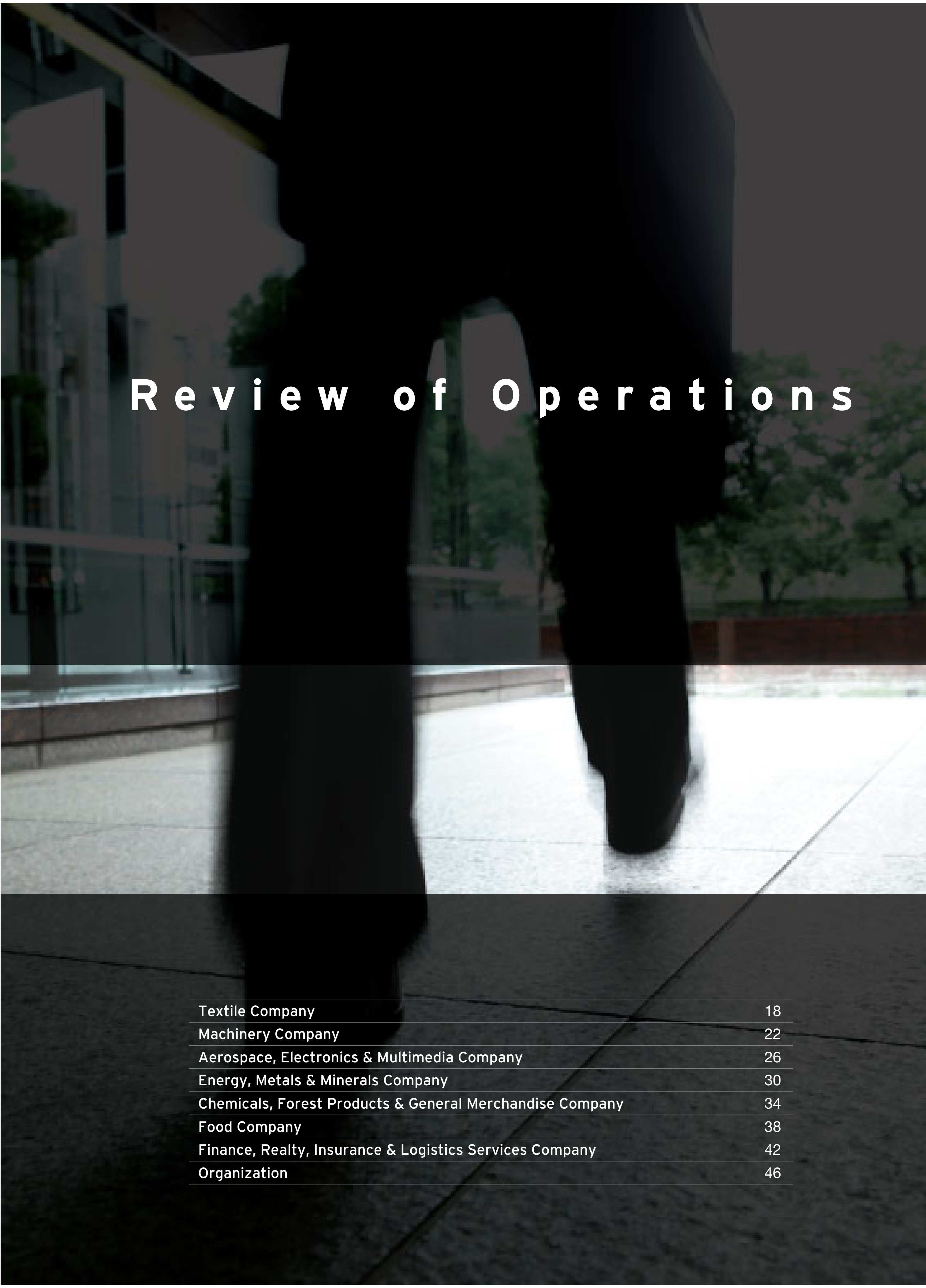
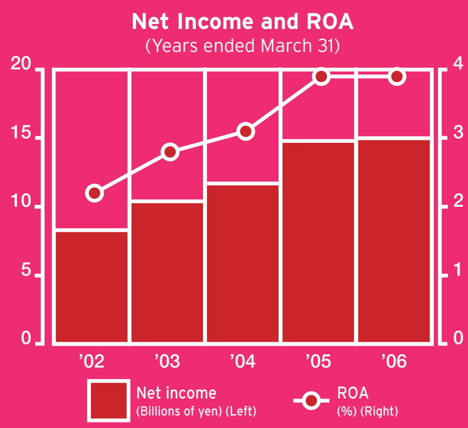


Review of Operations

Review of Operations

Textile Company

Masahiro Okafuji
President, Textile Company



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	83.5	93.5	100.3	112.8	122.9
Net income (loss)	8.3	10.4	11.7	14.8	15.0
Identifiable assets at March 31	384.1	370.8	382.7	377.2	395.4
ROA (%)	2.2	2.8	3.1	3.9	3.9

Net Income from Major Group Companies* (Billions of yen)

Years ended March 31	'04	'05	'06
Prominent Apparel Ltd.	0.4	0.2	0.0
Tommy Hilfiger Japan Corporation	0.7	0.6	0.6

*ITOCHU's share of net income

The Textile Company is engaged in diverse businesses covering all fields of the textile industry, ranging from fashion items, such as apparel products, accessories, and interior fabrics, to hi-tech fibers and other industrial textiles. Involved in all stages, from raw materials to finished goods and brand-name products, we mobilize our global network to manufacture and market our products. Major affiliates with worldwide operations include JOI'X Corporation, Prominent Apparel Ltd., and Tommy Hilfiger JAPAN, Corporation.

Business Overview

The Textile Company's fundamental policy is to demonstrate its marketing strengths across the board, from procurement of raw materials to delivery of final products. Based on this policy, we are strengthening our brand businesses while actively seeking the most appropriate locations for our production and sales operations. At the same time, we are continually striving to create new businesses.

The Company's brand business is one of its most outstanding strengths. Here, we draw on our marketing strengths, which range from discovering exciting brands to establishing their acceptance in the market, to enter alliances or make acquisitions aimed at achieving long-term stabilization of trademark rights. We are also working to fortify our capabilities in such areas as sales in non-Japanese markets. Backed by these unparalleled strengths, we are introducing new and valuable brands while nurturing our existing portfolio of more than 100 labels.

In the materials and apparel products sector, we have a global production and sales system that makes full use of local factories situated throughout the world. These activities center on the operations of ITOCHU Textile Materials (Asia) Ltd. in Hong Kong and ITOCHU Textile (China) Co., Ltd. in China, as well as Prominent Apparel Ltd., which has operations in Hong Kong, the United States, and Europe. We deploy this system to pursue customer-focused businesses with added value, while at the same time expanding our business domains to include all areas pertaining to consumer lifestyles. We handle luxury fashion brands in full items, including LANVIN, Paul Smith, and mila schön. We have extended our business range to sports brands, such as CONVERSE, furthermore to brands related to shoes, bags, jewels and tableware such as BALLY, CHROME HEARTS , SCAVIA , and Richard Ginori . In addition, we have sought to blend food, fashion, and music through the DEAN & DELUCA and Blue Note brands. Meanwhile, we are actively creating a new business model that makes full use of information technology. One example is Magaseek, an online shopping site that lets visitors purchase products shown in women's magazines online or by mobile phone.

Strengths

The Textile Company creates new value for people's daily lives, constantly expanding across the globe from its origins in Japan. Our business began with textile fabrics, and has since expanded to include raw materials, finished products, and industrial textile materials.

Adhering to its fundamental strategies of "pursuing added value" and "seizing the initiative," the Company embraces customer-focused concepts to steadily grow its businesses.

In terms of net income, the Textile Company holds the No. 1 spot among general trading companies in the textile industry. The Textile Company's strengths include: (1) broad business portfolio, ranging from textile raw materials to finished products, including brands, industrial materials, and advanced technologies; (2) vertical integration, making full use of our global network for material procurement, product development, manufacture, and sales; (3) the largest brand business among all trading companies, together with formidable marketing power; and (4) business expansion in China and other Asian countries ahead of others in the industry (local production and sale of raw materials, textiles, and apparel products, as well as development of brand business and alliances with local companies).

Our focus on boosting marketing power and maximizing brand value does not mean that we are shifting our focus to the downstream end of the value chain. While we are forging new frontiers in downstream activities, our aim is to bring products from upstream and midstream clients, who boast advanced technological capabilities, and introduce those products throughout Japan and the world. Covering all aspects of the textile industry will give us the synergy to maximize our comprehensive strengths.

We will always be a textile company. While many trading companies have recently distanced themselves from their "textile" origins, we want to diversify our business in such a way that textiles remain at the heart of them all. We will continue to seek higher added value while maintaining deep roots in the Japanese textile industry.

Business Performance in the Fiscal Year Ended March 2006

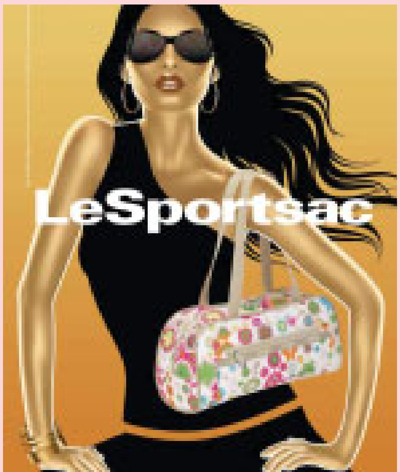
During the period under review, the macroeconomic environment surrounding the textile industry benefited from trends in China, which opened its markets to foreign investment, and in Japan, where improvements in corporate performances helped boost individual incomes. The year saw a major change in textile trading as the United States abolished restrictions on import volumes, while in Japan the distribution industry underwent restructuring. Negative aspects included widening performance disparities between companies and regions and overall weakening of Japan's textile manufacturing industry.

