OVERSEAS OPERATIONS

Driven by the IT revolution, a liberalization of trade and investment, and an expansion of free trade agreements, we have experienced rapid globalization and dramatic changes to the business activities of general trading companies. It has thus become vital to move away from traditional business methods based solely on trading and to establish a new highly profitable business model that looks ahead to meet future needs. Using its advantageous global network cultivated over many years as well as reliable information gleaned through close ties to local markets, ITOCHU has been making strategic business advancements overseas.

Under the A&P strategy, we have shifted management resources to businesses that generate the most profit. North America and Asia in particular were designated as priority markets, and many new investments have been made in these regions.

1. North America

Performance for Fiscal Year 2005

ITOCHU's North American operations center on ITOCHU International Inc. (III). For fiscal year 2005, III's net income was ¥8.6 billion, a dramatic year-on-year improvement compared to the previous fiscal year's ¥1.4 billion. We saw positive developments overall, due to favorable economic conditions in the U.S. Because the North American housing market in particular showed steady growth, building materials companies such as Prime Source Building Products, Inc. and Master-Halco, Inc., an equipment materials distributor, helped boost our overall profit. Also, Multiquip, Inc., a construction equipment and small-sized power generator distributor achieved a significant recovery in its performance during the last fiscal year and is continuing to perform well.

Measures Taken during Fiscal Year 2005

- Power plant operations and maintenance service is one of ITOCHU's key businesses in North America. Through Tyr Energy Inc., an III subsidiary, we established Tyr Capital, LLC., an investment fund for power plants. To promote independent ownership of power-related assets, we also made an equity investment in top-level independent power producers (IPP), whose operation and maintenance were provided by III subsidiary North American Energy Services Inc.

- In the consumer and retail-related segment, ITOCHU made an investment in and established a global strategic relationship with high-end gourmet store operator Dean & Deluca, with which ITOCHU has been active in developing operations in Japan.
- In the medical biotechnology segment, by making use of a cooperative relationship with its strategic business partner MPM Capital, L.P. ITOCHU invested in ARYx Therapeutics, Inc., a venture company developing new medicines, as a channel to promote a joint business with a Japanese pharmaceutical company.

2. China and Other Parts of Asia

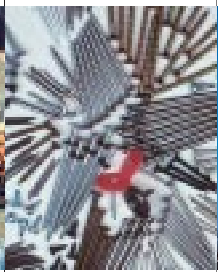
Performance for Fiscal Year 2005

Asian economies have generally shown a growth trend, although actual growth conditions vary from country to country. In fiscal year 2005, ITOCHU's business in Asia, in particular China and Thailand, was robust, with year-on-year net income in the region rising from ¥6.3 billion to ¥9.2 billion. Financial business in Hong Kong and trade in the consumer and retail-related segment showed particularly positive results.

Measures Taken during Fiscal Year 2005

China, considered to be the production center of the world, is rapidly growing as a giant consumer market. As China is ITOCHU's most important market, we are expanding our business to take advantage of China's increasing demand and changes brought on by its deregulation and the opening of its market. We have also aggressively developed our local business activities. For example, we have formed partnerships with leading Chinese corporations.

- In the textile sector, the easing of export quotas on Chinese products boosted our exports to Europe and the



U.S. In the brand business, we also established a joint venture with a Chinese local partner and launched the "renoma PARIS" brand in China.

- In the consumer and retail-related segment, we set up a joint venture with Asahi Breweries, Ltd. in the tea beverage manufacturing business, where the Ting Hsin International Group, China's largest food business group, has the top share of the tea beverage market.
- In the retail segment, we opened general merchandise stores in Beijing and Chengdu through a joint venture with Ito-Yokado Co., Ltd. Our FamilyMart franchise, which we have already developed in Taiwan, South Korea, and Thailand, has opened stores in China, rapidly bringing us closer to the goal of 20,000 stores worldwide.
- To enhance our distribution function in China, we have made an equity investment in Tingtong (Cayman Islands) Holding Corp., a trucking company under the umbrella of the Ting Hsin International Group.
- In the natural resource development segment, we focused on expanding coal and iron ore trading with China, where there has been a dramatic increase in demand. We also made an investment in Pearl Energy Ltd. in Singapore.
- In response to the Chinese government's Northeastern Provinces' Revival Campaign, we opened branch offices in Shenyang, Harbin, and Changchun to establish bases for business operations in the region.

3. Overseas Strategies for the Future

Our goal under the new mid-term management plan, "Frontier-2006," is to reach a consolidated net income of over ¥100 billion steadily and sustainably. We expect to earn approximately half of this—over ¥50 billion—through our overseas operations.

We will pursue strategies to maintain steady growth in the natural resources sector. Many business opportunities exist in North America, and higher growth can be anticipated in China and other parts of Asia. Targeting these regions as important markets for ITOCHU, we will exercise our strength in the consumer business and infrastructure segments to expand profitability. To make this possible, in North America we will carry out thorough portfolio management and strengthen profitability by reallocating assets. At the same time, we will continue to make large-scale investments in China and other Asian countries and enhance our management systems there, and expand profitability by increasing local and regional transactions.

Further, we plan to make strategic advancements in the newly emerging Russian, Indian, and Brazilian markets. We will strive to expand profitability in the future in the areas of natural resource development; the export of consumer goods including automobiles, tires, and apparel; and ODA-related projects such as building large plants and infrastructure. We also aim to expand our local and third-country transactions by enhancing alliances with leading Chinese corporations. Additionally, we plan to foster local specialists.

To further advance our overseas operations, ITOCHU consolidated all of its headquarters organizations related to overseas businesses in April 2005, and established the Overseas Operations, Administration & Development Department. Its purpose is to enhance information sharing between Division Companies and overseas offices, as well as among overseas offices. At the same time, the Division Companies' strategies for core segments and regional market strategies will be integrated to create a system that strives for a further expansion of profitability. While we will enhance our risk management and aim for thorough compliance with laws and regulations, we will also work on the promotion of nationalization.

Net Income from Major Overseas Trading Subsidiaries*

Years ended March 31 (Billions of yen)	2004	2005
• ITOCHU International Inc.	¥1.4	¥ 8.6
• ITOCHU Europe PLC.	0.3	(1.5)
• ITOCHU Hong Kong Ltd.	1.2	1.5
• ITOCHU(China)Holding Co., Ltd.	0.8	0.9
• ITOCHU Australia Ltd.	0.1	0.7
• ITOCHU (Thailand) Ltd.	0.8	1.0
• ITOCHU Singapore Pte, Ltd.	0.3	0.8

*ITOCHU's share of net income