

Dialogue — CSR Initiatives Required for a General Trading Company

ITOCHU is working to strengthen disclosure of CSR information and to clearly explain its corporate value. Our management philosophy underlies all that we do, and our mission is to fulfill that philosophy.

With the growth of ESG investment, non-financial information is playing an increasingly important role in investment decision-making, and corporations are being judged by the extent to which they disclose their CSR information in an easy-to-understand manner.

Mr. Masaru Arai, Chairman of the Japan Sustainable Investment Forum (JSIF), is well versed in sustainable investment. As such, we asked him for his impressions of and his expectations to the CSR activities of ITOCHU, which has inherited the philosophy of *Sampo Yoshi*.



Concepts incorporated in “I am One with Infinite Missions”

Kobayashi : I think that the work actually performed by general trading companies is not understood by the public. Concern about the influence of business activities on society and about the social responsibilities of corporations is growing, and in this environment we have thought a great deal about how we can foster an understanding among stakeholders about what it is that we do and what our responsibilities are. In that regard, we have formulated our “I am One with Infinite Missions” Corporate Message to clarify and directly express our corporate philosophy of “Committed to the Global Good.”

We also polled our employees internally, and the response was that they could “strongly empathize” with the message.

Arai : The businesses of a general trading company certainly extend over a broad range of industries, and as such it is not easy for investors to comprehensively evaluate the total value of the company. However, general trading companies play an extremely significant role when we think of their product chain and supply chain.

ITOCHU has inherited the *sampo yoshi* spirit, and this management philosophy clearly expresses the relationship between companies and society that is the core concept of ESG investing and responsible investing. ITOCHU's Corporate Message demonstrates that the Company is carefully considering its roles and responsibilities in today's global society, and I believe it is important to convey your message.

Listening to external feedback, working to resolve material issues

Kobayashi : At ITOCHU, we review our Basic Policies for CSR Promotion when we formulate a medium-term management plan. In that process, initiatives that are especially important have been identified as CSR material issues—climate change, sustainable use of resources, respect and consideration for human rights, and contribution to local communities—and we are working to contribute to the resolution of these issues through our business activities. In particular, climate change is a social problem on a global scale, and accordingly ITOCHU is working in such areas as renewable energy, including geothermal and wind power.

Arai : These four material issues are all highly important, and it is crucial that the Company specifies what is important in the context of its business activities. When employees understand those issues and strive to address them in their daily work, it becomes the most effective means of promoting the Company's CSR. The Intergovernmental Panel on Climate Change (IPCC) indicated last November that the probability of human influence on climate change is extremely likely. Climate change is an issue that affects everyone and everything. It cannot be avoided. I would like to see ITOCHU address this issue through its business activities.

Kobayashi : After we identify CSR material issues, we periodically hold our CSR Advisory Board meeting, which is composed of outside experts. We confirm that we are not complacent about the direction of our CSR and that we are meeting the needs of society.

Arai : I hope that ITOCHU continues on with these activities. Outside opinions are not always easy for a company to accept, but the active exchange of opinions with outside experts enables companies to check opinions that might be more one-sided if the process is solely internal.



CSR Advisory Board

Importance of human resources for a general trading company



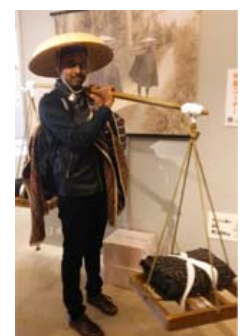
Kobayashi : In simple terms, "human resources" are the only true resource that trading companies have. Success or failure depends on how these resources are utilized. We don't assign missions to our employees. Thus, we want to employ those who can find their own missions, make judgments on their own and create win-win relationships with customers. Accordingly, we focus on determining whether an individual has the ability to earn a business partner's trust, and whether the individual finds that to be a joy and uses it as strength in earning trust from other business partners. Possessing such ability will enable one to succeed in any part of the world, since one-to-one communication becomes the key in any business field.

Arai : ITOCHU's corporate philosophy and Corporate Message are very clear, and I believe those help greatly in human resources development. Business activities include times when things are going well and times when they are not, and even times when a company's existence is in danger. What becomes important at such times are missions and visions of the company. Further, it is imperative that employees understand these messages.

