

# Textile Company

## Message from the Division Company President

Under our A&P-2002 Mid-term Plan, in addition to expanding earnings in the materials, textile, sewing and other manufacturing areas where our traditional strengths lie, we cultivated customer-driven businesses such as retail, where brands are of key significance, and focused our efforts on consumer markets in China and other parts of Asia. Under the Super A&P-2004 Plan, our goal is to evolve into a “lifestyle proposal business” by promoting the following growth strategies.

1. Acquire superior brands (proactive M&A), use brands to expand the scope of business into a full lifestyle range, and promote a full-scale brand business in China
2. Complement functions for leading apparel makers and expand transactions by providing them with a full range of services from material supply to product development, distribution and fashion trend information
3. Develop and strengthen sales of differentiated materials



### Business Performance in Fiscal Year 2003

Trading transactions decreased by ¥8.4 billion compared with the last fiscal year, owing to a decline in market prices under the deflationary low-pricing trend and our efforts to eliminate inefficient transactions. On the other hand, gross trading profit increased by ¥9.9 billion supported by the contribution from such new brand-related subsidiaries as ORIZZONTI CO., LTD., Bally Japan, Ltd. and CONVERSE JAPAN Co., Ltd. As a result, despite an increase in expenses, trading income\* grew ¥2.7 billion and with the contribution from associated companies, net income rose ¥2.1 billion.

### What We Did in Fiscal Year 2003

**Among our brand-related achievements**, we signed exclusive import and sales contracts with a number of brands including *BALLY* and *POLLINI*. In June 2002, we signed an exclusive long-term contract with the New York based high-end gourmet supermarket *DEAN & DELUCA*. In addition to promoting the same type of stores in Japan as *DEAN & DELUCA* has in New York, we have undertaken the development of a new type of business that merges “food” with “fashion.” We opened the first *DEAN & DELUCA* store in Tokyo in June 2003. Also, we expanded our brand business in Asia. As a strategic step towards developing our brand business in

China, we established a China joint venture with the Italian casual brand *SASCH*.

**In the retail area of the apparel business**, we decided to expand the business of *MAGaseek*, a fashion product search and purchase site to form it into a new company.

**In the high performance material field**, we devoted efforts to expanding sales of *compact spun yarn*, which has the luster and smoothness of silk. Thus, in fiscal year 2003 we achieved a 10% share of global production and 50% share of sales in Japan. We also formed a joint venture with the Shandong Weiqiao Textile Group Co., Ltd., which is China’s largest spinning company, to utilize Japanese advanced technology. Not limited to raw material supply, this business envisions sales in China, and exports to Europe and North America.

**In the home furnishing area**, ITOCHU Home Fashion Corp.’s *Riche La Riche* has achieved favorable performance. In March 2003 it opened its fifth store and is developing a distinctive business that utilizes the fabrics ITOCHU Home Fashion handles.

Makoto Kato  
President, Textile Company

## Topics

### Acquiring Exclusive Import and Sales Contracts with Bally and Pollini

In June 2002, ITOCHU acquired an exclusive long-term import and sales contract with Bally, a Swiss luxury brand, and one of Europe's oldest, of high-quality men's and ladies' shoes and leather goods, as well as 80% of Bally Japan's shares. In addition to strengthening marketing activities and enhancing brand image, we aim to open a flagship store and develop boutiques in department stores to achieve sales of ¥10.0 billion in three years' time.

In March 2003, we signed an exclusive import and sales contract with Pollini S.p.A., a total fashion brand based in Italy. With a history of more than 100 years, the company's main products are shoes of the highest craftsmanship. In addition to ladies' and men's shoes, we plan to comprehensively develop bags, leather accessories and wear and to cultivate sales routes with department stores in order to achieve sales of ¥3.0 billion in three years' time.



POLLINI 2003 Spring/Summer collection (The left)  
BALLY 2003 Spring/Summer collection (Two on the right)

### Forming the Fashion Search & Purchase Site "MAGASseek" into a New Company

As a result of exceptional performance of the Internet and mobile phone-based fashion search and purchase site *magaseek.com*, we established MAGASseek Co., Ltd. in April 2003.

Launched in August 2000, the MAGASseek site has grown to have tie-ups with five major publishers and handles some 120 brands that are featured in women's magazines. With sales of ¥700 million and 10 million hits per month, the site has won the strong support of consumers who "can order popular products whenever and wherever they wish." It has also been well received by the apparel industry as the "fastest means of collecting sales data." With the new company, we plan to expand the availability of equipment and models for this service, develop overseas business, and promote the growth in business with major apparel makers.



MAGASseek collaborates with these fashion magazines.

