CTC

Challenging Tomorrow's Changes

Becoming the Most Appealing and Resilient IT Solutions Provider

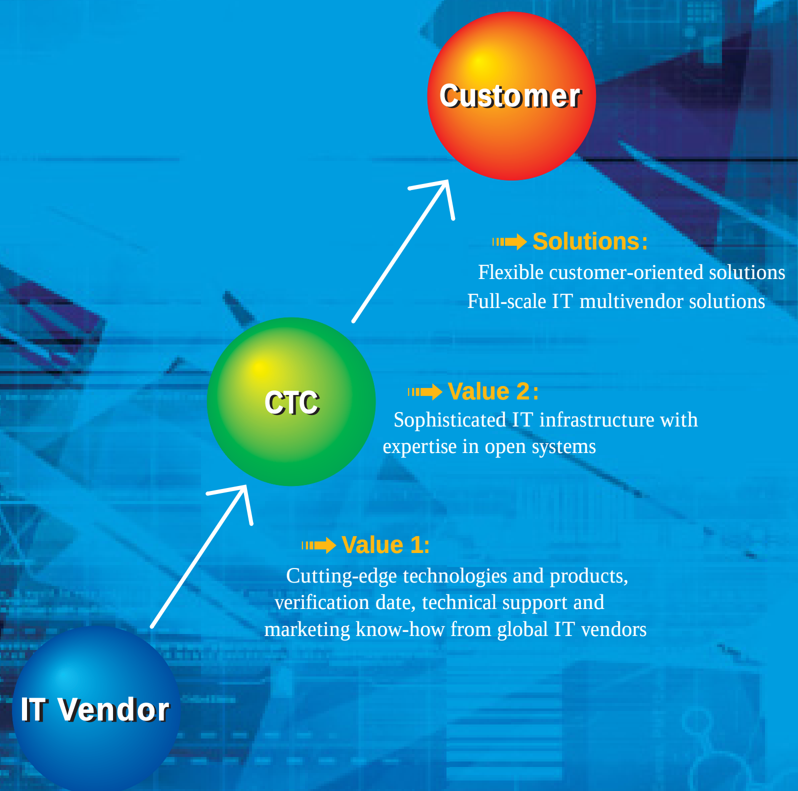
Annual Report 2004

For the year ended March 31, 2004

By taking advantage of our three core capabilities, we provide the most suitable IT solutions for our customers.

Since its establishment, the ITOCHU TECHNO–SCIENCE Corporation (CTC) has consistently provided cutting-edge technologies and services based on a corporate philosophy emphasizing customer satisfaction. The three strengths that support this philosophy are our ability to (1) utilize global partnerships for the careful selection and early introduction of state-of-the-art information technology (IT), (2) create systems compatible with various industries owing to our experience in providing comprehensive systems for telecommunications and a wide range of other industries and (3) provide integrated services, from consulting to systems design, development, deployment, maintenance and after-sales support. To ensure even higher levels of customer satisfaction, we are implementing the CTC Group Management Reform Plan, aimed at making CTC "the most appealing and resilient IT solutions provider."

CTC is focusing on providing value-added multivendor solutions



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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.

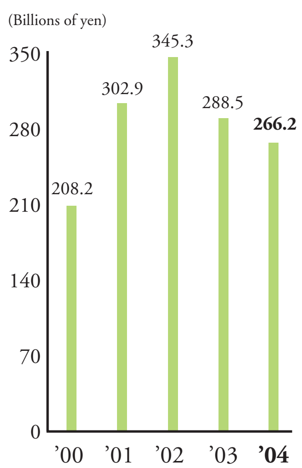
Financial Highlights

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries

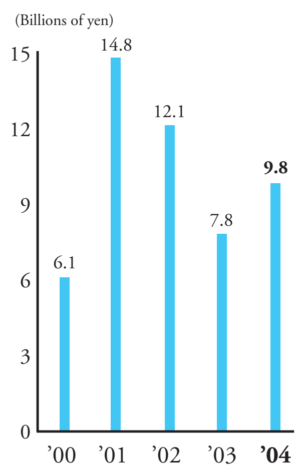
	Billions of Yen		Millions of U.S. Dollars
	2004	2003	**2004**
For the Years Ended March 31:			
Net sales	¥266.2	¥288.5	$2,520
Operating income	17.3	17.6	164
Net income	9.8	7.8	93
As of March 31:			
Total assets	168.8	178.0	1,598
Total shareholders' equity	104.0	102.0	985
Shareholders' equity ratio (%)	61.6%	57.3%	
Return on equity (%)	9.5	7.8	
Return on assets (%)	5.7	4.4	
	Yen		U.S. Dollars
Per Share Data:			
Basic net income	¥160.26	¥124.95	$1.52
Cash dividends applicable to the year	26.00	20.00	0.25

Note: U.S. dollar amounts represent translations of Japanese yen amounts at the rate of ¥105.63=US$1, the approximate rate of exchange as of March 31, 2004.

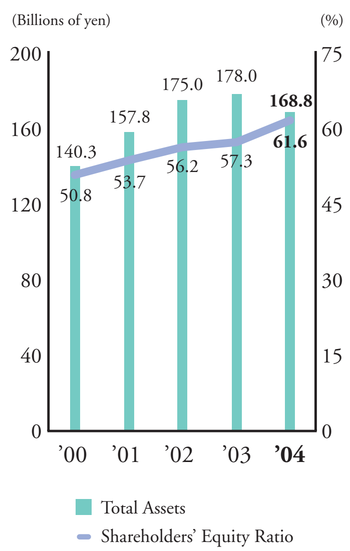
Net Sales



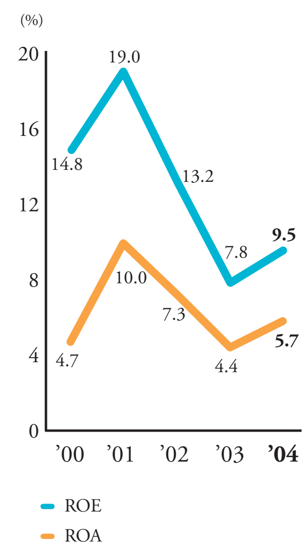
Net Income



Total Assets and Shareholders' Equity Ratio



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



Message from the President

Fiscal 2004, ended March 31, 2004, was positioned as the "year of management reforms." During the period, we succeeded in our goal of achieving increased profitability. In fiscal 2005, which we have positioned as the "year of reform-driven results," we will target an upswing in sales and further improvements in earnings.

Fiscal 2004 Review

Fiscal 2004 was an extremely significant year for the CTC Group. This was mainly because measures to contain costs and control expenses aimed at strengthening profitability began to steadily bear fruit.

Consolidated net sales for the year amounted to ¥266.2 billion, down 7.7% from fiscal 2003. Operating income decreased 1.7%, to ¥17.3 billion, while net income jumped 26.2%, to ¥9.8 billion.

Fiscal 2004 saw solid demand from the telecommunications and broadcasting industry, by far our strongest segment with the potential to become a powerful pillar supporting the CTC Group. During the year, we kept steady pace with demand for building broadband networks for mobile phone and fixed line carriers.

