

Corporate Governance and Internal Control/Compliance

Corporate Governance and Internal Control

ITOCHU Corporation operates its business to establish the long-term preservation and enhancement of its corporate value by building fair and positive relationships with its stakeholders in accordance with the ITOCHU Group corporate philosophy and Code of Conduct. To ensure its appropriate and efficient business operations, ITOCHU is increasing the transparency of its decision-making process and constructing a corporate governance system that incorporates proper monitoring and supervisory functions.

Overview of the Corporate Governance System

Corporate Governance System		
Type of system	Company with the Board of Directors and corporate auditors (the Board of Corporate Auditors)	
Number of directors	13	
Of which, number of outside directors	2	
Number of corporate auditors	5	
Of which, number of outside corporate auditors	3	
Term of office for directors	1 year (the same for outside directors)	
Employment of an Executive Officer System	Yes	
Organization to support CEO decision-making	Headquarters Management Committee (HMC) deliberates companywide management policy and important issues	
Corporate Officer Compensation System	(1) Monthly compensation Monthly compensation determined by the contribution to ITOCHU of each director according to a base amount set by position	
	(2) Performance-linked bonuses Total payment amount determined on the basis of consolidated net income attributable to ITOCHU Note: Outside directors paid monthly compensation only	
Independent external auditor	Deloitte Touche Tohmatsu LLC	
Steps Taken to Strengthen Corporate Governance		
1997	Introduced the Division Company System	To accelerate decision making / increase efficiency of business management
1999	Introduced the 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

ITOCHU is a company with the Board of Directors and corporate auditors (the Board of Corporate Auditors).

Comprising 13 directors (including 2 outside directors) as of July 1, 2014, the Board of Directors makes decisions on important management matters and supervises each director's business management.

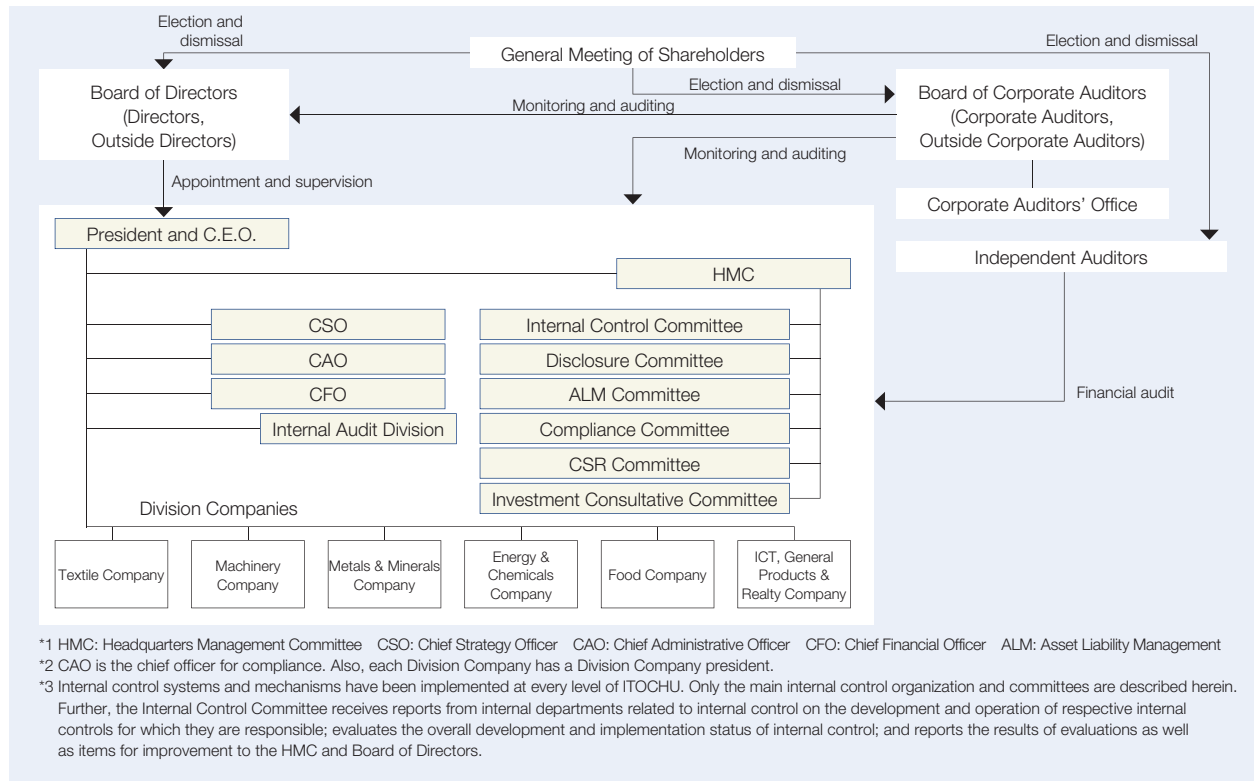
Since June 2011, ITOCHU has appointed two highly independent outside directors. The outside directors contribute to ensuring and increasing the effectiveness of the supervision of management by the Board of Directors, as well as the transparency of the Board of Directors' decision-making, by way of appropriately providing their monitoring and supervising functions to the internal directors and management advice based on various perspectives from their neutral and objective position.

