

ITOCHU Corporation

2007

CSR Report



ITOCHU
ITOCHU

Corporate Profile

Corporate Name : ITOCHU Corporation
 Founded : 1858
 Incorporated : December 1, 1949
 Location of headquarters
 Tokyo headquarters : 5-1, Kita-Aoyama 2-chome, Minato-ku, Tokyo 107-8077, Japan
 Osaka headquarters : 1-3, Kyutaramachi 4-chome, Chuo-ku, Osaka 541-8577, Japan
 President & CEO : Eizo Kobayashi
 Capital : ¥202,241 million
 Number of offices : 18 (Japan), 134 (Overseas)
 Number of employees : Consolidated* 45,690 / Non-consolidated 4,037
 (as of March 31, 2007)

*The number of consolidated employees is based on actual working employees excluding temporary staff.

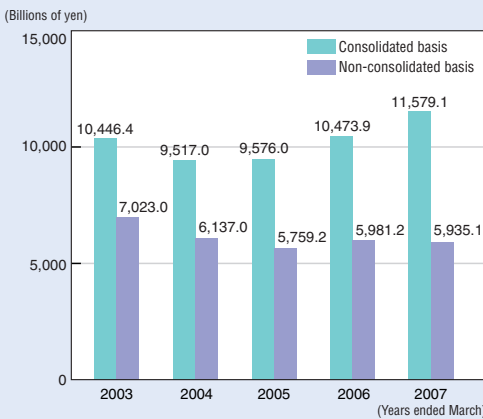


Overseas Offices

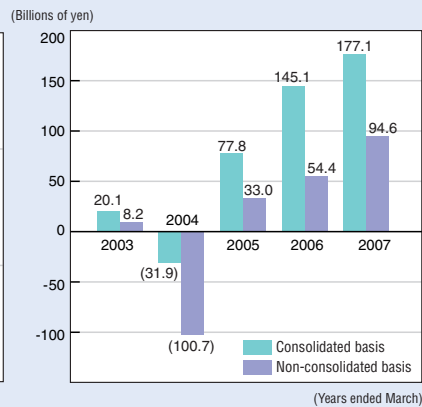


Financial Overview

Total trading transactions

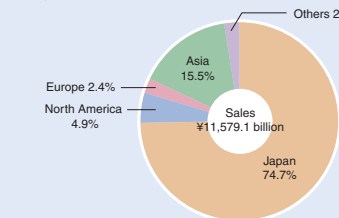


Net income/loss



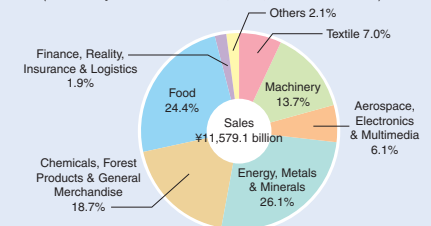
Total Trading Transactions by Region

(The fiscal year ended March 31, 2007, consolidated basis)



Total Trading Transactions by Division Company

(The fiscal year ended March 31, 2007, consolidated basis)



Notes:

- The financial statements of ITOCHU Corporation are presented in accordance with U.S. GAAP.
- "Total trading transactions" is presented in accordance with Japanese accounting practice, and consists of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.
- "Total trading transactions" by Region (the fiscal year ended March 31, 2007, consolidated basis) is prepared in accordance with Japanese reporting practice, and presented by each geographical segment that is based on the nearest region where ITOCHU Corporation and its subsidiaries are located.

Editing Policy

We at ITOCHU Corporation believe that corporate social responsibility (CSR) lies in corporate thought and action on the question of how to play a role in building sustainable societies through business activities. This report presents the role we must discharge and our initiatives for it.

The nature of our business varies greatly depending on the Division Company, and each Division Company faces different issues regarding sustainability. With the aim of pursuing CSR activities with actual effect in their respective businesses, the seven Division Companies are taking the lead in preparing their CSR action plans to identify key tasks, and solve and improve them.

This, our second CSR report, centers around the results of the CSR action plans prepared by the Division Companies in fiscal 2006 (i.e., FY 2006 action plans) and the fiscal 2007 action plans prepared on the basis of assessments of those results. It also sets forth our policies on promoting ITOCHU Group CSR initiatives throughout the group and overseas.

We strove to make this report a clear one that would not only inform external parties about our CSR activities but also give our employees a good understanding of them and enable group companies to conduct such activities themselves.

Referenced Guidelines

Sustainability Reporting Guideline 2006 issued by Global Reporting Initiative (GRI)

Environmental Reporting Guideline (fiscal 2003 publication) issued by Ministry of Environment

* The comparative table with GRI Guideline 2006 is posted on the following website.

http://www.itochu.co.jp/main/csr/csr_report/index_e.html

Reporting Period

This report principally covers actual data for the fiscal year beginning on April 1, 2006 and ended on March 31, 2007 (FY 2006). However, some of the more recent information on our activities and initiatives are also included.

* The terms "FY2006" and "fiscal 2006" refer to the period noted above.

Reporting Scope

Information on ITOCHU Corporation (18 domestic offices and 134 overseas offices) and major group companies is presented in this report.

Information on Publication

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Next issue : Tentatively September 2008
(last publication: August 2006)

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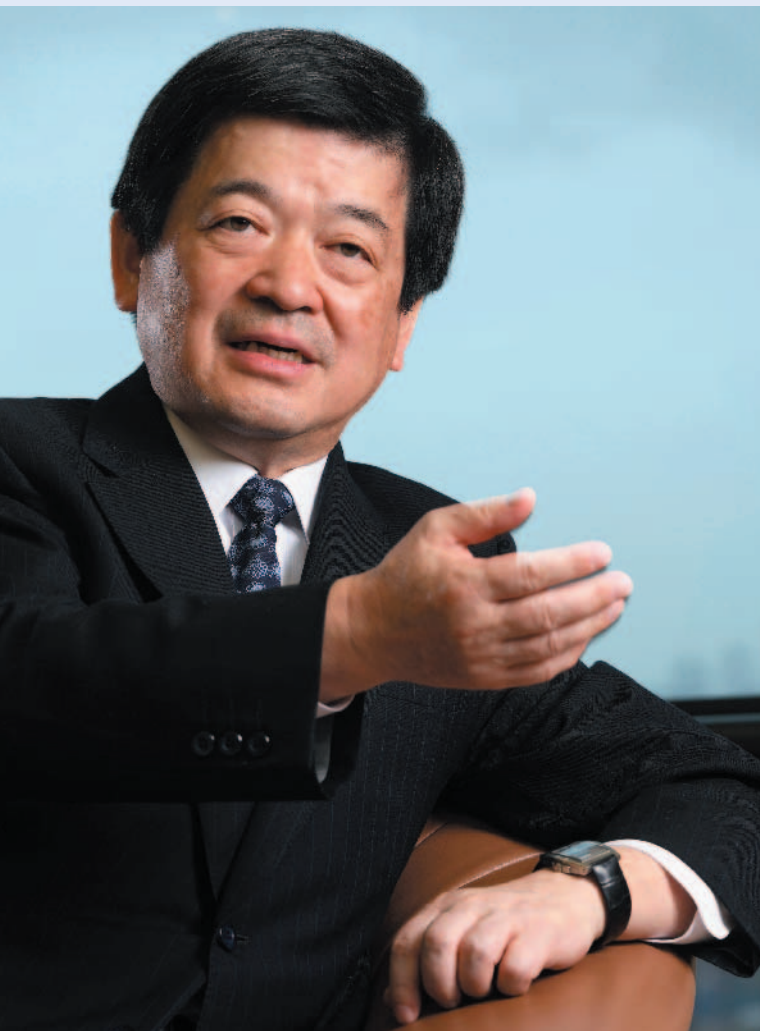
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**“There is a lot we can do for the ‘global good.’
We will contribute to the advancement of society through action
revolving around our corporate credo and CSR.”**



Eizo Kobayashi
President and Chief Executive Officer

Global warming, food, water, population, energy—here are my thoughts on the urgent issues facing the world

As also described in the reports of the Intergovernmental Panel on Climate Change (IPCC), global warming has reached serious proportions. Al Gore's *"An Inconvenient Truth"* further underscored the problem we had already perceived, and reaffirmed the awareness that we are facing nothing less than a crisis.

Even aside from global warming, the world is being confronted with various major issues. I am most apprehensive about the supply of food and water. The world population stood at about 1 billion around 1800. It reached 2 billion around 1930, 130 years later, but is close to

6.5 billion now, less than 80 years later. It is predicted to reach about 9 billion in 2050. The combination of climate change, population growth, and other factors is liable to cause shortages of food and water, and wars could very well erupt in the struggle over dwindling supplies. The energy problem is also a major one requiring urgent resolution.

The ITOCHU Group can do much to solve global problems

In viewing problems on a global scale, I believe there is a lot that the ITOCHU Group must and can do.

It will take some time to find solutions for the issue of energy resources to replace fossil fuels. But the effort must be made, regardless of the time factor. In the power sector, problems must be resolved through mixes of solar energy, geothermal energy, wind power, wave power, biomass, and other alternatives. The bioethanol that is the focus of so much attention these days looks promising as an alternative energy, but is made from sugar cane and other foodstuffs. As such, its development must take account of the balance with the food supply.

The ITOCHU Group is involved in projects for bioenergy, and power generation using geothermal energy, wind power, and other renewable energies in various countries and regions. Those projects require the process of trial and error and it will take time for the projects to pay off economically, but we see it as our social responsibility to forge ahead with them.

Deriving profit from better solutions, and investing this profit in even better solutions

The thrust of our corporate credo, "Committed to the global good.," is assumption of responsibility for proposing and providing paths that will make the world better. At the same time, however, all companies must reap profit from their economic activities.

In a certain city in China, we were offered capital participation in the operation of a waterworks project. While it is worthwhile to participate in projects for supply of water in places lacking infrastructure, we asked ourselves whether our corporate credo and CSR commitment would permit involvement solely in search of profit, in a city already equipped with a decent infrastructure. Eventually, we decided to decline this offer, precisely because we had doubts about the propriety of seeking profit in a public-sector project with a direct bearing on human subsistence.

We will undoubtedly continue to be confronted with such thorny choices between economic gain and CSR. In making decisions, we must always ask ourselves whether projects will be of genuine benefit to the community and its members, and help the cause of the global good instead of merely looking at what's in it economically for us.

We can make a return to society in the larger sense by devising better solutions and investing the profit deriving from them in development of even better solutions. I am convinced that we have already set this sort of loop in motion, and intend to remain constantly aware of it in our business.

Guidelines are business opportunities and linked to the advancement of human progress

Opinions are divided on the question of whether the government should make rules in areas such as CO₂ emission quotas or companies should be left to take their own initiatives. I think that a certain level of rules and guidelines should be established. By nature, people have weaknesses, and are liable to take the most expedient way if no rules are operating.

The satisfaction of guidelines is also linked to provision of solutions that are better than those currently available. For example, to attain the targets of Team Minus 6%*1 program naturally requires efforts not only to conserve energy but also to utilize it more efficiently. As I see it, this kind of initiative helps the human beings to advance to the next stage.

For the business of the ITOCHU Group, rules and guidelines are not just hurdles; we see them as furnishing us with opportunity at the same time. We regard it as our social mission to seize these opportunities, invent better solutions, and thereby help to enrich society as a whole.

Continued efforts to instill the CSR spirit in each and every employee

This is the second year that our seven Division Companies are preparing CSR action plans. In addition, we are conducting the ITOCHU DNA Project for business process reengineering and have taken steps to make the work of each and every employee more visible. As a result, we found that ITOCHU has hundreds of business models, and that each is executed by a few employees.

As this indicates, each employee is, in effect, a business principal. This reaffirmed for us that CSR fulfillment by ITOCHU as a whole requires a keen CSR awareness by each and every one of our employees.

At ITOCHU, CSR activities are grounded in the “*sampo yoshi*” spirit that also constitutes our DNA, our corporate credo of being “Committed to the global good,” and the commitment to acting with integrity using honest and fair business practices and refraining from wrongdoing and falsehood I often mention. Although these basics are already instilled in all our employees, I want to deepen their penetration and make sure that every employee goes about his or her business squarely in line with them.

Nevertheless, we must remember that people may sometimes succumb to temptation, and it is also essential to build mechanisms to ensure that our business practices meet the aforementioned commitment. The reason is that such mechanisms save careers. We already have them in place, but there is no end to CSR activities. We are going to continue solidifying these systemic arrangements and pursuing CSR such activities, day after day.

Working for a better society by efforts based on CSR and drawing on our strengths



The ITOCHU Group has been able to grow precisely because it has been supported by many stakeholders, or society at large. Contribution to society must be at the foundation of our activities.

The “global good” in our credo by no means indicates only material affluence; it refers to social betterment in a variety of ways. As a *Sogo Shosha* (general trading company),

we cover various industries. For a single project, we can involve several experts from mutually different fields and deploy an interdivisional system. Furthermore, we are in a position to construct seamless value chains spanning the upstream, midstream, and downstream stages, and have particular competence in fields tied directly to people's life, i.e., end-user consumption. These are vital strengths of ours.

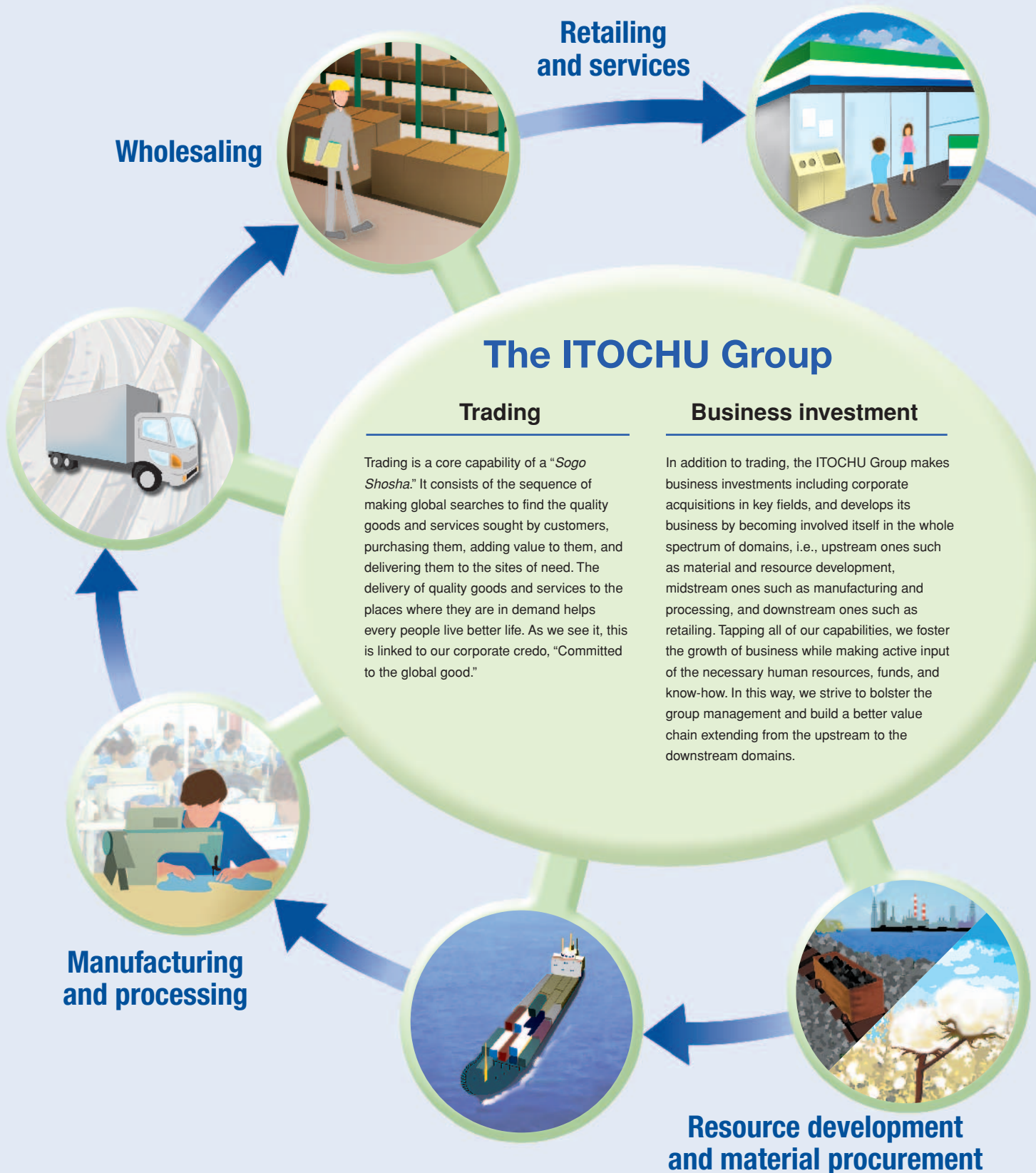
A company that is committed to the global good and sustainable society while being ever mindful of CSR and its credo, and making the most of its own capabilities—that's my aspiration for ITOCHU.

*1 “Team Minus 6%” is a national campaign to reduce greenhouse gas emissions by 6%, which is the target for Japan established in the Kyoto Protocol.

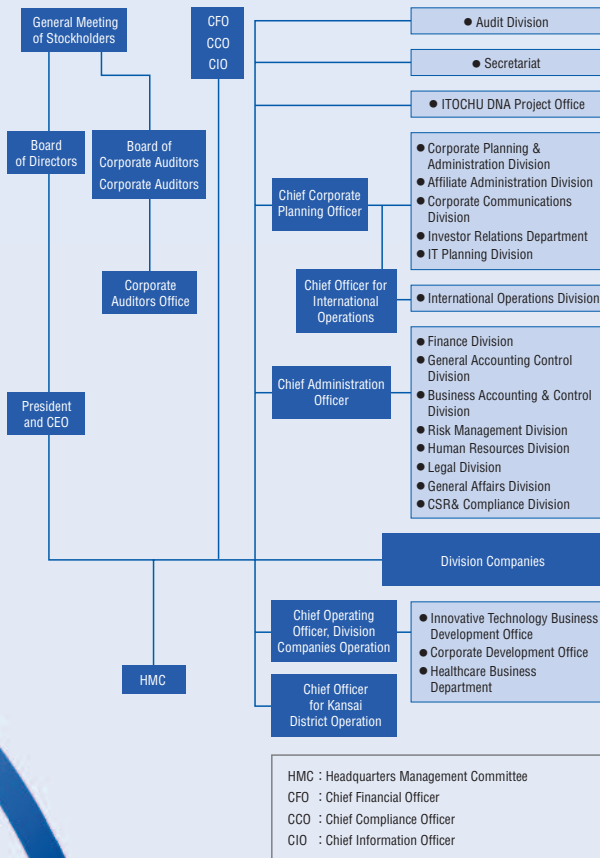
Business Outline of the ITOCHU Group

Business outline of the ITOCHU Group

The ITOCHU Group provides a diversity of goods and services that support people's life, and consequently has a total involvement extending from raw materials and other upstream domains to retailing and other downstream ones. We organize trading, business investment, and the related business, thereby adding further value to them. Taking full advantage of these capabilities as a "Sogo Shosha (general trading company)," we are developing business around the world. We are also set apart by our well-balanced development of business in a wide range of industries and fields (see page 6).



Organization chart



Outline of Division Companies

<p>Textile Company</p> <p>The Textile Company is developing business with a synergy stretching from procurement of textile materials to apparel as the final products, industrial goods, brands, and advanced technology. It has the biggest brand business of all Japan's "Sogo Shosha." Engaged mainly in trading, it has been expanding its business in upstream and midstream domains in recent years by establishing channels to downstream parties with a focus on apparel and distribution.</p>	<p>Major group companies</p> <ul style="list-style-type: none"> ● itochu fashion system co., Ltd. ● Prominent Apparel Ltd. ● Roy-ne Co., Ltd. ● JOI'X Corporation ● TOMMY HILFIGER JAPAN CORPORATION
<p>Machinery Company</p> <p>In keeping with its mission of developing local communities and contributing to the international society, the Machinery Company is engaged in improvement and maintenance of the infrastructure overseas as well as in trading and business investment in fields including automobile, ship, construction machinery, and industrial machinery.</p> <p>Concern for the environment is a priority as it develops machinery-related businesses in such fields as water resources, the environment, renewable energy, and alternative energy sources.</p>	<p>Major group companies</p> <ul style="list-style-type: none"> ● ITOCHU Plantech Inc. ● ITOCHU Automobile Corporation ● ITOCHU SANKI CORPORATION ● MCL Group Limited ● ITOCHU Automobile America Inc. ● Century Leasing System, Inc.
<p>Aerospace, Electronics & Multimedia Company</p> <p>The Company's IT & Business Solutions Division and Media Business Division are helping to make life more convenient and efficient through business investment mainly in the fields of IT services, contents, and mobile services. Its Aerospace & Electronic Systems Division engages mainly in trading, and is doing business through activities such as sales and leasing of aircraft, and sale of aerospace instruments and security equipment.</p>	<p>Major group companies</p> <ul style="list-style-type: none"> ● ITOCHU Aviation Co., Ltd. ● ITOCHU Techno-Solutions Corporation ● Excite Japan Co., Ltd. ● ITC NETWORKS CORPORATION ● NANO Media Inc. ● SPACE SHOWER NETWORKS INC.
<p>Energy, Metals & Minerals Company</p> <p>The Energy, Metals & Minerals Company is operating businesses through synergetic activities in "natural resource development" and "trading". It is engaged in development and stable supply of mineral resources and energy, resource recycling business, and creation of new energy with low environmental impact. It is contributing to the steady supply of mineral resources and energy to Japan and other countries, economic advancement in producing countries, and creation of recycling-oriented societies through resource recycling.</p>	<p>Major group companies</p> <ul style="list-style-type: none"> ● ITOCHU Non-Ferrous Materials Co., Ltd. ● ITOCHU Petroleum Japan Ltd. ● ITOCHU Minerals & Energy of Australia Pty Ltd ● ITOCHU Oil Exploration (Azerbaijan) Inc. ● Marubeni-Itochu Steel Inc. ● ITOCHU ENEX CO., LTD. ● i-Recycle Inc.
<p>Chemicals, Forest Products & General Merchandise Company</p> <p>The Chemicals, Forest Products & General Merchandise Company consists of the Forest Products & General Merchandise Division, which handles lumber, housing materials, paper, pulp, afforestation, natural rubber, tires, glass, cement, and other materials, and the Chemicals Division, which deals in organic and inorganic chemicals, plastics, and other chemical products. Its customers and business range from industries to consumers, and from the upstream to the downstream markets. It is dedicated to making life more safe and convenient for people around the world.</p>	<p>Major group companies</p> <ul style="list-style-type: none"> ● ITOCHU Kenzai Corporation ● ITOCHU Pulp & Paper Corp. ● ITOCHU CHEMICAL FRONTIER CORPORATION ● ITOCHU PLASTICS INC. ● DAIKEN CORPORATION ● TAKIRON Co., Ltd. ● C.I. KASEI Co., Ltd.
<p>Food Company</p> <p>The Food Company is building a food value chain spanning the sectors of food resource development, production and processing, intermediate distribution, and retailing in Japan and other countries, through the combination of trading and business investment. Its mission is the stable supply of safe foods to protect lives of people.</p>	<p>Major group companies</p> <ul style="list-style-type: none"> ● ITOCHU SHOKUJIN Co., Ltd. ● NIPPON ACCESS, INC. ● Japan Foods Co., Ltd. ● Fuji Oil Co., Ltd. ● YAYOI FOODS CO., LTD.
<p>Finance, Realty, Insurance & Logistics Services Company</p> <p>The Company's Financial Services Division does business in corporate solutions applying financing methodologies. Besides business in housing, its Construction & Realty Division makes extensive use of real estate funds in the areas of logistics and commercial facilities. Its Insurance Services Division has an agency business in insurance and reinsurance, and is also engaged in underwriting. Its Logistics Services Division handles physical distribution inside and outside the ITOCHU Group, and is also active in China, other Asian countries, and Central and Eastern Europe.</p>	<p>Major group companies</p> <ul style="list-style-type: none"> ● ITOCHU Finance Corporation ● ITOCHU PROPERTY DEVELOPMENT, LTD. ● ITOCHU URBAN COMMUNITY LTD. ● CENTURY 21 REAL ESTATE OF JAPAN, LTD. ● i-LOGISTICS CORP. ● Orient Corporation



Committed to the global good.

