

Enhancing Corporate Value on the World Stage,
Frontier^e 2010 Shaping the Future


CEO Message

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Shaping the Future

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Eizo Kobayashi

President and
Chief Executive Officer

A portrait of Eizo Kobayashi, President and Chief Executive Officer, standing with his arms crossed in a professional setting. He is wearing a dark blue suit, a white shirt, and a gold patterned tie. The background shows a window with a view of a building.

The global economy is in a phase of unprecedented turmoil. As conditions are likely to remain uncertain, we have to reappraise and cement our foundations. However, regardless of economic fluctuations, our determination to become a *truly global enterprise* will not waver.

Looking ahead to a post-recession of global economy, we will continue taking on challenges and reforms to move forward steadily.

Reviewing Frontier+ 2008 Quantitatively

In fiscal 2009, ended March 31, 2009, net income declined 23.9%, or ¥51.9 billion, to ¥165.4 billion, which principally resulted from a drop in automobile and construction machinery trading transactions due to a sudden worsening of economic conditions in the second half of the fiscal year; a ¥36.2 billion loss arising from withdrawal from the Entrada oil and natural gas field development project in the U.S. Gulf of Mexico; and ¥46.0 billion in impairment losses on investment securities because of a slumping stock market.

To begin with, I would like to look back over the period of the Frontier+ 2008 medium-term management plan, which covered fiscal 2008 and fiscal 2009. In fiscal 2008, we grew robustly on the back of a growing global economy that was driven by the economic development of BRICs and resource-rich countries. Consequently, we surpassed our initial target of ¥210 billion to post net income of ¥217.3 billion and set a new record for the fourth straight year. Favorable trends continued

until the end of the first half of fiscal 2009. However, the failure of a major U.S. financial institution in September 2008 brought about a sea of change. Recession quickly spread globally, and these favorable trends slowed rapidly. As a result, net income declined year on year, falling short of our target. In addition, stockholders' equity was down 12.8%, or ¥124.1 billion, from the previous fiscal year-end, to ¥849.4 billion, reflecting the recording of a comprehensive loss compared with the recording of comprehensive income*¹ in the previous fiscal year due to a rapid appreciation of the yen coupled with a steep fall in the stock market. This decrease in comprehensive income led to financial issues such as a 0.4 point worsening of the net debt-to-equity ratio (NET DER) from the previous fiscal year-end, to 2.1 times.

*¹ The total change in stockholders' equity excluding items resulting from capital transactions that are stipulated in the Statement of Financial Accounting Standards No.130, "Reporting Comprehensive Income" (SFAS 130)

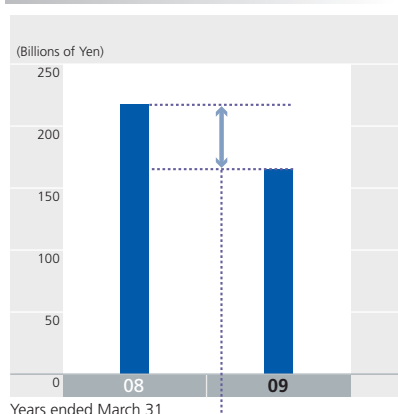
Frontier+ 2008—Quantitative Review

(Billions of Yen)

	FY2008		FY2009	
	Plan	Results	Initial Plan	Results
Net Income	210.0	217.3	210.0	165.4
Total Assets	5,800.0	5,274.2	6,300.0	5,192.1
NET DER	1.7 times	1.70 times	1.7 times or less	2.07 times

	FY2008	FY2009
Net Interest-Bearing Debt	1,654.5	1,756.8

FY2009 Net Income—Positive and Negative Factors



- Higher earnings from coal mining / iron ore interests
 - Loss due to withdrawal from Entrada Oil / Natural Gas Project (¥36.2 billion)*
 - Impairment losses on investment securities (¥46.0 billion)*
 - Provision for doubtful receivables for customers in Mongolia (¥10.8 billion)*
 - Slumping automobile sales
- * Before income taxes

Net Income by Segment

(Billions of Yen)

