Annual Report 2003
For The Year Ended March 31, 2003

Attractive

Powerful

Super A&P-2004

Ready for the Leap

ITOCHU Corporation

ITOCHU Corporation

Corporate Profile

Since its foundation in 1858, ITOCHU Corporation has expanded the scope of its business from the import, export, and wholesale of textiles and to a wide range of businesses from natural resource development to consumer goods, and including investment and project planning. Recently, in response to rapid changes in the economic and business environment, ITOCHU has also undertaken fundamental reforms to its profit and financial structure.

From April 2001 to March 2003, we implemented the A&P-2002 Mid-term Plan, under which we aggressively promoted the "selection and concentration" of businesses and improved our financial structure based on our A&P (Attractive and Powerful) strategy.

Following the progress made under A&P-2002, we started Super A&P-2004, a new mid-term plan for the period from April 2003 to March 2005, which aims for a big leap in profitability. The basic policy of the new plan is to continue strengthening our profit-driving A&P segments. With this in mind, we will focus on the "consumer and retail related" sector including textiles and food where ITOCHU has a strong market presence, as well as the China business, information and media, solutions, and natural resources. Furthermore, to drive growth in the future, we intend to develop new businesses relating to innovative technologies in fields such as biotechnology and nanotechnology.

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※Forward Looking Statements (P103)

Two-Year Financial Highlights

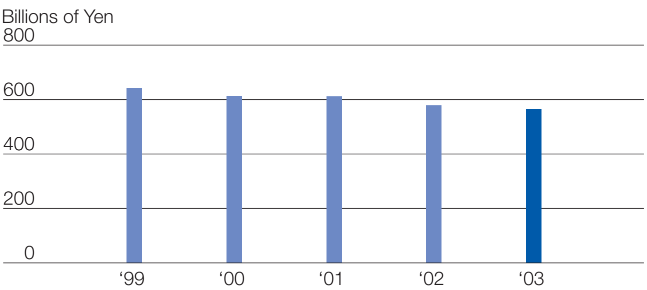
ITOCHU Corporation and Subsidiaries
Years ended March 31

	Millions of Yen		In/Decrease %	Millions of U.S. dollars
	2003	2002	2003/2002	2003
For the year:				
Total trading transactions	¥10,461,620	11,400,471	(8.2)%	$87,035
Gross trading profit	566,037	578,867	(2.2)	4,709
Gross trading profit ratio (%)	5.41	5.08		
Selling, general and administrative expenses	(448,473)	(465,519)	(3.7)	(3,731)
Provision for doubtful accounts	(16,845)	(16,831)	0.1	(140)
Trading income*	100,719	96,517	4.4	838
Net income	20,078	30,191	(33.5)	167
At year-end:				
Total assets	4,486,405	4,752,319	(5.6)	37,325
Stockholders' equity	426,220	397,668	7.2	3,546
Net interest-bearing debts**	2,025,048	2,296,398	(11.8)	16,847
Per ten shares (Yen, U.S. dollars):				
Net income	131	212	(38.2)	1.09
Cash dividends	50	50	0.0	0.42
Ratio:				
Asset turnover (Times)	2.3	2.3		
ROA(%)	0.4	0.6		
ROE (%)	4.9	8.4		
Ratio of stockholders' equity to total assets (%)	9.5	8.4		
Net debt-to-equity ratio (Times)	4.8	5.8		
Interest coverage (Times)	2.7	2.1		

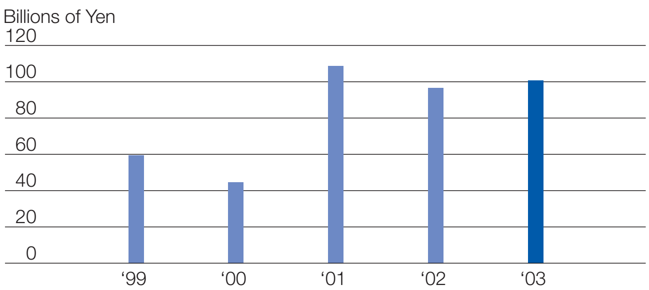
The Japanese yen amounts for the year ended March 31, 2003, have been translated into United States dollar amounts, solely for the convenience of the reader, at the rate of ¥120.20 = U.S.$1, the official rate of The Bank of Tokyo-Mitsubishi, Ltd., as of March 31, 2003.
All figures are for fiscal years, which begin on April 1 of the years preceding and extend through March 31.
Total trading transactions and trading income are represented in accordance with Japanese accounting practice.
Total trading transactions in the consolidated statements of income consist of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.

* Trading income = Gross trading profit + Selling, general and administrative expenses + Provision for doubtful accounts
Throughout this report, except for the Financial Section, all trading income asterisked refers to that defined by this calculation formula.
**Net interest-bearing debts = Interest-bearing debts − Cash, cash equivalents and time deposits

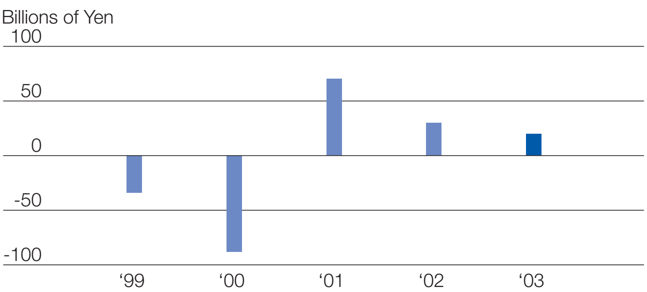
Gross Trading Profit



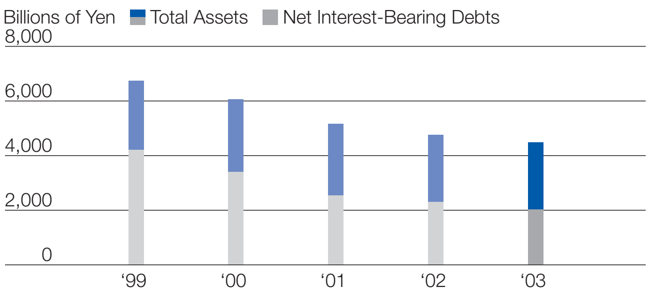
*Trading Income**

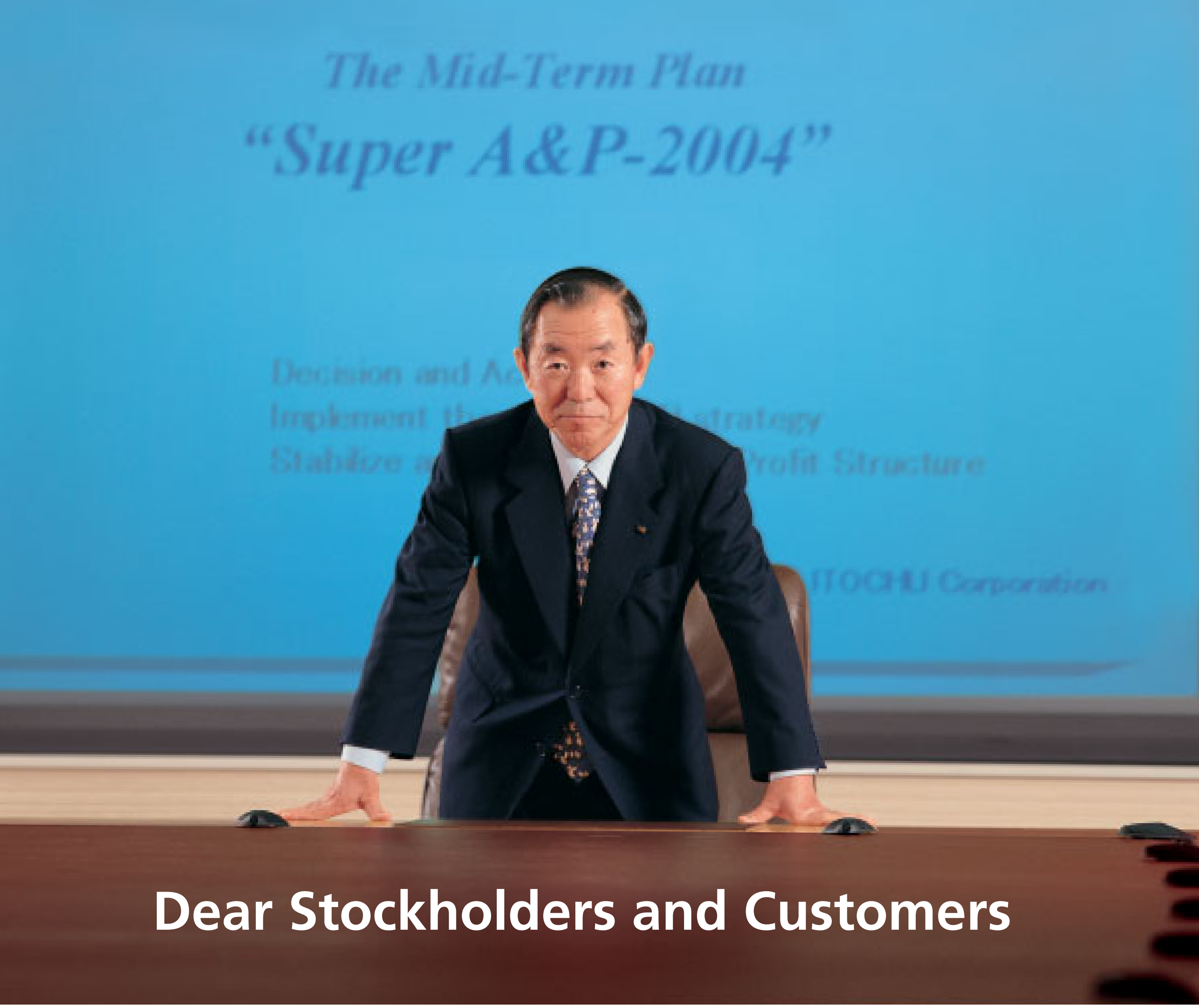


Net Income (Loss)



Total Assets and Net Interest-Bearing Debts





Dear Stockholders and Customers

Consolidated Results for the Year Ended March 2003 —Trading income* again surpasses ¥100 billion, adjusted profit hits record high

The Japanese economy in fiscal year 2003 ended March 31, 2003 showed some signs of a turnaround in the first half, but in the second half experienced a downturn. Reflecting deepening deflation, nominal domestic GDP declined 0.7% over the previous term, the second straight year of negative growth. In overseas economies, Asia continued its robust performance, but the U.S. was lackluster on the whole and Europe remained sluggish.

Our performance in fiscal year 2003 was not satisfactory, but even in such a harsh economic environment, we were able to set the stage for future growth.

Total trading transactions decreased by ¥938.9 billion, or 8.2%, compared to the previous fiscal year. The Aerospace, Electronics & Multimedia Company witnessed a drop off in sales due to the slump in the domestic IT industry. Sales of the Plant, Automobile & Industrial Machinery Company; the Energy, Metals & Minerals Company; and the Construction & Realty Division also decreased year-on-year due to stagnant markets and our efforts to reduce less profitable transactions. Total trading transactions were further adversely affected by the transfer of our steel business in the previous fiscal year to equity-method affiliate Marubeni-Itochu Steel, Inc. **Gross trading profit** decreased by ¥12.8 billion, or 2.2%, to ¥566.0 billion compared to the previous fiscal year, but we were able to boost the **gross trading profit ratio** by 0.33 percentage point to 5.41%. Our continuing efforts in recent years to reduce less profitable transactions and under-performing assets have brought about solid improvements to our gross trading profit ratio.

Reductions in selling, general and administrative expenses of ¥17.0 billion, or 3.7%, have contributed to an increase in **trading income*** of ¥4.2 billion, up 4.4% year-on-year to ¥100.7 billion recovering trading income* to the ¥100 billion mark. We also posted improvements in net financial expenses and equity in earnings of associated companies. A sharp drop in stock prices near the fiscal year-end, however, forced us to take considerable devaluation and disposal losses on marketable securities totaling ¥44.7 billion, which led to a **net income** of ¥20.1 billion, down by ¥10.1 billion, or 33.5%, from the previous fiscal year.

In addition to the above, we also pay close attention to another indicator of profitability, **adjusted profit** (gross trading profit + selling, general, and administrative expense + net financial expenses + equity in earnings (losses) of associated companies). This key indicator hit an all-time high, increasing by ¥12.8 billion to ¥115.5 billion, as we have continued to steadily boost our basic earning power.

Resource Allocation Prioritized Based on A&P Strategy

Under our previous mid-term plan, A&P-2002, which covered the period from April 2001 to March 2003, we worked to reform our profit structure based on our A&P strategy. We worked to strengthen overall profitability by allocating assets to priority areas in which ITOCHU can offer "attractive" products and services for customers and in which we exhibit "powerful" capabilities. Specifically, we prioritized as A&P segments four business segments—information and multimedia, consumer and retail related, natural resource development, and financial services as well as the two regions of North America and Asia.

During this two-year period, **the ratio of A&P assets to total assets** increased from 44% to 50%. And, under the tough economic conditions notwithstanding, **consolidated net income from A&P segments** grew by ¥5.2 billion compared to the previous fiscal year to ¥50.7 billion. Thus, A&P segments have grown to become the unquestionable drivers of ITOCHU's profits.

Maximization of Group Value by Strengthening Group Companies and Financial Position

ITOCHU is strengthening its group companies to make them the key players in our overall profit.

To achieve this objective, under A&P-2002, we worked to maximize the value of the entire group; restructuring unprofitable companies and withdrawal of under-performing operations were one initiative. During the two-year period, **the number of consolidated companies** decreased by 89 to 651. This number represents less than two-thirds of the total as of March 1999, which was 1,027. Over the two-year period of A&P-2002, **net income from subsidiaries and affiliates,** excluding overseas trading subsidiaries, grew from ¥23.1 billion (net of ¥64.7 billion in profits from companies in the black and ¥41.6 billion in losses from those in the red) to ¥47.4 billion (net of ¥62.1 billion in profits and ¥14.7 billion in losses). During the same period, **the ratio of profitable companies, including overseas trading subsidiaries, to the total number of consolidated companies** jumped from 73.5% to over 80% (80.2%).

Additionally, we have made steady progress in strengthening our consolidated financial position over the past two years. We have reduced total assets and interest-bearing debts largely ahead of our original plan. **Total assets** have been reduced by around ¥670 billion to ¥4,486.4 billion, while **net interest-bearing debts** have been reduced by over ¥500 billion to almost ¥2 trillion. At the same time, **stockholders' equity** increased by over ¥100 billion to ¥426.2 billion at the end of March 2003, as we accumulated retained earnings and offered new shares in July 2002 with an effect of ¥54.8 billion increase in stockholders' equity. As a result of these activities, the **stockholders' equity ratio** increased from 6.1% to 9.5% and our **net DER** (net debt-to-equity ratio) improved from 8.0 to 4.8. Nevertheless, we are not satisfied with the current level of stockholders' equity. We plan to increase it further by retaining earnings, while maintaining consistent and stable dividend payments to our stockholders.

Doubling Profits with Super A&P Strategy

Based on the progress made under A&P-2002, we began implementing Super A&P-2004, a new two-year mid-term plan covering the period from April 1, 2003 to March 31, 2005.

Under the new plan, we will further enhance the strategies laid out in the previous A&P plan in order to more fully satisfy our customers, stockholders, employees and society as a whole. We plan to continue strengthening our existing designated profit-driving A&P segments (information and multimedia, consumer and retail related, natural resource related, financial services, North America and Asia).

> We also regard the consumer and retail related sector as a "super powerful" segment in which ITOCHU has a strong market presence.

With the new plan, at the same time, we also regard the consumer and retail related sector as a "super powerful" segment in which ITOCHU has a strong market presence, and the China business, information and media, solutions, and natural resources as "attractive" businesses to strengthen. Further, as a driving tool for the future, we intend to develop new businesses that are related to innovative technologies in fields such as biotechnology and nanotechnology.

For the two-year period under the new plan, we intend to increase the ratio of A&P assets to total assets from 50% to 74% including assets in the newly nominated "highly-efficient" segment from fiscal year 2004, and consolidated net income from A&P segments from ¥50.7 billion to ¥88.0 billion. To reach these goals, we will advance our "selection and concentration" strategy by analyzing the business efficiency of 120 business units and applying one of three strategies: "profit doubling," "2% & 8%" (for semi-core business units in which we target an ROA of 2% and a risk return index (RRI) of 8%), or "reduction or exit." We intend to both increase profits and strengthen our financial position by reducing total assets and aggressively reallocating assets.

Initiatives to Bolster Super A&P Strategy

We have set out four major initiatives for Super A&P-2004.

Executive Vice President, Makoto Kato, has taken on the responsibility for supervising the consumer and retail related sector, our designated "super powerful" segment in which ITOCHU enjoys an overwhelming competitive advantage. He will manage a cross-company project system that encompasses the three fields of textiles; foods; and chemicals, forest products, and general merchandise; and will work to integrate all businesses that are closely related to daily consumer needs. ITOCHU is admittedly one of the largest textile companies in the world. Our food business boasts a top-tier domestic distribution and wholesale network, and our forest products and general merchandise business has a strong presence in the construction and housing materials market. In addition, each of these businesses is characterized by a vertical synthesis of upstream, midstream and downstream businesses; that is, the integration of raw materials procurement and production, wholesaling, distribution and processing, and retailing. We have decided that it is time for us to leverage the sizable synergies that potentially exist in the three fields, and to strengthen horizontal syntheses through inter-segment consumer related projects.

For our second initiative, we set up the China Market Global Development Office to bolster our overall China-related business. The word "global" was included in the department name to indicate that our global strategy is centered on China. In other words, all ITOCHU teams in Japan, the U.S., and Europe come together as one to tackle businesses related to China. This approach differs considerably from the conventional business model of trading companies, which has been based on bilateral trade between Japan and China. ITOCHU has a longer history in China than any other

Japanese trading company, and boasts a network of 14 local offices and more than 200 companies in which we have invested. We will develop our global business based on a “leveraged growth strategy” in which partners in global alliance mutually utilize strengths of the others, and will thereby capitalize on our strength in China to promote large-scale businesses on a global basis together with powerful partners.

Our third initiative involves developing innovative technologies, including biotechnology and nanotechnology. We already have in place the Innovative Technology Business Development Office, and it plays a central role in gathering and analyzing information on promising technologies from all over the world. Our focus here is on creating new businesses based on new technologies that leverage ITOCHU’s strengths, an approach to apply newly developed technologies into businesses, which differs from simply developing new technologies. Although many promising fields exist, we see a tremendous business opportunities in the consumer and retail related sector. In addition to a variety of potential applications of biotechnology to medicine and food, we believe we will be able to create a number of truly innovative businesses. For instance, we have an alliance with Hitachi Ltd. to develop applications for their “μ-chip,” the world’s smallest wireless IC tag. We see a great potential to develop new businesses that combine the μ-chip with the nearly 120 brands we handle. We have already experimented with applications for several sports and fashion brands that would improve inventory efficiency and prevent counterfeiting. I expect such initiatives will demonstrate ITOCHU’s creativity and ambition in taking on innovative technologies.

Our final initiative represents an evolution from the previous mid-term plan. We have significantly increased the scale of funds available for strategic investments because of the current imperative to obtain quality assets in order to strengthen businesses with high growth potential in the future. Specifically, we have increased the fund for strategic investments from ¥40 billion to ¥200 billion in terms of assets. In addition, the Super A&P Strategic Investment Committee helps make timely and appropriate decisions regarding strategic investments, including mergers and acquisitions to reinforce businesses, acquisitions of new technologies, and business expansion in the Asian region. Priority areas for fund allocation will be A&P segments that are expected to contribute to our target of profit doubling and mid- to long-term development projects. At the same time, we will unhesitatingly reduce the assets of or withdraw from business units that exhibit little growth potential and those that fail to enhance efficiency.

Aiming to Become the Strongest Corporate Group

Our full-scale reforms began with the Global-2000, which was executed from April 1999 to March 2001. In fiscal year 2000 under this plan, we wrote off large bad debts and other negative legacies totaling ¥303.9 billion. After that, under A&P-2002, we reorganized our profit structure and restructured our management system. Owing to these reforms, we substantially improved both profitability and financial position, elevating employees’ sensibility to return against risks. Now, I have the sense that the big gears inside ITOCHU that were long covered with rust are beginning to inch forward, which resulted from four years of effort by our employees and group companies. These huge, heavy gears are regaining their fuel and beginning to enter a phase of acceleration. Riding on this momentum, we are ready to take a big leap toward higher profitability.

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With strong business foundations in such high-growth areas as the consumer and retail related segment and China-related business, ITOCHU is aiming to become the strongest group by collaborating internally and optimizing business structures. We have an ambitious goal of creating a group whose companies rank at the top of their respective industries and which generates a consolidated net income of ¥100 billion. Originally, we planned to achieve this goal by March 2005. However, given increasing uncertainties in the global economy, lingering deflation in Japan and the indeterminate impact of SARS, we have decided to revise this plan back one year. **In fiscal year 2005, we will strive to produce consolidated net income of ¥75 billion, prior to this final goal.**

> Since assuming the position of president, I have continuously emphasized the importance of a "clean, honest and beautiful" business attitude.

Corporate Governance and Compliance

In order to promote greater transparency in management, we set up an Advisory Board and strengthened the role of the Board of Corporate Auditors. We also have in place a Group Audit Committee, which is composed of auditors from major group companies, to more effectively monitor the activities of the ITOCHU Group. A Compliance Committee led by the Chief Compliance Officer was also established to ensure compliance with all laws, regulations and policies.

We will not, however, become complacent. The essence of corporate governance and faithful compliance does not lie in formality. Every executive and employee must practice strict self-control, and be aware that people tend to prioritize their own benefit. Without this in mind, even the best system would not guarantee real improvement.

Since assuming the position of president, I have continuously emphasized the importance of a "clean, honest and beautiful" business attitude. We are now entering a growth stage in which ethics will play greater role than ever before. I will strive to imprint this idea firmly in the DNA of ITOCHU.

Thank you very much for the trust you have placed in us. To reward this trust, I promise to make ITOCHU a more attractive company to our customers and a more powerful company for our stakeholders.

July 2003

Uichiro Niwa
President and Chief Executive Officer

Final Review of the Mid-term Plan, A&P-2002

From April 2001 to March 2003, ITOCHU executed A&P-2002 to aggressively tackle reforms that would move it to reach beyond conventional trading company's business models and develop new businesses through the A&P strategy**. In A&P-2002, we set specific numerical goals, some of which we met, others that we fell short of. However, overall we believe it is fair to say that we have consistently enhanced our financial position and basic earning power.

Specifically, we exceeded our targets for reductions in total assets and interest-bearing debts. We did not reach net income goal mainly due to severe economic conditions including the stagnant stock market in Japan.

**A&P Strategy
Strategy aimed at enhancing profitability by intensively allocating assets to the business areas in which ITOCHU can offer "Attractive" products and services for our customers, and shows "Powerful" capabilities. In A&P-2002, we selected as A&P segments four business segments: Information and multimedia, Consumer and retail related, Natural resource development, Financial services; and two geographic regions: North America and Asia.

Results of A&P-2002 (Consolidated-basis)

	Billions of Yen			
	Starting Point	The First Year	The Second Year	(Plan at FY2003 start)
	2001	2002	2003	
P/L (For fiscal years):				
Net income	70.5	30.2	20.1	(50.0)
B/S (As of March 31):				
Total assets	5,157.5	4,752.3	4,486.4	(4,650.0)
Interest-bearing debts	3,070.5	2,794.7	2,574.4	(2,750.0)
Net interest-bearing debts***	2,536.8	2,296.4	2,025.0	(2,250.0)
Stockholders' equity	316.9	397.7	426.2	(440.0)
Ratio (For fiscal years):				
ROA****	1.26%	0.61%	0.43%	(1.1%)
ROE****	23.6%	8.4%	4.9%	(11.4%)
Net DER	8.0 times	5.8 times	4.8 times	(5.1 times)
Equity ratio	6.1%	8.4%	9.5%	(9.5%)

*** Net interest-bearing debts = Interest-bearing debts - Cash, cash equivalents and time deposits
**** ROA and ROE were calculated from average amounts of total assets and stockholders' equity at the beginning of year and at the end of year.

Creating a New Business Model – "Reorganization of the Profit Structure"

As a result of a large amount of disposal and devaluation losses on marketable securities caused by a sharp drop in stock prices around the end of the fiscal year, our net income in fiscal year 2003 stood at ¥20.1 billion, which represented approximately 40% of our goal of ¥50 billion. Despite this, our inherent earning power has been steadily strengthened, which is witnessed by a high-level of trading income and a record-high adjusted profit. ITOCHU enjoys top-class profitability among major trading companies.

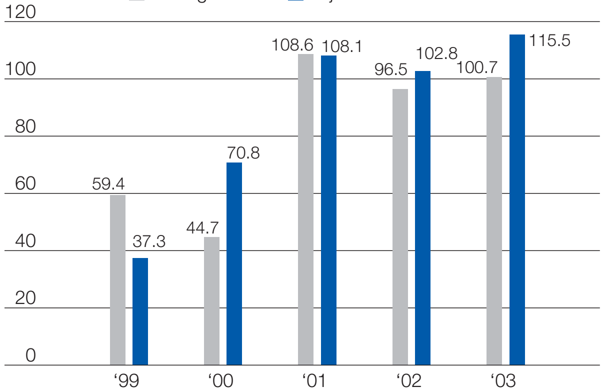
1) Continued Implementation of A&P Strategy

To reduce total assets and optimize our business portfolio, we focused on reducing under-performing assets to aggressively shift to A&P assets. However, A&P assets remained at the same level, while Non-A&P assets decreased by ¥662.9 billion to ¥2,235.5 billion during the two-year period. The ratio of A&P assets to total assets steadily increased from 44% to 50%, though it did not reach our stated goal of 55%.

Consolidated net income earned from our A&P segments, excluding one-time profits, increased by ¥5.2 billion to ¥50.7 billion over the previous fiscal year, though it did not make the final step to attain our goal of ¥62.0 billion due to the slump in our business in North America and the domestic deflationary conditions. On the other hand, among the non-A&P assets, during the two year-period, we successfully reduced a total of ¥272.2 billion of under-performing assets in areas such as Plant, automobile & industrial machinery; Chemicals, forest products & general merchandise; and Construction & realty

Trading Income and Adjusted Profit*

Billions of Yen ■ Trading Income ■ Adjusted Profit



Adjusted profit: Gross trading profit + Selling, general and administrative expense + Net financial expenses + Equity in earnings (losses) of associated companies
Years ended March 31

Five Major General Trading Companies' Financial Results in Fiscal Year 2003

	Billions of Yen				
	ITOCHU Corporation	Mitsubishi Corporation	Mitsui & Co., Ltd.	Sumitomo Corporation	Marubeni Corporation
Gross trading profit	566.0 (-2.2%)	718.6	569.8	496.4	424.6
Gross trading profit ratio (%)	5.41% (+0.33)	5.39	4.30	5.38	4.83
Trading income before provision for doubtful accounts	117.6 (+3.7%)	123.2	112.0	90.1	79.0
Trading income* ...	100.7 (+4.4%)	100.6	97.7	89.3	73.4
Adjusted profit	115.5 (+12.4%)	177.2	138.8	100.3	75.7

( ): Increase/Decrease from the previous fiscal year
Adjusted profit: Gross trading profit + Selling, general and administrative expense + Net financial expenses + Equity in earnings (losses) of associated companies

and logistics services, largely improving net income (loss) from these areas from a loss of ¥51.5 billion to a profit of ¥0.7 billion.

2) Maximization of Group Value

Net income from subsidiaries and associates, excluding overseas trading subsidiaries, doubled from ¥23.1 billion in fiscal year 2001 to a record-high of ¥47.4 billion, net of a ¥62.1 billion profit from profitable companies and a ¥14.7 billion loss from unprofitable companies. During the two-year period, the ratio of profitable companies, including overseas trading subsidiaries, to total number of consolidated companies increased by 6.7 percentage points to 80.2%. As a result of our aggressive restructuring for two years, the total number of consolidated companies including overseas trading subsidiaries decreased by 89 to 651, consisting of 468 subsidiaries and 183 associated companies as of March 2003.

3) Improvement of Consolidated Financial Position

Over two years we have reduced our consolidated total assets by ¥671.1 billion and net interest-bearing debts by ¥511.8 billion. We made substantial strides in financial position, well ahead of schedule, and our net DER (net debt-to-equity ratio) improved from 8.0 times to 4.8 times. Our consolidated stockholders' equity returned to over ¥400 billion for the first time in five years, standing at ¥426.2 billion as of March 2003, despite not reaching our goal of ¥440 billion. Although there was a ¥54.8 billion increase in stockholders' equity due to our issue of new shares in July 2002, it was partly offset by the decrease from the previous fiscal year in accumulated other comprehensive income mainly due to a ¥20.6 billion deterioration in foreign currency translation adjustments, which resulted from a stronger yen at the end of the fiscal year, and a ¥17.8 billion deterioration in unrealized gains/losses on securities due to the stagnant stock market in Japan.

4) Promotion of Overseas Regional and Market Strategies

We have strengthened the regions of North America and Asia, positioning them as A&P segments (see page 34 for details). Our business in North America for fiscal year 2003 shrank in net income compared to that two years earlier. Despite good business results in such fields as distribution of tires and wholesale of building materials, the slumps in auto leasing and small-size power generator businesses and a change in accounting methods for goodwill adversely affected overall results. On the other hand, we successfully strengthened the highly efficient machine maintenance business for power plants and bottlers. In Asia, although the consumer financing business decreased its growth rate, we were able to expand local and regional trading and reinforce our base for growth centering on China (see page 13 for details).

Building Management Structure to Support a New ITOCHU Group – "Reorganization of the Management System"

Along with reorganizing our profit structure, we have devoted ourselves to innovating our management system.

First, we improved a divisional management system to establish autonomous management in each Division Company. In the area of human resource strategy, we allocated valuable human resources to group companies to include them as a core part of ITOCHU's group profit structure. We further promoted training programs to train capable overseas national staff for management positions, most notably through our Asian Leadership Program. We also made steady progress both in corporate governance (see page 38-39 for details) and in risk management (see page 16 for details).

Allocation of Resources to A&P Segments (Assets)

	Billions of Yen			
	Results	Results	Plan	Plan
As of March 31	2001	2003	2004	2005
Information and Multimedia	518.6	486.1	430.0	500.0
Consumer and Retail Related	1,080.0	1,025.2	1,160.0	1,240.0
Natural Resource Development	242.9	354.5	410.0	460.0
Financial Services	233.2	163.1	180.0	220.0
North America	184.4	154.2	200.0	280.0
Asia	—	69.7	80.0	80.0
Total A&P	2,259.1	2,252.8	2,460.0	2,780.0
Total A&P to total assets	44%	50%	55%	63%
Other "highly-efficient" segments	—	—	410.0	460.0
Total A&P and other "highly-efficient" segments to total assets	—	—	64%	74%
Total non-A&P	2,898.4	2,235.5	1,580.0	1,160.0

Consolidated Net Income Earned from A&P Segments

	Billions of Yen			
	Results	Results	Plan	Plan
Years ended March 31	2001	2003	2004	2005
Information and Multimedia	23.6	14.3	8.0	14.0
Consumer and Retail Related	15.4	22.3	30.0	38.0
Natural Resource Development	7.5	9.2	10.0	13.0
Financial Services	3.0	4.0	5.0	10.0
North America	6.0	-2.0	2.0	8.0
Asia	—	2.9	3.0	5.0
Total A&P	55.5	50.7	58.0	88.0
Total A&P to net income	79%	252%	129%	117%
Other "highly-efficient" segments	—	—	8.0-10.0	10.0-15.0

New Mid-term Plan, Super A&P-2004

ITOCHU has recently begun its new mid-term management plan "Super A&P-2004" for the two-year term from April 2003 to March 2005. Our primal goals are to double profits and further strengthen financial position by focusing on our Super A&P strategy based on the results of the previous mid-term plan, "A&P-2002."

Super A&P Strategy

The Super A&P strategy deepens the initiatives that were implemented in the A&P strategy, further focusing on the A&P segments which we highlighted in the previous plan. We will strengthen our strategic allocation of management resources through aggressive selection and concentration.

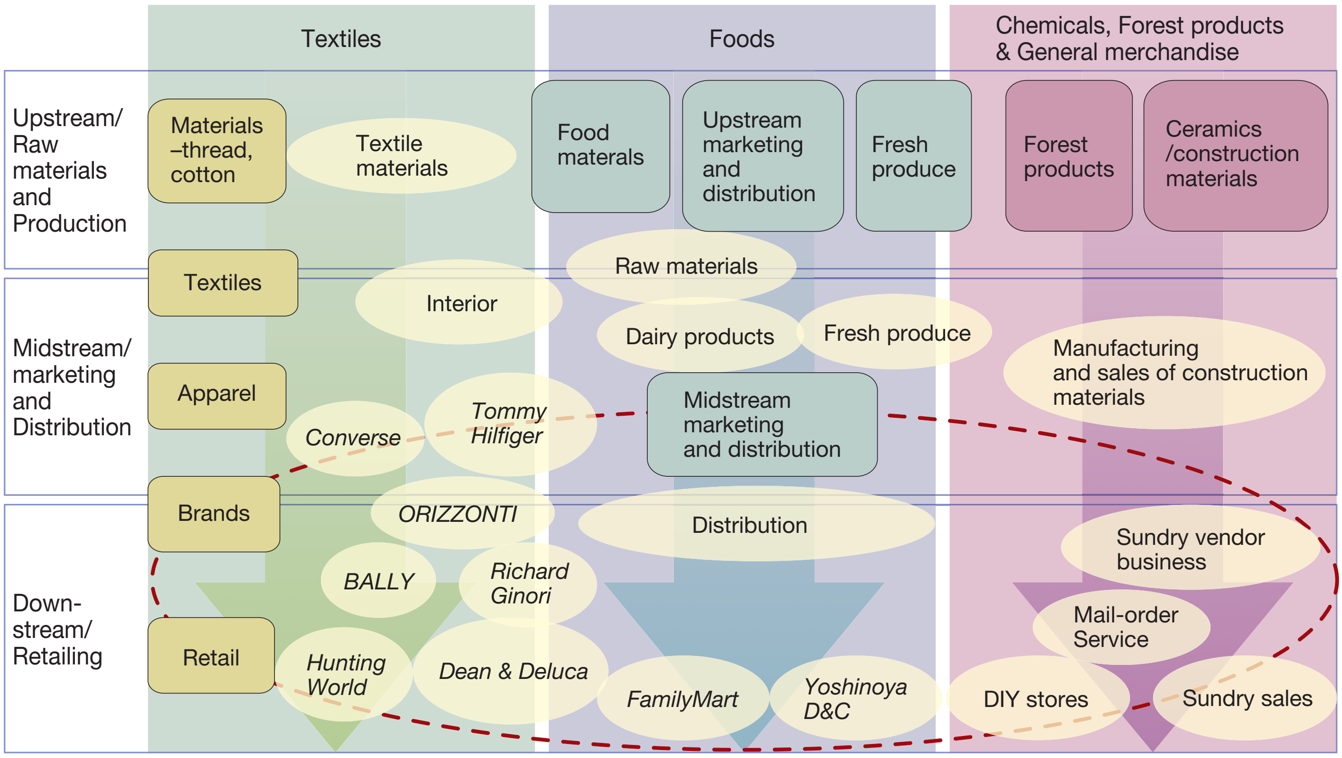
Specifically, we have positioned the consumer and retail related sector and the Asian region centered on China as our growth engine. We plan to allocate more management resources to these segments throughout the two years. In addition, we will actively develop new businesses including new technologies as one of our core businesses in the future (see page 13 for our China strategy and page 14 for our innovative technology related business strategy).

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

	Billions of Yen	
	Plans of the First Year of Super A&P-2004	Plans of the Second Year of Super A&P-2004
	2004	2005
P/L (For fiscal years):		
Net income	45.0	75.0
B/S (As of March 31):		
Total assets	4,450.0	4,400.0
Interest-bearing debts	2,500.0	2,350.0
Net interest-bearing debts	2,000.0	1,950.0
Stockholders' equity	470.0	540.0
Ratio (For fiscal years):		
ROA	1.0%	1.7%
ROE	9.6%	13.9%
Net DER	4.3 times	3.6 times
Equity ratio	10.6%	12.3%

Super Powerful:	Consumer and retail related
Attractive:	Information and multimedia, Natural resource development, Financial services, North America, Asia

Strategy for the Consumer and Retail Related Sector



Acceleration of Reallocation of Assets and Optimal Use of Funds for Strategic Investments

In Super A&P-2004, we will more dynamically implement selection and concentration. In order to do this, we have methodically analyzed our 120 business units, classifying them into three groups: "highly-efficient" units (with over 2% of ROA and 8% of RRI), "semi-efficient" units (with over 2% of ROA or 8% of RRI) and "low-efficient" units. We will apply the "profit doubling" strategy to the highly-efficient units, the "2%&8%" strategy to the semi-efficient units to be improved to meet both criteria. Low-efficient units are to be further classified into either the "2% & 8%" or the "reduction or exit" strategy. Businesses to be fostered mid- to long-term including natural resource development will be separately dealt with. This process will be applied to all business units in ITOCHU including ones in A&P segments. Thus, there is a possibility of any units in A&P segments being reduced or exited, and vice versa, aiming to allocate more assets to efficient units.

Risk Return Index (RRI) = Net Income / Risk assets
Risk Assets = Asset book value x Risk weight for each asset

"Profit doubling" Strategy

This strategy is to be applied to the highly-efficient units. Focus will be on increasing profits, through an increased asset base.

These units will have a top priority in the allocation of funds for strategic investments, which consist of a ¥200 billion of total assets. Strengthening will include acquisition of high quality assets by M&As and support of new projects.

"2% & 8%" Strategy

The 2% & 8% strategy is to be applied to the semi-efficient units and relatively higher bracket of the low-efficient units with over 1% of ROA and over 4% of RRI. Primary focus will be on improving efficiency of current assets. At the same time, these units will seek to reach 2% in ROA and 8% in RRI by reducing current assets and increasing alternative assets. New investments will be allowed only as a replacement to the low-efficient assets, thus without increasing in the unit's assets.

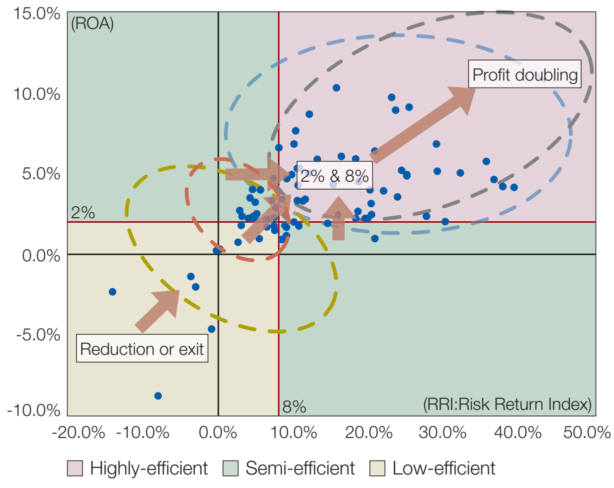
"Reduction or exit" Strategy

The reduction or exit strategy is to be applied to the low-efficient units.

The headquarters will continuously monitor asset efficiency to ensure the reduction in assets and interest-bearing debts.

Funds for strategic investments: We have prepared funds for strategic investments composed of ¥200 billion of total assets. By accelerating our investments in highly strategic areas, we aim to promote intensive allocation of management resources.

Analysis by Segments



Goals of Super A&P-2004

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

Our target is to increase the ratio of A&P assets to total assets from the current 50% as of March 31, 2003 to 63% as of March 31, 2005, with consolidated net income earned from A&P segments increasing from the current ¥50.7 billion to ¥88 billion.

As a result of our efforts to reorganize the non-A&P assets, we have seen some "highly-efficient" assets emerging from the non-A&P segments. We will pursue growth in profit from these assets, positioning them as growth areas next to A&P segments (see page 8 for results and plans).

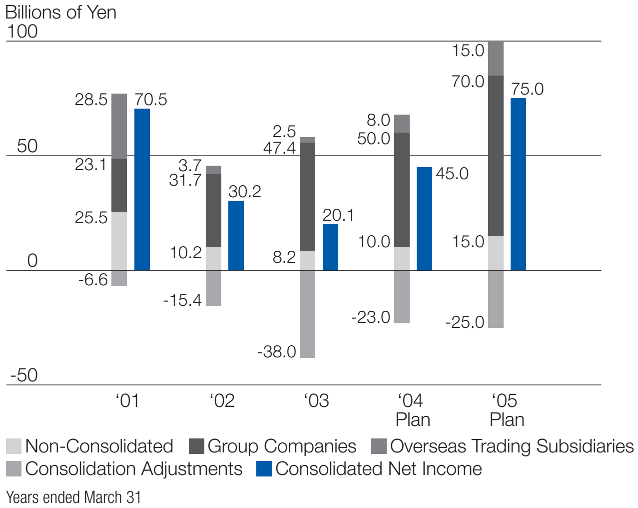
2) Consolidated Net Income Structure with Special Emphasis on Net Income from Group Companies

Since we have to a great extent achieved the restructuring of unprofitable companies during the period of A&P-2002, our current focus is shifting to the maximization of profit from profitable companies. To achieve this, we will strengthen the businesses of core companies with profit contribution of over ¥1 billion, and semi-core companies from ¥0.3 to ¥1 billion. At the same time, we will consolidate the overall profitability of overseas trading subsidiaries, by recovering profitability of businesses in North America, particularly in the fields of consumer and retail related and other services as well as expanding profits from Asian operations. ITOCHU also plans to continue to ensure an adequate level of profitability on a non-consolidated basis to pay dividends consistently and stably.

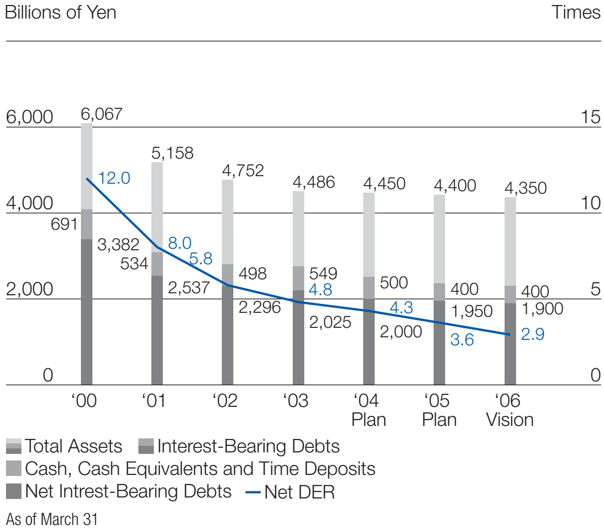
3) Improving the Financial Position

We plan to improve the net DER to 3.6 times, by reducing total assets to ¥4,400 billion and net interest-bearing debts to ¥1,950 billion as of March 2005, and on the other hand, increasing stockholders' equity to ¥540 billion by retaining earnings.

