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Itoham Foods Inc.

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Measures to Prevent the Recurrence of Customs Act Violations Related to the Procurement of Imported Pork

The following is a report on the measures to be taken by Itoham Foods Inc. to prevent the recurrence of Customs Act violations related to the procurement of imported pork.

Once again, Itoham would like to sincerely apologize to all those affected, including shareholders, customers, and the authorities, for any trouble or concern caused.

Going forward, based on a careful understanding of the objectives of the tariff adjustment system, which has been introduced to protect domestic hog producers, Itoham will implement the following measures to prevent future violations.

1. Summary of the Incident

The recent incident concerning Customs Act violations related to the procurement of imported pork occurred when, during the period between April 1, 2002 and October 14, 2003, company A, its managing director B, and advisor C declared falsely underestimated prices for frozen meat produced overseas in order to avoid the payment of import tariffs. The total amount of unpaid tariffs amounted to approximately ¥941 million. On June 22, 2005, Company A was indicted for evading customs duties under Section 1 of Article 110 of the Customs Act.

On the same day, two Itoham employees were charged with a summary claim under Section 1 of Article 112 of the Customs Act for allegedly purchasing approximately 3,000 tons of frozen meat produced overseas, while knowing that the payment of custom duties on the meat had been evaded. These employees purchased the said products from Company A through a trading company during the period between August 1, 2002 and February 9, 2004. In response to the charge, the two employees paid a fine of ¥300,000 each to the court on the day of receiving the notification.

As a corporation, Itoham was also indicted under Section 1 of Article 117 of the Customs Act for employer liability related to charges made against the aforementioned two employees who violated the Customs Law.

Itoham will now be subject to deliberations by a court of law, and will participate in this process with due seriousness.

2. Measures to Prevent Recurrence

Itoham takes these indictments extremely seriously and deeply regrets the lack of sufficient compliance in this case (ensuring laws and regulations are observed and corporate ethics are reinforced). Accordingly, we will implement the following measures to prevent recurrence and regularly report on their progress.

(1) Reassess Standards Related to the Procurement of Imported Pork

a. In procurement, Itoham will comply with the “Notification Regarding the Proper Administration of the Pork Tariff Adjustment System,” released on April 25, 2005 by the Director-General of the Livestock Industry Department of the Ministry of Agriculture, Forestry, and Fisheries.

b. Based on the above notification, Itoham will procure imported pork only from legitimate companies that comply with the relevant rules and regulations. Specifically, Itoham will request current suppliers to submit a letter of confirmation to that effect. Upon receipt, the supplier will be registered with Itoham after receiving approval from the Board of Directors. From now on, Itoham will procure imported pork only from suppliers that complete this registration process. This registration must be renewed annually.

Registration of new suppliers is subject to the president’s approval upon receipt of the letter of confirmation.

c. Itoham will prohibit any negotiations or contact related to procurement with corporations or individuals other than those registered companies fulfilling the requirements above.

(2) Establishment of a Corporate Social Responsibility (CSR) Department (as of July 1, 2005)

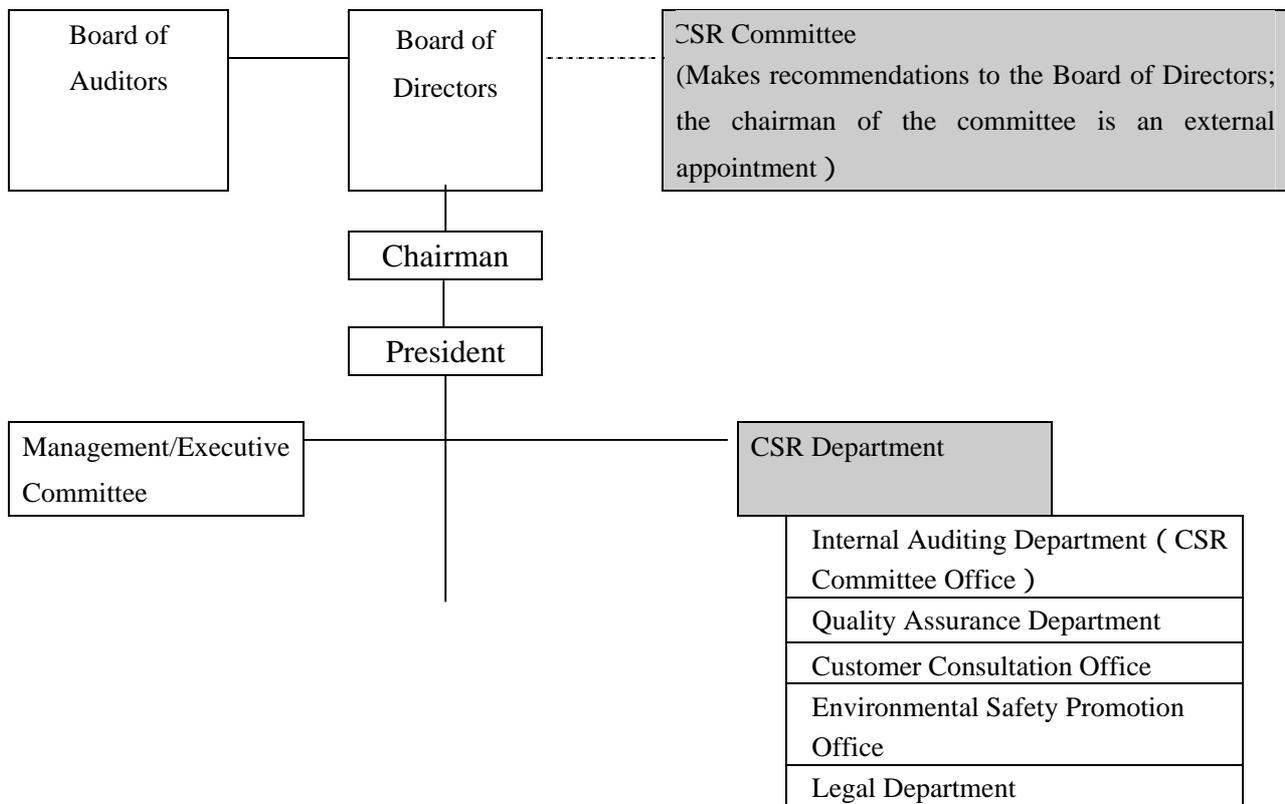
Unfortunately, the recent incidents have revealed certain inadequacies in Itoham’s compliance system and internal communication framework. To ensure an incident