CSR for ITOCHU Corporation

What is the essence of social responsibility for ITOCHU Corporation?

As a global company engaged in multifaceted business activities in a wide range of fields and various regions of the world, ITOCHU fully recognizes the impact of its actions, contributes to building sustainable societies through its core businesses, and plays a role as a good corporate citizen.

Basic perspectives on CSR at ITOCHU

ITOCHU Corporation has a keen awareness of the need to coexist with society as a good corporate citizen. The circumstances currently surrounding society contain many factors on a global scale that threaten sustainability, such as global warming and other environmental problems, and poverty in developing countries. These are critical issues that cannot be resolved unless industries and citizens in addition to the public sectors take initiatives respectively. As we are engaged in multifaceted business activities at many locations both in Japan and abroad, we must firmly realize the magnitude of the impact our activities can have on society, and take proactive approaches to environmental problems and other global issues.

We are also making ongoing efforts to listen to the views in society and to respond to its needs. While contributing to the creation of a sustainable society through our core businesses, we aspire to be the kind of company that is supported, trusted, and needed by society ten and even 100 years from now.

Rooted in "sampo yoshi"

ITOCHU Corporation traces its origins to the fabric wholesale business started by Chubei Ito, its founder, in 1858, in the twilight years of the Tokugawa Shogunate. Chubei grounded his business in the spirit of "sampo yoshi," a management philosophy embraced by merchants in the feudal province of Omi, where he was born. The central idea is that transactions must be good ("yoshi") for all three parties ("sampo"), that is, the seller, the buyer, and the society. It may be viewed as a precursor of today's idea of CSR, which rests on the belief that companies ought to do business that delivers a balanced benefit to all of their stakeholders. ITOCHU has been steadily practicing this ideal for some 150 years.

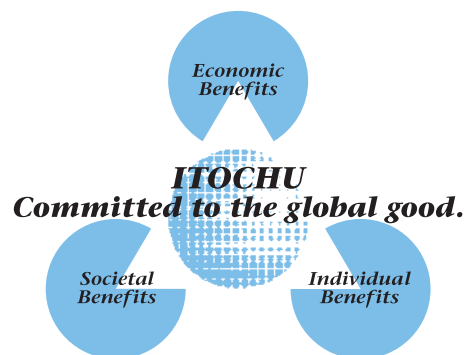
Penetration and practice of the ITOCHU Credo

In 1992, ITOCHU Corporation established its corporate credo, "Committed to the global good.," in the aim of considering how to make a commitment to society down the road as a global company and putting it into practice. In our view, the fulfillment of CSR is nothing less than the sharing and realization of this credo by all of our employees. In August 2006, at the initiative of the ITOCHU Labor Union, a conference for consultation on the ITOCHU Credo between the management and the union was held. The conference reiterated the background leading

up to the adoption of the Credo and reconfirmed its various connotations. It also underscored the necessity of having the ITOCHU Credo shared by all employees as a concrete target and sense of values so that it is reflected in actual corporate activities.

In addition, we formulated the ITOCHU Corporation Code of Conduct as an explicit statement of corporate behavior based on the ITOCHU Credo. We are continuously making efforts to promote understanding of the ITOCHU Credo among employees by distributing pamphlets on the Credo and the Code of Conduct and instructing them through e-learning programs. We are going to continue with our efforts to penetrate and practice the credo and code throughout the company in order to heighten CSR awareness.

The ITOCHU Credo—Committed to the global good.—



ITOCHU Corporation Code of Conduct

- | | |
|--|--|
| 1. Observance of Laws and Regulations | 7. Good Corporate Citizen |
| 2. Supply of Quality Products and Services | 8. Working Conditions |
| 3. Management with a Long Term Vision | 9. Policy against Antisocial Organizations |
| 4. Fair Dealing | 10. Globalization |
| 5. Disclosure | 11. Compliance |
| 6. The Environment | 12. Commitment by Executives |

* Please refer to the following web site to see the full text of the code of conduct. http://www.itochu.co.jp/main/coy/coy_11e.html

Incorporating CSR into the mid-term management plans

In Frontier+ 2008, our mid-term management plan, we have positioned the promotion of CSR activities as a key priority. To give due consideration to CSR in corporate activities, each organizational unit identified priorities for CSR activities during the term of Frontier+ 2008 when formulating its basic mid-term plan.

We strive to make our CSR activities more effective by mapping out CSR tasks when formulating our management plans.

spread of these activities throughout the Group, including overseas offices, as a corporation practicing consolidated management on a global scale.

Basic policies in the CSR promotion activities in FY2007

ITOCHU has determined basic policies for the CSR promotion activities in the course of Frontier+ 2008. The policies include the same three items from the past, including “ensuring and enhancing safety and reliability (going beyond the level of mere compliance with laws and regulations),” which is a strong requirement of society. We added to them a fourth item (expanding the scope of CSR activities) to encourage the

Basic policies in the CSR promotion activities during Frontier+ 2008

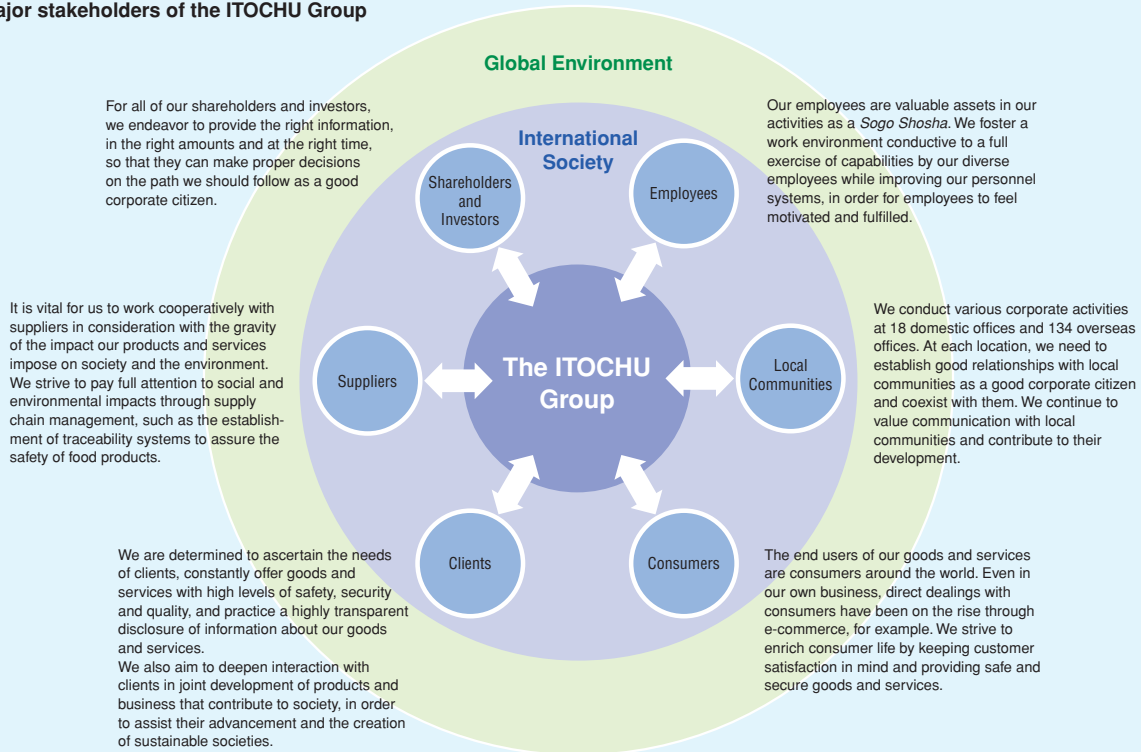
1. Strengthening communication with stakeholders
2. Ensuring and enhancing safety and reliability in the product, service and human aspects
3. Promoting CSR-related education and enlightenment
4. Expanding the scope of CSR activities

* In the descriptions of Division Companies' action plans for fiscal 2007 on pages 17–30, their action plans corresponding to the basic policies have the above numbers noted.

CSR approaches through dialogue with our stakeholders

In each and every one of our wide range of corporate activities, we always take care to avoid arbitrary logic and judgments. For this reason, in our approaches to CSR as well, we engage in dialogue with our stakeholders based on the premise that judgments in society are by definition correct.

Major stakeholders of the ITOCHU Group



Besides those noted above, the list of our major stakeholders includes many other parties, such as NGOs and NPOs, financial institutions, government ministries and agencies, mass media, and the coming generations.

Methods and Structure for CSR Promotion at ITOCHU

As a "Sogo Shosha," ITOCHU Corporation is involved in various fields of business and has a diverse business models. To cope with this corporate character, we must promote organized and systematic CSR activities in each business segment. With this in mind, this section describes how we promote our CSR activities.

Methods and structure for CSR promotion

1 Need for CSR practice by each and every employee

At ITOCHU Corporation, many employees function as producers or managers of multifaceted businesses and projects, and have to make their own decisions in many respects. For this reason, we could not fulfill our CSR unless they all practice it in their work. We are striving to promote CSR activities with the participation of all employees, by making them fully aware of this fact and creating environments and mechanisms to encourage them to practice CSR on their own initiatives. This, we believe, will enhance employees' motivation and heighten the corporate value as well as strengthen their capabilities.

2 Promotion of CSR activities by each organizational unit

The practice of CSR by each and every employee demands a scheme for identification of specific tasks, setting of targets, and execution of plans. ITOCHU Corporation is comprised of seven Division Companies that operate in numerous industries and fields. Therefore, instead of setting up uniform company-wide targets, we decided to pursue CSR activities more in line with each business or domain.

Specifically, each Division Company and Administrative Divisions at Headquarters prepare CSR action plans according to their business and functions. In the Division Companies, CSR promotion activities including the preparation of action plans are led by the general managers of each Planning and Coordination Department and the personnel in charge of CSR promotion in each Division Company, who have first-hand knowledge of the sales front. In each unit, employees respectively put the CSR action plans into practice, and promote effective CSR activities.

We recognize that in fiscal 2006, we had managed to establish a unique method for CSR promotion centered around the action plans prepared by each unit as noted above.

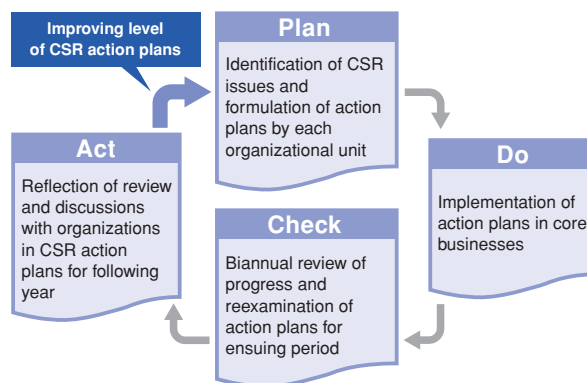
3 Operation of CSR action plans

CSR action plans are grounded in an apprehension of the current status to identify areas where initiatives are weak or should be strengthened as viewed from the CSR perspective. This is followed by the setting of targets for improvement and reinforcement, and action toward them. Each unit makes its own plans, reviews them biannually, and reflects the results for improvement in the subsequent half-year term. Through implementation of this plan-do-check-act (PDCA) cycle, we are aiming for continuously improving the level of CSR action plans.

Reviews made in fiscal 2006 applying this method found that certain plans were hard to execute and verify because they were not specific enough; therefore, they were neither fully improved nor reinforced. They also revealed other shortcomings, such as failures to incorporate CSR objectives in daily operations.

To create better CSR action plans for fiscal 2007 that reflect lessons learned, we had plenty of discussions with respective units from the planning stages while referring to the reviews of fiscal 2006 and opinions from employees and organizations. By reflecting the results of discussions in the subsequent year, we hope to raise the level of CSR action plans year after year and thereby do a better job of fulfilling our CSR as the primary objective.

CSR Action Plan PDCA Cycle



Measures for internal penetration of CSR activities

1 Spread of CSR activities

Each and every employee must be fully aware of our CSR activities to become deeply involved in the preparation and promotion of CSR action plans and to raise the level. To this end, we took the following measures in fiscal 2006.

(1) We published the first CSR Report on the corporate level in July 2006 and distributed one copy to every single employees inside and outside Japan (including temporary staff and national staff*1).

(2) *ITOCHU Monthly* (the corporate magazine) carried a series of articles in which the heads of each unit described its CSR action plans.

(3) Through the Intranet, we provided various kinds of CSR information and presented a motion-video display of the multi-stakeholder dialogue held in 2006.

*1 National staff refers to locally hired staff at overseas offices.

2 Internal penetration of CSR through collection of opinions from employees and discussion at business sites

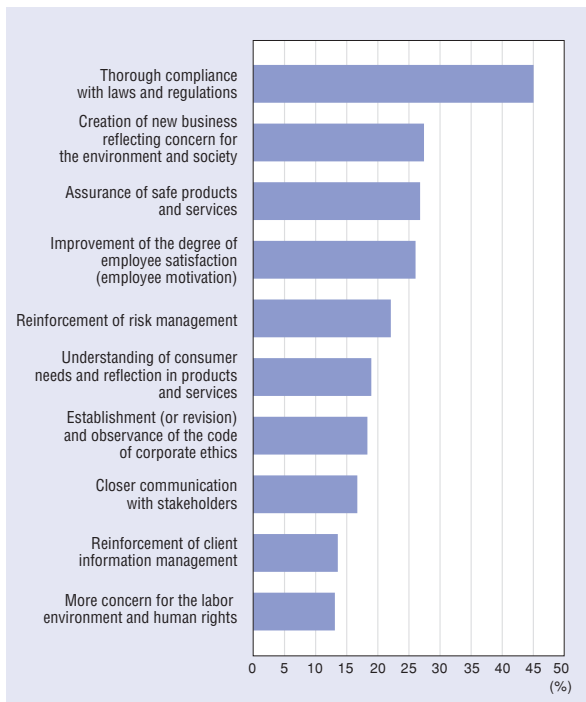
We took the following measures in fiscal 2006 to gather opinions from employees on CSR and reflect them in the penetration of CSR activities.

(1) Employee questionnaire about the CSR Report

Following publication of the CSR Report 2006, we conducted a questionnaire with employees about it. We had 2,951 responses out of 4,773 employees, the total workforce as of October 2006 when the survey was collected, with a retrieval rate of 61.8 percent. This is a very high rate for a voluntary survey, and underscores the strong interest in CSR among the employees.

The questionnaire collected a wide spectrum of views. While some employees expressed that they are proud of ITOCHU for its earnest efforts for CSR activities, others pointed out that the current activities were insufficient.

CSR tasks to be addressed by my unit



(2) CSR workshops

Along with the distribution of the CSR Report, we prepared a video to raise CSR awareness in the company and distributed it to the organizational units in order to deepen their understanding of CSR. After the video was shown in each unit, we held CSR workshops to discuss CSR activities in each unit. In these workshops, each unit made a CSR declaration on actions to be taken in their unit, and put together CSR proposals

on actions to be expected from the company as a whole.

Like the employee questionnaire about the CSR Report 2006, the workshops were valuable opportunities to discuss what actions should be taken at the unit level. The managers, who are at the mid-management level, played central roles in the discussions for their units. They served to add impetus to spread CSR activities.



3 Other measures for internal penetration of CSR

Other measures to penetrate the CSR mindset may be exemplified by CSR lectures held at branches, offices and group companies in Japan, and various training programs incorporating CSR instruction. As this suggests, we are taking every opportunity to raise CSR consciousness throughout the company.

List of regular training programs and lectures incorporating CSR instruction

- Training for new graduates
- Training for mid-career employees
- Training for managers
- Training in advance of transfer to other countries
- Training for national staff at ITOCHU Headquarters
- Lectures on compliance at branches and offices in Japan
- Compliance liaison conferences
- Various lectures at group companies



Training for national staff at ITOCHU Headquarters



Lectures on compliance at branches and offices in Japan

Toward Expansion of the Scope of CSR Activities

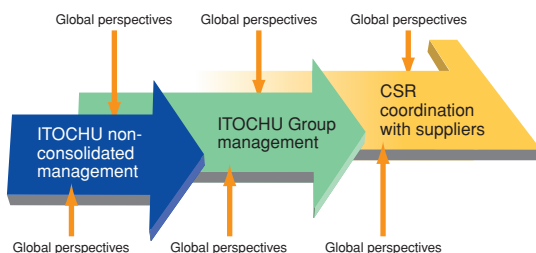
As ITOCHU Group promotes consolidated management globally, it is indispensable for the entire group to take initiatives for effective CSR promotion activities. Recognizing that, we started promoting CSR activities among group companies in fiscal 2006. From now on, we intend to expand the scope of this effort to include more group companies, our overseas offices and the supply chain.

Basic policy on the expansion of the scope of CSR activities

As a new policy, "expanding the scope of CSR activities" has been added to the past basic policies in the CSR promotion activities for the period of Frontier+ 2008, our new mid-term management plan.

The ITOCHU Group practices consolidated management on a global scale, and its pursuit of CSR activities consequently must not be confined to ITOCHU Corporation. We are highly aware of the need to carry out CSR activities throughout the Group. For this reason, we are going to systematically expand CSR activities to the whole group by applying the method practiced at ITOCHU Corporation, that is defining CSR action plans implemented in the core businesses. At the same time, we need to encourage CSR efforts in 134 overseas offices. We also intend to promote CSR activities in our supply chain.

Road map to expand the scope of CSR management



Concept on CSR group management

In fiscal 2006, we started a CSR group management program among the 13 major companies in our group. To widen the scope to all members of the Group, we plan to expand CSR activities mainly to domestic group companies during the period of Frontier+ 2008.

The seven Division Companies take a lead, select members from group companies which each Division Company supervises, and deploy the program at the selected companies. The deployment plan is incorporated into the Division Company's CSR action plans. Specifically, each Division Company is expected to implement CSR activities into a few group companies per year and increase the number gradually. The CSR Promotion Office at the Headquarters plays a role as an advisor to help Division Companies to provide CSR training and promote concrete CSR activities for the selected group companies. Thus, we aim at conducting CSR activities distinctive to the ITOCHU Group.

Method for CSR promotion at group companies

ITOCHU Corporation has practiced a method in its core businesses to formulate CSR action plans. Using the method as a model, we will follow below stages in order to promote CSR activities in the group companies.

STAGE 1

Establishment of CSR promotion structure and enlightenment in selected group companies

Selected group companies choose interdivisional members to promote CSR activities. It is essential to have members from not only administrative units but also sales units, especially to promote CSR activities in the core business. The team members receive education and enlightenment on the CSR concept so that they share a common understanding of why the entire ITOCHU Group must carry out CSR activities.

STAGE 2

Diagnosis of the current status of CSR at each company

Group companies diagnose the current status of CSR activities, using the CSR diagnosis checklist we prepared that covers 31 items indispensable for CSR, such as compliance with laws and regulations, services to clients and consumers, labor conditions, and the environment. This diagnosis focuses on the identification of CSR tasks that must be addressed by the management.

STAGE 3

Formulation of CSR action plans

- CSR action plans for the management
- CSR action plans for the core business

Group companies create CSR action plans for the management based on the findings of diagnosis by the CSR checklist above. At the same time, action plans for the core business, which is the key to CSR promotion activities at ITOCHU, are formulated with due consideration of the nature of their business. The team members from the sales units take a lead, identifying CSR tasks in their routine operation, engaging in discussions repeatedly on the subject, and incorporating the conclusions into the action plans.

STAGE 4

Decision-making procedures in each company and notification to all employees

The CSR action plans created in this way are formally determined by the group companies respectively, and then notified to all employees. It is important to align CSR perceptions in the group company to conduct the action plans steadily.