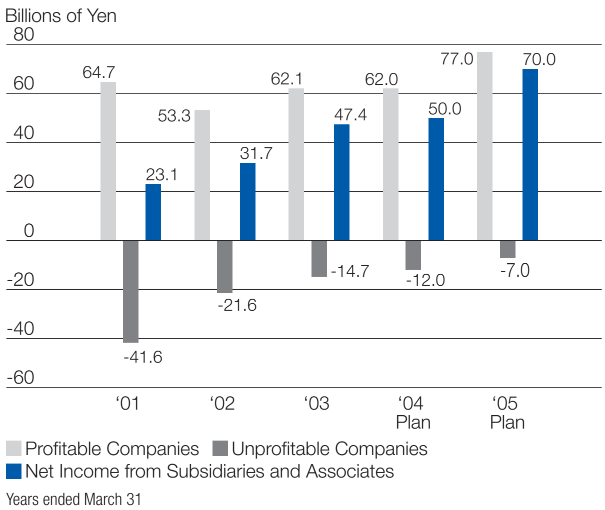
Structure of Consolidated Net Income



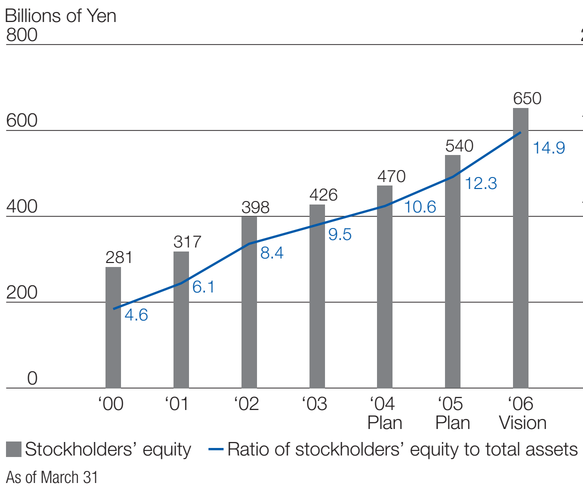
Total Assests, Interest-Bearing Debts and Net DER



Net Income from Group Companies



Stockholders' Equity and Ratio of Stockholders' Equity to Total Assets



Special Feature

Roles of ITOCHU Corporation

Because of our financing functions, general trading companies are now frequently compared to venture capital (VC) firms and investment banks. Unlike VC firms, however, we do not just seek out promising new businesses to invest in, and unlike investment banks, we do more than enhance corporate value using various M&A methods such as mergers, acquisitions and spinoffs. A general trading company enhances value from the inside by proactively being involved in the businesses of the companies in which it invests. As part of its involvement, a general trading company seeks the most appropriate business model for each company and provides concrete solutions in a range of areas, from procurement of materials, to sales of products, aiming to implement the best business model. A general trading company works comprehensively to enhance the value of the companies in which it has a stake not only by supporting their production and logistics, but also by cooperating in product development and marketing and occasionally by arranging front-line personnel. Having strengthened management expertise in recent years, we also post management personnel as needed.

Trade

This proactive involvement in businesses is possible with the trading know-how that general trading companies have built up over many years. Having started as traders, general trading companies kept up with the times by gradually expanding our activities from raw material procurement to processing, logistics, and retail. This has not been, however, a simple shift to downstream. By establishing retail bases in department and convenience stores and rebuilding the logistical, processing, and raw material procurement supply chain management to fit consumer needs, we vertically integrate the upstream, midstream, and downstream segments of our businesses. The synergy between the vast amount of business data that this provides and the global network creates an advantage in securing the suppliers and sales routes best suited for our portfolio companies.

Having started in textiles and clothing, which are characterized by low volumes and a large variety of products, ITOCHU is particularly strong in terms of the large number of product items it handles and the breadth of its customer base. In the retail business, which must respond to increasingly specific and diversified consumer needs, our expertise in supplying the best-suited item from the best-suited place in the best-suited way is a major strength. In addition, ITOCHU has used its own resources to launch projects in every area. The experience we have accumulated in this manner has fostered our pioneering spirit, our prominent business know-how, and our sophisticated risk management.

Diversified Functions

There are also businesses that only become possible with the multiple functions and business areas that general, as opposed to specialized, trading companies possess. One example is our Plant Division's US$450 million financing of a plant construction project for a gas field development business in Indonesia. By signing a long-term off-take contract under which the borrower paid back in crude oil which was a substitute for gas, the Plant Division made risk hedge scheme for such a financing and the Energy Division was able to be involved in oil trading business at the same time. Providing a variety of settlement options that are not possible with conventional financing functions creates important business opportunities for us.

Investment

Furthermore, by pursuing a comprehensive involvement, from production to logistics to sales, ITOCHU has enhanced the corporate value of many of its portfolio companies and reinforced overall group profitability.

One example is our investment in the major convenience store chain FamilyMart. ITOCHU acquired the expertise to handle a variety of consumer needs through this investment, as it enabled us to grasp changes in consumer needs in real time and redirect this information to raw material procurement as well as processing and logistics. At the same time, by providing our diverse functions to FamilyMart as a business partner, we were able to increase our profits both from trading activities with FamilyMart and from equity in earnings from associates.

Examples of joint development with FamilyMart include our Food Division's procurement of optimal ingredients for the development of lunch box and other food products, the Realty Division's presentation of properties for store development, the IT and Telecommunications Division's contribution of e-business know-how for new business development, and the Financial Services Division's cooperation in the credit card business. In merchandising, we have been contributing to a sharp reduction in expenses by revising the procurement structure and logistics process. For ITOCHU, this revision simultaneously contributed to rationalizing its upstream to downstream flow including group companies. In addition, our continuous efforts to support FamilyMart's overseas development, in Asia in particular, have contributed to Taiwan FamilyMart Co., Ltd.'s business growth and stock market listing.

Synergy

To summarize, ITOCHU has enjoyed a great synergy between investment and trading when we invest in businesses, which enables us to pursue greater merits than either investment or trading offers by itself. For the companies in which we invest, there is the advantage not only of receiving financing, but also of gaining a powerful business partner for lightening risk burden. It is a way of doing business that enables the building of a win-win relationship for both parties.

Looking Forward

ITOCHU has expanded business by proactively applying this type of business investment in A&P segments. Going forward, we will also apply it to such new technologies as Bio and Nano and to such emerging markets as China. We believe that one of the greatest roles expected of us today is to work with manufacturers to build new business models especially in cutting-edge areas.

ITOCHU's China Strategy

The Potential of the Chinese Market

In the high-growth region of Asia, China in particular is poised for a new round of economic development stimulated by fast growing domestic demand, the deregulation and opening of markets resulting from its entry into the World Trade Organization (WTO). As a result, China is transforming itself from an "export and processing base" into a "promising market." International events such as the Olympic Games, which will be held in Beijing in 2008 and the 2010 Shanghai Expo are likely to accelerate this trend.

As illustrated by the ambitious goal put forth at last year's Plenary Session of the Communist Party of increasing GDP 4-fold between 2000 and 2020, China has taken many steps towards becoming an economic superpower.

ITOCHU's Strengths

ITOCHU had taken the lead on other Japanese trading companies by beginning trades with China before the normalization of diplomatic relations between Japan and China in 1972. Through our consistent trade with China, we have built a solid relationship with its central and local governments ahead of other companies.

In addition, we maintain and reinforce interpersonal exchanges with the upper echelons of government agencies including the Economic Adviser to the Mayor of Beijing (C.E.O., Uichiro Niwa), the Economic Adviser to Qingdao City (Sokichi Sasaki, General Manager for China), and the Economic Adviser to Fujian Province (Fumiaki Fujino, Adviser). With many years of interpersonal exchanges, our China business know-how, and participation in infrastructure construction and important national projects, ITOCHU has built a strong position from which it can gain the trust of the Chinese government. In recognition of ITOCHU's strengths, in December 2002 we received a request from the City of Beijing for comprehensive logistical cooperation. Specifically, this will include proposals for logistical models that can cope with the growth in distribution and transportation volume, the construction of the most advanced distribution centers, and providing know-how. In May 2002, we entered into a comprehensive economic and trade alliance with the Shandong Provincial government. We are making a major contribution to revitalizing regional economies through cooperation that takes full advantage of our functions as a trading company. These go beyond trading and investment support to include management consulting for local companies. In addition to Shandong Province, we plan to promote businesses that leverage ITOCHU's strengths in the Huadong region (Jiangsu Province and Zhejiang Province), Sichuan Province, and Liaoning Province.

In April 2003, we set up a China Market Global Development Office at our headquarters. It will formulate a company-wide China strategy that fits the globalization of Chinese business stemming from China's economic development and WTO membership and that includes the expansion of transactions not only between Japan and China but also between China and other parts of the world, especially Europe and North America. The Office will also promote company-wide sharing of China-related information to create a new business model in China.

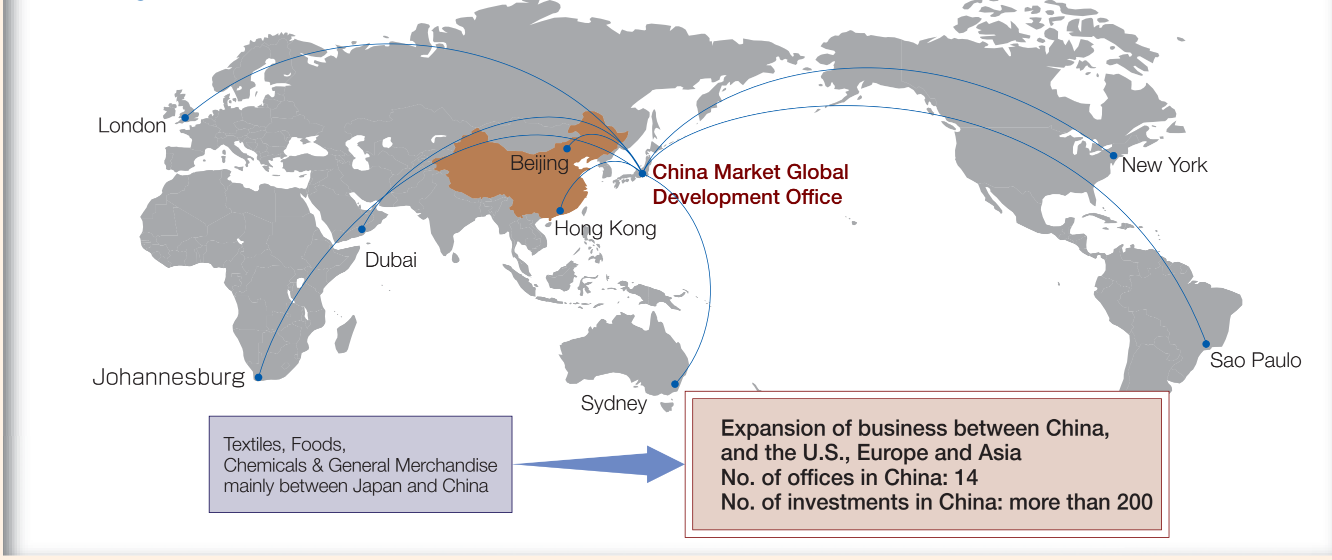
Basic Strategy and Areas of Focus

ITOCHU has accelerated its development of China-related businesses by designating Asia as an A&P region from fiscal year 2003. Our basic strategy for China is to use the synergy of two functions, "trading" and "investment," to focus on trade with Japan and third countries, the domestic sales and distribution business that is adjusting to expanding domestic demand, and large-scale infrastructure projects.

China's service industries and retail market are expected to grow sharply in response to new forms of consumption in areas such as food service, convenience stores, and brand products. As private ownership of cars and homes booms, automobile and housing/construction-related consumption is also expected to expand.

ITOCHU aims to expand trading in these high-growth consumer-related areas where we have expertise. Having established in October 2002 a joint venture for retailing the Italian brand *SASCH*, our Textile Company is already aggressively developing this area. In addition, our Chemicals, Forest Products & General Merchandise Company is considering the development of a home center franchise. In the food-related area, we are expanding processed food and other businesses in Shandong Province and are also developing beer and instant noodle sales throughout

A New Stage in our Chinese Business

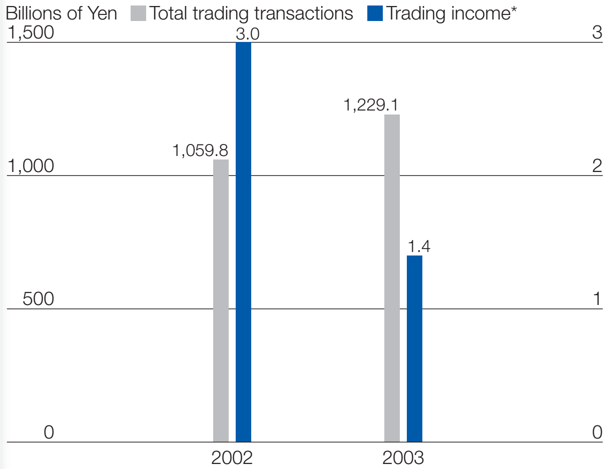


China. We are supporting the development of the Chinese market by Ito Yokado Co., Ltd., which currently runs two stores in Beijing and one in Chengdu, and plan to open new stores.

As demand expands and types of retailing change in China, the need to expand and enhance logistics becomes more and more critical. Moreover, there is also increasing demand for more sophisticated logistics to facilitate exports to Japan, Europe and North America. Capitalizing on this opportunity, ITOCHU is expanding logistics-related businesses in China through our subsidiaries, Beijing Pacific Logistics Co., Ltd. and Guangzhou Global Logistics Corp., and exporting and importing activities through subsidiary i-LOGISTICS CORP. As part of this expansion, in September 2002, ITOCHU built China's largest chilled and frozen logistics center in Shandong Province as an export base for frozen foods headed for Japan.

Investments in prominent projects are also crucial for further growth. We are considering investing in infrastructure businesses in Beijing related to the Olympics. We are also involved in Japanese government ODA and other large-scale projects for regional transportation, environment infrastructure, and energy and natural resource development.

Financial Results of China Segment



Do not include associated companies.

Years ended March 31

Numerical Targets

In fiscal year 2003, our trading volume with China was US$4.5 billion and we had approximately 210 joint ventures in the country. While we have always been a step ahead of competitors in terms of trading and investments there, we will focus more on capital efficiency from now. Our consolidated net income from China (subsidiaries, associated companies, and overseas trading subsidiaries) including Hong Kong exceeded ¥2.0 billion in fiscal year 2003, and our target in fiscal year 2005 is to generate half of our expected ¥12.0 billion consolidated net income for the Asian region from China.

Commercialization of Innovative Technologies – Creating New Businesses –

The ITOCHU Group is accelerating its drive to develop new revenue sources through the commercialization of innovative technologies. A company-wide, cross-divisional organization, the Innovative Technology Business Development Office, plays the key role in identifying promising technologies worldwide and pursues the commercialization of new businesses in collaboration with the Division Companies.

Global expectations are high for the manufacturing of machinery on the nanometer (10^{-9} meter) scale and for developing applications ranging from information and telecommunications to medicine; biotechnology possesses the potential to administer personalized medicine, having no side-effects and optimized for individual genetic make-ups, and tissue engineering, generating cells and tissues to repair or replace damaged human organs. In Japan alone the size of the nanotech market is anticipated to grow to ¥27 trillion, and the biotech to ¥25 trillion, in the year 2010.

However, innovative technologies will not grow into big businesses on their own. It is necessary to adapt them strategically into new products and services that become parts of our daily lives. ITOCHU, a highly diversified company, leverages its multi-functionality to generate business from potential technologies developed at research institutions it has strategic relationships with. ITOCHU's strong presence in IT and in consumer and retail-related sectors presents us with a tremendous business opportunity.

Bioinformatics Center

The ITOCHU Group demonstrates its strength in the field of bioinformatics where IT and biotechnology meld, through its leading group companies, ITOCHU TECHNO-SCIENCE Corporation (CTC) and CRC Solutions Corp. In April 2002, we established the Bioinformatics Center to provide data analysis and management services to support genomic drug discovery of pharmaceutical companies. Currently, major pharmaceutical companies such as Shionogi & Co., Ltd. and Tanabe Seiyaku Co., Ltd. have joined the center.

Wireless IC Chip "μ-chip"

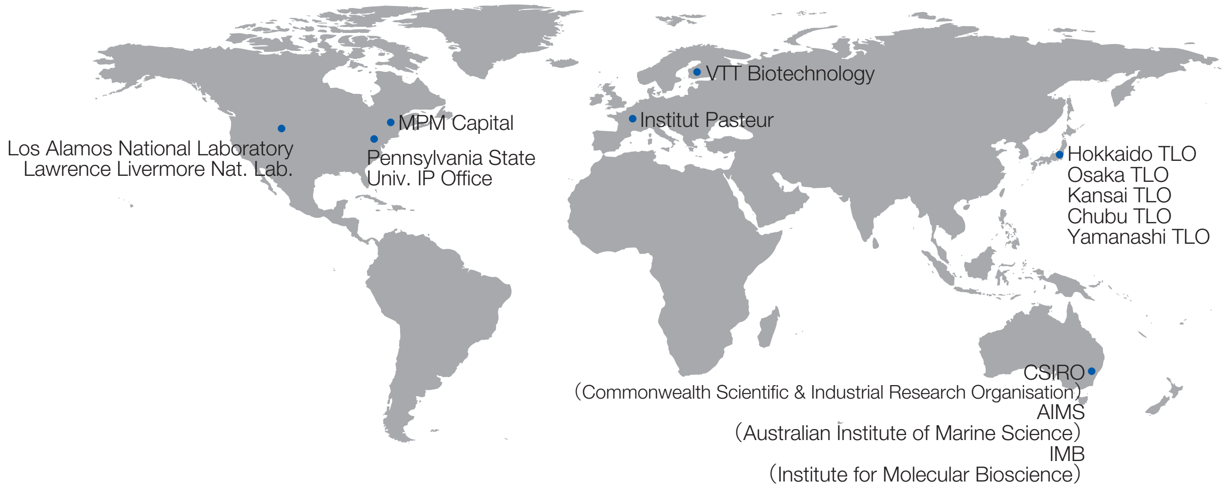
ITOCHU teamed up with Hitachi Ltd. in March 2003 for the development of practical applications for Hitachi's "μ-chip," the world's smallest wireless IC chip. With our strong presence in IT and foods and textiles, among other consumer goods, we will be able to outpace the competition in the dissemination of "μ-chip" and establish them as the de facto industrial standard. Currently we are testing the effectiveness of "μ-chip" in brand protection, distribution and inventory control, by embedding the chips in ITOCHU handled apparel products or price tags. In the steel sector, Marubeni-Itochu Steel Inc. has co-developed and begun sales of trial products of a steel materials inventory management system using these chips.

Functional Foods Business

ITOCHU has a competitive advantage in the food related sector where we are focusing on the development of functional foods in response to the growing importance of preventive medicine as society continues to age. We are developing functional foods business in cooperation with Australia's largest research organization, CSIRO, and Finland's VTT Biotechnology.

ITOCHU is securing access to "seeds" of innovative technologies through strategic alliances with overseas partners, and within Japan, serving as a one-stop channel to the Japanese market for our partners around the world. ITOCHU promotes the development of new joint businesses by matching our partners' "seeds" to the "needs" of the market in each and every industry.

Strategic Partnerships



(Name, Country, Date of alliance)	(Features and ITOCHU's strategy)
Los Alamos National Laboratory **Lawrence Livermore National Laboratory** USA (Autumn 2002)	Core laboratories of the U.S. Department of Energy's eight national laboratories. Reputed as the brains of the U.S., they cover a broad area of research, developing technologies for the future 20 years ahead. ITOCHU will introduce these technologies to Japanese companies and function as the intermediary for their commercialization. We may also consider investments in the national laboratories' innovative technologies or joint ownership of intellectual properties, as well as investments and/or collaborative businesses with their spin-off ventures.
CSIRO Australia (September 2002)	ITOCHU, having worked with Australia's largest research organization, CSIRO, since 1996, has entered into a five-year letter of intent to form a closer long-term strategic alliance focusing on innovative technologies.
MPM Capital USA (June 2002)	World's largest biotech venture capital firm. ITOCHU, as a Special Limited Partner, has committed a $20 million investment to a MPM biotech fund, which is operated as part of a $900 million fund. ITOCHU seeks to develop biotech businesses in the Japanese market based on highly promising deal flows.
VTT Biotechnology Finland (February 2002)	Largest biotech research institute in the Nordic countries, operated under Finland's Ministry of Trade and Industry. VTT Biotechnology is leader in the study of functional ingredients derived from wheats and berries. Their research focuses include maintenance and improvement of gut health and antioxidants. ITOCHU will mediate between VTT Biotechnology and Japanese food manufacturers for joint development of novel functional food products.
CSIRO, AIMS, IMB Australia (March 2001)	Our alliance with these three Australian research institutes in biotechnology focuses on commercializing their research in the fields of agricultural and food related biotechnology, marine resources and bioinformatics.
Pennsylvania State University **Intellectual Property Office** USA (December 2001)	Pennsylvania State University is among the top five or six American universities in the fields of biotechnology and nanotechnology. Our alliance with its intellectual property office aims at utilizing University proprietary technologies in the development of new businesses.
Institut Pasteur France (December 2001)	World's most prestigious bioscience research institute, ranks second in the number of technology transfers to industry in the field of microbiology. Our focus is on bringing the institute's technologies to the Japanese market.
Japanese University TLOs** (2001-2003)	We have formed alliances with five regional TLOs, representing a total of 30 major universities, for the commercialization of their technologies.

**A TLO (Technology Licensing Organization) patents university inventions, transfers them to companies, devotes related income to further research, and generates new inventions, thereby creating a cycle of intellectual creation. In Japan, the establishment of TLOs is supported through the Law promoting Technology Transfer from Universities to Industry which was enacted in August 1998.

New Management Benchmark – Promoting Risk Capital Management –

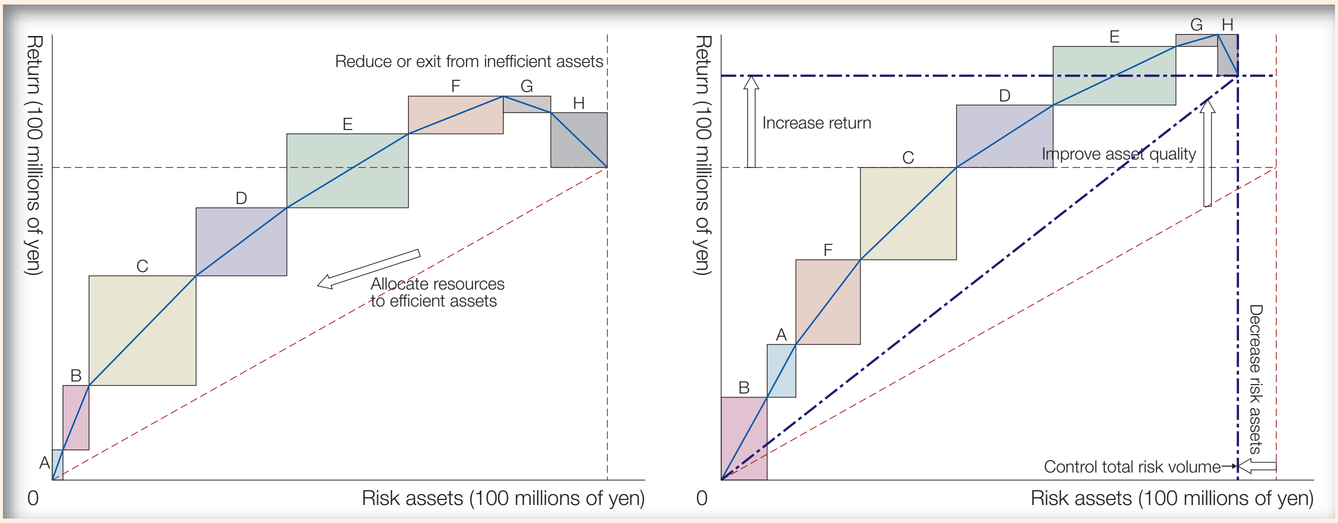
By introducing Risk Capital Management (RCM), a management tool focusing on risk as its key concept, ITOCHU is exiting from inefficient assets and allocating resources to efficient assets to enhance corporate value. RCM is designed to control total risk volume by quantifying risks as risk assets (note 1), and to measure asset efficiency in Risk Return Index (RRI) (note 2), which is return on risk assets.

By segmenting the business areas of Division Companies into business units according to the each business's attributes, we measure and analyze the asset efficiency of each business by using the RCM method. In addition to estimated market growth potential, RRI is used as a criterion for optimizing resource allocation.

Specifically, for each Division Company, we create a graph (note 3), whose example is shown in Graph 1. This graph arranges segments in descending order of efficiency from the left, showing risk asset volume, return (net income), and asset efficiency (RRI = diagonal line) for both each business unit and the Division Company as a whole. In this example, inefficient businesses (ex. G, H) on the right of the graph will basically be subject to a strategy of downsizing or withdrawal, unless growth is expected. Eventually we will reduce assets or exit from inefficient businesses. The resources that are recovered through this process will then be reallocated to new strategic projects to increase the efficient assets (ex. A, B) on the left. By shifting assets in unprofitable business areas to new strategic business areas, we aim to improve overall profitability and enhance corporate value. At the same time, setting a risk asset limit as a covenant, or item to be monitored, for each Division Company, we control total risk volume (risk asset amount), for new investments as well as for existing businesses.

By doing the above activities, we are promoting the Super A&P strategy, in which we accelerate reallocation of assets to shift management resources selectively to more efficient business areas.

Graph1: Example of a Division Company



Note 1: Risk Assets

Risk assets represent the maximum amount of the possible loss caused by the held assets. Statistical methods are used to measure risk weight of each asset according to its attributes and risk assets are then calculated by multiplying asset amount by risk weight. Not only assets on the balance sheet, but guarantees, foreign exchange balances and other off-balance sheet items are subject to this risk asset evaluation and included in the total risk assets.

(Examples)

- Trade receivables: Each customer is assigned a credit rating based on its financial data, and a risk weight is assigned to each customer based on the credit rating, which is linked with its default rate. Risk assets are then calculated in consideration of collateral and other security. The same method is applied to loans and guarantees.
- Listed stocks/Land: Risk weight is calculated based on the volatility of stock prices or land prices.
- Associated company investment: Risk assets are calculated by multiplying risk asset volume of the associated company, which is calculated by each asset account, by ITOCHU's share.
- Inventories: Risk assets are calculated for the book balance of the item by assigning risk weight based on market price volatility. Risk assets for inventories with sales contracts are calculated by assigning risk weight that considers the probability of cancellation, as well as market price volatility.

Note 2: Risk Return Index (RRI)

Risk Return Index (RRI) = Net income ÷ Risk assets

RRI is used to measure efficiency in comparison with cost of equity. Cost of equity is currently set at 8%. Units with RRI over 8% and ROA over 2% are considered efficient segments.

Note 3: Graph

This graph plots returns (net income) on the vertical axis and risk assets on the horizontal axis. The diagonal line shows RRI.

Please see page 66 of Financial Section for the overall Company's risk management system and methods for managing market, credit, country, and investment risk.

Retirement Pension Plan Reform

In the two years since fiscal year 2001, ITOCHU's consolidated net cost of retirement and severance benefits increased from ¥12.4 billion to ¥22.7 billion, heavily impacting ITOCHU's consolidated financial performance. As ITOCHU Corporation (non-consolidated basis) accounts for most of this, we decided to revise the retirement and severance plan for ITOCHU Corporation employees as follows.

ITOCHU Corporation's retirement and severance plan consists of two pension plans: an employee pension fund and a tax-qualified pension fund. As of the end of fiscal year 2003, projected benefit obligations (PBO) totaled approximately ¥290 billion, assets under management totaled approximately ¥160 billion, and pension trusts totaled approximately ¥130 billion. (Non-consolidated Japan Accounting Standard: Hereinafter all figures are based on non-consolidated Japan Accounting Standard.)

In order to cope with the deterioration in the fund operating environment and with changes such as the introduction of retirement benefit accounting, ITOCHU took steps to ensure the health of pension finances. These steps included the reduction of PBO by, in October 1999, lowering the defined interest rate for the future benefit payment (from 5.5% to 3.5%) and extending the guarantee period (from 15 to 20 years); in September 2000, the establishment of a pension trust in order to make a one-time amortization of the underfunding resulting from the introduction of retirement benefit accounting (¥45.8 billion of net projected benefit obligation (actuarial difference) caused by a change in accounting standard), and the additional contribution to pension trust.

Subsequently, however, due to the prolonged slump in the asset management environment, operated pension asset resulted in negative returns for three years in a row. Also, because of the lowered interest rate, ITOCHU changed the discount rate. In addition, the prices of the stocks in the trust fell. Thus, from fiscal year 2001 through fiscal year 2003, these factors resulted in a total unrecognized actuarial loss (unamortized obligation) of more than ¥200 billion. Judging that there should be limits to how long the retirement and severance plan could last in its existing scheme, given the harshness of the environment, we decided to make a fundamental review of the system.

In fiscal year 2000, we introduced a new human resources management system with remuneration packages based on job responsibility and performance. The retirement and severance plan, however, continued to be based on "years of employment" and "age." It remained a major issue to revise the plan into a more flexible system based on the principles of the new human resources management system.

From fiscal year 2002, in response to the increased number of options for retirement and severance plans by the expected enactment of a series of bills related to retirement and pension systems, ITOCHU began a full-fledged study for a revision of the plan.

The aim of this revision is to minimize the impact of the retirement and severance plan on our management by reducing PBO or lowering PBO risk. In terms of specific changes to the plan, we aim to develop a structure that incorporates the principles of the new human resources management system and respond to the diversification of employees' values.

Negotiations with the labor union on revision of the retirement and severance plan began in August 2002 and culminated in an agreement in March 2003. The agreement seeks to reduce the risk that has hitherto been entirely on the Company's shoulders by dividing it; a portion of the risk will return to the government, a portion will be carried by each employee, and the concept of "market linkage" will be introduced to the portion that the Company continues to bear. Specifics are as follows.

1. ***Returning the public pension portion held by the employee pension fund to the government:*** Returning the future portion has already been authorized and relevant records are being prepared for returning the current and past portions. Returning the public pension portion to the government will eliminate risk for approximately ¥37 billion worth of PBO (as of end of fiscal year 2003).
2. ***Revising the supplementary portion of the employee pension fund:*** When the past public benefit portion is returned to the government, we will introduce a "cash balance plan" that links benefit amounts to market interest rates. This will lower interest rate sensitivity and enable the lowering of asset management hurdles for about ¥190 billion worth of PBO (as of end of fiscal year 2003) for the supplementary portion of the employee pension fund, and thus will minimize the risk for the maintenance and operation of the plan. In addition, although benefits are currently paid entirely as perpetual annuities, we plan to make some portion terminable, expecting to reduce PBO and lower asset management risk.
3. ***Revising tax-qualified pension:*** After reducing the future portion of the tax-qualified pension, in July 2003 we will introduce an "optional defined contribution pension plan." This gives employees the option of receiving the Company's contribution through the "defined contribution pension" that employees manage on their own or as an addition to their monthly salary. The introduction of this new system will not bear PBO.

Summary of ITOCHU Corporation's Retirement Pension Plan Revision

	Old Plan	New Plan
1. Employee Pension Fund (Public Pension Portion)	Perpetual	Returned to government
2. Employee Pension Fund (Supplementary Portion)	Perpetual annuity guaranteed for 20 years Defined interest rate: 3.5%	Introduction of Cash Balance Plan Some portion changed to be terminable
3. Tax-Qualified Pension	Terminable annuity guaranteed for 20 years Defined interest rate: 3.5%	Some portion changed to defined contribution pension

Division Companies at a Glance

Years ended March 31 (Unit: Billions of Yen)

Company	Year	Trading Transactions**	Gross Trading Profit	Trading Income*	Net Income	Total Assets
Textile Company	2002	880.1	83.5	18.1	8.3	384.1
	2003	871.7	93.5	20.8	10.4	370.8
Plant, Automobile & Industrial Machinery Company	2002	1,937.3	50.2	(4.7)	1.3	588.1
	2003	1,746.6	48.6	1.1	2.4	490.1
Aerospace, Electronics & Multimedia Company	2002	960.3	112.6	28.2	36.3	526.2
	2003	809.2	102.5	25.9	14.3	484.3
Energy, Metals & Minerals Company	2002	2,740.0	52.7	17.2	9.5	401.6
	2003	2,216.2	33.0	14.5	10.0	391.6
Chemicals, Forest Products & General Merchandise Company	2002	1,735.8	80.7	15.8	(0.2)	532.7
	2003	1,799.8	87.1	20.3	10.7	524.6
Food Company	2002	2,445.2	126.9	24.5	9.6	665.1
	2003	2,522.5	130.1	23.8	11.9	654.4
Finance, Realty, Insurance & Logistics Services Company	2002	455.3	34.4	(7.9)	(9.8)	773.4
	2003	269.4	33.8	(1.3)	(8.4)	692.7

** Trading transactions with unaffiliated customers and associated companies

(Unit: Billions of Yen)

Major Subsidiaries and Associates Net Income (Loss)***	2002	2003	Division Company Highlights in Fiscal Year 2003
• Prominent Apparel Ltd.	¥0.6	0.4	• Acquired exclusive import and sales contracts with *Bally* and *Pollini* • Signined an exclusive contract with a gourmet supermarket, *DEAN & DELUCA* • Established a joint venture in China with the Italian casual brand, *SASCH* • *Magaseek.com*, a fashion search and purchase site expanded • Formed a joint venture with the Shandong Weiqiao Textile Group in China • Expanding sales of a high performance material, *compact spun yarn* • *Riche La Riche*, a home furnishing brand achieved a favorable performance
• Leilian Co., Ltd.	(0.5)	0.2	
• ITOCHU Sanki Corporation	¥0.2	0.2	• Established an LNG transportation export joint venture in Algeria • Awarded an offshore oil transportation project in Brazil • Acquired an engineering company specializing in biomass energy in Europe • Formed an alliance with Yanase, the largest imported car retailer in Japan • Established an automobile financing company in Indonesia • A subsidiary, EneSol expanded energy-saving and power retailing businesses • Invested in Mystar Engineering specializing in mechanical maintenance
• MCL Group Ltd.	0.1	0.3	
• Century Leasing System, Inc.	1.0	1.0	
• ITOCHU TECHNO-SCIENCE Corporation	¥5.7	2.8	• Formed an alliance with Hitachi in IT-related solution business field • Made CRC a subsidiary to strengthen synergies with ITOCHU TECHNO-SCIENCE • Reorganized mobile internet content companies • Established a set top box sales company, T.T. Nexyz, for SKY PerfecTV! • Promoted cyber security business by a subsidiary, iDEFENSE Japan • Established the Bioinformatics Center and a protein analysis firm, Proteome Systems Japan
• CRC Solutions Corp.	0.5	0.6	
• ITOCHU Coal Resources Australia Pty., Ltd.	¥3.3	3.0	• Ohanet Natural Gas Project in Algeria entered the final stage for production • Participated in an oil pipeline project linking the Caspian and the Mediterranean • Decided to participate in a new coal mine development project in Australia • Invested in an iron ore mine development project in Australia • Promoted global sales of refrigeration units for transportation containers • An associate, Marubeni-Itochu Steel achieved a favorable performance • Promoted recycling business, development of DME and other eco-businesses
• ITOCHU Oil Exploration Co., Ltd.	1.9	5.1	
• ITOCHU Petroleum Co., Ltd.	0.6	0.6	
• Marubeni-Itochu Steel Inc.	1.0	3.3	
• ITOCHU Kenzai Corp.	¥0.6	0.9	• Acquired ownership of a large-scale car parts and accessory store • Started an acrylic sheets manufacturing business in Thailand • Started an anhydrous fluoric acid manufacturing business in China • Added capacity at manufacturers of compound and packaging in Thailand • Expanded global pulp sales network produced by an associate, CENIBRA • Integrated paper and paper products business in ITOCHU Pulp & Paper
• ITOCHU Pulp & Paper Corp.	0.3	0.5	
• ITOCHU CHEMICAL FRONTIER Corporation	0.1	1.2	
• ITOCHU PLASTICS INC.	0.5	1.1	
• Nishino Trading Co., Ltd.	¥0.6	0.9	• Became the largest shareholder of YUKIJIRUSHI ACCESS • Invested in Compass Group Holding (Japan) for food contract business • Invested in SNOW BRAND MILK PRODUCTS • Acquired three sugar-producing companies including DAIICHI-TOGYO • Acquired Japan California Products, a food wholesaler in California • Decided to make Prima Meat Packers an associated company
• Japan Foods Co., Ltd.	0.5	0.2	
• FamilyMart Co., Ltd.	(0.1)	3.2	
• ITOCHU Finance Corporation	¥(0.8)	1.2	• An associate, Famima Credit started accepting applications for *Jupi Card* • Promoted private equity business by forming *Raffia Fund* and *IDA Fund* • Commissioned PFI business for *Chiba City Nature House for Youth* • Started corporate benefit package creation and operation support service • Started handling a new type of group credit insurance • Promoted third party logistics business for pharmaceutical makers
• CENTURY 21 REAL ESTATE OF JAPAN LTD.	0.1	0.1	
• kabu.com Securities Co., Ltd.	(0.5)	0.0	

*** The above figures represent the ITOCHU's share of their net income.

Textile Company

Message from the Division Company President

Under our A&P-2002 Mid-term Plan, in addition to expanding earnings in the materials, textile, sewing and other manufacturing areas where our traditional strengths lie, we cultivated customer-driven businesses such as retail, where brands are of key significance, and focused our efforts on consumer markets in China and other parts of Asia. Under the Super A&P-2004 Plan, our goal is to evolve into a "lifestyle proposal business" by promoting the following growth strategies.

1. Acquire superior brands (proactive M&A), use brands to expand the scope of business into a full lifestyle range, and promote a full-scale brand business in China
2. Complement functions for leading apparel makers and expand transactions by providing them with a full range of services from material supply to product development, distribution and fashion trend information
3. Develop and strengthen sales of differentiated materials

Business Performance in Fiscal Year 2003

Trading transactions decreased by ¥8.4 billion compared with the last fiscal year, owing to a decline in market prices under the deflationary low-pricing trend and our efforts to eliminate inefficient transactions. On the other hand, gross trading profit increased by ¥9.9 billion supported by the contribution from such new brand-related subsidiaries as ORIZZONTI CO., LTD., Bally Japan, Ltd. and CONVERSE JAPAN Co., Ltd. As a result, despite an increase in expenses, trading income* grew ¥2.7 billion and with the contribution from associated companies, net income rose ¥2.1 billion.

What We Did in Fiscal Year 2003

Among our brand-related achievements, we signed exclusive import and sales contracts with a number of brands including *BALLY* and *POLLINI*. In June 2002, we signed an exclusive long-term contract with the New York based high-end gourmet supermarket *DEAN & DELUCA*. In addition to promoting the same type of stores in Japan as *DEAN & DELUCA* has in New York, we have undertaken the development of a new type of business that merges "food" with "fashion." We opened the first *DEAN & DELUCA* store in Tokyo in June 2003. Also, we expanded our brand business in Asia. As a strategic step towards developing our brand business in China, we established a China joint venture with the Italian casual brand *SASCH*.

In the retail area of the apparel business, we decided to expand the business of *MAGAseek*, a fashion product search and purchase site to form it into a new company.

In the high performance material field, we devoted efforts to expanding sales of *compact spun yarn*, which has the luster and smoothness of silk. Thus, in fiscal year 2003 we achieved a 10% share of global production and 50% share of sales in Japan. We also formed a joint venture with the Shandong Weiqiao Textile Group Co., Ltd., which is China's largest spinning company, to utilize Japanese advanced technology. Not limited to raw material supply, this business envisions sales in China, and exports to Europe and North America.

In the home furnishing area, ITOCHU Home Fashion Corp.'s *Riche La Riche* has achieved favorable performance. In March 2003 it opened its fifth store and is developing a distinctive business that utilizes the fabrics ITOCHU Home Fashion handles.

Makoto Kato
President, Textile Company

Topics

Acquiring Exclusive Import and Sales Contracts with Bally and Pollini

In June 2002, ITOCHU acquired an exclusive long-term import and sales contract with Bally, a Swiss luxury brand, and one of Europe's oldest, of high-quality men's and ladies' shoes and leather goods, as well as 80% of Bally Japan's shares. In addition to strengthening marketing activities and enhancing brand image, we aim to open a flagship store and develop boutiques in department stores to achieve sales of ¥10.0 billion in three years' time.

In March 2003, we signed an exclusive import and sales contract with Pollini S.p.A., a total fashion brand based in Italy. With a history of more than 100 years, the company's main products are shoes of the highest craftsmanship. In addition to ladies' and men's shoes, we plan to comprehensively develop bags, leather accessories and wear and to cultivate sales routes with department stores in order to achieve sales of ¥3.0 billion in three years' time.

POLLINI 2003 Spring/Summer collection (The left)
BALLY 2003 Spring/Summer collection (Two on the right)

Forming the Fashion Search & Purchase Site "MAGASeek" into a New Company

As a result of exceptional performance of the Internet and mobile phone-based fashion search and purchase site *magaseek.com*, we established MAGASeek Co., Ltd. in April 2003.

Launched in August 2000, the *MAGASeek* site has grown to have tie-ups with five major publishers and handles some 120 brands that are featured in women's magazines. With sales of ¥700 million and 10 million hits per month, the site has won the strong support of consumers who "can order popular products whenever and wherever they wish." It has also been well received by the apparel industry as the "fastest means of collecting sales data." With the new company, we plan to expand the availability of equipment and models for this service, develop overseas business, and promote the growth in business with major apparel makers.

MAGASeek collaborates with these fashion magazines.

