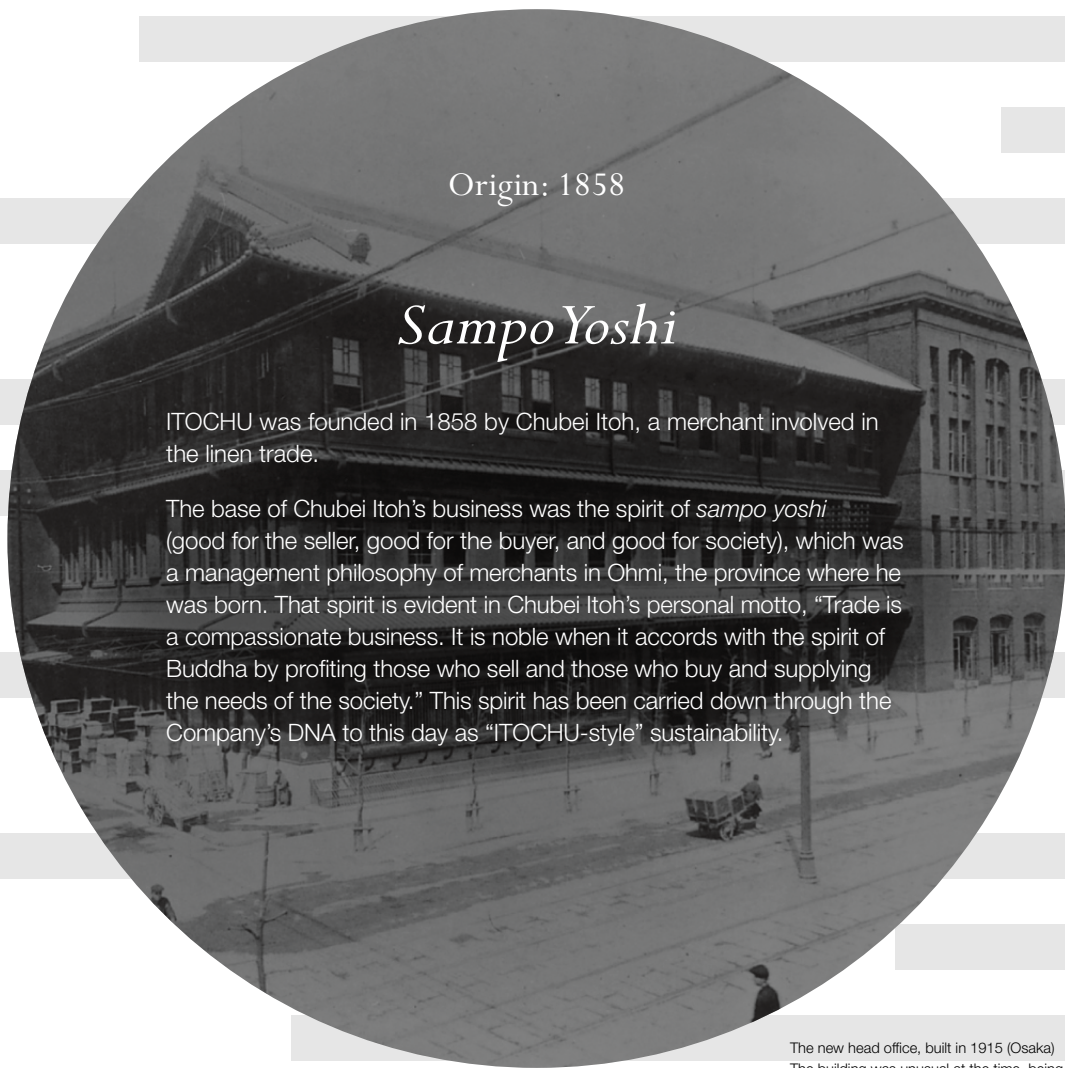


# ITOCHU's Spirit That Goes Beyond Generations



Origin: 1858

## *Sampo Yoshi*

ITOCHU was founded in 1858 by Chubei Itoh, a merchant involved in the linen trade.

The base of Chubei Itoh's business was the spirit of *sampo yoshi* (good for the seller, good for the buyer, and good for society), which was a management philosophy of merchants in Ohmi, the province where he was born. That spirit is evident in Chubei Itoh'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." This spirit has been carried down through the Company's DNA to this day as "ITOCHU-style" sustainability.

The new head office, built in 1915 (Osaka)  
The building was unusual at the time, being a large-scale building fitted with elevators and other modern equipment.

## Passing on the Management Baton



Chubei Itoh I



Chubei Itoh II



Takenosuke Itoh



Uichiro Kosuga

1949-1960



Masakazu Echigo

1960-1974

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

ITOCHU maintains its mercantile spirit and a “*sampo yoshi*” management philosophy that have led the Company to overcome adversity over numerous generations for 160 years. Seeing unprecedented structural changes as business opportunities, we are boldly undergoing a process of self-transformation. Even so, we will remain true to the values that we have followed since our founding. We will continue to fulfill our “infinite missions” for all stakeholders as we carve out a new history for ourselves.

Present

## I am One with Infinite Missions

The Corporate Message—I am One with Infinite Missions—comes to mind when pondering the corporate philosophy of “Committed to the Global Good.”

The Corporate Message incorporates our promise to society, that we will continue to provide the abundance that results from business activities, and it also incorporates diverse aspects “typical to ITOCHU,” such as the rich personalities of our employees, our free-spirited corporate culture, and “individual capabilities.” In this way, the Corporate Message expresses the values that must be shared by all employees as we take on further challenges.

Keeping ITOCHU’s spirit in our hearts and minds, we will aim for business activities to benefit the seller, the buyer, and society. In this way, we will fulfill our responsibility to society—our “infinite missions.”



