Achieving Our Super A&P-2004 Mid-term Plan

ITOCHU is expanding profits by implementing its Super A&P strategy through the Super A&P-2004 two-year mid-term management plan that started in April 2003.

Our Super A&P strategy aims to improve asset efficiency by making our A&P (Attractive and Powerful) strategy more dynamic through the following three specific sub-strategies:

1) "Profit doubling" Strategy: Sharply increase absolute profit levels in highly-efficient business units (at least 2% of ROA and at least 8% of RRI*), concentrating on A&P segments, through optimal use of funds for strategic investment

2) "2% & 8%" Strategy: Improve efficiency in semi-efficient units (at least 2% of ROA or at least 8% of RRI) and in low-efficient units with growth potential

3) "Reduction or exit" Strategy: Reduce exposure to or exit low-efficient units (less than 2% of ROA and less than 8% of RRI) with little growth potential

*RRI (Risk Return Index) = Net income/Risk assets
Risk assets = Maximum potential loss from possession of assets
= ∑ (Asset book value x Risk weight for each asset)

We are also placing strategic emphasis on allocating more management resources to the Consumer and Retail Related segment, an area where we have overwhelming strengths; on expanding our presence in Asia, especially China; and on creating new businesses including innovative technologies, which will become a core source of earnings going forward.

Review of Initial Year of Super A&P-2004

Despite the ¥45.0 billion net income target for fiscal year 2004, the initial year of the current mid-term plan, the fiscal year ended with a ¥31.9 billion net loss. At the end of fiscal year 2004, we adopted impairment accounting for fixed assets earlier than required by Japan GAAP in order to further improve our balance sheet structure. Although our consolidated financial statements already use impairment accounting according to U.S. GAAP, they now also reflect impairment losses additionally recognized under Japan GAAP. Consequently, a total of ¥123.3 billion in impairment losses was recognized. (See page 15 for details.) In addition, we recognized a sales and devaluation loss of real estate inventories of ¥23.9 billion aiming to accelerate the sales of real estate inventories for cash. Excluding these impacts, net income would have been ¥46.1 billion, above our target.

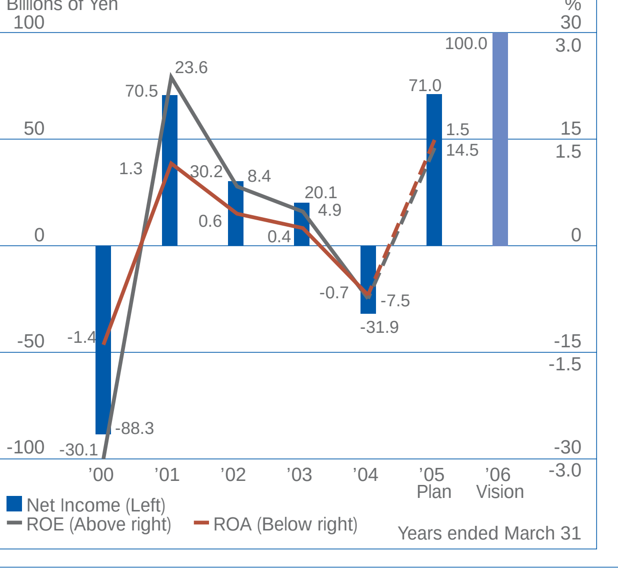
There are three reasons why we chose to recognize these losses even though the target was achievable. First, we are becoming more confident of building a strong profit structure as a result of our implementation of the A&P strategy. Second, in order to keep developing the profit structure more stably and continuously, we believe that we should enhance the soundness of our financial position by eliminating negative incentives as quickly as possible. Finally, in our judgment the recovery in the business environment creates ample room for a recovery in earnings and consequently a quick recovery in stockholders' equity in fiscal 2005 onward.

1) Optimization of Our Asset Portfolio and Profit Growth in A&P Segments

We increased the ratio of A&P segments and highly efficient segments to total assets to 69%, far exceeding our plan of 64%. This is attributable to an approximately ¥270.0 billion increase in assets in highly-efficient segments compared with the initial target.

