CTC

Challenging Tomorrow's Changes

Change→ Results

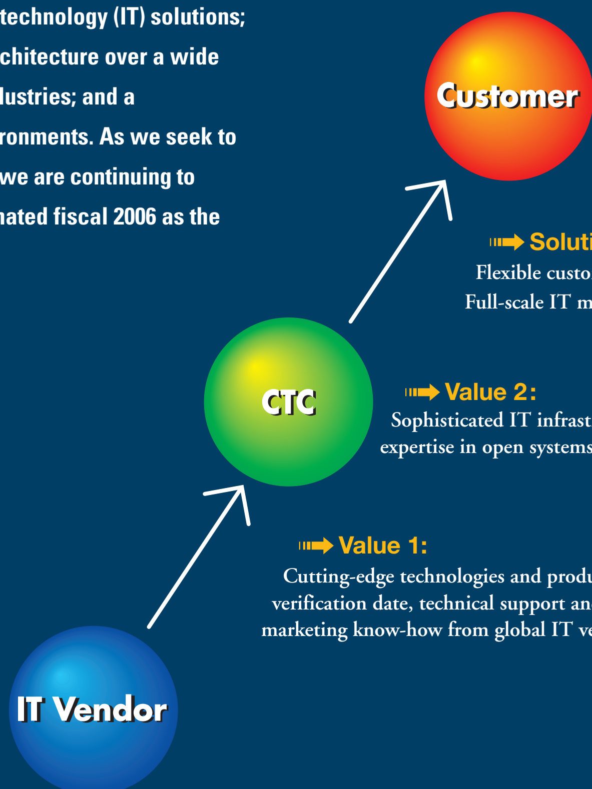
Annual Report 2005

For the year ended March 31, 2005

CTC adds value through solid customer and vendor relationships, as well as by applying its expertise in combining and connecting technologies.

Since its establishment, the CTC Group, comprising ITOCHU TECHNO–SCIENCE Corporation and its subsidiary and associated companies, has consistently provided leading-edge technologies and services based on a corporate philosophy that centers on customer satisfaction. Underpinning this philosophy are four key strengths: our specialization in open systems; our skill in accessing and providing customers with the world's most advanced information technology (IT) solutions; our ability to draw on our extensive history in system architecture over a wide range of fields to provide optimal systems for myriad industries; and a maintenance service system based on multivendor environments. As we seek to make our mark as an attractive and tenacious company, we are continuing to implement our management reform plan and have designated fiscal 2006 as the year we "press firmly on the accelerator of growth."

Our three stages of value



Solutions:
Flexible customer-oriented solutions
Full-scale IT multivendor solutions

Value 2:
Sophisticated IT infrastructure with expertise in open systems

Value 1:
Cutting-edge technologies and products, verification date, technical support and marketing know-how from global IT vendors

Contents

Foward-Looking Statements

Statements made in this annual report with respect to CTC's plans, strategies and beliefs, and other statements that are not historical facts are forward-looking statements about the future performance of CTC based on management's assumptions and beliefs in light of information currently available to it, and involve certain risks and uncertainties.

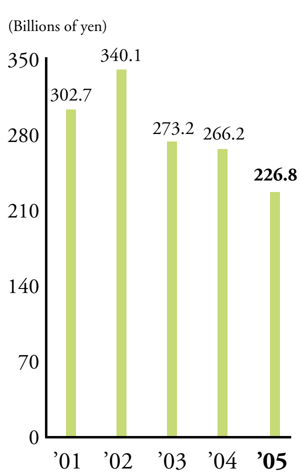
Financial Highlights

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries

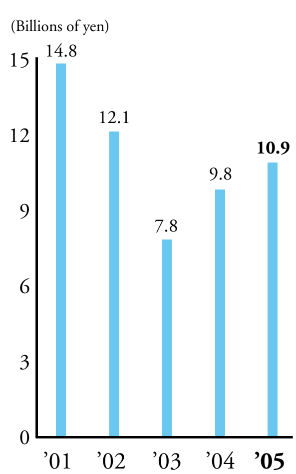
	Billions of Yen		Millions of U.S. Dollars
	2005	2004	**2005**
For the Years Ended March 31:			
Net sales	**¥226.8**	¥266.2	**$2,111**
Operating income	**17.1**	17.3	**159**
Net income	**10.9**	9.8	**101**
As of March 31:			
Total assets	**160.8**	168.8	**1,497**
Total shareholders’ equity	**105.3**	104.0	**981**
Shareholders’ equity ratio (%)	**65.5%**	61.6%	
Return on equity (%)	**10.4**	9.5	
Return on assets (%)	**6.6**	5.7	
	Yen		U.S. Dollars
Per Share Data:			
Basic net income	**¥182.88**	¥160.26	**$1.70**
Cash dividends applicable to the year	**30.00**	26.00	**0.28**

Note: U.S. dollar amounts represent translations of Japanese yen amounts at the rate of ¥107.41=US$1, the approximate rate of exchange as of March 31, 2005.

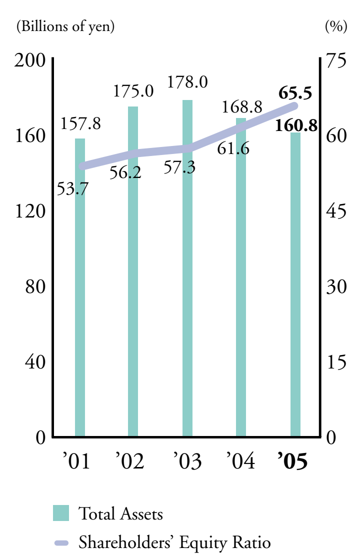
Net Sales



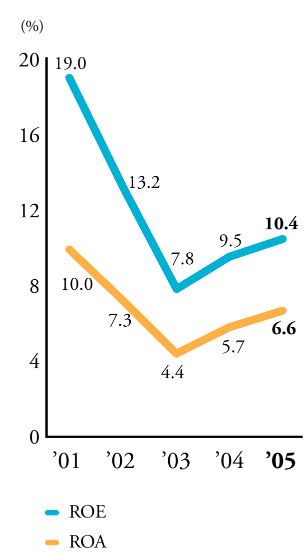
Net Income



Total Assets and Shareholders’ Equity Ratio



Return on Equity (ROE) and Return on Assets (ROA)



Message from the President

At the General Meeting of Shareholders and the ensuing Board of Directors meeting held on June 22, 2005, Mr. Yushin Okazaki was elected Chairman, and I was designated to take on his former title of President & CEO. In my new role, I ask shareholders and other investors to support me in my commitment to raise the corporate value of the CTC Group.

Fiscal 2005 in Review

Fiscal 2005, ended March 31, 2005, was a year of solidifying a firm base for our future growth, as we followed our management reform plan and further reinforced management stability.

Consolidated net sales for the year decreased 14.8%, to ¥226.8 billion, and operating income dipped 1.4%, to ¥17.1 billion. Net income, on the other hand, expanded 10.7%, to ¥10.9 billion. As a result, basic net income per share increased 14.1%, to ¥182.88, and return on equity improved 0.9 percentage point, to 10.4%.

During the year, the CTC Group focused on two main management goals—marketing value-added services and strengthening cost competitiveness. In the latter area, we implemented Companywide monitoring and reviewed cost efficiencies, as we sought to limit cost of sales to 75% and rapidly achieve a selling, general and administrative (SG&A) expenses to gross profit ratio of 65% or less.

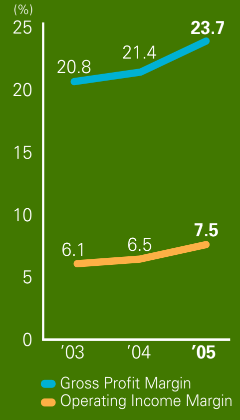
On the sales front, we shifted our priority from contract volume to project quality, as part of management's drive

to emphasize profits. This reprioritization, combined with a new accounting method for booking sales, caused net sales to decrease. Our gross profit margin, however, rose 2.3 percentage points, to 23.7%. Fiscal 2005 was the third consecutive year of increases in our gross profit margin, reaching the highest level since we listed on the Tokyo Stock Exchange.

Operating income decreased in line with lower net sales, but we raised our operating income margin for the second consecutive year, by 1.0 percentage point, to 7.5%, on the strength of more efficient SG&A spending. I am pleased to report that our management reforms succeeded in lowering the Company's breakeven point, creating a situation that will make it easier for us to generate profits. Furthermore, we posted equity in earnings of associated companies, compared with losses in fiscal 2004. Owing to these results, we achieved a double-digit increase in net income.

We also put in place new foundations for growth, by investing in companies that we expect to generate synergies with the CTC Group's business activities. Specifically, we invested in three U.S. venture companies that offer promising technologies and products. In Japan, we also invested in a software developer that excels in Java^{TM} technologies*, as well as a company that specializes in providing maintenance and support services in Japan for products sold by overseas vendors.

