

Secondary Liquidity Reserves

	Billions of Yen	Millions of U.S. dollars
	Liquidity reserves	Liquidity reserves
4. Available portion of Over Draft for the Company's cash management service	¥ 111.4	\$ 1,037
5. Available-for-sale securities (Fair value on consolidated basis)	190.5	1,774
6. Notes receivable	155.6	1,449
Total secondary liquidity reserves	¥ 457.5	\$ 4,260
Total liquidity reserves	¥ 1,440.1	\$ 13,410

Capital resources

As part of ITOCHU's medium-term management plan until the end of March 2007 (Frontier-2006), Company's basic policy is pursuing the selection, focusing, and reallocating and upgrading of assets to expand the scale of profits and create new business.

With respect to promoting this plan, the source for new expenditures for investment activities is financing from operating cash flow. This includes the sale and recovery of assets in the course of redeployment, as well as from the accumulation of profits. Any shortfall in financial resources when new investments are made a priority, is to be covered through borrowed money and the issuance of bonds. However, any increase in the total of interest-bearing debts will be held in check through the implementation of strict controls.

Cash and cash equivalents for this fiscal year were reduced by 21.8% or ¥126.6 billion from fiscal 2004 to ¥452.9 billion (\$4,218 million). This reflects efforts to reduce interest-bearing debts through a liquidation of cash and cash equivalents to improve the Company's financial position. Cash flow requirements for in investment activities, such as the acquisition of tangible fixed assets, and new and additional investments, primarily in machinery and money-related, were essentially covered by cash from operating activities through an accumulation of profit.

Net cash provided by operating activities for fiscal 2005

increased ¥126.6 billion (\$1,179 million). While there was a reduction due to increases in trade receivables and inventory caused by the active expansion of trading transactions and rising prices of marketable commodities such as crude oil, there were also large-scale increases in profit accumulation based on solid business performance. This includes increases in gross trading profits by all operating segments including the Energy, Metals & Minerals as well as the Chemicals, Forest products & General Merchandise.

Net cash used in investing activities for fiscal 2005 involved expenditure of ¥127.6 billion (\$1,188 million). This was mainly due to new and additional investment in Orico in the financial sector and Isuzu in the machinery sector, as well as the acquisition of tangible fixed assets. Though this figure exceeds last year's level of ¥55.3 billion resulting from the acquisition of trademarks and mining rights, and from new and additional investments, net cash provided by operating activities essentially covered these increases.

Net cash used in financing activities for fiscal 2005 amounted to ¥125.3 billion (\$1,167 million). This reflects continued efforts to reduce interest-bearing liabilities to improve the Company's financial position, and topped ¥79.7 billion from the previous fiscal year.

The following table shows a summary of cash flows for the fiscal years ended March 31, 2005 and 2004.

	Billions of Yen		Millions of U.S. dollars
	2005	2004	2005
Net cash provided by operating activities	¥ 126.6	¥ 184.8	\$ 1,179
Net cash used in investing activities	(127.6)	(55.3)	(1,188)
Net cash used in financing activities	(125.3)	(79.7)	(1,167)
Effect of exchange rate changes on cash and cash equivalents	(0.3)	(4.4)	(3)
Net increase in cash and cash equivalents	(126.6)	45.4	(1,179)
Cash and cash equivalents at beginning of year	579.6	534.2	5,397
Cash and cash equivalents at end of year	¥ 452.9	¥ 579.6	\$ 4,218

The Company believes that funding generated by net cash provided by operating activities, borrowing from financial institutions or the issuance of stocks or bonds in the capital market will be sufficient to ensure an adequate source of funds to cover expenditures and payments of liabilities, which it anticipates at this point, now and in the future. However, the actual availability of funding may differ depending on future conditions, such as the condition of financial markets, economy and

business operations and other factors, which the Company is now unable to estimate accurately, because the Company cannot control many of these. Nevertheless, the Company is convinced that it will be capable of ensuring adequate liquidity from cash flows provided by other sources, even if net cash provided by operating activities falls short of current expectations.