

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 positive and effective relationships with our stakeholders. To execute our business activities in a fair 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 elected outside directors at the General Meeting of Shareholders held in June, 2011, 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 June 24, 2011, 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 company-wide 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 (Introduced an Outside Directors System)

ITOCHU has elected 2 outside directors at the General Meeting of Shareholders held in June, 2011. The outside directors are believed to further increase the effectiveness of the supervision of management by the Board of Directors and improve the transparency of the Board of Directors' decision making by 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
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 supervise the corporate management of ITOCHU from an independent perspective. And she has no material interests in ITOCHU.
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 supervise the corporate management of ITOCHU from an independent perspective. And he has no material interests in ITOCHU.

*1 Yuko Kawamoto and Kazuyuki Sugimoto are independent directors as prescribed by domestic financial instrument exchanges, such as the Tokyo Stock Exchange.

Systems to Ensure Effectiveness of Supervisory 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
Ryozo Hayashi *1	ITOCHU has elected him, anticipating that he will 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.
Keiji Torii *1	ITOCHU has elected him, anticipating that he will 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.
Masahiro Shimojo *1	ITOCHU has elected him, anticipating that he will 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.

*1 Ryozo Hayashi, Keiji Torii and Masahiro Shimojo are independent auditors of ITOCHU as prescribed by domestic financial instrument exchanges, such as the Tokyo Stock Exchange.