Gross Profit Margin and Operating Income Margin



* Java is a trademark or registered trademark of Sun Microsystems, Inc., in the United States and other countries.

Looking Ahead to Fiscal 2006

My most important mission is to continue fortifying the Company's ability to generate profits and to manage in a way that sets CTC firmly on the path to faster growth over the medium term.

The CTC Group's medium-term goal is to become a management partner that supports customers throughout the entire IT lifecycle. This ambition will require us to shift from a product-driven approach to customer- and market-oriented approaches that examine all stages of client systems, from implementation and deployment to review. We are confident that this attitude will inspire in our clients a sense of trust toward the CTC Group as a reliable partner.

To achieve this, we will fashion CTC as an "IT engineering company" along the lines of a plant engineering company that provides integrated packages to meet individual clients' needs. Through this new model, we will procure an optimal mix of resources (the most suitable people, technologies and products) and offer system integration expertise (in-house technology, custom software development skills and project management expertise), as well as highly reliable maintenance and support services.

With a view to achieving medium-term growth, we have designated fiscal 2006 as the year we "press firmly on the accelerator of growth." To support these new service offerings, we will promote advanced system proposals to telecommunications carriers—a customer category in which we have solid expertise—as we seek to establish

As we aim to solidify our position as an "IT engineering company," we have designated fiscal 2006 as the year we "press firmly on the accelerator of growth," meaning that we will concentrate all our corporate energy on increasing our rate of expansion.

ourselves as the top company in Japan in this field. To customers in the financial sector, we will strengthen our systems that support their retail service offerings. In the enterprise segment, we will retain existing clients that are leaders in the automotive, electrical and precision equipment fields, as well as cultivate new demand. Since we anticipate continued growth in the areas of e-commerce and portal sites, we will actively propose new systems and technologies to companies involved in these activities.

As part of our medium-term growth strategy, we have established a structure that allows us to take advantage of merger and acquisition opportunities as they arise. Furthermore, our steady focus on improving our cost competitiveness will remain unchanged in fiscal 2006.

I look forward to the continued support and encouragement of all our stakeholders.

August 2005

Yoichi Okuda
President & CEO

Entering Phase 3 of Our Management Reform Plan

Becoming a Management Partner by Supporting the Entire IT Lifecycle

CTC's mission is to become a management partner that supports customers throughout the entire IT lifecycle. We will start by raising management awareness, first casting our technology proposals as easily understandable "management strategies," consisting of physical systems created by us and for which we provide everyday support to ensure definable benefits, stability and security. Our goal is to handle the "difficult" IT parts, leaving customers free to enjoy the resultant benefits. This approach should enable top managers at client companies to understand clearly our system's value, leading to quick and accurate decisions on IT investment.

Now in the third year of our management reform plan, we are simultaneously implementing a variety of measures to take us to this goal.

Strengthen Our Industry-Specific Organizational Structure

We have created an organizational structure comprising four business groups to match our client industries.

■ Telecom System Group

The telecommunications industry constitutes one of our largest customer segments, and we aim to become the undisputed leader in this sector. The Japanese telecommunications industry is fast-paced, and the onset of broadband access is spawning a host of new services. We are nearing the day when all new service offerings will rely on Internet Protocol (IP), known in the industry as "all-IP." In anticipation, we will aggressively propose systems that enable telecommunications service providers to offer new services and upgrade service quality.

■ Financial System Group

CTC has developed a core of expertise through its proactive development of market- and information-based systems for clients throughout the financial industry—ranging from banks, securities companies, life insurers and non-bank financial institutions to Internet-based banks and securities companies. First, in this group we will retain and cultivate demand from megabank customers. Second, we will propose and offer systems that help financial-industry customers to meet the expanding needs for stronger retail business. Third, we will continue promoting contact center solutions for a broad range of customers. Financial institutions in particular are focussing on peer-to-peer marketing, in which contact centers are expected to play a key role. Our experience creating large scale contact centers gives us a clear advantage here.

■ **Enterprise System Group No. 1**

This group services clients primarily in the automotive, electrical and precision equipment sectors, including some of the best-known household names in Japan. As well as traditional IT engineering solutions, our track record in this sector is diverse and includes information systems that benefit from the advantages of open systems. In this sector, we plan to promote ourselves as partners offering total IT lifecycle support, and keep adding to our excellent customer list.

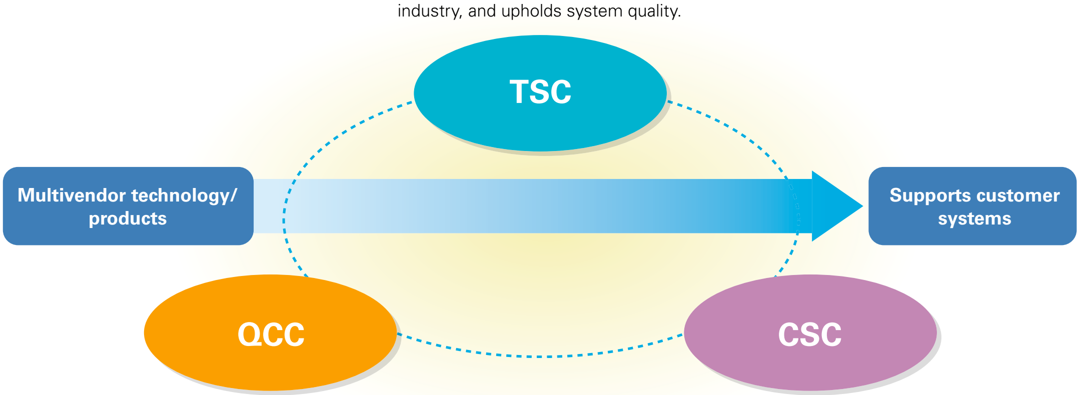
■ **Enterprise System Group No. 2**

This group primarily supports system architecture for such customers as those offering e-commerce and portal sites and whose business models and information systems are two sides of the same coin. The group has already begun

Our management reform plan is now entering its third phase. Following on from the "year of management reforms" and the "year of reform-driven results," this phase focuses on putting in place the organizational elements to support customers throughout the entire IT lifecycle.

Three Centers to Ensure Customer Confidence

Technical Solution Center
Enables integration and extensive verification in multivendor environments, integrates the technology of various partners and promotes open systems in the IT industry, and upholds system quality.



Quality Control Center
Performs rigorous loading and unloading inspections of the products that it handles based on CTC's own quality control guidelines and upholds system quality.

Customer Support Center
Provides integrated management of all support services—from system and product inquiries to remote monitoring, failure analysis and cause determination—as well as support status progress management.

working on a system for Japan's largest online shopping mall. As we accumulate expertise in this area, we will actively propose our services to potential new customers in emerging industries.

Our new organization features a cross-functional group that supports each specialized business group and includes CTC Technology Co., Ltd., a specialized subsidiary that provides operational and maintenance services. This interlocking organizational structure will foster a Companywide business base and more easily enable us to provide end-to-end services that range from consulting to system design to development, operation and maintenance support, services which more precisely match the business needs of our customers.

Establishment of the Technical Solution Center to Bring Us Closer to Customers

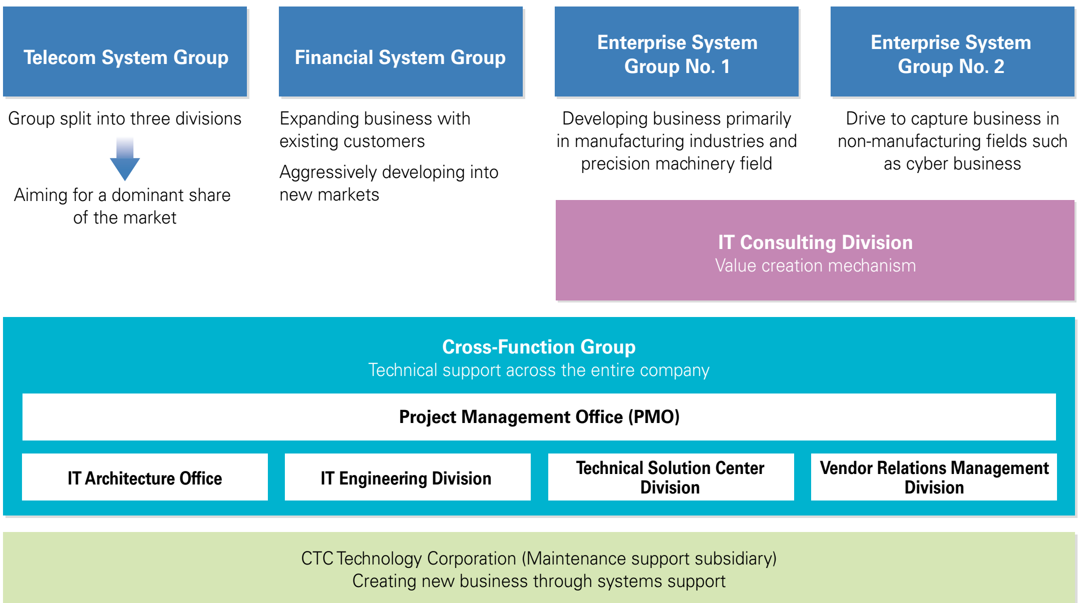
In March 2005, we established the Technical Solution Center (TSC) with the support of vendor partners. To ensure that we provide our customers with stable and reliable systems based on linked state-of-the-art IT technologies, this large-scale, technical facility is designed to perform comprehensive testing of multivendor environments. By consolidating leading-edge expertise from our vendor partners into one place, we can show prospective clients actual test results of systems that meet their needs directly. Furthermore, because TSC reuses various IT components, we can build upon past test experiences, ultimately providing a broad range of clients with quicker, more robust and more affordable results than they have experienced in the past.

