

Corporate Governance and Internal Control/Compliance



Corporate Governance

ITOCHU operates its business in accordance with the ITOCHU Group Corporate Philosophy and Code of Conduct. Our fundamental policy is to work toward the long-term preservation and enhancement of our corporate value by building fair and favorable relationships with our stakeholders. To execute our business activities in an appropriate and efficient manner in accordance with our fundamental policy, we are increasing the transparency of our decision-making process and constructing a corporate governance system that incorporates appropriate monitoring and supervisory functions.

Features of ITOCHU's Corporate Governance System

ITOCHU is a company with the Board of Directors and corporate auditors (the Board of Corporate Auditors). The corporate auditors including outside corporate auditors monitor and audit business management independently and objectively. And ITOCHU has elected highly independent outside directors for the purpose of further increasing the effectiveness of the supervision of management by the Board of Directors and improving the transparency of decision making.

Comprising 14 directors (including 2 outside directors) as of July 1, 2012, the Board of Directors makes decisions on important management matters and supervises each director's business management.

ITOCHU has adopted an Executive Officer System in order to separate the decision-making and supervisory

functions of the Board of Directors from its implementation of business management.

One feature of ITOCHU's corporate governance system is the HMC (Headquarters Management Committee), a supporting body of the CEO, where companywide management policy and important issues are discussed and decided.

In addition, management issues in individual areas of responsibility are discussed and screened by various internal committees in order to support the decision making of the CEO and the Board of Directors. Moreover, ITOCHU is developing and implementing a system for incorporating third-party opinions in which outside experts become members of some internal committees.

The table below details steps ITOCHU has taken to strengthen corporate governance.

Steps Taken to Strengthen Corporate Governance

1997	Introduced the Division Company System	To accelerate decision making / increase efficiency of business management
1999	Introduced Executive Officer System	To strengthen decision-making and supervisory functions of the Board of Directors
2007	Shortened the terms of office of directors and executive officers to one year	To clarify management responsibility during terms of office
2011	Introduced an Outside Directors System	To increase the effectiveness of the supervision of management and improve the transparency of decision making

Increasing the Effectiveness of the Supervision of Management by the Board of Directors

ITOCHU has elected 2 outside directors at the General Meeting of Shareholders held in June 2011. The outside directors make a contribution to ensuring and increasing the effectiveness of the supervision of management by the Board

of Directors, as well as the transparency of the Board of Directors' decision making, by way of appropriately providing their monitoring and supervising functions to the internal directors and management advice based on various perspectives from their neutral and objective position.

Relationship of Outside Directors with ITOCHU

Name	Reason for appointment	Attendance to meetings of the Board of Directors
Yuko Kawamoto* ¹	ITOCHU has elected her, anticipating that she will use her wealth of knowledge on corporate management nurtured through her long expertise as a management consultant and a professor of a university's graduate school and also monitor and supervise the corporate management of ITOCHU from an independent perspective. And she has no material interests in ITOCHU.	Yuko Kawamoto attended 10 of 12 meetings of the Board of Directors held since her election.
Kazuyuki Sugimoto* ¹	ITOCHU has elected him, anticipating that he will use his insight on public finance and financing nurtured through his many years of experience at the Ministry of Finance and also monitor and supervise the corporate management of ITOCHU from an independent perspective. And he has no material interests in ITOCHU.	Kazuyuki Sugimoto attended all 12 meetings of the Board of Directors held since his election.

*1. Yuko Kawamoto and Kazuyuki Sugimoto are registered as independent directors in the domestic financial instrument exchanges on which ITOCHU is listed.

Systems to Ensure Effectiveness of Audit Functions

ITOCHU appoints five corporate auditors, of whom three are outside corporate auditors. Standing corporate auditors strengthen audit functions by regularly attending meetings of the Board of Directors and other in-house meetings and working in cooperation with ITOCHU's independent external auditors and other audit bodies inside and outside ITOCHU.

