

Message from the CAO



Carrying forward our founding spirit of *sampo yoshi*, we will pursue sustainable new corporate value and enhance management quality.

Member of the Board,
Chief Administrative Officer
Fumihiko Kobayashi

DNA Inherited from the Merchants of Ohmi

Our Founding Spirit of *Sampo Yoshi* Still Relevant Today

Our management philosophy of *sampo yoshi* (good for the seller, good for the buyer, and good for society) harks back to the merchant roots of our founder, Chubei Itoh. This spirit has been passed on since our founding 159 years ago, and lives on in our DNA today.

At the time of its founding, as the merchants of the Ohmi region (in present-day Shiga Prefecture) our founders peddled their wares by traveling long distances rather than by building large stores where customers would gather. This business style involved negotiating with customers on the basis of samples the merchants carried with them; the resulting product would be shipped later. Given these practices, trust, creditworthiness, and information were extremely important. To gain permission to go about their business, I heard that contributing to the regional economy was also important. The philosophy of *sampo yoshi* thus evolved as a natural consequence of business among the merchants of the Ohmi region. Still relevant today, this “ITOCHU style” concept of sustainability with its commerce origins has spurred our growth over 159 years and pulses throughout the Company today. This spirit forms our corporate philosophy of “Committed to the Global Good” and the corporate message announced in 2014: “I am One with Infinite Missions.”

Aiming for New, “ITOCHU Style,” Concept of Sustainability

Returning Profits to Stakeholders through Initiatives that “Make Employees Happy”

Now that ITOCHU is able to generate profits suitable to an era of two leading general trading companies, to inspire its employees, the Company needs to deliver a different sort of value that goes beyond a competition for profits. One such example is the materiality theme we have set, of “improving labor conditions.” The working-style reforms we have been pursuing since 2013 have created major waves in society—even influencing policy-making by the Japanese government. We can be confident and proud of our efforts to set this theme. In 2016, we adopted the “ITOCHU Health Charter,” and we have stepped up our efforts to be the “leading general trading company for health.” One of our strengths is having a culture in which, even though we are few in number, our people continue to take on challenges without fear of failure. I want ITOCHU to protect this aspect of our culture. I believe that pursuing initiatives designed to give workers fulfillment and make them happy will help raise labor productivity, as well as returning value to stakeholders. With respect to international requests, such as the Sustainable Development Goals (SDGs) adopted by the United Nations, these initiatives will help employees meet their responsibilities as they go about their “infinite missions” on the front lines and contribute to sustainable growth in tandem with society.

At the same time, our own responsibilities increase as the value chains of suppliers and investees grow wider and more complex. In addition to compliance, we will conduct thorough training for employees on consideration for human rights and the environment. We will also redouble our sustainability management efforts, such as through site visits to key business partners.

ITOCHU's supply chain management:
https://www.itochu.co.jp/en/csr/supply_chain/

Pursuing a New Corporate Image

Augmenting Management Quality and Working to Sustainably Increase Corporate Value

