Where We Stand

The Path We Have Taken

—A history of reform and challenge

Under the mid-term management plan Frontier-2006, we shifted gear, adopting a more aggressive posture. In the fiscal year ended March 2007, the final year of the plan, we achieved new record highs in key indicators of earnings for consecutive years as the plan's initiatives for expanding revenue and earnings successfully bore fruit.

However, the road so far has by no means been easy. The cumulative effect of the series of management reforms that we have implemented since the late 1990s in line with the goal of "Challenges for Success in the 21st Century" has bolstered our earnings structure, forming the cornerstone of ITOCHU's current growth.

In this section, we look back at the Company's history of reform and challenge.

Clearing Away a Negative Legacy (Fiscal 2000–Fiscal 2001)

At the end of the 1990s, ITOCHU was burdened by inefficient assets and unprofitable businesses, mainly in the construction and real estate sectors, as well as a large amount of interest-bearing debt. Although the Company boasted top-class earning power among general trading companies, most of its profits were allocated to interest payments and the disposal of under-performing assets. In addition, at the end of March 1999, only about 60% of the Company's 1,027 consolidated subsidiaries were reporting profits. With losses reported by Group companies offsetting the profits generated by Group companies, the need for a solution grew urgent.

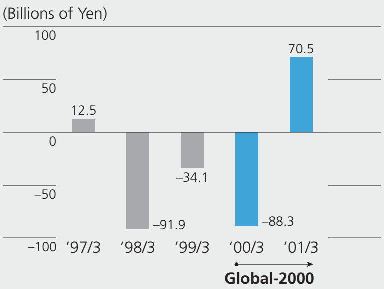
1999 2000 2001

Global-2000

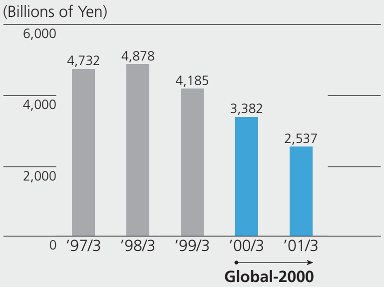
Global-2000

> The mid-term management plan Global-2000 set the goals of "Reorganization of the Profit Structure" and "Challenges for Success in the 21st Century." The Risk Capital Management (RCM) method was introduced in order to efficiently allocate resources and quantify risk. Through RCM, ITOCHU disposed of inefficient assets and down-sized or withdrew from unprofitable businesses and strove to improve its financial health. In addition, we identified A&P (Attractive and Powerful) segments that were "attractive" to our customers and in which we had "powerful" capabilities. Management resources were weighted toward these segments in an attempt to enhance earning power. (Current core operating company ITOCHU Techno-Solutions Corporation (CTC) was listed during this period.)

Net Income (Loss)



Net Interest-Bearing Debt



> ## ¥303.9 billion

Restructuring losses posted in fiscal 2000, arising from the disposal of inefficient assets and withdrawal from unprofitable businesses

As a result of restructuring losses, ITOCHU recorded a net loss of ¥88.3 billion in fiscal 2000. However, in the following fiscal year, ITOCHU posted its highest-ever net income of ¥70.5 billion.

> ## ¥1,648.4 billion

Reduction in net interest-bearing debt over the period of the plan

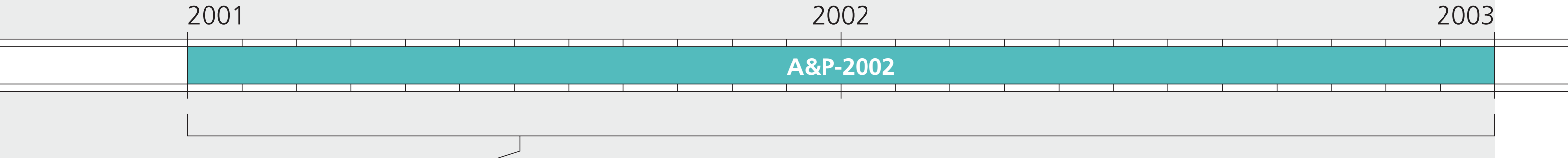
At the end of fiscal 1999, net interest-bearing debt stood at ¥4,185.2 billion. By the end of fiscal 2001, this had been reduced to ¥2,536.8 billion, a decrease of more than ¥1,600 billion.

