Attractive

Powerful

Financial Section

Contents

Six-Year Summary

ITOCHU Corporation and Subsidiaries
Years ended March 31

Years ended March 31	Millions of Yen 2003	2002	2001	2000	1999	1998	Millions of U.S. dollars 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

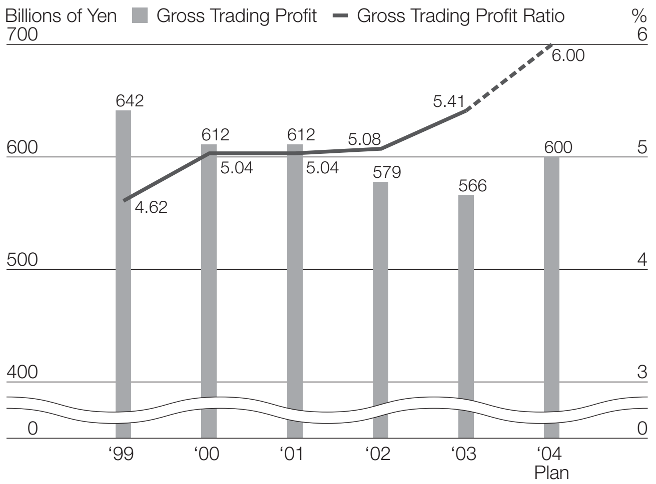
*Gross Trading Profit + Selling, General and Administrative Expenses

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

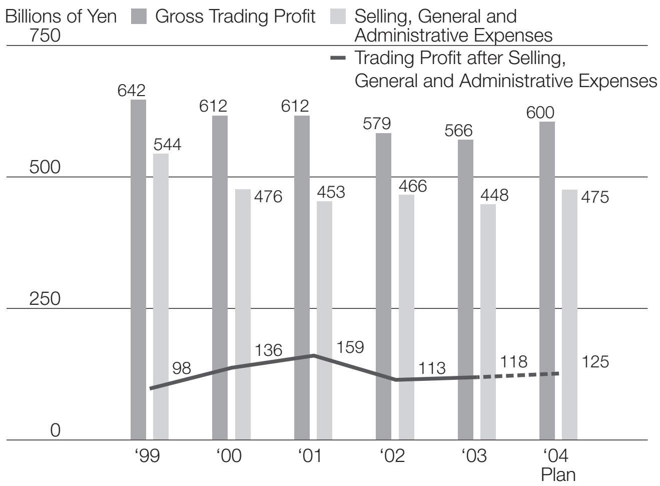
Provision for doubtful accounts in fiscal 2003 was ¥16.8 billion (US$140 million), the same level as the previous year. ITOCHU's ongoing efforts to improve its financial strength, including a significant reduction in unprofitable businesses and the reinforcement of risk management, have resulted in a 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



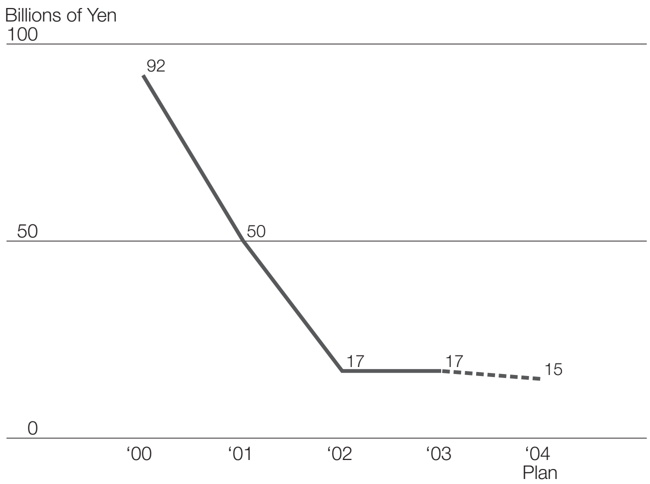
* For fiscal years

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.

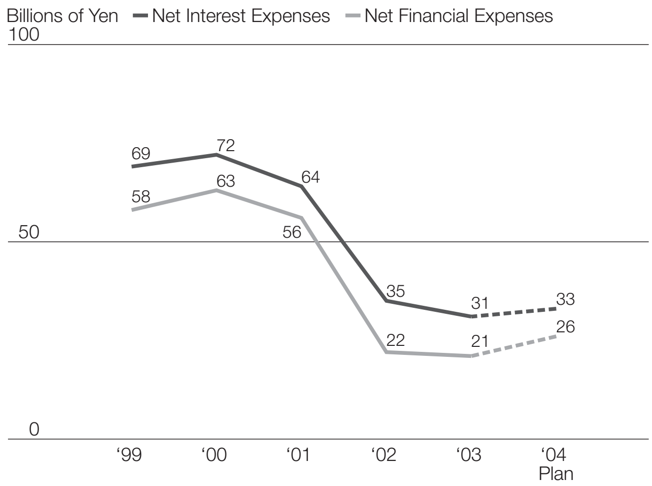
Net Income from Subsidiaries and Associated Companies