Organization (As of April 1, 2006)

Textile Company

- **Textile Material & Industrial Textile Division**
  - Textile Material Department
  - Industrial Textile Department
- **Textile Division**
  - Textile Department 1
  - Textile Department 2
- **Apparel Division**
  - Apparel Department 1
  - Apparel Department 2
- **Brand Marketing Division 1**
  - Brand Marketing Department 1
  - Brand Marketing Department 2
- **Brand Marketing Division 2**
  - Brand Marketing Department 3
  - Lifestyle Department
- Planning & Coordinating Department
- Accounting & Control Department
- Credit & Affiliate Administration Department
- IT Business Development Department

TOPICS



LeSportsac 2006 Spring Summer image visual

Brand business: Acquired major trademark rights and initiated new large-scale projects

In December 2005, the Textile Company acquired a stake in Paul Smith Group Holdings Ltd. to further reinforce its existing partnership.

In February 2006, we acquired LeSportsac, Inc., jointly with U.S. fashion goods manufacturer, Brand Science LLC. With a focus on maintaining the quality of branded products and engaging in product development, we will develop a stable long-term business by reinforcing sales in Japan, other Asian countries, Hawaii, and Oceania.

In March 2006, we signed a master licensing agreement with Fila Luxembourg, s.a.r.l., a subsidiary of U.S.-based Sport Brands International, LLC, covering the FILA brand in Japan. Going forward, we will actively promote marketing strategies for the FILA brand and strengthen our ties with Sport Brands International. We will also strive to enhance the value of the FILA brand while passing on production and distribution rights for apparel products to sub-licensees, primarily Renown Incorporated.

Under these circumstances, in the fiscal year ended March 2006 the Textile Company adopted a consumer-oriented marketing strategy. Identifying Consumer Related sectors, centering on brand apparel products, we worked to acquire trademark rights for major brands and initiated large-scale projects. Highlights included: (1) forming a collaborative arrangement with United Arrows Ltd. to strengthen domestic sales and enhance the image of the luxury CHROME HEARTS brand, as well as the establishment of a joint venture with U.S.-based Chrome Hearts Inc. to promote worldwide sales; (2) the acquisition of casual bag maker LeSportsac Inc. in alliance with U.S. accessory company Brand Science, and subsequent sales development in Asia and Oceania; (3) the purchase of a 40% stake in U.K.-based Paul Smith Group Holdings Ltd. to strengthen our partnership; and (4) the acquisition of a master license for the Italian FILA brand in Japan, and measures aimed at expanding that business.

In advanced technologies, we entered into a capital tie-up with textile manufacturer Tosco Co., Ltd. The alliance gives the Textile Company exclusive marketing rights for next-generation exhaust gas purification filters for diesel engines. We are currently undertaking development of the filters in cooperation with Tosco, with a view to launching the products swiftly mainly in Europe, the world's largest diesel car market, as well as in Japan. We have also initiated a project to develop inkjet printing and curved-surface printing systems.

Mid-to-Long Term Challenges and Strategies

The Textile Company will concentrate on the following three strategies in the medium and long terms: (1) reallocate and upgrade assets; (2) expand overseas earnings; and (3) recruit and train competent management personnel.

Policies and Outlook for the Fiscal Year Ending March 2007

In the fiscal year ending March 2007, the second and final year of the "Frontier-2006" mid-term management plan, we will aim to increase consolidated revenues and earnings. To this end, we will focus on the following three key initiatives: (1) acquire new businesses; (2) expand the earnings of our business companies; and (3) increase earnings of overseas operations while implementing appropriate risk management procedures.

Number of Employees	
Consolidated*	5,644
Non-consolidated	673

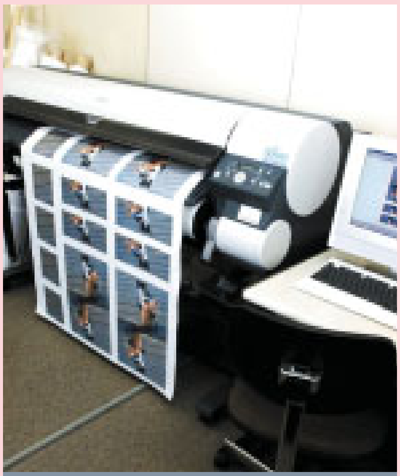
*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	38
Overseas	24

Major products & Services
- Raw material • Textile
- Apparel products • Fashion goods
- Industrial textile, and Branded products or service such as apparel, food, household goods and music.

Advanced Technologies Business

In a joint venture with Denenchofu Roman Co., Ltd., we established InkMax Co., Ltd., covering the inkjet printing business. Through an alliance with Canon Marketing Co., Ltd., we will market products that use patented technology to print directly onto fabric. The technology incorporates a new, environmentally friendly dyeing technique that uses a special water based ink receptive polymer.

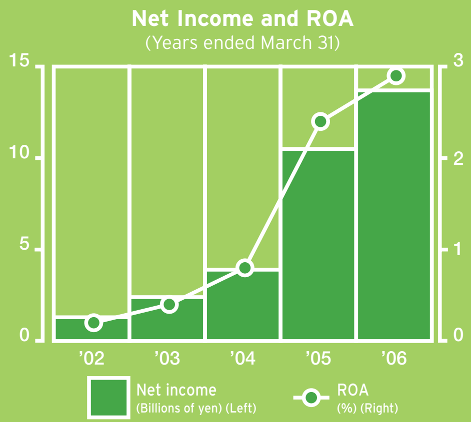


Fabric printing process by InkMax technology

Review of Operations

Machinery Company

Takanobu Furuta
President, Machinery Company



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	50.2	48.6	51.1	58.0	69.5
Net income (loss)	1.3	2.4	3.9	10.5	13.7
Identifiable assets at March 31	588.1	490.1	433.6	451.4	489.0
ROA (%)	0.2	0.4	0.8	2.4	2.9

Net Income from Major Group Companies* (Billions of yen)

Years ended March 31	'04	'05	'06
ITOCHU Sanki Corporation	0.3	0.3	0.4
Century Medical, Inc.	0.2	0.3	0.1
MCL Group Ltd.	0.5	0.2	0.4
ITOCHU Automobile America, Inc.	0.6	1.1	1.1
Century Leasing System, Inc.	1.0	1.1	1.3

*ITOCHU's share of net income

The Machinery Company is engaged in infrastructure-related projects such as automobiles, ships, construction machinery, industrial machinery, plants, railways, highways and bridges and offers associated services.

Major affiliates include ITOCHU Construction Machinery Co., Ltd., Century Medical, Inc., MCL Group Ltd., ITOCHU Automobile America Inc., and Century Leasing System, Inc.

Business Overview

The Plant & Project Division undertakes projects in gas, petrochemicals, power, transport related infrastructure, ships, environment and other areas. These projects are carried out through project financing schemes, leasing and other methods. In addition to supplying and installing the infrastructure of conventional plants, ships, and rolling stock and financial transactions related to these, the division has aggressively sought resource development and ship transportation projects, and business investments around the world, including structured finance in crude oil production plant in Brazil, LNG ship transportations using own LNG carriers, and water, steam and electricity supplying business in Saudi Arabia. At home and abroad, the Plant & Project Division constantly strives to provide high-level, value-added services with the aim of meeting customer needs starting from project development to post-construction plant operation and maintenance.

The Automobile Division started its operations in the 1950s to coincide with the commencement of Japanese automobile exports. Capitalizing on ITOCHU's worldwide network, the division has grown its business globally, serving local customers. It has also been aggressively developing various automobile-related businesses in major North American, European and Asian countries. These include retail, auto financing, logistics and wholesaling. The division's team of professionals utilizes the expertise garnered from active involvement and experience in global automobile businesses as well as widespread contacts that span the entire automobile industry, including major Japanese, U.S. and European auto manufacturers. It is continuously upgrading its quality of services to meet customer's needs at every stage of life with automobile.

The Industrial Machinery & Solution Division has expanded business in an attempt to become a high-skilled group that will shoulder industrial growth globally. In the high-precision processing and new energy field, handling of electric semiconductors and LCD panels, solar batteries and lithium ion battery-related development and business expansion are being performed mainly in Europe, the U.S., and Asia. In the medical field, the division supplies and distributes medical materials to hospitals in Japan while importing medical equipment from abroad, and operates businesses in North and Central America. In the construction and industrial machinery field, the division is engaged in businesses in Japan, Europe, the U.S., China, Asia, and Africa while participating in official development assistance projects in developing countries. Additionally, the division is engaged in businesses in fields such as textile, synthetic resin, food, environmental, and port machinery.

Strengths

One of the features of the Machinery Company is its highly efficient management and its ROA is among the highest for machinery segment of general trading companies. Another feature is its proactive overseas expansion with its long-standing focus on trading in the overseas markets and it has nearly one-third of its personnel at overseas branches and subsidiaries.

The Machinery Company intends to further enhance its strengths and expand into new areas of business and has identified the following as its key policies — (1) allocating management resources to core segments, (2) aggressively pursuing the core market of the U.S. as well as the emerging markets in the BRICs, and (3) revenue generation in new business models.

