

Highlight 1

Developing a Value Chain in the Solar Energy Field

In April 2009, we established the Solar Business Department to pursue solar business on a coordinated corporate-wide basis. With the intention of integrating our business activity across the entire solar power value chain, we will fully dedicate ourselves to the successful deployment of solar energy on a global basis.



①

Our stance on the solar energy business

Renewable energies are our most critical resource to meet growing worldwide energy demand in a sustainable way while controlling global warming.

Renewable energies include wind power, solar energy, geothermal, biomass and others. Among these, solar power generation has become increasingly economically viable thanks to recent dramatic technical innovation in energy conversion efficiency, increased production efficiencies and policy support measures implemented in various countries around the world.

Leveraging the functions of a *Sogo Shosha*, ITOCHU Corporation is working to expand its businesses related to solar power generation by participating in all facets of solar power generation and developing a value chain from upstream to downstream, thus making a significant contribution to society through the spread and promotion of eco-friendly solar power generation.

Pursuing the solar energy business on a corporate-wide basis

The solar energy business is complex, involving a large number of elements such as the production and supply of raw materials, solar cell and module production, project development, financing and installation, and myriad interrelated policy issues.

Therefore, we determined that further intensification and promotion of this business requires efforts on a corporate-wide, cross-sectional scale, and established the “Solar Business Department,” — a new organization under direct control of the Headquarters — in April 2009. This organization will bundle our solar energy-related businesses, which had been handled in a distributed manner at each Division Company, to build a comprehensive value chain.

Pursuing the solar energy business with a value chain

To date, ITOCHU Corporation has made investments in NorSun AS, a company in the mid-stream position manufacturing ingots and wafers for solar cells, and in a number of system integrators (below called “SI”)* which are positioned downstream and design, install and sell solar systems for residential (small-size), commercial and government (mid-size) and solar park (large size) applications.

In each of these business areas, we dispatched our staff or managers to get deeply involved in the management and work to expand business while leveraging ITOCHU’s worldwide network to provide the necessary functions such as the procurement of major materials and equipment, logistics, product sales support, financing or support for a global roll-out of sites.

In addition to these efforts, we are considering involvement in the production of polysilicon, which is a raw material for solar cells, establishing new sales offices for SI we are already involved with, tying up with new SIs, and establishing a company which owns solar power generation assets.

