

Food Company

Message from the Division Company President

The Food Company has focused on the integration of all domestic and overseas food related businesses, from raw material development to production and processing, intermediary distribution, and retailing. We are growing them based on our Strategic Integrated System (SIS) to establish an optimum supply chain originating in the needs of consumers. Under the A&P-2002 Mid-term Plan, we emphasized expansion and improvement of the intermediary distribution field, the backbone of SIS, and invested heavily in the industrial distribution field in order to promote SIS in industrial markets.

Under the Super A&P-2004 Mid-term Plan, we aim to become the food industry's leading company with net income of ¥20.0 billion by completing our domestic SIS strategy by making these large investments profitable and by developing SIS in essential overseas regions including China and other parts of Asia.



Business Performance in Fiscal Year 2003

Higher prices for feed and fresh produce and increased volume in commercial food products led to a ¥77.3 billion year-on-year rise in trading transactions. Although there was a negative factor in the marine product business, gross trading profit grew ¥3.3 billion due to a favorable performance in commercial distribution. While trading income* was down ¥0.7 billion due to a rise in expenses for increased consumer merchandise transactions, a change in accounting principles for goodwill amortization and a large improvement in equity in earnings from associated companies resulted in a ¥2.3 billion increase in net income.

What We Did in Fiscal Year 2003

In the commercial distribution field, in order to strengthen our across-the-country all-temperature distribution network, we increased our stake in YUKIJIRUSHI ACCESS, INC., the top-ranked company in the domestic chilled and frozen food distribution market, becoming its largest shareholder.

In the industrial distribution area, we acquired in August 2002 a 20% stake in Compass Group Holding (Japan) K.K., a subsidiary of the world's largest food contract firm, Compass Group PLC of the U.K., with a view to strengthening our position in the domestic chain restaurant and food contract market, where considerable growth is expected. This move is aimed at building an industrial distribution system that leverages the Compass Group's expertise and at expanding the ITOCHU Group's trading. Also, in order to strengthen our position in dairy products, an area where we lagged behind industry peers, in March

2003, we made a ¥3.0 billion (8.07%) capital investment in SNOW BRAND MILK PRODUCTS CO., LTD. ITOCHU will not only expand its trading in dairy materials, but will move into new business fields that leverage Snow Brand's dairy technology and will develop dairy businesses overseas by taking advantage of the ITOCHU Group's network. These initiatives represent our full-fledged entry into dairy products.

In the convenience store area, having already established its presence in Taiwan, Korea and Thailand, FamilyMart Co., Ltd. will open its first store in China in fiscal year 2004, as it continues its overseas expansion concentrating on Asia. **In the food materials area**, ITOCHU acquired three sugar-producing companies including DAI-ICHI-TOGYO Co., Ltd., which puts us in the number three position in the sugar-producing industry. **In perishable food products**, ITOCHU decided to acquire a 39.9% stake in Prima Meat Packers, Ltd. and in April 2004 made it an associated company.

In order to appropriately address the recent heightening of consumer concerns regarding food safety, in April 2002 we established the **Food Safety Management Office** to boost employee awareness, improve operations, and bolster our risk management system.

Kouhei Watanabe
President, Food Company