

# 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 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 July 1, 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 At the Board of Directors Meeting on August 1 2011, Yuko Kawamoto and Kazuyuki Sugimoto were designated as independent directors as prescribed by domestic financial instrument exchanges, such as the Tokyo Stock Exchange.

## 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

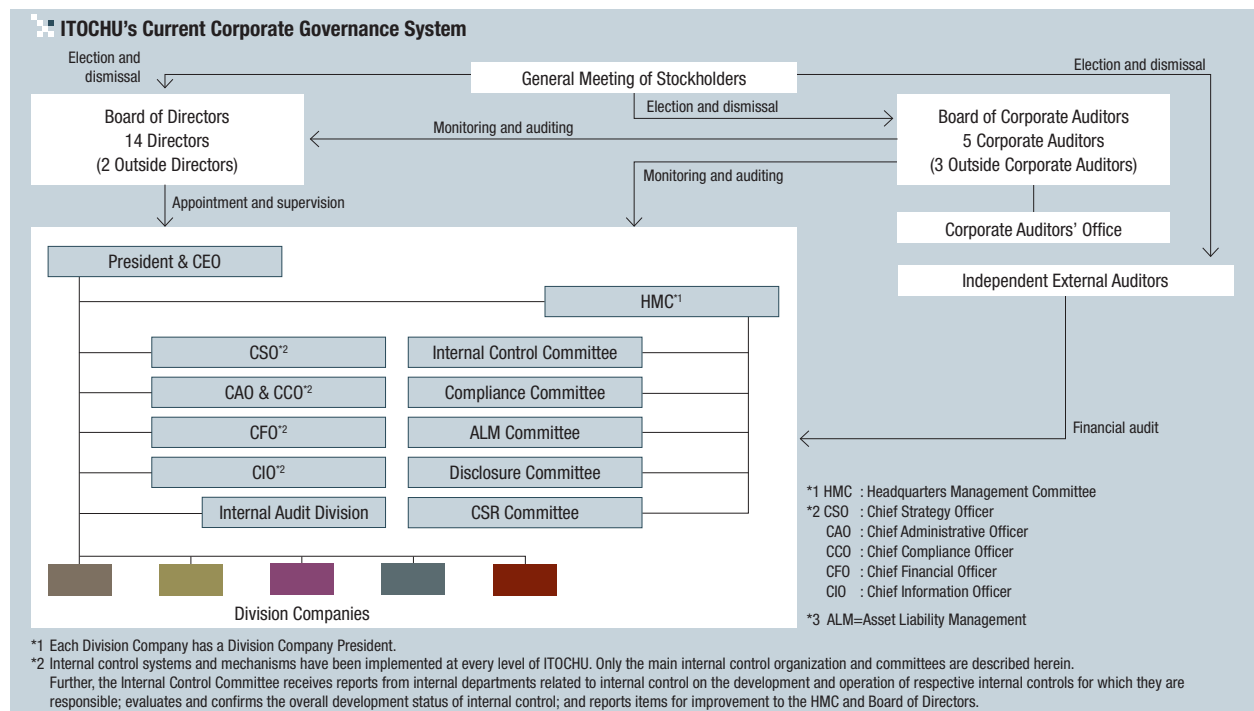
for internal audits. Aiming to facilitate exchanges of information and close collaboration, members of this division meet regularly with corporate auditors to discuss such matters as internal audit planning. In addition, the Corporate Auditors' Office, reporting directly to the Board of Corporate Auditors,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

### Relationship of Outside Corporate Auditors with ITOCHU

Name	Reason for Appointment
Ryozo Hayashi* <sup>1</sup>	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* <sup>2</sup>	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* <sup>2</sup>	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.

\*<sup>1</sup> Ryozo Hayashi is an independent auditor of ITOCHU as prescribed by domestic financial instrument exchanges, such as the Tokyo Stock Exchange.

\*<sup>2</sup> At the Board of Directors Meeting on August 1 2011, Keiji Torii and Masahiro Shimojo were designated as independent auditors as prescribed by domestic financial instrument exchanges, such as the Tokyo Stock Exchange.



### 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 the Company in the fiscal year ended March 31, 2011 are as follows.

Type	Number of People	Amount Paid (Millions of Yen)	Details
Director	15	1,148	(1) Monthly compensation: ¥1,058 million (2) Directors' bonuses accounted for as expenses in the fiscal year ended March 31, 2011: ¥91 million
Corporate auditor (Including outside corporate auditors)	5 (3)	123 (32)	Only monthly compensation
Total	20 (3)	1,271 (32)	

\*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 in 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 this 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. Based on this, in addition to the amounts paid as shown above, in June 2010, ¥320 million was paid as retirement benefits to 1 director who retired during the current fiscal year.

