, the automotive industry is making a sharp turn toward EVs and electrification. When I visited the president of an automobile manufacturer, I was mindful of promoting cross-industry alliances, including those with IT companies,

battery manufacturers, and others to supplement the various functions that automobile manufacturers themselves do not maintain internally. I also brought along Energy & Chemicals Company employees well-versed in energy storage systems, the power business, and other relevant businesses in addition to Machinery Company employees, who have direct expertise in the automotive industry. EVs are more than vehicles for moving people and items. Through their ability to charge and discharge electricity at homes and buildings, they are likely to become an important tool in supporting regional electric power networks. ITOCHU has strengths in fields closely related to EVs, namely the value chain related to energy storage systems and electric power retail. Furthermore, we are leveraging the Company's comprehensive strength to steadily expand the business by utilizing solar power generation for EVs at ITOCHU ENEX CO., LTD., etc., and installing charging equipment at our FamilyMart stores. ITOCHU's concept of EV possibilities and our peripheral businesses are what the



president of the automobile manufacturer needed. After multiple discussions, ITOCHU was chosen as a partner, and an alliance was built to provide various functions needed for the introduction and spread of EVs. General trading companies typically have walls between each of its organizations. But because I am the President & COO, these walls are irrelevant to me. I am not bound by particular industries or products, and I will continue to expand our businesses by breaking down organizational walls together with employees to create businesses rooted in a market-oriented perspective that identifies customer changes and needs.

The second wall is communication. After COVID-19 pandemic-related restrictions were lifted, there has been an increase in the number of dinners and drinks among employees. This might be an outdated idea, but for ITOCHU, which considers people to be its greatest management resource, I believe these shared meals and other opportunities to meet socially allow employees to openly discuss business and their passionate ideas about the future help to build bonds of trust internally and facilitate the smooth execution of our businesses. Given the result of the engagement with junior employees, effective work styles are needed now. It is important to deepen relationships and enhance the quality of our internal communications. At the time I joined ITOCHU, we had the luxury of taking time to learn the business by watching the senior employees around us. But today, due to time constraints, I guess many employees are solely focused on the tasks directly in front of them, and do not take the time to converse with others about various topics. I believe

that it is important for supervisors to not simply lead their subordinates by example, but to carefully explain expected roles, skills, and future visions, while showing and training them how to solve problems. Once subordinates understand the expectations placed on them by supervisors they can trust, they can go out to the front lines and find a sense of fulfillment in their work. This sense of fulfillment in turn will surely allow them to become absorbed in their work. Over ITOCHU's long history of more than 160 years, the tradition of succession, where people we have trained go on to train the next generation, has become strong. I will continue to tear down communication barriers and work in unison with the entire Company to expand our business.

The third and final wall was within my own self. I had primarily been involved in sales and marketing. Therefore, I was relatively unfamiliar with the realm of IR activities. Consequently, my responses to questions from analysts and investors were simple and not in depth, due in part to my assumption that I needed to deploy specialized terminology, and give official answers as a firm. Against this backdrop, I received advice from an analyst who said, "You should be more yourself, you do not need to focus on small details. I prefer to hear your own ideas and views." I figured the field of IR was a unique and highly specialized realm. However, speaking frankly using my own words is actually just an extension of the sales capacity I had engaged in up until then. By breaking down the wall within my own self and communicating my own ideas, I will continue to strengthen my bonds of trust within the capital markets.

## Returning to the Front Lines

We have achieved two consecutive years of consolidated net profit of over ¥800.0 billion since I became President & COO. But honestly speaking, this was partially thanks to yen depreciation and high resource prices. To ensure the ¥800.0 billion profit level becomes a solid foundation, we must not become complacent with our current situation, nor should we stand still. Going forward, we will build a robust earnings base as we recognize FYE 2024 to be an extremely important year for our growth investment strategy, given the unprecedentedly volatile nature

of the current business environment. We will maximize synergies through our hands-on management approach, and by leveraging the lessons learned from past mistakes. At the same time, we will continue to pursue our growth investments. Furthermore, I would like to thank all our stakeholders for their support until now, and look forward to your continued support in our future endeavors. (► Page 65 Special Feature 2: Polishing Our Existing Business and New Steppingstones)