

# ANNUAL FINANCIAL STATEMENTS

For years ended March 31, 2004 and 2003

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Page:

1 - 5	Management Policy
6	Outlook for Fiscal 2005
7 - 9	Summary of Operations
10	Impairment losses for fixed assets
11 - 12	Consolidated Balance Sheets
13	Consolidated Statements of Operations
14	Consolidated Statements of Stockholders' Equity
15	Consolidated Statements of Cash Flows
16	Total Trading Transactions and Gross Trading Profit
17 - 18	Segment Information
19	Fair Value of Financial Instruments
20	Retirement and Severance Benefits
21	Forward Looking Statements

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## Management Policy

### Promotion of the mid-term management plan “Super A&P-2004”

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

For fiscal 2004, regarding the consumer and retail related sector, ITOCHU has newly started sale of such fashion brands’ products as *BRUNO MAGLI*, in addition to the development of highly functional and value added materials, and the expansion of brands’ businesses. Also, in the food sector, ITOCHU has made several aggressive investments including the additional investment in Prima Meat Packers, Ltd.; and new investments in overseas restaurants, convenience-store-chain and beverage businesses in partnership with local industry leaders.

In the natural resource development related sector, ITOCHU has embarked on the oil drilling in Sakuhalin-1 project and invested in the coal, aluminum and iron ore development projects to expand profit source. In addition, ITOCHU has strengthened its resource developing structure to enlarge profit by merging several Australia-based subsidiaries developing coal, aluminum, iron ore and oil, and by absorbing a subsidiary, ITOCHU Oil Exploration Co., Ltd into ITOCHU Corporation.

In the innovative technology related business , ITOCHU has continuously promoted the global alliances to form partnerships with National Institute of Advanced Industrial Science and Technology (AIST), Tsinghua University, and The Institute of Physical and Chemical Research (RIKEN); and made investments in small- and medium- sized companies that posses promising technologies. One such investment is in Japan Applied Microbiology Research Institute Ltd. (OUBIKEN), a microorganisms bio venture. Further, ITOCHU has established *Ganbare Kansai Fund* together with Kansai Urban Banking Corporation to use it as a platform for the investment in companies that have high technical capabilities in Kansai area.

### **For the completion of A&P strategy**

Since fiscal 2000, ITOCHU has steadily taken measures to promote its A&P strategy, which led to the realization of improvement of asset efficiency, financial position and profitability. Based on these results and to further develop this trend, ITOCHU has decided to further strengthen its financial position, in order to focus on the stable and continuous growth of profit by removing possible future concerns, applying the impairment accounting for fixed assets from fiscal 2004, which is earlier than the due for enforcement (fiscal 2006) in Japanese Accounting Standard.

Thus, ITOCHU applied the impairment accounting for fixed assets under Japan GAAP to both the parent company and its major subsidiaries. Although ITOCHU had already adopted impairment accounting for its consolidated financial statements according to US GAAP, impairments recognized under Japan GAAP were reflected on consolidated financial statements, considering the slow recovery of the Japanese real estate market. As a result, ITOCHU posted the impairment loss totaling 123.3 billion yen on the consolidated base, and 161.8 billion yen on the non-consolidated base for the fiscal year ended March 2004.

On top of that, in order to accelerate cash inflow from the real estate inventories, ITOCHU has reviewed those values and recognized disposal loss and devaluation loss for real estate inventories, totaling 23.9 billion yen on the consolidated base and 13.2 billion yen on the non-consolidated base.

### **Task to be dealt with (Management Policy for the Future)**

Under such circumstances, ITOCHU will continuously stay the course on the policy of its mid-term management plan “Super A&P-2004” and will accelerate the construction of the sound base for the “high jump” for fiscal 2006 onwards, regarding fiscal 2005 as the year to complete the A&P strategy. The key measures are as follows;

- 1) ITOCHU will continue the reallocation and upgrade of assets to reinforce its profitability and the thorough control of interest-bearing debts, to strengthen the financial structure by improving such financial ratios as Debts-to-Equity ratio by improving asset efficiency.
- 2) ITOCHU will focus on the “consumer and retail related sector” and “Asia especially China”, by aggressively allocating management resources to six business domains and two geographical areas including the information and multimedia; natural

resource development; financial services; North America; and Asia; and other new A&P segments from fiscal 2005 of chemicals, forest products and general merchandise; and automobile. At the same time, ITOCHU will further promote new businesses including the development of the innovative technologies such as biotechnology and nanotechnology.

- 3) ITOCHU will continuously reinforce its corporate governance with high transparency and its risk management system to form the solid management system.
- 4) ITOCHU aims to establish more flexible personnel strategy by securing and activating its human resources; and promoting the appointment of the right person for the right job, in order to make use of various human resources to support the A&P strategy.

By implementing the above-mentioned strategies, we will make an effort at forming a corporate group with the consolidated net income of 100 billion yen, and contributing to regional and global societies including active approaches to global environmental issues.

### **Dividends policy**

ITOCHU 's basic policy regarding the dividend payments is a consistent and stable distribution of returns to the stockholders, while maintaining and strengthening our competitive power by retaining earnings. However, ITOCHU regrettably plans to forgo cash dividend payments for the fiscal year ended March 2004 because the early application of impairment accounting has resulted in a net loss.

## **Basic Policy concerning Corporate Governance**

It is our basic policy to establish a management system with highly transparent management system (sophisticated corporate governance) by enhancing transparency in its decision-making process, corporate information disclosure and management accountability, and risk management including compliance with laws and regulations, and establishment of business ethics.

## **State of Implementation of Measures concerning Corporate Governance**

1. The present corporate governance system

ITOCHU adopts the following corporate governance systems based on a corporate structure with corporate auditors system.

-The Board of Directors consisting of 11 Directors, which is a reasonable size for substantial discussion, makes managerial decisions and supervises business operations.

