

ANNUAL FINANCIAL STATEMENTS

For years ended March 31, 2006 and 2005

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Consolidated Financial Results for Fiscal Year 2006 (Year ended March 31, 2006)

[Consolidated financial results have been prepared in conformity with accounting principles generally accepted in the United States of America]

ITOCHU Corporation

Stock Exchange Code No.8001

(URL http://www.itochu.co.jp/main/ir/index_e.html)

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1. Consolidated operating results for fiscal year 2006 (from April 1, 2005 to March 31, 2006)

(1) Consolidated operating results (Summary)

	Total trading transactions		Trading income		Please refer the below (*1)	
	millions of yen	increase/decrease(%)	millions of yen	increase/decrease(%)	millions of yen	increase/decrease(%)
Fiscal year 2006	10,473,885	9.4	193,389	22.6	216,869	80.8
Fiscal year 2005	9,576,039	0.6	157,740	99.1	119,958	-

*1 : Income before income taxes, minority interests, equity in earnings of associated companies and cumulative effect of an accounting change

	Net income		Net income per share (basic)	Net income per share (diluted)	Please refer the below (*2)	Please refer the below (*3)	Please refer the below (*4)
	millions of yen	increase/decrease(%)	yen	yen	%	%	%
Fiscal year 2006	145,146	86.6	91.74	-	23.5	4.7	2.1
Fiscal year 2005	77,792	-	49.16	-	16.7	2.7	1.3

*2 : Net income / Stockholders' equity

*3 : (*1) / Total assets

*4 : (*1) / Total trading transactions

Note :

1. Equity in earnings of associated companies :

(Fiscal year 2006) 51,737 million yen (Fiscal year 2005) 31,764 million yen

2. Weighted-average number of common shares outstanding :

(March 31, 2006) 1,582,159,754 shares (March 31, 2005) 1,582,392,847 shares

3. Change of accounting policies : No

4. "increase/decrease(%)" presents changes from the previous fiscal year.

5. "Total trading transactions" and "Trading income" are presented in accordance with Japanese accounting practice.

• Total trading transactions in the consolidated statements of operations consist of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.

• Trading income = Gross trading profit + Selling, general and administrative expenses + Provision for doubtful receivables

(2) Consolidated financial conditions

	Total assets	Stockholders' equity	Ratio of stockholders' equity to total assets	Stockholders' equity per share
	millions of yen	millions of yen	%	yen
March 31, 2006	4,797,013	726,816	15.2	459.47
March 31, 2005	4,472,345	510,397	11.4	322.54

Note :

Number of common shares outstanding :

(March 31, 2006) 1,581,847,109 shares (March 31, 2005) 1,582,412,941 shares

(3) Consolidated cash flows information

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents
	millions of yen	millions of yen	millions of yen	millions of yen
March 31, 2006	185,147	(79,871)	(85,193)	477,707
March 31, 2005	126,624	(127,600)	(125,342)	452,934

Note :

Parentheses represent negative figures or decreases.

(4) Number of consolidated subsidiaries and associated companies

Consolidated subsidiaries : 442 Associated companies : 209

(5) Changes in number of consolidated subsidiaries and associated companies

Consolidated subsidiaries : (increase) 34, (decrease) 43 Associated companies : (increase) 28, (decrease) 24

2. Forecasts of consolidated operating results for fiscal year 2007 (from April 1, 2006 to March 31, 2007)

	Total trading transactions	Net income
	millions of yen	millions of yen
Fiscal year 2007	10,800,000	155,000

Note:

1. Forecasted net income per share for Fiscal 2007 : 97.99 yen

2. "Total trading transactions" is presented in a manner customarily used in Japan solely for Japanese readers

A cautionary Note on Forecasts

Above forecasts are based on management's assumptions and beliefs based on information currently available and involve risks and uncertainties.

Thus, factors that could cause actual results to differ materially from such statements include, without limitation, global economic and market conditions, and currency exchange rate fluctuations. Concerning detailed items of the forecast, please refer page 5 "Outlook for Fiscal 2007".

Note: The consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of 117.47 yen = 1 U.S. dollars, the exchange rate prevailing on March 31, 2006. 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.

Financial Highlights

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

	Yen (millions) (Unless otherwise specified)		Increase (Decrease)%	U.S. dollars (millions) (Unless otherwise specified)
	2006	2005		2006
For the fiscal year :				
Total trading transactions.....	10,473,885	9,576,039	9.4 %	89,162
Gross trading profit.....	714,374	630,761	13.3	6,081
Gross trading profit ratio (%).....	6.82	6.59		
Net income.....	145,146	77,792	86.6	1,236
Adjusted profit*.....	252,038	188,807	33.5	2,146
At fiscal year-end :				
Total assets.....	4,797,013	4,472,345	7.3	40,836
Stockholders' equity.....	726,816	510,397	42.4	6,187
Net interest-bearing debts*.....	1,724,314	1,891,086	(8.8)	14,679
Per share:				
Net income	91.7	49.2	86.6	0.8
Stockholders' equity.....	459.5	322.5	42.5	3.9
Ratios:				
ROA (%).....	3.1	1.7		
Ratio of adjusted profit to total assets (%).....	5.4	4.2		
ROE (%).....	23.5	16.7		
Ratio of stockholders' equity to total assets (%)	15.2	11.4		
Net debt-to-equity ratio (net DER) (Times).....	2.4	3.7		
Interest coverage 1* (Times).....	5.7	5.7		

Note:

- "Total trading transactions" is presented in accordance with Japanese accounting practice.
Total trading transactions in the consolidated statements of income consist of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.
- Net income per share and stockholders' equity per share are calculated by using the shares that exclude the number of treasury stock from that of common stock issued.

*Adjusted profit = Gross trading profit + Selling, general and administrative expenses + Net financial expenses
+ Equity in earnings of associated companies

*Net interest-bearing debts = Interest-bearing debts - (Cash and cash equivalents + Time deposits)

*Interest coverage 1

=
$$\frac{\text{Gross trading profit} + \text{Selling, general and administrative expenses} + \text{Provision for doubtful receivables} + \text{Interest income} + \text{Dividends received}}{\text{Interest expenses}}$$

Management Policy

Shift to Aggressive Business and Solid Management

ITOCHU Corporation and its group companies have started a new mid-term management plan, Frontier-2006, a two-year plan for fiscal 2006 and 2007.

The "Frontier-2006" plan defines these two years as a period to make ITOCHU a highly profitable corporate group constantly achieving more than 100 billion yen in net income. By foreseeing changes, always seeking a "frontier", and pursuing three principles of "challenge, create and commit," ITOCHU has been engaged in expanding earnings and strengthening its business base.

As a few of the achievements accomplished in this period:

In Consumer and Retail related area, ITOCHU bought out a casual bag brand company, LeSportsac Inc., jointly with a U.S. bag manufacturer, Brand Science LLC., and started business in Asia and Oceania as a new brand business in Textile. Also, ITOCHU purchased the 40% shares of Paul Smith Group Holdings Limited in order to enhance the partnership with them. Furthermore, ITOCHU has acquired a master license for Japan for the FILA brand to promote business expansion in the Japanese market.

In Food, ITOCHU signed an MOU with Uny Co., Ltd. regarding comprehensive business cooperation. ITOCHU aims to expand food-related business based on food distribution. ITOCHU also expects to utilize the business resources of both companies including Uny's retail sites and ITOCHU's retail supporting capability in various area.

ITOCHU established a new company, ASCLASS LSA Inc., which started its operations to provide remodeling support service for local selected builders with Orient Corporation.

In Natural Resource Development, ITOCHU has decided and started an iron-ore production enhancement project in West Australia. For ACG oil development project in Azerbaijan, crude oil production was started in western oil field of Azeri and its amount of production has been favorably increasing.

Taking up other areas, in Automobile area, ITOCHU invested on the top dealer in Sichuan province, China to start a automobile dealer business in China.

In Mobile area, NANO Media Inc. which is engaged in contents distribution for cellular phones and application development, was listed on the Tokyo Stock Exchange (TSE) Mothers, and a cellular phone distributor ITC NETWORKS CORPORATION was listed on the second section of TSE respectively. This is one of the achievements of our effort at business expansion in both hardware and software.

With regard to Chemicals, Forest Products and General Merchandise, ITOCHU has decided to newly join a methanol business, which is a large chemical product business in Brunei, with Mitsubishi Gas Chemical Co., Inc.

Tasks to accomplish (Frontier-2006)

Further promotion of our mid-term management plan, Frontier-2006

ITOCHU Group has decided to continue and reinforce the basic policies of our mid-term management plan, "Frontier-2006". ITOCHU will develop an optimum management system to support "Aggressive Business" and "Solid Management" in order to accelerate shift to aggressive business as well as to sustain solid management. The key word now is to "Accelerate the Shift to Aggressive Business".

1) ITOCHU will take on a challenge to expand earnings. ITOCHU will strengthen the vertical linkage and enhance earnings by accelerating resource injection into core segments/areas with The Company's initiatives. ITOCHU will also reinforce a promotion framework for cross-company projects involving the entire group companies and strengthen the horizontal linkage in Consumer related sector and Natural resource development sector which are both strong domain of ITOCHU to expand earning capacity. Furthermore, ITOCHU will plan to expand earnings from priority markets of North America, China, and Asia, and at the same time, to promote businesses in Russia, India, and Brazil, which we regard as emerging markets, so as to gain the initiative for future profits.

2) ITOCHU will create new businesses. ITOCHU will expand the consumer business in response to diversified consumer needs, strengthen the fields in medical treatment, senior care, hobbies and travel, etc for the healthcare and living service area especially targeted at senior citizens, and take the initiative and aim at promptly making profits from projects for innovative new technologies area. In addition, ITOCHU will establish a new organization, "Council of Entire Company Development" with the President as chairperson to reinforce the involvement in new businesses such as consumer business, healthcare and living service, and innovative technologies.

3) ITOCHU will further promote solid management. ITOCHU will keep strict controlling the amount of interest-bearing debts and achieve continuous improvement of financial position while upgrading risk management policy further to strengthen risk control. For internal controlling system, ITOCHU steadily evaluates and improves the system by continuous monitoring. ITOCHU is also working on CSR (Corporate Social Responsibility) on an ongoing basis by better communication with stakeholders. ITOCHU will continuously make every effort to establish highly transparent corporate governance.

4) ITOCHU aims at establishing a management system that supports both "Aggressive business" and "Solid management". ITOCHU has started a business reorganization project, "ITOCHU DNA (Designing New Age) Project", in order to strengthen "Workplace Force" that is the force of every organization and individual and to build up ever stronger consolidated management with a view to the optimization of whole and a prospect of future ITOCHU Group ten years from now. In HR area, ITOCHU will go forward to promote to utilize a wealth of human resources including seniors, women, foreigners, or mid-career recruitment based on HR diversification promoting program. ITOCHU will also try to improve HR portfolio for entire ITOCHU Group.

By undertaking the above-mentioned efforts, ITOCHU will not only increase the value of ITOCHU group to reward its shareholders, but will also contribute to regional and global societies including active approaches to global environmental issues.

Dividends policy

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.

Outlook for Fiscal 2007

Viewing for the business environment of the fiscal 2007, for Japanese economy, steady good cycle is expected to be maintained through increase in employment and capital investment by high level corporate profits, which leads to another expansion of production and profit.

For overseas economies, the U.S. and China are still expected to expand their economies in spite of a slight slowdown. For European and South East Asian economies, it is predicted that recovery will be accelerated mainly due to their domestic demand. Meanwhile, it is necessary to pay continuous attention to increasing inflationary pressures from worldwide economic expansion.

Under these circumstances, ITOCHU is expecting consolidated total trading transactions of 10.8 trillion yen for the fiscal year ending March 2007, with a consolidated net income of 155.0 billion yen.

These forecasts are forward looking statements that are based on management's assumptions and beliefs based on information currently available and involve risks and uncertainties. Thus, the actual results could be substantially different from the above statement due to such factors including, but not limited to, global economic and market conditions, and currency exchange rate fluctuations.

