

SECOND PARTY OPINION

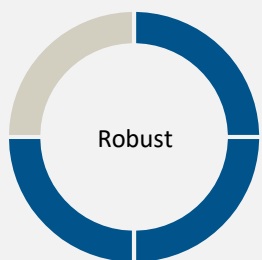
on the sustainability of ITOCHU Corporation's SDGs Bonds Framework

V.E is of the opinion that ITOCHU Corporation's SDGs Bonds Framework is aligned with the four core components of the Green Bond Principles 2018 ("GBP"), Social Bond Principles 2020 ("SBP") and Sustainability Bond Guidelines 2018 ("SBG").



Framework

Contribution to Sustainability:



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Expected impacts			Robust	
ESG risks management			Robust	

SDG Mapping



Characteristics of the Framework

Green and Social Project Categories	<ul style="list-style-type: none"> ⇒ Renewable Energy ⇒ Energy Efficiency ⇒ Sustainable Food System ⇒ Sustainable Management of Food Waste ⇒ Health Care ⇒ Affordable Basic Infrastructure
Project locations	About 20 countries
Target population for Social Projects	Farmers, fishermen, people without access to electricity and in need of medical care
Framework	Yes
Refinancing	Up to 100%
Look back period	36 months

Issuer

Controversial Activities

The Issuer appears to be involved in 9 of the 17 controversial activities screened under our methodology:

- | | | |
|---|---|---|
| <input checked="" type="checkbox"/> Alcohol | <input checked="" type="checkbox"/> Coal | <input checked="" type="checkbox"/> Nuclear power |
| <input checked="" type="checkbox"/> Animal welfare | <input type="checkbox"/> Gambling | <input type="checkbox"/> Pornography |
| <input type="checkbox"/> Cannabis | <input checked="" type="checkbox"/> Genetic engineering | <input type="checkbox"/> Reproductive medicine |
| <input checked="" type="checkbox"/> Chemicals of concern | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Unconventional oil and gas |
| <input type="checkbox"/> Civilian firearms | <input type="checkbox"/> Human embryonic stem cells | <input checked="" type="checkbox"/> Tobacco |
| <input checked="" type="checkbox"/> Fossil fuels industry | <input checked="" type="checkbox"/> Military | |

*Alcohol and Tobacco are mainly derived from its retail segment FamilyMart and estimated turnover from alcoholic beverages is below 5% of total turnover.

*As of February 2021, ITOCHU increased its ownership of FamilyMart and became a 94.67% shareholder.

*Military: Provides maintenance and airframe alteration and remodelling for aircraft owned and run by Japan Ministry of Defense.

Coal: ITOCHU plans to exit the thermal coal business, selling its stakes in mines in Columbia and Australia by March 2024.

ESG Controversies

Number of controversies	2 (one of the controversies was resolved on 4/17/2018 and scheduled to be removed from database on 2022)
Frequency	Occasional
Severity	High
Responsiveness	Remediative

Coherence

Coherent
Partially coherent
Not coherent

We are of the opinion that the Framework is coherent with ITOCHU Corporation's strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer's sustainability commitments.

Keys findings

V.E is of the opinion that ITOCHU Corporation's Framework is aligned with the four core components of the GBP and SBP.

Use of Proceeds – aligned with GBP and SBP

- Eligible Categories are overall clearly defined. The issuer has communicated the nature of the expenditures, and the location of Eligible Projects, as well as the target population for social projects. Several areas have been identified to better define the eligible criteria.
- Environmental and Social Objectives are clearly defined, these are relevant for all the Eligible Categories and set in coherence with sustainability objectives defined in international standards.
- Expected Environmental and Social Benefits are overall clear, which are considered a relevant, measurable and will be quantified in the reporting for most of the Eligible Categories.
- The Issuer has transparently communicated the estimated share of refinancing for the first issuance, which will be up to 100%. The look-back period for refinanced Eligible Projects will be 36 months.

Evaluation and Selection - aligned with GBP and SBP

- The process for Project Evaluation and Selection Process has been clearly defined by the Issuer. It is considered structured. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework.
- Eligibility Criteria (selection) for project have been clearly defined and detailed by the Issuer and applies for a majority of eligible categories.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed in the herewith SPO. The Process is considered robust: it combines monitoring, identification, and corrective measures for all projects (see detailed analysis on pages 20 - 24).

Management of Proceeds – aligned with GBP and SBP

- The Process for the Management and Allocation of Proceeds is clear and is publicly available in the Framework.
- The allocation period will be 24 months or less.
- The Issuer has reported that net proceeds of the Bond will be placed in its General Treasury and can be used for other corporate needs
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible projects/categories/assets made during that period.
- The Issuer has provided information on the procedure that will be applied in case a project is no longer eligible and it has committed to reallocate proceeds to projects that are compliant with the bond framework.

Reporting - aligned with GBP and SBP

- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and in case of any material change. The report will be publicly available until bond maturity.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the categories. The Issuer has not committed to disclose the methodology and assumptions used to report on environmental and social benefits of the Eligible Categories.
- Tracking and allocation of funds to Eligible projects, and indicators used to report on environmental and social benefits of the eligible projects, will be verified only internally by the Issuer.

Contact

Sustainable Finance Team | VEsustainablefinance@vigeo-eiris.com

SCOPE

V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the SDGs Bonds (“Bonds”) to be issued by ITOCHU Corporation (the “Issuer”) in compliance with the Framework (the “Framework”) created to govern their issuance.

Our opinion is established according to V.E’s Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the ICMA’s Green Bond Principles (“GBP”) - edited in June 2018 - Social Bond Principles (“SBP”) - edited in June 2020 - Sustainability Bond Guidelines (“SBG”) - edited in June 2018 - voluntary guidelines (referred together as the “GBP & SBP & SBG”).

Our opinion is built on the review of the following components:

- Issuance: we assessed the Framework, including the coherence between the Framework and the Issuer’s environmental commitments, the Bonds’ potential contribution to sustainability and its alignment with the four core components of the GBP & SBP 2018.
- Issuer¹: we assessed the Issuer’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities².

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer, through documents and interviews conducted with the Issuer’s managers and stakeholders involved in the Bonds issuance, held via a telecommunications system.

We carried out our due diligence assessment from February 8th, 2021 to March 10th, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

Type of External Reviews supporting this Framework

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input type="checkbox"/>	Independent verification of impact reporting
<input type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

¹ ITOCHU Corporation is part of V.E rating universe - the last ESG rating was performed in August 2020. In agreement with the Issuer, this Second Party Opinion does not include the 2020 assessment of its ESG performance.

² The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

COHERENCE

Coherent
Partially coherent
Not coherent

We are of the opinion that the Framework is coherent with ITOCHU Corporation's strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer's sustainability commitments.

Two environmental issues are of major relevance for the Industrial Goods & Services (IGS) sector: the first concerns companies' energy consumption and the related emissions, since most companies in the sector use industrial processes with large energy consumption; and the second is related to the increasing pressure from clients on companies to offer products with a reduced environmental impact. The management of environmental impacts from the use and disposal of product is therefore a key sustainability driver in the sector. In addition, given their economic power, IGS companies are expected to promote local economic and social development when operating in developing countries, as well as to manage the impacts that their reorganisation may have on local development.