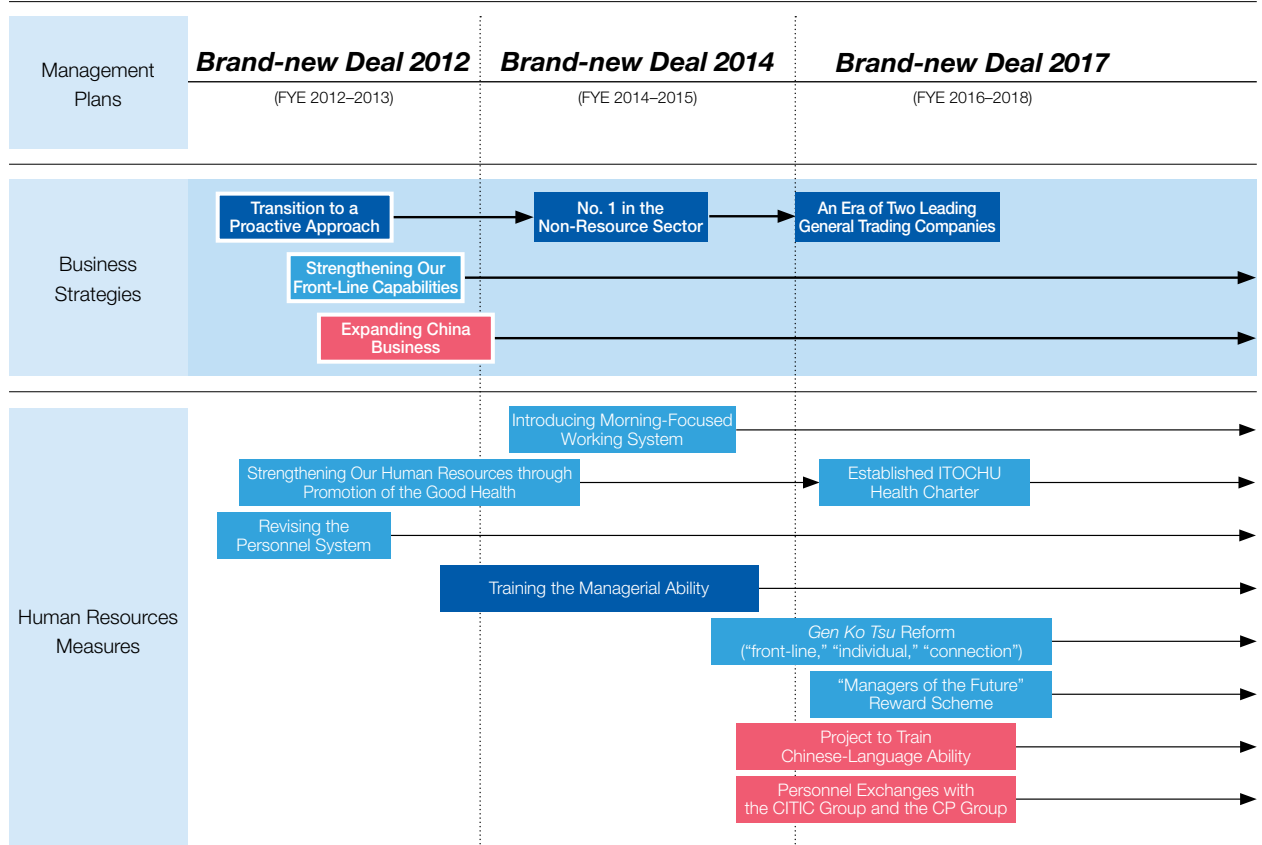
Management quality is an essential yardstick for measuring increases in corporate value over the medium to long term. In recent years, society's focus on ESG has been growing. In addition to responding conscientiously to external requests, I consider it is important to share throughout the Company an awareness of what needs to be done to achieve sustainable increases in corporate value.

To communicate the president's wish to "encourage people who are working in difficult environments," over the past three and a half years, since 2013, I have been visiting employees working in remote regions on the president's behalf. Going forward, management needs to visit the front lines and engage in dialogue with employees. This approach will build a corporate culture and environment that motivates individual employees and lead to sustainable increases in corporate value.



Visiting employees posted to work on the construction site of one of the world's largest geothermal power plants, in Sumatra, Indonesia

Human Resources Strategy Linked to Management Plan



Human Resources Strategy

A Human Resources Strategy That Fully Leverages Our Strengths

Optimal Allocation to Further Enhance Our Strength in the Non-Resource Sector

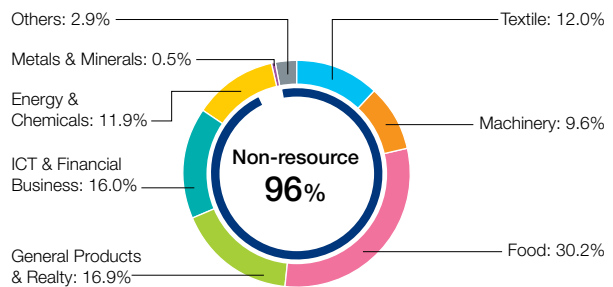
Shifting Our Focus to the Non-Resource Sector

To strengthen the non-resource sector, we are increasing the allocation of employees to this sector, in newly consolidated subsidiaries and in priority areas on a non-consolidated basis. At the same time, to lower risks in line with long-term changes in the economic structure, we are allocating a certain number of employees to the resource sector even though market conditions are unfavorable. In these ways, we are structuring our human resource portfolio in line with our assets and taking the overall business into consideration.

As we are working to reinforce operations in the non-resource sector, consolidated business management is growing more important. For this reason, in FYE 2014 we introduced a system to develop human resources who will manage operating companies in the future. Thus we are working to increase the management capabilities of employees, and each year we are expanding the number

of employees participating in the program. We are proactively expanding the training and support provided to the personnel of domestic operating companies, as well as the locally hired employees of operating companies overseas.

Number of Employees by Division Company (FYE 2017, Consolidated Basis)*



* Number of employees at ITOCHU and subsidiaries

A Human Resources Strategy That Fully Leverages Our Strengths

Expanding Our Business Foundation in China and Other Parts of Asia

Priority Allocation and Increasing the Number of Chinese-Speaking Personnel

In keeping with the strategy of expanding our business foundation in China and other parts of Asia, we have allocated 61% of personnel to these regions.

