

Third-Party Opinion

Trading is the Way to Buddha – This phrase in the President's Commitment was the first to surprise me when I picked up this report. A cutthroat general trading company thinking about the Way of the Buddha. For a moment, I thought it surprising, but I realized that this philosophy, which addresses other dimensions than earning money, is the backbone that has made it possible for the company to survive and grow for more than 150 years from the end of the Edo period. I had learned about ITOCHU's CSR activities by participating in the stakeholder dialogues on these activities at ITOCHU from 2007 to 2010, but when I looked at this report, I felt that this backbone has now gradually come to the surface.

People often say that CSR means to contribute to society through the core business. However, it is important to contribute by meeting the needs of other stakeholders, and not only the needs of customers, while minimizing any secondary negative impacts. Looking at the results of employee questionnaire regarding CSR, "promotion of business contributing to solving social issues" has passed the 50% mark, increasing from 40.8% in 2010 to 54.8% in 2012 which was a positive surprise to me. Observing ITOCHU's CSR activities, it seems that businesses incorporating stakeholders' needs to solve social challenges are increasing, which is encouraging.

Some of these examples includes the Pre-Organic Cotton (POC) Program, which has built a supply chain that extends from training farmers in growing organic cotton to supplying the final product, along with the renewable energy businesses (mega-solar systems, geothermal energy, wind power, storage batteries), the resource recycling businesses, the desalination plants, the trade in certified timber, the sales of eco-friendly condominium lots, the development of supplements and foods that use the highly nutritious midori mushi (Euglena), and the activities of the Africa Food Development Association, which aims to strengthen the competitiveness of farming in Africa through the cultivation of sesame and soy beans, and to ensure stable supplies to Japan.

Among these business models I especially like POC Program. Recently, young consumers have become increasingly interested in organic, fair trade and other ethical products. However, the reality is that there are still extremely few ethical products. Even if a producer is interested, there is neither the knowhow of developing attractive products nor the sales channels. Meanwhile, sellers wanting to carry these products find that the quantity and quality of raw materials are insufficient. Being involved in the whole supply chain from the very upstream raw materials production to the downstream end-consumer market, the role of the trading company is an extremely important one.

In terms of POC transaction volumes, the aim is to increase the volume from 1,000 tons in 2012 to 10,000 tons by 2017 (total trading transactions for related products worth 5 billion yen) with expectations for rapid expansion in the future. This means that there is a growing need for supply chains of ethical products that contribute to alleviating poverty in developing countries through organic production. For the supply chain of the 20th century, Businesses are expected to deliver quickly products of uniform quality at the reasonable price with enough volume to meet the consumer needs, regardless of the impact on the environment was great on their supply chain, and without anyone ever imaging the face of the producer. On the contrary, POC is a forerunner of the 21st century supply chain, which contributes to solutions to any issues related to poverty of producers or environmental issues. I would like to see ITOCHU building many of such supply chains and make them broad in the future. I would also like to see further disclosures about the initiatives for the CSR Action Guidelines for Supply Chains.

Speaking of the topmost reaches of the supply chain, the report describes the EHS guidelines for the mining business and oil field development in the North Sea off Britain, but businesses developing mines and oil fields have a great impact on both environmental and human rights aspects. Since interest in society is high, I would expect further disclosures of specific considerations in these areas.

Concerning the issue of stable procurement of foods, the report describes continued stable supply in 2012 despite the drought in North America. The drought reoccurs once every few years so I suppose the risk has already been factored in, but with frequent occurrences of extremely abnormal weather patterns worldwide, there is a risk of a sudden drop in food supplies on the macro level in the future. In the long term, demand will increase due to the growing world population, but, on the other hand, the assumption is that supplies will decrease as farmland in the grain-producing regions shrinks when groundwater dries up and topsoil is eroded. Strategy for procuring long-term, stable and continuous food supply is an area where expectations of general trading companies are high. As for the fishing industry resources so appreciated in Japan, the depletion of eel and bluefin tuna has become a matter of social concern, but in terms of managing fishing industry resources, Japan is lagging behind the rest of the world both in social awareness and corporate initiatives. This is an issue that I would like to see on the agenda of the Food Company.



