

Corporate Governance and Corporate Social Responsibility (CSR)

Corporate Governance

ITOCHU proactively works to reinforce corporate governance, recognizing it as one of the most important issues for management. Our basic policy is to establish a highly transparent management system that benefits stakeholders, including stockholders, through the following approaches:

- (1) Enhancing transparency in decision-making processes;
- (2) Strengthening corporate information disclosure and management accountability;
- (3) Thoroughly managing risk, which includes compliance with laws and regulations;
- (4) Maintaining business ethics through the strict application of rewards and punishments.

Enhancing Management Transparency

To establish a more efficient and transparent management system, ITOCHU has moved forward with the streamlining of the Board of Directors. Specifically, we reduced the number of Board members from 45 as of fiscal year 1999 to 12 as of the end of June 2004. Also, we introduced the executive officer position from fiscal year 2000 and the managing executive officer position from fiscal year 2002. At the end of June 2004, we had 34 executive and managing executive officers. The streamlining of the Board of Directors has not only speeded up decision-making but also helped directors fulfill their essential roles of making corporate decisions and supervising operations, which allows executive officers to devote themselves to the execution of their own duties.

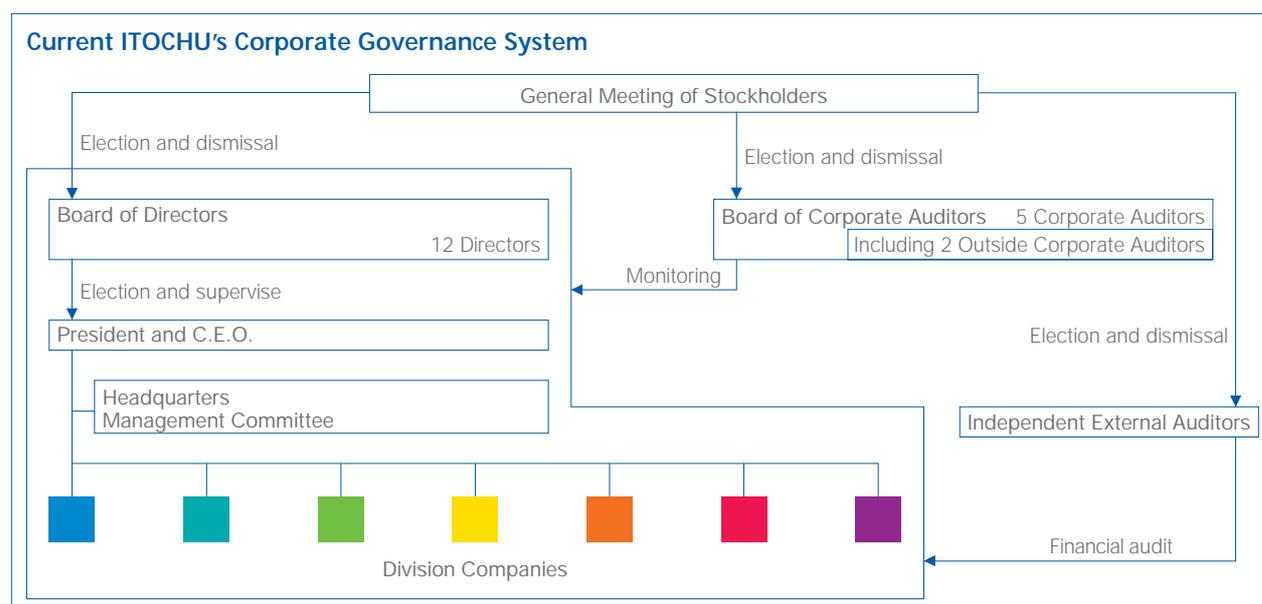
We have introduced a new compensation system for directors and executive officers, following revisions to the system in fiscal years 2002 and 2003. By evaluating how well directors and executive officers have fulfilled their required functions, it is more closely tied to business performance.

In fiscal year 2001, we established an Advisory Board composed of outside experts from various fields. Its independence allows us to obtain useful opinions on management from an objective point of view.