To ensure that CTC Group services perform appropriately, our Quality Control Center (QCC) and Customer Support Center (CSC) also have important roles. By linking the different functions of our three centers in this way, we are able to guarantee customers stable, reliably operating products and systems initially as well as in the maintenance and support phases—throughout the entire IT lifecycle.

Enhance Our IT Lifecycle Response to Serve as a "Springboard for Growth"

In March 2005, we concluded agreements to invest in EC-One, Inc., a software developer that specializes in Java™ technologies, and Japan Third Party Co., Ltd., which provides Japan-based support services for overseas manufacturers. These two investments will buttress our development and support functions. In April, we spun off our Business Consulting Division into an independent company, renamed Maxis Business Consulting Co., Ltd., which is jointly capitalized by CTC and the parent company, ITOCHU Corporation. To strengthen our growth drivers, we will continue to evaluate and invest in companies that offer promising technologies.

Customer-Focused Organizational Model



To fortify CTC management Groupwide, we began offering maintenance for various products offered by our subsidiary, CTC Technology, and reinforced our service account management (SAM). When proposing new systems to existing customers, ongoing maintenance support allows us to understand any gaps that might exist between their system capabilities and up-to-date management strategies. We view fortifying SAM as an important strategic move, as this enables us to substantially raise the degree of value that we add to our proposals.

Differentiate Our Most Important Asset—Human Resources

As we believe that the quality of our personnel is our most important distinguishing characteristic, we offer a host of programs that are designed to further hone their skills and knowledge. We offer programs designed to augment the technical expertise of our engineers and train project managers to handle large-scale projects, plus a myriad of other skill-enhancement programs in numerous fields.

As one example of our efforts to create personnel structures for different types of work, we identify our engineers not only by their job description but also by a professional system that measures their level of technical expertise, effectively creating clear career paths for them. CTC also offers a profit-sharing system whereby employee bonuses vary depending on overall business performance, as the Company aims to provide a fairly evaluated link between work, level of contribution and compensation. We also provide thorough training for all employees on an ongoing basis concerning compliance, information security and transaction management.

Transform into an "IT Engineering Company"

To reach our medium-term goal of becoming a management partner that supports customers throughout the entire IT lifecycle, we have adopted a business model that we refer to as the "IT engineering company" model. In essence, this model calls for us to propose a solution that delivers the results that a customer needs, procure products and technologies to deliver these results in an optimal manner, then add value by combining and connecting the technologies. The model also calls for us to monitor results. Using this business model, we derive revenue on everything from system architecture to products, and even in the after-sale market. Furthermore, the model describes a virtuous circle in that it puts us in a prime position to take advantage of opportunities for the next round of system architecture development, thus contributing to our medium-term growth.

Corporate Governance and Compliance

Basic Stance on Corporate Governance

The CTC Group's philosophy has five components: social contribution, customer satisfaction, global partnership, value sharing and quality of life. Based on this corporate philosophy and our dedication to integrity, we are augmenting our corporate governance. We are also implementing compliance measures to ensure that all Company directors and employees uphold our corporate ethics and respect all laws.

CTC's Corporate Governance System

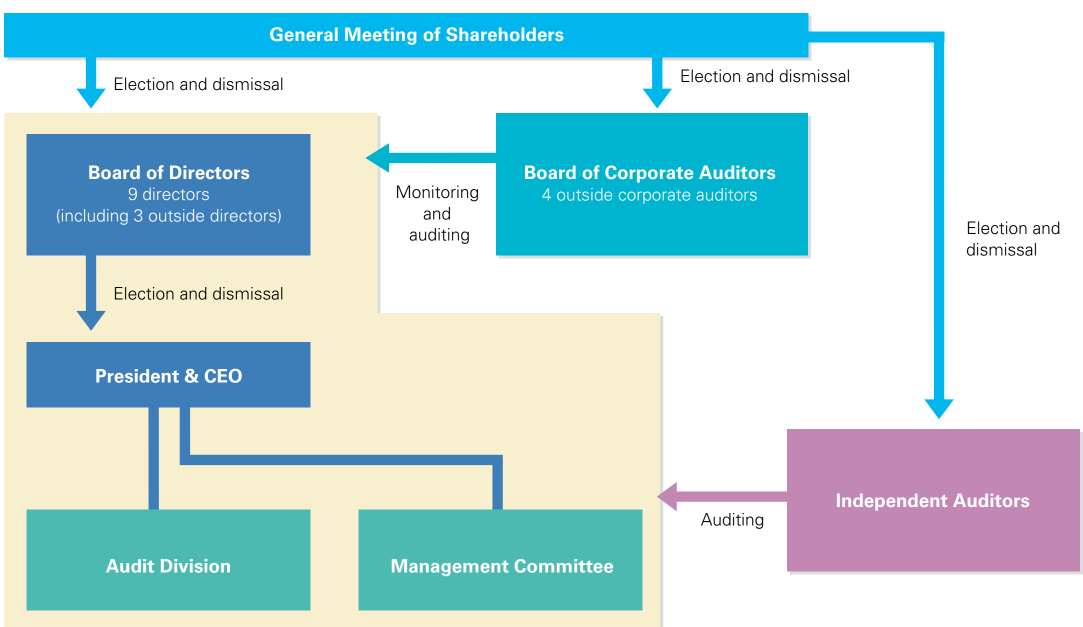
CTC has adopted a system of corporate auditors. In June 2001, we also established an executive officer system to clarify and delineate management decision making and supervisory functions and business execution responsibilities.

The Company's Board of Directors comprises nine directors, who are responsible for making decisions that involve management policy, strategy and other important issues, as well as having a supervisory function for business execution. Also, strengthening the Board's supervisory function are three outside directors, who enable us to speed up management decision making in response to increasingly complex and advanced customer needs.

Executive officers report directly to the President & CEO. Their role is to ensure that operations are executed swiftly and in line with decisions made by the Board of Directors. The four corporate auditors, of whom two are full-time corporate auditors, attend Board of Directors, Audit Division and other important meetings, and monitor management appropriateness.

The Company's decision making, business execution and supervisory systems were as follows, as of June 22, 2005.

CTC's Corporate Governance System



Board of Directors (As of June 22, 2005)

Yushin Okazaki
Chairman

Yoichi Okuda*
President & CEO

Tohru Nakano*
Executive Senior Vice President

Ken Gotoh
Senior Vice President

Yoshinori Warashina
Senior Vice President

Yasuo Kanematsu
Senior Vice President

Takatoshi Matsumoto
Senior Vice President

Hiroo Inoue
Senior Vice President

Narimitsu Takatori
Senior Vice President

Directors and Corporate Auditors

Yushin Okazaki
Chairman

Yoichi Okuda*
President & CEO

Tohru Nakano*
Executive Senior Vice President

Ken Gotoh
Senior Vice President

Yoshinori Warashina
Senior Vice President

Yasuo Kanematsu
Senior Vice President

Takatoshi Matsumoto
Senior Vice President

Hiroo Inoue
Senior Vice President

Narimitsu Takatori
Senior Vice President

Kozo Ohta
Standing Auditor

Masao Kasama
Standing Auditor

Kosuke Hayashi
Auditor

Shuji Ikeda
Auditor

Vice Presidents

Shinichiro Sakuraba
Shinji Kumazaki
Akira Saitoh
Masaaki Matsuzawa
Tadataka Okubo
Yoshimichi Miura
Katsuyuki Shirota
Ryouji Yokoyama
Yasuhiko Terada
Yasuhide Masanishi
Takahiro Susaki
Seiji Suzuki
Hisashi Eda