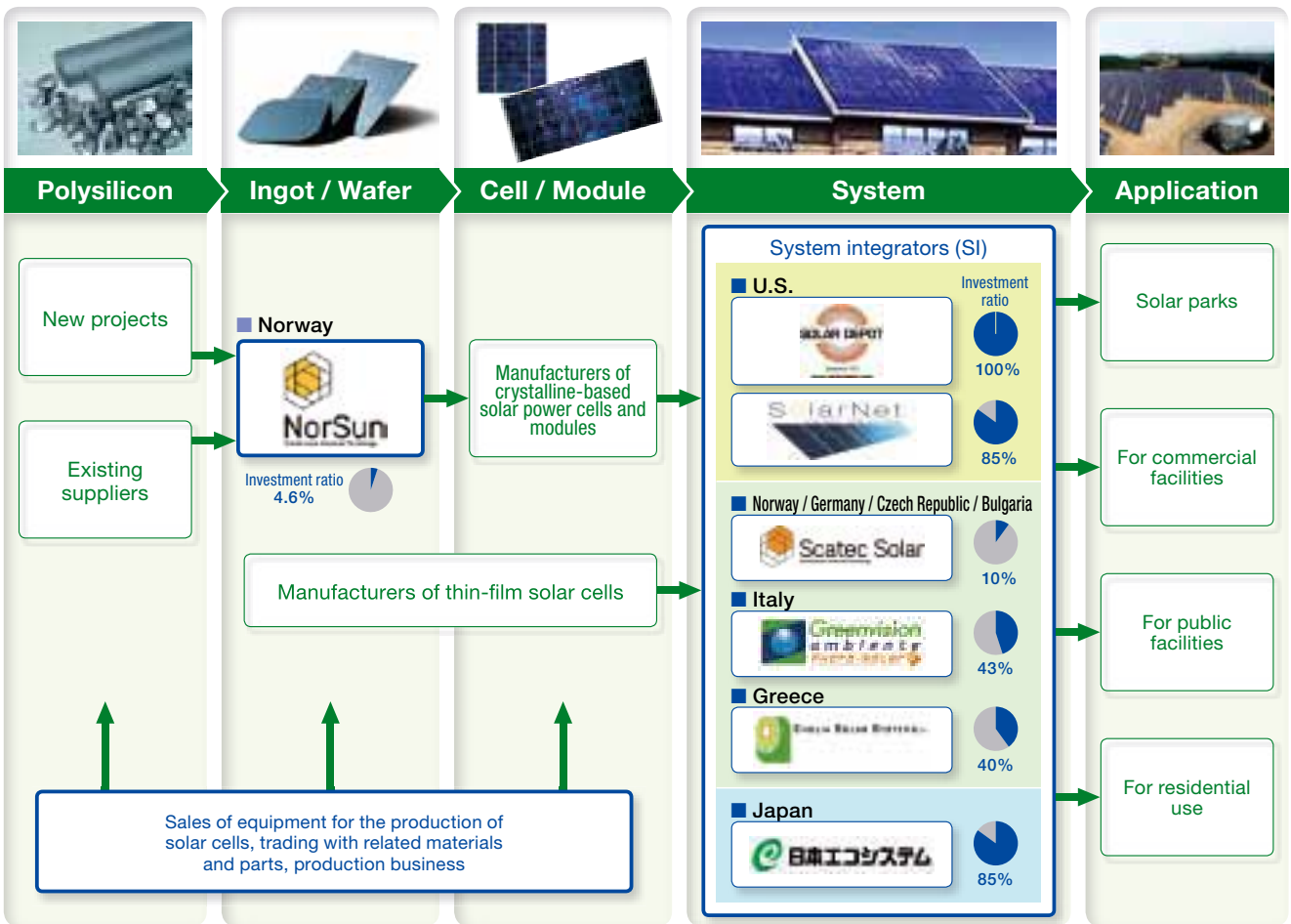
Striving to complete the value chain at an early point of time to build a stable business environment, we will continue to work for the expansion of the solar energy business by exerting the comprehensive capabilities of the ITOCHU Group.

* System integrators: collective term referring to companies who design, sell and install solar power generation systems combining solar modules and accessory (balance of system) components.



- ① Example of the installation of solar modules in a parking lot, Italy
- ② Example of the installation of solar modules at a winery, California
- ③ Example of the installation of a solar park, Germany
- ④ Example of the installation of solar modules at a waterworks bureau, San Francisco
- ⑤ Example of the installation of solar modules at a mining company, Nevada
- ⑥ Example of the installation of a solar park, Germany
- ⑦ Silicon Ingots made by NorSun AS, Norway

▼ Value chain of the solar energy business that ITOCHU Corporation is involved in



Spreading and promoting eco-friendly solar energy

Deployment of renewable energies is a critical path to reduce global warming and leave a beautiful earth for the next generation. Solar power generation is a particularly promising energy thanks to its use of virtually unlimited photovoltaic energy radiated from the sun to the earth, and the fact that it can be installed anywhere from ordinary homes up to large-scale facilities. The "Solar Business Department," which was

established on April 1, 2009, promotes businesses in various areas of the value chain, upstream to downstream, to contribute to the expansion of solar energy, thus contributing to society.

Toshihiko Fujioka
General Manager, Solar Business Department



Highlight 2

Social Contribution Programs to Commemorate the 150th Anniversary of ITOCHU's Foundation

In 2008, ITOCHU Corporation celebrated the 150th anniversary of its foundation. To commemorate this, we decided to promote two programs for social contribution activities considering staff members' request:

- support for the activities restoring the tropical rainforests and conserving Borneo's ecosystem
- establishment of the ITOCHU Scholarship Fund.

