

Environmental Activity Policy

ITOCHU has positioned global environmental problems as one of its highest management priorities. We practice corporate management with a correct perception of the importance of these problems and due concern for the environment. To fulfill our corporate credo of being committed to the global good and to preserve the environment for succeeding generations, we constantly strive to grasp global environmental problems from new perspectives. This thinking of ours is reflected in our environmental policy.

ITOCHU's Environmental Policy

ITOCHU Corporation created ITOCHU's Guidelines on the Environment in April 1993 to start voluntary initiatives to the global environmental issues. Ahead of the acquisition of ISO 14001 certification for Tokyo and Osaka headquarters in December 1997, based on this guideline and also ITOCHU Corporation Code of Conduct, we formulated ITOCHU's Environmental Policy in October 1997. This policy remains effective with partial amendments in July 2004.

ITOCHU's Environmental Policy

I. Basic Philosophy

Global environmental issues are a matter of serious global concern, since they affect the future of mankind. As a member of the international community, ITOCHU is positioning issues of environmental concern as one of the most important management policies. ITOCHU is committed to economic development in harmony with the natural environment, under the corporate ideal of being "Committed to the global good." We are actively promoting involvement by addressing environmental issues based on ITOCHU's Corporate Code of Conduct, in order to protect our precious earth and make a lasting contribution to the global community.

II. Basic Policy

ITOCHU's products and services encompass textiles, machinery, aerospace, electronics, multimedia, energy, metals, minerals, chemicals, forest products, general merchandise, food, finance, realty, insurance, logistics services by way of imports and exports between Japan and various countries and offshore trading. We are also engaged in development and business investment activities in Japan and abroad. Through such activities, ITOCHU will periodically work to evaluate and continually improve its environmental policy. At the same time, we shall define our basic policy on environmental conservation as follows: (only titles are listed)

- (1) Consideration for environmental impact
- (2) Observance of environmental laws and regulations
- (3) Promotion of environmental conservation activities
- (4) Harmonious coexistence with society
- (5) Promotion of educational activities

Eizo Kobayashi, President & Chief Executive Officer
July 2004

Expansion of the scope of ISO14001 certification

Since 1997, we are promoting environmental management activities based on ISO14001. ISO14001 is an international standard on environmental management system and guides management by objectives for achieving continual improvement via the PDCA cycle. In December 1997, Tokyo and Osaka headquarters acquired ISO14001 certification, making our company the first Sogo Shosha (general trading company) to acquire this certification. Our certification was expanded to our five branches within Japan in March 1999, then to ITOCHU Taiwan Corporation in June 2002. As a result of our efforts to include group companies at headquarters in Tokyo and Osaka in the scope, our ISO14001 certification now covers 11 companies.

Goals, objectives and operation management

ITOCHU has set up its environmental goals and objectives on the basis of ITOCHU's Environmental Policy to promote the activity.

Under this category fall "environmental fact-finding surveys at group companies" on page 42 and "environment-preserving business" on page 43.

Meanwhile, we measure environmental impact on products and services we handle by using the LCA methods (see page 42) to identify significant environmental aspects, given relevant laws and regulations and concerns of interested parties. Once identified, significant aspects are managed based on the documented rules and procedural manuals (refer to page 41).

This is relevant to the rule on the management and handling of chemicals, rule on the handling and management of products restricted under the Basel Law, and procedure on the management of equipment for intermediary water.

Relationship between Business Activities and the Environment

As a global company, we handle all kinds of products on a global scale, and are consequently liable to impose a burden on the global environment. Thus, we are making efforts to recognize this burden and prevent unnecessary impact, as well as promoting businesses that contribute to environmental preservation. Through these efforts, we are committed to maintain a sustainable society.

Main environmental impact by business domain

ITOCHU Corporation is engaged in a wide range of trading, business investment, and other operations in regions around the world. As such, our activities can have an immense impact on the global environment.

