The Way of the Merchant and Business Model

OUR HISTORY
A 160-Year History of Rising above Adversity

During Japan’s period of high economic growth, the country’s economic structure shifted toward heavy industries. Keeping pace with this change, ITOCHU expanded its non-textile business, and realized “diversification” in the 1960s. After that point, we flexibly adapted our business structure by moving to downstream and other initiatives as the times changed.
Bursting of Japan’s Economic Bubble, the Heisei Recession, and a Revolution in Information and Communications
• Asian financial crisis (1997)

Emerging Market Boom, Commodities Super Cycle, and a Flailing Economy
• China’s participation in the World Trade Organization (2001)

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

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

1990s
Set the Steppingstones for the Current Business
We introduced management reform measures to sweep away negative legacy assets from the bubble era. At the same time, we set in place the steppingstones for the future by acquiring shares in FamilyMart Co., Ltd., in 1998. In 1999, ITOCHU TECHNO-SCIENCE Corporation (currently, ITOCHU Techno-Solutions Corporation) was listed on the Tokyo Stock Exchange.

2000s
Disposal of Negative Legacy Assets and the Commodities Super Cycle
We took decisive action to dispose of inefficient and unprofitable assets. Simultaneously, to adopt more sophisticated risk management, we introduced a quantitative risk management method. Our financial position improved, and earnings from the resource business expanded as we entered the commodities super cycle period.

2012–2016
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 GIGE / CP Group and acquired Dole business and METSA FIBRE. We also strengthened our financial position further and promoted cash flow management.

From FYE 2019
Reinvention of Business
In response to the Fourth Industrial Revolution and other rapid changes in the business environment, we will strive to evolve and transform our existing businesses, ensuring steady earnings. At the same time, we will proactively cultivate next-generation businesses.

Drivers of Corporate Value Creation
Creating Added Value
Asset Strategies
Operating Income

1990s
Minoru Murofushi
1990 – 1998
“Nothing is impossible”

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.”

Eizo Kobayashi
2004 – 2010
“Challenge, Create, Commit”

Uichiro Niwa
1998 – 2004
“Clean, honest, and beautiful”

Elizo Kobayashi
2004 – 2010
“Challenge, Create, Commit”

Masahiro Okafuji
2010 – President & COO
Yoshihisa Suzuki
2018 –
Commentary

The Merchants of ITOCHU

More Than 160 Years as Merchants

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

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

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

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

Emphasis on Merit, the Extended Family, and Thrift

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

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

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

A Free-Spirited, Equal-Opportunity Organization
ITOCHU’s rapid expansion into non-textile fields was fueled by Japan’s postwar high economic growth. High rates of economic growth centered on heavy industry continued from the 1950s into the 1960s. We pursued a path of diversification, and as a result non-textile fields accounted for 40% of sales in 1958. As ITOCHU lacked the heavy industry connections held by the general trading companies associated with the former zaibatsu industrial groups, we concentrated on our strength in the non-resource sector, centering on areas of expertise such as apparel, food, and housing. In 1972, we became the first of major general trading company permitted to restart trade between Japan and China. We saw this as an opportunity to secure access to what would become a massive consumer market in the future. Taking on that challenge helped us gain the experience and a track record in China and other parts of Asia that serve as one of our strengths today.

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

### Individual Capabilities

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

¥0.12 billion (FYE 2019)

A sales division in 1932

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

### Earning Power in the Non-Resource Sector

**Profits from the Non-Resource Sector**

¥378.0 billion (FYE 2019)

ITOCHU’s business originated with textiles, so we have traditionally been strong in the non-resource sector, particularly in areas close to consumers.
“Trade is a compassionate business. It is noble when it accords with the spirit of Buddha by profiting those who sell and those who buy and supplying the needs of the society.” This personal motto of Chubei Itoh I is said to have been developed into the idea of sampo yoshi.