-The Board of Corporate Auditors (including two outside auditors) strictly monitors business operations of directors and executive officers, paying special attention to close cooperation with the internal audit section and collaboration with the auditors of group companies.

-ITOCHU has introduced executive officer position and currently there are 34 executive officers (as of March 2004) who devote themselves to their specific operations.

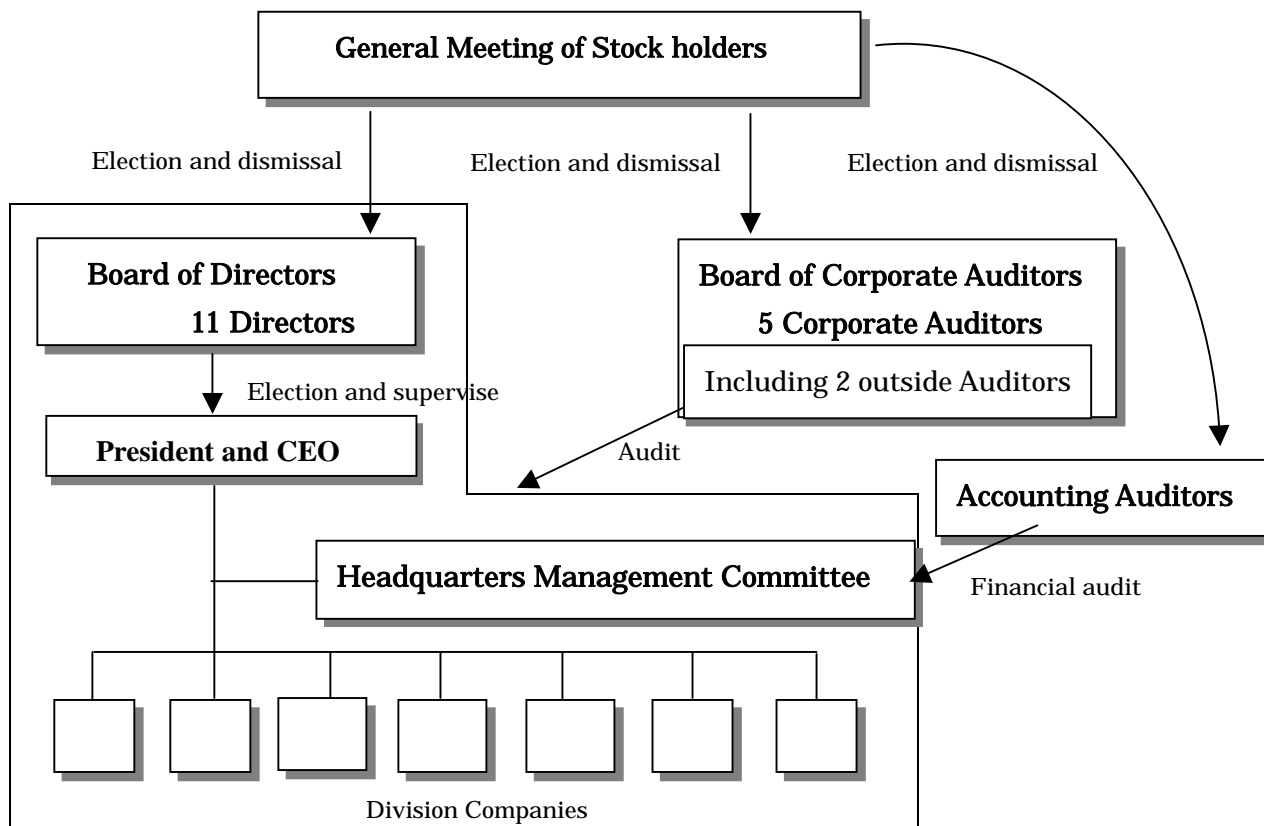
-ITOCHU has established HMC (Headquarters Management Committee), as a support body to the President, to discuss general management policies and important issues relating to corporate management.

-ITOCHU has established an Advisory Board composed of outside experts from various fields to obtain useful opinions on management from an objective point of view.

-Serving as an internal control system, the internal audit division audits the adequacy and efficiency of the business operations. Also, regarding the compliance, ITOCHU takes various measures to make the employees fully understand "ITOCHU Corporation Code of Conducts," and the Business Ethics and Compliance Committee headed by the Chief Compliance Officer works to enhance the corporate compliance structure.

-ITOCHU has appointed Deloitte Touche Tohmatsu as its financial auditor, to create an environment where the audit is executed from the fair and unbiased perspective. In addition, ITOCHU obtains advice from the corporate lawyers when judgment should be made from a legal standpoint.

The following is the organization chart;



## 2. State of Implementation of Measures concerning Corporate Governance

During fiscal 2004, ITOCHU held 27 Board of Directors Meetings to make management decisions on matters set forth by laws and regulations and other important matters as well as to monitor business operations. In addition, the Corporate Auditors audited the performances and behaviors of directors and executive officers through the examination of their attendance to the important meetings like Board of Directors Meetings, business duties, and private properties based on the audit policies and plans determined by the Board of Auditors. With regard to compliance, ITOCHU has reorganized the former Compliance Committee into the Business Ethics and Compliance Committee, not only to comply with laws and regulations but also to make all of the employees fully understand the corporate principle and code of conduct.

## Outlook for Fiscal 2005

Business environment in fiscal 2005 is expected to realize its recovery led by domestic demand mainly in consumer spending and capital expenditure. However, sufficient attention should be paid to the future economic trend due to the current seesawing stock prices and foreign exchange rates.

Under these circumstances, ITOCHU is expecting consolidated total trading transactions of 9.2 trillion yen, with a consolidated net income of 71 billion yen, for the fiscal year ending March 2005.

