

## Liquidity and Capital Resources

### Basic Policy for Funding

The Company aims to ensure flexibility so that it can quickly respond to changes in the financial circumstances, and take advantage of opportunities to lower its overall financing costs. It also aims to diversify its funding sources and methods in order to enhance the stability of its financing, while endeavoring to find the optimum balance in its funding structure including the improvement of the long-term funding balance.

In Japan, most corporations still rely on indirect financing as their primary source of funding with the largest percentage of indirect financing coming from domestic banks. Most domestic banks have adopted a positive earning expansion policy in accordance with improved prospects over the disposal of bad loans—a management issue for a number of years—as well as the rebuilding of equity capital. In Company's dealings with them, these financial institutions appreciate Company's improved financial position and return to profitability. They have shown a favorable attitude towards lending, and we expect no difficulty in procuring funds through indirect financing. Moreover, as of the end of fiscal 2005, the Company had obtained a rating for its long-term bonds of A from the Japanese ratings institution JCR, Ba1 from the U.S. ratings institution Moody's Investors Service (Moody's), and BBB— from Standard & Poor's (S&P). On May 19, 2005, Moody's raised the Company's rating to Baa3 from Ba1. All of the Company's ratings have become "Investment Grade", and better funding conditions are expected. In the future, aiming to secure an even higher rating, the Company will make concerted efforts to improve Company's financial position through the continuation of high profitability and risk management.

With respect to bonds, the Company registers a bond

issuance every two years. In the two years from August 2003 to July 2005, a new issuance in the amount of ¥300 billion was registered, enabling the flexible issuance of bonds.

Under this issuance registration system, straight bonds were issued in the amounts of ¥10 billion (with five-year maturities) in August 2004, ¥10 billion (with three-year maturities) in September, and ¥10 billion (with ten-year maturities) in November, for a total of ¥30 billion. The outstanding balance of bonds (excluding MTNs issued by the Company) was ¥250 billion (\$2,326 million) as of March 31, 2005.

Furthermore, the Company, ITOCHU International Inc. in the U.S. and a finance subsidiary in the U.K. have registered a total of \$5 billion in a Medium Term Note Program (MTN) in order to be flexible in fulfilling short and long-term funding needs. The outstanding balance of the MTN was approximately \$0.3 billion as of March 31, 2005.

### Interest-Bearing Debts

Interest-bearing debts as of March 31, 2005 decreased by ¥215.2 billion from the previous fiscal year to ¥2,346.7 billion (\$21,852 million). As a result of the efforts to secure long-term funds to provide the structure for stable fund-raising, the ratio of long-term interest-bearing debts to total interest-bearing debts increased to 71% from 65% at the end of fiscal 2004. Moreover, the net DER (debt-to-equity ratio) improved by 1.0 to 3.7 times from 4.7 times at the end of fiscal 2004. Also, the average interest rate of borrowing, or interest expenses, divided by the average balance of interest-bearing debts, improved by 16 basis points from 1.46% in fiscal 2004 to 1.30% in fiscal 2005.

The breakdown of the interest-bearing debts as of March 31, 2005 and 2004 is as follows:

	Billions of Yen		Millions of U.S. dollars
	2005	2004	2005
Short-term debt .....	¥ 421.7	¥ 549.8	\$ 3,927
Current maturities of long-term debt .....	160.5	279.0	1,495
Current maturities of debentures .....	94.6	56.5	881
Short-term total .....	676.9	885.3	6,303
Long-term debt .....	1,472.7	1,414.8	13,714
Debentures .....	186.0	247.3	1,732
Long-term total .....	1,658.7	1,662.0	15,446
Total interest-bearing debts .....	2,335.6	2,547.3	21,749
SFAS 133 fair value adjustment (Note) .....	11.1	14.7	103
Adjusted total interest-bearing debts .....	2,346.7	2,561.9	21,852
Cash, cash equivalents and time deposits .....	455.6	584.9	4,243
Net interest-bearing debts .....	¥ 1,891.1	¥ 1,977.0	\$ 17,610

(Note) This adjustment is in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). The amount of adjustment to record the fair value, as of the balance sheet date for long-term debt, which is hedged with derivatives.