An Analysis of Performance under Frontier-2006

In this section, we analyze our performance under Frontier-2006 to determine whether we reached our objective of "Becoming a Highly Profitable Corporate Group Achieving over ¥100 Billion in Consolidated Net Income in a Steady and Sustainable Manner."

QUANTITATIVE ANALYSIS

Frontier-2006 set the following quantitative targets for the fiscal year ended March 2007: net income of ¥110 billion, total assets of ¥5 trillion, and a NET DER of less than 3.0 times.

ITOCHU exceeded the target for consolidated net income by a large margin, despite the net loss recorded by Orient Corporation (Orico).

Looking at net income by Division Company, the Aerospace, Electronics & Multimedia Company recorded a decline in net income from the fiscal year ended March 2005, primarily because of the absence of gains on sales of marketable securities. The Finance, Realty, Insurance & Logistics Services Company registered a net loss, mainly due to the effect on Orico of the revised Moneylending Control Law in Japan. All other Division Companies showed steady growth in net income during the two-year period of the plan.

For both the Machinery Company and the Chemicals, Forest Products & General Merchandise Company, net income surpassed ¥20 billion. The Textile Company and the Food Company both recorded net income levels approaching ¥20 billion. Meanwhile, for the Energy, Metals & Minerals Company, net income soared to over ¥80 billion, as the Company's equity interests in natural resource development increased and upfront investments began to yield returns. Overall, the analysis indicates that the basic earning power of ITOCHU's Division Companies has been significantly enhanced.

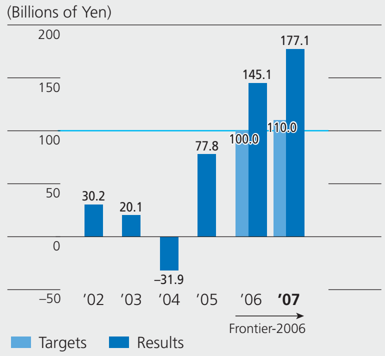
Regarding the profit/loss balance of Group companies and overseas trading subsidiaries, the net loss recorded by Orico was offset by an increase in aggregate profits of Group companies reporting profits. Overall, Group companies and overseas trading subsidiaries reported aggregate profits of ¥124.5[*1] billion in the fiscal year ended March 2007, a marked increase on the figure of ¥74.5 billion[*2] in the fiscal year ended March 2005.

Brisk investment activity in line with the Frontier-2006 principle of "Shift to Aggressive Business" led to higher total assets, which stood at ¥5.3 trillion at the end of March 2007.

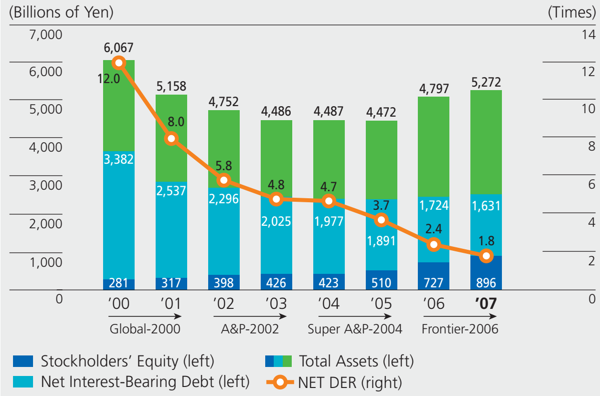
Initial Targets and Results

Years ended March 31 (Billions of Yen)	2005 Results	2006 Targets	2006 Results	2007 Targets	2007 Results
Net income	¥ 77.8	¥ 100.0	**¥ 145.1**	¥ 110.0	**¥ 177.1**
Total assets	4,472.3	4,700.0	**4,797.0**	5,000.0	**5,271.5**
NET DER (times)	3.7	3.3	**2.4**	Less than 3.0	**1.8**

Net Income (Loss)



Total Assets / Stockholders' Equity / Net Interest-Bearing Debt / NET DER



Strict control of net interest-bearing debt resulted in a ¥260.0 billion decrease over the two-year period of Frontier-2006. Further, stockholders' equity increased by a significant amount, reaching ¥896.2 billion at year-end, compared with ¥510.4 billion at the end of March 2005. As a result, **the NET DER declined to 1.8 times, a considerable improvement of 1.9 points from the level at the beginning of the plan** and representing the attainment of solid management.

This analysis shows that **the quantitative targets set at the beginning of Frontier-2006 were achieved.** Moreover, the well-balanced growth of Division Companies proves that the entire ITOCHU Group adhered to the principles of "Shift to Aggressive Business" and "Enhancement of Solid Management."

*1 Excludes the effect of impairment adjustments for FamilyMart Co., Ltd.
*2 Includes the tax effect of the loss recognized on investment in Orico

QUALITATIVE ANALYSIS

Net investment over the two years of the plan reached approximately ¥310 billion, significantly higher than the initial target of ¥200 billion. About 25% of this amount was allocated to the Consumer-Related sector, 25% to the Natural Resource/Energy-Related sector, and the remaining 50% to various other sectors, including machinery, IT, finance, and chemicals. **We believe this to be a well-balanced allocation of investment.**

Under the Frontier-2006 policy of strengthening vertical linkage, Division Companies worked to increase revenue and earnings by identifying core segments and accelerating the allocation of resources to those segments. At the same time, ITOCHU promoted horizontal integration for projects spanning Division Company boundaries in the Consumer-Related and Natural Resource/ Energy-Related sectors, where it has considerable strengths.

In the Consumer-Related sector, we promoted the global development of our brand business in textiles. At the same time, in food-related business, we deployed our SIS[*3] strategy on a global basis, and, by making NIPPON ACCESS, INC., a consolidated subsidiary and merging it with Nishino Trading Co., Ltd., we created one of the largest food wholesale operations in Japan.

In the Natural Resource/Energy-Related sector, we implemented several initiatives aimed at tapping into growing worldwide demand for natural and energy resources to achieve solid gains in revenue and earnings. We continued to invest in our iron ore project in Western Australia to expand production capacity. We entered the retail natural gas business in the United States and acquired equity interests in gas fields in the Gulf of Mexico. Also, production expanded smoothly at the ACG oil field development project in the Azerbaijan Republic.

In other sectors, in the automobile-related business, we strengthened our capital partnership with Isuzu Motors Limited and formed a joint venture, Isuzu Network Company Limited, to reinforce domestic sales. Also, we developed business in the area of life cycle process management for commercial vehicles. In addition, we made an investment in the North American controlling subsidiary of Akebono Brake Industry Co., Ltd. In the Life & Healthcare sector, we entered the field of preventive medicine, where we envisage growth stemming from Japan's low birthrate and aging population. In chemical products, our largest investment in China, the Ningbo PTA plant, started up production of high purified terephthalic acid (PTA).

*3 SIS (Strategic Integrated System): A supply and demand system based on customer needs that seamlessly links upstream food resource development and processing, midstream distribution, and downstream retail and sales.

CONCLUSION

In quantitative terms, ITOCHU greatly exceeded the plan's targets and, therefore, confirmed its position as a highly profitable corporate group. In qualitative terms, the Company has steadily developed its existing businesses and advanced into new sectors to set the stage for increased revenue and earnings.

After reviewing our results and achievements under Frontier-2006, **we conclude that the objective of "Becoming a Highly Profitable Corporate Group Achieving over ¥100 Billion in Consolidated Net Income in a Steady and Sustainable Manner" was achieved.**