To Our Shareholders, Investors, and Other Stakeholders

President & Chief Executive Officer

Masahiro Okafuji

ITOCHU has now demonstrated its true strength, and we will continue working to capture and fortify a position as the No. 1 trading company in the non-resource sector.

In fiscal 2013, ITOCHU demonstrated its true strength—its earning power in the non-resource sector. As a result, we achieved our initial targets and reaffirmed our position among the top three general trading companies. Under our new medium-term management plan, "Brand-new Deal 2014," we will reinforce our position as the No. 1 trading company in the non-resource sector so that we can continue to cement our position as a member of the top three.

"Brand-new Deal 2012": Turning Words into Accomplishments

At the beginning of fiscal 2013, I said that ITOCHU would turn its words into accomplishments, and I talked about demonstrating the "true strength" that we have accumulated. I am pleased to report the results as I promised.

In the first year after I became President & CEO in April 2010, we implemented a variety of internal reforms to "strengthen our front-line capabilities," such as reducing the frequency of in-house meetings and the volume of materials used in these meetings, enhancing the personnel and compensation systems, and reorganizing the administrative organizations. We took steps to lay the foundation for "proactively seeking new opportunities" and "expanding our scale of operations," and then launched "Brand-new Deal 2012" (fiscal 2012 to fiscal 2013).

In fiscal 2012, the first year of the plan, we substantially surpassed ITOCHU's previous record for profits, setting a new record high with net income attributable to ITOCHU of ¥300.5 billion. In fiscal 2013, the second year of the plan, we continued to aim for a high level of net income of ¥280.0 billion, even though we anticipated a year-on-year decline in profit, primarily due to concerns about declines in the prices of metals and mineral resources. Subsequently, we confronted some adverse circumstances, such as the recording of an impairment loss on oil and gas exploration and production-related operations in the United States due to sluggish natural gas prices and other factors. Nonetheless, we achieved our initial plan, with net income attributable to ITOCHU of ¥280.3 billion.

In the resource sector, we recorded profits of ¥75.5 billion. At this level, the resource sector remains a major pillar of ITOCHU's profit structure. However, we were unable to avoid a major year-on-year decline of ¥73.8 billion. Our efforts to cover this decline and achieve our plan were supported by our "true strength" and the companywide commitment to the concepts of "Earn, Cut, Prevent."

Fiscal 2013

Net income attributable to ITOCHU

Initial plan	Results
¥280.0 billion	¥280.3 billion

Cash dividends per share

Initial plan	Results
¥40.00	¥40.00

Demonstrating Our True Strength that Shows Our True Value

Our earning power in the non-resource sector is our "true strength." Through various preparations during the period of "Brand-new Deal 2012," we were able to further enhance this strength, which led to strong results in fiscal 2013. In the non-resource sector, overall, we were able to generate a year-on-year increase of ¥31.7 billion in net income attributable to ITOCHU, to achieve record-high profits of ¥191.3 billion. In this way, we were able to cover the decline in the resource sector.

Record-high profits were recorded in all of our consumer-related segments—Textile, Food, and ICT, General Products & Realty. As a result, in the consumer-related sector we achieved the highest net income attributable to the company's shareholders of any general trading company for the second year in a row. The Machinery Company successfully implemented substantial asset replacement and posted record-high profits as well. I believe that these results demonstrate how we have made steady progress in strengthening and enhancing our ability to "Earn."

Also worthy of mention is that our rigorous implementation of "Cut" and "Prevent" supported our achievement of the plan. To "Cut," we made unflagging efforts to improve our cost structure, and rigorously implemented lean management. To "Prevent," which involves preventing losses, we took steps to exit from investments with limited strategic importance and unprofitable affiliates. As a result, the share of Group companies reporting profits in fiscal 2013 was a record high at 84.6%. Despite these successes, there were areas in which we did not achieve our plan and carried over tasks into the new medium-term management plan. For example, gross trading profit declined due to the fall in commodity prices, and we did not reach our target of a 10% reduction from fiscal 2011 in the ratio of SG&A expenses to gross trading profit.