Net income, on the other hand, stood at ¥52.8 billion, falling short of our plan of ¥58.0 billion target. Although the Asia and Natural Resource Development segments exceeded the planned figures, the Food segment was sluggish owing to the effects of the unseasonably cold summer, bovine spongiform encephalopathy (BSE), and avian influenza as well as lower market prices. The shortfall in net income is also attributable to a weaker-than-expected business performance of the Information and Multimedia segment due to devaluation losses for securities and impairment losses for aircraft-related subsidiaries.

Net Income (Loss), ROA, and ROE



Optimization of Our Asset Portfolio and Profit Growth in A&P Segments

	Billions of Yen				
	Results	First year plan	First year results*	Second year initial plan	Second year revised plan
	2003	2004		2005	
Net Income from A&P Segments (Years ended March 31)					
Consumer and Retail Related	22.3	30.0	25.0	38.0	35.0
Other A&P segments					
Information and Multimedia	14.3	8.0	5.1	14.0	11.0
Natural Resource Development	9.2	10.0	13.0	13.0	12.5
Financial Services	4.0	5.0	5.9	10.0	5.0
North America	-0.8	6.0	1.4	13.0	3.5
Asia	4.9	6.0	6.3	12.0	8.0
Elimination	-3.2	-7.0	-3.9	-12.0	-7.0
Total A&P	50.7	58.0	52.8	88.0	68.0
Assets of A&P Segments (As of March 31)					
Consumer and Retail Related	1,025.2	1,160.0	1,094.3	1,240.0	1,150.0
Other A&P segments	1,225.7	1,300.0	1,319.1	1,540.0	1,530.0
Total A&P	2,250.9	2,460.0	2,413.4	2,780.0	2,680.0
Other highly-efficient segments	—	410.0	682.7	460.0	1,000.0
Total A&P and other highly-efficient segments	2,250.9	2,870.0	3,096.1	3,240.0	3,680.0
Total Assets	4,486.4	4,450.0	4,487.3	4,400.0	4,600.0
Total A&P to total assets	50%	55%	54%	63%	58%
Total A&P and other Highly-efficient segments to total assets	—	64%	69%	74%	80%

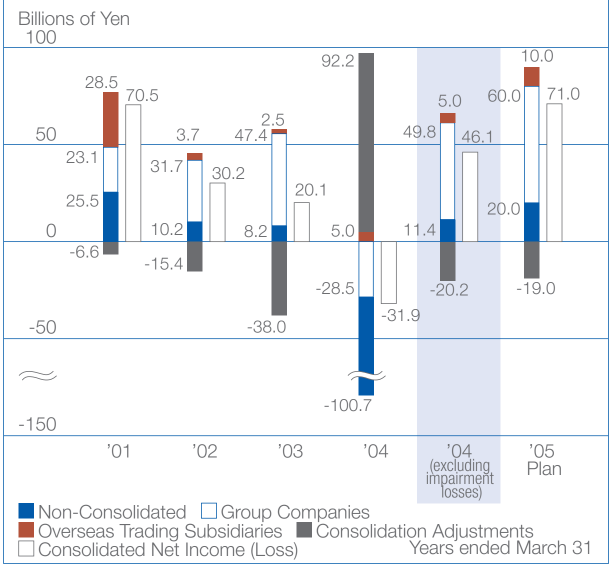
*Results of net income from A&P segments for the fiscal year ended March 2004 exclude one-time losses.

2) Consolidated Net Income Structure and Profit Contribution from Group Companies

