



Pioneering DNA

—Foundations of Sustainable Growth

On many occasions, ITOCHU has faced changing conditions and come through with flying colors. The source of our strong determination to surmount such barriers has always been *pioneering DNA*. As long as it passes on that DNA, ITOCHU will overcome difficulties and grow continuously. Explaining how ITOCHU's *pioneering DNA* has produced growth drivers suited to changing times, this section focuses on four themes: building new earnings foundations, overcoming crises, managing risks, and fostering personnel for tomorrow.

Pioneering DNA

—Building New Earnings Foundations

Flashback

Vaulting from Itinerant to General Trading

Tracing back to Chubei Itoh's selling of linen as a traveling merchant, ITOCHU's history reveals a company that has always been keenly alert to signs of change and eager to pioneer new business areas.

Inheriting a traditional textile wholesale business, Chubei Itoh's son Seiichi (Chubei Itoh II) developed it into an international general trading company. As well as increasing lineups from linen to cotton yarn and then to cotton textile, Chubei Itoh II established footholds for overseas trading. From the 1910s through to the 1930s, he grew exports of processed cotton while leading the modernization of Japanese industry by adding to the steel and machinery lineups of nontextile divisions. After the Second World War, the Company was reestablished and gathered strength as a general trading company by pioneering such new business areas as aircraft, automobiles, and oil in step with the revival of Japan's economy.



Ohmi merchants
(courtesy of Museum of Ohmi Merchant)
The Ohmi merchants had strong beliefs and high ideals about trading. ITOCHU's founder Chubei Itoh made those ideals, *sampo yoshi*, the heart of his approach to business. *Sampo yoshi* is the idea that trading must benefit all three parties: the seller, the buyer, and society.

Internationalizing and Going Beyond Commission-based Businesses

During Japan's period of rapid economic growth, ITOCHU accelerated its evolution into a general trading company by increasing the products that nontextile divisions carried to include metals, oil, and other energy-related products; automobiles, plant, and other machinery; chemical products; and food. At this time, internationalization was progressing apace. Representative of the general trading company's role in such an age of internationalization was our 1971 intermediation in the comprehensive tie-up between General Motors Corporation of the United States and Isuzu Motors Limited of Japan. As the period of rapid economic growth drew to a close and Japan's economic structure increasingly reflected a shift from industry to services, we launched information and technology businesses ahead of competitors. From the second half of the 1990s, we stepped up the pace of development in areas beyond our traditional commission-based businesses by entering in earnest the retail business area, a downstream area. Our acquisition of shares of FamilyMart Co., Ltd., was one such initiative.

A FamilyMart convenience store

ITOCHU's acquisition of FamilyMart shares in 1998 marked the Company's full-fledged entry into the retail business area, a downstream area. Since then, we have been building solid value chains in Consumer-related business areas.