We strengthened profitability by managing expenses and rigorously controlling costs for development projects and by adopting a cost-conscious approach to accepting orders. As a result, we boosted the gross profit margin 1.3 percentage points despite being involved in several large-scale development projects that were not profitable. Furthermore, we lowered selling, general and administrative (SG&A) expenses 1.9%, to ¥39.6 billion, thereby boosting the operating margin 0.4 percentage point, to 6.5%.

Affiliated companies involved in broadband-related markets enjoyed a steady improvement in business conditions. Consequently, we posted a substantial improvement in equity in losses of associated companies, as well as a major gain on sales of investment securities–net, consistent with our fixed-asset reduction policy. Despite a provision for doubtful receivables, we reported considerable improvement in other income–net, enabling us to exceed our initial net income target of ¥9.7 billion.

Year of Reform-Driven Results

We have designated fiscal 2005 as the "year of reform-driven results," and as such are aiming to increase sales and further boost profitability. The pursuit of customer satisfaction is our most important challenge in this regard. On April 1, 2004, we reorganized our operations, laying the groundwork for a comprehensive customer-oriented sales system. In the latter half of the year, we plan to combine the offices of CTC in the Tokyo metropolitan area as a means of making this system even stronger. We will also combine the offices of CTC Technology Corporation as well as add the function of a verification center to the company. By strengthening the alliance between our two companies, employees from both will be able to work together to propose value-added solutions for customers.

Under the reorganization, we also established a new Project Management Office, designed to ensure more meticulous profit management of large-scale development projects—which was an issue in the previous fiscal year. We now have in place a system that allows Companywide project management.

For fiscal 2005, we are projecting a steady increase in sales to the telecommunications and broadcasting industry, our largest customer base. We will continue focusing on quality-oriented projects while containing SG&A expenses, rigorously controlling costs and reinforcing competitiveness. For the purpose of making further advances in customer-oriented marketing, we will also make greater investments in personnel—the Group's greatest asset—and achieve stronger medium- and long-term growth by making the most effective use of the strengths of IT vendors.

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

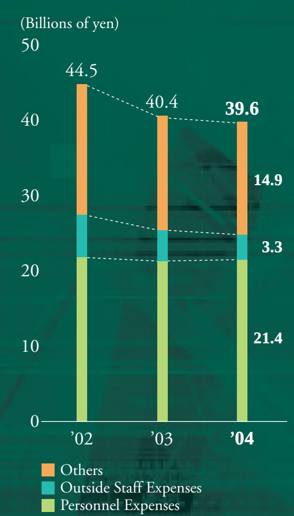
September 2004

Yushin Okazaki
President & CEO

From the "Year of Management Reforms" to the "Year of Reform-Driven Results"

We believe that corporations will make proactive IT investments, which will underpin a solid recovery in the information services industry. At the same time, however, we expect competition to intensify. In response, we must develop our own high-value-added services and actively target high levels of customer satisfaction if we are to differentiate ourselves from our competitors and stay in business. In fiscal 2003, the CTC Group devised a business reform plan, designating fiscal 2004 as the "year of management reforms" and fiscal 2005 as the "year of reform-driven results." These actions are designed to achieve our goal of becoming "the most appealing and resilient IT solutions provider."

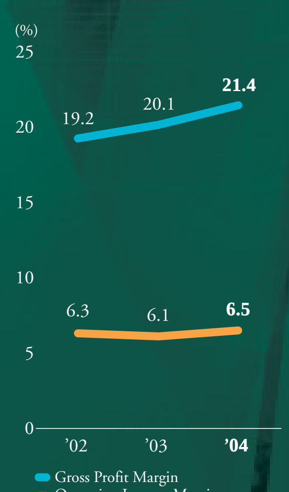
SG&A Expenses



Results of the "Year of Management Reforms"

Under its reform plan, the CTC Group worked hard to improve profitability in fiscal 2004. We believe that improving earnings is an essential precondition for a company desiring growth with stability. By focusing on profitability when securing orders and rigorously controlling costs, we improved our gross profit margin 1.3 percentage points, from 20.1% to 21.4%, despite being involved in several unprofitable large-scale development projects. We are targeting even greater efficiencies throughout the Group to further strengthen our competitiveness. We have decreased SG&A expenses ¥0.8 billion by reducing outside staff while improving its efficiency and lowering other general expenses.

Gross Profit Margin and Operating Income Margin



Challenges in the "Year of Reform-Driven Results"

Main Challenges

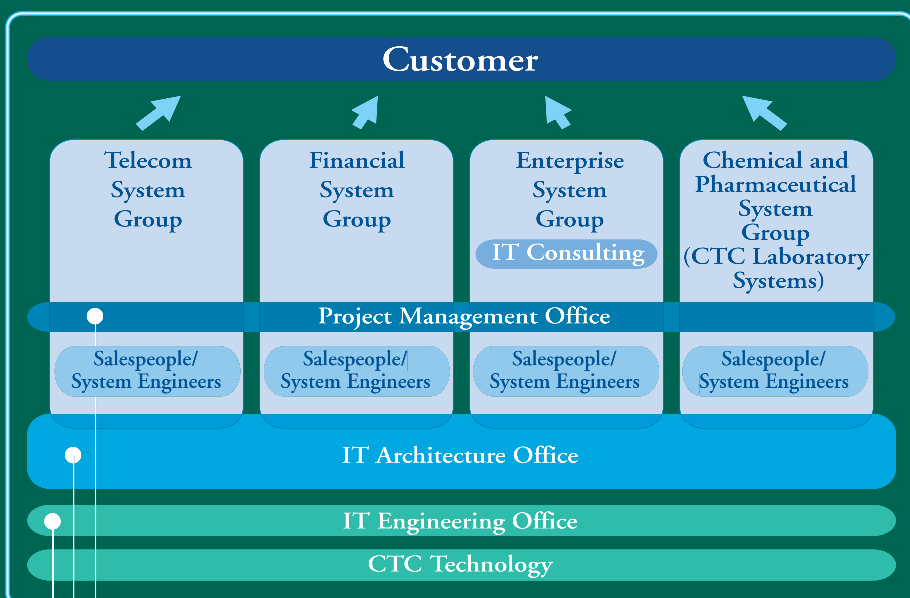
- **Expand customer-oriented marketing**
- **Strengthen relationships with IT vendors**
- **Reinforce personnel training**
- **Sharpen competitiveness**
- **Pursue consolidated management**
- **Seize new growth opportunities**

New Customer-Oriented Organization

On April 1, 2004, the CTC Group extensively reorganized its operations to build a framework conducive to a comprehensive customer-oriented approach. Our new organization consists of four customer-oriented business groups vertically organized according to industry, and an organization that provides horizontal support across the entire corporation.

The four business groups are Telecom System, Financial System, Enterprise System and Chemical and Pharmaceutical System, the last of which is the core business of subsidiary CTC Laboratory Systems Corporation.

Customer-Oriented Interdependent Model



Project Management Office

The Project Management Office is responsible for the rigorous cost management of large-scale development projects and is in charge of managing the progress and implementation of important projects on a Companywide level. It has the authority to reassign the Company's engineers beyond the framework of the business groups, and is also responsible for managing companies with whom we collaborate on development.

