



Looking Back at Six Years as President

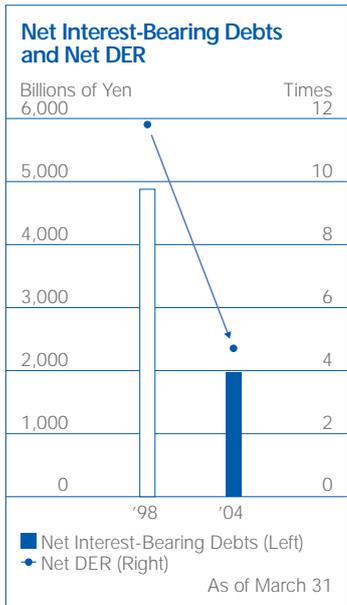
On April 2, 2004, ITOCHU announced that it would apply impairment accounting for fixed assets in Japan GAAP* for the fiscal year ended March 2004, two years before it becomes compulsory, in the fiscal year ending March 2006. I decided to seize the initiative on this issue because I am confident that ITOCHU's recent management reforms, based on its A&P strategy, are steadily and significantly strengthening the Company's financial outlook.

When I became President in April 1998, the Company was positioned as Japan's top trading company in terms of earnings power (i.e., gross trading profit). However, the Company had a "weak constitution"—it carried a large amount of interest-bearing debt and bad assets—and it was necessary to use much of its periodic income for interest payments and the disposal of under-performing assets. As a result, I placed the highest priority on improving the Company's financial position and reforming its profit structure. Through the three two-year management plans that were implemented during my tenure as President, I have worked to implement speedy management reforms and pursued a personnel strategy directed at changing our current employees' attitudes, with an emphasis on appointing new and talented young people.

Global-2000 (Fiscal Year 2000–Fiscal Year 2001): Clearing Away a Negative Legacy

The basic concepts behind Global-2000 were "Reorganization of the Profit Structure" and "Challenges for Success in the 21st Century." Under this plan, we worked actively to dispose of inefficient assets and to withdraw from and shrink unprofitable businesses. In October 1999, the Company unveiled its "Management Restructuring for Success in the 21st Century" and, along with working assiduously to eliminate inefficient transactions, decisively wrote off losses on under-performing assets. At the same time, it introduced Risk Capital Management (RCM) thinking, with the aim of achieving a more efficient allocation of resources and the quantitative management of risk on a company-wide basis. As a result of these efforts, in fiscal year 2000 ITOCHU posted huge restructuring losses of ¥303.9 billion, and its net income fell to a loss of ¥88.3 billion. However, in fiscal year 2001 the plan began to have a visibly positive effect, with provisions for doubtful accounts falling approximately in half, and the Company saw a record-high net income of ¥70.5 billion.

In addition, ITOCHU determined the segments and regions that are *attractive* to its customers and in which the Company has *powerful* capabilities. These it defined as A&P (Attractive & Powerful) segments and regions. The Company identified four A&P segments—Information



*Please refer to page 15 for details of "Early application of impairment accounting for fixed assets under Japan GAAP."

and Multimedia, Consumer and Retail Related, Natural Resource Development, and Financial Services—and one A&P region—North America. It then embarked on a strategy designed to beef up its earnings power and allocate resources with an emphasis on these segments and regions as earnings pillars over the medium to long term. At the same time, the Company proceeded to enact some decisive reforms through various policies aimed at supporting management. These included the introduction of a new personnel system that realizes *profit sharing* and *pay for performance*, as well as the introduction of an executive officer position, which allowed for stronger corporate governance by separating managerial decision-making and supervision of operations from business execution.

**A&P-2002 (Fiscal Year 2002–Fiscal Year 2003):
Reforms Directed at Establishing a Highly Profitable Business Model**

Under A&P-2002, the Company turned away from the conventional trading company business model centered on trading. Instead, by defining an A&P strategy it tackled the reform of its profit structure with the aim of establishing a high earnings business model centered on its A&P segments. It measured the risks and asset efficiency in all of its business units. Then, the Company proceeded to direct its resources more toward its highly-efficient assets and to eliminate and shrink inefficient assets. In fiscal year 2003, it added metals and mineral resources development and Asia to its A&P segments and regions and worked steadily to establish a high earnings system centered on A&P segments and regions. Net income fell short of target owing to a slump in the stock market, but the Company was able to cut more interest-bearing debts than it had targeted at the initiation of this plan.

**Initial Fiscal Year of Super A&P-2004 (Fiscal Year 2004–Fiscal Year 2005):
Aiming for a Dramatic Leap in Earnings Power**

Under this mid-term plan, ITOCHU aims to develop its A&P strategy further and achieve a sharp increase in its earnings power.

First, the Company, recognizing its strength in Consumer and Retail Related areas, has redefined them as a Super Powerful segment. Accordingly, the Company has decided to allocate management resources more intensively to this segment.

In the six years that I acted as President, including fiscal year 2004, the improvements to the Company's financial health and the drastic reforms to the profit structure produced steady results, and I am even more confident that this will provide a firm foundation for raising ITOCHU's earnings abilities significantly in the future. However, to ensure that the next generation of management makes the best use of this foundation and shifts to an offensive footing, I determined that it would be best to eliminate all discernible under-performing assets during the period of my term as President. Therefore, I decided to adopt the aforementioned accounting rules for the impairment of fixed assets under Japan GAAP early, requiring that the Company assume losses of ¥123.3 billion. Accompanying this action, consolidated net income fell short of plan in fiscal year 2004. However, I think there is a higher probability that net income will reach a record high of ¥71.0 billion in fiscal year 2005, and the groundwork has been laid for attaining a net income of ¥100.0 billion in fiscal year 2006.

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Looking back at my six-year term as President, I believe that the improvements to the Company's financial structure exceeded our targets and we were able to make sufficient progress in dispelling concerns regarding ITOCHU's future financial performance. Unfortunately, profits did not expand as we planned, but we certainly established a stronger earnings base by reallocating our assets. I am quite confident that ITOCHU will make great forward strides in the future as a result of the fierce fighting spirit and energy of the new management team, which is endowed with youth, intelligence, and strength.

July 2004

Uichiro Niwa
Chairman of the Board