The compensation paid to all directors of the Company (excluding outside directors) consists of monthly compensation and performance-linked bonuses. The monthly compensation is determined by the contribution to the Company of each director based on the base amount set by the 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 and made a commitment to continuously improve internal control systems. (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 and improve the internal control system to comply with the internal control reporting system.

Furthermore, since fiscal 2012 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.

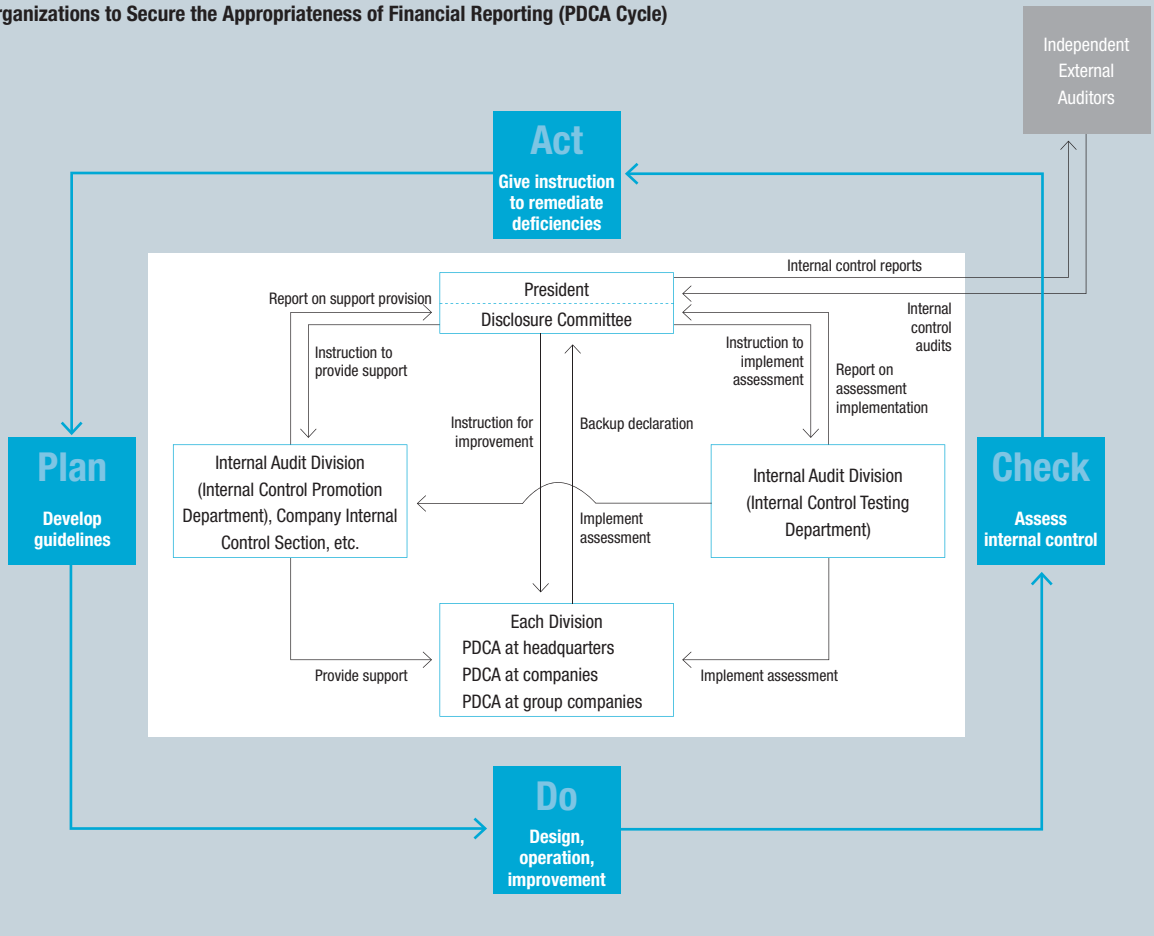
Results of the independent assessment conducted by the Internal Control Testing Department are submitted to each related unit and are used to establish and maintain the adequate internal control system.

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)



## 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.

For each release of quarterly financial results, we provide explanations from senior management through financial results presentations and videos on our web site. Further, senior executives visit domestic and overseas investors to explain business management information directly to them. Especially for overseas investors, in fiscal 2011, senior executives held direct dialogues with investors in major cities in Europe, the United States, and Asia. Also, for individual investors ITOCHU holds presentations in major cities in Japan.

In addition, ITOCHU publishes annual reports and other reports in English and Japanese as a means of communicating ITOCHU's policies and progress in relation to business management to shareholders and investors unable to attend presentations and a range of other stakeholders. Furthermore, from the standpoint of fairness, ITOCHU's web site provides disclosure documents in both English and Japanese.

In order to facilitate appropriate and highly transparent disclosure, senior executives receive any feedback from shareholders and investors attending presentations.

