To Our Shareholders, Investors, and Other Stakeholders

Moving forward, ITOCHU Corporation will maintain its combative spirit of taking on challenges as it leads the new era for general trading companies in the years ahead.

In FYE 2016, we became the No. 1 general trading company in terms of net profit attributable to shareholders (hereinafter: net profit). Nonetheless, we will not let this achievement lead to overconfidence, and we will not forget our starting point as merchants. By rigorously implementing the “Earn, Cut, Prevent” principles and concentrating the individual capabilities of the Group’s more than 100,000 employees, we will make strong progress toward the establishment of an earnings base to generate ¥400.0 billion in net profit.

President & Chief Executive Officer
Masahiro Okafuji

The Long-Standing Expectations of Generations of Predecessors

I think that, in some ways, management is similar to a long-distance relay race. Runners take the baton from their predecessors and, with a commitment to the expectations represented by the baton, they fulfill their duty by sprinting at full speed over their section of the race before passing the baton on to the next runner. This process is very similar to management.

I received the management baton in April 2010, and on the solid financial foundation inherited from my predecessors, my role has been to shift from management that emphasized financial discipline to proactive management that is focused on business. The management baton that has been passed from generation to generation represents the expectations of our predecessors, who created ITOCHU’s history up to this point.

Established in 1858, ITOCHU has built a comprehensive business portfolio ranging from its founding business of textiles to heavy industry. That process of expansion continued from the postwar reconstruction phase through the period of rapid economic growth. Unlike Japan’s *Zaibatsu*-industrial groups, ITOCHU did not have extensive connections with industries that played central roles in national policies, such as steel and petrochemicals. With limited access to resource and energy development projects, our predecessors faced many hardships during that period. The decision to aim for growth through a focus on the consumer-related sector rather than the resource sector was made out of necessity. Throughout ITOCHU’s history, the ambition to compete on an equal footing with the *Zaibatsu*-industrial groups steadily strengthened. We developed a combative spirit of taking on challenges, and that spirit has been passed down through successive generations. This corporate culture has nurtured hungry, motivated young employees. Over many years, the individual capabilities of these employees have become ITOCHU’s strength, and our corporate culture has been compared to that of a merchant band.

I am one of the employees who was attracted by that corporate culture. The reason why I chose ITOCHU was my defiant attitude of wanting to take on the challenge posed by the higher ranking general trading companies. When I joined ITOCHU, I was somewhat presumptuous, and I could not accept the conservative business practices of the textile industry. I was frequently at odds with customers. I was kept away from customers, and the person in charge of my training advised me that I was not cut out for the trading department. I remember that I was terribly shocked. However, it was this aspect of my temperament that became the combative spirit of taking on challenges, as well as the driving force behind my commitment to always ensuring victory over our rivals.

Now I am in a position to chart the course of the Company’s management, and I am still full of that fighting spirit. That is because I want to meet the expectations of our predecessors, which are represented by the management baton that I have received.

Achieving Plans to Realize Our Long-Term Vision

ITOCHU achieved its initial plans for the five consecutive years up to FYE 2015. As a general trading company that must address a variety of unexpected situations, ITOCHU has been a company that always turns its words into accomplishments. I am proud of that achievement, which has been made possible by the focused efforts of all of the Group's employees. It is important to understand that our focus on achieving our plans each year does not mean that our management is orientated toward a short-term viewpoint. Rather, our strategies, and our commitment to achieving our plans, are based on a long-term vision of achieving our long-standing ambition of becoming a company that can stand shoulder to shoulder with the top general trading companies affiliated with the *Zaibatsu*-industrial groups.

In a long-distance relay race, if runners try to take the lead from the very beginning and use all their strength in a reckless sprint, they will fail. It is important to think tactically and to ask yourself: Who will I strive to overtake, where, and how? In the same way, my strategic view is that we need to divide our long-term vision into periods of two to three years during which the organization continually focuses its powers of concentration, to set specific objectives that can be achieved with hard work, and to move ahead one step at a time.

