Special Feature

ITOCHU is shifting its business development activities from an A&P (Attractive & Powerful) strategy, whereby the Company channeled its efforts toward establishing a solid business foundation, to Frontier-2006, which focuses on earnings expansion. Under this new strategy, we will develop business in segments where we boast core competencies, with a view to achieving stable and sustained profit growth.

Review of Super A&P-2004

(from April 2003 to March 2005)

Since the fiscal year ended March 2004, ITOCHU has implemented its two-year mid-term management plan, Super A&P-2004, which represents the final phase of the A&P strategy launched in the fiscal year ended March 2002.

The A&P strategy defines A&P segments as fields and regions attractive to customers and in which ITOCHU is powerful. It then sets the framework for accelerating the reallocation of assets to these highly-efficient segments, thereby boosting asset efficiency and increasing earnings.

Our numerical targets for the fiscal year ended March 2005, as set at the start of the mid-term management plan, were affected by early application in the fiscal year ended March 2004 of impairment accounting for fixed assets under Japan GAAP. Although we fell somewhat short of the plan's initial target of ¥540 billon in stockholders' equity, we essentially reached our main targets for net income, ROA, ROE, and net DER. We also achieved most of our various policy and qualitative targets, and determined that we could achieve fully satisfactory results concerning the reform of our profit structure and an improvement in our financial position, which are the overall objectives of the A&P strategy.

1. Enhancing Our Profitability through an Optimized Asset Portfolio

Highly-efficient business units including the A&P segments, namely those with at least 2% of ROA and at least 8% of RRI*, were targeted for earnings expansion through strategic investment. Meanwhile, less-efficient business units that failed to satisfy these requirements were subject to drastic downsizing and withdrawal measures.

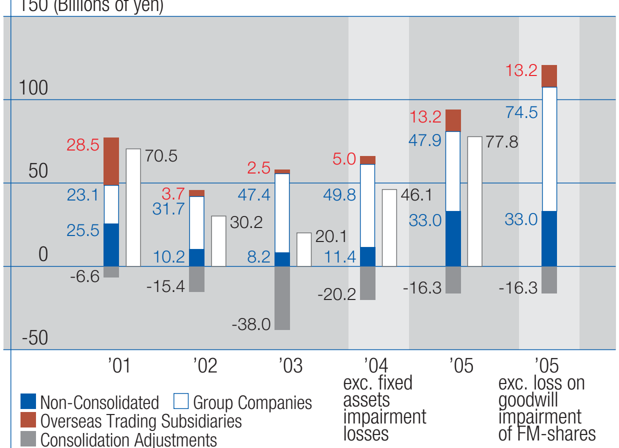
As a result, we succeeded in building a high profit structure by increasing the proportion of total assets accounted for by A&P and other highly-efficient segments from 50% at the end of the fiscal year ended March 2003 to 78% at the end of the fiscal year under review.

ITOCHU set the scope of strategic investment to a total of ¥100 billion over the two-year period and invested particularly in the Consumer and Retail Related segment and in Asia, especially China. These investments include a coal development project in Australia (approximately ¥22 billion), Orient Corporation (approximately ¥22 billion**), Isuzu Motors Ltd. (approximately ¥19 billion), Prima Meat Packers, Ltd. (approximately ¥6 billion), and a joint venture with Asahi Breweries, Ltd. in the soft drink business in China (approximately ¥3 billion).

* 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)

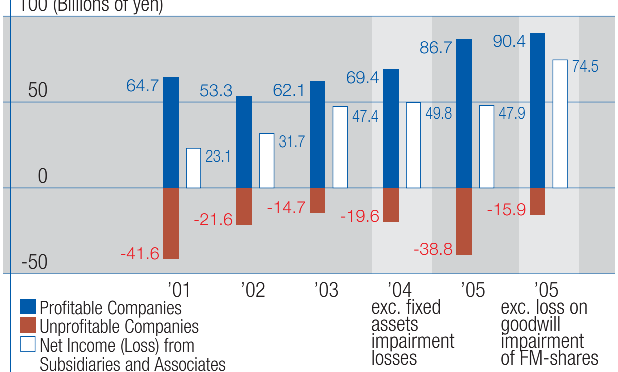
** The total amount of investment up to the present in Orient Corporation, including investments in the fiscal year ending March 2006, is approximately ¥70 billion.

Structure of Net Income (Loss)



(Years ended March 31)

Net Income (Loss) from Group Companies



	'01	'02	'03	'04	'05	'05
Number of subsidiaries and associates	740	671	651	645	656	656
Ratio of profitable companies	73.5%	76.2%	80.2%	82.8%	83.1%	83.2%

(Years ended March 31)

Numerical Plan and Results of Super A&P-2004

	Billions of Yen		
	2003	2005 (Final Year)	
	Results	Plan	Results
P/L (For fiscal years):			
Net income	20.1	75.0	77.8
B/S (As of March 31):			
Total assets	4,486.4	4,400.0	4,472.3
Net interest-bearing debts	2,025.0	1,950.0	1,891.1
Stockholders' equity	426.2	540.0	510.4
Ratio (For fiscal years):			
ROA*	0.4%	1.7%	1.7%
ROE*	4.9%	13.9%	16.7%
Net DER	4.8 times	3.6 times	3.7 times
Equity ratio	9.5%	12.3%	11.4%

*ROA and ROE plans are calculated using at the year-end figures.

