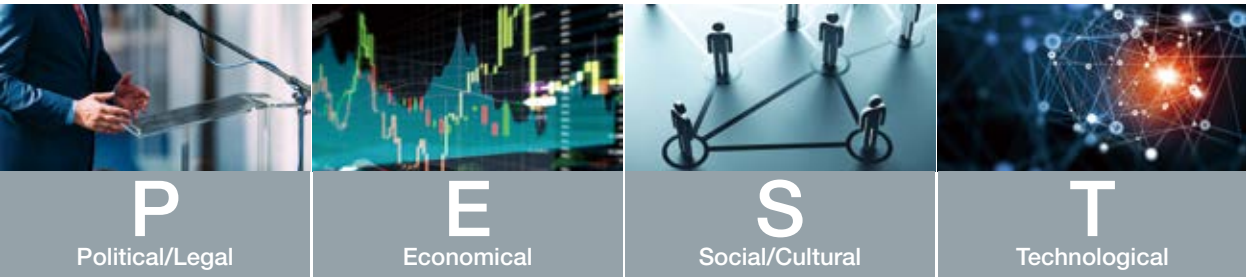


PEST Analysis (Macroenvironmental Factors through 2030)



The ITOCHU Group’s business environment is changing, and uncertainties are increasing. Through PEST analysis, we fully assess risks and opportunities in the context of macroenvironmental factors—such as economic recession risks, geopolitical risks, and responses to the SDGs—and build an even stronger competitive edge by implementing flexible measures and transforming businesses in response to changes in the times and the business environment.

How to understand this page

In the graph for each macroenvironmental factor, the upper part represents our view of the balance between the degrees of impact of risks and opportunities, while the lower part represents our projection of changes in the degrees of impact through 2030. It also identifies the related non-financial capital (NFC).

Balance of risks and opportunities

Long-term trend through 2030

Change in Investment Environment


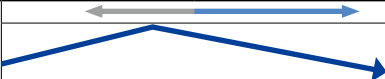

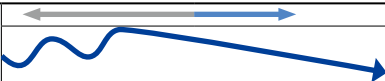
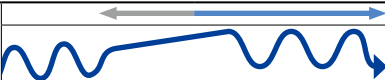
Example: Change in Investment Environment

This represents instances where the effect of opportunity is greater than that of risk, and the degree of effect (investment opportunity) is expected to increase over the near- to medium-term, despite uncertainty. Moreover, this represents instances where the long-term outlook is difficult to predict.

Risks		Opportunities	
<b>Political Trends</b> — Related NFC: <span>Business Portfolio</span> <span>Client and Partner Assets</span> <span>Natural Resources</span>			
Unpredictable policy changes and headwinds for the growth of profit	<b>Retreat of liberalism and democracy (political instability, inequality issues, etc.)</b>	Increase in business opportunities of consumer-related businesses	
Deterioration of the global economy, decline in trade volume, and tightening of export and investment restrictions	<b>Intensification of conflict between different political systems (democracy vs. authoritarianism)</b>	Reform of supply chains and difficulty in procuring food resources, energy, minerals, and resources	
Economic stagnation and financial market turmoil due to terrorism and military conflicts	<b>Geopolitical risks (Russia, East China Sea, South China Sea, Middle East, North Korea, etc.)</b>	Increases in prices of related items accompanying decreases in production and supply volumes	
<b>Economic Policy Trends</b> — Related NFC: <span>Business Know-How</span> <span>Business Portfolio</span> <span>Natural Resources</span>			
Slowdown in pace of economic growth	<b>Focus on sustainability instead of growth</b>	Stable economic growth	
Higher interest rates and increase in tax burden	<b>Normalization of fiscal and monetary policies</b>	Accelerated deregulation and society's expectations of the private sector with respect to economic growth, etc.	
<b>Changes in the Tax Code and Regulations</b> — Related NFC: <span>Business Know-How</span> <span>Business Portfolio</span> <span>Natural Resources</span> <span>Relationships with Society</span>			
Disappearance of existing transactions	<b>Trade talks, agreements, and de-risking (TPP, RCEP, IPEF, etc. economic security)</b>	Increase in trade volume and generation of new sales channels	
Shrinking of fossil fuel markets (coal, crude oil)	<b>Regulations to curb GHG emissions (Paris Agreement, etc.)</b>	Expansion of renewable energy markets (wind, solar, hydrogen, ammonia, etc.)	
Shrinking of existing transactions and increase in tax burden	<b>International tax trends (BEPS countermeasures, environmental taxes, corporate tax rate hikes)</b>	Generation of new sales channels through introduction of new taxes	
Increase in regulatory response costs and reputational decline or damage	<b>Tighter regulations in the digital technology field (competitive environment, information management, handling of personal data, etc.)</b>	End of data monopolies held by existing platformers and increase in availability of open data	

With the actualization of geopolitical risks, policies focus more on ongoing international cooperation as well as the stability of citizens' livelihoods. We will develop businesses amid the demand for appropriate corporate responses.