STAGE 5

Implementation and review of CSR action plans

The action plans are implemented, and the progress is reviewed one year later to reflect the findings to action plans in the subsequent year.

Promotion of CSR activities by model companies

In fiscal 2006, we selected from one to three of group companies under each Division Company, for a total of 13 in all (shown in the table below), to serve as models for the promotion of CSR activities. The selected companies are thought to have a large influence on the environment, society, economy and others from the CSR perspective. At those companies, the CSR action plans were formulated in the second half of the year and are implemented in fiscal 2007.

After the status was diagnosed in the second stage of this process, one company identified tasks to strengthen its information management system, while another realized the necessity to have a CSR promotion office and set it up. There is also a company which found the need to address the issue of employees' mental health. In this way, tasks at model companies were identified and incorporated in their CSR action plans.

At the third stage (formulation of CSR action plans for the core business), opinions from the sales front were collected as far as possible and discussed repeatedly. Because each company is involved in different business, the CSR action plans naturally vary. While some targeted reinforcement of initiatives with suppliers, others aimed for sales expansion of environment-friendly products.

At present, the model companies are executing the action plans and are going to review progress at the end of fiscal 2007. Basically this method will be also applied to other group companies scheduled to implement CSR group management down the road.

* For information on the distinctive initiatives at each model company, please see each Division Company's pages noted in the table below.

The 13 companies selected as models for CSR management in FY2006

Division Company	Group company	Page
Textile	itochu fashion system co., ltd.	P18
Machinery	ITOCHU SANKI CORPORATION	P20
Electronics & Multimedia	ITOCHU Techno-Solutions Corporation	P22
Energy, Metals & Minerals	ITOCHU Non-Ferrous Materials Co., Ltd.	P24
Energy, Metals & Minerals	ITOCHU Petroleum Japan Ltd.	P24
Chemicals, Forest Products & General Merchandise	ITOCHU Kenzai Corporation	
Chemicals, Forest Products & General Merchandise	ITOCHU CHEMICAL FRONTIER Corporation	
Chemicals, Forest Products & General Merchandise	ITOCHU PLASTICS INC.	
Food	Family Corporation Inc.	
Food	YAYOI FOODS CO., LTD.	P28
Finance, Realty, Insurance & Logistics	ITOCHU PROPERTY DEVELOPMENT, LTD.	P30
Finance, Realty, Insurance & Logistics	ITOCHU URBAN COMMUNITY LTD.	P30
Finance, Realty, Insurance & Logistics	i-LOGISTICS CORP.	P30

Expansion of CSR activities to overseas locations

The ITOCHU Group is operating on a global scale, with 134 overseas offices, which are grouped into 15 blocs/offices. Realizing the need to actively address CSR activities in overseas offices like the domestic ones, we firstly started creating CSR action plans at seven blocs/offices*1 from fiscal 2007 and the remaining eight will start from fiscal 2008. In formulating CSR action plans, taking into consideration the current core business and business for future emphasis at each bloc/office, they are creating action plans mainly for CSR tasks particularly important in respective regions/countries.

If the CSR action plans prepared by the Division Companies may be likened to the warp of a fabric, those prepared by these overseas locations would be the woof. We aim at developing action plans so that they form a network interlinking all members of the group.

*1 North America, Europe, Oceania, Indonesia, Eastern ASEAN, Indochina, and China are the 7 selected blocs/offices for fiscal 2007.

CSR management in the supply chain

One of the most vital CSR tasks for a "Sogo Shosha" not engaged in production and development itself is CSR management in the supply chain. CSR-related problems among suppliers could have a big impact on the ITOCHU Group. Realizing the importance to take CSR initiatives in collaboration with our suppliers of goods and services, Division Companies are promoting efforts aligned with the situation in their own industry.

More specifically, the Chemicals, Forest Products & General Merchandise Company has been conducting a survey with its forest product suppliers on the environmental preservation. In fiscal 2006, the Company added a new item on the labor environment to the questionnaire and asked suppliers for reply.

Meanwhile, in step with the movement in its industry, which has strong needs for CSR-minded supply chain management, the Textile Company prepared a questionnaire format containing such items as compliance with laws and regulations, protection of workers' human rights, and environmental measures, as a part of its action plans. The Company intends to conduct the questionnaire beginning with key suppliers with large transaction volumes.

For the future, we hope to actively practice continuous and effective CSR-minded supply chain management aligned with the progress and situation in each Company, with the aim of achieving growth together with suppliers.

Global Issues and Role of ITOCHU Group

We invited five eminent panelists representing various groups of stakeholders to come together for dialogue with President Kobayashi and other members of our management on global issues and ITOCHU's social role.

(The dialogue was held on June 6, 2007.)

The crisis of global warming

Sueyoshi: I have a two-fold sense of crisis about the problem of climate change. One concerns the progress of warming and the actual damage it brings. We must feel more of an emergency and urgency about this problem. My other focus is that the risks of climate change are now business risks as well.



Behind these risks lie business opportunities tied to provision of solutions. It is crucial for companies to closely watch the trends in society as it moves toward reduction of carbon emissions, figure out how to turn what are risks for them into opportunities, and link this to solution of global warming.

Kobayashi (Eizo): ITOCHU has particular strength in business related to the people's life, i.e., clothing, food and housing. This makes us all the more aware that the lives of the 6.5 billion people on the earth are directly connected to our work in various aspects. With this awareness, our members on the front-line in each sales division are doing a lot of thinking on the problem.

What will happen, for example, if temperatures were to rise by four degrees around the world? What action should we take in that event? We are taking this crisis very seriously and have started engaging in the alternative energy and resources business. As you pointed out, the situation presents us with business opportunities.

Minamitani: In the Chemicals, Forest Products & General Merchandise Company, our business has naturally become environment-oriented because we deal in natural resources and handle chemicals that require constant environmental care. We are always conscious of how climate change poses direct risks to our business. Last year, for example, we suffered losses due to the blight in forests we planted. And this year, no crude rubber can be extracted due to drought in Indonesia.

Kawaguchi: Trading firms have enriched life by moving merchandise and money. I assume that, from now on, they will be

asked to continue having the same enriching effect without moving merchandise as far as possible. People are now even using terms such as "food mileage"¹ as an indicator of CO₂ emissions and "virtual water"².

Money, in contrast, does not entail CO₂ emissions even if moved, and should be vigorously moved through investment in eco funds and micro finance schemes that incorporate the social perspective. My point is that we could consider the rise of new trading firm orientations prompted by CO₂ emissions.

Kobayashi (Eizo): I think your remarks about trade business without physical transport are well taken. In our energy transactions, we are actually practicing this, in the form of swapping. For example, even though we have rights to crude oil in the Middle East, we could sell the output in Europe instead of bringing it back to Japan. Then, we could buy output from rights held in Asia by an European oil major and take it to Japan instead. This tactic yields a total cost savings and also lowers CO₂ emissions.

From now on, I believe we must try to shorten the absolute distances of our physical transport.

Minamitani: The selection of the optimal site for production, i.e., what and where to produce, is the most important key for improving energy efficiency, which in turn, becomes the largest contributor to strengthening competitiveness. The effectuation of the amended Energy Conservation Law, too, has compelled companies to control transport distances from the perspective of ton-kilometers³.

For the future, we have to consider whether to carry chemical in a gaseous state, liquid state, or in the form of a processed product. In this way, we intend to pursue business, taking exactly the right balance between CO₂ emissions and economic merit.

Sueyoshi: Environmental problems are directly connected to the question of how to fulfill our responsibility to future generations. Our generation established overconsuming lifestyles, and we have a duty to propose better styles of consumption to those coming after us. Your firm is deeply involved in consumer fields, and I hope you will exercise your interdivisional synergy in a company-wide effort to offer lifestyles befitting the 21st century.

Panelists



Mariko Kawaguchi
Senior Analyst
Management Strategy Research
Department
Daiwa Institute of Research



Takejiro Sueyoshi
Special Advisor to the UNEP
Finance Initiative in the Asia
and Pacific region



Toshihisa Nagasaka
Professor
Faculty of International Studies
Takushoku University



Toshihiko Fujii
Consulting Fellow
Research Institute of Economy,
Trade and Industry



Fusako Matsuda
Lead Assessor of Greenhouse Gas,
and Environmental Management System
Ph.D., President, Environmental
Economics Institute, Inc.



- *1 The food transport distance from the site of production to that of consumption multiplied by the amount of food transported.
- *2 The amount of water that would be needed if the imported agricultural products had been cultivated, kept, and produced in the importing country; the consumption of agricultural and livestock products may also be considered indirect consumption of water.
- *3 A unit to measure the amount of goods transported. The weight in tons of goods transported multiplied by the number of kilometers driven. The amended Energy Consumption Law obliges all cargo owner companies to take actions to save energy. Measurement by ton-kilometer is required to judge whether the company has a large amount of transportation ("specific cargo owner").

Higher awareness of social issues

Nagasaka: The global issues include not just environmental problems but also social issues such as poverty, healthcare, education and human rights.

In his remarks in the "President's Commitment" at the beginning of this CSR Report, Mr. Kobayashi tells that the company decided against participating in a water project in China on the grounds that water is a life necessity and should not be turned into mere business. This struck me as an admirable judgment. In developing countries, water privatization is further distancing the poor from water supply. Combined with starvation, the lack of clean water causes many deaths due to infectious diseases caught through impure water.

Those social issues are listed in the Millennium Development Goals⁴, for example, and the international society has started addressing them as the highest priority. I think it is necessary to become aware of social issues, and properly incorporate the efforts against such issues into company-wide CSR activities.

Kawaguchi: Reading the CSR Report, I got the impression that the key word "human" was not used very much. One factor here is human rights. Behind business activities lie key tasks, such as child labor for the Textile Company and fair trade for the Food Company. I presume that ITOCHU has taken steps on the site to prevent problem practices, but this is not clear from the report.

Secretariat: We perceive the protection of human rights in the



supply chain as a task that must be earnestly addressed by the company. On this front, the Textile Company is planning to start conducting a survey with suppliers mainly on human rights and labor issues. It has tentatively decided what and how to survey and is going to begin it with China. After ascertaining the facts, it plans to discuss matters, if improvement is required, with the people on the site, and roll this out gradually to other Companies.

Meanwhile, since trading firms deal with an enormous number of suppliers, understanding their real condition alone would be difficult. Thus, it would be essential for each and every person on the site to take action on his or her own initiative. We aim to engage in close consultation with the on-site people to deal with the issue.

Kobayashi (Yoichi): Viewed from the aspect of the poverty issue and involvement with local communities, I think CSR boils down to coexistence and co-prosperity. Our Company, for instance, is now also considering to enter a gas development project in Papua New Guinea. We will launch the development work only after assessing the impact on the ecosystem and the life of residents in the area to confirm that there will be no fundamental problems in these regards. While helping to eliminate poverty by creating jobs, we can also supply developed countries with energy offering low level of environmental burden. This kind of business is what I believe a value chain of coexistence and co-prosperity.

Matsuda: Talking of coexistence and co-prosperity, I think it is vital to listen to the opinions of all parties concerned in or affected by the business about whether the situation is really harmonizing and co-prospering, and reflect them in the operations. Development must be undertaken on a large scale, and therefore runs the risk of destroying the indigenous culture if there is no concern for it.



ITOCHU Corporation



Eizo Kobayashi
President and CEO



Toshihito Tamba
Senior Managing Director
Chief Administration Officer



Yoichi Kobayashi
Managing Director
President of Energy, Metals & Minerals Company



Yosuke Minamitani
Managing Director
President of Chemicals, Forest Products & General Merchandise Company



Shigeharu Tanaka
Managing Director
President of Food Company



Kazutoshi Maeda
Managing Executive Officer
Deputy Chief Administration Officer

When talking about coexistence and co-prosperity, I think it is important to first ascertain the extent to which checks and evaluations have been made of impacts on the environment and human beings.

Sueyoshi: Development projects, even if local residents are satisfied, can not be always justified. I think, in the future, it will become part of the social need even to consider how the consumers buying the resulting products see the entire project and to listen from various perspectives to the opinions of stakeholders with diverse interests.

Checks by third parties are also effective. In recent years, for example, financial institutions have begun to apply the Equator Principles^{*4} and avoid financing projects that lack due concern for the environment and society. External checks from this standpoint have begun to function as frameworks in this context.

Tamba: I really appreciate your observations about taking greater account of social problems in CSR activities at ITOCHU. I am determined to improve our efforts in this aspect.

^{*4} Goals adopted at the United Nations assembly in September 2000 on poverty eradication, improvement in healthcare and education, environmental preservation, etc. to be achieved by 2015 by the international society.

^{*5} A voluntary code stipulating guidelines for environmental and social consideration in provision of loans by private-sector financial institutions for large-scale projects such as development of natural resources, dams, and power stations.

CSR supply chain management in “Sogo Shosha”

Kawaguchi: I think trading firms have the ability to get a firm grasp of the entire spectrum in the supply chain. So far, at supermarkets, products from around the world were put on the shelf, and they sold well, regardless of the source, as long as they were in good quality. And it was trading firms that built the infrastructure supporting all this. But today, people are looking for information on the environmental impact, human rights violation (because of labor conditions), and other problems occurring in the process of production. Trading firms also have the know-how needed for getting this kind of information. I therefore would definitely like to see ITOCHU bridging the upstream and downstream ends of the supply chain.



Nagasaka: One of the core functions of trading firms is trading. After all, trading amounts to a supply chain. In other words, Division Companies have a priority to work on the supply chain management. I expect trading firms to take initiatives, such as confirming the entire process of their merchandise from production to distribution to sales to find out whether labor standards are met including no child labor involved, and also consistently checking the ecological connections to see whether the firm is not destroying biodiversity.

Diversity of CSR perspectives

Fujii: In Japan, most people would probably agree that, say, a pharmaceutical firm would be meeting its CSR obligations if it produced good medicine that helped to prevent disease. In Europe, on the other hand, most people would consider this to

be only a matter of course and not a sufficient condition for CSR fulfillment. Overseas, CSR is viewed in terms of a way of working. As a result, people would look at the procedure, human resource utilization and education, and material procurement practiced in the process of pharmaceutical production, and focus on the methodology of how such arrangements should be



changed. In the case of a pharmaceutical firm, animal testing may come to the fore as an issue. In Japan, people are apt to view CSR merely as “doing something good.” In many instances, the initiatives of Japanese firms do not rate highly in any respects in the eyes of foreign reviewers. It is frightening to think that they fail to notice their own neglect of things which really matter in the other countries.

Kawaguchi: A Japanese chemicals manufacturer was once sharply criticized by environmental NGOs for its claim on a TV commercial that its detergent was friendly to the environment because it was made from palm oil. When used in Japan, its detergent could be considered environment-friendly, in that it would not pollute water because it did not contain oil. But extracting palm oil itself was the cause of environmental destruction at the site of production, because residents were forced to evacuate and natural forests were logged for plantations, where chemical fertilizers were extensively used.

Trading firms do their business globally, coming into contact with all sorts of sense of values. I would like you to consider how your firm should operate under such different values. I would also like you to provide information on actual examples of such different values and cases in other countries.

Fujii: The detergent case might be taken as a typical example that there are still a lot of risks overseas which cannot be detected if viewed from the standpoint of Japan. However, Japanese companies are largely unaware of this fact.

Because the U.S. failed to ratify the Kyoto Protocol, the European subsidiary of a U.S. IT firm came in for a barrage of criticism after it ran ads in Europe claiming that it was environment-friendly. In the same way, Japanese firms could encounter criticism from other countries in connection with the poverty problem. I imagine trading firms have the ability to detect such business risks in advance.

Tanaka: I was surprised to hear Ms. Kawaguchi’s story about the detergent. The trouble may have been caused by an information mismatch.

We are doing business in beverages packed in paper cartons. The cartons are environment-friendly containers, because they are made from wood left from the work of thinning forests to assist their growth. Nevertheless, the cartons have been slow to catch on, partly because some consumers have the mistaken impression that we are cutting down forests to make them. I think it is important for the industry as a whole to provide accurate information on such matters.

Kobayashi (Eizo): We are determined to be mindful to prevent any situation in which some business activities were being conducted only in line with ITOCHU’s common sense and were not in fact expected by others at all.

Food, water, and energy issues in Japan

Tanaka: If I may go back to the food mileage mentioned a little earlier, it would be nice if we could do import business in line with that concept, but it would be hard to do, seeing that Japan now depends on import for some 60 percent of its food. As I see it, the major task related to food in Japan right now is more efficient consumption. Japan has a food self-sufficiency rate of 40 percent on the calorie basis, but a stunning 25 percent of the food is discarded without being eaten. This situation means that Japan constantly has an excessive supply of food, and should be taken as an issue of the entire industry on the supply-demand balance, which all must join hands to address. This is why we are working to increase the ordering precision through investment in IT and striving to eliminate both shortages and dumping.

On the other hand, raise the self-sufficiency rate, Japanese agriculture has to become more strengthened. Agricultural firms are the leaders of domestic food production, and we are taking various steps to make them stronger and help them to stand on their own. We intend to continue collaborating with NPOs to spread the values of cyclic agriculture among consumers and help to market and sell the products made by these firms.

Kawaguchi: Today, many of the panelists have commented on what role a global company, like ITOCHU, is expected to play. I think ITOCHU and other global trading firms based in Japan have a vital role to play in addressing matters concerning security in Japanese society, such as the country's supply of food, water, and energy. They presumably have information on the occurrence of droughts somewhere and resulting price rise in different parts of the world. Thus I hope they will regard issues on food, water, and energy in Japan as their own key tasks.

Kobayashi (Eizo): Since our corporate global activities naturally cover Japan, I would like to fully consider what you have pointed out.

We set "Enhancing Corporate Values on the World Stage" as a subtitle of our mid-term management plan. We are committed to becoming a truly respected company around the world, taking into account lessons from everyone here.

Reflections on the dialogue

Toshihito Tamba

Senior Managing Director and Chief Administrative Officer

This year, we engaged in dialogue with authorities active in various fields on the subject of global issues and the role of the ITOCHU Group. I think it served to shed more light on what we must do as a "Sogo Shosha" in the context of our global corporate activities.

In our supply chain, we are going to steadily implement organized and systematic initiatives on the human rights and labor problems pointed out by the participants.

Bearing fully in mind the multifaceted nature of CSR, including the different perceptions between Japan and other countries, in our CSR promotion activities, we intend to continue deepening communication with our diverse stakeholders and practicing management that demonstrates concern for their interests.

Because the panelists gave us precious advice on the substance of the CSR action plans prepared by our organization units, we will take a very close look at their observations and hope to heighten the level of the plans themselves in the future.



ITOCHU makes action plans for CSR tasks in its core businesses and executes these plans while applying the PDCA cycle. We believe review of this area absolutely requires external objective examinations as well as internal checks, and consequently asked the dialogue panelists for their opinions on the method and substance of our CSR initiatives, including the progress made from last year.

Matsuda

I think the policy of having each Division Company set targets and go through the PDCA cycle is a very good one. In the PDCA reports, there must be clearer statements of the problems resulting from the execution, the tasks for the future, and the reasons why efforts cannot be continued if that is the case.

Nagasaka

As I see it, ITOCHU's methodology for CSR promotion activities makes an excellent model of CSR management to be applied to the Division Company System. I got the impression that the Division Companies tended to focus on compliance, which it did not seem necessary to incorporate into the action plans. I felt the resolve to take sure action on environmental problems, but it seemed that social ones were not recognized enough as tasks to be addressed.

Sueyoshi

I would like to see new standards of value incorporated into the CSR activities. As social requirements are changing with regards to the environment, food safety, and other agenda being addressed by each unit, these changes should be recognized and reflected in the action plans.

I must add that, in some cases, routine work appears to be described as CSR activities, and that targets and means are not entirely clear.

Kawaguchi

The CSR Report makes little mention of concerns for human rights, partnership with developing countries, and other items that, properly speaking, should be contained, and appears to be composed of bits and pieces of what is common knowledge among Japanese consumers. Trading companies have detailed information on many parts of the world. I think you should furnish information unavailable in Japan.

In the personnel aspect, ITOCHU has made arrangements allowing women to give full play to their talents through its plans for human resource diversification. Unfortunately, the report only briefly touched upon it.

Fujii

Given its character as a trading firm, which means that it is a global company essentially, I think it is vital for ITOCHU to bear in mind that, once it steps outside Japan, it is liable to encounter CSR perspectives profoundly different from those in Japanese society.

Textile Company CSR Action Plans and Activity Report

Masahiro Okafuji
President
Textile Company



Mission and commitment to CSR promotion activities

We have been contributing to the creation of a healthy, prosperous and active society as our mission. We are committed to meeting the diversifying wants and needs of our customers by creating new value and continuously pursuing goods and services endowed with a quality customers can trust. In promoting CSR activities, we intend to further refine our setup with an emphasis on through compliance with laws and regulations as a basic imperative.