Fiscal 2007 consolidated forecasts (April 2006 - March 2007)

	Forecasts	Increase from the previous fiscal year
Total trading transactions	10.8 trillion yen	3.1%
Net income	155.0 billion yen	6.8%

(Note)	Fiscal 2007 Forecasts	Fiscal 2006 Results
Exchange rate (Yen/US\$)	110.00	112.28
Crude oil (Brent) price (US\$/BBL)	55.00	55.07

Distribution of the current fiscal year's profit

ITOCHU plans to make a 9 yen dividend payments per share for fiscal year ended March 2006 (Interim 4 yen dividend was already paid). For the fiscal year ending March 2007, ITOCHU intends to make a 10 yen (5 yen for each of the interim and the year-end) dividend payment per share.

Fiscal 2007 forecasts, ending March 31, 2007

Consolidated	Forecasts	Results
	2007 Full year	2006 Full year
Total trading transactions	10.8 trillion yen	10.5 trillion yen
Gross trading profit	760.0 billion yen	714.4 billion yen
Selling, general and administrative expenses	(525.0)	(506.3)
Provision for doubtful receivables	(10.0)	(14.7)
Net interest expenses	(33.0)	(26.0)
Dividends received	17.0	18.2
Other-net	17.0	31.3
Income before income taxes, minority interests, equity in earnings of associated companies and cumulative effect of an accounting change	226.0	216.9
Income taxes	(112.0)	(106.9)
Income before minority interests, equity in earnings of associated companies and cumulative effect of an accounting change	114.0	109.9
Minority interests	(13.0)	(13.1)
Equity in earnings of associated companies	54.0	51.7
Cumulative effect of an accounting change	—	(3.4)
Net income	155.0	145.1

Total assets	5,200.0 billion yen	4,797.0 billion yen
Gross interest-bearing debts	2,350.0	2,226.5
Net interest-bearing debts	1,950.0	1,724.3
Total stockholders' equity	850.0	726.8

Summary of Operations

General Situations

During fiscal 2006, ended March 31, 2006, the Japanese economy has shown even faster recovery due to a pickup in export mainly for U.S. and Asian/Middle East countries, increase in consumer spending owing to expansion in employment and higher wages etc., steady favorable equipment investment supported by high level corporate profits. Furthermore, economic expansion is still ensured by almost resolved "three excesses": facilities, employment, and debt, which had lingered since the economic bubble in Japan burst.

On the other hand, Nikkei Stock Average turned upward in the middle of this year due to full recovery of economy and has recovered to 17,000 yen and more at the end of this fiscal year. Regarding foreign exchange rate, yen has been dropping down since beginning of fiscal 2006 influenced by U.S. dollar's interest rate raise, and currently, it is moving around the high 110's to the U.S. dollar.

Meanwhile, Bank of Japan lifted the quantitative easing policy which had continued for five years in March, 2006.

Looking at overseas, the world economy shows a favorable situation. The U.S. has continued good cycle of expansion of good corporate profit and increase in employment and capital investment. Besides, European economy has shown some good signs of gradual recovery. China also kept high level growth supported by good export and investments on infrastructure. Under these circumstances, prices of natural resource-related commodities are rising due to stronger demand.

Operating Results

Total trading transactions for fiscal 2006, ended March 31, 2006, increased by 9.4% or 897.8 billion yen to 10,473.9 billion yen (89,162 million U.S. dollars) from the previous fiscal year, mainly in Machinery due to increase in plant and automobile transactions; in Energy, Metals & Minerals due to rising prices of coal, iron ore and crude oil; and in Chemicals, Forest Products & General Merchandise due to steadily high market prices in chemicals, continuous growth in building material market in North America and contribution of newly consolidated subsidiaries.

Revenue based on U.S. GAAP increased by 11.4% or 227.0 billion yen to 2,218.2 billion yen (18,883 million U.S. dollars), because of the increase in transactions in automobile, domestic IT industry-related, and resource-related due to rising market prices.

Gross trading profit increased by 13.3% or 83.6 billion yen to 714.4 billion yen (6,081 million U.S. dollars). Increase in gross trading profit is shown in every segment including Textile contributed by a newly consolidated Men's apparel company, Machinery supported by growth in automobile business in Europe and the U.S. as well as good performance of construction machinery business in North America, Aerospace, Electronics & Multimedia through steady growth in domestic IT industry-related business, and Energy, Metals & Minerals due to rising prices of coal, iron ore, and crude oil.

Selling, general and administrative expenses, with increase accompanied by the expansion of business and consolidation of new companies, increased by 8.4% or 39.4 billion yen to 506.3 billion yen (4,310 million U.S. dollars).

Provision for doubtful receivables increased by 8.5 billion yen from the previous fiscal year mainly due to loss on Iraq receivables.

Although **Net interest expenses** was increased by 23.7% or 5.0 billion yen in year-to-year comparison, due to U.S. interest rate rise, increasing in **Net financial expenses** remained confined to 13.6% or 0.9 billion yen to 7.8 billion yen (67 million U.S. dollars) compared with the previous fiscal year mainly because of the increase in dividends received from the LNG-related investments.

Concerning the other profits and losses, **Loss on property and equipment-net** decreased by 2.0 billion yen to the loss of 7.9 billion yen (67 million U.S. dollars), and **Other-net** decreased by 12.8 billion yen to the loss of 12.4 billion yen (105 million U.S. dollars) reflecting recorded loss of a legal settlement (19.5 billion yen or 185 million U.S. dollars) of an overseas trading subsidiary in the U.S.

However, **Gain (loss) on disposal of investments and marketable securities, including write-down** improved by 77.0 billion yen to 51.6 billion yen (439 million U.S. dollars) due to an increase in profit from disposal of U.S. 7-Eleven, Inc. (13.6 billion yen or 112 million U.S. dollars) and U.S. healthcare-related securities (10.8 billion yen or 101 million U.S. dollars), as well as the absence of loss on goodwill impairment relating to investment in FamilyMart (45.1 billion yen) of previous fiscal year.

As a result, **Income before income taxes, minority interests, equity in earnings of associated companies, and cumulative effect of an accounting change** increased by 80.8% or 96.9 billion yen to 216.9 billion yen (1,846 million U.S. dollars) from the previous fiscal year.

Equity in earnings of associated companies increased by 62.9% or 20.0 billion yen to 51.7 billion yen (441 million U.S. dollars) due to contribution of steel products-related associated company and a new finance-related associated company.

Net income for this fiscal year stood at 145.1 billion yen (1,236 million U.S. dollars), increased by 86.6% or 67.4 billion yen from the previous fiscal year with added loss of 3.4 billion yen (29 million U.S. dollars) of cumulative effect of early adoption of an accounting change (Accounting for Stripping Costs Incurred during Production in Mining Industry).

Note: "Total trading transactions" is presented in accordance with Japanese accounting practice.

Total trading transactions in the consolidated statements of operations consist of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.

Financial Conditions

Total assets as of March 31, 2006 increased by 7.3% or 324.7 billion yen from March 31, 2005, to 4,797.0 billion yen (40,836 million U.S. dollars) due to increase in trade receivables by increasing transactions along with rising prices of marketable commodities such as metals, energy and chemicals, investment in Orient Corporation, and increase in equity in earnings of associated companies and in investments of available-for-sale securities resulting from rising in stock prices.

Stockholders' equity increased by 42.4% or 216.4 billion yen from March 31, 2005, to 726.8 billion yen (6,187 million U.S. dollars) due to Unrealized holding gains on securities through rising stock prices, and an improvement in Foreign currency translation adjustments through yen's depreciation against U.S. dollar at the end of this fiscal year, in addition to an increase in retained earnings realized by net income for fiscal 2006. As a result, **Ratio of stockholders' equity** improved by 3.7 point from March 31, 2005 to 15.2%.

Net interest-bearing debts (interest-bearing debts after deducting cash, cash equivalents and time deposit) decreased by 8.8% or 166.8 billion yen from March 31, 2005, to 1,724.3 billion yen (14,679 million U.S. dollars).

As a result, **NET DER** (Net Debt-to-Equity Ratio) improved by 1.3 point from March 31, 2005, to 2.4 times.

Cash flows from **operating activities** recorded net cash-inflow of 185.1 billion yen (1,576 million U.S. dollars), due to good results in operating revenue mainly from overseas resource-related business.

Net cash used in **investing activities** was 79.9 billion yen (680 million U.S. dollars) mainly due to investment in Orient Corporation. Net cash flow from **financial activities** recorded net cash-outflow of 85.2 billion yen (725 million U.S. dollars) as a result of on-going efforts to reduce interest-bearing debts.

As a result, the current balance of **cash and cash equivalents** as of March 31, 2006 increased by 24.8 billion yen to 477.7 billion yen (4,067 million U.S. dollars) from March 31, 2005.

The trend of consolidated cash flow indices is as follows;

(Years ended March 31)

	2002	2003	2004	2005	2006
Ratio of stockholders' equity to total assets (%)	8.4	9.5	9.4	11.4	15.2
Ratio of market capitalization to total assets (%)	12.9	10.2	16.5	19.1	33.3
Years of debts redemption (years)	12.9	15.2	13.9	18.5	12.0
Interest coverage ratio 2 (times)	2.9	3.4	4.4	4.1	4.7

Ratio of stockholders' equity to total assets (%) = Stockholders' equity / Total assets

Ratio of market capitalization to total assets (%) = Market capitalization / Total assets

Years of debts redemption (years) = Interest-bearing debts / Cash flows from operating activities

Interest coverage ratio 2 (times) = Cash flows from operating activities / Interest paid

(*) Cash flows from operating activities are used. Interest-bearing debts are all the liabilities on the consolidated balance sheets that oblige to pay interest.

Note: The consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of 117.47 yen = 1 U.S. dollars, the exchange rate prevailing on March 31, 2006. 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.

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 business. 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 assumption and estimates based on information currently available at the year end, March 31, 2006.

(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 business 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 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 a consumer and retail-related segment 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. and Asian countries, which take the lead in the world economy.

Furthermore, with the recent steady expansion of demand in China, one of ITOCHU's priority markets, the Group has conducted business and trade there at a rapid pace for many areas of business. Consequently, Chinese economic trends 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

The Company and certain Group companies are exposed to foreign exchange rate risk related to transactions in foreign currencies due to its 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 the Company 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 account 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, the Company 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 fluctuating 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 as well as certain Group Companies also participate in 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, or from falling into a situation unable to fulfill its obligations as an involved party unable to continue its business and assume a responsibility to fulfill the contracts.

In the Company, the credit department of each Division Company, 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. The 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 businesses and withdrawing from an investment, ITOCHU has a standard for decision making. However, serious adverse influences on the future corporate results and financial standing of ITOCHU Group are possible in the event that the Group is unable to achieve the Group's forecasted results due to a deteriorating economic environment for businesses in which the Group has invested or the deteriorating corporate results and financial standing of ITOCHU's partners, and in the event that ITOCHU Group is unable to withdraw from a business or restructure the business under a timeframe or method that the Group desires. In such instances, whole or partial investment losses or the infusion of additional funds may be required; in such case it could affect the future corporate results and financial standing of ITOCHU Group. Besides, the necessity of booking impairment losses could arise should the likelihood of recovering ITOCHU's investment diminish due to poor corporate results for investees, or should stock prices be expected to drop below specified levels for a considerable period of time. Such occurrences could have a serious, adverse effect on the financial position and results of operations of ITOCHU Group.

(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 further 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 stock 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's Company 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 March 31, 2006, 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.

(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 taxes has a substantial impact on ITOCHU's consolidated financial statements. Considering the necessity of an allowance for deferred income taxes, ITOCHU Group reports the realizable amount of deferred income taxes, 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 taxes 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 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 European and North American companies 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, adversely affecting 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 operation 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.

