

A close-up portrait of President Masahiro Okafuji, an elderly man with glasses, wearing a dark suit, white shirt, and a blue tie with a pattern of white and yellow birds. He is speaking and gesturing with his hands. The background is blurred.

**Enhancing Earning Power by
Accelerating Innovative Changes
and Strengthening Workforce
Capabilities**

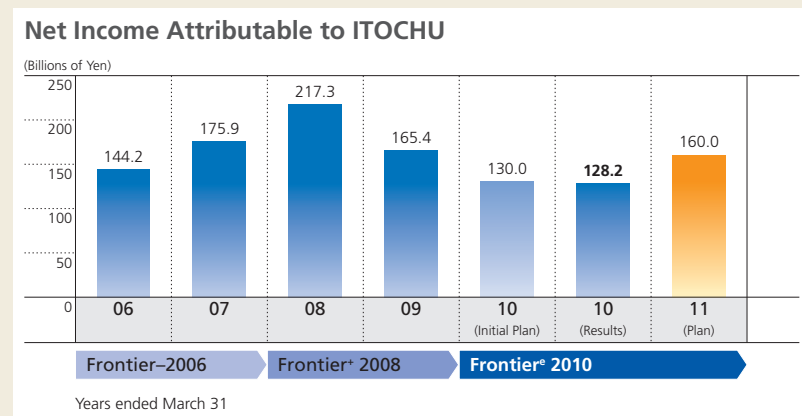
Looking Back on the First Year of Frontier^e 2010

Please analyze and evaluate ITOCHU's performance during fiscal 2010.

Looking back on the business conditions in fiscal 2010, in the first half we saw the ongoing effects of the economic recession that lingered on from the preceding fiscal year. As we moved into the second half, however, the global economy began to recover, spurred by economic buoyancy in emerging countries. Prices of raw materials and energy also rebounded to a notable degree in the second half. For the full year, however, lackluster first-half performance weighed down performance, as prices of raw materials and energy were down substantially in a year-on-year average comparison. Sluggish recoveries in the areas of construction machinery and automobiles, ICT, and financial services also contributed to a decline of net income attributable to ITOCHU during the fiscal year. That being said, although we slightly undershot our initially planned figure of ¥130 billion, we came very close to achieving this objective.

A look at our quantitative performance by segment demonstrates the tenacity of our earnings structure. A differentiating feature of ITOCHU is that in addition to businesses in the Natural Resource / Energy-Related Sector, it has strong businesses in the Consumer-Related Sector, which includes the apparel, food, and living categories. During the year, although the Energy, Metals & Minerals Company posted a substantial decline in earnings, the Food Company posted record earnings thanks to a robust performance from existing operations and successful new investments. The Textile Company and the Chemicals, Forest Products & General Merchandise Company also maintained earnings at the same level year on year, contributing to the overall performance of ITOCHU.

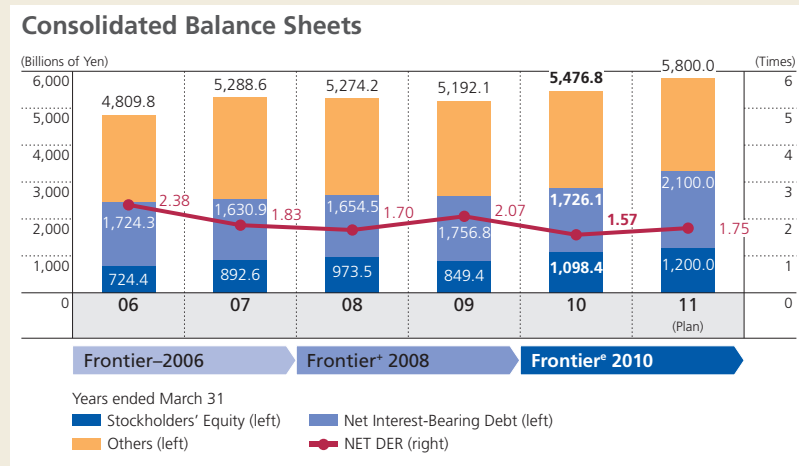
In heavy industries, such as machinery, we still need to address the issue of building a business model that is relatively impervious to economic fluctuations. On a companywide basis, however, I believe that our performance in the face of strong headwinds is acceptable, evincing a robust earnings structure.



What progress did you make in strengthening ITOCHU's financial position?

