

Annual Report 1999



Manufacturing Strategy
1998 brought a
on company systems

Global-2000
we make it
a reality



Global-2000 *we make it*

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March

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March

ITOCHU ranks among the world's largest companies with 1,027 subsidiaries and associated companies operating in over 80 countries. Total trading transactions in fiscal 1999, the year ended March 31, 1999

amounted to ¥13.9 trillion (US\$115.3 billion). The immense volume of business reflects the vast scope of its expertise in commodity trading, information, logistics, financing, investment and retailing. Business

ITOCHU has drawn up its medium-term plan, Global-2000, for the period April 1999 to March 2001. Bolstering the profit structure and

financial position are the main goals. In order to improve the profit

structure, the Company will further shift resources to four business

domains where early investments have been made: information and

multimedia industries, consumer and retail related, financial services

and natural resource development. Total assets and interest-bearing

assets are as follows:

Total assets

Total interest-bearing assets

Total fixed assets

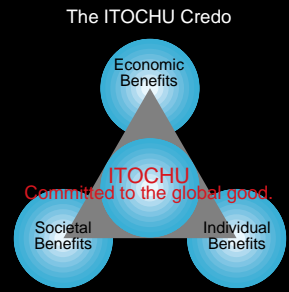
Total current assets

Total current interest-bearing assets



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debt will be decreased to improve the financial position. Also, a new human resource management system has been introduced, and salaries will be based on the concept of "pay for performance." With the 21st century close at hand, ITOCHU will settle any issues that need to be solved within the 20th century to succeed as a powerful and competitive company in the coming century.

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Profile

On the cover:

This year's annual report focuses on how ITOCHU plans to transform the ideals of its Global-2000 plan into concrete results.

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Six-Year Summary

ITOCHU Corporation and Subsidiaries
Years ended March 31

	Millions of yen except amounts per ten shares and common stock information						Millions of U.S. dollars
	1999	1998	1997	1996	1995	1994	1999
For the year:							
Total trading transactions	¥13,900,567	15,544,508	15,267,012	13,609,960	13,447,541	13,945,046	\$115,310
Gross trading profit	641,713	596,678	566,557	510,068	503,153	486,538	5,323
Trading income	59,356	22,188	52,523	73,917	71,334	59,780	492
Net income (loss)	(34,088)	(91,931)	12,490	11,694	8,105	(14,128)	(283)
Per ten shares (Yen):							
Net income (loss)	¥ (239)	(645)	88	82	57	(99)	\$ (1.98)
Dividends	—	60	60	60	60	60	—
At year-end:							
Total assets	¥ 6,733,026	7,531,125	7,444,861	7,283,173	6,605,047	6,449,174	\$ 55,853
Stockholders' equity	305,514	412,520	556,695	602,450	547,576	465,292	2,534
Long-term debt, excluding current installments	2,861,338	2,738,901	2,630,175	2,433,484	2,042,488	2,114,910	23,736
Common stock information:							
Stock price (Yen):							
High	¥ 368	655	815	756	766	714	\$ 3.05
Low	168	182	512	456	481	455	1.39
Closing price	246	320	606	750	530	695	2.04
Market capitalization (Yen in billions and U.S. dollars in millions)							
	351	456	864	1,069	755	991	2,912
Trading volume (yearly) (Million shares)							
	663	595	338	374	370	619	

The Japanese yen amounts for the year ended March 31, 1999, have been translated into United States dollar amounts, solely for the convenience of the reader, at the rate of ¥120.55=U.S.\$1. Dividends per ten shares are those declared with respect to the income of each of the respective years.

From the year ended March 31, 1997, the Company revised the recording of precious metal trading transactions. Concurrently, the Company restated total trading transactions in the consolidated statements of income for the prior years.

The Company and its subsidiaries have adopted Statement of Financial Accounting Standards No. 128 "Earnings per Share" (SFAS 128), in the year ended March 31, 1998. SFAS 128 requires the restatement of prior period earnings per share data. Such restatement had no effect on previously reported earnings per share data.

The Company and its subsidiaries adopted retroactively to April 1, 1994, Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). Accordingly, the Company and its subsidiaries restated the prior years' net income (loss), net income (loss) per ten shares, total assets and stockholders' equity. Such restatement had no effect on net income and net income per ten shares from the year ended March 31, 1995 to the year ended March 31, 1997.



Letter from the President

Global capitalism is now a reality. Rapid advances in information technology provide easy access to data for everybody. On the other hand, however, risks have expanded on a global scale. As opportunities and risks grow, multinational corporations face the need to choose from one of the two alternatives. One is to increase scale through mergers, and the other is to concentrate resources on strategic business fields to improve returns on capital. ITOCHU has chosen the latter. With the completion of a two-year management plan, Global 98, in March 1999, our profitability and financial position have both improved. Now that the groundwork is in place, we have initiated a plan called Global-2000 in April 1999 to take this process on to the next stage.

REVIEWING ACHIEVEMENTS OF Global 98

Global 98 brought about fundamental changes to how ITOCHU operates. One highlight was our switching to a division company system. We are now an organization that can act with speed and are structured to pursue higher profitability in each business sector. Under Global 98, we have made investments that will lead to future earnings in four strategic domains: information/multimedia, retailing, natural resource development and financial services. Supplementing this plan was the Management Restructuring Strategy announced in November 1997. Targeting financial soundness, this strategy resulted in a substantial one-time loss to deal with real estate holdings as well as progress in reducing debt and increasing returns.

CONSOLIDATED RESULTS FOR FISCAL 1999

As the Japanese economy contracted for an unprecedented second year, ITOCHU's total trading transactions fell by 10.6% to ¥13,901 billion (US\$115 billion) in fiscal 1999, the year ended March 31, 1999. On the other hand, gross trading profit increased by 7.5%, mainly due to strong performances at subsidiaries. Furthermore, trading income surged by 167.5% to ¥59,356 million (US\$492 million) despite expenses related to early retirement incentives and provision for doubtful receivables in Southeast Asia. As part of our program to bolster the balance sheet, Time Warner stock and certain other equities were sold to generate capital gains. There was a net profit on property and equipment following the previous year's loss due to most targets of the Management Restructuring Strategy with regard to real estate holdings being attained in fiscal 1998. Income before income taxes was ¥33,489 million (US\$278 million), an improvement of ¥121,441 million over the previous year's loss. However, a one-time income tax related to a reduction in Japan's corporate tax rate resulted in a net loss of ¥34,088 million (US\$283 million). Despite this loss, we were able to proceed with the Management Restructuring Strategy during the year, making progress toward establishing a sound balance sheet as planned.

LAUNCH OF Global-2000

Building on the momentum of Global 98, a new two-year management plan called Global-2000 was set in motion in April 1999. The new plan inherits the goals of bolstering financial strength and profitability from Global 98 but differs in terms of its scope. Global-2000 extends the themes of Global 98 to all areas of the ITOCHU Group, including operations, work attitudes and corporate culture. We will shift emphasis from scale to productivity. With this in mind, we have set forth many concrete goals, including a 10% ROE in the fiscal year ending March 2001. Fulfilling these goals will create a new ITOCHU capable of meeting demands of tomorrow's global market.

OVERVIEW OF Global-2000

1. Establishing a Global Standard Operating Base

Reform management — Reaching decisions quickly is imperative to success today. ITOCHU will delegate responsibility and accountability in a manner to promote this. The reform of the headquarters is part of this drive. By March 2001, we plan to slash the managerial staff from 280 to about 100. Headquarters will then be responsible solely for corporate planning and auditing. Regarding corporate governance, we are positioning the board of directors as the body that formulates strategies for the entire company. We have established executive officer posts for executing strategies and managing day-to-day operations.

Enhance autonomy of division companies — Division companies will be given more latitude to pave the way for ITOCHU's future shift to a holding company structure, pending introduction of a consolidated tax system in Japan.

Reinforce risk management — Division companies will sign covenants with headquarters regarding the maintenance of balance sheet parameters and limits on the use of assets and other financial resources. Balance sheet management is now directed by the ALM (Asset and Liability Management) Committee.

Improve consolidated performance — ITOCHU is introducing hurdle rates for performance, investments and other items from the standpoint of the entire group. Unprofitable companies, generally defined as those in the red for three consecutive years, will be restructured or shut down. We expect this process to cut consolidated subsidiaries by about one-third between April 1999 and March 2001, after which 80% of these subsidiaries will be profitable. During the same period, we plan to conduct IPOs of about ten subsidiaries. New targets for returns and other aspects of investments in new businesses have been established.

2. Building a System for Improving Profitability

This is a combination of the effective use of resources and cost-cutting. We will focus our resources on four strategic business domains and one strategic region, North America. In terms of expenses, we will cut debt and build a more competitive cost structure. The recently established Office of the President will take the lead in the corporate-level planning needed to accomplish these objectives.

3. Motivating and Training People

We are introducing a new human resource management system in which pay, promotion and other benefits are more closely tied to performance. Education and development programs for employees are being enhanced, including the reinforcement of courses for managers.

DEFINING THE NEW *SOGO-SHOSHA*

The shifting of market dynamics in recent years has raised questions concerning the future role of *Sogo-shosha* like ITOCHU. As part of Global-2000, our response to this challenge is to create a new function. We will be stepping up the vertical integration of logistics and information throughout the organization. Leveraging this integration to offer a new function, solution engineering, is the best way to take full advantage of the breadth of our operations.



Naturally, this process extends to the strategic business domains of Global-2000, each of which is entering a new phase in its development.

Information and multimedia industries — Starting out mainly with investments in infrastructure, we now offer broadcasting services through SKY PerfecTV!, production of content and the management of rights to use content.

Consumer and retail related — This field provides many opportunities to draw on expertise in famous fashion brands and distribution of other consumer products. Our recent investment in FamilyMart Co., Ltd., a convenience store chain, signaled the start of a new phase in which supply chain management makes an increasing contribution.

Financial services — We are capitalizing on deregulation in Japan to offer a distinctive array of services in fields such as debt financing, insurance and securities broking. Here, there are many opportunities that may tie up with other ITOCHU activities.

Natural resource development — We plan to complement ongoing investments in petroleum, LNG and other fuels with participation in peripheral activities such as pipelines and refinery equipment. This sector also extends to the development of food resources.

LONG-TERM PERSPECTIVE

While much headway has been made in improving our financial position, Global-2000 provides the necessary framework for the work that remains. To complete this process as soon as possible, we have decided to suspend the year-end dividend for the first time in ITOCHU's history. I am confident that this move will be regarded as proof of our resolve to establish a long-term sound operating basis, and I am convinced that long-term benefits of these moves will far outweigh any short-term drawbacks we may face as we create a new ITOCHU for the 21st century.

July 1999



Uichiro Niwa
President and Chief Executive Officer

The Strategic Businesses of **Global-2000**

Information and Multimedia Industries

ITOCHU stands ahead of other companies in this field and has a large number of businesses well beyond the start-up stage. In the multimedia field, a significant increase in contributions to earnings is thus not far away. The first big step was the 1985 investment in a satellite venture. This led to involvement in broadcasting, content, network businesses and, most recently, mobile multimedia. Significantly, each step has taken ITOCHU closer to end users. The next stage entails managing these diverse businesses so as to maximize synergies and build a solid platform for future endeavors.

Consumer and Retail Related

Traditionally, trading companies work behind the scenes in this arena. ITOCHU, however, has established a presence in Japan by becoming the leading shareholder of FamilyMart, a convenience store chain. Under Global-2000, ITOCHU will continue to integrate supply and distribution functions based on the SIS (strategic integrated system) concept. In the food industry, ITOCHU is implementing its food chain management strategy, using consumer information to add value. In textiles, a global network forms the basis for an extensive brand management business. ITOCHU handles global distribution, promotion, licensed production, wholesale and retail of apparel and home furnishings bearing prestigious brands.

Financial Services

Opportunities in mainstream financial services are no longer limited to existing players such as banks and securities companies. ITOCHU is growing by targeting attractive sectors that best fit the Company's traditional strengths. As a global trading company, ITOCHU has much experience in foreign exchange trading, securities investments, business financing, insurance and many other areas. Financial deregulation in Japan makes this an ideal time to advance in all these fields. In October 1999, ITOCHU will launch online securities broking services.

Natural Resource Development

ITOCHU has long been a pioneer among trading companies in natural resource development. The Company's basic stance is to participate alone rather than through consortiums with other Japanese companies. At many overseas energy projects, ITOCHU has been the first or the only Japanese participant. Experience gained over the years makes ITOCHU skilled in the difficult processes of balancing risks against potential rewards. This has resulted in consistently high returns. As this strategic sector grows, ITOCHU will be diversifying revenue sources by moving downstream through investments in pipelines, plants and transportation.





Four strategic business domains have been named in Global-2000. ITOCHU's goal is to establish a presence throughout the supply chain in each field. The following pages illustrate how key elements of ITOCHU are transforming this strategy into productive investments.

Satellite and Broadcasting Businesses

With the establishment of Japan Satellite Systems Inc. and PerfectTV!, a satellite broadcasting service predecessor to SKY PerfectTV!, ITOCHU has held the lead in satellite and broadcasting businesses. SKY PerfectTV! now supplies 300 channels and continues to expand its subscriber base, which now exceeds one million.

Content

ITOCHU produces programs in music, sports, animation, movies and other genre for distribution through satellite and cable networks. An all-music channel, ITOCHU subsidiary Space Shower TV has its own studio and fosters the development of promising artists. ITOCHU also operates Cartoon Network and the all-movie Star Channel in collaboration with Time Warner.

Resources

Grain Imports

ITOCHU is always seeking new sources of grains and other materials to export to Japan and Asia. In April 1993, a grain house and distributor, CGB Enterprise, Inc., and in January 1997, a developer of special-purpose seeds, Quality Traders Inc., were established in the U.S.

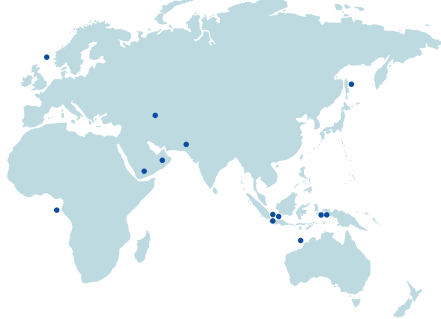


LNG Projects in Qatar and Oman

ITOCHU has a 4% stake in the Ras Laffan LNG Project in Qatar. Shipments to a client in South Korea will begin in the summer of 1999. In Oman, ITOCHU is part of a venture that will supply LNG to customers in Korea, Japan and India starting in 2000.

Oil Field Development in Azerbaijan

ITOCHU is part of a consortium that is working at an enormous oil field off the coast of Azerbaijan in the Caspian Sea. ITOCHU thus became the first Japanese company to participate in energy development in this country. Commercial production began in November 1997. Shipments will dramatically increase after completion of a new export pipeline in 2004. ITOCHU is also involved in exploration activities in nearby sectors.



Oil and Gas Exploration Project in Sakhalin

ITOCHU is part of the Sakhalin-I project, a joint endeavor of Russian companies, Japanese companies and a U.S. oil giant. In April 1999, work started on the feasibility of constructing a pipeline from Sakhalin Island to Japan. This may lead to the commencement of commercial oil and gas production, which will require another five years.



Acquisition and Sale of Content Rights

In April 1998, ITOCHU formed ART-NET, Inc. as a centralized clearing house for the acquisition and sale of rights to music, books and other content. In the future, the company may also act as a producer, procuring the needed capital by selling shares in funds.

Food Processing

ITOCHU has ties with prominent food processors in Japan and overseas. Furthermore, ITOCHU Group members include Japan's most productive sugar refiner and an edible oils producer that employs highly sophisticated refining technology. ITOCHU is also using strategic alliances to expand in profitable areas in food processing; one such venture supplies bakery goods to a major Japanese convenience store chain.

Processing

Locating and Fostering Brands

ITOCHU distributes the merchandise of more than 100 well-known brands in apparel, fashion and home furnishing, including DUNHILL, BVLGARI and HUNTING WORLD. ITOCHU's brand business starts by searching for prominent brands in apparel and fashion overseas and then negotiating for distribution rights in Japan. ITOCHU then uses its information on consumer preferences to market the merchandise.



Global Line Pipe Sales

Developing energy supplies often opens up many other opportunities. Pipelines are an excellent example. ITOCHU sells pipes for wells and pipelines from its four core operation bases: Tokyo, Houston, London and Singapore. The company supplies pipes made by manufacturers, whether in Japan or another country, that best serve the needs of customers.

Risk Management in Natural Resource Development

Natural resource development requires huge investments and long lead times. Through its experience from working with the world's major oil companies, ITOCHU has gained the knowledge to evaluate risks and obtain good returns. Risks are managed using a broad range of techniques, including carefully structured financing methods and sales contracts.

← Market Data ← Consumption Trends ←



The Brand Business

After procuring a brand and establishing its presence in Japan, ITOCHU begins granting licenses to Japanese manufacturers for fabrication, resulting in a steady inflow of royalties. Extreme care is exercised to ensure the quality of the brand to maintain its prestige. With experience in this field, ITOCHU has the expertise to modify merchandise to meet the demands of Japanese customers.

Perishable Food Distribution

ITOCHU is well established in Japan as a food wholesaler. Now, the Company is focusing its expertise on perishable food. The goal is to establish an all-temperature-accommodating distribution system and a powerful information network to cut inventories and costs while boosting sales. To do this, six subsidiaries were merged in October 1998 to form ITOCHU FRESH CORPORATION, a company that supplies a variety of perishable food to grocery chains in response to customer demand. The same month, group member KI Fresh Access, Inc. captured an exclusive contract to supply perishable goods to Japanese supermarket chains. KI Fresh Access is a new type of SCM-based wholesaler specializing in vegetables and fruit.

Wholesale



Insurance Brokerage Abroad

Under the Cosmos name, ITOCHU has been active in insurance broking overseas since the 1970s. The Cosmos group's stature grew steadily; Cosmos Jardine (Europe) Ltd. was the first Japanese-affiliated firm to be recognized as a broker at Lloyd's of London. Cosmos companies are also skilled in assuring the placement market in reinsurance transactions, as well as the development and underwriting of insurance products.

Entry in Japan's Nascent Insurance Broker Industry

Using experience gained overseas, ITOCHU took advantage of deregulation in Japan to establish ITOCHU Insurance Brokers Co., Ltd. in 1997. In addition to its core broking services, this company develops new insurance schemes based on market needs. The first product, home building completion insurance, has already been adopted by two major homebuilders in Japan.

ITOCHU Capital Securities

Formed in November 1998, this company carries on ITOCHU's tradition in the handling of overseas investment funds. ITOCHU Capital Securities, Ltd. gives the ITOCHU Group a single base for the development of funds, fund management and sales. In the field of mortgage securities, ITOCHU has a tie-up with the Clinton Group, Inc. of the U.S. In the future, the company may take on the securitization and sale of receivables and other ITOCHU Group assets.



Internet Businesses

With ITOCHU Techno-Science Corporation at the core, ITOCHU has been active in Internet as well as hardware businesses. This domain includes investments in Internet ventures in the U.S. and elsewhere to pave the way to offering products and services in Japan. One example is Excite, an Internet search engine company that ITOCHU has been operating in Japan since 1997.