At the headquarters, in FYE 2011 we introduced a system to train third languages to all young employees in addition to the traditional English training. Due to our initiatives with the CITIC Group and the CP Group, the Chinese language is a special focus. In FYE 2016, we launched a project to develop 1,000 employees with Chinese-language ability, which is about one-third of our total number of career-track employees. We are moving forward with rigorous measures to build a foundation for the expansion of business in China and emerging countries over the medium to long term.

In FYE 2016, CITIC, the CP Group, and ITOCHU reached an agreement regarding human resources development. To solidify the human resources network among the three companies and build a foundation to support the

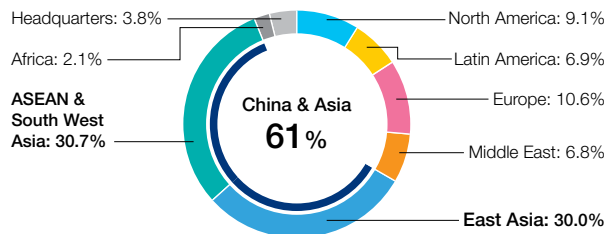


Joint training with CITIC and CP

strategic alliance, the three companies are moving forward with mutual exchanges and development of capable personnel.

Number of Overseas Employees by Region, FYE 2017

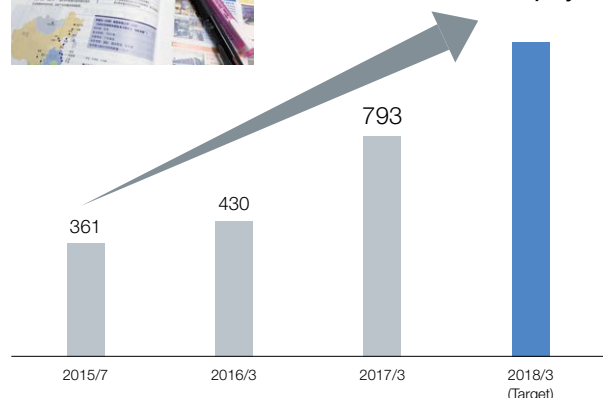
* excluding subsidiaries and associated companies



Number of People with Chinese-language Qualifications



Toward **1,000**, equivalent to one-third of total number of career-track employees



Recruiting and Cultivating Human Resources Who Support “Infinite Missions”

ITOCHU works to hone individual capabilities, in which each employee creates business through his or her own efforts. ITOCHU currently has fewer employees than other general trading companies, attesting to its ongoing tradition of maintaining a small cadre of highly capable people. We strive to employ people who are good matches for our corporate culture, which has been compared to that of a merchant band. On that basis, we hire people regardless of gender, nationality, or age.

Internal Reforms Aimed at Strengthening Front-Line Capabilities

To enhance our traditional strengths—individual capabilities and front-line capabilities—it is extremely important to maintain close communications with customers and to understand their needs. In April 2010, we launched an effort to increase the time spent to visit customers, conversely reducing the number of internal meetings and volume of meeting materials, and making meetings more efficient. By FYE 2016, we had reduced the number of important internal meetings (such as Board meetings) by around 41% compared with FYE 2010. We also lowered the total time required for such meetings by around 50% and lowered the volume of meeting materials by some 48%.

Important internal meetings



FYE 2010 → FYE 2016

Number held
Reduced around **41%**

Total time required
Reduced around **50%**

Meeting materials



FYE 2010 → FYE 2016

Reduced around **48%**

Revising Personnel Compensation Systems

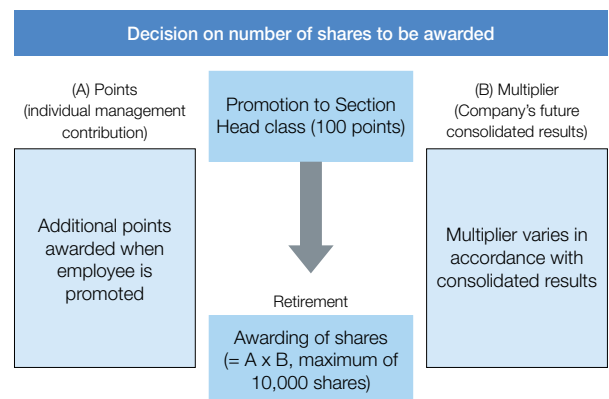
We discontinued our organizational results evaluation system to address the issue of placing excessive emphasis on organizational performance in individual fiscal years. In FYE 2012, we reformed our personnel compensation system to place greater weight on individual performance and minimize the impact of external factors, such as resource prices. Based on a compensation system that is fair and fluctuates in line with performance, we aim to ensure high levels of motivation among all employees and maximize their individual capabilities.

Increasing Employees’ Awareness of Participation in Management

To increase corporate value, it is essential to enhance employees’ awareness of participation in management. In FYE 2016, we introduced the “Managers of the Future” reward scheme, under which employees at the rank of Section Head or above—the key people responsible for the future growth of ITOCHU—receive shares of the Company when they retire, based on the Company’s performance during their tenure.

