

# The Way of the Merchant and Business Model

## OUR HISTORY

# A 160-Year History of Rising above Adversity

During Japan's period of high economic growth, the country's economic structure shifted toward heavy industries. Keeping pace with this change, ITOCHU expanded its non-textile business, and realized "diversification" in the 1960s. After that point, we flexibly adapted our business structure by moving to downstream and other initiatives as the times changed.

Drivers of Corporate Value Creation  
Creating Added Value

Founding–Present  
Transformation to build the foundation of our business model  
Creating Added Value

Consolidated Net Profit

FYE 1859

FYE 1961

FYE 1971

FYE 1981

ITOCHU's Major Milestones

### 1858 Founded

Chubei Itoh I commenced linen trading operations via Osaka in Senshu and Kishu.

### 1950s–1960s Internationalization and Diversification

We pursued a path of diversification, and as a result non-textile areas accounted for around 40% of trading volume (1958). In the 1960s, we expanded our business to include energy, machinery, general merchandise projects, and the iron and steel business, becoming a "¥1 trillion trading company."

### 1970s Move into Resource Development and Space Development

While we set our policy of aggressive expansion into such areas as space development, ocean development, and overseas resource development, we returned to the Chinese market prior to the normalization of diplomatic relations between Japan and China. In 1977, we expanded the iron and steel business through a merger with Ataka & Co., Ltd.

### 1980s Aggressive Promotion of Telecommunications Business

As yen appreciation became a fixture of the economy, we promoted internationalization and globalization. We moved aggressively into the ICT field and entered the satellite business.

### Changing Times

#### Japan's Period of High Economic Growth (Shift toward Heavy Industry, Era of Mass Consumption)

#### Period of Stable Economic Growth (Conservation of Energy and Resources)

- Oil crises (1973 and 1979)
- Normalization of diplomatic relations between Japan and China (1972)

#### Bubble Economy (Shift in the Industrial Structure toward Services and Software)

- Plaza Accord (1985)

### An Inherited Merchant Spirit

Period of appointment as CEO (after the establishment of ITOCHU Corporation in 1949)



Chubei Itoh I

"Trade is a compassionate business. It is noble when it accords with the spirit of Buddha by profiting those who sell and those who buy and supplying the needs of the society."



Chubei Itoh II

"Unless you deliver what is needed, you will never grow."



Takesusuke Itoh

"Reliable, fast, simple, and clear"



Uichiro Kosuga  
1949–1960

"ITOCHU's management policy is to maintain a family-like community that shares what little it has."



Masakazu Echigo  
1960–1974

"Every dark cloud has a silver lining."

Drivers of Corporate Value Creation  
**Creating Added Value**

Drivers of Corporate Value Creation  
**Asset Strategies**

FYE 2012–  
Transformation to build the foundation of our business model  
**“Shift to Aggressive Strategy, Brand-new Deal”**

Drivers of Corporate Value Creation  
**Asset Strategies**

FYE 1998–2011  
Transformation to build the foundation of our business model  
**Eliminating Underperforming Assets and Adopting More Sophisticated Risk Management**



The Way of the Merchant and Business Model

**1990s  
Set the Steppingstones for the Current Business**

We introduced management reform measures to sweep away negative legacy assets from the bubble era. At the same time, we set in place the steppingstones for the future by acquiring shares in FamilyMart Co., Ltd., in 1998. In 1999, ITOCHU TECHNO-SCIENCE Corporation (currently, ITOCHU Techno-Solutions Corporation) was listed on the Tokyo Stock Exchange.

**2000s  
Disposal of Negative Legacy Assets and the Commodities Super Cycle**

We took decisive action to dispose of inefficient and unprofitable assets. Simultaneously, to adopt more sophisticated risk management we introduced a quantitative risk management method. Our financial position improved, and earnings from the resource business expanded as we entered the commodities super cycle period.

**FYE 2012–2018  
Shift to Aggressive Stance and Strengthen our Financial Foundation**

Ahead of other general trading companies, we pioneered a shift into the non-resource sector. We commenced a strategic business alliance and capital participation with CITIC / CP Group and acquired Dole business and METSA FIBRE. We also strengthened our financial position further and promoted cash flow management.

**From FYE 2019  
Reinvention of Business**

In response to the Fourth Industrial Revolution and other rapid changes in the business environment, we will strive to evolve and transform our existing businesses, ensuring steady earnings. At the same time, we will proactively cultivate next-generation businesses.

**Bursting of Japan's Economic Bubble, the Heisei Recession, and a Revolution in Information and Communications**  
• Asian financial crisis (1997)

**Emerging Market Boom, Commodities Super Cycle, and a Flagging Economy**  
• China's participation in the World Trade Organization (2001)  
• Global financial crisis (2007–2008)

**End of the Commodities Super Cycle, Economic Recession Due to the Global Financial Crisis, and Ensuing Global Economic Recovery**  
• Abenomics (2012–)

**Rapid Advancement of the Fourth Industrial Revolution, Concerns about Prolonged US–China Trade Friction, and Uncertainty about the Economic Outlook**  
• US–China trade friction (from 2018)



**Seiki Tozaki**  
1974–1983

“It is because of our indomitable spirit that we are called on to do more.”



**Isao Yonekura**  
1983–1990

“To rest on your laurels is to fail.”



**Minoru Murofushi**  
1990–1998

“Nothing is impossible”



**Uichiro Niwa**  
1998–2004

“Clean, honest, and beautiful”



**Eizo Kobayashi**  
2004–2010

“Challenge, Create, Commit”



**Masahiro Okafuji**  
2010–

President & COO

**Yoshihisa Okafuji**  
2018–

## Commentary

# The Merchants of ITOCHU

### More Than 160 Years as Merchants

The social structure has changed significantly amid astounding advances in leading-edge technologies. ITOCHU, too, is promoting evolution to next-generation growth models. Despite this transformation, however, there are some things we are determined to protect: our values, corporate culture, and unique strengths. We believe these have enabled us to overcome the repeated challenges we have faced over our 160-year history. Even in these times of rapid change, we will carry forward the traditions of our merchant predecessors.



A carrying pole used by the merchants of Ohmi  
The merchants of Ohmi used carrying poles like this to peddle their wares throughout the country, accumulating wealth comparable to merchants based in Edo and Osaka.

# The Inevitability of *Sampo Yoshi*

## A Sense of Value and Pioneering Spirit Unchanged Since the Company's Founding

ITOCHU was founded in 1858 by Chubei Itoh I, a linen peddler.