Enhancing Our Strengths, Improving Our Weak Points in the Non-Resource Sector

Under "Brand-new Deal 2012," in accordance with a basic policy of "proactively seeking new opportunities," we invested approximately ¥970.0 billion on a gross basis, substantially exceeding approximately ¥560.0 billion that was invested under the previous plan. In this way, we made investments that contributed to the expansion of our earnings platform. In fiscal 2012, about 60% of our investment was allocated to large-scale projects in the resource sector. Consequently, the share of total assets accounted for by the resource sector increased from approximately 20% at the beginning of the plan to approximately 30%, and in fiscal 2013 the non-resource sector accounted for about 70% of our investment. As a result, during "Brand-new Deal 2012," our total investments in both the resource and non-resource sectors were approximately ¥485.0 billion each on a gross basis. In this way, we were able to establish a well-balanced portfolio, with a non-resource:resource ratio of 7:3 in both total assets and net income attributable to ITOCHU.

In the consumer-related sector, we invested in superior projects while leveraging a favorable cycle in which our presence and results make it easier for us to capture opportunities for new projects. In fiscal 2012, we acquired the Kwik-Fit Group, the largest independent retail tyre chain business in the United Kingdom. The foundation for this acquisition was the success of Stapleton's (Tyre Services) Ltd., which reinforced its position as the largest tyre distributor in the United Kingdom through the introduction of distinctive management methods, such as increasing added value in service operations. The acquisition of the Kwik-Fit Group helped us to establish a dominant position in the U.K. tyre industry and to further strengthen our value chain, which now extends from natural rubber processing through to tyre distribution and retail operations. Our equity investment in Shandong Ruyi Science & Technology Group Co., Ltd., a major textile-related corporate group in China, was aimed at strengthening our downstream operations. This investment was made possible in part by ITOCHU's No. 1 position in the brand business. The same is true for METSA FIBRE Oy, one of the world's leading softwood pulp makers. Based in Finland, METSA FIBRE became an equity-method affiliate in fiscal 2013. This project was made possible by our position as a leading pulp trader. We handle 2.15 million tons of pulp a year (fiscal 2012) and have a sales network stretching around the world, centered on hardwood pulp from CENIBRA, of Brazil.

In fiscal 2011, we revised our investment criteria so that the hurdle rate reflects the characteristics of each business, rather than being the same for all projects. Consequently, we broadened our range of investment options. In April 2012, we implemented organizational reforms to facilitate more precise management and flexible asset replacement. The results of these initiatives were especially notable in Machinery. We not only accumulated superior assets but also expanded our platform for stable earnings in new business areas. For example, our investment in Toyo Advanced Technologies Co., Ltd., marked the first time that ITOCHU had acquired a majority stake in a manufacturer of machine tools and automobile parts. Also, our investment in Bristol Water, of the United Kingdom, marked ITOCHU's entry into the comprehensive water supply business, extending from water resource management to water treatment, water supply and distribution, and fee collection.

Resource Sector: Maintaining a Calm Discipline

When I became President & CEO in April 2010, I felt a sense of unease about the natural resource boom that was under way at that time. In general, the amount of investment required for resource projects had climbed to several hundred billion yen. At that level, an investment of ¥10 billion to ¥20 billion, which would be considered large in the textile business, no longer seemed to be a "huge amount." In the non-resource sector as well, it might be difficult not to be optimistic when making decisions on projects and managing their profits. Also, with commodity prices exerting a significant influence on companywide profits, there was cause for concern that we would not be able to execute basic management activities, such as steadily implementing cost cuts. Accordingly, I rigorously emphasized an approach of concentrating on strong areas and maintaining a calm discipline without arbitrarily launching initiatives, even in the midst of a boom.

In fiscal 2012, with support from strong demand in emerging countries, commodity prices remained at high levels, including record-high prices for iron ore. In this setting, we focused our investment principally on iron ore and coal, where we have considerable strengths. In addition, with an emphasis on immediately generating profits and reducing development risk, we updated our project selection criteria, so that we focus on projects that are already in production. We have implemented this approach in a number of projects, such as Colombian coal mining operations and related infrastructure, in which we invested about ¥131.1 billion, as well as follow-on investment and the acquisition of additional equity interests in iron ore projects in Western Australia and Brazil. In fiscal 2013, commodity prices plummeted. In this market environment, our decision to focus our investments on areas of strength paid off. Although we did not achieve expected levels of profit, we were able to generate a certain level of profit without being exposed to the risk of substantial losses that would have followed a freeze on development projects. I believe that maintaining a calm discipline led us to make the correct decisions.

Developing Strengths Appropriate for a Member of the Top Three

ITOCHU has earned a spot among the top three general trading companies in Japan for two consecutive years. However, decline begins the instant one becomes careless. Without being content with the current situation, we must continually take steps to solidify our position. Standing shoulder to shoulder with the leading general trading companies that belong to Japan's *Zaibatsu* industrial groups and holding our position as one of the top three will require constant effort. Of course, we have no intention of acting haphazardly in an attempt to narrow the gap with our competitors. We will calmly analyze our strengths and weaknesses and steadily move forward.