2. Boosting Our Ratio of Profitable Companies and Expanding the Profit Contribution from Group Companies

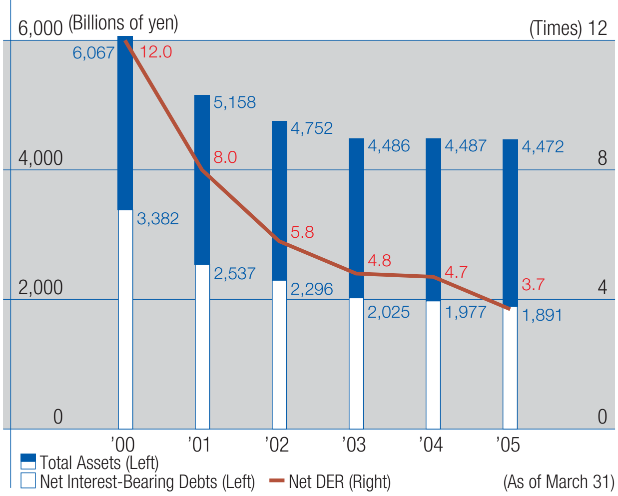
In order to expand the profit from group companies, which are a key constituent of ITOCHU's consolidated net income, we developed and strengthened our core companies, whose profit contributions total more than ¥1.0 billion, and semi-core companies, who make a ¥0.3 billion to ¥1.0 billion profit contribution. For companies could not reach such benchmarks as absolute profit levels, ROA, and RRI indexes, reduction or exit measures were taken.

As a result, a less-than-gratifying ¥47.4 billion profit from group companies in the fiscal year ended March 2003 rose by approximately 1.6 times to ¥74.5 billion (excluding goodwill impairment relating to shares of FamilyMart). These gains led to an increase in the ratio of profitable companies from 80.2% to 83.1%.

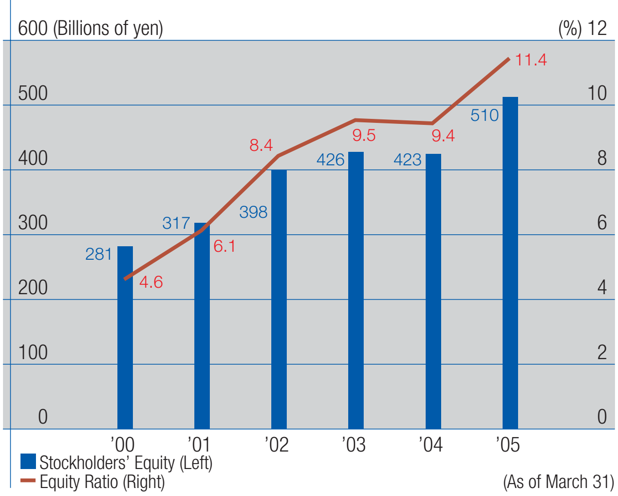
3. Further Improving Our Financial Position

Net interest-bearing debts were reduced from ¥2,025.0 billion in the fiscal year ended March 2003 to ¥1,891.1 billion in the fiscal year ended March 2005, exceeding the target under the plan. Meanwhile, stockholders' equity was affected by impairment losses for fixed assets in the previous term and for goodwill on FamilyMart shares in the term under review. Consequently, we did not reach the target of ¥540 billion initially specified in the plan. We did, however, achieve a rise in stockholders' equity from ¥426.2 billion to ¥510.4 billion during the two-year period of the plan, resulting in a reduction of net DER from 4.8 times to 3.7 times, approaching the target of 3.6 times. In addition, with the increase in stockholders' equity being under the planned target, equity ratio just missed the target level. Nevertheless, it still reached 11.4%, an improvement of 1.9 percentage points compared to the fiscal year ended March 2003.

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



Stockholders' Equity and Equity Ratio



The New Mid-Term Management Plan, "Frontier-2006" (from April 2005 to March 2007)

Moving Toward "Aggressive" Management Based on Our Achievements

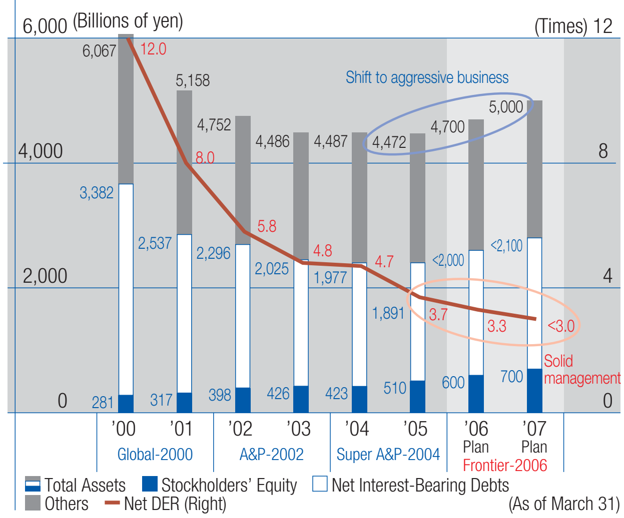
Due to the thorough implementation of the A&P strategy, ITOCHU has built a business foundation geared to sustained growth with a reformed profit structure and an improved financial position. Going forward, we aim to shift gears by adopting a more aggressive approach to business to take on the "challenge" of expanding earnings and to "create" new businesses. We are also "committed" to adhering to solid management, namely a further improvement of our financial position and strengthening of risk management capabilities, and evolving into a highly profitable corporate group capable of stable and consistent performance achieving more than ¥100 billion in net income. With these objectives, we formulated our new mid-term management plan, Frontier-2006.

Summary of Frontier-2006

Frontier-2006, which is aimed at the two-year period from the fiscal year ending March 2006, envisions a net income of ¥110 billion in the final fiscal year of the plan. The plan seeks to establish an earnings structure capable of consistently generating more than ¥100 billion in net income, irrespective of changes in the business environment.

In contrast to the A&P strategy in which we focused on improving asset efficiency, Frontier-2006 seeks to increase total assets while maintaining a highly-efficient structure, reflecting our aggressive stance. Specifically, the plan calls for an increase in investments of ¥200 billion and an expansion of trade receivables by the fiscal year ended March 2007, thereby raising total assets by ¥500 billion from the end of the term under review to a projected ¥5 trillion. Meanwhile, solid management will also be implemented through a reduction of net DER to a level below 3.0 times by the end of the fiscal year ending March 2007. Specifically, net interest-bearing debts will increase from ¥1,891.1 billion at the end of the term under review, but they will still be held to a level under ¥2,100 billion. The plan also expects an increase in stockholders' equity of approximately ¥200 billion from the end of the term under review due to the contribution of net income.

