

# Corporate Governance and Internal Control System

ITOCHU Corporation will heighten the transparency of decision making in order to ensure equitable, efficient operational implementation. At the same time, ITOCHU Corporation will build a corporate governance system that appropriately incorporates monitoring and oversight functions and conduct corporate management based on the trust of shareholders and other stakeholders. Further, ITOCHU Corporation will tirelessly revise its internal control system to improve it continuously and build an even more equitable and efficient system.

## Corporate governance

ITOCHU Corporation has a Board of Corporate Auditors system under which corporate auditors monitor directors' performance of duties. In addition, we use an executive officer system and a Division Company system to implement management.

The introduction of an executive officer system in 1999 has enabled us to strengthen the decision-making and oversight functions of the Board of Directors and increase the efficiency of operational implementation.

Under the Division Company system, seven Division Companies autonomously manage the business areas under their responsibility to cater rapidly to market demand and customer needs. Headquarters specializes in the planning of corporate-wide management strategies and overall management control. We have built a highly efficient management

system that achieves a balance between the autonomous management of Division Companies and the overall management control of Headquarters.

Further, we have established the Headquarters Management Committee as a body that assists the president by deliberating corporate-wide management policy and important issues. Also, ITOCHU Corporation has a variety of internal committees that help the decision-making of the president and the Board of Directors by carefully investigating and deliberating management issues within their areas of responsibility.

## Internal control

ITOCHU Corporation operates effective internal control through the Disclosure Committee, the DNA Project Committee, the ALM Committee, and the Compliance Committee, which are respectively tasked with 1) reliability of financial

reporting, 2) effectiveness and efficiency of business operations, 3) safeguarding of assets, and 4) compliance with applicable laws and regulations. Further, the Internal Control Committee deliberates corporate-wide internal control issues and remedial measures and is responsible for overall internal control.

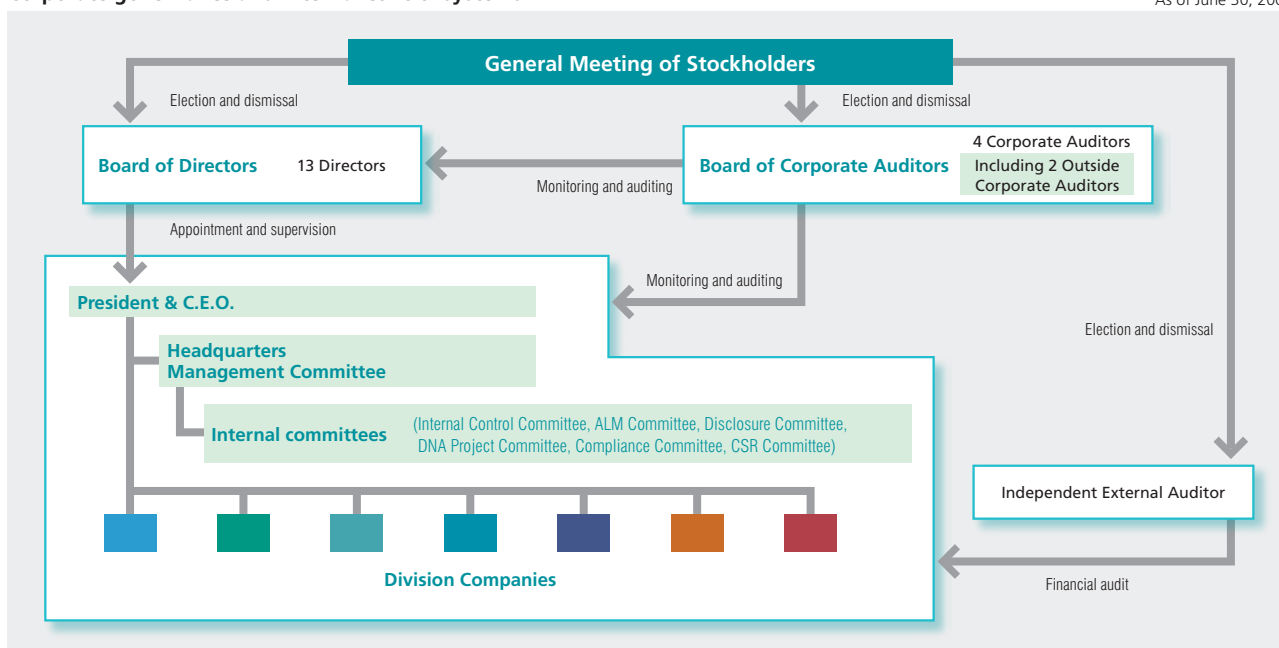
## Ensuring appropriate financial reporting

### —System for consolidated internal control reports begins

Fiscal 2008 will see the beginning of a report system concerning internal control over financial reporting pursuant to the Financial Instruments and Exchange Law. In order to increase the reliability of its consolidated financial reports, ITOCHU Corporation designated the Disclosure Committee as a steering committee and established internal controls within ITOCHU Corporation's main group companies in Japan and overseas in the areas of organization and systems, information systems, and business

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As of June 30, 2008



processes. (Please see chart 1: "Building internal control systems: Two levels and information technology.")