On the other hand, for the stock ownership plan that can be joined by all employees, from FYE 2016 the incentive award rate has been doubled, and the participation rate has increased substantially, from approximately 55% in FYE 2015 to some 80% in FYE 2017. In these ways, employees’ interest in management is being increased through ownership of the Company’s stock.

“Managers of the Future” Reward Scheme



Human Resources Strategy

A Human Resources Strategy That Fully Leverages Our Strengths **Working-Style Reforms That Stay One Step Ahead**

Further Promoting the Morning-Focused Working System

Early recognition on improving work productivity was the key to competitiveness. In 2002 we began career counseling through a specialist organization, which was the first center for a private-sector company. We were an early proponent of health management, offering health guidance through a borderless medical concierge service that has been implemented for more than 30 years by a specialist health management organization. In FYE 2014, we introduced a morning-focused working system as one aspect of our working-style reform. This system has good results, both in the timing of when employees come and leave the office and in the hours of overtime they work. Three years have passed since the program's introduction, and it continues to make steady progress. This initiative has had a major influence on national and government institutions, as well as within the industrial sector, and it has changed attitudes in Japan with regard to working styles.

Results of Morning-focused Working System

		Before introduction	Six months after introduction	Three years after introduction
Leaving*	8:00 p.m. or after	30%	7%	5%
	(Of which, 10:00 p.m. or after)	10%	almost 0%	almost 0%
Entering*	8:00 a.m. or before	20%	34%	45%
	Hours of overtime work (compared to before introduction)	—	(10%)	(15%)
Cost per month (Overtime pay + cost of meals)	—	—	—	(6%)
Two years after introduction				
Electric power usage	—	—	—	(6%)
Greenhouse gases emissions	—	—	—	(7%)

* % of people in the headquarters

Aiming to Be the “Leading General Trading Company for Health”

In June 2016, we formulated the ITOCHU Health Charter, which incorporates our thinking about health management. We have positioned enhancing the health of our employees and becoming the “leading general trading company for health” as priority management strategies. We are transitioning to a new stage in health management centered on reinforcing our system that supports proper diet and exercise and building up our workplace environment. As a result, we aim to surpass our competitors in employee productivity, increasing corporate value.

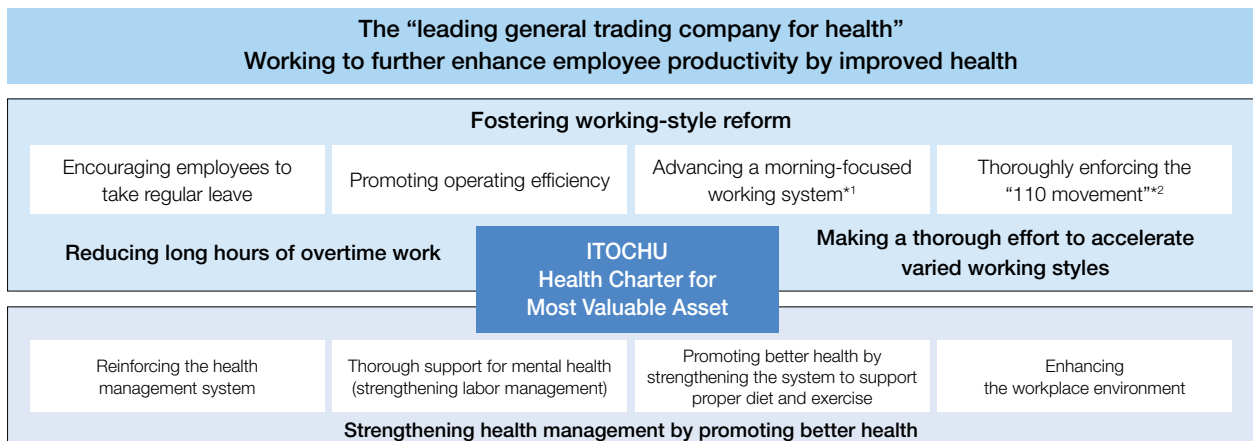


In collaboration with other companies, we are planning and developing a health management support service that makes use of wearable devices, in an effort to help each employee make steady improvements to his or her life-style habits.

Proposing New Working Styles

In June 2017, we designated Fridays as “dress-down days,” introducing an ITOCHU-style initiative to recommend a new working style to employees. Clothing is an important tool that individuals use to express their attitudes toward work. We believe that by fostering an awareness of how customers and the people around us react to our clothing choices, we can encourage employees to always be proactive and maintain a spirit of fresh and flexible creativity, further enhancing the power of the individual.