From April 2003, following a revision to the Commercial Code companies have the option of adopting a Company with Committees System. For the time being, however, we have decided to continue to reinforce our existing corporate governance system, which is predicated on management supervision by the Board of Corporate Auditors, an organization that is independent of the Board of Directors, because we believe it is well suited to ensuring adequate independent monitoring.

The Headquarters Management Committee and Other Internal Committees

Established as a support body to the President, the Headquarters Management Committee (HMC) discusses general management policy and important issues relating to management. We have also created other internal committees that assist the decision-making of the President and Board of Directors through the careful





Haruo Sakaguchi
Corporate Auditor

Nobuyoshi Umeno
Standing Corporate Auditor

Tsutomu Miyakushi
Standing Corporate Auditor

Masahiro Asano
Standing Corporate Auditor

Katsuhiko Kondo
Corporate Auditor

Role of the Board of Corporate Auditors

ITOCHU's Board of Corporate Auditors is comprised of five auditors (two of whom are outside corporate auditors) who are appointed by the general stockholders' meeting and are independent of the Board of Directors. The Board of Corporate Auditors contributes to ITOCHU's healthy growth by monitoring the Company's management and Board of Directors on behalf of the stockholders. Its principal roles are as follows:

- (1) Reviews performance of independent external auditors and auditing details;
- (2) Supervises consolidated group companies' internal controls, risk management, and governance;
- (3) Monitors executive decisions of the President and other officers.

To carry out these roles, the auditors regularly attend Board meetings to express their views, although they do not have the right to vote. In addition, standing corporate auditors supervise management by attending important internal meetings and regularly meeting with top managers. They also work to ensure close ties between the independent external auditors and the internal audit division, and cooperate with auditors at consolidated group companies by regularly meeting with group companies, including the Group Audit Committee (GAC), which is made up of auditors from the principal group companies. Substantial attention is paid in selecting the outside corporate auditors to ensure their independence.

examination and discussion of management issues in their particular areas. (Please see the table on page 42.)

Division Company System

Under the Division Company System that we have had in place since fiscal year 1998, seven companies—Textile; Machinery; Aerospace, Electronics & Multimedia; Energy, Metals & Minerals; Chemicals, Forest Products & General Merchandise; Food; and Finance, Realty, Insurance & Logistics Services—bear full responsibility for managing each of their business areas with an autonomy comparable to that of an independent company. Decision-making in each of these Division Companies rests with its president, who, with support from the Division Company Management Committee, promptly deals with the needs of markets and clients. At the same time, the

Headquarters specializes in the planning of business strategy for ITOCHU as a whole and overall management. It also maintains control over the Division Companies by setting covenants (total assets, interest-bearing debts, risk assets, etc.) and exercising its authority with regard to particularly important issues. With autonomous management by Division Companies on the one hand and business strategy planning for ITOCHU as a whole and overall management by Headquarters on the other, we have built a well-balanced and efficient management system.

Reinforcing Disclosure and Accountability

Amid the growing importance of disclosure, we are fulfilling our accountability to stakeholders and actively engaging top and senior management in IR activities with a view to enhancing transparency. ITOCHU began releasing

results on a quarterly basis in the fiscal year ended March 2001, ahead of other general trading companies, and we further enhanced the contents of information on timely disclosure for the fiscal year ended March 2004. We are also enhancing the IR pages of our Corporate web site to ensure that our disclosure materials are easy both to obtain and to understand. Going forward, we will continue to ensure that our disclosure meets the needs of our increasingly diverse group of stakeholders.

Risk Management and the Internal Control System

We have in place a system for ensuring the proper execution of business (Internal Control System) by clarifying the authority and responsibilities associated with individual job positions and by incorporating appropriate reciprocal control functions in the work process. We are fully aware, however, of the need to constantly review the Internal Control System in order to improve and reinforce it. The Internal Audit Division, which reports directly to the President and the CEO, monitors the execution of business in all divisions, helping us to confirm that the Internal Control System is functioning effectively and to locate areas where improvement is needed.