Further, in April 2008 we established a new Internal Control Audit Section, which objectively evaluates and monitors the appropriateness of the design and operation of internal control systems. (Please see chart 2: "Evaluation of internal control (PDCA cycle).")

The objectives of evaluations and audits is to verify the effective functioning of corporate-wide management tenets and ethics, accounting standard policies, procedural systems, IT infrastructure control systems, and control systems for operational processes related to financial

reporting and to ensure the effectiveness of the internal system that the management makes an oath on.

ITOCHU Corporation will continue to strengthen internal control for the whole group and disclose even more reliable financial reports to stockholders, other stakeholders, and markets.

**Increasing operational efficiency**  
—*ITOCHU DNA Project*

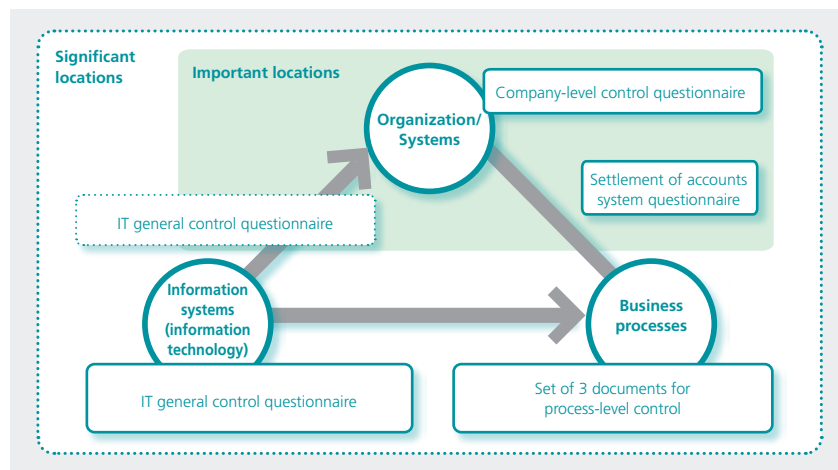
In 2006, ITOCHU Corporation launched a business process reengineering project: the *ITOCHU DNA Project* where DNA stands for "Designing New Age." The principle of the project is to strengthen the "on-site capabilities" of each

employee and his or her organization. Furthermore, with the viewpoint of total optimization of the ITOCHU Group in the future, ITOCHU Corporation is aiming to enhance its consolidated management.

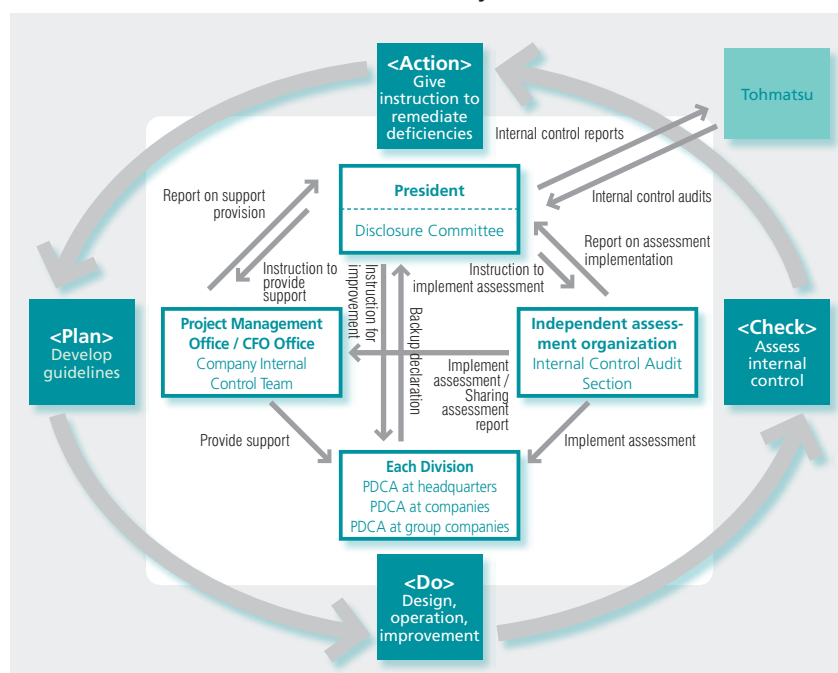
Under that initiative, the first step was to visualize all current business processes, and now it is in subsequently a process of standardizing those processes. From the perspective of internal control, all business processes are reviewed for standardization to increase work efficiency and quality which will eliminate inefficient processes that hinder on-site capabilities. Subsequently, a new organization structure to fit the standardized business processes will be constructed as well as systems to support them.

Strengthening on-site capabilities through business process reengineering will earn stakeholders' trust for ITOCHU Corporation. At the same time, those efforts will heighten the efficiency of employees' performance. The project will contribute to all ITOCHU employees feeling affluence through their daily work and helping create working environments without overwork.