For the reference sake, the lawsuit brought against ITOCHU International Inc. and its subsidiary, III Holding Inc. (formerly known as Copelco Financial Services Group, Inc.) (collectively, "III") by Citibank N.A. and its subsidiary, Citibank Canada (collectively, "Plaintiff") in connection with the Plaintiff's acquisition of all the common stocks of Copelco Capital Inc., a subsidiary of III Holding Inc. for a purchase price of approximately 666 million U.S. dollars in May, 2000, which was pending before the New York Supreme Court for New York County was settled through outside-court mediation by a basic agreement for settlement reached between the Plaintiff and III dated August 9, 2005. As a result of the basic agreement, a definitive settlement agreement was entered into between the Plaintiff and III on August 18, 2005, and III paid the settlement amount in 185 million U.S. dollars to the Plaintiff, and the lawsuit was withdrawn with prejudice on August 19, 2005.

(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 Group, 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 in the Company. ITOCHU has established information systems to facilitate the sharing of information internally within the 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.

Performance of Group Companies (1)

Years ended March 31, 2006 and 2005

Components of Consolidated Net Income

(Unit: billion yen)	2006	2005	Increase (Decrease)
Parent company	54.4	33.0	21.4
Group companies excluding overseas trading subsidiaries	113.2	47.9	65.3
Overseas trading subsidiaries	15.7	13.2	2.6
Subtotal	183.3	94.1	89.2
Consolidation adjustments	(38.1)	(16.3)	(21.8)
Consolidated net income	145.1	77.8	67.4
Adjusted profit	252.0	188.8	63.2

(Note) Adjusted profit = Gross trading profit + SG&A expenses
+ Net financial expenses + Equity in earnings of associated companies

Number of Group Companies

	March 31, 2006			March 31, 2005			Increase	Decrease	Changes within Group	Net changes	
	Domestic	Overseas	Total	Domestic	Overseas	Total					
Subsidiaries	220	222	442	222	229	451	+31	(40)	+3	(3)	(9)
Associated companies	95	114	209	94	111	205	+25	(21)	(3)	+3	+4
Total	315	336	651	316	340	656	+56	(61)			(5)

Number of Direct Controlled Companies

	March 31, 2006			March 31, 2005			Increase	Decrease	Changes within Group	Net changes	
	Domestic	Overseas	Total	Domestic	Overseas	Total					
Subsidiaries	142	142	284	144	141	285	+14	(16)	+4	(3)	(1)
Associated companies	66	86	152	63	83	146	+19	(12)	(4)	+3	+6
Total	208	228	436	207	224	431	+33	(28)			+5

(Note) Direct controlled companies are monitored by the necessity of ITOCHU Corporation to directly implement its group management strategy, that exclude unsubstantial paper companies, indirect investing affiliates and overseas branch offices, from ITOCHU subsidiaries and associated companies.

Profits/Losses of Group Companies Reporting Profits/Losses

	(Unit: billion yen)								
	2006			2005			Increase (Decrease)		
	Profits	Losses	Total	Profits	Losses	Total	Profits	Losses	Total
Group companies excluding overseas trading subsidiaries	132.6	(19.4)	113.2	86.7	(38.8)	47.9	45.9	19.3	65.3
Overseas trading subsidiaries	16.1	(0.3)	15.7	14.7	(1.5)	13.2	1.4	1.2	2.6
Total	148.7	(19.8)	128.9	101.3	(40.3)	61.1	47.3	20.5	67.8

Number/Share of Group Companies Reporting Profits

		2006			2005			Increase (Decrease)		
		Profits	Losses	Total	Profits	Losses	Total	Profits	Losses	Total
Subsidiaries	Domestic	186	34	220	182	40	222	4	(6)	(2)
	Overseas	188	34	222	204	25	229	(16)	9	(7)
	Total	374	68	442	386	65	451	(12)	3	(9)
	Share (%)	84.6%	15.4%	100.0%	85.6%	14.4%	100.0%			
Associated companies	Domestic	76	19	95	73	21	94	3	(2)	1
	Overseas	80	34	114	86	25	111	(6)	9	3
	Total	156	53	209	159	46	205	(3)	7	4
	Share (%)	74.6%	25.4%	100.0%	77.6%	22.4%	100.0%			
Total	Domestic	262	53	315	255	61	316	7	(8)	(1)
	Overseas	268	68	336	290	50	340	(22)	18	(4)
	Total	530	121	651	545	111	656	(15)	10	(5)
	Share (%)	81.4%	18.6%	100.0%	83.1%	16.9%	100.0%			

Profits/Losses of Group Companies Reporting Profits/Losses

		(Unit: billion yen)								
		2006			2005			Increase (Decrease)		
		Profits	Losses	Total	Profits	Losses	Total	Profits	Losses	Total
Subsidiaries	Domestic	40.0	(11.2)	28.8	27.0	(28.2)	(1.3)	13.1	17.0	30.1
	Overseas (*)	53.5	(5.1)	48.4	36.0	(5.4)	30.6	17.5	0.3	17.8
	Total	93.5	(16.3)	77.2	63.0	(33.7)	29.3	30.5	17.3	47.9
Associated companies	Domestic	41.2	(2.2)	39.0	27.6	(3.7)	23.9	13.7	1.5	15.2
	Overseas	13.9	(1.2)	12.7	10.8	(2.9)	7.9	3.1	1.7	4.8
	Total	55.2	(3.4)	51.7	38.4	(6.6)	31.8	16.8	3.2	20.0
Total	Domestic	81.3	(13.4)	67.9	54.5	(31.9)	22.6	26.7	18.5	45.3
	Overseas	67.4	(6.4)	61.0	46.8	(8.3)	38.5	20.6	2.0	22.6
	Total	148.7	(19.8)	128.9	101.3	(40.3)	61.1	47.3	20.5	67.8

(*)Results of "Overseas trading subsidiaries" which are included in the above "Overseas" are as follows:

	2006			2005			Increase (Decrease)		
	Profits	Losses	Total	Profits	Losses	Total	Profits	Losses	Total
Overseas trading subsidiaries	16.1	(0.3)	15.7	14.7	(1.5)	13.2	1.4	1.2	2.6

Major New Group Companies

Business Field	Name	Shares	Categories
Textile	Paul Smith Group Holdings Limited	(40.4%)	All-round apparel business (Holder of Paul Smith brand)
Machinery	Rabigh Arabian Water and Electricity Company	(20.1%)	Utility business (Supply of water, electric power and steam)
Aerospace, Electronics & Multimedia	Excite Credit	(61.0%)	Card loan and other credit card business
Metals & Minerals	i-Recycle Inc.	(100.0%)	Trade of scrap and recycle business
Energy	Nissho Petroleum Gas Corporation	(25.0%)	Import and wholesale of LPG and petroleum products
Forest Products & General Merchandise	ITR USA, Inc.	(100.0%)	Wholesale of tires in the U.S.
Chemicals	SANIPAK COMPANY OF JAPAN, LTD.	(80.0%)	Manufacturing and sale of plastic bags
Finance	Orient Corporation	(21.0%)	Consumer credit

Performance of Group Companies (2)

Years ended March 31, 2006 and 2005

Major Group Companies

(Unit: billion yen)

	Name	Shares	Method of Consolidation	Net income (*1)		Categories	Fiscal 2007 Forecasts
				2006	2005		
Textile	JOIX CORPORATION	100.0%	Consolidation	1.2	0.8	Sale of men's apparel	1.0
	Prominent Apparel Ltd. (Hong Kong)	100.0%	Consolidation	0.0	0.2	Production control and wholesale of textile and apparel	0.5
	TOMMY HILFIGER JAPAN, CO.,	60.0%	Consolidation	0.6	0.6	Sale of Tommy Hilfiger brand products	0.6
Machinery	ITOCHU Sanki Corporation	100.0%	Consolidation	0.4	0.3	Wholesale of industrial machinery	0.3
	Century Medical, Inc.	100.0%	Consolidation	0.1	0.3	Wholesale of medical equipment and materials	0.3
	MCL Group Ltd. (*4) (U.K.)	100.0%	Consolidation	0.4	0.2	Warehousing, Retail and financing of motor vehicles	0.6
	ITOCHU Automobile America Inc. (U.S.A.)	100.0%	Consolidation	1.1	1.1	Holding company for auto-related business	1.2
	Century Leasing System, Inc.	20.2%	Equity	1.3	1.1	Diversified leasing business	(*3)
Aerospace, Electronics & Multimedia	ITOCHU TECHNO-SCIENCE Corporation	48.7%	Consolidation	5.5	5.1	System consultation, integration, administration, maintenance, support, training, and outsourcing	(*3)
	CRC Solutions Corp.	40.3%	Consolidation	1.1	1.0	Information Processing service, system integration, sales, administration, and support	(*3)
	Excite Japan Co., Ltd	65.5%	Consolidation	(*2)	0.4	Internet portal services	(*3)
	ITC NETWORKS CORPORATION	70.8%	Consolidation	2.1	2.3	Retail network of mobile phones	(*3)
	NANO Media Inc.	51.7%	Consolidation	(*2)	0.2	Providing mobile contents and integrated broadcast communication service	(*3)
	SPACE SHOWER NETWORKS INC.	51.0%	Consolidation	0.2	0.1	Music channel on cable/satellite television	(*3)
	JAMCO Corporation	20.6%	Equity	(*2)	0.1	Maintenance of aircraft and manufacture of aircraft interior	(*3)
	SUNCALL CORPORATION	21.3%	Equity	(*2)	0.4	Manufacturing and sale of optical communication devices, electronic devices, and car related devices	(*3)
Energy, Metals & Minerals	ITOCHU Non-Ferrous Materials Co., Ltd.	100.0%	Consolidation	1.0	0.8	Wholesale of non-ferrous/light metals and products	1.0
	ITOCHU Petroleum Japan Ltd. (*5)	100.0%	Consolidation	2.5	0.4	International trade of crude oil and petroleum products, charter and operation of oil tankers, sale of bunker fuel oil, operation of oil storage facilities	1.6
	ITOCHU Minerals & Energy of Australia Pty Ltd (*6) (Australia)	100.0%	Consolidation	25.9	13.9	Investment in projects of iron ore mining, coal mining and sales, manufacture of alumina, mining of bauxite and oil exploration	23.7
	ITOCHU Oil Exploration (Azerbaijan) Inc. (Cayman)	100.0%	Consolidation	5.2	2.0	Exploration and production of crude oil	13.0
	Marubeni-Itchu Steel Inc.	50.0%	Equity	15.9	9.7	Wholesale of steel products	11.3
	ITOCHU ENEX CO., LTD.	39.7%	Equity	(*2)	(1.8)	Wholesale of petroleum products	(*3)
Chemicals, Forest Products & General Merchandise	ITOCHU Kenzai Corp.	85.9%	Consolidation	0.8	1.5	Wholesale of wood products and building materials	1.4
	ITOCHU Pulp & Paper Corp.	100.0%	Consolidation	1.1	0.5	Wholesale of paper, paperboards, and various paper materials	0.9
	ITOCHU CHEMICAL FRONTIER Corporation (*7)	96.3%	Consolidation	1.3	1.2	Wholesale of fine chemicals and related raw materials	1.3
	ITOCHU PLASTICS INC.	100.0%	Consolidation	2.6	1.8	Development and wholesale of plastics and related products	2.4
	DAIKEN CORPORATION	19.4%	Equity	(*2)	0.0	Manufacture of building materials and construction parts	(*3)
	TAKIRON Co., Ltd.	27.0%	Equity	(*2)	0.6	Manufacture of flat and corrugated plastic sheets	(*3)
Food	C.I. KASEI Co., Ltd.	36.2%	Equity	(*2)	0.2	Manufacture of PVC pipe and film and related materials	(*3)
	ITOCHU SHOKUHIN Co., Ltd.	45.1%	Consolidation	(*2)	0.8	Wholesale and distribution of foods	(*3)
	Nishino Trading Co., Ltd.	85.2%	Consolidation	0.7	0.7	Wholesale of foods and sundries	0.8
	NIPPON ACCESS INC.	32.3%	Equity	(*2)	0.3	Wholesale and distribution of foods	(*3)
	Japan Foods Co., Ltd.	20.8%	Equity	0.0	0.2	Production of soft drinks	(*3)
	Fuji Oil Co., Ltd.	20.1%	Equity	(*2)	1.3	Integrated manufacturer of cooking oil and soybean protein	(*3)
	FamilyMart Co., Ltd. (*8)	30.7%	Equity	4.3	4.0	Operation of a convenience store chain, using the name FamilyMart and a franchise system	(*3)
	Prima Meat Packers, Ltd.	39.7%	Equity	(*2)	3.2	Production and marketing of meat, ham, sausage and processed foods	(*3)
Finance, Realty, Insurance & Logistics Services	ITOCHU Finance Corporation (*9)	90.1%	Consolidation	3.2	2.7	Loan and other finance-related business	2.0
	CENTURY 21 REAL ESTATE OF JAPAN LTD.	55.3%	Consolidation	0.3	0.2	Headquarters of real estate franchise system	(*3)
	i-LOGISTICS CORP.	48.7%	Equity	(*2)	0.4	Comprehensive logistics services	(*3)
	kabu.com Securities Co., Ltd. (*9)	22.6%	Equity	2.1	0.9	Online stock brokerage	(*3)
	Orient Corporation (*10)	21.2%	Equity	(*2)	-	Consumer credit	(*3)
Overseas	ITOCHU International Inc. (*11) (U.S.A.)	100.0%	Consolidation	7.9	8.6	U.S. trading subsidiary	11.9
	ITOCHU Europe PLC. (*12) (U.K.)	100.0%	Consolidation	0.9	(1.5)	European trading subsidiary	0.8
	ITOCHU Hong Kong Ltd. (Hong Kong)	100.0%	Consolidation	1.8	1.5	Hong Kong trading subsidiary	2.2
	ITOCHU(China)Holding Co., Ltd. (China)	100.0%	Consolidation	1.5	0.9	China trading subsidiary	2.5
	ITOCHU Australia Ltd. (*6) (Australia)	100.0%	Consolidation	1.0	0.7	Australian trading subsidiary	0.9