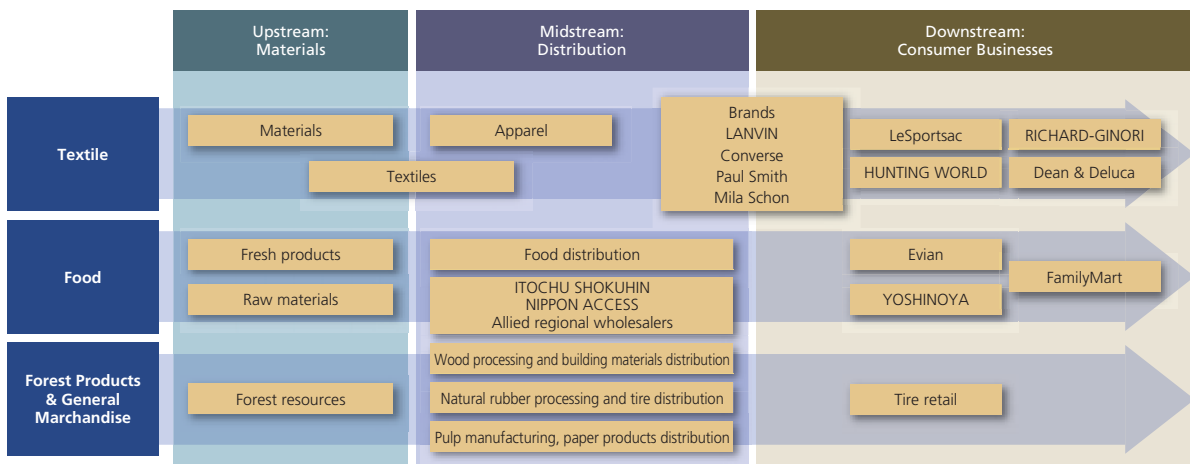
Growth Driver Born of *Pioneering DNA*

Value Chains

By encouraging the pioneering of new business fields, ITOCHU's *pioneering DNA* has laid the sound foundations for growth that the Company has today. Our development of business in upstream areas through to downstream areas has created systems that integrate raw materials, processing, distribution, and retail, enabling supply chain management to reflect today's fluctuating consumer demand. Those integrated systems act as value chains that consecutively build the Group's overall corporate value. For example, in Consumer-related business areas, companies in contact with consumers feedback

information on consumer demand garnered from sales to upstream, product planning, which tailor products to match that demand very closely. Moreover, passing on that information to raw material procurement bases in Japan and overseas enables us to procure competitive raw materials and materials and achieve efficient, low-cost production. Further, the midstream distribution system within the Group ensures timely supply to market. By integrating upstream, midstream, and downstream areas and circulating information, systems that successively create value in each business area are one of the foundations of ITOCHU's sustainable growth.

Value Chains in Consumer-Related Business Areas



Pioneering DNA

—Overcoming Crises

Flashback

Living to Fight Another Day

Through active, alert, and rational management, ITOCHU has survived historic upheavals, including panics, earthquakes, and wars. Among those crises, the economic turmoil following World War I brought ITOCHU to the very brink of bankruptcy. Triggered by measures to curb a speculative market bubble, a collapse of share prices on the Tokyo Stock Exchange led to a slump in the market prices for silk and cotton yarn. Unable to collect trade receivables, the Company incurred huge debts. Chubei Itoh II recalled his state of mind at the time as being beyond words. In response to the crisis, the Company returned its lineup to cotton textile and withdrew from international trading to concentrate on its original business. At the same time, ITOCHU decisively consolidated its workforce and reduced costs, enabling it to repay all of its debts and make an impressive comeback. During that period Chubei Itoh II would say that he that fights and runs away lives to fight another day.



A natural gas pipeline in Algeria

Through aggressive strategies in such business areas as energy-related plant exporting, natural resource development, and information-related businesses, we rode out the tough conditions that befell midstream commission-based businesses directly after the oil shocks.

Weathering the Trading Company Winter

After the first oil shock, trading companies faced tough business conditions, or a “winter” period, due to a tightening of monetary policy in response to spiraling commodity prices. ITOCHU merged with Ataka & Co., Ltd., which was in financial difficulty. Also, the Company accelerated the reengineering of its business structure to keep in step with the structural shift in Japan from heavy to light industry. Undaunted by the crisis, we stepped up overseas investment in natural resource development, plant, and large-scale projects. Together with the indomitable spirit that all of our employees showed, those initiatives got us through the trading company “winter.”



Tokyo Head Office building in Aoyama, Tokyo

The present-day Tokyo Head Office building was completed in Aoyama, Tokyo, in 1980, in the midst of the tough business conditions known as the trading company “winter.” ITOCHU’s bold decision to build a new head office regardless heralded the raising of the curtain on a new era for the Company.

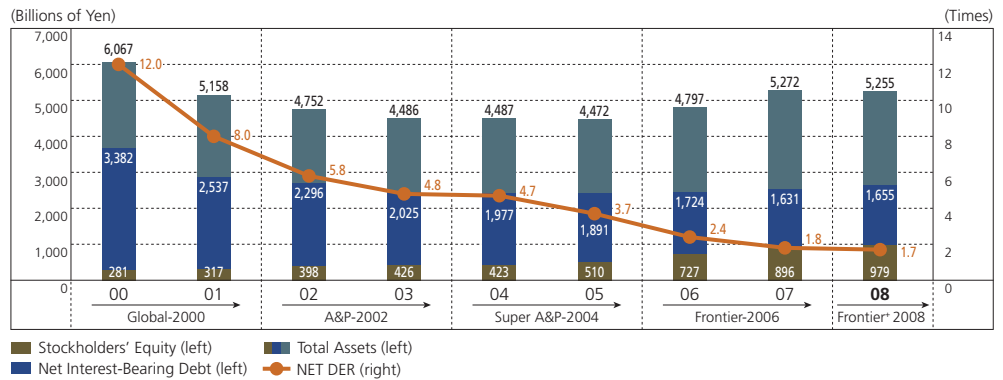
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Ability to Reform