Mobile Multimedia

ITOCHU is selling mobile phones of NTT DoCoMo, Japan's largest wireless communications company, in the expanding Japanese market. ITOCHU is one of the largest retailers of phones for this company and has recently started a service that supplies news to DoCoMo's new i-mode mobile multimedia phones.

Growing Ties with Retailers

ITOCHU became the leading shareholder of FamilyMart Co., Ltd. in 1998. The close relationship between the two companies has benefited FamilyMart by improving its procurement system, thereby increasing profits of both companies. ITOCHU has also been exploring overseas strategies, such as the joint development of a store in China with Japanese retailer Ito-Yokado Co., Ltd.

Retailing Famous Brands

Retailing is a recent strategic addition to ITOCHU's brand business. This further solidifies relationships with overseas partners and allows ITOCHU to take the lead in determining selling methods. ITOCHU is moving in a new direction by raising emphasis on second-tier brands to seek larger sales volumes. At the same time, ITOCHU will utilize its global network to widely market brand products abroad.

Retail



Food Chain Management

Moving in two directions, ITOCHU is pursuing vertical integration in individual product sectors and horizontally integrating companies involved in food distribution and sale. Data management is the key. Information from stores on purchasing trends is fed back to suppliers of raw materials. This permits the supply of merchandise that consumers demand at the right time and in the right quantity. The commercialization of nutritiously rich eggs from chickens fed with corn containing high oil content was in response to consumer demand. This created a new, value-added business in the egg market.

Consumer Financing

In June 1998, a subsidiary, ITOCHU Finance Corporation, invested in Credia Co., Ltd., a Japanese consumer finance company listed on the Tokyo Stock Exchange. This company provides a direct retail outlet for financial services.

← Market Data ← Consumption Trends ←



NORTH AMERICA'S ROLE IN THE "Global-2000" CAMPAIGN

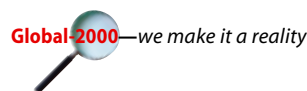
A linchpin in ITOCHU's operations in North America, one of the most important markets for the entire group, ITOCHU International Inc. achieved dramatic growth in 1998. Responsible for operations in the U.S. and Canada, this company is growing by pursuing a strategy of diversifying its business through domestic operations. As such, it is setting an example for the future development of the entire ITOCHU Group.

Much progress was made during the Global 98 business plan. ITOCHU International Inc. expanded the operations of existing subsidiaries while making many large investments in new ventures. In financial services, Copelco Financial Services Group Inc. continued to grow and Telerent Leasing Corporation acquired Middle Georgia Textile Co., Inc., which leases furniture to the lodging industry. Elsewhere, machinery maintenance specialist Enprotech Inc. became profitable following a restructuring program that started in 1995.

Regarding new investments, the company's General Merchandise Division acquired AM-Pac Tire Distributors Inc., a tire dealership, and PrimeSource Building Products, Inc., the number one distributor of nails and housing-related materials in the U.S. The Machinery Division purchased PE Technologies Inc., a steel mill maintenance firm, and the Chemical Division established a joint venture that produces and sells polypropylene. ITOCHU International Inc. remains dedicated to expanding its core trading business, but potential for earnings growth in this sector is limited. Consequently, the company is focusing on subsidiaries, which account for almost 80% of ITOCHU International Inc.'s profits.

Looking ahead to 2000 and beyond, ITOCHU International Inc. has reviewed its operations and formulated a management policy to support future development and diversification. The central objective is to become a highly profitable company firmly grounded on two core strengths: a solid financial position that includes a portfolio of quality assets and an efficient management system and structure. In line with this goal, ITOCHU International Inc. has established four goals:

- 1) Increase net income to US\$100 million in 2000
- 2) Adopt a strategic approach to sustain long-term growth
- 3) Improve the management infrastructure to meet global standards for excellence
- 4) Reaffirm its position as the flagship of the ITOCHU Group's overseas operations and become the most influential subsidiary in the ITOCHU Group in terms of contributions to earnings and assets



A number of concrete actions are planned to accomplish these goals. First of all, the operations of subsidiaries will be developed and expanded. At the same time, the company will restructure trading operations. These moves will be accompanied by the creation of a new vision for the company that extends to 2007. The final action entails steps to implement the Development Plan for Management Infrastructure, which aims to create a value-added corporate-level function that is supported by an efficient and experienced administrative division.

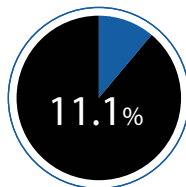
Review of Operations

TEXTILE COMPANY

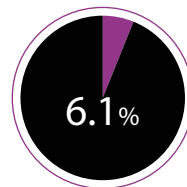
Results >> To bolster global raw materials operations, ITOCHU established Hong Kong-based ITOCHU Textile Materials (Asia) Ltd., thereby gaining a more powerful network for selling synthetic fibers, filament yarns and cotton yarns. In textiles, ITOCHU succeeded in creating closer ties among Japanese production bases and with apparel makers overseas. The goal is higher sales, backed by a powerful planning and production capability extending from fabrics through finished apparel. Brands are the key word in the fashion sector. The company concentrated on promoting prestigious foreign names not only in Japan but also in the rest of Asia and North America. Plans also include aggressively marketing Japanese brands.



Trading transactions



Gross trading profit



Identifiable assets

Global-2000 in Action >> Textiles were ITOCHU's very first business. Even today, ITOCHU ranks first among Japan's trading firms in textile sales and earnings. In line with Global-2000, the Textile Company plans to concentrate resources in four areas to maximize earnings and reaffirm ITOCHU's leading position in this sector.

- **Brand business:** Moving in two directions, the Textile Company will handle more premiere foreign brands while stepping up overseas marketing of apparel made by Japanese designers. Both strategies will be supported by a comprehensive production and distribution system.
- **Industrial materials and home furnishings:** More resources will be committed to those fields, which already account for more than half of total consumption of textiles and still exhibit the greatest growth potential in this company.
- **Global strategy:** Enhancing vertical business activities ranging from textiles to apparel goods, linking its organization globally and concentrating various information, the company will maximize both worldwide competitiveness and earnings.
- **New businesses:** The company will draw on its strengths to develop a comprehensive promotion of apparel, home furnishings, accessories and other products as well as new businesses such as electronic commerce.

Outlook >> To insulate itself from fluctuating market conditions, the Textile Company is lowering its breakeven point. Withdrawing from unprofitable trades and merging inefficient operations to gain economies of scale are two methods to achieve this goal. In April 1999, the Textile Company reformed its organization of 3 divisions and 16 departments into 7 operating units. This clarifies responsibilities for sales personnel and fosters a management structure better able to achieve good consolidated results. The company faces many challenges, notably from chronic oversupply and persistent weakness in consumption. Under Global-2000, the company will address these challenges to build an organization focused on long-term success and profitability.



Promoting BVLGARI in Asia

ITOCHU formed Bvk Corp. to launch retail sales of renowned BVLGARI merchandise in South Korea. The first BVLGARI store opened inside Lotte, a major department store in Seoul. ITOCHU plans to promote the BVLGARI brand in other Asian countries as well. In Japan, ITOCHU Group member Bulgari Japan Co., Ltd. operates a number of shops.

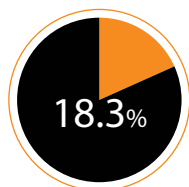


PLANT, AUTOMOBILE & INDUSTRIAL MACHINERY COMPANY

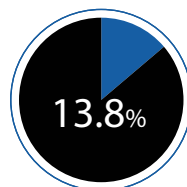


Results >> The plant sector undertook chemical plant construction projects in Central Asia, Russia and elsewhere, developed an offshore oilfield with PETROBRAS, Brazil's state-owned oil company, and formed a consortium to ship LNG to South Korea with SK Shipping of South Korea and three Japanese shipping companies. In automobiles, sales were strong in North America, the Middle East and Africa, and consolidation and realignment of overseas businesses improved efficiency. In industrial machinery, progress in developing new medical equipment was the highlight of the year.

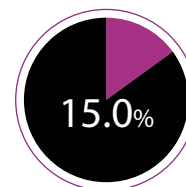
Outlook >> The automobile sector, which has the largest number of subsidiaries in this company, will upgrade its marketing capability through the possible acquisition of a mega-car dealer. Additionally, the company plans to add logistics and retailing functions to bring the company closer to its customers. In Japan, a more effective network that draws on expertise in retailing, leasing and other functions at subsidiaries will be created to generate higher returns. In industrial machinery, earnings from medical equipment will be raised and a major efficiency drive at ITOCHU Construction Machinery Co., Ltd. and other large domestic subsidiaries will be launched. In the plant sector, the goal will be maximizing consolidated earnings from domestic subsidiaries including ITOCHU Plant & Machinery Corporation and ITOCHU Energy Saving Systems Company.



Trading transactions



Gross trading profit



Identifiable assets

Global-2000 in Action >> The Plant, Automobile & Industrial Machinery Company's activities range from cars and stand-alone machinery to huge plants and power stations. During Global-2000 the following actions will be taken. In plant engineering, the company will focus on natural resource projects, such as natural gas and petroleum fields, and infrastructure projects in transportation, such as railway and airport facilities. In automobiles, major objectives are advancing into the retailing field and improving the performance of subsidiaries. In industrial machinery, the company is concentrating on the semiconductor and medical equipment businesses while raising the efficiency of subsidiaries through integration. The company is reducing its assets and debt, especially in Asia, to build a solid financial base.

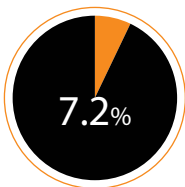


Large Order for Rolling Stock from Kowloon-Canton Railway

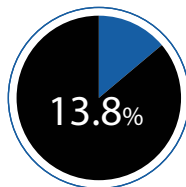
ITOCHU was part of the winning bid to supply 250 railroad cars to Hong Kong's Kowloon-Canton Railway Corporation (KCRC). The Kinki Sharyo Co., Ltd. and Kawasaki Heavy Industries, Ltd. joined ITOCHU in capturing this ¥50 billion contract, one of the largest rolling stock contracts awarded in Asia. Contributing to this feat was the ability to offer railroad cars incorporating sophisticated technology to reduce costs over the cars' entire life-cycle.

AEROSPACE, ELECTRONICS & MULTIMEDIA COMPANY

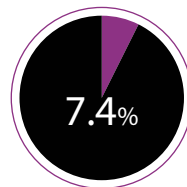
Results >> With the formation of SKY PerfecTV! through a merger of two companies and ITOCHU's participation in Star Channel, satellite and content businesses entered a new era. Steps to improve group-wide operations were taken to raise earnings in the network arena and more high-tech venture capital investments were made in this field. The aerospace sector focused on adapting to changes in the U.S. aerospace industry, seeking new growth opportunities and pursuing higher profitability in aircraft leasing. The mobile multimedia sector established Mobile Information Dynamics Co., Ltd. to transmit data to mobile terminals, one of the ways in which it is expanding mobile multimedia operations.



Trading transactions



Gross trading profit



Identifiable assets

Global-2000 in Action >> ITOCHU's current activities in the Aerospace, Electronics & Multimedia Company are geared to making it one of the preeminent names in these fields in the 21st century. This means investing in growing sectors while reducing or eliminating underperforming businesses. Initial public offerings of subsidiaries are another means of establishing a sound base for long-term profitability for the company. Four core growth businesses have been designated: networks, mobile multimedia, satellite broadcasting and content, and aerospace. The company will focus on increasing profitability in these businesses.

Outlook >> Internet and other network-related businesses will be expanded by drawing on ITOCHU Techno-Science Corporation and other ITOCHU Group resources. As part of this drive, the company will make investments in electronic commerce and other promising fields. ITOCHU was among the first companies in Japan that took advantage of deregulation in telecommunications and ventured into satellite and content businesses. Efforts are now under way to boost earnings by maximizing synergies between these two businesses. In aerospace, the company will use its long experience in this industry to increase its profits as the wave of mergers proceeds. In the mobile multimedia arena, the company will retain an aggressive posture.



SKY PerfecTV! Hits the Airwaves

In May 1998, ITOCHU affiliate PerfecTV! and JSkyB merged to form SKY PerfecTV!. This satellite broadcasting service signed up its one millionth

subscriber in December 1998. The new company has a total of 300 TV and radio channels, more than any other broadcasting company in the world. ITOCHU plans to form a tie-up with a broadcasting subsidiary to continue expanding its subscriber base.



ITOCHU Invests in Star Channel

ITOCHU, along with Warner Bros. and three other Hollywood studios, invested in Star Channel in June 1998. Soon afterward, three

channels of this movies-only content provider were added to the lineup of SKY PerfecTV!. These three channels quickly joined two ITOCHU ventures, Space Shower TV and the Cartoon Channel, as SKY PerfecTV!'s most popular offerings. Star Channel plans to participate in digital satellite broadcasting, which is scheduled to start in Japan late in 2000, and ITOCHU is expecting further growth in this field.

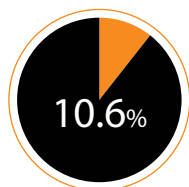


METALS & MINERALS COMPANY

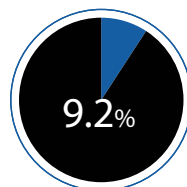


Results >> One of the world's largest steel-processing centers, which serves General Motors Corp., began its operations in the U.S. In Japan, an investment in a supplier of steel pipes and fixtures for gas and water created a sales network that covers the entire steel pipe market. Elsewhere, a container leasing company that started operations in the U.S. in 1997, Gateway Container International Ltd., performed well, while the Company started sales of a commodity futures fund that requires a low investment and targets individuals. In natural resource development, the company joined forces with Arch Coal, Inc., the second-largest U.S. coal producer, to bolster participation in large-scale natural resource developments outside Japan.

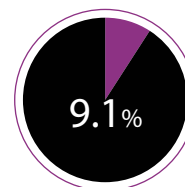
Outlook >> In natural resource development, returns on investments made in large-scale overseas iron ore and coal projects will be raised through cost-effective management while access to resource deposits with global competitive potential will be enhanced. Coal operations in Australia illustrate this strategy; during the past year, this company was able to increase annual production from 10 to 15 million tons while cutting costs, boosting earnings and bolstering the customer base. In iron products, the company plans to build a global sales network anchored by four regional bases. In the container leasing business, more sales offices will be opened in major cities overseas to allow sales teams to service individual customers anywhere in the world.



Trading transactions



Gross trading profit



Identifiable assets

Global-2000 in Action >> In line with ITOCHU's Global-2000 guidelines, the Metals & Minerals Company is restructuring and consolidating subsidiaries in Japan to improve returns on investments. Outside Japan, the company is moving rapidly to establish a stronger base for profitability, integrating businesses with those of other Japanese trading companies where such combinations are beneficial. Several areas are targeted for expansion. In natural resource development, substantial investments will be made to assemble a profitable portfolio, and retail-oriented sales will be increased, mainly through subsidiaries. In the steel pipe business, the company is using supply chain management to establish stronger ties with overseas customers and bring about other improvements.

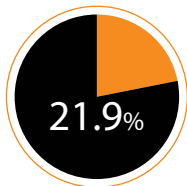


ITOCHU Supplies Pipes for the Caspian Sea Offshore Oilfield

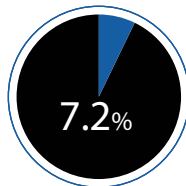
ITOCHU Oil Exploration Co., Ltd. was part of an international consortium that recently started oil production in the Caspian Sea. Oil is sent through a pipeline to a port in the Black Sea. ITOCHU has supplied pipes for the pipeline linking the platforms in the Black Sea to onshore facilities and has entered into a long-term contract to supply pipes for the offshore wells. In the Caspian port of Baku, Azerbaijan, ITOCHU established a company to provide pipe maintenance services.

ENERGY & CHEMICAL COMPANY

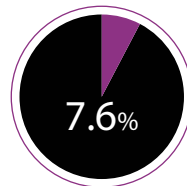
Results >> The Energy & Chemical Company focused on high-margin business sectors while integrating and restructuring unprofitable operations. In the energy sector, the Qatar and Oman LNG operations continued to perform well and commercial production of petroleum in Azerbaijan began. On Sakhalin Island in Russia, preparations are now under way for commercial oil and gas production. In Japan, a marketing campaign was initiated for automotive lubricating products of U.S.-based Pennzoil Products Co. In the chemical sector, the company increased sales of wrapping materials and other products for a group member, FamilyMart. Polypropylene resin production began in the U.S. and Turkmenistan, investment was made in a synthetic resin coloring agent manufacturer in the Philippines and construction of a phosphoric acid plant was started in China.



Trading transactions



Gross trading profit



Identifiable assets

Global-2000 in Action >> In the energy sector, the company plans to invest in natural resource development projects in Azerbaijan, Indonesia, the North Sea and elsewhere and establish direct business ties with oil-producing nations. In Japan, the company is taking advantage of deregulation and structural changes within the industry to boost sales capabilities by bringing group companies closer together. To bolster earnings over the long term, the company will pursue such strategic undertakings as Ras Laffan LNG, Oman LNG, ACG and Sakhalin-I projects.

In the chemical sector, the company will concentrate on natural resource development in inorganic chemicals, tap its expertise in synthetic resin processing, and reinforce investments in functional chemicals. In inorganic chemicals, the company will use logistical advantages, such as ownership of a sulfur transport vessel, to expand its business in sulfuric acid and fertilizers. In synthetic resins, group members C.I. KASEI Co., Ltd. and TAKIRON Co., Ltd. will provide a solid base for manufacturing processed goods, and business in wrapping materials for convenience stores and other retailers will be enhanced. In functional chemicals, the company is targeting specialty markets such as pharmaceutical intermediates, water processing chemicals, semiconductor processing chemicals and urethane.



Outlook >> The company is making several large-scale investments that will make a significant contribution to results. In the Sakhalin-I project in Russia, ITOCHU has formed a company with its partners to embark on a feasibility study for the construction of Japan's first international pipeline. Building on its momentum in automotive lubricating oils, ITOCHU established ITOCHU LubNet Inc. to further expand its business throughout Japan. In the U.S., ITOCHU and Arco Corp. have formed a partnership in the production and sales of polypropylene. The two companies are building a plant in California to be completed in late 2000. In China, a venture to manufacture and sell phosphoric acid is slated to commence operations in May 2000. In Australia, an ITOCHU venture will begin producing and selling silica-sands in late 1999.

Phosphoric Acid Plant to Meet Rising Fertilizer Demand in China

A company jointly formed by ITOCHU and a Chinese partner is constructing a plant that will produce phosphoric acid for use in manufacturing fertilizers. To be completed in the spring of 2000, the plant will have an annual output of about 90,000 tons.

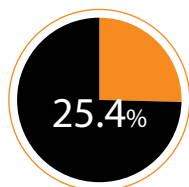


FOOD, FOREST PRODUCTS & GENERAL MERCHANDISE COMPANY

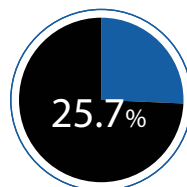


Results >> The Food, Forest Products & General Merchandise Company merged six perishable food sales and processing affiliates into ITOCHU FRESH CORPORATION to improve customer service and distribution efficiency. Additionally, KI Fresh Access, Inc. was formed to undertake the distribution of fresh vegetables and fruit on an outsourcing basis. The food sector also benefited from growing sales to FamilyMart. In forest products and general merchandise, this company launched an afforestation business in Australia with three partners. In addition, the production and sales of high-performance structural homebuilding materials was started in North America.