Principal Internal Committees

Name	Objectives
Super A&P Strategic Investment Committee	Examines prospective strategic investments in the mid-term management plan (Chairman: Executive Vice President Kato; meets once a month)
ALM* Committee	Administers comprehensive balance sheets and risk management, and makes proposals regarding monitoring systems and improvement measures for management (Chairman: Executive Vice President Fujita; meets twice a month)
FV* Committee (created in FY 2005) (For details, see "Chief Operating Officer, Division Companies Operation" on page 38.)	Pursues synergies by leveraging the Company's comprehensive functions and strengths; supports and promotes project involvement by the whole Company. Reinforcement of innovative technologies, consumer and retail related, and IT/FT/LT followed by task force (Executive Vice President Kato; meets once every two months)
CIO* Committee	Examines and promotes policies for the Group's information strategy (Chairman: Executive Vice President Fujita; meets once a month)
Group Profits Improvement Committee	Analyzes subsidiaries' cost and earnings structures to build a consolidated cost structure appropriate to the level of profits; studies ways to improve profit structures and conducts follow-ups to track improvements (Chairman: Managing Executive Officer Nishiyama; meets once a month)
Business Ethics and Compliance Committee (For details, see "Corporate Ethics and Compliance" on page 44.)	Sets program policies for a thorough understanding of the Company's management principles and corporate code of conduct, and comprehensively manages their enforcement; discusses concrete measures for implementing these programs (Chairman: Executive Vice President Fujita; Vice Chairman: Executive Officer Maeda; meets once every two months)

*ALM = Asset Liability Management *FV = Function & Value *CIO = Chief Information Officer

Enhancing our Dialog with Stockholders — Informal Stockholders' Gatherings

In order to provide our stockholders with a fuller understanding of our business operation and management, in 1999 we began—in the first such effort by a general trading company—to hold an informal stockholders' gathering after our annual general meeting of stockholders. In addition to allowing us to present developments at our Division Companies and the achievements of our management plan with the President and all of our Directors in attendance, these gatherings offer a relaxed atmosphere for a lively exchange of views between our stockholders and the management of ITOCHU. We plan to continue holding these informal stockholders' gatherings in order to further enhance business transparency.

ITOCHU's Concept of Corporate Social Responsibility

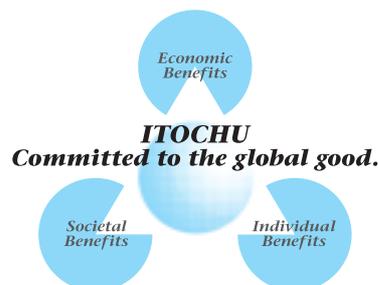
ITOCHU believes that corporate social responsibility is the building of a structure that enables a stakeholder to evaluate a corporation on the basis of that corporation's explicit statements and disclosure regarding how it bears the responsibility of dealing with the demands that various stakeholders place on that corporation. To that end, ITOCHU has established and made public "The ITOCHU Credo" and "The ITOCHU Way," to serve as a standard of judgment and conduct for its employees in their fulfillment of the social responsibilities that are expected of ITOCHU as a corporation.

ITOCHU considers social responsibility to be a transformation of the "returns" it pursues as a corporation from "profits," whose significance is quantitative and economic, into "benefits," whose significance includes qualitative and spiritual elements. Through this transformation, ITOCHU believes that it can achieve in a well-balanced manner three benefits—not only the "economic" but also the "social" and "individual"—and that this approach results in the sharing of "wealth" with a variety of stakeholders.

In addition, we have established the "ITOCHU Corporation Code of Conduct" as a concrete formulation of "The ITOCHU Credo" and "The ITOCHU Way" and are making every effort to ensure that our employees understand it thoroughly and observe it strictly.

ITOCHU's Credo and Way

The ITOCHU Credo



The ITOCHU Way

*Yes, we can.
Fight fair.
Open minded.*

ITOCHU Corporation Code of Conduct

1) Observance of Laws and Regulations

ITOCHU respects the laws and regulations of the countries where it does business and international rules, and will pursue the highest standards of ethical behavior in its dealings with customers, suppliers, employees, shareholders, and other stakeholders.