NET DER in fiscal 2009, worsened to 2.1 times due to an increase in interest-bearing debt resulting from such strategic investments as that in NAMISA and a decrease in stockholders' equity caused by yen appreciation and a stock market downturn. For ITOCHU, NET DER is a key indicator of the strength of its financial position. Improving this ratio is important because it will enable us to maintain flexibility in implementing future strategies. To this end, we worked to steadily increase net income attributable to ITOCHU and continued with stringent controls on interest-bearing debt. As a result, we succeeded in improving NET DER to 1.6 times, bettering our target of 2.0 or less. As of March 31, 2010, stockholders' equity exceeded ¥1 trillion for the first time on a fiscal year-end basis. Therefore, I regard fiscal 2010 as a

year in which we successfully strengthened our financial position. Maintaining the strength of our financial position as an important management task, we set out a NET DER target of 1.75 times for fiscal 2011.

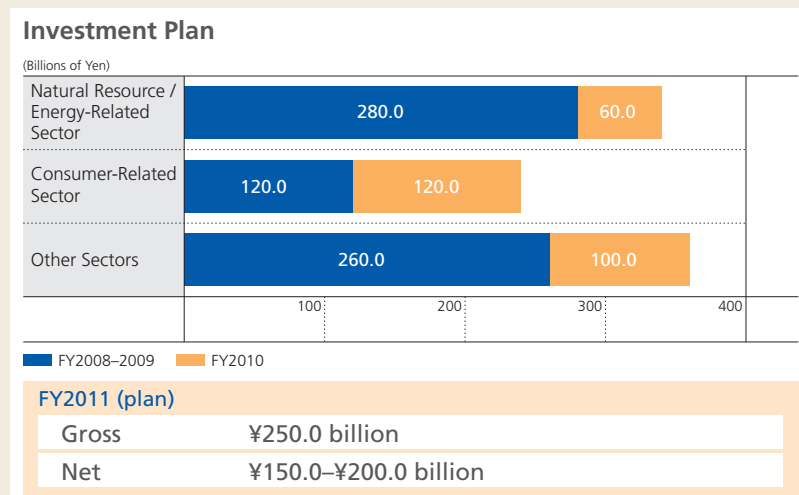


Please outline progress on the key measure to expand and improve earnings platforms.

We made carefully selected investments in the fiscal year ended March 31, 2010. New investments totaled ¥60 billion in the Natural Resource / Energy-Related Sector, ¥120 billion in the Consumer-Related Sector, and ¥100 billion in Other Sectors, which include automobiles, ICT, chemicals, and financial services. Our total gross investment, therefore, was ¥280 billion, and net investment came to ¥240 billion.

Within the Natural Resource / Energy-Related Sector, our natural resource-related investments included capacity expansion through a joint venture with BHP Billiton Group related to the Western Australian iron ore business. In addition to acquiring an equity interest in NAMISA mines in Brazil, we are steadily developing these operations to meet growing demand for iron ore. On the energy front, we decided to move ahead with an investment in the Chirag Oil Project on the Azeri-Chirag-Gunashli (ACG) Oil Field in the Caspian Sea. Investment in this project, which is slated to commence production in 2013, will substantially boost production attributable to ITOCHU.

In the Consumer-Related Sector, investment initiatives outperformed expectations. In particular, I believe we secured a stronger foothold in China's burgeoning consumer market, an increasing focus of attention. In food-related investments, we concluded an investment in TING HSIN (CAYMAN ISLANDS) HOLDING CORP., a leading food business group in China. Completing a value chain centered on this





company will play a major role in propelling forward our Strategic Integrated System (SIS) strategy in China. In addition, the investment has a strategic significance in terms of bolstering our presence in the Japanese food product market. Related to textiles, we invested in Shanshan Group Co., Ltd., in fiscal 2009 and we fostered cooperative relationships, mainly through the brand business, with a view to expanding sales within China. In collaboration with the Shanshan Group, we also steadily expanded the scope of operations that extend beyond the boundaries of the textile business. Meanwhile in Japan,

we also made major companies such as JAVA HOLDINGS CO., LTD., and LEILIAN CO., LTD., subsidiaries.

In Other Sectors, through public tender offers we acquired additional stakes in C.I. Kasei Co., Ltd., and i-LOGISTICS CORP. (now, ITOCHU LOGISTICS CORP.), which we made unlisted subsidiaries. Positioning these companies as core subsidiaries in their respective business areas of plastics processing and logistics, we expect to derive synergies from joint business development in Japan and overseas.

How is ITOCHU developing new businesses in the L-I-N-E-s areas?

