

Becoming a Next-Generation Merchant

ITOCHU has an inherent ability to adapt to its surroundings, and we have launched new reforms to take advantage of changes in our operating environment. Under “Brand-new Deal 2020,” our new medium-term management plan, we are evolving our business model to become a “next-generation merchant.” At the same time, we will continue applying our time-tested “*sampo yoshi*” approach to business as we reinvent the ITOCHU Group and strive to sustainably increase corporate value.

Next Generation 01

Page 51 Toward “Reinvented Business”

Amid the advances of the “Fourth Industrial Revolution,” we will reinforce and upgrade existing businesses that the ITOCHU Group has enhanced over the years, pursuing a distinctively ITOCHU-style business transformation.



Next Generation 02

Page 54 The ITOCHU Group’s CSV

Here, we introduce the CSV of Dole Philippines, which, by sharing abundance with local communities, has raised its competitiveness and achieved sustained development for over half a century.



Next Generation 03

Page 56 Next-Generation Management Structure

To sustainably increase corporate value through the combination of management consistency and next-generation responsiveness, we have become the first general trading company to convert to a CEO and COO structure.



Toward “Reinvented Business”

Take Advantage of Real Assets and Promote “Reinvented Business”

The “Fourth Industrial Revolution” is in progress in various industries throughout the world. Digital Giant has built an enormous economic sphere and, as a new company, has changed the game in a traditional industry with business innovations that freely utilize leading-edge technologies. Large structural changes are gathering speed within the wide-ranging industrial fields in which the Group’s seven Division Companies are expanding their businesses.

In terms of brick-and-mortar business, we have improved our existing businesses over a long period of time and has built up prime assets, including intangible assets such as customer base, relationships with partners, and business expertise. By fully leveraging these distinctive assets, we will view changes in the industry as opportunities, evolving our “earn, cut, prevent” philosophy and promoting “Reinvented Business” while adopting new technologies.

Enhancement of the Consumer Sector’s Value Chain

It is getting more important to meet customer needs in the retail industry.

Due to this change, proper understanding of consumer needs, marketing through optimal channels, and competitiveness are all keys to competitiveness. In recent years, e-commerce companies are moving more quickly toward sales at physical locations. These companies are particularly interested in acquiring customer data in brick-and-mortar stores, where over 90% of personal consumption occurs.

FamilyMart UNY Holdings Co., Ltd. is the Group’s largest consumer contact point, operating approx. 17,000 stores nationwide. These stores are visited by around 15 million customers daily, making it possible to secure vast amounts of consumer data. Additionally, NIPPON ACCESS, INC. possesses approx. 10,000 trucks, primarily at its 550 locations nationwide, and its low-temperature range distribution network boasts a high rate of competitiveness. The ITOCHU Group also holds additional assets with extremely large potential, such as one of the world’s largest companies in the fresh produce business, Dole International Holdings, Inc. We also own YANASE & CO., LTD., one of the largest sellers of imported vehicles. With this business infrastructure as a platform, we are working to improve our value chain on a Companywide basis.

Incorporate New Technologies in All Fields to Evolve ITOCHU’s “Earn, Cut, Prevent” Principles



Reinvented Business



Enhancement of Value Chain in the Consumer Sector

Evolution of Business Model with New Technologies

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Open Collaboration with Other Industries and Venture Companies

Prime Assets Improved through Existing Businesses

Customer base / Sales channels / Relationships with partners / Business expertise

Our Competitive Real Assets

NIPPON ACCESS
550 locations nationwide
 Approx. **10,000** trucks
 Low-temperature range distribution network nationwide