The Itoh family were merchants of Ohmi Province (present-day Shiga Prefecture). In commercial centers such as Osaka and Edo, commercial practice was to operate large stores and wait for customers, but the style was different in outlying areas. The merchants of Ohmi cultivated business by walking to potential customers, bringing their wares on carrying poles. They carried samples to use in business discussions. Products that were ordered then would be delivered from far away at a later date. Trust and a spirit of altruism were the inevitable outcomes of this approach. Traditionally, ITOCHU's management has valued people who are honest and can "turn words into accomplishments," emphasizes that go back 160 years. Also, harmonious coexistence with customers and the community has been an important element of ITOCHU's ability to sustain business. This background led to the management philosophy upheld by the merchants of Ohmi, called *sampo yoshi* (good for the seller, good for the buyer, and good for society). The present-day concept of creating shared value (CSV) is in keeping with this philosophy, which has been expressed over time as "economic value, social value, human value," "clean, honest, and beautiful," and "I am One with Infinite Missions."



Based in the former Ohmi Province (present-day Shiga Prefecture), the merchants of Ohmi transported their wares on carrying poles, peddling items into neighboring provinces (pursuing business in all parts of Japan from the Kansai region). ITOCHU was started by Chubei Itoh I, who engaged in the linen trade.



## Emphasis on Merit, the Extended Family, and Thrift



Chubei Itoh I was consistently testing new management styles. For example, in 1872 he established the "store method," which called for net profit to be evenly split three ways: to the head family, to the accumulation of stores, and to employees. A system of meetings, Western bookkeeping, the employment of university graduates, and the use of shipping insurance were all introduced to overcome old-fashioned practices. With employment, the Company's practice was to promote people based on merit, regardless of social status. While introducing a number of rationality-based systems on the one hand, on the other Chubei Itoh I maintained very much a family-oriented spirit in the Company, throwing informal *sukiyaki* parties for all employees six times a month.

President Kosuga, ITOCHU's first President following World War II, recruited Ryuzo Sejima. Mr. Sejima, who served at ITOCHU as Business Division General Manager,



Ryuzo Sejima

Vice President, and Chairman, wrote in his memoirs that "Traditionally, ITOCHU valued employees who have vitality. The Company had no interest in such elements as academic cliques and factions. Even when employees had different opinions and interpretations, once the Company set down its policy, all employees would pool their efforts in that direction. It was a thing of traditional beauty." These words underscore how the corporate culture that Chubei Itoh I had created was so deeply rooted as to be clear to a person who had come to ITOCHU from outside. This culture, which has shone through working-style reforms and various other management practices, has been carried forward over more than a century to the present day.

One of the current management principles, of "cut," is consistent with ITOCHU's corporate culture of valuing thrift. For instance, each organization within the Company operates as a financially independent entity, paying the Company for the space it uses (office rent). This practice was already in place at the end of World War II. Different from companies in heavy industries, ITOCHU's operations stemmed from the textile business. In a business where prices were negotiated down to the cents and profits were based on the steady accumulation of efforts, thrift was a historical necessity.

# A Free-Spirited, Equal-Opportunity Organization

# The Merchants of ITOCHU

## The Historical Cultivation of Three Strengths

ITOCHU's rapid expansion into non-textile fields was fueled by Japan's postwar high economic growth. High rates of economic growth centered on heavy industry continued from the 1950s into the 1960s. We pursued a path of diversification, and as a result non-textile fields accounted for 40% of sales in 1958. As ITOCHU lacked the heavy industry connections held by the general trading companies associated with the former *zaibatsu* industrial groups, we concentrated on our strength in the non-resource sector, centering on areas of expertise such as apparel, food, and housing. In 1972, we became the first of major general trading company permitted to restart trade between Japan and China. We

saw this as an opportunity to secure access to what would become a massive consumer market in the future. Taking on that challenge helped us gain the experience and a track record in China and other parts of Asia that serve as one of our strengths today.

The apparel, food, and housing sectors are characterized by customer companies that are numerous and relatively small in scale. To compete with the general trading companies associated with the former *zaibatsu* industrial groups, we need to boost our labor productivity. Our "individual capabilities," which are demonstrated by the highest labor productivity among general trading companies, stem from our commercial traditions and ability to generate business independently.

Three  
Strengths

# The Three Strengths Carried Down from Our Founders

Three  
Strengths

## Individual Capabilities

Employees (Non-Consolidated) and Consolidated  
Net Profit per Employee

¥0.12 billion (FYE 2019)



A sales division in 1932

ITOCHU did not maintain large shops, but instead cultivated a spirit of commerce. This DNA and the large number of clients typical of the non-resource sector led naturally to an emphasis on individual capabilities.



Three  
Strengths

## Earning Power in the Non-Resource Sector

Profits from the Non-Resource Sector

¥378.0 billion (FYE 2019)

ITOCHU's business originated with textiles, so we have traditionally been strong in the non-resource sector, particularly in areas close to consumers.





Three Strengths

## Experience and Track Record in China and Other Parts of Asia

Expanding Business into China in

# 1972

In 1972, then-President Echigo headed a mission to China. He felt certain of the future of the consumer sector and an attempt to make an early start at cultivating the Chinese market.

Drivers of Corporate Value Creation  
Creating Added Value

# Evolving as We Continue to Demonstrate “the Functions of ITOCHU”

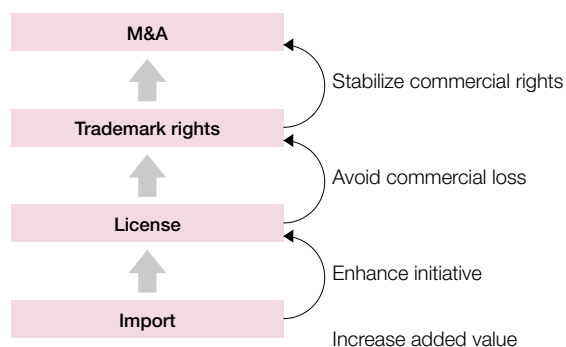
### Creating Added Value (From Founding up to the Present)

“Trade is a compassionate business. It is noble when it accords with the spirit of Buddha by profiting those who sell and those who buy and supplying the needs of the society.” This personal motto of Chubei Itoh I is said to have been developed into the idea of *sampo yoshi*.

