

Roles of ITOCHU Corporation

Because of our financing functions, general trading companies are now frequently compared to venture capital (VC) firms and investment banks. Unlike VC firms, however, we do not just seek out promising new businesses to invest in, and unlike investment banks, we do more than enhance corporate value using various M&A methods such as mergers, acquisitions and spinoffs. A general trading company enhances value from the inside by proactively being involved in the businesses of the companies in which it invests. As part of its involvement, a general trading company seeks the most appropriate business model for each company and provides concrete solutions in a range of areas, from procurement of materials, to sales of products, aiming to implement the best business model. A general trading company works comprehensively to enhance the value of the companies in which it has a stake not only by supporting their production and logistics, but also by cooperating in product development and marketing and occasionally by arranging front-line personnel. Having strengthened management expertise in recent years, we also post management personnel as needed.

Trade

This proactive involvement in businesses is possible with the trading know-how that general trading companies have built up over many years. Having started as traders, general trading companies kept up with the times by gradually expanding our activities from raw material procurement to processing, logistics, and retail. This has not been, however, a simple shift to downstream. By establishing retail bases in department and convenience stores and rebuilding the logistical, processing, and raw material procurement supply chain management to fit consumer needs, we vertically integrate the upstream, midstream, and downstream segments of our businesses. The synergy between the vast amount of business data that this provides and the global network creates an advantage in securing the suppliers and sales routes best suited for our portfolio companies.

Having started in textiles and clothing, which are characterized by low volumes and a large variety of products, ITOCHU is particularly strong in terms of the large number of product items it handles and the breadth of its customer base. In the retail business, which must respond to increasingly specific and diversified consumer needs, our expertise in supplying the best-suited item from the best-suited place in the best-suited way is a major strength. In addition, ITOCHU has used its own resources to launch projects in every area. The experience we have accumulated in this manner has fostered our pioneering spirit, our prominent business know-how, and our sophisticated risk management.

Diversified Functions

There are also businesses that only become possible with the multiple functions and business areas that general, as opposed to specialized, trading companies possess. One example is our Plant Division's US\$450 million financing of a plant construction project for a gas field development business in Indonesia. By signing a long-term off-take contract under which the borrower

paid back in crude oil which was a substitute for gas, the Plant Division made risk hedge scheme for such a financing and the Energy Division was able to be involved in oil trading business at the same time. Providing a variety of settlement options that are not possible with conventional financing functions creates important business opportunities for us.

Investment

Furthermore, by pursuing a comprehensive involvement, from production to logistics to sales, ITOCHU has enhanced the corporate value of many of its portfolio companies and reinforced overall group profitability.

One example is our investment in the major convenience store chain FamilyMart. ITOCHU acquired the expertise to handle a variety of consumer needs through this investment, as it enabled us to grasp changes in consumer needs in real time and redirect this information to raw material procurement as well as processing and logistics. At the same time, by providing our diverse functions to FamilyMart as a business partner, we were able to increase our profits both from trading activities with FamilyMart and from equity in earnings from associates.

Examples of joint development with FamilyMart include our Food Division's procurement of optimal ingredients for the development of lunch box and other food products, the Realty Division's presentation of properties for store development, the IT and Telecommunications Division's contribution of e-business know-how for new business development, and the Financial Services Division's cooperation in the credit card business. In merchandising, we have been contributing to a sharp reduction in expenses by revising the procurement structure and logistics process. For ITOCHU, this revision simultaneously contributed to rationalizing its upstream to downstream flow including group companies. In addition, our continuous efforts to support FamilyMart's overseas development, in Asia in particular, have contributed to Taiwan FamilyMart Co., Ltd.'s business growth and stock market listing.

Synergy

To summarize, ITOCHU has enjoyed a great synergy between investment and trading when we invest in businesses, which enables us to pursue greater merits than either investment or trading offers by itself. For the companies in which we invest, there is the advantage not only of receiving financing, but also of gaining a powerful business partner for lightening risk burden. It is a way of doing business that enables the building of a win-win relationship for both parties.

Looking Forward

ITOCHU has expanded business by proactively applying this type of business investment in A&P segments. Going forward, we will also apply it to such new technologies as Bio and Nano and to such emerging markets as China. We believe that one of the greatest roles expected of us today is to work with manufacturers to build new business models especially in cutting-edge areas.