In our trading, we assess environmental risks for each product by the Life Cycle Assessment (LCA)*1 method every year. Through this assessment, we ascertain the degree of

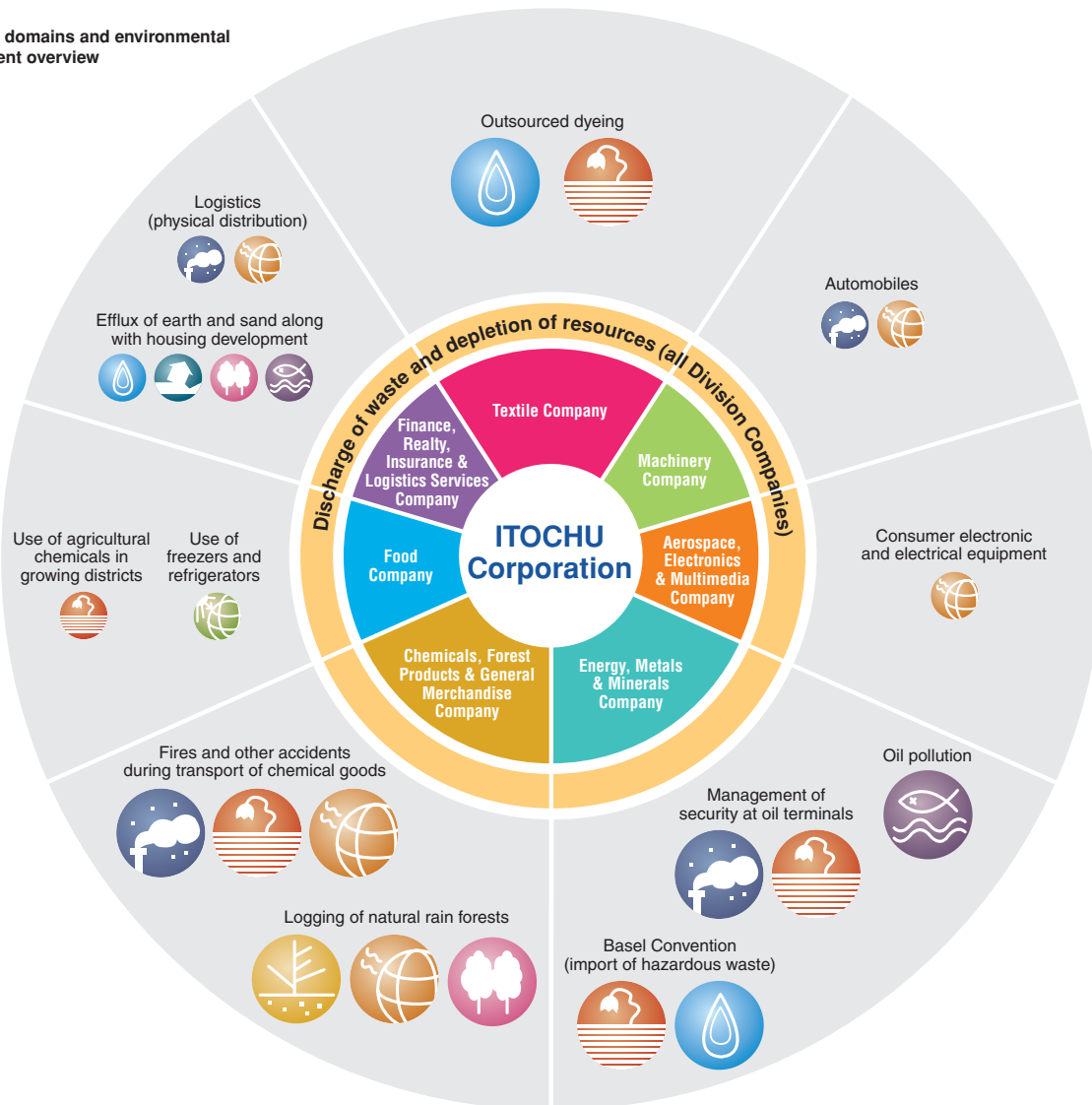
impact which activities by the Division Companies have on the environment.

The chart below uses icons to indicate the environmental impact of the major business of each Division Company.

While doing business with a constant eye on environmental impact as described above, we are opening up business opportunities that reduces burden on the environment.

*1 Life Cycle Assessment (LCA): a procedure for assessing environmental impact of a certain product in all stages of its life cycle, i.e., manufacture, transport, use, and disposal or reuse.

