

# ANNUAL FINANCIAL STATEMENTS

For years ended March 31, 2007 and 2006

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**Consolidated Financial Results for Fiscal Year 2007 (Year ended March 31, 2007)**

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

Company name ITOCHU Corporation

Stock exchange code 8001

URL [http://www.itochu.co.jp/main/ir/index\\_e.html](http://www.itochu.co.jp/main/ir/index_e.html)

President and Chief Executive Officer

Name: Eizo Kobayashi

General Manger of Corporate Communications Division

Name: Yoshiharu Matsumoto

TEL 81 - 3 - 3497 - 7291

The date of Shareholders' Meeting

June 26, 2007 (Planned)

The date of payout of dividend

June 27, 2007 (Planned)

The date of issue of audited financial statements

June 26, 2007 (Planned)

**1. Consolidated operating results for fiscal year 2007 (from April 1, 2006 to March 31, 2007)**

(1) Consolidated operating results (Summary)

(%: Changes from the previous fiscal year)

	Total trading transactions		Trading income		Please refer the below (*1)		Net income	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
Fiscal year 2007	11,579,059	10.6	264,621	36.8	300,230	38.4	177,059	22.0
Fiscal year 2006	10,473,885	9.4	193,389	22.6	216,869	80.8	145,146	86.6

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

	Net income per share (basic)	Net income per share (diluted)	Ratio of net income to stockholders' equity	Please refer the below (*2)	Please refer the below (*3)
	yen	yen	%	%	%
Fiscal year 2007	111.95	-	21.8	6.0	2.3
Fiscal year 2006	91.74	-	23.5	4.7	1.8

\*2 : (\*1) / Total assets

\*3 : Trading income / Total trading transactions

(2) Consolidated financial position

	Total assets	Stockholders' equity (U.S. GAAP basis)	Ratio of stockholders' equity to total assets	Stockholders' equity per share
	millions of yen	millions of yen	%	yen
March 31, 2007	5,271,512	896,195	17.0	566.78
March 31, 2006	4,797,013	726,816	15.2	459.47

(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, 2007	235,917	(83,394)	(100,920)	532,856
March 31, 2006	185,147	(79,871)	(85,193)	477,707

**2. Dividend distribution**

	Dividend distribution per share			Total Dividend distribution (Annual)	Payout ratio (Consolidated)	Ratio of dividend distribution (Consolidated) to stockholders' equity
	End of 1st half	Year-end	Annual			
(Effective date)	End of 1st half	Year-end	Annual	millions of yen	%	%
Fiscal year 2006	4.00	5.00	9.00	14,248	9.8	2.3
Fiscal year 2007	5.00	9.00	14.00	22,155	12.5	2.7
Fiscal year 2008 (planned)	8.50	8.50	17.00		12.8	

**3. Outlook of consolidated operating results for fiscal year 2008 (from April 1, 2007 to March 31, 2008)**

(%: Changes from the previous fiscal year)

	Total trading transactions		Trading income		Please refer the below (*4)		Net income		Net income per share (basic)
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	yen
Fiscal year 2008	12,100,000	4.5	270,000	2.0	250,000	(16.7)	210,000	18.6	132.81

\*4 : Income before income taxes, minority interests, equity in earnings (losses) of associated companies

#### 4. Other information

- (1) Changes of classification of specified subsidiaries in this fiscal year No  
\*Specified subsidiaries: Major subsidiaries selected according to the Japanese Cabinet Office Ordinance

- (2) Changes of accounting policies or presentation ways in the consolidated financial statements  
(a) Change of accounting policies Yes (Adoption of a new accounting standard)  
(b) Other changes No

- (3) Number of common shares issued
- |   |                  |               |                  |               |
|---|------------------|---------------|------------------|---------------|
| (a) Number of common shares outstanding :<br>(including the number of treasury stock) | Fiscal year 2007 | 1,584,889,504 | Fiscal year 2006 | 1,584,889,504 |
| (b) Number of treasury stock:   | Fiscal year 2007 | 3,693,789     | Fiscal year 2006 | 3,042,395     |
| (c) Average number of common<br>shares outstanding :                                  | Fiscal year 2007 | 1,581,543,157 | Fiscal year 2006 | 1,582,159,754 |

(Note) Please also see the page 31 "Per share Information".

#### \*Notes

1. This document is an English translation of a statement written initially in Japanese. The Japanese original should be considered the primary version.
2. The financial statements contains forward-looking statements regarding ITOCHU Corporation's corporate plans, strategies, forecasts, and other statements that are not historical facts. They are based on current expectations, estimates, forecasts and projections about the industries in which ITOCHU Corporation operates. As the expectations, estimates, forecasts and projections are subject to a number of risks, uncertainties and assumptions, including without limitation, changes in economic conditions; fluctuations in currency exchange rates; changes in the competitive environment; the outcome of pending and future litigation; and the continued availability of financing, financial instruments and financial resources, they may cause actual results to differ materially from those presented in such forward-looking statements. ITOCHU Corporation, therefore, wishes to caution that readers should not place undue reliance on forward-looking statements, and, further that ITOCHU Corporation undertakes no obligation to update any forward-looking statements as a result of new information, future events or other developments.
3. "Total trading transactions" and "Trading income" are presented in accordance with Japanese accounting practice.
  - "Total trading transactions" in the consolidated statements of operations consists 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"
4. 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 118.05 yen = 1 U.S. dollar, the exchange rate prevailing on March 31, 2007. 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.

## Summary of Operations

### General Economic Situations

During fiscal 2007, ended March 31, 2007, the recovery speed of Japanese economy has slowed down due to sluggish individual consumption in spite of continuous steady increase of capital investment and export. Nikkei Stock Average temporarily dropped to the 14,000-yen level influenced by global fall in stock prices, but later on it has recovered and was restored to the 17,000-yen level at the end of this fiscal year due to the lasting modest economic recovery. Regarding foreign exchange market, yen has been fluctuating between 110 yen and 120 yen against U.S. dollars due to the situation that the capital outflow from Japan with the background of interest rate gap between the domestic market and that of overseas offsets Japan's current account surplus. Meanwhile, the Bank of Japan slightly raised the short-term interest rate this February in succession to lifting the zero-interest-rate policy last July.

Looking at overseas, the world economy has shown an on-going favorable situation. The U.S. has been keeping steady growth supported by the situation that high level of corporate profits drives more employment and more capital investment in spite of rapid fall in housing investment. China has continued to grow supported by investment on infrastructure and strong export; and European economy also has shown increased strength of growth driven by domestic demands. Crude oil price is moving around 60 dollars per barrel after dropping due to reaction of extreme rising of prices until around the middle of last year, while the prices of other primary commodities keeps price-rising trend due to delayed transfer to the price rise compared with crude oil.

### Operating Results

**Total trading transactions** for fiscal 2007, ended March 31, 2007, increased by 10.6% or 1,105.2 billion yen to 11,579.1 billion yen (98,086 million U.S. dollars) from the previous fiscal year, mainly in Machinery due to increase in automobile transactions; in Energy, Metals & Minerals due to price rise in natural resources such as crude oil and sales volume increase; in Chemicals, Forest Products & General Merchandise due to steady growth in domestic house-building material transactions and continuously high market prices in chemicals; and in Food due to increase from turning NIPPON ACCESS, INC. into a consolidated subsidiary.

**Revenue** based on U.S. GAAP increased by 19.3% or 429.0 billion yen to 2,647.2 billion yen (22,424 million U.S. dollars) from the previous fiscal year, caused by automobile transaction increase in Machinery, sales volume increase and price rise in mainly natural resources such as crude oil in Energy, Metals & Minerals, and increase due to turning NIPPON ACCESS, INC. into a consolidated subsidiary in Food.

**Gross trading profit** increased by 27.2% or 194.3 billion yen to 908.7 billion yen (7,697million U.S. dollars) from the previous fiscal year, mainly in Machinery due to increase in automobile transactions in Europe and the U.S.; in Aerospace, Electronics & Multimedia through steady growth in domestic IT related business; in Energy, Metals & Minerals due to rising of crude oil price and sales volume increase by starting full-scale oil production in oil fields owned; in Chemicals, Forest Products & General Merchandise due to steady growth in domestic house-building material transactions, and continuous high market prices in chemicals; and in Food due to increase from turning NIPPON ACCESS, INC. into a consolidated subsidiary.

**Selling, general and administrative expenses** increased by 26.2% or 132.9 billion yen to 639.1 billion yen (5,414 million U.S. dollars) from the previous fiscal year, due to business expansion and increase from turning NIPPON ACCESS, INC. into a consolidated subsidiary.

**Provision for doubtful receivables** improved by 9.8 billion yen to 4.9 billion yen (42 million U.S. dollars) from the previous fiscal year due to the disappearance of loss on Iraq receivables.

**Net financial expenses** improved by 3.3% or 0.3 billion yen to 7.6 billion yen (64 million U.S. dollars) from the previous fiscal year supported by increase of **Dividends received** from energy related investments, though **Net interest expenses** worsened due to rising of interest rates.

Concerning the other profits and losses, in year-to-year comparison, **Gain on disposal of investments and marketable securities, net of write-down** decreased by 4.8 billion yen to 46.9 billion yen (397 million U.S. dollars) due to increase of devaluation losses on investment securities, and **Loss on property and equipment-net** improved by 1.1 billion yen to 6.8 billion yen (57 million U.S. dollars). **Other-net** improved by 15.5 billion yen to gain of 3.1 billion yen (26 million U.S. dollars) mainly due to the absence of loss on the legal settlement in the trading subsidiary in U.S. in the previous fiscal year.

As a result, **Income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change** increased by 38.4% or 83.4 billion yen to 300.2 billion yen (2,543 million U.S. dollars) from the previous fiscal year.

**Equity in earnings (losses) of associated companies** worsened by 71.8 billion yen to the loss of 20.1 billion yen (170 million U.S. dollars) due to equity loss recognition arising from the extraordinary loss in Orient Corporation due to revision of the Moneylending Control Law in Japan.

As a result, **Net income** for this fiscal year stood at 177.1 billion yen (1,500 million U.S. dollars), increased by 22.0% or 31.9 billion yen from the previous fiscal year.

[Last fiscal year, loss of 3.4 billion yen was recorded as Cumulative effect of an accounting change due to early adoption of the EITF No. 04-6 (Accounting for Stripping Costs Incurred during Production in Mining Industry).]

## Financial Position

**Total assets** as of March 31, 2007 increased by 9.9% or 474.5 billion yen from March 31, 2006, to 5,271.5 billion yen (44,655 million U.S. dollars) due to increase from turning NIPPON ACCESS, INC. into a consolidated subsidiary (approximately 230.0 billion yen) in Food, increase of automobile-related investment/increase in trade receivables and inventories from automobile transaction increase in Machinery, increase in trade receivables due to higher prices in crude oil and other resources/increase in investment in plant of a resource development related subsidiary in Energy, Metals & Minerals, and increase in trade receivables due to high market prices of chemical products in Chemicals, Forest Products & General Merchandise.

**Stockholders' equity** increased by 23.3% or 169.4 billion yen from March 31, 2006, to 896.2 billion yen (7,592 million U.S. dollars) due to accumulation of Net income (177.1 billion yen), improvement in Foreign currency translation adjustments through yen's depreciation (26.7 billion yen), and increase of Unrealized holding gains on securities through rising of stock prices (25.0 billion yen) in spite of decrease through dividend payment (15.8 billion yen), and recognition of Pension liability adjustments due to adoption of the new accounting standard SFAS No.158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans –an amendment of FASB Statements No. 87, 88, 106, and 132(R) " (41.3 billion yen).

As a result, **Ratio of stockholders' equity to total assets** improved by 1.8 points from March 31, 2006, to 17.0%.

**Interest-bearing debt** decreased by 2.7% or 60.8 billion yen from March 31, 2006, to 2,165.6 billion yen (18,345 million U.S. dollars), and **Net interest-bearing debt** (interest-bearing debt after deducting Cash and cash equivalents and Time deposits) decreased by 5.4% or 93.4 billion yen from March 31, 2006, to 1,630.9 billion yen (13,815 million U.S. dollars).