Summary

Global-2000 was determined "to settle what occurred in the 20th century during the 20th century." By restructuring our operations from the viewpoint of global standards, we succeeded in almost completely clearing away the "Negative Legacy" that was impeding the Company's growth in the 21st century. The plan's targets were therefore achieved.

Implementing Reforms to Establish a Highly Profitable Business Model (Fiscal 2002–Fiscal 2003)

Global-2000 succeeded in disposing of the bulk of ITOCHU's inefficient assets. While continuing to strengthen the Company's consolidated financial position, the next task was to move beyond conventional trading company business models and to establish a highly profitable business model.

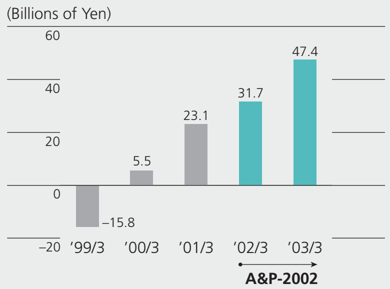


A&P-2002

> The mid-term management plan A&P-2002 set the goal of establishing a highly profitable business model by moving beyond conventional trading company business models and developing new business through the A&P Strategy*1. Risk and asset efficiency were quantified across all businesses, and, through a policy of selection and concentration, resources were intensively allocated to high-efficiency assets, mainly in A&P segments. At the same time, we continued to either dispose of or downsize inefficient assets and to improve our financial health by reducing interest-bearing debt.

*1 A&P Strategy: A strategy to increase profitability by intensively allocating resources to A&P (Attractive and Powerful) segments that were "attractive" to our customers and in which we had "powerful" capabilities.

Net Income (Loss) from Subsidiaries and Equity-Method Associated Companies

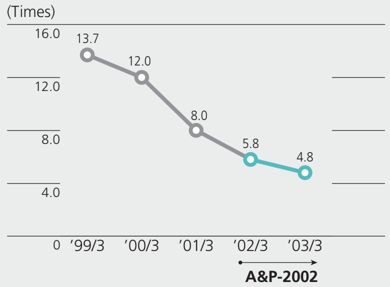


> **¥47.4 billion**

Net income from subsidiaries and equity-method associated companies in fiscal 2003

Over the period of the plan, we rationalized Group companies in order to strengthen Group consolidated management. In fiscal 2003, we recorded the highest-ever net income from subsidiaries and equity-method associated companies.

NET DER



> **8.0 times → 4.8 times**

NET DER at the end of fiscal 2001 (8.0 times) and end of fiscal 2003 (4.8 times)

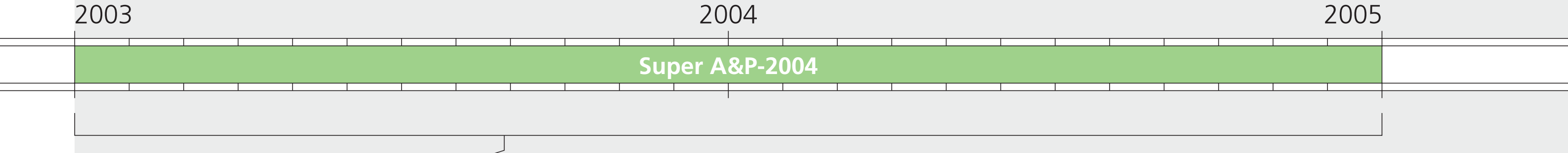
There was a major improvement in the NET DER through the reduction of interest-bearing debt and the replenishment of stockholders' equity. A comparison with the NET DER at the end of fiscal 1999 (13.7 times) gives an indication of the determined efforts we made to improve our financial position.

Summary

A sharp drop in stock prices at the end of fiscal 2003 led to large devaluation and disposal losses on marketable securities. As a result, we did not meet A&P-2002's target for consolidated net income. However, under the policy of selection and concentration, the earning power of ITOCHU was steadily strengthened. Resources were intensively allocated to high-efficiency assets, and we disposed of or downsized inefficient assets. And the targets for reduction in consolidated total assets and interest-bearing debt were greatly exceeded.

Building the Foundations for Aggressive Business (Fiscal 2004–Fiscal 2005)

Under the previous mid-term management plans, ITOCHU made substantial progress in improving its financial health and shifting management resources to high-efficiency assets, mainly in the A&P segments. The next step was to raise profitability company-wide by further evolving the A&P Strategy and constructing a firm base for our full-fledged shift to aggressive business.



