

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

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

Comprising 14 directors (including 2 outside directors) as of July 1, 2013, 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 four corporate auditors, including two 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.

Corporate Governance System

Type of system	Company with the Board of Directors and corporate auditors (the Board of Corporate Auditors)
Number of directors	14
Of which, number of outside directors	2
Number of corporate auditors	4
Of which, number of outside corporate auditors	2
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

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, 2013, ITOCHU had two outside directors and two outside corporate auditors, all of whom satisfy the above-stated requirements and therefore are registered as “Independent Director(s) / Auditor(s)” in the domestic financial instrument exchanges on which ITOCHU is listed.

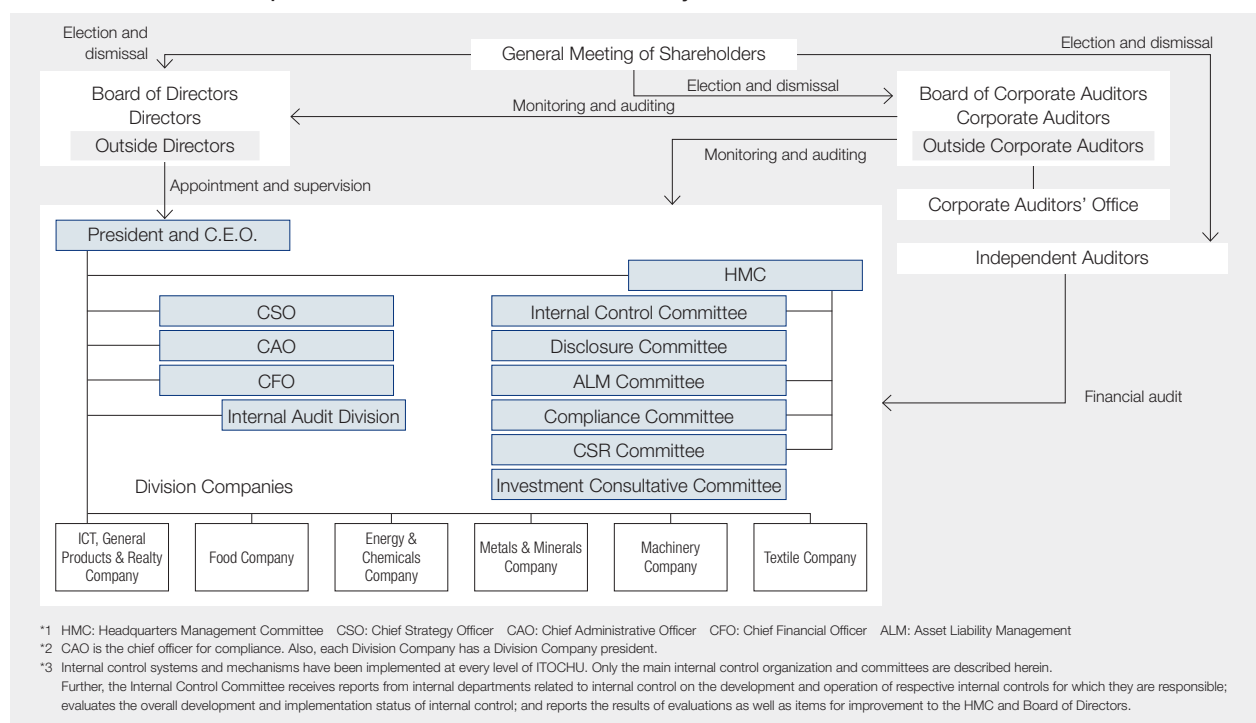
Reason for Appointment as Outside Directors

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.

Overview of ITOCHU's Corporate Governance and Internal Control System



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
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
Investment Consultative Committee	<ul style="list-style-type: none"> Deliberates on issues related to investment and financing
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

Messages from Newly Appointed Outside Directors

I became an outside director for the first time, and I heard that ITOCHU appointed outside directors only two years ago.

Whether companies or government agencies, organizations are groups of professionals. In particular, internal directors are pros among pros. Information is centralized in them and they have honed their instincts through long years of work. Those instincts are of paramount importance in deciding whether a company should move forward, stay in place, or pull back.

Outside directors are different. We do not know as many details about a company's businesses and organization as internal directors. However, we sometimes might start to lose track of our surroundings, if we get too far into things. This is what we call "The outsider sees most of the game" as the saying goes. Also, there might be issues which are difficult for insiders to raise. The way I see it, this is the significance of outside directors.

For the past 40 plus years, I have been involved in government. During this time, I have been in charge of a broad range of issues, from security affairs through economic negotiations to information analysis. I resolve to do my best to apply my experiences and fulfill my responsibilities.