Seiki Tozaki

1974–1983



Isao Yonekura

1983–1990



Minoru Murofushi

1990–1998



Uichiro Niwa

1998–2004



Eizo Kobayashi

2004–2010



Masahiro Okafuji

2010–

President & COO  
Yoshihisa Suzuki

2018–

# CEO MESSAGE

## ITOCHU responds boldly to change. Our corporate culture of staying ahead and taking on challenges will come into its own as we evolve into a “next-generation merchant.”

FYE 2018 marked our second consecutive year of posting record-high consolidated net profit.

We also met the goal we had committed to under “Brand-new Deal 2017,” our medium-term management plan: “build solid earnings base to generate ¥400.0 billion consolidated net profit.”

In FYE 2019, the 160th anniversary of our founding,

we are launching a new medium-term management plan, “Brand-new Deal 2020.”

Under this plan, the ITOCHU Group will pull together as it takes on altogether new challenges.

Moving toward our vision as a “next-generation merchant,” we will keep evolving in line with the “earn, cut, prevent” principles that are the hallmark of our business.

(⇒ Page 36 “Brand-new Deal 2017” (FYE 2016–2018) General Review, Page 38 New Medium-Term Management Plan)

**Masahiro Okafuji**

Chairman & Chief Executive Officer



### Rereading My Policy Speech

One day in April 2010, my legs seemed heavy as I trudged from Osaka to Tokyo. Earlier, on February 11, 2010, I was told to take over the reins from President Kobayashi for the next term of office. I still recall that day vividly. A cold rain was falling as I contemplated the weighty responsibility of taking the helm of a company with more than 150 years of history and the responsibility for supporting the families of more than 60,000 employees on a consolidated basis. Until that point, most of the Company’s presidents had hailed from Corporate Planning in the Tokyo head office. It had been 36 years since someone from the Textile Company had been appointed to the office. I suppose one reason my legs felt heavy was because I felt I was coming from a tributary business—a Division Company headquartered in Osaka, far away from Tokyo, and one that had shrunk in scale.

The first few years were lonely, as I racked my brains to work out a future vision for the Company and figure out how to get there. The goal I came up with was to become a company that can stand shoulder to shoulder with the top general trading companies (*sogo shosha*) that hail from Japan’s large *zaibatsu* industrial groups. This goal was easier to express than achieve, of course, and few people shared my enthusiasm. After all, at the time we were solidly

in fourth position in the industry. Unable to give full voice to the true dream, I instead set a goal that all employees could get behind and that we were capable of achieving. This belief stiffened my resolve to go back to the “basics of being a merchant,” applying my experiences of success during my time at the Textile Company. I consolidated those concepts into my policy speech. Over the next eight years, I held those thoughts in my mind, occasionally stopping to reread the speech. We took steady steps to move toward our goals, becoming the No. 3-ranked *sogo shosha*, moving to become the No. 1 *sogo shosha* in the non-resource sector, and then embracing an era of two leading general trading companies. Slowly, we began realizing the dream, and now the entire ITOCHU Group seems a monolith of solidarity. The sense of loneliness I felt when I was first appointed has been swept away, and now all the employees of ITOCHU Group feel like family to me.

Viewed from the outside, the process may appear to have been all smooth sailing, but I was always urged on by a sense of crisis as I tried to work out however we could progress. In general, I think CEOs tend to be optimists; I, on the other hand, am somewhat of a pessimist. Again feeling a major sense of crisis, I reread my policy speech and think, “We need to get back to the basics.”



## Sogo Shosha Facing Major, Unprecedented Threats

I feel a major sense of crisis in the fact that even now *sogo shosha* are fully immersed in the old economy. As market conditions change, technology progresses, and initiatives toward a carbon-free society go into effect, some resources may become essentially valueless.

In November 2017, I went to the United States to get a sense of the current state of business there. I came face to face with the global trend toward convergence of the Internet and the physical world, seeing how one major e-commerce company was working to gain a foothold in bricks-and-mortar stores by acquiring a supermarket. I saw how companies that had been founded only recently were combining the germ of an idea with IT technologies to grow into huge entities in a short time. Over the past decade, in the US and Chinese stock markets the top five companies by market capitalization have shifted; formerly dominated by smokestack industries, the top companies are now in the IT field. In that same period, however, the lineup in Japan has remained largely unchanged. Being in Japan, where regulations are slow to change, it is easy to have the illusion that the tectonic shifts taking place at breathtaking speed across the world in all manner of industrial fields—some of the biggest changes since the Industrial Revolution—are limited to certain countries and specific fields. However, turning our eyes away from the outside world as Japan did during its isolationist era could be dangerous for the country as a whole.

Looking back, *sogo shosha* have faced many difficult, “wintry” periods. By investing in the upstream and downstream areas of product distribution and gaining more

sophisticated functions, the industry has been able to overcome the “disintermediation” that was once perceived as a serious threat. However, the threat the industry faces from the “Fourth Industrial Revolution” has an altogether different aspect. To date, general trading companies have relied on their contacts with companies in smokestack industries, but the influence of these companies is waning, and *sogo shosha* currently have only limited contact with the companies that are leading the current revolution. Furthermore, these new companies have business models that distribute goods in a variety of ways that do not require the intermediate distribution function that has historically been a core skillset for *sogo shosha*. Large *sogo shosha* are all reporting favorable earnings; in FYE 2018 combined profits came to around ¥2 trillion. That being said, I believe expansion along the same vector is limited. I think *sogo shosha* will face the limitations of their current business models in the not-too-distant future.

