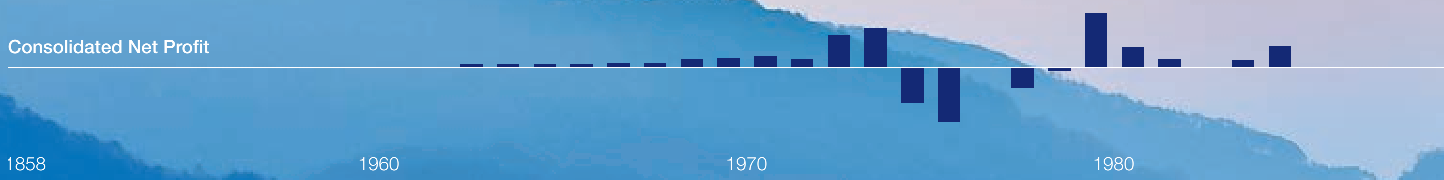
The Story of Merchants

More than 160 years have passed since ITOCHU's establishment in 1858. Like our founder, Chubei Itoh I, who crossed rugged mountain passes and paved the ways for peddling his wares throughout Japan, we have overcome numerous difficulties during the ensuing years. Despite these difficulties we have remained true to our identity as a merchant, "supplying the needs of the society," as well as to the business philosophy of Chubei Itoh I, "*Sampo-yoshi*." This identity and philosophy have constantly underscored our actions and served as the driving force for transforming ourselves.

Staying True to "the Way of for More Than 160 Years



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

1920
Depression following World War I

1923
Great Kanto Earthquake

1929
The Great Depression

1939
World War II

1971
Nixon shock

1973
First oil shock

Late 1970s to early 80s
Period of hardship for trading companies

1979
Second oil shock

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."

Takenosuke 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."

1858

the Merchant”

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 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 low-efficiency and unprofitable assets. Simultaneously, to adopt more sophisticated risk management, we introduced a quantitative risk management method. As our financial position improved, earnings from the resource business expanded as we entered the commodities super cycle period.

FYE 2012–2020
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 and CP Group and acquired Dole business and METSA FIBRE OY. We also strengthened our financial position further and promoted cash flow management.

FYE 2021
Preparing for Global Recession

Given the uncertain duration and extent of economic recession, we will strive to maximize our management capabilities in an environment affected by COVID-19 and erect the foundations for the post-COVID-19 world. We will thoroughly instill the “earn, cut, prevent” principles.

Early 1990s
Collapse of Japan’s economic bubble

1997
Asian financial crisis

2007
Global financial crisis

2011
Great East Japan Earthquake

2015
Collapse of the resource bubble

2020
COVID-19 pandemic

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 Suzuki
2018–

Starting out as a Merchant, Continuing on the Path of Merchants

ITOCHU inherited and practices the merchant spirit of Chubei Itoh I, that has spawned a unique corporate culture and led to an accumulation of strengths. In recent years, we have been shoring up our foundations as we unleash each of our potential strengths. We have formulated "*Sampo-yoshi*," the business philosophy of the merchants of Ohmi originated from the personal motto of Chubei Itoh I, as the corporate mission of the ITOCHU Group, taking this as another step toward the sustainable expansion of corporate value.

Earning Trust as Merchants

Ohmi Province (present-day Shiga Prefecture) was separated from the commercial centers of Osaka and Edo (now Tokyo). To conduct trade, the merchants of Ohmi traveled on foot balancing their wares on carrying poles from Ohmi, where Japan's major travel arteries of Tokaido and Nakasendo meet. For business discussions, they used samples. Ordered products would then be delivered from far away at a later date, so cultivating a spirit of trust was essential. A management philosophy that values trust has been passed down through the Company's top managements throughout the years. Its spirit is evident in the "commitment-based management" that aims to consistently achieve targets each fiscal year. Each fiscal year, we work steadfastly to turn words into accomplishments, recognizing that earning trust in the capital markets is key to long-term management success.

(Photo courtesy of Archival Museum for the Faculty of Economics at Shiga University)

Based in the former Ohmi Province, the merchants of Ohmi transported their wares on carrying poles, peddling items into other 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.

Merchants: Always Thrifty

Being thrifty dates back to the Company's origins. The importance of frugality and learning were essential elements of the "store rule (*tanaho*)" established in 1872. Also, it is recorded in the post World War II period that each organization within the Company operated as a financially independent entity, paying the headquarters for the space it uses (store rent). In addition to the itinerant trading business, where margins were slim, this emphasis harks back to the Company's origins in the textile business. Different from businesses in heavy industry, in the textile business prices were negotiated down to the cents and profits were based on the steady accumulation of efforts. Thrift was a historical necessity. The ITOCHU Group retains this emphasis up to the present day, carried forward in its ongoing efforts to "cut" costs, maximizing results while minimizing investment. As a result, we have achieved overwhelmingly high ratio of Group companies reporting profits—about 90%. Consolidated net profit continues to grow, and our capital efficiency remains at the top tier of the industry.

The Merchant's Heritage of Being Proactive, Agile, and Rational

Chubei Itoh I was an extremely progressive business leader. The "store rule" clearly demonstrates his efforts to overcome old-fashioned practices with state-of-the-art management practices. These included a system of meetings, Western bookkeeping, the hiring of university graduates, and the use of shipping insurance.

Rather than sticking stubbornly to precedent or being swept away by the tides of the times, he followed his own senses as a merchant and perceived the essence. His management philosophy emphasized proactive implementation of whatever was determined to be rational. This "proactive, agile, and rational" philosophy has been passed forward over the years. One example was the Company's concentrated effort to strengthen business in the non-resource sector quickly around 2013, when it anticipated that the "commodities super cycle" was coming to a close. Other practices introduced on the basis of "whether it leads rationally to sustainable increases in corporate value" included human resource strategies such as health management, the establishment of nomination and remuneration systems in the corporate governance system, and management's decision not to formulate long-term management plans based on the "idealistic" theory.

Merchants Upholding the Unwavering Ideal —"*Sampo-yoshi*"

The merchants of Ohmi followed a business philosophy of "*Sampo-yoshi*" (good for the seller, good for the buyer, and good for society). This philosophy is said to be rooted in Chubei Itoh I's personal motto, "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." Doing business outside their own lands, to some extent the merchants of Ohmi were always considered as outsiders. To be permitted to engage in economic activity outside their own lands, the merchants always strove to be humble and contribute to local communities, and they naturally cultivated a spirit of putting the customer first. Chubei Itoh I's "store rule" called for net profit to be evenly split three ways—to the head family, to the accumulation of stores, and to employees. The fundamental thought of "*Sampo-yoshi*" is relevant to today's idea of Creating Shared Value (CSV), recognizing a company as a "vessel of society" that aligns its interests with those of stakeholders and shares the profits it generates. "*Sampo-yoshi*" is an unwavering ideal that underpins the Company's daily business.

ITOCHU's client industries are having to face unprecedented change, prompted by two factors. First, the world is undergoing vigorous digital transformation that is being described as the Fourth Industrial Revolution. Second, we

must live with COVID-19. Surmounting the challenges of this business environment will require the understanding of "what sets ITOCHU apart," emphasizing values for which all can relate, and further strengthening bonds of solidarity throughout the Group. In line with these efforts, in April 2020 the Company revised the corporate mission to "*Sampo-yoshi*" which has sustained the ITOCHU Group's development for more than 160 years, and positioned the corporate message of "I am One with Infinite Missions" as its Guideline of Conduct.

By encouraging each individual employee to consider their own conduct as they go about their business, ITOCHU aims to simultaneously enhance sustainable corporate value and resolve social issues.

Sources of Strengths Deriving from the Way of the Merchant

Consistent corporate behavior based on the unwavering ideal has underpinned ITOCHU's strengths over the years. During Japan's period of rapid economic growth, the Company kept pace with the changes in the country's industry structure, expanding into the non-textile sectors and diversifying its business. However, ITOCHU lacked the heavy industry connections, unlike the general trading companies associated with the former *zaibatsu* industrial groups. As a result, we concentrated our strengths on the non-resource sector, centering on areas of expertise such as food, clothing, and housing. Different from the merchants of Osaka and Edo, which operated out of free-standing stores, the merchants of Ohmi had to peddle their wares on foot. This cultivated a pioneering spirit and the independence of developing trade on their own, or "individual capabilities." Even after ITOCHU diversified its business, it continued to adhere to these "individual capabilities," carrying forward especially in the food, clothing, and housing sectors, where the number of customers is large and individual transactions are small. In 1972, we became the first major general trading company recognized as a friendly trading company by Chinese government. We took advantage of this opportunity to secure access to what would become a massive consumer market in the future. We continued working to build relations with China, which was undergoing economic development under a reform and open-door policy. In the process, we expanded our human network and business foundations.

Comprehensive Strength Accumulated from Constantly Transforming Itself

General trading companies, which operate in the middle of the value chain, are affected by trends among sellers. In particular, as manufacturers transitioned toward a practice of selling products themselves, trading companies became concerned that this disintermediation could be fateful for them. We have faced such existential crises numerous times, with the 1960s marked by "the notion that trading companies were a declining force" and the late 1970s to early 80s labeled as a "period of hardship for trading companies." We have successfully overcome such adversities by flexibly changing the form of our business. As part of these initiatives, we moved upstream to secure stable supplies of resources and product materials. At the same time, we invested in downstream operations, notably FamilyMart, to expand our customer contact points. In addition to this vertical expansion of the value chain, we shifted toward a business model that pursued added value. One example was our move into the brand business in the Textile Company in the 1970s. By entwining our business investments and creating businesses in a multifaceted and linked manner, we have built up our comprehensive strength. As Chubei Itoh I worded in "supplying the needs of the society" and the current Chairman & CEO, Masahiro Okafuji, explained that trading companies "are like water taking the form of the vessel in which it is carried, sometimes round, and sometimes square," we transform ourselves as a merchant sensitive to the needs of the times.

Passing on the Management Baton While Bringing out True Value of a History of more than 160 Years

In the late 1990s, huge holdings of underperforming assets led to a crisis that threatened our continued existence. Then-President Uichiro 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. We also introduced a new management method, called Risk Capital Management and shifted funds to high-efficiency assets.

Strengthening Our Financial Position

March 31, 1999

NET DER: 13.7 times

Net interest-bearing debt: Approximately ¥4.2 trillion

March 31, 2011

NET DER: 1.4 times

Net interest-bearing debt: Approximately ¥1.6 trillion

Trading Companies as Water

The current Chairman & CEO, Masahiro Okafuji, explains that ITOCHU has the ability to transform itself, noting that general trading companies "are like water taking the form of the vessel in which it is carried, sometimes round, and sometimes square."

Inherited Strengths

Individual Capabilities

Consolidated Net Profit per Employee (Non-Consolidated)

¥0.12 billion (FYE 2020)

ITOCHU did not maintain free-standing stores, but instead cultivated a spirit of creating businesses on its own. This DNA and the fact of having the non-resource sector, with its large number of clients, as the core naturally cultivated "individual capabilities."

Earning Power in the Non-Resource Sector

Profits from the Non-Resource Sector

¥378.3 billion (FYE 2020)

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

Comprehensive Strength and Ability of Self-transformation

Ratio of Group Companies Reporting Profits

88.6% (FYE 2020)

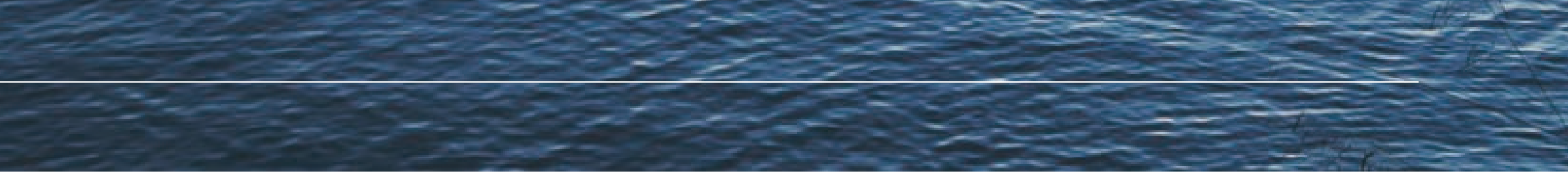
With diversified business portfolio, we established a solid earnings base by leveraging various functions and business know-how we have cultivated as a general trading company as well as by maximizing synergies between businesses.