## Organization

<b>Textile Company</b>
Planning & Coordinating Dept.
Accounting & Control Dept.
IT Business Development Dept.
Textile Material Division
Industrial Textile & Lifestyle Division
Textile Division
Apparel Division
Brand Marketing Division 1
Brand Marketing Division 2

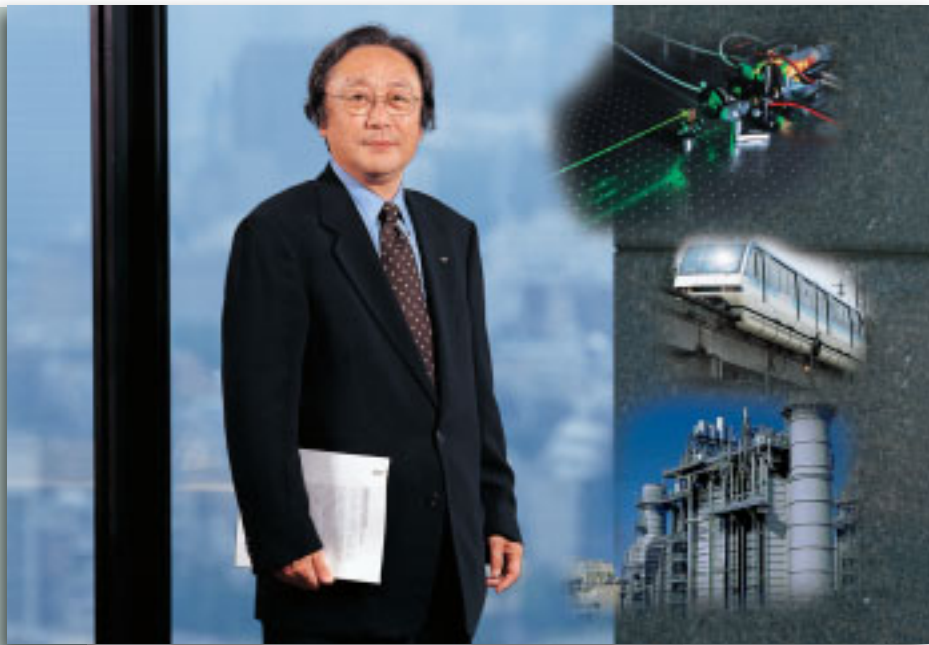
## Products & Services

- Raw cotton
- Cotton yarns
- Wool
- Woolen yarns
- Rayon staple
- Spun rayon yarns
- Rayon yarns
- Synthetic staple
- Synthetic filament
- Cotton fabrics
- Wool fabrics
- Silk fabrics
- Rayon fabrics
- Spun rayon fabrics
- Synthetic filament fabrics
- Knit fabrics
- Knit outer garments
- Knit under garments
- Woven outer garments
- Woven under garments
- Other garments
- Secondary textile products
- Imported sundries
- Bedding fabrics
- Interior fabrics
- Industrial fibers
- Inorganic fibers and related products

# Plant, Automobile & Industrial Machinery Company

## Message from the Division Company President

As the result of a two-year intensive restructuring following the ¥10.0 billion net loss in fiscal year 2001, we reported a net income in fiscal year 2002. Furthermore, in fiscal 2003, trading income returned to profit following the trading loss the year before. During the last two fiscal years, we disposed of non-performing assets, restructured under-performing group companies, and accelerated the collection of outstanding debts. As a result, not only did we reduce assets by ¥158.9 billion, but net income improved sharply from a ¥10.0 billion loss to a ¥2.4 billion profit. Under the Super A&P-2004 Mid-term Plan, our challenge is to develop and materialize new businesses and further improve asset efficiency. Our key-words are; “new technology,” “service and solution,” “strategic investment,” and “integrated function.”



### Business Performance in Fiscal Year 2003

Trading transactions in fiscal year 2003 declined by ¥190.7 billion compared to the previous year, mainly due to the withdrawal from less profitable businesses and an unexpected under-performance in the construction equipment business in North America. Gross trading profit, however, decreased only by ¥1.6 billion due to an increase of auto exports to China and the Middle East. A reduction of selling, general and administrative expenses and provision for doubtful accounts contributed to a ¥5.8 billion improvement in trading income\* and a ¥1.1 billion increase in net income.

### What We Did in Fiscal Year 2003

**The oil and gas development and related transportation market** is in a growth phase and highly profitable. It is an area where we can utilize our strong know-how in organizing and financing projects. In fiscal year 2003, ITOCHU was awarded an LNG transportation project in Algeria and an offshore oil transportation project in Brazil. As a strategic investment in the renewable energy sector, ITOCHU acquired an engineering company specializing in biomass energy in Europe.

