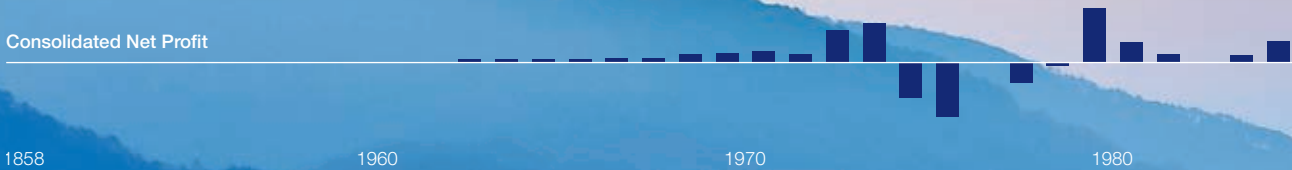


The Story of Merchants

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

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



ITOCHU's Major Milestones

1858
Founded

Chubei Itoh I commenced linen trading operations via Osaka in Senshu and Kishu.

1950s–1960s
Internationalization and Diversification

We pursued a path of diversification, and as a result non-textile areas accounted for around 40% of trading volume (1958). In the 1960s, we expanded our business to include energy, machinery, general merchandise projects, and the iron and steel business, becoming a "¥1 trillion trading company."

1970s
Move into Resource Development and Space Development

While we set our policy of aggressive expansion into such areas as space development, ocean development, and overseas resource development, we returned to the Chinese market prior to the normalization of diplomatic relations between Japan and China. In 1977, we expanded the iron and steel business through a merger with Ataka & Co., Ltd.

1980s
Aggressive Promotion of Telecommunications Business

As yen appreciation became a fixture of the economy, we promoted internationalization and globalization. We moved aggressively into the ICT field and entered the satellite business.

Changing times

1920
Depression following World War I

1923
Great Kanto Earthquake

1929
The Great Depression

1939
World War II

1971
Nixon shock

1973
First oil shock

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

1979
Second oil shock

An Inherited Merchant Spirit

Period of appointment as CEO (after the establishment of ITOCHU Corporation in 1949)



Chubei Itoh I

"Trade is a compassionate business. It is noble when it accords with the spirit of Buddha by profiting those who sell and those who buy and supplying the needs of the society."



Chubei Itoh II

"Unless you deliver what is needed, you will never grow."



Takenosuke Itoh

"Reliable, fast, simple, and clear"



Uichiro Kosuga
1949–1960

"ITOCHU's management policy is to maintain a family-like community that shares what little it has."



Masakazu Echigo
1960–1974

"Every dark cloud has a silver lining."

the Merchant”



1990s Set the Steppingstones for the Current Business

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

2000s Disposal of Negative Legacy Assets and the Commodities Super Cycle

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

FYE 2012–2020 Shift to Aggressive Stance and Strengthen Our Financial Foundation

Ahead of other general trading companies, we pioneered a shift into the non-resource sector. We commenced a strategic business alliance and capital participation with CITIC and CP Group and acquired Dole business and METSA FIBRE OY. We also strengthened our financial position further and promoted cash flow management.

FYE 2021 Preparing for Global Recession

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

Early 1990s
Collapse of Japan's
economic bubble

1997
Asian financial crisis

2007
Global financial crisis

2011
Great East Japan
Earthquake

2015
Collapse of the
resource bubble

2020
COVID-19 pandemic



Seiki Tozaki
1974–1983

“It is because of our indomitable spirit that we are called on to do more.”



Isao Yonekura
1983–1990

“To rest on your laurels is to fail.”



Minoru Murofushi
1990–1998

“Nothing is impossible”



Uichiro Niwa
1998–2004

“Clean, honest, and beautiful”



Eizo Kobayashi
2004–2010

“Challenge, Create, Commit”



Masahiro Okafuji
2010–

President & COO

Yoshihisa Suzuki
2018–

The Story of Merchants

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

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



Earning Trust as Merchants

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



(Photo courtesy of Archival Museum for the Faculty of Economics at Shiga University)
Based in the former Ohmi Province, the merchants of Ohmi transported their wares on carrying poles, peddling items into other provinces (pursuing business in all parts of Japan from the Kansai region). ITOCHU was started by Chubei Itoh I, who engaged in the linen trade.

Merchants: Always Thrifty

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



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

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

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

Merchants Upholding the Unwavering Ideal —“*Sampo-yoshi*”

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

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



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

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

Sources of Strengths Deriving from the Way of the Merchant

Consistent corporate behavior based on the unwavering ideal has underpinned ITOCHU’s strengths over the years. During Japan’s period of rapid economic growth, the Company kept pace with the changes in the country’s industry structure, expanding into the non-textile sectors and diversifying its business. However, ITOCHU lacked the heavy industry connections, unlike the general trading companies associated with the former *zaibatsu* industrial groups. As a result, we concentrated our strengths on the non-resource sector, centering on areas of expertise such as food, clothing, and housing. Different from the merchants of Osaka and Edo, which operated out of free-standing stores, the merchants of Ohmi had to peddle their wares on foot. This cultivated a pioneering spirit and the independence of developing trade on their own, or “individual capabilities.” Even after ITOCHU diversified its business, it continued to adhere to these “individual capabilities,” carrying forward especially in the food, clothing, and housing sectors, where the number of customers is large and individual transactions are small. In 1972, we became the first major general trading company recognized as a friendly trading company by Chinese

The Story of Merchants

government. We took advantage of this opportunity to secure access to what would become a massive consumer market in the future. We continued working to build relations with China, which was undergoing economic development under a reform and open-door policy. In the process, we expanded our human network and business foundations.