In the context of Japan, a "Sogo Shosha" is a company that engages in commerce of multiple products and services, with its core business being foreign trade and domestic sales of goods. They started with textiles and food during the post-war reconstruction period, followed by electronics and chemicals after the Japanese economy was hit by the oil crisis. Starting from the 21st century, Sogo Shosha has continued to engage in businesses that met the needs of the society, such as advanced technology and environmental industries in order to improve the living standards of the Japanese people. Since the advent of globalization, investment in emerging countries, stable supply of resources and energy, and engaging in renewable energy businesses for environmental conservation has been a priority.

In October 2020, the Japanese government announced the country's commitment to decarbonize the society by 2050. Subsequently, another sector target is announced to achieve a total ban on all gasoline-engine cars sales by 2035, to be replaced by either EV or HEV.^{3,4} The Fifth Basic Energy Plan, approved in 2018, sets targets for Japan's future energy supply and demand including its energy mix in 2030.⁵ In order to achieve these targets, the government has set ambitious visions, including further increasing renewable energy, CCS, hydrogen, and energy storage.

According to IPCC's Special Report, food production system, including transportation and packaging accounts for as much as 37 percent of total greenhouse gas emissions.⁶ In addition, the Ministry of Agriculture, Forestry and Fisheries (MAFF) has issued a "Guide to the Development of a Voluntary Action Plan for Enhancing Reliability in the Food Industry: Five Basic Principles," which stipulates that the top priority is to provide safe and responsible food to consumers.

Africa is one of the target regions for the Eligible Projects. Currently, 600 million people on the continent have no access to electricity. The percentage of the population with access to electricity varies widely across countries, but it can be as low as 11% (Burundi).⁷ Promoting the access will remain a priority as Africa's population is estimated to increase from 1.1 billion to 2.8 billion by 2050.⁸ Innovative solutions such as the "The pan-African e-network" are increasingly being offered by the governments and businesses in order to tackle this problem.⁹

Since its foundation, ITOCHU Corporation have formulated its founding spirit and corporate philosophy into the principle of "Sampo-yoshi": good for all three sides, meaning good for the buyer, good for the seller and good for society. At the group level, the Issuer has established the ITOCHU Group Sustainability Policy, which focuses on four broad areas:

- 1) Identification of material issues and promotion of businesses that address the social issues;
- 2) Establishment of mutual trust with society;
- 3) Strengthening supply chain and business investment management to lead to sustainable use of natural resources with respect for human rights and consideration for the environment;
- 4) Education and awareness of employees to promote sustainability.

ITOCHU Corporation commits to identify and assess material issues where it can create the most social and environmental value for that can enhance the sustainable growth of both society and its business. It also commits to understand how natural resources are utilised (such as air, water, land, food, minerals, fossil fuels, animals, and plants) and what consideration is

³ https://www.meti.go.jp/english/speeches/press_conferences/2020/1026001.html

⁴ <https://asia.nikkei.com/Spotlight/Environment/Climate-Change/Japan-aims-to-electrify-nation-s-new-car-fleet-by-mid-2030s>

⁵ https://www.enecho.meti.go.jp/en/category/others/basic_plan/5th/pdf/strategic_energy_plan.pdf

⁶ <https://www.ipcc.ch/report/ar5/wg2/food-security-and-food-production-systems/>

⁷ <https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=ZG>

⁸ <https://www.hoover.org/research/africa-2050-demographic-truth-and-consequences>

⁹ <https://au.int/en/agenda2063>



given to human rights and labour issues, both in the businesses where it invests and in the supply chains related to the products it handles.

ITOCHU Corporation also requests its business partners to understand and implement its concept of sustainability, and aim to build a sustainable value chain, and has established the dedicated Sustainability Action Guidelines for Supply Chains. For certain commodities (e.g. timber, natural rubber, etc.), it has also established specific procurement policies.

Climate change has been recognised as a top management priority. ITOCHU Corporation commits to reduce GHGs emissions and increase the efficiency of energy use within its own operations, as well as externally provide products and services. In May 2019, ITOCHU Corporation signed up to support the information disclosure recommendations compiled by the TCFD, as part of its efforts in relation to climate change.¹⁰ In January 2021, ITOCHU Corporation also announced its plans to exit the thermal coal business, selling its stakes in mines in Columbia and Australia by March 2024.¹¹

By creating a SDGs Bonds Framework to finance or refinance Eligible Projects falling under the eight green and social Eligible Categories, ITOCHU Corporation coherently aligns with its sustainability strategy and commitments and addresses the main issues of the sector in terms of sustainable development.

¹⁰ <https://www.fsb-tcf.org/supporters/>

¹¹ <https://ieefa.org/japans-itochu-corp-sets-2024-thermal-coal-exit-date/>

FRAMEWORK

The Issuer has described the main characteristics of the Bonds within a formalized SDGs Bonds Framework which covers the four core components of the GBP 2018 and SBP 2020 (the last updated version was provided to V.E on March 18th, 2021). The Issuer has committed to make this document publicly accessible on ITOCHU’s website¹², in line with good market practices.

Alignment with the GBP 2018 and SBP 2020

Use of Proceeds



The net proceeds of the Bonds will exclusively finance or refinance, in part or in full, projects falling under eight Project Categories (“Eligible Categories”), as indicated in Table 1.

- Eligible Categories are overall clearly defined. The issuer has communicated the nature of the expenditures, and the location of Eligible Projects, as well as the target population for social projects. Several areas have been identified to better define the eligible criteria.
- Environmental and Social Objectives are clearly defined, these are relevant for all the Eligible Categories and set in coherence with sustainability objectives defined in international standards.
- Expected Environmental and Social Benefits are overall clear, which are considered a relevant, measurable and will be quantified in the reporting for most of the Eligible Categories.
- The Issuer has transparently communicated the estimated share of refinancing for the first issuance, which will be up to 100%. The look-back period for refinanced Eligible Projects will be 36 months.

BEST PRACTICES

⇒ The Issuer has committed to transparently communicate the estimated share of refinancing for each bond issuance in the SPO.

¹² <https://www.ITOCHU.co.jp/en/index.html>

Table 1. V.E' analysis of Eligible Categories, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework

- Nature of expenditures: Construction, acquisition, maintenance, and/or operation, investment, R&D, supply, sales
- Location of Eligible Projects/Assets: about 20 countries and regions