Overview of Health Management



*1 This refers to a shift from evening overtime to a morning schedule. Overtime after 8:00pm is “prohibited, in principle,” while overtime after 10:00pm is “prohibited.” The same level of extra pay for overtime hours and free meal is provided when working between 5:00am and 8:00am as for overtime in the evenings.

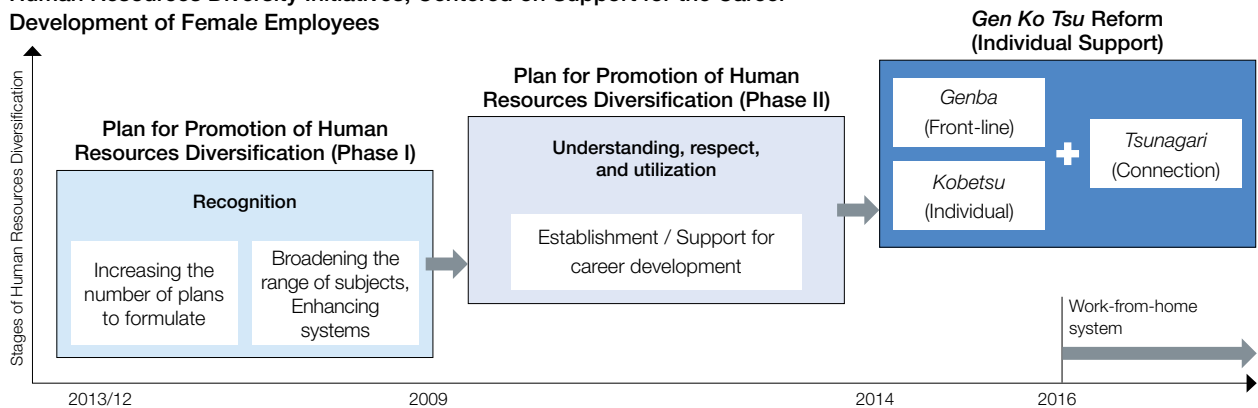
*2 The name of this system derives from the Japanese custom of drinking with work colleagues late into the evening. The idea here is that after-work drinking goes to only 1 session and needs to end by 10:00 pm.

Launching Reforms to Maximize the Individual Capabilities of Women

We formulated the Plan for Promotion of Human Resource Diversification in 2003 to support the career development of female employees. We have taken the lead over other general trading companies in expanding the number of women on career-track positions and have established systems that exceed legal requirements.

Currently, we are at the stage known as *Gen Ko Tsu* Reform, which is derived from *Genba* (front-line), *Kobetsu* (individual), and *Tsunagari* (connection). With a focus on three fields—promotion, overseas assignment, and childcare—we are moving forward based on an action plan for the Act on Promotion of Women’s Participation and Advancement in the Workplace. For example, we are providing individual support for female employees, such as overseas assignment support for female employees with children and a work-from-home system.

Human Resources Diversity Initiatives, Centered on Support for the Career Development of Female Employees



Aiming to Be a Company Society Truly Needs: Special Subsidiary ITOCHU Uneedus Co., Ltd.

In 1987, ITOCHU established ITOCHU Uneedus Co., Ltd., a special subsidiary that provides a workplace for people with disabilities to contribute to society through their work. As of April 2017, the subsidiary employed 86 people, including 44 people with disabilities (of which, 22 with severe disabilities), who engage in cleaning work, provide photography services, handle printing and perform other tasks. ITOCHU Uneedus receives support from ITOCHU, but has a management policy that aims for autonomy and independence. Accordingly, the company is aggressive in its sales activities, and has boosted sales outside the ITOCHU Group to 70%. All employees maintain a sense of professionalism and, in line with the company’s name (You (U) need us), strive to make ITOCHU Uneedus a company that is truly needed by society.



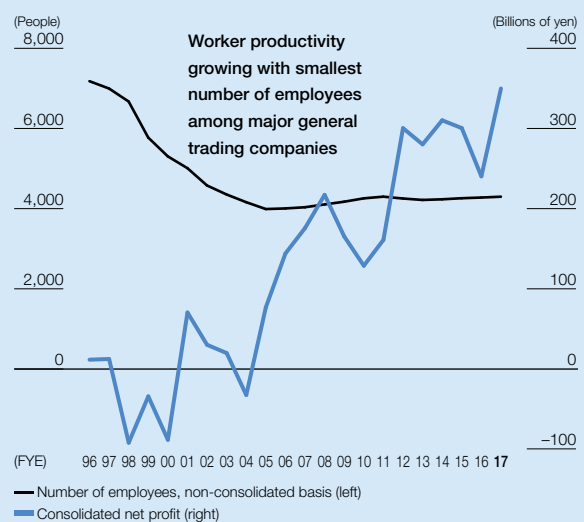
Results of Efforts to Enhance Employee Productivity