2) Supply of Quality Products and Services

ITOCHU is concerned with product safety and the conservation of the environment, energy, and natural resources, and maintains a keen interest in the supply of safe, quality products. ITOCHU will carefully consider the social utility of products and services it supplies.

3) Management with a Long-Term Vision

ITOCHU will not pursue short-term interests at the expense of its reputation for integrity, and will conduct its business with a long-term vision.

4) Fair Dealing

ITOCHU recognizes that free and fair competition is a fundamental principle of the market economy and will engage in free and fair competition. In addition, ITOCHU will main-

tain a fair, sound, and open relationship with government agencies and political bodies.

5) Disclosure

ITOCHU values communication with its shareholders, other stakeholders, and the public at large, and will fulfill its duty to make full, fair, and timely disclosure of corporate information.

6) The Environment

ITOCHU will remain vigilant in addressing today's critical environmental issues.

7) Good Corporate Citizen

ITOCHU will seek harmony between the pursuit of profit and contribution to society, and will actively fulfill its role as a good corporate citizen.

8) Working Conditions

ITOCHU will promote good working conditions for its employees, respect the dignity and personality of employees, and foster an open culture where ideas can be freely expressed and creativity can be fully developed.

9) Policy Against Antisocial Organizations

ITOCHU will stand firmly against forces or organizations that threaten the order and security of the public.

10) Globalization

ITOCHU, as a globally integrated corporation, will respect the cultures and customs of all countries in which it operates, and conduct its overseas activities in a way that contributes to development in all such locales.

11) Compliance

ITOCHU intends that all directors, officers, and employees of ITOCHU understand and comply with this Code and will develop a system to enhance the understanding, implementation, and effectiveness of this Code.

12) Commitment by Executives

The executives of ITOCHU will take the lead in implementing and enforcing this Code, and will vigorously address violations through investigations. Fair and appropriate disclosure shall be made of any such incidents, and appropriate discrepancy measures, based on principles of accountability, including action directed toward themselves, shall be taken by ITOCHU's executives.

Please refer to pages 45-47 for our activities regarding the above-listed 6), 7), and 8) for examples of our concrete measures for "ITOCHU Corporation Code of Conduct."

Corporate Ethics and Compliance

Corporate Ethics and Compliance System

In fiscal year 2003, we created a Corporate Ethics and Compliance Committee, appointing a Chief Compliance Officer (CCO) as its chairman. This committee is responsible for (1) ensuring that employees have a thorough understanding of "The ITOCHU Credo," "The ITOCHU Way," and the "ITOCHU Corporate Code of Conduct" (see page 43) and considering revisions of it, (2) proposing concrete measures for creating and implementing programs that conform to the "ITOCHU Corporate Code of Conduct," (3) investigating causes of and verifying policies for dealing with major incidents and accidents, and (4) scheduling periodic monitoring and review and setting policy for ongoing improvement. In addition, the committee receives periodic reviews and advice from outside counsels and consultants to ensure that its policies are objective and appropriate.

At the same time, we have set up a Compliance Office and are working to integrate and further improve the overall ITOCHU Group's compliance functions, which had previously been organizationally dispersed among the headquarters, Division Companies, overseas offices, and group companies.

Hotline

Each group employee is required to report violations of laws and other specified situations to his or her superior. To encourage whistle-blowing in cases where this would be awkward, a hotline is available for directly contacting the head of the Compliance Office and outside counsels. Written rules are in place guaranteeing that employees suffer no negative consequences for whistle-blowing.