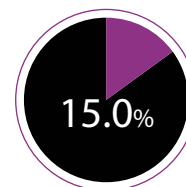
Outlook >> In food, the company regards retailing as a strategic field and is positioning FamilyMart at the center of its policy of shifting focus to the consumer. Another goal is to establish a computerized system that closely monitors consumer needs to revolutionize the distribution of perishable food. In resources, Quality Traders Inc. (QTI) focuses on business in value-added special usage crops developed to match customers' needs. Products include corn with high oil content and soy beans for *tofu* and *miso*. In each of the three core businesses in general merchandise—homebuilding materials, paper and pulp, and rubber and tires—subsidiaries will be realigned and their overseas operations expanded. At the same time, the newly formed Strategic New Business Development Dept. will spearhead the drive to emphasize retailing as a new source of earnings.



Trading transactions



Gross trading profit



Identifiable assets

Global-2000 in Action >> This company regards Global-2000 as a period in which it will promote the SIS (strategic integrated system) concept to improve profitability. The objective is to improve its financial position and increase consolidated earnings and free cash flow. In foods, the strategic fields of retailing and raw materials will be aggressively developed. Information from retailing will be fed back to support the development of raw-material resources with the aim of adding more value. In general merchandise, emphasis will be placed on homebuilding materials, paper and pulp, and rubber and tires. At the same time, the company will expand its business domain to include retailing in order to enlarge its operating base. The company plans to sharpen its competitive edge by enhancing its ability to function as a buyers agent in order to further enhance the sellers agent function that has been a traditional strength of trading companies.



QTI's Non-GM Crops
Taking into account the recent consumers' concerns about genetically modified

(GM) food, QTI has been engaged in the business of non-GM crops. QTI operates this business by cooperating with CGB Enterprise, Inc., which specializes in identity preserved (IP) transportation from producer to Japanese customers.

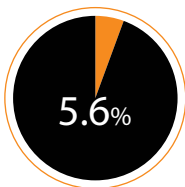


KI Fresh Access Established
In October 1998, ITOCHU established KI Fresh Access, Inc. together with Dole Japan,

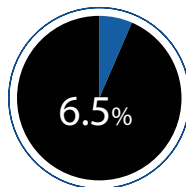
Ltd. and Kyowa Co., Ltd. of Japan. In addition to wholesale of vegetables and fruit, the new company will offer a new function with an advanced distribution system and an ECR (efficient consumer response) system through computer networking in the perishable food field.

FINANCE, REALTY, INSURANCE & LOGISTICS SERVICES COMPANY

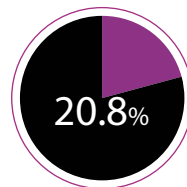
Results >> In construction and realty, a high-rise condominium with a commercial facility in Shiga Prefecture in Japan and the Makati Sky Plaza office building in the Philippines were among the large-scale projects successfully completed. Both are performing well. In financial services, the company took advantage of deregulation to enter several new businesses. A domestic securities subsidiary, ITOCHU Capital Securities, Ltd., was established and insurance brokerage services were expanded by using ITOCHU's overseas experience. In logistics, the company bolstered its shipping business by landing a contract to transport steaming coal for Japanese utilities and enlarged its third-party logistics business by taking on the operation of distribution centers.



Trading transactions



Gross trading profit



Identifiable assets

Global-2000 in Action >> The April 1, 1999 merger of the Construction & Realty Company and Finance, Insurance & Logistics Services Company was sparked by financial deregulation in Japan. The fusion of financial and insurance services with realty and construction services offers greater overall strength and more synergy. In financial services, the company plans to expand asset management services through financial vehicles in the U.S. and Japan. In construction and realty, financial knowledge and experience will be turned to real estate securitization. In insurance, the company will be expanding a non-life insurance broking network in North America, the rest of Asia and Japan. In logistics, the company will continue to make efforts to enlarge the supply chain management and third-party logistics businesses.

Outlook >> In financial services, the company plans to increase profits through diversification of its profit structure beyond profits gained from foreign exchange dealings, securities investments and loan transactions. Goals include building powerful asset management businesses, offering consumer financing services through ITOCHU Finance Corp. and the establishment of an online securities company, Japan Online Securities, Inc.

In the construction and realty field, the company is taking advantage of ITOCHU's diverse resources to capture BOT (build, operate and transfer) projects and build up fee-based businesses, securitization and other real estate activities.

In insurance, ITOCHU Insurance Brokers Co., Ltd. will expand its broking and consulting services using an agent and broker network to achieve nationwide coverage in Japan. Overseas, ITOCHU is gaining access to new markets through mergers and acquisitions.

In logistics, ITOCHU will continue to upgrade logistics development functions and improve profitability by tackling specific logistics areas through comprehensive operating contracts with convenience store companies and pharmaceuticals companies together with the provision of chilled distribution logistics.

Office Building Completed in Makati, Philippines

Makati Sky Plaza, which has 22 floors and about 40,000 square meters of space, has been completed in Manila. One of the very few Japanese-owned office buildings in the Philippines, the building has attracted many foreign tenants with its excellent security, maintenance and other services.

ITOCHU Enters the Securities Business

In November 1998, the company realized its long-standing goal of an integrated management and sales capability with the establishment of ITOCHU Capital Securities, Ltd. ITOCHU will continue to actively utilize the experience and knowledge gained from asset management operations and the planning, development and management of funds abroad.





Meeting the Needs of the Environment and the Community



<< ITOCHU WORKING WITH ENVIRONMENTAL ISSUES >>

Eco-Friendly Wrinkle-Free Apparel

The rapidly growing market for wrinkle-free dress shirts and other apparel has its drawbacks in that the manufacturing process normally requires chemicals that may not only harm the environment but also weaken and stiffen the fabrics. By using the new Japanese technology that avoids this problem, ITOCHU started sales of new wrinkle-free fabrics to retailers in Europe and North America.

Recycling of Automobile Parts

To find better ways to dispose of old cars, now a serious problem in Japan, ITOCHU formed the Automobile Recycling Research Center, focusing on businesses that facilitate the reuse of components and other materials. Future activities may expand to a recycling and disposal network.

Water and PCB Treatment

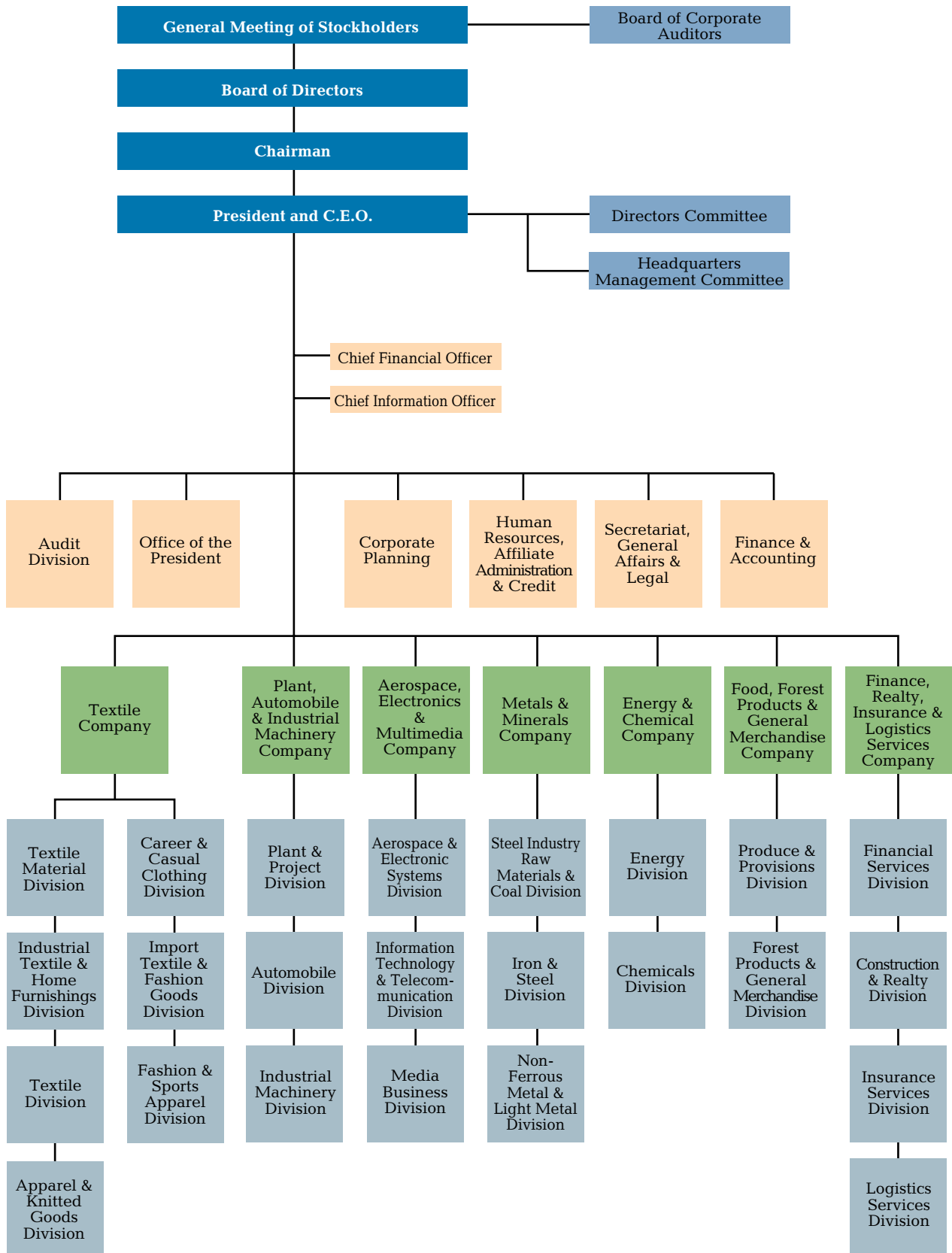
ITOCHU has long been active in the development, manufacturing and sales of water treatment chemicals to Europe, China, Indonesia and Brazil in collaboration with Kurita Water Industries Ltd. Recently, ITOCHU, together with a major Japanese chemical company, has been certified by the Ministry of International Trade and Industry for its PCB treatment technology; this technology will be put into practical use at electric utilities.

<< ITOCHU FOUNDATION >>

Established in 1974, the Foundation's objective is the sound upbringing of children. Its activities in the past year included:

- (1) Subsidies to children's libraries—During the year, about ¥30 million was donated to 34 domestic and 2 overseas libraries. Foundation awards for meritorious services to children's libraries were granted to two individuals.
- (2) Support for overseas studies in fields related to the sound upbringing of children—Japanese wishing to study abroad and foreign students studying in Japan are eligible for Foundation subsidies. A total of 16 students received assistance during the year.
- (3) Research activities—"Study on Mental Health Support for Children after Natural Disasters" was published and other subjects are being studied.
- (4) Provision of installations—The Tokyo Primary and Middle School Student Center has been used by more than 550,000 students since its inauguration in 1997. Its outdoor education activities have also been highly appreciated. Another theme is the training of volunteer leaders.

Corporate Organization





Major Domestic Subsidiaries and Associated Companies

TEXTILE COMPANY

ITOCHU Fashion System Co., Ltd.
Comprehensive consulting in the fashion industry

ITOCHU Textile Institute, Inc.
Research, developing and consulting

ITOCHU Modopal Co., Ltd.
Manufacturing and wholesale of apparel

Roy-ne Co., Ltd.
Manufacturing and wholesale of woven and knitted products

Marusan-Ai Corporation
Dyeing and finishing of polyester fabrics

CI Fabric Ltd.
Manufacturing and wholesale of fabrics for apparel and home furnishings

I-TEX International Inc.
Sale of garment materials

Revealle Co., Ltd.
Manufacturing and wholesale of panty hose

CI Myt Co., Ltd.
Manufacturing of apparel products in China

Liondor Co., Ltd.
Manufacturing and wholesale of men's apparel

Joi'x Corporation
Wholesale of men's apparel

Leilian Co., Ltd.
Retail of ladies' apparel

UNICO Corporation
Uniform manufacturing and wholesaling

Giorgio Armani Japan Co., Ltd.
Import and sale of Armani brand products

Selene Japan Co., Ltd.
Import and sale of Selene brand products

Dunhill Group Japan Ltd.
Import and sale of Dunhill brand products

Hunting World Japan Co., Ltd.
Import and sale of Hunting World brand products

Renoma Japan Corporation
Comprehensive control of renoma brand business

Ayaha Corporation
Manufacturing of tire cords, etc.

ITOCHU Intex Corporation
Wholesale of industrial textiles

ITOCHU Home Fashion Corp.
Manufacturing and wholesale of home furnishings

PLANT, AUTOMOBILE & INDUSTRIAL MACHINERY COMPANY

Kurita Water Industries Ltd.
Installation of water-processing equipment, manufacturing and wholesale of industrial chemicals

Century Leasing System, Inc.
Leasing of machinery and equipment

ITOCHU Plants & Machinery Corporation
Export and import of small/medium-sized plant and machinery

IMECS Co., Ltd.
Ship owning, ship management and accounting of foreign shipping companies

ITOCHU Energy Saving Systems Company
Development and sale of equipment and systems for energy conservation

Century Auto Leasing Co., Ltd.
Leasing of automobiles and equipment

ITOCHU Automobile Corporation
Export and import of motor vehicles and parts

ITOCHU Construction Machinery Co., Ltd.
Wholesale of construction machinery

ITOCHU Sanki Corp.
Wholesale of industrial machinery

ITOCHU Texmac Corporation
Wholesale of textile machinery

Century Medical, Inc.
Wholesale of medical equipment and materials

AEROSPACE, ELECTRONICS & MULTIMEDIA COMPANY

ITOCHU Airlease Corporation
Lease and finance of commercial aircraft

ITOCHU Aviation Co., Ltd.
Sale of aircraft parts and components

EXCITE Co., Ltd.
Internet directory, search engine and information provider

ITOCHU Mechatronics Corporation
Sale of NC machine tools and industrial robots

ITOCHU Techno-Science Corporation
Sale, system integration and services of computer networks and equipment

JAMCO Corporation
Maintenance of airplanes and manufacturing and sale of parts

Japan Satellite Systems Inc.
Ownership and management of telecommunications satellites and lease of transponders

Japan Digital Broadcasting Services Inc.
Multichannel direct-to-home service via communications satellites

Space Shower Network, Inc.
Provision of music programs

Japan Entertainment Network K.K.
Supplier of cartoon programs

Star Channel Inc.
Supplier of movie programs

TITUS Communications Corporation
Multiple systems operators

METALS & MINERALS COMPANY

ITOCHU Techno-Metal Co., Ltd.
Wholesale of steel products

ITOCHU Non-Ferrous Materials Co., Ltd.
Wholesale of non-ferrous metals and products

Yutaka Steel Industries Co., Ltd.
Processing of steel plates

ITOCHU Jewelique Co., Ltd.
Wholesale of jewelry

Tokyo Steel Center Co., Ltd.
Processing of steel sheets

Taiyo Can Manufacturing Co., Ltd.
Manufacturing of cans

Century Service Co., Ltd.
Warehousing and logistics for steel products

Aichi Steel Tube Drawing Co., Ltd.
Manufacturing of cold-drawn tube

Nikko Co., Ltd.
Wholesale of steel products

ITOCHU Futures Corporation
Broking of commodities futures

ITOCHU Gallery Co., Ltd.
Art business

ENERGY & CHEMICAL COMPANY

ITOCHU Oil Exploration Co., Ltd.
Exploration and production of hydrocarbon resources

World Energy Development Co., Ltd.
Development of oil, natural gas and other mineral resources

ITOCHU MARINE CO., LTD.
Charter and operation of tankers, sales of bunker fuel oil

ITOCHU Oil Terminal Co., Ltd.
Operation of oil storage facilities

ITOCHU Fuel Corporation
Sale of petroleum products

ITOCHU Petroleum Sales Co., Ltd.
Sale of petroleum products

ITOCHU LubNet Inc.
Sale of lubricants and auto-parts

NISSEKI ITOCHU Co., Ltd.
Sale of petroleum products

Laurel Corporation
Sale of petroleum products

ITOCHU Gas Co., Ltd.
Import and wholesale of LPG

OCL Corp.
Cask maintenance and leasing

ITOCHU ENERGY MARKETING CO., LTD.
Sale of petroleum products

TAKIRON Co., Ltd.
Manufacturing of plastic products including flat and corrugated sheets

C.I. KASEI Co., Ltd.
Manufacturing of PVC pipe and film and related materials

ITOCHU Sanplus Co., Ltd.
Manufacturing of polyethylene film and related materials

ITOCHU FINE CHEMICAL Corporation
Wholesale of fine chemicals and related raw materials

ITOCHU PLASTICS SYSTEM CO., LTD.
Development and wholesale of synthetic resins and related products

ITOCHU Techno-Chemical Inc.
Wholesale of superfine chemicals

ITOCHU Agri-System Co., Ltd.
Wholesale of agricultural materials and other products

DAILITE CO., LTD.
Manufacturing of rotary-molded plastic products

ITOCHU POLYMER INC.
Wholesale of resins and plastic products

The Japan Cee-Bee Chemical Co., Ltd.
Manufacturing and other operations for metal pretreatment chemicals

Video Channels Japan Inc.
Wholesale of video software

CI Chemical Service Co., Ltd.
Logistics services

Toho Natural Gas Company, Ltd.
Wholesale and mining of natural gas

FOOD, FOREST PRODUCTS & GENERAL MERCHANDISE COMPANY

Fuji Oil Co., Ltd.
Integrated manufacturer of cooking oil and soybean protein

ITOCHU Feed Mills Co., Ltd.
Manufacturing and wholesale of compound feeds

Iwate CI Farm Co., Ltd.
Production and wholesale of eggs

ITOCHU Sugar Co., Ltd.
Manufacturing and processing of sugar and by-products

ITOCHU Safo Co., Ltd.
Processing and sale of sugar and confectionery materials

ITOCHU FRESH CORPORATION
Processing and wholesale of perishables

Japan Foods Co., Ltd.
Production of soft drinks

ITOCHU SHOKUHIN Co., Ltd.
Wholesale and distribution of foods

Nishino Trading Co., Ltd.
Wholesale of foods and sundries

Yayoi Foods Co., Ltd.
Manufacturing of frozen prepared foods

Tower Bakery Co., Ltd.
Processing of dough and bread for SEVEN-ELEVEN convenience store chain

Family Corporation K.K.
Planning, distribution and supply of merchandise for FamilyMart convenience store chain

ITOCHU Kenzai Corp.
Wholesale of wood products and building materials

Sanko Plywood Co., Ltd.
Manufacturing of plywood

Daishin Plywood Co., Ltd.
Manufacturing of plywood

ITOCHU Forestry Corp.
Landscape architecture, greenery development and wastewater treatment systems

