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This document is an English translation
of a statement written initially in Japanese.
The Japanese original should be considered
as the primary version.

Interim Report on Discovery of Delays in Payments of Receivables under Tri-nation Trade Transactions and the Uncovering of Financial Assistance Scheme Disguised as Sales Transactions

Following the discovery of delays in payments of receivables in the sales section of the Construction Machinery and Overseas Project Department of the Industrial Machinery & Solution Division of ITOCHU's Machinery Company (the "Sales Section") under certain tri-nation trade transactions whereby the Sales Section sells heavy machinery and mechanical equipment and materials purchased from overseas suppliers (the "Products") to users of the Products in Mongolia ("Customers"; such transactions, the "Tri-nation Trade Transactions"), ITOCHU launched an internal investigation into the details of the Tri-nation Trade Transactions. Such internal investigation uncovered that some of the Tri-nation Trade Transactions were in effect financial assistance scheme disguised as sales transactions and these transactions have been continuing for several years and have been accounted as sales transactions. The Tri-nation Trade Transactions are still under investigation, but ITOCHU would like to provide the following interim report on the current progress of the investigations.

ITOCHU apologizes deeply for the concerns it has caused its shareholders, investors, trade partners, and other related parties.

1. Background to the Investigation

As a result of a careful investigation into the details of the Tri-nation Trade Transactions on learning of the payment delays from Customers in the Tri-nation Trade Transactions, concerns were raised that the Tri-nation Trade Transactions may have included transactions that were not ordinary sales transactions but were in fact financial assistance scheme where there was no actual distribution of goods. Consequently, at the end of August under the guidance of ITOCHU's Chief Administration Officer (who is also the Chief Financial Officer and Chief Compliance Officer), a special investigation team was formed, which was composed of executive-level personnel of all management sections and external specialists (including ITOCHU's outside legal counsels and outside specialist attorneys) with the aims of (1) establishing the facts relating to the Tri-nation Trade Transactions, (2) ascertaining the potential monetary impact on ITOCHU, (3) uncovering where responsibility lies, (4) identifying the reason why such inappropriate transactions could go unnoticed for several years, and (5) proposing measures to prevent recurrence. The team carried out its investigation by interviewing and meeting with internal personnel, including the former head of the Sales Section ("Former Sales Manager"), and relevant external parties, including Customers, to ascertain the circumstances surrounding the transactions in question, and by verifying account books and vouchers relating to the Tri-nation Trade Transactions. The facts discovered to date as a result of the investigation are set out in sections 2 through 5 below. As it is also necessary to carry out additional investigations into other tri-nation trade transactions*, the special investigations team will continue to carry out investigations and ITOCHU will disclose the results of those investigations in a timely manner.

* A *tri-nation trade transaction* is a transaction whereby ITOCHU sources products from an overseas supplier and sells them to an overseas customer.

2. Facts Discovered Through the Investigations to Date

(1) Overview of the Tri-nation Trade Transactions

The Tri-nation Trade Transactions are transactions under which ITOCHU acquires or purchases the Products from various suppliers located within or outside of Mongolia (the “Suppliers”) and distributes the Products to the Customers on the condition that payment is made within 360 days of delivery. The Products were mainly transported by land. One of the conditions for ITOCHU’s accepting to undertake the Tri-nation Trade Transactions is that it must receive a letter of credit (“L/C”) issued by a bank in Mongolia of a certain degree of creditworthiness (the “L/C Issuing Bank”). To secure the payment of the trade receivables in the Products from the Customers, ITOCHU would receive the L/C issued by the L/C Issuing Bank, and present the L/C together with the relevant documents required under the L/C (invoices, receipts of goods, packing list, etc.), as well as a documentary bill for payment to its bank, and the bank would purchase the documentary bill from ITOCHU with a discount.

(2) Results of Investigation relating to Tri-nation Trade Transactions with Company A Group

Company A Group is one of the Customers in the Tri-nation Trade Transactions. Transactions with Company A Group (the “Transactions”) started in fiscal 2000 (ended March 31, 2000), and initially were ordinary tri-nation trade transactions. From fiscal 2001 (ended March 31, 2001), however, when Company A Group started to experience difficulties in making payments to ITOCHU, the Former Sales Manager, in order to avoid payment defaults on receivables and to maintain and increase transactions with Company A Group, failed to follow the appropriate internal procedures, and started with Company A Group and other relevant parties transactions that were in effect financial assistance disguised as sales transactions. Essentially, the parties involved devised transactions that involved no actual distribution of the Products (the “Inappropriate Transactions”). Payments that were made to the Suppliers for the Products were diverted to Company A Group and are believed to have been used to improve the cash flow situation of Company A Group, including for making payments for the Products.

In subsequent years, due to the demands on Company A Group’s capital for business expansion and other factors, Company A Group’s cash flow situation failed to improve and the Inappropriate Transactions continued. It was also discovered that in the process, the names of Suppliers who were not actually involved in the Transactions were used, and the Former Sales Manager, in his own sole discretion, promised the L/C Issuing Bank that the L/C Issuing Bank would be exempt from any liabilities.