Organization

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

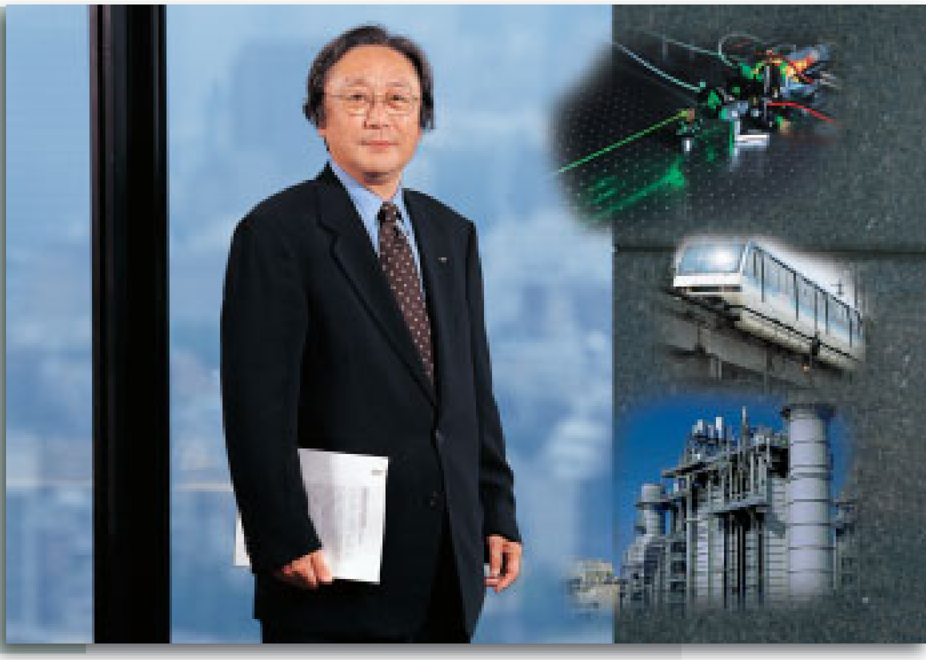
Products & Services

- Raw cotton
- Cotton yarns
- Wool
- Woolen yarns
- Rayon staple
- Spun rayon yarns
- Rayon yarns
- Synthetic staple
- Synthetic filament
- Cotton fabrics
- Wool fabrics
- Silk fabrics
- Rayon fabrics
- Spun rayon fabrics
- Synthetic filament fabrics
- Knit fabrics
- Knit outer garments
- Knit under garments
- Woven outer garments
- Woven under garments
- Other garments
- Secondary textile products
- Imported sundries
- Bedding fabrics
- Interior fabrics
- Industrial fibers
- Inorganic fibers and related products

Plant, Automobile & Industrial Machinery Company

Message from the Division Company President

As the result of a two-year intensive restructuring following the ¥10.0 billion net loss in fiscal year 2001, we reported a net income in fiscal year 2002. Furthermore, in fiscal 2003, trading income returned to profit following the trading loss the year before. During the last two fiscal years, we disposed of non-performing assets, restructured under-performing group companies, and accelerated the collection of outstanding debts. As a result, not only did we reduce assets by ¥158.9 billion, but net income improved sharply from a ¥10.0 billion loss to a ¥2.4 billion profit. Under the Super A&P-2004 Mid-term Plan, our challenge is to develop and materialize new businesses and further improve asset efficiency. Our keywords are; "new technology," "service and solution," "strategic investment," and "integrated function."



Business Performance in Fiscal Year 2003

Trading transactions in fiscal year 2003 declined by ¥190.7 billion compared to the previous year, mainly due to the withdrawal from less profitable businesses and an unexpected under-performance in the construction equipment business in North America. Gross trading profit, however, decreased only by ¥1.6 billion due to an increase of auto exports to China and the Middle East. A reduction of selling, general and administrative expenses and provision for doubtful accounts contributed to a ¥5.8 billion improvement in trading income* and a ¥1.1 billion increase in net income.

What We Did in Fiscal Year 2003

The oil and gas development and related transportation market is in a growth phase and highly profitable. It is an area where we can utilize our strong know-how in organizing and financing projects. In fiscal year 2003, ITOCHU was awarded an LNG transportation project in Algeria and an offshore oil transportation project in Brazil. As a strategic investment in the renewable energy sector, ITOCHU acquired an engineering company specializing in biomass energy in Europe.

ITOCHU's automotive-related services business is an area that stands to grow through the vertical and horizontal development of ITOCHU's existing finance, retail, and distribution businesses. In fiscal year 2003, we expanded our new- and used-car dealer network in the U.S. and U.K., formed a business and capital tie-up with Yanase, the largest domestic retailer of imported cars, and established an automobile financing company in Indonesia.

The domestic deregulation and services related market is also growing fast, particularly in power supply, distribution and outsourcing services. EneSol Inc. (formerly "ITOCHU Energy Solution Co., Ltd."), an ITOCHU Group company that provides energy-saving and power retailing services, expanded its businesses to strengthen its position in this fast-growing field. In order to further develop its business platform for the future, ITOCHU also acquired 20% of the shares of Mystar Engineering Corp., a company specializing in 3rd party mechanical maintenance.

In addition, we have continuously strengthened the export of automobiles and auto parts to developing countries. This is an area where we have a high market share and expect further growth in demand. We also continue to strengthen the medical field, which offers opportunities for business expansion and stable growth; the electronic and semiconductor field, where we have an advantage in flat panels; and the new technology field, where we deal in advanced laser technology and new urban-transit systems.

Akira Yokota
President, Plant, Automobile & Industrial Machinery Company

Topics

Business and Capital Alliance with Yanase

In December 2002, we formed a business alliance with Yanase & Co., Ltd., the largest retailer of imported cars such as Mercedes Benz and other major brands, with a view to strengthening and expanding its business. We also invested ¥1.5 billion in Yanase to become one of its largest shareholders.

ITOCHU and Yanase will share and reinforce each other's know-how in procurement, retailing, and marketing. This will in turn enable ITOCHU to take advantage of Yanase's valuable customer base and maximize profit opportunities in all aspects of the automotive-related business including the sale of used-cars, parts and accessories, and automobile financing.

Head office of Yanase and its Showroom

LNG Transportation Export Joint Venture for SONATRACH (Algeria)

In July 2002, ITOCHU, SONATRACH, Algeria's state-owned oil & gas company, SNTM-HYPROC, SONATRACH's shipping subsidiary, and Mitsui O.S.K. Lines, Ltd. agreed to form a joint-venture company, and placed an order for an LNG carrier with Kawasaki Shipbuilding Corporation. The joint venture will own and operate the vessel for SONATRACH, and will export LNG to Europe and the U.S. from Algeria, the world's second-largest LNG exporter. Having worked closely with SONATRACH for more than thirty years on various projects including the construction of oil & gas processing plants, gas field development, we have now come together for the first time to own and operate an LNG carrier.

LNG is increasingly recognized as a clean energy source. We will further develop LNG related businesses and enhance our presence in its transportation field.

Signing ceremony for a joint venture of LNG transportation and 145,000cbm LNG carrier

Organization

- Plant, Automobile & Industrial Machinery Company
  - Planning & Coordinating Dept.
  - Administration Dept.
  - Plant & Project Division
    - Marine Dept.
    - Oil, Gas & Petrochemical Project Dept.
    - Environment/Power/Infrastructure Projects Dept.
  - Automobile Division
    - Automobile Dept. No.1
    - Automobile Dept. No.2
    - Automobile European Business Development Dept.
    - Office of Automobile Business Strategy & Development
  - Industrial Machinery Division
  - Business Function Integration Dept.

Products & Services

- Civil engineering
- Construction
- Mining and related materials handling machinery
- Agricultural machinery
- Metalworking and processing machinery and plant
- Forging machinery
- Textile machinery
- Semiconductor-related equipment
- Electronic device and equipment
- Plastic manufacturing equipment
- Automobile parts manufacturing plant
- Plant related to the iron and steel industry
- Desalination plant
- Food machinery
- Grain silos
- Hospital equipment
- Medical device
- Oil, gas and petrochemical plants
- Passenger vehicles
- Commercial vehicles
- Automobile parts and equipment
- Special-purpose vehicles
- Rolling stock
- Ships
- Power generating equipment
- Environment-related equipment

Aerospace, Electronics & Multimedia Company

Message from the Division Company President

Under our A&P-2002 Mid-term Plan, in which we are working to "expand corporate value as an industry leading business group," we reinforced the base of our existing businesses and reformed our profit structure while concentrating on new business areas such as Bio and Nano technologies.

Under our Super A&P-2004 Mid-term Plan, we will strengthen profitability in the face of a rapidly changing market, industry and technology with a "frontier spirit for consistent creation of new businesses." To achieve this, we will implement two measures, "laying the ground work for the future" by undertaking new technology and new businesses and "strengthening subsidiaries and affiliates and expanding consolidated net income" through increasing our group companies' corporate value.

Business Performance in Fiscal Year 2003

In our consolidated results for fiscal year 2003, gross trading profit reached ¥102.5 billion and trading income* ¥25.9 billion, although domestic IT-related transaction decreased due to lowered IT-related investment from a sluggish economy. Net income was ¥14.3 billion, due to a decrease in gain on sale of investments in securities.

What We Did in Fiscal Year 2003

In the Total Solutions business, in an alliance with Hitachi, Ltd., we worked together to further strengthen IT services and develop new businesses utilizing cutting-edge technologies such as Bio and Nano technologies. Together with ITOCHU TECHNO-SCIENCE Corporation (CTC), we acquired the domestic marketing rights for an integrated high-end Linux server that is highly reliable and largely cuts system maintenance costs. In order to strengthen this area, we made CRC Solutions Corp. (CRC), which is strong in developing and operating office application systems and in handling outsourced operations, into a consolidated subsidiary and organized a system to promote our business centering on CTC and CRC.

In the e-business area, Excite Japan Co., Ltd. made a full-scale entry in the broadband-related business with the *BB.Excite* content distribution service and *Woman Excite café*, a broadband café that specifically targets women.

In the mobile phone business, we enhanced both hardware/software competitiveness and profitability by strengthening mobile phone sales and service company ITC NETWORKS CORPORATION and by establishing NANO Media, Inc. to supervise entire mobile internet content business.

In the media content sector, mainly to increase the number of subscriber households of CS broadcaster SKY PerfecTV!, we established a set top box sales company, T.T. Nexyz. Corporation.

In the aerospace field, in addition to efforts to increase profitability on a collaboration base with ITOCHU Aviation Co., Ltd. and other group companies, we worked to strengthen the cyber security business with iDEFENSE Japan Inc.

In the new business area, in addition to establishing the Bioinformatics Center making the best use of IT and Bio technologies for strengthening our foothold in the Bio business, we established a protein analysis firm, Proteome Systems Japan, in conjunction with an Australian biotechnology firm.

Yoichi Okuda
President, Aerospace, Electronics & Multimedia Company

Topics

Reorganization of Mobile Internet Content Companies Focused on NANO Media, Inc.

Having implemented a reorganization of our mobile internet content companies in fiscal year 2003, in April 2003 we made Interactive Radio & Television Guide, Inc. (Irate), an Electronic Program Guide (EPG) distributor, and Navi-p.com Corporation, a location and map information distributor, subsidiaries of NANO Media, Inc.

Along with enhanced functions of mobile phones and development of Internet home appliances, NANO Media, Inc. aims to become the top firm in the mobile internet content distribution and service provision area not only by providing content for mobile phone and other personal media, but by providing machine communication services such as the remote control of home appliances and services linked to other media.

Electronic Program Guide (left) and location and map information (right)

Development of Cyber Security Business by iDEFENSE Japan Inc.

iDEFENSE Japan Inc., which provides cyber security services to customers, is steadily increasing contracts by receiving confidence of clients including governmental organizations for its expanded services.

Intrusion detection software is presently not effective enough against increasingly-sophisticated cyber attacks. For this reason, iDEFENSE Japan Inc., in alliance with U.S.-based iDEFENSE Inc. and Foundstone Inc., provides the latest cyber threat intelligence information in Japanese language near real time. As a part of comprehensive cyber security intelligence information services, the company offers the most advanced vulnerability assessment and management system along with security training and consulting services which enable customers to protect their valuable assets from cyber threat.

iDEFENSE Japan Inc.'s cyber security information services

Organization

Aerospace, Electronics & Multimedia Company
- Planning & Coordinating Dept.
- Accounting & Control Dept.
- Affiliates Administration & Credit Dept.
- Aerospace & Electronic Systems Division
  - Aerospace Dept.
  - Commercial Aerospace Dept.
- IT & Telecommunication Division
  - Information Technology Business Dept.
  - Business Solutions Dept.
  - IT & Telecommunications Business Dept.
- Media Business Division
  - Network & Content Business Dept.
  - Mobile Business Dept.

Products & Services

- Broadcasting and communication business
- Electronics systems
- Equipment for broadcasting and communication systems
- Programing supply and entertainment business
- Mobile telecommunication equipment and services
- Systems and related equipment for computer and information processing
- Semiconductor equipment
- Aircraft and in-flight equipment
- Air Transportation Management Systems
- Space-related equipment
- Security equipment

Energy, Metals & Minerals Company

Message from the Division Company President

Our objective has been to maximize earnings by actively participating in projects for developing natural resources with growth potential and linking resources produced by these projects with trading. We have also improved efficiency of our organization and assets, as in the example of spinning off our Iron & Steel Division. As a result, during the two-year period, we achieved the ¥10.0 billion net income targeted by our A&P-2002 Mid-term Plan. Under our Super A&P-2004 Mid-term Plan, we are targeting ¥15.0 billion in net income in two years by pursuing organizational efficiency and by further strengthening our earnings base through natural resource development and trading.

Business Performance in Fiscal Year 2003

Mainly due to the spin-off of the Iron & Steel Division into an equity-method affiliate, trading transactions decreased by ¥523.8 billion and gross trading profit fell by ¥19.7 billion compared to the previous fiscal year. Net income, however, increased ¥0.5 billion to exceed ¥10.0 billion, mainly thanks to increased earnings in natural resource development at ITOCHU Oil Exploration Co., Ltd. and other affiliates, and favorable performance of Marubeni-Itochu Steel Inc.

What We Did in Fiscal Year 2003

In energy resource development, the Ohanet Natural Gas Development Project in Algeria has steadily progressed and will start production in fiscal 2004. The Sakhalin-I Project is moving along well in Phase I and is on target to start oil production at the end of fiscal 2006. Sakhalin-I's recoverable reserves are estimated at 2.3 billion barrels of crude oil and 17,000 billion cubic feet of natural gas. As a new project, we have participated in a US$2.3 billion large-scale crude oil pipeline project that will link the Caspian and Mediterranean Seas. We plan to use this pipeline for the transportation and sale to the worldwide crude oil market from the vast Azerbaijani oil fields in which our subsidiary, ITOCHU Oil Exploration Co., Ltd., has interests.

In mineral resource development, we decided to participate in a new coal mine development project in Australia. Also, a project for developing new coal mines in Indonesia and one for developing an iron ore mining area and expanding shipping capacity in Australia are progressing smoothly. In addition, we are conducting feasibility studies for new coal mine development, particularly in China.

In the trading sector, we further reinforced our global energy trading formation mainly by strengthening ITOCHU Petroleum Japan Ltd.'s alliances with Chemoil Corp. in the U.S. and Galaxy Energy Group Ltd. in Europe. In addition to this, we are expanding our international trading activities for coal, iron ore, and non-ferrous metals businesses. Particularly in the non-ferrous business, we succeeded in obtaining substantial market share in a Europe and Asia-focused global sales of refrigeration units for transportation containers.

In the steel products business, Marubeni-Itochu Steel Inc.'s performance was favorable, supported by the contribution from overseas steel pipe transactions and other overseas earnings, mainly from North America and Asia.

New fields, with our emphasis on the environmental conservation-oriented business, include expansion of the recycling business and development of DME (dimethyl ether), which is attracting attention as a clean energy source.

Hiroshi Sumie
President, Energy, Metals & Minerals Company

Topics

Ohanet Natural Gas Development Project (Algeria)

The Ohanet Project in Algeria, in which ITOCHU Oil Exploration Co., Ltd. is participating through Japan Ohanet Oil and Gas Co., Ltd., has entered the final stage of construction for fiscal 2004 production start. Planned production is for 3 trillion cubic feet of natural gas, 9 million tons of LPG, and 11 million tons of condensate. As the largest private sector investment in Algeria by a Japanese corporation to date, this project will cost about US$1.0 billion in total and is being cooperatively financed by JBIC (Japan Bank for International Cooperation) and Japanese commercial banks. ITOCHU Oil Exploration Co., Ltd. has a 35% equity stake in the Japanese consortium Japan Ohanet Oil and Gas Co., Ltd., which has a 30% interest in this project.

Gas production facility

Ashton Coal Mine Development Project (Australia)

We have decided to participate in the Ashton Project for developing new coal resources in New South Wales, Australia. We control a 20% interest in this project. Ashton is being developed as an open-pit coal mine with annual production of 2 million tons, which is expected to be expanded to 4 million tons by developing underground mining. From fiscal 2004, the coal produced by this mine will be sold in Asia including Japan, Europe, and the U.S. as semi coking coal for coke production and as thermal coal for power generation. We are in charge of marketing for this project and are actively promoting sales on a global basis.

Coal loading port

Organization

- Energy, Metals & Minerals Company
  - Corporate Planning & Administration Dept.
  - Control Dept.
  - Sakhalin Project Dept.
  - Steel Business Administration Dept.
  - Metals & Mineral Resources Division
    - Iron Ore Dept.
    - Coal Dept.
    - Metal Materials Dept.
    - Non-Ferrous & Light Metal Dept.
  - Energy Division
    - Energy Business Development Dept.
    - International Energy Trading Dept.
    - Energy Sales & Supply Dept.

Products & Services

- Iron ore
- Direct reduced iron
- Coking coal
- Coke
- Thermal coal
- Ferro alloy and its materials
- Ferrous scrap
- Pig iron
- Metal powder
- Electrodes
- Activated carbon
- Steel plates
- Hot & cold rolled sheets and coils
- Galvanized steel
- Steel for machinery
- Stainless steel
- High tensile steel
- Special steel
- Construction materials
- Welded steel pipes
- Seamless steel pipes
- Steel wires
- Marine steel structures
- Bridges
- Prefabricated steel for buildings
- Rails
- Non-ferrous metals
- Aluminum products
- Precious metals
- Rare metals
- Aluminum
- Alumina
- Rolled aluminum products
- Molded aluminum
- Electric cable
- Optical cable
- Electronic material
- Crude oil
- Natural gas liquid
- Gasoline
- Naphtha
- Kerosene
- Jet fuel
- Gas oil
- Fuel oil
- Marine fuel
- Lubricant
- Asphalt
- Liquefied petroleum gas
- Liquefied natural gas
- Dimethyl ether
- Nuclear fuel and Nuclear power related equipment

Chemicals, Forest Products & General Merchandise Company

Message from the Division Company President

Under the A&P-2002 Mid-term Plan, in addition to expanding retail and downstream growth areas through the acquisition of tire distributors in the U.S. and Europe, we selectively weighted company resources through such additional investments as in a Brazilian pulp and paper business (CENIBRA). As a result, over the past two years not only have total assets decreased by ¥49.0 billion, net income has increased by ¥8.3 billion.

Under the Super A&P-2004 Mid-term Plan, in the chemical sector, we will expand the sales of raw material for synthetic fiber, electronic materials, plastics parts for automobiles, and food packaging in the growth markets of China and other Asian countries. In the general merchandise area, in addition to strengthening the housing and construction material retail business and the global expansion of tire sales, we will expand and strengthen the pulp business centering on CENIBRA.

Business Performance in Fiscal Year 2003

Supported by a recovery in chemical prices, a favorable tire business in North America and Europe, and strong construction materials business in the U.S., trading transactions increased by ¥64.0 billion, gross trading profit grew ¥6.4 billion and trading income* rose ¥4.5 billion compared to the previous fiscal year. In addition to the increase in trading income*, net income showed a sharp rise of ¥10.9 billion due to improved equity in earnings of associated companies and lower valuation losses on marketable securities.

What We Did in Fiscal Year 2003

In the rubber and tire area, up to now we have been building the foundation of a solid tire distribution business in North America and Europe. In our domestic operation, from fiscal year 2003, in addition to our conventional tire outlets, we have begun operating large-scale car parts and accessory stores. We aim to expand profits further through comprehensive development of our tire business including retail business in the three major regions of Japan, the U.S., and Europe alongside tire exports and our natural rubber processing business.

In the chemical product field, we are proactively taking strategic steps to grow business in China and Asia, taking advantage of the market growth. In addition to starting an acrylic sheet manufacturing business in Thailand and an anhydrous fluoric acid manufacturing business in China, we added capacity at compound manufacturer Hexa Color (Thailand) Ltd., and packaging manufacturer Narai Packaging (Thailand) Co., Ltd.

In the pulp and paper business, we expanded and improved our global pulp sales network for the pulp produced by CENIBRA. We also worked to expand transactions in China and throughout Asia, where both paper production and consumption are rapidly growing. Domestically, we integrated our paper and paper products business in ITOCHU Pulp & Paper Corp. and improved efficiency throughout our group by developing a unified system to handle everything from forestation to end product sales.

Our company is deeply involved in everyday life and deals with a variety of products in this area. We will further create new value and services through our consumer and retail related business as well as environmental conservation-oriented business.

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

Topics

Strengthening the Tire Retail Business

In October 2002, I.C.S. Co., Ltd., which handles auto parts such as tires and aluminum wheel, acquired ownership of the large-scale car parts and accessory store Pit 100 Fujioka. We plan to open more stores, mainly in the northern Kanto area, as it expands the business to provide total automotive service.

Overseas, we will reinforce our tire retail business in Japan, North America, and Europe by developing our franchisee network and by acquiring distributors through our subsidiaries, such as Am-Pac Tire Distributors in North America and Stapleton's (Tyre Services) in Europe.

Opening "Pit 100 Fujioka"

Proactive Development of Resin Product Business in Asia

Jointly with Sumitomo Chemical Co., Ltd., we established Sumipex (Thailand) Co., Ltd. as a manufacturer and retailer of acrylic sheets. It began operations in August 2002. With annual production capacity of 8,400 tons, we expect sales to reach ¥2.5 billion in one to two years. Acrylic sheets carry superb characteristics of transparency and weather resistance and are widely used in signboards and soundproof walls. The demand for acrylic sheets is increasing particularly in Asia. Having developed a supply system in Asia ahead of other competitors, we are proactively developing this business.

We also plan to add capacity to compound manufacturer Hexa Color (Thailand) Ltd. and polypropylene film manufacturer Shanghai Jinpu Plastic Packaging Material Co., Ltd. (China) as we respond to the growth in demand for synthetic resins in Asia.


Aquarium display using acrylic sheet

Organization

Chemicals, Forest Products & General Merchandise Company

- Planning & Coordinating Dept.
- Accounting, Affiliates Administration & Credit Control Dept.
- Forest Products & General Merchandise Division
  - Wood Products & Materials Dept.
  - Paper Materials & Products Dept.
  - Tire & Rubber Dept.
  - General Merchandise Dept.
- Chemicals Division
  - Organic Chemicals Dept.
  - Inorganic Chemicals Dept.
  - Plastics Dept.

Products & Services

- Logs
- Lumber
- Wooden building materials
- Wood chips
- Wood pulp
- Recycled paper
- Paper
- Paper products
- Natural rubber
- Tires
- Furniture
- Shoes
- Glass
- Cement
- Olefin
- Aromatics
- Raw materials for synthetic resins
- Raw materials for synthetic fibers
- Organic chemicals
- Methanol
- Ethanol
- Solvents
- Specialty chemicals
- Inorganic chemicals
- Chemical fertilizers
- Polyvinyl chloride
- Polyolefin
- Synthetic rubbers
- Carbon black
- Thermoplastic and thermosetting resins
- Resin additives

Food Company

Message from the Division Company President

The Food Company has focused on the integration of all domestic and overseas food related businesses, from raw material development to production and processing, intermediary distribution, and retailing. We are growing them based on our Strategic Integrated System (SIS) to establish an optimum supply chain originating in the needs of consumers. Under the A&P-2002 Mid-term Plan, we emphasized expansion and improvement of the intermediary distribution field, the backbone of SIS, and invested heavily in the industrial distribution field in order to promote SIS in industrial markets.

Under the Super A&P-2004 Mid-term Plan, we aim to become the food industry's leading company with net income of ¥20.0 billion by completing our domestic SIS strategy by making these large investments profitable and by developing SIS in essential overseas regions including China and other parts of Asia.

Business Performance in Fiscal Year 2003

Higher prices for feed and fresh produce and increased volume in commercial food products led to a ¥77.3 billion year-on-year rise in trading transactions. Although there was a negative factor in the marine product business, gross trading profit grew ¥3.3 billion due to a favorable performance in commercial distribution. While trading income* was down ¥0.7 billion due to a rise in expenses for increased consumer merchandise transactions, a change in accounting principles for goodwill amortization and a large improvement in equity in earnings from associated companies resulted in a ¥2.3 billion increase in net income.

What We Did in Fiscal Year 2003

In the commercial distribution field, in order to strengthen our across-the-country all-temperature distribution network, we increased our stake in YUKIJIRUSHI ACCESS, INC., the top-ranked company in the domestic chilled and frozen food distribution market, becoming its largest shareholder.

In the industrial distribution area, we acquired in August 2002 a 20% stake in Compass Group Holding (Japan) K.K., a subsidiary of the world's largest food contract firm, Compass Group PLC of the U.K., with a view to strengthening our position in the domestic chain restaurant and food contract market, where considerable growth is expected. This move is aimed at building an industrial distribution system that leverages the Compass Group's expertise and at expanding the ITOCHU Group's trading. Also, in order to strengthen our position in dairy products, an area where we lagged behind industry peers, in March 2003, we made a ¥3.0 billion (8.07%) capital investment in SNOW BRAND MILK PRODUCTS CO., LTD. ITOCHU will not only expand its trading in dairy materials, but will move into new business fields that leverage Snow Brand's dairy technology and will develop dairy businesses overseas by taking advantage of the ITOCHU Group's network. These initiatives represent our full-fledged entry into dairy products.

In the convenience store area, having already established its presence in Taiwan, Korea and Thailand, FamilyMart Co., Ltd. will open its first store in China in fiscal year 2004, as it continues its overseas expansion concentrating on Asia. **In the food materials area**, ITOCHU acquired three sugar-producing companies including DAI-ICHI-TOGYO Co., Ltd., which puts us in the number three position in the sugar-producing industry. **In perishable food products**, ITOCHU decided to acquire a 39.9% stake in Prima Meat Packers, Ltd. and in April 2004 made it an associated company.

In order to appropriately address the recent heightening of consumer concerns regarding food safety, in April 2002 we established the **Food Safety Management Office** to boost employee awareness, improve operations, and bolster our risk management system.

Kouhei Watanabe
President, Food Company

Topics

Boosting Stake in YUKIJIRUSHI ACCESS, INC. Opens Door to Full-Scale Entry into Chilled and Frozen Food Distribution Market

In July 2002, ITOCHU increased its stake in YUKIJIRUSHI ACCESS from 10% to 25% and made it a consolidated subsidiary.

By strengthening its ties with YUKIJIRUSHI ACCESS, which has a "nation-wide distribution network" and "multi-temperature distribution," the ITOCHU Group will be able to build the nation-wide, multi-temperature distribution network that is absolutely essential to its SIS strategy. Particularly strong in chilled and frozen food distribution, YUKIJIRUSHI ACCESS will play a major role in the ITOCHU Group's full-scale entry into the chilled and frozen food distribution market, whose estimated worth is ¥10 trillion.

YUKIJIRUSHI ACCESS' multi-temperature distribution center

Acquisition of California Food Wholesaler JCP

In August 2002, ITOCHU's U.S. subsidiary, Itochu International Inc., acquired Los Angeles-based food wholesaler Japan California Products, Inc. (JCP) through its food distributor and strategic subsidiary ICREST.

Established in 1977, JCP has primarily sold Asian vegetables to higher-end Japanese restaurants and supermarkets on the West Coast, mainly in California. Recently, however, there has been an increase in business with non-Japanese customers.

This acquisition will not only strengthen ITOCHU's food distribution business on the U.S. West Coast through the addition of JCP's sales network, but will also support the comprehensive development of our food businesses in the U.S. through its positive impact on the growth strategy of YOSHINOYA WEST, INC., a subsidiary of Yoshinoya D&C Co. Ltd.

ICREST's new warehouse (upper), YOSHINOYA WEST store (lower left), and JCP's private brand products (lower right)

Organization

- Food Company
  - Planning & Coordinating Dept.
  - Administration Dept.
  - Grain & Foodstuff Division No.1
  - Grain & Foodstuff Division No.2
  - Fresh Food Marketing & Distribution Division
  - Food Products Marketing & Distribution Division No.1
  - Food Products Marketing & Distribution Division No.2
  - FamilyMart Dept.

Products & Services

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

Finance, Realty, Insurance & Logistics Services Company

Message from the Division Company President

By exiting from inefficient assets and developing new businesses under our A&P-2002 Mid-term Plan, during its two years we reduced assets by ¥134.4 billion and improved the net loss from ¥40.9 billion to ¥8.4 billion. Although the segment remains in the deficit overall, the A&P segment of financial services related is generating steady profit.

Under the Super A&P-2004 Mid-term Plan, we plan to further reinforce our earnings base by continuing to promote new businesses in our core areas. These include the consumer finance business and private equity (PE) business, insurance business, and the 3rd Party Logistics (3PL). We aim to restore profitability on a trading income* basis in fiscal year 2005 by further reducing inefficient assets in the construction and realty fields.

Business Performance in Fiscal Year 2003

Despite active condominium sales, trading transactions decreased by ¥185.9 billion due to withdrawal from inefficient transactions in housing lot sales business and gross trading profit was down ¥0.5 billion due to valuation losses on residential land compared with the last fiscal year. Due to the provision for doubtful accounts that occurred in the previous fiscal year and the effect of cost-cutting, trading loss* improved ¥6.6 billion and the net loss improved ¥1.4 billion.

What We Did in Fiscal Year 2003

In the consumer finance business, Famima Credit Corporation made its full-scale entry into the credit card business when it started accepting applications for its *Jupi Card* in May 2002. **In the PE business**, in September 2002 ITOCHU formed the *Raffia Fund*, a buyout fund targeting all types of businesses, with Shinsei Bank; and the *IDA Fund*, a specialized buyout fund aimed at information system companies, with Aozora Bank. In March 2003, the *Raffia Fund* made its first acquisition with the purchase of the JASDAQ-listed ROKI TECHNO Co., Ltd., the largest manufacturer of cartridges for liquid filtration. **In the construction and realty field**, we withdrew from inefficient assets and devoted energy to efficient condominiums and solution businesses such as PFI** and securitization.

In the insurance field, we started a service of creation and operation support of employees benefit package with the goal of evolving from a traditional insurance brokerage business into a risk solution provider. Also, we started handling group credit insurance that disperses underwriters' risks and offers eased conditions for signing up by grouping corporations and nonlife insurance companies respectively.

In the logistics area, we promoted our 3PL business for pharmaceutical makers and a total of seven companies are using our six domestic distribution centers. We are also promoting the logistics business in China and other overseas locations through our subsidiaries, i-LOGISTICS CORP., China based Beijing Pacific Logistics Co., Ltd. and Hungary based Eurasia Sped KFT. We will continue to expand our 3PL business going forward, concentrating on the key areas of pharmaceuticals, consumer products and automobile industry.

Hiroshi Ueda
President, Finance, Realty, Insurance & Logistics Services Company

Topics

"Chiba City Nature House for Youth" PFI** Commissioned

In the term under review, Chiba City commissioned us with the PFI for "Chiba City Nature House for Youth" PFI in December 2002. This undertaking includes construction of a 13,715 m^2 educational facility as well as maintenance of the facility and management of the social education business over a 15-year period.

In addition to organizing the overall scheme of the PFI as representative of the corporate consortium and project manager, ITOCHU will raise the funds for the project. We will also take advantage of the ITOCHU Group's integration, by putting ITOCHU Urban Community Ltd. in charge of maintaining the facility.

Completion drawing of "Chiba City Nature House for Youth"

**PFI: Private Finance Initiative
Construction, maintenance, and operation of the social infrastructure by the private sector.

Corporate Benefit Package Creation and Operation Support Service Started

In October 2002, we initiated the "Life Planning Comprehensive Support Program," which conducts corporate benefit package organization and operation support. We are accelerating diffusion of the program through an alliance with Misawa Resort Co., Ltd., the owner of "Life Support Club," which has more than 1,000 member companies (total of 500,000 employees).

Its core feature is its program for guaranteeing income to employees who take an extended amount of time off due to illness or injury. Advantage Risk Management Group, which jointly offers the service, boasts a dominant 30% share of the domestic market currently estimated at approximately ¥5.0 billion. We are committed to this service as a core business in our retail strategy.

The tie-up with Misawa Resort and Advantage Risk Management Group

Organization

- **Finance, Realty, Insurance & Logistics Services Company**
  - Planning & Coordinating Dept.
  - Administration Dept.
  - Financial Services Division
    - Forex & Securities Dept.
    - Financial Solution Businesses
    - Financial Businesses Development Dept.
  - Construction & Realty Division
    - Construction & Realty Dept.
    - Overseas Construction & Realty Dept.
    - Osaka Construction & Realty Dept.
  - Insurance Services Division
    - Insurance Business Development Dept.
    - Marine Insurance Dept.
  - Logistics Services Division
    - Logistics Dept. No.1
    - Logistics Dept. No.2

Products & Services

- Foreign exchange and securities trading
- Securities investment
- Asset management for financial products
- Loan business
- Online stock broking
- Other financial services
- Planning, developing, consulting, brokering, constructing, contracting, managing, operating, selling facilities and materials for residential housing, office buildings, golf courses, industrial parks, hotels, and shopping malls
- Insurance agency
- Broking of insurance and reinsurance
- Consulting of insurance and reinsurance
- Warehousing and trucking
- Logistics centers
- Ship chartering business
- International intermodal transport
- Air cargo
- Freight forwarding
- Travel services
- Distribution processing
- Harbor transport business

Overseas Operations

The environment surrounding overseas markets and regions is rapidly changing on a global scale due to the deregulation, the liberalization of capital movement, the sharing of commercial trading and technology standards, and the enhanced availability of information made possible by information technology. After carefully examining such changes in the business environment, ITOCHU is focusing management resources on those markets where the Group's capabilities can be fully utilized. In other words, by promoting our A&P strategy through selection and concentration of markets and regions, we aim to reinforce profitability in overseas markets and regions.

A&P Regions

In promoting our A&P strategy, we have designated overseas regions that are expected to become core profit generators as A&P regions. By designating North America (since fiscal year 2002) and Asia (since fiscal year 2003) as A&P regions and focusing our management resources on them, we aim to further expand overseas profit, particularly in these two regions.

1. North America

Despite the slump in a few businesses such as auto leasing, small-size power generator sales, and fence sales, ITOCHU International Inc. (III), the center of our North American operations, achieved a strong performance overall in the textile, general merchandise, and chemical product businesses. Profits in textiles were driven by domestic apparel and raw material sales, and profits in general merchandise and chemical products were propelled by nail and construction material sales through PrimeSource Building Products, Inc. and tire sales through Am-Pac Tire Distributors, Inc.

In the consumer-related field, we acquired the Los Angeles-based food wholesaler Japan California Products, Inc. (JCP). JCP is the largest among the food distributors selling fresh vegetables to high-end Japanese restaurants and supermarkets in the U.S. This acquisition marks our full-fledged entry into the food distribution industry in the U.S.

In addition to its development in food distribution, III is enlarging its machinery maintenance and operation business. The core companies of III's machinery maintenance business are its subsidiary Enprotech Corporation, the industry's top repairer of large-scale presses for automobile manufacturing and manufacturer of spare parts, and North American Energy Services (NAES), the world's largest independent power plant operation and maintenance firm. In November 2002, Enprotech expanded the scope of its business by acquiring BevCorp L.L.C., which provides maintenance for bottling machines. In June 2003, III acquired Tyr Energy, Inc., which consults on electricity and gas wholesaling, and NAES acquired Connective Operating Service Company, which maintains power plants, enhancing its system for providing comprehensive services in the power generation field.

Playing an important role in introducing promising overseas businesses to ITOCHU Corporation, III mediated the development of the high-end gourmet store *Dean & Deluca* for the Japanese market.

Aiming to go beyond the conventional business model centered on trading, we will further develop our existing businesses and promote mergers and acquisitions in growth areas. With a proactive growth strategy and large-scale strategic investment focused on the three core fields: consumer and retail related, logistics, and the field of maintenance, operation and service, we plan to earn several tens of millions of dollars from these new sources of profit.

2. Asia

Since fiscal year 2002, we have reinforced our system promoting our Asian strategy by establishing the Asian Strategic Committee, the Office for Promoting Asian Strategy, and a Chief Officer for Asian Region Strategy.

By defining areas of focus and allocating management resources, our Asian strategy implements such important policies as the expansion of local and regional trade, new investments in efficient projects, and the promotion of company-wide and specific market development projects.

Regarding local and regional trade, we are expanding trade, mainly of chemicals, general merchandise, textiles, and food within the Asian region and other regions. New investments during the A&P-2002 Mid-term Plan (from April 2001 to March 2003) include such prominent projects as LPG (Liquefied Petroleum Gas) production in Indonesia and refrigerated warehousing and fruit juice production in China. Company-wide and specific market development projects include our involvement in medium- to long-term projects in China and India.

We continue to take measures to expand profit in the A&P areas of consumer and retail related businesses (particularly textiles and foods), natural resource development, and chemical products. Within Asia, ITOCHU has a strong focus on China and we will continue to promote the development of business in this crucial market by expanding local trade and investing in local businesses through alliances with powerful Chinese corporations (see page 13 for our China strategy).

In addition, we promote local trade and investment by enhancing personnel and developing national staff members in Thailand, Singapore, Indonesia, India, and Vietnam.

Other Regions

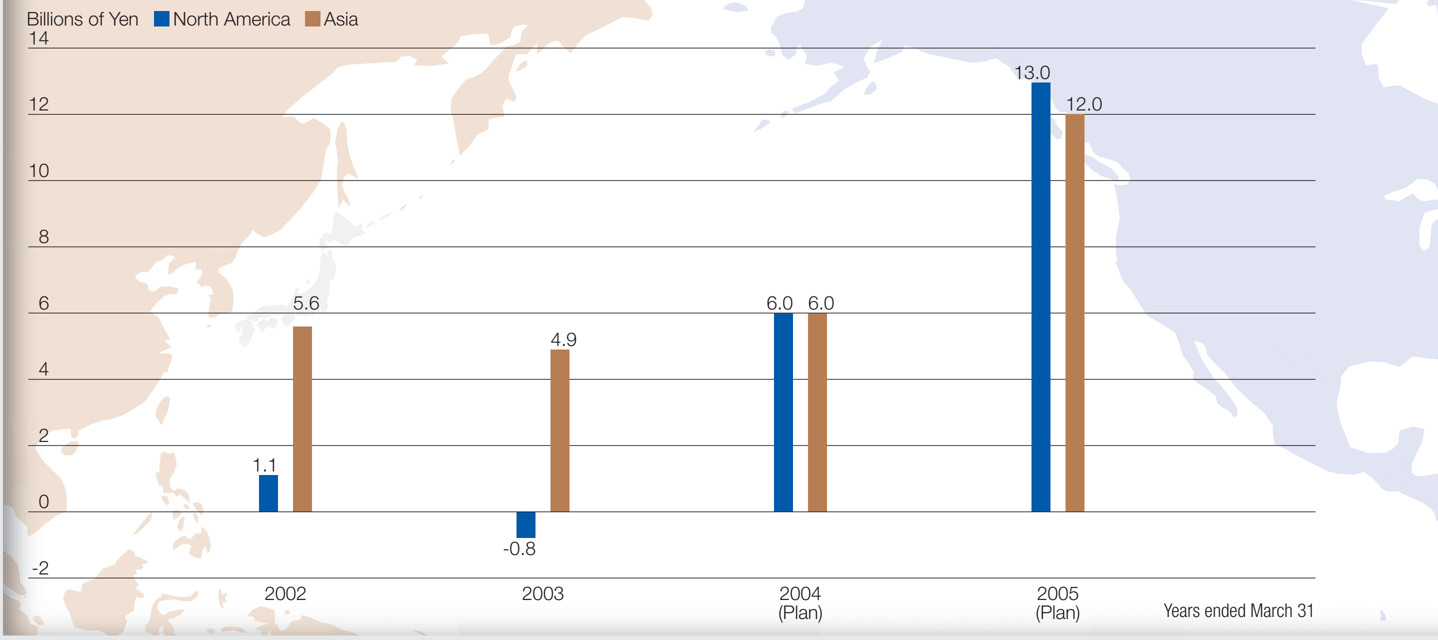
In Europe, ITOCHU Europe PLC. is expanding basic profitability by concentrating on the main sales groups of textiles, chemicals, general merchandise, and food. We aim to further enhance profitability by expanding our regional market trade through core companies such as Prominent (Europe) Ltd. (textiles), Stapleton's (Tyre Services) Ltd., and Reifen Gundlach GmbH (tire-related businesses), and by cultivating the Central and Eastern European markets that will be encompassed in an expanded European Union.

In Oceania, we are sharply expanding profit in the natural resource field through ITOCHU Coal Resources Australia Pty., Ltd. (coal) and CI Minerals Australia Pty., Ltd. (iron ore). We also aim to grow profit in the areas of wool, food, and general merchandise.

Human Resource Strategies for Regional and Market Strategies

In order to promote regional and market strategies, the human resources capable of achieving those goals must be secured and developed. To promote local businesses, we will develop and place human resources in accordance with the characteristics of each region and market. We will carry this out by strengthening the abilities of our employees through overseas on-the-job training, utilizing retired employees through our system for posting specialists overseas, and enhancing the quality of national staff through our training system. In Asia in fiscal year 2002, we introduced the Asian Leadership Program (ALP) as a training system for the prospective national staff executives and began promoting the Asian Scholarship Program (ASP) as a training system for future mid-level managers of national staff. In fiscal year 2003, six national staff personnel participated in ALP and 14 in ASP. Going forward, we will further reinforce the development and education of our national staff, particularly in Asia.

Changes in Net Income in North America and Asia as A&P Regions



Headquarters

Organization Directly Under the President and C.E.O.

The Secretariat and the Internal Audit Division directly report to the President and C.E.O.

The Secretariat provides secretarial functions to top management including the president and facilitates smooth communication amongst top management both inside and outside of the Company.

The Internal Audit Division focuses on contributing to management by providing 1) a monitoring function to ensure that internal control continues to operate effectively and 2) consulting activities designed to add value and improve management operations. It evaluates the effectiveness of

Finance, Accounting, Credit & Human Resources

Contents of Operations

The executive vice president for finance, accounting, credit and human resources leads four divisions at Headquarters: Finance; General Accounting Control; Risk Management; and Human Resources. His responsibilities for the entire Group include devising financial strategies and raising funds in the Finance area; financial reporting in the Accounting area; maintaining and monitoring the risk management system in the Risk Management area; and making plans and proposals for the overall human resources system and hiring and training personnel in the Human Resources area.