Awards Received for Health Management and Working-Style Reforms

FYE 2016	2016 Health & Productivity Stock (Ministry of Economy, Trade and Industry / Tokyo Stock Exchange)
	2016 Nadeshiko Brand (Ministry of Economy, Trade and Industry / Tokyo Stock Exchange)
	New Diversity Management Selection 100 (Ministry of Economy, Trade and Industry)
FYE 2017	Health & Productivity Stock 2017 (Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange)
	Awards for Enterprises and Workplaces with Pleasant Working Environments and High Productivity (Ministry of Health, Labour and Welfare)
	2017 Competitive IT Strategy Company Stock (Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange)



Number of ITOCHU Employees and Consolidated Net Profit

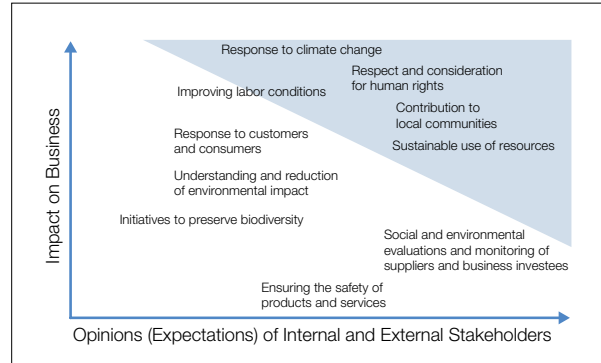


Sustainability

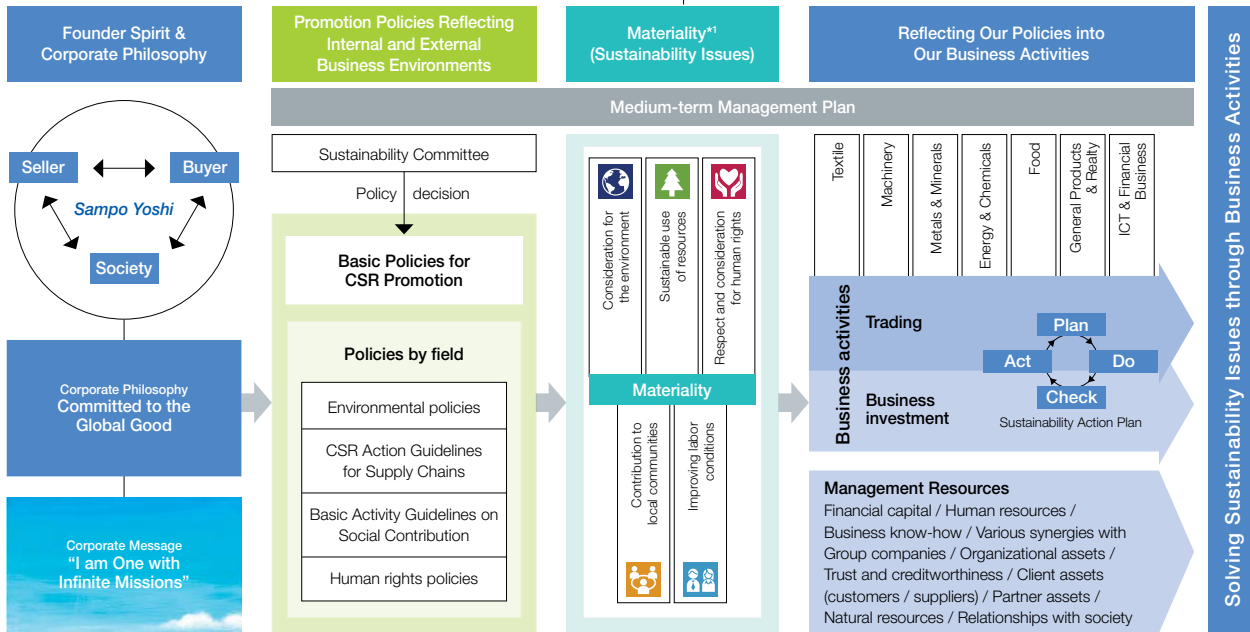
Materiality (Sustainability Issues)

To achieve sustainable growth in tandem with society, ITOCHU has selected and prioritized materiality (sustainability issues), taking into consideration such factors as the Company's operating strategy, international trends, internal and external opinions, and impacts on society. We have incorporated specific measures to address materiality into our Sustainability Action Plan, taking into account risks and opportunities in each field of business, and are promoting these measures through a PDCA cycle.

Materiality Matrix



Promoting Sustainability



*1 Materiality: Important issues in sustaining our corporate activities

Working Toward the Sustainable Development Goals

ITOCHU's initiatives to achieve sustainability through its business activities contribute toward the achievement of the Sustainable Development Goals (SDGs)*2 adopted by the United Nations in 2015.