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)

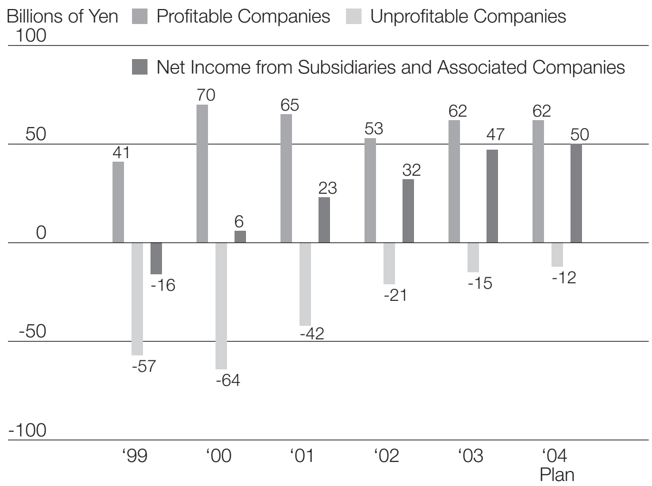
As a result of ITOCHU's efforts to reduce unprofitable assets and interest-bearing debts with its A&P strategy, its financial position significantly improved. Interest-bearing debts, a net of cash, cash equivalents and time deposits, stood at ¥2,025.0 billion (US$16,847 million) at the end of fiscal 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



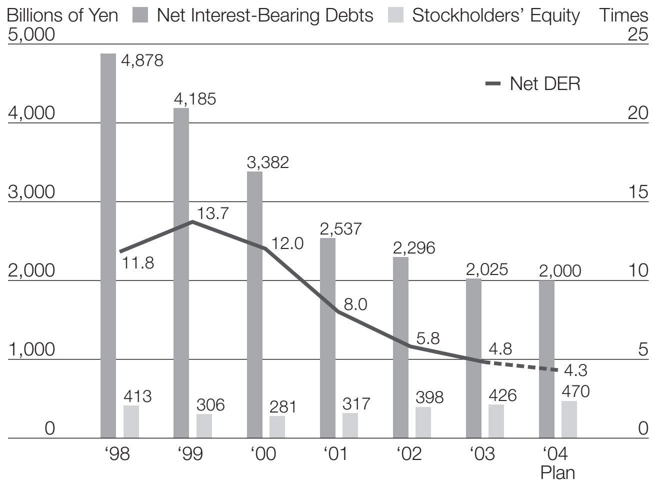
* For fiscal years

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 2003	2002	2001	Millions of U.S. dollars 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

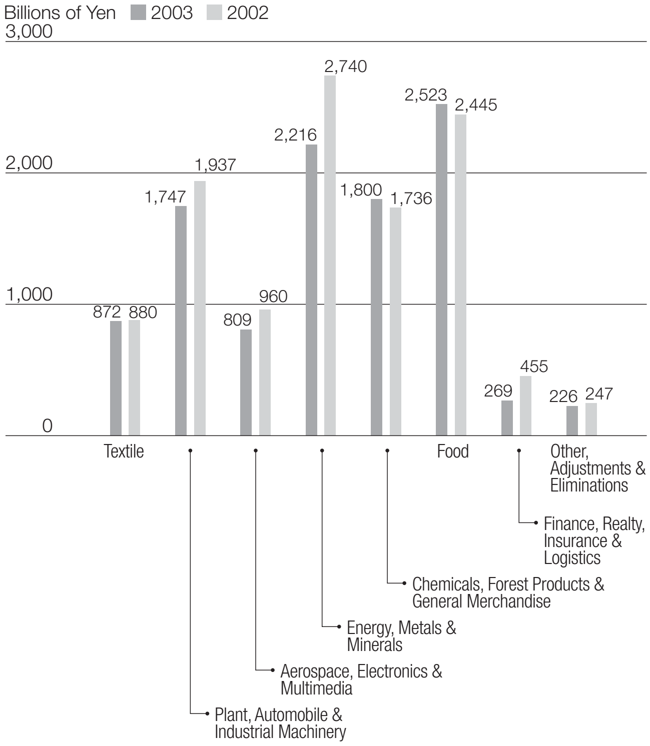
Textile:
Trading transactions decreased by ¥8.4 billion, or 1.0%, to ¥871.7 billion (US$7,252 million) due to the streamlining of inefficient transactions and to stagnant consumer pricing resulting from consumers' prevailing preference for low prices. Gross trading profit increased by ¥9.9 billion, or 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.