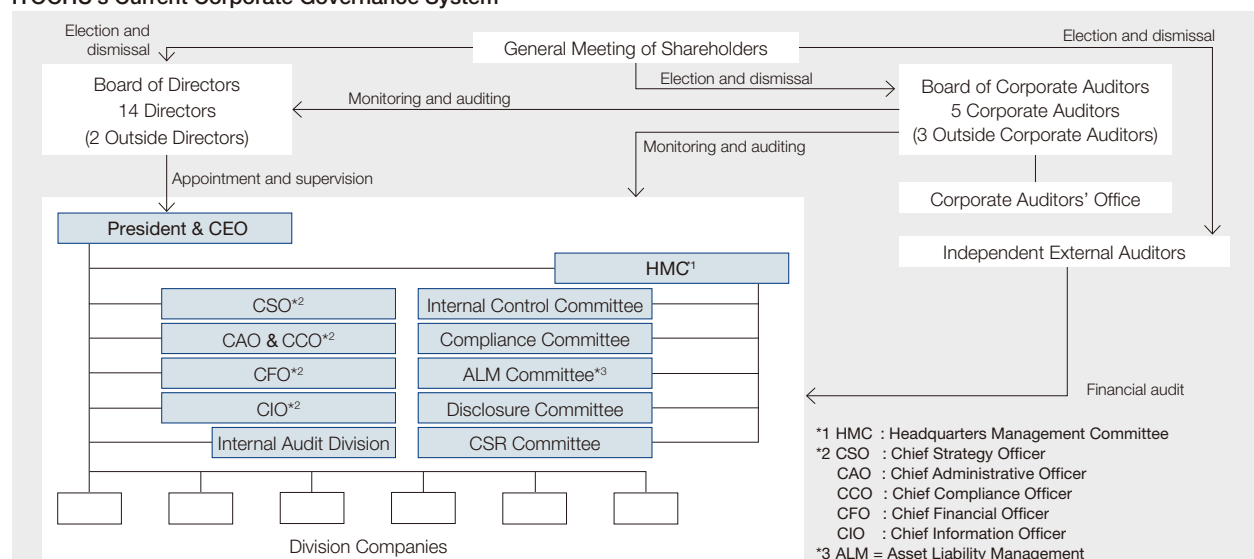
ITOCHU's Audit Division is responsible for internal audits. Aiming to facilitate exchanges of information and close collaboration, members of this division meet regularly with corporate auditors to discuss such matters as internal audit planning. In addition, the Corporate Auditors' Office, reporting directly to the Board of Corporate Auditors, supports corporate auditors.

Relationship of Outside Corporate Auditors with ITOCHU

Name	Reason for appointment	Attendance to meetings of the Board of Directors and the Board of Corporate Auditors
Ryozo Hayashi* ¹	ITOCHU has elected him, anticipating that he will monitor management and provide auditing from an independent perspective by utilizing his wealth of experience at the Ministry of Economy, Trade and Industry and the former Ministry of International Trade and Industry, and his long-term perspective and broad vision as a professor of a university's graduate school. And he has no material interests in ITOCHU.	Ryozo Hayashi attended 15 of 17 meetings of the Board of Directors and 10 of 11 meetings of the Board of Corporate Auditors held in the fiscal year ended March 31, 2012.
Keiji Torii* ¹	ITOCHU has elected him, anticipating that he will monitor management and provide auditing from an independent perspective by utilizing his many years of experience and insight as a former executive of a major financial institution. Before being appointed as a Corporate Auditor of ITOCHU, he had served as an executive of a major financial institution, with which ITOCHU has dealings, but he retired from his position at the financial institution before being appointed as a Corporate Auditor of ITOCHU and he has no material interests in ITOCHU at present.	Keiji Torii attended all 17 meetings of the Board of Directors and all 11 meetings of the Board of Corporate Auditors held in the fiscal year ended March 31, 2012.
Masahiro Shimojo* ¹	ITOCHU has elected him, anticipating that he will monitor management and provide auditing from an independent perspective by utilizing his wealth of experience and expertise as a lawyer in the field of corporate legal practice and international business law. And he has no material interests in ITOCHU.	Masahiro Shimojo attended all 12 meetings of the Board of Directors and all 8 meetings of the Board of Corporate Auditors held since his election.

