Annual Report 2004
For the Year Ended March 31, 2004

Textile

Machinery

Aerospace, Electronics & Multimedia

Energy, Metals & Minerals

Chemicals, Forest Products & General Merchandise

Food

Finance, Realty, Insurance & Logistics Services

Shifting Gears
–Moving Toward A New Growth Stage

ITOCHU Corporation

Contents

The former “Plant, Automobile and Industrial Machinery Company” changed its name in English to “Machinery Company” on April 1, 2004.
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ITOCHU Corporation and Subsidiaries
Years ended March 31

	Millions of Yen (Unless otherwise specified)		Increase (Decrease) %	Millions of U.S. Dollars (Unless otherwise specified)
	2004	2003	2004/2003	2004
For the fiscal year:				
Total trading transactions	¥9,516,967	¥10,461,620	(9.0)%	$90,046
Gross trading profit	555,895	566,037	(1.8)	5,260
Gross trading profit ratio (%)	5.84	5.41		
Trading income*	79,216	100,719	(21.3)	750
Net income (loss)	(31,944)	20,078	—	(302)
Adjusted profit*	100,676	115,524	(12.9)	953
At fiscal year-end:				
Total assets	4,487,282	4,486,405	0.0	42,457
Stockholders' equity	422,866	426,220	(0.8)	4,001
Net interest-bearing debts*	1,977,048	2,025,048	(2.4)	18,706
Per share (Yen and U.S. Dollars):				
Net income (loss)	(20.2)	13.1	—	(0.2)
Stockholders' equity	267.3	269.5	(0.8)	2.5
Cash dividends	—	5.0	—	—
Ratios:				
ROA (%)	—	0.4		
Ratio of adjusted profit to total assets (%)	2.2	2.5		
ROE (%)	—	4.9		
Ratio of stockholders' equity to total assets (%)	9.4	9.5		
Net debt-to-equity ratio (net DER) (Times)	4.7	4.8		
Interest coverage* (Times)	2.7	2.7		

All figures are for fiscal years, which begin on April 1 of the years preceding and extend through March 31.
The Japanese yen amounts for the year ended March 31, 2004, have been translated into United States dollar amounts, solely for the convenience of the reader, at the rate of ¥105.69 = U.S.$1, the official rate of The Bank of Tokyo-Mitsubishi, Ltd., as of March 31, 2004.
Total trading transactions and trading income are represented in accordance with Japanese accounting practice.
Total trading transactions in the consolidated statements of income consist of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.
Net income (loss) per share and stockholders' equity per share are calculated by using the shares that exclude the number of treasury stock from that of common stock issued.

Trading income = Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts
Calculation formula (Fiscal 2004: ¥ billion): 79.2 = 555.9 + (466.1) + (10.6)
Adjusted profit=Gross trading profit + Selling, general and administrative expenses + Net financial expenses + Equity in earnings of associated companies
Calculation formula (Fiscal 2004: ¥ billion): 100.7 = 555.9 + (466.1) + (14.2) + 25.1
*Net interest-bearing debts = Interest-bearing debts – Cash, cash equivalents and time deposits
Calculation formula (Fiscal 2004: ¥ billion): 1,977.0 = 2,561.9 – 584.9

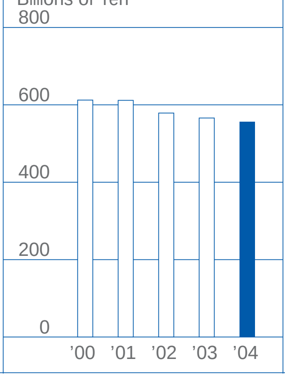
$$\text{*Interest coverage} = \frac{\text{Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts + Interest income + Dividends received}}{\text{Interest expenses}}$$

$$\text{Calculation formula (Fiscal 2004: ¥ billion): } 2.7 = \frac{555.9 + (466.1) + (10.6) + 12.8 + 10.5}{37.6}$$

*Selling, general and administrative expenses in fiscal 2004 include the amount of net loss on settlement of substitutional portion of the Employees' Pension Fund of ¥3.2 billion (U.S.$30 million).

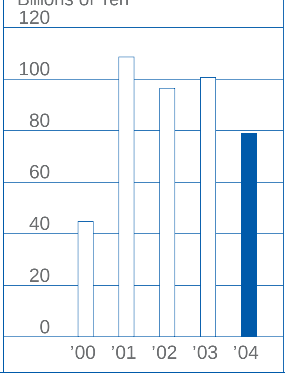
Gross Trading Profit

Billions of Yen



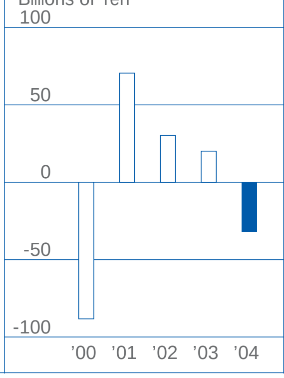
Trading Income

Billions of Yen



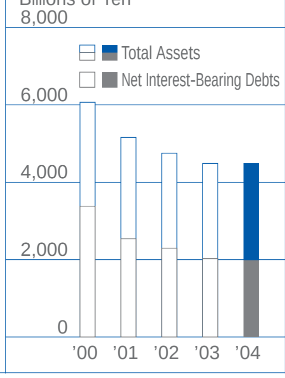
Net Income (Loss)

Billions of Yen



Total Assets and Net Interest-Bearing Debts

Billions of Yen



Profile

Founded in 1858 as an importer, exporter, and wholesaler of textiles, ITOCHU Corporation has expanded into multiple types of businesses, ranging from consumer and retail related, IT products and services, natural resource development, and financial services to investment and project management.

In the fiscal year ended March 2002, to increase the efficiency of our businesses and assets, we began implementing a series of mid-term management plans based on our A&P (Attractive & Powerful) strategy*, whose principal objective is the radical reform of our earnings structure and financial position. Under the two-year mid-term plan "Super A&P-2004" that we launched in fiscal year 2004, we are intensively allocating management resources to the "consumer and retail related" segment, where we enjoy overwhelming strength in textiles and foods, and to "Asia, particularly China." We are also reinforcing "new businesses including innovative technologies" as a core source of profit going forward.

In fiscal year 1998, we introduced the Division Company System. With each of our seven Division Companies responsible for business management in its business field and Headquarters making strategy and management decisions for the Company as a whole, we have created a highly efficient management system that balances autonomous management by Division Companies with ITOCHU Corporation's overall objectives.

Thanks to these initiatives, our goal to become a "Group comprised of the very top companies in each of their respective industries with consolidated net income of ¥100 billion" is coming into sight. Firmly targeting this "new growth stage," we will continue to reinforce our business base and boost profitability.

*A&P Strategy: Our strategy for enhancing profitability by intensively allocating management resources including both "human" and "material," to areas that are *attractive* to customers and where ITOCHU is *powerful*. (For details about A&P areas, please see page 14.)

On June 29, 2004, Eizo Kobayashi was appointed President and Chief Executive Officer. At the same time, outgoing President and Chief Executive Officer Uichiro Niwa was appointed Chairman of the Board.

ITOCHU's Diverse Functions

The types of business in which ITOCHU is engaged can be broadly divided into trading and investment. By effectively applying to these businesses our management resources such as (1) the enormous and richly diverse information that we have accumulated through the broad range of our business areas and (2) global networks with a global reach, we are developing and integrating our trading and investing activities into high-value-added business models.

In trading, we do more than conventional importing and exporting.....

- We are expanding our range of activities from materials procurement to processing, logistics, and retailing.
- We are not focused exclusively on movement in the downstream direction. By grasping consumer needs starting from the retail level and feeding this information back to the midstream and upstream business areas, we are building a supply chain management (SCM) system with optimal logistics, processing, and materials procurement. This accelerates business development in all areas of the stream.

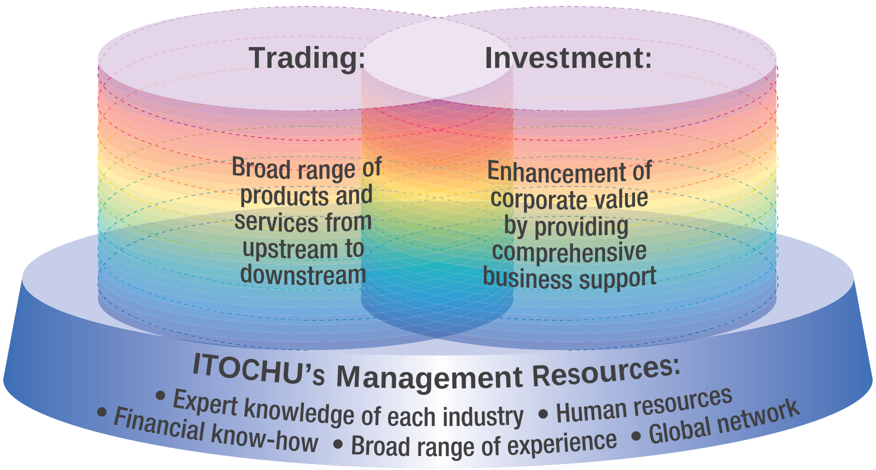
In investment, we are not limited to financing functions....

- Through proactive involvement in each company in which we invest, we seek the optimal business model for that company.
- In addition, by providing specific solutions in areas ranging from cooperation in production, logistics, product development, and marketing to dispatching managers, we enhance the total corporate value of companies in which we have a stake.

The synergy created by multiple functions

Investment yields not only profit contributions and dividends for ITOCHU; it also facilitates growth in earnings by expanding trade for the ITOCHU Group as a whole. At the same time, for the companies in which we invest we are not only a source of funds but also a means of reducing risks and a powerful business partner. The essence of ITOCHU's investment strategy is creating a win-win relationship for both sides of the equation.

ITOCHU's Synergistic Growth Strategy



Dear Stockholders and Customers

Consolidated Results for the Year Ended March 2004

Cleaning up our balance sheet – substantially increased profit

In fiscal year 2004, ended March 31, 2004, ITOCHU recorded a net loss of ¥31.9 billion. This was due primarily to the fact that at the end of fiscal year 2004, we adopted impairment accounting for fixed assets earlier than required by Japan GAAP in order to further improve our balance sheet structure. Although our consolidated financial statements already use impairment accounting according to U.S. GAAP, they now also reflect impairment losses additionally recognized under Japan GAAP. Consequently, a total of ¥123.3 billion in impairment losses was recognized. (See page 15 for details.) In addition, we recognized a sales and devaluation loss of real estate inventories of ¥23.9 billion aiming to accelerate the sales of real estate inventories for cash.

The early application of impairment accounting for fixed assets improved the overall health of our balance sheet. Excluding the effect of this application, net income for fiscal year 2004 would have been ¥46.1 billion, twice that of the previous fiscal year. Adjusted profit*, the ITOCHU Group's most closely watched profitability indicator, fell 12.9% to ¥100.7 billion after reaching a historical high of ¥115.5 billion in fiscal year 2003, having improved from a low of ¥29.4 billion in fiscal year 1998. However, this too was significantly impacted by losses due to the early application of impairment accounting under Japan GAAP. Excluding these losses, adjusted profit rose to ¥120.9 billion, a record high for the second year in a row.

*Adjusted profit = Gross trading profit + Selling, general and administrative expenses + Net financial expenses + Equity in earnings of associated companies

Ongoing benefits of selection and concentration of transactions and assets

We continued to promote the reallocation of assets emphasizing profitability and asset efficiency, and to withdraw from less profitable transactions.

Total trading transaction volume for the fiscal year under review continued the decline of the previous fiscal year, falling 9%. However, the gross trading profit ratio, including the previously mentioned losses due to the early application of impairment accounting under Japan GAAP, rose 0.4 percentage point year on year, illustrating the effects of focusing on profitable assets.

The ratio of assets from segments and regions of focus—A&P segments and other highly efficient areas—to total assets rose significantly from 50% as of March 31, 2003 to 69% as of March 31, 2004.

Improvements in gross trading profit were recorded in the A&P segments of Textile and Aerospace, Electronics & Multimedia, as well as in Chemicals, Forest Products & General Merchandise.

Turning to our balance sheet, net interest-bearing debts excluding cash, cash equivalents, and time deposits fell to ¥2.0 trillion as of March 31, 2004, the sixth consecutive year they have fallen after reaching a peak of ¥4.9 trillion as of March 31, 1998. Net DER (debt-to-equity ratio) improved to 4.7. It may appear as if the improvement in net DER has stalled, but this is due to the comprehensive implementation of measures taken to strengthen our balance sheet in fiscal year 2004, as discussed above.

A year when we strengthened our foundations – moving towards a new growth stage

Our goal has been to create a strong financial infrastructure while managing our businesses and asset portfolio from the point of view of profitability, through the selection and concentration of businesses based on our A&P strategy. As I mentioned earlier, we believe that our strategy is producing steady and tangible results, and thus, we spent a total of ¥147.2 billion removing potential causes for concern. By strengthening our balance sheet and improving transparency, we hope to further boost the confidence the capital markets have in our future growth potential. We believe that by increasing the reliability of profit growth starting in fiscal year 2005, we can remove the possibility of a slowdown at an early date. We can substantially improve the earnings base of ITOCHU as well as our ability to weather adverse economic conditions. While, regrettably, we have forgone dividend payments for fiscal year 2004, I see the year as a time when the ITOCHU Group strengthened its base to move toward a new growth stage.

I see fiscal year 2004 as a time when the ITOCHU Group strengthened its base to move toward a new growth stage.

Operating Environment and Management Outlook

Improvements in the operating environment

The direction of the global economy has become clearer. The growth of the Chinese economy, in particular, has been remarkable, and it has had a positive impact on its neighbors in Asia. In Japan, we have started to see a strong recovery led by capital investment. In the U.S., while concerns over the budget deficit remain, there are underlying strengths in consumption and housing investment. We believe that, unlike previous economic recovery cycles, the growth in these regions is rooted in domestic demand. Therefore, we believe it is unlikely that in the near term there will be a significant drop in the unparalleled boom in international commodities markets.

Aiming for real profit growth of 54% for the fiscal year ending March 2005

For the fiscal year ending March 31, 2005, we forecast a net income of ¥71.0 billion. Excluding the impact of the application of impairment accounting on fiscal 2004's results, this would represent an increase from the year ended March 2004 of about ¥25 billion. At first glance, it may appear that this forecast is overly ambitious, but we are fully confident that we can achieve this plan. In addition to the expected steady growth in profits from A&P segments, there will also be an improvement in profits from non-A&P segments, including construction and realty, and a significant cut in pension expenses as a result of reforms to the pension plan that we implemented the last year.

Achieving our targets means adding more value

Although we have already seen the emergence of our main profit growth drivers, reaching our net income plan of ¥71.0 billion will not be easy. We cannot be complacent just because we have cleared away our negative legacies during the fiscal year under review. If we rely solely on the improvement of the overall business environment, then it will be very difficult to reach our plan.

> I believe one of my responsibilities is to shift gears to aggressive, forward-looking management strategies.

The businesses where we have a competitive advantage are related to downstream consumption: textiles, food, information, and multimedia. These areas will probably benefit less from the current strong macroeconomic environment than our upstream areas such as natural resources. It is therefore essential that we develop businesses that add more value. To this end, we are further focusing on extending and accelerating the creation of brand value in textiles, a comprehensive strategy in food extending from upstream to downstream, and the construction of value chains for hardware/software and total solutions in information and multimedia. We also aim to leverage the Chinese market and further strengthen textiles, food, and other consumer and retail related businesses.

From a long-term perspective, we will actively develop the seeds of new businesses, especially in innovative technologies, including biotechnology and nanotechnology, to create new core profit drivers in the future.

Duties as New President

Continue to strengthen management practices

I assumed the position of President and Chief Executive Officer from Mr. Uichiro Niwa. During his six-year tenure, Mr. Niwa implemented reforms that made strengthening management practices of the ITOCHU Group a top priority. Looking at some specific numbers, we can see that over the six years to March 31, 2004, net interest-bearing debts fell from ¥4.9 trillion to below ¥2.0 trillion, and the net DER improved significantly from 11.8 to 4.7 times. However, it is clear that we must continue to strengthen our management foundations. By March 31, 2006, we aim to reduce the net DER to below 4 times, raise the ratio of A&P assets and those in highly-efficient segments to total assets, and further improve asset quality.

Use experience to further investment strategy

I believe in strengthening the 645 subsidiaries and associated companies that comprise our group. Doing this will enable us, as the parent company, to improve our financial position and strengthen our earnings power through stable growth in net income from group companies and an improvement in cash flow.

During my long career, which includes two overseas postings, I have built up significant business experience. I have been involved in developing subsidiaries and new businesses, including ITOCHU TECHNO-SCIENCE Corporation (CTC), where I focused on expanding profits, which led to the company's successful stock listing. For the past two years I was involved in corporate planning, where I balanced my expertise in aggressive growth strategies with conservative management. Making full use of this experience in my position as president, I will fully complete the mid-term management plan Super A&P-2004, leading to even greater steps forward.

Establishing "aggressive" strategies for the mid to long term

I believe one of my responsibilities is to continue to strengthen our management foundations as Mr. Niwa did, and to use that as the basis for shifting gears to aggressive, forward-looking management strategies. The ITOCHU Group has reduced total assets to ¥4.5 trillion as of the end of fiscal year 2004 through the reallocation of assets. Now we will shift gears to focus on growing earnings in order to achieve a consolidated net income of ¥100.0 billion.

I believe that it is also important to exploit the underlying strengths of ITOCHU. These include not only our core business competencies, but also the quality of our personnel and other differentiating factors forming the basis for growth in all our markets and regions. From this point of view, I am considering a new strategic plan.

Corporate Governance: Awareness is most important

ITOCHU has strengthened corporate governance by introducing an executive officer position, making the Board of Directors the appropriate size, tying directors' remuneration to financial performance, and establishing an Advisory Board. Through these and other reforms, we will continue to take steps to reinforce corporate accountability and oversight. I believe, however, that the awareness of every executive and employee company-wide is even more important than strengthening all these systems and organizations. I want to place even more importance on the opinions of our stockholders, investors, and other influential stakeholders to spread these opinions further within our management and to enhance this awareness.

President's Principles:
Challenge
Create
Commit

Statement to stockholders and customers from the new president

By implementing thus far our A&P strategy, we have steadily strengthened our foundations, but I am very aware that we cannot say we have reached a satisfactory level. I will lead the Company with the three principles of *challenge* with passion, *create* with a frontier spirit, and *commit* with sincerity. With the ongoing support of our stockholders and customers, I will seek to further increase our corporate value. As I mentioned before, we will maintain a high level of vigilance and make every effort to achieve our forecasts for the ongoing fiscal year. Because of the net loss in the fiscal year under review stemming from the early application of impairment accounting, we have forgone a dividend payments for fiscal 2004. However, with the implementation of the measures and policies that I have discussed herein, in the fiscal year ending March 31, 2005, I will strive to reward our stockholders for their support with the highest fiscal year-end dividend payment in our history. Thank you very much for the trust and understanding that you have placed in us.

July 2004

Eizo Kobayashi
President and Chief Executive Officer

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.

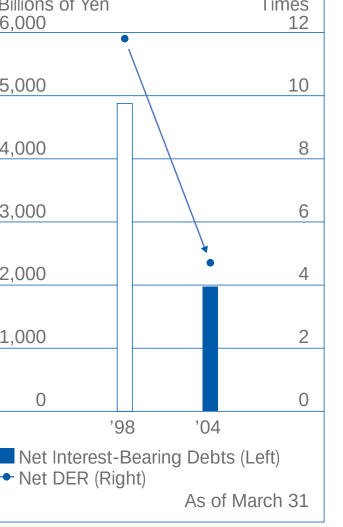
When I became President in April 1998, the Company was positioned as Japan's top trading company in terms of earnings power (i.e., gross trading profit). However, the Company had a "weak constitution"—it carried a large amount of interest-bearing debt and bad assets—and it was necessary to use much of 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

Net Interest-Bearing Debts and Net DER



As of March 31

*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.

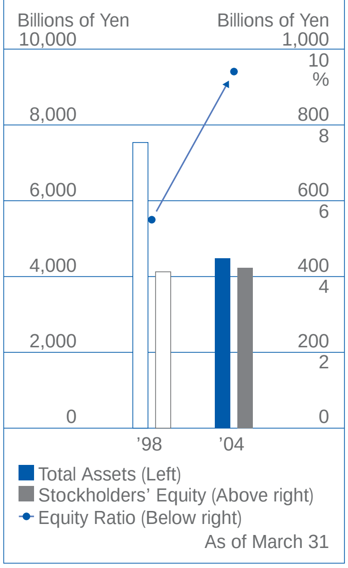
Looking Back at Six Years as President

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.

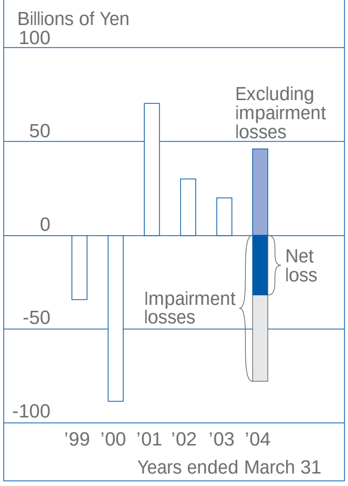
July 2004

Uichiro Niwa
Chairman of the Board

Total Assets, Stockholders' Equity, and Equity Ratio



Net Income (Loss)



Achieving Our Super A&P-2004 Mid-term Plan

ITOCHU is expanding profits by implementing its Super A&P strategy through the Super A&P-2004 two-year mid-term management plan that started in April 2003.

Our Super A&P strategy aims to improve asset efficiency by making our A&P (Attractive and Powerful) strategy more dynamic through the following three specific sub-strategies:

1) "Profit doubling" Strategy: Sharply increase absolute profit levels in highly-efficient business units (at least 2% of ROA and at least 8% of RRI*), concentrating on A&P segments, through optimal use of funds for strategic investment

2) "2% & 8%" Strategy: Improve efficiency in semi-efficient units (at least 2% of ROA or at least 8% of RRI) and in low-efficient units with growth potential

3) "Reduction or exit" Strategy: Reduce exposure to or exit low-efficient units (less than 2% of ROA and less than 8% of RRI) with little growth potential

*RRI (Risk Return Index) = Net income/Risk assets
Risk assets = Maximum potential loss from possession of assets
= ∑ (Asset book value x Risk weight for each asset)

We are also placing strategic emphasis on allocating more management resources to the Consumer and Retail Related segment, an area where we have overwhelming strengths; on expanding our presence in Asia, especially China; and on creating new businesses including innovative technologies, which will become a core source of earnings going forward.

Review of Initial Year of Super A&P-2004

Despite the ¥45.0 billion net income target for fiscal year 2004, the initial year of the current mid-term plan, the fiscal year ended with a ¥31.9 billion net loss. At the end of fiscal year 2004, we adopted impairment accounting for fixed assets earlier than required by Japan GAAP in order to further improve our balance sheet structure. Although our consolidated financial statements already use impairment accounting according to U.S. GAAP, they now also reflect impairment losses additionally recognized under Japan GAAP. Consequently, a total of ¥123.3 billion in impairment losses was recognized. (See page 15 for details.) In addition, we recognized a sales and devaluation loss of real estate inventories of ¥23.9 billion aiming to accelerate the sales of real estate inventories for cash. Excluding these impacts, net income would have been ¥46.1 billion, above our target.

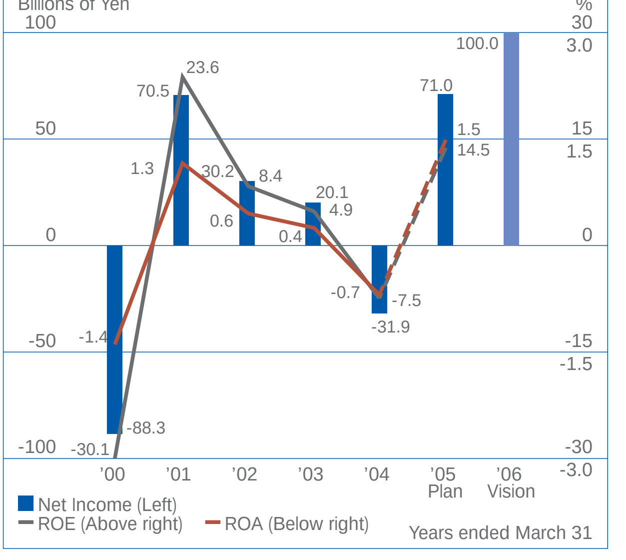
There are three reasons why we chose to recognize these losses even though the target was achievable. First, we are becoming more confident of building a strong profit structure as a result of our implementation of the A&P strategy. Second, in order to keep developing the profit structure more stably and continuously, we believe that we should enhance the soundness of our financial position by eliminating negative incentives as quickly as possible. Finally, in our judgment the recovery in the business environment creates ample room for a recovery in earnings and consequently a quick recovery in stockholders' equity in fiscal 2005 onward.

1) Optimization of Our Asset Portfolio and Profit Growth in A&P Segments

We increased the ratio of A&P segments and highly efficient segments to total assets to 69%, far exceeding our plan of 64%. This is attributable to an approximately ¥270.0 billion increase in assets in highly-efficient segments compared with the initial target.

Net income, on the other hand, stood at ¥52.8 billion, falling short of our plan of ¥58.0 billion target. Although the Asia and Natural Resource Development segments exceeded the planned figures, the Food segment was sluggish owing to the effects of the unseasonably cold summer, bovine spongiform encephalopathy (BSE), and avian influenza as well as lower market prices. The shortfall in net income is also attributable to a weaker-than-expected business performance of the Information and Multimedia segment due to devaluation losses for securities and impairment losses for aircraft-related subsidiaries.

Net Income (Loss), ROA, and ROE



Optimization of Our Asset Portfolio and Profit Growth in A&P Segments

	Results	First year plan	First year results*	Second year initial plan	Second year revised plan
	Billions of Yen				
	2003	2004		2005	
Net Income from A&P Segments (Years ended March 31)					
Consumer and Retail Related	22.3	30.0	25.0	38.0	35.0
Other A&P segments					
Information and Multimedia	14.3	8.0	5.1	14.0	11.0
Natural Resource Development	9.2	10.0	13.0	13.0	12.5
Financial Services	4.0	5.0	5.9	10.0	5.0
North America	-0.8	6.0	1.4	13.0	3.5
Asia	4.9	6.0	6.3	12.0	8.0
Elimination	-3.2	-7.0	-3.9	-12.0	-7.0
Total A&P	50.7	58.0	52.8	88.0	68.0
Assets of A&P Segments (As of March 31)					
Consumer and Retail Related	1,025.2	1,160.0	1,094.3	1,240.0	1,150.0
Other A&P segments	1,225.7	1,300.0	1,319.1	1,540.0	1,530.0
Total A&P	2,250.9	2,460.0	2,413.4	2,780.0	2,680.0
Other highly-efficient segments	—	410.0	682.7	460.0	1,000.0
Total A&P and other highly-efficient segments	2,250.9	2,870.0	3,096.1	3,240.0	3,680.0
Total Assets	4,486.4	4,450.0	4,487.3	4,400.0	4,600.0
Total A&P to total assets	50%	55%	54%	63%	58%
Total A&P and other Highly-efficient segments to total assets	—	64%	69%	74%	80%

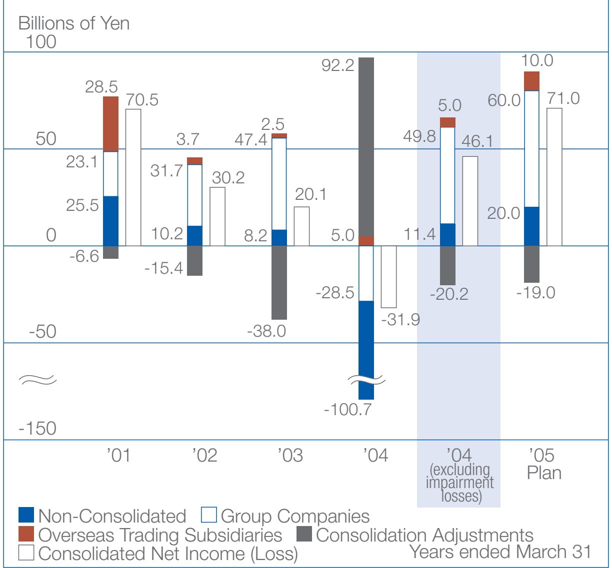
*Results of net income from A&P segments for the fiscal year ended March 2004 exclude one-time losses.

2) Consolidated Net Income Structure and Profit Contribution from Group Companies

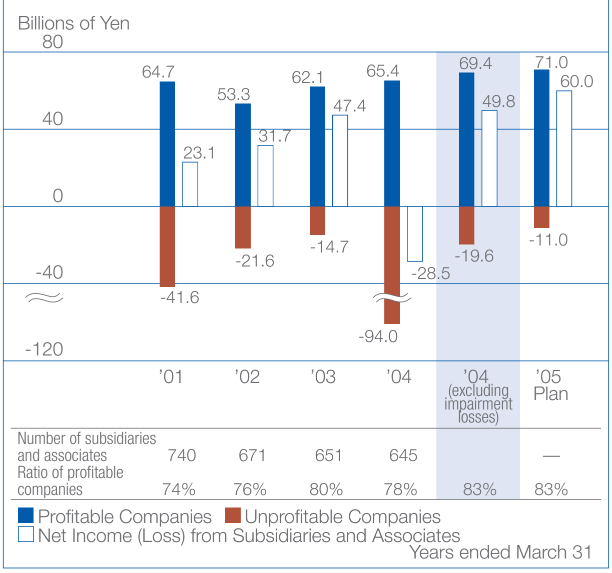
As for group companies, we have put the first priority on raising the profit level of the profitable companies so as to expand the overall profit contribution from group companies, a major source of consolidated net income. Specifically, we developed and strengthened core companies contributing more than ¥1.0 billion to profit and semi-core companies contributing ¥0.3 to ¥1.0 billion. As a result, the profit contribution from profitable companies increased ¥7.5 billion (¥3.5 billion) compared with the initial plan, to ¥69.4 billion (¥65.4 billion), excluding the effects of impairment accounting for fixed assets. Because the negative contribution from red-ink group companies increased ¥7.6 billion (¥82.0 billion) compared with our plan, to a loss of ¥19.6 billion (¥94.0 billion), due to large one-time losses, however, the contribution from group companies as a whole came in at ¥49.8 billion (–¥28.5 billion), compared with the initial plan of ¥50.0 billion.

Among our overseas trading subsidiaries, ITOCHU International Inc. in the U.S. and ITOCHU Europe PLC. were lackluster. Net income from trading subsidiaries in China and Hong Kong, however, totaled ¥2.0 billion, up a strong 42% compared with the previous fiscal year. As a result, total net income from overseas trading subsidiaries was ¥5.0 billion (¥5.0 billion), compared with our plan of ¥8.0 billion. (Note: Figures in parentheses include impairment losses.)

Structure of Net Income (Loss)



Net Income (Loss) from Group Companies



Numerical Plan for Super A&P-2004 (Consolidated basis)

	Results	First year plan	First year results	Second year initial plan	Second year revised plan	Vision*
			Billions of Yen			
	2003	2004		2005		2006
P/L (For fiscal years):						
Net income	20.1	45.0	-31.9 (46.1)*	75.0	71.0	100.0
B/S (As of March 31):						
Total assets	4,486.4	4,450.0	4,487.3	4,400.0	4,600.0	4,650.0
Net interest-bearing debts	2,025.0	2,000.0	1,977.0	1,950.0	2,100.0	2,150.0
Stockholders' equity	426.2	470.0	422.9	540.0	490.0	580.0
Ratio (For fiscal years):						
ROA*	0.4%	1.0%	—	1.7%	1.5%	—
ROE*	4.9%	9.6%	—	13.9%	14.5%	—
Net DER	4.8 times	4.3 times	4.7 times	3.6 times	4.3 times	—
Equity ratio	9.5%	10.6%	9.4%	12.3%	10.7%	—

*ROA and ROE in the future are calculated with figures at the year-end.
*(46.1) refers to the net income excluding impairment losses.
*Vision for fiscal 2006 is set only in P/L and B/S figures.

3) Improving Our Financial Position

While we reduced total assets to ¥4,487.3 billion, just short of the plan of ¥4,450.0 billion because of increased investments in A&P segments, the reduction of net interest-bearing debts was on target. Stockholders' equity, however, was ¥422.9 billion, which basically was the same level as the result at the previous fiscal year-end and short of the plan of ¥470.0 billion due to the net loss for the period. As a result, neither net DER nor the equity ratio reached their planned figures, although net DER improved 0.1 point to 4.7 times year on year owing to the reduction in interest-bearing debts.

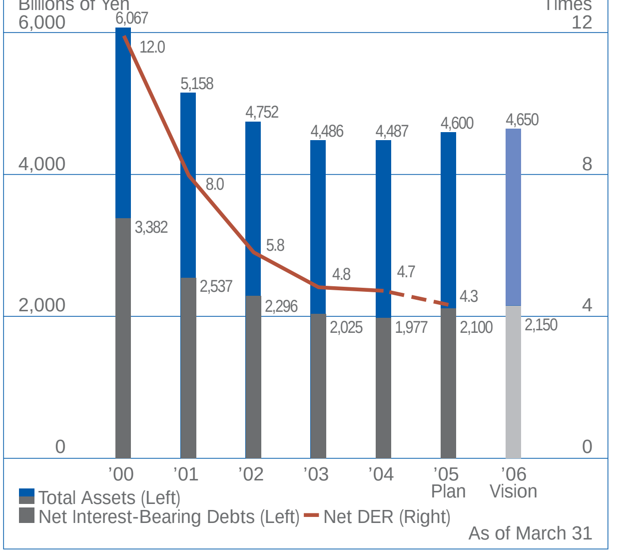
Numerical Plan for the Final Year of Super A&P-2004

Based on changes in the business environment and other factors, we have revised the numerical plan for fiscal year 2005, the final year of Super A&P-2004.

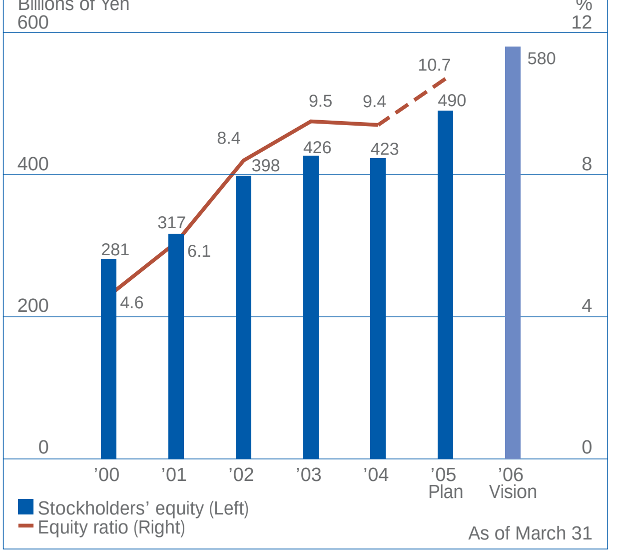
While we have revised slightly downward the consolidated net income plan for fiscal year 2005 to ¥71.0 billion, we continue to aim for historically high profits. Compared with fiscal year 2004 results and excluding one-time losses, we expect profit to increase in the Consumer and Retail Related, Information and Multimedia, and Asia segments. A&P segments overall are expected to register a ¥15.0 billion increase in profit. For fiscal year 2006, we continue to aim for net income of ¥100.0 billion.

We now expect the stockholders' equity to be ¥490.0 billion at the end of fiscal year 2005. In addition, we plan to increase the ratio of A&P segments and other highly-efficient segments to total assets to 80% through further improvement of asset efficiency by continuing our policy of exiting low-efficient assets and accumulating highly efficient assets. On the other hand, there is a possibility that exits of unprofitable businesses may require more time than accu-

Total Assets, Net Interest-Bearing Debts, and Net DER



Stockholders' Equity and Equity Ratio



mulating highly-efficient assets, and thus we expect that total assets and interest-bearing debts will be slightly increased.

Measures for Achieving the Final Year Plan

In fiscal year 2005, we will continue to improve asset efficiency by promoting our Super A&P strategy and achieve profit targets by strengthening our focus areas through strategic investments.

1) Doubling Profit by Promoting the Super A&P Strategy

Having allocated funds for strategic investment for fiscal year 2005 (total assets: ¥100.0 billion; investments: ¥50.0 billion), we are targeting a large increase in profit through aggressive investments in A&P segments, including the Consumer and Retail Related segment and Asia, centered on China. We are also promoting the creation of new businesses including innovative technologies as a core source of profit going forward.

In the Consumer and Retail Related segment, in particular, we are targeting profit growth based on the basic strategy of an SIS (Strategic Integrated System) that spans all areas, from raw materials to retail. We will focus especially on businesses in China and other parts of Asia in upstream fields, on food distribution in midstream fields, and on high-value-added domestic brand businesses and retail in downstream fields. In addition, we will further strengthen the Consumer and Retail Related Committee, created in the previous year. In the current fiscal year, the committee will work beyond the framework of textiles and foods under the direction of the Function & Value (FV) Committee, which is chaired by the Chief Operating Officer, Division Companies Operation. In so doing, we will be able to enjoy synergies in these segments horizontally across the entire Company. (Please refer to page 38 for details.)

2) Asset Reallocation and Upgrade

To help achieve our A&P strategy, we set up portfolio improvement committees at all of our Division Companies for building up highly-efficient assets and for ensuring that low-efficient business units either improve their efficiency or are reduced or exited. In addition to promoting asset reduction in low-efficient and loss-making business units over a three-year period, the Super A&P Strategic Committee, chaired by the President, will closely monitor progress in asset reallocation.

3) Further Expanding Group Company Profit

In order to maximize profits at profitable group companies, we will strengthen the businesses of core and semi-core companies, acquire new businesses through M&A, and enhance synergies across the ITOCHU Group. At the same time, in addition to reducing and exiting loss-making businesses we will closely follow the management of each group company as we control the number of group companies and steadily develop and manage their businesses. (Please refer to page 18 for details.)

4) Improvement in Overseas Profit

In the A&P regions of Asia, centered on China, and North America we are engaged in (1) strategic investments and profit improvement of existing businesses, (2) expansion of local, regional, and third-country transactions, (3) fostering of local staff, and (4) strengthening of risk management and compliance. (Please refer to page 36 for details.)

5) Management System Enhancements

In addition to ongoing efforts to enhance corporate governance, we are targeting a rewarding co-prosperity with a variety of stakeholders from the viewpoint of corporate social responsibility (CSR). (Please refer to pages 40-47 for details.) We are also establishing independent Division Company management and building a functional system to support it in order to complete our Division Company System structure.

In order to maintain a stable high-profit structure, risk management must also be enhanced. For this reason, we are enforcing the strict observance of investment benchmarks as well as strengthening and improving country risk management in China, other parts of Asia, and elsewhere. (Please refer to page 39 for details.)

6) Personnel Strategy

In order to implement personnel strategies that fit the business strategies of each Division Company, we are reinforcing each individual employee’s strengths by building original training programs for the Division Companies. We are also training personnel for group company management, which is essential for strengthening group companies and promoting the utilization of various human resources. (Please refer to page 39 for details.)

A&P (Attractive & Powerful) Segments

Definition of A&P Segments

A&P segments are those in which ITOCHU is *powerful* and provides services and products that are *attractive* to customers. Put differently, they are segments that promise a high degree of profitability and growth over the medium to long term.

Selection of A&P Segments

At the start of our A&P strategy, we selected four segments and one region as A&P: Information and Multimedia, Consumer and Retail Related, Natural Resource Development, Financial Services, and North America. In fiscal year 2003, we added metals and mineral resources development (included in Natural Resource Development) and Asia. At the start of the Super A&P strategy in fiscal year 2004, we redefined as Super Powerful the Consumer and Retail Related segment, centered on textiles and foods.

As a result of our A&P segment and region review for fiscal year 2005, we have newly added Chemicals, Forest Products & General Merchandise, as well as Automobiles as A&P segments based on their results of the past two years and plans for fiscal year 2005 onward.

A&P Segments	Areas of Focus	Major Business Units
Consumer and Retail Related	• Acquire new commercial rights and expand profitability in consumer businesses • In textiles, expand brand businesses to all consumer-related fields, including non-clothing products • In foods, promote SIS strategy in the Chinese market while strengthening SIS strategy in Japan to link all phases, from raw materials procurement to retail	Textile Company, Food Company
Information and Multimedia	• Expand profitability in total solutions business, mobile content, and aerospace fields using powerful group companies, including ITOCHU TECHNO-SCIENCE Corporation and CRC Solutions Corp.	Aerospace, Electronics & Multimedia Company
Natural Resource Development	• Develop energy resources such as crude oil and LNG, and strengthen development of metals and mineral resources such as iron ore and coal	Metals, Mineral Resources & Coal Division, Energy Development Division
Financial Services	• Foreign exchange dealings based on actual demand and asset management businesses such as the creation and sale of alternative products • Private equity and retail finance businesses such as credit cards, consumer finance, and Web-based securities services	Financial Services Division
Automobiles (from fiscal year 2005)	• Expand finished cars and auto parts trading • Strengthen retail-related business in Japan • Expand dealer networks in Europe and North America	Automobile Division
Chemicals, Forest Products & General Merchandise (from fiscal year 2005)	• Globally expand the sale of housing materials, paper pulp, rubber, and tires • Expand chemical product business, including organic chemical products, synthetic resins, inorganic chemical products, electronic materials, and pharmaceuticals • Expand retail business of miscellaneous general merchandise	Chemicals, Forest Products & General Merchandise Company
North America	• Strengthen local businesses in niche and dominant fields, and sales of electric power generation, fence, and construction materials	ITOCHU International Inc.
Asia (including China)	• Expand local and third-country transactions, especially in Chemicals, General Merchandise, and Consumer and Retail Related, and win orders for large projects	Overseas trading subsidiaries and group companies in Asia

Early Application of Impairment Accounting for Fixed Assets under Japan GAAP and the Treatment for Our Consolidated Financial Statements

The Company decided to apply, and has since implemented, impairment accounting for fixed assets in the fiscal year ended March 2004 ahead of the start of its compulsory application under Japan GAAP in the fiscal year ending March 2006. The Company's consolidated financial statements already incorporate impairment accounting for fixed assets in accordance with US GAAP. However, with the implementation of impairment accounting under Japan GAAP, and in consideration of the slow recovery of the Japanese real estate market, the Company has decided to reflect impairment losses recognized under Japan GAAP for its consolidated financial statements as well. It has made the same judgment on the US GAAP-based consolidated financial statements on whether it recognizes impairment or not to the same properties as under Japan GAAP for items requiring impairment based on the results of Japan GAAP impairment tests, out of respect for the principles of Japan GAAP.

Summary of Impairment Losses

(Consolidated basis)	Billions of Yen
• Buildings for rent	59.5
• Assets for common use like company-owned housing (Mita residence, Computer Center, etc.)	27.1
• Business property (subsidiary-owned business property, golf course, etc.)	36.6
Total	123.3

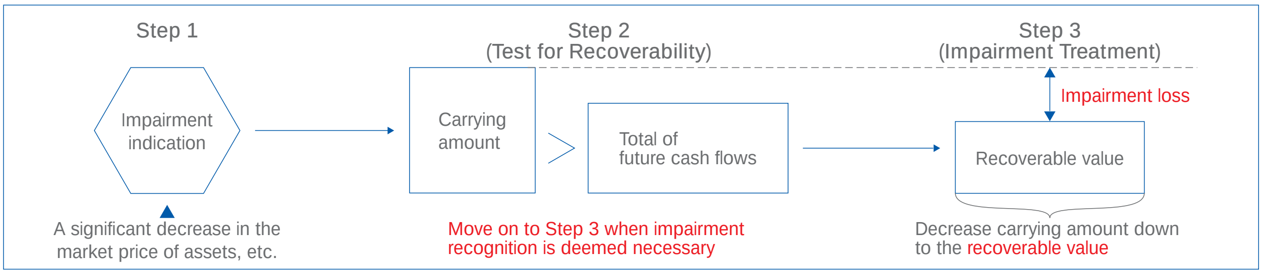
The Company decided to apply impairment accounting before it becomes compulsory for the following reasons. As a result of its A&P Strategy, which has been promoted since the fiscal year ended March 2000, the Company has sufficiently improved its profitability and is confident about its present and future earnings power. For these reasons, the Company has judged that it should take measures to accelerate improvements to its asset quality while seeking to continuously and stably increase income and avoid the possibility that future income expansion could be interrupted, even if only briefly, by the implementation of impairment accounting under Japan GAAP.

Differences in US GAAP and Japan GAAP with respect to impairment treatment for fixed assets

There is no difference between US GAAP and Japan GAAP on the point that impairment should be applied in cases when it is recognized that total future cash flows to be generated by a given Company-owned fixed asset over its remaining useful life is less than its carrying amount (Steps 1-3 in the diagram below). However, there is a difference between US GAAP and Japan GAAP in how future cash flows from fixed assets with a remaining useful life of 20 years or more are calculated (Step 2 in the diagram below).

Under Japan GAAP, for fixed assets with a remaining useful life of 20 years or more, the carrying amount is compared with future cash flows for the 20 years, to which is added the greater of either the estimated market value after 20 years or the terminal value (the present value of future cash flows to be generated from continuous use and disposal after use, that is, future cash flows discounted by the discount rate). Under US GAAP, for fixed assets with a remaining useful life of 20 years or more, future cash flows are calculated over the asset's entire remaining useful life and are subject to neither a 20-year cutoff nor discount. To this amount is added the disposal value at the time, with the total then compared with the carrying amount.

This means there is a difference between US GAAP and Japan GAAP in the judgment as to which assets should be impaired. As a result, there are cases in which properties for which impairment is not deemed necessary under US GAAP, based on impairment tests, are judged as requiring impairment under Japan GAAP. In fact, many properties owned by the Company have relatively long (20 years or more) useful lives (many of them have remaining useful lives of 30 to 50 years), making the impact of the discrepancy in impairment test methods between Japan GAAP and US GAAP substantial. However, the Company decided that accounting treatment in which a given property would be impaired under Japan GAAP but not under US GAAP would distort management judgment, so the Company will apply a single judgment to each individual property. There is no substantial difference in the calculation for the impairment amount when an asset is deemed to require impairment under Japan GAAP or US GAAP (Step 3 in the table below).



Special Feature

ITOCHU's China Strategy

ITOCHU has positioned Asia as an A&P region. Focusing on China and aware of its role as "the world's factory" and "the world's market," we are developing it as our most important market by expanding trade and aggressively investing in our businesses there through alliances with leading local groups.

In April 2003, we set up a China Market Global Development Office to aggressively expand trade between China and the rest of the world. A year later, in April 2004, for a more efficient and powerful organization we moved the office of our General Manager for China from Beijing to Shanghai, which is the optimal base for our Chinese business.

Simultaneously by tightening risk management, ITOCHU is reinforcing its profit structure and maintaining a policy of continuing to aggressively expand business in China.

<Key Areas and Developments>

Textile Company: For marketing inside China, in the materials business we set up an acrylic fiber manufacturing company with Mitsubishi Rayon Co., Ltd. In the apparel and fashion brand business, we are developing men's suits and sports apparel brands. We also established a sales company in the U.S. with the Shandong Weiqiao Textile Group as a strategic step for the global marketing of textile products originating in China.

Machinery Company: We enjoyed a favorable performance in export sales of power generation equipment and automobiles. In addition, in the retail area we entered the car accessories business field jointly with Yellow Hat Ltd.

Aerospace, Electronics & Multimedia Company: By acquiring a stake in a Shanghai-based system integrator, we began providing IT solutions mainly to Japanese corporations that are expanding their businesses in China. We also embarked on a content distribution business for the rapidly expanding mobile phone market.

Energy, Metals & Minerals Company: We reached a general agreement with CNPC, a major player in the Chinese petroleum market, and are also focusing on expanding investment and trade in coal and iron ore related fields.

Chemicals, Forest Products & General Merchandise Company: We decided to enter the manufacture and sale of polyester fiber materials with Mitsubishi Chemical Corporation. In addition, we advanced into the pharmaceutical field through a business alliance with the Sanjiu Enterprise Group, China's largest pharmaceutical group.

Food Company: Strengthening our ties with the Ting Hsin International Group, China's largest food business group in the upstream area, we set up a joint venture with Asahi Breweries, Ltd. in the tea beverage manufacturing business, where Ting Hsin has the top share. Downstream, we are promoting the development of FamilyMart stores in Shanghai and our restaurant chain business.

Finance, Realty, Insurance & Logistics Services Company: We formed a joint venture with China Railway Modern Logistics Technology Co., Ltd., whose network extends throughout China. In addition, we are reinforcing our logistics functions inside China by, for example, acquiring a stake in the Ting Hsin International Group's distribution company.

(For details, please refer to the section for each Division Company, pages 22-35.)

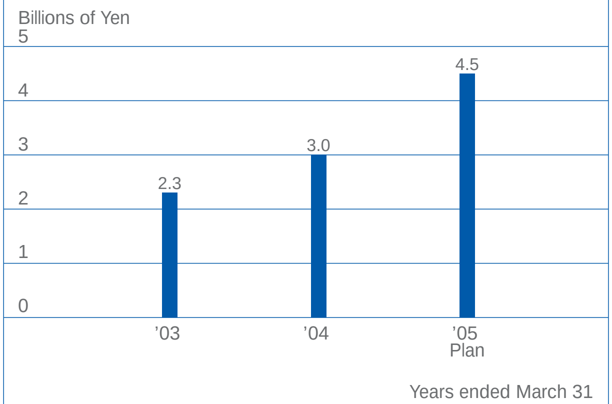
ITOCHU continues to expand business by deepening ties with provinces and cities. These efforts have included reinforcing relations with the city of Beijing and Jiangsu and a forming comprehensive alliance with the Shandong provincial government.

In response to the Chinese government's recent Northeast Revitalization policy, in April 2004, we opened an office in the city of Shenyang as a base of operations for development in the northeastern region and plan to open offices in the cities of Harbin and Changchun later this year.

<Numerical Targets>

As a result of our management emphasis on capital efficiency, consolidated net income from China, including Hong Kong (subsidiaries, associated companies, and overseas trading subsidiaries), in the fiscal year ended March 2004 was ¥3.0 billion which is an about ¥1 billion increase from the previous fiscal year. For the fiscal year ending March 2007, we aim to raise net income to ¥10.0 billion or more.

Net Income of China Segment



Creating New Businesses with Innovative Technologies

ITOCHU's strength in the innovative technology field lies in its wide range of access to technology seeds and venture companies through its global strategic alliances. By taking full advantage of its diverse business capabilities and matching market needs to technology seeds through its multiple functions, ITOCHU pursues wide application of innovative technologies to the real economy.

<Reinforcing Our Global Strategic Alliance Network>

During fiscal year 2004 we reinforced our network of global strategic alliances. (See our *Annual Report 2003*, page 15, for strategic alliances formed prior to fiscal year 2004.) In October 2003, we formed a comprehensive alliance with Japan's largest public research organization, the National Institute of Advanced Industrial Science and Technology (AIST), for the purpose of assisting Japanese small and medium-sized enterprises (SMEs) in the innovative technology field. We will utilize our diverse capabilities, such as ample knowledge of markets as well as marketing skills and financing, together with AIST's research resources, and collaborate with SMEs to create new intellectual property (IP) and strengthen their international competitiveness. Additionally, in February 2004 we formed a comprehensive alliance with another large Japanese national research organization, the Institute of Physical and Chemical Research (RIKEN). RIKEN now increasingly pursues technology transfer to industry and the establishment of spin-off ventures. Together with RIKEN, we will jointly promote the development of IP, technology transfer, and investment in ventures in the field of innovative technology.