With strong ties to basic industry, the trading companies affiliated with Japan's leading *Zaibatsu* industrial groups made large investments during the natural resource boom. Therefore, ITOCHU's operations in its natural resource / energy businesses are substantially different from those of these competitors. We must also recognize that there are differences in corporate constitutions as well, including the capacity to absorb risk. On the other hand, as I mentioned above, in the consumer-related sector, ITOCHU is the No. 1 trading company in net income attributable to the company's shareholders. Moreover, we lead the industry not just in a specific area but in a variety of areas, such as Textile and Food.

Looking at future economic trends, commodity prices are expected to be firm over the medium to long term, with support from strong demand stemming from economic growth in emerging countries. However, for the time being the market is expected to remain uncertain. On the other hand, consumer-related businesses will record steady growth as long as the population increases. In particular, ASEAN nations are expected to record economic growth led by domestic demand, and China is forecast to continue stable growth over the medium to long term, led by consumer spending. These economic trends are favorable for ITOCHU, which has strengths in the consumer-related sector. In the resource sector, profits can be increased with a small number of large-scale investments. In contrast, in the consumer-related sector, many years and steady efforts are necessary to build a business foundation. These efforts include building relationships with customers, deepening relationships with partners, and establishing value chains. ITOCHU's core businesses in China are

consumer-related businesses, in which steady demand can be expected once the support of customers is earned. Our strengths in this sector are not something that can be easily duplicated by others. Solidifying our position as the leader in the non-resource sector, centered on the consumer-related sector, will be an essential step for ITOCHU to stand shoulder to shoulder with the leading general trading companies that belong to Japan's *Zaibatsu* industrial groups.

"Brand-new Deal 2014"—Aiming to be the No. 1 Trading Company in the Non-Resource Sector

Under "Brand-new Deal 2014," our new medium-term management plan, the ideas I have described here have been expressed in a simple phrase: "Aiming to be the No. 1 trading company in the non-resource sector." Our goal is specific, not abstract, and also within reach through hard effort, not set off in the distant future. With everyone at ITOCHU working toward the same clear-cut objective, I believe we can achieve it. Our basic policies are to "boost profitability," "pursue balanced growth," and "maintain financial discipline and lean management."

The plan covers a two-year period. However, there is uncertainty about the future of the management environment, and consequently the quantitative plan covers only one year, fiscal 2014. The quantitative plan calls for net income attributable to ITOCHU of ¥290.0 billion, an increase of ¥9.7 billion from fiscal 2013. We are committed to achieving this target.

We will take steps to reinforce our consumer-related businesses as our earnings platform. Specifically, in the Textile, Food, and Forest Products & General Merchandise segments, we will further strengthen our industry-leading positions, and in the ICT, Insurance & Logistics segment and the Construction, Realty & Financial Business segment we will strive to bolster our operations. Furthermore, we will work to boost earnings in the Machinery and Chemicals segments. Through these initiatives, in fiscal 2014 we will aim for profits of ¥208.5 billion in the non-resource sector, an increase of ¥17.2 billion from fiscal 2013.

One key point will be boosting earnings in Machinery, where there is a gap between ITOCHU and other general trading companies in terms of the scale of earnings. Without moving faster than necessary, and without arbitrarily launching initiatives in all directions, we will focus our resources on our areas of strength. In this way, we will steadily build a platform for stable earnings. First, I would like to achieve the plan's goal of ¥37.0 billion.

Investment Policy: Reinforcing Our Strength

In consideration of the investment results under the previous medium-term management plan and of short-term foreign exchange rates, we set the upper limit for investment on a gross basis at ¥1 trillion over a two-year period. The cumulative investment on a net basis over the two-year period has been set at ¥800.0 billion, and our policy will be to push ahead with asset replacement through rigorous monitoring. To aim for disciplined growth while maintaining financial soundness, new investment will be targeted at strictly selected superior projects.

To be the No. 1 trading company in the non-resource sector, our policy will be to allocate two-thirds of gross investment to the non-resource sector and to invest in superior projects without slackening our efforts. In April 2013, we acquired the Asian fresh produce business and the worldwide packaged foods business of Dole Food Company, Inc., the world's largest producer and marketer of fresh fruits and vegetables.