FamilyMart **Approx. 17,000** stores nationwide

Dole **The world’s largest** fresh produce business

YANASE **The largest** sellers of imported vehicles in Japan

Promote Reinvention in All Division Companies




As we promote “Reinvented Business,” it is important to bear in mind that our primary concern as a *sogo shosha* is not to develop sensational new technological innovations or products but to construct new business models that are compatible with customers’ sense of value. We are already constructing strong earnings base in the non-resource sector, particularly in the consumer sector. Accordingly, we are carefully reviewing each of the businesses that compose these sectors and creating new added value by utilizing advanced technologies. At present, we are connecting the dots between independent businesses and are changing to a new business model

that will contribute to expansion across whole region, namely the “existing business version update.” The keywords when exploring the construction of new business models are our expertise and experience as a *sogo shosha*, our customer base, and our relationships with partners, while the main points are our instincts and the individual capabilities we use to implement them. We will take advantage of the “Fourth Industrial Revolution” by improving employee labor productivity and creativity through various measures that revolve around our “Reinvented Work-Styles,” and enhance sustainable corporate value.




Primary Initiatives

Building Business Models Compatible with Customers’ Sense of Value (Existing Business Version Update)

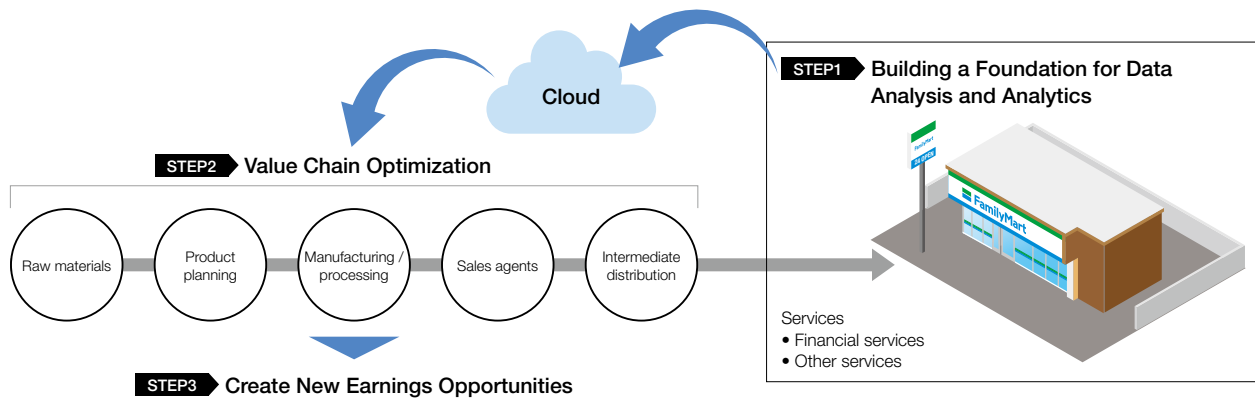
Enhancement of Value Chain in the Consumer Sector

Our vision	Specific examples of initiatives	Time frame		Investment amount		Expected profit	
		Short	Long	Small	Large	Small	Large
 Optimization of the Value Chain from Production to Sales	<ul style="list-style-type: none"> Apply agritech in the agriculture and livestock industries (Dole, etc.) 						
 Smart Distribution Systems	<ul style="list-style-type: none"> Upgrade demand forecasting by maximizing the usage of UFHD’s consumer contact point data Inventory optimization and opportunity loss reduction through NIPPON ACCESS 						
 Satisfying Customer Experiences Development of New Retail Proposals (Evolution of CVS Business)	<ul style="list-style-type: none"> Build a financial services business and an EC business Data marketing business Coordination with next-generation stores that use new technologies and the Internet 						

Evolution of Business Model with New Technologies

Our vision	Specific examples of initiatives	Time frame		Investment amount		Expected profit	
		Short	Long	Small	Large	Small	Large
 Optimal Energy Use and Supply	<ul style="list-style-type: none"> Optimization of electricity use through household batteries Making use of new technologies in the electricity supply chain 						
 Next-Generation Mobility Society Shift from Ownership to Use	<ul style="list-style-type: none"> Shift to a new automobile business model through collaboration with EV start-ups Car sharing and last-mile logistics 						
 Improvement of Management Productivity through New Technologies	<ul style="list-style-type: none"> Automation of routine tasks with robotic process automation (RPA) Introduction of more progressive office environments and IT tools Work-style reforms and productivity improvement through use of technology 						

An Example of “Enhancement of Value Chain in the Consumer Sector”



STEP1 Building a Foundation for Data Analysis and Analytics



We will work with FamilyMart UNY Holdings (UFHD) to put in place an IT infrastructure, converting the data on purchasing and customer trends it gleans from daily customer visits to its group stores to big data and building a next-generation ID foundation for multifaceted analysis and analytics.

