reduce less profitable transactions and under-performing assets have brought about solid improvements to our gross trading profit ratio.

Reductions in selling, general and administrative expenses of ¥17.0 billion, or 3.7%, have contributed to an increase in **trading income*** of ¥4.2 billion, up 4.4% year-on-year to ¥100.7 billion recovering trading income* to the ¥100 billion mark. We also posted improvements in net financial expenses and equity in earnings of associated companies. A sharp drop in stock prices near the fiscal year-end, however, forced us to take considerable devaluation and disposal losses on marketable securities totaling ¥44.7 billion, which led to a **net income** of ¥20.1 billion, down by ¥10.1 billion, or 33.5%, from the previous fiscal year.

In addition to the above, we also pay close attention to another indicator of profitability, **adjusted profit** (gross trading profit + selling, general, and administrative expense + net financial expenses + equity in earnings (losses) of associated companies). This key indicator hit an all-time high, increasing by ¥12.8 billion to ¥115.5 billion, as we have continued to steadily boost our basic earning power.

Resource Allocation Prioritized Based on A&P Strategy

Under our previous mid-term plan, A&P-2002, which covered the period from April 2001 to March 2003, we worked to reform our profit structure based on our A&P strategy. We worked to strengthen overall profitability by allocating assets to priority areas in which ITOCHU can offer "attractive" products and services for customers and in which we exhibit "powerful" capabilities. Specifically, we prioritized as A&P segments four business segments—information and multimedia, consumer and retail related, natural resource development, and financial services as well as the two regions of North America and Asia.

During this two-year period, **the ratio of A&P assets to total assets** increased from 44% to 50%. And, under the tough economic conditions notwithstanding, **consolidated net income from A&P segments** grew by ¥5.2 billion compared to the previous fiscal year to ¥50.7 billion. Thus, A&P segments have grown to become the unquestionable drivers of ITOCHU's profits.

Maximization of Group Value by Strengthening Group Companies and Financial Position

ITOCHU is strengthening its group companies to make them the key players in our overall profit.

To achieve this objective, under A&P-2002, we worked to maximize the value of the entire group; restructuring unprofitable companies and withdrawal of under-performing operations were one initiative. During the two-year period, **the number of consolidated companies** decreased by 89 to 651. This number represents less than two-thirds of the total as of March 1999, which was 1,027. Over the two-year period of A&P-2002, **net income from subsidiaries and affiliates,** excluding overseas trading subsidiaries, grew from ¥23.1 billion (net of ¥64.7 billion in profits from companies in the black and ¥41.6 billion in losses from those in the red) to ¥47.4 billion (net of ¥62.1 billion in profits and ¥14.7 billion in losses). During the same period, **the ratio of profitable companies, including overseas trading subsidiaries, to the total number of consolidated companies** jumped from 73.5% to over 80% (80.2%).

Additionally, we have made steady progress in strengthening our consolidated financial position over the past two years. We have reduced total assets and interest-bearing debts largely ahead of our original plan. **Total assets** have been reduced by around ¥670 billion to ¥4,486.4 billion, while **net interest-bearing debts** have been reduced by over ¥500 billion to almost ¥2 trillion. At the same time, **stockholders' equity** increased by over ¥100 billion to ¥426.2 billion at the end of March 2003, as we accumulated retained earnings and offered new shares in July 2002 with an effect of ¥54.8 billion increase in stockholders' equity. As a result of these activities, the **stockholders' equity ratio** increased from 6.1% to 9.5% and our **net DER** (net debt-to-equity ratio) improved from 8.0 to 4.8. Nevertheless, we are not satisfied with the current level of stockholders' equity. We plan to increase it further by retaining earnings, while maintaining consistent and stable dividend payments to our stockholders.