<Business Development>

In the medical biotechnology field, by making use of our relationship with our U.S. strategic partner, MPM Capital, investment was made in a U.S. biopharmaceutical venture, Metabasis Therapeutics, Inc. Negotiations to develop jointly business with a Japanese pharmaceutical company are under way. In the food and agri-biotechnology field, investment was made in a microbiological venture, Japan Applied Microbiology Research Institute Ltd. (Oubiken), and development of joint business is in progress. In the field of food safety, joint development of a non-destructive detection technology in conjunction with the U.S. Los Alamos National Laboratory has started. Meanwhile, in the nanotechnology field we have co-invested with the Gambare Japanese Company Fund, an SME-assisting fund established with ITOCHU playing a central part, in Cluster Technology Co., Ltd., a Japanese venture that develops nano-scale molds and inkjet heads, and we are jointly developing businesses in fields such as electronics.

<Outlook for Fiscal Year 2005>

In fiscal year 2005, ITOCHU will continue to position the innovative technology field, including biotechnology and nanotechnology, as one of its priority business areas, take advantage of its diverse capabilities and its relationships with numerous companies in a wide range of industries, and develop more businesses among ITOCHU, its customers, and its strategic partners. Using our global strategic alliances, we will pursue our strategy of (1) carrying out venture and SME investments and creating joint businesses with them, (2) investing in IP ownership and commercializing the technology, and (3) facilitating technology transfer and developing trade.

Performances in the Innovative Technology Field (Fiscal Year 2004)

Newly formed strategic alliances	• National Institute of Advanced Industrial Science and Technology (AIST), Japan • Institute of Physical and Chemical Research (RIKEN), Japan • Shinshu TLO, Japan • Wageningen University and Research Centre, The Netherlands • Tsinghua University, China • Beijing Technology Exchange Promotion Center, China
New venture and fund investments (Biotechnology ventures)	• Metabasis Therapeutics, Inc., U.S.A. • Japan Applied Microbiology Research Institute Ltd. (Oubiken), Japan • IBERICA CO., LTD, Japan • Carna Biosciences Inc., Japan
(Nanotechnology ventures)	• Cluster Technology Co., Ltd., Japan • Eikos Inc., U.S.A.
(IP-related investment)	• Intellectual Property Bank Corporation, Japan
(Venture capital fund investments)	• Bio Sight Incubation Fund I, Japan • Fast Track Initiative Fund I, Japan

Group Company Management and Strategies

In the fiscal year ended March 1999, the 1,027 subsidiaries and associated companies in the ITOCHU Group together reported a net loss* of ¥15.8 billion. Within the Group, 635 companies were profitable, contributing ¥40.8 billion in net income, while 392 were unprofitable, recording ¥56.6 billion in net losses. Only 61.8% of group companies were profitable, and their profits were offset by unprofitable companies. That was the Group's earnings structure five years ago.

<"Exit" Benchmarks>

In order to improve the earnings structure and increase net income, we initially undertook a major streamlining and restructuring of unprofitable and inefficient companies. Those companies posting losses for three or more consecutive years were, in principle, targeted for withdrawal. Other companies were subject to "exit" benchmarks, such as profits, return on assets (ROA), and risk-return index (RRI), as well as trends of such indicators. We review those companies against their benchmarks every year and identify candidates for "exit."

Next, we analyze the growth, future and potential for profit recovery of the exit candidates. For those with weak prospects, we prepare a primary exit plan containing recommendations for liquidation, merger, sale, or other actions. This plan is then subject to meticulous re-examination at both the Division Company and the headquarters levels, whereupon a final decision—exit or drastic restructuring—is made.

<New Investments in Subsidiaries and Associated Companies and Post-Investment Control>

Decisions on whether or not to invest in new businesses are determined by our New Investment Benchmarks in Subsidiaries and Associated Companies, which are based on indicators such as RRI and ROA. Of course, those who make the final investment decisions will depend on the size of the investment. In some cases, businesses that initially meet the investment benchmarks may later fail to satisfy those standards when macroeconomic conditions change. To address this possibility, each group company sets its own independent benchmarks, such as expense ratio targets, and works to improve operating efficiency accordingly. Their progress is monitored at the headquarters level by the Group Profits Improvement Committee, so that results vis-à-vis projections are constantly checked. Regular assessments are also made based on the aforementioned exit benchmarks.

<Fostering Managerial Talent>

The ITOCHU Group strives to secure and reinforce managerial resources. In 1999, for example, we opened our ITOCHU Business School, in which outside speakers hold seminars on management, marketing, financial, and personnel strategies, as well as conduct case study analyses of group companies. Over the 10 semesters since the school was opened, around 80 people have graduated and the majority currently serve as managers in group companies.

<Demonstrating Group Strengths>

In 2001, the Group Management Committee (GMC) was established to help reinforce group management and ensure consistency in policies and values among group companies. The committee consists of presidents of the parent company and 23 major group companies and meets quarterly to discuss and share group policies and values and exchange opinions about mutual problems, as well as to debate strategic areas common to group members.

<Results of the Fiscal Year Ended March 2004>

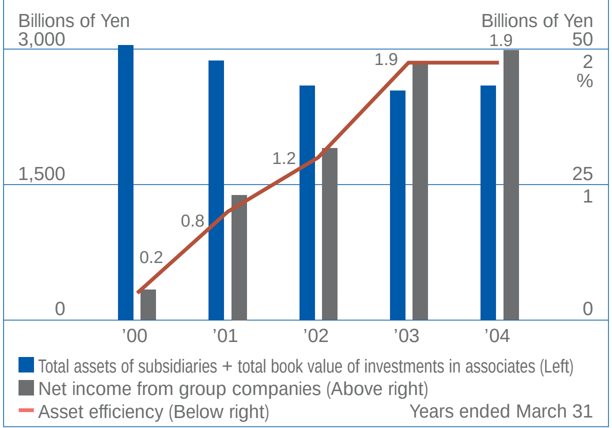
Thanks to the aforementioned actions, we have reduced the number of group companies to 645 as of March 31, 2004—a decrease of around 40% from March 31, 1999. If we exclude the effects of impairment losses for fixed assets under Japanese GAAP, which we adopted earlier than mandated, the number of profitable companies represented 82.8% of the total, while net losses of the unprofitable ones were limited to ¥19.6 billion. As a result, net income of group companies in fiscal year 2004 reached ¥49.8 billion. The asset efficiency of group companies (net income from group companies ÷ [total assets of subsidiaries + total book value of investments in associates]) was 1.9% in fiscal year 2004, a dramatic improvement from 0.2% in fiscal year 2000. (Please refer to page 11 for the details of "net income from group companies.")

<Moving Ahead>

As part of our business growth plans under the A&P strategy, we have made focused investments aimed at strengthening core group companies and expanding profits from growth areas such as consumer and retail related businesses, natural resource development, and business in China. As a result, we have built a solid earnings structure, in which profitable companies consistently generate net income of between ¥60 billion and ¥70 billion. However, growth in net income of group companies has stemmed mainly from actions to reduce the number of unprofitable companies or curtail their losses. Therefore, much more needs to be done to further improve the earnings power of profitable companies. We must position A&P growth strategies as core strategies for group company management for the future, while continuing our emphasis on rigorous business risk management and optimal asset reallocation. Going forward, we will formulate growth strategies for each group company and carefully monitor the implementation of those strategies. At the same time, we will provide increased business, personnel, and funding support and deploy group strengths more effectively to further reinforce the earnings power of profitable group companies.

*net income (loss) from group companies
= The Company's share of [net income (loss) from subsidiaries, excluding minority interests + Equity in earnings (losses) of associates]

Asset Efficiency of Group Companies



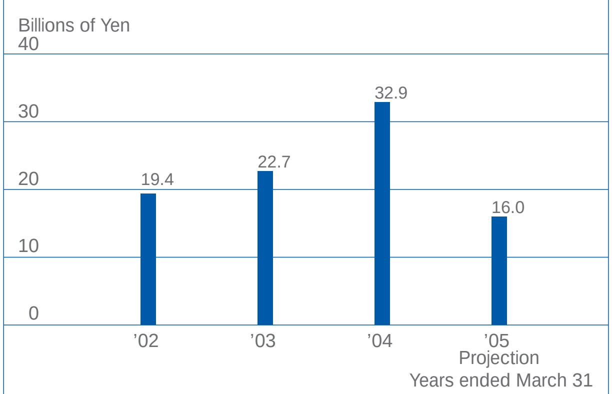
Results of Retirement Pension Plan Reform

Since fiscal year 2002, ITOCHU has undertaken a full-scale revision of the retirement and severance plan for its employees. The aims of the revision are to address employees' diversifying opinions and values, and to reduce management risk by lowering consolidated projected benefit obligations (PBO) and the risks associated with such obligations. In the year under review, we revised the retirement and severance plan of the parent company, which represents the major portion of total consolidated PBO, following an agreement with the labor union in March 2003. Details and results of the revisions are outlined below.

1. Returning the public pension portion held by the employee pension fund to the government: In January 2004, we received approval from the Ministry of Health, Labor and Welfare to return the past portion. Based on this approval, in March 2004 we cleared off the minimum liability reserve. As a result, total PBO and pension assets declined by around ¥39.0 billion and ¥18.4 billion, respectively. The return of the public pension portion also incurred a one-time cost of around ¥2.2 billion, which was expensed in the year under review.
2. Revising the supplementary portion of the employee pension fund: Following the return of the aforementioned past public pension portion, we introduced a "cash balance plan" that links benefit amounts with market interest rates for the remaining supplementary portion. We also made some perpetual annuities terminable. These actions together reduced PBO by around ¥26.0 billion.
3. Revising the tax-qualified pension: In July 2003, we shifted part of the future portion of the tax-qualified pension plan to a defined contribution pension plan, thus reducing PBO by around ¥5.0 billion.

In addition to the above revisions undertaken by the parent company, we made good progress in managing our assets in the year under review. We therefore project a large improvement in consolidated net periodic pension cost of retirement and severance benefits, from ¥32.9 billion in fiscal year 2004 to around ¥16.0 billion in fiscal year 2005.

Net Periodic Pension Cost of Retirement and Severance Benefits



Division Companies at a Glance

Textile Company

	Trading Transactions*	Gross Trading Profit	Trading Income (Loss)*	Net Income (Loss)	Total Assets (year-end)
2002	880.1	83.5	18.1	8.3	384.1
2003	871.7	93.5	20.8	10.4	370.8
2004	817.0	100.3	24.5	11.7	382.7

Machinery Company

	Trading Transactions*	Gross Trading Profit	Trading Income (Loss)*	Net Income (Loss)	Total Assets (year-end)
2002	1,937.3	50.2	(4.7)	1.3	588.1
2003	1,746.6	48.6	1.1	2.4	490.1
2004	1,406.9	51.1	5.5	3.9	433.6

Aerospace, Electronics & Multimedia Company

	Trading Transactions*	Gross Trading Profit	Trading Income (Loss)*	Net Income (Loss)	Total Assets (year-end)
2002	960.3	112.6	28.2	36.3	526.2
2003	809.2	102.5	25.9	14.3	484.3
2004	634.0	105.5	24.1	2.6	464.3

Energy, Metals & Minerals Company

	Trading Transactions*	Gross Trading Profit	Trading Income (Loss)*	Net Income (Loss)	Total Assets (year-end)
2002	2,740.0	52.7	17.2	9.5	401.6
2003	2,216.2	33.0	14.5	10.0	391.6
2004	2,138.2	24.7	8.6	12.9	443.7

Chemicals, Forest Products & General Merchandise Company

	Trading Transactions*	Gross Trading Profit	Trading Income (Loss)*	Net Income (Loss)	Total Assets (year-end)
2002	1,735.8	80.7	15.8	(0.2)	532.7
2003	1,799.8	87.1	20.3	10.7	524.6
2004	1,715.0	91.9	24.4	11.5	557.4

Food Company

	Trading Transactions*	Gross Trading Profit	Trading Income (Loss)*	Net Income (Loss)	Total Assets (year-end)
2002	2,445.2	126.9	24.5	9.6	665.1
2003	2,522.5	130.1	23.8	11.9	654.4
2004	2,345.1	130.9	21.7	13.3	711.6

Finance, Realty, Insurance & Logistics Services Company

	Trading Transactions*	Gross Trading Profit	Trading Income (Loss)*	Net Income (Loss)	Total Assets (year-end)
2002	455.3	34.4	(7.9)	(9.8)	773.4
2003	269.4	33.8	(1.3)	(8.4)	692.7
2004	235.8	16.0	(19.4)	(75.6)	609.7

* Trading transactions with unaffiliated customers and associated companies

*Trading income (loss) = Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts

Years ended March 31 (Billions of Yen)

Major Subsidiaries and Associates Net Income*	2003	2004	Division Company Highlights in Fiscal Year 2004
○ BALLY JAPAN LTD.	¥0.0	¥0.1	○ Developed *3-Jikan*, a material that can be dried indoors in three hours
○ Prominent Apparel Ltd.	0.4	0.4	○ Developed *Non Care*, a no-iron shirt with Nisshinbo Industries and TAL Apparel
○ Leilian Co., Ltd.	0.2	0.2	○ Set up Guangzhou GKI Car Interior Parts, which produces automotive upholstery
			○ Developed several brands including *BRUNO MAGLI* and *SCAVIA*
			○ Set up cotton products sales company Weiqiao (USA) in the U.S.
			○ Acquired RAIKA, which produces and sells clothing, and its subsidiary Blue Note
			○ Developed advanced textile materials such as INGEO™ fiber created from cornstarch
○ ITOCHU Sanki Corporation	¥0.2	¥0.3	○ Signed more than 50 orders for vessels
○ Century Medical, Inc.	0.6	0.2	○ Received orders for power generation equipment from Wangqu Power Plant in China
○ MCL Group Ltd.	0.3	0.5	○ Set up an overseas sales company for new urban transport system HSST
○ ITOCHU Automobile America Inc.	0.3	0.6	○ Started trade-financing business for *Isuzu* commercial vehicles in the U.S.
○ Century Leasing System, Inc.	1.0	1.0	○ Received many orders for construction equipment in Turkmenistan
			○ Developed the *Yellow Hat* car accessory business in China
			○ Invested in DS2, a Spanish power line communications company
○ ITOCHU TECHNO-SCIENCE Corporation	¥2.8	¥3.5	○ Developed V-LOX ID,* a tag-attachment product equipped with μ-Chip,* an IC tag
○ CRC Solutions Corp.	0.6	0.2	○ Agreed to establish a cancer detection center employing PET equipment with Dokkyo University School of Medicine Hospital
			○ Raised our equity stake in Sky Perfect Communications
			○ Entered the mobile content business for ringtone and wallpaper distribution in China
			○ Reached a basic agreement with KAWASHO to take over its aerospace business
			○ Entered the earth observation industry through a tie-up with ImageONE
○ ITOCHU Non-Ferrous Materials Co., Ltd.	¥0.0	¥0.5	○ Production began at the Ohanet Natural Gas Development Project in Algeria
○ ITOCHU Petroleum Japan Ltd.	0.8	1.5	○ Development for oil production at Sakhalin-1 Project progressed smoothly
○ ITOCHU Oil Exploration Co., Ltd.	5.1	2.6	○ Construction of the BTC Oil Pipeline Project began, with the start of flow in 2005
○ ITOCHU MINERALS & ENERGY OF AUSTRALIA PTY LTD	7.5	5.3	○ Projects of ITOCHU Oil Exploration were transferred to the parent company
○ Marubeni-Itochu Steel Inc.	3.3	3.1	○ Resource development subsidiaries in Australia were consolidated into IMEA
			○ MAC iron ore mine in Australia started commercial production
			○ Acquired coal interests and assets in Australia from Xstrata
○ ITOCHU Kenzai Corp.	¥0.9	¥1.0	○ Acquired an 85% interest in ILLUMS JAPAN, which manages interior specialty stores
○ ITOCHU Pulp & Paper Corp.	0.5	0.6	○ Set up three manufacturing companies in China in the inorganic chemicals business
○ ITOCHU CHEMICAL FRONTIER Corporation	1.2	1.2	○ Launched on a project for fiber intermediates with Mitsubishi Chemical
○ ITOCHU PLASTICS INC.	1.1	1.7	○ Made Aneka Bumi Pratama, an Indonesian rubber producer, a wholly owned subsidiary
			○ Made DAIKEN, a manufacturer of construction materials, an associated company
			○ Set up Life & Living Dept. for consumer and retail related business (April 2004)
○ Nishino Trading Co., Ltd.	¥0.9	¥0.9	○ Tie-ups with Ting Hsin International Group, the largest food business group in China
○ Japan Foods Co., Ltd.	0.2	0.1	– Started a soft drink business with its group company Tingyi and Asahi Breweries
○ FamilyMart Co., Ltd.	3.2	4.2	– Opened the first Japanese-style barbeque restaurant chain in Beijing
			○ Set up a joint venture in Shanghai with FamilyMart in the convenience store business
			○ Set up Retail Net to support such retailers as supermarkets and convenience stores
			○ Made Prima Meat Packers an associated company
○ ITOCHU Finance Corporation	¥1.2	¥4.1	○ Acquired a share in POCKETCARD, a distribution-based credit card company
○ kabu.com Securities Co., Ltd.	0.0	0.7	– POCKETCARD issued the official credit card for an Internet portal, *Excite*
			– Famima Credit and POCKETCARD formed a capital and business tie-up
			○ Set up two private funds for investment in rental condominiums
			○ Began selling compulsory motorcycle liability insurance through FamilyMart
			○ Set up a joint venture for automobile logistics with CRML in China
			○ Made an equity investment in TINGTONG, a logistics company of Ting Hsin

*ITOCHU's share of net income

*V-LOX ID is a registered trademark of JAPAN BANO'K and ITOCHU.
*μ-Chip is a registered trademark of Hitachi Ltd.

Number of Employees	
Consolidated*	5,795
Non-consolidated	710
Subsidiaries and Associates	
Domestic	41
Overseas	22

(As of March 31, 2004)

Textile Company

We are expanding our business scope in consumer and retail related areas and focusing on (1) the development and expansion of advanced materials, (2) product proposal abilities in the apparel and textile field and more transactions with influential apparel makers, and (3) the acquisition of powerful brands. In China, we are expanding businesses through tie-ups with Chinese leading companies and developing a domestic sales business, including brands, with an eye to the future.

Business Performance in Fiscal Year 2004

Consumption expenditure by worker household, which had been falling under the previous year's level for a long time, turned up by a real 4.8% in the second half of fiscal year 2004 as a result of the Japanese economy's recovery.

At the Textile Company, trading transactions declined by 6% to ¥817.0 billion owing to sluggish market prices for raw materials and a slump in clothing-related prices. However, gross trading profit rose by 7% to ¥100.3 billion on the back of brisk brand-related businesses. Trading income* grew by 18% to ¥24.5 billion thanks to a decrease in provision for doubtful accounts. As a result, net income increased by 12% to ¥11.7 billion.

What We Did in Fiscal Year 2004

In fiscal year 2004, we concentrated on providing original products and services in response to more diverse and individualized demands.

In the textile materials field, we developed a new material called *3-Jikan* in response to the growing need for home laundry and indoor drying. Garments made from this material can be dried indoors in three hours. We plan to expand sales of this product in Japan and other parts of Asia. In the apparel and textile field, we launched *Non Care*, a 100% cotton no-iron shirt developed jointly with Nisshinbo Industries, Inc., and TAL Apparel Ltd. In addition, our uniform business received strong orders from the private sector. Moreover, we expanded sales through our global network by manufacturing Japanese high-functionality textile materials in China and other parts of Asia and selling them to major sportswear makers.

In the industrial textile field, in China where the automobile sales market is expanding, we have established a joint venture company, Guangzhou GKI Car Interior Parts Co., Ltd., which manufactures automotive upholstery.

In the brand field, we have developed several brands, such as *BRUNO MAGLI*, an Italian luxury shoe brand, and *SCAVIA*, a prominent Italian high-end jewelry brand.

Moreover, in a joint venture with China's largest cotton-spinning group, the Shandong Weiqiao Textile Group, we established a cotton products sales company, Weiqiao (USA) Inc., in the U.S. The aim is to expand exports to the U.S. of highly competitive Chinese cotton products, with an eye towards taking advantage of the removal of import quota in 2005.

Outlook for Fiscal Year 2005

The Textile Company covers one part of the consumer and retail related segment, which is an earnings driver for ITOCHU. In the textile manufacturing field, we are strengthening tie-ups with our prominent Chinese customers and developing and expanding sales of advanced materials in Japan. In the textile distribution field, we are strengthening existing brands such as *LANVIN*, *CONVERSE*, and *BALLY*. Furthermore, in the consumer and retail related field, including non-textile products, we are working hard to introduce new brands by forming tie-ups and making acquisitions. We are continuing to expand our business scope and develop our operations in the Chinese and other Asian markets with the aim of further boosting earnings.

Masahiro Okafuji
President, Textile Company

*Trading income = Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Renoma men's apparel manufactured by RAIKA

INGEO™ products display booth

Organization

Textile Company

- Planning & Coordinating Department
- Accounting & Control Department
- IT Business Development Department
- Textile Material Division
- Industrial Textile & Lifestyle Division
- Textile Division
- Apparel Division
- Brand Marketing Division 1
- Brand Marketing Division 2

New Development in the Consumer and Retail Related Business through the Acquisition of RAIKA

The new RAIKA CO., LTD., was established with the transfer of the goodwill and assets of the former RAIKA and its subsidiary Blue Note Japan and began operations in February 2004. RAIKA, which manufactures and sells men's, women's, and children's clothing, is positioned at the top of the men's casual wear segment. In the future, ITOCHU will cultivate this company as an apparel firm that plays a core role in its brand strategy.

Blue Note is a jazz restaurant based in New York City, and Blue Note Japan currently operates some *Blue Note* jazz restaurants in Japan. We have positioned this business as a core part of the consumer and retail related segment, following the luxury gourmet store *DEAN & DELUCA*. Starting with the fields of music and food, we intend to launch entertainment business both in Japan and overseas.

Our goal in three years from now is to have the apparel division post annual sales of ¥25.0 billion and the Blue Note division to register sales of ¥2.5 billion, for a total of ¥27.5 billion.

Discovering and Developing Advanced Textile Materials by Taking Advantage of "Trading Company Functions"

In April 2003, we established the Research & Development Office and increased our efforts to discover and develop advanced new textile products.

One of the products of our efforts was the discovery of INGEO™ fibers, a non-petroleum-type vegetable-based fiber created from cornstarch by the U.S. company Cargill Dow LLC. We have been working to develop uses for this fiber. This promising material has attracted a lot of attention as a result of its distinctive qualities: gentle not only to the environment but also to the skin because of its low acidity.

In addition, along with Q.P. Corporation, Kurabo Industries Ltd., and Idemitsu Technofine Co., Ltd., we are jointly developing *Cupid no Tanjo*, a textile material with natural functions created by powdering the egg shell membrane that is generated with the production of mayonnaise and attaching it to cloth.

These are examples in which the Company succeeded in creating a business from advanced textile materials in cooperation with other firms, by taking advantage of marketing power and global sales power as a general trading company.

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
- Fashion goods
- Bedding fabrics
- Interior fabrics
- Industrial fibers
- Inorganic fibers and related products

Number of Employees	
Consolidated*	4,374
Non-consolidated	569
Subsidiaries and Associates	
Domestic	25
Overseas	51

(As of March 31, 2004)

Machinery Company

Our commitment is to realize a highly profitable structure and to work rapidly to accumulate superior assets in the core fields of shipbuilding, oil & gas projects, automobiles, and construction equipment, as well as in new business fields, including innovative technology.

Business Performance in Fiscal Year 2004

The business environment showed signs of an upturn, such as an increase in the number of projects in Asia and the Middle East, mainly due to the rapid growth of the Chinese economy and the rising price of crude oil.

Under this environment, trading transactions fell by 19% to ¥1.4 trillion in fiscal year 2004 because of decreases in some under performing transactions and in automobile exports to Europe. However, the gross trading profit rose by 5% to ¥51.1 billion owing to a recovery in the North American construction equipment business and favorable results in automobile related businesses. Trading income* grew approximately fourfold to ¥5.5 billion, in part because of efforts to cut overall expenses. In addition, we wrote down the value of some fixed assets held by subsidiaries effected from impairment accounting. Nevertheless, net income increased by 63% to ¥3.9 billion on the back of the growth in trading income.

What We Did in Fiscal Year 2004

In fiscal year 2004, we worked actively to develop new businesses and to make investments.

In the field of ships, plant, and projects, we recorded the remarkable achievement of signing more than 50 orders for vessels amid favorable market conditions for maritime transport. In addition, China is experiencing extremely rapid economic growth, and we were awarded various types of orders in that country for power generation equipment, including two steam turbines and electric generators for the Wangqu Power Plant, amid a sharp increase in demand for electric power. In the railway business, we established a company specializing in overseas sales of a new urban transport system, HSST (High Speed Surface Transit).

In the field of automobiles, our exports to Russia and China have been brisk. In addition, we are working hard to develop the peripheral service businesses of financing, retail sales, and logistics. These efforts include a trade-financing business for *Isuzu* commercial vehicles in the U.S. and the acquisition of a warehousing company in the U.K.

In the industrial machinery field, domestic demand has hit bottom, but a full-scale recovery has not yet begun. External demand, however, is strong, and we have received a number of large-scale orders, including some for construction equipment in Turkmenistan, liquid crystal display (LCD)-related manufacturing equipment in Korea and Taiwan, and textile machinery for textile manufacturers in China.

Outlook for Fiscal Year 2005

The business environment surrounding the Machinery Company is steadily improving, as a very important economic region is being created in Asia centering on China, IT investment in areas such as semiconductors and liquid crystal displays is on the increase, and new capital investments are being made in Japan after many years of suppressed investment. Moreover, the efforts we have made to reallocate our assets are now bearing fruit, and profitability is improving. Thus, the automobile division became one of our A&P segments in fiscal year 2005. During fiscal year 2005, we will strive to have the forward-looking investments we have made in new business fields translate into profits and will realize high earnings through even greater efficiency.

Jiro Takemori
President, Machinery Company

*Trading income = Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Opening of the first *Yellow Hat* shop in China

Highest-speed digital chip and modem of DS2

Organization

Machinery Company
- Planning & Coordinating Department
- Administration Department

Plant & Project Division
- Marine Department
- Oil, Gas & Petrochemical Project Department
- Transport & Infrastructure Projects Department
- Utility Solution Business Department

Automobile Division
- Automobile Department No.1
- Automobile Department No.2
- Automobile Department No.3
- Department of Automobile Business Strategy and Development

Industrial Machinery & Solution Division
- New Business Promotion Department
- Industrial Machinery & Project Department
- Fine Process Machinery Department

Developing the *Yellow Hat* Car Accessory Business in China

In 2003, automobile sales volume in China grew by 35% to 4.39 million units, making the country the fourth largest market in the world following the U.S., Japan, and Germany. Sales of passenger cars are increasing at an annual rate of 75% as it becomes increasingly popular to own one's own car. In the future, demand for car accessories is likely to expand even further.

In this environment, the first *Yellow Hat* shop for car accessories opened in Guangzhou in February 2004. ITOCHU and Yellow Hat Ltd. have also been jointly developing the same type of shop in Taiwan since the year 2000. The car accessories business in China is controlled by Yellow Hat China Holding Co., Ltd., which was established in October 2003 (50% ITOCHU ownership). The objective over the next five years is to expand these operations to 50 shops and achieve sales of ¥20.0 billion.

The Power Line Communications Company DS2 Becomes a Strategic Partner

ITOCHU has invested in the Spanish company DS2 S.A., which is operating at the global forefront of the field of power line communications (PLC). This field has attracted much attention as a next-generation broadband communications technology.

Through PLC technology, one can connect to the Internet through normal household electrical outlets and use IP telephone services. The PLC technology developed by DS2 enables a higher speed of data transmission and communications than conventional technology. This new technology is far superior to conventional communications technology, especially amid an increasing need for the transmission of large amounts of data at high speeds.

We are promoting the sale of modems equipped with DS2-made chips to power companies in more than 20 countries worldwide. With its investment, ITOCHU has strengthened its position as a strategic partner of DS2. In the future, we aim to expand sales of PLC equipment by utilizing DS2's distinctive technology.

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 devices
- 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

Number of Employees
Consolidated* 7,221
Non-consolidated ... 332
Subsidiaries and Associates
Domestic 55
Overseas 18

(As of March 31, 2004)

Aerospace, Electronics & Multimedia Company

Among the general trading companies, we boast relatively high profitability in the information industry-related business field. This is due partially to remarkable profit contributions from prominent subsidiaries, including ITOCHU TECHNO-SCIENCE Corporation (CTC) and CRC Solutions Corp. Under Super A&P-2004, we are working to expand earnings by developing such profitable companies as well as cultivating new technologies and businesses expected to be the cornerstones of future earnings growth.

Business Performance in Fiscal Year 2004

After slumping for several years on decreased capital spending by the communications industry, domestic IT-related investment showed signs of recovering in the second half of fiscal year 2004.

During the term, trading transactions fell by 22% to ¥634.0 billion as a result of our exit from in-efficient transactions. Despite this result, gross trading profit rose by 3% to ¥105.5 billion, largely thanks to contributions from ITC NETWORKS CORPORATION and Excite Japan Co., Ltd. However, trading income* shrank by 7% to ¥24.1 billion owing to increased expenses accompanying such temporary factors as a change in pension plan and a return of the public pension portion to the government by a subsidiary. Net income dropped sharply to ¥2.6 billion (down by 82%), a result both of the reactionary decline from gains on sales of securities posted in the previous fiscal year and of impairment losses related to the airplane leasing business in fiscal year 2004.

What We Did in Fiscal Year 2004

In fiscal year 2004, we worked hard to build a new earnings base in various ways in growth fields and new areas.

In the IT & telecommunication field, we carried out projects targeting practical applications of μ-Chip*, one of the world's smallest wireless IC tags, developed by Hitachi Ltd. In addition, we reached an agreement with Dokkyo University School of Medicine Hospital to establish a cancer detection center employing positron emission tomography (PET) equipment, which is effective in the early detection of cancer. ITOCHU will be in charge of the operation of the facility. Looking forward, we intend to enter into cooperative agreements with other university hospitals and core regional hospitals to expand our businesses related to the life sciences.

In the mobile and media field, we raised our equity ownership from 9.9% to 12.65% in Sky Perfect Communications Inc., which operates SKY PerfecTV! satellite broadcasting service. This decision was part of our plan to create synergies with companies supplying such cable programming as music channels and sports channels. Moreover, in China we entered the mobile content business with the introduction of a ringtone and wallpaper distribution service for the entire country in October 2003.

In the aerospace field, we reached a basic agreement with KAWASHO CORPORATION to take over its aerospace business. We also made efforts to extend the range of our business fields by entering the earth observation industry through a capital and business tie-up with ImageONE Co., Ltd.

Outlook for Fiscal Year 2005

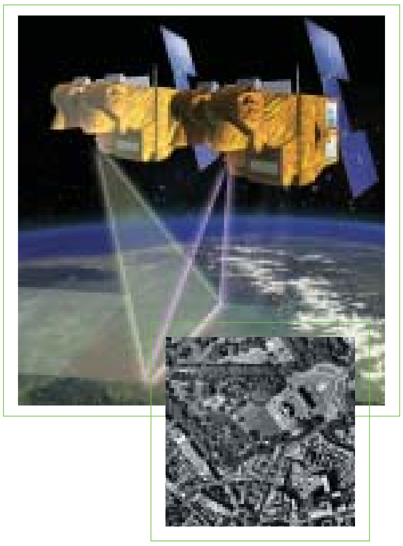
In the A&P segment of information and multimedia, one of our core fields, we foresee net income of approximately ¥11.0 billion in fiscal year 2005. Major factors supporting this result are expected to be contributions from the aerospace business acquisition, capital gains arising from IPOs of outstanding subsidiaries, and expanding earnings from the mobile content business.

Yoichi Okuda
President,
Aerospace, Electronics & Multimedia Company

*Trading income = Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts

*The number of consolidated employees is based on actual working employees excluding temporary staff.

V-LOX ID*, a tag-attachment product equipped with a μ-Chip, and a closeup of its wafer


Earth observation satellite and satellite imagery

Organization

Aerospace, Electronics & Multimedia Company
- Planning & Coordinating Department
- Accounting & Control Department
- Affiliate Administration & Support Department

Aerospace & Electronic Systems Division
- Aerospace & Defense Department
- Commercial Aerospace & Electronics Department

IT & Telecommunication Division
- Information Technology Business Department
- Business Solutions Department

Media Business Division
- Network & Content Business Department
- Mobile & Wireless Department

Entry into the Traceability Business Using μ-chips

Together with JAPAN BANO'K CO., LTD., we have developed V-LOX ID, a tag-attachment product incorporating a μ-Chip. We have already applied for a patent. JAPAN BANO'K commands an 80% share of the domestic market for tag-attachment products, currently used mostly on apparel brand-name tags.

V-LOX ID is expected to help boost efficiency in tracking and controlling distribution records as well as in product inspection. Furthermore, the IC chip portion can be simply removed at the point of sale, thereby obviating concerns about invasions of customer privacy.

The practical application of the V-LOX ID should pave the way for progress in the use of μ-Chips in the apparel industry. ITOCHU's subsidiary Info Avenue Corporation will be in charge of the related system development, and the ITOCHU Group as a whole will work to popularize the product.

We are also considering future development of traceability businesses in the food industry and the pharmaceutical industry. An example of one of the businesses that we are considering is a traceability system for Japanese beef.

Expansion of Aerospace Business Fields

We reached a basic agreement with KAWASHO CORPORATION to take over its aerospace business. KAWASHO has built up a solid market position as the Japanese agent for more than 40 European and American aerospace-related manufacturers. With the acquisition of KAWASHO's aerospace business, we will expand our business portfolio and customer base in both the public and private sectors, as well as strengthen our overall business foundation.

In addition, our capital and business tie-up with ImageONE Co., Ltd., marks our entry into the earth observation industry. In this industry, commercialization is progressing and markets are likely to expand in various fields, such as meteorology, detection of mining resources, disaster prevention, and environmental degradation observation. ImageONE has satellite imagery sales contracts with earth observation satellite data distributors around the world. In the future, we will work together with ImageONE to create new businesses, such as image analysis services that meet a range of customer needs.

Products & Services

- Broadcasting and communication business
- Electronics systems
- Equipment for broadcasting and communication systems
- Programming 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

*μ-Chip is a registered trademark of Hitachi Ltd.
*V-LOX ID is a registered trademark of JAPAN BANO'K and ITOCHU.

Number of Employees	
Consolidated*	460
Non-consolidated	410
Subsidiaries and Associates	
Domestic	12
Overseas	14

(As of March 31, 2004)

Energy, Metals & Minerals Company

We aim to maximize our earnings not only by actively investing in valuable resource development projects but also by marketing the resources produced by these projects in our global trading activities.

Business Performance in Fiscal Year 2004

We enjoyed favorable results in fiscal year 2004 thanks to firm demand for resources such as crude oil, iron ore, coal, and aluminum.

Trading transactions fell slightly from the previous fiscal year to ¥2.1 trillion. Gross trading profit dropped by 25% to ¥24.7 billion, and trading income* fell by 41% to ¥8.6 billion. These declines were attributable to the appreciation of the Australian dollar against the U.S. dollar at the metal resource-related operations and sluggish energy-related sales in the domestic market due to a delay in transferring higher crude oil costs to prices in Japan. However, net income rose by a hefty 29% to ¥12.9 billion on the back of increased dividends from LNG projects and strong results at equity-method associated companies such as Berkshire Oil Co., Ltd., which conducts energy trading.

What We Did in Fiscal Year 2004

Production began at the Ohanet Natural Gas Development Project in Algeria in October 2003 after development work that spanned three years. Not only natural gas but also 47,000 barrels oil equivalent a day of LPG and condensate are being sold from this project, mainly to Europe, through ITOCHU's energy related group companies. Development for oil production is also progressing smoothly at the Sakhalin-I Project with the aim of starting production at the end of 2005.

We also decided in the previous term to participate in the BTC Oil Pipeline Project and in February 2004 signed a US$2.6 billion project finance contract with a group of international finance banks. Construction work on the project has started with the aim of having oil start to flow through the pipeline in 2005. The pipeline will transport crude oil from the large oil fields in the Caspian Sea off the coast of Azerbaijan, where we also have interests, to the Mediterranean Sea. The crude oil transported via the pipeline will be sold on the worldwide market.

In addition, in order to strengthen the system for dealing with the resource development business, the projects being carried out by a domestic subsidiary, ITOCHU Oil Exploration Co., Ltd., were transferred to the parent company, ITOCHU Corporation. Overseas, all subsidiaries with resource development interests in Australia for iron ore, coal, aluminum, and crude oil were consolidated into ITOCHU MINERALS & ENERGY OF AUSTRALIA PTY LTD.

Outlook for Fiscal Year 2005

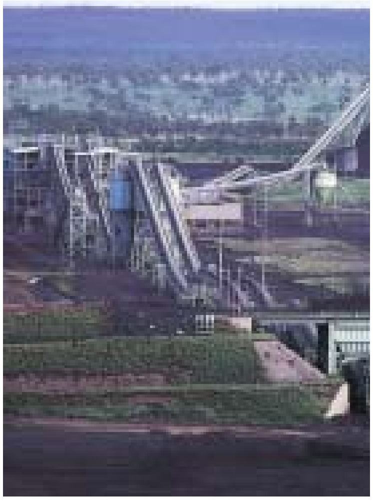
We finished a reorganization of our in-efficient assets and strengthened our organizational system in fiscal year 2004. From next term, we will actively make new and additional investments, mainly in resource development, and pursue an offensive management policy in earnest. On the other hand, earnings are likely to expand from some large-scale strategic investments in coal, iron ore, and alumina development projects made during fiscal 2004. (Please see the Topics.)

Akira Yokota
President, Energy, Metals & Minerals Company

*Trading income = Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Iron ore loading port in western Australia



Coal mine operation in Queensland

Organization

Energy, Metals & Minerals Company

- Corporate Planning & Administration Department
- Control Department
- Steel Business Administration Department

Metals, Mineral Resources & Coal Division

- Metals & Mineral Resources Department
- Coal Department

Energy Trade Division

- International Energy Trading Department
- Energy Sales & Supply Department

Energy Development Division

- Exploration & Production Department
- Natural Gas Project Department
- Sakhalin Project Development Department

Commercial Shipments to Start from MAC Iron Ore Mine in Australia

The MAC (Mining Area C) iron ore mine, where development has been carried out for the past two years in Western Australia's Pilbara region, began commercial shipments in September 2003. This mine is part of an iron ore mine development project operated by BHP Billiton, a large Australian resource development company. ITOCHU holds an 8% interest in the project.

This mine contains about 800 million tons of Maramanba ore, a next-generation iron ore which has few impurities and exists underground in large quantities. A project to expand the railway transport and harbor shipment capacity (from 77 million tons a year to 100 million tons), which started at the same time as the development of the mine, was completed in February 2004 in order to boost the overall shipment volume from the Pilbara region. The development of the mine was begun in response to diversified needs of users, including leading Japanese steel manufacturers. The Company intends to expand sales in the future by responding to greater worldwide demand, mainly from China.

Coal Interests and Assets Acquired from Xstrata in Australia

In Australia, we acquired two operating coal mines and four undeveloped mining areas from one of our investment partners, Xstrata plc. With these acquisitions, ITOCHU's interests have risen to 35% in the NCA project, which is currently producing 13 million tons of coal annually, and to 20% in the Oaky Creek project, which is producing 10 million tons annually. Furthermore, among the undeveloped areas where we acquired a 12.5% interest, we will begin production at the Rolleston mining project in 2005. Development of this project has already started with the aim of having an annual capacity of 8 million tons by 2008.

These coal assets are located in Queensland, a territory close to Asia where sustainable growth in demand is expected in the future. Moreover, the quality of coal at these projects is excellent and the projects are cost competitive. Thus, they are important assets that can be expected to contribute to earnings in the future.

Products & Services

- Iron ore
- Direct reduced iron
- Coking coal
- Coke
- Thermal coal
- Ferro alloys and its raw 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

Number of Employees	
Consolidated*	7,334
Non-consolidated	475
Subsidiaries and Associates	
Domestic	45
Overseas	48

(As of March 31, 2004)

Chemicals, Forest Products & General Merchandise Company

We are focusing on the creation of assets that will become the core driver of earnings in the key area of "lifestyle" and the key regions of Asia, China, and North America. More specifically, in the general merchandise and forest products field, we are strengthening our retail business for products such as miscellaneous general merchandise and building materials, developing our tire and rubber business globally, and strengthening our trading in paper grade pulp, centered on Celulose Nipo-Brasileira S.A. In the chemicals field, we aim to expand our businesses of fiber intermediates and synthetic resins such as food packaging materials in China and other Asian countries.

Business Performance in Fiscal Year 2004

Due to the growth in sales of housing materials in North America and Europe, favorable market prices for chemical products, and the expansion of the key China market, our business environment in fiscal year 2004 was favorable.

Trading transactions fell by 5% to ¥1.7 trillion as a result of the withdrawal from in-efficient transactions. On the other hand, we achieved great improvements in earnings, with gross trading profit expanding 6% to ¥91.9 billion and trading income* rising by 21% to ¥24.4 billion. In addition, while earnings fell due to the appreciation of the real at associated company Japan Brazil Paper and Pulp Resources Development Co., Ltd., net income increased by 8%, hitting a record high of ¥11.5 billion.

What We Did in Fiscal Year 2004

We invested actively in fiscal year 2004, mainly in the consumer and retail related area and also in China, a segment and a region that we have earmarked as highly important in terms of profit growth potential.

In the consumer and retail related business, we acquired an 85% interest in ILLUMS JAPAN CO. LTD., which manages the interior specialty store *Illums*, a purveyor to the Danish Royal household.

In China, in the field of inorganic chemicals, we established three companies in the business of manufacturing fluoric acid, sulphuric acid, and calcium chloride and began preparations for the commencement of production within 2004. In the field of organic chemicals, we initiated a major project to manufacture and sell fiber intermediates through a joint venture with Mitsubishi Chemical Corporation.

In the general merchandise area, as part of a strategy to strengthen our worldwide development of the tire and rubber business we acquired a stake in PT. Aneka Bumi Pratama, an Indonesian producer of natural rubber, with the company becoming a wholly owned subsidiary. Together with our existing business in Thailand, we have made strategic moves to become the world's top trader in natural rubber. In the wood and construction materials business, we made DAIKEN CORPORATION, a prominent domestic manufacturer of construction materials, into an associated company in order to strengthen our activities in the housing-related industry and reinforce the power of the group.

Outlook for Fiscal Year 2005

We further aim to expand our earnings from existing businesses, such as the tire distribution business, the paper grade pulp trading business, and Asian businesses in the field of synthetic resins, such as food packaging materials. Moreover, by establishment of the Life & Living Department we will continue to actively develop our consumer and retail related businesses.

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

*Trading income = Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts

*The number of consolidated employees is based on actual working employees excluding temporary staff.


Press conference on our start of manufacturing and sales business of PTA in China

Illums brand furniture and interior goods

Launch of a Manufacturing and Sales Business in China for Polyester Fiber Materials

In the field of fiber intermediates, a key area of strength, we decided to start up the first Japanese PTA (high purity terephthalic acid) manufacturing and sales business in China together with Mitsubishi Chemical Corporation, a prominent producer in this segment. We set up a Japanese investment company, Ningbo PTA Investment Co., Ltd. (our equity ownership: 35%), and will establish Ningbo Mitsubishi Chemical Corp. in Ningbo City, Zhejiang Province, as a joint venture with the Chinese investment company China International Trust and Investment Corp. (CITIC) in 2004. (Ningbo PTA Investment's equity ownership: 90%, CITIC's 10%).

PTA is a raw material used in the manufacture of polyester fiber and PET resin. China is the world's largest market for PTA, with annual consumption of approximately 8.5 million tons. The market is expected to grow continuously at an annual rate of more than 10%.

We plan to start commercial production of PTA in September 2006 with an annual production capacity of 600,000 tons. This will solidify our position as the top trading company in Asia in terms of the PTA transaction volume and will strengthen our "polyester chain" business, which is positioned as one of our key strategic fields.

Acquisition of Stock in Scandinavian Interior Retailer ILLUMS

We entered the interior retail business through the acquisition of an 85% interest in ILLUMS JAPAN CO. LTD.

Illums, which originated from Illums Bolighus, a purveyor to the Danish Royal household, is introducing so-called Scandinavian modern design in Japan with high-quality pottery, glassware, kitchenware, stationery, furniture, and fabrics with designs that are simple, natural, easy to use, and aesthetically pleasing. There are currently only a few competitors in this high-value interior market and we expect the market will grow in the near future.

Illums currently has outlets in the stores of The Seibu Department Stores., Ltd. (Ikebukuro, Higashi Totsuka), and Sogo Co., Ltd. (Yokohama), and we plan to open approximately 20 stores to achieve annual sales of ¥10 billion in five years' time. We will develop an attractive and highly valued selection of products combining their design and our experience and know-how in the miscellaneous general merchandise and furniture business.

Organization

Chemicals, Forest Products & General Merchandise Company
- Planning & Coordinating Department
- Accounting, Affiliates Administration & Credit Control Department
- Life & Living Department

Forest Products & General Merchandise Division
- Wood Products & Materials Department
- Paper Materials & Products Department
- Tire & Rubber Department
- General Merchandise Department

Chemicals Division
- Organic Chemicals Department No.1
- Organic Chemicals Department No.2
- Inorganic Chemicals Department
- Plastics Department

Products & Services

○Logs
○Lumber
○Wooden building materials
○Wood chips
○Wood pulp
○Recycled paper
○Paper
○Paper products
○Crude 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
○Pharmaceutical products
○Raw materials for medicine

Number of Employees	
Consolidated*	6,912
Non-consolidated	366
Subsidiaries and Associates	
Domestic	72
Overseas	19

(As of March 31, 2004)

Food Company

The Food Company seamlessly brings together all levels of the foodstuff field, from the development of food materials in Japan and overseas, to manufacturing and processing, intermediary distribution, and retail sales. We are developing our businesses by applying a Strategic Integrated System (SIS), which features the building of a supply and demand system based on customer needs. We are applying this strategy not only for the Japanese domestic market but also for China, which is undergoing dramatic growth as a consumer market. Our aim is to be a leading company in the food industry.

Business Performance in Fiscal Year 2004

In fiscal year 2004, the business environment in Japan was unfavorable overall, with domestic consumption remaining sluggish with little signs of a strong recovery, and the sales volumes and unit prices of food products falling as a result of food safety-related problems. In China, on the other hand, the food market continued to display close to double-digit growth on the back of a strong economic expansion and a rising standard of living.

Trading transactions declined by 7% to ¥2.3 trillion, gross trading profit was flat at ¥130.9 billion, and trading income* shrank 9% to ¥21.7 billion year-on-year. This was a result of the exits from some in-efficient transactions and the change of certain consolidated subsidiaries to associated companies accompanying our sale of those former subsidiaries' shares. However, expanding earnings at FamilyMart Co., Ltd., contributed to an increase in equity in earnings of associated companies, and net income grew by 12% to ¥13.3 billion.

What We Did in Fiscal Year 2004

In China, we strengthened our business with influential local partners such as the Ting Hsin International Group, the largest food business group in China. Expanding our business tie-up with this group, we opened the first Japanese-style barbeque (*yakiniku*) restaurant chain in Beijing, thereby making a full-scale entry into the chain restaurant business. This was in addition to deciding to set up a joint venture with the group in the soft drink field. In the future, we also plan to develop bakery-cafes and aim to open about 100 of these establishments over the next five years. In addition, we have set up a new joint venture in Shanghai with FamilyMart in order to actively develop the convenience store business. Over the upcoming three years, we intend to open about 300 stores, mainly in the Shanghai area.

In Japan, we set up Retail Net Co., Ltd., whose mission is to improve the competitiveness of such retailers as supermarkets and convenience stores and to support them to create the foundations for future growth. At the same time as strengthening the marketing power of the retail business and contributing to the realization of low-cost operations, this subsidiary promotes collaboration with retailers, wholesalers, and manufacturers through the building of a common information platform that can be used to manage from a central vantage point all distribution-related information from the consumer to the production side, using retail support as the starting point. The aim of this is to realize total efficiency in distribution.

Outlook for Fiscal Year 2005

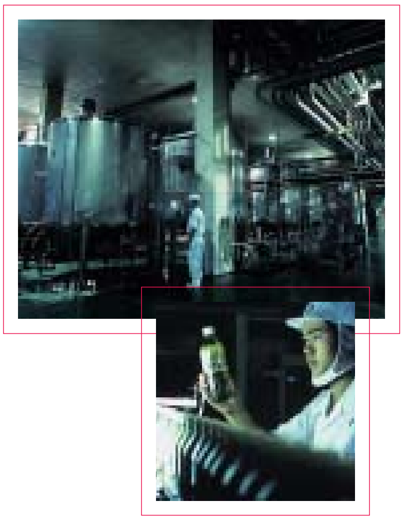
As a core field within ITOCHU's most important segment of consumer and retail related, in Japan we will beef up our retail operations by taking advantage of the strengths we possess in the food distribution area. Overseas, China is experiencing tremendous growth, and in that country we will put our energies into cultivating the consumer market, mainly through our cooperative relationship with the Ting Hsin International Group. Our goal is to become a leading company in the food industry with an annual net income of about ¥20 billion.

Kouhei Watanabe
President, Food Company

*Trading income = Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Factory and Products of Prima Meat Packers



Soft Drink Producing Facilities of Tingyi

Organization

Food Company
- Planning & Coordinating Department
- Administration Department

Provisions Division
- Oilseeds, Oils & Fats Department
- Grain & Feed Department
- Sugar, Confectionery Materials & Dairy Products Department
- Coffee & Beverage Marketing Department

Fresh Food & Food Business Solutions Division
- Marine Products Department
- Meat Products Department
- Food Marketing Development Department
- Agri Products Department

Food Products Marketing & Distribution Division
- Food Products Marketing & Distribution Department No.1
- Food Products Marketing & Distribution Department No.2
- FamilyMart Department

Prima Meat Packers Becomes One of Our Group Companies

In April 2004, Prima Meat Packers, Ltd., became one of our consolidated subsidiaries (associated company, with ITOCHU holding an equity ownership of 39.4%) as a result of acquiring newly issued shares.

Under an unfavorable operating environment marked by problems related to livestock illness and falling sales prices due to a long period of deflation, Prima Meat Packers has embarked on structural reforms of its businesses. After the company returned to the black in the fiscal year ended March 2003 for the first time in three years, we determined to support Prima Meat Packers' efforts to accelerate improvements to its management and are helping to bring it back to financial health.

Prima Meat Packers is positioned as one of the core companies in our SIS strategy. We see it as a mainstay company in the domestic food service distribution field, and it also lies at the heart of our overseas strategy for the food business. We intend to expand its operations by taking advantage of its marketing capabilities, its product planning and development abilities, and our group's procurement and sales networks.