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

### Fiscal 2005 consolidated forecasts (April 2004 – March 2005)

	Full year	Changes from the previous fiscal year	1 <sup>st</sup> half	Changes from the 1 <sup>st</sup> half of the previous year
Total trading transactions	9.2 trillion yen	-3.3%	4.4 trillion yen	-5.9%
Net income	71 billion yen	-	32 billion yen	67.0%

(Note)	Fiscal 2005 Forecasts	Fiscal 2004 Results
Exchange rate (Yen/US\$)	110.00	113.78
Crude oil price (US\$/BBL)	25.00	28.90

### Distribution of the last and current fiscal year's profit

ITOCHU regrettably plans to forgo cash dividend payments for the fiscal year ended March 2004 because the early application of impairment accounting has resulted in a net loss.

For the fiscal year ending March 2005, on the other hand, ITOCHU intends to make a six to seven yen dividend payment per share.

# Summary of Operations

## **General Conditions**

During fiscal 2004, ended March 31, 2004, the Japanese economy has gradually picked up with the steady growth of exports in the wide range of industries, which was partly due to the limited influences of "SARS" and IRAQI war, and the favorable economic conditions in the U.S. and China. Also, corporate profits have been increased by around double figures, as a result of continuous restructuring activity and the good performance in exports. Capital expenditure has increased, and individual spending has shown a sign of recovery. Meanwhile, the stock market trend turned to an upturn after the last May, reaching 11,000 yen at the end of this March with the steady recovery of the economy and the likely settlement of the bad-debt problem of the Japanese banks. Regarding foreign exchange, yen has sharply risen against U.S. dollars to around 106 yen / U.S. dollars, from 120 yen at the end of the last fiscal year.

Overseas, the steady recovery has been seen as a whole. The U.S. economy has been growing with the large-scale tax reduction enacted in the end of the last May, and the China economy maintains high-level mainly in capital expenditure.

## **Impairment losses for fixed assets**

(Note) Please refer to page 10 for the actual amounts against ITOCHU's announcement on April 2, 2004.

In fiscal 2004, ended March 31, 2004, ITOCHU and its subsidiaries early adopted "Impairment accounting for fixed assets" in Japan GAAP, which will be compulsory applied in the fiscal year ending March 2006 in Japan. Although ITOCHU has already adopted impairment accounting for its consolidated financial statements according to U.S. GAAP, impairments additionally recognized under Japan GAAP were reflected on consolidated financial statements based on U.S. GAAP, considering the slow recovery of the Japanese real estate market. As regards the application of impairment accounting, ITOCHU has reviewed not only the assets held by the construction and realty division, but also the fixed assets held by headquarters and the other Division Companies, considering the current conditions and our future policy of possession.

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

As a result, for the consolidated financial statements for fiscal 2004, ITOCHU recognized impairment losses for fixed assets of 123.3 billion yen (1,166 million U.S. dollars) and devaluation losses for real estate inventories of 23.9 billion yen (227 million U.S. dollars), totaling losses of 147.2 billion yen (1,393 U.S. million dollars).

## **Operating results**

In fiscal 2004, ended March 31, 2004, total trading transactions decreased by 9.0% or 944.7 billion yen from the last fiscal year to 9,517.0 billion yen (90,046 million U.S. dollars). Despite the increases in the sales in crude oil, naphtha and chemical, low-efficient transactions were reduced in

Plant, Automobile & Industrial Machinery; Aerospace, Electronics & Multimedia; Chemicals, Forest Products & General Merchandise; Food; and so forth. In addition, stronger yen against U.S. dollars than the last fiscal year also had an effect on this decrease.

Gross trading profit decreased by 1.8% or 10.1 billion yen from the last fiscal year to 555.9 billion yen (5,260 million U.S. dollars) due to disposal and devaluation losses for real estate inventories of 20.2 billion yen (191 million U.S. dollars) in addition to a decrease in mineral resources sector in the wake of the stronger Australian dollars against U.S. dollars, despite steady performances in brand-related sector; and forest products & general merchandise-related sector in North America and Europe.

Selling, general and administrative expenses increased by 3.9% or 17.6 billion yen to 466.1 billion yen (4,410 million U.S. dollars) due to a rise (10.1 billion yen) in periodic pension costs because of an increase in amortization of unrecognized actuarial losses and net loss on settlements of substitutional portion.

Interest expenses improved by 19.3% or 5.9 billion yen, mainly due to the U.S. interest rate's drop, which led to a decline in net financial expenses by 30.9% or 6.4 billion yen to 14.2 billion yen (134 million U.S. dollars), in addition to an increase in dividends received from LNG-related investments. In the meantime, net loss on property and equipment increased its losses by 128.7 billion yen from the last fiscal year.

Consequently, income (loss) before income taxes, minority interests and equity in earnings deteriorated by 149.7 billion yen from the last fiscal year to the loss of 92.0 billion yen (871 million U.S. dollars).

Equity in earnings of associated companies increased by 35.1% or 6.5 billion yen to 25.1 billion yen (237 million U.S. dollars) due to the good performances of associated companies in machinery and energy sectors, in addition to the contribution in earnings from new equity-method companies in food and finance-related sectors. However, this growth was insufficient to cover a drop in income (loss) before income taxes, minority interests and equity in earnings caused mainly by impairment losses for fixed assets and an increase in periodic pension costs. As a result, net income (loss) deteriorated by 52.0 billion yen to the loss of 31.9 billion yen (302 million U.S. dollars).

### **Financial Conditions**

Total assets as of March 31, 2004 remained roughly the same from March 31, 2003, which was 4,487.3 billion yen (42,457 million U.S. dollars). Although new or additional investments increased in A&P segments under ITOCHU's "Super A&P" strategy and stock investments increased by revaluation due to a surge of stock price, there were some effects on reducing assets such as impairment losses for fixed assets, disposal and devaluation losses for real estate inventories, and a stronger yen against U.S. dollars than March 31, 2003.

Stockholders' equity slightly decreased by 3.4 billion yen from March 31, 2003, to 422.9 billion yen (4,001 million U.S. dollars) due to a stronger yen against U.S. dollars than March 31, 2003 and a decrease in retained earnings with the net loss for this fiscal year, in spite of a drastic improvement of unrealized gains (losses) on securities due to the soaring stock price.

