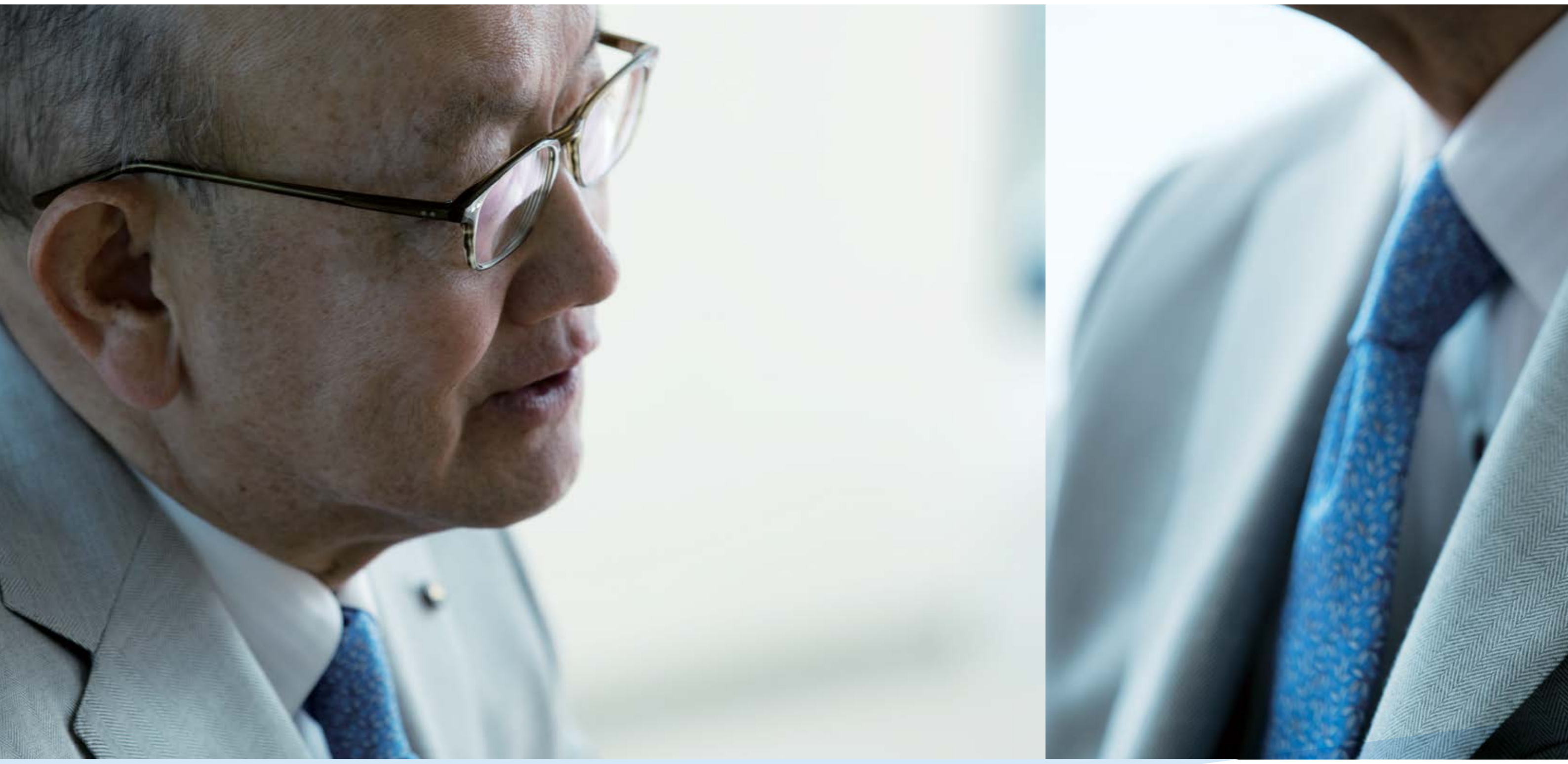


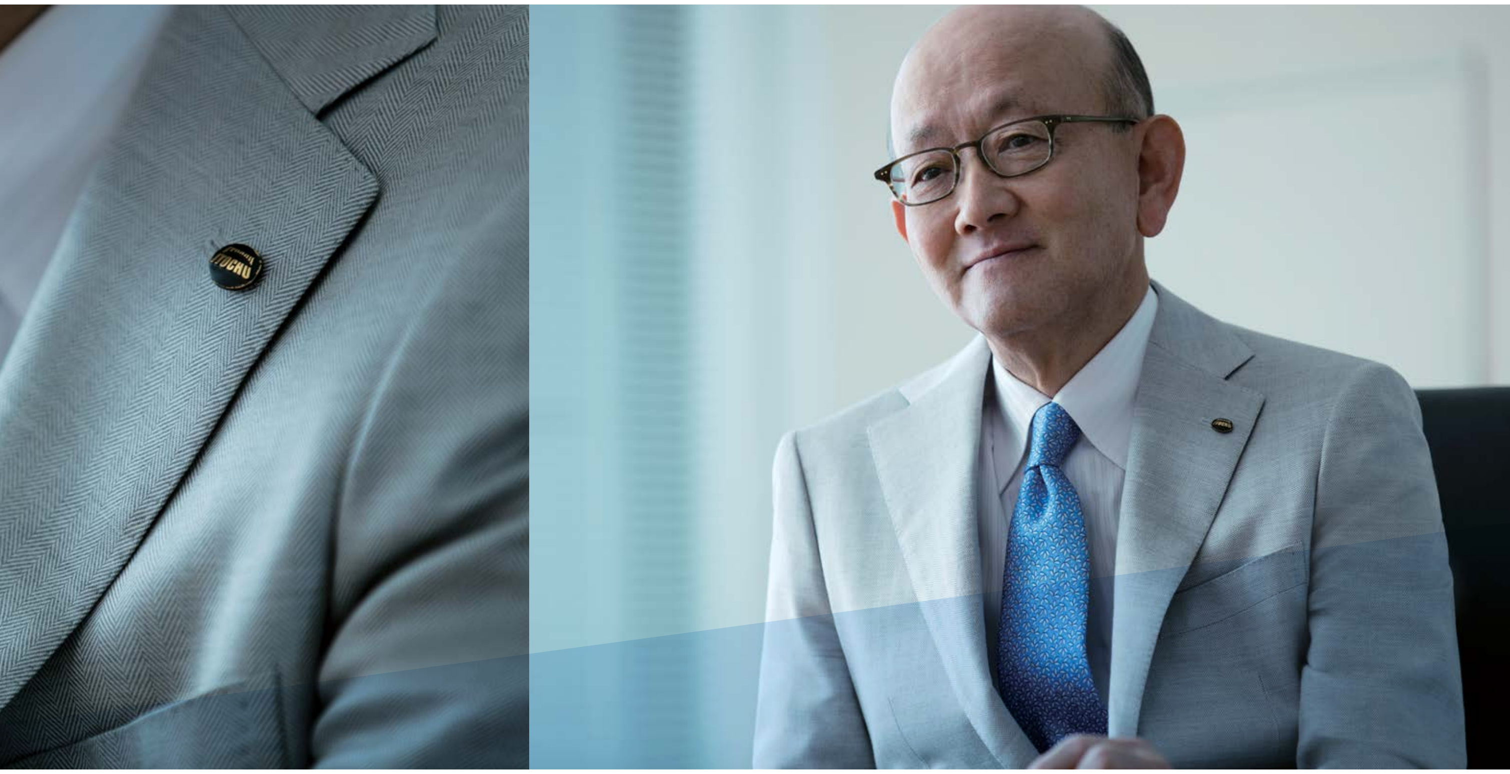
ITOCHU is forging ahead, marshalling the forces of the Group to build an earnings base to generate ¥400.0 billion in consolidated net profit and leap forward to the future beyond.