Division	CSR tasks	FY2006 action plans	Status	FY2006 results	Continuation
Textile Material & Industrial Textile Division	Risk and quality control, and management of business partner relations accompanying procurement from China	1. Drafting management guidelines (checklist) 2. Holding interviews to identify problems at new procurement sites	★★★	Developed new overseas sites other than China and dispatched personnel in charge of production management there in January 2007 to reinforce plant management in the startup phase	➡
	Expanding transactions related to environment-related business projects	Commercializing prospective products at the earliest possible date by supporting technology development by partner firms and conducting market research	★★	Continued support for technological development at partners to aim at the establishment of product technologies at highest priority	➡
Textile Division	Monitoring overseas suppliers and providing guidance for improvement, as regards the treatment of employees, the on-site workplace environment, and other compliance matters	Conducting surveys and studies using prepared questionnaire forms	★★	Implemented fact-finding surveys at two major plants in China, but deferred the preparation of questionnaire formats and detailed points of guidance for improvement to the next fiscal year	➡
	Understanding environmental management systems at overseas suppliers (factories)	Conducting fact-finding surveys on invested factories			
	Fair employment, compliance with laws and regulations, and better work environment	Conducting training and education programs not only for ITOCHU employees but also for employees of group companies and consignees	★★★	Conducted divisional trainings for employees with low seniority (18 times)	🔄
	Maintaining and stabilizing transactions with production districts by bolstering the capabilities of local branches	Continuing regular communication between development teams and the Sales Section based in Osaka with a view to bolstering branch capabilities in the sales aspect	★★★	Conducted regular discussion with local branches	🔄
Apparel Division	Risk and quality control, and management of business partner relations accompanying overseas procurement	Selecting new factories, narrowing down existing factories for sourcing, and strengthening the management system	★★★	Conducted frequent exchange of information with overseas offices through sales operations	➡
	Compliance with laws and regulations including international human rights standards throughout the supply chain	Conducting surveys and studies using prepared questionnaire forms	★★★	Deferred implementation of surveys using prepared questionnaire forms to the next fiscal year, but conducted checks through regular sales activities including visits to overseas factories	➡
Brand Marketing Division 1	Reinforcing CSR activities for major brands (including quality control and check of environmental impact)	Promoting the sharing of production management know-how for global brands, and checking CSR issues (environmental impact) regarding materials	★★	Shared CSR awareness by presenting our CSR Report 2006 to key overseas partners, and conducted in-house interviews regarding the production of several major brands	➡
		Studying production control of European business partners			
	Managing business partners (regarding production by sublicensees)	Preparing draft standards for selection of partners for major factories	★★	Visited the factories of business partners in China and understood the situation by employees assigned exclusively to production	➡
	Promoting communication to increase level of customer satisfaction	Continuously promoting participation by employees of group companies in retail training programs at ITOCHU Corporation, and preparing training programs concerning CSR and customer satisfaction for group companies	★★	Established divisional targets and reaffirmed the mission of delivering satisfaction to customers	➡
			Conducted a survey of consumers' images for major brands by external consultants	★★★	
Increasing the motivation of employees in all categories, including those working at subsidiaries and associates	Conducting divisional brand business seminars, continuously promoting participation by employees of group companies in training programs at the ITOCHU Corporation headquarters and Division Companies, and identifying and implementing steps to make the workplace environment more comfortable for women	★★★	Held the basic brand business seminar for sharing of brand business know-how with employees with low seniority, companywide retail training participated by many from subsidiaries and associates, and conferences for sharing of information with the presidents of subsidiaries and associates	➡	
Brand Marketing Division 2	Tightening quality control for domestic and overseas production and imported products	Sharing information about management systems in each division of the Company, preparing plans for improvement, and sharing related know-how	★★	Enhanced quality control in the context of regular sales operations, but deferred the sharing of know-how regarding management systems with other divisions	🔄
	Managing business partners (in production of licensed products)	Conducting fact-finding surveys, and recommending and implementing corrections to identified problems	★★	Created lists of factories for major brands, but deferred assessment of the quality control system	➡

★★★: Achieved ★★: Nearly achieved ★: Unachieved ➡: CSR tasks continued in FY2007 (Arrows' colors show connection to the FY2007 action plans)

🔄: CSR tasks to be addressed in routine work

Assessment of action plans conducted in FY2006 and policy for FY2007

Assessment of action plans conducted in FY2006

In fiscal 2006, our first year of CSR practice, we placed reinforcement of procurement-related supply-chain management and closer ties with consumers as our priority tasks over the medium term. On this basis, we set specific agendas and targets in wide range of areas, from enhancing programs of employee education and enlightenment for stricter compliance with laws and regulations to expanding environment-related transactions, in addition to fact-finding studies of quality control systems at existing overseas business partners, initiation of studies to formulate a checklist for selection standards and examination of the social aspects of products we procured. Progress in our approaches to these targets may be exemplified by our visit to a Chinese factory in which we invested to ascertain the CSR situation there and acquisition of Privacy Mark certification by the group company MAGASseek Corporation in December 2006.

Policy for FY2007 based on the assessment of FY2006

Society wants companies to establish procurement guidelines and standards and to check and ask their suppliers to promote CSR activities. We believe that these are CSR items that ought to be practiced by us at the Textile Company (as well as by ITOCHU Corporation as a whole). For fiscal 2007, we intend to identify the tasks of top priority, and once discerning the facts, we are going to promote far-reaching CSR activities in an unrushed manner with "steadiness" as the hallmark.

Division	Continuation	FY2007 action plans	Basic policies*
All Divisions	➔	Responding to procurement risks Starting supply chain management (SCM) surveys for major overseas suppliers, mainly in China, based on the standardized CSR questionnaire prepared by the Textile Company	1・2 4
Textile Material Fabric Division	➔	Promoting businesses for environmental conservation business Continuing support for establishment of next-generation diesel particulate filter (DPF) technology, and establishing a mass-production system of unhydrous dyes by InkMax Co., Ltd.	1・2
Apparel Division		Reinforcing response to clients and consumers Continuously implementing CSR education and enlightenment activities in divisional meetings	1・2 3
Brand Marketing Division 1	➔	Reinforcing response to clients and consumers Continuously holding seminars to hand down brand business to young and middle-standing employees	1・2 3
Brand Marketing Division 2		Reinforcing response to clients and consumers Continuously implementing CSR education and enlightenment activities in divisional meetings	1・2 3
Planning & Coordinating Department and Affiliate Administration Section		Expanding CSR activities among group companies Promoting the spread of CSR activities among group companies	1・2 3・4

* The numbers correspond with those of the basic policies in the CSR promotion activities on page 8.

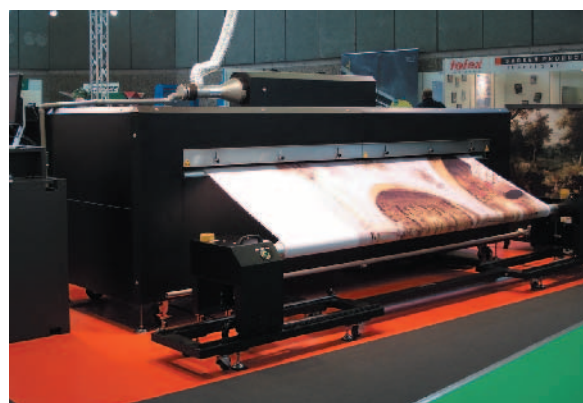
Examples of major initiatives

InkMax—dye technology that does not use water

Using environment-friendly pigments, this technology requires 95 percent less water than the conventional dyeing process and cuts energy costs by 75 percent.

The conventional process consumes water and power in large quantities for treatment of waste liquid and high-temperature processing. InkMax, in contrast, enables dyeing with almost no water and much less consumption of energy.

Through the spread of this new technology, we hope not only to mitigate environmental problems but also to assist the revitalization of Japan's textile industry as one of its members.



Fabric printing using waterless printer

New CSR practice review meeting

The wider range of items we handle, the broader scope of (industry-specific) laws and regulations we must observe. CSR activities demand higher levels of awareness and knowledge on compliance among the people who practice them. For this reason, in fiscal 2006, we began holding quarterly review meetings on CSR and compliance practice, under the leadership of the Planning & Coordinating Department. At these meetings, we invited experts from inside and outside the company in various domains to lecture employees, and built a system for sharing detailed compliance-related information and swiftly communicating such information to all members when necessary. We intend to continue reinforcing this system.

CSR initiatives at our major group company

Start of CSR activities by itochu fashion system

itochu fashion system co., ltd. prepared CSR action plans and launched CSR activities, as follows.

Major CSR tasks	FY2007 action plans
[Management side] • CSR awareness building as a member of the ITOCHU Group • Concern for the environment	Absorption and permeation of the basic concepts behind CSR through training and seminars Thorough implementation of the followings: less use of paper, lights off during breaks, sorting of refuse, adjustment of temperature settings in office space, etc.
[Business side] • Drafting and implementation of projects with consideration of influence on end users and society	Interdepartmental initiatives such as exchange of views and case studies

Machinery Company CSR Action Plans and Activity Report

Takanobu Furuta
President
Machinery Company



Mission and commitment to CSR promotion activities

We in the Machinery Company are committed to contributing to the creation of an environment-friendly society by developing eco-business and products to help mitigate environmental impact and expanding their sales. While tightening compliance with all pertinent laws and regulations, we also are determined to contributing to the advancement of communities on both the local and international levels.

Division	CSR tasks	FY2006 action plans	Status	FY2006 results	Continuation
Plant & Project Division	Resolving problems in urban transport (congestion, exhaust emissions, etc.)	Promoting High-Speed Surface Transport (HSST; an urban transportation system using electromagnetic levitation liner motorcars) overseas	★★★	Conducted overseas marketing for market expansion and continued negotiations for conclusion of deals in Asia, the Middle East and other areas	➡
	Supplying clean energy	Promoting transport by LNG carriers	★★★	Continued talks for an increase in the fleet of LNG carriers	➡
	Contributing to efficient use of energy	Promoting Energy from Waste (EFW) projects in Europe	★★★	Signed the second contract in the UK in October 2006 (completion scheduled for fiscal 2010) and continued activities to win additional contracts	➡
	Conducting demonstration tests for technology to mitigate environmental impact	Confirming the performance and durability of the onsite hydrogen generation system in Japan with the cooperation of the Tokyo Gas Group, and conducting demonstration tests	★★★	Completed demonstration tests	
	Consulting to mitigate environmental impact and promoting eco-friendly equipment	Introducing and installing LED signboards on a trial basis, which help reduce CO ₂ emissions in convenience stores	★★	Started introduction and installation of LED signboards for convenience stores	➡
Automobile Division	Contributing to the creation of a recycling-oriented society by expanding automobile recycling business	Assuring processing capacities of 15,000 vehicles per year	★★	Considered facility investment to improve processing capacities	♻️
		Assuring purchase of 15,000 units of end-of-life vehicle per year	★★★	Expanded supply from major suppliers	
		Improving in-house management systems to keep up with expansion of operations	★★	Strengthened the in-house system along with business expansion	
	Contributing to the mitigation of environmental burden by expanding sales of Isuzu diesel engines with excellent fuel efficiency and low emission levels	Establishing and launching businesses	★★★	Completed installation on prototypes in China, signed contract for joint prototyping for the US, and continued talks for other markets	➡
		Gathering information on trends in emission regulations and response by car-related manufacturers in each country	★★★	Gathered information on trends in regulations in the US, China, Europe, etc. and especially continued to focus on the trend in China, which has uncertain factors	➡
	Contributing to the mitigation of environmental impact by developing and commercializing high-performance DPF	Exploring sales channels and starting sales	★★	Took actions to prepare for sales launch, such as testing actual vehicles in Japan	➡
Starting sales activities in the retrofitting market after Clean Air Systems Inc. completes the development of DPF, continuously developing DPF as OEM products in Japan, and jointly assessing its prototypes		★★	Promoted development through continuous testing on actual vehicles in Japan	➡	
Industrial Machinery & Solution Division	Meeting the needs with the needs to mitigate environmental impact	Implementing manufacturer testing of lithium cells and considering and promoting the possibility of its mass production	★★★	Implemented testing and received assessment results	
		Supplying materials for solar cells, selling modules, and promoting projects such as related equipment sales	★★★	Expanded equipment sales, and continued studies and promotion including business development	➡
All Divisions	Developing local communities and contributing to the international community	Studying measures to improve existing environmental-friendly projects, and promoting specific projects	★★★	Promoted new energy related business	♻️
	Reinforcing communication	Planning and conducting CSR-related training programs on the Company level, reviewing the results, and studying measures for improvement	★★★	Explained policies in the CSR promotion activities at meetings of compliance officers, and acquired their understanding	➡

★★★: Achieved ★★: Nearly achieved ★: Unachieved ➡: CSR tasks continued in FY2007 (Arrows' colors show connection to the FY2007 action plans)

♻️: CSR tasks to be addressed in routine work

Assessment of action plans conducted in FY2006 and policy for FY2007

Assessment of action plans conducted in FY2006

In fiscal 2006, each of our three divisions actively implemented programs keyed by concern for the environment. Specifically, the Plant & Project Division worked for the spread of High Speed Surface Transport (HSST) systems overseas, promotion of transportation by LNG carriers, and Energy from Waste (EfW) projects in Europe. Our Automobile Division helped to lighten environmental impact through its focus on trends in emission regulations and development and commercialization of high-performance DPF. Similarly, our Industrial Machinery & Solution Division strove to develop next-generation battery technology and promote sales of solar cells for reduced environmental impact. Although certain programs are lagging, activities were basically executed as planned in the Company as a whole.

Policy for FY2007 based on the assessment of FY2006

In fiscal 2007, we have taken it as our mission to continue fulfilling our social responsibilities through projects reflecting concern for the environment, and are going to engage in further CSR activities to this end. For fiscal 2007, we are making efforts for the spread of activities throughout our group. We have positioned CSR programs as the first step in our Company's environmental management, and are determined to steadily implement them.

Division	Continuation	FY2007 action plans	Basic policies*
Plant & Project Division	➔	Supplying clean energy: Continuing promotion of activities for receiving orders for LNG carrier and terminal projects	
	➔	Resolving problems in urban transport (congestion, exhaust emissions, etc.) Continuing promotion of HSST, railway, transport, and infrastructure projects	
	➔	Promoting projects for more efficient energy use and mitigation of environmental impact 1. Promoting EfW projects in the UK and consideration of participation in the business 2. Promoting projects for biomass power generation in Eastern Europe 3. Promoting projects for geothermal power generation 4. Developing and promoting projects for alternative energy in Thailand and other Southeast Asian countries 5. Continuously promoting activities to win contracts for projects for power station remodeling and desulfurizers in Eastern Europe 6. Expanding sales of Doormiser and other energy-saving/environment-friendly equipment, and development of new equipment	
Automobile Division	➔	Contributing to the mitigation of environmental impact by expanding sales of diesel engines with excellent fuel efficiency and low emission levels and development and commercialization of high-performance DPF 1. Continuing policy discussions with manufacturers to decide direction 2. Continuing talks regarding engines for new prototypes and conducting the Chinese market research 3. Collecting information on the actual status of emission regulations in China, and monitoring the trends in environment-oriented engines 4. Aiming to alleviate environmental impact through future sales of high-performance DPF after trials with actual vehicles 5. Completing and assessing prototype vehicles	
Industrial Machinery & Solution Division	➔	Taking initiatives in solar cell business for reduction of environmental impact 1. Continuing sales of manufacturing equipment and study of business development 2. Promoting sales of solar cell modules and generation systems, mainly in North America	
All Divisions		Expanding CSR activity among group companies	4
	➔	Reinforcing communication: Holding compliance seminars including industrial special law and promoting activities to raise CSR awareness	1・3

* The numbers correspond with those of the basic policies in the CSR promotion activities on page 8.

Examples of major initiatives

Promotion of EfW projects in Europe

In fiscal 2006, we received a contract together with Takuma Co., Ltd. from SITA UK for construction of a waste incineration plant equipped with power generation facilities. This is one of the contracts for total waste disposal promoted by the Cornwall County Council in the United Kingdom. There is a growing movement for EfW facilities in the United Kingdom as a measure to reduce greenhouse gas (GHG) emissions based on the EU Directives. Through this contract, we hope to jointly develop environment-oriented business.



Conceptual view of the completed EfW plant in Cornwall, UK

Business in solar cells

The Machinery Company has thus far been involved in infrastructure projects in areas including power generation utilizing renewable energy such as wind, geothermal energy, and biomass. Beginning this fiscal year, we are stepping up our environmental business through full participation in projects based on solar cells, which are sources of clean energy that have promising growth prospects. We are going to be involved in all phases of solar cell business, from the upstream to the downstream. (We are currently taking initiative in solar cells in collaboration with the Energy, Metals & Minerals Company.)



Large solar cell installations for residential use



Solar cells installed on the roof of a home

CSR initiatives at our major group company

ITOCHU SANKI's CSR task force

To promote CSR activities, ITOCHU SANKI CORPORATION got all employees to engage in discussions on the promotional methods and formulated action plans for fiscal 2007 on both the management and business side, respectively. We set the following key agenda in the business side to promote eco-friendly business: the sale of energy-saving equipment and biomass-fueled power generation and utility equipment to help reduce CO₂ emissions. It also hopes to refine its CSR structure, mainly with a view to tightening compliance with laws and regulations.



Biomass-fueled boiler equipment

Aerospace, Electronics & Multimedia Company

CSR Action Plans and Activity Report

Shigeki Nishiyama
President
Aerospace, Electronics
& Multimedia Company



Mission and commitment to CSR promotion activities

The Aerospace, Electronics & Multimedia Company has been actively engaged in the cultivation of new industries and fields through development of business in areas such as satellite communications, international telephone services, and digital multiplex broadcasting. It is our mission, and the very reason for our existence, to open up new markets and help to make society more safe, convenient, and fulfilling. We shall continue to pursue this mission.

Division	CSR tasks	FY2006 action plans	Status	FY2006 results	Continuation
Aerospace & Electronic Systems Division	Delivering safety and convenience in the air transport field	<ol style="list-style-type: none"> Maintaining close communication with suppliers Gaining an understanding of needs through close communication with clients (including airports, customs, and other public agencies as well as national authorities and local governments) Reinforcing maintenance business to provide stable services 	★★★	Through ongoing communication with clients and suppliers, we strove to ascertain and unearth needs, and managed to achieve results in the fields of security equipment and medical helicopters	➡
	Promoting life science business	<ol style="list-style-type: none"> Unearthing the market needs by looking ahead to changes in social environments such as declining birthrates and an aging society, and establishing a new PET center Reinforcing development structures and continuously promoting the development of human resources in the support for drug discovery business Continuously working to ascertain trends in enactment and amendment of related legislation, and make proper responses to them 	★★★	<p>We contributed to medical services in the Hanshin area by opening a new PET center, and strengthened our organization by acquiring more experts in the support for drug discovery business</p> <p>In addition, we founded Wellness Communications Corporation, which is engaged in reservation services for health examinations and management of data on the results, and launched operations in business process outsourcing (BPO) for employee health management in companies</p>	➡
IT & Business Solutions Division	Fully enforcing and promoting information security management at group companies	<ol style="list-style-type: none"> Improving software and hardware related to information security Promoting the acquisition of the ISMS or P Mark certifications Responding to accidents swiftly and properly Continuously providing educational and enlightenment programs to employees 	★★	<p>We took continuous approaches to improving information security management by, for example, employee education and review of hardware and software, but there remained issues at certain group companies</p> <p>Not much headway was made in studies for group companies to get newly certified under the Information Security Management (ISMS) or Privacy (P) Mark systems</p>	➡
	Deepening environmental awareness through 3R (Reduce, Reuse, and Recycle) activities	Expanding business partners through higher social recognition related to environmental business (recycling-oriented society)	★★★	<p>We worked to spread the MOTTAINAI philosophy and widen our scope of licensees through various events and activities</p> <p>We began to make use of recycled mobile phones in the protection and delivery service started in fiscal 2006 by Asurion Japan K.K., a member of our group company</p>	➡
Media Business Division	Improving social infrastructures by providing more pleasant means of communication, applications, and services	<ol style="list-style-type: none"> Conducting fact-finding surveys on customer information management and studying ways to improve problem areas found from the surveys, in order to keep the trust of consumers Studying and implementing concrete measures to ascertain consumer needs 	★★	<p>We achieved results such as establishment of a scheme for getting feedback from end users and reflecting it in video-on-demand (VOD) services at On Demand TV, Inc.</p> <p>However, we did not make as much progress as we expected in infrastructural improvement, i.e., diffusion of optical fiber</p>	➡
	Contributing to the creation of an affluent society by promoting meaningful content	<ol style="list-style-type: none"> Establishing and improving ties of trust with clients, suppliers, and business partners through transactions for the further acquisition and diffusion of content Studying and implementing specific measures to ascertain consumer needs 	★★★	<p>Space Shower Networks Inc. took steps to strengthen communication with viewers (e.g., start of program distribution through the Internet and holding of events inviting viewers), and began to construct structures and systems for apprehension of end user wants and needs</p> <p>In addition, we took initiatives to diffuse attractive content, such as the start of distribution of educational content by On Demand TV, Inc. and a tie-up with Comic Book Movies, LLC</p>	➡

★★★: Achieved ★★: Nearly achieved ★: Unachieved ➡: CSR tasks continued in FY2007 (Arrows' colors show connection to the FY2007 action plans)

🔄: CSR tasks to be addressed in routine work

Assessment of action plans conducted in FY2006 and policy for FY2007

Assessment of action plans conducted in FY2006

In fiscal 2006, the main objective of our action plans was twofold: 1) to identify trends in new technologies and products as well as market preferences through communication with clients and suppliers, and 2) to reinforce security information management. We made some progress toward the former, as exemplified by the sales of medical helicopters to Nagasaki Prefecture, the opening of a new positron emission tomography (PET) center, and the launch of the mobile phone protection and delivery service. Work toward the latter left some issues, as problems arose in information security management at some group companies.

Policy for FY2007 based on the assessment of FY2006

The Aerospace, Electronics & Multimedia Company is joining hands with group companies to promote business such as to do some processes on behalf of clients and to involve direct contact with general consumers. In light of the nature of our business mentioned above, we have placed a strengthening of our compliance structure, inclusive of information security management, at the center of our CSR management for fiscal 2007. We want to heighten the efficacy by transmitting our CSR management methodology to group companies.