	FY2008	FY2009
	Plan	Results
Textile	20.5	22.9
Machinery*	21.4	(15.5)
ICT, Aerospace & Electronics*	14.6	8.0
Energy, Metals & Minerals	105.7	114.7
Metals & Minerals	55.9	83.8
Energy	49.8	30.9
Chemicals, Forest Products & General Merchandise	19.7	19.0
Forest Products & General Merchandise	8.3	12.0
Chemicals	11.4	7.0
Food	18.7	20.2
Finance, Realty, Insurance & Logistics Services	10.8	(1.2)
Finance, Insurance & Logistics Services	13.0	(4.4)
Construction & Realty	(2.2)	3.2

* As the result of a reorganization on April 1, 2009, the Machinery Company transferred control of its Industrial Machinery & System Department to the Aerospace, Electronics & Multimedia Company, which changed its name to the ICT, Aerospace & Electronics Company.

Evaluating Initiatives Qualitatively



Next, I would like to look back at measures under the previous management plan from a qualitative standpoint. Exceeding targets, we invested ¥660 billion gross, or ¥490 billion net, in highly strategic businesses that will further our growth.

Frontier+ 2008 called on us to accelerate overseas business development as a key measure. Accordingly, in each of the plan's two years we met the ¥100 billion target set out for earnings from overseas businesses*¹ while steadily investing upfront in large and highly profitable projects that will provide new business opportunities.

For example, we consolidated our position in China's consumer-related sector. As well as investing in a major conglomerate through its holding company, Shanshan Group Co., Ltd., we decided to invest in a major food product distributor with operations in China and Taiwan, TING HSIN (CAYMAN ISLANDS) HOLDING CORP., which is a holding company of the Ting Hsin Group. In Brazil, we acquired a stake in an iron ore

producer and distributor, Nacional Minérios S.A. (NAMISA), a subsidiary of major Brazilian steel producer Companhia Siderúrgica Nacional (CSN), through a consortium formed with major steel producers in Japan and Korea. This initiative marked our full-fledged entry into iron ore operations in Brazil, adding to our iron ore operations in Western Australia.

L-I-N-E-s*² are particularly important new business areas that ITOCHU is developing on a company-wide basis. During Frontier+ 2008, we made particularly good progress in the Life & Healthcare and the Environment & New Energy business areas. We forged capital and operational alliances with manufacturers and distributors of medical equipment, built value chains in the solar photovoltaic generation area by investing in solar photovoltaic generation systems integrators, and participated in bioethanol production and sales in Brazil.

We embarked upon many other valuable initiatives that promise to contribute to earnings. For example, we made NTT Plala Inc., which provides video broadcasting services through the Internet, an equity-method associated company; reinforced our tie-up with YANASE & CO., LTD.; and decided to make C.I. KASEI Co., Ltd., and i-LOGISTICS CORP. subsidiaries. On the other hand, Frontier+ 2008 left many pressing tasks. In this current unpredictable business environment, I feel that tackling these tasks is absolutely critical if we are to achieve the ambitious goal of becoming a *truly global enterprise*.

*¹ Overseas businesses = overseas subsidiaries & affiliates

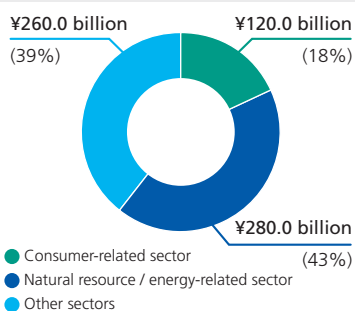
*² L-I-N-E-s are business areas that ITOCHU develops laterally among its division companies to create future earnings mainstays. The L-I-N-E-s business areas are Life & Healthcare, centered on medical services and health-related businesses; Infrastructure, including IT / LT / FT functional infrastructure and businesses related to social infrastructure; New Technologies & Materials, such as biotechnology and nanotechnology; and Environment & New Energy, comprising bioethanol operations, solar power generation, and other areas.