ITOCHU has adopted an Executive Officer System to strengthen decision-making and supervisory functions of the Board of Directors and to boost the efficiency of business execution. Also, ITOCHU has in place the Headquarters Management Committee (HMC) and various internal committees to support appropriate and flexible decision-making by the CEO and the Board of Directors. As a body to support the CEO, the

HMC discusses companywide management policy and important issues. The various internal committees screen and discuss management issues in individual areas of responsibility. Moreover, ITOCHU is developing and implementing a system for incorporating third-party opinions in some internal committees in which outside experts become members.

In addition, ITOCHU appoints five corporate auditors, including three outside corporate auditors. Each auditor monitors and audits business management independently and objectively. Standing corporate auditors strengthen audit functions by regularly attending meetings of the Board of Directors and other in-house meetings and by working in cooperation with ITOCHU's independent auditor and other audit bodies inside and outside ITOCHU. ITOCHU's Internal Audit Division is responsible for internal audits. Members of this division discuss internal audit planning, exchange information, and collaborate closely with corporate auditors through regular meetings. In order to support corporate auditors' activities and performance, the Corporate Auditors' Office, reporting directly to the Board of Corporate Auditors, has been established.

Overview of ITOCHU's Corporate Governance and Internal Control System



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
Compliance Committee	Deliberates on issues related to compliance

Name	Objectives
CSR Committee	Deliberates on issues related to corporate social responsibility, environmental problems, and social contribution initiatives
Investment Consultative Committee	Deliberates on issues related to investment and financing
Corporate Officer Compensation Consultative Committee	Deliberates on issues related to the compensation of corporate officers, including their compensation after retirement

Appointment of Outside Directors and Outside Corporate Auditors

In the course of appointing outside directors and outside corporate auditors, ITOCHU places a high value on ensuring their independence by way of considering certain requirements for "Independent Director(s) / Auditor(s)" as prescribed by the

domestic financial instrument exchanges. As of July 1, 2014, ITOCHU had two outside directors and three outside corporate auditors, all of whom satisfy the aforementioned requirements and therefore are registered as "Independent Director(s) / Auditor(s)" in the domestic financial instrument exchanges on which ITOCHU is listed.

Reason for Appointment as Outside Directors

Name	Reason for appointment
Ichiro Fujisaki appointed in June 2013	Mr. Fujisaki is appointed as an outside director in the anticipation that he will use his high level of insight and knowledge on the international situation, economy and cultures, and other matters, nurtured through his many years of experience as a diplomat and also monitor and supervise the corporate management of ITOCHU from an independent perspective. Mr. Fujisaki has no material interests in ITOCHU.
Chikara Kawakita appointed in June 2013	Mr. Kawakita is appointed as an outside director in the anticipation that he will use his high level of insight and knowledge on public finance, financial transaction and tax affairs, and other matters, nurtured through his many years of experience at the Ministry of Finance and National Tax Agency and also monitor and supervise the corporate management of ITOCHU from an independent perspective. Mr. Kawakita has no material interests in ITOCHU.

