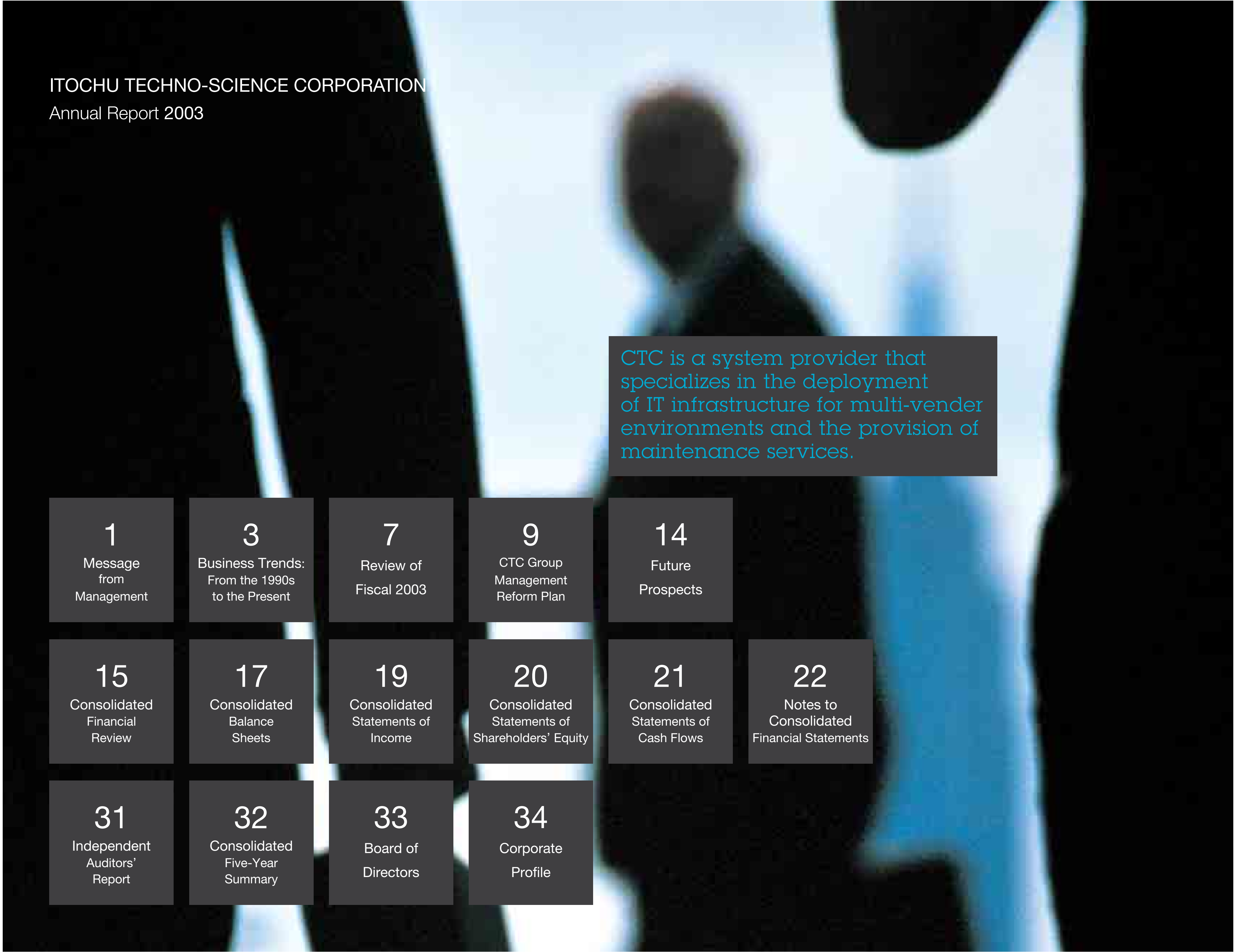
ITOCHU TECHNO-SCIENCE CORPORATION

Annual Report 2003



CTC is a system provider that specializes in the deployment of IT infrastructure for multi-vender environments and the provision of maintenance services.

Message from Management

At the Board of Directors Meeting held immediately after the June 25, 2003 General Shareholders' Meeting, I, Yushin Okazaki, was elected president and CEO of ITOCHU TECHNO-SCIENCE Corporation (CTC). As president and CEO, I will devote all my efforts to CTC's development and prosperity. I look forward to the continued support of our shareholders and investors.

The 2003 fiscal year (from April 1, 2002 to March 31, 2003) was a significant year for CTC in two respects. First, we experienced the first simultaneous declines in net sales and income since the company went public, an extremely difficult experience. Second, we created and adopted a management reform plan designed to respond to the challenging business climate.

Fiscal 2003 was a year of transition from medium-term business expansion to a period of new medium-term growth. Fiscal 2004 will be the first of three years of management reforms that signify a new start for CTC. My greatest task this year will be launching those reforms.

This annual report, our first, discusses the transition in the company performance, issues that we currently face in light of the changes in the business environment and explains the management reforms we are implementing. It is my sincere hope that this annual report serves to increase shareholders' and investors' understanding of CTC.

Yushin Okazaki
President and CEO, ITOCHU TECHNO-SCIENCE Corporation

Following a year of change,
fiscal 2004 is the first year of reform.
I am committed to making this a reality.

Business Trends: From the 1990s to the Present

(1) 1990s: Supported by the Trend to Open Systems

CTC began selling Sun Microsystems products in 1984 and Cisco Systems and Oracle products in 1992. Thus, we assembled all the elements essential for deploying open system infrastructure including servers, routers, and databases by the early 1990s.

During the 1990s, there was a strong shift in corporate information systems away from centralized mainframe systems to distributed client-server systems, and the open system market expanded rapidly. In the second half of the decade in particular, the Internet flourished, providing a further catalyst to expand the market. CTC, a pioneer in open systems, saw its business activities expand steadily, and a virtuous cycle through which CTC continuously received advanced and effective information on leading edge hardware and software information from venders around the world. Our current business model was established at this time.

(2) Fiscal 2001: The Mobile Phone Internet Boom

Commercial services that provide access to the Internet via mobile phones launched in Japan in 1999. This presented CTC, a pioneer in open systems, with excellent opportunities to provide support for the deployment of gateway systems that serve as the core of Internet services provided by mobile phone carriers. Use of such services quickly exceeded expectations and packet transaction volumes expanded exponentially. As a result, there was continuous demand for additional IT infrastructure, and in fiscal 2001 CTC saw its net sales increase to ¥302.9 billion, up 45.5% from the previous year.