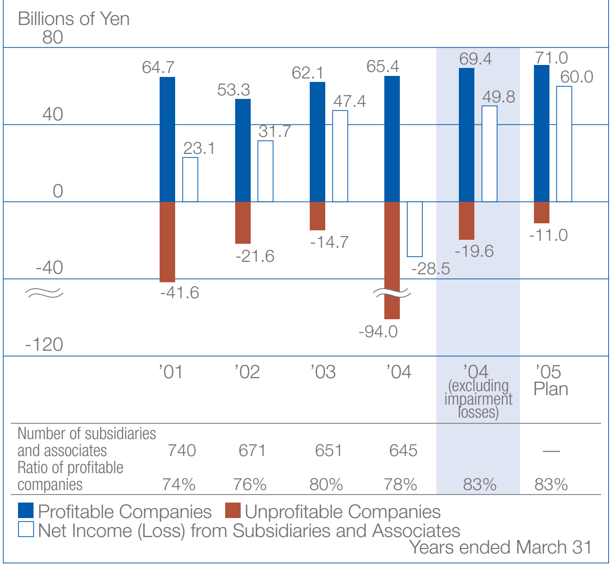
As for group companies, we have put the first priority on raising the profit level of the profitable companies so as to expand the overall profit contribution from group companies, a major source of consolidated net income. Specifically, we developed and strengthened core companies contributing more than ¥1.0 billion to profit and semi-core companies contributing ¥0.3 to ¥1.0 billion. As a result, the profit contribution from profitable companies increased ¥7.5 billion (¥3.5 billion) compared with the initial plan, to ¥69.4 billion (¥65.4 billion), excluding the effects of impairment accounting for fixed assets. Because the negative contribution from red-ink group companies increased ¥7.6 billion (¥82.0 billion) compared with our plan, to a loss of ¥19.6 billion (¥94.0 billion), due to large one-time losses, however, the contribution from group companies as a whole came in at ¥49.8 billion (–¥28.5 billion), compared with the initial plan of ¥50.0 billion.

Among our overseas trading subsidiaries, ITOCHU International Inc. in the U.S. and ITOCHU Europe PLC. were lackluster. Net income from trading subsidiaries in China and Hong Kong, however, totaled ¥2.0 billion, up a strong 42% compared with the previous fiscal year. As a result, total net income from overseas trading subsidiaries was ¥5.0 billion (¥5.0 billion), compared with our plan of ¥8.0 billion. (Note: Figures in parentheses include impairment losses.)

Structure of Net Income (Loss)



Net Income (Loss) from Group Companies



Numerical Plan for Super A&P-2004 (Consolidated basis)

	Results	First year plan	First year results	Second year initial plan	Second year revised plan	Vision*
	Billions of Yen					
	2003	2004		2005		2006
P/L (For fiscal years):						
Net income	20.1	45.0	-31.9 (46.1)*	75.0	71.0	100.0
B/S (As of March 31):						
Total assets	4,486.4	4,450.0	4,487.3	4,400.0	4,600.0	4,650.0
Net interest-bearing debts	2,025.0	2,000.0	1,977.0	1,950.0	2,100.0	2,150.0
Stockholders' equity	426.2	470.0	422.9	540.0	490.0	580.0
Ratio (For fiscal years):						
ROA*	0.4%	1.0%	—	1.7%	1.5%	—
ROE*	4.9%	9.6%	—	13.9%	14.5%	—
Net DER	4.8 times	4.3 times	4.7 times	3.6 times	4.3 times	—
Equity ratio	9.5%	10.6%	9.4%	12.3%	10.7%	—

*ROA and ROE in the future are calculated with figures at the year-end.
*(46.1) refers to the net income excluding impairment losses.
*Vision for fiscal 2006 is set only in P/L and B/S figures.

3) Improving Our Financial Position

While we reduced total assets to ¥4,487.3 billion, just short of the plan of ¥4,450.0 billion because of increased investments in A&P segments, the reduction of net interest-bearing debts was on target. Stockholders' equity, however, was ¥422.9 billion, which basically was the same level as the result at the previous fiscal year-end and short of the plan of ¥470.0 billion due to the net loss for the period. As a result, neither net DER nor the equity ratio reached their planned figures, although net DER improved 0.1 point to 4.7 times year on year owing to the reduction in interest-bearing debts.

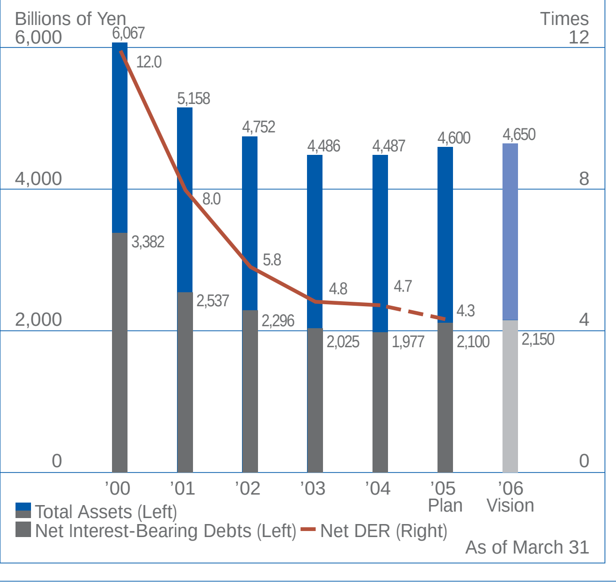
Numerical Plan for the Final Year of Super A&P-2004