**ITOCHU's automotive-related services business** is an area that stands to grow through the vertical and horizontal development of ITOCHU's existing finance, retail, and distribution businesses. In fiscal year 2003, we expanded our new- and used-car dealer network in the U.S. and U.K., formed a business and capital tie-up with Yanase, the largest domestic retailer of imported cars, and established an automobile financing company

in Indonesia.

**The domestic deregulation and services related market** is also growing fast, particularly in power supply, distribution and outsourcing services. EneSol Inc. (formerly “ITOCHU Energy Solution Co., Ltd.”), an ITOCHU Group company that provides energy-saving and power retailing services, expanded its businesses to strengthen its position in this fast-growing field. In order to further develop its business platform for the future, ITOCHU also acquired 20% of the shares of Myster Engineering Corp., a company specializing in 3rd party mechanical maintenance.

In addition, we have continuously strengthened the export of automobiles and auto parts to developing countries. This is an area where we have a high market share and expect further growth in demand. We also continue to strengthen the medical field, which offers opportunities for business expansion and stable growth; the electronic and semiconductor field, where we have an advantage in flat panels; and the new technology field, where we deal in advanced laser technology and new urban-transit systems.

Akira Yokota  
President, Plant, Automobile &  
Industrial Machinery Company

## Topics

### Business and Capital Alliance with Yanase

In December 2002, we formed a business alliance with Yanase & Co., Ltd., the largest retailer of imported cars such as Mercedes Benz and other major brands, with a view to strengthening and expanding its business. We also invested ¥1.5 billion in Yanase to become one of its largest shareholders.

ITOCHU and Yanase will share and reinforce each other's know-how in procurement, retailing, and marketing. This will in turn enable ITOCHU to take advantage of Yanase's valuable customer base and maximize profit opportunities in all aspects of the automotive-related business including the sale of used-cars, parts and accessories, and automobile financing.



Head office of Yanase and its Showroom

### LNG Transportation Export Joint Venture for SONATRACH (Algeria)

In July 2002, ITOCHU, SONATRACH, Algeria's state-owned oil & gas company, SNTM-HYPROC, SONATRACH's shipping subsidiary, and Mitsui O.S.K. Lines, Ltd. agreed to form a joint-venture company, and placed an order for an LNG carrier with Kawasaki Shipbuilding Corporation. The joint venture will own and operate the vessel for SONATRACH, and will export LNG to Europe and the U.S. from Algeria, the world's second-largest LNG exporter. Having worked closely with SONATRACH for more than thirty years on various projects including the construction of oil & gas processing plants, gas field development, we have now come together for the first time to own and operate an LNG carrier.

LNG is increasingly recognized as a clean energy source. We will further develop LNG related businesses and enhance our presence in its transportation field.



Signing ceremony for a joint venture of LNG transportation and 145,000cbm LNG carrier

## Organization

<b>Plant, Automobile &amp; Industrial Machinery Company</b>
Planning & Coordinating Dept.
Administration Dept.
<b>Plant &amp; Project Division</b>
Marine Dept.
Oil, Gas & Petrochemical Project Dept.
Environment/Power/Infrastructure Projects Dept.
<b>Automobile Division</b>
Automobile Dept. No.1
Automobile Dept. No.2
Automobile European Business Development Dept.
Office of Automobile Business Strategy & Development
<b>Industrial Machinery Division</b>
Business Function Integration Dept.

## Products & Services

- Civil engineering
- Construction
- Mining and related materials handling machinery
- Agricultural machinery
- Metalworking and processing machinery and plant
- Forging machinery
- Textile machinery
- Semiconductor-related equipment
- Electronic device and equipment
- Plastic manufacturing equipment
- Automobile parts manufacturing plant
- Plant related to the iron and steel industry
- Desalination plant
- Food machinery
- Grain silos
- Hospital equipment
- Medical device
- Oil, gas and petrochemical plants
- Passenger vehicles
- Commercial vehicles
- Automobile parts and equipment
- Special-purpose vehicles
- Rolling stock
- Ships
- Power generating equipment
- Environment-related equipment

# Aerospace, Electronics & Multimedia Company

## Message from the Division Company President

Under our A&P-2002 Mid-term Plan, in which we are working to “expand corporate value as an industry leading business group,” we reinforced the base of our existing businesses and reformed our profit structure while concentrating on new business areas such as Bio and Nano technologies.

Under our Super A&P-2004 Mid-term Plan, we will strengthen profitability in the face of a rapidly changing market, industry and technology with a “frontier spirit for consistent creation of new businesses.” To achieve this, we will implement two measures, “laying the ground work for the future” by undertaking new technology and new businesses and “strengthening subsidiaries and affiliates and expanding consolidated net income” through increasing our group companies’ corporate value.