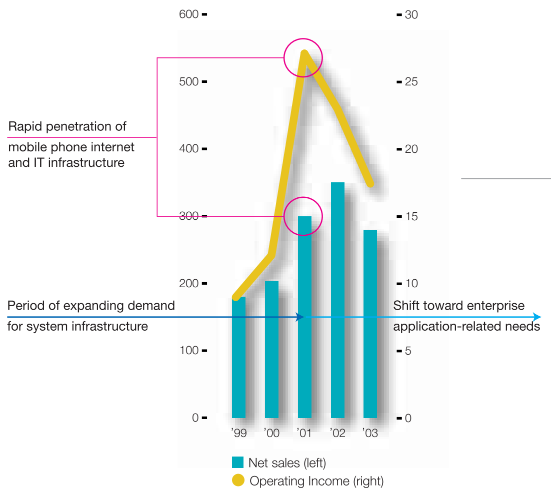
FEATURES

- ▶Specialization in open systems (UNIX platform)
- ▶Use of multiple venders for hardware and software
- ▶Discernment and procurement capabilities of advanced prod ucts around the world
- ▶Maintenance for multi-vendor environments through a nation wide support network

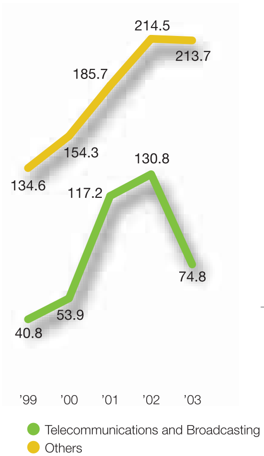
BUSINESS DOMAINS

▶CTC is a unique open system provider with the skills to deploy multi-vendor IT infrastructure environments by combining the ability to supply hardware and software from various venders with the system development skills of a system integrator.

Performance over Past Five Years
(Billions of yen)

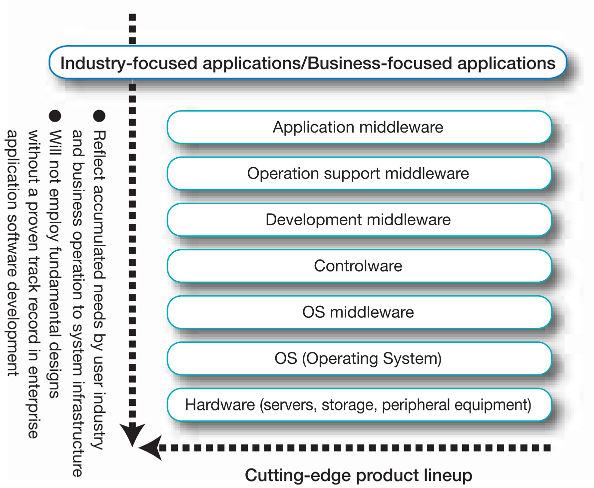


Sales by Industry
(Billions of yen)



- Allied Engineering
- ANSYS
- Applied Biosystems
- Avaya
- BEA Systems
- Boothroyd Dewhurst
- BroadVision
- Check Point Software Technologies
- Cisco Systems
- Crystal Decisions
- DALSA
- DELMIA
- Documentum
- Egenera
- E.piphany
- EDS PLM Solutions
- EMC
- Gensym
- GeoConcept
- Gerber Technology
- Hewlett-Packard
- HITACHI
- IBM
- IBM (Tivoli)
- iDEFENSE
- ILOG
- I-Logix
- iVAST
- J.D.Edwards
- KANA Software
- Mentor Graphics
- Micromuse
- Mirapoint
- Network Appliance
- Nortel Networks
- Oracle
- Plumtree Software
- Progress Software
- RealNetworks
- Resonate
- Riverstone Networks
- Siebel Systems
- Silicon Graphics
- Solid Data Systems
- Stratus Technologies
- Sun Microsystems
- Sybase
- Synchronicity
- Trend Micro
- VeriSign
- VERITAS Software
- WINCOR NIXDORF

CTC's System Infrastructure Technology Strengths



(3) Fiscal 2002: The Business Climate Changed

Business results in fiscal 2002 were mixed. Net sales were ¥345.3 billion, up 14.0% from the prior year and a historical record. However operating income declined to ¥21.8 billion, a drop of 22.9% from the prior year, and net income fell 18.5% to ¥12.1 billion.

Although sales in the telecommunications and broadcasting reached a record high, the growth rate plunged from 117.6% to 11.6%. This was the result of large-scale system infrastructure expansion by mobile phone carriers hitting a plateau in the second half of the year.

Sales growth in other sectors fell from 20.3% in 2001 to 15.6% in 2002. Deflation took root even in the information service market, which was thought to be more resistant to economic cycles. Curbs on investment and increased pressure for lower prices became the norm. In addition, companies began to make more stringent demands on system efficiency and reduction in total cost of ownership (TCO). The focus of IT investment began shifting from system infrastructure to enterprise applications.

With respect to profit, the two main causes of the decline in income were reduced gross margin resulting of custom software development projects and an increase in selling, general, and administrative (SG&A) expenses. As a result of our focused marketing efforts towards custom software needs, software development projects increased steadily. But some projects with relatively high sales suffered from declining profitability. The increase in SG&A resulted from higher expenses for outside contractors and general expenses. In fiscal 2003, we took concrete improvement measures to address these two issues.

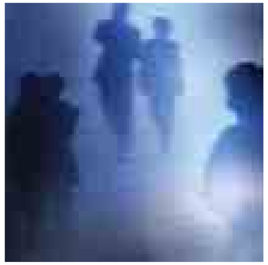
In a changing business environment, true "reform" that surpasses "improvement" is essential.

The business environment is changing as customer needs diversify and competition intensifies. In response, CTC began formulating a reform plan in the second half of fiscal 2003.

Review of Fiscal 2003

CTC's consolidated business results for fiscal 2003 are as follows:

Net sales	¥288.5 billion	(-16.5%)
Operating income	17.6 billion	(-19.1%)
Net income	7.8 billion	(-35.6%)



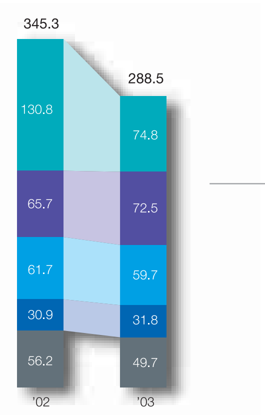
The primary cause of the decrease in net sales was a slowdown in the telecommunications and broadcasting. Sales in the telecommunications and broadcasting were down 42.8% compared to the previous year. This decrease of ¥55.9 billion accounted for 98% of the net decrease in net sales.

Going in to fiscal 2003, the pace of growth of mobile phone subscribers, which had been quite strong, slowed. As a result, demand for infrastructure by mobile phone carriers also dropped, leading to a substantial decline in our net sales. Sales in the telecommunications and broadcasting fell from 37.9% of net sales in 2002 to 25.9% in 2003. Also, the focus of investment by mobile phone carriers shifted from basic infrastructure to investment in systems and applications to provide new services such as image data exchange as a complement to e-mail services. In addition, the nature of investment projects changed from large-scale, up-front capital investments to smaller, focused investments. To get new projects by proposal-type marketing is the key to the future success.

Sales in other sectors decreased by just 0.4% compared to the previous year. Deflation continued to impact the business climate by severely restraining capital investment by enterprises and intensifying price competition. However, by using our strengths in IT infrastructure deployment and maintenance, as well as our powerful customer channels, net sales remained at about the same level as the prior year.

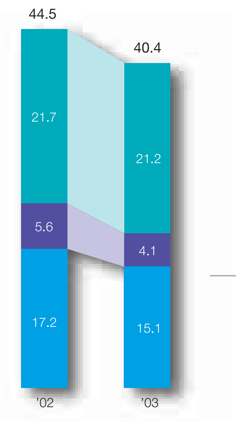
The decline in net sales unavoidably resulted in an inevitable decrease in all profit categories. However, in light of the challenges we faced in fiscal 2002, we set the following objectives and achieved measurable results.

