

Based on *sampo yoshi*, a spirit of challenge, and human resources development, we will contribute to worldwide progress while developing businesses on a global scale.

Eizo Kobayashi

President and Chief Executive Officer

For 150 years, *sampo yoshi*, a spirit of challenge, and human resources development have supported ITOCHU Corporation

ITOCHU Corporation is celebrating its 150th anniversary this year.

When I ask myself why ITOCHU has earned the endorsement of society during that period, three reasons come to mind.

The first is corporate management reflecting the spirit of *sampo yoshi*, the management philosophy that focuses on the good of all three parties: the seller, the buyer, and the society that Chubei Itoh, our founder, viewed as fundamental to our business. In that philosophy, seeking to be good for society through corporate management has been particularly important, what we call today corporate management that gives first priority to cultivating relationships of trust with various stakeholders. In fact, we can say that *sampo yoshi* and ITOCHU's CSR philosophy are really one and the same thing.

Second is our ability to face changing times and conditions boldly and see change as a chance to build new businesses, in other words a spirit of challenge.

The third reason is human resources development. Since its establishment, ITOCHU has put a significant amount of effort into developing its human resources. Because trading companies do not sell their own products, nor do they have the advantages of proprietary technologies or patents. Therefore, in the end, human resources are everything for trading companies.

Based on those three foundations, for 150 years we have sensed society's needs and expectations and created businesses ahead of others. Consequently, we have contributed to society and earned its trust. In order to ensure ITOCHU continues over the coming 50 years, 100 years, and 150 years, we have to firmly establish businesses on those foundations.

From midstream businesses to building value chains—by changing its business model, ITOCHU is further broadening its role in society

During the past 150 years, the nature of business has changed dramatically. Broadly speaking, there are only two trading-company business models. Previously, trading companies were centered on a business-to-business format, positioned between upstream and downstream businesses. I believe we survived during that period because we had two advantages: our use of "information gaps" and "trading-company finance," in other words risk capital. ITOCHU Corporation, during its first 130 years, also had a business model that exploited differences in the quality, volume, and timeliness of information while undertaking investment and finance that bet on society's future needs.

However, after that period, upstream businesses and downstream businesses began to forge links that bypassed midstream businesses, bringing about a period of harsh business conditions for trading companies, which has been dubbed the "trading-company winter." In response, we began building



value chains spanning from midstream to downstream, which has been our business model for the past 20 years.

In the textile business area, for example, we have become closely involved in the entire lifecycles of products, from upstream through to downstream, by acquiring brands and recruiting personnel to compete with those of leading manufacturers.

To take the energy and natural resources business area as another example, we have extended from midstream businesses to include upstream businesses. By upstream businesses I mean the acquisition of equity interests in such resources as oil and coal. As a result of that extension, we have benefited from hikes in the prices of natural resources and energy.

Further, we have developed our business portfolio in a well-balanced way by expanding our involvement in downstream businesses, including convenience stores, restaurant chains, and gas stations. Those initiatives have established business structures that produce earnings throughout the entire value chain and underpin ITOCHU today.

Amid dramatically changing social conditions, trading companies are expected to play a broader role

Having entered the 21st century, one of its striking features is the dramatic, multifaceted change in social conditions. That change differs from previous changes. One difference is that it is faster and on a broader scale. The second difference

is that it is global. Third, change is affecting many different businesses at the same time. Our ethanol businesses are one example of those trends. Those businesses would not be possible without collaborative efforts among the teams from our energy businesses, food businesses, and chemicals businesses. We can no longer keep up by relying only on the expertise of personnel from one type of business. Against the backdrop of such change, trading companies' role as organizations able to combine different businesses is becoming very large.

Looking forward, Japan faces two problems. One is food and water, the other is energy. How to acquire those resources will be a significant problem. The day may come when even if we have the money to pay for them, we will not be able to buy food, water, and energy. In preparation for such a contingency, we must establish systems for securing food and energy as soon as possible. With respect to that necessity, I think trading companies can and must take the initiative.

Aiming to address the problem of global warming, we will promote businesses that substantively reduce CO₂ emissions

Food, natural resources, and energy issues are clearly linked with environmental concerns. Among environmental concerns, the most serious at present is global warming. In response, ITOCHU is furthering businesses that are addressing the problem of global warming.

In particular, we are focusing efforts on promoting such natural energy as solar power generation and geothermal power generation to establish systems that minimize emissions of CO₂. In those efforts, using Japanese technology to develop large businesses is important. We should promote Japan as a country with a strong focus on technology by making technology-based contributions to environmental efforts worldwide.

In the new energy business area, we have already started up new businesses. For example, in the Sarulla region of Indonesia, ITOCHU Corporation is developing a geothermal power generation business using overseas technology. In the solar power generation business area, we are building a value chain that encompasses collaborating with overseas companies, manufacturing which capitalizes on Japanese technology, and marketing in the United States. In the Philippines, we are developing a methane collection project that produces emissions credits, and we will continue our involvement in emissions trading. In the new energy business area, I want to step up efforts to establish value chains that achieve even more substantive results.

We will strengthen communication with stakeholders to avoid complacency in CSR initiative

In order to become a *truly global enterprise*, we need to be a company that diverse stakeholders understand, accept, and look to with high expectations. To that end, ITOCHU will distribute a wide variety of information and treat feedback from stakeholders seriously and with a sense of urgency.

I often remind employees to listen to the opinions of as wide a group of stakeholders as possible so that we never become complacent about our CSR activities. Also, we regularly include CSR as a topic in dialogues between our senior management team and those outside our organization in order to hear their views.

Our common sense is not always the world's common sense—aiming to create workplaces that reflect regional characteristics to become a *truly global enterprise*

ITOCHU has always anticipated emerging trends. To achieve that, we must have a keen insight into change and move forward a half step or one step ahead of others. The only way

to realize such farsightedness is for employees to study. Frequently, I encourage employees to have a lot of different networks and develop their sensitivity to change.

Including group companies, the ITOCHU Group has approximately 48,000 employees. The common sense that prevails at ITOCHU Corporation's Tokyo Head Office is not necessarily acceptable throughout the world. Bearing in mind that half of ITOCHU Group employees work overseas, we must reach a consensus by considering differences in cultures and laws and statutory regulations and incorporating internationally accepted thinking on the environment and human rights.

Until recently, ITOCHU Group planned most business strategies and human resources policies in Tokyo and then implemented them overseas. However, we enabled the preparation of human resources policies on a regional basis by establishing Global Talent Enhancement Centers in New York, London, Singapore, and Shanghai in 2007. Following its overriding policies, the ITOCHU Group will flexibly incorporate methods suited to each region to create a company in which employees across all regions find it comfortable to work.

Compared with the business of 150 years ago, the scope and scale of ITOCHU's business has grown almost beyond recognition. In a sense, I think that we are developing in line with the progress of the world. Based on the foundations of *sampo yoshi*, a spirit of challenge, and human resources development, ITOCHU will develop businesses to become a *truly global enterprise* and thereby contribute to the creation of a better society.