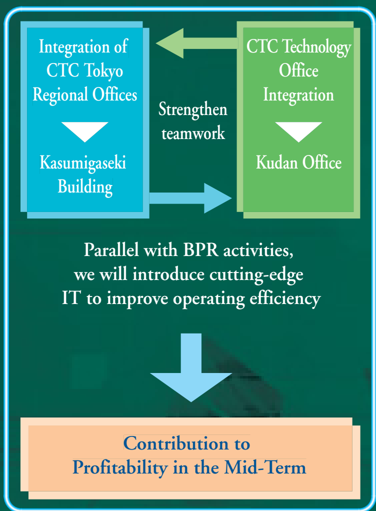
IT Architecture Office

Under the direct control of the president, the IT Architecture Office keeps a constant and watchful eye on IT architecture (technology), manages a Companywide product portfolio and combines customers' needs with product and service sales strategies.

IT Engineering Office

As an entity that supports core Groupwide technologies and products, the IT Engineering Office tests technologies and manages quality. It serves as a technical contact point between the Group and IT vendors and as a facilitator for technical collaboration with CTC Technology.

Outline of the Office Consolidations



By placing system engineers (SEs), who previously provided horizontal support across the Company, in each business group, we will pursue a customer-oriented approach that brings salespeople and SEs together. We have also strengthened our alliance with CTC Technology, a subsidiary specializing in maintenance and support. This has enhanced our deployment and maintenance services by creating a framework for delivering high-quality integrated services encompassing the entire spectrum, from consulting to systems design, development, deployment, maintenance and after-sales support.

We have established three new entities to provide horizontal specialist support for each business group. The first is the IT Architecture Office, which grasps and analyzes the larger "IT picture" and ties this to our business strategies. The second is the IT Engineering Office, which specializes in handling technologies common to all areas, strengthens relations with IT vendors and undertakes Companywide technical support activities. The third is the Project Management Office, which manages important, large-scale development projects that we find desirable to participate in as a Group.

The Project Management Office will set about eradicating unprofitable projects that were an issue in fiscal 2004 and focus on Companywide project management as well as maintaining and improving the profitability of large-scale development projects. Specifically, this will entail providing appropriate estimates for all stages prior to signing contracts, raising the skill level of project managers and leaders, managing the actual progress of projects and providing support to projects in accordance with changing circumstances.

In October 2004, we will bring together the main offices of CTC, which are currently scattered around Tokyo, into a building in Kasumigaseki in central Tokyo. We will also integrate the offices of CTC Technology into a single location not far away, in Kudan, central Tokyo. This will improve the workplace environment and help foster business process reengineering (BPR). It will also enable us to better integrate the activities of our salespeople and SEs within a single organization. Since CTC Technology will also be concentrated on one physical site, adding the function of verification center, we will have a better "face-to-face" communication environment that will enable us to provide optimal services by bringing our "organization, offices and hearts" together.

Fostering Businesses that We Can Dominate

The CTC Group has analyzed its strengths from the three standpoints of customer needs, IT vendor strengths and CTC strengths (people and technology). Intersecting all three is our Telecom System Group, a strong domain that enables CTC to provide its own kind of added value. We will fine-tune our strengths in this area and expand our business even further, so that we can establish a position of clear dominance.

Product sales account for a high proportion of the Enterprise System Group's sales, so transforming this business group into a solutions-based entity is a matter of urgency. To this end, we are bringing our sales staff and SEs together and consolidating the IT Consulting Department, previously a Groupwide cross-lateral entity. This structural transformation is designed to enable us to develop high-quality proposals with respect to the management of customers and systems-related matters.

Strengthening Personnel Training

To become a corporation that combines growth and stability, we must do more than simply put in place a new infrastructure through a program of reorganization and office consolidation. We must also deliver customer satisfaction. This depends crucially on the ability of employees to understand customers and provide professional services that solve customers' problems. To this end, the CTC Group is nurturing its personnel by strengthening education and training for all occupational groups at all levels. In fiscal 2005, for example, we will double the ¥0.5 billion in personnel training expenses allocated for fiscal 2004.

Using IT Vendor Power to Differentiate Ourselves

A key CTC Group strength is the strong relationships it has built with the world's leading IT vendors. We believe there is ample scope to make further use of their capabilities. The power that IT vendors have is not limited to technology, but extends as far as marketing expertise in the United States and other markets, a proven track record in proposals and deployment, employee education know-how and global IT resources. Our strengths lie in our ability to make maximum use of these "five IT vendor powers," and we will continue reinforcing these strengths. Meanwhile, we have already introduced education and training programs designed by fully customizing an IT vendor's program, which is something not found in other companies.

Strengthening Consolidated Group Management

Finally, the CTC Group plans to reinforce the consolidated management of its operations. CTC Technology is an important member of the CTC Group. By strengthening its alliance with the parent company, we intend to further strengthen earnings. Sony Broadband Solutions Corp., an associated company, is doing well in broadband-related markets, and we look forward to its contribution to CTC Group earnings. To make up for any shortfalls in this new structure, we will supplement our capabilities by forming alliances with other companies, and also consider merger and acquisition (M&A) opportunities. By strengthening our alliances with companies in the ITOCHU Group, we aim to maximize profit for our own group.

Adopting a customer-oriented sales approach, the CTC Group will develop and deliver high-value-added services to customers without delay. We will achieve this through the first-rate technological capabilities we have acquired through our relations with leading-edge IT vendors, with the added support of our own personnel. We will continue embracing challenges to ensure renewed progress and earn a reputation from stakeholders as "the most appealing and resilient IT solutions provider."

Corporate Governance and Compliance

(As of June 23, 2004)

Basic Corporate Governance Policies and Status

The CTC Group is committed to strengthening corporate governance and ensuring rigorous compliance to the principles of corporate ethics and the spirit of the law.

Supervision of management is handled through our corporate auditor system. We have four corporate auditors, of whom two are full-time and three who come from outside the Company. We also have eight directors, three of whom are from outside the Company. In these ways, we are strengthening our management supervision function.

Furthermore, we have introduced an executive officer system to clearly separate the decision-making and supervisory functions of management from the function of business enforcement. In accordance with this system, the Board of Directors is responsible for formulating policies and strategies, making decisions about important items and supervising operations. The role of executive officers is to promptly enforce decisions made by the Board under the direction of the representative director.

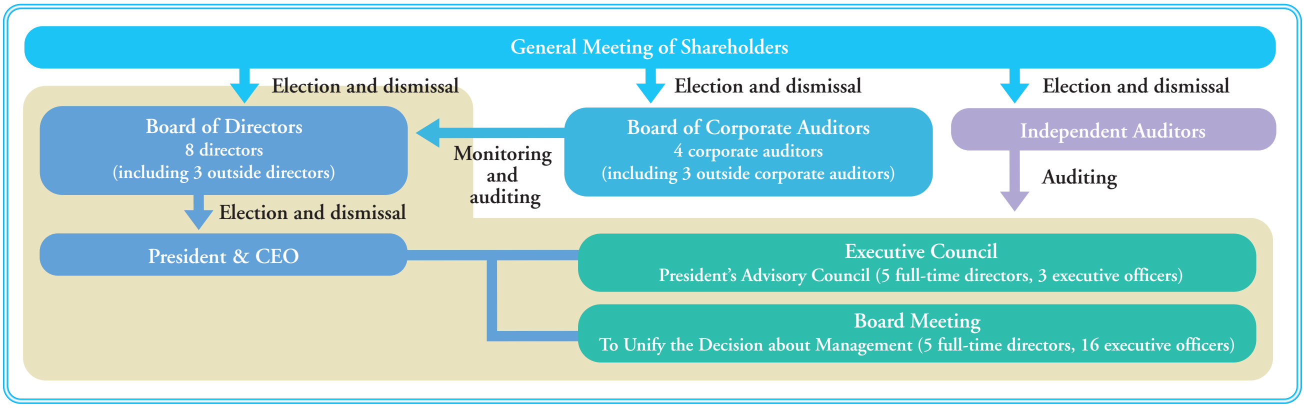
Fiscal 2004 Corporate Governance Highlights

To strengthen legal and ethical compliance, the CTC Group has established various committees. These committees hold meetings in a timely manner to speed up decision-making processes and communication of decisions that have been taken.