ELIGIBLE CATEGORIES	ELIGIBILITY CRITERIA	TARGET POPULATION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
1. Efforts to reduce greenhouse gas emissions (Eligible Green Project Categories)				
Renewable Energy	<p>Increase Renewable Energy Use Development, construction, acquisition, management, and/or Operation & Maintenance of solar and wind (onshore and offshore) with direct emissions of less than 100g-CO₂ / kWh</p> <p>Supply energy storage system which contribute to the spread of self-consumption solar power generation</p> <p>R&D and manufacturing of next-generation lithium-ion batteries mainly for storage of solar power generation</p>	N/A	<p><u>Climate change mitigation</u> Reduction of greenhouse gas emission</p>	<p>The Eligible Projects are clearly defined. The Issuer has communicated the nature of the expenditures and the eligibility criteria and the location of Eligible Projects. Two Eligible Projects are related to minority investment into two pure player companies (one lithium battery developer and one solar and wind acquisition, respectively) that meet the eligibility criteria of this Category.</p> <p>The Environmental Objective is clearly defined and is relevant for all the Eligible Projects and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Environmental Benefit is clear, and is considered relevant, measurable, and will be quantified for all the Eligible Projects in the reporting.</p>
2. Efforts to reduce greenhouse gas emissions in FamilyMart¹³ (Eligible Green Project Categories)				
Renewable Energy	<p>Introduction of Renewable Energy Investments in property plant and equipment (PP&E) for installing solar panels on the roof of stores at FamilyMart</p>		<p><u>Climate change mitigation</u> Introduction of renewable energy;</p>	<p>The Eligible Projects are overall clearly defined. The Issuer has communicated the nature of the expenditures and the eligibility criteria and the location of Eligible Projects.</p> <ul style="list-style-type: none"> - For freezers and refrigerators, CO₂ (R744) is considered an environmentally friendly refrigerant with an ozone depletion potential (ODP) of 0 and a global warming potential (GWP) of 1.¹⁴ However, the Issuer also reports that other types of refrigerants to be used include R410A and R404A. Both have an ODP of 0, but have very high GWP of 2,088¹⁵ and 3,922¹⁶, respectively. According to UNDP's voluntary guidance for Climate-friendly and Energy-efficient Refrigerators, the upper limit for refrigerants' GWP should be set as 20.¹⁷ An
Energy Efficiency	<p>Improved Energy Efficiency</p>	N/A	<p><u>Climate change mitigation</u> Improved energy efficiency</p>	

¹³ As of February 2021, ITOCHU increased its ownership of FamilyMart and became a 94.67% shareholder.

¹⁴ https://www.linde-gas.com/en/products_and_supply/refrigerants/natural_refrigerants/r744_carbon_dioxide/index.html

¹⁵ https://www.linde-gas.com/en/products_and_supply/refrigerants/hfc_refrigerants/r410a/index.html

¹⁶ https://www.linde-gas.com/en/products_and_supply/refrigerants/hfc_refrigerants/r404a/index.html

¹⁷ https://united4efficiency.org/wp-content/uploads/2019/11/U4E_Refrigerators_Model-Regulation_20191029.pdf

	<p>Introduction of freezers and refrigerators using natural or climate friendly refrigerant at FamilyMart stores</p> <p>Investments in property plant and equipment (PP&E) for LED at FamilyMart stores</p>		<p><u>Climate change mitigation</u></p> <p>Improved energy efficiency</p>	<p>area for improvement is to choose refrigerants or set the maximum GWP value for eligible refrigerants in line with international guidelines such as the one from UNEP.</p> <p>The Environmental Objectives are clearly defined and are relevant for the Eligible Projects and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Environmental Benefits are partially clear and relevant due to high GWP values of other refrigerants (R410A and R404A) used, which are considered measurable and will be quantified for most Eligible Projects in the reporting.</p>
--	---	--	---	---

3. Sustainable Food System (Eligible Social Project Categories)

Sustainable Food System	<p>Procurement of externally certified coffee beans¹⁸</p> <p>Procurement of externally certified coffee beans for the purpose of improving the status of producers and growing sustainable coffee</p>	Socioeconomic advancement and empowerment for farmers living below the poverty line	<p><u>Socioeconomic advancement and empowerment</u></p> <p>Responsible Procurement of coffee</p>	<p>The Eligible projects are clearly defined. The Issuer has communicated the nature of the expenditures and the eligibility criteria and the location of Eligible Projects. The Issuer also clarified that Transportation costs are not included.</p> <p>The target population is clearly defined for the first two social sub-categories.</p> <p>The Social and Green Objectives are clearly defined and are relevant for the Eligible Projects and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Social and Environment Benefits are overall clear, which are considered relevant, measurable and will be quantified for all the Eligible Projects in the reporting.</p>
	<p>Procurement of externally certified bonito and tuna</p> <p>Procurement of certified bonito and tuna from MSC¹⁹ (Marine Stewardship Council) for the purpose of protecting marine resources</p>	Safe food distribution to fishermen engaged in bonito and tuna fishing	<p><u>Socioeconomic advancement and empowerment</u></p> <p>Responsible Procurement of bonito and tuna</p>	
Sustainable Management of Food Waste	<p>Procurement of grape seed oil²⁰</p> <p>Procurement of French grape seed oil using grape seeds after winemaking for disposal</p>	N/A	<p><u>Pollution prevention and control</u></p> <p>Promote sustainable use of waste</p>	

4. Providing access to essential services - medical and infrastructure (Eligible Social Project Categories)

Healthcare	<p>Providing medical service</p> <p>Planning, designing, maintenance of medical institutions intended to provide medical services, education and training support for doctors and nurses, education support for patients</p>	Healthy life for potential patients in need of treatment	<p><u>Access to essential services</u></p> <p>Offer hospitals with better medical machines and training</p>	<p>The Eligible projects are clearly defined. The Issuer has communicated the nature of the expenditures and the eligibility criteria and the location of Eligible Projects.</p> <p>The target population is overall clearly defined. The Issuer clarified that “patients in need of treatment” refer to people who couldn’t access blood dialysis treatment in their local small and medium hospitals.</p>
------------	---	--	---	---

¹⁸ https://www.itochu.co.jp/en/csr/society/value_chain/actionplan/index.html

¹⁹ <https://www.msc.org/>





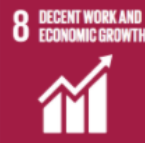




²⁰ <https://www.itochu.co.jp/en/news/press/2015/150709.html>




				<p>The Social Objective is clearly defined and is relevant for all the Eligible Projects and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Social Benefit is overall clear, which are considered relevant, measurable, and will be quantified for all the Eligible Projects in the reporting.</p>
Affordable Basic Infrastructure	<p>Mini Grid²¹ Sales and operation of small-scale power generation and distribution systems intended to supply electricity to people living in non-electrified areas of Africa</p>	<p>Comfortable life for people living in non-electrified areas</p>	<p><u>Improve access to Basic Affordable Infrastructure which was inaccessible before</u> Access to mini generation and distribution system</p>	<p>The Eligible projects are clearly defined. The Issuer has communicated the nature of the expenditures and the eligibility criteria and the location of Eligible Projects.</p> <p>The target population is clearly defined and relevant.</p> <p>The Social Objective is clearly defined and is relevant for all the Eligible Projects and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Social Benefit is clear, which are considered relevant, measurable, and will be quantified for all the Eligible Projects in the reporting.</p>

²¹ <https://www.itochu.co.jp/en/news/press/2020/200210.html>

SDG Contribution

The Eligible Categories are likely to contribute to 12 of the United Nations' Sustainable Development Goals ("SDGs"), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Sustainable Food System		1.1 By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day
Sustainable Food System		2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality
Healthcare		3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Energy Efficiency		7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Renewable Energy		7.3 By 2030, double the global rate of improvement in energy efficiency
Affordable Basic Infrastructure		7.b By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and landlocked developing countries, in accordance with their respective programmes of support
Sustainable Food System		8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment
Affordable Basic Infrastructure		9.a Facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States
Affordable Basic Infrastructure		10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Affordable Basic Infrastructure		11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Renewable Energy		12.2 By 2030, achieve the sustainable management and efficient use of natural resources
Sustainable Food System		12.3 By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses
Sustainable Management of Food Waste		

Renewable Energy		13.1 Take urgent action to combat climate change and its impacts
Energy Efficiency		
Sustainable Food System		14.4 By 2020, effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics
Sustainable Food System		15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally

Evaluation and Selection of Eligible Projects



- The process for Project Evaluation and Selection Process has been clearly defined by the Issuer. It is considered structured. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework.
- Eligibility Criteria (selection) for project have been clearly defined and detailed by the Issuer and applies for a majority of eligible categories.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed in the herewith SPO. The Process is considered robust: it combines monitoring, identification, and corrective measures for all projects (see detailed analysis on pages 20 - 23).