Organization

- Finance, Accounting, Credit & Human Resources
  - Finance Division
    - ITOCHU Shared Management Services Inc.
  - General Accounting Control Division
  - Risk Management Division
  - Human Resources Division
    - ITOCHU Human Resource Services Inc.

In addition, subsidiaries that support the above operations include ITOCHU Shared Management Services, Inc. a spinoff which handles finance and accounting functions previously administrated by headquarters, and ITOCHU Human Resource Services, Inc., a company which provides human resource consulting and personnel management services to group companies.

Policies

In the financial area, we are reinforcing the consolidated financial management system through our Group Finance Committee. In particular, we are implementing a financial strategy that focuses on reinforcing the system for managing interest-rate volatility risk, diversifying fund raising sources by setting commitment lines, and further reducing financing costs. In addition, we enhanced stockholders' equity by ¥54.8 billion through a public offering in July 2002. Further, by introducing the enterprise resource planning package SAP, we completed restructuring of basic operating system of the entire organization. In addition to speeding up financial results announcement by introducing an SAP system throughout the organization, we promoted tax saving measures such as introduction of a consolidated income tax return.

One of the key issues of our A&P-2002 was enhancing risk management. In this regard, we aim to reinforce risk management for the entire Group by thoroughly bringing risk capital management methods to our subsidiaries including those overseas and reviewing our country risk management system.

In the human resources area, we promoted a strategy of matching human resources to each Division Company's business, enriched training programs such as our Asian Leadership Program for developing future managers for the Asian region, and revitalized human resources with a "right person in the right place" approach. In addition, we fundamentally revised our retirement and severance plan (please see page 17) by introducing effective measures such as the defined contribution pension plan, which lead to the minimization of risks on management of rising retirement benefit costs.

Sumitaka Fujita
Executive Vice President, C.F.O. and C.C.O.

internal control and management resources, and reports important subjects and recommendations to top management by auditing of business divisions which include subsidiaries, overseas regional operations, headquarter administrative divisions and the entire organization's specific themes.

In addition, it is striving to cooperate with corporate auditors, exchange information with independent external auditors, and enhance its function to the ITOCHU Group through collaboration with the internal audit section of the group companies. It also develops professionalism and expertise through internal staff recruiting.

Organization

- President and C.E.O.
  - Internal Audit Division
  - Secretariat

Corporate Planning, Affiliate Administration, General Affairs & Legal

Contents of Operations

The managing director for corporate planning, affiliate administration, general affairs and legal leads six divisions at Headquarters: Corporate Planning & Administration; Corporate Communications; IT Planning; Affiliate Administration; General Affairs; and Legal. His responsibilities for the entire Group include devising management plans, allocating management resources, monitoring the progress of management plans and evaluating performance in the Corporate Planning and Administration area; Public relations for inside and outside organization in the Corporate Communications area; devising IT strategy and establishing infrastructure in Information System area; devising group company strategy and monitoring and evaluating group company management in the Affiliate Administration area; operation and management of corporate infrastructure, and implementing measures for environmental issues and social contributions in the General Affairs area; handling contracts and lawsuits and coordinating international trade security policy in the Legal area.

In addition, as subsidiaries for supporting the above operations, there are ITOCHU Management Consulting Co., Ltd., which researches and supports overseas operations, and ITOCHU General Services Inc., which provides general affairs-related services.

Organization

- Corporate Planning, Affiliate Administration, General Affairs & Legal
  - Corporate Planning and Administration Division
    - ITOCHU Management Consulting Co., Ltd.
  - Corporate Communications Division
  - IT Planning Division
  - Affiliate Administration Division
  - General Affairs Division
    - ITOCHU General Services Inc.
  - Legal Division
  - Corporate Development Office
  - Innovative Technology Business Development Office
  - China Market Global Development Office

Policies

In regard to the group company strategy that supports our profitability on a consolidated basis, we are using our Group Profits Improvement Committee to promote the reform of subsidiary expense structure. Furthermore, we are using GMC (Group Management Committee) to devise strategies to expand profit from the group companies mainly by further reinforcing profitable companies.

ITOCHU takes very seriously its social responsibility as a corporation for global environmental problems and is involved in various related projects. In June 2002, ITOCHU Taiwan Corporation received ISO14001 certification, following our Headquarters and domestic branches. As evidenced by such efforts to win certification by our overseas subsidiaries and our promotion of environmental conservation-oriented businesses, it is our policy to contribute to the realization of a sustainable society and construction of a recycling-oriented society. Further, as part of our efforts to contribute to society and coexist with the local communities, in addition to the ITOCHU Foundation's activities for "the sound upbringing of children," we have a broad range of involvement supporting employees' volunteer efforts to contribute to local communities. Furthermore, as a member of international society, in addition to conducting international trade in conformance with international agreements, we are reinforcing our management system and educating employees in order to be in full compliance with laws and regulations.

In addition, our Corporate Development Office, Innovative Technology Business Development Office, and China Market Global Development Office are laying the groundwork for long-term or cross-company involvement in promising business areas. Going forward, in addition to further enhancing corporate functions and building a management system characterized by flexibility and speed and infrastructure to support the new ITOCHU Group, we will endeavor to enhance corporate disclosure and be fully accountable.

Eizo Kobayashi
Managing Director and C.I.O.

Corporate Governance

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

(1) Enhancing transparency in decision-making processes;
(2) Strengthening corporate information disclosure and management accountability;
(3) Thoroughly managing risk, which includes compliance with laws and regulations;
(4) Maintaining business ethics through the strict application of rewards and punishments.

Enhancing Management Transparency

To establish a more efficient and transparent management system, ITOCHU has moved forward with the streamlining of the Board of Directors. Specifically, we reduced the number of board members from 45 as of fiscal year 1999 to 12 as of fiscal year 2003 and plan a further reduction to 11 in fiscal year 2004. Also, we introduced the executive officer position from fiscal year 2000 and the managing executive officer position from fiscal year 2002. As of April 2003, we have 32 executive and managing executive officers. Not only has the streamlining of the Board of Directors speeded up decision making, it also helps directors fulfill their essential roles of making corporate decisions and supervising operations, which allows executive officers to devote themselves to the execution of their own duties.

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

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

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

While studying examples of best practice in other developed countries, we will continue to pursue a system of corporate governance that best suits the Company.

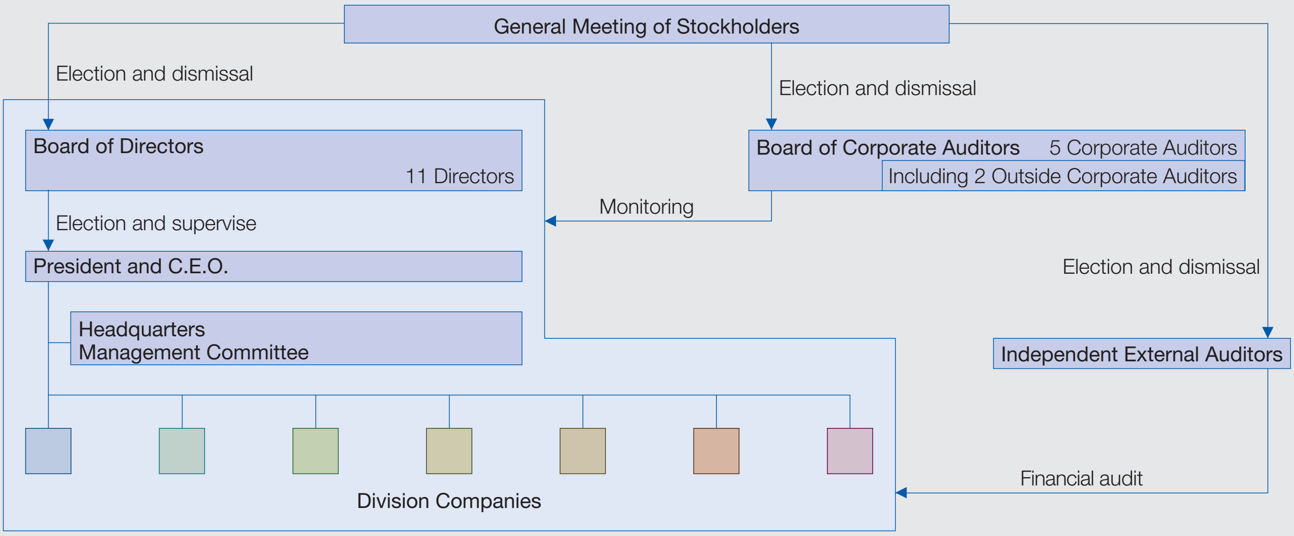
The Headquarters Management Committee and Other Internal Committees

Established as a support body to the President, the Headquarters Management Committee (HMC) discusses general management policy and important issues relating to management. We have also created other internal committees that assist the decision making of the President and Board of Directors through the careful examination and discussion of management issues in their particular areas (please see the table on the next page).

Reinforcing Disclosure and Accountability

Amid a growing awareness of the importance of disclosure, we are not only maintaining our accountability to stakeholders, but are also proactively promoting disclosure. In fiscal year 2001 we became the first Japanese general trading company to announce quarterly financial statements and since fiscal year 2002 we have been reinforcing investor rela-

ITOCHU's Corporate Governance System



Role of the Board of Corporate Auditors

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

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

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

tions specific for segment strategy and performance. Striving to disclose information as early as possible, we announced results for fiscal year 2003 on May 9, compared with May 17 for fiscal year 2001. Senior management members regularly participate in meetings with investors to discuss financial results and the performance of core segments.

Corporate Ethics and Compliance

We have reinforced a system that ensures thorough compliance with laws and regulations. In order to build, maintain, and enhance a stronger compliance system for the ITOCHU Group, we appointed a Chief Compliance Officer (CCO) in fiscal year 2003. We also set up a Corporate Ethics and Compliance Committee headed by the CCO, and the Committee receives supervision and advice from outside experts on a regular basis. In addition to holding seminars and setting up hotlines and consultation windows for the entire Group, we have had employees and group company presidents sign confirmations of legal compliance. Moreover, compliance officers in group companies and overseas offices are building compliance systems that are suited to the organizational characteristics of their businesses.

Principal Internal Committees (Chairman)

Super A&P Strategic Investment Committee (Executive Vice President, Yokota)	Examines prospective strategic investments in the new mid-term management plan.
ALM** Committee (Executive Vice President, Fujita)	Administers comprehensive balance sheets and risk management, and makes proposals regarding the monitoring systems and improvement measures for management.
Consumer and Retail Related Committee (Executive Vice President, Kato)	Determines overall company policy in the consumer and retail related sector.
CIO*** Committee (Managing Director, Kobayashi)	Examines and promotes policy for the Group's information strategy.
Group Profits Improvement Committee (Managing Director, Kobayashi)	Analyzes subsidiaries' cost and revenue structure to build a consolidated cost structure appropriate for the level of profits. Studies ways to improve profit structures and conducts follow ups to track improvements.
Business Ethics and Compliance Committee (Executive Vice President, Fujita)	Sets program policies for a thorough understanding of the Company's management principles and corporate code of conduct and comprehensively manages their enforcement. Discusses concrete measures for implementing these programs.

**ALM=Asset Liability Management ***CIO=Chief Information Officer

Environmental Conservation Activities and Social Contribution

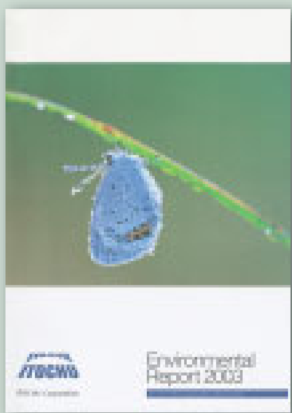
As a company engaged in natural resource development, investment, product and service provision and other areas on a global scale, ITOCHU is keenly aware of its responsibility to the global environment and society, and considers environmental conservation and social contribution to be among the most important management issues.

Environmental Conservation

In fiscal year 2003, the ITOCHU Group as a whole continued to promote environmental risk assessment and prevention. In addition to making testing for soil contamination obligatory when buying land, we conducted on-site interviews to survey the observance of laws and regulations by group companies that have a high impact on the environment, and held seminars on related laws and regulations.

Environmental Report 2003

In June 2003, we published a fourth edition of our environmental report, *Environmental Report 2003*. It summarizes our environmental activities for fiscal year 2003 and presents the concept of environmental conservation-oriented businesses, including the activities of some of our group companies.



Environmental Management System

Since acquiring ISO14001 certification in December 1997, ITOCHU Corporation has promoted the expansion of this environmental certification. In June 2002, ITOCHU Taiwan Corporation became our first overseas trading subsidiary to include itself among the ISO certified. The number of group companies awarded with their own ISO certification increased by 11 to 33 during fiscal year 2003. Furthermore, in addition to assigning environmental coordinators in group companies and overseas offices, we are taking measures to improve environmental conservation and risk management by implementing voluntary environmental management audits at our domestic branches, overseas offices, and group companies that have not acquired ISO certification.

Environmental Risk Management

We manage environmental risk that may occur in the daily conduct of business, evaluate in advance the environmental impact of new investment and development projects, and maintain preparedness for accidents and emergency situations. In fiscal year 2003 there were no accidents or violations of laws or regulations that caused major impact on the environment.

Promoting Environmental Conservation-Oriented Businesses

In April 2002, we established the Sub-Committee on Environmental Businesses Promotion, under the umbrella of the Global Environment Committee, which has begun studying and promoting cross-division businesses. Currently, we have four task forces with personnel from related divisions seeking new business opportunities in their respective areas (please see the table below).

Environmentally Friendly Offices

In addition to our installation of energy-saving equipment and facilities, we are promoting energy saving, waste reduction and sorting by all employees by posting environmental managers and "eco-leader" at all levels of the Company. Since its completion in 1980, our Tokyo headquarters building has been equipped to treat and recycle rain water collected from the building site and kitchen waste water from the employee cafeteria to flush toilets. This system enhances water saving while heightening individual employees' awareness of the environment.

Sub-Committee on Environmental Businesses Promotion

Task force	Activities	Task force members
Global Warming Task Force	Investigates the Kyoto Mechanism—joint implementation (JI), clean development mechanism (CDM) and emissions trading (ET).	Selected from Plant, Automobile & Industrial Machinery Company; Energy, Metals & Minerals Company and Chemicals, Forest Products & General Merchandise Company
Heat Island Task Force	Examines measures on heat-resistant paints, rooftop greening programs, etc. to address the heat island issue facing large cities.	Selected from Energy, Metals & Minerals Company and Chemicals, Forest Products & General Merchandise Company
Automobile Recycling Task Force	Examines ways to deal with shredder dust generated from used cars.	Selected from Plant, Automobile & Industrial Machinery Company; Energy, Metals & Minerals Company and Aerospace, Electronics & Multimedia Company
Thermal Recycling Task Force	Investigates appropriate methods of incineration for industrial waste, including construction waste materials.	Selected from Plant, Automobile & Industrial Machinery Company

Wind-Generated Power Sales Business

ITOCHU, Horonobe Town, JFE Engineering Corporation, and others, jointly established the Otonrui Wind Power Plant (750kW x 28 turbines = 21,000kW) of Horonobe Wind Power Generation in Hokkaido. In March 2003, the plant was approved by the Minister of Economy, Trade, and Industry as a "new energy power generation facility" under the RPS** Law, which requires power companies to use a certain amount of renewable energy. The yearly output is equivalent to approximately 50 million kWh (12,000 households' consumption). Compared with a heavy-oil-fired thermal plant, this can save about 58,000 barrels of heavy oil and about 35,000 tons of CO_2. Hokkaido Electric Power Company uses electricity generated by this plant in accordance with the RPS law. (**Renewable Portfolio Standard.)

Introduction of Environmental Accounting

Introduced from the second edition of our Environmental Report published in June 2001, "environmental accounting" is an itemized report of environmental conservation costs and investments and their effect. As a general trading company, ITOCHU has relatively little impact on the environment compared with a manufacturing company. For this reason, personnel expenses account for most of the costs associated with achieving environmental objectives and targets including compliance with laws and regulations. In fiscal year 2003, however, charter costs for double-hull ships for transporting crude and heavy oil increased sharply as a result of the reinforcing of measures to prevent marine pollution.

Social Contribution Activities

In order to achieve "Societal Benefits" that are the foundation of our corporate philosophy, in addition to our broad contributions to society at the corporate level, we actively support individual employees' efforts to contribute to society.

Activities at the Corporate Level

- **Support for Basic Research**
  Since establishing the financially assisted research division at the University of Tokyo's Center for Climate System Research in 1991, in cooperation with 17 group companies we have continued to support basic research on climate change, including studies on global warming.
- **ITOCHU Foundation**
  Established in 1974 to "make contributions to the sound upbringing of children," the ITOCHU Foundation is involved in a variety of activities including operating the Tokyo Elementary and Junior High School Student Center and assisting the children's library.
- **Supporting Employee Contributions to Society**
  Introduced in 1992, the "volunteer time-off system" supports employees' efforts to contribute to society. It provides opportunities for volunteer activities, including "summer school programs on the environment," which assist local elementary school students with their summer vacation studies, and "ITOCHU Corporation lobby concerts," which are held for employees, families, local citizens, and residents of facilities for the physically challenged.

Employees' Volunteer Activities

Individual employees are exercising their volunteer spirit through "Fureai no Network," our employee volunteer organization. Activities include the holding of regular meetings for nature watching, disaster relief, and reading to the blind, monthly cleanups of the area around ITOCHU's Tokyo headquarters, participation in blood donation (over 1,500 donors to date), and bone marrow bank donor registration.

Employees' nature watching activity

Major Subsidiaries and Associated Companies

As of March 31, 2003

Textile Company

		Name	Voting Shares(%)	Operations
Subsidiaries	Domestic	CI Fabric Ltd.	100.0	Manufacture and wholesale of fabrics for apparel and home furnishings
		ITOCHU Home Fashion Corp.	100.0	Manufacture and wholesale of home furnishings
		SAKASE ADTECH CO.,LTD.	90.0	Manufacture and wholesale of textile fabrics for industry and home furnishings
		Roy-ne Co., Ltd.	75.2	Manufacture and wholesale of woven and knitted products
		Marusan-Ai Corporation	75.0	Dyeing and finishing of polyester fabrics
		ITOCHU Modepal Co., Ltd.	99.9	Manufacture and wholesale of apparel
		UNICO Corporation	100.0	Manufacture and wholesale of uniforms
		TOMMY HILFIGER JAPAN, INC.	60.0	Sale of Tommy Hilfiger brand products
		Liondor Co., Ltd.	100.0	Manufacture and wholesale of men’s apparel
		CI GARMENT SERVICE CO., LTD.	100.0	Retail of men’s and ladies’ apparel and sale of garment material
		Hunting World Japan Co., Ltd.	100.0	Import and sale of Hunting World brand products
		JOI’X CORPORATION	100.0	Sale of men’s apparel
		ORIZZONTI CO.,LTD.	100.0	Sale of Interplanet brand and Vivienne Westwood brand apparel
		STRENESSE JAPAN LTD.	75.0	Import and sale of Strenesse brand products
		CONVERSE JAPAN CO., LTD.	100.0	Comrehensive control of CONVERSE brand business
		ITOCHU Fashion System Co., Ltd.	100.0	Comprehensive consulting in the fashion industry
		Richard-Ginori Japan Corporation	50.0	Import and sale of Richard Ginori & Pagnossin Group brand products
		BALLY JAPAN LTD.	80.0	Sale of BALLY brand products
		ITOCHU Textile Institute, Inc.	100.0	Research, developing, and consulting
		CI Shopping Service Co., Ltd.	100.0	Sale of everyday items aimed at ITOCHU Group employees and families
	Overseas	ITOCHU Wool Ltd. (Australia)	100.0	Purchase and wholesale of wool and animal hair
		ITOCHU Textile Materials (Asia) Ltd. (Hong Kong S.A.R., China)	100.0	Wholesale of chemical fibers, filament yarns and cotton yarns
		HANGZHOU FUJITOMI SILK GARMENTS CO., LTD.(China)	80.0	Manufacture, export and wholesale of textile products
		Prominent Apparel Ltd. (Hong Kong S.A.R., China)	100.0	Production control and wholesale of textile and apparel
		Tianjin Huada Garment Co., Ltd. (China)	92.0	Manufacture of uniforms
		UNIMAX SAIGON CO., LTD. (Vietnam)	80.0	Manufacture of uniforms
		Qingdao Tri-Gents Clothing Co., Ltd. (China)	80.0	Manufacture of men’s suit
		Prominent USA Inc. (U.S.A.)	100.0	Import, export and wholesale of garments and fabrics
		Prominent (Europe) Ltd. (U.K.)	100.0	Import and wholesale of garments and fabrics
		ITOCHU Textile (Shanghai) Co., Ltd. (China)	100.0	Production control and wholesale of textile materials, fabrics and apparel
Associates	Domestic	Leilian Co., Ltd.	25.9	Retail of ladies’ apparel
		DEAN & DELUCA JAPAN CO., LTD.	34.0	Operation of cafeteria chain and other new business
		Ayaha Corporation	33.5	Manufacture of tire cords, etc.
	Overseas	Thai Shikibo Co., Ltd. (Thailand)	30.0	Manufacture of cotton yarn
		Hangzhou Asahikasei Textiles Co., Ltd. (China)	30.0	Knitting and dyeing of spandex
		BULGARI KOREA LTD. (Republic of Korea)	49.0	Import and sale of BVLGARI brand products

Plant, Automobile & Industrial Machinery Company

Subsidiaries	Domestic	ITOCHU Plant & Machinery Corporation	100.0	Export and import of small-to-medium-scale plant and equipment
		IMECS Co., Ltd.	100.0	Ownership and operation of ship, chartering, ship machinery and administration management of overseas shipping companies
		ITOCHU Energy Solution Co., Ltd. On May1, company name changes to EneSol Inc.	90.0	Sale of equipment and systems for energy conservation, and distributed power generation services
		ITOCHU Automobile Corporation	100.0	Export/import and domestic sale of parts and plants
		ITOCHU Construction Machinery Co., Ltd.	100.0	Wholesale of construction machinery
		ITOCHU Sanki Corporation	100.0	Wholesale of industrial machinery
		ITOCHU Texmac Corporation	100.0	Wholesale of textile machinery
		Century Medical, Inc.	100.0	Wholesale of medical equipment and materials
	Overseas	MCL Group Ltd. (U.K.)	60.0	Retail of motor vehicles / Warehouse (Parts) / Retail finance
		ITOCHU Automobile America, Inc. (U.S.A.)	100.0	Holding company for auto-related business
		Auto Investment Inc. (U.S.A.)	100.0	Holding company for car dealers
		PROMAX Automotive, Inc. (U.S.A.)	100.0	Third-party logistics services
		MA International, Inc. (U.S.A.)	100.0	Distribution of portable construction equipment
		North American Energy Services Inc. (U.S.A.)	100.0	Power Plant Operation & Maintenance Services Provider for
Associates	Domestic	Century Leasing System, Inc.	26.3	Lease of machinery and equipment
	Overseas	Mazda Canada Inc. (Canada)	40.0	Wholesale of motor vehicles

Aerospace, Electronics & Multimedia Company

		Name	Voting Shares(%)	Operations
Subsidiaries	Domestic	ITOCHU Aerotech Corporation	100.0	Lease/finance of commercial aircraft, and sale of security related equipment
		ITOCHU Aviation Co., Ltd.	100.0	Sale of aircraft and related equipment
		ITOCHU Mechatronics Corporation	100.0	Sale of NC machine tools,industrial robots and related software
		ITOCHU TECHNO-SCIENCE Corporation	50.0	Consultation,System integration,Services of computer networks and equipment
		CRC Solutions Corp.	46.7	Software development,outsourcing and consulting services
		Info Avenue Corporation	70.0	Supply business,Info-sharing,Sales promotional consulting services and application service provider
		Excite Japan Co., Ltd.	92.4	Internet search engine and information provider
		SPACE SHOWER NETWORKS INC.	54.2	Music channel on cable/satellite television
		ITC NETWORKS CORPORATION	100.0	Retail network of mobile phones
	Overseas	ITOCHU AirLease, Inc. (U.S.A.)	100.0	Lease/finance of commercial aircraft
		ITOCHU AirLease B.V. (Netherlands)	100.0	Lease of commercial aircraft
		ITOCHU Aviation, Inc. (U.S.A.)	100.0	Export of aircraft and related equipment
		Innovative Information Systems Ltd. (Hong Kong S.A.R., China)	100.0	System development,Sales,Support of computer networks and equipment
		Global Network Solutions Europe (U.K.)	100.0	System development,Sales,Support of computer networks and equipment
		ITOCHU Technology, Inc. (U.S.A.)	100.0	Venture Investment,IT related new businesses,export of computer H/W & S/W
Associates	Domestic	JAMCO Corporation	20.6	Maintenance of aircraft and manufacture of aircraft interior
		Japan Entertainment Network K.K.	50.0	Cartoon channel on cable/satellite television
		Star Channel Inc.	17.8	Movie channel on cable/satellite television

Energy, Metals & Minerals Company

Subsidiaries	Domestic	ITOCHU Non-Ferrous Materials Co., Ltd.	97.5	Wholesale of non-ferrous metals and products
		ITOCHU Oil Exploration Co., Ltd.	96.4	Exploration and production of hydrocarbon resources
		ITOCHU Petroleum Japan Ltd.	100.0	Charter and operation of oil tankers, sales of bunker fuel oil
		ITOCHU Oil Terminal Co., Ltd.	100.0	Operation of oil storage facilities
		ITOCHU Energy Marketing Co., Ltd.	100.0	Wholesale of petroleum products
		ITOCHU LubNet Inc.	100.0	Sale of lubricants and auto-parts
	Overseas	CI Minerals Australia Pty., Ltd. (Australia)	100.0	Investment in iron ore mining project
		ITOCHU Coal Resources Australia Pty., Ltd. (Australia)	100.0	Investment in coal mining and sales project
		ITOCHU Coal International Inc. (U.S.A.)	100.0	Investment in coal mining and sales project
		ITOCHU Petroleum Co., (Singapore) Pte. Ltd. (Singapore)	100.0	International Trade of crude oil and petroleum products
		ITOCHU Petroleum Co.,(Hong Kong) Ltd. (Hong Kong S.A.R., China)	100.0	International Trade of crude oil, LPG and petroleum products
Associates	Domestic	Marubeni-Itochu Steel Inc.	50.0	Wholesale of steel products
		ITOCHU ENEX CO., LTD.	38.7	Wholesale of petroleum products
		OCL Corp.	20.0	Lease and maintenance of cask
	Overseas	Kobe Alumina Associates (Australia) Pty., Ltd. (Australia)	35.0	Investment in manufacture of alumina and mining of bauxite
		Chemoil Corporation (U.S.A.)	50.0	Sale and distribution of bunker fuel
		Galaxy Energy Group Ltd. B.V.I. (British Virgin Islands)	25.0	International trade of crude oil and petroleum products

Chemicals, Forest Products & General Merchandise Company

Subsidiaries	Domestic	ITOCHU Kenzai Corp.	69.5	Wholesale of wood products and building materials
		Daishin Plywood Co., Ltd.	100.0	Manufacture of plywood
		ITOCHU Forestry Corp.	100.0	Landscaping, greenery development and wastewater treatment systems
		Everson McCoy Homes Inc.	100.0	Marketing of North American-type imported houses
		ITOCHU Pulp & Paper Corp.	100.0	Wholesale of paper, paperboards, and various paper materials
		ITOCHU Ceratech Corp.	100.0	Manufacture and sale of ceramic raw materials and products
		ITOCHU Windows Co., Ltd.	100.0	Manufacture and sale of insulating glass
		I.C.S. Co., Ltd.	95.0	Sale of tires and wheels
		Royal Stage Corporation	100.0	Catalog shopping for the wealthy
		Retail Branding Co. Ltd.	86.7	Retail support business
		HARTS MARUHARA CORPORATION	67.0	DIY store
		BEAVER TOZAN CORPORATION	51.0	DIY store

		Name	Voting Shares(%)	Operations
Subsidiaries		ITOCHU CHEMICAL FRONTIER Corporation	100.0	Wholesale of fine chemicals and related raw materials
		ITOCHU PLASTICS INC.	100.0	Development and wholesale of plastics and related products
		ITOCHU Techno-Chemical Inc.	80.0	Wholesale of superfine chemicals
		The Japan Cee-Bee Chemical Co., Ltd.	90.0	Manufacture and processing of metal pretreatment chemicals
		VCJ Corporation	75.0	Wholesale of video/DVD and plastic products for retailers
		Chemical Logitec Co., Ltd.	100.0	Management of chemical storage warehouses and transport of chemical and other cargos
	Overseas	CIPA Lumber Co. Ltd. (Canada)	100.0	Manufacture of lumber and veneer
		Siam Riso Wood Products Co., Ltd. (Thailand)	44.0	Manufacture of particle boards
		Pacific Woodtech Corp. (U.S.A)	100.0	Manufacture of LVL & I-Joist
		Prime Source Building Products, Inc. (U.S.A.)	100.0	Wholesale of building materials
		Am-Pac Tire Distributors Inc. (U.S.A.)	100.0	Wholesale and retail of tires
		Stapleton's (Tyre Services) Ltd. (U.K.)	100.0	Wholesale and retail of tires
		ITOCHU Plastics Pte., Ltd. (Singapore)	100.0	Wholesale of plastic resins
		Plastribution Limited (U.K.)	100.0	Wholesale of synthetic resins
		Hexa Color (Thailand) Ltd. (Thailand)	57.5	Plastics coloring compound operations
		Hinbo International Industrial Co., Ltd. (China)	82.2	Manufacture of plasticizer for Polyvinyl chloride
		ITOCHU Specialty Chemicals Inc. (U.S.A.)	100.0	Wholesale of chemical products and synthetic resins
		ZHEJIANG YIPENG CHEMICAL CO., LTD. (China)	60.0	Manufacture of Anhydrous fluoric acid
Associates	Domestic	Japan Brazil Paper & Pulp Resources Development Co., Ltd.	25.9	Investment in CENIBRA, one of the largest eucalyptus pulp manufacture in Brazil
		PPG-CI Co., Ltd.	49.0	Import and sale of float-glass
		TAKIRON Co., Ltd.	26.0	Manufacture of flat and corrugated plastic sheets
		C.I. KASEI Co., Ltd.	36.5	Manufacture of PVC pipe and film and related materials
		TOHO EARTHTECH, INC.	34.2	Exploration and production of natural gas and iodine
	Overseas	Daiken Sarawak Sdn. Bhd. (Malaysia)	15.0	Manufacture of medium-density fiberboards
		Albany Plantation Forest Company of Australia Pty. Ltd. (Australia)	30.0	Plantation of eucalyptus trees for papermaking
		Harris Daishowa (Aust.) Pty. Ltd. (Australia)	37.5	Manufacture of woodchip
		Rubber Net (Asia) Pte. Ltd. (Singapore)	39.6	Sale of natural rubber
		Thaitech Rubber Corp., Ltd. (Thailand)	33.0	Processing of natural rubber
		P.T. Aneka Bumi Pratama (Indonesia)	49.0	Processing of natural rubber
		Guangzhou ES Fiber Co., Ltd. (China)	29.0	Manufacture of bonded-fiber fabrics
		Shanghai Baoling Plastics Co., Ltd. (China)	22.6	Manufacture of plastic products
		Shanghai Jinpu Plastic Packaging Material Co., Ltd. (China)	30.0	Manufacture of polypropylene films
		Tetra Chemicals (Singapore) Pte. Ltd. (Singapore)	40.0	Sale and manufacture of MTBE (Methyl t-Butyl Ether)
		SUMIPEX (THAILAND) CO., LTD. (Thailand)	49.0	Manufacture of PMMA sheet

Food Company

Subsidiaries	Domestic	ITOCHU Sugar Co., Ltd.	100.0	Manufacture and processing of sugar and by-products
		I-FOODS Co., Ltd.	100.0	Import and wholesales of food materials
		ITOCHU Rice Corporation	89.6	Rice wholesales
		ITOCHU Feed Mills Co., Ltd.	85.9	Manufacture and wholesale of compound feeds
		ITOCHU FRESH Corporation	100.0	Processing and wholesale of perishables
		ITOCHU SHOKUHIN Co., Ltd.	50.9	Wholesale and distribution of foods
		Nishino Trading Co., Ltd.	75.7	Wholesale of foods and sundries
		Yayoi Foods Co., Ltd.	99.0	Manufacture of frozen prepared foods
		Tower Bakery Co., Ltd.	100.0	Processing of dough and bread for SEVEN-ELEVEN convenience store chain
		Universal Food Co., Ltd.	98.0	Planning and service providing in food service business
		Family Corporation Inc.	100.0	Logistics services of frozen, chilled and dry foods and sundries for convenience-store chain, retailers and food service business
	Overseas	Oilseeds International Ltd. (U.S.A.)	100.0	Safflower oil manufacture
		P.T. Aneka Tuna Indonesia (Indonesia)	47.0	Production and marketing of canned tuna
Associates	Domestic	Fuji Oil Co., Ltd.	20.3	Integrated manufacturer of cooking oil and soybean protein
		Yoshinoya D&C Co., Ltd.	21.2	Operation of Gyu-don store chain and other new business
		YUKIJIRUSHI ACCESS, INC.	25.0	Wholesale and distribution of foods
		Japan Foods Co., Ltd.	47.8	Production of soft drinks
		Compass Group Holding (Japan) K.K.	20.0	Industrial catering business
		FamilyMart Co., Ltd.	30.9	Operation of a convenience store chain, using the name "FamilyMart" and a franchise system

		Name	Voting Shares(%)	Operations
Associates	Overseas	Asahi Breweries ITOCHU (Holdings) Limited (Hong Kong S.A.R., China)	40.0	Holding company for China beer project
		Cholburi Sugar & Trading Corp., Ltd. (Thailand)	20.0	Sugar manufacture
		Nic Starch Products Ltd. (Thailand)	34.0	Starch manufacture
		Palmaju Edible Oil Sdn. Bhd. (Malaysia)	30.0	Refining of palm oil
		CGB Enterprise, Inc. (U.S.A.)	50.0	Handling of grain and operation of barges
		Taiwan Distribution Center Co. Ltd. (Taiwan)	39.4	Wholesale of foods and sundries
		Winner Food Products Ltd. (Hong Kong S.A.R., China)	26.0	Manufacture and Wholesale of processed foods

Finance, Realty, Insurance & Logistics Services Company

Subsidiaries	Domestic	ITOCHU Finance Corporation	87.9	Loan and other finance-related business
		ITOCHU Capital Securities, Ltd.	100.0	Structuring and distribution of fund of funds and other investment products
		ITOCHU Housing Co., Ltd.	100.0	Real estate agent and property consultant
		CENTURY 21 REAL ESTATE OF JAPAN LTD.	55.3	Headquarters of real estate franchise system
		ITOCHU Property Development, Ltd.	100.0	Development and sale of housing (apartments, condominiums and homes)
		ITOCHU Urban Community Ltd.	100.0	Operation and management of real estate property
		ITOCHU Commnet Co., Ltd.	100.0	Operation of rental residents
		ITOPIA Home Co., Ltd.	100.0	Planning and execution of homes
		ITOCHU Insurance Services Co., Ltd.	100.0	Insurance agency
		ITOCHU Insurance Brokers Co., Ltd.	89.0	Insurance broking services
		eGuarantee, Inc.	54.8	Integrated payment solutions through the eGuarantee financial portal for BtoB marketplaces and financing providers
		i-LOGISTICS CORP.	61.4	Comprehensive logistics services
		Naigai Travel Service Co., Ltd.	100.0	Travel agency
	Overseas	ITOCHU Finance (Europe) Plc. (U.K.)	100.0	Proprietary financial investment and development of new financial business in Europe
		ITOCHU Finance (Asia) Ltd. (Hong Kong S.A.R., China)	100.0	Proprietary financial investment and development of new financial business in Asia
		Cosmos Services Co., Ltd. (Hong Kong S.A.R., China)	92.3	Consulting and broking of insurance and reinsurance
		Cosmos Services (America) Inc. (U.S.A.)	100.0	Consulting and broking of insurance
		Gotoh Distribution Service, Inc. (U.S.A.)	100.0	Transport and warehousing
		Eurasia Sped Kft. (Hungary)	95.7	Transport and warehousing
		I & D Logistics Private Limited (India)	51.0	Transport of automobiles
		Guangzhou Global Logistics Corp. (China)	57.7	Warehousing and trucking
		SIG Logistics, Inc. (U.S.A.)	100.0	Distribution center for convenience-store chain
Associates	Domestic	kabu.com Securities Co., Ltd.	22.4	Online stock brokerage
		CREDIA CO., LTD.	25.1	Consumer loan and business loan
		Priva Corporation	22.7	Online consumer loan
		Wide Co., Ltd.	25.0	Consumer loan
		Famima Credit Corporation	37.7	Credit card business for FamilyMart convenience store chain
		Superex Corporation	37.9	Logistics center
		Arukikata.com Inc.	36.0	Online travel agency
	Overseas	P.T. Maligi Permata Industrial Estate (Indonesia)	50.0	Development, sale and management of industrial parks

Other Operations

Subsidiaries	Domestic	ITOCHU Management Consulting Co., Ltd.	100.0	Market research and analysis, business support and consulting
		ITOCHU Mabis Inc.	100.0	International and domestic trading
		ITOCHU Shared Management Services Inc.	100.0	Finance and accounting shared service, business support and consulting
		CAPLAN Corporation	78.3	Executive placement, temporary employment, outsourcing, training seminars and outplacement
		ITOCHU Human Resource Services Inc.	100.0	Human resource management consulting, personnel data management and payroll service
		ITOCHU General Services Inc.	100.0	Facility management and interior works
	Overseas	Telerent Leasing Corp. (U.S.A.)	100.0	Distribution and lease of televisions and air conditioners to hotels and hospitals
		Master-Halco, Inc. (U.S.A.)	100.0	Manufacture and distribution of fencing materials
		Enprotech Corporation (U.S.A.)	100.0	Project management, industrial machinery design, repairs and maintenance

Global Network/Bank List

Global Network

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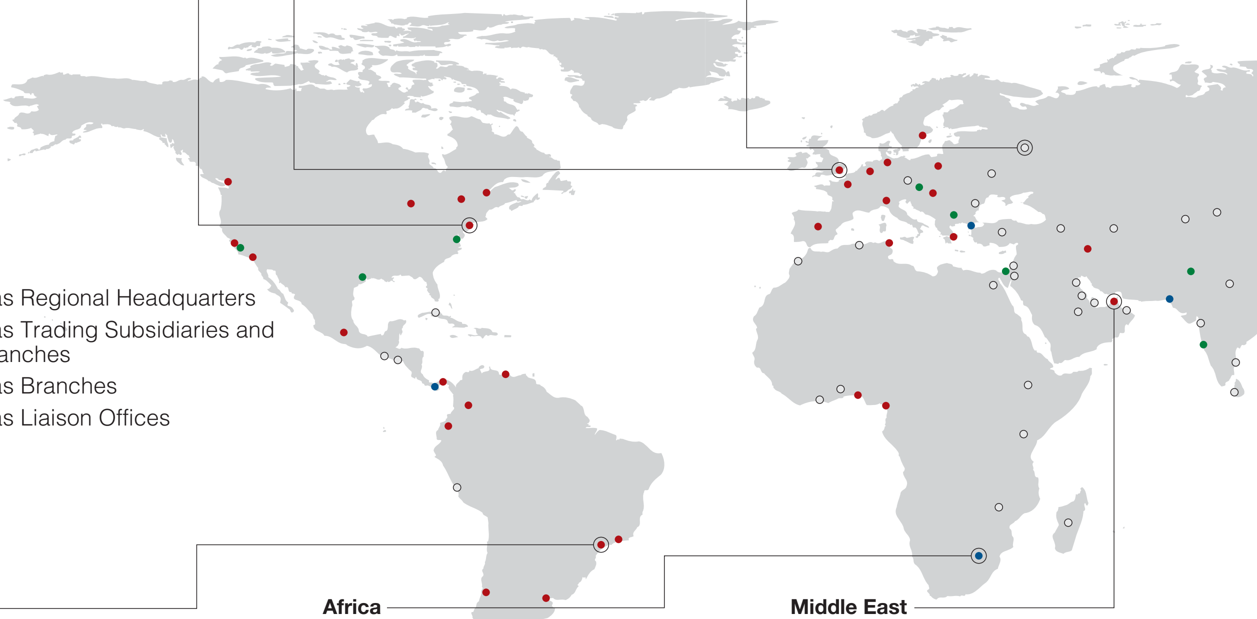
Kiev. Ashgabat. Tashkent. Baku



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

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Telephone : (11)3170-8501
Facsimile : (11) 3170-8511
● São paulo. Panama. Buenos aires. Bogota
Mexico city. Santiago. Caracas. Quito. Rio de janeiro
● Panama
○ Guatemala. San salvador. Lima. Havana

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

Middle East
ITOCHU Middle East FZE
201 The Spectrum Building,
Al Qataeyat Road,
Oud Metha, Dubai, U.A.E.
Telephone : 971 (4) 3355111
Facsimile : 971 (4) 3350101
● Dubai. Tehran
● Istanbul. Karachi
○ Cairo. Amman. Tel aviv. Ankara.
Riyadh. Damman. Kuwait. Muscat.
Doha

Bank List

ITOCHU has financial transactions with these banks.