Based on this approach, we first set out to "strengthen our front-line capabilities," and in FYE 2012 we recaptured our position in the ranks of the top three general trading companies. Next, I was confident that if we competed in business fields where we have strengths, we could definitely succeed, and our next objective was to become the No. 1 trading company in the non-resource sector, and we achieved that goal in FYE 2015. In these ways, we have made steady progress toward achieving our vision.

To increase corporate value with this long-term viewpoint, it is essential to continually plant the seeds of growth, such as business investment. It is frequently the case that a certain period of time is required before earnings are generated by the assets acquired through an investment. In addition, there are also cases in which initial plans are not achieved due to unexpected circumstances, and as a result an exit becomes unavoidable. To rigorously implement this approach to management, it is necessary to maintain the trust of the shareholders, who have entrusted the Company with their funds. This is the reason why we have taken steps to ensure that we have a common interest with shareholders in increasing corporate value. To that end, we have introduced a highly transparent dividend policy and a minimum dividend guarantee ⇨ Page 28 Shareholder Value. We also place importance on dialogue with shareholders and other investors, and we are always aware of ITOCHU's stock price, which could be considered a performance result card for management. The most important thing is to get our shareholders to trust the managements by delivering good results. That is the reason why I remain committed to the achievement of plans.

However, in FYE 2016 we did not keep this commitment. For the first time since I became president, we failed to achieve our initial plans.

Maintaining Our Momentum

In a long-distance relay race, it is important for runners to maintain their own pace, and in the same way I think that "continuity" is important in corporate management. In particular, with the FYE 2016 financial settlement, we decided to give priority to maintaining our strength.

"Brand-new Deal 2017" is a three-year medium-term management plan that clearly reflects our target of standing shoulder to shoulder with the industry leaders in FYE 2018, the final year of the plan. In FYE 2016, the first year of the plan, despite the accelerated implementation of measures to address concerns about the future, we had the opportunity to achieve our initial plan of net profit of ¥330.0 billion by taking steps to expand our base in the non-resource sector, receiving equity in earnings of CITIC by implementing the investment one quarter earlier than our plan, and steadily realizing the one-time profit that was expected in the plan.

In this environment, other general trading companies decided to record large-scale impairment losses after January 2016, principally in resource businesses, due primarily to the rapid decline in resource prices. As a result, these general trading companies have reduced their amortization burden and lowered costs, and they will make a fresh start in FYE 2017 as more agile companies. As our presence in the industry has increased, customers and other parties are starting to look at ITOCHU in a different light, and the motivation of our employees has also increased substantially. In this setting, there is no sense in allowing this strength to be diminished through unforeseen circumstances, such as impairment losses. After much deliberation, we decided to focus on the future and implement impairment processing, even though it meant that we would not achieve our initial plan for FYE 2016. We took this step so that we could establish a solid position that can withstand changes in the operating environment in FYE 2017 and subsequent years and maintain the organization's powers of concentration at an advanced level, thereby sustaining our current strength.

We accelerated asset replacement in both non-resource and resource fields, and we rigorously implemented rapid exits from low-profit businesses.

In addition, we evaluated the fair value of goodwill and intangible assets based on the most conservative assumptions, reflected the maximum possible loss at the current time, and focused on achieving a lean structure. In these ways, we worked to further improve the content of our asset portfolio.

In the resource field, we decided to sell certain coal interests for which we determined that the coal mine life was nearing an end and losses would increase due to mine closure. In addition, we recorded additional impairment losses on multiple interests. These initiatives were also extended to the consumer-related sector. For example, European Tyre Enterprise Limited, a tire wholesaler and retailer in Europe, currently has steady earning power at about the ¥5.0 billion level, but we conservatively considered external factors, such as the medium to long-term tire demand forecast for the U.K., and consequently we recorded goodwill impairment. In addition, LeSport Sac is a high-efficiency brand, but we conducted impairment processing for our trademark rights in order to implement an across-the-board replacement and introduce products with higher added value. In addition, we disposed of inventories at retail-related apparel companies. In these ways, we implemented detailed analysis and conducted impairment processing.

Impairment processing totaled approximately ¥90.0 billion, and our net profit in FYE 2016 declined ¥60.2 billion year on year, to ¥240.4 billion. I regret that we did not turn our words into accomplishments, but nonetheless I believe that we made the correct management decision.