Process for Project Evaluation and Selection

- The following departments will cooperate and decide on the following items for the projects which the proceeds from the issuance of the SDGs bonds will be allocated.
 - Finance Division
 - Sustainability Management Division
- These departments are responsible for:
 - Evaluating the compliance of proposed assets with the eligibility criteria (with the policy of making only projects with positive long-term effects on the environment/society eligible)
 - Ensuring that the portfolio of Eligible Assets is aligned with the categories and criteria as specified in the "Use of Proceeds" section
 - Replacing investments that no longer meet the eligibility criteria
 - Confirming the content of the Framework and reflecting/updating the relevant changes in ITOCHU's business strategy, technology and market developments.
- The Sustainability Committee, one of the Principal Internal Committees is tasked to promote sustainability in the ITOCHU Group's company-wide risk management. The Committee manages operational ESG risks such as human rights risks, health and safety risks, climate risks, and natural disaster risks, as well as ESG risks related to investments. The Committee cooperates with other Committees as necessary and makes decisions on policies and initiatives to address ESG risks and operational improvements associated with the Eligible Projects. Activities and findings are compiled by the Committee and reported to the Board of Directors annually.
- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:
 - Monitoring and continued compliance of proposed assets is carried out throughout the life of the bond and ensures that the portfolio of Eligible Assets is aligned with the categories and criteria as specified in the Use of Proceeds section. In case of non-compliance to the criteria, the assets will be replaced with other Eligible Projects.
 - The decision-making process will be traceable through internal approval documents.

Eligibility Criteria Selection

The process relies on explicit eligibility criteria (selection and exclusion), relevant to the environmental objectives defined for the Eligible Categories.

- The selection criteria are based on eligibility criteria of Eligible Categories defined Table 1 in the Use of Proceeds section. Areas for improvement have been identified to better define the selection criteria of several Eligible Categories.
- ITOCHU has developed a list of exclusionary criteria to be applied to the allocation of the proceeds from the SDGs Bond issuance, which are considered relevant for the Eligible Projects: ITOCHU commits to not knowingly allocate the net proceeds for projects included in the following:
 - Thermal power generation (including coal)
 - Mining activities (including all forms of coal mining)
 - Soy/palm oil value chain

BEST PRACTICES

- ⇒ The Issuer reports that it will monitor compliance of selected projects with eligibility and exclusion criteria specified in the Framework throughout the life of the instrument and has provided details on content/frequency/duration and on procedure adopted in case of non-compliance

Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clear and is publicly available in the Framework.
- The allocation period will be 24 months or less.
- The Issuer has reported that net proceeds of the Bond will be placed in its General Treasury.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible projects/categories/assets made during that period.
- The Issuer has provided information on the procedure that will be applied in case a project is no longer eligible and it has committed to reallocate proceeds to projects that are compliant with the bond framework.

Management Process

- The net proceeds of the Bonds will be placed in ITOCHU's General Treasury and pending allocation, fund will be invested temporarily in cash and cash equivalents. ITOCHU has declared that temporary allocations can be used for other corporate needs.
- ITOCHU's Finance Division will allocate and manage the proceeds from the issuance of the SDGs bonds to Eligible Projects.
- The Finance Division will also monitor an amount equal to the net proceeds from the issuance of the SDGs Bonds based on the Framework to applicable Eligible Projects.
 - In case a project is cancelled or postponed, proceeds will be reallocated to projects that are compliant with the bond framework.

BEST PRACTICES

- ⇒ The allocation period is 24 months or less
- ⇒ The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework within 24 months.

Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and in case of any material change. The report will be publicly available until bond maturity.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the categories. The Issuer has not committed to disclose the methodology and assumptions used to report on environmental/social benefits of the Eligible categories.
- Tracking and allocation of funds to Eligible projects, and indicators used to report on environmental and social benefits of the eligible projects, will be verified only internally by the Issuer.

Indicators

The Issuer has committed to transparently communicate at Eligible Category level, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds are clear and relevant.

REPORTING INDICATORS
⇒ Allocated amount and appropriation of Eligible Green/Social Projects in the following business categories (including the ratio of refinancing and new financing)
<ol style="list-style-type: none"> 1. Efforts to reduce greenhouse gas emissions 2. Efforts to reduce greenhouse gas emissions in FamilyMart 3. Sustainable Food System 4. Providing access to medical and infrastructure services
⇒ The balance of any unallocated proceeds and information on how unallocated proceeds, if any, have been held in line with the guideline set in the "Management of the Proceeds"

- Environmental and social benefits: The indicators selected by the Issuer to report on the environmental and social benefits are clear and relevant but not exhaustive.

ELIGIBLE CATEGORIES	ENVIRONMENTAL AND SOCIAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS

1. Efforts to reduce greenhouse gas emissions

Renewable Energy (Power generation)	Power generation amount / Estimated power generation amount (MWh)	Environmental impact such as the achieved reduction in CO ₂ emissions (t-CO ₂)
Renewable Energy (Power storage)		Environmental impact such as the achieved reduction in CO ₂ emissions (t-CO ₂)

2. Efforts to reduce greenhouse gas emissions in FamilyMart

Renewable Energy		Environmental impact such as the achieved reduction in CO ₂ emissions (t-CO ₂)
------------------	--	---

Energy Efficiency		Environmental impact such as the achieved reduction in CO2 emissions (t-CO2)
-------------------	--	--

3. Sustainable Food System

Procurement of externally certified coffee beans		Ratio of supplied/sourced products with eligible certifications
Procurement of externally certified bonito and tuna		Ratio of supplied/sourced products with eligible certifications
Procurement of grape seed oil		Grape seed weight

4. Providing access to essential services – medical and infrastructure

Healthcare	Number of Medical Institutions	
Affordable Basic Infrastructure		Number of households supplied with mini-grid system

Areas for improvement include:

- to commit to disclose the methodology and assumptions used to report on environmental/social benefits of the Eligible categories/projects/assets at least to investors-bondholders;
- to commit to an external verification of the tracking and allocation of funds to Eligible Projects, as well as of the indicators used to report on environmental and social benefits of the Eligible Projects.