Based on changes in the business environment and other factors, we have revised the numerical plan for fiscal year 2005, the final year of Super A&P-2004.

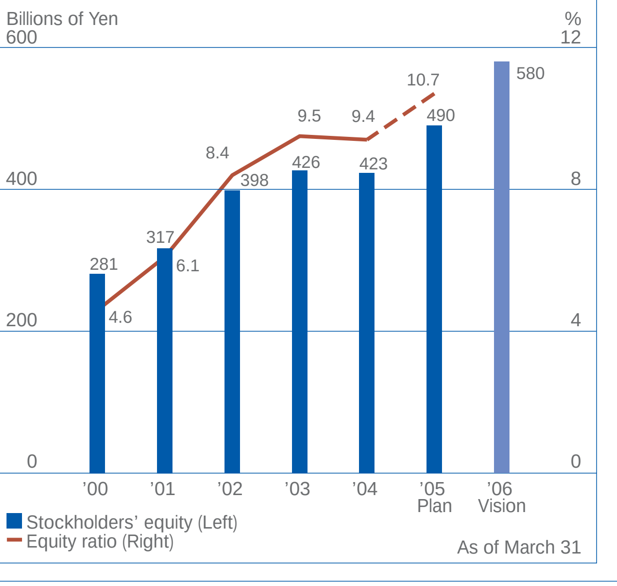
While we have revised slightly downward the consolidated net income plan for fiscal year 2005 to ¥71.0 billion, we continue to aim for historically high profits. Compared with fiscal year 2004 results and excluding one-time losses, we expect profit to increase in the Consumer and Retail Related, Information and Multimedia, and Asia segments. A&P segments overall are expected to register a ¥15.0 billion increase in profit. For fiscal year 2006, we continue to aim for net income of ¥100.0 billion.

We now expect the stockholders' equity to be ¥490.0 billion at the end of fiscal year 2005. In addition, we plan to increase the ratio of A&P segments and other highly-efficient segments to total assets to 80% through further improvement of asset efficiency by continuing our policy of exiting low-efficient assets and accumulating highly efficient assets. On the other hand, there is a possibility that exits of unprofitable businesses may require more time than accu-

Total Assets, Net Interest-Bearing Debts, and Net DER



Stockholders' Equity and Equity Ratio



mulating highly-efficient assets, and thus we expect that total assets and interest-bearing debts will be slightly increased.

Measures for Achieving the Final Year Plan

In fiscal year 2005, we will continue to improve asset efficiency by promoting our Super A&P strategy and achieve profit targets by strengthening our focus areas through strategic investments.

1) Doubling Profit by Promoting the Super A&P Strategy

Having allocated funds for strategic investment for fiscal year 2005 (total assets: ¥100.0 billion; investments: ¥50.0 billion), we are targeting a large increase in profit through aggressive investments in A&P segments, including the Consumer and Retail Related segment and Asia, centered on China. We are also promoting the creation of new businesses including innovative technologies as a core source of profit going forward.

In the Consumer and Retail Related segment, in particular, we are targeting profit growth based on the basic strategy of an SIS (Strategic Integrated System) that spans all areas, from raw materials to retail. We will focus especially on businesses in China and other parts of Asia in upstream fields, on food distribution in midstream fields, and on high-value-added domestic brand businesses and retail in downstream fields. In addition, we will further strengthen the Consumer and Retail Related Committee, created in the previous year. In the current fiscal year, the committee will work beyond the framework of textiles and foods under the direction of the Function & Value (FV) Committee, which is chaired by the Chief Operating Officer, Division Companies Operation. In so doing, we will be able to enjoy synergies in these segments horizontally across the entire Company. (Please refer to page 38 for details.)