North America
Bank of America N.A.
Bank One N.A.
Citibank, N.A.
JPMorgan Chase Bank
Bank of Montreal
Canadian Imperial Bank of Commerce

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

Europe & Africa
Barclays Bank PLC
The Royal Bank of Scotland plc
HSBC Bank plc
Standard Chartered Bank PLC
Deutsche Bank A.G.
COMMERZBANK A.G.
Bayerische Hypo-und VereinsbankAG
Credit Agricole Indosuez
BNP Paribas
Crédit Lyonnais S.A.
Société Générale
ABN AMRO Bank N.V.
ING Bank N.V.
San Paolo-IMI S.p.A.
Standard Bank of Southern Africa Limited

Middle East
Union National Bank
Saudi American Bank

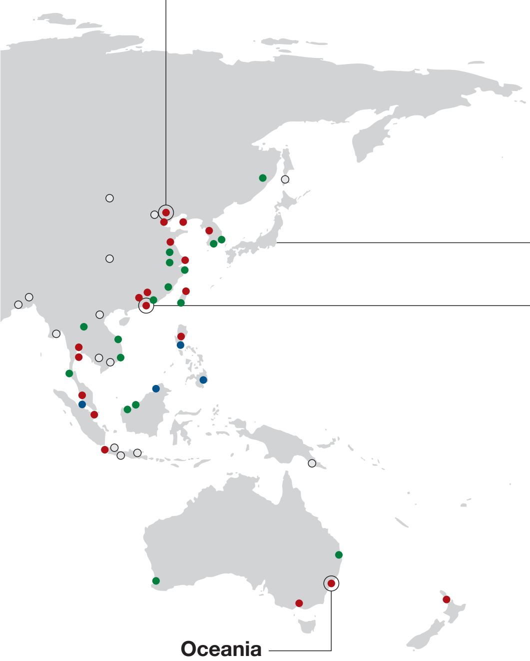
As of July 1, 2003

China
ITOCHU(China)Holding Co., Ltd.
Unit 401, 4F West Wing Office,
China World Trade Center, No.1
Jian Guo Men Wai Avenue, Beijing,
THE PEOPLE'S REPUBLIC OF CHINA
(Post Code: 100004)
Telephone : (10)6505-1122
Facsimile : (10)6505-1148/1149
● Beijing. Shanghai. Dalian. Tianjin. Qingdao
Hong Kong. Guangzhou. Shenzhen
○ Sichuan. Ulaanbaatar

Japan

Headquarters
Tokyo
5-1, Kita-Aoyama 2-chome,
Minato-ku, Tokyo, 107-8077, JAPAN
Telephone: 81-03-3497-2121
Facsimile : 81-03-3497-4141
Osaka
1-3, Kyutaro-machi 4-chome,
Chuo-ku, Osaka, 541-8577, JAPAN
Telephone: 81-06-6241-2121
Facsimile : 81-06-6241-3220

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



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

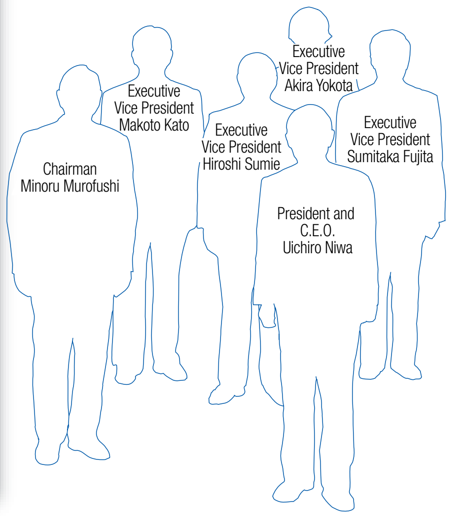
Asia
ITOCHU Hong Kong Ltd.
28th Floor, United Centre,
95 Queensway, HONG KONG
Telephone : 852-2529-6011
Facsimile : 852-2865-4631
● Singapore. Taipei. Seoul. Manila
Kuala lumpur. Bangkok. Jakarta
● Manila. Kuala lumpur. Davao. Kota kinabalu
○ Yangon. Jakarta. Surabaya. Bandung
Hanoi. Ho chi minh city. Phnom penh.
New delhi. Mumbai. Kolkata. Chennai.
Dhaka. Colombo

Oceania
Westpac Banking Corporation
Australia and New Zealand
Banking Group Limited

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

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

Corporate Officers



Board of Directors

Chairman of The Board, President and C.E.O.

Uichiro Niwa
1962 Joined ITOCHU Corporation
1998 President and C.E.O.

Chairman

Minoru Murofushi
1956 Joined ITOCHU Corporation
1996 Chairman

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

Executive Vice Presidents

Hiroshi Sumie
President, Energy, Metals & Minerals Company
1961 Joined ITOCHU Corporation
1997 Executive Vice President

Makoto Kato
President, Textile Company; Supervisory Officer for Consumer and Retail-Related
1964 Joined ITOCHU Corporation
2001 Executive Vice President

Sumitaka Fujita
Chief Financial Officer; Chief Compliance Officer; Supervisory Officer for Administrative Divisions; Finance, Accounting, Credit & Human Resources
1965 Joined ITOCHU Corporation
2001 Executive Vice President

Akira Yokota
President, Plant, Automobile & Industrial Machinery Company
1967 Joined ITOCHU Corporation
2003 Executive Vice President

Managing Directors

Yoichi Okuda
President, Aerospace, Electronics & Multimedia Company
1970 Joined ITOCHU Corporation
2003 Managing Director

Hiroshi Ueda
President, Finance, Realty, Insurance & Logistics Services Company
1967 Joined ITOCHU Corporation
2002 Managing Director

Kouhei Watanabe
President, Food Company
1971 Joined ITOCHU Corporation
2002 Managing Director

Eizo Kobayashi
Corporate Planning, Affiliate Administration, General Affairs & Legal; Chief Information Officer
1972 Joined ITOCHU Corporation
2003 Managing Director

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

Board of Corporate Auditors

Corporate Auditors

Toshio Konishi
1968 Joined ITOCHU Corporation
2001 Standing Corporate Auditor

Masahiro Asano
1970 Joined ITOCHU Corporation
2001 Standing Corporate Auditor

Tsutomu Miyakushi
1968 Joined ITOCHU Corporation
2003 Standing Corporate Auditor

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

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

Executive Officers

Managing Executive Officers

Sokichi Sasaki
General Manager for China; Chairman & General Manager for ITOCHU (China) Holding Co., Ltd.

Nobuyoshi Umeno
Deputy Chief Financial Officer; General Manager, General Accounting Control Division

Takeshi Tanimura
General Manager of Nagoya Area

Akira Kodera
Executive Vice President, Textile Company

Jiro Takemori
Executive Vice President, Plant, Automobile & Industrial Machinery Company

Hiroyuki Isaka
Executive Vice President, Food Company; Advisory Officer, Corporate Communication Division

Shigeki Nishiyama
General Manager, Corporate Planning & Administration Division

Ryota Honjo
Chief Executive Representative for ASEAN & South-West Asia; Chairman & Managing Director, ITOCHU Hong Kong Ltd.

Hiroshi Tomita
General Manager, Human Resources Division

Yoshio Akamatsu
Chief Officer for Asian Region Strategy; General Manager, China Market Global Development Office

Masahiro Okafuji
Senior Vice President, Textile Company (Brand Marketing Group)

Masahiro Nakagawa
Executive Vice President, Aerospace, Electronics & Multimedia Company

Executive Officers

Satoshi Tanioka
Senior Vice President, Textile Company (Material Group)

Masayoshi Araya
General Manager for Oceania; Managing Director & C.E.O., ITOCHU Australia Ltd.; Managing Director & C.E.O., ITOCHU New Zealand Ltd.

Tadao Nakamura
Deputy Chief Administrative Officer, Human Resources & Affiliate Administration

Tetsuo Mori
General Manager, General Affairs Division

Akihisa Matsumoto
Executive Vice President, Energy, Metals & Minerals Company; Chief Operating Officer, Energy Division

Etsuro Nakanishi
Chief Operating Officer, Textile Division

Masao Kasama
Chief Executive for European Operation; C.E.O., ITOCHU Europe PLC.

Kiyoshi Sasaki
General Manager, Finance Division

Toru Ota
General Manager, Secretariat

Shigeru Tsujimura
Chief Operating Officer, Construction & Realty Division

Yosuke Minamitani
Chief Operating Officer, Chemicals Division

Shigeharu Tanaka
Senior Vice President, Food Company; Chief Operating Officer, Food Products Marketing & Distribution Division No.1

Tsuneharu Takeda
Chief Operating Officer, Kansai District Operations

Saichi Nakazawa
Assistant, Chief Administrative Officer

Hiroshi Kitamura
President & C.E.O., ITOCHU International Inc.

Nobuo Kuwayama
Chief Operating Officer,Textile Material Division

Minoru Akimitsu
General Manager, IT Planning Division

Takanobu Furuta
Chief Operating Officer, Plant & Project Division

Hiroshi Arai
General Manager of Corporate Planning & Administration Department, Energy, Metals & Minerals Company

Yoshihisa Aoki
Senior Vice President, Food Company; Chief Operating Officer, Grain & Foodstuff Division No.2

Hiroo Inoue
Chief Operating Officer, IT & Telecommunication Division

Yoshihisa Suzuki
Chief Operating Officer, Aerospace & Electronic Systems Division

(As of July 1, 2003)

Organization

- General Meeting of Stockholders
  - Board of Corporate Auditors, Corporate Auditors
  - Board of Directors
    - Chairman
      - President and C.E.O.
        - Headquarters Management Committee
        - Directors, Auditors & Executive Officers Meeting
        - Chief Financial Officer
        - Chief Compliance Officer
          - Compliance Office
        - Chief Information Officer
        - Corporate Planning, Affiliate Administration, General Affairs & Legal
          - Corporate Planning and Administration Division
          - Corporate Communications Division
          - IT Planning Division
          - Affiliate Administration Division
          - General Affairs Division
          - Legal Division
            - Corporate Development Office
            - Innovative Technology Business Development Office
            - China Market Global Development Office
        - Finance, Accounting, Credit & Human Resources
          - Finance Division
          - General Accounting Control Division
          - Risk Management Division
          - Human Resources Division
        - Kansai District Operations
        - Internal Audit Division
        - Secretariat
        - Textile Company
        - Plant, Automobile & Industrial Machinery Company
        - Aerospace, Electronics & Multimedia Company
        - Energy, Metals & Minerals Company
        - Chemicals, Forest Products & General Merchandise Company
        - Food Company
        - Finance, Realty, Insurance & Logistics Services Company
        - Overseas Offices
        - Domestic Offices

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

(As of July 1, 2003)

Financial Section

Contents

Six-Year Summary

ITOCHU Corporation and Subsidiaries
Years ended March 31

	Millions of Yen						Millions of U.S. dollars
Years ended March 31	2003	2002	2001	2000	1999	1998	2003
P/L (For the year):							
Total trading transactions	¥10,461,620	11,400,471	12,135,261	12,144,445	13,900,567	15,544,508	$87,035.1
Gross trading profit	566,037	578,867	611,600	612,348	641,713	596,678	4,709.1
Gross trading profit ratio (%)	5.41	5.08	5.04	5.04	4.62	3.84	
Net income (loss)	20,078	30,191	70,507	(88,271)	(34,088)	(91,931)	167.0
Per ten shares (Yen, U.S. dollars):							
Net income (loss)	¥ 131	212	495	(619)	(239)	(645)	$ 1.09
Cash dividends	50	50	50	—	—	60	0.42
B/S (At year-end):							
Total assets	¥ 4,486,405	4,752,319	5,157,519	6,067,125	6,733,026	7,531,125	$37,324.5
Short-term interest-bearing debts	990,939	991,410	1,263,714	1,553,251	1,851,889	2,564,958	8,244.1
Long-term interest-bearing debts	1,583,481	1,803,321	1,806,794	2,520,127	2,811,162	2,684,128	13,173.7
Interest-bearing debts	2,574,420	2,794,731	3,070,508	4,073,378	4,663,051	5,249,086	21,417.8
Net Interest-bearing debts	2,025,048	2,296,398	2,536,840	3,382,326	4,185,200	4,877,879	16,847.3
Long-term debt, excluding current installments	1,637,916	1,863,629	1,868,185	2,574,964	2,861,338	2,738,901	13,626.6
Stockholders' equity	426,220	397,668	316,940	281,325	305,514	412,520	3,545.9
Cash flows:							
Cash flows from operating activities	¥ 168,843	216,503	160,335	224,816	128,320	22,029	$ 1,404.7
Cash flows from investing activities	5,253	214,008	564,707	197,658	306,405	(181,231)	43.7
Cash flows from financing activities	(114,041)	(232,047)	(717,602)	(320,418)	(418,241)	214,430	(948.8)
Cash and cash equivalents at year-end	534,156	479,734	274,936	264,187	168,123	155,579	4,443.9
Ratio:							
ROA (%)	0.4	0.6	1.3	—	—	—	
ROE (%)	4.9	8.4	23.6	—	—	—	
Ratio of stockholders' equity to total assets (%)	9.5	8.4	6.1	4.6	4.5	5.5	
Net debt-to-equity ratio (times)	4.8	5.8	8.0	12.0	13.7	11.8	
Interest coverage (times)	2.7	2.1	1.5	0.9	1.0	0.9	
Common stock information:							
Stock price (Yen, U.S. dollars):							
Opening price	¥ 425	444	547	251	300	600	$ 3.54
High	506	520	566	625	368	655	4.21
Low	198	269	395	250	168	182	1.65
Closing price	288	430	445	547	246	320	2.40
Market capitalization (Yen in billions and U.S. dollars in billions)	455	613	634	780	351	456	3.79
Trading volume (yearly, million shares)	1,221	847	887	1,832	663	595	
Exchange rates into U.S. currency:							
(Federal Reserve Bank of New York)							
At year-end	¥ 118.07	132.70	125.54	102.73	118.43	133.20	
Average for the year	121.10	125.64	111.65	110.02	128.10	123.56	
Range:							
Low	133.40	134.77	125.54	124.45	147.14	133.99	
High	115.71	115.89	104.19	101.53	108.83	111.42	
Number of Employees (At year-end, Non-consolidated)	4,355	4,580	5,012	5,306	5,775	6,675	

The Japanese yen amounts for the year ended March 31, 2003, have been translated into United States dollar amounts, solely for the convenience of the reader, at the rate of ¥120.20=U.S.$1, the official rate of The Bank of Tokyo-Mitsubishi, Ltd., as of March 31, 2003.

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

All the financial information provided herein is based on the consolidated financial statements included in this annual report. These consolidated financial statements were made according to United States generally accepted accounting principles (U.S. GAAP).

Figures in yen for fiscal 2003 have been converted into U.S. dollars, solely for the convenience of the reader, using an exchange rate of ¥120.20 = U.S.$1 which was the exchange rate as of March 31, 2003, as announced by The Bank of Tokyo-Mitsubishi, Ltd.

Overview

During fiscal 2003, ended March 31, 2003, the Japanese economy showed the sign of a slight recovery in domestic production that was mainly due to an increase in exports and on-going adjustments to inventories. On the other hand, falling wage levels meant that private consumption remained depressed, and, although declines in capital investment seemed to have bottomed out, the domestic economy continued to suffer from worsening deflation. Furthermore, a sharp decline in stock prices during the year greatly weakened the financial condition of many Japanese companies. Overseas, U.S. economic growth remained weak on the whole, as the effects of large-scale tax cuts and easy-money policy lessened. Economies in Europe remained sluggish while those in Asia continued to grow steadily.

During fiscal 2002 and 2003, ITOCHU's mid-term management plan "A&P-2002" aimed to discard conventional business models and to develop new businesses focused on an A&P (Attractive and Powerful) strategy. During fiscal 2003, the final year of A&P-2002, ITOCHU accelerated the reorganization of its profit structure and restructuring of its management system.

Reorganization of the Profit Structure

ITOCHU intensively allocated assets and management resources to the A&P segments: information and multimedia; consumer and retail; natural resources development; financial services; North America and Asia. At the same time, ITOCHU has also paved a way to secure future growth by investing in new and innovative fields such as biotechnology and nanotechnology.

Specifically, in information and multimedia sector, ITOCHU secured a strategic alliance with Hitachi in IT-related field. ITOCHU also strengthened the product lines and service menus of ITC Network, which handles sales of and provides services for cellular phones. In the consumer and retail sectors, ITOCHU became the largest shareholder of Yukijirushi Access, Inc., aiming to reinforce the multi-temperature distribution network. ITOCHU also signed contracts with prestigious European and American fashion brands such as BALLY, gaining exclusive import and sales rights for their products. In the natural resources development sector, ITOCHU has decided to develop a coalmine in Australia and also to participate in the construction of a pipeline that will transport oil from the Caspian Sea to the Mediterranean. ITOCHU strengthened its capital base through a public offering in July 2002, which allowed the Company to increase shareholders' equity, while reducing total assets and interest-bearing debts. As a result, our net DER (Debt-to-Equity Ratio) improved by 1.0 point to 4.8 times from the end of the year before.

Restructuring of the Management System

ITOCHU thoroughly implemented a risk management program for domestic and overseas group companies, enhanced training programs for employees, including national staff, and positioned human resources based on a policy of "right person in the right place." ITOCHU also reinforced the compliance system for group companies, placing them under the direction of the Chief Compliance Officer.

Transition of Profitability and Improvement of Financial Strength

To improve and reform its profit structure and financial strength, ITOCHU has intensively allocated management resources to A&P (Attractive & Powerful) segments to increase profits in these particular areas, while it has also reduced total assets and interest-bearing debts by closing unprofitable businesses and operations. Furthermore ITOCHU has tried to maximize group value using its A&P strategy by improving the profitability of group companies. As a result, ITOCHU's profitability has increased steadily, and its financial strength has been significantly improved.

These improvements, and the outlook for fiscal 2004, are discussed further in the following sections.

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

Gross Trading Profit

Gross trading profit in fiscal 2003 fell ¥12.8 billion, or 2.2%, year on year to ¥566.0 billion (US$4,709 million). However, this was principally due to an approximately ¥21.0 billion decline in gross trading profit following the transfer of the steel operations to Marubeni-Itochu Steel Inc., an affiliate accounted for by the equity method. If this sum had not been subtracted from gross trading profit, then gross trading profit would actually have risen by ¥8.2 billion. Despite harsh business environments in Japan and overseas, underlying gross trading profit remains solid because of positive results in the fashion brand business, tire retail and the housing materials business in the U.S. and Europe, and the retail product business. The positive results in these areas allowed ITOCHU to offset the negative effects of domestic IT subsidiaries due to IT recession. In fiscal 2004, ITOCHU expects gross trading profit to rise ¥34.0 billion to around ¥600.0 billion from the year before because of growth in the textile business in the consumer and retail sectors, increased automobile trading volume, and a rise in the trading volume of food materials.

Trading Profit after Selling, General and Administrative Expenses

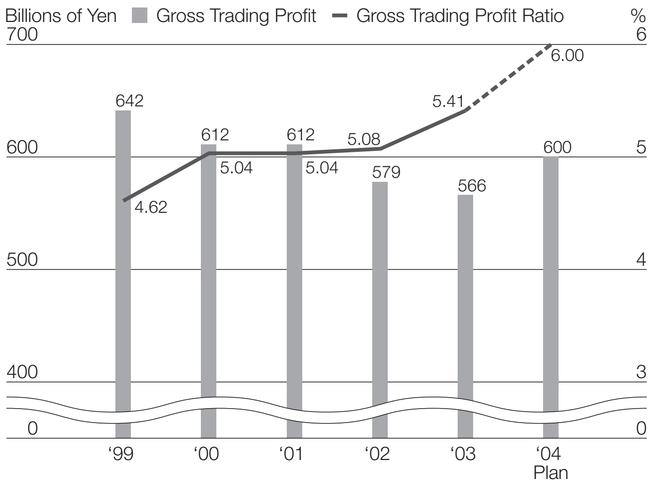
*Gross Trading Profit + Selling, General and Administrative Expenses

Trading profit after selling, general and administrative expenses in fiscal 2003 rose ¥4.2 billion, or 3.7%, from the year before to ¥117.6 billion (US$978 million). Trading profit after selling, general and administrative expenses would have actually increased by about ¥11.2 billion if the ¥7.0 billion negative impact of the transfer of the steel operations to a new equity-method affiliate had been ignored. This performance was due mainly to stable gross trading profit as well as cost cutting efforts, particularly at domestic IT subsidiaries. Amid a harsh business environment, ITOCHU's earning power remains relatively high compared to that of its competitors. In fiscal 2004, ITOCHU expects trading profit after selling, general and administrative expenses of around ¥125.0 billion, a ¥7.4 billion increase from the previous year. This rise will be due to an increase in gross trading profit which will offset the effects of a temporary expense that will occur following the transfer to the Japanese Government of the substitutional portion of its Employee Pension Fund Plan.

Provision for Doubtful Accounts

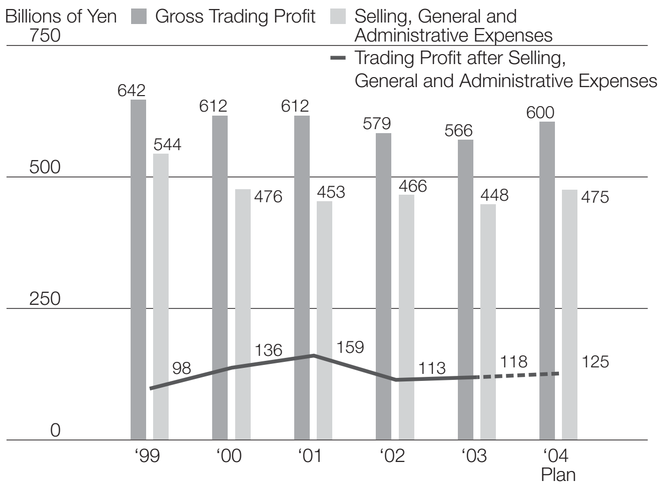
Provision for doubtful accounts in fiscal 2003 was ¥16.8 billion (US$140 million), the same level as the previous year. ITOCHU's ongoing efforts to improve its financial strength, including a significant reduction in unprofitable businesses and the reinforcement of risk management, have resulted in a decrease in provision for doubtful accounts from fiscal 2000, when it was ¥92.1 billion, and from fiscal 2001, when it was ¥49.8 billion. ITOCHU will continue to strengthen its risk management to lower provision for doubtful accounts even further. In fiscal 2004, ITOCHU forecasts provision for doubtful accounts of around ¥15.0 billion.

Gross Trading Profit



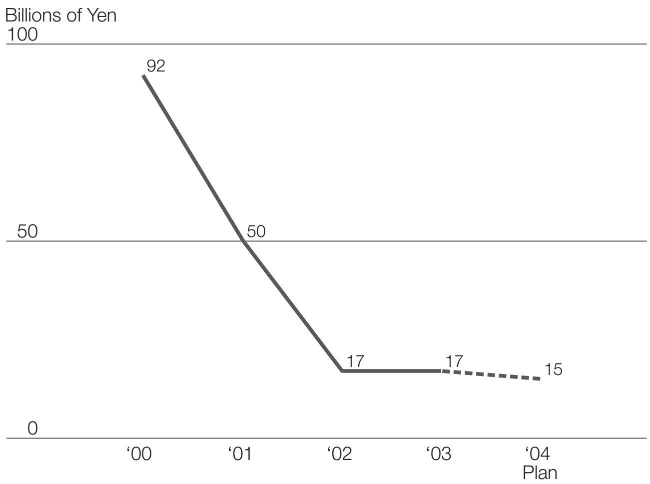
* For fiscal years

Trading Profit after Selling, General and Administrative Expenses



* For fiscal years

Provision for Doubtful Accounts



* For fiscal years

Net Financial Expenses

Net interest expenses in fiscal 2003 improved ¥4.3 billion year on year to ¥30.7 billion (US$255 million). This was due to a decrease of about ¥250.0 billion in the average outstanding balance of interest-bearing debts from the year before, in addition to the lowered average interest rate of the Group by about 0.6% from the previous year. Despite a decrease in dividends received from an LNG-related investment, overall net financial expenses improved year on year by ¥1.4 billion to ¥20.6 billion (US$171 million). In fiscal 2004, ITOCHU forecasts net financial expenses to rise to around ¥26.0 billion because higher interest rates and a decrease in dividends received are expected.

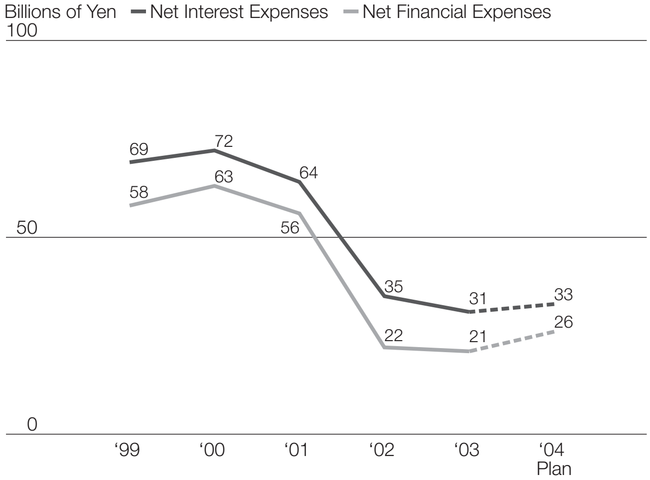
Net Income from Subsidiaries and Associated Companies

ITOCHU recognizes that it is important to increase the proportion of profits from group companies in consolidated net income in order to improve the profit structure of the Group. As a result of ITOCHU's efforts to maximize group value based on its A&P strategy and to reinforce the management of group companies, net income from subsidiaries and associated companies improved substantially to a profit of ¥47.4 billion (excluding overseas trading subsidiaries) in fiscal 2003. This figure is a net of a ¥62.1 billion profit from profitable companies and a loss of ¥14.7 billion from unprofitable companies. By contrast, in fiscal 1999, net income from subsidiaries and associated companies was a loss of ¥15.8 billion (excluding overseas trading subsidiaries), a net of a ¥40.8 billion profit from profitable companies and a loss of ¥56.6 billion from unprofitable companies. This improvement can be attributed to the steady growth of profitable businesses and ITOCHU's aggressive withdrawal from unprofitable businesses. Consequently, the ratio of profitable companies to total group companies was 80.2%, the first time that it has exceeded 80%. In fiscal 2004, ITOCHU forecasts net income from subsidiaries and associated companies of around ¥50.0 billion (excluding overseas trading subsidiaries). This will be a net of a ¥62.0 billion profit from profitable companies and a ¥12.0 billion loss from unprofitable companies.

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

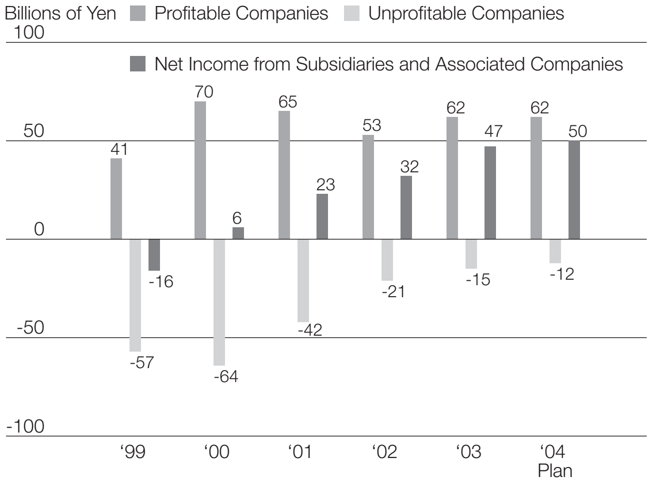
As a result of ITOCHU's efforts to reduce unprofitable assets and interest-bearing debts with its A&P strategy, its financial position significantly improved. Interest-bearing debts, a net of cash, cash equivalents and time deposits, stood at ¥2,025.0 billion (US$16,847 million) at the end of fiscal 2003, a significant improvement from the end of fiscal 1998 when they were ¥4,878.0 billion. Stockholders' equity has also steadily recovered, mainly due to the continued accumulation of retained earnings since the management restructuring in fiscal 2000 and to a public offering of common stock in July 2002 to increase stockholders' equity. This resulted in an improvement of net DER (Debt-to-Equity Ratio) by 1.0 point year on year to 4.8 times as of the end of fiscal 2003. In fiscal 2004, interest-bearing debts will remain roughly the same in spite of a rise because of the plan for funds for strategic investments in selected growth areas such as the consumer and retail related sector, while ITOCHU will accelerate its exit from unprofitable businesses and assets. At the end of fiscal 2004, ITOCHU expects about ¥2 trillion of net interest-bearing debts and net DER of 4.3 times.

Net Financial Expenses



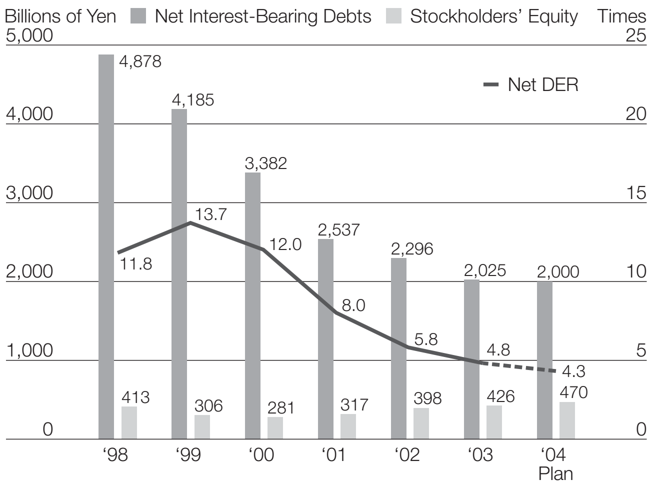
* For fiscal years

Net Income from Subsidiaries and Associated Companies



* For fiscal years

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



* For fiscal years

Business Results for Fiscal 2003 - A Comparison between fiscal 2003 and fiscal 2002

Total trading transactions in fiscal 2003 were ¥10,461.6 billion (US$87,035 million), down ¥938.9 billion, or 8.2%, from the year before. Domestic transactions decreased in Aerospace, Electronics & Multimedia due to the slump in the IT sector. A decline in market prices and a cut back in inefficient transactions also resulted in a fall in domestic transactions in Plant, Automobile & Industrial Machinery, Energy, Metals & Minerals, and Construction & Realty. Import transactions increased in the energy sector due to a rise in crude oil prices. Export transactions fell compared to the year before when exports of large plant business contributed significantly. Offshore transactions increased in Plant, Automobile & Industrial Machinery and Food. On the other hand, the transfer of the steel operations to a new equity-method affiliate, Marubeni-Itochu Steel Inc., on October 1, 2001 reduced total trading transactions by about ¥380.0 billion.

Gross trading profit in fiscal 2003 decreased ¥12.8 billion, or 2.2%, year on year to ¥566.0 billion (US$4,709 million). Gross trading profit increased in Textiles due to contributions by newly consolidated companies, as well as in Chemicals, Forest Products & General Merchandise sector, thanks to robust sales of living and housing materials in the U.S. and Europe, and in the Food sector owing to increased transaction volume of retail product. However, overall gross trading profit fell due to the transfer of the steel operations, which had a negative impact on gross trading profit of about ¥21.0 billion, and a fall in profits at domestic IT subsidiaries.

Selling, general and administrative expenses in fiscal 2003 decreased by ¥17.0 billion or 3.7% from the year before to ¥448.5 billion (US$3,731 million), mainly due to the transfer of the steel operations to a new equity-method affiliate, which reduced these expenses by ¥14.0 billion as well as ITOCHU's cost cutting efforts, particularly in its domestic IT subsidiaries. As the decrease in selling, general and administrative expenses exceeded the fall in gross trading profit, trading profit after selling, general and administrative expenses in fiscal 2003 rose ¥4.2 billion, or 3.7%, from the year before to ¥117.6 billion (US$978 million).

Interest expenses in fiscal 2003 fell ¥4.3 billion year on year to ¥30.7 billion (US$255 million), mainly due to ITOCHU's ongoing efforts to reduce interest-bearing debts and a decline in interest rates in the U.S. Although dividends received decreased ¥2.9 billion year on year to ¥10.1 billion (US$84 million) primarily because of a decreased dividend contribution from an LNG-related investment, overall net ***financial expenses*** improved year on year by ¥1.4 billion to ¥20.6 billion (US$171 million).

Despite a ¥26.0 billion gain on disposal of marketable securities, ITOCHU posted a ¥13.2 billion (US$110 million) ***loss on disposal of investments and marketable securities, net of write-downs***, resulting from devaluation and disposal losses of ¥44.7 billion for stocks, especially bank stocks, and a ¥5.8 billion loss for liquidating affiliated companies. Compared to the previous year, the figure deteriorated by ¥26.7 billion due to a decline in gains on disposals of investments and marketable securities. ***Loss on property and equipment-net*** came to ¥0.8 billion (US$6 million), as a result of ¥1.5 billion impairment losses for long-lived assets. ***Other-net*** was a loss of ¥8.5 billion (US$71 million) in fiscal 2003, ¥6.3 billion worse than in fiscal 2002. This was mainly because ITOCHU posted exchange losses for foreign currency at the end of fiscal 2003 owing to a stronger yen, while it posted exchange gains for foreign currency at the end of fiscal 2002.

As a result, ***income before income taxes, minority interests and equity in earnings (losses)*** stood at ¥57.7 billion (US$480 million), down by ¥20.5 billion, or 26.2%, from the year before. On the other hand, ***equity in earnings (losses) of associated companies*** increased by ¥7.2 billion, or 63.2%, to ¥18.5 billion (US$154 million) from the year before, largely owing to a ¥2.3 billion increase in profits at Marubeni-Itochu Steel Inc. and to good performances at equity-method companies in the Food sector. However, the increase in equity in earnings (losses) of associated companies was not enough to offset a ¥17.9 billion, or 59.8%, decrease in ***income before minority interests and equity in earnings (losses)***, and, as a result, ***net income*** fell ¥10.1 billion, or 33.5%, to ¥20.1 billion (US$167 million) from the year before.

Operating Segment Information

Years ended March 31	Billions of Yen			Millions of U.S. dollars
	2003	2002	2001	2003
Trading transactions				
Textile	¥ 872	880	944	$ 7,252
Plant, Automobile & Industrial Machinery	1,747	1,937	2,149	14,531
Aerospace, Electronics & Multimedia	809	960	890	6,732
Energy, Metals & Minerals	2,216	2,740	3,107	18,437
Chemicals, Forest Products & General Merchandise	1,800	1,736	1,842	14,974
Food	2,523	2,445	2,405	20,986
Finance, Realty, Insurance & Logistics	269	455	630	2,241
Other, Adjustments & Eliminations	226	247	168	1,882
Total	¥10,462	11,400	12,135	$87,035
Gross trading profit				
Textile	¥ 93	83	81	$ 778
Plant, Automobile & Industrial Machinery	49	50	56	404
Aerospace, Electronics & Multimedia	103	113	111	853
Energy, Metals & Minerals	33	53	68	274
Chemicals, Forest Products & General Merchandise	87	81	82	724
Food	130	127	127	1,082
Finance, Realty, Insurance & Logistics	34	34	23	282
Other, Adjustments & Eliminations	37	38	64	312
Total	¥ 566	579	612	$ 4,709
Net income (loss)				
Textile	¥ 10.4	8.3	7.2	$ 87
Plant, Automobile & Industrial Machinery	2.4	1.3	(10.0)	19
Aerospace, Electronics & Multimedia	14.3	36.3	90.7	119
Energy, Metals & Minerals	10.0	9.5	6.9	83
Chemicals, Forest Products & General Merchandise	10.7	(0.2)	2.4	89
Food	11.9	9.6	8.2	99
Finance, Realty, Insurance & Logistics	(8.4)	(9.8)	(40.9)	(70)
Other, Adjustments & Eliminations	(31.2)	(24.8)	6.0	(259)
Total	¥ 20.1	30.2	70.5	$ 167
Identifiable assets				
Textile	¥ 371	384	383	$ 3,085
Plant, Automobile & Industrial Machinery	490	588	649	4,077
Aerospace, Electronics & Multimedia	484	526	519	4,029
Energy, Metals & Minerals	391	402	702	3,257
Chemicals, Forest Products & General Merchandise	525	533	574	4,365
Food	654	665	697	5,444
Finance, Realty, Insurance & Logistics	693	773	827	5,763
Other, Adjustments & Eliminations	878	881	807	7,305
Total	¥ 4,486	4,752	5,158	$37,325

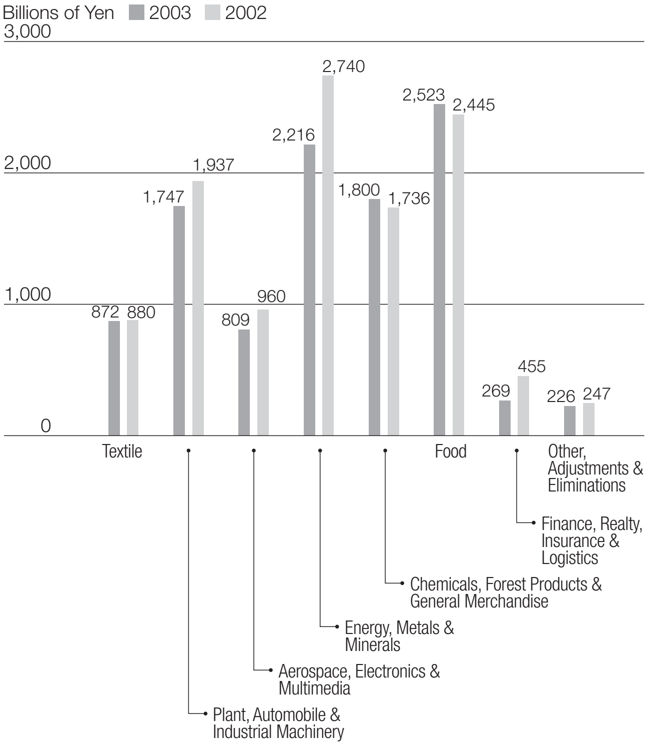
Textile:
Trading transactions decreased by ¥8.4 billion, or 1.0%, to ¥871.7 billion (US$7,252 million) due to the streamlining of inefficient transactions and to stagnant consumer pricing resulting from consumers' prevailing preference for low prices. Gross trading profit increased by ¥9.9 billion, or 11.9%, to ¥93.5 billion (US$778 million) due to an increase in contributions from newly consolidated subsidiaries, in particular from those handling fashion brands. Net income increased by ¥2.1 billion, or 25.5%, to ¥10.4 billion (US$87 million) due to increased profits primarily in transactions relating to brand retail and to an increase in equity in earnings. Identifiable assets fell by ¥13.3 billion, or 3.5%, to ¥370.8 billion (US$3,085 million) mainly because of a decrease in trade receivables.

Plant, Automobile & Industrial Machinery:
Trading transactions fell ¥190.7 billion, or 9.8%, to ¥1,746.6 billion (US$14,531 million) due to the streamlining of inefficient transactions and a decrease in vessel transactions. Gross trading profit fell ¥1.6 billion, or 3.3%, to ¥48.6 billion (US$404 million) mainly due to stagnant sales in construction equipment in North America, despite increased exports of automobiles to China and the Middle East. Net income rose ¥1.1 billion, or 82.0%, to ¥2.4 billion (US$19 million) due to decreases in provision for doubtful accounts and devaluation losses for listed stocks, despite the decreased gross trading profit. Identifiable assets fell ¥98.0 billion, or 16.7%, to ¥490.1 billion (US$4,077 million) mainly due to debt collection and disposal, a reduction in the assets of group companies, and a devaluation of assets caused by an appreciation in the value of the yen.

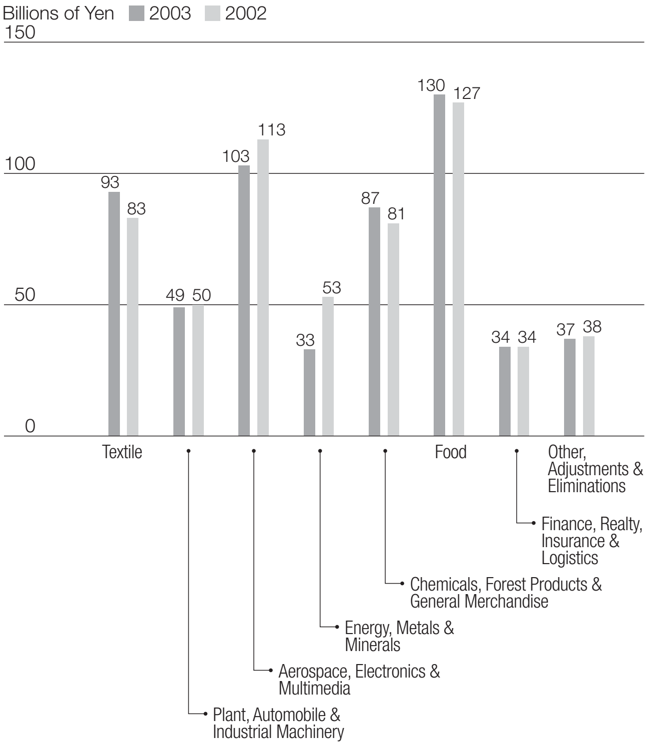
Aerospace, Electronics & Multimedia:
Trading transactions decreased by ¥151.1 billion, or 15.7%, to ¥809.2 billion (US$6,732 million) because of the decline in the IT sector. Gross trading profit decreased by ¥10.0 billion, or 8.9%, to ¥102.5 billion (US$853 million) due to a decline in trading transactions. Net income fell ¥22.1 billion, or 60.7%, to ¥14.3 billion (US$119 million) as a result of a lower gain on disposal of marketable securities in addition to the fall in gross trading profit. Identifiable assets fell ¥41.9 billion, or 8.0%, to ¥484.3 billion (US$4,029 million) mainly due to the decrease in trade receivables following the decline in trading transactions and a reduction in marketable securities following a disposal.

Energy, Metals & Minerals:
Trading transactions fell ¥523.8 billion, or 19.1%, to ¥2,216.2 billion (US$18,437 million). This was due to a decrease in domestic energy sales in addition to a decrease of about ¥380.0 billion following a transfer of the steel operations to Marubeni-Itochu Steel Inc. Gross trading profit fell ¥19.7 billion, or 37.4%, to ¥33.0 billion (US$274 million), with the transfer of steel operations reducing gross trading profit by about ¥21.0 billion, despite an increase in offshore transactions of energy following a rise in oil prices. Net income, however, remained roughly the same as that of the year before, increasing slightly by ¥0.5 billion, or 5.1%, to ¥10.0 billion (US$83 million) due to an increase in equity in earnings of Marubeni-Itochu Steel Inc. and to the solid performance of group companies in the energy field. Identifiable assets fell ¥10.1 billion, or 2.5%, to ¥391.6 billion (US$3,257 million) mainly due to their devaluation following an appreciation in

Total Trading Transactions by Operating Segment



Gross Trading Profit by Operating Segment



the value of the yen, despite an increase in trade receivables caused by a rise in oil prices.