Reason for Appointment as Outside Corporate Auditors

Name	Reason for appointment
Masahiro Shimojo appointed in June 2011	Mr. Shimojo is appointed as an outside corporate auditor in the anticipation 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. Mr. Shimojo has no material interests in ITOCHU.
Shingo Majima appointed in June 2013	Mr. Majima is appointed as an outside corporate auditor in the anticipation that he will monitor management and provide auditing from an independent perspective by utilizing his wealth of experience and expertise on finance and accounting as a certified public accountant and university professor. Mr. Majima has no material interests in ITOCHU.
Harufumi Mochizuki appointed in June 2014	Mr. Mochizuki is appointed as an outside corporate auditor in the anticipation that he will monitor management and provide auditing from an independent perspective by utilizing his wealth of experience and expertise in economics and industrial policy nurtured through his service at the Ministry of Economy, Trade and Industry (formerly, the Ministry of International Trade and Industry) and other governmental agencies of Japan. Mr. Mochizuki has no material interests in ITOCHU.

Messages from Outside Directors

At meetings of the Board of Directors, we consider resolutions that have undergone an internal deliberation process and discussion at the HMC. Reports are received on the details and results of those deliberations, and their appropriateness and suitability are discussed. We also receive explanations of issues with the resolutions and conditions for their approval. Looking at this process, I believe that each item has been carefully deliberated.

Internal directors are well-versed in the business of a general trading company. On the other hand, outside directors have extensive experience outside the company and can view things from a more open perspective. In that sense, I believe that these groups have mutually complementary roles.

I intend to fulfill my responsibilities as an outside director from three viewpoints—leveraging my experience in government in a wide range of fields, fulfilling my responsibilities to shareholders, and drawing on social standards.

* Headquarters Management Committee (HMC): A supporting body of the CEO where companywide management policy and important issues are discussed and decided.



Ichiro Fujisaki

Apr. 1969 Joined Ministry of Foreign Affairs
Worked in the Embassy of Japan in Indonesia, Permanent Delegation of Japan to the OECD, Budget Bureau, Ministry of Finance

Aug. 1987 Counselor, Embassy of Japan in the UK

Feb. 1991 Director, Overseas Establishments Division, Minister's Secretariat, Ministry of Foreign Affairs

Mar. 1992 Director, Financial Affairs Division, Minister's Secretariat, Ministry of Foreign Affairs

Feb. 1994 Deputy Director-General, Asian Affairs Bureau, Ministry of Foreign Affairs

Jul. 1995 Minister, Embassy of Japan in the United States of America (Political Affairs)

Aug. 1999 Director-General, North American Affairs Bureau, Ministry of Foreign Affairs

Sep. 2002 Deputy Minister for Foreign Affairs (Economic Affairs), Ministry of Foreign Affairs

Jan. 2005 Ambassador Extraordinary and Plenipotentiary, Permanent representative of Japan to the International Organizations in Geneva

Apr. 2008 Ambassador Extraordinary and Plenipotentiary to the United States of America

Nov. 2012 Retired from Ministry of Foreign Affairs

Jan. 2013 Distinguished Professor, Chairman of International Strategies, Sophia University (current position)

Jun. 2013 Outside Director, ITOCHU Corporation

Jun. 2014 Outside Director, NIPPON STEEL & SUMITOMO METAL CORPORATION (current position)



Chikara Kawakita

Apr. 1977 Joined Ministry of Finance

Jul. 2001 Director, Income Tax and Property Tax Policy Division, Tax Bureau, Ministry of Finance

Jul. 2002 Director, Policy Planning and Research Division, Minister's Secretariat, Ministry of Finance