**NET DER** (Net Debt-to-Equity Ratio) improved by 0.6 points from March 31, 2006, to 1.8 times.

## Cash Flows Information

**Cash flows from operating activities** recorded net cash-inflow of 235.9 billion yen (1,998 million U.S. dollars) due to good performance in operating revenue mainly from overseas resource-related business.

**Cash flows from investing activities** recorded net cash-outflow of 83.4 billion yen (706 million U.S. dollars) mainly due to additional investment to NIPPON ACCESS, INC., new investments to automobile business areas, and investment in plant of a resource development related subsidiary.

**Cash flows from financing activities** recorded net cash-outflow of 100.9 billion yen (855 million U.S. dollars) mainly as a result of continuous efforts to reduce interest-bearing debt.

Consequently, the current balance of **Cash and cash equivalents** as of March 31, 2007 increased by 55.1 billion yen to 532.9 billion yen (4,514 million U.S. dollars) compared with March 31, 2006.

The trend of consolidated cash flow indices is as follows:

FY	2003	2004	2005	2006	2007
Ratio of stockholders' equity to total assets (%)	9.5%	9.4%	11.4%	15.2%	17.0%
Ratio of market capitalization to total assets (%)	10.2%	16.5%	19.1%	33.3%	35.0%
Years of debt redemption (years)	15.2yrs	13.9yrs	18.5yrs	12.0yrs	9.2yrs
Interest coverage ratio (times)	3.4	4.4	4.1	4.7	5.6

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

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

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

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

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 118.05 yen = 1 U.S. dollar, the exchange rate prevailing on March 31, 2007. 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

### 【Consolidated】

(Unit: Billion Yen)

		2003	2004	2005	2006	2007
Total trading transactions	1st Half	5,068.3	4,675.5	4,603.1	5,015.1	5,572.4
	Full year	10,446.4	9,517.0	9,576.0	10,473.9	11,579.1
Gross trading profit	1st Half	273.3	274.5	303.8	338.4	421.9
	Full year	565.0	555.9	630.8	714.4	908.7
Income before income taxes	1st Half	39.8	25.4	69.6	83.1	137.7
	Full year	57.7	(92.0)	120.0	216.9	300.2
Net income (loss)	1st Half	22.2	19.2	44.1	(*) 61.8	96.7
	Full year	20.1	(31.9)	77.8	145.1	177.1

(\*) ITOCHU Corporation and its subsidiaries early adopted Emerging Issues Task Force (EITF) No.04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry" in fiscal year 2006. The cumulative effect (loss of 3,439 million yen, net of tax) of the accounting change is retroactively reflected on the former announced Net income (65.3 billion yen) in the first half of the fiscal year 2006.

	Mar. 2003	Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007
Total assets	4,486.4	4,487.3	4,472.3	4,797.0	5,271.5
Interest-bearing debt	2,574.4	2,561.9	2,346.7	2,226.5	2,165.6
(Cash and cash equivalents and time deposits)	549.4	584.9	455.6	502.2	534.7
Net interest-bearing debt	2,025.0	1,977.0	1,891.1	1,724.3	1,630.9

Stockholders' equity	426.2	422.9	510.4	726.8	896.2
Stockholders' equity per share (Yen)	269.53	267.25	322.54	459.47	566.78

R O A (Return on assets)	0.43%	- %	1.74%	3.13%	3.52%
R O E (Return on equity)	4.9%	- %	16.7%	23.5%	21.8%
Net debt-to-equity ratio (times)	4.8	4.7	3.7	2.4	1.8

Net debt-to-equity ratio: Net interest-bearing debt / Stockholders' equity

### 【Stock price information】

(Unit: Yen)

		2003	2004	2005	2006	2007
Stock price	(High)	506	480	573	1,056	1,223
	(Low)	198	231	403	484	837
	(Closing)	288	468	540	1,011	1,168
(Reference) Nikkei Stock Average		7,972	11,715	11,668	17,059	17,287

Nikkei Stock Average: Year-end price of each fiscal year

## **Risk Information**

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

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

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

### ***(1) Corporate Result Risks Due to Macroeconomic Factors***

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

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

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

### ***(2) Market Risks***

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

#### ***i) Foreign Exchange Rate Risk***

The Company and certain Group companies are exposed to foreign exchange rate risk related to transactions in foreign currencies due to their significant involvement in import/export trading. ITOCHU is working to manage the Group's foreign currency balance based on independently specified criteria such as contract amount, debt and liabilities, and short/long-term, as well as setting limits on foreign exchange rate risks. ITOCHU is also working to minimize foreign exchange rate risks using derivative transactions such as forward exchange contracts and currency swap contracts. However, ITOCHU cannot guarantee a complete avoidance of such foreign exchange rate risks by utilizing these hedging techniques.

Since 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, from assuming a responsibility to fulfill the contracts as an involved party is unable to continue its business and fulfill its obligations under the contracts.

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

Meanwhile, in the current fiscal year, ITOCHU suffered loss of approximate 4.1 billion yen against Net income due to a significant extraordinary loss of Orient Corporation (hereinafter referred to as "Orico"), one of associate companies of ITOCHU, mainly along with the revision of Moneylending Control Law in Japan. Now ITOCHU understands that Orico's business foundation will go for a more stable one and the new mid-term management plan of Orico is likely to be achievable, judging from Orico's announcement of their capital policies. Therefore, ITOCHU has decided to underwrite Orico's third-party allotment of new shares. In ITOCHU's engagement in investing activities, there may arise such cases that the Group is unable to achieve the Group's forecasted results due to a deteriorating economic environment for business in which the Group has invested or the deteriorating corporate results and financial standing of ITOCHU's partners, ITOCHU Group is unable to withdraw from a business or restructure the business under a timeframe or method that the Group desires, the likelihood of recovering ITOCHU's investment diminishes due to poor corporate results for investees, or stock prices is expected to drop below specified levels for a considerable period of time. In such cases, serious adverse influences on the future corporate results and financial standing of ITOCHU Group are possible including the necessities that the whole or partial investment is recognized as loss, and that the infusion of additional funds is required.

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

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

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

**(7) Risks Due to Fund Raising**

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

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

**(8) Risks Due to Benefit Expenses and Benefit Obligations**

The benefit expenses and benefit obligations of ITOCHU are calculated based on actuarial calculations that utilize a variety of assumptions such as the discount rate for benefit obligations and the expected rate of return on pension assets. As of March 31, 2007, there was no shortfall in accumulated pension assets.

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

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

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

**(9) Risks Due to Deferred Income Taxes**

Deferred income tax assets are an important factor in ITOCHU's consolidated balance sheets. Therefore, accounting judgment on evaluation of deferred income 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 companies in European and North American industrialized countries due to the economic globalization of primary markets such as North America and Asia including China.

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

***(11) Risks Associated with Significant Lawsuits***

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

***(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, 2007 and 2006

### Components of Consolidated Net Income

(Unit: billion yen)	2007	2006	Increase (Decrease)	
Parent company	94.6	54.4	40.3	
Group companies excluding overseas trading subsidiaries	(*) 101.7	113.2	(11.5)	(*) For each item on this page, the figures of net income for group companies include the tax effect relating to the Equity in earnings (losses) of associated companies in investment to the Orient Corporation.
Overseas trading subsidiaries	22.8	15.7	7.1	
Subtotal	(*) 219.1	183.3	35.9	
Consolidation adjustments	(42.1)	(38.1)	(4.0)	
Consolidated net income	177.1	145.1	31.9	
Adjusted profit	241.9	252.0	(10.1)	(Note) Adjusted profit = Gross trading profit + SG&A expenses + Net financial expenses + Equity in earnings (losses) of associated companies

### Number of Group Companies

	Mach 31, 2007			March 31, 2006			Increase	Decrease	Changes within Group	Net changes
	Domestic	Overseas	Total	Domestic	Overseas	Total				
Subsidiaries	212	226	438	220	222	442	+ 41	(37)	+ 4	(12)
Associated companies	102	111	213	95	114	209	+ 30	(34)	(4)	+ 12
Total	314	337	651	315	336	651	+ 71	(71)		± 0

### Number of Direct Controlled Companies

	Mach 31, 2007			March 31, 2006			Increase	Decrease	Changes within Group	Net changes
	Domestic	Overseas	Total	Domestic	Overseas	Total				
Subsidiaries	129	140	269	142	142	284	+ 17	(22)	+ 1	(11)
Associated companies	71	83	154	66	86	152	+ 17	(25)	(1)	+ 11
Total	200	223	423	208	228	436	+ 34	(47)		(13)

(Note) Direct controlled companies are monitored by ITOCHU Corporation to directly implement its group management strategy.

### Profits/Losses of Group Companies Reporting Profits/Losses

	(Unit: billion yen)								
	2007			2006			Increase (Decrease)		
	Profits	Losses	Total	Profits	Losses	Total	Profits	Losses	Total
Group companies excluding overseas trading subsidiaries	159.2	(*) (57.5)	(*) 101.7	132.6	(19.4)	113.2	26.6	(38.1)	(11.5)
Overseas trading subsidiaries	23.1	(0.3)	22.8	16.1	(0.3)	15.7	7.0	0.0	7.1
Total	182.3	(*) (57.9)	(*) 124.5	148.7	(19.8)	128.9	33.7	(38.1)	(4.4)

### Number/Share of Group Companies Reporting Profits

		2007			2006			Increase (Decrease)		
		Profits	Losses	Total	Profits	Losses	Total	Profits	Losses	Total
Subsidiaries	Domestic	184	28	212	186	34	220	(2)	(6)	(8)
	Overseas	190	36	226	188	34	222	2	2	4
	Total	374	64	438	374	68	442	0	(4)	(4)
	Share (%)	85.4%	14.6%	100.0%	84.6%	15.4%	100.0%	0.8%	(0.8%)	
Associated companies	Domestic	80	22	102	76	19	95	4	3	7
	Overseas	84	27	111	80	34	114	4	(7)	(3)
	Total	164	49	213	156	53	209	8	(4)	4
	Share (%)	77.0%	23.0%	100.0%	74.6%	25.4%	100.0%	2.4%	(2.4%)	
Total	Domestic	264	50	314	262	53	315	2	(3)	(1)
	Overseas	274	63	337	268	68	336	6	(5)	1
	Total	538	113	651	530	121	651	8	(8)	0
	Share (%)	82.6%	17.4%	100.0%	81.4%	18.6%	100.0%	1.2%	(1.2%)	

### Profits/Losses of Group Companies Reporting Profits/Losses

		(Unit: billion yen)								
		2007			2006			Increase (Decrease)		
		Profits	Losses	Total	Profits	Losses	Total	Profits	Losses	Total
Subsidiaries	Domestic	46.4	(8.6)	37.8	40.0	(11.2)	28.8	6.4	2.6	9.0
	Overseas (**)	80.6	(2.0)	78.7	53.5	(5.1)	48.4	27.2	3.2	30.3
	Total	127.0	(10.5)	116.5	93.5	(16.3)	77.2	33.5	5.8	39.3
Associated companies	Domestic	39.1	(*) (45.7)	(*) (6.6)	41.2	(2.2)	39.0	(2.2)	(43.5)	(45.7)
	Overseas	16.3	(1.6)	14.6	13.9	(1.2)	12.7	2.3	(0.4)	1.9
	Total	55.3	(47.3)	8.0	55.2	(3.4)	51.7	0.1	(43.9)	(43.7)
Total	Domestic	85.5	(*) (54.3)	(*) 31.2	81.3	(13.4)	67.9	4.2	(40.9)	(36.7)
	Overseas	96.9	(3.6)	93.3	67.4	(6.4)	61.0	29.5	2.8	32.2
	Total	182.3	(*) (57.9)	(*) 124.5	148.7	(19.8)	128.9	33.7	(38.1)	(4.4)

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

	2007			2006			Increase (Decrease)		
	Profits	Losses	Total	Profits	Losses	Total	Profits	Losses	Total
Overseas trading subsidiaries	23.1	(0.3)	22.8	16.1	(0.3)	15.7	7.0	0.0	7.1