### Business Performance in Fiscal Year 2003

In our consolidated results for fiscal year 2003, gross trading profit reached ¥102.5 billion and trading income\* ¥25.9 billion, although domestic IT-related transaction decreased due to lowered IT-related investment from a sluggish economy. Net income was ¥14.3 billion, due to a decrease in gain on sale of investments in securities.

### What We Did in Fiscal Year 2003

**In the Total Solutions business**, in an alliance with Hitachi, Ltd., we worked together to further strengthen IT services and develop new businesses utilizing cutting-edge technologies such as Bio and Nano technologies. Together with ITOCHU TECHNO-SCIENCE Corporation (CTC), we acquired the domestic marketing rights for an integrated high-end Linux server that is highly reliable and largely cuts system maintenance costs. In order to strengthen this area, we made CRC Solutions Corp. (CRC), which is strong in developing and operating office application systems and in handling outsourced operations, into a consolidated subsidiary and organized a system to promote our business centering on CTC and CRC.

**In the e-business area**, Excite Japan Co., Ltd. made a full-scale entry in the broadband-related business with the *BB.Excite* content distribution service and *Woman Excite café*, a broadband café that specifically targets women.

**In the mobile phone business**, we enhanced both hardware/software competitiveness and profitability by strengthening mobile phone sales and service company ITC NETWORKS CORPORATION and by establishing NANO Media, Inc. to supervise entire mobile internet content business.

**In the media content sector**, mainly to increase the number of subscriber households of CS broadcaster SKY PerfecTV!, we established a set top box sales company, T.T. Nexyz. Corporation.

**In the aerospace field**, in addition to efforts to increase profitability on a collaboration base with ITOCHU Aviation Co., Ltd. and other group companies, we worked to strengthen the cyber security business with iDEFENSE Japan Inc.

**In the new business area**, in addition to establishing the Bioinformatics Center making the best use of IT and Bio technologies for strengthening our foothold in the Bio business, we established a protein analysis firm, Proteome Systems Japan, in conjunction with an Australian biotechnology firm.

Yoichi Okuda  
President, Aerospace, Electronics &  
Multimedia Company

## Topics

### Reorganization of Mobile Internet Content Companies Focused on NANO Media, Inc.

Having implemented a reorganization of our mobile internet content companies in fiscal year 2003, in April 2003 we made Interactive Radio & Television Guide, Inc. (Irate), an Electronic Program Guide (EPG) distributor, and Navi-p.com Corporation, a location and map information distributor, subsidiaries of NANO Media, Inc.

Along with enhanced functions of mobile phones and development of Internet home appliances, NANO Media, Inc. aims to become the top firm in the mobile internet content distribution and service provision area not only by providing content for mobile phone and other personal media, but by providing machine communication services such as the remote control of home appliances and services linked to other media.



Electronic Program Guide (left) and location and map information (right)

### Development of Cyber Security Business by iDEFENSE Japan Inc.

iDEFENSE Japan Inc., which provides cyber security services to customers, is steadily increasing contracts by receiving confidence of clients including governmental organizations for its expanded services.

Intrusion detection software is presently not effective enough against increasingly-sophisticated cyber attacks. For this reason, iDEFENSE Japan Inc., in alliance with U.S.-based iDEFENSE Inc. and Foundstone Inc., provides the latest cyber threat intelligence information in Japanese language near real time. As a part of comprehensive cyber security intelligence information services, the company offers the most advanced vulnerability assessment and management system along with security training and consulting services which enable customers to protect their valuable assets from cyber threat.



iDEFENSE Japan Inc.'s cyber security information services

## Organization

### Aerospace, Electronics & Multimedia Company

Planning & Coordinating Dept.

Accounting & Control Dept.

Affiliates Administration & Credit Dept.

#### Aerospace & Electronic Systems Division

Aerospace Dept.

Commercial Aerospace Dept.

#### IT & Telecommunication Division

Information Technology Business Dept.

Business Solutions Dept.

IT & Telecommunications Business Dept.

#### Media Business Division

Network & Content Business Dept.

Mobile Business Dept.

## Products & Services

- Broadcasting and communication business
- Electronics systems
- Equipment for broadcasting and communication systems
- Programing supply and entertainment business
- Mobile telecommunication equipment and services
- Systems and related equipment for computer and information processing
- Semiconductor equipment
- Aircraft and in-flight equipment
- Air Transportation Management Systems
- Space-related equipment
- Security equipment

# Energy, Metals & Minerals Company

## Message from the Division Company President

Our objective has been to maximize earnings by actively participating in projects for developing natural resources with growth potential and linking resources produced by these projects with trading. We have also improved efficiency of our organization and assets, as in the example of spinning off our Iron & Steel Division. As a result, during the two-year period, we achieved the ¥10.0 billion net income targeted by our A&P-2002 Mid-term Plan. Under our Super A&P-2004 Mid-term Plan, we are targeting ¥15.0 billion in net income in two years by pursuing organizational efficiency and by further strengthening our earnings base through natural resource development and trading.