Further Improvement of Financial Position

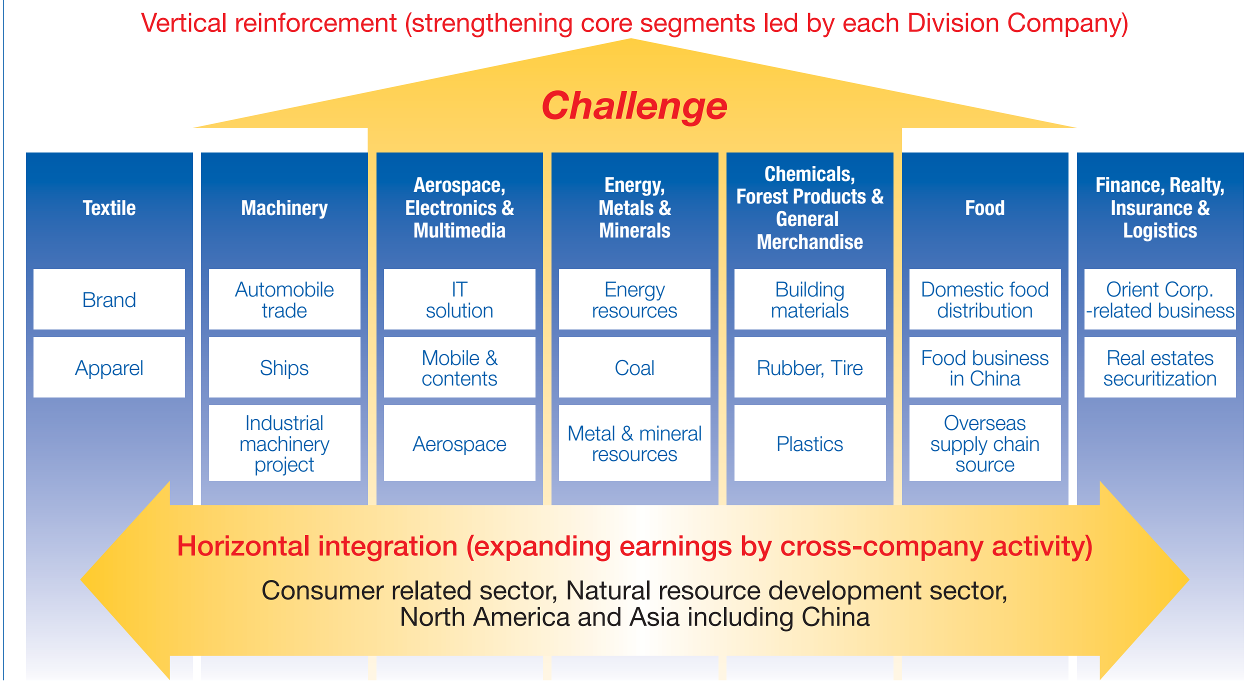


Numerical Plan and Summary

	Billions of Yen			
	2005 (Result)	2006 (Plan)	2007 (Plan)	(Years Ending March 31)
Net Income	77.8	100	110	
Total Assets	4,472	4,700	5,000	
Net DER	3.7 times	3.3 times	Below 3.0 times	

Establish a highly profitable corporate group that constantly achieves more than 100 billion yen in net income

Expanding Earnings



Priority Measure 1: Expansion of Our Earnings

1. Vertical Reinforcement through Division Company Leadership and Lateral Integration Across the Entire Company

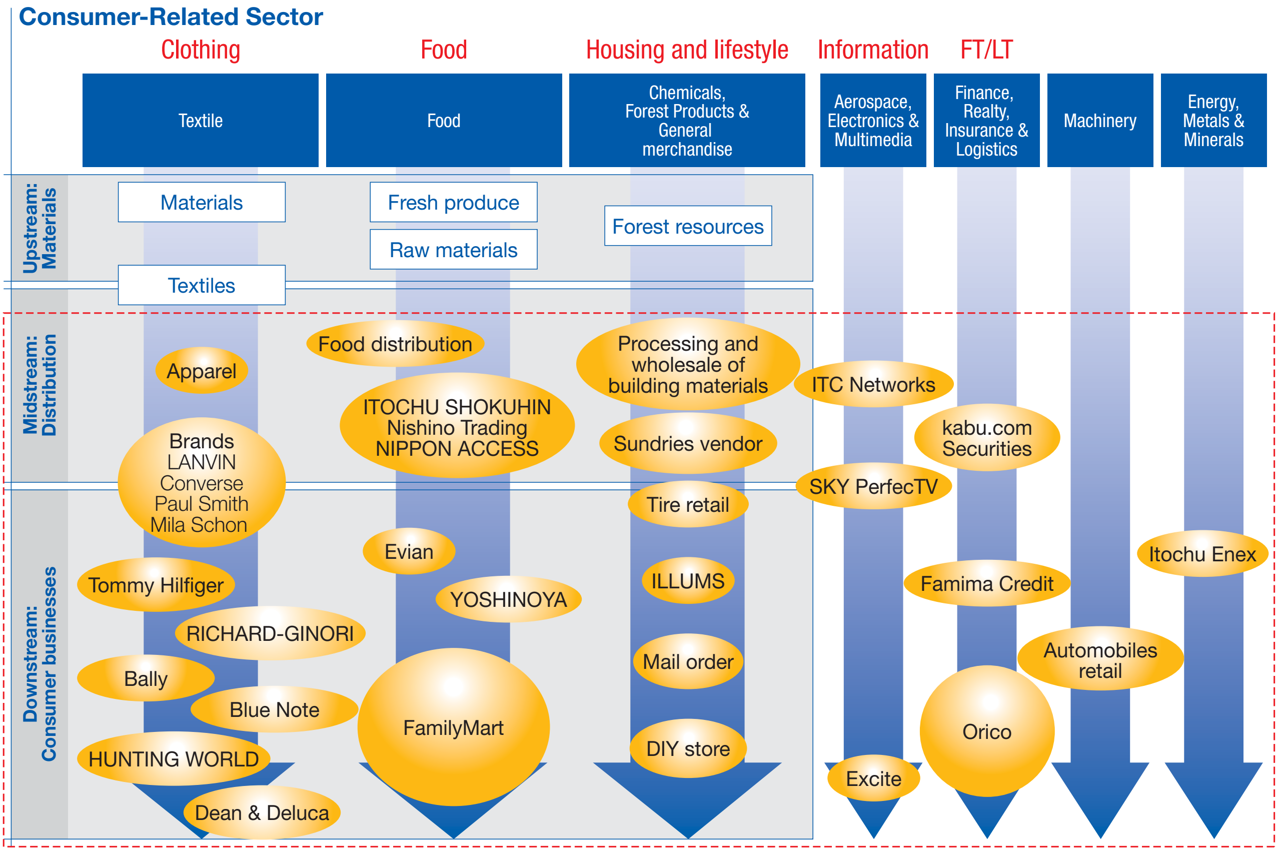
Under the previous mid-term management plan, we selected priority A&P segments based on the major definition of Divisions or Division Companies. Reflecting the results that the assets of A&P segments accounted for nearly 80% of the total assets, under Frontier-2006 we will select priority segments in much smaller units to speed up selection and concentration aimed at expanding earnings. Specifically, the Division Companies will each specify core segments and proceed with the selection and concentration of management resources, thereby increasing the earnings of Division Companies. We also will continue to emphasize asset efficiency, setting a minimum requirement for all Division Companies to clear the hurdle of 2% ROA and 8% RRI (vertical reinforcement).