In the resource sector, we believe that it will become even more difficult to acquire projects, and accordingly we will focus on expansion of existing projects and take a cautious approach to new investments. At the end of March 2013, in our total assets the non-resource:resource ratio was 7:3, and we will maintain a well-balanced portfolio by setting the non-resource:resource ratio in investment at 2:1.

Boost Profitability by Reaping Benefits from Large-Scale Investments

An important theme of the new medium-term management plan is to "boost profitability," which will be centered on reaping benefits from investments that were implemented under the previous medium-term management plan. The large-scale investments implemented under the previous plan include projects from which we are not earning the expected return. However, certain of those investments, especially in the non-resource sector, were made at a time when the yen was stronger than it is now, and they have become extremely valuable assets. Also, by leveraging our knowledge and business foundation, we will be able to improve the profits from these projects in the future. For example, the Kwik-Fit Group, which has suffered from the influence of sluggish business conditions in Europe, is showing signs of a turnaround in profits as a result of the rigorous re-implementation of retailing basics, such as carefully customized services. Moreover, METSA FIBRE, which has been adversely influenced by slack conditions in the market for pulp, can leverage ITOCHU's strong sales network to implement a variety of measures to improve profits. In the resource sector, we will proactively make proposals while deepening our alliances with equity partners.

Balance to Achieve Sustainable Growth

Our focus on pursuing balanced growth will apply not only to the resource and non-resource sectors but also to domestic and overseas operations and to profits from trade and affiliates.

The idea that focused investment in the resource sector is highly profitable is based on a short-term viewpoint. From a longer-term perspective, I cannot state with certainty that the principles of selection and concentration are best. I believe it is necessary to build an optimally balanced portfolio in line with the management environment at that point in time.

This applies to the balance between Japan and overseas. The idea that Japan's economy is mature so overseas markets are best does not always lead to success. Many of the overseas regions from which substantial growth is expected pose obstacles, such as legal and other risks and poor business infrastructure. Those types of obstacles are not issues in Japan, a market in which ITOCHU has considerable knowledge and therefore risks are low. Japan also has many promising businesses that are internationally competitive. In consideration of the depreciation of the yen, we will increase our allocation of resources to the domestic market.

In recent years, investment has played an increasingly important role in the business of general trading companies, but that investment has been limited to "buying land." In fact, it is only by plowing barren land, planting seeds, and creating abundant fields that rich crops can be harvested. I believe that the distinctive strengths of general trading companies entail adding value by building a pipeline to customers, gathering information, and generating trade after an investment is made. Refining the key points of business activities also develops human resources. A business model that consists of making an investment and then leaving the business up to others cannot be expected to generate long-term success. Our concept is to strengthen trade once again by acting in accordance with our basic approach of investing only in projects that have prospects for trade.

Working to Increase ROA by Adding Value

We will take steps to strengthen business in the non-resource sector, domestic business, and trade. These areas are generally considered not to have a comparatively high return on assets (ROA). However, we will work to increase profitability and raise ROA overall by adding value in these businesses. I would like to leverage my experience to achieve this goal. The Textile Company has a comparatively high ROA, at 6.8% in fiscal 2013. This is because the Textile Company added value through branding and shifted its business foundation from upstream and midstream to downstream areas, where profitability is higher. I would like to apply this approach in other areas as well. A good example is our acquisition of the Asian fresh produce business and the worldwide packaged foods business of Dole Food Company.

I would like to emphasize the brand strategy aspect of this business. The Dole brand is loved around the world. By leveraging this brand and adding value, we will substantially expand our business opportunities. For example, if we link new products, such as Japan's high-quality fruits and health foods, to the Dole brand, we will be able to expand our sales channels to Asia and other markets around the world. Our key strength will be the know-how that we have cultivated in the brand business. This is a business in which ITOCHU, with its strong track record, can fully utilize its distinctive strength.

Increasing Corporate Value through Growth in Profits

Stakeholders have a wide range of opinions about corporate value. For example, the stock price is of great concern to shareholders. I consider increasing the enterprise value of ITOCHU to be my personal obligation, and every day I work to conduct my management duties with an awareness of our stock price, which is an evaluation of management by our shareholders and investors. Moving forward, we will aggressively disclose information in order to receive a fair evaluation.

I also value transparency in regard to our dividends. Since the previous medium-term management plan, we have established a clear dividend policy that is linked to net income attributable to ITOCHU. Specifically, our annual dividend targets are a dividend payout ratio of approximately 20% on net income attributable to ITOCHU up to ¥200 billion and a dividend payout ratio of approximately 30% on the portion of net income attributable to ITOCHU exceeding ¥200 billion. For fiscal 2013, we paid an annual dividend of ¥40 per share, comprising interim and year-end per share dividends of ¥20 each. The dividend payout ratio was 22.6%. Under "Brand-new Deal 2014," we will maintain the same dividend policy. For fiscal 2014, ITOCHU plans to pay a full-year dividend of ¥42 per share.