* Representative Director

Consolidated Six-Year Summary

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries

	Billions of Yen					
	2005	2004	2003	2002	2001	2000
For the Years Ended March 31:						
Net sales	¥ 226.8	¥ 266.2	¥ 273.2	¥ 340.1	¥ 302.7	¥ 207.6
Gross profit	53.7	57.0	57.0	66.1	67.4	44.9
Selling, general and administrative expenses	36.6	39.6	40.4	44.5	39.1	33.4
Operating income	17.1	17.3	16.6	21.6	28.3	11.5
Income before income taxes and minority interests	19.2	17.5	15.4	22.2	26.9	10.8
Net income	10.9	9.8	7.8	12.1	14.8	6.1
As of March 31:						
Total assets	160.8	168.8	178.0	175.0	157.8	140.3
Total shareholders' equity	105.3	104.0	102.0	98.4	84.8	71.3
Cash Flows:						
Cash flows from operating activities	14.2	21.6	16.4	15.9	7.1	(10.6)
Cash flows from investing activities	(4.9)	0.2	(0.5)	(1.5)	(7.8)	(1.3)
Cash flows from financing activities	(10.2)	(6.5)	(1.5)	(1.5)	(20.7)	22.1
Financial Ratios:						
Gross profit margin (%)	23.7%	21.4%	20.8%	19.4%	22.3%	21.6%
Operating income margin (%)	7.5	6.5	6.1	6.4	9.3	5.5
Shareholders' equity ratio (%)	65.5	61.6	57.3	56.2	53.7	50.8
Return on equity (ROE) (%) (*1)	10.4	9.5	7.8	13.2	19.0	14.8
Return on assets (ROA) (%) (*2)	6.6	5.7	4.4	7.3	10.0	4.7

	Yen					
Per Share Data:						
Basic net income (*3)	¥ 182.88	¥ 160.26	¥ 124.95	¥ 196.58	¥ 241.34	¥ 328.02
Shareholders' equity (*3)	1,819.34	1,733.47	1,658.37	1,600.25	1,378.65	3,480.03
Cash dividends applicable to the year	30.00	26.00	20.00	20.00	18.00	50.00

Note: As of August 18, 2000, one par value common share was split into three shares. Basic net income per share in fiscal 2001 is calculated on the assumption that the share was split at the beginning of the period.

(*1) ROE = Net income / Average total shareholders' equity (which is based on total shareholders' equity at the beginning and end of the year) x 100

(*2) ROA = Net income / Average total assets (which is based on total assets at the beginning and end of the year) x 100

(*3) Basic net income and shareholders' equity are computed based on the Accounting Standard for Net Income per Share and Implementation Guidance on Accounting Standard for Net Income per Share from fiscal 2003.

Risk Information

There are a number of risks that could affect the CTC Group's business performance, share price and financial position. Some of those risks are summarized below. (Forward-looking statements are based on judgments made by the Company as of June 22, 2005.)

Risk of Information Leaks

The CTC Group is involved in the information services industry. In the course of our business, therefore, we sometimes receive classified information on individuals that is in the possession of our customers. The leakage of such information could lead to claims of damage and loss of confidence in our company, which could affect our business performance. For this reason, the CTC Group has made information management a top priority and established the Information Management Committee under the direct control of the President & CEO. This committee spearheads various activities, including maintenance, reinforcement and rigorous implementation of information management systems within the Group. We are also promoting in-house education and raising the level of awareness related to information management.

Technology-Related Risk

The CTC Group is constantly monitoring innovations in IT technology and trends in standardization so that it can provide its customers with leading-edge systems. However, we cannot possibly keep abreast of all technology trends, which are rapidly changing and diversifying. If we fail to grasp important technologies in a timely manner, our business performance may be adversely affected. Making full use of our relationships with outside IT vendors, we are striving to keep pace with various diversified technological trends.

Development-Related Risk

The CTC Group develops software under consignment in accordance with individual customer needs. These projects are managed from the standpoint of quality, development time and cost. In the software development field, however, projects are becoming larger and more complex, and lead times are getting tighter. If we cannot deliver the level of quality we promise, or if a project is not completed on time, our costs can increase, which could have a detrimental effect on our business performance. When we engage in large-scale development projects exceeding a certain size, therefore, management undertakes proper screening and decision making. In addition, in fiscal 2005 we established the Project Management Office (PMO), which manages the progress and profitability of such projects.

Product Risk

Our competitiveness derives from our ability to procure innovative and attractive products. These offerings make up the key components of the systems that the CTC Group provides to its customers. In the information services industry, technological trends and customers' needs are closely linked and change quickly. As a result, being slow to change gives rise to the following risks, for which we are adopting countermeasures.

- Procurement: If we fail to keep pace with changing business conditions in developing and supplying products and technologies, the Group's business performance can be adversely impacted. These activities are not confined to Japan, but also encompass overseas markets, including the United States. Therefore, in addition to utilizing the network of our parent company, ITOCHU Corporation, we also dispatch our employees to members of ITOCHU Corporation's overseas group companies.
- Supply of products and services: Our performance can be negatively affected if an IT vendor cannot continue in business for financial reasons, or when the supply of a product is suspected or halted altogether for various reasons. Therefore, the CTC Group works hard to identify risks as early as possible. We keep a constant and close watch on the performance and business strategies of our IT vendors, and stay in regular contact with their top management. When transacting with venture companies, we do not restrict our activities to the procurement of products, but when necessary provide business support in the form of human resources and capital participation.

  The CTC Group endeavors to keep a product support structure that delivers ongoing maintenance and support services even in the event that a product is discontinued.
- Inventories: To maximize sales opportunities, we retain inventories for some products, based on demand estimates. However, if the estimated demand does not eventuate due to market changes or circumstances affecting the customer, the market prices of our inventories may fall, which could have a detrimental effect on our business performance. We have implemented a number of measures to minimize this risk. These include setting limits for the balance between inventory and outstanding orders for each product, and restricting inventories to products that can be sold easily.
- Foreign exchange: We buy overseas products in yen and other currencies. The yen-denominated cost of products purchased in foreign currencies may vary because of exchange rates, which can hurt our profit. We minimize this risk by importing products that hold high market shares and for which we can link market prices to exchange rates. We also hedge foreign exchange risk by concluding foreign exchange contracts when placing orders.

Credit Risk

We provide products and services to many customers on the condition of payment at a later date. It is possible, therefore, that we may be unable to recover fees on time or at all if a customer's financial situation worsens, which would have a negative effect on our business performance.

For this reason, we have established a department specializing in credit risk that is independent from the sales department. This department screens the credit of each customer and sets appropriate credit limits that remain valid for a limited time. It regularly reviews the status of debt collection and where necessary makes provisions for doubtful receivables.

Management's Discussion and Analysis of Results and Financial Condition

Consolidated Business Performance

In fiscal 2005, ended March 31, 2005, the CTC Group posted net sales of ¥226.8 billion, down 14.8% from fiscal 2004.

By customer segment, orders from the mainstay telecommunications and broadcasting industry were robust. However, a change in method of recording these sales shifted the booking of some projects into the next fiscal term, and segment sales declined 5.5%, to ¥77.6 billion. Holding back sales to other industries was ongoing restraint toward IT-related capital investment, coupled with our focus on higher value-added business areas. As a result of these factors, net sales decreased.

By business segment, sales in the System segment dropped 17.5%, to ¥186.1 billion, and declined as a share of net sales from 84.7% to 82.1%. Support segment sales grew 0.1%, to ¥40.7 billion, buoyed by successful efforts by CTC and CTC Technology to jointly gain maintenance contracts. As a percentage of net sales, segment sales rose from 15.3% to 17.9%.

Cost of sales fell 17.3%, to ¥173.1 billion, while the cost of sales ratio improved 2.3 percentage points, to 76.3%, despite cost increases on some low-margin projects. Reasons for this progress included our successful focus on value-added offerings, the Companywide management emphasis on profitability and higher sales from the relatively high-margin Support segment.

Selling, general and administrative (SG&A) expenses decreased 7.6%, to ¥36.6 billion. Although our office relocation led to a temporary increase in expenses, retirement benefits declined, and the efficiency of our system engineer deployment rose in accordance with increased software development projects, enabling us to offset higher office-related expenses.

The positive effects of a higher gross profit margin and lower SG&A expenses failed to fully offset the decline in net sales. Consequently, operating income slipped 1.4%, to ¥17.1 billion, but the operating income margin improved 1.0 percentage point, to 7.5%.

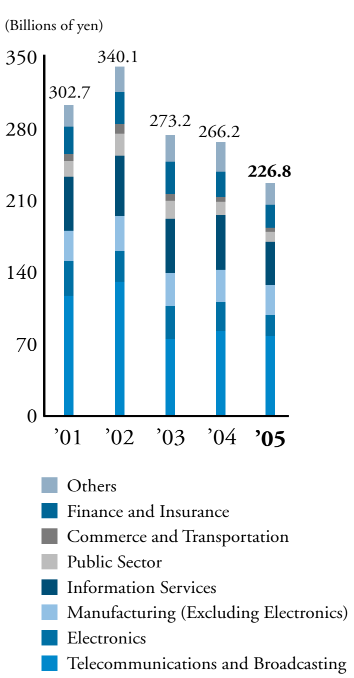
In other income (expenses), other income–net amounted to ¥2.1 billion, up from ¥0.2 billion in fiscal 2004. Contributing to this rise were a ¥0.7 billion gain on sales of investment securities–net and ¥0.4 billion in equity in earnings of associated companies, compared with a loss in the preceding term, plus a ¥0.3 billion increase in interest and dividend–net.