*1 Ryozo Hayashi, Keiji Torii, and Masahiro Shimojo are registered as independent auditors in the domestic financial instrument exchanges on which ITOCHU is listed.

ITOCHU's Current Corporate Governance System



*1 Each Division Company has a Division Company President.

*2 Internal control systems and mechanisms have been implemented at every level of ITOCHU. Only the main internal control organization and committees are described herein. Further, the Internal Control Committee receives reports from internal departments related to internal control on the development and operation of respective internal controls for which they are responsible; evaluates the overall development and implementation status of internal control; and reports the results of evaluations as well as items for improvement to the HMC and Board of Directors.

Principal Internal Committees

Name	Objectives
Internal Control Committee	• Deliberates on issues related to the development of internal control systems
Disclosure Committee	• Deliberates on issues related to business activity disclosure and on issues related to the development and operation of internal control systems in the area of financial reporting
ALM Committee	• Deliberates on issues related to risk management systems and balance sheet management
Corporate Officer Compensation Consultative Committee	• Deliberates on issues related to the compensation of corporate officers, including their compensation after retirement
Compliance Committee	• Deliberates on issues related to compliance
CSR Committee	• Deliberates on issues related to corporate social responsibility, environmental problems, and social contribution initiatives

Details of Compensation

Details of the compensations paid to directors and corporate auditors of ITOCHU in the fiscal year ended March 31, 2012 are as follows.

Type	Number of people	Amount paid (Millions of Yen)	Details
Director (Outside directors)	14 (2)	1,428 (18)	(1) Monthly compensation: ¥758 million (2) Directors' bonuses accrued and payable for the fiscal year ended March 31, 2012: ¥670 million
Corporate auditor (Outside corporate auditors)	7 (4)	119 (32)	Only monthly compensation
Total (Outside directors and corporate auditors)	21 (6)	1,547 (50)	

*1 Maximum compensation paid to all directors: ¥1.2 billion per year as total monthly compensation (including ¥50 million per year as a portion to the outside directors) and ¥1.0 billion per year as total bonuses paid to all directors (excluding the outside directors) under a framework different from the preceding maximum compensation amount (both resolved at the General Meeting of Shareholders on June 24, 2011).

*2 Maximum compensation paid to all corporate auditors: ¥13 million per month (resolved at the General Meeting of Shareholders on June 29, 2005)

*3 The retirement benefits system for directors and corporate auditors was abolished on the date of the 81st Ordinary General Meeting of Shareholders held on June 29, 2005, and it was resolved that directors and corporate auditors retaining their positions after the conclusion of the said General Meeting of Shareholders shall be presented with retirement benefits on the date of their retirement for the period up to the time the retirement benefits system was abolished. In accordance with such resolution, in addition to the amounts paid as shown above, ¥71 million was paid as retirement benefits to 2 retired directors in April, 2011.

The compensation paid to all directors of ITOCHU (excluding outside directors) consists of monthly compensation and performance-linked bonuses. The monthly compensation is determined by the contribution to ITOCHU of each director based on the base amount set by its position, whereas the total amount of the performance-linked bonuses is determined based on consolidated net income attributable to ITOCHU. Only monthly compensation is paid to the outside directors and bonuses are not paid thereto.

Internal Control System

On April 19, 2006, ITOCHU's Board of Directors established the Basic Policy regarding the Internal Control System, which was later partially revised on May 6, 2011. ITOCHU intends to revise and improve the internal control systems tirelessly in order to build the systems that are even more appropriate and efficient. (For ITOCHU's Basic Policy regarding the Internal Control System, please see: <http://www.itochu.co.jp/en/about/governance/control/policy/>)

The following highlights some noteworthy initiatives under the Basic Policy regarding the Internal Control System.

Initiatives to Further Enhance the Reliability of Financial Reporting

In order to further enhance the reliability of our consolidated financial reporting, Chief Operating Officers, etc. are appointed as Chief Responsible for Internal Control to establish a Group-wide line of responsibility. And the Disclosure Committee is designated as a steering committee to maintain the internal control system to comply with the internal control reporting system.

