Financial Section

Six-Year Summary

ITOCHU Corporation and Subsidiaries
Years ended March 31

	Millions of Yen						Millions of U.S. Dollars (Note 6)
Years ended March 31	**2007**	2006	2005	2004	2003	2002	**2007**
P/L (For the year):							
Revenue (Note 1)	**¥2,647,202**	¥2,218,221	¥1,991,238	¥1,738,747	¥1,681,718	¥1,688,128	**$22,424**
Gross trading profit	**908,676**	714,374	630,761	555,895	564,967	578,656	**7,697**
Net income (loss)	**177,059**	145,146	77,792	(31,944)	20,078	30,191	**1,500**
Per share (Yen and U.S. Dollars):							
Net income (loss) (Note 2)	**¥111.95**	¥ 91.74	¥ 49.16	¥ (20.20)	¥ 13.12	¥ 21.18	**$0.95**
Cash dividends	**14**	9	7	—	5	5	**0.12**
Stockholders' equity (Note 2)	**566.78**	459.47	322.54	267.25	269.53	278.99	**4.80**
Total trading transactions (Note 3)	**¥11,579,059**	¥10,473,885	¥9,576,039	¥9,516,967	¥10,446,371	¥11,395,240	**$98,086**
Adjusted profit (Note 4)	**241,931**	252,038	188,807	100,676	114,454	102,557	**2,049**
B/S (At year-end):							
Total assets	**¥5,271,512**	¥4,797,013	¥4,472,345	¥4,487,282	¥4,486,405	¥4,752,319	**$44,655**
Short-term interest-bearing debt	**518,040**	555,531	676,870	885,253	990,939	991,410	**4,389**
Long-term interest-bearing debt	**1,647,589**	1,670,937	1,669,834	1,676,657	1,583,481	1,803,321	**13,956**
Interest-bearing debt	**2,165,629**	2,226,468	2,346,704	2,561,910	2,574,420	2,794,731	**18,345**
Net interest-bearing debt	**1,630,928**	1,724,314	1,891,086	1,977,048	2,025,048	2,296,398	**13,815**
Long-term debt, excluding current maturities (including long-term interest-bearing debt)	**1,795,333**	1,762,103	1,750,815	1,757,313	1,637,916	1,863,629	**15,208**
Stockholders' equity	**896,195**	726,816	510,397	422,866	426,220	397,668	**7,592**
Cash flows:							
Cash flows from operating activities	**¥ 235,917**	¥185,147	¥ 126,624	¥184,780	¥ 168,843	¥ 216,503	**$1,998**
Cash flows from investing activities	**(83,394)**	(79,871)	(127,600)	(55,300)	5,253	214,008	**(706)**
Cash flows from financing activities	**(100,920)**	(85,193)	(125,342)	(79,695)	(114,041)	(232,047)	**(855)**
Cash and cash equivalents at end of year	**532,856**	477,707	452,934	579,565	534,156	479,734	**4,514**
Ratios:							
Gross trading profit ratio (%) (Note 5)	**7.8**	6.8	6.6	5.8	5.4	5.1	
ROA (%)	**3.5**	3.1	1.7	—	0.4	0.6	
ROE (%)	**21.8**	23.5	16.7	—	4.9	8.4	
Ratio of stockholders' equity to total assets (%)	**17.0**	15.2	11.4	9.4	9.5	8.4	
Net debt-to-equity ratio (times)	**1.8**	2.4	3.7	4.7	4.8	5.8	
Interest coverage (times)	**6.7**	5.7	5.7	2.7	2.7	2.1	
Common stock information:							
Stock price (Yen and U.S. Dollars):							
Opening price	**¥1,014**	¥ 541	¥466	¥287	¥425	¥444	**$ 8.59**
High	**1,223**	1,056	573	480	506	520	**10.36**
Low	**837**	484	403	231	198	269	**7.09**
Closing price	**1,168**	1,011	540	468	288	430	**9.89**
Market capitalization (Yen and U.S. Dollars in billions)	**1,851**	1,602	856	742	456	613	**15.68**
Trading volume (yearly, million shares)	**1,969**	1,580	1,533	1,304	1,221	847	
Number of shares of common stock issued (at year-end, 1,000 shares)	**1,584,890**	1,584,890	1,584,890	1,584,890	1,583,488	1,425,488	
Exchange rates into U.S. currency (Federal Reserve Bank of New York):							
At year-end	**¥117.56**	¥117.48	¥107.22	¥104.18	¥118.07	¥132.70	
Average for the year	**116.55**	113.67	107.28	112.75	121.10	125.64	
Range:							
Low	**121.81**	120.93	114.30	120.55	133.40	134.77	
High	**110.07**	104.41	102.26	104.18	115.71	115.89	
Number of employees (At year-end, consolidated)	**45,690**	42,967	40,890	40,737	39,109	36,529	

Note:
1. "Revenue" has been presented since the fiscal year ended March 31, 2002 in accordance with "Emerging Issues Task Force (EITF)" No. 99-19.
2. "Net income (loss) per share" and "Stockholders' equity per share" are calculated by using the number of shares issued and outstanding.
3. "Total trading transactions" is presented in accordance with Japanese accounting practice and is not meant to present sales or revenue in accordance with U.S. GAAP.
4. Adjusted profit = Gross trading profit + Selling, general and administrative expenses + Net financial expenses + Equity in earnings of associated companies
5. "Gross trading profit ratio" is the percentage of "Gross trading profit" to "Total trading transactions."
6. The Japanese yen amounts for the year ended March 31, 2007 have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥118.05=U.S.$1 (the official rate dated March 31, 2007 announced by The Bank of Tokyo-Mitsubishi UFJ, Ltd.).

Management's Discussion and Analysis of Financial Condition and Results of Operations

All the financial information provided herein is based on the consolidated financial statements included in this annual report. These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Figures in yen for the fiscal year ended March 31, 2007 ("Fiscal 2007") have been converted into U.S. dollars, solely for the convenience of the reader, using an exchange rate of ¥118.05 = US$1 as of March 31, 2007 as announced by The Bank of Tokyo-Mitsubishi UFJ, Ltd.

OVERVIEW

During Fiscal 2007, the tempo of recovery for the Japanese economy slowed. Capital expenditure and exports both increased strongly, but growth in consumer spending was sluggish. The Nikkei Stock Average felt the pressure of lower stock valuations around the world and at one point fell to the ¥14,000 level. However, supported by the continuing gentle recovery in the Japanese economy, it returned to a level of around ¥17,000 by the end of the fiscal year. The yen-dollar rate moved in a range of ¥110-120 to the U.S. dollar. This was due to the gap between domestic and overseas interest rates, which caused funds to flow out of Japan and counterbalance the trade surplus. The Bank of Japan, which relinquished the zero-rate interest policy last July, continued by implementing a modest increase in short-term interest rates this February.

The overseas economy continued to expand strongly overall. In the U.S., housing investment declined rapidly, but high corporate earnings supported expansion in employment and capital expenditure. The U.S. economy therefore maintained steady growth. The Chinese economy displayed high growth throughout the fiscal year, backed by domestic infrastructure investment and strong exports. The European economy also grew strongly led by internal demand. Crude oil prices, which had risen dramatically until the middle of last year, fell in reaction and moved around the US$60 to a barrel level. In contrast, other primary material prices maintained their upward trend. Compared to crude oil, these materials had been slower in reaching the transition phase for upward movement.

ITOCHU Corporation and its group companies have implemented a mid-term management plan, "Frontier-2006," a two-year plan for Fiscal 2006 and Fiscal 2007. This fiscal year was the final year of the plan and we positioned it as the year when we would attain the target of making ITOCHU a highly profitable group consistently achieving more than ¥100 billion in net income. By anticipating changes, always seeking a "frontier" and pursuing the three principles of "challenge, create and commit", ITOCHU has been engaged in growing its earnings and strengthening its business base.

Specific achievements during fiscal 2007 were as follows:

<u>Consumer-related and Retail-related areas:</u>

ITOCHU continued the global rollout of major brands. In textile, the casual bag brand LeSportsac was deployed in China and a branch of the U.S. gourmet store Dean & Deluca was opened in Taiwan. The jewelry joint venture Chrome Hearts LLC opened stores in Hawaii and Paris, while Paul Smith Holdings Limited opened stores in New York and Paris.

In new business employing advanced technology, ITOCHU cooperated with SHU-HOU Co., Ltd., on applications for their curved surface printing technology. Facilities for anhydrous dyeing mass production in INKMAXCO., LTD.'s ink jet printing business were also completed.

In food-related business, ITOCHU energetically pursued a number of initiatives in China. These included establishing a general wholesale subsidiary in the East China region, and further expanding FamilyMart stores to Guangzhou (FamilyMart started in Shanghai from fiscal 2005.)

In Japan, ITOCHU converted NIPPON ACCESS, INC. into a subsidiary from an equity-method associated company last June (see note 3 of consolidated financial statements), and in turn NIPPON ACCESS, INC. merged with NISHINO TRADING CO., Ltd. in April this year. This new company will develop business as one of Japan's biggest food wholesalers.

<u>Natural Resource Development-related areas:</u>

ITOCHU decided to make an investment to increase supply at the iron-ore production project which it runs in Western Australia with BHP Billiton Ltd. and Mitsui & Co., Ltd.

In the United States, ITOCHU established a joint venture, Kansas Energy Co. LLC in order to enter the retail natural gas business. Interests in natural gas fields in the Gulf of Mexico area were acquired. Regarding the ACG oil development project in Azerbaijan, crude oil production started in the eastern oil field of Azeri as well.

<u>Other areas:</u>

ITOCHU received an order in Machinery for the construction of an expressway linking the east and west of Algeria. In automobile business, ITOCHU formed Isuzu Network Co., Ltd. with Isuzu Motors Ltd. to strengthen domestic sales and foster life cycle process management for commercial vehicles. An operational and capital tieup was also concluded with Akebono Brake Industry Co., Ltd. and ITOCHU invested in Akebono's North American subsidiary controlling company. In the Mobile area, Asurion Japan K.K. started a warranty service for mobile devices. In Life Science, ITOCHU established Wellness Communications Corporation which will focus on preventive medicine, a market set to expand in Japan's low-birthrate, aging society. In the Chemicals area, ITOCHU's largest investment in China, a manufacturing plant for high-purity terephthalic acid (PTA) in Ningbo, started operations. In the financial services area, eGuarantee, Inc., which engages in guaranty services, was listed on the JASDAQ stock exchange.

BUSINESS RESULTS FOR FISCAL 2007—A Comparison between Fiscal 2007 and Fiscal 2006

Revenue (the total of "Sales revenue" and "Trading margins and commissions on trading transactions") increased by ¥429.0 billion (19.3%) to ¥2,647.2 billion (US$22,424 million) compared with the previous fiscal year. In Machinery, automobile transactions increased; in Energy, Metals and Minerals, natural resources prices such as crude oil increased and there was a rise in sales volume; and in Food, there was an increase from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

Gross trading profit increased by ¥194.3 billion (27.2%) to ¥908.7 billion (US$7,697 million) compared with the previous fiscal year. In Machinery, automobile transactions in the U.S. and Europe were buoyant; in Aerospace, Electronics and Multimedia, there was steady growth in domestic IT business; in Energy, Metals & Minerals, there was a rise in crude oil prices and sales volume rose as full-scale production started in oil-fields owned; in Chemicals, Forest Products and General Merchandise, there was steady growth in domestic house building materials transactions and a robust chemical products market; and in Food, there was an increase from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

Selling, general and administrative expenses increased by ¥132.9 billion (26.2%) to ¥639.1 billion (US$5,414 million), compared with the previous fiscal year, mainly due to business expansion and the increase from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

Provision for doubtful receivables decreased by ¥9.8 billion from the previous fiscal year to ¥4.9 billion (US$42 million) mainly due to a loss on Iraq receivables posted last fiscal year.

Net financial expenses (net of interest income, interest expense and dividend received) decreased by ¥0.3 billion (3.3%) to ¥7.6 billion (US$ 64 million), compared with the previous fiscal year. Although net interest expenses increased by ¥3.2 billion (12.2%) due to rising interest rates, this was counterbalanced by increased dividends from energy-related investments.

Gain (loss) on disposal of investments and marketable securities, net of write-down, decreased by ¥4.8 billion to a gain of ¥46.9 billion (US$397 million), compared with the previous fiscal year, due to an increase in devaluation losses on investment securities.

Loss on property and equipment–net improved by ¥1.1 billion to a loss of ¥6.8 billion (US$57 million), compared with the previous fiscal year.

Other–net improved by ¥15.5 billion to a gain of ¥3.1 billion (US$26 million), compared with the previous fiscal year, mainly due to the absence of a loss on a legal settlement recorded by a U.S. subsidiary last year.

As a result, **income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change** increased by ¥83.4 billion (38.4%) to ¥300.2 billion (US$2,543 million), compared with the previous fiscal year.

Income taxes decreased by ¥18 billion (16.8%) to ¥88.9 billion (US$753 million) compared with the previous fiscal year. **Minority interests** increased by ¥1.1 billion (8.2%) to a loss of ¥14.2 billion (US$120 million), compared with the previous fiscal year. **Equity in earnings (losses) of associated companies** worsened by ¥71.8 billion to a loss of ¥20.1 billion (US$170 million) due to an equity loss recognition arising from a significant loss recorded by Orient Corporation under the revised Moneylending Control Law in Japan.

An additional charge of ¥3.4 billion was recorded representing the cumulative effect of an accounting change (early adoption of Emerging Issues Task Force ("EITF") 04-6—Accounting for Stripping Costs in Mining Industry) last fiscal year.

As a result of all the above, **Net income** increased by ¥31.9 billion (22.0%) to ¥177.1 billion (US$1,500 million compared with the previous fiscal year.

Total trading transactions according to Japanese accounting practices increased by ¥1,105.2 billion (10.6%) to ¥11,579.1 billion (US$98,086 million), compared with the previous fiscal year. In Machinery, automobile transactions increased; in Energy, Metals & Minerals, natural resources prices such as crude oil increased and there was a rise in sales volume; in Chemicals, Forest Products and General Merchandize, there was steady growth in domestic house building materials transactions and a robust chemical products market; and in Food, there was an increase from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

Consolidated Statements of Operations

Years ended March 31	Billions of Yen 2007	2006	Increase (Decrease)	Millions of U.S. Dollars 2007
Revenue	**¥ 2,647.2**	¥ 2,218.2	¥ 429.0	**$ 22,424**
Cost of sales	**(1,738.5)**	(1,503.8)	(234.7)	**(14,727)**
Gross trading profit	**908.7**	714.4	194.3	**7,697**
Selling, general and administrative expenses	**(639.1)**	(506.3)	(132.9)	**(5,414)**
Provision for doubtful receivables	**(4.9)**	(14.7)	9.8	**(42)**
Interest income	**16.1**	13.4	2.7	**137**
Interest expense	**(45.3)**	(39.4)	(5.9)	**(384)**
Dividends received	**21.7**	18.2	3.4	**183**
Gain (loss) on disposal of investments and marketable securities, net of write-down	**46.9**	51.6	(4.8)	**397**
Loss on property and equipment–net	**(6.8)**	(7.9)	1.1	**(57)**
Other–net	**3.1**	(12.4)	15.5	**26**
Income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	**300.2**	216.9	83.4	**2,543**
Income taxes	**88.9**	106.9	(18.0)	**753**
Income before minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	**211.3**	109.9	101.4	**1,790**
Minority interests	**(14.2)**	(13.1)	(1.1)	**(120)**
Equity in earnings (losses) of associated companies	**(20.1)**	51.7	(71.8)	**(170)**
Income before cumulative effect of an accounting change	**177.1**	148.6	28.5	**1,500**
Cumulative effect of an accounting change	**—**	(3.4)	3.4	**—**
Net income	**¥ 177.1**	¥ 145.1	¥ 31.9	**$ 1,500**

Operating Segment Information

Years ended March 31	Billions of Yen 2007	2006	2005	Millions of U.S. Dollars 2007
Trading transactions:				
Textile	¥ 806.5	¥ 824.3	¥ 829.1	$ 6,832
Machinery	1,588.8	1,439.5	1,166.7	13,459
Aerospace, Electronics & Multimedia	696.7	699.5	630.9	5,902
Energy, Metals & Minerals	3,020.0	2,876.2	2,471.5	25,582
Chemicals, Forest Products & General Merchandise	2,157.2	1,967.3	1,893.2	18,274
Food	2,828.9	2,150.0	2,111.9	23,963
Finance, Realty, Insurance & Logistics Services	221.7	232.8	243.1	1,878
Other, Adjustments & Eliminations	259.3	284.3	229.7	2,196
Total	¥11,579.1	¥10,473.9	¥9,576.0	$98,086
Gross trading profit:				
Textile	¥ 124.6	¥ 122.9	¥ 112.8	$ 1,056
Machinery	90.5	69.5	58.0	766
Aerospace, Electronics & Multimedia	133.5	116.4	108.4	1,131
Energy, Metals & Minerals	102.1	73.9	39.1	865
Chemicals, Forest Products & General Merchandise	126.2	111.1	105.9	1,069
Food	264.6	142.6	136.2	2,241
Finance, Realty, Insurance & Logistics Services	43.3	46.0	39.3	367
Other, Adjustments & Eliminations	23.9	32.0	31.0	202
Total	¥ 908.7	¥ 714.4	¥ 630.8	$ 7,697
Net income (loss):				
Textile	¥ 17.1	¥ 15.0	¥ 14.8	$ 145
Machinery	21.1	13.7	10.5	179
Aerospace, Electronics & Multimedia	11.2	17.2	14.4	95
Energy, Metals & Minerals	80.7	58.0	25.7	684
Chemicals, Forest Products & General Merchandise	24.8	18.6	20.3	210
Food	18.1	19.4	(9.3)	153
Finance, Realty, Insurance & Logistics Services	(28.3)	9.9	5.4	(240)
Other, Adjustments & Eliminations	32.4	(6.6)	(3.9)	274
Total	¥ 177.1	¥ 145.1	¥ 77.8	$ 1,500
Identifiable assets at March 31:				
Textile	¥ 401.8	¥ 395.4	¥ 377.2	$ 3,404
Machinery	635.8	489.0	451.4	5,386
Aerospace, Electronics & Multimedia	551.2	524.7	489.4	4,669
Energy, Metals & Minerals	781.4	644.4	491.0	6,619
Chemicals, Forest Products & General Merchandise	716.8	634.3	583.7	6,072
Food	1,070.7	778.8	728.0	9,070
Finance, Realty, Insurance & Logistics Services	524.9	600.9	615.3	4,446
Other, Adjustments & Eliminations	588.9	729.5	736.3	4,989
Total	¥ 5,271.5	¥ 4,797.0	¥4,472.3	$44,655

OPERATING SEGMENT INFORMATION

Operating segment results are as follows. ITOCHU reports according to its division company system.

Textile

Trading transactions (excluding inter-segment transactions; the same definition applies below) decreased by ¥17.7 billion (2.1%) to ¥806.5 billion (US$6,832 million), compared with the previous fiscal year, due mainly to a decline in midstream operations. Gross trading profit increased by ¥1.8 billion (1.4%) to ¥124.6 billion (US$1,056 million), compared with the previous fiscal year, due to an increase in brand related transactions which offset the decline caused by decrease in trading transactions. Net income increased by ¥2.1 billion (14.1%) to ¥17.1 billion (US$145 million), compared with the previous fiscal year, despite an increase in net financial expenses. The increase was due to a rise in equity in earnings of associated companies, mainly brand-related. Identifiable assets increased ¥6.4 billion (1.6%) compared with the previous fiscal year to ¥401.8 billion (US$3,404 million), as new brand-related investment rose.

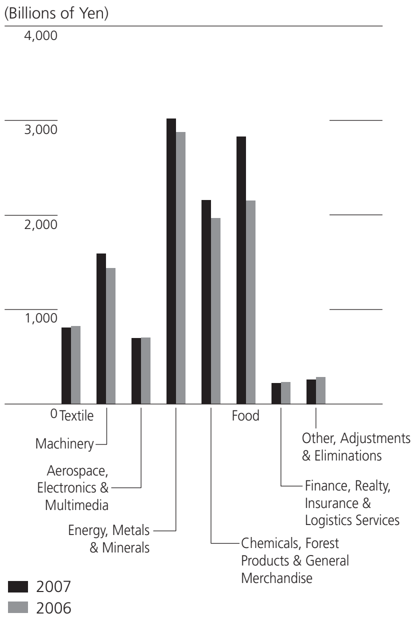
Machinery

Trading transactions increased by ¥149.3 billion (10.4%) to ¥1,588.8 billion ($US13,459 million) compared with the previous fiscal year, due to increases in automobile transactions. Gross trading profit improved by ¥20.9 billion (30.1%) to ¥90.5 billion (US$766 million) compared with the previous fiscal year, driven by steady growth in plant, shipping, automobile business in Europe and the U.S. as well as construction machinery business in North America. Despite an increase in net financial expenses, net income rose by ¥7.5 billion (54.5%) to ¥21.1 billion (US$179 million) compared with the previous fiscal year, driven by the increase in gross trading profit and gains on sales of investment securities. Identifiable assets increased by ¥146.7 billion (30%) to ¥635.8 billion (US$5,386 million) compared with the previous fiscal year, mainly due to an increase in accounts receivables and inventories from shipping and automobile transactions and increased automobile-related investment.

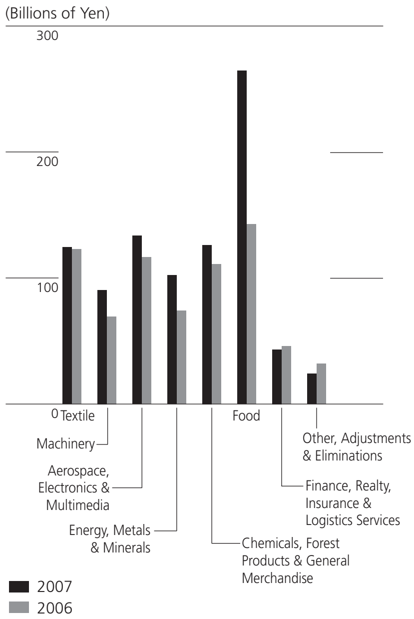
Aerospace, Electronics and Multimedia

Trading transactions decreased by ¥2.8 billion (0.4%) to ¥696.7 billion (US$5,902 million) compared with the previous fiscal year. Although there was good performance in domestic IT industry-related business, this was counterbalanced by a withdrawal from unprofitable transactions in the mobile phone business. Gross trading profit grew by ¥17.1 billion (14.7%) to ¥133.5 billion (US$1,131 million) compared with the previous fiscal year, driven by strong performance in domestic IT industry-related business and mobile phone business sales. Despite an increase in gross trading profit, net income decreased by ¥6.0 billion (34.9%) to ¥11.2 billion (US$95 million) compared with the previous fiscal year. This was due to the absence of gains on sales of investment securities concerning the listing of a subsidiary recorded in the last fiscal year as well as devaluation losses on investment securities in the current fiscal year. Identifiable assets increased by ¥26.5 billion (5.0%) to ¥551.2 billion (US$4,669 million) compared with the previous fiscal year, mainly due to increases in domestic IT industry-related business.

Total Trading Transactions by Operating Segment



Gross Trading Profit by Operating Segment



Energy, Metals and Minerals

Trading transactions increased by ¥143.8 billion (5.0%) to ¥3,020 billion ($US25,582 million) compared with the previous fiscal year, due to increases in crude oil and other natural resource prices as well as increases in sales volume. Gross trading profit rose by ¥28.2 billion (38.2%) to ¥102.1 billion ($US865 million) compared with the previous fiscal year, due to the increase in crude oil price and increases stemming from the move to full production of oil fields owned. Net income increased by ¥22.7 billion (39.2%) to ¥80.7 billion (US$684 million) compared with the previous fiscal year, driven by the increase in gross trading profit; gains on sales of investment securities from the listing of equity-method associated companies; and the cumulative effect of an accounting change regarding stripping costs in the mining industry recorded in the previous fiscal year. Identifiable assets increased by ¥137.0 billion (21.3%) to ¥781.4 billion (US$6,619 million) compared with the previous fiscal year, due to increases in trade receivables stemming from higher crude oil and other natural resource prices, as well as an increase in investment in plants by a natural resource development subsidiary.

Chemicals, Forest Products & General Merchandise

Trading transactions increased by ¥189.9 billion (9.7%) to ¥2,157.2 billion (US$18,274 million) compared with the previous fiscal year, supported by steady growth in domestic house building materials transactions and chemical products. Gross trading profit rose ¥15.1 billion (13.6%) to ¥126.2 billion (US$1,069 million), compared with the previous fiscal year, due to steady growth in domestic house building materials transactions and chemical products. Despite an increase in net interest expenses, net income rose by ¥6.1 billion (33.0%) to ¥24.8 billion (US$210 million) compared with the previous fiscal year, due to the increase in gross trading profit. Identifiable assets increased by ¥82.5 billion (13.0%) to ¥716.8 billion (US$6,072 million) compared with the previous fiscal year, due to an increase in trade receivables stemming from the generally high market turnover.

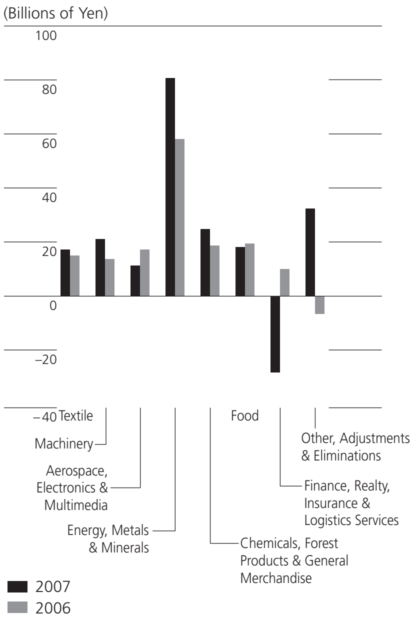
Food

Trading transactions increased by ¥678.8 billion (31.6%) to ¥2,828.9 billion (US$23,963 million), compared with the previous fiscal year, due to the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary. Gross trading profit increased by ¥122.1 billion (85.6%) to ¥264.6 billion (US$2,241 million) compared with the previous fiscal year, due to increases deriving from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary. Despite the increase in gross trading profit, net income decreased by ¥1.3 billion (6.8%) to ¥18.1 billion (US$153 million) compared with the previous fiscal year, due to the recording of gains on sales of investment securities in the previous period. Identifiable assets increased by ¥292.0 billion (37.5%) to ¥1,070.7 billion (US$9,070 million) compared with the previous fiscal year, due to the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary and an increase in trade receivables because of the special factor that the end of this fiscal year was a holiday.

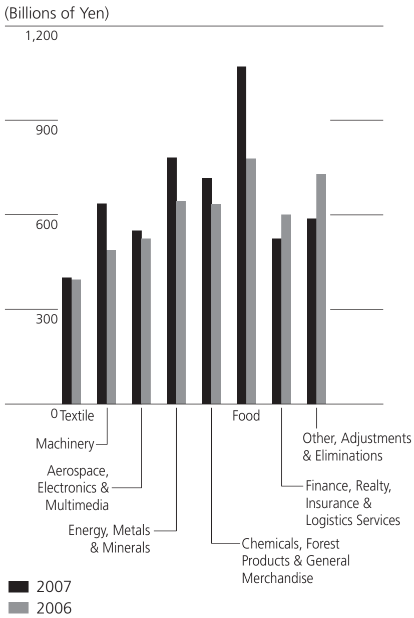
Finance, Realty, Insurance & Logistics Services

Trading transactions decreased by ¥11.1 billion (4.8%) to ¥221.7 billion (US$1,878 million) compared with the previous fiscal year, due to the conversion of a logistics subsidiary into an equity-method associated company. Gross trading profit decreased ¥2.7 billion (5.8%) to ¥43.3 billion (US$367 million) compared with the previous fiscal year, due to decreases associated with the conversion of a logistics subsidiary into an equity-method associated company. Net income deteriorated by ¥38.2 billion to a loss of ¥28.3 billion (US$240 million) compared with the

Net Income (Loss)
by Operating Segment



Identifiable Assets
by Operating Segment



previous fiscal year, due mainly to a deterioration in equity in earnings (losses) of associated companies caused primarily by a significant loss recorded by Orient Corporation under the revised Moneylending Control Law in Japan. Identifiable assets decreased by ¥76 billion (12.6%) to ¥524.9 billion (US$4,446 million) compared with the previous fiscal year, due to a decrease in investments caused by the recognition of equity loss in Orient Corporation and a decrease in real-estate-related assets.

