ITOCHU is greatly shifting its profit structure to one that generates high earnings. This shift can be observed through an increase in business profits in all our seven Division Companies, including the Textile Company and the Aerospace, Electronics & Multimedia Company, which were not directly affected by the positive resource market performance.

1. Reforming Profit Structure

ITOCHU is greatly shifting its profit structure to one that generates high earnings. This shift can be observed through an increase in business profits in all our seven Division Companies, including the Textile Company and the Aerospace, Electronics & Multimedia Company, which were not directly affected by the positive resource market performance.

Such improvements are the result of reallocating assets to highly-efficient segments, an effort we have focused on under the Super A&P-2004 strategy. While we set our valuation basis to be at least 2% of ROA and at least 8% of RRI,* we made aggressive strategic investments in highly-efficient business units and reduced or exited from less-efficient business units. As a result, we have increased the ratio of A&P assets and highly-efficient segment assets to 78% of our total assets. We also conducted a major streamlining and restructuring of unprofitable and inefficient group companies, while at the same time we have sought to further develop our profitable companies. Consequently, ITOCHU's ratio of profitable companies increased to 83%, and the net income from group companies* expanded by 1.5 times to ¥74.5 billion (excluding the effect of the early application of impairment accounting in the previous fiscal year, and the losses due to the impairment of goodwill relating to FamilyMart shares in this fiscal year).

*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)
*Net income (loss) from group companies = The Company's share of net income (loss) from subsidiaries excluding minority interests + Equity in earnings (losses) of associates

2. Improving Our Financial Position

Since the previous fiscal year, we have reduced our net interest-bearing debts by ¥86.0 billion to ¥1,891.1 billion. Stockholders' equity, which impairment losses had negatively affected in fiscal year 2004, increased to ¥510.4 billion because of a recovery in the aforementioned net income. As a result, our net DER (debt-to-equity ratio) improved to 3.7 times, successfully lowering below our original target of 4.3 times. Given that net DER at the end of fiscal year 2000, during which we announced Restructuring for Success in the 21st Century, was 12 times, ITOCHU's strong progress to date is evident.

Further, we greatly improved our balance sheet health by adopting impairment accounting for fixed assets in fiscal year 2004 as well as goodwill related to FamilyMart shares in fiscal year 2005. Concerning our overall assets, we will continue with our impairment treatments if necessary based on a strict risk evaluation that we conduct at the end of each fiscal year. I believe, however, that ITOCHU has eliminated any areas of major concern.

Future Growth Strategy—Frontier-2006:
A Shift to Aggressive Business and Enhancement of Solid Management

Through our series of A&P strategies, we have solidified our business foundation. We are now ready to switch to an offensive management approach aimed at accelerating the expansion of our earnings by fully exercising ITOCHU's spirit of "Aggressive Challenges."

Starting in fiscal year 2006, we have launched a two-year mid-term management plan, Frontier-2006. Under the plan, we aim to generate a consolidated net income of ¥110 billion by fiscal year 2007. Nevertheless, we must take care not to push our offensive strategy to