like this never occurs again, we have established a CSR Department led by an executive officer as its manager and supported by 40 staff members. The following describes Itoham's comprehensive approach to enforcing strict compliance.

a. Objectives of the System

On behalf of the president, the manager of the CSR Department will have the authority to give orders for remedial actions to be taken against compliance violations. The manager is responsible for early detection of compliance issues through audits and other activities, reporting such issues to the president and the Board of Directors, giving instructions for remedial actions to be taken by frontline organizations, and reporting to the president and the Board of Directors on the progress and the results attained. In the future, Itoham will expand its system to cover other CSR-related issues beyond compliance. By doing so, we hope to recover the trust we have lost from our stakeholders as soon as possible, with the ultimate goal of becoming a company capable of satisfying all its stakeholders.

In addition, we will work to raise awareness of compliance issues among all executives and employees by continually holding lectures on compliance and other activities.



b. Basic Approach to Reinforcing Compliance

- Provide information and guidance to instill common sense and social norms among employees
- Take active steps to detect compliance violations early and implement remedial measures
- Encourage cooperation between each division and management department
- Create a transparent corporate culture and an open organization that prevent certain divisions, units, departments, and individuals from concealing information
- Foster an open environment that listens to advice from both inside and outside the Company
- Practice accountability by actively disclosing information to both employees and the public, including information with a potentially negative impact.

As we were made aware by the recent incident, there is a danger that companies can unknowingly become inward looking and biased in their approach to management. In response, Itoham will invite an outside expert(*) to provide the Company with optimal and timely advice that will prove helpful in devising and implementing plans.

In addition, the CSR Committee, for which the CSR Department will provide administrative support, will appoint an outside expert as its chairman. This will allow Itoham's CSR system to be assessed from an objective point of view. The committee will make recommendations to the Board of Directors based on the results of these assessments.

*Outside Expert

Name	Hisashi Shimada
Affiliation	Professor, Faculty of Human Studies, Kyoto Bunkyo University
	Lecturer (specialization: corporate ethics), Graduate School of Business Administration, Kwansai Gakuin University
	Ph.D., Business Administration
	Member, Japan Society for Business Ethics Study
Major publications	<i>The Age of Fridamizumu</i>
	“Rejuvenation of Japanese-style Management and Individuality,” Chapter 9, <i>Individuality in Contemporary Corporations</i> (co-authored)

Activities to Prevent Compliance Violations

Item	Schedule
Monitor compliance with the new procurement requirements.	Every month starting July
Conduct audits to determine whether the new procurement requirements are fully met by the procurement units of the Meat Division.	
Organize lectures for executives.	During August; thereafter, once a year
Invite specialists to give lectures to executives on the importance of compliance in corporate management.	
Organize lectures for management-level employees at each company location.	During August; thereafter, once a year
Raise awareness of the importance of compliance by showing examples of corporate misconduct, including that of Itoham and other companies reported by the media and subsequent public response and opinions.	
Hold lectures organized by each division and management department.	During August; thereafter, once a year
Hold lectures on compliance organized by each division and management department. Raise awareness of the importance of compliance in operation of each division and management department by showing examples of corporate misconduct, including that of Itoham and other companies previously reported by the media and subsequent public response and opinions.	
Conduct interviews with individuals in charge of frontline organizations.	During August; thereafter, once a year
Conduct interviews with frontline employees in charge of importing products to identify and obtain information on issues related to customs. Report any issues detected to the president. At the same time, the manager of the CSR Department will act on behalf of the president and give instructions to implement remedial measures to those in charge of applicable organizations. The manager will monitor the situation until the issue is fully rectified, and the report results back to the president.	