Division	Continuation	FY2007 action plans	Basic policies*
Aerospace & Electronic Systems Division	➔	Improving convenience and safety in the air transport field <ul style="list-style-type: none"> Promoting communication with clients, accurate apprehension of needs, and provision of products contributing to safety and security (security devices, medical helicopters, rescue helicopters, etc.) Continuing close communication with suppliers and monitoring of new technologies and products Promoting marketing activities concerning insulation materials for aircraft for higher resistance to fire Managing tighter compliance throughout the group 	1 • 2 3
	➔	Taking initiatives to new fields <ul style="list-style-type: none"> Developing VA services in fields related to health examinations Strengthening setup for investment in IT ventures in Europe and North America Organizing education funds Supporting venture businesses emerging from Waseda University 	1 • 2
IT & Business Solutions Division	➔	Reinforcing information security management <ul style="list-style-type: none"> Continuously improving hardware and software related to information security, and employee education and enlightenment Encouraging group companies to acquire certification under the ISMS or P Mark systems 	2 • 3
	➔	Realizing business based on the 3R philosophy <ul style="list-style-type: none"> Encouraging a shift to MOTTAINAI lifestyles and executing measures to expand sublicensees Studying and implementing measures to promote the diffusion of the mobile phone protection and delivery services 	1 • 3
Media Business Division	➔	Reinforcing information security <ul style="list-style-type: none"> Reviewing the structure of information security management at group companies, and implementing employee education and enlightenment programs 	2 • 3
	➔	Providing new high-VA services and applications, and diffusing attractive content <ul style="list-style-type: none"> Studying and implementing measures to ascertain the needs of customers (general consumers) Researching venture firms inside and outside Japan with unique technologies and products Maintaining and constructing networks for content acquisition and diffusion 	1 • 2
All Divisions		Expanding CSR management among the major group companies <ul style="list-style-type: none"> Conducting fact-finding surveys of the targeted companies, and using the results to identify CSR tasks and formulate action plans 	4

* The numbers correspond with those of the basic policies in the CSR promotion activities on page 8.

Examples of major initiatives

Initiatives to life science business

With an eye on trends in the social climate such as falling birthrates and aging population, we are actively taking initiatives in the life science field. IML Co., Ltd. paired with Dokkyo Medical University to open a positron emission tomography (PET) center in Tochigi Prefecture in April 2005, and with the Hyogo College of Medicine to open a new PET center in Hyogo Prefecture in November 2006. PET exams are effective for early discovery of cancer, diagnosis of the spread of disease before treatment, measurement of treatment effects, and detection of recurrence after treatment. We hope to make a contribution to local medical services by the establishment and operation of PET centers in partnership with key local hospitals.



PET/CT equipment integrating PET and computed tomography (CT) at the PET Center in the Hospital of Hyogo College of Medicine

Development of business around the 3R ideas

To broaden the MOTTAINAI campaign throughout the world advocated by Wangari Maathai, Nobel Peace Prize laureate, we are rolling out MOTTAINAI as a brand for the recycling-oriented society. In fiscal 2006, we took steps to have the philosophy of "3Rs (Reduce, Reuse, and Recycle)" take root in lifestyles, through such activities as the establishment of the MOTTAINAI Lab. (a lifestyle research institute) and the MOTTAINAI Department in Shibuya University Network (a non-profit organization). The number of MOTTAINAI brand licensees increased to 25.

We are also promoting active use of recycled mobile phones in the protection and delivery service started by Asurion Japan K.K., a member of our group company, in fiscal 2006.

CSR initiatives at our major group company

Publication of CSR Report by CTC

ITOCHU Techno-Solutions Corporation (CTC), a key member of our group company, published its first CSR report in July 2007.

In publication of the report, CTC organized an interdepartmental task force that engaged in repeated discussions on various matters. The members discussed CSR issues at the business groups or group companies to which they belonged. This activity obtained responses to fundamental questions such as the meaning of CSR to the CTC Group and the requirements for promoting it. This provided footing for the formulation of CSR action plans by each business group and group company.



The logo mark of ITOCHU Techno-Solutions

Energy, Metals & Minerals Company CSR Action Plan and Activity Report

Yoichi Kobayashi
President
Energy, Metals &
Minerals Company



Mission and commitment to CSR promotion activities

The mission of the Company lies in the following three tasks: 1) development and stable supply of mineral resources and energy, 2) development of new energy with low environmental impact, and 3) engagement in recycling business. ITOCHU Corporation's activities are no longer confined to Japan. As a global firm with over half the earnings gained from overseas, I believe the entire group must carry out CSR activities.

Division	CSR tasks	FY2006 action plans	Status	FY2006 results	Continuation
Metals, Mineral Resources & Coal Division	Contributing to the creation of a recycling-oriented society through resource recycling Task: Properly recovering, treating, managing, and acquiring waste for recycling	Establishing selection criteria and choosing waste treatment companies	★★★	Ensured thorough reporting by waste treatment companies on the amount of CFCs recovered upon scrapping vending machines, in advance of the October 2007 revision of the Law Concerning the Recovery and Destruction of Fluorocarbons	➡
		1. Holding seminars on waste and recycling 2. Starting recycling activities	★★★	Implemented seminars on waste and recycling with business partners and held programs to train certain subsidiaries, affiliates and business partners about the responsibilities of waste generators and outsourcing standards for waste treatment	🔄
		Holding recycle study meetings with local governments	★★★	Implemented recycle study meetings with local governments and examined packaging recycling with waste treatment companies	🔄
	Contributing to and promoting UN certified projects to reduce greenhouse-gas emissions	Identifying and targeting projects for participation	★★★	Started greenhouse gas emissions credit trading in fiscal 2006 and continued studies of participation in projects for emissions reduction on the company level	➡
Energy Development Division	Implementing countermeasures against global warming	Reevaluating and checking environmental standards	★★★	Continued discussion on environmental measures through partner's meetings with operators and partners (specifically for strict compliance with environment related laws and regulations in the North Sea project)	➡
		Continuously promoting the development of new energy with low environmental impact	★★★	Started the construction of a small-scale plant in Japan to produce environment-friendly dimethyl ether (DME) from natural gas, to be completed in June 2008	🔄
	Contributing to social advancement in oil- and gas-producing countries	Studying, implementing and improving measures to contribute to the local communities where projects are on going	★★★	Continued discussion with operators on contribution measures through partner's meetings	➡
		Through projects we participate in, 1. Continuously studying ways and making efforts to expand employment opportunities 2. Suggesting measures to improve job training	★★★	Implemented measures to contribute to expanding employment opportunities through projects	➡
	Studying and engaging in projects in the areas of education, sports, etc. in oil- and gas-producing countries where our projects are on going	★★★	Continued working on projects in the areas of education, sports, etc. in such countries	➡	
Energy Trade Division	Preventing tanker accidents and responding to emergencies	Educating new employees and strictly applying management standards for ships chartered by ITOCHU's energy group companies	★★★	Held training for new employees and divisional seminars on business related to chartered tankers and the operation	➡
	Assuring safety at tank terminals	Rigorously implementing security measures	★★★	Implemented an in-house environmental fact-finding study on the tank terminal at Etajima in July 2006 and paid more attention to improve safety measures by reviewing work manuals	➡
	Making CSR efforts related to oil and gas sales at ITOCHU Enex Co., Ltd.	Encouraging all salespersons in the Car Life Division (for Automotive Lifestyle Business) to acquire disaster prevention expert qualifications	★★★	Aimed at acquiring such qualifications for all employees of ITOCHU Enex Co., Ltd., including the Car Life Division, resulting in 310 employees receiving the qualifications in fiscal 2006	🔄
All Divisions	Increasing effective communication	Holding recycling study meetings with local governments	★★★	Held recycling study meetings with local governments and studied packaging recycling with waste treatment companies	🔄
		Holding waste and recycling seminars	★★★	Implemented waste and recycling seminars with business partners and held programs to train certain subsidiaries and affiliates, and business partners about the responsibilities of waste generators and outsourcing standards for waste treatment	🔄
		Continuously communicating with operators	★★★	Participated in partner's meetings on a regular basis and continued active communication with operators and partners	➡
		Monitoring whether group companies are rigorously applying in-house environmental standards	★★★	Continued monitoring through supervisory departments, implemented in-house environmental fact-finding studies at the Etajima tank terminal in July 2006, and completed an examination for renewal of ISO14001 certification at the same terminal	➡
		Maintaining communication with the governments of natural resource and energy producing countries	★★★	Maintained and strengthened communication with natural resource and energy producing countries, through regular conferences	➡

★★★: Achieved ★★: Nearly achieved ★: Unachieved ➡: CSR tasks continued in FY2007 (Arrows' colors show connection to the FY2007 action plans)
🔄: CSR tasks to be addressed in routine work






Assessment of action plans conducted in FY2006 and policy for FY2007

Assessment of action plans conducted in FY2006

In fiscal 2006, each division carried out specific CSR activities in accordance with its action plans set at the start of the year. Although it was the first year for the CSR action plans, each division generally achieved the plans. In the development of metals, mineral resources and energy, while paying attention to the ecology and global environment, we are contributing to the economic advancement in developing countries through improvement of social infrastructure, creation of employment opportunities, and other activities. In addition, the stable supply of resources brings stable income for producing countries and at the same time secure stable operation for consuming countries. Thus, we are playing a role to promote steady development in the economy and society as a whole. In the field of environment-friendly new clean energy sources, we actively continued our efforts, such as commencement of greenhouse gas emissions credit trading, commercialization of dimethyl ether (DME) made from natural gas, participation in photovoltaic (PV) power generation projects, and initiation of preliminary feasibility studies for bioethanol business. Meanwhile, we strove to encourage the proper recovery and processing of recyclable waste through various activities, such as holding waste and recycling seminars with business partners, and educating certain subsidiaries and affiliates, and other parties about the responsibilities of waste generators and outsourcing standards for waste treatment. In the field of energy trade, we paid utmost attention to logistics in terms of safe navigation and operation, by assuring all group companies complied with not only applicable laws and regulations but also in-house management standards for chartered ships, and by taking strict measures to ensure a safe tank environment.

Policy for FY2007 based on the assessment of FY2006

In fiscal 2007, we aim at steadily achieving the action plans for ongoing tasks, as we did in fiscal 2006. In addition, we intend to continue raising the standard of CSR activities for the entire group company by promoting CSR awareness and holding the education and training activities at overseas group companies.

Division	Continuation	FY2007 action plans	Basic policies*
Metals, Mineral Resources & Coal Division		Recycling and properly recovering recyclable waste • Rigorously observing the process management requirements under the revised Law Concerning the Recovery and Destruction of Fluorocarbons, and carefully selecting waste treatment companies	1・2
		Contributing to projects for reduction of greenhouse gas emissions • Expanding emissions trading, developing solar cells and other forms of renewable energy, and constructing value chains to increase markets for these products	1・2
Energy Development Division		Taking measures to mitigate global warming and preserve the global environment • Implementing all possible environmental measures through discussion with operators and partners	1・2
		Contributing to social advancement in resource developing countries • Contributing to local communities where projects are under way, in such fields as education, culture, and sports	1
Energy Trade Division		Preventing tanker accidents and taking a sure response in emergencies • Rigorously observing in-house management standards of chartered ships to prevent tanker and terminal accidents, and thoroughly implementing and periodically reviewing measures for environmental preservation	2
All Divisions		Training overseas group companies on CSR • Implementing programs for CSR education, and training at overseas trade group companies	3・4

* The numbers correspond with those of the basic policies in the CSR promotion activities on page 8.

Examples of major initiatives

Entry into the bioethanol business

In April 2006, we organized an interdivisional ethanol task force and began to promote bioethanol business. In November of the same year, we reached an agreement on a plan to commercialize a bioethanol production project together with the two Brazilian companies, Development Company of the Sao Francisco Valley (CODEVASF) and the Japan-Brazil Agricultural Development Cooperation Program (CAMPO). Similarly, in Thailand, we launched a feasibility study for production of ethanol using molasses as input material together with a prominent Thai partner.

Production of alternative energy with low environmental impact

Dimethyl ether (DME) has low environmental impact and is attracting attention as a promising energy alternative to diesel fuel and liquefied petroleum gas (LPG). Together with nine companies including Mitsubishi Gas Chemical Company Inc., we are constructing a commercial plant with an annual production capacity of 80,000 tons of DME. The plant is slated to start production and supply in June 2008. We are also considering the construction of a large DME plant outside Japan further in the future.

Investment in a manufacturer of silicon wafers for solar cells

We decided to invest in the Norwegian firm NorSun AS, which is starting production of silicon wafers for solar cells. We intend to become involved in the discovery and commercialization of new technologies and construction of a value chain extending from the upstream sector (polysilicon manufacturing business) to the downstream sector (production and sale of PV system modules). PV power generation is viewed as a promising source of clean energy, and we are taking aggressive approaches to it in consultation with ITOCHU's Machinery Company.

Emissions trading business

For intensive development of emissions trading business, we newly established the Environment and Strategic Business Development Group in our Coal Department and started greenhouse gas emissions credit trading. We plan to actively pursue not only trading emissions but also acquiring emissions credit through various projects to reduce greenhouse gas emissions.

CSR initiatives at our major group company

ITOCHU Non-Ferrous Materials Co., Ltd.

ITOCHU Non-Ferrous Materials newly established a CSR unit in November 2006. Besides keeping all employees aware of CSR, it is expanding sales of aluminum alloy ore to automakers, which can contribute to higher energy efficiency and lighter vehicle weight. In addition, it is deepening its cooperation with suppliers with a view to meeting client needs for green procurement while taking due account of the need for stable supply of safe and reliable materials and products.

ITOCHU Petroleum Japan Ltd.

With the safe tanker operation and prevention of oil terminals as its motto, ITOCHU Petroleum Japan is complying with the management standards for chartered ships, thoroughly taking security measures at oil terminals and strengthening education to its employees. With the highest priority placed on the safety operation, it is going to take into account local communities and global environment.

Chemicals, Forest Products & General Merchandise Company

CSR Action Plans and Activity Report

Yosuke Minamitani
President
Chemicals, Forest
Products & General
Merchandise Company



Mission and commitment to CSR promotion activities

As our business deals in a wide range of products and spans various activities from procurement of raw materials to sale to consumers, we regard protection of the natural environment and safety management of dangerous/hazardous chemical substances as our key CSR agenda. While endeavoring to assure safety and quality of products and taking full account of environmental impact, we are committed to swift and steady supply of goods, resources and materials that properly meet the needs of customers. Thus, we contribute to enrich their lifestyles.

Division	CSR tasks	FY2006 action plans	Status	FY2006 results	Continuation
Forest Products and General Merchandise Division	Assuring raw material traceability	Continuously examining raw material traceability systems through on-site investigations and questionnaire surveys at suppliers	★★★	Implemented on-site investigations and questionnaire surveys at suppliers	➡
		Confirming procurement guidelines under the Green Purchasing Law announced annually, and preparing documents in accordance with laws and regulations	★★★	Prepared a work manual and established traceability for imported lumber	➡
	Handling products certified for international forest management	Handling 1.1 million tons of forest-management certified pulp per year	★★★	Handled 1.28 million tons of forest-management certified pulp, exceeding the target	➡
		Acquiring Australia Forestry Standard (AFS) certification in connection with resources for chip processing in eastern Australia	★★★	Acquired AFS and Forest Stewardship Council (FSC) certification for this chip processing	➡
		Disclosing information on the status of forest management certification at group companies over our website, etc.	★★★	Disclosed information on the status of the certification at group companies over our website	🔄
	Responding to the Green Purchasing Law	Acquiring certification from the importers' associations, and continuously conducting on-site investigations and questionnaire surveys at suppliers	★★★	Acquired certification from the Japan Lumber Importers' Association and also from PEFC-CoC* (see page 26)	➡
	Protecting natural forests	Confirming whether suppliers harmonize with local communities through on-site investigations, etc.	★★★	Implemented on-site investigations and put together the record	➡
		Gathering information on protection of natural forests, and having dialogue with NGOs/NPOs through the Global Environment Office	★★★	Strove to gather and disclose information on protection of natural forests, and held dialogue with NGOs/NPOs on our efforts with the Global Environment Office	🔄
Chemicals Division	Managing dangerous/hazardous chemical substances	Checking whether all various requirements under the Poisonous and Deleterious Substances Control Law are complied with	★★★	Checked legal requirements such as confirmation of registration forms and acceptance of transfer slips when selling such substances	🔄
		Requesting suppliers to disclose information on ingredients for the purpose of searching applicable laws and regulations	★★★	Acquired material safety data sheets (MSDS) and used tables for management of dangerous substances, liquid chemicals, etc.	🔄
		Holding courses on chemical-related laws and regulations, and conducting self-inspection of searching such laws and regulations for all products even at overseas offices	★★★	Held such courses with external experts and extended safety management method of self-check of applicable laws and regulations from the head office to overseas offices	➡
		Eradicating omissions in approval and notification to authorities	★★★	Strove to strengthen the management structure while heeding administrative guidance	🔄
		Requesting transport companies to rigorously observe laws and regulations in a written form, and examining whether they comply with such laws and regulations	★★★	Requested business partners in a written form to observe laws and regulations on transportation of poisonous and deleterious substances	🔄
	Assuring sources for stable supply of resources and materials	Studying the possibility to establish business from new projects to secure mineral resources	—	Reviewed the policy on business establishment	
		Creating employment opportunities through the establishment of new group companies	—	Reviewed the policy on business establishment	
	Procuring safe and secure products	Aiming at reducing complaints to zero by strengthening systems for inspection and certification, and requesting suppliers to acquire ISO certification	★★★	Received zero complaints about product safety	➡

★★★: Achieved ★★: Nearly achieved ★: Unachieved ➡: CSR tasks continued in FY2007 (Arrows' colors show connection to the FY2007 action plans)
🔄: CSR tasks to be addressed in routine work

Assessment of action plans conducted in FY2006 and policy for FY2007

Assessment of action plans conducted in FY2006

The Forest Products and General Merchandise Division carried out many activities related to forest resources and accomplished all of the actions planned for fiscal 2006. Our handling volume of forest-management certified pulp also increased.

The Chemicals Division deals in products such as poisonous and deleterious substances, which require careful handling and are subject to numerous major laws and regulations. Thus it places top priority on compliance and safety management. For this reason, it checks laws and regulations governing all the products it handles at least once a year, and has implemented the same management method in its overseas offices. It also invited external experts to lead a program of education for employees on laws and regulations pertaining to chemicals.

Policy for FY2007 based on the assessment of FY2006

The Forest Products and General Merchandise Division has been taking initiatives to conduct CSR activities related to forest resources. It is going to continue such activities to promote forest certification acquisition and material traceability.

The Chemicals Division is continuing with its efforts for compliance with laws and regulations and safety management as its top priorities. It is also committed to regularly checking laws and regulations as well as providing education for employees.

Division	Continuation	FY2007 action plans	Basic policies*
Forest Products and General Merchandise Division	➔	Assuring material traceability Revising traceability questionnaire surveys and implementing on-site investigations and questionnaire surveys	1・2 4
	➔	Handling internationally certified forest products Requesting acquisition of CoC certification to suppliers that have not yet acquired it	3・4
	➔	Responding to the Green Purchasing Law Reviewing the work manual	2・4
		Complying with labor laws and regulations Implementing questionnaire surveys at suppliers	1・3 4
	➔	Protecting natural forests Continuing investigations through regular visits to suppliers	1・4
		Assuring product safety Continuously maintaining the system to supply low-formaldehyde products	2
Chemicals Division	➔	Managing dangerous and hazardous chemical substances Continuously conducting activities including holding of seminars to enlighten people about compliance with laws and regulations Responding to the European RoHS and REACH directives	1・2 3・4
	➔	Procuring safe and secure products Requesting suppliers to acquire the ISO certification	2

* The numbers correspond with those of the basic policies in the CSR promotion activities on page 8.

Examples of major initiatives

Preservation of natural environments and assurance of material traceability

The Forest Product and General Merchandise Division does a lot of business related to forest resources. Therefore, it is essential in its procurement activities to take into account the preservation of the natural environment through the protection of natural forests and acquisition of forest-management certification. In fiscal 2006, it conducted on-site investigations and questionnaire surveys at suppliers to ascertain matters such as their ownership of forests, methods of procuring raw materials, and status of forest and ISO certifications. In accordance with the Green Purchasing Law, it has established traceability of imported lumbers and acquired certification under the Programme for the Endorsement of Forest Certification – Chain of Custody (PEFC-CoC) certification and business certification by the importers' associations.

* PEFC-COC is a system of assessment and certification of forest management in accordance with criteria and indicators of sustainable forest management.



Forested site by CENIBRA in Brazil

Holding of lectures to understand chemical-related laws and regulations

The Chemical Division handles a wide range of chemicals including organic chemicals, inorganic chemicals, synthetic plastics, functional chemicals, electronic materials, and pharmaceuticals. Some of them cannot be handled without special transport facilities or permits from the authorities. As key CSR tasks, it is promoting handling with a solid understanding of product characteristics and the related laws and regulations.

In fiscal 2006, experts were invited from outside the company to lecture on laws and regulations governing chemicals to the employees of the division and major group companies. It continues to hold such lectures on a regular basis to deepen understanding of the latest amendments and major laws and regulations for the entire chemicals group.



Lecture on laws and regulations governing chemicals

Food Company CSR Action Plans and Activity Report

Shigeharu Tanaka
President
Food Company



Mission and commitment to CSR promotion activities

It is the mission of the Food Company to build value chains covering the downstream, midstream, and upstream segments and to supply safe foods on a stable basis. The role of trading firms is expanding from confirming the safety of food, to being concerned about the protection of the environment. We believe it is vital to contribute to society through CSR activities and to pursue a well-grounded business based on the trust from the public.