Furthermore, following the March 2011 revision of the Standard by the Financial Services Agency, ITOCHU formulated policies to streamline internal control designing and testing, and has been reinforcing its devotion to more rational and effective designing and testing from the standpoint of risk-based approach since fiscal 2013.

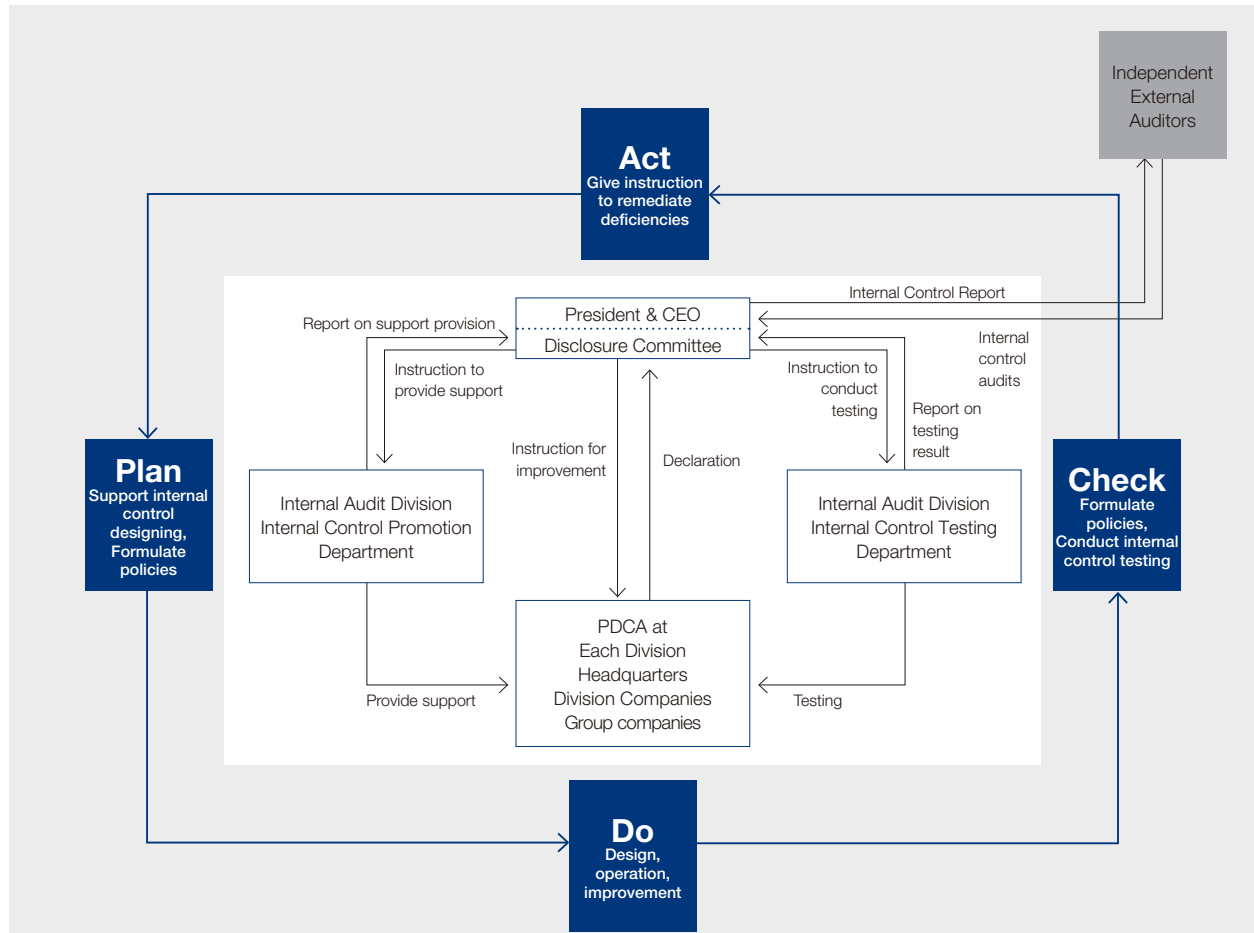
Results of testing conducted by the Internal Control Testing Department are fed back to each related unit and are used to develop and maintain the adequate internal control.