We must develop new pillars of future earnings while working to grow earnings bases in the Consumer-Related Sector, which is a source of stable earnings, and in the Natural Resource / Energy-Related Sector. To this end, we will accelerate development in the L-I-N-E-s business areas, particularly in the areas of energy storage devices, water resources, solar power generation, and life care.

During fiscal 2010, we made particularly good progress on initiatives surrounding the energy storage device business. As demand growth is expected for large lithium-ion batteries for use in electric vehicles (EVs) and hybrid vehicles, we made an aggressive move to collaborate with Toda Kogyo Corp. This company specializes in cathode materials, which are an important contributor to battery performance. We moved forward in our joint venture businesses in the United States and Canada, and made a joint investment in a prominent Chinese manufacturer of cathode materials within the Shanshan Group.

In the solar power generation business, we continued to build a solar value chain—a vertically integrated business ranging from upstream materials to downstream power generation and system integration businesses. By bringing competitive companies into the ITOCHU Group, we are building a three-pronged structure: Japan, the United States, and Europe. We are also looking proactively for solid companies in the Healthcare Business for inclusion in our medical value chain. Particularly noteworthy was our investment during fiscal 2010 in Watakyu Seimoa Corporation, which boasts a substantial share of the medical and welfare services market. We expect this company to raise our competitive position in the Healthcare Business.

In the area of water resources, we, as a member of a consortium, won a contract for the world's largest seawater desalination project in Australia. The desalination plant is currently under construction and is slated for completion in 2011. We plan to step up initiatives in this business area, which has the potential to grow globally.

What about progress on the key measure to strengthen foundations of earning power?

Owing to the simultaneous worldwide recession, the percentage of affiliates reporting profits fell, pointing to the need to improve the profitability of our affiliates. Targeting future growth, we will accelerate the replacement of assets in the fiscal year ending March 31, 2011. Assets that generate low earnings and profitability are targeted for replacement. We will also take an aggressive approach toward replacing assets, not only from the view point of profitability and efficiency but also based on consideration of strategic significance.

ITOCHU and the Chinese Market

China's importance is increasing in the global economy.

It has become almost a universally accepted truth that global economic recovery hinges on the Chinese economy. Particularly impressive has been the phenomenal speed with which the presence of China as a consumer market is increasing, supported by the government's measures to stimulate domestic market



ITOCHU and Shanshan Group Co., Ltd., conclude a capital and operational tie-up

demand after the simultaneous worldwide recession. For example, China is already the world's largest market for automobiles, based on unit sales of new cars. The affluent and mid-income segments of the population are expanding rapidly, and markets are expanding geographically from the coastal cities further inland. These economic developments suggest that markets have ample leeway for further expansion. Companies throughout the world are gathering for the chance to enter the country's huge consumer markets. In addition to consumer markets, China offers seemingly limitless business potential in its demand for resources and energy, logistics infrastructure, rail and roadway transportation infrastructure, and water and environmental / energy conservation businesses. These areas present business opportunities for ITOCHU, due to the breadth of its operations as a general trading company.

What makes ITOCHU strong in China?

History is the answer. The Chinese market is noted for differences in business culture and environment, which make it extremely difficult for foreign companies to operate business successfully alone. Since 1972, when we became the first general trading company to enter the Chinese market, we have cultivated personal relationships, developed networks, and established a team of professionals with business expertise relating to China. As Chinese people tend to respect greatly trust-based relationships, personal connections are an important business tool. Such relationships cannot be built overnight. On the other hand, trust-based relationships that are in place tend to spawn new relationships that lead to even greater business opportunities.

At present, being able to enter partnerships with prominent Chinese companies that are well acquainted with local business is our advantage. ITOCHU enjoys that advantage because it began laying the steppingstones for involvement in Chinese business long before China's market began attracting attention.

Future Management Policy

Please share your thoughts on further strengthening basic earning power.

For a company to develop sustainably, it needs to set milestones and, upon reaching these milestones, conduct reviews of its achievements. ITOCHU holds equity interests in the upstream Natural Resource / Energy-Related Sector. Strong market prices through 2008 were of unquestionable benefit to our earnings base. Also, we were able to explore business opportunities relatively easily thanks to the favorable management environment. However, altogether different market conditions prevail in the wake of the simultaneous worldwide recession. Opportunities no longer present themselves. Rather, current conditions require proactive efforts to develop opportunities.

■ You have spoken of strengthening workforce capabilities.