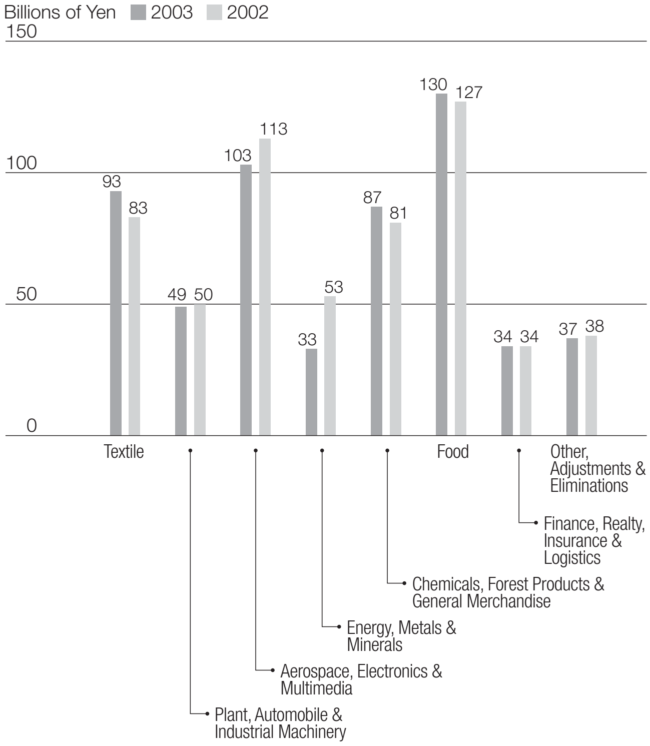
Aerospace, Electronics & Multimedia:
Trading transactions decreased by ¥151.1 billion, or 15.7%, to ¥809.2 billion (US$6,732 million) because of the decline in the IT sector. Gross trading profit decreased by ¥10.0 billion, or 8.9%, to ¥102.5 billion (US$853 million) due to a decline in trading transactions. 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.

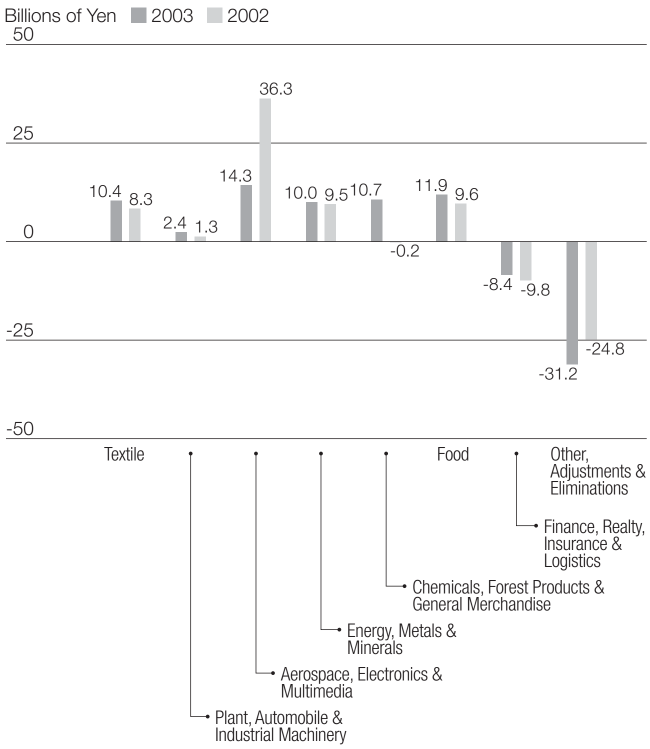
Chemicals, Forest Products & General Merchandise:
Trading transactions increased by ¥64.0 billion, or 3.7%, to ¥1,799.8 billion (US$14,974 million) due to brisk sales of tire retail and housing materials in North America and Europe, as well as price increases in international chemicals markets. Accordingly, 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.