Net profit attributable to ITOCHU ("consolidated net profit") reached a record high in FYE 2017, marking a new point in our history. In FYE 2018, we will keep walking the talk by solidly achieving our consolidated net profit target of ¥400.0 billion. To meet this goal, we will thoroughly reapply the "earn, cut, prevent" principles that are the hallmark of our business. Beyond that vista, we intend to increase comprehensive corporate value, leading in a new era for *sogo shosha* (general trading companies).

(⇨ Page 28 Milestones to Be Passed in Increasing Corporate Value)

President & Chief Executive Officer

Masahiro Okafuji



Making Steady Progress by Virtue of Being Awkward

I recognize that I am particularly awkward. There are some people in this world who seem to be skillful at everything. I am not one of those. I struggle to speak English, and I don't golf very well. I wouldn't say I'm any good at giving speeches. Because I know I'm poor at speech-making unless I rehearse, I often start preparing as much as half a year ahead of time. During that time, I repeat my speech over and over.

However, I believe this awkwardness is my strength. Thanks to my awkwardness, I have been able to continue doggedly at tasks. I only attempt what is realistic and concentrate on one thing while thinking carefully. The reason I encourage young employees first and foremost to become professionals in their area of work is because I am convinced that continuing indefatigably in a fixed direction is the way to develop true strength. When you want to climb a mountain, you take a long-term view. You set out along the path and move steadily a step at a time toward your goal.

I am convinced that being awkward and a worrier is actually my strength.

The approach to achieving targets for the Company is similar. I carefully examine the various possibilities, and start each fiscal year with a certain degree of confidence that we will be able to reach our goals. Underlying my confidence is a sense of prudence bordering on worry. I even worry during the decision-making process. When I have an idea, I work to clear away concerns by consulting with many people. For me, decision-making is not a sudden process. Rather, it is a gradual one in which I have to make repeated stops for reconsideration.

For these reasons, I consider myself the polar opposite of managers who are "strong" or think "out of the box." I have never done anything particularly special. I just always apply the business sense I have cultivated on the front lines, and when I know without a doubt that something is right, I move steadily ahead to make it happen. I am convinced that ITOCHU is a good place for people who recognize themselves as awkward to work. As I have done, ITOCHU has put one foot in front of the other and moved ahead steadfastly to do what it knows needs to be done.

ITOCHU as a Merchant

Many corporate image surveys give ITOCHU high marks for its human resources, employee training systems, and working environment. We score top overall in "having a large pool of talented personnel." I would like to remind employees, though, that this does not mean we are an elite group.

At one point when I was working in the Textile Company, I went to Kushiro, in Hokkaido. One ITOCHU employee there had been deep-sea fishing in the freezing cold for three months. I saw him contributing to the Company by going about this exhausting manual labor. The strong impression of his spirit of dedication is still fresh in my mind. Today, ITOCHU has many people working in all corners of the world, some in grueling living environments. ITOCHU has traditionally excelled in the consumer-related sector. The characteristics of this business are altogether different from the resource sector, where you invest hundreds of billions of yen and aim for returns of tens of billions of yen. In the textile business, for example, inventories are managed by measuring cloth down to the centimeter. Costs are calculated in units of several yen, and negotiations involve repeated haggling with customers over increments of ¥10 or ¥100. This is a business where quiet dedication to mundane tasks reaps earnings. While a *sogo shosha* might at first glance appear flashy, in reality it is a matter of soldiering along humbly. As a merchant we keep the customer perspective in mind every day, such as studying needs and finding what will make customers happy. High-handed attitudes have no place in business.

I want our people to work hard while pursuing efficiency and performance.

Being a merchant means earning your daily bread by visiting customers on a daily basis. The textile and foodstuffs businesses, in particular, involve an extremely large number of customers. Reforms were needed in order to keep ourselves on track and keep the customer viewpoint firmly in mind in keeping with our role as merchants. These reforms included reducing the frequency and duration of important meetings and decreasing the number of pages in internal application documents. We have also introduced a morning-focused working system and the "110 movement." (The idea here is that after-work drinking goes to only one session and needs to end by 10:00 p.m.)

