Q&A with Mr. Eizo Kobayashi,
President and Chief Executive Officer

The fiscal year ending March 2007 is the final year for ITOCHU's mid-term management plan, Frontier-2006. It is also the year to establish a highly profitable group that can steadily and sustainably generate a consolidated net income of more than ¥100 billion with the shift to aggressive business strategy and the enhancement of solid management style.

We would like to describe ITOCHU's strategy and efforts towards the future by first, explaining the challenges we face, and second, answering questions that you may have about our group.

Where do you find ITOCHU's strengths, compared with other trading companies?

We think that ITOCHU has strengths in various fields, especially in the fields related to consumer business and information Industry.

ITOCHU started business in textile trading. Since then, our business has expanded to fiber material, international trade of textile, apparel, and industrial material businesses. At present, ITOCHU focuses on brand business and innovative technologies which have greater value added. For example, ITOCHU's brand business controls every aspect of marketing from planning, sales promotion, and sale of products, with the concept of delivering the products as well as their historical background to our consumers. Such ITOCHU's efforts have led to the formations of new business models, ahead of other competitors. Another example is ITOCHU's successful establishment of Value Chains in its foods services that cover from upper stream (production) to downstream (retail) under the initiative of our SIS (Strategic Integrated System) strategy. The Value Chains have grown into the largest scale in the food service industry in Japan. In June 2006, ITOCHU also acquired NIPPON ACCESS INC. as its subsidiary by TOB. In this way, ITOCHU is stepping up its efforts in the Consumer Related sector.

Concerning the field related to information industry, ITOCHU TECHNO-SCIENCE Corporation, ITOCHU Group's key subsidiary, and CRC Solutions Corp. have agreed that both companies will merge in October 2006 to form a leading company in the IT service industry in Japan.

Against the backdrop of high resource prices, ITOCHU enjoyed steady growth in the Natural Resource Development sector. In other sectors, the Division Companies also made solid profits by focusing their corporate resources into their respective core business segments. ITOCHU is characterized as having a good balance of profits in each business segment, which we would like to maintain.

Would you tell us your strategy and efforts for the Consumer Related sector, a strength of ITOCHU?

Our mid-term management plan, Frontier-2006, has sought to boost ITOCHU's revenues by reinforcing our vertical strengths, that is having the textile company and the food company to take initiative and to lead the Consumer Related sector. For example, in the area of brand business, we have acquired FILA's master license, invested in Paul Smith Ltd. of Britain, and acquired LeSportsac Inc. of the United States. In food related business, ITOCHU acquired NIPPON ACCESS INC. in June 2006 as its subsidiary to seek its total optimization and information scale expansion in the domestic food distribution market, an important business segment for ITOCHU.

ITOCHU has also been seeking to boost its profits by reinforcing lateral coalitions where ITOCHU can exercise its comprehensive strengths as a general trading company and develop business over several sectors which will generate synergy. As a part of such coalitions, ITOCHU has invested in Orient Corporation (Orico), established Excite Credit Co., Ltd., an Internet-based financing company, and Asclass LSA Inc., a housing improvement support company, for synergy in broader areas.

ITOCHU concluded a memorandum of understanding on business cooperation with general merchandise retailer UNY Co., Ltd. in January 2006. With this MoU, we will enhance our efforts to expand our transaction (mainly wholesale of foods), promote joint product development and sales, and product distribution. We also intend to facilitate collaboration in the area of real estate development.

ITOCHU is determined to extend businesses and increase profits in the Consumer Related sector by expanding brand business further and reinforcing cooperation with Orico and UNY.

Would you tell us about the progress in Orico-related business and its future plan?

ITOCHU has three principles for coalition with Orico; 1) establishment of new businesses, 2) promotion of support to Orico member merchants, and 3) support to Orico's operation. Under these principles, over 200 business projects have been discussed so far among Orico Business Integrated Department, our division that seeks business synergy with Orico, Orico's ITOCHU Coalition Division, and Alliance Promotion Division II. At present, some 100 business projects are listed for examination on a steady basis, which will be materialized one after another when feasible.

Among others, the following coalition business projects have already been implemented:

– Housing Improvement Support Business

Orico foresees that housing improvement is one of Orico's key businesses in the following generation. Based on the concept of "safe and secure housing improvement service," ITOCHU and Orico established Asclass LSA Inc. in April 2006. The subsidiary will provide good local builders with the brand power and proposal tools that are needed to promote housing improvement service.

– Financing Business with Excite Japan Co.

Excite Japan Co., Ltd., a portal site operator, Orient Corporation, and ITOCHU Corporation have jointly established Excite Credit Co., Ltd., a financing service company on the Internet. The joint venture started operation in April 2006.

ITOCHU will continue to increase and accelerate collaboration projects in seeking greater synergy with Orico.

ITOCHU made a good performance in the Natural Resource Development sector for the fiscal year ended March 2006. Do you foresee the business will continue to expand after the fiscal year ending March 2007? Also what is your growth strategy for other businesses?