Regardless how times change, ITOCHU is a merchant that believes in “supplying the needs of the society,” continuing to expand its commercial offerings to meet the needs of its customers. The current CEO, Masahiro Okafuji, explains that general trading companies “are like water taking the form of the vessel in which it is carried, sometimes round, and sometimes square.” As middlemen, general trading companies operate in the middle of the value chain, so our fates are shaped by trends among

manufacturers and other vendors. For example, as manufacturers transitioned from the practice of commissioning sales to selling products themselves, this disintermediation prompted the notion that trading companies were unnecessary. We have faced such existential crises numerous times. As we have moved from midstream to upstream businesses, we have secured resources and materials. At the same time, we have been acquiring customer contact points downstream, as is demonstrated by our investment in FamilyMart Co., Ltd., some 20 years ago. By increasing our initiatives across the value chain, we have been able to overcome such threats. As another example, in the brand business, which we embarked on in the 1970s through the Textile Company, we “upgraded” our initiatives by acquiring not only distribution rights but also license rights and trademarks, as well as brand-owning companies. As the Fourth Industrial Revolution and other rapid changes in the business environment could make business models obsolete, we will strive to evolve and transform our existing businesses and accelerate combinations with new businesses in order to maintain our competitiveness and sustainability.

### Consistently Cultivating the Brand Business



# The Merchants of ITOCHU

## Eliminating Underperforming Assets and Adopting More Sophisticated Risk Management (FYE 1998–2011)

As Japan's economic bubble burst, many real estate and marketable securities investments that had been made during that era became underperforming assets, and in the late 1990s we faced a crisis that threat-



Then-President Niwa, explaining the management situation

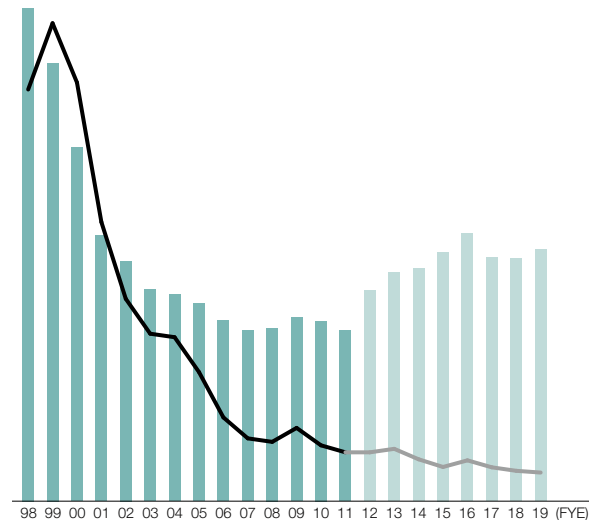
ened our continued existence. Then-President Niwa adopted a bold stance, saying "Problems created in the 20th century should be resolved in the 20th century." Accordingly, in FYE 2000 we processed total losses of ¥400.0 billion, sweeping away low-efficiency and unprofitable assets. Simultaneously, we channeled our limited management resources into efficient investments in areas of strength, centering on apparel, food, and housing. We introduced a new management method, called Risk Capital Management\*, and adopted an A&P Strategy of exiting from investments in low-efficiency and unprofitable assets, shifting those funds to high-efficiency assets, and creating a highly profitable structure. After ongoing initiatives to strengthen our financial position and bolster efficiency, net debt-to-shareholders' equity ratio (NET DER) at the end of FYE 2011 had come down to 1.4 times, a substantial improvement from 13.7 times at the end of FYE 1999. We had built the foundations for a full-fledged proactive approach.

\* This management method involves controlling overall risk by quantifying risk assets and using a risk return index (RRI) to measure asset efficiency.

Drivers of Corporate Value Creation  
**Asset Strategies**

# Completing the Foundation of Our Asset Strategy

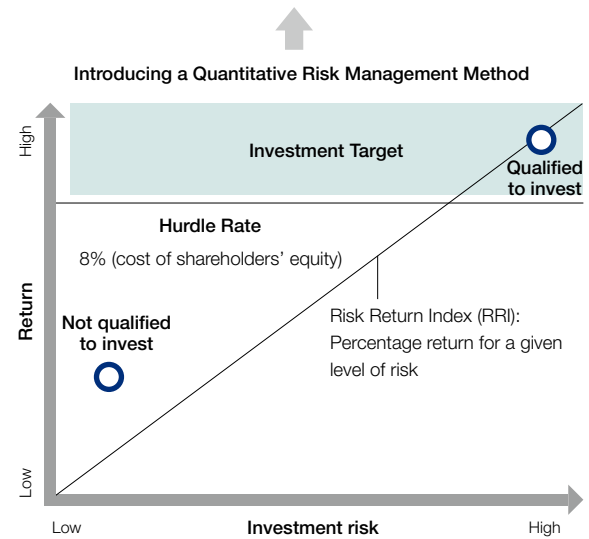
## Strengthening Our Financial Position from FYE 1998 to 2011



	March 31, 1999	March 31, 2011
NET DER	13.7 times	1.4 times
Net Interest-Bearing Debt	approx. ¥4.2 trillion	approx. ¥1.6 trillion

Management reform measures (processed loss amount)  
 • FYE 1998–1999: around ¥200.0 billion for two consecutive years  
 • FYE 2000: ¥303.9 billion

**\* Pursuing the A&P Strategy**  
 While strengthening our financial position, we allocated our limited management resources in a focused manner to fields that were attractive (A) to customers and where we were powerful (P).



# Steps to Enhancing Corporate Value

## Promoting “Brand-new Deal” Strategies

### “Shift to Aggressive Strategy, Brand-new Deal” (From FYE 2012)

#### Looking Back to Our Traditions and Undertaking Reforms That Elicit Our Strengths

Having restored our financial footing, since the FYE 2012 announcement of “Brand-new Deal 2012,” a medium-term management plan, our management has made a major change, adopting a full-fledged proactive approach. We focused on our three strengths: “individual capabilities,” “earning power in the non-resource sector,” and “experience and track record in China and other parts of Asia.”