With respect to governance of consolidated subsidiaries, having clarified the business domain of companies within the Group, we assign to each company the division within the parent company that has the closest association with it. These assigned divisions monitor the business status of their respective Group companies and provide support as appropriate. Monitoring of overall governance status is handled by the Corporate Planning Department.

In the area of information management, a crucial issue, the Group established the Information Management Committee, a standing committee under the direct control of the president. The responsibility of this committee is to resolve various problems and prevent potential accidents from occurring.

CTC's Corporate Governance System



Board of Directors

(As of June 23, 2004)

Yushin Okazaki
President & CEO

Tohru Nakano
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

Takahiro Susaki
Senior Vice President

Directors and Corporate Auditors

Yushin Okazaki
President & CEO

Tohru Nakano
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

Takahiro Susaki
Senior Vice President

Bunei Yoshizumi
Standing Auditor

Kozo Ota
Standing Auditor

Shuji Ikeda
Auditor

Kosuke Hayashi
Auditor

Vice Presidents

Takeshi Ikeno
Kazuo Hayashi
Katsunori Suzuki
Chisato Kitagawa
Shinji Kumazaki
Akira Saitoh
Masaaki Matsuzawa
Tadataka Okubo
Kazunobu Nezaki
Yoshimichi Miura
Shinichiro Sakuraba
Katsuyuki Shirota
Kazunobu Moriyama
Ryouji Yokoyama
Yasuhiko Terada
Yasuhide Masanishi

Consolidated Six-Year Summary

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries

	Billions of Yen					
	2004	2003	2002	2001	2000	1999
For the Years Ended March 31:						
Net sales	¥ 266.2	¥ 288.5	¥ 345.3	¥ 302.9	¥ 208.2	¥ 175.4
Gross profit	57.0	58.0	66.4	67.4	44.7	39.0
Selling, general and administrative expenses	39.6	40.4	44.5	39.1	33.4	29.3
Operating income	17.3	17.6	21.8	28.3	11.3	9.7
Income before income taxes and minority interests	17.5	15.4	22.2	26.9	10.8	8.8
Net income	9.8	7.8	12.1	14.8	6.1	3.0
As of March 31:						
Total assets	168.8	178.0	175.0	157.8	140.3	119.4
Total shareholders' equity	104.0	102.0	98.4	84.8	71.3	11.9
Cash Flows: (*1)						
Cash flows from operating activities	21.6	16.4	15.9	7.1	(10.6)	—
Cash flows from investing activities	0.2	(0.5)	(1.5)	(7.8)	(1.3)	—
Cash flows from financing activities	(6.5)	(1.5)	(1.5)	(20.7)	22.1	—
Financial Ratios:						
Gross profit margin (%)	21.4%	20.1%	19.2%	22.3%	21.5%	22.3%
Operating income margin (%)	6.5	6.1	6.3	9.4	5.4	5.6
Shareholders' equity ratio (%)	61.6	57.3	56.2	53.7	50.8	10.0
Return on equity (ROE) (%) (*2)	9.5	7.8	13.2	19.0	14.8	—
Return on assets (ROA) (%) (*3)	5.7	4.4	7.3	10.0	4.7	—
	Yen					
Per Share Data:						
Basic net income (*4)	¥ 160.26	¥ 124.95	¥ 196.58	¥ 241.34	¥ 328.02	¥165.22
Shareholders' equity (*4)	1,733.47	1,658.37	1,600.25	1,378.65	3,480.03	660.39
Cash dividends applicable to the year	26.00	20.00	20.00	18.00	50.00	13.33

Notes: 1. As of December 31, 1998, one share of ¥1,000 par value was split into 30 common shares of ¥50 par value. Basic net income per share in fiscal 1999 is calculated on the assumption that the share was split at the beginning of the period.

2. 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) Statements of cash flows were not prepared prior to fiscal 2000.

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

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

(*4) 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 23, 2004.)

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 damages 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. 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 development companies, 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. Consequently, 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 to managing the progress of each project.

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.

- 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.
- 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 suspended or halted altogether for various reasons, such as reassessment of strategies related to a merger. 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 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.
- 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.
- We buy overseas products in yen and other currencies. The yen-dominated 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.

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

Performance

In fiscal 2004, ended March 31, 2004, the CTC Group reported consolidated net sales of ¥266.2 billion, down 7.7% from fiscal 2003.

By customer segment, sales to the core telecommunications and broadcasting industry advanced 9.8%, to ¥82.2 billion, owing to solid demand for network deployment among mobile phone and fixed-line carriers. Sales to this industry represented 30.9% of net sales, up 5.0 percentage points from the previous year. Sales to other industries declined due to the effects of restrained IT-related capital investments, as well as the Group's renewed emphasis on profit-oriented sales activities.

By business segment, sales in the System segment decreased 9.5%, to ¥225.5 billion, due to the aforementioned reasons affecting sales to other industries. System segment sales accounted for 84.7% of net sales, down from 86.3% the previous year. Sales in the Support segment rose 3.3%, to ¥40.7 billion, and accounted for 15.3% of net sales, up from 13.7%. This segment benefited from the Group's solid track record in providing maintenance services for systems it previously provided.

Reflecting the decline in net sales, cost of sales decreased 9.2%, to ¥209.2 billion. The cost of sales ratio improved 1.3 percentage points, to 78.6%. This was attributable to the increase in sales in the Support segment, which has a relatively higher profit margin, as well as the Group's focus on profit-oriented sales activities. These factors compensated for several low-profit projects as well as a devaluation loss on inventories based on sales forecasts.

Selling, general and administrative (SG&A) expenses were down 1.9%, to ¥39.6 billion, mainly owing to the more efficient management of outside staff and reductions in general expenses.

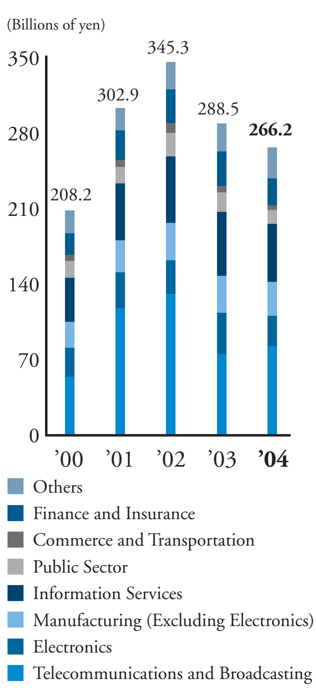
The positive effects of an improved gross profit margin and progress in reducing SG&A expenses failed to fully compensate for the decline in net sales. As a result, operating income slipped 1.7%, to ¥17.3 billion, however, the operating income margin improved 0.4 percentage point, to 6.5%.