Frontier+ 2008 Investment Results

(Billions of Yen)

	FY2008–FY2009	
	Plan	Results
Gross	500.0	660.0
Net	400.0	490.0

Investment Review by Segment



Frontier+ 2008 Major Investments

Consumer-related sector	Ting Hsin Holding (China), Shanshan Group (China), SANKEI, DESCENTE
Natural resource / energy-related sector	Nacional Minérios S.A. (NAMISA) iron ore production and wholesale business in Brazil; Expansion of iron ore project in Western Australia; Offshore oil and gas field in Victoria, Australia; Bioethanol production in Brazil
Other sectors	North American IPP, Methanol production in Brunei, NTT Plala, YANASE, Life & Healthcare related businesses, Solar power generation related businesses

Identifying Tasks

Because ITOCHU conducts a broad range of business activities in countries the world over, it mirrors global economic trends. Therefore, correctly anticipating how the global economy will unfold is indispensable in determining the best course to take. In my view, the worst period of the recession has passed thanks to prompt countermeasures by governments. Unfortunately, however, it is difficult to predict when the global economy will recover from this recession because it has shaken countries worldwide to an extent that limits the relevance of past experience and theories. Given that lack of clarity in business conditions, I believe that our first priority must be to review our foundations objectively, in other words, to check the overall status of operations and gain a firm grasp of problems.

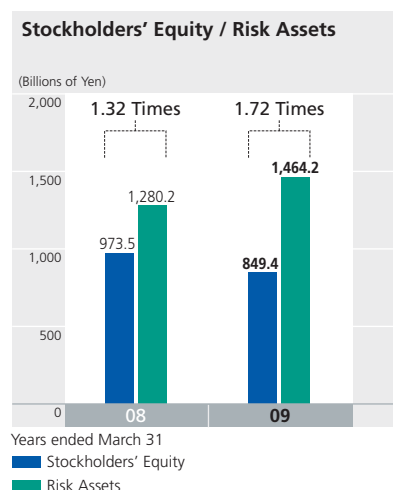
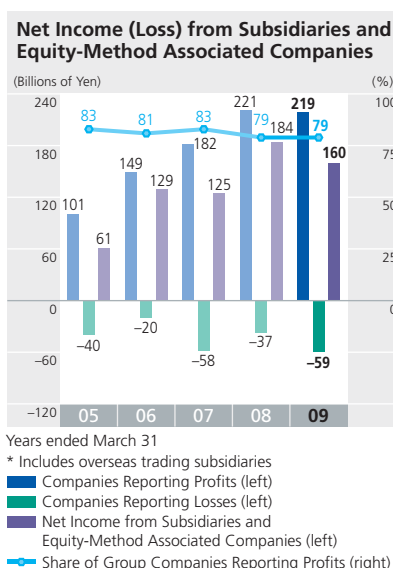
So, what are the tasks that ITOCHU has carried over from Frontier+ 2008? First of all, focusing on L-I-N-E-s, we took a variety of steps to create new businesses in the Life & Healthcare and Environment & New Energy business areas. However, these initiatives still need time when they contribute to earnings. Earnings from overseas businesses were down year on year due to worsening global economic trends in the second half of the fiscal year. I am fully aware that we must strengthen and improve the profitability of existing operating companies in response to a 13% year-on-year decrease in net income from subsidiaries and equity-method associated companies, a significant decline in earnings from companies reporting profits, an increase in the losses of companies reporting losses, and a lower percentage of companies reporting profits. Further,

we discovered that tri-nation trade transactions involving heavy machinery, mechanical equipment, and materials for customers in Mongolia included financial transactions not involving actual delivery of products. We view that incident with the utmost gravity and will further strengthen internal controls accordingly.

Another task is to rapidly improve financial indicators that could affect funding, such as the NET DER and the balance between stockholders' equity and risk assets*. Meanwhile, although we have made progress in laying the foundations for our global human resources strategies, the full-fledged implementation of initiatives still lies ahead of us.

We designed our new medium-term management plan Frontier+ 2010 to be a roadmap for tackling these tasks head-on and set out a full array of measures that will enable strategic and aggressive corporate management.

*Risk assets: maximum loss amount that could be incurred (asset price x risk coefficient)



Gathering Momentum through Frontier+ 2010

Our previous medium-term management plan, Frontier+ 2008, urged ITOCHU to become a *global enterprise that is highly attractive to all stakeholders*. This ideal corporate identity does not simply mean becoming a company that has global operations, rather it means becoming a company that is embedded in each region worldwide, that pursues business from an international viewpoint, and that thereby generates earnings as a *truly global enterprise*. Although business conditions have changed since the period of Frontier+ 2008, in accordance with the full title of Frontier+ 2010—Enhancing Corporate Value on the World Stage, Shaping the Future—we will continue pursuing the goal of becoming a *truly global enterprise*.