### STEP 1 *Brand-new Deal 2012* (FYE 2012–2013)

#### Building a Foundation That Harnesses Individual Capabilities

To implement the “earn, cut, prevent” principles expressed as management policies in this plan and central to the merchant ethos, we reduced the number of internal meetings and materials. We also launched a number of internal reforms to thoroughly strengthen front-line capabilities and unleash the potential of individual capabilities. Some of these initiatives bolstered profitability, and in

FYE 2012 we achieved the first step, of becoming No. 1 in the consumer sector. In FYE 2014, we stepped up working-style reform efforts such as a morning-focused working system. Such reforms led to our success in having the industry’s highest level of labor productivity. Furthermore, by thoroughly instilling the “earn, cut, prevent” principles at each of our subsidiaries and affiliates, we have achieved profitability at the vast majority of them—now more than 90%.

#### Results of Morning-Focused Working System

		Before introduction	One year after introduction	Six years after introduction
Leaving*1	8:00pm or after	30%	7%	5%
	(Of which, 10:00pm or after)	10%	almost 0%	almost 0%
Entering*1	8:00am or before	20%	34%	43%
Hours of overtime work*2		—	(7%)	(9%)
Cost per month (Overtime pay + cost of meals)*2		—	—	(3%)
Usage of paid holidays*2		—	—	increase of 12%

\*1 % of people in the headquarters

\*2 Compared with the level before we introduced the morning-focused working system



*Brand-new Deal 2012*



*Brand-new Deal 2014*



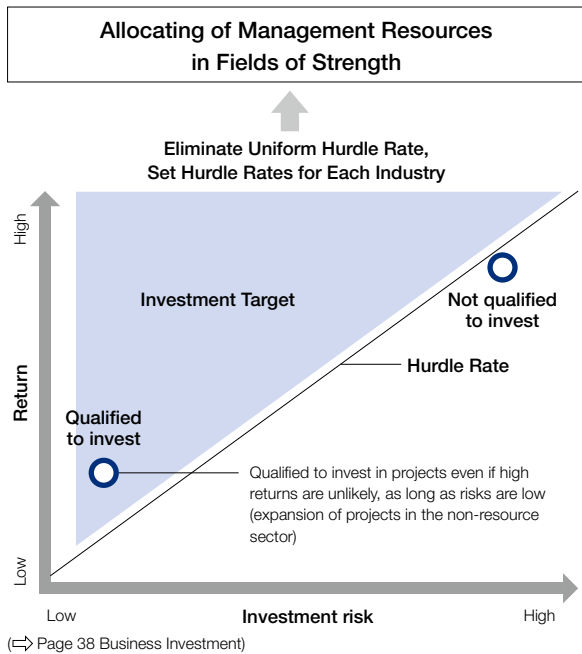
*Brand-new Deal 2017*



# The Merchants of ITOCHU

## STEP 2 *Brand-new Deal 2014* (FYE 2014–2015) Further Strengthening Our Earning Power in the Non-Resource Sector

Under “Brand-new Deal 2014,” we set about reaping the rewards of large-scale investments we had already made and increasing profitability in existing businesses. Furthermore, revising investment criteria, we made nearly 80% of our investments in the non-resource sector, strengthening our presence in this area. We set our aim on becoming the “No. 1 general trading company in the non-resource sector.” Achieving this goal meant the completion of this step, set the groundwork for the stable generation of cash flows we enjoy today, and allowed us to expand our perspective to China and other parts of Asia, as well as to the future.



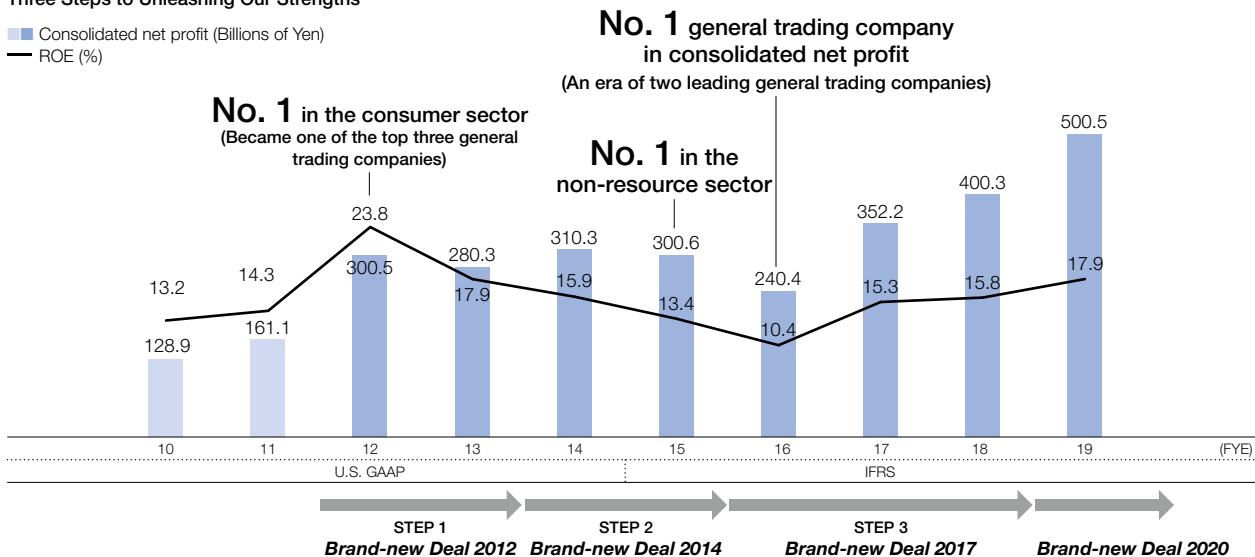
## STEP 3 *Brand-new Deal 2017* (FYE 2016–2018) Set Strategic Steppingstone to the Chinese and Other Asian Markets

Our third step was to put in place the steppingstones for sustainable increases in corporate value into the future in addition to steady profit expansion each year. Following our investment in CP Group, we invested around ¥600.0 billion—the largest amount to date—in CITIC. With this move, we laid a major strategic foundation for business in the world’s largest consumer market. To enhance individual capabilities further, we formulated the ITOCHU Health Charter, provided support for employees living with cancer, introduced systems for fully harnessing women’s capabilities, and undertook other measures to create an environment in which all employees can work with enthusiasm. During the period of this plan, resource prices fell considerably. The higher-ranking general trading companies were affected significantly, but we weathered the storm successfully due to our earning power in the non-resource sector, which is resistant to economic fluctuations, stemming from earlier moves to diversify our portfolio of companies. In FYE 2016, our consolidated net profit became No. 1 among general trading companies.