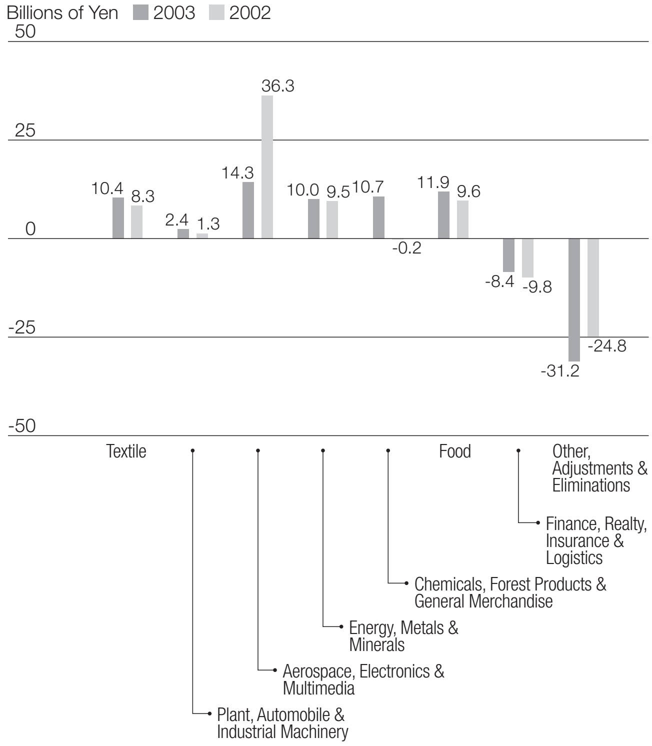
Chemicals, Forest Products & General Merchandise:
Trading transactions increased by ¥64.0 billion, or 3.7%, to ¥1,799.8 billion (US$14,974 million) due to brisk sales of tire retail and housing materials in North America and Europe, as well as price increases in international chemicals markets. Accordingly, gross trading profit rose ¥6.4 billion, or 7.9%, to ¥87.1 billion (US$724 million). Net income (loss) improved sharply by ¥10.9 billion to net income of ¥10.7 billion (US$89 million) from net loss of ¥0.2 billion, due to a decrease in devaluation losses for investments and an increase in equity in earnings of associated companies. Identifiable assets fell by ¥8.1 billion, or 1.5%, to ¥524.6 billion (US$4,365 million), mainly due to the collection of trade receivables.

Food:
Trading transactions rose ¥77.3 billion, or 3.2%, to ¥2,522.5 billion (US$20,986 million) due to increases in the market prices of feed, fruits and vegetables and a growth in trading volume of retail product. Gross trading profit increased by ¥3.3 billion, or 2.6%, to ¥130.1 billion (US$1,082 million) due to favorable results in retail product, despite stagnant sales of marine products. Net income rose ¥2.3 billion, or 23.4%, to ¥11.9 billion (US$99 million) due to an increase in gross trading profit and an increase in equity in earnings of associated companies. Identifiable assets fell ¥10.7 billion, or 1.6%, to ¥654.4 billion (US$5,444 million), mainly because trade receivables were collected and a decrease in the parent company's stake in some consolidated companies caused them to be accounted for by the equity-method.

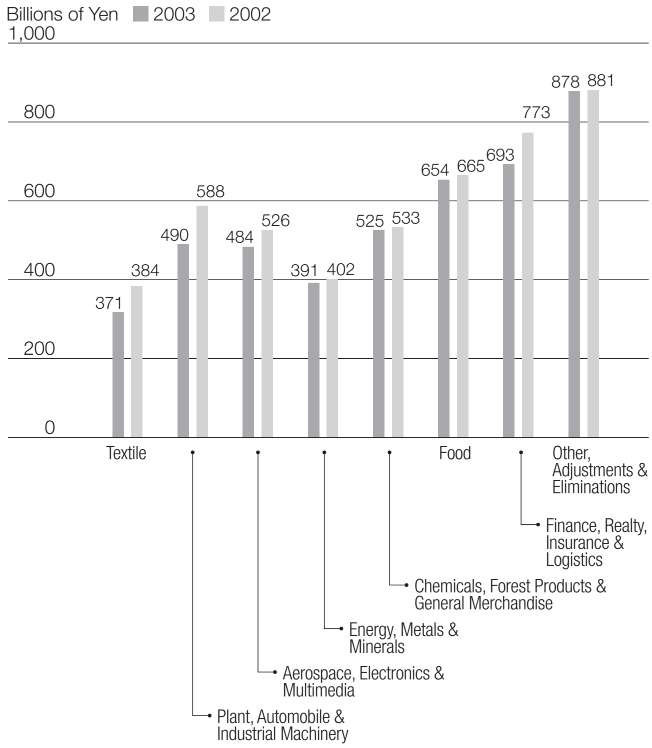
Finance, Realty, Insurance & Logistics:
Trading transactions fell ¥185.9 billion, or 40.8%, to ¥269.4 billion (US$2,241 million). This decline was mainly due to the streamlining of inefficiencies in the house brokerage business, despite favorable results for condominium sales. The decrease in trading transactions led to a decline in gross trading profit of ¥0.5 billion, or 1.6%, to ¥33.8 billion (US$282 million). Net loss narrowed by ¥1.4 billion from a loss of ¥9.8 billion in the previous year to a loss of ¥8.4 billion (US$70 million) because of cost cutting and reductions in provision for doubtful accounts and loss on disposal of property. Identifiable assets fell ¥80.7 billion, or 10.4%, to ¥692.7 billion (US$5,763 million) mainly due to accelerated reduction of construction and realty assets, and a decrease in carrying of bonds and lending in the finance sector.

Other, Adjustments & Eliminations:
Trading transactions fell ¥20.2 billion, or 8.2%, to ¥226.2 billion (US$1,882 million) due to a decrease in transactions in Central and South America, despite an increase in transactions in Asia and the Middle East. Gross trading profit remained roughly the same as in the previous year, falling slightly by ¥0.5 billion, or 1.3%, to ¥37.5 billion (US$312 million). Net loss for fiscal 2003 was ¥31.2 billion (US$259 million), ¥6.3 billion worse than the year before, due to unfavorable results in North, Central and South America, and an increase in pension expenses. Identifiable assets remained roughly the same, falling slightly by ¥3.1 billion, or 0.3%, to ¥878.0 billion (US$7,305 million).

Net Income (Loss) by Operating Segment



Identifiable Assets by Operating Segment



Geographical Segment Information

Japan:
Trading transactions fell ¥834.4 billion, or 9.2%, to ¥8,242.8 billion (US$68,575 million) following the transfer of steel operations to Marubeni-Itochu Steel Inc., and decreases in sales in Machinery, Energy, Construction & Realty and IT-related businesses. Identifiable assets fell ¥106.4 billion, or 2.7%, to ¥3,884.2 billion (US$32,314 million), due to accelerated debt collection and a decrease in trade receivables following a decrease in sales.

North America:
Trading transactions fell ¥132.1 billion, or 21.4%, to ¥484.6 billion (US$4,031 million) due to a decrease in energy transactions and a decrease following the transfer of steel operations to Marubeni-Itochu Steel Inc. Identifiable assets fell ¥59.5 billion, or 13.8%, to ¥372.4 billion (US$3,099 million), due to a decrease in trade receivables following a decrease in sales.

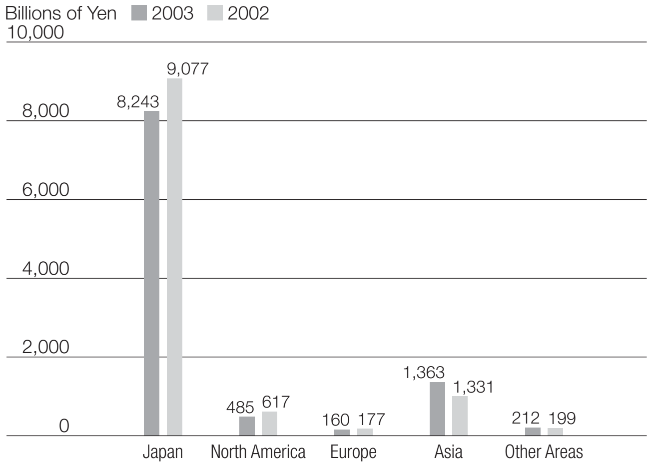
Europe:
Trading transactions fell ¥17.4 billion, or 9.8% to ¥159.6 billion (US$1,328 million), following the transfer of steel operations to Marubeni-Itochu Steel Inc. Identifiable assets fell ¥21.8 billion, or 11.1%, to ¥174.4 billion (US$1,451 million), due to decreases in bonds held by the finance sector as well as automobile inventory.

Asia:
Trading transactions rose ¥31.5 billion, or 2.4%, to ¥1,362.6 billion (US$11,336 million) because of an increase in energy-related transactions, despite the effect of the transfer of steel operations to Marubeni-Itochu Steel Inc. Identifiable assets remained roughly the same, falling ¥5.0 billion, or 2.4%, to ¥202.0 billion (US$1,681 million).

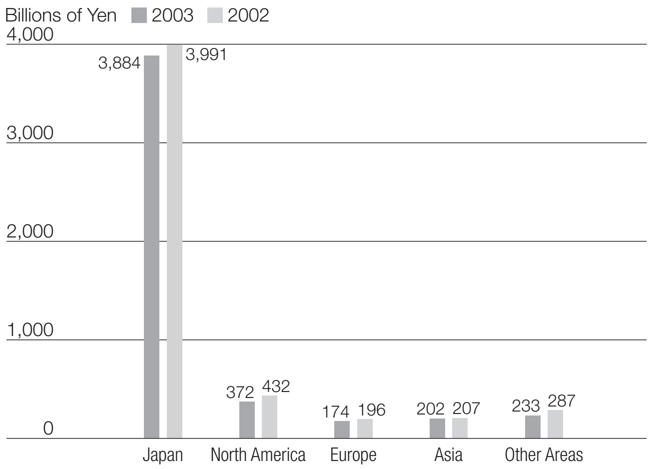
Other Areas:
Trading transactions increased by ¥13.5 billion, or 6.8%, to ¥212.2 billion (US$1,765 million) due to an increase in vessel-related transactions. Identifiable assets fell ¥53.5 billion, or 18.7%, to ¥233.3 billion (US$1,941 million), mainly due to a decrease in the assets of subsidiaries in Central and South America.

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

Total Trading Transactions by Geographical Segment



Identifiable Assets by Geographical Segment



Performance of Consolidated Subsidiaries and Associated Companies

For the fiscal year ended March 31, 2003, ITOCHU's consolidated results included 468 consolidated subsidiaries (228 domestic and 240 overseas) and 183 equity-method associated companies (90 domestic and 93 overseas) totaling 651 companies. The following table presents information regarding the profitability of these companies.

Share of Profitable Group Companies

	2003			2002		
Years ended March 31	Domestic	Overseas	Total	Domestic	Overseas	Total
Profitable companies	263	259	522	262	249	511
Group companies	318	333	651	331	340	671
Profitable ratio	82.7%	77.8%	80.2%	79.2%	73.2%	76.2%

Profit of Profitable Companies and Loss of Unprofitable Companies

	Billions of Yen								
	2003			2002			Changes		
Years ended March 31	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total
Group companies excluding overseas trading subsidiaries	¥62.1	(14.7)	47.4	53.3	(21.6)	31.7	8.8	6.9	15.7
Overseas trading subsidiaries	4.7	(2.2)	2.5	4.6	(0.9)	3.7	0.1	(1.3)	(1.2)
Total	¥66.8	(16.9)	49.9	57.9	(22.5)	35.4	8.9	5.6	14.5

Major Profitable Group Companies

	Shares	*Net income (loss) Billions of Yen		Reasons for changes
Years ended March 31		2003	2002	
Domestic				
ITOCHU Oil Exploration Co., Ltd.	97.79%	¥5.1	1.9	Recorded gains on disposal of rights and interests
Marubeni-Itochu Steel Inc.	50.00%	3.3	1.0	Steady growth of overseas, and an increase in full-year net income in fiscal 2003 because only 2nd-half net income was earned in fiscal 2002
FamilyMart Co., Ltd.	30.53%	3.2	(0.1)	Steady growth and ceasing amortization of goodwill in fiscal 2003
ITOCHU Techno-Science Corporation	32.92%	2.8	5.7	Dull condition in IT sector
Japan Brazil Paper & Pulp Resources Development Co., Ltd.	25.94%	2.7	(0.2)	Increase in full-year net income in fiscal 2003 because only 2nd-half net income was earned in fiscal 2002
Yoshinoya D&C Co., Ltd.	21.19%	1.7	0.5	Exemption of liabilities in subsidiaries and ceasing amortization of goodwill in fiscal 2003
ITOCHU Sugar Co., Ltd.	100.00%	1.5	0.7	Recorded earnings from new subsidiaries and gains through a share sale
ITOCHU Chemical Frontier Corporation	99.90%	1.2	0.1	Acquired business from parent company and recorded a provision for doubtful accounts in fiscal 2002
ITOCHU Finance Corporation	88.32%	1.2	(0.8)	Recorded a provision for doubtful accounts in fiscal 2002
ITC Networks Corporation	100.00%	1.1	0.0	Reduced expenses and acquired business from parent company
ITOCHU Plastics Inc.	100.00%	1.1	0.5	Merged with ITOCHU POLYMER INC. and acquired business from parent company
Overseas				
ITOCHU Coal Resources Australia Pty., Ltd.	100.00%	¥3.0	3.3	Decreased mainly due to changes in foreign exchange rates
Prime Source Building Products, Inc.	100.00%	2.1	1.0	Steady growth in house construction
ITOCHU Europe PLC.	100.00%	1.0	1.0	—
ITOCHU Hong Kong Ltd.	100.00%	0.9	1.4	Worse performances of associated companies
ITOCHU Australia Ltd.	100.00%	0.6	0.7	Recorded gains on disposal of subsidiaries in fiscal 2002
ITOCHU (Thailand) Ltd.	100.00%	0.6	0.4	Steady growth in chemical sector
ITOCHU (China) Holding Co., Ltd.	100.00%	0.5	0.5	—

Major Unprofitable Companies

Years ended March 31	Shares	*Net income (loss) Billions of Yen 2003	2002	Reasons for changes
Domestic				
Famima Credit Corporation	45.83%	¥(0.4)	(0.1)	Recorded start-up expenses associated with business establishment
Tokyo Humania Enterprise Inc.	35.17%	(0.4)	(0.3)	Recorded operating losses
Nishimuromi Development Co., Ltd.	100.00%	(0.3)	(0.4)	Sales declined
Overseas				
ITOCHU Latin America S.A.	100.00%	¥(1.8)	(0.7)	Sluggish performance by subsidiaries and decline in automobile sector
Luisita Industrial Park Corporation	56.00%	(1.3)	0.0	Recorded losses on resale of land under development
ITOCHU Technology, Inc.	100.00%	(0.8)	0.2	Recorded losses on disposal of stocks, and dull condition in IT sector
ITOCHU Coal International Inc.	100.00%	(0.6)	0.1	Failed to reach production plans, and suffered from a drop in market price
ITC Ventures VIII, Inc.	97.64%	(0.4)	(0.2)	Recorded appraisal losses on investments

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

Liquidity and Capital Resources

Basic Policy of Fund Raising

ITOCHU's basic policy of fund raising aims to ensure flexibility so it can quickly respond to changes in the capital markets, and lower its overall financing costs. It also aims to enhance the stability of its financing. In particular, ITOCHU aims to find the optimum balance in its funding structure including improvement of long-term funding balance, and also diversify its funding sources and methods.

In Japan, most corporations' funding still depends on indirect financing, mostly from domestic banks. In recent years, the accelerated disposal of problem loans by Japanese banks has undermined their financial strength and increased their aversion to risk, which has made it more difficult for corporations to borrow from banks. Despite such unstable funding conditions, financial institutions, including ITOCHU's main commercial banks, have shown a favorable attitude towards lending to ITOCHU, which is a positive market endorsement of its improved financial position.

Recently, ITOCHU has conducted the following funding activities:

ITOCHU raised about ¥55.0 billion through a public offering of 158 million common shares in July 2002. It also issued two ¥10.0 billion straight corporate bonds with three-year maturities, once in December 2002 and once in January 2003.

In addition, ITOCHU is capable of carrying out a flexible bond issuance after it registered for bond issuance with a maximum amount of ¥300.0 billion for two years from August 2001 to July 2003. Further, the Company, ITOCHU International Inc. (U.S.A.), and a finance subsidiary in the U.K. own a total of US$5 billion of Medium Term Note Program (MTN) in order to be flexible in fulfilling short- and long-term funding needs. The outstanding balance of corporate bonds issued by the Company was ¥348.1 billion and that of the MTN was about US$0.4 billion as of March 31, 2003.

Interest-Bearing Debts

Gross interest-bearing debts as of March 31, 2003 decreased by ¥220.3 billion from March 31, 2002 to ¥2,574.4 billion (US$21,418 million), and net interest-bearing debts, a net of cash, cash equivalents and time deposits, decreased by ¥271.4 billion from March 31, 2002 to ¥2,025.0 billion (US$16,847 million) as of March 31, 2003. This resulted from an increase in funds following the public stock offering, the repayment of loans payable and a redemption of debentures, along with a reduction of total assets to enhance asset efficiency, in a continued effort to reinforce its consolidated financial position. Consequently, net DER (Debt-to-Equity Ratio) improved by 1.0 point to 4.8 times from 5.8 times at the end of the last fiscal year. Also, average interest rate of borrowing, or interest expenses divided by the average balance of interest-bearing debts, improved by 0.58 percentage point from 2.35% in fiscal 2002 to 1.77% in fiscal 2003.

The breakdown of interest-bearing debts as of March 31, 2003 and those as of March 31, 2002 were as follows:

	Billions of Yen		Millions of U.S. dollars
	2003	2002	2003
Short-term loans payable	¥ 465.1	494.6	$ 3,869
Current installments of long-term debt	338.5	335.6	2,816
Commercial paper	0.0	10.0	0
Current installments of debentures	187.3	151.2	1,559
Short-term total	990.9	991.4	8,244
Long-term loans payable	1,336.9	1,420.9	11,122
Debentures	217.4	344.8	1,809
Long-term total	1,554.3	1,765.7	12,931
Total interest-bearing debts	2,545.2	2,757.1	21,175
Effect of SFAS 133 adoption (Note)	29.2	37.6	243
Adjusted total interest-bearing debts	2,574.4	2,794.7	21,418
Cash, cash equivalents and time deposits	(549.4)	(498.3)	(4,571)
Net interest-bearing debts	¥2,025.0	2,296.4	$16,847

(Note) Increase in interest-bearing debts as a result of the adoption of SFAS (Statement of Financial Accounting Standards) No.133
The differences between carrying amounts and estimated fair value of interest rate SWAP agreements are posted on the balance sheet as derivative assets/liabilities. For borrowings, which are hedged with derivatives, fair value is used as an amount posted in the balance sheet.

Financial Position - A Comparison between March 31, 2003 and March 31, 2002

Total assets as of March 31, 2003 decreased by ¥265.9 billion from March 31, 2002 to ¥4,486.4 billion (US$37,325 million), as a result of disposal of inefficient assets to improve asset efficiency, as well as asset devaluations caused by a decline in stock prices and an appreciation of the yen at the end of the fiscal year.

Trade receivables (less allowance for doubtful receivables) decreased by ¥72.6 billion to ¥1,028.3 billion (US$8,555 million), as a result of increased debt collection mainly in the Textile, Machinery and Food sectors.

Inventories decreased by ¥23.8 billion to ¥402.2 billion (US$3,346 million), due to reductions in inventories mainly in the Machinery and Construction sectors.

Other current assets decreased by ¥47.0 billion to ¥196.1 billion (US$1,631 million), mainly due to the collection of short-term lending.

Other investments decreased by ¥83.0 billion to ¥339.5 billion (US$2,825 million), due to falls in stock prices, sales of listed stocks, and the early redemption of debentures.

Other non-current receivables (less allowance for doubtful items) decreased by ¥74.8 billion to ¥259.5 billion (US$2,159 million), as a result of the promotion of sales and collection of long-term receivables, additional appropriation of provision for doubtful accounts, and an appreciation in the value of the yen as of the end of the fiscal year.

Property and equipment, at cost (less accumulated depreciation) decreased by ¥36.2 billion to ¥592.5 billion (US$4,929 million), due to changes by some subsidiaries to equity-method affiliates following lowered share holding by ITOCHU, in addition to a decrease caused by appreciation of yen at the end of the fiscal year.

Prepaid pension cost rose ¥68.6 billion to ¥225.7 billion (US$1,878 million), as a result of additional contributions to an employee pension trust.

Trade payables fell ¥50.3 billion to ¥937.7 billion (US$7,801 million), with decreases particularly in Textile, Machinery and Food sectors.

Gross interest-bearing debts as of March 31, 2003 decreased by ¥220.3 billion from March 31, 2002 to ¥2,574.4 billion (US$21,418 million) after the Company raised funds through a public offering of common stock, repaid some loans payable and redeemed debentures following reduction of total assets to enhance asset efficiency, in an ongoing effort to reinforce its consolidated financial position.

Stockholders' equity increased by ¥28.6 billion to ¥426.2 billion (US$3,546 million). This increase resulted from a ¥20.1 billion increase in the accumulation of net income and a public offering of common stock which increased stockholders' equity by around ¥55.0 billion. These gains were partly offset by a deterioration of foreign currency translation adjustments of ¥20.6 billion following an appreciation of the value of the yen at the end of the fiscal year and a deterioration of unrealized gain (losses) on securities of ¥17.8 billion, which represents an unrealized gain for listed stocks, following the decline in stock prices.

Reserves for Liquidity

As a basic policy, ITOCHU maintains “liquidity reserves” (an adequate amount of liquidity) to cover “necessary liquidity” (short-term interest-bearing debts and contingent liabilities due within three months from a certain point of time). This policy is based on a scenario where new funding may be unavailable for about three months because of a market turmoil. In such a case, ITOCHU must maintain adequate reserves to repay liabilities in order to be capable of coping with unpredictable events.

Primary liquidity reserves increased by ¥161.1 billion from March 31, 2002 to ¥1,009.4 billion, which consisted of ¥549.4 billion of cash, cash equivalents and time deposits, and ¥250.0 billion of short-term commitment line agreements and ¥210.0 billion of long-term commitment line agreements. The main reason that primary liquidity reserves increased was that ITOCHU increased the total amount of commitment lines by setting up additional commitment line agreements and increased cash, cash equivalents and time deposits to prepare for the scheduled redemption of debentures in fiscal 2004.

The total amount of liquidity reserves, or primary liquidity reserves and secondary liquidity reserves (other assets that can be changed into cash in a short period of time), stood at about ¥1,440.0 billion as of March 31, 2003. ITOCHU believes that this amount constitutes adequate reserves of liquidity, since it is more than three times necessary liquidity, which amounted to about ¥420.0 billion as of March 31, 2003.

Necessary Liquidity

	Billions of Yen	
March 31	2003	Necessary liquidity
Short-term interest-bearing debts	¥465.1	¥232.5 (465.1/6 months x 3 months)
Current installments of long-term interest-bearing debts	525.8	131.4 (525.8/12 months x 3 months)
Contingent liabilities (Guarantees [substantial risk] for monetary indebtedness of associated companies and customers)	227.4	56.9 (227.4/12 months x 3 months)
Total		¥420.8

Primary Liquidity Reserves

	Billions of Yen
	Liquidity reserves
1. Cash, cash equivalents and time deposits	¥ 549.4
2. Commitment line agreements	460.0
Total primary liquidity reserves	¥1,009.4

Secondary Liquidity Reserves

	Billions of Yen
	Liquidity reserves
3. Available portion of O/D for the Company's cash management service	¥ 120.0
4. Available-for-sale securities (Fair value on consolidated basis)	167.4
5. Notes receivable	145.8
Total secondary liquidity reserves	¥ 433.2
Total liquidity reserves	¥1,442.6

Capital Resources

ITOCHU's basic policy on capital resources is that new money for investments should be financed by the sale and recouping by investing activities or by net cash provided by operating activities. Cash surplus after dividend payments should be used for the repayment of interest-bearing debts.

Cash and cash equivalents was ¥534.2 billion (US$4,444 million) as of March 31, 2003, ¥54.4 billion, or 11.3%, higher than the level on March 31, 2002. This increase is the result of preparing for the scheduled redemption of corporate bonds in fiscal 2004.

The following table shows a summary of cash flows for the fiscal years ended March 31, 2003 and March 31, 2002.

	Billions of Yen		Millions of U.S. dollars
	2003	2002	2003
Net cash provided by operating activities	¥168.8	216.5	$1,405
Net cash provided by investing activities	5.3	214.0	44
Net cash used in financing activities	(114.0)	(232.0)	(949)
Effect of exchange rate changes on cash and cash equivalents	(5.6)	6.3	(47)
Net increase in cash and cash equivalents	54.4	204.8	453
Cash and cash equivalents at beginning of year	479.7	274.9	3,991
Cash and cash equivalents at end of year	¥534.2	479.7	$4,444

Net cash provided by operating activities was ¥168.8 billion (US$1,405 million) in the year ended March 31, 2003, following mainly collection of trade receivables, but ¥47.7 billion lower than the previous fiscal year, which is due to changes in trade receivables and payables.

Net cash provided by investing activities was ¥5.3 billion (US$44 million), mainly due to the sale and collection of long-term receivables, and the sale of marketable securities. Net cash-inflow from investing activities fell by ¥208.8 billion from the previous fiscal year. This followed a large cash-inflow in the previous fiscal year that resulted from the collection of long-term receivables before they were due, and a net decrease in time deposits and similar instruments.

Net cash-outflow in financing activities was ¥114.0 billion (US$949 million). Repayment of interest-bearing debts continued to be made using proceeds from a public offering of common stock, net cash provided by operating activities and investing activities. Net cash-outflow in financing activities was ¥118.0 billion lower than the previous fiscal year.

ITOCHU believes that funding generated by net cash provided by operating activities, borrowing from financial institutions and issuance of stocks or bonds in the capital market will be sufficient to ensure an adequate source of funds to cover the expenditures and payments of liabilities, which it anticipates at this point, now and in the future. However, the actual availability of funding may differ depending on future conditions, such as condition of financial markets, economies, and business environment and other factors, many of which cannot be controlled by ITOCHU. Therefore, ITOCHU is not able to predict accurately the actual fund-raising conditions in the future at this moment. Despite this, ITOCHU is convinced it will be capable of ensuring adequate liquidity from cash flows provided by other sources, even if net cash provided by operating activities falls temporarily.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

ITOCHU issue various guarantees for indebtedness of subsidiaries, associated companies and customers. The amount of guarantees provided by the Company to its subsidiaries are included as subsidiaries' liabilities in its consolidated balance sheet. Therefore, off-balance sheet guarantees are the total guarantees to associated companies and customers. The breakdown of guarantees as of March 31, 2003 and March 31, 2002 is as follows:

	Billions of Yen		Millions of U.S. dollars
	2003	2002	2003
Guarantees for subsidiaries:			
Maximum potential amount of future payments	¥639.9	729.2	$5,323
Amount of substantial risk	433.7	531.4	3,608
Guarantees for associated companies:			
Maximum potential amount of future payments	¥343.5	394.4	$2,858
Amount of substantial risk	126.6	170.6	1,053
Guarantees for customers:			
Maximum potential amount of future payments	¥206.2	220.8	$1,716
Amount of substantial risk	116.2	124.8	967

The maximum potential amount of future payments of ITOCHU under the guarantee contracts is represented above. The amount of substantial risk represents the actual amount of liability incurred by the guaranteed parties within the pre-determined guaranteed limit established under the guarantee contracts. The amounts that can be recovered from third parties have been excluded in determining the amount of substantial risk. The disclosures related to guarantees are shown in Note 22 "Contingent Liabilities".

ITOCHU has no material information to disclose on variable interest entities defined under the provisions of Financial Accounting Standards Board Interpretation No.46 (Consolidation of Variable Interest Entities).

The following table shows the breakdown by maturity of repayments of short-term borrowing and long-term debts of all contractual obligations.

	Billions of Yen				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debts	¥ 465.1	465.1			
Long-term debts	2,163.7	525.8	837.5	519.8	280.6

Risk Management

ITOCHU is exposed to various risks such as market risks, credit risks and investment risks, due to the nature of its business. These risks include unpredictable events that may have adverse effects on its future business and financial performance. ITOCHU has enhanced its risk management system and risk management methods to monitor and manage these risks.

Since the introduction of a "Division Company System" in 1997, ITOCHU has reinforced the concept of self-management in which each Division Company manages the risks associated with individual projects, while the Headquarters has continued to develop sophisticated risk management methods. ITOCHU has also established the ALM (Asset Liability Management) Committee as an advisory body to the HMC (Headquarters Management Committee), the highest decision-making body in ITOCHU. The ALM Committee plays a central role in managing the balance sheets of the whole ITOCHU Group and proposing improvements, and in analyzing the risk management across ITOCHU and proposing various risk management methods and improvements. Specifically, it manages risk exposure for each individual product and service by setting internal covenants for major balance sheet items and segmenting products and services in detail to set exposure limits, criteria to undertake, and standards for return.

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

Market Risks

ITOCHU is exposed to market risks such as foreign exchange rate risk, interest rate risk, commodity price risk and stock price risk. ITOCHU aims to minimize risks relating to market fluctuations such as changes in foreign exchange rates and interest rates by establishing a risk management system using balance limit and other such measures and by utilizing a variety of derivative instruments for hedging purposes. Please refer to ITOCHU's accounting policy for derivative instruments in notes to consolidated financial statements "2. Summary of Significant Accounting Policies" and "19. Financial Instruments."

Foreign Exchange Rate Risk

ITOCHU is exposed to foreign exchange rate risk regarding transactions denominated in foreign currencies due to its significant involvement in import/export trading. ITOCHU uses forward exchange contracts and currency swap contracts to minimize risks for these transactions. Also, to manage foreign currency balance, ITOCHU sets limits on foreign exchange rate risks (limit of balance and that of loss), whereby it manages its balance of foreign currency by contract amount, the amount of its own/others' risk, and short-term/long-term. Since ITOCHU engages in businesses involving foreign currencies with a number of overseas trading subsidiaries and other overseas group subsidiaries, the figures denominated in Japanese yen on its consolidated balance sheet are also exposed to so-called foreign currency translation risk. ITOCHU does not hedge the translation risk, which does not have an impact on its financial and business performance denominated in foreign currencies.

Interest Rate Risk

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

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

Commodity Price Risk

ITOCHU is exposed to commodity price risk on commodity products that it trades such as crude oil and grain. In ITOCHU, each Division Company sets its own risk management policy and manages purchase contracts, inventories and sales contracts including off-balance sheet items. In addition, particularly for products that have high price volatilities and may have a large impact on ITOCHU's management, ITOCHU designates them as "specified important products" and each Division Company sets and manages a balance limit and loss cut limit for each individual product. The loss cut limits for products with a large amount of trading are examined by the ALM Committee and approved by the HMC. The trading volumes of specified important products are regularly reviewed and reported to the ALM Committee along with their product management standards and methods. ITOCHU is reducing commodity price risk by minimizing the balance of products and by utilizing futures or forward contracts. For price fluctuation risk of ship charter fares regarding shipping balance ITOCHU owns for its own use, like specified important products, it sets and manages balance limit and loss cut limit.

Stock Price Risk

ITOCHU holds available-for-sale marketable securities which are vulnerable to price fluctuation. As for stock price risk, ITOCHU aims to optimize the amount of investments by applying exit rules for inefficient and less meaningful investments, because hedging by derivative instruments is not effective for available-for-sale marketable securities held for long-term. Fair value of the available-for-sale marketable securities held by ITOCHU was ¥167.4 billion as of March 31, 2003 and ¥256.1 billion as of March 31, 2002. In cases where the aggregate prices of these investments had fluctuated by 10%, fair value would also have fluctuated by ¥16.7 billion as of March 31, 2003 and by ¥25.6 billion as of March 31, 2002.

Credit Risk
ITOCHU manages credit risks that are involved when operating in a wide range of transactions with domestic and overseas business partners including customers and suppliers. The credit department of each Division Company, which is independent of the business departments of each Division Company, manages and evaluates credit risk from both quantitative and qualitative perspectives, monitoring regularly the credit limit and the status quo of trade receivables and reviewing regularly the status quo of debt collection and delinquency to discuss and record the required provision for doubtful accounts.

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

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

3. Quantitative Management of Credit Risk
   In addition to a financial analysis scoring system, ITOCHU conducts quantitative management of credit risk by using its proprietary credit rating model.

4. Large Volume Accounts and Problem Accounts
   ITOCHU conducts in-depth research of the credit characteristics for specified applicable accounts, reviews transaction policy from time to time, and, when necessary, discusses and records provision for doubtful accounts.

Country Risk
In transactions with developing countries, besides taking appropriate countermeasures against country risk for each transaction, ITOCHU has strengthened its credit risk management, utilizing the following systems to avoid concentration of exposure in specific countries;
a) Drawing basic policies for transactions with developing countries
b) Setting total limit guidelines and limits for each country
c) Providing in-house country credit ratings and drawing credit policies by country

ITOCHU also conducts reviews of country ratings, credit policies and limits by country from time to time, taking into consideration the status quo of risk exposure of ITOCHU, which is regularly recognized based on the analysis of information on developing countries garnered from inside and outside ITOCHU.

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

*RCM: ITOCHU uses Risk Assets and Risk Return Index (RRI) as management benchmark.
*Risk Assets = Asset book value x Risk weight for each asset
*Risk Return Index (RRI) = Net income / Risk assets

Critical Accounting Policies

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

Evaluation of Investments
Investment balance and profit from investments are important factors in ITOCHU's consolidated financial statements and therefore, accounting judgment on evaluation of investments has a substantial impact on ITOCHU's consolidated financial statements.

ITOCHU evaluates marketable securities based on their fair values. The difference between carrying amount and fair value is reported in the consolidated statements of income for trading securities, while, for available-for-sale securities, differences net of tax, are reported in stockholder's equity as unrealized gains (losses) on securities. When ITOCHU judges that the price decline of marketable securities is other than temporary, impairment losses are recognized for the devaluation of this value. The criteria used to judge an other-than-temporary price decline are the length of time the marketable securities have been below carrying amount and the magnitude of the decline.

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

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

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

Provision for Doubtful Accounts

Trade receivables including notes and accounts, in addition to loans, represent a large amount in ITOCHU's consolidated balance sheets, and provision for doubtful accounts is an important factor in ITOCHU's consolidated statements of income. Therefore, accounting judgment on evaluation of receivables has a substantial impact on ITOCHU's consolidated financial statements.

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

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

Deferred Income Taxes

Deferred income taxes reported on the assets are an important factor in ITOCHU's consolidated balance sheets. Therefore, accounting judgment on evaluation of deferred income taxes has a substantial impact on ITOCHU's consolidated financial statements. To consider record of allowance for deferred income taxes, ITOCHU reports the realizable amount of deferred income taxes, taking into consideration future taxable income and feasible tax planning. To evaluate realizable amount, it considers information such as historical records and any available information related to the future.

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

Impairment of Long-Lived Assets

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

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

Goodwill and Other Intangible Assets

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

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

Cost of Retirement and Severance Benefits

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

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

New Accounting Standards

In June 2001, the FASB issued Statement of Financial Accounting Standards No.143, "Accounting for Asset Retirement Obligations" (SFAS 143), which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company and its subsidiaries will adopt the provision of SFAS 143 on April 1, 2003. Currently, the effect on consolidated financial statements by adopting SFAS 143 has not been reasonably estimated.

In April 2002, the FASB issued Statement of Financial Accounting Standards No.145, "Rescission of FASB Statements No.4, 44, and 64, Amendment of FASB Statement No.13 and Technical Corrections" (SFAS 145). SFAS 145 amends or rescinds a part of the existing Statements of Financial Accounting Standards, and also amends other existing authoritative pronouncements to make various technical corrections. The Company and its subsidiaries will adopt the provision of SFAS 145 on April 1, 2003. Currently, the effect on consolidated financial statements by adopting SFAS 145 has not been reasonably estimated.

In January 2003, the Emerging Issues Task Force reached a final consensus on Issue 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities" (EITF 03-2). EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees' Pension Fund plan (EPF) which is a defined benefit pension plan established under the Welfare Pension Insurance Law. EITF 03-2 requires employers to account for the entire separation process of a substitutional portion from an entire plan (including a corporate portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. In March 2003, the applications which were submitted by the Company, were approved by the government for an exemption from the obligation to pay benefits for future employee service related to the substitutional portion. The Company plans to submit another application for separation of the remaining substitutional portion (that is, the benefit obligation related to past services) during fiscal year 2003. After this application is approved by the government, the remaining benefit obligation of the substitutional portion (that amount earned by past services) as well as the related government-specified portion of the plan assets of the EPF will be transferred to the government. The Company anticipates that this transfer will have a material impact on the consolidated financial statements, however, the specific amounts can not be confirmed at the moment, because the impact will vary depending on the application date and other premises.

Quarterly Financial Data and Stock Price

Quarterly financial data and the Company's stock price performance during fiscal 2003 and 2002 are as follow.

	Billions of Yen (excluding net income (loss) per ten shares and stock price)							
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Years ended March 31	2003	2002	2003	2002	2003	2002	2003	2002
Gross trading profit	¥125.3	138.3	148.5	157.5	144.6	142.7	147.7	140.4
Selling, general and administrative expenses	(112.7)	(112.8)	(111.8)	(123.0)	(112.5)	(113.8)	(111.5)	(115.8)
Provision for doubtful accounts	(0.4)	(0.9)	(2.5)	(8.5)	(1.7)	(1.4)	(12.3)	(6.1)
Interest income	5.4	10.4	4.4	9.1	4.7	6.4	2.4	8.0
Interest expense	(12.9)	(22.1)	(12.5)	(17.7)	(11.7)	(15.8)	(10.5)	(13.3)
Dividends	3.1	2.6	1.7	5.8	2.6	2.7	2.7	2.0
Profit (loss) on disposal of investments and marketable securities, net of write-downs	5.4	7.2	4.2	17.8	(0.3)	4.1	(22.5)	(15.5)
Profit (loss) on property and equipment-net	0.2	0.1	(1.0)	(3.8)	0.3	(0.2)	(0.3)	(3.8)
Other-net	(4.1)	1.2	(0.5)	(2.4)	(1.6)	3.9	(2.3)	(5.0)
Income (loss) before income taxes, minority interests and equity in earnings (losses)	9.3	24.0	30.5	34.8	24.4	28.6	(6.6)	(9.1)
Income taxes	(5.6)	(10.3)	(18.8)	(22.7)	(12.9)	(18.0)	(8.3)	2.7
Income (loss) before minority interests and equity in earnings (losses)	3.7	13.7	11.7	12.1	11.5	10.6	(14.9)	(6.4)
Minority interests	(1.3)	(1.9)	(2.6)	(4.9)	(2.7)	(3.2)	(3.9)	(1.1)
Equity in earnings (losses) of associated companies	6.8	0.4	3.9	5.9	5.5	3.5	2.3	1.5
Net income (loss)	¥ 9.2	12.2	13.0	13.1	14.3	10.9	(16.5)	(6.0)
Net income (loss) per ten shares: (Yen)	¥ 65	85	85	92	90	77	(104)	(42)
Stock price (Yen)								
High	¥ 506	520	448	509	346	397	316	477
Low	396	427	276	282	198	269	249	276

Total trading transactions:

	2003	2002
1st Quarter	¥2,402.8	2,731.4
2nd Quarter	¥2,672.1	3,163.6
3rd Quarter	¥2,559.7	2,582.9
4th Quarter	¥2,827.0	2,922.6

The above figures have not been audited by independent auditors, except for the aggregate figures from the first quarter to the second quarter, and from the first to fourth.

Management Policy for Fiscal 2004, ending March 2004

In fiscal 2004 ITOCHU will start its two-year mid-term management plan "Super A&P-2004". This plan will take further the reorganization of its profit structure and the restructuring of its management system that ITOCHU started to implement in A&P-2002. We will focus on "A&P" segments to strengthen our profitability and financial position. In particular, we will focus on the following key measures:

1) In the Super A&P strategy, of all the A&P segments (consumer and retail; information and multimedia; natural resources development; financial services; North America and Asia), we have identified the consumer and retail sectors, where we have a particularly strong presence, as key driving forces. We aim to allocate assets to the most efficient areas through a process of accelerated selection and concentration. We also aim to increase profits generated by group companies by strengthening core subsidiaries and associated companies as well as increasing profits from overseas operations. Furthermore, we aim to develop innovative technologies for the future in areas such as biotechnology and nanotechnology, and we will create new businesses centering on these technologies.
2) We will improve our financial position; specifically, we will shift assets to more profitable areas, reduce interest-bearing debts, and improve our debt-to-equity ratio and other key measures of performance.
3) ITOCHU will build a solid management system. Having discussed the pros and cons of introducing "the Company with Committees system", we have decided to further enhance the transparency of our existing corporate governance system based on the board of directors and corporate auditors, which is highly rated by our stockholders. We will also further strengthen our risk management system.
4) We aim to establish a flexible personnel strategy and will reinvigorate our human resources system to extract individuals' potential to the fullest. We will make personnel changes based on the concept of "right person in the right place".

Outlook for Fiscal 2004, ending March 2004

The business environment for ITOCHU in fiscal 2004 is expected to largely depend on the U.S. economy, which is still fluid. Japan's economy continues to suffer from the effects of deflation and thus it is difficult to expect any sort of rapid recovery. The stock market also is unlikely to make any significant gains.

Under these circumstances, ITOCHU expects consolidated total trading transactions of 10 trillion yen for the fiscal year ending March 2004, with net income of 45.0 billion yen.

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

Fiscal 2004 consolidated forecasts (April 2003 - March 2004)

	Billions of Yen			
	Full year		Half year	
Years ended March 31	2004 Forecasts	2003 Results	2004 Forecasts	2003 Results
Gross trading profit	¥ 600	566	290	274
Total trading transactions:				
2004 full year forecasts ¥10,000				
2003 full year results ¥10,462				
2004 half year forecasts ¥ 4,800				
2003 half year results ¥ 5,075				
Selling, general and administrative expenses	(475)	(448)	(232)	(224)
Provision for doubtful accounts	(15)	(17)	(8)	(3)
Net interest expenses	(33)	(31)	(16)	(16)
Dividends	7	10	2	5
Other-net	(3)	(22)	(1)	4
Income before income taxes, minority interests and equity in earnings (losses)	81	58	35	40
Income taxes	(44)	(46)	(22)	(24)
Income before minority interests and equity in earnings (losses)	37	12	13	15
Minority interests	(13)	(11)	(5)	(4)
Equity in earnings (losses) of associated companies	21	19	7	11
Net income	¥ 45	20	15	22
Total assets	¥4,450	4,486		
Gross interest-bearing debts	2,500	2,574		
Net interest-bearing debts	2,000	2,025		
Total stockholders' equity	470	426		

	2004	2003
(Note)	Forecasts	Results
Yen to U.S. dollars rate	120.00	122.85
Crude oil price (U.S.dollars per BBL)	20-22	27.19

Distribution of the last and current fiscal year's profit

ITOCHU will pay a total dividend of 5 yen per share for the fiscal year ended March 2003. The dividend for the first half of the year was 2.5 yen per share. For the fiscal year ending March 2004, ITOCHU also intends to pay a total dividend of 5 yen per share, with the dividend for the first half of the year yet to be determined.