By business segment, operating income in the System segment decreased 6.8%, to ¥5.7 billion, and in the Support segment increased 4.4%, to ¥17.4 billion.

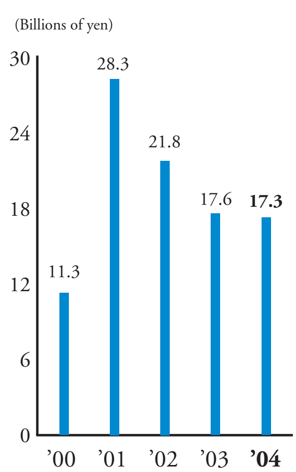
In other income (expenses), other income–net totaled ¥0.2 billion, compared with other expenses–net of ¥2.3 billion the previous year. This improvement was attributable to a ¥0.2 billion increase in interest and dividend income–net, a ¥1.7 billion gain on sales of investment securities–net, reflecting the Company's policy of reducing fixed assets, and an ¥0.8 billion decline in equity in losses of associated companies, due to the improved business performances of associated companies. These factors outweighed the ¥0.9 billion increase in provision for doubtful receivables for certain liabilities deemed difficult to recover.

Income before income taxes and minority interests climbed 14.0%, to ¥17.5 billion. Total income taxes rose 3.6%, to ¥7.8 billion. The effective tax rate after applying tax-effect accounting declined from 48.8% to 44.4%. This was due to the improvement in equity in losses of associated companies. Minority interests in net income amounted to ¥0.07 billion, compared with minority interests in net loss of ¥0.09 billion the previous year.

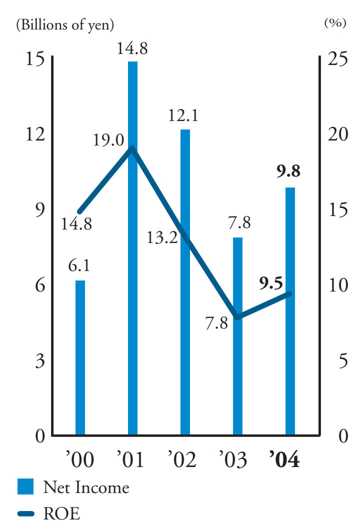
Sales by Industry



Operating Income



Net Income and ROE



As a result, net income jumped 26.2%, to ¥9.8 billion. Basic net income per share surged 28.3%, to ¥160.26, owing to the higher net income figure and a decline in the average number of shares stemming from the acquisition of treasury stock.

Financial Position

Cash and time deposits at year-end totaled ¥36.5 billion. The CTC Group has introduced a cash management system and centrally manages the funds of all Group companies to maximize the efficiency of these activities.

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

The Group's policy is to internally generate the funds it requires for working capital and capital investments. As a contingency for unforeseen events, it has commitment lines of credit with nine financial institutions, together totaling ¥10.0 billion as of March 31, 2004.

The CTC Group has a sound financial position and the capacity to generate ample cash flows from operating activities. These factors, together with the ¥10.0 billion credit lines, underscore the Group's belief that it is capable of procuring sufficient working capital and funds for capital investments to sustain future growth.

Following a resolution of the General Meeting of Shareholders, held on June 25, 2003, the Corporation decided to purchase treasury stock—with an upper limit of 5 million shares or a maximum purchase price of ¥15.0 billion—over the one-year period until the subsequent annual General Meeting of Shareholders in June 2004. Actual purchases during that period were 2,552,100 shares, for a total purchase price of ¥9.1 billion.

Cash Flows

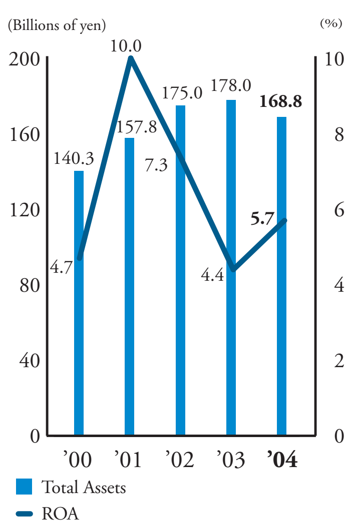
Net increase in cash and cash equivalents amounted to ¥15.2 billion, up 6.0% from fiscal 2003.

Net cash provided by operating activities amounted to ¥21.6 billion, up 31.7%. This was mainly due to ¥17.5 billion in income before income taxes and minority interests and a ¥3.9 billion positive difference between receivables collected and payables paid during the year.

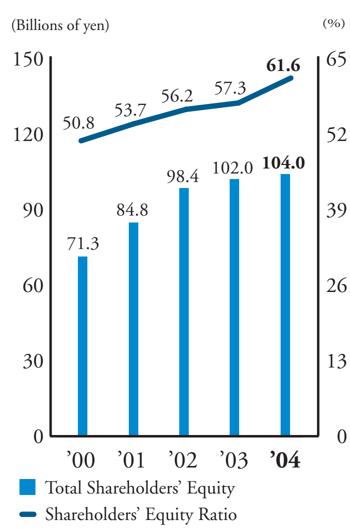
Net cash provided by investing activities totaled ¥0.2 billion, compared with ¥0.5 billion used in such activities the previous period. During the year, the Group posted ¥3.1 billion in proceeds from sales of investment securities, including shares in Siebel Systems, Inc. The Group also outlaid ¥1.7 billion for purchases of investment securities, notably shares of CTC Financial Engineering Corporation, which merged with the Company.

Net cash used in financing activities jumped 337.0%, to ¥6.5 billion. This was mainly due to ¥5.0 billion in purchases of treasury stock—aimed at improving capital efficiency and return to shareholders—and ¥1.5 billion in dividends paid and dividends paid for minority in consolidated subsidiary company.

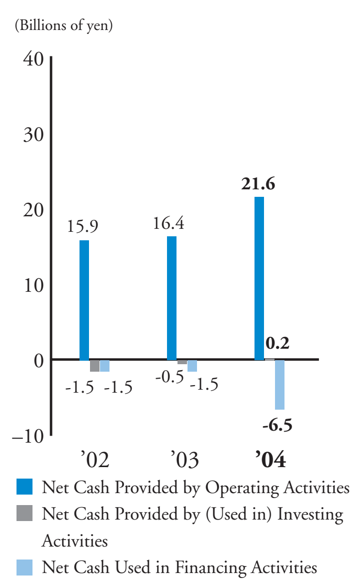
Total Assets and ROA



Total Shareholders' Equity and Shareholders' Equity Ratio



Cash Flows



Consolidated Balance Sheets

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 10)	¥ 53,462	¥ 38,285	$ 506,125
Receivables:			
Trade	68,973	84,917	652,968
Associated companies	626	538	5,926
Other	1,118	1,762	10,584
Allowance for doubtful receivables	(275)	(216)	(2,603)
Inventories (Note 4)	20,608	24,024	195,096
Deferred tax assets (Note 7)	4,548	3,176	43,056
Prepaid expenses and other current assets	1,518	3,005	14,371
Total current assets	150,578	155,491	1,425,523
PROPERTY AND EQUIPMENT:			
Buildings and structures	2,238	2,234	21,187
Furniture and fixtures	4,341	4,879	41,096
Total	6,579	7,113	62,283
Accumulated depreciation	(4,521)	(3,793)	(42,800)
Net property and equipment	2,058	3,320	19,483
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	5,457	7,118	51,661
Investments in and advances to associated companies	502	715	4,752
Software	2,691	3,019	25,476
Leasehold deposit	3,087	3,117	29,225
Investment in capital	1,505	1,703	14,248
Deferred tax assets (Note 7)	2,039	2,618	19,303
Other assets	909	923	8,606
Total investments and other assets	16,190	19,213	153,271
TOTAL	¥168,826	¥178,024	$1,598,277