### Business Performance in Fiscal Year 2003

Mainly due to the spin-off of the Iron & Steel Division into an equity-method affiliate, trading transactions decreased by ¥523.8 billion and gross trading profit fell by ¥19.7 billion compared to the previous fiscal year. Net income, however, increased ¥0.5 billion to exceed ¥10.0 billion, mainly thanks to increased earnings in natural resource development at ITOCHU Oil Exploration Co., Ltd. and other affiliates, and favorable performance of Marubeni-Itochu Steel Inc.

### What We Did in Fiscal Year 2003

**In energy resource development,** the Ohanet Natural Gas Development Project in Algeria has steadily progressed and will start production in fiscal 2004. The Sakhalin-I Project is moving along well in Phase I and is on target to start oil production at the end of fiscal 2006. Sakhalin-I's recoverable reserves are estimated at 2.3 billion barrels of crude oil and 17,000 billion cubic feet of natural gas. As a new project, we have participated in a US\$2.3 billion large-scale crude oil pipeline project that will link the Caspian and Mediterranean Seas. We plan to use this pipeline for the transportation and sale to the worldwide crude oil market from the vast Azerbaijani oil fields in which our subsidiary, ITOCHU Oil Exploration Co., Ltd., has interests.

**In mineral resource development,** we decided to participate in a new coal mine development project in Australia. Also, a project for developing new coal mines in Indonesia and one for developing an iron ore mining

area and expanding shipping capacity in Australia are progressing smoothly. In addition, we are conducting feasibility studies for new coal mine development, particularly in China.

**In the trading sector,** we further reinforced our global energy trading formation mainly by strengthening ITOCHU Petroleum Japan Ltd.'s alliances with Chemoil Corp. in the U.S. and Galaxy Energy Group Ltd. in Europe. In addition to this, we are expanding our international trading activities for coal, iron ore, and non-ferrous metals businesses. Particularly in the non-ferrous business, we succeeded in obtaining substantial market share in a Europe and Asia-focused global sales of refrigeration units for transportation containers.

**In the steel products business,** Marubeni-Itochu Steel Inc.'s performance was favorable, supported by the contribution from overseas steel pipe transactions and other overseas earnings, mainly from North America and Asia.

**New fields,** with our emphasis on the environmental conservation-oriented business, include expansion of the recycling business and development of DME (dimethyl ether), which is attracting attention as a clean energy source.

Hiroshi Sumie  
President, Energy, Metals & Minerals Company

## Topics

### Ohanet Natural Gas Development Project (Algeria)

The Ohanet Project in Algeria, in which ITOCHU Oil Exploration Co., Ltd. is participating through Japan Ohanet Oil and Gas Co., Ltd., has entered the final stage of construction for fiscal 2004 production start. Planned production is for 3 trillion cubic feet of natural gas, 9 million tons of LPG, and 11 million tons of condensate. As the largest private sector investment in Algeria by a Japanese corporation to date, this project will cost about US\$1.0 billion in total and is being cooperatively financed by JBIC (Japan Bank for International Cooperation) and Japanese commercial banks. ITOCHU Oil Exploration Co., Ltd. has a 35% equity stake in the Japanese consortium Japan Ohanet Oil and Gas Co., Ltd., which has a 30% interest in this project.



Gas production facility

### Ashton Coal Mine Development Project (Australia)

We have decided to participate in the Ashton Project for developing new coal resources in New South Wales, Australia. We control a 20% interest in this project. Ashton is being developed as an open-pit coal mine with annual production of 2 million tons, which is expected to be expanded to 4 million tons by developing underground mining. From fiscal 2004, the coal produced by this mine will be sold in Asia including Japan, Europe, and the U.S. as semi coking coal for coke production and as thermal coal for power generation. We are in charge of marketing for this project and are actively promoting sales on a global basis.



Coal loading port

## Organization

### Energy, Metals & Minerals Company

Corporate Planning & Administration Dept.

Control Dept.

Sakhalin Project Dept.

Steel Business Administration Dept.

#### Metals & Mineral Resources Division

Iron Ore Dept.

Coal Dept.

Metal Materials Dept.

Non-Ferrous & Light Metal Dept.

#### Energy Division

Energy Business Development Dept.

International Energy Trading Dept.

Energy Sales & Supply Dept.