Division	CSR tasks	FY2006 action plans	Status	FY2006 results	Continuation
All Divisions	Educating and raising awareness of food safety management	Continuously auditing food safety management Holding meetings to explain food safety management to raise awareness	★★★	Audited food safety management in all divisions of the Food Company In-house study programs (11 in Japan and 2 overseas) Presentations for clients (6)	➡
	Improving and strengthening control systems of origin, ingredients and labeling	Tightening control system of origin and labeling management Establishing and observing rules for regular inspections Giving guidance to improve checking systems for residual agricultural chemicals Confirming the conditions for proper labeling North America: Inspection of traceability systems, contract conditions, and product standards	★★★	[Action to address the "positive list"] Incorporated in the work process inspection procedures in line with the instructions from regulatory agencies Continued implementation in ordinary transactions	➡
	Efficiently procuring materials and products based on the needs of business partners	Understanding consumer needs through retailers Reinforcing capabilities to convey consumer needs to suppliers Jointly developing products to satisfy consumer needs	★★★	Implemented the action plans in the routine sales activities (request for checks of residual chemicals, response to needs to ship non-genetically modified organism (GMO) crops)	🔄
	Preventing accidents in the production and distribution stages	Checking business partners' measures, and continuously examining their validity	★★★	Regularly took actions to prevent accidents, such as confirmation of safety schemes at manufacturing partners	🔄
	Properly responding to emergencies	Giving guidance for improvement in food safety audit	★★★	Audited six group companies for food safety management and gave guidance	🔄
Provisions Division	Improving productivity and efficiency in food processing	Inspecting the effects and process of exchanging information in each field of streamline	★★★	Prevented aflatoxin in corn Actively promoted tightening of systems to ship non-GMO crops in the US, mainly led by Quality Technology International Inc.	🔄
	Developing and introducing production processes, products, and packaging materials with less environmental burden	Expanding the scope of use for such packaging materials	★★★	Invested in cyclic farm projects combining dairy farm management and organic vegetable production in Shandong Province, China	➡
Fresh Food & Food Business Solutions Division	Establishing traceability systems (TS) for major products handled	Publicizing and utilizing established TSs	★★★	Continuously handled domestic eel products through efforts with domestic eel processing manufacturers with traceability system	🔄
	Assuring proper food labeling	Responding to new requirements for indication of allergens in the EU Conducting survey on overseas group companies	★★★	Conducted an on-site survey at Harro Foods Ltd. and confirmed the management setup Responded to each case for ICREST International LLC Visiting employees from Beijing ITOCHU-Huatang Comprehensive Processing Co., Ltd. (BIC) participated in seminars	➡
Food Products Marketing & Distribution Division	Improving stability and efficiency by sharing information among all areas from wholesalers to food service and retailing sector	Promoting efforts to share information among retailers and wholesalers, provide management support, and study the effects	★★★	Shared wholesale product database and shared database with cooperating retailers	➡
	Developing products and distribution channels in response to the changing needs of consumers	Developing products taking account of the generational and regional characteristics, and checking the effects	★★★	Developed products taking account of the regional characteristics and value added products targeting at certain customer segments Launched famima FOODPARK, a shopping website, with famima.com	🔄
	Assisting affected areas in the event of a disaster	Concluding agreements on emergency relief activities with local governments Confirming the emergency system through such drills with local governments	★★★	Newly concluded agreements on emergency relief activities with 6 local governments (23 prefectures and 7 cities in total)	🔄
	Establishing an environmental-friendly distribution system	Expanding the implementation of hybrid vehicles	★★★	Replaced 164 out of a total of 2,081 FamilyMart delivery trucks with hybrid vehicles	➡
	Introducing energy- and resource-conserving facilities	1. Promoting the introduction of LED signs 2. Refining energy-saving air conditioning/refrigeration systems and light-adjustment systems 3. Conducting a survey to detect progress of the store fixture recycling promotion	★★★	Expanded installation of stand-alone dessert cases (170 as compared to the target of 150) and of new light-adjusting signs (586 as compared to the target of 500) as part of the efforts to promote eco-friendly shops	🔄

★★★: Achieved ★★: Nearly achieved ★: Unachieved ➡: CSR tasks continued in FY2007 (Arrows' colors show connection to the FY2007 action plans)
🔄: CSR tasks to be addressed in routine work

Assessment of action plans conducted in FY2006 and policy for FY2007

Assessment of action plans conducted in FY2006

In fiscal 2006, we took a variety of steps in the product aspect. We established traceability systems for safety food supply, took actions to comply with new regulations, such as the Positive List System for Agricultural Chemical Residues, and also performed proper product-labeling to assist consumer decisions. We also implemented a wide range of measures, from distribution (e.g., environment-friendly store delivery systems) to waste (e.g., feed production using expired food in shops). Thus, action plans at large were addressed.

Policy for FY2007 based on the assessment of FY2006

Our action plans for fiscal 2007 consist of items carried over from fiscal 2006 that require continued efforts in addition to newly defined specific plans. The action plans are centered upon the two themes: 1) assurance of food safety and security and 2) concern for the environment.

We consider the continued pursuit of these activities to be the CSR of the Food Company, and believe we can win the trust from the consumers through our actions.

Division	Continuation	FY2007 action plans	Basic policies*
Provisions Division	➔	Establishing systems for stable supply of safe and secure materials Maintaining and reinforcing capabilities to select appropriate suppliers Continuously communicating consumer needs to the product districts Continuously providing education to suppliers Establishing quality control systems	2
	➔	Developing and introducing production processes, products, and packaging with less environmental burden 1. Expanding usage of byproducts 2. Promoting the introduction of products and packaging with less environmental burden	4
Fresh Food & Food Business Solutions Division	➔	Improving and strengthening control systems of origin, ingredients and labeling 1. Actively introducing and utilizing the JAS Standards with public disclosure of manufacturing information 2. Taking measures for domestically grown vegetables and fruits	3
	➔	Promoting proper food labeling 1. Continuing enlightenment campaign both internally and externally 2. Checking and reviewing through the audit of food safety management	2
Food Products Marketing & Distribution Division	➔	Improving stability and efficiency by sharing information among all areas from wholesalers to food retailing sector (including food service) Continuously aiming for an increase in the number of firms involved in the current initiatives	1
	➔	Establishing an environment-friendly delivery system Aiming at replacing all means of transportation by the end of 2012 with fuel efficient and more environment-friendly vehicles such as hybrid trucks	4

* The numbers correspond with those of the basic policies in the CSR promotion activities on page 8.

Examples of major initiatives

Food safety education and internal auditing

Through its Food Safety and Compliance Management Office, the Food Company is deploying programs of education, enlightenment, and guidance for all of its employees as well as those of group companies and business partners. All our employees, including newly recruited employees in fiscal 2006, have completed the Food Safety E-learning course that began in fiscal 2005. From September 2006, major group companies started taking the course. To confirm the proper practice of food safety management, we conduct food safety audit once a year within the Company. The audit was also introduced to group companies in fiscal 2006.

An initiative for product supply to reduce environmental burden

The Coffee & Beverage Marketing Department is strongly promoting sales of coffee beans that were grown on plantations certified under the Rainforest Alliance*1. FamilyMart, one of our group companies, sells coffee brewed from these beans, in the form of its private brand canned coffee and Ready-To-Drink coffee.

*1 Rainforest Alliance is an environmental NPO that certifies plantations meeting standards for sustainable agriculture including environmental and employment aspects. It aspires to protection of biodiversity and sustainability through corporate activities, and is dedicated to preserving the ecosystem marked by the symbiosis of humans and wildlife.



Passo Presso iced coffee (sweetened)

CSR initiatives at our major group company

"Kids' Chef" program for dietary education

YAYOI FOODS CO., LTD., a manufacturer of frozen foods, is conducting a dietary education program 'Kids' Chef' for children in the upper grades of elementary school, who are the principals of the 21st century. The program is implemented jointly with the Syndicat de la Haute Cuisine Française au Japon headed by French chef Kiyomi Mikuni. It is designed to help develop their sense of taste by experiencing authentic flavor. In addition to the "sense of taste class" using the world's most prestige foods, the program allows children to devise their own French dishes using locally grown food. Through the cooking, the children deepen their interest in food and develop a sense of pride in their locally community. Begun in 2000, the program has thus far been held at 28 elementary schools across the nation. It is attracting the attention of educators nationwide as the interest in dietary education grows in recent years.



Instruction by Chef Mikuni

Finance, Realty, Insurance & Logistics Services Company

CSR Action Plans and Activity Report

Takao Shiomi
President
Finance, Realty,
Insurance & Logistics
Services Company



Mission and commitment to CSR promotion activities

It is the mission of our Company to promote financial business that is highly convenient for and transparent to our clients, assure our impartiality and trustworthiness as an insurance broker, achieve higher levels of customer satisfaction in our logistics business, and provide highly reliable real estate and services in our realty business. In pursuing these goals, we are committed to taking full consideration of safety and environmental issues.

Division	CSR tasks	FY2006 action plans	Status	FY2006 results	Continuation
Financial Services Division	Rigorously managing personal information and tightening security measures to improve control	Heightening the awareness among members of management, educating staff, and conducting regular reviews	★★★	<ul style="list-style-type: none"> Conducted periodical reviews at both headquarters and group companies Acquired certification for information security management under international standards at group companies (ISO/IEC 27001:2005) Achieved the result of five headquarters employees qualified for personal security manager (PSM) 	➔
	Securing of channels to local communities, and unearthing needs	<ol style="list-style-type: none"> Reinforcing inter-divisional functions in businesses related to SMEs Establishing a new customer base and improving customer relations Discovering new investment projects through private equity funds 	★★★	Extensively invested in leading SMEs through ITOCHU Finance Corporation (IFC) venture funds etc.	🔄
Construction & Realty Division	Supplying quality housing	Continuously building high-quality houses and providing rewarding residential environments to society	★★★	<ul style="list-style-type: none"> Determined selection standards for construction and design companies in the first half, and built a scheme for strict selection of partners based on these standards Checked and reviewed efforts in each development project 	➔
	Helping provide high-quality public services through PFI projects	Enhancing functions of all group companies and promoting their cooperation in order to provide private-sector ideas, expertise, and business experience to society as a whole	★★★	<ul style="list-style-type: none"> Acquired no new projects in bidding, but placed emphasis on efficient approaches in projects under consideration for bidding Found no problems in existing projects 	🔄
Insurance Services Division	Complying with the Insurance Business Law and various other laws and regulations	<ol style="list-style-type: none"> Reviewing compliance programs and industry-specific legal manuals Helping employees gain full knowledge of compliance requirements at departmental meetings etc. Holding insurance agency compliance seminars for newly posted personnel (by the division) 	★★★	<ol style="list-style-type: none"> Revised compliance programs at four group companies Helped employees gain full knowledge of compliance requirements as necessary at departmental meetings etc. Received monthly e-learning classes related to compliance, provided by external insurance companies at ITOCHU Orico Insurance Services Co., Ltd. (IOS) 	➔
		<ol style="list-style-type: none"> Explaining important items during sale of insurance products Managing personal information in accordance with the Privacy Mark standard 	★★★	<ol style="list-style-type: none"> Explained important items during sale of insurance products as part of routine work Acquired Privacy Mark certification from IOS in January 2007 	➔
		<ol style="list-style-type: none"> Sharing information on amendment to industry laws and regulations by fax or post Participating in seminars held by suppliers on various concerned laws and regulations 	★★★	<ol style="list-style-type: none"> Participated as necessary in seminars held by suppliers on amendments to industry laws and regulations Executive participation in compliance seminars held by non-life insurance companies 	➔
	Providing appropriate insurance products accompanied by accurate and easy-to-understand explanations	<ol style="list-style-type: none"> Increasing the understanding of products by participating in external and internal seminars on new products Proposing new product development to other insurance companies Regularly providing consciousness-raising and educational activities 	★★★	<ol style="list-style-type: none"> Made efforts to deepen understanding of products by participating in external and internal seminars on new products on an ongoing basis Practiced 2 & 3 in routine operations 	➔
	Handling insurance claims	<ol style="list-style-type: none"> Regularly holding hearings on customer needs Proposing development of the new products based on feedback from individual insurance companies. Continuously proposing multiple types of insurance products to customers 	★★★	Practiced in routine operations	➔
Logistics Services Division	Constructing logistics schemes reflecting concern for safety and the environment	<ol style="list-style-type: none"> Getting personnel in charge of insurance claims to participate in internal and external seminars on the handling of insurance products and claims Helping newly appointed personnel mastering expertise for handling insurance claims by engaging in ordinary operations with experienced staff 	★★★	<ol style="list-style-type: none"> Held internal seminars on the handling of insurance claims (IOS) Shared expertise through OJT etc. in routine operations 	🔄
		Selecting new partners that follow CSR requirements and conducting biannual monitoring reviews with reference to the following CSR items: <ol style="list-style-type: none"> Compliance with laws and regulations Acquisition and renewal of licenses and permits Preparation of manuals for safety and waste handling 	★★	<ul style="list-style-type: none"> Continuously monitored status at partner companies as regards the labor environment, safety, and environmental measures Created 'divisional standards for partner selection,' but discovered a need for further improvement, such as the establishment of more detailed standards. Developed plans to conduct periodic reviews to produce continuous improvement 	➔
Insurance Services Division	Reinforcing communication	<ol style="list-style-type: none"> Having closer communication with employees Exchanging business progress reports at departmental and sectional meetings Helping employees gain knowledge about compliance at departmental and sectional meetings Encouraging new employees to attend compliance courses for insurance agencies 	★★★	<ol style="list-style-type: none"> Shared information as appropriate at such meetings Conducted case studies of insurance benefit claims at in-house study groups (IOS) Internally shared information on insurance claims (IOS) 	➔
		<ol style="list-style-type: none"> Having closer communication with business partners Participating in seminars and product presentation meetings held by suppliers Promoting information sharing when legally permissible, including insurance claims Holding regular business study conferences 	★★★	<ol style="list-style-type: none"> Participated in seminars and e-learning classes held by suppliers as appropriate Shared such information in routine operations Held regular business study conferences 	➔
Logistics Services Division		Reviewing the contents and frequency of regular meetings with clients and business partners	★★★	Needs are sufficiently understood for the time being, but adopted policy to promote finer identification of needs as well as the sharing and implanting of goal awareness with concerned parties in pursuit of further logistics improvement and higher CS	🔄

★★★: Achieved ★★★: Nearly achieved ★: Unachieved ➔: CSR tasks continued in FY2007 (Arrows' colors show connection to the FY2007 action plans)

🔄: CSR tasks to be addressed in routine work

Assessment of action plans conducted in FY2006 and policy for FY2007

Assessment of action plans conducted in FY2006

The Finance, Realty, Insurance & Logistics Services Company emphasizes reinforcement of communication with customers, employees on the sales front, and business partners.

For our customers, we constantly strove to provide clear explanations of products and services while complying with all relevant laws and regulations. We promoted the sharing of strategies and information between group companies providing the actual services and our supervisory units. We also continued to hold programs of education and training for employees on the sales site.

We also worked for better communication with our business partners. However, the establishment of a system for information sharing is a task that remains to be accomplished. In addition, we established standards for partner selection, but these are also thought to require further detailing.

Policy for FY2007 based on the assessment of FY2006

Besides prioritizing efforts for closer communication with partners as described above, our main CSR tasks for fiscal 2007 are the creation of opportunities for socially responsible investment in the Financial Services Division, and pursuit of environment-friendly business in the Construction & Realty Division. In this way, by adding these new action plans, we intend to widen our CSR initiatives.

Division	Continuation	FY2007 action plans	Basic policies*
Financial Services Division		Creating opportunities for socially responsible investment Selecting partners for institution of funds and confirming pertinent laws and regulations	1・4
	➔	Rigorously managing personal information and tightening security measures for improved control <ul style="list-style-type: none"> Promoting and reviewing the control system and security measures Heightening awareness among management and educating staff, and conducting regular reviews 	2・3
Construction & Realty Division	➔	Supplying quality housing with a focus on safety and security Placing orders to reputable construction and design companies, recompiling data on past development projects (ex: building outlines), and monitoring status as regards observance of various ordinances and other laws and regulations	1・2
		Giving due consideration to the environment Actively promoting environment-friendly business (rooftop greening, energy-saving boilers, etc.) at group companies	2・4
Insurance Services Division	➔	Complying with the Insurance Business Law and other laws and regulations <ul style="list-style-type: none"> Reviewing compliance programs and industry-specific legal manuals Helping employees gain full knowledge of compliance requirements through seminars or departmental meetings Sharing information with suppliers 	2・3
		<ul style="list-style-type: none"> Explaining important items and receiving written confirmations as required, beginning April 2007 	1・2
	➔	Providing appropriate insurance products accompanied by accurate and easy to understand explanations <ul style="list-style-type: none"> Regularly holding consciousness-raising and educational activities through seminars, OJT, etc. 	2・3
Logistics Services Division	➔	Contributing to improvement of the social overhead capital in newly industrializing countries through the building of the logistics infrastructure, and increasing the degree of CS <ul style="list-style-type: none"> Checking problems concerning logistics sites in Chinese projects, and checking the labor environment Expanding logistics facilities mainly in Asia, and executing partner strategy 	4
	➔	Providing logistics services with an emphasis on safety and efficiency, and concern for the environment <ul style="list-style-type: none"> Periodically confirming compliance with safety standards at logistics facilities Studying efficient environment-friendly transport modes Establishing departmental initiative standards 	2・4

* The numbers correspond with those of the basic policies in the CSR promotion activities on page 8.

Examples of major initiatives

Acquisition of international certification for information security management by FX PRIME Corporation

As a member of the ITOCHU Group, FX PRIME Corporation is devoted to foreign exchange margin account trading. In January 2007, it was certified under ISO/IEC 27001:2005, the international standard for information security management systems (ISMS). FX PRIME is aiming to ensure protection of client safety in foreign exchange transactions and privacy in Internet transactions. To this end, it has placed top priority on bolstering its internal control systems and taking proper measures to ensure the security and safety of information assets and client information.

Contribution to communities through PFI projects

One of the PFI¹ projects that were worked on by ITOCHU as of July 2007 concerned 'the construction and operation of a new astronomical observatory in Sendai.' The current municipal observatory was built 50 years ago, and rests on a commitment to service to the citizenry. The purpose of the project is to rebuild the observatory while carrying on this underlying idea, and help to raise the level of civic culture and education by providing a facility for social education about nature and science through observation of space, planets, etc. The observatory is being rebuilt on the outskirts of the city, and is to be opened in July 2008. While responding to the diverse needs associated with such commissions from national and local governments, we are also providing citizens with high value-for-money services².

¹ Private Finance Initiative (PFI): schemes for use of private-sector funds, technologies, and operating know-how in the design, construction, maintenance, and operation of public facilities.

² Value for money: the point is to maximize the value derived from use of citizen tax revenues.



Artist's impression of the new observatory in Sendai

CSR initiatives at our major group company

ITOCHU PROPERTY DEVELOPMENT, LTD.

The company has improved the safety and comfort of its housing by instituting a quality control center. At the same time, it is basing the selection of suppliers on their compliance with standards established from the perspective of CSR. In addition, it is working to make its housing more environment-friendly by installing all-electric home and disposers, and incorporating energy-saving designs etc.

ITOCHU URBAN COMMUNITY LTD.

The company has obtained certification under ISO 9001 for its workflow in condominium and building management. It has also established a PDCA cycle based on the determination of issues that need to be checked (mainly in connection with ISO agenda), and has built a system for CSR activity management. It carries out regular programs to educate employees in CSR matters, such as compliance with laws and regulations, and the protection of personal information.

i-LOGISTICS CORP.

The company is endeavoring to raise the standards of logistics through a campaign to get certified under ISO 9001 at all units. It is also trying to improve the workplace climate by ensuring practice of the "5G," good arrangement, good order, good cleanliness, good hygiene, and good behavior.

In the CSR area, it is deploying a company-wide campaign of education and consciousness-raising based on a "3R" (reduce, reuse and recycle) approach, while also showing concern for CSR supply chain management and the proper final disposal of industrial waste.

Corporate Governance

It is our fundamental policy to work towards the long-term improvement and preservation of our corporate value through building positive and effective relationships with our stakeholders. In order to execute our business activities in a fair and efficient manner, we will increase the transparency of our decision-making process and construct a management system that incorporates appropriate monitoring and supervisory functions. Furthermore, we will operate our business on a basis of trust with our stakeholders including shareholders by ensuring adequate and timely disclosure of information and developing and maintaining accountability.

Management structure

ITOCHU Corporation has adopted “the Board of Corporate Auditors” system. Under this system, the Board of Corporate Auditors monitors the performance of the directors. With respect to the operation and execution of our business activities, ITOCHU Corporation has adopted the Executive Officer System and the Division Company System.

The Executive Officer System introduced in 1999 enables us to strengthen the decision-making and supervisory capabilities of the Board of Directors as well as to raise the efficiency of business execution.

Under the Division Company System, our seven Division Companies assume responsibility for the management of their respective business areas, and respond timely to the needs of the market and customers. ITOCHU Corporation’s headquarters performs centralized group-wide strategic planning and overall business administration. With discrete management at the Division Companies level and centralized planning an administration at the headquarters level, we have constructed a highly efficient and well balanced management structure.

We have also established the Headquarters Management Committee (HMC) as a supporting body to our President & CEO to deliberate on group-wide management policies and major matters. In addition to HMC, various other internal committees have been created for specific areas, and each internal committee is to examine and deliberate on management issues in the area for which it is responsible, and to assist the decision-making of our President & CEO and Board of Directors.

Internal control

Compliance with laws and regulations, one of the objectives of internal control, has always been and will continue to be an integral part of our continued endeavor to enhance the compliance system as referred on page 32. With respect to another objective of ensuring accuracy, truthfulness and reliability of financial reporting, we are incorporating appropriate control functions into the actual business process, and to enhance the current operation furthermore, a project team is taking a leading role to prepare for the internal control audit to be carried out from fiscal 2008 throughout the company.