BEST PRACTICES

⇒ The issuer report will be publicly available

Contribution to sustainability

Expected Impacts

The potential positive Impact of the eligible projects on environmental and social objectives is considered to be robust.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Renewable Energy	ADVANCED	The Eligible Projects will bring overall positive impacts to the countries in which ITOCHU operates through development, construction, acquisition, management, and/or Operation & Maintenance of solar and wind power assets, manufacture and supply of energy storage system for home solar power generation. They are expected to contribute to SDG 7, including in countries which have set target to achieve net zero carbon emission by 2050. The home solar power energy storage system will also contribute to reducing the reliance on fossil fuel energy, however, the full extent of the impact is unclear as the scale of manufacturing is not disclosed.
Energy Efficiency	ROBUST	<p>The Eligible Projects will bring overall positive impacts to the countries in which ITOCHU operates by investing in high energy efficient technologies for the FamilyMart</p> <p>The convenience stores in Japan are open 24 hours and its main energy use comes from refrigeration, air conditioning and lighting. As of December 2020, there are 55,924 convenience stores across Japan of which 16,658 are FamilyMart.^{22,23} FamilyMart's contribution to increasing the energy efficiency is essential to reducing Japan's energy use-related GHG emissions. As mentioned in the UoP section, the other types of refrigerants used (R410A and R404A) have very high GWP values. An area for improvement is needed to choose refrigerants or set the maximum GWP value for eligible refrigerants in line with international guidelines such as the one from UNEP for climate-friendly and energy-efficient refrigerators.</p> <p>We consider the overall potential environmental impact of the Eligible Projects to be robust due to the scale of implementation.</p>
Sustainable Food System	ROBUST	<p>The Eligible Projects will bring overall positive although indirect impacts to the countries in which ITOCHU operates by supplying coffee certified by third-party verifiers. These projects contribute to SDG8 and ITOCHU also provides support for farms to improve the working condition in order to attain certification. Coffee beans are procured from South America and Asia etc where challenges related to forced labour especially amongst the migrants are still rampant. Procuring a large quantity of coffee beans from these countries will create a positive social impact by ensuring safe and fair employment for the farmers.</p>
Sustainable management of food waste		<p>ITOCHU is committed to procuring tuna and bonito in West Pacific Ocean, certified by MSC. Despite the high demand of tuna and bonito by consumers, the population of these fishes are declining rapidly. A new report by an international tuna conservation commission indicates the stock of Atlantic bluefin tuna has plummeted to just 13% of its levels 70 years ago.²⁴ These certifications will ensure fair working condition for the fishermen while carrying out sustainable fishing practices. In addition, grapeseed oil will contribute to sustainable waste management of wine waste incurring from the production process as annual waste from the production process is significant as France alone has produced about 47.5 million hectoliters of wine in 2019.²⁵</p> <p>However, it is important to note that negative impacts will be incurred due to transportation of these certified products by trucks and ships which are fuelled by fossil, oil and bunkers.</p>
Healthcare	ROBUST	The Eligible Projects will bring overall positive impacts to the countries in which ITOCHU operates by planning, design and maintenance of medical machines, educational training for doctors and nurses, and educational support for patients to contribute to help potential patients. The Issuer reports that one Eligible Project is related to taking minority investment in a healthcare group that operate and support the operation of blood dialysis treatment facilities in China. Given the large population base in China, despite improvement in recent years in terms of public health ²⁶ , the demand for medical infrastructure including specialised equipment and facilities remain huge: for instance, one news report put the estimated number of patients that require blood

²² <https://www.ifa-fc.or.jp/particle/320.html>

²³ <https://www.family.co.jp/company/familymart/store.html>

²⁴ <https://iccat.int/en/>

²⁵ <https://www.statista.com/statistics/240638/wine-production-in-selected-countries-and-regions/>

²⁶ <https://www.who.int/data/gho/data/countries/country-details/GHO/china?countryProfileId=adf73789-9c42-4bc5-a39b-b4d7ba337beb>

		<p>dialysis in China at over 0.766 million in 2020 and there are still gaps between supply and needs.²⁷ By investing in a company that supplies specialised treatment equipment and services to private and public hospitals across the country, it could potentially help fill the gap in smaller cities. Given the large population and large number of patients who are still underserved, a focused strategic development in small cities will further improve access of those most underserved.</p>
<p>Affordable Basic Infrastructure</p>	<p>ADVANCED</p>	<p>The Eligible Projects will bring overall positive impacts to the countries in which ITOCHU operates by sales and management of Mini-Grid System (Solar panels, storage battery, power line, smart meter, power distribution system) to people without electricity. 600 million people are without access to electricity on the African continent. For every Mini-Grid System installed either by ITOCHU or a company that ITOCHU invests in, 100 African households can gain access to electricity for the first time and this will enable important new services to non-electrified regions, including Wi-Fi internet, postal services, and cold storage, which will improve living standards and assist with the development of local industry.</p> <p>Efforts are made to minimize the life cycle emission of the mini-grid system by using 100% renewable energy for the storage battery. Pricing of the electricity is set at a reasonable rate approved by the government in order to provide equal access. However, it is important to note that negative impacts will be incurred due to transportation of the mini-grid system by container ships fuelled by light oil. The full extent of the impact is unclear due to the lack of clarity on the scale of distribution.</p>
<p>OVERALL ASSESSMENT</p>		<p>ROBUST</p>

²⁷ <http://med.china.com.cn/content/pid/195776/tid/1026>

ESG Risks Identification and Management systems in place at project level

The identification and management of the environmental and social risks associated with the Eligible Projects are considered robust²⁸.

	RENEWABLE ENERGY	ENERGY EFFICIENCY	SUSTAINABLE FOOD SYSTEM	SUSTAINABLE MANAGEMENT OF FOOD WASTE	HEALTHCARE	AFFORDABLE BASIC INFRASTRUCTURE
Environmental management and eco-design	X	X	X	X	X	X
Protection of biodiversity	X	N/A	X	X	X	N/A
Pollution prevention and control	X	X	X	X	X	N/A
Minimizing environmental impact from energy use and transportation	X	X	X	X	X	X
Fundamental human rights and labour rights	X	X	X	X	X	X
Health and safety of the workers	X	X	X	X	X	X
Integration of environmental and social factors in supply chain	X	X	X	X	X	X
Local social and economic development	X	X	X	X	X	X
Responsible business relations	X	X	X	X	X	X
OVERALL ASSESSMENT	Robust	Robust	Robust	Robust	Robust	Robust

²⁸ The "X" indicates the E&S risks that have been activated for each Eligible Category.

Environmental Risks

Environmental management and eco-design

ITOCHU Group Environmental Policy, last updated in April 2020, covers all of ITOCHU Corporation's operations, including the Eligible Projects under this Framework. ITOCHU Corporation reports that it has introduced and been maintaining and operating an environmental management system (EMS) based on ISO14001 standards since 1997.²⁹ This system seeks to comply with environmental related laws and regulations, to take a precautionary approach to environmental risks (including those relating to climate change) and to promote environment conserving businesses. ITOCHU Corporation also reports that it has built a mechanism to assess in advance the impact in regard to new investments in particular together with the products it handles, and where it formulates targets for items related to a precautionary approach to environmental risks, environment conserving businesses, saving energy, saving resources, CO2 emissions reduction and other climate change related risks. It also adopts the PDCA (plan-do-check-act) cycle.

