

To Our Shareholders, Investors, and Other Stakeholders



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Based on a clear strategy,
ITOCHU will take on the
challenge of further
reinforcing the Company's
earnings base to generate
¥400.0 billion in net profit.

ITOCHU has maintained a spot among the top three general trading companies in Japan for four consecutive years, but we are not satisfied with our results. Rather, we are accelerating initiatives targeting further strong growth while fully leveraging our strengths in the non-resource sector and maintaining the spirit of eagerly taking on challenges.

History of Taking on Challenges

I have been continually taking on challenges. With a solid understanding of my own strengths and weaknesses, I established my objectives and worked to make steady, step-by-step progress toward the achievement of those objectives. During the period I worked in sales at the Textile Company, when I achieved better result than a department, I would set my target on the next superior department. I also continued to take on external challenges, working with strong determination to ensure success over rival trading companies in the textile industry. Of course, I faced many difficulties, but I did not view these as setbacks. I was strongly motivated to directly address the competitive environment and to overcome the obstacles I faced. This experience has become a cornerstone of my belief that the repeated experience of success fosters the development of employees and the growth of organizations.

Even after I became president of ITOCHU in April 2010, with responsibility for a consolidated group that had more than 60,000 employees and 410 companies, there has been no change in this belief. Immediately after I became president, I set the objective of recapturing our position among the top three general trading companies. We achieved that objective in fiscal 2012, when the Company surpassed ¥300.0 billion in net income attributable to ITOCHU for the first time in its history. Under "Brand-new Deal 2014," the medium-term management plan that we launched in fiscal 2014, we announced a new vision of becoming "the No. 1 trading company in the non-resource sector." In fiscal 2015, the final year of the plan, we achieved that vision and demonstrated the true value of the strengths that we have cultivated in the non-resource sector.

Demonstrating the True Value of Our Strengths in the Non-Resource Sector

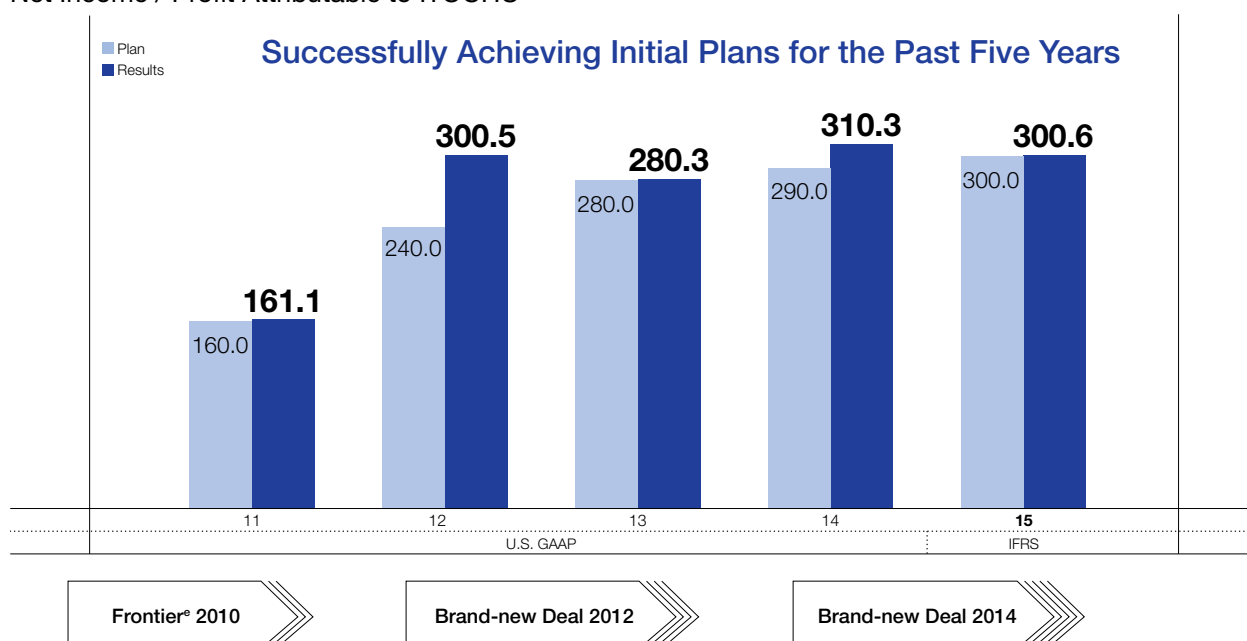
The resource boom, which buoyed the fortunes of general trading companies, has come to an end, and in fiscal 2015 many general trading companies were forced to record impairment losses on natural-resource-related assets. ITOCHU was no exception. We recorded impairment losses totaling more than ¥90.0 billion at NAMISA, an iron ore production and sales company in Brazil, and Samson Resources Corporation, an oil and gas exploration and production company in the United States. On the other hand, even though other companies made downward revisions to their initial plans one after another, we achieved net profit attributable to ITOCHU of ¥300.6 billion, in line with the plan that we originally announced. In this way, we achieved our initial plan, turning our words into accomplishments for the fifth year in a row.