Income before income taxes and minority interests increased 9.7%, to ¥19.2 billion. Total income taxes rose to ¥8.3 billion, from ¥7.8 billion. The effective tax rate after applying tax-effect accounting fell from 44.4% to 43.1%. This decrease was due to the improvement in equity in earnings of associated companies.

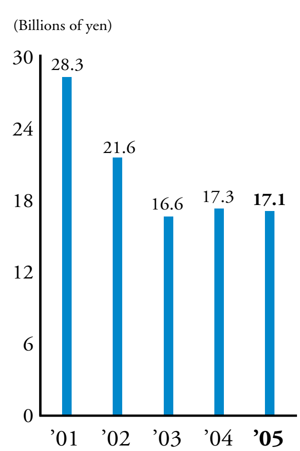
Net income expanded 10.7%, to ¥10.9 billion. Basic net income per share grew 14.1%, to ¥182.88, owing to higher net income and the Company's repurchases of treasury stock, which depressed the average number of shares outstanding during the year.

Note: Prior to April 1, 2004, sales of merchandise inventories were recorded upon delivery. Effective April 1, 2004, the Group changed its method of accounting for such inventories to record sales upon completion of the sales contract. The effect of this change was to decrease sales by ¥4,049 million ($37,694 thousand) and income before income taxes and minority interests by ¥746 million ($6,949 thousand), respectively, for the year ended March 31, 2005.

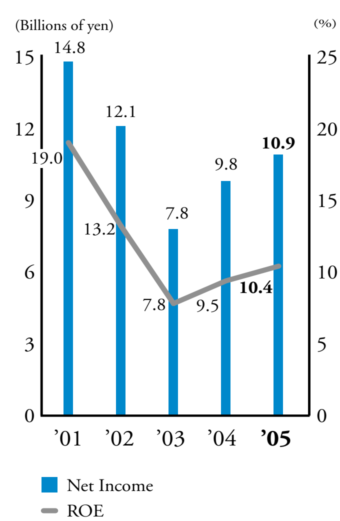
Sales by Industry



Operating Income



Net Income and ROE



Financial Position

As of March 31, 2005, consolidated total assets were ¥160.8 billion, down ¥8.0 billion from the preceding year. Total current assets amounted to ¥137.6 billion, down ¥12.9 billion. Of this amount, trade receivables and cash and cash equivalents fell ¥16.5 billion and ¥0.8 billion, respectively. Cash and cash equivalents, end of year were ¥52.6 billion.

Surplus assets are invested in financial products with minimal risk to principal, interest and foreign exchange exposure. This practice reflects the Group's policy of reducing credit and liquidity risk.

Net property and equipment increased ¥1.9 billion, to ¥3.9 billion, mainly due to our office relocation. Also, total investments and other assets expanded ¥3.1 billion, owing to a ¥2.0 billion increase in investments in promising Japanese and overseas companies that should enable us to benefit from new technological and business opportunities.

Total current liabilities for the year were down ¥8.3 billion, to ¥54.9 billion, owing primarily to lower trade payables. As a result, the current ratio improved from 238.4% to 250.9%.

The Group's policy is to internally generate the funds it requires for working capital and capital investments. However, as a contingency for unforeseen events, we have commitment lines of credit with nine financial institutions, together totaling ¥10.0 billion as of March 31, 2005. By virtue of its financial position and abundant cash flows from operating activities, as well as contingency lines of credit, we believe the Company is well situated to continue growing, as it has ample operating capital as well as the ability to procure additional funds for future capital investments.

Total shareholders' equity rose ¥1.3 billion, to ¥105.3 billion, owing to the Company's repurchases of its own shares of common stock and an increase in retained earnings. As a result, the shareholders' equity ratio rose from 61.6% to 65.5%, and ROE was 10.4%, up from 9.5%.

Cash Flows

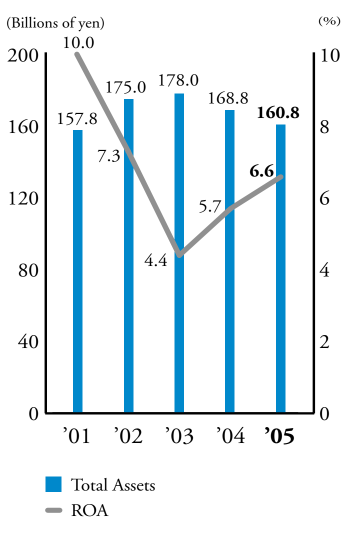
Net decrease in cash and cash equivalents was ¥0.8 billion, compared with a net increase of ¥15.2 billion in fiscal 2004.

Net cash provided by operating activities amounted to ¥14.2 billion, 34.2% less than in the previous year. Income before income taxes and minority interests and the positive difference between receivables collected and payables paid during the year provided ¥19.2 billion and ¥7.1 billion, respectively. Income taxes—paid used ¥8.1 billion, and the increase in other current assets required ¥3.5 billion.

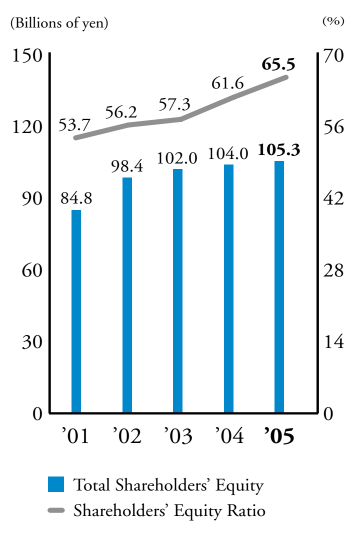
Net cash used in investing activities was ¥4.9 billion, compared with ¥0.2 billion provided by these activities in fiscal 2004. Primary reasons for this difference were a ¥2.6 billion increase in tangible fixed assets in line with office consolidation, plus ¥2.0 billion in purchases of long-term deposits.

Net cash used in financing activities expanded 55.2%, to ¥10.2 billion, as we recorded ¥8.7 billion in repurchases of treasury stock and ¥1.7 billion in dividends paid.

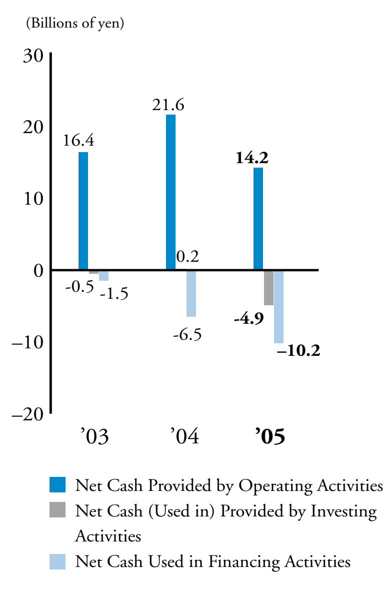
Total Assets and ROA



Total Shareholders' Equity and Shareholders' Equity Ratio



Cash Flows



Consolidated Balance Sheets

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 52,637	¥ 53,462	$ 490,060
Receivables:			
Trade	52,521	68,973	488,978
Associated companies	1,086	626	10,107
Other	782	1,118	7,282
Allowance for doubtful receivables	(185)	(275)	(1,718)
Inventories (Note 5)	20,480	20,608	190,668
Deferred tax assets (Note 8)	5,764	4,548	53,662
Prepaid expenses and other current assets	4,560	1,518	42,445
Total current assets	137,645	150,578	1,281,484
PROPERTY AND EQUIPMENT:			
Buildings and structures	2,919	2,238	27,175
Furniture and fixtures	4,311	4,341	40,134
Total	7,230	6,579	67,309
Accumulated depreciation	(3,321)	(4,521)	(30,921)
Net property and equipment	3,909	2,058	36,388
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	8,977	6,932	83,580
Investments in and advances to associated companies	691	502	6,431
Software	2,386	2,691	22,215
Leasehold deposit	3,729	3,087	34,719
Deferred tax assets (Note 8)	764	2,039	7,114
Other assets	2,745	939	25,562
Total investments and other assets	19,292	16,190	179,621
TOTAL	¥160,846	¥168,826	$1,497,493