Super A&P-2004

> The mid-term management plan Super A&P-2004 aimed to radically accelerate selection and concentration based on the A&P segments in a bid to double earnings. The Consumer-Related and Retail-Related sectors and Asia centered on China, where ITOCHU had overwhelming strengths, were defined as Super Powerful segments. Priority was given to strengthening these segments and, at the same time, removing factors obstructing the shift to aggressive business.

> ¥147.2 billion

Total impairment losses recognized on fixed assets and others in fiscal 2004

As a result of recognition of impairment losses on fixed assets and others in fiscal 2004, ITOCHU recorded a consolidated net loss of ¥31.9 billion. But in fiscal 2005, ITOCHU achieved a V-shaped recovery in the final year of the plan, posting its highest-ever consolidated net income of ¥77.8 billion.

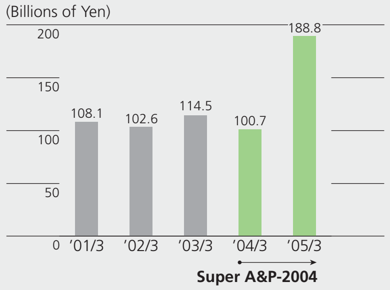
> ¥74.3 billion

Increase in adjusted profit*2 over the period of the plan

Adjusted profit stood at ¥114.5 billion in fiscal 2003. In fiscal 2005, the plan's final year, adjusted profit had soared to ¥188.8 billion, the highest-ever level. Further, net income, operating income, and equity in earnings of associated companies reached all-time highs.

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

Adjusted Profit



Summary

The plan's major quantitative targets, including that for consolidated net income, were attained. The objectives of reforming the profit structure and improving the financial position, which had been set from Global-2000, were integrated under this plan and successfully achieved. Preparations were thus complete for our concerted effort to shift to aggressive business.

Moving to Aggressive Business (Fiscal 2006–Fiscal 2007)

Under the A&P Strategy, ITOCHU had made solid progress in reforming its profit structure and improving its financial position. Now, the stage had been set for a major strategic shift to aggressive business. The key objective was to expand earnings in all Division Companies and to confirm ITOCHU's position as a highly profitable corporate group. In selecting and concentrating management resources, the emphasis would switch from the broad level of the A&P segments to a tighter focus on Division Company priority areas. While continuing to enhance solid management, ITOCHU would accelerate the shift to aggressive business.

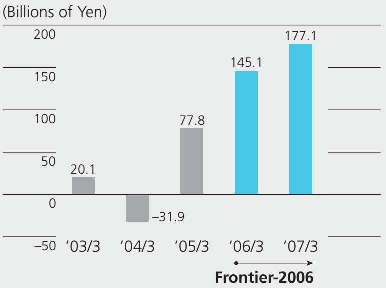
2005 2006 2007

Frontier-2006

Frontier-2006

> The mid-term management plan Frontier-2006 undertook to enhance solid management through the further improvement of our financial position and strengthened risk management. At the same time, Frontier-2006 aimed at a major shift to aggressive business guided by three principles: expanding earnings (challenge); creating new businesses (create); and, through this, aiming to become a highly profitable corporate group achieving over ¥100 billion in consolidated net income in a steady and sustainable manner (commit). In accordance with these principles, the core initiatives were strengthening vertical linkage in the Division Company sectors and promoting company-wide horizontal integration.

Net Income (Loss)



> **¥177.1 billion**

Consolidated net income in fiscal 2007

ITOCHU achieved its third consecutive highest-ever consolidated net income, even while absorbing an equity loss recognition arising from a significant loss recorded by Orient Corporation. The quantitative targets set at the beginning of the plan were greatly exceeded.

> **¥310.0 billion**

Net investment over the two years of the plan

We achieved a well-balanced allocation of investment, mainly between our priority Consumer-Related sector and Natural Resource/Energy-Related sector. And we made steady progress in strengthening our profit structure in order to expand earnings.

Summary

We greatly surpassed the quantitative targets set under Frontier-2006. Through the plan, ITOCHU confirmed its resilience to changes in the external environment as "a highly profitable corporate group achieving over ¥100 billion in consolidated net income in a steady and sustainable manner." With the significantly enhanced earning power achieved under Frontier-2006, ITOCHU will take on greater challenges, in a wider range of areas, in Japan and beyond.