



# Where We Are Going

## **The Road Ahead**

—Enhancing corporate value on the world stage

Overcoming adverse circumstances and leveraging the situation to chart a course for higher growth is the DNA that has underpinned our development since our founding. And that DNA is evolving further to shape a new ITOCHU.

The Frontier+ 2008 mid-term management plan, which begins with the fiscal year ending March 2008, represents a compass pointing the way forward and our vision for the future. In keeping with the new plan's more aggressive management stance, we have set our sights high and taken up the challenge of becoming "A Global Enterprise That Is Highly Attractive to All Stakeholders."

In this section, we review and analyze our performance under Frontier-2006 and explain how we intend to raise corporate value going forward under our new mid-term management plan Frontier+ 2008.

# To Our Stakeholders



**Eizo Kobayashi**

President and Chief Executive Officer

**Under the mid-term management plan Frontier-2006, ITOCHU reached its objective of “Becoming a Highly Profitable Corporate Group Achieving over ¥100 Billion in Consolidated Net Income in a Steady and Sustainable Manner.”**

**We will now move forward with the implementation of our new mid-term management plan, Frontier 2008, under which we will adopt an even more aggressive management policy and strive to enhance corporate value on the world stage.**

## ITOCHU Realizes Its Objective of Becoming a Highly Profitable Corporate Group

In the late 1990s, ITOCHU was in a challenging position, burdened by inefficient assets and unprofitable businesses as well as large amounts of interest-bearing debt. In the years that followed, we implemented a series of reforms to overcome this adverse situation and to create a new ITOCHU.

In the mid-term management plan Global-2000 (fiscal 2000 to fiscal 2001), we set the goals of “Reorganization of the Profit Structure” and “Challenges for Success in the 21st Century.” While taking measures to eliminate inefficient assets and unprofitable businesses, we intensively allocated resources to A&P (Attractive and Powerful) segments that were “attractive” to our customers and in which we had “powerful” capabilities. In the following mid-term management plans, A&P-2002 (fiscal 2002 to fiscal 2003) and Super A&P-2004 (fiscal 2004 to fiscal 2005), we further strengthened our financial position while forming the foundations for growth by making aggressive upfront investment.

The recently completed Frontier-2006 (fiscal 2006 to fiscal 2007) built on these foundations for growth and shifted the Company to a more aggressive posture. The plan set out two principles—“Shift to Aggressive Business” and “Enhancement of Solid Management”—and accordingly ITOCHU moved to expand its revenue and earnings and further bolster its financial strength. I believe that the results we achieved under Frontier-2006 allowed us to realize our objective of “Becoming a Highly Profitable Corporate Group Achieving over ¥100 Billion in Consolidated Net Income in a Steady and Sustainable Manner.”

## Positive Results from Two Years of Aggressive Business and Solid Management

In the fiscal year under review, ended March 2007, we achieved new highs in consolidated net income and other key indicators of earnings for the third consecutive year. By Division Company, the Aerospace, Electronics & Multimedia Company and the Food Company recorded decreased net

income, reflecting the absence of gains on sales of marketable securities posted in the previous fiscal year. The Finance, Realty, Insurance & Logistics Services Company registered a net loss due to a significant loss recorded by an equity-method associated company as a result of the revised Moneylending Control Law in Japan. Aside from those companies, all other Division Companies achieved record-high levels of net income. We believe that the various initiatives pursued under “Shift to Aggressive Business” bolstered basic earning power throughout the ITOCHU Group.

Frontier-2006 outlined a strategy to strengthen vertical linkage, whereby Division Companies accelerate resource allocation to core segments. The plan also set out a strategy to promote horizontal integration targeting group-wide projects in the Consumer-Related and Natural Resource/Energy-Related sectors, where we have considerable strengths.

In the Consumer-Related sector, we promoted our strategy of global brand deployment in textiles. In addition, we accelerated business development in China and made a general food wholesaler a consolidated subsidiary. In the Natural Resource/Energy-Related sector, we invested to increase production capacity at existing projects while setting the stage for growth by moving into new sectors, such as the retail natural gas business. ITOCHU also explored new fields with a view to creating businesses, such as preventive medicine in the Life & Healthcare sector.

Further, we made significant achievements in line with “Enhancement of Solid Management.” Total stockholders’ equity reached a new high at the end of the fiscal year as a result of the increase in net income. Through continued efforts to reduce interest-bearing debt, we achieved a net debt-to-equity ratio (NET DER) of 1.8 times, an improvement of 0.6 points from the end of the previous fiscal year, and we further strengthened our financial position. In addition, we introduced several initiatives to promote management efficiency, including the implementation of our Basic Policy regarding the Internal Control System and the launch of the ITOCHU DNA Project—Designing New Age—to stimulate innovation in all our business processes.

\* Please see pages 12 and 13 for an analysis of our performance under Frontier-2006.

## Enhancing Corporate Value on the World Stage

Building on the themes pursued under Frontier-2006 and our achievements, we have set even higher goals under our new mid-term management plan Frontier<sup>+</sup> 2008—Enhancing Corporate Value on the World Stage.

Under Frontier<sup>+</sup> 2008, we will take a more aggressive stance in a bid to dramatically increase revenue and earnings. It is also our aim to be “A Global Enterprise That Is Highly Attractive to All Stakeholders.” To those ends, we will step up efforts to achieve gains in revenue and earnings world-wide guided by three main principles: “Maintain a Global Perspective,” “Create New Initiatives,” and “Enhance Human Resources.”

As we strive toward realizing our goal of making the ITOCHU Group a truly global enterprise, we ask for the continued understanding and support of our stakeholders.

\* Please see pages 14 to 24 for further information on our Frontier<sup>+</sup> 2008 mid-term management plan and our scenario for becoming a truly global enterprise.

July 2007

Eizo Kobayashi  
President and Chief Executive Officer