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Payables:			
Trade (Note 10)	¥ 38,529	¥ 50,614	$ 364,754
Associated companies	183	13	1,733
Other	5,307	4,186	50,242
Income taxes payable	5,169	5,326	48,935
Accrued expenses	3,855	3,560	36,495
Unearned income	4,981	4,978	47,155
Advance received	4,825	4,315	45,678
Other current liabilities	310	488	2,935
Total current liabilities	63,159	73,480	597,927
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 5)	1,504	1,300	14,238
Other long-term liabilities (Note 7)	14	259	133
Total long-term liabilities	1,518	1,559	14,371
MINORITY INTERESTS	144	935	1,363
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 8 and 11)			
SHAREHOLDERS' EQUITY (Notes 6 and 12):			
Common stock—authorized, 246,000,000 shares; issued, 61,500,000 shares	21,764	21,764	206,040
Capital surplus	33,141	33,076	313,746
Retained earnings	54,201	47,033	513,121
Net unrealized (loss) gain on available-for-sale securities	(51)	153	(483)
Foreign currency translation adjustments	(14)	34	(132)
Total	109,041	102,060	1,032,292
Treasury stock—at cost, 1,547,232 shares in 2004 and 25,520 shares in 2003	(5,036)	(10)	(47,676)
Total shareholders' equity	104,005	102,050	984,616
TOTAL	¥168,826	¥178,024	$1,598,277

Consolidated Statements of Income

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
NET SALES (Note 10)	¥266,170	¥288,450	$2,519,833
COST OF SALES (Note 10)	209,213	230,427	1,980,621
Gross profit	56,957	58,023	539,212
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	39,614	40,385	375,026
Operating income	17,343	17,638	164,186
OTHER INCOME (EXPENSES):			
Interest and dividend—net	284	127	2,689
Foreign exchange gains (losses)—net	55	(35)	521
Gain on sales of investment securities—net	2,053	377	19,436
Loss on write-down of investment securities	(199)	(1,075)	(1,884)
Equity in losses of associated companies	(175)	(1,010)	(1,657)
Provision for doubtful receivables	(936)	(13)	(8,861)
Other—net	(901)	(631)	(8,530)
Other income (expenses)—net	181	(2,260)	1,714
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	17,524	15,378	165,900
INCOME TAXES (Note 7):			
Current	8,467	8,303	80,157
Deferred	(692)	(797)	(6,551)
Total income taxes	7,775	7,506	73,606
MINORITY INTERESTS IN NET LOSS (INCOME)	73	(89)	691
NET INCOME	¥ 9,822	¥ 7,783	$ 92,985

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.n):			
Basic net income	¥ 160.26	¥ 124.95	$ 1.52
Cash dividends applicable to the year	26.00	20.00	0.25

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2004 and 2003

	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, 2002	61,499	¥21,764	¥33,076	¥40,586	¥2,908	¥ 84	¥ (3)
Net income				7,783			
Appropriations:							
Cash dividends, ¥20.00 per share				(1,229)			
Bonuses to directors				(107)			
Repurchase of treasury stock	(25)						(7)
Net decrease in unrealized gain on available-for-sale securities					(2,755)		
Net decrease in foreign currency translation adjustments						(50)	
BALANCE, MARCH 31, 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				(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)

	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, 2003	$206,040	$313,131	$445,261	$ 1,448	$ 322	$ (95)
Net income			92,985			
Appropriations:						
Cash dividends, $0.25 per share			(13,282)			
Bonuses to directors			(918)			
Gain on sale of treasury stock		615				
Decrease due to merger of a subsidiary			(10,925)			
Repurchase of treasury stock						(47,638)
Sale of treasury stock						57
Net decrease in unrealized gain on available-for-sale securities				(1,931)		
Net decrease in foreign currency translation adjustments					(454)	
BALANCE, MARCH 31, 2004	$206,040	$313,746	$513,121	$ (483)	$(132)	$(47,676)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 17,524	¥ 15,378	$ 165,900
Adjustments for:			
Income taxes—paid	(8,625)	(8,642)	(81,653)
Depreciation and amortization	2,226	1,871	21,074
Provision for (reversal of allowance for) doubtful receivables	994	(66)	9,410
Provision for (reversal of) accrued bonuses to employees	338	(356)	3,200
Provision for (reversal of) accrued retirement benefits	385	(320)	3,645
(Reversal of) provision for accrued bonuses to directors	(181)	51	(1,713)
Gain on sales of investment securities—net	(2,053)	(377)	(19,436)
Loss on write-down of investment securities	199	1,075	1,884
Bonuses to directors and corporate auditors	(100)	(111)	(947)
Equity in losses of associated companies	175	1,010	1,657
Other	923	739	8,737
Changes in assets and liabilities:			
Decrease in receivables—trade	15,944	8,107	150,942
Decrease in inventories	3,416	740	32,339
Decrease (increase) in other current assets	1,223	(3,362)	11,578
(Decrease) increase in payables—trade	(12,085)	3,081	(114,408)
Increase (decrease) in other current liabilities	1,285	(2,423)	12,165
Total adjustments	4,064	1,017	38,474
Net cash provided by operating activities	21,588	16,395	204,374
INVESTING ACTIVITIES:			
Proceeds from sales of investment securities	3,141	1,417	29,736
Purchases of investment securities	(1,716)	(477)	(16,246)
Purchases of intangible assets	(1,014)	(766)	(9,600)
Purchases of property and equipment	(161)	(267)	(1,524)
Other—net	(73)	(436)	(691)
Net cash provided by (used in) investing activities	177	(529)	1,675
FINANCING ACTIVITIES:			
Repayments of long-term bank loans		(170)	
Purchases of treasury stock	(5,032)		(47,638)
Dividends paid	(1,405)	(1,225)	(13,301)
Dividends paid for minority in consolidated subsidiary company	(103)	(102)	(975)
Net cash used in financing activities	(6,540)	(1,497)	(61,914)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(48)	(50)	(454)
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,177	14,319	143,681
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	38,285	23,966	362,444
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 53,462	¥ 38,285	$ 506,125

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ITOCHU TECHNO–SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2004 and 2003

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 2003 financial statements to conform to the classifications used in 2004.

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 translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥105.63=US$1, the rate of exchange as of March 31, 2004. 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, 2004 include the accounts of the Company and its 9 (12 in 2003) 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 7 (9 in 2003) 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. Certain merchandise inventories are stated at cost on the moving-average basis. 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 method.

Non-marketable available-for-sale securities are stated at cost determined by the average 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 3 to 20 years for buildings and structures, and from 2 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 obligations and planned 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. *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.

i. 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.

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

k. 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.

l. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries 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.

m. 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.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (b) for derivatives used for hedging purposes, 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.

The 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.

n. 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 is not disclosed because it is anti-dilutive.