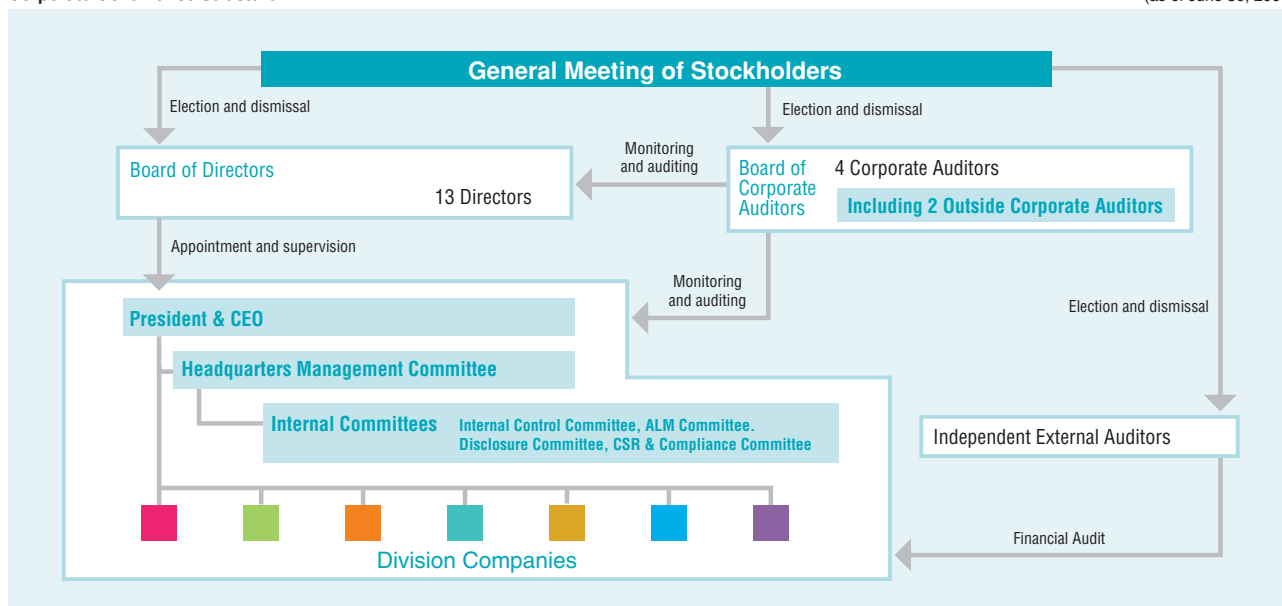
In fiscal 2006, we launched the ITOCHU Designing New Age (DNA) Project, a business process re-engineering project aimed at improving the effectiveness and efficiency of our management. In fiscal 2007, we newly established the Internal Control Committee to regularly assess the state of internal control in all respects.

Risk management

To adequately address the various risks associated with our business operations, such as market risk, credit risk, and investment risk, we have developed the requisite risk management system and risk management techniques, for example, establishing a full range of management regulations, investment criteria, and risk limits, developing reporting and monitoring systems and creating business contingency plans to manage company-wide as well as matter-specific risks.

Corporate Governance Structure

(as of June 30, 2007)



Compliance

To live and work together for the common good as a good corporate citizen, compliance with laws and regulations shall be required as a minimum prerequisite. The compliance system originally created with the slogan of “Clean, Honest and Beautiful” is now positioned as the very foundation of CSR. Keeping in mind the fact that “what has been built up over 150 years can be lost in a day,” we are taking steps to advance our compliance structure, from the construction stage to a phase of fine-tuning operation and performance, to achieve an even higher level of compliance.

Reinforcement of compliance overseas

In fiscal 2006, we made the reinforcement of compliance with laws and regulations in overseas operations one of priority agendas. As a part of this effort, ITOCHU International Inc. held a Compliance Liaison Council meeting in North America and started off the job of establishing a mechanism to comprehensively control our group companies in the North America, toward the larger goal of creating a compliance system in line with the legislation specific to that region. We are planning to enhance compliance in North America further through the aforementioned conference and other activities.

We realized that it was absolutely necessary for overseas offices and group companies to prepare compliance programs reflecting their business realities and countries' situation and also lists of laws and regulations specific to them. Thus, all those offices and companies completed the task by the end of fiscal 2006. Even after the completion, the programs and lists are necessary to be reviewed at least once a year to reflect the realities in each location so that they become more effective. In addition to those programs and lists, we are encouraging the preparation of more detailed manuals on applicable laws and regulations. Our aim is to heighten the compliance awareness of all employees, including the locally hired staff, with education and enlightenment programs utilizing all of these instruments.

Compliance structure and programs for education and training in ITOCHU Group

The ITOCHU Group's compliance structure revolves around the ITOCHU Corporation's Chief Compliance Officer (CCO), the CSR Compliance Committee, and the Compliance Office. Each Division Company, Administrative Division at Headquarters, domestic branch office, overseas bloc, and group company has appointed own compliance officer and has been working to implement compliance enhancement according to operation in each organization.

We have in place a mechanism of monitor and review to check the status of compliance activities throughout the entire Group on a semiannual basis. In fiscal 2006, we introduced a new system under which each Division Company identified the items particularly related to its business activities and confirmed the status of compliance. This made it possible to understand in more details the progress of compliance with laws and regulations specific to their respective business and operation.

To provide support to such activities in fiscal 2007 onward, the Compliance Office is taking the lead to provide information on compliance to the domestic group companies by means of the e-mail magazine, etc., and conduct such education and training as e-learning on compliance for any necessary organization including overseas blocs and domestic group companies.

From the construction stage to a phase of fine-tuning operation and performance

May 2007	Holding of a compliance conference in China
April 2007	Start of distribution of the e-mail magazine to group companies
February 2007	Holding of a Compliance Liaison Council meeting in North America
January 2007	Formulation of a compliance program and a Law List of Special Industrial Laws for all overseas offices and overseas trading subsidiaries
April 2005	Establishment of CSR & Compliance Committee (renamed from Corporate Ethics and Compliance Committee)
Fiscal 2004 and 2005	Implementation of e-learning programs
April 2003	Start of monitor & review surveys on compliance (once every six months hereafter)
January 2003	Start of acquisition of written confirmation on observance of ITOCHU Corporation Code of Conduct
December 2002	Creation and distribution of booklet regarding the ITOCHU Corporation Corporate Credo and Code of Conduct
November 2002	Development of the ITOCHU Group Compliance Program (revised every year hereafter) Start of the holding of Compliance Liaison Council (held twice a year since FY2004)
September 2002	Appointment of a Chief Compliance Officer (CCO) and institution of the Compliance Committee Institution of the Compliance Office Installation of the hotline (provision of internal information system)
September 2000	Monitoring of trends in related industry laws and regulations once a year
October 1997	Formulation of the ITOCHU Corporation Code of Conduct

Toward a broader and deeper compliance structure

Global security trade control, and establishment of the Custom Control Office

To prevent the proliferation of weapons of mass destruction and conventional weapons, Japan maintains a strict trade-security control 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 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 areas. 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.

Furthermore, the Custom Control Office was established at the Headquarters on April 1, 2007, to further strengthen the company's customs control functions.

CSR Management Action Plans and Activity Report

The Administrative Divisions at Headquarters*1 formulated based on their respective operations CSR management action plans for corporate-wide CSR issues, and executed them. Followings are the performance results in fiscal 2006.

*1 This term refers to the corporate staff units of the headquarters. Specifically, it includes the Corporate Planning & Administration Division, Affiliate Administration Division, Corporate Communication Division, IT Planning Division, International Operations Division, Finance Division, General Accounting Control Division, Risk Management Division, Human Resources Division, Legal Division, General Affairs Division, CSR & Compliance Division, Audit Division, and the Secretariat.

CSR issues/tasks		FY2006 action plans	Status	FY2006 results	Continuation
CSR management	Ascertaining the current status in the CSR aspect	1. Preparing a CSR checklist for CSR issues to be emphasized in each region/country (in coordination with the International Operations Division) in order to gain an understanding of the status of approaches to CSR problems overseas 2. Conducting surveys on approaches to CSR problems at overseas offices (in coordination with the International Operations Division) 3. Initiating actions to ascertain approaches to CSR problems at group companies	★★★★	1 & 2: Completed the compilation of materials on CSR issues distinctive to each region/country. Selected seven blocs/offices for creation of CSR action plans in fiscal 2007, created and sent to them reference material packages to assist their formulation of action plans. Had them start drawing up action plans 3: Selected 13 major group companies to serve as models, diagnosed them to check the current CSR activity status before creating action plans. In addition, prepared and distributed manuals for CSR group management	➡
	Promoting corporate-wide education and enlightenment about CSR	Education 1. Providing CSR training in various training programs 2. Heightening CSR awareness through e-learning and in-house videos 3. Organizing trial sessions to "read the CSR Report"	★★★★	1. Provided CSR training in various training programs organized by the Human Resources Division 2. Created CSR videos and distributed them to each organizational unit 3. Distributed a copy of the CSR Report to each employee and conducted CSR workshops. Also conducted a questionnaire survey with employees on CSR to heighten CSR awareness	➡
	Examining investment projects from the CSR perspective	1. Identifying projects to be examined from the CSR perspective 2. Preparing CSR checklists	★★	1 & 2: Created a CSR Checklist for New M&A Projects and applied for approval for implementation in fiscal 2007	➡
Supporting career development for diverse human resources	Recruiting and developing diverse human resources	Steadily implementing Promotion Plans on Human Resource Diversification	★★★★	Deployed PR campaigns among students through our website and recruiting seminars, resulting in the hiring of diverse human resources Steadily executed mentor programs and provided trainings for national staff to strengthen human resources development	➡
	Preparing workplace environments conducive to work	1. Reinforcing publicity through the intranet 2. Conducting training for managers	★★★★	1. Opened a web site on childcare and nursing care to disseminate and share information 2. Conducted training for managers on diverse human resources management	➡
		1. Implementing periodic reviews with the labor union 2. Conducting training for managers	★★★★	1. Implemented periodic reviews with the labor union after grasping employees' working conditions 2. Conducted training for managers on the prevention of long working hours	🔄
	Strengthening communication with employees • Reflecting employee needs in management	Holding Company-Wide Employee Meeting and management conferences with the labor union	★★★★	Held a total of 8 management conferences with the labor union	➡
Accountability	Increasing accountability • Preparing systems for information disclosure	1. Continuously reviewing and improving systems for information disclosure 2. Continuously preparing systems for internal control	★★★★	1. Reviewed and improved systems for information disclosure 2. Assessed the entire internal control system and submitted the results to the Board of Directors. In addition, bolstered coordination with the ITOCHU DNA Project as part of the internal control project on financial reporting	🔄
		1. Holding preliminary drills 2. Continuously reviewing BCPs	★★★★	1. Held preliminary drills 2. Introduced a safety confirmation system	➡
Crisis management	Formulating and refining the Business Continuity Plans (BCP)	1. Holding preliminary drills 2. Continuously reviewing BCPs	★★★★	1. Held preliminary drills 2. Introduced a safety confirmation system	➡
	Identifying and hedging risks in each region/country Formulating emergency response plans Assuring the safety of national staff and Japanese expatriate staff	1. Gaining an understanding of political and social developments in each country 2. Identifying risks in each bloc/country	★★★★	1. Compiled weekly reports from overseas offices and issued weekly reports on political and economic developments in each country to the members of the Information Liaison Council 2. Obtained and provided information on risks in each bloc/country in coordination with the concerned units	🔄
Information security	Managing information security	Reviewing the status of compliance with information management rules and IT architecture at the headquarters	★★★★	Diagnosed server vulnerability, implemented security measures in accordance with the degree of urgency, and reviewed security management rules	➡
		Reviewing the status of preparation of information management rules and compliance with Information Security minimum standards at group companies	★★★★	In the process of IT general control, assisted to review the status of preparation of information management rules and compliance with Information Security minimum standards at group companies where internal control was implemented	➡
		1. Completing PC encryption procedures 2. Continuously recommending technical measures for group companies	★★★★	1. Completed PC encryption procedures for ITOCHU Corporation 2. Requested the Division Companies to distribute Information Security minimum standards to their group companies, and provided education on technical measures	➡
		Applying Service Level Agreements to our Division Company system	★★★★	Began applying Service Level Agreements for critical Division Companies' IT systems	➡
		Continuously implementing system audits	★★★★	Implemented information security audits for the mission-critical systems	➡
	Reinforcing client and customer information management	1. Continuously implementing security education for employees through e-learning 2. Incorporating security education into training for managers	★★★★	1. Continued to implement security education for employees in information security through e-learning 2. Implemented training on security for managers	➡
	Implementing monitoring and reviews concerning compliance with the Personal Information Protection Law	★★★★	Implemented monitoring and reviews, and completed the work of compiling and reporting the results	➡	

★★★★: Achieved ★★★: Nearly achieved ★: Unachieved ➡: CSR tasks continued in FY2007 (Arrows' colors show connection to the FY2007 action plans)
 🔄: Issues and tasks to be addressed in the routine work

CSR initiatives at Headquarters

Because ITOCHU Corporation is engaged in a wide range of businesses, the Division Companies each create their own CSR action plans to promote CSR activities in the core businesses. Meanwhile, there are many CSR tasks that must be addressed in an interdivisional manner. To deal with those management tasks, the Administrative Divisions at Headquarters play an important leading role of taking a corporate-wide overview to identify areas for reinforcement and improvement and at the same time promoting CSR activities at the corporate level in a mutually complementary fashion. In this work, the Administrative Divisions prepare management action plans and apply the PDCA cycle in executing them, just like the Division Companies.

Division	Continuation	FY2007 action plans	Basic policies*
CSR management	➡	Requesting Division Companies to draft plans for group-level CSR deployment in fiscal 2007, and providing necessary information and education programs to them. Also reviewing the progress made in CSR action plans already formulated by the 13 group companies with Division Companies, and giving support to them	4
	➡	Communicating with staff in charge of CSR promotion activities in the seven overseas blocs/offices selected for fiscal 2007 to make the action plans effective	4
	➡	Providing CSR training in various training programs, preparing CSR-related videos and other educational materials, and planning and executing lectures on CSR	1・3
	➡	Implementing a CSR Checklist for New M&A Projects upon in-house approval	4
		Requesting the Division Companies for conducting surveys studies as part of the initial effort to address human rights and labor issues	4
Supporting career development for diverse human resources and providing comfortable working conditions for employees	➡	Steadily implementing Promotion Plans on Human Resource Diversification	1
	➡	Strengthening the system for consultation and inquiry on issues such as childcare and nursing care from employees and reinforcing the capability to respond and take preventative measures	1
	➡	Continuously holding management conference with the labor union	1
Internal control and accountability	➡	Establishing rules for internal control, and creating the Internal Control Committee to review the progress of the rule establishment	1・2
Crisis management	➡	Reviewing general and particular BCPs, and implementing and reviewing preliminary drills based on lessons learned from shortcomings in fiscal 2006	2
Information security	➡	Regularly reviewing information management rules, and continuously implementing technical measures and information security education through e-learning programs	2

* The numbers correspond with those of the basic policies in the CSR promotion activities on page 8.

Assessment of action plans conducted in FY2006 and policy for FY2007

Assessment of action plans conducted in FY2006

Although certain plans were carried over to fiscal 2007, the CSR action plans prepared by the Administrative Divisions at Headquarters were basically executed as scheduled.

The tasks in the action plans in fiscal 2006 that made the expected progress are: the promotion of corporate-wide education and enlightenment about CSR; steady execution of the Promotion Plan on Human Resource Diversification; and strengthening communication with employees.

Our fiscal 2006 plans included the task of ascertaining the current CSR status at our overseas offices and group companies with a view to expanding CSR initiatives to them beginning in fiscal 2007. However, in the belief that it would be more effective to actually prepare and execute CSR action plans as soon as possible based on the circumstances at model organizations, we decided to promote CSR activities initially among our 13 selected group companies for group-wide expansion and seven selected blocs and offices for expansion to overseas locations.

The task of crisis management progressed as planned, as exemplified in relation to BCP in particular by our implementation of a safety confirmation system.

Policy for FY2007 based on the assessment of FY2006

We will steadily work on the expansion of the scope of CSR activities, one of the basic policies for promotion of CSR activities during Frontier 2008*. Also, we will press ahead with systematic and coordinated initiatives to social issues especially on human rights and labor conditions.

Introduction of CSR Checklists for New M&A Projects

Under our policy that the whole Group strives for promotion of CSR activities, we think it is important to understand the CSR status, identify issues, and seek improvement of the companies that will be acquired or merged, and will become part of the Group in the future. As a tool to identify their CSR realities and issues in the social dimension such as governance, customer services and labor/work environment as well as environmental management, we developed a CSR Checklist for New M&A Projects to be implemented in fiscal 2007. Through this system for checking at the stage of business investment, we hope to further strengthen CSR management and elevate our corporate value on the group-wide level.

Involvement with Employees

ITOCHU's diverse group of personnel underpins the company's stable and continuous growth. Accordingly, the Frontier+ 2008 mid-term management plan incorporates the slogan, "Valuing people and enhancing the competitive strength of individual employees by respecting, utilizing, and cultivating their careers." With the aim of being a highly attractive global enterprise, we proactively support all our employees, regardless of gender, nationality, or age, so that they can realize their full potential.

Basic human resources policy

Our current Human Resource system structure was introduced in fiscal 1999 to make the company more competitive, by having all employees share our values and goals and fully exercise their capabilities.

Even after the introduction of the system, we applied a human resources assessment system to reinforce personnel management capabilities and drew up the Promotion Plan on Human Resource Diversification. In such ways, we emphasize placement of personnel in posts adapted to their aptitude, and the hiring and development of diverse human resources.

While respecting their sense of values and personality, we will continue to actively support challenges by employees through systematic development of diverse human resources regardless of their gender, nationality and age.

Promotion Plan on Human Resource Diversification (January 2004–March 2009)

OBJECTIVES

- Provide maximum support to fully utilize the strengths and abilities of a variety of employees, **regardless of gender, nationality and age**
- Create an **attracting company and corporate atmosphere** through the execution of the plan

Morale survey

As we see it, it is vital to be constantly aware of the views and perspectives of our employees in order to create work environment where they feel working for the company is rewarding, motivating and fulfilling. With this in mind, we regularly conduct a morale survey.

The last survey (conducted in August 2006 with a retrieval rate of 71 percent) revealed that the level of employee satisfaction was high overall. It confirmed the especially high level of satisfaction in our corporate credo and management policy and pride as an ITOCHU employee.

We are going to continue conducting the survey on a regular basis to introduce measures for improvement in order to create better work environment for employees.

Top 3 items of employee satisfaction

- 1 Corporate credo and management policy 88.1%
- 2 Pride as an employee 86.9%
- 3 Understanding and sharing of unit goals 83.5%

Top 3 items of importance

- 1 Work that provides a sense of accomplishment 72.6%
- 2 Job satisfaction and belief in mission 65.2%
- 3 Pride as an employee 63.3%

Communication with employees

Company-Wide Employee Meeting

Since 2001, ITOCHU has been holding Company-Wide Employee Meetings (CWEM) twice a year as a general rule. Based on free participation, the CWEM brings together our top management including the President & CEO and employees for direct dialogue at our Tokyo and Osaka headquarters on designated weekends. At the meeting, the President & CEO and other top management speak directly to employees about their passion and expectation from the workforce. On the other hand, employees can ask about their thoughts directly to the top management. Thus, the meeting serves as a precious opportunity for interactive communication.

The CWEM for the first half of fiscal 2007 was held on May 12 in Tokyo and Osaka, with videoconference system links domestic and overseas offices in Shanghai and Sydney for instance, with participation of about 1,400 employees. At the meeting, opinions were actively exchanged, creating a sense of unity among the workforce.



Diversity Forum

In September 2006, we established the Diversity Forum as a venue for employees to put together specific measures on the issue of human resource diversification. The forum broke into subcommittees on three subjects: career-track women, career development of mid-career workers and administrative positions. The employees engaged in a lively discussion at the subcommittees, which submitted their final reports to the top management in March 2007.

We are aiming at creating an attractive company and corporate atmosphere by gradually reflecting the reports in corporate measures.

Comment from a participant

Tamae Kobayashi
Employee on loan to ITOCHU General Services Inc.



The Diversity Forum made me realize how important the goal of human resource diversification is. I feel that it enabled me to network with a lot of people and gave me an even broader perspective. I strive to make the most of things discussed at the forum at my workplace.

Communication with the labor union

We endeavor to share with ITOCHU Labor Union our management vision to engage in corporate activities with a sense of unity. At the same time, we are creating a work environment that allows every single employee to exercise his/her maximum capabilities.

Meetings with labor union in FY2006

2006						2007	
May	June	July	August	November	December	February	March
Conference on the annual financial statement	Conference on working hours	Conference on human resource diversification	Management conference with the President & CEO	Conference on the quarterly financial results	Food Company management conference	Machinery/Company management conference	Textile Company management conference
							Headquarters management conference with the President & CEO

Comment from the labor union president

Hirohisa Otomi
President
ITOCHU Labor Union



ITOCHU's corporate credo of being "committed to the global good" is what CSR activities are all about and is a sense of value common to both the labor and management. I regard contribution to society not only in Japan but also in the rest of the world as a goal and source of pride for all ITOCHU people.

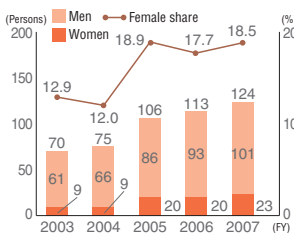
Recruitment of diverse human resources

In accordance with our Promotion Plan on Human Resource Diversification, we are providing maximal support and adopting measures to enable personnel with diversity to exercise their full potential, regardless of gender, nationality, and age.

Gender

Placing importance on creating a work environment where career development by female workers is taken as a matter of course, we are continuing recruitment based on merits, capabilities and aptitude. Also, we are actively striving to increase the number of women in career track positions, which we believe, leads to the expansion of fields that allow female workers to exercise their talents and appointment to executive positions.

Number of newly hired career-track employees



Establishment of numerical targets

Percentage of career-track women: 5.0% by the end of FY2008
 *Corresponding rate as of April 1, 2007: 4.4%
 Percentage of newly hired career-track women: 20%
 → 30.0% (from newly hired employees from FY2008)
 *Corresponding rate in hiring for FY2007 (actual): 18.5%

Nationality

For ITOCHU Corporation aiming to become a highly attractive global enterprise, it is indispensable to promote a borderless pool of human resources hired regardless of nationality. With a goal of placing the right people in the right place on a global scale, we are actively recruiting and cultivating multinational staff at headquarters and overseas locations.

In addition, the newly-established Global Human Resources Center is going to take the critical role at each overseas location. The center is going to reinforce human resources by giving national staff*1 opportunities to work and continuing to hold training for them at headquarters, for instance. Through these efforts, we strive to unite headquarter employees and national staff for further internationalization.