Net interest-bearing debts (interest-bearing debts after deducting cash, cash equivalents and time deposits) decreased by 2.4% or 48.0 billion yen to 1,977.0 billion yen (18,706 million U.S. dollars), which recorded below 2,000.0 billion yen for the first time since the restructuring plans implemented

in 1997 and 1999. As a result, net DER (Debt-to-Equity Ratio) improved by 0.1 point from March 31, 2003, to 4.7 times, in spite of a slight decrease in stockholders' equity.

Cash flows from operating activities recorded net cash-inflow of 184.8 billion yen (1,748 million U.S. dollars), which was mainly generated by further collections of trade receivables. Net cash used in investing activities was 55.3 billion yen (523 million U.S. dollars) as a result of acquisitions of trademarks and mining rights, in addition to new or additional investments in the food and finance sectors. A further reduction of interest-bearing debts led to 79.7 billion yen (754 million U.S. dollars) of net cash-outflow in financing activities.

As a result, the current balance of cash and cash equivalents as of March 31, 2004 increased by 45.4 billion yen to 579.6 billion yen (5,484 million U.S. dollars) from March 31, 2003.

### Impairment losses for fixed assets

(Actual amounts against ITOCHU's announcement on April 2, 2004)

(Unit: billion yen)

	Consolidated		Non-consolidated	
	Actual amounts	Announced on April 2	Actual amounts	Announced on April 2
(1) Impairment losses				
(a) Building for rent	59.5	60.0	58.8	60.0
(b) Assets for common use like company-owned house	27.1	25.0	74.6	75.0
(c) Subsidiary-owned business property, golf course etc.	36.6	40.0	-	-
(d) Allowance for impairment recognized by subsidiaries (Non-consolidated basis only)	-	-	28.4	30.0
Sub-total	123.3	125.0	161.8	165.0
(2) Disposal and devaluation losses for real estate inventories	23.9	25.0	13.2	15.0
Total (1)+(2)	147.2	150.0	175.0	180.0

(Note)

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

The trend of cash flow indices for ITOCHU is as follows;

(Years ended March 31)

	2000	2001	2002	2003	2004
Ratio of stockholders' equity to total assets (%)	4.6	6.1	8.4	9.5	9.4
Ratio of market capitalization to total assets (%)	12.9	12.3	12.9	10.2	16.5
Years of debts redemption (years)	18.1	19.2	12.9	15.2	13.9
Interest coverage ratio (times)	1.6	1.3	2.9	3.4	4.4

Ratio of stockholders' equity to total assets (%) = Stockholders' equity / Total assets

Ratio of market capitalization to total assets (%) = Market capitalization / Total assets

Years of debts redemption (years) = Interest-bearing debts / Cash flows from operating activities

Interest coverage ratio (times) = Cash flows from operating activities / Interest paid

(\*) The above indices are presented on consolidated basis.

(\*) Cash flows from operating activities are used. Interest-bearing debts are all the liabilities on the balance sheets that oblige to pay interest expense.

Note: The consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of 105.69 yen = 1 U.S. dollars, the exchange rate prevailing on March 31, 2004.

## Consolidated Balance Sheets (Assets)

ITOCHU Corporation and Subsidiaries

March 31, 2004 and 2003

Assets	Y e n (millions)		U.S. dollars (millions)
	2004	2003	2004
<b>Current assets:</b>			
Cash and cash equivalents.....	579,565	534,156	5,484
Time deposits.....	5,297	15,216	50
Marketable securities.....	42,302	40,879	400
Trade receivables :			
Notes.....	130,562	145,764	1,235
Accounts.....	948,795	907,315	8,977
Allowance for doubtful receivables.....	(21,937)	(24,816)	(207)
Net trade receivables.....	1,057,420	1,028,263	10,005
Due from associated companies.....	83,709	98,157	792
Inventories .....	374,171	402,242	3,541
Advances to suppliers.....	46,739	40,398	442
Deferred income taxes.....	36,279	31,812	343
Other current assets.....	237,697	214,055	2,249
Total current assets .....	2,463,179	2,405,178	23,306
<b>Investments and non-current receivables:</b>			
Investments in and advances to associated companies.....	481,451	447,155	4,555
Other investments.....	386,522	339,527	3,657
Other non-current receivables.....	382,872	465,548	3,623
Allowance for doubtful items.....	(174,662)	(206,050)	(1,653)
Net investments and non-current receivables .....	1,076,183	1,046,180	10,182
<b>Property and equipment, at cost :</b>			
Land.....	158,584	264,825	1,500
Buildings.....	317,596	298,215	3,005
Machinery and equipment.....	260,272	250,107	2,463
Furniture and fixtures.....	53,528	49,467	506
Construction in progress.....	7,875	6,322	75
	797,855	868,936	7,549
Less accumulated depreciation.....	314,692	276,439	2,977
Net property and equipment .....	483,163	592,497	4,572
Deferred income taxes, non-current.....	129,101	89,585	1,221
Other assets and deferred charges.....	335,656	352,965	3,176
<b>Total .....</b>	<b>4,487,282</b>	<b>4,486,405</b>	<b>42,457</b>

Note :

Consolidated balance sheets have been prepared in conformity with accounting principles generally accepted in the United States of America.

