January 28, 2009

ITOCHU Corporation
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Report on the Discovery of Delays in Collections of Receivables under the Tri-Nation Trade Transactions and the Uncovering of a Financial Assistance Scheme Disguised as Sales Transactions

As announced in the “Interim Report on the Discovery of Delays in Collections of Receivables under the Tri-Nation Trade Transactions and the Uncovering of a Financial Assistance Scheme Disguised as Sales Transactions,” which was released on October 10, 2008, we discovered delays in the collections of receivables relating to certain transactions under which ITOCHU Corporation (hereinafter “ITOCHU” or “the Company”) purchased heavy machinery, mechanical equipment and materials from overseas suppliers (“the Products”) and sold them to users of the Products in Mongolia (“the Customers”; such transactions, “the Tri-Nation Trade Transactions”), and that some of the Tri-Nation Trade Transactions were in fact financial assistance scheme disguised as sales transactions without involving the actual delivery of the Products. The disguised transactions continued for several years and were accounted for as sales transactions. ITOCHU launched a special investigative team to investigate the details, underlying causes and circumstances surrounding the disguised sales, and to identify preventive measures. Today, the investigative team presented the results of its investigation, and we hereby inform you as follows.

We deeply apologize to our shareholders, investors, business partners and associates for any inconvenience and concerns caused by this situation.

1. Background of the Investigation

Upon discovering the delays in the collections of receivables concerning the Tri-Nation Trade Transactions (Note 1) at the Sales Section of the Construction Machinery and Overseas Project Department in the Industrial Machinery and Solution Division at the Machinery Company of ITOCHU (“the Sales Section”), the Machinery Company conducted a thorough internal investigation. The investigation raised suspicions that some of Tri-Nation Trade Transactions might have been a financial assistance scheme disguised as sales transactions without involving the actual delivery of the Products. At the end of August 2008, we formed a special investigative team under the initiative of the Chief Administration Officer (concurrently the Chief Financial Officer and the Chief Compliance Officer), consisted of executive personnel from each management division and specialists from outside the Company including ITOCHU’s outside corporate counsel and legal specialists. The missions of the team are (1) uncovering the facts and circumstances surrounding the Tri-Nation Trade Transactions, (2) determining the

This document is an English translation of a statement written initially in Japanese. The Japanese original should be considered as the primary version.
precise monetary impact on ITOCHU’s financial statements, (3) identifying responsible persons, (4) understanding the reasons why such inappropriate transactions continued unnoticed for several years and (5) making proposals to prevent similar incidents from happening again in the future. The team interviewed relevant internal personnel and outside persons including the Customers and verified the accounting books and vouchers concerning the Tri-Nation Trade Transactions. Based on the interim report from the special investigative team, ITOCHU released the “Interim Report on the Discovery of Delays in Collections of Receivables under the Tri-Nation Trade Transactions and the Uncovering of a Financial Assistance Scheme Disguised as Sales Transactions” on October 10, 2008. Our subsequent investigations followed thereafter, which further uncovered the facts described below in Items 2 through 7 relating to the Tri-Nation Trade Transactions.

Note 1: Tri-Nation Trade Transactions are transactions which the Company purchases the Products from overseas suppliers and sells them to overseas customers.

2. Facts Uncovered in the Investigation

(1) Overview of the Tri-Nation Trade Transactions

The Tri-Nation Trade Transactions are transactions under which ITOCHU purchased the Products from various suppliers in Mongolia or other countries ("the Suppliers") and sold them to the Customers on condition that receivables be collected within 360 days from delivery of the Products. The Products were mainly transported by land. One of the conditions for ITOCHU’s agreeing to undertake the Tri-Nation Trade Transactions was that ITOCHU would receive a letter of credit ("L/C") issued by a bank in Mongolia that has a certain degree of creditworthiness ("the L/C Issuing Bank"). To secure the payment for the Products from the Customers, ITOCHU would receive the L/C issued by the L/C Issuing Bank, and present the relevant documents required by the L/C (such as invoices, receipts of products and packing lists) together with a documentary bill of exchange to a Japanese bank for payment. The payment is made by the Japanese bank by way of purchasing the bill of exchange at a discount.