⇨ Page 24 Medium-Term Management Plan

We made steady progress in "strengthening our financial position," which is one of the basic policies in "Brand-new Deal 2017." We also moved ahead aggressively with "accelerating asset replacement" and "stringent cash flow management," and consequently operating cash flows in FYE 2016 was more than ¥400.0 billion for the third consecutive year. Excluding investment and financing related to the acquisition of CITIC shares, we generated positive core free cash flows of approximately ¥410.0 billion. ⇨ Page 26 CFO Interview

Even though we implemented approximately ¥90.0 billion in impairment processing, in FYE 2016 we unexpectedly became the No. 1 general trading company in terms of net profit. This was due in part to the effectiveness of our clear strategies and the specific measures based on those strategies, but I think that mismanagement by our competitors—large-scale impairment losses at other general trading companies—was also a major factor. In FYE 2017 and subsequent years, general trading companies will compete with each other on the basis of their strengths. When ITOCHU succeeds in that competition, it will then be the time for our shareholders and Group employees to celebrate our victory.

Continuing to Work to Avoid Stagnation

FYE 2016 marks the sixth year since I became president, and at ITOCHU this would customarily be my final year as president. However, we are at a point where the future course of the management environment is difficult to forecast, and we have just commenced our strategic business and capital tie-ups with CITIC and CP Group, for which we implemented investment of approximately ¥600.0 billion, the largest investment in the history of ITOCHU. In addition, we are near to a management integration in the convenience store business. I now believe that it would be irresponsible to follow the customary practice and retire at this point, when we face a number of important management challenges and we have just launched these ventures. Moreover, it would require one to two years for the new leader to accept the management baton, finish building relationships inside and outside the Company, and take charge in a full-fledged manner. This is an important time as we work to build an earnings base to generate ¥400.0 billion in net profit, and we must avoid stagnation in our organization and our businesses. Accordingly, after giving serious consideration to the opinions of outside directors and outside parties, I have decided to continue to taking on challenges as the leader of ITOCHU. As we move forward, I will take on the challenge of a new competitive era.

ITOCHU's Choices in a New Era for General Trading Companies

I think that employees who work at general trading companies have certain habits in common. They are always aware of other companies in the same industry, and when a project emerges they tend to act before a competitor takes the project. With that state of mind, they often jump in without calmly conducting a corporate value evaluation. Formerly, general trading companies were prone to "buy high," and all of the companies conducted management with similar, all-round business portfolios. That became apparent around the time of the resource boom, when all the companies went on shopping sprees for resource interests. However, that era marked the close of the resource boom, which ended with the recording of large-scale impairment losses by each general trading company.

Moving forward, we will enter a competitive environment in which general trading companies compete on the basis of their individual characteristics. This will be a new era for general trading companies. In this era, the successful companies will be those that have rapidly established business models to compete in fields in which they have strengths.

ITOCHU will maintain its presence in the resource business on a scale that is appropriate for its size. However, I think it is a management mistake to take an easygoing approach that "resource prices will recover in due course." Looking at the example of crude oil, when the price increases to a certain extent, then shale oil will make a comeback. In other words, there is a price ceiling. Moreover, heretofore long-term contracts with resource purchasers have supported aggressive investment in interests and become the foundation for stable earnings. Moving forward, however, in place of these contracts there will likely be an increase in spot transactions as purchases are made on the market when necessary.

The fields on which ITOCHU will focus in the new era are clear. These are the non-resource fields, centered on consumer-related businesses, such as textiles, food, and general products, in which we lead the industry. To generate earnings in these fields, we will have to focus on China, which has a population of approximately 1.4 billion, and on Southeast Asia, which is posting notable growth. To open up those markets, we will need partners with strong market positions, the CP Group and the CITIC Group are the best partners for ITOCHU. The CP Group has built a wide-ranging overseas Chinese network and has deep roots in local markets in China and Southeast Asia, while the CITIC Group has extensive connections with the Chinese government.