Net Sales by Industry
(Billions of yen)



Telecommunications and Broadcasting
Electronics/Manufacturing
Information Services
Finance/Insurance
Others

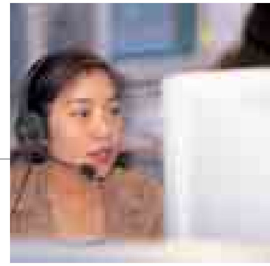
SG&A
(Billions of yen)



Personnel Expenses
Outside Contractor Expenses
Others

(1) Improved Profitability of Software Development Projects

We introduced a system to review software development projects, and by closely monitoring and defining the requirements, costs, and risks at the time orders are received as well as implementing thorough cost management throughout the development process, we substantially reduced the number of low-profitability development projects. As a result of this and the solid contributions to profit from support businesses, gross profit margin increased by 0.9 points from the previous year to reach 20.1%.



(2) Controlled SG&A Expenses

By reducing the number of outside contractors, making full use of the skills of in-house system engineers, and eliminating unnecessary expenses, we achieved a 9.3% year-on-year decrease in SG&A expenses. The reduction in outside contractors was the result of improvements in employee skills and the completion of certain projects. While controlling costs, CTC continues to recruit the skilled personnel necessary for future growth.

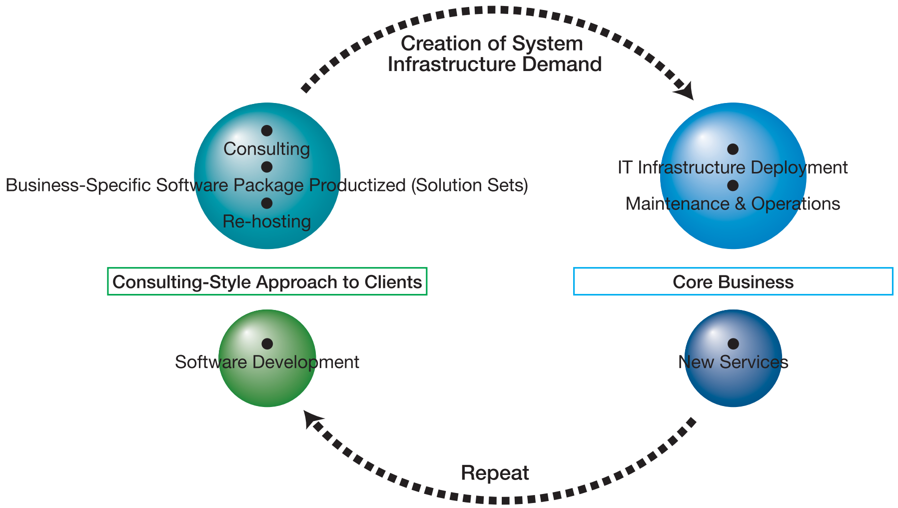
In fiscal 2003, we launched measures that had immediate and lasting effects such as detailed management of software development profitability and spending controls. The most important thing we learned from the decline in business results in 2003, however, was that we must immediately implement measures that exceed the “improvement” level we are focused on in the short term and create fundamental “management reforms.”

In the second half of fiscal 2003, we adopted a management reform plan that focused on changing the structure of our business. We began implementing these reforms in fiscal 2004, and we expect to see results in the medium term.

CTC Group Management Reform Plan

CTC's core business is the deployment of multi-vendor system infrastructure backed by reliable maintenance. This is a unique business model that does not allow for easy imitation by manufacturers that put restraints on their own product lines or by system integrators that focus on software development. It will be difficult, however, to achieve further improvements in our financial results if we remain focused only in IT infrastructure deployment. This is because customers are seeking comprehensive, solution-based proposals that take into consideration the business issues specific to each customer.

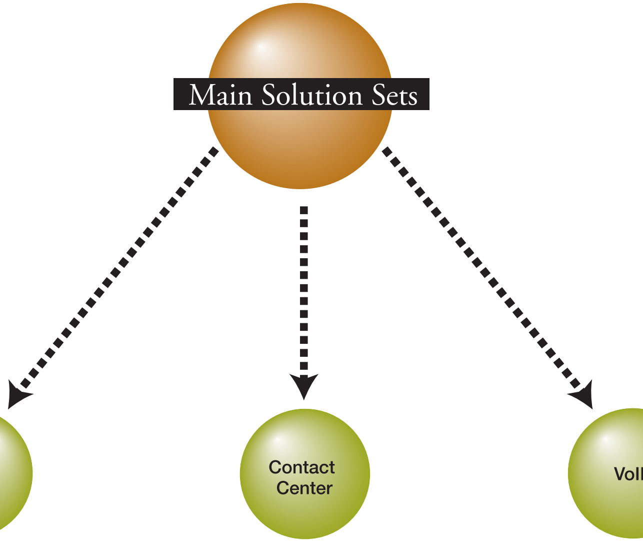
Strengthening Value Chain by Establishing a Total SI Business



The key point of CTC's management reform plan is the establishment of a comprehensive service scheme by strengthening and expanding our ability to deliver in value-added upstream processes, such as consulting, that give rise to synergies with IT infrastructure deployment. The results that we expect are as follows:

- ▶ Higher customer satisfaction
- ▶ Additional IT infrastructure deployment
- ▶ Increased customer loyalty (manifested in repeat orders)

We have set in place the following three areas as the drivers of value-added upstream processes. Among them, our *Solution Set* is seamlessly integrated with our IT infrastructure deployment business, and we anticipate an immediate contribution to our financial and business results.



Create a unified access portal allowing Web browsers to access large volumes of in-house data, thereby increasing productivity and reducing operation expenses.

Composition of product:
Portal package, content management, CRM, mobile technology, security, networking, DB, server, storage

A comprehensive customer information management system seamlessly merging SFA, CRM, and CTI will support the enhancement of strategic (One to One) customer marketing.

Composition of product:
CRM, DWH, security, e-mail/Web/application server, network, DB server, storage

In addition to a VoIP network, this package can be merged with other solutions that take advantage of both voice and data streams such as a contact center.

Composition of product:
Routers, switches, VoIP, wireless LAN, security, content inspection, VPN

(1) Solution Set

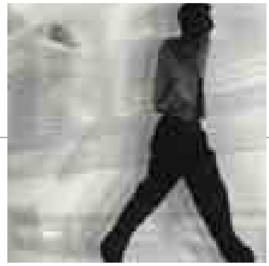
The *Solution Set* is a proposal-driven solution package that defines the optimal combination of hardware, middleware, application software, and custom templates designed to meet the specific customer needs. The *Solution Set* was developed using the expertise accumulated through our extensive experience in IT infrastructure deployment. It features high levels of customization and development flexibility, can be installed quickly, and is low risk, yet we are still able to achieve high performance.

(2) Consulting

In fiscal 2003, we created a new IT Consulting Department, and since then it has achieved certain results. In fiscal 2004, its status was raised to being a division, the IT Consulting Division, and we also created the Business Consulting Division. The Business Consulting Division examines issues and challenges in the customer's core business, makes strategic proposals, and provides consulting services. By fusing the operations of these divisions with CTC's IT infrastructure deployment business, we are transforming CTC from an "IT partner" to a "business partner."

