DEAR STOCKHOLDERS AND CUSTOMERS

ITOCHU Corporation achieved a historical high net income of ¥77.8 billion for the fiscal year ended March 2005. Now that ITOCHU has gained financial strength and established a highly efficient profit structure through our past management restructurings and A&P strategy, it is time for us to shift in earnest from a defensive to an offensive business approach under our new mid-term management plan, "Frontier-2006."*

We will channel our efforts into areas of unique competence that ITOCHU alone can provide. As a Group, we aim to utilize fully our comprehensive lateral strengths across the Division Companies to generate a net income of more than ¥100 billion steadily and sustainedly.

Performance for Fiscal Year 2005:
Record-High Profitability Owing to Improvements in our Business Structure

ITOCHU's net income for fiscal year 2005 was a record high of ¥77.8 billion, exceeding the upwardly revised target of ¥75.0 billion that we forecasted in our semi-annual financial statements for fiscal 2005. Through our efforts, we have made a complete turnaround from the previous fiscal year when we recorded a ¥31.9 billion loss due to an impairment of fixed assets. Although we had suffered the negative impact of a ¥26.6 billion loss after tax due to goodwill impairment relating to shares of FamilyMart Co., Ltd., we were able to absorb this loss and went on to make a significant profit.

Our gross trading profit rose 13% to ¥630.8 billion in fiscal year 2005, exceeding the ¥600 billion level for the first time in four years. Also for the fiscal year, we recorded our highest gross trading profit ratio ever, at 6.6%. In addition, we increased our adjusted profit,* which we assume to be an indication of our basic earnings power, by 56% to reach a record ¥188.8 billion, excluding the impact of the previous fiscal year's impairment losses. Such results demonstrate ITOCHU's steady strengthening of its earnings power.

Such positive developments are partly the result of external factors such as higher resource prices and increased demand for housing-related materials in the U.S. Nevertheless, we are confident that these developments are primarily the result of our A&P strategy, under which we increased asset efficiency and boosted our financial health, thereby establishing a business structure able to generate steady profits.

Because of the net loss resulting from the early application of impairment accounting in fiscal year 2004, we withheld the term's dividend payment. For fiscal year 2005, however, we have re-instituted a dividend payment of ¥7 per share.

*A&P strategy: Our strategy for enhancing profitability by intensively allocating management resources to areas that are *attractive* to customers and where ITOCHU is *powerful* (A&P segments).

*Adjusted profit = Gross trading profit + Selling, general and administrative expenses + Net financial expenses + Equity in earnings of associated companies

Reviewing Super A&P-2004:
Improving our Financial Position and Reforming our Profit Structure

Fiscal year 2005 was the second and final fiscal year for our Super A&P-2004 mid-term management plan. It was also the year to wrap up the A&P strategy that began in fiscal year 2002, a strategy whose central aim was to reform ITOCHU's profit structure and improve its financial position.

ITOCHU is greatly shifting its profit structure to one that generates high earnings. This shift can be observed through an increase in business profits in all our seven Division Companies, including the Textile Company and the Aerospace, Electronics & Multimedia Company, which were not directly affected by the positive resource market performance.

1. Reforming Profit Structure

ITOCHU is greatly shifting its profit structure to one that generates high earnings. This shift can be observed through an increase in business profits in all our seven Division Companies, including the Textile Company and the Aerospace, Electronics & Multimedia Company, which were not directly affected by the positive resource market performance.

Such improvements are the result of reallocating assets to highly-efficient segments, an effort we have focused on under the Super A&P-2004 strategy. While we set our valuation basis to be at least 2% of ROA and at least 8% of RRI,* we made aggressive strategic investments in highly-efficient business units and reduced or exited from less-efficient business units. As a result, we have increased the ratio of A&P assets and highly-efficient segment assets to 78% of our total assets. We also conducted a major streamlining and restructuring of unprofitable and inefficient group companies, while at the same time we have sought to further develop our profitable companies. Consequently, ITOCHU's ratio of profitable companies increased to 83%, and the net income from group companies* expanded by 1.5 times to ¥74.5 billion (excluding the effect of the early application of impairment accounting in the previous fiscal year, and the losses due to the impairment of goodwill relating to FamilyMart shares in this fiscal year).

*RRI (Risk Return Index) = Net income/Risk assets
Risk assets = Maximum potential loss from possession of assets = Σ (Asset book value x Risk weight for each asset)
*Net income (loss) from group companies = The Company's share of net income (loss) from subsidiaries excluding minority interests + Equity in earnings (losses) of associates

2. Improving Our Financial Position

Since the previous fiscal year, we have reduced our net interest-bearing debts by ¥86.0 billion to ¥1,891.1 billion. Stockholders' equity, which impairment losses had negatively affected in fiscal year 2004, increased to ¥510.4 billion because of a recovery in the aforementioned net income. As a result, our net DER (debt-to-equity ratio) improved to 3.7 times, successfully lowering below our original target of 4.3 times. Given that net DER at the end of fiscal year 2000, during which we announced Restructuring for Success in the 21st Century, was 12 times, ITOCHU's strong progress to date is evident.