Experience and Track Record in China and Other Parts of Asia

Expanding Business into China

1972

In 1972, then-President Masakazu 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.



Steady Steps under "Brand-new Deal" Strategies

In addition, we adopted A&P Strategy and concentrated management resources on areas of strength, centering on food, clothing, and housing. He then passed on the management baton to unleash our strengths in the non-resource sector.

Taking over the management reins, President Eizo Kobayashi emphasized the pursuit of efficiency, strengthening "defense." At the same time, the Company made proactive efforts to build the foundation for "offense" through accumulating profit by taking advantage of a resource boom. The role of President Okafuji (the current Chairman & CEO), appointed in 2010, was to dramatically develop the path the two prior presidents had outlined, maximizing the true value of our strengths as a merchant. The Company then proceeded to achieve each of its targets under "Brand-new Deal" strategies from FYE 2012.

Three Steps to Unleashing the True Value of Our Strengths

"Brand-new Deal 2012" (FYE 2012–2013) established the strengthening of front-line capabilities and "earn, cut, prevent" as the fundamental of the merchant ethos, marking a shift from our previous predilection toward "defense." We launched a number of internal reforms to thoroughly unleash the potential of individual capabilities. We reduced internal meetings and materials, strengthened front-line capabilities, and introduced a Morning-Focused Working System. Enhancing measures such as these led us to become an industry leader in labor productivity.

Next, under "Brand-new Deal 2014" (FYE 2014–2015) we set about reaping the rewards of large-scale investments we had made and increasing profitability in existing businesses. Furthermore, by revising investment criteria, we made nearly 80% of our total investments in the non-resource sector and strengthened our earning power in this area. Through consistent implementation of the "earn, cut, prevent" principles, our business portfolio dispersed over a wide range of regions and business fields, and we have established stable cash generating power, as about 90% of the Group companies are reporting profit.

As the third step, under "Brand-new Deal 2017" (FYE 2016–2018), in addition to ensuring profit growth each fiscal year, we conducted preparations with a longer-term view. Following our investment in CP Group, we invested approximately ¥600.0 billion—the largest amount to date—in CITIC. With this move, we laid a major strategic foundation for business in China and other parts of Asia, the world's largest consumer market.

In FYE 2012, we achieved our objective of becoming No. 1 in the consumer sector. In FYE 2015, we became No. 1 in the non-resource sector. And in FYE 2016, we became the No. 1 general trading company in consolidated net profit, as the higher-ranked general trading companies were affected significantly by the fall in resource prices while we were able to demonstrate the true value of our earnings base—being highly resilient to economic fluctuations due to our diversified business portfolio. Furthermore, in FYE 2019 we reached the major milestone of exceeding ¥500.0 billion in consolidated net profit for the first time. We have steadily stepped up our businesses by building on our existing strengths. This could be interpreted as us having charted a major change of course toward "offensive" management, but in fact that is not the case. Rather, as we moved forward we weighed the risks very carefully, keeping in mind the harsh lessons learned in the late 1990s. As the next step in the following medium-term management plan, "Brand-new Deal 2020," we advanced the shift from a product-oriented to a market-oriented perspective, in order to upgrade the physical businesses we have honed to date. As a result, in FYE 2020 we achieved the strongest financial results ever including consolidated net profit, achieving the targets of "Brand-new Deal 2020" one year ahead of schedule.

In FYE 2021, we expect global economic confusion to become more pronounced on various fronts due to the COVID-19 pandemic which we cannot predict its containment. Remaining true to the "*Sampo-yoshi*" spirit, despite the adverse operating conditions we will continue to lay the steppingstones for our next step forward.

Dialogue

"*Sampo-yoshi*" and ITOCHU

CAO Fumihiko Kobayashi interviewed Professor Hideki Usami, a leading researcher on the merchants of Ohmi, about the origins of "*Sampo-yoshi,*" which is the new ITOCHU Group corporate mission from April 2020, the common ground between the spirit and ITOCHU's current management policies, and the ideal shape of management amid the increasing importance of ESG.

Hideki Usami
Professor Emeritus of Shiga University

Fumihiko Kobayashi
Member of the Board,
Senior Managing Executive Officer, CAO

Kobayashi: On April 1, 2020, the ITOCHU Group declared "*Sampo-yoshi*" as its new corporate mission. On this occasion, ITOCHU consulted with Professor Hideki Usami, a leading researcher on the merchants of Ohmi. Professor Usami presents the view that the spirit of "*Sampo-yoshi*" can be found in the business practices of Chubei Itoh I, whose personal motto was "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." Would you mind explaining, once again, the meaning behind the words "*Sampo-yoshi*"?

Usami: For starters, I must clarify that "*Sampo-yoshi*" is a neologism created by researchers studying the merchants of Ohmi, and that Chubei Itoh I did not come up with the phrase itself. In addition, "*Sampo-yoshi*" is well known across Japan for consisting of three sides, "*urite-yoshi* (meaning "good for the seller"), *kaite-yoshi* (meaning "good for the buyer"), *seken-yoshi* (meaning "good for society")." The use of "for" ("*ni*" in Japanese) before "good" ("*yoshi*") is correct Japanese, in my opinion. Therefore, the correct phrase should be "*urite-ni-yoshi*, *kaite-ni-yoshi*, *seken-ni-yoshi*." In the history of the merchants of Ohmi, the expression "*Sampo-yoshi*" began to appear after Professor Eiichiro Ogura of Shiga University used the term in 1988 to describe the trading philosophy of the merchants of Ohmi in his book *Omi Shonin no keiei* (Management Practices of the Merchants of Ohmi). Chubei Itoh I's personal motto is an exemplification of this philosophy in a management mindset, which is "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."

Kobayashi: In modern Japanese society, "*Sampo-yoshi*" has become a phrase that everyone has heard of before, but not many people are clearly aware of its origins.

Usami: There are various opinions about the origins of "*Sampo-yoshi*." One view is that it came from the Jihei Nakamura family motto, but I have not found evidence of the "*urite-ni-yoshi*, *kaite-ni-yoshi*, *seken-ni-yoshi*" expression. The first appearance of the expression can be traced to Chubei Itoh I. On their outward journeys, the merchants of Ohmi traveled up to other countries and sold merchandise from Kyoto, Osaka and other parts of the Kinki region, in addition to those from Ohmi. On their return journeys, the merchants bought specialties in other countries and sold them in the Ohmi and Kinki region. This trade practice was called "saw trading," and it gave rise for merchants to open stores for trading specialties from various regions between the merchants of other countries. These merchants were outsiders ("*yosomono*") in foreign lands, so they had to heed the trade practices rooted in each region. The trading style of these unique merchants of Ohmi persisted over many long years, culminating in the "*Sampo-yoshi*" spirit. Chubei Itoh I was the first person to put this trading philosophy into words. In Japan, I believe ITOCHU and Marubeni are the only companies that can claim "*Sampo-yoshi*" as their founding spirit because they can count Chubei Itoh I as their founder.

Kobayashi: Thank you for that explanation. After the bubble economy collapsed in Japan, Japanese firms did not hesitate to embrace the concept of shareholder capitalism and related systems from Europe and the United States. In the past, it was well understood that a company belongs to shareholders and it should behave in ways to

I think it will be important how "*Sampo-yoshi*" is perceived and practiced in modern business.

Hideki Usami

Professor Emeritus of Shiga University

Born in 1951 in Fukui Prefecture, Mr. Usami is a former director of Archival Museum for the Faculty of Economics at Shiga University. He is a famous researcher in the business and social activities of the merchants of Ohmi. He is also the author of *Cherishing the Memory of Chubei Itoh I* (Seibundo Publishing) and *Ohmi Fuzokushi* (*Morisada Mankou*) (Castigation, Iwanami Shoten).

maximize shareholder returns. Once a consensus formed among institutional investors and leaders in the business world that pursuing only shareholder returns would not ensure the sustainability of a company, the SDGs and ESG investment began to catch on as an underlying trend. SDGs and ESG concepts encourage companies to contribute to the development of the world by increasing benefits for people other than shareholders, while also striving to increase shareholder value. I believe these concepts align perfectly with the sayings of Chubei Itoh I. ITOCHU's corporate activities carry on the spirit of Chubei Itoh I, guided by the idea that trade "accords with the spirit of Buddha." To put it another way in modern-day language, companies have the mission of bringing profits to society at large.

Usami: The merchants of Ohmi's idea of returning profit to society is deeply rooted in their practice of "evenly splitting net profit three ways." Retailers were the customers of merchants of Ohmi, which were effectively wholesalers, and people living in the region, who bought this merchandise, were the customers of these retailers. If the people did not have stable lifestyles, the merchants would not be able to conduct trade for long, and this is why the merchants of Ohmi were keen to make sure people in their target region could carry out their lives without disruption. It is noteworthy that the merchants naturally adopted the concept of "*intoku zenji*," or constantly making improvements without outwardly telling other people. Not only providing aid to people after natural disasters struck, the merchants also helped the impoverished in regional communities, by employing people in the construction of non-essential storehouses and residences. Such "helpful" construction was one example of how the merchants gave back to the world ("good for society"). Rooted in the Friedman-style concept of free market capitalism, businesses in Europe and the United States sought to maximize profits as the ultimate good. In contrast, the merchants of Ohmi, which valued collective harmony preconditioned on mutual aid, had clearly different views on profits. Their idea that employees were joint partners also tends to be dismissed from the viewpoint of free market capitalism. I believe it is important to nurture ideal values depending on historical and cultural perspectives.

Kobayashi: ITOCHU's current approach to business, sharing its value between the Company, employees, shareholders and other providers of capital, suppliers, and society aligns with the idea of "evenly splitting net profit three ways." For example, ITOCHU's Stock Compensation Scheme is designed with the intention of improving the awareness of employees' participation in management.

Usami: The merchants of Ohmi dealt with the society, a collective entity of specific minorities connected together by relationships. Modern corporations deal with society, a collection of an unknown number of independent individuals. The scope of profit distribution has spread to areas where there are no direct transactions. If profits are distributed to broader society, pursuing more profits in itself is not a negative thing. When pursuing profits, however, it must not be forgotten that profits should not be pursued just for the sake of profits. In other words, it is essential that corporations engage in "trading in good faith." Among the merchants of Ohmi, the phrase "regretting after the sale is the essence as the merchants" was conveyed. They believed that even if a selling price were regretfully low, intentionally selling at this price to a willing buyer would gain the trust of the customer and lead to more profits over the long run. Chubei Itoh I encouraged cash transactions, in which buyers (retailers) purchase merchandise within their own financial capacity, without putting them at a disadvantage, such as by loading them with unnecessary inventories. I believe this is one example of "trading in good faith" with due consideration given to the customer. By gaining the trust of customers and forming relationships based on this trust, profits can increase in perpetuity. By distributing these profits to the world, the concept of "evenly splitting net profit three ways" is an idea similar to SDGs in modern society, in my opinion.

Kobayashi: The word "trust" in Professor Usami's comments is a key word that the merchants of Ohmi have in common with ITOCHU today. The linen trading that Chubei Itoh I began with his carrying pole entailed showing samples of merchandise to customers, taking orders, and then receiving payment after the merchandise is delivered from the site of production. If trust is lost at a single point along these series of transactions, the trading could not continue over the long term. Although times have changed, ITOCHU strives to achieve its targets every period through commitment-based management. It is based on the idea that building the trust of all stakeholders every period, including shareholders, is essential to gaining trust in ITOCHU's medium- to long-term vision and the management based on it. This is a common thread that extends back to the merchants in their heyday.

Usami: The merchants of Ohmi had the expression "trading is like the drooling saliva of a cow." This expression means that continuing to trade over several generations is better than making a fortune for only one generation. Lists ranking of the merchants of Ohmi still exist today, and the highest-ranked merchants are the well-known families that managed to trade over the most generations. Even if a fortune created a prosperous merchant family for one generation, it was not recognized if they could not continue business. Regardless of changes in trading methods, merchandise handled, and the social fabric, the merchant families that passed down a spirit of "*Sampo-yoshi*," thrift and frugal, and a spirit of building trust through their family mottoes and store rules that spanned generations are the ones that continued long and small business small business based on trust of their family, successfully having stayed in business in their communities.