We received a large number of proposals from ITOCHU's divisions all over the world, and selected the two programs from two categories: "Reforestation and conservation" and "educational support."

The details of each program were enhanced through discussions with external experts.

We will proceed with these programs as an opportunity to continue the promotion of further social contribution.



1 Activities to restore the tropical rainforests and conserve Borneo's ecosystem

This program is aimed at rejuvenating tropical rainforests in Borneo, which have been degraded due to rapid development.

Basic position on biodiversity at ITOCHU Corporation

ITOCHU Corporation is involved in a broad variety of product transactions and development projects, and these include businesses that have an impact on natural ecosystems. To reduce environmental impacts and to prevent accidents, our *Environmental Policy* (see page 49) stipulates the "Prevention of environmental pollution" and clearly states "In all business activities, duly consider the need to conserve ecosystems as well as local and global environments, and strive to prevent the occurrence of any environmental pollution." Strictly speaking, we identify the environmental impacts including impact on natural ecosystems during the lifecycle of the products we handle from the phase of procuring the raw material up to disposal in yearly "environmental impact evaluations by product," and reinforce our control depending on the results.

With this program, we hope to make a positive contribution to the conservation of ecosystems in addition to the initiatives to reduce environmental impact in our core operations.

Current situation of the world's forests, particularly tropical rainforests

Forests all over world, especially tropical rainforests, are continuing to shrink and deteriorate at a rapid pace. The United Nations Conference on Environment and Development (UN

Earth Summit) held in Brazil in 1992 also emphasized the necessity for more sustainable forest management. However, even today, 13 million hectares of forest are estimated to be destroyed every year all over the world. In addition, about 20% of the global CO₂ emissions, which cause global warming, is said to be due to the shrinking of the forests.

Tropical rainforests cover only 3% of the earth's surface, but are said to be home to as much as 70% of the world biological species of animals, plants and insects. Conserving tropical rainforests is extremely important in order to pass on biodiversity to future generations and also to prevent global warming.

Outline of this program

Reforestation area	North Ulu Segama, Sabah, Malaysia
Purpose	Reforest tropical rainforests diminished by rapid development with no prospective for natural restoration, and to maintain habitats for orang-utans and other biological species unique to that region
Total area	967 hectares
Activities	Reforestation of target area, management of young trees, and monitoring of orang-utan population

In cooperation with its group companies, ITOCHU Corporation will contribute ¥250 million to WWF Japan over five years starting in fiscal 2009 to support this program.



- ① Borneo Pygmy Elephants (Kinabatangan River area)
- ② Friendly river otters (Kinabatangan River area)
- ③ Orang-utan parent and child (Rehabilitation Center)
- ④ Planned reforestation site (North Ulu Segama)
- ⑤ Signboard of the WWF, etc. at the planned reforestation site
- ⑥ Baby sprouts of Dipterocarpaceae trees!
- ⑦ Seed bed at the reforestation area

The target area of 967 hectares may be the largest scale project for the support of a reforestation program by a private company in Asia. And activities such as undergrowth cutting (weed cutting) and watering will be carried out under the control of WWF six times during the first 18 months after seedlings are planted. We call the area "ITOCHU Group: Forest for Orang-utan" and are supported by ITOCHU and its group companies. Twelve species of trees will be planted, including mainly Dipterocarpaceae such as Shorea Kapur and other local species as appropriate for the conditions at the respective sites. Further, undergrowth cutting and other work is necessary to protect the young trees that are to restore a forest of the original species. Without this work, the planted trees would not have a good chance of survival.

In North Ulu Segama, where this reforestation is planned, there are hardly any high-growing Dipterocarpaceae left, and other trees and shrubs have started to sprawl (see photograph ④). Under the current circumstances, the original tropical forest will be unable to regenerate in a natural way. WWF is promoting forest restoration on a total of about 2,400 hectares. Out of this area, ITOCHU Group will support reforestation of 967 hectares.