## Consolidated Balance Sheets (Liabilities and Stockholders' Equity)

ITOCHU Corporation and Subsidiaries

March 31, 2004 and 2003

Liabilities and Stockholders' Equity	Y e n (millions)		U.S. dollars (millions)
	2004	2003	2004
<b>Current liabilities:</b>			
Short-term debt .....	549,809	465,108	5,202
Current installments of long-term debt.....	335,444	525,831	3,174
Trade payables :			
Notes and acceptances.....	154,902	168,310	1,466
Accounts.....	754,147	769,403	7,135
Total trade payables.....	909,049	937,713	8,601
Due to associated companies.....	42,941	36,058	406
Income taxes payable.....	18,275	19,505	173
Advances from customers.....	53,467	44,164	506
Other current liabilities.....	236,162	232,853	2,235
Total current liabilities .....	2,145,147	2,261,232	20,297
<b>Long-term debt, excluding current installments.....</b>	<b>1,757,313</b>	<b>1,637,916</b>	<b>16,627</b>
<b>Accrued retirement and severance benefits.....</b>	<b>21,512</b>	<b>22,383</b>	<b>204</b>
<b>Deferred income taxes, non-current.....</b>	<b>13,261</b>	<b>9,528</b>	<b>125</b>
<b>Minority interests.....</b>	<b>127,183</b>	<b>129,126</b>	<b>1,203</b>
<b>Stockholders' equity:</b>			
Common stock :			
Authorized 3,000,000,000 shares ;			
Issued and outstanding			
1,584,889,504 shares as of March 31, 2004			
1,583,487,736 shares as of March 31, 2003.....	202,241	202,241	1,914
Capital surplus .....	136,915	136,842	1,295
Retained earnings :			
Legal reserve .....	3,450	3,212	33
Other retained earnings .....	106,958	143,014	1,012
Accumulated other comprehensive income (loss).....	(25,982)	(58,408)	(246)
Treasury stock .....	(716)	(681)	(7)
Total stockholders' equity .....	422,866	426,220	4,001
<b>Total .....</b>	<b>4,487,282</b>	<b>4,486,405</b>	<b>42,457</b>

The components of accumulated other comprehensive income (loss) were as follows:

	Y e n (millions)		U.S. dollars (millions)
	2004	2003	2004
Foreign currency translation adjustments.....	(67,767)	(51,209)	(641)
Minimum pension liability adjustments.....	(634)	(1,428)	(6)
Unrealized gains (losses) on securities.....	45,653	(381)	432
Unrealized losses on derivative instruments.....	(3,234)	(5,390)	(31)

## Consolidated Statements of Operations

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2004 and 2003

	Y e n (millions)		U.S. dollars (millions)
	2004	2003	2004
<b>Gross trading profit</b> .....	<b>555,895</b>	566,037	<b>5,260</b>
( Total trading transactions : 2004: 9,516,967 million yen ( 90,046 million U.S.dollars ) 2003: 10,461,620 million yen )			
Selling, general and administrative expenses .....	<b>(466,055)</b>	(448,473)	<b>(4,410)</b>
Provision for doubtful accounts .....	<b>(10,624)</b>	(16,845)	<b>(101)</b>
Interest income .....	<b>12,819</b>	16,939	<b>121</b>
Interest expense .....	<b>(37,562)</b>	(47,594)	<b>(355)</b>
Dividends received.....	<b>10,528</b>	10,076	<b>100</b>
Loss on disposal of investments and marketable securities, net of write-downs.....	<b>(13,633)</b>	(13,182)	<b>(129)</b>
Loss on property and equipment-net.....	<b>(129,432)</b>	(755)	<b>(1,225)</b>
Other-net.....	<b>(13,982)</b>	(8,528)	<b>(132)</b>
<b>Income (loss) before income taxes, minority interests and equity in earnings</b> .....	<b>(92,046)</b>	57,675	<b>(871)</b>
Income taxes :			
Current .....	<b>(31,122)</b>	(31,287)	<b>(295)</b>
Deferred .....	<b>76,579</b>	(14,365)	<b>725</b>
	<b>45,457</b>	(45,652)	<b>430</b>
<b>Income (loss) before minority interests and equity in earnings</b> .....	<b>(46,589)</b>	12,023	<b>(441)</b>
Minority interests .....	<b>(10,406)</b>	(10,484)	<b>(98)</b>
Equity in earnings of associated companies .....	<b>25,051</b>	18,539	<b>237</b>
<b>Net income (loss)</b> .....	<b>(31,944)</b>	20,078	<b>(302)</b>
	Y e n	U.S.dollars	
	2004	2003	2004
<b>Net income (loss) per common shares (basic)</b> .....	<b>(20.2)</b>	13.1	<b>(0.19)</b>
<b>Net income (loss) per common shares (diluted)</b> .....	<b>-</b>	13.1	<b>-</b>

### Note :

- Consolidated statements of operations have been prepared in conformity with accounting principles generally accepted in the United States of America.
- Comprehensive income (loss) for the years ended March 31, 2004 and 2003 were income of 482 million yen (5 million U.S.dollars) and loss of 18,066 million yen, respectively.
- "Total trading transactions" is presented in accordance with Japanese accounting practice.  
Total trading transactions in the consolidated statements of income consist of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.  
The company is in the process of reviewing its policy with respect to the presentation of revenues in its Consolidated statements of operations. Presentation in accordance with Emerging Issues Task Force (EITF) No.99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" would require that certain revenue transactions with corresponding cost of revenues be presented on a gross basis. Adoption of this principle would require the restatement of previously issued financial statements but will have no impact on gross trading profits, net income or stockholders' equity.
- "Selling, general and administrative expenses" includes the amount of net loss on settlement of substitutional portion of 3,161 million yen (30 million U.S.dollars).
- "Equity in earnings of associated companies" and "Minority interests" include the amount of gains on negative goodwill of 1,828 million yen (17 million U.S.dollars).