## Products & Services

- Iron ore
- Direct reduced iron
- Coking coal
- Coke
- Thermal coal
- Ferro alloy and its materials
- Ferrous scrap
- Pig iron
- Metal powder
- Electrodes
- Activated carbon
- Steel plates
- Hot & cold rolled sheets and coils
- Galvanized steel
- Steel for machinery
- Stainless steel
- High tensile steel
- Special steel
- Construction materials
- Welded steel pipes
- Seamless steel pipes
- Steel wires
- Marine steel structures
- Bridges
- Prefabricated steel for buildings
- Rails
- Non-ferrous metals
- Aluminum products
- Precious metals
- Rare metals
- Aluminum
- Alumina
- Rolled aluminum products
- Molded aluminum
- Electric cable
- Optical cable
- Electronic material
- Crude oil
- Natural gas liquid
- Gasoline
- Naphtha
- Kerosene
- Jet fuel
- Gas oil
- Fuel oil
- Marine fuel
- Lubricant
- Asphalt
- Liquefied petroleum gas
- Liquefied natural gas
- Dimethyl ether
- Nuclear fuel and Nuclear power related equipment



# Chemicals, Forest Products & General Merchandise Company

## Message from the Division Company President

Under the A&P-2002 Mid-term Plan, in addition to expanding retail and downstream growth areas through the acquisition of tire distributors in the U.S. and Europe, we selectively weighted company resources through such additional investments as in a Brazilian pulp and paper business (CENIBRA). As a result, over the past two years not only have total assets decreased by ¥49.0 billion, net income has increased by ¥8.3 billion.

Under the Super A&P-2004 Mid-term Plan, in the chemical sector, we will expand the sales of raw material for synthetic fiber, electronic materials, plastics parts for automobiles, and food packaging in the growth markets of China and other Asian countries. In the general merchandise area, in addition to strengthening the housing and construction material retail business and the global expansion of tire sales, we will expand and strengthen the pulp business centering on CENIBRA.



### Business Performance in Fiscal Year 2003

Supported by a recovery in chemical prices, a favorable tire business in North America and Europe, and strong construction materials business in the U.S., trading transactions increased by ¥64.0 billion, gross trading profit grew ¥6.4 billion and trading income\* rose ¥4.5 billion compared to the previous fiscal year. In addition to the increase in trading income\*, net income showed a sharp rise of ¥10.9 billion due to improved equity in earnings of associated companies and lower valuation losses on marketable securities.

### What We Did in Fiscal Year 2003

**In the rubber and tire area**, up to now we have been building the foundation of a solid tire distribution business in North America and Europe. In our domestic operation, from fiscal year 2003, in addition to our conventional tire outlets, we have begun operating large-scale car parts and accessory stores. We aim to expand profits further through comprehensive development of our tire business including retail business in the three major regions of Japan, the U.S., and Europe alongside tire exports and our natural rubber processing business.

**In the chemical product field**, we are proactively taking strategic steps to grow business in China and Asia, taking advantage of the market growth. In addi-

tion to starting an acrylic sheet manufacturing business in Thailand and an anhydrous fluoric acid manufacturing business in China, we added capacity at compound manufacturer Hexa Color (Thailand) Ltd., and packaging manufacturer Narai Packaging (Thailand) Co., Ltd.

**In the pulp and paper business**, we expanded and improved our global pulp sales network for the pulp produced by CENIBRA. We also worked to expand transactions in China and throughout Asia, where both paper production and consumption are rapidly growing. Domestically, we integrated our paper and paper products business in ITOCHU Pulp & Paper Corp. and improved efficiency throughout our group by developing a unified system to handle everything from forestation to end product sales.

Our company is deeply involved in everyday life and deals with a variety of products in this area. We will further create new value and services through our consumer and retail related business as well as environmental conservation-oriented business.

Toshihito Tamba  
President, Chemicals, Forest Products &  
General Merchandise Company

## Topics

### Strengthening the Tire Retail Business

In October 2002, I.C.S. Co., Ltd., which handles auto parts such as tires and aluminum wheel, acquired ownership of the large-scale car parts and accessory store Pit 100 Fujioka. We plan to open more stores, mainly in the northern Kanto area, as it expands the business to provide total automotive service.

Overseas, we will reinforce our tire retail business in Japan, North America, and Europe by developing our franchisee network and by acquiring distributors through our subsidiaries, such as Am-Pac Tire Distributors in North America and Stapleton's (Tyre Services) in Europe.



Opening "Pit 100 Fujioka"

### Proactive Development of Resin Product Business in Asia

Jointly with Sumitomo Chemical Co., Ltd., we established Sumipex (Thailand) Co., Ltd. as a manufacturer and retailer of acrylic sheets. It began operations in August 2002. With annual production capacity of 8,400 tons, we expect sales to reach ¥2.5 billion in one to two years. Acrylic sheets carry superb characteristics of transparency and weather resistance and are widely used in signboards and soundproof walls. The demand for acrylic sheets is increasing particularly in Asia. Having developed a supply system in Asia ahead of other competitors, we are proactively developing this business.