### Major New Group Companies

Business Field	Name	Shares	Categories
Textile	SHU-HOU Co., Ltd	(24.2%)	Special print processing
Machinery	Isuzu Network Co., Ltd.	(25.0%)	Life-cycle management for commercial vehicles
Machinery	Midlantic Machinery, Inc.	(100.0%)	Construction machinery dealer in North America
Machinery	Century Leasing (China) Co., Ltd.	( 20.0%)	Lease business
Aerospace, Electronics & Multimedia	Wellness Communications Corporation	(100.0%)	Business process outsourcing company for health care
Energy	CIECO Energy (US) Limited	(100.0%)	Exploration, development and production of oil and gas
General Merchandise	Galleher Corporation	(100.0%)	Floor material distribution in U.S.
Chemicals	SHOWA ALUMINUM POWDER K.K.	( 85.1%)	Manufacture of aluminum pastes
Chemicals	BRUNEI METHANOL COMPANY SDN BHD	( 25.0%)	Manufacture of methanol

## Performance of Group Companies (2)

Years ended March 31, 2007 and 2006

### Major Group Companies

(Unit: billion yen)

	Name	Shares	Method of Consolidation	Net income (*1)		Categories	Fiscal 2008 Forecasts
				2007	2006		
Textile	JOFX CORPORATION	100.0%	Consolidation	1.1	1.2	Sale of men's apparel	1.1
	Prominent Apparel Ltd. (Hong Kong)	100.0%	Consolidation	0.6	0.0	Production control and wholesale of textile and apparel	0.5
	Tommy Hilfiger Japan, Corporation	75.0%	Consolidation	0.7	0.6	Sale of Tommy Hilfiger brand products	0.8
Machinery	ITOCHU Sanki Corporation	100.0%	Consolidation	0.4	0.4	Wholesale of industrial machinery	0.4
	Century Medical, Inc.	100.0%	Consolidation	0.2	0.1	Wholesale of medical equipment and materials	0.3
	MCL GROUP LIMITED (U.K.)	100.0%	Consolidation	(0.4)	0.4	Warehousing, Retail and financing of motor vehicles	0.0
	ITOCHU Automobile America Inc. (U.S.A.)	100.0%	Consolidation	1.2	1.1	Retail, distribution, and trade of motor vehicles	1.4
	Century Leasing System, Inc.	20.2%	Equity	(*2)	1.3	Diversified leasing business	(*3)
Aerospace,	ITOCHU Techno-Solutions Corporation (*4)	50.4%	Consolidation	(*2)	6.6	System consultation, integration, administration, maintenance, support, information processing service	(*3)
	Excite Japan Co., Ltd	59.8%	Consolidation	(*2)	0.6	Internet portal services	(*3)
Electronics & Multimedia	ITC NETWORKS CORPORATION	70.8%	Consolidation	(*2)	2.1	Retail network of mobile phones, solution business related to mobile phone	(*3)
	NANO Media Inc.	51.4%	Consolidation	(*2)	0.2	Providing mobile contents and integrated broadcast communication service	(*3)
	SPACE SHOWER NETWORKS INC.	50.9%	Consolidation	(*2)	0.2	Music channel on cable/satellite television	(*3)
	JAMCO Corporation	20.7%	Equity	(*2)	0.0	Maintenance of aircraft and manufacture of aircraft interior	(*3)
	SUNCALL CORPORATION	21.3%	Equity	(*2)	0.5	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	1.2	1.0	Wholesale of non-ferrous/light metals and products	1.3
	ITOCHU Petroleum Japan Ltd. (*6)	100.0%	Consolidation	5.1	2.5	International trade of crude oil and petroleum products, charter and operation of oil tankers, sale of bunker fuel oil, operation of oil storage facilities	1.7
	ITOCHU Minerals & Energy of Australia Pty Ltd (Australia) (*7)	100.0%	Consolidation	28.9	25.9	Investment in projects of iron ore mining, coal mining and sales, manufacture of alumina, mining of bauxite and oil exploration	28.3
	ITOCHU Oil Exploration (Azerbaijan) Inc. (Cayman)	100.0%	Consolidation	21.2	5.2	Exploration and production of crude oil	21.8
	Marubeni-Itochu Steel Inc.	50.0%	Equity	16.8	15.9	Wholesale of steel products	15.5
	ITOCHU ENEX CO., LTD.	39.2%	Equity	(*2)	2.0	Wholesale of petroleum products	(*3)
Chemicals, Forest Products & General Merchandise	ITOCHU Kenzai Corp.	86.9%	Consolidation	2.4	0.8	Wholesale of wood products and building materials	1.7
	ITOCHU Pulp & Paper Corp.	100.0%	Consolidation	0.8	1.1	Wholesale of paper, paperboards, and various paper materials	0.9
	ITOCHU CHEMICAL FRONTIER Corporation	96.2%	Consolidation	1.8	1.3	Wholesale of fine chemicals and related raw materials	1.7
	ITOCHU PLASTICS INC.	100.0%	Consolidation	3.2	2.6	Development and wholesale of plastics and related products	2.9
	DAIKEN CORPORATION	19.5%	Equity	(*2)	0.4	Manufacture of building materials and construction parts	(*3)
	TAKIRON Co., Ltd.	26.9%	Equity	(*2)	0.2	Manufacture of flat and corrugated plastic sheets	(*3)
Food	C.I. KASEI Co., Ltd.	36.1%	Equity	(*2)	0.3	Manufacture of PVC pipe and film and related materials	(*3)
	ITOCHU SHOKUJIN Co., Ltd.	50.5%	Consolidation	(*2)	1.8	Wholesale and distribution of foods	(*3)
	NISHINO TRADING CO., Ltd.	85.2%	Consolidation	0.4	0.7	Wholesale of foods and sundries	(*5)
	NIPPON ACCESS, INC.	60.6%	Consolidation	(*2)	0.5	Wholesale and distribution of foods	(*3)
	Japan Foods Co., Ltd.	34.8%	Equity	0.1	0.0	Production of soft drinks, manufacture and sales of food stuff	(*3)
	Fuji Oil Co., Ltd.	25.6%	Equity	(*2)	0.5	Integrated manufacturer of cooking oil and soybean protein	(*3)
	FamilyMart Co., Ltd. (*8)	32.3%	Equity	4.7	4.3	Operation of a convenience store chain, using the name FamilyMart and a franchise system	(*3)
Finance, Realty, Insurance & Logistics Services	Prima Meat Packers, Ltd.	39.7%	Equity	(*2)	1.5	Production and marketing of meat, ham, sausage and processed foods	(*3)
	ITOCHU Finance Corporation	90.1%	Consolidation	2.3	3.2	Loan and other finance-related business	1.0
	CENTURY 21 REAL ESTATE OF JAPAN LTD.	55.3%	Consolidation	0.4	0.3	Headquarters of real estate franchise system	(*3)
	FX PRIME Corporation	85.1%	Consolidation	0.1	0.3	Financial future trade	0.3
	Orient Corporation	21.2%	Equity	(*2)	3.1	Consumer credit	(*3)
	i-LOGISTICS CORP.	49.2%	Equity	(*2)	0.6	Comprehensive logistics services	(*3)
Overseas	eGuarantee, Inc.	38.1%	Equity	(*2)	0.1	Credit guarantee services	(*3)
	ITOCHU International Inc. (*9) (U.S.A.)	100.0%	Consolidation	12.8	7.9	U.S. trading subsidiary	12.7
	ITOCHU Europe PLC. (U.K.)	100.0%	Consolidation	0.2	0.9	European trading subsidiary	1.0
	ITOCHU Hong Kong Ltd. (Hong Kong)	100.0%	Consolidation	2.5	1.8	Hong Kong trading subsidiary	2.2
	ITOCHU (China) Holding Co., Ltd. (China)	100.0%	Consolidation	2.3	1.5	China trading subsidiary	2.6
ITOCHU Australia Ltd. (*7) (Australia)	100.0%	Consolidation	1.5	1.0	Australian trading subsidiary	1.1	

(\*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. ITOCHU's share of net income which was disclosed before Apr. 26, 2007 are indicated.

(\*3) Each companies' forecasts of fiscal 2008 are as the following list.

(\*4) As of Oct. 1, 2006, ITOCHU TECHNO-SCIENCE Corporation merged CRC Solutions Corp., and changed the name to ITOCHU Techno-Solutions Corporation.

The net income of ITOCHU Techno-Solutions Corporation for fiscal year 2006 includes that of CRC Solutions Corp.

(\*5) As of Apr. 1, 2007, NIPPON ACCESS, INC. merged NISHINO TRADING CO., Ltd.

Name	Companies' Forecasts	Date of Forecasts	Shares	ITOCHU'S Share of Forecasts	(Expected) Date of Announcement
Century Leasing System, Inc.	—	Apr. 27	20.2%	—	Apr. 27
ITOCHU Techno-Solutions Corporation	—	Apr. 27	50.4%	—	Apr. 27
Excite Japan Co., Ltd	—	May. 11	59.8%	—	May. 11
ITC NETWORKS CORPORATION	—	Apr. 27	70.8%	—	Apr. 27
NANO Media Inc.	—	Apr. 27	51.4%	—	Apr. 27
SPACE SHOWER NETWORKS INC.	—	Apr. 27	50.9%	—	Apr. 27
JAMCO Corporation	—	Apr. 27	20.7%	—	Apr. 27
SUNCALL CORPORATION	—	May. 15	21.3%	—	May. 15
ITOCHU ENEX CO., LTD.	—	May. 2	39.2%	—	May. 2
DAIKEN CORPORATION	—	May. 17	19.5%	—	May. 17
TAKIRON Co., Ltd.	—	May. 15	26.9%	—	May. 15
C.I. KASEI Co., Ltd.	—	May. 21	36.1%	—	May. 21
ITOCHU SHOKUJIN Co., Ltd.	—	May. 14	50.5%	(Note)	May. 14
Japan Foods Co., Ltd.	0.7	Apr. 26	34.8%	0.2	Apr. 26
Fuji Oil Co., Ltd.	—	May. 10	25.6%	—	May. 10
FamilyMart Co., Ltd.	15.2	Apr. 11	32.3%	4.9	Apr. 11
Prima Meat Packers, Ltd.	—	May. 18	39.7%	—	May. 18
CENTURY 21 REAL ESTATE OF JAPAN LTD.	0.8	Apr. 26	55.3%	0.4	Apr. 26
Orient Corporation	—	May. 15	21.2%	—	May. 15
i-LOGISTICS CORP.	—	Apr. 27	49.2%	—	Apr. 27
eGuarantee, Inc.	—	May. 14	38.1%	—	May. 14

These figures exclude U.S. GAAP adjustments.