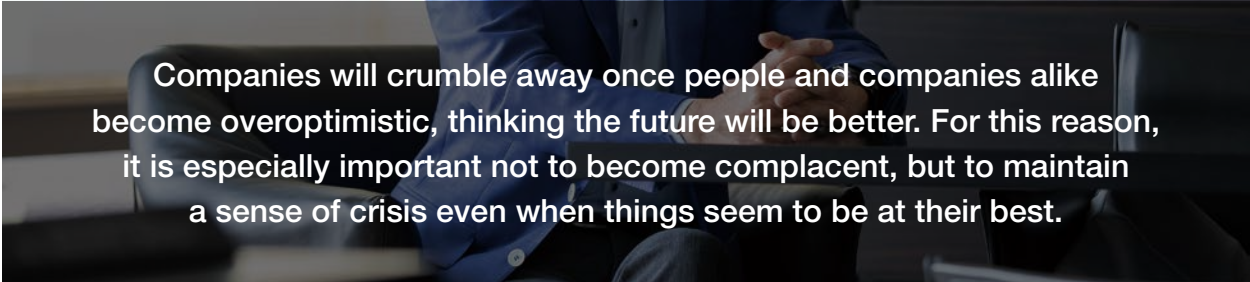
## No Time to Be Complacent

The second sense of crises I feel is toward ITOCHU.

In FYE 2018, the final fiscal year of “Brand-new Deal 2017,” we met many goals. Consolidated net profit reached a historic high for the second consecutive year, and we achieved record high in gross trading profit, trading income, and equity in earnings of associates and joint ventures. By building an earnings base less affected by resource prices, we succeeded in one of our basic policies, “build solid earnings base to generate ¥400.0 billion level consolidated net profit.” By working together, the ITOCHU Group pursue the “earn, cut, prevent” principles, and we reached new heights in profits/losses of Group companies, the share of Group companies reporting profits, and profits from companies operating in the black, all of which contributed substantially to our record levels of consolidated net profit. By recognizing an impairment loss to reduce future risks, we ranked third in consolidated net profit, but core profit, which excludes one-time profits and losses, exceeded ¥400.0 billion for the first time. These results show how we have steadily reinforced our earning power. We had committed to generating core free cash flows of “over ¥100.0 billion +α;” the actual figure was ¥175.0 billion. Also, net debt-to-shareholders’ equity ratio (NET DER) reached the lowest level to date, at 0.87 times. These results demonstrate that we have fully met our other basic policy, “strengthen our financial position.” As a result, we achieved another major objective—obtaining an A rating from Moody’s—a dearly held wish for around 20 years. (⇒ Page 42 CFO Interview)

As we continue our forward march, we will often face imminent crisis. Having gloried in the days of Japan’s bubble economy, we had to address a legacy of losses when the bubble burst. The existential crisis we faced at that time is still fresh in my mind. A newer memory is of how





**Companies will crumble away once people and companies alike become overoptimistic, thinking the future will be better. For this reason, it is especially important not to become complacent, but to maintain a sense of crisis even when things seem to be at their best.**

general trading companies benefited from high resource prices. After posting unprecedentedly favorable results, the global financial crisis occurred, bringing us to another crossroads. This cycle has repeated itself numerous times. Companies will crumble away once people and companies alike become overoptimistic, thinking the future will be better. For this reason, it is especially important not to become complacent, but to maintain a sense of crisis even when things seem to be at their best.

### **Create a Brighter Future Founded on Innovation ITOCHU : Infinite Missions : Innovation**

I am always reluctant to give on-the-spot interviews at the New Year's parties hosted by Japan's three economic organizations. This is because I am not good at improvising serious discussion in front of large groups of people. Therefore, I put a good deal of effort into preparing answers beforehand as usual. This year, my talk emphasized "innovation" as a keyword for 2018.

At a voluntary early-morning study session in May 2018, a room with space for 400 people was packed full of employees. The theme was "leading-edge technology trends." I have already expressed the sense of crisis I felt in a number of situations. Attendance at this session helped reassure me that ITOCHU Group employees share this sense of crisis, and even today our corporate culture of staying ahead and taking on challenges is alive and well.

We do not take a reactive approach to dealing with threats. I am confident that the ITOCHU Group will confront its new competitive environment, fueled more than ever by a fighting spirit. Our new medium-term management plan, "Brand-new Deal 2020," prepares us to "create a bright future founded on innovation." We will anticipate change and push forward vigorously with "reinvented business."

We have pursued business in a broad range of industrial fields in the 160 years since our founding, and we have cultivated assets throughout this time. These assets include a variety of strengths, including technologies, know-how, and our customer base. As an example, FamilyMart Co., Ltd. has some 17,000 stores across Japan that are visited by around 15 million people each

day. E-commerce is making inroads, but physical stores still account for more than 90% of personal consumption, so having a network of stores in good locations is a major strength, as it allows us to obtain purchasing information from valuable consumer contact points. YANASE & CO., LTD. enjoys strong customer loyalty from the wealthy customers who purchase its luxury cars. NIPPON ACCESS, INC. operates approximately 10,000 trucks from 550 locations around Japan, providing a nationwide low-temperature distribution network that is unrivaled in Japan. We see this network as a competitive advantage, as we believe distribution is key to the fusion of the digital and physical worlds.

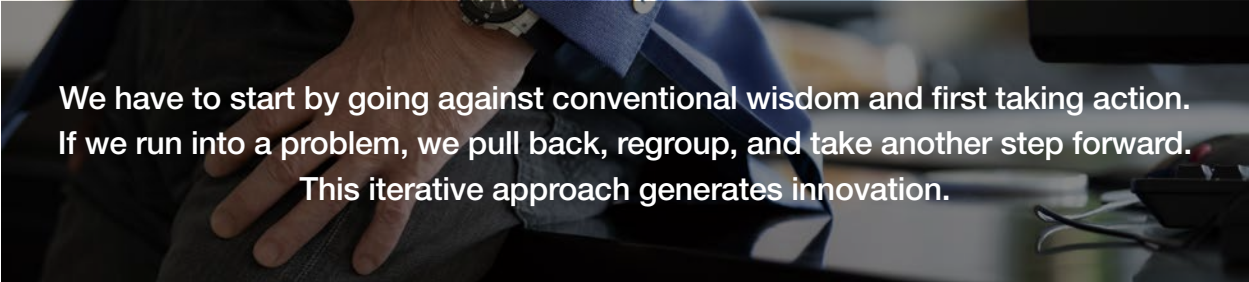
In the textile industry, conventional retailers such as department stores and general merchandise stores are hard-pressed, while e-commerce companies have built up extremely streamlined business models. For instance, START TODAY CO., LTD., which operates ZOZOTOWN, has grown into a company with market capitalization of more than ¥1 trillion. This example illustrates how companies can grow even in mature markets by changing the way they sell, taking their cue from shifts in how and where consumers make purchases.