Business Performance in the Fiscal Year Ended March 2006

From a macroeconomic perspective, despite negative factors such as rising costs of plant construction caused by price increase in steel products, the overall environment surrounding the industry was a favorable one for the Machinery Company, thanks to expansion in the automobile and construction machinery markets in countries and regions such as Europe, the U.S., Russia and Commonwealth of Independent States, strong shipping market, expansion of plant business in oil producing countries, rising demand for various environment-related projects and improved export competitiveness due to the weaker yen.

Under such circumstances, the Machinery Company's automobile-related business in Europe and the U.S. and construction machinery business in North America did well for the fiscal year ended March 2006 and the strong shipping market also gave a boost to its business. As a result, gross trading profit of the Machinery Company rose 11.5 billion yen to 69.5 billion yen compared with the previous fiscal year and net income increased by 3.2 billion yen on year to 13.7 billion yen.

During the fiscal year ended March 2006, the Company won orders for more than 50 ships from China, Europe and Japan including nine bulkers for Greek ship owners. In Saudi Arabia, the Company started working jointly with Sasakura Engineering Co., Ltd. on a seawater desalination plant rehabilitation project and embarked on a business to supply water, electricity and steam for the Rabigh Project. In North America, the Company invested

Organization (As of April 1, 2006)
Machinery Company

- **Plant & Project Division**
  - Marine Department
  - Oil, Gas & Petrochemical Project Department
  - Transport & Infrastructure Projects Department
  - Utility Solution Business Department
- **Automobile Division**
  - Automobile Department No.1
  - Automobile Department No.2
  - Automobile Department No.3
  - Department of Automobile Business Strategy and Development
  - Isuzu Business Promotion Department
- **Industrial Machinery & Solution Division**
  - Medical Solution Business Department
  - Industrial Machinery & Project Department
  - Fine Process Machinery Department
- Planning & Coordinating Department
- Administration Department
- Affiliate Administration & Risk Management Department

TOPICS

An automobile dealer of Nissan in Chengdu, Sichuan province, China

Investing in Automobile Dealer in Sichuan Province, China

In February, ITOCHU Group made a capital investment in Sichuan Ganghong Group Co.,Ltd.(hereinafter, "Gang Hong"), the No. 1 automobile dealer in terms of sales in Chengdu, Sichuan province, China (investment ratio: ITOCHU Corporation — 20%; ITOCHU (China) Holding Co., Ltd. — 20%). ITOCHU Corporation and Gang Hong Group had established an auto repair company in 1997 and the good relationship built on the subsequent joint management contributed to the Machinery Company becoming the first foreign company to gain approval to enter the automobile sales business in China. Gang Hong currently handles six brands from Japan, the U.S., Europe and South Korea (Nissan, Honda, Buick, in an IPP project at Green Country Energy LCC near Tulsa, Oklahoma.

As part of its endeavors in the automobile business in BRICs, the Machinery Company made a capital investment in Sichuan Ganghong Group Co., Ltd. of China, the top dealer in Chengdu, Sichuan province, and participated in a joint manufacturing project with Akebono Brake Industry Co., Ltd. in Guangzhou and Suzhou. Furthermore, the Company established a subsidiary in Russia in order to promote the sales of automobiles made by SUZUKI MOTOR CORPORATION.

Mid-to-Long Term Challenges and Strategies

While maintaining its highly efficient management style, the Machinery Company aims to "accelerate the shift to aggressive business" through the active allocation of its management resources to core segments by further shuffling of assets, a move which had brought about an increase in total assets in the past fiscal year, reversing the declining trend until then. In addition, the Company plans to grow Group Companies into core businesses by increasing their profitability as part of its efforts towards enhancement of consolidated business management. Furthermore, the Company intends to assess the potential of new business areas such as medical, new technology, etc. in which it has been making anticipatory explorations, while considering large-scale strategic investments to boost consolidated profitability.

Policies and Outlook for the Fiscal Year Ending March 2007

In the fiscal year ending March 2007, which is the final year of Frontier-2006, the Machinery Company will continue to implement its core measures. During the fiscal year, plant projects especially in Middle East, China and India are expected to maintain the momentum while North America, East Europe and Russia are expected to lead the continued favorable trend in automobile business. In the Industrial Machinery & Solution Division, the Company has been receiving lots of inquiries regarding resource related construction machineries while the market for industrial machineries is estimated to be brisk both in Japan and overseas. In general, the Machinery Company is expected to perform strongly in the current fiscal year.

Number of Employees	
Consolidated*	6,687
Non-consolidated	569

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	24
Overseas	57

Major products & Services

• Oil • Gas and petrochemical plants • Ships • Automobiles • Rolling stock • Power generating equipment • Construction Machinery • Textile Machinery • Industrial Machinery • Medical devices • Electronic device and equipment

Chevrolet, Audi and Hyundai) with annual sales of about 7,000 units a year (2005). ITOCHU Group is committed to contribute to further growth of Gang Hong Group by utilizing the expertise in automobile sales it has amassed in Japan, the U.S. and Europe.

Signing of Plant Construction Contract with Lakeside Energy from Waste Ltd., U.K.

On 26th September, 2005, ITOCHU Corporation and TAKUMA Co., Ltd. signed a contract to deliver an energy from waste plant (EPC full turn key contract with four-year O&M service: approximately 23 billion yen) to Lakeside Energy from Waste Ltd., which was jointly established by tow major UK waste management companies; Grundon Waste Management Ltd. and Viridor Waste Management Ltd. The plant is due to open in July 2008 and will have the capacity to incinerate approximately 1,400 tons/day of waste and generate 37 MW of electricity. Furthermore, this is a memorable milestone as it is the first contract for a Japanese incinerator engineering company in Europe, the place where incineration technology originated.

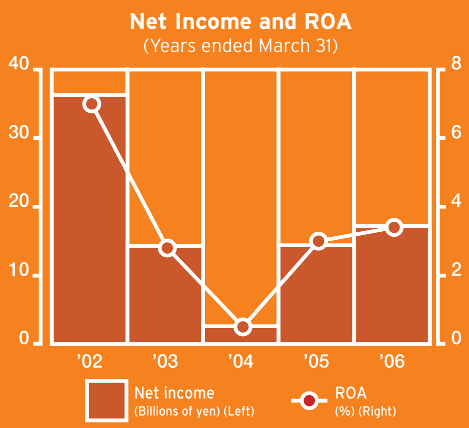
Looking forward, since the EU Landfill Directive has been announced and European countries are obliged to reduce the amount of waste to be landfilled, ITOCHU in collaboration with TAKUMA, intends to actively follow the energy from waste business in the U.K. and elsewhere in Europe.

Rendering of the plant of Lakeside Energy from Waste Ltd., U.K.

Review of Operations

Aerospace, Electronics & Multimedia Company

Shigeki Nishiyama
President, Aerospace, Electronics & Multimedia Company



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	112.4	101.5	105.5	108.4	116.4
Net income (loss)	36.3	14.3	2.6	14.4	17.2
Identifiable assets at March 31	526.2	484.3	464.3	489.4	524.7
ROA (%)	7.0	2.8	0.5	3.0	3.4

Net Income from Major Group Companies* (Billions of yen)

Years ended March 31	'04	'05	'06
ITOCHU TECHNO-SCIENCE Corporation	3.5	5.1	5.5
CRC Solutions Corp.	0.2	1.0	1.1
ITC NETWORKS CORPORATION	1.7	2.3	2.1

*ITOCHU's share of net income

The Aerospace, Electronics & Multimedia Company is engaged in businesses related to networks, content and mobile multimedia and also undertake transactions in aircraft and related equipment and investment in high-tech venture businesses.

Among major operating companies under our wings are ITOCHU TECHNO-SCIENCE Corporation and CRC Solutions Corp. (they are set to merge into ITOCHU Techno-Solutions Corporation in October 2006), as well as Excite Japan Co., ITC NETWORKS CORPORATION, NANO Media Inc., and ITOCHU Aviation Co., Ltd.

Business Overview

ITOCHU boasts top-class profitability in the information and telecommunications field among general trading companies, possessing subsidiaries that are industry leaders in sectors where sustained growth is expected. These subsidiaries include the IT service providers ITOCHU TECHNO-SCIENCE Corporation and CRC Solutions Corp. (they are set to merge into ITOCHU Techno-Solutions Corporation in October 2006), web portal business Excite Japan Co., Ltd., mobile services business ITC NETWORKS CORPORATION, and aerospace business ITOCHU Aviation Co., Ltd.

Strengths

Our basic strategy focuses on development of new core businesses for future growth and enhancement of corporate value of the core operating companies. By selectively putting our management resources in the three core segments of 1) aerospace, 2) IT solutions, and 3) mobile & contents, we have achieved the steady expansion of businesses for future earnings growth.

Our strength lies in that we have put together "the group of companies that can be industry leaders" in highly profitable business sectors where sustained growth is expected. We can be most significantly characterized by the cluster of companies in high-profit sectors where sustained growth is expected, including IT services providers ITOCHU TECHNO-SCIENCE Corporation and CRC Solutions Corp. (to be renamed ITOCHU Techno-Solutions Corporation after their merger set for October 2006), web portal business Excite Japan Co., mobile services businesses ITC NETWORKS CORPORATION and NANO Media Inc., and aerospace business JAPAN AEROSPACE CORPORATION.