The struggling resource sector was covered by our four Division Companies in the non-resource sector—the Textile Company, Machinery Company, Food Company, and ICT, General Products & Realty Company—which have recorded continued gains in profits in recent years. Net profit attributable to ITOCHU in the non-resource sector reached a new record high, increasing to ¥317.2 billion, about four times the level in fiscal 2011. Accompanying this growth in profits, at the end of fiscal 2015 shareholders' equity was more than ¥2,400.0 billion and NET DER was below 1.0 times for the first time, falling to 0.98 times. In addition, we gave companywide instructions to target the generation of operating cash flows at a level higher than net profit, and as a result we achieved operating cash flows in excess of ¥400.0 billion, as we did in the previous year.

If we are overconfident even once, customers will instantly leave us and we could go downhill at a rapid pace. In particular, I believe that it is precisely at times like this, when our results are strong, that we must be careful not to be overconfident. We have continued taking steps to ensure that we do not lose our mind as the challenger, not just in management but throughout the Company. As one of these steps, in fiscal 2011 we revised our personnel compensation system to broaden the extent to which compensation reflects the results of individuals rather than the results of their organizational unit. Moreover, our morning-focused working system, which was formally introduced in May 2014, should also be understood as the way of reforming employees' mind. This key objective of this system, which shifts overtime at night to the morning, is a continued focus on the customers' viewpoints, with employees providing optimal responses to customer inquiries from early morning. There were some people who questioned this system on the basis that late-night overtime at general trading companies is only natural, but we have overturned that attitude and now our implementation of the morning-focused working system is considered to be only natural on a companywide basis. This system has been highly evaluated by customers and is generating the results that we wanted, such as increases in operational efficiency. In addition, this pioneering initiative has drawn a wide range of attention, not only from within our industry but also from government and national institutions, and has been becoming a social movement.

ITOCHU: Turning Words into Accomplishments

Net Income / Profit Attributable to ITOCHU



Implementing Business Investment to Continue to Broaden Multifaceted Initiatives

I think that everyone agrees that companies must always focus on growth. I frequently explain my approach to growth with an example from agriculture. Even if seeds are improved and high-quality fertilizer is used, there are limits to how much the harvest yield can be increased on limited farmland. There is also a substantial risk that there will be a poor harvest due to unseasonable weather. Accordingly, sometimes it is necessary to break ground on new farmland, open up a new “field,” and sow a variety of seeds. At first, it might be just be full of stones. It could be unproductive land. However, I believe that if you maintain your hopes for the future, work with strong perseverance, leverage your intelligence, and do your utmost to make it a success, then before long the land will become fertile and you can reap a large harvest. In terms of ITOCHU’s business activities, the route to sustained growth in earnings is to invest in projects with future potential, increase the business value of investees while leveraging the wide-ranging management resources of a general trading company, and then harvest trades and investment returns. Consequently, it is necessary to implement new investment to open up large-scale business infrastructure.