As its population ages in earnest, Japan is likely to see economic growth soften. In the medium-to-long term, economies are certain to become more globalized. Therefore, unless we look overseas to quickly create earnings platforms, we will not be able to map out growth strategies or prevail against

the competition. Halting our progress toward becoming a *truly global enterprise* would mean giving up on growth and retreating.

Becoming a *truly global enterprise* requires us to enhance management systems, human resources, and corporate value. The small “e” in the title Frontier+ 2010 stands for “enhance” and symbolizes our strong resolve to heighten all aspects of operations. While taking steps appropriate to the opacity of current business conditions, we will definitely avoid the pitfall of becoming short-sighted and will steadfastly advance toward becoming a *truly global enterprise*.

Mindful of the tasks that I explained earlier, we established *expand and improve earnings platforms, strengthen financial position / upgrade risk management, evolve management systems, and advance full-fledged implementation of global human resources strategy* as the key measures of Frontier+ 2010.

Frontier^e 2010 —Enhancing Corporate Value on the World Stage, Shaping the Future—

Basic Policy

In light of significant changes in the global economy, we will review foundations, continue to reform and take on challenges, and move forward steadily to become a *global enterprise that is highly attractive*.

The “e” added above and to the right of “Frontier” stands for “**Enhance**.” The Company will enhance management quality, the abilities of each employee, and the attractiveness of the Company to realize the goal of being a *truly global enterprise*.

Key Measures

Expand and improve earnings platforms

Strengthen financial position / Upgrade risk management

Advance full-fledged implementation of global human resources strategy

Evolve management systems

Quantitative Plan

(Billions of Yen)

	FY2009 (results)	FY2010 (plan)	FY2011 (image)
Net Income	165.4	130.0	160.0
Total Assets	5,192.1	5,500.0	—
NET DER	2.07 times	Less than 2.0 times	—

Setting Out New Quantitative Targets and Investment Targets

Due to the difficulty of forecasting economic conditions over the period of Frontier^e 2010, which covers fiscal 2010 and fiscal 2011, we have only fixed a quantitative plan for fiscal 2010.

In fiscal 2010, we will strive to reach net income of ¥130 billion. We will spare no effort to meet this target, which represents a more than 20% decrease year on year. At the same time, we will improve financial indicators that deteriorated markedly in fiscal 2009. The target for the NET DER is less than 2.0 times.

We have set the plan of ¥200 billion gross and between ¥100 billion and ¥150 billion net, for new investments that we will carefully select in fiscal 2010. In conjunction with these

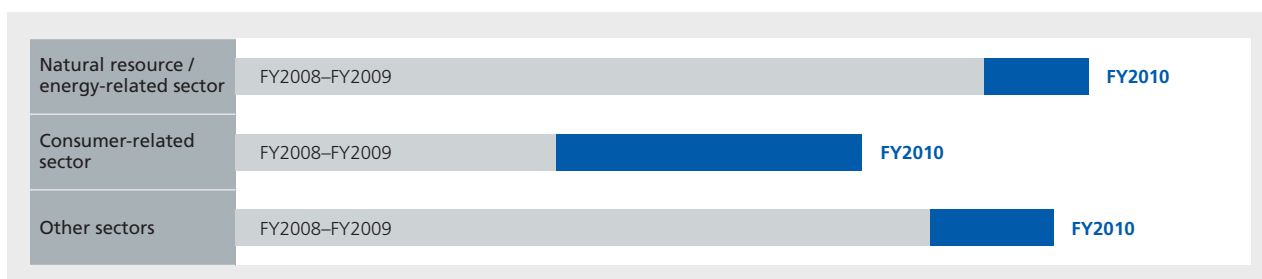
activities, we intend to replace assets and curb risk assets by divesting not only unprofitable businesses or those with low efficiency but also highly efficient assets if it makes little strategic sense to hold them.