Business domains and environmental assessment overview



- Shrinkage of rain forests
- Air pollution
- Water pollution
- Ground subsidence
- Groundwater and/or soil pollution
- Crisis for plant and animal life
- Destruction of the ozone layer
- Global warming
- Marine pollution

This chart uses icons to express some of the environmental aspects identified by using the LCA method for the products handled by each Division Company. The large icons indicate significant environmental aspects for which activities are managed by means of rules and procedural manuals.

Environmental Impact Assessment and Risk Management

ITOCHU Corporation is engaged in provision, development, and business investment in a diversity of product and service fields. Realizing that these activities can exert a substantial impact on the environment, we carry out environmental impact assessments and work to manage environmental risks associated with our operations.

Environmental impact assessment for products handled and business investment

LCA environmental impact assessment for products

As noted above, for every single type of product we handle, we apply the LCA method to estimate and analyze impact on the environment in all stages from production to disposal after the end of its service life. We divide the flow from raw materials to disposal into stages, such as procurement and manufacture, and identify the environmental aspects in each stage to specify and quantify the impact on the environment. If a quantified impact is above a certain level, then, the environmental aspect is regarded as "significant" and thus will be managed.

Rating sheet for product risks by the LCA method

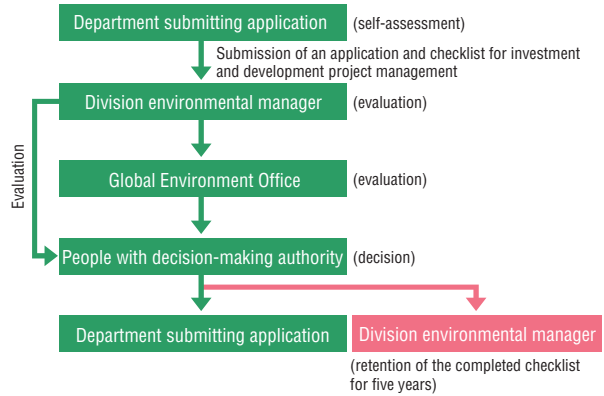
Product/operation flow	Raw materials procurement	Manufacture	Use	Disposal/recycling	Land & sea transportation in the entire process
ITOCHU's equity participation					
ITOCHU's ownership rights to cargo					
Environmental aspects	Use of heavy machinery	Use of cardboard			Use of trucks
Environmental Impact	Decline in amenities				
	Air pollution	○			○
	Water pollution				
	Ground subsidence				
	Groundwater/soil pollution				
	Decrease in waste disposal facility				
	Shrinkage of tropical rain forests and desertification				
	Global warming	○			○
	Destruction of the ozone layer				
	Transborder movement of hazardous waste				
	Endangering of flora and fauna				
	Marine pollution				
	Resource depletion	○	○		○
	Management Category				
Able to manage	×	×			×
Able to influence	×	○			○
Interested parties	×	×			○
Assessment of environmental risk	Risk of occurrence of impact		1		1
	Seriousness of results		3		7
	Total score		3		37

Environmental impact assessment for new investments

Before applying for new investment projects, departments perform their own assessment of impact on the environment in various aspects (e.g., natural & social environment, pollution, and laws and regulations) by filling out the checklist for management of investment and development projects. They then consult with the Global Environment Office about this assessment, and ask an external institution for another assessment if necessary.

Proposed investments are evaluated and determined in accordance with the flow shown below.

Evaluation flow for new investment and development projects



Environmental fact-finding surveys at group companies

Our group companies handle all sorts of goods and have a diverse involvement with the environment.

As a part of our risk management on the group level, we conduct an annual environmental fact-finding survey with group companies. Each year since fiscal 2001, we have selected about 20 firms as subjects of this survey. For the future, we continuously promote a more modulated group management by identifying priority fields and industries in our efforts to prevent environmental risks and preserve the environment.