Kobayashi : ITOCHU engages in business activities all over the world, and we think it is important to penetrate the corporate philosophy into national staff in each country. Each year nearly 200 national staff are invited to Tokyo HQ in order to participate in a range of training programs. In addition to the study of leadership and management strategy, the training programs also include a visit to the house of the founder Chubei Itoh in Shiga Prefecture. This is a valuable opportunity for national staff to understand origin of ITOCHU and its spirit as management policy, in other words the *sampo yoshi*.

Arai : One of the great things about ITOCHU is the focus it places on nurturing the development of highly professional people on a global scale and in each field of business. I think you could perhaps say that ITOCHU is one of the most progressive companies in terms of human resource development.

Kobayashi : Even from the perspective of consolidated management, how to manage our Group companies is an extremely important issue. Instead of simply expanding trade, there is a growing need to foster the development of human resources who will be able to properly run, manage and lead these Group companies. That's why we have implemented unique training systems since last year to ensure that our sales representatives develop into human resources who also possess management skills. Our administrative intern program is one such example. We created a new simulation program that provides experience with every aspect of our year-long accounting work in the period of several weeks. It was very well received as a system that is able to develop sales personnel with an accounting and finance-oriented mindset without having to undergo departmental transfers.



Learning the management philosophy of Ohmi Merchant at the Ohmi Merchant Museum

Working to implement highly transparent information disclosure and to respond to feedback from investors

Arai : The amount of global sustainable investments is now 2,500 trillion yen, five times the size of the Japanese stock market. Of particular note is the significant growth in recent years of ESG investments (an investment approach that takes into consideration environmental, social and governance influences). ESG investments grew 2.1 fold* in just two years from 2012 to 2014. Although this trend hasn't spread throughout Japan over the past decade, with the introduction of the Japanese version of the Stewardship Code last year and corporate governance code this year, the information investors and other stakeholders are demanding from companies has undergone a rapid shift. While investors have traditionally focused on financial information to evaluate companies, there is a notable trend towards also evaluating non-financial information, such as a company's environmental and social initiatives and governance systems, in a balanced fashion and incorporating those factors into the investment process.



* Reference : Global Sustainable Investment Review 2014

Engagement, or what is often referred to as constructive dialogue with stakeholders, is essential. However, it is practically impossible for institutional investors to conduct dialogue with all investee companies, and they judge on the basis of information disclosed by the companies. Integrated reports that clearly show links between CSR initiatives and actual business activities in addition to financial results are extremely useful to investors. It is also required to disclose how companies regard ESG-related issues and how they propose to tackle those issues. For a trading company to be properly assessed by investors, it is extremely important to disclose the company's own value as well as information on future opportunities and risks. ESG investors make investments over a long period of time, therefore, they contribute to the formation of a stable shareholder base for companies. I hope ITOCHU continues to implement proactive information disclosure as a global leader.

Kobayashi : As a matter of fact, we just reviewed about the separation of financial information and CSR information in the previous report. In this report, CSR issues and initiatives that are directly linked to operating activities and have a high degree of influence on ITOCHU are described in the pages for each division company. In these ways, we worked to make the CSR information and our business activities relevant. The disclosure and strengthening of CSR information have also been added to the Basic Policies for CSR Promotion when we revised this time. I believe that engagement is being emphasized among investors, so we will continue working to address that issue by implementing highly transparent disclosure.

The *sampo yoshi* spirit may be a rather old-fashioned expression, but as "one merchant" explained, our mission is to fulfill our responsibilities to society as a whole and not just our own company or customers. We will continue to increase corporate value by helping to resolve social issues through our business activities.



Mr. Masaru Arai

Chairman, JSIF (Japan Sustainable Investment Forum)
Director, PRI Association Board (UN Principles for Responsible Investment)

Joined Daiwa Securities. After working in Saudi Arabia, as CEO of Daiwa ANZ International, and in other positions, joined Daiwa Asset Management in January 1992. After serving as Director and Senior Executive Officer, and advisor, retired in 2012. Member, Advisory Committee, Criteria Sub-committee (only member from Asia), FTSE ESG Advisory Committee since 2005; Chairman, Japan Sustainable Investment Forum, since March 2012. CEO, Corporate Value Research Institute, since May 2014. Elected to the PRI Association Board in June 2015.