2) Asset Reallocation and Upgrade

To help achieve our A&P strategy, we set up portfolio improvement committees at all of our Division Companies for building up highly-efficient assets and for ensuring that low-efficient business units either improve their efficiency or are reduced or exited. In addition to promoting asset reduction in low-efficient and loss-making business units over a three-year period, the Super A&P Strategic Committee, chaired by the President, will closely monitor progress in asset reallocation.

3) Further Expanding Group Company Profit

In order to maximize profits at profitable group companies, we will strengthen the businesses of core and semi-core companies, acquire new businesses through M&A, and enhance synergies across the ITOCHU Group. At the same time, in addition to reducing and exiting loss-making businesses we will closely follow the management of each group company as we control the number of group companies and steadily develop and manage their businesses. (Please refer to page 18 for details.)

4) Improvement in Overseas Profit

In the A&P regions of Asia, centered on China, and North America we are engaged in (1) strategic investments and profit improvement of existing businesses, (2) expansion of local, regional, and third-country transactions, (3) fostering of local staff, and (4) strengthening of risk management and compliance. (Please refer to page 36 for details.)

5) Management System Enhancements

In addition to ongoing efforts to enhance corporate governance, we are targeting a rewarding co-prosperity with a variety of stakeholders from the viewpoint of corporate social responsibility (CSR). (Please refer to pages 40-47 for details.) We are also establishing independent Division Company management and building a functional system to support it in order to complete our Division Company System structure.

In order to maintain a stable high-profit structure, risk management must also be enhanced. For this reason, we are enforcing the strict observance of investment benchmarks as well as strengthening and improving country risk management in China, other parts of Asia, and elsewhere. (Please refer to page 39 for details.)

6) Personnel Strategy

In order to implement personnel strategies that fit the business strategies of each Division Company, we are reinforcing each individual employee's strengths by building original training programs for the Division Companies. We are also training personnel for group company management, which is essential for strengthening group companies and promoting the utilization of various human resources. (Please refer to page 39 for details.)

A&P (Attractive & Powerful) Segments

Definition of A&P Segments

A&P segments are those in which ITOCHU is *powerful* and provides services and products that are *attractive* to customers. Put differently, they are segments that promise a high degree of profitability and growth over the medium to long term.

Selection of A&P Segments

At the start of our A&P strategy, we selected four segments and one region as A&P: Information and Multimedia, Consumer and Retail Related, Natural Resource Development, Financial Services, and North America. In fiscal year 2003, we added metals and mineral resources development (included in Natural Resource Development) and Asia. At the start of the Super A&P strategy in fiscal year 2004, we redefined as Super Powerful the Consumer and Retail Related segment, centered on textiles and foods.

As a result of our A&P segment and region review for fiscal year 2005, we have newly added Chemicals, Forest Products & General Merchandise, as well as Automobiles as A&P segments based on their results of the past two years and plans for fiscal year 2005 onward.

A&P Segments	Areas of Focus	Major Business Units
Consumer and Retail Related	• Acquire new commercial rights and expand profitability in consumer businesses • In textiles, expand brand businesses to all consumer-related fields, including non-clothing products • In foods, promote SIS strategy in the Chinese market while strengthening SIS strategy in Japan to link all phases, from raw materials procurement to retail	Textile Company, Food Company
Information and Multimedia	• Expand profitability in total solutions business, mobile content, and aerospace fields using powerful group companies, including ITOCHU TECHNO-SCIENCE Corporation and CRC Solutions Corp.	Aerospace, Electronics & Multimedia Company
Natural Resource Development	• Develop energy resources such as crude oil and LNG, and strengthen development of metals and mineral resources such as iron ore and coal	Metals, Mineral Resources & Coal Division, Energy Development Division
Financial Services	• Foreign exchange dealings based on actual demand and asset management businesses such as the creation and sale of alternative products • Private equity and retail finance businesses such as credit cards, consumer finance, and Web-based securities services	Financial Services Division
Automobiles (from fiscal year 2005)	• Expand finished cars and auto parts trading • Strengthen retail-related business in Japan • Expand dealer networks in Europe and North America	Automobile Division
Chemicals, Forest Products & General Merchandise (from fiscal year 2005)	• Globally expand the sale of housing materials, paper pulp, rubber, and tires • Expand chemical product business, including organic chemical products, synthetic resins, inorganic chemical products, electronic materials, and pharmaceuticals • Expand retail business of miscellaneous general merchandise	Chemicals, Forest Products & General Merchandise Company
North America	• Strengthen local businesses in niche and dominant fields, and sales of electric power generation, fence, and construction materials	ITOCHU International Inc.
Asia (including China)	• Expand local and third-country transactions, especially in Chemicals, General Merchandise, and Consumer and Retail Related, and win orders for large projects	Overseas trading subsidiaries and group companies in Asia