Organizational Cooperation

Item	Schedule
Reassess and revise the rules of each organization using their respective management functions	By the end of October
Check compliance with rules; ensure compliance; and put rules in a statutory form whenever they are unwritten. The CSR Department will provide assistance on these activities and report the results to the CSR Committee.	
Create a better Q&A that summarizes the code of conduct	By the end of October
Take active steps to collect specific case studies and raise awareness by collaborating with each organization.	

Day-to-day Duties of the CSR Department

Item	Schedule
Rapidly detect compliance issues through audits and other activities, report issues to the president and the Board of Directors; instruct relevant organization to take remedial measures; report to the president and the Board of Directors on the progress and the results made attained.	At the time of the monthly audits
In the event an issue is identified, the department reports immediately to the president and instructs applicable organizations to take remedial measures.	
Disseminate specific examples of CSR activities at other companies reported in the media	On a regular date every month
Regularly disseminate information collected from the media and other sources to show examples of corporate misconduct that conflict with the objectives of CSR to all organizations. Disseminate examples of good CSR conduct reported in the media and advise organizations to integrate the examples in their strategies.	
Formulate rules and apply them on a cross-organizational basis	At the time of the monthly audits
-Clarify unwritten rules -Apply rules on a cross-organizational basis	

Contact Points for Internal and External Inquiries

The following contact points have been in place to assist customers and employees with their questions and concerns. Itoham also welcomes input

during customer factory tours or at business meetings. We will continue to make sincere efforts to respond to your suggestions and requests to make improvements where needed.

External	Company homepage	http://www.itoham.co.jp
	Company Customer Consultation Office	Toll-free: 0120-011186
Internal	Legal Counseling on Any Issue	Contact: Mr. Kensho, Esq.
	Union Hotline	Contact: Labor union
	Internal Affairs	Contact: Internal Auditing Department
	Human Resources Hotline	Contact: Human Resources Department

(3) Organizational Reforms and Increasing Personnel Mobility (Scheduled)

In terms of corporate structure, Itoham will change the name of its Purchasing Raw Material Department, which procures raw materials for processing, to the Meat Purchasing Unit for Processing. This unit will also be transferred from the Production Division to the Meat Division. By doing so, Itoham will concentrate procurement functions in one division and reinforce their management.

Moreover, to eliminate the adverse effects of declining awareness of regulations arising from long-term appointments, Itoham will take initiatives to increase the mobility of personnel with the aim of reinvigorating its organizational strength.

3. Penalties Imposed on Employees Involved (As of July 19, 2005)

(1) The following describes the penalties to be imposed on employees involved in the recent incident discussed above. The penalties were determined by the facts presented in the indictments and the results of an internal investigation.

(Job titles as of October 1, 2002; current job titles are in parenthesis.)

Job Title	Action
Manager, Import Meat Department, Meat Packing Division (General Manager, Import Pork Unit, Meat Division)	Resignation at request
Manager, Kanto Processing Material Section, Overseas Purchasing Department, Meat Supply for Process Department, Production Division (Manager, Purchasing Raw Material, Production Division)	Resignation at request

Chairman (No change)	30% reduction in directors' remuneration for three months
President (No change)	
Director and Executive Officer General Manager, Meat Packing Division (Director and Managing Executive Officer)	Demotion to Director and Executive Officer 30% reduction in directors' remuneration for three months
Executive Officer General Manager, Production Division (Director and Managing Executive Officer)	20% reduction in directors' remuneration for three months
Executive Officer General Manager, Kanto Meat Unit, Meat Packing Division (Director and Managing Executive Officer)	10% reduction in directors' remuneration for three months
Executive Officer General Manager, Meat Supply for Process Department, Production Division (Director and Senior Executive Officer)	
Director General Manager, International Operation Department, Meat Packing Division (Director and Executive Officer)	
(As of February 21, 2003) Manager, Marketing Department, Meat Packing Division (Executive Officer)	Official reprimand

Manager, Overseas Purchasing Department, Meat Supply for Process Department, Production Division (Manager, Purchasing Raw Material Department, Production Division)	Suspended from work for 10 days
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(2) Voluntary Return of Directors' Remuneration

Deeply regretting that the aforementioned incident has caused trouble and concern to customers, stockholders, and other related parties, directors and auditors not listed above will also voluntarily return part of their remuneration.

In order to ensure thorough compliance going forward, Itoham will actively work to ensure the above measures are fully implemented without delay by constantly monitoring their progress and taking other steps. We hope we can continue to count on your support and understanding as we work to guarantee that we will never again lose the trust of our stakeholders.