Starting a Soft Drink Business in China with Asahi Breweries and Tingyi

We have reached an agreement with Asahi Breweries, Ltd. and Tingyi (Cayman Islands) Holding Company to establish a joint venture company in the soft drink business in China. (ITOCHU has a 20% stake in the Japanese holding company that owns 50% of the new company.)

Tingyi is a member of the Ting Hsin International Group, which is the largest food business group in China. In addition to marketing the top-selling instant noodles (40% market share), Tingyi is developing the soft drink and confectionary businesses. The soft drink division, which is now made into a joint venture after being split off from Tingyi, boasts annual sales of more than ¥40.0 billion and is ranked fourth in the Chinese beverage market and first in the tea beverage field, which has been expanding in recent years.

This move will bring together Tingyi's nationwide manufacturing and sales systems and brand power with Asahi Breweries' know-how in the beverage business and the network that we have built up in China throughout the entire commercial distribution area. We would like to create a very strong presence for ourselves in this market, which is expected to see high growth in the future.

Products & Services

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

Number of Employees	
Consolidated*	2,503
Non-consolidated	384
Subsidiaries and Associates	
Domestic	52
Overseas	44

(As of March 31, 2004)

Finance, Realty, Insurance & Logistics Services Company

We are involved in a number of initiatives to reform our earnings structure. These include reducing inefficient assets in the construction and realty field as well as developing new businesses in the retail finance business, private equity business, insurance field, and third-party logistics business.

Business Performance in Fiscal Year 2004

The stock market performed well in fiscal year 2004, and there were also signs of improvements in housing construction and the contract rate for condominiums.

Despite buoyant condominium sales, trading transactions decreased 12% compared to the previous fiscal year to ¥235.8 billion due to lower sales of construction materials and machinery as well as reduced sales from a travel-related subsidiary because of the impact of SARS. Gross trading profit decreased 53% year-on-year to ¥16.0 billion as we booked a total of ¥20.2 billion in sales and revaluation losses from liquidating real estate for sale. This led to a trading loss* of ¥19.4 billion. Additionally, although there was an increase in equity in earnings of associated companies thanks in part to the contribution of kabu.com Securities Co., Ltd., the impact of impairment accounting for fixed assets led to a net loss of ¥75.6 billion. (If the aforementioned liquidation losses on real estate for sale and the impact of impairment accounting were excluded, then the net loss would have improved ¥3.2 billion from the year before to ¥5.2 billion.)

What We Did in Fiscal Year 2004

In fiscal year 2004, we began to develop new businesses in areas where we expect high growth in coming years. In the finance field, we acquired a 22.7% share in POCKETCARD Co., Ltd., making us the first general trading company to make a capital and business alliance with a major distribution-based credit card company. As the first phase of this partnership, in September 2003 we issued the official credit card of the Internet portal *Excite*. Additionally, Famima Credit Corporation and POCKETCARD conducted a capital and business tie-up in February 2004. The credit card industry has been one of the few to continue growing during Japan's prolonged economic downturn, so we have positioned this business at the heart of the retail finance business and will strengthen it accordingly.

Regarding activities in the construction field, we devoted efforts to the real estate securitization business, which benefits from synergies with the finance field, and set up private funds for rental condominiums.

In the insurance field, we began selling compulsory motorcycle liability insurance at FamilyMart convenience stores nationwide. As FamilyMart is positioned as an important base for retail business development, we are considering the addition of sales of travel-related insurance and other products and services.

In the logistics area, we worked to construct a distribution network in China. Securing both main-line distribution networks and terminal delivery networks will provide robust support for ITOCHU's China strategy, which focuses on bolstering downstream business areas centering on consumer and retail related.

Outlook for Fiscal Year 2005

We plan to return to profit in fiscal year 2005 based on profit growth in the retail finance business, and the fact that the application of impairment accounting in fiscal year 2004 almost completely wiped clean negative legacies earlier.

Akira Kodera
President, Finance, Realty, Insurance & Logistics Services Company

*Trading income (loss)= Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts

*The number of consolidated employees is based on actual working employees excluding temporary staff.

A condominium building in central Tokyo which is included in the private fund

A distribution center of TINGTONG (CAYMAN ISLANDS) HOLDING in Beijing

Organization

Finance, Realty, Insurance & Logistics Services Company

- Planning & Coordinating Department
- Administration Department

Financial Services Division

- Forex & Securities Department
- Financial Solutions Business Department
- Financial Business Development Department

Construction & Realty Division

- Construction & Realty Department
- Overseas Construction & Realty Department
- Osaka Construction & Realty Department

Insurance Services Division

- Insurance Business Development Department
- Marine Insurance Department

Logistics Services Division

- Logistics Department No.1
- Logistics Department No.2

Establishment of Private Funds for Rental Condominiums

In the construction and realty field, we are focusing on the real estate securitization business, and we have now established two private funds for investment in rental condominiums. With one such fund, we planned development and construction of five rental condominium buildings located in central Tokyo, and real estate securitization products are formed in association with financial institutions, who are also investors. This fund is expected to have approximately ¥12.0 billion in assets when completed. The other private fund invests in seven rental condominium buildings, primarily in central Tokyo, with assets of around ¥10.0 billion. The funds are purchased by domestic financial institutions, pension funds, and other entities.

As the funds' asset manager, ITOCHU is responsible for managing the funds' assets and provides advice on all aspects of rental administration and operation as well as asset disposal. A portion of rental management work is also contracted out to ITOCHU Commnet Co., Ltd. ITOCHU will continue to develop its real estate securitization business through similar projects that take full advantage of the ITOCHU Group's integrated strength.

Completion of a Distribution Network Covering All of China

We established the joint venture China Railway & ITOP Logistics Co., Ltd., with China Railway Modern Logistics Technology Co., Ltd. (CRML), which has 10 branches and 220 distribution centers across China. With this foothold, we intend to develop an automobile distribution service that leverages China's rail transport infrastructure.

We also committed 50% of the equity of TINGTONG (CAYMAN ISLANDS) HOLDING Corporation, a distribution company under the umbrella of the largest food business group in China, the Ting Hsin International Group, with whom ITOCHU has already concluded a comprehensive agreement. TINGTONG (CAYMAN ISLANDS) HOLDING boasts a network of 68 delivery centers across China and has overwhelming strengths in direct delivery mainly of food products to retailers. With the expansion of China's consumer market, the need for advanced distribution functions, such as delivery in all temperature ranges, is growing fast. By providing our expertise in collaboration with the Food Company, we will not only expand the business with the Ting Hsin International Group but also provide other companies with sales routes for processed foods and supply routes for foodstuff raw materials and packaging materials.

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 business
- ○Freight forwarding
- ○Travel services
- ○Distribution processing
- ○Harbor transport business

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 operations 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 III.

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.

Facilities of RDM Technologies Inc.

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.)

A manufacturing company of desserts and lunch boxes for FamilyMart

A MIKIMOTO shop in Korea

Chief Operating Officer, Division Companies Operation, and Chief Administration Officer

In April 2004, ITOCHU created two new Chief Officer level positions: Chief Operating Officer, Division Companies Operation and Chief Administration Officer.

The Chief Operating Officer, Division Companies Operation, as necessary, provides instruction and guidance from a cross-company point of view to the presidents of Division Companies, which are vertically organized by business area or product,

Chief Operating Officer, Division Companies Operation

The Chief Operating Officer, Division Companies Operation is responsible to create synergy and new added value with a cross-company function across the organization to the following two areas. The first is our areas of focus such as Consumer and Retail Related, which is defined as earnings drivers in our Super A&P-2004 plan. The second area is innovative technology businesses, which we expect to become an earnings mainstay in the future. In so doing, we aim to establish an agile operation system that is highly responsive to the changing business environment.

Function and Value (FV) Committee

In fiscal year 2004, we established a Consumer and Retail Related Committee that reports to the Executive Vice President supervising the Consumer and Retail Related segment. This committee pursues cross-company consumer and retail related synergies chiefly among the Textile, Food, and Chemicals, Forest Products & General Merchandise Companies.

In fiscal year 2005, we will expand these efforts into a company-wide activity under the direction of the Chief Operating Officer, Division Companies Operation. In addition to growing business in the Consumer and Retail Related segment, we will develop and promote innovative technology businesses and reinforce functions such as IT (information technology) / LT (logistics technology) / FT (financial technology).

Specifically, in fiscal year 2005 we launched a Function and Value (FV) Committee, chaired by the Chief Operating Officer, Division Companies Operation, as an advisory body to the Headquarters' Management Committee (HMC). The FV Committee's objectives are the reinforcement of "Function" and creation of "Value" for the ITOCHU Group.

FV Committee's Areas of Focus and Policies

- Consumer and retail related: Focusing on consumer businesses, we will pursue high-value-added businesses as well as cultivate and strategically invest in new consumer groups and markets such as active seniors.
- Innovative technologies: We will accelerate business development and profitability by matching "technology seeds" to "market needs" and pursuing wider application of innovative technologies.
- Function reinforcement: We will review and reinforce our functions as a general trading company, focusing on IT/FT/LT, which will become the infrastructure for future earnings improvement for the ITOCHU Group as a whole.

In other areas, the Chief Operating Officer, Division Companies Operation will maintain a flexible approach, creating task forces as needed for areas where cross-company activities promise to generate synergies and for projects that require a company-wide approach. This includes the development and promotion of the Gambare Japanese Company Fund (*Gambare* means "Do your best!") and other small and medium enterprise businesses.

Makoto Kato
Chief Operating Officer, Division Companies Operation

in order to maximize profit, fully exploit the Company's comprehensive strengths, and integrate and optimize our businesses as a whole. The Chief Administration Officer reviews all administrative divisions and provides overall cross-functional administrative coordination for the individual administrative divisions to ensure smooth and sophisticated administrative operations in support of the Company's overall management policy and achievement of its targets.

Chief Administration Officer

The Chief Administration Officer focuses efforts on building a solid management system and executing a flexible personnel strategy in order to create a foundation strong enough to support the "profit doubling" and "reinforcement of the financial position" that are the basic policies of Super A&P-2004.

Building a "solid management system"

Our approach to risk management, the most important element of reinforcing the management system, is to make sure that each administrative division is playing a specialist role from the standpoint of compliance and risk capital management (RCM).

- Liquidity risks: The Finance Division covers this area by setting commitment lines, etc.
- Investment risks: The Affiliate Administration Division monitors observance of our strict standards for new investment and exit.
- Country risks: We have in place a county risk control system by setting assets limit for each country based on country ratings. Our standards for developing countries are strictly based on collateralization. The Risk Management Division monitors this area and eliminates risk concentration.
- Risks related to IT management systems (e.g., computer viruses): The IT Planning Division supports the Chief Information Officer (CIO) to provide a timely response.
- Compliance: The Compliance Office maintains and reinforces systems for ensuring thorough compliance throughout the Company.

Additionally, the Asset Liability Management (ALM) Committee, which is chaired by the Chief Financial Officer (CFO), meets twice a month to administer risk management for the Company as a whole and comprehensive balance sheet improvement.

Indeed, "reinforcement of the risk management system" was one of the factors cited for the rating upgrades we received from US rating agencies in fiscal year 2004.

The Initiative for the Retention and Advancement of Employees

We have launched the following three strategies:

- HR Strategy Tailored for Each Division Company: In order to successfully implement the A&P strategy of each Division Company, it is imperative that each Division Company has its own strong and unique HR strategy. We therefore monitor the progress of each Division Company's HR strategy to ensure that each employee is provided with extensive education and opportunity based upon his/her abilities and interests.
- Diversification Strategy: As a global company, we have always benefited from the diversity of our employees. This year, for example, we have decided to focus in particular on the advancement of female employees. By actively and openly welcoming diversity, we are broadening our human resources, which is one of the strengths that differentiate ITOCHU from others.
- "Performance Only" Strategy: We have adopted a truly performance-based reward system. Each employee will be rewarded based upon his/her performance, irrespective of age, education, or gender. We are promoting human resource mobility by evaluating individual requests for transfer based on our personnel assessment and in-house recruiting system.

A major goal for fiscal year 2005 is the completion of the Division Company System that we introduced in fiscal year 1998. We are further enhancing management support functions and reinforcing internal control and compliance in order to realize (1) an optimized autonomous management system by Division Companies and (2) Small & Efficient Headquarters functions.

Sumitaka Fujita
Chief Administration Officer,
Chief Financial Officer,
Chief Compliance Officer,
Chief Information Officer

Corporate Governance and Corporate Social Responsibility (CSR)

Corporate Governance

ITOCHU proactively works to reinforce corporate governance, recognizing it as one of the most important issues for management. Our basic policy is to establish a highly transparent management system that benefits stakeholders, including stockholders, through the following approaches:

(1) Enhancing transparency in decision-making processes;

(2) Strengthening corporate information disclosure and management accountability;

(3) Thoroughly managing risk, which includes compliance with laws and regulations;

(4) Maintaining business ethics through the strict application of rewards and punishments.

Enhancing Management Transparency

To establish a more efficient and transparent management system, ITOCHU has moved forward with the streamlining of the Board of Directors. Specifically, we reduced the number of Board members from 45 as of fiscal year 1999 to 12 as of the end of June 2004. Also, we introduced the executive officer position from fiscal year 2000 and the managing executive officer position from fiscal year 2002. At the end of June 2004, we had 34 executive and managing executive officers. The streamlining of the Board of Directors has not only speeded up decision-making but also helped directors fulfill their essential roles of making corporate decisions and supervising operations, which allows executive officers to devote themselves to the execution of their own duties.

We have introduced a new compensation system for directors and executive officers, following revisions to the system in fiscal years 2002 and 2003. By evaluating how well directors and executive officers have fulfilled their required functions, it is more closely tied to business performance.

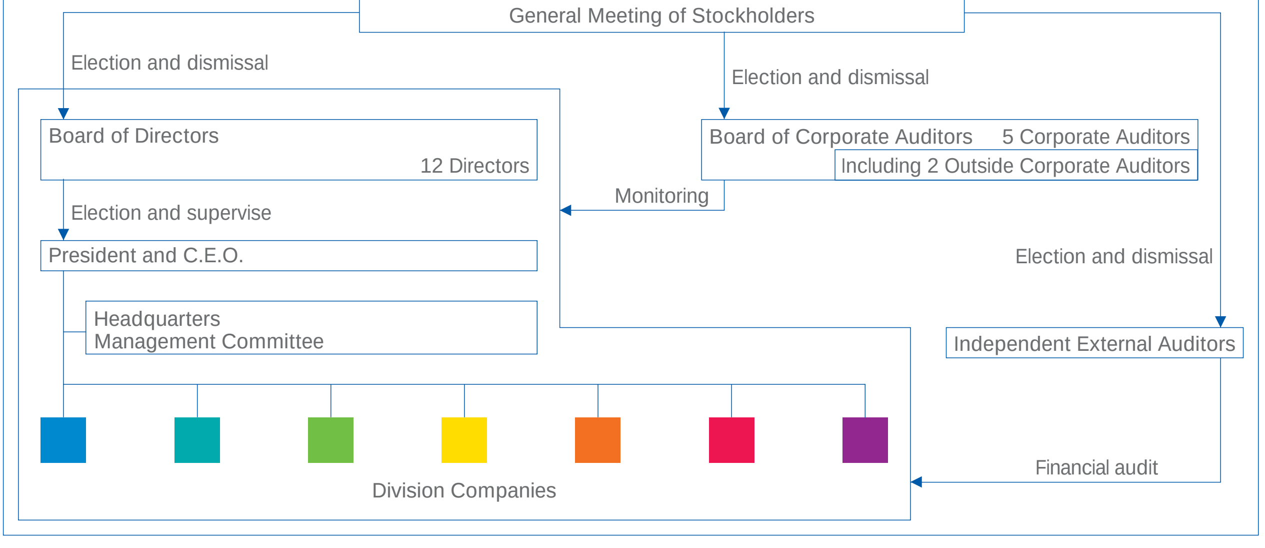
In fiscal year 2001, we established an Advisory Board composed of outside experts from various fields. Its independence allows us to obtain useful opinions on management from an objective point of view.

From April 2003, following a revision to the Commercial Code companies have the option of adopting a Company with Committees System. For the time being, however, we have decided to continue to reinforce our existing corporate governance system, which is predicated on management supervision by the Board of Corporate Auditors, an organization that is independent of the Board of Directors, because we believe it is well suited to ensuring adequate independent monitoring.

The Headquarters Management Committee and Other Internal Committees

Established as a support body to the President, the Headquarters Management Committee (HMC) discusses general management policy and important issues relating to management. We have also created other internal committees that assist the decision-making of the President and Board of Directors through the careful

Current ITOCHU's Corporate Governance System



Role of the Board of Corporate Auditors

ITOCHU's Board of Corporate Auditors is comprised of five auditors (two of whom are outside corporate auditors) who are appointed by the general stockholders' meeting and are independent of the Board of Directors. The Board of Corporate Auditors contributes to ITOCHU's healthy growth by monitoring the Company's management and Board of Directors on behalf of the stockholders. Its principal roles are as follows:

(1) Reviews performance of independent external auditors and auditing details;
(2) Supervises consolidated group companies' internal controls, risk management, and governance;
(3) Monitors executive decisions of the President and other officers.

To carry out these roles, the auditors regularly attend Board meetings to express their views, although they do not have the right to vote. In addition, standing corporate auditors supervise management by attending important internal meetings and regularly meeting with top managers. They also work to ensure close ties between the independent external auditors and the internal audit division, and cooperate with auditors at consolidated group companies by regularly meeting with group companies, including the Group Audit Committee (GAC), which is made up of auditors from the principal group companies. Substantial attention is paid in selecting the outside corporate auditors to ensure their independence.

examination and discussion of management issues in their particular areas. (Please see the table on page 42.)

Division Company System

Under the Division Company System that we have had in place since fiscal year 1998, seven companies—Textile; Machinery; Aerospace, Electronics & Multimedia; Energy, Metals & Minerals; Chemicals, Forest Products & General Merchandise; Food; and Finance, Realty, Insurance & Logistics Services—bear full responsibility for managing each of their business areas with an autonomy comparable to that of an independent company. Decision-making in each of these Division Companies rests with its president, who, with support from the Division Company Management Committee, promptly deals with the needs of markets and clients. At the same time, the Headquarters specializes in the planning of business strategy for ITOCHU as a whole and overall management. It also maintains control over the Division Companies by setting covenants (total assets, interest-bearing debts, risk assets, etc.) and exercising its authority with regard to particularly important issues. With autonomous management by Division Companies on the one hand and business strategy planning for ITOCHU as a whole and overall management by Headquarters on the other, we have built a well-balanced and efficient management system.

Reinforcing Disclosure and Accountability

Amid the growing importance of disclosure, we are fulfilling our accountability to stakeholders and actively engaging top and senior management in IR activities with a view to enhancing transparency. ITOCHU began releasing results on a quarterly basis in the fiscal year ended March 2001, ahead of other general trading companies, and we further enhanced the contents of information on timely disclosure for the fiscal year ended March 2004. We are also enhancing the IR pages of our Corporate web site to ensure that our disclosure materials are easy both to obtain and to understand. Going forward, we will continue to ensure that our disclosure meets the needs of our increasingly diverse group of stakeholders.

Risk Management and the Internal Control System

We have in place a system for ensuring the proper execution of business (Internal Control System) by clarifying the authority and responsibilities associated with individual job positions and by incorporating appropriate reciprocal control functions in the work process. We are fully aware, however, of the need to constantly review the Internal Control System in order to improve and reinforce it. The Internal Audit Division, which reports directly to the President and the CEO, monitors the execution of business in all divisions, helping us to confirm that the Internal Control System is functioning effectively and to locate areas where improvement is needed.

Principal Internal Committees

Name	Objectives
Super A&P Strategic Investment Committee	Examines prospective strategic investments in the mid-term management plan (Chairman: Executive Vice President Kato; meets once a month)
ALM* Committee	Administers comprehensive balance sheets and risk management, and makes proposals regarding monitoring systems and improvement measures for management (Chairman: Executive Vice President Fujita; meets twice a month)
FV* Committee (created in FY 2005) (For details, see "Chief Operating Officer, Division Companies Operation" on page 38.)	Pursues synergies by leveraging the Company's comprehensive functions and strengths; supports and promotes project involvement by the whole Company. Reinforcement of innovative technologies, consumer and retail related, and IT/FT/LT followed by task force (Executive Vice President Kato; meets once every two months)
CIO* Committee	Examines and promotes policies for the Group's information strategy (Chairman: Executive Vice President Fujita; meets once a month)
Group Profits Improvement Committee	Analyzes subsidiaries' cost and earnings structures to build a consolidated cost structure appropriate to the level of profits; studies ways to improve profit structures and conducts follow-ups to track improvements (Chairman: Managing Executive Officer Nishiyama; meets once a month)
Business Ethics and Compliance Committee (For details, see "Corporate Ethics and Compliance" on page 44.)	Sets program policies for a thorough understanding of the Company's management principles and corporate code of conduct, and comprehensively manages their enforcement; discusses concrete measures for implementing these programs (Chairman: Executive Vice President Fujita; Vice Chairman: Executive Officer Maeda; meets once every two months)

*ALM = Asset Liability Management   *FV = Function & Value   *CIO = Chief Information Officer

Enhancing our Dialog with Stockholders — Informal Stockholders' Gatherings

In order to provide our stockholders with a fuller understanding of our business operation and management, in 1999 we began—in the first such effort by a general trading company—to hold an informal stockholders' gathering after our annual general meeting of stockholders. In addition to allowing us to present developments at our Division Companies and the achievements of our management plan with the President and all of our Directors in attendance, these gatherings offer a relaxed atmosphere for a lively exchange of views between our stockholders and the management of ITOCHU. We plan to continue holding these informal stockholders' gatherings in order to further enhance business transparency.

ITOCHU's Concept of Corporate Social Responsibility

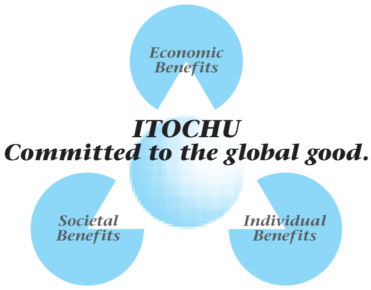
ITOCHU believes that corporate social responsibility is the building of a structure that enables a stakeholder to evaluate a corporation on the basis of that corporation's explicit statements and disclosure regarding how it bears the responsibility of dealing with the demands that various stakeholders place on that corporation. To that end, ITOCHU has established and made public "The ITOCHU Credo" and "The ITOCHU Way," to serve as a standard of judgment and conduct for its employees in their fulfillment of the social responsibilities that are expected of ITOCHU as a corporation.

ITOCHU considers social responsibility to be a transformation of the "returns" it pursues as a corporation from "profits," whose significance is quantitative and economic, into "benefits," whose significance includes qualitative and spiritual elements. Through this transformation, ITOCHU believes that it can achieve in a well-balanced manner three benefits—not only the "economic" but also the "social" and "individual"—and that this approach results in the sharing of "wealth" with a variety of stakeholders.

In addition, we have established the "ITOCHU Corporation Code of Conduct" as a concrete formulation of "The ITOCHU Credo" and "The ITOCHU Way" and are making every effort to ensure that our employees understand it thoroughly and observe it strictly.

ITOCHU's Credo and Way

The ITOCHU Credo



The ITOCHU Way

Yes,we can.
Fight fair.
Open minded.

ITOCHU Corporation Code of Conduct

1) Observance of Laws and Regulations
ITOCHU respects the laws and regulations of the countries where it does business and international rules, and will pursue the highest standards of ethical behavior in its dealings with customers, suppliers, employees, shareholders, and other stakeholders.

2) Supply of Quality Products and Services
ITOCHU is concerned with product safety and the conservation of the environment, energy, and natural resources, and maintains a keen interest in the supply of safe, quality products. ITOCHU will carefully consider the social utility of products and services it supplies.

3) Management with a Long-Term Vision
ITOCHU will not pursue short-term interests at the expense of its reputation for integrity, and will conduct its business with a long-term vision.

4) Fair Dealing
ITOCHU recognizes that free and fair competition is a fundamental principle of the market economy and will engage in free and fair competition. In addition, ITOCHU will maintain a fair, sound, and open relationship with government agencies and political bodies.

5) Disclosure
ITOCHU values communication with its shareholders, other stakeholders, and the public at large, and will fulfill its duty to make full, fair, and timely disclosure of corporate information.

6) The Environment
ITOCHU will remain vigilant in addressing today's critical environmental issues.

7) Good Corporate Citizen
ITOCHU will seek harmony between the pursuit of profit and contribution to society, and will actively fulfill its role as a good corporate citizen.

8) Working Conditions
ITOCHU will promote good working conditions for its employees, respect the dignity and personality of employees, and foster an open culture where ideas can be freely expressed and creativity can be fully developed.

9) Policy Against Antisocial Organizations
ITOCHU will stand firmly against forces or organizations that threaten the order and security of the public.

10) Globalization
ITOCHU, as a globally integrated corporation, will respect the cultures and customs of all countries in which it operates, and conduct its overseas activities in a way that contributes to development in all such locales.

11) Compliance
ITOCHU intends that all directors, officers, and employees of ITOCHU understand and comply with this Code and will develop a system to enhance the understanding, implementation, and effectiveness of this Code.

12) Commitment by Executives
The executives of ITOCHU will take the lead in implementing and enforcing this Code, and will vigorously address violations through investigations. Fair and appropriate disclosure shall be made of any such incidents, and appropriate discrepancy measures, based on principles of accountability, including action directed toward themselves, shall be taken by ITOCHU's executives.

Please refer to pages 45-47 for our activities regarding the above-listed 6), 7), and 8) for examples of our concrete measures for "ITOCHU Corporation Code of Conduct."

Corporate Ethics and Compliance

Corporate Ethics and Compliance System

In fiscal year 2003, we created a Corporate Ethics and Compliance Committee, appointing a Chief Compliance Officer (CCO) as its chairman. This committee is responsible for (1) ensuring that employees have a thorough understanding of "The ITOCHU Credo," "The ITOCHU Way," and the "ITOCHU Corporate Code of Conduct" (see page 43) and considering revisions of it, (2) proposing concrete measures for creating and implementing programs that conform to the "ITOCHU Corporate Code of Conduct," (3) investigating causes of and verifying policies for dealing with major incidents and accidents, and (4) scheduling periodic monitoring and review and setting policy for ongoing improvement. In addition, the committee receives periodic reviews and advice from outside counsels and consultants to ensure that its policies are objective and appropriate.

At the same time, we have set up a Compliance Office and are working to integrate and further improve the overall ITOCHU Group's compliance functions, which had previously been organizationally dispersed among the headquarters, Division Companies, overseas offices, and group companies.

Hotline

Each group employee is required to report violations of laws and other specified situations to his or her superior. To encourage whistle-blowing in cases where this would be awkward, a hotline is available for directly contacting the head of the Compliance Office and outside counsels. Written rules are in place guaranteeing that employees suffer no negative consequences for whistle-blowing.

Consultation Windows

In order to provide consultation on all aspects of compliance, we have set up consultation windows to contact the head of the Compliance Office and relevant Compliance Officers in our organization. Specific contact information (names, telephone/facsimile numbers, and e-mail addresses) are available through our Intranet.

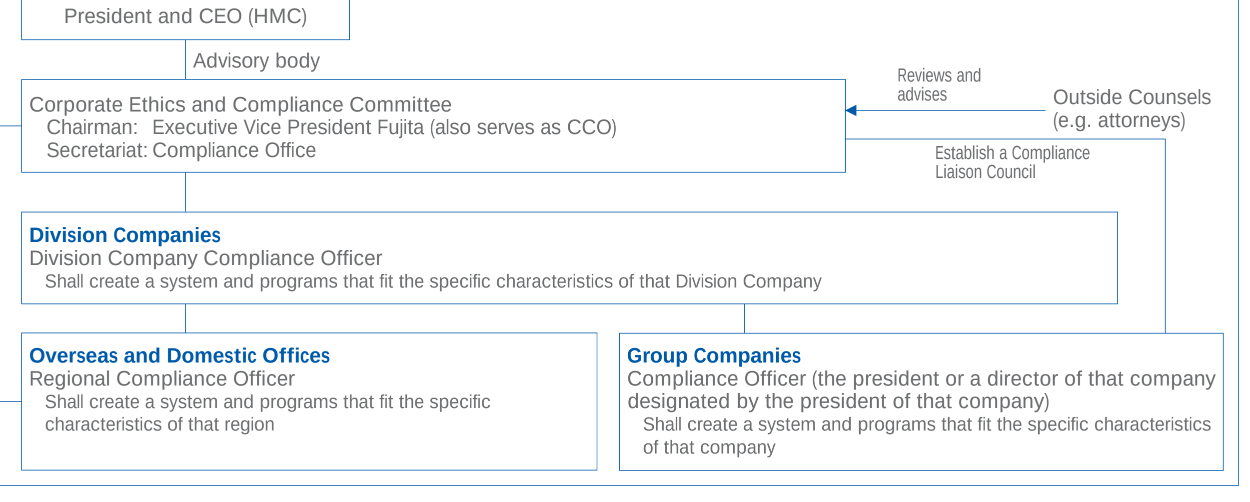
Signed Confirmations

Once each year all ITOCHU employees and Corporate Directors and Officers sign confirmations that they will observe the "ITOCHU Corporation Code of Conduct." At the same time, the presidents of all ITOCHU group companies sign confirmations that they will educate their employees to ensure that they have a thorough understanding of the spirit of the "ITOCHU Corporation Code of Conduct."

Compliance Education Backed Up by Review and Evaluation

We educate and train on a company-wide basis to ensure that all employees understand the importance of compliance. Our Division Companies and group companies also undertake self-education and training with manuals written by Compliance Officers in cooperation with the Compliance Office. In addition, twice each year Compliance Officers throughout the Group, the Compliance Office, and the CCO individually review the compliance situation, report on it to the Board of Directors, and carry out any necessary corrections. Moreover, our personnel assessments and individual performance evaluations also include sections for evaluating observance of compliance and the "ITOCHU Corporate Code of Conduct."

Current ITOCHU Group Corporate Ethics and Compliance System



Proactively Tackling Environmental Issues

As a provider of diverse products and services in Japan and overseas who also develops resources and invests in businesses, ITOCHU considers tackling environmental issues to be one of the most important aspects of management policy.

Environmental Conservation

ITOCHU is pursuing environmental conservation activities by building an Environmental Management System based on an "Environmental Policy" that conforms to the ISO14001 standard, and by establishing specific environmental targets and operational control categories. In addition, we are promoting these activities on two fronts: on the "defense" of environmental risk management and the "offense" of environmental conservation-oriented businesses.

Environmental Management Systems

We have set up a Global Environment Committee chaired by a member of the Board of Directors (Managing Director Mr. Tamba as of April 2004) to promote environmental management on a company-wide basis. In addition to ITOCHU Corporation (Tokyo and Osaka headquarters and five domestic branches), 33 of our group companies in Japan have received ISO14001 certification, while overseas, ITOCHU Taiwan Corporation (June 2002), ITOCHU Hong Kong Ltd. (July 2003), and ITOCHU SHANGHAI Ltd. (May 2004) have been certified. Going forward, we will continue to encourage overseas offices and group companies to acquire certification. At uncertified business units of the ITOCHU Group, we are working to achieve environmental risk management by introducing voluntary environmental management and auditing systems.

Environmental Risk Management

Aware that our activities in Japan and overseas can potentially have an impact in terms of pollution problems, the natural environment, and even the social environment, we are promoting environmental conservation by introducing preventive measures. We manage the environmental risk of the products we handle by using our own Life Cycle Assessment-based procedures to analyze their flow from raw materials to disposal. We have also put in place a mechanism for evaluating in advance the environmental impact of all new investments and development projects. In addition, by not merely observing environment-related regulations and treaties but also setting voluntary standards that are even more stringent than legal standards, when necessary, we are working to achieve thorough environmental risk management.

We are also ensuring that environmental risk prevention is in place at our group companies. In fiscal year 2002, we began on-site surveys of their observance of environmental regulations, visiting 72 group companies over three years. In fiscal year 2004, there were no accidents or violations of laws or regulations that had a major impact on the environment.

Environmental Conservation-Oriented Businesses

Under the umbrella of the Global Environment Committee, we have set up the Sub-Committee on Environmental Businesses Promotion to encourage on a cross-divisional basis environmental conservation-oriented businesses that are focused on the three themes of global warming, heat island, and automobile recycling. As the main projects of fiscal year 2004, including those done independently by individual business units, we 1) participated in the Mie Prefecture Fuel Cell Demonstration Test Subsidy Program, 2) decided to market in Japan emission credits for CO_2 from the methane gas derived from swine farm manure, 3) promoted sales of ATTSU-9, a paint that reflects a high degree of solar heat, making it effective against the heat island effect, 4) received FSC certification for tree plantations owned by our affiliate Southland Plantation Forest Company of New Zealand Limited, and 5) began all-Japan development of sales of a wall shield for incinerators through an equity participation in Fuji Finetec Co., Ltd.

Environmental Conservation at Our Tokyo Headquarters Building

Our environmental conservation activities are not limited to the installation of energy-saving equipment and facilities. Based on guidance from environmental managers posted in our business units, all employees are using water resources effectively, saving electricity, separating and recycling trash, using recycled paper, and making "green" purchases.

Environmental Accounting

In addition to the role it plays in making continual improvements to the Environmental Management System, our introduction of environmental accounting is helping us achieve highly transparent environmental conservation activities with full accountability.

For details regarding our environmental conservation activities, please refer to our *Environmental Report 2004.*

Social Contributions

One of the three pillars of "The ITOCHU Credo" is to make "societal benefits" a reality—to make the world a richer and more comfortable place to live. To that end, we engage in social contribution activities from an international perspective and are fully aware of our obligation to be a good corporate citizen.

Social Contributions through Business

ITOCHU promotes businesses that seek to achieve "harmony of corporate benefits and social benefits." A unique example for ITOCHU Corporation is its promotion of regional development-type businesses through alliances with local governments both in Japan and overseas. Through alliances with Gifu Prefecture in Japan and overseas with Shandong Province, Jiangsu Province, and Nanjing City in China, we are providing diverse support for the development of local industry through our businesses.

Signing ceremony for an agreement on alliance with Shandong Province

Social Contributions as a Corporation

Activities in Japan include our contributions to the sound upbringing of children through the ITOCHU Foundation, which this year marks the 30th anniversary of its founding. Among the Foundation's specific activities are surveys and research on children, support for children's libraries, support for foreign students and Japanese foreign students, and facility management. Together with other companies in the ITOCHU Group, since 1992 ITOCHU has continued to support basic research on global warming by the University of Tokyo's Center for Climate System Research (CCSR). Each year we co-sponsor with CCSR the ITOCHU Symposium to announce the results of that research to the world.

A story-telling session for children at the ITOCHU Foundation

Overseas, our local offices are taking the initiative in social contribution activities. One example is our group company Unex (Guatemala) S.A. It is promoting social contribution activities for schoolchildren and other activities helping improve the lives of local people by setting up a social contribution fund and dedicating 1-2% of its annual ordinary profit to the fund.

An example of an activity in a specific business is our commercial development under a licensing agreement with WWF Japan of environmentally friendly textile products such as organic cotton. We are contributing a portion of sales from this business to support nature conservation activities.

Students of the hospice with care providers and a donated car (Guatemala)

Employees' Social Contribution Activities

"Fureai no Network," an in-house volunteer organization with 131 members and 4 subcommittees—nature watching, disaster relief, contribution by articles, and reading aloud at senior welfare centers—is engaged in a variety of volunteer activities. In addition, at our Tokyo headquarters we are encouraging blood donation and bone marrow bank donor registration. In fiscal year 2004, 435 individuals donated blood and 21 registered as bone marrow donors. Following the December 2003 earthquake in southeastern Iran, internal and external fundraising activities resulted in ¥1.1 million.

As part of our efforts to build a system that encourages participation, we have put in place a volunteer time-off system for supporting these employee volunteer activities. Under this system, 10 employees took a leave of absence in fiscal 2004.

For details of our activities relating to social contribution, please refer to our *Environmental Report 2004*.

Providing Comfortable Working Conditions for Our Employees

ITOCHU Corporation is committed to providing comfortable working environments to ensure the safety and well-being of its employees. At the same time, we seek to create a corporate atmosphere conducive to freedom and creativity while respecting the personality and distinctive traits of individuals as far as possible.

Right Person for the Right Position

Our basic policy is to maximize the potential of all employees, irrespective of age or gender. Under our personnel assessment system, superiors interview their subordinates to gain a full understanding of his or her individual capabilities, specialist expertise, and career prospects. We then prepare individual appointment, transfer, career development, and training plans for employees to ensure that their capabilities are maximized and they are placed in the right positions.

Remuneration Based on Job Description, Responsibility, and Performance

Employee remuneration consists of a base salary, which is determined by job description and degree of responsibility, and incentive compensation (I.C.), which depends on the performances of the organization and the individual. The I.C. is based on a profit-sharing approach under which all employees and the Company share identical goals as well as the profits derived from their joint efforts. Thus, the overall source of I.C. is determined by the amount of profit earned. We also have a pay-for-performance system, where rewards reflect the individual performance of each employee and his or her organization.

Developing People Who Will Raise Our Competitiveness

We are seeking to create a group of people who will enable us to generate stable earnings in the era of global megacompetition. Here, we place particular emphasis on developing people for future Group management roles, and we have a managerial school and an MBA training program in place to promote this cause. We are also stepping up training of overseas local staff and young people, who will become the leaders of tomorrow, through such programs as overseas education for new employees, overseas on-the-job training, and overseas local staff training.

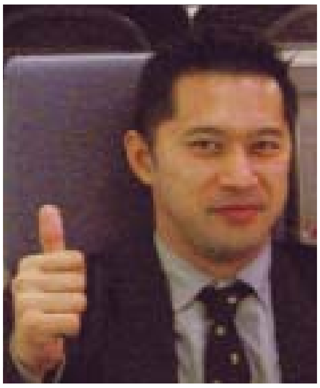
Maximizing Diversity

To sharpen our response to economic globalization and promote consolidated management, we give high priority to assigning employees in accordance with the specific situations of our respective business fields. We seek to maximize diversity of employees, regardless of age, gender, or nationality, and to this end we formulated our Promotion Plan on Human Resource Diversification in December 2003. Under this plan, we work hard to create an appealing company and corporate atmosphere through a number of proactive initiatives. These include a concrete program to promote female employees to management positions and a program to promote overseas local staff to higher positions and reinforcement of training programs for them.

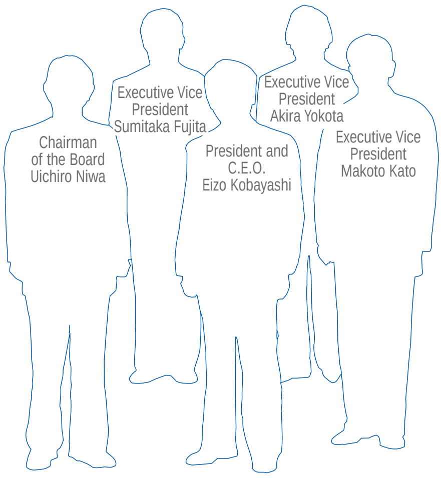
Meanwhile, we strive to provide comfortable working environments for the physically and mentally handicapped. In 1987, we established ITOCHU Uneedus Co., Ltd., as a special company under the Law for Employment Promotion, etc. of the disabled. As of April 1, 2004, disabled people accounted for 2.4% of our total workforce, compared with 1.8% as mandated by law. We will continue to maintain this high ratio in the future.

Respecting Employees' Personalities and Individual Traits

To maintain the mental health of employees and address their career- and job-related concerns, we have set up a system offering them easy access to in-house counseling from psychiatrists and clinical psychologists. To help those balancing work and family obligations, we have a system enabling employees to take time off or work fewer hours while their children are wait-listed for day-care facilities or when unprecedented nursing care needs arise.

Corporate Officers



Directors

Chairman of the Board

Uichiro Niwa
1962 Joined ITOCHU Corporation
2004 Chairman

President and C.E.O.

Eizo Kobayashi
1972 Joined ITOCHU Corporation
2004 President and C.E.O.

Executive Vice Presidents

Makoto Kato
Chief Operating Officer, Division Companies Operation
1964 Joined ITOCHU Corporation
2001 Executive Vice President

Sumitaka Fujita
Chief Administration Officer;
Chief Financial Officer;
Chief Compliance Officer;
Chief Information Officer
1965 Joined ITOCHU Corporation
2001 Executive Vice President

Akira Yokota
President, Energy, Metals & Minerals Company
1967 Joined ITOCHU Corporation
2003 Executive Vice President

Senior Managing Directors

Yoichi Okuda
President, Aerospace, Electronics & Multimedia Company
1970 Joined ITOCHU Corporation
2004 Senior Managing Director

Kouhei Watanabe
President, Food Company
1971 Joined ITOCHU Corporation
2004 Senior Managing Director

Managing Directors

Akira Kodera
President, Finance, Realty, Insurance & Logistics Services Company
1970 Joined ITOCHU Corporation
2004 Managing Director

Jiro Takemori
President, Machinery Company
1971 Joined ITOCHU Corporation
2004 Managing Director

Toshihito Tamba
President, Chemicals, Forest Products & General Merchandise Company
1972 Joined ITOCHU Corporation
2003 Managing Director

Shigeki Nishiyama
Chief Corporate Planning Officer;
General Manager, Corporate Planning & Administration Division
1974 Joined ITOCHU Corporation
2004 Managing Director

Masahiro Okafuji
President, Textile Company
1974 Joined ITOCHU Corporation
2004 Managing Director

Board of Corporate Auditors

Corporate Auditors

Tsutomu Miyakushi
1968 Joined ITOCHU Corporation
2003 Standing Corporate Auditor

Masahiro Asano
1970 Joined ITOCHU Corporation
2001 Standing Corporate Auditor

Nobuyoshi Umeno
1968 Joined ITOCHU Corporation
2004 Standing Corporate Auditor

Katsuhiko Kondo
1996 President, Dai-Ichi Kangyo Bank, Limited (currently Mizuho Financial Group, Inc.)
1997 Corporate Advisor
2000 Corporate Auditor, ITOCHU Corporation

Haruo Sakaguchi
1989 ~ Vice Chairman, Japan Federation of Bar Association
1990 Chairman, Osaka Bar Association
2001 Chairman, Osaka Public Bid Monitoring Committee
2003 Corporate Auditor, ITOCHU Corporation

Executive Officers

Managing Executive Officers

Takeshi Tanimura
General Manager of Nagoya Area;
General Manager, Planning & Development Dept.
1999 Joined ITOCHU Corporation
2001 Managing Executive Officer

Akihisa Matsumoto
Executive Vice President, Energy, Metals & Minerals Company
1970 Joined ITOCHU Corporation
2004 Managing Executive Officer

Satoshi Tanioka
Chief Executive for European Operation;
C.E.O., ITOCHU Europe PLC.;
C.E.O., ITOCHU Deutschland GmbH.
1971 Joined ITOCHU Corporation
2004 Managing Executive Officer

Executive Officers

Masayoshi Araya
General Manager for Oceania;
Managing Director & C.E.O., ITOCHU Australia Ltd.
1968 Joined ITOCHU Corporation
2001 Executive Officer

Etsuro Nakanishi
Executive Vice President, Textile Company;
Chief Operating Officer, Textile Division
1971 Joined ITOCHU Corporation
2001 Executive Officer

Masao Kasama
Deputy Chief Officer for International Operation (Asian Region)
1971 Joined ITOCHU Corporation
2001 Executive Officer

Kiyoshi Sasaki
General Manager, Finance Division
1969 Joined ITOCHU Corporation
2002 Executive Officer

Toru Ota
General Manager, Secretariat Division
1970 Joined ITOCHU Corporation
2002 Executive Officer

Yoshio Akamatsu
Executive Vice President & Chief Administrative Officer, ITOCHU International Inc.;
President, ITOCHU Canada Ltd.
1974 Joined ITOCHU Corporation
2002 Executive Officer

Masahiro Nakagawa
General Manager, Human Resources Division
1974 Joined ITOCHU Corporation
2002 Executive Officer

Yosuke Minamitani
Chief Operating Officer, Chemicals Division
1974 Joined ITOCHU Corporation
2002 Executive Officer

Shigeharu Tanaka
Chief Operating Officer, Food Products Marketing & Distribution Division
1974 Joined ITOCHU Corporation
2002 Executive Officer

Tsuneharu Takeda
Chief Officer for Kansai District Operation
1967 Joined ITOCHU Corporation
2003 Executive Officer

Saichi Nakazawa
Senior Vice President, Energy, Metals & Minerals Company
2003 Joined ITOCHU Corporation
2003 Executive Officer

Hiroshi Kitamura
President & C.E.O., ITOCHU International Inc.
1971 Joined ITOCHU Corporation
2003 Executive Officer

Nobuo Kuwayama
General Manager for China;
Chairman & C.E.O., ITOCHU SHANGHAI Ltd.
1971 Joined ITOCHU Corporation
2003 Executive Officer

Minoru Akimitsu
General Manager, IT Planning Division
1973 Joined ITOCHU Corporation
2003 Executive Officer

Takanobu Furuta
Chief Operating Officer, Plant & Project Division
1973 Joined ITOCHU Corporation
2003 Executive Officer

Yoshihisa Aoki
Chief Operating Officer, Provisions Division
1974 Joined ITOCHU Corporation
2003 Executive Officer

Hiroo Inoue
Chief Operating Officer, IT & Telecommunication Division
1975 Joined ITOCHU Corporation
2003 Executive Officer

Yoshihisa Suzuki
Chief Operating Officer, Aerospace & Electronic Systems Division
1979 Joined ITOCHU Corporation
2003 Executive Officer

Yoshio Matsumi
General Manager, Innovative Technology Business Development Office
1969 Joined ITOCHU Corporation
2004 Executive Officer

Kazutomo Shima
Senior Vice President, Textile Company;
Chief Operating Officer, Apparel Division
1971 Joined ITOCHU Corporation
2004 Executive Officer

Yoichi Kobayashi
Chief Operating Officer, Metals, Mineral Resources & Coal Division
1973 Joined ITOCHU Corporation
2004 Executive Officer

Tadayuki Seki
Chief Financial Officer, Food Company
1973 Joined ITOCHU Corporation
2004 Executive Officer

Akitomo Noto
Chief Operating Officer, Fresh Food & Food Business Solutions Division
1973 Joined ITOCHU Corporation
2004 Executive Officer

Toyoshige Yamada
Chief Operating Officer, Industrial Textile & Lifestyle Division
1973 Joined ITOCHU Corporation
2004 Executive Officer

Taizo Hamaguchi
Senior Vice President, Food Company
1973 Joined ITOCHU Corporation
2004 Executive Officer

Nobuyuki Kaneko
Chief Operating Officer, Media Business Division
1974 Joined ITOCHU Corporation
2004 Executive Officer

Kazutoshi Maeda
General Manager, Legal Division
1974 Joined ITOCHU Corporation
2004 Executive Officer

Kenichi Kamiyoshi
Chief Operating Officer,Textile Material Division
1974 Joined ITOCHU Corporation
2004 Executive Officer

Shuichi Morozumi
Chief Operating Officer, Forest Products & General Merchandise Division
1975 Joined ITOCHU Corporation
2004 Executive Officer

Takeyoshi Ide
Chief Operating Officer, Automobile Division
1975 Joined ITOCHU Corporation
2004 Executive Officer

Takao Shiomi
Chief Operating Officer, Logistics Services Division
1975 Joined ITOCHU Corporation
2004 Executive Officer

Note: The above biographies are lists of the year of employment, except corporate auditors from outside, and the year of the assumption of the current position.