### Three Steps to Unleashing Our Strengths

■ Consolidated net profit (Billions of Yen)  
— ROE (%)





# Shift from a Product to Market- Oriented Perspective

## **Looking Ahead: Promoting Reinvention while Holding on to Our Traditions**

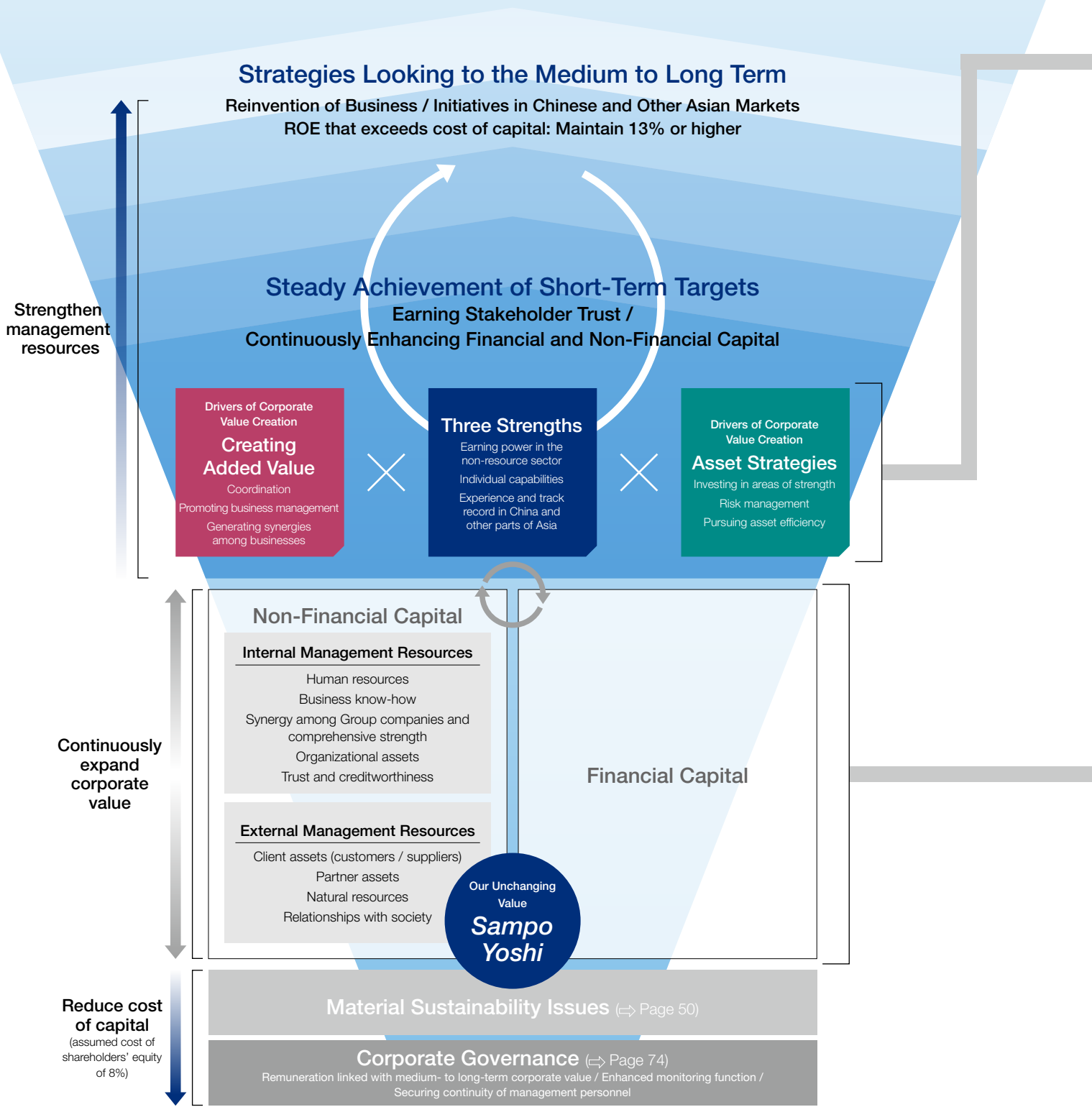
Having become the No. 1 general trading company in the consumer sector, the No. 1 general trading company in the non-resource sector, and the No. 1 general trading company in consolidated net profit, in FYE 2019 we moved onto a new stage when consolidated net profit topped ¥500.0 billion. This move shows a series of steady steps to elicit our strengths. With society now facing the major upheaval of the Fourth Industrial Revolution, we are taking the major step of evolution to next-generation growth models under “Brand-new Deal 2020,” our medium-term management plan. In such areas as the consumer sector, we have a firm foundation in physical businesses we have enhanced as a general trading company over the years. As we adopt leading-edge technologies we will take on the challenge of changing our business model by shifting from a product- to a market-oriented perspective.

Chubei Itoh I crossed many mountain passes along the paths he traversed in peddling his wares. Now 160 years later, we are faced by another steep and rugged road over a mountain path. Remaining the unwavering merchant, we plant our feet on the path and begin to ascend.

OUR BUSINESS MODEL

# The “Merchant” Business Model

With a management philosophy rooted in the *sampo yoshi* ideal, we strive to respond flexibly to the social needs of the changing times. By promoting and expanding the financial and non-financial capital we have honed and accumulated over time, we will build a foundation for sustainable growth and enhance corporate value.



## Creating Added Value

We strive to stabilize commercial rights, expand trade, and increase the value of businesses, including the companies that we have invested in, by leveraging the distinctive functions of a general trading company, continually creating added value from the viewpoint of our customers and the market-oriented perspective.

### Coordination

In addition to the traditional functions of a general trading company, we aim to leverage client assets and partner assets to cultivate sales routes and procurement partners as we respond to various customer needs and strive to expand trade.

### Promoting Business Management

By leveraging the various functions and management know-how we have accumulated as a general trading company, we take the initiative in forming business combinations and alliances with Group companies, enhancing the competitiveness of our investees.

### Generating Synergies among Businesses

By leveraging the Group's management resources, we maximize synergies between existing businesses and Group companies, increasing the Group's overall corporate value.

## Asset Strategies

With the strategic importance of business investment increasing, we have developed and are steadily implementing asset strategies comprising investment in areas of strengths, risk management, and the pursuit of asset efficiency.

### Investing in Areas of Strengths

Our fundamental principle is to invest in areas where we have strengths, such as the non-resource sector, centered on consumer-related businesses, and in China and other parts of Asia. On this basis, we are working to further reinforce our competitive edge.