Everson McCoy Homes Inc.
Marketing of North American-type imported houses

Sanko Paper Manufacturing Co., Ltd.
Manufacturing of container boards and duplex boards

ITOCHU Pulp & Paper Corp.
Wholesale of paper, paperboards, packaging materials and wood pulp

Papix Co., Ltd.
Distribution and warehousing of paper

APP Japan Ltd.
Sole agent in Japan for APP, the largest paper manufacturing group in Indonesia

Naigai Ceramics Co., Ltd.
Manufacturing of processed refractory materials

ITOCHU Ceramics Corp.
Sale of processed refractory materials and products

PPG-CI Co., Ltd.
Wholesale of float-glass and insulating glass

ITOCHU Windows Co., Ltd.
Manufacturing of insulating glass

FINANCE, REALTY, INSURANCE & LOGISTICS SERVICES COMPANY

ITOCHU Finance Corporation
Loan business

ITOCHU Capital Securities, Ltd.
Securities business

ITOCHU Property Development, Ltd.
Development and sale of housing (apartments, condominiums and homes) and management of office buildings

ITOCHU Housing Co., Ltd.
Real estate agent and property consultant

Century 21 Real Estate of Japan Ltd.
Headquarters of real estate franchise system

PC Bridge Co., Ltd.
Design, production, marketing and building of prestressed concrete structures

Central Engineering & Construction Co., Ltd.
Design and construction of equipment for buildings and plants

NOMADE Ltd.
Planning, design, and execution of interior decoration and home furniture

ITOCHU Building Co., Ltd.
Ownership, rental, and brokerage operations for buildings and real estate

ITOPIA Home Co., Ltd.
Contracting execution, control and planning of construction works

Izu Ohito Development Co., Ltd.
Golf course management and related operations

ITOCHU Insurance Services Co., Ltd.
Insurance agency

ITOCHU Insurance Brokers Co., Ltd.
Insurance broking services

ITOCHU WAREHOUSE Co., Ltd.
Warehousing and transport

ITOCHU EXPRESS Co., Ltd.
International intermodal transport

New Japan Air Service Co., Ltd.
Air cargo agency

Naigai Travel Service Co., Ltd.
Travel agency

Superex Corporation
Logistics center

Coolex Corporation
Logistics center

OTHER OPERATIONS

SANKO CO., LTD.
Import, export and domestic sale of general merchandise

CRC Research Institute, Inc.
System integration, outsourcing and consulting services

Career Plaza Corporation
Executive placement, temporary employment, outsourcing, training seminars and outplacement

(As of July 1, 1999)



Major Overseas Subsidiaries and Associated Companies

TEXTILE COMPANY

ATR Wire & Cable Co., Inc. (U.S.A.)
Manufacturing of steel tire cords

ITOCHU Cotton Inc. (U.S.A.)
Exporting and wholesale of raw cotton

ITOCHU Wool Ltd. (Australia)
Purchasing and wholesale of wool and animal hair

ITOCHU Textile Materials (Asia) Ltd. (Hong Kong S.A.R., China)
Wholesale of chemical fibers, filament yarns and cotton yarns

Nortons S.p.A. (Italy)
Import and wholesale of apparel

Fashion Europe Inc. (U.S.A.)
Import and sale of Vivienne Westwood brand goods etc.

Bvk Corporation (Korea)
Import and sale of Bvlgari brand jewelry etc.

TMI Europe S.p.A. (Italy)
Weaving and dyeing of synthetic fabrics

PROMINENT USA INC. (U.S.A.)
Import, export and wholesale of garments and fabrics

Prominent (Europe) Ltd. (U.K.)
Import and wholesale of garments and fabrics

Prominent Apparel Ltd. (Hong Kong S.A.R., China)
Production control and wholesale of textile and apparel

Prominent Apparel (Shanghai) Ltd. (China)
Production control and wholesale of apparel

P.T. Unilon Textile Industries (Indonesia)
Manufacturing of cotton and cotton-blended yarn and fabrics

Navnitral Private Ltd. (India)
Manufacturing of cotton yarn and fabric

TTL Industries Public Co., Ltd. (Thailand)
Manufacturing of synthetic yarn and fabrics

Thai Shikibo Co., Ltd. (Thailand)
Manufacturing of cotton yarn

Shanghai SSI Auto Textile Inter Decoration Co., Ltd. (China)
Manufacturing of interiors and carpets for automobiles

Shanghai Encheng Fashion Co., Ltd. (China)
Manufacturing of ski wear

Hangzhou Asahikasei Textiles Co., Ltd. (China)
Knitting and dyeing of spandex

Hangzhou Fujitomi Silk Garments Co., Ltd. (China)
Manufacturing of garments

Tianjin Huada Garment Co., Ltd. (China)
Manufacturing of uniforms

Qingdao Tenghua Textiles Co., Ltd. (China)
Manufacturing of cotton yarn and knitted fabrics

Qingdao Tri-Gents Clothing Co., Ltd. (China)
Manufacturing of men's suit

PLANT, AUTOMOBILE & INDUSTRIAL MACHINERY COMPANY

PROMAX Automotive, Inc. (U.S.A.)
Third-party logistics services

Daihatsu Holland B.V. (Netherlands)
Wholesale of motor vehicles

Kawasaki Motors France S.A. (France)
Wholesale of motorcycles

Kawasaki Motors N.V. (Netherlands)
Wholesale of motorcycle parts

MCL Group Ltd. (U.K.)
Wholesale of motor vehicles

Mazda Austria G.m.b.H. (Austria)
Wholesale of motor vehicles

Magyar Suzuki Corporation (Hungary)
Manufacturing and sale of motor vehicles

AUTO AGRO C.A. (Venezuela)
Manufacturing and sale of motor vehicles

Auto Investment Inc. (U.S.A.)
Motor vehicle dealer

BENTON Finance LTD. (U.K.)
Motor vehicle financing to consumers

TEXMAC, Inc. (U.S.A.)
Wholesale of industrial machinery

Texmac Europe S.p.A. (Italy)
Wholesale of textile machinery

MA International, Inc. (U.S.A.)
Distribution of portable construction equipment

CIM Industrial Machinery, Inc. (U.S.A.)
Wholesale of forklift trucks and parts

BAURENT Baumaschinen Miet-Service G.m.b.H. (Germany)
Leasing of construction machinery

AEROSPACE, ELECTRONICS & MULTIMEDIA COMPANY

ITOCHU Airlease, Inc. (U.S.A.)
Lease and finance of commercial aircraft

ITOCHU Aviation, Inc. (U.S.A.)
Exporting aircraft and related parts

ITOCHU Communications GmbH (Germany)
Wholesale of receivers for satellite broadcasting and telecommunications equipment

ITOCHU Electronics Co., Ltd. (U.K.)
Wholesale of office-use printers and computer equipment

ITOCHU Technology, Inc. (U.S.A.)
Sourcing of computer hardware and software

METALS & MINERALS COMPANY

ITOCHU Project Management Corp. (U.S.A.)
Investment and supply in oil and gas industries

South Western Ohio Steel Inc. (U.S.A.)
Steel service center

Steel Coils, Inc. (U.S.A.)
Steel service center

ITOCHU Steel Asia Pte., Ltd. (Singapore)
International trade of steel products

Shanghai Huateng Metal Processing Co., Ltd. (China)
Processing of steel sheet

ITOCHU Stahl Europa Holding GmbH (Germany)
Wholesale of steel products

CI Minerals Australia Pty., Ltd. (Australia)
Investment in iron ore mining project

Mitsui-Itochu Iron Pty., Ltd. (Australia)
Investment in iron ore mining project

Kobe Alumina Associates (Australia) Pty., Ltd. (Australia)
Investment in manufacturing of alumina and mining of gold

United Coil Center, Ltd. (Thailand)
Processing of steel sheet

Northern Steel Centre Sdn. Bhd. (Malaysia)
Processing of steel sheet

ITOCHU Pipe & Tube Asia Pte. Ltd. (Singapore)
Trading and wholesale of steel pipe and tube

Gateway Container International Ltd. (Bermuda)
Leasing of sea freight containers

ITOCHU Coal International Inc. (U.S.A.)
Investment in coal mining and sales project

ITOCHU Coal Resources Australia Pty. Ltd. (Australia)
Investment in coal mining project

ENERGY & CHEMICAL COMPANY

CHEMOIL Corporation (U.S.A.)
Sale and distribution of bunker fuel

ITOCHU Petroleum Co. (U.K.), Ltd. (U.K.)
Wholesale of crude oil and petroleum products

ITOCHU Petroleum Co. (Singapore), Pte., Ltd. (Singapore)
Wholesale of crude oil and petroleum products

ITOCHU Petroleum Co. (Hong Kong), Ltd. (Hong Kong S.A.R., China)
Wholesale of crude oil and petroleum products

ITOCHU LNG Finance (Cayman) Ltd. (Cayman)
Financing

Tetra Chemicals (Singapore) Pte., Ltd. (Singapore)
Manufacturing of MTBE (octane booster)

Dong Woo Pure Chemicals Co., Ltd. (Korea)
Manufacturing of chemicals for semiconductors

ITOCHU Tekstil Kimya Ltd. Sti. (Turkey)
Wholesale of dyestuff and other chemicals

AEKYUNG PETROCHEMICAL CO., LTD. (Korea)
Manufacturing of phthalic anhydride, DOP, and other chemicals
 ITOCHU Plastics Pte., Ltd. (Singapore)
Wholesale of plastic resins
 Plastribution Limited (U.K.)
Wholesale of plastic resins
 Bonset America Corporation (U.S.A.)
Manufacturing of shrink-wrap
 Zeon France S.A. (France)
Wholesale of synthetic rubber
 TPFTZ C.I.C. Industrial Co., Ltd. (China)
Storage and packaging of polyethylene
 Hexa Color (Thailand) Ltd. (Thailand)
Plastics coloring compound operations

FOOD, FOREST PRODUCTS & GENERAL MERCHANDISE COMPANY

Asahi CSI Beer Holdings Limited (Hong Kong S.A.R., China)
Holding company for China beer project
 Palmaju Edible Oil Sdn. Bhd. (Malaysia)
Refining of palm oil
 Lianyungang Yunteng Oils & Fats Co., Ltd. (China)
Storage and transportation of oil and fats
 CGB Enterprise, Inc. (U.S.A.)
Handling of grain and operation of barges
 P.T. Aneka Tuna Indonesia (Indonesia)
Production and marketing of canned tuna
 Winner Food Products Ltd. (Hong Kong S.A.R., China)
Manufacturing and wholesale of processed foods
 CIPA Lumber Co., Ltd. (Canada)
Manufacturing of lumber and veneer
 Daiken Sarawak Sdn. Bhd. (Malaysia)
Manufacturing of MDF (medium-density fiberboard)
 Japan Brazil Paper and Pulp Resources Development Co., Ltd.—
 Cellulose Nipo-Brasileira S.A. (Brazil)
Manufacturing of papermaking pulp
 Albany Plantation Forest Company of Australia Pty. Ltd. (Australia)
Plantation of eucalyptus trees for papermaking
 Brisbane Plantation Forest Company of Australia Pty. Ltd. (Australia)
Plantation of eucalyptus trees for papermaking
 Shanghai Eastern Oji Packaging Co., Ltd. (China)
Manufacturing of paper bags
 Dalian Float Glass Co., Ltd. (China)
Manufacturing of float glass
 Thaitech Rubber Corp., Ltd. (Thailand)
Processing of natural rubber
 P.T. Aneka Bumi Pratama (Indonesia)
Processing of natural rubber
 C.I. Ceramics (Australia) Pty., Ltd. (Australia)
Sale of and services for refractory materials and products
 PrimeSource Building Products, Inc. (U.S.A.)
Wholesale of building materials
 AM-Pac Tire Distributors Inc. (U.S.A.)
Wholesale and retail of tires
 STAPLETON'S (TIRE SERVICES) LTD. (U.K.)
Wholesale and retail of tires

FINANCE, REALTY, INSURANCE & LOGISTICS SERVICES COMPANY

ITOCHU Finance (Europe) Plc. (U.K.)
Financial services
 ITOCHU Finance (Asia) Ltd. (Hong Kong S.A.R., China)
Financial services
 ITOCHU Capital & Investment (Asia) Ltd. (Singapore)
Financial services
 United Asia Finance Ltd. (Hong Kong S.A.R., China)
Financial services
 Allied Capital Asset Management, Ltd. (U.S.A.)
Financial services
 European Capital Co., Ltd. (U.K.)
Financial services

Beijing International Tennis Center Co., Ltd. (China)
Operation of tennis courts and rental residential projects
 P.T. Skyline Building (Indonesia)
Development and operation of office buildings and residential projects
 P.T. Maligi Permata Industrial Estate (Indonesia)
Development, sale and management of industrial parks
 Dalian Industrial Park Development and Administration Co., Ltd. (China)
Development, sale and management of industrial parks
 Saigon Sky Garden Co., Ltd. (Vietnam)
Development and operation of residential projects
 Luisita Industrial Park Corporation (Philippines)
Development, sale and management of industrial parks
 Makati Sky Plaza Inc. (Philippines)
Development and operation of office buildings
 Cosmos Services Co., Ltd. (Hong Kong S.A.R., China)
Consulting and broking of insurance and reinsurance
 Cosmos Jardine (Europe) Ltd. (U.K.)
Consulting and broking of insurance and reinsurance
 Cosmos Services (America) Inc. (U.S.A.)
Consulting and broking of insurance
 Gotoh Distribution Service, Inc. (U.S.A.)
Transport and warehousing
 Eurasia Sped Kft. (Hungary)
Transport and warehousing
 I & D Logistics Private Limited (India)
Transportation for automobiles
 Shanghai Nanhua International Logistics Co., Ltd. (China)
Logistics center
 Beijing Pacific Logistics Co., Ltd. (China)
Logistics center
 Guangzhou Global Logistics Corp. (China)
Warehousing and trucking
 SIG Logistics, Inc. (U.S.A.)
Distribution center for convenience stores
 Marine Investment Co., Pte. Ltd. (Singapore)
Dry bulk chartering/logistics projects

OTHER OPERATIONS

Copelco Financial Services Group Inc. (U.S.A.)
Leasing and financing
 Telerent Leasing Corp. (U.S.A.)
Distribution and leasing of televisions and air conditioners to hotels and hospitals
 Master-Halco, Inc. (U.S.A.)
Manufacturing of fencing materials
 Enprotech Corporation (U.S.A.)
Project management, industrial machinery design and repairs
 Game Latin Inc. (U.S.A.)
Wholesale of Nintendo products to Latin America

OVERSEAS TRADING SUBSIDIARIES

ITOCHU International Inc. (U.S.A.)
 ITOCHU Latin America S.A. (Panama)
 ITOCHU Brasil S.A. (Brazil)
 ITOCHU Europe PLC (U.K.)
 ITOCHU Deutschland GmbH (Germany)
 ITOCHU France S.A. (France)
 ITOCHU Italiana S.p.A. (Italy)
 ITOCHU Middle East E.C. (Bahrain)
 ITOCHU Australia Ltd. (Australia)
 ITOCHU Asia Pte., Ltd. (Singapore)
 ITOCHU Hong Kong Ltd. (Hong Kong S.A.R., China)
 ITOCHU (China) Holding Co., Ltd. (China)
 ITOCHU Taiwan Corporation (Taiwan)

(As of July 1, 1999)



Corporate Officers



Chairman
Minoru Murofushi



President and Chief Executive Officer
Uichiro Niwa



Executive Vice President
Jay W. Chai
Chairman of the Board, Chief Executive Officer, ITOCHU International Inc.; Chairman, ITOCHU Europe PLC



Executive Vice President
Hiroshi Sumie
President, Textile Company



Executive Vice President
Masahisa Naitoh
President, Energy & Chemical Company

SENIOR MANAGING DIRECTORS

- Tetsusaburo Shirai**
Secretariat, General Affairs & Legal
- Seizo Kano**
President, Plant, Automobile & Industrial Machinery Company
- Keiichi Wakabayashi**
President, Metals & Minerals Company
- Makoto Kato**
Executive Vice President, Textile Company
- Yushin Okazaki**
Human Resources, Affiliates Administration & Credit
- Sumitaka Fujita**
Chief Financial Officer, Finance & Accounting
- Junichi Taniyama**
President, Food, Forest Products & General Merchandise Company

MANAGING DIRECTORS

- Kakuichi Saegusa**
President and Chief Operating Officer, ITOCHU International Inc.;
President, ITOCHU Canada Ltd.
- Masaya Takei**
General Manager for Asia; Chairman, ITOCHU Asia Pte., Ltd.
- Takeshi Kondo**
Deputy Chief Administrative Officer, Corporate Planning
- Mitsuaki Fukuda**
President, Finance, Realty, Insurance & Logistics Services Company
- Yasuo Itsushima**
Executive Vice President, Metals & Minerals Company
- Kunio Tajiri**
Chief Administrative Officer, Corporate Planning;
Chief Information Officer
- Sumio Yanagidate**
Chief Operating Officer, Kansai District Operations
- Ryuzo Ogino**
Chief Operating Officer, Plant & Project Division
- Akira Yokota**
President, Aerospace, Electronics & Multimedia Company

DIRECTORS

- Kenji Harasawa**
General Manager of Nagoya Area
- Toshitaka Konishi**
Chief Executive for Europe; Managing Director, ITOCHU Europe PLC
- Motoyuki Katsube**
Chief Operating Officer, Automobile Division; Chief Information Officer, Plant, Automobile & Industrial Machinery Company
- Akio Shigetomi**
Chief Operating Officer, Steel Industry Raw Materials & Coal Division;
Chief Information Officer, Metals & Minerals Company
- Shigeji Ono**
General Manager, General Accounting Control Division

Yoshio Yoshino

Chief Operating Officer, Produce & Provisions Division; Chief Information Officer, Food, Forest Products & General Merchandise Company

Kiyomi Yamada

Executive Vice President, Energy & Chemical Company; Chief Operating Officer, Energy Division; General Manager, Utility Energy Department

Toshio Konishi

Textile Company

FULL-TIME CORPORATE AUDITORS

- Hiromichi Ohkawa**
- Nobuo Kobayashi**
- Takaaki Moroto**

CORPORATE AUDITORS

- Ryuhei Takashima**
- Toshiichi Hashimoto**

EXECUTIVE OFFICERS

- Motonori Toyota**
General Manager, ITOCHU Corporation Bangkok Branch;
President, ITOCHU (Thailand) Ltd.
- Takayuki Iwasaki**
Chief Operating Officer, Forest Products &
General Merchandise Division
- Sokichi Sasaki**
General Manager for China
- Hiromi Sugiyama**
Executive Vice President and Chief Information Officer, Aerospace,
Electronics & Multimedia Company
- Nobuyoshi Umeno**
Chief Financial Officer, Finance, Realty,
Insurance & Logistics Services Company
- Toshio Kimura**
Chief Operating Officer, Iron & Steel Division
- Masami Tsukamoto**
Chief Operating Officer, Financial Services Division; Chief Information Officer, Finance, Realty, Insurance & Logistics Services Company
- Tsutomu Miyakushi**
General Manager, Legal Division
- Junji Kinoh**
Textile Company
- Takeshi Tanimura**
Finance, Realty, Insurance & Logistics Services Company
- Nobukazu Okura**
Chief Operating Officer, Chemicals Division
- Yoichi Okuda**
General Manager, Office of the President
- Hiroyuki Shinoki**
Chief Operating Officer, Media Business Division

(As of July 1, 1999)

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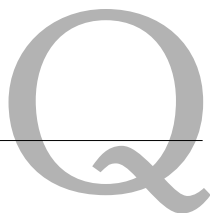
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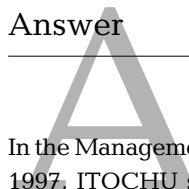
Question



What progress has ITOCHU made in reducing debt in the past fiscal year?

