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.