Business Performance in the Fiscal Year Ended March 2006

As for the macroeconomic environment for each sector, the IT sector, despite the continuation of falling prices across a broad spectrum of IT products and services, was spurred by sustained IT-related investment thanks to an increasing number of companies achieving an earnings recovery, the diffusion of broadband services, and the overhaul and enhancement of systems to meet security and compliance requirements. The media and mobile sector witnessed an emergence of business opportunities stemming from the ongoing integration of communication and broadcasting as seen in the expansion of optical broadband lines and one-segment broadcast, and growth of new services due to the spread of electronic money-enabled mobile phone handsets.

Amid these developments, we addressed the following matters in the fiscal year ended March 2006. On Demand TV, Inc., a video distribution service for users of the NTT Group's FLET'S Internet services, extended the coverage of video-on-demand services to the whole country. Two of our mobile business operators debuted on stock exchanges. NANO Media Inc. was listed on the Mothers market of the Tokyo Stock Exchange in November 2005, while ITC NETWORKS CORPORATION gained a listing on the Second Section of the Tokyo Stock Exchange in March 2006, as part of our efforts to expand the business on both fronts of hardware and software.

Our earnings performance for the fiscal year ended March 2006 improved from the previous fiscal year, thanks to favorable developments in domestic IT businesses, led by ITOCHU TECHNO-SCIENCE Corporation, the contribution from JAPAN AEROSPACE CORPORATION, an aerospace business operator we took over in the fiscal year ended March 2005, and the exchange listing of the two media-related business firms.

Organization (As of April 1, 2006)

Aerospace, Electronics & Multimedia Company

- **Aerospace & Electronic Systems Division**
  - Aerospace & Defence Department
  - Commercial Aerospace & Electronics Department
- **IT & Business Solutions Division**
  - Information Technology Business Department
  - Business Solutions Department
- **Media Business Division**
  - Network & Content Business Department
  - Mobile & Wireless Department
- Planning & Coordinating Department
- Accounting & Control Department
- Affiliate Administration & Support Department

TOPICS

In the fiscal year ended March 2006, two of our mobile business operators made their debut on the stock exchanges.

NANO Media Inc.: Listed on the Mothers market of the Tokyo Stock Exchange in November 2005

NANO Media Inc., which manages official websites for entertainment, is also broadening the base of users through the distribution of content for mobile phones, including EPG (Electronic Program Guide) in conjunction with radio and television operators. The company is also in the business of developing application software for mobile handsets. Taking advantage of the strength of mobile media, NANO Media will continue to seek to open up new fields of business in collaboration with existing media (including broadcasting companies and publishers).

A NANO application for mobile handsets

Mid-to-Long Term Challenges and Strategies

Regarding the Mid-to-Long Term challenges and strategies, we will strive to foster a core operating company that will follow ITOCHU Techno-Solutions Corporation and ITC NETWORKS CORPORATION. Another Mid-to-Long Term challenge is to create new core businesses, which will drive additional growth for the future. For instance, we engage web portal, Excite Japan, business process outsourcing ("BPO") in the areas of IT, temporary office staff agency and healthcare industry.

Policies and Outlook for the Fiscal Year Ending March 2007

In the fiscal year ending March 2007, the final year of our "Frontier-2006" mid-term management plan, we will take steps to ensure a future increase in consolidated net income by continuing to make sustained efforts to steadily carry out the concentration of management resources and integration of business operations within our Division Company in a whole range of sectors including aerospace, IT solutions, and mobile & contents.

Number of Employees	
Consolidated*	7,794
Non-consolidated	321

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	67
Overseas	13

Major products & Services

• Broadcasting and communication business • Electronics systems • Equipment for broadcasting and communication systems • Programming supply and entertainment business • Mobile telecommunication equipment and services • Systems and related equipment for computer and information processing • Semiconductor equipment • Aircraft and in-flight equipment • Air Transportation Management Systems • Space-related equipment • Security equipment

ITC NETWORKS CORPORATION: Listed on the Second Section of the Tokyo Stock Exchange in March 2006

ITC NETWORKS CORPORATION provides, as its core business, mobile phone contract and sales services at NTT DoCoMo shops and mass-market discount outlets. The company is now also into the solutions business, providing mobile phone-based marketing support services.

A handset outlet shop operated by ITC NETWORKS

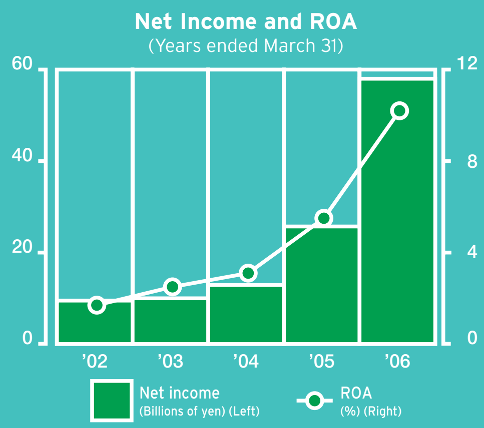
On Demand TV, Inc. extends coverage to the whole of Japan

On Demand TV, Inc., which provides the broadband TV service, "On-Demand TV," for users of FLET'S in the business area of Nippon Telegraph and Telephone West Corp. (NTT West), extended coverage to the business area of Nippon Telegraph and Telephone East Corp. (NTT East), launching its services across Japan.

Review of Operations

Energy, Metals & Minerals Company

Yoichi Kobayashi
President, Energy, Metals & Minerals Company



Financial Highlights

(Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	52.7	33.0	24.7	39.1	73.9
(Metals & Minerals)	40.9	19.2	14.4	25.8	48.2
(Energy)	11.7	13.8	10.3	13.3	25.6
Net income (loss)	9.5	10.0	12.9	25.7	58.0
Identifiable assets at March 31	401.6	391.6	443.7	491.0	644.4
ROA (%)	1.7	2.5	3.1	5.5	10.2

Net Income from Major Group Companies*

(Billions of yen)

Years ended March 31	'04	'05	'06
ITOCHU Non-Ferrous Materials Co., Ltd.	0.5	0.8	1.0
ITOCHU Petroleum Japan Ltd.	1.5	0.4	2.5
ITOCHU Minerals & Energy of Australia Pty Ltd	5.3	13.9	25.9
Marubeni-Itochu Steel Inc.	3.1	9.7	15.9
ITOCHU Oil Exploration (Azerbaijan) Inc.	2.3	2.0	5.2

*ITOCHU's share of net income

The Energy, Metals & Minerals Company, working to expand its profit through the synergetic activities in "natural resources development" and "trading", focuses its energies on the expansion of the existing business in collaboration with the major group companies, such as ITOCHU Non-Ferrous Materials Co., Ltd., ITOCHU Petroleum Japan Ltd., Marubeni-Itochu Steel Inc., ITOCHU ENEX CO., LTD. and ITOCHU Minerals & Energy of Australia Pty Ltd. At the same time, taking a long-term perspective, it actively works to cultivate the new businesses, including those based on alternative energy sources.

Business Overview

The Company is involved in mineral and coal mining and steel processing, as well as such conservation-related businesses including greenhouse gas emission rights trading. The Company also engages in domestic and international trading of iron ore, coal, and other steel raw materials, as well as non-ferrous/light metals and steel products. In addition, we trade crude oil, petroleum products, gas, and nuclear fuels domestically and internationally. Among all those, the energy resources development, mineral resources, and coal are selected as the key segments.

With regard to the mineral resources and coal, we are working to expand the businesses in iron ore development and aluminum refining projects in Australia, as well as coal mining projects in Australia and Indonesia.

Concerning the energy resources development, we are maximizing the Group's net income through two main initiatives – the first, strengthening of the trade in crude oil and petroleum products based primarily on the Company's own equity crude oil and gas, and the second, the building up of the Company's domestic distribution and sales networks, taking full advantage of the existing service station network.

In addition, we are also working to cultivate new businesses in the development and utilization of new environmentally-friendly fuel sources for energy such as dimethyl ether (DME), solar power, and liquefied coal.

With regard to steel products, it established Marubeni-Itochu Steel Inc., jointly with Marubeni Corporation. As a major steel distributor, Marubeni-Itochu Steel Inc. will handle the fabrication and sales of products, as well as solutions and service functions vis-à-vis the customers through its more than 100 of domestic and overseas subsidiaries and affiliates.

Strengths

One of the Company's major strengths is its asset efficiency, which is top-ranked among the Japanese trading houses. We have a well-balanced investment portfolio including profitable projects in the mineral resources, coal, and energy resources development segments. At the same time, we are also working to expand the scope of our trade in energy-related products. The establishment of Marubeni-Itochu Steel Inc. has greatly improved the efficiency of doing this business, and is also contributing to the increased profitability of the Company. We will target the expansion of the profit with the synergetic approach as between "natural resources development" and "trading" by: (1) actively investing in profitable projects and assets with a focus on the natural resources development sector; and (2) bolstering global trading, centering on products generated from the Company's natural resource development projects.

Business Performance in the Fiscal Year Ended March 2006

Our business performance in the period was influenced by mixed conditions. On the one hand, we benefited from continuous high prices of the commodities we handle, such as crude oil, petroleum products, coal, iron ore, and other mineral materials, as well as non-ferrous/light metal materials and products, and steel products. At the same time, however, this was tempered by the strong Australian dollar and fewer opportunities and high cost to acquire equity in natural resource development projects, as well as increases in the cost of resource equipment and materials.