We do not foresee any possibilities of sharp drops in resource and energy prices during the fiscal year ending March 2007, because steady demand for resources is expected to continue from China and other countries. In addition, there is little possibility that resource producing countries can make a sharp increase in their production capacities in a short-term. Thus, ITOCHU anticipates that our Natural Resource Development sector will remain to be our important profits sector for the fiscal year ending March 2007.

However, we foresee that current high prices are unlikely to continue after the fiscal year ending March 2007. Accordingly, we are careful in examining new resource development projects to prevent, so-called, "high price buy."

Our consolidated net income for the fiscal year ended March 2006 comprises some 40% of net income earned in the Natural Resource Development sector, 30% in the Consumer Related sector, and 30% in other sectors. ITOCHU will maintain these net income percentages, namely earning some 30% of net income in each of these sectors in order to maintain a balanced corporate management.

Would you tell us ITOCHU's view of investment and criteria for screening on decision making?

ITOCHU is a general trading company that engages in vast and diverse operations, encountering various risks, such as market risk and credit risk. To counter these risks, ITOCHU has adopted Risk Capital Management (RCM) that focuses on corporate risk management. At present, the Company grasps a total of risk volumes and implements the control of individual business portfolios of the Division Companies.

Among others, ITOCHU's basic view of investment is to carefully screen business projects whose return to risk asset (RRI: Risk Return Index) exceeds shareholders' equity cost. In addition to our RRI criterion, ITOCHU, as an investor, determines whether the target company deserves our investment by examining criteria of the target company, such as RRI, ROA, income scale, and the number of years to clear cumulative losses. As for overseas investment, ITOCHU takes foreign exchange risks into consideration and sets shareholders' equity cost by the country to determine whether or not to make investment.

We also think that reallocation of assets is essential for utilizing limited Group resources and forming high-profits and high-efficiency Group companies, besides examining new investment projects. In line with this view, ITOCHU monitors not only deficit-ridden Group companies but also profitable businesses if their income scale is small or if their operation is not efficient. Then, the Company sells the assets of those that cannot meet the criteria or withdraws from the industry.

According to ITOCHU's mid-term management plan, you will invest some ¥200 billion (in net value) for two years. Would you tell us the progress that you have made so far and a plan for the final year?

ITOCHU invests in businesses and projects with good prospects but withdraws from those in low efficiency and poor strategic role within the Group.

ITOCHU invested a little over ¥230 billion (in gross value) in new projects for the fiscal year ended March 2006. The major investment projects include Orico, North Sea oil field concession, iron ore related expansion in Australia, and acquisition of a new brand in the area of textile.

On the other hand, ITOCHU withdrew from businesses and projects worth of some ¥110 billion. The net difference of ¥120 billion is the actual investment for the fiscal year ended March 2006. We anticipate that our investment level will remain almost the same for the fiscal year ending March 2007.

ITOCHU will continue to screen projects and boost investment as we have done in the past based on our investment criteria. Meanwhile, we will also continue to implement our exit criterion steadily to low efficient businesses and projects.

Human Resources is said to be essential for a trading company. Would you tell us ITOCHU's basic view of Human Resources and its policy?

ITOCHU recognizes that securing and training workers are extremely important in order to uphold high competitiveness and to target higher growth all the time.

We continue to employ new graduates as our main recruitment source and mid-career personnel as immediately useful players to complement the new graduate recruitment source. Under this recruitment policy, ITOCHU sets a goal of employing 150 to 160 workers annually from its mid-to-long term viewpoints.

ITOCHU anticipates that it will become difficult to secure workers stably, due to the increasing retirement of the baby-boomer generations and declining birth rates. To counter the situation, the Company will continue to maximize the diversity of employees, regardless of gender, nationality, and age based on the "Promotion Plan on Human Resource Diversification" that the Company formulated in December 2003.

ITOCHU bases its Human Resources policy on precisely grasping the capability, aptitude, and preference of workers and appointing the right person in the right place, regardless of the age and sex in order to make the most of them.

Moreover, ITOCHU has been emphasizing the training of employees for the management position who can work in the world-level. Such targets include young and female management personnel and thus, we can promote consolidated management of the Group. Furthermore, ITOCHU has established personnel programs in Group companies abroad, that aims to promote the appointment of local staff in the management of ITOCHU.

Would you tell us ITOCHU's strategy abroad?

Our mid-term management plan, "Frontier-2006," sets a goal of earning a half of consolidated net income in overseas. ITOCHU will boost profits in North America, China, and other Asian regions, which have been defined as priority markets in "Frontier-2006," for the fiscal year ending March 2007. ITOCHU has also defined Russia, India, and Brazil to be emerging markets with growth potential and is introducing a number of preceding aggressive steps to boost revenues in these markets in the future.

ITOCHU saw increasing profits in its building material related business, construction equipment business, and small generators related business in the North America market due to steady demand for housing and facilities. The Company foresees increasing profits for the fiscal year ending March 2007 compared with the previous fiscal year, due to favorable performances of the Group companies that are continuing to boost revenues.