This Plan-Do-Check-Act cycle enables ITOCHU to improve and reinforce the internal control system.

Strengthening Risk Management

ITOCHU has established internal committees and responsible departments in order to address the various risks associated with its business operations, such as market risk, credit risk, country risk, and investment risk. At the same time, ITOCHU has developed the risk management systems and methods to manage companywide and specific risks. Those include a range of management regulations, investment criteria, risk exposure limits, and transaction limits, as well as reporting and monitoring systems. Moreover, ITOCHU regularly reviews the effectiveness of its risk management systems. As part of such efforts, the ALM Committee protects the ITOCHU Group's assets through deliberations on balance sheet management as well as analysis and management of risk.

Organizations to Secure the Appropriateness of Financial Reporting (PDCA Cycle)



Accountability to Stakeholders

Viewing explanations of corporate and business management information to such stakeholders as shareholders and other investors as an important corporate governance task, we strive for timely and appropriate disclosure.

Investor relations activities in fiscal 2012 include the following.

Summary of activities	Supplementary explanations
Presentations for individual investors	We hold meetings for individual investors several times a year at stock exchanges and branches of brokerage firms.
Presentations for analysts and institutional investors	We hold meetings for analysts and institutional investors each fiscal quarter. The second-quarter and annual financial results are explained by the President & CEO, whereas the first and third-quarter financial results are explained via online conference by the CFO. We also hold on-site tours in which investors can visit our affiliates or our project sites. In addition, briefings on each segment are held to explain specific themes such as strategies of individual business segments. In regard to large-scale projects of particular interest to analysts and institutional investors, we hold explanatory meetings when the projects are announced.
Presentations for overseas institutional investors	Meetings for overseas institutional investors are held 5 times a year in Europe, North America, and Asia.
Investor relations-related materials available on our website	Investor relations-related materials are made available on our website. Materials that can be downloaded include our financial statements, presentation materials for investors meetings, materials used in briefings on each segment, TSE filings, annual securities reports (<i>yuka shoken hokokusho</i>), quarterly securities reports (<i>shihanki hokokusho</i>), Corporate Governance Report, and Notice of General Meeting of Shareholders.