We will strive to achieve growth in profits and to meet the expectations of stakeholders in both enterprise value and dividends.

Expanding Corporate Value by Creating Solutions for Social Issues

Looking at corporate value from a broader perspective, in the future, corporate management will need to share viewpoints and values with society. In particular, as a general trading company, we will be expected to contribute to the resolution of social issues by seamlessly linking our products and services, accumulated know-how, and markets on a global scale. For ITOCHU, contributing to the resolution of social issues through its core business will become a strength that helps us to succeed in global competition in the long term. ITOCHU founder Chubei Itoh and other Ohmi merchants embraced the management philosophy of *sampo yoshi* (Good for the seller, Good for the buyer, and Good for society). Today, more than 150 years after its foundation, ITOCHU remains true to the spirit of *sampo yoshi* and is fulfilling its corporate philosophy of "Committed to the Global Good" as it conducts its business activities in front-line

business settings around the world. In part to demonstrate our steady implementation of this corporate philosophy in international society, ITOCHU has participated in the United Nations Global Compact since 2009.

We are implementing initiatives targeting the resolution of social issues through our core business activities. These include the Pre Organic Cotton Program, which supports cotton farmers in India during the transition period to organic cultivation. This program, which was implemented by the Textile Company, was approved as an initiative of Business Call to Action (BCtA) in fiscal 2013. BCtA, a global initiative hosted at the United Nations Development Programme (UNDP), promotes businesses aimed at achieving both commercial success and sustainable development. (For further information, see page 80.) To further broaden these types of initiatives, we will strive to build an environment that supports them. This environment will foster rigorous implementation of a front-line approach, encourage sales staff and other employees to employ wide-ranging means of addressing problems, foster cooperation among employees, customers, industry, and society to approach issues from a broader perspective, and encourage everyone to do their utmost to generate solution-focused action.

Developing Industry Experts and Supporting the Active Use of Diverse Human Resources

A general trading company's people are its greatest management resource, and they are an important management platform that supports its growth. The human resources who support our business activities should strive not to be generalists but to be industry professionals with advanced expertise in specific areas. For example, even if sales staff have experience and knowledge in a wide range of areas, with this superficial knowledge they cannot do business on an equal footing with customers who have decades of experience in specific areas. In other words, without a "trunk" there are no "branches." Human resources who accumulate experience in a single organizational unit and learn the keys to success for business activities in that area are essential for general trading companies, which currently face business conditions that are becoming more difficult each year. If employees become experts in the business of a single industry, I believe that they will also be able to apply that expertise in other areas as well. That is why I want ITOCHU to nurture human resources who have that kind of depth.

Also, ITOCHU has supported the use of diverse human resources, and under the new medium-term management plan, one of its human resource policies is to "support the further development of female role models in their career track." In fiscal 2014, ITOCHU became the first general trading company to appoint a female executive officer. By providing meticulous career support for diverse human resources, we will continue to support and promote additional role models and to nurture female employees who will serve as leaders.

In Closing

When I became President & CEO, I announced that we would "proactively seek new opportunities." I also made clear that we would aim to join the ranks of the top three general trading companies. As the new President & CEO, I was frankly concerned with how far the employees would follow me.

In the three years since, I have seen the latent power of ITOCHU in our sales staff, which have wholeheartedly embraced the idea of "strengthening our front-line capabilities." This front-line approach has also been adopted throughout the administrative organizations, which have taken steps to demonstrate their capabilities to increase the corporate value of ITOCHU. These steps have included working together with the sales staff to approach customers and secure business for ITOCHU. I am convinced that this concentration of individual capabilities, which is the source of our competitiveness, has guided ITOCHU to a new growth stage.

Now, we will focus on making steady progress toward the achievement of our objective. The path to becoming the No. 1 trading company in the non-resource sector will certainly not be an easy one, and there is no shortcut to creating a sustainable business in accordance with a sense of values that is shared with society. The only path to success entails constant reforms to "strengthen our front-line capabilities" and a rigorous approach to the fundamentals of management, including the implementation of lean management. To cultivate within ITOCHU a corporate culture that emphasizes seeing all things through to completion, I will take the lead in advancing "Brand-new Deal 2014" and ensure that ITOCHU continues to turn its words into accomplishments.