### Risk Management

In addition to managing total amount of risk by utilizing risk assets, we are also conducting risk management on a project-by-project basis through evaluation of investment efficiency using a hurdle rate based on the cost of capital. In this manner, we also work to analyze and control the various risk surrounding our businesses.

### Pursuing Asset Efficiency

We exit from investments that are determined to be low-efficiency assets from such perspectives as scale of earnings, investment efficiency, and strategic significance. In this way, we are working to increase asset efficiency and to maximize free cash flows under strengthened cash flow management.

## Management Resources

### Financial Capital

We continue to create robust financial capital through successive efforts to build (1) a solid earnings base in the non-resource sector, which is resistant to economic fluctuations, (2) the capacity to steadily generate Core Operating Cash Flows, and (3) a high level of capital efficiency.

### Non-Financial Capital

#### Internal Management Resources

**Human Resources:** Human resources are the driving force behind the functioning of our business models. In addition to conventional product professionals, we are working to develop marketing professionals who possess a keen market perspective. Through human resource strategies that support increases in labor productivity, we are striving to create a virtuous cycle that leads to increases in corporate value. (⇨ Page 54)

**Business Know-How:** We are developing businesses in a broad array of industries and have accumulated a wide range of business know-how. This know-how is an indispensable intangible asset in creating new businesses and in advancing into new business fields.

**Synergy among Group Companies and Comprehensive Strength:** Amid increase of cross-industrial integrations and in response to increasingly diverse demand from consumers, we

strive to alter synergies that we generate among the Group, along with a changing management landscape. By maximizing our comprehensive strength as a "general" trading company, we are enhancing sustainable profit growth. (⇨ Page 32)

**Organizational Assets:** In addition to rapid decision-making systems, we also have administrative divisions that possess high levels of expertise in such fields as law, risk management, accounting, taxation, finance, and more. These organizations provide strong backup for ITOCHU's ability to earn profit from a front-line perspective. (⇨ Page 42)

**Trust and Creditworthiness:** The trust and creditworthiness we have cultivated as a general trading company underpin our earning power throughout the value chain, including customers and investees. (⇨ Page 105 Credit Ratings)

#### External Management Resources

**Client Assets (Customers / Suppliers):** Maintaining relationships with customers and suppliers is indispensable in obtaining and expanding trade opportunities. We can achieve sustainable growth in profitability precisely because of our extensive client assets. (⇨ Page 58)

**Partner Assets:** From the viewpoints of rapidly advancing into new business areas and increasing the probability of business success, we emphasize win-win relationships with partners. Over many years, we have built up positive relationships with numerous leading companies. (⇨ Page 58)

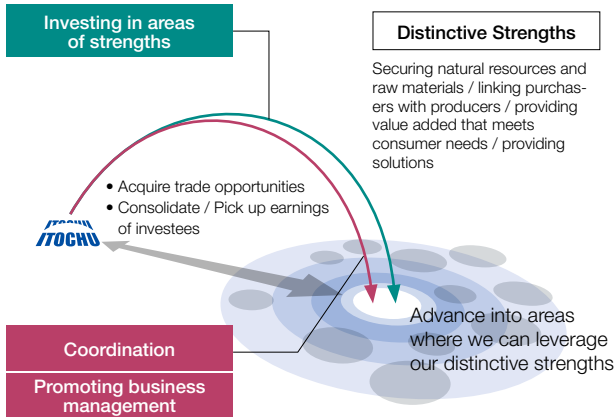
**Natural Resources:** Through our businesses in the non-resource and resource sectors, we respond to societal demands for the stable procurement and supply of natural resources, while linking those demands to new business opportunities in response to social issues described in the SDGs. (⇨ Page 61)

**Relationships with Society:** Through constructive dialogue with stakeholders, we seek to understand and meet the demands and expectations they have for us, allowing us to promote stable business activities in Japan and overseas and further enhance corporate value. (⇨ Page 64)

# Our Business Model, as Seen through Business Development

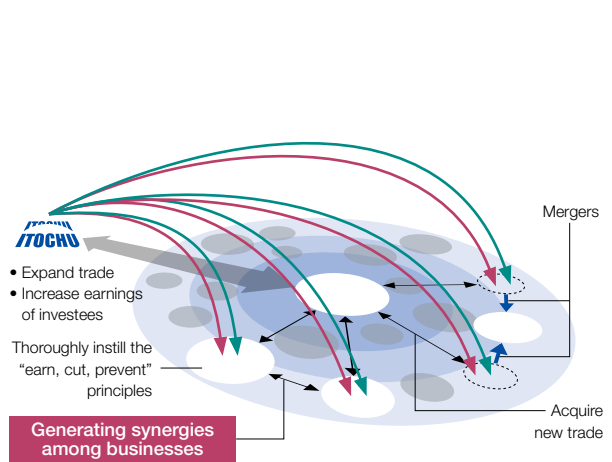
We will take advantage of our distinctive strengths and consecutively expand our areas of operation, as well as promote an expeditious exit from inefficient assets to maintain and improve asset efficiency.

## Advancing into Areas Where We Can Leverage Our Distinctive Strengths



ITOCHU narrows down possible areas to those in which it can generate synergies with existing businesses and control risk, and advance into new businesses and markets through trade and investment.

## Establishing a Market Position and Creating Multifaceted, Linked Businesses



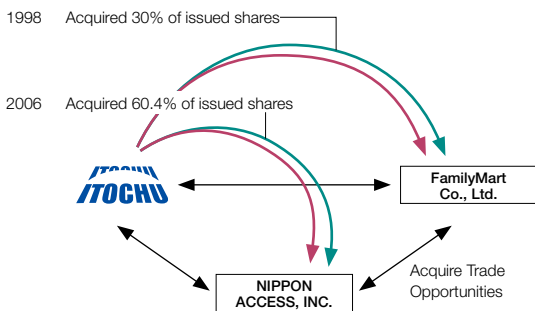
After advancing into a new area, we strive to acquire business know-how while setting our sights on the next step. At the same time, we leverage our management resources and create added value to increase investees' corporate value and establish a market position.

Thereafter, we work to thoroughly instill the "earn, cut, prevent" principles, acquire new trade, generate synergies among businesses, and reorganize business, creating businesses in a multifaceted, linked manner.

