



Enhancing Corporate Value on the World Stage

Pioneering DNA has always driven ITOCHU's development. And, it is motivating us today as we set out on a quest to reach new heights and a new stage in our evolution. The Frontier+ 2008 medium-term management plan calls on ITOCHU to be a *truly global enterprise*. What does that entail and what is the role of general trading companies? President and CEO Eizo Kobayashi talks about his passionate belief in the need to prepare ITOCHU for the challenges of the next 150 years.



President and CEO Eizo Kobayashi explains how ITOCHU is taking on the challenge of becoming *truly global*.

With Passion, Energy, and Tenacity

By remaining true to its philosophy of *sampo yoshi*, tackling change, and fostering personnel with a global perspective, ITOCHU will advance toward its overriding goal of becoming *truly global* with passion, energy, and tenacity. Through those efforts, we will pave the way for our next 150 years.

President and Chief Executive Officer
Eizo Kobayashi

First Step toward Becoming *Truly Global*

In fiscal 2008, ended March 31, 2008, ITOCHU moved toward becoming a *truly global enterprise*, a goal of its Frontier+ 2008 medium-term management plan, by building on the solid foundations for growth that it has established through tireless business reengineering since the late 1990s. That plan sets out two main goals: growing revenues and earnings dramatically by being more *aggressive* and becoming a *global enterprise that is highly attractive to all stakeholders*. Also, we are stepping up measures aimed at *maintaining a global perspective, creating new initiatives, and enhancing human resources*. In the first year of the plan, fiscal 2008, we made a favorable start, surpassing our initial target of ¥210 billion to achieve net income of ¥218.6 billion and post record earnings for the fourth consecutive year. On the other hand, I feel qualitative measures to become a *truly global enterprise* have not yet gone far enough. I want to explain what we mean by a *truly global enterprise* and why we are targeting this goal now.

Why Become *Truly Global* Now?

Since its founding in 1858, ITOCHU has shown an insatiable appetite for taking on challenges, which has enabled it to overcome many difficulties and thrive. However, with major changes in business conditions approaching, ITOCHU is at a juncture where it may or may not get on track for sustainable growth.

Japan's economy has entered a low-growth period, in which growth remains on a par with those of other developed economies, around 2%. Against the backdrop of an aging society, ITOCHU and many Japanese companies will face tough business conditions characterized by a shrinking workforce and market. In contrast, since around 2003 economies worldwide have been growing at a real rates of about 4% or higher, with China achieving roughly 10% annually. Particularly in the past few years, economies worldwide have seen even higher rates of real growth of approximately 5%. Facing those conditions, how can ITOCHU continue, or surpass, its high growth of previous years? Of course, we have to undertake a full-fledged shift in the focus of our businesses from Japan to rapidly expanding overseas economies. Operating multifaceted, international businesses, ITOCHU has already earned a reputation as a "global" company. But, I believe a *truly global enterprise* must be firmly rooted in countries worldwide, be customer's first choice around the world, operate businesses the world over, and have earnings that rank among the world's top 100 corporations. Unfortunately, ITOCHU has not yet met those criteria. To become a *truly global enterprise*, aside from expanding earnings foundations around the world, nothing is more important than fostering the personnel with a global perspective because they underpin international business activities. Accordingly, I would like to outline my thoughts on personnel and our strategies for developing personnel.

Outline

Frontier+ 2008 —Enhancing Corporate Value on the World Stage

BASIC POLICY

In addition to continuing efforts reflecting Frontier-2006 themes, we will be more aggressive. At the same time, we will strive to become "a global enterprise that is highly attractive to all stakeholders."