Consultation Windows

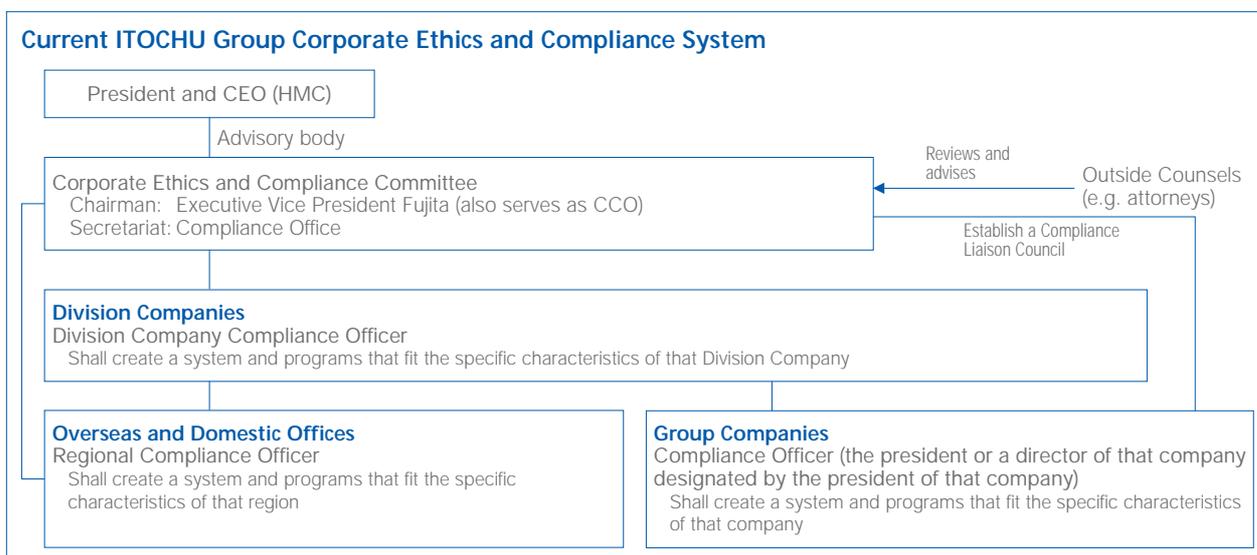
In order to provide consultation on all aspects of compliance, we have set up consultation windows to contact the head of the Compliance Office and relevant Compliance Officers in our organization. Specific contact information (names, telephone/facsimile numbers, and e-mail addresses) are available through our Intranet.

Signed Confirmations

Once each year all ITOCHU employees and Corporate Directors and Officers sign confirmations that they will observe the "ITOCHU Corporation Code of Conduct." At the same time, the presidents of all ITOCHU group companies sign confirmations that they will educate their employees to ensure that they have a thorough understanding of the spirit of the "ITOCHU Corporation Code of Conduct."

Compliance Education Backed Up by Review and Evaluation

We educate and train on a company-wide basis to ensure that all employees understand the importance of compliance. Our Division Companies and group companies also undertake self-education and training with manuals written by Compliance Officers in cooperation with the Compliance Office. In addition, twice each year Compliance Officers throughout the Group, the Compliance Office, and the CCO individually review the compliance situation, report on it to the Board of Directors, and carry out any necessary corrections. Moreover, our personnel assessments and individual performance evaluations also include sections for evaluating observance of compliance and the "ITOCHU Corporate Code of Conduct."



Social Contributions

One of the three pillars of “The ITOCHU Credo” is to make “societal benefits” a reality—to make the world a richer and more comfortable place to live. To that end, we engage in social contribution activities from an international perspective and are fully aware of our obligation to be a good corporate citizen.

Social Contributions through Business

ITOCHU promotes businesses that seek to achieve “harmony of corporate benefits and social benefits.” A unique example for ITOCHU Corporation is its promotion of regional development-type businesses through alliances with local governments both in Japan and overseas. Through alliances with Gifu Prefecture in Japan and overseas with Shandong Province, Jiangsu Province, and Nanjing City in China, we are providing diverse support for the development of local industry through our businesses.



Signing ceremony for an agreement on alliance with Shandong Province

Social Contributions as a Corporation

Activities in Japan include our contributions to the sound upbringing of children through the ITOCHU Foundation, which this year marks the 30th anniversary of its founding. Among the Foundation’s specific activities are surveys and research on children, support for children’s libraries, support for foreign students and Japanese foreign students, and facility management. Together with other companies in the ITOCHU Group, since 1992 ITOCHU has continued to support basic research on global warming by the University of Tokyo’s Center for Climate System Research (CCSR). Each year we co-



A story-telling session for children at the ITOCHU Foundation

sponsor with CCSR the ITOCHU Symposium to announce the results of that research to the world.