Kobayashi: The families that ran a successful trading business over the long term became the most distinguished families. I believe this aligns with the way modern corporations focus on sustainability as an assessment criteria. To summarize our conversation today, "*Sampo-yoshi*," as a phrase of the condensed spirit of the merchants of Ohmi, can be viewed as a straightforward expression of the cutting-edge economic value systems in the world today. Now that ITOCHU has a new Group corporate mission with "*Sampo-yoshi*," I believe ITOCHU has astutely aligned itself with modern social trends. At ITOCHU, managers in the past have all embodied the spirit of "*Sampo-yoshi*," and this spirit has embedded itself in the hearts and minds of each and every employee. I am very proud that ITOCHU has taken a corporate stance that dovetails with the concept of an ideal corporation needed the world over.

Usami: I think it will be important how "*Sampo-yoshi*" is perceived and practiced in modern business. In this context, I believe ITOCHU needs to shed more light on the future it envisions. ITOCHU's goal of becoming the top general trading company is a major motivation for employees. As this is achieved in the future, I believe employees will be even more motivated if management further clarifies its vision for ITOCHU as "a company working for the benefit of society." In my opinion, each and every employee must have a sense of their own mission, and an idea of the better future that can be created from their own position, starting with the "I am One with Infinite Missions" Guideline of Conduct, amid a growing need to contribute to society and management focusing more on various stakeholders around the world, not just customers and suppliers. While adhering to the code of conduct in the spirit of "*Sampo-yoshi*," I hope that ITOCHU continues to put this spirit into practice while adjusting with the times.

Kobayashi: In these hard times during the COVID-19 pandemic, I felt strongly that our corporate mission should be a compass for all employees. Our "*Sampo-yoshi*" corporate mission and "I am One with Infinite Missions" Guideline of Conduct have served as a psychological prop for our employees working on the front lines and our employees working from home during the COVID-19 pandemic. As the ones who have inherited the spirit of "*Sampo-yoshi*," we carry out the mission asked of each of us. This is a universal and easy-to-grasp concept. Our corporate mission and Guideline of Conduct empower our employees to think on their own and fulfill their own mission when protecting the Company, their families, and our customers.

I believe the change in our corporate mission has allowed our employees to rethink the meaning of "*Sampo-yoshi*" from a sustainability standpoint. I would like to thank Professor Usami once again for providing us with a springboard. Thank you for setting aside the time for this discussion today.

In these hard times during the COVID-19 pandemic, I felt strongly that our corporate mission should be a compass for all employees.

Fumihiko Kobayashi

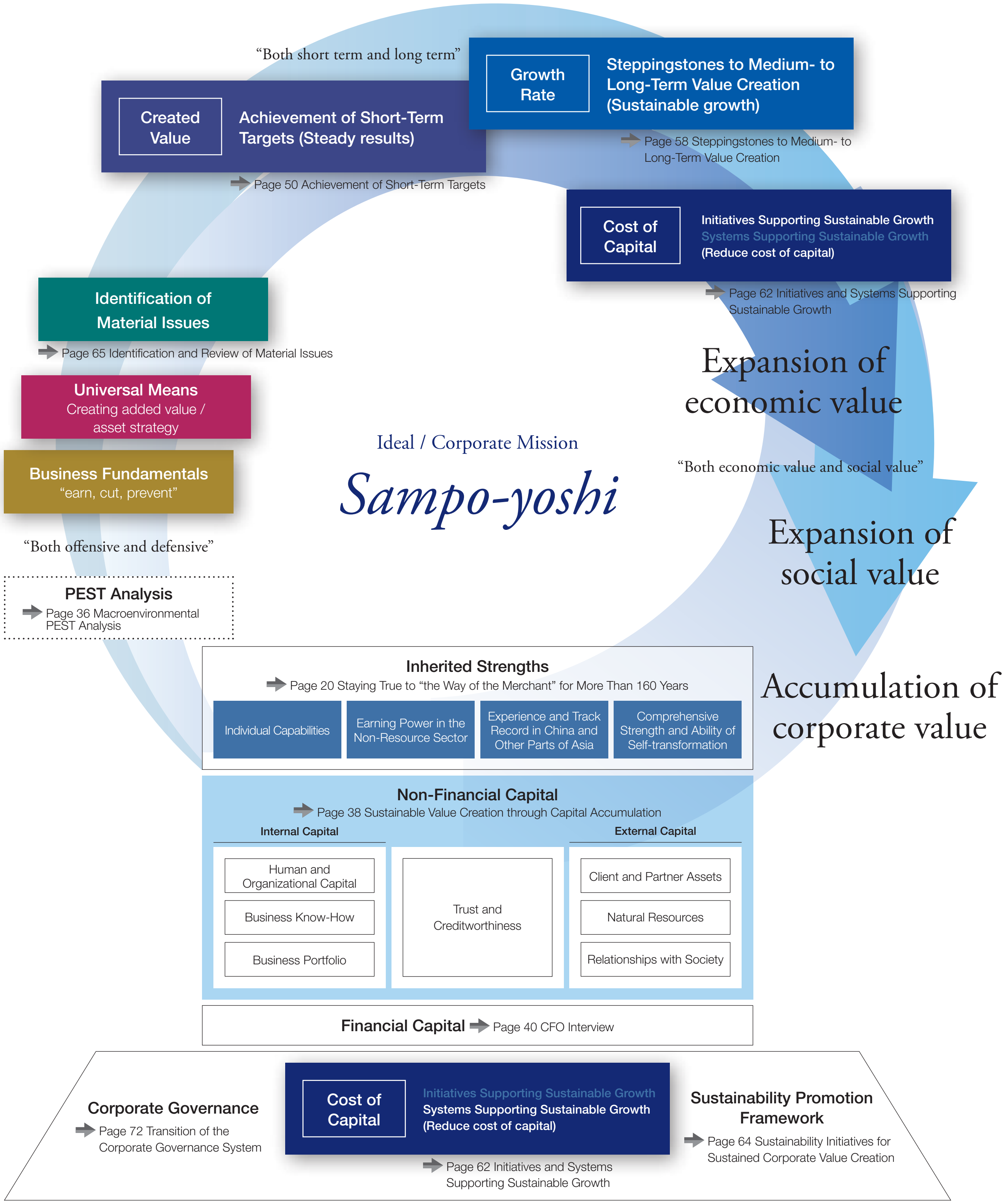
Member of the Board, Senior Managing Executive Officer, CAO

The “Merchant” Business Model

Pursuing “All the Priorities,” Not Just “a Single Expedient”

For more than 160 years, the “*Sampo-yoshi*” spirit has represented our unwavering ideal as a merchant. In keeping with this focus, rather than seeking to achieve a single target of either economic or social value, or either short-term targets or steppingstones for medium- to long-term growth, we aim to achieve “all the priorities.”

Each of the merchants of the Group in charge of “Infinite Missions” makes the most of his or her “individual capabilities” to further enhance corporate value.



Explanation of Our Business Model

In our aim of enhancing corporate value, we must expand both economic and social value. Specifically, we are working to expand created value (Achievement of Short-Term Targets), increase growth rate (Steppingstones to Medium- to Long-Term Value Creation), and lower the cost of capital (Initiatives and Systems Supporting Sustainable Growth). As a result, we will realize a virtuous circle as we “reinforce capital,” which is a driving force for sustainable value creation.

Achievement of Short-Term Targets
(Steady results)

Created Value ↑

Corporate Value ↑ = Created Value ↑ / (Cost of Capital ↓ − Growth Rate ↑)

Corporate Value: Driving Force for Sustainable Value Creation (Total capital)

Cost of Capital: Initiatives and Systems Supporting Sustainable Growth (Reduce cost of capital)

Growth Rate: Steppingstones to Medium- to Long-Term Value Creation (Sustainable growth)

Business Fundamentals and Universal Means as a Merchant

Business Fundamentals

EARN	CUT	PREVENT
Conduct trade aligning with changes in the world and customer needs	Reduce expenses that are not cost effective, reduce unnecessary meetings and documents	Prevent outflows due to losses on receivables and impairment losses

Universal Means

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 and partner assets to find optimal way of sales and cultivate sales routes and procurement partners as we respond to various customer needs and strive to expand trade.

Promoting Business Management
In addition to 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 competitive advantage 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 that emphasize investment in areas of strength, thorough risk management, and the pursuit of asset efficiency.

Investing in Areas of Strength
We emphasize investment in areas where we have strength, 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 risks surrounding our businesses.

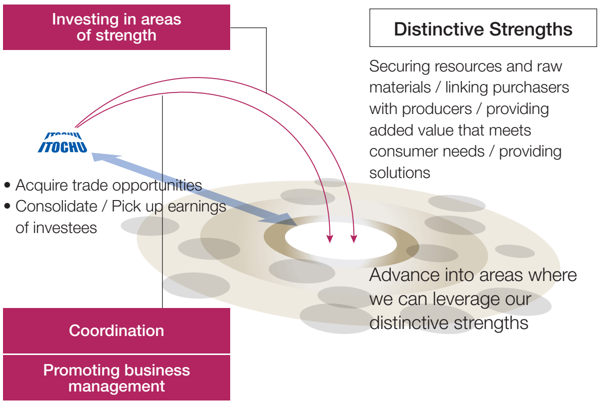
Pursuing Asset Efficiency
We exit from investments that are determined to be low-efficiency assets from such perspectives as scale of earnings, investment efficiency, and strategic significance. In this way, we are working to maximize free cash flows by increasing asset efficiency and strengthening cash generation power.

Our Business Model, as Seen through Business Development

Expanding Our Multifaceted Businesses and Tirelessly Upgrading

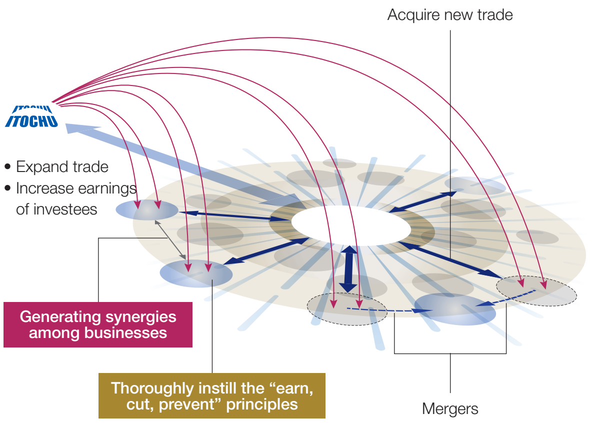
We are expanding our multifaceted businesses through a chain reaction by leveraging functional areas of strength. At the same time, we are combining existing businesses, shifting to a market-oriented perspective, and investing in new fields. Through such efforts, we continue to upgrade our business model and pursue a new vision of what a trading company can achieve.

Advancing into Areas Where We Can Leverage Our Distinctive Strengths



We narrow down possible areas to those in which we 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

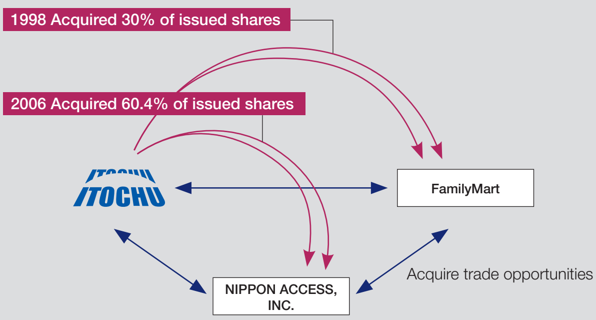


After advancing into a new area, we strive to acquire business know-how while setting our sights on the next step. At the same time, we leverage our management resources and create added value to increase investees' corporate value and establish a market position. Thereafter, we continuously work to thoroughly instill the "earn, cut, prevent" principles, acquire new trade, generate synergies among businesses, and reorganize business, creating multifaceted, linked businesses.