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

### Performance of Group Companies (3)

Years ended March 31, 2007 and 2006

#### Major Group Companies Reporting Profits

(Unit: billion yen)

Name	Segment (*12)	Shares	Net income (*1)		Comments
			2007	2006	
[Domestic subsidiaries]					
ITOCHU Petroleum Japan Ltd.	(*6) Ene	100.0%	5.1	2.5	Steady growth mainly in crude & heavy oil transactions, and increase due to gain on sales of investment securities concerning the listing of an affiliates
ITOCHU PLASTICS INC.	Che	100.0%	3.2	2.6	Good performance in plastic and wrapping materials as well as gain on sales of investment securities
ITOCHU Kenzai Corp.	Che	86.9%	2.4	0.8	Increase due to good market price in raw materials and improved bottom lines for subsidiaries
ITOCHU Finance Corporation	Fin	90.1%	2.3	3.2	Declined due to decrease in equity in earnings of associated companies from selling of associated company in the previous fiscal year
ITOCHU CHEMICAL FRONTIER Corporation	Che	96.2%	1.8	1.3	Good performance in sales of generic medical materials and polymer materials
ITOCHU Non-Ferrous Materials Co., Ltd.	Ene	100.0%	1.2	1.0	Steady growth in raw materials such as aluminum, titanium, and copper
JOI'X CORPORATION	Tex	100.0%	1.1	1.2	Decrease due to increased cost with new shops despite the steady growth in sales of men's apparel
ITOCHU Pulp & Paper Corp.	Che	100.0%	0.8	1.1	Decrease due to recovery delay in domestic paper prices and the absence of gain on sales of investment securities recorded in the previous fiscal year
Tommy Hilfiger Japan, Corporation	Tex	75.0%	0.7	0.6	Steady growth in sales of Tommy Hilfiger brand products
ITOCHU CONSTRUCTION MACHINERY CO., LTD	Mac	100.0%	0.7	0.4	Steady growth in sales of construction machinery
[Overseas subsidiaries]					
ITOCHU Minerals & Energy of Australia Pty Ltd	(*7)(Australia) Ene	100.0%	28.9	25.9	Increase due to higher price in iron ore and effect of an accounting change in stripping costs in the previous fiscal year despite dropping price in coal
ITOCHU Oil Exploration (Azerbaijan) Inc.	(Cayman) Ene	100.0%	21.2	5.2	Increase in sales volume by higher oil price and oil production increase
ITOCHU International Inc.	(*9) (U.S.A.) Ove	100.0%	12.8	7.9	Steady growth in group companies and the absence of the loss on legal settlement in the previous fiscal year
PrimeSource Building Products, Inc.	(*9) (U.S.A.) Che	100.0%	7.4	7.7	Decrease with influence of declined number of house-building in US since the middle of the year
ITOCHU Hong Kong Ltd.	(Hong Kong) Ove	100.0%	2.5	1.8	Steady growth in consumer finance and textile related affiliates
ITOCHU (China) Holding Co., Ltd.	(China) Ove	100.0%	2.3	1.5	Good performance in chemicals, non-ferrous, and textile
CIECO Energy (UK) Limited	(U.K.) Ene	100.0%	1.6	0.5	Newly consolidated in the second quarter of the previous fiscal year, increased due to higher oil price
ITOCHU Australia Ltd.	(*7)(Australia) Ove	100.0%	1.5	1.0	Increase due to higher profit from mineral and energy-related subsidiary
ASTARTE SHIP HOLDING S.A.	(Panama) Mac	100.0%	1.4	0.5	Profit on sale of self-owned ship
ITOCHU Automobile America Inc.	(U.S.A.) Mac	100.0%	1.2	1.1	Slight increase through offsetting increased expenses and interest expenses with sales increase
[Domestic associated companies]					
Marubeni-Itochu Steel Inc.	Ene	50.0%	16.8	15.9	Good performance in domestic and export businesses
FamilyMart Co., Ltd.	(*8) Fod	32.3%	4.7	4.3	Decrease in non-ordinary loss
Japan Brazil Paper and Pulp Resources Development Co., Ltd	Che	25.9%	1.8	1.3	Good performance due to higher market price in pulp despite the effects of depreciation of Brazilian Real and higher cost of materials and fuel
AI Beverage Holding Co., Ltd.	Fod	20.0%	1.3	1.0	Good performance in tea beverage
Japan Ohanet Oil & Gas Co., Ltd.	Ene	35.0%	0.9	0.7	Steady growth in production & sales of natural gas, LPG, and condensate
[Overseas associated companies]					
Chemoil Energy Limited	(*6,10) (Hong Kong) Ene	37.5%	3.5	2.5	Good performance in transactions of bunker oil
Mazda Canada Inc.	(Canada) Mac	40.0%	1.5	1.6	Slight decrease due to loss from marine accident of automobile carrier vessel in spite of good sales

#### Major Group Companies Reporting Losses(\*13)

(Unit: billion yen)

Name	Segment (*12)	Shares	Net income (*1)		Comments
			2007	2006	
[Domestic subsidiaries]					
EAST IZU DEVELOPMENT Co. Ltd.	Fin	100.0%	(1.6)	0.0	Impairment loss in this fiscal year, due to worsened cash flow by revision of building repair planning and change to rental conditions
CIECO North Sea Ltd.	Ene	80.0%	(1.1)	0.6	Decrease due to production decrease, higher running cost, and increased decommissioning cost
ITOCHU BUILDING CORPORATION	Fin	100.0%	(1.0)	(2.7)	Disposal of unprofitable property though showing improvement compared with the previous fiscal year
[Overseas subsidiaries]					
MCL GROUP LIMITED	(U.K.) Mac	100.0%	(0.4)	0.4	Decrease in logistics business
ITOCHU India Pvt. Ltd.	(India) Ove	100.0%	(0.3)	-	Established in this fiscal year, deficit recorded due to operating expenses
C.I. Finance (CAYMAN) LTD.	(Cayman) Fin	100.0%	(0.3)	1.0	Due to worsened fund business profit
[Domestic associated companies]					
On Demand TV, Inc.	(*11) Aer	44.0%	(1.8)	(1.2)	Prior expenses for shifting to full-scale operation
Famima Credit Corporation	(*8) Fin	52.4%	(0.4)	(0.5)	Deficit shrunk by improved profit due to increased number of members

(\*6) The net income of ITOCHU Petroleum Japan Ltd. includes 15.5% of that of Chemoil Energy Limited.

(\*7) The net income of ITOCHU Australia Ltd. includes 3.7% of that of ITOCHU Minerals & Energy of Australia Pty Ltd.

(\*8) The net income of FamilyMart Co., Ltd. includes 11.4% of that of Famima Credit Corporation.

(\*12) Tex : Textile

(\*9) The net income of ITOCHU International Inc. includes 80% of that of PrimeSource Building Products, Inc.

Mac : Machinery

(\*10) Chemoil Energy Limited changed its name from BERKSHIRE OIL CO., LTD. Also, Chemoil Energy Limited

Aer : Aerospace, Electronics & Multimedia

merged CHEMOIL CORP. which was our associated company. The net income of Chemoil Energy Limited

Ene : Energy, Metals & Minerals

in the same period of the previous fiscal year shows the total of those of the former BERKSHIRE OIL CO., LTD

Che : Chemicals, Forest Products & General Merchandise

and CHEMOIL CORP.

Fod : Food

(\*11) From this year, this company is classified as a associated company because ITOCHU's voting share

Fin : Finance, Realty, Insurance & Logistics Services

percentage becomes less than 50%.

Ove : Overseas trading subsidiaries

(\*13) In addition to the above listing, the loss is recorded for Orient Corporation reporting the extraordinary loss from revision of Moneylending Control Law in Japan, and DAIKEN CORPORATION reporting the impairment loss from write-down on property for sale. However, because the financial statements for these companies will be announced later, please refer to the published figures of respective companies for incorporated net income for fiscal year 2007.

## Management Policy

### **Shift to Aggressive Business and Solid Management**

ITOCHU Group has positioned fiscal 2007, the last year of our mid-term management plan, "Frontier-2006" (a two-year plan for fiscal 2006 and 2007), as a finishing year to turn ITOCHU into a highly profitable corporate group consistently achieving more than 100 billion yen in consolidated net income.

For this goal, ITOCHU engaged in expanding earnings and strengthening its business base by foreseeing changes, always seeking a "frontier", and pursuing three principles of Challenge, Create, and Commit.

The following is the achievements accomplished in fiscal 2007:

In Consumer and Retail related area, ITOCHU has actively promoted global business deployments of big brands in Textile including introducing a casual bag brand, "LeSportsac", in China, opening a new U.S. based classy gourmet store, "DEAN & DELUCA" in Taiwan, and, further, opening new stores of CHROME HEARTS LLC. (jewelry sales joint venture) and Paul Smith Ltd. (U.K. based apparel company) in Hawaii and Paris, and in New York and Paris, respectively. Some innovative new business utilizing high-technology realized: such as, joint development with SHU-HOU Co., Ltd. in applying the curved surface printing technology to various products, and preparation for mass production system in anhydrous dyeing technology in inkjet printing business of INKMAX CO., LTD. In Food, ITOCHU actively proceeded with business in China, including establishing a general wholesale subsidiary in East China region, and operation of FamilyMart has started in Guangzhou, China since fiscal year 2007, which started new stores in Shanghai in fiscal year 2005. In Japan, ITOCHU turned NIPPON ACCESS, INC. into a subsidiary last June, which in turn merged with NISHINO TRADING CO., Ltd. in April this year. The united company now is planning to promote its food wholesale operation as one of the largest food wholesalers in Japan.

In Natural Resource Development, ITOCHU has decided to make an investment jointly with BHP Billiton Ltd. and Mitsui & Co., Ltd. in West Australia for capacity expansion in iron ore production. In addition, ITOCHU established a joint venture called "Kansas Energy Co. LLC" in the U.S. to enter into a natural gas retail business, and acquired interests of natural gas field in the Gulf of Mexico area. In ACG oil field development project in Azerbaijan Republic, production started also in east area of Azeri oil field.

Taking up other areas, in machinery, ITOCHU won an order from Algeria of the highway construction connecting project between the east area and the west area. In automobile related area, ITOCHU established Isuzu Network Co., Ltd. jointly with Isuzu Motors Limited to reinforce its domestic sales and to foster life-cycle process management business in commercial vehicles, and also concluded alliance relationship with Akebono Brake Industry Co., Ltd., and invested to their North America controlling subsidiary company. In mobile communications, Asurion Japan K.K. started warrant service against accidents in personal digital assistants. In life science, ITOCHU established Wellness Communications Corporation to participate in preventive medical care business which is highly prospective market along with Japan's aging population with low birth rate. In chemical area, a manufacturing plant for high-purity terephthalic acid (PTA) in Ningbo, China has been completed and started full-scale production. In financial service area, eGuarantee, Inc. which deals in guaranty services was listed on JASDAQ Stock Exchange.

### **Start the mid-term management plan: "Frontier<sup>+</sup> 2008"**

ITOCHU has set out on the new two year mid-term management plan, "Frontier<sup>+</sup> 2008 - Enhancing Corporate Value on the World Stage -" with fiscal 2008 as its starting year.

In "Frontier<sup>+</sup> 2008", inheriting the concept of "Frontier-2006", ITOCHU has set its basic policy of striving to become "a Global Enterprise that is highly attractive to all stakeholders" together with being "more aggressive". More specifically; (1) ITOCHU develops businesses with global perspective and increases earnings worldwide, (2) leverages change and opens up new areas, and (3) enhances human resources by seeking, fostering and

utilizing the talents of personnel worldwide.

To achieve these objectives, ITOCHU has put up the following three key measures.

1) "Expansion of business areas and enhancement of core businesses"

ITOCHU takes actions to "open up new areas" and "accelerate overseas operations" for achieving sustainable high growth as a Global Enterprise. Furthermore, in "enhancing core businesses", ITOCHU puts more significance on growth rate and promotes strategic investments.

2) "Solid management"

ITOCHU continues to improve its financial position and continue strict risk management. ITOCHU increases the transparency of decision-making process and enhances the corporate governance with proper check and monitor system. For internal control, ITOCHU has established Internal Control Committee to assure improvements. ITOCHU engages CSR (Corporate Social Responsibility) activities in a more proactive and positive manner. ITOCHU has also been pursuing "ITOCHU DNA Project - Designing New Age -" since April, 2006, and further promotes its business process re-engineering activities.

3) "Human resources strategy"

ITOCHU implements human resources strategy with global perspective and utilizes the talents of diversified human resources across the Group worldwide.

As a Global Enterprise, ITOCHU enhances corporate value to reward its stakeholders and contributes to regional and global societies including proactive approaches to global environmental issues.

### **Dividend policy**

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

Through "Frontier<sup>+</sup> 2008", ITOCHU increases dividend amount gradually and aims to improve dividend payout ratio, while improving parent company's stockholders' equity.

## Outlook for Fiscal 2008

Viewing for the business environment of the fiscal 2008, regarding Japanese economy, increase of wages brought from increase of demands for employment is going to accelerate rising of the personal consumption, while the expansion of capital investment and export is going to slow down, therefore totally, it keeps the stable pace of economic growth.

As for overseas economies, steady economic expansion is to be predicted, supported by high level corporate profits, while conservative economic policies derived from concerns that inflation might be expected.

Under these circumstances, ITOCHU is expecting consolidated total trading transactions of 12.1 trillion yen for the fiscal year ending March 2008, with a consolidated net income of 210.0 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 2008 consolidated forecasts (April 2007 - March 2008)

	Forecasts	Increase from the previous fiscal year
Total trading transactions	12.1 trillion yen	4.5%
Net income	210.0 billion yen	18.6%

### Distribution of the current fiscal year's profit

ITOCHU plans to make a 14 yen dividend payments per share for fiscal year ended March 2007 (Interim 5 yen dividend was already paid). For the fiscal year ending March 2008, ITOCHU intends to make a 17 yen (8.5 yen for each of the interim and the year-end) dividend payment per share.