Our overriding investment policy is to build a business portfolio that is well balanced among three sectors: the Natural Resource / Energy-Related Sector, the Consumer-Related Sector, and Other Sectors, which include automobiles, IT, chemicals, and financial services. Therefore, we will allocate investment with an eye on maintaining a balance among these three sectors over the medium-to-long term.

Investment Plan

Implement New Carefully Selected Investments

- FY2010 new investments: ¥100 billion–¥150 billion net, approximately ¥200 billion gross
- Replace assets steadily through divestment of existing assets that Group has less reason to hold
- Deploy investment with awareness of medium-to-long term balance among three sectors (Consumer-related, Natural resource / energy-related, Other sectors)



Expanding and Improving Earnings Platforms for Tomorrow

Under the key measure to *expand and improve earnings platforms*, as well as aggressive corporate management initiatives to *discover / build new businesses* and *accelerate development of overseas business even further*, we will concentrate on efforts to *strengthen foundations of earning power* in relation to core operations, primarily strengthening existing operating companies.

Initiatives to *discover / build new businesses* will entail stepped-up efforts for L-I-N-E-s and faster creation and development of new businesses.

Under Frontier[®] 2010, ITOCHU will focus efforts on the Life & Healthcare and the Environment & New Energy business areas, which cater to markets with particularly large reserves of untapped potential. Further, to add impetus to business development we have established the new post of Chief Officer for New Business Development, who is responsible for L-I-N-E-s. We also integrated solar power generation initiatives, which division companies had conducted separately, by creating a Solar Business Department tasked with advancing solar power generation businesses. The new department is part of the business development organization of Headquarters. In a similar move to tighten up our organization, we gathered life science businesses in the Healthcare Business Department.

The Life & Healthcare business area presents an extremely broad spectrum of business opportunities, ranging from health food products to medical equipment sales, generic pharmaceutical products, such leading-edge medical technology fields as regenerative medicine, and one-stop support services for hospital management. Without fail, we will seize these business opportunities by bringing to bear the expertise and networks we have as a general trading company to build a medical value



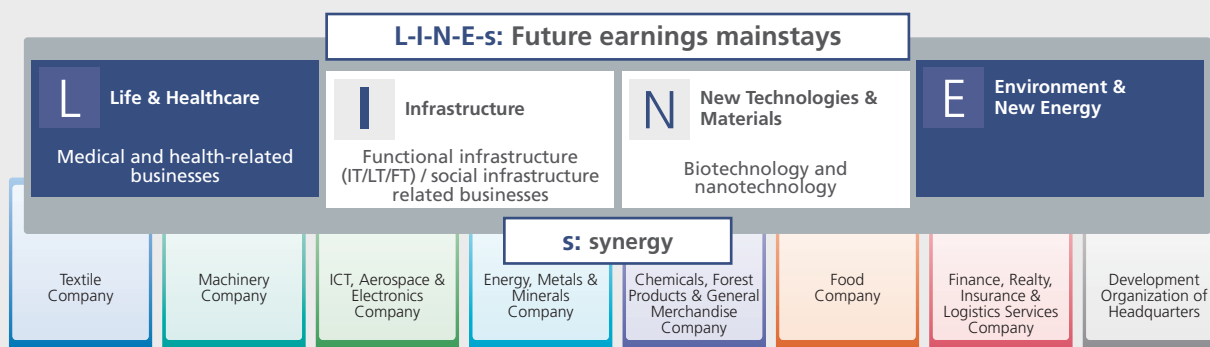
chain linking upstream areas, producing medical equipment; midstream areas, distributing pharmaceutical and medical materials; and downstream areas, businesses for hospitals.

In the Environment & New Energy business area, we will give priority to the areas of “solar power generation,” “energy storage devices,” and “water resources.” Of these areas, I believe our solar power generation businesses are frontrunners in the main markets, which are Japan, U.S., and Europe. For example, we have begun participating in the management of NorSun AS, which produces ingots and wafers for solar power generation, and our advance investments in integrators of solar power generation systems have proven successful. In preparation for the advent of a full-fledged solar power generation market, we will build a value chain across the solar power generation area by laying the foundations upon which to develop operations for raw materials and panel manufacturing.