CTC is reforming management.

Around its core business of IT infrastructure deployment,
CTC will expand services and construct integrated service structures.



(3) Enterprise Solutions

In March 2002, we established the CTC Enterprise System Center as a focal point for technical verification and development to support the shift from mainframe computers to open systems. In fiscal 2003, we cultivated the re-hosting business, through which we accumulated related technology and expertise as well as tools and programs originally developed through actual projects. In fiscal 2004, we will utilize these resources fully to promote IT consulting and development services for enterprise solutions.

Continuously improving our software development process is essential for these three drivers to function effectively. In order to improve our software development infrastructure, CTC merged with CTC Systems Corporation, a software development subsidiary, on April 1, 2003. System engineers engaged in development are now managed centrally by CTC in order to ensure rapid and flexible allocation of resources, enhance personnel development, and raise skills.

CTC concluded a domestic sales contract with Egenera, Inc. of the United States in December 2002 and began sales of the BladeFrame® high-end Linux server in Japan in February 2003. Although Linux has been used in the past primarily for front-end and edge servers, we expect that it will also be adopted for large-scale enterprise systems because of its ability to reduce TCO. We are focusing our energies on cultivating demand for Egenera products with an eye towards incorporating it in large-scale enterprise systems.

Egenera's BladeFrame® Cuts Rising TCO

BladeFrame® is a product with a unique architecture that is completely different from conventional servers. It features a diskless structure with no hard disk drives and revolutionary processing area network (PAN) technology. By allocating CPU capacity and other computer resources in the required amount at the required time, BladeFrame® raises CPU usage rates to twice or higher those of conventional servers. As a result, the number of servers installed and installation locations can be drastically reduced compared to other systems and the total cost of ownership (TCO) including new installation costs and running costs can be cut by half or more.

A three-layer structure is integrated into a single BladeFrame® to increase CPU usage rates to double those of conventional servers.

Future Prospects

In light of the continued deflation in Japan, we anticipate that the recovery of the Japanese economy will be slow. Information technology, however, is the key to companies successfully competing, and it is essential that companies invest aggressively in information systems in order to distinguish themselves from their competitors. Thus, we are not at all pessimistic about the current market environment.

Management reforms cannot be implemented in a single day, and for this reason it is essential that we continue to make incremental progress throughout the fiscal year. By carrying out these reforms, we remain focused on our key corporate principle—Customer Satisfaction—and steadily increase our business results over the medium term.

At the General Shareholders' Meeting held in June 25, shareholders approved a share buy-back program to acquire up to 5 million shares (aggregate amount of ¥15 billion). We will buy back shares until the next General Shareholders Meeting in June, 2004 in order to raise capital efficiency and enhance value to our shareholders. We will continue to make every effort in all our activities including business activities to raise shareholders' value.

Consolidated Financial Review

1. Scope of Consolidation

In fiscal 2003, the year ended March 31, 2003, the Company had 12 subsidiaries subject to consolidation and associated companies accounted for by the equity method decreased by one from the previous year to nine.

2. Operational Results in Fiscal 2003

Net Sales in fiscal 2003 were ¥288.5 billion, a year-on-year decline of 16.5%.

The results by sector were as follows: sales in the telecommunications and broadcasting decreased by 42.8% from the prior year as a result of the fall in investment in facilities by mobile phone carriers; sales in the electronics and finance/insurance increased by 23.8% and 3.0%, respectively, while manufacturing, information services, public sector, and commerce/transportation experienced declines as a result of the effects of restrained capital investment because of the economic slowdown.

As a result of the decline in net sales, gross profits were ¥58.0 billion, a year-on-year decline of 12.6%, but the gross profit margin increased by 0.9 points from 19.2% last year to 20.1%. This was the result of improvements in the profitability of development projects and the contribution of revenues from the Support business.

Selling, general, and administrative expenses were reduced by 9.3% to ¥40.4 billion as a result of policies designed to control expenses throughout the year. This decline, however, was unable to cover the entire drop in gross profit, and operating income fell 19.1% from the year before to ¥17.6 billion.

With regard to other income/expenses, the Company reported net expenses of ¥2.3 billion, compared to the income of ¥0.4 billion in the previous year. This was largely the result of a decrease in gain on sales of investment securities. As a result, income before income taxes and minority interests was ¥15.4 billion, a year-on-year decrease of 30.8%.

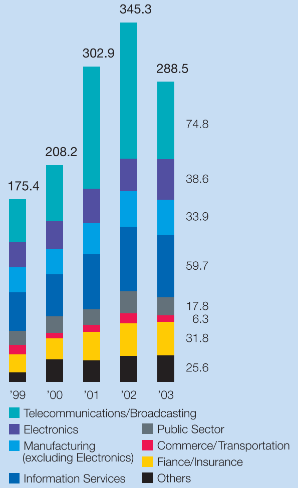
Net income for the year was ¥7.8 billion, down 35.6% from the year before, and net income per share was ¥124.95, compared to last year's ¥194.91.

3. Segment Information by Business Category

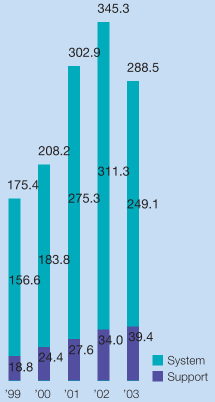
Business segments are made up of the System and the Support which consists primarily of hardware maintenance.

With respect to the System, sales to customers were down 20.0% from the previous year to ¥249.1 billion as a result of the decline in telecommunications and broadcasting related sales, and operating income fell 55.3% to ¥6.1 billion. Concerning the Support, sales to customers were up 16.0% to ¥39.4 billion as maintenance contracts on systems delivered earlier increased steadily, and operating income was ¥16.7 billion, a year-on-year increase of 14.7%.

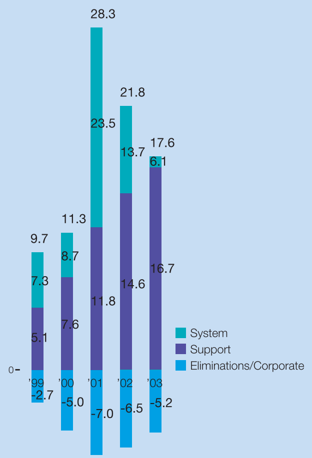
Sales by Industry
(Billions of yen)



Sales by Business Segment
(Billions of yen)



Operating Income by Business Segment
(Billions of yen)



Net Income
(Billions of yen)

Gross Profit Margin / Operating Income Margin
(%)

4. Cash Flow

Cash and cash equivalents (hereinafter referred to collectively as “cash”) in fiscal 2003 increased by ¥14.3 billion from the year before to ¥38.3 billion at the end of the fiscal year.

Net cash provided by operating activities increased by 3.1% from the year before to ¥16.4 billion. This was the result of income before income taxes and minority interests of ¥15.4 billion as well as the recovery of ¥11.2 billion from a decrease in receivable and an increase in payable, and the payment of ¥8.6 billion in income taxes. Compared to the prior year, although income before income taxes and minority interests decreased by ¥6.8 billion, income taxes–paid decreased by ¥7.1 billion, resulting in an increase in net cash provided by operating activities of ¥0.5 billion.