Regardless how times change, ITOCHU is a merchant that believes in “supplying the needs of the society,” continuing to expand its commercial offerings to meet the needs of its customers. The current CEO, Masahiro Okafuji, explains that general trading companies “are like water taking the form of the vessel in which it is carried, sometimes round, and sometimes square.” As middlemen, general trading companies operate in the middle of the value chain, so our fates are shaped by trends among manufacturers and other vendors. For example, as manufacturers transitioned from the practice of commissioning sales to selling products themselves, this disintermediation prompted the notion that trading companies were unnecessary. We have faced such existential crises numerous times. As we have moved from midstream to upstream businesses, we have secured resources and materials. At the same time, we have been acquiring customer contact points downstream, as is demonstrated by our investment in FamilyMart Co., Ltd., some 20 years ago. By increasing our initiatives across the value chain, we have been able to overcome such threats. As another example, in the brand business, which we embarked on in the 1970s through the Textile Company, we “upgraded” our initiatives by acquiring not only distribution rights but also license rights and trademarks, as well as brand-owning companies. As the Fourth Industrial Revolution and other rapid changes in the business environment could make business models obsolete, we will strive to evolve and transform our existing businesses and accelerate combinations with new businesses in order to maintain our competitiveness and sustainability.

Expanding Business into China in 1972

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

Drivers of Corporate Value Creation
Creating Added Value

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

Consistently Cultivating the Brand Business

- M&A
- Trademark rights
- License
- Import

- Stabilize commercial rights
- Avoid commercial loss
- Enhance initiative
- Increase added value
Eliminating Underperforming Assets and Adopting More Sophisticated Risk Management
(FYE 1998–2011)

As Japan’s economic bubble burst, many real estate and marketable securities investments that had been made during that era became underperforming assets, and in the late 1990s we faced a crisis that threatened our continued existence. Then-President Niwa adopted a bold stance, saying “Problems created in the 20th century should be resolved in the 20th century.” Accordingly, in FYE 2000 we processed total losses of ¥400.0 billion, sweeping away low-efficiency and unprofitable assets. Simultaneously, we channeled our limited management resources into efficient investments in areas of strength, centering on apparel, food, and housing. We introduced a new management method, called Risk Capital Management*, and adopted an A&P Strategy of exiting from investments in low-efficiency and unprofitable assets, shifting those funds to high-efficiency assets, and creating a highly profitable structure. After ongoing initiatives to strengthen our financial position and bolster efficiency, net debt-to-shareholders’ equity ratio (NET DER) at the end of FYE 2011 had come down to 1.4 times, a substantial improvement from 13.7 times at the end of FYE 1999. We had built the foundations for a full-fledged proactive approach.

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

Completing the Foundation of Our Asset Strategy
Steps to Enhancing Corporate Value
Promoting “Brand-new Deal” Strategies

“Shift to Aggressive Strategy, Brand-new Deal”
(From FYE 2012)
Looking Back to Our Traditions and Undertaking Reforms That Elicit Our Strengths
Having restored our financial footing, since the FYE 2012 announcement of “Brand-new Deal 2012,” a medium-term management plan, our management has made a major change, adopting a full-fledged proactive approach. We focused on our three strengths: “individual capabilities,” “earning power in the non-resource sector,” and “experience and track record in China and other parts of Asia.”

STEP 1 Brand-new Deal 2012 (FYE 2012–2013)
Building a Foundation That Harnesses Individual Capabilities
To implement the “earn, cut, prevent” principles expressed as management policies in this plan and central to the merchant ethos, we reduced the number of internal meetings and materials. We also launched a number of internal reforms to thoroughly strengthen front-line capabilities and unleash the potential of individual capabilities. Some of these initiatives bolstered profitability, and in FYE 2012 we achieved the first step, of becoming No. 1 in the consumer sector. In FYE 2014, we stepped up working-style reform efforts such as a morning-focused working system. Such reforms led to our success in having the industry’s highest level of labor productivity. Furthermore, by thoroughly instilling the “earn, cut, prevent” principles at each of our subsidiaries and affiliates, we have achieved profitability at the vast majority of them—now more than 90%.