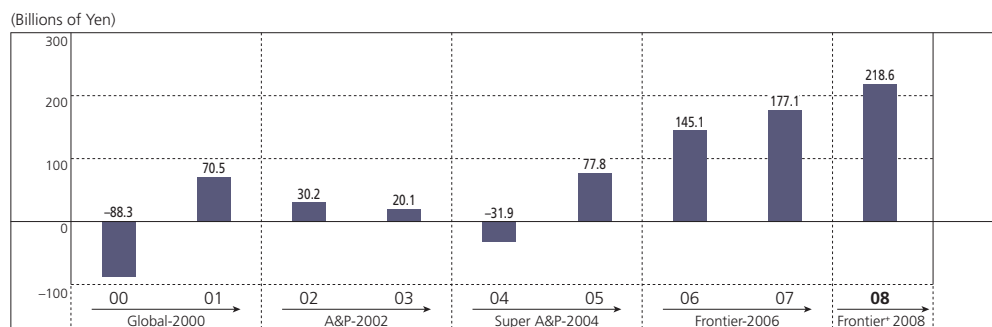
Overcoming difficulties by tackling them head-on is part of ITOCHU's heritage that continues to this day. Our reforms in from late 1990s testify to that unchanging mind-set. At the time, we were in the predicament of having earning power to rival the best in the industry while carrying a massive interest-bearing debt and businesses that had low efficiency or were unprofitable. Consequently, we were forced to use most of our earnings to pay interest. After announcing our *Challenge for Success in the 21st Century* in 1999, we decisively and

uncompromisingly disposed of low-efficiency or unprofitable businesses. While fiscal 2000 saw ITOCHU recognize ¥303.9 billion in losses related to the disposal of underperforming assets, in the following fiscal year the Company achieved a V-shaped recovery in business results, posting its highest-ever net income. With characteristic tenacity, we continued restructuring to build the business foundations that enable our current aggressive business strategies. That turnaround exemplifies a flexible management philosophy based on the philosophy of Chubei Itoh II that he that fights and runs away lives to fight another day.

Sounder Financial Position Builds Foundations for *Aggressive Business Strategies*



Consolidated Net Income (Loss) on Steady Growth Track



Pioneering DNA —Managing Risks

Flashback

Being Prepared

Studying overseas, Chubei Itoh II became familiar with risk management as one of the era's progressive ideas. At that time, most Japanese businessmen viewed fire insurance as a waste of money. However, Chubei Itoh II saw the value of fire insurance, which was becoming a norm in the West, and had his stores and products covered. That decision minimized the damage to the Company when fire completely destroyed ITOCHU's headquarters in September 1910. As word spread of how ITOCHU had largely escaped damage, taking out fire insurance policies became general practice. Based on his insight into likely future trends, Chubei Itoh II took a range of steps to minimize risks. After the fire, he unhesitatingly built a three-storey warehouse, which as Japan's first reinforced concrete building was more fire-resistant than traditional wooden structures.



Japan's first reinforced concrete warehouse, built by Chubei Itoh II

In 1910, based on a book about the building of reinforced concrete structures he had brought back from the United Kingdom, Chubei Itoh II built the first reinforced concrete warehouse in Japan.

Hedging Risks

Through its inaugural textile business, ITOCHU devised advanced risk management methods covering market risk and credit risk. Later, as we shifted from our traditional commissions-based businesses toward investing in businesses and becoming involved in the management of investees, we evolved comprehensive risk management methods in light of our overall business portfolio. Those methods built the balanced business portfolio we have today. For example, in natural resource development we disperse country risk through balanced investment in such countries and regions as Azerbaijan, Australia, North America, and the North Sea. Similarly, we avoid concentrating risk in specific business areas by dispersing investment across different industries and periods.



NCA Project in Australia

While basing our oil development businesses in such regions as Azerbaijan and our coal and iron ore development businesses in Australia, we have invested in countries the world over to avoid regional risk imbalances.

