

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 in accordance with our fundamental policy, 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 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 and 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. In order to enhance management responsibilities of our directors, in the fiscal year ended March 2006 we abolished the directors' retirement and severance allowances in favor of a unified compensation scheme, which is determined on an annual basis to reflect the business performance of our company. Beginning with the fiscal year ending March 2007, the director tenure is to be reduced to one year.

Internal control

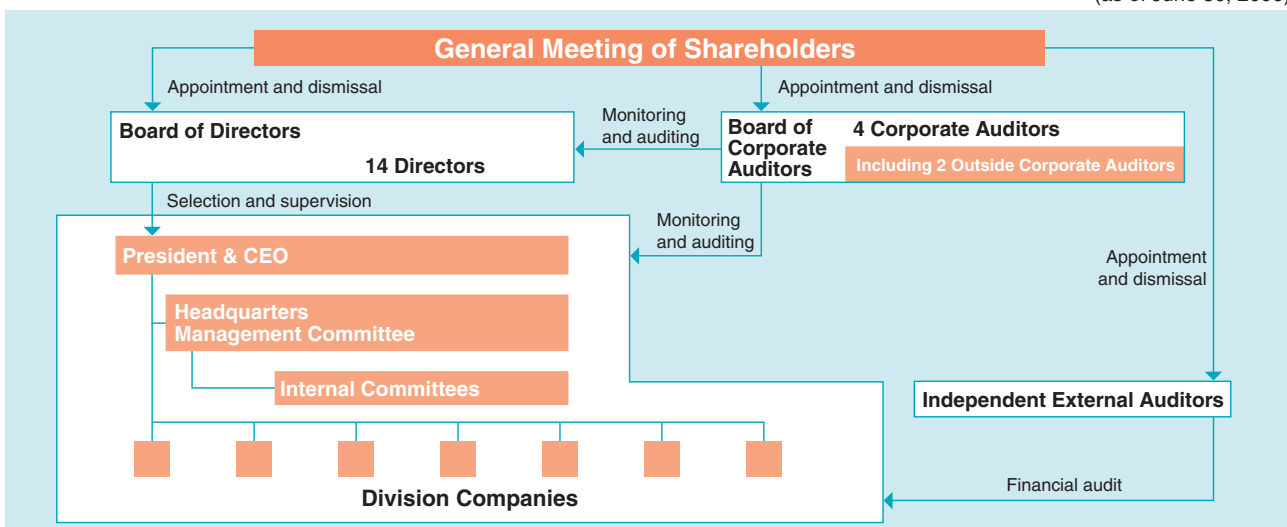
The general objectives of internal control are three-fold: 1) to achieve full compliance with laws and regulations, 2) to ensure accuracy, truthfulness and reliability of financial reporting, and 3) to improve effectiveness and efficiency of management. With regard to the first objective, compliance with laws and regulations has always been and will continue to be an integral part of our continued endeavor to enhance the compliance system, as described on the following page. With respect to the second objective, we are developing internal regulations that incorporate appropriate control functions into the actual business process and are undertaking various internal control projects in order to ensure the accuracy, truthfulness and reliability of our financial reporting. Finally, with respect to the third objective, we have launched the "ITOCHU Designing New Age (DNA) Project" as of the fiscal year ending March 2007, a business process re-engineering project aimed at improving the effectiveness and efficiency of our management.

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, and developing reporting and monitoring systems, and managing company-wide as well as matter-specific risks. Furthermore, we regularly review the effectiveness of the risk management system and are working to develop ever more sophisticated risk management techniques. In the fiscal year ended March 2006, we formulated the Business Continuity Plan to prepare ourselves in the event of a major disaster. The Business Continuity Plan will continue to be improved and updated.

Corporate Governance Structure

(as of June 30, 2006)



Compliance

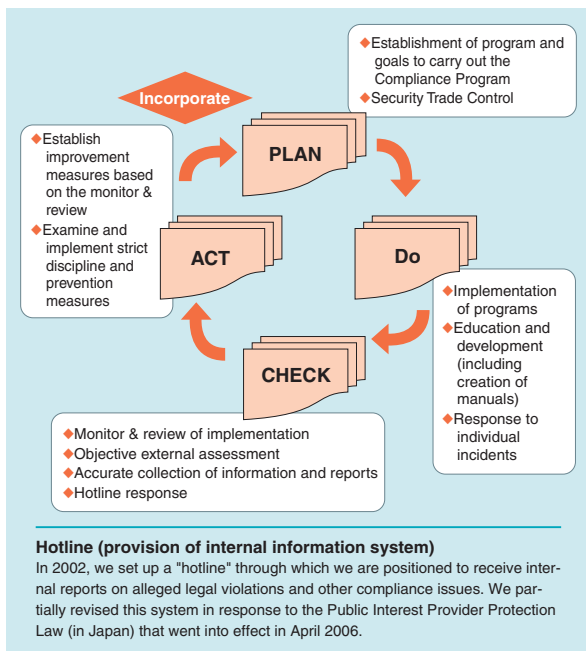
To do “*kyosei*” (living and working together for the common good) as a good corporate citizen, ITOCHU Corporation must as a minimum prerequisite strictly comply with laws and regulations.