We also plan to add capacity to compound manufacturer Hexa Color (Thailand) Ltd. and polypropylene film manufacturer Shanghai Jinpu Plastic Packaging Material Co., Ltd. (China) as we respond to the growth in demand for synthetic resins in Asia.



Aquarium display using acrylic sheet

## Organization

### Chemicals, Forest Products & General Merchandise Company

Planning & Coordinating Dept.

Accounting, Affiliates Administration & Credit Control Dept.

#### Forest Products & General Merchandise Division

Wood Products & Materials Dept.

Paper Materials & Products Dept.

Tire & Rubber Dept.

General Merchandise Dept.

#### Chemicals Division

Organic Chemicals Dept.

Inorganic Chemicals Dept.

Plastics Dept.

## Products & Services

- Logs
- Lumber
- Wooden building materials
- Wood chips
- Wood pulp
- Recycled paper
- Paper
- Paper products
- Natural rubber
- Tires
- Furniture
- Shoes
- Glass
- Cement
- Olefin
- Aromatics
- Raw materials for synthetic resins
- Raw materials for synthetic fibers
- Organic chemicals
- Methanol
- Ethanol
- Solvents
- Specialty chemicals
- Inorganic chemicals
- Chemical fertilizers
- Polyvinyl chloride
- Polyolefin
- Synthetic rubbers
- Carbon black
- Thermoplastic and thermosetting resins
- Resin additives

# 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

## Topics

### Boosting Stake in YUKIJIRUSHI ACCESS, INC. Opens Door to Full-Scale Entry into Chilled and Frozen Food Distribution Market

In July 2002, ITOCHU increased its stake in YUKIJIRUSHI ACCESS from 10% to 25% and made it a consolidated subsidiary.

By strengthening its ties with YUKIJIRUSHI ACCESS, which has a “nation-wide distribution network” and “multi-temperature distribution,” the ITOCHU Group will be able to build the nation-wide, multi-temperature distribution network that is absolutely essential to its SIS strategy. Particularly strong in chilled and frozen food distribution, YUKIJIRUSHI ACCESS will play a major role in the ITOCHU Group’s full-scale entry into the chilled and frozen food distribution market, whose estimated worth is ¥10 trillion.



YUKIJIRUSHI ACCESS' multi-temperature distribution center

### Acquisition of California Food Wholesaler JCP

In August 2002, ITOCHU’s U.S. subsidiary, Itochu International Inc., acquired Los Angeles-based food wholesaler Japan California Products, Inc. (JCP) through its food distributor and strategic subsidiary ICREST.

Established in 1977, JCP has primarily sold Asian vegetables to higher-end Japanese restaurants and supermarkets on the West Coast, mainly in California. Recently, however, there has been an increase in business with non-Japanese customers.

This acquisition will not only strengthen ITOCHU’s food distribution business on the U.S. West Coast through the addition of JCP’s sales network, but will also support the comprehensive development of our food businesses in the U.S. through its positive impact on the growth strategy of YOSHINOYA WEST, INC., a subsidiary of Yoshinoya D&C Co. Ltd.



ICREST's new warehouse (upper), YOSHINOYA WEST store (lower left), and JCP's private brand products (lower right)

## Organization

<b>Food Company</b>
Planning & Coordinating Dept.
Administration Dept.
Grain & Foodstuff Division No.1
Grain & Foodstuff Division No.2
Fresh Food Marketing & Distribution Division
Food Products Marketing & Distribution Division No.1
Food Products Marketing & Distribution Division No.2
FamilyMart Dept.

## Products & Services

- Wheat
- Barley
- Wheat flour
- Rice
- Vegetable oils
- Soybeans
- Corn
- Sweeteners
- Dairy products
- Coffee
- Liquor
- Soft drinks
- Livestock products
- Marine products
- Fruits and vegetables
- Processed food
- Frozen foods
- Canned foods
- Consulting services for food business

# Finance, Realty, Insurance & Logistics Services Company

## Message from the Division Company President

By exiting from inefficient assets and developing new businesses under our A&P-2002 Mid-term Plan, during its two years we reduced assets by ¥134.4 billion and improved the net loss from ¥40.9 billion to ¥8.4 billion. Although the segment remains in the deficit overall, the A&P segment of financial services related is generating steady profit.

Under the Super A&P-2004 Mid-term Plan, we plan to further reinforce our earnings base by continuing to promote new businesses in our core areas. These include the consumer finance business and private equity (PE) business, insurance business, and the 3rd Party Logistics (3PL). We aim to restore profitability on a trading income\* basis in fiscal year 2005 by further reducing inefficient assets in the construction and realty fields.