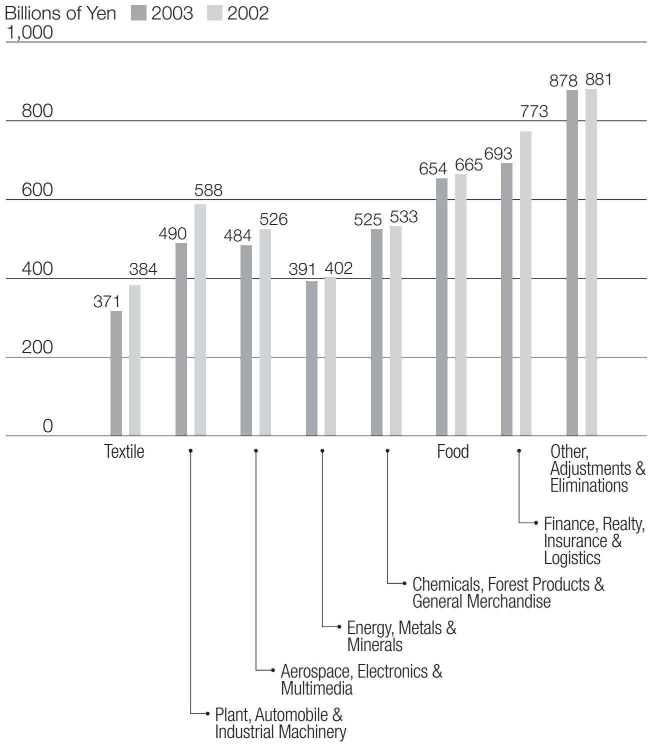
Finance, Realty, Insurance & Logistics:
Trading transactions fell ¥185.9 billion, or 40.8%, to ¥269.4 billion (US$2,241 million). This decline was mainly due to the streamlining of inefficiencies in the house brokerage business, despite favorable results for condominium sales. The decrease in trading 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.

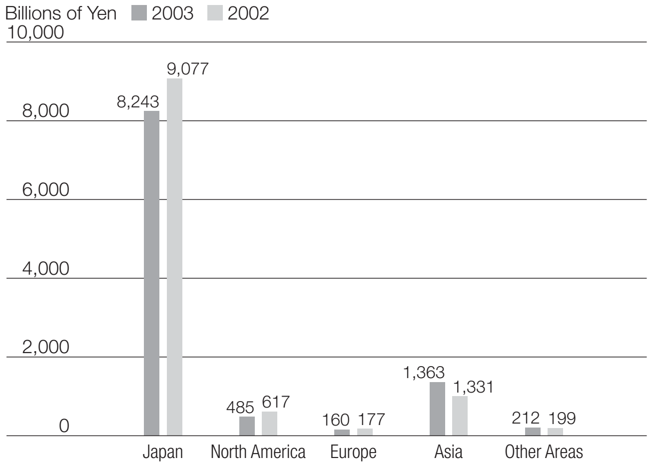
Europe:
Trading transactions fell ¥17.4 billion, or 9.8% to ¥159.6 billion (US$1,328 million), following the transfer of steel operations to Marubeni-Itochu Steel Inc. Identifiable assets fell ¥21.8 billion, or 11.1%, to ¥174.4 billion (US$1,451 million), due to decreases in bonds held by the finance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

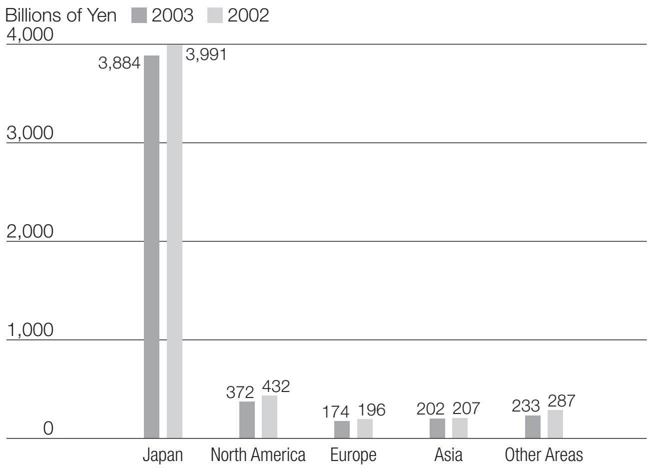
Other Areas:
Trading transactions increased by ¥13.5 billion, or 6.8%, to ¥212.2 billion (US$1,765 million) due to an increase in vessel-related transactions. Identifiable assets fell ¥53.5 billion, or 18.7%, to ¥233.3 billion (US$1,941 million), mainly due to a decrease in the assets of subsidiaries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

March 31	Billions of Yen 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
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								
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

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

Assets	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. dollars (Note 1) 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	Millions of Yen 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

	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
	Thousands of U.S. dollars								
	2003								
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:

	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
	Millions of Yen						
	2003						
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

	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
	Millions of Yen						
	2002						
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