Comments from Corporate Auditor

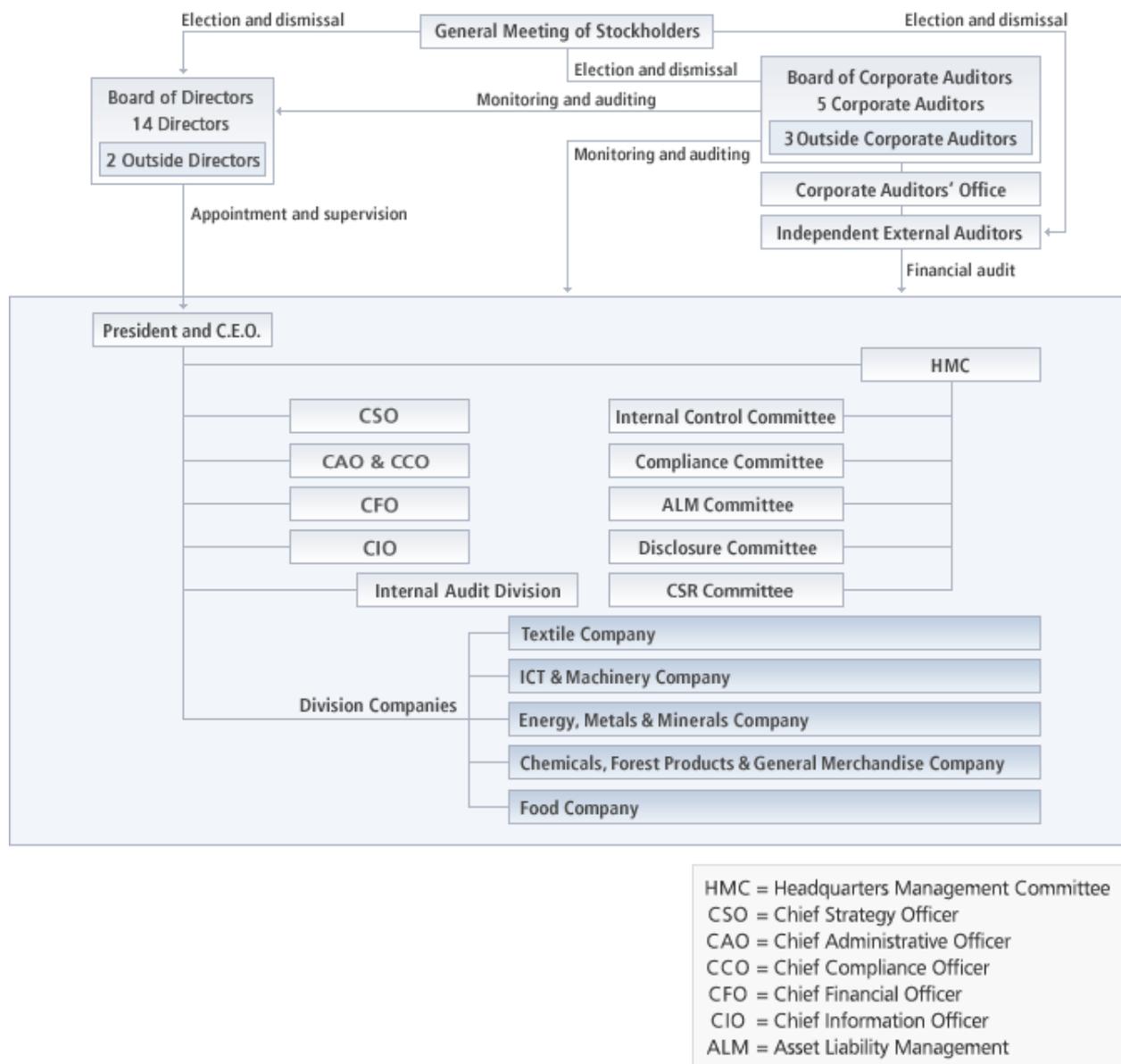


Ryozo Hayashi
Corporate Auditor

My major activities at the Ministry of Economy, Trade and Industry as well as at the University of Tokyo were focused on corporate governance and corporate social responsibility. Based on my experiences, I intend to contribute to the enhancement of management performance by introducing an outside perspective and by focusing on enhancing the corporate governance system.

The current business environment surrounding major global companies, such as ITOCHU, is unprecedentedly difficult. The opportunities and risks that such companies face change swiftly and drastically. In such a business environment, management is required to show both strong leadership to pursue the business opportunities and an effective corporate governance system that limits risks. In particular, ITOCHU, as one of the largest trading companies engaged in diversified businesses around the world, has not only to perform a wide range of operations skillfully but also to maintain a balance between the realization of short-term business performance and the maintenance of sustainable long-term value creation. As a corporate auditor, I will monitor management performance and advise management with a view to developing a strong and well-balanced management system, which is an imperative to coping with these challenges. In developing such a system, I will keep reminding myself of the interests of ITOCHU shareholders as well as the interests of a wide range of other stakeholders.

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 and confirms the overall development status of internal control; and reports items for improvement to the HMC and Board of Directors.

■ Principal Internal Committees

Name	Objectives
Internal Control Committee	<ul style="list-style-type: none"> ▪ Deliberates on issues related to the development of internal control systems
Disclosure Committee	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ Deliberates on issues related to risk management systems and balance sheet management
Corporate Officer Compensation Consultative Committee	<ul style="list-style-type: none"> ▪ Deliberates on issues related to the compensation of corporate officers, including their compensation after retirement
Compliance Committee	<ul style="list-style-type: none"> ▪ Deliberates on issues related to compliance
CSR Committee	<ul style="list-style-type: none"> ▪ Deliberates on issues related to corporate social responsibility, environmental problems, and social contribution initiatives

Internal Control System

On April 19, 2006, ITOCHU's Board of Directors established the Basic Policy regarding the Internal Control System and made a commitment to continuously improve internal control systems.

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 and improve the internal control system to comply with the internal control reporting system.