Conversely, to strengthen lateral business development across the Company beyond the framework of Division Companies, we will exhibit our Group strength under the primary leadership of the Function and Value (FV) Committee, focusing on those fields requiring a cross-company effort such as the Consumer-Related sector, Natural Resource Development sector, and markets in North America and Asia, including China (lateral integration).

2. Cross-Company Focus Area 1: Consumer-Related Sector

ITOCHU is developing a broad spectrum of businesses in a variety of fields associated with clothing, food, and housing. Among these is the textile business, where we boast overwhelming strength in fields ranging from raw material development to the brand business. Also in the foods business, we excel at grasping consumer needs at our FamilyMart convenience stores and our leading food distribution network. Other segments include chemicals, forest products, and general merchandise, where we manage operations ranging from the interior shop Illums to global trade in materials such as rubber and pulp.

Along with these comprehensive vertical strengths, ITOCHU is accelerating business development through ongoing efforts to apply its comprehensive lateral strengths, namely the formation of cross-Division Company linkages. Examples include the expansion of credit card operations of the Finance, Realty, Insurance & Logistics Services Company through the FamilyMart convenience stores of the Food Company. Other linkages are being formed involving the Aerospace, Electronics & Multimedia Company, which create logistics control systems by attaching the wireless IC tag “μ chips” they handle to the brand products of the Textile Company. In particular, our plan is for lateral integration at FamilyMart and Orient Corporation to become a cornerstone of our efforts.



3. Cross-Company Focus Area 2: Natural Resource Development Sector

For the period of Frontier-2006, we instituted an earnings plan for the natural resource development business that takes into account the mildly conservative assumption of the natural resource market. At the same time, we will carefully select new investments in light of the increasing price of acquiring stakes in natural resources. Also, we will expand earnings while maintaining a high earnings structure by increasing primarily investments in existing businesses and increasing our acquisitions of stakes in natural resources. We also expect to increase earnings from existing projects by commencing and expanding production in which we already hold stakes. Specific examples include increased production in a large-scale oil field development project in Azerbaijan and the commencement of production at a new coal mining operation in Australia.

Efforts will also be concentrated in segments other than energy, metal, and mineral resources, such as those associated with the natural resource development business. For example, we seek to expand upstream interests in the paper pulp segment and thereby secure a stable earnings source.

4. Cross-Company Focus Area 3: Markets in North America and Asia Including China

ITOCHU will work to expand overseas earnings by continuing to position two regions as priority markets. One is Asia, especially China, where strong growth can be expected for the foreseeable future, and the other is North America, where we will take advantage of our existing business foundation and the large market.

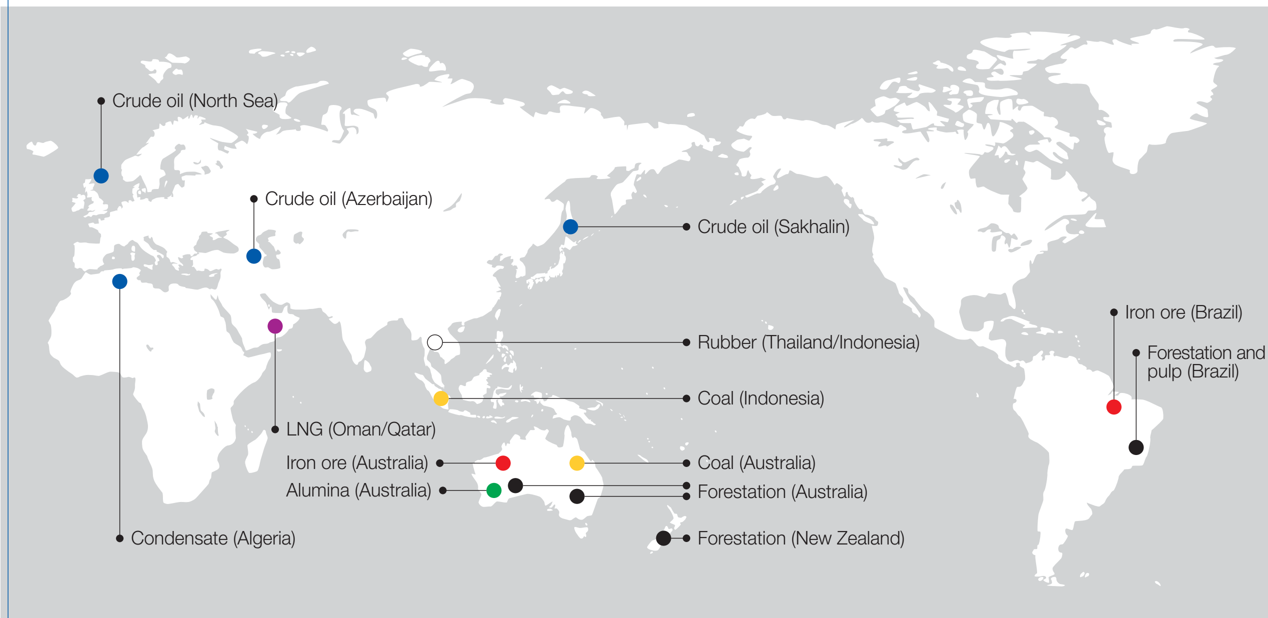
Asia, especially China, is a region where ITOCHU is well positioned. To utilize this potential, we will conduct strategic investments in the Consumer-Related sector, particularly foods, and in infrastructure and natural resource businesses. We will also seek to increase regional and third-country transactions.

