

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