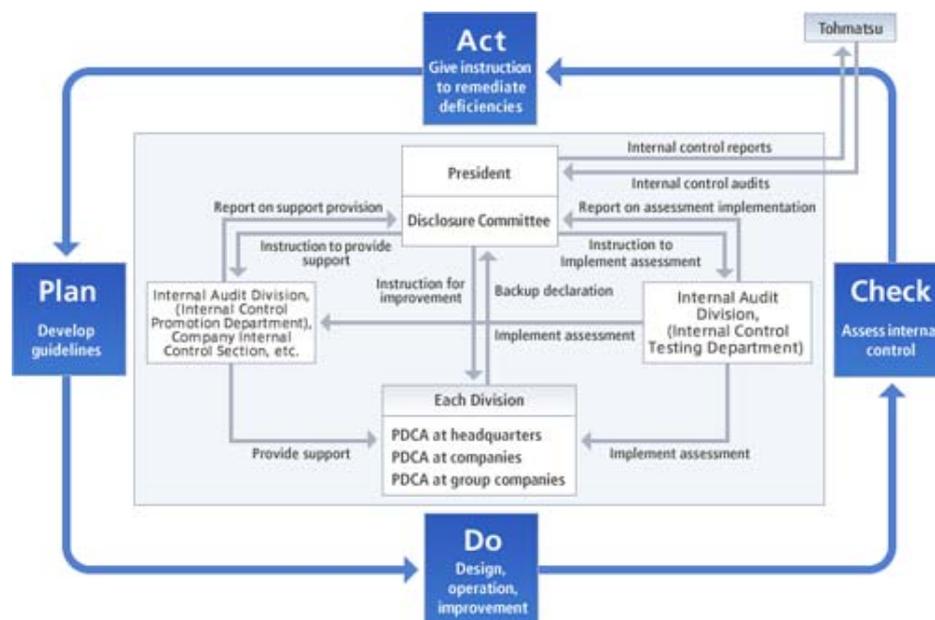
Furthermore, a new organization called the Internal Control Promotion Department promoting a risk-base approach has been created in parallel with the existing Internal Control Testing Department within the Internal Audit Division, in order to increase the effectiveness and the efficiency of the internal control system.

Results of the independent assessment conducted by the Internal Control Testing Department are submitted to each related unit and are used to establish and maintain the adequate internal control system. This Plan-Do-Check-Act cycle enables ITOCHU to improve 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 company-wide 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)



Basic Policy Regarding the Internal Control System

The Company has established the following internal control systems, which are necessary to ensure that executive officers' implementation of duties are in compliance with laws and statutory regulations and articles of incorporation and ensure the appropriateness of other operations. Below is a summary of the Basic Policy regarding the Internal Control System, which the Board of Directors approved on April 19, 2006. (It has been partially revised on May 6, 2011.)

Notes

1. System to Ensure Compliance by Directors and Employees to Laws, Regulations and the Articles of Incorporation

■ (1) Corporate Governance

- (1) As the decision-making body, the Board of Directors which comprises of Directors and Outside Directors is to decide important matters in accordance with laws and regulations, the Articles of Incorporation, the "Board of Directors Regulations," and other internal regulations, and as the supervisory body, the Board of Directors is to supervise the performance of the directors.
- (2) Each director is to carry out such director's functions and duties as designated by the Board of Directors in accordance with laws and regulations, the Articles of Incorporation, resolutions by the Board of Directors, and internal regulations.
- (3) ITOCHU is to adopt the Executive Officer System to strengthen the decision-making function and supervisory function of the Board of Directors, and to streamline executive decision-making.
Based on the approval of the Board of Directors, executive officers implement their designated duties based on delegation from the Board of Directors and representative directors.
- (4) The corporate auditors are to oversee the performance of the directors based on the "Board of Corporate Auditors Regulations" and "Auditors' Auditing Standards."

■ (2) Compliance

- (1) Directors, executive officers and employees are to conduct themselves in accordance with the ITOCHU Group Corporate Philosophy and Code of Conduct.
- (2) ITOCHU is to establish a department that oversees all compliance matters, including all matters relating to the CCO (Chief Compliance Officer) and the Compliance Committee. In addition, the "ITOCHU Group Compliance Program" is to be created to further enhance our compliance system.

■ (3) Internal Control to Ensure Reliability of Financial Reporting

- (1) ITOCHU is to have in place internal regulations concerning commercial transactions management and accounting, and is to create the position of CFO (Chief Financial Officer) to ensure the reliability of financial reporting.
- (2) ITOCHU is to establish the Disclosure Committee and regularly review and improve the internal control systems to ensure the reliability of financial reporting.

■ (4) Internal Audits

ITOCHU is to establish the Audit Division under the direct control of the President. The Audit Division is to regularly implement internal audits of all aspects of business operations based on the "Audit Regulations." Such internal audits are to examine compliance with laws and regulations, the Articles of Incorporation, and internal regulations, as well as, among other matters, the appropriateness of the procedures and nature of the exercise of duties and responsibilities.