In North America, we will use our strong profit base, especially in the fields of housing materials, the brand business, and automobiles, to underpin an expansion of earnings. At the same time, efforts will be devoted to acquiring new earnings sources through new investments.

Plans also call for the laying of a cornerstone for development in emerging markets where significant growth is anticipated, such as Russia, India, and Brazil.

Natural Resource Development Sector

● Crude oil (including condensate) ● LNG ● Iron ore ● Coal ● Alumina ● Forestation and pulp ○ Rubber



- Production from full field development will be started in Azerbaijan and Sakhalin (Phase 1) during the Frontier-2006 period
- Pulp, iron ore and coal, for which increased production is being considered to meet demand increases in China, etc.

Priority Measure 2: New Business Creation

Changes in social and market trends such as the diversification of lifestyles, low birthrates, the aging of society, and technological innovation have a major impact on business. A key priority in Frontier-2006 is to anticipate these changes and embark on the exploration of new business areas that can serve as profit mainstays for our Company.

New business exploration and development will focus on three priority segments. One is the consumer business, where our comprehensive lateral strengths will be used to create new value-added products and services based on consumer businesses handled at each Division Company. Another is the field of healthcare & living services, which promises a strong market for future growth. The third is innovative technologies where a cornerstone has already been laid through strategic alliances. One of the areas identified as a field for new focus in the current mid-term management plan is that of healthcare & living services, which includes such segments as health, health care, and medical treatment, and a new business aimed at active seniors.

Priority Measure 3: Maintaining Solid Management

Frontier-2006 maintains a firm position toward not only an aggressive business approach but also the enhancement of solid management. As mentioned above, we will increase interest-bearing debts by shifting gears to an offensive business approach, and also reinforce our financial position by continuing to improve net DER. Risk management capabilities at the consolidated level will be strengthened through a comprehensive examination of the risks our Company bears and the use of methods such as risk maps, which are tools for assessing risk in terms of the importance and frequency of occurrence.

We will also establish a highly transparent system of corporate governance based on the appointment of corporate auditors. A Disclosure Committee was established to strengthen internal controls relating to information disclosure, with a particular focus on financial reports.

In addition, positive steps will be taken toward the issue of corporate social responsibility (CSR), such as strengthening Group compliance and promoting dialogue with stakeholders. The CSR Compliance Committee as well as the CSR & Compliance Division will be the principal administrators of these efforts.

Further Advancing ITOCHU's Growth Model through Its Consumer-Related Business

At ITOCHU, the consumer-related field is our key area of expansion. One of our most important growth models involves making use of our comprehensive vertical strengths. This means diverse shifts in consumer needs are correctly grasped downstream, products that meet those needs are manufactured efficiently and at a low cost upstream, and these products are supplied in a timely fashion through our midstream operations.

In addition to using our comprehensive vertical strengths, we are also pursuing a new growth model that is based on comprehensive lateral strengths. This approach goes beyond our traditional vertical framework of sectionalized Division Companies to provide products and services that satisfy consumers under a comprehensive cross-company system.

Our third growth model is designed to develop these two models together on a global scale to expand the business foundation itself.

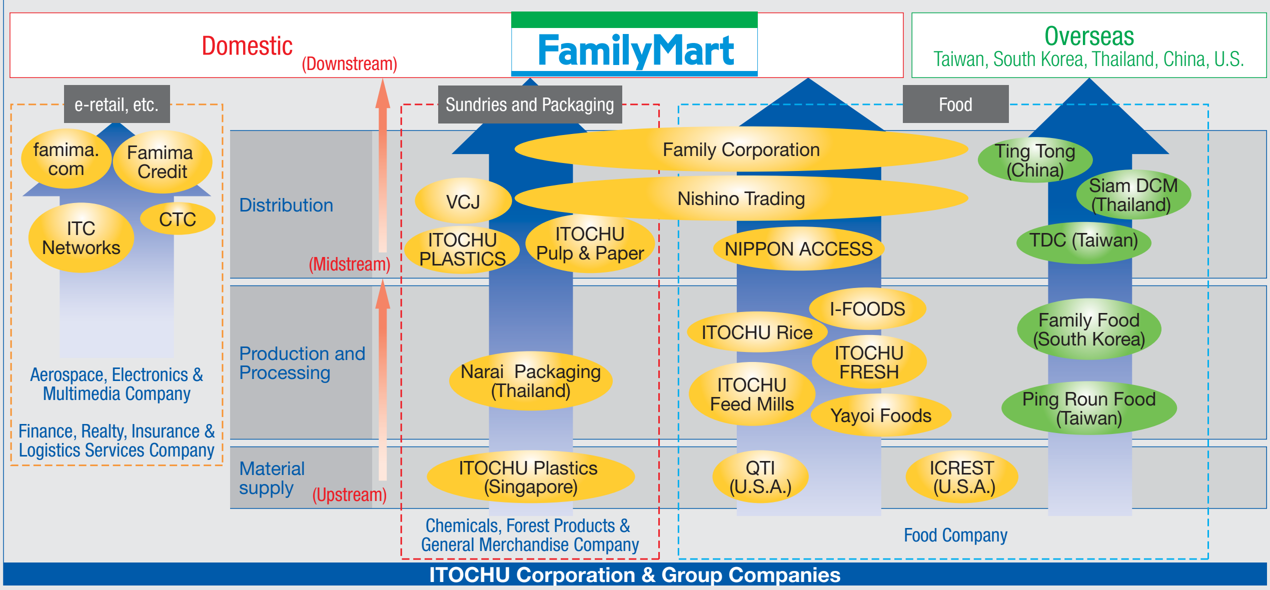
ITOCHU strives to combine these three business models to establish an advanced growth model that is unique to our Company. Further explanation is given below, using our food business as an example.