Under “Brand-new Deal 2014,” which set an upper limit of ¥1 trillion for cumulative total investment over two years, we implemented investment of ¥880.0 billion on a gross basis and ¥690.0 billion on a net basis. Of the gross investment amount, ¥675.0 billion, or about 75%, was invested in the non-resource sector, which resulted in a stronger presence for ITOCHU in that sector. On the other hand, in the resource sector, we invested a cumulative total of ¥205.0 billion, centered on expansion of existing equity interests and additional investments.

In the consumer-related sector, in which ITOCHU has distinct strengths, we have implemented investments that have strengthened our lead while steadily leveraging a favorable cycle in which our strengths in turn lead to superior projects. These investments include the Asian fresh produce business and the worldwide packaged foods business of Dole Food Company, Inc., of the United States, and EDWIN CO., LTD., Japan’s largest manufacturer and distributor of jeans. The next section introduces some of these investments, which opened up large-scale business infrastructure on an unprecedented scale and established a solid foundation for the next medium-term business plan.

Implementing Necessary Strategies a Little Bit Faster

After I became president in April 2010, I sensed growing risk in regard to the resource boom, to which I paid careful attention. There is a saying that “what goes up must come down,” and the reason for my concern was that resource and energy prices were increasing at an unprecedented rate. In fact, prices subsequently fell, and many companies have recently had to recognize impairment losses on large-scale assets.

However, ITOCHU moved first to implement a policy of focusing on non-resource businesses. Textiles are the founding business of ITOCHU, which recorded growth as a company closely linked to consumers. The logical choice was to focus the investment of our management resources on the non-resource sector, in which we have distinct strengths, rather than extending ourselves across the board. Moreover, we were always aware of the need to move a little bit faster.

It is clear to everyone that major business opportunities in the non-resource sector can be anticipated in China and Asia. In particular, there is no doubt about the potential of consumer-related businesses in China, which has the world’s largest population and in which the incomes of the middle class continue to rise. In addition, for foreign companies to establish a presence in domestic markets in China, it is obvious that a strong partner is necessary. Opinion is divided as to whether the current situation in China should be viewed in terms of “risks” or “opportunities,” but I think that most people are overly sensitive to the political situation and overly

concerned about risk in China. If we wait until the situation settles down and everyone agrees that conditions are favorable, then we will miss opportunities. Determined to look 100 years into ITOCHU’s future, I focused on the opportunities and took action a little bit faster. That action was the conclusion of strategic business alliances and capital participation agreement with Charoen Pokphand Group Company Limited and CITIC Limited (CITIC).



Largest Opportunity in Our History of More Than 150 Years

This was an investment of ¥600.0 billion, the largest in ITOCHU's history. This single investment was more than the total amount of investment in China by Japanese companies in the previous year. It was not a decision to take a chance on an all or nothing gamble. Rather, it was a decision reached after careful analysis of risks and returns.

The CP Group, which is centered on Charoen Pokphand Group Company Limited, is one of the leading conglomerates in Asia. It has recorded strong growth to become one of Thailand's largest companies, with core operations in live-stock-related areas, including one of the world's largest animal feed businesses. ITOCHU and the CP Group can generate an array of multifaceted, wide-ranging synergies, particularly in the food business. A point worthy of special mention is that the CP Group has built the strongest business foundation in China of any foreign company. The CP Group was the first foreign company to invest in China in the late 1970s, and currently it is the country's largest poultry exporter. In addition, the CP Group has put down deep roots in domestic markets throughout most parts of China. On the other hand, ITOCHU is the strongest Japanese trading company in China, and there is no doubt that the CP Group is the best partner for ITOCHU in terms of working together to cultivate the markets in China. The CP Group has acquired 4.9% (before capital increase) of ITOCHU's stock, and ITOCHU has acquired 25% of the stock of C.P. Pokphand Co. Ltd., which is one of the core companies in the CP Group. We took this step because we decided that we needed to create a structure under which ITOCHU and the CP Group share the same destiny in order to work together in earnest and generate synergies on a sustained basis.

A major step in fostering a shared destiny was the acquisition of 20% of CITIC through a 50:50 joint investment by ITOCHU and the CP Group and the conclusion of a strategic business alliance and capital participation agreement among the three companies. An explanation of CITIC will clarify the strategic value of this initiative.