[Maintain a Global Perspective]

Increase earnings worldwide by developing business as a *truly global enterprise*

[Create New Initiatives]

Leverage change, take on challenges, and open up new areas

[Enhance Human Resources]

Seek, foster, and fully draw on the talents of personnel worldwide

KEY MEASURES

Develop new business areas
Accelerate overseas business development
Strengthen core businesses

Human resources strategy with global perspective

Financial strategy
Risk management
Governance / Internal control
Corporate social responsibility

QUANTITATIVE TARGETS

(Billions of Yen)

	FY 2007 (Results)	FY 2008 (Targets)	FY 2008 (Results)	FY 2009 (Initial Targets)	FY 2009 (Revised Targets)
Net income	177.1	210.0	218.6	210.0	240.0
Total assets	5,271.5	5,800.0	5,255.4	6,300.0	5,800.0
NET DER (times)	1.8	1.7	1.7	Less than 1.7	1.6
ROE	21.8%	21.3%	23.3%		22.2%

Development of International Personnel Is Key to Sustainable Growth

Our personnel have brought us through many trials and enabled us grow over a century and a half. No matter how impressive a history or tradition a company boasts, it will weaken without good personnel. Employees are crucial in harnessing history and tradition. Although we have been developing businesses worldwide for more than 50 years, the composition of our personnel has not kept up with this globalization. Mindful of that problem, we have taken steps to become company that can accommodate many different kinds of people, irrespective of gender or nationality, guided by a Promotion Plan for Human Resource Diversification, launched in December 2003. Nevertheless, there are still not enough non-Japanese employees or women in our management team. To rectify that, we made *enhancing human resources* one of the main planks of Frontier+ 2008. Reflecting that theme, we are strengthening the Group's overall human resources by dovetailing the personnel strategies of division companies, administration divisions, overseas offices, domestic branch offices, overseas trading companies, and Group companies. And, we made significant progress in laying the foundations for personnel development by establishing a Global Talent Enhancement Center (GTEC) at our bases in New York, London, Shanghai, and Singapore in October 2007.

Through such strategies, I envision a company ten years on in which, for example, half of the directors are non-Japanese or women. Because we cannot develop personnel overnight, I want to tackle this theme from a long-term viewpoint and with unwavering determination.

Progress in the Main Initiatives of Frontier+ 2008

In addition to my discussion of our *human resources strategy with a global perspective*, I would like to summarize other major measures and our initiatives in the fiscal year.

Investing to Create a Balanced Business Portfolio

Compared with other trading companies, one of ITOCHU's most distinctive features is the balance of its business structure in terms of assets and earnings, which we achieve by having businesses across a broad range of fields, including Consumer-Related Sector; Natural Resource / Energy-Related Sector; and Other Sectors, comprising automobiles, information technology, financial, and chemicals. Building a balanced business portfolio is the common goal of our Frontier+ 2008 investment plans. Our medium-term management plan earmarks ¥500 billion for gross investment. During the period of Frontier+ 2008, our basic strategy is to share that investment in a well balanced way equally among three business areas.

Main Investments

Area	Investment Amount (gross)	Main Investment Projects
Consumer-Related Sector	Approximately ¥50 billion	Capital participation in television shopping company, acquisition of home meal replacement company stock, acquisition of U.S. flooring materials wholesaler
Natural Resource / Energy-Related Sector	Approximately ¥90 billion	Acquisition of oil and gas interests in Gulf of Mexico and Australia, investment in expansion of iron ore operations in Australia
Other Sectors	Approximately ¥110 billion	Acquisition of Orient Corporation's preferred stock, new investment and additional investment in solar power generation business

In the Consumer-Related Sector, the fiscal year saw us invest roughly ¥50 billion in such initiatives as a taking a stake in a television shopping company, acquiring stock in a home meal replacement company, and acquiring a U.S. flooring materials wholesaler. In the Natural Resource / Energy-Related Sector, we invested about ¥90 billion to acquire oil and gas equity interests in the Gulf of Mexico and Australia and expand iron ore operations in Australia. In the Other Sector, we invested approximately ¥110 billion to acquire Orient Corporation’s preferred stock and newly invested in a solar power generation business. During the fiscal year, investment in the Natural Resource / Energy-Related Sector was slightly more than in the other business areas. However, we are steadily developing initiatives in the Consumer-Related Sector, where we enjoy overwhelming strength.



