

Corporate Performance and Strategy: Shifting from a Defensive to Offensive Footing

Since the launch of “Management Restructuring for Success in the 21st Century” in fiscal year 2000, ITOCHU has been reforming its profit structure and improving its financial position through the implementation of a series of management reforms including the A&P strategy.* As of fiscal year 2005, the results of these reforms have been a record high net income of ¥77.8 billion; and on the balance sheet side, a reduction in net interest-bearing debts by half, a near doubling of shareholders’ equity, and a net DER (debt-to-equity ratio) that has improved to 3.7 times from 12.0 times in fiscal year 2000. ITOCHU has also eliminated major causes for concern over future earnings and the Company is now prepared to shift to a full-fledged offensive footing.

Under the new mid-term management plan, Frontier-2006, ITOCHU will seek to increase its total assets and net interest-bearing debts. At the same time, the Company will further enhance its financial position by reducing net DER to below 3.0 times and striving to become a corporate group that steadily and consistently generates net income above ¥100 billion.

***A&P strategy:**

A strategy for enhancing profitability by intensively allocating management resources to areas that are *Attractive* to customers and where ITOCHU is *Powerful*. ITOCHU has advanced the A&P strategy through the implementation of two mid-term management plans: A&P-2002 (fiscal year 2002 – fiscal year 2003) and Super A&P-2004 (fiscal year 2004 – fiscal year 2005).

Segments through which ITOCHU can Offensively Demonstrate Unique Competence

ITOCHU will demonstrate its unique competence to fulfill its Frontier-2006 plan in the below three areas. In addition, ITOCHU will enhance its prioritized efforts under a system that looks beyond the individual Division Company to develop business across the entire Group.

- **Consumer-Related sector:** Taking advantage of ITOCHU’s expertise gained through its original business activities in the textile industry and subsequent rapid advance into the food retail sector, ITOCHU is in a strong position to better understand consumer needs. In addition, ITOCHU is well prepared to comprehensively develop its business,
- **Natural Resource Development sector:** ITOCHU ranks the highest among general trading companies in asset efficiency in the natural resource development sector.
- **North America and Asia, including China:** ITOCHU has taken the industry lead in penetrating the Chinese market and it has developed a network of contacts, distribution routes, and collaborative relationships with major local Chinese companies. Also, in the U.S., ITOCHU has expertise in developing local businesses.

Past and Future Division Company Earnings —Simultaneous Pursuit of Efficiency and Growth

Each of ITOCHU’s seven Division Companies is actively working to increase profits and improve its asset portfolio in respective business fields, including efforts to solidify the performance of group companies. Through such efforts, each Division Company

has successfully increased its gross trading profit and dramatically improved ROA efficiency.

* For details of the trend in ROA, please refer to the respective Division Company pages.