Comprehensive Strength Accumulated from Constantly Transforming Itself

General trading companies, which operate in the middle of the value chain, are affected by trends among sellers. In particular, as manufacturers transitioned toward a practice of selling products themselves, trading companies became concerned that this disintermediation could be fateful for them. We have faced such existential crises numerous times, with the 1960s marked by “the notion that trading companies were a declining force” and the late 1970s to early 80s labeled as a “period of hardship for trading companies.” We have successfully overcome such adversities by flexibly changing the form of our business. As part of these initiatives, we moved upstream to secure stable supplies of resources and product materials. At the same time, we invested in downstream operations, notably FamilyMart, to expand our customer contact points. In addition to this vertical expansion of the value chain, we shifted toward a business model that pursued added value. One example was our move into the brand business in the Textile Company in the 1970s. By entwining our business investments and creating businesses in a multifaceted and linked manner, we have built up our comprehensive

strength. As Chubei Itoh I worded in “supplying the needs of the society” and the current Chairman & CEO, Masahiro Okafuji, explained that trading companies “are like water taking the form of the vessel in which it is carried, sometimes round, and sometimes square,” we transform ourselves as a merchant sensitive to the needs of the times.

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

In the late 1990s, huge holdings of underperforming assets led to a crisis that threatened our continued existence. Then-President Uichiro Niwa adopted a bold stance, saying “Problems created in the 20th century should be resolved in the 20th century.” Accordingly, in FYE 2000 we processed total losses of ¥400.0 billion, sweeping away low-efficiency and unprofitable assets. We also introduced a new management method, called Risk Capital Management and shifted funds to high-efficiency assets.

Strengthening Our Financial Position

March 31, 1999

NET DER: 13.7 times

Net interest-bearing debt:

Approximately ¥4.2 trillion

March 31, 2011

NET DER: 1.4 times

Net interest-bearing debt: Approximately ¥1.6 trillion

Trading Companies as Water Inherited Strengths

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

Individual Capabilities

Consolidated Net Profit per Employee (Non-Consolidated)

¥0.12 billion (FYE 2020)

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

Earning Power in the Non-Resource Sector

Profits from the Non-Resource Sector

¥378.3 billion (FYE 2020)

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

Comprehensive Strength and Ability of Self-transformation

Ratio of Group Companies Reporting Profits —

88.6% (FYE 2020)

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

Experience and Track Record in China and Other Parts of Asia

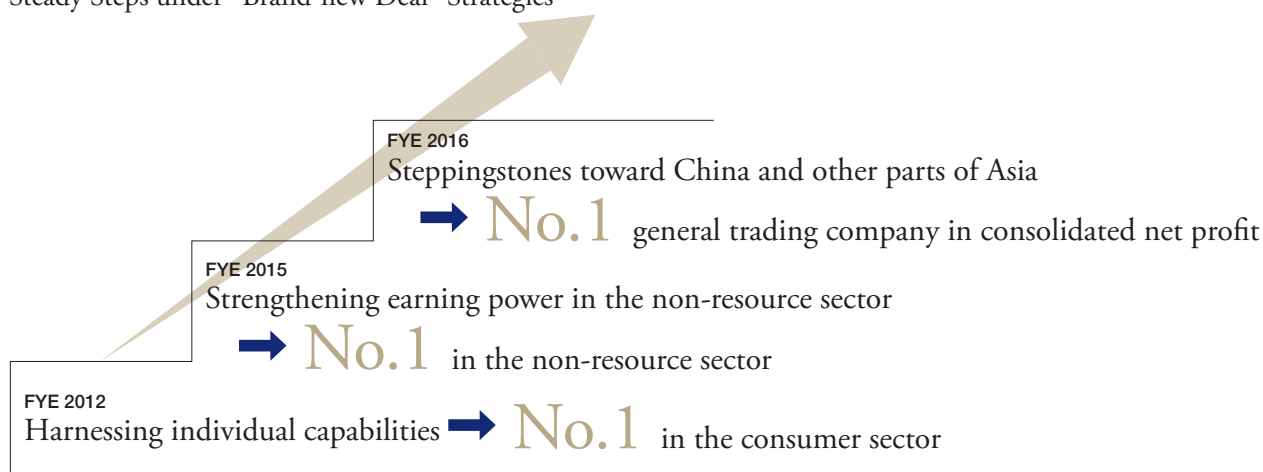
Expanding Business into China

1972

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



Steady Steps under “Brand-new Deal” Strategies



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

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

Three Steps to Unleashing the True Value of Our Strengths

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

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

90% of the Group companies are reporting profit.

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

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

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