1. Developing Comprehensive Vertical Strengths Centered on Our FamilyMart Business

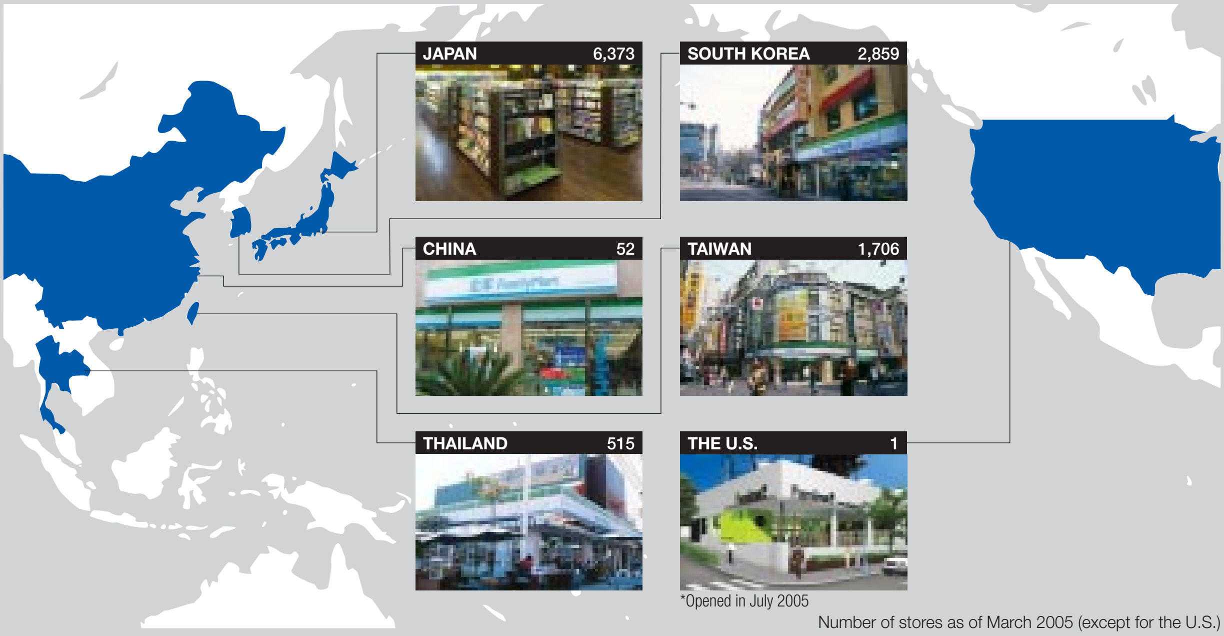
In the food segment, we have established a consistent product development process as a general trading company, which is carried through our downstream, midstream, and upstream operations as well as a nationwide system of procurement and supply having convenience store FamilyMart at the forefront of the retail area. We maximize our Group's comprehensive strengths by establishing such value chains in cooperation with FamilyMart and by enhancing their individual functions.

One specific example of a successful model is the development of FamilyMart's growing product category of fast foods and original snack brand. Together with FamilyMart, we quickly grasp consumer needs to develop ideas for new products. At the same time, we use the procurement capabilities of our Group to propose the most suitable raw materials and packaging. Developing products and procuring raw materials in cooperation with ITOCHU's worldwide network of suppliers has allowed us to supply competitive products at a fast pace. In this

Vertical and Lateral Comprehensive Strengths across the Group with FamilyMart at the Forefront of the Retail Area



Overseas Development of Our FamilyMart Business—“Aiming at 20,000 Stores Worldwide by February 2009”



*Opened in July 2005

Number of stores as of March 2005 (except for the U.S.)

way, we capture consumer needs, which are applied to subsequent product development and materials procurement, creating a valuable information reflow.

In the midstream area, food wholesalers belonging to our Group have built the industry’s top-class distribution network. This network accommodates all temperature ranges, improving the structure and efficiency of FamilyMart’s procurement system. Not only do we deliver products efficiently to FamilyMart stores nationwide, but also we utilize our well-organized operation in the procurement of materials for their deli and other prepared foods. We will further enhance our midstream distribution function to maximize our comprehensive strengths.

In the upstream area, we have developed a system that widely distributes safe and competitive foodstuffs, such as grains, edible oils and fats, and agricultural and livestock food products, which are supplied by our domestic and overseas group companies and other supply bases.

2. Taking Advantage of Our Comprehensive Lateral Strengths to Meet Diversified Consumer Needs as a Group

In addition to providing support in merchandising centered on food, we also introduce new products and services by taking advantage of FamilyMart’s information and distribution infrastructure, which we have jointly established. By making use of our Group’s comprehensive lateral strengths, we aim to added more value to FamilyMart stores.

In cooperation with our Financial Services Division, FamilyMart created the first credit card in the convenience store industry in 2002. Also in 2002, the multimedia terminal FamiPort was installed by ITOCHU TECHNO-SCIENCE Corporation. These terminals provide a wide range of services. Customers can make payments for goods and services they ordered by way of Internet shopping, and tickets for travel and recreation. FamilyMart has also launched an Internet shopping site “famima.com” in collaboration with our IT & Business Solutions Division. Not only media contents such as books, CDs, and DVDs, but also a wide range of other products including fashion products, sports-related items, and character goods can be purchased through this site and be picked up at a FamilyMart store.

3. Accelerating Advancements Overseas to Expand Our Business Foundation

FamilyMart strives to expand profits through aggressive overseas development. Our vertical and horizontal strengths, as well as global business development capabilities, have great significance in this area as well.