Examples from the Convenience Store Business

Acquiring Customer Contact Points

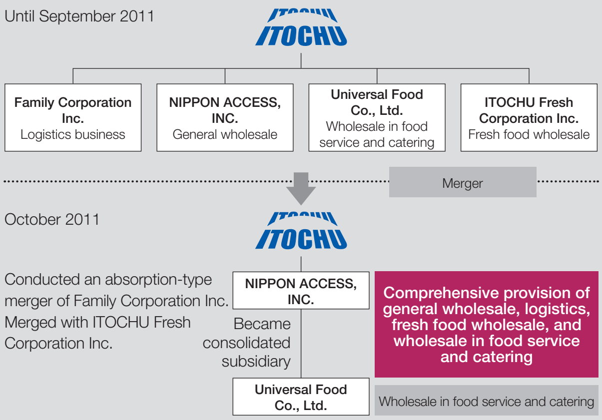
ITOCHU acquired approximately 30% of the issued shares of FamilyMart in 1998, marking our first full-fledged foray into the retail field. In 2006, we converted the general food wholesaler NIPPON ACCESS, INC., into a consolidated subsidiary. These moves accelerated reforms in our business model highlighted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



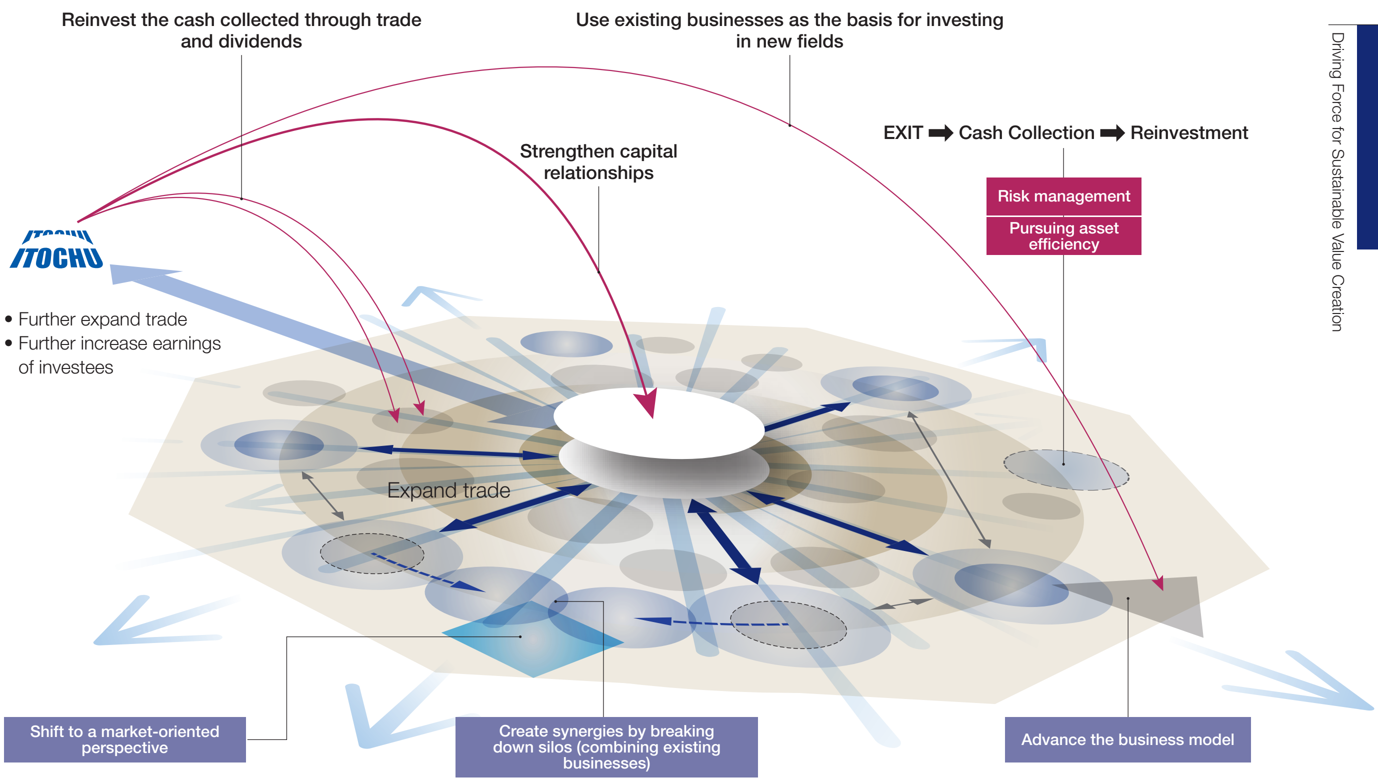
* As of March 31, 2020, we own 50.2% of FamilyMart Co., Ltd., and 100% of NIPPON ACCESS, INC.

Strengthening the Intermediate Food Distribution Business through Reorganization

In October 2011, ITOCHU integrated its intermediate food distribution business, centering it on NIPPON ACCESS, INC. Through this reorganization, we built a system that can offer integrated handling of processed foods in all temperature ranges—ambient, frozen, and chilled—as well as 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.

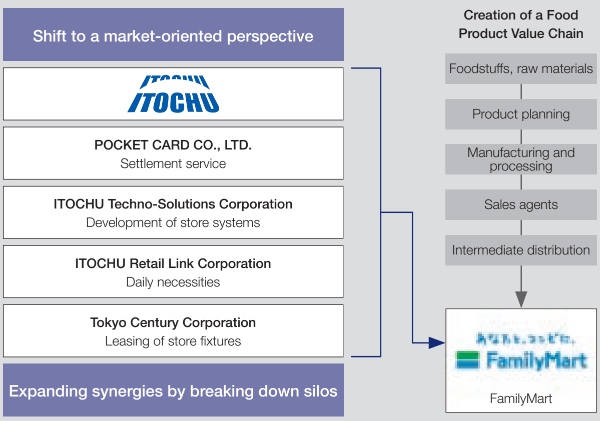


Reinforcing Earning Power by Advancing (Upgrading) the Business Model and Strengthening Cross-Divisional Functionality, and Promoting Asset Replacement



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 to utilize its data 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 as we focus on generating synergy with existing businesses and 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

Creating Synergies Infinitely —Vertically and Horizontally

The ITOCHU Group is building and enhancing a value chain spanning upstream to downstream operations with 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 making The 8th Company the starting point and going beyond Division Companies' boundaries in such areas as daily necessities, financial services, system development, and construction materials.

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 on 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	■ ITOCHU PLASTICS INC.
	Boxed lunch containers, etc.	

Raw materials → Product planning → Manufacturing / Processing → Sales agents

	Raw Materials	Product Planning / Manufacturing, Processing / Sales Agents
Ready-to-eat products (rice balls, boxed lunches)	■ Japan Food Supply Co., Ltd. (NIPPON ACCESS Group) ■ ITOCHU Food Sales and Marketing Co., Ltd. ■ ITOCHU FEED MILLS CO., LTD., etc.	◆ Ready-to-eat producers
Fried chicken (FAMICHIKI)	◆ Chicken suppliers	▲ Fresh Food Department No. 2
Fried chicken (Spicy Chicken)	◆ CP Group	▲ Fresh Food Department No. 2
Counter coffee (FAMIMA CAFÉ)	■ UNEX (GUATEMALA), S.A., etc.	▲ Sugar, Confectionery Materials, Coffee & Dairy Products Department ▲ Food Products Marketing & Distribution Department
Eggs	■ I-hiyoko Co., Ltd (ITOCHU FEED MILLS Group)	■ ITS Farm Co., Ltd. (ITOCHU FEED MILLS Group)
Bananas	■ Dole	▲ Fresh Food Department No. 3

Non-Food Product Initiative Examples

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

Daily necessities	New Year's cards	■ ITOCHU Pulp & Paper Corporation
	FamilyMart collection daily necessities (detergent, plastic bags, cleaning sheets, etc.) and umbrellas	■ ITOCHU Retail Link Corporation ■ Sanipak Company Of Japan, Ltd.
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 Corporation
	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 domestic network of approximately 16,500 stores that goes beyond product sales, services, and routine store operations.
System development	■ ITOCHU Techno-Solutions Corporation Support operational efficiency through development of operational systems
Electricity supply	■ ITOCHU Plantech Inc. By supporting efficient procurement through a high-voltage receiving service, help stores reduce their electricity costs
Construction materials	■ ITOCHU KENZAI CORPORATION
3Rs+W service* * Reduce, reuse, recycle, and waste management	■ ITOCHU Metals Corporation Develop a nationwide network of partners to provide store fixture maintenance, reuse, recycle, and waste management services
Contact centers	● BELLSYSTEM24, Inc.
Leasing of store fixtures	● Tokyo Century Corporation

Areas of Focus in Joint Initiatives with FamilyMart

- Building a new convenience store model in response to changing lifestyles
- Promoting efforts to reduce food losses and amount of plastic used
- Taking advantage of new technologies to lower store and headquarters costs
- Boosting efficiency of the supply chain further through such moves as expanding the scope of data linkage
- Developing new businesses in areas such as advertising / marketing and financial services by leveraging purchasing information and customer contact points
- Accelerating development in China and other parts of Asia

Linking supply chain data

By linking data, optimize ordering, inventories, and distribution, making the value chain more efficient as continuous efforts to "cut."

Wholesale / Logistics

Intermediate Distribution Example	The ITOCHU Group is collaborating to handle logistics to individual stores.
Wholesale / Logistics	■ NIPPON ACCESS, INC. Provides the majority of logistics services for food and non-food products for FamilyMart stores through approximately 550 distribution locations around Japan
Delivery van	● NIPPON CAR SOLUTIONS CO., LTD (Tokyo Century Group)

NIPPON ACCESS, INC., supporting an industry-leading store network

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	■ POCKET CARD CO., LTD.
	Motorbike liability insurance, One-day automobile insurance	▲ ICT & Financial Business Company
Other services	POSA cards	■ CONEXIO Corporation
	Famiport coupons	▲ ICT & Financial Business Company

Macroenvironmental PEST Analysis

The business environment surrounding ITOCHU is changing day by day, while uncertainties increase. Through a PEST analysis, we adequately assess the risks and opportunities related to non-financial capital in the context of macroeconomic factors, including the COVID-19 pandemic and trade friction between the United States and China. We use this assessment to build a stronger competitive edge while flexibly responding and adapting to changes in the business environment.

P (Political / Legal)

Risks		Opportunities
	Political Trends 1 2 3 4 5 6	
Global economic stagnation; decrease in trade volume; stricter export and investment regulations	U.S.–China Conflict (Trade disputes, forced technology transfer)	Supply chain revisions
Decrease in trade volume and movement; destabilization of financial markets	Anti-globalization Movement (Brexit and protectionism)	Greater complexity in food and resource procurement; supply chain revisions
Coercive political management	Elections (U.S. presidential and Lower House elections)	Economic stimulus
Economic stagnation due to terrorism and armed conflict; disorder in financial markets	Geopolitical Risks (Middle East, North Korea, etc.)	Increase in crude oil prices
	Changes in Tax Code and Regulations 1 2 3 4 5 6	
Decrease in trade volume	Trade Talks and Trade Agreements (Japan–U.S., U.S.–EU, USMCA, etc.)	Supply chain revisions
Existing energy market shrinkage (coal and crude oil)	Greenhouse Gas Containment Regulations (Paris Agreement, etc.)	Expansion of new energy market (wind power, solar power, etc.)
Rising costs, such as those for establishing data governance; damage and decline of reputation	Tightening Regulations on Handling of Personal Data	End of data monopolies held by existing platformers; expansion of open data availability
Decrease in existing business transactions	International Tax Trends (Measures to address tax avoidance and platformers)	Improvement in corporate performance; optimized taxation
	Economic Policy Trends 1 2 3 4 5 6	
Destabilization of financial markets	Continuation of Monetary Easing Policy	Stable low cost of fundraising
Upward pressure on interest rates; higher taxes	Change in Expansionary Fiscal Policy	Expectations for private sector to drive economic growth; faster pace of deregulation

Business development amid growing uncertainties and instability as countries prioritize bringing their own economies back to normal during unstable international affairs

E (Economical)

Risks		Opportunities
Decrease in business opportunities and trade volume	**Economic Slump in Developed Countries** 1 2 3 4 5 6	Emergence of new demand from changes in consumer and corporate behavior
Emergence of non-performing assets due to economic and social deterioration	**Greater Disparities in Economic Growth in Emerging Countries** 1 2 3 4 5 6	Increase in consumer spending as standard of living improves; increase in demand for infra-structure and foodstuffs as population grows
Decrease in currencies of emerging countries; increase in overseas investment costs	**Dollar Appreciation** 1 2 3 4 5 6	Improvement in earnings environment due to yen depreciation
Formation and collapse of asset bubbles in specific fields and products	**Asset (stocks, real estate) and Resource Price Increase** 1 2 3 4 5 6	Increase in fundraising capacity due to higher value of existing assets; growth in earnings from trading
Excessive swings in project prices	**Change in Investment Environment** 1 2 3 4 5 6	Increase in expected returns as growth rebounds; more investment opportunities in fields of strength in accordance with restructuring