CITIC, which is China's largest government-owned conglomerate, has leading positions in an extremely wide range of industries, centered on the banking and securities industry. CITIC is listed on the Hong Kong Stock Exchange and is one of the largest component companies of the Hong Kong Hang Seng Index.

Even today, the Chinese government indirectly owns the majority of CITIC stock, and CITIC has filled the role of China's international point of economic contact with the world. The acquisition of 20% of CITIC's stock by foreign companies would not have been possible in the past. China's ratings from major rating institutions exceed those of Japan, and some have said that the acquisition of a superior asset owned by the Chinese government at a PBR of less than 1.0 times is unprecedented. It is important to understand that this initiative is not something that could have been accomplished by any company. This was possible only because of the Chinese government's recognition of the contributions made by ITOCHU and the CP Group to enhancing the living standards of the Chinese people and developing the economy. Another key point is the high evaluation of how it will be possible to generate synergies globally and in a wide range of business fields by integrating the management resources of three conglomerates that represent Asia. I consider this initiative to be an extremely rare opportunity in ITOCHU's history of more than 150 years.

Generating Earnings through Multifaceted Initiatives by Building the Strongest Business Infrastructure in the Region

In general trading companies which are faced with the need to revise their strategies, and ITOCHU is now able to clearly chart a course for growth through this initiative.

First, we can expect CITIC, which has become an equity-method associated company of ITOCHU, to contribute to growth in our consolidated net profit. However, more than anything else, the major strategic significance is the ability to build the strongest business infrastructure in the China and Asia region. In particular, I think that it may be extraordinarily significant that we can steadily build a presence in domestic markets in China. There is an overwhelming difference in information capabilities in the local region from CITIC and CP Group. In the Annual Report 2014,

I explained my approach of focusing on investment projects that grow in a multifaceted manner, and we have now obtained large-scale business infrastructure that will enable us to secure wide-ranging, significant benefits in the non-resource sector, centered on consumer-related businesses.

Joint initiatives are already taking shape. In April 2015, five companies—ITOCHU, the CITIC Group, the CP Group, China Mobile Communications Corporation, and Shanghai Information Investment Inc., a company affiliated with Shanghai Municipality—agreed to a strategic tie-up in cross-border e-commerce through the Shanghai Pilot Free Trade Zone. It is not an exaggeration to say that this joint initiative has enabled us to instantly secure a channel to

serve consumers throughout China. Those consumers will be provided with high-quality Japanese products and thorough after-sales service in China's rapidly growing

cross-border e-commerce market. This is only one example, but it clearly demonstrates how our prospects have already started to change.

New Challenges—Brand-new Deal 2017

I TOCHU now faces further challenges. We have maintained our spot among Japan's top three general trading companies for four consecutive years, but this is no more than a transit point for ITOCHU. Under "Brand-new Deal 2017," the new medium-term management plan that was launched in fiscal 2016, we are aiming to build an earnings base to generate ¥400.0 billion in net profit by advancing our growth strategy, centered on the non-resource sector. The resource boom has faded, and now we have an opportunity to leverage our strengths in the non-resource sector, centered on consumer-related businesses, and to strive for an even higher ranking. By maximizing the synergies with CITIC and CP Group, as I have discussed, we will expand our earnings base in the non-resource sector in China and Asia and will accelerate our pursuit of the higher-ranked general trading companies.

In fiscal 2016, the first year of the plan, we are planning net profit attributable to ITOCHU of ¥330.0 billion. To take on the top two trading companies, we determined that we would need profits on a scale of ¥400.0 billion, and we estimated the amount of time required to achieve that objective, and consequently, we formulated a three-year plan.

ITOCHU has obtained a foothold for its growth strategy, and now the next task for the Company is the reinforcement of its financial position. Our approach to this task has two

elements—accelerating asset replacement and stringent cash flow management. Through bold, stepped-up exits from investments, we will accelerate asset replacement and further increase asset quality and efficiency. In fact, we have already sold large-scale, superior assets in April 2015.

