

# Final Review of the Mid-term Plan, A&P-2002

From April 2001 to March 2003, ITOCHU executed A&P-2002 to aggressively tackle reforms that would move it to reach beyond conventional trading company's business models and develop new businesses through the A&P strategy\*\*. In A&P-2002, we set specific numerical goals, some of which we met, others that we fell short of. However, overall we believe it is fair to say that we have consistently enhanced our financial position and basic earning power.

Specifically, we exceeded our targets for reductions in total assets and interest-bearing debts. We did not reach net income goal mainly due to severe economic conditions including the stagnant stock market in Japan.

## \*\*A&P Strategy

Strategy aimed at enhancing profitability by intensively allocating assets to the business areas in which ITOCHU can offer "Attractive" products and services for our customers, and shows "Powerful" capabilities. In A&P-2002, we selected as A&P segments four business segments: Information and multimedia, Consumer and retail related, Natural resource development, Financial services; and two geographic regions: North America and Asia.

## Results of A&P-2002 (Consolidated-basis)

	Billions of Yen			
	Starting Point	The First Year	The Second Year (Plan at FY2003 start)	
	2001	2002	2003	
<b>P/L (For fiscal years):</b>				
Net income .....	70.5	30.2	20.1	(50.0)
<b>B/S (As of March 31):</b>				
Total assets .....	5,157.5	4,752.3	4,486.4	(4,650.0)
Interest-bearing debts .....	3,070.5	2,794.7	2,574.4	(2,750.0)
Net interest-bearing debts*** .....	2,536.8	2,296.4	2,025.0	(2,250.0)
Stockholders' equity .....	316.9	397.7	426.2	(440.0)
<b>Ratio (For fiscal years):</b>				
ROA**** .....	1.26%	0.61%	0.43%	(1.1%)
ROE**** .....	23.6%	8.4%	4.9%	(11.4%)
Net DER .....	8.0 times	5.8 times	4.8 times	(5.1 times)
Equity ratio .....	6.1%	8.4%	9.5%	(9.5%)

\*\*\* Net interest-bearing debts = Interest-bearing debts - Cash, cash equivalents and time deposits

\*\*\*\* ROA and ROE were calculated from average amounts of total assets and stockholders' equity at the beginning of year and at the end of year.

## Creating a New Business Model – "Reorganization of the Profit Structure"

As a result of a large amount of disposal and devaluation losses on marketable securities caused by a sharp drop in stock prices around the end of the fiscal year, our net income in fiscal year 2003 stood at ¥20.1 billion, which represented approximately 40% of our goal of ¥50 billion. Despite this, our inherent earning power has been steadily strengthened, which is witnessed by a high-level of trading income and a record-high adjusted profit. ITOCHU enjoys top-class profitability among major trading companies.

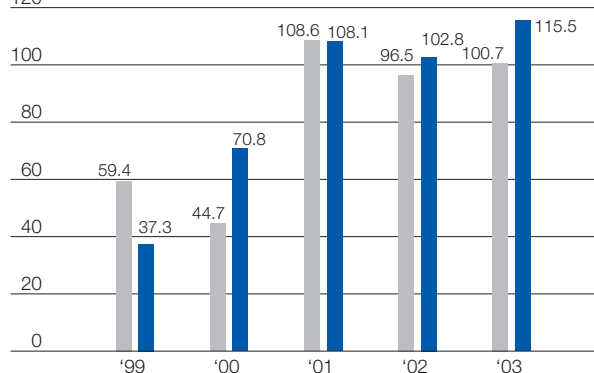
## 1) Continued Implementation of A&P Strategy

To reduce total assets and optimize our business portfolio, we focused on reducing under-performing assets to aggressively shift to A&P assets. However, A&P assets remained at the same level, while Non-A&P assets decreased by ¥662.9 billion to ¥2,235.5 billion during the two-year period. The ratio of A&P assets to total assets steadily increased from 44% to 50%, though it did not reach our stated goal of 55%.

Consolidated net income earned from our A&P segments, excluding one-time profits, increased by ¥5.2 billion to ¥50.7 billion over the previous fiscal year, though it did not make the final step to attain our goal of ¥62.0 billion due to the slump in our business in North America and the domestic deflationary conditions. On the other hand, among the non-A&P assets, during the two year-period, we successfully reduced a total of ¥272.2 billion of under-performing assets in areas such as Plant, automobile & industrial machinery; Chemicals, forest products & general merchandise; and Construction & realty

## Trading Income\* and Adjusted Profit

Billions of Yen ■ Trading Income ■ Adjusted Profit



Adjusted profit: Gross trading profit + Selling, general and administrative expense + Net financial expenses + Equity in earnings (losses) of associated companies  
Years ended March 31

## Five Major General Trading Companies' Financial Results in Fiscal Year 2003

	Billions of Yen				
	ITOCHU Corporation	Mitsubishi Corporation	Mitsui & Co., Ltd.	Sumitomo Corporation	Marubeni Corporation
Gross trading profit .....	566.0	718.6	569.8	496.4	424.6
	(-2.2%)				
Gross trading profit ratio (%) .....	5.41%	5.39	4.30	5.38	4.83
	(+0.33)				
Trading income before provision for doubtful accounts .....	117.6	123.2	112.0	90.1	79.0
	(+3.7%)				
Trading income* .....	100.7	100.6	97.7	89.3	73.4
	(+4.4%)				
Adjusted profit .....	115.5	177.2	138.8	100.3	75.7
	(+12.4%)				

( ): Increase/Decrease from the previous fiscal year

Adjusted profit: Gross trading profit + Selling, general and administrative expense + Net financial expenses + Equity in earnings (losses) of associated companies

and logistics services, largely improving net income (loss) from these areas from a loss of ¥51.5 billion to a profit of ¥0.7 billion.