What actions are being taking to increase consolidated earnings?

Answer



In the Management Restructuring Strategy announced in November 1997, ITOCHU stated its intention to tackle debt reduction from many angles. Among the actions already undertaken are cuts in underperforming construction-related assets, the sale of securitized trade receivables, and cuts in assets and borrowings at financial subsidiaries. During the past fiscal year, this resulted in a ¥586.1 billion, or 11.2%, decrease in interest-bearing debt from ¥5,249.2 billion to ¥4,663.1 billion. The fall in short-term debt was especially notable. Short-term loans payable were down by ¥198.6 billion, or 15.8%, and commercial paper fell ¥363.1 billion, or 52.1%. Overall, debt reduction has thus proceeded largely as planned.

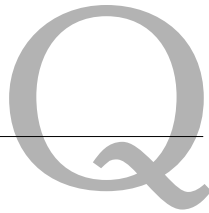
In the most recent fiscal year, 61.8% of ITOCHU's 1,027 consolidated subsidiaries were profitable. Thus, one of ITOCHU's most urgent tasks is raising operating returns at subsidiaries in order to raise earnings of the entire group, rather than expanding the number of companies and scale of operations as in the past. In accordance with the Global-2000 management plan, ITOCHU is conducting a thorough review of all consolidated subsidiary operations. Core companies with solid operating bases will be integrated as appropriate in order to maximize economies of scale and synergies. In consumer products, for instance, six food wholesaling companies were merged into a single company. By integrating distribution capabilities, the new company will play a central role in the supply chain management strategy of the food business. ITOCHU will thus take full advantage of the group's resources to offer competitive solution engineering services.

To this end, business activities of the entire group are being examined, and the Office of the President was formed to speed up decision-making. This office is also responsible for exploring business opportunities, including mergers and acquisitions.

Withdrawals are essential in raising the proportion of profitable subsidiaries, but making these decisions is often difficult. To ensure improvement in ITOCHU's consolidated performance as soon as possible, Global-2000 includes a "three-year rule," according to which any company with a loss for three straight years will basically be shut down or reorganized. This provides a clear guideline for exiting unprofitable businesses. ITOCHU's exit strategy also includes a plan for generating profits from capital gains. At present, IPOs of about ten subsidiaries are planned by March 2001. Naturally, they will be timed in accordance with market conditions.

Thus, through integrations, withdrawals and other measures, ITOCHU will eliminate one-third of its consolidated subsidiaries by the end of March 2001. Furthermore, ITOCHU is determined

Question



What improvements has ITOCHU made to its risk management system?

ITOCHU has listed reducing debt and raising its ROA as goals in Global-2000. What other financial indicators will the company emphasize?

Can you briefly explain ITOCHU's fiscal 1999 results?

Answer

to fulfill the Global-2000 target of making 80% of consolidated subsidiaries profitable.

Much progress was made during the Global 98 plan. Covenants were set, limits on assets in individual business fields were established and other steps taken. ITOCHU now has a reinforced risk management system, backed up by a comprehensive set of rules. However, ITOCHU will need to further reinforce the rules set in Global 98 as monitoring of risks involved in new businesses will become increasingly vital as it makes investments needed to succeed in the 21st century. Approval for such investments will be based on strict standards that include cost of capital and risk premiums. Returns will be constantly monitored after investments are made. On the other hand, all balance sheet management will be brought under the ALM (Asset and Liability Management) Committee.

Global-2000 was structured to build on initiatives that were taken up in Global 98. Among the goals are improving earning power, the financial position and consolidated performance, and creating a more efficient management system. Several targets have been established. In the fiscal year ending in March 2001, ITOCHU plans to raise net income to ¥40 billion and cut assets and interest-bearing debt to ¥6,200 billion and ¥3,900 billion, respectively. In particular, ITOCHU will strive to eliminate low-return operations, one of the main goals of Global-2000. This means aiming for an ROA of at least 0.6% and an ROE of 10% in the fiscal year ending in March 2001.

In general, last year's operating results were not bad. Gross trading profit increased for the fifth consecutive year, climbing by ¥45.0 billion. Selling, general and administrative expenses increased by ¥39.2 billion, or 7.8%, mostly due to special retirement payments resulting from the Management Restructuring Strategy. Despite this increase, trading income was up by ¥37.2 billion, or 167.5%, to ¥59.4 billion, irrefutable proof that ITOCHU's fundamental earning power remains strong. However, the result was a net loss of ¥34.0 billion for the year. The main reasons were a provision for receivables in Southeast Asia, write-downs of marketable securities and a decrease in deferred tax receivables due to a reduction in Japan's corporate tax rate. Poor results at equity-method associated companies due to the slumping economy were another negative factor. Regarding cash flows, operating activities provided ¥128.3 billion and investing activities provided ¥306.4 billion. The use of ¥418.2 billion of cash in financing activities, mainly to reduce interest-bearing debt, resulted in a net increase in cash of ¥12.5 billion.

Management's Discussion and Analysis of Operations

■ Performance by Operating Segments

Years ended March 31	Yen (billions)			U.S. dollars (millions)
	1999	1998	1997	1999
Total Trading Transactions				
Textile	¥ 1,386	1,783	1,867	\$ 11,493
Plant, Automobile & Industrial Machinery	2,537	2,654	2,608	21,045
Aerospace, Electronics & Multimedia	994	1,069	1,060	8,245
Metals & Minerals	1,477	1,625	1,552	12,254
Energy & Chemicals	3,046	3,982	3,596	25,268
Food, Forest Products & General Merchandise	3,535	3,506	3,548	29,328
Finance, Realty, Insurance & Logistics	782	820	964	6,483
Other	144	106	72	1,194
	¥13,901	15,545	15,267	\$115,310
Gross Trading Profit				
Textile	¥ 71	79	82	\$ 593
Plant, Automobile & Industrial Machinery	88	92	84	734
Aerospace, Electronics & Multimedia	89	65	59	737
Metals & Minerals	59	63	62	488
Energy & Chemicals	47	47	47	386
Food, Forest Products & General Merchandise	165	144	143	1,366
Finance, Realty, Insurance & Logistics	42	47	52	347
Other	81	60	38	672
	¥ 642	597	567	\$ 5,323

In accordance with the adoption of Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and related information" (SFAS 131) in the year ended March 31, 1999, transaction volumes and gross trading profits are expressed in terms of eight operating segments: Textile; Plant, Automobile & Industrial Machinery; Aerospace, Electronics & Multimedia; Metals & Minerals; Energy & Chemicals; Food, Forest Products & General Merchandise; Finance, Realty, Insurance & Logistics; and Other.

■ Overview

Economic conditions in Japan remained weak. Fiscal 1999, which ended on March 31, 1999, posted negative growth of over 2%, the first time Japan has experienced negative growth for two consecutive years in the postwar period. Private-sector demand remained sluggish with weak private consumption and stagnating housing and capital investment. Overseas, the U.S. economy continued to expand due to strong private-sector consumption, supported by rising stock prices and investments in housing and capital goods. In Europe, economic growth slowed but expansion continued leading up to the introduction of a single currency. On the other hand, economic conditions in China and other parts of Asia remained weak due to lingering effects of the 1997 currency and financial crises.

In this environment, the Company pursued several strategies as part of Global 98, a medium-term management plan launched in April 1997 to make ITOCHU a truly globally integrated corporation for the 21st century with a solid revenue and earnings base. Since November 1997, the Company has pursued a management restructuring strategy to improve its balance sheet. Global 98 was concluded in March 1999 and was immediately followed by Global 2000 including the following concrete goals for the fiscal year ending in March 2001:

- Reduce selling, general and administrative expenses to 70% of gross trading profits plus net interest expenses and dividends received, and raise consolidated net income to ¥40.0 billion.
- Reduce total assets and interest-bearing debt to improve the balance sheet. The concrete goals are a reduction in total assets to ¥6,200 billion and a reduction in interest-bearing debt to ¥3,900 billion.
- As a result, consolidated ROA is to rise to 0.6% and the ROE to 10.0%.

■ Total Trading Transactions

By Type

Total trading transactions decreased 10.6%, or ¥1,643.9 billion, to ¥13,900.6 billion (US\$115,310 million). The average U.S. dollar-Japanese yen exchange rate in fiscal 1999 was ¥128.46=U.S.\$1. The yen's value was thus 5.0%, or ¥6.43, lower than the average rate of ¥122.03 in fiscal 1998. The Company estimates that the yen's depreciation increased total trading transactions by approximately ¥320.0 billion (US\$2,655 million).

Domestic: Domestic trading transactions decreased 6.0% to ¥7,306.3 billion (US\$60,608 million). Produce and processed food transactions increased. However, lackluster consumer spending, a decline in public-works projects and a fall in housing investments caused decreases in transactions for textiles, construction and real estate, lumber, metals and machinery.

Imports: Import transactions were down 28.4% to ¥1,420.3 billion (US\$11,782 million) despite a contribution of about ¥60.0 billion (US\$498 million) from the weakening yen. Energy transactions declined because of lower prices for crude oil and lower volumes for crude oil, heavy oil and naphtha. In addition, corn transactions decreased because of lower market prices and transactions of paper and pulp were low due to weak domestic demand.

Exports: Export transactions were up 1.3% to ¥1,939.8 billion (US\$ 16,091 million), aided in part by the yen's depreciation, which added about ¥60.0 billion (US\$ 498 million). Automobiles also contributed to the export transaction growth.

Offshore: Offshore transactions decreased 16.5% to ¥ 3,234.1 billion (US\$26,828 million) despite approximately ¥200.0 billion (US\$ 1,659 million) contributed by the yen's depreciation. Oil products and wool, both hurt by drops in market prices, were the main reasons for this decline.

By Principal Products

Textile: Textile transactions decreased 22.3% to ¥1,385.5 billion (US\$11,493 million). Japan's lackluster economy brought about declines in sales volumes of apparel to major retailers and textile materials.

Plant, Automobile & Industrial Machinery: Transactions declined 4.4% to ¥2,537.0 billion (US\$21,045 million). The main reasons were a decrease in transactions for industrial machinery because of weakened domestic demand and the delivery of several large containerships during the prior fiscal year.

Aerospace, Electronics & Multimedia: Transactions decreased 7.0% to ¥994.0 billion (US\$8,245 million). Computer and computer related product transactions rose at several consolidated subsidiaries, but this was offset by a decline in transactions related to aviation.

Metals & Minerals: Transactions decreased 9.1% to ¥1,477.2 billion (US\$12,254 million) because of lower demand for steel and a decline in aluminum imports.

Energy & Chemicals: Transactions decreased 23.5% to ¥3,046.0 billion (US\$25,268 million). Energy transaction declined because of lower prices for crude oil and lower volumes for crude oil, heavy oil, naphtha and oil-related products. In addition chemical transactions decreased because of poor conditions in Japan.

Food, Forest Products & General Merchandise: Transactions increased 0.8% to ¥3,535.4 billion (US\$29,328 million). In forest products, slowing demand for housing in Japan led to a decrease in domestic transactions of lumber and lower domestic demand led to a decrease in imports of pulp and paper. However, these factors were offset by growth in produce and processed food transactions.

Finance, Realty, Insurance & Logistics and Other: Combined transaction volume was ¥925.4 billion (US\$7,677 million), about the same as in the prior fiscal year.

By Geographical Area

Japan: Transactions decreased 5.7% to ¥11,681.8 billion (US\$96,904 million) because of weak domestic demand and low consumer spending. Though selling, general and administrative expenses were higher because of expenses incurred from an early retirement incentive system, trading income improved by ¥22.2 billion to a loss of ¥13.1 billion (US\$109 million). In the previous fiscal year, trading income included losses in businesses related to construction and real estate due to the implementation of the management restructuring strategy.

North America: Transactions increased 13.1% to ¥634.3 billion (US\$5,262 million). This growth was due mainly to the strong U.S. economy, which was supported by strong consumer spending power and favorable capital and housing investment trends as stock prices rose. The growth in transactions led to a 31.1% increase in trading income to ¥51.8 billion (US\$430 million). Expansion at leasing subsidiaries also contributed to the improvement in trading income.

Europe: Transactions rose 2.4% to ¥383.8 billion (US\$3,184 million) and trading income rose 40.2% to ¥13.2 billion (US\$109 million). This was mainly the result of strength in automobile transactions, which were aided in part by the yen's depreciation in relation to several European currencies.

Asia: Transactions decreased 53.5% to ¥916.6 billion (US\$7,604 million) due to the decline in energy transactions. However, trading income improved 86.7% to ¥2.2 billion (US\$18 million) because foreign exchange revaluation losses resulting from the steep drop in several Asian currencies were included in the previous year's Asian trading income.

Other: Transactions increased 10.5% to ¥284.1 billion (US\$2,356 million) due to higher automobile transactions. Trading income decreased by ¥2.5 billion to ¥5.1 billion (US\$42 million) because of the stagnation of the economic condition in Central and South America.

■ Income and Expenses

Gross trading profit increased by ¥45.0 billion to ¥641.7 billion (US\$5,323 million) and rose by 0.78 percentage points to 4.62% of total trading transactions. Gross trading profit was lower in Textile, Plant, Automobile & Industrial Machinery, Metals & Minerals, Energy & Chemicals and Finance, Realty, Insurance & Logistics than in the previous fiscal year. All declines are a reflection of weakness in consumer spending, housing construction and public-works projects in Japan. Increases were posted by Aerospace, Electronics & Multimedia, Food, Forest Products & General Merchandise and Other.

Selling, general & administrative expenses were up by ¥39.2 billion to ¥544.4 billion (US\$4,516 million). Expenses rose at computer-related subsidiaries and overseas leasing companies along with the scale of their operations. Special retirement payments and yen's depreciation also contributed to this increase.

Provision for doubtful accounts decreased by ¥31.3 billion to ¥38.0 billion (US\$315 million). These reserves are mostly for receivables in Asian countries and for the receivables of overseas leasing companies.

Trading income increased by ¥37.2 billion to ¥59.4 billion (US\$492 million). Growth in selling, general and administrative expenses was offset by the increase in the gross trading profit.

Net interest expenses increased by ¥13.8 billion to ¥69.2 billion (US\$574 million). Although both yen and U.S. dollar interest rates were lower than in the previous fiscal year, debt at overseas leasing subsidiaries grew.

Profit on disposal of investments and marketable securities, net of write-downs, increased by ¥22.8 billion to ¥34.7 billion (US\$288 million). Gains on sales of securities, including profits on a large sale of Time Warner stock amounting to ¥86.7 billion (US\$719 million) were the main reason for this increase. This category also includes valuation losses on stock in The Long-Term Credit Bank of Japan and KIA Motors. However, these losses were offset by the profits on sales of Time Warner stock.

Profit on property and equipment—net improved by ¥85.4 billion to a profit of ¥6.0 billion (US\$49 million). This was mainly attributable to the inclusion in the previous fiscal year of losses resulting from the Management Restructuring Strategy.

Income before income taxes and equity in losses was ¥33.5 billion (US\$278 million), an improvement of ¥121.4 billion compared with the loss posted in fiscal 1998.

Income taxes increased by ¥80.1 billion to ¥65.3 billion (US\$ 542 million). The main reason for this increase was that deferred income taxes receivable declined along with the reduction in the Japanese effective tax rate from 48% to 42%. Another reason was the timing difference related to the indirect tax credit for dividends received from foreign subsidiaries. The Company's inability to recognize tax credits for losses at unprofitable subsidiaries further contributed to the increase in income taxes.

Equity in losses of associated companies decreased by ¥16.5 billion to a loss of ¥2.3 billion (US\$19 million). This improvement is the result of fiscal 1998 foreign exchange revaluation losses on foreign currency-denominated loans in Asia, mostly in Metals & Minerals and Finance, Realty, Insurance & Logistics.

Net loss in fiscal 1999 was ¥34.1 billion (US\$283 million) compared with a net loss of ¥91.9 billion in fiscal 1998 due to the above factors.

■ Performance of Consolidated Subsidiaries and Associated Companies

For the fiscal year that ended on March 31, 1999, the Company's consolidated results include 695 consolidated subsidiaries, 367 domestic and 328 foreign, and 332 equity-method associated companies, 127 domestic and 205 foreign, for total 1,027 companies. The following table presents information regarding the profitability of these companies.

Share of Profitable Group Companies

	1999			1998		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Profitable companies	294	341	635	313	363	676
Group companies	494	533	1,027	522	570	1,092
Profitable ratio	59.5%	64.0%	61.8%	60.0%	63.7%	61.9%

Major Profitable Group Companies

	*Net Income Yen (billions)	
	1999	1998
Consolidated Subsidiaries		
ITOCHU International Inc.	¥26.4	7.2
(U.S. Subsidiary)		
ITOCHU Techno-Science Corporation	3.2	2.6
(Sales, system integration and service of computer networks and equipment)		
CI Minerals Australia Pty., Ltd.	2.3	1.2
(Investment in iron ore mining project)		
ITOCHU SHOKUHIN Co., Ltd.	1.5	1.3
(Wholesale and distribution of foods)		
Century Medical, Inc.	1.0	0.7
(Wholesale of medical equipment and materials)		
Equity-Method Associated Companies		
FamilyMart Co., Ltd.	¥ 1.6	0.0
(Convenience store chain)		
Japan Satellite Systems Inc.	1.1	0.8
(Ownership and management of telecommunications satellites and lease of transponders)		
ITOCHU Fuel Corporation	0.9	0.7
(Sale of petroleum products)		
JAMCO Corporation	0.5	0.2
(Maintenance of airplanes and manufacturing and sale of parts)		

Major Unprofitable Group Companies

	*Net Loss Yen (billions)	
	1999	1998
Consolidated Subsidiaries		
ITOCHU Steel Asia Pte., Ltd.	¥(1.7)	(0.1)
(International trade of steel products)		
ITOCHU Texmac Corporation	(1.3)	(0.2)
(Wholesale of textile machinery)		
ITOCHU Windows Co., Ltd.	(0.8)	(0.4)
(Manufacturing of insulating glass)		
ITOCHU Europe PLC	(0.7)	(0.9)
(European subsidiaries)		
ITOCHU Hong Kong Ltd.	(0.7)	1.2
(Hong Kong subsidiary)		
Equity-Method Associated Company		
United Coil Center, LTD.	¥(0.5)	(1.1)
(Processing of steel sheet)		

* The above figures represent the group companies' share of the net income.

