



# Corporate Governance and Internal Control/Compliance

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

## Corporate governance

ITOCHU Corporation has a Board of Corporate Auditors. To make sure that our corporate auditors conduct adequate audits, we developed an organization that enables corporate auditors to collect information inside the company, for example, by attending important internal meetings or through the collaboration with the Audit Division and the Independent External Auditor. In addition, a Corporate Auditors Office consisting of specialized staff is supporting the auditing work.

Our executive organization has adapted a Division Company system where seven Division Companies divide their business areas for autonomous management catering to the needs of the market and customers under the overall management of the Headquarters.

Further, we have established the Headquarters Management Committee as a body that assists the president by deliberating corporate-wide manage-

ment policy and important issues. Also, ITOCHU Corporation has a variety of internal committees that help the decision-making of the president and the Board of Directors by carefully investigating and deliberating management issues within their areas of responsibility.

## Internal control

ITOCHU Corporation operates effective internal control through the Disclosure Committee, the DNA Project Committee, the ALM Committee, and the Compliance Committee, which are respectively tasked with 1) reliability of financial reporting, 2) effectiveness and efficiency of business operations, 3) safeguarding of assets, and 4) compliance with applicable laws and regulations. Further, the Internal Control Committee deliberates corporate-wide internal control issues and remedial measures and is responsible for overall internal control.

## Response to the system for internal control reports

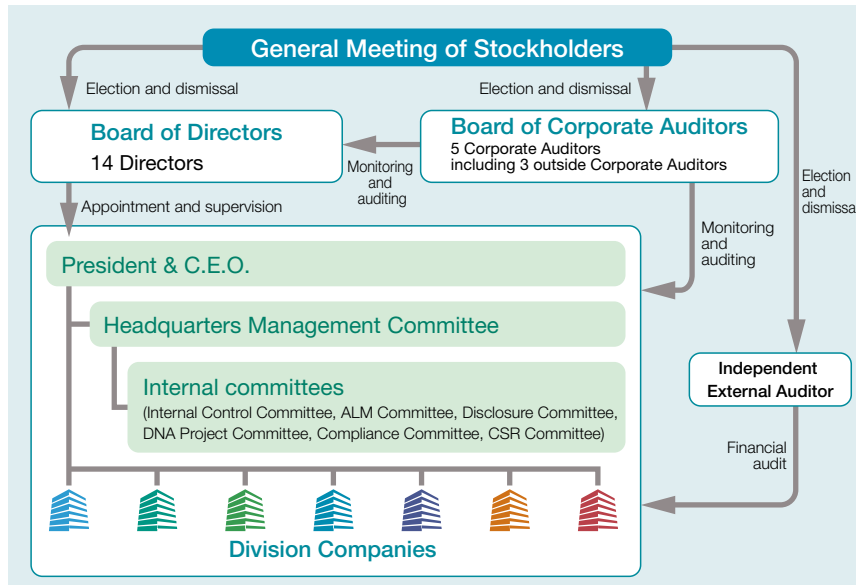
To improve the reliability of its consolidated financial reports even more, ITOCHU Corporation built an internal control environment for the major ITOCHU group companies inside and outside of Japan with a "Disclosure Committee" as the steering committee.

We further established an Internal Control Audit Section as an independent organization to assess internal control, building a system for evaluating whether the internal control system is appropriately developed and operated.

Subject to the evaluation are 1) corporate-wide internal control (thorough information of the management philosophy, appropriate development and operation, etc. of internal rules), 2) internal control in business processes, and 3) IT-related control (management of the development, maintenance and operation of information systems ensuring the effective functioning of business processes, securing of safety, management of contracts with external parties, etc.). The evaluations check whether these controls are effectively functioning, and the results of the internal control evaluation are reported to the management.