2. System for the Storage and Preservation of Information Related to Director Duties

The directors are to appropriately store and preserve important documents and related materials concerning the performance of their duties, including the minutes of the General Meeting of Stockholders, in accordance with the "Information Management Regulations," the "Document Management Rules" and other internal regulations. All documents and information so stored and preserved are to be subject to inspection by the directors and auditors at any time. Further, the Company will establish departments responsible for the timely disclosure of important corporate information and other information. At the same time, directors will rapidly and comprehensively gather information that requires disclosure and implement timely and appropriate disclosure in compliance with laws and statutory regulations.

3. Regulations Concerning the Management of the Risk of Loss and Other Relevant Risk Management System

To adequately address the various risks associated with our business operations, such as market risk, credit risk, country risk, and investment risk, ITOCHU is to establish internal committees and responsible departments, and is to develop the necessary risk management system and risk management techniques, for example establishing a full range of management regulations, investment criteria, risk limits and transaction limits, and developing reporting and monitoring systems, and managing company-wide as well as matter-specific risks. Furthermore, ITOCHU is to regularly review the effectiveness of the risk management system.

4. System to Ensure Efficient Performance of Directors

■ (1) The HMC and Other Internal Committees

The HMC (Headquarters Management Committee) as a supporting body to the president, and a number of other internal committees, are to facilitate the proper and agile decision-making by the president and the Board of Directors.

■ (2) Division Company System

Under the Division Company System, the position of Company president is to be created at each Company, and each Company is to manage its business autonomously in accordance with laws and regulations, the Articles of Incorporation, and internal regulations. Furthermore, each Company is to establish its own numerical targets, and regularly evaluate its performance by comparing against such numerical targets.

■ (3) Clearly Define the Scope of Authority and Responsibilities

In order to ensure the appropriateness and efficiency of the performance of the management, ITOCHU is to develop internal regulations to clearly define the scope of authority and responsibilities of each corporate officer and divisional manager.

5. System to Ensure the Adequacy of Operations of the ITOCHU Group (Consisting of ITOCHU Corporation and Its Subsidiaries)

■ (1) Subsidiary Management System

ITOCHU is to establish a department that oversees all the subsidiaries. Furthermore, relevant departments within ITOCHU Corporation are to exercise jurisdiction over their responsible subsidiaries, and provide managerial guidance to such subsidiaries in accordance with the internal regulations concerning consolidated company management. In principle, ITOCHU Corporation is to send directors and auditors to each subsidiary to ensure the adequacy of the subsidiary's operations.

■ (2) Compliance

ITOCHU Corporation is to provide guidance to its subsidiaries for the purpose of implementing a compliance system at each subsidiary in accordance with the "ITOCHU Group Compliance Program," and is to implement full compliance in the entire ITOCHU Group through education and training.

■ (3) Internal Audits

All of the operations and activities of the subsidiaries are to be subject to internal audits by the Audit Division.

6. Matters Concerning Supporting Personnel to Auditors and Independence of Such Personnel from the Directors

ITOCHU is to establish the Corporate Auditors' Office under the direct jurisdiction of the Board of Corporate Auditors and is to put in place full-time employees with the sole responsibility of supporting the work of the corporate auditors. The supervisory authority over such employees is to belong exclusively to the corporate auditors, and evaluation of such employees is to be carried out by the corporate auditor designated by the Board of Corporate Auditors. Any transfer orders or disciplinary actions relating to such employees are to require prior approval by such corporate auditor.

7. System for Reporting by Directors and Employees to Corporate Auditors

■ (1) Attendance at Important Meetings

The corporate auditors are to attend meetings of the Board of Directors, the HMC meetings, and other important meetings, and interview the directors and other relevant persons regarding the performance of their duties. In addition, the corporate auditors are to have the right to inspect all relevant materials.

