



To All of ITOCHU's Stakeholders

Eizo Kobayashi
President and Chief Executive Officer

ITOCHU launched the mid-term management plan "Frontier-2006" (a two-year plan covering the fiscal years ended March 2006 and ending March 2007) in the fiscal year ended March 2006 and positioned these two years as a period for ITOCHU Group to gain a foothold for becoming a highly profitable entity achieving over ¥100 billion in consolidated net income in a steady and sustainable manner. We are endeavoring every day to expand our earnings and reinforce our business foundation by foreseeing changes, always seeking the frontier, and pursuing my motto of "Challenge, Create, and Commit."

Looking at the Annual Financial Statements for the fiscal year ended March 2006, the initial year of Frontier-2006, as to "aggressive business," we achieved record-high net income and record highs for all of the other main income items, our gross trading profit increased in all of our business segments for the second consecutive year, and we steadily strengthened our "basic earning power." As a cornerstone for the future, in the Consumer Related sector and Natural Resource Development sector we executed promising investments that are expected to operate highly efficiently in future.

As to "solid management," with our improving net debt-to-equity ratio (NET DER) down to 2.4 times we have already achieved our target for the mid-term management plan — NET DER below 3 times.

ITOCHU has steadily advanced the "Shift to aggressive business" and "Enhancement of solid management" stipulated in the mid-term management plan "Frontier-2006."

Main Points in the Fiscal Year Ended March 2006

The main “aggressive business” and “solid management” points in the fiscal year ended March 2006 are as follows.

1. Steady execution of a “Shift to aggressive business” – Expansion of earnings -

ITOCHU renewed record-high consolidated net income of ¥145.1 billion that surpassed our long-standing goal of ¥100 billion. In addition to consolidated net income we also achieved record-high gross trading profit (¥714.4 billion), income before income taxes, minority interests, equity in earnings of associated companies, and cumulative effect of an accounting change (¥216.9 billion), equity in earnings of associated companies (¥51.7 billion), adjusted profit (¥252.0 billion),* and parent company net income (¥54.4 billion), etc. Gross trading profit showed particularly strong growth, with a 13.3% year-on-year increase. We have achieved an increase in gross trading profit in all of our business segments for two consecutive years. Net income has nearly doubled on a consolidated basis since the previous fiscal year and net income for the parent company alone has increased by approximately 1.6 times. Thus we have achieved record-high net income which is well balanced between the group as a whole and the parent company and we have steadily expanded earnings.

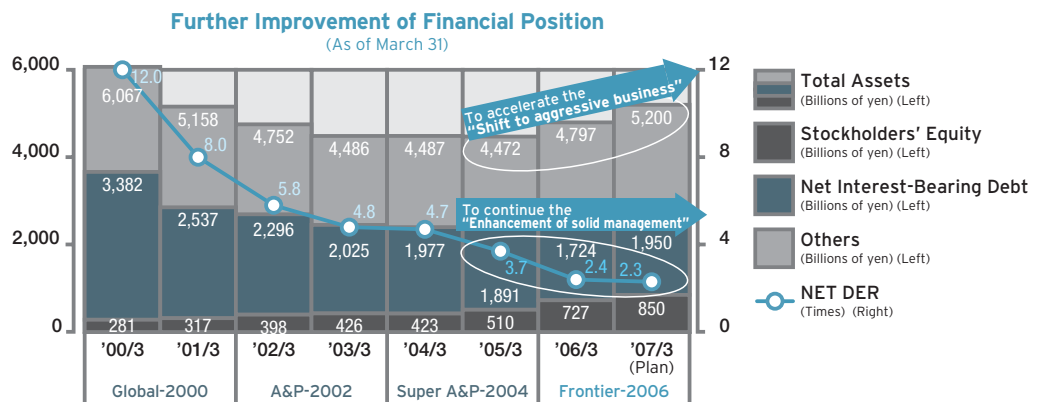
Furthermore, as a cornerstone for future earnings expansion, we have made up-front investments in Orient Corporation (Orico), acquired new natural resource related equity shares, and participated in iron ore production enhancement projects. We have also proactively and steadily made a strategic move into our brand business.

ITOCHU’s efforts to date to boost asset efficiency and improve our financial position have born fruit and I firmly believe that we have almost completed the foundation to support a highly profitable corporate group earning over ¥100 billion in consolidated net income in a steady and sustainable manner.

* Adjusted profit = Gross trading profit + Selling, general and administrative expenses + Net financial expenses + Equity in earnings of associated companies

2. Further promotion of the “Enhancement of solid management” underpinning “aggressive business” – Reinforcement of our financial position –

Reflecting our shift to aggressive business, total assets reached ¥4.797 trillion, a ¥324.7 billion increase from the end of the previous fiscal year, due to the increase in trade receivables and investment. Total stockholders’ equity achieved an all-time high of ¥726.8 billion. Meanwhile we continued to promote control of interest-bearing debt and have reduced them to ¥1.724 trillion, ¥166.8 billion less than at the end of the previous fiscal year. As a result we achieved a NET DER of 2.4 times, an improvement of 1.3 points compared to the end of the previous fiscal year. It signifies that we have achieved the target in the mid-term management plan of a NET DER “below 3.0 times” well ahead of schedule. I am convinced that the enhancement of our financial position is making steady progress.