Employee participation

ITOCHU will organize volunteer reforestation tours for staff members including those from overseas bloc and the group companies to let them experience tree-planting, undergrowth-cutting and other work. The purpose of this tour is to make all participants understand the significance of the nature conservation through presentations by WWF experts on the meaning of this program and through encounters with precious wild animals that can hardly be seen. We are planning to organize the tours about 1 to 2 times a year.

Group company participation

ITOCHU Corporation is supporting this program in cooperation with ITOCHU group companies. The following 18 group companies participate in the program in 2009:

[Group companies participating in the program]

- ITC NETWORKS CORPORATION ● i-LOGISTICS CORP.
- ITOCHU ENEX CO., LTD. ● ITOCHU PULP & PAPER CORP.
- ITOCHU KENZAI CORPORATION ● ITOCHU-SHOKUJIN Co., Ltd.
- ITOCHU SUGAR CO., LTD. ● ITOCHU Techno-Solutions Corporation
- ITOCHU PROPERTY DEVELOPMENT, LTD.
- ITOCHU PLASTICS INC. ● ITOCHU Metals Corporation
- C.I. KASEI CO., LTD. ● SPACE SHOWER NETWORKS INC.
- Century Medical, Inc. ● DAIKEN CORPORATION
- NIPPON ACCESS, INC. ● FamilyMart Co., Ltd.
- FUJI OIL CO., LTD.

(order of the Japanese syllabary)

Comments from WWF



Bountiful forests for wild animals

Mikako Awano

Director, Head of Business Partnership Marketing Group, Fundraising & Marketing Communications
WWF Japan

Borneo is one of the priority places for WWF. The forests of North Ulu Segama, where this project is located, are degraded. However, a good number of orang-utans are living here even now. Restoring this forest is not only critical for conserving orang-utans and other various threatened animals in this area, but also contributes to the deforestation issue.

2 Establishment of the ITOCHU Scholarship Fund

The ITOCHU Scholarship Fund – Assisting Non-Japanese Students to Lead the Next Generation –

At the milestone of the 150th anniversary of its founding, ITOCHU Corporation established the “ITOCHU Scholarship Fund.” The purpose of this fund is to assist non-Japanese students at universities in Japan by reducing the financial burden they have to bear for their studies in Japan, enabling them to concentrate on learning and to contribute to the development and a stronger relationship of Japan and their respective countries.

We support 20 to 30 third and fourth year university students who came from countries and regions that are ITOCHU’s priority business areas to enroll in Japanese universities with ¥1.5 million per year for each student (each student is sup-

ported for two years with a total amount of ¥3 million). The fund started in 2009, and 20 to 30 students will newly join every year.

We will not only provide these students with financial aid through scholarships, but also plan to have active exchanges with them to let them know about ITOCHU in more depth. For example, the students would participate in CSR programs including volunteer activities carried out by ITOCHU or attend presentations on our business contents and overseas operations.

By providing this kind of assistance to non-Japanese students who are going to lead the next generation, we are helping these students to contribute to the development and a stronger relationship of Japan and their respective countries after they graduate from university. The scholarship fund is an international social contribution from a true *global enterprise*.

Social Contribution Programs to Commemorate the 150th Anniversary

Purpose and outline

In 2008, ITOCHU Corporation celebrated the 150th anniversary of its foundation. At this opportunity, we decided to continually carry out selected social contribution programs suitable for a global enterprise.

The programs were to enable contributions to the environment and to society from a global viewpoint. Specifically, we considered the following two fields, also in light of our Basic Activity Guidelines on Social Contribution (see page 47).

- ① Action on global humanitarian issues
- ② Environmental conservation

To have the entire company work as a team, all organizations inside and outside of Japan discussed and studied social contribution activities and proposed concrete programs to ITOCHU Corporation for the selection of the program.

Program selection

We received proposals on a total of 274 programs from almost every division inside and outside of Japan (see the table on the right). First, we picked the two themes with the largest number of proposals: educational support (development of the next generation) and the conservation of forests and ecosystems. Next, we consulted external experts to study into how international the proposals were, whether they could be continued, how easy it was for employees to participate, whether the size was suitable as a program to commemorate the 150th anniversary and so

forth, and then concretized and enhanced the programs and also selected the specific groups to cooperate with. After having gone through this work, we ultimately decided to promote two programs as social contribution projects commemorating the 150th anniversary: “support for the activities restoring the tropical rainforests and conserving Borneo’s ecosystem” and “establishment of the ITOCHU Scholarship Fund.”

