

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, primarily 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 fiscal year 2003 and plan a further reduction to 11 in fiscal year 2004. Also, we introduced the executive officer position from fiscal year 2000 and the managing executive officer position from fiscal year 2002. As of April 2003, we have 32 executive and managing executive officers. Not only has the streamlining of the Board of Directors speeded up decision making, it also helps 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 the revisions of 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 Company with Committees system. However, for the time being, 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.

While studying examples of best practice in other developed countries, we will continue to pursue a system of corporate governance that best suits the Company.

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 the next page).

Reinforcing Disclosure and Accountability

Amid a growing awareness of the importance of disclosure, we are not only maintaining our accountability to stakeholders, but are also proactively promoting disclosure. In fiscal year 2001 we became the first Japanese general trading company to announce quarterly financial statements and since fiscal year 2002 we have been reinforcing investor rela-

ITOCHU's Corporate Governance System