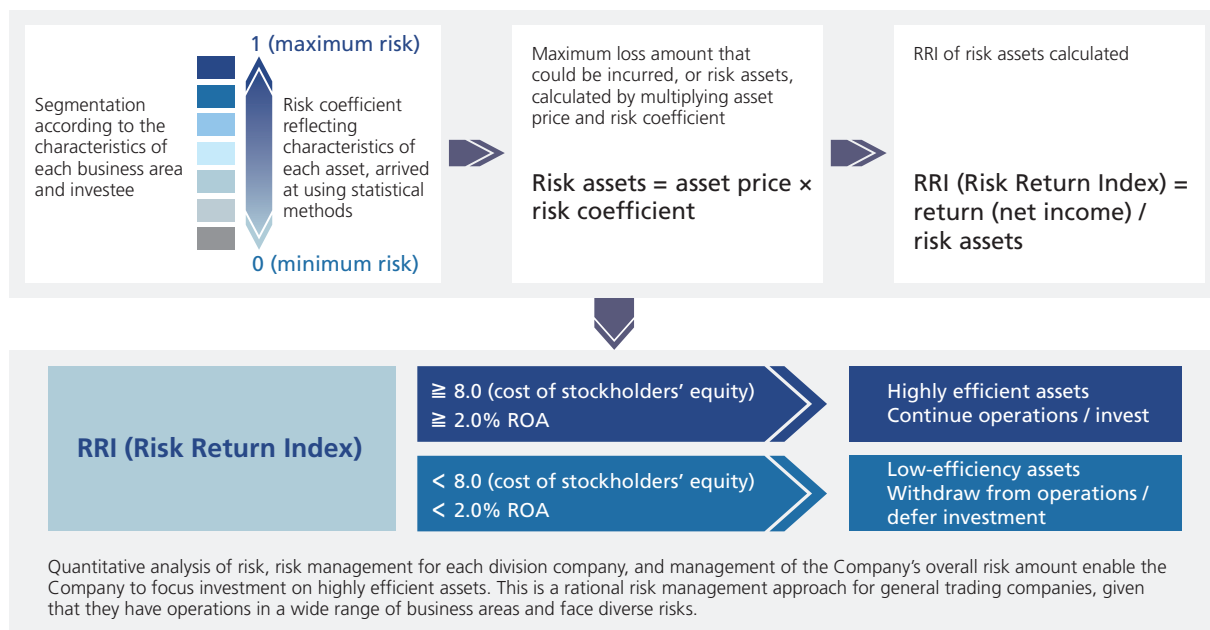
Growth Driver Born of *Pioneering DNA*

Aggressive Risk Management

ITOCHU business activities face extremely diverse risks, including credit risk, market risk, and country risk. The sophistication of our risk management methods is increasing with the growing size and variety of risks associated with the globalization of our investment activities. In addition to conventional risk management that avoids the overweighting of risk in particular regions or businesses, we use Risk Capital Management (RCM), which is based on quantitative analysis of risk. In RCM, we divide business areas that division companies and investments cover according to the business areas' characteristics. We then establish a risk coefficient for each asset that reflects its characteristics. Known as risk assets, the maximum loss that the Company could incur as a result of

owning a given asset is calculated by multiplying the asset amount and the risk coefficient. We measure the efficiency of assets based on the rate of return from the risk assets, in other words a Risk Return Index (RRI). ITOCHU withdraws from assets with low efficiency while channeling investment to those with high efficiency based on the index. To ensure a balance with stockholders' equity, we have established benchmarks that include more than 8.0% of the cost of stockholders' equity for RRI and above 2.0% for ROA. And, we have put in place exacting investment standards linked to the earnings levels. In this way, our RCM method simultaneously achieves our goals of *solid management* and more *aggressive* corporate management by limiting investment risk while concentrating management resources on highly efficient business segments.

Risk Capital Management (RCM)



Pioneering DNA

—Fostering Personnel for Tomorrow

Flashback

Raising “a Hundred Sons”

An extremely farsighted individual, the Company’s founder Chubei Itoh included “sharing profit three ways” as a basic profit distribution policy in the “store law” when opening the Benchu drapery store in 1872. This meant dividing profit equally among the head family, stores’ reserve funds, and store employees. That example gives a glimpse of Chubei Itoh’s philosophy and the great care with which he treated store employees. Moreover, illustrating the critical importance in Chubei Itoh’s business philosophy of developing and capitalizing on personnel to advance the Company, the “store law” included “consensual decision making systems,” “personnel development,” and “delegation of authority.” After the store closed for the day, the Company enabled store employees to gain an education equivalent to today’s high-school education. Chubei Itoh’s ambition was to “raise a hundred sons rather than a single son.” Chubei Itoh, Chubei Itoh II, and successive management leaders have inherited and passed on that dream and realized it on an ever-increasing scale.



Chubei Itoh (1842–1903)
Based on progressive ideas familiar in modern corporate management such as consensual decision making systems and the delegation of authority, he began modernizing ITOCHU from its earliest days.

Telling No Lies

Chubei Itoh II stated that “because individuals form the base of a company developing the individual develops the company,” testifying to the strong conviction he brought to human resources development efforts. The type of individuals Chubei Itoh II sought and his thinking on personnel development are evident from his comment on business philosophy: “a businessman must never lie,” “we must always have the bravery to advance straight forward,” and “a businessman only gains by studying twice as much others.”

ITOCHU has grown and prospered by flexibly adapting its business structure to reflect society’s many structural changes. As times change, one fact remains unaltered: the Company does not have in-house production facilities or technological capabilities. In other words, today, as in the past, employees are ITOCHU’s growth driver. Passed down through the generations, the above-mentioned business philosophy has produced ITOCHU employees that have an insatiable appetite for challenges and pioneer new business areas while giving first priority to corporate social responsibility.



Chubei Itoh II (1886–1973)
His conviction that “a businessman must never lie” has been passed on from one generation of leaders to the next to become ITOCHU’s signature business tenet.

Growth Driver Born of *Pioneering DNA*

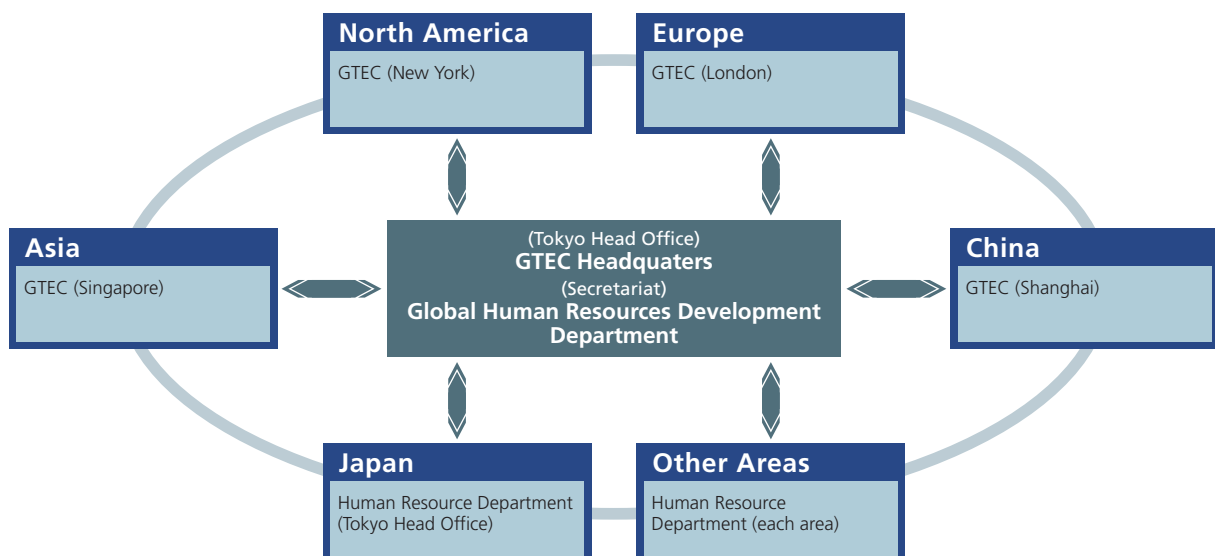
System for Developing Personnel with a Global Perspective

The Company's systems for fostering and getting the best out of employees have evolved in step with ITOCHU's role as a general trading company and encompass the development of tomorrow's management leaders, the development of personnel to further unite and globalize the Company, and human resource development catering to diverse employees and career paths. Now, setting our sights on Frontier+ 2008's goal of becoming a *truly global enterprise*, we are stepping up efforts to build systems that will develop personnel with a global perspective. In order to advance global human resources strategies that will optimize the entire Group on a worldwide basis, we established Global Talent Enhancement Centers (GTECs) in New York, London, Shanghai, and Singapore in October 2007. At the same time, to control those centers we established GTEC Headquarters at Tokyo

Head Office and, as its secretariat, the Global Human Resources Development Department. The establishment of GTECs is enabling us to go beyond the limits of previous initiatives centered on Japan and the Tokyo Head Office and forge ahead with strategies that are maximizing the added value of human resources on a worldwide basis. In the fiscal year ending March 2009, stepping up the pace of initiatives, GTECs are coordinating on a global basis with Division Companies and Administration Divisions in the Tokyo Head Office to continuously secure, develop, and optimally utilize personnel—regardless of gender, nationality, or age—who will drive ITOCHU's transformation into a *truly global enterprise*.