Contents of the proposed social contribution programs

The analysis and counting of the programs proposed from each division in ITOCHU all over the world showed that the following themes had received a large number of proposals (some programs fall under more than one theme).

① Humanitarian issues in the world		173
Rank 1	Educational support	57
Rank 2	Medical support	21
Rank 3	Food / agriculture support	20
② Environment		136
Rank 1	Reforestation /conservation of ecosystems	39
Rank 2	Conservation of water resources	12
Rank 3	Clean-up and enlightenment activities	6

Highlight 3

Supplier Relations

Consideration for the human rights, labor affairs and the environment in the supply chain is an important CSR issue for companies that trade on a global scale. ITOCHU Corporation strives to improve these social problems by intensifying the communication with its suppliers.

Basic stance on supply chain management

Developing business all over the world, ITOCHU Corporation has positioned supply chain management as an important issue to be addressed. Preventing human rights, labor and environmental problems, and working for improvement together with the supplier. We are striving to practice these actions steadily and incorporated them into our basic policies for CSR promotion activities as "4. Strengthening supply chain management (Respect of human rights)" (see page 9).

Checking suppliers in relation to CSR

Since fiscal 2007, we have been promoting checks of the actual situation for the basic items such as human rights, labor and the environment and additional check items suitable for the product properties – for example, forest conservation or food safety – for each Division Company. Suppliers to be checked have been selected according to certain conditions in reference of the FTSE4Good criteria. Our policy for the future is to revise the target suppliers every year and to give feedbacks to the respective suppliers for continual improvement.

Problems found in checking suppliers

Out of 283 companies that fell under the target suppliers in fiscal 2007, 22 were not applicable since dealings with them had been terminated. The checking of the remaining 261 companies were completed in September 2008. Severe problems that require immediate attention were not found, but there were some deficiencies, for example, in respecting the right of collective bargaining, environmental measures or CSR checking of secondary suppliers. Meanwhile, there were suppliers like state-owned companies where the check itself was difficult to carry out. We will continue these checks to improve the level of our entire supply chain.

Number of suppliers each Division Company targeted and surveyed

Division Company	Number of suppliers targeted	Number of suppliers surveyed
Textile Company	21	17
Machinery Company	12	12
Energy, Metals & Minerals Company	8	8
Chemicals, Forest Products & General Merchandise Company	160	149
Food Company	64	57
Finance, Realty, Insurance & Logistics Services Company	18	18

ITOCHU Corporation's CSR Action Guidelines for Supply Chains

As part of our efforts to promote supply chain management, we established action guidelines in April 2009 in order to have this philosophy penetrate the entire company and to clearly communicate ITOCHU's stance to suppliers. It is our intention to present these action guidelines to our suppliers, to deepen the dialogue on human rights, labor and environmental conservation, and to ask our suppliers to understand and practice ITOCHU's stance.

ITOCHU Corporation's CSR Action Guidelines for Supply Chains

To fulfill the ITOCHU Mission, "Committed to the global good," ITOCHU promotes CSR through its business activities, with the aim of achieving a sustainable society.

Due to the characteristics of its business activities, ITOCHU has to keep working to manage its supply chains in consideration to the social or environmental impact of a variety of products and services handled.

ITOCHU has established the CSR Action Guidelines for Supply Chains to explain its position to suppliers, and expects and encourages their understanding and implementation of every item mentioned below.