Early Application of Impairment Accounting for Fixed Assets under Japan GAAP and the Treatment for Our Consolidated Financial Statements

The Company decided to apply, and has since implemented, impairment accounting for fixed assets in the fiscal year ended March 2004 ahead of the start of its compulsory application under Japan GAAP in the fiscal year ending March 2006. The Company's consolidated financial statements already incorporate impairment accounting for fixed assets in accordance with US GAAP. However, with the implementation of impairment accounting under Japan GAAP, and in consideration of the slow recovery of the Japanese real estate market, the Company has decided to reflect impairment losses recognized under Japan GAAP for its consolidated financial statements as well. It has made the same judgment on the US GAAP-based consolidated financial statements on whether it recognizes impairment or not to the same properties as under Japan GAAP for items requiring impairment based on the results of Japan GAAP impairment tests, out of respect for the principles of Japan GAAP.

Summary of Impairment Losses

(Consolidated basis)	Billions of Yen
• Buildings for rent	59.5
• Assets for common use like company-owned housing (Mita residence, Computer Center, etc.)	27.1
• Business property (subsidiary-owned business property, golf course, etc.)	36.6
Total	123.3

The Company decided to apply impairment accounting before it becomes compulsory for the following reasons. As a result of its A&P Strategy, which has been promoted since the fiscal year ended March 2000, the Company has sufficiently improved its profitability and is confident about its present and future earnings power. For these reasons, the Company has judged that it should take measures to accelerate improvements to its asset quality while seeking to continuously and stably increase income and avoid the possibility that future income expansion could be interrupted, even if only briefly, by the implementation of impairment accounting under Japan GAAP.

Differences in US GAAP and Japan GAAP with respect to impairment treatment for fixed assets

There is no difference between US GAAP and Japan GAAP on the point that impairment should be applied in cases when it is recognized that total future cash flows to be generated by a given Company-owned fixed asset over its remaining useful life is less than its carrying amount (Steps 1-3 in the diagram below). However, there is a difference between US GAAP and Japan GAAP in how future cash flows from fixed assets with a remaining useful life of 20 years or more are calculated (Step 2 in the diagram below).

Under Japan GAAP, for fixed assets with a remaining useful life of 20 years or more, the carrying amount is compared with future cash flows for the 20 years, to which is added the greater of either the estimated market value after 20 years or the terminal value (the present value of future cash flows to be generated from continuous use and disposal after use, that is, future cash flows discounted by the discount rate). Under US GAAP, for fixed assets with a remaining useful life of 20 years or more, future cash flows are calculated over the asset's entire remaining useful life and are subject to neither a 20-year cutoff nor discount. To this amount is added the disposal value at the time, with the total then compared with the carrying amount.

This means there is a difference between US GAAP and Japan GAAP in the judgment as to which assets should be impaired. As a result, there are cases in which properties for which impairment is not deemed necessary under US GAAP, based on impairment tests, are judged as requiring impairment under Japan GAAP. In fact, many properties owned by the Company have relatively long (20 years or more) useful lives (many of them have remaining useful lives of 30 to 50 years), making the impact of the discrepancy in impairment test methods between Japan GAAP and US GAAP substantial. However, the Company decided that accounting treatment in which a given property would be impaired under Japan GAAP but not under US GAAP would distort management judgment, so the Company will apply a single judgment to each individual property. There is no substantial difference in the calculation for the impairment amount when an asset is deemed to require impairment under Japan GAAP or US GAAP (Step 3 in the table below).