Other Adjustments and Eliminations

Trading transactions decreased by ¥25 billion (8.8%) to ¥259.3 billion (US$2,196 million) compared with the previous fiscal year. Gross trading profit decreased by ¥8.2 billion (25.5%) to ¥23.9 billion (US$202 million) compared with the previous fiscal year, accompanying the sale of a U.S. healthcare related subsidiary in the previous fiscal year. Net income improved by ¥39.0 billion to ¥32.4 billion (US$274 million) compared with the previous fiscal year, reflecting a loss recorded in the previous fiscal year related to the legal settlement by the overseas trading subsidiary in the U.S., and a decrease in income taxes accompanying increased foreign tax credit. Identifiable assets decreased by ¥140.6 billion (19.3%) to ¥588.9 billion (US$4,989 million) compared with the previous fiscal year, due to a reduction of prepaid pension expenses accompanying the return of pension trust assets and the adoption of Statement of Financial Accounting Standards ("SFAS") No. 158 ("Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132 (R)"); and a reduction of deductible temporary differences.

GEOGRAPHICAL SEGMENT INFORMATION

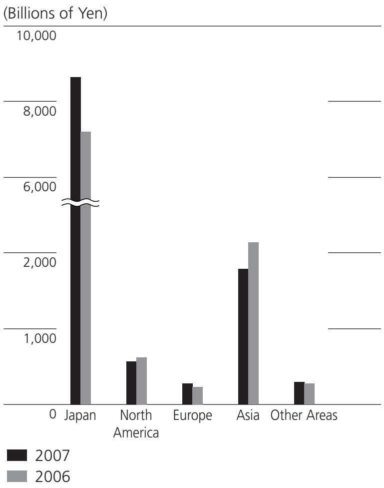
Japan

Trading transactions (excluding inter-segment transactions; the same definition applies below) increased by ¥1,449.5 billion (20.1%) to ¥8,652.2 billion (US$73,293 million) compared with the previous fiscal year, due to increases deriving from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary; increases deriving from rises in the crude oil price and the transfer of business from an Asian energy-related subsidiary; and an increase in automobile transactions. Identifiable assets increased by ¥369.2 billion (9.2%) to ¥4,368.1 billion (US$37,002 million) compared with the previous fiscal year, due to the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary; the transfer of business from an Asian energy-related subsidiary; and an increase in trade receivables due to the rise in the crude oil price.

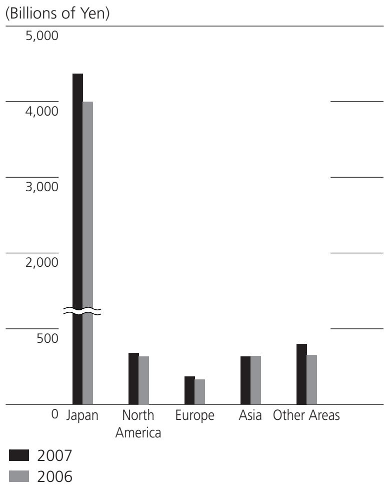
North America

Trading transactions decreased by ¥56.4 billion (9.1%) to ¥566.2 billion (US$4,796 million) compared with the previous fiscal year. Identifiable assets increased by ¥21.1 billion (6.6%) to ¥339.1 billion (US$2,873 million) compared with the previous fiscal year, due to an increase in trade receivables of automobile and construction machinery-related subsidiaries.

Trading Transactions
by Geographical Segment



Identifiable Assets
by Geographical Segment



Europe
Trading transactions increased by ¥44.6 billion (19.2%) to ¥276.5 billion (US$2,342 million) compared with the previous fiscal year, due to increases in automobile and energy-related transactions. Identifiable assets increased by ¥17.2 billion (10.5%) to ¥181.1 billion (US$1,534 million) due to an increase in trade receivables of automobile-related subsidiaries which offset the decline caused by sale of aircrafts.

Asia
Trading transactions decreased by ¥351.5 billion (16.4%) to ¥1,789.1 billion (US$15,155 million) compared with the previous fiscal year. The rise in the crude oil price caused energy-related transactions to increase but a portion of energy-related business was transferred to Japan. Identifiable assets also decreased by ¥3.4 billion (1.1%) to ¥315.6 billion (US$2,674 million) compared with the previous fiscal year, due to the transferring of a portion of energy-related business to Japan which offsets increases in trade receivables of automobile-related transactions.

Other
Trading transactions increased by ¥19.1 billion (6.9%) to ¥295.1 billion (US$2,500 million) compared with the previous fiscal year, mainly due to higher prices of iron ore. Identifiable assets increased by ¥75.8 billion (23.3%) to ¥400.9 billion (US$3,396 million) compared with the previous fiscal year, due to increased metal resource and energy-related transactions.

Please note that there are consolidation adjustments of identifiable assets that are not included in any of the above segments.

DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

As mentioned above, ITOCHU Corporation and its group companies positioned this fiscal 2007 as the year when we would attain the target of making ITOCHU a highly profitable group consistently achieving more than ¥100 billion net income; and through anticipating changes, always seeking "frontier" and pursuing the three principles of "challenge, create and commit," we have been engaged in growing our earnings and strengthening our business base.

As a result, consolidated net income for Fiscal year 2007 stood at ¥177.1 billion (US$1,500 million), greatly exceeding the original target (¥110.0 billion). Moreover, the forecast announced at the beginning of this fiscal year (¥155.0 billion) was exceeded as well. In addition, gross trading profit; income before income taxes, minority interests, equity in earnings (losses) of associated companies, and cumulative effect of an accounting change; and net income all recorded their highest levels ever. Stockholders' equity rose to ¥896.2 billion (US$7,592 million), also a record high, while a continued reduction of interest-bearing debt meant that the NET DER (Net Debt-to-equity ratio) improved to 1.8 times, under two times. ITOCHU believes that it proves that the financial base is steadily strengthening more.

Descriptions of the outlook for Fiscal 2008 and later are forward-looking statements that are based on management's assumptions and beliefs, considering information currently available at the end of Fiscal 2007, and involve risks and uncertainties. Thus, factors that could cause actual results to differ materially from such statements include, without limitation, the factors in the following Risk Information and the other potential risk and uncertain factors.

ANALYSIS OF RESULTS OF OPERATIONS IN FISCAL 2007 AND OUTLOOK FOR FISCAL 2008

Revenue
In accordance with EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," the Company and its subsidiaries present certain revenue transactions with corresponding cost of revenues on a gross basis in the consolidated statements of operations for transactions traded as a primary obligor in manufacturing, processing and service rendering and for sales with general inventory risk before customer order. Otherwise, the Company and its subsidiaries present revenue on a net basis in the consolidated statements of operations.

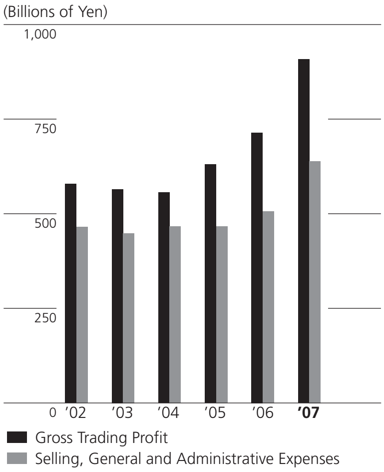
In Fiscal 2007, "Sales revenue" as a gross basis was ¥2,094.9 million (US$17,745 million) and "Trading margins and commissions on trading transactions" as a net basis was ¥552.4 billion (US$4,679 million). The total revenue was ¥2,647.2 billion (US$22,424 million) an increase of ¥429.0 billion (19.3%) compared with the previous fiscal year. This was attributable to increased automobile transactions in Machinery; increased price of crude oil and natural resources as well as increased sales volume in Energy, Metals and Minerals; and increases deriving from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary in Food.

Gross Trading Profit
"Gross Trading Profit" for fiscal 2007 increased by ¥194.3 billion (27.2%) to ¥908.7 billion (US$7,697 million) compared with the previous fiscal year. The effect from joining and leaving of subsidiaries was a ¥122.1 billion increase and ¥11.4 billion decrease, respectively. The favorable effect of the yen's depreciation against the U.S. dollar in translating overseas subsidiaries was approximately ¥13.3 billion. Excluding these increases and decreases the substantial rise in profits for existing companies was ¥70.3 billion. By segment, the reasons for increase in gross trading profit were as follows: Machinery was supported by strong performance in automobile transactions in the U.S. and Europe; Aerospace, Electronics & Multimedia through steady growth in domestic IT industry-related business; Energy, Metals & Minerals due to the increase in crude oil price and sales increases stemming from the move to full production of oil fields owned; Chemicals, Forest

Products & General Merchandise due to steady growth in domestic house building materials transactions and chemical products; and Food due to increases deriving from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

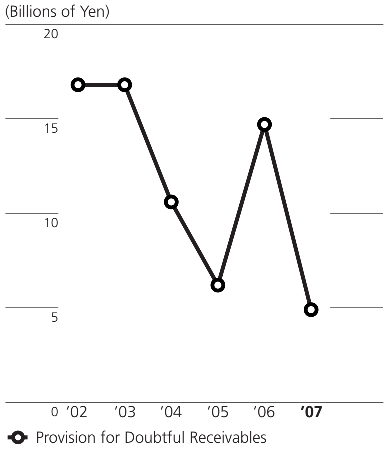
Selling, General and Administrative Expenses
"Selling, general and administrative expenses" for Fiscal 2007 increased by ¥132.9 billion (26.2%) to ¥639.1 billion (US$5,414 million) compared with the previous fiscal year mainly due to conversion of NIPPON ACCESS, INC. into a consolidated subsidiary. There was an increase of ¥29.9 billion in personnel expenses to ¥255.8 billion; and an increase in service charges including distribution costs of ¥73.4 billion to ¥192.1 billion. The effect from joining and leaving of subsidiaries was a ¥114.7 billion increase and ¥11.1 decrease, respectively. The negative effect of the yen's depreciation against the U.S. dollar in translating overseas subsidiaries was approximately ¥6.6 billion. Excluding these increases and decreases the substantial rise in "selling, general and administrative expenses" was ¥22.7 billion.

Gross Trading Profit; Selling, General and Administrative Expenses



* For fiscal years

Provision for Doubtful Receivables



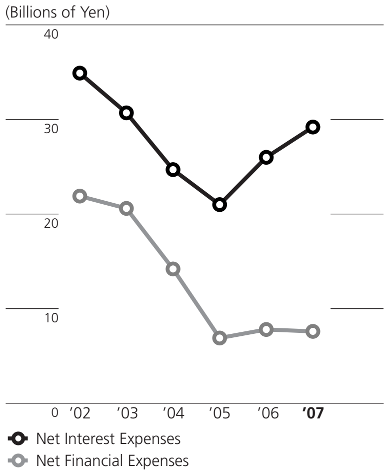
* For fiscal years

Provision for Doubtful Receivables
"Provision for doubtful receivables" in Fiscal 2007 improved by ¥9.8 billion to ¥4.9 billion (US$42 million) compared with the previous fiscal year. This was mainly due to a loss on Iraq receivables posted last fiscal year.

Net Financial Expenses (Net of "Interest Income" "Interest Expense" and "Dividends Received")
Net financial expenses for Fiscal 2007 improved by ¥0.3 billion (3.3%) to ¥7.6 billion (US$64 million) compared with the previous fiscal year.

Net interest expenses, consisting of "interest income" and "interest expense" increased by ¥3.2 billion (12.2%) to ¥29.2 billion (US$247 million) compared with the previous fiscal year. "Interest income" increased by ¥2.7 billion (20.2%) compared with the previous fiscal year, mainly due to rises in interest rates. However "interest expense" also increased by ¥5.9 billion (14.9%) compared with the previous fiscal year, mainly due to higher interest rates (the average interest rate rose by 0.34 points from 1.72% to 2.06%) despite improvement resulting from a decrease in interest-bearing debt (average debt outstanding decreased by ¥90.5 billion from ¥2,286.6 billion to ¥2,196.0 billion).

Net Financial Expenses



* For fiscal years

Net Interest Expenses = Interest Income + Interest Expense
Net Financial Expenses = Net Interest Expenses + Dividends Received

Dividends received increased by ¥3.4 billion (18.9%) to ¥21.7 billion (US$183 million) compared with the previous fiscal year, due to an increase in dividends received from LNG-related investments (increased by ¥2.0 billion to ¥11.9 billion).

Other Profit (Loss)

"Gain (loss) on disposal of investments and marketable securities, net of write-down" for fiscal 2007 decreased by ¥4.8 billion to a gain of ¥46.9 billion (US$397 million) compared with the previous fiscal year. Gains on exchange of investment securities of ¥3.5 billion were recognized in this fiscal year. Impairment loss on investment securities increased by ¥4.6 billion to ¥9.3 billion compared with the previous fiscal year. Gain on sales of investment securities deteriorated by ¥3.6 billion to ¥52.6 billion, compared with the previous fiscal year.

"Loss on property and equipment-net" for Fiscal 2007 improved by ¥1.1 billion to ¥6.8 billion (US$57 million), compared with the previous fiscal year. Loss on the sale of property was ¥0.4 billion, a ¥2.6 billion deterioration from a gain in the last fiscal year. However impairment loss on fixed assets and others improved by ¥3.8 billion to a loss of ¥6.4 billion, compared with the previous fiscal year. This was due to the recognition of an impairment loss in a domestic subsidiary resulting from deteriorated cash flow by changing rental terms that was recorded in the previous fiscal year.

"Other-net" for Fiscal 2007 improved by ¥15.5 billion to a gain of ¥3.1 billion (US$26 million), compared with the previous fiscal year. This was due to a loss on the legal settlement of ¥19.5 billion by the overseas trading subsidiary in the U.S. to Citigroup, recorded in the last fiscal year.

Equity in Earnings (Losses) of Associated Companies

"Equity in earnings (losses) of associated companies" for Fiscal 2007 declined by ¥71.8 billion to a loss of ¥20.1 billion (US$170 million dollars), compared with the previous fiscal year. This was mainly due to an equity loss recognition of ¥68.6 billion related to a significant loss recorded by Orient Corporation under the revised Moneylending Control Law in Japan.

The results of major equity-method associated companies are shown in the following "Major Group Companies Reporting Profits" and "Major Group Companies Reporting Losses" in "Performance of Subsidiaries and Equity-Method Associated Companies."

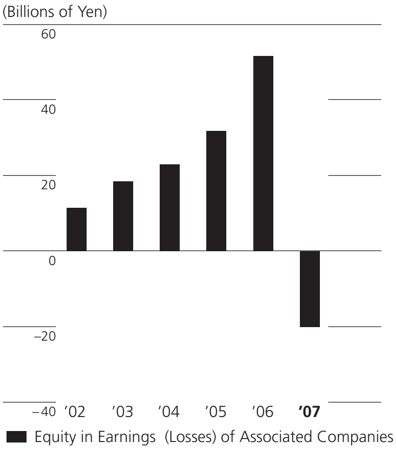
Cumulative Effect of an Accounting Change

In the last fiscal year, in accordance with an early adoption of EITF 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry," the costs, which of removing overburden and waste materials to access material deposits ("stripping costs"), incurred during the production phase of a mine are recognized as variable production costs and included in the costs of the inventory produced during the period that the stripping costs are incurred. The cumulative effect of an accounting change, net of tax, was a loss of ¥3.4 billion, which was presented as an separate item last fiscal year.

Adjusted Profit

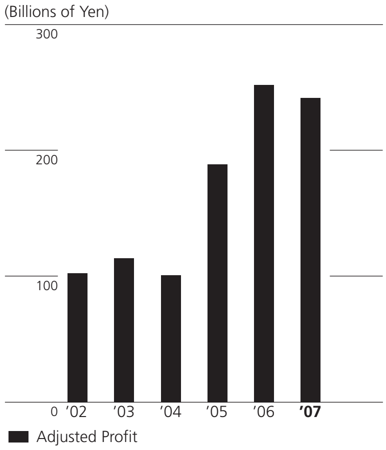
Adjusted profit (net of gross trading profit, selling, general and administrative expenses, net interest expenses, dividends received and equity in earnings (losses) of associated companies), that ITOCHU thinks to be indicating of basic earning power while it is a non-GAAP measure, decreased by ¥10.1 billion (4.0%) to ¥241.9 billion (US$2,049 million) compared with the previous fiscal year. This was due to a deterioration in equity in earnings (losses) of associated companies (in Orient Corporation).

Equity in Earnings (Losses) of Associated Companies



* For fiscal years

Adjusted Profit



* For fiscal years

PERFORMANCE OF SUBSIDIARIES AND EQUITY-METHOD ASSOCIATED COMPANIES

For Fiscal 2007, the Company's consolidated results included 438 subsidiaries (212 domestic and 226 overseas) and 213 equity-method associated companies (102 domestic and 111 overseas) totaling 651 companies. The following table presents information regarding the profitability of these companies.

Profits/Losses of Group Companies Reporting Profits/Losses

	Billions of Yen								
	2007			2006			Changes		
Years ended March 31	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total
Group companies excluding overseas trading subsidiaries	**¥159.2**	(Note) **¥(57.5)**	**¥101.7**	¥132.6	¥(19.4)	¥113.2	¥26.6	¥(38.1)	¥(11.5)
Overseas trading subsidiaries	**23.1**	**(0.3)**	**22.8**	16.1	(0.3)	15.7	7.0	0.0	7.1
Total	**¥182.3**	(Note) **¥(57.9)**	**¥124.5**	¥148.7	¥(19.8)	¥128.9	¥33.7	¥(38.1)	¥ (4.4)

Note: Includes tax effect of loss recognized regarding investment in Orient Corporation.

Share of Group Companies Reporting Profits

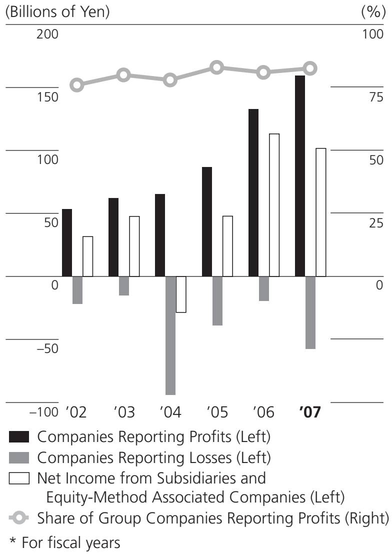
	2007			2006			Changes		
Years ended March 31	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
No. of companies reporting profits	**264**	**274**	**538**	262	268	530	2	6	8
No. of group companies	**314**	**337**	**651**	315	336	651	(1)	1	0
Share	**84.1%**	**81.3%**	**82.6%**	83.2%	79.8%	81.4%	0.9pts.	1.5pts.	1.2pts.

For Fiscal 2007, the net income from subsidiaries and equity-method associated companies (the aggregate profits / losses of subsidiaries and equity-method associated companies excluding overseas trading subsidiaries; the same below) decreased by ¥11.5 billion to ¥101.7 billion, compared with the previous fiscal year. Although Orient Corporation recorded a significant loss under the revised Moneylending Control Law in Japan, an energy-related subsidiary saw major income increases as full-scale production started in the oil fields owned, thus limiting the overall decrease. Profits from ITOCHU's overseas trading subsidiaries increased by ¥7.1 billion to ¥22.8 billion, compared with the previous fiscal year, principally due to the absence of the loss incurred by the legal settlement to Citigroup last fiscal year. The aggregate profits of Group companies reporting profits increased by ¥33.7 billion to ¥182.3 billion, compared with the previous fiscal year. Meanwhile the aggregate losses of Group companies reporting losses worsened by ¥38.1 billion to ¥57.9 billion, compared with the previous fiscal year. This was mainly due to the impact of the equity loss recognition in Orient Corporation.

The aggregate profits of Group companies reporting profits are steadily increasing and the aggregate losses of Group companies reporting losses are shrinking, if the impact of Orient Corporation is excluded. Overall, profitability of consolidated companies is steadily improving.

With regard to the share of Group companies reporting profits (the ratio of companies reporting profits to total Group companies), this improved by 1.2% from 81.4% in the last fiscal year to 82.6%.

Net Income (Loss) from Subsidiaries and Equity-Method Associated Companies



The table below presents major Group companies reporting profits or losses for the fiscal years ended March 31, 2007 and 2006.

Major Group Companies Reporting Profits

Years ended March 31	Shares	Net Income (Loss) (*1) Billions of Yen 2007	2006	Reasons for Changes
Domestic subsidiaries				
ITOCHU Petroleum Japan Ltd. (*2)	100.0%	**¥ 5.1**	¥ 2.5	Steady growth mainly in crude & heavy oil transactions, and increase due to gain on sales of investment securities concerning the listing of an equity-method associated company
ITOCHU PLASTICS INC.	100.0%	**3.2**	2.6	Good performance in plastic and wrapping materials as well as gain on sales of investment securities
ITOCHU Kenzai Corp.	86.9%	**2.4**	0.8	Increase due to good market price in raw materials and improved bottom lines for subsidiaries
ITOCHU Finance Corporation	90.1%	**2.3**	3.2	Declined due to decrease in equity in earnings of associated companies from selling of associated company in the previous fiscal year
ITOCHU CHEMICAL FRONTIER Corporation	96.2%	**1.8**	1.3	Good performance in sales of generic medical materials and polymer materials
ITOCHU Non-Ferrous Materials Co., Ltd.	100.0%	**1.2**	1.0	Steady growth in raw materials such as aluminium, titanium, and copper
JOI'X CORPORATION	100.0%	**1.1**	1.2	Decrease due to increased cost with new shops despite the steady growth in sales of men's apparel
ITOCHU Pulp & Paper Corp.	100.0%	**0.8**	1.1	Decrease due to recovery delay in domestic paper prices and the absence of gain on sales of investment securities recorded in the previous fiscal year
Tommy Hilfiger Japan, Corporation	75.0%	**0.7**	0.6	Steady growth in sales of Tommy Hilfiger brand products
ITOCHU CONSTRUCTION MACHINERY CO., LTD	100.0%	**0.7**	0.4	Steady growth in sales of construction machinery
Overseas subsidiaries				
ITOCHU Minerals&Energy of Australia Pty Ltd (*3) (Australia)	100.0%	**28.9**	25.9	Increase due to higher price in iron ore and effect of an accounting change in stripping costs in the previous fiscal year despite dropping price in coal
ITOCHU Oil Exploration (Azerbaijan) Inc. (Cayman)	100.0%	**21.2**	5.2	Increase in sales volume by higher oil price and oil production increase
ITOCHU International Inc. (*5) (U.S.A.)	100.0%	**12.8**	7.9	Steady growth in group companies and the absence of the loss on legal settlement in the previous fiscal year
PrimeSource Building Products, Inc. (*5) (U.S.A.)	100.0%	**7.4**	7.7	Decrease with influence of declined number of housebuilding in US since the middle of the year
ITOCHU Hong Kong Ltd. (Hong Kong)	100.0%	**2.5**	1.8	Steady growth in consumer finance and textile related affiliates
ITOCHU (China) Holding Co., Ltd. (China)	100.0%	**2.3**	1.5	Good performance in chemicals, non-ferrous, and textile
CIECO Energy (UK) Limited (U.K.)	100.0%	**1.6**	0.5	Newly consolidated in the second quarter of the previous fiscal year, increased due to higher oil price
ITOCHU Australia Ltd. (*3) (Australia)	100.0%	**1.5**	1.0	Increase due to higher profit from mineral and energy-related subsidiary
ASTARTE SHIP HOLDING S.A. (Panama)	100.0%	**1.4**	0.5	Profit on sale of self-owned ship
ITOCHU Automobile America Inc. (U.S.A.)	100.0%	**1.2**	1.1	Slight increase through offsetting increased expenses and interest expenses with sales increase
Domestic associated companies				
Marubeni-ITOCHU Steel Inc.	50.0%	**16.8**	15.9	Good performance in domestic and export businesses
FamilyMart Co., Ltd. (*4)	32.3%	**4.7**	4.3	Decrease in non-ordinary loss
Japan Brazil Paper and Pulp Resources Development Co., Ltd	25.9%	**1.8**	1.3	Good performance due to higher market price in pulp despite the effects of depreciation of Brazilian Real and higher cost of materials and fuel
AI Beverage Holding Co., Ltd,	20.0%	**1.3**	1.0	Good performance in tea beverage
Japan Ohanet Oil & Gas Co., Ltd.	35.0%	**0.9**	0.7	Steady growth in production & sales of natural gas, LPG, and condensate
Overseas associated companies				
Chemoil Energy Limited (*2, 6) (Hong Kong)	37.5%	**3.5**	2.5	Good performance in transactions of bunker oil
Mazda Canada Inc. (Canada)	40.0%	**1.5**	1.6	Slight decrease due to loss from marine accident of automobile carrier vessel in spite of good sales

Major Group Companies Reporting Losses

Years ended March 31	Shares	Net Income (Loss) (*1) Billions of Yen 2007	2006	Reasons for Changes
Domestic subsidiaries				
EAST IZU DEVELOPMENT Co.Ltd.	100.0%	¥ **(1.6)**	0.0	Impairment loss in this fiscal year, due to worsened cash flow by revision of building repair planning and change to lease agreement conditions
CIECO North Sea Ltd.	80.0%	**(1.1)**	0.6	Decrease due to production decrease, higher running cost, and increased decommissioning cost
ITOCHU BUILDING CORPORATION	100.0%	**(1.0)**	(2.7)	Disposal of unprofitable property though showing improvement compared with the previous fiscal year
Overseas subsidiaries				
MCL GROUP LIMITED (U.K.)	100.0%	**(0.4)**	0.4	Decrease in logistics business
ITOCHU India Pvt. Ltd. (India)	100.0%	**(0.3)**	—	Established in this fiscal year, deficit recorded due to operating expenses
C.I. Finance (CAYMAN) LTD. (Cayman)	100.0%	**(0.3)**	1.0	Due to worsened fund business profit
Domestic associated companies				
Orient Corporation (*7)	21.2%	**(40.6)**	3.1	Significant loss from revision of Moneylending Control Law in Japan
On Demand TV, Inc. (*8)	44.0%	**(1.8)**	(1.2)	Prior expenses for shifting to full-scale operation
DAIKEN CORPORATION	19.5%	**(1.1)**	0.4	Impairment loss on property for sale
Famima Credit Corporation (*4)	52.4%	**(0.4)**	(0.5)	Deficit shrunk by improved profit due to increased number of members

(*1) Net income (loss) figures are after adjusting to U.S. GAAP, that can be different from the figures, which each company announces.
(*2) The net income of ITOCHU Petroleum Japan Ltd, includes 15.5% of that of Chemoil Energy Limited.
(*3) The net income of ITOCHU Australia Ltd, includes 3.7% of that of ITOCHU Minerals & Energy of Australia Pty Ltd.
(*4) The net income of FamilyMart Co., Ltd. includes 11.4% of that of Famima Credit Corporation.
(*5) The net income of ITOCHU lnternational Inc. includes 80% of that of PrimeSource Building Products, Inc.
(*6) Chemoil Energy Limited changed its name from BERKSHIRE OIL CO., LTD. Also, Chemoil Energy Limited merged CHEMOIL CORP, which was our equity-method associated company. The net income of Chemoil Energy Limited in the same period of the previous fiscal year shows the total of those of the former BERKSHIRE OIL CO., LTD and CHEMOIL CORP.
(*7) The figure of Net Income (Loss) of Orient Corporation for fiscal 2007 includes tax effect on equity in losses of Orient Corporation recognized in fiscal 2007.
(*8) From this year, On Demand TV, Inc. is classified as an equity-method associated company because ITOCHU's voting share percentage becomes less than 50%.

OUTLOOK FOR FISCAL 2008

In Fiscal 2008, the Japanese economy is expected to continue expanding at a moderate pace. An improving employment environment and rising wages should bolster consumer spending, but growth in capital expenditure and exports is predicted to remain sluggish. Overseas, warnings about inflationary pressure are leading to cautious economic policies. On the other hand, corporate earnings are forecast to continue at a high level, resulting in steady economic expansion.

In this business environment, ITOCHU forecasts steady growth in gross trading profit for all its operating segments in Fiscal 2008. At the same time, the equity losses of Oriental Corporation is forecast to turn to profit. ITOCHU therefore expects solid growth overall. Moreover, in "Frontier+2008," ITOCHU is aiming to "become a global enterprise highly attractive to all stakeholders," and then ITOCHU is sure to plan and perform substantial and effective actions so as to open up new areas and accelerate overseas operations.

MANAGEMENT POLICY FOR THE FUTURE

Start the Mid-Term Management Plan "Frontier$^+$ 2008—Enhancing Corporate Value on the World Stage"
ITOCHU has framed a new mid-term management plan, "Frontier$^+$ 2008—Enhancing Corporate Value on the World Stage." The plan is set to run from Fiscal 2008 to Fiscal 2009.