Net cash used in investing activities decreased by 65.4% from the year before to ¥0.5 billion. The major uses of cash were purchases of intangible assets including software used for facilities to verify re-hosting, purchases of investment securities including Mizuho Financial Group Eleventh Series Class XI Preferred shares and iDEFENCE-Japan shares, investment in ITOCHU Technology Ventures No. 1 Limited Partnership, and proceeds from the sale last year and this year of investment securities .

Net cash used in financing activities decreased by 0.7% from the previous year to ¥1.5 billion. The major uses of cash were payment of ¥1.3 billion in dividends and expenditures of ¥0.2 billion for repayments of long-term bank loans.

5. Financial Position

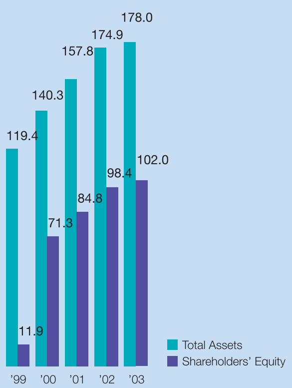
Total assets at the end of fiscal 2003 were ¥178.0 billion, up ¥3.0 billion from the end of the previous year. Current assets were up ¥7.0 billion to ¥155.5 billion as a result of an increase in cash and cash equivalents from the collection of cash. Also, continuous efforts to manage inventories resulted in an improvement of the inventory turnover ratio from 8.7 last year to 9.4 this year. Largely as a result of the sale and write-down of investment securities, investments and other assets decreased by ¥4.2 billion to ¥19.2 billion this year.

Current liabilities remained the same as at the end of last year at ¥73.5 billion. The current ratio increased from 202.0% at the end of last year to 211.6% this year. Also, long-term liabilities fell by ¥0.5 billion to ¥1.6 billion as a result of the decrease in deferred tax liabilities and liability for retirement benefits and the repayment of long-term bank loans. At the end of the fiscal year, the company had no interest-bearing debt.

As a result of the increase in retained earnings, shareholders’ equity increased by ¥3.6 billion to ¥102.1 billion. The shareholders’ equity ratio rose from 56.2% at the end of last year to 57.3%.

ROE for fiscal 2003 was 7.8%, down from 13.2% the year before, and ROA was 4.4%, down from 7.3% the previous year.

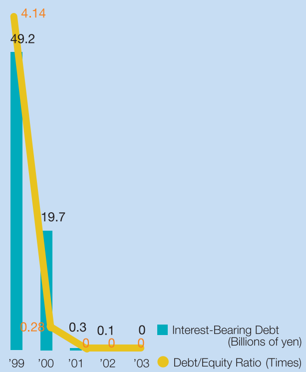
Total Assets and Shareholders’ Equity
(Billions of yen)



Shareholders’ Equity Ratio
(%)

Return on Equity and Return on Assets
(%)

Interest-Bearing Debt and Debt/Equity Ratio



Consolidated Balance Sheets

ITOCHU TECHNO-SCIENCE Corporation and Subsidiaries
March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2003**	2002	**2003**
CURRENT ASSETS:			
Cash and cash equivalents	**¥38,285**	¥23,966	**$319,042**
Receivable:			
Trade	**84,917**	93,024	**707,641**
Associated companies	**538**	226	**4,483**
Other	**1,762**	2,092	**14,683**
Allowance for doubtful receivables	**(216)**	(578)	**(1,800)**
Inventories (Note 4)	**24,024**	24,764	**200,200**
Deferred tax assets (Note 8)	**3,176**	2,746	**26,467**
Prepaid expenses and other current assets	**3,005**	2,299	**25,042**
Total current assets	**155,491**	148,539	**1,295,758**
PROPERTY AND EQUIPMENT, AT COST:			
Buildings and structures	**2,234**	2,096	**18,617**
Furniture and fixtures	**4,879**	4,395	**40,658**
Total	**7,113**	6,491	**59,275**
Accumulated depreciation	**(3,793)**	(3,481)	**(31,608)**
Net property and equipment	**3,320**	3,010	**27,667**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**7,118**	12,515	**59,316**
Investments in and advances to associated companies	**715**	1,436	**5,958**
Software	**3,019**	2,588	**25,158**
Leasehold deposit	**3,117**	3,203	**25,975**
Investment in capital	**1,703**	1,783	**14,192**
Deferred tax assets (Note 8)	**2,618**	659	**21,817**
Other assets	**1,344**	1,374	**11,200**
Allowance for doubtful receivables	**(421)**	(124)	**(3,508)**
Total investments and other assets	**19,213**	23,434	**160,108**
TOTAL	**¥178,024**	¥174,983	**$1,483,533**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	2002	Thousands of U.S. Dollars (Note 1) 2003
CURRENT LIABILITIES:			
Current portion of long-term bank loans (Note 5)		¥60	
Payable:			
Trade (Note 12)	¥50,614	47,533	$ 421,784
Associated companies	13	298	108
Other	4,186	6,120	34,883
Income taxes payable	5,326	5,665	44,383
Accrued expenses	3,560	4,015	29,667
Unearned income	4,978	4,816	41,483
Advance received	4,315	4,502	35,958
Other current liabilities	488	517	4,067
Total current liabilities	73,480	73,526	612,333
LONG-TERM LIABILITIES:			
Long-term bank loans, less current portion (Note 5)		110	
Liability for retirement benefits (Note 6)	1,300	1,569	10,833
Deferred tax liabilities (Note 8)		411	
Other long-term liabilities	259		2,158
Total long-term liabilities	1,559	2,090	12,991
MINORITY INTERESTS	935	952	7,792
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 9 and 13)			
SHAREHOLDERS' EQUITY (Notes 7 and 14):			
Common stock–authorized, 246,000,000 shares; issued, 61,500,000 shares	21,764	21,764	181,367
Capital surplus	33,076	33,076	275,633
Retained earnings	47,033	40,586	391,942
Net unrealized gain on available-for-sale securities	153	2,908	1,275
Foreign currency translation adjustments	34	84	283
Total	102,060	98,418	850,500
Treasury stock–at cost,			
25,520 shares in 2003 and 412 shares in 2002	(10)	(3)	(83)
Total shareholders' equity	102,050	98,415	850,417
TOTAL	¥178,024	¥174,983	$1,483,533

