Consolidated Results for the Year Ended March 2004

Cleaning up our balance sheet – substantially increased profit

In fiscal year 2004, ended March 31, 2004, ITOCHU recorded a net loss of ¥31.9 billion. This was due primarily to the fact that at the end of fiscal year 2004, we adopted impairment accounting for fixed assets earlier than required by Japan GAAP in order to further improve our balance sheet structure. Although our consolidated financial statements already use impairment accounting according to U.S. GAAP, they now also reflect impairment losses additionally recognized under Japan GAAP. Consequently, a total of ¥123.3 billion in impairment losses was recognized. (See page 15 for details.) In addition, we recognized a sales and devaluation loss of real estate inventories of ¥23.9 billion aiming to accelerate the sales of real estate inventories for cash.

The early application of impairment accounting for fixed assets improved the overall health of our balance sheet. Excluding the effect of this application, net income for fiscal year 2004 would have been ¥46.1 billion, twice that of the previous fiscal year. Adjusted profit*, the ITOCHU Group's most closely watched profitability indicator, fell 12.9% to ¥100.7 billion after reaching a historical high of ¥115.5 billion in fiscal year 2003, having improved from a low of ¥29.4 billion in fiscal year 1998. However, this too was significantly impacted by losses due to the early application of impairment accounting under Japan GAAP. Excluding these losses, adjusted profit rose to ¥120.9 billion, a record high for the second year in a row.

*Adjusted profit = Gross trading profit + Selling, general and administrative expenses + Net financial expenses + Equity in earnings of associated companies

Ongoing benefits of selection and concentration of transactions and assets

We continued to promote the reallocation of assets emphasizing profitability and asset efficiency, and to withdraw from less profitable transactions.

Total trading transaction volume for the fiscal year under review continued the decline of the previous fiscal year, falling 9%. However, the gross trading profit ratio, including the previously mentioned losses due to the early application of impairment accounting under Japan GAAP, rose 0.4 percentage point year on year, illustrating the effects of focusing on profitable assets.

The ratio of assets from segments and regions of focus—A&P segments and other highly efficient areas—to total assets rose significantly from 50% as of March 31, 2003 to 69% as of March 31, 2004.

Improvements in gross trading profit were recorded in the A&P segments of Textile and Aerospace, Electronics & Multimedia, as well as in Chemicals, Forest Products & General Merchandise.

Turning to our balance sheet, net interest-bearing debts excluding cash, cash equivalents, and time deposits fell to ¥2.0 trillion as of March 31, 2004, the sixth consecutive year they have fallen after reaching a peak of ¥4.9 trillion as of March 31, 1998. Net DER (debt-to-equity ratio) improved to 4.7. It may appear as if the improvement in net DER has stalled, but this is due to the comprehensive implementation of measures taken to strengthen our balance sheet in fiscal year 2004, as discussed above.

A year when we strengthened our foundations – moving towards a new growth stage

Our goal has been to create a strong financial infrastructure while managing our businesses and asset portfolio from the point of view of profitability, through the selection and concentration of businesses based on our A&P strategy. As I mentioned earlier, we believe that our strategy is producing steady and tangible results, and thus, we spent a total of ¥147.2 billion removing potential causes for concern. By strengthening our balance sheet and improving transparency, we hope to further boost the confidence the capital markets have in our future growth potential. We believe that by increasing the reliability of profit growth starting in fiscal year 2005, we can remove the possibility of a slowdown at an early date. We can substantially improve the earnings base of ITOCHU as well as our ability to weather adverse economic conditions. While, regrettably, we have forgone dividend payments for fiscal year 2004, I see the year as a time when the ITOCHU Group strengthened its base to move toward a new growth stage.

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Operating Environment and Management Outlook

Improvements in the operating environment

The direction of the global economy has become clearer. The growth of the Chinese economy, in particular, has been remarkable, and it has had a positive impact on its neighbors in Asia. In Japan, we have started to see a strong recovery led by capital investment. In the U.S., while concerns over the budget deficit remain, there are underlying strengths in consumption and housing investment. We believe that, unlike previous economic recovery cycles, the growth in these regions is rooted in domestic demand. Therefore, we believe it is unlikely that in the near term there will be a significant drop in the unparalleled boom in international commodities markets.

Aiming for real profit growth of 54% for the fiscal year ending March 2005

For the fiscal year ending March 31, 2005, we forecast a net income of ¥71.0 billion. Excluding the impact of the application of impairment accounting on fiscal 2004's results, this would represent an increase from the year ended March 2004 of about ¥25 billion. At first glance, it may appear that this forecast is overly ambitious, but we are fully confident that we can achieve this plan. In addition to the expected steady growth in profits from A&P segments, there will also be an improvement in profits from non-A&P segments, including construction and realty, and a significant cut in pension expenses as a result of reforms to the pension plan that we implemented the last year.