The "reinvented businesses" do not involve large-scale investments in e-commerce and IT companies, and often we need not look to entirely new fields of business. By combining the tangible and intangible assets of our existing businesses with new technologies, we believe we can create business models updated for a new era—what we refer to as "reinvented business." (⇨ Page 51 Toward "Reinvented Business")

All general trading companies are fumbling along as they attempt to make progress on their business models. We believe we are particularly well-positioned to take the lead in innovation because of our strength in the non-resource sector, specifically the consumer-related sector such as textiles and food.

### **Issues on the Road to Reinvention**

These days, I often find myself telling employees "Why not just give it a try? If it doesn't work out, you can try something different." Our morning-focused working system was



**We have to start by going against conventional wisdom and first taking action. If we run into a problem, we pull back, regroup, and take another step forward. This iterative approach generates innovation.**

one such approach. Reinvention requires us to revise our approaches to business. We have to start by going against conventional wisdom and first taking action. If we run into a problem, we pull back, regroup, and take another step forward. This iterative approach generates innovation.

To ensure the ideas are not easily crushed, together with our corporate culture of “taking on challenges,” a culture of “taking on challenges again” will also come into its own.

One major pillar of this “reinvention” is FamilyMart UNY Holdings Co., Ltd. (⇒ Page 30 Our Business Model, as Seen through a Functional Example). By introducing new technologies and services from the ITOCHU Group and its alliance partners, we will pursue reinvention, centered on FamilyMart UNY’s existing value chain. As part of this initiative, we will pursue optimization, involving NIPPON ACCESS, in logistics; ITOCHU Techno-Solutions Corporation to help enhance operating efficiencies; POCKET CARD CO., LTD., which provides financial service functionality; as well as further alliances with various other operating companies. In April 2018, we announced our decision to increase our stake, making FamilyMart UNY Holdings a subsidiary through a tender offer. This acquisition has several aims, including protecting from potential acquirers that aim to benefit from the substantial value of the company’s physical stores. Our foremost objective for making it a subsidiary, however, was to reinforce and transfigure its value chains led by us. As for FamilyMart, through our existing alliances with strong partners, particularly in China and other parts of Asia, we intend to work with these partners to promote business development overseas.

E-commerce companies are “professionals at selling” by leveraging IT. Taken to the extreme, they require no “product professionals.” ITOCHU, meanwhile, has seven Division Companies that have face-to-face contacts with different industries. For example, the Food Company is segmented into specialized fields that deal with specific product types, such as coffee, tuna, and bananas, which is an issue when creating a cross-industry framework. As a first step, under the direction of the Chief Strategy Officer (CSO), we have created a new cross-field organization, and we will leverage the technologies of our Division Companies to support alliances among operating

companies, partners, and venture companies. We plan to continue addressing this issue, as silo-like organizations tend to be an impediment to cross-company initiatives.

As part of the reinvention process, we will require cooperation with e-commerce and IT companies, as well as companies from other industries. We will consider collaboration with a wide range of partners, closely examining cooperation to ensure that such relationships are sufficiently beneficial to ITOCHU in terms of augmenting corporate value, as well as to its partners.

### **Balancing New Blood with Management Continuity**

I often look back on my working life and consider whether this is the best path for my life to take. I also want to spend more time with my family as I grow old. Remaining the president of a *sogo shosha* that operates across a broad range of fields is quite difficult. By forming a capital and business alliance with Don Quijote Holdings Co., Ltd. and FamilyMart UNY Holdings we will be able to address one concern we had been facing, namely the benefits of the general merchandise store business. Also, I recognize that my being in office for eight years is exceptional for ITOCHU, and if I were to continue in my role as president, the impact when I retire would be greater. I thought it was time to change the management team to prepare for the next generation of the Company, as well as to change the awareness among employees. For this reason, I communicated to the Company’s Nomination Committee that I would not be continuing in my role.

Some issues remain, such as generating synergies from our alliances with the CITIC Group and the CP Group. We need to maintain our relationships with the groups’ top management, but my understanding is that in China, position within the company is of particular importance, rather than the individual. Also, to further strengthen management throughout the ITOCHU Group, we need to control the numerous presidents of the ITOCHU Group companies of my generation who have extensive experience. The Nomination Committee strongly requested that I continue. The committee’s argument was the Company required a combination of management continuity and “new blood,”

in order to move the business model forward. After much deliberation, we came to a solution. I proposed a new management structure in which I would become the Company's first Chairman and Chief Executive Officer (CEO), retaining the CEO title, while Yoshihisa Suzuki, President of the ICT & Financial Business Company, would be appointed President and Chief Operating Officer (COO). After meeting with Mr. Suzuki a number of times, the Nomination Committee approved the idea. For the foreseeable future, therefore, I will formulate management strategy for the overall ITOCHU Group and be in charge of the strategies of key operating companies and of maintaining relationships with important business partners. Meanwhile, the President and COO will oversee overall execution at ITOCHU, take charge of anticipating global trends, and consider and promote new "earning" businesses. I think this approach will enable us to maintain a good flow while steadily cultivating the next generation (⇨ Page 56 Next-Generation Management Structure).

Mr. Suzuki, who has a technical background, is interested in and well versed in new technologies. He has had a spectacularly successful career, becoming an executive officer in his 40s. At the same time, he experienced the global financial crisis during a post as President of a US subsidiary, and understands firsthand that taking on challenges does not always lead to success. Not losing heart, at the young age of 55 he became President of JAMCO Corporation, a manufacturer of aircraft interiors, helping the company rebound following the damage it suffered in the Great East Japan Earthquake and shepherding it to a listing on the First Section of the Tokyo Stock Exchange. Having experienced both success and frustration, I think he is an excellent choice for taking on new challenges.