As a first step, to further increase the number of customer contact points we will build a customer base by introducing specialized apps and accumulate data. In November 2017, ITOCHU and the FamilyMart group conducted a joint tender offer of POCKET CARD Co., Ltd. as one of the initiatives to strengthen consumer contact points.

UFHD is working to increase the efficiency of its business operations by leveraging AI, IoT, and other new information technologies. Meanwhile, ITOCHU and UFHD have established UFI FUTECH Co., Ltd., which will promote cashless transactions and fintech-related businesses.

STEP2 Value Chain Optimization



We will push forward with optimizing our entire value chain by utilizing data analysis and analytics results. Understanding customer needs and behavior will help mitigate opportunity loss; curtail procurement, storage, disposal, and distribution costs; and reduce labor required for store operation. Additionally, by building a common platform that integrates transaction data from NIPPON ACCESS and other Group companies in our value chain, we will reduce inventory in intermediate distribution, manage manufacturer production volume, and conduct product development. Additionally, in terms of NIPPON ACCESS, we will raise competitiveness by reinventing our distribution systems and cultivate customers on a wide-ranging scale.

STEP3 Create New Earnings Opportunities



For the future, we are considering various possibilities. These include one-to-one marketing, such as high-precision advertising that utilizes results obtained from common-platform data analysis and analytics. We are also considering retail financial services and loan services for smaller businesses based on transaction history.

The ITOCHU Group's CSV

Sustainable Development through Dole Philippines' Harmonious Coexistence with Surrounding Regions

“Pineapples over Antigovernment Activities”

In 2013, we acquired the Asian fresh produce and worldwide packaged foods businesses of the Dole Food Company, one of the world's largest companies involved in fresh produce. Production volume had been falling in these businesses due to negative factors such as natural disasters in the Philippines, the largest production hub. However, by utilizing our financial resources and placing employees on site and in positions of management, we have turned around production volume and earning capacity. At present, we are working to increase production capacity and are aiming to become Asia's largest integrator of agricultural products.

The history of Dole Philippines' pineapple division (Dolefil) dates back to 1963, when the Dole Food Company settled on the island of Mindanao in the Philippines. Dolefil was conducting a labor-intensive pineapple production in a region where the business infrastructure was underdeveloped. For this reason, Dolefil consistently focused on harmonious coexistence with the region and has achieved sustained business development for more than half a century. For example, pineapple cultivation requires a fixed period of financial commitment (one cycle for every three years). To lower barriers to entry and support the stability of the cultivation business, we make offers to farmers, including loans for initial expenses, sharing of expertise regarding improving production efficiency, and purchase of harvested pineapples. We also run a program to build homes for employees who earned high scores based on such factors as their years of service and work attitude. This program is one example of how we link lifestyle infrastructure support with productivity.

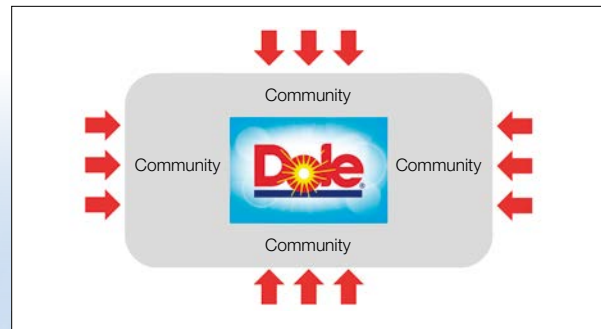


We offer loans for initial expenses, cultivation expertise, and purchase of harvested pineapples.