Results of Morning-Focused Working System

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

*1 % of people in the headquarters
*2 Compared with the level before we introduced the morning-focused working system
STEP 3 **Brand-new Deal 2017 (FYE 2016–2018)**

Set Strategic Steppingstone to the Chinese and Other Asian Markets

Our third step was to put in place the steppingstones for sustainable increases in corporate value into the future in addition to steady profit expansion each year. Following our investment in CP Group, we invested around ¥600.0 billion—the largest amount to date—in CITIC. With this move, we laid a major strategic foundation for business in the world’s largest consumer market.

To enhance individual capabilities further, we formulated the ITOCHU Health Charter, provided support for employees living with cancer, introduced systems for fully harnessing women’s capabilities, and undertook other measures to create an environment in which all employees can work with enthusiasm.

During the period of this plan, resource prices fell considerably. The higher-ranking general trading companies were affected significantly, but we weathered the storm successfully due to our earning power in the non-resource sector, which is resistant to economic fluctuations, stemming from earlier moves to diversify our portfolio of companies. In FYE 2016, our consolidated net profit became No. 1 among general trading companies.
Shift from a Product to Market-Oriented Perspective

Looking Ahead: Promoting Reinvention while Holding on to Our Traditions

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

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

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

Strategies Looking to the Medium to Long Term
Reinvention of Business / Initiatives in Chinese and Other Asian Markets
ROE that exceeds cost of capital: Maintain 13% or higher

Steady Achievement of Short-Term Targets
Earning Stakeholder Trust / Continuously Enhancing Financial and Non-Financial Capital

Drivers of Corporate Value Creation
Creating Added Value
Coordination
Promoting business management
Generating synergies among businesses

Three Strengths
Earning power in the non-resource sector
Individual capabilities
Experience and track record in China and other parts of Asia

Drivers of Corporate Value Creation
Asset Strategies
Investing in areas of strength
Risk management
Pursuing asset efficiency

Non-Financial Capital
Internal Management Resources
Human resources
Business know-how
Synergy among Group companies and comprehensive strength
Organizational assets
Trust and creditworthiness

External Management Resources
Client assets (customers / suppliers)
Partner assets
Natural resources
Relationships with society

Financial Capital

Our Unchanging Value
Sampo Yoshi

Material Sustainability Issues (→ Page 50)

Corporate Governance (→ Page 74)
Remuneration linked with medium- to long-term corporate value / Enhanced monitoring function / Securing continuity of management personnel

Reduce cost of capital
(assumed cost of shareholders’ equity of 8%)
Creating Added Value

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

Coordination

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

Promoting Business Management

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

Generating Synergies among Businesses

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

Asset Strategies

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

Investing in Areas of Strengths

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

Risk Management

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

Pursuing Asset Efficiency

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

Management Resources

Financial Capital

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

Non-Financial Capital

Internal Management Resources

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

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

Synergy among Group Companies and Comprehensive Strength: Amid increases of cross-industrial integrations and in response to increasingly diverse demand from consumers, we strive to alter synergies that we generate among the Group, along with a changing management landscape. By maximizing our comprehensive strength as a “general” trading company, we are enhancing sustainable profit growth. (⇨ Page 32)

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

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

External Management Resources

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

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

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

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

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

Advancing into Areas Where We Can Leverage Our Distinctive Strengths

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

Example in the Food Business

Acquiring Customer Contact Points

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

Example of the Food Business

Mergers

Universal Food Co., Ltd.

NIPPON ACCESS, INC.

Universal Food Co., Ltd.

NIPPON ACCESS, INC.

FamilyMart Co., Ltd.