Consolidated Statements of Income

ITOCHU TECHNO-SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
NET SALES (Note 12)	**¥288,450**	¥345,304	**$2,403,750**
COST OF SALES (Note 12)	**230,427**	278,952	**1,920,225**
Gross profit	**58,023**	66,352	**483,525**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**40,385**	44,542	**336,542**
Operating income	**17,638**	21,810	**146,983**
OTHER INCOME (EXPENSES)(Note 10):			
Interest and dividend–net	**127**	127	**1,058**
Foreign exchange gains (losses)–net	**(35)**	42	**(292)**
Gain on sales of investment securities–net	**377**	4,023	**3,142**
Loss on write-down of investment securities	**(1,075)**	(2,279)	**(8,958)**
Equity in losses of associated companies	**(1,010)**	(796)	**(8,417)**
Other–net	**(644)**	(713)	**(5,366)**
Other income (expenses)–net	**(2,260)**	404	**(18,833)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**15,378**	22,214	**128,150**
INCOME TAXES (Note 8):			
Current	**8,303**	11,297	**69,192**
Deferred	**(797)**	(1,398)	**(6,642)**
Total income taxes	**7,506**	9,899	**62,550**
MINORITY INTERESTS IN NET INCOME	**(89)**	(226)	**(742)**
NET INCOME	**¥7,783**	¥12,089	**$64,858**
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.o):			
Basic net income	**¥124.95**	¥194.91	**$1.04**
Cash dividends applicable to the year	**20.00**	20.00	**0.17**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ITOCHU TECHNO-SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2003 and 2002

	Thousands	Millions of Yen					
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2001	61,500	¥21,764	¥33,076	¥29,936		¥13	¥(1)
Net income				12,089			
Appropriations:							
Cash dividends, ¥20.00 per share				(1,261)			
Bonuses to directors				(178)			
Net increase in unrealized gain on available-for-sale securities					¥2,908		
Net increase in foreign currency translation adjustments						71	
Net increase in treasury stock (339 shares)							(2)
BALANCE, MARCH 31, 2002	61,500	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)			
Net decrease in unrealized gain on available-for-sale securities					(2,755)		
Net decrease in foreign currency translation adjustments						(50)	
Net increase in treasury stock (25,108 shares)							(7)
BALANCE, MARCH 31, 2003	61,500	¥21,764	¥33,076	¥47,033	¥153	¥34	¥(10)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2002	$181,367	$275,633	$338,217	$24,233	$ 700	$(25)
Net income			64,858			
Appropriations:						
Cash dividends, $0.17 per share			(10,241)			
Bonuses to directors			(892)			
Net decrease in unrealized gain on available-for-sale securities				(22,958)		
Net decrease in foreign currency translation adjustments					(417)	
Net increase in treasury stock (25,108 shares)						(58)
BALANCE, MARCH 31, 2003	$181,367	$275,633	$391,942	$1,275	$283	$ (83)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ITOCHU TECHNO-SCIENCE Corporation and Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥15,378**	¥22,214	**$128,150**
Adjustments for:			
Income taxes–paid	**(8,642)**	(15,717)	**(72,017)**
Depreciation and amortization	**1,871**	1,829	**15,592**
(Reversal of) provision for allowance for doubtful receivables	**(66)**	107	**(550)**
(Reversal of) provision for accrued bonuses to employees	**(356)**	377	**(2,966)**
(Reversal of) provision for accrued retirement benefits	**(320)**	379	**(2,666)**
Provision for (reversal of) accrued bonuses to directors	**51**	(78)	**425**
Gain on sales of investment securities–net	**(377)**	(4,023)	**(3,142)**
Loss on write-down of investment securities	**1,075**	2,279	**8,958**
Bonuses to directors	**(111)**	(182)	**(925)**
Equity in losses of associated companies	**1,010**	796	**8,417**
Other	**739**	367	**6,158**
Changes in assets and liabilities:			
Decrease (increase) in receivable–trade	**8,107**	(14,130)	**67,558**
Decrease in inventories	**740**	14,888	**6,167**
(Increase) decrease in interest and dividend receivable	**(2)**	2	**(17)**
Increase in other current assets	**(3,360)**	(179)	**(28,000)**
Increase in payable–trade	**3,081**	7,511	**25,675**
Decrease in other current liabilities	**(2,423)**	(534)	**(20,192)**
Total adjustments	**1,017**	(6,308)	**8,475**
Net cash provided by operating activities	**16,395**	15,906	**136,625**
INVESTING ACTIVITIES:			
Proceeds from sales of investment securities	**1,417**	3,270	**11,808**
Purchases of investment securities	**(477)**	(2,155)	**(3,975)**
Purchases of intangible assets	**(766)**	(1,333)	**(6,383)**
Proceeds from sales of property and equipment	**6**	17	**50**
Purchases of property and equipment	**(267)**	(888)	**(2,225)**
Increase in other assets	**(442)**	(439)	**(3,683)**
Net cash used in investing activities	**(529)**	(1,528)	**(4,408)**
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings		(62)	
Repayments of long-term bank loans	**(170)**	(111)	**(1,417)**
Proceeds from sales of treasury stock		1	
Payments for purchases of treasury stock		(4)	
Proceeds from minority shareholders' payments		50	
Dividends paid	**(1,327)**	(1,382)	**(11,058)**
Net cash used in financing activities	**(1,497)**	(1,508)	**(12,475)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**14,369**	12,870	**119,742**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(50)**	71	**(417)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**23,966**	11,025	**199,717**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥38,285**	¥23,966	**$319,042**

See notes to consolidated financial statements.

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 and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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 2002 financial statements to conform to the classifications used in 2003.

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 have been made at the rate of ¥120 to $1, the approximate rate of exchange at March 31, 2003. Such translations should not be construed as representations 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, 2003 and 2002 include the accounts of the Company and its 12 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 9 (10 in 2002) 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 stated at cost, determined principally by the specific identification method.

d. Investment Securities Investment securities are classified and accounted for as available-for-sale securities based on management’s intent. Available-for-sale securities 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 of property and equipment of the Company and its consolidated subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally 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 estimated useful lives.

g. Software Development Costs Software development costs, incurred through the completion of a Beta version of specific software for sale to the market, are charged to income when incurred. Such costs incurred subsequent to the completion of the Beta version are deferred and amortized at the higher of either the amount to be amortized in proportion of the actual sales volume of the software during the current year to the estimated total sales volume over the estimated salable years of the software or the amount to be amortized by the straight-line method over 3 years.

h. 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. Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liabilities for retirement benefits based on projected obligations and fair value of 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 the balance sheet date.

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 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 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 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 were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into 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.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statements 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.

o. Per Share Information Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, 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.

p. Treasury Stock Effective April 1, 2002, the Company adopted a new accounting standard for treasury stock issued by the Accounting Standards Board of Japan. This standard requires that where an associated company holds a parent company's stock, a portion that represents an equivalent ownership interest in such stock should be presented as treasury stock in a separate component of shareholders' equity and the carrying value of the investment in associated company should be reduced by the same amount. The Company adopted this accounting standard for the year ended March 31, 2003. Such treasury stock was not reflected in the Company's consolidated financial statements for the year ended March 31, 2002 since no accounting treatment was previously prescribed for the parent company's stock held by an associated company.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Marketable equity securities	¥4,511	¥ 9,280	$37,591
Non-marketable equity securities	2,335	2,952	19,458
Corporate bonds	73	81	608
Trust fund investments	199	202	1,659
Total	¥7,118	¥12,515	$59,316

The carrying amounts and aggregate fair values of investment securities at March 31, 2003 and 2002 were as follows:

	Millions of Yen			
March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥4,246	¥1,297	¥1,032	¥4,511
Trust fund investments	205		5	199
March 31, 2002				
Available-for-sale:				
Equity securities	4,363	5,391	474	9,280
Trust fund investments	204		2	202

	Thousands of U.S. Dollars			
March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$35,383	$10,808	$8,600	$37,591
Trust fund investments	1,700		41	1,659

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Equity securities	¥2,335	¥2,952	$19,458
Debt securities	73	81	608
Total	¥2,408	¥3,033	$20,066

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥455 million ($3,792 thousand) and ¥ 4,304 million, respectively. Gross realized gains and losses on these sales were ¥381 million ($3,175 thousand) and ¥4 million ($ 33 thousand), respectively, for the year ended March 31, 2003 and ¥4,050 million and ¥26 million, respectively, for the year ended March 31, 2002.