### Making Sure Employees Feel They Have Found Their True Home

I am a firm believer in the idea that with people, what lies inside is the important part, rather than what you see on the outside. That being said, I think that conducting coordination, which requires employees to think of all sorts of things, enhances the flexibility of their imagination. On the day we presented our operating results for FYE 2018, I was wearing a lilac jacket and denim, because that was the first day of "dress-down+," which we had introduced in May. We introduced this policy in the belief that providing a constant stimulus was important training in creativity, which would be required in the business of the future. As I have always said, our human resources policies are positioned as part of our management strategy.

On a non-consolidated basis, we have fewer employees than any other large *sogo shosha*. To compete, we need to have better labor productivity. Also, with labor shortages becoming the norm, securing superior human

resources is difficult. We have taken the lead in introducing work-style reforms, such as our morning-focused working system. As a result of our forward-looking efforts in this regard, we have been selected as a Health & Productivity Stock by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. We have also won a number of awards from the Ministry of Health, Labour and Welfare. In numerous rankings of places of employment, we have scored top among *sogo shosha*, and we are a favorite among students, too. We take care not to unilaterally impose reforms on employees. Rather, management aims to ensure an employee focus, which I believe is the reason our programs have taken root. For instance, under our morning-focused working system we provide employees with breakfast and pay an overtime allowance for hours worked in the morning.

Under "Brand-new Deal 2020," we place human resource strategies such as "smart management" and "No. 1 health management company" alongside "reinvented business" as strategic pillars, and we aim to lead the industry in labor productivity (⇨ Pages 58–63). I have a special place in my heart for this strategy, which we explain in line with our basic policies as "ensure employees feel motivated and rewarded in their work and become the best company for employees' families as well."

In spring of 2017, an employee died of cancer. Prior to his death, he saw an article in which ITOCHU had ranked second overall in a magazine's ranking of "companies where employees are happy." After reading the article, he sent me a message indicating his gratitude for the Company's support, saying "For me, ITOCHU is the best company in Japan." Reading his words, I made a vow. I was convinced that we could bring significant energy to bear in ensuring a true home for our people, whether healthy or struggling with illness. Based on this conviction and in the belief that people fighting illness were "family members," I vowed that ITOCHU would support employees with serious illnesses both physically and emotionally. This background is behind our introduction of "Support Measures for Balancing Cancer Care and Work." (⇨ Page 63 "Support Measures for Balancing Cancer Care and Work")







The number of employees who are working hard while at the same time fighting cancer and other serious diseases is not insignificant. I find it encouraging to see many people who have returned to work after a battle with illness and gone on to achieve remarkable results. We are indeed a company where people who work hard can take on new challenges.

### **Learning through Reflection**

It is my character to be prudent—some would even call me a worrier. It is my practice to take a step, stop and reflect, and then move forward again. When announcing our results for FYE 2018 and the briefing session for the new medium-term management plan, I once again learned a lesson in self-reflection.

I consider enhancing corporate value to be my topmost responsibility. I do my best to manage the Company by aligning myself with the perspectives of shareholders and investors. I am fully aware that a company's stock price can be considered as a manager's scorecard. General trading companies' stock prices have tended to be low in relation to profit levels. In my understanding, one reason is the volatility of operating performance caused by resource prices. Since the start of our plan, my overriding priorities have been to build an earnings base that can generate stable profit independently of resource prices and to earn the trust of shareholders and investors. Also, from the very beginning I have been firmly committed to reaching the plan's numerical targets that have been announced. Each year, we paid historically high levels of annual dividends. In FYE 2018, we paid dividends of ¥70 per share, ¥6 higher than the ¥64 dictated by our dividend formula. These dividends were 3.9 times the level we paid in FYE 2011 and the highest rate of increase for a *sogo shosha*. Assuming we deliver consolidated net profit of ¥450.0 billion in FYE 2019, which would be a record high for the third consecutive year, we plan to raise dividends again, by ¥4 per share, to ¥74 (minimum).

Looking at the one-year period from April 2017, other general trading companies revised their performance outlooks upward several times, due to rising resource prices. Even so, we recorded the highest percentage growth in our share price. Also, our share price has risen each year since April 2010, in contrast with other *sogo shosha*. I believe this rise in share price attests to the evaluation of our management by shareholders and investors.

Our share price fell sharply the day after we announced "Brand-new Deal 2020," our new medium-term management plan, which coincided with our earnings presentation in May 2018. The drop seemed to come from a misunderstanding that we were diverging from our previous stance of "turning words into accomplishments." This misunderstanding stemmed from the facts that first, we had left our conventional dividend formula unchanged, and second, differently from our previous medium-term management plan, the new plan provided qualitative rather than quantitative targets for consolidated net profit and minimum per-share dividends from the second year onward. In addition, our new plan was perceived as abstract and difficult to understand.

In a time when changes in the management environment are accelerating, accurately judging the situation three years into the future is difficult. That said, as in the past we had set a quantitative single-year target, based on the belief that regardless of conditions corporate management needed to be able to ascertain the situation one year hence and meet the goals it had committed to. Bearing in mind the ITOCHU Group's consistent growth and increases in corporate value, we aim to achieve steady increases in operating performance from the second year onward. To do so, we aim to turn our words into accomplishments with a focus on further enhancing our existing businesses. Along with this short-term perspective, we have positioned the three years of "Brand-new Deal 2020" as a period for turning new businesses into reality and accumulating know-how. In this manner, we will pursue business from a

medium- to long-term perspective. I believe we need to ensure that our current foundation is solid and take a deep breath before making a major leap forward.

Given this background, I recognize that I was somewhat overly cautious, and that I did not respond fully to the market's expectations. Learning from this experience, I plan to do a better job of staying in tune with the market.