Corporate governance and internal control systems

As of June 30, 2009

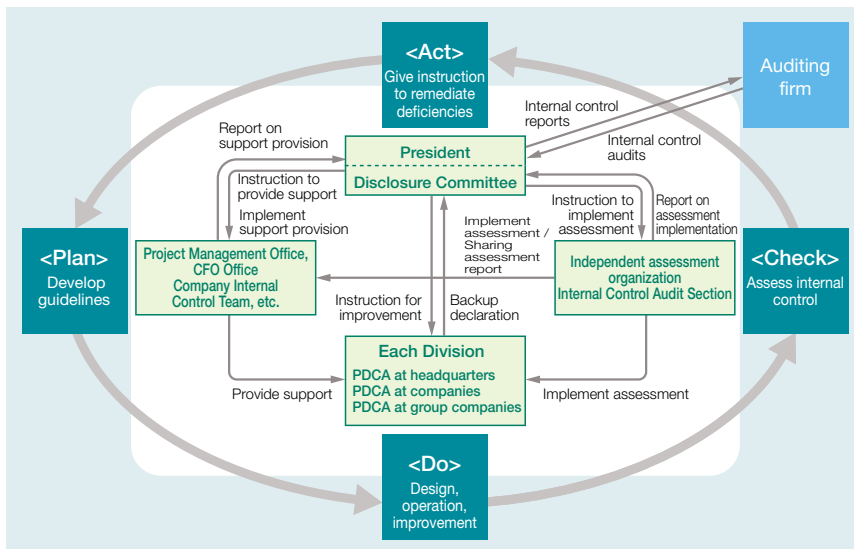


## Submission of internal control report

With the development of an internal control environment, the management assessed that the internal control system at the ITOCHU Group was effective, created an internal control report for fiscal 2008, which is the first fiscal year of our report system concerning internal control, and submitted the report to the Kanto Local Finance Bureau after obtaining a clean opinion from a corporate auditor.

We believe that in the future, it will be necessary to take the internal control system from the development and construction phase into the actual work of each single employee of our group, as a basic operation and with a natural stance. We will continue to work on strengthening our internal control system even more.

PDCA cycle of internal control



### Business process reengineering project involving all employees

ITOCHU Corporation is promoting a corporate-wide business process reengineering project called "ITOCHU DNA Project – Designing New Age." The project focuses on strengthening the capabilities of each organization and employee, in other words, the "on-site capabilities," and on the viewpoint of optimization on a corporate-wide basis.

Also considering the response to the internal control system, we visualized all current business processes and established corporate-wide standard operations that will lead to more efficient operations and better quality. In the future, we will gradually make the transition towards a phase of building an organization that fits the standardized business processes and building systems that support these processes.

The corporate-wide business process reengineering project will help to win credit and trust from all stakeholders in our business operations, and contribute to a good working environment where all employees – who are the main actors – feel affluence through their work.

## Compliance

### Measures to reinforce management in response to an incident occurred in fiscal 2008

In fiscal 2008, delays in a part of the collection of receivables related to

off-shore trading of heavy machinery and material for Mongolia occurred. Investigations of the content of the trading at this occasion revealed that financial support dealings that do not bring about physical distribution were included in dealings that were processed as sales. As measures to prevent reoccurrence, our Board of Directors decided, among others, to 1) reinforce control of dealings, 2) thoroughly implement the rotation of personnel, and 3) conduct thorough education on compliance, and executed these measures.

### Organization for promotion in the group

The ITOCHU Group has compliance officers in each organization within Headquarters and at all group companies in Japan and overseas. These compliance officers are strengthening compliance by creating systems, conducting education and training, responding to individual cases, and any other necessary measures based on directives and support from Headquarters and respective Division Companies as well as consideration of local laws and businesses' characteristics and operational formats. In addition, we conduct simultaneous companywide Monitor & Review surveys every six months. While checking the progress in implementing compliance measures at all organizations in ITOCHU Group through these surveys and various other methods, the ITOCHU Group is making a concerted effort to enhance and upgrade its compliance advancement systems.

### Education and training

We are focusing to foster an awareness of the need for rigorous compliance in each employee and to conduct employee education and training about pertinent laws and statutory regulations as one of the critical and essential matters for compliance advancement.

In fiscal 2009, ITOCHU conducted education and training covering a wide range of topics and purposes. We held in-house seminars about laws, statutory regulations, and internal systems that employees must know about when conducting business. Also, we provided training about employees' roles in compliance advancement tailored to different positions and kinds of work, such as department managers, section managers, and clerical employees. We also urged employees in frontline operations to recheck that they were strictly following basic operational steps.

### Global security risk management

To help prevent the proliferation of weapons of mass destruction and conventional weapons, Japan maintains strict trade-security measures under the Foreign Exchange and Foreign Trade Act. In this connection, we have implemented an internal trade-security control program. Moreover, to ensure that we comply meticulously with existing government laws and regulations, ITOCHU has established internal procedures to safeguard our stakeholders' and corporate reputation with respect to business transactions with countries of concern.

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.

As a responsible member of society and the global business community, ITOCHU recognizes the need to carefully manage the potential risks associated with business operations in certain locations. Accordingly, ITOCHU has implemented a comprehensive global security risk management program that involves the performance of rigorous, security-minded due diligence with respect to projects and transactions in which international security concerns could be present.