Debt securities classified as available-for-sale at March 31, 2003 are due in one year or less.

4. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Merchandise	¥15,977	¥17,170	$133,142
Work in process	1,953	1,300	16,275
Supplies	6,094	6,294	50,783
Total	¥24,024	¥24,764	$200,200

5. LONG-TERM BANK LOANS

Long-term bank loans at March 31, 2002 consisted of the following:

	Millions of Yen
Unsecured 3% bank loans, due serially to 2005	¥170
Less current portion	(60)
Long-term bank loans, less current portion	¥110

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 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 at March 31, 2003 for directors and corporate auditors is ¥242 million ($ 2,017 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Projected benefit obligation	**¥5,961**	¥5,110	**$49,675**
Fair value of plan assets	**(3,965)**	(3,853)	**(33,042)**
Unrecognized actuarial (loss) gain	**(938)**	121	**(7,817)**
Net liability	**¥1,058**	¥1,378	**$ 8,816**

The components of net periodic retirement benefit costs for the years ended March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Service cost	**¥ 500**	¥ 727	**$4,167**
Interest cost	**115**	135	**958**
Expected return on plan assets	**(90)**	(91)	**(750)**
Recognized actuarial (gain) loss	**(107)**	455	**(891)**
Premium of defined benefit contributory pension fund	**739**	564	**6,158**
Net periodic retirement benefit costs	**¥1,157**	¥1,790	**$9,642**

Assumptions used for actuarial computation for the years ended March 31, 2003 and 2002 are set forth as follows:

	2003	2002
Discount rate	**2.0%**	2.5%
Expected rate of return on plan assets	**2.5%**	3.0%
Recognition period of actuarial gain / loss	**1 year**	1 year

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") 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 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 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 beginning April 1, 2002. 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 general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥35,974 million ($ 299,783 thousand) as of March 31, 2003, 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 by shareholders meetings as an additional benefit for certain directors or officers and key employees. The outstanding stock options granted are as follow:

Date of Shareholders Meeting	Number of Shares	Exercise Period of the Stock Options	Exercise Price per Share
June 28, 2000	102,100 shares	From July 1, 2002 to June 30, 2005	¥16,656 ($139)
June 27, 2001	78,700 shares	From July 1, 2003 to June 30, 2006	¥12,520 ($104)
June 26, 2002	293,000 shares	From July 1, 2004 to June 30, 2007	¥ 3,504 ($29)

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 42% for the years ended March 31, 2003 and 2002, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Current:			
Deferred tax assets:			
Loss on write-down of inventories	¥1,182	¥ 942	$9,850
Accrued bonuses to employees	974	866	8,117
Accrued enterprise taxes	551	513	4,592
Tax loss carryforwards	126	189	1,050
Other	406	248	3,382
Less valuation allowance	(52)		(433)
Total	3,187	2,758	26,558
Deferred tax liabilities–consolidation adjustment of allowance for doubtful accounts	11	12	91
Net deferred tax assets	¥3,176	¥2,746	$26,467
Non-current:			
Deferred tax assets:			
Loss on write-down of investment securities	¥1,405	¥1,036	$11,708
Accrued retirement benefits	532	661	4,433
Tax loss carryforwards	228	144	1,900
Loss on write-down of membership	227	233	1,892
Other	515	282	4,292
Less valuation allowance	(184)		(1,533)
Total	2,723	2,356	22,692
Charges to offset against deferred tax liabilities	(105)	(1,697)	(875)
Net deferred tax assets	¥2,618	¥ 659	$21,817
Deferred tax liabilities–net unrealized gain on available-for -sale securities	¥ 105	¥2,108	$ 875
Charges to offset against deferred tax assets	(105)	(1,697)	(875)
Net deferred tax liabilities		¥ 411	

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, 2003 and 2002 is as follows:

	2003	2002
Normal effective statutory tax rate	42 %	42 %
Expenses not deductible for income tax purposes	1.7	1.2
Income not taxable for income tax purposes	(0.3)	(0.4)
Inhabitant tax–per capita	0.4	0.2
Equity in losses of associated companies	2.8	1.5
Less valuation allowance	1.4	
Adjustments of deferred tax assets and liabilities due to change of the normal effective statutory tax rate	0.6	
Other	0.2	0.1
Actual effective tax rate	48.8%	44.6%

On March 31, 2003, a tax reform law 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 effect of this change on deferred taxes in the consolidated statements of income for the year ended March 31, 2003 was a decrease of approximately ¥83 million ($ 692 thousand).

At March 31, 2003, certain subsidiaries have tax loss carryforwards aggregating approximately ¥821 million ($6,842 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	$ 308
2006	196	1,634
2007	324	2,700
2008	264	2,200
Total	¥821	$6,842

9. LEASES

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

Total rental expenses for the years ended March 31, 2003 and 2002 were ¥4,108 million ($34,233 thousand) and ¥3,411million, respectively, including ¥1,096 million ($9,133 thousand) and ¥1,041 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, 2003 and 2002 was as follows:

	Millions of Yen							
	2003				2002			
	Building	Furniture and Fixtures	Software	Total	Building	Furniture and Fixtures	Software	Total
Acquisition cost	¥137	¥3,561	¥558	¥4,256	¥135	¥3,463	¥496	¥4,094
Accumulated depreciation	71	1,602	325	1,998	50	1,776	241	2,067
Net leased property	¥ 66	¥1,959	¥233	¥2,258	¥ 85	¥1,687	¥255	¥2,027

	Thousands of U.S. Dollars			
	2003			
	Building	Furniture and Fixtures	Software	Total
Acquisition cost	$1,142	$29,675	$4,650	$35,467
Accumulated depreciation	592	13,350	2,708	16,650
Net leased property	$ 550	$16,325	$1,942	$18,817

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year	¥ 950	¥ 896	$ 7,917
Due after one year	1,382	1,200	11,516
Total	¥2,332	¥2,096	$19,433

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Depreciation expense	¥1,010	¥ 971	$8,417
Interest expense	61	66	508
Total	¥1,071	¥1,037	$8,925

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.

10. OTHER EXPENSES–NET

Other expenses–net for the years ended March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Loss on investment in capital	¥(454)	¥(254)	$(3,783)
Loss on disposal of property and equipment	(284)	(112)	(2,367)
Other	94	(347)	784
Other expenses–net	¥(644)	¥(713)	$(5,366)

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, market 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.