We were an early proponent of the morning-focused working system, which has caused a stir as being different from the working style more common in Japanese society. Nowadays, workstyle reforms and health and productivity management have evolved into major social trends. We are highly regarded for our efforts toward health and productivity management, and have been named a "Health & Productivity Stock," a joint designation by Japan's Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. I would like to emphasize the point that ITOCHU has positioned human resource measures as a management strategy from the very beginning. Our morning-focused working system is not simply aimed at shortening working hours. To win out in competition among the major *sogo shosha* even though we have the fewest number of employees on a non-consolidated basis, our labor productivity must be consistently high. I want our employees to work hard, pursuing efficient working styles and improving their capabilities within their available time. At the same time, though, we take care not to unilaterally impose the Company's will on our people by setting rules throughout the organization. Rather, management aims to ensure an employee focus. In our morning-focused working system, for example, we pay employees a 50% overtime allowance for hours worked prior to 8:00 a.m. We take employees' health into account by preparing breakfast for them; we provide solid incentives.

Attesting to the clear success of these ongoing reforms, even though we have fewer people on a non-consolidated basis than other major *sogo shosha*, we show strong profit as one of the leading *sogo shosha*.
(⇨ Page 46 Human Resources Strategy)

Achieving Record-High Profits by Focusing Rigorously on Business Fundaments

Because I see the front lines as the foundation of our business, I make frequent visits to our front lines and operating companies. One of the many companies I visited in FYE 2017 was Sanipak Company Of Japan, Ltd., which makes polyethylene trash bags, among other items. I saw that Sanipak works to cut costs in a number of ways. For example, employees take the stairs rather than using the elevators, and in summer they open all the windows and turn off the air conditioners. While making this diligent effort to curtail costs, Sanipak provided customers with quality, low-priced

Visiting operating companies

products, and in FYE 2017 Sanipak posted its highest earnings ever. In fact, Sanipak was not the only company to achieve this feat; 73 out of our 268 operating companies posted record-high profits in FYE 2017. To date, we have worked to exit from operating companies that were operating at a loss. We now rank at the top level among *sogo shosha* for our share of Group companies reporting profits, at 86.4%. During the year, both profit (loss) from operating companies and profits of Group companies reporting profits were our highest so far. We have few companies generating in excess of tens of billions of yen. Most, in fact, are at the scale of several billion yen. I think the ability to cultivate companies of this size is one of our greatest strengths.

Cultivating companies that generate several billion yen is one of our strengths, although we have few operating companies delivering tens of billions of yen.

We positioned FYE 2017, the second year of the "Brand-new Deal 2017," as the year for "engaging all employees to lead a new era for the *sogo shosha*." While continuing to sharpen our focus on lean management, the entire ITOCHU Group, including operating companies, made a thorough effort to apply the fundamental business principles of "earn, cut, prevent." As a result, consolidated net profit rose to the highest level ever, growing 47% year on year, to ¥352.2 billion. Base profits, which exclude one-time factors, also reached a new high of around ¥370.0 billion. Core operating cash flows reached a historical high of approximately ¥420.0 billion, and core free cash flows were a net cash inflow of ¥300.0 billion. In line with strong cash flows, we were able to generate record-level profits, which were clearly effective at steadily reinforcing our ability to increase base profits. NET DER, which expresses net interest-bearing debt divided by shareholders' equity, was our lowest so far, at 0.97 times. This figure surpassed our target of recovering NET DER to 1.0 time or less. Thus of our two basic policies, during FYE 2017 we made clear progress on the first, of "strengthening our financial position." Our target ROE was 13% or more. We achieved a level significantly higher than other major *sogo shosha*, at 15.3%.
(⇨ Page 30 CFO Interview)

In FYE 2012, we secured a position among the top three *sogo shosha* in terms of consolidated net profit by strengthening profitability in the consumer-related sector, where we are the industry leader. After cementing this position, we set our sights on the non-resource sector, in FYE 2015 succeeding in our aim to be the No. 1 general trading company in the non-resource sector. Supported by an earnings structure that is relatively unaffected by resource prices, in FYE 2016 we became the top *sogo shosha*. I have already outlined our results for FYE 2017, when we set our sights on "engaging all employees to lead a new era for the *sogo shosha*." I am proud of the way the entire ITOCHU Group has succeeded by concentrating on, and then meeting the targets one by one. I thank all our employees and operating companies for their diligence in achieving these objectives.