Frontier$^+$ 2008 inherits the concepts of Frontier-2006, while striving to be more aggressive. Simultaneously the aim is to "become a global enterprise, highly attractive to all stakeholders." Business will be developed with a global perspective, to enhance profit worldwide. The spirit will be to leverage change, take on challenges and open up new areas. ITOCHU will also seek, foster and utilize the talents of human resources worldwide. To achieve these goals, the following initiatives will be pursued.

Firstly, the expansion of business areas and strengthening of core business. To become a truly attractive global enterprise, ITOCHU must create a profit structure capable of sustained high growth. The two main initiatives here will be: "Open up new business areas" and "Accelerate overseas business operations." As for another initiative, "Strengthen core business," ITOCHU will prioritize growth, by promoting strategic investments and opportunities for sustainable revenue expansion.

Second, ITOCHU will maintain the current solid management by continuing to improve its financial condition and implementing strict risk management. The transparency of decision-making will be enhanced and the corporate governance system constantly improved for checking and monitoring. In addition, ITOCHU has established an Internal Control Committee to bolster its internal control systems. Corporate Social Responsibility (CSR) activities will be positively developed to permeate the entire company and to achieve better communication with stakeholders. The business reengineering project, "ITOCHU DNA (Designing New Age) Project," started last April and will be promoted strongly.

Thirdly, ITOCHU will promote a Human Resources strategy from a global perspective. To successfully develop business in each country, ITOCHU will strengthen the diverse human resources in the Group—at Division Company and international level. Frontier$^+$ 2008 will specifically focus on fostering human talent from a global perspective.

Through the above efforts, ITOCHU will strive to enhance Group business results and meet the expectations of shareholders. At the same time, as a global enterprise, ITOCHU will contribute to regional and global societies, including proactive approaches to environmental issues.

DIVIDEND POLICY AND DISTRIBUTION OF THE CURRENT FISCAL YEAR'S PROFIT

ITOCHU maintains and reinforces its competitive power as well as increases stockholders' equity by retaining earnings to promote growth strategy. ITOCHU's basic policy regarding dividend payments is a consistent and stable distribution of returns to the stockholders considering its business performance.

During Frontier$^+$ 2008, ITOCHU plans to increase the dividend amount gradually and to improve the dividend payout ratio, while enhancing the parent company's stockholders' equity. At the moment, for Fiscal 2008, ITOCHU intends to make a 17-yen (8.5 yen for the interim and 8.5 yen for the year-end) dividend payment per share.

LIQUIDITY AND CAPITAL RESOURCES

Basic Policy for Funding

ITOCHU aims to ensure flexibility in funding so that we can quickly respond to changes in financial circumstances, and take advantage of opportunities to lower our overall financing costs.

ITOCHU also aims to diversify our funding sources and methods in order to enhance the stability of its financing, while endeavoring to find the optimum balance in its funding structure, including improvement in the long-term funding balance.

For indirect financing, financial institutions have appreciated ITOCHU's improved financial position and expanded profitability. They have shown a favorable attitude toward lending, and ITOCHU expects no difficulty in procuring funds in terms of quantity or quality.

With respect to financing from capital markets, ITOCHU Corporation registers a bond issuance every two years, in accordance with the bond-issuance registration system. In the two years from August 2005 to July 2007, a new issue in the amount of ¥300 billion was registered, enabling the flexible issuance of bonds. Furthermore, ITOCHU Corporation, ITOCHU International Inc. in the U.S. and a finance subsidiary in the U.K., have registered a total of US$5 billion in a Euro Medium Term Note Programme (MTN) in order to be flexible in fulfilling short and long-term funding needs.

Concerning ratings, in May 2006, the Japanese ratings institution Rating and Investment Information, Inc. (R&I) gave ITOCHU a one-notch upgrade of our domestic commercial paper programme rating from a-2 to a-1. In addition ITOCHU newly obtained an issuer rating of A– from R&I in May 2006. In addition, in August 2006, ITOCHU received a two-notch upgrade in our issuer rating from Baa3 to Baa1 from a U.S. rating institution, Moody's Investors Service (Moody's), and in May 2007, an upgrade from BBB to BBB+ from Standard & Poors. ITOCHU believes these upgrades can contribute to a significant improvement in our financing conditions.

In the future, aiming to secure even higher ratings, ITOCHU will continue concerted efforts to improve our financial position through the continuation of high profitability and thorough risk management.

Interest-Bearing Debt

Interest-bearing debt as of March 31, 2007 decreased by ¥60.8 billion (2.7%) to ¥2,165.6 billion (US$18,345 million), compared with the previous fiscal year-end. Net interest-bearing debt (net of cash and cash equivalents and time deposits) decreased by ¥93.4 billion (5.4%) to ¥1,630.9 billion (US$13,815 million dollars), compared with the previous fiscal year-end. The net DER (debt-to-equity ratio) improved by 0.6 to 1.8 times from 2.4 times compared with the previous fiscal year-end, testifying to the steady strengthening of our financial base.

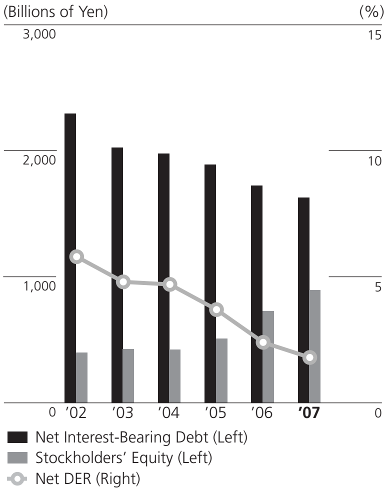
As a result of efforts to secure long-term funds to provide the structure for stable fund-raising, the ratio of long-term interest-bearing debt to total interest-bearing debt was at the high level of 76%.

Details of interest-bearing debt as of March 31, 2006 and as of March 31, 2007 were as follows:

	Billions of Yen		Millions of U.S. Dollars
March 31	**2007**	2006	**2007**
Short-term debt	**¥ 373.7**	¥ 382.4	**$ 3,166**
Current maturities of long-term debt	**138.5**	133.2	**1,174**
Current maturities of debentures	**5.8**	39.9	**49**
Short-term total	**518.0**	555.5	**4,389**
Long-term loans payable	**1,459.6**	1,519.7	**12,364**
Debentures	**191.2**	160.8	**1,620**
Long-term total	**1,650.9**	1,680.5	**13,984**
Total interest-bearing debt	**2,168.9**	2,236.0	**18,373**
SFAS 133 fair value adjustment (Note)	**(3.3)**	(9.5)	**(28)**
Adjusted total interest-bearing debt	**2,165.6**	2,226.5	**18,345**
Cash and cash equivalents and time deposits	**534.7**	502.2	**4,530**
Net interest-bearing debt	**¥1,630.9**	¥1,724.3	**$13,815**

Note: In accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), the amount of adjustment to record the fair value as of the balance sheet date for long-term debt, which is hedged with derivatives.

Net Interest-Bearing Debt, Stockholders' Equity and Net DER (Debt-to-Equity Ratio)



* For fiscal years

Financial Section

Financial Position

Total assets as of March 31, 2007 increased by ¥474.5 billion (9.9%) to ¥5,271.5 billion (US$44,655 million), compared with the previous fiscal year-end. This was due to the following: increases in Food, due to the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary; in Machinery, increases in trade receivables and inventories related to increasing automobile transactions as well as increases in automobile-related investment; in Energy, Metals & Minerals, increases in trade receivables related to rising crude oil and natural resource prices as well as increased investments in plants of a natural resource development subsidiary; in Chemicals, Forest Products & General Merchandise, an increase in trade receivables due to higher market price.

Stockholders' equity rose by ¥169.4 billion (23.3%) to ¥896.2 billion (US$7,592 million), compared with the previous fiscal year-end. Decreases were caused by dividend payments and the recording of a pension liability adjustment due to the adoption of SFAS 158 ("Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132 (R)"). On the other hand, there was an accumulation of retained earnings due to strong operating results, and increases in unrealized holding gains on securities through rising stock prices as well as favorable foreign currency translation adjustments due to the yen' s depreciation at the end of Fiscal 2007. As a result, the ratio of equity to total assets showed a 1.8 point improvement from the previous fiscal year-end to 17.0%.

The main increases or decreases compared with the previous fiscal year-end in the items on the balance sheet are:

Cash and cash equivalents increased by ¥55.1 billion to ¥532.9 billion (US$4,514 million), compared with the previous fiscal year-end. Payments were made for strong investing activity as well as payments for reducing interest-bearing debt. However, income from operating activities such as robust overseas natural resource-related transactions surpassed the payments, resulting in the increase.

Time deposits decreased by ¥22.6 billion to ¥1.8 billion (US$16 million), compared with the previous fiscal year-end.

Trade receivables (less allowance for doubtful receivables) increased by ¥210.5 billion to ¥1,421.6 billion (US$12,042 million), compared with the previous fiscal year-end. This was primarily due to increased shipping and automobile-related transactions in Machinery; rising market prices in Chemicals, Forest Products & General Merchandise; and the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary in Food.

Inventories increased by ¥71.5 billion to ¥530.3 billion (US$4,492 million) compared with the previous fiscal year. This was due to increased automobile-related transactions in Machinery; rising crude oil and natural resource prices in Energy, Metals & Minerals; rising market prices in Chemicals, Forest Products & General Merchandise; and the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary in Food.

Additionally, there was a decrease in **advances to suppliers** of ¥22.6 billion to ¥98.6 billion (US$835 million), compared with the previous fiscal year-end, due to decreases in Machinery. There was an increase in **other current assets** of ¥94.1 billion to ¥274.7 billion (US$2,327 million) compared with the previous fiscal year-end, due to increases in Energy, Metals & Minerals, Food, and Finance, Realty, Insurance & Logistics Services.

As a result, current assets were ¥3,066.9 billion (US$25,980 million), an increase of ¥387.3 billion compared with the previous fiscal year-end.

Other investments increased by ¥104.1 billion to ¥632.5 billion (US$5,358 million) compared with the previous fiscal year-end, due to increased automobile-related investment and increases in unrealized holding gains on securities from rising stock prices.

Other non-current receivables (less allowance for doubtful receivables) decreased by ¥15.6 billion to ¥77.2 billion (US$654 million) compared with the previous fiscal year-end, mainly due to a decrease in long-term loan receivable of a finance-related subsidiary.

As a result, total investments and non-current receivables were up ¥77.6 billion to ¥1,317.8 billion (US$11,163 million), compared with the previous fiscal year-end.

Property and equipment, at cost (less accumulated depreciation) increased by ¥42.3 billion to ¥530 billion (US$4,490 million), compared with the previous fiscal year-end, due to an increase of investment in plants of a natural resource development subsidiary.

Goodwill and other intangible assets, less accumulated amortization increased by ¥30.4 billion to ¥148 billion (US$1,253 million) compared with the previous fiscal year-end, due to increases related to the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

Deferred tax assets, non-current, decreased by ¥15.8 billion to ¥31.6 billion (US$268 million) compared with the previous fiscal year-end, due to a decrease in deductible temporary differences through dispositions of receivables, securities, and real estate concerned. The net deferred tax assets also dropped by ¥10.6 billion from the previous fiscal year-end to ¥41.8 billion (US$354 million), due to an increase in deferred tax liabilities resulting from unrealized holding gains on available-for-sale securities together with decreasing of deductible temporary differences.

Short-term debt decreased by ¥8.7 billion to ¥373.7 billion (US$3,166 million) compared with the previous fiscal year-end and **current maturities of long-term debt** decreased by ¥28.8 billion to ¥144.3 billion (US$1,223 million) compared with the previous fiscal year-end. This was due to repayments of interest-bearing debt as well as efforts for long-term funding. (Note: Refer to Note 10 "Short-term and long-term debt" in the "Notes to Consolidated Financial Statements".)

Trade payables increased by ¥246.4 billion to ¥1,324.6 billion (US$11,221 million) compared with the previous fiscal year-end, due to increases in shipping, automobile, and North American construction machinery transactions in Machinery; rising market prices in metal resources and general merchandize; and the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary in Food.

There was a decrease in **advances from customers** of ¥28.5 billion to ¥107.3 billion (US$909 million) compared with the previous fiscal year-end, mainly due to decreases in Machinery. There was an increase in **other current liabilities** of ¥41.5 billion to ¥205.0 billion (US$1,737 million) compared with the previous fiscal year-end, mainly due to increases in Energy and Food.

As a result, current liabilities were ¥2,389.3 billion (US$20,240 million), up by ¥259.5 billion compared with the previous fiscal year-end.

Reserves for Liquidity

The basic policy is to maintain and secure an adequate amount of reserves required for liquidity covering short-term interest-bearing debt and contingent liabilities due within three months. This policy is based on the scenario whereby new funding may be unavailable for about three months because of market turmoil. In such a case, ITOCHU must maintain adequate reserves to repay liabilities during such a period in order to cope with unpredictable events.

Primary liquidity resources at the end of Fiscal 2007, the sum of cash, cash equivalents, time deposits (¥534.7 billion), commitment line agreements (yen short-term ¥100.0 billion, yen long-term ¥300.0 billion, foreign currency short-term US$500 million) and commitment long-term loan agreements (¥9.0 billion) was ¥1,002.7 billion (US$8,494 million), a decrease of ¥15.5 billion compared with the previous fiscal year-end. However, ITOCHU believes that this amount constitutes adequate reserves for liquidity, since it is 3.5 times of the necessary liquidity amount (short-term interest-bearing debt and contingent liabilities due within three months), which amounted to ¥289.8 billion (US$2,455 million) as of March 31, 2007. The equivalent amount of the last fiscal year-end was 3.0 times of the necessary liquidity amount.

Secondary liquidity reserves (other assets that can be changed into cash in a short period of time) stand at ¥748.2 billion. When added to primary liquidity reserves, the total amount of liquidity reserves stands at ¥1,750.9 billion (US$14,832 million).

ITOCHU Corporation has a long-term commitment line with financial institutions totaling ¥300.0 billion (US$2,541 million). As a result of the availability of this long-term commitment line, ITOCHU has the intention and the ability for a long-term rollover of current maturities of long-term debt from financial institutions. ITOCHU thus classified ¥144.4 billion (US$1,223 million) of current maturities of long-term debt as non-current liabilities on the consolidated balance sheets. This was part of ¥288.7 billion (US$2,446 million) in non-current liabilities with a deadline of one year or less based on loan contracts at the end of Fiscal 2007.

However, the above calculation of the necessary liquidity amount was based on the repayment figure for loan contracts with a deadline of one year or less, not on the consolidated balance sheet figures.

Necessary Liquidity

	Billions of Yen		Millions of U.S. Dollars
March 31	2007	Necessary liquidity	2007
Short-term interest-bearing debt	¥373.7	¥186.9 (373.7/6 months x 3 months)	$1,583
Current maturities of long-term interest-bearing debt	(Note) 288.7	72.2 (288.7/12 months x 3 months)	612
Contingent liabilities (Guarantees [substantial risk] for monetary indebtedness of equity-method associated companies and customers)	122.9	30.7 (122.9/12 months x 3 months)	260
Total		¥289.8	$2,455

Note: The figure is the total of current maturities of long-term debt (¥144.3 billion) and long-term commitment line with financial institutions (¥144.4 billion).

Primary Liquidity Reserves

March 31	Billions of Yen 2007 Liquidity Reserves	Millions of U.S. Dollars 2007 Liquidity Reserves
1. Cash, cash equivalents and time deposits	¥ 534.7	$4,530
2. Commitment line agreements	459.0	3,888
3. Commitment long-term loan agreement	9.0	76
Total primary liquidity reserves	¥1,002.7	$8,494

Secondary Liquidity Reserves

March 31	Billions of Yen 2007 Liquidity Reserves	Millions of U.S. Dollars 2007 Liquidity Reserves
4. Available portion of over draft for ITOCHU's cash management service	¥ 180.2	$ 1,527
5. Available-for-sale securities (Fair value on a consolidated basis)	404.6	3,427
6. Notes receivable	163.4	1,384
Total secondary liquidity reserves	¥ 748.2	$ 6,338
Total liquidity reserves	¥1,750.9	$14,832

Capital Resources

The fundamental policy is to finance new expenditures for investment activities from operating cash flows and disposal/collection of the existing assets. This includes sale and recovery of assets as well as accumulation of profits. For any shortfall in financial resources when new investments are made a priority is to be covered through borrowed money and the issuance of bonds.

Cash and cash equivalents as of March 31, 2007 increased by ¥55.1 billion (11.5%) to ¥532.9 billion (US$4,514 million) compared with the previous fiscal year-end. Despite payments for robust investment activities as well as payments to decrease interest-bearing debt, inflows from operating activities, such as strong performance in overseas natural resource related transactions, surpassed the above payment amounts.

Cash flows from operating activities for Fiscal 2007 recorded a net cash-inflow of ¥235.9 billion (US$1,998 million). This was mainly due to strong operating transaction income such as overseas natural resource related transactions.

Cash flows from investing activities for Fiscal 2007 recorded a net cash outflow of ¥83.4 billion (US$706 million). This was mainly due to additional investments in NIPPON ACCESS, INC.; automobile-related investments; and a capital expenditure investment for a natural resource development related subsidiary. However, net cash provided by operating activities covered this amount.

Cash flows from financing activities for Fiscal 2007 recorded a net cash-outflow of ¥100.9 billion (US$855 million). This was mainly due to continued efforts of reducing interest-bearing liabilities to improve ITOCHU's financial position.

Below is a summary of cash flows for fiscal years ended March 31, 2007 and 2006.

March 31	Billions of Yen 2007	Billions of Yen 2006	Millions of U.S. Dollars 2007
Net cash provided by operating activities	¥ 235.9	¥185.1	$1,998
Net cash used in investing activities	(83.4)	(79.9)	(706)
Net cash used in financing activities	(100.9)	(85.2)	(855)
Effect of exchange rate changes on cash and cash equivalents	3.5	4.7	30
Net increase in cash and cash equivalents	55.1	24.8	467
Cash and cash equivalents at beginning of year	477.7	452.9	4,047
Cash and cash equivalents at end of year	¥ 532.9	¥477.7	$4,514

ITOCHU believes that funding generated by net cash provided by operating activities, borrowing from financial institutions, or the issuance of stocks or bonds in the capital market, will be sufficient to ensure an adequate source of funds to cover expenditures and payments of liabilities, which it anticipates at this point, now and in the future. However, the actual availability of funding may vary depending on future conditions, such as the condition of financial markets, the economy and business operations and other factors, which ITOCHU is now unable to estimate accurately, because ITOCHU cannot control many of these. Nevertheless, ITOCHU is convinced that it will be capable of ensuring adequate liquidity from cash flows provided by other sources, even if net cash provided by operating activities falls short of current expectations.

OFF-BALANCE SHEET ARRANGEMENTS AND AGGREGATE CONTRACTUAL OBLIGATIONS

ITOCHU Corporation and its subsidiaries issue various guarantees for indebtedness including bank loans to subsidiaries, equity-method associated companies and customers. Because the guaranteed borrowings of subsidiaries are included in the Company's consolidated financial statements, off-balance sheet guarantees are solely the total guarantees to equity-method associated companies and customers. The breakdown of guarantees as of March 31, 2007 and 2006 is as follows:

March 31	Billions of Yen 2007	Billions of Yen 2006	Millions of U.S. Dollars 2007
Guarantees for equity-method associated companies:			
Maximum potential amount of future payments	**¥100.6**	¥140.3	**$ 853**
Amount of substantial risk	**62.9**	96.1	**533**
Guarantees for customers:			
Maximum potential amount of future payments	**¥140.6**	¥131.8	**$1,190**
Amount of substantial risk	**97.1**	81.6	**823**
Total:			
Maximum potential amount of future payments	**¥241.2**	¥272.1	**$2,043**
Amount of substantial risk	**160.0**	177.7	**1,355**

The maximum potential amount of future payments of the Company under the guarantee contracts is presented above. The amount of substantial risk represents the total amount of the substantial risk taken, based on the actual amount of liability incurred by the guaranteed parties as of the end of the respective term within the pre-determined guaranteed limit established under the guarantee contracts. The amounts that can be recovered from third parties under the back-to-back guarantees submitted by them to the Company or subsidiaries concerned have been excluded in determining the amount of substantial risk.

The disclosures related to guarantees are shown in Note 25 "Commitments and Contingent Liabilities" in the "Notes to Consolidated Financial Statements".

The disclosures related to variable interest entities are shown in Note 23 "Variable Interest Entities" in the "Notes to Consolidated Financial Statements".

The following table shows the breakdown by maturity of repayment of short-term debt and long-term debt as well as payments under capital and operating leases.

	Billions of Yen				
	2007				
March 31	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debt	**¥ 373.7**	¥373.7	¥ —	¥ —	¥ —
Long-term debt	**1,942.9**	144.3	667.2	356.6	774.8
(Capital leases included in long-term debt)	**(35.4)**	(7.0)	(12.2)	(5.2)	(11.1)
Operating leases	**101.7**	20.5	30.6	19.3	31.2

	Millions of U.S. Dollars				
	2007				
March 31	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debt	**$ 3,166**	$3,166	$ —	$ —	$ —
Long-term debt	**16,458**	1,222	5,652	3,021	6,563
(Capital leases included in long-term debt)	**300**	59	104	43	94
Operating leases	**862**	174	260	164	264

RISK INFORMATION

ITOCHU Group is exposed to various risks such as market risks, credit risks and investment risks, due to the nature of a wide range of their businesses. These risks include unpredictable uncertainties and may have significant effects on their future business and financial performance.

ITOCHU Group has enhanced their risk management policy and risk management methodology to monitor and manage these risks, but it is impossible to completely avoid all these risks.

With respect to descriptions about future events, ITOCHU appropriately has determined its assumptions and estimates based on information currently available at the year end, March 31, 2007.

(1) Corporate Result Risks Due to Macroeconomic Factors

ITOCHU Group involves a wide variety of business ranging from supply of raw materials to manufacturing and sale in each of their businesses areas. It conducts diverse types of commercial transactions such as purchase and sale of products in the domestic market as well as import/export trade between overseas affiliates. Changes in the domestic economy and fluctuations in world economic environments can seriously affect ITOCHU Group's results of operations.

To give an overview of Group's main areas of business, the domestic economy has a relatively strong influence on the consumer and retail-related segments such as textiles and food. Trade in machinery such as plants, autos and industrial machinery, trade in mineral resources, energy and chemical products and investments in development are all largely dependent on economic trends in the U.S., China and other Asian countries, which take the lead in the world economy.

Furthermore, in North America, China & Asia, which ITOCHU regards as priority area, the Group has conducted business and trade in many business areas. Consequently, economic trends in the said regions have a possibility to seriously affect the financial position and results of operations of the Group.

(2) Market Risks

ITOCHU Group is exposed to market risks such as foreign exchange rate risks, interest rate risks, commodity price risks and stock price risks. The Group attempts to minimize risks related to market fluctuations such as changes in foreign exchange rates and interest rates by establishing risk management policy such as setting and controlling limits and by utilizing a variety of derivative instruments for hedging purposes.

i) Foreign Exchange Rate Risk

ITOCHU Group is exposed to foreign exchange rate risk related to transactions in foreign currencies due to their significant involvement in import/export trading.

ITOCHU is working to manage the Group's foreign currency balance based on independently specified criteria such as contract amount, debt and liabilities, and short/long-term, as well as setting limits on foreign exchange rate risks. ITOCHU is also working to minimize foreign exchange rate risks using derivative transactions such as forward exchange contracts and currency swap contracts. However, ITOCHU cannot guarantee a complete avoidance of such foreign exchange rate risks by utilizing these hedging techniques.

Since ITOCHU is engaged in businesses involving foreign currencies with a number of overseas trading subsidiaries and other overseas group companies, the figures in Japanese yen on its consolidated balance sheets are also exposed to the risk of stockholders' equity fluctuation through the accounting for foreign currency translation adjustments resulting from translation gains or losses. This translation risk has no impact on the performance of the business itself conducted in foreign currencies. In addition, a long period is generally needed to recover the cost of investments. Accordingly, ITOCHU does not hedge the translation risk, as the effectiveness provided by hedging is considered to be limited.

ii) Interest Rate Risk

ITOCHU Group is exposed to interest rate risk in both raising and using money for financing, investing, and operating activities. Among the interest insensitive assets such as invested marketable securities or fixed assets, the part acquired using floating interest loans is considered to be the interest mismatch amount exposed to interest rate risk. ITOCHU is working to quantify the interest rate risk to control the fluctuation of gains and losses due to interest rate change properly.

To be specific, using the management method Earnings at Risk (EaR), ITOCHU has set a certain limit (Loss Cut Limit) as the highest acceptable interest payment and has executed hedging transactions primarily in the form of interest rate swaps to minimize interest rate risk.

However, ITOCHU still cannot guarantee a complete avoidance of interest rate risk, even having adopted these management methods.

iii) Commodity Price Risk

As a trading company handling a diverse array of commodities, ITOCHU Group is exposed to commodity price risks due to such factors as market fluctuations. The Group has established a fundamental risk management policy on an individual Division Company basis, assessing purchase contracts, inventories, and sales contracts, etc. and setting and managing a balance limit and loss cut limit for each individual product and conducting periodic reviews.

In addition, ITOCHU works to minimize commodity price risk by utilizing derivatives such as futures or forward contracts as means of hedging. Despite these measures, ITOCHU cannot guarantee a complete avoidance of commodity price risks.

ITOCHU Group also participates in natural resource development businesses such as the metal and energy sector and other manufacturing businesses. Production in these businesses is also exposed to the same commodity price risks noted above, and it is possible for the value of the businesses to deteriorate. If this were to occur, it could seriously affect the financial position and results of operations of ITOCHU Group.

iv) Stock Price Risk

ITOCHU Group holds available-for-sale securities which are vulnerable to price fluctuation.

ITOCHU strives to maintain appropriate levels of investment and to minimize stock price risk by applying Exit Rule for inefficient investments that ITOCHU has little reason to hold.

However, assuming that the price of these investments fluctuated and the fair value of these available-for-sale marketable securities decreased, it could seriously affect the financial position and results of operations of ITOCHU Group.

(3) Credit Risks

ITOCHU Group conducts a vast array of commercial transactions with its trading partners, both domestically and overseas. ITOCHU therefore bears credit risk from the uncollectible trading receivables, loans, or credits for guaranty held by the Group due to the deteriorating credit status or insolvency of ITOCHU's partners, from assuming a responsibility to fulfill the contracts as an involved party is unable to continue its business and fulfill its obligations under the contracts.

In ITOCHU, the credit department, which is independent of the business departments, manages credit risk on both quantitative and qualitative bases. Each proposal submitted by a business division undergoes careful screening by the credit department, which then sets an appropriate credit limit upon the completion of review. Specific expiration dates are set for credit limits. These limits and the status of trade receivables are monitored on a periodic basis along with periodic reviews of the status of debt collections and delinquencies. The necessary reserves are determined and booked on this basis.

Occurrence of credit risks could seriously affect the financial position and results of operations of ITOCHU Group.

(4) Country Risk

ITOCHU Group has trading relationships with many foreign countries. These include handling foreign goods and investments in foreign trading partners. ITOCHU Group therefore is exposed to country risks resulting from regulations imposed by foreign governments, political instability, or restrictions on the transfers of funds. In response to these country risks, in addition to taking appropriate countermeasures for each transaction, with the aim of avoiding a concentration of exposure, ITOCHU is endeavoring to manage risk by setting total limit guidelines and limits for each country and setting credit policies appropriate to each country.

ITOCHU does, however, have debts in countries and regions where there is a relatively high probability of country risk emerging, and those in which business activities are implemented through loans, investment and guarantees for monetary indebtedness. When those debts and business activities face events caused by political, economic, or social instability, ITOCHU cannot entirely deny the possibility that those events may have a significant impact on the sustainability of ITOCHU's transactions and business activities in such countries and regions. Such occurrences could have a serious, adverse effect on the financial position and results of operations of ITOCHU Group.

(5) Investment Risk

Investing in a variety of businesses is one of the major business activities of ITOCHU Group.

In managing the Group's portfolio of investments strategically, ITOCHU faces serious decisions regarding the initiation of new investments that will produce profit commensurate with the attendant risk, or the withdrawal from investments that do not produce profits consistent with attendant risks.

In considering a new investment, monitoring existing business and withdrawing from an investment, ITOCHU has a standard for decision making.