ITOCHU Corporation reports to undergo an ISO14001 certification review every year by the BSI Group Japan K.K. (BSI), and in FYE 2020, it underwent a maintenance review. It also reports to conduct internal sustainability audits every year based on ISO14001. It reports that Number of companies that 79 out of 554 companies in ITOCHU Group (14% of the entire group), or 696 out of 3,819 business sites identified (18% of the entire group), have acquired ISO14001 certification.²⁹

Related to eco-design and managing life cycle impacts of the Eligible Projects, ITOCHU Corporation reports to use life cycle assessment (LCA) analytical techniques from the procurement of raw materials concerning the applicable product to their manufacturing process, use and disposal. If the results of these assessments show that the impact on the global environment will be greater than a specific score, it commits to formulate various regulations and procedure manuals with the applicable product being subject to priority management.

Protection of biodiversity

At the group level, ITOCHU Corporation has established the Biodiversity Declaration.³⁰ Related to the Eligible Projects under this Framework, ITOCHU Corporation commits to conduct product certification and traceability for biodiversity protection in products handled in businesses including the supply chain, and social contribution activities for biodiversity protection in business-related areas. It commits to disclose information and set goals for commodities related to forest protection (wood, wood products, paper raw materials and paper products, natural rubber, palm oil) and dairy products, meat, marine products, and textile raw materials, which are important for biodiversity.

For new projects, ITOCHU Corporation reports to assess what impact investment projects will have on the natural environment in the ESG Checklist for Investment — a checklist that must be submitted when entering into new business investment projects. As part of its EMS based on based on ISO14001, ITOCHU Corporation commits to comply with environment-related laws and regulations, prevent environmental risks including biodiversity, and promote environment-friendly businesses. In addition, ITOCHU Corporation reports that seven core subjects of ISO26000 including biodiversity are set as essential survey items for its suppliers.

In addition, ITOCHU Corporation implements several conservation initiatives, such as the Project for Protecting Green Turtles, and supporting the project to reintroduce manatees into the wild of the new concept Field Museum ecosystem conservation program in the tropical forests of the Amazon.

Pollution prevention and control

As part of its Environmental Policy, ITOCHU Corporation commits to prevent and reduce environmental pollution caused by chemical substances and oils, reduce emissions of air pollutants, and reduce and properly process hazardous waste and wastewater. Prevention of environmental pollution is listed a top item in its environmental targets. The key measure is company-wide utilisation of advance environmental risk assessments and the ESG Checklist for Investments when investing. ITOCHU Corporation reports to have started visiting and investigating group companies since 2001: it first identified about 200 group companies with a relatively high impact and burden on the global environment; and then conduct investigations into the actual conditions on approximately 10 companies a year.

Specifically for chemical substances, the Chemicals Division has cross-functional oversight responsibility, including the sales departments and other relevant subsidiaries that handle chemical substances. ITOCHU Corporation also hires an external consulting organization for chemical substance management, which is currently Techno Hill Co., Ltd. and reported to have comprehensive knowledge in the management of chemical substances.

²⁹ <https://www.itochu.co.jp/en/csr/environment/management/index.html>

³⁰ <https://www.itochu.co.jp/en/csr/environment/biodiversity/index.html>

Related to resource conservation and promotion of resource circulation, ITOCHU has set quantitative targets for waste reduction and waste recycling, and reduction of paper and water consumption in its business activities and offices. For instance, for its Tokyo Headquarters, the recycling rate for the fiscal year ending March 31, 2021 is set as 90%.

Minimizing environmental impact from energy use and transportation

At the group level, ITOCHU Corporation commits to reduce GHG emissions and increase the efficiency of energy use within its own operations, as well as externally provide products and services that contribute to the mitigation and adaptation to climate change.

As part of the environmental risk assessment with the ESG Checklist for Investments in all investment projects (including the Eligible Projects under this Framework), ITOCHU Corporation monitors and reports its fuel consumption by type, as well as its GHG emissions (scope 1 and 2) for both Japanese bases and the entire group. The reported CO₂ emissions received independent assurance from KPMG AZSA Sustainability Co., Ltd.³¹

Some of the Eligible Projects related to use and supply energy storage systems are part of ITOCHU Corporation's actions to optimise energy consumption and promote the use of renewable energy.

For part of the Eligible Projects under this Framework, the supply and of relevant products rely on long-distance transport modes such as trucks and ships that primarily use fossil fuels. ITOCHU Corporation calculates and reports the carbon dioxide emissions generated due to contracted transport. It has established a company-wide common energy saving measures policy for distribution and formulated the following measures:

- Transportation Method Selection: promotion of the use of railroads and domestic shipping;
- Measures to Improve Transportation Efficiency: use of transportation with the freight of multiple shippers on one vehicle and mixed loading; selection of appropriate vehicle types; increase in the size of vehicles; optimal transportation routes; and improvement in the loading ratio;
- Cooperation with Freight Transportation Operators and Recipients of Freight: review of transportation plans and frequency.

However, at the moment, the majority of the transportation is still fossil fuel based.

³¹ https://www.itochu.co.jp/en/csr/environment/climate_change/index.html

Social Risks

Fundamental human rights and labour rights

At the group level, ITOCHU has adopted the "ITOCHU Group Human Rights Policy", where it commits to respect the human rights of our stakeholders and address negative impacts that may arise from its business activities. This Policy applies to all worldwide executives and employees of the ITOCHU Group, including contractors and temporary employees, which would also include the Eligible Projects under this Framework. The Group also supports international agreements on human rights, including the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the United Nations Global Compact, to which it has been a signatory since 2009. Since 2020, ITOCHU Corporation has also started building human rights due diligence process in its Food Company.³²

For the protection of labour rights, ITOCHU Corporation has established a direct hotline to those responsible for compliance in each division, and also established multiple desks to receive reports not only from its employees but also from the group companies and those who have contracts with ITOCHU both in Japan and overseas. It commits to recruit employees fairly and impartially without concern for their age, gender, nationality or otherwise, and has organised relevant trainings to new hires and its employees.

Specifically related to business activities that may involve or have impacts on indigenous people, ITOCHU Corporation commits to respect international standards such as the Declaration on the Rights of Indigenous Peoples and the International Labour Organization (ILO) Convention 169. It also reports that for new business investment projects, it strictly enforces prior checks concerning the impact on the rights of indigenous people by that business.

Health and safety of the workers

Itochu Corporation has established its Occupational Health and Safety Management Organisation at the group level, involving relevant Board Directors, Health Management Council and Health Committee.³³

Safety and health-related issues (such as labour standards, occupational safety and health, and stakeholder engagement to enhance health and safety practices) are assessed under Labour Practices as part of seven core subjects covered under ITOCHU Corporation's ESG Checklist, aligned with the ISO26000. Its assessment of safety and health related risks for investment projects does not simply end at the initial investment, and it commits to conduct continuous management assessments and ensure that it monitor companies in its portfolio.

For employees on business travel or being stationed overseas, prior to departure, all employees stationed abroad are required to undergo mandatory vaccination in line with governmental recommendations for each international region/country. ITOCHU's Health Administration Center provides employees with vaccination services – in case specific vaccinations are not available, it reports to direct its employees to nearby clinics that specialize in vaccinations.