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	**2005**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Payables:			
Trade (Note 13)	**¥ 20,630**	¥ 38,529	**$ 192,065**
Associated companies	**8,859**	183	**82,477**
Other	**5,428**	5,307	**50,534**
Income taxes payable	**5,716**	5,169	**53,221**
Accrued expenses	**3,406**	3,855	**31,702**
Unearned income	**8,388**	4,981	**78,097**
Advance received	**1,857**	4,825	**17,292**
Other current liabilities	**586**	310	**5,453**
Total current liabilities	**54,870**	63,159	**510,841**
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 6)	**512**	1,504	**4,769**
Other long-term liabilities (Note 8)		14	**2**
Total long-term liabilities	**512**	1,518	**4,771**
MINORITY INTERESTS	**129**	144	**1,198**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10, 11 and 12)			
SHAREHOLDERS' EQUITY (Notes 7 and 15):			
Common stock—authorized, 246,000,000 shares; issued, 61,500,000 shares	**21,764**	21,764	**202,621**
Capital surplus	**33,137**	33,141	**308,512**
Retained earnings	**63,332**	54,201	**589,626**
Net unrealized gain (loss) on available-for-sale securities	**641**	(51)	**5,971**
Foreign currency translation adjustments	**(24)**	(14)	**(222)**
Treasury stock—at cost, 3,649,535 shares in 2005 and 1,547,232 shares in 2004	**(13,515)**	(5,036)	**(125,825)**
Total shareholders' equity	**105,335**	104,005	**980,683**
TOTAL	**¥160,846**	¥168,826	**$1,497,493**

Consolidated Statements of Income

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
NET SALES (Notes 3 and 13)	¥226,796	¥266,170	$2,111,497
COST OF SALES (Notes 3, 6, 10 and 13)	173,073	209,213	1,611,329
Gross profit	53,723	56,957	500,168
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 6, 9 and 10)	36,620	39,614	340,936
Operating income	17,103	17,343	159,232
OTHER INCOME (EXPENSES):			
Interest and dividend—net	565	284	5,258
Gain on sales of investment securities—net	727	2,053	6,768
Loss on write-down of investment securities	(165)	(199)	(1,535)
Equity in earnings (losses) of associated companies	395	(175)	3,679
Reversal of (provision for) allowance for doubtful receivables	526	(936)	4,897
Other—net	70	(846)	656
Other income—net	2,118	181	19,723
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	19,221	17,524	178,955
INCOME TAXES (Note 8):			
Current	8,658	8,467	80,608
Deferred	(373)	(692)	(3,470)
Total income taxes	8,285	7,775	77,138
MINORITY INTERESTS IN NET INCOME (LOSS)	63	(73)	590
NET INCOME	¥ 10,873	¥ 9,822	$ 101,227

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.o and 14):			
Basic net income	¥ 182.88	¥ 160.26	$ 1.70
Diluted net income	182.75		1.70
Cash dividends applicable to the year	30.00	26.00	0.28

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2005 and 2004

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2003	61,474	¥21,764	¥33,076	¥47,033	¥153	¥ 34	¥ (10)
Net income				9,822			
Appropriations:							
Cash dividends, ¥26.00 per share				(1,403)			
Bonuses to directors and corporate auditors				(97)			
Gain on sale of treasury stock			65				
Decrease due to merger of a subsidiary				(1,154)			
Repurchase of treasury stock	(1,546)						(5,032)
Sale of treasury stock	25						6
Net decrease in unrealized gain on available-for-sale securities					(204)		
Net decrease in foreign currency translation adjustments						(48)	
BALANCE, MARCH 31, 2004	59,953	21,764	33,141	54,201	(51)	(14)	(5,036)
Net income				**10,873**			
Appropriations:							
Cash dividends, ¥30.00 per share				**(1,664)**			
Bonuses to directors and corporate auditors				**(78)**			
Loss on sale of treasury stock			**(4)**				
Repurchase of treasury stock	**(2,152)**						**(8,656)**
Sale of treasury stock	**49**						**177**
Net increase in unrealized gain on available-for-sale securities					**692**		
Net decrease in foreign currency translation adjustments						**(10)**	
BALANCE, MARCH 31, 2005	**57,850**	**¥21,764**	**¥33,137**	**¥63,332**	**¥641**	**¥(24)**	**¥(13,515)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2004	$202,621	$308,549	$504,620	$ (478)	$(134)	$ (46,881)
Net income			**101,227**			
Appropriations:						
Cash dividends, $0.28 per share			**(15,493)**			
Bonuses to directors and corporate auditors			**(728)**			
Loss on sale of treasury stock		**(37)**				
Repurchase of treasury stock						**(80,595)**
Sale of treasury stock						**1,651**
Net increase in unrealized gain on available-for-sale securities				**6,449**		
Net decrease in foreign currency translation adjustments					**(88)**	
BALANCE, MARCH 31, 2005	**$202,621**	**$308,512**	**$589,626**	**$5,971**	**$(222)**	**$(125,825)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥19,221	¥17,524	$178,955
Adjustments for:			
Income taxes—paid	(8,098)	(8,625)	(75,396)
Depreciation and amortization	1,694	2,226	15,769
(Reversal of) provision for allowance for doubtful receivables	(1,066)	994	(9,924)
(Reversal of) provision for accrued bonuses to employees	(216)	338	(2,007)
(Reversal of) provision for accrued retirement benefits	(1,033)	385	(9,621)
Provision for (reversal of) accrued bonuses to directors	55	(181)	511
Gain on sales of investment securities—net	(727)	(2,053)	(6,768)
Loss on write-down of investment securities	165	199	1,535
Bonuses to directors and corporate auditors	(78)	(100)	(728)
Equity in (earnings) losses of associated companies	(395)	175	(3,679)
Changes in assets and liabilities:			
Decrease in receivables—trade	16,452	15,944	153,169
Decrease in inventories	128	3,416	1,185
(Increase) decrease in other current assets	(3,538)	1,223	(32,936)
Decrease in payables—trade	(17,899)	(12,085)	(166,645)
Increase in other current liabilities	9,471	1,285	88,175
Other—net	59	923	556
Total adjustments	(5,026)	4,064	(46,804)
Net cash provided by operating activities	14,195	21,588	132,151
INVESTING ACTIVITIES:			
Proceeds from sales of investment securities	1,317	3,141	12,260
Purchases of investment securities	(1,238)	(1,716)	(11,522)
Purchases of intangible assets	(567)	(1,014)	(5,280)
Purchases of property and equipment	(2,587)	(161)	(24,084)
Purchases of long-term deposits	(2,000)		(18,620)
Other—net	217	(73)	2,020
Net cash (used in) provided by investing activities	(4,858)	177	(45,226)
FINANCING ACTIVITIES:			
Sales of treasury stock	173		1,615
Repurchases of treasury stock	(8,656)	(5,032)	(80,595)
Dividends paid	(1,666)	(1,405)	(15,507)
Dividends paid for minority in consolidated subsidiary company	(3)	(103)	(26)
Net cash used in financing activities	(10,152)	(6,540)	(94,513)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(10)	(48)	(88)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(825)	15,177	(7,676)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	53,462	38,285	497,736
CASH AND CASH EQUIVALENTS, END OF YEAR	¥52,637	¥53,462	$490,060

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2005 and 2004

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2004 financial statements to conform to the classifications used in 2005.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which ITOCHU TECHNO-SCIENCE Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and has been made at the rate of ¥107.41 to US$1, the approximate rate of exchange as of March 31, 2005. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Consolidation*—The consolidated financial statements as of March 31, 2005 include the accounts of the Company and its 5 (9 in 2004) subsidiaries (together, the "Group").

Those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated. Investments in 5 (7 in 2004) associated companies are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. *Cash Equivalents*—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. *Inventories*—Inventories are primarily stated at cost on the specific identification basis. Supplies are carried at cost less accumulated amortization, which are calculated by the straight-line method over 5 years of the estimated useful lives. Certain merchandise inventories are stated at cost determined by the moving-average cost basis. Certain supplies are stated at the most recent purchase price which approximates cost determined by the first-in, first-out method.

d. *Investment Securities*—Investment securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average cost method.

Non-marketable available-for-sale securities are stated at cost determined by the average cost method.

Investments in limited partnership are accounted for by the equity method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. *Property and Equipment*—Property and equipment are stated at cost. Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is from 10 to 20 years for buildings and structures, and from 5 to 15 years for furniture and fixtures.

f. *Intangible Assets*—Intangible assets are carried at cost less accumulated amortization, which are calculated by the straight-line method. Amortization of software is calculated by the straight-line method over 5 years of the estimated useful lives.

g. *Retirement and Pension Plans*—The Company and certain consolidated subsidiaries participate in the "ITOCHU Group Kosei-Nenkin Kikin," which is a defined benefit contributory pension fund, and have the tax qualified defined benefit non-contributory pension fund or the unfunded benefit plan.

The liability for employees' retirement benefits is provided at the amount based on the projected benefit obligation and plan assets at the balance sheet date. An actuarial adjustment is charged to income in the following year when incurred.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at each balance sheet date.

h. *Research and Development Costs*—Research and development costs are charged to income as incurred.

i. *Leases*—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

j. *Income Taxes*—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

k. *Appropriations of Retained Earnings*—Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

l. *Foreign Currency Transactions*—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

m. *Foreign Currency Financial Statements*—The balance sheet accounts of the consolidated foreign subsidiary are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date.

n. *Derivatives and Hedging Activities*—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value with gains or losses on derivative transactions recognized in the consolidated statement of income and if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until the maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of merchandise from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

o. *Per Share Information*—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised into common stock.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

p. *New Accounting Pronouncements*—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Group expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. ACCOUNTING CHANGE

Prior to April 1, 2004, sales of merchandise inventories were recorded upon delivery. Effective April 1, 2004, the Group changed its method of accounting for such inventories to record sales upon completion of the sales contract. The effect of this change was to decrease sales by ¥4,049 million ($37,694 thousand) and income before income taxes and minority interests by ¥746 million ($6,949 thousand), respectively, for the year ended March 31, 2005.