Moving forward, our policy will be to make new investments primarily through joint initiatives with CITIC and CP Group. In the past, our policy was to base our investment management on the total amount of the investment. However, under "Brand-new Deal 2017" we have changed our policy, and now we will implement new investment within the aggregate amount generated by substantial operating cash flows and cash in from exits of existing projects. Our policy calls for generating substantial free cash flows (excluding the investment in CITIC) in excess of ¥100.0 billion and maintaining positive even after dividends are paid.

We will also work to enhance shareholder returns. We will guarantee a minimum dividend per share of ¥50 for fiscal 2016, ¥55 for fiscal 2017, and ¥60 for fiscal 2018, thereby surpassing our record high each year. In addition, we will continue our previous performance-linked, progressive dividend policy (Please see page 18 for detailed information on the dividend policy and fiscal 2015 dividend payments). In this way, we will aim to achieve a new record high dividend each year. This is an indication of our confidence in regard to our future profit growth.

Rigorous Management Focused on Shareholders

I always strive to manage from the viewpoint of shareholders.

Shareholders provide funds to companies, and the companies use those funds in their business activities. For a manager, it is only natural to want shareholders to trust and support the Company. Accordingly, I place a priority not only on providing aggressive shareholder returns but also on conducting sincere dialogue with shareholders and investors.

In addition, I believe that another important duty is to ensure that we make effective use of the funds that have been provided by our shareholders. Until now, we have aimed at maintaining ROE of at least 12%, but under "Brand-new Deal 2017" we have announced a management objective of aiming to consistently maintain ROE of more than 13% while continuing to bolster shareholders' equity for the first time as a plan. Moving forward, we will take a rigorous approach to the implementation of management with a focus on the cost of capital, including not only new

investments but also existing businesses. However, own-stock purchases, which increase ROE by reducing the denominator (equity), can be seen as an indication that a company's leadership acknowledges the limits of growth, and accordingly I do not have a very positive view to it. Moreover, to rank with Japan's *Zaibatsu*-industrial groups, I think that we need to further enhance shareholders' equity, and consequently we will aim to raise ROE by increasing the numerator (return) and to be a high-profit company. The situation would be different if, for example, our PBR were consistently under 1.0 times for a long time, but for now we will strive to provide a return in the form of increased dividends supported by higher profits.

I continually pay attention to ITOCHU's stock price, which could be called a performance result card for management, and I also make regular purchases of ITOCHU stock. The reason is that I have great hopes for the future of the Company.

Leveraging a Long-Term Viewpoint for the Next Generation

If company leaders sacrifice future growth by focusing on short-term profits during their term of office, then the company will not be able to record sustained expansion. There are many ways to temporarily increase a company's performance, but in the end these methods leave a negative legacy for the next generation.

For example, brands cannot be effectively nurtured without a long-term strategy. Consider the example of an employee in charge of a well-known brand of neckties. The employee works together with a department store in a certain region and gets the business off to a solid start. Subsequently, if the next employee in charge of the necktie business also provides the neckties to other department stores that compete with the first store, then sales would likely increase rapidly in the short term.

However, the first store's commitment to the necktie weakens when its competitors also start to offer them. The brand value of the necktie declines, and overall sales gradually start to decrease. As a result, the second employee in charge appears to be successful, but the third employee in

charge may be held responsible for a rapid decline in sales. Accordingly, this brand of neckties will not be able to record sustained growth, and in the end future generations will have to pay the price.

I believe that company leaders should not focus on short-term profits, but rather should always work from a long-term viewpoint and aim for sustained growth by passing superior assets onto future generations. When I worked at the Textile Company, where we created a series of new business models based on brands, I continually thought about frameworks that could generate results over the long term, and I maintain the same approach today. As a corporate leader, I believe it is important for management to facilitate the sharing of dreams with employees and shareholders.

On the other hand, no matter how much we talk about our dreams, if results slump and we repeatedly fail to meet our objectives, then no one will continue to believe our long-term vision. That is the reason I am committed to turning words into accomplishments.