Implementation of environmental fact-finding surveys (Number of sites)

Division Company	FY	2001	2002	2003	2004	2005	2006	Total by Division Company
Textile Company		1	2	1	2	1	0	7
Machinery Company		3	3	3	2	2	2	15
Aerospace, Electronics & Multimedia Company		1	1	2	2	3	1	10
Energy, Metals & Minerals Company		3	2	2	3	2	1	13
Chemicals, Forest Products & General Merchandise Company		6	6	6	5	5	3	31
Food Company		6	4	5	5	2	3	25
Finance, Realty, Insurance & Logistics Services Company		3	6	5	5	5	6	30
Administrative divisions		0	1	0	0	0	0	1
Grand total by year		23	25	24	24	20	16	132

Environment-preserving Business

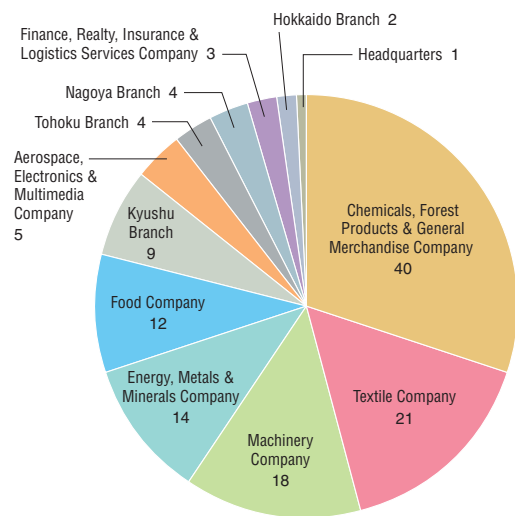
Doing business on a global scale, ITOCHU is vigorously developing all types of environment-preserving business towards its goals of conserving the environment and alleviating impact.

Overall picture of environment-preserving businesses

ITOCHU has made a matrix of the environment-preserving businesses being developed by its Division Companies and branches to get an overall picture of them.

Specifically, the below matrix shows the number of initiatives by business domain based on the lifecycle of goods and services (e.g., raw materials, production process, disposal, etc.) and by preservation category (e.g., prevention of global warming and ozone layer destruction). In fiscal 2006, we found there were a total of 133 environment-preserving businesses in the Division Companies including their group companies, out of which most concerned prevention of global warming such as utilization of renewable energy, and reduction in waste discharge by recycling and other methods.

Environment-preserving business in the ITOCHU Group (FY2006)



Cases of environment-preserving business

Prevention of global warming—our efforts for the utilization of renewable energy

One of the main initiatives taken by ITOCHU to the crucial task of preventing global warming is power generation business utilizing wind, biomass, geothermal and other renewable energy.

In the Machinery Company, it is chiefly the Plant & Project Division that is promoting renewable energy business (i.e., energy from waste, biomass, geothermal energy, and wind; see page 20).

In the field of geothermal energy, especially it has been actively involved in delivering and constructing geothermal power plants and participating in the business in Southeast Asia since the 1980s. So far, it has delivered power generation equipment to a 49-megawatt geothermal power plant, and participated in the business, on the island of Leyte in the Philippines, and also delivered a 125-megawatt geothermal power generation equipment in the same country. It has a track record of installing geothermal power generation equipment with the cumulative capacity over 200 megawatts in the Philippines. The binary power generation system*1, which is applied in geothermal power generation technology, is already adopted in countries such as the Philippines, Indonesia and Japan and is currently marketed for a wide spread use of the system.

*1 The binary power system is based on thermal energy exchange between a fluid that is the energy source (brine, steam produced from a waste heat recovery system, and combustion gas) and a working fluid with a low boiling point. The steam from the fluid as a result of the energy exchange is used to drive a turbine for power generation. The name derives from the use of two fluids.



The Hatchobaru binary power plant (2,000 kw) of Kyushu Electric Power Co., Ltd.

Overall picture of environment-preserving businesses

Business domains	Assessment, consultation, environmental measurement, measurement instruments and systems	Social systems, infrastructure improvement	Raw materials conversion, energy conversion, and related equipment	Manufacturing and processing process improvement and conversion	Environment-compatible products	Waste treatment and treatment equipment	Transformation into resources, recycling, and related equipment	Total
Environmental preservation								
Prevention of global warming	5	1	21	2	7			36
Prevention of ozone layer destruction			1		2			3
Prevention of air pollution (including acid rain and malodors)			2	2	2			6
Prevention of water pollution			8	3	2	2		15
Prevention of groundwater pollution								0
Reduction in waste discharge		1	5		3	3	42	54
Prevention of soil pollution			2	4		1		7
Prevention of desertification	2	7	2		1			12
Prevention of marine pollution								0
Total	7	9	41	11	17	6	42	133

The matrix presents the results of the questionnaire survey conducted in April 2007 by the Global Environment Office on the status of environment-preserving business (actual performance in fiscal 2006). It is based on the reports from Division Companies and branches. The figures for Division Companies include their group companies. As a general rule, business operations not fitting in the categories are not included in the matrix. (The matrix was created based on "Environmentalism Management and Environment Business" published by Nomura Research Institute.)