Achieving Our Target of "Building Solid Earnings Base to Generate ¥400.0 Billion in Consolidated Net Profit"

In the past two years of "Brand-new Deal 2017," our medium-term management plan, we have cleared away concerns about the future, made management leaner, and built a steady earnings base that is not dependent on the resource sector, which fluctuates wildly. We have made sufficient preparations and worked to hone our businesses. Now that we have put these solid foundations in place, we are ready to achieve the second of our basic policies, "building solid earnings base to generate ¥400.0 billion." Our target for FYE 2018, the final year of the medium-term management plan, is consolidated net profit of ¥400.0 billion. (⇨ Page 26 Medium-Term Management Plan) Demonstrating that we are confident of our ability to meet this target, in addition to the share buybacks we have already made, we have raised our minimum dividend guarantee of ¥64 per share, on the assumption that we will achieve consolidated net profit of ¥400.0 billion, which represents a ¥9 year-on-year increase and our highest dividend level ever. In this manner, we aim to share our profit growth with our shareholders. (⇨ Page 32 Shareholder Value)

To meet our targets, we will rededicate ourselves to the principles of "earn, cut, prevent." In my mind, these principles describe a triangle, with "cut" and "prevent" forming the base. Strengthening these two aspects ensures lean management. As a result, we can be more proactive, shoring up our "earn" efforts. If the "cut" principle at the base of the triangle is neglected, waste will soon accumulate. The process of "cutting" is a never-ending aspect of management that involves exiting unprofitable companies, simplifying and restructuring organizations, redeploying excess personnel, and taking a thorough approach to trimming management costs.

Looking back, some aspects of FYE 2017 warrant further reflection. Some projects accumulated several billion yen in losses only a year or two after our initial investment. In FYE 2018, we will focus specifically on the "prevent" principle to keep such unexpected losses from occurring. In the past, *sogo shosha*—ourselves included—have tended to set "investment budgets" and keep on making investments until reaching the budget's upper limit. Because the budget is fixed, the tendency is to focus on projects that can generate short-term profits. In the process, we tend to lose sight of our medium- to long-term strategies, negotiate insufficiently with counterparties, and buy at prices that are too high. It is no surprise that such investments often do not go well. It goes without saying that we need to continue spreading seeds about if we intend to grow, and we will move aggressively forward with investments when we are convinced of their merits. We need to do away with the investment budget, therefore, and refrain from short-sighted investments, in other words, spending money to buy profit. Rather, we concentrate only on those projects that will enhance corporate value over the medium to long term. Finding profitable new investments is no easy task, so rather than concentrating on this aspect, we should focus on increasing our stakes in existing businesses whose management conditions we understand. "Honing" these investments by improving profitability and cost reductions should be a better bet than participating in competitive tender offers. In FYE 2018, I would like us to prioritize this style of investment.

We have set the highest level of dividends ever, to share our profit growth with shareholders.

Building Business from a Long-Term Perspective

Sogo shosha are different from manufacturers, which can leverage new technologies to take a market lead. Our business is more like the flow of water, adjusting to fluctuating market conditions. Even though we do not know whether the shape of the vessel holding the water will be round or square a year from now, as I always say, my principal aim is to reach the budget targets each fiscal year. In business, keeping the short- and long-term perspectives both in mind is vital. FamilyMart UNY Holdings Co., Ltd., is a good example of a business that we have continued to cultivate from a medium- to long-term perspective. We have worked to raise corporate value in an ITOCHU-specific way.

We hold more than one-third of FamilyMart UNY Holdings' shares, but we do not intend to convert it to a subsidiary. The retail business requires small improvements on a daily basis and expertise in setting up selling areas and developing products. These are difficult tasks for us as a general trading company whose forte lies in processes such as making management strategies and building value chains. Rather than controlling management by paying large sums of money, I consider leaving retail management up to the professionals in that area to be a more rational approach. We will keep a close eye on management directions, and at the same time, we will seek to build corporate value by generating multifaceted synergies linked to the value chain.