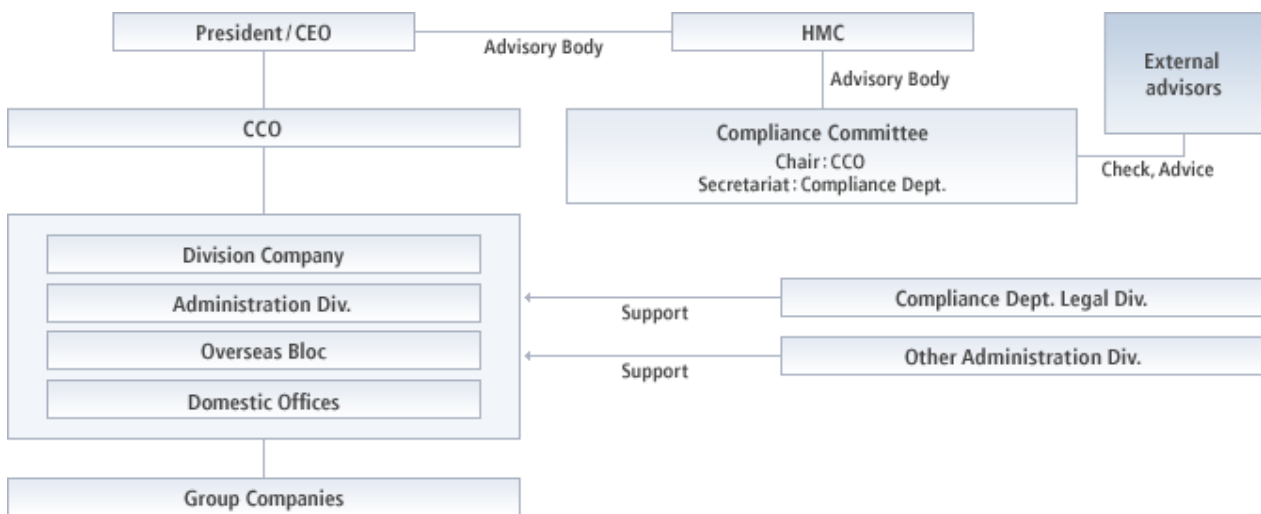


Compliance

Group Promotion Structure

The ITOCHU Group has compliance officers in each organization within Headquarters and at all major Group companies worldwide. These compliance officers are strengthening compliance by creating systems, conducting education and training, responding to individual cases, and any other necessary measures based on directives and support from their respective managers, as well as consideration of local laws, business characteristics, and operational formats. In addition, we conduct simultaneous corporate-wide Monitor & Review surveys every year and compliance attitude surveys every two years. While checking the progress in implementing compliance measures at all ITOCHU Group companies through these surveys and other opportunities, the ITOCHU Group is making a concerted effort to find improvements that will enhance its well-developed systems for advancing compliance.

■ Compliance System



Major Compliance Measures in Fiscal 2012 and Tasks for the Future

In fiscal 2012, On-Site Compliance Training was held for all Headquarters employees. This training, which was intended to raise compliance awareness and prevent the occurrence of any cases, used actual compliance cases as teaching materials. In addition, for key organizations, such as overseas offices and Group companies, we are implementing activities with a focus on system operation such as on-site guidance with the objective of ascertaining actual front-line compliance conditions and identifying risks. Based on trends in former incidences of compliance violations and the findings of the Monitor & Review surveys, we are formulating individual compliance reinforcement measures tailored to each Division Company, and these measures are steadily being implemented. Moreover, drawing on actual incidents, we implemented meticulous education and training programs geared to employees in different tiers. Moving forward, we will further advance these policies and measures, and continue to focus on compliance reinforcement with an emphasis on overseas offices and Group companies.

Bolstering Measures to Fight Corruption

Over the years, ITOCHU has sought to fight corruption by drafting regulations that specifically ban bribes and payoffs, along with related guidelines, with the aim of supporting the broad prohibition of payoffs to public officials and others in comparable positions worldwide.

Anticipating more stringent regulations against bribery and corruption worldwide, including the U.S. Foreign Corrupt Practices Act (U.S. FCPA) and the enforcement of the U.K. Bribery Act 2010 on July 1, 2011, ITOCHU in June revised its own aforementioned regulations and guidelines as a measure to enhance its own responsiveness in this area.

Going forward, we will work to circulate information regarding the aforementioned revisions within ITOCHU and to overseas blocs. At the same time, steps will be taken to conduct risk assessment and monitoring with respect to payoffs, bribery and similar impropriety.

Basic Policy and Efforts Against Antisocial Forces

ITOCHEU has set out basic policy to tackle antisocial forces and groups that threaten the order and safety of civic society, stipulating three basic principles plus one - Don't fear, don't pay, don't use, and don't associate - in its stance against antisocial forces and 10-point guideline as a manual to disseminate this information among all employees. We have also established a special department with overall responsibility for countermeasures in relation to antisocial forces within the Human Resources & General Affairs Division.

Global Security Risk Management

To prevent the proliferation of weapons of mass destruction and conventional weapons, Japan maintains strict trade-security under the Foreign Exchange and Foreign Trade Act. To observe such laws and regulations, we have implemented our own internal trade-security control program. Further, to ensure that we do not take part in business transactions that threaten international peace and security, not only do we meticulously comply with existing government laws and regulations, but we are voluntarily taking extra measures to ensure that our stakeholders and corporate reputation are adequately safeguarded through our implementation of a comprehensive global security risk management program.

The potential intersection of corporate operations with global terrorism or the development and proliferation of weapons of mass destruction can give rise to reputational and financial risks for ITOCHU and other companies with extensive international business operations.

Accordingly ITOCHU recognizes that, as a responsible member of society and the global business community, we need to manage carefully the potential risks associated with business operations in certain locations. In response to the growing field of corporate governance termed global security risk, ITOCHU has developed and implemented corporate policies, procedures, and internal reporting structures to ensure that we perform rigorous, security-minded due diligence with respect to projects and transactions in which security issues are implicated.