The next few years will be a transitional period in which the general trading company industry undergoes significant change. However, ITOCHU anticipated this and has stayed one step ahead in preparing for it. Consequently, when our rivals are winding up the resource boom and developing their strategies for the future, we will stay one step ahead by maintaining our strategic focus on the fields where we have decided to compete through our alliance with the CP Group and the CITIC Group.

Taking Steps While Continually Looking Ahead

Our drive to stay one step ahead led to substantial cash collection in FYE 2016.

PrimeSource, a building material company in North America, was a top earner in the U.S. general products business, generating aggregate earnings of approximately ¥75.0 billion. However, the investment efficiency was gradually declining. Accordingly, we considered the active M&A market in the U.S. to be an excellent opportunity, and we decided to sell our shares in PrimeSource. Through this sale, we collected approximately ¥110.0 billion in cash. In addition, Nacional Minérios S.A. (NAMISA), an iron ore production and sales company in Brazil, was merged with the mining division of Companhia Siderúrgica Nacional (CSN), which owns the neighboring Casa de Pedra mine. Through this merger, we successfully acquired one of the world's most competitive assets. In these ways, we rapidly generated multiple benefits, such as the collection of approximately ¥70.0 billion in cash and a reduction in resource exposure.

⇨ Page 43 Pursuing Risk Management and Asset Efficiency

Clearly, it is irrational to take advantage of favorable market conditions to collect funds by selling an asset and then to immediately invest in a comparatively expensive asset, simply because management leaders want to post record-setting results during their tenure or because the market pressure for capital efficiency is too great. Companies are not limited to specific accounting periods or specific leadership tenures. Rather, I think that the correct management approach is to look ahead, hold cash, and invest when superior assets have become inexpensive. Accordingly, I have given instructions to remain calm and select projects based on rigorous standards, even if that means holding back on plans.

To Continue to Lead in a New Era for General Trading Companies

"Brand-new Deal 2017" has an extremely important position with the potential to write a new chapter in the 158-year history of ITOCHU. We will not be satisfied with holding the No. 1 position only temporarily. To lead in the new era for the general trading companies, we must build an earnings base for the generation of ¥400.0 billion in net profit while continuing to aim for an ongoing hold on the No. 1 position.

In FYE 2017, the second year of the medium-term management plan, we anticipate growth in profit in the non-resource sector, a full-year profit contribution from the investment in CITIC, and a favorable rebound from the losses processed in the previous fiscal year. Accordingly, we are aiming to achieve a new record high in profit, with plans calling for net profit of ¥350.0 billion, an increase of ¥110.0 billion year on year. This is an aggressive quantitative plan. The assumptions for exchange rates and the prices of crude oil and other resources have been conservatively revised, but if these revised assumptions were replaced by the pricing assumptions that were used when "Brand-new Deal 2017" was initially announced, the result would call for net profit in the ¥400.0 billion range.

Under "Brand-new Deal 2017," one of the management objectives is to aim for ROE of more than 13% on a consistent basis. We are rigorously implementing management with a focus on the cost of capital, and for FYE 2017 our plan calls for ROE of 15.2%. There is no change to our fundamental stance for increasing ROE. We maintain a strong orientation toward growth, and consequently we will aim to raise ROE by emphasizing increasing profit, which is the numerator.

⇨ Page 26 CFO Interview

Zaibatsu-industrial groups are also focusing their efforts on strengthening operations in the non-resource sector. However, I believe that there are fundamental differences between the resource business, where the aim is to reap returns of tens of billions of yen from a single investment of hundreds of billions of yen, and the non-resource business, where profits are made from reductions of a few yen. ITOCHU is committed to generating earnings as a merchant who modestly bows to its customers. We do not possess assets like those inherited by the *Zaibatsu*-industrial groups, who have strengths in resource businesses. However, we do have superior assets in the non-resource sector that we have cultivated over many years, and we have our combative spirit of taking on challenges. The ITOCHU Group has "individual capabilities."