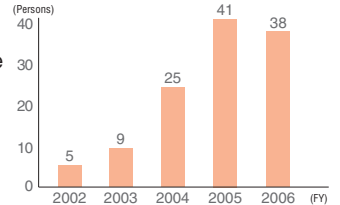
National staff participating in training at headquarters

*1 National staff refers to locally hired staff at overseas offices.

Age

As part of efforts to support human resources with a wealth of knowledge and experience, we are actively recruiting mid-career workers focusing on their career, regardless of age. In addition, we aim to diversify human resources by utilizing the employment extension system that allows employees to decide their own career plan (e.g. selecting an option to work until 65 years old).

Number of mid-career employees hired for career-track jobs



Support for the disabled to participate in society

Hiring of the disabled is one of our major personnel policies. To promote opportunities to work with people who have physical or other disabilities, we established ITOCHU Uneedus Co., Ltd. in 1987 as a special subsidiary based on the Law for Employment Promotion etc. of the Disabled. As of April 2007, the rate of our employees with disabilities to total employees came to 2.2 percent, much higher than the legally stipulated rate (1.8 percent). In 2002, ITOCHU Corporation was awarded by the Minister of Health, Labor and Welfare for actively hiring the disabled. We will continue to provide active support for the disabled to participate in society.



The disabled are working



Corporate brochure of ITOCHU Uneedus, celebrating the 20th anniversary of its founding

Support for diverse career formation

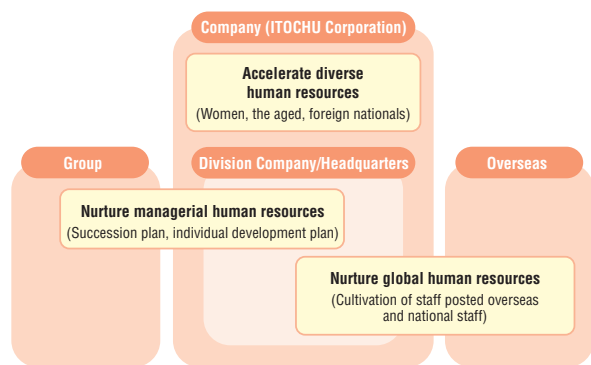
Human resource development

It is human resources that support our continued growth. From a standpoint of consolidated and global management, we are focusing on the development of human resources for management positions and those with global perspective, spending about 1 billion yen annually for training. Furthermore, we are systematically providing training programs for diverse human resources, such as fostering young employees and helping female career-track employees and mid-career workers build their careers.

Human resource development policy and training (excerpt)

HRD framework	Specific program (excerpt)
Nurture managerial human resources	Managers school Dispatch of newly appointed section heads to overseas business schools
Nurture global human resources	Headquarters training for national staff Overseas dispatch of new personnel
Develop diverse human resources	Training for support of career visions Training for mid-career/administrative employees

Human resources strategy with global perspective



Career counseling

Our Career Counseling Center offers career-related consultation services and support for all employees, ranging widely from new hires to managers. Through the career selection workshops on the employment extension system, the center also helps employees select career paths.

Mentor program

Introduced with a view to actively cultivating female executive candidates, since fiscal 2006, the mentor program has expanded to cover mid-career employees, who have been rapidly increasing in number, in order to provide career support for them at an early stage. We have also launched a website to help create a work environment conducive for employees to demonstrate their capabilities, sending out information including advice on career formation.

Providing comfortable working conditions for employees

Flexible programs for childcare and nursing

To create an attractive workplace where employees can strike a good balance between work and home life with peace of mind, we have made programs to assist employee care for children or elderly family members. In addition to reinforcing those programs, we are taking actions for employees to feel comfortable utilizing them. More specifically, we have prepared handbooks not only for employees who are to use such programs, but also for their supervisors to promote better understanding in the workplace.



Chidcare web site

Number of employees to take programs related to childcare in FY2006

Childcare leave 32 Childcare related leave 61

Mental health

We have made arrangements that enable employees to receive professional in-house counseling from psychiatrists or clinical psychologists. Realizing the importance of preventive care against mental health problems, our Health Administration Center is playing an active part, presenting tips for dealing with stress in the corporate magazine.



Information dissemination via corporate magazine

Prevention of harassment

We have established an Employee Relation Center to provide consultation and solve issues on workplace harassment and various worries. We have stipulated a ban on sexual harassment in the company rule, to make employees fully aware of it. At the same time, we are taking preventative measures by conducting education preventing harassment related, for instance, to power and alcohol.

Measures for safety

As a globally active company, to assure the safety of our employees and their families we have established a system for swift communication, in the event of emergencies due to incidents, accidents, natural disasters, terrorism, etc. In addition to the safety confirmation system introduced in fiscal 2006, we have formed a tie-up with an emergency medical service firm in full preparation for such contingencies.

Social Contribution Activities

Viewing issues from a global perspective, we always remain aware of the role to play as a good corporate citizen, see that our activities are at harmony with both local communities and the international community, and contribute to the rise of societies offering a higher quality of life.

Outlook on social contribution

In keeping with our corporate credo of being committed to the global good, social contribution is included in the code of conduct. The mounting demands for CSR from society point to a need for a further reinforcement of our social contribution activities expected of us as a good corporate citizen. Mindful of this need, we held discussions on what activities would utilize our assets and characteristics as well as which field the company should contribute to, and made a partial revision to our basic ideology on social contribution activities in 2006, as shown in the table below. In accordance with this basic ideology, we intend to deepen our social contribution programs.

Basic Activity Guidelines

- 1 As a globally active enterprise, ITOCHU Corporation shall take proactive approaches to humanitarian issues around the world and help to build a better, more humane world.
(Action on global issues)
- 2 ITOCHU Corporation shall vigorously pursue activities of environmental preservation and contribute to sustainable social advancement.
(Environmental preservation)
- 3 As a good corporate citizen, ITOCHU Corporation shall construct favorable relationships, and harmonize its business, with local communities.
(Community contribution)
- 4 ITOCHU Corporation shall conduct activities to support the sound development of youth as tomorrow's leaders and work for the emergence of fulfilling and vibrant communities.
(Growth of the next generation)
- 5 ITOCHU Corporation shall provide positive support for the activities of social contribution by each and every one of its employees.
(Active support for volunteer work by our employees)

1 Action on global issues

The world is facing various social issues. We decided to focus on activities to contribute to hunger and poverty mitigation and emergency assistance upon large-scale disasters.

Food assistance

Chronic hunger afflicts some 850 million people around the world. To mitigate problems of hunger and poverty if only a little, ITOCHU became a council member of the Japan Association for the United Nations World Food Programme, a certified non-profit organization (NPO) that supports the

United Nations World Food Program (WFP), and has been contributing to its activities since 2005. WFP promotes an annual charity walk, "Walk the World," in many parts of the world. Our employees participated in the walk that took place in Yokohama in May 2006 and deepened their awareness of hunger.



At the "Walk the World" opening ceremony

Response to disasters

ITOCHU furnishes emergency relief from a humanitarian perspective in response to large-scale disasters, which frequently occur in various parts of the world. In addition, the company implements a matching donation program, making the same amount of donation as the total collected from our employees. In fiscal 2006, for the people affected by the earthquake in central Java, we provided monetary assistance of 10 million yen and made donations of 1.05 million yen collected from our employees plus the same amount in a matching donation. We also donated 3 million yen to the communities struck by the earthquake on Japan's Noto Peninsula and furnished 2,400 bottles of (Evian) mineral water at the request of the Nippon Keidanren.

2 Environmental preservation

Summertime environmental classes

In 1992, we began holding summertime environmental classes, mainly for elementary school children in Tokyo's Minato Ward, for the purpose of environmental education for youth, coexistence with the community, and promotion of employee volunteer work. Our employees work with volunteer students to assist children to work on their independent research on the environment during the summer vacation. The classes are designed to impress children with the preciousness of nature. In 2006, a total of 75 students took part and studied in the three-day program.

3 Community contribution

Activities of the Kyushu branch: forest preservation

Together with Coca-Cola West Holdings Co., Ltd., we took part in activities of forest preservation in the "Sawayaka Shizen-no-Mori" in Tosu, Saga Prefecture. Besides planting fungus of mushrooms as the starting point of the food chain and placing fungus-planted tree logs in the forest to create a

mushroom area, the participants received a lecture on the forest ecosystem by prefectural officials.



Forest preservation activities

Overseas activities

About 50 volunteers working for ITOCHU International Inc. have continued the Angel Tree Project for more than five years. Through this project, they give Christmas presents to disadvantaged children in New York who otherwise wouldn't receive gifts.

ITOCHU Australia Ltd., to commemorate its 50th anniversary, donated a surf lifesaving boat to the Surf Life Saving Association, a major volunteer organization in Australia.

ITOCHU (China) Holding Co., Ltd. has continued to make donations to support children with disabilities for their living and schooling since 2004.



The Angel Tree Project

4 Growth of the next generation

Support for the ITOCHU Foundation

The ITOCHU Foundation established by ITOCHU Corporation in 1974 promotes the sound development of youth through assistance to the Association of Children's Libraries*, outdoor education programs and operation of a children's house (the Tokyo Center for Elementary and Junior High School Students). In fiscal 2006, the foundation made 100 advance pledges for assistance to Association of Children's Libraries with a total of approximate 24 million yen in support. Meanwhile, about 200 people participated in the outdoor education programs (youth camp), and approximate 16,000 used the center. On May 16, 2007, the accumulated total of visitors to the center amounted to 700,000.

* The foundation provides aid to the Association of Children's Libraries (individual households and community libraries) and other private groups as well as individuals engaged in reading education and guidance for children. From the first year (1975) to the 32nd (2006), it extended a cumulative sum of about 810 million yen in aid to a cumulative total of about 1,150 cases.



Workshop for leaders for youth activities

5 Active support for volunteer work by our employees

Discussion on social contribution

In February 2007, under the topic of promotion of social contribution activities, a discussion was held between the management including Chairman Niwa and employees to talk about wide ranging subjects such as volunteer activities by individuals and ideal social contribution activities by ITOCHU Corporation. One participant made a proposal on the monetary contribution as part of the international aid program, and it was immediately put into practice. With a view to providing medical assistance to Iraq, a total amount of 170,906 yen collected from employees at Tokyo headquarters was donated to JIM-NET, Japan Iraq Medical Network.

Volunteer activities by employees—"Fureai no Network"

A volunteer organization set up by employees of the ITOCHU Group, the "Fureai no Network" engages in activities centered around its four working groups (Nature Watch, Disaster Rescue, Reading Aloud and Volunteer Stamp Collection Activity). In fiscal 2006, the Nature Watch Working Group staged four gatherings in collaboration with a counterpart group in the Hasu Club of Fuji Xerox Co., Ltd. The Disaster Rescue Working Group discussed measures against the issue of difficulties in getting home that employees would face upon an emergency situation and held a disaster rescue drill with the cooperation of the Crisis Management & Preparedness Organization (CMPO).

Since 2002, members of the Reading Aloud Working Group have been making visits to the Pearl Community Center for Seniors (Daikanyama, Shibuya Ward) on the second Saturday of each month, to read books to the delight of the elderly there.

Volunteer Stamp Collection Activity Group sorted out and trimmed used stamps, and then made arrangements, putting a combination of domestic, overseas and commemoration stamps on a mount as one set, before donating them to the Japanese Organization for International Cooperation in Family Planning (JOICFP), for the purpose of improving living standard of people in developing countries and help them stand on their own feet. Stamps before trimming were also contributed to Japan Overseas Christian Medical Cooperative Service to enhance overseas medical care.

Remaining tasks and targets

**Shoichi Suzuki
Manager, Philanthropy Office**

In fiscal 2007, to further fulfill our responsibilities as a good corporate citizen, we are planning to draw up and promote social contribution projects including environmental activities. At the same time, we will increase volunteer activities, in which employees can voluntarily and freely participate while having fun. We hope that the fiscal 2007 will become the year to promote social contributions furthermore at the corporate and individual level.

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

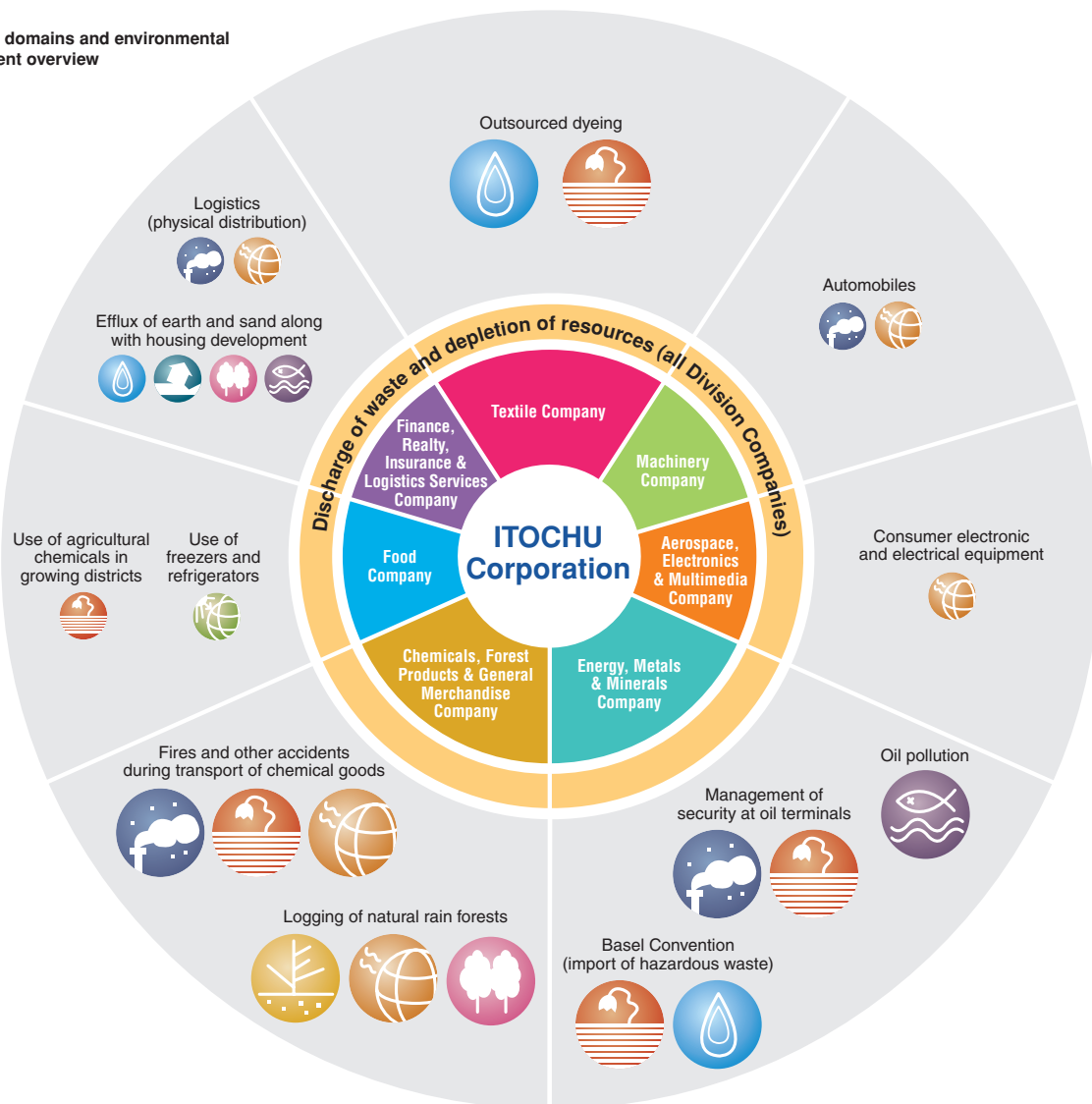
impact which activities by the Division Companies have on the environment.

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

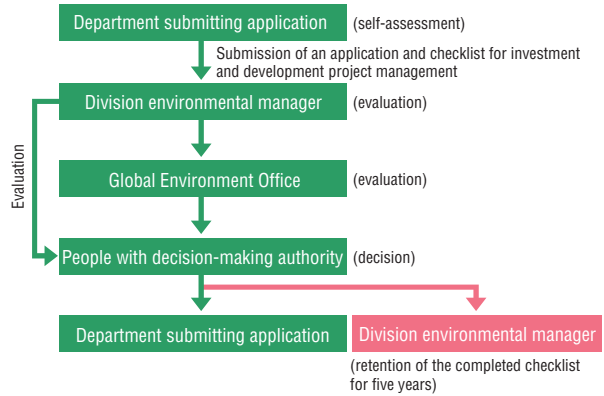
Product/operation flow	Raw materials procurement	Manufacture	Use	Disposal/recycling	Land & sea transportation in the entire process	
ITOCHU's equity participation						
ITOCHU's ownership rights to cargo						
Environmental aspects	Use of heavy machinery	Use of cardboard			Use of trucks	
Environmental 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

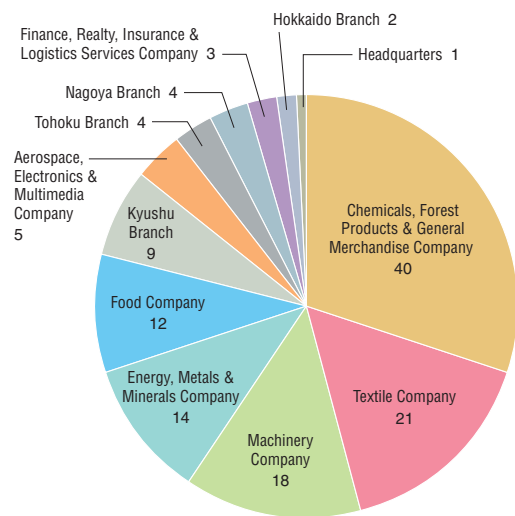
Doing business on a global scale, ITOCHU is vigorously developing all types of environment-preserving business towards its goals of conserving the environment and alleviating impact.

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

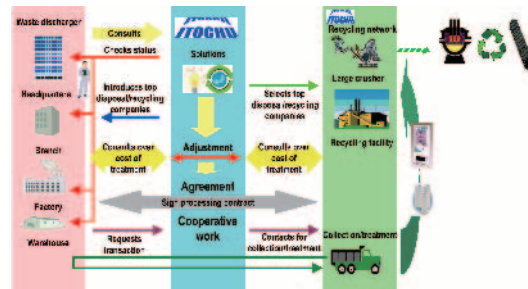
For the purpose of helping to build a recycling-oriented society, ITOCHU is taking initiatives including iron scrap recycling.

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 mascots 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

Third-party Opinion



Prof. Yoshinao Kozuma

Faculty of Economics
Sophia University

There are two key aspects to assessment of CSR reports: the propriety of CSR initiatives themselves and the quality of disclosure in the

report. Viewed from these perspectives, I believe the ITOCHU Corporation's CSR Report has several notable features, as follows.

To begin with initiatives to CSR themselves, I think the President's commitment conveys ITOCHU Corporation's strong determination to deal with CSR as a major management task. In his commitment, President Kobayashi delivers a simple admonition of avoiding wrongdoing and falsehood to ITOCHU employees as businesspeople in pursuit of fulfilling the corporate credo of being "Committed to the global good." These days, when reports of product mislabeling and other unethical corporate acts are a virtually daily occurrence, his straightforward comments struck me as words I could really trust.

I was also favorably impressed by the inclusion of responses by members of the top management in the abstract from the stakeholder dialogue. In Japan, companies often stage dialogues with stakeholders but fail to put the results into practice. I take the management responses to this dialogue as a form of commitment that plays the key role of guaranteeing reflection of the results on their action.

At ITOCHU, CSR is distinguished by efforts to build a sustainable society through its core businesses. In line with this policy, CSR is built into the management plans, and specific action plans on CSR are formulated by each Division Company. ITOCHU also held the conference on the corporate credo to discuss issues between labor and management, and probes ways to permeate and embody the credo in the organization. The existence of such a definite policy, deep involvement by the top management, and awareness sharing by all in the organization are each

indispensable elements for CSR endeavors. They all lend credence to the President's assertion that CSR is a key management priority.

In the disclosure aspect, I was impressed with the care taken in preparation of the report. In recent years, the focus of reports on corporate responsibility has rapidly been shifting from the environment to CSR. In the process, companies tend to focus on creating a good image by publishing CSR reports, and this is resulting in a deterioration of the information disclosed. ITOCHU's report, in contrast, paints a both detailed and systematic picture of its overall CSR activities. As such, it must be termed a high-quality work as a CSR report.

Nevertheless, the report also has some shortcomings that must be pointed out. I think the most important thing has to do with the efficacy of the initiatives. CSR fulfillment requires organized action. Good results cannot be expected unless activities are controlled companywide by the strong leadership at the top.

In ITOCHU's case, however, it is the Division Companies that take a lead in CSR activities, as they do for business operations. Apart from companywide, interdivisional measures, the autonomy of these Division Companies appears to be high. It is not entirely clear from the report why the agenda noted in the statement of commitment by the president of each Division Company were taken up in the context of the corporate-wide CSR policy. Ordinarily, to address the broad spectrum of CSR issues with limited business resources, a company must identify the most important issues and take priority initiatives for them. The action plans of the Division Companies do not manifest this kind of logical process, and seem to have a weak connection with the policy held by the top management. In future efforts, I am looking forward to improvement in this respect.

CSR Report 2007 editing task force member

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Machinery Company
Aerospace, Electronics & Multimedia Company
Energy, Metals & Minerals Company
Chemicals, Forest Products & General Merchandise Company
Food Company
Finance, Realty, Insurance & Logistics Services Company
Corporate Planning & Administration Division
Affiliate Administration Division
Corporate Communications Division

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Yasujiro Motegi
Yoriko Ota
Masaki Nakamura
Akemi Sakuramoto
Hiroko Nakayama



The cover of this report features the weave pattern of hemp cloth, the roots of ITOCHU Corporation's business. Almost 150 years have passed since our founder, Chubei Ito, went into business selling hemp cloth made in the feudal province of Omi (present-day Shiga Prefecture). ITOCHU Corporation is committed to continuously taking up new challenges while staying true to our origins in Chubei's business.

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