Consolidated Balance Sheets

ITOCHU Corporation and Subsidiaries
As of March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. dollars (Note 1)
Assets	2003	2002	2003
Current assets:			
Cash and cash equivalents (notes 2 and 8)	¥ 534,156	479,734	$ 4,443,894
Time deposits (note 8)	15,216	18,599	126,589
Marketable securities (notes 2,3 and 8)	40,879	51,165	340,091
Trade receivables (note 8):			
Notes	145,764	184,957	1,212,679
Accounts	907,315	951,075	7,548,378
Allowance for doubtful receivables	(24,816)	(35,187)	(206,456)
Net trade receivables	1,028,263	1,100,845	8,554,601
Due from associated companies	98,157	96,477	816,614
Inventories (notes 2 and 8)	402,242	426,028	3,346,439
Advances to suppliers	40,398	52,785	336,090
Prepaid expenses	17,952	18,458	149,351
Deferred income taxes (notes 2 and 13)	31,812	31,889	264,659
Other current assets	196,103	243,073	1,631,472
Total current assets	2,405,178	2,519,053	20,009,800
Investments and non-current receivables:			
Investments in and advances to associated companies (notes 5 and 8)	447,155	453,490	3,720,092
Other investments (notes 2,3,4,8 and 9)	339,527	422,501	2,824,684
Other non-current receivables (note 8)	465,548	574,990	3,873,111
Allowance for doubtful items (notes 2 and 6)	(206,050)	(240,724)	(1,714,226)
Net investments and non-current receivables	1,046,180	1,210,257	8,703,661
Property and equipment, at cost (notes 2,8 and 9):			
Land	264,825	264,661	2,203,203
Buildings	298,215	307,057	2,480,990
Machinery and equipment	250,107	276,772	2,080,757
Furniture and fixtures	49,467	51,216	411,539
Construction in progress	6,322	6,870	52,596
	868,936	906,576	7,229,085
Less accumulated depreciation	276,439	277,888	2,299,825
Net property and equipment	592,497	628,688	4,929,260
Prepaid pension cost (note 11)	225,732	157,121	1,877,970
Deferred income taxes, non-current (notes 2 and 13)	89,585	90,189	745,299
Other assets and deferred charges (notes 2 and 7)	127,233	147,011	1,058,511
Total	¥4,486,405	4,752,319	$37,324,501

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Stockholders' Equity	Millions of Yen 2003	2002	Thousands of U.S. dollars (Note 1) 2003
Current liabilities:			
Short-term debt (notes 8 and 10)	¥ 465,108	504,616	$ 3,869,451
Current installments of long-term debt (notes 8 and 10)	525,831	486,794	4,374,634
Trade payables:			
Notes and acceptances (note 8)	168,310	196,301	1,400,250
Accounts	769,403	791,713	6,401,023
Total trade payables	937,713	988,014	7,801,273
Due to associated companies	36,058	36,799	299,983
Income taxes payable (note 13)	19,505	20,050	162,271
Accrued expenses	88,407	99,587	735,499
Advances from customers	44,164	59,126	367,421
Deferred income taxes (notes 2 and 13)	1,149	11	9,559
Advances and deposits received	143,297	148,567	1,192,155
Total current liabilities	2,261,232	2,343,564	18,812,246
Long-term debt, excluding current installments (notes 8 and 10)	1,637,916	1,863,629	13,626,589
Accrued retirement and severance benefits (note 11)	22,383	18,366	186,215
Deferred income taxes, non-current (notes 2 and 13)	9,528	12,600	79,268
Minority interests	129,126	116,492	1,074,260
Stockholders' equity:			
Common stock:			
Authorized 3,000,000,000 shares;			
issued and outstanding			
1,583,487,736 shares 2003			
1,425,487,736 shares 2002 (note 16)	202,241	174,749	1,682,537
Capital surplus (notes 16 and 17)	136,842	111,348	1,138,453
Retained earnings (note 17)			
Legal reserve	3,212	3,410	26,722
Other retained earnings	143,014	128,468	1,189,800
Accumulated other comprehensive income (loss) (notes 2,3,11 and 18)	(58,408)	(20,264)	(485,923)
Treasury stock	(681)	(43)	(5,666)
Total stockholders' equity	426,220	397,668	3,545,923
Contingent liabilities (note 22)			
Total	¥4,486,405	4,752,319	$37,324,501

Consolidated Statements of Income

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

		Millions of Yen			Thousands of U.S. dollars (Note 1)
		2003	2002	2001	2003
Gross trading profit (note 15)	¥	566,037	578,867	611,600	$ 4,709,126
Total trading transactions (notes 2,5 and 15):					
2003: ¥10,461,620 million ($87,035,108 thousand)					
2002: ¥11,400,471 million					
2001: ¥12,135,261 million					
Selling, general and administrative expenses		(448,473)	(465,519)	(453,221)	(3,731,057)
Provision for doubtful accounts		(16,845)	(16,831)	(49,759)	(140,141)
Interest income		16,939	33,895	51,848	140,923
Interest expense		(47,594)	(68,834)	(115,848)	(395,957)
Dividends		10,076	12,997	8,465	83,827
Profit (loss) on disposal of investments and marketable securities, net of write-downs (notes 3,9 and 20)		(13,182)	13,502	117,065	(109,667)
Profit (loss) on property and equipment-net (note 9)		(755)	(7,622)	2,611	(6,281)
Other-net (note 2)		(8,528)	(2,260)	333	(70,948)
Income before income taxes, minority interests and equity in earnings (losses)		57,675	78,195	173,094	479,825
Income taxes (notes 2 and 13):					
Current		31,287	38,227	67,117	260,291
Deferred		14,365	10,046	31,906	119,509
		45,652	48,273	99,023	379,800
Income before minority interests and equity in earnings (losses)		12,023	29,922	74,071	100,025
Minority interests (note 2)		(10,484)	(11,093)	(8,789)	(87,222)
Equity in earnings (losses) of associated companies (note 5)		18,539	11,362	5,225	154,235
Net Income	¥	20,078	30,191	70,507	$ 167,038

		Yen			U.S. dollars (Note 1)
		2003	2002	2001	2003
Net income per ten common shares (notes 2 and 14):					
Basic	¥	131	212	495	$ 1.09
Diluted	¥	131	212	459	$ 1.09

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
Common stock:				
Balance at beginning of year	¥174,749	174,749	174,721	$1,453,818
Issuance of common stock	27,492	—	—	228,719
Conversion of convertible bonds	—	—	28	—
Balance at end of year (note 16)	¥202,241	174,749	174,749	$1,682,537
Capital surplus:				
Balance at beginning of year	¥111,348	112,691	222,462	$ 926,356
Issuance of common stock	27,285	—	—	226,997
Conversion of convertible bonds	—	—	28	—
Transfer to retained earnings (deficit)	—	—	(109,799)	—
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	(1,791)	(1,343)	—	(14,900)
Balance at end of year (notes 16 and 17)	¥136,842	111,348	112,691	$1,138,453
Retained earnings (deficit) (note 17):				
Legal reserve:				
Balance at beginning of year	¥ 3,410	2,614	20,243	$ 28,369
Transfer from (to) other retained earnings (deficit)	16	1,180	(17,506)	133
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	(214)	(384)	(123)	(1,780)
Balance at end of year	¥ 3,212	3,410	2,614	$ 26,722
Other retained earnings (deficit):				
Balance at beginning of year	¥128,468	108,421	(89,514)	$1,068,785
Net income	20,078	30,191	70,507	167,038
Cash dividends	(7,521)	(10,691)	—	(62,571)
Transfer from capital surplus	—	—	109,799	—
Transfer from (to) legal reserve	(16)	(1,180)	17,506	(133)
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	2,005	1,727	123	16,681
Balance at end of year	¥143,014	128,468	108,421	$1,189,800
Accumulated other comprehensive income (loss) (notes 2,3,11 and 18):				
Balance at beginning of year	¥ (20,264)	(81,535)	(46,587)	$ (168,585)
Other comprehensive income (loss)	(38,144)	61,271	(34,948)	(317,338)
Balance at end of year	¥ (58,408)	(20,264)	(81,535)	$ (485,923)
Treasury stock:				
Balance at beginning of year	¥ (43)	—	—	$ (358)
Net charges in treasury stock	(638)	(43)	—	(5,308)
Balance at end of year	¥ (681)	(43)	—	$ (5,666)
Total	¥426,220	397,668	316,940	$3,545,923
Comprehensive income (loss):				
Net income	¥ 20,078	30,191	70,507	$ 167,038
Other comprehensive income (loss) (notes 2,3,11 and 18)	(38,144)	61,271	(34,948)	(317,338)
Total	¥ (18,066)	91,462	35,559	$ (150,300)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
Cash flows from operating activities:				
Net income	¥ 20,078	30,191	70,507	$ 167,038
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	33,794	35,839	31,854	281,148
Provision for doubtful accounts	16,845	16,831	49,759	140,141
Net loss (profit) on marketable securities, investments, property and equipment	13,937	(5,880)	(119,676)	115,948
Undistributed earnings of associated companies	(12,104)	(4,566)	(1,133)	(100,699)
Deferred income taxes	14,365	10,046	31,906	119,509
Other non-cash charges	16,272	10,031	18,574	135,375
Changes in assets and liabilities:				
Trade receivables	102,408	194,853	14,232	851,980
Due from associated companies	21,308	(1,909)	(6,923)	177,271
Inventories	20,780	48,361	(8,592)	172,879
Trade payables	(40,105)	(53,715)	13,251	(333,652)
Due to associated companies	(331)	11,969	7,964	(2,753)
Other-net	(38,404)	(75,548)	58,612	(319,501)
Net cash provided by operating activities	168,843	216,503	160,335	1,404,684
Cash flows from investing activities:				
Payments for purchase of property and equipment	(47,310)	(38,257)	(46,633)	(393,594)
Proceeds from sale of property and equipment	30,754	11,853	48,094	255,857
Net decrease (increase) in investments in and advances to associated companies	(8,558)	(50,895)	100,924	(71,198)
Payments for purchase of other investments	(47,335)	(66,989)	(58,852)	(393,802)
Proceeds from sale of other investments	43,354	46,899	92,558	360,682
Proceeds from sale of subsidiaries' common stock	4,385	13,282	168,911	36,481
Origination of other non-current receivables	(52,797)	(60,650)	(125,674)	(439,243)
Collections of other non-current receivables	70,116	115,130	234,838	583,328
Net decrease in time deposits and similar instruments	2,573	238,982	160,813	21,406
Net decrease (increase) in marketable securities	10,071	4,653	(10,272)	83,785
Net cash provided by investing activities	5,253	214,008	564,707	43,702
Cash flows from financing activities:				
Proceeds from long-term debt	483,477	492,770	166,049	4,022,271
Repayments of long-term debt	(620,534)	(630,515)	(755,351)	(5,162,512)
Net decrease in short-term debt	(22,205)	(86,856)	(133,616)	(184,734)
Proceeds from issuance of common stock	54,777	—	—	455,715
Proceeds from issuance of common stock to minority shareholders	1,405	6,475	7,538	11,689
Cash dividends	(7,521)	(10,691)	—	(62,571)
Cash dividends to minority shareholders	(3,164)	(3,187)	(2,222)	(26,322)
Net increase in treasury stock	(276)	(43)	—	(2,296)
Net cash used in financing activities	(114,041)	(232,047)	(717,602)	(948,760)
Effect of exchange rate changes on cash and cash equivalents	(5,633)	6,334	3,309	(46,864)
Net increase in cash and cash equivalents	54,422	204,798	10,749	452,762
Cash and cash equivalents at beginning of year	479,734	274,936	264,187	3,991,132
Cash and cash equivalents at end of year	¥ 534,156	479,734	274,936	$4,443,894
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	¥ 49,915	74,748	122,792	$ 415,266
Income taxes	35,162	46,228	74,568	292,529
Information regarding non-cash investing and financing activities:				
Establishment of pension trust	70,358	85,016	45,846	585,341
Non-monetary exchange of shares	3,054	—	27,410	25,408
Shares acquired in a spin-off enterprise				
Assets contributed	—	306,916	—	—
Liabilities contributed	—	276,491	—	—
Shares acquired	—	30,425	—	—
Conversion of convertible bonds	—	—	56	—

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

ITOCHU Corporation and Subsidiaries

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 that reflects the adjustments which are necessary to conform with United States generally accepted accounting principles (U.S. GAAP).

Supplementary, the Japanese yen amounts as of and for the year ended March 31, 2003 have also been translated into United States dollar amounts, solely for the convenience of the reader, at the rate of ¥120.20=U.S.$1 (official rate of The Bank of Tokyo-Mitsubishi, Ltd.) on March 31, 2003.

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. Approximately 53% of the Company’s total trading transactions in fiscal year 2003 amounting to ¥10,462 billion ($87,035 million), were generated through Japanese domestic trade, with 12% in imports to Japan, 12% in exports from Japan, and 23% in offshore trade. By principal products, total trading transactions were distributed as follows: textile-8%, plant, automobile & industrial machinery-17%, aerospace, electronics & multimedia-8%, energy, metals & minerals-21%, chemicals, forest products & general merchandise-17%, food-24%, and realty & other-5%.

The Company and its subsidiaries not only operate worldwide through trading in various commodities but also provide various services, such as financing arrangements for customers and suppliers, planning and coordinating industrial projects, 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 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. Significant transactions occurring between subsidiaries’ fiscal year-end (if not March 31) and March 31 are properly adjusted in the consolidated financial statements.

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

Investments in associated companies (generally companies owned 20% to 50%) are recorded at cost plus the companies’ equity in undistributed earnings and losses of such companies since acquisition. The excess of cost over the net assets acquired is allocated to identifiable assets based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over the net assets is not amortized and is required to be tested for impairment at least annually.

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

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

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

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.

Cash Equivalents

For the purpose of the statements of cash flows, the Company and its subsidiaries consider highly liquid investments with insignificant risk of changes in value to be cash equivalents.

Marketable Securities and Other Investments

The Company and its subsidiaries have adopted Statement of Financial Accounting Standards No.115, “Accounting for Certain Investments in Debt and Equity Securities” (SFAS 115). 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 are reported at amortized cost. Unrealized holding gains and losses for trading securities are included in earnings. Unrealized holding gains and losses for available-for-sale securities are 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.

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 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 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 a cash basis.

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

Goodwill and Other Intangible Assets
In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No.141, "Business Combinations" (SFAS 141), and Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS 142 requires that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS 142 also requires recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement of Financial Accounting Standards No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment in the same manner as goodwill.

The Company and its subsidiaries adopted the provisions of SFAS 141 and SFAS 142 on April 1, 2002. SFAS 141 requires to evaluate their existing intangible assets and goodwill and to make any necessary reclassifications in order to conform to new separation requirements at the date of adoption. The Company and its subsidiaries accomplished to reassess the useful lives and residual values of all intangible assets and make any necessary amortization period adjustments by June 30, 2002. In connection with the transitional goodwill impairment evaluation, SFAS 142 requires to perform an assessment of whether there was an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company and its subsidiaries (1) identified their reporting units, (2) determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units, and (3) determined the fair value of each reporting unit. To the extent the carrying amount of a reporting unit exceeded the fair value of the reporting unit, the Company and its subsidiaries compared the implied fair values of the reporting units' goodwill with the carrying amounts of the reporting units' goodwill. The implied fair values of goodwill were determined by allocating the fair values of the reporting units to all of the assets (recognized and unrecognized) and liabilities of the reporting units in a manner similar to a purchase price allocation, in accordance with SFAS 141. The residual fair value after this allocation was the implied fair values of the reporting units' goodwill. The Company and its subsidiaries recognized impairment losses amounting to ¥1,077 million ($8,960 thousand) in the year ended March 31, 2003 since the carrying amounts of goodwill exceeded their implied fair values.

Derivative Financial Instruments (prior to adoption of SFAS 133 and SFAS 138)
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.

Derivative Instruments (subsequent to adoption of SFAS 133 and SFAS 138)
The Company and its subsidiaries adopted Statement of Financial Accounting Standards No.133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) and Statement of Financial Accounting Standards No.138,"Accounting for Derivative Instruments and Hedging Activities, an Amendment of SFAS 133" (SFAS 138) at the beginning of the first half of fiscal 2001 on April 1, 2001.

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

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

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

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

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

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

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

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

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

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

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

Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued Statement of Financial Accounting Standards No.146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 requires that a liability be recognized for those costs related to exit or disposal activities performed after December 31, 2002 only when the liability is incurred, that is, when it meets the definition of a liability in the conceptual framework of the FASB. SFAS 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. The adoption of SFAS 146 did not have a material effect on the consolidated financial position and results of operations.

Issuance of Stock by Subsidiaries or Associated Companies

With respect to such transactions as a subsidiary or an associated company issuing its shares to third parties, the resulting gains or losses arising from the change in interest of the Company are recorded in income or loss for the period when such shares are issued.

Depreciation

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

Net Income (Loss) Per Ten Shares

Net income (loss) per ten shares is computed based on the weighted average number of shares of common stock outstanding. Diluted net income (loss) per ten shares is computed reflecting potentially dilutive securities.

Comprehensive Income (Loss)

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

Guarantees

In November 2002, the FASB issued FASB Interpretation No.45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. The Company and its subsidiaries adopted the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. The disclosures related to guarantees are shown in Note 22 "Contingent Liabilities".

Variable Interest Entities

In January 2003, the FASB issued FASB Interpretation No.46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 defines the entities of which equity has specified characteristics as variable interest entities, and also requires that the primary beneficiary which owns a majority of the variable interests consolidate the variable interest entities. Variable interests are rights and obligations that convey economic gains or losses from changes in the values of the variable interest entities' assets and liabilities. The Company and its subsidiaries adopted FIN 46 for variable interest entities established after January 31, 2003, and will also adopt FIN 46 on July 1, 2003 for variable interest entities established before February 1, 2003. On adoption of FIN 46, the Company and its subsidiaries have no material matters to disclose as of March 31, 2003.

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.

Change in Presentation on the Consolidated Statements of Income

"Minority interests", which were previously included in "Other-net", have been separately stated below "Income taxes" in the consolidated statements of income since fiscal year 2003. Accordingly, the consolidated statements of income before fiscal year 2002 have been restated.

New Accounting Standards

In June 2001, the FASB issued Statement of Financial Accounting Standards No.143, "Accounting for Asset Retirement Obligations" (SFAS 143), which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company and its subsidiaries will adopt the provision of SFAS 143 on April 1, 2003. Currently, the effect on consolidated financial statements by adopting SFAS 143 has not been reasonably estimated.

In April 2002, the FASB issued Statement of Financial Accounting Standards No.145, "Rescission of FASB Statements No.4, 44, and 64, Amendment of FASB Statement No.13 and Technical Corrections" (SFAS 145). SFAS 145 amends or rescinds a part of the existing Statements of Financial Accounting Standards, and also amends other existing authoritative pronouncements to make various technical corrections. The Company and its subsidiaries will adopt the provision of SFAS 145 on April 1, 2003. Currently, the effect on consolidated financial statements by adopting SFAS 145 has not been reasonably estimated.

In January 2003, the Emerging Issues Task Force reached a final consensus on Issue 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities" (EITF 03-2). EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees' Pension Fund plan (EPF) which is a defined benefit pension plan established under the Welfare Pension Insurance Law. EITF 03-2 requires employers to account for the entire separation process of a substitutional portion from an entire plan (including a corporate portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. In March 2003, the applications which were submitted by the Company, were approved by the government for an exemption from the obligation to pay benefits for future employee service related to the substitutional portion. The Company plans to submit another application for separation of the remaining substitutional portion (that is, the benefit obligation related to past services) during fiscal year 2003. After this application is approved by the government, the remaining benefit obligation of the substitutional portion (that amount earned by past services) as well as the related government-specified portion of the plan assets of the EPF will be transferred to the government. The Company anticipates that this transfer will have a material impact on the consolidated financial statements, however, the specific amounts can not be confirmed at the moment, because the impact will vary depending on the application date and other premises.

3. Marketable Securities and Investments

Marketable securities and investments consist of trading, available-for-sale and held-to-maturity securities. The cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for such securities by major security type as of March 31, 2003 and 2002 were as follows:

	Millions of Yen			
	2003			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Trading:				
Equity securities	¥ 29,268	1,559	76	30,751
Debt securities	3,663	—	—	3,663
	¥ 32,931	1,559	76	34,414
Available-for-sale:				
Equity securities	¥ —	—	—	—
Debt securities	7,044	1	580	6,465
	¥ 7,044	1	580	6,465
Held-to-maturity:				
Debt securities	¥ —	—	—	—
Non-current:				
Available-for-sale:				
Equity securities	¥146,774	18,086	15,801	149,059
Debt securities	11,849	54	24	11,879
	¥158,623	18,140	15,825	160,938
Held-to-maturity:				
Debt securities	¥ 849	—	—	849

	Millions of Yen			
	2002			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Trading:				
Equity securities	¥ 36,110	4,071	17	40,164
Debt securities	3,441	—	—	3,441
	¥ 39,551	4,071	17	43,605
Available-for-sale:				
Equity securities	¥ —	—	—	—
Debt securities	887	10	—	897
	¥ 887	10	—	897
Held-to-maturity:				
Debt securities	¥ 6,663	—	73	6,590
Non-current:				
Available-for-sale:				
Equity securities	¥186,209	58,068	20,515	223,762
Debt securities	33,173	42	1,817	31,398
	¥219,382	58,110	22,332	255,160
Held-to-maturity:				
Debt securities	¥ 420	—	—	420

	Thousands of U.S. dollars			
	2003			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Trading:				
Equity securities	$ 243,494	12,970	632	255,832
Debt securities	30,474	—	—	30,474
	$ 273,968	12,970	632	286,306
Available-for-sale:				
Equity securities	$ —	—	—	—
Debt securities	58,602	8	4,825	53,785
	$ 58,602	8	4,825	53,785
Held-to-maturity:				
Debt securities	$ —	—	—	—
Non-current:				
Available-for-sale:				
Equity securities	$1,221,082	150,466	131,456	1,240,092
Debt securities	98,577	449	200	98,826
	$1,319,659	150,915	131,656	1,338,918
Held-to-maturity:				
Debt securities	$ 7,063	—	—	7,063

The contractual maturities of marketable securities and investments classified as available-for-sale and held-to-maturity as of March 31, 2003 were as follows:

	Millions of Yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Available-for-sale:				
Due within one year	¥ 7,044	6,465	$ 58,602	53,785
Due after one year through five years	5,873	5,913	48,860	49,193
Due after five years	5,976	5,966	49,717	49,633
Equity securities	146,774	149,059	1,221,082	1,240,092
	¥165,667	167,403	$1,378,261	1,392,703
Held-to-maturity:				
Due within one year	¥ —	—	$ —	—
Due after one year through five years	465	465	3,868	3,868
Due after five years	384	384	3,195	3,195
	¥ 849	849	$ 7,063	7,063

The gross realized gains and losses on sale of available-for-sale securities for the years ended March 31, 2003, 2002 and 2001 were gains of ¥20,028 million ($166,622 thousand), ¥19,428 million and ¥16,894 million, and losses of ¥9,319 million ($77,529 thousand), ¥1,450 million and ¥6,933 million, respectively.

4. Other Investments

Other investments at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Securities	¥245,411	343,567	$2,041,689
Long-term deposits	42,592	39,778	354,343
Insurance reserve, etc.	51,524	39,156	428,652
	¥339,527	422,501	$2,824,684

5. Investments in Associated Companies

Certain financial information in respect of associated companies as of March 31, 2003 and 2002, and for the years ended March 31, 2003, 2002 and 2001 was shown below:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Current assets	¥1,692,593	1,576,405	$14,081,473
Other assets, principally property and equipment	1,947,672	1,948,961	16,203,594
	3,640,265	3,525,366	30,285,067
Current liabilities	1,584,428	1,498,027	13,181,598
Other liabilities, principally long-term debt	1,292,655	1,281,534	10,754,201
Net assets	¥ 763,182	745,805	$ 6,349,268

	Millions of Yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Net sales	¥4,596,262	3,021,776	2,305,651	$38,238,453
Net earnings	43,387	40,192	25,395	360,957
Companies' equity in net earnings	18,539	11,362	5,225	154,235
Cash dividends received by the companies	6,435	6,796	4,092	53,536

Included above 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, 2003, 2002 and 2001 were summarized as follows:

	Millions of Yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Sales	¥562,810	454,618	379,972	$4,682,280
Purchases	176,187	265,005	241,425	1,465,782

The 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 ¥119,836 million ($996,972 thousand) and ¥110,811 million at March 31, 2003 and 2002, respectively.

Investments in associated companies included securities which had quoted market values that were lower than the related carrying values totaling ¥108,101 million ($899,343 thousand) and ¥67,868 million at March 31, 2003 and 2002, respectively.

There are no significant transactions with related parties.

6. Impaired Loans and Allowance for Doubtful Items

The movement in the allowance for doubtful items for the years ended March 31, 2003, 2002 and 2001 was as follows:

	Millions of Yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Balance at beginning of year	¥240,724	311,183	333,665	$2,002,695
Increased in the allowance	59,724	59,457	76,034	496,872
Decreased in the allowance	(94,398)	(129,916)	(98,516)	(785,341)
Balance at end of year	¥206,050	240,724	311,183	$1,714,226

The carrying amounts of the impaired loans within the scope of SFAS 114 as of March 31, 2003 and 2002 were ¥264,843 million ($2,203,353 thousand) and ¥319,196 million, respectively, and the allowance for doubtful items related to those impaired loans were ¥190,883 ($1,588,045 thousand) and ¥228,828 million, respectively. The recorded investment in the impaired loans, net of the allowance for doubtful items, is either secured by collateral or believed to be collectible.

The average amounts of the impaired loans during the years ended March 31, 2003 and 2002 were ¥292,959 million ($2,437,263 thousand) and ¥339,099 million, respectively. The amounts of interest income recognized on the impaired loans for the years ended March 31, 2003, 2002 and 2001 were not significant.

7. Goodwill and Other Intangible Assets

As addressed in Note 2 "Summary of Significant Accounting Policies", the Company and its subsidiaries adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) on April 1, 2002. SFAS 142 requires that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS 142 also requires recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement of Financial Accounting Standards No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment in the same manner as goodwill.

Upon the adoption of SFAS 142, the Company and its subsidiaries reviewed the respective estimated useful lives of other intangible assets, classified them into amortizable intangible assets with definite useful life and non-amortizable intangible assets with indefinite useful life, and also tested for impairment during the year ended March 31, 2003. As a result of the test, no impairment losses were recognized.

Intangible assets acquired during the year ended March 31, 2003 totaled ¥13,442 million ($111,830 thousand), which primarily consisted of software of ¥8,013 million ($66,664 thousand) and trademarks of ¥3,436 million ($28,586 thousand).

Intangible assets subject to amortization at March 31, 2003 and 2002 comprised the following:

	Millions of Yen				Thousands of U.S. dollars	
	2003		2002		2003	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Trademarks	¥20,240	(6,946)	17,343	(5,118)	$168,386	(57,787)
Software	35,356	(17,100)	31,825	(14,024)	294,143	(142,263)
Mining rights	11,872	(1,436)	12,940	(1,918)	98,769	(11,947)
Others	13,567	(4,731)	11,329	(3,082)	112,870	(39,359)
Total	¥81,035	(30,213)	73,437	(24,142)	$674,168	(251,356)

The aggregate amortization expense for intangible assets for the year ended March 31, 2003 was ¥9,800 million ($81,531 thousand). The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. dollars
2004	¥9,298	$77,354
2005	8,079	67,213
2006	7,146	59,451
2007	4,192	34,875
2008	3,153	26,231

The carrying amount of intangible assets not subject to amortization with indefinite useful life at March 31, 2003 and 2002 comprised the following:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Leasehold	¥1,119	4,840	$ 9,309
Trademarks and others	3,746	3,891	31,165
Total	¥4,865	8,731	$40,474

Upon the adoption of SFAS 142, the Company and its subsidiaries ceased amortization of goodwill on April 1, 2002, and tested for impairment during the year ended March 31, 2003. As a result, impairment losses amounting to ¥1,077 million ($8,960 thousand) were recognized in the year ended March 31, 2003 since the carrying amounts of goodwill exceeded the implied fair values.

The changes in the carrying amount of goodwill by operating segment for the year ended March 31, 2003 were as follows:

	Millions of Yen						
	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Other	Total
Balance at March 31, 2002	¥2,626	—	3,208	28,845	84,854	4,082	123,615
Acquired	155	1,358	—	783	28,868	1,667	32,831
Impairment losses	—	—	—	—	—	(1,077)	(1,077)
Others	(246)	4	—	(5,767)	20	(397)	(6,386)
Balance at March 31, 2003	¥2,535	1,362	3,208	23,861	113,742	4,275	148,983

	Thousands of U.S. dollars						
	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Other	Total
Balance at March 31, 2002	$21,847	—	26,689	239,975	705,940	33,960	1,028,411
Acquired	1,290	11,298	—	6,514	240,166	13,868	273,136
Impairment losses	—	—	—	—	—	(8,960)	(8,960)
Others	(2,047)	33	—	(47,978)	167	(3,303)	(53,128)
Balance at March 31, 2003	$21,090	11,331	26,689	198,511	946,273	35,565	1,239,459

Note: Others primarily consists of translation adjustments and reclassification from (to) other accounts.

Net income and net income per ten shares for the years ended March 31, 2003, 2002 and 2001 when adjusted to exclude the amortization expense related to goodwill and non-amortizable intangible assets, which were previously incurred based on the accounting standard prior to the adoption of SFAS 142, were as follows:

	Millions of Yen			Thousands of U.S. dollars		
	2003	2002	2001	2003	2002	2001
Net income	¥20,078	30,191	70,507	$167,038	251,173	586,581
Add back:						
Goodwill amortization	—	3,608	3,158	—	30,017	26,273
Intangible assets amortization	—	247	208	—	2,055	1,730
Adjusted net income	¥20,078	34,046	73,873	$167,038	283,245	614,584

	Yen			U.S. dollars		
	2003	2002	2001	2003	2002	2001
Net income per ten shares	¥131	212	495	$1.09	1.76	4.12
Add back:						
Goodwill amortization	—	25	22	—	0.21	0.18
Intangible assets amortization	—	2	1	—	0.02	0.01
Adjusted net income per ten shares	¥131	239	518	$1.09	1.99	4.31

8. Pledged Assets

The following assets were pledged as collateral at March 31, 2003 and 2002:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Cash and cash equivalents and time deposits	¥ 40	2,269	$ 333
Marketable securities	66	60	549
Trade receivables	60,845	111,959	506,198
Inventories	1,470	7,374	12,229
Investments and non-current receivables	140,531	283,944	1,169,143
Property and equipment, at cost	112,593	133,783	936,714
	¥315,545	539,389	$2,625,166

Collateral was pledged to secure the following obligations at March 31, 2003 and 2002:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Short-term debt	¥ 20,420	18,581	$ 169,884
Long-term debt	222,906	421,005	1,854,459
Guarantees of contracts, etc.	60,439	84,249	502,820
	¥303,765	523,835	$2,527,163

In addition, acceptances payable were secured by trust receipts on merchandise and the proceeds from the sale thereof. The amount of such assets pledged was 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.

9. Impairment of Long-lived Assets

The Company and its subsidiaries recognized impairment losses of ¥2,150 million ($17,887 thousand), ¥6,992 million and ¥5,679 million for the years ended March 31, 2003, 2002 and 2001, respectively, which were included in the profit (loss) on property and equipment-net account. The impaired assets included domestic commercial buildings for rent and domestic buildings for self-use.

The Company also recognized impairment losses of ¥583 million ($4,850 thousand) and ¥11,888 million for the years ended March 31, 2003 and 2001, respectively, which were included in the profit (loss) on disposal of investments and marketable securities, net of write-downs account. The impaired assets included certain domestic land for development purpose.

Fair value was based on appraisals or estimates of valuation based on mainly road rating price for land and replacement cost for buildings and structures.

10. Short-term and Long-term Debt

Short-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Short-term loans, mainly from banks	¥465,108	494,616	$3,869,451
Commercial paper	—	10,000	—
	¥465,108	504,616	$3,869,451

Long-term debt at March 31, 2003 and 2002 was summarized below:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Banks and financial institutions:			
Secured:			
Japan Bank for International Cooperation,			
due 2002-2013, interest mainly 1%-7%	¥ 69,800	111,827	$ 580,699
Other,			
due 2002-2015, interest mainly 1%-9%	153,106	309,178	1,273,760
Unsecured:			
Due 2002-2023,			
interest mainly 0%-15%	1,481,658	1,373,099	12,326,606
Debentures:			
Unsecured bonds and notes:			
Issued in 1996, 3.00% Yen Bonds due 2002	—	50,000	—
Issued in 1996, 3.15% Yen Bonds due 2003	20,000	20,000	166,389
Issued in 1997, 2.45% Yen Bonds due 2009	10,000	10,000	83,195
Issued in 1998, 2.45% Yen Bonds due 2003	70,000	70,000	582,363
Issued in 1998, 3.10% Yen Bonds due 2008	30,000	30,000	249,584
Issued in 1998, 2.00% Yen Bonds due 2002	—	10,000	—
Issued in 1998, 3.00% Yen Bonds due 2008	10,000	10,000	83,195
Issued in 1999, 2.00% Yen Bonds due 2003	20,000	20,000	166,389
Issued in 1999, 2.00% Yen Bonds due 2003	30,000	30,000	249,584
Issued in 1999, 2.20% Yen Bonds due 2004	10,000	10,000	83,195
Issued in 1999, 1.93% Yen Bonds due 2004	10,000	10,000	83,195
Issued in 1999, 1.93% Yen Bonds due 2004	9,100	9,100	75,706
Issued in 1999, 2.13% Yen Bonds due 2004	10,000	10,000	83,195
Issued in 1999, 3.19% Yen Bonds due 2009	10,000	10,000	83,195
Issued in 2001, 1.00% Yen Bonds due 2005	20,000	20,000	166,389
Issued in 2001, 1.00% Yen Bonds due 2005	30,000	30,000	249,584
Issued in 2001, 0.84% Yen Bonds due 2005	10,000	10,000	83,195
Issued in 2001, 1.02% Yen Bonds due 2006	10,000	10,000	83,195
Issued in 2002, 0.84% Yen Bonds due 2005	10,000	—	83,195
Issued in 2003, 0.84% Yen Bonds due 2006	10,000	—	83,195
Issued in and after 1998,			
Medium-Term Notes etc., maturing through 2009	75,648	126,911	629,350
Others	54,435	60,308	452,870
	2,163,747	2,350,423	18,001,223
Less current installments	525,831	486,794	4,374,634
	¥1,637,916	1,863,629	$13,626,589

Certain agreements with Japan Bank for International Cooperation require that the Company, upon request of the lender, apply all or a portion of its operating income or the proceeds from the sale of any debentures or common stock to the reduction of outstanding loans when the lender 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 debts hedged by such swap agreements were ¥1,108,184 million ($9,219,501 thousand) and ¥1,598,260 million at March 31, 2003 and 2002, respectively.

Reference is made to note 8 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, 2003 are as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. dollars
2004	¥ 525,831	$ 4,374,634
2005	356,052	2,962,163
2006	481,433	4,005,266
2007	329,816	2,743,894
2008	189,966	1,580,416
2009 and thereafter	280,649	2,334,850
	¥2,163,747	$18,001,223

11. 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, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Change in benefit obligations:			
Projected benefit obligations at beginning of year	¥327,480	272,335	$2,724,459
Service cost	10,967	10,868	91,240
Interest cost	7,830	8,996	65,141
Plan participants' contributions	1,644	1,457	13,677
Actuarial loss	(2,414)	46,423	(20,083)
Benefits paid	(8,792)	(10,615)	(73,145)
Foreign currency translation adjustments	140	333	1,165
Other	(609)	(2,317)	(5,066)
Projected benefit obligation at end of year	336,246	327,480	2,797,388
Change in plan assets:			
Fair value of plan assets at beginning of year	313,237	217,996	2,605,965
Actual return on plan assets	(85,677)	(24,857)	(712,787)
Employer contributions	88,195	130,168	733,736
Plan participants' contributions	1,644	1,457	13,677
Benefits paid	(8,792)	(10,615)	(73,145)
Foreign currency translation adjustments	(68)	285	(566)
Other	(437)	(1,197)	(3,635)
Fair value of plan assets at end of year	308,102	313,237	2,563,245
Projected benefit obligations in excess of plan assets	28,144	14,243	234,143
Unrecognized actuarial loss	(262,264)	(184,774)	(2,181,897)
Unrecognized prior service cost arising from changes in pension plans	27,416	30,157	228,087
Net amount recognized	(206,704)	(140,374)	(1,719,667)
Adjustments to recognize minimum pension liability:			
Accumulated other comprehensive loss, gross of tax	3,355	1,619	27,912
Net amount recognized in the consolidated balance sheets	(203,349)	(138,755)	(1,691,755)
Prepaid pension cost	(225,732)	(157,121)	(1,877,970)
Accrued retirement and severance benefits recognized in the consolidated balance sheets	22,383	18,366	186,215
Actuarial present value of accumulated benefit obligations at end of year	¥325,198	320,901	$2,705,474
Actuarial assumptions:			
Discount rate	2.40%	2.40%	
Expected long-term rate of return on plan assets	3.50%	3.50%	

Employer contributions for the years ended March 31, 2003 and 2002 included contribution of equity securities to an employee pension trust. The fair value of those securities at the time of contribution was ¥54,761 million ($455,582 thousand) and ¥85,016 million for the years ended March 31, 2003 and 2002, respectively.

The net cost of retirement and severance benefits for the years ended March 31, 2003, 2002 and 2001 consisted of the following:

	Millions of Yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Service cost-benefits earned during the year	¥10,967	10,868	9,281	$ 91,240
Interest cost on projected benefit obligation	7,830	8,996	8,502	65,141
Expected return on plan assets	(7,006)	(6,576)	(6,601)	(58,286)
Net amortization	10,929	6,104	1,196	90,923
Net periodic pension cost	¥22,720	19,392	12,378	$189,018

12. Foreign Exchange Gains and Losses

Net foreign exchange losses of ¥5,164 million ($42,962 thousand), gains of ¥10,108 million and ¥11,967 million for the years ended March 31, 2003, 2002 and 2001, respectively, were included in the accompanying consolidated statements of income.

13. Income Taxes

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

In accordance with a change in the tax regulations in fiscal 2003, the normal tax rate decreases to 41% in aggregate with effect for the fiscal year ended March 31, 2005.

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

The Company adopted a consolidated taxation system in fiscal 2003.

A reconciliation of the Japanese normal tax rate and the effective tax rate as a percentage of income before income taxes, minority interests and equity in earnings (losses) was as follows:

	2003	2002	2001
Japanese normal income tax rate	42.0%	42.0%	42.0%
Expenses not deductible for tax purposes	2.8	2.6	2.2
Difference of tax rates for foreign subsidiaries	(3.0)	(3.0)	(1.5)
Tax benefits not recognized on operating losses of subsidiaries	(3.6)	1.5	1.6
Tax on dividends	20.5	10.0	5.7
Effect on deferred tax assets and deferred tax liabilities from a change in the tax regulations	3.8	—	—
Deduction for foreign taxes	5.3	6.7	2.4
Other	11.4	1.9	4.8
	79.2%	61.7%	57.2%

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at March 31, 2003 and 2002 were presented below:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Inventories, property and equipment	¥ 48,193	54,623	$ 400,940
Allowance for doubtful accounts	63,252	73,329	526,223
Net operating loss carryforwards	55,414	48,781	461,015
Accrued retirement and severance benefits	5,366	3,875	44,642
Marketable securities and other investments	43,676	38,700	363,361
Other	36,578	17,929	304,310
Total gross deferred tax assets	252,479	237,237	2,100,491
Less valuation allowance	(59,962)	(51,919)	(498,852)
Net deferred tax assets	192,517	185,318	1,601,639
Deferred tax liabilities			
Installment sales	(853)	(1,223)	(7,097)
Accrued retirement and severance benefits	(56,198)	(51,320)	(467,537)
Marketable securities and other investments	(892)	(14,936)	(7,421)
Other	(23,854)	(8,372)	(198,453)
Total gross deferred tax liabilities	(81,797)	(75,851)	(680,508)
Net deferred tax assets	¥110,720	109,467	$ 921,131

The net changes in the total valuation allowance for the years ended March 31, 2003, 2002 and 2001 were an increase of ¥8,043 million ($66,913 thousand), and decreases of ¥3,104 million, ¥19,998 million, respectively.

Net operating loss carryforwards are available to reduce future income taxes. A certain portion of the net operating losses will expire by 2008 and the remainder may be utilized indefinitely.

Income taxes have not been accrued on a part of undistributed earnings of foreign affiliated companies in the amount of ¥27,627 million ($229,842 thousand), ¥35,163 million and ¥36,005 million at March 31, 2003, 2002 and 2001, respectively, because the undistributed earnings are considered to be permanently invested.

14. Net Income Per Ten Shares

The reconciliation of the numerators and denominators of the basic and diluted net income per ten shares computations for the years ended March 31, 2003, 2002 and 2001 was as follows:

	Millions of Yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Numerator:				
Net income available to common stockholders	¥20,078	30,191	70,507	$167,038
Diluted net income	¥20,078	30,191	70,507	$167,038

	Number of Shares		
	2003	2002	2001
Denominator:			
Weighted-average number of common shares outstanding	1,529,761,706	1,425,424,059	1,425,392,632
Effect of dilutive securities:			
0.00% Yen Convertible Bonds due 2001	—	—	110,245,252
Diluted common shares outstanding	1,529,761,706	1,425,424,059	1,535,637,884

	Yen			U.S. dollars
	2003	2002	2001	2003
Net income per ten shares:				
Basic	¥131	212	495	$1.09
Diluted	¥131	212	459	$1.09

15. Segment Information

The Company and its subsidiaries are engaged in a wide range of diversified businesses which include: 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.