E

Risks		Opportunities	
Stagnation of the Global Economy — Related NFC: Business Know-How Business Portfolio Client and Partner Assets			
Decrease in business opportunities and trade volume		Emergence of new demand from changes in consumer and corporate behavior	
Greater Disparity in Economic Growth among Emerging Countries — Related NFC: Human and Organizational Capital Business Portfolio Client and Partner Assets			
Emergence of non-performing assets due to economic and social deterioration		In the global south, increase in consumer spending as standard of living improves and increase in demand for infrastructure and food resources as population grows	
Dollar Appreciation — Related NFC: Business Know-How Business Portfolio			
Depreciation in currencies of emerging countries; increase in overseas investment costs		Appreciation in value of assets denominated in foreign currencies and expansion of businesses that benefit from yen depreciation	
Volatility in Asset (Stocks, Real Estate) and Resource Prices — Related NFC: Business Portfolio Client and Partner Assets Natural Resources			
Formation and collapse of asset bubbles in specific fields and products		Growth in earnings from trading and increase in gains on asset disposal through timely disposal	
Change in Investment Environment — Related NFC: Business Know-How Business Portfolio Natural Resources			
Excessive swings in project value		Increase in expected returns as growth rebounds; more investment opportunities in fields and regions of strength	

With economic growth of developed countries slowing as populations level off and the gap in economic growth potential widening among emerging countries, we will determine the correct balance between growth fields and fields that will peak out.

S

Risks		Opportunities	
<b>Responding to Climate Change (Decarbonization)</b> — Related NFC: <span>Business Know-How</span> <span>Business Portfolio</span> <span>Client and Partner Assets</span> <span>Natural Resources</span> <span>Relationships with Society</span>			
Decrease in fossil fuel demand as awareness of the SDGs grows; increase in additional costs arising from decarbonization measures, higher power prices, and a reduction in the competitiveness of companies			
		Increase in business opportunities in energy supply chains; potential for acquisition of new customers due to heightening of added value or enhancement of brand value of existing products and services	
<b>Cultivating a Workplace Environment</b> — Related NFC: <span>Human and Organizational Capital</span> <span>Business Know-How</span>			
Labor shortages due to low birthrate; outflow of personnel; harassment, mental health, and long working hours; increases in health-related costs			
		Improvement in labor productivity due to utilization of IT tools and advancement of diversity; increase in flexibility of work systems; improvement in health and motivation; securement of outstanding human resources	
<b>Respecting Human Rights</b> — Related NFC: <span>Client and Partner Assets</span> <span>Natural Resources</span> <span>Relationships with Society</span>			
Human rights-related project delays and continuity risks (corporate image deterioration, lawsuits and contract cancellations, boycotts, strikes, etc.)			
		Business stabilization and recruitment through harmonious coexistence with local communities; enhancement of corporate image through promotion of ethical procurement	
<b>Increasing Awareness on Health and Quality of Life</b> — Related NFC: <span>Human and Organizational Capital</span> <span>Business Know-How</span> <span>Business Portfolio</span> <span>Client and Partner Assets</span> <span>Relationships with Society</span>			
Decrease in creditworthiness when safety and health issues occur, lower labor productivity, increase in resignation rate, and higher medical expense burden			
		Enhancement of productivity and brand image and lower medical expense burden; increase in demand for products and services compatible with a non-contact society, increase in demand for health promotion and visualization of food safety and security	
<b>Ensuring Stable Procurement and Supply</b> — Related NFC: <span>Business Portfolio</span> <span>Client and Partner Assets</span> <span>Natural Resources</span>			
Increase in additional costs arising from efforts to ensure stable procurement and stable supply of food resources, energy, mineral resources, etc.			
		Increase in demand for rare metals, rare earths, etc.; differentiation through construction of systems for stable procurement and supply provision that reflects consideration for environmental burden and economic security	
<b>Strengthening Governance Structure</b> — Related NFC: <span>Human and Organizational Capital</span> <span>Business Portfolio</span> <span>Relationships with Society</span>			
Decrease in corporate value assessment by investors; withdrawal of invested funds; exclusion from investment targets; decline in stock price			
		Rise in corporate value assessment by investors; inflow of investment funds; addition to investment targets; increase in stock prices	

Based on our corporate mission of "Sampo-yoshi," we will advance solutions to social issues by providing products and services that meet customer needs, creating new businesses, and replacing assets.

Risks		Opportunities				
Changes in Business Models Caused by Technological Innovation — Related NFC:		Human and Organizational Capital	Business Know-How	Business Portfolio	Client and Partner Assets	Relationships with Society
Obsolescence and extinction of existing business models due to proliferation of new technologies; leaks of internal data due to cyberattacks; confusion due to false information; increase in costs related to digital transformation		Creation and provision of innovative services and new business models; improve productivity and optimize overall supply chain through use of new technology				

By taking a market-oriented perspective to address rapid technological innovation and changes in consumer behavior, we will advance and accelerate the self-transformation of business models.