

in an IPP project at Green Country Energy LCC near Tulsa, Oklahoma.

As part of its endeavors in the automobile business in BRICs, the Machinery Company made a capital investment in Sichuan Ganghong Group Co., Ltd. of China, the top dealer in Chengdu, Sichuan province, and participated in a joint manufacturing project with Akebono Brake Industry Co., Ltd. in Guangzhou and Suzhou. Furthermore, the Company established a subsidiary in Russia in order to promote the sales of automobiles made by SUZUKI MOTOR CORPORATION.

Mid-to-Long Term Challenges and Strategies

While maintaining its highly efficient management style, the Machinery Company aims to "accelerate the shift to aggressive business" through the active allocation of its management resources to core segments by further shuffling of assets, a move which had brought about an increase in total assets in the past fiscal year, reversing the declining trend until then. In addition, the Company plans to grow Group Companies into core businesses by increasing their profitability as part of its efforts towards enhancement of consolidated business management. Furthermore, the Company intends to assess the potential of new business areas such as medical, new technology, etc. in which it has been making anticipatory explorations, while considering large-scale strategic investments to boost consolidated profitability.

Policies and Outlook for the Fiscal Year Ending March 2007

In the fiscal year ending March 2007, which is the final year of Frontier-2006, the Machinery Company will continue to implement its core measures. During the fiscal year, plant projects especially in Middle East, China and India are expected to maintain the momentum while North America, East Europe and Russia are expected to lead the continued favorable trend in automobile business. In the Industrial Machinery & Solution Division, the Company has been receiving lots of inquiries regarding resource related construction machineries while the market for industrial machineries is estimated to be brisk both in Japan and overseas. In general, the Machinery Company is expected to perform strongly in the current fiscal year.

Number of Employees

Consolidated*	6,687
Non-consolidated	569

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate

Domestic	24
Overseas	57

Major products & Services

- Oil • Gas and petrochemical plants
- Ships • Automobiles • Rolling stock
- Power generating equipment • Construction Machinery
- Textile Machinery • Industrial Machinery • Medical devices
- Electronic device and equipment

Chevrolet, Audi and Hyundai) with annual sales of about 7,000 units a year (2005). ITOCHU Group is committed to contribute to further growth of Gang Hong Group by utilizing the expertise in automobile sales it has amassed in Japan, the U.S. and Europe.

Signing of Plant Construction Contract with Lakeside Energy from Waste Ltd., U.K.

On 26th September, 2005, ITOCHU Corporation and TAKUMA Co., Ltd. signed a contract to deliver an energy from waste plant (EPC full turn key contract with four-year O&M service: approximately 23 billion yen) to Lakeside Energy from Waste Ltd., which was jointly established by two major UK waste management companies; Grondon Waste Management Ltd. and Viridor Waste

Management Ltd. The plant is due to open in July 2008 and will have the capacity to incinerate approximately 1,400 tons/day of waste and generate 37 MW of electricity. Furthermore, this is a memorable milestone as it is the first contract for a Japanese incinerator engineering company in Europe, the place where incineration technology originated.

Looking forward, since the EU Landfill Directive has been announced and European countries are obliged to reduce the amount of waste to be landfilled, ITOCHU in collaboration with TAKUMA, intends to actively follow the energy from waste business in the U.K. and elsewhere in Europe.



Rendering of the plant of Lakeside Energy from Waste Ltd., U.K.