

Overseas Operations

As the evolution of information technology engenders ever-accelerating data flows, and with international movements of capital being liberalized apace, the business environment for general trading companies operating in the global marketplace is dramatically changing. The traditional business of Japanese general trading companies—connecting Japan with overseas markets via the import and export of goods—has reached its practical limits. Accordingly, such companies are now required to carry out business activities as truly global enterprises by expanding business activities within local markets and regions. To that end, they must be able to obtain accurate information about local markets and then use it to make quick, informed business decisions.

Bearing this in mind, ITOCHU has prioritized the recruitment and training of superior local staff in its development of overseas operations. At the same time, the Company is making concerted efforts to obtain accurate information, gleaned through close ties to local markets, and then apply it to its business decision-making. We are also focusing on systematically strengthening our overseas operations, including the establishment of systems for managing various forms of risk, including specific country risk, and for ensuring compliance with local laws and regulations.

With its A&P strategy, moreover, ITOCHU is focusing management resources on overseas regions expected to become core profit generators. The Company has designated North America and Asia as A&P regions and been working to steadily increase profits generated in these two key geographical areas.



A DEAN & DELUCA store in New York

1. North America

ITOCHU's North American operations center on ITOCHU International Inc. (III). Although net income from A&P North American operations fell short of the Company's plan in fiscal year 2004, they did improve to a net income of ¥1.4 billion from a net loss of ¥800 million in fiscal year 2003.

The auto leasing business, hit by a downturn in the used vehicle market, slumped in fiscal year 2004, as did the fence business, which was hurt by both a downturn in the market and an intensification of competition from low-priced products manufactured in China and other countries. Conversely, the construction equipment business and the small-sized power generator business recovered, and earnings were firm overall in the Textiles; Machinery; Chemicals, Forest Products and General Merchandise; and Food Divisions. In particular, Prime Source Building Products, Inc. (a subsidiary selling nails and other building materials that is part of the Chemicals, Forest Products and General Merchandise Division) helped boost overall profits, as did Healthcare Business Credit Corp., a financial services provider for the healthcare industry. Among new businesses, in the consumer and retail related field ITOCHU invested in the *Pony* fashion athletic brand and started to build its footwear distribution and apparel business in Japan. ITOCHU also made an investment in high-end gourmet store operator *DEAN & DELUCA*. This investment will strengthen ITOCHU's ties with *DEAN & DELUCA*, which has already developed operations in Japan and plans to expand its opera-

tions in Asia and other regions. The Company also continued to strategically expand its sphere of operations in the operations and maintenance services business. The core of this business is Enprotech Corporation, which worked to strengthen its beverage bottling machine repair and maintenance services operations by acquiring BevCorp L.L.C. in November 2002, and RDM Technologies Inc. in November 2003. In power plant operations and maintenance services, North American Energy Services (NAES), the world's largest independent provider of such services, created a comprehensive energy services system by acquiring Connective Operating Service Company and Tyr Energy Inc. Connective Operating Service Company maintains power plants primarily on the East Coast of the U.S., and Tyr Energy Inc. provides electric power and gas wholesaler sales consulting services in collaboration with ILL.

ITOCHU is aiming to transform its traditional business model in the North American region, which has centered on trading operations. Going forward, the Company will carry out an aggressive growth strategy, centering on priority fields (including the brand and consumer related, distribution, and operations and maintenance services fields), and intends to substantially expand its profit base in the region.

2. Asia

Asian economies have generally returned to a growth track, with actual growth conditions varying from country to country. In fiscal year 2004, ITOCHU's business in China and Thailand was robust, resulting in a 29% year-on-year rise in net income in the A&P Asia region to ¥6.3 billion, exceeding the Company's initial plan.

Alongside investing activities, trading remains a major pillar of ITOCHU's business in Asia. The Company has expanded not only the import and export of goods between Japan and the rest of Asia but also intra- and extraregional trade and other business activities based in local markets. Examples of prominent businesses in the consumer and retail related field include the export of oils and fats from Singapore to Thailand and Taiwan, and the sale in Asia of chemicals produced in the Middle East. We expect steady growth in such businesses going forward.

In fiscal year 2004, ITOCHU successfully launched several new businesses in Asia. In Korea, we expanded into the pearl jewelry retailing business by establishing a sales company together with K.MIKIMOTO & CO., LTD. In Taiwan, the Company invested in a manufacturing facility to produce desserts and bento box lunches for FamilyMart. In Malaysia, we began retail sales of women's jeans made in Thailand. Moving forward, we intend to further develop local-market retail and distribution businesses, which entail direct contact with consumers. China is ITOCHU's most important market in Asia. We are aggressively expanding operations in China through businesses where we are able to leverage our alliances with powerful Chinese corporations. (Please see page 16 for our China strategy.)

In April 2004, ITOCHU newly assigned Chief Officers for Indochina Region (in Bangkok), Eastern ASEAN (in Singapore), and India (in New Delhi) to promote closer business contacts in these markets. The three newly assigned representatives join the Company's Chief Officers previously assigned for Korea, Taiwan, and Indonesia. (Please refer to page 11 for the trend of net income from A&P regions of North America and Asia.)



Facilities of RDM Technologies Inc.



A manufacturing company of desserts and lunch boxes for FamilyMart



A MIKIMOTO shop in Korea