### Business Performance in Fiscal Year 2003

Despite active condominium sales, trading transactions decreased by ¥185.9 billion due to withdrawal from inefficient transactions in housing lot sales business and gross trading profit was down ¥0.5 billion due to valuation losses on residential land compared with the last fiscal year. Due to the provision for doubtful accounts that occurred in the previous fiscal year and the effect of cost-cutting, trading loss\* improved ¥6.6 billion and the net loss improved ¥1.4 billion.

### What We Did in Fiscal Year 2003

**In the consumer finance business**, Famima Credit Corporation made its full-scale entry into the credit card business when it started accepting applications for its *Jupi Card* in May 2002. **In the PE business**, in September 2002 ITOCHU formed the *Raffia Fund*, a buyout fund targeting all types of businesses, with Shinsei Bank; and the *IDA Fund*, a specialized buyout fund aimed at information system companies, with Aozora Bank. In March 2003, the *Raffia Fund* made its first acquisition with the purchase of the JASDAQ-listed ROKI TECHNO Co., Ltd., the largest manufacturer of cartridges for liquid filtration. **In the construction and realty field**, we withdrew from inefficient assets and devoted energy to efficient condominiums and solution businesses such as PFI\*\* and securitization.

**In the insurance field**, we started a service of creation and operation support of employees benefit package with the goal of evolving from a traditional insurance brokerage business into a risk solution provider. Also, we started handling group credit insurance that disperses underwriters' risks and offers eased conditions for signing up by grouping corporations and nonlife insurance companies respectively.

**In the logistics area**, we promoted our 3PL business for pharmaceutical makers and a total of seven companies are using our six domestic distribution centers. We are also promoting the logistics business in China and other overseas locations through our subsidiaries, i-LOGISTICS CORP., China based Beijing Pacific Logistics Co., Ltd. and Hungary based Eurasia Sped KFT. We will continue to expand our 3PL business going forward, concentrating on the key areas of pharmaceuticals, consumer products and automobile industry.

Hiroshi Ueda  
President, Finance, Realty, Insurance &  
Logistics Services Company

## Topics

### “Chiba City Nature House for Youth” PFI\*\* Commissioned

In the term under review, Chiba City commissioned us with the PFI for “Chiba City Nature House for Youth” PFI in December 2002. This undertaking includes construction of a 13,715 m<sup>2</sup> educational facility as well as maintenance of the facility and management of the social education business over a 15-year period.

In addition to organizing the overall scheme of the PFI as representative of the corporate consortium and project manager, ITOCHU will raise the funds for the project. We will also take advantage of the ITOCHU Group’s integration, by putting ITOCHU Urban Community Ltd. in charge of maintaining the facility.



Completion drawing of “Chiba City Nature House for Youth”

\*\*PFI: Private Finance Initiative

Construction, maintenance, and operation of the social infrastructure by the private sector.

### Corporate Benefit Package Creation and Operation Support Service Started

In October 2002, we initiated the “Life Planning Comprehensive Support Program,” which conducts corporate benefit package organization and operation support. We are accelerating diffusion of the program through an alliance with Misawa Resort Co., Ltd., the owner of “Life Support Club,” which has more than 1,000 member companies (total of 500,000 employees).

Its core feature is its program for guaranteeing income to employees who take an extended amount of time off due to illness or injury. Advantage Risk Management Group, which jointly offers the service, boasts a dominant 30% share of the domestic market currently estimated at approximately ¥5.0 billion. We are committed to this service as a core business in our retail strategy.



The tie-up with Misawa Resort and Advantage Risk Management Group

## Organization

### Finance, Realty, Insurance & Logistics Services Company

Planning & Coordinating Dept.

Administration Dept.

#### Financial Services Division

Forex & Securities Dept.

Financial Solution Businesses

Financial Businesses Development Dept.

#### Construction & Realty Division

Construction & Realty Dept.

Overseas Construction & Realty Dept.

Osaka Construction & Realty Dept.

#### Insurance Services Division

Insurance Business Development Dept.

Marine Insurance Dept.

#### Logistics Services Division

Logistics Dept. No.1

Logistics Dept. No.2

## Products & Services

- Foreign exchange and securities trading
- Securities investment
- Asset management for financial products
- Loan business
- Online stock broking
- Other financial services
- Planning, developing, consulting, brokering, constructing, contracting, managing, operating, selling facilities and materials for residential housing, office buildings, golf courses, industrial parks, hotels, and shopping malls
- Insurance agency
- Broking of insurance and reinsurance
- Consulting of insurance and reinsurance
- Warehousing and trucking
- Logistics centers
- Ship chartering business
- International intermodal transport
- Air cargo
- Freight forwarding
- Travel services
- Distribution processing
- Harbor transport business