### The Key to Achieving Sustainable and Long-Term Increases in Corporate Value

From a longer-term perspective, we plan to significantly cultivate our strategic business alliance and capital participation with the CITIC Group and the CP Group in the interest of achieving sustainable increases in our corporate value. We will keep putting every effort into this initiative even under "Brand-new Deal 2020."

I am aware that progress on synergy investment projects has been slower than planned, due to such factors as the impact of China's anti-corruption campaign. As a result, the scale and speed of our efforts to generate synergies have been below our initial expectations. The National Congress of the Communist Party of China outlined its policy of strengthening state-owned enterprises, improving the environment for promoting cooperation, and we are moving forward with discussions on cooperative business with the two groups. One attractive possibility is to cooperate on the convenience store business in China. In addition, even more than in the United States, China is leading the charge in leading-edge businesses such as mobile payments, drones, and electric and plug-in hybrid vehicles. By leveraging networks in China, including those of the CITIC Group and the CP Group, we are also looking to participate in businesses that are pursuing technological innovation ahead of Japan. Through the culmination of individual measures such as these, we expect to increase the corporate value of the CITIC Group and the CP Group, as well as their sluggish share price.

To spearhead efforts to build a foundation for expanding business in China over the medium to long term, in FYE 2016 we launched a project to increase our number of Chinese-speaking employees from around 300 to 1,000. We had met that goal as of March 31, 2018. This 1,000-strong corps accounts for around one-third of ITOCHU's employees in career-track positions, and is of an

unprecedented scale among Japanese companies. To celebrate meeting this goal, in April 2018 we held the ITOCHU China 1,000-Talents Gathering. This celebration was marked by the attendance of Mr. Cheng Yonghua, the Chinese Ambassador to Japan; Mr. Yang Xiaoping, Vice Chairman of the CP Group; and Mr. Pu Jian, Vice President of CITIC Ltd. We understand that in the following days, the ambassador communicated our initiatives to the highest authorities in the Chinese Communist Party.

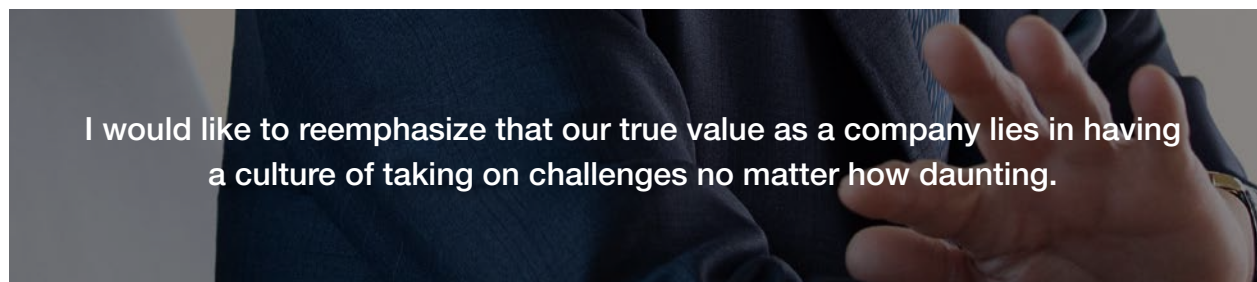
In addition to this strategic move from a long-term perspective, we recognize the need to continue responding to requests from global society and pursue initiatives to achieve long-term, sustainable increases in corporate value. Alongside our strategic moves, we remain committed to helping resolve the issues facing society through our core business. As such, under "Brand-new Deal 2020" we seek "sustainable growth through a 'reinvented *sampo yoshi*' approach." (⇔ Page 64 Sustainability)

### Getting Back to Basics, Moving Forward Again

I will never forget how, as I was opening my email one morning, tears sprang to my eyes as I read the message from the employee fighting cancer who I mentioned earlier. As a company, our mission is to increase profits. As a merchant, our responsibility for meeting the plan we set for each fiscal year goes without saying. Doing so can be difficult. At the same time, I believe an ideal company is one that employees and society at large think of as a "good company" and a place where employees can work with pride. Recently, I hear from many quarters the comment that "ITOCHU employees seem enthusiastic." A strong sense exists that we are taking firm steps to become the sort of company we envision as ideal. But this is no time to indulge in deep emotion.

Looking back at the words in the policy speech I wrote when my appointment had been confirmed stokes the emotion for me all over again. Being resolved to "getting back to the basics," every day the ITOCHU Group is making strides to become a next-generation merchant.

I would like to reemphasize that our true value as a company lies in having a culture of taking on challenges no matter how daunting.



I would like to reemphasize that our true value as a company lies in having a culture of taking on challenges no matter how daunting.

## COO MESSAGE



### **I am resolutely committed to reinventing our business, taking ITOCHU into the next generation.**

**I am Yoshihisa Suzuki, appointed President and COO on April 1, 2018.  
I will bear firmly in mind the history of ITOCHU, built by my predecessors,  
as I work diligently on a daily basis to increase our corporate value.**

**I would like to take this opportunity to offer my greetings  
to our shareholders, investors, and all other stakeholders.**

#### **Humility, Study, Challenge**

At university, I studied aeronautical engineering, and I yearned to get a job where I would be involved with aircraft. When I was selected to work at ITOCHU and assigned to the Aerospace and Space Department, I had the chance to fulfill this desire and become involved in the aerospace business.

This was in the 1980s, and in Europe satellite launches were moving into the private sector. Few people in Japan

thought this would turn into a business, but ITOCHU believed in its business potential and, accordingly, launched a space-related business. Several years later, satellite launches were privatized in Japan as well, and ITOCHU obtained an agency contract for its satellite launch service. In this project, I became acutely aware of the need for general trading companies (*sogo shosha*) to be on the front lines of Japan's economic growth and consistently take on challenges in new domains in Japan and overseas. Moving into cutting-edge businesses requires us to be

humble and respectful of the people who already have experience in these areas. Recognizing that ITOCHU's ability to adapt easily to changing environments was due to its belief in the mantra of "be humble, do not neglect your studies, and continue to take on challenges without fearing failure," I embraced this as my personal creed, which I have followed to this day.