 (*1) ITOCHU's share of net income are **the figures after adjusting to U.S. GAAP**, which can be different from the figures each company announces.

(*2) Please refer to the results announced by each company.

(*3) Each companies' forecasts of fiscal 2007 are as the following list.

Name	Companies' Forecasts	Date of Forecasts	Shares	ITOCHU'S Share of Forecasts	(Expected) Date of Announcement
Century Leasing System, Inc.	7.5	Apr. 26	20.2%	1.5	Apr. 26
ITOCHU TECHNO-SCIENCE Corporation	12.0	Apr. 27	48.7%	5.8	Apr. 27
CRC Solutions Corp.	2.9	Apr. 27	40.3%	1.2	Apr. 27
Excite Japan Co., Ltd	-	May. 11	65.5%	-	May. 11
ITC NETWORKS CORPORATION	2.4	Apr. 26	70.8%	1.7	Apr. 26
NANO Media Inc.	-	Apr. 28	51.7%	-	Apr. 28
SPACE SHOWER NETWORKS INC.	0.4	Apr. 27	51.0%	0.2	Apr. 27
JAMCO Corporation	-	Apr. 28	20.6%	-	Apr. 28
SUNCALL CORPORATION	-	May. 10	21.3%	-	May. 10
ITOCHU ENEX CO., LTD.	-	May. 2	39.7%	-	May. 2
DAIKEN CORPORATION	-	May. 16	19.4%	-	May. 16
TAKIRON Co., Ltd.	-	May. 17	27.0%	-	May. 17
C.I. KASEI Co., Ltd.	-	May. 19	36.2%	-	May. 19
ITOCHU SHOKUHIN Co., Ltd.	3.7	Nov. 15	45.1%	(Note1)	May. 15
Japan Foods Co., Ltd.	0.4	Apr. 24	20.8%	0.1	Apr. 24
Fuji Oil Co., Ltd.	-	May. 11	20.1%	-	May. 11
FamilyMart Co., Ltd.	16.1	Apr. 11	30.7%	4.9	Apr. 11
Prima Meat Packers, Ltd.	-	May. 22	39.7%	-	May. 22
CENTURY 21 REAL ESTATE OF JAPAN LTD.	0.6	Apr. 25	55.3%	0.3	Apr. 25
i-LOGISTICS CORP.	-	Apr. 28	48.7%	-	Apr. 28
kabu.com Securities Co., Ltd.	(Note2)		22.6%	-	Apr. 21
Orient Corporation	-	May. 17	21.2%	-	May. 17

 These figures do **not** include U.S. GAAP adjustments.

(Note 1) Please refer to the forecast announced by this company, which fiscal year's closing month is September.

(Note 2) This company doesn't disclose the forecast.

Performance of Group Companies (3)

Years ended March 31, 2006 and 2005

Major Group Companies Reporting Profits

(Unit: billion yen)

Name	Segment (*13)	Shares	Net income (*1)		Comments
			2006	2005	
[Domestic subsidiaries]					
ITOCHU TECHNO-SCIENCE Corporation	Aer	48.7%	5.5	5.1	Increase due to good results in system transactions for IT and financial industries
ITOCHU Finance Corporation	(*9) Fin	90.1%	3.2	2.7	Increase due to finance-related business
ITOCHU PLASTICS INC.	Che	100.0%	2.6	1.8	Increase due to continued good performance in plastic products, wrapping/industrial materials
ITOCHU Petroleum Japan Ltd.	(*5) Ene	100.0%	2.5	0.4	Provision for a large customer for the previous fiscal year Good performance in tanker market and crude oil trade for this fiscal year
ITC NETWORKS CORPORATION	Aer	70.8%	2.1	2.3	Decrease from expenses for new shops despite increase in prepaid products transaction
ITOCHU CHEMICAL FRONTIER Corporation	(*7) Che	96.3%	1.3	1.2	Increase in gross trading profit and increase due to cost-cutting
JOI'X CORPORATION	Tex	100.0%	1.2	0.8	Increase due to good sales
CRC Solutions Corp.	Aer	40.3%	1.1	1.0	Increase due to steady performance in Data Center business
ITOCHU Pulp & Paper Corp.	Che	100.0%	1.1	0.5	Write-down of securities in the previous fiscal year, steady growth in this fiscal year
ITOCHU Non-Ferrous Materials Co., Ltd.	Ene	100.0%	1.0	0.8	Increase due to business expansion in freezer machine trading for marine containers in addition to continuous good performance in raw material transactions
ITOCHU Kenzai Corp.	Che	85.9%	0.8	1.5	Low performance in a subsidiary due to high material cost, and impairment loss on property
[Overseas subsidiaries]					
ITOCHU Minerals & Energy of Australia Pty Ltd	(*6)(Australia) Ene	100.0%	25.9	13.9	Substantial increase due to higher price in coal and iron ore
ITOCHU International Inc.	(*11)(U.S.A.) Ove	100.0%	7.9	8.6	Decrease due to loss of legal settlement despite steady growth in Group Companies and gain on sales of securities
Prime Source Building Products, Inc.	(*11)(U.S.A.) Che	100.0%	7.7	7.5	Increase due to expansion of product line and promotion of cost-cutting
ITOCHU Oil Exploration (Azerbaijan) Inc.	(Cayman) Ene	100.0%	5.2	2.0	Increase in sales due to a start of full-scale production and good market of crude oil
ITOCHU Hong Kong Ltd.	(Hong Kong) Ove	100.0%	1.8	1.5	Good results of consumer credit related associated company and profit increase from insurance subsidiary
ITOCHU(China)Holding Co., Ltd.	(China) Ove	100.0%	1.5	0.9	Increase due to trade increase in Chemicals, Forest Products & General Merchandise
ITOCHU Automobile America Inc.	(U.S.A.) Mac	100.0%	1.1	1.1	Almost at the same level as previous fiscal year due to worsened financial expenses by higher interest rate despite increase from acquisition of a dealer
ITOCHU Australia Ltd.	(*6)(Australia) Ove	100.0%	1.0	0.7	Increase due to good performance of mineral and energy resource-related company
ITOCHU Europe PLC.	(*12)(U.K.) Ove	100.0%	0.9	(1.5)	Increase due to depreciation/allowance at a subsidiary in the previous fiscal year
ITOCHU (Thailand) Ltd.	(Thailand) Ove	100.0%	0.8	1.0	Decrease due to a good result in chemicals in the previous fiscal year
[Domestic associated companies]					
Marubeni-Itochu Steel Inc.	Ene	50.0%	15.9	9.7	Good performance in automotive steel and tubular products
FamilyMart Co., Ltd.	(*8) Fod	30.7%	4.3	4.0	Good performance due to sales increase of ready-to-eat food products and increase in number of stores
kabu.com Securities Co., Ltd.	(*9) Fin	22.6%	2.1	0.9	Increase in number of customers and volumes of stock deal
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	Che	25.9%	1.3	(0.6)	Impairment loss on goodwill of investment in Cenibra for the previous fiscal year
Century Leasing System, Inc.	Mac	20.2%	1.3	1.1	Good lease transactions mainly on IT instruments through recovering demand for investments in facilities
AI Beverage Holding Co., Ltd.	Fod	20.0%	1.0	0.0	Contribution from beverage business in China invested in the previous fiscal year
[Overseas associated companies]					
BERKSHIRE OIL CO., LTD.	(*5)(Hong Kong) Ene	50.0%	1.9	0.7	Good heavy oil trading and good sales of bunker oil in Panama
Mazda Canada Inc.	(Canada) Mac	40.0%	1.6	0.7	Good sales of Mazda's cars in Canada

Major Group Companies Reporting Losses

(Unit: billion yen)

Name	Segment (*13)	Shares	Net income (*1)		Comments
			2006	2005	
[Domestic subsidiaries]					
ITOCHU BUILDING CORPORATION	Fin	100.0%	(2.7)	0.2	Impairment loss due to worsened cash flow by changed rental agreement terms
On Demand TV, Inc.	Aer	66.3%	(1.2)	(0.1)	Increased precedent expenses in order to obtain customer viewers
ILLMUS JAPAN CO.LTD.	Che	85.0%	(0.9)	(0.3)	Decrease due to impairment loss on property and equipment in addition to low performance of the two new stores and higher cost
[Overseas subsidiaries]					
Stapleton's (Tyre Services) Ltd.	(*12)(U.K.) Che	100.0%	(2.4)	(0.5)	Decrease in sales by low performance of U.K. market and decrease due to restructuring loss for management improvement by store-closing and warehouse-consolidation
ITOCHU AirLease B.V.	(Netherlands) Aer	100.0%	(1.1)	(0.8)	Decrease mainly due to impairment loss on aircraft and bad loans
[Domestic associated companies]					
Famima Credit Corporation	(*8) Fin	49.9%	(0.5)	(0.6)	Deficit decrease due to profit improvement by increased members

(*4) The net income of MCL Group Ltd. for the previous fiscal year includes that of AUTOMOTIVE GROUP LIMITED (*13) Tex : Textile
which was consolidated by MCL Group Ltd. in January, 2005. Mac : Machinery

(*5) The net income of ITOCHU Petroleum Japan Ltd. includes 25% of that of BERKSHIRE OIL CO., LTD. Aer : Aerospace, Electronics & Multimedia
Ene : Energy, Metals & Minerals

(*6) The net income of ITOCHU Australia Ltd. includes 3.7% of that of ITOCHU Minerals & Energy of Australia Pty Ltd. Che : Chemicals, Forest Products & General Merchandise
Fod : Food

(*7) The net income of ITOCHU CHEMICAL FRONTIER Corporation for the previous fiscal year includes that of ITOCHU Techno-Chemical Inc. which was merged with ITOCHU CHEMICAL FRONTIER Corporation in April, 2005. Fin : Finance, Realty, Insurance & Logistics Services
Ove : Overseas trading subsidiaries

(*8) The net income of FamilyMart Co., Ltd. includes 10.2% of that of Famima Credit Corporation.