The Company and its subsidiaries have introduced a 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 the years ended March 31, 2003, 2002 and 2001 was as follows:

	Millions of Yen								
	2003								
	Textile	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics	Other, Adjustments & Eliminations	Consolidated
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	¥874,103	1,746,751	810,133	2,217,512	1,808,540	2,522,792	270,657	211,132	10,461,620
Gross trading profit	¥ 93,471	48,576	102,538	32,958	87,061	130,114	33,841	37,478	566,037
Net income (loss)	¥ 10,428	2,363	14,263	10,003	10,682	11,859	(8,403)	(31,117)	20,078
Identifiable assets at March 31	¥370,802	490,076	484,255	391,551	524,644	654,377	692,656	878,044	4,486,405

	Millions of Yen									
	2002									
		Textile	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics	Other, Adjustments & Eliminations	Consolidated
Trading transactions:										
Unaffiliated customers and associated companies	¥	880,105	1,937,312	960,270	2,740,037	1,735,813	2,445,209	455,292	246,433	11,400,471
Transfers between operating segments ..		2,584	268	3,181	1,374	17,942	149	2,313	(27,811)	—
Total trading transactions	¥	882,689	1,937,580	963,451	2,741,411	1,753,755	2,445,358	457,605	218,622	11,400,471
Gross trading profit	¥	83,540	50,208	112,578	52,668	80,654	126,861	34,383	37,975	578,867
Net income (loss)	¥	8,308	1,298	36,321	9,522	(212)	9,608	(9,811)	(24,843)	30,191
Identifiable assets at March 31	¥	384,147	588,062	526,177	401,628	532,734	665,071	773,374	881,126	4,752,319

	Millions of Yen									
	2001									
		Textile	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics	Other, Adjustments & Eliminations	Consolidated
Trading transactions:										
Unaffiliated customers and associated companies	¥	944,021	2,149,468	890,144	3,106,731	1,841,806	2,404,702	630,215	168,174	12,135,261
Transfers between operating segments ..		1,856	1,690	4,067	2,015	2,887	278	4,339	(17,132)	—
Total trading transactions	¥	945,877	2,151,158	894,211	3,108,746	1,844,693	2,404,980	634,554	151,042	12,135,261
Gross trading profit	¥	81,335	55,619	110,480	67,592	82,412	127,419	22,828	63,915	611,600
Net income (loss)	¥	7,224	(9,954)	90,662	6,865	2,377	8,191	(40,947)	6,089	70,507
Identifiable assets at March 31	¥	383,156	648,993	518,606	702,256	573,594	696,824	827,095	806,995	5,157,519

	Thousands of U.S. dollars								
	2003								
	Textile	Plant, Automobile & Industrial Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies	$7,251,913	14,530,641	6,731,697	18,437,571	14,973,694	20,986,223	2,241,614	1,881,755	87,035,108
Transfers between operating segments ..	20,159	1,397	8,178	10,948	72,396	2,063	10,108	(125,249)	—
Total trading transactions	$7,272,072	14,532,038	6,739,875	18,448,519	15,046,090	20,988,286	2,251,722	1,756,506	87,035,108
Gross trading profit	$ 777,629	404,127	853,061	274,193	724,301	1,082,479	281,539	311,797	4,709,126
Net income (loss)	$ 86,755	19,659	118,660	83,220	88,868	98,661	(69,908)	(258,877)	167,038
Identifiable assets at March 31	$3,084,875	4,077,171	4,028,744	3,257,496	4,364,759	5,444,068	5,762,529	7,304,859	37,324,501

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

Information concerning operations in different geographical areas for the years ended March 31, 2003, 2002 and 2001 was as follows:

	Millions of Yen						
	2003						
	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	¥9,269,780	686,775	194,485	2,334,166	605,146	(2,628,732)	10,461,620
Identifiable assets at March 31	¥3,884,166	372,447	174,403	202,014	233,304	(379,929)	4,486,405

	Millions of Yen						
	2002						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers and associated companies	¥ 9,077,174	616,618	176,949	1,331,048	198,682	—	11,400,471
Transfers between geographical areas	961,602	225,282	47,701	816,777	465,711	(2,517,073)	—
Total trading transactions	¥10,038,776	841,900	224,650	2,147,825	664,393	(2,517,073)	11,400,471
Identifiable assets at March 31	¥ 3,990,540	431,938	196,171	207,049	286,810	(360,189)	4,752,319

	Millions of Yen						
	2001						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers and associated companies	¥ 9,813,896	672,568	212,197	1,259,163	177,437	—	12,135,261
Transfers between geographical areas	1,088,782	260,441	52,106	980,711	503,896	(2,885,936)	—
Total trading transactions	¥10,902,678	933,009	264,303	2,239,874	681,333	(2,885,936)	12,135,261
Identifiable assets at March 31	¥ 4,313,819	459,601	213,885	266,058	286,317	(382,161)	5,157,519

	Thousands of U.S. dollars						
	2003						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers and associated companies	$68,575,508	4,031,206	1,327,654	11,335,707	1,765,033	—	87,035,108
Transfers between geographical areas	8,544,126	1,682,396	290,358	8,083,311	3,269,460	(21,869,651)	—
Total trading transactions	$77,119,634	5,713,602	1,618,012	19,419,018	5,034,493	(21,869,651)	87,035,108
Identifiable assets at March 31	$32,314,193	3,098,561	1,450,940	1,680,649	1,940,965	(3,160,807)	37,324,501

Note: The amounts of unallocated common assets included in the "Eliminations or Unallocated" column were ¥73,112 million ($608,253 thousand), ¥82,131 million and ¥83,693 million for the years ended March 31, 2003, 2002 and 2001, respectively.

There have been no trading transactions with a single major external customer for the years ended March 31, 2003, 2002 and 2001.

16. Common Stock

The Company issued new shares by public offering on July 25, 2002. During the years ended March 31, 2003, the Company issued 158,000,000 shares of common stock. In accordance with the provisions of the Japanese Commercial Code, one-half of the conversion proceeds have been allocated to the common stock account and the remainder to the capital surplus account.

17. Capital Surplus and Retained Earnings

The Japanese Commercial Code required 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 equaled 25% of common stock. The Japanese Commercial Code, amended effective on October 1, 2001, requires that an amount equal to at least 10% of appropriations paid in cash be appropriated to a legal reserve until an aggregated amount of capital surplus and the legal reserve equals 25% of common stock.

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 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 available for dividends amounted to ¥17,875 million ($ 148,710 thousand) at March 31, 2003.

During the year ended March 31, 2001, as permitted by the Japanese Commercial Code, the Company's stockholders approved the elimination of an accumulated deficit of ¥109,799 million ($913,469 thousand) by charging it to capital surplus. Had the Company followed the accounting used by United States companies for similar transactions, capital surplus at March 31, 2003, 2002 and 2001 would be ¥109,799 million ($913,469 thousand) more than the amount included in the accompanying consolidated balance sheets, and retained earnings at March 31, 2003, 2002, and 2001 would be ¥109,799 million ($913,469 thousand) less than the amount included in the accompanying consolidated balance sheets.

18. Other Comprehensive Income (Loss)

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

	Millions of Yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Foreign currency translation adjustments:				
Balance at beginning of year	¥(30,646)	(65,972)	(94,539)	$(254,959)
Change for the year	(20,563)	35,326	28,567	(171,073)
Balance at end of year	(51,209)	(30,646)	(65,972)	(426,032)
Minimum pension liability adjustments:				
Balance at beginning of year	(739)	(37,668)	(11,010)	(6,147)
Change for the year	(689)	36,929	(26,658)	(5,732)
Balance at end of year	(1,428)	(739)	(37,668)	(11,879)
Unrealized gains (losses) on securities:				
Balance at beginning of year	17,446	22,105	58,962	145,141
Change for the year	(17,827)	(4,659)	(36,857)	(148,311)
Balance at end of year	(381)	17,446	22,105	(3,170)
Unrealized gains (losses) on derivative instruments:				
Balance at beginning of year	(6,325)	—	—	(52,621)
Change for the year	935	(6,325)	—	7,779
Balance at end of year	(5,390)	(6,325)	—	(44,842)
Accumulated other comprehensive income (loss):				
Balance at beginning of year	(20,264)	(81,535)	(46,587)	(168,586)
Change for the year	(38,144)	61,271	(34,948)	(317,337)
Balance at end of year	¥(58,408)	(20,264)	(81,535)	$(485,923)

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments were as follows:

	Millions of Yen		
	2003		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥(19,931)	(224)	(20,155)
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	(408)	—	(408)
Net change in foreign currency translation adjustments during the year	(20,339)	(224)	(20,563)
Minimum pension liability adjustments	(1,474)	785	(689)
Unrealized gains (losses) on securities:			
Amount arising during the year on available-for-sale securities	(36,825)	15,220	(21,605)
Reclassification adjustments for gains and losses realized in net income	6,411	(2,633)	3,778
Net change in unrealized gains (losses) on securities during the year	(30,414)	12,587	(17,827)
Unrealized gains (losses) on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(3,060)	1,189	(1,871)
Reclassification adjustments for gains and losses realized in net income	4,838	(2,032)	2,806
Net change in unrealized gains (losses) on derivative instruments during the year	1,778	(843)	935
Other comprehensive income (loss)	¥(50,449)	12,305	(38,144)

	Millions of Yen		
	2002		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥34,574	139	34,713
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	613	—	613
Net change in foreign currency translation adjustments during the year	35,187	139	35,326
Minimum pension liability adjustments	71,638	(34,709)	36,929
Unrealized gains (losses) on securities:			
Amount arising during the year on available-for-sale securities	(7,512)	1,911	(5,601)
Reclassification adjustments for gains and losses realized in net income	1,928	(986)	942
Net change in unrealized gains (losses) on securities during the year	(5,584)	925	(4,659)
Unrealized gains (losses) on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(14,278)	5,905	(8,373)
Reclassification adjustments for gains and losses realized in net income	3,531	(1,483)	2,048
Net change in unrealized gains (losses) on derivative instruments during the year	(10,747)	4,422	(6,325)
Other comprehensive income (loss)	¥90,494	(29,223)	61,271

	Millions of Yen		
	2001		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥ 21,066	190	21,256
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	7,021	290	7,311
Net change in foreign currency translation adjustments during the year	28,087	480	28,567
Minimum pension liability adjustments	(45,962)	19,304	(26,658)
Unrealized gains (losses) on securities:			
Amount arising during the year on available-for-sale securities	(74,736)	30,226	(44,510)
Reclassification adjustments for gains and losses realized in net income	11,861	(4,208)	7,653
Net change in unrealized gains (losses) on securities during the year	(62,875)	26,018	(36,857)
Other comprehensive income (loss)	¥(80,750)	45,802	(34,948)

	Thousands of U.S. dollars		
	2003		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	$(165,815)	(1,864)	(167,679)
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	(3,394)	—	(3,394)
Net change in foreign currency translation adjustments during the year	(169,209)	(1,864)	(171,073)
Minimum pension liability adjustments	(12,263)	6,531	(5,732)
Unrealized gains (losses) on securities:			
Amount arising during the year on available-for-sale securities	(306,364)	126,622	(179,742)
Reclassification adjustments for gains and losses realized in net income	53,336	(21,905)	31,431
Net change in unrealized gains (losses) on securities during the year	(253,028)	104,717	(148,311)
Unrealized gains (losses) on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(25,458)	9,892	(15,566)
Reclassification adjustments for gains and losses realized in net income	40,250	(16,905)	23,345
Net change in unrealized gains (losses) on derivative instruments during the year	14,792	(7,013)	7,779
Other comprehensive income (loss)	$(419,708)	102,371	(317,337)

19. Financial Instruments

The Company and its subsidiaries have various financial instruments, which are exposed to credit-related losses in the event of non-performance by counterparties.

The companies utilize numerous counterparties to ensure that there are no significant concentrations of credit risk with any individual counterparty or groups of counterparties.

Fair Values of Financial Instruments

The estimated fair values of financial instruments as of March 31, 2003 and 2002 were as follows:

	Millions of Yen				Thousands of U.S. dollars	
	2003		2002		2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:						
Marketable securities	¥ 40,879	40,879	51,165	51,092	$ 340,092	340,092
Other investments	289,557	289,557	376,508	376,508	2,408,960	2,408,960
Other non-current receivables and advances to associated companies	313,826	315,247	404,512	405,735	2,610,865	2,622,687
Liabilities:						
Long-term debt	¥2,163,747	2,165,274	2,350,423	2,352,642	$18,001,223	18,013,927

Cash and Cash Equivalents, Time Deposits, Trade Receivables (payables), Due from (to) Associated Companies, Short-term Debt and Accrued Expenses:

The carrying amounts as of March 31, 2003 and 2002 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 non-marketable investment securities and others approximated fair values.

Other Non-current Receivables and Advances to Associated Companies:

The fair values of other non-current receivables and advances to associated companies are based on the present value of future cash flows discounted using the current rates at which similar loans or receivables would be made to borrowers or customers with similar credit ratings and for comparable maturities.

Long-term Debt:

The fair values of long-term debt are based on the present value of future cash flows discounted using the current borrowing rates of similar debt instruments having comparable maturities.

Fair Values of Derivative Financial Instruments

The estimated fair values of derivative financial instruments as of March 31, 2003 and 2002 were as follows:

	Millions of Yen				Thousands of U.S. dollars	
	2003		2002		2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets for derivative financial instruments:						
Foreign exchange contracts (inclusive of currency swap agreements) ...	¥ 3,776	3,776	7,722	7,722	$ 31,414	31,414
Interest rate swap agreements ...	19,749	19,749	26,141	26,141	164,301	164,301
Interest rate option agreements ...	335	335	223	223	2,787	2,787
Liabilities for derivative financial instruments:						
Foreign exchange contracts (inclusive of currency swap agreements) ...	¥ 480	480	2,355	2,355	$ 3,993	3,993

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

Foreign Exchange Contracts (Inclusive of Currency Swap Agreements):

The fair values of foreign exchange contracts are estimated based on the quoted market prices of comparable contracts.

Interest Rate Swap Agreements:

The fair values of interest rate swap agreements are estimated using discounted cash flow analyses, based on the current swap rates for interest rate swap agreements with similar terms and remaining periods.

Interest Rate Option Agreements:

The fair values of interest rate option agreements are estimated using option pricing model.

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.

Derivative Instruments and Hedging Activities

Overall Risk Profile

The Company and certain subsidiaries operate internationally and are exposed to market risks such as from changes in foreign exchange rates, interest rates and commodity prices.

The Company and certain subsidiaries utilize certain derivative instruments principally in order to reduce these market risks.

The Company and certain subsidiaries are exposed to foreign exchange rate risk resulting from transactions internationally and enter into derivative financial instruments, such as foreign exchange contracts (inclusive of currency swap agreements), primarily to hedge foreign exchange rate risk.

The Company and certain subsidiaries are exposed to interest rate risk resulting from holding a variety of interest rate-sensitive assets and liabilities and enter into derivative financial instruments, such as interest rate swap agreements, primarily to hedge interest rate risk.

The Company and certain subsidiaries are exposed to commodity price risk and enter into derivative instruments, such as commodity price contracts, (commodity future and forward contracts), primarily to hedge commodity price risk.

The Company and its subsidiaries have various derivative instruments, which are exposed to credit-related losses in the event of non-performance by counterparties. Numerous counterparties are utilized to ensure that there is no significant concentration of credit risk with any individual counterparty or groups of counterparties. Derivative instruments are entered into with limited major counterparties to minimize credit risk exposure. The policies of the Company and its subsidiaries prescribe monitoring of creditworthiness and exposure on a counterparty-by-counterparty basis.

Foreign Exchange Rate Risk Management

The Company and certain subsidiaries have assets and liabilities which are exposed to foreign exchange rate risk and, as a result, they enter into foreign exchange contracts (inclusive of currency swap agreements) for the purpose of hedging these risks.

Foreign exchange contracts are used principally to manage foreign exchange exposure between U.S. dollar and Japanese yen.

These contracts are primarily used to fix future net cash flows from recognized receivables and payables and unrecognized firm commitments denominated in foreign currencies.

The Company and its subsidiaries measure the volume and due date of future net cash flows by currency.

In accordance with their policy, a certain portion of measured net cash flows is covered by using foreign exchange contracts (inclusive of currency swap agreements).

Most hedging relationships between the derivative financial instruments and hedged items are highly effective in off-setting changes in foreign exchange rates.

Interest Rate Risk Management

The Company and certain subsidiaries' exposure to interest rate risk is related principally to debt obligations.

These debt obligations expose the Company and certain subsidiaries to variability in future cash outflows of interest payments or to fluctuations in fair value due to changes in interest rates.

The Company and certain subsidiaries principally enter into interest rate swap agreements to manage fluctuations in cash flows or in fair values resulting from changes in interest rates.

Interest rate swaps are used to change floating rates on debt obligations to fixed rates by entering into receive-floating, pay-fixed interest rate swaps under which the Company and certain subsidiaries receive floating interest rate proceeds and make fixed interest rate payments, thereby creating fixed-rate debt.

On the other hand, interest rate swaps are used to change fixed rates on debt obligations to floating rates by entering into receive-fixed, pay-floating interest rate swaps under which the Company and certain subsidiaries receive fixed interest rate proceeds and make floating interest rate payments, thereby creating floating-rate debt.

Most hedging relationships between the derivative financial instruments and hedged items are highly effective in off-setting changes in cash flows or in fair values resulting from interest rate risk.

Commodity Price Risk Management

The Company and certain subsidiaries enter into derivative instruments for commodities, such as crude oil and grain, principally to hedge fluctuation in cash flows or in fair values due to changes in commodity prices.

Derivative instruments for commodities do not have a material effect on the financial statements.

Most hedging relationships between the derivative instruments and hedged items are highly effective in off-setting changes in cash flows or in fair values resulting from commodity price risk.

Risk Management Policy

The Company and its subsidiaries assess foreign exchange rate risk, interest rate risk and commodity price risk by continually monitoring changes in exposure and by evaluating hedging opportunities.

The Company and its subsidiaries manage to limit the level of exposure to derivative instruments based on the purpose of holding derivative instruments.

The risk management policy of the Company and its subsidiaries states that derivative instruments for the most part are held for hedging purposes.

The Company and its subsidiaries meet the documentation requirements as prescribed by SFAS133 and SFAS138, which includes their risk-management objective and strategy for undertaking various hedge transactions.

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

Fair Value Hedge

Changes in the fair value of both recognized assets and liabilities and unrecognized firm commitments and derivative instruments that are designated and qualify as fair value hedges of these assets and liabilities and firm commitments are recognized in earnings.

The sum of the amount of the hedge ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2003 and 2002.

Cash Flow Hedge

Changes in the fair value of derivative instruments that are designated and qualify as cash flow hedges of unrecognized forecast transactions and recognized assets and liabilities are reported in accumulated other comprehensive income (loss) (referred to as AOCI).

These amounts are reclassified into earnings in the same period as hedged items affect earnings.

The sum of the amount of the hedge ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2003 and 2002. ¥2,806 million ($ 23,344 thousand) and ¥2,048 million of net losses were reclassified from AOCI into earnings during the years ended March 31, 2003 and 2002, respectively, as net gains or losses relating to the hedged items affected earnings. ¥2,286 million ($19,018 thousand) of net losses in AOCI at March 31, 2003 are expected to be reclassified to earnings within the next 12 months.

As of March 31, 2003, the maximum length of time over which the Company and its subsidiaries are hedging their exposure to variability in future cash flows is approximately 54 months.

Held or issued derivative instruments for trading purposes were insignificant.

The contract or notional amounts of derivative financial instruments held as of March 31, 2003 and 2002 were summarized as follows:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Foreign exchange contracts (inclusive of currency swap agreements)			
To sell foreign currencies	¥ 100,915	105,439	$ 839,559
To buy foreign currencies	228,733	263,723	1,902,937
Interest rate swap agreements	1,778,326	1,882,335	14,794,725
Interest rate option agreements	109,194	110,842	908,436

20. Issuance of Stock by Subsidiaries or Associated Companies

CENTURY21 REAL ESTATE OF JAPAN LTD., a consolidated subsidiary, issued 500 shares of common stock in a public offering to third parties on November 21, 2001, the date of its listing on the JASDAQ market. The offering price per share was ¥564,000, which was in excess of the Company's carrying value per share of the subsidiary stock.

This issuance decreased the Company's ownership of the subsidiary from 69.6% to 61.9%. The issuance of these shares for ¥282 million was regarded as a sale of a part of the Company's interest in the subsidiary and the Company recognized a gain of ¥102 million for the year ended March 31, 2002, which is included in the profit (loss) on disposal of investments and marketable securities, net of write-downs account.

SPACE SHOWER NETWORKS INC., a consolidated subsidiary, issued 2,000 shares of common stock in a public offering to third parties on April 18, 2001, the date of its listing on the JASDAQ market. The offering price per share was ¥376,000, which was in excess of the Company's carrying value per share of the subsidiary stock.

This issuance decreased the Company's ownership of the subsidiary from 70.6% to 64.8%. The issuance of these shares for ¥752 million was regarded as a sale of a part of the Company's interest in the subsidiary and the Company recognized a gain of ¥383 million for the year ended March 31, 2002, which is included in the profit (loss) on disposal of investments and marketable securities, net of write-downs account.

In addition, the company issued 2,466 shares of common stock in connection with the allocation of new shares to third parties and 200 shares of common stock in connection with business acquisition on January 16, 2002. The offering price per share was ¥288,348, which was in excess of the Company's carrying value per share of the subsidiary stock.

This issuance decreased the Company's ownership of the subsidiary from 59.9% to 53.7%. The issuance of these shares for ¥769 million was regarded as a sale of a part of the Company's interest in the subsidiary and the Company recognized a gain of ¥270 million for the year ended March 31, 2002, which is included in the profit (loss) on disposal of investments and marketable securities, net of write-downs account.

ITOCHU SHOKUHIN Co., Ltd., a consolidated subsidiary, issued 1,200,000 shares of common stock in a public offering to third parties on March 13, 2001, the date of its listing on the first section of the Tokyo Stock Exchange. The offering price per share was ¥4,324, which was in excess of the Company's carrying value per share of the subsidiary stock.

This issuance decreased the Company's ownership of the subsidiary from 60.1% to 54.6%. The issuance of these shares for ¥5,189 million was regarded as a sale of a part of the Company's interest in the subsidiary and the Company recognized a gain of ¥1,153 million for the year ended March 31, 2001, which is included in the profit (loss) on disposal of investments and marketable securities, net of write-downs account.

Japan Foods Co., Ltd., which had been a consolidated subsidiary, issued 600,000 shares of common stock in a public offering to third parties on August 10, 2000, the date of its listing on the JASDAQ market. The offering price per share was ¥752, which was in excess of the Company's carrying value per share of the subsidiary stock.

This issuance decreased the Company's ownership of the subsidiary from 87.5% to 77.2%. The issuance of these shares for ¥451 million was regarded as a sale of a part of the Company's interest in the subsidiary and the Company recognized a gain of ¥163 million for the year ended March 31, 2001, which is included in the profit (loss) on disposal of investments and marketable securities, net of write-downs account.

JSAT Corporation, which had been an associated company, issued 45,000 shares of common stock in a public offering to third parties on August 4, 2000, the date of its listing on the first section of the Tokyo Stock Exchange. The offering price per share was ¥665,000, which was in excess of the Company's carrying value per share of the associated company's stock.

This issuance decreased the Company's ownership of the associated company from 23.2% to 20.5%. The issuance of these shares for ¥29,925 million was regarded as a sale of a part of the Company's interest in the associated company and the Company recognized a gain of ¥4,606 million for the year ended March 31, 2001, which is included in the profit (loss) on disposal of investments and marketable securities, net of write-downs account.

21. Reclassification

Certain account classifications were changed in 2003, therefore the 2002 and 2001 financial statements were reclassified to conform to the 2003 presentation.

22. Contingent Liabilities

As addressed in Note 2 “Summary of Significant Accounting Policies”, in November 2002, the FASB issued FASB Interpretation No.45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (FIN 45). FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the guarantee on the guarantor’s balance sheets. The Company and its subsidiaries adopted the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002.

The Company and its subsidiaries issue various guarantees for indebtedness of subsidiaries, associated companies and customers. The maximum potential amount of future payments and the amount of substantial risk at March 31, 2003 and 2002 were summarized below.

The amount of substantial risk at March 31, 2003 and 2002 represents the actual amount of liability incurred by the guaranteed parties within the pre-determined guaranteed limit established under the guarantee contracts. The amounts that can be recovered from third parties have been excluded in determining the amount of substantial risk.

	Millions of Yen		
	2003		
	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for subsidiaries:			
Maximum potential amount of future payments	¥525,967	113,902	639,869
Amount of substantial risk	359,384	74,285	433,669
Guarantees for associated companies:			
Maximum potential amount of future payments	196,074	147,469	343,543
Amount of substantial risk	116,580	10,041	126,621
Guarantees for customers:			
Maximum potential amount of future payments	200,180	6,067	206,247
Amount of substantial risk	110,834	5,350	116,184
Total:			
Maximum potential amount of future payments	¥922,221	267,438	1,189,659
Amount of substantial risk	586,798	89,676	676,474

	Millions of Yen		
	2002		
	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for subsidiaries:			
Maximum potential amount of future payments	¥ 589,051	140,196	729,247
Amount of substantial risk	391,223	140,156	531,379
Guarantees for associated companies:			
Maximum potential amount of future payments	252,096	142,278	394,374
Amount of substantial risk	164,120	6,522	170,642
Guarantees for customers:			
Maximum potential amount of future payments	213,790	6,976	220,766
Amount of substantial risk	122,327	2,442	124,769
Total:			
Maximum potential amount of future payments	¥1,054,937	289,450	1,344,387
Amount of substantial risk	677,670	149,120	826,790

	Thousands of U.S. dollars		
	2003		
	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for subsidiaries:			
Maximum potential amount of future payments	$4,375,765	947,604	5,323,369
Amount of substantial risk	2,989,883	618,012	3,607,895
Guarantees for associated companies:			
Maximum potential amount of future payments	1,631,231	1,226,864	2,858,095
Amount of substantial risk	969,884	83,535	1,053,419
Guarantees for customers:			
Maximum potential amount of future payments	1,665,391	50,474	1,715,865
Amount of substantial risk	922,080	44,509	966,589
Total:			
Maximum potential amount of future payments	$7,672,387	2,224,942	9,897,329
Amount of substantial risk	4,881,847	746,056	5,627,903

The carrying amount of the liability recognized for guarantees was ¥1,469 million ($12,221 thousand) and ¥688 million at March 31, 2003 and 2002, respectively.

Other than the above guarantees, some guarantees are issued between the Company and its subsidiaries for the purpose of sharing the risks, of which the maximum potential amount of future payments was ¥38,893 million ($323,569 thousand) and ¥51,428 at March 31, 2003 and 2002, respectively.

The amounts that can be recovered from third parties have been included in determining maximum potential amount of future payments. The amounts recoverable were ¥138,990 million ($1,156,323 thousand) and ¥114,105 million at March 31, 2003 and 2002, respectively.

Guarantees with the longest term for indebtedness of subsidiaries, associated companies and customers issued by the Company and its subsidiaries will expire on December 31, 2037.

The major associated companies and customers guaranteed and substantial risk of the guarantees for monetary indebtedness at March 31, 2003 and 2002 were as follows:

	Millions of Yen	Thousands of U.S. dollars		Millions of Yen
	2003			2002
Marubeni-Itochu Steel Inc.	¥38,753	$322,404	Marubeni-Itochu Steel Inc.	¥70,700
Marubeni-Itochu Steel America Inc.	16,670	138,686	Marubeni-Itochu Steel America Inc.	22,585
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	12,022	100,017	Japan Brazil Paper and Pulp Resources Development Co., Ltd.	14,417
Tokyo Humania Enterprise Inc.	9,534	79,318	Tokyo Humania Enterprise Inc.	9,558
Quatro World Maritime S.A.	6,431	53,502	Quatro World Maritime S.A.	7,129
P.T. PANTJA MOTOR	6,000	49,917	Digital Telecommunications Phils.	7,099
Digital Telecommunications Phils.	5,829	48,494	STAR CHANNEL, INC.	6,000
Chemoil Corporation	4,793	39,875	P.T. PANTJA MOTOR	6,000
Bontang Train・G Project	4,643	38,627	Bontang Train・G Project	5,981
Kawasaki Kisen Kaisha, Ltd.	3,215	26,747	Tycoon Corporation	5,811

The Company and its subsidiaries were contingently liable relating to ¥4,538 million ($37,754 thousand) and ¥3,342 million of trade notes receivable endorsed to suppliers in the settlement of accounts payable and ¥54,750 million ($455,491 thousand) and ¥54,720 million of export bills of exchange discounted with banks in the ordinary course of business at March 31, 2003 and 2002, respectively.

In July 2001, Citibank, N.A. and Citibank Canada filed a lawsuit in the federal district court in New York City against ITOCHU International Inc. (the Company's U.S. subsidiary), with regards to sale of all the stock of Copelco Capital, Inc., an ultimate subsidiary of ITOCHU International Inc., to the plaintiffs in May 2000. Because of the early stage of the proceedings and the inherent uncertainty of litigation, it is not possible to predict the ultimate outcome.

23. Subsequent Events

The Company issued in Japan 0.79% Yen Bonds due 2008 in an aggregate principal amount of ¥15,000 million ($124,792 thousand) on April 30, 2003, 0.41% Yen Bonds due 2006 in an aggregate principal amount of ¥10,000 million ($83,195 thousand) on May 27, 2003, 0.87% Yen Bonds due 2010 in an aggregate principal amount of ¥10,000 million ($83,195 thousand) on May 27, 2003 and 0.47% Yen Bonds due 2007 in an aggregate principal amount of ¥10,000 million ($83,195 thousand) on June 23, 2003, in accordance with an approved resolution of the Board of Directors held on July 5, 2002.

Independent Auditors' Report

The Board of Directors
ITOCHU Corporation :

We have audited the accompanying consolidated balance sheets of ITOCHU Corporation and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2003, 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, 2003 and 2002 was ¥15,886 million ($132,163 thousand) and ¥16,828 million, respectively, and their equity in the earnings of such companies for each of the years in the three-year period ended March 31, 2003 was ¥1,694 million ($14,093 thousand), ¥2,946 million and ¥8,158 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

The consolidated financial statements as of and for the year ended March 31, 2003, 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 23, 2003
except for note 23, as to which the date is June 27, 2003

Stock Information

Transfer Agent of Common Stock:
The Chuo Mitsui Trust & Banking Co., Ltd.

Stock Listings:
Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

General Meeting of Stockholders:
June 27, 2003

Number of Common Stock Issued:
1,583,487,736

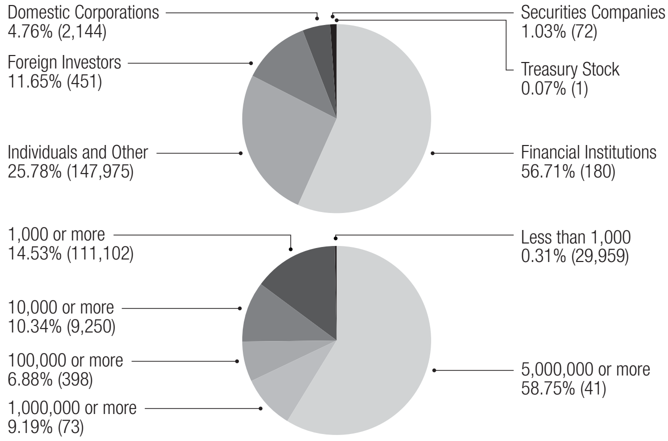
Number of Stockholders:
150,823

Breakdown of Stockholders:

% (Number of Stockholders)

Types of Stockholders

Number of Shares

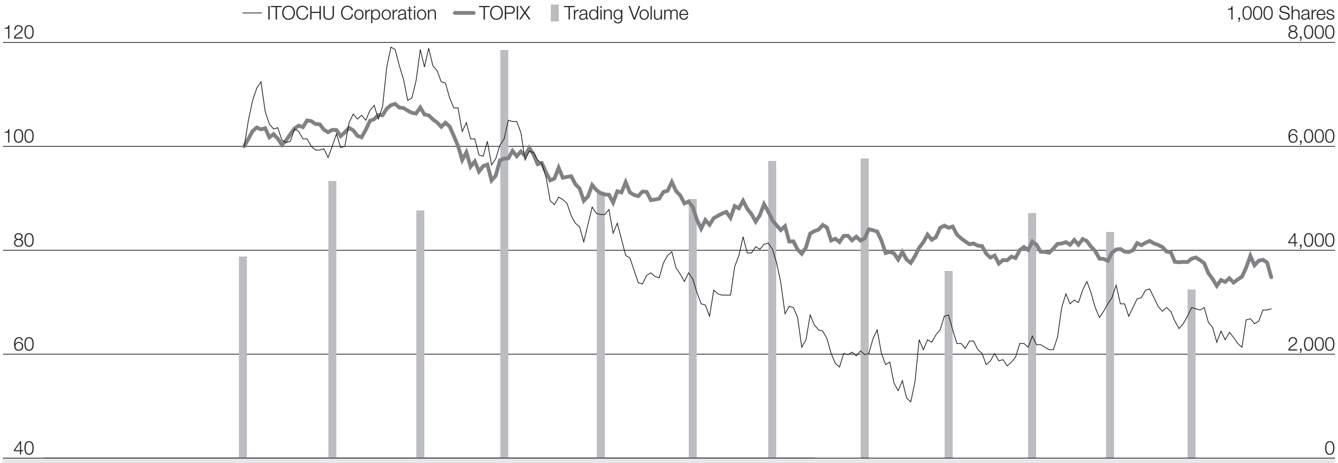


Major Stockholders

Stockholders	Number of shares held (1,000 shares)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd. (trust account)	120,046	7.58%
The Master Trust Bank of Japan, Ltd. (trust account)	80,685	5.10
Mizuho Corporate Bank, Ltd.	68,842	4.35
Mitsui Sumitomo Insurance Co., Ltd.	51,343	3.24
The Sumitomo Mitsui Banking Corporation	47,169	2.98
Nippon Life Insurance Company	42,022	2.65
NIPPONKOA Insurance Co, Ltd.	41,566	2.63
The Tokio Marine and Fire Insurance Co., Ltd.	39,797	2.51
Shinsei Bank, Limited	34,382	2.17
Asahi Mutual Life Insurance Company	29,024	1.83

Note1: Japan Trustee Services Bank, Ltd. was jointly established by The Sumitomo Trust & Banking Co., Ltd., Resona Bank, Limited and others to specialize in securities processing of entrusted assets centering on pension and investment trust.
Note2: The Master Trust Bank of Japan, Ltd. was jointly established by The Mitsubishi Trust and Banking Corp., Nippon Life Insurance Company, UFJ Trust Bank Limited, Meiji Life Insurance Company, and Deutsche Bank AG to specialize in securities processing of entrusted assets centering on pension and investment trust.

Stock Performance of ITOCHU Corporation and Average Trading Volume Per Day



	'02/4	5	6	7	8	9	10	11	12	'03/1	2	3
Opening Price	¥425	415	487	421	367	313	337	253	283	262	289	284
High	472	506	498	448	369	354	346	285	284	316	308	292
Low	408	413	396	341	305	276	236	198	237	249	272	251
Closing Price	410	472	420	365	317	341	254	282	257	292	282	288
Trading Volume/Day (Unit: thousands)	3,876	5,333	4,763	7,858	5,131	4,990	5,720	5,766	3,599	4,720	4,348	3,244

Share price on April 1, 2002 (¥419) = 100

(As of March 31, 2003)

Corporate Information

ITOCHU Corporation

Founded:
1858

Incorporated:
1949

Tokyo Head Office:
5-1, Kita-Aoyama 2-chome,
Minato-ku, Tokyo 107-8077, Japan
Telephone: 81 (3) 3497-2121
Facsimile: 81 (3) 3497-4141

Osaka Head Office:
1-3, Kyutaromachi 4-chome,
Chuo-ku, Osaka 541-8577, Japan
Telephone: 81 (6) 6241-2121

Homepage:
http: //www.itochu.co.jp

Offices:
Domestic / 19
Overseas / 138

Number of Employees:
4,355

Paid-in Capital:
¥202,241 million

(As of March 31, 2003)

Additional Copies of This Annual Report and Other Information May be Obtained by Contacting:

Investor Relations Department,
Corporate Communications Division,
ITOCHU Corporation
5-1, Kita-Aoyama 2-chome, Minato-ku,
Tokyo 107-8077, Japan
Telephone: 81 (3) 3497-7295
Facsimile: 81 (3) 3497-7296

Forward Looking Statements

Statements in this annual report with respect to ITOCHU's plans, strategies, forecasts and other statements that are not historical facts are forward-looking statements that are based on management's assumptions and beliefs based on information currently available and involve risks and uncertainties. Factors that could cause actual results to differ materially from such statements include, without limitation, global economic conditions, demand for and competitive pricing pressure on products and services, ITOCHU's ability to continue to win acceptance for its products and services in highly competitive markets, and currency exchange rate fluctuations.

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Revision of Annual Report 2003 (For The Year Ended March 31, 2003)

Please kindly be informed that several items in the Annual Report 2003 (For The Year Ended March 31, 2003) should be revised, which are shown as follows, with the underline "_____".

P.65 Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

(The preceding paragraph is omitted)

	Original			Revised		
	Billions of Yen		Millions of U.S. dollars	Billions of Yen		Millions of U.S. dollars
	2003	2002	2003	2003	2002	2003
Guarantees for subsidiaries:						
Maximum potential amount of future payments ..	¥639.9	729.2	$5,323	¥639.9	729.2	$5,323
Amount of substantial risk ………………………	433.7	531.4	3,608	433.7	531.4	3,608
Guarantees for associated companies:						
Maximum potential amount of future payments ..	¥343.5	394.4	$2,858	¥208.9	258.7	$1,738
Amount of substantial risk ………………………	126.6	170.6	1,053	126.6	170.6	1,053
Guarantees for customers:						
Maximum potential amount of future payments ..	¥206.2	220.8	$1,716	¥206.2	220.8	$1,716
Amount of substantial risk ………………………	116.2	124.8	967	116.2	124.8	967

(The following paragraphs and table are omitted)

P.76 Consolidated Statements of Cash Flows

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2003, 2002 and 2001

	Original				Revised			
	Millions of Yen			Thousands of U.S. dollars (Note 1)	Millions of Yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003	2003	2002	2001	2003
Supplemental disclosures of cash flow information								
Cash paid during the year for:								
Interest …………………………………………	¥49,915	74,748	122,792	$415,266	¥49,915	74,748	122,792	$415,266
Income taxes …………………………………	35,162	46,228	74,568	292,529	35,162	46,228	74,568	292,529
Information regarding non-cash investing and financing activities:								
Establishment of pension trust …………………	70,358	85,016	45,846	585,341	52,358	85,016	45,846	435,591
Non-monetary exchange of shares ……………	3,054	—	27,410	25,408	3,054	—	27,410	25,408
Shares acquired in a spin-off enterprise								
Assets contributed ……………………………	—	306,916	—	—	—	306,916	—	—
Liabilities contributed …………………………	—	276,491	—	—	—	276,491	—	—
Shares acquired ………………………………	—	30,425	—	—	—	30,425	—	—
Conversion of convertible bonds ………………	—	—	56	—	—	—	56	—

P.87 11. Retirement and Severance Benefits

(The Preceding paragraphs and table of "Changes in the benefit obligations and the fair value of the plan assets" are omitted)

Original	Revised
Employer contributions for the years ended March 31, 2003 and 2002 included contribution of equity securities to an employee pension trust. The fair value of those securities at the time of contribution was ¥54,761 million ($455,582 thousand) and ¥85,016 million for the years ended March 31, 2003 and 2002, respectively.	Employer contributions for the years ended March 31, 2003 and 2002 included contribution of equity securities to an employee pension trust. The fair value of those securities at the time of contribution was ¥52,358 million ($435,591 thousand) and ¥85,016 million for the years ended March 31, 2003 and 2002, respectively.

(The following paragraph and table are omitted)

P.99-P.100 22. Contingent Liabilities

(The preceding paragraphs are omitted)

	Original			Revised		
	Millions of Yen			Millions of Yen		
	2003			2003		
	Guarantees for Monetary indebtedness	Other Guarantees	Total	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for subsidiaries:						
Maximum potential amount of future payments ……	¥525,967	113,902	639,869	¥525,967	113,902	639,869
Amount of substantial risk …………………………	359,384	74,285	433,669	359,384	74,285	433,669
Guarantees for associated companies:						
Maximum potential amount of future payments ……	196,074	147,469	343,543	196,074	12,829	208,903
Amount of substantial risk …………………………	116,580	10,041	126,621	116,580	10,041	126,621
Guarantees for customers:						
Maximum potential amount of future payments ……	200,180	6,067	206,247	200,180	6,067	206,247
Amount of substantial risk …………………………	110,834	5,350	116,184	110,834	5,350	116,184
Total:						
Maximum potential amount of future payments ……	¥922,221	267,438	1,189,659	¥922,221	132,798	1,055,019
Amount of substantial risk …………………………	586,798	89,676	676,474	586,798	89,676	676,474

	Original			Revised		
	Millions of Yen			Millions of Yen		
	2002			2002		
	Guarantees for Monetary indebtedness	Other Guarantees	Total	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for subsidiaries:						
Maximum potential amount of future payments ……	¥ 589,051	140,196	729,247	¥ 589,051	140,196	729,247
Amount of substantial risk …………………………	391,223	140,156	531,379	391,223	140,156	531,379
Guarantees for associated companies:						
Maximum potential amount of future payments ……	252,096	142,278	394,374	252,096	6,648	258,744
Amount of substantial risk …………………………	164,120	6,522	170,642	164,120	6,522	170,642
Guarantees for customers:						
Maximum potential amount of future payments ……	213,790	6,976	220,766	213,790	6,976	220,766
Amount of substantial risk …………………………	122,327	2,442	124,769	122,327	2,442	124,769
Total:						
Maximum potential amount of future payments ……	¥1,054,937	289,450	1,344,387	¥1,054,937	153,820	1,208,757
Amount of substantial risk …………………………	677,670	149,120	826,790	677,670	149,120	826,790

	Original			Revised		
	Thousands of U.S. dollars			Thousands of U.S. dollars		
	2003			2003		
	Guarantees for Monetary indebtedness	Other Guarantees	Total	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for subsidiaries:						
Maximum potential amount of future payments ……	$4,375,765	947,604	5,323,369	$4,375,765	947,604	5,323,369
Amount of substantial risk …………………………	2,989,883	618,012	3,607,895	2,989,883	618,012	3,607,895
Guarantees for associated companies:						
Maximum potential amount of future payments ……	1,631,231	1,226,864	2,858,095	1,631,231	106,731	1,737,962
Amount of substantial risk …………………………	969,884	83,535	1,053,419	969,884	83,535	1,053,419
Guarantees for customers:						
Maximum potential amount of future payments ……	1,665,391	50,474	1,715,865	1,665,391	50,474	1,715,865
Amount of substantial risk …………………………	922,080	44,509	966,589	922,080	44,509	966,589
Total:						
Maximum potential amount of future payments ……	$7,672,387	2,224,942	9,897,329	$7,672,387	1,104,809	8,777,196
Amount of substantial risk …………………………	4,881,847	746,056	5,627,903	4,881,847	746,056	5,627,903

(The following paragraphs and table are omitted)