Jul. 2004 Director, Management and Co-ordination Division, Minister's Secretariat, Ministry of Finance

Jul. 2005 Regional Commissioner, Osaka Regional Taxation Bureau, National Tax Agency

Jul. 2007 Deputy Director-General, Tax Bureau, Ministry of Finance

Jul. 2008 Deputy Vice Minister for Policy Planning and Co-ordination, Minister's Secretariat, Ministry of Finance

Jul. 2009 Director-General, Financial Bureau, Ministry of Finance

Jul. 2010 Commissioner, National Tax Agency

Aug. 2012 Retired from Ministry of Finance

Oct. 2012 Professor, Graduate School of Law, Hitotsubashi University (current position)

Jun. 2013 Outside Director, ITOCHU Corporation

In the year that has passed since I was appointed, I have deepened my understanding of ITOCHU's business. The matters brought up before the Board of Directors, such as long-term investment projects, are all extremely important and require careful management decision-making. As an outside director, I receive explanations from the divisions in charge and confirm the details of the internal deliberation process before attending a meeting of the Board of Directors.

In these endeavors, I draw on my own experience while asking questions from such perspectives as "How will this be explained to the shareholders?" and "What will society think about this?" On this basis, I offer my opinion. From this viewpoint, I believe that additional verification increases the accuracy of internal decision-making and also helps the company to fulfill its responsibilities in the area of accountability.

ITOCHU's corporate culture prioritizes the abilities of all employees as well as their spirit of taking on challenges. I believe that carefully passing on that tradition will be the cornerstone of further growth. I expect ITOCHU to institute bold initiatives while rigorously ensuring internal control and compliance so that the company continues to earn the respect of society. In this fiscal year, I will continue to support ITOCHU as it takes on these kinds of challenges.

Internal Control System

On April 19, 2006, ITOCHU's Board of Directors established the Basic Policy regarding the Internal Control System, which was partially revised on May 8, 2013. ITOCHU intends to revise and improve the internal control system tirelessly in order to build a

system that is even more appropriate and efficient. The following highlights two noteworthy initiatives under this policy.

(For ITOCHU's Basic Policy regarding the Internal Control System, please see: http://www.itochu.co.jp/en/about/governance_compliance/control/policy/)

Initiatives to Further Enhance the Reliability of Financial Reporting

In order to further enhance the reliability of our consolidated financial reporting, we have established a company structure. The designing and implementing of internal control are periodically assessed to keep making appropriate improvements. Specifically, a Chief Responsible for Internal Control has been appointed in each organization to design and implement internal control. The Internal Audit Division evaluates the effectiveness of internal control and provides feedback to each organization to ensure the continuous improvement. Overall management of these initiatives is conducted by the Internal Audit Division, and important matters are determined through deliberations in the Disclosure Committee chaired by the Corporate Headquarters CFO. In this way, we are working to reinforce the companywide 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 various risks individually and on a companywide basis. 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.

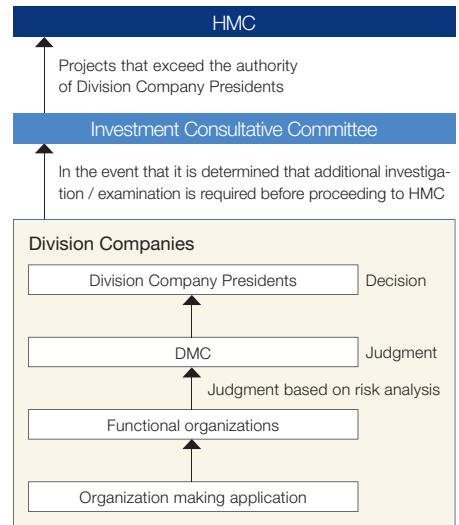
Examples of Risk Management

Managing Investment Risk (Example: Decision-Making Process for Investments)

