to expand the scope of our trade in energy-related products. The establishment of Marubeni-Itochu Steel Inc. has greatly improved the efficiency of doing this business, and is also contributing to the increased profitability of the Company. We will target the expansion of the profit with the synergetic approach as between "natural resources development" and "trading" by: (1) actively investing in profitable projects and assets with a focus on the natural resources development sector; and (2) bolstering global trading, centering on products generated from the Company's natural resource development projects.

Business Performance in the Fiscal Year Ended March 2006

Our business performance in the period was influenced by mixed conditions. On the one hand, we benefited from continuous high prices of the commodities we handle, such as crude oil, petroleum products, coal, iron ore, and other mineral materials, as well as non-ferrous/light metal materials and products, and steel products. At the same time, however, this was tempered by the strong Australian dollar and fewer opportunities and high cost to acquire equity in natural resource development projects, as well as increases in the cost of resource equipment and materials.

In response, we undertook a number of initiatives. In April 2005, for example, we acquired the equity in the Alba and Caledonia oil fields in the U.K. North Sea. We also decided to proceed with the expansion of the development of iron ore project in Western Australia. In Japan, we reached an agreement to establish a business alliance with Osaka Gas Co., Ltd., for the import and domestic sale of liquid petroleum gas (LPG). As part of this agreement, we acquired a stake in Nissho Petroleum Gas Corporation, a subsidiary of Osaka Gas. In the meantime, the ACG (Azeri-Chirag-Gunashli) Oil Field Development Project in the Azerbaijan Republic commenced oil production at the West Azeri oil field and has steadily increased production volume.

During the year, we recorded a significant increase in net income from our businesses in metals and mineral resources and coal. This was due to price increases for iron ore and coal with these stable shipments, as well as improved results recorded by ITOCHU Minerals & Energy of Australia Pty Ltd (IMEA) and other subsidiaries and affiliates. In the steel sector, Marubeni-Itochu Steel Inc. posted favorable results underpinned by a strong demand for steel for use in automobiles and steel pipes. In the energy sector, net income from crude oil and LNG equities increased as a result of high oil prices. Group Companies engaged in energy trading, including ITOCHU Petroleum Japan Ltd. and ITOCHU ENEX CO., LTD. also posted solid results. As a result, the Company's consolidated net income increased considerably from the previous fiscal year.

Organization (As of April 1, 2006)
Energy, Metals & Minerals Company

- **Metals, Mineral Resources & Coal Division**
  - Metals & Mineral Resources Department
  - Coal Department
- **Energy Trade Division**
  - International Energy Trading Department
  - Energy Sales & Supply Department
- **Energy Development Division**
  - Exploration & Production Department
  - Natural Gas Project Department
- Planning & Coordinating Department
- Control Department
- Affiliate Administration & Risk Management Department
- Steel Business Administration Department

TOPICS

Offshore platform of the West Azeri Field courtesy of AIOC

Azerbaijan ACG Oil Field Development Project and BTC Pipeline

In February 2005, the Company began oil production in the Central Azeri oil field of the ACG (Azeri-Chirag-Gunashli) project, in which it holds equity of 3.9%. In December 2005, production started at the West Azeri oil field.

Oil produced from these oil fields has been exported to Black Sea via the existing pipelines. However, in June 2006, the Company began exporting via the BTC (Baku-Tbilisi-Ceyhan) pipeline, in which it possesses a certain right to capacity. The completion of the BTC pipeline establishes an overland route for the oil produced at the area of the Caspian Sea, including the Azerbaijan, via Georgia to the Turkish coast of the Mediterranean Sea, without having to transport the same through the Bosporus Strait.

Based on the scheduled production from East Azeri and Deepwater Gunashli oil fields, the production volume is expected to reach more than one million barrels per day by around the year 2009.

The Company plans to take full advantage of the know-how it has acquired through such development projects to expand its business activities in the key segments of oil, gas, and other energy resource development.

LPG Business Tie-up with Osaka Gas Co., Ltd.

The Company reached an agreement with Osaka Gas Co., Ltd., to establish a business alliance for the import and domestic sale of LPG. As part of the agreement, we