Expand and Improve Earnings Platforms—Discover / Build New Businesses

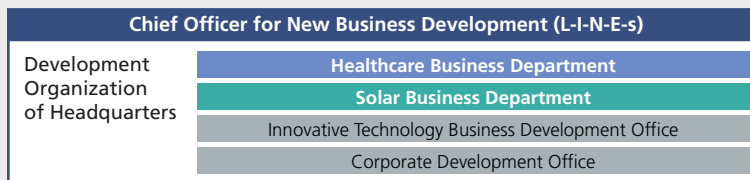
Continue L-I-N-E-s, strengthen even further

- Under Frontier[®] 2010, we will concentrate efforts especially on the Life & Healthcare and the Environment & New Energy areas.
- In the Environment & New Energy area, we will give priority to initiatives in the **solar power generation, energy storage device, and water resources areas.**



Organization

- Assignment of new Chief Officer for New Business Development (L-I-N-E-s)
- Newly establish Solar Business Department
- Strengthen Healthcare Business Department



In initiatives to *accelerate development of overseas business even further*, we will emphasize continuing the general thrust and scope of regional strategies. Accordingly, we will continue to regard North America, China, and Asia as priority regions and view resource-rich regions with growing economies and regions in which the ITOCHU Group has advantages over competitors as focus regions. To heighten basic earning power, ITOCHU will push efforts to improve the earnings of

existing overseas operating companies. At the same time, we will deepen tie-ups with major regional partners to develop profitable new businesses. Fiscal 2010 plans call for stepping up the pace of projects to develop new businesses and make them profitable, particularly in sectors other than the Natural Resource / Energy-Related Sector. Through these efforts, we aim to secure earnings from overseas businesses that account for 60% or more of consolidated net income.

Expand and Improve Earnings Platforms—Accelerate Development of Overseas Business Even Further

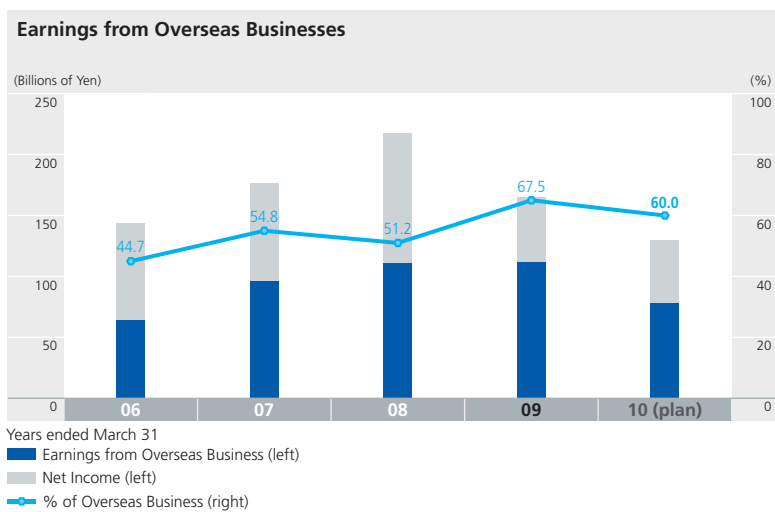
Earnings from Overseas Businesses

- In FY2010, aim to attain earnings from overseas businesses that account for 60% or more of Company-wide consolidated net income
- Develop businesses / achieve profitability in sectors other than the Natural Resource / Energy-Related Sector
- Improve earnings of existing businesses

Regional Strategies

- Continue efforts in priority regions, focus regions

Priority regions: North America / China / Asia
Focus regions: Resource-rich regions with growing economies
Regions in which ITOCHU has marked advantage over competitors



Against the backdrop of such an unclear business environment, we aim to recheck and reinforce the earning power of the core operations of ITOCHU, subsidiaries, and associated companies to *strengthen foundations of earning power*. To that end, we will allocate management resources optimally throughout the ITOCHU Group while rigorously strengthening monitoring of the earnings progress and business conditions of segments, subsidiaries, and associated companies.

Until now, ITOCHU has classified all operations into about 70 segments, furthering efficiency in each based on the benchmarks of a return on assets of 2% and a risk return index of 8%. Going forward, we will add another two benchmarks to our monitoring of all segments: earnings size and earnings growth. Based on these evaluations, we will allocate assets optimally and replace assets strategically to improve company-wide asset efficiency and strengthen earning power.