Executing New Investments

When making new investments, first the department making the application gives due consideration to factors such as the purpose of the investment, growth strategies, business plans, the appropriateness of the acquisition price, the state of conformance with investment criteria, and the setting of exit conditions. Next, related administrative organizations implement risk analysis from various specialized perspectives and attach their screening results to the application. After deliberation by the Division Company Management Committee (DMC), the application is submitted to the Division Company President for a final decision. Projects that exceed the Division Company President's authority must be approved by the HMC. If additional consideration and screening of an investment's profitability and strategy are needed prior to the HMC, the application is sent to the Investment Consultative Committee for deliberation. After discussing the application, this committee—whose members include the CSO, CFO, and the General Manager of the Global Risk Management Division—puts the matter before the HMC. This approach devolves authority to the Division Companies and speeds decision-making, while at the same time providing multiple screening processes to control investment risk.

Decision-Making Process for New Investments



Monitoring

To promote asset replacement and achieve other objectives, we implement annual reviews of all Group companies from both the qualitative (such as strategic significance) and quantitative (such as scale of earnings and investment efficiency) perspectives. This methodology enables us to determine the future policies of all Group companies after confirming whether Group companies are infringing on exit selection criteria.

Exiting

The Global Risk Management Division monitors the progress of Group companies that have been slated for exits during the annual reviews, ensuring that they are moving steadily toward an exit.

Managing Concentrated Risks

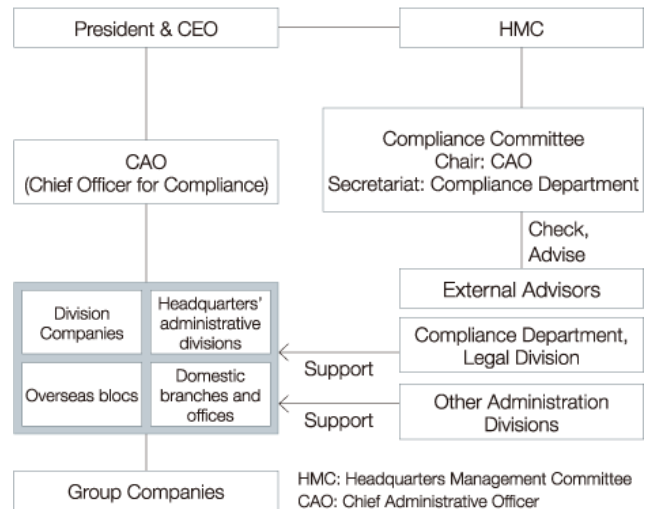
In addition to distributing internal covenants on management resources to each Division Company, ITOCHU defines asset limits in areas of trading where exposure is high, thereby managing the concentration of risk in specific segments and areas. We also manage overall country risk exposure to non-industrialized countries and manage individual country risk based on internal country rating standards. Limits on assets in specific areas and country limits are deliberated by the ALM Committee and approved by the HMC.

Compliance

ITOCHU Group's Compliance System

The ITOCHU Group is building a promotion system of compliance by placing compliance officers in each organization within Headquarters and at all major Group companies worldwide. The ITOCHU Group Compliance Program is part of the system and structure of the ITOCHU Group that was established so that each organization can consider local laws, business characteristics, and operational formats while complying with compliance. Besides carrying out Monitor & Review surveys once a year 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. Furthermore, 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.

Compliance System



Internal Information Reporting System(Hotlines)

ITOCHU Corporation has formulated regulations on the Internal Information Reporting System (Hotlines) and instructed the installment of hotlines at Group companies as well. In addition to protecting whistleblowers through these arrangements, we have defined mechanisms for proper disposal of cases. This initiative is reinforcing compliance management by supporting the prompt discovery and rectification of any incidents of corruption.

Implementation of Compliance Training

On-Site Compliance Training

We periodically conduct On-Site Compliance Training for all Headquarters employees and for employees of Group companies that requested training. This training, which was intended to raise compliance awareness and prevent the occurrence of any cases, used actual incidences of compliance violations as teaching materials. We also conduct separate programs of finely-tuned education and training for each employee layer that are likewise based on actual cases.