### Remaining Alert for Danger, Even in Times of Peace

I have taken on challenges that ended up as major failures. In April 2007, I was appointed CEO of ITOCHU International Inc. (III), a US subsidiary. The US financial industry was enjoying an unprecedented boom at the time, and III's operating results were favorable. I took on the challenge of adopting an investment banking model that ITOCHU did not have at the time. Just as we were introducing this model, the global financial crisis hit, the corporate value of our investees slumped instantaneously, and III's operating results plunged. I learned a number of things through this experience. First, I learned that ITOCHU's investments should be those that add value to its existing business and that expand its trading and other businesses, not those that adopt the investment banking model of pursuing capital gains. Also, I learned that the time when business is going well is precisely when you should remember to prepare for the worst. Since that time, I have been a firm believer in "remaining alert for danger, even in times of peace."

In March 2011, I stepped down as that company's managing executive director and transferred to JAMCO Corporation, which makes aircraft interiors. This was a time of extremely high yen appreciation, and the company was facing difficulties due to the damage its factory sustained in the Great East Japan Earthquake. Amid this situation, the entire company pulled together to maintain the levels of quality and delivery times that are essential to a manufacturer, while at the same time pursuing relationships of trust with customers. These efforts led to a significant improvement in earning capacity, and in March 2015 the company successfully changed its designation to the First Section of the Tokyo Stock Exchange. I will never forget the employees who encouraged each other and the people who provided support as we worked to overcome the difficulties.

### Taking on the Role of Reinventing the Company into the Next Generation

In April 2016, I returned to ITOCHU, where I was appointed President of the ICT & Financial Business Company. I understand that returning to the parent company after

having been dispatched and transferred to other Group companies is generally atypical in the business world. Still, this practice is not unusual at ITOCHU, which has a corporate culture of evaluating people fairly, whether they have been successful at ITOCHU itself or at an operating company. In FYE 2018, we posted the highest level of consolidated net profit to date. It is no exaggeration to say that this result, which includes the profit contribution from operating companies, is attributable to the successful management of ITOCHU on a consolidated basis, and of putting the right people in the right job, as occasion demands.

In January 2018, President Okafuji (now Chairman & CEO) spoke to me about taking over the position of President. I was hugely surprised, but when I learned that the plan was, from April, for Mr. Okafuji to take over the role of formulating future strategy for the entire ITOCHU Group as Chairman & CEO and for me to take an operational role with responsibility for working with the individual Division Companies, I became confident that I could take on the position. I recognize that reinventing the Company's business into the next generation is of particular importance. Also, this position means that I will be sharing some of the operations that Mr. Okafuji has handled to date, and I hope that one plus one will deliver results greater than two.

### A Clumsy Elephant

For the past two years, Mr. Okafuji has been strongly aware of the need to reinvent ITOCHU's business in response to the digital revolution. I share his sense of crisis and his view about the need for us to become a "next-generation merchant."

Overseas, the digital revolution is moving forward at breakneck speed. In particular, China, where regulatory hurdles are low, is serving as a large-scale test site of leading-edge technologies for the global economy. For instance, in China companies are creating business models that directly connect manufacturing and retailing in the non-resource sector, particularly the consumer-related sector, which is one of ITOCHU's fortes. This breakthrough business model that has emerged in China, is spreading through Asia, the Near and Middle East, and Africa, and will arrive in Japan sooner or later. Accordingly, ITOCHU needs to quickly move forward with a business model that will become outdated. I feel a sense of crisis because I recognize that particularly when business is going well companies tend to behave like clumsy elephants. My first task, therefore, is to encourage every employee to understand the need for transformation from the core of their being and to reawaken our erstwhile "hungry spirit." I will do my best to achieve this goal.

**Giving Our Business a “Version Upgrade” by Leading-Edge Technology**

Our new medium-term management plan, “Brand-new Deal 2020,” calls for us to become a next-generation merchant, underpinned by “reinvented business” and “reinvented work styles.” We aim to achieve a new generation of “*sampo yoshi*,” realizing sustainable growth by improving employees’ job satisfaction, enhancing society’s evaluation of the Company by achieving further profit growth, and realizing a virtuous cycle whereby society’s evaluation of the Company attracts excellent employees and new customers (⇨ Page 38 New Medium-term Management Plan).

One of our basic policies as a next-generation merchant is to reinvent businesses in all domains, centered on the Business Innovation Unit, which is overseen by the Chief Strategy Officer (CSO).

By “reinvented business,” we do not mean fields entirely divorced from ITOCHU’s conventional businesses, nor do we refer to areas requiring large-scale investment. Rather, these areas of business are broad-ranging and ones that we have cultivated over a long period of time. We will look at these businesses from a fresh perspective, append leading-edge technology—sometimes through partnerships—and efficiently achieve a “version upgrade” on these businesses. (⇨ Page 51 Toward “Reinvented Business”) For instance, ITOCHU FEED MILLS CO., LTD. and NTT TechnoCross Corporation have jointly developed Digital *Mekan*, which uses AI technology in an app to guess a pig’s weight—something that previously required an expert’s eye. This product is a good example of a “version upgrade,” as it uses technology to achieve a major

boost in efficiency to solve a problem that has plagued people in the hog industry for some time: accurately judging a pig’s weight at time of shipping, to avoid differences in selling prices. Also, we have added UK company Moixa’s AI in the platform technology software used in storage batteries to our electricity storage system to provide an optimal electricity storage service. This example shows how leading-edge technology can be used to advance an existing business.