## Consolidated Statements of Stockholders' Equity

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2004 and 2003

	Yen (millions)		U.S. dollars (millions)
	2004	2003	2004
<b>Common stock:</b>			
Balance at beginning of year.....	202,241	174,749	1,914
Issuance of common stock .....	-	27,492	-
Balance at end of year .....	<u>202,241</u>	<u>202,241</u>	<u>1,914</u>
<b>Capital surplus:</b>			
Balance at beginning of year .....	136,842	111,348	1,295
Issuance of common stock for public offering.....	-	27,285	-
Acquisition of minority interests through issuance of common stock.....	141	-	1
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies .....	(82)	(1,791)	(1)
Excess arising from retirement of treasury stock .....	14	-	-
Balance at end of year.....	<u>136,915</u>	<u>136,842</u>	<u>1,295</u>
<b>Retained earnings:</b>			
Legal reserve:			
Balance at beginning of year .....	3,212	3,410	31
Transfer from retained earnings .....	301	16	3
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies .....	(63)	(214)	(1)
Balance at end of year .....	<u>3,450</u>	<u>3,212</u>	<u>33</u>
Other retained earnings:			
Balance at beginning of year .....	143,014	128,468	1,353
Net income .....	(31,944)	20,078	(302)
Cash dividends.....	(3,956)	(7,521)	(37)
Transfer to legal reserve .....	(301)	(16)	(3)
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies .....	145	2,005	1
Balance at end of year .....	<u>106,958</u>	<u>143,014</u>	<u>1,012</u>
<b>Accumulated other comprehensive income (loss):</b>			
Balance at beginning of year.....	(58,408)	(20,264)	(553)
Other comprehensive income (loss).....	32,426	(38,144)	307
Balance at end of year .....	<u>(25,982)</u>	<u>(58,408)</u>	<u>(246)</u>
<b>Treasury stock:</b>			
Balance at beginning of year.....	(681)	(43)	(7)
Net changes in treasury stock .....	(35)	(638)	-
Balance at end of year .....	<u>(716)</u>	<u>(681)</u>	<u>(7)</u>
<b>Total .....</b>	<u>422,866</u>	<u>426,220</u>	<u>4,001</u>
<b>Comprehensive income (loss):</b>			
Net income (loss) .....	(31,944)	20,078	(302)
Other comprehensive income (loss).....	32,426	(38,144)	307
<b>Total.....</b>	<u>482</u>	<u>(18,066)</u>	<u>5</u>

## Consolidated Statements of Cash Flows (Condensed)

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2004 and 2003

	Y e n		U.S. dollars
	(millions)		(millions)
	2004	2003	2004
<b>Cash flows from operating activities :</b>			
Net income (loss) .....	(31,944)	20,078	(302)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization .....	40,184	33,794	380
Provision for doubtful accounts .....	10,624	16,845	101
Loss on marketable securities and investments.....	13,633	13,182	129
Loss on property and equipment .....	129,432	755	1,225
Equity in earnings of associated companies, less dividends received .....	(19,502)	(12,104)	(185)
Deferred income taxes .....	(76,579)	14,365	(725)
Minority interests .....	10,406	10,484	98
Changes in assets and liabilities, other-net .....	108,526	71,444	1,027
Net cash provided by operating activities .....	<u>184,780</u>	<u>168,843</u>	<u>1,748</u>
<b>Cash flows from investing activities :</b>			
Net purchase of fixed assets .....	(47,946)	(16,556)	(454)
Net increase in investments in and advances to associated companies .....	(8,546)	(8,558)	(81)
Net sale (purchase) of investments .....	(5,515)	404	(52)
Net collection (origination) of non-current receivables .....	(2,775)	17,319	(26)
Net decrease in time deposits.....	9,769	2,573	93
Net decrease (increase) in marketable securities.....	(287)	10,071	(3)
Net cash provided by (used in) investing activities .....	<u>(55,300)</u>	<u>5,253</u>	<u>(523)</u>
<b>Cash flows from financing activities :</b>			
Net repayments of long-term debt .....	(25,368)	(137,057)	(240)
Net decrease in short-term debt .....	(47,543)	(22,205)	(450)
Proceeds from issuance of common stock .....	-	54,777	-
Other .....	(6,784)	(9,556)	(64)
Net cash used in financing activities .....	<u>(79,695)</u>	<u>(114,041)</u>	<u>(754)</u>
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>(4,376)</b>	<b>(5,633)</b>	<b>(41)</b>
<b>Net increase in cash and cash equivalents .....</b>	<b>45,409</b>	<b>54,422</b>	<b>430</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>534,156</b>	<b>479,734</b>	<b>5,054</b>
<b>Cash and cash equivalents at end of year .....</b>	<b><u>579,565</u></b>	<b><u>534,156</u></b>	<b><u>5,484</u></b>

Note :

From this fiscal year, "Minority interests", which were previously included in "Other non-cash charges", is separately stated, and a previous individual item of "Other non-cash charges" is included in "Changes in assets and liabilities, other-net".

Accordingly, the consolidated statements of cash flows in the previous year are reclassified to conform to the current year's presentation .

## Total Trading Transactions and Gross Trading Profit

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2004 and 2003

Total Trading Transactions:	Yen (millions)		U.S.dollars (millions)		
	2004	2003	2004	2003	
		%		%	
Textile	817,006	8.6	871,680	8.3	7,730
Plant, Automobile & Industrial Machinery	1,406,927	14.8	1,746,583	16.7	13,312
Aerospace, Electronics & Multimedia	633,996	6.7	809,150	7.7	5,999
Energy, Metals & Minerals	2,138,232	22.5	2,216,196	21.2	20,231
Chemicals, Forest Products & General Merchandise	1,714,950	18.0	1,799,838	17.2	16,226
Food	2,345,137	24.6	2,522,544	24.1	22,189
Finance, Realty, Insurance & Logistics Services, & Other	460,719	4.8	495,629	4.8	4,359
<b>Total</b>	<b>9,516,967</b>	<b>100.0</b>	<b>10,461,620</b>	<b>100.0</b>	<b>90,046</b>

Gross Trading Profit:	Yen (millions)		U.S.dollars (millions)		
	2004	2003	2004	2003	
		%		%	
Textile	100,342	18.1	93,471	16.5	949
Plant, Automobile & Industrial Machinery	51,104	9.2	48,576	8.6	483
Aerospace, Electronics & Multimedia	105,466	19.0	102,538	18.1	998
Energy, Metals & Minerals	24,711	4.4	32,958	5.8	234
Chemicals, Forest Products & General Merchandise	91,914	16.5	87,061	15.4	870
Food	130,921	23.5	130,114	23.0	1,239
Finance, Realty, Insurance & Logistics Services, & Other	51,437	9.3	71,319	12.6	487
<b>Total</b>	<b>555,895</b>	<b>100.0</b>	<b>566,037</b>	<b>100.0</b>	<b>5,260</b>

## Segment Information

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2004 and 2003

ITOCHU Corporation and its subsidiaries are engaged in a wide range of diversified businesses which includes:

general trading operations both domestic and overseas; providing financial services to customers and suppliers; planning, arranging and coordinating industrial projects in connection with general trading; and investing in fields of resource development, advanced technology, information and multimedia.

