

# 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.

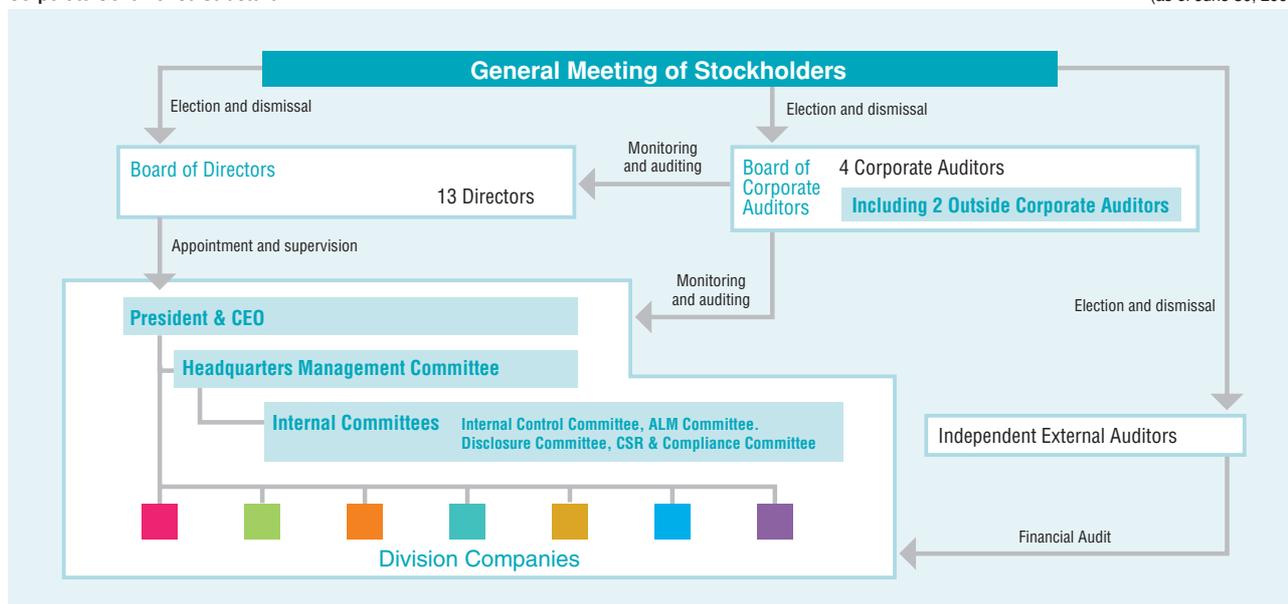
In fiscal 2006, we launched the ITOCHU Designing New Age (DNA) Project, a business process re-engineering project aimed at improving the effectiveness and efficiency of our management. In fiscal 2007, we newly established the Internal Control Committee to regularly assess the state of internal control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