

Corporate Governance

ITOCHU operates its business in accordance with the "ITOCHU's Credo and Way" and the "ITOCHU Corporation Code of Conduct." Our fundamental policy is 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 to the stockholders.

Management System

ITOCHU has adopted "the Board of Corporate Auditors" management system. The Board of Directors determines the important matters regarding ITOCHU and supervises the performance of the directors. Furthermore, in order to streamline our operations, we have adopted the Executive Officer System under which executive officers carry out their respective duties under the command and supervision of the Representative Directors. The Board of Corporate Auditors contributes to the sound growth of ITOCHU by monitoring the Company's management and performance of the Board of Directors. For example, the Corporate Auditors regularly attend Board meetings and other important internal meetings, meet on a regular basis with top managers, and periodically receive updated information. ITOCHU has also established the Advisory Board, which is made up of outside experts from various fields and which provides expert and objective opinions on the state of our management. In order to enhance the managerial responsibility and accountability of the directors, in the fiscal year ended March 2006 we discontinued the directors' retirement and severance allowance and integrated such allowance into each director's annual compensation package, which is determined taking into account the director's performance. Finally, beginning in the fiscal year ending March 2007 the term of office of directors and executive officers will be reduced to one year.

The Headquarters Management Committee and Other Internal Committees

The Headquarters Management Committee (HMC) is established as the supporting body to the President, and is the forum where in-depth discussions on general management policy and important issues relating to management take place on a regular basis. In addition to the HMC, We have also created other internal committees to examine and discuss management issues in specific areas, and to assist the decision-making of the President and the Board of Directors. (Please see the table on page 49.)

Division Company System

Under the Division Company System that we have had in place since fiscal year 1998, each of the seven Companies – Textile; Machinery; Aerospace, Electronics & Multimedia; Energy, Metals & Minerals; Chemicals, Forest Products & General Merchandise; Food; and Finance, Realty, Insurance & Logistics

Services – assumes responsibility for the operation of its business. Decision-making in each of these Division Companies rests with its president, who, with the support from the Division Company Management Committee (DMC), promptly and effectively addresses and reacts to the changes in the market and the needs of the clients. While the Division Companies have independent decision-making capacity, the Headquarters performs centralized planning and strategizing function over ITOCHU as a whole. The Headquarter maintains control over the Division Companies by exercising supervisory authority over important matters, and by setting financial, investment and other covenants (such as the maintenance of total assets, the incurrence of interest-bearing debt, and risk assets, etc.). With discrete management at the Division Companies level on the one hand, and centralized business strategy planning and administration for ITOCHU as a whole by the Headquarters on the other hand, we have built a well-balanced and efficient management system.

Internal Control

On April 19, 2006, the Board of Directors passed a resolution approving the "Basic Policy Regarding the Internal Control System." (Please see the table on page 50 for an outline of the policy.). In order to ensure the proper working of our Internal Control System, we will continue to revisit and improve this Basic Policy on a periodic basis.

The general objectives of internal control are three-fold: (1) to achieve full compliance with laws and regulations, (2) to ensure the accuracy, truthfulness and reliability of financial reporting, and (3) to improve the 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 is described in detail on page 50. 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 DNA Project ~Designing New Age~" as of the fiscal year ending March 2007, a business process re-engineering project aimed at improving the effectiveness and efficiency of our management.