(2) Results of the Investigation into the Tri-Nation Trade Transactions with the Company A Group

The Company A Group is one of the Customers involved in our Tri-Nation Trade Transactions. Transactions with the Company A Group ("the A Transactions") started in fiscal 2000 (ended March 31, 2000) as ordinary Tri-Nation Trade Transactions (transactions that involve the actual delivery of products). From fiscal 2001 (ended March 31, 2001), however, the Company A Group started to experience difficulties in making payments to ITOCHU. In order to avoid the receivables becoming delinquent and to maintain and increase the transactions between ITOCHU and the Company A Group, the former Sales Manager of the Sales Section and the former local employees of the Ulaanbaatar Office ("the UB Office"), clearly in violation of company rules, together with the Company A Group and A-Transaction related parties, began to engage in a financial assistance scheme that was disguised as sales transactions without involving the actual delivery of the Products. Specifically, the A Transactions–related persons devised the A Transactions that did not involve the actual delivery of the Products ("the Inappropriate A Transactions") and forged invoices, shipping...
advice and other necessary vouchers. Payments made by ITOCHU to the account of the L/C Issuing Bank designated as payments to the Suppliers for the Products were diverted to the Company A Group. Such money was, we believe, used by the Company A Group not only to make payments for the Products but also to improve their cash flow situation.

According to our findings, in subsequent years, the cash flow situation of the Company A Group did not improve, mainly because they needed more funds for business expansion, and the Inappropriate A Transactions continued until it was detected recently. As a part of the financial assistance scheme, the names of the Suppliers who were not involved in the A Transactions were used, further, in order to establish the L/C, the former Sales Manager and the former employee at the UB Office, acting without authority and in their sole discretion, promised the L/C Issuing Bank that the L/C Issuing Bank would be indemnified against any liabilities. With respect to the promise made by them, the Company takes the position that the promise is of no legal binding effect because it was made arbitrarily by an unauthorized person without authorization by the Company. Therefore, the Company is determined to defend its position should the L/C Issuing Bank insist indemnification of its liabilities.

The financial assistance scheme described above was unable to satisfy the funding needs of the Company A Group. The staff in the Company A Group, other related persons, as well as the aforementioned former employees of ITOCHU, discussed and decided to ask local banks to provide loans to the Company A Group. To this end, the former employees of ITOCHU, acting without authority and in their sole discretion, forged guarantee letters and powers of attorney in the name of ITOCHU, and provided such forged documents to several local banks. The amount of money being demanded by the local banks has amounted to approximately ¥5 billion. However, ITOCHU does not accept such demand as no sufficient evidence has been presented and the ground of the allegations is not clear. As supported by our legal experts’ opinions as well, we take the position that the aforementioned guarantee letters and powers of attorney issued in the name of ITOCHU are of no legal binding effect because they were forged by unauthorized persons without ITOCHU’s knowledge. Therefore, we are determined to defend our position should any of the local banks make a demand based on these forged guarantee letters.

(3) Results of the Investigation into the Tri-Nation Trade Transactions Other Than the A Transactions

Because of the similarities (such as transaction arrangements, payment conditions and delinquency in payments) between the A Transactions and the Tri-Nation Trade Transactions with the Customers other than the Company A Group, the team continued the investigation into these other transactions after the interim report of October 10, 2008. Although we could not obtain decisive testimony from the relevant persons within ITOCHU that some of the Tri-Nation Trade Transactions with Customers other than the Company A Group were also financial assistance schemes disguised as sales transactions without involving the actual delivery of the Products, our final determination based on the investigation was that a majority of the Tri-Nation Trade Transactions with Customers other than the Company A Group were in fact also financial assistance schemes. Such determination was based on the following factors (1) we could not find evidence such as customs documents with regard to some or all Products for the Tri-Nation Trade Transactions in question; (2) we could not verify the existence of the Products sold by ITOCHU through onsite investigations;
(3) no evidence of direct contact could be detected between ITOCHU staff of the Sales Section and the suppliers of the Products; and (4) one of the Suppliers of the Products did not recognize the existence of receivables related to the Tri-Nation Trade Transactions. We conducted our investigation of each Customer based on all of these factors. The Tri-Nation Trade Transactions with the Customers for which we could verify for each invoice the existence of delivered Products based on customs documents, shipping documents and other vouchers issued by public institutions or third-party organizations, are designated as ordinary Tri-Nation Trade Transactions (transactions that involve the actual delivery of products).