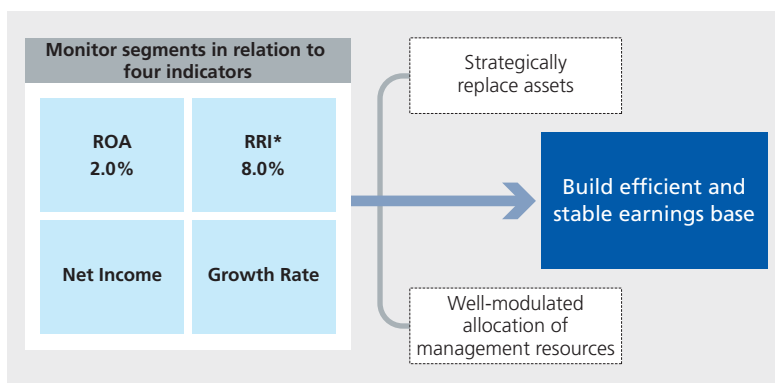
Expand and Improve Earnings Platforms—Strengthen Foundations of Earning Power

Management of Affiliates

- Upgrade existing subsidiaries and associated companies and increase their earnings
- Strengthen monitoring of subsidiaries and associated companies and advance effective allocation of management resources

Segment Strategies and Asset Replacement

- Monitor segments in relation to four indicators: ROA, RRI, net income, growth rate
- Identify segments' strengths / weaknesses and gain all-round grasp of portfolios in order to allocate or replace assets optimally and thereby build efficient and stable earnings base



* RRI: Risk return index, the rate of return attainable relative to risk assets, which expresses the maximize loss that could be incurred in the future

Making Management Even More Solid—Financial Strategy / Risk Management / Management Systems

My belief is that in order to earn trust as a *truly global enterprise*, we must work unflinchingly to strengthen our financial base and improve the financial indicators that have worsened in fiscal 2009. Therefore, we will expedite efforts to improve key financial indicators and uphold financial discipline, including the basic principle of keeping increases in risk assets within the increases in stockholders' equity and controlling the balance of interest-bearing debt in light of the NET DER. In particular, we have made improving the NET DER to less than 2.0 times our highest-priority financial target for fiscal 2010. Also, over the medium-term we will rectify in stages the current imbalance between risk assets and stockholders' equity. Further, we aim to stabilize funding and lower funding costs by expanding and improving our global cash management system, which is an infrastructural system for controlling funds on a consolidated basis.

Further, we will upgrade risk management. As well as continuing risk control through the existing RCM (risk capital management) method, we will realize stringent control of credit exposure for the whole ITOCHU Group. The current economic crisis has reaffirmed to us the need for thorough-going control of risk concentrations in specific industries or countries. With that in mind, we will strictly control risk to ensure that we do not become exposed to concentrations of risk. Moreover, in addition to controlling each risk, ITOCHU will promote enterprise risk management (ERM), which comprehensively analyzes and controls various risks, to intensify the risk management of the ITOCHU Group as a whole.



Aiming to *evolve management systems*, we will advance corporate social responsibility that reflects multiple stakeholder perspectives, increase the appropriateness and transparency of corporate governance, and develop more effective internal control. Since 2006, the ITOCHU DNA Project has been examining the improvement of operational efficiency and the strengthening of internal control. Now, the time has come to shift from the design phase of the project to the implementation phase and thereby strengthen the capabilities of each organization and employee, the source of each general trading company's competitiveness.