“Frontier-2006” - Shift to Aggressive Business and Enhancement of Solid Management - Toward the Final Fiscal Year of the Plan

Assessing the outlook for the future business environment surrounding the ITOCHU Group, domestically we expect a positive growth cycle will be maintained in which the high level of corporate profits will bring about an increase in employment and capital investment and this in turn will lead to an expansion in production and earnings.

Turning our eyes to overseas, the economies of the U.S.A. and China are expected to expand in spite of a slight slow down. An accelerated recovery driven by domestic demand is forecast for the economies of Europe and Southeast Asia. Meanwhile it will be necessary to pay continuous attention to an increase in inflationary pressures from the world-wide economic expansion.

Further promotion of the mid-term management plan “Frontier-2006”

Taking into consideration these situations both at home and abroad, the ITOCHU Group has decided to continue and further strengthen the basic policies of “Frontier-2006” in the final fiscal year of the plan, the fiscal year ending March 2007. We will establish the optimal management system underpinning “aggressive business” and “solid management,” accelerate the shift to aggressive business, and continue to enhance solid management. The banner to success is now “Acceleration of the shift to aggressive business.”

(1) Earning expansion

ITOCHU will accelerate the management resources injection in the core segments led by each Division Company in order to expand earnings to take advantage of our vertical strength. Furthermore, we will strengthen the promotion structure of our company-wide projects, work toward horizontal integration in the Consumer Related and Natural Resource Development sectors, the fortes of the ITOCHU Group, and shoot for earning expansion. In addition in the priority markets of North America and Asia including China, we aim to expand our earnings further, while positioning Russia, India, and Brazil as emerging markets and proactively proceeding with strategic moves for future earning expansion.

(2) New business creation

We will expand the consumer business where needs are diversifying further amid the accelerated declining birthrate and aging society. We will strengthen the healthcare & living services sector including medical treatment, nursing care, hobbies, travel, primarily for seniors. In the area of innovative technologies, we will take the initiatives of boosting global strategic alliances and realizing earlier profit generation. Furthermore, we have established the “Corporate Development Meeting” with the president as chairperson and will strengthen our endeavors to develop new businesses including the consumer business, healthcare & living services sector, and innovative technologies businesses.

(3) Further promotion of enhancement of solid management

ITOCHU will continue the strict control of interest-bearing debt, make further advancement of our financial position, formulate more sophisticated risk management policies toward further strengthened risk management. We will continuously monitor internal control systems for their evaluation and improvement and work tirelessly to strengthen them. Concerning our corporate social responsibility (CSR) efforts, we will strengthen our communication with our stakeholders and constantly work to improve and enhance CSR. Moreover we will steadfastly pursue our endeavors to establish more highly transparent corporate governance.

(4) Promotion of the establishment of a management system to underpin “aggressive business” and to enhance “solid management”

ITOCHU has launched a business reorganization project, “ITOCHU DNA Project ~Designing New Age~,” in order to augment our “power and ability of organization,” that is organizational power and the force of every single employee while pursuing optimization of the Group as a whole, and to build up ever stronger consolidated management with a view to ITOCHU ten years from now. In the human resources (HR) area, ITOCHU will go forward with proactive utilization of a wealth of human resources regardless of gender, nationality, and age based on the Promotion Plan on Human Resource Diversification. We will also work to upgrade the human resources portfolio system for the entire ITOCHU Group.

In the fiscal year ending March 2007 ITOCHU will aim for ¥155 billion in consolidated net income, even higher than the figure for the fiscal year ended March 2006. As part of our efforts to further accelerate our shift toward aggressive business we have prospects of consolidated total assets of ¥5.2 trillion, approximately ¥400 billion increase from the end of the fiscal year ended March 2006, and net interest-bearing debt of ¥1.95 trillion, an increase of approximately ¥200 billion. At the same time we are continuing our policy to control interest-bearing debt and further improve NET DER from the figure of the fiscal year ended March 2006.

Frontier-2006 Plan, Results, Forecast

(Billions of Yen)

	Frontier-2006 Initial Plan		Results, Forecast	
	fiscal year ended March 2006 (plan)	fiscal year ending March 2007 (plan)	fiscal year ended March 2006 (results)	fiscal year ending March 2007 (Forecast)
Net Income	100.0	110.0	145.1	155.0
Total Assets	4,700.0	5,000.0	4,797.0	5,200.0
NET DER	3.3 times	Below 3.0 times	2.4 times	2.3 times

As I stated above, ITOCHU will continue to tackle the “Shift to aggressive business” and the “Enhancement of solid management” of our mid-term management plan “Frontier-2006” under the banner of the “Acceleration of the shift to aggressive business” in the fiscal year ending March 2007. ITOCHU Group will enhance its corporate value to reward its stakeholders not to mention, we intend to contribute to regional and global societies including proactive measures to tackle global environmental issues.

It is my code of conduct and conviction that ITOCHU should be a group of “good corporate citizens with humanity and high motivation to take on challenges.” I am also convinced that every employee should have their own ambitions, growing and developing to achieve them and that ultimately ITOCHU as a whole can fulfill the expectations of all its stakeholders. As president of ITOCHU, I will share the spirit of “Challenge, Create, and Commit” with all of our employees and will make concerted efforts together toward future growth.

Thank you for your continued support and understanding of ITOCHU and our Group companies.

July 2006

Eizo Kobayashi

President and Chief Executive Officer