With only moderate recoveries in the economies of developed countries, and widening disparities in the economic growth potential of emerging countries, monitor the balance between growth fields and fields peaking out

S (Social / Cultural)

Risks		Opportunities
Decrease in fossil fuel demand; business damage due to increasingly abnormal weather	Addressing Climate Change (Contribute to building a decarbonized society) 1 2 3 4 5 6	Increase in business opportunities in renewable energy, etc.
Labor shortages and outflow of personnel; harassment, mental health, and long working hours; increases in health-related costs	Cultivating a Motivating Workplace Environment 1 2 3 4 5 6	Improve labor productivity with IT tools; enhance work efficiency through flexible work systems; improvement in health and motivation; securement of superior human resources
Project delay and continuity risks due to human rights issues; compliance violations and data leaks	Respecting Human Rights 1 2 3 4 5 6	Business stabilization and recruitment through harmonious coexistence with local communities; construction of a safe and secure product supply system
Decrease in creditworthiness when safety and health issues occur; destabilization of markets and the social security system	Contributing to Healthier and More Enriched Lifestyles 1 2 3 4 5 6	Increase in demand for products and services compatible with a non-contact society; increase in demand for food safety, security, and health promotion; expansion of personal consumption and information, financial, and distribution services
Occurrence of environmental issues and protest campaigns; industrywide structural exhaustion as competition drives down prices	Ensuring Stable Procurement and Supply 1 2 3 4 5 6	Increase in demand for resources in emerging countries; stable supply of environmentally friendly resources and raw materials
Lowering of corporate value assessment by investors; withdrawal of invested funds; exclusion from investment target; decline in stock prices	Maintaining Rigorous Governance Structure 1 2 3 4 5 6	Rising of corporate value assessment by investors; addition to investment targets; inflow of investment funds; increase in stock prices

Provide products and services, create new businesses, and conduct asset replacement based on "*Sampo-yoshi*" Group corporate mission, aiming to resolve social issues

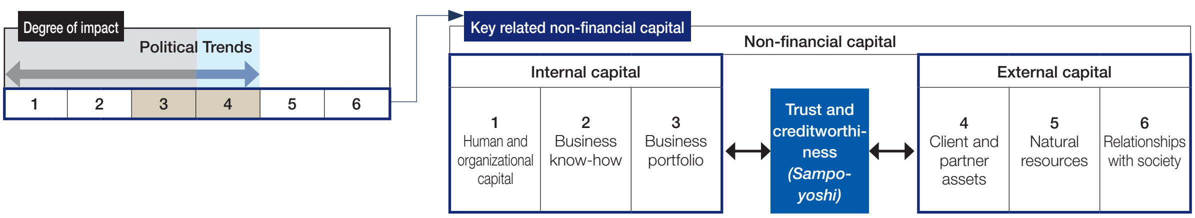
T (Technological)

Risks		Opportunities
Obsolescence and extinction of existing business models from proliferation of new technologies such as AI and IoT; leaks of internal data due to cyber criminals	Evolving Businesses through Technological Innovation 1 2 3 4 5 6	Creation and provision of innovative services and new business models; improve productivity and optimize overall supply chain through use of new technology

By taking a market-oriented perspective to address rapid technological innovation and changes in consumer behavior, advance the transformation of business models

Guide to understanding this page

Each macroeconomic factor displays the impact from risks and opportunities, as well as key related non-financial capital



Page 38 Sustainable Value Creation through Capital Accumulation

Sustainable Value Creation through Capital Accumulation

The ITOCHU Group conducts its business through both trade and business investment. In the course of its history over 160 years, we have steadily accumulated internal capital such as human capital and business know-how.

Meanwhile, we believe that trust and creditworthiness are extremely important for achieving enhancement of interaction between internal and external capital. By always remaining cautious of trust and creditworthiness in our management practice, we aim to realize increases in economic and social value, and to continuously expand our corporate value.

Importance and Monitoring Indicators of Each Capital

Internal Capital

	Importance of Capital in Value Creation	Examples of KPIs / Monitoring Indicators
Human and Organizational Capital	Human resources are the driving force behind the functioning of our business models. We increase "individual capabilities" and labor productivity through our human resource strategies. In addition, our "profit earning" business divisions have powerful backing from our administrative divisions, which have rapid decision-making systems and high-level expertise.	• Labor productivity of employees • Engagement Survey • Time and money spent on employee skill development • Number of employees with Chinese-language qualifications • Hours of overtime work • Paid leave acquisition rate • Evaluation by students looking for work
Business Know-How	With eight Division Companies operating businesses in diverse industries, ITOCHU has accumulated extensive business know-how. This is a vital intangible asset for creating new businesses and expanding into new regions.	• Number of new businesses formed • Number of years of business with existing customers
Business Portfolio	Under pressure to respond to a rapidly changing management environment and diversification of consumer needs, the entire ITOCHU Group will leverage its comprehensive strength in a wide range of business domains to transform its existing business models and enable expansion of its functional domains, expanding the potential for sustainable profit growth.	• Ratio of Group companies reporting profits • Management efficiency indicators

Trust and Creditworthiness (*Sampo-yoshi*)

Financial Capital ➡ Page 40 CFO Interview

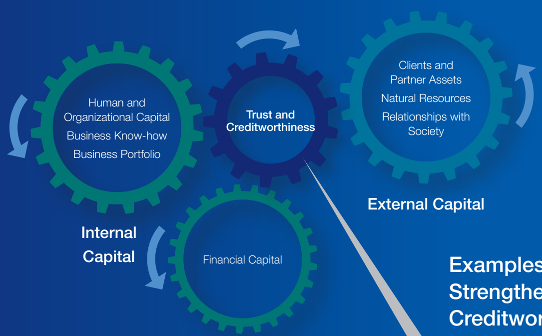
External Capital

	Importance of Capital in Value Creation	Examples of KPIs / Monitoring Indicators
Client and Partner Assets	We maintain win–win relationships with our clients and partners, which include a large number of leading companies. This is vital to our ability to rapidly expand into new domains and constantly capture and expand trade. It is our abundant client and partner assets that enable us to realize sustainable earnings growth.	• Profits from initiatives with good partners • Number of clients and partners • Expenses reduced and decrease in allowance for bad debts
Natural Resources	Through its business in the non-resource and resource sectors, we meet social demand for stable procurement and supply of natural resources, while capturing new business opportunities in responding to social issues outlined in the SDGs.	• Ratio of renewable energy • Level of energy consumption • Level of waste emissions • Amount of paper consumption • Amount of water usage and emissions
Relationships with Society	We practice constructive communication with our stakeholders, ascertaining their expectations and demands of the Company and resolving them. Through this effort we promote stable business activities in Japan and overseas and realize further increases in corporate value.	• Number of engagements with stakeholders • Number of companies participating in sustainability surveys • Number of ESG- and compliance-related internal training session participants • External evaluation of initiatives and additions to indexes • Shareholder returns (dividend payout ratio and share buybacks) and EPS • Evaluation by ESG evaluation institutions • Number of compliance violation incidents

Relationship between the Corporate Mission of "*Sampo-yoshi*" and Increase in Corporate Value

On April 1, 2020, we changed our Group corporate mission to "*Sampo-yoshi*." Through our business as a general trading company, we earn the trust and creditworthiness from various stakeholders in the spirit of "*Sampo-yoshi*." We will leverage these to strengthen a cycle of value creation.

Our policy is to promote business activities with an awareness of our external capital, which are clients, partners, natural resources, and society, and to promote internalization of these external capital. This results in interaction between our external capital and our existing internal capital, which will enable us to realize even more sustainable creation of corporate value.



Examples of Measures for Strengthening Client and Partner Assets

- Selection and securing of good partners
- Use of cutting-edge technologies and services and business model transformation
- Consideration for Environment, Health and Safety (EHS)
- Building of safe and secure supply chains

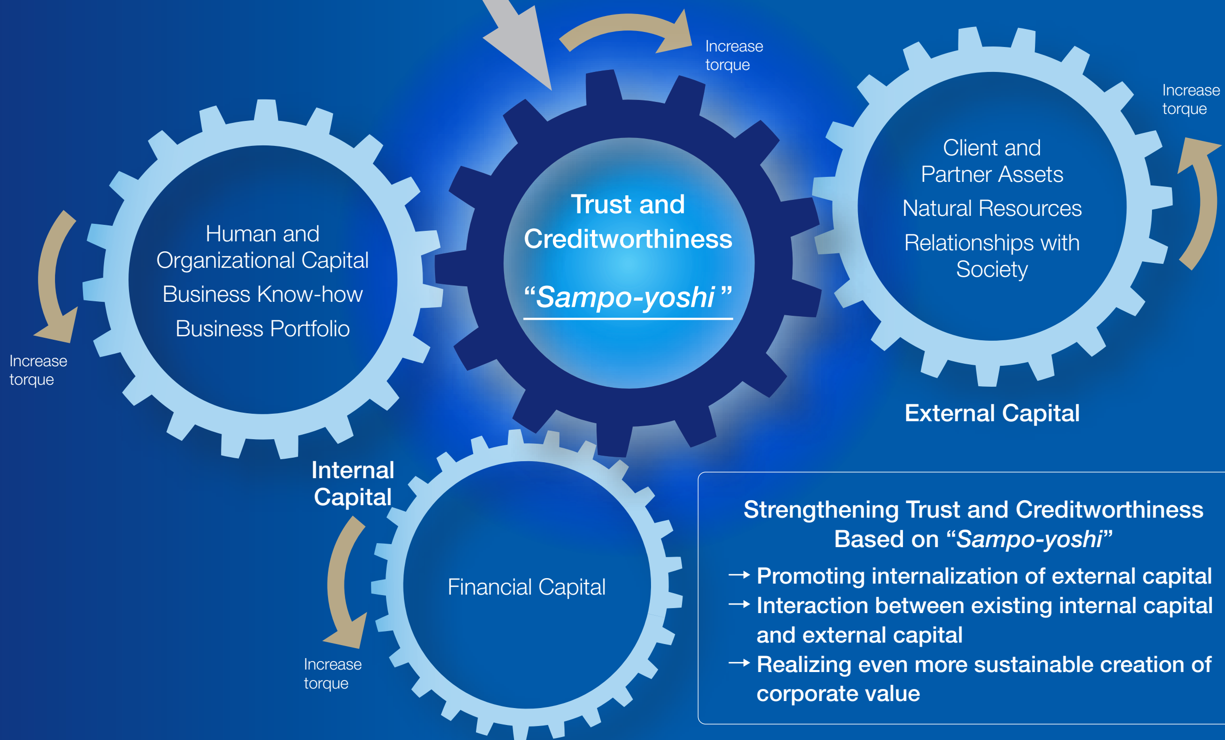
Examples of Measures for Strengthening Trust and Creditworthiness

- Revision of corporate mission to "*Sampo-yoshi*"

Examples of Measures for Strengthening Natural Resources and Relationships with Society

- Announcement and implementation of our policy on coal-related business initiatives (ongoing review of existing project based on engagement)
- Strengthening of value chains and business investment management based on sustainability
- Promotion of environmentally friendly business

➡ Page 64 Sustainability Initiatives for Sustained Corporate Value Creation



Strengthening Trust and Creditworthiness Based on "*Sampo-yoshi*"

→ **Promoting internalization of external capital**
→ **Interaction between existing internal capital and external capital**
→ **Realizing even more sustainable creation of corporate value**

Examples of Measures for Strengthening Human and Organizational Capital

- Revision of the corporate mission, establishment of the Guideline of Conduct
- Morning-Focused Working System and working from home system
- Health management (ITOCHU Health Charter, Support Measures for Balancing Cancer Care and Work)
- Business support leveraging abilities of administrative divisions (high level expertise)

➡ Page 70 Human Resource Strategy

Examples of Measures for Strengthening Business Know-How

- Initiatives to transform business models that utilize ITOCHU's comprehensive strength
- Establishment of The 8th Company, development of business from a "market-oriented perspective"
- Acquisition of new knowledge through venture investments, etc., and incorporation into ITOCHU's business models

Examples of Measures for Strengthening Business Portfolio

- Pursuit of highly efficiency management through execution of rigorously selected strategic investments and continuous asset replacement
- Thorough refinement of existing businesses by enacting our business fundamentals: "earn, cut, prevent."
- Announcement and implementation of ITOCHU's Policy on the Governance of its Listed Subsidiaries, etc.