ITOCHU Corporation positions compliance as the very foundation of CSR.

Continuous improvement through the PDCA cycle

To implement compliance, each organization within the ITOCHU Group has formulated a “Compliance Program” as one of its action plans. Based on these programs, we are pursuing a continuous improvement of compliance by engaging our business activities in accordance with the PDCA cycle.

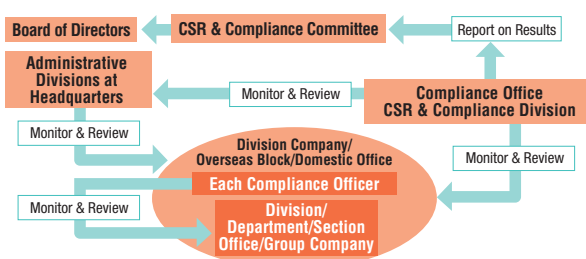
PDCA Cycle



Check of activities through monitor and review

As one of the mechanisms for the check portion of the PCDA cycle, we have established a system to monitor the status of the creation and improvement of various programs, and compliance manuals and the implementation of education and training programs by each organization within the ITOCHU Group, and then, to review the results for improvement. More specifically, we semi-annually dispatch and collect questionnaires directed to our Division Companies, administrative divisions at headquarters, domestic and overseas branches and offices, and group companies to obtain their responses on this subject. Moreover, the questionnaires are sent by each of those organizations to front-line personnel within the unit, and we report on the findings to the top management.

Mechanism of Monitor & Review



Results of questionnaires on monitor and review (excerpt)

Questionnaire items	Results				
	03/2004	09/2004	03/2005	09/2005	03/2006
1. Percentage of our group companies that have formulated a Compliance Program	82%	83%	94%	97%	99%
2. Percentage of our overseas offices that have formulated a Compliance Program	69%	71%	87%	99%	99%

Compliance education and training

We have classified laws and regulations into two categories: "company-wide laws" (laws and regulations that commonly apply to all types of business) and "industry-specific laws" (laws and regulations that apply to specific types of goods and services handled). A list of applicable laws as well as compliance manuals are prepared by each administrative divisions at headquarters for the former, and the respective units of the Division Companies for the latter.

Task for the future: enhancing compliance by overseas offices and group companies

One of the priorities for the fiscal year ending March 2007 is to enhance compliance outside of Japan. In the fiscal year ended March 2006, we provided compliance consulting services to about 200 group companies in Japan, and we plan to offer the same kind of services to our offices and group companies outside of Japan. This will enable us to raise the level of compliance in the ITOCHU Group even higher.

Security Trade Control

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

CSR Management

While each Division Company practices CSR in its own business in a manner adapted to its domain, the administrative divisions at headquarters* take the lead in formulating and executing action plans for corporate-wide CSR issues.

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

CSR promotion structure

ITOCHU Corporation has long practiced CSR in its business activities. In April 2005, we established a CSR Promotion Office in order to promote CSR activities in a more organized and systematic manner. In addition, the CSR Compliance Committee discusses and deliberates on basic policies and measures related to CSR. These arrangements constitute a better structure for ITOCHU Corporation to more vigorously pursue CSR activities.

Action plans in the management aspect

CSR initiatives at the headquarters

ITOCHU Corporation has many CSR tasks to be addressed. We intend to pursue CSR activities mainly by having each Division Company take the CSR initiative in its own domain and industry (see pages 9–22). At the same time, we consider it important to regularly review the progress of CSR promotion, identify corporate-wide CSR issues to be addressed and reinforced, and tackle the issues under headquarters' leadership. In keeping with this outlook, we plan to take action on the issues described in the chart to the right in the fiscal year ending March 2007.

Internal penetration of CSR awareness

One of the three basic policies in the CSR promotion activities during "Frontier-2006," our mid-term management plan, is to promote CSR education and enlightenment. We are working toward internal penetration of CSR awareness, so that each employee has a firm understanding of CSR and actually puts it into practice in the performance of his or her daily duties and business activities.

More specifically, we are implementing CSR training for various in-house layers and publishing CSR features in *ITOCHU MONTHLY* (the corporate magazine). We also held a stakeholder dialogue on May 24, 2006 with the attendance of employees, and the video image of the dialogue's digest version was later available for all employees via our intranet. Through such information and publicity about CSR, we hope to engender a corporate culture that facilitates employees' initiative in thinking about CSR on their own. Furthermore, we have positioned this CSR Report as one of the tools for such penetration, and plan to organize sessions to "read the CSR Report" and encourage lively discussion on the subject in each organizational unit.