Further, we greatly improved our balance sheet health by adopting impairment accounting for fixed assets in fiscal year 2004 as well as goodwill related to FamilyMart shares in fiscal year 2005. Concerning our overall assets, we will continue with our impairment treatments if necessary based on a strict risk evaluation that we conduct at the end of each fiscal year. I believe, however, that ITOCHU has eliminated any areas of major concern.

Future Growth Strategy—Frontier-2006: A Shift to Aggressive Business and Enhancement of Solid Management

Through our series of A&P strategies, we have solidified our business foundation. We are now ready to switch to an offensive management approach aimed at accelerating the expansion of our earnings by fully exercising ITOCHU's spirit of "Aggressive Challenges."

Starting in fiscal year 2006, we have launched a two-year mid-term management plan, Frontier-2006. Under the plan, we aim to generate a consolidated net income of ¥110 billion by fiscal year 2007. Nevertheless, we must take care not to push our offensive strategy to

We are now ready to switch to an offensive management approach aimed at accelerating the expansion of our earnings by fully exercising ITOCHU's spirit of "Aggressive Challenges."

the point where once again our financial position is damaged. To prevent such an occurrence, we intend to reduce our net DER to below 3 times by the end of fiscal year 2007, while increasing the total assets by ¥500 billion as part of our shift to an offensive business footing. This is to be accomplished by continuing to control the amount of our interest-bearing debts and improving stockholders' equity due to a contribution of net income. At the same time, we will also strengthen steadily our risk management capabilities as we enhance solid management. By adopting a strategy that balances both offensive and defensive approaches, we will strive to make the ITOCHU Group a high-profit yielding entity that generates over ¥100 billion in net profits in a steady and sustainable manner.

The following is the basic outline of the Frontier-2006 strategy. (Please see pages 14–17 for more details.)

1. Focusing on segments in which ITOCHU can demonstrate competence

Three priority areas in which the entire Company will exercise its unique capabilities are the Consumer-Related sector, the Natural Resource Development sector, and North America and Asia including China.

In the Consumer-Related sector, we are fully positioned to gain a precise and timely understanding of consumer needs based on expertise acquired through our textile business, in which we have our roots. In addition, we are well prepared to comprehensively develop our business, which spans from downstream to upstream fields (comprehensive vertical strengths).

Our Natural Resource Development sector possesses top-level asset efficiency despite its small scope in comparison to other general trading companies. We expect to generate significant profit through several large-scale projects, such as the Azerbaijan crude-oil development project, that are scheduled to begin in earnest during the period of Frontier-2006.

In our overseas business in North America and Asia including China, we have taken the industry lead in penetrating the Chinese market in particular. Our strength lies in having developed our own network of contacts, distribution routes, and collaborative relationships with major local companies.

2. Exhibiting both lateral and vertical comprehensive strengths

The main feature of Frontier-2006 lies in the fact that it focuses on comprehensive strengths in a lateral direction.

Under our past mid-term management plans, each Division Company in the Group focused more on a strategy to exercise comprehensive strengths vertically. In the future, Frontier-2006 will look beyond our individual Division Companies to develop business across the entire Group.

An example of this is our announcement of a business alliance with Orient Corporation (Orico) in February 2005. Our goal for this tie-up is not simply to expand our retail finance business. Instead, we consider the alliance an opportunity to develop a new business model, through which we can provide retail support in the form of various products to Orico's 620,000 affiliated retail outlets, as well as marketing and distribution functions. By advancing our efforts under a comprehensive, cross-company approach, we aim to expand dramatically our earnings.

I will take on all challenges to maintain a sense of intensity, quicken our pace, and put our plan into action.

3. Anticipating social changes to create new business

We will also work on creating new business that is positioned to become the main source of our future profits. In view of changes in social and market environments, such as diversified lifestyles, technological innovation, declining birthrates, and an aging society, we have selected three core fields in which we develop new business: consumer business, healthcare & living services, and innovative technologies. To advance healthcare & living services, a new focus segment introduced in the current mid-term management plan, we set up a Strategic Business Development Department in April 2005. For the other two areas, we will enhance our cross-company efforts through existing organizations under the leadership of the Chief Operating Officer, Division Companies Operation, and our Function and Value (FV) Committee.

Realizing Sustainable Growth

For a corporation to realize sustainable growth, not only is a steady and sure implementation of business strategies necessary, but the support of stakeholders is also vital. Under the newly established CSR & Compliance Division in April 2005, we will increase our efforts to enhance Group compliance as well as CSR. By setting up a Disclosure Committee, we aim to strengthen our internal control over the disclosure of financial and other information, and to establish highly transparent corporate governance.

I strongly believe that ITOCHU should be a group of "good corporate citizens with humanity and high motivation to take on challenges." Every employee should also have their own ambitions, growing and developing to achieve them, and ultimately, the Company as a whole can fulfill the expectations of all its stakeholders.

As president of ITOCHU, I will work with the Company's employees to lead ITOCHU toward future growth by foreseeing changes, always seeking the Frontier, and pursuing the three principles of "Challenge, Create, and Commit." I will take on all challenges to maintain a sense of intensity, quicken our pace, and put our plan into action.

Thank you for your continued support and understanding of ITOCHU and our Group companies.

July 2005

Eizo Kobayashi
President and Chief Executive Officer