(As of July 1, 2004)

Major Subsidiaries and Associated Companies

As of March 31, 2004

Textile Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	CI Fabric Ltd.	100.0	Manufacture and wholesale of fabrics for apparel and home furnishings	3
		ITOCHU Home Fashion Corp.	100.0	Manufacture and wholesale of home furnishings	3
		SAKASE ADTECH CO., LTD.	90.0	Manufacture and wholesale of textile fabrics for industry and home furnishings	3
		○ Pony Japan Inc.	100.0	Import and sale of PONY brand shoes	3
		Roy-ne Co., Ltd.	74.9	Manufacture and wholesale of woven and knitted products	3
		Marusan-Ai Corporation	75.0	Dyeing and finishing of polyester fabrics	3
		ITOCHU Modepal Co., Ltd.	99.9	Manufacture and wholesale of apparel	3
		UNICO Corporation	100.0	Manufacture and wholesale of uniforms	3
		TOMMY HILFIGER JAPAN, INC.	60.0	Sale of Tommy Hilfiger brand products	12
		Liondor Co., Ltd.	100.0	Manufacture and wholesale of men's apparel	3
		CI GARMENT SERVICE CO., LTD.	100.0	Retail of men's and ladies' apparel and sale of garment material	3
		Hunting World Japan Co., Ltd.	100.0	Import and sale of Hunting World brand products	3
		JOI'X CORPORATION	100.0	Sale of men's apparel	7
		ORIZZONTI CO., LTD.	100.0	Sale of Interplanet brand and Vivienne Westwood brand apparel	3
		CORONET CORPORATION	100.0	Manufacture, import and wholesale of apparel	3
		CONVERSE JAPAN CO., LTD.	100.0	Comprehensive control of CONVERSE brand business	3
		ITOCHU Fashion System Co., Ltd.	100.0	Comprehensive consulting in the fashion industry	3
		Richard-Ginori Japan Corporation	50.0	Import and sale of Richard Ginori & Pagnossin Group brand products	12
		BALLY JAPAN LTD.	80.0	Sale of BALLY brand products	1
		RAIKA CO., LTD.	100.0	Manufacture and wholesale of apparel / Management of restaurants	3
		ITOCHU Textile Institute, Inc.	100.0	Research, development, and consulting	3
		CI Shopping Service Co., Ltd.	100.0	Sale of everyday items aimed at ITOCHU Group employees and families	3
	Overseas	ITOCHU WOOL LTD. (Australia)	100.0	Purchase and wholesale of wool and animal hair	3
		ITOCHU Textile Materials (Asia) Ltd. (Hong Kong S.A.R., China)	100.0	Wholesale of chemical fibers, filament yarns and cotton yarns	3
		HANGZHOU FUJITOMI SILK GARMENTS CO., LTD. (China)	80.0	Manufacture, export and wholesale of textile products	12
		Prominent Apparel Ltd. (Hong Kong S.A.R., China)	100.0	Production control and wholesale of textile and apparel	3
		Tianjin Huada Garment Co., Ltd. (China)	96.3	Manufacture of uniforms	12
		UNIMAX SAIGON CO., LTD. (Vietnam)	80.0	Manufacture of uniforms	12
		Qingdao Tri-Gents Clothing Co., Ltd. (China)	80.0	Manufacture of men's suits	12
		Prominent (Europe) Ltd. (U.K.)	100.0	Import and wholesale of garments and fabrics	12
		ITOCHU Textile (Shanghai) Co., Ltd. (China)	100.0	Production control and wholesale of textile materials, fabrics and apparel	12
Associates	Domestic	Leilian Co., Ltd.	25.9	Retail of ladies' apparel	12
		DEAN & DELUCA JAPAN CO., LTD.	34.0	Operation of cafeteria chain and other new business	2
		Ayaha Corporation	33.5	Manufacture of tire cords, etc.	3
	Overseas	Thai Shikibo Co., Ltd. (Thailand)	30.0	Manufacture of cotton yarn	12
		Hangzhou Asahikasei Textiles Co., Ltd. (China)	30.0	Knitting and dyeing of spandex	12
		BULGARI KOREA LTD. (Republic of Korea)	49.0	Import and sale of BVLGARI brand products	12

Machinery Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	ITOCHU Plant & Machinery Corporation	100.0	Export and import of small-to-medium-scale plant and equipment	3
		IMECS Co., Ltd.	100.0	Ownership and operation of ship, chartering, ship machinery and administration management of overseas shipping companies	3
		EneSol Inc.	90.0	Sale of equipment and systems for energy conservation, and distributed power generation services	3
		On May 1, 2003, company name changed from ITOCHU Energy Solution Co., Ltd.			
		ITOCHU Automobile Corporation	100.0	Export/import and domestic sale of parts and plants	3
		ITOCHU Sanki Corporation	100.0	Wholesale of industrial machinery	3
		ITOCHU Texmac Corporation	100.0	Wholesale of textile machinery	3
		Century Medical, Inc.	100.0	Wholesale of medical equipment and materials	3
	Overseas	MCL Group Ltd. (U.K.)	60.0	Retail of motor vehicles / warehouse (parts) / retail finance	12
		ITOCHU Automobile America Inc. (U.S.A.)	100.0	Holding company for auto-related business	12
		Auto Investment Inc. (U.S.A.)	100.0	Holding company for car dealers	12
		PROMAX Automotive, Inc. (U.S.A.)	100.0	Third-party logistics services	12
		MA International, Inc. (U.S.A.)	100.0	Distribution of portable construction equipment	12
		North American Energy Services Inc. (U.S.A.)	100.0	Power plant operation & maintenance services provider for independent power producers and utilities	12
Associates	Domestic	Century Leasing System, Inc.	20.1	Lease of machinery and equipment	3
	Overseas	Mazda Canada Inc. (Canada)	40.0	Wholesale of motor vehicles	3

Note: ● Subsidiaries changed from associates and vice versa in fiscal year 2004
○ Newly consolidated subsidiaries in fiscal year 2004

Aerospace, Electronics & Multimedia Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	ITOCHU AeroTech Corporation	100.0	Lease/finance of commercial aircraft, and sale of security-related equipment	3
		ITOCHU Aviation Co., Ltd.	100.0	Sale of aircraft and related equipment	3
		ITOCHU Mechatronics Corporation	100.0	Sale of NC machine tools, industrial robots and related software	3
		ITOCHU TECHNO-SCIENCE Corporation	47.2	Consultation, system integration, services of computer networks and equipment	3
		CRC Solutions Corp.	46.7	Software development, outsourcing and consulting services	3
		Info Avenue Corporation	90.0	Supply business, info-sharing, sales promotional consulting services and application service provider	3
		Excite Japan Co., Ltd.	88.2	Internet search engine and information provider	3
		SPACE SHOWER NETWORKS INC.	51.9	Music channel on cable/satellite television	3
		ITC NETWORKS CORPORATION	100.0	Retail network of mobile phones	3
	Overseas	ITOCHU AirLease, Inc. (U.S.A.)	100.0	Lease/finance of commercial aircraft	3
		ITOCHU AirLease B.V. (Netherlands)	100.0	Lease of commercial aircraft	3
		ITOCHU Aviation, Inc. (U.S.A.)	100.0	Export of aircraft and related equipment	12
		Innovative Information Systems Ltd. (Hong Kong S.A.R., China)	100.0	System development, sales, support of computer networks and equipment	3
		Global Network Solutions Europe Co., Ltd (U.K.)	100.0	System development, sales, support of computer networks and equipment	3
		ITOCHU Technology, Inc. (U.S.A.)	100.0	Venture investment, IT-related new businesses, export of computer H/W & S/W	3
Associates	Domestic	JAMCO Corporation	20.6	Maintenance of aircraft and manufacture of aircraft interior	3
		○ ImageONE Co., Ltd.	21.3	Sale of remote-sensing satellite images and sale of medical diagnosis images	9
		Japan Entertainment Network K.K.	50.0	Cartoon channel on cable/satellite television	12
		Star Channel Inc.	17.8	Movie channel on cable/satellite television	6

Energy, Metals & Minerals Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	ITOCHU Non-Ferrous Materials Co., Ltd.	100.0	Wholesale of non-ferrous/light metals and products	3
		ITOCHU Oil Exploration Co., Ltd.	96.4	Exploration and production of hydrocarbon resources	12
		ITOCHU Petroleum Japan Ltd.	100.0	International trade of crude oil and petroleum products, charter and operation of oil tankers, sales of bunker fuel oil, operation of oil storage facilities	3
		ITOCHU Energy Marketing Co., Ltd.	100.0	Wholesale of petroleum products	3
	Overseas	ITOCHU MINERALS & ENERGY OF AUSTRALIA PTY LTD (Australia) On April 1, 2004, company name changed from CI MINERALS AUSTRALIA PTY., LTD.	100.0	Investment in projects of iron ore mining, coal mining and sales, manufacture of alumina, mining of bauxite and oil exploration	3
		ITOCHU Petroleum Co., (Hong Kong) Ltd. (Hong Kong S.A.R., China)	100.0	International trade of crude oil, LPG and petroleum products	3
Associates	Domestic	Marubeni-Itochu Steel Inc.	50.0	Wholesale of steel products	3
		ITOCHU ENEX CO., LTD.	39.6	Wholesale of petroleum products	3
	Overseas	Chemoil Corporation (U.S.A.)	50.0	Sale and distribution of bunker fuel	12
		Galaxy Energy Group Ltd. (British Virgin Islands)	25.0	International trade of crude oil and petroleum products	12

Chemicals, Forest Products & General Merchandise Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	ITOCHU Kenzai Corp.	75.8	Wholesale of wood products and building materials	3
		Daishin Plywood Co., Ltd.	100.0	Manufacture of plywood	3
		ITOCHU Forestry Corp.	100.0	Landscaping, greenery development and wastewater treatment systems	3
		ITOCHU Pulp & Paper Corp.	100.0	Wholesale of paper, paperboards, and various paper materials	3
		ITOCHU Ceratech Corp.	100.0	Manufacture and sale of ceramic raw materials and products	3
		ITOCHU Windows Co., Ltd.	100.0	Manufacture and sale of insulating glass	3
		I.C.S. Co., Ltd.	95.0	Sale of tires and wheels	3
		Royal Stage Corporation	100.0	Catalog shopping for the wealthy	3
		Retail Branding Co. Ltd.	66.7	Retail support business	3
		○ ILLUMS JAPAN CO. LTD.	85.0	Retail of Scandinavian modern design interior	2
		HARTS MARUHARA CORPORATION	67.0	DIY store	1
		BEAVER TOZAN CORPORATION	51.0	DIY store	3
		ITOCHU CHEMICAL FRONTIER Corporation	100.0	Wholesale of fine chemicals and related raw materials	3
		ITOCHU PLASTICS INC.	100.0	Development and wholesale of plastics and related products	3
		ITOCHU Techno-Chemical Inc.	80.0	Wholesale of superfine chemicals	3
		The Japan Cee-Bee Chemical Co., Ltd.	90.0	Manufacture and processing of metal pretreatment chemicals	3
		VCJ Corporation	75.0	Wholesale of video/DVD and plastic products for retailers	3
		Chemical Logitec Co., Ltd.	100.0	Management of chemical storage warehouses and transport of chemical and other cargos	3
	Overseas	CIPA Lumber Co., Ltd. (Canada)	100.0	Manufacture of veneer	12
		Pacific Woodtech Corp. (U.S.A)	100.0	Manufacture of LVL & I-Joist	12
		Prime Source Building Products, Inc. (U.S.A.)	100.0	Wholesale of building materials	12
		● PT. Aneka Bumi Pratama (Indonesia)	100.0	Processing of natural rubber	12
		Am-Pac Tire Distributors, Inc. (U.S.A.)	100.0	Wholesale and retail of tires	12
		Stapleton's (Tyre Services) Ltd. (U.K.)	100.0	Wholesale and retail of tires	12

			Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries			ITOCHU Plastics Pte., Ltd. (Singapore)	100.0	Wholesale of plastic resins	12
			Plastribution Limited (U.K.)	100.0	Wholesale of synthetic resins	12
			Hexa Color (Thailand) Co., Ltd. (Thailand)	50.5	Plastics coloring compound operations	12
			Hinbo International Industrial Co., Ltd. (China)	82.2	Manufacture of plasticizer for polyvinyl chloride	12
			ITOCHU Specialty Chemicals Inc. (U.S.A.)	100.0	Wholesale of chemical products and synthetic resins	12
			ZHEJIANG YIPENG CHEMICAL CO., LTD. (China)	60.0	Manufacture of anhydrous fluoric acid	12
Associates	Domestic		Japan Brazil Paper and Pulp Resources Development Co., Ltd.	25.9	Investment in CENIBRA, one of the largest eucalyptus pulp manufacturers in Brazil	3
		○	DAIKEN CORPORATION	20.0	Manufacture of building materials and construction parts	3
			PPG-CI Co., Ltd.	49.0	Import and sale of float-glass	11
			TAKIRON Co., Ltd.	27.2	Manufacture of flat and corrugated plastic sheets	3
			C.I. KASEI Co., Ltd.	36.7	Manufacture of PVC pipe and film and related materials	3
			TOHO EARTHTECH, INC.	34.2	Exploration and production of natural gas and iodine	3
	Overseas		Daiken Sarawak Sdn. Bhd. (Malaysia)	15.0	Manufacture of medium-density fiberboard	12
			Albany Plantation Forest Company of Australia Pty. Ltd. (Australia)	28.4	Plantation of eucalyptus trees for papermaking	3
			SOUTH EAST FIBRE EXPORT PTY. LTD. (Australia) On October 1, 2003, company name changed from HARRIS DAISHOWA (AUSTRALIA) PTY, LTD.	37.5	Manufacture of woodchip	12
			Rubber Net (Asia) Pte Ltd. (Singapore)	39.6	Sale of crude rubber	12
			Thai Tech Rubber Corporation Ltd. (Thailand)	33.0	Processing of crude rubber	12
		●	Siam Riso Wood Products Co., Ltd. (Thailand)	44.0	Manufacture of particle boards	12
			Guangzhou ES Fiber Co., Ltd. (China)	29.0	Manufacture of bonded-fiber fabrics	12
			Shanghai Baoling Plastics Co., Ltd. (China)	22.6	Manufacture of plastic products	12
			Shanghai Jinpu Plastic Packaging Material Co., Ltd. (China)	30.0	Manufacture of polypropylene films	12
			Tetra Chemicals (Singapore) Pte. Ltd. (Singapore)	40.0	Sale and manufacture of MTBE (Methyl t-Butyl Ether)	12
			SUMIPEX (THAILAND) CO., LTD. (Thailand)	49.0	Manufacture of PMMA sheet	12

Food Company

			Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic		ITOCHU Feed Mills Co., Ltd.	85.9	Manufacture and wholesale of compound feeds	3
			ITOCHU Sugar Co., Ltd.	100.0	Manufacture and processing of sugar and by-products	3
			I-FOODS Co., Ltd.	100.0	Import and wholesale of food materials	3
			ITOCHU Rice Corporation	89.6	Rice wholesale	3
			ITOCHU FRESH Corporation	100.0	Processing and wholesale of perishables	3
			ITOCHU SHOKUHIN Co., Ltd.	50.9	Wholesale and distribution of foods	9
			Nishino Trading Co., Ltd.	75.7	Wholesale of foods and sundries	3
			Yayoi Foods Co., Ltd.	93.2	Manufacture of frozen prepared foods	3
			Tower Bakery Co., Ltd.	100.0	Processing of dough and bread for SEVEN-ELEVEN convenience store chain	2
			Universal Food Co., Ltd.	98.0	Planning and service providing in food service business	3
			Family Corporation Inc.	100.0	Logistics services of frozen, chilled and dry foods and sundries for convenience store chain, retailers and food service business	3
	Overseas		Oilseeds International Ltd. (U.S.A.)	100.0	Safflower oil manufacture	7
			P.T. Aneka Tuna Indonesia (Indonesia)	47.0	Production and marketing of canned tuna	12
Associates	Domestic		Fuji Oil Co., Ltd.	21.6	Integrated manufacturer of cooking oil and soybean protein	3
			Japan Foods Co., Ltd.	44.2	Production of soft drinks	3
		○	Prima Meat Packers, Ltd.	39.7	Production and marketing of meat, ham, sausage and processed foods	3
			Yoshinoya D&C Co., Ltd.	23.5	Operation of Gyu-don store chain and other new business	2
			NIPPON ACCESS, Inc. On April 1, 2004, company name changed from YUKIJIRUSHI ACCESS, Inc.	25.0	Wholesale and distribution of foods	3
			FamilyMart Co., Ltd.	30.9	Operation of a convenience store chain, using the name FamilyMart and a franchise system	2
	Overseas		Palmaju Edible Oil Sdn. Bhd. (Malaysia)	30.0	Refining of palm oil	12
			CGB ENTERPRISES, INC. (U.S.A.)	50.0	Handling of grain and operation of barges	5
			Asahi Breweries ITOCHU (Holdings) Limited (Hong Kong S.A.R., China)	40.0	Holding company for China beer project	12
			Cholburi Sugar & Trading Corp., Ltd. (Thailand)	20.0	Sugar manufacture	9
			Nic Starch Products Ltd. (Thailand)	34.0	Starch manufacture	12
			Winner Food Products Ltd. (Hong Kong S.A.R., China)	26.0	Manufacture and wholesale of processed foods	12
			TAIWAN DISTRIBUTION CENTER CO., LTD. (Taiwan)	39.4	Wholesale of foods and sundries	12

Note: ● Subsidiaries changed from associates and vice versa in fiscal year 2004
○ Newly consolidated subsidiaries in fiscal year 2004

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Finance, Realty, Insurance & Logistics Services Company					
Subsidiaries	Domestic	ITOCHU Finance Corporation	89.5	Loan and other finance-related business	3
		ITOCHU Capital Securities, Ltd.	100.0	Structuring and distribution of fund of funds and other investment products	3
		FX Prime Corporation	100.0	Foreign exchange margin trade	3
		ITOCHU Property Development, Ltd.	100.0	Development and sale of housing (apartments, condominiums and homes)	3
		ITOCHU Housing Co., Ltd.	100.0	Real estate agent and property consultant	3
		CENTURY 21 REAL ESTATE OF JAPAN LTD.	55.3	Headquarters of real estate franchise system	3
		ITOCHU Urban Community Ltd.	100.0	Operation and management of real estate property	3
		ITOCHU Commnet Co., Ltd.	100.0	Operation of rental residences	3
		ITOPIA Home Co., Ltd.	100.0	Planning and construction of homes	3
		ITOCHU Insurance Services Co., Ltd.	100.0	Insurance agency	3
		ITOCHU Insurance Brokers Co., Ltd.	89.0	Insurance broking services	3
		eGuarantee, Inc.	54.8	Integrated payment solutions through the eGuarantee financial portal for B2B marketplaces and financing providers	3
		i-LOGISTICS CORP.	61.7	Comprehensive logistics services	3
		Naigai Travel Service Co., Ltd.	100.0	Travel agency	3
	Overseas	ITOCHU Finance (Europe) PLC (U.K.)	100.0	Proprietary financial investment and development of new financial business in Europe	2
		ITOCHU Finance (Asia) Ltd. (Hong Kong S.A.R., China)	100.0	Proprietary financial investment and development of new financial business in Asia	2
		ITOCHU Financial Services INC.	100.0	Proprietary financial investment and development of new financial business in North America	12
		Cosmos Services Co., Ltd. (Hong Kong S.A.R., China)	95.0	Consulting and broking of insurance and reinsurance	3
		Cosmos Services (America) Inc. (U.S.A.)	100.0	Consulting and broking of insurance	12
		Gotoh Distribution Service, Inc. (U.S.A.)	100.0	Transport and warehousing	12
		Eurasia Sped Kft. (Hungary)	95.7	Transport and warehousing	12
		Guangzhou Global Logistics Corp. (China)	57.7	Warehousing and trucking	12
		SIG Logistics, Inc. (U.S.A.)	100.0	Distribution center for convenience store chain	12
Associates	Domestic	kabu.com Securities Co., Ltd.	29.7	Online stock brokerage	3
		CREDIA CO., LTD.	26.0	Consumer loan and business loan	3
		Priva Co., Ltd.	22.7	Online consumer loan	3
		Famima Credit Corporation	34.5	Credit card business for FamilyMart convenience store chain	2
		POCKETCARD Co., Ltd.	23.2	Credit card business	2
		Superex Corporation	37.9	Logistics center	3
		Arukikata.com Inc.	36.0	Online travel agency	3
	Overseas	P.T. Maligi Permata Industrial Estate (Indonesia)	50.0	Development, sale and management of industrial parks	12
Other Operations					
Subsidiaries	Domestic	ITOCHU Management Consulting Co., Ltd.	100.0	Market research and analysis, business support and consulting	3
		ITOCHU Mabis Inc.	100.0	International and domestic trading	3
		ITOCHU Shared Management Services Inc.	100.0	Finance and accounting shared service, business support and consulting	3
		CAPLAN Corporation	78.3	Executive placement, temporary employment, outsourcing, training seminars and outplacement	3
		ITOCHU Human Resource Services Inc.	100.0	Human resource management consulting, personnel data management and payroll service	3
		ITOCHU General Services Inc.	100.0	Facility management and interior works	3
	Overseas	Telerent Leasing Corp. (U.S.A.)	100.0	Distribution and lease of televisions and air conditioners to hotels and hospitals	12
		Master-Halco, Inc. (U.S.A.)	100.0	Manufacture and distribution of fence materials	12
		Enprotech Corporation (U.S.A.)	100.0	Project management, industrial machinery design, repair and maintenance	12

Global Network/Bank List

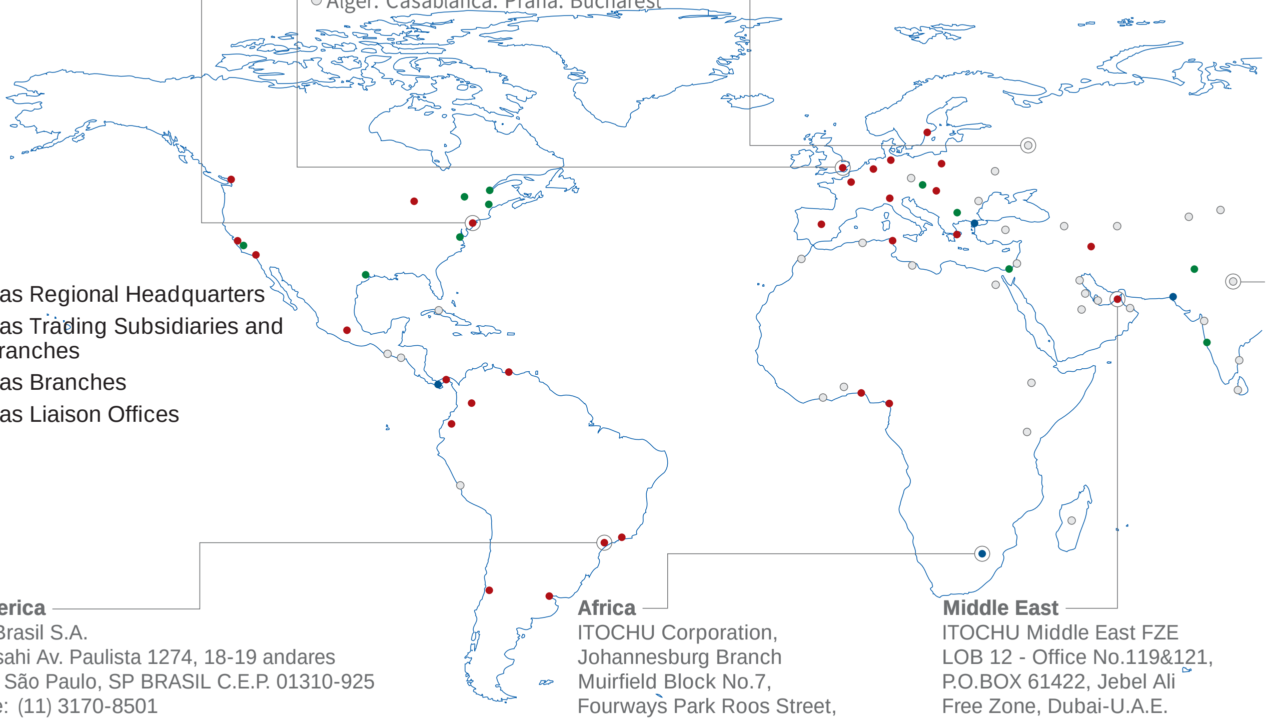
Global Network

North America
ITOCHU International Inc.
23rd floor, Bank of America
Plaza, 335 Madison Avenue,
New York, N.Y. 10017, U.S.A.
Telephone: 1 (212) 818-8000
Facsimile: 1 (212) 818-8361
● New York. Chicago.
San Francisco. Los Angeles.
Vancouver

Europe
ITOCHU Europe PLC.
The International Press Center,
76 Shoe Lane,
London EC4A 3PJ, U.K.
Telephone: 44 (20) 7827-0822
Facsimile: 44 (20) 7583-1847
● London. Düsseldorf. Paris. Milano.
Madrid. Athens. Hamburg. Stockholm.
Budapest. Warszawa. Tunis
○ Alger. Casablanca. Praha. Bucharest

CIS
ITOCHU Corporation, Moscow Office
Savvinskaya Office Building, 9th Floor,
Savvinskaya Nab., 15 Moscow, 119435,
RUSSIAN FEDERATION
Telephone: 7 (095) 961-1456
Facsimile: 7 (095) 961-1447/1448
○ Moscow. Yuzhno-Sakhalinsk. Almaty
Kiev. Ashgabat. Tashkent. Baku

◎ Overseas Regional Headquarters
● Overseas Trading Subsidiaries and Their Branches
● Overseas Branches
○ Overseas Liaison Offices
● Others



Latin America
ITOCHU Brasil S.A.
Edificio Asahi Av. Paulista 1274, 18-19 andares
Bela Vista São Paulo, SP BRASIL C.E.P. 01310-925
Telephone: (11) 3170-8501
Facsimile: (11) 3170-8511
● São Paulo. Panama. Buenos Aires
Bogota. Mexico City. Santiago
Caracas. Quito. Rio de Janeiro
● Panama
○ Guatemala. San Salvador. Lima. Havana

Africa
ITOCHU Corporation,
Johannesburg Branch
Muirfield Block No.7,
Fourways Park Roos Street,
Fourways 2055 SOUTH AFRICA
Telephone: 27 (11) 465-0030
Facsimile: 27 (11) 465-0635, 0604
● Lagos. Douala
● Johannesburg
○ Abidjan. Accra. Nairobi.
Addis Ababa. Tananarive

Middle East
ITOCHU Middle East FZE
LOB 12 - Office No.119&121,
P.O.BOX 61422, Jebel Ali
Free Zone, Dubai-U.A.E.
Telephone: 971 (4) 8819026
Facsimile: 971 (4) 8819027
● Dubai. Tehran
● Istanbul. Karachi
○ Cairo. Amman. Ankara.
Riyadh. Damman. Kuwait.
Muscat. Doha. Toripoli

Bank List

ITOCHU has financial transactions with these banks.

North America
JPMorgan Chase Bank
Bank of America, N.A.
Citibank, N.A.
Wells Fargo Bank, N.A.
Wachovia Bank, N.A.
Comerica Bank
Canadian Imperial Bank of Commerce

Central & South America
Banamex S.A. Grupo Financiero Citigroup
Banco de Credito-Helm Financial Service

Europe & Africa
Barclays Bank PLC
The Royal Bank of Scotland plc
HSBC Bank plc
Standard Chartered Bank
Deutsche Bank A.G.
Bayerische Hypo und Vereinsbank AG
BNP Paribas
Calyon
Société Générale
ABN AMRO Bank N. V.
ING Bank N. V.
San Paolo-IMI S.p.A.
Standard Bank of South Africa Limited

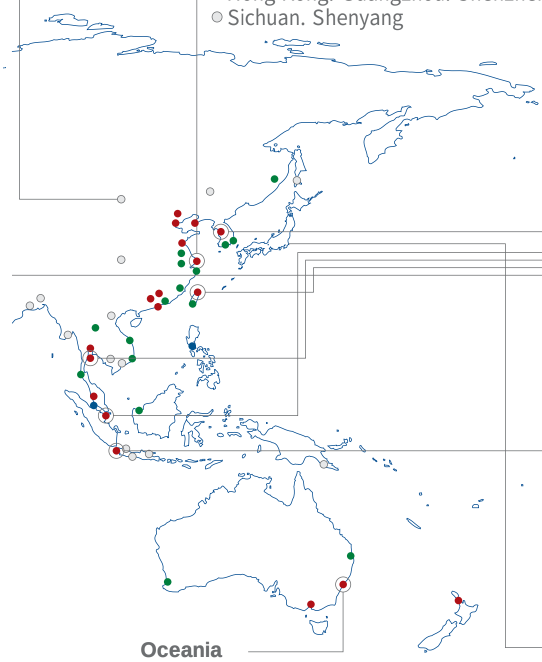
Middle East
Union National Bank
Saudi American Bank

Oceania
Westpac Banking Corporation
Australia and New Zealand
Banking Group Limited

As of July 1, 2004

○ Ulaanbaatar

China
ITOCHU SHANGHAI Ltd.
Room No. 1201, Jin Mao Tower,
88 ShiJi Dadao, (Century Boulevard)
Pudong New Area, Shanghai,
THE PEOPLE'S REPUBLIC OF CHINA
(ZIP code: 200121)
Telephone: 86-21-5047-7788
Facsimile: 86-21-5047-1515
● Shanghai. Beijing. Dalian. Tianjin. Qingdao
Hong Kong. Guangzhou. Shenzhen
○ Sichuan. Shenyang



Asia

Taiwan
ITOCHU TAIWAN CORPORATION
SHIH YEH BUILDING 8F, No. 9, Section 1,
Chang An East Road, Taipei 104,
TAIWAN. R.O.C.
Telephone: 886-2-2551-9931
Facsimile: 886-2-2521-8691
● Taipei

Korea
ITOCHU Korea LTD.
Shin Dong Ah Insurance Building,
21st Floor, #43, 2KA, Taepyung-ro,
Chung-ku, Seoul, 100-864
REPUBLIC OF KOREA Central
REPUBLIC OF KOREA
Telephone: 82-2-6366-2600
Facsimile: 82-2-6366-2662
● Seoul

Indonesia
Representative of ITOCHU Corporation
Menara, Cakrawara 10th Floor,
JL. M.H.Thamrin No.9, Jakarta,
10340 INDONESIA
Telephone: 62-21-31926570
Facsimile: 62-21-31936409
● Jakarta
○ Jakarta, Surabaya, Bandung

Eastern ASEAN
ITOCHU Singapore Pte, Ltd.
9 Raffles Place 41-01,
Republic Plaza, SINGAPORE 048619
Telephone: 65-6230-0400
Facsimile: 65-6230-0560
● Singapore, Kuala Lumpur
● Kuala Lumpur, Manila

Indochina Region
ITOCHU (THAILAND) LTD.
5th Floor Harindhorn Tower 54
North Sathorn Road, Bangrak,
Bangkok 10500 THAILAND
Telephone: 66-2-266-3086
Facsimile: 66-2-266-3132
● Bangkok
○ Hanoi, Ho Chi Minh City,
Yangon, Phnom Penh

India Region
ITOCHU Corporation,
New Delhi Liaison Office
World Trade Tower,
Ground Floor Barakhamba Lane,
New Delhi, 110 001, INDIA
Telephone: Press [9] after dialling
91-11-2341-1891
to speak with our operator
Facsimile: 91-11-2341-3898
○ New Delhi, Mumbai, Kolkata,
Chennai, Colombo, Dhaka

Oceania
ITOCHU Australia Ltd.
Level 29, Grosvenor Place,
225 George Street, Sydney,
N.S.W. 2000, AUSTRALIA
Telephone: 61 (2) 9239-1500
Facsimile: 61 (2) 9241-3955
● Sydney. Auckland
Melbourne
○ Port Moresby

Japan

Headquarters
Tokyo
5-1, Kita-Aoyama 2-chome,
Minato-ku, Tokyo, 107-8077, JAPAN
Telephone: 81-03-3497-2121
Facsimile: 81-03-3497-4141

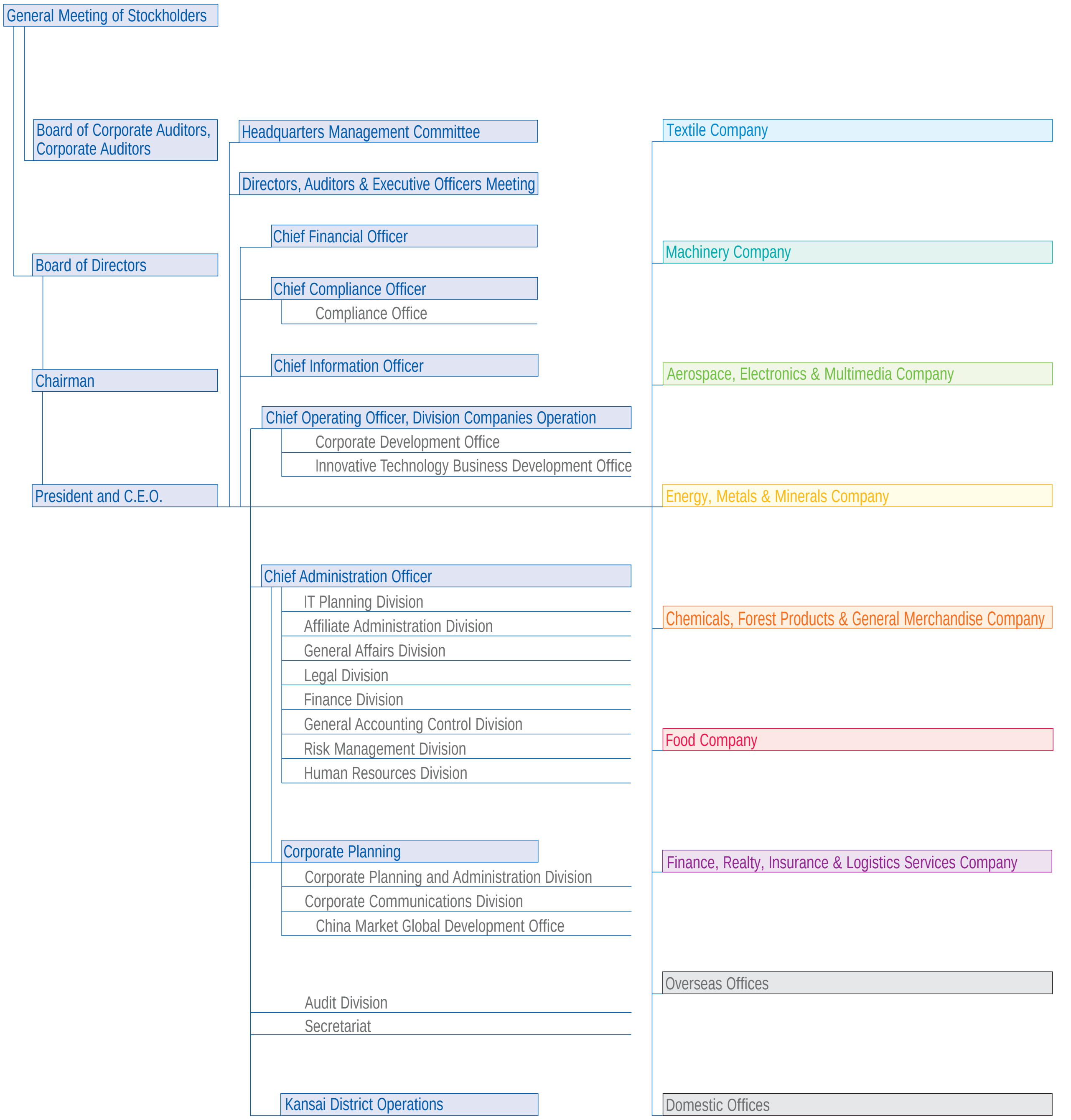
Osaka
1-3, Kyutaro-machi 4-chome,
Chuo-ku, Osaka, 541-8577, JAPAN
Telephone: 81-06-6241-2121
Facsimile: 81-06-6241-3220

Nagoya. Kyushu. Cyugoku. Hokkaidou
Touhoku. Niigata. Sizuoka. Toyama
Kanazawa. Fukui. Koube. Sikoku. Naha
Ooita. Imabari. Tochio

Asia
The Hongkong and Shanghai
Banking Corporation Limited
Bank of China
Industrial and Commercial Bank of China
Bank of Communications
Bangkok Bank Public Company Limited
Kasikornbank Public Company Limited
Bankthai Public Company Limited
Malayan Banking Berhad
RHB Bank Berhad

Japan
Mizuho Corporate Bank, Ltd.
The Sumitomo Mitsui Banking Corporation
The Bank of Tokyo-Mitsubishi, Ltd.
UFJ Bank Limited
Resona Bank, Limited
Aozora Bank, Ltd.
Shinsei Bank, Ltd.
The Sumitomo Trust & Banking Co., Ltd.
The Chuo Mitsui Trust & Banking Co., Ltd.
UFJ Trust Bank Limited
Mizuho Trust & Banking Co., Ltd.
The Mitsubishi Trust & Banking Corporation
Japan Bank for International Cooperation
Development Bank of Japan
The Norinchukin Bank
Shinkin Central Bank

Organization



In addition to the above organization, the GMC (Group Management Committee) was established to heighten the overall value of the ITOCHU Group.

(As of July 1, 2004)

Financial Section

CONTENTS

Six-Year Summary

ITOCHU Corporation and Subsidiaries
Years ended March 31

	Millions of Yen						Millions of U.S. dollars (Note 3)
Years ended March 31	2004	2003	2002	2001	2000	1999	2004
Total trading transactions (Note 1):	¥9,516,967	¥10,461,620	¥11,400,471	¥12,135,261	¥12,144,445	¥13,900,567	$90,046
P/L (For the year):							
Gross trading profit	555,895	566,037	578,867	611,600	612,348	641,713	5,260
Gross trading profit ratio (%)	5.84	5.41	5.08	5.04	5.04	4.62	
Net income (loss)	(31,944)	20,078	30,191	70,507	(88,271)	(34,088)	(302)
Per share (Yen, U.S. dollars):							
Net income (loss) (Note 2)	¥ (20.20)	¥ 13.12	¥ 21.18	¥ 49.46	¥ (61.93)	¥ (23.92)	$ (0.19)
Cash dividends	—	5	5	5	—	—	—
Stockholders' equity (Note 2)	267.25	269.53	278.99	222.34	197.37	214.34	2.53
B/S (At year-end):							
Total assets	¥4,487,282	¥ 4,486,405	¥ 4,752,319	¥ 5,157,519	¥ 6,067,125	¥ 6,733,026	$42,457
Short-term interest-bearing debts	885,253	990,939	991,410	1,263,714	1,553,251	1,851,889	8,376
Long-term interest-bearing debts	1,676,657	1,583,481	1,803,321	1,806,794	2,520,127	2,811,162	15,864
Interest-bearing debts	2,561,910	2,574,420	2,794,731	3,070,508	4,073,378	4,663,051	24,240
Net Interest-bearing debts	1,977,048	2,025,048	2,296,398	2,536,840	3,382,326	4,185,200	18,706
Long-term debt, excluding current installments (including long-term interest-bearing debts)	1,757,313	1,637,916	1,863,629	1,868,185	2,574,964	2,861,338	16,627
Stockholders' equity	422,866	426,220	397,668	316,940	281,325	305,514	4,001
Cash flows:							
Cash flows from operating activities	¥ 184,780	¥ 168,843	¥ 216,503	¥ 160,335	¥ 224,816	¥ 128,320	$ 1,748
Cash flows from investing activities	(55,300)	5,253	214,008	564,707	197,658	306,405	(523)
Cash flows from financing activities	(79,695)	(114,041)	(232,047)	(717,602)	(320,418)	(418,241)	(754)
Cash and cash equivalents at year-end	579,565	534,156	479,734	274,936	264,187	168,123	5,484
Ratio:							
ROA (%)	—	0.4	0.6	1.3	—	—	
ROE (%)	—	4.9	8.4	23.6	—	—	
Ratio of stockholders' equity to total assets (%)	9.4	9.5	8.4	6.1	4.6	4.5	
Net debt-to-equity ratio (times)	4.7	4.8	5.8	8.0	12.0	13.7	
Interest coverage (times)	2.7	2.7	2.1	1.5	0.9	1.0	
Common stock information:							
Stock price (Yen, U.S. dollars):							
Opening price	¥ 287	¥ 425	¥ 444	¥ 547	¥ 251	¥ 300	$ 2.72
High	480	506	520	566	625	368	4.54
Low	231	198	269	395	250	168	2.19
Closing price	468	288	430	445	547	246	4.43
Market capitalization (Yen in billions and U.S. dollars in billions)	742	456	613	634	780	351	7.02
Trading volume (yearly, million shares)	1,304	1,221	847	887	1,832	663	
Number of common stock issued (at year-end, 1,000 shares)	1,584,890	1,583,488	1,425,488	1,425,488	1,425,383	1,425,350	
Exchange rates into U.S. currency:							
(Federal Reserve Bank of New York)							
At year-end	¥ 104.18	¥ 118.07	¥ 132.70	¥ 125.54	¥ 102.73	¥ 118.43	
Average for the year	112.75	121.10	125.64	111.65	110.02	128.10	
Range:							
Low	120.55	133.40	134.77	125.54	124.45	147.14	
High	104.18	115.71	115.89	104.19	101.53	108.83	
Number of Employees (At year-end, Consolidated)	40,737	39,109	36,529	38,867	40,683	—	

Note: 1. "Total trading transactions" is presented in accordance with Japanese accounting practice, and is not meant to present sales or revenue in accordance with U.S. GAAP. See note 2 to consolidated financial statements.
2. "Net income (loss) per share" and "Stockholders' equity per share" are calculated by using the shares that exclude the number of treasury stock from that of common stock issued.
3. The Japanese yen amounts for the year ended March 31, 2004, have been translated into United States dollar amounts, solely for the convenience of the reader, at the rate of ¥105.69=U.S.$1, the official rate of The Bank of Tokyo-Mitsubishi, Ltd., as of March 31, 2004.

Management's Discussion and Analysis of Financial Condition and Results of Operations

All the financial information provided herein is based on the consolidated financial statements included in this annual report. These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Figures in yen for fiscal 2004 (the year ended March 31, 2004) have been converted into U.S. dollars, solely for the convenience of the reader, using an exchange rate of ¥105.69 = U.S.$1 which was the exchange rate as of March 31, 2004, as announced by The Bank of Tokyo-Mitsubishi, Ltd.

In this Management's Discussion and Analysis of Financial Condition and Results of Operations, the "Company" is used as ITOCHU Corporation, "ITOCHU" as the group of ITOCHU Corporation, its subsidiaries and its equity-method associated companies, and "Group companies" as our subsidiaries and equity-method associated companies, unless otherwise indicated.

Overview

During fiscal 2004, ended March 31, 2004, the pace of recovery in the Japanese economy gradually increased. Exports grew steadily in a wide range of industries due to favorable economic conditions in the U.S. and China, with limited effects from "SARS" and the war in Iraq. Also, corporate profits have seen double-digit increases as a result of restructuring activity and strong exports, and capital expenditures have grown. Individual spending, moreover, has begun to show signs of recovery. In stock market trends, the bad-debt problems of Japanese banks are gradually being resolved, the market has been steadily rising since May 2003 in line with the economic recovery, with the Nikkei Stock Average reaching ¥11,000 at the end of the fiscal year under review. In foreign exchange the U.S. dollar continues to fall from ¥120 at the end of the last fiscal year to approximately ¥106 at the close of the fiscal year under review. Overseas, a steady recovery was evident overall. The U.S. economy has been growing with the large-scale tax reduction enacted at the end of May 2003, and growth in the Chinese economy remains strong and focused on capital expenditure.

Amid this business environment the Company launched its mid-term management plan, Super A&P-2004 (standing for "Attractive and Powerful"), a two-year plan covering fiscal years 2004 and 2005. This plan aims to continue with and further strengthen the reorganization of the profit structure and the restructuring of the management system implemented under the A&P-2002, focusing mainly on enhancing profitability in the Company's A&P segments and regions (consumer and retail related; information and multimedia; natural resource development; financial services; North America; and Asia). The Company is also taking proactive steps to develop innovative technologies, such as biotechnology and nanotechnology, to create new businesses in the future.

Specific achievements during fiscal 2004 include, in the textile business of the consumer and retail related sector, the development of highly functional and value added materials, expansion of business for existing brands, and the launch of new brands such as *BRUNO MAGLI*. In the food business, the Company made several aggressive investments including additional investment in Prima Meat Packers, Ltd., and new investments in restaurants, convenience store chains, and the beverage businesses in partnership with local overseas industry leaders. In the natural resource development sector, the Company launched the Sakhalin-1 oil drilling project, and made investments to increase profitability from coal, alumina and iron ore. The Company also further strengthened its structure in Australia by merging several Australia-based subsidiaries and equity-method associated companies developing coal, alumina, iron ore and oil, and absorbed the energy resource development business of its subsidiary ITOCHU Oil Exploration Co., Ltd. into the Company. In the innovative technology related business, the Company continued its strategy of forming global alliances by building relationships with National Institute of Advanced Industrial Science and Technology (AIST), Tsinghua University, and The Institute of Physical and Chemical Research (RIKEN), and making investments in small- and medium- sized companies that possess promising technologies, such as Japan Applied Microbiology Research Institute Ltd. (OUBIKEN), a microorganisms bioventure. Further, the Company has established *Ganbare Kansai Fund* together with Kansai Urban Banking Corporation to use as a platform for the investment in small to mid-sized manufacturing companies in the Kansai area that have high technical capabilities.

The Company has steadily taken measures to promote its A&P strategy since fiscal 2000, which have led to improvements in its asset efficiency, financial position and profitability. Based on these results and to ensure stable, continuous growth, the Company has decided to further strengthen its financial position. Impairment accounting for fixed assets was adopted in fiscal 2004, ahead of enforcement in fiscal 2006 in Japan, eliminating possible future concerns, and efforts to regain healthy balance sheets were implemented with the aim of stable and continuous profit growth.

It was announced on April 2, 2004 that the impairment accounting for fixed assets would be applied to both the Company and its subsidiaries ahead of enforcement in Japan. ITOCHU had already adopted impairment accounting for its consolidated financial statements according to U.S. GAAP. Under Japan GAAP, however, considering the slow recovery of the Japanese real estate market, the assets determined to be impaired under Japan GAAP, these same properties were recognized as impaired on the consolidated financial statements prepared under U.S. GAAP. Regarding the application of impairment accounting, the Company has reviewed not only the assets held by the Construction and Realty Division but also the fixed assets held by headquarters and all Division Companies, considering the current situation and future policies regarding possession. In addition, the Company accelerated the sale of real estate inventories for collection of cash, and reviewed the value of the inventories, recording additional devaluation losses. As a result, for the consolidated financial statements for fiscal 2004, ITOCHU recognized impairment losses for fixed assets of ¥123.3 billion ($1,167 million), and disposal and devaluation losses for real estate inventories of ¥23.9 billion ($226 million), totaling losses of ¥147.2 billion ($1,393 million).

Business Results for Fiscal 2004 - A Comparison between Fiscal 2004 and Fiscal 2003

Revenue (total of “Sales revenue” and “Trading margins and commissions on trading transactions”) increased by 3.3% or ¥56.0 billion from the previous fiscal year to ¥1,738.7 billion ($16,451 million) due to a strengthening of the domestic IT sector and a rise in revenue from the forest products & general merchandise-related sector in North America and Europe.

Gross trading profit decreased by 1.8% or ¥10.1 billion from the previous fiscal year to ¥555.9 billion ($5,260 million). Despite rising profits in the brand-related sector, and in the forest products & general merchandise-related sector in North America and Europe, disposal and devaluation losses for construction and real estate inventories of ¥20.2 billion, ($191 million) along with a decrease in the mineral resources sector in the wake of the stronger Australian dollar against the U.S. dollar, led to a decline overall.

Selling, general and administrative expenses increased by 3.2% or ¥14.4 billion to ¥462.9 billion ($4,380 million) due to a rise in periodic pension costs because of an increase in amortization of unrecognized actuarial losses. In fiscal 2004, following the transfer of the substitutional portion of the Employees’ Pension Fund, *Settlement loss from the transfer of the substitutional portion of the Employees’ Pension Fund* of a loss of ¥22.8 billion ($215 million) and *Subsidy from government on the transfer of the substitutional portion of the Employees’ Pension Fund* of a gain of ¥19.6 billion ($185 million) were recognized respectively.

Provision for doubtful receivables was ¥10.6 billion ($101 million), an improvement of 36.9%, or ¥6.2 billion from the previous fiscal year, due to the reversal of the provision for doubtful receivables by collection of receivables.

Net financial expenses, the net of *Interest income, Interest expense* and *Dividends received*, improved 30.9% or ¥6.4 billion, to expenses of ¥14.2 billion ($134 million). This was due to an improvement of 19.3%, or ¥5.9 billion in the net of interest income and expense, due to lower U.S. dollar interest rates and other factors, along with an increase in dividends received from LNG-related investment.

Gain (loss) on disposal of investments and marketable securities, net of write-down, worsened by ¥0.5 billion from the previous fiscal year to a loss of ¥13.6 billion ($129 million). Although the devaluation loss on marketable securities decreased, the gain from the sale of marketable securities also declined.

Loss on property and equipment-net worsened by ¥128.7 billion from the previous fiscal year to a loss of ¥129.4 billion ($1,225 million), due to the impairment losses for fixed assets.

Other-net worsened ¥5.5 billion from the previous fiscal year to a loss of ¥14.0 billion ($132 million), due to losses on guarantees for debt and losses on foreign exchange.

Consequently, *Income (loss) before income taxes, minority interests, equity in earnings of associated companies and extraordinary items* deteriorated by ¥149.7 billion from the previous fiscal year to a loss of ¥92.0 billion ($871 million). *Income taxes* improved by ¥91.1 billion in the previous fiscal year to a gain of ¥45.5 billion ($430 million), while *Minority interests* improved by 4.2%, or ¥0.4 billion to a loss of ¥10.0 billion ($95 million).

Equity in earnings of associated companies increased by 23.3% or ¥4.3 billion to ¥22.9 billion ($217 million) due to the strong performance of equity-method associated companies in the machinery and energy sectors, along with a contribution to earnings from new equity-method associated companies in the food and finance-related sectors. However, this growth was insufficient to cover a drop in *Income (loss) before income taxes, minority interests, equity in earnings of associated companies and extraordinary items* caused mainly by impairment losses for fixed assets and an increase in total expenses for pension plans. As a result, *Net income (loss) before extraordinary items* was a loss of ¥33.8 billion ($319 million), a deterioration of ¥53.9 billion from the previous fiscal year.

Regarding negative goodwill in equity-method associated companies acquired during the fiscal year under review, *Extraordinary items - gain on negative goodwill* totaling ¥1.8 billion ($17 million) (less applicable income taxes of ¥1.3 billion) was reported. As a result, *Net income (loss)* for the year was a loss of ¥31.9 billion ($302 million), a deterioration of ¥52.0 billion from the previous fiscal year.

In addition, *Total trading transactions* decreased by 9.0% or ¥944.7 billion from the previous fiscal year to ¥9,517.0 billion ($90,046 million). Despite the increases in the sales in crude oil, naphtha and chemical, less-efficient transactions were reduced in Machinery; Aerospace, Electronics & Multimedia; Chemicals, Forest Products & General Merchandise; Food; and other segments. In addition, a stronger yen against the U.S. dollar compared to the previous fiscal year also had an effect on this decrease.

Years ended March 31	Billions of Yen 2004	2003	Increase (Decrease)	Millions of U.S. dollars 2004
Revenue	¥ 1,738.7	¥ 1,682.8	¥ 56.0	$ 16,451
Cost of sales	(1,182.9)	(1,116.8)	(66.1)	(11,191)
Gross trading profit	555.9	566.0	(10.1)	5,260
Selling, general and administrative expenses	(462.9)	(448.5)	(14.4)	(4,380)
Settlement loss from the transfer of the substitutional portion of the Employees' Pension Fund	(22.8)	—	(22.8)	(215)
Subsidy from government on the transfer of the substitutional portion of the Employees' Pension Fund	19.6	—	19.6	185
Provision for doubtful receivables	(10.6)	(16.8)	6.2	(101)
Interest income	12.8	16.9	(4.1)	121
Interest expense	(37.6)	(47.6)	10.0	(355)
Dividends received	10.5	10.1	0.5	100
Gain (loss) on disposal of investments and marketable securities, net of write-down	(13.6)	(13.2)	(0.5)	(129)
Loss on property and equipment-net	(129.4)	(0.8)	(128.7)	(1,225)
Other-net	(14.0)	(8.5)	(5.5)	(132)
Income (loss) before income taxes, minority interests, equity in earnings of associated companies and extraordinary items	(92.0)	57.7	(149.7)	(871)
Income taxes	(45.5)	45.7	(91.1)	(430)
Income (loss) before minority interests, equity in earnings of associated companies and extraordinary items	(46.6)	12.0	(58.6)	(441)
Minority interests	(10.0)	(10.5)	0.4	(95)
Equity in earnings of associated companies	22.9	18.5	4.3	217
Net income (loss) before extraordinary items	(33.8)	20.1	(53.9)	(319)
Extraordinary items—gain on negative goodwill	1.8	—	1.8	17
Net income (loss)	(31.9)	20.1	(52.0)	(302)

Operating Segment Information

Years ended March 31	Billions of Yen			Millions of U.S. dollars
	2004	2003	2002	2004
Trading transactions				
Textile	¥ 817	¥ 872	¥ 880	$ 7,730
Machinery	1,407	1,747	1,937	13,312
Aerospace, Electronics & Multimedia	634	809	960	5,999
Energy, Metals & Minerals	2,138	2,216	2,740	20,231
Chemicals, Forest Products & General Merchandise	1,715	1,800	1,736	16,226
Food	2,345	2,523	2,445	22,189
Finance, Realty, Insurance & Logistics Services	236	269	455	2,231
Other, Adjustments & Eliminations	225	226	247	2,128
Total	¥9,517	¥10,462	¥11,400	$90,046
Gross trading profit				
Textile	¥ 100	¥ 93	¥ 83	$ 949
Machinery	51	49	50	483
Aerospace, Electronics & Multimedia	105	103	113	998
Energy, Metals & Minerals	25	33	53	234
Chemicals, Forest Products & General Merchandise	92	87	81	870
Food	131	130	127	1,239
Finance, Realty, Insurance & Logistics Services	16	34	34	151
Other, Adjustments & Eliminations	36	37	38	336
Total	¥ 556	¥ 566	¥ 579	$ 5,260
Net income (loss)				
Textile	¥ 11.7	¥ 10.4	¥ 8.3	$ 111
Machinery	3.9	2.4	1.3	37
Aerospace, Electronics & Multimedia	2.6	14.3	36.3	24
Energy, Metals & Minerals	12.9	10.0	9.5	122
Chemicals, Forest Products & General Merchandise	11.5	10.7	(0.2)	109
Food	13.3	11.9	9.6	126
Finance, Realty, Insurance & Logistics Services	(75.6)	(8.4)	(9.8)	(716)
Other, Adjustments & Eliminations	(12.2)	(31.2)	(24.8)	(115)
Total	¥ (31.9)	¥ 20.1	¥ 30.2	$ (302)
Identifiable assets				
Textile	¥ 383	¥ 371	¥ 384	$ 3,621
Machinery	434	490	588	4,102
Aerospace, Electronics & Multimedia	464	484	526	4,393
Energy, Metals & Minerals	444	391	402	4,198
Chemicals, Forest Products & General Merchandise	557	525	533	5,274
Food	711	654	665	6,733
Finance, Realty, Insurance & Logistics Services	610	693	773	5,769
Other, Adjustments & Eliminations	884	878	881	8,367
Total	¥4,487	¥ 4,486	¥ 4,752	$42,457

Textile:

Trading transactions (excluding transfers between operating segments, same for the following) decreased by ¥54.7 billion or 6.3% to ¥817.0 billion ($7,730 million), due to a slowdown in the market for raw materials and falling retail prices for clothing. Gross trading profit increased by ¥6.9 billion or 7.4% to ¥100.3 billion ($949 million), due to an increase in contributions from newly consolidated subsidiaries, particular those handling fashion brands, along with healthy performance at existing subsidiaries. Net income increased by ¥1.3 billion or 12.0% to ¥11.7 billion ($111 million) due to the increases in gross trading profit, along with a decrease in the provision for doubtful receivables compared to the previous fiscal year. Identifiable assets grew ¥11.9 billion or 3.2% to ¥382.7 billion ($3,621 million), mainly because of increases associated with transfers of assets during the fiscal year under review among subsidiaries.