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.

o. 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 Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Non-current:			
Marketable equity securities	¥3,385	¥4,511	$32,046
Non-marketable equity securities	2,072	2,335	19,615
Corporate bonds		73	
Trust fund investments		199	
Total	¥5,457	¥7,118	$51,661

The carrying amounts and aggregate fair values of investment securities as of March 31, 2004 and 2003 were as follows:

	Millions of Yen			
March 31, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	¥3,446	¥ 68	¥ 129	¥3,385
March 31, 2003				
Securities classified as available-for-sale:				
Equity securities	4,246	1,297	1,032	4,511
Trust fund investments	204		5	199

	Thousands of U.S. Dollars			
March 31, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	$32,623	$644	$1,221	$32,046

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Available-for-sale:			
Equity securities	¥2,072	¥2,335	$19,615
Debt securities		73	
Total	¥2,072	¥2,408	$19,615

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥3,066 million ($29,026 thousand) and ¥455 million, respectively. Gross realized gains and losses on these sales were ¥2,044 million ($19,351 thousand) and ¥36 million ($341 thousand), respectively, for the year ended March 31, 2004 and ¥381 million and ¥4 million, respectively, for the year ended March 31, 2003.

4. INVENTORIES

Inventories as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Merchandise	¥13,416	¥15,977	$127,009
Work in process	806	1,953	7,631
Supplies	6,386	6,094	60,456
Total	¥20,608	¥24,024	$195,096

5. 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 for 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, 2004 and 2003 were ¥62 million ($587 thousand) and ¥242 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, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Projected benefit obligation	¥ 5,768	¥ 5,961	$ 54,606
Fair value of plan assets	(5,031)	(3,965)	(47,629)
Unrecognized actuarial gain (loss)	705	(938)	6,674
Net liability	¥ 1,442	¥ 1,058	$ 13,651

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Service cost	¥ 233	¥ 500	$ 2,206
Interest cost	112	115	1,060
Expected return on plan assets	(79)	(90)	(748)
Recognized actuarial loss (gain)	938	(107)	8,880
Premium of defined benefit contributory pension fund	828	739	7,839
Net periodic benefit costs	¥2,032	¥1,157	$19,237

Assumptions used for actuarial computation for the years ended March 31, 2004 and 2003 are set forth as follows:

	2004	2003
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.5%
Recognition period of actuarial gain/loss	1 year	1 year

6. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being 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 revised 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 balance of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the balance of 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 revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting 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 dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥38,683 million ($366,212 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. 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.

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	99,100 shares	From July 1, 2002 to June 30, 2005	¥16,656 ($158)
June 27, 2001	76,300 shares	From July 1, 2003 to June 30, 2006	¥12,520 ($119)
June 26, 2002	286,000 shares	From July 1, 2004 to June 30, 2007	¥ 3,504 ($33)

7. 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 42% for the years ended March 31, 2004 and 2003.

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 be realized on or after April 1, 2004 are measured at the effective tax rate of 41% as of March 31, 2004 and 2003.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Current:			
Deferred tax assets:			
Loss on write-down of inventories	¥2,171	¥1,182	$20,553
Accrued bonuses to employees	1,331	974	12,601
Accrued enterprise taxes	482	551	4,563
Accrued other expenses	413	124	3,910
Tax loss carryforwards	4	126	38
Other	356	282	3,370
Less valuation allowance	(201)	(52)	(1,903)
Total	4,556	3,187	43,132
Deferred tax liabilities—consolidation adjustment of allowance for doubtful accounts	8	11	76
Net deferred tax assets	¥4,548	¥3,176	$43,056
Non-current:			
Deferred tax assets:			
Loss on write-down of investment securities	¥ 873	¥1,405	$ 8,265
Accrued retirement benefits	616	532	5,832
Tax loss carryforwards	282	228	2,670
Loss on write-down of membership	65	227	615
Provision for doubtful receivables	538	125	5,093
Other	300	390	2,840
Less valuation allowance	(635)	(184)	(6,012)
Total	2,039	2,723	19,303
Charges to offset against deferred tax liabilities		(105)	
Net deferred tax assets	¥2,039	¥2,618	$19,303
Deferred tax liabilities—net unrealized gain on available-for-sale securities	¥ 14	¥ 105	$ 133
Charges to offset against deferred tax assets		(105)	
Net deferred tax liabilities (included in other long-term liabilities)	¥ 14		$ 133

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, 2004 and 2003 is as follows:

	2004	2003
Normal effective statutory tax rate	42%	42%
Expenses not deductible for income tax purposes	1.4	1.7
Income not taxable for income tax purposes	(0.2)	(0.3)
Inhabitant tax—per capita	0.3	0.4
Equity in losses of associated companies	0.4	2.8
Less valuation allowance	2.4	1.4
Adjustments of deferred tax assets and liabilities due to change of the normal effective statutory tax rate		0.6
Other—net	(1.9)	0.2
Actual effective tax rate	44.4%	48.8%

As of March 31, 2004, certain subsidiaries have tax loss carryforward aggregating approximately ¥658 million ($6,229 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
2005	¥ 37	$ 350
2006	134	1,268
2007	68	644
2008	85	805
2009	334	3,162
Total	¥658	$6,229

8. LEASES

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

Total rental expenses for the years ended March 31, 2004 and 2003 were ¥5,011 million ($47,439 thousand) and ¥5,362 million, respectively, including ¥1,144 million ($10,830 thousand) and ¥1,096 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, 2004 and 2003 was as follows:

	Millions of Yen							
	2004				2003			
	Buildings and Structures	Furniture and Fixtures	Software	Total	Buildings and Structures	Furniture and Fixtures	Software	Total
Acquisition cost	¥83	¥3,678	¥674	¥4,435	¥137	¥3,561	¥558	¥4,256
Accumulated depreciation	36	1,844	272	2,152	71	1,602	325	1,998
Net leased property	¥47	¥1,834	¥402	¥2,283	¥66	¥1,959	¥233	¥2,258

	Thousands of U.S. Dollars			
	2004			
	Buildings and Structures	Furniture and Fixtures	Software	Total
Acquisition cost	$786	$34,819	$6,381	$41,986
Accumulated depreciation	341	17,457	2,575	20,373
Net leased property	$445	$17,362	$3,806	$21,613

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	¥ 943	¥ 950	$ 8,927
Due after one year	1,382	1,382	13,084
Total	¥2,325	¥2,332	$22,011

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Depreciation expense	¥1,097	¥1,010	$10,385
Interest expense	59	61	559
Total	¥1,156	¥1,071	$10,944

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.

9. 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 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.

10. RELATED PARTY TRANSACTIONS

Transactions of the Company with associated companies for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Sales	¥997	¥1,205	$9,439
Purchases	338	152	3,200

Transactions of the Company with the parent company, ITOCHU Corporation, for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deposits	¥10,000		$ 94,670
Purchases	59,500	¥70,965	563,287

The balances due to or from the parent company, ITOCHU Corporation, as of March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deposits (included in cash and cash equivalents)	¥10,000		$94,670
Payables—Trade	7,626	¥10,403	72,195

11. CONTINGENT LIABILITIES

As of March 31, 2004, the Group is contingently liable for guarantees of borrowings for the Group's employees amounting to ¥628 million ($5,945 thousand).

12. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The following appropriations of retained earnings as of March 31, 2004 were approved at the Company's shareholders meeting held on June 23, 2004:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥13.00 ($0.12) per share	¥779	$7,375
Bonuses to directors and corporate auditors	52	492

In addition to the cash dividends described above, the Company paid interim cash dividends of ¥788 million ($7,460 thousand, ¥13.00 ($0.12) per share) on December 5, 2003 to shareholders of record as of September 30, 2003, based on a resolution of the Board of Directors.

b. Purchase of Treasury Stock

At the Company's shareholders meeting held on June 25, 2003, the Company was authorized to purchase up to 5 million shares of the Company's common stock (aggregate amount of ¥15 billion) as treasury stock.

The Company purchased 1,005,500 shares of the Company's common stock at an aggregate cost of ¥4,110 million ($38,909 thousand) in the period from May 12, 2004 to June 10, 2004.

13. 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, etc.

"Support" consists of maintenance service of computer-network system, telemarketing service, business service such as printing and shipping, etc.

Information about business segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2004 and 2003 was as follows:

(1) Business Segments

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

a. Sales and Operating Income

	Thousands of U.S. Dollars			
	2004			
	System	Support	Eliminations/ Corporate	Consolidated
Sales to customers	$2,134,716	$385,117		$2,519,833
Intersegment sales	9,571	127,890	$(137,461)	
Total sales	2,144,287	513,007	(137,461)	2,519,833
Operating expenses	2,090,382	348,007	(82,742)	2,355,647
Operating income	$ 53,905	$165,000	$ (54,719)	$ 164,186

b. Total Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars			
	2004			
	System	Support	Eliminations/ Corporate	Consolidated
Total assets	$818,612	$190,410	$589,255	$1,598,277
Depreciation	9,439	3,588	8,047	21,074
Capital expenditures	2,859	1,856	7,062	11,777

a. Sales and Operating Income

	Millions of Yen			
	2003			
	System	Support	Eliminations/ Corporate	Consolidated
Sales to customers	¥249,058	¥39,392		¥288,450
Intersegment sales	1,364	12,596	¥(13,960)	
Total sales	250,422	51,988	(13,960)	288,450
Operating expenses	244,312	35,288	(8,788)	270,812
Operating income	¥ 6,110	¥16,700	¥ (5,172)	¥ 17,638

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2003			
	System	Support	Eliminations/ Corporate	Consolidated
Total assets	¥113,080	¥19,157	¥45,787	¥178,024
Depreciation	651	379	841	1,871
Capital expenditures	272	366	477	1,115

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, 2004 and 2003 were ¥6,295 million ($59,595 thousand) and ¥5,640 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, 2004 and 2003 were ¥70,920 million ($671,400 thousand) and ¥51,910 million, respectively.

(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, 2004 and 2003.

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, 2004 and 2003.

Independent Auditors' Report

Deloitte.

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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, 2004 and 2003, 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, 2004 and 2003, 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.

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 23, 2004

Member of
Deloitte Touche Tohmatsu

Corporate Data

(As of March 31, 2004)

ITOCHU TECHNO–SCIENCE Corporation (CTC)

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

■ Head Office

1-11-5, Fujimi, Chiyoda-ku,
Tokyo 102-8166, Japan
Phone: +81-3-5226-1200
URL: http://www.ctc-g.co.jp/

* The Company will begin relocating to the following address in October 2004:
Kasumigaseki Building,
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6080, Japan

■ Established

April 1,1972

■ Paid-in Capital

¥21,764 million

■ Business Lines

CTC offers total solution services, including system consultation, integration, administration, maintenance/support, training and outsourcing by using leading-edge computer, network and application system technologies.

■ Number of Employees

(CTC Group Total)
3,346

■ Main Suppliers

Sun Microsystems	Major Distributor (No. 1 vendor in the world)
Cisco Systems	Gold Partner Distributor (No. 2 vendor in Japan)
Oracle	Excellent Partner 2004 Strategic Alliance Partner 2004 Engineer of the Year 2004
EMC	Master Reseller (No. 1 vendor at Mid Range Storage in Japan)
Avaya	Platinum Partner, Major Distributor (No. 1 vendor in Japan)
Hewlett Packard	Enterprise Partner (No. 1 vendor in Japan) OpenView Authorized Reseller (No. 1 vendor in Japan)
Network Appliance	Major Distributor (No. 1 vendor in Japan)
Veritas	Major Reseller (No. 1 vendor in Japan)
HITACHI	Business Partner (No. 1 vendor in Japan on SANRISE)
Siebel Systems	Major Distributor (No. 1 vendor in Japan)
BEA Systems	Strategic Partner WebLogic Server (License sales No. 1 on Solaris)
Sun Java™ System	Enterprise Partner (No. 1 vendor in Asia Pacific, No. 1 vendor in Japan)
Tivoli for Sun	Tivoli Partner (No. 2 vendor in Japan)

■ CTC Group Companies

Consolidated Subsidiaries (9 companies)

Company	Paid-in Capital	Main Business Activities
CTC Create Corporation	¥120 million	Telemarketing
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
Okinawa Call Center Corporation	¥60 million	Telemarketing
CTC Business Service Corporation	¥160 million	Printing and delivery business services
CTC Ventures, Inc.	US$1	Investment in venture funds in the United States
CTC Ventures II, Inc.	US$1	Investment in venture funds in the United States
CTC Laboratory Systems Corporation–USA	US$50,000	Japanese localization and development of software

Notes: 1. On April 1, 2003, all of ITOCHU TECHNO–SCIENCE Corporation's shares of Okinawa Call Center Corporation were transferred to CTC Create Corporation.
2. On April 1, 2003, CTC Systems Corporation merged with ITOCHU TECHNO–SCIENCE Corporation (simple merger).
3. On September 1, 2003, CTC Financial Engineering Corporation and CTC Apparel Systems Corporation merged with ITOCHU TECHNO–SCIENCE Corporation (simple merger).

Associated Companies Accounted for by the Equity Method (7 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
Sony Broadband Solutions Corp.	¥1,642 million	Development and sales of systems that combine audio-visual functions with information technology
(Three other companies)		

Note: On March 22, 2004, Netvein Corporation was liquidated.

■ Stock Information

Common Stock

Authorized	246,000,000 shares
Issued	61,500,000 shares
Number of Shareholders	26,886

Major Shareholders

	Number of Shares	(%)
1. ITOCHU Corporation	24,408,000	40.72%
2. Japan Trustee Service Bank, Ltd. (Trust Account)	4,099,200	6.84
3. Japan Trustee Service Bank, Ltd. (ITOCHU Corp., Retirement Benefit Trust Account re-entrusted by The Sumitomo Trust & Banking Co., Ltd.)	3,222,000	5.38
4. The Master Trust Bank of Japan, Ltd. (Trust Account)	2,824,100	4.71
5. Designated Separately Managed Account. Trustee is Mitsui Asset Trust and Banking Company, Ltd. (Trust Account 1)	1,175,900	1.96
6. The Nomura Trust and Banking Co., Ltd. (Fund Trust Account)	818,600	1.37
7. Investors Bank and Trust Company (West)—Treaty	561,368	0.94
8. CTC Employees' Shareholding Association	437,740	0.73
9. NikkoCititrust Trust & Banking Corporation (Fund Trust Account)	396,700	0.66
10. BBH Lux Fidelity Funds Japan Fund	372,300	0.62

Challenging Tomorrow's Changes

ITOCHU TECHNO-SCIENCE Corporation

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

Becoming
Resilient IT

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