Dolefil is conducting farm management in a region in which the public order is destabilized by armed antigovernment forces. Regardless, no Company assets have been damaged by these forces, which is the strongest evidence of the mutual trust Dolefil has built with the region.



We offer a program that builds homes for employees as a reward for good attitudes and years of loyal service.



“Social Fence,” through which the region protects the business



THE PHILIPPINES

Polomolok

Strong Industry Clusters

Dolefil's "Social Fence" is both an initiative that integrates social contribution and growth strategies and a concept whereby a region protects its businesses. Dolefil is forming strong industry clusters* in the region with wide-ranging initiatives conducted in collaboration with regional governments and Mahintana Foundation, Inc. (below, MFI), an NGO spun out by Dolefil's CSR department. These initiatives include industry and employment creation, environmental protection and forest restoration, education, livelihood support, employee benefits, and health and safety.

For example, we are conducting ongoing donations to regional schools. We accomplish this by deducting five pesos per month from employee salaries and, with supplementation from Dolefil and the labor union, securing monetary figures that are five times the deducted amounts. These figures serve as a source of funds for our school donations. Additionally, using the money from donations to order pupils' chairs from local carpenters creates employment. We also offer used pallets as lumber for the chairs, contributing to raw material recycling. In exchange for these donations, Dolefil is, among other initiatives, expanding participation in regional contribution by calling for children to take part in afforestation efforts. By ordering saplings for reforestation from local vendors, Dolefil creates a cycle of employment creation.



-  **Donation to school as a source of funds**
-  **Creating employment**
Ordering pupils' chairs from local carpenters
-  **Recycling**
Providing used wooden pallets to be used in making chairs
-  **Community contribution**
Contributing to the community through pupils' participation in tree-planting activities

We are also creating a cycle of initiatives targeting environmental conservation. Dolefil and MFI are spearheading the Ridge to Reef Project, which aims to protect marine resources by safeguarding rivers and controlling sediment runoff. This large project also involves regional governments, local businesses, and clients. A portion of the donations for this project are used to support local nursery suppliers in seedling cultivation and procurement. This

approach helps fulfill seedling demand for Dolefil's afforestation efforts and also contributes to creating employment for regional citizens.

* Industry cluster: A condition created when the main constituents of a specific industry accumulate geographically. Professor Michael E. Porter, a US business scholar, proposes "creating industry clusters that support the regions in which companies place their bases" as one of three CSV approaches.

Dolefil CSV Compatible with "Sampo Yoshi"

In 2018, MFI was praised for its operational social contributions and commended as the number-one NGO in the Philippines. Additionally, the Department of Labor and Employment has named MFI the top-performing company in a separate contest twice in a row, in 2015 and 2017. The department holds this contest every two years and commends companies that possess superior relationships with their employees.

Dolefil's synergy with the local municipality in the city of Polomolok, where it places its headquarters, has made the city the sixth most competitive municipality in the Philippines, as well as the most competitive on the island of Mindanao. The mayor of Polomolok released a statement saying, "Dole is Polomolok, Polomolok is Dole." As this statement shows, Dolefil has been acknowledged as a company deeply rooted in the region.

Dolefil's policies for creating shared values (CSV) expand the scope of the Social Fence by creating local employment and improving the livelihoods of local citizens. In this way, they are compatible with ITOCHU's "sampo yoshi" philosophy, which supports business sustainability and raises productivity and quality. We are increasing Dole's sustainable corporate value by supporting these approaches through the provision of various functions.



Next-Generation Management Structure

First Tandem CEO and COO Structure in the Industry

At the Board of Directors' meeting held on January 18, 2018, the Company decided to shift to a management structure on April 1, 2018 in which the chairman will serve concurrently as Chief Executive Officer (CEO) and the Company President will serve concurrently as Chief Operating Officer (COO). The Board also resolved to make former president Masahiro Okafuji Chairman & CEO and former ICT & Financial Business Company President Yoshihisa Suzuki President & COO.