ITOCHU Corporation and its subsidiaries have introduced the division company system, and information on operating segments are stated according to this system.

This system is used for decisions in operations or evaluations by the management.

Information concerning operations in different operating segments for years ended March 31, 2004 and 2003 was as follows:

	2004								Consolidated
	Textile	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	
Trading transactions:									
Unaffiliated customers and associated companies .....	817,006	1,406,927	633,996	2,138,232	1,714,950	2,345,137	235,778	224,941	9,516,967
Transfers between operating segments ...	1,710	123	1,197	734	7,801	242	7,735	(19,542)	-
Total trading transactions .....	<u>818,716</u>	<u>1,407,050</u>	<u>635,193</u>	<u>2,138,966</u>	<u>1,722,751</u>	<u>2,345,379</u>	<u>243,513</u>	<u>205,399</u>	<u>9,516,967</u>
Gross trading profit .....	<u>100,342</u>	<u>51,104</u>	<u>105,466</u>	<u>24,711</u>	<u>91,914</u>	<u>130,921</u>	<u>15,965</u>	<u>35,472</u>	<u>555,895</u>
Net income (loss) .....	<u>11,681</u>	<u>3,855</u>	<u>2,575</u>	<u>12,924</u>	<u>11,534</u>	<u>13,279</u>	<u>(75,631)</u>	<u>(12,161)</u>	<u>(31,944)</u>
Identifiable assets at March 31 .....	<u>382,696</u>	<u>433,557</u>	<u>464,311</u>	<u>443,726</u>	<u>557,364</u>	<u>711,606</u>	<u>609,733</u>	<u>884,289</u>	<u>4,487,282</u>

	2003								Consolidated
	Textile	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	
Trading transactions:									
Unaffiliated customers and associated companies .....	871,680	1,746,583	809,150	2,216,196	1,799,838	2,522,544	269,442	226,187	10,461,620
Transfers between operating segments ...	2,423	168	983	1,316	8,702	248	1,215	(15,055)	-
Total trading transactions .....	<u>874,103</u>	<u>1,746,751</u>	<u>810,133</u>	<u>2,217,512</u>	<u>1,808,540</u>	<u>2,522,792</u>	<u>270,657</u>	<u>211,132</u>	<u>10,461,620</u>
Gross trading profit .....	<u>93,471</u>	<u>48,576</u>	<u>102,538</u>	<u>32,958</u>	<u>87,061</u>	<u>130,114</u>	<u>33,841</u>	<u>37,478</u>	<u>566,037</u>
Net income (loss) .....	<u>10,428</u>	<u>2,363</u>	<u>14,263</u>	<u>10,003</u>	<u>10,682</u>	<u>11,859</u>	<u>(8,403)</u>	<u>(31,117)</u>	<u>20,078</u>
Identifiable assets at March 31 .....	<u>370,802</u>	<u>490,076</u>	<u>484,255</u>	<u>391,551</u>	<u>524,644</u>	<u>654,377</u>	<u>692,656</u>	<u>878,044</u>	<u>4,486,405</u>

	2004								Consolidated
	Textile	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	
Trading transactions:									
Unaffiliated customers and associated companies .....	7,730	13,312	5,999	20,231	16,226	22,189	2,231	2,128	90,046
Transfers between operating segments ...	17	1	11	7	74	2	73	(185)	-
Total trading transactions .....	<u>7,747</u>	<u>13,313</u>	<u>6,010</u>	<u>20,238</u>	<u>16,300</u>	<u>22,191</u>	<u>2,304</u>	<u>1,943</u>	<u>90,046</u>
Gross trading profit .....	<u>949</u>	<u>483</u>	<u>998</u>	<u>234</u>	<u>870</u>	<u>1,239</u>	<u>151</u>	<u>336</u>	<u>5,260</u>
Net income (loss) .....	<u>111</u>	<u>37</u>	<u>24</u>	<u>122</u>	<u>109</u>	<u>126</u>	<u>(716)</u>	<u>(115)</u>	<u>(302)</u>
Identifiable assets at March 31 .....	<u>3,621</u>	<u>4,102</u>	<u>4,393</u>	<u>4,198</u>	<u>5,274</u>	<u>6,733</u>	<u>5,769</u>	<u>8,367</u>	<u>42,457</u>

Information concerning operations in different geographical areas for years ended March 31, 2004 and 2003 was as follows:

<b>2004</b>							Yen (millions)
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers							
and associated companies .....	7,523,783	381,107	167,225	1,273,337	171,515	-	9,516,967
Transfers between geographical areas .....	1,081,327	189,351	30,686	1,272,877	385,288	(2,959,529)	-
Total trading transactions .....	<u>8,605,110</u>	<u>570,458</u>	<u>197,911</u>	<u>2,546,214</u>	<u>556,803</u>	<u>(2,959,529)</u>	<u>9,516,967</u>
Identifiable assets at March 31 .....	<u>3,969,166</u>	<u>276,303</u>	<u>159,018</u>	<u>202,567</u>	<u>232,028</u>	<u>(351,800)</u>	<u>4,487,282</u>