In addition, ITOCHU Corporation also reports that, as of March 2019, one company under the Group has acquired the OHSAS18001 (Occupational Health and Safety Assessment Series) certification.

Integration of environmental and social factors in supply chain

At the group level, ITOCHU Corporation recognises that its business activities can have an impact on the global environment and accordingly, it is working on activities aimed at taking a precautionary approach to environmental risks for group employees. It has established the Sustainability Action Guidelines for Supply Chains³⁴ and commits to conduct investigations and reviews of its suppliers. During the financial year 2020, it reports that it conducted surveys on a total of 316 companies, including 72 suppliers of overseas offices and group companies. It also mapped out number suppliers by type of procured resources/products.

It has created a Sustainability Checklist for supplier surveys, which is based on the seven ISO26000 core topics (organizational governance, human rights, labour practices, environment, fair business practices, consumer issues, community involvement and development).³⁵ It has prepared a handbook for its employees on communication with suppliers, which helps on how to communicate with suppliers. It has also set up a check system that enables those in charge to understand concretely the management situation in terms of the environment, human rights, labour practices and corruption prevention in important suppliers to give advice on making improvements.

³² https://www.itochu.co.jp/en/csr/pdf/human_rights_due_diligence_en_2020.pdf

³³ <https://www.itochu.co.jp/en/csr/society/safety/index.html>

³⁴ https://www.itochu.co.jp/en/csr/society/value_chain/policy/index.html#h2_01

³⁵ https://www.itochu.co.jp/en/csr/society/value_chain/system/index.html#sustainability_survey

ITOCHU Corporation has created dedicated policies for certain product types, such as Sustainable Procurement Policy on Natural Forests and Forest Resources and established specific guidelines for forestry and marine products.³⁶

In specific business activities and/or countries, it also carries out relevant audits. For instance, it reports to conduct human rights audit targeting foreign workers in a poultry factory in Thailand, one of the main suppliers of its Food Company. Its Food Company also conducts regular visits and surveys of food processing factories in its supply chain.

Local social and economic development

At the group level, ITOCHU Corporation has identified three areas of focus in its basic activity guidelines in promoting its social contribution activities in partnership with Group companies. These are growth of future generations, environmental conservation, and community contribution.

ITOCHU Corporation maintains approximately 100 overseas offices in 62 countries around the world (as of April 1, 2020), which commit to promote local employment and make local contributions through their business activities.

It also reports to place strong emphasis on dialogues with various stakeholders, from its suppliers, customers and consumers, to trade associations, local communities and NGOs.

Responsible business relations

At the group level, ITOCHU has established the ITOCHU Group Corporate Guideline of Conduct and its Code of Ethic Conduct. It has also designated a representative director as the Chief Officer for Compliance responsible for supervising compliance and established the Compliance Committee and a department that oversees all compliance matters.³⁷

It has establish specific policies and guidelines to manage its relations with its suppliers and business partners in its supply chain, including for instance the above mentioned Sustainability Action Guidelines for Supply Chains, and also ITOCHU Group Anti-Corruption Policy which the cooperation of all of its business partners and investment partners. To comply with local laws and regulations related to trade, ITOCHU also reports to implement a strict internal comprehensive trade-security control program.³⁸

Although ITOCHU reports to have limited direct access to consumers in much of its business due to the nature of a trading company, it recognise the importance of quality and safety management and commits to fulfil its responsibilities to customers by promoting initiatives to ensure this concept penetrates into the value chain.

Specifically related to food safety, its Food Company reports to engage in food safety management and fair business through instructions and guidance provided by the Food Safety and Compliance Management Office. It has also identified material topics that especially require its careful management to provide safe and reliable food products, including: reducing negative product impact of food products on customers; responsible advertising, marketing, and promotion of food products; Responsible advertising, marketing, and promotion of alcoholic beverages; and Access to better nutrition.³⁹

³⁶ https://www.itochu.co.jp/en/csr/society/value_chain/activity/index.html#h3_02

³⁷ <https://www.itochu.co.jp/en/csr/governance/compliance/index.html>

³⁸ https://www.itochu.co.jp/en/about/governance_compliance/compliance/index.html#corruption

³⁹ <https://www.itochu.co.jp/en/csr/society/responsibilities/index.html>

ISSUER

ITOCHU Corporation, headquartered in Tokyo, Japan, is involved in domestic and overseas trading of various products and business operations including textile, machinery, metals, mineral resources, energy, chemicals, food, general merchandise, realty, information technology, finance and consumer-related businesses

Management of ESG Controversies

As of today, according to the review conducted by V.E, ITOCHU Corporation is facing 2 stakeholder-related ESG controversies, linked to four of the six domains we analyse:

- Environment, in the criteria of “Pollution prevention” and “Atmospheric emissions”.
- Human Rights, in the criterion of “Fundamental human rights”.
- Community Involvement, in the criterion of “Social and Economic Development”.
- Business Behaviour, in the criteria of “Product Safety” and “Information to customers”.

Frequency: On average, the controversies are considered occasional, in line with the sector average.

Severity: The overall severity of their impact on both the company and its stakeholders is considered high, in line with the sector average.

Responsiveness: ITOCHU Corporation is overall remediative, better than the sector average.

Involvement in Controversial Activities

The Issuer appears to have minor involvement in Alcohol, Genetic engineering, Military and Tobacco, and major involvement in Animal welfare, Chemicals of concern, Coal, Fossil Fuels industry and Nuclear Power.

- Alcohol: ITOCHU Corporation has an estimated turnover from alcoholic beverages which is below 5% of total turnover. This turnover is derived from its retail segment, which is engaged (through a 94.67% interest in FamilyMart) in the operation of FamilyMart convenience stores, where alcohol is sold.
- Animal welfare: ITOCHU Corporation has an estimated turnover from intensive farming operations which is below 5% of total turnover. ITOCHU Corporation is involved in intensive farming operations and HyLife Group Holdings (49.9% interest) annually farms 3.4 million hogs for the pork meat industry.
- Chemicals of concern: ITOCHU Corporation supplies chemicals subject of controversy and pesticides. For chemicals subject of controversy, the Company is a supplier of benzene and PVC. Group company, ITOCHU CHEMICAL FRONTIER, supplies hexane. For supply of pesticides, ITOCHU CHEMICAL FRONTIER Corporation reports that its Eco-Chemical & Life Science Division supplies agricultural chemicals like pesticides, fungicides and gardening supplies, which are likely to include chemical herbicides.
- Coal: It is estimated that ITOCHU's sales from coal account for less than 1% of its total sales. For coal mining, ITOCHU has interests in a number of coal projects including in Australia, and through ITOCHU Coal Americas Inc. (ICA) it owns 20% of Drummond International, LLC, a joint venture with Drummond Company Inc. that owns coal assets in Colombia. These assets mine coal that is used for steel production and various grades of coking coal. As part of its commitment to contributing to the UN SDGs, ITOCHU has announced that it will withdraw from coal operations in Colombia and Australia by March 2024, and that it will also sell its entire stake in ICA's Drummond International, LLC in Colombia to Drummond Company Inc.
- Fossil Fuels industry: ITOCHU Corporation has an estimated turnover from fossil fuels which is between 10% and 20% of total turnover. This turnover is derived primarily from its involvement in the exploration, extraction, and production of fossil fuels, as well as from fossil fuel-powered electricity generation.
- Nuclear Power: ITOCHU Corporation has an estimated turnover from involvement in nuclear power which is below 1% of total turnover. This turnover is derived from the provision of products and services for the nuclear power industry. For nuclear parts and services, Itochu Techno Solutions (58.2% owned) provides safety assessment and seismic analysis for nuclear power plants. For Uranium mining, the Company supplies uranium and is a partner in

several overseas uranium mining and exploration projects. The Company furthermore provides agency services for marketing uranium fuel and enrichment services in the Japanese market.