Achieving our targets means adding more value

Although we have already seen the emergence of our main profit growth drivers, reaching our net income plan of ¥71.0 billion will not be easy. We cannot be complacent just because we have cleared away our negative legacies during the fiscal year under review. If we rely solely on the improvement of the overall business environment, then it will be very difficult to reach our plan.

> I believe one of my responsibilities is to shift gears to aggressive, forward-looking management strategies.

The businesses where we have a competitive advantage are related to downstream consumption: textiles, food, information, and multimedia. These areas will probably benefit less from the current strong macroeconomic environment than our upstream areas such as natural resources. It is therefore essential that we develop businesses that add more value. To this end, we are further focusing on extending and accelerating the creation of brand value in textiles, a comprehensive strategy in food extending from upstream to downstream, and the construction of value chains for hardware/software and total solutions in information and multimedia. We also aim to leverage the Chinese market and further strengthen textiles, food, and other consumer and retail related businesses.

From a long-term perspective, we will actively develop the seeds of new businesses, especially in innovative technologies, including biotechnology and nanotechnology, to create new core profit drivers in the future.

Duties as New President

Continue to strengthen management practices

I assumed the position of President and Chief Executive Officer from Mr. Uichiro Niwa. During his six-year tenure, Mr. Niwa implemented reforms that made strengthening management practices of the ITOCHU Group a top priority. Looking at some specific numbers, we can see that over the six years to March 31, 2004, net interest-bearing debts fell from ¥4.9 trillion to below ¥2.0 trillion, and the net DER improved significantly from 11.8 to 4.7 times. However, it is clear that we must continue to strengthen our management foundations. By March 31, 2006, we aim to reduce the net DER to below 4 times, raise the ratio of A&P assets and those in highly-efficient segments to total assets, and further improve asset quality.

Use experience to further investment strategy

I believe in strengthening the 645 subsidiaries and associated companies that comprise our group. Doing this will enable us, as the parent company, to improve our financial position and strengthen our earnings power through stable growth in net income from group companies and an improvement in cash flow.

During my long career, which includes two overseas postings, I have built up significant business experience. I have been involved in developing subsidiaries and new businesses, including ITOCHU TECHNO-SCIENCE Corporation (CTC), where I focused on expanding profits, which led to the company's successful stock listing. For the past two years I was involved in corporate planning, where I balanced my expertise in aggressive growth strategies with conservative management. Making full use of this experience in my position as president, I will fully complete the mid-term management plan Super A&P-2004, leading to even greater steps forward.

Establishing "aggressive" strategies for the mid to long term

I believe one of my responsibilities is to continue to strengthen our management foundations as Mr. Niwa did, and to use that as the basis for shifting gears to aggressive, forward-looking management strategies. The ITOCHU Group has reduced total assets to ¥4.5 trillion as of the end of fiscal year 2004 through the reallocation of assets. Now we will shift gears to focus on growing earnings in order to achieve a consolidated net income of ¥100.0 billion.

I believe that it is also important to exploit the underlying strengths of ITOCHU. These include not only our core business competencies, but also the quality of our personnel and other differentiating factors forming the basis for growth in all our markets and regions. From this point of view, I am considering a new strategic plan.

Corporate Governance: Awareness is most important

ITOCHU has strengthened corporate governance by introducing an executive officer position, making the Board of Directors the appropriate size, tying directors' remuneration to financial performance, and establishing an Advisory Board. Through these and other reforms, we will continue to take steps to reinforce corporate accountability and oversight. I believe, however, that the awareness of every executive and employee company-wide is even more important than strengthening all these systems and organizations. I want to place even more importance on the opinions of our stockholders, investors, and other influential stakeholders to spread these opinions further within our management and to enhance this awareness.

President's Principles:
Challenge
Create
Commit

Statement to stockholders and customers from the new president

By implementing thus far our A&P strategy, we have steadily strengthened our foundations, but I am very aware that we cannot say we have reached a satisfactory level. I will lead the Company with the three principles of *challenge* with passion, *create* with a frontier spirit, and *commit* with sincerity. With the ongoing support of our stockholders and customers, I will seek to further increase our corporate value. As I mentioned before, we will maintain a high level of vigilance and make every effort to achieve our forecasts for the ongoing fiscal year. Because of the net loss in the fiscal year under review stemming from the early application of impairment accounting, we have forgone a dividend payments for fiscal 2004. However, with the implementation of the measures and policies that I have discussed herein, in the fiscal year ending March 31, 2005, I will strive to reward our stockholders for their support with the highest fiscal year-end dividend payment in our history. Thank you very much for the trust and understanding that you have placed in us.

July 2004

Eizo Kobayashi
President and Chief Executive Officer