In fiscal 2014, compliance training was provided to an extended total of 6,300 employees at ITOCHU Headquarters and 52 Group companies.

Compliance Awareness Survey

The ITOCHU Group implements a Compliance Awareness Survey every two years with all Group employees. The survey ascertains the status in regards to penetration of compliance among the employees, and assists the implementation of specific initiatives. In fiscal 2014, we conducted the survey of about 30,000 Group employees, and received response from 27,598 of them (retrieval rate of 90.7%). The results of the analysis of the findings are presented as feedback to each organization and reflected in efforts to improve the compliance system.

Bolstering Measures to Fight Corruption

The U.S. Foreign Corrupt Practices Act (U.S. FCPA) and the U.K. Bribery Act 2010 evidence the global trend toward the tightening of legislation against bribery. In keeping with this trend, ITOCHU Corporation has thus far determined Regulation Concerning the Prohibition of Giving Illicit Profit and three related guidelines (regarding public officers, agents and consultants, and foreign public officers). These rules and guidelines are aimed at prohibiting all employees from giving any improper advantage to Japanese or foreign civil servants or people in an equivalent position, and indicate guides for decision and judgment in actual business. We are working to prevent corruption by pursuing their full penetration.

Measures to Fight Collusive Bidding and Cartels

In recent years, there have been many reports of suspected cartel activities in markets around the world. In response, to prevent involvement in any illicit transactions, we regularly revise our Anti-Monopoly Law Manual and the document "A Must-Read! 51 Q&A about the Anti-Monopoly Law", which facilitates referral. Through various Monitor & Review surveys and education and training programs as well, we are making sure all employees are aware of requirements.

Measures for Intellectual Property

To completely prevent infringements on intellectual property rights held by other parties in businesses related to such rights, as well as in the ordinary course of business, ITOCHU implements measures to call attention to the issue by holding seminars for employees and by establishing internal rules, regulations and manuals that conform to related laws and regulations. We also define and properly apply internal rules for employees' inventions and work and rules for application, renewal, etc. of rights to properly manage and handle intellectual property rights that constitute property of the companies.

Basic Policy on Product Safety

ITOCHU Corporation has prepared a product safety manual for each internal company to assure safety. The manuals are based on its policy of observing obligations stipulated by laws related to the safety of the products it handles, and providing safe and secure products to its customers. We are going to continue with efforts to assure provision of safe and secure products through in-house education, institution of ad-hoc units assigned to product safety, establishment of information relay routes, and response in the event of product accidents, while revising arrangements in these aspects as necessary.

Measures for Comprehensive Import and Export Control

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.

In addition, to properly conduct customs procedures for import and export, including import (payment of customs duty) declaration, we conduct internal customs examination (monitoring), provide training for clearing and customs valuation control, and take a host of other measures under the internal control/management provisions and regulations, thereby ensuring full compliance with customs procedures, etc. These measures have led to the director-general of Yokohama Customs certifying ITOCHU as an Authorized Economic Operator (AEO) (both Authorized Exporter and Authorized Importer), a title given to operators with outstanding compliance systems and security control.

| Basic Policy and Efforts against Antisocial Forces

ITOCHU 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. In addition, we are improving systems and promoting enlightenment education in hopes of preventing unintentional entry into transactional relationships with anti-social forces and groups.

| Insider Trading Regulations

ITOCHU Corporation has an internal rule regarding the restriction of insider trading, and formulated the "guideline regarding reporting and management of insider information" in April 2014 in conjunction with the revision of the rule. The above guideline stipulates, for example, recommended handling in case of acknowledging the insider information of entity which ITOCHU has capital or contractual relationship, and we are taking action to assure that all employees know about them.

| Perspectives on Information Management

ITOCHU Corporation has formulated IT Security Management Policy for all executives and employees. The objective of these rules is to provide proper management of information required for business activities by setting forth a code of conduct on information handling and assuring a high level of information security. More specifically, we have determined rules and standards on personal information management, document management, and IT security, and are striving to prevent the leakage of personal information and other confidential information.