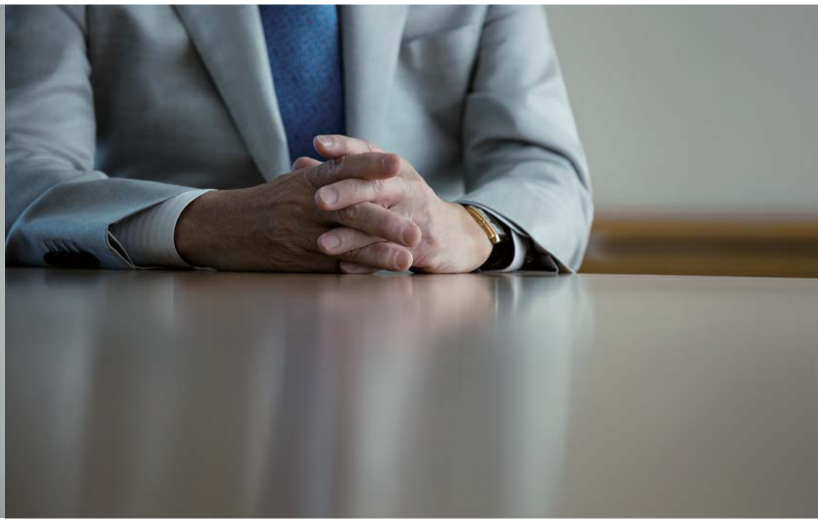
I think the convenience store business presents noteworthy potential for improving peripheral businesses, which currently flow out of the Group. We should be able to take advantage of our Group functions and strengthen alliances in various areas, such as the financial business, IT to reduce labor requirements, e-commerce businesses, and improving logistics efficiencies. The general merchandise store business also presents major opportunities for improvement, so we will work to brush up the business so that the business will not put a major strain on management in the future. Throughout the process, we will engage closely in dialogue, settling down and pursuing improvements together.

(⇨ Page 38 The Merchants Creating Synergies Indefinitely)

Overseas, collaborations with the CITIC Group and the CP Group are major pillars of business. CITIC has set the target of increasing the portion of profit generated by its non-financial business from around 20% to 40%. Careful judgment of the appropriate large-scale investment will be necessary in changing a revenue structure of a company that generates more than ¥800.0 billion in consolidated net profit. Those large-scale investments need to take some time, and we plan to take a long-term perspective in cultivating this investment. I am convinced that the time will come when our stakeholders can be certain that holding CITIC's shares has been meaningful.

In FYE 2018, we plan to make a major leap forward in our long-term strategy by collaborating in the medical and healthcare fields, which the CITIC Group positions as core businesses in its non-financial segment. We will contribute to adding value to hospitals through streamlined management by consolidating businesses peripheral to hospitals and introducing leading-edge Japanese medical technologies. Starting out with one hospital in the CITIC Group, we will create a business model and roll out the business across China, with the ultimate aim of expanding throughout Asia. The Chinese government is pursuing its Healthy China 2030 Blueprint, and this business is in line with the country's national strategy. As the industry is regulated, the barriers to entry for foreign capital are extremely high. However, due to our partnership with the CITIC Group, which is a state-owned company, this collaboration was realized.

In business, I think it is important to maintain both short- and long-term perspectives.



We are also considering participation in the area of oil and gas development. The resource businesses of *sogo shosha*, involving spot transactions that require them to trade at their own risk, are becoming mainstream. However, by cooperating with the CITIC Group, we can expect to enter into long-term contacts with state-owned companies such as electric power companies, reducing our investment risk in the resource sector. We will carefully evaluate the content and timing of such assets, taking into account the possibility that our stake in production volumes could decrease.

Only thinking of our own benefit is no way to sustain business over the long term.

The Key to Sustaining Business over the Long Term

I would like to mention an approach that I believe is an important part of nurturing business over a long period of time.