Meanwhile, in the current fiscal year, ITOCHU suffered a loss of approximate 40.6 billion yen against Net income due to a significant loss of Orient Corporation (hereinafter referred to as "Orico"), one of associate companies of ITOCHU, mainly along with the revision of Moneylending Control Law in Japan. ITOCHU understands that Orico's business foundation will go for a more stable one and the new mid-term management plan of Orico is likely to be achievable, judging from Orico's announcement of their capital policies. Therefore, in May, 2007, ITOCHU underwrote Orico's third-party allotment of new shares. In ITOCHU's engagement in investing activities, there may arise such cases that the Group is unable to achieve the Group's forecasted results due to a deteriorating economic environment for business in which the Group has invested or the deteriorating corporate results and financial standing of ITOCHU's partners, ITOCHU Group is unable to withdraw from a business or restructure the business under a timeframe or method that the Group desires, the likelihood of recovering ITOCHU's investment diminishes due to poor corporate results of investees, or stock prices is expected to drop below specified levels for a considerable period of time. In such cases, serious adverse influences on the future corporate results and financial standing of ITOCHU Group are possible including the necessities that the whole or partial investment is recognized as loss, and that the infusion of additional funds is required.

(6) Risks Due to Loss on Property and Equipment-net

ITOCHU Group is exposed to impairment loss risks on fixed assets held, such as real estate, aircraft, and ships. ITOCHU does not foresee at present any necessity for booking additional impairment losses.

However, ITOCHU Group might be required to recognize impairment losses should the economic value of fixed assets deteriorate due to decreased demand or deterioration in market conditions for each of the assets. Such an occurrence could seriously affect the financial position and results of operations of ITOCHU Group.

(7) Risks Due to Fund Raising

ITOCHU Group uses ALM (Asset Liability Management) to ensure the necessary funding for its businesses and to ensure liquidity through borrowings from domestic and international financial institutions, as well as the issuance of corporate bonds.

However, should ITOCHU's credit worthiness in the capital market deteriorate due to a significant lowering of the Company's credit rating, or should there be a significant change in the lending policies of financial institutions such as restriction of credit for ITOCHU due to an upheaval in the financial systems in major financial markets, the Group could experience an inability to raise funds when necessary or under desirable conditions and could consequently experience an increase in funding costs. This could exert a serious, adverse influence on the financial position and results of operations of ITOCHU Group.

(8) Risks Due to Benefit Expenses and Benefit Obligations

The benefit expenses and benefit obligations of ITOCHU are calculated based on actuarial calculations that utilize a variety of assumptions such as the discount rate for benefit obligations and the expected rate of return on pension assets. As of the end of the consolidated fiscal period under review there was no shortfall in accumulated pension assets.

However, should it become necessary to change the assumptions on which the actuarial calculations are based or should pension assets be affected by a deterioration in the stock market, it is possible that pension expenses and benefit obligations could increase and that additional contributions to pension assets might be necessary.

The financial position and results of operations of ITOCHU Group could be seriously affected by such occurrences.

Besides, ITOCHU has adopted SFAS (Statements of Financial Accounting Standards) No.158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" since this fiscal year, which requires to recognize additional Accumulated other comprehensive loss against the net-of-tax balance of conventionally unrecognized actuarial losses.

(9) Risks Due to Deferred Income Taxes

Deferred income tax assets are an important factor in ITOCHU's consolidated balance sheets.

Therefore, accounting judgment on evaluation of deferred income tax assets has a substantial impact on ITOCHU's consolidated financial statements. Considering the necessity of an allowance for deferred income tax assets, ITOCHU Group reports the realizable amount of deferred income tax assets, taking into consideration future taxable income and feasible tax planning strategies.

The management of ITOCHU Group believes these estimations of realizable amount of deferred income tax assets are rational. However, allowance for deferred income taxes may increase or decrease depending on changes in taxable income during the tax planning period, changes in the tax system in each country including changes in tax rates and changes in tax planning strategies.

In that case it could affect the financial position and results of operations of ITOCHU Group.

(10) Risks Due to Competition

Due to ITOCHU Group's involvement in many different industries and the fact that the Group handles a vast array of products and services, the Group is open to competition from many different companies, both domestic and foreign, including competition from other general trading companies. ITOCHU Group cannot deny the existence of other companies with superior experience, technology, and funding capacity, that are in a position to provide products and services that meet customer needs. Moreover, the possibility of ever-greater competition from companies in newly developing countries like China exists in addition to ongoing competition from companies in European and North American industrialized countries due to the economic globalization of primary markets such as North America and Asia including China.

ITOCHU Group could also find its competitiveness unsustainable due to future events such as deregulation, changes in the business environment such as entering into other industries, and technological innovation. The advent of such risks could cause a corresponding loss in competitiveness for ITOCHU Group, giving major adverse impact on the financial position and results of operations of ITOCHU Group.

(11) Risks Associated with Significant Lawsuits

There is no significant, currently pending lawsuit, arbitration, or other legal proceeding that may materially affect the financial position or results of the operations of ITOCHU Group.

However, there shall be no assurance that domestic or oversea business activities of ITOCHU Group may not become subject to any of such lawsuits, arbitrations or other legal proceedings.

(12) Risks Associated with Compliance

i) Risks Related to Laws and Regulations

ITOCHU Group is subject to a number of diverse laws and regulations both domestically and overseas due to the vast array of products and services the Group provides.

To be specific, ITOCHU Group is required to adhere to laws and regulations such as the laws for each industry, all laws pertaining to trade such as foreign exchange control laws, antitrust laws, intellectual property laws, waste disposal laws and the laws of each country in which ITOCHU Group conducts business overseas. ITOCHU Group is aware that the observance of laws and regulations is a serious obligation on the part of the Company and the Group has committed every effort into the observance of these laws and regulations through the compliance program that the Group has created. Despite this, ITOCHU cannot deny that additional regulations or abrupt changes in regulations by legislative, judicial, and regulatory bodies are a possibility both domestically and overseas. Also there are possibilities of major change in laws and regulation by political/economical changes.

This could exert a serious, adverse influence on the financial position and results of operations of ITOCHU Group.

ii) Risks Related to the Environment

ITOCHU Group has designated global environmental issues as one of the most important elements of its management policy. The Group is actively working on environmental issues designated by ITOCHU's environmental policy to deal with the risk of infringement of laws and regulations pertaining to the environment by each business, the destruction of the natural environment by natural resource development, real estate development and goods and service.

Despite these efforts, ITOCHU Group cannot guarantee that the Group's business activities will not affect the world environment, and ITOCHU cannot completely avoid the possibility that the opposition of environmental protection groups will impede the business growth.

Should such events occur, the ITOCHU Group could suffer the loss of public trust and could suffer serious adverse effects on the financial position and results of operations of ITOCHU Group.

(13) Risks Associated with Information Systems and Information Security

In ITOCHU, a code of conduct concerning the handling of information is enforced on all directors and employees and high priority is placed on maintaining a high information security level. ITOCHU has established information systems to facilitate the sharing of information internally within ITOCHU Group and externally with clients, and to improve the efficiency of operations. In order to maintain a secure operation of ITOCHU's information systems, ITOCHU has established firewalls to prevent outside intrusions to the network, established security guidelines, and has developed crisis control measures.

Despite these measures, ITOCHU cannot completely avoid the possibility of unauthorized access from the outside, the leakage of sensitive company information due to computer viruses, or operational failure of the system due to damage to information system equipment arising from natural disasters or accidents or from trouble with telecommunications circuitry.

If such events occur, this could cause a deterioration of operational efficiency, and depending on the seriousness of the damage, could result in a serious adverse effect on the financial position and results of operations of ITOCHU Group.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in conformity with U.S. GAAP. In preparation of the consolidated financial statements, the management of the Company is required to make a number of estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, contingent assets and liabilities as of each balance sheet date, and revenues and expenses in each reporting period. Management periodically verifies and makes a review of its estimates, judgments and assumptions based on the available information that is considered to be reasonable by judging from historical experiences and circumstances. These estimates, judgments and assumptions, however, which are often accompanied by uncertainties, may differ from actual results. These differences may have an effect on the Company's consolidated financial statements and performances of every operating segment. The following accounting policies related to estimates, judgments and assumptions that management believes may materially affect consolidated financial statements.

Evaluation of Investments

Investment balance and profit from investments are important factors in the Company's consolidated financial statements and therefore, accounting judgment on evaluation of investments has a substantial impact on the Company's consolidated financial statements. The Company and its subsidiaries evaluate marketable securities based on their fair values. The difference between carrying amount and fair value is reported in the consolidated statements of operations for trading securities, while differences net of tax are reported in stockholders' equity as "unrealized holding gains on securities", for available-for-sale securities. When the Company and its subsidiaries judge that the price decrease of marketable securities is other than temporary, considering severity and duration of decline in the fair value against carrying amount, impairment losses are recognized for the devaluation of this value.

For the impairment of non-marketable securities, judgment of an other-than-temporary decline is conducted after a comprehensive consideration of the magnitude of the decrease in terms of net asset value, the financial conditions of the invested companies, and the outlook for their future performance.

For the impairment of marketable investments in equity-method investees, in accordance with U.S. Accounting Principles Board Opinions ("APB") No.18, as is the case for impairment of long-lived assets, the Company and its subsidiaries judge whether or not a price decrease is other than temporary not only by measuring the magnitude of the decrease in market value but also comprehensively considering the possibility of collection based on the estimated future cash flows generated from the investment.

The management of the Company believes that these investment evaluations are rational. However, difference in estimates such as estimated future cash flows due to unforeseen changes in business conditions may impair the value of investments and have a material impact on the Company's consolidated financial statements.

Provision for Doubtful Receivables

Trade receivables including notes and accounts, in addition to loans, represent a large amount in the Company's consolidated balance sheets, and provision for doubtful receivables is an important factor in the Company's consolidated statements of operations. Therefore, accounting judgment on evaluation of receivables has a substantial impact on the Company's consolidated financial statements.

In the Company, the credit department, which is independent of business departments, manages and evaluates credit risk from both quantitative and qualitative perspectives, monitoring regularly the credit limit and the current condition of trade receivables, and reviewing regularly the current condition of debt collection and delinquency to discuss and record the required provision for doubtful receivables. The Company and its subsidiaries estimate the recoverable amount and records the required provision for doubtful receivables, after comprehensively considering the status of collection, past insolvency record, financial conditions of debtors and value of collateral.

The management of the Company believes that these estimations of provisions for doubtful receivables are rational. However, deterioration of the debtors' financial conditions and decreases in estimated collateral value due to unpredictable changes in business conditions may reduce the recoverable amounts from the latest estimation, and an increase in provision for doubtful receivables may have a material impact on the Company's consolidated financial statements.

Deferred Income Taxes

Deferred income tax assets are an important factor in th Company's consolidated balance sheets. Therefore, accounting judgment on evaluation of deferred income tax assets has a substantial impact on the Company's consolidated financial statements. To consider record of valuation allowances for deferred income tax assets, the Company and its subsidiaries report the realizable amount of deferred income tax assets, taking into consideration future taxable income and feasible tax planning strategies. To evaluate realizable amount, it considers information such as historical records and any available information related to the future.

The management of the Company believes that these estimations of realizable amount of deferred income tax assets are rational. However, valuation allowances for deferred income tax assets may increase or decrease depending on changes in taxable income during the tax planning period and changes in tax planning strategies, which may have a material impact on the Company's consolidated financial statements.

Impairment of Long-Lived Assets

If a part of the carrying amount is determined to be unrecoverable due to changes in the situation for long-lived assets used for business and intangible assets whose useful lives are finite, the Company and its subsidiaries recognize the impairment of long-lived assets based on fair value by calculating the sum of the outcome of the use of the long-lived asset and future cash flows (before discounts) resulting from its sale, and in case the sum falls below the carrying amount.

The management of the Company believes that these calculations of estimated future cash flows and fair value have been done in a rational manner. However, fluctuations in estimated future cash flows and fair value due to unpredictable changes in business conditions may reduce the evaluation of long-lived assets, which may have a material impact on the Company's consolidated financial statements.

Goodwill and Other Intangible Assets

Goodwill and non-amortizable intangible assets with indefinite useful lives are tested for impairment at least annually or at any time when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Fair value, which is indispensable for the impairment test, is estimated by discounted future cash flows based on the business plan. The management of the Company believes that these calculations of estimated future cash flows and fair value have been done in a rational manner. However, fluctuations in estimated future cash flows and fair value due to unpredictable changes in business conditions may reduce the evaluation of goodwill and other intangible assets, which may have a material impact on the Company's consolidated financial statements.

Cost of Retirement and Severance Benefits

The Company and its subsidiaries calculate the cost of its employees' retirement and severance benefits and pension obligations based on the same types of assumptions used in actuarial calculations, which include such important estimations as discount rates, retirement rates, death rates, increase rates of salary and long-term expected rates of return on plan assets. To determine each of these assumptions, the Company and its subsidiaries comprehensively judge all available information including market trends such as interest rate changes.

The management of the Company believes that the determination of these assumptions has been done in a rational manner. However, any difference between the assumptions and the actual conditions may influence the future retirement benefit costs and pension liabilities, which may have a material impact on the Company's consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

a. Accounting for Stripping Costs in the Mining Industry

Regarding accounting for stripping costs incurred during production in the mining industry, the FASB EITF reached a consensus at the meeting of March 2005 on EITF 04-6, which is effective for fiscal years beginning after December 15, 2005 with early adoption permitted.

In EITF 04-6, stripping costs (costs of removing overburden and waste materials to access mineral deposits) incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred.

ITOCHU early adopted EITF 04-6 from Fiscal 2006. The cumulative effect of an accounting change, net of tax, a loss of ¥3,439 million, was recognized in Fiscal 2006.

b. Accounting Changes and Error Corrections

As the general accounting standard regarding accounting principle change and error corrections, the FASB issued SFAS 154 in May 2005, which is effective for fiscal years beginning after December 15, 2005.

SFAS 154 requires retrospective application to financial statements for prior periods of cumulative effect of a change in accounting principles (direct effect only) unless it is impracticable to determine whether the effect is period-specific or cumulative. However in case that the pronouncement has specific transition provisions, it overrides SFAS 154.

SFAS 154 is applicable from this fiscal year. The Company and its subsidiaries had no effect by applying SFAS 154 on the Company and its subsidiaries' financial position and results of operations for this fiscal year.

c. Accounting for Uncertainty in Income Taxes

Regarding accounting for uncertainty in income taxes, FASB interpretations ("FIN") 48 was issued in June 2006, which is effective for fiscal years beginning after December 15, 2006.

FIN 48 provides that a company should estimate its income tax amount under a scenario that the company believes that it is more likely than not (the possibility is more than 50%), considering ongoing tax litigation, past or ongoing tax authority reassessments, new tax litigation settlements or new interpretations issued by the tax authorities.

FIN 48 is applicable from Fiscal 2008. The effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. Therefore at present, the effect cannot be reasonably estimated.

d. Fair Value Measurements

Regarding the definition and measurement of fair value, SFAS 157 "Fair Value Measurements" was issued in September 2006, which is effective for fiscal years beginning after November 15, 2007.

In SFAS 157, fair value is defined as the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the company would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability.

A fair value hierarchy with 3 levels (Level 1, 2 & 3) is established to evaluate the objectivity of the input information being used to estimate fair value.

SFAS 157 is applicable from Fiscal 2009, and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. Therefore at present, the effect cannot be reasonably estimated.

e. Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

Regarding employers' accounting for defined benefit pension and other postretirement plans, SFAS 158 was issued in September 2006, by which the previous accounting treatments were revised.

SFAS 158 requires that a company recognize the funded status of defined benefit obligation in the company's balance sheet. Net actuarial loss (gain) balance and prior service cost balance which remained unrecognized according to the previous standard should be recognized as a component of "Accumulated other comprehensive income (loss)," net of tax.

The Company and its subsidiaries applied the provisions for recognition and related disclosure of SFAS 158 from this fiscal year. The effect by applying SFAS 158 into the financial statements for this fiscal year is presented in Note 13 "Retirement and Severance Benefits" in the "Notes to Consolidated Financial Statements."

In addition, SFAS 158 stipulates that, effective for fiscal years ending after December 15, 2008, the measurement date should be the date of the consolidated balance sheet. The Company believes that there will be no material effect by applying this change.

f. Fair Value Option

In February 2007, SFAS 159 "Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of SFAS 115" was issued, which is effective for fiscal years beginning after November 15, 2007.

SFAS 159 permits companies to measure the balance of financial instruments at fair value as of the date of the balance sheet. Companies may choose either to use fair-value-method or previous methods by respective financial instrument. However once it has been decided to use fair-value-method, it is not permitted to return to the previous measurement methods for these instruments.

SFAS 159 is applicable from Fiscal 2009. The Company and its subsidiaries have not decided to apply fair-value-method for certain financial instruments yet, therefore at present, the effect on the Company and its subsidiaries' financial position and results of operations by applying SFAS 159 cannot be reasonably estimated.

g. Accounting for Planned Major Maintenance Activities

Regarding accounting for planned major maintenance activities, FASB Staff Positions ("FSP") AUG AIR-1 was issued in September 2006, which is effective from fiscal years beginning after December 15, 2006.

FSP AUG AIR-1 forbids to use accrue-in-advance method for accounting for planned major maintenance activities in not only the air transportation industry but also others.

FSP AUG AIR-1 is applicable from Fiscal 2008, and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. Therefore at present, the effect cannot be reasonably estimated.

Consolidated Balance Sheets

ITOCHU Corporation and Subsidiaries
As of March 31, 2007 and 2006

Assets	Millions of Yen 2007	Millions of Yen 2006	Millions of U.S. Dollars (note 2) 2007
Current assets:			
Cash and cash equivalents (notes 2, 4 and 8)	¥ 532,856	¥ 477,707	$ 4,514
Time deposits (note 8)	1,845	24,447	16
Marketable securities (notes 2, 4 and 8)	31,161	48,282	264
Trade receivables (note 8):			
Notes	163,449	149,386	1,385
Accounts (note 12)	1,273,464	1,079,404	10,787
Allowance for doubtful receivables (notes 2 and 6)	(15,358)	(17,755)	(130)
Net trade receivables	1,421,555	1,211,035	12,042
Due from associated companies	105,884	93,569	897
Inventories (notes 2 and 8)	530,335	458,876	4,492
Advances to suppliers	98,604	121,252	835
Prepaid expenses	32,103	28,771	272
Deferred tax assets (notes 2 and 15)	37,898	35,165	321
Other current assets	274,664	180,519	2,327
Total current assets	3,066,905	2,679,623	25,980
Investments and non-current receivables:			
Investments in and advances to associated companies (notes 2, 5, 8 and 13)	608,121	619,007	5,151
Other investments (notes 2, 4, 7 and 8)	632,527	528,440	5,358
Other non-current receivables (notes 8 and 12)	143,628	196,409	1,217
Allowance for doubtful receivables (notes 2 and 6)	(66,450)	(103,600)	(563)
Total investments and net non-current receivables	1,317,826	1,240,256	11,163
Property and equipment, at cost (notes 2, 7, 8, 12 and 17):			
Land	160,620	152,149	1,361
Buildings	328,397	293,605	2,782
Machinery and equipment	276,368	263,637	2,341
Furniture and fixtures	57,594	52,607	488
Mineral rights	45,905	41,296	389
Construction in progress	16,090	10,582	136
Total property and equipment, at cost	884,974	813,876	7,497
Less accumulated depreciation	354,929	326,088	3,007
Net property and equipment	530,045	487,788	4,490
Goodwill and other intangible assets, less accumulated amortization (notes 2 and 9)	147,975	117,576	1,253
Prepaid pension cost (notes 2 and 13)	86,180	186,105	730
Deferred tax assets, non-current (notes 2, 13 and 15)	31,612	47,365	268
Other assets	90,969	38,300	771
Total	¥5,271,512	¥4,797,013	$44,655

See notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Millions of Yen 2007	Millions of Yen 2006	Millions of U.S. Dollars (note 2) 2007
Current liabilities:			
Short-term debt (notes 8 and 10)	**¥ 373,723**	¥ 382,434	**$ 3,166**
Current maturities of long-term debt (notes 8 and 10)	**144,317**	173,097	**1,223**
Trade payables (note 8):			
Notes and acceptances	**181,197**	156,395	**1,535**
Accounts	**1,143,422**	921,797	**9,686**
Total trade payables	**1,324,619**	1,078,192	**11,221**
Due to associated companies	**46,083**	46,680	**390**
Accrued expenses	**135,335**	111,078	**1,146**
Income taxes payable (note 15)	**51,059**	38,361	**433**
Advances from customers	**107,308**	135,790	**909**
Deferred tax liabilities (notes 2 and 15)	**1,812**	605	**15**
Other current liabilities (note 12)	**205,040**	163,589	**1,737**
Total current liabilities	**2,389,296**	2,129,826	**20,240**
Long-term debt, excluding current maturities (notes 2, 8, 10, 11 and 12)	**1,795,333**	1,762,103	**15,208**
Accrued retirement and severance benefits (notes 2 and 13)	**21,748**	19,081	**184**
Deferred tax liabilities, non-current (notes 2 and 15)	**25,885**	29,470	**219**
Commitments and contingent liabilities (note 25)			
Minority interests (note 13)	**143,055**	129,717	**1,212**
Stockholders' equity:			
Common stock (note 18):			
Authorized: 3,000,000,000 shares;			
issued: 1,584,889,504 shares 2007 and 2006	**202,241**	202,241	**1,713**
Capital surplus (notes 18 and 19)	**136,842**	137,035	**1,159**
Retained earnings (note 19):			
Legal reserve	**7,423**	5,667	**63**
Other retained earnings	**469,736**	310,261	**3,979**
Accumulated other comprehensive income (loss) (notes 2, 15 and 20):			
Foreign currency translation adjustments	**903**	(25,801)	**8**
Minimum pension liability adjustments (note 13)	**—**	(2,086)	**—**
Pension liability adjustments (note 13)	**(41,335)**	—	**(350)**
Unrealized holding gains on securities (note 4)	**122,736**	97,689	**1,040**
Unrealized holding gains (losses) on derivative instruments (note 21)	**(441)**	3,087	**(4)**
Total accumulated other comprehensive income	**81,863**	72,889	**694**
Treasury stock, at cost:			
3,693,789 shares 2007			
3,042,395 shares 2006	**(1,910)**	(1,277)	**(16)**
Total stockholders' equity	**896,195**	726,816	**7,592**
Total	**¥5,271,512**	¥4,797,013	**$44,655**

Consolidated Statements of Operations

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of Yen			Millions of U.S. Dollars (note 2)
	2007	2006	2005	**2007**
Revenue (notes 2, 12 and 17):				
Sales revenue	**¥ 2,094,850**	¥ 1,806,650	¥ 1,598,672	**$ 17,745**
Trading margins and commissions on trading transactions	**552,352**	411,571	392,566	**4,679**
Total trading transactions (notes 2, 5 and 17): 2007: ¥11,579,059 million ($98,086 million) 2006: ¥10,473,885 million 2005: ¥ 9,576,039 million				
Total revenue	**2,647,202**	2,218,221	1,991,238	**22,424**
Cost of sales	**(1,738,526)**	(1,503,847)	(1,360,477)	**(14,727)**
Gross trading profit (note 17)	**908,676**	714,374	630,761	**7,697**
Selling, general and administrative expenses (notes 9, 12 and 13)	**(639,121)**	(506,257)	(466,840)	**(5,414)**
Provision for doubtful receivables (note 6)	**(4,934)**	(14,728)	(6,181)	**(42)**
Interest income	**16,117**	13,409	10,774	**137**
Interest expense	**(45,335)**	(39,441)	(31,814)	**(384)**
Dividends received	**21,663**	18,216	14,162	**183**
Gain (loss) on disposal of investments and marketable securities, net of write-down (notes 4, 5 and 22)	**46,850**	51,601	(25,384)	**397**
Loss on property and equipment–net (note 7)	**(6,785)**	(7,917)	(5,959)	**(57)**
Other–net (notes 2, 14 and 24)	**3,099**	(12,388)	439	**26**
Income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	**300,230**	216,869	119,958	**2,543**
Income taxes (notes 2, 15 and 22):				
Current	**80,261**	65,232	46,987	**680**
Deferred	**8,665**	41,691	15,556	**73**
Total income taxes	**88,926**	106,923	62,543	**753**
Income before minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	**211,304**	109,946	57,415	**1,790**
Minority interests	**(14,176)**	(13,098)	(11,387)	**(120)**
Equity in earnings (losses) of associated companies (notes 5 and 17)	**(20,069)**	51,737	31,764	**(170)**
Income before cumulative effect of an accounting change	**177,059**	148,585	77,792	**1,500**
Cumulative effect of an accounting change, less applicable income taxes (notes 2 and 17)	**—**	(3,439)	—	**—**
Net income	**¥ 177,059**	¥ 145,146	¥ 77,792	**$ 1,500**

	Yen			U.S. Dollars (note 2)
	2007	2006	2005	**2007**
Income per common share before cumulative effect of an accounting change	**¥111.95**	¥93.91	¥49.16	**$0.95**
Cumulative effect of an accounting change per common share, less applicable income taxes	**—**	(2.17)	—	**—**
Net income per common share (notes 2 and 16)	**¥111.95**	¥91.74	¥49.16	**$0.95**

See notes to consolidated financial statements.

Financial Section

Consolidated Statements of Stockholders' Equity

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of Yen			Millions of U.S. Dollars (note 2)
	2007	2006	2005	**2007**
Common stock (note 18):				
Balance at beginning of year				
issued: 1,584,889,504 shares 2007, 2006 and 2005	**¥202,241**	¥202,241	¥202,241	**$1,713**
Balance at end of year				
1,584,889,504 shares 2007, 2006 and 2005	**¥202,241**	¥202,241	¥202,241	**$1,713**
Capital surplus (notes 18 and 19):				
Balance at beginning of year	**¥137,035**	¥137,024	¥136,915	**$1,161**
Excess arising from retirement of treasury stock	**8**	11	109	**0**
Decrease arising from group realignment between subsidiaries	**(201)**	—	—	**(2)**
Balance at end of year	**¥136,842**	¥137,035	¥137,024	**$1,159**
Retained earnings (note 19):				
Legal reserve:				
Balance at beginning of year	**¥ 5,667**	¥ 3,927	¥ 3,450	**$ 48**
Transfer from other retained earnings	**1,822**	1,797	575	**15**
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	**(66)**	(57)	(98)	**(0)**
Balance at end of year	**¥ 7,423**	¥ 5,667	¥ 3,927	**$ 63**
Other retained earnings:				
Balance at beginning of year	**¥310,261**	¥184,273	¥106,958	**$2,628**
Net income	**177,059**	145,146	77,792	**1,500**
Cash dividends	**(15,828)**	(17,418)	—	**(134)**
Transfer to legal reserve	**(1,822)**	(1,797)	(575)	**(15)**
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	**66**	57	98	**0**
Balance at end of year	**¥469,736**	¥310,261	¥184,273	**$3,979**
Accumulated other comprehensive income (loss) (notes 2, 4, 13, 15, 20 and 21):				
Balance at beginning of year	**¥ 72,889**	¥ (16,242)	¥ (25,982)	**$ 617**
Other comprehensive income	**47,451**	89,131	9,740	**402**
Adjustment to initially apply SFAS No.158	**(38,477)**	—	—	**(325)**
Balance at end of year	**¥ 81,863**	¥ 72,889	¥ (16,242)	**$ 694**
Treasury stock:				
Balance at beginning of year	**¥ (1,277)**	¥ (826)	¥ (716)	**$ (11)**
Net change in treasury stock	**(633)**	(451)	(110)	**(5)**
Balance at end of year	**¥ (1,910)**	¥ (1,277)	¥ (826)	**$ (16)**
Total	**¥896,195**	¥726,816	¥510,397	**$7,592**
Comprehensive income:				
Net income	**¥177,059**	¥145,146	¥ 77,792	**$1,500**
Other comprehensive income (net of tax) (notes 2, 15 and 20):				
Net change in foreign currency translation adjustments during the year	**26,704**	37,618	4,348	**226**
Minimum pension liability adjustments (note 13)	**(772)**	(39)	(1,413)	**(6)**
Net change in unrealized holding gains on securities during the year (note 4)	**25,047**	44,943	7,093	**212**
Net change in unrealized holding gains (losses) on derivative instruments during the year (note 21)	**(3,528)**	6,609	(288)	**(30)**
Total other comprehensive income	**47,451**	89,131	9,740	**402**
Total	**¥224,510**	¥234,277	¥ 87,532	**$1,902**

See notes to consolidated financial statements.