Although the assigned persons at ITOCHU Sales Section handling the Tri-Nation Trade Transactions and how they were involved in such transactions differed from Customer to Customer, we conclude that it would understandable that one might conclude that some of the personnel of the Sales Section of ITOCHU and the UB Office were aware of the financial assistance scheme without the actual delivery of the Products, and that they failed to take the basic operational steps that are expected for ordinary transactions.

(4) Investigation of Similar Transactions

ITOCHU investigated transactions that appeared similar to the Tri-Nation Trade Transactions and was able to verify the existence of the actual delivery of Products. Thus, other than the aforementioned inappropriate transactions (“the Inappropriate Transactions”), we did not find any transactions which did not involve the actual delivery of the Products.

3. Monetary Impact of the Tri-Nation Trade Transactions

(1) Gross Trading Profit from the Tri-Nation Trade Transactions (total trading transactions, cost of sales)

The cumulative gross trading profit from the Tri-Nation Trade Transactions for the eight-year period from fiscal 2000 to when the problems became detected totaled ¥4.4 billion (total trading transactions of ¥95.7 billion and cost of sales of ¥91.3 billion). Of the Tri-Nation Trade Transactions, the total trading transactions for which the existence of the delivered Products was verified were ¥1.6 billion and with regard to the rest of the ¥94.1 billion in total trading transactions, the existence of the delivered Products was not verified.

Of the Tri-Nation Trade Transactions for which the existence of the delivered Products was not verified, the cumulative gross trading profit from the A Transactions was ¥2.2 billion (total trading transactions of ¥52.8 billion and cost of sales of ¥50.6 billion) and the cumulative gross trading profit from the Tri-Nation Trade Transactions other than the A Transactions was ¥2.2 billion (cumulative total trading transactions of ¥41.3 billion and cumulative cost of sales of ¥39.1 billion).

(2) Revisions to Accounts

(a) Writing off of gross trading profit (total trading transactions and cost of sales) and recording of losses on already-paid costs incidental to the sale of the Products (revision to the Profits and Loss Statements)

With regard to the Tri-Nation Trade Transactions for which product delivery was not verified, we will write off the cumulative gross trading profit of ¥4.4 billion (cumulative
total trading transactions of ¥94.1 billion and cumulative cost of sales of ¥89.7 billion). ¥4.3 billion of the already-paid costs incidental to the sale of the Products were included in cost of sales as a deduction item of gross trading profit, and will be written off as a result of the treatment of the gross trading profit. Because such already-paid costs incidental to the sale of Products do not constitute the cost for the Tri-Nation Trade Transactions, we account for them as a loss under “Other profits and losses.”

We will treat ¥0.2 billion of the gross trading profit and ¥0.1 billion of the already-paid costs incidental to the sale of the Products recognized during the current fiscal year (fiscal 2008 ending March 31, 2009) in the same way as explained above and reflect them in the Profits and Loss Statement for the current fiscal year.

Of the accounting items treated in previous fiscal years, we will treat ¥4.1 billion of the cumulative gross trading profit and ¥4.0 billion of the cumulative costs incidental to the sale of the Products that we already paid during the six fiscal year-period (five-year period from fiscal 2003 to fiscal 2007, and the additional fiscal 2002 for the dual-year reference) in the same way as explained above for each fiscal year. With respect to ¥0.1 billion of the cumulative gross trading profit and ¥0.1 billion of the cumulative costs incidental to the sale of the Products which relate to the fiscal years before fiscal 2002, such amounts will be deducted from the amount of the retained earnings at the beginning of fiscal 2002.

(b) Revision to the Presentation of the Balance Sheets

With regard to transactions that are regarded as financial assistance of the Tri-Nation Trade Transactions, we recognized the year-end balance of receivables to each Customer as year-end current loan receivables (receivables that were approved as financial assistance loans) and as current receivables (handling fees for financial assistance), which are included in “Other current assets” in the Consolidated Balance Sheets. With regard to the receivables (trade receivables) associated with the total trading transactions that are written off in (a) above, such receivables are recognized as deposits received and included in “Other current liabilities” at the end of each fiscal year.