Chairman Okafuji will continue to formulate management strategies and plans for the entire Group, including its major Group companies, and take charge of maintaining relationships with important customers as CEO. Additionally, President & COO Suzuki will oversee overall execution based on those management strategies and plans. In particular, he will utilize his extensive expertise and wide-ranging experience in the information and communications technology fields to focus on promoting reinvented business by creating new business models. This is the first change in president for ITOCHU in eight years and also the first attempt by a *sogo shosha* at a tandem CEO and COO structure. We have conducted an extensive review regarding these decisions that includes discussion in the Governance and Remuneration Committee, an advisory committee to the Board of Directors that took place before the Board's meeting on January 18, 2018. In addition to this discussion, the Nomination Committee convened five times for deliberation.

Compatibility between Management Continuity and Response to Change

We have been consecutively recording record-high profits and also recorded our highest-ever stock prices. We also



received a credit rating of A from Moody's for the first time in approximately 20 years and have a rating of A or higher from all four major credit rating agencies. Furthermore, our work-style reform initiatives are receiving high praise from the corporate world and in political and business circles. On the other hand, we need to consider issues such as synergy creation with CITIC and think about integrated management of the Group, including FamilyMart UNY Holdings Co., Ltd. One of the reasons we approached the management change as we did was out of concern that a sudden shift in CEO would have a negative impact on our share price, given that former president Masahiro Okafuji's management skills are highly regarded in the stock market. For this reason, a number of members in the Nomination Committee called for Mr. Okafuji to remain in the office, saying that we should "focus on management continuity" and that a structural change at the current stage was unnecessary. However, Mr. Okafuji realized that changes were occurring on a completely different scale and at

completely different speeds due to new next-generation technologies such as AI and IoT. He felt a strong sense of crisis due to these changes, thinking that *sogo shosha* business models might soon reach their limits and therefore, also strongly felt that ITOCHU must convert to a new management structure in order to respond to a radically changing world by evolving and creating business models. After extensive discussion, we decided to adopt a structure that simultaneously achieves management sustainability and responds to rapid changes in the world. This conclusion led to the recent executive appointments and change in president.

In recent years, rapid technological innovation has been causing large changes in the market to occur in a short period of time. With this in mind, we will promote the new medium-term management plan, "Brand-new Deal 2020," under our new structure and aim for sustainable growth while building new general trading company business models.

Comments from the Incoming and Outgoing Chairmen of the Governance and Nomination Committee

We endeavored to make the deliberation process for our recent executive appointments highly objective and transparent, based on the fact that the selection of management executives is an extremely important strategic decision for the Company. We have been discussing succession planning in the Nomination Committee. The committee has deliberated about what the ideal president should be like many times and has also deliberated about the pros and cons of a change in president without the former president present. Additionally, outside directors conducted interviews with management executives to hear their thoughts regarding current issues and future goals. We are confident that our new structure is the best structure that we can use to achieve our ideal form under the new medium-term management plan and that we can fully satisfy stakeholders' expectations with it.

As a Nomination Committee member, I have high praise for the plans that Chairman Kawakita formulated to increase objectivity and transparency in the deliberation process. I think that they greatly evolved our succession planning. It has been decided that I will serve as the new chairman of the Nomination Committee after the General Meeting of Shareholders. We will aim for sustainable growth that extends into the future, well beyond the length of our new medium-term management plan, to reliably achieve the plans' goals, which are aimed at establishing new business models. As chairman, I plan to conduct proper supervision of succession planning and operate the Nomination Committee through a fair and highly transparent process.



Chikara Kawakita
FYE 2018 Nomination Committee Chairman



Harufumi Mochizuki
FYE 2018 Nomination Committee Member
FYE 2019 Nomination Committee Chairman