Development of new energy

The current economic structure dependent on fossil fuels presents the global economy with a crisis. ITOCHU believes that new energy development is an urgent requirement for building a sustainable society. In this belief, we attach importance to development and investment of bioethanol, DME, and the like.

As part of our efforts in biofuel, we engage in a project to produce fuel-use alcohol from sugar cane in Brazil (see page 24). Brazil is the world's largest supplier of bioethanol, and its Amazon River basin contains the world's largest expanse of tropical rain forests, which are a habitat for many rare flora and fauna. Its Pantanal highlands, which are vulnerable to environmental destruction, is kept away from development thanks to a sufficient degree of protection under the leadership of the Brazilian government, in order to bequeath them to the following generations. We respect the official policy of avoiding any damage to the rain forests and upland wetlands, and are planning to build new sugar cane plantations in desolate areas that receive little rainfall and have very little vegetation. In November 2006, we reached a basic agreement on a bioethanol production project in Brazil with CODEVASF, which manages the northeastern region and is engaged in irrigation projects, and CAMPO, which is in possession of technology for soil improvement and development. Taking the environment into account, we are promoting production of bioethanol that is drawing global attention as a non-fossil fuel.



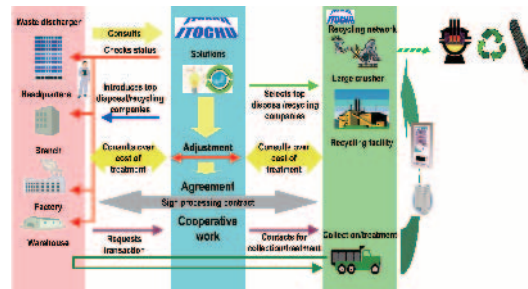
Signing ceremony of the basic agreement on the bioethanol production project in Brazil

Recycling projects

For the purpose of helping to build a recycling-oriented society, ITOCHU is taking initiatives including iron scrap recycling. Our Metals & Mineral Resources Department is engaged in a metal recycling business, in what might even be termed a developed-country urban mine (see page 23). With the experience accumulated through its approximately 50 years in the recycling business, it has constructed the ITOCHU Recycling Network, which consists of about 110 first-rate recycling firms across the country. Using the network as infrastructure, it recycles scrap in all forms, including used vending machines, signs, convenience store utensils, and containers.

The department also offers a recycling system applying GPS tracking technology for high levels of transparency and security. The system has been well received by customers. In recent years, we have taken up the challenge of business in recycling articles other than metals as well, as exemplified by our joint development of a food recycling system with FamilyMart Co., Ltd. We are also engaged in international recycling of CRT glass as a step toward establishment of

recycling systems in Asia based on international divisions of labor.



Conceptual diagram of waste management support services

MOTTAINAI Campaign initiative

Since 2005, ITOCHU has been promoting the MOTTAINAI Campaign advocated by Wangari Matthai, the Kenyan woman who was awarded the Nobel Peace Prize. The campaign is aimed at spreading practice of the 3Rs (reduce, reuse, and recycle) plus a fourth R for "respect" (indicative of a feeling of gratitude for resources) around the world, using the Japanese word "mottainai" as a term that neatly encapsulates all of these concepts. It is a worldwide movement to popularize lifestyles that are friendly to the global environment, build a recycling-oriented, sustainable society, and promote respect for human rights and peace as well.

Thus far, we have pursued transformation of "mottainai" into the world's first commercial environmental brand, and commercialized products based on environmental concern as a standard. In September 2006, we joined with alpinist Ken Noguchi and other noted personalities in sponsoring an inter-company cleanup competition at the Aokigahara forest at the base of Mt. Fuji, which has been plagued with illegal dumping in recent years. The competition garnered the participation of 127 people from 28 companies, and collected enough litter to fill a 1.5-ton truck.