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Non-current:			
Marketable equity securities	¥5,188	¥3,385	$48,301
Non-marketable equity securities	1,643	2,072	15,300
Investment in limited partnership	2,146	1,475	19,979
Total	¥8,977	¥6,932	$83,580

The carrying amounts and aggregate fair values of investment securities as of March 31, 2005 and 2004 were as follows:

	Millions of Yen			
March 31, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	¥4,380	¥809	¥ 1	¥5,188
March 31, 2004				
Securities classified as available-for-sale equity securities	¥3,446	¥ 68	¥129	¥3,385

	Thousands of U.S. Dollars			
March 31, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	$40,776	$7,538	$13	$48,301

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale:			
Equity securities	¥1,643	¥2,072	$15,300
Investment in limited partnership	2,146	1,475	19,979
Total	¥3,789	¥3,547	$35,279

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥1,317 million ($12,260 thousand) and ¥3,066 million, respectively. Gross realized gains on these sales for the years ended March 31, 2005 and 2004, were ¥727 million ($6,768 thousand) and ¥2,044 million, respectively. Gross realized losses on these sales were ¥36 million for the year ended March 31, 2004.

5. INVENTORIES

Inventories as of March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Merchandise	¥13,747	¥13,416	$127,988
Work in process	1,546	806	14,386
Supplies	5,187	6,386	48,294
Total	¥20,480	¥20,608	$190,668

6. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees, directors and corporate auditors.

As noted in the significant accounting policy, the Company and certain consolidated subsidiaries have two defined benefit plans; the Group contributory pension plan and the tax qualified non-contributory pension plan. Employees who are retiring upon mandatory age or by death are entitled to larger benefits. Benefits determined by the retirement rule are paid primarily from the Group pension fund and the rest is then paid by the tax qualified plan, the Company or certain consolidated subsidiaries. The liability for retirement benefits for directors and corporate auditors for the years ended March 31, 2005 and 2004 were ¥107 million ($996 thousand) and ¥62 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits as of March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥ 6,944	¥ 5,768	$ 64,647
Fair value of plan assets	(5,923)	(5,031)	(55,141)
Unrecognized actuarial (loss) gain	(616)	705	(5,733)
Net liability	¥ 405	¥ 1,442	$ 3,773

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	¥ 567	¥ 233	$ 5,278
Interest cost	114	112	1,065
Expected return on plan assets	(101)	(79)	(937)
Recognized actuarial (gain) loss	(705)	938	(6,567)
Premium of defined benefit contributory pension fund	1,007	828	9,374
Net periodic benefit costs	¥ 882	¥2,032	$ 8,213

Assumptions used for actuarial computation for the years ended March 31, 2005 and 2004 are set forth as follows:

	2005	2004
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Recognition period of actuarial gain/loss	1 year	1 year

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of the common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥37,214 million ($346,469 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Stock options have been approved at the shareholders meetings as an additional benefit for certain directors or officers and key employees. The outstanding stock options granted are as follows:

Date of Shareholders Meeting	Number of Shares	Exercise Period of the Stock Options	Exercise Price per Share
June 28, 2000	95,000 shares	From July 1, 2002 to June 30, 2005	¥16,656 ($155)
June 27, 2001	73,300 shares	From July 1, 2003 to June 30, 2006	¥12,520 ($117)
June 26, 2002	235,500 shares	From July 1, 2004 to June 30, 2007	¥ 3,504 ($33)

8. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% and 42% for the years ended March 31, 2005 and 2004, respectively.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42% to 41%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at the effective tax rate of 41% as at March 31, 2004.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Current:			
Deferred tax assets:			
Loss on write-down of inventories	**¥3,967**	¥2,171	**$36,934**
Accrued bonuses to employees	**1,230**	1,331	**11,454**
Accrued enterprise taxes	**301**	482	**2,799**
Accrued other expenses	**216**	413	**2,011**
Other	**254**	360	**2,359**
Less valuation allowance	**(202)**	(201)	**(1,877)**
Total	**5,766**	4,556	**53,680**
Deferred tax liabilities—consolidation adjustment of allowance for doubtful accounts	**2**	8	**18**
Net deferred tax assets—current	**¥5,764**	¥4,548	**$53,662**
Non-current:			
Deferred tax assets:			
Loss on write-down of investment securities	**¥ 681**	¥ 873	**$ 6,342**
Tax loss carryforwards	**250**	282	**2,330**
Depreciation	**225**	130	**2,094**
Accrued retirement benefits	**216**	616	**2,012**
Provision for doubtful receivables	**132**	538	**1,224**
Other	**221**	235	**2,060**
Less valuation allowance	**(529)**	(635)	**(4,930)**
Total	**1,196**	2,039	**11,132**
Deferred tax liabilities—net unrealized gain on available-for-sale securities	**432**		**4,018**
Net deferred tax assets—non-current	**¥ 764**	¥2,039	**$ 7,114**
Net deferred tax liabilities (included in other long-term liabilities)		¥ 14	

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2004 is as follows:

	2005	2004
Normal effective statutory tax rate	**41 %**	42 %
Expenses not deductible for income tax purposes	**1.1**	1.4
Inhabitant tax—per capita	**0.5**	0.3
Equity in (earnings) losses of associated companies	**(0.8)**	0.4
Other—net	**1.3**	0.3
Actual effective tax rate	**43.1%**	44.4%

As of March 31, 2005, certain subsidiaries have tax loss carryforwards aggregating approximately ¥525 million ($4,887 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 84	$ 782
2007	68	633
2008	21	190
2009	280	2,608
2010	72	674
Total	¥525	$4,887

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income was ¥524 million ($4,879 thousand) for the year ended March 31, 2005.

10. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 2005 and 2004 were ¥4,906 million ($45,680 thousand) and ¥5,011 million, respectively, including ¥1,012 million ($9,421 thousand) and ¥1,144 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2005 and 2004 was as follows:

	Millions of Yen							
	2005				2004			
	Buildings and Structures	Furniture and Fixtures	Software	Total	Buildings and Structures	Furniture and Fixtures	Software	Total
Acquisition cost	¥65	¥2,942	¥360	¥3,367	¥83	¥3,678	¥674	¥4,435
Accumulated depreciation	42	1,588	153	1,783	36	1,844	272	2,152
Net leased property	¥23	¥1,354	¥207	¥1,584	¥47	¥1,834	¥402	¥2,283

	Thousands of U.S. Dollars			
	2005			
	Buildings and Structures	Furniture and Fixtures	Software	Total
Acquisition cost	$605	$27,393	$3,347	$31,345
Accumulated depreciation	388	14,784	1,425	16,597
Net leased property	$217	$12,609	$1,922	$14,748

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 674	¥ 943	$ 6,274
Due after one year	941	1,382	8,761
Total	¥1,615	¥2,325	$15,035

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Depreciation expense	**¥ 959**	¥1,097	**$8,928**
Interest expense	**47**	59	**436**
Total	**¥1,006**	¥1,156	**$9,364**

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases as of March 31, 2005 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥1,833	$17,071
Due after one year	5,745	53,484
Total	¥7,578	$70,555

11. DERIVATIVES

The Group enters into derivative financial instruments (“derivatives”), including foreign currency forward contracts to hedge foreign exchange risk associated with certain assets, liabilities and firm commitments of ordinary purchase transactions denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, foreign currency risk in these derivatives is basically offset by opposite movements in the value of hedged assets, liabilities or firm commitments of ordinary purchase transactions.

Because the counterparties to these derivatives are limited to major international financial institutions and a general trading company, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Forward exchange contracted amounts which are assigned to associated assets or liabilities are reflected on the balance sheet at year end.

12. CONTINGENT LIABILITIES

As of March 31, 2005, the Group is contingently liable for guarantees of borrowings for the Group’s employees amounting to ¥519 million ($4,833 thousand).

13. RELATED PARTY TRANSACTIONS

Transactions of the Company with associated companies for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Sales	**¥2,873**	¥997	**$26,750**
Purchases	**273**	338	**2,543**

Transactions of the Company with the parent company, ITOCHU Corporation, for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Deposits	**¥ 3,000**	¥10,000	**$ 27,930**
Purchases	**56,692**	59,500	**527,812**

The balances due to or from the parent company, ITOCHU Corporation, as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Deposits (included in cash and cash equivalents)	**¥10,000**	¥10,000	**$93,101**
Payables—Trade	**8,662**	7,626	**80,646**

14. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2005 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2005	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥10,787	58,985	¥182.88	$1.70
Effect of dilutive securities—Warrants		43		
Diluted EPS—Net income for computation	¥10,787	59,028	¥182.75	$1.70

Diluted EPS is not disclosed because it is anti-dilutive in 2004.

15. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The following appropriations of retained earnings as of March 31, 2005 were approved at the Company's shareholders meeting held on June 22, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥15.00 ($0.14) per share	¥868	$8,079
Bonuses to directors and corporate auditors	52	484

In addition to the cash dividends described above, the Company paid interim cash dividends of ¥885 million ($8,238 thousand, ¥15.00 ($0.14) per share) on December 3, 2004 to shareholders of record as of September 30, 2004, based on a resolution of the Board of Directors.

b. Repurchase of Treasury Stock

By the resolution of the Board of Directors held on April 27, 2005, the Company repurchased 379,600 shares of the Company's common stock at an aggregate cost of ¥1,288 million ($11,993 thousand) in the period from May 12, 2005 to May 26, 2005.

16. SEGMENT INFORMATION

The Group operates in the following business segments:

"System" consists of IT consulting service, infrastructure construction service, computer-network system sales, software development, maintenance service of software, etc.

"Support" consists of maintenance service of computer-network system, etc.

Information about business segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2005 and 2004 is as follows:

(1) Business Segments

a. Sales and Operating Income

	Millions of Yen				Thousands of U.S. Dollars			
	2005				2005			
	System	Support	Eliminations/ Corporate	Consolidated	System	Support	Eliminations/ Corporate	Consolidated
Sales to customers	¥186,092	¥40,704		¥226,796	$1,732,539	$378,958		$2,111,497
Intersegment sales	726	15,428	¥(16,154)		6,760	143,641	$(150,401)	
Total sales	186,818	56,132	(16,154)	226,796	1,739,299	522,599	(150,401)	2,111,497
Operating expenses	181,332	37,883	(9,522)	209,693	1,688,221	352,694	(88,650)	1,952,265
Operating income	¥ 5,486	¥18,249	¥ (6,632)	¥ 17,103	$ 51,078	$169,905	$ (61,751)	$ 159,232

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen				Thousands of U.S. Dollars			
	2005				2005			
	System	Support	Eliminations/ Corporate	Consolidated	System	Support	Eliminations/ Corporate	Consolidated
Total assets	¥70,361	¥26,711	¥63,774	¥160,846	$655,065	$248,681	$593,747	$1,497,493
Depreciation	509	277	908	1,694	4,742	2,575	8,452	15,769
Capital expenditures	437	786	2,189	3,412	4,072	7,319	20,379	31,770

a. Sales and Operating Income

	Millions of Yen			
	2004			
	System	Support	Eliminations/ Corporate	Consolidated
Sales to customers	¥225,490	¥40,680		¥266,170
Intersegment sales	1,011	13,509	¥(14,520)	
Total sales	226,501	54,189	(14,520)	266,170
Operating expenses	220,807	36,760	(8,740)	248,827
Operating income	¥ 5,694	¥17,429	¥ (5,780)	¥ 17,343

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2004			
	System	Support	Eliminations/ Corporate	Consolidated
Total assets	¥86,470	¥20,113	¥62,243	¥168,826
Depreciation	997	379	850	2,226
Capital expenditures	302	196	746	1,244

Notes: 1. Corporate operating expenses consist primarily of the administration expenses of the Company, which are not allocated to business segments. Corporate operating expenses for the years ended March 31, 2005 and 2004 were ¥7,375 million ($68,664 thousand) and ¥6,295 million, respectively.
2. Corporate assets consist primarily of cash and cash equivalents, investment securities and administrative assets of the Company. Corporate assets as of March 31, 2005 and 2004 were ¥76,223 million ($709,649 thousand) and ¥70,920 million, respectively.
3. The effect of the change in the accounting for sales of merchandise inventories as described in Note 3 was to decrease sales to customers of system segment by ¥4,049 million ($37,694 thousand) and operating income of system segment by ¥746 million ($6,949 thousand), respectively, for the year ended March 31, 2005.

(2) Geographical Segments and Sales to Foreign Customers

Geographical segment information was not presented since aggregate sales and assets of the Company and its domestic subsidiaries were more than 90% of the consolidated net sales and assets for the years ended March 31, 2005 and 2004.

Sales to foreign customers were not presented since sales to foreign customers were less than 10% of the consolidated sales for the years ended March 31, 2005 and 2004.

Independent Auditors' Report

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To the Board of Directors of ITOCHU TECHNO–SCIENCE Corporation:

We have audited the accompanying consolidated balance sheets of ITOCHU TECHNO–SCIENCE Corporation and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ITOCHU TECHNO–SCIENCE Corporation and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for sales of merchandise inventories as of April 1, 2004.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 22, 2005

Member of
Deloitte Touche Tohmatsu

Corporate Data

(As of March 31, 2005)

ITOCHU TECHNO–SCIENCE Corporation (CTC*)

*CTC = Challenging Tomorrow's Changes (Corporate action guideline)

■ Head Office

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Tokyo 100-6080, Japan
Phone: +81-3-6203-5000
URL: http://www.ctc-g.co.jp/

■ Established

April 1,1972

■ Paid-in Capital

¥21,764 million

■ Business Lines

CTC uses leading-edge computers, networks and applications to create total solutions in system consultation, integration, administration, maintenance/support, training and outsourcing.

■ Number of Employees

(CTC Group Total)
3,156

■ Main Suppliers & Sales Performance

Sun Microsystems	System Provider (No. 1 vendor in Japan)
Cisco Systems	Gold Partner Distributor (No. 2 vendor in Japan)
Oracle	Excellent Partner 2004
	Strategic Alliance Partner 2004
	Engineer of the Year 2004
EMC	Sales Partner (No. 1 Sales Partner at CLARiX CX series in 2004 in Japan)
Avaya	Platinum Partner (No. 1 vendor in Japan)
Hewlett Packard	Enterprise Partner (No. 1 vendor in Japan)
Network Appliance	Major Distributor (No. 1 vendor in Japan)
VERITAS Software	Major Reseller (No. 1 vendor in Japan)
HITACHI	Business Partner (No. 1 vendor in Japan on SANRISE)
BEA Systems	Best Technical Sales (No. 1 Weblogic Platform Sales of the Year)

■ CTC Group Companies

Consolidated Subsidiaries (5 companies)

Company	Paid-in Capital	Main Business Activities
CTC Laboratory Systems Corporation	¥300 million	Information system development and sales to the chemical and pharmaceutical industries
CTC Technology Corporation	¥450 million	Information system maintenance and support
CTC SP Corporation	¥100 million	Development and sales of network solutions
CTC Business Service Corporation	¥160 million	Printing and delivery business services
CTC Ventures, Inc.	US$2	Investment in venture funds in the United States

Notes: 1. On March 29, 2005, CTC Laboratory Systems Corporation-USA initiated liquidation proceedings.
2. On Feb. 28, 2005, CTC Create Corporation and Okinawa Call Center Corporation were transferred.
3. On Apr. 1, 2005, MAXIS Consulting Corporation was established and added to the scope of consolidation.

Associated Companies Accounted for by the Equity Method (5 companies)

Company	Paid-in Capital	Main Business Activities
Itochu Electronics Corporation	¥150 million	Sales of computer peripheral devices
Itochu Technology Ventures, Inc.	¥100 million	Operation of investment funds for venture companies
Open Future System, INC.	¥664 million	Software development
Open AccesSphere, Inc.	¥10 million	Software development
Sony Broadband Solutions Corp.	¥1,642 million	Development and sales of systems that combine audio-visual functions with information technology

Note: On Apr. 1, 2005, EC-One, Inc., and Investment-One Inc. became associated companies accounted for by the equity method.

■ Stock Information

Common Stock

Authorized	246,000,000 shares
Issued	61,500,000 shares
Number of Shareholders	23,530

Major Shareholders

	Number of Shares	(%)
1. ITOCHU Corporation	27,866,400	45.31%
2. The Master Trust Bank of Japan, Ltd. (Trust Account)	3,851,200	6.26
3. Japan Trustee Services Bank, Ltd. (Trust Account)	2,899,300	4.71
4. Japan Trustee Services Bank, Ltd. (ITOCHU Corp., Retirement Benefit Trust Account Re-entrusted by The Sumitomo Trust & Banking Co., Ltd.)	2,072,000	3.37
5. Designated Separately Managed Account. Trustee is Mitsui Asset Trust and Banking Company, Ltd. (Trust Account 1)	1,172,500	1.91
6. Trust & Custody Services Bank, Ltd. (Trust Account B)	644,300	1.05
7. CTC Employee Shareholding Association	432,740	0.70
8. Japan Securities Finance Co., Ltd.	392,200	0.64
9. BBH Lux Fidelity Funds Japan Fund	385,400	0.63
10. CRC Solutions Corp.	372,150	0.61

Challenging Tomorrow's Changes

ITOCHU TECHNO-SCIENCE Corporation

http://www.ctc-g.co.jp/

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