Developing New Business Areas Laterally

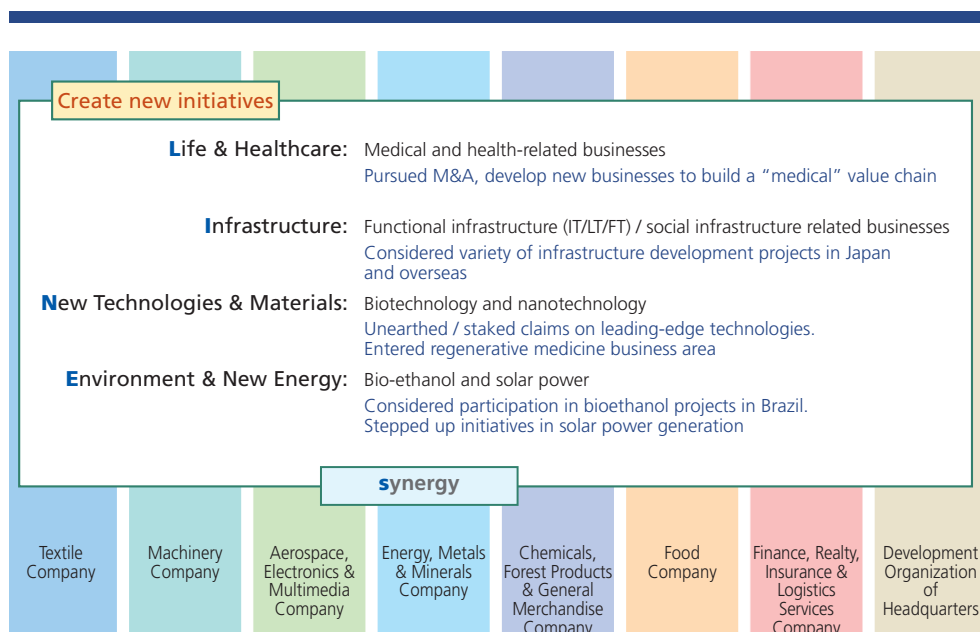
Under the theme of *creating new initiatives*, we are developing the foundations for future earnings by targeting L-I-N-E-s business areas. L-I-N-E-s is an acronym standing for Life & Healthcare; Infrastructure, including social infrastructure businesses and the strategic development of functional infrastructure; and New Technologies & Materials, including leading-edge technology fields such as biotechnology and nanotechnology; and Environment & New Energy.

In the Life & Healthcare business area, with a full-fledged aged society almost upon us, the market for medical and health-related products and services promises further significant growth. With that potential in mind, we worked very hard to build a value chain in the Life & Healthcare business area spearheading mergers and acquisitions and new business start-ups that straddle our organization laterally led by the Healthcare Business Department in Headquarters, newly established in 2007. In fiscal 2008, we established alliances with and made investment in healthcare companies, and started up PFI business.

In the Infrastructure business area, we aim to draw on information technology (IT), logistics technology (LT), and financial technology (FT) and use the original strategic tools we have developed as a general trading company to develop social and functional infrastructures and build value chains in

L-I-N-E-s—Future Earnings Mainstays

Invested ¥20 billion in L-I-N-E-s





Japan and overseas. In fiscal 2008, social infrastructure initiatives included the construction of roads and railways as part of coal resource development in China and Asia as well as alliances with local governments in Japan for the development of public infrastructure. In functional infrastructure, we concluded a business alliance with a television shopping company.

The New Technologies & Materials business area includes markets with tremendous potential. With the development of applications underway in earnest, the biotechnology and nanotechnology markets could be huge in a few years. In the New Technologies & Materials business area, we steadily sowed seeds for the future by identifying and claiming leading-edge technologies and making forays into regenerative medicine.