■ (2) Reporting System

- (1) The directors and corporate officers are to regularly report to the corporate auditors about their performance. Furthermore, in addition to the matters required by laws and regulations, the directors and corporate officers and divisional managers are to report all the decisions that could have a major impact on the finance or business of ITOCHU to the corporate auditors immediately after such decisions are made.
- (2) Employees are to have the right to report directly to the corporate auditors any matters that could cause serious damage to ITOCHU.

8. Other Relevant Systems to Ensure the Proper Functioning of Audits

■ (1) Coordination with the Auditors in the Audit Division

The Audit Division is to maintain close communication and coordination with the corporate auditors with respect to matters such as formulation of the internal audit plan for each business year, and internal audit results.

■ (2) Retaining External Experts

When deemed necessary, the corporate auditors are to independently retain external experts for the implementation of an audit.

* ITOCHU intends to revise and improve these internal control systems tirelessly in order to build systems that are even more appropriate and efficient. Further, a meeting of the Board of Directors convened on May 6, 2011, evaluated the developments and operations of items pursuant to the basic policy in fiscal 2011 and confirmed that there were no significant deficiencies or defects.

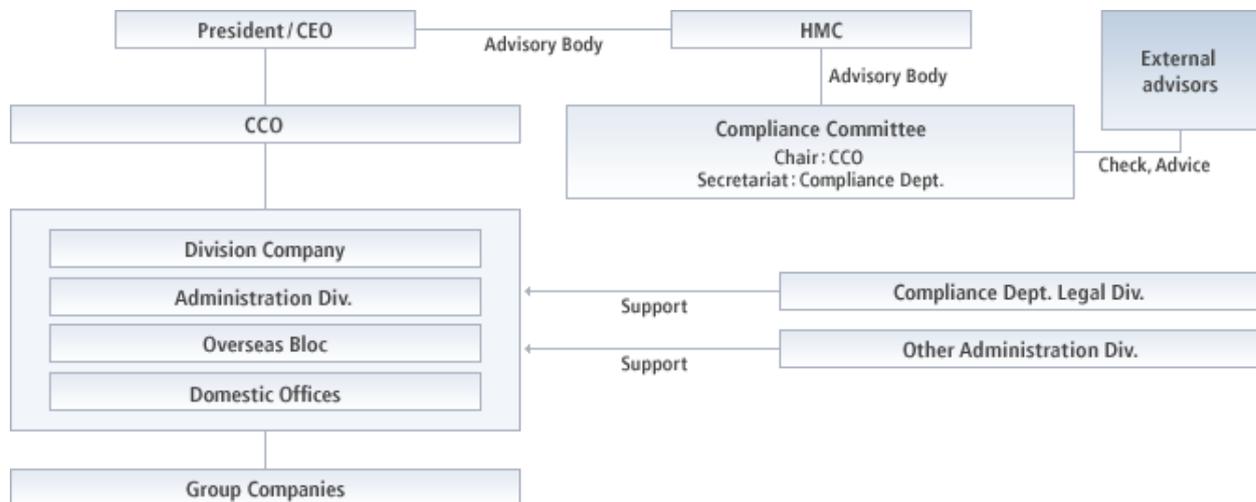
Compliance



Group Promotion Structure

The ITOCHU Group has compliance officers in each organization within Headquarters and at all 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 Division Companies, as well as consideration of local laws, business characteristics, and operational formats. In addition, we conduct simultaneous companywide Monitor & Review surveys every six months. 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 Structure



Major Compliance Measures in Fiscal 2011 and Tasks for the Future

During fiscal 2011, we compiled and distributed to all employees a Compliance Handbook summarizing rules that each employee is expected to strictly observe. In conjunction, we conducted a test to confirm understanding of handbook contents via an e-learning module.

Additionally, overseas and Group companies received visits and subsequent guidance designed to assess actual frontline conditions and identify risk, as we pursue activities that emphasize compliance system operations. Furthermore, we formulated and moved to steadily implement distinctive measures to enhance compliance at each Division Company, based on existing incident trends, Monitor & Review results, and other data. Along with further promotion of these measures, we will continue striving to strengthen compliance with an emphasis on overseas 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 enforcement of a major anti-corruption law in the UK 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.

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.