- Suppliers shall respect the human rights of employees, and never treat employees in an inhumane manner.
- Suppliers shall prevent forced labor or child labor.
- Suppliers shall not practice discrimination in hiring and employment.
- Suppliers shall prevent unfair low-wage labor.
- Suppliers shall respect the rights of employees to organize, for smooth negotiation between labor and management.
- Suppliers shall strive to provide employees with a safe and healthy work environment.
- In the course of their business activities, suppliers shall duly consider the need to conserve ecosystems as well as local and global environments, and strive to prevent the occurrence of any environmental pollution.
- Suppliers shall observe all related laws and international rules, and ensure fair transactions and prevent corruption.
- Suppliers shall disclose information regarding the above items in a timely and appropriate manner.

Documentary Report Project on Supply Chains

Vol. 1 From raw cotton to T-shirts

Why we started this project

In our stakeholder dialogue of 2008, the experts talked to us about how important it is to tell the consumer where things come from. This is why we decided to trace back the supply chain for each product handled by ITOCHU Corporation from the downstream level to the upstream level, and then report on its overall picture through this CSR Report as well as our website.

Apart from the price and quality of a product, questions such as whether the people involved in the process of making

the product all have appropriate earnings or whether the environment is taken into consideration are all issues of great importance. Consumers need to gain accurate information to select good products and good companies from a general point of view in order to build a well-balanced society. In this project, we are going to present documentary reports on the situations in supply chains for various products handled by ITOCHU.

Vol. 1 From raw cotton to T-shirts

Cotton is one of the materials that support our daily lives. To conduct a research on what issues exist in the supply chain from raw cotton to T-shirts, we visited and gathered information on the PRE-ORGANIC COTTON PROGRAM promoted by ITOCHU Corporation in March and April 2009.

Cultivation

1 Farmer



Farming land of Mr. Nanka

Umaldat village **Mr. Nanka**

"The best thing is that my skin does not itch any more since I have stopped using agrochemicals. Apart from cotton, I am growing wheat and corn, and I switched everything to organic cultivation."



Village houses with cows

Boparupura village **Mr. Patel and others**

"I was introduced to RAJ ECO FARMS by another farmer at the market. This is a village of 300 people, and 70% of them are now using organic farming methods."

Together with the people of Boparupura village



2 RAJ ECO FARMS

– Guidance in organic farming and primary processing of raw cotton



Managing Director
Mr. Rajesh Tanwar

"My goal is to generally improve the health and living of the farmers and the environment of the farming land, and to spread this throughout India."



Spinning

3 Patspin India Ltd.



Managing Director
Mr. Umang Patodia

"I agreed with the policy of Rajesh. In addition, this business is supported by ITOCHU Corporation earnestly trying to promote organic farming."



PRE-ORGANIC COTTON PROGRAM

Introducing organic farming to resolve issues

To resolve the various problems arising from the overuse of chemical fertilizer and agrochemicals, there are movements to revive organic cotton farming using, for example, fertilizers made from cow dung and herbal pesticides. ITOCHU Corporation started a "PRE-ORGANIC COTTON PROGRAM" to promote the shift to organic cotton farming.

1 Project outline

This program was announced by ITOCHU Corporation and kurkku, represented by the music producer Mr. Takeshi Kobayashi, in approval of the initiatives of Mr. Rajesh Tanwar (photograph ②) of RAJ ECO FARMS, a support cooperative for farmer education. Mr. Tanwar is teaching organic farming methods and the advantages of organic farming to cotton farmers to persuade them to shift. With organic farming, only cow dung and herbs and trees which the farmers of India can supply by themselves are used instead of chemical fertilizer and agrochemicals.

After the shift to organic farming, it takes three years until a farmer is granted the "organic" certification. Further, production quantities drop by approximately 20% in the short term. The raw cotton in this intermediate phase before being authorized as organic is called "pre-organic cotton" and the drop in the production quantities compensated by a premium price. Supported by this framework, more than 600 farmers are currently participating in this program.

2 Role of ITOCHU Corporation

ITOCHU Corporation makes estimations on the sales quantities and a commitment regarding the purchase (support) quantity before the planting. Then, ITOCHU procures this full quantity of pre-organic cotton from Patspin India Ltd. (photograph ③). The risks regarding the sales quantity and market prices, etc. is borne by ITOCHU, which sells the raw cotton, cotton yarns and products that are made in many directions. The cooperation with kurkku in this initiative improves the visibility of pre-organic cotton among consumers.