This was followed in November 2006 by our establishment of the MOTTAINAI Lab., a facility for research and publicity on lifestyles in line with the "mottainai" spirit. As its first project, the lab launched a website (Mottainai Lab. Blog) in collaboration with Excite Japan Co., Ltd. And in January 2007, we set up the MOTTAINAI Department in partnership with Shibuya University Network, a specified non-profit corporation. Through the department, we have publicized campaign activities from the central Tokyo district of Shibuya by holding hands-on classes and events for members of the general public on the idea of "mottainai" tips that can be immediately practiced by anyone.



Inter-company cleanup competition in Mt. Fuji 2006

Continuous support for research on climate change and business creation through industry-academia collaboration

ITOCHU has continued to provide assistance for basic research activities for the Center for Climate System Research, University of Tokyo since its foundation in April 1991 for the purpose of climate change research. The research findings have been announced externally at the ITOCHU Symposium held in collaboration with the center. In 2006, the symposium was moved from ITOCHU's Tokyo headquarters, its original venue, to Yasuda Hall on the university campus for wider publicity, and was also held in the Osaka headquarters.

Together with the center, we are also promoting an industry-academia collaboration project established in January 2006 along with Tokio Marine & Nichido Fire Insurance

Co., Ltd. and NTT Energy and Environmental Systems Laboratories. ITOCHU is making full use of the center's wide-ranging scientific knowledge to support the development of business taking account of the long-term risks of global warming to industry. Over the coming years, we intend to recruit more members from industry to make this collaboration even stronger.



"Changing climate," a lecture open to the general public at Yasuda Hall, University of Tokyo

Promotion of environmental business and education with Morizo and Kiccoro as mascot characters

Extensive publicity at The World Exposition, Aichi, Japan

Morizo and Kiccoro were created to serve as mascots characters in 2002 for the EXPO 2005.

Many items were commercialized under their names, and they widely appeared in animated cartoon broadcasts and children's books. In 2003, a lot of interest was generated by the news reports that the Crown Prince was reading the book "Voices of the Forest," which features the mascots, to his daughter Princess Aiko. After completing their mission at the EXPO, Morizo and Kiccoro subsequently embarked on a new career as environmental mascots in 2006.



The children's book "Voices of the Forest"

Inheritance and development of the EXPO philosophy

Since April 2007, the Global Industrial and Social Progress Research Institute (GISPRI), a foundation under the jurisdiction of the Ministry of Economy, Trade and Industry, has been promoting a project for inheritance and development of the EXPO philosophy. Based on the project concept, ITOCHU is playing the following roles.

1 Licensing business

Drawing on its know-how and experience as the master licensee at the EXPO, ITOCHU is in charge of approving use of Morizo and Kiccoro as environmental mascots characters in connection with environment-friendly companies, products and services. Through this licensing business, we are engaged in activities that contribute to environmental preservation.



Agricultural farm

In a new initiative, the Food Company is planning to develop and sell new environment-friendly agricultural products meeting environmental standards applied to agricultural production. These products are to bear the images of Morizo and Kiccoro and spread from Japan to other markets throughout the world.

2 Environmental education program

Part of the licensing fee we pay to the GISPRI is earmarked for environmental education in the aforementioned project. The DVD entitled "Morizo Kiccoro Chikyū Kankyo No Tabi (Morizo and Kiccoro's Journey to Global Environment)," that was produced in 2006 and aired on NHK, has been distributed without charge to some 23,000 elementary schools nationwide by the GISPRI for use in environmental education. Similarly, in April 2007, NHK's educational channel began showing a series in which the two mascots appear, called "Let's Visit the Forest!" The series highlights the joys of recreation in the outdoors and the wonder of nature. Through such environmental education, our intention is to instruct people in environment-friendly consumption and thereby help to build a sustainable society. We also hope that the environmental education program will stimulate change in corporate activities, add impetus to the development of environment-friendly products and services and the innovation of technology, and accelerate corporate action on environmental problems.



"Morizo Kiccoro Chikyū Kankyo No Tabi"



"Let's Visit the Forest!" NHK educational program