Financial Section

Consolidated Statements of Cash Flows

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of Yen			Millions of U.S. Dollars (note 2)
	2007	2006	2005	2007
Cash flows from operating activities:				
Net income	¥177,059	¥145,146	¥ 77,792	$ 1,500
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	56,383	44,062	40,086	478
Provision for doubtful receivables	4,934	14,728	6,181	42
(Gain) loss on disposal of investments and marketable securities, net of write-down	(46,850)	(51,601)	25,384	(397)
Loss on property and equipment–net	6,785	7,917	5,959	57
Equity in earnings of associated companies, less dividends received	39,849	(43,239)	(25,942)	338
Deferred income taxes	8,665	41,691	15,556	73
Minority interests	14,176	13,098	11,387	120
Cumulative effect of an accounting change, less applicable income taxes	—	3,439	—	—
Change in assets and liabilities:				
Trade receivables	(106,945)	(92,507)	(66,084)	(906)
Due from associated companies	(35,766)	(3,329)	(6,786)	(303)
Inventories	(45,132)	(26,045)	(42,907)	(382)
Trade payables	125,348	91,919	54,274	1,062
Due to associated companies	(217)	4,705	(890)	(2)
Other–net	37,628	35,163	32,614	318
Net cash provided by operating activities	235,917	185,147	126,624	1,998
Cash flows from investing activities:				
Payments for purchases of property, equipment and other assets	(79,159)	(68,809)	(68,656)	(670)
Proceeds from sales of property, equipment and other assets	28,591	36,392	11,841	242
Increase in investments in and advances to associated companies	(44,581)	(77,864)	(14,003)	(377)
Decrease in investments in and advances to associated companies	33,578	34,640	25,689	284
Payments for purchases of other investments	(118,560)	(97,852)	(115,154)	(1,004)
Proceeds from sales of other investments	59,519	67,011	27,792	504
Acquisitions of a subsidiary, net of cash acquired	(11,407)	—	—	(97)
Proceeds from sales of subsidiaries' common stock	5,877	25,460	7,113	50
Origination of other non-current loan receivables	(49,703)	(38,212)	(54,500)	(421)
Collections of other non-current loan receivables	48,309	52,445	56,310	409
Net (increase) decrease in time deposits	22,031	(20,491)	653	187
Net (increase) decrease in marketable securities	22,111	7,409	(4,685)	187
Net cash used in investing activities	(83,394)	(79,871)	(127,600)	(706)
Cash flows from financing activities:				
Proceeds from long-term debt	617,455	503,202	324,230	5,230
Repayments of long-term debt	(681,150)	(578,895)	(397,535)	(5,770)
Net increase (decrease) in short-term debt	(22,215)	2,413	(50,153)	(188)
Proceeds from minority interests through issuance of subsidiaries' common stock	6,244	9,017	1,586	53
Cash dividends	(15,828)	(17,418)	—	(134)
Cash dividends to minority interests	(4,805)	(3,073)	(3,266)	(41)
Net increase in treasury stock	(621)	(439)	(204)	(5)
Net cash used in financing activities	(100,920)	(85,193)	(125,342)	(855)
Effect of exchange rate changes on cash and cash equivalents	3,546	4,690	(313)	30
Net increase (decrease) in cash and cash equivalents	55,149	24,773	(126,631)	467
Cash and cash equivalents at beginning of year	477,707	452,934	579,565	4,047
Cash and cash equivalents at end of year	¥532,856	¥477,707	¥452,934	$ 4,514
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	¥ 42,485	¥ 39,044	¥ 31,048	$ 360
Income taxes	65,744	40,162	39,701	557
Information regarding non-cash investing and financing activities:				
Withdrawal of plan assets (note 13)	27,742	—	10,484	235
Non-monetary exchange of shares	6,941	3,539	—	59
Acquisitions of a subsidiary (note 3):				
Fair value of assets acquired	233,512	—	—	1,978
Fair value of liabilities assumed	204,919	—	—	1,736
Acquisition costs of a subsidiary	28,593	—	—	242
Non-cash acquisition costs	13,877	—	—	117
Cash acquired	3,309	—	—	28
Acquisitions of a subsidiary, net of cash acquired	11,407	—	—	97

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ITOCHU Corporation and Subsidiaries

1. Nature of Operations

ITOCHU Corporation (the "Company") is a "sogo shosha" or general trading company. The Company and its subsidiaries purchase, distribute and market a wide variety of commodities, including raw materials, capital goods and consumer goods, whether for Japanese domestic trade, trade between Japan and other nations or trade between third-party nations.

The Company and its subsidiaries not only operate worldwide through trading in various commodities but also provide various services, such as financing arrangements for customers and suppliers, planning and coordinating industrial projects, functioning as an organizer and gathering extensive information. In addition, the Company and its subsidiaries operate in a wide range of business activities—developing market potential, providing services for logistics and transportation and for information and communications, engaging in construction, developing natural resources, investing in the growing high-technology and multimedia fields and promoting environmental protection.

2. Basis of Financial Statements and Summary of Significant Accounting Policies

(1) Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2007 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥118.05=U.S.$1 (the official rate as of March 31, 2007 announced by The Bank of Tokyo-Mitsubishi UFJ, Ltd.). The translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Because the Company and its subsidiaries maintain their records and prepare their financial statements in accordance with accounting principles prevailing in the countries of incorporation, all necessary adjustments have been made to conform to U.S. GAAP. The major adjustments include those relating to the valuation of certain investment securities, non-monetary exchange of investments, deferred gains on sales of property, pension costs, warrants, the cost of issuance of new shares, recognition of installment sales on the accrual basis of accounting, amortization of intangible assets and goodwill, and derivative instruments and hedging activities.

(2) Summary of Significant Accounting Policies

a. Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its directly or indirectly majority-owned domestic and foreign subsidiaries.

In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin ("ARB") No. 51" (revised December 2003) ("FIN 46(R)"), which defines those entities whose equity has specified characteristics as variable interest entities, the Company and its subsidiaries consolidate variable interest entities, where it is concluded that the Company or one of its subsidiaries is primary beneficiary and will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

The accounts of the subsidiaries are included on the basis of their respective fiscal periods which end primarily on March 31 or within three months prior to March 31.

The determination of whether an entity is recognized as a consolidated subsidiary is based on the Company's ownership of voting shares, including consideration of any shares contributed to the pension trusts. Although the Company retains the rights to vote the contributed shares, the rights to dispose of such shares are executed by the trustee. The equity in contributed shares to the pension trust is included in minority interests in the consolidated financial statements.

b. Foreign Currency Translation

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards ("SFAS") 52, "Foreign Currency Translation." Pursuant to this statement, the assets and liabilities of foreign subsidiaries and associated companies are translated into Japanese yen at the respective year-end exchange rates. All income and expense accounts are translated at average rates of exchange. The resulting foreign currency translation adjustments, net of tax, are included in "Accumulated other comprehensive income (loss)." Foreign currency receivables and payables are translated into Japanese yen at year-end exchange rates and the resulting foreign exchange gains and losses are recognized and included in "Other–net" in the consolidated statements of operations.

c. Cash Equivalents

The Company and its subsidiaries define cash equivalents as short-term (original maturities of three months or less), highly liquid investments which are readily convertible to cash and have insignificant risk of changes in value, including short-term time deposits.

d. Inventories

Inventories are stated at the lower of cost, determined principally by the specific identification method, or market.

e. Marketable Securities and Other Investments

In accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company and its subsidiaries classify certain investments included in "Marketable securities" and "Other investments" by the ability and intent as held-to-maturity, trading or available-for-sale securities, and report held-to-maturity securities at amortized cost, trading securities at fair value with unrealized holding gains and losses included in earnings and available-for-sale securities at fair value with unrealized holding gains and losses included in "Accumulated other comprehensive income (loss)" in stockholders' equity on a net-of-tax basis. The cost of certain investments sold is determined using the moving-average cost method. The Company and its subsidiaries periodically review their investments for impairment to determine whether the fair value of held-to-maturity and available-for-sale securities has declined below cost and if such decline is believed to be other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of those securities is written down to fair value as a new cost basis. Whether the decline in value is other than temporary is determined by considering the severity (the extent to which fair value is below cost) and the duration (the period of time that a security has been impaired).

Non-marketable securities included in "Other investments" are reported at cost or the fair value if it is lower.

f. Investments in Associated Companies

The Company and its subsidiaries initially record investments in associated companies (generally, those in which the Company and its subsidiaries own 20% to 50% of the outstanding voting stocks) at cost and adjust the carrying amount of the investment to recognize their share of the undistributed earnings or losses of the associated companies after the date of acquisition. Under the equity method, the Company and its subsidiaries make adjustments to eliminate significant unrealized intercompany profits and to reduce the carrying amount of the investment by dividends received. The excess of the acquisition costs over the underlying equity in the net assets acquired is allocated first to identifiable assets or liabilities based on relative fair value at the date of acquisition. The unassigned residual amount is not amortized but tested for impairment at least annually.

g. Impaired Loans and Allowance for Doubtful Receivables

In accordance with SFAS 114, "Accounting by Creditors for Impairment of a Loan—an amendment of FASB Statements No. 5 and 15," and SFAS 118, "Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures—an amendment of FASB Statement No. 114," the Company and its subsidiaries measure impairment for certain loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the underlying collateral if the loan is collateral dependent, and recognize an impairment by creating and adjusting a valuation allowance if the fair value of the loan is less than the recorded amount.

The Company and its subsidiaries recognize, principally using a cash basis method, interest income on the recorded investment in an impaired loan.

h. Long-lived Assets

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company and its subsidiaries perform an impairment test for a long-lived asset (asset group) to be held and used or to be disposed of other than by sale, using undiscounted expected future cash flows, whenever events or changes in circumstances indicate that some portion of the carrying amount of the asset (asset group) may not be recoverable. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset (asset group), an impairment loss is recognized as determined by the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value. A long-lived asset (asset group) to be disposed of by sale is reported at the lower of its carrying amount or fair value less cost to sell.

i. Depreciation

Depreciation of property and equipment (including property leased to others) is computed principally by the unit-of-production method for mineral rights and by the straight-line method for property and equipment other than land, construction in progress and mineral rights, using rates based upon the estimated useful lives of the related property and equipment.

j. Goodwill and Other Intangible Assets

In accordance with SFAS 141, "Business Combinations," the Company and its subsidiaries account for all business combinations using the purchase method, and also have written guidance relating to the recognition of acquired intangible assets apart from goodwill. In accordance with SFAS 142, "Goodwill and Other Intangible Assets," the Company and its subsidiaries do not amortize goodwill regularly but perform an impairment test at the reporting unit level at least on an annual basis and between annual tests if an event occurs or circumstances change that would indicate that it is more likely than not that the fair value of a reporting unit is below its carrying amount. An intangible asset with a definite useful life is amortized over its estimated useful life and is reviewed for impairment in accordance with SFAS 144. An intangible asset determined to have an indefinite useful life is not amortized but is instead periodically tested for impairment in the same manner as goodwill.

k. Asset Retirement Obligations

In accordance with SFAS 143, "Accounting for Asset Retirement Obligations," the Company and its subsidiaries recognize the fair value of a tangible long-lived asset retirement obligation as a liability in the period in which it is incurred if a reasonable estimate of fair value can be made and capitalize the same amount in the cost of the related asset. Subsequently, the Company and its subsidiaries accrete the liability to its present value each period, and depreciate the capitalized cost over the useful life of the related asset.

l. Leases
The Company and its subsidiaries lease fixed assets under direct financing leases and operating leases as a lessor. Income from direct financing leases is recognized by amortizing unearned income over the lease term at a constant periodic rate of return on the net investment. Operating lease income is recognized over the lease term on a straight-line basis.

The Company and its subsidiaries lease fixed assets under capital leases and operating leases as a lessee. For capital lease obligations, interest expense is recognized over the lease term at a constant periodic rate on the lease obligation. Depreciation of the leased assets is recognized over the lease term on a straight-line basis. Rental expense on operating leases is recognized over the lease term on a straight-line basis.

m. Retirement and Severance Benefits
The Company and certain subsidiaries have defined benefit pension plans covering substantially all of their employees. The costs of the defined benefit pension plans are accrued based on amounts determined using actuarial methods, in accordance with SFAS 87 "Employers' Accounting for Pensions." In addition the Company and its subsidiaries recognize the funded status of a defined benefit pension plan—measured as the difference between plan assets at fair value and the projected benefit obligation—as an asset or a liability in its consolidated balance sheet. Net actuarial loss (gain) balance and prior service cost balance are required to be recognized as a component of "Accumulated other comprehensive income (loss)," net of tax in accordance with SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132 (R)."

n. Guarantees
In accordance with FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," the Company and its subsidiaries recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken for those guarantees newly issued or modified after December 31, 2002.

o. Revenue Recognition
The Company and its subsidiaries act as either principal or agent in their trading transactions for earning revenues. The Company and its subsidiaries recognize revenues from sales of products, the development of natural resources and the development and sale of real estate. In addition to these revenue transactions, the Company and its subsidiaries recognize revenues from supporting services, such as supporting customers' trading activities, leasing and software services activities. The Company and its subsidiaries recognize revenues at the time that revenues are realized or realizable and earned. Revenues are realized or realizable and earned when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) the goods have been delivered or the services have been rendered to customers, (3) the sales price is fixed or determinable and (4) collectibility is reasonably assured.

The Company and its subsidiaries recognize revenues from product sales, including wholesale, retail sales, manufactured product sales, processed product sales, the development of natural resources and the development and sale of real estate, at the time the delivery conditions agreed with customers are met. These conditions are usually considered to have been met when goods are received by the customer, the warehouse receipts are transferred or the acceptance from the customer is received. Depending on the nature of the contract, revenues from long-term construction are accounted for by the completed contract method unless estimates of costs to complete and the extent of progress toward completion of long-term contracts are reasonably dependable, in which case the Company and its subsidiaries use the percentage-of-completion method.

Transactions which derive revenues from service-related activities are originated in various fields, such as financial and logistics services, information, communications and technical support. The revenues are recognized when the contracted services have been rendered to the third-party customers pursuant to the arrangements. Transactions from other activities of the Company and its subsidiaries include software development and maintenance services and leasing of aircraft, real estate, industrial machinery and other assets. Revenues from other activities are recognized upon customer acceptance for software development, over the contractual period for software maintenance services and over the terms of the underlying leases on a straight-line basis for aircraft, real estate, industrial machinery and other assets.

Reporting Revenue Gross versus Net
In accordance with Emerging Issues Task Force ("EITF") 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," the Company and its subsidiaries present certain revenue transactions with corresponding cost of revenues on a gross basis as "Sales revenue" in the consolidated statements of operations, for transactions traded as a primary obligor in manufacturing, processing and service rendering and for sales with general inventory risk before customer orders. The revenues that are recognized on a net basis are presented as "Trading margins and commissions on trading transactions" in the consolidated statements of operations.

Trading Transactions
"Total trading transactions," as presented in the consolidated statements of operations, is a measure commonly used by similar Japanese trading companies and represents gross transaction volume of the sales contracts in which the Company and its subsidiaries act as principal or agent. Total trading transactions in the consolidated statements of operations are presented in accordance with Japanese accounting practice, and are not meant as a substitute for sales or revenues in accordance with U.S. GAAP.

p. Costs Associated with Exit or Disposal Activities

In accordance with SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," the Company and its subsidiaries recognize and measure a liability for the cost associated with exit or disposal activities at its fair value in the period when the liability is incurred rather than when an exit or disposal plan is committed.

q. Income Taxes

The Company and its subsidiaries utilize an asset and liability approach to accounting for income taxes in accordance with SFAS 109, "Accounting for Income Taxes."

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between the tax basis of assets or liabilities and reported amounts in its financial statements, and net operating loss carryforwards. Deferred tax assets or liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings for the period that includes the enactment date. A valuation allowance is provided for the portion of a deferred tax asset for which it is more likely than not that a tax benefit will not be realized.

r. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income by the weighted-average number of common shares outstanding (excluding treasury stock) for the period. Diluted net income per share is computed giving effect to all dilutive potential common shares that were outstanding during the period.

s. Comprehensive Income (Loss)

In accordance with SFAS 130, "Reporting Comprehensive Income," the Company and its subsidiaries report and present comprehensive income and loss and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. Comprehensive income and loss consists of not only net income or loss but also changes in foreign currency translation adjustments, minimum pension liability adjustments, net unrealized holding gains and losses on certain investments in "Marketable securities" and "Other investments" and net unrealized holding gains and losses on derivative instruments, on a net-of-tax basis.

t. Derivative Instruments and Hedging Activities

In accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133," and SFAS 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities," the Company and its subsidiaries recognize all derivative instruments, such as foreign exchange contracts, interest rate swap contracts and commodity price contracts, in the financial statements measured at fair value, regardless of the purpose or intent for holding them, as either assets or liabilities.

The accounting for changes in fair value depends on the intended use of the derivative instruments and resulting hedge effectiveness. All derivative instruments are recognized on the balance sheet at their fair value. The Company and its subsidiaries designate and account for derivative instruments as follows:

- "Fair value hedge": a hedge of the fair value of a recognized asset or liability, or of an unrecognized firm commitment. The changes in fair value of recognized assets or liabilities, or unrecognized firm commitments and related derivative instruments that are designated and qualify as fair value hedges are recorded in earnings if the hedges are considered highly effective.

- "Cash flow hedge": a hedge of the variability of cash flow to be received or paid related to a forecasted transaction, or a recognized asset or liability. The changes in fair value of derivative instruments that are designated and qualify as cash flow hedges are recorded in "Accumulated other comprehensive income (loss)" if the hedges are considered highly effective.

  This treatment is continued until earnings are affected by the variability in cash flows to be received or paid related to the forecasted transactions or the recognized assets or liabilities designated as the hedged items. The ineffective portion of the hedge is currently reported in earnings.

- "Foreign currency hedge": a hedge of foreign-currency fair value or cash flow. The changes in fair value of derivatives that are designated and qualify as foreign-currency fair value or cash flow hedges of recognized assets or liabilities, unrecognized firm commitments or forecasted transactions are recorded in either earnings or "Accumulated other comprehensive income (loss)" if the hedges are considered highly effective.

  Recognition in earnings or "Accumulated other comprehensive income (loss)" is dependent on the treatment of foreign currency hedges as fair value hedges or cash flow hedges.

The Company and its subsidiaries meet the documentation requirements as prescribed by SFAS 133 and SFAS 138, which include a statement of its risk management objective and the strategy for undertaking various hedge transactions.

In addition, a formal assessment is made at the hedge's inception and periodically thereafter at every quarter on an ongoing basis, as to whether the derivatives used in hedging activities are highly effective in offsetting changes in the fair values or cash flows of hedged items.

Hedge accounting is discontinued for ineffective hedges, if any. The changes in fair value of derivative instruments related to discontinued hedges are recognized in earnings currently.

The changes in fair value of derivative instruments for trading purposes are recorded in earnings.

u. Issuance of Stock by Subsidiaries or Associated Companies

With respect to the issuance of shares to a third party by a subsidiary or an associated company, the resulting gain or loss arising from the change in the Company's relative ownership interest is recorded in earnings in the period when such shares are issued.

v. Classification of Mineral Rights

In accordance with EITF 04-2, "Whether Mineral Rights Are Tangible or Intangible Assets," FASB Staff Position ("FSP") SFAS 141-1 and SFAS 142-1, "Interaction of FASB Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, and EITF Issue No. 04-2, "Whether Mineral Rights Are Tangible or Intangible Assets," and FSP SFAS 142-2, "Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil- and Gas-Producing Entities," all mineral rights held by mining and oil- and gas-producing entities have been presented as tangible assets on the consolidated balance sheets.

w. Use of Estimates

The Company and its subsidiaries make estimates and assumptions to prepare these financial statements. Such estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities, and actual results could differ from those estimates.

(3) New Accounting Pronouncements

a. Accounting for Stripping Costs in the Mining Industry

The FASB EITF reached a consensus at the meeting of March, 2005 on EITF 04-6 "Accounting for Stripping Costs Incurred during Production in the Mining Industry."

In Issue EITF 04-6, the costs of removing overburden and waste materials to access mineral deposits are referred to as "stripping costs" and stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred.

EITF 04-6 was effective for fiscal years beginning after December 15, 2005 with early adoption permitted. The Company and its subsidiaries early adopted EITF 04-6, from the year ended March 31, 2006. The cumulative effect of an accounting change, net of tax, a loss of ¥3,439 million, was recognized in the year ended March 31, 2006.

b. Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections"—a replacement of APB Opinion No. 20 and FASB Statement No.3."

SFAS 154 applies to all voluntary changes in accounting principle and those changes required by an accounting pronouncement in case that the pronouncement does not include specific transition provisions.

Accounting Principles Board ("APB") Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in the statements of operations for the period of the revision, however SFAS 154 requires retrospective application to prior periods' financial statements of cumulative effect of a change in accounting principles unless it is impracticable to determine either the period-specific effect or the cumulative effect of the change.

In addition, SFAS 154 requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change, and a change in depreciation, amortization or depletion method should be accounted for as a change in accounting estimate effected by a change in accounting principle.

SFAS 154 is effective for fiscal years beginning after December 15, 2005, and the Company and its subsidiaries adopted SFAS 154 in the year ended March 31, 2007. The Company and its subsidiaries had no effect by applying SFAS 154 on the Company and its subsidiaries' financial position and results of operations for the year ended March 31, 2007.

c. Accounting for Uncertainty in Income Taxes

In June 2006, FIN 48, "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS 109" was issued.

FIN 48 provides that a company should estimate its income tax amount under a scenario that the company believes that it is more likely than not (the possibility is more than 50%), considering ongoing tax litigation, past or ongoing tax authority reassessment, new tax litigation settlements or new interpretations issued by the tax authorities.

FIN 48 is effective for fiscal years beginning after December 15, 2006, and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. At present the effect cannot be reasonably estimated.

d. Fair Value Measurements

In September 2006, SFAS 157 "Fair Value Measurements" was issued.

Prior to the statement there were different definitions of fair value and different methods of measurement. However in SFAS 157, fair value is defined as the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the company would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability.

A fair value hierarchy with 3 levels (Level 1, 2 & 3) is established to evaluate the objectivity of the input information being used to estimate fair value.

SFAS 157 is effective for fiscal years beginning after November 15, 2007, and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. At present the effect cannot be reasonably estimated.

e. Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of SFAS No. 87, 88, 106 and 132 (R)" was issued.

SFAS 158 requires that a company recognize the funded status of a defined benefit pension plan—measured as the difference between the plan assets at fair value and the projected benefit obligation—in its consolidated balance sheet. Net actuarial loss (gain) balance and the unrecognized prior service cost balance are required to be recognized as a component of "Accumulated other comprehensive income (loss)," net of tax.

The Company and its subsidiaries applied the provisions for recognition and related disclosure of SFAS 158 from the year ended March 31, 2007. The effect of applying SFAS 158 into the consolidated financial statements for the year ended March 31, 2007 is presented in the Note 13 "Retirement and Severance Benefits" in the notes to Consolidated Financial Statements.

SFAS 158 stipulates that, effective for fiscal years ending after December 15, 2008, the measurement date should be the date of the consolidated balance sheet. The Company believes that there is no material effect by applying this change.

f. Fair Value Option

In February 2007, SFAS 159, "Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" was issued.

SFAS 159 permits companies to measure the balance of financial instruments at fair value as of the date of the balance sheet. Companies can choose either to use a fair value measurement or previous methods by respective financial instrument. However, once it has been decided to use the fair value method to measure certain financial instruments, it is not permitted to return to the previous measurement methods for those instruments.

SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company and its subsidiaries have not decided to apply the fair value method for certain financial instruments yet, therefore at present, the effect on the Company and its subsidiaries' financial position and results of operations by applying SFAS 159 cannot be reasonably estimated.

g. Accounting for Planned Major Maintenance Activities

In September 2006, FASB Staff Positions ("FSP") AUG AIR-1 (Accounting for Planned Major Maintenance Activities) was issued.

FSP AUG AIR-1 forbids the use of accrue-in-advance method to accounting for planned major maintenance activities in not only the air transportation industry but also others. The said accruals are not considered to meet the legitimate definition of liabilities.

FSP AUG AIR-1 is effective for fiscal years beginning after December 15, 2006, and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. At present the effect cannot be reasonably estimated.

(4) Reclassification

Certain reclassifications and changes have been made to prior year amounts to conform to the current year's presentation.

3. Business Combination

On June 29, 2006, the Company acquired an additional 28.3% of the voting shares of NIPPON ACCESS, INC. ("Nippon Access") through a tender offer in May, 2006, which is engaged in wholesale of foods, liquor and grocery. The investment has previously been accounted for by the equity method. After the acquisition, the Company's voting share increased to 60.6%, and Nippon Access has been turned into a subsidiary. By acquiring this controlling interest, the Company plans to accelerate the growth of competitive power and growth in the domestic food distribution industry, which clearly position Nippon Access as a core subsidiary.

The purchase price was determined by taking into consideration various factors, including Nippon Access's financial and asset profile researched by independent professionals and a thorough valuation analysis (Discount Cash Flow method, Multiple method, etc.) conducted by the financial advisor.

The consolidated financial statements for the year ended March 31, 2007 include the results of operations of Nippon Access from the date of acquisition.

In connection with the acquisition, ¥3,497 million ($30 million) and ¥20,434 million ($173 million) were assigned to intangible assets subject to amortization and goodwill, respectively. The intangible assets subject to amortization consist primarily of software of ¥3,089 million ($26 million) with an amortization period of five years. The goodwill is not deductible for tax purposes and has been assigned to the Food operating segment.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Current assets	¥ 145,717	$ 1,234
Property and equipment, at cost	37,967	322
Goodwill and other intangible assets, less accumulated amortization	23,931	203
Investments and other non-current assets	25,897	219
Fair value of assets acquired	233,512	1,978
Current liabilities	(182,659)	(1,547)
Non-current liabilities	(16,667)	(141)
Minority interests	(5,593)	(48)
Fair value of liabilities assumed	(204,919)	(1,736)
Acquisition costs of a subsidiary	¥ 28,593	$ 242

(Pro forma information)
The following table presents the unaudited pro forma results of operations, as if this acquisition had occurred on April 1, 2006 and 2005, respectively. The unaudited pro forma results of operations are for information purpose only and are not intended to represent what the Company's results of operations would have been if the acquisition had actually occurred on those days.

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Revenue	¥2,681,684	¥2,355,091	$22,717
Income before cumulative effect of an accounting change	177,059	149,033	1,500
Net income	177,059	145,594	1,500

	Yen		U.S. Dollars
	2007	2006	2007
Net income per share	¥111.95	¥92.02	$0.95

4. Marketable Securities and Investments

Debt and Marketable Equity Securities
Debt and marketable equity securities included in "Marketable securities" and "Other investments" consist of trading, available-for-sale and held-to-maturity securities. The cost, gross unrealized holding gains, gross unrealized holding losses and fair value of available-for-sale and held-to-maturity securities by major security type as of March 31, 2007 and 2006 were as follows:

	Millions of Yen			
	2007			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	¥ 25,422	¥ —	¥ 1	¥ 25,421
Non-current:				
Available-for-sale:				
Equity securities	¥194,055	¥185,260	¥838	¥378,477
Debt securities	1,401	—	19	1,382
Total	195,456	185,260	857	379,859
Held-to-maturity:				
Debt securities	75	—	—	75
Total–Non-current	¥195,531	¥185,260	¥857	¥379,934

Financial Section

	Millions of Yen			
	2006			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	¥ 19,294	¥ —	¥ 2	¥ 19,292
Held-to-maturity:				
Debt securities	1	—	—	1
Total–Current	¥ 19,295	¥ —	¥ 2	¥ 19,293
Non-current:				
Available-for-sale:				
Equity securities	¥106,243	¥140,320	¥61	¥246,502
Debt securities	1,746	—	21	1,725
Total	107,989	140,320	82	248,227
Held-to-maturity:				
Debt securities	15	—	—	15
Total–Non-current	¥108,004	¥140,320	¥82	¥248,242

	Millions of U.S. Dollars			
	2007			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	$ 215	$ —	$ 0	$ 215
Non-current:				
Available-for-sale:				
Equity securities	$1,644	$1,569	$ 7	$3,206
Debt securities	12	—	0	12
Total	1,656	1,569	7	3,218
Held-to-maturity:				
Debt securities	1	—	—	1
Total–Non-current	$1,657	$1,569	$ 7	$3,219

The carrying amounts of available-for-sale debt securities included in cash and cash equivalents in the consolidated balance sheets were ¥24,980 million ($212 million) at March 31, 2007.

In addition to the securities listed above, the Company and its subsidiaries held trading securities carried at fair value of ¥30,720 million ($260 million) and ¥28,989 million as of March 31, 2007 and 2006, respectively. The portion of net trading gains for the year that relates to trading securities still held at March 31, 2007 and 2006 were ¥877 million ($7 million) and ¥2,594 million, respectively. The portion of net trading losses for the year that relates to trading securities still held at March 31, 2005 was ¥256 million.