3. Progress of Investigations Relating to Tri-nation Trade Transactions Other Than the Transactions with Company A Group

In addition to its investigations into the Transactions as set out in 2(2) above, the special investigations team is continuing investigations into the Tri-nation Trade Transactions with Customers other than Company A Group by interviewing and meeting with relevant personnel within and outside ITOCHU about the circumstances surrounding the transactions, examining account books and vouchers, and conducting on-site investigations.

Due to the similar natures of the Tri-nation Trade Transactions with Customers other than Company A Group and the Transactions with Company A Group set out in 2(2) above, such as the structure of the transactions, the terms for settlement, and delays in payments, the special investigations team is continuing its investigations and gathering evidence such as payment vouchers. At the moment it is not possible to affirmatively deny any suspicion that there are no inappropriate transactions with

Customers other than Company A Group.

4. Monetary Effect of the Tri-nation Trade Transactions

- (1) Profit and Loss Arising from Tri-nation Trade Transactions (Total trading transactions and Cost of trading transactions)

The cumulative amount of profit or loss from the Tri-nation Trade Transactions with Company A Group (the Transactions) over the 8 years period from fiscal 2001 (ended March 31, 2001) to the uncovering of the Inappropriate Transactions is 2.2 billion yen (53.7 billion yen in total trading transactions, 51.5 billion yen in cost of trading transactions).

The cumulative amount of profit or loss relating to Tri-nation Trade Transactions with Customers other than Company A Group over the same period is 2.2 billion yen (42.1 billion yen in total trading transactions, 39.9 billion yen in cost of trading transactions).

As of the investigations to date, the total trading transactions, cost of trading transactions, and gross trading profit relating to the Tri-nation Trade Transactions with Company A Group and Customers other than Company A Group and the total trading transactions, cost of trading transactions, and gross trading profit on the consolidated financial statements of ITOCHU for each fiscal year are as set out in the attachment.

- (2) Methodology Relating to the Revisions of Accounts

Because revisions to the accounts for the Transactions need to be made for each fiscal year after differentiating between transactions that were in effect financial assistance unassociated with actual distribution of goods and transactions that were true sales transactions, ITOCHU will determine the details for each revision once the investigations are finished and disclose the revisions to the accounts in a timely manner.

Also, the total balance of receivables as at the end of the second quarter of this fiscal year owed by Company A Group in relation to the Transactions will be transferred to the appropriate account book and treated as loans.

5. Balance of Receivables and Amount of Default on Payments as at end of September 2008

- (1) Balance of Receivables; Amount of Default on Payments; Allowance for Doubtful Receivables

As at the end of September 2008, the balance on the amount of receivables owed by Company A Group was 10.3 billion yen, and the balance on the amount of receivables owed by Customers other than Company A Group was 13.8 billion yen. Confirmation from Customers has been obtained for the entire amount of the balances of those receivables.

Of the approximately 24.1 billion yen in total of the balances of those receivables, as at the end of September 2008 the amount of the receivables owed by Company A Group was 5.1 billion yen, and amount of the receivables owed by Customers other than Company A Group was 5.6 billion yen.

ITOCHU has started negotiations with the relevant parties to the Tri-nation Trade Transactions for collecting the outstanding balance of receivables of 24.1 billion yen. It is using its best efforts to quickly collect the outstanding receivables by means of acquiring collateral, strengthening measures for preservation of receivables, formulating and managing repayment plans, and executing appropriate legal measures. ITOCHU intends to make a necessary allowance for doubtful

receivables in the second quarter of this fiscal year based on the progress of the negotiations for payments and the possibility of recovering the receivables.

(2) Outlook for Business Results for Current Period

There is no change at the present to the outlook for business results for the current period (consolidated net income: 240 billion yen).

6. Reason the Inappropriate Transactions Went Unnoticed for Several Years

The Inappropriate Transactions with Company A Group went unnoticed for several years mainly for the following reasons.

- (i) The transactions in question started out as ordinary and genuine tri-nation trade transactions but later became transactions where there was no actual distribution of goods.
- (ii) L/C, a common means of conducting settlement in tri-nation trade transactions, was used in the Transactions. Furthermore, the documents ordinarily associated with the Transactions such as sales contracts, invoices, receipt of goods, packing lists, and L/Cs were all in forms prepared in the same manner as for ordinary tri-nation trade transactions. Therefore, it was difficult to identify, even by confirming vouchers, that the Transactions were in fact transactions where there was no actual distribution of goods.
- (iii) The Former Sales Manager gave false explanations about increases in sales of the Transactions, resulting in mistaken impression that the transactions were proceeding smoothly.

7. Urgent Investigation of the Tri-nation Trade Transactions in General

In association with the uncovering of the Inappropriate Transactions with Company A Group based on the investigations of the special investigation team, ITOCHU directed the team to implement urgent investigations as to the tri-nation trade transactions in general throughout ITOCHU. At this stage, transactions similar to the Inappropriate Transactions have not been discovered. ITOCHU intends to continue the inspections of all other tri-nation trade transactions based on the results of the on-going investigations.