(*9) The net income of ITOCHU Finance Corporation includes 4.2% of that of kabu.com Securities Co., Ltd.

(*10) Orient Corporation is joined to Group Companies from this fiscal year.

(*11) The net income of ITOCHU International Inc. includes 80% of that of Prime Source Building Products, Inc.

(*12) The net income of ITOCHU Europe PLC includes 8.1% of that of Stapleton's (Tyre Services) Ltd.

Consolidated Balance Sheets (Assets) [Condensed]

ITOCHU Corporation and Subsidiaries

as of March 31, 2006 and 2005

-Unaudited-

Assets	Millions of Yen		Millions of U.S. dollars
	Mar. 2006	Mar. 2005	Mar. 2006
Current assets:			
Cash and cash equivalents.....	477,707	452,934	4,067
Time deposits.....	24,447	2,684	208
Marketable securities.....	48,282	49,149	411
Trade receivables:			
Notes.....	149,386	155,593	1,271
Accounts.....	1,079,404	950,482	9,189
Allowance for doubtful receivables.....	(17,755)	(20,222)	(151)
Net trade receivables.....	1,211,035	1,085,853	10,309
Due from associated companies.....	93,569	90,174	797
Inventories.....	458,876	420,069	3,906
Advances to suppliers.....	121,252	86,453	1,032
Prepaid expenses.....	28,771	22,878	245
Deferred tax assets.....	35,165	40,096	299
Other current assets.....	180,519	191,605	1,537
Total current assets.....	2,679,623	2,441,895	22,811
Investments and non-current receivables:			
Investments in and advances to associated companies.....	619,007	472,468	5,269
Other investments.....	528,440	441,783	4,499
Other non-current receivables.....	196,409	329,582	1,672
Allowance for doubtful receivables.....	(103,600)	(143,229)	(882)
Net investments and non-current receivables.....	1,240,256	1,100,604	10,558
Property and equipment, at cost:			
Land.....	152,149	165,148	1,295
Buildings.....	293,605	310,907	2,499
Machinery and equipment.....	263,637	250,298	2,244
Furniture and fixtures.....	52,607	49,217	448
Mineral rights.....	41,296	28,230	352
Construction in progress.....	10,582	4,482	90
Total property and equipment, at cost.....	813,876	808,282	6,928
Less accumulated depreciation.....	326,088	310,924	2,776
Net property and equipment.....	487,788	497,358	4,152
Prepaid pension cost.....	186,105	178,890	1,585
Deferred tax assets, non-current.....	47,365	109,085	403
Other assets.....	155,876	144,513	1,327
Total.....	4,797,013	4,472,345	40,836

Note :

Consolidated balance sheets have been prepared in conformity with accounting principles generally accepted in the United States of America.

Consolidated Balance Sheets (Liabilities and Stockholders' Equity) [Condensed]

-Unaudited-

ITOCHU Corporation and Subsidiaries

as of March 31, 2006 and 2005

Liabilities and Stockholders' Equity	Millions of Yen		Millions of U.S. dollars
	Mar. 2006	Mar. 2005	Mar. 2006
Current liabilities:			
Short-term debt	382,434	421,697	3,256
Current maturities of long-term debt.....	173,097	255,173	1,473
Trade payables:			
Notes and acceptances.....	156,395	161,798	1,331
Accounts.....	921,797	805,150	7,847
Total trade payables.....	1,078,192	966,948	9,178
Due to associated companies.....	46,680	42,050	397
Accrued expenses.....	111,078	98,136	946
Income taxes payable.....	38,361	24,032	327
Advances from customers.....	135,790	90,153	1,156
Deferred tax liabilities.....	605	802	5
Other current liabilities.....	163,589	161,148	1,393
Total current liabilities	2,129,826	2,060,139	18,131
Long-term debt, excluding current maturities.....	1,762,103	1,750,815	15,001
Accrued retirement and severance benefits.....	19,081	22,405	162
Deferred tax liabilities, non-current.....	29,470	11,653	251
Commitments and contingent liabilities			
Minority interests.....	129,717	116,936	1,104
Stockholders' equity:			
Common stock:			
Authorized 3,000,000,000 shares;			
Issued:			
1,584,889,504 shares	202,241	202,241	1,722
Capital surplus	137,035	137,024	1,167
Retained earnings:			
Legal reserve	5,667	3,927	48
Other retained earnings	310,261	184,273	2,641
Total retained earnings	315,928	188,200	2,689
Accumulated other comprehensive income (loss):			
Foreign currency translation adjustments.....	(25,801)	(63,419)	(220)
Minimum pension liability adjustments.....	(2,086)	(2,047)	(18)
Unrealized holding gains on securities.....	97,689	52,746	832
Unrealized holding losses on derivative instruments.....	3,087	(3,522)	26
Total accumulated other comprehensive income (loss)...	72,889	(16,242)	620
Treasury stock, at cost.....	(1,277)	(826)	(11)
Total stockholders' equity	726,816	510,397	6,187
Total	4,797,013	4,472,345	40,836

[Explanation for Consolidated Balance Sheets]

Total assets as of March 31, 2006 increased by 324.7 billion yen from March 31, 2005, to 4,797.0 billion yen (40,836 million U.S. dollars) due to increase in trade receivables by increasing transactions along with rising prices of marketable commodities such as metals, energy and chemicals, investment in Orient Corporation, and increase in equity in earnings of associated companies and in investments of available-for-sale securities resulting from rising in stock prices.

Assets

		(Unit: billion yen)			Reasons for changes
		Mar 2006	Mar 2005	Increase (Decrease)	
Net trade receivables	...	1,211.0	1,085.9	125.2	Mainly increase in Energy and Chemicals; Forest Products & General Merchandise
Inventories	...	458.9	420.1	38.8	Mainly increase in Machinery; Forest Products & General Merchandise; and Food
Advances to suppliers	...	121.3	86.5	34.8	Mainly increase in Machinery and Aerospace, Electronics & Multimedia
Investments in and advances to associated companies	...	619.0	472.5	146.5	Mainly increase in investment in Orient Corporation and Equity in earnings of associated companies of this fiscal year
Other investments	...	528.4	441.8	86.7	Increase due to acquisition of an equity share in a natural resource development project and rise in stock prices
Other non-current receivables (after deducting allowance for doubtful receivables)	...	92.8	186.4	(93.5)	Decrease in Iraq receivables and U.S. healthcare-related non-current receivables

Liabilities

		(Unit: billion yen)			Reasons for changes
		Mar 2006	Mar 2005	Increase (Decrease)	
Trade payables	...	1,078.2	966.9	111.2	Mainly increase in Energy; Chemicals; Forest Products & General Merchandise; and Food
Advances from customers	...	135.8	90.2	45.6	Mainly increase in Machinery and Aerospace, Electronics & Multimedia
[Interest-bearing debts]					
Short-term loans payable	...	382.4	421.7	(39.3)	
Current maturities of long-term loans payable	...	133.2	160.5	(27.3)	
Current maturities of debentures	...	39.9	94.6	(54.8)	
Short-term total	...	555.5	676.9	(121.3)	
Long-term loans payable	...	1,519.7	1,472.7	46.9	
Debentures	...	160.8	186.0	(25.2)	
Long-term total	...	1,680.5	1,658.7	21.7	
Total interest-bearing debts	...	2,236.0	2,335.6	(99.6)	
SFAS 133 fair value adjustment	...	(9.5)	11.1	(20.6)	
Adjusted total interest-bearing debts	...	2,226.5	2,346.7	(120.2)	
Cash, cash equivalents and time deposits	...	502.2	455.6	46.5	
Net interest-bearing debts	...	1,724.3	1,891.1	(166.8)	
Net debt-to-equity ratio [times]	...	2.4	3.7	(1.3)	

Stockholders' equity

		(Unit: billion yen)			Reasons for changes
		Mar 2006	Mar 2005	Increase (Decrease)	
Common stock	...	202.2	202.2	-	
Capital surplus	...	137.0	137.0	0.0	
Retained earnings:	...	315.9	188.2	127.7	
Legal reserve	...	5.7	3.9	1.7	
Other retained earnings	...	310.3	184.3	126.0	Net income +145.1, Distribution of dividends -17.4, Transfer to legal reserve -1.7
Accumulated other comprehensive income (loss):	...	72.9	(16.2)	89.1	
Foreign currency translation adjustments	...	(25.8)	(63.4)	37.6	Effect of yen's depreciation against U.S. dollar
Minimum pension liability adjustments	...	(2.1)	(2.0)	(0.0)	
Unrealized holding gains on securities	...	97.7	52.7	44.9	Effect of rise in stock prices
Unrealized holding losses on derivative instruments	...	3.1	(3.5)	6.6	
Treasury stock, at cost	...	(1.3)	(0.8)	(0.5)	
Total stockholders' equity	...	726.8	510.4	216.4	
Ratio of stockholders' equity	...	15.2%	11.4%	3.7%	

[Current exchange rate Yen/US\$]

[For March closing companies]

[For December closing companies]

Mar 2006	Mar 2005	Changes	Dec 2005	Dec 2004	Changes
117.47	107.39	10.08	118.07	104.21	13.86
Mar 2005	Mar 2004	Changes	Dec 2004	Dec 2003	Changes
107.39	105.69	1.70	104.21	107.13	(2.92)

Consolidated Statements of Operations [Condensed]

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2006 and 2005

-Unaudited-

	Millions of Yen		Millions of U.S. dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenue:			
Sales revenue	1,806,650	1,598,672	15,380
Trading margins and commissions on trading transactions....	411,571	392,566	3,503
Total trading transactions : 2006: 10,473,885 million yen (89,162 million U.S.dollars) 2005: 9,576,039 million yen			
Total revenue.....	2,218,221	1,991,238	18,883
Cost of sales.....	(1,503,847)	(1,360,477)	(12,802)
Gross trading profit	714,374	630,761	6,081
Selling, general and administrative expenses	(506,257)	(466,840)	(4,310)
Provision for doubtful receivables.....	(14,728)	(6,181)	(125)
Interest income	13,409	10,774	114
Interest expense	(39,441)	(31,814)	(336)
Dividends received.....	18,216	14,162	155
Gain (loss) on disposal of investments and marketable securities, including write-down.....	51,601	(25,384)	439
Loss on property and equipment-net.....	(7,917)	(5,959)	(67)
Other-net.....	(12,388)	439	(105)
	(497,505)	(510,803)	(4,235)
Income before income taxes, minority interests, equity in earnings of associated companies and cumulative effect of an accounting change.....	216,869	119,958	1,846
Income taxes.....	(106,923)	(62,543)	(910)
Income before minority interests, equity in earnings of associated companies and cumulative effect of an accounting change.....	109,946	57,415	936
Minority interests	(13,098)	(11,387)	(112)
Equity in earnings of associated companies	51,737	31,764	441
Income before cumulative effect of an accounting change.....	148,585	77,792	1,265
Cumulative effect of an accounting change.....	(3,439)	—	(29)
Net income.....	145,146	77,792	1,236

Note :

- Consolidated statements of operations have been prepared in conformity with accounting principles generally accepted in the United States of America.
- "Total trading transactions" is presented in accordance with Japanese accounting practice.
Total trading transactions in the consolidated statements of operations consist of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.
- In accordance with early adoption of Emerging Issues Task Force (EITF) No.04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry", cumulative effect of the accounting change, net of tax is presented from fiscal year 2006, ended March 31,2006.