In response, we undertook a number of initiatives. In April 2005, for example, we acquired the equity in the Alba and Caledonia oil fields in the U.K. North Sea. We also decided to proceed with the expansion of the development of iron ore project in Western Australia. In Japan, we reached an agreement to establish a business alliance with Osaka Gas Co., Ltd., for the import and domestic sale of liquid petroleum gas (LPG). As part of this agreement, we acquired a stake in Nissho Petroleum Gas Corporation, a subsidiary of Osaka Gas. In the meantime, the ACG (Azeri-Chirag-Gunashli) Oil Field Development Project in the Azerbaijan Republic commenced oil production at the West Azeri oil field and has steadily increased production volume.

During the year, we recorded a significant increase in net income from our businesses in metals and mineral resources and coal. This was due to price increases for iron ore and coal with these stable shipments, as well as improved results recorded by ITOCHU Minerals & Energy of Australia Pty Ltd (IMEA) and other subsidiaries and affiliates. In the steel sector, Marubeni-Itochu Steel Inc. posted favorable results underpinned by a strong demand for steel for use in automobiles and steel pipes. In the energy sector, net income from crude oil and LNG equities increased as a result of high oil prices. Group Companies engaged in energy trading, including ITOCHU Petroleum Japan Ltd. and ITOCHU ENEX CO., LTD. also posted solid results. As a result, the Company's consolidated net income increased considerably from the previous fiscal year.

Organization (As of April 1, 2006)
Energy, Metals & Minerals Company

- **Metals, Mineral Resources & Coal Division**
  - Metals & Mineral Resources Department
  - Coal Department
- **Energy Trade Division**
  - International Energy Trading Department
  - Energy Sales & Supply Department
- **Energy Development Division**
  - Exploration & Production Department
  - Natural Gas Project Department
- Planning & Coordinating Department
- Control Department
- Affiliate Administration & Risk Management Department
- Steel Business Administration Department

TOPICS

Offshore platform of the West Azeri Field courtesy of AIOC

Azerbaijan ACG Oil Field Development Project and BTC Pipeline

In February 2005, the Company began oil production in the Central Azeri oil field of the ACG (Azeri-Chirag-Gunashli) project, in which it holds equity of 3.9%. In December 2005, production started at the West Azeri oil field.

Oil produced from these oil fields has been exported to Black Sea via the existing pipelines. However, in June 2006, the Company began exporting via the BTC (Baku-Tbilisi-Ceyhan) pipeline, in which it possesses a certain right to capacity. The completion of the BTC pipeline establishes an overland route for the oil produced at the area of the Caspian Sea, including the Azerbaijan, via Georgia to the Turkish coast of the Mediterranean Sea, without having to transport the same through the Bosporus Strait.

Based on the scheduled production from East Azeri and Deepwater Gunashli oil fields, the production volume is expected to reach more than one million barrels per day by around the year 2009.

The Company plans to take full advantage of the know-how it has acquired through such development projects to expand its business activities in the key segments of oil, gas, and other energy resource development.

LPG Business Tie-up with Osaka Gas Co., Ltd.

The Company reached an agreement with Osaka Gas Co., Ltd., to establish a business alliance for the import and domestic sale of LPG. As part of the agreement, we

Mid-to-Long Term Challenges and Strategies

Our Mid-to-Long Term strategy is to broaden our earnings base by continuing to act in accordance with the Company's basic policies. We will invest in both new and existing projects and attempt to achieve a good balance between expansion and new acquisitions in our key segments of iron ore, coal, alumina, oil and gas. We will do our best to raise our earnings base by investing in the new and existing projects and expansion of the trading business with the core of a value chain trades supported by natural resources obtained through our own projects.

Policies and Outlook for the Fiscal Year Ending March 2007

The fiscal year ending March 2007, the second and final year of the "Frontier-2006" mid-term management plan, will not necessarily be a favorable year for implementing measures targeting Mid-to-Long Term perspectives. Although we anticipate a certain level of earnings due to the high prices of natural resources, we expect that, at the same time, there will be fewer opportunities to acquire equity in natural resource development and that any such acquisition will also be more expensive. Under these circumstances, the Company will broaden its earnings base through a well-balanced portfolio by acquisition of new equities and, increased investments and acquisition of more shares in existing projects.

Number of Employees	
Consolidated*	564
Non-consolidated	313

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	17
Overseas	17

Major products & Services

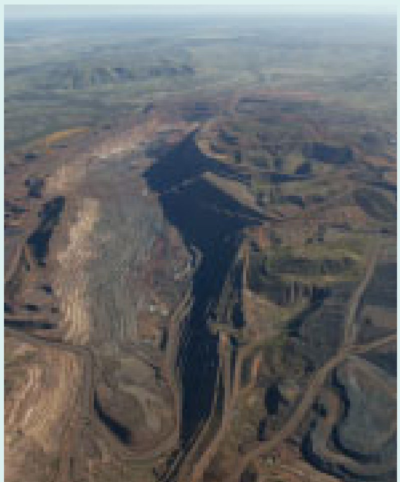
- Crude oil • Petroleum products
- LPG • LNG • Iron ore • Coal
- Aluminum • Steel scrap
- Steel products

acquired a stake in Nissho Petroleum Gas Corporation, a subsidiary of Osaka Gas. Under the alliance, the ITOCHU and Osaka Gas groups will expand customer services and strengthen competitiveness by maximizing each of their strengths.

Tank Base

Expansion of Iron Ore Mining Project in Western Australia

In October 2005, the Company decided to go ahead with the expansion of its iron ore mining project in Western Australia. With our main project partner in Western Australia, BHP Billiton, we have developed iron ore mines and expanded transportation and port facilities. Completion of the Rapid Growth Project 3 will increase total annual production capacity of the Western Australian iron ore operations to 129 million tons. We will continue examining opportunities for further expansion to meet rising world demand, generated primarily from the Asian region.



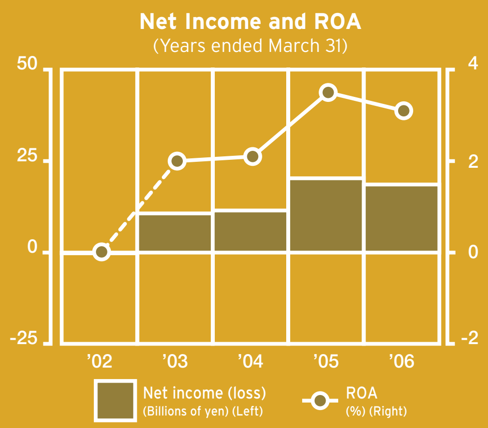
Mt. Whaleback Iron Ore Mine

Review of Operations

Chemicals, Forest Products & General Merchandise Company

Yosuke Minamitani

President, Chemicals, Forest Products & General Merchandise Company



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	80.7	87.1	91.9	105.9	111.1
(Forest Products & General Merchandise)	51.6	56.1	59.7	70.4	72.7
(Chemicals)	29.1	31.0	32.3	35.5	38.4
Net income (loss)	(0.2)	10.7	11.5	20.3	18.6
Identifiable assets at March 31	532.7	524.6	557.4	583.7	634.3
ROA (%)	—	2.0	2.1	3.5	3.1

Net Income from Major Group Companies*1 (Billions of yen)

Years ended March 31	'04	'05	'06
ITOCHU Kenzai Corp.	1.0	1.5	0.8
ITOCHU Pulp & Paper Corp.	0.6	0.5	1.1
ITOCHU CHEMICAL FRONTIER Corporation *2	1.3	1.2	1.3
ITOCHU PLASTICS INC.	1.7	1.8	2.6
Prime Source Building Products Inc.	3.2	7.5	7.7

*1 ITOCHU's share of net income
*2 ITOCHU Techno Chemical Inc. and ITOCHU CHEMICAL FRONTIER Corporation merged into the new ITOCHU CHEMICAL FRONTIER Corporation in April 2005. The above figures before the merger are just summed up the two old entities'.

The Chemicals, Forest Products & General Merchandise Company is engaged in business activities involving various materials such as lumber, pulp, paper, rubber, tire, glass and cement, and organic/inorganic chemicals, plastics, and other chemicals. It also handles retail and retail support businesses for lifestyle goods.

Major subsidiaries and associates include ITOCHU Kenzai Corp., ITOCHU Pulp & Paper Corp., ITOCHU CHEMICAL FRONTIER Corporation, ITOCHU PLASTICS INC., DAIKEN CORPORATION, Takiron Co., Ltd., and C.I. Kasei Company, Limited

Business Overview

The Company supplies general materials involving lumber, pulp, paper, rubber, tire, glass and cement, in the Forest Products & General Merchandise Division. In the Chemicals Division, operations focus on organic and inorganic chemicals and plastics. The Company and the Group as a whole are engaged in businesses in close collaboration with all industrial sectors as well as a wide range of customers from upstream to downstream, reaching individual consumers.

For further improvements in operating profits from these business segments, the Company is implementing strategies such as allocating more management resources to strategic areas, increasing overseas profits, developing core subsidiaries, and challenging for profit-making in the retail and other new business areas.

The following subsidiaries are positioned as core members of the Company: ITOCHU Kenzai Corp., ITOCHU Pulp & Paper Corp., ITOCHU CERATECH CORP., ITOCHU CHEMICAL FRONTIER Corporation, ITOCHU PLASTICS INC., and VCJ Corporation. A far-reaching program designed to create the optimum structure and raise profitability across the entire Group is also in place.

On the other hand, as its efforts to make profits in new business areas, the Company is working on biotechnology-related businesses as well as the development and marketing of packaging materials for supermarkets and food vendors.