➡ Page 77 ITOCHU's Policy on the Governance of Its Listed Subsidiaries

CFO Interview

Amid this year's bruising business environment, we will balance our "offense" and "defense" to achieve a firm footing for even stronger growth.

Tsuyoshi Hachimura
Member of the Board,
Senior Managing Executive Officer, CFO

Question 1
Please provide a general review of the financial and capital strategies in "Brand-new Deal 2020."

Answer 1
We were able to achieve our promises a year ahead of schedule by steadily racking up accomplishments, one by one.

Despite a bruising business environment caused by the protracted U.S.–China trade friction and the emergence of COVID-19, FYE 2020 became ITOCHU's most outstanding year ever in quantitative terms. We achieved our target of solidifying our earnings base at ¥500.0 billion in consolidated net profit for the second consecutive years and further strengthened our financial position. As a result, we were able to successfully conclude our three-year medium-term management plan, "Brand-new Deal 2020," a year ahead of schedule. Moreover, we definitively kept our "four commitments" related to the financial and capital strategies that were set forth when "Brand-new Deal 2020" was released.

First, in terms of "enhancing shareholder returns," we promised to continue our progressive dividend policy during the period of "Brand-new Deal 2020." We achieved steady increases in dividends per share each fiscal year, up to ¥83 in FYE 2019 and ¥85 in FYE 2020, setting new record highs for both years. Furthermore, based on the "Medium- to Long-Term Shareholder Returns Policy" announced in October 2018, we showed our stance on maintaining high ROE management by continuously improving EPS (Consolidated net profit per share) through measures including share buybacks. Based on this policy, we dynamically and flexibly repurchased a cumulative total of ¥130.0 billion in shares in FYE 2019 and 2020. As a result, we were able to achieve a high level of shareholder returns in FYE 2020 with a dividend payout ratio of 25% and a total shareholder return ratio of 38%.

Next, in terms of "Core Operating Cash Flows," we set record highs for the fourth consecutive year and exceeded ¥600.0 billion for the first time, reaching ¥602.0 billion. With our improving earning power, we also steadily racked up accomplishments in terms of "cash-generating power." Amid an uncertain business environment, we conducted steady asset replacements while realizing the previously noted shareholder returns, and were able to maintain positive Core Free Cash Flows after deducting shareholder returns of ¥123.0 billion. Together with the ¥300.0 billion we recorded in FYE 2019, we have accumulated a huge cash inflow of more than ¥420.0 billion over the cumulative two-year period. We were able to further strengthen our financial position while acquiring a sufficient volume of excess funds for growth investments going forward.

In terms of NET DER, we achieved further improvement, reducing it from 0.82 times in FYE 2019 to 0.75 times and setting a new best record.

Finally, in terms of ROE, we hit 17.0%, beating our initial target of around 16%. By maintaining such a high level, we have held the No. 1 spot among general trading companies for six years running while striking a balance between "enhancing shareholder returns," namely through higher dividends and share buybacks, and "enhancing shareholders' equity."

In addition to the methodical allocation of capital and enhancement of shareholder returns, we have once again earned praise from shareholders and investors regarding the stability and sustainability of our earnings in the non-resource sector, especially the consumer-related business, which is our strength. As a result, in FYE 2020 ITOCHU's share price set 22 record highs.

Question 2
Are there any changes to the financial and capital strategies under the "FYE 2021 Management Plan?"

Answer 2
There have been no fundamental changes.

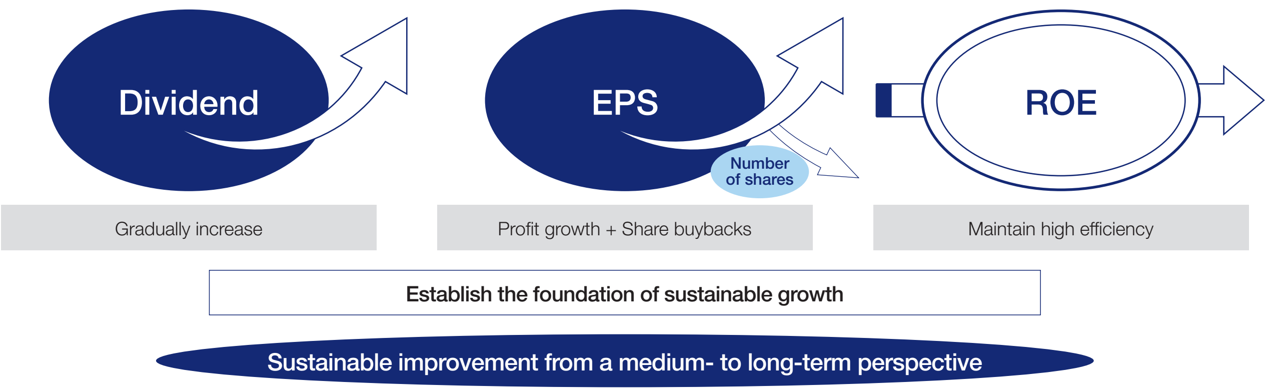
While the goals of "Brand-new Deal 2020" were achieved ahead of schedule, as mentioned previously, we have decided not to make any major changes under the single-year "FYE 2021 Management Plan" to the management policies in place. Neither have we made any changes to the "Policy to achieve high ROE while balancing three factors (shareholder returns, growth investments, and control of interest-bearing debt)" nor to the "Medium- to Long-Term Shareholder Returns Policy."

The latter policy clarifies the two aspects of our approach to shareholder returns in the medium to long term (a period of three to four years from the policy's announcement) concerning dividend payout ratio and share buybacks. It also sets forth our policy that focuses on EPS in order to achieve a medium- to long-term enhancement in corporate value. Basically, by working toward achieving profit growth, we aim to sustainably improve EPS and will therefore continue to search out growth investment opportunities. Meanwhile, we need to more seriously consider the financial impact of the extraordinary circumstances caused by the COVID-19 pandemic.

Regarding share buybacks, to live up to our commitments under this shareholder returns policy, we will continue to carry out the remaining "share buybacks of up to 35 million shares or ¥70.0 billion" as currently announced. However, we intend to continue to strike just the right balance to ensure that corporate management does not overemphasize either growth investments or shareholder returns. We seek to avoid becoming shackled to one side, which creates warped priorities.

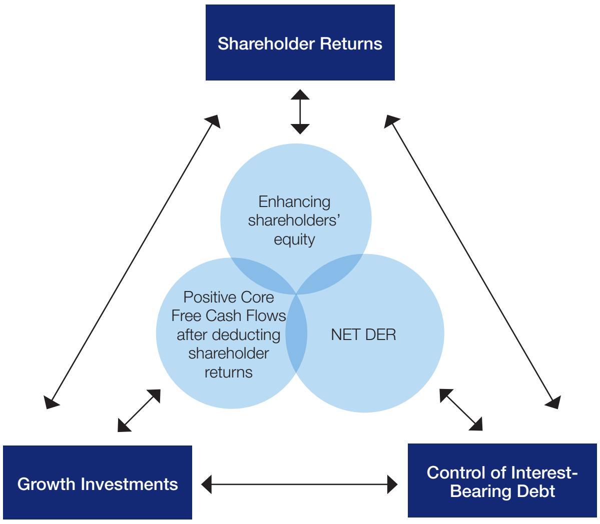
Furthermore, regarding the status of our funding

Concept for Enhancing Corporate Value



Medium- to Long-Term Shareholder Returns Policy	• Gradually increase dividend payout ratio Gradually increase dividend payout ratio, targeting up to approx. 30%. • More actively execute share buybacks Actively and continuously execute share buybacks, while considering the level of share price and cash flow availability.

Achieve High ROE While Balancing Three Factors



procurement, we have secured sufficient liquidity mainly through ample cash and deposits as well as commitment line agreements with financial institutions.

Question 3
Could you discuss ITOCHU's investment policy as the economy teeters on the brink of recession?

Answer 3
Our policy is to minimize risks and carefully select investments that are certain to contribute to future earnings.

Amid concerns over geopolitical risks such as the U.S.–China trade friction and Brexit, and an emerging global economic recession due to COVID-19, we need to minimize risks surrounding growth investments and carefully select investments that are certain to contribute to future earnings.

Since investing in CITIC in FYE 2016, we were able to strengthen our financial position by restraining investment and promoting asset replacement. This has generated significant excess investment capacity. Going forward, we aim to achieve further profit growth by searching out investment opportunities. At the same time, to ensure "balance sheet control for maintaining A ratings" as outlined under the FYE 2021 short-term management plan, we intend to pay full attention to "maintaining our financial discipline." In other words, I think it is crucial that we achieve a good balance and consider the broader picture when investing, such as staying away from investments at their peak in order to refrain from unnecessary accumulation of goodwill, actively replacing low-efficiency or peaked-out assets, and ensuring sufficient shareholders' equity as a risk buffer.

On the other hand, to date, the number of outstanding investment projects that would be suitable candidates for a merger or acquisition has been limited, and acquisition prices have remained high. As the economy begins to change direction, however, there is a high probability that there will be an increase in opportunities to invest in companies that are undervalued relative to their potential.

When investing, we, of course, consider candidates in line with our stringent investment criteria by fully leveraging the advantages of having the CFO as the chair of the Investment Consultative Committee. We steadily conduct highly strategic investments that will reinforce the fields of strength that ITOCHU has long accumulated, and will underpin continued profit growth going forward.

Question 4
Please tell us about the measures aimed at further enhancing corporate value.

Answer 4
I believe it is important that we steadily achieve our announced targets and promote reliable dialogue.

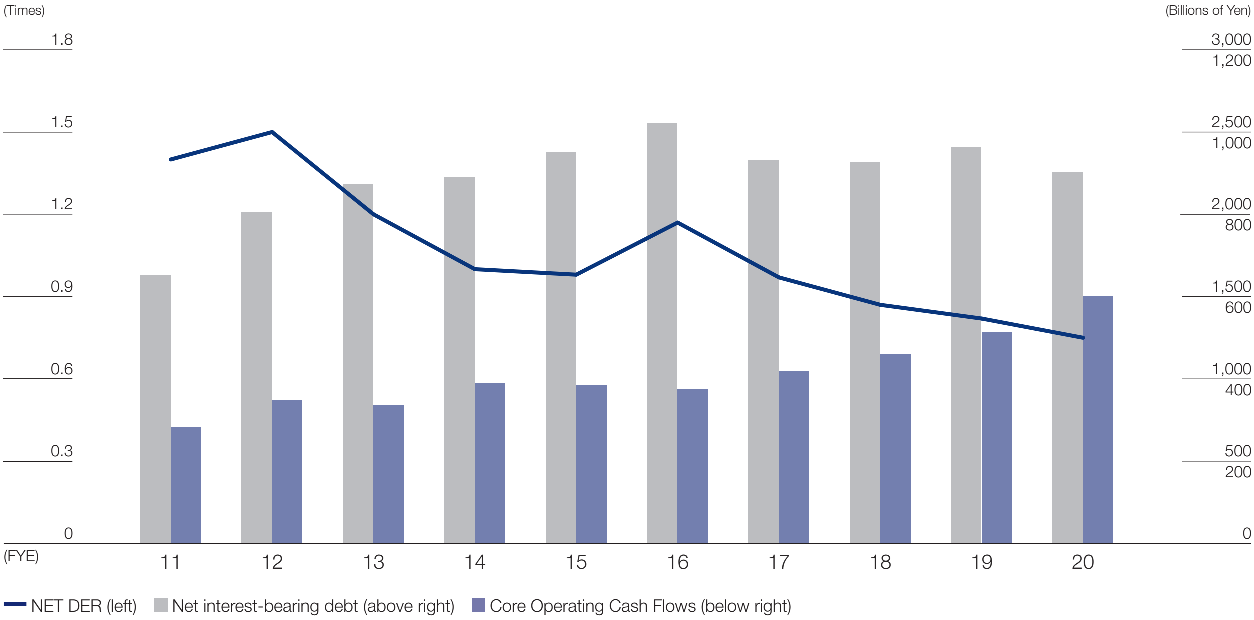
While forecasts predict a precipitous drop in global economic growth for 2020 as it is currently difficult to discern a way out of the COVID-19 pandemic, it is regrettable that the share price valuation of general trading companies remains low.