[Explanation for Consolidated Statements of Operations]

Revenue	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	Reasons for changes
Revenue		2,218.2	1,991.2	227.0	Increase in transactions in automobile; domestic IT industry-related; and resource-related due to rising market prices
Gross trading profit	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	Refer to page 29-30 "Segment Information" Increase due to strong performance in ITOCHU Corporation and existing subsidiaries : +64.5 Effect of newly consolidated subsidiaries : +19.2 Effect of leaving from subsidiaries : -4.5 Effect of exchange rate fluctuations : +4.4
Gross trading profit		714.4	630.8	83.6	
Selling, general and administrative expenses	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	Pension expenses: +0.1 Increase accompanied by expansion of business in existing subsidiaries : -29.6 Effect of newly consolidated subsidiaries : -12.0 Effect of leaving from subsidiaries : +3.6 Effect of exchange rate fluctuations : -1.5
Personnel expenses (including pension expenses)		(225.9) (10.3)	(209.6) (10.4)	(16.3) 0.1	
Service charge, distribution costs		(118.7)	(106.2)	(12.6)	
Rent, depreciation and amortization		(59.4)	(57.0)	(2.4)	
Travel expenses		(21.1)	(19.5)	(1.5)	
Others		(81.2)	(74.6)	(6.6)	
Other expenses		(280.4)	(257.2)	(23.1)	
Total		(506.3)	(466.8)	(39.4)	
Provision for doubtful receivables	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	Loss on Iraq receivables -7.7
Provision for doubtful receivables		(14.7)	(6.2)	(8.5)	
Net financial expenses	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	(Average)
Net financial expenses		(7.8)	(6.9)	(0.9)	<u>2006</u> <u>2005</u> <u>Changes</u>
Interest income		13.4	10.8	2.6	Short-term prime 1.375% 1.375% -
Interest expense		(39.4)	(31.8)	(7.6)	Long-term prime 1.699% 1.690% 0.009%
Net interest expenses		(26.0)	(21.0)	(5.0)	LIBOR US\$ 3M 3.567% 1.624% 1.943%
Dividends received		18.2	14.2	4.1	Effect of rising U.S. interest rate Dividends received from LNG-related investments +3.0 (6.9→-9.9)
Gain (loss) on disposal of investments and marketable securities, including write-down	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	Net gains on disposal of securities +30.5 (28.6→59.1) [This fiscal year : U.S. 7-Eleven, Inc. +13.6, U.S. healthcare-related +10.8], Devaluation losses on securities +42.2 (-46.9→-4.6) [Previous fiscal year : Impairment loss on goodwill of investment in FamilyMart -45.1], Losses for liquidation of businesses and others +4.2 (-7.1→-2.9)
Gain (loss) on disposal of investments and marketable securities, including write-down		51.6	(25.4)	77.0	
Loss on property and equipment-net	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	Net gains (losses) on disposal of fixed assets +3.7 (-1.4→2.3), Impairment losses on fixed assets -5.7 (-4.5→-10.2)
Loss on property and equipment-net		(7.9)	(6.0)	(2.0)	
Other-net	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	Legal settlement of an overseas trading subsidiary in the U.S. -19.5 Net gain on derivative (for Dividends received from LNG-related investments) +2.0
Other-net		(12.4)	0.4	(12.8)	
Minority interests	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	
Minority interests		(13.1)	(11.4)	(1.7)	
Equity in earnings of associated companies	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	Contribution of a steel products-related associated company and a new finance-related associated company Refer to page 16-17 "Performance of Group Companies (2),(3)"
Equity in earnings of associated companies		51.7	31.8	20.0	
Cumulative effect of an accounting change	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	Accounting change of stripping costs in mining industry
Cumulative effect of an accounting change		(3.4)	-	(3.4)	
Total trading transactions	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	Refer to page 29-30 "Segment Information" (Note) Effect of yen's depreciation against U.S. dollar : Approximately +150.0
Total trading transactions		10,473.9	9,576.0	897.8	
Gross trading profit ratio		6.82%	6.59%	0.23%	
Adjusted profit	(Unit : billion yen)	<u>2006</u>	<u>2005</u>	Increase (Decrease)	(*) The amount () presents changes from the same period of the previous fiscal year Adjusted profit(*) (+63.2)= Gross trading profit (+83.6) + SG&A expenses(-39.4) + Net financial expenses(-0.9) + Equity in earnings of associated companies(+20.0)
Adjusted profit		252.0	188.8	63.2	
[Average exchange rate Yen/US\$]	[For March closing companies]	<u>2006</u>	<u>2005</u>	<u>Changes</u>	[For December closing companies]
		112.28	107.94	4.34	<u>2006</u> <u>2005</u> <u>Changes</u>
		<u>2005</u>	<u>2004</u>	<u>Changes</u>	<u>2005</u> <u>2004</u> <u>Changes</u>
		107.94	113.78	(5.84)	108.60 117.10 (8.50)

Consolidated Statements of Stockholders' Equity [Condensed]

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2006 and 2005

-Unaudited-

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Common stock:			
Balance at beginning of year.....	202,241	202,241	1,722
Balance at end of year	202,241	202,241	1,722
Capital surplus:			
Balance at beginning of year	137,024	136,915	1,167
Excess arising from retirement of treasury stock	11	109	0
Balance at end of year.....	137,035	137,024	1,167
Retained earnings:			
Legal reserve:			
Balance at beginning of year	3,927	3,450	33
Transfer from other retained earnings	1,797	575	15
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	(57)	(98)	(0)
Balance at end of year	5,667	3,927	48
Other retained earnings:			
Balance at beginning of year	184,273	106,958	1,569
Net income.....	145,146	77,792	1,236
Cash dividends.....	(17,418)	-	(149)
Transfer to legal reserve	(1,797)	(575)	(15)
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	57	98	0
Balance at end of year	310,261	184,273	2,641
Accumulated other comprehensive income (loss):			
Balance at beginning of year.....	(16,242)	(25,982)	(138)
Other comprehensive income.....	89,131	9,740	758
Balance at end of year	72,889	(16,242)	620
Treasury stock:			
Balance at beginning of year.....	(826)	(716)	(7)
Net changes in treasury stock	(451)	(110)	(4)
Balance at end of year	(1,277)	(826)	(11)
Total.....	726,816	510,397	6,187
Comprehensive income:			
Net income.....	145,146	77,792	1,236
Other comprehensive income (net of tax):			
Net change in foreign currency			
translation adjustments during the year.....	37,618	4,348	320
Minimum pension liability adjustments.....	(39)	(1,413)	(0)
Net change in unrealized holding gains on securities			
during the year.....	44,943	7,093	382
Net change in unrealized holding gains (losses)			
on derivative instruments during the year.....	6,609	(288)	56
Total other comprehensive income.....	89,131	9,740	758
Total.....	234,277	87,532	1,994

[Explanation for Statements of Stockholders' Equity]

Accumulated other comprehensive income (loss)

1. Foreign currency translation adjustments

[Accounting method]

Foreign exchange differences in exchange rate between at invested to the overseas group companies and at the end of this period , are recognized as "Foreign currency translation adjustments" instead of gains or losses for the period on the statements of income.

(Unit:billion yen)	<u>Mar 2006</u>	<u>Mar 2005</u>	increase (Decrease)
Current balance :	(25.8)	(63.4)	37.6
	<u>Dec 2005</u>	<u>Dec 2004</u>	<u>Changes</u>
Current rate :	118.07	104.21	+13.86
(Yen/US\$)	<u>Mar 2006</u>	<u>Mar 2005</u>	<u>Changes</u>
	117.47	107.39	+10.08

2. Minimum pension liability adjustments

[Accounting method]

Net deficient balance of plan assets less benefit obligations is amortized over the certain periods, and unamortized balance is recognized as "Minimum pension liability adjustments".

(Unit:billion yen)	<u>Mar 2006</u>	<u>Mar 2005</u>	increase (Decrease)
Current balance :	(2.1)	(2.0)	(0.0)

The balances of March 2006 and 2005 present net deficient balances of plan assets less benefit obligations that belong to ITOCHU's subsidiaries. ITOCHU Corporation (parent company) is not in net deficient position.

3. Unrealized holding gains on securities

[Accounting method]

Available-for-sale securities, not for trading purposes, are recorded at fair value at the end of this period, and differences (net of taxes) between carrying amount and fair value are recognized as "Unrealized holding gains on securities".

(Unit:billion yen)	<u>Mar 2006</u>	<u>Mar 2005</u>	increase (Decrease)
Current balance :	97.7	52.7	44.9

4. Unrealized holding losses on derivative instruments

[Accounting method]

Interest rate swap agreements that convert floating-rate interests to fixed-rate interests and that are designated and qualified as cash flow hedges, are recorded at fair value at the end of this period, and differences (net of tax) between carrying amount and fair value are recognized as "Unrealized holding gains (losses) on derivative instruments".

Foreign exchange contracts that are primarily used to fix future net cash flows from recognized receivables and payables and unrecognized firm commitments denominated in foreign currencies, are recorded at fair value at the end of this period, and differences (net of tax) between carrying amount and fair value are recognized as "Unrealized holding gains (losses) on derivative instruments".

(Unit:billion yen)	<u>Mar 2006</u>	<u>Mar 2005</u>	increase (Decrease)
Current balance :	3.1	(3.5)	6.6

Consolidated Statements of Cash Flows [Condensed]

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

-Unaudited-

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Cash flows from operating activities :			
Net income	145,146	77,792	1,236
Adjustments to reconcile net income to net cash provided by operating activities :			
Depreciation and amortization	44,062	40,086	375
Provision for doubtful receivables	14,728	6,181	125
(Gain) loss on disposal of investments and marketable securities, including write-down.....	(51,601)	25,384	(439)
Loss on property and equipment-net.....	7,917	5,959	67
Equity in earnings of associated companies, less dividends received ...	(43,239)	(25,942)	(368)
Deferred income taxes	41,691	15,556	355
Minority interests	13,098	11,387	112
Cumulative effect of an accounting change.....	3,439	—	29
Changes in assets and liabilities, other-net	9,906	(29,779)	84
Net cash provided by operating activities	<u>185,147</u>	<u>126,624</u>	<u>1,576</u>
Cash flows from investing activities :			
Net purchases of property, equipment and other assets	(32,417)	(56,815)	(276)
Net (increase) decrease in investments in and advances to associated companies	(43,224)	11,686	(368)
Net purchases of other investments	(5,381)	(80,249)	(46)
Net collections of other non-current loan receivables	14,233	1,810	121
Net (increase) decrease in time deposits.....	(20,491)	653	(174)
Net (increase) decrease in marketable securities.....	7,409	(4,685)	63
Net cash used in investing activities	<u>(79,871)</u>	<u>(127,600)</u>	<u>(680)</u>
Cash flows from financing activities :			
Net repayments of long-term debt	(75,693)	(73,305)	(644)
Net increase (decrease) in short-term debt	2,413	(50,153)	21
Other	(11,913)	(1,884)	(102)
Net cash used in financing activities	<u>(85,193)</u>	<u>(125,342)</u>	<u>(725)</u>
Effect of exchange rate changes on cash and cash equivalents	4,690	(313)	40
Net increase (decrease) in cash and cash equivalents	24,773	(126,631)	211
Cash and cash equivalents at beginning of year	452,934	579,565	3,856
Cash and cash equivalents at end of year	<u>477,707</u>	<u>452,934</u>	<u>4,067</u>

[Explanation for Statements of Cash Flows]

Note :
Explanation for indication

Cash-inflow : " + "
Cash-outflow : "()"

"Decrease in assets" or "Increase in liabilities" : Cash-inflow
"Increase in assets" or "Decrease in liabilities" : Cash-outflow

Cash flows from operating activities

(Unit: billion yen)

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Reasons for increase/decrease</u>
Net income	145.1	77.8	67.4	Changes in net income +67.4
*Non-cash charges of P/L	30.1	78.6	(48.5)	(Gain) loss on disposal of investments and marketable securities, including write-down (77.0), Deferred income taxes +26.1 etc.
Changes in assets and liabilities, other-net	9.9	(29.8)	39.7	Inventories +16.9, Trade receivables/payables +11.2 etc.
Net cash provided by operating activities	185.1	126.6	58.5	

* To eliminate non-cash P/L items such as depreciation/amortization expenses and provision for doubtful receivables, and to transfer P/L on marketable securities, investment, property and equipment from operating activities to investing or financing activities.