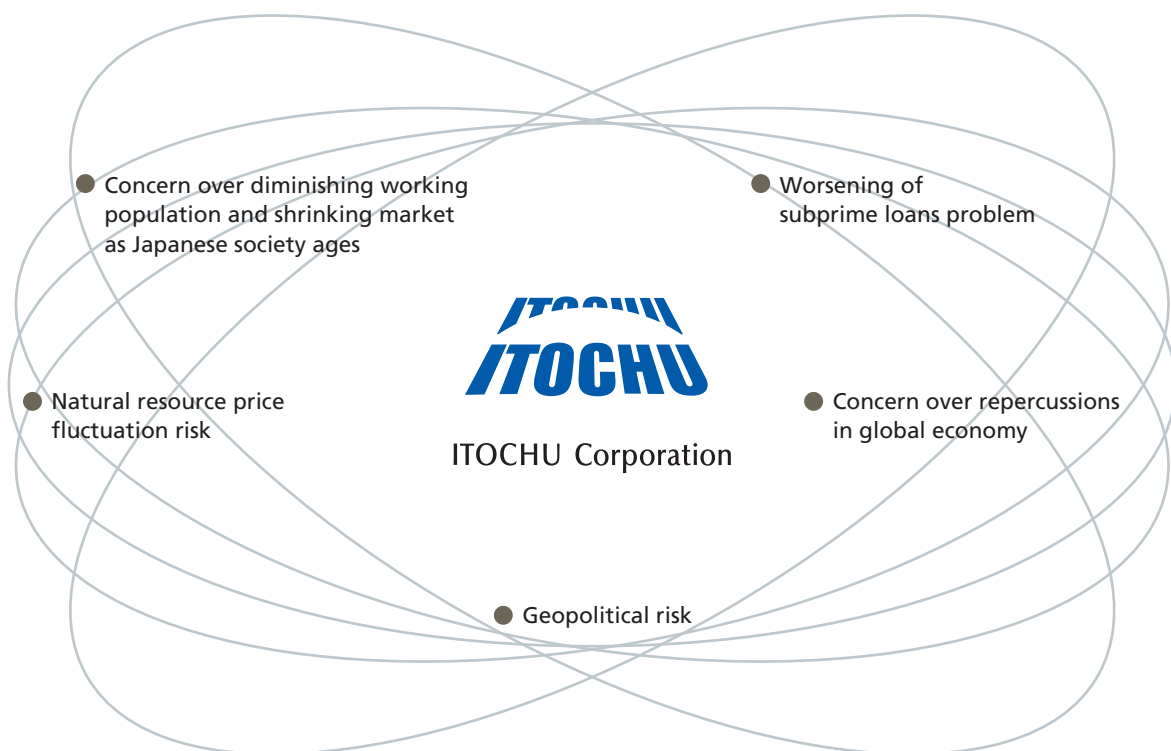
Looking ahead to the next 150 years, ITOCHU will uphold and implement globally Chubei Itoh's business tenet of "putting people at the heart of management."

System for Advancing Global Human Resources Strategies



Pioneering DNA that Enables Sustained Growth

Fueled by the growth of Brazil, Russia, India, China, and other emerging nations, the evolution of biotechnology and nanotechnology, and the heightening of worldwide concern with environmental preservation, ITOCHU's earnings opportunities are multiplying globally and almost without limit. On the other hand, those trends are accompanied by growing uncertainties, which could obstruct continuous growth.



However, ITOCHU's *pioneering DNA* creates

- ▶ Ability to create new earnings platforms
- ▶ Indomitable spirit that surmounts crises
- ▶ Farsightedness and expertise in avoiding risk
- ▶ Programs for fostering next-generation of personnel

By harnessing those intrinsic strengths, we will tackle changing conditions head-on and overcome them. At the same time, we will hand down and foster *pioneering DNA* to achieve sustainable growth for the next 150 years.