The Environment & New Energy business area offers a wide variety of business chances due to growing worldwide concern with environment. In the fiscal year, we decided our participation policy for bioethanol operations in Brazil and reinforced solar power generation businesses by strengthening collaboration among division companies.

Through lateral initiatives among division companies, we will rapidly develop markets. A representative example of such initiatives is our furtherment of the bioethanol project, in which the Food Company, the Energy, Metals & Minerals Company, and the Chemicals, Forest Products & General Merchandise Company are working as a team to pool and use expertise garnered in a wide spectrum of business areas and industries.

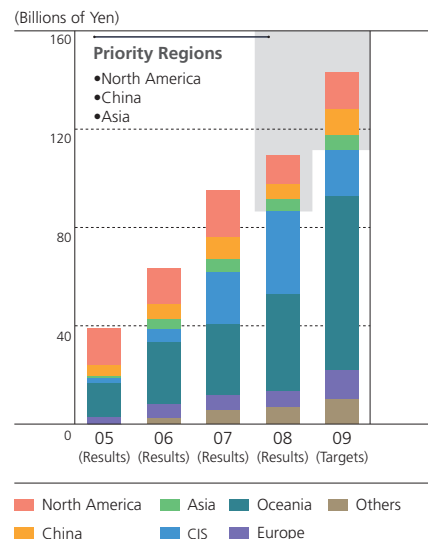
Increasing Earnings from Overseas Businesses Steadily

As I mentioned, building a structure that generates earnings worldwide is critical if we are to achieve sustainable growth. Aiming to consistently secure ¥100 billion or more in earnings from overseas businesses, we will channel about 70% of the ¥500 billion set aside for investment under the medium-term management plan into overseas initiatives. In particular, we are strengthening initiatives in priority regions, such as North America, China, and Asia; in resource-rich countries that include such oil-producing regions or countries as the Commonwealth of Independent States, the Middle East, and Brazil; and in regions or countries in which we have an advantage, such as Algeria. In the fiscal year, thanks to contributions from the higher earnings of the Commonwealth of Independent States, Oceania, and other regions, earnings from overseas businesses were up ¥14.9 billion year on year, to ¥111.2 billion, which represents approximately half of consolidated net income. We will accelerate overseas initiatives to build an earnings structure befitting a *truly global enterprise*.

Acquiring Higher Credit Ratings

While our Frontier⁺ 2008 medium-term management plan emphasizes a more *aggressive* approach to corporate management, it calls for ongoing measures for *solid management*. One such measure is the strengthening of our financial position. In the fiscal year, we met the plan's target of 1.7 times for the net debt-to-equity ratio by further growing stockholders' equity while strictly controlling interest-bearing debt. As a result of efforts since the late 1990s to strengthen our financial position, we received an "A" rating from U.S. credit-rating agency in the fiscal year ended March 31, 2008. To provide against contingencies, we intend to continue strengthening our financial position.

Increase in Earnings from Overseas Businesses



Advancing the ITOCHU DNA Project

The source of general trading companies' competitiveness is the power and ability of each of our organizations. We must constantly cement that strength to achieve sustainable growth. To that end, ITOCHU has been reengineering business processes under its *ITOCHU DNA Project—Designing New Age*—initiative since April 2006. That project focuses on identifying business processes and standardizing or consolidating them to heighten the efficiency, quality, and speed of operations. Having identified essential processes to focus, we will define specific reengineering tasks and carry them out.

Change Creates Business Chances

The deepening U.S. subprime loans problem is a major cause for concern for world economies. Because there is no knowing how that problem will reverberate through financial systems, I believe the situation needs careful ongoing monitoring. On the other hand, upheavals that make the future difficult to predict may also increase the earnings opportunities for general trading companies.