Risk Management that Needs to be Changed, Missions that Never Change

In the early 2000s, general trading companies were faced with the need to dispose of under-performing and inefficient assets, and they consequently developed and applied quantitative risk management methods. Nonetheless, in recent years general trading companies have had to recognize impairment losses on large-scale assets. Rather than relying too heavily on quantitative risk management methods, I strongly believe that at each stage—when an investment is made, after it is made, and when risks manifest—risk management should reflect the leveraging of “human knowledge” and the doubling and redoubling of countermeasures.

The risks that ITOCHU must manage are not limited to those that directly affect earnings, such as these investment risks.

As the scope of business activities increases, those activities have an increasingly diverse effect on society. Accompanying growth in the scale of profits, the influence on society expands. This is something that we always need

to keep in mind. Moreover, our value chains, which have grown in scope and complexity, always present the potential risks that the Group could indirectly become the cause of problems with the environment or human rights. For example, in the food value chain, if there is a situation that damages food safety or security, even if it was caused by one of our suppliers, the Company itself will lose trust, and major damage could be done to the Company's growth strategy. The same would apply if a contract manufacturer in the textile business causes a problem with child labor or other human rights issues. Accordingly, we conduct multifaceted monitoring of risks that could lead to damage to corporate value while further expanding the scope of suppliers that are subject to monitoring. On the other hand, I believe that it is important that we focus not only on the risk management viewpoint but also on the creation of businesses that help to resolve social issues. On that basis, we are advancing operations in the field of renewable energy, such as geothermal and wind power.

To maintain a presence that is accepted by society will require not only implementing detailed responses to the demands of society but also providing the abundance that results from business by delivering what is needed in each country through our core business operations. ITOCHU has maintained this belief as its unchanging missions for more than 150 years. At the same time, we have developed the management philosophy of the Ohmi merchants—*sampo yoshi* (Good for the seller, Good for the buyer, and Good for society)—into our corporate philosophy of “Committed to the Global Good.”

For ITOCHU to break away from the current top three general trading companies and address challenges on a new stage, we must share this sense of values among all employees and each individual must embrace this sense of mission. The Corporate Message—I am One with Infinite Missions—incorporates this concept. These words condense the multiple ways in which ITOCHU's distinct strengths are centered on people.



Encouraging Employees to Maximize Their Individual Skills

The ITOCHU Group's stable, ongoing growth is supported by the Group's many individual employees. I believe that, no matter how much we strive to expand our operational scale, or to expand our business fields around the world, each of our employees must continue to act as a merchant with a rigorous focus on the customer's viewpoint and the front lines. ITOCHU has a long tradition of making the most of individual strengths and characteristics in an open and active corporate culture, and we are often described as a mercenary band. It is these strong individual characteristics that ITOCHU will need from its employees in the future. Accordingly, our personnel system is focused on nurturing specialists in each target market as well as strong

individuals who can manage at the global level and comprise the nucleus of our workforce. In addition, in fiscal 2015, we implemented a “Gen Ko Tsu Reform” (*Gen* for *genba*, or “front line,” *Ko* for *kobetsu*, or “individual,” and *Tsu* for *tsunagari*, or “connection”) as well as “Managers of the Future” reward scheme (see pages 26–27, Human Resources Strategy). In these ways, we are implementing a variety of initiatives to maximize the individual capabilities of ITOCHU employees. Moreover, to accelerate the generation of synergies with CITIC and CP Group, we are aggressively advancing measures to reinforce the nurturing of human resources who can play an active role in China and Asia.

Turning Words into Accomplishments, Without Fail

I believe that ITOCHU's capital and business tie-ups with CITIC and CP Group will have substantial benefits for the Company. We will be able to obtain access to information and networks that we previously would not have been able to, and the scope of our business has expanded substantially. In the future, I will explain the results of our initiatives in various fields, and I am confident that this information will further enhance your understanding of the value of our taking on these challenges.

I will continue to challenge as I move forward. In fact, I will strive to maintain my spirit of eagerly taking on challenges for my entire life. ITOCHU will also continue to aim for ever higher objectives. No matter what type of business environment we face, we will not make excuses, because ITOCHU is a company that turns its words into accomplishments, without fail.