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Being in nonmanufacturing industry, ITOCHU discloses broad range of ESG data, but as far as the participation of women workforce and women's empowerment is concerned, I would like to see more disclosure about the proportion of women in management positions, and the number of foreign managers and executives, in addition to the current disclosure about the proportion of women in career-track positions, and the introduction of a female executive officer. In terms of the figures for male and female employment, I would like to see some additional information about the reasons for the decrease in the number of women in the past two years.

In terms of the environment, I understand that ITOCHU makes proper use of EMS with environmental accounting to tally the figures for CO2 emissions that are attributed to distribution. Since it seems that CO2 emissions, waste, and water usage at the business companies are increasing, I would like to see further descriptions of the reasons. Adding figures to the descriptions of the environmental and social businesses, which are cited as an example, would facilitate concrete understanding.

Finally, a word about the corporate culture. In the stakeholder dialogues that I mentioned above, it was very impressive to see that the dialogue between the President or top executives and the external experts was open to all company employees. Such discussions of other companies are usually held in a closed manner, so it made a deep impression on me. The report carries a lot of information about the continuous dialogue between the management ranks and employees, as well as the opinions and faces of company employees participating in CSR activities, so I believe ITOCHU has very open culture with active internal communication. Free and broad-minded communication is indispensable for promoting businesses that contribute to resolving various and new social issues. Cultivating a good corporate culture broadens the business activities that help solve social issues, creating a virtuous cycle that contributes to both profitability and society.

Brief CV of Ms. Mariko Kawaguchi

Completed a Master's degree (environmental economics) at Hitotsubashi University in 1986, and joined Daiwa Securities in the same year. Transferred to Daiwa Institute of Research in 1994 and engaged in enterprise survey, but rejoined Daiwa Securities Group as head of CSR group in 2010-2011. Returned to her post at Daiwa Institute of Research from July 2011, and has served as Senior Researcher in the Research Department since April 2012. In charge of environmental economics, CSR, and socially responsible investment.

Response to Third Party Opinion

In recent years, corporations have been required to deliver continuous growth and to contribute to a more affluent society through sound corporate activities. In light of this, the basic approach to CSR at our company is the recognition that we contribute to building a sustainable society through our core businesses based on the corporate philosophy of being Committed to the Global Good. Employee attitudes to CSR are evolving from year to year. The CSR employee questionnaire found that more than half of employees recognize "promotion of business contributing to solving social issues" as the most important CSR issue for ITOCHU. The highly acclaimed Pre-Organic Cotton Program at the Textile Company is the outcome of this kind of environment. In order to discover and realize similar businesses in the future, we believe it will be even more important for each employee to embrace the ideal that "we are the ones to solve the social issues" and to work hard.

As a general trading company, we are developing a wide range of products and services, with recognition of the important issues in each area of the business, and promoting CSR at each front-lines. As pointed out, in the future, we would like to have a broader awareness of various issues of high concern in society, and to leverage that awareness for CSR activities and to disclose information in a way that is more open. As part of this, we have established a CSR Advisory Board as of this fiscal year to take on board the opinions of our CSR activities seen through the eyes of external experts. Setting up these opportunities to receive external opinions will lead to practical activities.

ITOCHU has been able to develop over a period of more than 150 years because we have inherited the spirit of our founder Chubei Itoh, who advocated social contribution through trading and regarded "trading as the way to Buddha," and the spirit of sampo yoshi (Good for the seller, Good for the buyer, and Good for society) from the Omi merchants including Chubei. Even in the era of rapid change, we will not waver, but make sure our employees around the world are aware of this spirit, sharing the values that develop in line with social perspectives to build a better society.



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