We treated the balance sheets for past years in the same way, except that the total amount of receivables for which a provision for doubtful receivables was provided since the end of the second quarter of the current fiscal year are converted from current loan receivables and current receivables to other non-current receivables.

In accordance with the treatments in (a) and (b) above, we will also make revisions to total net assets and stockholders’ equity at the end of each fiscal year.

(c) Financial Statements That Require Revisions

We will reflect revisions explained in (a) and (b) above in the financial statements contained in the following documents already released. For a summary of revisions to the Profits and Loss Statements, please refer to the Attachment.

- Financial statements for the full years from fiscal 2004 through fiscal 2008
- Interim financial statements for fiscal 2007 and fiscal 2008
- Quarterly financial statements for the first and second quarters of fiscal 2009
(3) Amount of Delinquent Payments and Allowance of Doubtful Receivables

As of January 27, 2009, the balance of receivables from the Customers is ¥23.1 billion, because ¥1 billion out of the ¥24.1 billion announced on October 10, 2008 was collected. Of this ¥23.1 billion, the balance of the amount of delinquent payments totals ¥15.2 billion. Of the current balance of receivables from the Customers of ¥23.1 billion, the balance of receivables from the Company A Group is ¥10.3 billion (of which the balance of delinquent payments as of January 27, 2009, is ¥6.7 billion), and the balance of receivables from Customers other than the Company A Group is ¥12.8 billion (of which the balance of the amount of delinquent payments is ¥8.5 billion as of January 27, 2009).

With regard to the ¥23.1 billion amount of the balance of receivables, ITOCHU has started negotiations with the Customers and other parties related to the Tri-Nation Trade Transactions, and has been taking various measures such as acquiring collateral, strengthening measures to preserve receivables, formulating and managing repayment plans and executing appropriate legal measures in order to collect the outstanding balance as soon as possible. Based on the progress of these negotiations and the forecast of the possibility of recovery, an amount of ¥10.8 billion, which is regarded as uncollectible, has been accounted for under allowance for doubtful receivables for the second quarter of this fiscal year. We are not aware of any losses or the possibility of such losses beyond this amount of the allowance for doubtful receivables with regard to the balance of receivables of the Tri-Nation Trade Transactions at this moment, and thus we do not believe there is a need of an additional provision for the allowance for doubtful receivables for the third quarter of the current fiscal year.

4. Outlook for Business Results for the Current Period

We will report our outlook for business results for the current fiscal period on February 2, 2009, the day when the financial statements for the third quarter of this fiscal year is to be released.

5. Reasons Why the Inappropriate Transactions Continued for Years without Being Detected

The Inappropriate Transactions continued without being noticed due to the following reasons:

1) The transactions in question started as ordinary Tri-Nation Trade Transactions, which later became transactions without the actual delivery of the Products.
2) The L/C, a common means for payment in Tri-Nation Trade Transactions, was used in the Transactions. The necessary documents for the Tri-Nation Trade Transactions such as sales contracts, invoices, receipts of products, packing lists and L/Cs were all prepared in the same manner as for ordinary Tri-Nation Trade Transactions. Even confirmation of vouchers could not help to identify the Transactions that did not involve the actual delivery of the Products.
3) Untruthful explanations concerning increases in total trading volume from the Tri-Nation Trade Transactions were presented to us, and we, therefore, assumed that the transactions were ongoing smoothly.
4) The business partners (the Suppliers and the Customers) in the Tri-Nation Trade Transactions were not subject to proper verification and were not appropriately managed in accordance with company rules.

5) The same persons at the Sales Section and at the UB Office were in charge of the Tri-Nation Trade Transactions for a long period, which made it difficult for others to accurately understand the real situation of the transactions.

6) The local staff at the Mongolia UB Office coordinated communications with local banks and the Suppliers, thereby controlled information, which made it difficult for the Sales Section in Tokyo to manage and supervise at least some of those Transactions.