[chart 1] Building internal control systems: Two levels and information technology



[chart 2] Evaluation of internal control (PDCA cycle)



Heated debate about the standardization of business processes

**Risk management**

In order to deal with a variety of risks, such as market risk, credit risk, and investment risk, ITOCHU Corporation controls risks comprehensively and separately through the establishment of necessary risk management systems and control methods. Those include a range of control regulations, investment benchmarks, risk amount limits, reporting and monitoring systems, and the preparation of business continuity plans. Also, we periodically review the effectiveness of control systems and upgrade control methods.

# Compliance

A company built over a century and a half can be lost in a day. To ensure that we do not betray the trust our predecessors have placed in us, we will make concerted efforts to further expand and upgrade compliance systems and achieve rigorous compliance—the minimum requirement and the foundation of CSR.

## Mobilizing the whole group to realize stringent compliance

ITOCHU Group has compliance officers not only within respective Division Companies but also at group companies. We are developing and operating our compliance system through such initiatives as compliance programs and preparation of law lists and others.

We hold liaison meetings attended by the compliance officers of all group companies twice a year, and we hold law research seminars on compliance trends as required.

From fiscal 2007, the Headquarters Compliance Office began distributing to group companies located in Japan a monthly e-mail magazine: *Compliance Information Bureau*. The magazine has become an effective tool for distributing and sharing compliance information and comprises three sections—"topics" such as the latest information on compliance and the danger of law infringements hidden close at hand, "legal research" corresponding to various situations such as law amendments, and "notifications" for group companies.

## Strengthening compliance globally

### North America

In North America, ITOCHU International Inc. (III) played a central role in efforts to strengthen compliance by means of, among others, conducting online training following a comprehensive revision of the code of conduct and organizing a North America compliance liaison meeting, which approximately 30 group companies in North America participated, including group companies managed by ITOCHU Corporation.

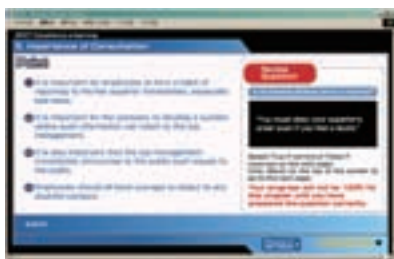
### China

In China, we sought to further strengthen compliance by establishing a CSR and compliance department in fiscal 2007. Also, we held a compliance meeting in Shanghai in May 2007. Simultaneously broadcast to

Beijing and Hong Kong, the meeting featured speeches from the General Manager for China, the Headquarters Chief Compliance Officer, and other members of the senior management team about the need for rigorous compliance.

### Education and training

We conducted compliance seminars for each region. Among those, members of the Headquarters Compliance Office visited cities in Asia and the Middle East—Beijing, Qingdao, Hong Kong, Hanoi, Ho Chi Minh, Bangkok, Jakarta, and Dubai—to conduct education and training. Further, at the same time the national staff of all overseas offices and all employees of ITOCHU Corporation Headquarters took e-learning courses, studying important issues, including the danger of dependence on industrial customs and existing practices and the importance of making suggestions and reporting to superiors.



English version of an e-learning course on the importance of making suggestions and reporting to superiors

## Compliance initiatives for global security risk management and importing

### Global security risk management

To prevent the proliferation of weapons of mass destruction and conventional weapons, Japan maintains strict trade-security under the Foreign Exchange and Foreign Trade Law. To observe such laws and regulations, we have implemented our own internal trade-security control program. Further, to ensure that we do not take part in business transactions that threaten international peace and security, not only do we meticulously comply with existing government laws and regulations, but we are

voluntarily taking extra measures to ensure that our stakeholders and corporate reputation are adequately safeguarded through our implementation of a comprehensive global security risk management program.

The potential intersection of corporate operations with global terrorism or the development and proliferation of weapons of mass destruction can give rise to reputational and financial risks for ITOCHU and other companies with extensive international business operations.

Accordingly ITOCHU recognizes that, as a responsible member of society and the global business community, we need to manage carefully the potential risks associated with business operations in certain locations. In response to the growing field of corporate governance termed global security risk, ITOCHU has developed and implemented corporate policies, procedures, and internal reporting structures to ensure that we perform rigorous, security-minded due diligence with respect to projects and transactions in which security issues are implicated.

During fiscal 2007, ITOCHU developed an overseas e-learning program addressing global security risk management and a trade-security control program for overseas national staff. Further, aiming to reduce exposure to global security risk in light of changes in international geopolitics, we re-evaluated which countries we regard as requiring prior risk control and management scrutiny.

### Customs control

Furthermore, to strengthen customs control, we established the Customs Control Office in the Headquarters CSR & Compliance Division in April 2007. Since then, we have been developing systems and taking measures related to overall control. The Customs Control Office is further strengthening customs compliance by conducting internal research at each Division Company before and after customs authorities' regular inspections, holding training sessions on import applications and customs valuation, and carrying out in-house monitoring activities.