### Example in the Food Business

#### Acquiring Customer Contact Points

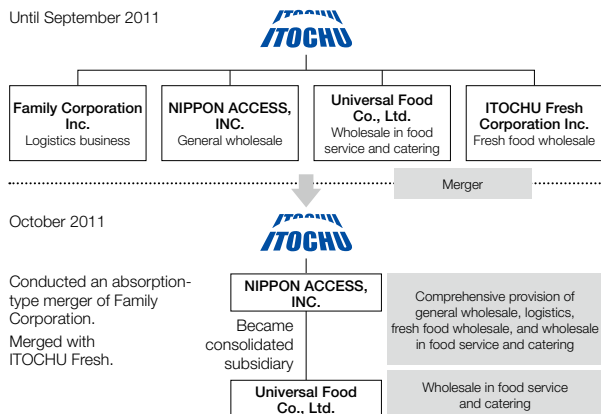
ITOCHU acquired approximately 30% of the issued shares of FamilyMart Co., Ltd., in 1998, marking our first full-fledged foray into the retail field. In 2006, we converted the general food wholesaler NIPPON ACCESS, INC., into a consolidated subsidiary. These moves accelerated reforms in our business model highlighted by the introduction of the Strategic Integrated System (SIS) strategy—building a value chain spanning the securement of foodstuffs; mid-stream processing, manufacturing, and intermediate distribution; and downstream retail.



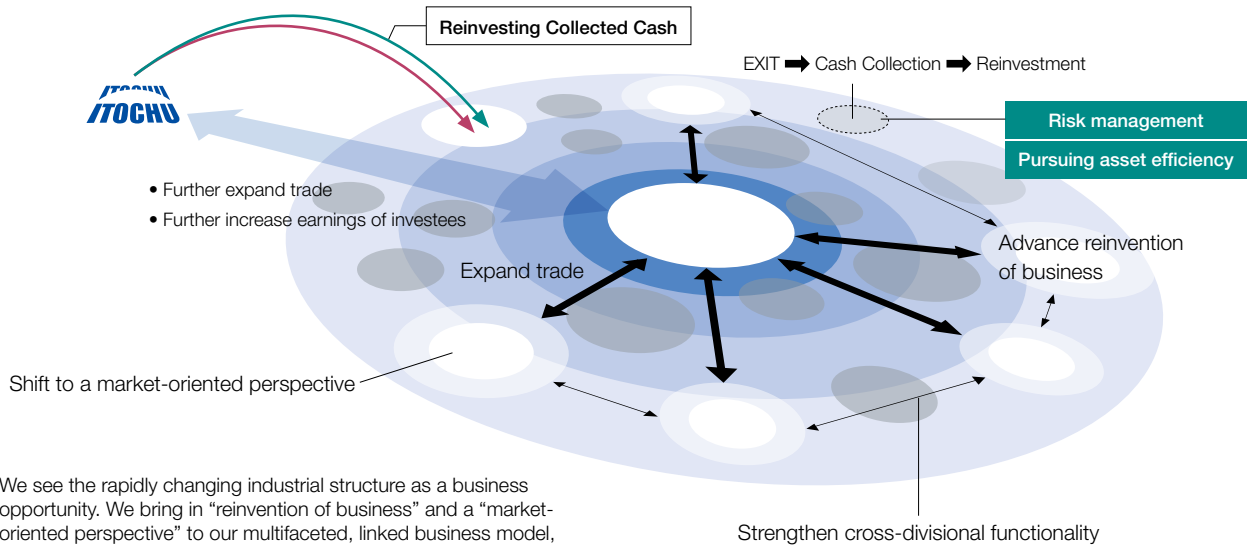
\* As of March 31, 2019, we own 50.2% of FamilyMart UNY Holdings Co., Ltd., and 100% of NIPPON ACCESS, INC.

#### Strengthening the Intermediate Food Distribution Business through Reorganization

In October 2011, ITOCHU integrated its intermediate food distribution business, centering it on NIPPON ACCESS, INC. In this way, we built a system that can offer integrated handling of not only processed foods in all temperature ranges—ambient, frozen, and chilled—but also the three main groups of fresh food products. This move also facilitated the provision of integrated distribution services. Now possessing top-class scale and functionality in the field of food distribution, we have created a structure providing our business partners with low-cost, high-quality logistics.



## Reinforcing Earning Power and Promoting Asset Replacement by Advancing Reinvention of Business and Strengthening Cross-Divisional Functionality

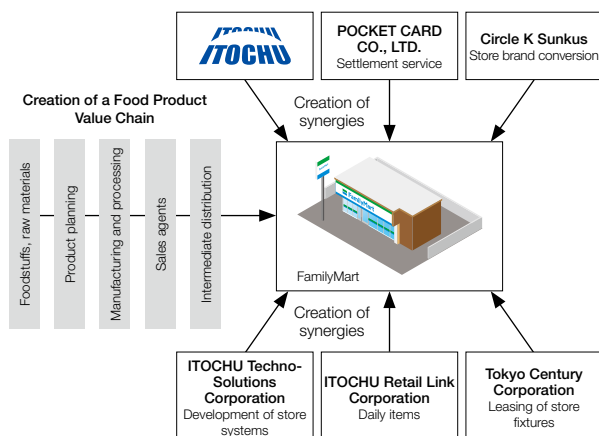


We see the rapidly changing industrial structure as a business opportunity. We bring in “reinvention of business” and a “market-oriented perspective” to our multifaceted, linked business model, and accelerate cross-industrial integration and cross-Division Company initiatives, which leads to an establishment of even more robust earnings base and a sustainable increase in our corporate value.

In addition, from the viewpoint of risk management and asset efficiency, we exit and recover funds from assets that have lost strategic significance. We use the cash generated from exits to reinvest in new strategic fields.

### Creating a Value Chain in the Convenience Store Business

Centering on FamilyMart, we are creating and enhancing a value chain spanning upstream to downstream operations. At the same time, we are working to maximize Group synergies through the provision of business infrastructure involving such areas as non-food products, financial and insurance services, electricity supply, and system configuration. We are also collaborating with FamilyMart UNY Holdings Co., Ltd. to utilize the data FamilyMart Co., Ltd. holds to develop new businesses and moving ahead with reinventing the value chain.



### How ITOCHU Differs from a General Private Equity Fund

As we consider business investment one of our major options, our business model is often compared to that of a private equity fund. There are certain similar aspects, such as the desire to contribute proactively to management and maximize the corporate value of investees. We view as different, however, the facts that we are also aiming to increase our own corporate value, we focus on generating synergy with existing businesses, and we enjoy returns (cash) centered on trading profits and dividends.