Cash flows from investing activities

(Unit: billion yen)

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	
Net purchases of property, equipment and other assets	(32.4) a	(56.8) b	24.4	a : Mineral resources and energy-related subsidiaries (18.1) etc. b : Purchases of land by parent (10.0), Food subsidiaries (9.5) etc.
Net (increase) decrease in investments in and advances to associated companies	(43.2) a	11.7 b	(54.9)	a : Investment in Orient Corporation (47.6) etc. b : Repayment from Star Channel +2.9 etc.
Net purchases of other investments	(5.4)	(80.2) b	74.9	b : Acquisition of preferred share for Orico (22.0), preferred shares for Isuzu Motors Ltd. (19.1) etc.
Net collections of other non-current loan receivables	14.2 a	1.8	12.4	a : Financing subsidiary +8.2 etc.
Net (increase) decrease in time deposits	(20.5) a	0.7	(21.1)	a : Increase in time deposits of parent (20.2)
Net (increase) decrease in marketable securities	7.4 a	(4.7)	12.1	a : Financing subsidiaries +14.5 etc.
Net cash used in investing activities	(79.9)	(127.6)	47.7	

Cash flows from financing activities

(Unit: billion yen)

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	
Net repayments of long-term debt	(75.7) a	(73.3) b	(2.4)	a : ITOCHU International Inc. (18.1), shipping-related subsidiaries (12.2) etc. b : Parent (57.8) etc.
Net increase (decrease) in short-term debt	2.4	(50.2) b	52.6	b : Parent (31.9), ITOCHU International Inc.(10.0) etc.
Other	(11.9) a	(1.9) b	(10.0)	a : Dividends paid (17.4), issuance of stocks to minority shareholders +9.0, dividends paid to minority shareholders (3.1) etc. b : Dividends paid to minority shareholders (3.3) etc.
Net cash used in financing activities	(85.2)	(125.3)	40.1	

(Note)
Changes in current maturities of long-term debt are included in "Net repayments of long-term debt" on the statements of cash flows.

Total Trading Transactions and Gross Trading Profit

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2006 and 2005

	Yen (millions)		U.S.dollars (millions)	
	2006	2005	2006	2005
Total Trading Transactions:				
		%		%
Textile	824,254	7.9	829,093	8.7
Machinery	1,439,528	13.7	1,166,654	12.2
Aerospace, Electronics & Multimedia	699,501	6.7	630,854	6.6
Energy, Metals & Minerals	2,876,186	27.5	2,471,488	25.8
Chemicals, Forest Products & General Merchandise	1,967,277	18.8	1,893,215	19.8
Food	2,150,029	20.5	2,111,932	22.0
Finance, Realty, Insurance & Logistics Services, & Other	517,110	4.9	472,803	4.9
Total	10,473,885	100.0	9,576,039	100.0

	Yen (millions)		U.S.dollars (millions)	
	2006	2005	2006	2005
Gross Trading Profit:				
		%		%
Textile	122,867	17.2	112,843	17.9
Machinery	69,545	9.7	57,973	9.2
Aerospace, Electronics & Multimedia	116,445	16.3	108,410	17.2
Energy, Metals & Minerals	73,866	10.3	39,079	6.2
Chemicals, Forest Products & General Merchandise	111,109	15.6	105,939	16.8
Food	142,562	20.0	136,161	21.6
Finance, Realty, Insurance & Logistics Services, & Other	77,980	10.9	70,356	11.1
Total	714,374	100.0	630,761	100.0

[Explanation for Total Trading Transactions and Gross Trading Profit]

Total trading transactions by products

(Unit:billion yen)

	2006		2005		Increase/Decrease	
	Amounts	(Components)	Amounts	(Components)	Amounts	(Changes ratio)
Energy, Metals & Minerals	2,876.2	(27.5 %)	2,471.5	(25.8 %)	+ 404.7	(+ 16.4 %)
Metals and Minerals	460.6	(4.4 %)	375.6	(3.9 %)	+ 85.0	(+ 22.6 %)
Energy	2,415.6	(23.1 %)	2,095.9	(21.9 %)	+ 319.7	(+ 15.3 %)
Chemicals, Forest Products & General Merchandise	1,967.3	(18.8 %)	1,893.2	(19.8 %)	+ 74.1	(+ 3.9 %)
Forest Products & General Merchandise	898.8	(8.6 %)	847.6	(8.9 %)	+ 51.2	(+ 6.0 %)
Chemicals	1,068.4	(10.2 %)	1,045.6	(10.9 %)	+ 22.9	(+ 2.2 %)
Finance, Realty, Insurance & Logistics Services, & Other	517.1	(4.9 %)	472.8	(4.9 %)	+ 44.3	(+ 9.4 %)
Construction & Realty	145.2	(1.4 %)	154.7	(1.6 %)	- 9.5	(- 6.2 %)
Finance, Insurance & Logistics Services	87.7	(0.8 %)	88.4	(0.9 %)	- 0.7	(- 0.8 %)
Other, Adjustments & Eliminations	284.3	(2.7 %)	229.7	(2.4 %)	+ 54.6	(+ 23.7 %)

(Note)

Yen/US\$ average rate

	[For March closing companies]	[For December closing companies]
2006	112.28 Yen/US\$	109.03 Yen/US\$
2005	107.94 Yen/US\$	108.60 Yen/US\$
	4.34 yen's depreciation (3.87%)	0.43 yen's depreciation (0.39%)

Effects of exchange rate changes on total trading transactions (Estimates)

Import	+50.0
Export	+33.0
Offshore	+67.0
Total	+150.0 billion yen (approximately)

Increase in total trading transactions effected by 1 yen depreciation against U.S.dollars

: Approximately 48.0 billion yen per year

Gross trading profit by products

(Unit:billion yen)

	2006		2005		Increase/Decrease	
	Amounts	(Components)	Amounts	(Components)	Amounts	(Changes ratio)
Energy, Metals & Minerals	73.9	(10.3 %)	39.1	(6.2 %)	+ 34.8	(+ 89.0 %)
Metals and Minerals	48.2	(6.7 %)	25.8	(4.1 %)	+ 22.4	(+ 86.8 %)
Energy	25.6	(3.6 %)	13.3	(2.1 %)	+ 12.4	(+ 93.3 %)
Chemicals, Forest Products & General Merchandise	111.1	(15.6 %)	105.9	(16.8 %)	+ 5.2	(+ 4.9 %)
Forest Products & General Merchandise	72.7	(10.2 %)	70.4	(11.2 %)	+ 2.3	(+ 3.2 %)
Chemicals	38.4	(5.4 %)	35.5	(5.6 %)	+ 2.9	(+ 8.2 %)
Finance, Realty, Insurance & Logistics Services, & Other	78.0	(10.9 %)	70.4	(11.1 %)	+ 7.6	(+ 10.8 %)
Construction & Realty	24.5	(3.4 %)	21.9	(3.5 %)	+ 2.6	(+ 12.0 %)
Finance, Insurance & Logistics Services	21.5	(3.0 %)	17.4	(2.7 %)	+ 4.0	(+ 23.0 %)
Other, Adjustments & Eliminations	32.0	(4.5 %)	31.0	(4.9 %)	+ 1.0	(+ 3.2 %)

Segment Information

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

ITOCHU (ITOCHU Corporation and its subsidiaries) is 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 resource development, advanced technology, information and multimedia.

ITOCHU has 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.

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

	2006								Yen (millions)
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	
Total 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
Net income	14,996	13,676	17,208	57,958	18,625	19,419	9,875	(6,611)	145,146
[Equity in earnings of associated companies].....	[(474)]	[6,434]	[1,796]	[24,028]	[2,756]	[9,308]	[8,038]	[(149)]	[51,737]
Identifiable assets at March 31.....	395,416	489,018	524,715	644,383	634,297	778,787	600,851	729,546	4,797,013
	2005								Yen (millions)
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Total 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
Net income	14,810	10,480	14,362	25,672	20,253	(9,278)	5,360	(3,867)	77,792
[Equity in earnings of associated companies].....	[310]	[4,482]	[1,872]	[11,975]	[1,188]	[10,018]	[2,452]	[(533)]	[31,764]
Identifiable assets at March 31.....	377,230	451,442	489,415	491,012	583,720	727,959	615,304	736,263	4,472,345
	2006								U.S.dollars (millions)
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Total trading transactions:									
Unaffiliated customers and associated companies	7,017	12,254	5,955	24,484	16,747	18,303	1,982	2,420	89,162
Transfers between operating segments	8	73	31	9	57	3	24	(205)	-
Total trading transactions	7,025	12,327	5,986	24,493	16,804	18,306	2,006	2,215	89,162
Gross trading profit	1,046	592	991	629	946	1,213	391	273	6,081
Net income	128	116	147	493	159	165	84	(56)	1,236
[Equity in earnings of associated companies].....	[(4)]	[55]	[15]	[205]	[24]	[79]	[68]	[(1)]	[441]
Identifiable assets at March 31.....	3,366	4,163	4,467	5,485	5,400	6,630	5,115	6,210	40,836

Note :

- "Equity in earnings of associated companies" is included in Net income.
- "Total trading transactions" is presented in accordance with Japanese accounting practice. Total trading transactions consist of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.

[Explanation for Operating Segment Information]