■ Financial Position

Total Assets

At the balance sheet date, total assets were ¥6,733.0 billion (US\$55,853 million), ¥798.1 billion less than one year earlier. Despite an increase in cash and time deposit to increase liquidity, total assets declined because the assets of financial businesses were reduced, Time Warner stock was sold, trade receivables were securitized and sold, and loan receivables decreased. These actions were the result of the Company's drive to reduce underperforming assets, one of the goals of the ongoing management restructuring strategy.

Interest-bearing Debt

At the balance sheet date, consolidated interest-bearing debt totaled ¥4,663.1 billion (US\$38,682 million), a decrease of ¥586.1 billion. The main reason for this decrease was the reduction in loans payable due to the decline in total assets.

A breakdown of interest-bearing debt is as follows:

	Yen (billions)		U.S.dollars (millions)
	1999	1998	1999
Interest-bearing Debt			
Short-term loans payable	¥1,055.9	1,254.5	\$ 8,759
Commercial paper	334.3	697.4	2,773
Current installments of long-term debt	422.9	503.2	3,508
Current installments of debentures	38.8	109.9	322
Short-term total	1,851.9	2,565.0	15,362
Long-term loans payable	2,074.4	2,042.6	17,208
Debentures	736.8	608.1	6,112
Other	0.0	33.5	0
Long-term total	2,811.2	2,684.2	23,320
Total interest-bearing debt	¥4,663.1	5,249.2	\$38,682

Loans and Receivables in Asia

As of March 31, 1999, the Company's investments, loans, guarantees and trade receivables in the five major Southeast Asian countries amounted to ¥419.1 billion (US\$ 3,477 million). The net exposure, after excluding hedges covering ¥188.5 billion (US\$1,564 million) of this amount, was ¥230.6 billion (US\$1,913 million).

Due to the prolonged economic downturn in this region, some customers, mainly in Indonesia, have not been able to pay amounts due on time. After taking into account the financial condition of these customers and applicable collateral, the Company added ¥19.2 billion (US\$159 million) to the allowance for doubtful receivables with regard to Asian customers during fiscal 1999. The Company plans to continue to set aside such allowances as necessary with regard to delinquent payments in accordance with the status of each customer.

In some Asian countries, the economic decline appears to have been halted thanks to continuous efforts with regard to structural reforms backed by assistance from the IMF, industrialized countries and other sources. Nevertheless, it may be premature to adopt a completely optimistic outlook. Due to this situation, the Company plans to retain a cautious stance in this region while waiting for concrete signs of an economic recovery. Nevertheless, the Company continues to regard Southeast Asia as an important region over the medium and long terms.

Investments, Loans, Guarantees and Trade Receivables to Five Asian Countries

	Yen (billions)						
	Investments	Loans	Guarantees	Trade receivables	Total	Hedged amount	Net
Thailand	¥19.8	5.9	29.3	17.0	72.0	10.8	61.2
Malaysia	10.1	1.3	2.6	13.6	27.6	11.6	16.0
Indonesia	31.1	103.8	43.4	28.3	206.6	94.4	112.2
Philippines	4.6	5.5	12.5	1.9	24.5	2.6	21.9
South Korea	2.9	12.4	0	73.1	88.4	69.1	19.3
Total	¥68.5	128.9	87.8	133.9	419.1	188.5	230.6

Notes:

1. The above figures are the sum of parent company exposure and the exposure of domestic and overseas investment and operating subsidiaries.
2. Domestic and overseas investment companies include some investment companies that are not consolidated subsidiaries.
3. Hedged amounts represent amounts covered by trade insurance, the portion of which other companies have assumed responsibility for, and transactions secured by oil and gas export payments. Hedged amounts do not include buildings, machinery and other collateral.
4. The above figures are net of a ¥23.1 billion provision for doubtful receivables.

■ Cash Flows

Net cash provided by operating activities totaled ¥128.3 billion (US\$1,064 million). Changes in assets and liabilities provided ¥102.0 billion (US\$846 million) in cash. Additionally, net loss, depreciation and amortization, the provision for doubtful accounts and other noncash gains and charges provided cash amounting to ¥26.3 billion (US\$218 million).

In investing activities, proceeds from sale of property and equipment and other investments, collections of other noncurrent receivables, and a net decrease in marketable securities combined to provide cash of ¥934.5 billion (US\$7,752 million). On the other hand, payments for purchase of property and equipment and other investments, a net increase in time deposits and similar instruments, a net increase in investments in and advances to associated companies, and the origination of other noncurrent receivables used ¥628.1 billion (US\$5,210 million). As a result, net cash provided by investing activities amounted to ¥306.4 billion (US\$2,542 million).

The Company and its subsidiaries procured ¥691.9 billion (US\$5,739 million) through the proceeds from long-term debt and a net decrease in short-term debt, and used ¥1,110.1 billion (US\$9,208 million) to repay long-term debt and for cash dividends. As a result, net cash used in financing activities amounted to ¥418.2 billion (US\$3,469 million).

The cash balance at year-end, therefore, was ¥168.1 billion (US\$1,395 million), an increase of ¥12.5 billion from the previous year-end. Cash paid during the year for interest and income taxes totaled ¥159.3 billion (US\$1,322 million) and ¥29.3 billion (US\$243 million), respectively.

■ Year 2000 Compliance (Y2K Problem)*Situation*

The Company and its subsidiaries recognize the Y2K Problem as an important management subject. The Committee for Year 2000 Compliance is currently overseeing the implementation of the necessary measures throughout the ITOCHU Group.

Measures to ensure Y2K compliance were enacted when the Company's information system was updated to a dispersive system in 1993. In March 1999, the Company confirmed that no problem would occur. The Company also confirmed that no Y2K problem existed in its own machinery and equipment. The Company is currently testing and confirming that the Electronic Data Interchange system functions properly.

Regarding the Y2K risks of customer, affiliates, and the merchandise and services in which the Company deals, each division company implements programs to avoid those risks and ensure that no problems are caused at customers or their businesses. Through cooperation with customers and vendors, special care is exercised regarding the merchandise, including microprocessors, of Plant, Automobile & Industrial Machinery Company and the Aerospace, Electronics & Multimedia Company to implement programs to avoid Y2K risks.

Regarding domestic and overseas affiliated companies, each division company or the overseas subsidiaries which supervise those affiliated companies are doing their best to avoid Y2K risks and verify their status every month.

Expenses

ITOCHU Corporation invested ¥0.8 billion (US\$7 million) for Y2K compliance measures for computer systems. These measures were initiated in 1993 when the information system was updated to a dispersive system. Since that time, ITOCHU Corporation has invested ¥7.3 billion (US\$61 million) to develop several major systems, including an accounting system and a business support system.

CRC Research Institute, Inc. is responsible for Y2K-related system repairs and reconstruction. Personnel expenses at this company are not included in the amount stated above.

Risk Management Plan

The major Y2K risk management plan was completed by the end of March 1999 and each division company is now concentrating on further improving its readiness with regard to certain risks. The Company's risk management plan has four key elements:

- Y2K risk reduction
- Continuation of business if Y2K problems occur
- Restoration of any Y2K problems
- A risk management system

■ 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.

Consolidated Balance Sheets

ITOCHU Corporation and Subsidiaries
March 31, 1999 and 1998

Assets	Yen (millions)		U.S. dollars (thousands) (note 1)
	1999	1998	1999
Current assets:			
Cash (note 7)	¥ 168,123	155,579	\$ 1,394,633
Time deposits (note 7)	309,728	215,628	2,569,291
Marketable securities (notes 2,3 and 7)	298,412	497,129	2,475,421
Trade receivables (note 7):			
Notes	390,400	552,391	3,238,490
Accounts	1,304,324	1,405,285	10,819,776
Allowance for doubtful receivables	(31,998)	(33,423)	(265,433)
Deferred income	(21,259)	(21,037)	(176,350)
Net trade receivables	1,641,467	1,903,216	13,616,483
Due from associated companies	91,477	101,682	758,830
Inventories (notes 2 and 7)	636,063	680,089	5,276,342
Advances to suppliers	69,858	66,856	579,494
Deposits and other receivables	343,137	473,714	2,846,429
Deferred income taxes (notes 2 and 12)	20,908	24,349	173,438
Prepaid expenses and other current assets	20,224	26,101	167,764
Total current assets	3,599,397	4,144,343	29,858,125
Investments and noncurrent receivables:			
Investments in and advances to associated companies (note 5)	516,614	508,981	4,285,475
Other investments (notes 2, 3, 4, 7 and 8)	615,386	844,507	5,104,819
Other noncurrent receivables (note 7)	1,148,265	1,265,648	9,525,218
Allowance for doubtful items (notes 2 and 6)	(213,230)	(180,842)	(1,768,810)
Deferred income	(5,676)	(7,488)	(47,084)
Net investments and noncurrent receivables	2,061,359	2,430,806	17,099,618
Property and equipment, at cost (notes 2,7 and 8):			
Land	364,240	272,004	3,021,485
Buildings	329,190	326,221	2,730,734
Machinery and equipment	297,887	312,167	2,471,066
Furniture and fixtures	52,789	48,565	437,901
Construction in progress	52,755	49,205	437,619
	1,096,861	1,008,162	9,098,805
Less accumulated depreciation	279,268	269,600	2,316,615
Net property and equipment	817,593	738,562	6,782,190
Deferred income taxes-noncurrent (notes 2 and 12)	133,855	104,937	1,110,369
Other assets and deferred charges	120,822	112,477	1,002,257
Total	¥6,733,026	7,531,125	\$ 55,852,559

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Stockholders' Equity	Yen (millions)		U.S. dollars (thousands) (note 1)
	1999	1998	1999
Current liabilities:			
Short-term debt (notes 7 and 9)	¥1,390,206	1,951,851	\$ 11,532,194
Current installments of long-term debt (notes 7 and 9) . . .	461,683	613,107	3,829,805
Trade payables:			
Notes and acceptances	341,700	420,394	2,834,509
Accounts	816,266	907,006	6,771,182
Total trade payables	1,157,966	1,327,400	9,605,691
Due to associated companies	38,216	38,944	317,014
Income taxes payable (note 12)	27,203	10,663	225,657
Accrued expenses	117,491	141,725	974,625
Deferred income taxes (notes 2 and 12)	2,211	121	18,341
Advances and deposits received	208,837	179,392	1,732,368
Total current liabilities	3,403,813	4,263,203	28,235,695
Long-term debt, excluding current installments (notes 7, 9 and 19)	2,861,338	2,738,901	23,735,695
Accrued retirement and severance benefits (note 10)	112,033	60,427	929,349
Deferred income taxes-noncurrent (notes 2 and 12)	12,489	12,053	103,600
Minority interests	37,839	44,021	313,886
Stockholders' equity:			
Common stock of ¥50 par value:			
Authorized 3,000,000,000 shares; issued and outstanding 1,425,349,874 shares	174,712	174,712	1,449,291
Capital surplus	223,184	223,291	1,851,381
Legal reserve (note 14)	20,098	19,304	166,719
Retained earnings (deficit) (note 14)	(1,829)	37,222	(15,172)
Accumulated other comprehensive income (loss) (notes 2, 3, 10 and 15)	(110,651)	(42,009)	(917,885)
Total stockholders' equity	305,514	412,520	2,534,334
Contingent liabilities (note 18)			
Total	¥6,733,026	7,531,125	\$ 55,852,559

Consolidated Statements of Stockholders' Equity

ITOCHU Corporation and Subsidiaries
Years ended March 31, 1999 and 1998

	Yen (millions)		U.S. dollars (thousands) (note 1)
	1999	1998	1999
Common stock:			
Balance at beginning of year	¥ 174,712	174,712	\$ 1,449,291
Balance at end of year	¥ 174,712	174,712	\$ 1,449,291
Capital surplus:			
Balance at beginning of year	¥ 223,291	233,727	\$ 1,852,269
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	(107)	(10,436)	(888)
Balance at end of year	¥ 223,184	223,291	\$ 1,851,381
Legal reserve:			
Balance at beginning of year	¥ 19,304	18,250	\$ 160,133
Transfer from retained earnings (deficit)	841	1,140	6,976
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	(47)	(86)	(390)
Balance at end of year (note 14)	¥ 20,098	19,304	\$ 166,719
Retained earnings (deficit):			
Balance at beginning of year	¥ 37,222	128,323	\$ 308,768
Net loss	(34,088)	(91,931)	(282,771)
Cash dividends	(4,276)	(8,552)	(35,471)
Transfer to legal reserve	(841)	(1,140)	(6,976)
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	154	10,522	1,278
Balance at end of year (note 14)	¥ (1,829)	37,222	\$ (15,172)
Accumulated other comprehensive income (loss) (notes 2, 3, 10 and 15):			
Balance at beginning of year	¥ (42,009)	1,683	\$ (348,478)
Other comprehensive loss	(68,642)	(43,692)	(569,407)
Balance at end of year	¥ (110,651)	(42,009)	\$ (917,885)
Total	¥ 305,514	412,520	\$ 2,534,334
Comprehensive loss:			
Net loss	¥ (34,088)	(91,931)	\$ (282,771)
Other comprehensive loss (note 15)	(68,642)	(43,692)	(569,407)
Total	¥ (102,730)	(135,623)	\$ (852,178)

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

ITOCHU Corporation and Subsidiaries
March 31, 1999 and 1998

1. BASIS OF FINANCIAL STATEMENT PRESENTATION AND TRANSLATION

The Company and its subsidiaries in Japan maintain their books of account in conformity with financial accounting standards of Japan. The consolidated financial statements presented herein are expressed in yen and have been prepared in a manner and reflect the adjustments which are necessary to have them conform with United States generally accepted accounting principles.

Supplementary, however, the Japanese yen amounts as

of and for the year ended March 31, 1999 have also been translated into United States dollar amounts, solely for the convenience of the reader, at the rate of ¥120.55=U.S.\$1, the exchange rate prevailing on March 31, 1999. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars at that rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

ITOCHU Corporation is one of the major Japanese "sogo shosha," or general trading companies.

As a "Globally Integrated Corporation," ITOCHU 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. In view of total trading transactions, ITOCHU ranks as one of the top enterprises in the world. Approximately 53% of the Company's total trading transactions in 1999 amounting to ¥13,901 billion (\$115,310 million), were generated through Japanese domestic trade, with 10% in imports to Japan, 14% in exports from Japan, and 23% in offshore trade. By principal products, total trading transactions were distributed as follows: textile-10%, plant, automobile & industrial machinery-18%, aerospace, electronics & multimedia-7%, metals & minerals-11%, energy & chemicals-22%, food, forest products & general merchandise-25%, and realty & other-7%.

The Company and its subsidiaries not only operate worldwide with trading in various commodities but also provide various services, such as financing arrangements for customers and suppliers, planning and coordinating industrial projects, and gathering extensive information. To provide these services, ITOCHU 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, functioning as an organizer, investing in the growing high-technology and multimedia fields, and promoting of environmental protection.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its foreign and domestic subsidiaries. The accounts of the subsidiaries are included on the basis of their respective fiscal periods, which end mainly on or near March 31.

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. 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 amortized over periods not exceeding 40 years.

Trading Transactions

The Company and certain 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 shown in the consolidated statements of income consist of net 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.

Gross trading profit represents gross margins with respect to transactions as principal and commissions with respect to transactions as agent.

Real Estate Transactions

Revenues from real estate sales are generally recorded at the time of sale.

Real estate is classified under other investments during the development period and is transferred to inventories at the time it becomes ready for sale.

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.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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 income in the period that includes the enactment date.

Marketable Securities and Other Investments

During fiscal 1999, the Company and its subsidiaries adopted retroactively to April 1, 1994, Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). SFAS 115 requires that certain investments in debt and equity securities be classified as held-to-maturity, trading and available-for-sale. Those securities classified as held-to-maturity would be reported at amortized cost. Unrealized holding gains and losses for trading securities shall be included in earnings. Unrealized holding gains and losses for available-for-sale securities shall be excluded from earnings and reported in other comprehensive income (loss) net of taxes. The cost of securities is determined using the average-cost method. Other investments other than marketable securities are stated at cost or less. Prior to the adoption of SFAS 115, marketable securities (current and noncurrent) were valued at the lower of aggregate cost or market, in the aggregate. Information required by SFAS 115 had been provided in the notes to the consolidated financial statements. As a result of the retroactive adoption, total assets increased by ¥22,402 million, stockholders' equity increased by ¥18,251 million, loss before income taxes and equity in losses decreased by ¥4,517 million and net loss decreased by ¥3,070 million in the consolidated financial statements for the year ended March 31, 1998. Furthermore, retained earnings at beginning of the year ended March 31, 1999 increased by ¥3,070 million from ¥34,152 million to ¥37,222 million.

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 Items

The Company and its subsidiaries have measured certain impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, or based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, and a valuation allowance is created if the measure of the impaired loan is less than the recorded amounts, in accordance with Statement of Financial Accounting Standards No. 114 and No. 118.

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

In addition, the allowance for doubtful accounts was established on certain loans which were not recognized as impaired at the date of the fiscal year-end, determined by management's assessment of past experiences, economic conditions, and other pertinent indicators.

Future Contracts

The Company and certain subsidiaries have entered into commodities futures contracts as a hedge against inventories and trading commitments. Changes in the market values of the futures contracts are recognized in income when the corresponding transactions are consummated.

Derivative Financial Instruments

Derivative financial instruments are utilized by the Company and certain subsidiaries to hedge interest rate and foreign exchange risks that may be adversely affected by changes in interest rates and exchange rates.

Foreign Exchange Contracts (Inclusive of Currency Swap Agreements)

Market value gains and losses are recognized on monetary items and included in foreign exchange gains or losses.

Interest Rate Swap Agreements

The amounts of interest income or expense under the swap agreements are accrued and recognized as interest related to the assets and liabilities over the contract period.

Interest Rate Option Agreements

Premiums paid or received for interest rate option agreements are amortized or accumulated to interest expense or interest received over the terms of interest rate option agreements.

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 units of property.

Net Loss Per Ten Shares

Net loss per ten shares has been computed based on the weighted average number of shares of common stock. Stock with a dilutive effect has not been issued during each year.

Comprehensive Income

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130) in June 1997. This statement establishes standards for the reporting and display of comprehensive income 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 consists of net income, foreign currency translation adjustments, change in minimum pension liability adjustments and change in net unrealized gains or losses on marketable securities and other investments. The Company and its subsidiaries adopted SFAS 130 in the year ended March 31, 1999 and the prior year's consolidated financial statements and notes have been reclassified to conform with the provisions of SFAS 130. The adoption of this statement had no effect on the net loss of the Company and its subsidiaries.

Segment Information

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) in June, 1997. The statement requires that enterprises report certain information about income or loss, assets and other data of each segment that the management usually uses for decisions in operations or evaluations.

The Company and its subsidiaries have adopted SFAS 131 in the year ended March 31, 1999 and the prior year's notes to consolidated financial statements have been reclassified to conform with the provisions of SFAS 131. The adoption of this statement had no effect on the net loss of the Company and its subsidiaries.

Pensions and Other Postretirement Benefits

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement

Benefits" (SFAS 132) in February 1998. This statement establishes standards for reporting information about pension and other postretirement benefit plans. The Company and its subsidiaries have adopted SFAS 132 in the year ended March 31, 1999 and the prior year's notes to consolidated financial statements have been reclassified to conform with the provisions of SFAS 132. The adoption of this statement had no effect on the net loss of the Company and its subsidiaries.