General trading companies hold the keys to the Japanese economy. If the Japanese economy is the human body, then trading companies act as its nervous system, ensuring that muscles operate as efficiently as possible, and their movements serve to stabilize and vitalize the economy. ITOCHU is one of the healthiest companies in its category. I also heard that ITOCHU has an open corporate culture.

With the Japanese economy currently on the cusp of a leap forward, I consider it a blessing to be involved at the leading edge. I am looking forward to working together with the employees of ITOCHU.



Ichiro Fujisaki

Distinguished Professor,
Chairman of International
Strategies, Sophia University



Chikara Kawakita

Professor, Graduate School of Law,
Hitotsubashi University

I was recently appointed as an outside director of ITOCHU. After working in government for many years, I am currently a university professor. I would like to contribute to ITOCHU's growth by utilizing my knowledge, while maintaining a neutral perspective.

The importance of corporate governance came home to me strongly during my recent employment at the National Tax Agency. First, I focused on the essential elements of corporate governance for maintaining compliance, including tax matters, and I asked corporate managers to establish corporate governance systems.

Second, taxpayers and citizens are to a tax agency as shareholders and customers are to a company. A company wants to do good work in order to meet the expectations of its stakeholders; the same is the case for a government agency. "What sort of corporate governance is necessary in order to do good work?" Techniques may differ between the public and private sectors, but I have faced that same question with regard to an organization's administrative operations.

By applying these experiences, I intend to do my best to further enhance corporate governance at ITOCHU.

The ITOCHU Group corporate philosophy is "Committed to the Global Good," and I think this is a clear vision to share among a vibrant group of people. I will also work to be "Committed to the Global Good," taking on the challenge of supporting ITOCHU's efforts to maintain the trust and satisfy the expectations of its stakeholders from my own position.

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

We have put in place a company structure designed to further enhance the reliability of our consolidated financial reporting. First, for each organization we have appointed a Chief Operating Officer, etc., as Chief Responsible for Internal Control to establish a Groupwide line of responsibility. In addition, the Disclosure Committee is designated as a steering committee to design the internal control system related to financial reporting, and to conduct testing and assessment of the system. Results of testing are fed back to each related

unit and designed to ensure continuous improvement through a plan–do–check–act (PDCA) cycle. Furthermore, following a March 2011 policy revision by the Financial Services Agency, we have continued to pursue effectiveness and efficiency and are working to reinforce our internal controls.

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 (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 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, General Manager of the Global Risk Management Division, and corporate auditors—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.

Monitoring

To promote asset replacement and reduce the number of small-scale and loss-making Group companies, 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 candidates to be exited from after confirming whether Group companies are infringing on exit selection criteria as well as taking the future policies of all Group companies into consideration.

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.

Fiscal 2013 in Review

Results in fiscal 2013 under the corporate governance system explained on the previous pages include the following.

Number of Meetings Convened by Principal Management Bodies

Board of Directors	18
Board of Corporate Auditors	15
Outside director attendance at Board of Directors' meetings	97%
Outside corporate auditor attendance at Board of Directors' meetings	94%
Outside corporate auditor attendance at Board of Corporate Auditors' meetings	96%

Key Decisions Made by the Board of Directors in Fiscal 2013

- 1) Acquisition of shares in Finland's METSA FIBRE Oy, one of the world's leading pulp producers
- 2) Acquisition of shares in Toyo Advanced Technologies Co., Ltd. (conversion to subsidiary)
- 3) Acquisition of the Asian fresh produce business and the worldwide packaged foods business of Dole Food Company, Inc., the world's largest producer and marketer of fresh fruits and vegetables
- 4) "Brand-new Deal 2014," the medium-term management plan for FY2014–15
- 5) Joint interest in the Sarulla Geothermal IPP Project in Indonesia with Kyushu Electric Power Company, Incorporated and other companies

Details of Compensation

Type	Number of people	Amount paid (Millions of Yen)	Details
Director (Outside directors)	14	1,372	(1) Monthly compensation: ¥741 million
	(2)	(23)	(2) Directors' bonuses accrued and payable for the fiscal year ended March 31, 2013: ¥631 million
Corporate auditor (Outside corporate auditors)	6	119	Only monthly compensation
	(3)	(33)	
Total (Outside directors and corporate auditors)	20	1,491	
	(5)	(56)	

*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.

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.

