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## Restructuring for Success in the 21st Century



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ITOCHU Corporation

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## Execution of Restructuring

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- Management has decided to execute extensive and thorough restructuring of under-performing assets (ex. construction and real estate, investments in affiliates and other investments) and projects which may result in losses in the future
- The losses incurred from such measures will basically be appropriated in the 6-month period ended September 30, 1999



## Basic Strategy Global-2000

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- Basic Policy of Global-2000 (current two-year business plan)  
Reorganize the profit structure, and meet the challenges for success in the 21st century
- Reorganize the profit structure by
  - Completion of the Management Restructuring Strategy by March 2000
  - Reorganization of cost structure
  - Restructuring of affiliated companies
  - Improvement of the balance sheet



Extensive and thorough restructuring is indispensable to win in this globally mega-competitive era



## Rationale behind the decision to restructure (1)

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Need to accelerate speed of restructuring to succeed in an era of mega-competition

### 1. The necessity to transform management style

- to establish a new business model and become a competitive global player by
  - implementation of a framework and mindset for division companies to become more profitable
  - formation of a new organizational structure which is both a globally and strategically competitive group
  - introduction of appropriate management indexes and hurdle rates



## Rationale behind the decision to restructure (2)

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### 2. The necessity to improve financial strength urgently

- by recovering cashflow through restructuring of under-performing assets and unprofitable businesses
- to provide for investments in new business domains
- to increase company value

### 3. The necessity to stay on top in a fast moving business world

- where global mega-competition constantly intensifies
- where new standards (ex. cashflow, profit reimbursement) spread rapidly
- where corporate mergers and alliances are on the increase
- where internet and other new industries emerge



## Rationale behind the decision to restructure (3)

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Management is confident that ITOCHU's earning power in the A&P segments\* will support the feasibility of this restructuring - despite substantial P&L implications for FY1999 - through profits in FY2000 and beyond.

\* A&P segments: segments where ITOCHU can offer services that are **attractive** to customers where it is competitive and **powerful**



## Revised Estimates for FY1999 (consolidated basis)

FY1999: Apr. 1, 1999 ~ Mar. 31, 2

(P/L)	(100 million yen)	
	First Half of FY1999	FY1999
Total trading transactions	55,000	115,000
Gross trading profit	2,950	6,200
Trading income	△ 150	500
Net Profit	△ 1,500	△ 1,300

(B/S)	(100 million yen)	
	September 1999	March 2000
Total Assets	(67,330)	59,000
Interest-bearing debt	(46,631)	39,000
Stockholders' equity	2,150	2,150
Return on assets	(4.5%)	3.6%



## Revised Estimates for FY1999 (non-consolidated basis)

FY1999: Apr. 1, 1999 ~ Mar. 31, 2000

(P/L)	(100 million yen)	
	First Half of FY1999	FY1999
Total trading transactions	50,000	105,000
Gross trading profit	800	1,700
Trading income	30	150
(Ordinary profit)	(130)	(400)
Net Profit	△ 1,850	△ 1,830

(B/S)	(100 million yen)	
	September 1999	March 2000
Total Assets	33,900	31,300
Interest-bearing debt	23,700	21,500
Stockholders' equity	2,100	2,100
Return on assets	6.2%	6.8%



## Extraordinary Losses in FY1999

FY1999: Apr. 1, 1999 ~ Mar. 31, 2

(100 million yen)

	Consolidated	Non-consolidated
Extraordinary losses in FY1999		
(1) Real estate	1,240	1,830
(included in Management Restructuring Strategy)	(130)	(520)
(2) Under-performing assets	870	1,160
(related to restructuring of affiliates)	(510)	(800)
(3) related to changes in accounting rules	420	960
	2,530	3,950



## Unrealized Gains in Investments & Securities after Execution of Restructuring

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(as of September 1999)		(100 million yen)
Unrealized gains from listed stocks		1,300
Unrealized gains from planned IPO and/or sales of affiliated companies		3,800
		<hr/> 5,100



## Forecast

	FY2000	FY2001
Net profit (100 million yen )	400	450
Total assets (trillion yen)	5.2	5.0
Interest-bearing debt (trillion yen)	3.4	3.3
Stockholders' equity (100 million yen )	2,550	2,900
Return on assets (%)	0.8	0.9



## Our Goal for FY2004 (consolidated basis)

FY2004: Apr. 1, 2004 ~ Mar. 31

(100 million yen)

	FY2004	Notes
Net profit	1,000	80% from A&P segments
Total assets	50,000	60% for A&P segments
Stockholders' equity	6,000	
Interest-bearing debt	30,000	
Return on assets (ROA)	2.0%	
Return on equity (ROE)	17%	
Debt-equity-ratio (DER)	× 5	
Equity ratio	12%	



## Management Focus

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Management focus for success:

- Emphasis on cashflow and company value of the ITOCHU group
- Allocation of resources to focused areas (A&P segments)
- Risk management



## Reinvention of the Profit Structure

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1. Full development of A&P segments  
    reallocation of management resources to A&P segments
2. Increasing profit from trading through
  - vertical integration
  - intensive use of information, logistics and financial technology
  - fostering of core affiliates by transferring franchises, expertise and human resources
3. Challenging new business domains  
    investments in new focused growth areas



## Full Implementation of A&P Strategy

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A&P segments:

80% of profits to be made from A&P domains and region

- business domains:
  - Information and multimedia
  - Consumer and retail related
  - Financial services
  - Natural resource development
- geographic region:
  - North America



## Actions for Restructuring

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1. Reinforcement of risk management
  - Establishment of a new risk management office
  - Modification of hurdle rates with external consultant help
  - Introduction of a new MIS for timely and thorough information collection
2. Introduction of a new infrastructure for dynamic management
  - Introduction of new management indexes (from April 2000)
  - Establishment of an information system based on ERP
  - Quarterly financial statements on a consolidated basis (from FY2000)
3. Reorganization of corporate structure
4. Continuation of restructuring of affiliates