Issues in the supply chain

1 Issues in cotton farming

The harvests in Indian cotton farming dramatically improved around the 1960s, when chemical fertilizers and agrochemicals were widely introduced. However, while the production quantities increase, problems are spreading, including a deterioration of the natural environment in the soil and skin or lung diseases caused by directly inhaling agrochemicals sprayed in excessive quantities.

From the economic aspect, the standpoint of farmers in the market is weak, and the reality for many farmers in India is that they do not have sufficient income, and that they cannot escape poverty even if their harvest improves because of a structure where the costs for chemical fertilizer and agrochemicals are too high compared to the income.

2 Issues in the factories

For this report, we visited spinning factories in India, as well as knitting factories, dyeing factories and sewing factories in Shanghai.

The textile industry is struggling with issues such as the reduction of the energy usage and the purification of waste water in the dyeing process, and the labor environment during the sewing process.

In China, the regulative management of companies by the national government and local governments is making progress every day. There is still a large gap in the level of the regulations depending on the region, but when looking at the large picture, improvements from both the environmental and the social aspect are made from year to year.

Knitting fabric

Knitting factory



Dyeing

Dyeing factory



Sewing

4 Shanghai Zephyr International Trading Co., Ltd.



Mr. Yoshifumi Iwabuchi
President (photograph on the right)

"Checks and inspection visits from the CSR viewpoint by apparel brand companies from the US and other countries that place orders with us are frequent today. For companies of the apparel industry, social and environmental considerations have become familiar issues."

5 Shanghai Chunchao Garment Co., Ltd.

Mr. Hokan So
President



The president standing next to a package of pre-organic cotton from Patspin.

"The regional government in Shanghai is hurrying to promote environmental and labor-related regulations, also because of the upcoming Expo, and I think that all companies will work hard to respond to this."



Marketing / Sales

6 Itokin Co., Ltd.



Mr. Tomohiro Suga, Director

"There has been a shift from an era where companies selected consumers to an era where we propose the sense of trust and comfort required by the customers. Itokin also supports the basic philosophy of pre-organic cotton, and we are continuing our efforts to get support from as many consumers as possible."



Impressions from the inspection visits and interviews

Mr. Tomohiko Yamaguchi from The CSR Institute, Inc. conducted inspection visits and interviews for us at each site from the farmers up to the sewing factories.

(1) The supply chain in general

Many cotton farmers in India are illiterate and not skilled in economic bargaining. Also, many of them run their farm just with their family without belonging to any organization. These are some of the reasons for their disadvantaged position and the underlying cause for various problems.

Even if it takes time, I feel that it is most important to develop social systems and the like for basic education to let farmers learn agricultural methods that are highly productive and good for their health and the environment, enabling them to realize a proper way of living in the economic society.

Meanwhile, the processes after the spinning have regulations and so forth in place, so I think that the issues from the CSR viewpoint are small in comparison with the difficulties faced by the farmers.

Mr. Tomohiko Yamaguchi
CSR Consultant, The CSR Institute, Inc.



(2) PRE-ORGANIC COTTON PROGRAM

The base of this program is the education of farmers to promote the spread of practical organic farming methods. Listening to the persons involved, I gained a good understanding of the framework for realizing the recovery of the farmers' health, an improvement of their lives, as well as a recovery of the soil environment without contradictions.

Meanwhile, organic cotton production is labor intensive. To make sure that farmers do not discontinue their efforts, it is necessary that products from this cotton are sold at a certain quantity and at fair prices. I think that the key for the success of this program lies in whether the costs for the overall operation, including the tracing down to the commercialization, are accurately communicated to the consumers so that they understand costs and purchase these products on a wide scale.

I hope that this business is brought to success through the agreement of both the seller and the buyer side, and that the shift to organic farming is expanded in the future. In addition, I would also like ITOCHU Corporation to promote social and environmental consideration that reaches all the way back to the origin in all regions of its cotton business.