<b>2003</b>							Yen (millions)
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers							
and associated companies .....	8,242,776	484,551	159,584	1,362,552	212,157	-	10,461,620
Transfers between geographical areas .....	1,027,004	202,224	34,901	971,614	392,989	(2,628,732)	-
Total trading transactions .....	<u>9,269,780</u>	<u>686,775</u>	<u>194,485</u>	<u>2,334,166</u>	<u>605,146</u>	<u>(2,628,732)</u>	<u>10,461,620</u>
Identifiable assets at March 31 .....	<u>3,884,166</u>	<u>372,447</u>	<u>174,403</u>	<u>202,014</u>	<u>233,304</u>	<u>(379,929)</u>	<u>4,486,405</u>

<b>2004</b>							U.S.dollars (millions)
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers							
and associated companies .....	71,187	3,606	1,582	12,048	1,623	-	90,046
Transfers between geographical areas .....	10,231	1,792	291	12,043	3,645	(28,002)	-
Total trading transactions .....	<u>81,418</u>	<u>5,398</u>	<u>1,873</u>	<u>24,091</u>	<u>5,268</u>	<u>(28,002)</u>	<u>90,046</u>
Identifiable assets at March 31 .....	<u>37,555</u>	<u>2,614</u>	<u>1,505</u>	<u>1,917</u>	<u>2,195</u>	<u>(3,329)</u>	<u>42,457</u>

Note :

1. The above information is prepared in accordance with Japanese accounting standards.
2. The above information presents total trading transactions and identifiable assets by each geographical segment that is based on the nearest region where ITOCHU Corporation and its subsidiaries are located.

**Fair Value of Financial Instruments**  
ITOCHU Corporation and Subsidiaries  
Years ended March 31, 2004 and 2003

**Securities**

ITOCHU Corporation and its subsidiaries have adopted Statement of Financial Accounting Standards No.115 "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). Thus the securities classified as available-for-sale securities are reported at fair value on the balance sheets.

The cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of those available-for-sale securities as of March 31, 2004 and 2003 were as follows:

		2004							
		Cost		Gross Unrealized Holding Gains		Gross Unrealized Holding Losses		Fair Value	
		Yen (millions)	U.S.dollars (millions)	Yen (millions)	U.S.dollars (millions)	Yen (millions)	U.S.dollars (millions)	Yen (millions)	U.S.dollars (millions)
Available-for-sale:									
Current:	Equity securities	-	-	-	-	-	-	-	-
	Debt securities	8,626	82	1	0	1	0	8,626	82
		<u>8,626</u>	<u>82</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>8,626</u>	<u>82</u>
Non-current:	Equity securities	97,381	921	72,302	685	2,283	22	167,400	1,584
	Debt securities	3,590	34	42	0	181	1	3,451	33
		<u>100,971</u>	<u>955</u>	<u>72,344</u>	<u>685</u>	<u>2,464</u>	<u>23</u>	<u>170,851</u>	<u>1,617</u>
		2003							
		Cost		Gross Unrealized Holding Gains		Gross Unrealized Holding Losses		Fair Value	
		Yen (millions)	Yen (millions)	Yen (millions)	Yen (millions)	Yen (millions)	Yen (millions)	Yen (millions)	Yen (millions)
Available-for-sale:									
Current:	Equity securities	-	-	-	-	-	-	-	-
	Debt securities	7,044		1		580		6,465	
		<u>7,044</u>		<u>1</u>		<u>580</u>		<u>6,465</u>	
Non-current:	Equity securities	146,774		18,086		15,801		149,059	
	Debt securities	11,849		54		24		11,879	
		<u>158,623</u>		<u>18,140</u>		<u>15,825</u>		<u>160,938</u>	

**Derivative financial instruments**

The contracts or notional amount, carrying amount, and estimated fair value of derivative financial instruments held as of March 31, 2004 and 2003 were as follows:

		2004					
		Contracts or Notional Amount		Carrying Amount		Estimated Fair Value	
		Yen (millions)	U.S.dollars (millions)	Yen (millions)	U.S.dollars (millions)	Yen (millions)	U.S.dollars (millions)
Foreign exchange contracts (inclusive of currency swap agreements):							
	To sell foreign currencies .....	119,023	1,126	4,296	41	4,296	41
	To buy foreign currencies .....	293,316	2,775	(4,166)	(39)	(4,166)	(39)
	Interest rate swap agreements .....	1,704,109	16,124	9,906	94	9,906	94
	Interest rate option agreements .....	111,775	1,058	(239)	(2)	(239)	(2)
		2003					
		Contracts or Notional Amount		Carrying Amount		Estimated Fair Value	
		Yen (millions)	Yen (millions)	Yen (millions)	Yen (millions)	Yen (millions)	Yen (millions)
Foreign exchange contracts (inclusive of currency swap agreements):							
	To sell foreign currencies .....	100,915		(480)		(480)	
	To buy foreign currencies .....	228,733		3,776		3,776	
	Interest rate swap agreements .....	1,778,326		19,749		19,749	
	Interest rate option agreements .....	109,194		335		335	

## Retirement and Severance Benefits

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2004 and 2003

ITOCHU Corporation and its 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, 2004 and 2003 were as follows:

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

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

	Yen (millions)		U.S. dollars (millions)
	2004	2003	2004
Service cost-benefits earned during the year .....	9,511	10,967	90
Interest cost on projected benefit obligation .....	7,596	7,830	72
Expected return on plan assets .....	(7,178)	(7,006)	(68)
Net amortization .....	19,392	10,929	183
Loss on settlement of substitutional portion-net .....	3,161	-	30
Net periodic pension cost .....	32,482	22,720	307
The amount of cost recognized for defined contribution pension plan .....	373	-	4
Total pension cost .....	32,855	22,720	311

Note: ITOCHU and its subsidiaries have adopted the Emerging Issues Task Force (EITF) 03-2 "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities".

## Forward Looking Statements

Statements in this financial reports with respect to ITOCHU's plans, strategies, forecasts and other statements that are not historical facts and 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.