*2 SDGs:

In September 2015, UN member nations adopted 17 Sustainable Development Goals to be achieved by 2030. They include eliminating poverty and hunger, supplying clean energy, ensuring decent work and economic growth, creating safe and sustainable cities, and responding to climate change.

SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD



Please see the sustainability pages of ITOCHU's website. Basic Policy on Sustainability and Promotion System <https://www.itochu.co.jp/en/csr/itochu/policy/>
Sustainability Action Plan <https://www.itochu.co.jp/en/csr/activities/actionplan/>

Overview of Materiality and Relation to SDGs

Consideration for the Environment ⇨ Pages 68, 80, 84



Climate change has a greater risk of natural disaster, including unseasonable weather events. In response, we are introducing measures to alleviate risk, such as diversifying production bases in our fresh produce business. Meanwhile, we are helping to address global warming by reducing the amount of greenhouse gases emitted through our business activities and promoting renewable energy and other solutions. Furthermore, through our businesses and social contribution activities we work to preserve biodiversity and address environmental issues in other ways.



Reducing the risk of climate change in our fresh produce business

Sustainable Use of Resources ⇨ Pages 72, 88



Our businesses are supported by diverse resources from the natural world (e.g., water, air, forests, food, minerals, and fossil fuels). For instance, sustainable forest resources are essential to our softwood pulp business. With concerns about resource depletion, we are enacting measures to decrease risk. At the same time, viewing the situation as an opportunity, we are engaging in the renewable energy business and supplying a steady supply of foodstuffs.



Using sustainable forestry resources in our softwood pulp business

Respect and Consideration for Human Rights ⇨ Page 45



Given our responsibilities as a company involved in diverse businesses in regions throughout the world, as well as our systems for providing a stable supply of products, we think of all our business activities as a value chain. We believe in the importance of respect and consideration for human rights throughout this value chain. We ask our business investees and business partners to understand and implement our thinking on sustainability, as we work to build a sustainable value chain.



Respect and consideration for human rights throughout the value chain

Contribution to Local Communities ⇨ Pages 53, 92



We address the issues and needs of local communities through both our business operations and our social contribution activities, thereby contributing to the advancement of local communities. For example we provide Web-based customer services that make use of artificial intelligence (AI) technologies. These services respond to the accelerating increase in the amount of information and help improve corporate operating efficiency and productivity. At the same time, they help resolve a problem that is becoming particularly pronounced in Japan: a shrinking workforce.



Improving business efficiency and enhancing productivity through the use of AI and the Internet of Things (IoT)

Improving Labor Conditions ⇨ Pages 46–49



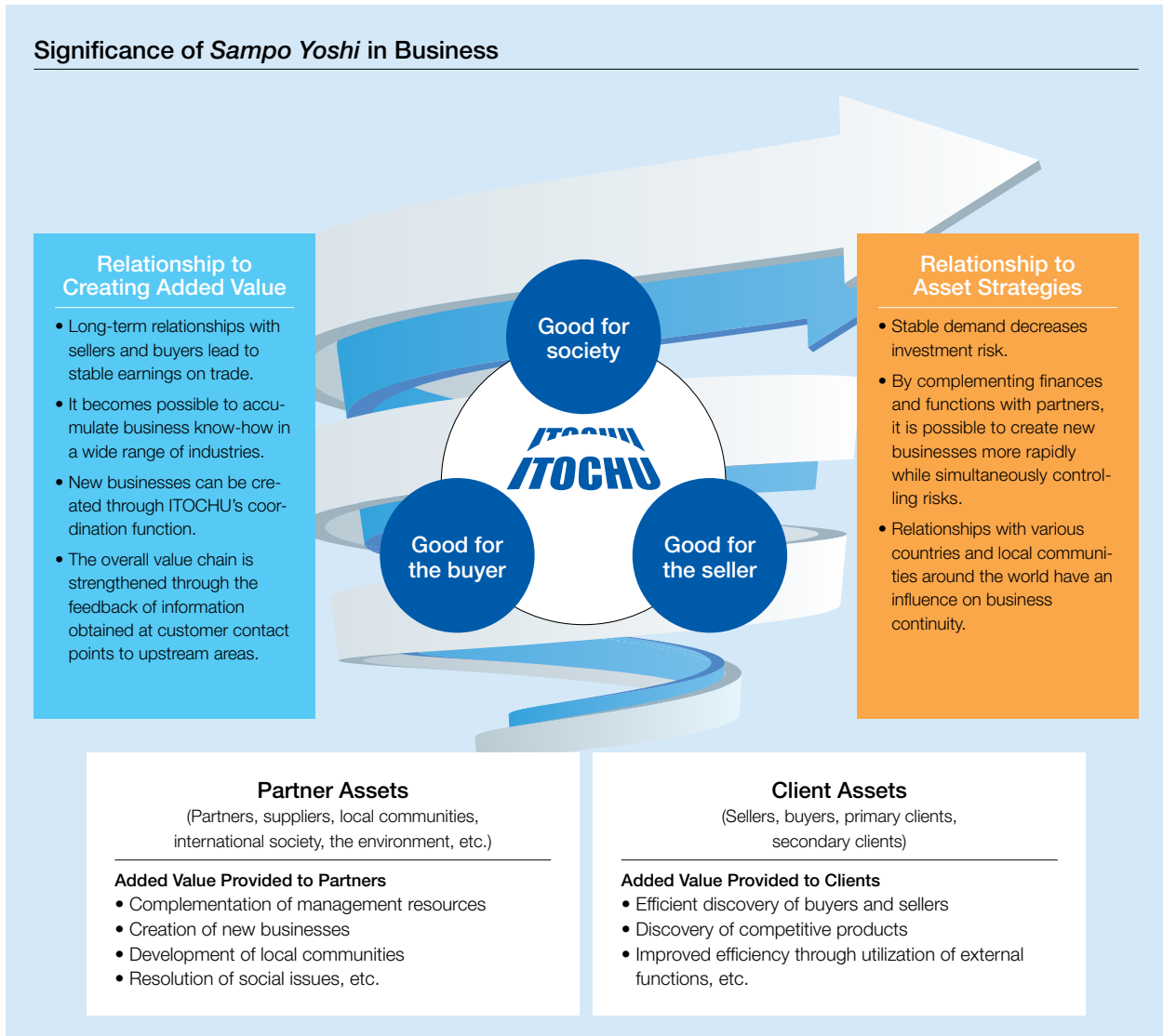
Human resources are the most important management resource supporting our diverse business developments around the world. To build our management foundation, we are cultivating and reinforcing our human resources, and improving labor conditions is one way to maximize their capabilities. Our working-style reforms center on a morning-focused working system and health and productivity management, while various training programs and efforts to promote diversity are aimed at strengthening the individual capabilities and front-line capabilities, lending high levels of corporate competitiveness to our business activities.