As my experience to date has put me into constant contact with consumers, I am confident that the basis of business is to look at business from a consumer viewpoint. Salespeople must get out into the market, where they can gain a visceral understanding of the changes that are taking place all around them, see new business opportunities, and take the lead in forging new business models. The same attitudes are required for administrative divisions. Visiting operational frontline sites can help them function from an entirely new perspective. Strengthening workforce capabilities requires creating an environment that encourages individuals to maximize their skills. Looking back at the past, over the years ITOCHU employees operated at their own discretion and created businesses. This may partly be attributable to our origins as an independent trading company. Unfortunately, this characteristic “ITOCHU quality” seems to have faded in recent years. I would like us to return to an open and active corporate culture in which people take on challenges without worrying about failure excessively.

To achieve this goal, we began revising the various regulations that hamper sales activities. When the economy is strong, business opportunities tend to become large. Some of these involve relatively high levels of risk, and stringent rules may be necessary to rein in that risk. This is like carefully using the brakes when driving an automobile on an expressway. But the current environment is different. It is often said that “businesses are living things, always changing.” Such change has become more drastic, and spending undue energy worrying about risk prevents companies from taking advantage of opportunities. We need to review our organization and rules from the viewpoint of enabling sales personnel to be nimble and free to take expeditious advantage of opportunities. When driving up a slope, your foot needs to be on the accelerator. Recently, ours has been on the brakes. By no means do I disregard risk control. I believe that employees should not be overly shackled by rules and should have a certain amount of leeway to operate at their own discretion while minimizing risk. Building a structure that encourages this type of autonomy will strengthen workforce capabilities. I plan to spend one year in promoting this objective.

Looking at business from a consumer viewpoint will not, on its own, guarantee a company’s survival in current-day markets, with their blindingly quick shifts. For example, I have been involved in the textile business. Boasting No. 1 sales in the brand business among Japanese trading companies, we are without peer. We owe our standing today to frontline operations that have, amid significant changes in market structures, always created new business models based on two principles: taking the initiative and pursuing added value. We must continue to study the peculiarities of individual markets, add value, and seize the business initiative. I will ensure these principles permeate the entire company.



How do you intend to boost earnings during the final year of Frontier^e 2010?

Our numerical targets for fiscal 2011, the final year of Frontier^e 2010, are gross trading profit of ¥1,080 billion and net income attributable to ITOCHU of ¥160 billion. To achieve these goals, I aim to thoroughly implement the three new management principles: “earn,” “cut,” and “protect.”

“Earn” means that we will continue to strengthen workforce capabilities, as I mentioned earlier. At the same time, we will promote carefully selected new investment projects, while replacing assets by withdrawing from businesses that we have less reason to hold. In this way, we will expand and improve our earnings platforms. Also, we will reform the rules and standards that do not reflect the particular characteristics of individual businesses. ITOCHU comprises seven Division Companies. We will set the performance criteria even higher for highly profitable businesses or businesses in markets with strong growth potential to make them even more robust. At the same time, for businesses in difficult business environments we will establish reasonable targets commensurate with their circumstances, helping them to regain earning power. Thus, our target-setting and business development policies will vary for different types of business. While avoiding the risk of over-concentration in specific businesses, we will prioritize our investments in areas that promise high levels of growth, thereby maximizing earnings.

Next, we will “cut,” meaning to reduce expenses. Although the business environment is on a recovery trend, we will not take this upturn for granted in the way we conduct our operations. ITOCHU and its affiliates still have room to cut costs. We will review all manner of expenses, as we work to engineer a turnaround in Group earnings.

The final principle is “protect.” This principle refers to maximizing final profits by omitting “leakage.” By upgrading risk management, we will remain vigilant to prevent bad debt losses as well as investment-related losses.

What closing message would you like to send stakeholders?

I would like to emphasize to stakeholders that ITOCHU is a company with great potential. Our Natural Resource / Energy-Related Sector is well balanced in terms of products and geographic regions, and we have a strong Consumer-Related Sector. We are also poised to make steady progress in China, and we have the leeway to improve our earning power. I promise that, by thoroughly implementing the three principles of “earn,” “cut,” and “protect,” we will realize our potential and work to meet stakeholders’ expectations.

Throughout its history spanning more than 150 years, ITOCHU has developed an open and active corporate culture and a willingness to take on challenges without being overly hampered by risks. We will reinstate this culture, as we work to become an even more attractive company. Going forward, we will do our utmost to meet the expectations of all of our stakeholders.