Securities with gross unrealized holding losses and the length of time that such individual securities have been in a continuous unrealized loss position as of March 31, 2007 were as follows:

	Millions of Yen					
	2007					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Current:						
Available-for-sale:						
Debt securities	¥ 118	¥ 1	¥—	¥—	¥ 118	¥ 1
Non-current:						
Available-for-sale:						
Equity securities	¥12,986	¥838	¥—	¥—	¥12,986	¥838
Debt securities	710	19	—	—	710	19
Total–Non-current	¥13,696	¥857	¥—	¥—	¥13,696	¥857

	Millions of U.S. Dollars					
	2007					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Current:						
Available-for-sale:						
Debt securities	$ 1	$ 0	$—	$—	$ 1	$ 0
Non-current:						
Available-for-sale:						
Equity securities	$110	$ 7	$—	$—	$110	$ 7
Debt securities	6	0	—	—	6	0
Total–Non-current	$116	$ 7	$—	$—	$116	$ 7

At March 31, 2007, the Company and its subsidiaries held the securities of 48 issuers with an unrealized holding loss in its available-for-sale portfolio. The severity of decline in fair value below cost was 1% to 28% and the duration of the impairment was less than 9 months. As a result of evaluation of individual severity and duration of these securities and the prospects of the issuer, the Company and its subsidiaries concluded the fair value of these securities would recover in the near term. Based on that evaluation and the Company and its subsidiaries' intent and ability to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company and its subsidiaries did not consider these investments to be other-than-temporarily impaired at March 31, 2007.

In accordance with EITF 91-5 "Nonmonetary Exchange of Cost-Method Investments," the Company and its subsidiaries recognized gains on the exchange of its investment securities in connection with certain business combinations amounting to ¥3,490 million ($30 million) and ¥446 million for the years ended March 31, 2007 and 2006, respectively, which are presented as part of "Gain (loss) on disposal of investments and marketable securities, net of write-down" in the consolidated statements of operations.

The contractual maturities of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2007 were as follows:

	Millions of Yen		Millions of U.S. Dollars	
	Cost	Fair Value	Cost	Fair Value
Available-for-sale:				
Due within one year	¥25,422	¥25,421	$215	$215
Due after one year through five years	836	833	7	7
Due after five years through ten years	497	484	4	4
Due after ten years	68	65	1	1
Total	¥26,823	¥26,803	$227	$227
Held-to-maturity:				
Due within one year	¥ —	¥ —	$ —	$ —
Due after one year through five years	50	50	1	1
Due after five years through ten years	25	25	0	0
Due after ten years	—	—	—	—
Total	¥ 75	¥ 75	$ 1	$ 1

The gross realized gains and losses on sales of available-for-sale securities for the years ended March 31, 2007, 2006 and 2005 were gains of ¥22,692 million ($192 million), ¥23,926 million and ¥12,118 million, and losses of ¥66 million ($1 million), ¥60 million and ¥942 million, respectively. The proceeds from sales of available-for-sale securities were ¥35,705 million ($302 million), ¥32,951 million and ¥23,209 million for the years ended March 31, 2007, 2006 and 2005, respectively.

Investments Other Than Debt and Marketable Equity Securities

Other investments include investments in non-traded and unaffiliated customers and suppliers and long-term deposits amounting to ¥252,593 million ($2,140 million) and ¥280,198 million as of March 31, 2007 and 2006, respectively.

The Company and its subsidiaries believed that the carrying amounts of cost-method investments (non-marketable securities) approximated fair values. No events or changes in circumstances that will have a significant adverse effect on the fair value of the investments have been identified.

5. Investments in Associated Companies

Summarized financial information in respect of associated companies as of March 31, 2007 and 2006 and for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Current assets	**¥4,431,771**	¥4,625,846	**$37,542**
Non-current assets, principally property and equipment	**2,684,717**	2,680,672	**22,742**
Total assets	**¥7,116,488**	¥7,306,518	**$60,284**
Current liabilities	**¥3,421,904**	¥3,332,076	**$28,987**
Long-term debt and others	**2,994,631**	2,918,157	**25,368**
Stockholders' equity	**699,953**	1,056,285	**5,929**
Total liabilities and stockholders' equity	**¥7,116,488**	¥7,306,518	**$60,284**

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Total trading transactions	**¥6,993,940**	¥6,526,254	¥5,522,258	**$59,246**
Net income (loss)	**¥ (374,905)**	¥ 125,826	¥ 63,260	**$ (3,176)**

Total trading transactions and purchases by the Company and its subsidiaries with associated companies for the years ended March 31, 2007, 2006 and 2005 were summarized as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Total trading transactions	**¥855,349**	¥817,657	¥697,563	**$7,246**
Purchases	**¥244,366**	¥184,549	¥157,612	**$2,070**

Dividends received from associated companies for the years ended March 31, 2007, 2006 and 2005 were ¥19,780 million ($168 million), ¥8,498 million and ¥5,822 million, respectively.

The Company and its subsidiaries account for investments in associated companies (generally companies owned 20% to 50%) by the equity method. Significant equity method investees include Orient Corporation (21.0%), Marubeni-Itochu Steel Inc. (50.0%), Century Leasing System, Inc. (20.1%), FamilyMart Co., Ltd. (32.5%) and Isuzu Network Co., Ltd. (25.0%). The percentages shown parenthetically in the above sentence were voting shares held by the Company and its subsidiaries at March 31, 2007.

The Company converted Class A preferred shares issued by Orient Corporation into its common shares on April 2, 2007. After the conversion, the Company and its subsidiaries' voting shares for Orient Corporation Increased to 32.0%.

Investments in the common stock of associated companies include marketable equity securities in the carrying amounts of ¥286,764 million ($2,429 million) and ¥321,085 million at March 31, 2007 and 2006, respectively. Corresponding aggregate quoted market values were ¥377,416 million ($3,197 million) and ¥445,621 million at March 31, 2007 and 2006, respectively.

The differences between the carrying amount of the investments in equity-method associated companies and the Company and its subsidiaries' equity in the underlying net assets of such equity-method associated companies were ¥169,479 million ($1,436 million) and ¥173,836 million at March 31, 2007 and 2006, respectively. The differences consist of certain fair value adjustments (net of taxes) at the time of the investments in equity-method associated companies and equity-method goodwill. The fair value adjustments are primarily attributed to land and intangible assets.

During the year ended March 31, 2005, the Company and its subsidiaries recorded a ¥45,121 million impairment loss on the equity method goodwill of their investment in FamilyMart Co., Ltd ("FamilyMart"). The loss was included in "Gain (loss) on disposal of investments and marketable securities, net of write-down" in the consolidated statements of operations and represents the difference between the carrying value of the investment in FamilyMart and estimated fair value. The fair value was determined by the Company and its subsidiaries using discounted cash flow analysis prepared by third-party appraisers, which were prepared using the best-estimated future cash flow available, and by reference to the quoted market price of FamilyMart's publicly traded common stock.

6. Impaired Loans and Allowance for Doubtful Receivables

An analysis of the changes in the allowance for doubtful receivables for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Balance at beginning of year	**¥121,355**	¥163,451	¥196,599	**$1,028**
Provision for doubtful receivables	**4,934**	14,728	6,181	**42**
Charge-offs	**(47,560)**	(67,231)	(46,854)	**(403)**
Other	**3,079**	10,407	7,525	**26**
Balance at end of year	**¥ 81,808**	¥121,355	¥163,451	**$ 693**

Note: "Other" consisted primarily of the effects due to changes in the number of consolidated subsidiaries and changes in foreign currency exchange rates.

The carrying amounts of impaired loans within the scope of SFAS 114 and the allowance for doubtful receivables related to those impaired loans as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Impaired loans	**¥71,246**	¥104,751	**$604**
Allowance for doubtful receivables related to those impaired loans	**¥61,750**	¥ 95,043	**$523**

The recorded investment in the impaired loans, net of the allowance for doubtful receivables, is either secured by collateral or believed to be collectible.

The average amounts of impaired loans during the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Average amounts of impaired loans	**¥87,999**	¥144,159	¥200,513	**$745**

The amounts of interest income recognized on the impaired loans for the years ended March 31, 2007, 2006 and 2005 were not significant.

7. Impairment of Long-lived Assets

The Company and its subsidiaries recognized impairment losses on long-lived assets of ¥7,493 million ($63 million), ¥12,855 million and ¥4,735 million for the years ended March 31, 2007, 2006 and 2005, respectively, which were included in "Loss on property and equipment–net" in the consolidated statements of operations. The impaired assets were primarily commercial land and buildings in the Finance, Realty, Insurance & Logistics Services operating segment for the year ended March 31, 2007. The impairments were generally due to the deterioration of earnings in relation to revisions of repair plans of buildings and changes to lease agreement conditions. The impaired assets were primarily commercial rental buildings in the Finance, Realty, Insurance & Logistics Services operating segment and land in the Other, Adjustments & Eliminations operating segment for the year ended March 31, 2006 and domestic commercial rental buildings in the Finance, Realty, Insurance & Logistics Services operating segment for the year ended March 31, 2005. The impairments were generally due to the deterioration of rents for commercial buildings and to the decline in the market value of land.

The fair values of long-lived assets were primarily determined based on discounted cash flows or independent appraisals by third parties.

Impairment losses recognized for the years ended March 31, 2007, 2006, and 2005 by operating segment were as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Textile	**¥ 425**	¥ 258	¥ 783	**$ 4**
Machinery	**206**	390	87	**2**
Aerospace, Electronics & Multimedia	**22**	1,162	703	**0**
Chemicals, Forest Products & General Merchandise	**181**	581	192	**1**
Food	**514**	150	578	**4**
Finance, Realty, Insurance & Logistics Services	**6,145**	7,578	1,144	**52**
Other, Adjustments & Eliminations	**—**	2,736	1,248	**—**
Total	**¥7,493**	¥12,855	¥4,735	**$63**

8. Pledged Assets

The following assets were pledged as collateral at March 31, 2007 and 2006:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Cash and cash equivalents and time deposits	**¥ 273**	¥ 849	**$ 2**
Marketable securities	**105**	76	**1**
Trade receivables	**17,743**	11,962	**150**
Inventories	**4,524**	4,357	**39**
Investments and non-current receivables	**46,311**	54,064	**392**
Property and equipment, at cost, less accumulated depreciation	**44,000**	104,404	**373**
Total	**¥112,956**	¥175,712	**$957**

Collateral was pledged to secure the following obligations at March 31, 2007 and 2006:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Short-term debt	**¥15,524**	¥ 15,761	**$132**
Long-term debt	**44,678**	116,281	**378**
Guarantees of contracts and others	**15,243**	80,136	**129**
Total	**¥75,445**	¥212,178	**$639**

In addition, acceptances payable were secured by trust receipts on merchandise and the proceeds from the sale thereof. Because of the large volume of import transactions, the amount of such assets pledged is not determinable.

Both short-term and long-term loans are generally made pursuant to agreements which customarily provide that, upon the request of the lender, collateral or guarantors (or additional collateral or guarantors) will be furnished with respect to the loans under certain circumstances and that the lender may treat any collateral, whether furnished for specific loans or otherwise, as collateral for present and future indebtedness to such lender. Several of the bank loan agreements also provide that the lending bank has the right to offset cash deposited with it against any debt (including debt arising out of contingent obligations) to the bank that has become due at stated maturity or earlier.

9. Goodwill and Other Intangible Assets

Intangible assets subject to amortization at March 31, 2007 and 2006 comprised the following:

	Millions of Yen				Millions of U.S. Dollars	
	2007		2006		**2007**	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Trademarks	**¥23,683**	**¥(11,373)**	¥25,713	¥ (9,812)	**$201**	**$ (96)**
Software	**44,939**	**(26,632)**	37,734	(21,753)	**381**	**(226)**
Other	**20,590**	**(6,916)**	20,571	(6,399)	**174**	**(59)**
Total	**¥89,212**	**¥(44,921)**	¥84,018	¥(37,964)	**$756**	**$(381)**

Intangible assets subject to amortization that were acquired during the year ended March 31, 2007 totaled ¥14,954 million ($127 million), and consisted primarily of software of ¥11,415 million ($97 million). The weighted average amortization period for software that was acquired during the year ended March 31, 2007 was 5 years. They are generally amortized using the straight-line method for software.

The aggregate amortization expenses for intangible assets for the years ended March 31, 2007, 2006 and 2005 were ¥12,578 million ($107 million), ¥12,789 million and ¥10,789 million, respectively.

The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥12,510	$106
2009	9,181	78
2010	6,016	51
2011	4,203	36
2012	2,763	23

The carrying amount of intangible assets with indefinite useful lives which are therefore not subject to amortization comprised the following at March 31, 2007 and 2006:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Trademarks	**¥20,644**	¥21,613	**$175**
Unlimited land lease	**1,000**	972	**8**
Other	**2,154**	1,848	**18**
Total	**¥23,798**	¥24,433	**$201**

Intangible assets with indefinite useful lives which are not subject to amortization were acquired during the year ended March 31, 2007, and mainly consisted of trademarks of ¥415 million ($4 million).

An impairment loss of intangible assets with indefinite useful lives amounting to ¥475 million ($4 million) was recognized during the year ended March 31, 2007.

The changes in the carrying amounts of goodwill by operating segment during the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other	Total
Balance at March 31, 2005	¥ —	¥4,058	¥27,605	¥ —	¥ 6,360	¥ —	¥ 140	¥3,374	¥41,537
Acquired	218	1,707	262	—	1,279	—	91	339	3,896
Impairment losses	—	—	—	—	(119)	—	—	(260)	(379)
Other changes (Note)	18	597	(2)	—	940	—	25	457	2,035
Balance at March 31, 2006	236	6,362	27,865	—	8,460	—	256	3,910	47,089
Acquired	**—**	**129**	**6,903**	**1,042**	**2,355**	**20,434**	**1,577**	**111**	**32,551**
Impairment losses	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(190)**	**(190)**
Other changes (Note)	**(236)**	**268**	**(4)**	**22**	**469**	**—**	**2**	**(85)**	**436**
Balance at March 31, 2007	**¥ —**	**¥6,759**	**¥34,764**	**¥1,064**	**¥11,284**	**¥20,434**	**¥1,835**	**¥3,746**	**¥79,886**

Note: "Other changes" primarily consists of translation adjustments and reclassification from (to) other accounts.

	Millions of U.S. Dollars								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other	Total
Balance at March 31, 2006	$ 2	$54	$236	$—	$72	$ —	$ 2	$33	$399
Acquired	**—**	**1**	**58**	**9**	**20**	**173**	**14**	**1**	**276**
Impairment losses	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2)**	**(2)**
Other changes (Note)	**(2)**	**2**	**(0)**	**0**	**4**	**—**	**0**	**(0)**	**4**
Balance at March 31, 2007	**$—**	**$57**	**$294**	**$ 9**	**$96**	**$173**	**$16**	**$32**	**$677**

Note: "Other changes" primarily consists of translation adjustments and reclassification from (to) other accounts.

As a result of testing for impairment of goodwill, impairment losses amounting to ¥190 million ($2 million), ¥379 million and ¥549 million, respectively, were recognized during the years ended March 31, 2007, 2006 and 2005.

10. Short-term and Long-term Debt

"Short-term debt" at March 31, 2007 and 2006 was as follows:

	2007		2006		2007
	Millions of Yen	Interest Rate	Millions of Yen	Interest Rate	Millions of U.S. Dollars
Short-term loans, mainly from banks	**¥373,723**	**3.4%**	¥382,434	2.3%	**$3,166**

Note: The interest rates represent weighted average rates on outstanding balances at March 31, 2007 and 2006.

"Long-term debt" at March 31, 2007 and 2006 is summarized below:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Banks and financial institutions:			
Secured:			
Japan Bank for International Cooperation, due 2006-2013, interest mainly 1.7%-5.5%	**¥ 5,303**	¥ 54,805	**$ 45**
Other, due 2006-2021, interest mainly 0.6%-8.3%	**39,375**	61,476	**333**
Unsecured:			
Due 2006-2020, interest mainly 0.6%-8.0%	**1,553,434**	1,536,590	**13,160**
Debentures:			
Unsecured bonds and notes:			
Issued in 1997, 2.45% Yen Bonds due 2009	**10,000**	10,000	**85**
Issued in 1998, 3.10% Yen Bonds due 2008	**30,000**	30,000	**253**
Issued in 1998, 3.00% Yen Bonds due 2008	**10,000**	10,000	**85**
Issued in 1999, 3.19% Yen Bonds due 2009	**10,000**	10,000	**85**
Issued in 2001, 1.02% Yen Bonds due 2006	**—**	10,000	**—**
Issued in 2003, 0.79% Yen Bonds due 2008	**15,000**	15,000	**126**
Issued in 2003, 0.41% Yen Bonds due 2006	**—**	10,000	**—**
Issued in 2003, 0.87% Yen Bonds due 2010	**10,000**	10,000	**85**
Issued in 2003, 0.47% Yen Bonds due 2007	**10,000**	10,000	**85**
Issued in 2003, 0.64% Yen Bonds due 2006	**—**	15,000	**—**
Issued in 2003, 1.14% Yen Bonds due 2008	**10,000**	10,000	**85**
Issued in 2004, 1.04% Yen Bonds due 2009	**10,000**	10,000	**85**
Issued in 2004, 0.54% Yen Bonds due 2007	**10,000**	10,000	**85**
Issued in 2004, 1.30% / 2.55% Yen Bonds due 2014 (note 1)	**10,000**	10,000	**85**
Issued in 2005, 1.46% Yen Bonds due 2012	**10,000**	10,000	**85**
Issued in 2006, 2.17% Yen Bonds due 2016	**15,000**	—	**126**
Issued in 2006, 2.09% Yen Bonds due 2016	**10,000**	—	**85**
Issued in 2007, 2.11% Yen Bonds due 2017	**10,000**	—	**85**
Issued in and after 1999, Medium-Term Notes, etc., maturing through 2009	**17,055**	20,678	**144**
Others	**147,744**	91,166	**1,252**
Total	**1,942,911**	1,944,715	**16,459**
SFAS 133 fair value adjustment (note 2)	**(3,261)**	(9,515)	**(28)**
Total	**1,939,650**	1,935,200	**16,431**
Less current maturities	**(144,317)**	(173,097)	**(1,223)**
Long-term debt, less current maturities	**¥1,795,333**	¥1,762,103	**$15,208**

Note: 1. The bond, one-time callable, bears interest at the rate of 1.30% until November 25, 2009 then 2.55% from November 25, 2009 until the maturity date. The Company has a right to redeem the full amount of the outstanding balance on November 25, 2009.
2. SFAS 133 fair value adjustment: The amount of adjustment to record the fair value as of the balance sheet date for long-term debt which is hedged with derivatives, in accordance with SFAS 133.

Certain agreements with the Japan Bank for International Cooperation ("JBIC") require the following:

(1) The Company applies all or a portion of its operating income or the proceeds from the sale of any debentures or common stock to the reduction of outstanding loans when JBIC believes that the Company is able to reduce such loans through increased earnings.

(2) JBIC may request that any proposed distribution of earnings be submitted to the JBIC for review before presentation to the stockholders.

The Company has never received such a request and does not expect that any such request will be made.

The Company and certain subsidiaries have entered into interest rate swap agreements for certain long-term debt as a means of managing their interest rate exposure.

Reference is made to note 8 "Pledged Assets" for a description of collateral and certain customary provisions of long-term and short-term bank loan agreements relating to collateral and other rights of such lenders.

The aggregate annual maturities of long-term debt after March 31, 2007 are as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥ 144,317	$ 1,223
2009	365,279	3,095
2010	301,941	2,557
2011	194,766	1,650
2012	161,856	1,371
2013 and thereafter	774,752	6,563
Total	¥1,942,911	$16,459

The Company has borrowing arrangements with many financial institutions and has entered into commitment line agreements with certain banks for working capital needs and stable funding. The amounts of the Japanese Yen facility available under such agreements aggregated ¥400,000 million ($3,388 million), consisting of ¥100,000 million ($847 million) for short-term debt and ¥300,000 million ($2,541 million) for long-term debt, at March 31, 2007 and ¥510,000 million, consisting of ¥250,000 million for short-term debt and ¥260,000 million for long-term debt, at March 31, 2006, respectively. The amount of the U.S. dollar facility of $500 million was held for short-term debt at March 31, 2007. The Company intends that the long-term commitment line agreements be used solely in support of refinancing the current maturities of long-term debt. Since the agreements demonstrate the Company's ability to refinance and the Company has expressed an intention to do so, the Company has classified ¥144,370 million ($1,223 million) and ¥260,000 million of the current maturities of long-term debt from current liabilities into non-current liabilities at March 31, 2007 and March 31, 2006, respectively. The classified ¥144,370 million ($1,223 million) is included in "2013 and thereafter." The Company has consistently refinanced the current maturities of long-term debt classified into non-current liabilities for more than five years. The short-term commitment agreements were unused at March 31, 2007 and 2006 respectively.

The Company had a loan agreement with a commitment line of ¥45,000 million ($381 million), of which ¥36,000 million ($305 million) was used and ¥9,000 million ($76 million) was unused, at March 31, 2007 and the Company had a loan agreement with a commitment line of ¥12,000 million, of which ¥6,000 was used and ¥6,000 was unused, at March 31, 2006.

11. Asset Retirement Obligations

The Company and its subsidiaries account for asset retirement obligations, consisting of the costs related to dismantlement of facilities and mine reclamation, based on SFAS 143, "Accounting for Conditional Asset Retirement Obligations", and FIN 47, "Accounting for Asset Retirement Obligations—an interpretation of FASB Statement No. 143". The asset retirement obligations are principally related to the costs of dismantlement of coal mining, iron-ore mining and crude oil drilling facilities. These liabilities are included in "Long-term debt, excluding current maturities" on the consolidated balance sheets.

The changes in asset retirement obligations for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Balance at beginning of year	**¥10,541**	¥ 8,227	**$ 89**
Liabilities incurred	**1,511**	1,822	**13**
Liabilities settled	**(664)**	(291)	**(6)**
Accretion expense	**1,080**	635	**9**
Revisions to cost estimate	**2,261**	(246)	**19**
Other	**1,493**	394	**13**
Balance at end of year	**¥16,222**	¥10,541	**$137**

Note: "Other" includes foreign currency translation adjustments.

12. Leases

Lessor

The Company and certain subsidiaries lease automobiles, furniture and equipment for medical institutions and certain other assets, which are classified as direct financing leases under SFAS 13, "Accounting for Leases."

The components of the net investment in direct financing leases as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Total minimum lease payments to be received	**¥10,977**	¥14,600	**$ 93**
Less unearned income	**(1,639)**	(1,990)	**(14)**
Estimated unguaranteed residual value	**284**	1,760	**2**
Less allowance for doubtful receivables.	**(497)**	(1,706)	**(4)**
Net investment in direct financing leases	**¥ 9,125**	¥12,664	**$ 77**

The schedule of future minimum lease payments to be received from direct financing leases for each of the five succeeding years and thereafter as of March 31, 2007 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥ 3,830	$33
2009	2,723	23
2010	2,047	17
2011	1,298	11
2012	755	6
2013 and thereafter	324	3
Total	¥10,977	$93

The Company and certain subsidiaries lease aircraft, real estate, industrial machinery and certain other assets under operating leases. The cost and accumulated depreciation of the property held for lease as of March 31, 2007 were ¥99,264 million ($841 million) and ¥25,409 million ($215 million), respectively. The schedule of minimum future rentals on noncancelable operating leases for each of the five succeeding years and thereafter as of March 31, 2007 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥ 8,199	$ 70
2009	4,058	34
2010	3,021	26
2011	2,827	24
2012	2,414	20
2013 and thereafter	6,477	55
Total	¥26,996	$229

Lessee

The Company and certain subsidiaries lease buildings, industrial machinery and other machinery and equipment under agreements, which are classified as capital leases. The cost and accumulated depreciation of such leased assets were ¥43,562 million ($369 million) and ¥18,165 million ($154 million), respectively, as of March 31, 2007 and ¥42,717 million and ¥17,476 million, respectively, as of March 31, 2006. The components of the capital lease obligations as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Total minimum lease payments	**¥35,431**	¥37,919	**$300**
Less amount representing interest	**(4,637)**	(4,879)	**(39)**
Capital lease obligations	**¥30,794**	¥33,040	**$261**

The schedule of future minimum lease payments for each of the five succeeding years and thereafter as of March 31, 2007 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥ 6,984	$ 59
2009	8,338	71
2010	3,858	33
2011	2,893	24
2012	2,298	19
2013 and thereafter	11,060	94
Total	¥35,431	$300

The total of minimum sublease rentals to be received in the future under noncancelable subleases, which correspond to future minimum lease payments under capital leases, is ¥4,665 million ($40 million).

The Company and certain subsidiaries lease aircraft, real estate and certain other assets under agreements which are classified as operating leases. The schedule of future minimum lease payments under noncancelable operating leases for each of the five succeeding years and thereafter as of March 31, 2007 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥ 20,544	$174
2009	16,446	139
2010	14,190	120
2011	10,194	87
2012	9,123	77
2013 and thereafter	31,212	265
Total	¥101,709	$862

The total of minimum sublease rentals to be received in the future under noncancelable subleases, which correspond to future minimum lease payments under noncancelable operating leases, is ¥8,823 million ($75 million).

13. Retirement and Severance Benefits

The Company and certain subsidiaries have defined benefit pension plans (e.g., the Corporate Pension Fund ("CPF") and the Tax-Qualified Pension Plan) covering substantially all of their employees. Benefits under these pension plans are based on years of service and certain other factors, and plan assets are comprised primarily of marketable securities, debt securities and other interest-bearing securities. In addition, the Company and certain subsidiaries have both unfunded retirement and severance plans, which provide lump-sum payment benefits to their employees and defined contribution plans.

Certain subsidiaries and associated companies participate in a multiemployer plan (ITOCHU Union Pension Fund). During the year ended March 31, 2007, the Company withdrew a portion of the excess plan assets because the fair value of the plan assets constantly exceeded the projected benefit obligation. The fair value of the marketable securities and cash that the Company withdrew were ¥27,742 million ($235 million) and ¥12,258 million ($104 million), respectively, for the year ended March 31, 2007.

The Company and its subsidiaries use a measurement date of March 31 for the majority of their plans.

On March 31, 2007, the Company and its subsidiaries adopted the recognition and related disclosure provisions of SFAS 158 , "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No.87, 88, 106 and 132 (R)." SFAS 158 required the Company and its subsidiaries to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans on their consolidated balance sheet as of the end of the fiscal year. The actuarial loss and prior service cost are included in accumulated other comprehensive income (loss), net of tax.

The incremental effects of applying the recognition provisions of SFAS 158 on the accompanying consolidated balance sheet at March 31, 2007 are presented in the following table.

The effect of recognizing the additional minimum liability as of March 31, 2007, is included in the table below in the column labeled "Before application of SFAS 158."

The application of SFAS 158 had no effect on the consolidated statements of operations for the years ended March 31, 2005, 2006 and 2007.

	Millions of Yen		
	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Investments in and advances to associated companies	¥ 608,927	¥ (806)	¥ 608,121
Prepaid pension cost	151,801	(65,621)	86,180
Deferred tax assets, non-current	5,989	25,623	31,612
Accrued retirement and severance benefits	(24,898)	3,150	(21,748)
Minority interests	(142,232)	(823)	(143,055)
Accumulated other comprehensive income (loss)	2,858	38,477	41,335

	Millions of U.S. Dollars		
	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Investments in and advances to associated companies	$ 5,158	$ (7)	$ 5,151
Prepaid pension cost	1,286	(556)	730
Deferred tax assets, non-current	51	217	268
Accrued retirement and severance benefits	(211)	27	(184)
Minority interests	(1,205)	(7)	(1,212)
Accumulated other comprehensive income (loss)	24	326	350

The changes in the benefit obligations and fair value of the plan assets and the funded status of the plans were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Change in projected benefit obligations:			
Projected benefit obligations at beginning of year	¥287,105	¥271,675	$2,431
Service cost	9,171	7,170	78
Interest cost	5,677	6,447	48
Plan participants' contributions	636	639	5
Net actuarial gain	3,685	11,360	31
Benefits paid from plan asset	(12,866)	(10,866)	(109)
Benefits paid by employer	(5,328)	—	(45)
Foreign currency translation adjustments	1,812	475	15
Acquisition	10,467	205	89
Settlement and curtailment	(996)	—	(8)
Other	(50)	—	(0)
Projected benefit obligations at end of year	299,313	287,105	2,535
Change in plan assets:			
Fair value of plan assets at beginning of year	398,534	329,254	3,377
Actual return on plan assets	3,949	63,504	33
Employer contributions	4,948	14,968	42
Partial withdrawal of plan assets	(40,000)	—	(339)
Plan participants' contributions	636	639	5
Benefits paid from plan assets	(12,866)	(10,866)	(109)
Translation adjustments	1,461	290	12
Acquisition	7,083	745	60
Fair value of plan assets at end of year	363,745	398,534	3,081
Funded status at end of year	¥ 64,432	¥111,429	$ 546

Amounts recognized in accumulated comprehensive income (loss) at March 31, 2007 consisted of:

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Net actuarial loss	¥105,985	$ 898
Prior service cost	(39,518)	(335)
	¥ 66,467	$ 563

The estimated amounts of net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic pension cost for the next fiscal year are approximately ¥6,000 million ($51 million) (loss) and ¥5,000 million ($42 million) (gain), respectively.