Machinery:

Trading transactions fell ¥339.7 billion or 19.4% to ¥1,406.9 billion ($13,312 million) due to the streamlining of inefficient transactions and a decrease in automobile transactions with Europe. Gross trading profit rose ¥2.5 billion or 5.2% to ¥51.1 billion ($483 million) mainly due to a recovery in sales of construction equipment in North America, and strong growth in the automobile business in the U.S. Net income jumped ¥1.5 billion or 63.1% to ¥3.9 billion ($37 million) due to increases in gross trading profit and positive effects from cuts in expenses, despite the impairment losses for fixed assets. Identifiable assets fell ¥56.5 billion or 11.5% to ¥433.6 billion ($4,102 million) mainly due to decreases associated with collection of long-term debt, and downward pressures due to an appreciation in the value of the yen.

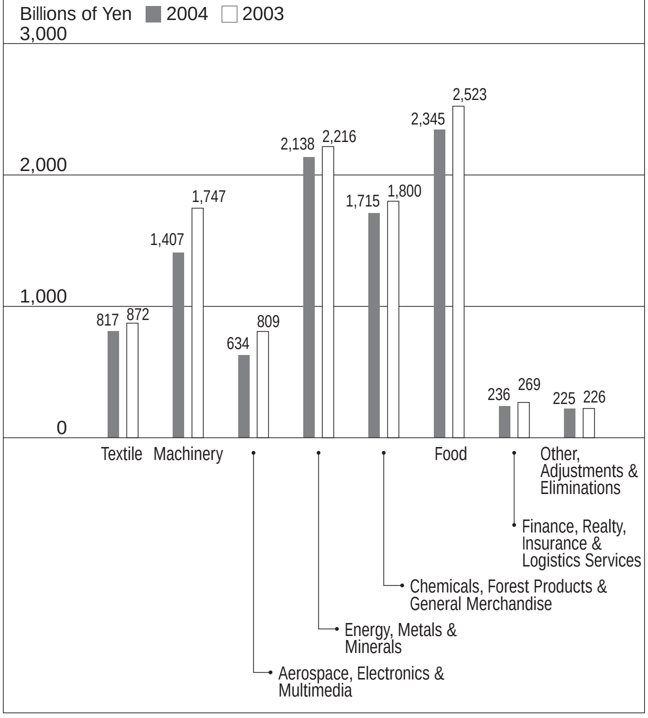
Aerospace, Electronics & Multimedia:

Trading transactions decreased by ¥175.2 billion or 21.6% to ¥634.0 billion ($5,999 million) due to the streamlining of inefficient transactions. Gross trading profit increased by ¥2.9 billion or 2.9% to ¥105.5 billion ($998 million) due to a strengthening of the domestic IT sector. Net income fell ¥11.7 billion or 81.9% to ¥2.6 billion ($24 million) due to temporary increases in expenses at certain subsidiaries resulting from changes in the pension system and the transfer to the Japanese Government of the substitutional portion of the Employees' Pension Fund, along with a lack of substantial gain on disposal of marketable securities during the previous fiscal year. Identifiable assets fell ¥19.9 billion or 4.1% to ¥464.3 billion ($4,393 million) mainly due to the sale of and impairment losses for leased aircraft.

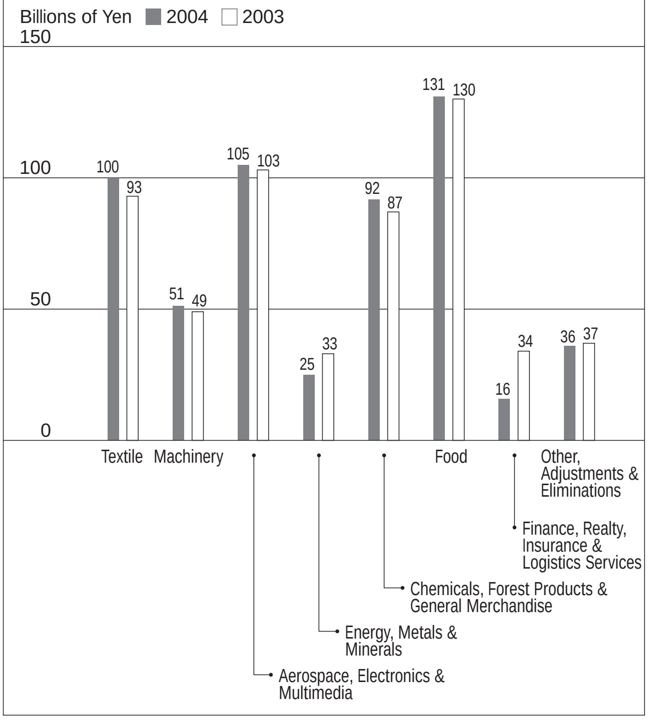
Energy, Metals & Minerals:

Trading transactions fell ¥78.0 billion or 3.5% to ¥2,138.2 billion ($20,231 million). In mineral resources, this was mainly due to decreases in coal related to appreciation of the Australian dollar, and in energy, to decreases associated with the streamlining of inefficient transactions, despite rising market prices for crude oil and petroleum-based products, and higher transaction volume. Gross trading profit fell ¥8.2 billion or 25.0% to ¥24.7 billion ($234 million) due to a fall in trading transactions and the effect from business withdrawals in the mineral resources sector, and slow domestic sales coupled with a decline in trading transactions following the sale of certain mining rights in the previous fiscal year

Total Trading Transactions by Operating Segment



Gross Trading Profit by Operating Segment



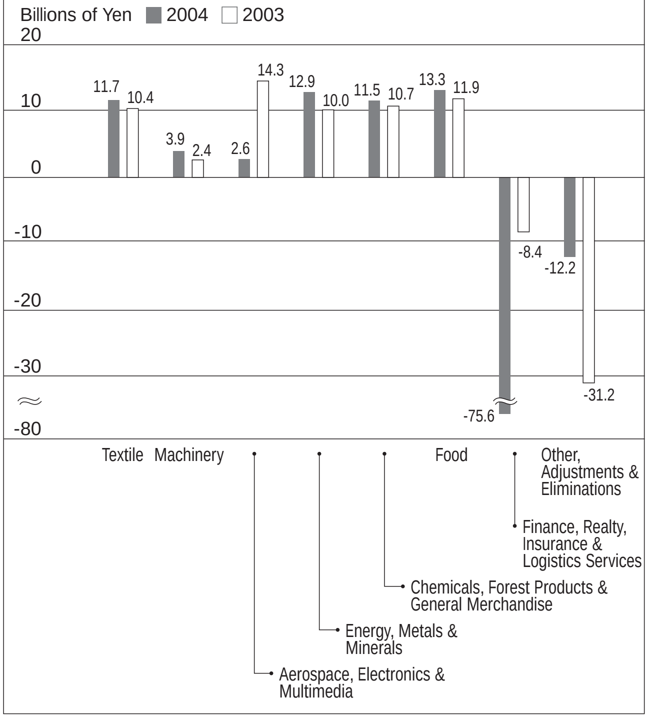
in the energy sector. Net income increased by ¥2.9 billion or 29.2% to ¥12.9 billion ($122 million) due to a decline in administrative expenses, an increase in dividends received from LNG-related investment, and the solid performance of equity-method associated companies, despite the decline in gross trading profit. Identifiable assets rose ¥52.2 billion or 13.3% to ¥443.7 billion ($4,198 million) mainly due to increases in trade receivables following healthy overseas trade in the energy sector, and increases in resource development investments.

Chemicals, Forest Products & General Merchandise:
Trading transactions decreased by ¥84.9 billion or 4.7% to ¥1,715.0 billion ($16,226 million) due to streamlining of inefficient transactions, despite price increases in chemicals markets and brisk exports and third-country transactions to Asia, mainly of organic chemicals. Gross trading profit rose ¥4.9 billion or 5.6% to ¥91.9 billion ($870 million) due to strong sales in the general merchandise business in North America and Europe, along with solid performance from the domestic chemical products business. Net income increased by ¥0.9 billion or 8.0% to ¥11.5 billion ($109 million) due to a decrease in equity in earnings of associated companies offsetting increases in gross trading profit. Identifiable assets rose by ¥32.7 billion or 6.2% to ¥557.4 billion ($5,274 million) due to an increase in trade receivables from increased transactions of chemical products, and increases from newly consolidated subsidiaries.

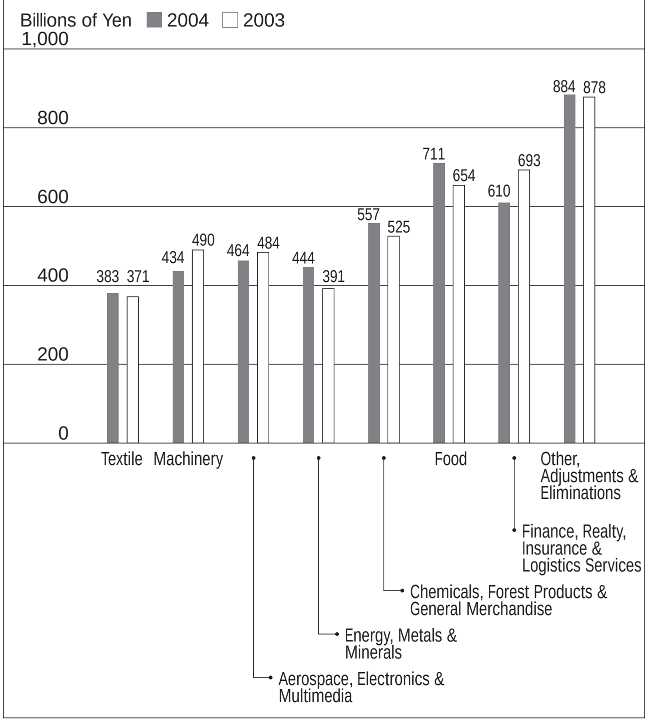
Food:
Trading transactions fell ¥177.4 billion or 7.0% to ¥2,345.1 billion ($22,189 million) due to decreases from a reduction in the Company's stake in some subsidiaries that caused them to be equity-method associated companies, and the streamlining of inefficient transactions. Gross trading profit increased by ¥0.8 billion or 0.6% to ¥130.9 billion ($1,239 million) due to the solid performance of commercial food subsidiaries which offset decreases from a reduction in the Company's stake in some subsidiaries that caused them to be equity-method associated companies and lower earnings from stagnant domestic market prices of eggs and pork. Net income rose ¥1.4 billion or 12.0% to ¥13.3 billion ($126 million) due to an increase in gross trading profit and an increase in equity in earnings of associated companies. Identifiable assets rose ¥57.2 billion or 8.7% to ¥711.6 billion ($6,733 million), mainly because of additional investments in new equity-method associated companies and an increase in trade receivables.

Finance, Realty, Insurance & Logistics Services:
Trading transactions fell ¥33.7 billion or 12.5% to ¥235.8 billion ($2,231 million). This decline was mainly due to lower turnover in the construction materials and equipment business, and in travel-related business, despite favorable results for condominium sales. Gross trading profit, despite the jump in condominium sales, declined ¥17.9 billion or 52.8% to ¥16.0 billion ($151 million), due to loss on disposal of residential property and for early disposal, additional valuation losses recorded following revision of the market value of real estate inventories. Net loss deteriorated ¥67.2 billion to ¥75.6 billion ($716 million), because of a decline in gross trading profit and impairment losses for fixed assets. Identifiable assets fell ¥82.9 billion or 12.0% to ¥609.7 billion

Net Income (Loss) by Operating Segment



Identifiable Assets by Operating Segment



($5,769 million) mainly due to streamlining of real estate inventories and impairment losses for fixed assets.

Other, Adjustments & Eliminations:
Trading transactions fell ¥1.2 billion or 0.6% to ¥224.9 billion ($2,128 million) due to revenue decreases in the equipment and materials business in the U.S. Gross trading profit fell ¥2.0 billion or 5.4% to ¥35.5 billion ($336 million) because of the decline in trading transactions. Net loss for fiscal 2004 was ¥12.2 billion ($115 million), ¥19.0 billion better than the previous fiscal year, due to improvements in earnings related to investments and marketable securities, and despite the decrease in gross trading profit, an increase in total expenses for pension plans and impairment losses for fixed assets. Identifiable assets rose ¥6.2 billion or 0.7% to ¥884.3 billion ($8,367 million), due to an increase in cash and cash equivalents, despite impairment losses for fixed assets.

Geographical Segment Information

Japan:
Trading transactions (excluding transfers between geographical segments, same for the following) fell ¥719.0 billion or 8.7% to ¥7,523.8 billion ($71,187 million) due to streamlining of inefficient transactions and despite an increase in sales of energy and chemicals related to a rise in market prices and transaction volume. Identifiable assets rose ¥85.0 billion or 2.2% to ¥3,969.2 billion ($37,555 million), due to an increase in cash and cash equivalents, and despite impairment losses for fixed assets.

North America:
Trading transactions fell ¥103.4 billion or 21.3% to ¥381.1 billion ($3,606 million) due to decreases related to the effect of the appreciation of the yen, and streamlining of inefficient transactions. Identifiable assets fell ¥96.1 billion or 25.8% to ¥276.3 billion ($2,614 million), due to declines related to the effect of the appreciation of the yen, and collection of trade receivables.

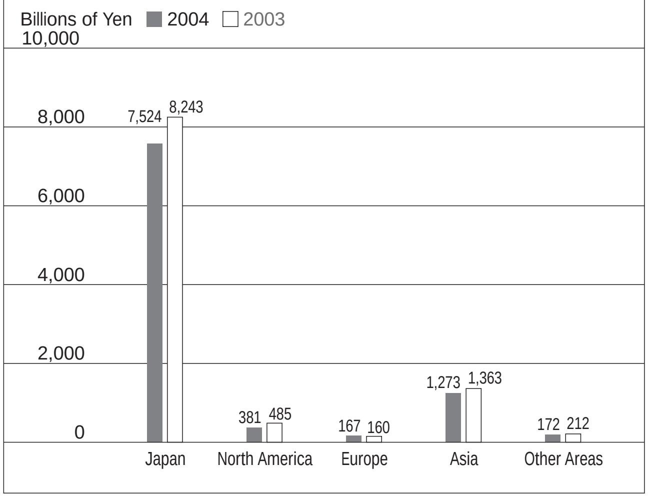
Europe:
Trading transactions were on par with that of the previous fiscal year, increasing ¥7.6 billion or 4.8% to ¥167.2 billion ($1,582 million). Identifiable assets fell ¥15.4 billion or 8.8% to ¥159.0 billion ($1,505 million), due to decreases in property and equipment related to the sale of and impairment losses for leased aircraft.

Asia:
Trading transactions fell ¥89.2 billion or 6.5% to ¥1,273.3 billion ($12,048 million) because of decreases related to the effect of the appreciation of the yen, and despite an increase in sales of energy related to a rise in market prices and transaction volume. Identifiable assets remained roughly the same, rising ¥0.6 billion or 0.3% to ¥202.6 billion ($1,917 million).

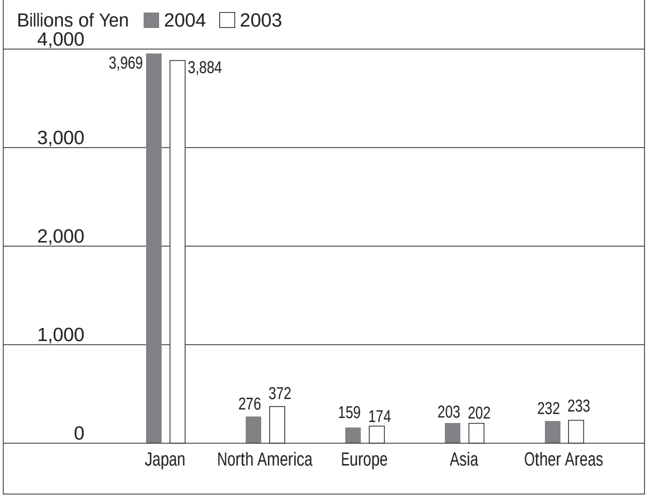
Other Areas:
Trading transactions decreased by ¥40.6 billion or 19.2% to ¥171.5 billion ($1,623 million) due to a decrease in coal of mineral resource sector caused mainly by appreciation of the Australian dollar, and because of a slowdown in the textile material market. Identifiable assets remained roughly the same, falling ¥1.3 billion or 0.5% to ¥232.0 billion ($2,195 million).

Please note that there are consolidation adjustments of identifiable assets that are not included in any of the above segments.

Total Trading Transactions by Geographical Segment



Identifiable Assets by Geographical Segment



Discussion and Analysis of Results of Operations

The Company has started its mid-term management plan “Super A&P (Attractive and Powerful) -2004” (a two-year plan for fiscal years 2004 and 2005). It aims to further progress in the reorganization of the profit structure and restructuring of the management system implemented through the A&P-2002, drastically focusing on the A&P sectors (consumer and retail related; information and multimedia; natural resource development; financial services; North America; and Asia) to strengthen our profitability. At the same time, the Company also aims to develop future innovative technologies, such as biotechnology and nanotechnology, to create new businesses in the future.

The Company has steadily taken measures to promote its A&P strategy since fiscal 2000, which have led to improvements in its asset efficiency, financial position and profitability. Based on these results and to ensure stable, continuous growth, the Company has decided to further strengthen its financial position. Impairment accounting for fixed assets was adopted in fiscal 2004, ahead of enforcement in fiscal 2006, eliminating possible future concerns, and efforts to regain healthy balance sheets were implemented with the aim of stable and continuous profit growth.

These forecasts are forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available at the end of fiscal 2004 and thus involve certain risks and uncertainties. Actual results may differ materially depending on a number of factors, including changing economic conditions in major markets and fluctuations in currency exchange rate.

Impairment losses for fixed assets

The Company announced on April 2, 2004 that for fiscal 2004 (ended March 31, 2004) the Company and its subsidiaries would adopt “Impairment accounting for fixed assets” under Japan GAAP, which adoption will be compulsory applied in the fiscal year ending March 2006 in Japan, and announced the figures. Although the Company has already adopted impairment accounting for its consolidated financial statements according to U.S. GAAP, additional impairments recognized under Japan GAAP were reflected on the consolidated financial statements based on U.S. GAAP, considering the slow recovery of the Japanese real estate market. Regarding the application of impairment accounting, the Company has reviewed not only the assets held by the Construction and Realty division, but also the fixed assets held by headquarters and the other Division Companies, considering the current conditions and our future policy of possession.

In addition, the Company accelerated the sale of real estate inventories for cash, and reviewed the value of the inventories to recognize additional devaluation losses.

As a result, for the consolidated financial statements for fiscal 2004, the Company recognized impairment losses for fixed assets of ¥123.3 billion ($1,167 million), and disposal and devaluation losses for real estate inventories of ¥23.9 billion ($226 million), totaling losses of ¥147.2 billion ($1,393 million). The following table outlines the breakdown of figures resulting from “Early application of impairment accounting for fixed assets, the change of forecasts for the fiscal year ending March 2004 and cash dividends” announced on April 2, 2004.

	Billions of Yen		Millions of U.S. dollars	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
(1) Impairment losses				
a) Buildings for rent	¥ 59.5	¥ 58.8	$ 563	$ 556
b) Assets for common use like company-owned house	27.1	74.6	257	706
c) Subsidiary-owned business property, golf courses etc.	36.6	—	347	—
d) Allowance for impairment recognized by subsidiaries	—	28.4	—	269
Sub-total	¥123.3	¥161.8	$1,167	$1,531
(2) Disposal and devaluation losses for real estate inventories	¥ 23.9	¥ 13.2	$ 226	$ 125
Total (1)+(2)	¥147.2	¥175.0	$1,393	$1,656

Note: Impairment losses for investment property etc. are included in (1) c) on a consolidated basis, and in (1) d) on a non-consolidated basis.

Performance excluding the impairment losses discussed above is as summarized in the below chart:

	Billions of Yen			Millions of U.S. dollars		
	FY2004	Impairment Losses (Note 1)	P/L excluding impairment losses (Note 2)	FY2004	Impairment Losses (Note 1)	P/L excluding impairment losses (Note 2)
Gross trading profit	¥555.9	¥ (20.2)	¥576.1	$5,260	$ (191)	$5,451
Gain (loss) on disposal of investments and marketable securities, net of write-down	(13.6)	(1.5)	(12.2)	(129)	(14)	(115)
Loss on property and equipment-net	(129.4)	(121.8)	(7.6)	(1,225)	(1,152)	(73)
Other-net	(14.0)	(3.8)	(10.2)	(132)	(36)	(96)
Income (loss) before income taxes, minority interests, equity in earnings of associated companies and extraordinary items	(92.0)	(147.2)	55.1	(871)	(1,393)	522
Income taxes	(45.5)	(69.0)	23.5	(430)	(653)	223
Income (loss) before minority interests, equity in earnings of associated companies and extraordinary items	(46.6)	(78.2)	31.6	(441)	(740)	299
Minority interests	(10.0)	0.2	(10.3)	(95)	2	(97)
Net income (loss)	¥ (31.9)	¥ (78.0)	¥ 46.1	$ (302)	$ (738)	$ 436

Note: 1. "Impairment Losses" presents the special losses recognized in accordance with "Early application of impairment accounting for fixed assets, the change of forecasts for the fiscal year ending March 2004 and cash dividends" which was announced by the Company on April 2, 2004.
2. "P/L excluding impairment losses" presents the actual amounts that exclude the special losses of (note 1) above from the results of fiscal 2004.

As shown above, net loss relating to the impairment losses for the fiscal 2004, ended March 2004 was ¥78.0 billion ($738 million), resulting in net loss of ¥31.9 billion ($302 million), a decrease of ¥52.0 billion compared to the previous fiscal year. However, net income excluding the impairment losses was ¥46.1 billion ($436 million) exceeding the target figure of ¥45.0 billion at the beginning of the year.

Revenue:

From fiscal 2004, the Company and its subsidiaries have presented both revenue and its corresponding cost for the fiscal year under review and the previous fiscal years in accordance with Emerging Issues Task Force (EITF) Issue 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" (EITF 99-19). EITF 99-19 requires that certain revenue transactions with corresponding cost of revenue be presented on a gross basis when the company is the primary obligor in the arrangement, when the company has general inventory risk before customer order is placed or upon customer return, or depending on relevant facts and circumstances of the transactions. Other than these transactions, the company should recognize revenue on a net basis. In accordance with EITF 99-19, the Company and its subsidiaries present certain revenue transactions with corresponding cost of revenue on a gross basis as "Sales revenue" in the consolidated statements of operations, including sales of manufacturing, processing and service rendering, and sales with general inventory risk before customer order. In fiscal 2004, "Sales revenue" of ¥1,355.4 billion ($12,824 million) and "Trading margins and commissions on trading transactions" of ¥383.4 billion ($3,627 million), totaling ¥1,738.7 billion ($16,451 million), increased by ¥56.0 billion or 3.3% from the previous fiscal year due to a strengthening of the domestic IT sector and a rise in revenue from the forest products & general merchandise-related sector in North America and Europe.

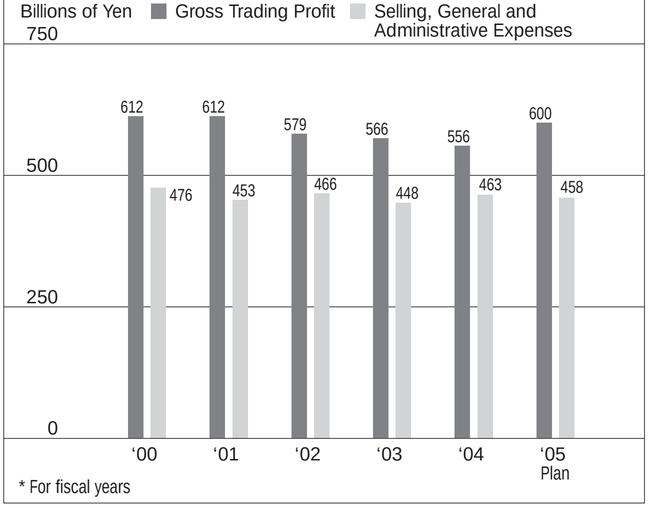
Gross Trading Profit:

Gross trading profit decreased by 1.8% or ¥10.1 billion from the previous fiscal year to ¥555.9 billion ($5,260 million), which includes the disposal and devaluation losses for real estate inventories of ¥20.2 billion ($191 million) as part of the impairment accounting announced on April 2, 2004. Excluding this factor, gross trading profit would have increased by ¥10.0 billion from the previous fiscal year. Of the increase of ¥10.0 billion, ¥4.3 billion stems from the net impact of joining/leaving subsidiaries (increase of ¥9.7 billion and decrease of ¥5.3 billion). On the other hand, the aforementioned ¥10.0 billion already reflects the negative impact (a loss of ¥4.2 billion) stemming from the stronger yen in translating subsidiaries' gross trading profit. Excluding all these special factors, gross trading profit for all existing Group companies would have increased by ¥9.9 billion from the previous fiscal year. By business sector, a coal-related business saw a profit decrease owing to a stronger Australian dollar in the mineral resources sector. The profit also declined in the energy sector owing to a slowdown in domestic sales. On the other hand, brisk sales were seen in the brand related textile business as well as the tire and housing materials business in North America and Europe. In addition, strengthening of the domestic IT-related sector and recovery in construction equipment business in North America also contributed to the overall increase in profit. The steady growth in profitability despite the deflationary economy and slowdown in consumer spending leads the Company to believe that they would be able to attain significant profit in the next fiscal year centering around A&P sectors.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 3.2% or ¥14.4 billion to ¥462.9 billion ($4,380 million). The net increase of including/excluding certain subsidiaries was ¥3.9 billion (increase of ¥8.0 billion and decrease of ¥4.1 billion) but the effect of the yen's appreciation against the U.S. dollars in translating overseas subsidiaries' selling, general and administrative expenses was included for approximately ¥3.4 billion. Excluding these factors, selling, general and administrative expenses would have increased by ¥13.9 billion. The major adverse factor was a ¥7.0 billion increase in total expenses for pension plans (excluding net loss on settlement of the substitutional portion of the Employees' Pension Fund). This was due to amortization costs such as actuarial costs increased by ¥8.5 billion owing to the poor performance in asset management resulting from the slump in the stock market in the previous fiscal year. In addition, along with an actual increase in gross trading profit, sales promotion costs also increased. In particular, a substantial increase of ¥2.8 billion was seen in commissions paid, which included distribution expenses. The Company believes that significant reduction in selling, general and administrative expenses can be achieved in the next fiscal year since the reduction of projected benefit obligation with restructuring of retirement pension plans and improved asset management (resulting in a drastic decrease of actuarial amortization costs) would bring favorable results.

Gross Trading Profit; Selling, General and Administrative Expenses

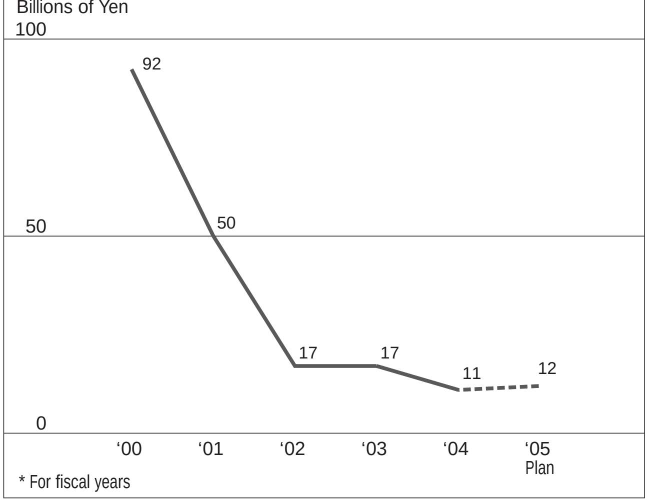


* For fiscal years

Provision for Doubtful Receivables

Provision for doubtful receivables for fiscal 2004 improved by 36.9% or ¥6.2 billion to ¥10.6 billion ($101 million). This includes the decrease of ¥4.6 billion due to the reversal of the provision for doubtful receivables through collections of receivables. While this also includes the additional provision for doubtful receivables for Construction and Realty divisions (approximately ¥6.0 billion), the Company believes that the provision for bad debts related to the Construction and Realty divisions are adequate at fiscal year-end.

Provision for Doubtful Receivables



* For fiscal years

Net Financial Expenses (Net of interest income, interest expense and dividends received)
Net financial expenses for fiscal 2004 improved by 30.9% or ¥6.4 billion to ¥14.2 billion ($134 million). Net interest expenses, consisting of interest income and interest expense, improved by 19.3% or ¥5.9 billion to ¥24.7 billion ($234 million). Interest income decreased by ¥4.1 billion due to the drop in interest rates and the collection of lending. Interest expense improved by 21.1% or ¥10.0 billion year-on-year owing to the drop in interest rates (average interest rate dropped by 0.31% from 1.77% to 1.46%) resulting in a decrease of ¥8.3 billion and the decrease in interest-bearing debts (average debts outstanding decreased by ¥116.4 billion from ¥2,684.6 billion to ¥2,568.2 billion) resulting in a decrease of ¥1.7 billion.

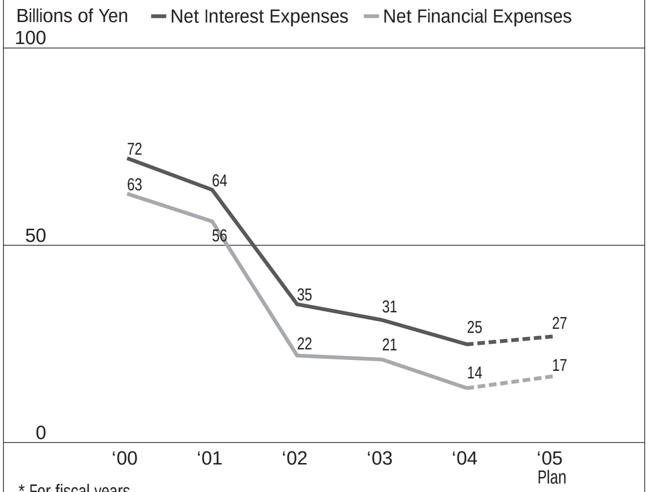
Dividends received increased by 4.5% or ¥0.5 billion to ¥10.5 billion ($100 million) due to the increase in dividends received from LNG-related investment.

Other Profit (Loss)
Gain (loss) on disposal of investments and marketable securities, net of write-down for fiscal 2004 deteriorated by ¥0.5 billion to a loss of ¥13.6 billion ($129 million). In the previous fiscal year disposal and devaluation losses of ¥44.7 billion for marketable securities were posted, especially bank stocks, but for fiscal 2004 this was down to ¥19.8 billion thanks to the upturn in the stock market. On the other hand, gain on disposal of marketable securities dropped from ¥41.9 billion to ¥16.4 billion due to a decline in the amount of disposal. The impairment losses for investment property of ¥1.5 billion contributed to the overall drop of ¥0.5 billion.

Loss on property and equipment-net deteriorated by ¥128.7 billion to a loss of ¥129.4 billion ($1,225 million). This was a combined result of ¥121.8 billion impairment losses for fixed assets; ¥2.3 billion impairment losses in overseas aircraft leases etc. and ¥1.4 billion of net loss on disposal of fixed assets.

Other-net deteriorated by ¥5.5 billion to a loss of ¥14.0 billion ($132 million) resulting from losses on guarantees for debt and other losses from foreign exchanges, etc.

Net Financial Expenses

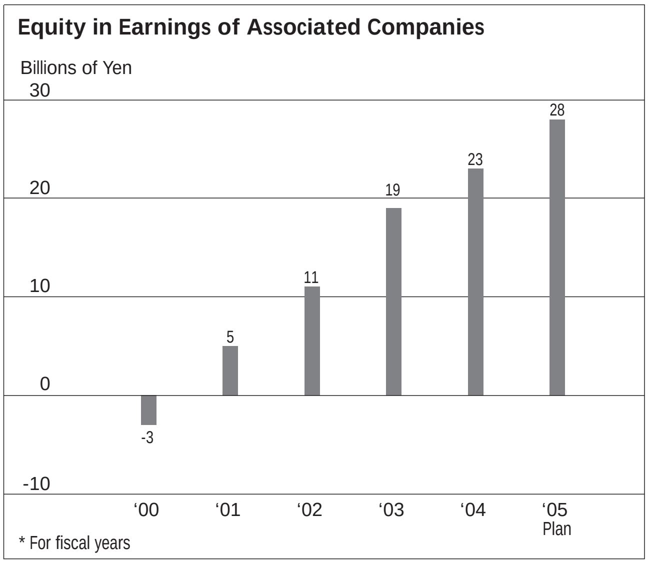


* For fiscal years

Net Interest Expenses = Interest Income + Interest Expense
Net Financial Expenses = Net Interest Expenses + Dividends Received

Equity in Earnings of Associated Companies

Equity in earnings of associated companies increased by 23.3% or ¥4.3 billion to ¥22.9 billion ($217 million), due to the increase in profits of equity-method associated companies in machinery and energy sector, as well as increase in new equity-method associated companies in food and finance sectors. The results of major equity-method associated companies was shown under "Major Group Companies Reporting Profits" and "Major Group Companies Reporting Losses" in section below "Performance of Subsidiaries and Equity-Method Associated Companies."

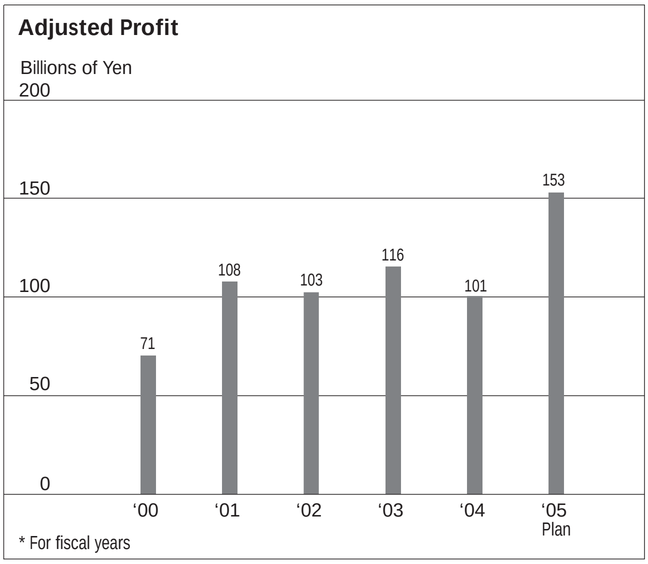


Adjusted Profit

	Billions of Yen				
	FY2003	FY2004	Impairment Losses (Note 1)	P/L excluding impairment losses (Note 2)	Net changes in P/L excluding impairment losses
Gross trading profit	¥566.0	¥555.9	¥(20.2)	¥576.1	¥10.0
Selling, general and administrative expenses (note 3)	(448.5)	(466.1)	—	(466.1)	(17.6)
Net interest expenses	(30.7)	(24.7)	—	(24.7)	5.9
Dividends received	10.1	10.5	—	10.5	0.5
Equity in earnings of associated companies (note 4)	18.5	25.1	—	25.1	6.5
Adjusted profit	¥115.5	¥100.7	¥(20.2)	¥120.9	¥ 5.3

Note: 1. "Impairment Losses" presents the special losses recognized in accordance with "Early application of impairment accounting for fixed assets, the change of forecasts for the fiscal year ending March 2004 and cash dividends" which was announced by the Company on April 2, 2004.
2. "P/L excluding impairment losses" presents the actual amounts that exclude the special losses of the above (note 1) from the results of fiscal 2004.
3. "Selling, general and administrative expenses" in fiscal 2004 includes the amount of net loss on settlement of the substitutional portion of the Employees' Pension Fund of ¥3.2 billion ($30 million).
4. "Equity in earnings of associated companies" in fiscal 2004 includes the amount of gain on the negative goodwill for investments in equity-method associated companies.

Adjusted profit (net of gross trading profit, selling, general and administrative expenses, net interest expenses, dividends received and equity in earnings of associated companies) which indicates the basic earning power of ITOCHU was down by 12.9% or ¥14.8 billion to ¥100.7 billion ($953 million), largely due to the disposal and devaluation losses for real estate inventories of ¥20.2 billion ($191 million). However, adjusted profit excluding the impairment losses was ¥120.9 billion ($1,143 million), an increase in year-on-year profit by ¥5.3 billion, which leads the Company to believe that the reorganization of profit structure is steadily taking shape.



Performance of Subsidiaries and Equity-Method Associated Companies

For the fiscal year ended March 31, 2004, the Company's consolidated results included 452 subsidiaries (223 domestic and 229 overseas) and 193 equity-method associated companies (91 domestic and 102 overseas) totaling 645 companies. The following table presents information regarding the profitability of these companies.

Profits/Losses of Group Companies Reporting Profits/Losses

	Billions of Yen								
	2004			2003			Increase (Decrease)		
Years ended March 31	Profits	Losses	Total	Profits	Losses	Total	Profits	Losses	Total
Group companies excluding overseas trading subsidiaries	¥65.4	¥(94.0)	¥(28.5)	¥62.1	¥(14.7)	¥47.4	¥3.3	¥(79.2)	¥(75.9)
Overseas trading subsidiaries	5.3	(0.3)	5.0	4.7	(2.1)	2.5	0.7	1.8	2.5
Total	¥70.8	¥(94.3)	¥(23.5)	¥66.8	¥(16.9)	¥49.9	¥4.0	¥(77.4)	¥(73.4)

Share of Group Companies Reporting Profits

	2004			2003			Increase (Decrease)		
Years ended March 31	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Companies reporting profits	232	270	502	263	259	522	(31)	11	(20)
Group companies	314	331	645	318	333	651	(4)	(2)	(6)
Share	73.9%	81.6%	77.8%	82.7%	77.8%	80.2%	(8.8%)	3.8%	(2.4%)

For the fiscal year ended March 2004, as previously mentioned in "Impairment losses for fixed assets," impairment losses as announced on April 2, 2004 has been recognized. In order to simplify year-on-year comparison, the following tables excluding impairment losses are provided for reference.

Profits/Losses of Group Companies Reporting Profits/Losses
(Excluding the effect of "Impairment losses" (*) in group companies announced on April 2, 2004)

	Billions of Yen								
	2004			2003			Increase (Decrease)		
Years ended March 31	Profits	Losses	Total	Profits	Losses	Total	Profits	Losses	Total
Group companies excluding overseas trading subsidiaries	¥69.4	¥(19.6)	¥49.8	¥62.1	¥(14.7)	¥47.4	¥7.3	¥(4.8)	¥2.5
Overseas trading subsidiaries	5.3	(0.3)	5.0	4.7	(2.1)	2.5	0.7	1.8	2.5
Total	¥74.8	¥(19.9)	¥54.9	¥66.8	¥(16.9)	¥49.9	¥8.0	¥(3.0)	¥4.9

(*) "Impairment losses" presents the special losses recognized in accordance with "Early application of impairment accounting for fixed assets, the change of forecasts for the fiscal year ending March 2004 and cash dividends" which was announced by the Company on April 2, 2004.

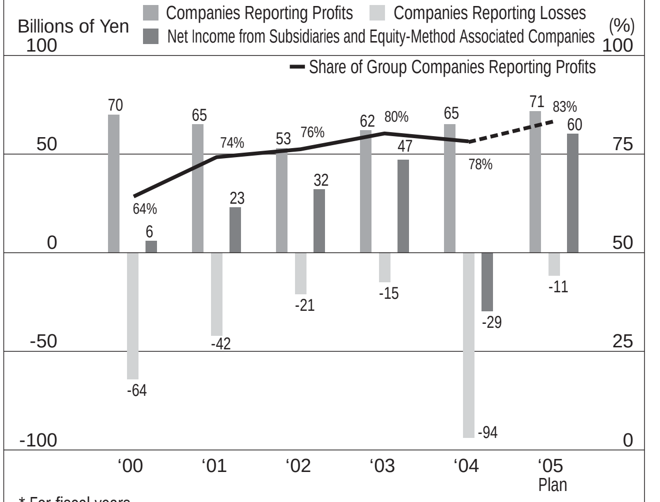
Share of Group Companies Reporting Profits
(Excluding the effect of "Impairment losses" (*) in group companies announced on April 2, 2004)

	2004			2003			Increase (Decrease)		
Years ended March 31	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Companies reporting profits	263	271	534	263	259	522	0	12	12
Group companies	314	331	645	318	333	651	(4)	(2)	(6)
Share	83.8%	81.9%	82.8%	82.7%	77.8%	80.2%	1.1%	4.1%	2.6%

(*) "Impairment losses" presents the special losses recognized in accordance with "Early application of impairment accounting for fixed assets, the change of forecasts for the fiscal year ending March 2004 and cash dividends" which was announced by the Company on April 2, 2004.

The recognition of impairment losses during the fiscal year under review was applied not only to the Company but also to its subsidiaries. As a result, for fiscal year ended March 2004, the net income from subsidiaries and equity-method associated companies (the aggregate profits/losses of subsidiaries and equity-method associated companies excluding overseas trading subsidiaries, the same definition applies below) amounted to a loss of ¥28.5 billion ($270 million), a significant decline compared to a profit of ¥47.4 billion ($448 million) recorded in the previous fiscal year. Similarly, the share of group companies reporting profits (the ratio of companies reporting profits to total group companies) also fell to 77.8% for the fiscal year under review, compared to 80.2% in the previous fiscal year. However, the net income from subsidiaries and equity-method associated companies for fiscal 2004 excluding impairment losses was ¥49.8 billion ($471 million) and the share of the group companies reporting profits was 82.8%, which translates into a year-on-year increase of ¥2.5 billion and 2.6% respectively. As for overseas trading subsidiaries, profits increased by ¥2.5 billion to ¥5.0 billion ($47 million), largely supported by the strong performance of ITOCHU International Inc. For fiscal 2004, while there were one-time losses such as liquidating losses for fund investments and impairment losses for aircraft leases, net income from subsidiaries and equity-method associated companies as a whole increased. Profits from group companies reporting profits on the basis of exclusion of impairment losses was ¥69.4 billion ($657 million), a ¥7.3 billion increase compared to the previous fiscal year. Based on the A&P strategy of strengthening the net income from subsidiaries and equity-method associated companies while withdrawing from unprofitable businesses, we believe profitability of group companies excluding the special primary factors of the fiscal year under review have steadily improved and strengthened.

Net Income from Subsidiaries and Equity-Method Associated Companies



* For fiscal years

Table below presents major group companies reporting profits or losses for the fiscal years ended March 2004 and 2003.

Major Group Companies Reporting Profits

Years ended March 31	Shares	(*1) Net income (loss) Billions of Yen 2004	2003	Reasons for changes
Domestic subsidiaries				
ITOCHU Finance Corporation	88.33%	¥4.1	¥1.2	Increase due to a new equity-method associated company, POCKET CARD., LTD.
ITOCHU TECHNO-SCIENCE Corporation	41.45%	3.5	2.8	Rise in trading income by strengthening profit management and cost-reduction
ITOCHU Oil Exploration Co., Ltd. (*2)	97.82%	2.6	5.1	Recorded gains on disposal of mining rights and interests in 2003
ITC NETWORKS CORPORATION	100.00%	1.7	1.1	Favorable sales of new model of mobile phone
ITOCHU PLASTICS INC.	100.00%	1.7	1.1	Increase in sales and profit due to the acquired business
ITOCHU Petroleum Japan Ltd.(*3)	100.00%	1.5	0.8	Steady growth of new subsidiaries
ITOCHU CHEMICAL FRONTIER Corporation ..	99.90%	1.2	1.2	
ITOCHU Kenzai Corp.	75.84%	1.0	0.9	Expansion of functional sales, cost-reduction and decline in provision for receivables
Nishino Trading Co., Ltd.	75.73%	0.9	0.9	
TOMMY HILFIGER JAPAN, INC.	60.00%	0.7	0.2	Increase in gross trading profit from expansion of products for ladies
CONVERSE JAPAN CO., LTD.	100.00%	0.5	0.2	Established in 2003, and steady performance in 2004
Overseas subsidiaries				
ITOCHU MINERALS & ENERGY OF AUSTRALIA PTY LTD (*4)	100.00%	¥5.3	¥7.5	Decrease in income in coal-related sector due to the strong Australian dollar etc.
Prime Source Building Products, Inc. (*5)	100.00%	3.2	2.1	Increase in profit ratio etc.
ITOCHU International Inc. (*5)	100.00%	1.4	(0.2)	Increase in subsidiaries' profits
ITOCHU Hong Kong Ltd.	100.00%	1.2	0.9	Steady growth in equity-method associated companies related to consumer credit business
ITOCHU (Thailand) Ltd.	100.00%	0.8	0.6	Steady growth in several sectors such as chemical, food and textile material
ITOCHU (China) Holding Co., Ltd.	100.00%	0.8	0.5	Increase in sales of pulp & paper and plastics
ITOCHU Automobile America Inc.	100.00%	0.6	0.3	Improvement of performance of equity-method associated companies
MCL Group Ltd.	60.00%	0.5	0.3	Acquisition of logistics service companies
Domestic equity-method associated companies				
FamilyMart Co., Ltd.	30.53%	¥4.2	¥3.2	Improvement of profit in EC-related business
Marubeni-Itochu Steel Inc.	50.00%	3.1	3.3	Still steady but a decrease in profit on steel pipe transactions
Japan Brazil Paper & Pulp Resources Development Co., Ltd.	25.94%	1.7	2.7	Decrease in profit due to the effect of foreign exchange despite a rise in pulp prices
Century Leasing System, Inc.	20.13%	1.0	1.0	
Yoshinoya D&C Co., Ltd.	23.45%	1.2	1.7	Gain on liability exemption in subsidiaries in 2003, and decrease in profit in 2004 due to "BSE"
kabu.com Securities Co., Ltd.	28.93%	0.7	0.0	Improvement of market price and expansion of market share
Overseas equity-method associated companies				
BERKSHIRE OIL CO., LTD. (*3)	50.00%	¥0.8	¥(0.1)	Steady growth in overseas crude oil trading
Mazda Canada Inc.	40.00%	0.4	0.8	Decrease in sales of main model due to the transitional period

Major Group Companies Reporting Losses
*(The group companies which had an effect of "Impairment losses" (*6) announced on April 2, 2004 are not listed.)*

Years ended March 31	Shares	(*1) Net income (loss) Billions of Yen 2004	2003	Reasons for changes
Domestic subsidiaries				
ITOCHU Fashion System Co., Ltd.	100.00%	¥(0.9)	¥0.0	One-time amortization of production cost in contents business
ORIZZONTI CO., LTD.	100.00%	(0.2)	0.1	Low sales in main retail selling and increase in expenses with opening shops
Overseas subsidiaries				
C.I. FINANCE (CAYMAN) LTD.	100.00%	¥(1.9)	¥0.4	Liquidating losses for funds
Airlease-related companies	100.00%	(1.3)	0.6	Impairment losses for aircraft assets
IT ventures-related investment companies	—	(0.8)	(0.7)	Devaluation losses for investments
ITOCHU WOOL LTD.	100.00%	(0.8)	0.3	Low market prices
JC HOTELS (H.K.) PTY. LTD.	100.00%	(0.5)	(0.3)	Low performances due to the terrorism in Bali island
ITOCHU Korea Ltd.	100.00%	(0.4)	0.0	Restructuring losses
Overseas equity-method associated companies				
P.T. PURADELTA LESTARI P.T. PEMBANGUNAN DELTAMAS	25.00%	¥(1.7)	¥0.6	Effect of changes in Indonesian rupiah

(*1) The Company's share of net income (loss) are the figures after adjusting to U.S. GAAP, which can be different from the figures each company announces.
(*2) The Company absorbed the energy exploitation business of ITOCHU Oil Exploration Co., Ltd. on March 22, 2004. ITOCHU Oil Exploration Co., Ltd. still continues with its remaining operations.
(*3) The net income of ITOCHU Petroleum Japan Ltd. includes that of BERKSHIRE OIL CO., LTD. Also, the net income of ITOCHU Petroleum Japan Ltd. for 2003 includes that of ITOCHU Petroleum Co., (Singapore) Pte. Ltd. which became a subsidiary of ITOCHU Petroleum Japan Ltd. in 2004.
(*4) CI Minerals Australia Pty., Ltd. (CIMA) changed its name to ITOCHU MINERALS & ENERGY OF AUSTRALIA PTY LTD (IMEA) on April 1, 2004, which had affiliated ITOCHU Coal Resources Australia Pty., Ltd. (ICRA) and Japan Alumina Associates (Australia) Pty., Ltd. (JAAL) on March 31, 2004 in order to strengthen its business structure. IMEA's 2003 net income presents the total of CIMA, ICRA and JAAL.
(*5) The net income of ITOCHU International Inc. includes that of Prime Source Building Products, Inc.
(*6) "Impairment losses" presents the special losses recognized in accordance with "Early application of impairment accounting for fixed assets, the change of forecasts for the fiscal year ending March 2004 and cash dividends" which was announced by the Company on April 2, 2004.

Management Policy for Fiscal 2005, ending March 2005

Looking ahead to the business environment likely to affect the Group in the near future, while an economic recovery of domestic demand led by a virtuous circle of rising individual consumption and capital expenditures can be expected, there is a possibility that continued appreciation of the yen will slow down the exports that have led former recoveries, and we believe that it is necessary to continue to pay careful attention to coming economic trends.

Pressing forward with the Super A&P-2004 mid-term management plan
Under these circumstances, the Company will continue with the policy outlined in its mid-term management plan "Super A&P-2004" and will accelerate the construction of a sound base for the "high jump" from fiscal 2006 onwards, regarding fiscal 2005 as the year to complete the A&P strategy.

The key measures are as follows:

1) The Company will continue the reallocation and upgrade of assets to reinforce its profitability and the thorough control of interest-bearing debts, to strengthen the financial structure by improving such financial ratios as its debt-to-equity ratio by improving asset efficiency.