Strengths

As its primary directions, the Company has decided to launch a new commitment to the upstream sector and to maintain to allocate management resources to the mid-stream and retail sector. Both of the two Divisions comprising the Company boast their industry's highest-level of profitability.
Also, it has been placing its focus on the following key areas:

1) Forest Products & General Merchandise Division
   Expansion of building material related business in North America, Development of forestation, Pulp manufacturing and trading business, Worldwide expansion of the rubber and tire business, Strengthening of the retail business.
2) Chemicals Division
   Resource development-type projects such as manufacturing of methanol and fluoric acid, Market oriented-type projects such as manufacturing raw materials for synthetic fiber and sulfuric acid, and Expansion of general-purpose synthetic resin business.

The Company practices growth plans in the key areas with strongly-performing subsidiaries. In the Forest Products & General Merchandise Division — PrimeSource Building Products Inc., CIPA Lumber Co., Ltd. and Pacific Woodtech Corporation are expanding their business in the growing North American building material market, CENIBRA in Brazil has established an environmentally friendly sustainable operation with its logs 100% obtained from well managed own forestation, subsidiaries of natural rubber and tires strengthen their integrated operation from the procurement of natural rubber to wholesale/retail of tire in USA, Europe and Japan. In the Chemicals Division — C.I. Kasei Company, Limited and Takiron Co., Ltd., subsidiaries listed on the first section of the TSE, are producing highly value added building, packing, and agricultural materials as well as developing innovate technology business such as medical and nano technology related products, Ningbo Mitsubishi Chemical Co., Ltd., is planning to produce PTA (PTA : high purity terephthalic acid) which is a raw material of polyester fiber and the construction of the plant is now smoothly progressing. With all subsidiaries and associates including the listed above, the Company focuses on achieving higher goals.

Business Performance in the Fiscal Year Ended March 2006

The Company was influenced by the macroeconomic environment surrounding the industries. Favorably affected by the strong performance of the U.S. building materials market and chemicals market in the world, the Company had a steady growth in its earnings from its overseas housing materials-related enterprises and trading in the chemicals sector. On the other hand, associates of the company in resource supplying countries were negatively affected by appreciation of their currency. Furthermore, the sluggishness in the domestic housing materials market had an adverse impact on the trading of building materials.

Organization (As of April 1, 2006)
Chemicals, Forest Products & General Merchandise Company

- **Forest Products & General Merchandise Division**
  - Wood Products & Materials Department
  - Paper Materials & Products Department
  - Tire & Rubber Department
  - General Merchandise Department
- **Chemicals Division**
  - Organic Chemicals Department No.1
  - Organic Chemicals Department No.2
  - Inorganic Chemicals Department
  - Plastics Department
  - Life & Living Department
- Planning & Coordinating Department
- Accounting & Control Department
- Affiliate Administration & Risk Management Department

TOPICS


Signing Ceremony of the methanol project in Brunei

Participation in the methanol project in Brunei

The Company agreed with Mitsubishi Gas Chemical Co, Inc. and Petroleum Brunei (a Brunei government agency) to produce 900,000 tons of methanol from natural gas supplied in Brunei. The joint venture agreement was signed in November 2005, and the joint venture company named Brunei Methanol Company Sdn Bhd was established in March 2006. The joint venture company is now accelerating its efforts for the operational launch scheduled in 2009. These efforts include the signing of the letter of intent with Brunei Shell Petroleum Sdn Bhd for supplying natural gas to the project. This is a resource development-type project that utilizes the cost-competitive natural gas. With the geographic advantage of being

In the midst of the environment above, the Company made the following efforts during the fiscal period: As a new commitment to the upstream sector, which is one of its core strategies, the Company decided to participate in the large-sized chemical (methanol) project in Brunei, jointly with Mitsubishi Gas Chemical Co, Inc. In the PTA (polyester fiber materials) manufacturing business jointly with Mitsubishi Chemical Corporation, the plant construction is well underway, promising a full-fledged production in 2007. The PTA manufacturing business is a project launched in a consumption area, in response to the increased polyester production in China. In the life, human care, and pharmaceuticals area, which is designated as the area of corporate-wide focus in ITOCHU's mid-term management plan "Frontier-2006," the Company and its group companies made investment in REMEJE PHARMACEUTICALS (CHINA) CO., LTD., a pharmaceutical wholesaler licensed to sell products across China. In the retail sector, ITOCHU acquired SANIPAK COMPANY OF JAPAN, LTD., the top vender in plastic bags in Japan, to expand wrapping materials-related business. As mentioned above, the Company took measures in a steady manner for all of the sectors.

Mid-to-Long Term Challenges and Strategies

The Company's products such as lumber, pulp, and chemicals are susceptible to the impact of these market conditions. In order to respond to all possible changes in the business environment and to establish a continuous high profitable revenue base, we actively allocate management resources to priority areas and build the best portfolio.

Policies and Outlook for the Fiscal Year Ending March 2007

In the fiscal year ending March 2007, the last year covered by the Frontier-2006, we are determined to meet the following goals: 1) expansion of the housing materials business in the North America; 2) expansion of the pulp trading in the global market; 3) expansion of the tire-retailing business; 4) strengthening of the efforts in the generic and crude drugs area; 5) undertaking of further efforts to develop large-scale petrochemical projects; 7) launching of new efforts for the packaging materials and sulfuric acid/fluoric acid businesses in China; 8) expansion of the synthetic resin-related businesses.

Number of Employees	
Consolidated*	7,785
Non-consolidated	447

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	44
Overseas	49

Major products & Services

- Logs & Lumber • Pulp & Paper
- Crude Rubber and Tires
- Ceramic products
- Basic chemicals • Fine chemicals
- Pharmaceutical products
- Inorganic chemicals • Plastics
- Various consumer products

located close to the consuming market of Japan and other Asian countries, the project is expected to achieve high profitability.

Ningbo PTA project is smoothly progressing

In the synthetic fiber field, the Company participated in the first Japanese joint venture PTA project in China with Mitsubishi Chemical Corporation. The construction of the plant started in June 2005, and is smoothly progressing toward beginning of production in the second half of the fiscal year ending March 2007. PTA is raw material of synthetic fiber and PET resins, and the demand in China is now 12 million tons. This is the world's largest market and further growth is anticipated. Placing this project as the core of our synthetic fiber business, the Company intends to expand business of raw material and derivatives of PTA.

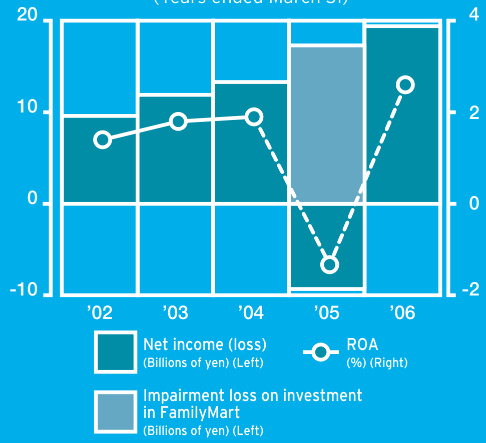

Construction site

Review of Operations

Food Company

Shigeharu Tanaka
President, Food Company

Net Income and ROA
(Years ended March 31)



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	126.9	130.1	130.9	136.2	142.6
Net income (loss)	9.6	11.9	13.3	(9.3)	19.4
Identifiable assets at March 31	665.1	654.4	711.6	728.0	778.8
ROA (%)	1.4	1.8	1.9	—	2.6

Net Income from Major Group Companies* (Billions of yen)

Years ended March 31	'04	'05	'06
Nishino Trading Co., Ltd.	0.9	0.7	0.7
Japan Foods Co., Ltd.	0.1	0.2	0.0
FamilyMart Co., Ltd.	4.2	4.0	4.3

*ITOCHU's share of net income

The Food Company efficiently integrates the production, distribution, and sale of food products in Japan and overseas through its business activities, which cover all aspects of food, from procurement and development of resources to retail of finished products.

The Company's major subsidiaries and associates are ITOCHU-SHOKUHIN Co., Ltd., Nishino Trading Co., Ltd., NIPPON ACCESS INC., Japan Foods Co., Ltd., FUJI OIL CO., LTD., FamilyMart Co., Ltd., and Prima Meat Packers, Ltd.

Business Overview

The Food Company seamlessly brings together all aspects of the food business, from the development of food resources in Japan and overseas to manufacturing and processing, distribution, and retail operations. We are developing our business by applying a Strategic Integrated System (SIS), whereby we are building a supply and demand system based on customer needs.

In the retail sector, we acquired a controlling interest in FamilyMart in February 1998. Through this full-scale entry into the retail industry, we have established a system that allows the timely transmission of information obtained from the downstream sector to midstream and upstream operations. In January 2006, we agreed to form a comprehensive alliance with Uny Co., Ltd., a supermarket chain operator, to develop stronger ties between our two companies.

In the food resources sector, we make effective use of our existing supply bases in North America, Asia, Australia, South America, and elsewhere, and we also have sales networks that further strengthen ties between these bases and the retail sector. Working in collaboration with leading overseas manufacturers, we concentrate on products that set ITOCHU part from other manufacturers, while developing resources in various regions for a wide range of products. By establishing two U.S. based subsidiaries, we forged ahead of our competitors in exporting non-genetically-modified (non-GM) corn and soybeans to Japan. The Food Company is also engaged in the production and distribution of eggs from chickens fed using mainly non-GM corn.

In the overseas production and processing sector, we established a beer brewing business jointly with Asahi Breweries, Ltd. In another initiative with Asahi Breweries and Ting Hsin International Group (China), we manufacture soft drinks. In Indonesia, we are engaged in the production and sale of canned tuna through a joint venture with Hagoromo Foods Corporation.