Fiscal 2008 forecasts, ending March 31, 2008

Consolidated	Forecasts	Results
	2008 Full year	2007 Full year
Total trading transactions	12.1 trillion yen	11.6 trillion yen
Gross trading profit	975.0 billion yen	908.7 billion yen
Selling, general and administrative expenses	( 700.0)	( 639.1)
Provision for doubtful receivables	( 5.0)	( 4.9)
Net interest expenses	( 44.0)	( 29.2)
Dividends received	17.0	21.7
Other-net	7.0	43.2
Income before income taxes, minority interests, equity in earnings (losses) of associated companies	250.0	300.2
Income taxes	( 140.0)	( 88.9)
Income before minority interests, equity in earnings (losses) of associated companies	110.0	211.3
Minority interests	( 19.0)	( 14.2)
Equity in earnings (losses) of associated companies	119.0	( 20.1)
Net income	210.0	177.1

Total assets	5,800.0 billion yen	5,271.5 billion yen
Gross interest-bearing debt	2,250.0	2,165.6
Net interest-bearing debt	1,850.0	1,630.9
Total stockholders' equity	1,080.0	896.2

(Reference)	Forecasts	Results
Exchange rate (Yen / US\$)	110.00	117.32
Crude oil (Brent) price (US\$ / BBL)	55.00 (Jan-Dec forecast)	66.09 (Jan-Dec result)

**Consolidated Statements of Operations [Condensed]**

-Unaudited-

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2007 and 2006

	Millions of Yen		Millions of U.S. dollars
	2007	2006	2007
<b>Revenue:</b>			
Sales revenue .....	¥ 2,094,850	¥ 1,806,650	\$ 17,745
Trading margins and commissions on trading transactions.....	552,352	411,571	4,679
( Total trading transactions : 2007: 11,579,059 million yen ( 98,086 million U.S.dollars ) 2006: 10,473,885 million yen                 )			
Total revenue.....	2,647,202	2,218,221	22,424
Cost of sales.....	(1,738,526)	(1,503,847)	(14,727)
<b>Gross trading profit .....</b>	<b>908,676</b>	<b>714,374</b>	<b>7,697</b>
Selling, general and administrative expenses .....	(639,121)	(506,257)	(5,414)
Provision for doubtful receivables.....	(4,934)	(14,728)	(42)
Interest income .....	16,117	13,409	137
Interest expense .....	(45,335)	(39,441)	(384)
Dividends received.....	21,663	18,216	183
Gain on disposal of investments and marketable securities, net of write-down.....	46,850	51,601	397
Loss on property and equipment-net.....	(6,785)	(7,917)	(57)
Other-net.....	3,099	(12,388)	26
	<b>(608,446)</b>	<b>(497,505)</b>	<b>(5,154)</b>
<b>Income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change.....</b>	<b>300,230</b>	<b>216,869</b>	<b>2,543</b>
Income taxes.....	(88,926)	(106,923)	(753)
<b>Income before minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change.....</b>	<b>211,304</b>	<b>109,946</b>	<b>1,790</b>
Minority interests .....	(14,176)	(13,098)	(120)
Equity in earnings (losses) of associated companies .....	(20,069)	51,737	(170)
<b>Income before cumulative effect of an accounting change.....</b>	<b>177,059</b>	<b>148,585</b>	<b>1,500</b>
Cumulative effect of an accounting change.....	-	(Note 3) (3,439)	-
<b>Net income.....</b>	<b>¥ 177,059</b>	<b>¥ 145,146</b>	<b>\$ 1,500</b>

## Note :

1. Consolidated statements of operations have been prepared in conformity with accounting principles generally accepted in the United States of America.
2. "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.
3. 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>2007</u>	<u>2006</u>	Increase (Decrease)	<b>Reasons for changes</b> Increase due to transactions in automobile, energy development-related (rising price of natural resources such as crude oil and increase in sales volume), Chemicals, Forest Products & General Merchandise-related, and turning NIPPON ACCESS, INC. into a consolidated subsidiary
	Revenue	2,647.2	2,218.2	429.0	
Gross trading profit	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	(Refer to page 28-29 "Operating Segment Information") Increase due to good performance in ITOCHU Corporation and existing subsidiaries : +70.3 Effect from joining of subsidiaries : +122.1 Effect from leaving of subsidiaries : -11.4 Effect of exchange rate fluctuations : +13.3
	Gross trading profit	908.7	714.4	194.3	
Selling, general and administrative expenses	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	(Increase accompanied by expansion of business in ITOCHU Corporation and existing subsidiaries : -22.7 Effect from joining of subsidiaries : -114.7 Effect from leaving of subsidiaries : +11.1 Effect of exchange rate fluctuations : -6.6
	Personnel expenses	(255.8)	(225.9)	(29.9)	
	Service charge, distribution costs	(192.1)	(118.7)	(73.4)	
	Rent, depreciation and amortization	(73.1)	(59.4)	(13.7)	
	Travel expenses	(23.9)	(21.1)	(2.9)	
	Others	(94.2)	(81.2)	(13.0)	
	Other expenses	(383.3)	(280.4)	(102.9)	
Total	(639.1)	(506.3)	(132.9)		
Provision for doubtful receivables	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	2006: Loss on Iraq receivables -7.7
	Provision for doubtful receivables	(4.9)	(14.7)	9.8	
Net financial expenses	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	(Average) <u>2007</u> <u>2006</u> <b>Changes</b> TIBOR 3M      0.431%      0.093%      0.338% LIBOR US\$3M      5.197%      3.567%      1.630%
	Net financial expenses	(7.6)	(7.8)	0.3	
	Interest income	16.1	13.4	2.7	
	Interest expense	(45.3)	(39.4)	(5.9)	
	Net interest expenses	(29.2)	(26.0)	(3.2)	
Dividends received	21.7	18.2	3.4	Mainly effect of rising interest rate Dividends received from LNG-related investments +2.0 (9.9→11.9)	
Gain on disposal of investments and marketable securities, net of write-down	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	Gain on exchange of securities +3.5 (-→3.5) Devaluation losses on securities -4.6 (-4.6→-9.3) Net gains on sales of securities and others -3.6 (56.2→52.6)
	Gain on disposal of investments and marketable securities, net of write-down	46.9	51.6	(4.8)	
Loss on property and equipment-net	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	Net gains (losses) on sales of property and equipment -2.6 (2.3→-0.4) Impairment losses on property and equipment and others +3.8 (-10.2→-6.4)
	Loss on property and equipment-net	(6.8)	(7.9)	1.1	
Other-net	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	2006: Loss on legal settlement by the overseas trading subsidiary in the U.S. (-19.5)
	Other-net	3.1	(12.4)	15.5	
Minority interests	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	
	Minority interests	(14.2)	(13.1)	(1.1)	
Equity in earnings (losses) of associated companies	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	Equity loss arising from extraordinary loss in Orient Corporation due to revision of Moneylending Control Law in Japan Refer to page 12 "Major Group Companies Reporting Profits" and "Major Group Companies Reporting Losses"
	Equity in earnings (losses) of associated companies	(20.1)	51.7	(71.8)	
Cumulative effect of an accounting change	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	2006: Cumulative effect of an accounting change for production stripping costs in the mining industry Refer to page 17 "Note 3"
	Cumulative effect of an accounting change	-	(3.4)	3.4	
Total trading transactions	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	Refer to page 28-29 "Operating Segment Information" Effect of exchange rate fluctuations: Approximately +289.0
	Total trading transactions	11,579.1	10,473.9	1,105.2	
	Gross trading profit ratio	7.8%	6.8%	1.0%	
Adjusted profit	(Unit : billion yen)	<u>2007</u>	<u>2006</u>	Increase (Decrease)	(*) The amount ( ) presents changes from the same period of the previous fiscal year Adjusted profit (*) (-10.1)= Gross trading profit (+194.3) + SG&A expenses(-132.9) + Net financial expenses(+0.3) + Equity in earnings (losses) of associated companies(-71.8)
	Adjusted profit	241.9	252.0	(10.1)	
	[Average exchange rate Yen/US\$]	<u>2007</u>	<u>2006</u>	<b>Changes</b>	[For March closing companies]
		117.32	112.28	5.04	<u>2007</u>
		<u>2006</u>	<u>2005</u>	<b>Changes</b>	<u>2006</u>
		112.28	107.94	4.34	116.68
					109.03
					<u>2005</u>
					7.65
					<b>Changes</b>
					0.43

**Consolidated Balance Sheets (Assets) [Condensed]**

ITOCHU Corporation and Subsidiaries

As of March 31, 2007 and 2006

-Unaudited-

Assets	Millions of Yen		Millions of U.S. dollars
	Mar. 2007	Mar. 2006	Mar. 2007
<b>Current assets:</b>			
Cash and cash equivalents.....	¥ 532,856	¥ 477,707	\$ 4,514
Time deposits.....	1,845	24,447	16
Marketable securities.....	31,161	48,282	264
Trade receivables:			
Notes.....	163,449	149,386	1,385
Accounts.....	1,273,464	1,079,404	10,787
Allowance for doubtful receivables.....	(15,358)	(17,755)	(130)
Net trade receivables.....	1,421,555	1,211,035	12,042
Due from associated companies.....	105,884	93,569	897
Inventories.....	530,335	458,876	4,492
Advances to suppliers.....	98,604	121,252	835
Prepaid expenses.....	32,103	28,771	272
Deferred tax assets.....	37,898	35,165	321
Other current assets.....	274,664	180,519	2,327
Total current assets.....	3,066,905	2,679,623	25,980
<b>Investments and non-current receivables:</b>			
Investments in and advances to associated companies.....	608,121	619,007	5,151
Other investments.....	632,527	528,440	5,358
Other non-current receivables.....	143,628	196,409	1,217
Allowance for doubtful receivables.....	(66,450)	(103,600)	(563)
Net investments and non-current receivables.....	1,317,826	1,240,256	11,163
<b>Property and equipment, at cost:</b>			
Land.....	160,620	152,149	1,361
Buildings.....	328,397	293,605	2,782
Machinery and equipment.....	276,368	263,637	2,341
Furniture and fixtures.....	57,594	52,607	488
Mineral rights.....	45,905	41,296	389
Construction in progress.....	16,090	10,582	136
Total property and equipment, at cost.....	884,974	813,876	7,497
Less accumulated depreciation.....	354,929	326,088	3,007
Net property and equipment.....	530,045	487,788	4,490
<b>Prepaid pension cost.....</b>	<b>86,180</b>	186,105	730
<b>Deferred tax assets, non-current.....</b>	<b>31,612</b>	47,365	268
<b>Other assets.....</b>	<b>238,944</b>	155,876	2,024
<b>Total.....</b>	<b>¥ 5,271,512</b>	¥ 4,797,013	\$ 44,655

Note :

1. Consolidated balance sheets have been prepared in conformity with accounting principles generally accepted in the United States of America.
2. ITOCHU Corporation and its subsidiaries adopt Statement of Financial Accounting Standards ("SFAS") No.158 "Employers' Accounting for Pension liability adjustments and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132 (R) " from fiscal year 2007.