12. RELATED PARTY TRANSACTIONS

Transactions of the Group with associated companies for the years ended March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Sales	¥1,205	¥ 955	$10,042
Purchases	152	1,320	1,267

Transactions of the Group with ITOCHU Corporation , Parent company, for the years ended March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Purchases	¥70,965	¥90,360	$591,375

The balances due to ITOCHU Corporation, parent company, at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Payable	¥10,403	¥11,442	$86,692

13. CONTINGENT LIABILITIES

At March 31, 2003, the Group is contingently liable for guarantees of borrowings for the Group's employees amounting to ¥731 million ($6,092 thousand).

14. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2003 were approved at the Company's shareholders meeting held on June 25, 2003:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥10.00 ($0.08) per share	¥ 615	$ 5,125
Bonuses to directors and corporate auditors	66	550
Other reserve	6,000	50,000
Total	¥6,681	$55,675

In addition to the cash dividends described above, the Company paid interim cash dividends of ¥615 million ($5,125 thousand, ¥10.00 ($0.08) per share) on December 6, 2002 to shareholders of record as of September 30, 2002, 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's shareholders approved the purchase up to 5 million shares of the Company's common stock (aggregate amount of ¥15 billion) as treasury stock until the next general shareholders meeting in June 2004.

15. SEGMENT INFORMATION

The Company 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, 2003 and 2002 is as follows:

(1) Business Segments

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

a. Sales and Operating Income

	Thousands of U.S. Dollars			
	2003			
	System	Support	Eliminations/ Corporate	Consolidated
Sales to customers	$2,075,483	$328,267		$2,403,750
Intersegment sales	11,367	104,966	$(116,333)	
Total sales	2,086,850	433,233	(116,333)	2,403,750
Operating expenses	2,035,933	294,067	(73,233)	2,256,767
Operating income	$ 50,917	$139,166	$ (43,100)	$ 146,983

b. Total Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars			
	2003			
	System	Support	Eliminations/ Corporate	Consolidated
Total assets	$942,333	$159,642	$381,558	$1,483,533
Depreciation	5,425	3,158	7,009	15,592
Capital expenditures	2,267	3,050	3,975	9,292

a. Sales and Operating Income

	Millions of Yen			
	2002			
	System	Support	Eliminations/ Corporate	Consolidated
Sales to customers	¥311,339	¥33,965		¥345,304
Intersegment sales	1,548	15,044	(16,592)	
Total sales	312,887	49,009	(16,592)	345,304
Operating expenses	299,229	34,444	(10,179)	323,494
Operating income	¥ 13,658	¥14,565	¥ (6,413)	¥ 21,810

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2002			
	System	Support	Eliminations/ Corporate	Consolidated
Total assets	¥121,316	¥21,355	¥32,312	¥174,983
Depreciation	650	390	789	1,829
Capital expenditures	637	646	928	2,211

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, 2003 and 2002 were ¥5,640 million ($47,000 thousand) and ¥7,000 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, 2003 and 2002 were ¥51,910 million ($432,583 thousand) and ¥38,919 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, 2003 and 2002 respectively.

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, 2003 and 2002, respectively.

Independent Auditors' Report

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, 2003 and 2002, 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, procedures and practices generally accepted and applied 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices 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 25, 2003

Consolidated Five-Year Summary

	Billions of Yen				
	2003	2002	2001	2000	1999
For the Years ended March 31:					
Net Sales	¥288.5	¥345.3	¥302.9	¥208.2	¥175.4
Gross Profit	58.0	66.4	67.4	44.7	39.0
SG & A	40.4	44.5	39.1	33.4	29.3
Operating Income	17.6	21.8	28.3	11.3	9.7
Income Before Income Taxes	15.4	22.2	26.9	10.8	8.8
Net Income	7.8	12.1	14.8	6.1	3.0
As of March 31:					
Total Assets	178.0	174.9	157.8	140.3	119.4
Shareholders' Equity	102.0	98.4	84.8	71.3	11.9

Board of Directors

(As of June 25, 2003)

Yushin Okazaki
President & CEO

Tohru Nakano
Managing Director

Ken Gotoh
Managing Director

Yoshinori Warashina
Managing Director

Takatoshi Matsumoto
Director

Masahiro Nakagawa
Director

Hiroo Inoue
Director

▶*Directors and Corporate Auditors*

Yushin Okazaki
President & CEO

Tohru Nakano
Managing Director

Ken Gotoh
Managing Director

Yoshinori Warashina
Managing Director

Takatoshi Matsumoto
Director

Masahiro Nakagawa
Director

Hiroo Inoue
Director

Bunei Yoshizumi
Standing Auditor

Kozo Ohta
Standing Auditor

Yasuo Kanematsu
Auditor

Minoru Kamada
Auditor

▶*Executive Officers*

Takeshi Ikeno
(Managing Executive Officer)

Shozo Nozoe

Kazuo Hayashi

Katsunori Suzuki

Chisato Kitagawa

Tadami Motoki

Yasuto Iwamoto

Shinji Kumazaki

Akira Saitoh

Masaaki Matsuzawa

Tadataka Okubo

Kazunobu Nezaki

Yoshimichi Miura

Shinichiro Sakuraba

Katsuyuki Shirota

Kazunobu Moriyama

Corporate Profile

(As of March 31, 2003)

ITOCHU TECHNO-SCIENCE CORPORATION (CTC)

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

Head Office

11-5, Fujumi 1-chome, Chiyoda-ku,
Tokyo 102-8166, Japan
Phone: +81-3-5226-1200
U R L: http://www.ctc-g.co.jp/

Established

April 1,1972

Paid-in Capital

¥21,763 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)

3,403

Main Suppliers

Sun Microsystems
Major Distributor (No.1 vendor in the world)

Cisco Systems
Gold Partner (No.2 vendor in Japan)

Network Appliance
Major Distributor (No.1 vendor in Japan)

Oracle
Excellent Partner 2002, Support of the year 2002
(No.1 vendor in Japan)

SunONE (iPlanet™)
Enterprise Partner
(No.1 vendor in Asia Pacific, No.1 vendor in Japan)

Avaya
Platinum Partner (No.1 vendor in Asia Pacific)

Siebel Systems
Major Distributor (No.1 vendor in Japan)

Tivoli for Sun
Premium Partner (No.1 vendor in Japan)

Documentum
Major Distributor (No.1 vendor in Japan)

CTC Group Companies

Consolidated Subsidiaries (12 companies)

Company	Paid-in Capital	Main Business Activities
CTC Create Corporation	¥120 million	Telemarketing
CTC Financial Engineering Corporation	¥450 million	Information system development and sales to the financial sector
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 Apparel Systems Corporation	¥100 million	Information system development and sales to the apparel sector
CTC SP Corporation	¥100 million	Development and sales of network solutions
CTC Systems Corporation	¥100 million	Software development
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 September 1, 2003, CTC Financial Engineering Corporation and CTC Apparel Systems Corporation merged with ITOCHU TECHNO-SCIENCE Corporation (simple merger).
3. On April 1, 2003, CTC Systems Corporation merged with ITOCHU TECHNO-SCIENCE Corporation (simple merger).

Companies Accounted for by the Equity Method (9 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
OFS Corporation	¥664 million	Software development
Sony Broadband Solutions Corporation	¥1,642 million	Development and sales of systems that combine audio-visual functions with information technology
Netvein Corporation	¥700 million	Operation and monitoring of system networks
(Four other companies)		

ITOCHU TECHNO-SCIENCE Corporation

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

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