In the domestic distribution sector, the Food Company has built a nationwide distribution network through ITOCHU-SHOKUHIN Co., Ltd., a joint venture with two affiliated wholesalers. In March 2001, that company was listed on the First Section of the Tokyo Stock Exchange. In 1998, we established ITOCHU FRESH CORPORATION

Inc. to handle fresh meat products, seafood, and fruit and vegetables.

Under this organizational structure, we are seeking to strengthen our earnings base by bolstering the Group's integrated strengths and competitiveness with a view to becoming a prominent global foods company.

Strengths

As a leading food company, we aim to achieve stable and continuous consolidated net income in the order of ¥20.0 billion per year. To this end, we will continue applying our SIS strategy to our Japanese and overseas operations, delivering exports to Japan to increase earnings of our core businesses and major investments. We will also develop and pursue SIS strategies in our Asian markets, primarily China and Thailand, and expand our businesses related to overseas bases supplying the Japanese market, as well as the domestic consumer market.

The Food Company boasts a net income level that places it among the top trading companies in the industry. Especially in the domestic food distribution sector, the Group's turnover of food at the wholesale level is around ¥2.0 trillion as one of the leaders in this sector. In the retail segment, the chain of FamilyMart stores is one of the largest in the convenience store industry.

The Food Company has four key strengths. First, in upstream operations, we have stable overseas operations for the supply of food resources. One example is U.S.-based CGB Enterprises, Inc., which collects and ships grain products. Second, in domestic midstream operations, we have nationwide food distribution networks for handling foods and food products in all temperature ranges. These networks were established by three major Group companies: ITOCHU-SHOKUHIN Co., Ltd., NIPPON ACCESS INC., and Nishino Trading. Third, we are active in the downstream sector. Here, our retail operations center on FamilyMart and its peripheral business, as well as Uny. Fourth, we have joint businesses in China through strategic alliances with Ting Hsin International Group.

Business Performance in the Fiscal Year Ended March 2006

At the macro level, the domestic food industry will be affected by an expected decline in Japan's total population, once it reaches its peak in 2006. In addition, food expenditure is forecast to decrease in line with the country's falling birth rate and aging population. The domestic food industry is also undergoing reorganization on all levels.

In overseas markets, business opportunities are increasing, thanks to continued near-double-digit growth of China's food market and liberalization of foreign investment in that nation.

Under these circumstances, in the fiscal year ended March 2006 we worked to strengthen our business base in the domestic food distribution sector. In April 2005, for example, we increased our stake in Showa Co., Ltd., making it a consolidated company. In January 2006, we agreed to form a business alliance with Uny. Under the

Organization (As of April 1, 2006)
Food Company

- **Provisions Division**
  - Oilseeds, Oils & Fats Department
  - Grain & Feed Department
  - Sugar, Confectionary Materials & Dairy Products Department
  - Coffee & Beverage Marketing Department
- **Fresh Food & Food Business Solutions Division**
  - Marine Products Department
  - Meat Products Department
  - Agri Products & Food Service Department
  - Inported Food Marketing & Distribution Department
- **Food Products Marketing & Distribution Division**
  - Food Products Marketing & Distribution Department
  - FamilyMart Department
- Planning & Coordinating Department
- Administration Department
- Affiliate Administration & Risk Management Department

TOPICS


A "Uny" store in Japan

Strengthening Retail Interests through Alliance with Uny

In January 2006, we signed a memorandum with Uny Co., Ltd., with which we have a long association in food distribution. According to the agreement, we will not only expand our dealings at the wholesale food level, but also cooperate in a variety of sectors, including product development and marketing, information technology, logistics, and property development. We will pursue a range of joint measures, making effective use of our mutual business resources. Specifically, we will target the seamless integration of Uny's retail stores with the ITOCHU's consumer business development capabilities, global network, product planning and procurement strengths, brand marketing, and retail support expertise.

Accelerate Establishment of FamilyMart Stores Overseas

Making use of the know-how it has cultivated domestically, the Food Company will pursue aggressive expansion of FamilyMart convenience stores overseas in cooperation with FamilyMart Co., Ltd. Following previous launches in Taiwan, South Korea, Thailand, and Shanghai, we opened our first store on the U.S. West Coast in July 2005. As a general trading company, ITOCHU intends to provide full support for FamilyMart's "Global 20,000 Store Plan" alliance, we will collaborate with Uny and other companies on a range of initiatives. In June 2006, we increased our interest in NIPPON ACCESS INC., with the purchase of common stock. As a result, NIPPON ACCESS INC. became a core subsidiary of ITOCHU's domestic food distribution group.

Overseas, we accelerated the establishment of FamilyMart stores. In July 2005, we opened the first Famima!! store on the U.S. West Coast, and in Shanghai we launched our 100th store. These initiatives are bringing us closer to our target of achieving a global 20,000-store network.

In China, we strengthened ties with our Japanese partners and leading local companies as we pursued further business opportunities. Together with Japanese food conglomerate Kagome Co., Ltd., and Ting Hsin International Group, we established a joint venture to produce chilled fresh vegetable and fruit juices. We also launched a project with Asahi Breweries and Ting Hsin International Group to manufacture soft drinks.

As a result, in the fiscal year ended March 2006 we posted record-high consolidated net income of ¥19.4 billion.

Mid-to-Long Term Challenges and Strategies

The Food Company will concentrate on the following three strategies over the mid-to-long terms: (1) To adapt to changes in the market structure caused by Japan's aging society and long-term population decline caused by falling birthrates; (2) To seek new markets in line with the shift to higher quality and more functional foods; and (3) To play an active role in the new domestic retail market, building on our involvement in supermarkets and convenience stores.

Policies and Outlook for the Fiscal Year Ending March 2007

In the fiscal year ending March 2007, the second and final year of the "Frontier-2006" mid-term management plan, we will aim to increase consolidated revenues and earnings. To this end, we will focus on the following two key initiatives: (1) To continue applying our SIS strategy to the domestic market, as well as to overseas bases exporting to Japan, thus increasing the earnings of core businesses and major investment projects; and (2) To develop SIS strategies for overseas markets, including China and other Asian markets, especially Thailand, while expanding overseas operations that supply food to Japan and broadening the domestic consumer market.

Number of Employees	
Consolidated*	6,418
Non-consolidated	379

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	73
Overseas	23

Major products & Services

• Wheat, Barley • Vegetable Oils • Soybeans, Corn • Beverage Materials (Juice, Coffee) • Sugar, Sweeteners • Dairy Products • Marine, Livestock, Agri Products • Frozen Foods • Processed Foods, Pet Foods • Soft Drinks, Liquor

Famima!! store at Santa Monica, U.S.

(around 8,000 stores in Japan and 12,000 stores overseas), while strengthening its ties with FamilyMart in peripheral areas, such as food supplies, logistics, and vendor operations, by mobilizing our functions as a trading company.

NIPPON ACCESS INC. Becomes Consolidated Subsidiary

In June 2006, ITOCHU increased its stake in NIPPON ACCESS INC., transforming that company into a consolidated company. Here, our strategy to clearly position NIPPON ACCESS INC. as a core subsidiary in ITOCHU's domestic food distribution group. As a result, it will accelerate growth and strengthen the competitiveness of the Food Company in the domestic food distribution market, one of the key aims of our SIS strategy. Looking ahead, we are also considering a merger with Nishino Trading, a core company in our domestic food group, in April 2007. We believe that closer and more effective use of these companies' business resources will enable the Food Company to expand the scale of its operations and strengthen its functional capabilities.

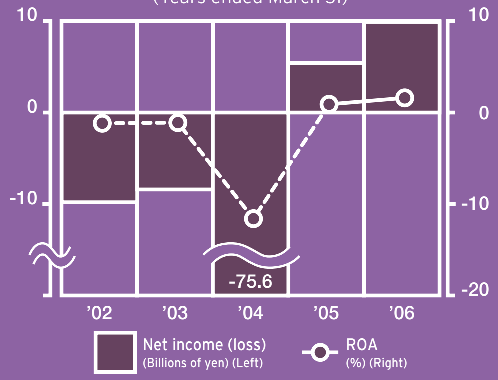

A distribution center of NIPPON ACCESS INC.

Review of Operations

Finance, Realty, Insurance & Logistics Services Company

Takao Shiomi
President, Finance, Realty, Insurance & Logistics Services Company

Net Income and ROA
(Years ended March 31)



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	34.4	33.8	16.0	39.3	46.0
Net income (loss)	(9.8)	(8.4)	(75.6)	5.4	9.9
Identifiable assets at March 31	773.4	692.7	609.7	615.3	600.9
ROA (%)	—	—	—	0.9	1.6

Net Income from Major Group Companies*[1] (Billions of yen)

Years ended March 31	'04	'05	'06
ITOCHU Finance Corporation*[2]	4.1	2.7	3.2
CENTURY 21 REAL ESTATE OF JAPAN LTD.	0.2	0.2	0.3
i-LOGISTICS CORP.	0.2	0.4	0.6
kabu.com Securities Co., Ltd.*[2]	0.7	0.9	2.1
Orient Corporation	—	—	3.1

*1 ITOCHU's share of net income
*2 The net income of ITOCHU Finance Corporation includes that of kabu.com Securities Co., Ltd.

The Finance, Realty, Insurance & Logistics Services Company provides the structuring and sales of financial products as well as insurance and reinsurance agency and consulting services. We are also undertaking warehousing, trucking, international intermodal transport, construction and real estate development and management services.