Breakdown of Remuneration for Auditing

Details of Remuneration of the Independent Auditor and Other Firms

Type	Fiscal 2012		Fiscal 2013	
	Remuneration for audit certification (Millions of Yen)	Remuneration for non-audit certification services (Millions of Yen)	Remuneration for audit certification (Millions of Yen)	Remuneration for non-audit certification services (Millions of Yen)
The Company	500	101	620	24
Its subsidiaries	762	80	679	75
Total	1,262	181	1,299	99

Other Significant Remuneration

During the fiscal years ended March 31, 2012 and 2013, the amount of remuneration paid by the Company and its subsidiaries to member firms of Deloitte Touche Tohmatsu Limited other than the Company's independent auditor, Deloitte Touche Tohmatsu LLC, was ¥1,229 million and ¥1,375 million, respectively.

Non-Audit Certification Services Conducted by Independent Auditor and Other Firms

During the fiscal years ended March 31, 2012 and 2013, the Company paid remuneration to its independent auditor for non-audit certification services, comprising the creation of comfort letters and the consultation and advices regarding International Financial Reporting Standards (IFRS).

Policy on Determining Remuneration for Auditing

After the CFO determines the appropriateness of the audit plan, the number of audit days, and the content of audit certification presented by the independent auditor, the decision is made through agreement by the Board of Corporate Auditors.

Accountability

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 2013 include the following.

Activity	Times	Content
Presentations for analysts and institutional investors	4	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.
Site tours for analysts and institutional investors	1	We conduct tours so that analysts and institutional investors can visit Group companies or project sites.
Segment-specific briefings for analysts and institutional investors	1	We hold meetings for analysts and institutional investors to explain specific themes such as strategies of individual operating segments.
Briefings on large-scale projects for analysts and institutional investors	1	We hold explanatory meetings when announcing large-scale projects of particular interest to analysts and institutional investors.
Presentations for overseas institutional investors	6	These meetings are concentrated on Europe, North America, and Asia.
Presentations for individual investors	Several times	We hold meetings for individual investors at stock exchanges and branches of brokerage firms.
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 segment-specific briefings, 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.



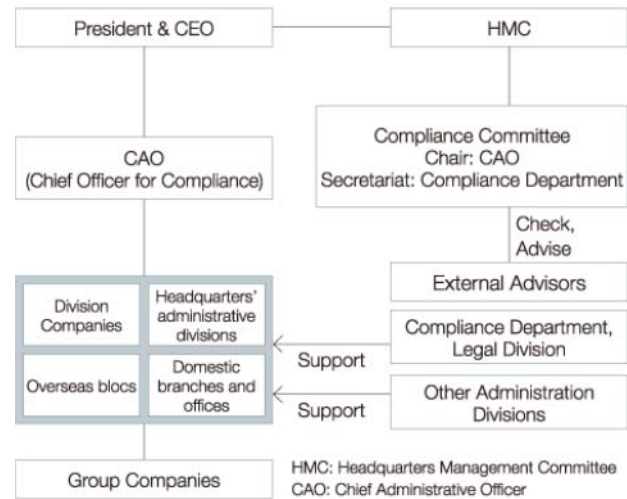
Compliance

ITOCHU Group's Compliance System

The ITOCHU Group has compliance officers in each organization within Headquarters and at all major Group companies worldwide. With consideration for local laws, business characteristics, and operational formats, these compliance officers are creating systems for the promotion of compliance.

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. We have also formulated regulations for hotlines. These regulations protect whistleblowers who provide internal information and provide a framework for the appropriate handling of that information. This initiative is reinforcing compliance management by supporting the prompt discovery and rectification of any incidents of corruption.

Compliance System



Major Compliance Measures in Fiscal 2013 and Tasks for the Future

In fiscal 2013, On-Site Compliance Training was held 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 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, in June 2011 ITOCHU revised its own aforementioned regulations and guidelines as a measure to enhance its own responsiveness in this area. In fiscal 2013, through various training programs we worked to circulate information regarding the aforementioned revisions within ITOCHU and to overseas blocs. At the same time, through monitor and review initiatives, steps were taken to conduct risk assessment with respect to payoffs, bribery, and similar impropriety.

Measures to Fight Collusive Bidding and Cartels

In recent years, there have been many reports of suspected cartel activities in markets around the world. Accordingly, in April 2010 ITOCHU revised its Anti-Monopoly Law Manual as a means of strengthening its response. To track the level of awareness of this manual and the status of the system for preventing cartel activities for the Group as a whole, in fiscal 2013 we implemented monitoring of Anti-Monopoly Law violation prevention. In consideration of the results of this initiative, we will work to raise understanding of collusive bidding and cartel activities throughout the entire Group. To that end, we will implement education and training and implement a system for ongoing risk assessment and monitoring.

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.

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.