## 2) Maximization of Group Value

Net income from subsidiaries and associates, excluding overseas trading subsidiaries, doubled from ¥23.1 billion in fiscal year 2001 to a record-high of ¥47.4 billion, net of a ¥62.1 billion profit from profitable companies and a ¥14.7 billion loss from unprofitable companies. During the two-year period, the ratio of profitable companies, including overseas trading subsidiaries, to total number of consolidated companies increased by 6.7 percentage points to 80.2%. As a result of our aggressive restructuring for two years, the total number of consolidated companies including overseas trading subsidiaries decreased by 89 to 651, consisting of 468 subsidiaries and 183 associated companies as of March 2003.

## 3) Improvement of Consolidated Financial Position

Over two years we have reduced our consolidated total assets by ¥671.1 billion and net interest-bearing debts by ¥511.8 billion. We made substantial strides in financial position, well ahead of schedule, and our net DER (net debt-to-equity ratio) improved from 8.0 times to 4.8 times. Our consolidated stockholders' equity returned to over ¥400 billion for the first time in five years, standing at ¥426.2 billion as of March 2003, despite not reaching our goal of ¥440 billion. Although there was a ¥54.8 billion increase in stockholders' equity due to our issue of new shares in July 2002, it was partly offset by the decrease from the previous fiscal year in accumulated other comprehensive income mainly due to a ¥20.6 billion deterioration in foreign currency translation adjustments, which resulted from a stronger yen at the end of the fiscal year, and a ¥17.8 billion deterioration in unrealized gains/losses on securities due to the stagnant stock market in Japan.

## Allocation of Resources to A&P Segments (Assets)

As of March 31	Billions of Yen			
	Results 2001	Results 2003	Plan 2004	Plan 2005
Information and Multimedia .....	518.6	486.1	430.0	500.0
Consumer and Retail Related .....	1,080.0	1,025.2	1,160.0	1,240.0
Natural Resource Development .....	242.9	354.5	410.0	460.0
Financial Services .....	233.2	163.1	180.0	220.0
North America .....	184.4	154.2	200.0	280.0
Asia .....	—	69.7	80.0	80.0
Total A&P .....	2,259.1	2,252.8	2,460.0	2,780.0
Total A&P to total assets .....	44%	50%	55%	63%
Other "highly-efficient" segments .....	—	—	410.0	460.0
Total A&P and other "highly-efficient" segments to total assets .....	—	—	64%	74%
Total non-A&P .....	2,898.4	2,235.5	1,580.0	1,160.0

## 4) Promotion of Overseas Regional and Market Strategies

We have strengthened the regions of North America and Asia, positioning them as A&P segments (see page 34 for details). Our business in North America for fiscal year 2003 shrank in net income compared to that two years earlier. Despite good business results in such fields as distribution of tires and wholesale of building materials, the slumps in auto leasing and small-size power generator businesses and a change in accounting methods for goodwill adversely affected overall results. On the other hand, we successfully strengthened the highly efficient machine maintenance business for power plants and bottlers. In Asia, although the consumer financing business decreased its growth rate, we were able to expand local and regional trading and reinforce our base for growth centering on China (see page 13 for details).

## Building Management Structure to Support a New ITOCHU Group – "Reorganization of the Management System"

Along with reorganizing our profit structure, we have devoted ourselves to innovating our management system.

First, we improved a divisional management system to establish autonomous management in each Division Company. In the area of human resource strategy, we allocated valuable human resources to group companies to include them as a core part of ITOCHU's group profit structure. We further promoted training programs to train capable overseas national staff for management positions, most notably through our Asian Leadership Program. We also made steady progress both in corporate governance (see page 38-39 for details) and in risk management (see page 16 for details).

## Consolidated Net Income Earned from A&P Segments

Years ended March 31	Billions of Yen			
	Results 2001	Results 2003	Plan 2004	Plan 2005
Information and Multimedia .....	23.6	14.3	8.0	14.0
Consumer and Retail Related .....	15.4	22.3	30.0	38.0
Natural Resource Development .....	7.5	9.2	10.0	13.0
Financial Services .....	3.0	4.0	5.0	10.0
North America .....	6.0	-2.0	2.0	8.0
Asia .....	—	2.9	3.0	5.0
Total A&P .....	55.5	50.7	58.0	88.0
Total A&P to net income .....	79%	252%	129%	117%
Other "highly-efficient" segments .....	—	—	8.0-10.0	10.0-15.0