1998

Acquired 30% of issued shares

2006

Acquired 60.4% of issued shares

Strengthening the Intermediate Food Distribution Business through Reorganization

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

* As of March 31, 2019, we own 50.2% of FamilyMart UNY Holdings Co., Ltd., and 100% of NIPPON ACCESS, INC.
Reinforcing Earning Power and Promoting Asset Replacement by Advancing Reinvention of Business and Strengthening Cross-Divisional Functionality

How ITOCHU Differs from a General Private Equity Fund

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

<table>
<thead>
<tr>
<th>Investee liquidity</th>
<th>General private equity fund</th>
<th>ITOCHU</th>
</tr>
</thead>
<tbody>
<tr>
<td>In principle, unlisted</td>
<td>Either listed or unlisted</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investee ownership ratio</th>
<th>General private equity fund</th>
<th>ITOCHU</th>
</tr>
</thead>
<tbody>
<tr>
<td>In principle, majority stake to 10%</td>
<td>Decided individually, based on business conditions and market environment</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investee ownership period</th>
<th>General private equity fund</th>
<th>ITOCHU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy and hold having an exit strategy</td>
<td>Buy and hold</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business synergies</th>
<th>General private equity fund</th>
<th>ITOCHU</th>
</tr>
</thead>
<tbody>
<tr>
<td>In principle, none</td>
<td>Create synergies with existing businesses</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Returns (cash)</th>
<th>General private equity fund</th>
<th>ITOCHU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital gains and dividends</td>
<td>In principle, trading profit and dividends</td>
<td></td>
</tr>
</tbody>
</table>

Creating a Value Chain in the Convenience Store Business

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

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

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

The Way of the Merchant and Business Model

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Creating Synergies Infinitely —Vertically and Horizontally

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

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

**Examples in the Convenience Store Business (FamilyMart)**

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

#### Non-Food Product Initiative Examples

<table>
<thead>
<tr>
<th>Daily items</th>
<th>Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Year’s cards</td>
<td>ITOCHU Pulp &amp; Paper</td>
</tr>
<tr>
<td>FamilyMart collection daily items (detergent, plastci bags, cleaning sheets, etc.) and umbrellas</td>
<td>ITOCHU Retail Link</td>
</tr>
<tr>
<td>Chopsticks, individual-use hand towels, take-out item containers (coffee cups, etc.), plastic bags, cleaning supplies, uniforms</td>
<td>Sanipak Company Of Japan, ITOCHU Retail Link</td>
</tr>
</tbody>
</table>

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[Subsidiary • Affiliated company • ITOCHU • Business partner]
Future Fields of Focus

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

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

Operational Support Initiative Examples

| System development | ITOCHU Techno-Solutions  
| Support operational efficiency through development of operational systems |
| Electricity supply | ITOCHU Plantech  
| By supporting efficient procurement and offering a high-voltage receiving service, help stores reduce their electricity costs |
| Construction materials | ITOCHU KENZAI  
| 3Rs+W service*  
| Reduce, reuse, recycle, and waste management |
| 3Rs+W service* | ITOCHU Metals  
| Develop a nationwide network of partners to provide store fixture maintenance, reuse, recycle, and waste management services |
| Contact centers | BELLSYSTEM24 Holdings  
| Tokyo Century |
| Leasing of store fixtures | |

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

Service Initiative Examples

| Financial / insurance services | Famima T Cards  
| Motorbike liability insurance |
| Other services | POSA cards  
| Famiport coupons |
| | POCKET CARD  
| ICT & Financial Business Company |
| | CONEXIO  
| ICT & Financial Business Company |

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

Intermediate Distribution Example

| Wholesales / Logistics | NIPPON ACCESS  
| Provide the majority of logistics services for food and non-food products for FamilyMart stores (550 distribution locations) |
| Delivery van | NIPPON CAR SOLUTIONS  
| (Tokyo Century Group) |

The Way of the Merchant and Business Model

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

NIPPON ACCESS, supporting an industry-leading store network.