Strengthening the individual capabilities and our front-line capabilities through diverse training programs

Client and Partner Assets

ITOCHU practices the principle of *sampo yoshi* in its business. By supplying a diverse range of functions, we strive to provide our various stakeholders with added value and to thereby ensure the continuity of our business.



Sampo Yoshi in China and Other Parts of Asia



In developing operations in China and other parts of Asia, ITOCHU seeks to generate substantial synergies by blending its management resources, including its market presence,

human relations networks, management know-how, and business partners, with those of the CITIC Group and the CP Group. Success in this partnership can only be achieved by prioritizing the improvement of standards of living and other contributions to the development of local communities.

Benefits for ITOCHU

- Access to medium- to long-term business opportunities in the Chinese and Asian markets
- Ability to acquire timely, high-value information
- Opportunities to utilize refined management resources

Added Value Provided to Partners

- Expansion of new businesses through access to Japanese companies and utilization of know-how related and consumer-related businesses (the CITIC Group and the CP Group)
- Access to demand in the Chinese and Asian markets (Japanese companies)
- Development of local communities through enhancement of social infrastructure and expansion of employment opportunities (local communities)

Added Value Provided to Clients

- Safe and reliable products and services (consumers and companies in China and other parts of Asia)

Sampo Yoshi in Pulp Trade

Through its operating companies (Celulose Nipo-Brasileira S.A. and METSA FIBRE Oy), ITOCHU possesses one of the world's foremost pulp trade portfolios featuring a balanced assortment of softwood and hardwood assets. As a sales agent for pulp from these assets, we have developed a position as a leading global pulp trader. In addition to providing papermakers with a stable supply of high-quality



pulp, we are also contributing to environment preservation through the use of highly sustainable forestry resources.

Benefits for ITOCHU

- Reinforcement of sales network through procurement from Celulose Nipo-Brasileira and METSA FIBRE
- Opportunities to exercise competitive edge with regard to strategies and information

Added Value Provided to Partners

- Wider range of sales opportunities through the use of ITOCHU's sales network (Celulose Nipo-Brasileira and METSA FIBRE)
- Prevention of global warming through the use of highly sustainable forestry resources (global environment)

Added Value Provided to Clients

- Stable supply of high-quality pulp (papermakers)

Sampo Yoshi in Infrastructure Businesses



Karawang International Industrial City was started as a 50:50 investment between ITOCHU and Sinar Mas, a large Indonesian conglomerate. Sinar Mas and ITOCHU have been



able to maintain a mutually complementary relationship by utilizing not just their funds but also their unique specialties to operate this industrial park. This undertaking has also allowed us to contribute to the development of the Indonesian economy through the creation of employment opportunities and partnerships with local companies.