Funded status at March 31, 2007 and 2006, reconciled to the net amount recognized in the consolidated balance sheets at that date, was summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Funded status	¥64,432	¥111,429	$546
Unrecognized net actuarial loss	—	98,614	—
Unrecognized prior service cost	—	(40,176)	—
Net amount recognized	¥64,432	¥169,867	$546

Amounts recognized in the consolidated balance sheets at March 31, 2007 and 2006 consisted of:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Prepaid pension cost	**¥ 86,180**	¥186,105	**$730**
Accrued retirement and severance benefits	**(21,748)**	(19,081)	**(184)**
Accumulated other comprehensive income (loss), before income tax effect	**—**	2,843	**—**
Net amount recognized	**¥ 64,432**	¥169,867	**$546**

The accumulated benefit obligations for all defined benefit plans at end of years were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Accumulated benefit obligation	**¥298,336**	¥286,133	**$2,527**

Assumptions of projected benefit obligations and net periodic pension costs as of March 31, 2007 and 2006 were as follows:

	2007	2006
Weighted-average assumptions used to determine benefit obligations at the end of year:		
Discount rate	**2.1%**	2.2%
Rate of compensation increase	**1.1—7.5%**	1.9—6.0%
Weighted-average assumptions used to determine net periodic pension cost for the year:		
Discount rate	**2.2%**	2.4%
Expected long-term rate of return on plan assets	**2.2%**	2.4%
Rate of compensation increase	**1.9—6.0%**	1.0—6.0%

The prior service cost is amortized by the straight-line method over the average remaining service period of employees expected to receive related benefits. The net actuarial loss is amortized by the straight-line method over the average remaining service periods.

The fair value of equity securities of subsidiaries and associated companies included in plan assets was ¥12,069 million ($102 million) and ¥15,623 million at March 31, 2007 and 2006, respectively.

The net periodic pension costs for retirement and severance benefits for the years ended March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Service cost	**¥ 9,171**	¥ 7,170	¥ 6,965	**$ 78**
Interest cost	**5,677**	6,447	5,934	**48**
Expected return on plan assets	**(9,036)**	(8,184)	(7,011)	**(77)**
Amortization of unrecognized prior service cost	**(5,333)**	(4,895)	(4,897)	**(45)**
Amortization of unrecognized net actuarial loss	**5,539**	8,715	7,219	**47**
Settlement curtailment loss (gain)	**(739)**	—	1,138	**(6)**
Net periodic pension cost	**¥ 5,279**	¥ 9,253	¥ 9,348	**$ 45**

Total expenses related to pension plans for the years ended March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Net periodic pension cost for defined benefit pension plans	**¥5,279**	¥ 9,253	¥ 9,348	**$45**
The amount of cost recognized for defined contribution pension plans	**885**	1,075	1,053	**7**
Total expenses for pension plans	**¥6,164**	¥10,328	¥10,401	**$52**

The amount of contribution to the multi-employer plan (ITOCHU Union Pension Fund) was ¥3,188 million ($27 million) and ¥3,518 million for the years ended March 31, 2007 and 2006, respectively.

Plan assets of the Company and certain subsidiaries by asset category as of March 31, 2007 and 2006 and target allocation percentages were as follows:

	2007	2006	Target Allocation
Asset category:			
Equity securities	**48.5%**	52.8%	47.5%
Debt securities	**30.7**	25.6	36.7
Cash	**7.7**	12.9	8.5
Other	**13.1**	8.7	7.3
Total	**100.0%**	100.0%	100.0%

Note: "Other" mainly included life insurance company general accounts.

In setting its portfolio investment policy for plan assets, the Company, on a long-term basis, focuses on securing investment returns that are sufficient to provide for the future benefit payments for employees in the context of a tolerable level of risk control. In order to achieve the objectives of the investment policy, the Company establishes the most appropriate portfolio considering the past return results as well as the estimated returns on invested assets and manages the portfolio by considering the operations.

In addition, the Company determines its expected long-term rate of return considering the above investment policy, the expectations of future returns and historical returns on plan assets.

Cash Flow of the Company and Certain Subsidiaries:
The Company and certain subsidiaries expect to contribute about ¥2,582 million ($22 million) to defined benefit pension plans in the year ending March 31, 2008.

The following benefit payments, which reflect expected future service, are expected to be paid:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	11,268	95
2009	12,469	106
2010	13,010	110
2011	13,296	113
2012	13,862	117
2013-2017	66,952	567

14. Foreign Exchange Gains and Losses

Net foreign exchange gains of ¥2,153 million ($18 million), ¥2,774 million and ¥5,372 million for the years ended March 31, 2007, 2006 and 2005, respectively, were included in "Other–net" in the consolidated statements of operations.

15. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate result in a normal income tax rate of approximately 41%.

Foreign subsidiaries are subject to income taxes of the countries where they operate.

Effective for the year ended March 31, 2003, the Company adopted a consolidated taxation system.

A reconciliation between the normal income tax rate and the effective income tax rate for the years ended March 31, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
Normal income tax rate	**41.0%**	41.0%	41.0%
Expenses not deductible for tax purposes	**0.9**	1.0	1.3
Difference of tax rates for foreign subsidiaries	**(2.4)**	(2.5)	(2.3)
Tax effect on dividends	**(1.2)**	2.3	4.9
Valuation allowance	**(3.4)**	1.1	8.5
Tax effect on investments in equity-method associated companies	**(6.5)**	3.8	(0.8)
Other	**1.2**	2.6	(0.5)
Effective income tax rate	**29.6%**	49.3%	52.1%

Amounts provided for income taxes for the years ended March 31, 2007, 2006 and 2005 were allocated as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Income taxes	**¥ 88,926**	¥106,923	¥62,543	**$ 753**
Cumulative effect of an accounting change	**—**	(1,474)	—	**—**
Other comprehensive (income) loss	**17,571**	30,770	(1,874)	**149**
Adjustment to initially apply SFAS No. 158	**(25,623)**	—	—	**(217)**
Total income tax (benefit) expense	**¥ 80,874**	¥136,219	¥60,669	**$ 685**

Significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Deferred tax assets:			
Inventories, property and equipment	**¥ 109,301**	¥ 129,270	**$ 926**
Allowance for doubtful receivables	**12,464**	26,004	**106**
Net operating loss carryforwards	**9,879**	16,802	**84**
Accrued retirement and severance benefits	**23,654**	9,318	**200**
Marketable securities and investments	**93,766**	60,293	**794**
Other	**37,192**	31,104	**315**
Total deferred tax assets	**286,256**	272,791	**2,425**
Less valuation allowance	**(56,305)**	(56,640)	**(477)**
Deferred tax assets–net	**229,951**	216,151	**1,948**
Deferred tax liabilities:			
Installment sales	**(381)**	(396)	**(3)**
Accrued retirement and severance benefits	**(46,423)**	(53,261)	**(393)**
Marketable securities and investments	**(86,130)**	(67,385)	**(730)**
Other	**(55,204)**	(42,654)	**(468)**
Total deferred tax liabilities	**(188,138)**	(163,696)	**(1,594)**
Net deferred tax assets	**¥ 41,813**	¥ 52,455	**$ 354**

Net changes in the valuation allowance for the years ended March 31, 2007, 2006 and 2005 were a decrease of ¥335 million ($3 million), an increase of ¥1,801 million and an increase of ¥8,114 million, respectively.

The amount of undistributed earnings of foreign subsidiaries for which no deferred tax liability has been provided aggregated ¥191,279 million ($1,620 million) and ¥129,710 million at March 31, 2007 and 2006, respectively. Most of the undistributed earnings of domestic subsidiaries are not considered to be a taxable temporary difference under present Japanese tax laws. It is not practicable to determine the deferred tax liability for undistributed earnings of foreign subsidiaries.

Net operating loss carryforwards are available to reduce future income taxes. If not utilized, such operating loss carryforwards expire as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
Within 1 year	¥ 249	$ 2
Within 2 years	1,075	9
Within 3 years	1,977	17
Within 4 years	1,621	14
Within 5 years	1,311	11
After 5 to 10 years	6,127	52
After 10 to 15 years	1,147	10
After 15 years	19,874	168
Total	¥33,381	$283

"Income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change" for the years ended March 31, 2007, 2006 and 2005 comprised the following:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
The Company and its domestic subsidiaries	**¥189,698**	¥139,774	¥ 72,407	**$1,607**
Foreign subsidiaries	**110,532**	77,095	47,551	**936**
Total	**¥300,230**	¥216,869	¥119,958	**$2,543**

"Income taxes" for the years ended March 31, 2007, 2006 and 2005 comprised the following:

	Millions of Yen									Millions of U.S. Dollars		
	2007			2006			2005			**2007**		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
The Company and its domestic subsidiaries	**¥47,901**	**¥ 9,756**	**¥57,657**	¥40,725	¥41,111	¥ 81,836	¥28,272	¥18,031	¥46,303	**$406**	**$82**	**$488**
Foreign subsidiaries	**32,360**	**(1,091)**	**31,269**	24,507	580	25,087	18,715	(2,475)	16,240	**274**	**(9)**	**265**
Total	**¥80,261**	**¥ 8,665**	**¥88,926**	¥65,232	¥41,691	¥106,923	¥46,987	¥15,556	¥62,543	**$680**	**$73**	**$753**

16. Net Income Per Share

The reconciliation of the numerators and denominators of the basic net income per share computations for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Numerator:				
Income before cumulative effect of an accounting change	**¥177,059**	¥148,585	¥77,792	**$1,500**
Cumulative effect of an accounting change, less applicable income taxes	**—**	(3,439)	—	**—**
Net income	**¥177,059**	¥145,146	¥77,792	**$1,500**

	Number of Shares		
	2007	2006	2005
Denominator:			
Weighted-average number of common shares outstanding	**1,581,543,157**	1,582,159,754	1,582,392,847

	Yen			U.S. Dollars
	2007	2006	2005	**2007**
Income per common share before cumulative effect of an accounting change	**¥111.95**	¥93.91	¥49.16	**$0.95**
Cumulative effect of an accounting change per common share, less applicable income taxes	**—**	(2.17)	—	**—**
Net income per common share	**¥111.95**	¥91.74	¥49.16	**$0.95**

Diluted net income per share for the years ended March 31, 2006 and 2005 was not presented, since the Company had simple capital structures and there were no potentially dilutive common shares, such as convertible bonds outstanding, that could increase the number of shares outstanding. Diluted net income per share for the year ended March 31, 2007 was not presented, since convertible preference stocks issued by associated companies had an antidilutive effect.

17. Segment Information

The Company and its subsidiaries are engaged in a wide range of business activities, such as worldwide trading operations in various commodities, financing for customers and suppliers, organizing and coordinating industrial projects and investing in natural resource development, advanced technology, information and multimedia.

The Company and its subsidiaries have introduced a division company system and information on operating segments is prepared and presented according to this system. This system is regularly used for decisions in operations, including resource allocations, and evaluations by the management.

The operating segments of the Company and its subsidiaries are as follows:

Textile

The Textile segment is engaged in all stages from rough material, thread and textile to the final products for garments, home furnishing and industrial materials. This segment performs production and sales on a worldwide scale. In addition, the segment promotes brand businesses, development of industrial fibers and retail operations.

Machinery

The Machinery segment is engaged in diverse business activities ranging from projects in plants, bridges, railways and other infrastructures to automobiles, ships, industrial machinery and other items.

Aerospace, Electronics & Multimedia

The Aerospace, Electronics & Multimedia segment is engaged in business activities involving IT-related systems/provider business, internet service business, high-tech venture investment, mobile phone sales/contents distribution, video distribution/service business (broadcast-related, etc.) and aircraft and related equipment.

Energy, Metals & Minerals

The Energy, Metals & Minerals segment is engaged in metal and mineral resource development, processing of steel products, environmental business including trading in greenhouse gas emissions, and trading in iron ore, coal, pig iron and ferrous raw materials, non-ferrous and light metal and steel products in Japan and overseas. Also the segment is engaged in energy resource development and trading in crude oil, oil products, gas and nuclear fuels both domestically and abroad.

Chemicals, Forest Products & General Merchandise

The Chemicals, Forest Products & General Merchandise segment is engaged in business activities involving various consumer products such as lumber, pulp, paper, rubber, glass and cement, and in basic chemicals, fine chemicals, plastics and inorganic chemicals.

Food

The Food segment pursues efficient-oriented operations from production and distribution to retail in all areas of food from raw materials to finished products both domestically and abroad.

Finance, Realty, Insurance & Logistics Services

The Finance, Realty, Insurance & Logistics Services segment is engaged in structuring and sales of financial products, agency and consulting services of insurance and reinsurance. In addition, this segment is engaged in warehousing, trucking, international intermodal transport and developments and operations of real estate.

Management evaluates segment performance based on several factors such as net income (loss) determined in accordance with U.S. GAAP.

In addition, management utilizes internally developed management control methods for the purpose of internal operating decisions.

Intersegment transactions are priced with reference to prices applicable to transactions with unaffiliated parties.

There have been no trading transactions with a single major external customer (10% or more of total) for the years ended March 31, 2007, 2006 and 2005.

Information concerning operations in different operating segments for the years ended March 31, 2007, 2006 and 2005 is as follows:

	Millions of Yen								
	2007								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies	¥806,535	¥1,588,786	¥696,708	¥3,019,987	¥2,157,198	¥2,828,861	¥221,720	¥259,264	¥11,579,059
Transfers between operating segments	609	602	3,388	613	7,900	404	1,682	(15,198)	—
Total trading transactions	¥807,144	¥1,589,388	¥700,096	¥3,020,600	¥2,165,098	¥2,829,265	¥223,402	¥244,066	¥11,579,059
Gross trading profit	¥124,640	¥ 90,466	¥133,513	¥ 102,114	¥ 126,187	¥ 264,617	¥ 43,285	¥ 23,854	¥ 908,676
Equity in earnings (losses) of associated companies	¥ 1,513	¥ 5,826	¥ (1,468)	¥ 27,077	¥ 2,302	¥ 10,213	¥ (66,037)	¥ 505	¥ (20,069)
Net income (loss)	¥ 17,105	¥ 21,132	¥ 11,203	¥ 80,705	¥ 24,772	¥ 18,089	¥ (28,302)	¥ 32,355	¥ 177,059
Identifiable assets at March 31	¥401,792	¥ 635,761	¥551,210	¥ 781,432	¥ 716,775	¥1,070,743	¥524,851	¥588,948	¥ 5,271,512
Depreciation and amortization	¥ 4,551	¥ 4,682	¥ 6,842	¥ 19,433	¥ 4,884	¥ 8,019	¥ 1,638	¥ 6,334	¥ 56,383

	Millions of Yen								
	2006								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies	¥824,254	¥1,439,528	¥699,501	¥2,876,186	¥1,967,277	¥2,150,029	¥232,844	¥284,266	¥10,473,885
Transfers between operating segments	982	8,536	3,669	1,052	6,711	341	2,775	(24,066)	—
Total trading transactions	¥825,236	¥1,448,064	¥703,170	¥2,877,238	¥1,973,988	¥2,150,370	¥235,619	¥260,200	¥10,473,885
Gross trading profit	¥122,867	¥ 69,545	¥116,445	¥ 73,866	¥ 111,109	¥ 142,562	¥ 45,957	¥ 32,023	¥ 714,374
Equity in earnings (losses) of associated companies	¥ (474)	¥ 6,434	¥ 1,796	¥ 24,028	¥ 2,756	¥ 9,308	¥ 8,038	¥ (149)	¥ 51,737
Net income (loss)	¥ 14,996	¥ 13,676	¥ 17,208	¥ 57,958	¥ 18,625	¥ 19,419	¥ 9,875	¥ (6,611)	¥ 145,146
Identifiable assets at March 31	¥395,416	¥ 489,018	¥524,715	¥ 644,383	¥ 634,297	¥ 778,787	¥600,851	¥729,546	¥ 4,797,013
Depreciation and amortization	¥ 4,002	¥ 3,064	¥ 10,132	¥ 5,448	¥ 4,147	¥ 5,742	¥ 2,163	¥ 9,364	¥ 44,062

	Millions of Yen								
	2005								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies	¥829,093	¥1,166,654	¥630,854	¥2,471,488	¥1,893,215	¥2,111,932	¥243,092	¥229,711	¥9,576,039
Transfers between operating segments	780	110	3,637	913	6,344	276	7,550	(19,610)	—
Total trading transactions	¥829,873	¥1,166,764	¥634,491	¥2,472,401	¥1,899,559	¥2,112,208	¥250,642	¥210,101	¥9,576,039
Gross trading profit	¥112,843	¥ 57,973	¥108,410	¥ 39,079	¥ 105,939	¥ 136,161	¥ 39,329	¥ 31,027	¥ 630,761
Equity in earnings (losses) of associated companies	¥ 310	¥ 4,482	¥ 1,872	¥ 11,975	¥ 1,188	¥ 10,018	¥ 2,452	¥ (533)	¥ 31,764
Net income (loss)	¥ 14,810	¥ 10,480	¥ 14,362	¥ 25,672	¥ 20,253	¥ (9,278)	¥ 5,360	¥ (3,867)	¥ 77,792
Identifiable assets at March 31	¥377,230	¥ 451,442	¥489,415	¥ 491,012	¥ 583,720	¥ 727,959	¥615,304	¥736,263	¥4,472,345
Depreciation and amortization	¥ 4,002	¥ 1,835	¥ 9,998	¥ 3,297	¥ 5,266	¥ 5,710	¥ 2,182	¥ 7,796	¥ 40,086

	Millions of U.S. Dollars								
	2007								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies	$6,832	$13,459	$5,902	$25,582	$18,274	$23,963	$1,878	$2,196	$98,086
Transfers between operating segments	5	5	29	5	67	4	14	(129)	—
Total trading transactions	$6,837	$13,464	$5,931	$25,587	$18,341	$23,967	$1,892	$2,067	$98,086
Gross trading profit	$1,056	$ 766	$1,131	$ 865	$ 1,069	$ 2,241	$ 367	$ 202	$ 7,697
Equity in earnings (losses) of associated companies	$ 13	$ 49	$ (13)	$ 229	$ 20	$ 87	$ (559)	$ 4	$ (170)
Net income (loss)	$ 145	$ 179	$ 95	$ 684	$ 210	$ 153	$ (240)	$ 274	$ 1,500
Identifiable assets at March 31	$3,404	$ 5,386	$4,669	$ 6,619	$ 6,072	$ 9,070	$4,446	$4,989	$44,655
Depreciation and amortization	$ 38	$ 40	$ 58	$ 165	$ 41	$ 68	$ 14	$ 54	$ 478

Note: 1. "Other, Adjustments & Eliminations" includes trading transactions, gross trading profit, equity in earnings (losses) of associated companies, net income (loss), identifiable assets not allocated to the specified operating segments in domestic and foreign areas, eliminations and adjustments, etc.

2. Net income (loss) in "Energy, Metals & Minerals" for the year ended March 31, 2006 includes (¥3,439) million (($29) million) on net-of-tax basis of the cumulative effect of an accounting change resulting from early adoption of EITF 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry."

Geographic Information

Information concerning operations in different countries for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of Yen				
	2007				
	Japan	United States	Australia	Other	Consolidated
Revenue	**¥1,590,900**	**¥575,654**	**¥116,723**	**¥363,925**	**¥2,647,202**

	Millions of Yen				
	2007				
	Japan	Australia	United States	Other	Consolidated
Long-lived assets	**¥323,811**	**¥97,477**	**¥31,726**	**¥77,031**	**¥530,045**

	Millions of Yen				
	2006				
	Japan	United States	Australia	Other	Consolidated
Revenue	¥1,324,577	¥503,046	¥109,104	¥281,494	¥2,218,221

	Millions of Yen				
	2006				
	Japan	Australia	United Kingdom	Other	Consolidated
Long-lived assets	¥301,182	¥68,603	¥30,297	¥87,706	¥487,788

	Millions of Yen				
	2005				
	Japan	United States	Australia	Other	Consolidated
Revenue	¥1,261,753	¥423,647	¥79,162	¥226,676	¥1,991,238

	Millions of U.S. Dollars				
	2007				
	Japan	United States	Australia	Other	Consolidated
Revenue	**$13,476**	**$4,876**	**$989**	**$3,083**	**$22,424**

Note: "Revenue" is classified on the basis of the countries in which the Company and its subsidiaries are located.

	Millions of U.S. Dollars				
	2007				
	Japan	Australia	United States	Other	Consolidated
Long-lived assets	**$2,743**	**$826**	**$269**	**$652**	**$4,490**

Geographical Segment Information

Information concerning operations in different geographical areas in accordance with Japanese reporting practices for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of Yen						
	2007						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers and associated companies	¥8,652,212	¥566,176	¥276,471	¥1,789,119	¥295,081	¥ —	¥11,579,059
Transfers between geographical areas	1,146,502	212,876	46,774	1,905,402	501,612	(3,813,166)	—
Total trading transactions	¥9,798,714	¥779,052	¥323,245	¥3,694,521	¥796,693	¥(3,813,166)	¥11,579,059
Identifiable assets at March 31	¥4,368,120	¥339,125	¥181,143	¥ 315,603	¥400,944	¥ (333,423)	¥ 5,271,512

	Millions of Yen						
	2006						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers and associated companies	¥7,202,722	¥622,584	¥231,914	¥2,140,641	¥276,024	¥ —	¥10,473,885
Transfers between geographical areas	1,717,656	203,274	39,093	1,794,866	513,417	(4,268,306)	—
Total trading transactions	¥8,920,378	¥825,858	¥271,007	¥3,935,507	¥789,441	¥(4,268,306)	¥10,473,885
Identifiable assets at March 31	¥3,998,905	¥318,010	¥163,904	¥ 318,962	¥325,150	¥ (327,918)	¥ 4,797,013

	Millions of Yen						
	2005						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers and associated companies	¥7,143,536	¥476,596	¥187,602	¥1,553,869	¥214,436	¥ —	¥9,576,039
Transfers between geographical areas	1,481,634	193,128	40,643	1,596,815	303,341	(3,615,561)	—
Total trading transactions	¥8,625,170	¥669,724	¥228,245	¥3,150,684	¥517,777	¥(3,615,561)	¥9,576,039
Identifiable assets at March 31	¥3,836,513	¥295,259	¥160,720	¥ 225,125	¥285,225	¥ (330,497)	¥4,472,345

	Millions of U.S. Dollars						
	2007						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers and associated companies	$73,293	$4,796	$2,342	$15,155	$2,500	$ —	$98,086
Transfers between geographical areas	9,712	1,803	396	16,141	4,249	(32,301)	—
Total trading transactions	$83,005	$6,599	$2,738	$31,296	$6,749	$(32,301)	$98,086
Identifiable assets at March 31	$37,002	$2,873	$1,534	$ 2,674	$3,396	$ (2,824)	$44,655

Note: 1. The method for classifying countries or areas is based on the degree of geographical proximity.
The main countries or areas belonging to each geographical area were as follows:
North America: United States Europe: United Kingdom
Asia: Singapore, China Other Areas: Latin America, Oceania, Middle East

2. The amounts of unallocated common assets included in "Eliminations or Unallocated" were ¥76,034 million ($644 million), ¥74,149 million and ¥67,822 million for the years ended March 31, 2007, 2006 and 2005, respectively.

18. Common Stock

On May 1, 2006, the Corporate Law in Japan superseded various laws covering the regulation of companies (Chapter II of the Commercial Code; Law for Special Provisions for the Commercial Code concerning Audits; Limited Liability Company Law. Hereafter referred to as "Commercial Code prior to revision").

The Corporate Law states that upon issuance of new shares, at least 50% of the amount raised will be credited to the common stock account, unless otherwise specified in the Law.

19. Capital Surplus and Retained Earnings

The Corporate Law provides that upon payment of dividends, an amount equal to 10% of the paid dividends must be appropriated as additional paid-in capital (a component of capital surplus) or as legal reserve (a component of retained earnings) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of additional paid-in capital and legal reserve equals 25% of the common stock.

The Corporate Law provides that there is a limit to the amount that can be distributed as dividends and the amount available for the purchase of treasury stocks. This amount is based on the amount recorded in the Company's statutory standalone financial statements in accordance with the financial accounting standards of Japan. The adjustments included in the accompanying consolidated financial statements to conform with U.S. GAAP, but not recorded in the statutory standalone financial statements, have no effect on the determination of the available balance as dividends or the purchase of treasury stocks under the Corporate Law. The amount available as dividends or the purchase of treasury stocks under the Corporate Law was ¥143,651 million as of March 31, 2007, provided however this figure might change by such as purchase of treasury stocks thereafter.

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as (1) having the Board of Directors, (2) having the Board of Corporate Auditors, (3) appointing independent auditors, and (4) the term of service of the directors is prescribed as one year, the Board of Directors may decide dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. Companies under the Board of Directors' system may declare dividends once during the fiscal year by resolution of the Board of Directors (cash dividends only) if the company has prescribed so in its articles of incorporation.

The Corporate Law also provides for companies, provided so resolved by the Board of Directors, to dispose of treasury stock, or to purchase it as prescribed in their articles of incorporation. The amount of treasury stock so purchased must be within the limits previously described as determined by the Corporate Law.

The Corporate Law permits reclassification among common stock, capital surplus and retained earnings by resolution of the shareholders' meeting, such as the transfer of a portion or all of retained earnings to the common stock account.

At the June 29, 2000 shareholders' meeting of the Company, held under the Commercial Code prior to revision, the shareholders approved a proposal to eliminate the Company's accumulated deficits of ¥109,799 million from the Company's books of account by a transfer from capital surplus as permitted by the Code. Because the Company's accumulated deficits in the U.S. GAAP consolidated financial statements on that date was not significantly different from the Company's books of account, the Company reflected the deficit reclassification entry on its books of account when preparing the consolidated financial statements, following private company's practices in the United States of America. The balance of consolidated retained earnings at March 31, 2007 would have been ¥367,360 million, including a legal reserve of ¥7,423 million, had the company not eliminated the accumulated deficits.

20. Other Comprehensive Income (Loss)

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments were as follows:

	Millions of Yen		
	2007		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥ 26,093	¥ 2	¥ 26,095
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	609	—	609
Net change in foreign currency translation adjustments during the year	26,702	2	26,704
Minimum pension liability adjustments	(1,153)	381	(772)
Unrealized holding gains on securities:			
Amount arising during the year on available-for-sale securities	64,150	(27,857)	36,293
Reclassification adjustments for gains and losses realized in net income	(19,058)	7,812	(11,246)
Net change in unrealized holding gains on securities during the year	45,092	(20,045)	25,047
Unrealized holding losses on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(3,921)	1,401	(2,520)
Reclassification adjustments for gains and losses realized in net income	(1,698)	690	(1,008)
Net change in unrealized holding losses on derivative instruments during the year	(5,619)	2,091	(3,528)
Other comprehensive income	¥ 65,022	¥(17,571)	¥ 47,451

	Millions of Yen		
	2006		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥ 37,246	¥ (16)	¥ 37,230
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	371	17	388
Net change in foreign currency translation adjustments during the year	37,617	1	37,618
Minimum pension liability adjustments	285	(324)	(39)
Unrealized holding gains on securities:			
Amount arising during the year on available-for-sale securities	92,723	(33,991)	58,732
Reclassification adjustments for gains and losses realized in net income	(22,241)	8,452	(13,789)
Net change in unrealized holding gains on securities during the year	70,482	(25,539)	44,943
Unrealized holding gains on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	6,963	(3,057)	3,906
Reclassification adjustments for gains and losses realized in net income	4,554	(1,851)	2,703
Net change in unrealized holding gains on derivative instruments during the year	11,517	(4,908)	6,609
Other comprehensive income	¥119,901	¥(30,770)	¥ 89,131

	Millions of Yen		
	2005		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥ 1,832	¥ (5)	¥ 1,827
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	2,408	113	2,521
Net change in foreign currency translation adjustments during the year	4,240	108	4,348
Minimum pension liability adjustments	(2,038)	625	(1,413)
Unrealized holding gains on securities:			
Amount arising during the year on available-for-sale securities	18,344	(4,551)	13,793
Reclassification adjustments for gains and losses realized in net income	(11,329)	4,629	(6,700)
Net change in unrealized holding gains on securities during the year	7,015	78	7,093
Unrealized holding losses on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(5,417)	2,665	(2,752)
Reclassification adjustments for gains and losses realized in net income	4,066	(1,602)	2,464
Net change in unrealized holding losses on derivative instruments during the year	(1,351)	1,063	(288)
Other comprehensive income	¥ 7,866	¥ 1,874	¥ 9,740

	Millions of U.S. Dollars		
	2007		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	$ 221	$ 0	$221
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	5	—	5
Net change in foreign currency translation adjustments during the year	226	0	226
Minimum pension liability adjustments	(9)	3	(6)
Unrealized holding gains on securities:			
Amount arising during the year on available-for-sale securities	543	(236)	307
Reclassification adjustments for gains and losses realized in net income	(161)	66	(95)
Net change in unrealized holding gains on securities during the year	382	(170)	212
Unrealized holding losses on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(33)	12	(21)
Reclassification adjustments for gains and losses realized in net income	(15)	6	(9)
Net change in unrealized holding losses on derivative instruments during the year	(48)	18	(30)
Other comprehensive income	$ 551	$(149)	$402

21. Financial Instruments

(1) Derivative Instruments and Hedging Activities

The Company and certain subsidiaries operate internationally and are exposed to market risks arising from changes in foreign exchange rates, interest rates and commodity prices. The Company and its subsidiaries utilize certain derivative instruments principally in order to reduce these market risks.