When I was working in the textile business, I took the brand businesses built by the general trading companies that hail from Japan's large *zaibatsu* industrial groups as a point of reference. Before long, we began to take the lead, and eventually ITOCHU became known for its brand business. I recall the feeling that I pursued a business model of purchasing brand rights, but at first I had nobody I could consult with on the business, as there was no precedent to the business approach. Around that time, one of my customers was in trouble with a large accumulation of inventory. Being in the practice of buying brand rights, ITOCHU would negotiate contracts with customers each year, determining purchase volumes and royalties in advance. We therefore had no inventory risk. Because I was concerned about the significant burden this customer was experiencing, however, I made the rounds of ITOCHU's branches, offices, and business partners throughout Japan asking them for their sales cooperation. Eventually, the customer's inventory was all sold. I think of this experience as a good example of our *sampo yoshi* management philosophy, which means dividing profits among ourselves (the seller), our customers (the buyers), and the ultimate consumers who could get quality products (society). Even without making it a specific point to do so, if you want to do business sustainably, this *sampo yoshi* approach, rather than only thinking of our own benefit, is the natural stance. I hold it as an important cornerstone of management, and brought in the subtitle of our FYE 2018 plan for the final year of "Brand-new Deal 2017."

Infinite Missions, Transcending Growth

Following Japan's period of high economic growth until the late 1990s, *sogo shosha* have engaged in fierce competition for sales amount. A rise in low-margin transactions has drawn down profitability across the board, sowing a growing sense of distrust toward *sogo shosha* management. The times have changed somewhat, but I think the competition for profits remains excessive even today, which has encouraged me to engage in some introspection. Companies are destined to work toward increased earnings. ITOCHU is moving within range of consolidated net profit of ¥400.0 billion, which is an appropriate scale for "an era of two leading general trading companies." Looking beyond this goal, however, I believe *sogo shosha* will move toward a new phase when the focus will be on "the quality of management" and "the quality of profits," rather than just on the scale of consolidated net profit.

As is evident with the Sustainable Development Goals (SDGs) adopted by the United Nations, we are entering an era in which companies are being called on to grow in a sustainable manner, in step with society. (⇨ Page 50 Sustainability) This thinking is exactly in line with the *sampo yoshi* philosophy that ITOCHU has embraced for years. (⇨ Page 44 Message from the CAO) While putting this philosophy into action in our corporate management, in order to clearly position sustainable growth as the Company's mission, we have set the phrase "Infinite Missions Transcending Growth" to emphasize our strong commitment to sustainable increases—not necessarily quantitatively—in overall corporate value. I am resolved for ITOCHU to take the industry lead as a company appreciated by all stakeholders—business partners, shareholders, and society alike—and that surpasses other companies in productivity per employee while our employees have job satisfaction, fulfilling lives, and work in an efficient, healthy manner.

We are currently discussing within the Company how ITOCHU should become. We are also listening to a variety of input from stakeholders. The answers to this will be reflected in our next medium-term management plan. (⇨ Page 29 Message from the CSO / CIO)

Securing a Foothold, Moving Forward

In FYE 2017, ITOCHU took further steps to separate management execution and supervision. We increased the number of outside directors to more than one-third of Board members by reducing the overall number of directors and increasing the number of outside directors. Rather than adjusting our structure to just match the trends around us, our structure is to reflect input from the front lines to put the principle of "earn" into management. (⇨ Page 54 Corporate Governance) In addition to this corporate governance reform, we are making progress on reinforcing our financial position, building a solid platform for earnings, and clarifying our medium- to long-term strategy. At present, ITOCHU has no blind spots. The only risk we must avoid is a sense of conceit among our employees. Having become the leading general trading company must not cause us to swell with pride. Such an attitude could lose us society's trust and damage our corporate value as a result. We must bear in mind the efforts of our predecessors and the Company's long history of taking on challenges and guard ourselves against conceit.

ITOCHU has no blind spots, but we need to avoid a sense of conceit among our employees.

To walk the talk, the ITOCHU Group will continue to move forward vigorously in FYE 2018. We don't need to do anything special. As in the past, we need to simply build on the strong business foundations we have put in place, securing a foothold and moving forward one step at a time.