Aiming to be a Company that Engages All Employees

To enhance our "individual capabilities," ITOCHU has also formulated original measures in the area of human resources, and those measures have generated steady results. For example, the revision of our personnel compensation system in FYE 2011 emphasized the results of individuals rather than their organizational units. Consequently, it raised the motivation of employees and officers in the non-resource sector, who have worked assiduously to generate earnings. Furthermore, our morning-focused working system has fostered a return to our starting point as a merchant, the rigorous focus on the viewpoints of customers, and it has also promoted employee health and enhanced operational efficiency. In these ways, the system has produced the expected results in maximizing "individual capabilities." The effectiveness of these policies can be seen in our achievement of the highest profit in the industry, despite the fact that our workforce of approximately 4,300 people on a parent-company basis is the smallest among the five large general trading companies.

To lead in the new era for the general trading companies, we must further concentrate the "individual capabilities" of all employees. To that end, from FYE 2017 we changed the plan's subtitle to "Engaging All Employees to Lead a New Era for the *Sogo Shosha*." The main point is to enable diverse employees to leverage their full potential, including employees who face time limitations due to such responsibilities as child-rearing and nursing care. On the other hand, we will not advance diversification while ignoring experience and results. Our basic policy will remain focused on ability, and we will establish an environment that engages employees while providing a carefully calibrated accommodation of individual circumstances. In addition, we are also advancing human resources policies linked with our China strategy, such as planning to expand the number of employees with Chinese-language ability to 1,000 at the end of FYE 2018, approximately three times the level in FYE 2016.

I have doubts about the idea that "even if compensation is low it is not a problem if employees are motivated." At ITOCHU, by providing compensation in line with results, we will work to hire and retain excellent employees and take steps to ensure that they maintain their powers of concentration. In this way, we will reinforce a favorable human resources cycle that draws out their abilities to the fullest extent.

⇨ Page 46 Human Resources Strategy

Intangible Investment Results

Some people are concerned about further declines in China's economy. However, China has a current account surplus, with foreign currency reserves of more than ¥350 trillion, about three times those of Japan. The situation in China is entirely different from that in South America and other regions where credit risk is considered to be a problem. Also, it is the government-led infrastructure industry and heavy industry that are being affected by economic trends. ITOCHU is focused on consumer-related businesses that support textiles, food, and general products. Accompanying growth in wealthy and middle-income consumers, consumer needs are shifting from quantity to quality, and in this setting, I believe that there is tremendous potential for Japan's secure and safe products.

Through our investment in CITIC, we anticipate profit of about ¥70.0 billion each period, and are able to make possible large-scale asset replacement. In addition to these direct effects, we are also realizing a variety of intangible benefits. The CITIC Group is a conglomerate with wide-ranging connections with the government and an extensive network in industry. Therefore, we are now able to access high-value information in real-time. We can accurately grasp the direction of economic policy, and the precision of project selection has increased markedly. Moreover, we have become a major shareholder of CITIC, and accordingly we can now smoothly advance business without being under-rated or mistrusted by other Chinese companies.

In addition to our participation in cross-border e-commerce in cooperation with China Mobile Communication Corporation and a company affiliated with a municipality, we have also agreed to a partnership with Bosideng International Holdings Limited, one of China's leading apparel manufacturers. In these ways, we are making steady progress with joint initiatives. On the other hand, I have also heard the comment that the generation of synergies has been slow. However, these initiatives are long-term strategies that we are advancing under a time frame of five years or more. In addition, the returns pursued by ITOCHU, which is a shareholder that has invested 20% together with the CP Group, are not limited to trade. We are also working to increase the corporate value of CITIC and benefit from dividends and gains in the stock price. However, to impact the corporate value of a large company that generates profits in the ¥1 trillion range, large-scale initiatives will be necessary. We will not be impatient about these cooperative initiatives. Rather, we will work carefully behind the scenes and play our cards at the right time to achieve a balance among heaven-sent opportunities, natural advantages, and harmony between people.