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

-Unaudited-

ITOCHU Corporation and Subsidiaries

As of March 31, 2007 and 2006

Liabilities and Stockholders' Equity	Millions of Yen		Millions of U.S. dollars
	Mar. 2007	Mar. 2006	Mar. 2007
<b>Current liabilities:</b>			
Short-term debt .....	¥ 373,723	¥ 382,434	\$ 3,166
Current maturities of long-term debt.....	144,317	173,097	1,223
Trade payables:			
Notes and acceptances.....	181,197	156,395	1,535
Accounts.....	1,143,422	921,797	9,686
Total trade payables.....	1,324,619	1,078,192	11,221
Due to associated companies.....	46,083	46,680	390
Accrued expenses.....	135,335	111,078	1,146
Income taxes payable.....	51,059	38,361	433
Advances from customers.....	107,308	135,790	909
Deferred tax liabilities.....	1,812	605	15
Other current liabilities.....	205,040	163,589	1,737
Total current liabilities .....	2,389,296	2,129,826	20,240
<b>Long-term debt, excluding current maturities.....</b>	<b>1,795,333</b>	<b>1,762,103</b>	<b>15,208</b>
<b>Accrued retirement and severance benefits.....</b>	<b>21,748</b>	<b>19,081</b>	<b>184</b>
<b>Deferred tax liabilities, non-current.....</b>	<b>25,885</b>	<b>29,470</b>	<b>219</b>
<b>Commitments and contingent liabilities</b>			
<b>Minority interests.....</b>	<b>143,055</b>	<b>129,717</b>	<b>1,212</b>
<b>Stockholders' equity:</b>			
Common stock:			
Authorized 3,000,000,000 shares;			
Issued:			
1,584,889,504 shares .....	202,241	202,241	1,713
Capital surplus .....	136,842	137,035	1,159
Retained earnings:			
Legal reserve .....	7,423	5,667	63
Other retained earnings .....	469,736	310,261	3,979
Total retained earnings .....	477,159	315,928	4,042
Accumulated other comprehensive income (loss):			
Foreign currency translation adjustments.....	903	(25,801)	8
Minimum pension liability adjustments.....	—	(2,086)	—
Pension liability adjustments .....	(41,335)	—	(350)
Unrealized holding gains on securities.....	122,736	97,689	1,040
Unrealized holding gains (losses) on derivative instruments.....	(441)	3,087	(4)
Total accumulated other comprehensive income .....	81,863	72,889	694
Treasury stock, at cost.....	(1,910)	(1,277)	(16)
Total stockholders' equity.....	896,195	726,816	7,592
<b>Total .....</b>	<b>¥ 5,271,512</b>	<b>¥ 4,797,013</b>	<b>\$ 44,655</b>

## [Explanation for Consolidated Balance Sheets]

Total assets as of March 31, 2007 increased by 474.5 billion yen from March 31, 2006, to 5,271.5 billion yen due to increase from turning NIPPON ACCESS, INC. into a consolidated subsidiary (approximately 230.0 billion yen) in Food, increase of automobile-related investment/increase in trade receivables and inventories from automobile transaction increase in Machinery, increase in trade receivables due to higher prices in crude oil and other resources/increase in investment in plant of a resource development related subsidiary in Energy, Metals & Minerals, and increase in trade receivables due to high market prices of chemical products in Chemicals, Forest Products & General Merchandise.

### Assets

	(Unit: billion yen)			Reasons for changes: (*) regarding increase in Food, refer to the following "Effect of turning NIPPON ACCESS, INC. into a consolidated subsidiary"
	Mar 2007	Mar 2006	Increase (Decrease)	
Cash and cash equivalents	532.9	477.7	55.1	
Time deposits	1.8	24.4	(22.6)	
Net trade receivables	1,421.6	1,211.0	210.5	Mainly increase in Machinery, Forest Products & General Merchandise, Chemicals, and (*)Food.
Inventories	530.3	458.9	71.5	Mainly increase in Machinery, Mineral Resource & Coal, Energy, Forest Products & General Merchandise, Chemicals, and (*)Food.
Advances to suppliers	98.6	121.3	(22.6)	Mainly decrease in Machinery.
Other current assets	274.7	180.5	94.1	Mainly increase in Energy, (*)Food, and Finance.
Other investments	632.5	528.4	104.1	Mainly increase in automobile-related investment and due to rise in stock prices.
Other non-current receivables (after deducting allowance for doubtful receivables)	77.2	92.8	(15.6)	Mainly decrease in Finance.
Net property and equipment	530.0	487.8	42.3	Mainly increase in Machinery, Mineral Resource & Coal and (*)Food.
Prepaid pension cost	86.2	186.1	(99.9)	Reverting of part of the retirement benefit trust fund assets, effect of adoption of SFAS No.158.
Other assets	238.9	155.9	83.1	Mainly increase in Machinery, Aerospace, Electronics & Multimedia and (*)Food.

### Liabilities

	(Unit: billion yen)			Reasons for changes: (*) regarding increase in Food, refer to the following "Effect of turning NIPPON ACCESS, INC. into a consolidated subsidiary"
	Mar 2007	Mar 2006	Increase (Decrease)	
Total Trade payables	1,324.6	1,078.2	246.4	Mainly increase in Machinery, Mineral Resource & Coal, Forest Products & General Merchandise, and (*)Food.
Advances from customers	107.3	135.8	(28.5)	Mainly decrease in Machinery.
Other current liabilities	205.0	163.6	41.5	Mainly increase in Energy and (*)Food.

#### [Interest-bearing debt]

Short-term debt	373.7	382.4	(8.7)
Current maturities of long-term debt	138.5	133.2	5.3
Current maturities of debentures	5.8	39.9	(34.1)
Short-term total	518.0	555.5	(37.5)
Long-term debt	1,459.6	1,519.7	(60.0)
Debentures	191.2	160.8	30.4
Long-term total	1,650.9	1,680.5	(29.6)
Total interest-bearing debt	2,168.9	2,236.0	(67.1)
SFAS 133 fair value adjustment	(3.3)	(9.5)	6.3
Adjusted total interest-bearing debt	2,165.6	2,226.5	(60.8)
Cash, cash equivalents and time deposits	534.7	502.2	32.5
Net interest-bearing debt	1,630.9	1,724.3	(93.4)
Net debt-to-equity ratio [times]	1.8	2.4	(0.6)

[Reference] Effect of turning NIPPON ACCESS, INC. into a consolidated subsidiary (Main items)

(Unit: billion yen)	
Net trade receivables	approx. 106.0
Inventories	approx. 13.0
Other current assets	approx. 33.0
Net property and equipment	approx. 38.0
Other assets	approx. 25.0
Trade payables	approx. 159.0
Other current liabilities	approx. 16.0
Interest-bearing debt	approx. 23.0
Net interest-bearing debt	approx. 22.0

### Stockholders' equity

	(Unit: billion yen)			Reasons for changes: (*) regarding increase in Food, refer to the following "Effect of turning NIPPON ACCESS, INC. into a consolidated subsidiary"
	Mar 2007	Mar 2006	Increase (Decrease)	
Common stock	202.2	202.2	-	
Capital surplus	136.8	137.0	(0.2)	
Retained earnings:	477.2	315.9	161.2	
Legal reserve	7.4	5.7	1.8	
Other retained earnings	469.7	310.3	159.5	Net income +177.1, Distribution of dividends -15.8, Transfer to legal reserve -1.8
Accumulated other comprehensive income (loss):	81.9	72.9	9.0	
Foreign currency translation adjustments	0.9	(25.8)	26.7	Effect of yen's depreciation compared with March 31, 2006
Minimum pension liability adjustments	-	(2.1)	2.1	
Pension liability adjustments	(41.3)	-	(41.3)	Effect from adoption of SFAS No.158. Refer to page 23 "2. Pension liability adjustments"
Unrealized holding gains on securities	122.7	97.7	25.0	Effect of rise in stock prices compared with March 31, 2006
Unrealized holding gains (losses) on derivative instruments	(0.4)	3.1	(3.5)	
Treasury stock, at cost	(1.9)	(1.3)	(0.6)	
Total stockholders' equity	896.2	726.8	169.4	
Ratio of stockholders' equity to total assets	17.0%	15.2%	1.8%	

[Current exchange rate Yen/US\$]

[For March closing companies]

[For December closing companies]

Mar 2007	Mar 2006	Changes	Dec 2006	Dec 2005	Changes
118.05	117.47	0.58	119.11	118.07	1.04
Mar 2006	Mar 2005	Changes	Dec 2005	Dec 2004	Changes
117.47	107.39	10.08	118.07	104.21	13.86

**Consolidated Statements of Stockholders' Equity [Condensed]**

-Unaudited-

ITOCHU Corporation and Subsidiaries

Years ended March 31, 2007 and 2006

	Millions of Yen		Millions of U.S. dollars
	2007	2006	2007
<b>Common stock:</b>			
Balance at beginning of year.....	¥ 202,241	¥ 202,241	\$ 1,713
Balance at end of year.....	¥ 202,241	¥ 202,241	\$ 1,713
<b>Capital surplus:</b>			
Balance at beginning of year .....	¥ 137,035	¥ 137,024	\$ 1,161
Excess arising from retirement of treasury stock .....	8	11	0
Decrease arising from group realignment between subsidiaries.....	(201)	-	(2)
Balance at end of year.....	¥ 136,842	¥ 137,035	\$ 1,159
<b>Retained earnings:</b>			
Legal reserve:			
Balance at beginning of year .....	¥ 5,667	¥ 3,927	\$ 48
Transfer from other retained earnings .....	1,822	1,797	15
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies .....	(66)	(57)	(0)
Balance at end of year.....	¥ 7,423	¥ 5,667	\$ 63
Other retained earnings:			
Balance at beginning of year .....	¥ 310,261	¥ 184,273	\$ 2,628
Net income.....	177,059	145,146	1,500
Cash dividends.....	(15,828)	(17,418)	(134)
Transfer to legal reserve .....	(1,822)	(1,797)	(15)
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies .....	66	57	0
Balance at end of year .....	¥ 469,736	¥ 310,261	\$ 3,979
<b>Accumulated other comprehensive income (loss):</b>			
Balance at beginning of year.....	¥ 72,889	¥ (16,242)	\$ 617
Other comprehensive income.....	47,451	89,131	402
Adjustment to initially apply SFAS No.158	(38,477)	-	(325)
Balance at end of year.....	¥ 81,863	¥ 72,889	\$ 694
<b>Treasury stock:</b>			
Balance at beginning of year.....	¥ (1,277)	¥ (826)	\$ (11)
Net changes in treasury stock .....	(633)	(451)	(5)
Balance at end of year .....	¥ (1,910)	¥ (1,277)	\$ (16)
<b>Total.....</b>	<b>¥ 896,195</b>	<b>¥ 726,816</b>	<b>\$ 7,592</b>
<b>Comprehensive income:</b>			
Net income.....	¥ 177,059	¥ 145,146	\$ 1,500
Other comprehensive income (net of tax):			
Net change in foreign currency translation adjustments during the year.....	26,704	37,618	226
Minimum pension liability adjustments.....	(772)	(39)	(6)
Net change in unrealized holding gains on securities during the year.....	25,047	44,943	212
Net change in unrealized holding gains (losses) on derivative instruments during the year.....	(3,528)	6,609	(30)
Total other comprehensive income (net of tax).....	47,451	89,131	402
<b>Total.....</b>	<b>¥ 224,510</b>	<b>¥ 234,277</b>	<b>\$ 1,902</b>

Note :

ITOCHU Corporation and its subsidiaries adopt Statement of Financial Accounting Standards ("SFAS") No.158 "Employers' Accounting for Pension liability adjustments and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132 (R) " from fiscal year 2007.

[Explanation for Statements of Stockholders' Equity ]

**Accumulated other comprehensive income (loss)**

1. Foreign currency translation adjustments

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 2007</u>	<u>Mar 2006</u>	Increase (Decrease)
Balance as of:	0.9	(25.8)	26.7
	<u>Dec 2006</u>	<u>Dec 2005</u>	<u>Changes</u>
Prevailing rate: (Yen/US\$)	119.11	118.07	+1.04
	<u>Mar 2007</u>	<u>Mar 2006</u>	<u>Changes</u>
	118.05	117.47	+0.58

2. Pension liability adjustments

Difference between the projected benefit obligations and the plan assets is amortized according to the defined accounting standard, while the other unamortized balance is recognized as "Accumulated other comprehensive income(loss)".

ITOCHU Corporation and its subsidiaries adopt Statement of Financial Accounting Standards ("SFAS") No.158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R) " from fiscal year 2007.

"Before adoption of SFAS No.158": the upper side of the [Chart 1] shows the balance of "Minimum pension liability" calculated according to the previous accounting standard (SFAS No.87), and the number of Increase (Decrease) \* (0.8 billion yen) is recognized as "Minimum pension liability adjustments" in Other comprehensive income (net of tax).

"After adoption of SFAS No.158": the bottom side of the [Chart 1] shows the balance of "Pension liability adjustments" as of the end of this fiscal year. The difference from the balance of "Minimum pension liability" calculated according to the previous accounting standard (SFAS No.87) (38.5 billion yen) is recognized as "Adjustment to initially apply SFAS No.158" in Accumulated other comprehensive income(loss).

(Unit:billion yen)	<u>[Chart 1]</u>		Increase (Decrease)
	<u>Mar 2007</u>	<u>Mar 2006</u>	
Before adoption of SFAS No.158			
Minimum pension liability adjustments...	(a) (2.9)	(2.1)	(0.8)
After adoption of SFAS No.158 (Balance as of:)			
Minimum pension liability adjustments.....	-	(2.1)	2.1
Pension liability adjustments .....	(b) (41.3) *Note	-	(41.3)

\*Note: Adjustment to initially apply SFAS No.158: (38.5) billion yen  
(= (b) (41.3) billion yen - (a) (2.9) billion yen)

3. Unrealized holding gains on securities

Available-for-sale securities (not for trading purposes nor held-to-maturity purposes) 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 on securities".

(Unit:billion yen)	<u>Mar 2007</u>	<u>Mar 2006</u>	Increase (Decrease)
Balance as of:	122.7	97.7	25.0

4. Unrealized holding gains (losses) on derivative instruments

Derivative transactions which 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".

(Unit:billion yen)	<u>Mar 2007</u>	<u>Mar 2006</u>	Increase (Decrease)
Balance as of:	(0.4)	3.1	(3.5)

**Consolidated Statements of Cash Flows [Condensed]**

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

-Unaudited-

	Millions of Yen		Millions of U.S. dollars
	2007	2006	2007
<b>Cash flows from operating activities :</b>			
Net income .....	¥ 177,059	¥ 145,146	\$ 1,500
Adjustments to reconcile net income to net cash provided by operating activities :			
Depreciation and amortization .....	56,383	44,062	478
Provision for doubtful receivables .....	4,934	14,728	42
Gain on disposal of investments and marketable securities, net of write-down.....	(46,850)	(51,601)	(397)
Loss on property and equipment-net.....	6,785	7,917	57
Equity in earnings (losses) of associated companies, less dividends received .....	39,849	(43,239)	338
Deferred income taxes .....	8,665	41,691	73
Minority interests .....	14,176	13,098	120
Cumulative effect of an accounting change.....	-	(Note) 3,439	-
Changes in assets and liabilities, other-net .....	(25,084)	9,906	(213)
Net cash provided by operating activities .....	<u>235,917</u>	<u>185,147</u>	<u>1,998</u>
<b>Cash flows from investing activities :</b>			
Net purchases of property, equipment and other assets .....	(50,568)	(32,417)	(428)
Net increase in investments in and advances to associated companies .....	(11,003)	(43,224)	(93)
Net purchases of other investments .....	(64,571)	(5,381)	(547)
Net collections (origination) of other non-current loan receivables .....	(1,394)	14,233	(12)
Net (increase) decrease in time deposits.....	22,031	(20,491)	187
Net decrease in marketable securities.....	22,111	7,409	187
Net cash used in investing activities .....	<u>(83,394)</u>	<u>(79,871)</u>	<u>(706)</u>
<b>Cash flows from financing activities :</b>			
Net repayments of long-term debt .....	(63,695)	(75,693)	(540)
Net increase (decrease) in short-term debt .....	(22,215)	2,413	(188)
Other .....	(15,010)	(11,913)	(127)
Net cash used in financing activities .....	<u>(100,920)</u>	<u>(85,193)</u>	<u>(855)</u>
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>3,546</b>	<b>4,690</b>	<b>30</b>
<b>Net increase in cash and cash equivalents .....</b>	<b>55,149</b>	<b>24,773</b>	<b>467</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>477,707</b>	<b>452,934</b>	<b>4,047</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥ 532,856</b>	<b>¥ 477,707</b>	<b>\$ 4,514</b>

## Note :

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 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>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Reasons for increase/decrease</u>
Net income	177.1	145.1	31.9	Changes in net income +31.9
*Non-cash charges of P/L	83.9	30.1	53.8	Equity in earnings of associated companies, less dividends received +83.1, Deferred income taxes (33.0) etc.
Changes in assets and liabilities, other-net	(25.1)	9.9	(35.0)	Inventories (19.1) etc.
Net cash provided by operating activities	235.9	185.1	50.8	

\* 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>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	
Net purchases of property, equipment and other assets	(50.6) a	(32.4) b	(18.2)	a : Net purchases by mineral resources and energy-related subsidiaries (21.7) etc. b : Net purchases by mineral resources and energy-related subsidiaries (18.1) etc.
Net increase in investments in and advances to associated companies	(11.0) a	(43.2) b	32.2	a : Investment in Isuzu Network Co., Ltd. (11.8) etc. b : Investment in Orient Corporation (47.6) etc.
Net purchases of other investments	(64.6) a	(5.4)	(59.2)	a : Acquisition of NIPPON ACCESS, INC. (11.4), investment in Akebono Brake Industry Co., Ltd. (9.7) etc.
Net collections (origination) of other non-current loan receivables	(1.4)	14.2 b	(15.6)	b : Net collection by financing subsidiary +8.2 etc.
Net (increase) decrease in time deposits	22.0 a	(20.5) b	42.5	a : Decrease in time deposit of parent +21.2 etc. b : Increase in time deposit of parent (20.2) etc.
Net decrease in marketable securities	22.1 a	7.4 b	14.7	a : Decrease in marketable securities of domestic subsidiaries etc. b : Increase (decrease) in financing subsidiaries +14.5 etc.
Net cash used in investing activities	(83.4)	(79.9)	(3.5)	

**Cash flows from financing activities**

(Unit: billion yen)

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	
Net repayments of long-term debt	(63.7) a	(75.7) b	12.0	a : Net repayment by parent (30.0) etc. b : ITOCHU International Inc. (18.1), shipping-related subsidiaries (12.2) etc.
Net increase (decrease) in short-term debt	(22.2) a	2.4	(24.6)	a : Net repayment by food subsidiary +14.5 etc.
Other	(15.0) a	(11.9) b	(3.1)	a : Dividends paid (15.8) etc. b : Dividends paid (17.4), issuance of stocks to minority shareholders +9.0, dividends paid to minority shareholders (3.1) etc.
Net cash used in financing activities	(100.9)	(85.2)	(15.7)	

(Note)

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

## Basis of the Consolidated Financial Statements

### 1. Consolidated Subsidiaries and Associated Companies

Consolidated Subsidiaries	[Major Group Companies]
(Domestic: 212 entities)	JOIX CORPORATION, Tommy Hilfiger Japan, Corporation, ITOCHU Sanki Corporation, Century Medical, Inc. ITOCHU Techno-Solutions Corporation, SPACE SHOWER NETWORKS INC., Excite Japan Co., Ltd NANO Media Inc., ITC NETWORKS CORPORATION, ITOCHU Non-Ferrous Materials Co., Ltd. ITOCHU Petroleum Japan Ltd., ITOCHU Kenzai Corp., ITOCHU Pulp & Paper Corp. ITOCHU CHEMICAL FRONTIER Corporation, ITOCHU PLASTICS INC., ITOCHU SHOKUHIN Co., Ltd. NISHINO TRADING CO., Ltd., NIPPON ACCESS, INC., CENTURY 21 REAL ESTATE OF JAPAN LTD. ITOCHU Finance Corporation, FX PRIME Corporation
(Overseas: 226 entities)	Prominent Apparel Ltd. [Hong Kong], MCL GROUP LIMITED [U.K.] ITOCHU Automobile America Inc. ITOCHU Minerals & Energy of Australia Pty Ltd. ITOCHU International Inc. [U.S.A.], ITOCHU Europe PLC. [U.K.], ITOCHU Hong Kong Ltd. ITOCHU (China) Holding Co., Ltd., ITOCHU Australia Ltd.
Associated Companies	
(Domestic: 102 entities)	Century Leasing System, Inc., JAMCO Corporation, SUNCALL CORPORATION Marubeni-Itochu Steel Inc., ITOCHU ENEX CO., LTD., DAIKEN CORPORATION, TAKIRON Co., Ltd. C.I. KASEI Co., Ltd., Japan Foods Co., Ltd., Fuji Oil Co., Ltd., FamilyMart Co., Ltd., Prima Meat Packers, Ltd. Orient Corporation, i-LOGISTICS CORP., eGuarantee, Inc.
(Overseas: 111 entities)	Chemoil Energy Limited [Hong Kong], CGB ENTERPRISES, INC. [U.S.A.]
(Note) Consolidated subsidiaries listed on the stock exchange markets in Japan	
	TSE 1st Section : ITOCHU Techno-Solutions Corporation, ITOCHU SHOKUHIN Co., Ltd.
	TSE 2nd Section: ITC NETWORKS CORPORATION
	JASDAQ : SPACE SHOWER NETWORKS INC., Excite Japan Co., Ltd CENTURY 21 REAL ESTATE OF JAPAN LTD.
	Mothers: magaseek corporation, NANO Media Inc.

\* Investment entities which are to be considered as part of parent company substantially (183 entities as of the end of March, 2007) are excluded from the list above.

### 2. Accounting Policies

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

The following is the summary of differences between the accounting policies adopted in the consolidated financial statements and accounting practice generally accepted in Japan:

(1) Evaluation of investments

For evaluation of investments, SFAS (Statement of Financial Accounting Standard) No.115 and EITF (Emerging Issues Task Force) No.03-1 are applied.

(2) Share-to-share exchange without cash payment

Exchange gains/losses on newly acquired investments by share-to-share transfer without cash payment are recognized at the time of the exchange according to EITF No.91-5.

(3) Value reduction of fixed assets for Japanese tax purposes

The whole balance is reversed for preparation of the consolidated financial statements.

(4) Post retirement benefit and pension plans

Costs of the employees' retirement and severance benefits are recognized based on the actuarial computation according to SFAS No. 87. From this fiscal year, SFAS No.158 is applied. According to SFAS No.158, the situation of the defined benefit pension plans (that is, difference between the fair value of the plan assets and the amount of the projected benefit obligations) as of the end of the period are recognized in the consolidated balance sheets, and the unrecognized actuarial gain/loss (net of tax) and the unrecognized prior service cost (net of tax) are recorded in Accumulated other comprehensive income (loss).

(5) Bond with warrant

The amount equivalent to the warrant portion in the bonds with warrant issued according to the former commercial law in Japan are recorded in Capital surplus at the time of issuance.

(6) Costs for issuance of new shares

Costs for issuance of new shares are recognized as subtraction item from Capital surplus.

(7) Deferred income on installment sales

The whole income on installment sales is recognized at the time of sales.

(8) Goodwill

Goodwill and non-amortized intangible assets with indefinite useful lives are no longer amortized, but are instead tested for impairment in accordance with SFAS No.142.

(9) Derivative instruments

According to SFAS No.133 and No.138, every derivative instruments is measured and presented at its fair value as of the end of the period in the consolidated balance sheets, and the change of fair value from the end of the previous period is recognized as gain/loss of the current period or Accumulated other comprehensive income(loss) (net of tax), judging existence of the hedging purpose and the type of hedging activities.

(10) Stripping costs in the mining industry

From the previous fiscal year, ITOCHU and its subsidiaries adopted EITF No.04-6. In accordance with EITF No.04-6, any stripping cost (cost of removing overburden and waste materials to access mineral deposits) incurred during the production phase of a mine are variable production cost that were included in the costs of inventory produced.

Operating Segment Information

## ITOCHU Corporation and Subsidiaries

Years ended March 31, 2007 and 2006

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 Corporation 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, 2007 and 2006 is as follows:

	2007								Millions of Yen
	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 .....	¥ 806,535	¥ 1,588,786	¥ 696,708	¥ 3,019,987	¥ 2,157,198	¥ 2,828,861	¥ 221,720	¥ 259,264	¥ 11,579,059
Transfers between operating segments .....	609	602	3,388	613	7,900	404	1,682	(15,198)	-
Total trading transactions .....	<u>807,144</u>	<u>1,589,388</u>	<u>700,096</u>	<u>3,020,600</u>	<u>2,165,098</u>	<u>2,829,265</u>	<u>223,402</u>	<u>244,066</u>	<u>11,579,059</u>
Gross trading profit .....	<u>124,640</u>	<u>90,466</u>	<u>133,513</u>	<u>102,114</u>	<u>126,187</u>	<u>264,617</u>	<u>43,285</u>	<u>23,854</u>	<u>908,676</u>
Net income .....	<u>17,105</u>	<u>21,132</u>	<u>11,203</u>	<u>80,705</u>	<u>24,772</u>	<u>18,089</u>	<u>(28,302)</u>	<u>32,355</u>	<u>177,059</u>
[Equity in earnings (losses) of associated companies].....	<u>[1,513]</u>	<u>[5,826]</u>	<u>[(1,468)]</u>	<u>[27,077]</u>	<u>[2,302]</u>	<u>[10,213]</u>	<u>[(66,037)]</u>	<u>[505]</u>	<u>[(20,069)]</u>
Identifiable assets at March 31, 2007.....	<u>401,792</u>	<u>635,761</u>	<u>551,210</u>	<u>781,432</u>	<u>716,775</u>	<u>1,070,743</u>	<u>524,851</u>	<u>588,948</u>	<u>5,271,512</u>

	2006								Millions of Yen
	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 .....	¥ 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 .....	<u>825,236</u>	<u>1,448,064</u>	<u>703,170</u>	<u>2,877,238</u>	<u>1,973,988</u>	<u>2,150,370</u>	<u>235,619</u>	<u>260,200</u>	<u>10,473,885</u>
Gross trading profit .....	<u>122,867</u>	<u>69,545</u>	<u>116,445</u>	<u>73,866</u>	<u>111,109</u>	<u>142,562</u>	<u>45,957</u>	<u>32,023</u>	<u>714,374</u>
Net income .....	<u>14,996</u>	<u>13,676</u>	<u>17,208</u>	<u>57,958</u>	<u>18,625</u>	<u>19,419</u>	<u>9,875</u>	<u>(6,611)</u>	<u>145,146</u>
[Equity in earnings (losses) of associated companies].....	<u>[(474)]</u>	<u>[6,434]</u>	<u>[1,796]</u>	<u>[24,028]</u>	<u>[2,756]</u>	<u>[9,308]</u>	<u>[8,038]</u>	<u>[(149)]</u>	<u>[51,737]</u>
Identifiable assets at March 31, 2006.....	<u>395,416</u>	<u>489,018</u>	<u>524,715</u>	<u>644,383</u>	<u>634,297</u>	<u>778,787</u>	<u>600,851</u>	<u>729,546</u>	<u>4,797,013</u>

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

Note :

- "Equity in earnings(losses) 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]

	(Unit : billion yen)		Increase	
	2007	2006	(Decrease)	Reasons for changes
<b>Total trading transactions</b>				
Textile	806.5	824.3	(17.7)	Decrease mainly due to transaction decrease in midstream operations.
Machinery	1,588.8	1,439.5	149.3	Increase mainly due to automobile transaction increase.
Aerospace, Electronics & Multimedia	696.7	699.5	(2.8)	Slight decrease due to withdrawal from inefficient transactions in mobile-phone-related business despite steady growth in domestic IT-related business.
Energy, Metals & Minerals	3,020.0	2,876.2	143.8	Increase due to rising of prices of natural resources such as crude oil and sales volume increase.
Chemicals, Forest Products & General Merchandise	2,157.2	1,967.3	189.9	Increase due to steady growth in domestic house-building material transactions and continuous high market prices of chemicals.
Food	2,828.9	2,150.0	678.8	Increase due to turning NIPPON ACCESS, INC. into a consolidated subsidiary.
Finance, Realty, Insurance & Logistics Services	221.7	232.8	(11.1)	Decrease due to a logistics group company classified from a subsidiary to an associated company.
Other, Adjustments & Eliminations	259.3	284.3	(25.0)	
<b>Total</b>	<b>11,579.1</b>	<b>10,473.9</b>	<b>1,105.2</b>	
<b>Gross trading profit</b>				
Textile	124.6	122.9	1.8	Increase due to increase in brand-related transactions despite sales decrease.
Machinery	90.5	69.5	20.9	Increase due to good performance in plant, ship, automobile transactions in Europe & US, and construction machinery business in North America.
Aerospace, Electronics & Multimedia	133.5	116.4	17.1	Increase due to steady growth in domestic IT-related business and mobile phone sales.
Energy, Metals & Minerals	102.1	73.9	28.2	Increase due to higher oil price and sales volume increase accompanied by a start of full-scale oil production in oil fields owned.
Chemicals, Forest Products & General Merchandise	126.2	111.1	15.1	Increase due to steady growth in domestic housing-building material transactions and continuous high market prices of chemicals.
Food	264.6	142.6	122.1	Increase due to turning NIPPON ACCESS, INC. into a consolidated subsidiary.
Finance, Realty, Insurance & Logistics Services	43.3	46.0	(2.7)	Decrease due to a logistics group company classified from a subsidiary to an associated company.
Other, Adjustments & Eliminations	23.9	32.0	(8.2)	Decrease due to absence of profit in a U.S. health care-related subsidiary sold in the previous FY.
<b>Total</b>	<b>908.7</b>	<b>714.4</b>	<b>194.3</b>	
<b>Net income</b>				
Textile	17.1	15.0	2.1	Increase due to increase of equity in earnings of associated companies in brand marketing related investment despite increase of net interest expenses.
Machinery	21.1	13.7	7.5	Increase due to increase in gain on sales of investment securities as well as gross trading profit despite increase of net interest expenses.
Aerospace, Electronics & Multimedia	11.2	17.2	(6.0)	Decrease due to the absence of the gain on sales of investment securities concerning the listing of a subsidiary in the previous FY and the loss on impairment of investment securities this FY despite increase in gross trading profit.
Energy, Metals & Minerals	80.7	58.0	22.7	Increase in gross trading profit, gain on sales of investment securities concerning the listing of an associated company, and cumulative effect of an accounting change for stripping costs in the previous FY.
Chemicals, Forest Products & General Merchandise	24.8	18.6	6.1	Increase due to increased gross trading profit despite increased net interest expenses.
Food	18.1	19.4	(1.3)	Decrease due to absence of the gain on sales of investment securities in the previous FY despite increase in gross trading profit.
Finance, Realty, Insurance & Logistics Services	(28.3)	9.9	(38.2)	Significant decrease mainly due to recognition of the extraordinary loss in a finance-related associated company according to revision of the Moneylending Control Law in Japan.
Other, Adjustments & Eliminations	32.4	(6.6)	39.0	Steep rise due to decrease of income taxes brought by increase of foreign income tax credit amount, reduction of SG&A, improvement of net interest incomes, and absence of the loss on legal settlement of an U.S. trading subsidiary recognized in the previous FY.
<b>Total</b>	<b>177.1</b>	<b>145.1</b>	<b>31.9</b>	
<b>Identifiable assets</b>				
Textile	401.8	395.4	6.4	Increase in new investment to brand marketing areas and increase of investment to associated companies due to accumulation of equity profit.
Machinery	635.8	489.0	146.7	Increase in automobile-related investments in addition to trade receivables and inventories relating to ships and automobile transactions.
Aerospace, Electronics & Multimedia	551.2	524.7	26.5	Increase in domestic IT-related business.
Energy, Metals & Minerals	781.4	644.4	137.0	Increase in resource development related assets such as property and equipment, and increase of trade receivables
Chemicals, Forest Products & General Merchandise	716.8	634.3	82.5	Increase in trade receivables due to high market prices.
Food	1,070.7	778.8	292.0	Increase in trade receivables due to turning NIPPON ACCESS, INC. into a consolidated subsidiary and the factor that this FY end was not a business day.
Finance, Realty, Insurance & Logistics Services	524.9	600.9	(76.0)	Decrease in investment due to extraordinary loss in a finance-related associated company and decrease of real estate assets.
Other, Adjustments & Eliminations	588.9	729.5	(140.6)	Decrease in prepaid pension cost due to reverting of part of the retirement benefit trust fund assets and due to adoption of the SFAS No.158, as well as decrease of deferred tax assets through reduction of temporary taxable difference balance.
<b>Total</b>	<b>5,271.5</b>	<b>4,797.0</b>	<b>474.5</b>	

[Total trading transactions by products]

(Unit:billion yen)

	2007 Amounts	2006 Amounts	Increase/Decrease Amounts (Changes ratio)
Energy, Metals & Minerals	3,020.0	2,876.2	+ 143.8 ( + 5.0 %)
Metals and Minerals	551.6	460.6	+ 91.0 ( + 19.8 %)
Energy	2,468.4	2,415.6	+ 52.8 ( + 2.2 %)
Chemicals, Forest Products & General Merchandise	2,157.2	1,967.3	+ 189.9 ( + 9.7 %)
Forest Products & General Merchandise	1,011.6	898.8	+ 112.8 ( + 12.5 %)
Chemicals	1,145.6	1,068.4	+ 77.2 ( + 7.2 %)
Finance, Realty, Insurance & Logistics Services	221.7	232.8	- 11.1 ( - 4.8 %)
Construction & Realty	166.5	145.2	+ 21.3 ( + 14.7 %)
Finance, Insurance & Logistics Services	55.2	87.7	- 32.4 ( - 37.0 %)

(Note)

Yen/US\$ average rate

[For March closing companies]

2007 117.32 Yen/US\$

2006 112.28 Yen/US\$

5.04 yen's depreciation (4.30%)

[For December closing companies]

Jan-Dec 2006 116.68 Yen/US\$

Jan-Dec 2005 109.03 Yen/US\$

7.65 yen's depreciation (6.56%)

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

Import	+65.0
Export	+42.0
Offshore	+182.0
Total	+289.0 billion yen (approximately)

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

: Approximately 49.0 billion yen per year

[Gross trading profit by products]

(Unit:billion yen)

	2007 Amounts	2006 Amounts	Increase/Decrease Amounts (Changes ratio)
Energy, Metals & Minerals	102.1	73.9	+ 28.2 ( + 38.2 %)
Metals and Minerals	46.5	48.2	- 1.8 ( - 3.7 %)
Energy	55.6	25.6	+ 30.0 ( + 117.1 %)
Chemicals, Forest Products & General Merchandise	126.2	111.1	+ 15.1 ( + 13.6 %)
Forest Products & General Merchandise	79.4	72.7	+ 6.7 ( + 9.2 %)
Chemicals	46.8	38.4	+ 8.4 ( + 21.8 %)
Finance, Realty, Insurance & Logistics Services	43.3	46.0	- 2.7 ( - 5.8 %)
Construction & Realty	22.9	24.5	- 1.7 ( - 6.7 %)
Finance, Insurance & Logistics Services	20.4	21.5	- 1.0 ( - 4.8 %)

## Per share Information

The following is the information on the stockholders' equity per share and net income per share for the years ended March 31, 2007 and 2006

(Unit : Yen)

	2007	2006
Stockholders' equity per share	566.78	459.47
Income per share before cumulative effect of an accounting change	111.95	93.91
Cumulative effect of an accounting change per share, less applicable income taxes	—	(2.17)
Net income per share	111.95	91.74

(Note) Information on the diluted net income per share for the years ended March 31, 2007 and 2006 is not presented, because there exist no potentially dilative common shares.

The base data to compute the basic and diluted net income per share computations for the years ended March 31, 2007 and 2006 are as follows:

(Numerator)

(Unit : Millions of yen)

	2007	2006
Income before cumulative effect of an accounting change	177,059	148,585
Cumulative effect of an accounting change, less applicable income taxes	—	(3,439)
Net income	177,059	145,146

(Denominator)

	2007	2006
Average number of common shares outstanding	1,581,543,157	1,582,159,754

## Material subsequent events

On April 26, 2007, the company issued the straight bond, the face value of which amounts 10 billion yen, the maturity date of which comes in year 2017, and the fixed interest rate of which is 2.02% p.a., based on the resolution at the board of directors' meeting held on July 6, 2006.