2) The Company will focus on the consumer and retail related sector and developing in Asia, especially China, by aggressively allocating management resources to six business sectors and two regions, including the information and multimedia; natural resource development; financial services; North America; Asia; and other new A&P sectors of chemicals, forest products, general merchandise, and automobiles. At the same time, the Company will further promote new businesses including the development of the innovative technologies such as biotechnology and nanotechnology.

3) The Company will continuously reinforce its highly transparent corporate governance and risk management systems to build a solid management structure.

4) The Company aims to establish a more flexible personnel strategy by securing and activating its human resources, and by promoting the appointment of the right person for the right job, in order to make use of various human resources in support of its A&P strategy.

By implementing these strategies, the Company is striving to form a corporate group with consolidated net income of ¥100 billion, and one that contributes to regional and global societies, including active approaches to global environmental issues.

Outlook for Fiscal 2005, ending March 2005

Forecast for Fiscal 2005

The business environment in fiscal 2005 is expected to realize its recovery led by domestic demand mainly in consumer spending and capital expenditure. However, sufficient attention should be paid to the future economic trend as there could be potential slowdown in exports—which have led the recovery—owing to the strengthening of yen.

Under these circumstances, the Company is expecting consolidated forecasts as presented in the below table for the fiscal year ending March 2005.

These forecasts are forward looking statements that are based on management's assumptions and beliefs based on information currently available at the end of fiscal 2004 and involve risks and uncertainties. Thus, factors that could cause actual results to differ materially from such statements include, without limitation, global economic and market conditions, and currency exchange rate fluctuations.

	Billions of Yen				
	Full year			Half year	
Years ended March 31	2005 Forecasts	2004 Results	2004 P/L excluding impairment losses (Note 1)	2005 Forecasts	2004 Results
Gross trading profit	¥ 600	¥ 556	¥ 576	¥ 290	¥ 274
Total trading transactions:					
2005 full year forecasts ¥9,200					
2004 full year results ¥9,517					
2005 half year forecasts ¥4,400					
2004 half year results ¥4,675					
Selling, general and administrative expenses (note 2)	(458)	(466)	(466)	(229)	(229)
Provision for doubtful receivables	(12)	(11)	(11)	(6)	(5)
Net interest expenses	(27)	(25)	(25)	(13)	(12)
Dividends received	10	11	11	6	5
Other expenses	(3)	(157)	(30)	0	(8)
Income (loss) before income taxes, minority interests and equity in earnings of associated companies	110	(92)	55	48	25
Income taxes	55	(45)	24	24	17
Income (loss) before minority interests and equity in earnings of associated companies	55	(47)	32	24	9
Minority interests (note 3)	(12)	(10)	(11)	(5)	(5)
Equity in earnings of associated companies (note 3)	28	25	25	13	16
Net income (loss)	¥ 71	¥ (32)	¥ 46	¥ 32	¥ 19
Total assets	¥4,600	¥4,487			
Gross interest-bearing debts	2,550	2,562			
Net interest-bearing debts	2,100	1,977			
Total stockholders' equity	490	423			

Note: 1. "P/L excluding impairment losses" presents the actual amounts that exclude the special losses (recognized in accordance with "Early application of impairment accounting for fixed assets, the change of forecasts for the fiscal year ending March 2004 and cash dividends" which was announced by the Company on April 2, 2004) from the results of fiscal 2004.

2. "Selling, general and administrative expenses" in fiscal 2004 includes the amount of net loss on settlement of the substitutional portion of the Employees' Pension Fund of ¥3.2 billion ($30 million).

3. "Minority interests" and "Equity in earnings of associated companies" in fiscal 2004 includes the amount of gain on the negative goodwill for investments in equity-method associated companies.

	2005	2004
	Forecasts	Results
Yen to U.S. dollars rate	110.00	113.78
Crude oil price (U.S.dollars per BBL)	25.00	28.90

Distribution of the last and current fiscal year's profit

The Company regrettably plans to forgo cash dividend payments for the fiscal year ended March 2004 because the early application of impairment accounting has resulted in a net loss on non-consolidated basis. For the fiscal year ending March 2005, on the other hand, the Company intends to make a six to seven yen dividend payment per share.

Liquidity and Capital Resources

Basic Policy of Fund Raising

The Company aims to ensure flexibility so it can quickly respond to changes in the financial circumstances, and lower its overall financing costs. It also aims to diversify its funding sources and methods in order to enhance the stability of its financing, while endeavoring to find the optimum balance in its funding structure including the improvement of the long-term funding balance.

In Japan, most corporations' funding still depends on indirect financing, mostly from domestic banks. In recent years, the accelerated disposal of problem loans by Japanese banks has undermined their financial strength, curtailed their risk assets and so forth, which has made it more difficult for corporations to borrow from banks. Despite such financial circumstances, the Company has decided early application of the impairment accounting for the fixed assets under Japan GAAP to promote further realization of sound conditions for its assets. Financial institutions, including the Company's main banks, have shown a favorable attitude toward lending to the Company, as they positively evaluate the above-mentioned actions currently taken and also the efforts made in the past to improve its financial strength.

Furthermore, in raising funds from the capital market, the Company has obtained higher ratings for its long-term bonds, as Moody's Investors Service (Moody's), the U.S. rating institution, raised it from Ba3 to Ba2 by 2 notches in February 2004 and Standard & Poors (S&P) from BB+ to BBB– by 1 notch in March 2004. As the reasons for raising the ratings, they mention the continued basic trend of the trading transactions increase due to the improvement in the business environment, significant improvement in the financial strength due to the reinforcement of capital, successive increase in term profits and reduction in liabilities, as well as the reduction in the volume of risks involved in the portfolio through an exhaustive risk control for investments and loans, etc.

The Company is raising funds as required through bond issuance and borrowings from financial institutions. With respect to corporate bonds, the company is capable of carrying out a flexible bond issuance, after it registers for bond issuance, with a maximum amount of ¥300.0 billion for every two years (currently from August 2003 to July 2005), in accordance with the bond issuance registration system so that bonds can be issued flexibly when required.

Under this bond issuance registration system, straight corporate bonds were issued during 2003 in the amount of ¥15.0 billion (with five-year maturities) in April, ¥20.0 billion (¥10.0 billion with three-year maturities and a further ¥10.0 billion with seven-year maturities) in May, ¥10.0 billion (with four-year maturities) in June and ¥25.0 billion (¥15.0 billion with three-year maturities and a further ¥10.0 billion with five-year maturities) in October, or ¥70.0 billion in total. The outstanding balance of corporate bonds issued (excluding MTN) by the Company was ¥259.1 billion ($2,452 million) as of March 31, 2004.

Furthermore, the Company, ITOCHU International Inc. in the U.S. and a finance subsidiary in the U.K. own a total of $5 billion of the Medium Term Note Program (MTN) in order to be flexible in fulfilling short- and long-term funding needs. The outstanding balance of the MTN was about $0.4 billion as of March 31, 2004.

Interest-Bearing Debts

Gross interest-bearing debts as of March 31, 2004 decreased by ¥12.5 billion from the previous fiscal year to ¥2,561.9 billion ($24,240 million). As a result of the efforts to raise long-term funds to build up the structure for stable fund-raising, the ratio of long-term interest-bearing debts to the total interest-bearing debts rose to 65% from 62% at the end of the previous fiscal year. Moreover, the net DER (debt-to-equity ratio) improved by 0.1 point to 4.7 times from 4.8 times at the end of the previous fiscal year. Also, the average interest rate of borrowing, or interest expenses divided by the average balance of interest-bearing debts, improved by 0.31 percentage points from 1.77% in fiscal 2003 to 1.46% in fiscal 2004.

The breakdown of the interest-bearing debts as of March 31, 2004 and those as of March 31, 2003

	Billions of Yen		Millions of U.S. dollars
	2004	2003	2004
Short-term loans payable	¥ 549.8	¥ 465.1	$ 5,202
Current installments of long-term debt	279.0	338.5	2,640
Current installments of debentures	56.5	187.3	534
Short-term total	885.3	990.9	8,376
Long-term loans payable	1,414.8	1,336.9	13,386
Debentures	247.3	217.4	2,339
Long-term total	1,662.0	1,554.3	15,725
Total interest-bearing debts	2,547.3	2,545.2	24,101
SFAS 133 fair value adjustment (note)	14.7	29.2	139
Adjusted total interest-bearing debts	2,561.9	2,574.4	24,240
Cash, cash equivalents and time deposits	(584.9)	(549.4)	(5,534)
Net interest-bearing debts	¥1,977.0	¥2,025.0	$18,706

(Note) SFAS 133 fair value adjustment:
The amount of adjustment to record the fair value as of the balance sheet date for long-term debt which is hedged with derivatives, in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133).

Financial Position - A Comparison between Fiscal 2004 and Fiscal 2003

The total assets as of March 31, 2004 amounted to ¥4,487.3 billion ($42,457 million), maintaining roughly the level of the previous fiscal year, due to increases as a result of new and additional investments and so forth, following the distribution of resources to A&P sectors, based on the “Super A&P” strategy and recovery of stock prices, and on the other hand, decreases affected by the treatment of fixed assets and real estate for sale including the impairment of asset value as well as the decrease caused by the appreciation of the value of the yen and so forth.

Stockholders’ equity remained roughly the same as that of the year before to ¥422.9 billion ($4,001 million), it was affected by diminution caused by appreciation of the value of the yen and turn of net income into net loss, but then increased due to a large improvement in unrealized holding gains (losses) on securities in the wake of a recovery in stock prices and so forth.

Net interest-bearing debts less cash, cash equivalents and time deposits decreased by ¥48.0 billion (2.4%) to ¥1,977.0 billion ($18,706 million) from the end of the previous fiscal year, falling to a level lower than ¥2,000 billion for the first time since the implementation of the management improvement measures of fiscal 1998 and management reform of fiscal 2000. As a result, net DER (debt-to-equity ratio) improved to 4.7 times by 0.1 point from the end of the previous fiscal year due to the drop in net interest-bearing debts to a level lower than ¥2,000 billion, despite a slight decrease in stockholders’ equity.

The main increases or decreases from the end of the previous fiscal year in the items on the balance sheets are as follows:

Cash and cash equivalents increased by ¥45.4 billion from March 31, 2003 to ¥579.6 billion ($5,484 million), due to increases in the collection of funds including the collection of trade receivables and so forth.

Trade receivables (less allowance for doubtful receivables) increased by ¥29.2 billion from March 31, 2003 to ¥1,057.4 billion ($10,005 million), as a result of increases in general merchandise and chemical business due mainly to the increase in sales of chemicals, despite the increased collection of trade receivables.

Inventories decreased by ¥28.1 billion from March 31, 2003 to ¥374.2 billion ($3,541 million), due to the posting of the sale of real estate, devaluation losses and so forth.

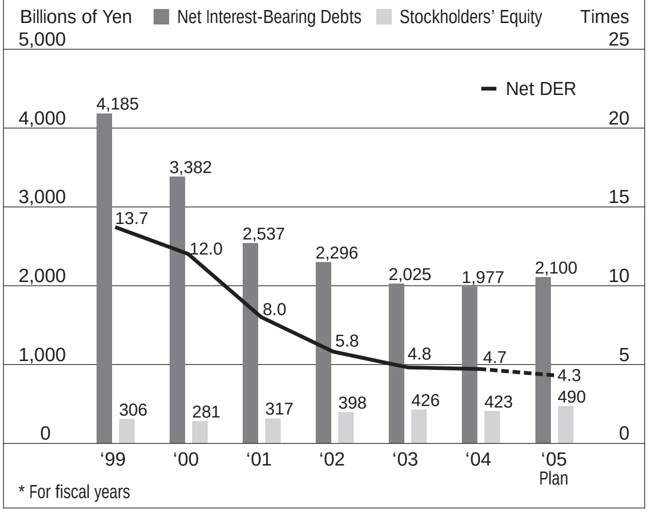
Other current assets increased by ¥20.9 billion from March 31, 2003 to ¥217.0 billion ($2,054 million), due mainly to the increase in short-term lending by subsidiaries and so forth.

Investments in and advances to associated companies increased by ¥34.3 billion from March 31, 2003 to ¥481.5 billion ($4,555 million), due to new and additional investments in general merchandise related, food related and financing related equity-method associated companies and so forth.

Other investments increased by ¥47.0 billion from March 31, 2003 to ¥386.5 billion ($3,657 million), due to new investments, increase in the fair value of stocks as a result of a rise in the stock market and so forth.

Other non-current receivables (less allowance for doubtful receivables) decreased by ¥51.3 billion from March 31, 2003 to ¥208.2 billion ($1,970 million), due to the collection of non-current receivables, appreciation of the value of the yen and so forth.

Net Interest-Bearing Debts, Stockholders' Equity and Net DER (Debt-to-Equity Ratio)



* For fiscal years

Property and equipment, at cost (less accumulated depreciation) decreased by ¥109.3 billion from March 31, 2003 to ¥483.2 billion ($4,572 million), due to impairment losses for fixed assets and so forth.

Trade payables decreased by ¥28.7 billion from March 31, 2003 to ¥909.0 billion ($8,601 million), due mainly to the appreciation of the value of the yen and so forth.

Reserves for Liquidity

The basic policy of the Company for the necessary amount of reserves required for liquidity is to maintain and secure an adequate amount for short-term interest-bearing debts and contingent liabilities due within three months from a certain point of time. This policy is based on the scenario whereby new funding may be unavailable for about three months because of market turmoil. In such a case, the Company must maintain adequate reserves to repay liabilities during such a period in order to be able to cope with unpredictable events.

Primary liquidity reserves increased by ¥35.5 billion to ¥1,044.9 billion ($9,886 million), which consisted of cash, cash equivalents and time deposits (¥584.9 billion) and commitment line agreements (¥250.0 billion of short-term commitment line and ¥210.0 billion of long-term commitment line).

The total amount of liquidity reserves, or primary liquidity reserves and secondary liquidity reserves (other assets that can be changed into cash in a short period of time) stood at ¥1,466.9 billion ($13,879 million). The Company believes that this amount constitutes adequate reserves of liquidity, since it is more than three times the necessary liquidity amount (short-term interest-bearing debts and contingent liabilities due within three months), which amounted to ¥395.9 billion ($3,746 million) as of March 31, 2004.

Necessary Liquidity

March 31	Billions of Yen 2004	Billions of Yen Necessary liquidity	Millions of U.S. dollars 2004
Short-term interest-bearing debts	¥549.8	¥274.9 (549.8/6 months x 3 months)	$2,601
Current installments of long-term interest-bearing debts	335.4	83.9 (335.4/12 months x 3 months)	794
Contingent liabilities (Guarantees [substantial risk] for monetary indebtedness of associated companies and customers)	148.6	37.1 (148.6/12 months x 3 months)	351
Total		¥395.9	$3,746

Primary Liquidity Reserves

	Billions of Yen Liquidity reserves	Millions of U.S. dollars Liquidity reserves
1. Cash, cash equivalents and time deposits	¥ 584.9	$ 5,534
2. Commitment line agreements	460.0	4,352
Total primary liquidity reserves	¥1,044.9	$ 9,886

Secondary Liquidity Reserves

	Billions of Yen Liquidity reserves	Millions of U.S. dollars Liquidity reserves
3. Available portion of O/D for the Company's cash management service	¥ 111.8	$ 1,060
4. Available-for-sale securities (Fair value on consolidated basis)	179.6	1,698
5. Notes receivable	130.6	1,235
Total secondary liquidity reserves	¥ 422.0	$ 3,993
Total liquidity reserves	¥1,466.9	$13,879

Capital Resources

The Company's basic policy on capital resources is that new money for investments should be financed by sale and recouping by investing activities and by net cash provided by operating activities.

Cash and cash equivalents amounted to ¥579.6 billion ($5,484 million), as of March 31, 2004, ¥45.4 billion (8.5%) higher than the level in March 31, 2003. Although there were payments in financing activities in addition to the payments in investment activities, as trademark rights and mining rights were acquired and new and additional investments were made mainly in the food and financing-related sectors, they were exceeded by the amount received in the operating activities by having carried forward the collection of trade receivables and so forth.

Net cash provided by operating activities was ¥184.8 billion ($1,748 million) during fiscal year 2004, mainly due to the successive collection of trade receivables. In the overall operating activities, the amount received increased by ¥15.9 billion from the previous fiscal year.

Net cash used in investing activities was ¥55.3 billion ($523 million). There were payments for new and additional investments mainly in the food and financing-related sectors and so forth, in addition to those for acquiring intangible assets, such as trademark rights and mining rights. Consequently, cash flow from investing activities turned into net cash-outflow in fiscal 2004, while they produced net cash-inflow in the previous fiscal year through the sale of investments, collection of long-term assets and so forth.

Net cash used in financing activities was ¥79.7 billion ($754 million). In the overall financing activities, net cash-outflow was ¥34.3 billion lower than the previous fiscal year.

The following table shows a summary of cash flows for the fiscal years ended March 31, 2004 and March 31, 2003.

	Billions of Yen		Millions of U.S. dollars
	2004	2003	2004
Net cash provided by operating activities	¥184.8	¥168.8	$1,748
Net cash provided by (used in) investing activities	(55.3)	5.3	(523)
Net cash used in financing activities	(79.7)	(114.0)	(754)
Effect of exchange rate changes on cash and cash equivalents	(4.4)	(5.6)	(41)
Net increase in cash and cash equivalents	45.4	54.4	430
Cash and cash equivalents at beginning of year	534.2	479.7	5,054
Cash and cash equivalents at end of year	¥579.6	¥534.2	$5,484

The Company believes that funding generated by net cash provided by operating activities, borrowing from financial institutions or the issuance of stocks or bonds in the capital market will be sufficient to ensure an adequate source of funds to cover the expenditures and payments of liabilities, which it anticipates at this point, now and in the future. However, the actual availability of funding may differ depending on future conditions, such as the condition of financial markets, economy and business operations and other factors, which the Company is now unable to estimate accurately, because many of these cannot be controlled by the Company. Nevertheless, the Company is convinced that it will be capable of ensuring adequate liquidity from cash flows provided by other sources, even if net cash provided by operating activities falls temporarily.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

The Company and its subsidiaries issue various guarantees for indebtedness including loans from the banks of subsidiaries, equity-method associated companies and customers. The amount of guarantees provided by the Company to its subsidiaries is included in the subsidiaries' loans payable liabilities in its consolidated balance sheets. Therefore, off-balance sheet guarantees are the total guarantees to equity-method associated companies and customers. The breakdown of guarantees as of March 31, 2004 and March 31, 2003 is summarized as follows:

	Billions of Yen		Millions of U.S. dollars
	2004	2003	2004
Guarantees for equity-method associated companies:			
Maximum potential amount of future payments	¥171.9	¥208.9	$1,626
Amount of substantial risk	103.8	126.6	981
Guarantees for customers:			
Maximum potential amount of future payments	¥135.2	¥206.2	$1,280
Amount of substantial risk	65.5	116.2	620
Total:			
Maximum potential amount of future payments	¥307.1	¥415.2	$2,906
Amount of substantial risk	169.2	242.8	1,601

The maximum potential amount of future payments of the Company under the guarantee contracts is presented above. The amount of substantial risk presents the total amount of the substantial risk taken, based on the actual amount of liability incurred by the guaranteed parties as of the end of the respective term within the pre-determined guaranteed limit established under the guarantee contracts. The amounts that can be recovered from third parties under the back-to-back guarantees submitted by them to the Company or subsidiaries concerned have been excluded in determining the amount of substantial risk. The disclosures related to guarantees are shown in note 21 "Commitments and Contingent Liabilities" in the consolidated financial statements.

The disclosures related to variable interest entities defined under the provisions of Financial Accounting Standard Board Interpretation No. 46 (revised December 2003) "Consolidation of Variable Interest Entities" are shown in note 2 "Basis of Financial Statements and Summary of Significant Accounting Policies" in the consolidated financial statements.

The following table shows the breakdown by maturity of repayment of short-term debts and long-term debts as well as payments under capital lease and operating lease.

	Billions of Yen				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debts	¥ 549.8	549.8			
Long-term debts (including capital leases)	2,078.1	335.4	1,035.8	497.4	209.5
Capital leases	42.2	7.9	12.7	8.4	13.2
Operating leases	104.6	12.5	20.5	15.5	56.0

	Millions of U.S. dollars				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debts	$ 5,202	5,202			
Long-term debts (including capital leases)	19,662	3,174	9,800	4,706	1,982
Capital leases	399	75	120	79	125
Operating leases	990	119	195	146	530

Risk Information

ITOCHU is exposed to various risks such as market risks, credit risks and investment risks, due to the nature of its wide range of businesses. These risks include unpredictable events that may have significant effects on its future business and financial performance. ITOCHU has enhanced its risk management system and risk management methods to monitor and manage these risks, but it is impossible to completely avoid all risks.

Since the introduction of a Division Company System in 1997, the Company has reinforced the concept of self-management in which each Division Company manages the risks associated with individual projects and has continued to develop sophisticated risk management methods. The Company has also established the ALM (Asset Liability Management) Committee as an advisory body to the HMC (Headquarters Management Committee) in which general management policies and significant management matters in the Company are discussed. The ALM Committee plays a central role in managing the balance sheets of ITOCHU and proposing improvements, and in analyzing the risk management across ITOCHU and proposing various risk management methods and improvements.

Specifically, it manages risk exposure for each individual product and service by setting internal covenants for major balance sheet items and segmenting products and services in detail to set exposure limits, criteria to undertake, and standards for return for important products and services.

Furthermore, the Company has introduced RCM (Risk Capital Management), a risk management method based on RAROC (Risk-adjusted Return on Capital) to thoroughly manage its business portfolio through the utilization of two management benchmarks, Risk Assets and the Risk Return Index.

- Risk Capital Management (RCM) is one of the principal management techniques for managing risk. The volume of risk is administered by quantifying risks into risk assets, and efficiency of an asset measured by means of the Risk Return Index (RRI), returns against risk assets. A company can then increase its corporate value by exiting from less efficient assets, and devoting resources to highly-efficient ones.
- Risk Asset is the maximum loss possible from assets held. A risk weight is set using statistical methods that reflects the attributes of the asset, which is then multiplied by the asset amount. Assets measured in this way are not only those recorded on the balance sheets, but include off-balance-sheet items such as guarantees and exchange rate balances.
- Risk Return Index (RRI) is figured from the rate of net income or loss against the total risk asset, which can be compared with cost of equity to determine efficiency.

Descriptions about forecasts are forward looking statements that are based on management's assumptions and beliefs based on information at the end of fiscal 2004.

(1) Market Risks

ITOCHU is exposed to market risks such as foreign exchange rate risk, interest rate risk, commodity price risk and stock price risk. ITOCHU aims to minimize risks relating to market fluctuations such as changes in foreign exchange rates and interest rates by establishing a risk management system that sets a balance limit and other such measures and by utilizing a variety of derivative instruments for hedging purposes. Please refer to ITOCHU's accounting policy for derivative instruments in notes to consolidated financial statements note 2 "Basis of Financial Statements and Summary of Significant Accounting Policies" and note 18 "Financial Instruments."

Foreign Exchange Rate Risk

The Company and certain Group companies are exposed to foreign exchange rate risk regarding transactions denominated in foreign currencies due to its significant involvement in import/export trading. Forward exchange contracts and currency swap contracts are used to minimize risks for these transactions. Also, to manage foreign currency balance, limits on foreign exchange rate risks (limit of balance and that of loss) are set, whereby it manages its balance of foreign currency by contract amount, the amount of its own/others' risk, and short-term/long-term.

Since the Company engages in businesses involving foreign currencies with a number of overseas trading subsidiaries and other overseas group companies, the figures denominated in Japanese yen on its consolidated balance sheets are also exposed to so-called foreign currency translation risk. This translation risk has no impacts on the performance of the business conducted in foreign currencies. In addition, a long period is generally needed to collect the amount of investments. Accordingly, the Company does not hedge the translation risk, as the term of effectiveness provided by hedging is limited.

Interest Rate Risk

ITOCHU is exposed to interest rate risk in fund raising or using by its lending, investing, and operating activities. Interest rate risk refers to the risk of earnings fluctuation caused by changes to interest rates, when mismatches in interest rates sensitivity to assets/liabilities and durations occur. Interest rate risk is, on the whole, expressed by the equation of "balance x magnitude of interest rate change x duration."

To control interest rate risk in a concrete and objective manner, the Company has grappled with quantification of interest rate risk by measuring interest rate risk with a new methodology, "Earning at Risk (EaR)." Based on the results of EaR, the Company sets a certain limit (Loss Cut Limit) as the highest acceptable interest payment, and executes hedging transactions to maintain the loss cut limit. The Company mainly utilizes interest rate swaps to minimize interest rate risk. EaR is monitored every month and a review of the loss cut limit situation is carried out regularly.

Commodity Price Risk

The Company and certain Group companies are exposed to commodity price risk on commodity products that it trades such as crude oil and grain. In the Company, each Division Company sets its own risk management policy and manages purchase contracts, inventories and sales contracts including off-balance sheet items, as well as sets and manages a balance limit and loss cut limit for each individual product. In addition, particularly for products that have high price volatilities and may have a large impact on the Company's management, the Company designates them as "specified important products" that are examined by the ALM Committee and approved by the HMC. In addition, loss cut limit also needs to be reported to and approved by HMC. The trading volumes of specified important products are reviewed regularly, the results of which are periodically reported to the HMC through the ALM Committee along with their product management standards and methods. The Company is reducing commodity price risk by maintaining the minimum necessary standard balance of products, and by utilizing derivatives such as futures or forward contracts as a means of hedging. For price fluctuation risk of ship charter fares regarding shipping balance that is owned for its own use, like specified important products, it sets and manages the balance limit and the loss cut limit.

Stock Price Risk

ITOCHU holds available-for-sale marketable securities which are vulnerable to price fluctuation. As for stock price risk, the Company aims to optimize the amount of investments by applying exit rules for inefficient and less meaningful investments, because hedging by derivative instruments is not effective for available-for-sale marketable securities held for long-term. Fair value of the available-for-sale marketable securities held by the Company and its subsidiaries was ¥179.6 billion ($1,698 million) as of March 31, 2004 and ¥167.4 billion as of March 31, 2003. Assuming that the price of these investments had fluctuated by 10%, fair value of the available-for-sale marketable securities would have fluctuated by ¥18.0 billion ($169.8 million) as of March 31, 2004, and by ¥16.7 billion as of March 31, 2003.

(2) Credit Risks

ITOCHU is exposed to a variety of credit risks that are involved when operating in a wide range of transactions with domestic and overseas business partners, such as failure to provide payments owed to ITOCHU. In the Company, the credit department of each Division Company, which is independent of the business departments, manages and evaluates credit risk from both quantitative and qualitative perspectives, monitoring regularly the credit limit and the status quo of trade receivables and reviewing regularly the status quo of debt collection and delinquency to discuss and record the required provision for doubtful receivables. Specific means of managing credit risks are as follows:

1. Registration System of Business Partners
   The Company selects corporations eligible to be business partners based on the registration criteria.

2. Credit Analysis, Credit Limit and Reviewing System
   - Repeated and Continued Transactions:
     The Company sets appropriate trading credit limits after credit analysis based on financial analysis and a credit survey, and regularly reviews and renews them.
   - Medium- to Long-Term Projects:
     Besides the above process, the Company sets transaction criteria for each individual project, taking into consideration contract conditions and life-time profitability.

3. Quantitative Management of Credit Risk
   In addition to a financial analysis scoring system, the Company conducts quantitative management of credit risk by using its proprietary credit rating model, reflected in its provision for doubtful receivables and risk assets.

4. Problem Accounts
   The Company conducts in-depth research of the credit characteristics for certain accounts, reviews the transaction policy from time to time, and, when necessary, discusses and records a provision for doubtful receivables.

(3) Country Risk

ITOCHU has trading relationships with many foreign countries, including handling of foreign goods, and investments in foreign trading partners. ITOCHU is therefore exposed to the risk of deterioration of its investments, financing or other assets resulting from regulations imposed by foreign governments, political instability or restrictions on transfers of funds.

In transactions with developing countries, besides taking appropriate countermeasures against country risk for each transaction, the Company utilizes the following systems to avoid concentration of exposure in specific countries; a) Drawing basic policies for transactions with developing countries b) Setting total limit guidelines and limits for each country c) Providing in-house country credit ratings and drawing credit policies by country. The Company also conducts reviews of country ratings, credit policies and limits by country from time to time, taking into consideration the status quo of risk exposure of the Company, which is regularly recognized based on the analysis of information on developing countries garnered from inside and outside the Company.

(4) Investment Risk

Investing in a variety of businesses is one of the major business activities of ITOCHU. Investments are ITOCHU's largest risk assets and therefore, careful judgment is required when managing a strategic investment portfolio, investing in a business that is expected to earn profit commensurate to its risk, or exiting from a business unable to earn profit commensurate to its risk. ITOCHU uses the concept of RCM, described above, as its basic policy for investment. To consider a new investment, profitability relative to investment risk is assessed based on NPV (Net Present Value) on a Risk Asset basis. To monitor an existing investment, for a timely exit decision, it utilizes strict exit criteria that take into account growth potential, and regularly reviews efficiency in terms of a risk return index.

(5) Competition Risks in Trading

ITOCHU's major domestic and foreign trading business is fiercely in competition. ITOCHU is in global competition with domestic and foreign manufacturing and trading companies in international markets, and there is always the possibility of competitors with superior experience, fund-raising power or technical capabilities. The Company is confident that the products ITOCHU handles are competitive in the global markets in terms of price and quality, but this is no guarantee that the products will remain competitive. Furthermore, manufacturers and trading companies in emerging economies such as China are becoming globally competitive. ITOCHU will face even harsher competition, and there is no distinct possibility that the ITOCHU's products will remain competitive.

(6) Real Estate Impairment and Valuation Loss Risk

In accordance with accounting principles generally accepted in the United States of America, the Company recognizes the impairment losses for fixed assets and the devaluation losses for real estate inventories in the consolidated financial statements. In fiscal 2004, however, considering the slow recovery of the Japanese real estate market, the assets determined to be impaired under early applied impairment accounting in Japan GAAP, giving due respect to Japanese standards, these same properties were recognized as impaired. As a result, for the consolidated financial statements for fiscal 2004, ITOCHU recognized impairment losses for fixed assets of ¥123.3 billion ($1,167 million), and disposal and devaluation losses for real estate inventories of ¥23.9 billion ($226 million), totaling losses of ¥147.2 billion ($1,393 million) on the consolidated financial statements.

The Company believes that all necessary impairment and devaluation losses as of the end of fiscal 2004 were recognized for ITOCHU's real estate. Further recognition may become necessary, however, should there be future downturns in the real estate market, or certain fixed assets become idle following a falloff in demand, or other factors. Under these circumstances, there is a possibility that this will have an effect on the ITOCHU's future results.

(7) Investment in FamilyMart Co., Ltd.

Through its consolidated subsidiary Family Corporation Inc., ITOCHU holds 29.94 million shares of FamilyMart Co., Ltd. ("FamilyMart"), representing 31.0% of FamilyMart's issued shares as of March 31, 2004. FamilyMart's closing share price on the Tokyo Stock Exchange on March 31, 2004 was ¥3,200 per share, a market price approximately 34% below the ITOCHU's consolidated carrying amount.

FamilyMart is an equity-method associated company of the Company. Under the U.S. GAAP guidelines that we have adopted, such shares in equity-method associated companies are subject to impairment accounting, provided that the drop in the fair value amount is other than temporary. The decision as to whether or not the fall in fair market value is temporary is made with comprehensive consideration of all relative factors, including the possibility of recovery of the investment, and trends in the share price.

On March 31, 2004, the Company determined that there was a sufficient possibility of recovery of the investment to justify ITOCHU's investment in shares of FamilyMart, i.e. that the profitability of FamilyMart itself, and the profitability within the Group resulting from related transactions centered on FamilyMart was adequate.

However, should a future possibility to collect the amount of investments in FamilyMart decrease in the face of sluggish results, or it appears that the stock price will fall below a certain standard value for a reasonable period of time, there is the possibility that it will become necessary to apply impairment accounting. In this circumstance, there is a possibility that there will be a significant impact on the ITOCHU's performance.

(8) Litigation Against the Company's U.S. Subsidiary
In July 2001, Citibank, N.A., and Citibank Canada, a wholly-owned subsidiary of Citibank, N.A., (together, "Citibank"), filed a complaint against ITOCHU International Inc. ("III") and III Holding Inc. (previously named Copelco Financial Services Group, Inc.) in the United States District Court for the Southern District of New York. Citibank is alleging violation of the federal securities laws, fraud and breach of contract and related claims arising in connection with Citibank's acquisition of all the common stock of Copelco Capital. Inc. ("Copelco"), a former wholly-owned subsidiary of III, for a purchase price of approximately U.S.$666 million in May 2000. More specifically, Citibank is alleging that Citibank relied on the accuracy of Copelco's financial statements and other documents and statements provided and given by III to Citibank and that such financial statements had not been prepared in compliance with U.S. GAAP and/or in accordance with Copelco's internal accounting rules and practices in connection with, inter alia, accounting and collection policies and procedures of lease receivables, the amount of charge-off concerning delinquent lease receivables, loss reserve methodology, earnings from general ledger accounts and reconciliation of investment accounts, based upon which Citibank seeks compensatory damages and related costs and attorney fees. Disclosures made by Citibank during pre-trial discovery indicate its belief that the total amount of the damages suffered is approximately U.S.$459 million. III and III Holding Inc. are defending this action vigorously and maintain that they have no liability in this matter. However, due to the inherent uncertainty of litigation, it is not possible to predict at this time the ultimate outcome of this litigation. Accordingly, there can be no assurance that III and III Holding Inc. will prevail in the action or that III's consolidated financial position may not be materially adversely affected by such action.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). In preparation of the consolidated financial statements, the management of the Company is required to make a number of estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, contingent assets and liabilities as of each balance sheet date, and revenues and expenses in each reporting period. The management periodically verifies and makes decisions of its estimates, judgments and assumptions based on the available information that is considered to be reasonable by judging from historical experiences and circumstances. These estimates, judgments and assumptions, however, which are often accompanied by uncertainties, may differ from actual results. These differences may have an effect on the Company's consolidated financial statements and performances of every operating segment. The following accounting policies related to estimates, judgments and assumptions that management believes may materially affect consolidated financial statements.

Evaluation of Investments
Investment balance and profit from investments are important factors in the Company's consolidated financial statements and therefore, accounting judgment on evaluation of investments has a substantial impact on the Company's consolidated financial statements. The Company evaluates marketable securities based on their fair values. The difference between carrying amount and fair value is reported in the consolidated statements of operations for trading securities, while, for available-for-sale securities, differences net of tax, are reported in stockholders' equity as unrealized holding gains (losses) on securities. When the Company judges that the price decline of marketable securities is other than temporary, considering severity and duration of the fair value's drop against carrying amount, impairment losses are recognized.

For the impairment of non-marketable securities, judgment of an other-than-temporary price decline is conducted after a comprehensive consideration of the magnitude of the decline in terms of net asset value, the financial conditions of the invested companies, and the outlook for their future performance.

For the impairment of marketable investments in equity-method associated companies, in accordance with U.S. Accounting Principles Board Opinions No.18, as is the case for impairment of long-lived assets, the Company judges whether or not a price decline is other than temporary not only by measuring the magnitude of the decline in market value but also comprehensively considering the possibility of collection based on the estimated future cash flows generated from the investment.

The management of the Company believes these investment evaluations are rational. However, differences in estimates such as estimated future cash flows due to unforeseen changes in business conditions may impair the value of investments and have a material impact on the Company's consolidated financial statements.

Provision for Doubtful Receivables
Trade receivables including notes and accounts, in addition to loans, represent a large amount of the Company's assets, and provision for doubtful receivables is an important factor in the Company's consolidated statements of operations. Therefore, accounting judgment on evaluation of receivables has a substantial impact on the Company's consolidated financial statements.

In the Company, the credit department of each Division Company, which is independent of business departments, manages and evaluates credit risk from both quantitative and qualitative perspectives, monitoring regularly the credit limit and the status quo of trade receivables, and reviewing regularly the status quo of debt collection and delinquency to discuss and record the required provision for doubtful receivables. The Company estimates the recoverable amount and records the required provision for doubtful receivables, after comprehensively considering collectability, past insolvency record, financial conditions of debtors and value of collateral.

The management of the Company believes that these estimations of provisions for doubtful receivables are rational. However, deterioration of the debtors' financial conditions and declines in estimated collateral value due to unpredictable changes in business conditions may reduce the recoverable amounts from the latest estimation, and an increase in provision for doubtful receivables may have a material impact on the Company's consolidated financial statements.

Deferred Income Taxes

Deferred income tax assets are an important item in the Company's consolidated balance sheets. Therefore, accounting judgment on evaluation of deferred income taxes has a substantial impact on the Company's consolidated financial statements. In considering the necessity for a valuation allowance for deferred income taxes, the Company reports the realizable amount of deferred income taxes, taking into consideration future taxable income and feasible tax planning, based on information such as historical records and any available information related to the future.

The management of the Company believes these estimations of the realizable amount of deferred income taxes are rational. However, allowance for deferred income taxes may increase or decrease depending on changes in taxable income during the tax planning period and changes in tax planning standards, which may have a material impact on the Company's consolidated financial statements.

Impairment of Long-Lived Assets

If a part of the carrying amount is determined to be unrecoverable due to changes in the situation for long-lived assets used for business and intangible assets whose useful lives are definite, the Company recognizes the impairment of long-lived assets based on fair value by calculating the sum of the outcome of the use of the long-lived asset and future cash flows (before discounts) resulting from its sale, and in case the sum falls below the carrying amount.

The management of the Company believes these calculations of estimated future cash flows and fair value have been done in a rational manner. However, fluctuations in estimated future cash flows and fair value due to unpredictable changes in business conditions may reduce the evaluation of long-lived assets, which may have a material impact on the Company's consolidated financial statements.

Goodwill and Other Intangible Assets

Goodwill and non-amortizable intangible assets with indefinite useful lives are no longer amortized, but instead tested for impairment at least annually. Fair value is estimated by discounted future cash flows based on the business plan.

The management of the Company believes these calculations of estimated future cash flows and fair value have been done in a rational manner. However, fluctuations in estimated future cash flows and fair value due to unpredictable changes in business conditions may reduce the evaluation of goodwill and other intangible assets, which may have a material impact on the Company's consolidated financial statements.

Cost of Retirement and Severance Benefits

The Company calculates the cost of its employees' retirement and severance benefits and pension obligations based on the same types of assumptions used in actuarial calculations, which include such important estimations as discount rates, retirement rates, death rates, increase rates of salary and long-term expected rates of return on plan assets. To determine each of these assumptions, the Company comprehensively judges all available information including market trends such as interest rate changes.

The management of the Company believes the determination of these assumptions has been done in a rational manner. However, any difference between the assumptions and the actual conditions may influence the future retirement benefit costs and pension liabilities, which may have a material impact on the Company's consolidated financial statements.

Quarterly Financial Data and Stock Price

Quarterly financial data and the Company's stock price performance during fiscal 2004, 2003 and 2002 were as follows:

	Billions of Yen (excluding net income (loss) per share and stock price)											
	1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
Years ended March 31 (Unaudited)	2004	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002
Gross trading profit	¥126.1	¥125.3	¥138.3	¥148.3	¥148.5	¥157.5	¥143.0	¥144.6	¥142.7	¥138.4	¥147.7	¥140.4

Total trading transactions:	2004	2003	2002
1st Quarter	¥2,290.0	¥2,402.8	¥2,731.4
2nd Quarter	¥2,385.5	¥2,672.1	¥3,163.6
3rd Quarter	¥2,474.6	¥2,559.7	¥2,582.9
4th Quarter	¥2,366.9	¥2,827.0	¥2,922.6

	1st Quarter 2004	2003	2002	2nd Quarter 2004	2003	2002	3rd Quarter 2004	2003	2002	4th Quarter 2004	2003	2002
Selling, general and administrative expenses	(115.1)	(112.7)	(112.8)	(114.0)	(111.8)	(123.0)	(115.2)	(112.5)	(113.8)	(121.7)	(111.5)	(115.8)
Provision for doubtful receivables	(0.3)	(0.4)	(0.9)	(4.6)	(2.5)	(8.5)	(0.9)	(1.7)	(1.4)	(4.8)	(12.3)	(6.1)
Interest income	3.6	5.4	10.4	2.9	4.4	9.1	2.8	4.7	6.4	3.5	2.4	8.0
Interest expense	(10.0)	(12.9)	(22.1)	(8.7)	(12.5)	(17.7)	(9.5)	(11.7)	(15.8)	(9.4)	(10.5)	(13.3)
Dividends received	3.6	3.1	2.6	1.9	1.7	5.8	2.5	2.6	2.7	2.5	2.7	2.0
Gain (loss) on disposal of investments and marketable securities, net of write-down	0.9	5.4	7.2	(4.7)	4.2	17.8	0.7	(0.3)	4.1	(10.4)	(22.5)	(15.5)
Gain (loss) on property and equipment-net	0.3	0.2	0.1	(1.8)	(1.0)	(3.8)	0.5	0.3	(0.2)	(128.4)	(0.3)	(3.8)
Other-net	1.2	(4.1)	1.2	(4.2)	(0.5)	(2.4)	(0.9)	(1.6)	3.9	(10.2)	(2.3)	(5.0)
Income (loss) before income taxes, minority interests, equity in earnings of associated companies and extraordinary items	10.2	9.3	24.0	15.2	30.5	34.8	23.0	24.4	28.6	(140.4)	(6.6)	(9.1)
Income taxes	6.3	5.6	10.3	10.3	18.8	22.7	12.1	12.9	18.0	(74.1)	8.3	(2.7)
Income (loss) before minority interests, equity in earnings of associated companies and extraordinary items	3.9	3.7	13.7	4.9	11.7	12.1	10.9	11.5	10.6	(66.3)	(14.9)	(6.4)
Minority interests	(0.9)	(1.3)	(1.9)	(4.1)	(2.6)	(4.9)	(3.2)	(2.7)	(3.2)	(1.9)	(3.9)	(1.1)
Equity in earnings of associated companies	7.0	6.8	0.4	6.5	3.9	5.9	6.9	5.5	3.5	2.4	2.3	1.5
Net income (loss) before extraordinary items	10.1	9.2	12.2	7.3	13.0	13.1	14.6	14.3	10.9	(65.7)	(16.5)	(6.0)
Extraordinary items—gain on negative goodwill	—	—	—	1.8	—	—	—	—	—	—	—	—
Net income (loss)	¥ 10.1	¥ 9.2	¥ 12.2	¥ 9.1	¥ 13.0	¥ 13.1	¥ 14.6	¥ 14.3	¥ 10.9	¥ (65.7)	¥ (16.5)	¥ (6.0)
Net income (loss) per share: (Yen)	¥ 6.4	¥ 6.5	¥ 8.5	¥ 5.8	¥ 8.5	¥ 9.2	¥ 9.3	¥ 9.0	¥ 7.7	¥ (41.6)	¥ (10.4)	¥ (4.2)
Stock price (Yen)												
High	¥ 306	¥ 506	¥ 520	¥ 380	¥ 448	¥ 509	¥ 410	¥ 346	¥ 397	¥ 480	¥ 316	¥ 477
Low	231	396	427	293	276	282	310	198	269	344	249	276

Note: "Selling, general and administrative expenses" in the 4th quarter of fiscal year 2004 includes the amount of net loss on settlement of the substitutional portion of the Employees' Pension Fund of ¥3,161 million ($30 million).

Change in Independent Auditors

On May 16, 2003, the board of directors of the Company resolved to appoint Deloitte Touche Tohmatsu, statutory independent auditors according to the Japanese Commercial Code (the "Code"), to independent auditors of the consolidated financial statements. This change was merely caused by the necessity of unification of independent auditors for both consolidated and non-consolidated financial statements, with the revision of the Code that enforces entities to prepare the statutory consolidated financial statements in accordance with the Code from the fiscal year beginning April 1, 2004. During the two most recent fiscal years, there were no disagreements between the Company and the former independent auditors of the consolidated financial statements, about any matter of accounting principles or practices, consolidated financial statement disclosures, or auditing scope of procedures. An unqualified opinion was expressed on the former independent auditor's report on the consolidated financial statements for either of the past two years.

Consolidated Balance Sheets

ITOCHU Corporation and Subsidiaries
As of March 31, 2004 and 2003

Assets	Millions of Yen 2004	Millions of Yen 2003	Millions of U.S. dollars (Note 2) 2004
Current assets:			
Cash and cash equivalents (notes 2 and 7)	¥ 579,565	¥ 534,156	$ 5,484
Time deposits (note 7)	5,297	15,216	50
Marketable securities (notes 2, 3 and 7)	42,302	40,879	400
Trade receivables (note 7):			
Notes	130,562	145,764	1,235
Accounts (note 20)	948,795	907,315	8,977
Allowance for doubtful receivables (notes 2 and 5)	(21,937)	(24,816)	(207)
Net trade receivables	1,057,420	1,028,263	10,005
Due from associated companies	83,709	98,157	792
Inventories (notes 2 and 7)	374,171	402,242	3,541
Advances to suppliers	46,739	40,398	442
Prepaid expenses	20,658	17,952	195
Deferred tax assets (notes 2 and 12)	36,279	31,812	343
Other current assets	217,039	196,103	2,054
Total current assets	2,463,179	2,405,178	23,306
Investments and non-current receivables:			
Investments in and advances to associated companies (notes 2, 4 and 7)	481,451	447,155	4,555
Other investments (notes 2, 3, 7 and 8)	386,522	339,527	3,657
Other non-current receivables (notes 7 and 20)	382,872	465,548	3,623
Allowance for doubtful receivables (notes 2 and 5)	(174,662)	(206,050)	(1,653)
Net investments and non-current receivables	1,076,183	1,046,180	10,182
Property and equipment, at cost (notes 2, 7, 8 and 20):			
Land	158,584	264,825	1,500
Buildings	317,596	298,215	3,005
Machinery and equipment	260,272	250,107	2,463
Furniture and fixtures	53,528	49,467	506
Construction in progress	7,875	6,322	75
Total property and equipment, at cost	797,855	868,936	7,549
Less accumulated depreciation	314,692	276,439	2,977
Net property and equipment	483,163	592,497	4,572
Goodwill and other intangible assets, less accumulated amortization (notes 2 and 6)	110,751	71,190	1,048
Prepaid pension cost (notes 2 and 10)	183,743	225,732	1,739
Deferred tax assets, non-current (notes 2 and 12)	129,101	89,585	1,221
Other assets	41,162	56,043	389
Total	¥4,487,282	¥4,486,405	$42,457

Liabilities and Stockholders' Equity	Millions of Yen 2004	Millions of Yen 2003	Millions of U.S. dollars (Note 2) 2004
Current liabilities:			
Short-term debt (notes 7 and 9)	¥ 549,809	¥ 465,108	$ 5,202
Current installments of long-term debt (notes 7 and 9)	335,444	525,831	3,174
Trade payables:			
Notes and acceptances (note 7)	154,902	168,310	1,466
Accounts	754,147	769,403	7,135
Total trade payables	909,049	937,713	8,601
Due to associated companies	42,941	36,058	406
Income taxes payable (note 12)	18,275	19,505	173
Accrued expenses	92,240	88,407	873
Advances from customers	53,467	44,164	506
Deferred tax liabilities (notes 2 and 12)	208	1,149	2
Advances and deposits received	143,714	143,297	1,360
Total current liabilities	2,145,147	2,261,232	20,297
Long-term debt, excluding current installments (notes 7, 9 and 20)	1,757,313	1,637,916	16,627
Accrued retirement and severance benefits (notes 2 and 10)	21,512	22,383	204
Deferred tax liabilities, non-current (notes 2 and 12)	13,261	9,528	125
Commitments and contingent liabilities (note 21)			
Minority interests	127,183	129,126	1,203
Stockholders' equity:			
Common stock (note 15):			
Authorized 3,000,000,000 shares;			
issued:			
1,584,889,504 shares 2004			
1,583,487,736 shares 2003	202,241	202,241	1,914
Capital surplus (notes 15 and 16)	136,915	136,842	1,295
Retained earnings (note 16):			
Legal reserve	3,450	3,212	33
Other retained earnings	106,958	143,014	1,012
Accumulated other comprehensive loss (notes 2, 3, 10, 12 and 17)	(25,982)	(58,408)	(246)
Treasury stock, at cost			
2,582,665 shares 2004			
2,133,695 shares 2003	(716)	(681)	(7)
Total stockholders' equity	422,866	426,220	4,001
Total	¥4,487,282	¥4,486,405	$42,457

See notes to consolidated financial statements.