To further enhance ITOCHU's corporate value, we will continue to steadily achieve the targets we announced, such as carrying out the aforementioned shareholder returns policy, maintaining a high ROE, and improving EPS over the medium to long term. Amid the COVID-19 pandemic, which continues to defy forecasts for containment, I think it is of the utmost importance that we continue to "disclose information" to facilitate deeper understanding and better decision-making, especially for all our shareholders and investors. As one of the leading general trading companies, we intend to continue fostering highly reliable dialogue through appropriate and timely disclosure.
(➡ Page 48 The Positive Cycle of Dialogue and Enhancing Corporate Value)

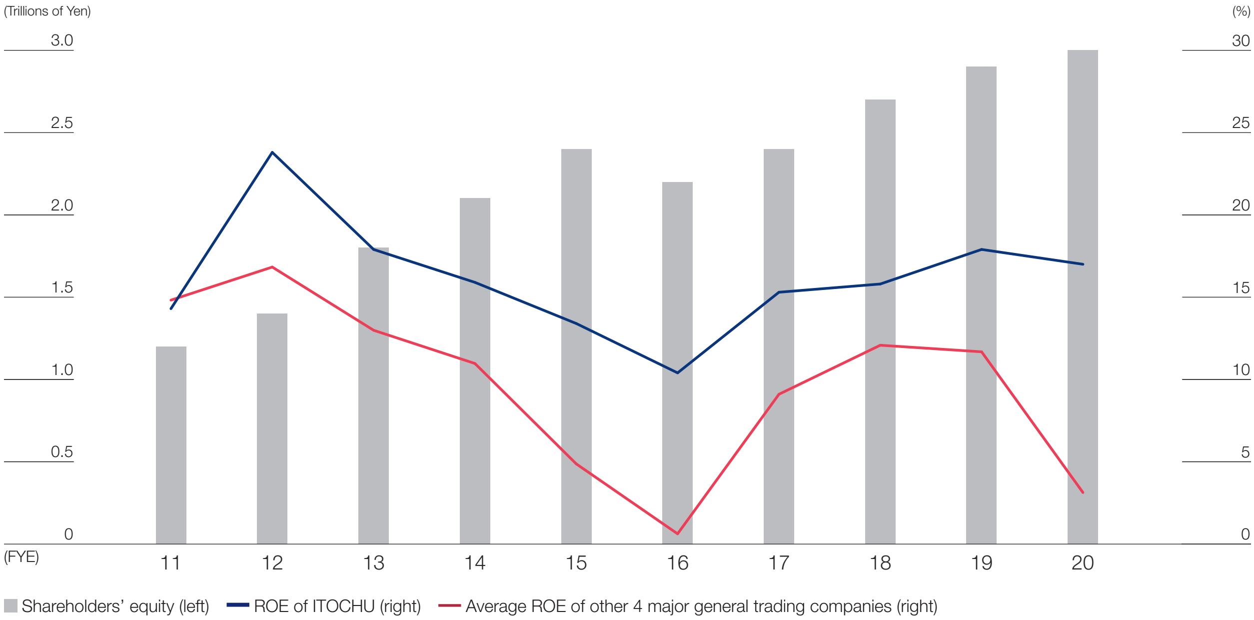
In addition, speaking in ESG terms, due to the impact of COVID-19, greater attention is being paid not only to environmental efforts but also to corporate actions toward society. Because ITOCHU is a "general trading company" that sets importance on trade, we will continue working hard to resolve social issues by, for instance, providing a wide range of products and services and creating new businesses. We will also continue promoting balanced initiatives that take into consideration "all the priorities" including the environment and society, and not just "a single expedient."

We will continue striving to sustainably enhance corporate value by diligently maintaining our unique, unshakable focus. This will also lead to a reduction in the cost of capital. Before concluding, I would like to mention that in June 2020 ITOCHU's share price and market capitalization attained the top spot in the general trading sector. I would like to express my deepest gratitude to all our shareholders and investors. Moving forward, I intend to continue pursuing management that fully lives up to the expectations of our diverse stakeholders.

Core Operating Cash Flows, Net Interest-Bearing Debt, and NET DER



ROE and Shareholders' Equity



Business Investment

Fundamental Approach

Along with strategic business alliances, business investment is an important means of creating new businesses. To actively promote strategic investments in areas of strength in a timely manner, we choose the optimal structure from a wide range of methods, such as establishing a wholly owned subsidiary, implementing joint investment with partners, and participating in management through M&As or converting to a consolidated subsidiary. In principle, we hold investments continuously. After making each investment, we work to maximize the investee's corporate value and to expand trading profit and dividends received by fully utilizing our Groupwide capabilities. Given such considerations as larger-scale investments in recent years, we are rigorously screening the appropriateness of the business plan and acquisition price. For existing investments, to increase investment earnings and to exit quickly from low-efficiency assets, we are further strengthening monitoring procedures, centered on instituting more rigorous exit conditions and thoroughly implementing periodic investment review.

Decision-Making Process for New Investments

We have established a multilayered decision-making process that achieves quick decision-making by giving a certain level of discretion to the Division Companies while striving to pursue investment return and curb investment risk.

HMC (Headquarters Management Committee) — Projects that exceed the Division Company President's authority must be approved by the HMC.

↑

Investment Consultative Committee* — If the project needs further consideration and screening in terms of profitability and strategy, the project is discussed at the Investment Consultative Committee prior to the HMC.

↑

Division Companies

- Division Company Presidents — Decision
- ↑
- Division Company Management Committee (DMC) — Deliberation
- ↑ …Opinion based on risk analysis
- Administrative organizations
- ↑
- Applicants (responsible departments)

Related administrative organizations express their opinions from various specialized perspectives regarding the application made by the applicants. Following careful discussion at the DMC, the Division Company President will make a final decision.

* Investment Consultative Committee: The CFO serves as the chair. Core members include the CAO, General Manager of the Corporate Planning & Administration Division, General Manager of the Legal Division, General Manager of the General Accounting Control Division, General Manager of the Finance Division, and General Manager of the Global Risk Management Division. Meetings are also attended by one full-time Audit & Supervisory Board Member.

Business Investment Process

Under "Brand-new Deal 2020," in addition to the conventional investment process, we have further strengthened the earnings base to make it more resilient to economic fluctuation by thoroughly verifying the appropriateness of business plans and focusing on the monitoring of subsubsidiaries. Despite the challenging business environment, in FYE 2020 profits / losses of Group companies reached a record high for the fourth consecutive year. Besides, amid the COVID-19 pandemic, the ratio of Group companies reporting profits remained high, at 88.6%.

Given the rapidly changing business environment, we recognize that "prevent" efforts will be an even higher priority in FYE 2021 than in the past. By conducting careful and close monitoring, which is our forte as a company having strengths in the non-resource sector, we will strive to accurately ascertain risks unique to individual businesses. If we anticipate impairment concerns that could result from lower share prices or decreased earnings, we will act preemptively.

Points for Making Investment Decisions

- Compliance with investment criteria
- Investment purpose and formulation of growth strategies
- Risk analysis
- Verification of internal control status
- Verification of business plan appropriateness
- Establishment of exit conditions
- ESG risk evaluation

Execution of Investment

Monitoring

- Implementing review one year after investment
- Implementing periodic review for all business investments annually
- Reevaluating policies from qualitative (strategic significance, etc.) and quantitative (scale of earnings, investment efficiency, etc.) perspectives
- Formulating improvement measures for subsidiaries and affiliates with issues in the areas of deficits or dividends received
- Following up throughout the year on policies and issue-improvement measures formulated in periodic review

Hold

Asset Replacement

- Promoting replacement of low-efficiency assets that meet exit criteria, as well as businesses that have lost strategic significance

Investment Criteria

- Investment efficiency based on Net Present Value (NPV)* calculated from investee's free cash flows
- Cash inflows into ITOCHU, such as dividends received and earnings from trade activities
- Scale of investee's earnings

* When calculating NPV, approximately 40 hurdle rates are used according to business type (by country).

Thoroughly Verifying Appropriateness of Business Plan

- Scrutinizing business plans before making a new investment (including sensitivity analysis)
- Concrete countermeasures for downward divergence from original plan (including establishment of exit measures)

Setting Exit Conditions

- Setting clear and feasible exit measures before making investment

* Clear exit conditions... Setting quantitative exit conditions that, in principle, call for exiting from the investment if conditions are met
* Feasible exit measures... Obtaining advance agreement with partners on exit conditions, etc.

ESG Risk Evaluation

➡ Page 69 ESG Risk Evaluation of New Business Investment Projects

- Evaluate in advance the impact on the environment, society, and other areas as well as the corporate governance status of the investment target using an ESG checklist composed of 33 categories
- Conduct multifaceted ESG assessments, including surveys made through on-site visits, to prevent environmental pollution and related problems among Group companies even following investment

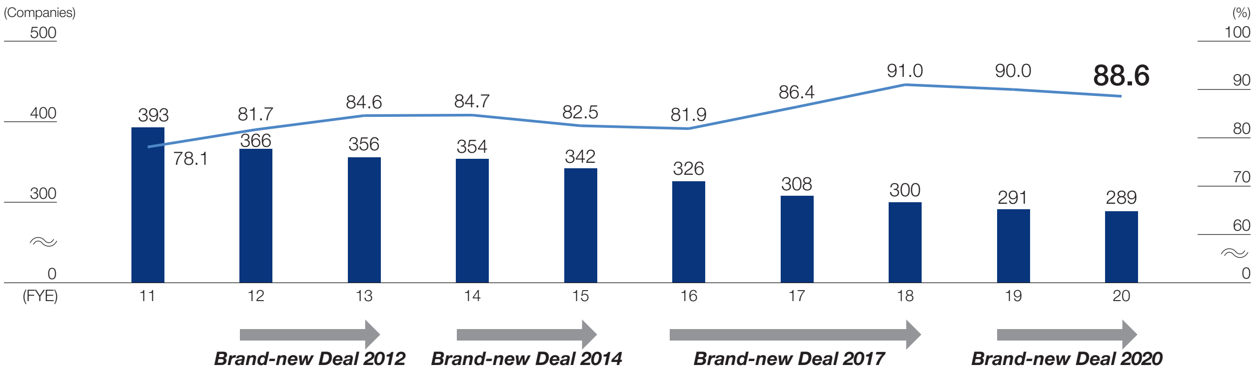
Exit Criteria

➡ Page 46 "Prevent"—Upgrading Business Investment Management

Covenant Management

- Continuously focus on our policy to maintain positive Core Free Cash Flows after deducting shareholder returns

Number of Consolidated Group Companies and Ratio of Group Companies Reporting Profits



■ Number of consolidated Group companies (left) — Ratio of Group companies reporting profits (right)

"Prevent"—Upgrading Business Investment Management

We are enhancing asset replacement and improving issues of subsidiaries and affiliates by monitoring returns against expectations at the time of investment. Moreover, even profitable investments should potentially be exited if returns are lower than the cost of capital.

Exit Criteria for Business Investment

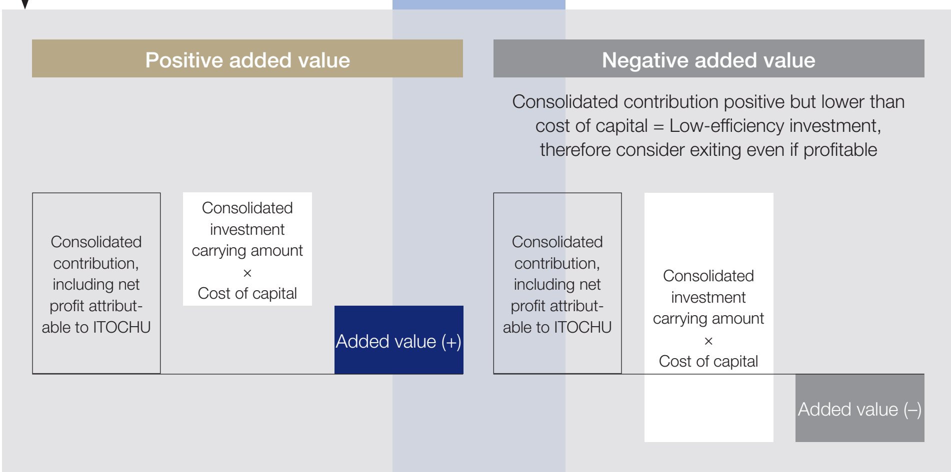
(1) Cumulative losses over three years

(2) Returns lower than expected at time of investment

(3) Cumulative losses in added value over three years [Consolidated contribution* – (Consolidated investment carrying amount x Cost of capital)]

* Consolidated contribution is the total of net profit and trade merit.