	General private equity fund	ITOCHU
Investee liquidity	In principle, unlisted	Either listed or unlisted
Investee ownership ratio	In principle, majority stake to 100%	Decided individually, based on business conditions and market environment
Investee ownership period	Buy and hold having an exit strategy	Buy and hold
Business synergies	In principle, none	Create synergies with existing businesses
Returns (cash)	Capital gains and dividends	In principle, trading profit and dividends

Examples in the Convenience Store Business (FamilyMart)

# Creating Synergies Infinitely —Vertically and Horizontally

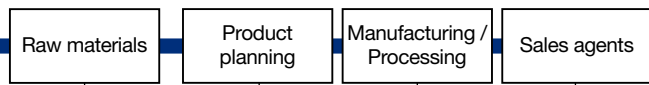
The ITOCHU Group is building and enhancing a value chain spanning upstream to downstream operations in the aim of maximizing earnings from the convenience store business. In addition to fortifying the food value chain, we are generating synergies among businesses by going beyond Division Companies' boundaries in such areas as daily necessities, financial services, system development, and construction materials. In August 2018, we accelerated this trend by converting FamilyMart UNY Holdings Co., Ltd., to a subsidiary, whose corporate umbrella includes FamilyMart Co., Ltd.

**Food Product and Peripheral Business Initiative Examples**

ITOCHU coordinates food value chains to ensure the optimal form for all processes that take place before items arrive at store shelves, including formulation of raw material procurement schemes, product planning, manufacturing, processing, and procurement of containers and packaging materials.



Packages for ready-to-eat products, etc.	Rice ball wrapping films Boxed lunch containers, etc.	■ ITOCHU PLASTICS
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	Raw Materials	Product Planning / Manufacturing, Processing / Sales Agents
Ready-to-eat products (rice balls, boxed lunches)	<ul style="list-style-type: none"> <li>■ Japan Food Supply (NIPPON ACCESS Group)</li> <li>■ ITOCHU Food Sales and Marketing</li> <li>■ ITOCHU FEED MILLS, etc.</li> </ul>	◆ Ready-to-eat producers
Fried chicken (FAMICHIKI)	◆ Chicken suppliers	▲ Meat Products Department
Fried chicken (Spicy Chicken, Chicken Steak)	◆ CP Group	▲ Meat Products Department
Counter coffee (FAMIMA CAFÉ)	■ UNEX (GUATEMALA), etc.	<ul style="list-style-type: none"> <li>▲ Sugar, Confectionery Materials, Coffee &amp; Dairy Products Department</li> <li>▲ Food Products Marketing &amp; Distribution Department</li> </ul>
Eggs	■ I-hiyoko (ITOCHU FEED MILLS Group)	■ ITS Farm (ITOCHU FEED MILLS Group)
Bananas	■ Dole	▲ Agri Products Department



**Non-Food Product Initiative Examples**

The ITOCHU Group is working together to provide daily items that support lifestyles and supplies needed for everyday store operation.

Daily items	New Year's cards	■ ITOCHU Pulp & Paper
	FamilyMart collection daily items (detergent, plastic bags, cleaning sheets, etc.) and umbrellas	<ul style="list-style-type: none"> <li>■ ITOCHU Retail Link</li> <li>■ Sanipak Company Of Japan</li> </ul>
Supplies (Store items supporting operation, etc.)	Chopsticks, individual-use hand towels, take-out item containers (coffee cups, etc.), plastic bags, cleaning supplies	■ ITOCHU Retail Link
	Uniforms	▲ Textile Company



■ Subsidiary ● Affiliated company ▲ ITOCHU ◆ Business partner

### Operational Support Initiative Examples

The ITOCHU Group cooperates to provide multifaceted support for the efficient operation of FamilyMart's nationwide network of approximately 16,500 stores that goes beyond product sales, services, and routine store operations.

System development	<ul style="list-style-type: none"> <li>■ ITOCHU Techno-Solutions</li> </ul> Support operational efficiency through development of operational systems
Electricity supply	<ul style="list-style-type: none"> <li>■ ITOCHU Plantech</li> </ul> By supporting efficient procurement and offering a high-voltage receiving service, help stores reduce their electricity costs
Construction materials	<ul style="list-style-type: none"> <li>■ ITOCHU KENZA I</li> </ul>
3Rs+W service* * Reduce, reuse, recycle, and waste management	<ul style="list-style-type: none"> <li>■ ITOCHU Metals</li> </ul> Develop a nationwide network of partners to provide store fixture maintenance, reuse, recycle, and waste management services
Contact centers	<ul style="list-style-type: none"> <li>● BELLSYSTEM24 Holdings</li> </ul>
Leasing of store fixtures	<ul style="list-style-type: none"> <li>● Tokyo Century</li> </ul>

### Future Fields of Focus

- Promotion of initiatives that address labor shortages, reduce food losses, and decrease the use of plastic
- Increasingly efficient store operations, optimization of production, inventories, and logistics
- Data-driven one-to-one marketing
- Fintech-leveraging and other service businesses (e-money, settlement, etc.)
- New financial services that utilize POCKET CARD's credit and settlement functions
- Acceleration of developments in China and other parts of Asia

### Intermediate Distribution Example

The ITOCHU Group is collaborating to handle logistics to individual shops.

Wholesales / Logistics	<ul style="list-style-type: none"> <li>■ NIPPON ACCESS</li> </ul> Provide the majority of logistics services for food and non-food products for FamilyMart stores (550 distribution locations)
Delivery van	<ul style="list-style-type: none"> <li>● NIPPON CAR SOLUTIONS (Tokyo Century Group)</li> </ul>



NIPPON ACCESS, supporting an industry-leading store network



The Famima T Card, issued by POCKET CARD CO., LTD.

### Service Initiative Examples

The ITOCHU Group is working in coordination to provide customers with a broad range of services closely related to their daily lives.

Financial / insurance services	Famima T Cards	<ul style="list-style-type: none"> <li>■ POCKET CARD</li> <li>▲ ICT &amp; Financial Business Company</li> </ul>
	Motorbike liability insurance	
Other services	POSA cards	<ul style="list-style-type: none"> <li>■ CONEXIO</li> <li>▲ ICT &amp; Financial Business Company</li> </ul>
	Famiport coupons	