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 in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

New Accounting Standards

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) in June 1998. SFAS 133 provides accounting for derivatives and hedges including definitions and identifications of derivatives, categorization of hedging activities, conditions to adopt hedge accounting and so on. The Company and its subsidiaries will adopt this statements in the year beginning on April 1, 2000. The Company and its subsidiaries have not yet determined its impact on the consolidated financial position or result of operations.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 provides guidance on when costs for internal use computer software should be capitalized or expensed as incurred. The Company and its subsidiaries will adopt this statement in the year beginning April 1, 1999. The Company and its subsidiaries have not yet determined its impact on the consolidated financial position or result of operations.

3. MARKETABLE SECURITIES AND INVESTMENTS

The Company and its subsidiaries have adopted SFAS 115 in the year ended March 31, 1999, and restated the amounts for the year ended March 31, 1998. Marketable securities and investments consist of available-for-sale and held-to-maturity securities. The cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for such securities by major security type as of March 31, 1999 and 1998 were as follows:

	1999			Yen (millions)
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Equity securities	¥171,000	20,480	26,537	164,943
Debt securities issued by Japanese and foreign governments	204	—	4	200
Corporate and other debt securities	112,478	313	1,755	111,036
	¥283,682	20,793	28,296	276,179
Held-to-maturity:				
Corporate and other debt securities	¥ 22,233	—	—	22,233
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 72,882	33,357	22,577	83,662
Debt securities issued by Japanese and foreign governments	3,051	540	—	3,591
Corporate and other debt securities	79,986	947	29	80,904
	¥155,919	34,844	22,606	168,157
Held-to-maturity:				
Corporate and other debt securities	¥ 56,438	—	2,319	54,119
1998				
	1998			Yen (millions)
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Equity securities	¥200,624	27,946	32,463	196,107
Debt securities issued by Japanese and foreign governments	464	1	9	456
Corporate and other debt securities	243,473	2,277	789	244,961
	¥444,561	30,224	33,261	441,524
Held-to-maturity:				
Corporate and other debt securities	¥ 55,605	135	457	55,283
Noncurrent:				
Available-for-sale:				
Equity securities	¥161,423	52,976	20,152	194,247
Debt securities issued by Japanese and foreign governments	3,000	524	—	3,524
Corporate and other debt securities	93,715	935	363	94,287
	¥258,138	54,435	20,515	292,058
Held-to-maturity:				
Corporate and other debt securities	¥ 66,582	—	977	65,605

	1999 U.S. dollars (thousands)			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Equity securities	\$1,418,499	169,888	220,133	1,368,254
Debt securities issued by Japanese and foreign governments	1,692	—	33	1,659
Corporate and other debt securities	933,040	2,596	14,558	921,078
	<u>\$2,353,231</u>	<u>172,484</u>	<u>234,724</u>	<u>2,290,991</u>
Held-to-maturity:				
Corporate and other debt securities	\$ 184,430	—	—	184,430
Noncurrent:				
Available-for-sale:				
Equity securities	\$ 604,579	276,706	187,283	694,002
Debt securities issued by Japanese and foreign governments	25,309	4,480	—	29,789
Corporate and other debt securities	663,509	7,856	241	671,124
	<u>\$1,293,397</u>	<u>289,042</u>	<u>187,524</u>	<u>1,394,915</u>
Held-to-maturity:				
Corporate and other debt securities	\$ 468,171	—	19,237	448,934

The contractual maturities of marketable securities and investments classified as available-for-sale and held-to-maturity as of March 31, 1999 were as follows:

	Yen (millions)		U.S. dollars (thousands)	
	Cost	Fair Value	Cost	Fair Value
Available-for-sale:				
Equity securities	¥243,882	248,605	\$2,023,078	2,062,256
Due within one year	36,217	36,221	300,431	300,465
Due after one year through five years	68,981	69,733	572,219	578,457
Due after five years	90,521	89,777	750,900	744,728
	<u>¥439,601</u>	<u>444,336</u>	<u>\$3,646,628</u>	<u>3,685,906</u>
Held-to-maturity:				
Due within one year	¥ 22,233	22,233	\$ 184,430	184,430
Due after one year through five years	13,222	13,222	109,681	109,681
Due after five years	43,216	40,897	358,490	339,253
	<u>¥ 78,671</u>	<u>76,352</u>	<u>\$ 652,601</u>	<u>633,364</u>

The gross realized gains and losses on available-for-sale securities' sales for the years ended March 31, 1999 and 1998 were gains of ¥71,901 million (\$596,441 thousand)

and ¥77,079 million, losses of ¥13,654 million (\$113,264 thousand) and ¥30,446 million, respectively.

4. OTHER INVESTMENTS

Other investments at March 31, 1999 and 1998 consisted of the following:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Securities	¥404,511	572,264	\$3,355,545
Land and other properties held for sale.	114,045	188,292	946,039
Deposits, etc.	96,830	83,951	803,235
	¥615,386	844,507	\$5,104,819

5. INVESTMENTS IN ASSOCIATED COMPANIES

Certain financial information in respect of associated companies as of and for the years ended March 31, 1999 and 1998 is shown below:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Current assets	¥1,155,788	1,439,935	\$ 9,587,623
Other assets, principally property and equipment	1,821,625	1,976,529	15,110,950
	2,977,413	3,416,464	24,698,573
Current liabilities.	1,172,656	1,349,085	9,727,549
Other liabilities, principally long-term debt	1,144,328	1,216,958	9,492,559
Net assets	¥ 660,429	850,421	\$ 5,478,465
Net sales	¥2,724,940	2,696,763	\$22,604,231
Net earnings (losses)	3,954	(73,085)	32,800
Companies' equity in net losses	(2,253)	(18,782)	(18,690)
Cash dividends received by the companies	4,776	4,026	39,618

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

Trading transactions of the Company and its subsidiaries with associated companies for the years ended March 31, 1999 and 1998 are summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Sales	¥460,272	498,975	\$3,818,100
Purchases	305,489	342,121	2,534,127

The unamortized balances of the excess of the cost of the companies' investments in associated companies over the companies' equity in their net assets at the dates of acquisition amounted to ¥109,004 million (\$904,222 thousand) and ¥112,269 million at March 31, 1999 and 1998, respectively. Amortization charged to income for the years ended March 31, 1999 and 1998 totaled ¥4,005 million (\$33,223 thousand) and ¥859 million, respectively.

Investments in associated companies include securities which had quoted market values that were in excess of the related carrying values totaling ¥19,375 million (\$160,722 thousand) at March 31, 1999 and amounts below the related carrying values totaling ¥6,868 million at March 31, 1998, respectively.

6. IMPAIRED LOANS AND ALLOWANCE FOR DOUBTFUL ITEMS

The activity in the allowance for doubtful items for the years ended March 31, 1999 and 1998 were as follows:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Balance at beginning of year	¥180,842	132,945	\$1,500,141
Increased in the allowance	38,545	68,696	319,743
Decreased in the allowance	(6,157)	(20,799)	(51,074)
Balance at end of year	¥213,230	180,842	\$1,768,810

The carrying amounts of the impaired loans within the scope of SFAS 114 as of March 31, 1999 and 1998 were ¥281,892 million (\$2,338,382 thousand) and ¥267,902 million, respectively. The allowance, determined in accordance with SFAS 114, related to those impaired loans was included in the overall allowance for doubtful items.

The average amounts of the impaired loans during the years ended March 31, 1999 and 1998 were ¥279,295 million (\$2,316,839 thousand) and ¥228,612 million, respectively. The amounts of interest income recognized on the impaired loans for the years ended March 31, 1999 and 1998 were not significant.

7. PLEDGED ASSETS

The following assets were pledged as collateral at March 31, 1999 and 1998:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Cash and time deposits	¥ 532	65,536	\$ 4,413
Marketable securities	10,049	16,533	83,360
Trade and other receivables (current and noncurrent)	560,180	483,067	4,646,868
Inventories	7,345	1,150	60,929
Securities included in other investments	7,901	2,612	65,541
Property and equipment, at cost	133,082	145,536	1,103,957
	¥719,089	714,434	\$5,965,068

Collateral was pledged to secure the following obligations at March 31, 1999 and 1998:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Short-term debt	¥ 28,866	68,320	\$ 239,453
Long-term debt	640,156	543,992	5,310,294
Guarantees of contracts, etc.	5,647	7,521	46,844
	¥674,669	619,833	\$5,596,591

In addition, acceptances payable in the amount of ¥14,736 million (\$122,240 thousand) and ¥10,452 million at March 31, 1999 and 1998, respectively, were secured by trust receipts on merchandise and the proceeds from the sale thereof. The amount of such assets pledged is not calculable.

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. A substantial portion of the companies' bank loan agreements also provide that the lending bank has the right to offset cash of the companies deposited with it against any debt (including debt arising out of contingent obligations) of the companies to the bank that has become due at stated maturity or earlier.

8. IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with SFAS 121, the Company recognized impairment losses of ¥1,466 million (\$12,161 thousand) and ¥11,741 million for the years ended March 31, 1999 and 1998, respectively, which are included in the profit (loss) on property and equipment - net account. The impaired assets include certain domestic commercial buildings for rent and apartments for rent.

The Company also recognized impairment losses of

¥22,011 million (\$182,588 thousand) for the year ended March 31, 1999, which are included in the profit on disposal of investments and marketable securities, net of write-downs account. The impaired assets include certain domestic land for developing purpose.

Fair value was based upon appraisals or estimates of valuation by road rating for land and replacement cost for buildings and structures.

9. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at March 31, 1999 and 1998 consisted of the following:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Short-term loans, mainly from banks	¥1,055,928	1,254,550	\$ 8,759,253
Commercial paper	334,278	697,301	2,772,941
	¥1,390,206	1,951,851	\$11,532,194

Long-term debt at March 31, 1999 and 1998 is summarized below:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Banks and financial institutions:			
Secured:			
The Export-Import Bank of Japan, due 1998-2013, interest 1.30-8.00%	¥ 154,811	151,820	\$ 1,284,206
Other, due 1998-2009, interest 0.63-10.05%	485,145	391,972	4,024,430
Unsecured:			
Due 1998-2032, interest 0.35-19.00%	1,857,374	2,001,970	15,407,499
Debentures:			
Unsecured bonds and notes:			
4.35% Japanese Yen Notes due 2000	50,000	50,000	414,766
4.45% Japanese Yen Notes due 2002	30,000	30,000	248,859
2.90% Yen Bonds due 2000	20,000	20,000	165,906
3.05% Yen Bonds due 2001	100,000	100,000	829,532
2.35% Yen Bonds due 2001	30,000	30,000	248,859
2.10% Yen Bonds due 2001	40,000	40,000	331,813
2.15%/4.00% Yen Callable Bonds due 2006*	10,000	10,000	82,953
3.00% Yen Bonds due 2002	50,000	50,000	414,766
2.70% Yen Bonds due 2001	20,000	20,000	165,906
3.15% Yen Bonds due 2003	20,000	20,000	165,906
2.00%/2.40% Yen Callable Bonds due 2004**	10,000	10,000	82,953
2.45% Yen Bonds due 2009	10,000	10,000	82,953
2.45% Yen Bonds due 2003	70,000	—	580,672
3.10% Yen Bonds due 2008	30,000	—	248,859
2.00% Yen Bonds due 2002	10,000	—	82,953
3.00% Yen Bonds due 2008	10,000	—	82,953
Medium-Term Notes, maturing through 2009	265,315	327,792	2,200,871
Secured bonds:			
Bonds of domestic subsidiaries	200	200	1,659
Others	50,176	88,254	416,226
	<u>3,323,021</u>	<u>3,352,008</u>	<u>27,565,500</u>
Less current installments	461,683	613,107	3,829,805
	<u>¥2,861,338</u>	<u>2,738,901</u>	<u>\$23,735,695</u>

* These bonds bear interest at the rate of 2.15% per annum from the date of issue to on or before January 12, 2001 and bear interest at the rate of 4.00% per annum from January 13, 2001 to on or before due date.
In addition, these bonds can be early redeemed on January 12, 2001.

** These bonds bear interest at the rate of 2.00% per annum from the date of issue to on or before March 10, 2000 and bear interest at the rate of 2.40% per annum from March 11, 2000 to on or before due date.
In addition, these bonds can be early redeemed on March 10, 2000.

Certain agreements with The Export-Import Bank of Japan 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 considers 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 debt hedged by such swap agreements were ¥1,928,478 million (\$15,997,329 thousand) and ¥1,576,056 million at March 31, 1999 and 1998, 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, 1999 are as follows:

Year ending March 31	Yen (millions)	U.S. dollars (thousands)
2000	¥ 461,683	\$ 3,829,805
2001	624,187	5,177,827
2002	516,674	4,285,973
2003	355,335	2,947,615
2004	439,430	3,645,209
2005 and thereafter . . .	925,712	7,679,071
	<u>¥3,323,021</u>	<u>\$27,565,500</u>

10. RETIREMENT AND SEVERANCE BENEFITS

The Company and certain subsidiaries have funded retirement pension plans covering substantially all of their employees. Benefits under these pension plans are based on length of service and certain other factors and plan assets are comprised primarily of listed stock, bonds and

other interest-bearing securities.

Certain other subsidiaries have unfunded retirement and severance plans providing lump-sum payment benefits to their employees.

Changes in the benefit obligations and the fair value of the plan assets for the years ended March 31, 1999 and 1998 were as follows:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Change in benefit obligations:			
Projected benefit obligations at beginning of year	¥225,864	216,595	\$1,873,613
Service cost	11,081	9,314	91,920
Interest cost	10,211	9,804	84,703
Plan participants' contributions	1,500	1,675	12,443
Actuarial loss (gain)	39,444	(6,639)	327,200
Benefits paid	(11,116)	(5,089)	(92,211)
Foreign currency translation adjustments	(251)	204	(2,081)
Projected benefit obligation at end of year	276,733	225,864	2,295,587
Change in plan assets:			
Fair value of plan assets at beginning of year	157,741	148,833	1,308,511
Actual return on plan assets	1,535	4,370	12,733
Employer contributions	7,901	7,784	65,541
Plan participants' contributions	1,500	1,675	12,443
Benefits paid	(11,116)	(5,089)	(92,211)
Foreign currency translation adjustments	(182)	168	(1,509)
Fair value of plan assets at end of year	157,379	157,741	1,305,508
Projected benefit obligations in excess of plan assets	119,354	68,123	990,079
Unrecognized actuarial loss	(85,703)	(41,253)	(710,933)
Unrecognized net obligation at transition being amortized over 14 years	(4,166)	(5,080)	(34,558)
Unrecognized prior service cost occurred in accordance with the Welfare Pension Fund at April 1, 1991 being amortized over 13 years	(2,920)	(3,460)	(24,223)
Net amount recognized	26,565	18,330	220,365

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Adjustments to recognize minimum pension liability:			
Intangible assets	7,086	8,540	58,781
Accumulated other comprehensive loss, gross of tax	78,382	33,557	650,203
	85,468	42,097	708,984
Accrued pension and severance cost recognized in the consolidated balance sheets	¥112,033	60,427	\$ 929,349
Actuarial present value of accumulated benefit obligations at end of year	¥269,412	218,168	\$2,234,857
Actuarial assumptions:			
Discount rate	3.50%	4.50%	
Expected long-term rate of return on plan assets	4.00%	4.00%	

The net cost of retirement and severance benefits for the years ended March 31, 1999 and 1998 consisted of the following:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Service cost-benefits earned during the year	¥11,081	9,314	\$ 91,920
Interest cost on projected benefit obligation	10,211	9,804	84,703
Expected return on plan assets	(6,381)	(6,006)	(52,932)
Net amortization	6,129	3,160	50,842
Net periodic pension cost	¥21,040	16,272	\$174,533

11. FOREIGN EXCHANGE GAINS AND LOSSES

The net exchange gains of ¥12,323 million (\$102,223 thousand) and ¥18,200 million for the years ended March 31,

1999 and 1998, respectively, are included in the accompanying consolidated statements of income.

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate result in a normal tax rate of approximately 48% and 51% for the years ended March 31, 1999 and 1998, respectively.

In accordance with a change in the tax regulations in fiscal 1999, the normal tax rate decreases to 42% in the

aggregate and is effective for the fiscal year ended March 31, 2000.

Foreign subsidiaries are subject to income taxes of the countries where they operate. A reconciliation of the Japanese normal income tax rate and the effective tax rate as a percentage of income (loss) before income taxes and equity in losses is as follows:

	1999	1998
Japanese normal income tax rate	48.0%	(51.0)%
The effect of a change in the tax rate to deferred tax assets and deferred tax liabilities . . .	49.4	6.5
Expenses not deductible for tax purposes	15.0	4.3
Difference of tax rates for foreign subsidiaries	(21.3)	(8.2)
Tax benefits not recognized on operating losses of subsidiaries	30.3	2.2
Tax on dividends	42.3	20.7
Other	31.4	8.7
	195.1%	(16.8)%

Changes in beginning-of-the-year balances of the valuation allowance for deferred tax assets for the years ended March 31, 1999 and 1998 are insignificant.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at March 31, 1999 and 1998 are presented below:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Deferred tax assets:			
Inventories, property and equipment	¥ 43,663	56,065	\$ 362,198
Allowance for doubtful accounts	25,752	21,793	213,621
Net operating loss carry forwards	54,070	53,023	448,528
Cost of retirement and severance benefits	37,433	18,797	310,519
Other	45,326	28,874	375,993
Total gross deferred tax assets	206,244	178,552	1,710,859
Less valuation allowance	(47,072)	(40,821)	(390,477)
Net deferred tax assets	159,172	137,731	1,320,382
Deferred tax liabilities:			
Installment sales	(858)	(1,225)	(7,118)
Other	(18,251)	(19,394)	(151,398)
Total gross deferred tax liabilities	(19,109)	(20,619)	(158,516)
Net deferred tax assets	¥140,063	117,112	\$1,161,866

The net changes in the total valuation allowance for the years ended March 31, 1999 and 1998 were increases of ¥6,251 million (\$51,854 thousand) and ¥9,193 million, respectively.

Net operating loss carryforwards are available to reduce future income taxes, if any. A certain portion of the net operating losses will expire by 2004 and the remainder

may be utilized indefinitely.

Income taxes have not been accrued on undistributed earnings of foreign subsidiaries and associated companies in the amount of ¥25,029 million (\$207,623 thousand) and ¥26,335 million at March 31, 1999 and 1998, respectively, because the undistributed earnings are considered to be permanently invested.

13. SEGMENT INFORMATION

The Company and its subsidiaries are considered to be engaged primarily in a single line of business known as general trading, which includes: trading operations, both domestic and overseas; arranging financing for customers and suppliers; and planning, arranging and coordinating industrial projects in connection with general trading.

The Company and its subsidiaries adopted SFAS 131 from the fiscal year beginning on April 1, 1998 and disclose the segment information of 1999 and 1998.

The Company and its subsidiaries have introduced an organization based on a "division company" management system, and operating segments are stated by such system.