If either criteria is met:



Each investing division of the target company discusses on whether to continue or exit from the business.

Continue the business

Matters to be overcome:
(1) Improve consolidated returns
(2) Curtail increases in the consolidated investment carrying amount
(3) Prevent negative returns and losses

Apply to the HMC and deliberate whether or not to continue the business
⇒ Enhance asset replacement or improve issues

Implement monitoring from an ESG perspective based on the conditions of the business
➡ Page 69 Group Company Fact-Finding Investigations

EXIT

Ratio of Group companies reporting profits	
FYE 2011	FYE 2020
78.1%	**88.6%**

Profits of Group companies reporting profits	
FYE 2011	FYE 2020
¥226.7 billion	**¥471.1 billion**

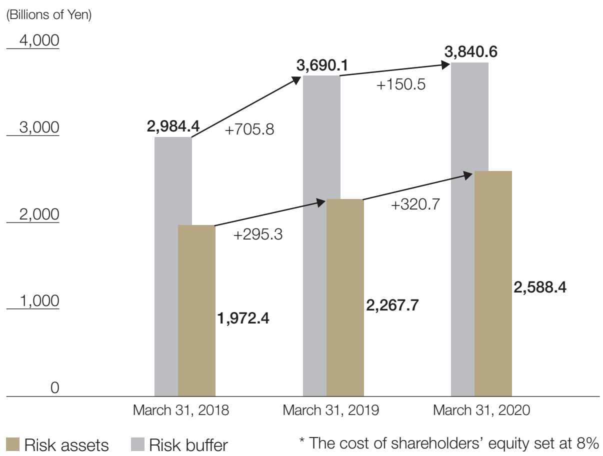
Risk Management

Risk Capital Management* and Management of Concentration Risk

Strict Management of Risk Assets

Our basic operational policy involves first calculating risk assets based on the maximum amount of possible future losses from all assets on the balance sheet including investments and all off-balance-sheet transactions. Second, we manage the amount of risk assets within the limits of our risk buffer (Total shareholders' equity + Non-controlling interests). As we promote investments that will lead to evolve existing business moving forward, we will work to maintain risk assets within the limits of our risk buffer, conduct strict risk management, and further strengthen our financial position.

Risk Assets and Risk Buffer



* The cost of shareholders' equity set at 8%

Significant Risks to Be Managed on a Consolidated Basis

The ITOCHU Group is exposed to various risks due to its wide range of business natures, such as multiple risks in markets, credit risks, and investment risks. These risks include unpredictable uncertainties and may have significant effects on the Group's future financial position and business performance.

We acknowledge risk management as a key management issue. Therefore, we have established our basic risk management policy and develop necessary risk management systems and methods. Specifically, we have defined the following 18 risks as major risks and are responding to them by building information management and monitoring systems at each department responsible for managing these risks on a consolidated basis. In addition, we periodically review the effectiveness of management systems through our internal committees.

With COVID-19 having a wide-ranging impact, we have used asterisks (*) to indicate those of the 18 risks indicated below that we believe have a relatively high likelihood of materializing.

Individual Risk Categories (Major Risks)

		Textile	Machinery	Metals & Minerals	Energy & Chemicals	Food	General Products & Realty	ICT & Financial Business	The 8th
1	Compliance Risks								
2	Legal Risks (Excluding Compliance Risks)								
3	Risks Associated with Trade Security Policy Management								
4	Risks Associated with Customs								
5	Country Risks*								
6	Commodity Price Risks (Specific Important Commodities)*								
7	Credit Risks*								
8	Investment Risks*								
9	Stock Price Risks*								
10	Foreign Exchange Rate Risks*								
11	Interest Rate Risks*								
12	Financing Risks								
13	Information System Risks								
14	Information Security Risks*								
15	Labor Management Risks*								
16	Human Resource Risks								
17	Risks Associated with the Appropriateness of Financial Reporting								
18	Risks Associated with Internal Control								

The Positive Cycle of Dialogue and Enhancing Corporate Value

ITOCHU emphasizes dialogue with its shareholders, investors, and other stakeholders from the perspective of achieving sustainable growth and enhancing corporate value over the medium to long term. After announcing "Brand-new Deal 2020," which failed to give due consideration to market expectations, the Company's share price plunged. Learning from this experience, we now strive to reflect input obtained in investor meetings, general meetings of shareholders, and one-on-one meetings into our management strategies and financial and capital policies. Through commitment-based management, we are striving to expand corporate value and sustain a positive cycle through effective engagement.

Examples of Feedback from Shareholders and Investors

Achievement of Short-Term Targets	• General trading companies' results are affected significantly by fluctuations in resource prices, so results are highly volatile. • The impact of COVID-19 on performance is unclear. As far as possible, I would like to see the Company disclose information and outline its directions.
Steppingstones to Medium- to Long-Term Value Creation	• The shareholder returns policy unveiled along with "Brand-new Deal 2020," the medium-term management plan, was vague and less attractive than expected. • The measures for enhancing corporate value described in "Brand-new Deal 2020" were abstract and difficult to understand. No KPIs were provided. • The "reinvention of business" policy was vague; no specific actions were evident. • I would like the Company to indicate specific growth strategies. In particular, no specific results are apparent through collaboration with CITIC and CP Group. • I find it unfortunate that no progress was made on the share buybacks announced in June 2019.
Initiatives and Systems Supporting Sustainable Growth	• I would like to hear the Company's thoughts on parent-subsidiary listing. • The Company's policies for the coal-related business should be announced. • Please outline initiatives on climate change. • I would like to see a progress on successor planning.

POSITIVE CYCLE

Dialogue

Reflection in management measures

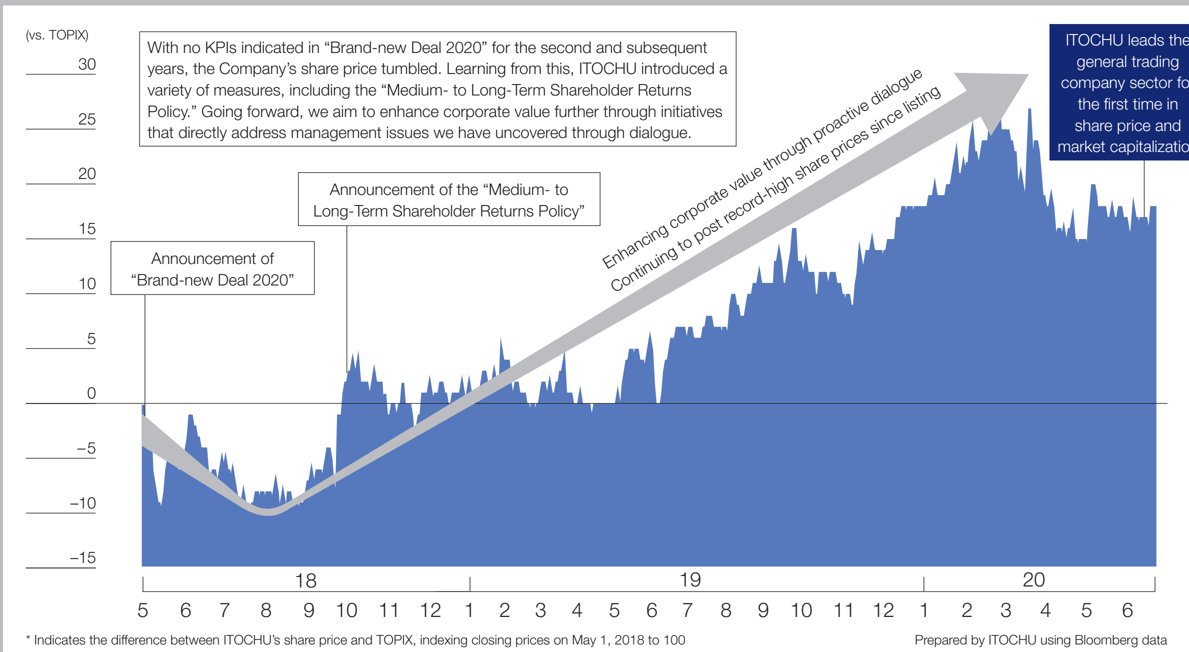
Examples of Measures Launched as a Result of Dialogue

Achievement of Short-Term Targets	• Built a steady earnings base centered on the non-resource sector and practiced "commitment-based management," achieving initially planned results for four consecutive years • Indicated quantitative targets in the FYE 2021 Management Plan (May 2020)
Steppingstones to Medium- to Long-Term Value Creation	• Announcement of the "Medium- to Long-Term Shareholder Returns Policy" (October 2018) • Presented management indices that consider the enhancement of corporate value (maintaining high ROE, sustainable EPS growth, positive Core Free Cash Flows after deducting shareholder returns) • Held a briefing session regarding the reinvention of business (investors meeting for operating segments) (June 2019) • Clarified and explained our thoughts on the "reinvention of business" in the annual report and through IR activities
Initiatives and Systems Supporting Sustainable Growth	• Announced ITOCHU's coal-related business policy (February 2019) • After conducting a TCFD scenario analysis, announced our endorsement of the TCFD (May 2019) • Announced "ITOCHU's Policy on the Governance of its Listed Subsidiaries, etc." (October 2019)

Issues the Company Recognizes It Needs to Address through Dialogue

Steppingstones to Medium- to Long-Term Value Creation	• Specific results of collaboration with CITIC and CP Group • Prompt execution of the share buybacks already announced, for 35 million shares or ¥70.0 billion (both upper limits)
Initiatives and Systems Supporting Sustainable Growth	• Explanation of specific deliberations by the Nominating Committee

ITOCHU's Share Price Performance vs. TOPIX after Announcing "Brand-new Deal 2020"*



* Indicates the difference between ITOCHU's share price and TOPIX, indexing closing prices on May 1, 2018 to 100

Prepared by ITOCHU using Bloomberg data

Sustainable increases in corporate value

Yasuhiro Narita

Managing Director
Equity Research Department
Nomura Securities Co., Ltd.

Joined Nomura Securities Co., Ltd. in 1998. After being in charge of the shipping, land transport, and housing equipment sectors, took charge of the trading company sector in 2006. In the current position since 2015.

Steadily Moving Forward—Can ITOCHU Break through to Reinvention?

The general trading company business model is changing from a trading-oriented model to one based on business investment, and in recent years the Company has turned toward a strategy of augmenting business value by contributing actively to investees' businesses. With peer companies struggling with low levels of profitability due to large investments and across-the-board investments, ITOCHU is focusing on consumer-related businesses—an area of expertise. The Company also focuses carefully on the profitability of investees via thorough cost management, therefore realizes steady profit growth and high profitability. While advances in information technology present general trading companies with good opportunities to create new businesses, such advances also pose the risk of making existing businesses obsolete. Reinventing its businesses in response to consumer needs and using its investment in CITIC as a lever to access China's massive internal demand pose issues, as well as growth opportunities. We will be monitoring the situation.

Akira Morimoto

Senior Analyst
Equity Research
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In 2007, joined Morgan Stanley Securities Co., Ltd. (now Morgan Stanly MUFG Securities Co., Ltd.). After being assigned to the steel sector for approximately five years, in charge of the trading company sector since 2012. In the current position since 2013.

Already Means Not Yet

In its dialogue with the stock market, I give the Company high marks for the way top management took this input seriously. However, ITOCHU still needs to surmount a number of issues. In the short term, it needs to complete share buybacks. In the medium to long term, it needs to clarify its growth strategy, including the creation of synergies with CITIC, as well as further moves on climate change. Notably, low cash returns from CITIC are one reason the stock market is discounting ITOCHU's shares. At present, we believe ITOCHU can maintain high ROE in FYE 2025, but I would like to see management set its sights even higher, at some "market expectation +." If it can present a growth-oriented solution, ITOCHU may be able to change the way its shares are valued, stepping outside the framework of a general trading company.