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