Consolidated Statements of Operations

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Millions of U.S. dollars (Note 2)
	2004	2003 As restated (Note 2)	2002 As restated (Note 2)	2004
Revenue (notes 2 and 20):				
Sales revenue	¥1,355,372	¥1,312,657	¥1,297,868	$ 12,824
Trading margins and commissions on trading transactions	383,375	370,131	390,471	3,627
Total trading transactions (notes 2, 4 and 14): 2004: ¥ 9,516,967 million ($90,046 million) 2003: ¥10,461,620 million 2002: ¥11,400,471 million				
Total revenue	1,738,747	1,682,788	1,688,339	16,451
Cost of sales	(1,182,852)	(1,116,751)	(1,109,472)	(11,191)
Gross trading profit (note 14)	555,895	566,037	578,867	5,260
Selling, general and administrative expenses (note 20)	(462,894)	(448,473)	(465,519)	(4,380)
Settlement loss from the transfer of the substitutional portion of the Employees' Pension Fund (notes 2 and 10)	(22,767)	—	—	(215)
Subsidy from government on the transfer of the substitutional portion of the Employees' Pension Fund (notes 2 and 10)	19,606	—	—	185
Provision for doubtful receivables	(10,624)	(16,845)	(16,831)	(101)
Interest income	12,819	16,939	33,895	121
Interest expense	(37,562)	(47,594)	(68,834)	(355)
Dividends received	10,528	10,076	12,997	100
Gain (loss) on disposal of investments and marketable securities, net of write-down (notes 3, 8 and 19)	(13,633)	(13,182)	13,502	(129)
Loss on property and equipment-net (note 8)	(129,432)	(755)	(7,622)	(1,225)
Other-net (notes 2 and 11)	(13,982)	(8,528)	(2,260)	(132)
Income (loss) before income taxes, minority interests, equity in earnings of associated companies and extraordinary items	(92,046)	57,675	78,195	(871)
Income taxes (notes 2 and 12):				
Current	31,122	31,287	38,227	295
Deferred	(76,579)	14,365	10,046	(725)
Total income taxes	(45,457)	45,652	48,273	(430)
Income (loss) before minority interests, equity in earnings of associated companies and extraordinary items	(46,589)	12,023	29,922	(441)
Minority interests	(10,042)	(10,484)	(11,093)	(95)
Equity in earnings of associated companies (note 4)	22,859	18,539	11,362	217
Net income (loss) before extraordinary items	(33,772)	20,078	30,191	(319)
Extraordinary items– gain on negative goodwill, less applicable income taxes of ¥1,271 million ($12 million) (note 2)	1,828	—	—	17
Net Income (loss)	¥ (31,944)	¥ 20,078	¥ 30,191	$ (302)

	Yen			U.S. dollars (Note 2)
	2004	2003	2002	2004
Net income (loss) per common share before extraordinary items (notes 2 and 13):				
Basic	¥ (21.36)	¥ 13.12	¥ 21.18	$ (0.20)
Diluted	—	13.12	21.18	—
Extraordinary items per common share— gain on negative goodwill, less applicable income taxes:				
Basic	1.16	—	—	0.01
Diluted	—	—	—	—
Net income (loss) per common share:				
Basic	¥ (20.20)	¥ 13.12	¥ 21.18	$ (0.19)
Diluted	—	13.12	21.18	—

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Millions of U.S. dollars (Note 2)
	2004	2003	2002	2004
Common stock (note 15):				
Balance at beginning of year issued: 1,583,487,736 shares 2004; 1,425,487,736 shares 2003	¥202,241	¥174,749	¥174,749	$1,914
Issuance of common stock 158,000,000 shares 2003	—	27,492	—	—
Acquisition of minority interests through issuance of common stock 1,401,768 shares 2004	—	—	—	—
Balance at end of year 1,584,889,504 shares 2004; 1,583,487,736 shares 2003	¥202,241	¥202,241	¥174,749	$1,914
Capital surplus (notes 15 and 16):				
Balance at beginning of year	¥136,842	¥111,348	¥112,691	$1,295
Issuance of common stock	—	27,285	—	—
Acquisition of minority interests through issuance of common stock	141	—	—	1
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	(82)	(1,791)	(1,343)	(1)
Excess arising from retirement of treasury stock	14	—	—	0
Balance at end of year	¥136,915	¥136,842	¥111,348	$1,295
Retained earnings (note 16):				
Legal reserve:				
Balance at beginning of year	¥ 3,212	¥ 3,410	¥ 2,614	$ 31
Transfer from other retained earnings	301	16	1,180	3
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	(63)	(214)	(384)	(1)
Balance at end of year	¥ 3,450	¥ 3,212	¥ 3,410	$ 33
Other retained earnings:				
Balance at beginning of year	¥143,014	¥128,468	¥108,421	$1,353
Net income (loss)	(31,944)	20,078	30,191	(302)
Cash dividends	(3,956)	(7,521)	(10,691)	(37)
Transfer to legal reserve	(301)	(16)	(1,180)	(3)
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	145	2,005	1,727	1
Balance at end of year	¥106,958	¥143,014	¥128,468	$1,012
Accumulated other comprehensive loss (notes 2, 3, 10, 12 and 17):				
Balance at beginning of year	¥ (58,408)	¥ (20,264)	¥ (81,535)	$ (553)
Other comprehensive income (loss)	32,426	(38,144)	61,271	307
Balance at end of year	¥ (25,982)	¥ (58,408)	¥ (20,264)	$ (246)
Treasury stock:				
Balance at beginning of year	¥ (681)	¥ (43)	¥ —	$ (7)
Net change in treasury stock	(35)	(638)	(43)	(0)
Balance at end of year	¥ (716)	¥ (681)	¥ (43)	$ (7)
Total	¥422,866	¥426,220	¥397,668	$4,001
Comprehensive income (loss):				
Net income (loss)	¥ (31,944)	¥ 20,078	¥ 30,191	$ (302)
Other comprehensive income (loss) (notes 2, 3, 10, 12 and 17)	32,426	(38,144)	61,271	307
Total	¥ 482	¥ (18,066)	¥ 91,462	$ 5

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Millions of U.S. dollars (Note 2)
	2004	2003	2002	2004
Cash flows from operating activities:				
Net income (loss)	¥ (31,944)	¥ 20,078	¥ 30,191	$ (302)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	40,184	33,794	35,839	380
Provision for doubtful receivables	10,624	16,845	16,831	101
Gain (loss) on disposal of investments and marketable securities, net of write-down	13,633	13,182	(13,502)	129
Loss on property and equipment-net	129,432	755	7,622	1,225
Equity in earnings of associated companies, less dividends received	(17,310)	(12,104)	(4,566)	(164)
Deferred income taxes	(76,579)	14,365	10,046	(725)
Minority interests	10,042	10,484	11,093	95
Extraordinary items-gain on negative goodwill	(1,828)	—	—	(17)
Change in assets and liabilities:				
Trade receivables	81,657	102,408	194,853	773
Due from associated companies	9,747	21,308	(1,909)	92
Inventories	26,592	20,780	48,361	251
Trade payables	(12,394)	(40,105)	(53,715)	(117)
Due to associated companies	5,429	(331)	11,969	51
Other-net	(2,505)	(32,616)	(76,610)	(24)
Net cash provided by operating activities	184,780	168,843	216,503	1,748
Cash flows from investing activities:				
Payments for purchases of property, equipment and other assets	(71,735)	(47,310)	(38,257)	(679)
Proceeds from sales of property, equipment and other assets	23,789	30,754	11,853	225
Net increase in investments in and advances to associated companies	(8,546)	(8,558)	(50,895)	(81)
Payments for purchases of other investments	(46,611)	(47,335)	(66,989)	(441)
Proceeds from sales of other investments	38,998	43,354	46,899	369
Proceeds from sales of subsidiaries' common stock	2,098	4,385	13,282	20
Increase in other non-current receivables	(56,409)	(52,797)	(60,650)	(534)
Collections of other non-current receivables	53,634	70,116	115,130	508
Net decrease in time deposits	9,769	2,573	238,982	93
Net decrease (increase) in marketable securities	(287)	10,071	4,653	(3)
Net cash provided by (used in) investing activities	(55,300)	5,253	214,008	(523)
Cash flows from financing activities:				
Proceeds from long-term debt	602,557	483,477	492,770	5,701
Repayments of long-term debt	(627,925)	(620,534)	(630,515)	(5,941)
Net decrease in short-term debt	(47,543)	(22,205)	(86,856)	(450)
Proceeds from issuance of common stock	—	54,777	—	—
Proceeds from minority interests through issuance of subsidiaries' common stock	393	1,405	6,475	4
Cash dividends	(3,956)	(7,521)	(10,691)	(37)
Cash dividends to minority interests	(3,270)	(3,164)	(3,187)	(31)
Net decrease (increase) in treasury stock	49	(276)	(43)	0
Net cash used in financing activities	(79,695)	(114,041)	(232,047)	(754)
Effect of exchange rate changes on cash and cash equivalents	(4,376)	(5,633)	6,334	(41)
Net increase in cash and cash equivalents	45,409	54,422	204,798	430
Cash and cash equivalents at beginning of year	534,156	479,734	274,936	5,054
Cash and cash equivalents at end of year	¥579,565	¥534,156	¥479,734	$5,484
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	¥ 42,204	¥ 49,915	¥ 74,748	$ 399
Income taxes	30,808	35,162	46,228	291
Information regarding non-cash investing and financing activities:				
Contribution of securities to pension trust (note 10)	—	52,358	85,016	—
Withdrawal of plan assets (note 10)	25,618	—	—	242
Non-monetary exchange of shares	628	3,054	—	6
Exchange of assets in transfer of business:				
Assets contributed	5,630	—	—	53
Liabilities extinguished	92	—	—	1
Assets received	5,538	—	—	52
Shares acquired in spin-off of business:				
Assets contributed	—	—	306,916	—
Liabilities transferred	—	—	276,491	—
Shares acquired	—	—	30,425	—

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ITOCHU Corporation and Subsidiaries

1. Nature of Operations

ITOCHU Corporation (the "Company") is one of the major Japanese "sogo shosha," or general trading companies. As a "Globally Integrated Corporation," the Company and its subsidiaries purchase, distribute and market a wide variety of commodities including raw materials, capital goods, and consumer goods, whether for Japanese domestic trade, trade between Japan and other nations, or trade between third-party nations.

The Company and its subsidiaries not only operate worldwide through trading in various commodities but also provide various services, such as financing arrangements for customers and suppliers, planning and coordinating industrial projects, functioning as an organizer, and gathering extensive information. In addition, the Company operates in a wide range of business activities—developing market potential, providing services for logistics and transportation and for information and communications, engaging in construction, developing resources, investing in the growing high-technology and multimedia fields, and promoting environmental protection.

2. Basis of Financial Statements and Summary of Significant Accounting Policies

(1) Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2004 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥105.69=U.S.$1 (official rate as of March 31, 2004 announced by The Bank of Tokyo-Mitsubishi, Ltd.). The translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All necessary adjustments have been made to conform with U.S. GAAP, because the Company and its subsidiaries maintain their records and prepare their financial statements in accordance with accounting principles prevailing in the countries of incorporation. The major adjustments include those relating to the valuation of certain investment securities, deferred gains on sales of property, pension costs, amortization of intangible assets and goodwill, and derivative instruments and hedging activities.

(2) Summary of Significant Accounting Policies

Consolidation and Investments in Associated Companies

The consolidated financial statements include the accounts of the Company and its directly or indirectly majority-owned foreign and domestic subsidiaries. The accounts of the subsidiaries are included on the basis of their respective fiscal periods, which mainly end on March 31 or within 3 months before March 31. Significant transactions occurring between subsidiaries' fiscal year-end (if not March 31) and March 31 are properly adjusted in the consolidated financial statements.

The assessment of whether a company is recognized as a subsidiary is based on the Company's ownership in voting shares and consideration of shares contributed to a pension trust. The Company maintains the right to vote the contributed shares, but the right to dispose of them is executed by the trustee. This equity in contributed shares to a pension trust is included in minority interests in the consolidated financial statements.

Investments in associated companies (generally companies owned 20% to 50%) are recorded at cost plus the companies' equity in undistributed earnings and losses of such companies since acquisition. All significant unrealized intercompany profits have been eliminated. The amounts of dividends received from associated companies have reduced investments in associated companies. The excess of cost over the net assets acquired is allocated to identifiable assets based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over the net assets is not amortized and is tested for impairment at least annually.

Foreign currency translation

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Pursuant to this statement, the assets and liabilities of foreign subsidiaries and associated companies are translated into Japanese yen at the respective year-end exchange rates. All income and expense accounts are translated at average rates of exchange. The resulting foreign currency translation adjustments, net of tax, are included in accumulated other comprehensive income (loss). Foreign currency receivables and payables are translated into Japanese yen at year-end exchange rates and resulting foreign exchange gains and losses are recognized in earnings, which are included in "Other-net" in the consolidated statements of operations.

Revenue

The Company's management determined that, subsequent to the issuance of the Company's 2003 consolidated financial statements, the Company and its subsidiaries presented revenue and corresponding cost of revenue in the consolidated statements of operations for the year ended March 31, 2004, and retroactively restated the consolidated statements of operations for the years ended March 31, 2003 and 2002, to conform with Emerging Issues Task Force Issue 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent" (EITF 99-19). EITF 99-19 requires that certain revenue transactions with corresponding cost of revenue be presented on a gross basis when the company is the primary obligor in the arrangement, when the company has general inventory risk before customer order is placed or upon customer return, or depending on relevant facts and circumstances of the transactions. Other than these transactions, the company should recognize revenue on a net basis. In accordance with EITF 99-19, the Company and its subsidiaries present certain revenue transactions with corresponding cost of revenue on a gross basis as "Sales revenue" in the consolidated statements of operations, including sales of manufacturing, processing and service rendering, and sales with general inventory risk before customer order. The revenue that should be recognized on a net basis, is presented as "Trading margins and commissions on trading transactions" in the consolidated statements of operations. Adoption of this principle required the restatement of previously issued financial statements but did not have an impact on gross trading profit, net income (loss) or stockholders' equity.

Trading Transactions
The Company and its subsidiaries act as either principal or agent in their trading transactions. Title to and payment for the goods pass through the companies without physical acquisition and delivery in certain transactions in which the companies act as principal.

Total trading transactions in the consolidated statements of operations consist of sales with respect to transactions in which the companies act as principal, including sales of real estate, and the total amount of transactions in which the companies act as agent.

Total trading transactions in the consolidated statements of operations is presented in accordance with Japanese accounting practice, and is not meant to present sales or revenue in accordance with U.S. GAAP. Total trading transactions is a non-GAAP measure commonly used by similar Japanese trading companies and should not be construed as equivalent to, or a substitute or proxy for, revenue, or as an indicator of the companies' operating performance, liquidity or cash flows generated by operating, investing or financing activities.

Income Taxes
The Company and its subsidiaries utilize the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards No.109, "Accounting for Income Taxes."

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date. A valuation allowance for deferred tax assets is recognized when some portion or all of the deferred tax assets will not be realized.

Cash Equivalents
For the purpose of the statements of cash flows, the Company and its subsidiaries consider highly liquid, easily convertible to cash, and short-term (original maturities of three months or less) investments with insignificant risk of changes in value, including short-term time deposits, to be cash equivalents.

Marketable Securities and Other Investments
The Company and its subsidiaries have adopted Statement of Financial Accounting Standards No.115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115) for certain investments included in "Marketable securities" and "Other investments." SFAS 115 requires that certain investments in debt and equity securities be classified as held-to-maturity, trading or available-for-sale. Those securities classified as held-to-maturity are reported at amortized cost. Unrealized holding gains and losses for trading securities are included in earnings. Unrealized holding gains and losses for available-for-sale securities are reported in accumulated other comprehensive income (loss) in stockholders' equity on a net-of-tax basis. The cost of securities is determined using the average-cost method. Non marketable securities included in "Other investments" are stated at cost or less (after impairment).

The Company and its subsidiaries periodically review investments for impairment, and review the fair value of held-to-maturity and available-for-sale securities to determine if the fair value of any individual securities has declined below its cost and if such decline is other than temporary. If the decline in value is judged to be other than temporary, an impairment loss is recognized based on the fair value. Whether a decline in value is other than temporary is determined by considering the severity (the extent to which fair value is below cost) and duration (period of time that a security has been impaired) of the impairment.

Inventories
Inventories are stated at the lower of cost or market, cost being determined principally by the specific identification method.

Impaired Loans and Allowance for Doubtful Receivables
In accordance with Statement of Financial Accounting Standards No.114, "Accounting by Creditors for Impairment of a Loan" (SFAS 114) and No.118, "Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures, an amendment of FASB Statement No. 114," the Company and its subsidiaries have valued certain loans based on either the present value of expected future cash flows discounted at the loan's effective interest rate, or the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A valuation allowance is recognized if the fair value of the loan is less than the recorded amounts.

The Company and its subsidiaries have recognized interest income on impaired loans principally on a cash basis.

Long-lived Assets
The Company and its subsidiaries have adopted Statement of Financial Accounting Standards No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Long-lived assets to be held and used are reviewed for impairment by using undiscounted expected future cash flows whenever events or changes in circumstances indicate that some portion of the carrying amount of the assets may not be recoverable. If the sum of the expected future cash flows is less than the carrying amount of the assets, an impairment loss is recognized based on the fair value. Long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell.

Goodwill and Other Intangible Assets
The Company and its subsidiaries have adopted Statement of Financial Accounting Standards No.141, "Business Combinations" (SFAS 141), and Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets" (SFAS 142) on April 1, 2002. SFAS 141 requires that the purchase method of accounting be used for all business combinations. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS 142 requires that goodwill no longer be amortized, but instead tested for impairment at the reporting unit level at least on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. SFAS 142 also requires that recognized intangible assets with definite useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement of Financial Accounting Standards No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Any recognized intangible assets determined to have an indefinite useful lives are not to be amortized, but instead tested for impairment in the same manner as goodwill.

In accordance with SFAS 141, the Company and its subsidiaries recognized an extraordinary gain related to the excess of fair value of acquired net assets over cost of an investment in associated companies in the year ended March 31, 2004. The extraordinary gain was ¥1,828 million ($17 million), net of tax of ¥1,271 million ($12 million), and is presented in the consolidated statements of operations as "Extraordinary items—gain on negative goodwill, less applicable income taxes of ¥1,271 million ($12 million)."

Derivative Instruments and Hedging Activities
The Company and its subsidiaries adopted Statement of Financial

Accounting Standards No.133, “Accounting for Derivative Instruments and Hedging Activities” (SFAS 133) and Statement of Financial Accounting Standards No.138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133” (SFAS 138) on April 1, 2001.

SFAS 133 and SFAS 138 require that all derivative instruments, such as foreign exchange contracts, interest rate swap contracts and commodity price contracts, be recognized in the financial statements and measured at fair value, regardless of the purpose or intent for holding them, as either assets or liabilities.

The accounting for changes in cash flow or fair value depends on the intended use of the derivative instruments and resulting hedge effectiveness.

All derivative instruments are recognized on the balance sheet at their fair value. The Company and its subsidiaries designate and account for derivative instruments as follows:

- “Fair value hedge”: a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment. The changes in fair value of recognized assets or liabilities or unrecognized firm commitments and related derivative instruments that are designated and qualify as fair value hedges are recorded in earnings if the hedges are considered highly effective.

- “Cash flow hedge”: a hedge of the variability of cash flow to be received or paid related to a forecasted transaction or a recognized asset or liability. The changes in fair value of derivative instruments that are designated and qualify as cash flow hedges are recorded in accumulated other comprehensive income (loss) if the hedges are considered highly effective.

  This treatment is continued until earnings are affected by the variability in cash flows to be received or paid related to the forecasted transactions or the recognized assets or liabilities designated as the hedged items. The ineffective portion of the hedge is currently reported in earnings.

- “Foreign currency hedge”: a hedge of foreign-currency fair value or cash flow. The changes in fair value or cash flow of recognized assets or liabilities, unrecognized firm commitments or forecasted transactions and derivatives that are designated and qualify as foreign-currency fair value or cash flow hedges are recorded in either earnings or accumulated other comprehensive income (loss) if the hedges are considered highly effective.

  Recognition in earnings or accumulated other comprehensive income (loss) is dependent on the treatment of foreign currency hedges as fair value hedges or cash flow hedges.

The Company and its subsidiaries meet the documentation requirements as prescribed by SFAS 133 and SFAS 138, which include their risk-management objective and strategy for undertaking various hedge transactions.

In addition, a formal assessment is made at the hedge’s inception and periodically at every quarter on an on-going basis, as to whether the derivatives used in hedging activities are highly effective in off-setting changes in fair values or cash flows of hedged items.

Hedge accounting is discontinued for ineffective hedges, if any. The changes in fair value of derivative instruments related to discontinued hedges are recognized in earnings currently.

The changes in fair value of derivative instruments for trading purposes are recorded in earnings.

Costs Associated with Exit or Disposal Activities

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No.146, “Accounting for Costs Associated with Exit or Disposal Activities” (SFAS 146). SFAS 146 requires that a liability be recognized for those costs related to exit or disposal activities performed after December 31, 2002 only when the liability is incurred, instead of the date of an entity’s commitment to an exit plan. SFAS 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. The adoption of SFAS 146 did not have a material effect on the Company’s consolidated financial position and results of operations.

Asset Retirement Obligations

In June 2001, the FASB issued Statement of Financial Accounting Standards No.143, “Accounting for Asset Retirement Obligations” (SFAS 143), which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company and its subsidiaries adopted the provision of SFAS 143 on April 1, 2003. The adoption of SFAS 143 did not have a material effect on the Company’s consolidated financial position and results of operations.

Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities

In January 2003, the Emerging Issues Task Force reached a final consensus on Issue 03-2, “Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities” (EITF 03-2). EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees’ Pension Fund plan (EPF) which is a defined benefit pension plan established under the Welfare Pension Insurance Law. EITF 03-2 requires employers to account for the entire separation process of a substitutional portion from an entire plan (including a corporate portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. In March 2003, the applications that were submitted by the Company were approved by the government for an exemption from the obligation to pay benefits for future employee service related to the substitutional portion. Another approval for transfer of the remaining substitutional portion (that is, the benefit obligation related to past services) was obtained in January 2004. The remaining benefit obligation of the substitutional portion (that amount earned for past services) as well as the related government-specified portion of the plan assets of the EPF were transferred to the government in March 2004. With respect to these transactions, “Settlement loss from the transfer of the substitutional portion of the Employees’ Pension Fund” of ¥22,767 million ($215 million) and “Subsidy from government on the transfer of the substitutional portion of the Employees’ Pension Fund” of ¥19,606 million ($185 million) were recognized in the year ended March 31, 2004.

Issuance of Stock by Subsidiaries or Associated Companies

With respect to the issuance of the shares to a third party by a subsidiary or an associated company the resulting gain or loss arising from the change in the Company’s ownership interest are recorded in earnings for the period when such shares are issued.

Depreciation

Depreciation of property and equipment (including property leased to others) is computed principally by the straight-line method using rates based upon the estimated useful lives of the related property and equipment.

Net Income (Loss) Per Share
Net income (loss) per share is computed based on the weighted average number of shares of common stock outstanding (excluding treasury stock). Diluted net income per share is computed reflecting potentially dilutive securities.

Comprehensive Income (Loss)
The Company and its subsidiaries have adopted Statement of Financial Accounting Standards No.130, “Reporting Comprehensive Income” (SFAS 130). SFAS 130 establishes standards for the reporting and display of comprehensive income (loss) and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements and requires that all items be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income (loss) consists of net income (loss) and the net of tax changes in foreign currency translation adjustments, minimum pension liability adjustments, net unrealized holding gains or losses on marketable securities and other investments, and net unrealized holding gains or losses on derivative instruments.

Leases
The Company and its subsidiaries lease fixed assets under direct financing leases and operating leases as lessors. Income from direct financing leases is recognized by amortization of unearned income over the lease term at a constant periodic rate of return on the net investment. Operating lease income is recognized over the lease term on a straight-line basis.

The Company and its subsidiaries lease fixed assets under operating leases and capital leases as lessees. For capital lease obligations, interest expense is recognized over the lease term at a constant periodic rate on the lease obligation. Accumulated depreciation of the leased assets is recognized over the lease term on a straight-line basis. Rental expense on operating leases is recognized over the lease term on a straight-line basis.

Guarantees
In November 2002, the FASB issued FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (FIN 45). FIN 45 requires that a liability be recorded in the guarantor’s balance sheets upon issuance of a guarantee. The Company and its subsidiaries adopted the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. The disclosures related to guarantees are shown in Note 21 “Commitments and Contingent Liabilities.”

Variable Interest Entities
In January 2003, the FASB issued FASB Interpretation No. 46 “Consolidation of Variable Interest Entities” (FIN 46) and its revision (FIN 46R) in December 2003. FIN 46R defines the entities of which equity has specified characteristics as variable interest entities, and also requires that the primary beneficiary which owns a majority of the variable interests consolidate the variable interest entities. Variable interests are rights that receive economic gains and obligations that absorb economic losses from changes in the fair values of the variable interest entities’ assets and liabilities. The Company and its subsidiaries adopted FIN 46R for all variable interest entities in the year ended March 31, 2004. The adoption of FIN 46R did not have a material effect on the consolidated financial position and results of operations.

The Company and its subsidiaries have involvement in certain businesses such as ocean plying vessels, property development and providing loans to third parties through special purpose entities. The Company and its subsidiaries retain variable interests in these special purpose entities, which are classified as variable interest entities under FIN 46R through loans, guarantees and equity investments.

There are no material matters to disclose about the entities where the Company and its subsidiaries are the primary beneficiary.

The total assets and maximum exposure to loss to the Company as a result of its involvement in the variable interest entities where the Company and its subsidiaries are not the primary beneficiary, but have significant variable interests as of March 31, 2004 were ¥56,966 million ($539 million) and ¥22,673 million ($215 million). The maximum exposure to loss, which includes loans and guarantees, are partly recovered by guarantee provided by third parties.

Use of Estimates
Management of the Company has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these financial statements. Actual results could differ from those estimates.

(3) Reclassification
Certain reclassifications and changes have been made to prior year amounts to conform to the current year’s presentation.

3. Marketable Securities and Investments

Debt and Marketable Equity Securities

Debt and marketable equity securities included in "Marketable securities" and "Other investments" consist of trading, available-for-sale and held-to-maturity securities. The cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of available-for-sale and held-to-maturity securities by major security type as of March 31, 2004 and 2003 were as follows:

	Millions of Yen			
	2004			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	¥ 8,626	¥ 1	¥ 1	¥ 8,626
Total	¥ 8,626	¥ 1	¥ 1	¥ 8,626
Held-to-maturity:				
Debt securities	¥ 1	¥ —	¥ —	¥ 1
Total-Current	¥ 8,627	¥ 1	¥ 1	¥ 8,627
Non-current:				
Available-for-sale:				
Equity securities	¥ 97,462	¥70,177	¥158	¥167,481
Debt securities	3,590	42	181	3,451
Total	¥101,052	¥70,219	¥339	¥170,932
Held-to-maturity:				
Debt securities	¥ 50	¥ —	¥ —	¥ 50
Total-Non-current	¥101,102	¥70,219	¥339	¥170,982

	Millions of Yen			
	2003			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	¥ 7,044	¥ 1	¥ 580	¥ 6,465
Total	¥ 7,044	¥ 1	¥ 580	¥ 6,465
Held-to-maturity:				
Debt securities	¥ —	¥ —	¥ —	¥ —
Total-Current	¥ 7,044	¥ 1	¥ 580	¥ 6,465
Non-current:				
Available-for-sale:				
Equity securities	¥146,774	¥18,086	¥15,801	¥149,059
Debt securities	11,849	54	24	11,879
Total	¥158,623	¥18,140	¥15,825	¥160,938
Held-to-maturity:				
Debt securities	¥ 849	¥ —	¥ —	¥ 849
Total-Non-current	¥159,472	¥18,140	¥15,825	¥161,787

	Millions of U.S. dollars			
	2004			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	$ 81	$ 0	$ 0	$ 81
Total	$ 81	$ 0	$ 0	$ 81
Held-to-maturity:				
Debt securities	$ 0	$ —	$—	$ 0
Total-Current	$ 81	$ 0	$ 0	$ 81
Non-current:				
Available-for-sale:				
Equity securities	$922	$664	$ 1	$1,585
Debt securities	34	0	2	32
Total	$956	$664	$ 3	$1,617
Held-to-maturity:				
Debt securities	$ 1	$ —	$—	$ 1
Total-Non-current	$957	$664	$ 3	$1,618

In addition to the securities listed above, the Company and its subsidiaries held trading securities of ¥33,675 million ($319 million) and ¥34,414 million, which are equal to their fair value, as of March 31, 2004 and 2003, respectively. The portion of trading gains for the year that relates to trading securities still held at March 31, 2004, 2003 and 2002 were ¥1,897 million ($18 million), ¥1,483 million and ¥4,054 million, respectively.

Securities with gross unrealized holding losses and the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2004 were as follows:

	Millions of Yen					
	2004					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Current:						
Available-for-sale:						
Debt securities	¥ 58	¥ 1	—	—	¥ 58	¥ 1
Total	¥ 58	¥ 1	—	—	¥ 58	¥ 1
Held-to-maturity:						
Debt securities	¥ —	¥ —	—	—	¥ —	¥ —
Total-Current	¥ 58	¥ 1	—	—	¥ 58	¥ 1
Non-current:						
Available-for-sale:						
Equity securities	¥ 777	¥158	—	—	¥ 777	¥158
Debt securities	2,563	181	—	—	2,563	181
Total	¥3,340	¥339	—	—	¥3,340	¥339
Held-to-maturity:						
Debt securities	¥ —	¥ —	—	—	¥ —	¥ —
Total-Non-current	¥3,340	¥339	—	—	¥3,340	¥339

	Millions of U.S.dollars					
	2004					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Current:						
Available-for-sale:						
Debt securities	$ 1	$ 0	—	—	$ 1	$ 0
Total	$ 1	$ 0	—	—	$ 1	$ 0
Held-to-maturity:						
Debt securities	$ —	$—	—	—	$ —	$—
Total-Current	$ 1	$ 0	—	—	$ 1	$ 0
Non-current:						
Available-for-sale:						
Equity securities	$ 7	$ 1	—	—	$ 7	$ 1
Debt securities	24	2	—	—	24	2
Total	$ 31	$ 3	—	—	$ 31	$ 3
Held-to-maturity:						
Debt securities	$ —	$—	—	—	$ —	$—
Total-Non-current	$ 31	$ 3	—	—	$ 31	$ 3

The contractual maturities of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2004 were as follows:

	Millions of Yen		Millions of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Available-for-sale:				
Due within one year	¥ 8,626	¥ 8,626	$ 81	$ 81
Due after one year through five years	2,344	2,262	22	21
Due after five years through ten years	776	725	7	7
Due after ten years	470	464	5	4
Total	¥12,216	¥12,077	$115	$113
Held-to-maturity:				
Due within one year	¥ 1	¥ 1	$ 0	$ 0
Due after one year through five years	46	46	1	1
Due after five years through ten years	4	4	0	0
Due after ten years	—	—	—	—
Total	¥ 51	¥ 51	$ 1	$ 1

The gross realized gains and losses on sales of available-for-sale securities for the years ended March 31, 2004, 2003 and 2002 were gains of ¥10,541 million ($100 million), ¥20,028 million and ¥19,428 million, and losses of ¥185 million ($2 million), ¥9,319 million and ¥1,450 million, respectively. The proceeds from sales of available-for-sale securities were ¥21,225 million ($201 million) for the year ended March 31, 2004.

Investments Other than Debt and Marketable Equity Securities

Other investments include investments in non-traded and unaffiliated customers and suppliers and long-term deposits amounting to ¥215,540 million ($2,039 million) and ¥177,740 million as of March 31, 2004 and 2003, respectively.

4. Investments in Associated Companies

Summarized financial information in respect of associated companies as of March 31, 2004 and 2003, and for the years ended March 31, 2004, 2003 and 2002 is shown below:

	Millions of Yen		Millions of U.S. dollars
	2004	2003	2004
Current assets	¥2,085,865	¥1,692,593	$19,736
Non-current assets, principally property and equipment	2,024,308	1,947,672	19,153
Total assets	4,110,173	3,640,265	38,889
Current liabilities	1,907,846	1,584,428	18,051
Non-current liabilities, principally long-term debt	1,285,738	1,292,655	12,165
Net assets	¥ 916,589	¥ 763,182	$ 8,673

	Millions of Yen			Millions of U.S. dollars
	2004	2003	2002	2004
Total trading transactions	¥5,049,194	¥4,596,262	¥3,021,776	$47,774
Net earnings	55,311	43,387	40,192	523
The Company's equity in net earnings	22,859	18,539	11,362	217
Cash dividends received from the associated companies	5,549	6,435	6,796	53

Included above under current assets, current liabilities, and non-current liabilities are amounts due to and from the Company and its subsidiaries as shown in the accompanying consolidated balance sheets.

Total trading transactions and purchases of the Company and its subsidiaries with associated companies for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

	Millions of Yen			Millions of U.S. dollars
	2004	2003	2002	2004
Total trading transactions	¥642,112	¥562,810	¥454,618	$6,075
Purchases	143,984	176,187	265,005	1,362

The Company and its subsidiaries account for investments in associated companies over which the Company and its subsidiaries have significant influence or ownership of 20% or more but less than or equal to 50% under the equity method. Significant equity method investees include CENTURY LEASING SYSTEM, INC. (20.1%), Marubeni-Itochu Steel Inc. (50.0%), ITOCHU ENEX CO., LTD. (40.1%) and FamilyMart Co., Ltd. (31.0%). The percentages shown in the above sentence are voting shares held by the Company and its subsidiaries at March 31, 2004.

Investments in common stock of associated companies include marketable equity securities in the carrying amounts of ¥280,282 million ($2,652 million) and ¥235,738 million at March 31, 2004 and 2003, respectively. Corresponding aggregate quoted market values were ¥231,624 million ($2,192 million) and ¥127,637 million at March 31, 2004 and 2003, respectively.

The balances of the excess of the cost of the Company's investments in associated companies are shown in note 6 "Goodwill and Other Intangible Assets."

5. Impaired Loans and Allowance for Doubtful Receivables

The balances of the allowance for doubtful receivables as of March 31, 2004, 2003 and 2002 were ¥196,599 million ($1,860 million), ¥230,866 million and ¥275,911 million, respectively. Provision for doubtful receivables, credits charged off and other changes during the year ended March 31, 2004 amounted to ¥10,624 million ($101 million), ¥36,812 million ($348 million) and decrease of ¥8,079 million ($77 million), respectively. Other changes primarily consisted of effects due to changes in number of consolidated subsidiaries and changes in foreign exchange rates. Net changes during the years ended March 31, 2003 and 2002 were decreases of ¥45,045 million and ¥67,144 million, respectively.

The carrying amounts of the impaired loans within the scope of SFAS 114 as of March 31, 2004 and 2003 were ¥219,923 million ($2,081 million) and ¥264,843 million, respectively, and the allowance for doubtful receivables related to those impaired loans were ¥158,663 million ($1,501 million) and ¥190,883 million, respectively. The recorded investment in the impaired loans, net of the allowance for doubtful receivables, is either secured by collateral or believed to be collectible.

The average amounts of the impaired loans during the years ended March 31, 2004, 2003 and 2002 were ¥245,049 million ($2,319 million), ¥292,959 million and ¥339,099 million, respectively. The amounts of interest income recognized on the impaired loans for the years ended March 31, 2004, 2003 and 2002 were not significant.

6. Goodwill and Other Intangible Assets

Intangible assets subject to amortization at March 31, 2004 and 2003 comprised the following:

	Millions of Yen				Millions of U.S. dollars	
	2004		2003		2004	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Trademarks	¥ 23,744	¥ (6,612)	¥20,240	¥ (6,946)	$ 225	$ (63)
Software	40,429	(20,434)	35,356	(17,100)	382	(193)
Mining rights	26,486	(2,578)	11,872	(1,436)	251	(24)
Others	18,801	(6,325)	13,567	(4,731)	178	(60)
Total	¥109,460	¥(35,949)	¥81,035	¥(30,213)	$1,036	$(340)

Intangible assets subject to amortization that were acquired during the year ended March 31, 2004 totaled ¥30,102 million ($285 million), which primarily consisted of mining rights of ¥14,516 million ($137 million), trademarks of ¥5,323 million ($50 million) and software of ¥6,196 million ($59 million). The weighted average amortization periods for mining rights, trademarks and software that were acquired during the year ended March 31, 2004 were 18 years, 20 years and 5 years, respectively. They are mainly amortized using the straight-line method for trademarks and software, and the unit-of-production method for mining rights.

The aggregate amortization expenses for intangible assets for the years ended March 31, 2004 and 2003 were ¥9,513 million ($90 million) and ¥9,800 million, respectively. The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2005	¥9,735	$92
2006	9,356	89
2007	6,553	62
2008	4,603	44
2009	3,706	35

The carrying amount of intangible assets not subject to amortization with indefinite useful life at March 31, 2004 and 2003 comprised the following:

	Millions of Yen		Millions of U.S. dollars
	2004	2003	2004
Unlimited land lease	¥1,883	¥1,119	$18
Trademarks and others	5,619	3,746	53
Total	¥7,502	¥4,865	$71

Intangible assets with indefinite useful life that are not subject to amortization were acquired during the year ended March 31, 2004, and mainly consisted of trademarks of ¥2,213 million ($21 million).

Upon the adoption of SFAS 142, the Company and its subsidiaries ceased amortization of goodwill on April 1, 2002, and has tested such goodwill for impairment during the years ended March 31, 2004 and 2003. As a result, during the years ended March 31, 2004 and 2003, impairment losses amounting to ¥474 million ($4 million) and ¥1,077 million, respectively, were recognized, since the carrying amounts of goodwill exceeded the implied fair values.

The changes in the carrying amount of goodwill by operating segment for the year ended March 31, 2004 were as follows:

	Millions of Yen						
	Machinery	Aerospace, Electronics & Multimedia	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other	Total
Balance at April 1, 2003	¥2,535	¥ 1,362	¥7,311	¥20	¥ —	¥4,275	¥15,503
Acquired	511	13,349	68	—	—	1,035	14,963
Impairment losses	—	—	—	—	—	(474)	(474)
Other changes	(60)	1,074	(843)	(20)	144	(549)	(254)
Balance at March 31, 2004	¥2,986	¥15,785	¥6,536	¥ —	¥144	¥4,287	¥29,738

	Millions of U.S. dollars						
	Machinery	Aerospace, Electronics & Multimedia	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other	Total
Balance at April 1, 2003	$24	$ 13	$69	$ 0	$ —	$41	$147
Acquired	5	126	1	—	—	9	141
Impairment losses	—	—	—	—	—	(4)	(4)
Other changes	(1)	10	(8)	0	1	(5)	(3)
Balance at March 31, 2004	$28	$149	$62	$ —	$ 1	$41	$281

Note: 1. "Other changes" primarily consists of translation adjustments and reclassification from (to) other accounts.
2. "Textile" and "Energy, Metals & Minerals" have no goodwill as of March 31, 2004 and 2003.

The above list for the last year included goodwill associated with equity method investments (equity method goodwill), which was excluded from the list for this year. The balance of equity method goodwill as of March 31, 2004 and 2003 were ¥136,342 million ($1,290 million) and ¥133,480 million, respectively.

Net income (loss) and net income (loss) per share for the years ended March 31, 2004, 2003 and 2002 when adjusted to exclude the amortization expense related to goodwill and indefinite useful life intangible assets, which were previously incurred based on the accounting standard prior to the adoption of SFAS 142, were as follows:

	Millions of Yen			Millions of U.S. dollars
	2004	2003	2002	2004
Net income (loss)	¥(31,944)	¥20,078	¥30,191	$(302)
Add back:				
Goodwill amortization	—	—	3,608	—
Intangible assets amortization	—	—	247	—
Adjusted net income (loss)	¥(31,944)	¥20,078	¥34,046	$(302)

	Yen			U.S. dollars
	2004	2003	2002	2004
Net income (loss) per share	¥(20.20)	¥13.12	¥21.18	$(0.19)
Add back:				
Goodwill amortization	—	—	2.53	—
Intangible assets amortization	—	—	0.17	—
Adjusted net income (loss) per share	¥(20.20)	¥13.12	¥23.88	$(0.19)

7. Pledged Assets

The following assets were pledged as collateral at March 31, 2004 and 2003:

	Millions of Yen		Millions of U.S. dollars
	2004	2003	2004
Cash and cash equivalents and time deposits	¥ 288	¥ 40	$ 3
Marketable securities	58	66	1
Trade receivables	24,358	60,845	230
Inventories	1,441	1,470	14
Investments and non-current receivables	129,376	140,531	1,224
Property and equipment, at cost	105,912	112,593	1,002
Total	¥261,433	¥315,545	$2,474

Collateral was pledged to secure the following obligations at March 31, 2004 and 2003:

	Millions of Yen		Millions of U.S. dollars
	2004	2003	2004
Short-term debt	¥ 22,248	¥ 20,420	$ 210
Long-term debt	191,999	222,906	1,817
Guarantees of contracts and others	53,196	60,439	503
Total	¥267,443	¥303,765	$2,530

In addition, acceptances payable were secured by trust receipts on merchandise and the proceeds from the sale thereof. Because of the large volume of import transactions, the amount of such assets pledged is not determinable.

Both short-term and long-term loans are generally made pursuant to agreements which customarily provide that, upon the request of the lender, collateral or guarantors (or additional collateral or guarantors) will be furnished with respect to the loans under certain circumstances, and that the lender may treat any collateral, whether furnished for specific loans or otherwise, as collateral for present and future indebtedness to such lender. Several of the bank loan agreements also provide that the lending bank has the right to offset deposited cash with it against any debt (including debt arising out of contingent obligations) to the bank that has become due at stated maturity or earlier.

8. Impairment of Long-lived Assets

The Company and its subsidiaries recognized impairment losses on long-lived assets of ¥125,343 million ($1,186 million), ¥2,150 million and ¥6,992 million for the years ended March 31, 2004, 2003 and 2002, respectively, which were included in 'Loss on property and equipment-net' in the consolidated statements of operations. The impaired assets were primarily domestic commercial buildings for rent and golf courses in the Finance, Realty, Insurance & Logistics Services operating segment and domestic property held for lease and unutilized assets in the Other, Adjustments & Eliminations operating segment. The impairments were generally due to the slow recovery of rents for commercial buildings and to the continuous decline in market value of land in Japan. The fair value of assets was primarily determined based on discounted cash flows and independent appraisals by third party. Impairment losses recognized for the year ended March 31, 2004 by the operating segments were as follows:

	Millions of Yen	Millions of U.S. dollars
	2004	2004
Textile	¥ 188	$ 2
Machinery	1,913	18
Aerospace, Electronics & Multimedia	1,330	12
Chemicals, Forest Products & General Merchandise	7	0
Food	1,035	10
Finance, Realty, Insurance & Logistics Services	91,920	870
Other, Adjustments & Eliminations	28,950	274
Total	¥125,343	$1,186

The Company also recognized impairment losses on investments in real estate of ¥1,457 million ($14 million) and ¥583 million for the years ended March 31, 2004 and 2003, respectively, which were included in 'Gain (loss) on disposal of investments and marketable securities, net of write-down' in the consolidated statements of operations. The impaired assets included certain domestic land held for development purpose. The impairments were mainly due to the continuous decline in market value of land in Japan.

9. Short-term and Long-term Debt

Short-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Millions of U.S. dollars
	2004	2003	2004
Short-term loans, mainly from banks	¥ 549,809	¥ 465,108	$ 5,202

Long-term debt at March 31, 2004 and 2003 is summarized below:

	Millions of Yen		Millions of U.S. dollars
	2004	2003	2004
Banks and financial institutions:			
Secured:			
Japan Bank for International Cooperation,			
due 2003-2013, interest mainly 1%-7%	¥ 54,592	¥ 69,800	$ 517
Other,			
due 2003-2023, interest mainly 1%-9%	137,407	153,106	1,300
Unsecured:			
Due 2003-2015,			
interest mainly 0%-15%	1,501,722	1,452,485	14,208
Debentures:			
Unsecured bonds and notes:			
Issued in 1996, 3.15% Yen Bonds due 2003	—	20,000	—
Issued in 1997, 2.45% Yen Bonds due 2009	10,000	10,000	95
Issued in 1998, 2.45% Yen Bonds due 2003	—	70,000	—
Issued in 1998, 3.10% Yen Bonds due 2008	30,000	30,000	283
Issued in 1998, 3.00% Yen Bonds due 2008	10,000	10,000	95
Issued in 1999, 2.00% Yen Bonds due 2003	—	20,000	—
Issued in 1999, 2.00% Yen Bonds due 2003	—	30,000	—
Issued in 1999, 2.20% Yen Bonds due 2004	10,000	10,000	95
Issued in 1999, 1.93% Yen Bonds due 2004	10,000	10,000	95
Issued in 1999, 1.93% Yen Bonds due 2004	9,100	9,100	86
Issued in 1999, 2.13% Yen Bonds due 2004	10,000	10,000	95
Issued in 1999, 3.19% Yen Bonds due 2009	10,000	10,000	95
Issued in 2001, 1.00% Yen Bonds due 2005	20,000	20,000	189
Issued in 2001, 1.00% Yen Bonds due 2005	30,000	30,000	283
Issued in 2001, 0.84% Yen Bonds due 2005	10,000	10,000	95
Issued in 2001, 1.02% Yen Bonds due 2006	10,000	10,000	95
Issued in 2002, 0.84% Yen Bonds due 2005	10,000	10,000	95
Issued in 2003, 0.84% Yen Bonds due 2006	10,000	10,000	95
Issued in 2003, 0.79% Yen Bonds due 2008	15,000	—	141
Issued in 2003, 0.41% Yen Bonds due 2006	10,000	—	95
Issued in 2003, 0.87% Yen Bonds due 2010	10,000	—	95
Issued in 2003, 0.47% Yen Bonds due 2007	10,000	—	95
Issued in 2003, 0.64% Yen Bonds due 2006	15,000	—	141
Issued in 2003, 1.14% Yen Bonds due 2008	10,000	—	95
Issued in and after 1995,			
Medium-Term Notes etc., maturing through 2009	44,628	75,648	422
Others	80,656	54,435	762
Total	2,078,105	2,134,574	19,662
SFAS 133 fair value adjustment	14,652	29,173	139
Total	2,092,757	2,163,747	19,801
Less current installments	(335,444)	(525,831)	(3,174)
Long-term debt, less current installments	¥1,757,313	¥1,637,916	$16,627

SFAS 133 fair value adjustment: The amount of adjustment to record the fair value as of the balance sheet date for long-term debt which is hedged with derivatives, in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133).

Certain agreements with Japan Bank for International Cooperation require that the Company, upon request of the lender, apply all or a portion of its operating income or the proceeds from the sale of any debentures or common stock to the reduction of outstanding loans when the lender believes that the Company is able to reduce such loans through increased earnings or otherwise and further provide that the lender may request that any proposed distribution of earnings be submitted to the lender for review and approval before presentation to the stockholders. The Company has never received such a request and does not expect that any such request will be made.

The Company and certain subsidiaries have entered into interest rate swap agreements for certain long-term debts as a means of managing their interest rate exposure. The total long-term debts hedged by such swap agreements was ¥1,344,765 million ($12,724 million) and ¥1,108,184 million at March 31, 2004 and 2003, respectively.

Reference is made to note 7 for a description of collateral and certain customary provisions of long-term and short-term bank loan agreements relating to collateral and other rights of such lenders.

The aggregate annual maturities of long-term debt after March 31, 2004 are as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2005	¥ 335,444	$ 3,174
2006	535,393	5,066
2007	500,369	4,734
2008	210,609	1,993
2009	286,790	2,713
2010 and thereafter	209,500	1,982
Total	¥2,078,105	$19,662

The Company has commitment line agreements for working capital needs. The amounts available under such agreements were ¥250,000 million ($2,365 million) for short-term commitment agreements and ¥210,000 million ($1,987 million) for long-term commitment agreements at March 31, 2004. All amounts were unused at March 31, 2004.

10. Retirement and Severance Benefits

The Company and certain subsidiaries have funded retirement pension plans (e.g. Employees' Pension Fund (EPF) and tax-qualified pension plan) covering substantially all of their employees. Benefits under these pension plans are based on a number of years of service and certain other factors. Plan assets are comprised primarily of listed stocks, bonds and other interest-bearing securities. Certain other subsidiaries have unfunded retirement and severance plans providing lump-sum payment benefits to their employees.

In January 2003, the Emerging Issues Task Force reached a final consensus on Issue 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities" (EITF 03-2). EITF 03-2 requires employers to account for the entire separation process of the substitutional portion from an entire plan (including a corporate portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. In March 2004,the Company and certain subsidiaries had transferred the substitutional portion of the EPF to the government and the difference between the fair value of the obligation and the assets was ¥19,606 million ($185 million).

The Company transferred the EPF to the ITOCHU Employees' Pension Fund after returning the substitutional portion of the EPF to the government. The Company simultaneously adopted a cash balance plan and changed a portion of the ITOCHU Employees' Pension Fund to be a definite-term plan. These amendments reduced the benefit obligation and resulted in a recognition of prior service cost. In addition, returning the substitutional portion of the EPF, revision of pension plan, and increase in plan assets due to recovery of stock value resulted in the plan assets exceeding the benefit obligation. The Company withdrew a portion of the excess plan assets from plan assets. The fair value of the stock and cash that the Company withdrew was ¥25,618 million ($242 million) and ¥5,080 million ($48 million), respectively.

In July 2003, the Company reduced the future portion of the tax-qualified pension plan and introduced a defined contribution pension plan.

In December 2003, the FASB issued Statement of Financial Accounting Standards No.132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS 132R). SFAS 132R revises and prescribes employers' disclosures about pension plans and other postretirement benefit plans; it does not change the measurement or recognition of those plans. SFAS 132R retains the disclosure requirements contained in the original SFAS 132. It also requires additional disclosures about the plan assets, obligations, cash flow, and net periodic pension cost and defined benefit pension plans and other postretirement benefit plans. SFAS 132R is generally effective for fiscal years ended after December 15, 2003.

The Company and certain subsidiaries use a March 31, measurement date for the majority of its plans.

Changes in the benefit obligations and the fair value of the plan assets for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Millions of U.S. dollars
	2004	2003	2004
Change in benefit obligations:			
Projected benefit obligations at beginning of year	¥336,246	¥327,480	$3,181
Service cost	9,511	10,967	90
Interest cost	7,596	7,830	72
Plan participants' contributions	1,025	1,644	9
Unrecognized prior service cost arising from changes in pension plans	(25,782)	—	(244)
Actuarial loss/(gain)	(9,715)	(2,414)	(92)
Benefits paid	(13,232)	(8,792)	(125)
Foreign currency translation adjustments	173	140	2
Other	(39,125)	(609)	(370)
Projected benefit obligation at end of year	266,697	336,246	2,523
Change in plan assets:			
Fair value of plan assets at beginning of year	308,102	313,237	2,915
Actual return on plan assets	74,243	(85,677)	702
Employer contributions	18,045	88,195	171
Plan participants' contributions	1,025	1,644	10
Benefits paid	(13,232)	(8,792)	(125)
Foreign currency translation adjustments	(68)	(68)	(1)
Other	(49,084)	(437)	(464)
Fair value of plan assets at end of year	339,031	308,102	3,208
Funded status at end of year	(72,334)	28,144	(685)
Unrecognized actuarial loss	(141,110)	(262,264)	(1,335)
Unrecognized prior service cost arising from changes in pension plans	49,967	27,416	473
Net amount recognized	(163,477)	(206,704)	(1,547)
Adjustments to recognize minimum pension liability:			
Accumulated other comprehensive loss, gross of tax	1,246	3,355	12
Net amount recognized in the consolidated balance sheets	(162,231)	(203,349)	(1,535)
Prepaid pension cost	(183,743)	(225,732)	(1,739)
Accrued retirement and severance benefits recognized in the consolidated balance sheets	21,512	22,383	204
Actuarial present value of accumulated benefit obligations at end of year	¥264,644	¥325,198	$2,504
Weighted-average assumptions used to determine benefit obligations at the end of year:			
Discount rate	2.40%	2.40%	
Expected long-term rate of return on plan assets	3.50%	3.50%	
Rate of compensation increase	1.90–6.00%	2.30–6.70%	
Weighted-average assumptions used to determine net periodic pension cost for the year:			
Discount rate	2.40%	2.40%	
Expected long-term rate of return on plan assets	3.50%	3.50%	
Rate of compensation increase	2.30–6.70%	2.30–6.70%	

"Employer contributions" for the year ended March 31, 2003 included the contribution of equity securities to an employee pension trust. The fair value of those securities at the time of contribution was ¥52,358 million. The "Other" in the change in benefit obligations for the year ended March 31, 2004 included the amount of the transfer, which was ¥41,702 million ($395 million), to the government of the Company and certain subsidiaries' substitutional portion of EPF. The "Other" in the change in plan assets for the year ended March 31, 2004 included the amount of the transfer, which was ¥20,845 million ($197 million), to the government of the substitutional portion of EPF, which the Company and certain subsidiaries transferred to the government and the amount of the withdrawal ¥30,698 million ($290 million) from plan assets. The fair value of equity securities of subsidiaries and associated companies included in plan assets was ¥25,501 million ($241 million) and ¥36,058 million at March 31,2004 and 2003, respectively.

The net cost of retirement and severance benefits for the years ended March 31, 2004, 2003 and 2002 consisted of the following:

	Millions of Yen			Millions of U.S. dollars
	2004	2003	2002	2004
Service cost-benefits earned during the year	¥ 9,511	¥10,967	¥ 10,868	$ 90
Interest cost on projected benefit obligation	7,596	7,830	8,996	72
Expected return on plan assets	(7,178)	(7,006)	(6,576)	(68)
Net amortization	19,392	10,929	6,104	184
Settlement loss of unrecognized actuarial loss from the transfer of the substitutional portion of the Employees' Pension Fund	24,018	—	—	227
De-recognition of the previously accrued salary progression	(1,251)	—	—	(12)
Net periodic pension cost	¥52,088	¥22,720	¥19,392	$493

Total income and expenses related to pension plans for the years ended March 31, 2004, 2003 and 2002 consisted of the following:

	Millions of Yen			Millions of U.S. dollars
	2004	2003	2002	2004
Net periodic pension cost for defined benefit pension plans	¥52,088	¥22,720	¥19,392	$493
The amount of cost recognized for defined contribution pension plan	373	—	—	3
Subsidy from government on the transfer of the substitutional portion of the Employees' Pension Fund	(19,606)	—	—	(185)
Total expenses for pension plans	¥32,855	¥22,720	¥19,392	$311

Plan assets of the Company and certain subsidiaries by asset category for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Asset category:		
Equity securities	59.5%	55.0%
Debt securities	18.0	19.7
Other	22.5	25.3
Total	100.0%	100.0%

"Other" included mainly cash.