Information concerning operations in different operating segments for the years ended March 31, 1999 and 1998 is as follows:

	1999								Yen (millions)
	Textile	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Metals & Minerals	Energy & Chemicals	Food, Forest Products & General Merchandise	Finance, Realty, Insurance & Logistics	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies	¥1,385,485	2,537,012	993,967	1,477,191	3,046,038	3,535,431	781,512	143,931	13,900,567
Transfers between operating segments . .	961	4,456	3,226	2,577	4,775	1,025	2,957	(19,977)	—
Total trading transactions	¥1,386,446	2,541,468	997,193	1,479,768	3,050,813	3,536,456	784,469	123,954	13,900,567
Gross trading profit	¥ 71,442	88,439	88,861	58,877	46,514	164,730	41,815	81,035	641,713
Trading income (loss) . . .	¥ 20,511	(9,373)	23,280	10,671	6,284	25,003	(6,354)	(10,666)	59,356
Net income (loss)	¥ 2,459	(18,305)	7,792	(11,843)	(5,586)	2,387	(24,691)	13,699	(34,088)
Identifiable assets at March 31	¥ 411,657	1,011,249	499,628	613,837	514,583	1,008,664	1,401,610	1,271,798	6,733,026
	1998								Yen (millions)
	Textile	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Metals & Minerals	Energy & Chemicals	Food, Forest Products & General Merchandise	Finance, Realty, Insurance & Logistics	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies	¥1,782,500	2,654,497	1,068,962	1,624,729	3,981,697	3,506,457	820,367	105,299	15,544,508
Transfers between operating segments . .	¥ 2,639	4,842	4,031	3,031	3,764	9,110	6,160	(33,577)	—
Total trading transactions	¥1,785,139	2,659,339	1,072,993	1,627,760	3,985,461	3,515,567	826,527	71,722	15,544,508
Gross trading profit	¥ 79,047	92,071	65,107	62,732	47,383	143,878	47,254	59,206	596,678
Trading income (loss) . . .	¥ 19,678	10,015	18,172	13,352	8,748	20,808	(56,270)	(12,315)	22,188
Net income (loss)	¥ 2,034	2,134	2,430	2	4,967	(767)	(118,957)	16,226	(91,931)
Identifiable assets at March 31	¥ 469,451	1,227,670	534,655	686,537	508,868	1,025,936	1,713,970	1,364,038	7,531,125

	1999								U.S. dollars (thousands)
	Textile	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Metals & Minerals	Energy & Chemicals	Food, Forest Products & General Merchandise	Finance, Realty, Insurance & Logistics	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies . . .	\$11,493,032	21,045,309	8,245,267	12,253,762	25,267,839	29,327,507	6,482,887	1,193,953	115,309,556
Transfers between operating segments	7,972	36,964	26,761	21,377	39,610	8,503	24,529	(165,716)	—
Total trading transactions	<u>\$11,501,004</u>	<u>21,082,273</u>	<u>8,272,028</u>	<u>12,275,139</u>	<u>25,307,449</u>	<u>29,336,010</u>	<u>6,507,416</u>	<u>1,028,237</u>	<u>115,309,556</u>
Gross trading profit	\$ 592,634	733,629	737,130	488,403	385,848	1,366,487	346,868	672,211	5,323,210
Trading income (loss)	\$ 170,145	(77,752)	193,115	88,519	52,128	207,408	(52,708)	(88,478)	492,377
Net income (loss)	\$ 20,398	(151,846)	64,637	(98,241)	(46,338)	19,801	(204,820)	113,638	(282,771)
Identifiable assets at March 31	\$ 3,414,824	8,388,627	4,144,571	5,091,970	4,268,627	8,367,184	11,626,794	10,549,962	55,852,559

Note: The "Other, Adjustments & Eliminations" column includes trading transactions, gross trading profit, trading income (loss), net income (loss), and identifiable assets not allocated operating segments in domestic and foreign areas, eliminations and adjustments, etc..

Information concerning operations in different geographical areas for the years ended March 31, 1999 and 1998 is as follows:

	1999						Yen (millions)
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers and associated companies	¥11,681,794	634,280	383,809	916,619	284,065	—	13,900,567
Transfers between geographical areas	1,188,502	1,202,708	121,793	975,262	472,116	(3,960,381)	—
Total trading transactions	<u>¥12,870,296</u>	<u>1,836,988</u>	<u>505,602</u>	<u>1,891,881</u>	<u>756,181</u>	<u>(3,960,381)</u>	<u>13,900,567</u>
Trading income (loss)	¥ (13,113)	51,804	13,151	2,181	5,110	223	59,356
Identifiable assets at March 31	¥ 5,238,397	824,566	384,366	279,122	456,616	(450,041)	6,733,026

	1998						Yen (millions)	
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated	
Trading transactions:								
Unaffiliated customers and associated companies	¥12,381,531	560,974	374,861	1,970,099	257,043	—	15,544,508	
Transfers between geographical areas	2,297,762	1,057,855	487,260	1,173,070	547,650	(5,563,597)	—	
Total trading transactions	<u>¥14,679,293</u>	<u>1,618,829</u>	<u>862,121</u>	<u>3,143,169</u>	<u>804,693</u>	<u>(5,563,597)</u>	<u>15,544,508</u>	
Trading income (loss)	<u>¥ (35,315)</u>	<u>39,509</u>	<u>9,378</u>	<u>1,168</u>	<u>7,639</u>	<u>(191)</u>	<u>22,188</u>	
Identifiable assets at March 31	<u>¥ 5,638,657</u>	<u>798,355</u>	<u>573,276</u>	<u>357,731</u>	<u>563,984</u>	<u>(400,878)</u>	<u>7,531,125</u>	

	1999						U.S. dollars (thousands)	
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated	
Trading transactions:								
Unaffiliated customers and associated companies	\$ 96,904,139	5,261,551	3,183,816	7,603,642	2,356,408	—	115,309,556	
Transfers between geographical areas	9,858,996	9,976,840	1,010,311	8,090,103	3,916,350	(32,852,600)	—	
Total trading transactions	<u>\$106,763,135</u>	<u>15,238,391</u>	<u>4,194,127</u>	<u>15,693,745</u>	<u>6,272,758</u>	<u>(32,852,600)</u>	<u>115,309,556</u>	
Trading income (loss)	<u>\$ (108,776)</u>	<u>429,730</u>	<u>109,092</u>	<u>18,092</u>	<u>42,389</u>	<u>1,850</u>	<u>492,377</u>	
Identifiable assets at March 31	<u>\$ 43,454,144</u>	<u>6,840,033</u>	<u>3,188,436</u>	<u>2,315,404</u>	<u>3,787,773</u>	<u>(3,733,231)</u>	<u>55,852,559</u>	

Note: The Company and its subsidiaries adopted SFAS 115 from the fiscal year beginning April 1, 1998. Concurrently, the Company and its subsidiaries restated the financial statements for the prior years.

The amounts of unallocated common assets included in the "Eliminations or Unallocated" column were ¥120,365 million (\$998,465 thousand) and ¥208,630 million for the years ended March 31, 1999 and 1998, respectively.

There have been no trading transactions with a single major external customer for the years ended March 31, 1999 and 1998.

14. LEGAL RESERVE AND DIVIDENDS

The Japanese Commercial Code requires that an amount equal to at least 10% of appropriations paid in cash by the Company and its domestic subsidiaries be appropriated to a legal reserve until the reserve equals 25% of their respective stated capitals. The legal reserve may be used to reduce a deficit by resolution of the stockholders' meeting or it may be transferred to stated capital by resolution of the Board of Directors.

The amount of retained earnings available for dividends under the Japanese Commercial Code is based on the amount recorded in the Company's books of account in accordance with financial accounting standards of Japan. The adjustments included in the accompanying consolidated financial statements to have them conform with

United States generally accepted accounting principles, but not recorded in the books of account, have no effect on the determination of retained earnings available for dividends under the Japanese Commercial Code. Retained earnings shown in the Company's books of account amounted to ¥23,581 million (\$195,612 thousand) at March 31, 1999.

Cash dividends during the years ended March 31, 1999 and 1998 represent dividends paid out during those years.

Appropriations to the legal reserve charged to retained earnings during the years ended March 31, 1999 and 1998 represent appropriations to the legal reserve relating to cash dividends and other cash outlays of retained earnings.

15. OTHER COMPREHENSIVE INCOME (LOSS)

Change in accumulated other comprehensive income (loss) is as follows:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (39,740)	(45,573)	\$(329,656)
Change for the year	(31,621)	5,833	(262,306)
Balance at end of year	<u>(71,361)</u>	<u>(39,740)</u>	<u>(591,962)</u>
Minimum pension liability adjustments:			
Balance at beginning of year	(17,450)	(18,036)	(144,753)
Change for the year	(23,309)	586	(193,356)
Balance at end of year	<u>(40,759)</u>	<u>(17,450)</u>	<u>(338,109)</u>
Unrealized gains (losses) on securities:			
Balance at beginning of year	15,181	65,292	125,931
Change for the year	(13,712)	(50,111)	(113,745)
Balance at end of year	<u>1,469</u>	<u>15,181</u>	<u>12,186</u>
Accumulated other comprehensive income (loss):			
Balance at beginning of year	(42,009)	1,683	(348,478)
Change for the year	(68,642)	(43,692)	(569,407)
Balance at end of year	<u>¥(110,651)</u>	<u>(42,009)</u>	<u>\$(917,885)</u>

Tax effects allocated to each component of other comprehensive loss and reclassification adjustments are as follows:

	1999		Yen (millions)
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥ (30,507)	(149)	(30,656)
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	(965)	—	(965)
Net change in foreign currency translation adjustments during the year	<u>(31,472)</u>	<u>(149)</u>	<u>(31,621)</u>
Minimum pension liability adjustments	(44,825)	21,516	(23,309)
Unrealized gains (losses) on securities:			
Amount arising during the year on available-for-sale securities . . .	8,433	(2,745)	5,688
Reclassification adjustments for gains and losses realized in net loss	(34,960)	15,560	(19,400)
Net change in unrealized gains (losses) on securities during the year	<u>(26,527)</u>	<u>12,815</u>	<u>(13,712)</u>
Other comprehensive loss	<u>¥(102,824)</u>	<u>34,182</u>	<u>(68,642)</u>

	1998		Yen (millions)
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥ 6,097	—	6,097
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	(264)	—	(264)
Net change in foreign currency translation adjustments during the year	5,833	—	5,833
Minimum pension liability adjustments	3,251	(2,665)	586
Unrealized gains (losses) on securities:			
Amount arising during the year on available-for-sale securities . . .	(61,000)	31,304	(29,696)
Reclassification adjustments for gains and losses realized in net loss	(41,492)	21,077	(20,415)
Net change in unrealized gains (losses) on securities during the year	(102,492)	52,381	(50,111)
Other comprehensive loss	¥ (93,408)	49,716	(43,692)

	1999 U.S. dollars (thousands)		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	\$(253,065)	(1,236)	(254,301)
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	(8,005)	—	(8,005)
Net change in foreign currency translation adjustments during the year	(261,070)	(1,236)	(262,306)
Minimum pension liability adjustments	(371,838)	178,482	(193,356)
Unrealized gains (losses) on securities:			
Amount arising during the year on available-for-sale securities . . .	69,955	(22,771)	47,184
Reclassification adjustments for gains and losses realized in net loss	(290,004)	129,075	(160,929)
Net change in unrealized gains (losses) on securities during the year	(220,049)	106,304	(113,745)
Other comprehensive loss	\$(852,957)	283,550	(569,407)

16. FINANCIAL INSTRUMENTS

The Company and its subsidiaries have various financial instruments, which are exposed to credit-related losses in the event of nonperformance by the counterparties. The companies utilize numerous counterparties to ensure that there are no significant concentrations of credit risk with any individual counterparty or groups of counterparties. Derivative financial instruments are entered into with limited counterparties as major financial institutions to minimize credit risk exposure. The companies' policies

prescribe monitoring of creditworthiness and exposure on a counterparty-by-counterparty basis.

The Company and certain subsidiaries operate internationally, giving rise to exposure to market risks from changes in foreign exchange rates and interest rates. Certain derivative financial instruments have been entered into by the companies to manage those exposures. These instruments for the most part are held for hedging purposes and include foreign exchange contracts (inclusive of

currency swap agreements), interest rate swap agreements, and interest rate option agreements. Held or issued derivative financial instruments for trading purposes were insignificant.

Foreign exchange contracts (inclusive of currency swap agreements) are agreements to exchange different currencies at a specified exchange rate on a specific future date. Interest rate swap agreements generally change a floating rate into a fixed rate as well as change a fixed rate into a

floating rate. The floating rates are mainly based on the three-month or six-month LIBOR (London Interbank Offered Rate). Interest rate option agreements require the purchaser to pay a premium to the underwriter in compensation for having an option to exercise certain interest rate agreements if a specified market interest rate exceeds or lowers the fixed interest rate, agreed with the underwriter, at specified future dates.

The Contract/Notional Principal Amounts of Derivative Financial Instruments

The contract or notional principal amounts of derivative financial instruments held for purposes other than trading as of March 31, 1999 and 1998 are summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	1999	1998	1999
Foreign exchange contracts (inclusive of currency swap agreements)			
To sell foreign currencies	¥ 91,161	102,683	\$ 756,209
To buy foreign currencies	182,640	168,651	1,515,056
Interest rate swap agreements	2,238,792	2,092,926	18,571,481
Interest rate option agreements	207,259	219,446	1,719,278

The Fair Values of Financial Instruments

Cash, Time deposits, Trade receivables (payables), Due from (to) associated companies, Deposits and other receivables, Short-term debt, and Accrued expenses:

The carrying amounts as of March 31, 1999 and 1998 approximated fair values because of the short maturity of these instruments.

Marketable securities:

The fair values of marketable securities are based on quoted market prices.

Other investments:

The fair values of marketable investment securities are based on quoted market prices. The carrying amounts of nonmarketable investment securities and others approximated fair values.

Other noncurrent receivables and advances to associated companies:

The fair values of other noncurrent 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.

The estimated fair values of financial instruments as of March 31, 1999 and 1998 are summarized as follows:

	Yen (millions)				U.S. dollars (thousands)	
	1999		1998		1999	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Assets:						
Marketable securities	¥ 305,915	298,412	500,166	496,807	\$ 2,537,661	2,475,421
Other investments	450,379	460,298	584,567	617,510	3,736,035	3,818,316
Other noncurrent receivables and advances to associated companies	1,132,250	1,138,819	1,263,057	1,275,120	9,392,368	9,446,860
Liabilities:						
Long-term debt	¥3,323,021	3,342,212	3,352,008	3,372,710	\$27,565,500	27,724,695

Derivative financial instruments:

The fair values of derivative financial instruments reflect the estimated amounts that the companies would receive or pay to terminate the contracts at the reporting dates.

Foreign exchange contracts (inclusive of currency swap agreements):

There is no significant difference between the carrying amounts and the fair values as of March 31, 1999 and 1998.

Interest rate swap agreements:

The fair values of interest rate swap agreements are reflected in the fair values of related assets and liabilities.

Interest rate option agreements:

The difference between the carrying amounts and the fair values as of March 31, 1999 and 1998 is not significant.

Limitations:

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

17. RECLASSIFICATION

Certain account classifications were changed in 1999, and the 1998 financial statements were reclassified to conform to the 1999 presentation.

18. CONTINGENT LIABILITIES

At March 31, 1999 the Company and its subsidiaries had guaranteed payment of loans granted by banks to associated companies and customers aggregating ¥292,011 million (\$2,422,323 thousand).

At March 31, 1999 the Company has provided a third party with a put option with an exercise price of ¥7,500 million (\$62,215 thousand) against the real estate with an estimated fair value of ¥12,000 million (\$99,544 thousand). A portion of the real estate has been securitized and the put option is available to support creditability of the securities under the conditional real estate sales contract.

At March 31, 1999 the Company and its subsidiaries were contingently liable in regard to ¥4,046 million

(\$33,563 thousand) of trade notes receivable endorsed to suppliers in the settlement of accounts payable and ¥54,655 million (\$453,380 thousand) of export bills of exchange discounted with banks in the ordinary course of business.

The Company and its subsidiaries are parties to a number of legal actions, the ultimate outcome of which cannot be determined. In the opinion of management of the Company, based on discussions with counsel, the ultimate liability, if any, which may arise from such litigation will not result in losses that would significantly affect the consolidated financial position.

19. SUBSEQUENT EVENTS

On May 17, 1999 the Company issued in Japan 2.00% Yen Bonds due 2003 in an aggregate principal amount of ¥50,000 million (\$414,766 thousand) and 2.20% Yen Bonds due 2004 in an aggregate principal amount of ¥10,000 million (\$82,953 thousand) and on June 9, 1999 issued in Japan 1.93% Yen Bonds due 2004 in an aggregate principal amount of ¥20,000 million (\$165,906 thousand) in accordance with an approved resolution of the Board of

Directors held on October 28, 1998.

On July 16, 1999 the Company is going to issue in Japan 2.13% Yen Bonds due 2004 in an aggregate principal amount of ¥10,000 million (\$82,953 thousand) and on July 21, 1999 issue in Japan 3.19% Yen Bonds due 2009 in an aggregate principal amount of ¥10,000 million (\$82,953 thousand) in accordance with the aforementioned approval of the Board of Directors.

Independent Auditors' Report

KPMG

The Board of Directors
ITOCHU Corporation:

We have audited the accompanying consolidated balance sheets of ITOCHU Corporation and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain associated companies, the investments in which are recorded at the companies' equity in their net assets. The companies' investment in such companies as of March 31, 1999 and 1998 was ¥42,454 million (\$352,169 thousand) and ¥60,528 million, respectively, and their equity in the earnings of such companies for the years ended March 31, 1999 and 1998 was ¥2,068 million (\$17,155 thousand) and ¥1,321 million, respectively. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ITOCHU Corporation and subsidiaries as of March 31, 1999 and 1998, and the results of their operations and their cash flows for the years then ended in conformity with United States generally accepted accounting principles.

As discussed in notes 2 and 3 to the consolidated financial statements, ITOCHU Corporation and subsidiaries adopted retroactively to April 1, 1994, Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" and the accompanying consolidated financial statements have been restated.

The consolidated financial statements as of and for the year ended March 31, 1999, have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in note 1 to the consolidated financial statements.

KPMG

Tokyo, Japan
May 21, 1999
except for note 19, as to which the date is June 29, 1999

C O R P O R A T E D A T A

ITOCHU Corporation

Founded: 1858

Incorporated: December 1949

Tokyo Head Office:

5-1, Kita-Aoyama 2-chome,
Minato-ku, Tokyo 107-8077, Japan

Osaka Head Office:

1-3, Kyutaromachi 4-chome,
Chuo-ku, Osaka 541-8577, Japan

Offices:

Domestic: 25

Overseas: 169

Number of Employees: 5,775

Paid-in Capital: ¥174,712 million

Stock Listings:

Tokyo, Osaka, Nagoya, Kyoto, Hiroshima,
Fukuoka, Niigata, Sapporo

Transfer Agent of Common Stock:

The Chuo Trust & Banking Co., Ltd.

(As of March 31, 1999)

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,
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Internet's World Wide Web at

<http://www.itochu.co.jp>

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