

## Major Unprofitable Companies

Years ended March 31	Shares	*Net income (loss) Billions of Yen		Reasons for changes
		2003	2002	
Domestic				
Famima Credit Corporation .....	45.83%	¥(0.4)	(0.1)	Recorded start-up expenses associated with business establishment
Tokyo Humania Enterprise Inc. ....	35.17%	(0.4)	(0.3)	Recorded operating losses
Nishimuromi Development Co., Ltd. ....	100.00%	(0.3)	(0.4)	Sales declined
Overseas				
ITOCHU Latin America S.A. ....	100.00%	¥(1.8)	(0.7)	Sluggish performance by subsidiaries and decline in automobile sector
Luisita Industrial Park Corporation .....	56.00%	(1.3)	0.0	Recorded losses on resale of land under development
ITOCHU Technology, Inc. ....	100.00%	(0.8)	0.2	Recorded losses on disposal of stocks, and dull condition in IT sector
ITOCHU Coal International Inc. ....	100.00%	(0.6)	0.1	Failed to reach production plans, and suffered from a drop in market price
ITC Ventures VIII, Inc. ....	97.64%	(0.4)	(0.2)	Recorded appraisal losses on investments

\*The above figures represent the group companies' share of the net income.

## Liquidity and Capital Resources

### Basic Policy of Fund Raising

ITOCHU's basic policy of fund raising aims to ensure flexibility so it can quickly respond to changes in the capital markets, and lower its overall financing costs. It also aims to enhance the stability of its financing. In particular, ITOCHU aims to find the optimum balance in its funding structure including improvement of long-term funding balance, and also diversify its funding sources and methods.

In Japan, most corporations' funding still depends on indirect financing, mostly from domestic banks. In recent years, the accelerated disposal of problem loans by Japanese banks has undermined their financial strength and increased their aversion to risk, which has made it more difficult for corporations to borrow from banks. Despite such unstable funding conditions, financial institutions, including ITOCHU's main commercial banks, have shown a favorable attitude towards lending to ITOCHU, which is a positive market endorsement of its improved financial position.

Recently, ITOCHU has conducted the following funding activities:

ITOCHU raised about ¥55.0 billion through a public offering of 158 million common shares in July 2002. It also issued two ¥10.0 billion straight corporate bonds with three-year maturities, once in December 2002 and once in January 2003.

In addition, ITOCHU is capable of carrying out a flexible bond issuance after it registered for bond issuance with a maximum

amount of ¥300.0 billion for two years from August 2001 to July 2003. Further, the Company, ITOCHU International Inc. (U.S.A.), and a finance subsidiary in the U.K. own a total of US\$5 billion of Medium Term Note Program (MTN) in order to be flexible in fulfilling short- and long-term funding needs. The outstanding balance of corporate bonds issued by the Company was ¥348.1 billion and that of the MTN was about US\$0.4 billion as of March 31, 2003.

### Interest-Bearing Debts

Gross interest-bearing debts as of March 31, 2003 decreased by ¥220.3 billion from March 31, 2002 to ¥2,574.4 billion (US\$21,418 million), and net interest-bearing debts, a net of cash, cash equivalents and time deposits, decreased by ¥271.4 billion from March 31, 2002 to ¥2,025.0 billion (US\$16,847 million) as of March 31, 2003. This resulted from an increase in funds following the public stock offering, the repayment of loans payable and a redemption of debentures, along with a reduction of total assets to enhance asset efficiency, in a continued effort to reinforce its consolidated financial position. Consequently, net DER (Debt-to-Equity Ratio) improved by 1.0 point to 4.8 times from 5.8 times at the end of the last fiscal year. Also, average interest rate of borrowing, or interest expenses divided by the average balance of interest-bearing debts, improved by 0.58 percentage point from 2.35% in fiscal 2002 to 1.77% in fiscal 2003.