Looking back over our 150-year history, we have always found a way to create new businesses in turbulent times. Previously, trading companies faced a “winter” period. Despite the difficulties of that time, our trademark pioneering spirit came to the fore as we took up the search for new business formats. That quest produced the business model we use today. Under this model, we heighten added value by developing value chains based on the integrated development of businesses that include upstream materials and natural resources businesses through to downstream retailing businesses—rather than concentrating development on midstream trading businesses. In recent years, ITOCHU has posted favorable business results on the growth of emerging economies and hikes in natural resource prices. But, if we had only continued existing business models, we could not have achieved those favorable business results. Further, by developing various businesses across a wide range of regions, we are building an earnings structure that is very durable in changing conditions. For example, although the U.S. market for house-building materials is struggling due to the subprime loans problem, our machinery businesses are thriving on burgeoning demand centered in Asia.

Because ITOCHU has always anticipated change and created new business chances based on original ideas, today's changing conditions represent a major chance.

The Future Role of General Trading Companies

What role will ITOCHU and other general trading companies play going forward? Recently, some have pointed out that general trading companies have shifted from their traditional focus on trading and become more like investment banks or venture capital companies. However, I think that is a misrepresentation. The difference is that, rather than focusing on a single industry, general trading companies develop businesses across several related industries to create value chains that incorporate investments and businesses. That approach builds synergies and comprehensive capabilities that generate significant earnings. General trading companies have the advantage of being able to take the initiative in a wide variety of business areas. That advantage underpins the ability of general trading companies to benefit society by helping balance supply and demand in various industries on a worldwide scale.

Twenty or thirty years from now, securing various natural resources and energy will likely be more difficult. We will probably require even more stringent measures to deal with environmental problems. Only general trading companies can respond to such conditions on a global scale and develop businesses that benefit society.



Returning Profits to Our Stockholders

For the fiscal year, we raised dividends for the fourth straight year, paying full-year cash dividends of ¥18.00 per share, up ¥4.00 from the previous fiscal year.

The Company's basic policy for cash dividends is to return profit steadily and continuously in light of business results. Moreover, during the period of Frontier+ 2008 we are aiming to increase nonconsolidated stockholders' equity while gradually increasing cash dividends and improving our consolidated dividend payout ratio. In the fiscal year the consolidated dividend payout ratio improved from 12.5% in the previous fiscal year to 13.0%. Also, for the current fiscal year, ending March 2009, we plan full-year cash dividends of ¥21.00 per share, a ¥3.00 increase from the fiscal year.

I do not think that cash dividends or the consolidated dividend payout ratio have reached satisfactory levels for stockholders and investors yet. I believe that it is more important to build an even higher earnings structure in order to achieve sustainable growth and development. Also, I strongly believe trading companies are in a growth industry and that demand for funding to expand businesses will remain strong. Therefore, we will effectively use retained earnings to increase stockholders' equity to advance growth strategies and maintain and strengthen competitiveness. Regarding that policy, I ask our stockholders and other investors for their continued understanding.

With Passion, Energy, and Tenacity

So far, I have mainly talked about what we need to do to become a *truly global enterprise*. But there is another aspect of our businesses to which we need to rededicate ourselves. We must uphold our ITOCHU Credo—*Committed to the global good* and ensure that each employee reflects it in their business activities. Year by year, society expects more of companies, and its demands are increasingly exacting. We are moving into an era where companies that do not live up to society's expectations may not survive. ITOCHU has survived and prospered over a century and a half by handing down



from generation to generation its founder Chubei Itoh's *sampo yoshi* management philosophy of benefiting the seller, the buyer, and society, which is the origin of the ITOCHU Credo, and unflinchingly meeting society's expectations. Never forgetting that the social trust we have garnered during 150 years could vanish in a moment, we will uncompromisingly reflect society's expectations in all of our business activities.

We have taken our first confident stride on the path to becoming a *truly global enterprise*. On that long, steep path, we will anticipate change, tackle it, and make it our ally as we move forward with passion, energy, and tenacity.

In closing, I ask our shareholders and other investors for their continued support.