<u>Total trading transactions</u>	(Unit : billion yen)	2006	2005	Increase (Decrease)	Reasons for changes
Textile	...	824.3	829.1	(4.8)	Decrease due to decline in up/midstream despite increase due to contribution of a newly consolidated men's apparel-related subsidiary
Machinery	...	1,439.5	1,166.7	272.9	Increase in plant and automobile transactions
Aerospace, Electronics & Multimedia	...	699.5	630.9	68.6	Good performance in domestic IT industry-related business and increase in aerospace related business
Energy, Metals & Minerals	...	2,876.2	2,471.5	404.7	Increase due to rising prices in coal, iron ore, and crude oil
Chemicals, Forest Products & General Merchandise	...	1,967.3	1,893.2	74.1	Increase due to continuous high level of market prices of chemicals, steady growth in housing material-related transactions in North America, and contribution of newly consolidated subsidiaries
Food	...	2,150.0	2,111.9	38.1	Increase due to contribution of newly consolidated subsidiaries in addition to increase in food distribution transactions
Finance, Realty, Insurance & Logistics Services	...	232.8	243.1	(10.2)	Decrease due to condominium sales reduction
Other, Adjustments & Eliminations	...	284.3	229.7	54.6	Increase in overseas trading subsidiaries in Asia
Total		10,473.9	9,576.0	897.8	
<u>Gross trading profit</u>	(Unit : billion yen)	2006	2005	Increase (Decrease)	Reasons for changes
Textile	...	122.9	112.8	10.0	Increase due to contribution of a newly consolidated men's apparel-related subsidiary despite decline in upstream
Machinery	...	69.5	58.0	11.6	Increase due to expansion of automobile business in Europe & U.S., good performance in construction machinery business in North America
Aerospace, Electronics & Multimedia	...	116.4	108.4	8.0	Increase due to good performance in domestic IT industry-related business
Energy, Metals & Minerals	...	73.9	39.1	34.8	Increase due to rising prices in coal, iron ore, and crude oil
Chemicals, Forest Products & General Merchandise	...	111.1	105.9	5.2	Increase due to good performance in housing material business in North America and good performance of domestic chemical related-subsidiaries; in addition to contribution of newly consolidated subsidiaries
Food	...	142.6	136.2	6.4	Increase due to contribution of newly consolidated subsidiaries in addition to increase in food distribution transactions
Finance, Realty, Insurance & Logistics Services	...	46.0	39.3	6.6	Increase in construction and finance business, and contribution of newly consolidated logistics subsidiary
Other, Adjustments & Eliminations	...	32.0	31.0	1.0	Increase in overseas trading subsidiaries in Asia
Total		714.4	630.8	83.6	
<u>Net income</u>	(Unit : billion yen)	2006	2005	Increase (Decrease)	Reasons for changes
Textile	...	15.0	14.8	0.2	Increase due to gains on disposal of investment securities though equity in earnings of associated companies worsened
Machinery	...	13.7	10.5	3.2	Increase in gains on disposal of investment securities and equity in earnings of associated companies in addition to increase in gross trading profit
Aerospace, Electronics & Multimedia	...	17.2	14.4	2.8	Increase in gross trading profit and gains on disposal of investment securities from listing of media-related subsidiary companies despite increase in SG&A
Energy, Metals & Minerals	...	58.0	25.7	32.3	Increase in gross trading profit and good performance of a steel product-related associated company
Chemicals, Forest Products & General Merchandise	...	18.6	20.3	(1.6)	Decrease due to increase in SG&A in downstream despite improved equity in earnings of associated companies
Food	...	19.4	(9.3)	28.7	Significant improvement due to impairment loss on goodwill relating to investment in Family Mart Co.,Ltd (-26.6 billion yen) in the previous fiscal year despite increase in SG&A and decrease in equity in earnings of associated companies.
Finance, Realty, Insurance & Logistics Services	...	9.9	5.4	4.5	Increase in gross trading profit in construction and finance business, and contribution of a new finance-related associated company as well as gains on disposal of investment securities
Other, Adjustments & Eliminations	...	(6.6)	(3.9)	(2.7)	Decrease due to legal settlement of an overseas trading subsidiary in the U.S. despite increase in gross trading profit and decrease in SG&A and increase in gains on disposal of investment securities
Total		145.1	77.8	67.4	
<u>Identifiable assets</u>	(Unit : billion yen)	2006	2005	Increase (Decrease)	Reasons for changes
Textile	...	395.4	377.2	18.2	Increase in new investments
Machinery	...	489.0	451.4	37.6	Increase in trade receivables due to increase in plant and automobile transactions
Aerospace, Electronics & Multimedia	...	524.7	489.4	35.3	Increase in trade receivables due to sales increase in domestic IT industry-related business for the 4th quarter
Energy, Metals & Minerals	...	644.4	491.0	153.4	Increase in trade receivables of energy due to rising crude oil price
Chemicals, Forest Products & General Merchandise	...	634.3	583.7	50.6	Increase in trade receivables and inventories due to high market prices and yen's depreciation against U.S. dollar
Food	...	778.8	728.0	50.8	Increase in trade receivables and inventories due to increase in transactions, and in investment securities
Finance, Realty, Insurance & Logistics Services	...	600.9	615.3	(14.5)	Decrease in construction-related assets; and a domestic logistics group company classified from consolidation to equity despite new investment in finance-related associated company
Other, Adjustments & Eliminations	...	729.5	736.3	(6.7)	Decrease due to disposal of subsidiaries of overseas trading subsidiaries despite increase in cash and cash equivalent
Total		4,797.0	4,472.3	324.7	

Information concerning operations in different geographical areas for the years ended March 31, 2006 and 2005 is as follows:

	2006						Yen (millions)
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Total 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	<u>8,920,378</u>	<u>825,858</u>	<u>271,007</u>	<u>3,935,507</u>	<u>789,441</u>	<u>(4,268,306)</u>	<u>10,473,885</u>
Identifiable assets at March 31	<u>3,998,905</u>	<u>318,010</u>	<u>163,904</u>	<u>318,962</u>	<u>325,150</u>	<u>(327,918)</u>	<u>4,797,013</u>

	2005						Yen (millions)
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Total 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	<u>8,625,170</u>	<u>669,724</u>	<u>228,245</u>	<u>3,150,684</u>	<u>517,777</u>	<u>(3,615,561)</u>	<u>9,576,039</u>
Identifiable assets at March 31	<u>3,836,513</u>	<u>295,259</u>	<u>160,720</u>	<u>225,125</u>	<u>285,225</u>	<u>(330,497)</u>	<u>4,472,345</u>

	2006						U.S.dollars (millions)
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Total trading transactions:							
Unaffiliated customers and associated companies	61,316	5,300	1,974	18,223	2,349	-	89,162
Transfers between geographical areas	14,622	1,730	333	15,279	4,371	(36,335)	-
Total trading transactions	<u>75,938</u>	<u>7,030</u>	<u>2,307</u>	<u>33,502</u>	<u>6,720</u>	<u>(36,335)</u>	<u>89,162</u>
Identifiable assets at March 31	<u>34,042</u>	<u>2,707</u>	<u>1,395</u>	<u>2,715</u>	<u>2,768</u>	<u>(2,791)</u>	<u>40,836</u>

Note :

1. The above information is prepared in accordance with Japanese reporting practices.
2. "Total trading transactions" is presented in accordance with Japanese accounting practice.
Total trading transactions consist of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.
3. The above information presents total trading transactions and identifiable assets by each geographical segment that is based on the nearest region where ITOCHU Corporation and its subsidiaries are located.

[Explanation for Geographical Segment Information]

<u>Total trading transactions</u>	(Unit : billion yen)		<u>Increase (Decrease)</u>	<u>Reasons for changes</u>
	<u>2006</u>	<u>2005</u>		
Japan	7,202.7	7,143.5	59.2	Increase in transactions in Machinery; Aerospace & Electronics; and Chemicals, Forest Products & General Merchandise due to growth of sales or high level of market prices in spite of reduction of low-efficient transactions
North America	622.6	476.6	146.0	Increase in Construction Machinery, Automobile, Energy, and Forest Products & General Merchandise
Europe	231.9	187.6	44.3	Increase in Automobile, Aircraft, Energy and Logistics-related business
Asia	2,140.6	1,553.9	586.8	Increase due to rising prices of crude oil
Other Areas	276.0	214.4	61.6	Increase due to rising prices of coal and iron ore
Eliminations or Unallocated	-	-	-	
Total	10,473.9	9,576.0	897.8	
<u>Identifiable assets</u>	(Unit : billion yen)		<u>Increase (Decrease)</u>	<u>Reasons for changes</u>
	<u>2006</u>	<u>2005</u>		
Japan	3,998.9	3,836.5	162.4	Increase in trade receivables from Aerospace & Electronics, Food; and investment in finance-related associated companies
North America	318.0	295.3	22.8	Increase in trade receivables from Construction Machinery, Automobile, and Forest Products & General Merchandise despite decrease due to disposal of subsidiaries of overseas trading subsidiary in the U.S.
Europe	163.9	160.7	3.2	Increase due to acquiring an equity share in natural resource development project despite decrease in aircraft-related business
Asia	319.0	225.1	93.8	Increase in trade receivables from Energy due to rising price of crude oil, and Chemicals, Forest Products & General Merchandise
Other Areas	325.2	285.2	39.9	Increase in mineral resources-related business
Eliminations or Unallocated	(327.9)	(330.5)	2.6	
Total	4,797.0	4,472.3	324.7	

Fair Value of Financial Instruments

ITOCHU Corporation and Subsidiaries

March 31, 2006 and 2005

Securities

ITOCHU Corporation and its subsidiaries have adopted Statement of Financial Accounting Standards No.115 "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). Thus the securities classified as available-for-sale securities are reported at fair value on the balance sheets.

The cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of those available-for-sale securities as of March 31, 2006 and 2005 are as follows:

		2006							
		Cost		Gross Unrealized Holding Gains		Gross Unrealized Holding Losses		Fair Value	
		Yen (millions)	U.S.dollars (millions)	Yen (millions)	U.S.dollars (millions)	Yen (millions)	U.S.dollars (millions)	Yen (millions)	U.S.dollars (millions)
Available-for-sale:									
Current:	Equity securities	-	-	-	-	-	-	-	-
	Debt securities	19,294	164	-	-	2	0	19,292	164
		19,294	164	-	-	2	0	19,292	164
Non-current:	Equity securities	106,243	904	140,320	1,195	61	1	246,502	2,098
	Debt securities	1,746	15	-	-	21	0	1,725	15
		107,989	919	140,320	1,195	82	1	248,227	2,113
		2005							
		Cost		Gross Unrealized Holding Gains		Gross Unrealized Holding Losses		Fair Value	
		Yen (millions)		Yen (millions)		Yen (millions)		Yen (millions)	
Available-for-sale:									
Current:	Equity securities	-		-		-		-	
	Debt securities	12,642		1		1		12,642	
		12,642		1		1		12,642	
Non-current:	Equity securities	102,243		75,687		1,988		175,942	
	Debt securities	2,065		-		172		1,893	
		104,308		75,687		2,160		177,835	

Retirement and Severance Benefits

The Company and certain subsidiaries have funded retirement pension plans covering substantially all of their employees.

Benefits under these pension plans are based on length of service and certain other factors and plan assets are comprised primarily of listed stock, bonds and other interest-bearing securities.

The Company and certain other subsidiaries have unfunded retirement and severance plans providing lump-sum payment benefits to their employees. Changes in the benefit obligations and the fair value of the plan assets for the years ended March 31, 2006 and 2005 are as follows:

	Millions of Yen		Millions of
	2006	2005	U.S. dollars
Change in benefit obligations:			2006
Projected benefit obligations at beginning of year	271,675	266,697	2,313
Service cost	7,170	6,965	61
Interest cost	6,447	5,934	55
Plan participants' contributions	639	997	5
Actuarial loss	11,360	(4,612)	97
Benefits paid	(10,866)	(10,330)	(93)
Foreign currency translation adjustments	475	57	4
Other	205	5,967	2
Projected benefit obligation at end of year	287,105	271,675	2,444
Change in plan assets:			
Fair value of plan assets at beginning of year	329,254	339,031	2,803
Actual return on plan assets	63,504	(4,773)	541
Employer contributions	14,968	17,025	127
Plan participants' contributions	639	997	5
Benefits paid	(10,866)	(10,330)	(92)
Foreign currency translation adjustments	290	(20)	3
Other	745	(12,676)	6
Fair value of plan assets at end of year	398,534	329,254	3,393
Funded status at end of year	(111,429)	(57,579)	(949)
Unrecognized actuarial loss	(98,614)	(147,127)	(839)
Unrecognized prior service cost	40,176	45,071	342
Net amount recognized	(169,867)	(159,635)	(1,446)
Adjustments to recognize minimum pension liability:			
Accumulated other comprehensive loss, gross of tax	2,843	3,150	23
Net amount recognized in the consolidated balance sheets	(167,024)	(156,485)	(1,423)
Prepaid pension cost	(186,105)	(178,890)	(1,585)
Accrued pension and severance cost recognized in the consolidated balance sheets	19,081	22,405	162
Actuarial present value of accumulated benefit obligations at end of year	286,133	270,622	2,436
Actuarial assumptions:			
Discount rate	2.2%	2.4%	
Expected long-term rate of return on plan assets	2.4%	2.3%	

The net cost of retirement and severance benefits for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Millions of
	2006	2005	U.S. dollars
Service cost-benefits earned during the year	7,170	6,965	61
Interest cost on projected benefit obligation	6,447	5,934	55
Expected return on plan assets	(8,184)	(7,011)	(70)
Net amortization	3,820	2,322	33
Settlement and curtailment loss	—	1,138	—
Net periodic pension cost	9,253	9,348	79
The amount of cost for defined benefit pension plans	1,075	1,053	9
Total expenses for pension plans	10,328	10,401	88

Forward Looking Statements

Statements in this financial reports with respect to ITOCHU's plans, strategies, forecasts and other statements that are not historical facts and forward-looking statements that are based on management's assumptions and beliefs based on information currently available and involve risks and uncertainties. Factors that could cause actual results to differ materially from such statements include, without limitation, global economic conditions, demand for and competitive pricing pressure on products and services, ITOCHU's ability to continue to win acceptance for its products and services in highly competitive markets, and currency exchange rate fluctuations.