The Company invests plan assets to with the intent to secure profit, which provides future payment within acceptable risk. In order to achieve this investment target, the Company maintains the portfolio of plan assets under the asset-mix policy that the company makes with consideration of standard deviation and the correlation coefficient in addition to the earning estimate in plan assets. This asset-mix policy is designed from medium-and-long-term standpoint with consideration of funding status of pension plans. The Company reviews and improves this asset-mix policy of plan assets, if necessary. The Company evaluates the operating performance by asset category under this asset-mix policy. The Company selects the most appropriate trustees and proposes the operation guideline to trustee. When the Company selects trustees, the Company takes the investment policy of trustees, the operation policy, the style of operation and method, the administrative structure, the compliance, and the experience and past record of investment operation into account. The Company assesses the aspects of quality and quantity of trustees and changes the portfolio of trustees, if necessary, in terms of medium-term point of view (basically within three years). The Company verifies whether to change the asset-mix portfolio in consideration for revision of pension plans in 2003.

In addition, the Company determines the expected long-term rate of return based on the expected long-term return of various asset categories in which it invests. The Company sets expected long-term rate of return on plan assets with due consideration of the above operation policy, the current expectations for future returns and the actual historical returns of plan assets

Cash flow of the Company and certain subsidiaries:

The Company and certain subsidiaries expect to contribute about ¥15,705 million ($149 million) to defined benefit pension plans in the year ending March 31,2005.

11. Foreign Exchange Gains and Losses

Net foreign exchange losses of ¥8,737 million ($83 million), ¥5,164 million and gains of ¥10,108 million for the years ended March 31, 2004, 2003 and 2002, respectively, were included in "other-net" within the accompanying consolidated statements of operations.

12. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in aggregate result in a normal tax rate of approximately 42%.

Due to a change in the tax regulations on March 31, 2003, the normal tax rate decreases to 41% effective fiscal year ended March 31, 2005.

Foreign subsidiaries are subject to income taxes of the countries where they operate.

Effective fiscal year ended March 31, 2003, the Company adopted a consolidated taxation system.

A reconciliation of the normal and the effective tax rate is as follows:

	2004	2003	2002
Normal income tax rate	(42.0)%	42.0%	42.0%
Expenses not deductible for tax purposes	1.7	2.8	2.6
Difference of tax rates for foreign subsidiaries	(2.3)	(3.0)	(3.0)
Tax benefits not recognized on operating losses of subsidiaries	3.2	3.0	3.0
Tax benefits on losses of subsidiaries	(5.9)	(11.1)	(10.4)
Tax on dividends	6.6	20.5	10.0
Effect on deferred tax assets and deferred tax liabilities from a change in the tax regulations	—	3.8	—
Deduction for foreign taxes	7.4	5.3	6.7
Valuation allowance	(16.8)	11.4	7.8
Other	(1.3)	4.5	3.0
Effective income tax rate	(49.4)%	79.2%	61.7%

Amounts provided for income taxes for the years ended March 31, 2004, 2003, and 2002 were allocated as follows:

	Millions of Yen			Millions of U.S. dollars
	2004	2003	2002	2004
Income taxes	¥(45,457)	¥ 45,652	¥ 48,273	$(430)
Extraordinary items-gain on negative goodwill	1,271	—	—	12
Other comprehensive income (loss)	29,992	(12,305)	29,223	284
Total income tax expense (benefit)	¥(14,194)	¥ 33,347	¥ 77,496	$(134)

Significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Millions of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Inventories, property and equipment	¥134,834	¥ 78,215	$1,276
Allowance for doubtful receivables	52,689	63,252	499
Net operating loss carryforwards	11,915	25,392	113
Accrued retirement and severance benefits	5,472	5,366	52
Marketable securities and other investments	40,123	43,676	379
Other	51,724	36,578	489
Total deferred tax assets	296,757	252,479	2,808
Less valuation allowance	(46,725)	(59,962)	(442)
Deferred tax assets-net	250,032	192,517	2,366
Deferred tax liabilities:			
Installment sales	(549)	(853)	(5)
Accrued retirement and severance benefits	(45,127)	(56,198)	(427)
Marketable securities and other investments	(28,486)	(892)	(270)
Other	(23,959)	(23,854)	(227)
Total deferred tax liabilities	(98,121)	(81,797)	(929)
Net deferred tax assets	¥151,911	¥110,720	$1,437

Net changes in the valuation allowance for the years ended March 31, 2004, 2003 and 2002 were a decrease of ¥13,237 million ($125 million), an increase of ¥8,043 million, and a decrease of ¥3,104 million, respectively. The amount of undistributed earnings of foreign subsidiaries for which no deferred tax liability has been provided aggregated ¥66,366 million ($628 million) and ¥64,173 million at March 31, 2004 and 2003, respectively.

Most of the undistributed earnings of domestic subsidiaries are not considered to be a taxable temporary difference under present Japanese tax laws. It is not practicable to determine the deferred tax liability for undistributed earnings of foreign subsidiaries.

Net operating loss carryforwards are available to reduce future income taxes. If not utilized, such operating loss carryforwards expire as follows:

	Millions of Yen	Millions of U.S. dollars
within 1 year	¥ 1,868	$ 18
within 2 years	4,377	41
within 3 years	51	0
within 4 years	177	2
within 5 years	6,955	66
After 5 to 10 years	13,621	129
After 10 to 15 years	1,818	17
After 15 years	16,698	158
Total	¥45,565	$431

Income (loss) before income taxes, minority interests, equity in earnings of associated companies and extraordinary items for the years ended March 31, 2004, 2003 and 2002 comprised as follows:

	Millions of Yen			Millions of U.S. dollars
	2004	2003	2002	2004
The Company and its domestic subsidiaries	¥(98,052)	¥45,258	¥67,277	$(928)
Foreign subsidiaries	6,006	12,417	10,918	57
Total	¥(92,046)	¥57,675	¥78,195	$(871)

Income taxes for the years ended March 31, 2004, 2003 and 2002 comprised as follows:

	Millions of Yen									Millions of U.S. dollars		
	2004			2003			2002			2004		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
The Company and its domestic subsidiaries	¥24,165	¥(72,462)	¥(48,297)	¥24,658	¥16,011	¥40,669	¥32,966	¥12,082	¥45,048	$229	$(686)	$(457)
Foreign subsidiaries	6,957	(4,117)	2,840	6,629	(1,646)	4,983	5,261	(2,036)	3,225	66	(39)	27
Total	¥31,122	¥(76,579)	¥(45,457)	¥31,287	¥14,365	¥45,652	¥38,227	¥10,046	¥48,273	$295	$(725)	$(430)

13. Net Income (loss) Per Share

The reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share computations for the years ended March 31, 2004, 2003 and 2002 is as follows:

	Millions of Yen			Millions of U.S. dollars
	2004	2003	2002	2004
Numerator:				
Net income (loss) before extraordinary items	¥(33,772)	¥ 20,078	¥ 30,191	$(319)
Diluted net income (loss) before extraordinary items	(33,772)	20,078	30,191	(319)
Extraordinary items—				
gain on negative goodwill, less applicable income taxes	1,828	—	—	17
Diluted extraordinary items—				
gain on negative goodwill, less applicable income taxes	1,828	—	—	17
Net income (loss)	(31,944)	20,078	30,191	(302)
Diluted net income (loss)	¥(31,944)	¥ 20,078	¥ 30,191	$(302)

	Number of Shares		
	2004	2003	2002
Denominator:			
Weighted-average number of common shares outstanding	1,581,431,830	1,529,761,706	1,425,424,059
Diluted common shares outstanding	1,581,431,830	1,529,761,706	1,425,424,059

	Yen			U.S. dollars
	2004	2003	2002	2004
Net income (loss) per common share before extraordinary items:				
Basic	¥(21.36)	¥13.12	¥21.18	$ (0.20)
Diluted	—	13.12	21.18	—
Extraordinary items per common share—				
gain on negative goodwill, less applicable income taxes:				
Basic	1.16	—	—	0.01
Diluted	—	—	—	—
Net income (loss) per common share:				
Basic	¥(20.20)	¥13.12	¥21.18	$ (0.19)
Diluted	—	13.12	21.18	—

14. Segment Information

The Company and its subsidiaries are engaged in a wide range of business activities such as worldwide trading operations in various commodities, financing for customers and suppliers, organizing and coordinating industrial projects, and investing in resource development, advanced technology, information and multimedia.

The Company and its subsidiaries have introduced a division company system and information on operating segments is prepared and presented according to this system. This system is regularly used for decisions in operations, including resource allocations, and evaluations by the management.

The operating segments of the Company and its subsidiaries are as follows:

Textile
The Textile segment is engaged in all stages from rough material, thread, textile to the last products and in all fields of garments, home furnishing and industrial materials, and performs production and sales on worldwide scale. In addition, the company promotes brand businesses, developments of industrial fibers and retail operations.

Machinery
The Machinery segment is engaged in diverse business activities from projects in plants, bridges, railways and other infrastructures, to automobiles, ships and industrial machinery and other items.

Aerospace, Electronics & Multimedia
The Aerospace, Electronics & Multimedia segment is engaged in business activities on networks, content and mobile multimedia. In addition, the company promotes business activities on aircrafts and related equipments, and invests in high-tech ventures.

Energy Metals & Minerals
The Energy Metals & Minerals segment is engaged in metal and mineral resource developments, processing of steel products and trading in iron ore, coal, pig iron and ferrous raw materials, non-ferrous and light metal and steel products in Japan and overseas. Also the company is engaged in energy resource developments and trading in crude oil, oil products, gas and nuclear fuels both domestically and abroad.

Chemicals, Forest Products & General Merchandise
The Chemicals, Forest Products & General Merchandise segment is engaged in business activities on various consumer products such as lumber, pulp, paper, rubber, glass and cement, and on basic chemicals, fine chemicals, plastics and inorganic chemicals.

Food
The Food segment pursues efficient-oriented operations from production, distribution to retail in all areas of food from raw materials to finished products both domestically and abroad.

Finance, Realty, Insurance & Logistics Services
The Finance, Realty, Insurance & Logistics Services segment is engaged in structuring and sales of financial products, agency and consulting services of insurance and reinsurance. In addition, the company is engaged in warehousing, trucking, international intermodal transport and developments and operations of real estate.

Management evaluates segment performance based on several factors such as net income(loss) determined in accordance with US GAAP.

In addition, management utilizes internally developed mechanisms for the purpose of internal operating decisions.

Intersegment transactions are priced with reference to prices applicable to transactions with unaffiliated parties.

There have been no trading transactions with a single major external customer (10% or more of total) for the years ended March 31, 2004, 2003 and 2002.

Information concerning operations in different operating segments for the years ended March 31, 2004, 2003 and 2002 was as follows:

	Millions of Yen								
	2004								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
External customers	¥817,006	¥1,406,927	¥633,996	¥2,138,232	¥1,714,950	¥2,345,137	¥235,778	¥224,941	¥9,516,967
Transfers between operating segments	1,710	123	1,197	734	7,801	242	7,735	(19,542)	—
Total trading transactions	¥818,716	¥1,407,050	¥635,193	¥2,138,966	¥1,722,751	¥2,345,379	¥243,513	¥205,399	¥9,516,967
Gross trading profit	¥100,342	¥ 51,104	¥105,466	¥ 24,711	¥ 91,914	¥ 130,921	¥ 15,965	¥ 35,472	¥ 555,895
Net income (loss)	¥ 11,681	¥ 3,855	¥ 2,575	¥ 12,924	¥ 11,534	¥ 13,279	¥ (75,631)	¥ (12,161)	¥ (31,944)
Identifiable assets at March 31	¥382,696	¥ 433,557	¥464,311	¥ 443,726	¥ 557,364	¥ 711,606	¥609,733	¥884,289	¥4,487,282
Depreciation and amortization	¥ 3,305	¥ 5,924	¥ 10,492	¥ 2,716	¥ 4,924	¥ 5,750	¥ 2,384	¥ 4,689	¥ 40,184

	Millions of Yen								
	2003								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
External customers	¥871,680	¥1,746,583	¥809,150	¥2,216,196	¥1,799,838	¥2,522,544	¥269,442	¥226,187	¥10,461,620
Transfers between operating segments ...	2,423	168	983	1,316	8,702	248	1,215	(15,055)	—
Total trading transactions	¥874,103	¥1,746,751	¥810,133	¥2,217,512	¥1,808,540	¥2,522,792	¥270,657	¥211,132	¥10,461,620
Gross trading profit	¥ 93,471	¥ 48,576	¥102,538	¥ 32,958	¥ 87,061	¥ 130,114	¥ 33,841	¥ 37,478	¥ 566,037
Net income (loss)	¥ 10,428	¥ 2,363	¥ 14,263	¥ 10,003	¥ 10,682	¥ 11,859	¥ (8,403)	¥ (31,117)	¥ 20,078
Identifiable assets at March 31	¥370,802	¥ 490,076	¥484,255	¥ 391,551	¥ 524,644	¥ 654,377	¥692,656	¥878,044	¥ 4,486,405
Depreciation and amortization..................	¥ 3,710	¥ 2,911	¥ 9,669	¥ 1,578	¥ 3,664	¥ 3,044	¥ 1,726	¥ 7,492	¥ 33,794

	Millions of Yen								
	2002								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
External customers	¥880,105	¥1,937,312	¥960,270	¥2,740,037	¥1,735,813	¥2,445,209	¥455,292	¥246,433	¥11,400,471
Transfers between operating segments ...	2,584	268	3,181	1,374	17,942	149	2,313	(27,811)	—
Total trading transactions	¥882,689	¥1,937,580	¥963,451	¥2,741,411	¥1,753,755	¥2,445,358	¥457,605	¥218,622	¥11,400,471
Gross trading profit	¥ 83,540	¥ 50,208	¥112,578	¥ 52,668	¥ 80,654	¥ 126,861	¥ 34,383	¥ 37,975	¥ 578,867
Net income (loss)	¥ 8,308	¥ 1,298	¥ 36,321	¥ 9,522	¥ (212)	¥ 9,608	¥ (9,811)	¥ (24,843)	¥ 30,191
Identifiable assets at March 31	¥384,147	¥ 588,062	¥526,177	¥ 401,628	¥ 532,734	¥ 665,071	¥773,374	¥881,126	¥ 4,752,319
Depreciation and amortization..................	¥ 3,874	¥ 2,566	¥ 8,583	¥ 2,470	¥ 5,044	¥ 4,315	¥ 2,474	¥ 6,513	¥ 35,839

	Millions of U.S. dollars								
	2004								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
External customers	$7,730	$13,312	$5,999	$20,231	$16,226	$22,189	$2,231	$2,128	$90,046
Transfers between operating segments...	17	1	11	7	74	2	73	(185)	—
Total trading transactions	$7,747	$13,313	$6,010	$20,238	$16,300	$22,191	$2,304	$1,943	$90,046
Gross trading profit	$ 949	$ 483	$ 998	$ 234	$ 870	$ 1,239	$ 151	$ 336	$ 5,260
Net income (loss)	$ 111	$ 37	$ 24	$ 122	$ 109	$ 126	$ (716)	$ (115)	$ (302)
Identifiable assets at March 31	$3,621	$ 4,102	$4,393	$ 4,198	$ 5,274	$ 6,733	$5,769	$8,367	$42,457
Depreciation and amortization.................	$ 31	$ 56	$ 99	$ 26	$ 47	$ 54	$ 23	$ 44	$ 380

Note: 1. The "Other, Adjustments & Eliminations" includes trading transactions, gross trading profit, net income (loss), and identifiable assets not allocated to operating segments in domestic and foreign areas, eliminations and adjustments, etc.
2. Net income (loss) in Finance, Realty, Insurance & Logistics Services for the year 2004 includes ¥1,828 million ($17 million) of extraordinary items-gain on negative goodwill, less applicable income taxes ¥1,271 million ($12 million).

Geographic Information

Long-lived assets at March 31,2004 were located in Japan of ¥328,417 million ($3,107 million), United Kingdom of ¥36,943 million ($350 million), United States of ¥26,808 million ($254 million) and the others of ¥90,995 million ($861 million).

Geographical Segment Information

Information concerning operations in different geographical areas in accordance with Japanese reporting practices for the years ended March 31, 2004, 2003, and 2002 was as follows:

	Millions of Yen						
	2004						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
External customers	¥7,523,783	¥381,107	¥167,225	¥1,273,337	¥171,515	¥ —	¥9,516,967
Transfers between geographical areas	1,081,327	189,351	30,686	1,272,877	385,288	(2,959,529)	—
Total trading transactions	¥8,605,110	¥570,458	¥197,911	¥2,546,214	¥556,803	¥(2,959,529)	¥9,516,967
Identifiable assets at March 31	¥3,969,166	¥276,303	¥159,018	¥ 202,567	¥232,028	¥ (351,800)	¥4,487,282

	Millions of Yen						
	2003						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
External customers	¥8,242,776	¥484,551	¥159,584	¥1,362,552	¥212,157	¥ —	¥10,461,620
Transfers between geographical areas	1,027,004	202,224	34,901	971,614	392,989	(2,628,732)	—
Total trading transactions	¥9,269,780	¥686,775	¥194,485	¥2,334,166	¥605,146	¥(2,628,732)	¥10,461,620
Identifiable assets at March 31	¥3,884,166	¥372,447	¥174,403	¥ 202,014	¥233,304	¥ (379,929)	¥ 4,486,405

	Millions of Yen						
	2002						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
External customers	¥ 9,077,174	¥616,618	¥176,949	¥1,331,048	¥198,682	¥ —	¥11,400,471
Transfers between geographical areas	961,602	225,282	47,701	816,777	465,711	(2,517,073)	—
Total trading transactions	¥10,038,776	¥841,900	¥224,650	¥2,147,825	¥664,393	¥(2,517,073)	¥11,400,471
Identifiable assets at March 31	¥ 3,990,540	¥431,938	¥196,171	¥ 207,049	¥286,810	¥ (360,189)	¥ 4,752,319

	Millions of U.S. dollars						
	2004						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
External customers	$ 71,187	$3,606	$1,582	$12,048	$1,623	$ —	$90,046
Transfers between geographical areas	10,231	1,792	291	12,043	3,645	(28,002)	—
Total trading transactions	$ 81,418	$5,398	$1,873	$24,091	$5,268	$(28,002)	$90,046
Identifiable assets at March 31	$ 37,555	$2,614	$1,505	$ 1,917	$2,195	$ (3,329)	$42,457

Note: 1. The method for classifying countries or areas is based on the degree of geographical proximity.
The main countries or areas belonging to each geographical area were as follows:
North America: United States, Canada   Europe: United Kingdom
Asia: Singapore, China   Other Areas: Latin America, Oceania, Middle East
2. The amounts of unallocated common assets included in the "Eliminations or Unallocated" were ¥61,602 million ($583 million), ¥73,112 million and ¥82,131 million for the years ended March 31, 2004, 2003 and 2002, respectively.

15. Common Stock

The Company issued 158,000,000 shares of common stock by public offering on July 25, 2002. One half of the amount for this issuance has been credited to the common stock account, and the remainder has been credited to the capital surplus account in accordance with the provisions of the Japanese Commercial Code.

On March 22, 2004, the Company issued 1,401,768 shares of common stock to acquire minority interests through re-organization of a subsidiary. All the amount of the minority interests acquired through this issuance has been credited to the capital surplus account.

16. Capital Surplus and Retained Earnings

The Japanese Commercial Code (the "Code") provides that at least 10% of the total amount of cash dividends and other cash appropriations of retained earnings applicable to each fiscal period shall be appropriated to a legal reserve until an aggregated amount of capital surplus and legal reserve equals to 25% of common stock.

The amount of retained earnings available for dividends under the Code is based on the amount recorded in the Company's books of account in accordance with the financial accounting standards of Japan. The adjustments included in the accompanying consolidated financial statements to conform with U.S. GAAP, but not recorded in the books of account, have no effect on the determination of retained earnings available for dividends under the Code. The Company has recorded accumulated deficits of ¥78,491 million ($743 million) in the books of account and there are no retained earnings available for dividends at March 31, 2004.

At the June 29, 2000 shareholders' meeting of the Company, the shareholders approved a proposal to eliminate the Company's accumulated deficits of ¥109,799 million ($1,039 million) from the Company's books of account by a transfer from capital surplus as permitted by the Code.

Because the Company's accumulated deficits in the U.S. GAAP consolidated financial statements on that date was not significantly different from the Company's books of account, the Company reflected such deficits reclassification entry on its books of account when preparing the consolidated financial statements in reliance on private company's practices in the United States of America. The balance of the consolidated retained earnings at March 31, 2004 would have been ¥609 million ($6 million) including a legal reserve of ¥3,450 million ($33 million) had the Company not eliminated the accumulated deficits.

17. Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) was as follows:

	Millions of Yen			Millions of U.S. dollars
	2004	2003	2002	2004
Foreign currency translation adjustments:				
Balance at beginning of year	¥(51,209)	¥(30,646)	¥(65,972)	$(484)
Change for the year	(16,558)	(20,563)	35,326	(157)
Balance at end of year	(67,767)	(51,209)	(30,646)	(641)
Minimum pension liability adjustments:				
Balance at beginning of year	(1,428)	(739)	(37,668)	(14)
Change for the year	794	(689)	36,929	8
Balance at end of year	(634)	(1,428)	(739)	(6)
Unrealized holding gains (losses) on securities:				
Balance at beginning of year	(381)	17,446	22,105	(4)
Change for the year	46,034	(17,827)	(4,659)	436
Balance at end of year	45,653	(381)	17,446	432
Unrealized holding gains (losses) on derivative instruments:				
Balance at beginning of year	(5,390)	(6,325)	—	(51)
Change for the year	2,156	935	(6,325)	20
Balance at end of year	(3,234)	(5,390)	(6,325)	(31)
Accumulated other comprehensive income (loss):				
Balance at beginning of year	(58,408)	(20,264)	(81,535)	(553)
Change for the year	32,426	(38,144)	61,271	307
Balance at end of year	¥(25,982)	¥(58,408)	¥(20,264)	$(246)

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments were as follows:

	Millions of Yen		
	2004		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥(16,306)	¥ 20	¥(16,286)
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	(111)	(161)	(272)
Net change in foreign currency translation adjustments during the year	(16,417)	(141)	(16,558)
Minimum pension liability adjustments	1,638	(844)	794
Unrealized holding gains (losses) on securities:			
Amount arising during the year on available-for-sale securities	81,650	(30,738)	50,912
Reclassification adjustments for gains and losses realized in net income	(8,260)	3,382	(4,878)
Net change in unrealized gains (losses) on securities during the year	73,390	(27,356)	46,034
Unrealized holding gains (losses) on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(1,891)	667	(1,224)
Reclassification adjustments for gains and losses realized in net income	5,698	(2,318)	3,380
Net change in unrealized gains (losses) on derivative instruments during the year	3,807	(1,651)	2,156
Other comprehensive income (loss)	¥62,418	¥(29,992)	¥32,426

	Millions of Yen		
	2003		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥(19,931)	¥ (224)	¥(20,155)
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	(408)	—	(408)
Net change in foreign currency translation adjustments during the year	(20,339)	(224)	(20,563)
Minimum pension liability adjustments	(1,474)	785	(689)
Unrealized holding gains (losses) on securities:			
Amount arising during the year on available-for-sale securities	(36,825)	15,220	(21,605)
Reclassification adjustments for gains and losses realized in net income	6,411	(2,633)	3,778
Net change in unrealized gains (losses) on securities during the year	(30,414)	12,587	(17,827)
Unrealized holding gains (losses) on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(3,060)	1,189	(1,871)
Reclassification adjustments for gains and losses realized in net income	4,838	(2,032)	2,806
Net change in unrealized gains (losses) on derivative instruments during the year	1,778	(843)	935
Other comprehensive income (loss)	¥(50,449)	¥12,305	¥(38,144)

	Millions of Yen		
	2002		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥34,574	¥ 139	¥34,713
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	613	—	613
Net change in foreign currency translation adjustments during the year	35,187	139	35,326
Minimum pension liability adjustments	71,638	(34,709)	36,929
Unrealized holding gains (losses) on securities:			
Amount arising during the year on available-for-sale securities	(7,512)	1,911	(5,601)
Reclassification adjustments for gains and losses realized in net income	1,928	(986)	942
Net change in unrealized gains (losses) on securities during the year	(5,584)	925	(4,659)
Unrealized holding gains (losses) on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(14,278)	5,905	(8,373)
Reclassification adjustments for gains and losses realized in net income	3,531	(1,483)	2,048
Net change in unrealized gains (losses) on derivative instruments during the year	(10,747)	4,422	(6,325)
Other comprehensive income (loss)	¥90,494	¥(29,223)	¥61,271

	Millions of U.S. dollars		
	2004		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	$(154)	$ 0	$(154)
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	(1)	(2)	(3)
Net change in foreign currency translation adjustments during the year	(155)	(2)	(157)
Minimum pension liability adjustments	15	(7)	8
Unrealized holding gains (losses) on securities:			
Amount arising during the year on available-for-sale securities	773	(291)	482
Reclassification adjustments for gains and losses realized in net income	(78)	32	(46)
Net change in unrealized gains (losses) on securities during the year	695	(259)	436
Unrealized holding gains (losses) on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(18)	6	(12)
Reclassification adjustments for gains and losses realized in net income	54	(22)	32
Net change in unrealized gains (losses) on derivative instruments during the year	36	(16)	20
Other comprehensive income (loss)	$ 591	$(284)	$307

18. Financial Instruments

(1) Derivative Instruments and Hedging Activities

The Company and certain subsidiaries operate internationally and are exposed to market risks arising from changes in foreign exchange rates, interest rates and commodity prices. The Company and its subsidiaries utilize certain derivative instruments principally in order to reduce these market risks.

The Company and its subsidiaries have various derivative instruments, which are exposed to credit-related losses in the event of non-performance by counterparties. The Company and its subsidiaries seek to minimize credit risk by entering into contracts only with major counterparties as well as avoiding concentration with certain counterparties or groups of counterparties. The policies of the Company and its subsidiaries prescribe monitoring of creditworthiness and exposure on a counterparty-by-counterparty basis.

Foreign Exchange Rate Risk Management

The Company and certain subsidiaries have assets and liabilities which are exposed to foreign exchange rate risks. In order to hedge the risks, mainly between U.S. dollar and Japanese yen, the Company and its subsidiaries enter into foreign exchange contracts (inclusive of currency swap agreements).

These contracts are primarily used to fix future net cash flows from recognized receivables and payables and unrecognized firm commitments denominated in foreign currencies.

The Company and its subsidiaries measure the volume and due date of future net cash flows for each currency and enter into foreign exchange contracts (inclusive of currency swap agreements) for a certain portion of measured net cash flows.

Most hedging relationships between the derivative financial instruments and hedged items are highly effective in off-setting impacts from changes in foreign exchange rates.

Interest Rate Risk Management

The Company and certain subsidiaries are exposed to risks of variability in future cash outflow or fluctuations in fair value mainly on debt obligations. In order to manage these risks, the Company and its subsidiaries enter into interest rate swap agreements.

Interest rate swaps are used primarily to convert floating rate debt to fixed rate debt and to convert fixed rate debt to floating rate debt.

Most hedging relationships between the derivative financial instruments and hedged items are highly effective in off-setting changes in cash flows or fair values resulting from the interest rate risks.

Commodity Price Risk Management

The Company and certain subsidiaries utilize derivative instruments for commodities, such as crude oil and grain, principally to hedge fluctuations in cash flows or fair values due to changes in commodity prices.

Derivative instruments for commodities do not have a material effect on the financial statements.

Most hedging relationships between the derivative instruments and hedged items are highly effective in off-setting changes in cash flows or fair values resulting from the commodity price risks.

Risk Management Policy

The Company and its subsidiaries manage foreign exchange rate risks, interest rate risks and commodity price risks by continually monitoring the movements and by seeking hedging opportunities to reduce such risks.

The Company and its subsidiaries set the limits for derivative instruments based on the purpose of holding these instruments.

The risk management policies of the Company and its subsidiaries state that derivative instruments for the most part are held for hedging purposes.

The risk management policies including objectives and strategies for undertaking derivative instruments are documented, and the Company and its subsidiaries make a formal assessment at the hedge's inception and quarterly on an on-going basis, as to whether the derivatives used in hedging activities are highly effective in off-setting changes in fair values or cash flows of hedged items.

Fair Value Hedge
Changes in the fair value of derivative instruments designated and qualified as fair value hedges of recognized assets and liabilities or unrecognized firm commitments are recognized in earnings together with changes in the fair value of the corresponding hedged items.

The amount of the hedge ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness was not material for the years ended March 31, 2004, 2003 and 2002.

The amount of net gain or loss recognized in earnings when the hedged firm commitment no longer qualified as a fair value hedge was not material for the years ended March 31, 2004, 2003 and 2002.

Cash Flow Hedge
Changes in the fair value of derivative instruments designated and qualified as cash flow hedges of forecasted transactions and recognized assets and liabilities are reported in accumulated other comprehensive income (loss) (referred to as AOCI). These amounts are reclassified into earnings in the same period as the hedged items affect earnings.

Changes in the fair value of interest rate swap designated as hedging instruments are initially recorded in AOCI and reclassified into earnings as interest expense when the hedged items affect earnings.

The amount of the hedge ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2004, 2003 and 2002.

Net losses of ¥3,380 million ($32 million), ¥2,806 million and ¥2,048 million were reclassified from AOCI into earnings during the years ended March 31, 2004, 2003 and 2002, respectively, when the hedged items affected earnings.

Net losses of ¥2,082 million ($20 million) in AOCI at March 31, 2004 are expected to be reclassified to earnings within the next 12 months.

As of March 31, 2004, the maximum length of time over which the Company and its subsidiaries are hedging their exposure to variability in future cash flows is approximately 53 months.

The amount of net gain or loss reclassified into earnings because it was probable that forecasted transactions would not occur was immaterial for the years ended in March 31,2004 and 2003.

Derivative instruments held for trading purposes were insignificant.

(2) Fair Values of Financial Instruments

The Company and its subsidiaries have various financial instruments, which are exposed to credit-related losses in the event of non-performance by counterparties.

The Company and its subsidiaries are engaged in transactions with numerous counterparties to ensure that there are no significant concentrations of credit risk with any individual counterparty or groups of counterparties.

The estimated fair values of financial instruments as of March 31, 2004 and 2003 were as follows:

	Millions of Yen				Millions of U.S. dollars	
	2004		2003		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:						
Other non-current receivables and advances to associated companies (less allowance for doubtful receivables)	¥ 262,260	¥ 262,889	¥ 313,826	¥ 315,247	$ 2,481	$ 2,487
Financial Liabilities:						
Long-term debt (including current installments)	¥2,092,757	¥2,093,503	¥2,163,747	¥2,165,274	$19,801	$19,808
Derivative Financial Instruments (Assets):						
Foreign exchange contracts (inclusive of currency swap agreements)	¥ 4,296	¥ 4,296	¥ 3,776	¥ 3,776	$ 41	$ 41
Interest rate swap agreements	9,906	9,906	19,749	19,749	94	94
Interest rate option agreements	195	195	335	335	2	2
Derivative Financial Instruments (Liabilities):						
Foreign exchange contracts (inclusive of currency swap agreements)	¥ 4,166	¥ 4,166	¥ 480	¥ 480	$ 39	$ 39

Quoted market prices, where available, are used to estimate fair values of financial instruments. However fair values are estimated using discounted cash flow analysis or other methods when quoted market prices are not available. These estimates involve uncertainty and subjectivity, and therefore cannot be determined with precision. Changes in assumptions could significantly affect fair value amounts.

Current Financial Assets other than Marketable Securities and Current Financial Liabilities:
The carrying amounts approximate fair values because of the short maturity of these instruments.

Marketable Securities and Other Investments:
The fair values of marketable investment securities included in "Marketable Securities" and "Other Investments" are based on quoted market prices. The carrying amounts of non-marketable investment securities and others approximate fair values. The fair values for each category of securities is set forth in note 3 "Marketable Securities and Investments."

Other Non-current Receivables and Advances to Associated Companies:
The fair values of other non-current receivables and advances to associated companies are based on the present value of future cash flows discounted using the current rates at which similar loans or receivables would be made to borrowers or customers with similar credit ratings and for comparable maturities.

Long-term Debt:
The fair values of long-term debt are based on the present value of future cash flows discounted using the current borrowing rates of similar debt instruments having comparable maturities.

Foreign Exchange Contracts (Inclusive of Currency Swap Agreements):
The fair values of foreign exchange contracts are estimated based on the quoted market prices of comparable contracts.

Interest Rate Swap Agreements:
The fair values of interest rate swap agreements are estimated using discounted cash flow analyses, based on the current swap rates with similar terms and remaining periods.

Interest Rate Option Agreements:
The fair values of interest rate option agreements are estimated using option pricing model.

The contract or notional amounts of derivative financial instruments held as of March 31, 2004 and 2003 are summarized as follows:

	Millions of Yen		Millions of U.S. dollars
	2004	2003	2004
Foreign exchange contracts (inclusive of currency swap agreements):			
To sell foreign currencies	¥ 119,023	¥ 100,915	$ 1,126
To buy foreign currencies	293,316	228,733	2,775
Interest rate swap agreements	1,704,109	1,778,326	16,124
Interest rate option agreements	111,775	109,194	1,058

19. Issuance of Stock by Subsidiaries or Associated Companies

CENTURY LEASING SYSTEM, INC., an associated company, issued 10,000,000 shares of common stock in a public offering to third parties on September 18, 2003, the date of its listing on the second section of the Tokyo Stock Exchange. The offering price per share was ¥752, which was lower than the Company's carrying value per share of the associated company's stock.

This issuance decreased the Company's ownership of the subsidiary from 26.3% to 21.3%. The issuance of these shares for ¥7,252 million ($69 million) was regarded as a sale of a part of the Company's interest in the associated company and the Company recognized a loss of ¥362 million ($3 million) for the year ended March 31, 2004, which is included in "gain (loss) on disposal of investments and marketable securities, net of write-down."

20. Leases

Lessor
The Company and certain subsidiaries lease automobiles, furniture and equipment for medical institutions and certain other assets, which are classified as direct financing leases under Statement of Financial Accounting Standards No.13, "Accounting for Leases."

The components of the net investment in direct financing leases as of March 31, 2004 and 2003 were as follows:

	Millions of Yen		Millions of U.S. dollars
	2004	2003	2004
Total minimum lease payments to be received	¥22,321	¥30,382	$211
Less unearned income	(3,946)	(7,630)	(37)
Estimated unguaranteed residual value	12,547	26,692	118
Less allowance for doubtful receivables	(1,938)	(2,086)	(18)
Net investment in direct financing leases	¥28,984	¥47,358	$274

The schedule of future minimum lease payments to be received from direct financing leases for each of the five succeeding years and thereafter as of March 31, 2004 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2005	¥ 9,300	$ 88
2006	5,893	56
2007	3,339	31
2008	3,063	29
2009	642	6
2010 and thereafter	84	1
Total	¥22,321	$211

The Company and certain subsidiaries lease aircraft, industrial machinery and certain other assets under operating leases. The cost and accumulated depreciation of the property held for lease as of March 31, 2004 were ¥177,080 million ($1,675 million) and ¥40,213 million ($380 million), respectively. The schedule of minimum future rentals on noncancelable operating leases for each of the five succeeding years and thereafter as of March 31, 2004 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2005	¥13,541	$128
2006	6,950	66
2007	5,705	54
2008	4,460	42
2009	3,070	29
2010 and thereafter	5,023	48
Total	¥38,749	$367

Lessee

The Company and certain subsidiaries lease buildings, industrial machinery and other machinery and equipment, under agreements which are classified as capital leases. The cost and accumulated depreciation of such leased assets as of March 31, 2004 were ¥43,666 million ($413 million) and ¥16,365 million ($155 million), respectively. The components of the capital lease obligations as of March 31, 2004 were as follows:

	Millions of Yen	Millions of U.S. dollars
	2004	2004
Total minimum lease payments	¥42,196	$399
Less amount representing interest	(6,203)	(58)
Capital lease obligations	¥35,993	$341

The schedule of future minimum lease payments for each of the five succeeding years and thereafter as of March 31, 2004 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2005	¥ 7,942	$ 75
2006	7,535	71
2007	5,195	49
2008	5,690	54
2009	2,680	25
2010 and thereafter	13,154	125
Total	¥42,196	$399

The total of minimum sublease rentals to be received in the future under noncancelable subleases, which correspond to future minimum lease payments under capital leases is ¥10,040 million ($95 million).

The Company and certain subsidiaries lease aircraft, real estates and certain other assets, under agreements which are classified as operating leases. The schedule of future minimum lease payments under noncancelable operating leases for each of the five succeeding years and thereafter as of March 31, 2004 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2005	¥ 12,532	$119
2006	10,736	102
2007	9,807	93
2008	8,085	76
2009	7,440	70
2010 and thereafter	56,008	530
Total	¥104,608	$990

The total of minimum sublease rentals to be received in the future under noncancelable subleases, which correspond to future minimum lease payments under noncancelable operating leases is ¥13,433 million ($127 million).

21. Commitments and Contingent Liabilities

The Company and certain subsidiaries enter into long-term purchase contracts for certain items either at fixed prices or at variable prices. In most cases, these contracts are matched with counterparty sales contracts.

The Company and its subsidiaries issue various guarantees for indebtedness of associated companies and customers. The maximum potential amount of future payments and the amount of substantial risk at March 31, 2004 and 2003 are summarized below.

	Millions of Yen		
	2004		
	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for associated companies:			
Maximum potential amount of future payments	¥159,959	¥11,916	¥171,875
Amount of substantial risk	94,317	9,437	103,754
Guarantees for customers:			
Maximum potential amount of future payments	121,426	13,814	135,240
Amount of substantial risk	54,310	11,170	65,480
Total:			
Maximum potential amount of future payments	¥281,385	¥25,730	¥307,115
Amount of substantial risk	148,627	20,607	169,234

	Millions of Yen		
	2003		
	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for associated companies:			
Maximum potential amount of future payments	¥196,074	¥12,829	¥208,903
Amount of substantial risk	116,580	10,041	126,621
Guarantees for customers:			
Maximum potential amount of future payments	200,180	6,067	206,247
Amount of substantial risk	110,834	5,350	116,184
Total:			
Maximum potential amount of future payments	¥396,254	¥18,896	¥415,150
Amount of substantial risk	227,414	15,391	242,805

	Millions of U.S. dollars		
	2004		
	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for associated companies:			
Maximum potential amount of future payments	$1,513	$113	$1,626
Amount of substantial risk	892	89	981
Guarantees for customers:			
Maximum potential amount of future payments	1,149	131	1,280
Amount of substantial risk	514	106	620
Total:			
Maximum potential amount of future payments	$2,662	$244	$2,906
Amount of substantial risk	1,406	195	1,601

The amount of substantial risk at March 31, 2004 and 2003 represents the actual amount of liability incurred by the guaranteed parties within the pre-determined guaranteed limit established under the guarantee contracts. The amounts that can be recovered from third parties have been excluded in determining the amount of substantial risk.

The carrying amount of the liability recognized for guarantees was ¥1,642 million ($16 million) and ¥1,469 million at March 31, 2004 and 2003, respectively.

The Company guarantees housing loans of its employees and those of certain subsidiaries as a part of the benefit program. These guarantees are included in the above guarantees. If the employees default on a payment, the Company would be required to make payments under the contracts. The maximum potential amounts of future payments under the contracts were ¥15,004 million ($142 million) and ¥16,689 million at March 31, 2004 and 2003. No provisions relating to the guarantees have been recorded in the consolidated financial statements.

The amounts that can be recovered from third parties have been excluded from determining the maximum potential amount of future payments. The amounts recoverable were ¥88,088 million ($833 million) and ¥101,561 million at March 31, 2004 and 2003, respectively.

Guarantees with the longest term for indebtedness of associated companies and customers issued by the Company and its subsidiaries will expire on June 30, 2030.

The major associated companies and customers and the substantial risk of the related guarantees for monetary indebtedness at March 31, 2004 and 2003 were as follows:

	Millions of Yen	Millions of U.S. dollars
	2004	2004
Marubeni-Itochu Steel Inc.	¥29,568	$280
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	11,231	106
JAPAN OHANET OIL & GAS CO., LTD.	10,239	97
Tokyo Humania Enterprise Inc.	7,500	71
SAKHALIN OIL AND GAS DEVELOPMENT CO., LTD.	6,520	62
Marubeni-Itochu Steel America Inc.	6,482	61
Quatro World Maritime S.A.	4,901	46
STAR CHANNEL, INC.	4,200	40
Bontang Train · G Project	3,373	32
P.T. PANTJA MOTOR	2,995	28

	Millions of Yen
	2003
Marubeni-Itochu Steel Inc.	¥38,753
Marubeni-Itochu Steel America Inc.	16,670
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	12,022
Tokyo Humania Enterprise Inc.	9,534
Quatro World Maritime S.A.	6,431
P.T. PANTJA MOTOR	6,000
Digital Telecommunications Phils.	5,829
Chemoil Corporation	4,793
Bontang Train · G Project	4,643
Kawasaki Kisen Kaisha, Ltd.	3,215

The Company and its subsidiaries were contingently liable in the amounts of to ¥10,999 million ($104 million) and ¥10,116 million for trade notes receivable endorsed to suppliers in the settlement of accounts payable and of discounted trade notes receivable on a recourse basis with banks and ¥53,940 million ($510 million) and ¥54,750 million for export bills of exchange discounted with banks in the ordinary course of business at March 31, 2004 and 2003, respectively.

In July 2001, Citibank, N.A., and Citibank Canada, a wholly-owned subsidiary of Citibank, N.A., (together, “Citibank”), filed a complaint against ITOCHU International Inc. (“III”) and III Holding Inc. (previously named Copelco Financial Services Group, Inc.) in the United States District Court for the Southern District of New York. Citibank is alleging violation of the federal securities laws, fraud and breach of contract and related claims arising in connection with Citibank’s acquisition of all the common stock of Copelco Capital. Inc. (“Copelco”), a former wholly-owned subsidiary of III, for a purchase price of approximately U.S.$666 million in May 2000. More specifically, Citibank is alleging that Citibank relied on the accuracy of Copelco’s financial statements and other documents and statements provided and given by III to Citibank and that such financial statements had not been prepared in compliance with U.S. GAAP and/or in accordance with Copelco’s internal accounting rules and practices in connection with, inter alia, accounting and collection policies and procedures of lease receivables, the amount of charge-off concerning delinquent lease receivables, loss reserve methodology, earnings from general ledger accounts and reconciliation of investment accounts, based upon which Citibank seeks compensatory damages and related costs and attorney fees. Disclosures made by Citibank during pre-trial discovery indicate its belief that the total amount of the damages suffered is approximately U.S.$459 million. III and III Holding Inc. are defending this action vigorously and maintain that they have no liability in this matter. However, due to the inherent uncertainty of litigation, it is not possible to predict at this time the ultimate outcome of this litigation.

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building
13-23, Shibaura 4-chome
Minato-ku, Tokyo 108-8530
Japan

Tel: +81 3 3457 7321
Fax: +81 3 3457 1694
www.deloitte.com/jp

Independent Auditors' Report

To the Board of Directors of
ITOCHU Corporation :

We have audited the accompanying consolidated balance sheet of ITOCHU Corporation and subsidiaries as of March 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (all expressed in Japanese yen). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company for the years ended March 31, 2003 and 2002, before the restatement described in Note 2 to the consolidated financial statements, were audited by other auditors whose report, dated May 23, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the 2004 consolidated financial statements present fairly, in all material respects, the financial position of ITOCHU Corporation and subsidiaries as of March 31, 2004 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the restatement of revenue for the years ended March 31, 2003 and 2002 described in Note 2. In our opinion, such restatement is appropriate and has been properly applied.

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu.

May 11, 2004

Member of
Deloitte Touche Tohmatsu

Stock Information

Transfer Agent of Common Stock:
The Chuo Mitsui Trust & Banking Co., Ltd.

Stock Listings:
Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

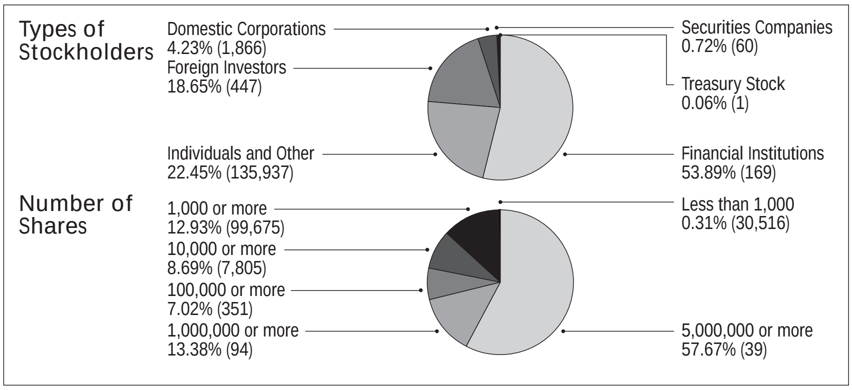
General Meeting of Stockholders:
June 29, 2004

Number of Common Stock Issued:
1,584,889,504

Number of Stockholders:
138,480

Breakdown of Stockholders:

% (Number of Stockholders)

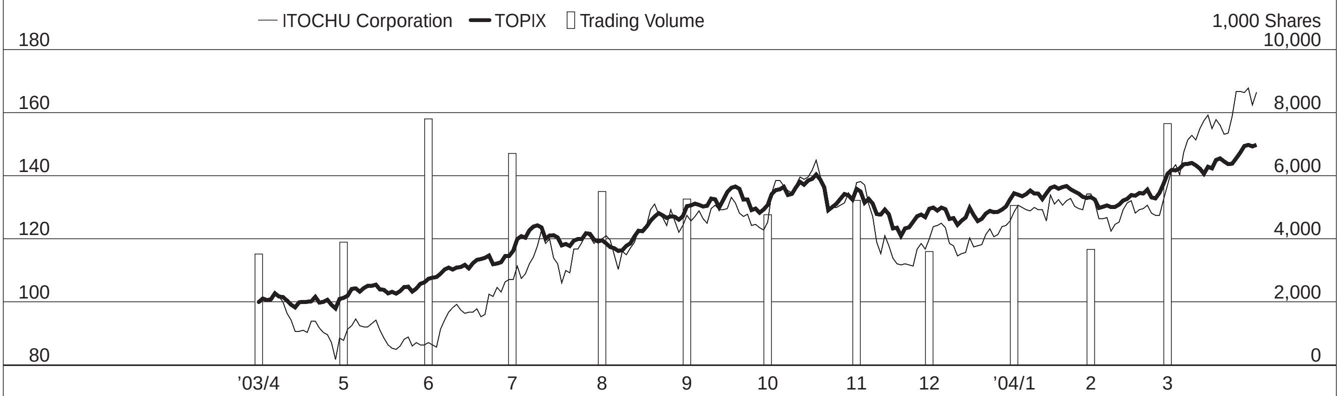


Major Stockholders:

Stockholders	Number of shares held (1,000 shares)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd. (trust account)	209,704	13.23
The Master Trust Bank of Japan, Ltd. (trust account)	104,284	6.58
Mizuho Corporate Bank, Ltd.	49,000	3.09
Mitsui Sumitomo Insurance Co., Ltd.	48,651	3.07
Nippon Life Insurance Company	42,022	2.65
NIPPONKOA Insurance Co., Ltd.	41,566	2.62
The Tokio Marine and Fire Insurance Co., Ltd.	39,797	2.51
Shinsei Bank, Limited	34,382	2.17
Asahi Mutual Life Insurance Company	27,530	1.74
The Sumitomo Mitsui Banking Corporation	22,667	1.43

Note 1: Japan Trustee Services Bank, Ltd. was jointly established by Resona Bank, Limited, The Sumitomo Trust & Banking Co., Ltd., and Mitsui Trust Holdings, Inc. to specialize in securities processing of entrusted assets centering on pension and investment trust.
Note 2: The Master Trust Bank of Japan, Ltd. was jointly established by The Mitsubishi Trust and Banking Corp., Nippon Life Insurance Company, UFJ Trust Bank Limited, Meiji Yasuda Life Insurance Company, and Deutsche Bank AG to specialize in securities processing of entrusted assets centering on pension and investment trust.

Stock Performance of ITOCHU Corporation and Average Trading Volume Per Day



	'03/4	5	6	7	8	9	10	11	12	'04/1	2	3
Opening Price	¥287	250	249	303	343	354	348	384	323	364	379	375
High	290	270	306	351	372	380	410	399	355	381	383	480
Low	231	236	241	293	308	346	348	310	319	348	344	374
Closing Price	250	244	302	338	350	346	371	329	354	378	373	468
Trading Volume/Day (Unit: thousands)	3,521	3,897	7,804	6,709	5,502	5,263	4,767	5,223	3,600	5,059	3,669	7,653

Share price on April 1, 2003 (¥282) = 100

(As of March 31, 2004)

Corporate Information

ITOCHU Corporation

Founded:
1858

Incorporated:
1949

Tokyo Head Office:
5-1, Kita-Aoyama 2-chome,
Minato-ku, Tokyo 107-8077, Japan
Telephone: 81 (3) 3497-2121
Facsimile: 81 (3) 3497-4141

Osaka Head Office:
1-3, Kyutaromachi 4-chome,
Chuo-ku, Osaka 541-8577, Japan
Telephone: 81 (6) 6241-2121

Homepage:
http://www.itochu.co.jp

Offices:
Domestic: 18
Overseas: 136

Number of Employees:
4,163

Paid-in Capital:
¥202,241 million

(As of March 31, 2004)

Additional Copies of This Annual Report and Other Information May Be Obtained by Contacting:

Investor Relations Department,
Corporate Communications Division,
ITOCHU Corporation
5-1, Kita-Aoyama 2-chome, Minato-ku,
Tokyo 107-8077, Japan
Telephone: 81 (3) 3497-7295
Facsimile: 81 (3) 3497-7296

Forward-Looking Statements

Statements in this annual report with respect to ITOCHU's plans, strategies, forecasts, and other statements that are not historical facts are forward-looking statements that are based on management's assumptions and beliefs based on information currently available and involve risks and uncertainties. Factors that could cause actual results to differ materially from such statements include, without limitation, global economic conditions, demand for and competitive pricing pressure on products and services, ITOCHU's ability to continue to win acceptance for its products and services in highly competitive markets, and currency exchange rate fluctuations.

金融・不動産・保険・物流

食料

生活資材・化学品

金属・エネルギー

宇宙・情報・マルチメディア

機械

繊維

ITOCHU Corporation
5-1, Kita-Aoyama 2-chome, Minato-ku,
Tokyo 107-8077, Japan
Telephone: 81(3)3497-2121
Facsimile: 81(3)3497-4141
Homepage: http://www.itochu.co.jp

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