In China, where the first FamilyMart branch was formally opened in Shanghai in July 2004, we have made a strategic alliance with the country’s top food business group Ting Hsin International Group to speed up the opening of additional stores in the future. FamilyMart plans to establish 2,000 stores throughout China by February 2009. We plan to make further use of our supply chain (vertical strengths), the establishment of which we are also promoting in China, which links upstream and downstream operations. In addition, we also expect to utilize our various comprehensive support functions (lateral strengths) offered by each Division Company there.

The first FamilyMart in the U.S. will be opened in July 2005, and the target is to establish 200 stores there by February 2009. We will provide powerful support in FamilyMart’s business expansion by utilizing our distribution network and the know-how that we have thus far cultivated in Japan.

Further, ITOCHU will cooperate with FamilyMart in its aim to establish 20,000 stores worldwide by February 2009, mainly in the Pan Pacific area of Japan, Taiwan, Thailand, South Korea, China, and the U.S.

Top in the Brand Business among General Trading Companies

The brand business is ITOCHU's foremost business. Over the years, we have held the leading position in the industry, successfully and profitably adding value in areas from apparel to food and household goods, bringing abundance and comfort to the lives and hearts of our consumers.

A Positive Cycle of Brands Generating New Brands

Our brand business does not merely trade in the intangible assets of brands and trademarks. A brand is the embodiment of people's love and support over many long years. ITOCHU assumes a pivotal role in "brand marketing": we discover brands and draw out the history and culture inherent in them, offering suitable merchandise for the Japanese market and delivering it to consumers. We maximize a brand's value through comprehensive brand marketing in cooperation with licensees and distributors, taking the initiative in aspects of product marketability such as design, quality, and price, as well as in managing promotions, retail stores, service, logistics, and aftercare.


An advertisement of LANVIN

The beginning of our brand business dates to 1978, when an employee saw a mother and daughter choosing suits for the father at a men's tailor. Encouraged by this, the employee later began creating a brand for high-end men's wear fabrics with which women could easily identify, focusing on making the added value of a product clearly understandable to purchasers. This employee's initiative is what led to our launch of a full-fledged brand business.

Since that time, we have always moved ahead of our competitors in developing new platforms for business. We have been expanding our fields of operation from importation to licensing, expanding sales channels from department stores to general merchandising stores, and expanding the number of items we handle in addition to acquiring new brands through alliances and acquisitions. Since changing the name of our brand business organization from the Import Textile & Fashion Goods Division to the Brand Marketing Division* in September 2001, we have encountered many opportunities not only from the textile industry but also from different industries as well. Indeed, our brand business is in a cycle of "a brand giving birth to a new brand business." Besides targeting new customers, ITOCHU's brand business has developed new business opportunities among existing customers with whom we have time-honored relationships, contributing to greater profitability for the Company as a whole, from materials to textiles to apparel.

*Brand Marketing Divisions 1 & 2, as of today.

From Fashion Brands to Lifestyles, From Japan to Asia

Our brand business covers the whole spectrum of lifestyles, from fashion (clothing) to character goods, fashion goods, shoes, high-quality pottery, luxury foods, music, and health-related products. We currently handle approximately 130 different brands and are incubating new brand businesses, the most recent of which includes the fusion of food and music, expansion of gourmet food stores, and collaboration with celebrities. In recent years, we have expanded our business to Asian countries such as China and we are promoting our brand business on an overwhelming scale, even by international standards.


A DEAN & DELUCA shop (Shinagawa, Tokyo)

Examples of ITOCHU's Brand Business

Luxury Brands
- LANVIN (Apparel, fashion goods)
- Paul Smith (Apparel, fashion goods)
- BALLY (Shoes, apparel, fashion goods)
- SCAVIA (Jewelry)
- LA PERLA (Lingerie)
- TANINO CRISCI (Shoes)
- HUNTING WORLD (Bags, fashion goods)
- WOLFORD(Stockings & body wear)
- CHROME HEARTS (Jewelry, leather goods, fashion goods)

Fusion of Food and Music
- DEAN & DELUCA(Gourmet food store)
- Blue Note (Jazz restaurant)
- Richard-Ginori (Fine porcelain)

Collaboration with Celebrities
- Kana nia･Ellesse (Mikako Kotani)
- DIOID (Daichi Suzuki)
- PP rikorino (Noriko Sakai)

Sports, Sports Casual Wear Brands
- CONVERSE (Footwear, sports casual wear, fashion goods)
- HEAD (Sports, casual wear, fashion goods)
- Sports Graphic Number (Collaboration with the magazine, apparel, shoes, fashion goods)
- PRO-Keds (Shoes)
- new balance (apparel, fashion goods)

Brands Marketed in China and Asia
- Marco Azzali (men's suits)
- renoma PARIS (High-quality men's clothing: Japan and China)
- CIMARRON (Stretch denim: Japan, Hong Kong, Taiwan, and Korea)

Creating Lateral Synergy in Our Consumer Business through an Alliance with Orico

ITOCHU Finance Corporation, one of our subsidiaries, started a financing business for consumer finance companies in 1998. Since that time, we have been striving to outpace other general trading companies in accumulating a base of expertise and working to expand our retail finance business. As part of our efforts, we established an Internet-based consumer finance company and purchased stakes in credit card companies.

In 2005, ITOCHU invested approximately ¥70 billion to acquire 21% of the common stocks (and preferred shares) in Orient Corporation (Orico), making it the firm's leading shareholder. Through this alliance with Orico, we will expand not only our retail finance business but also our high-value-added businesses by applying our functions and expertise in logistics, marketing, and other areas to Orico as well as its member merchants in a cross-company and comprehensive manner.

ITOCHU's Functions Provided to Member Merchants of Orico

1. Provision of Retailer Support Functions

ITOCHU provides various solutions to improve business efficiency at Orico's 620,000 member merchants.

We have been advancing measures not realized by other general trading companies. One such measure is the "Retail Platform," which has been implemented by approximately 20 ITOCHU group companies and which provides a one-stop-solution for retailers in a cross-company fashion. Another measure is the establishment of the Function and Value (FV) Committee, which aims to realize cross-company lateral syntheses.