ITOCHU also saw a favorable performance in China for the fiscal year ended March 2006 due to a strong performance in its financing business and increasing revenues stemmed from trading of chemicals and nonferrous materials. ITOCHU invested in the beverage business established by the Dingxin group and the Asahi group, and in the leading automobile dealer in the city of Chengdu in the Sichuan Province. Both investment projects are closely associated with the local industry. Since China entried into the WTO in 2001, many domestic markets have been opened to overseas corporations, domestic laws and regulations have been eased, and legislative arrangement has been promoted. With these movements, ITOCHU obtained the authorization of the Company as a Regional Headquarters of Transnational Corporation from the Ministry of Commerce of China in September 2005. The authorization has enabled ITOCHU to acquire a right to have international trade, a right to market products in the domestic market, and a right to invest in outside China.

ITOCHU established a trading subsidiary in India in April 2006 to boost revenues stemming from trades within the emerging market. During the fiscal year ended March 2006, ITOCHU increased exports to India centering on energy-related products, chemicals (synthetic fiber materials), and textiles (fabric products). Moreover, the Company has won an LNG terminal expansion project contract, and has been preparing itself for the infrastructure business including new freight railway and traffic system construction.

For Russia and the surrounding areas, ITOCHU made a sharp increase in sales for the fiscal year ended March 2006, mainly due to boosting trade of crude oil from Azerbaijan and Russia and increased sales of automobiles in Russia. It is noteworthy to report that the ACG Oil Field Development Project started crude oil production in the western Azeri oil field, which has been on the gradual increase of production.

ITOCHU regards Brazil to be an important nation as a resource producer. Thus, the Company has been cooperating on a number of resource and energy related projects. Particularly, ITOCHU has worked and will continue to work with Petróleo Brasileiro S.A.(Petrobras) for joint projects including investment in resources outside Brazil. Concerning pulp business, ITOCHU has set a goal of becoming No. 1 in terms of pulp trade volumes in the world. To this end, the Company is focusing on increase in trade of pulps in Asia, North America, and Europe through Celulose Nipo-Brasileira S.A (CENIBRA) in which ITOCHU has invested through Japan Brazil Paper and Pulp Resources Development Co., Ltd. (JBP).

We have heard that "ITOCHU DNA Project ～Designing New Age～ " would be implemented in the fiscal year ending March 2007. Would you explain to us the project?

The ITOCHU DNA Project aims to innovate the entire business processes of ITOCHU group. All of us will discuss the future image of ITOCHU. Thus, we set up the ITOCHU DNA Project Office in April 2006 to supervise and promote the project in order to make the most of ITOCHU Group and to reinforce power and ability of each organization with greater competitiveness by raising the quality of our business processes.

The basic principles of the project lie in raising the level of "aggressive business" and "solid management" by reinforcing the capabilities of the ITOCHU Group companies and each employee, namely reinforcing power and ability of each organization. At the same time, we will reinforce the current management system by adding the viewpoint of total optimization to the Division Company System which functions as the optimal management in various business fields Group's quick decision-making system. All of these will reinforce consolidated management of the Group and define the actual and future image of ITOCHU.

ITOCHU will expand the visualization of operating processes. Routine tasks will be examined to standardize or integrate for greater efficiency, which will improve quality and speed of the process. At the same time, ITOCHU will try to create extra power for sales, promote the specialization and enhancement of administrative staffs' abilities, and then reinforce power and ability of each organization. Moreover, ITOCHU will build up a Group-level management information control system that can immediately provide management information that has become more important and essential for quick decision-making. Furthermore, ITOCHU will rebuild settlement processes in search of total optimization for the purposes of making early consolidated settlements of accounts, institutionalizing the disclosure of quarterly settlements of accounts, and securing the credibility of financial statements (precise settlement of accounts) that is required by internal control of the Group. Through the expanding visualization of operating processes, ITOCHU will implement effective risk management, compliance, and internal control across the Group.

This ITOCHU DNA Project has no period defined. We plan to root the project in ITOCHU and the Group as a continuous movement. Thus, the project is a part of changes in the way of thinking of employees. Although institutional systems may change, the way of thinking of employees will remain as the lasting DNA of ITOCHU and the Group systems.

Would you tell us ITOCHU's policy of dividend distribution?

ITOCHU places its policy of dividend distribution to stockholders upon "improving shareholders' equity with retained earnings to promote growth strategy; maintaining and reinforcing corporate competitiveness; and making stable and continuous distributions of dividends after corporate performances are taken into account."

ITOCHU thinks we can enhance our business value and contributable to stockholders when the Company improves stockholders' equity, makes preceding efforts for business expansion and strategic investment and promotes growth strategy, all of which will be useful for surviving intensified competitions and boosting revenues steadily. At the same time, ITOCHU sees that stable and continuous distributions of dividends to stockholders are important.

ITOCHU distributed ¥7 of annual dividend per share for the fiscal year ended March 2005, and ¥9 of annual dividend per share for the fiscal year ended March 2006. Its ROE was kept at a high percentage of 23.5%. The Company plans to distribute ¥10 of annual dividend per share for the fiscal year ending March 2007.