6. Whether the Inappropriate Transactions Were Conducted Systematically

As explained in 2. (2) above, some persons of the Sales Section of ITOCHU and of the UB Office were involved in implementing Inappropriate A Transactions. These transactions, however, were not based on ITOCHU’s formal decision making or instructions from the management. No evidence has been detected to indicate that the Sales Section and the UB Office collaborated and covered up anything after this case was disclosed. Therefore, there is nothing to suggest that the Inappropriate A Transactions were carried out with Company’s systematic involvement. With regard to the Inappropriate Transactions other than the A Transactions, as explained in 2.(3), there is no evidence to suggest direct involvement of any personnel at the Sales Section of the Company and the UB Office in the Inappropriate Transactions. Therefore, it is our opinion that the Inappropriate Transactions were not conducted systematically.

7. Existence of Any Damage to Parties Not Related to the Tri-Nation Trade Transactions

We are not aware that the Tri-Nation Trade Transactions have resulted in any damage to parties not related to the Tri-Nation Trade Transactions.

8. Preventive Measures

ITOCHU deeply regrets the disclosed facts related to the Inappropriate Transactions. On the basis of the advice from the special investigative team, we have identified the problem areas and announced three preventive measures in the interim report of October 10, 2008. Those three measures are to (1) verify the existence of the delivery of the Products in the Tri-Nation Trade Transactions, (2) strengthen the internal control procedures and (3) reemphasize the awareness of compliance. Having reviewed these measures, and based on the final report provided by the investigative team, we intend to formulate and implement preventive measures from the following aspects.

1) Strengthen the management of trade transactions
   i. Strict management of suppliers and transaction details
      Measures are to be implemented to more strictly manage transactions in terms of management of suppliers and management of transaction details. With respect to the management of our business partners, we previously emphasized on credit
worthiness of the customers. From now on, we will also strengthen the management of suppliers (through visiting the suppliers and on-site inspections, etc.). With respect to transaction details, we will hold transaction review meetings regularly and examine the Company’s functions, roles, risks, revenue source and the appropriateness of continuation of transactions. The meetings should be attended not only by the staff of the sales section but also executive personnel.

ii. Reporting of results of transaction review meetings and monitoring as well as strengthening the functions of management

To fully implement the management of transaction details explained in i. above, a transaction review meeting should be held regularly or as often as necessary at each sales department. The meeting should be attended by executives such as the Company CFO and the General Manager of the Corporate Planning & Administration Division, with the results of the meeting reported to the president of each division company. The internal audit sections will monitor the progress/status of the system through internal reviews and audits.

2) Thorough Rotation of Human Resources

i. From the current fiscal year, we have introduced rules concerning the rotation of human resources throughout the company and implementation is under way. For thorough rotation of human resources, we will regularly verify the status and conformity to these rules.

ii. Concerning the personnel who have performed the same duties for more than five years, additional monitoring measures should be taken, including holding transaction review meetings more frequently.

3) Thorough Compliance Education

i. We must provide thorough compliance education and training on relevant laws and regulations as well as internal rules to ITOCHU employees and hold seminars based on actual examples.

ii. At the Head Offices, overseas offices and subsidiaries, we must provide thorough compliance education to all tiers of staff from new employees to core employees to executives such as General Managers and Managers regularly and continually, thereby reinforcing the staff’s awareness of compliance.

9. Penalties to the Company’s Related Personnel

Taking the incidents seriously, ITOCHU took strict disciplinary action in accordance with internal rules regarding all personnel involved in the Inappropriate Transactions as well as those in supervisory positions.
### Revision amounts of the Tri-Nation Trade Transaction

<table>
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<tr>
<th>Year</th>
<th>Total trading transactions</th>
<th>Gross trading profit</th>
<th>Income before income taxes</th>
<th>Net income</th>
<th>Total revision amounts</th>
<th>Amounts on Consolidated Statements of Operations</th>
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(note 1) Revision amounts of Revenue based on US GAAP are the same as the revision amounts of Gross trading profit

(note 2) The amounts are the revision amounts of Consolidated Statements of Operations for the period from FY2003 to FY2008.

(note 3) The differences between Gross trading profit and Income before income taxes are the already-paid costs incidental to the sales of the Products presented in "Other-net".

(note 4) The amount of Net income is net of tax basis.

(note 5) Other retained earnings at beginning of FY2003 includes the revision amount for the FY2001 and FY2002.

(note 6) "Total trading transactions" is presented in accordance with Japanese accounting practice.