Using our keen understanding of the retail market, we plan to help strengthen the business base of Orico and its member merchants by providing functions and products under lateral integration.

2. Provision of Financial Services

We will provide financial products such as business loans based on the financial needs of Orico's member merchants. In April 2005, as our first project, we introduced inventory loans for automotive dealers. (See page 37 for details.)

Provision of ITOCHU's Products and Services through Orico's Member Merchants

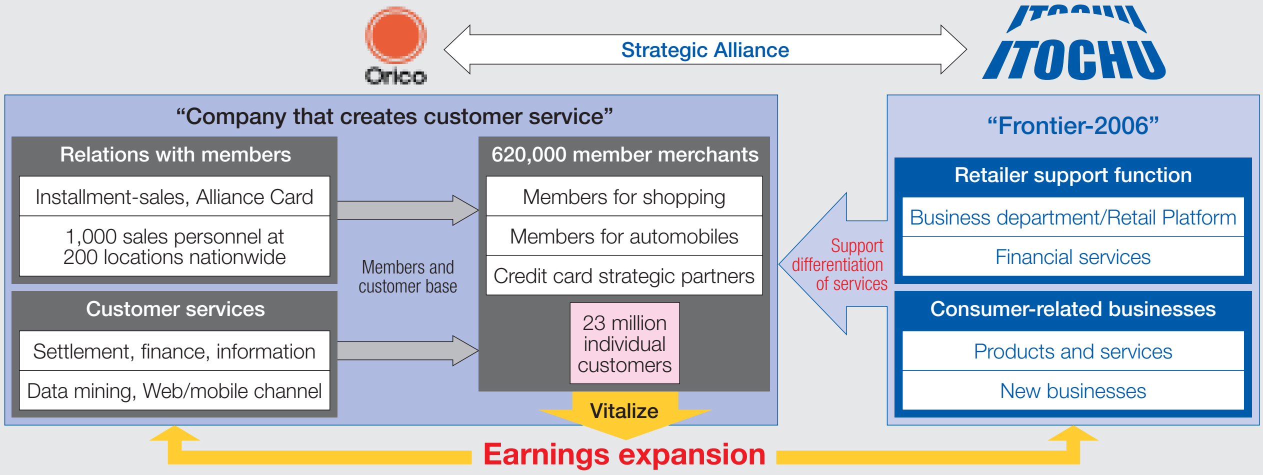
We will increase sales at Orico's affiliates and expand ITOCHU's sales opportunities by introducing a large range of products and services from the ITOCHU Group to the 23 million customers of Orico's member merchants.

Joint Development of New Businesses, Taking Advantage of ITOCHU and Orico Strengths

ITOCHU and Orico will develop new businesses by utilizing the IT and logistics functions of the ITOCHU Group as well as its business partner network in various areas of focus. The development of new businesses will also extend to the automobile-related market, where Orico has a dominant position and established expertise. Furthermore, we are now considering the possibility of joint projects in China, where ITOCHU's position is strong, and in other Asian countries.

Based on the above, we are expecting a profit contribution of about ¥8 billion from Orico (an estimate based on Orico's current management plan) in the fiscal year ending March 2008.

WIN-WIN Alliance Structure



ITOCHU's Advantages in Minerals and Energy Resource Development Businesses: In Pursuit of Asset Efficiency

ITOCHU has a number of highly efficient and profitable projects related to metals and minerals as well as energy development, which produce a level of asset efficiency that ranks among the top for general trading companies. Our fundamental strategy is to strengthen and expand ITOCHU's profit base in the natural resource development business by expanding investment in existing business projects and working to develop new, superior projects while sustaining a high level of asset efficiency.

Example of an ITOCHU Natural Resource Development Project in Its Pursuit of Asset Efficiency

1. Active Advancement of the Azerbaijan Project

We expect that the ACG Crude Oil Development Project in Azerbaijan and the BTC Pipeline Project, which is to transport the crude oil from the Caspian Sea to the Mediterranean Sea, will become one of the main profit sources for ITOCHU's energy resource development sector over the mid to long term.

In February 2005, we commenced production on a commercial scale at the Central Azeri oil field, one of the ACG Project's main oil deposits. The plan for the future is to expand production, establishing a production capability that entails a peak capacity of 1 million barrels per day by 2010. In addition, the laying of pipeline to transport such a volume of oil efficiently is progressing on schedule and we anticipate it will be operational on a full scale by the end of 2005.

ITOCHU is the only general trading company with active oil exploration projects in the region. We hold stakes of 3.9% and 3.4% in the ACG Project and BTC Pipeline Project, respectively, and anticipate vastly expanded profit growth as crude oil production and shipment volumes increase.

Offshore platform of the Central Azeri Field (Photo: Courtesy of BP)

2. "Consolidating Operations" and "Configuring a Natural Resource Portfolio" in Australia

In March 2004, ITOCHU consolidated all its Australian group companies in which it had a natural resource development equity share including iron ore, coal, aluminum, and crude oil by establishing ITOCHU Minerals & Energy of Australia Pty Ltd (IMEA). Through the consolidation, we have secured the following advantages: (1) pursue more comprehensive alliances with major resource companies than on a sector-by-sector basis; (2) enjoy a more efficient use of capital by having a stronger financial background; and (3) enhance our in-house project evaluation capability by securing and training specialists, taking advantage of our scale as a comprehensive resource development company. As the full advantages of consolidation come to bear, we anticipate a dramatic expansion in our earnings base for the natural resource development business in this region.

Mt. Newman (Mt.Whaleback Iron Ore Mine)

Supported by an upward price trend and greater demand, net income for IMEA in fiscal year 2005 exceeded our initial forecast by ¥7.2 billion, recording a 160% year-on-year increase to ¥13.9 billion. In addition, we expect further profit expansion in the next fiscal year as our Rolleston coal mining project in Queensland and Cliff Head crude oil development project in Western Australia begin operations and start contributing to profits.

*Please refer to page 31 for the information on the Company's major resource projects.

ACG Project Production Volume