Overseas, our local offices are taking the initiative in social contribution activities. One example is our group company Unex (Guatemala) S.A. It is promoting social contribution activities for schoolchildren and other activities helping improve the lives of local people by setting up a social contribution fund and dedicating 1-2% of its annual ordinary profit to the fund.

An example of an activity in a specific business is our commercial development under a licensing agreement with WWF Japan of environmentally friendly textile products such as organic cotton. We are contributing a portion of sales from this business to support nature conservation activities.



Students of the hospice with care providers and a donated car (Guatemala)

Employees’ Social Contribution Activities

“Fureai no Network,” an in-house volunteer organization with 131 members and 4 subcommittees—nature watching, disaster relief, contribution by articles, and reading aloud at senior welfare centers—is engaged in a variety of volunteer activities. In addition, at our Tokyo headquarters we are encouraging blood donation and bone marrow bank donor registration. In fiscal year 2004, 435 individuals donated blood and 21 registered as bone marrow donors. Following the December 2003 earthquake in southeastern Iran, internal and external fundraising activities resulted in ¥1.1 million.

As part of our efforts to build a system that encourages participation, we have put in place a volunteer time-off system for supporting these employee volunteer activities. Under this system, 10 employees took a leave of absence in fiscal 2004.

For details of our activities relating to social contribution, please refer to our *Environmental Report 2004*.

Providing Comfortable Working Conditions for Our Employees

ITOCHU Corporation is committed to providing comfortable working environments to ensure the safety and well-being of its employees. At the same time, we seek to create a corporate atmosphere conducive to freedom and creativity while respecting the personality and distinctive traits of individuals as far as possible.

Right Person for the Right Position

Our basic policy is to maximize the potential of all employees, irrespective of age or gender. Under our personnel assessment system, superiors interview their subordinates to gain a full understanding of his or her individual capabilities, specialist expertise, and career prospects. We then prepare individual appointment, transfer, career development, and training plans for employees to ensure that their capabilities are maximized and they are placed in the right positions.

Remuneration Based on Job Description, Responsibility, and Performance

Employee remuneration consists of a base salary, which is determined by job description and degree of responsibility, and incentive compensation (I.C.), which depends on the performances of the organization and the individual. The I.C. is based on a profit-sharing approach under which all employees and the Company share identical goals as well as the profits derived from their joint efforts. Thus, the overall source of I.C. is determined by the amount of profit earned. We also have a pay-for-performance system, where rewards reflect the individual performance of each employee and his or her organization.

Developing People Who Will Raise Our Competitiveness

We are seeking to create a group of people who will enable us to generate stable earnings in the era of global megacompetition. Here, we place particular emphasis on developing people for future Group management roles, and we have a managerial school and an MBA training program in place to promote this cause. We are also step-

ping up training of overseas local staff and young people, who will become the leaders of tomorrow, through such programs as overseas education for new employees, overseas on-the-job training, and overseas local staff training.

Maximizing Diversity

To sharpen our response to economic globalization and promote consolidated management, we give high priority to assigning employees in accordance with the specific situations of our respective business fields. We seek to maximize diversity of employees, regardless of age, gender, or nationality, and to this end we formulated our Promotion Plan on Human Resource Diversification in December 2003. Under this plan, we work hard to create an appealing company and corporate atmosphere through a number of proactive initiatives. These include a concrete program to promote female employees to management positions and a program to promote overseas local staff to higher positions and reinforcement of training programs for them.

Meanwhile, we strive to provide comfortable working environments for the physically and mentally handicapped. In 1987, we established ITOCHU Uneedus Co., Ltd., as a special company under the Law for Employment Promotion, etc. of the disabled. As of April 1, 2004, disabled people accounted for 2.4% of our total workforce, compared with 1.8% as mandated by law. We will continue to maintain this high ratio in the future.

Respecting Employees' Personalities and Individual Traits

To maintain the mental health of employees and address their career- and job-related concerns, we have set up a system offering them easy access to in-house counseling from psychiatrists and clinical psychologists. To help those balancing work and family obligations, we have a system enabling employees to take time off or work fewer hours while their children are wait-listed for day-care facilities or when unprecedented nursing care needs arise.