8. Measures to Prevent Recurrence

Following the receipt of the advice from the special investigation team, ITOCHU has reflected deeply on the investigation results of the factual circumstances and problem areas associated with the occurrence of the Inappropriate Transactions. In order to prevent the recurrence of similar compliance breaches, ITOCHU will implement the measures set out below. ITOCHU will continue, based on the results of ongoing and future investigations, consider the need for implementing further measures for preventing recurrence.

(1) Verify the Physical Existence of Goods in Tri-nation Trade Transactions

Delivery in the Tri-nation Trade Transactions with Company A Group (the Transactions) was mainly by land transport, so the transactions did not involve the issuance of a bill of lading or the like. ITOCHU has always made it a rule, and has thoroughly implemented the rule, that when transporting products by sea the actual physical existence of the products in tri-nation trade transactions must be verified by a bill of lading or other appropriate customs documentation. In

future, ITOCHU will more thoroughly implement this rule and verify the existence of physical products by obtaining and confirming customs documentation and/or receipts of goods or the like from the carriers or logistics companies in tri-nation trade transactions where products are transported by land.

(2) Strengthen Internal Control Procedures

ITOCHU works hard to maintain and operate its internal control system for financial reporting. Upon the clear identification of a business process, as part of internal control, it is important to have in place a system whereby the section in charge of sales and a section from the administrative department perform double checking and whereby vouchers are maintained in a form which can be traced and later verified.

ITOCHU will strengthen its efforts in this regard and in particular will implement a double checking system for vouchers in intermediated trade transactions.

(3) Heighten Awareness of Compliance

ITOCHU has always endeavored to inculcate in its officers and employees a strong sense of compliance, but from this experience, ITOCHU has learned that it must take even greater care to thoroughly oversee legal compliance and adherence to internal rules. ITOCHU will reinforce compliance education through renewed internal training programs, period dialogues and meetings with employees, and other similar measures. ITOCHU will work towards making awareness of compliance even more pervasive among its officers and employees.

9. Dealing with Related Personnel

All personnel involved in the Inappropriate Transactions as well as those in management positions who are responsible for the situation will receive strict disciplinary measures in accordance with ITOCHU's internal rules and regulations.

Attachment

Million yen

	Item	Amounts posted for the Transactions (Tri-nation Trade Transactions with Company A Group) ^{1,2}	Amounts posted for the Tri-nation Trade Transactions with Customers Other than Company A Group ^{1,2,3}	ITOCHU's Consolidated Management Results ⁴
FY 2001 (ended March 31, 2001)	Total trading transactions	530	-	12,135,105
	Cost of trading transactions	515	-	11,523,509
	Gross trading profit	15	-	611,596
FY 2002 (ended March 31, 2002)	Total trading transactions	1,951	12	11,395,240
	Cost of trading transactions	1,911	8	10,816,584
	Gross trading profit	40	4	578,656
FY 2003 (ended March 31, 2003)	Total trading transactions	2,922	1,387	10,446,371
	Cost of trading transactions	2,874	1,370	9,881,404
	Gross trading profit	48	17	564,967
FY 2004 (ended March 31, 2004)	Total trading transactions	5,541	2,052	9,516,967
	Cost of trading transactions	5,457	2,027	8,961,072
	Gross trading profit	84	25	555,895
FY 2005 (ended March 31, 2005)	Total trading transactions	8,995	4,438	9,576,039
	Cost of trading transactions	8,612	4,210	8,945,278
	Gross trading profit	383	228	630,761
FY 2006 (ended March 31, 2006)	Total trading transactions	10,629	6,570	10,473,885
	Cost of trading transactions	10,161	6,205	9,759,511
	Gross trading profit	468	365	714,374
FY 2007 (ended March 31, 2007)	Total trading transactions	11,502	11,353	11,579,059
	Cost of trading transactions	10,940	10,713	10,670,383
	Gross trading profit	562	640	908,676
FY 2008 (ended March 31, 2008)	Total trading transactions	9,830	15,022	12,412,456
	Cost of trading transactions	9,329	14,126	11,416,552
	Gross trading profit	501	896	995,904
FY 2009, Q1 (ending March 31, 2009)	Total trading transactions	1,760	1,248	3,122,194
	Cost of trading transactions	1,662	1,174	2,874,342
	Gross trading profit	98	74	247,852
Total	Total trading transactions	53,660	42,082	
	Cost of trading transactions	51,461	39,833	
	Gross trading profit	2,199	2,249	

- Note 1: These are figures that the Company is aware of based on the investigations to date, so they may change over the course of continued careful inspections.
- Note 2: Revenue relating to the Tri-nation Trade Transactions as calculated under accounting principles generally accepted in the United States of America is the same amount as gross trading profit above for each fiscal year.
- Note 3: Investigations are still under way into Tri-nation Trade Transactions with Customers other than Company A Group, so it is not certain at this point as to whether it will be necessary to amend these figures in future.
- Note 4: This column sets out the figures relating to each year on the consolidated financial statements for ITOCHU's submitted Annual Securities Reports (the figures are valid as of before any amendment due to the Transactions).