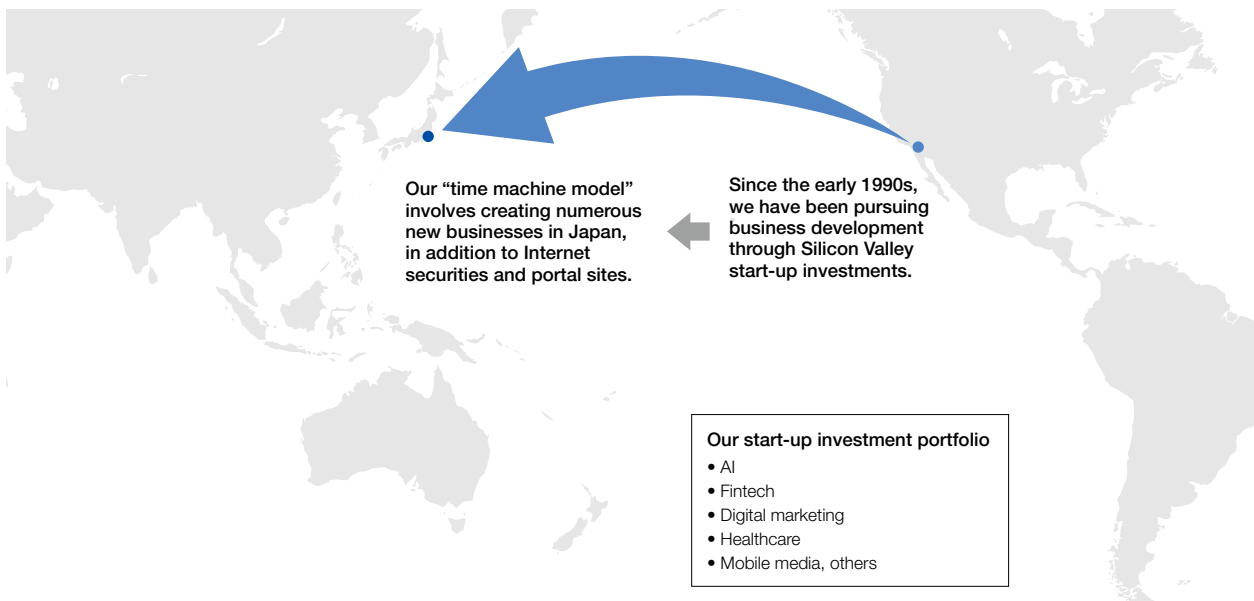
New businesses such as these can be created in a variety of domains, including mobility, agritech, regenerative medicine, advanced logistics, new materials, and fintech (tech-based financial services). By steadily nurturing these small seeds of business, some will grow into major businesses for ITOCHU, so we should steadily increase the number of projects of this nature.

**Taking the Industry Lead in Start-Up Investments**

One important way to achieve a next-generation shift is through start-up investments. ITOCHU’s history of start-up investing dates back to the dawning of the Internet, in the early 1990s. At that time, we invested in a variety of projects in Japan and overseas, both through funds and directly. When the Internet surged in popularity in the 2000s, the “time machine model” developed in Japan using leading technology from the United States generated new businesses, such as Internet securities and search portal sites. Today, we have created an extensive portfolio of start-up investments across numerous genres, including AI, fintech, and digital marketing.

These results and history have enabled us to form networks with leading funds in Silicon Valley and other

**Our Pioneering Start-Up Investments**



locations and cultivate expertise in start-up investments. Although our scope of investment is by no means large, we believe we are now able to make start-up investments efficiently. One such example is our strategic investment in Inagora Inc., which aims to enter the cross-border e-commerce market targeting China. Rather than simply targeting capital gains and dividends in the manner of a private equity fund, with our start-up investments we aim to invest in adding new technologies to existing businesses and expand a variety of future business opportunities. (⇨ Page 29 “How ITOCHU Differs from a General Private Equity Fund”)

### Remembering Our Origins

Earlier, I touched on the idea of humility, which I believe is of particular importance from the perspective of a merchant. A *sogo shosha* serves as a middleman—the mid-stream business is our livelihood. For this reason, we have customers at both the upstream and downstream ends of our business. No matter how involved we become in advancing our business model or how favorable our results may be, we must not forget that we are at our nature, merchants, and we should maintain a sense of humility. I believe this concept is incorporated into the management philosophy of “*sampo yoshi*” (good for the seller, good for the buyer, and good for society) that we have inherited from the merchants of Ohmi.

As indicated by the addition of “society” to our philosophy of buying and selling, the importance of providing value to society is ingrained in the “*sampo yoshi*” philosophy we have followed as we have engaged in trade over 160 years. Nowadays, we are building value chains in a host of industries throughout the world. Developing our business in a lasting manner requires that we satisfy not only customers at both ends of our business, but also broader society. In this sense, “society” refers to the consumers that lie beyond our customers, the local communities housing businesses where we are expanding our value chains, the global environment, and a wide range of other stakeholders. As our corporate message indicates, we truly have “infinite missions.”



### A Time to Take on Challenges without Fear

The Darwinian phrase “survival of the fittest” does not mean that organisms with the best biological capabilities survive. Rather, it emphasizes the importance of adapting to changes in the environment. This idea is fitting for *sogo shosha*. Instead of asset scale or the physical prowess of financial conglomerates, our emphasis needs to be on adapting moment by moment to changes in the operating environment. I am convinced that ITOCHU can adapt flexibly and swiftly to the changing environment. This ability is based on our corporate culture, which emphasizes that “failing and trying again is better than not failing.” This willingness to take on challenges is valid for *sogo shosha* of all times and sizes: at the time of our founding by Chubei Itoh, a merchant of Ohmi who started business by peddling linen; in the 1980s when the launch of communications satellites was privatized (as mentioned earlier); in the 1990s when we entered the convenience store business by investing in FamilyMart Co., Ltd.; and in recent days with Dole business and large-scale investments in the CITIC Group and the CP Group.

By unleashing the potential of our “DNA of taking on challenges” and fulfilling my mission through the business principles of “earn, cut, prevent,” we will create the next-generation ITOCHU. I ask all our shareholders, investors, and other stakeholders for your ongoing support of our endeavors.