CSR action plans led by the administrative divisions at headquarters

	CSR issues/tasks	Assigned unit
CSR management	Ascertaining the current status in the CSR aspect	CSR & Compliance Division
	Corporate-wide education and enlightenment about CSR	CSR & Compliance Division
	Examination of investment projects from the CSR perspective	CSR & Compliance Division, and Affiliate Administration & Risk Management Division
Utilizing diverse human resources	Recruiting and developing diverse human resources	Human Resources Division
	Preparing workplace environments conducive to work	
	Strengthening communication with employees -Reflecting employee needs in management	Corporate Planning & Administration Division, and Human Resources Division
Accountability	Increasing accountability -Preparing systems for information disclosure	Corporate Planning & Administration Division, Investor Relations Department, CFO Office
Crisis management	Formulating and refining the Business Continuity Plans (BCP)	Corporate Planning & Administration Division, Human Resources Division, General Affairs Division, and IT Planning Division
	Identifying and hedging risks in each region/country Formulating emergency response plans Assuring the safety of national staff and Japanese expatriate staff	International Operations Division, and Human Resources Division
Information security	Managing information security	IT Planning Division
	Reinforcing client and customer information management	IT Planning Division, Corporate Planning & Administration Division, and Legal Division

Medium-term action plans	Action plans for April 2006–March 2007
Gaining an understanding of the status of approaches to CSR problems in the order of overseas offices, group companies, and supply chain components	<ol style="list-style-type: none"> 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 cooperation with the International Operations Division) 3. Initiating actions to ascertain approaches to CSR problems at group companies
Promoting corporate-wide CSR education so that each and every employee understands the CSR concept, acquires a CSR mindset, and puts CSR into practice in daily duties and business activities Implementing CSR-related education and enlightenment activities at group companies with as far a reach as possible	Education <ol style="list-style-type: none"> 1. Providing CSR training in various in-house training programs 2. Heightening CSR awareness through e-learning and in-house videos 3. Organizing trial sessions to "read the CSR Report"
More closely examining investment projects from the CSR perspective	<ol style="list-style-type: none"> 1. Identifying projects to be examined from the CSR perspective 2. Preparing CSR checklists
Recruiting and developing diverse human resources, regardless of nationality, sex, and age	Steady implementation of plans for human resource diversification
Increasing the use of employee support systems to strike a balance between work and family (e.g., child-raising, nursing, volunteer activities) <ol style="list-style-type: none"> 1. Promoting an understanding by managers 2. Increasing awareness of employee support systems 	<ol style="list-style-type: none"> 1. Reinforcing publicity through the intranet 2. Conducting training for managers
Gaining an understanding of employees' working conditions, and preventing overwork <ol style="list-style-type: none"> 1. Preventing unpaid overtime in cooperation with the labor union, and periodically reviewing the status of observance of Article 36 of the Labor Standards Law 2. Promoting understanding by managers 	<ol style="list-style-type: none"> 1. Implementing periodic reviews with the labor union 2. Conducting training for managers
Holding Company-Wide Employee Meeting and management conferences with labor unions	Holding Company-Wide Employee Meeting and management conferences with labor unions
<ol style="list-style-type: none"> 1. Reinforcing systems for IR 2. Creating systems for internal control 	<ol style="list-style-type: none"> 1. Continuously reviewing and improving systems for information disclosure 2. Continuously preparing systems for internal control
<ol style="list-style-type: none"> 1. Formulating concrete BCPs of each business unit requiring emergency response 2. Installing emergency communication and safety confirmation systems 3. Holding preliminary drills 4. Continuously reviewing BCPs 	<ol style="list-style-type: none"> 1. Holding preliminary drills 2. Continuously reviewing BCPs
<ol style="list-style-type: none"> 1. Continuously updating and identifying risks in each block/country (in cooperation with the Affiliate Administration and Risk Management Division) 2. Compiling and providing overseas information 3. Coordinating with the "Crisis Management Meeting," and providing information 	<ol style="list-style-type: none"> 1. Gaining an understanding of political and social developments in each country 2. Identifying risks in each block/country
Establishing the PDCA cycle, and continuously improving information security at ITOCHU Corporation	Reviewing the status of compliance with information management rules at the headquarters, IT architecture, etc.
Implementing measures for group companies	Reviewing the status of preparation of information management rules and compliance with minimum standards at group companies
Further reinforcing technical security measures	<ol style="list-style-type: none"> 1. Completing PC encryption procedures 2. Continuously recommending and endorsing technical measures for group companies
Implementing Service Level Management (SLM)	Applying Service Level Agreements to our Division Company system
Implementing system audits	Continuously implementing system audits
Implementing security education and tightening measures to protect personal information	<ol style="list-style-type: none"> 1. Continuously implementing security education for employees through e-learning 2. Incorporating security education into training for managers
Continuously complying with and increasing awareness about the Personal Information Protection Law, and implementing monitoring and reviews once a year	Implementing monitoring and reviews concerning compliance with the Personal Information Protection Law