- Genetic engineering: ITOCHU Corporation supplies food products potentially containing GMOs. For example, OILSEEDS INTERNATIONAL LTD, a US supplier of specialty vegetable oil such as non-GMO oil and organic oil, handles vegetable oils made from canola, cotton and corn genetically modified. Such revenue is less than 25 % of the total revenue of the company. The Company does not appear to have adopted any group-level policy to avoid or to label products containing GMOs. However, some businesses do so. For example, Quality Technology International (QTI), a US wholesaler of feed materials and feed additives, GMO (i.e. soy bean) constitutes below 10% of total sales but appears to focus primarily on the export of corn- and soy-based feeds for the Asian market including Japan, and states it sources only non-GM varieties. For this reason, and since the majority of ITOCHU's Food division businesses produce or import food in Japan, where genetically modified food must be labelled, V.E considers it to have a labelling / partial avoidance policy.
- Defense Equipment: ITOCHU Corporation has an estimated turnover from defense equipment sales which is below 5% of total turnover. This turnover is derived from key parts or services for defense equipment. Group company ITOCHU Aviation (100% interest) is sales and support partner in Japan for a number of defense equipment, including: Patriot PAC-3 missile; Phalanx close-in weapons system; CH-47J helicopter; radar for F-15J aircraft. Group company, JAMCO (33.4% interest), provides heavy maintenance and airframe alteration and remodeling for aircraft owned and run by Japan Ministry of Defense, Japan Coast Guard, etc. Group company, Japan Aerospace Corporation (100% interest), supplies several subsystems for defense equipment.
- Tobacco: ITOCHU Corporation has an estimated turnover from tobacco which is below 5% of total turnover. This turnover is derived from the sale of tobacco through FamilyMart convenience stores (through a 94.67% interest in FamilyMart).

The Issuer appears to be not involved in any of the other controversial activities screened under our methodology, namely: Cannabis, Civilian firearms, Unconventional oil and gas, Gambling, Human embryonic stem cells, High interest rate lending, Pornography and Reproductive Medicine.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.

METHODOLOGY

In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E's Scientific Council. All employees are signatories of V.E's Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

ISSUANCE

Alignment with the Green and/or Social Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

The Framework has been evaluated by V.E according to the ICMA's Green Bond Principles - June 2018 ("GBP") and the Social Bond Principles - June 2020 ("SBP"), Sustainability Bond Guidelines - June 2018 ("SBG") and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.

Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds and Loans standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

Process for evaluation and selection

The evaluation and selection process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;⁴⁰
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

Activities' ESG risk management

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

ISSUER

Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, V.E's controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to screen the company's involvement in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

⁴⁰ The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

V.E'S ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance and financial instrument's Contribution to sustainability	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advanced expected impact combined with a weak level of assurance of E&S risk management.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.

Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and best practices.
Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.
Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.



DISCLAIMER

Transparency on the relation between V.E and the Issuer: V.E has not carried out any audit mission or consultancy activity for ITOCHU. No established relation (financial or commercial) exists between V.E and the Issuer. V.E's conflict of interest policy is covered by its Code of Conduct, which can be found at <http://vigeo-eiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeo-Eiris-EN.pdf>.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to V.E. V.E has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by V.E neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. V.E is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

Restriction on distribution and use of this opinion: The deliverables remain the property of V.E. The draft version of the Second Party Opinion by V.E is for information purpose only and shall not be disclosed by the client. V.E grants the Issuer/Borrower all rights to use the final version of the Second Party Opinion delivered for external use via any media that the Issuer/Borrower shall determine in a worldwide perimeter. The Issuer/Borrower has the right to communicate to the outside only the Second Party Opinion complete and without any modification, that is to say without making selection, withdrawal or addition, without altering it in any way, either in substance or in the form and shall only be used in the frame of the contemplated concerned bond(s) issuance. The Issuer acknowledges and agrees that V.E reserves the right to publish the final version of the Second Party Opinion on V.E's website and on V.E's internal and external communication supporting documents.

© 2020 Vigeo SAS and/or its licensors and subsidiaries (collectively, "V.E"). All rights reserved.

V.E provides its customers with data, information, research, analyses, reports, quantitative model-based scores, assessments and/or other opinions (collectively, "Research") with respect to the environmental, social and/or governance ("ESG") attributes and/or performance of individual issuers or with respect to sectors, activities, regions, stakeholders, states or specific themes.

V.E'S RESEARCH DOES NOT ADDRESS NON-ESG FACTORS AND/OR RISKS, INCLUDING BUT NOT LIMITED TO: CREDIT RISK, LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. V.E'S RESEARCH DOES NOT CONSTITUTE STATEMENTS OF CURRENT OR HISTORICAL FACT. V.E'S RESEARCH: (i) DOES NOT CONSTITUTE OR PROVIDE CREDIT RATINGS OR INVESTMENT OR FINANCIAL ADVICE; (ii) IS NOT AND DOES NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES; AND (iii) DOES NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. V.E ISSUES ITS RESEARCH WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

V.E'S RESEARCH IS NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE V.E'S RESEARCH WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. V.E'S RESEARCH IS NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT V.E'S PRIOR WRITTEN CONSENT.

ALL INFORMATION CONTAINED HEREIN IS OBTAINED BY V.E FROM SOURCES BELIEVED BY IT TO BE ACCURATE AND RELIABLE. BECAUSE OF THE POSSIBILITY OF HUMAN OR MECHANICAL ERROR AS WELL AS OTHER FACTORS, HOWEVER, ALL INFORMATION CONTAINED HEREIN IS PROVIDED "AS IS" WITHOUT WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND, INCLUDING AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE. V.E IS NOT AN AUDITOR AND CANNOT IN EVERY INSTANCE INDEPENDENTLY VERIFY OR VALIDATE INFORMATION IT RECEIVES.

To the extent permitted by law, V.E and its directors, officers, employees, agents, representatives, licensors and suppliers (together, "**V.E Parties**") disclaim liability to any person or entity for any (a) indirect, special, consequential, or incidental losses or damages, and (b) direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded); on the part of, or any contingency within or beyond the control of any **V.E Party**, arising from or in connection with the information contained herein or the use of or inability to use any such information.

Additional terms For PRC only: Any Second Party Opinion or other opinion issued by V.E: (1) does not constitute a PRC Green Bond Assessment as defined under any relevant PRC laws or regulations; (2) cannot be included in any registration statement, offering circular, prospectus or any other documents submitted to the PRC regulatory authorities or otherwise used to satisfy any PRC regulatory disclosure requirement; and (3) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this disclaimer, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.