⇨ Page 40 Investing in Areas Where We Have Strengths

Sampo Yoshi Supporting Business Continuity

The point of the strategic business and capital tie-ups among the CP Group, the CITIC Group, and ITOCHU is to generate synergies through the integration of management resources and to increase the corporate value of all three parties. One more thing that must not be forgotten is that an investment in outstanding government-owned assets in China is not something that is possible for any company that wants to make a purchase. We received approval for this investment, and accordingly we are committed to creating businesses that enhance the lifestyles of the Chinese people. This is an instance of the implementation of "*sampo yoshi*" (Good for the seller, Good for the buyer, and Good for society), which was the philosophy of merchants in the *Ohmi* region where ITOCHU was founded. Selfish business practices focused only on ensuring one's own profit will not be successful over the long term. Our sustained commitment to the *sampo yoshi* philosophy is the reason why ITOCHU has remained in business for 158 years.

In January 2016, the sustainable development goals (SDGs) that were approved by UN members took effect, and moving forward we will enter an era in which companies will not be able to record sustained growth without addressing the demands of international society. I am increasingly convinced that we need to step up the implementation of *sampo yoshi* from a broader viewpoint. ITOCHU is a general trading company with more than 100,000 employees on a Groupwide basis, and our influence on global markets, especially the societies and environments of emerging countries and resource-producing countries, cannot be ignored. In particular, we need to give careful consideration to society in consumer-related business areas. For example, through agricultural management, the continuity of our business model is supported by Dole's harmonious coexistence with local communities, such as consideration for human rights and workplace environments and the establishment of lifestyle infrastructure. On the other hand, ITOCHU's business know-how and global network, with contacts in a wide range of industries, offer significant potential to turn social issues into business opportunities. Examples include water-related businesses, waste management, and renewable energy, such as the Sarulla geothermal power generation project in Indonesia, which is slated to start operation in FYE 2017.

To fulfill our corporate message, "I am One with Infinite Missions," which incorporates the spirit of our Corporate Philosophy of "Committed to the Global Good," it is important that each individual in each workplace continues to provide value to society.

Strengthening Governance, the Foundation of Sustainability

We will continually strengthen corporate governance as the foundation of sustained corporate growth. We have taken steps to strengthen the Board of Directors' supervision function through the Nomination Committee, an advisory committee. From FYE 2017, the chair of the Nomination Committee is an outside director, and a majority of the members are outside officers. In addition, we have moved to a system of three outside directors, an increase of one, with the addition of Atsuko Muraki, former Vice Minister of Health, Labour and Welfare. Ms. Muraki has extensive experience, and we expect her to supervise management from an objective and neutral viewpoint and to provide advice that will contribute to increases in corporate value over the long term. Furthermore, to heighten the awareness among officers toward making contributions to increasing ITOCHU's corporate value over the medium to long term, we introduced a performance-linked and share-based remuneration plan for the two-year period to FYE 2018. As the plan's name suggests, the plan is designed to be closely linked to corporate performance while being highly transparent and objective. We are continually strengthening compliance. That is because if ITOCHU commits a compliance violation, we could be subject to severe censure and lose trust in an instant.

The main purposes of the changes among officers made in FYE 2017 were to activate the Board of Directors through extensive replacement and to support increases in corporate value. These moves were also made with a focus on the abilities of successors, and we are steadily developing promising candidates for my successor. Initially, I may give some advice to the person who succeeds me and takes the management baton, but I will be careful to avoid meddling. I have a flexible approach in regard to the decisions made during my tenure, and if they are determined to be mistakes from a medium to long term perspective, then they should be revised.

With reference to the results of the evaluation of the Board of Directors that was implemented in consideration of the advice of outside consultants, we will consider measures to further strengthen corporate governance.

⇨ Page 54 Corporate Governance

Passing the Management Baton On to the Future

The curtain has opened on the new era for general trading companies. If resource prices recover to a certain extent, the *Zaibatsu*-industrial groups are expected to recover, and moving forward the winners will be determined on the basis of their true strengths. For ITOCHU, that will mean steadily turning our words into accomplishments each year in accordance with clear strategies. ITOCHU's greatest enemy is overconfidence. All employees, and I myself, have to avoid overconfidence, return to the starting point, and rigorously implement our three business principles—"Earn, Cut, Prevent."

The ITOCHU Group will focus the individual capabilities of its more than 100,000 employees, continue to take a proactive approach, and achieve the long-standing expectations of its predecessors. Then, the management baton will be passed on to the future of ITOCHU Corporation.