The Company and certain subsidiaries have various derivative instruments, which are exposed to credit losses in the event of non-performance by counterparties. The Company and its subsidiaries seek to minimize credit risk by entering into contracts only with major counterparties as well as avoiding concentration with certain counterparties or groups of counterparties. The policies of the Company and its subsidiaries prescribe monitoring of creditworthiness and exposure on a counterparty-by-counterparty basis.

Foreign Exchange Rate Risk Management

The Company and certain subsidiaries have assets and liabilities which are exposed to foreign exchange rate risks. In order to hedge the risks, mainly between the U.S. dollar and Japanese yen, the Company and its subsidiaries enter into foreign exchange contracts (including currency swap agreements).

These contracts are primarily used to fix future net cash flows from recognized receivables and payables and unrecognized firm commitments denominated in foreign currencies.

The Company and its subsidiaries estimate the amounts of net future cash flows for each currency by due dates and enter into foreign exchange contracts (including currency swap agreements) for certain portion of net future cash flows.

Most hedging relationships between the derivative financial instruments and hedged items are highly effective in offsetting impacts resulting from changes in foreign exchange rates.

Interest Rate Risk Management

The Company and certain subsidiaries are exposed to risks of variability in future cash outflow or fluctuations in fair value mainly on debt obligations. In order to manage these risks, the Company and its subsidiaries enter into interest rate swap agreements.

Interest rate swaps are used primarily to convert floating rate debt to fixed rate debt and to convert fixed rate debt to floating rate debt.

Most hedging relationships between the derivative financial instruments and hedged items are highly effective in offsetting changes in cash flows or fair values resulting from changes in interest rates.

Commodity Price Risk Management

The Company and certain subsidiaries utilize commodity derivative instruments for commodities, such as crude oil and grain, principally to hedge fluctuations in cash flows or fair values due to changes in commodity prices.

Most hedging relationships between the commodity derivative instruments and hedged items are highly effective in offsetting changes in cash flows or fair values resulting from changes in commodity prices.

Risk Management Policy

The Company and its subsidiaries manage foreign exchange rate risks, interest rate risks and commodity price risks by continuously monitoring the movements and by seeking hedging opportunities to reduce such risks.

The Company and its subsidiaries set the limits for derivative instruments based on the purpose of holding these instruments.

The risk management policies of the Company and its subsidiaries state that derivative instruments for the most part are held for hedging purposes.

The risk management policies including objectives and strategies for undertaking derivative instruments are documented, and the Company and its subsidiaries make a formal assessment at the hedge's inception and quarterly on an ongoing basis, as to whether the derivatives used in hedging activities are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair Value Hedge

Changes in the fair value of derivative instruments designated and qualified as fair value hedges of recognized assets and liabilities or unrecognized firm commitments are recognized in earnings together with changes in the fair value of the corresponding hedged items.

The amount of the hedges' ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness was not material for the years ended March 31, 2007, 2006 and 2005.

The amount of net gain or loss recognized in earnings when the hedged firm commitment no longer qualified as a fair value hedge was not material for the years ended March 31, 2007, 2006 and 2005.

Cash Flow Hedge

Changes in the fair value of derivative instruments designated and qualified as cash flow hedges of forecasted transactions and recognized assets and liabilities are reported in accumulated other comprehensive income (loss) (referred to as AOCI). These amounts are reclassified into earnings in the same period as the hedged items affect earnings.

Changes in the fair value of interest rate swap designated as hedging instruments are initially recorded in AOCI and reclassified into earnings as interest expense when the hedged items affect earnings.

The amount of the hedges' ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness was not material for the years ended March 31, 2007, 2006 and 2005.

Net gains of ¥122 million ($1 million) in AOCI at March 31, 2007 are expected to be reclassified into earnings within the next 12 months.

As of March 31, 2007, the maximum length of time over which the Company and its subsidiaries are hedging their exposure to variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments is approximately 51 months.

The amount of net gain or loss reclassified into earnings because it was probable that forecasted transactions would not occur was immaterial for the years ended March 31, 2007, 2006 and 2005.

Derivative instruments held or issued for trading purposes were insignificant.

(2) Fair Values of Financial Instruments

The Company and its subsidiaries have various financial instruments, which are exposed to credit losses in the event of non-performance by counterparties.

The Company and its subsidiaries are engaged in transactions with numerous counterparties to ensure that there are no significant concentrations of credit risk with any individual counterparty or groups of counterparties.

The estimated fair values of financial instruments as of March 31, 2007 and 2006 were as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2007		2006		2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:						
Other non-current receivables and advances to associated companies (less allowance for doubtful receivables)	¥ 113,608	¥ 113,543	¥ 140,078	¥ 140,215	$ 962	$ 962
Financial liabilities:						
Long-term debt (including current maturities)	¥1,939,650	¥1,939,582	¥1,935,200	¥1,934,576	$16,431	$16,430
Derivative financial instruments (assets):						
Foreign exchange contracts (including currency swap agreements)	¥ 5,402	¥ 5,402	¥ 5,719	¥ 5,719	$ 46	$ 46
Interest rate swap agreements	1,892	1,892	6,663	6,663	16	16
Interest rate option agreements	—	—	2	2	—	—
Derivative financial instruments (liabilities):						
Foreign exchange contracts (including currency swap agreements)	¥ 1,492	¥ 1,492	¥ 3,017	¥ 3,017	$ 13	$ 13
Interest rate swap agreements	5,169	5,169	10,977	10,977	44	44
Interest rate option agreements	13	13	15	15	0	0

Quoted market prices, where available, are used to estimate fair values of financial instruments. However, fair values are estimated using the discounted cash flow technique or other methods when quoted market prices are not available. These estimates involve uncertainty and subjectivity, and therefore fair values are not objectively verifiable. Changes in assumptions could significantly affect fair value amounts.

Current Financial Assets Other Than Marketable Securities and Current Financial Liabilities
The carrying amounts approximate fair values because of the short maturity of these instruments.

Marketable Securities and Other Investments
The fair values of marketable investment securities included in "Marketable securities" and "Other investments" are based on quoted market prices. The carrying amounts of non-marketable investment securities and others are believed to approximate fair values. The fair values for each category of securities is set forth in note 4 "Marketable Securities and Investments."

Other Non-current Receivables and Advances to Associated Companies
The fair values of other non-current receivables and advances to associated companies are estimated based on the present value of future cash flows discounted by using the current rates of loans or receivables with similar terms, conditions and maturities being offered to borrowers or customers with similar credit ratings.

Long-term Debt
The fair values of long-term debt are based on the present value of future cash flows discounted using the current borrowing rates of similar debt instruments having comparable maturities.

Foreign Exchange Contracts
The fair values of foreign exchange contracts are estimated based on the quoted market prices of comparable contracts.

Currency and Interest Rate Swap Agreements
The fair values of currency and interest rate swap agreements are estimated using the discounted cash flow technique, based on the current swap rates with similar terms and remaining periods.

Interest Rate Option Agreements
The fair values of interest rate option agreements are estimated using the option pricing model.

22. Issuance of Stock by Subsidiaries or Associated Companies

Excite Japan Co., Ltd., a consolidated subsidiary, issued 4,700 shares to third parties in August 2006. The offering price per share was ¥423,700 and the total amount of the issuance was ¥1,991 million ($17 million). This issuance decreased the Company and its subsidiaries' ownership of the subsidiary from 65.9% to 60.8%.

The offering price per share of this issuance was in excess of the Company's carrying value per share of the subsidiary stock. The issuance of these shares was regarded as a sale of a part of the Company and its subsidiaries' interest in the subsidiary and the Company and its subsidiaries recognized a gain of ¥862 million ($7 million) for the year ended March 31, 2007, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company and its subsidiaries recognized ¥353 million ($3 million) of deferred tax liability on the recognized gain which is included in "Income taxes—Deferred."

MAGASeek Corporation, a consolidated subsidiary, issued 2,000 shares of common stock in a public offering to third parties on November 28, 2006, the date of its listing on the Mothers market of the Tokyo Stock Exchange. The offering price per share was ¥467,500 and the total amount of the issuance was ¥935 million ($8 million). This issuance decreased the Company's ownership of the subsidiary from 84.8% to 76.6%.

In December 2006, the subsidiary also issued 500 shares at ¥467,500 per share, or ¥234 million ($2 million) in total, in order to facilitate the settlement of shares offered through over-allotment. This issuance decreased the Company's ownership of the subsidiary from 65.9% to 64.4%.

The offering price per share of each issuance was in excess of the Company's carrying value per share of the subsidiary stock. The issuance of these shares was regarded as a sale of a part of the Company's interest in the subsidiary and the Company recognized a gain of ¥1,024 million ($9 million) for the year ended March 31, 2007, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company recognized ¥420 million ($4 million) of deferred tax liability on the recognized gain which is included in "Income taxes—Deferred."

Chemoil Energy Limited, an associated company, issued 160,172,000 shares of common stock in a public offering to third parties on December 14, 2006, the date of its listing on the Stock Exchange of Singapore. The offering price per share was $0.45 and the total amount of the issuance was $72,077 thousand. This issuance decreased the Company and its subsidiaries' ownership of the associated company from 50.0% to 43.6%.

In December 2006, the associated company also issued 33,720,000 shares at $0.45 per share, or $15,174 thousand in total, in order to facilitate the settlement of shares offered through over-allotment. This issuance decreased the Company and its subsidiaries' ownership of the associated company from 38.5% to 37.5%.

The offering price per share of each issuance was in excess of the Company's carrying value per share of the associated company stock. The issuance of these shares was regarded as a sale of a part of the Company and its subsidiaries' interest in the associated company and the Company and its subsidiaries recognized a gain of ¥3,176 million ($27 million) for the year ended March 31, 2007, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company and its subsidiaries recognized ¥763 million ($6 million) of deferred tax liability on the recognized gain which is included in "Income taxes—Deferred."

eGuarantee, Inc., an associated company, issued 1,000 shares of common stock in a public offering to third parties on March 8, 2007, the date of its listing on the JASDAQ market. The offering price per share was ¥187,000 and the total amount of the issuance was ¥187 million (2 million). This issuance decreased the Company and its subsidiaries' ownership of the associated company from 48.3% to 45.9%.

The offering price per share of this issuance was in excess of the Company's carrying value per share of the associated company stock. The issuance of these shares was regarded as a sale of a part of the Company and its subsidiaries' interest in the associated company and the Company and its subsidiaries recognized a gain of ¥69 million ($1 million) for the year ended March 31, 2007, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company and its subsidiaries recognized ¥28 million ($0 million) of deferred tax liability on the recognized gain which is included in "Income taxes—Deferred."

NANO Media Inc., a consolidated subsidiary, issued to third parties 155 shares at ¥200,000 per share, or ¥31 million in total, in April 2005, 1,270 shares at ¥370,000 per share, or ¥470 million in total, in August 2005 and 100 shares at 370,000 per share, or ¥37 million in total, in September 2005.

The subsidiary also issued 3,100 shares of common stock in a public offering to third parties on November 29, 2005, the date of its listing on the Mothers market of the Tokyo Stock Exchange. The offering price per share was ¥771,900 and the total amount of the issuance was ¥2,393 million. This issuance decreased the Company and its subsidiaries' ownership of the subsidiary from 67.8% to 56.9%.

Furthermore, in December 2005, the subsidiary issued 600 shares at ¥771,900 per share, or ¥463 million in total, in order to facilitate the settlement of shares offered through over-allotment. This issuance decreased the Company and its subsidiaries' ownership of the subsidiary to 51.9%.

The offering price per share of each issuance was in excess of the Company's carrying value per share of the subsidiary stock. The issuance of these shares was regarded as a sale of a part of the Company and its subsidiaries' interest in the subsidiary and the Company and its subsidiaries recognized a gain of ¥1,708 million for the year ended March 31, 2006, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company and its subsidiaries recognized ¥700 million of deferred tax liability on the recognized gain which is included in "Income taxes—Deferred."

ITC NETWORKS CORPORATION, a consolidated subsidiary, issued 12,000 shares of common stock in a public offering to third parties on March 10, 2006, the date of its listing on the second section of the Tokyo Stock Exchange. The offering price per share was ¥347,800 and the total amount of the issuance was ¥4,174 million. This issuance decreased the Company's ownership of the subsidiary from 97.4% to 84.3%.

In March 2006, the subsidiary also issued 2,926 shares at ¥347,800 per share, or ¥1,018 million in total, in order to facilitate the settlement of shares offered through over-allotment. This issuance decreased the Company's ownership of the subsidiary to 70.8%.

The offering price per share of each issuance was in excess of the Company's carrying value per share of the subsidiary stock. The issuance of these shares was regarded as a sale of a part of the Company's interest in the subsidiary and the Company recognized a gain of ¥3,595 million for the year ended March 31, 2006, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company recognized ¥1,474 million of deferred tax liability on the recognized gain which is included in "Income taxes—Deferred."

Excite Japan Co., Ltd., a consolidated subsidiary, issued 3,500 shares of common stock in a public offering to third parties on November 2, 2004, the date of its listing on the JASDAQ market. The offering price per share was ¥1,222,000 and the total amount of the issuance was ¥4,277 million. This issuance decreased the Company and its subsidiaries' ownership of the subsidiary from 87.3% to 76.0%.

The offering price per share of this issuance was in excess of the Company's carrying value per share of the subsidiary stock. The issuance of these shares was regarded as a sale of a part of the Company and its subsidiaries' interest in the subsidiary and the Company and its subsidiaries recognized a gain of ¥3,043 million for the year ended March 31, 2005, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company and its subsidiaries recognized ¥1,248 million of deferred tax liability on the recognized gain which is included in "Income taxes—Deferred."

kabu.com Securities Co., Ltd., an associated company, issued 36,000 shares of common stock in a public offering to third parties on March 17, 2005, the date of its listing on the first section of the Tokyo Stock Exchange. The offering price per share was ¥338,400, and the total amount of the issuance was ¥12,182 million. This issuance decreased the Company and its subsidiaries' ownership of the associated company from 29.7% to 26.3%.

The offering price per share of this issuance was in excess of the Company's carrying value per share of the associated company's stock. The issuance of these shares was regarded as a sale of part of the Company and its subsidiaries' interest in the associated company and the Company and its subsidiaries recognized a gain of ¥2,842 million for the year ended March 31, 2005, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company and its subsidiaries recognized ¥1,165 million of deferred tax liability on the recognized gain which is included in "Income Taxes—Deferred."

kabu.com Securities Co., Ltd., is no longer an associated company since the Company and its subsidiaries sold some of its shares during the year ended March 31, 2007.

23. Variable Interest Entities

The Company and its subsidiaries have involvement in certain businesses, such as ocean plying vessels, property development and providing loans to third parties, which are conducted through special purpose entities. The Company and its subsidiaries retain variable interests through loans, guarantees and equity investments in these special purpose entities which are classified as variable interest entities under FIN 46R.

There are no material matters to disclose about the entities where the Company and its subsidiaries are the primary beneficiary.

The total assets and maximum exposure to loss to the Company and its subsidiaries as a result of their involvement in the variable interest entities where the Company and its subsidiaries are not the primary beneficiary, but have significant variable interests, were ¥193,935 million ($1,643 million) and ¥37,876 million ($321 million), respectively, as of March 31, 2007 and ¥165,155 million and ¥37,099 million, respectively, as of March 31, 2006. The maximum exposure to loss, which includes loans and guarantees, is partially covered by guarantees provided by third parties, and has no relation to the loss estimated to be incurred from involvement with the variable interest entities.

24. Settlement of Lawsuit Against our U.S. Subsidiaries

The lawsuit brought against ITOCHU International Inc. and its subsidiary, III Holding Inc. (formerly known as Copelco Financial Services Group, Inc.) by Citibank N.A. and its subsidiary, Citibank Canada, in connection with the acquisition of all the common stocks of Copelco Capital Inc., a subsidiary of III Holding Inc., for a purchase price of approximately US$666 million in May, 2000, which was pending before the New York Supreme Court for New York County, was settled though outside-court mediation by a basic agreement for settlement dated August 9, 2005. As a result of the basic agreement, a definitive settlement agreement was entered into on August 18, 2005, and the lawsuit was withdrawn with prejudice on August 19, 2005.

According to this settlement, "Other–net" in the accompanying consolidated statements of operations for the year ended March 31, 2006, included ¥19,503 ($185 million) million.

25. Commitments and Contingent Liabilities

The Company and its subsidiaries enter into purchase contracts for certain items, principally energy, machinery and chemical materials either at fixed or at variable prices. In most cases, these contracts are matched with counterparty sales contracts. The outstanding purchase contracts amounted to ¥1,991,554 million ($16,870 million), and 1,650,830 million yen, for the years ended March 31, 2007 and 2006, respectively. The deliveries are at various dates through 2026.

The Company and its subsidiaries also had long-term financing commitments aggregating ¥37,201 million ($315 million) and ¥34,640 million for the years ended March 31, 2007 and 2006, respectively, for loans and investments in equity capital.

The Company and its subsidiaries issue various guarantees for indebtedness of associated companies and customers. The guarantees are principally for monetary indebtedness by third parties to enhance their credit standings. If a guaranteed party failed to fulfill its obligation, the Company and its subsidiaries would be required to execute payments. The maximum potential amount of future payments and the amount of substantial risk at March 31, 2007 and 2006 are summarized below:

	Millions of Yen		
	2007		
	Guarantees for Monetary Indebtedness	Other Guarantees	Total
Guarantees for associated companies:			
Maximum potential amount of future payments	¥ 85,498	¥15,151	¥100,649
Amount of substantial risk	48,258	14,674	62,932
Guarantees for customers:			
Maximum potential amount of future payments	117,255	23,295	140,550
Amount of substantial risk	74,616	22,437	97,053
Total:			
Maximum potential amount of future payments	¥202,753	¥38,446	¥241,199
Amount of substantial risk	122,874	37,111	159,985

	Millions of Yen		
	2006		
	Guarantees for Monetary Indebtedness	Other Guarantees	Total
Guarantees for associated companies:			
Maximum potential amount of future payments	¥114,554	¥25,717	¥140,271
Amount of substantial risk	73,538	22,523	96,061
Guarantees for customers:			
Maximum potential amount of future payments	115,344	16,501	131,845
Amount of substantial risk	66,353	15,295	81,648
Total:			
Maximum potential amount of future payments	¥229,898	¥42,218	¥272,116
Amount of substantial risk	139,891	37,818	177,709

	Millions of U.S. Dollars		
	2007		
	Guarantees for Monetary Indebtedness	Other Guarantees	Total
Guarantees for associated companies:			
Maximum potential amount of future payments	$ 724	$129	$ 853
Amount of substantial risk	409	124	533
Guarantees for customers:			
Maximum potential amount of future payments	993	197	1,190
Amount of substantial risk	632	190	822
Total:			
Maximum potential amount of future payments	$1,717	$326	$2,043
Amount of substantial risk	1,041	314	1,355

The amount of substantial risk at March 31, 2007 and 2006 represents the actual amount of liability incurred by the guaranteed parties within the pre-determined guaranteed limit established under the guarantee contracts. The amounts that might be recovered from third parties have been excluded in determining the amount of substantial risk.

The carrying amount of the liability recognized for guarantees was ¥1,916 million ($16 million) and ¥1,740 million at March 31, 2007 and 2006, respectively.

The Company guarantees housing loans of its employees and those of certain subsidiaries as a part of the benefit program. These guarantees are included in the above guarantees. If the employees default on a payment, the Company would be required to make payments under the contracts. The maximum potential amounts of future payments under the contracts were ¥11,356 million ($96 million) and ¥12,473 million at March 31, 2007 and 2006. No provisions relating to the guarantees have been recorded in the consolidated financial statements.

The amounts that might be recovered from third parties have been excluded from determining the maximum potential amount of future payments. The amounts recoverable were ¥65,467 million ($555 million) and ¥70,233 million at March 31, 2007 and 2006, respectively.

Guarantees with the longest term for indebtedness of associated companies and customers issued by the Company and its subsidiaries expire on June 30, 2030.

The major associated companies and customers and the substantial risk of the related guarantees for monetary indebtedness at March 31, 2007 and 2006 were as follows:

	Millions of Yen	Millions of U.S. Dollars		Millions of Yen
	2007			2006
SAKHALIN OIL AND GAS DEVELOPMENT CO., LTD.	¥36,086	$306	SAKHALIN OIL AND GAS DEVELOPMENT CO., LTD.	¥28,280
Famima Credit Corporation	9,851	83	Tokyo Humania Enterprise Inc.	11,487
Ningbo Mitsubishi Chemical Co., Ltd.	7,491	63	Famima Credit Corporation	7,435
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	6,401	54	STAR CHANNEL, INC.	7,200
Rabigh Arabian Water and Electricity Company	5,141	44	Japan Brazil Paper and Pulp Resources Development Co., Ltd.	6,946
Baku-Tbilisi-Ceyhan Pipeline Finance B.V.	5,030	43	Quatro World Maritime S.A.	6,286
AI BEVERAGE HOLDING CO. LTD.	4,961	42	Ningbo Mitsubishi Chemical Co., Ltd.	6,195
JAPAN OHANET OIL & GAS CO., LTD.	4,006	34	JAPAN OHANET OIL & GAS CO., LTD.	5,552
STAR CHANNEL, INC.	3,954	33	AI BEVERAGE HOLDING CO. LTD.	5,259
Marubeni-Itochu Steel Inc.	3,723	32	Baku-Tbilishi-Ceyhan Pipeline Finance B.V.	4,999

The Company and its subsidiaries were contingently liable in the amounts of ¥4,580 million ($39 million) and ¥5,488 million for the total trade notes receivable endorsed to suppliers in the settlement of accounts payable and discounted trade notes receivable on a recourse basis with banks at March 31, 2007 and 2006, respectively. The amounts of export bills of exchange discounted with banks in the ordinary course of business were ¥71,853 million ($609 million) and ¥61,797 million at March 31, 2007 and 2006, respectively.

There is no significant currently pending lawsuit, arbitration, or other legal proceeding that may materially affect the financial position or results of operations of ITOCHU Group.

However, there shall be no assurance that domestic or overseas business activities of ITOCHU Group may not become subject to any of such lawsuits, arbitrations or other legal proceedings.

26. Subsequent Events

The Company issued in Japan 2.02% Yen Bonds due 2017 in an aggregate amount of ¥10,000 million ($85 million) on April 26, 2007, 1.99% Yen Bonds due 2017 in an aggregate amount of ¥10,000 million ($85 million) on May 21, in accordance with an approved resolution of the Board of Directors held on July 6, 2006.

Orient Corporation, an equity-method associated company, approved a capital reduction and an issuance of preferred shares, effective May 2, 2007, at its extraordinary shareholders' meeting convened on April 30, 2007. In response to the resolution, the Company subscribed ¥30 billion of Class J preferred shares. At the same meeting, it was approved to merge common shares and the ranged Class B-H preferred shares, effective June 4, 2007. This resolution meant that Orient Corporation received a waiver of the redeemable preferred shares to be merged.

The impact of this waiver on the Company's operating results in fiscal 2008 is a profit of ¥30.8 billion ($261 million), less applicable income tax basis.

At the ordinary general meeting of shareholders held on June 26, 2007, the Company was authorized to pay a cash dividend of ¥9 ($0.08) per share, or a total of ¥14,241 million ($121 million) to shareholders of record on March 31, 2007. The effective date of the dividend payment is June 27, 2007.

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Independent Auditors' Report

To the Board of Directors of
ITOCHU Corporation :

We have audited the accompanying consolidated balance sheets of ITOCHU Corporation and subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2007 (all expressed in Japanese yen). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such consolidated financial statements present fairly, in all material respects, the financial position of ITOCHU Corporation and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective March 31, 2007, the Company changed its method of accounting for defined benefit pension and other postretirement plans to conform to Financial Accounting Standards Board Statement No. 158.

As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, the Company changed its method of accounting for stripping costs incurred during production in the mining industry to conform to Financial Accounting Standards Board Emerging Issues Task Force 04-6.

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 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 13, 2007, except for Note 26, as to which the date is June 26, 2007

Supplemental Oil and Gas Information (Unaudited)

The companies' oil and gas exploration, development and production activities are conducted through subsidiaries in offshore and onshore areas of the U.K. North Sea, the area of Caspian Sea and Pacific Rim. Supplementary information on the subsidiaries presented below is prepared in accordance with the requirements prescribed by SFAS No. 69, "Disclosure about Oil and Gas Producing Activities," as of March 31, 2007:

Table 1: Capitalized Costs Relating to Oil and Gas Producing Activities

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Proved oil and gas properties	¥153,897	$1,304
Accumulated depreciation, depletion, amortization and valuation allowance	(76,481)	(648)
Net capitalized costs	¥ 77,416	$ 656

Table 2: Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Development costs	¥16,231	$137
Total costs incurred	¥16,231	$137

Table 3: Results of Operations for Producing Activities

	Millions of Yen	Millions of U.S. dollars
	2007	2007
Revenues:		
Sales to unaffiliated companies	¥77,708	$659
Expenses:		
Production costs	32,617	276
Depreciation, depletion, amortization and valuation allowances	13,533	115
Income tax expenses	13,231	112
Results of operations from producing activities (excluding corporate overhead and interest costs)	¥18,327	$156

Table 4: Reserve Quantity Information

In accordance with U.S. GAAP, the following table describes proved oil reserves and changes for the year ended March 31, 2007.

	Crude Oil (Millions of Barrels)
	2007
Proved developed and undeveloped reserves:	
Beginning of year	112
Revision of previous estimates	(5)
Production	(8)
End of year	99
Proved developed reserves–end of year	99

Table 5: Standardized Measure of Discounted Future Net Cash Flows and Changes therein Relating to Proved Oil and Gas Reserves

In accordance with U.S. GAAP, a standardized measure of discounted future net cash flows relating to the proved reserve quantities is based on prices and costs at the end of the year, currently enacted tax rates and a 10% annual discount factor. The oil activities' standardized measure of discounted future net cash flows includes the full committed costs of development and operation for the asset under the Production Sharing Agreement. On the other hand, revenues are registered only in relation to the currently estimated proved reserves stated in Table 4 (Reserve Quantity Information). Estimates of proved reserve quantities may change over time as new information becomes available. Consequently, the information provided here does not represent management's estimate of the companies' expected future cash flows or value of the proved reserves.

(1) Standardized Measure of Discounted Future Net Cash Flows

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Future cash inflows	¥ 503,577	$ 4,266
Future production costs	(79,680)	(675)
Future development costs	(68,518)	(580)
Future income tax expenses	(132,929)	(1,126)
Undiscounted future net cash flows	222,450	1,885
10% annual discount for estimated timing of cash flows	(88,826)	(752)
Standardized measure of discounted future net cash flows	¥ 133,624	$ 1,133

(2) Details of Changes for the year

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Discounted future net cash flows at April 1	¥145,902	$1,236
Sales and transfer of oil and gas produced, net of production costs	(47,948)	(406)
Development costs incurred	14,399	122
Net changes in prices, development and production costs	(18,395)	(156)
Revisions of previous quantity estimates	45,641	387
Accretion of discount (10%)	(16,806)	(142)
Net changes in income taxes	8,275	70
Difference of foreign exchange rates	2,556	22
Discounted future net cash flows at March 31	¥133,624	$1,133