Financial Strategy / Risk Management / Management Systems

Strengthen Financial Position

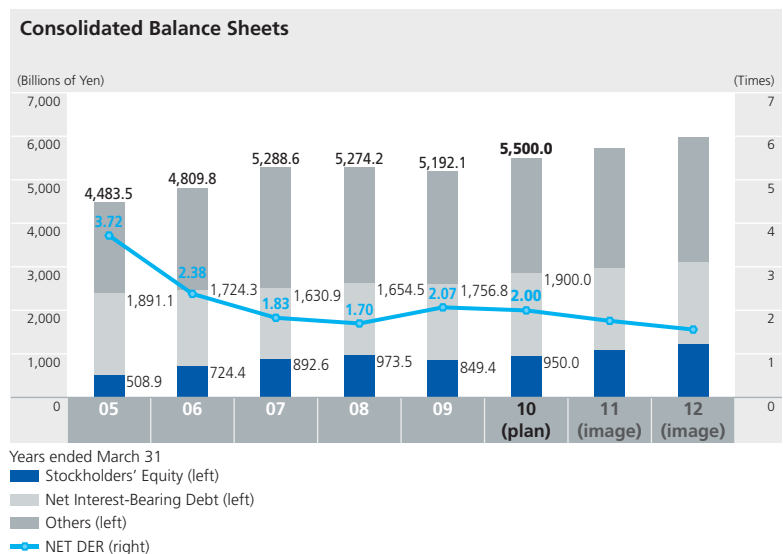
- Uphold financial discipline resolutely, improve key financial ratios
 - > Recover NET DER to less than 2.0 times by end of FY2010 (SFAS160 not applied)
 - > Maintain financial discipline of keeping increases in risk assets within increases in consolidated stockholders' equity
- Organize overseas Intra-group Loan System, move toward global capital management

Upgrade Risk Management

- Control risk concentration (limits for assets in particular areas, country risk limits)
- Move toward Enterprise Risk Management

Evolve Management Systems

- Advance corporate social responsibility
- Strengthen corporate governance
- Realize rigorous internal control
- Continue to advance operational reforms (ITOCHU DNA Project)



Implementing Global Human Resources Strategies in Earnest

For more than 150 years, ITOCHU has been able to overcome the upheavals of many eras and continue to advance its businesses because it has promoted, fostered, and utilized its personnel. Because a general trading company does not have major production facilities, personnel are its greatest asset. In order to become a *truly global enterprise*, we have to address the urgent task of cultivating global human resources that will be the base of our global strategies. To that end, ITOCHU must root its business activities in regions worldwide by accommodating diverse values, maintaining an international perspective, and utilizing personnel regardless of nationality or gender. Mindful of that necessity, we have been developing global human resources strategies, which we will implement in earnest during Frontier[®] 2010. These strategies form the core of our human resources strategies. To advance them, we have established in four regions Global Talent Enhancement Centers

(GTECs) that will secure global human resources from around the world as well as foster and create management personnel for the ITOCHU Group.



Becoming a Truly Global Enterprise, Becoming a 21st Century Enterprise

We need to prepare ourselves for the continuation of uncertain conditions in the global economy. For at least the duration of the current fiscal year, we will require resilience as the economy recovers from past overconsumption and oversupply to trend back toward normal consumption and supply. However, I am by no means pessimistic when looking at the global economy over the medium-term because the world's population is likely to rise from 6.7 billion at present to roughly 9 billion by 2050. I believe that the global economy will move forward in step with that population growth.

I believe that the emergence of the global economy from recession will test ITOCHU's capabilities more than ever. What kind of qualities will be necessary for companies? As the current economic crisis has clearly shown, economies are becoming increasingly globalized, and future change is likely to transcend countries and industries and spread very rapidly. Therefore, as a basic requirement, we will have to respond swiftly and flexibly to this kind of change. Next, we must analyze significant trends in the global economy appropriately. Faced with a global arena, we must have sound judgment and the ability to carry out strategies appropriately where and when required. Another vital component is to have a group of dedicated personnel with various characters. After the recovery from this economic crisis, in order to win out in the

21st century we will have to meet these prerequisites, which define a *truly global enterprise*.

To inculcate the real meaning of being a *truly global enterprise* among ITOCHU Group employees around the world, we redrafted the ITOCHU Credo to create the ITOCHU Mission and Values. We sought to build a stronger solidarity among all employees by presenting the *Committed to the global good* concept in a form that is more readily understandable and practically applicable to everyday operations.

The present conditions provide an excellent opportunity for ITOCHU to show the true value of the pioneering spirit that has driven our growth. Anticipating trends and building new earnings platforms ahead of the times, we will move forward toward the realization of a *global enterprise that is highly attractive to all stakeholders* with redoubled passion and resolution.

July 2009

Eizo Kobayashi

President and Chief Executive Officer