Key operating subsidiaries and associates in the Company include ITOCHU Finance Corporation, CENTURY 21 REAL ESTATE OF JAPAN LTD., kabu.com Securities Co., Ltd., Orient Corporation, and i-LOGISTICS CORP.

Business Overview

We have four divisions: 1) Financial Services: total financial service business mainly focusing on financial market and retail finance; 2) Construction & Realty: creation and promotion of "lifestyle values"; 3) Insurance Services: strengthening of risk solutions functions; and 4) Logistics Services: offering of high value-added distribution functions linking "people, goods, money and information."

Strengths

Among general trading companies, we are at the forefront of each sector. As the basic strategy for each sector to underpin our leading position, in the Financial Services Division, we will focus on four strategic areas ("market business," "capital investment," "midsize and small company business" and "retail finance") and seek to boost overseas business bases in order to seek higher profits from operations abroad. Giving top priority to "retail finance" among the four strategic areas, we will seek to maximize the synergy effect of the business and capital tie-up with Orient Corporation (Orico), the core company in the retail finance business, to enhance its corporate value, and also seek to build a portfolio of assets geared to consumer-oriented businesses. In the Construction & Realty Division, we will seek to further broaden the scope of businesses, including real estate securitization, on top of the existing core business area of housing development and management. We will enhance the management of our subsidiaries and affiliates to achieve higher profits as a group for a higher degree of consolidated management. The major challenge in the Insurance Services Division is to maximize our consolidated income earlier possible through producing profitable retail insurance business models. Our basic strategy in the Logistics Services Division calls for 1) higher profits from existing businesses through enhanced consolidated management and extensive global operations; and 2) strengthening of domestic logistics solutions services, China business and chartering.

Each division has its unique strength. The Financial Services Division has high operational compatibility with other business divisions in different industries. For example, the division is extending its operations horizontally, a distinct feature of a general trading company with a broad spectrum of business fields, through cooperation with the Insurance Services Division in the credit card businesses and collaboration with the Construction & Realty Division in real estate securitization, as well as cooperation with the Information Industry Division in IT-based financial businesses. The Construction & Realty Division is also seeking horizontal collaboration, promoting cooperation, including personnel exchanges, with the Financial Services Division for residential real estate investment trust (REIT) management and with the Logistics Services Division for equity investment in logistics facilities funds. For the Insurance Services Division, we are the only company of Japanese origin to have insurance broking networks globally, including Hong Kong, USA, UK and Thailand. The London branch of Cosmos Services Co., a subsidiary in Hong Kong, is the first Japanese-affiliated firm registered as a broker of Lloyd's of London. The Logistics Services Division is strong in 1) domestic and international third-party logistics (LT/FT/IT functions) on the back of comprehensive coordination functions as a general trading company; 2) an extensive overseas network including China; and 3) chartering know-how.

Business Performance in the Fiscal Year Ended March 2006

Reflecting the generally favorable macroeconomic environment, our business climate is favorable overall. In such an environment, the Financial Services Division, with the business and capital tie-up with Orico as a starting point, sought to improve the added value of the retail finance business, including an extra push given to tie-up projects. Foreign exchange and stock index trading, hedge funds and other asset management, private equity investment, and lending to midsize and small businesses through ITOCHU Finance Corporation turned in a robust performance.

In the Construction & Realty Division, we made our debut of residential REIT (Advance Residence Investment Corporation) on the Tokyo Stock Exchange, an expansion of logistics funds, and a tie-up agreement with Mapletree Investments Pte. Ltd. of Singapore.

In the Insurance Services Division, operating companies achieved favorable earnings results, led by the domestic insurance agent ITOCHU Insurance Services Co., Ltd. and credit guarantee service firm eGuarantee, Inc.

In the Logistics Services Division, some equity shares in i-LOGISTICS CORP. were transferred to the Temasek group of Singapore and Kawasaki Kisen Kaisha, Ltd., as part of the division's efforts to push ahead with its global strategy. We also worked to reinforce the distribution network in China, expand the 3PL business (winning new customers for the distribution of pharmaceutical products) and launch the new business of chartering ships.

Organization (As of April 1, 2006)

Finance, Realty, Insurance & Logistics Services Company

- **Financial Services Division**
  - Financial Markets Department
  - Financial Strategic Investment Department
  - Financial Business Development Department
- **Construction & Realty Division**
  - Construction & Realty Department No.1
  - Construction & Realty Department No.2
  - Osaka Construction & Realty Department
- **Insurance Services Division**
  - Insurance Business Development Department
  - Marine & Global Insurance Department
- **Logistics Services Division**
  - Logistics Department No.1
  - Logistics Department No.2
- Planning & Coordinating Department
- Administration Department
- Orico Business Integrated Department

TOPICS

Corporate logo of ASCLASS LSA Inc.

Establishment of home remodeling support firm ASCLASS LSA Inc.

Jointly with Orico, we established a new company, ASCLASS LSA Inc., in April 2006 to provide remodeling support services for select local builders. In order to help create and promote the living environment matching lifestyles of customers and provide home remodeling support services with a high degree of satisfaction, ASCLASS, with building contractors having business ties with ITOCHU as members, will undertake its operations by relying on the respective strength of business partners, including the utilization of Orico's financial services and the network of member branches as well as sales-promotional tie-up loans jointly provided by Mizuho Bank and Orico.

Mid-to-Long Term Challenges and Strategies

As for Mid-to-Long Term challenges and strategies for the Financial, Construction & Realty, Insurance and Logistics Services Company, we have set forth four goals for the Financial Services Division: 1)To enhance profitability by active switching into quality assets and bolster financial strength; 2) To secure qualified staff in light of the expansion of business operations and the move into overseas markets and foster professionals in the sector as a human resources development strategy; 3) To strengthen business footholds abroad to increase profits from overseas businesses; and 4) To promote the division's integrated management through enhanced communication.

The strategic priority in the Construction & Realty Division is to bolster the real estate securitization business, including a broadening of the scope of areas covered.

In the Insurance Services Division, our priority challenge is to strengthen and expand NEWGT (reinsurance company) as a core of the division's future profitability.

In the Logistics Services Division, we will narrow down areas for offensive business efforts and focus on 1) domestic logistics solutions (in particular, medical supplies and pharmaceuticals); 2) overseas operations (distribution of everyday consumer goods, automobile-related equipment and electronic materials in China, Asia, and Central and Eastern Europe); 3) multifunctional operations in chartering; and 4) promotion of the alliance with strategic partners and M&A in order to support and reinforce operating companies.

Policies and Outlook for the Fiscal Year Ending March 2007

In the Financial Services Division, we will redouble efforts to increase profit levels in the retail finance sector centering on Orico, and take advantage of the information network to find attractive new investment projects with the aim of lifting consolidated net income. While giving full play to the strength of ITOCHU Finance Corporation in providing comprehensive financial services, we will also strive to steadily build up a track record in the private equity business to make it a solid pillar of the division's future profitability. Furthermore, in pursuit of higher profits from overseas operations in the future, we will strive to bolster overseas business footholds, positioning Asia as the cornerstone region in this endeavor.

In the Construction & Realty Division, we will seek to expand the scope of business focusing on real estate securitization and also enhance efforts on the overseas property solution business utilizing our experiences & networks.

In the Insurance Services Division, we will make investments necessary to carry out the division's strategy that reflects a more offensive footing.

In the Logistics Services Division, in a bid to increase consolidated net income, we will seek to strengthen cooperation at home and overseas with i-LOGISTICS CORP., our core business partner, focus our efforts on important segments and important regions (Japan, China, Asia, and Central and Eastern Europe), strengthen global logistics operations particularly those originating in China, implement the leverage strategy through M&A and alliances, and further expand the scope of business fields.

Number of Employees	
Consolidated*	1,976
Non-consolidated	378

*The number of consolidated employees is based on actual working employees excluding temporary staff.

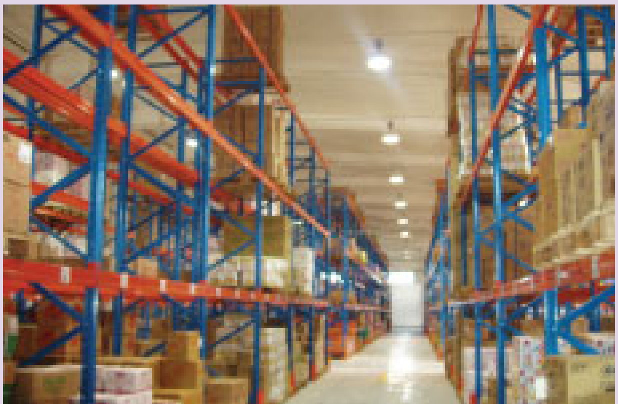
Number of Subsidiaries and Associate	
Domestic	43
Overseas	28

Major products & Services

• Foreign Exchange & Securities Trading • Asset Management Business • Loan • Online Securities • Credit Card/ Shopping Credit • Other Financial Services • Property Development, Sales & Purchase, Asset Management • Brokerage & Advisory Service • Equity Investment to Fund • Private Finance Initiative • House Construction • REIT Management • Golf Courses Own & Operate • Insurance agent • AInsurance broker • Domestics & International Third Party Logistics • Chartering

The distribution network of the ITOCHU Group in China

We are the only Japanese general trading company that maintains a distribution network that covers the whole of China solely by group companies.



Multi-functional regional distribution center
(Beijing Pacific Logistics Co., Ltd.)