

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 examination and discussion of management issues in their particular areas. (Please see the table on page 46.)

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 the 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

The ITOCHU Corporate Code of Conduct states that 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. In keeping with this commitment, we have taken steps to ensure that our practice of disclosure is timely and appropriate. We have established internal policy on disclosure and set up a system of close communication among concerned organizations. We are also planning to improve further our disclosure system by establishing a Disclosure Committee from fiscal year 2006.

Risk Management

To deal adequately with various risks associated with our business operations, such as market risk, credit risk, and investment risk, we are reinforcing a self-management system for individual types of risk by each Division Company. We are also developing more sophisticated risk management techniques. Specifically, we have established internal covenants related to principal balance sheet items and manage each exposure by setting exposure limits, transaction guidelines, and profit requirements for each product category. We have also introduced the management technique of RCM (Risk Capital Management) based on RAROC (Risk Adjusted Return on Capital), and perform portfolio management using risk assets and a risk-return index (RRI) as management indexes.

Enhancing the Internal Control System

We have in place an Internal Control System for ensuring the proper execution of business by clarifying the authority and responsibilities associated with individual job positions and by incorporating appropriate checks and monitoring functions in the work process and achieving the three following specific objectives of the internal control: