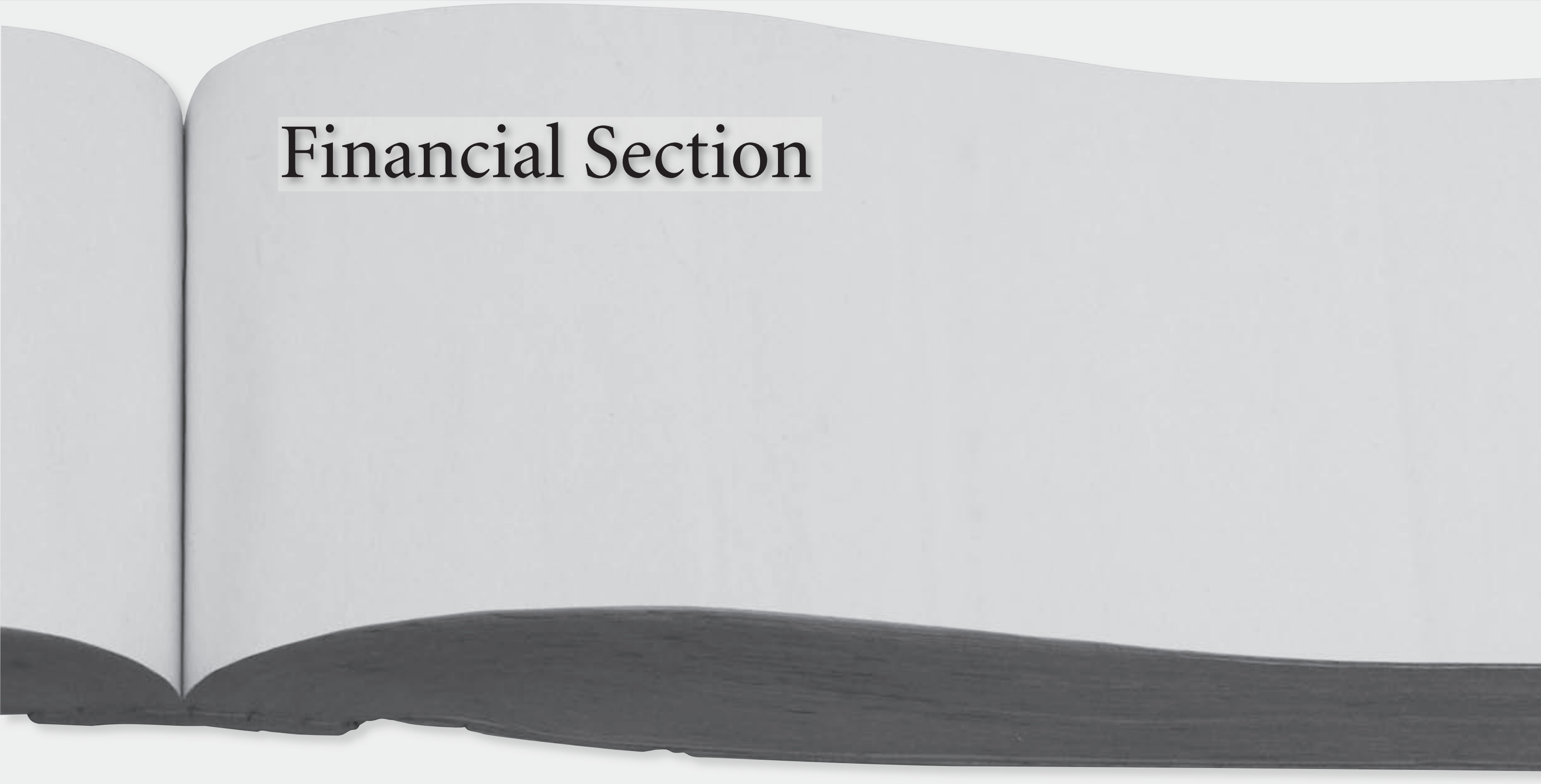
Financial Section



Six-Year Summary

ITOCHU Corporation and Subsidiaries
Years ended March 31

	Millions of Yen						Millions of U.S. Dollars (Note 5)
Years ended March 31	**2008**	2007	2006	2005	2004	2003	**2008**
P/L (For the year):							
Revenue	**¥2,861,210**	¥2,647,202	¥2,218,221	¥1,991,238	¥1,738,747	¥1,681,718	**$28,558**
Gross trading profit	**995,904**	908,676	714,374	630,761	555,895	564,967	**9,940**
Net income (loss)	**218,585**	177,059	145,146	77,792	(31,944)	20,078	**2,182**
Per share (Yen and U.S. Dollars):							
Net income (loss) (Note 1)	**138.27**	¥111.95	¥ 91.74	¥ 49.16	¥ (20.20)	¥ 13.12	**$1.38**
Cash dividends	**18**	14	9	7	—	5	**0.18**
Stockholders' equity (Note 1)	**619.01**	566.78	459.47	322.54	267.25	269.53	**6.18**
Total trading transactions (Note 2)	**¥12,412,456**	¥11,579,059	¥10,473,885	¥9,576,039	¥9,516,967	¥10,446,371	**$123,889**
Adjusted profit (Note 3)	**335,030**	241,931	252,038	188,807	100,676	114,454	**3,344**
B/S (At year-end):							
Total assets	**¥5,255,420**	¥5,271,512	¥4,797,013	¥4,472,345	¥4,487,282	¥4,486,405	**$52,455**
Short-term interest-bearing debt	**383,463**	518,040	555,531	676,870	885,253	990,939	**3,828**
Long-term interest-bearing debt	**1,720,939**	1,647,589	1,670,937	1,669,834	1,676,657	1,583,481	**17,176**
Interest-bearing debt	**2,104,402**	2,165,629	2,226,468	2,346,704	2,561,910	2,574,420	**21,004**
Net interest-bearing debt	**1,654,532**	1,630,928	1,724,314	1,891,086	1,977,048	2,025,048	**16,513**
Long-term debt, excluding current maturities (including long-term interest-bearing debt)	**1,895,088**	1,795,333	1,762,103	1,750,815	1,757,313	1,637,916	**18,915**
Stockholders' equity	**978,471**	896,195	726,816	510,397	422,866	426,220	**9,766**
Cash flows:							
Cash flows from operating activities	**¥ 65,552**	¥ 235,917	¥185,147	¥ 126,624	¥184,780	¥ 168,843	**$ 654**
Cash flows from investing activities	**(65,774)**	(83,394)	(79,871)	(127,600)	(55,300)	5,253	**(656)**
Cash flows from financing activities	**(81,294)**	(100,920)	(85,193)	(125,342)	(79,695)	(114,041)	**(811)**
Cash and cash equivalents at end of year	**446,311**	532,856	477,707	452,934	579,565	534,156	**4,455**
Ratios:							
Gross trading profit ratio (%) (Note 4)	**8.0**	7.8	6.8	6.6	5.8	5.4	
ROA (%)	**4.2**	3.5	3.1	1.7	—	0.4	
ROE (%)	**23.3**	21.8	23.5	16.7	—	4.9	
Ratio of stockholders' equity to total assets (%)	**18.6**	17.0	15.2	11.4	9.4	9.5	
Net debt-to-equity ratio (times)	**1.7**	1.8	2.4	3.7	4.7	4.8	
Interest coverage (times)	**6.2**	6.7	5.7	5.7	2.7	2.7	
Common stock information:							
Stock price (Yen and U.S. Dollars):							
Opening price	**¥1,174**	¥1,014	¥ 541	¥466	¥287	¥425	**$11.72**
High	**1,591**	1,223	1,056	573	480	506	**15.88**
Low	**804**	837	484	403	231	198	**8.02**
Closing price	**984**	1,168	1,011	540	468	288	**9.82**
Market capitalization (Yen and U.S. Dollars in billions)	**1,560**	1,851	1,602	856	742	456	**15.57**
Trading volume (yearly, million shares)	**2,928**	1,969	1,580	1,533	1,304	1,221	
Number of shares of common stock issued (at year-end, 1,000 shares)	**1,584,890**	1,584,890	1,584,890	1,584,890	1,584,890	1,583,488	
Exchange rates into U.S. currency (Federal Reserve Bank of New York):							
At year-end	**¥ 99.85**	¥117.56	¥117.48	¥107.22	¥104.18	¥118.07	
Average for the year	**113.61**	116.55	113.67	107.28	112.75	121.10	
Range:							
Low	**124.09**	121.81	120.93	114.30	120.55	133.40	
High	**96.88**	110.07	104.41	102.26	104.18	115.71	
Number of employees (At year-end, consolidated)	**48,657**	45,690	42,967	40,890	40,737	39,109	

Note: 1. "Net income (loss) per share" and "Stockholders' equity per share" are calculated by using the number of shares issued and outstanding.
2. "Total trading transactions" is presented in accordance with Japanese accounting practice and is not meant to present sales or revenue in accordance with U.S. GAAP.
3. Adjusted profit = Gross trading profit + Selling, general and administrative expenses + Net financial expenses + Equity in earnings of associated companies
4. "Gross trading profit ratio" is the percentage of "Gross trading profit" to "Total trading transactions."
5. The Japanese yen amounts for the year ended March 31, 2008 have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥100.19=U.S.$1 (the official rate dated March 31, 2008 announced by The Bank of Tokyo-Mitsubishi UFJ, Ltd.).

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

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

Figures in yen for the fiscal year ended March 31, 2008 ("Fiscal 2008" or "the fiscal year"), have been translated into U.S. dollars solely for the convenience of the reader based on the exchange rate of ¥100.19 = US$1, announced by The Bank of Tokyo-Mitsubishi UFJ, Ltd., on March 31, 2008.

OVERVIEW

As for the world economic environment during Fiscal 2008, growth tempo has gradually diminished along with more and more serious subprime loan problems originally occurred in U.S. since last summer. Growth rate, especially in U.S., has been slowed down due to the negative influence over the entire economies resulting from ever higher prices of raw materials under the even more serious recessions in housing business. European economy has experienced worsened economic expectation despite, by and large, continuous expansion in individual consumption and capital investment.

On the other hand, Chinese economy has kept its high growth supported by strong export and capital investment. Resource-supplying countries have also enjoyed good performance led by affluent foreign currency earnings. Prices of primary commodities have kept on rising, up to over 100 dollars per barrel for crude oil, due to tight market resulting from increased demand from China and other countries as well as inflow of speculative money into commodity markets.

Japanese economy has slowed down due to the drastic fall in the number of new house building starts resulting from revised Building Standards Law and due to slowdown of capital investment along with sluggish corporate earnings, in spite of strong export especially for developing countries. Nikkei Stock Average has been on the decline since last summer, going down to the 12,000-yen level at the end of this fiscal year due to the impact of worldwide dropping stock prices. Regarding foreign exchange market, yen has been going up to around 100-yen under U.S. dollar falling across the globe resulting from lowered interest rate in U.S.

ITOCHU has set out on the new two years mid-term management plan, "Frontier+ 2008—Enhancing Corporate Value on the World Stage—" since Fiscal 2008. In "Frontier+ 2008," ITOCHU has worked based on its basic policy of aiming to become "a Global Enterprise, highly attractive to all stakeholders" while striving to be more aggressive.

The following are some of the achievements accomplished in Fiscal 2008:

Consumer and Retail related area:

In Textile, ITOCHU, as an engaged in a new business, participated in investment in a TV shopping provider, PRIME NETWORK INC., aiming at establishing one of the sales channels and creating a synergy throughout the Group. In high-technology area, business using SHU-HOU's curved surface printing technology has got on track with successful expansion. In addition, brand businesses such as Paul Smith and LeSportsac which have been large M&A projects since fiscal 2005 have grown to be major source of ITOCHU's revenue. LeSportsac has accelerated its overseas operations especially in China.

In Food, the merger between NIPPON ACCESS INC., which was turned into a subsidiary in the previous fiscal year, and another subsidiary, NISHINO TRADING CO. Ltd. has established one of the top class nation-wide distribution networks covering all ranges of temperature. For overseas activities, in cooperation with an associated company, Prima Meat Packers, Ltd., ITOCHU has built in Thailand one of the largest food processing factories in Asia to secure food resources and to prevent the risk arising from the concentration of production area.

Natural Resource related area:

ITOCHU has decided on prior investment in iron-ore development in west Australia for enhancing supply capacity. Also, in the Gulf of Mexico, one of the Group companies, CIECO Energy (US) Limited has acquired interests of crude oil and natural gas from Range Resources Corporation and has agreed with Callon Petroleum Company to acquire interests of Entrada oil and gas field. In Trading area, in order to strengthen recycling business and to promote further business expansion in non-ferrous metal materials transactions, ITOCHU Non-Ferrous Materials Co., Ltd. has succeeded to the metal material business and changed its name into ITOCHU Metals Corporation.

In Energy related area, ITOCHU has decided to centralize petroleum product businesses such as domestic sales of kerosene and light oil etc., import and export of marine fuel transactions, which are currently distributed among individual Group companies, in ITOCHU ENEX CO., Ltd. in this October. By this centralization, ITOCHU will strengthen the domestic business and accelerate overseas operations.

Other areas:

In Machinery, a North American subsidiary Tyr Energy, Inc. purchased the entire interests of Chesapeake Power Station in Virginia. Also, in March 2008, ITOCHU concluded a joint-venture contract with SUZUKI MOTOR CORPORATION to take a stake in a local distributor of Suzuki 4-wheel vehicles, SUZUKI MALAYSIA AUTOMOBILE Sdn. Bhd. In Chemical area, ITOCHU has concluded a comprehensive partnership in plastic film business by investing in Narendra Plastic Pvt. Ltd., a leading manufacturer of plastic films in India, to enter Indian market showing expansion in this business area. In Mobile business, ITC NETWORKS CORPORATION merged Idomco Communications Co., Ltd. to enhance businesses mainly in corporate user division.

As part of the prioritized area for new business ventures, "L-I-N-E-s" (See Note 1):
In Environment and New Energy area, ITOCHU has promoted business engagement in photovoltaic by acquiring Solar Depot, LLC, which has one of the largest shares in selling solar power systems for residential use, and by increasing a stake in a Norwegian silicon wafer manufacturer, NorSun AS which ITOCHU started participation in their management.

For human resources strategy with global perspective;
ITOCHU has set up Global Human Resource Development Centers in North America, Europe, Asia and China with its headquarters in Tokyo with a view to "seeking, fostering and utilizing the talents of personnel worldwide," so as to foster and identify human resources at global level.

(Note 1) "L-I-N-E-s" refers to the following four business areas plus "s" for synergy meaning cross-sectional business engagement: Life care (medical services and health related businesses), Infrastructure (functional infrastructure of IT, LT, and FT, and social infrastructure related businesses), New Technologies & Materials (bio- and nano- technologies), and Environment & New Energy (bioethanol and photovoltaic generation).

BUSINESS RESULTS FOR FISCAL 2008—COMPARISON BETWEEN FISCAL 2008 AND FISCAL 2007

(All comparisons are with the previous fiscal year unless otherwise stated.)

Revenue (the total of "Sales revenue" and "Trading margins and commissions on trading transactions") increased by 8.1% or ¥214.0 billion to ¥2,861.2 billion ($28,558 million) compared with the previous fiscal year, because of rising of price and increasing transaction volume in crude oil brought by expansion of production in the oil fields owned, transaction increase in automobile business to emerging countries as well as an increase through turning NIPPON ACCESS, INC. into a consolidated subsidiary [Consolidation of profit & loss of NIPPON ACCESS, INC. started from the 2nd quarter of the previous fiscal year].

Gross trading profit increased by 9.6% or ¥87.2 billion to ¥995.9 billion ($9,940 million) compared with the previous fiscal year, due to rising of price and an increase in crude oil transaction volume following expansion of production in the oil fields owned, an increase in automobile business mainly to emerging countries, and an increase impact coming from turning NIPPON ACCESS, INC. into a consolidated subsidiary, despite a decrease in housing materials transactions caused by slowdown of demands of houses in North America and in Japan.

Selling, general and administrative expenses, with increase accompanied by the expansion of business and turning NIPPON ACCESS, INC. into a consolidated subsidiary, increased by 13.2% or ¥84.3 billion to ¥723.4 billion ($7,220 million) compared with the previous fiscal year.

Provision for doubtful receivables increased by 21.1% or ¥1.0 billion to ¥6.0 billion ($60 million) compared with the previous fiscal year.

Net interest expenses, interest expense net of interest income, worsened by 10.1% or ¥2.9 billion to ¥32.2 billion ($321million) due to higher interest rate.

Dividends received increased by 12.9% or ¥2.8 billion to ¥24.4 billion ($244 million), mainly because of an increase in dividends from LNG-related investments. As a result, net financial expenses, total of net interest expenses and dividends received, worsened by 2.0% or ¥0.2 billion to ¥7.7 billion ($77 million) compared with the previous fiscal year.

Gain on disposal of investments and marketable securities, net of write-down decreased by ¥30.5 billion to gain of ¥16.4 billion ($164 million) mainly due to the increase in devaluation losses on investment securities and the decrease of gain on disposal of investment securities accompanied by stock price fall.

Gain (Loss) on property and equipment–net improved by ¥13.5 billion to gain of ¥6.7 billion ($67 million) mainly because of gain on disposal of coal mining interests and office buildings.

Other–net decreased by ¥2.3 billion to gain of ¥0.8 billion ($8 million) led by foreign currency exchange losses along with appreciated yen rate.

As a result, **Income before income taxes, minority interests and equity in earnings (losses) of associated companies** decreased by 5.8% or ¥17.5 billion to ¥282.7 billion ($2,822 million) compared with the previous fiscal year.

Income taxes increased 37.2% or ¥33.1 billion to ¥122.0 billion ($1,218 million) compared with the previous fiscal year, mainly due to effect of deferred income taxes related with equity in investment in Orient Corporation (hereinafter "Orico") [see (Note 2) below], despite a decrease along with decreased Income before income taxes, minority interests and equity in earnings (losses) of associated companies.

Minority interests decreased 12.8% or ¥1.8 billion to loss of ¥12.4 billion ($123 million) compared with the previous fiscal year.

Equity in earnings (losses) of associated companies improved by ¥90.3 billion to gain of ¥70.2 billion ($701 million) compared with the previous fiscal year mainly due to change of gain/loss in investment in Orico [see (Note 2) below].

As a result, **Net income** increased by 23.5% or ¥41.5 billion to $218.6 billion ($2,182 million) compared with the previous fiscal year.

Total trading transactions based on Japanese accounting practices increased by 7.2% or ¥833.4 billion to ¥12,412.5 billion ($123,889 million) compared with the previous fiscal year, mainly due to oil price rise and transaction volume increase in crude oil accompanied by expansion of production in the oil fields owned, plus an increase coming from turning NIPPON ACCESS, INC. into a consolidated subsidiary.

(Note 2) Impact of the special factors regarding the investment in Orico on "Equity in earnings (losses) of associated companies," "Income taxes" and Net income:
The following loss/gain is included in the consolidated result of Fiscal 2007 and 2008, related to the investment in Orico.

FY 2007: Equity in losses (loss of ¥68.6 billion) and its tax effect (gain of ¥28.1 billion) caused by the extraordinary loss in Orico due to revision of Moneylending Control Law in Japan.
[Impact on Net income: loss of ¥40.6 billion]

FY 2008: 1) Equity in earnings (gain of ¥52.2 billion) and its tax effect (loss of ¥21.4 billion) recognized regarding exemption from obligation to redeem preferred stocks, which was brought by the reverse split of the preferred stocks in Orico.
2) Devaluation loss of ¥26.2 billion and its tax effect (gain of ¥10.7 billion) related to Orico common stocks held.
[Impact on Net income: gain of ¥15.4 billion]

Due to above accounting procedure related to the investment in Orico, the overall impact is increases of ¥94.7 billion on Equity in earnings (losses) of associated companies, ¥38.7 billion on Income taxes, and ¥55.9 billion on Net income compared with the previous fiscal year.

Consolidated Statements of Operations

	Billions of Yen			Millions of U.S. Dollars
Years ended March 31	2008	2007	Increase (Decrease)	2008
Revenue	¥ 2,861.2	¥ 2,647.2	¥ 214.0	$ 28,558
Cost of sales	(1,865.3)	(1,738.5)	(126.8)	(18,618)
Gross trading profit	995.9	908.7	87.2	9,940
Selling, general and administrative expenses	(723.4)	(639.1)	(84.3)	(7,220)
Provision for doubtful receivables	(6.0)	(4.9)	(1.0)	(60)
Interest income	17.8	16.1	1.7	178
Interest expense	(50.0)	(45.3)	(4.7)	(499)
Dividends received	24.4	21.7	2.8	244
Gain (loss) on disposal of investments and marketable securities, net of write-down	16.4	46.9	(30.5)	164
Loss on property and equipment–net	6.7	(6.8)	13.5	67
Other–net	0.8	3.1	(2.3)	8
Income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	282.7	300.2	(17.5)	2,822
Income taxes	122.0	88.9	(33.1)	1,218
Income before minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	160.7	211.3	(50.6)	1,604
Minority interests	(12.4)	(14.2)	1.8	(123)
Equity in earnings (losses) of associated companies	70.2	(20.1)	90.3	701
Net income	¥ 218.6	¥ 177.1	¥ 41.5	$ 2,182

Operating Segment Information

Years ended March 31	Billions of Yen 2008	2007	2006	Millions of U.S. Dollars 2008
Trading transactions:				
Textile	¥ 690.7	¥ 806.5	¥ 824.3	$ 6,894
Machinery	1,432.3	1,588.8	1,439.5	14,296
Aerospace, Electronics & Multimedia	722.6	696.7	699.5	7,212
Energy, Metals & Minerals	3,829.1	3,020.0	2,876.2	38,218
Chemicals, Forest Products & General Merchandise	2,289.5	2,157.2	1,967.3	22,852
Food	3,036.8	2,828.9	2,150.0	30,311
Finance, Realty, Insurance & Logistics Services	182.1	221.7	232.8	1,817
Other, Adjustments & Eliminations	229.3	259.3	284.3	2,289
Total	¥12,412.5	¥11,579.1	¥10,473.9	$123,889
Gross trading profit:				
Textile	¥ 115.2	¥ 124.6	¥ 122.9	$ 1,150
Machinery	100.5	90.5	69.5	1,003
Aerospace, Electronics & Multimedia	139.0	133.5	116.4	1,387
Energy, Metals & Minerals	127.5	102.1	73.9	1,272
Chemicals, Forest Products & General Merchandise	122.6	126.2	111.1	1,224
Food	324.7	264.6	142.6	3,241
Finance, Realty, Insurance & Logistics Services	41.4	43.3	46.0	413
Other, Adjustments & Eliminations	25.1	23.9	32.0	250
Total	¥ 995.9	¥ 908.7	¥ 714.4	$ 9,940
Net income (loss):				
Textile	¥ 20.5	¥ 17.1	¥ 15.0	$ 205
Machinery	22.6	21.1	13.7	226
Aerospace, Electronics & Multimedia	14.6	11.2	17.2	146
Energy, Metals & Minerals	105.7	80.7	58.0	1,055
Chemicals, Forest Products & General Merchandise	19.7	24.8	18.6	196
Food	18.7	18.1	19.4	186
Finance, Realty, Insurance & Logistics Services	10.8	(28.3)	9.9	108
Other, Adjustments & Eliminations	6.0	32.4	(6.6)	60
Total	¥ 218.6	¥ 177.1	¥ 145.1	$ 2,182
Identifiable assets at March 31:				
Textile	¥ 364.3	¥ 401.8	¥ 395.4	$ 3,637
Machinery	690.9	635.8	489.0	6,896
Aerospace, Electronics & Multimedia	513.9	551.2	524.7	5,129
Energy, Metals & Minerals	916.6	781.4	644.4	9,148
Chemicals, Forest Products & General Merchandise	766.8	716.8	634.3	7,654
Food	1,064.8	1,070.7	778.8	10,628
Finance, Realty, Insurance & Logistics Services	420.5	524.9	600.9	4,197
Other, Adjustments & Eliminations	517.6	588.9	729.5	5,166
Total	¥ 5,255.4	¥ 5,271.5	¥ 4,797.0	$ 52,455

OPERATING SEGMENT INFORMATION

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

Textile

Trading transactions (excluding inter-segment transactions; the same definition applies below) decreased by 14.4% or ¥115.8 billion to ¥690.7 billion (US$6,894 million), principally due to withdrawal from low-efficiency trading transactions and slowdown of apparel market demands. Gross trading profit decreased by 7.5% or ¥9.4 billion to ¥115.2 billion (US$1,150 million), which was mainly related to the effect of leaving of certain subsidiaries from group and recession in the apparel market. Net income increased by 19.8% or ¥3.4 billion to ¥20.5 billion (US$205 million), as a decrease in selling, general and administrative expenses caused by the leaving of some subsidiaries from group, and the recognition of gains on sales of investment securities absorbed the decline in gross trading profit. Identifiable assets decreased by 9.3% or ¥37.4 billion, compared with the previous fiscal year-end, to ¥364.3 billion (US$3,637 million), which was mostly attributable to the effect of leaving of certain subsidiaries from group and a reduction of trade receivables in parent company.

Machinery

Trading transactions decreased by 9.8% or ¥156.5 billion to ¥1,432.3 billion (US$14,296 million), principally because of less automobile trading transactions to North America despite increase of automobile transactions to emerging countries. Gross trading profit increased by 11.1%, or ¥10.0 billion to ¥100.5 billion (US$1,003 million), related to favorable trends in ship trading transactions and automobile trading transactions for emerging countries and construction machinery trading transactions. Net income grew by 7.1% or ¥1.5 billion to ¥22.6 billion (US$226 million), as higher gross trading profit and an increase in dividends received canceled the effect of gains on sales of investment securities recognized in the previous fiscal year. Identifiable assets increased by 8.7% or ¥55.2 billion, compared with the previous fiscal year-end, to ¥690.9 billion (US$6,896 million), attributable to increases in advances to suppliers related to ship business and trade receivables related to automobile trading transactions.

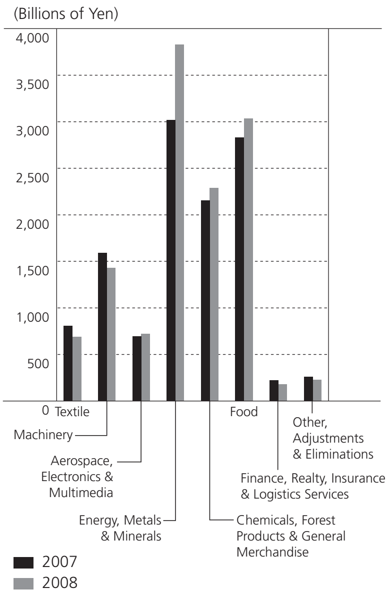
Aerospace, Electronics & Multimedia

Trading transactions rose by 3.7% or ¥25.9 billion to ¥722.6 billion (US$7,212 million), which was associated with the delivery of major aircraft-related projects. Gross trading profit rose by 4.1% or ¥5.4 billion to ¥139.0 billion (US$1,387 million), thanks to favorable performances by domestic sales operations for mobile phones and domestic operations involved in information technology. Net income increased by 30.2% or ¥3.4 billion to ¥14.6 billion (US$146 million), due to an increase in gain on disposal of investments and marketable securities, which offsets higher selling, general and administrative expenses. Identifiable assets declined by 6.8%, or ¥37.3 billion, compared with the previous fiscal year-end, to ¥513.9 billion (US$5,129 million), due mainly to decrease of advances to suppliers, resulting from the delivery of major aircraft-related projects, and the disposal of leased aircraft.

Energy, Metals & Minerals

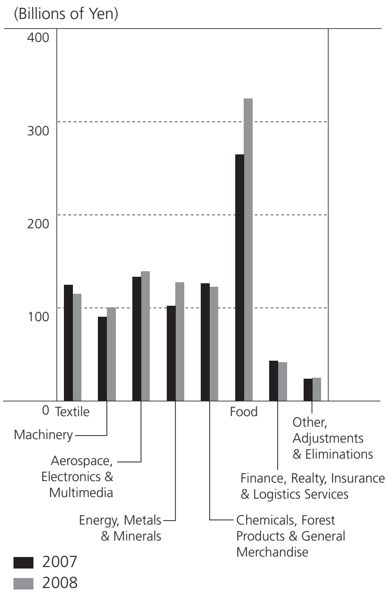
Trading transactions increased by 26.8% or ¥809.1 billion to ¥3,829.1 billion (US$38,218 million), mostly because of an increase in natural resource prices and higher sales

Total Trading Transactions by Operating Segment



* For fiscal years

Gross Trading Profit by Operating Segment



* As of March 31

volume due to the increased production of oil fields owned. Gross trading profit grew by 24.8% or ¥25.4 billion to ¥127.5 billion (US$1,272 million), which was primarily related to an increase in natural resource prices and higher sales volume due to the increased production of oil fields owned. Net income increased by 31.0% or ¥25.0 billion to ¥105.7 billion (US$1,055 million), largely as a result of the increase in gross trading profit and gain on the partial disposal of coal mining interests, counteracting loss on disposal of investments and marketable securities and equity in losses of associated companies. Identifiable assets increased 17.3% or ¥135.1 billion compared with the previous fiscal year-end, to ¥916.6 billion (US$9,148 million), as a consequence of increases in trade receivables and inventories and an increase in property and equipment in the energy-development sector.

Chemicals, Forest Products & General Merchandise

Trading transactions increased by 6.1% or ¥132.3 billion to ¥2,289.5 billion (US$22,852 million), due to an increase in chemical products prices, which offsets a decrease in revenues resulting from a fall-off in demand for house-building materials in North America and Japan. Gross trading profit declined by 2.8% or ¥3.5 billion to ¥122.6 billion (US$1,224 million), primarily because lower trading transactions for house-building materials associated with weaker demands for house-building materials in North America and Japan cancelled higher income resulting from an increase chemical products prices. Net income decreased by 20.6% or ¥5.1 billion to ¥19.7 billion (US$196 million), due to decreased gross trading profit and higher selling, general and administrative expenses. Identifiable assets increased by 7.0% or ¥50.0 billion compared with the previous fiscal year-end to ¥766.8 billion (US$7,654 million), as a result of an increase in trade receivables related to chemical products trading transactions.

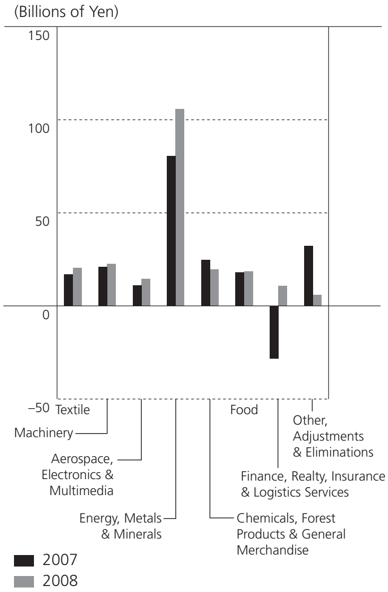
Food

Trading transactions increased by 7.4% or ¥208.0 billion, to ¥3,036.8 billion (US$30,311 million), as a consequence of the effect of turning NIPPON ACCESS, INC., into a consolidated subsidiary. Gross trading profit increased 22.7% or ¥60.0 billion to ¥324.7 billion (US$3,241 million), largely due to an increase income that resulted from turning NIPPON ACCESS, INC., into a consolidated subsidiary. Net income increased by 3.1% or ¥0.6 billion to ¥18.7 billion (US$186 million), principally because the increase in gross trading profit and an increase in gain on disposal of investments and marketable securities absorbed an increase in selling, general and administrative expenses accompanied by turning NIPPON ACCESS, INC. into a consolidated subsidiary and a decrease of equity in earnings of associated companies. Identifiable assets decreased by 0.6% or ¥5.9 billion compared with the previous fiscal year-end, to ¥1,064.8 billion (US$10,628 million), because of factors including a decrease in the trade receivables of food distribution businesses.

Finance, Realty, Insurance & Logistics Services

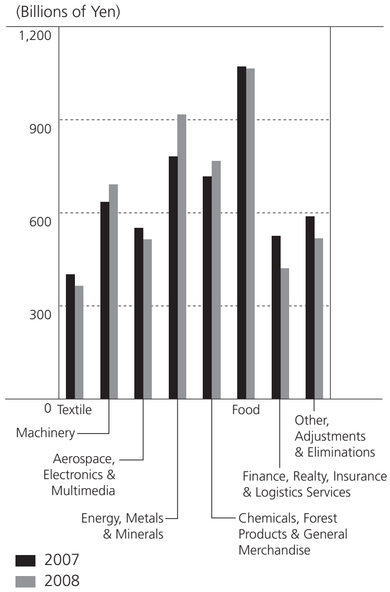
Trading transactions decreased by 17.9% or ¥39.7 billion to ¥182.1 billion (US$1,817 million), due to factors including the absence of realty-related spot transactions undertaken in the previous fiscal year. Gross trading profit declined by 4.4% or ¥1.9 billion to ¥41.4 billion (US$413 million), as a consequence of recognizing disposal loss and devaluation loss, which reflected a change in sales policy toward the whole-sale disposal of long-term realty development projects. Net income was ¥10.8 billion (US$108 million), compared with a net loss of ¥28.3 billion in the previous fiscal year, as a result of the abovementioned special factors related to investment in Orico, which offset lower gross trading profit and a decrease in gains on sales of investment securities. Identifiable assets decreased by

Net Income (Loss)
by Operating Segment



* For fiscal years

Identifiable Assets
by Operating Segment



* AS of March 31

19.9% or ¥104.4 billion, compared with the previous fiscal year-end, to ¥420.5 billion (US$4,197 million), mainly because a decrease in loan receivables related to finance transactions and the disposal of construction-related assets cancelled the effect of additional investment in Orico and an increase in equity in investment in associated companies.

Other, Adjustments & Eliminations

Trading transactions decreased by 11.6% or ¥30.0 billion to ¥229.3 billion (US$2,289 million). Gross trading profit increased by 5.2% or ¥1.2 billion to ¥25.1 billion (US$250 million). Net income decreased by 81.5% or ¥26.4 billion to ¥6.0 billion (US$60 million), as a result of factors including an increase in selling, general and administrative expenses, which related to improvement of internal control system as well as fund expenditure for developing overseas earnings, foreign currency exchange losses, and a decrease of gain (loss) on disposal of investments and marketable securities. Identifiable assets declined by 12.1% or ¥71.4 billion, compared with the previous fiscal year-end, to ¥517.6 billion (US$5,166 million), resulting from a decrease in cash and cash equivalents.

DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

A discussion and analysis of results of operations for Fiscal 2008 is as follows.

Descriptions of the outlook for Fiscal 2009 and later are forward-looking statements that are based on management's assumptions and beliefs, considering information currently available at the end of Fiscal 2008, and involve risks and uncertainties. Thus, factors that could cause actual results to differ materially from such statements include, without limitation, the factors in the following Risk Information and the other potential risk and uncertain factors.

ANALYSIS OF RESULTS OF OPERATIONS IN FISCAL 2008 AND OUTLOOK FOR FISCAL 2009

Revenue

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

In the fiscal year, ended March 31, 2008, "Sales revenue" as gross basis was ¥2,233.5 billion (US$22,293 million), and "Trading margins and commissions on trading transactions" as a net basis was ¥627.7 billion (US$6,265 million). Total revenue increased by 8.1% or ¥214.0 billion to ¥2,861.2 billion (US$28,558 million). That increase was due to an increase in crude oil transactions accompanying higher crude oil prices and expansion of production in oil fields owned; an increase in automobile trading transactions to emerging countries; and an increase in revenue due to turning NIPPON ACCESS, INC. into a consolidated subsidiary [Consolidation of profit & loss accounts by consolidation method in NIPPON ACCESS, INC. started from the 2nd quarter of the previous fiscal year].

Gross Trading Profit

Gross trading profit increased by 9.6% or ¥87.2 billion to ¥995.9 billion (US$9,940 million). The effect from joining subsidiaries (including the inclusion of NIPPON ACCESS, INC., as a consolidated subsidiary) was ¥63.9 billion, and the effect of leaving of subsidiaries was ¥14.2 billion. The favorable effect of the yen's appreciation/depreciation against the U.S. dollar in translating overseas subsidiaries was an increase of ¥11.5 billion. Excluding those positive and negative factors, the substantial increase in profit for existing companies was ¥26.0 billion. Gross trading profit increased thanks to contributions from factors including an increase in crude oil transactions accompanying higher prices and expansion of production in oil fields owned; an increase in automobile trading transactions to emerging countries; and turning NIPPON ACCESS, INC. into a consolidated subsidiary, which offset a decrease in trading transactions for house-building materials that stemmed from weaker housing demands in North America and Japan.

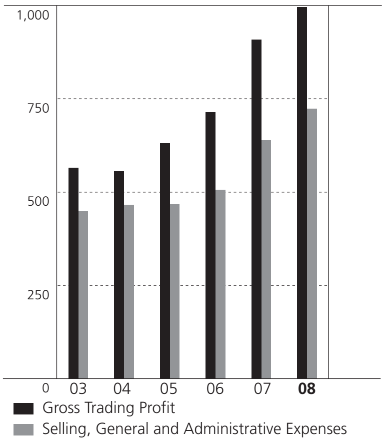
Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 13.2% or ¥84.3 billion to ¥723.4 billion (US$7,220 million). Selling, general and administrative expenses included increases of ¥22.0 billion in personnel expenses to ¥277.8 billion (US$2,773 million), and ¥48.2 billion in service charges included in distribution costs, to ¥240.3 billion (US$2,398 million). The effect of joining of subsidiaries (including the inclusion of NIPPON ACCESS, INC., as a consolidated subsidiary) was ¥63.5 billion, and the effect of leaving of subsidiaries was ¥12.8 billion. The negative effect of the yen's appreciation/depreciation against U.S. dollar in translating overseas subsidiaries was an increase of ¥5.0 billion. Excluding those positive and negative factors, the substantial increase in expenses was ¥28.6 billion.

Provision for Doubtful Receivables

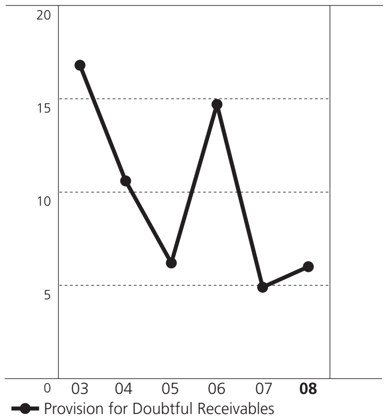
Provision for doubtful receivables increased by 21.1% or ¥1.0 billion to ¥6.0 billion (US$60 million), due to an increase in the finance-related operations of subsidiaries.

Gross Trading Profit; Selling, General and Administrative Expenses



* For fiscal years

Provision for Doubtful Receivables



* For fiscal years

Net Financial Expenses (Net of Interest Income, Interest Expense and Dividends Received)

Net financial expenses worsened by 2.0% or ¥0.2 billion to ¥7.7 billion (US$77 million). Net interest expenses, consisting of interest expense and interest income, deteriorated by 10.1% or ¥2.9 billion to ¥32.2 billion (US$321 million). Interest income increased by 10.6% or ¥1.7 billion, due to higher interest rates. However, interest expense increased by 10.3% to ¥4.7billion, mainly due to a rise in the average interest rate from 2.06% to 2.34%, reflecting higher interest rates, despite a reduction in interest-bearing debt (average debt outstanding decreased from ¥2,196.0 billion to ¥2,135.0 billion, down ¥61.0 billion).

Further, dividends received increased by 12.9% or ¥2.8 billion to ¥24.4 billion (US$244 million), because of increased dividends from LNG-related investments.

Other Profit

Gain on disposal of investments and marketable securities, net of write-down decreased by ¥30.5 billion, to ¥16.4 billion (US$164 million). Impairment losses on investment securities increased by ¥11.1 billion to ¥20.4 billion, and gains on sales of investment securities decreased by ¥19.4 billion to ¥36.8 billion.

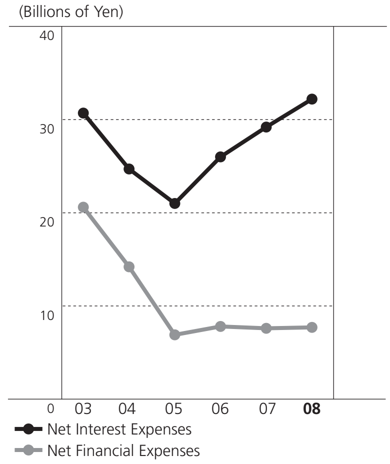
Gain (Loss) on property and equipment–net was gain of ¥6.7 billion (US$67 million), compared with loss of ¥6.8 billion in the previous fiscal year. Gain on the sale of property improved to ¥12.3 billion, compared with loss on the sale of property of ¥0.4 billion in the previous fiscal year, primarily associated with the disposal of owned office buildings and coal mining interests. Impairment loss on fixed assets improved by ¥0.8 billion to ¥5.6 billion.

Other profit declined by ¥2.3 billion to ¥0.8 billion (US$8 million), reflecting foreign currency exchange losses accompanied by appreciation of the yen.

Income Taxes

Income taxes increased by 37.2% or ¥33.1 billion to ¥122.0 billion (US$1,218 million). Special factors related to investment in Orient Corporation (Orico) (please see (Note 2) in "Business Results for Fiscal 2008—Comparison between Fiscal 2008 and Fiscal 2007") resulted in a ¥38.7 billion increase in income taxes, which offset a ¥7.2 billion decrease in income taxes accompanied by the decrease in income before income taxes, minority interests and equity in earnings of associated companies (decreased by ¥17.5 billion).

Net Financial Expenses



* For fiscal years

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

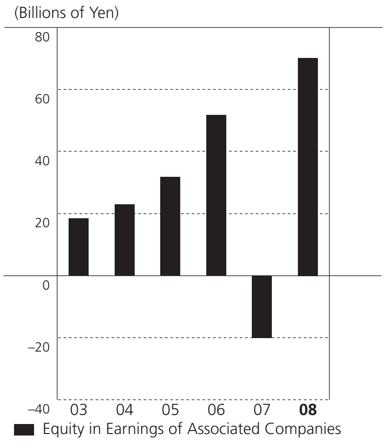
Equity in Earnings of Associated Companies

Equity in earnings of associated companies was ¥70.2 billion (US$701 million), compared with equity in losses of associated companies of ¥20.1 billion in the previous fiscal year. That improvement resulted from the favorable effect (¥94.7 billion) of special factors related to investment in Orico (please see (Note 2) in "Business Results for Fiscal 2008—Comparison between Fiscal 2008 and Fiscal 2007"). The business results of major equity-method associated companies are included in the following "Major Group Companies Reporting Profits and Major Group Companies Reporting Losses" in "Performance of Subsidiaries and Equity-Method Associated Companies."

Adjusted Profit

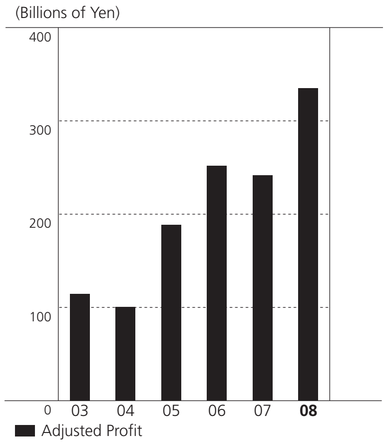
Adjusted profit (net of gross trading profit, selling, general and administrative expenses, net interest expenses, dividends received and equity in earnings (losses) of associated companies) increased by 38.5% or ¥93.1 billion to ¥335.0 billion (US$3,344 million), largely resulting from equity in earnings of associated companies, compared with equity in losses of associated companies in the previous fiscal year.

Equity in Earnings of Associated Companies



* For fiscal years

Adjusted Profit



* For fiscal years

PERFORMANCE OF SUBSIDIARIES AND EQUITY-METHOD ASSOCIATED COMPANIES

The consolidated business results for Fiscal 2008 included the business results of 626 companies, comprising 414 consolidated subsidiaries (191 domestic and 223 overseas) and 212 equity-method associate companies (94 domestic and 118 overseas).

Profits/Losses of Group Companies Reporting Profits/Losses

	Billions of Yen								
	2008			2007			Changes		
Years ended March 31	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total
Group companies excluding overseas trading subsidiaries	(Note) ¥197.0	¥(36.1)	¥160.9	¥159.2	(Note) ¥(57.5)	¥101.7	¥37.7	¥21.4	¥59.2
Overseas trading subsidiaries......	23.6	(0.5)	23.1	23.1	(0.3)	22.8	0.5	(0.2)	0.3
Total......................................	(Note) ¥220.6	¥(36.6)	¥184.0	¥182.3	(Note) ¥(57.9)	¥124.5	¥38.2	¥21.3	¥59.5

Note: Includes tax effect regarding investment in Orient Corporation.

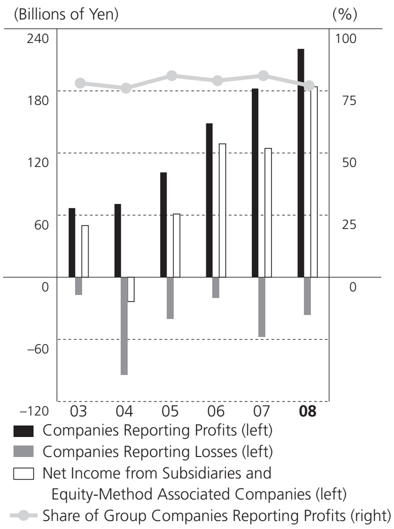
Share of Group Companies Reporting Profits

	2008			2007			Changes		
Years ended March 31	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
No. of companies reporting profits..........................	**226**	**269**	**495**	264	274	538	(38)	(5)	(43)
No. of group companies	**285**	**341**	**626**	314	337	651	(29)	4	(25)
Share	**79.3%**	**78.9%**	**79.1%**	84.1%	81.3%	82.6%	(4.8)pts.	(2.4)pts.	(3.6)pts.

In Fiscal 2008, net income from subsidiaries and equity-method associated companies (aggregate profit /loss of subsidiaries and equity-method associated companies excluding overseas trading subsidiaries) increased by ¥59.2 billion to ¥160.9 billion, as a result of special factors related to investment in Orico (please see (Note 2) in "Business Results for Fiscal 2008—Comparison between Fiscal 2008 and Fiscal 2007").

Profits from overseas trading subsidiaries increased by ¥0.3 billion to ¥23.1 billion, due to increase of trading subsidiaries in Europe and China offset lower earnings in North America. The aggregate income from Group companies (subsidiaries, equity-method associated companies, and overseas trading subsidiaries) reporting profits increased by ¥38.2 billion to ¥220.6 billion, mainly due to an increase in equity in earnings of overseas natural resource development companies and the effect on the abovementioned special factors related to investment in Orico. Meanwhile, the aggregate loss from Group companies reporting losses improved by ¥21.3 billion to ¥36.6 billion, principally because of the effect on consolidated business results for the previous fiscal year of the abovementioned special factors related to investment in Orico, which cancelled the impairment of investment securities and bad debt loss in finance-related operating companies and realty-related companies' recognition of disposal losses and devaluation losses on real estate for sale. Further, the percentage of Group companies reporting profits (the number of Group companies reporting profits as a percentage of the number of companies included in consolidation) deteriorated by 3.6 points to 79.1%.

Net Income from Subsidiaries and Equity-Method Associated Companies



* For fiscal years

Major Group companies reporting profits or losses for the fiscal year and the previous fiscal year were as follows:

Major Group Companies Reporting Profits

Years ended March 31	Shares	Net Income (Loss) *1 Billions of Yen 2008	2007	Reasons for Changes
Domestic subsidiaries				
ITOCHU Petroleum Japan Ltd.	100.0%	**¥ 3.6**	¥ 5.1	Decrease due to absence of gains on disposal of investments and marketable securities in the previous fiscal year
ITOCHU PLASTICS INC.	100.0	**3.1**	3.2	Almost unchanged as a result of good performance in plastic materials sales offset by absence of gain on disposal of investments and marketable securities in the previous fiscal year
ITOCHU CHEMICAL FRONTIER Corporation	96.2	**1.8**	1.8	Good performance due to continued high prices in polymer materials
ITOCHU Non-Ferrous Materials Co., Ltd.*2	100.0	**1.4**	1.2	Increase due to gain on disposal of investments and marketable securities and increased dividends received despite impairment of marketable securities
Godo Kaisya Faburikusu	100.0	**1.1**	0.0	Increase due to gain on disposal of owned real estate
JOI'X CORPORATION	100.0	**0.9**	1.1	Decrease due to higher operating expenses from opening new shops despite increased sales of men's apparel
ITOCHU CONSTRUCTION MACHINERY CO., LTD.	100.0	**0.8**	0.7	Steady growth due to rental revenue increase
JAPAN AEROSPACE CORPORATION	100.0	**0.8**	0.6	Increase as a result of spot trading of hazardous material detectors
ITOCHU Automobile Corporation	100.0	**0.8**	0.7	Increase due to sales increase in parts and equipments
FX PRIME Corporation	81.5	**0.7**	0.1	Increase due to increased members and transaction volume
Overseas subsidiaries				
ITOCHU Minerals & Energy of Australia Pty Ltd*3	100.0	**38.5**	28.9	Increase due to increased shipping of iron ore and partial sales of coal mining interests
ITOCHU Oil Exploration (Azerbaijan) Inc.	100.0	**33.4**	21.2	Increase of sales volume accompanied by oil production volume increase in addition to higher prices of crude oil.
ITOCHU International Inc.*4	100.0	**10.2**	12.8	Decrease due to less net income related to businesses in materials for facilities and house building
PrimeSource Building Products, Inc.*4	100.0	**6.4**	7.4	Decrease due to the impact of decreased number of house building starts in U.S.
ITOCHU (China) Holding Co., Ltd.	100.0	**2.8**	2.3	Increase due to good performance in chemicals and non-ferrous products trading
ITOCHU Hong Kong Ltd.	100.0	**2.5**	2.5	Steady growth in financial businesses
ITOCHU Australia Ltd.*3	100.0	**1.9**	1.5	Increase due to increased net income related to natural resource development business
CIECO Energy (UK) Limited	100.0	**1.7**	1.6	Almost unchanged as a result of natural reduction in production and increased operation cost offset by higher oil price
ITOCHU Singapore Pte, Ltd.	100.0	**1.6**	1.0	Increase due to favorable transactions in cement and paper products
ITOCHU (THAILAND) LTD.	100.0	**1.2**	0.9	Increase due to good sales in aluminum parts and gain on disposal of investments and marketable securities
ITOCHU Europe PLC.*5	100.0	**1.2**	0.2	Increase due to chemical transactions as well as restored food transactions
Domestic equity-method associated companies				
Marubeni-Itochu Steel Inc.	50.0	**16.9**	16.8	Steady growth in transactions of automobiles, steel pipes, ship production, and construction machinery despite slump in building materials business in the U.S.
FamilyMart Co., Ltd.	31.0	**4.9**	4.7	Steady growth due to increased customers and increase in daily sales in existing stores
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	25.9	**1.7**	1.8	Decrease from the impact of higher Brazil Real despite higher market prices in pulp and increased trading profit from production increase
AI Beverage Holding Co., Ltd.	20.0	**1.7**	1.3	Favorable sales in tea drinks
Japan Ohanet Oil & Gas Co., Ltd.	35.0	**0.9**	0.9	Steady growth supported by stable production of natural gas

Major Group Companies Reporting Profits

Years ended March 31	Shares	Net Income (Loss) *1 Billions of Yen 2008	2007	Reasons for Changes
Domestic subsidiaries				
ITOCHU Finance Corporation	99.1%	**¥(7.0)**	¥ 2.3	Significant decrease due to absence of last year's gain on disposal of investments and marketable securities in addition to impairment on investment in associated companies and bad debt loss
ITOCHU Property Development, Ltd.	99.9	**(4.4)**	0.7	Worsened due to impairment/disposal loss recognized on real estate for sale in long-term development as a result of sales policy change for long-term development projects
I.C.S. Co., Ltd.	95.0	**(0.8)**	(0.3)	Worsened due to expenses from removal and renovation of some stores
Wellness Communications Corporation	100.0	**(0.3)**	(0.1)	Worsened resulting from shift to full-scale operation accompanied by preceding expenses
Overseas subsidiaries				
MCL Group Limited*5	100.0	**(2.6)**	(0.4)	Worsened due to impairment of goodwill
Am-Pac Tire Distributors, Inc.*4	100.0	**(1.6)**	0.0	Worsened due to impairment of goodwill
CIECO Energy (US) Limited	100.0	**(1.4)**	0.0	Deficit recorded due to loss from realized drilling cost
ITC VENTURES VIII, INC	98.1	**(0.6)**	(0.2)	Worsened fund management
CIPA LUMBER CO., LTD.	100.0	**(0.5)**	0.4	Worsened due to temporary loss from such as the impact of decreased house building starts in North America, devaluation loss on inventories and production halt resulting from strike
Domestic equity-method associated companies				
On Demand TV, Inc.*6	44.0	**(1.3)**	(1.8)	Decreased share of loss due to business transfer
CIECO E&P (Namibia) Co., Ltd.	26.7	**(1.0)**	—	Deficit recorded due to loss from realized drilling cost
Overseas equity-method associated companies				
P.T. PEMBANGUNAN DELTAMAS P.T. PURADELTA LESTARI	25.0	**(0.4)**	(0.2)	Worsened due to exchange loss of Indonesian Rupiah

*1 Net income (loss) figures are after adjusting to U.S. GAAP, which may be different from the figures that each company announces.
*2 ITOCHU Non-Ferrous Materials Co., Ltd., changed its name to ITOCHU Metals Corporation on April 1, 2008.
*3 The net income of ITOCHU Australia Ltd. includes 3.7% of that of ITOCHU Minerals & Energy Australia Pty Ltd.
*4 The net income of ITOCHU International Inc. includes 80.0% of that of PrimeSource Building Products Inc., and 40.0% of that of Am-Pac Tire Distributors Inc.
*5 The net income of ITOCHU Europe PLC. includes 8.6% of that of MCL Group Limited.
*6 On Demand TV, Inc left from group in the 4th quarter of fiscal 2008, 44.0% is share in the 3rd quarter of fiscal 2008.

OUTLOOK FOR FISCAL 2009

Viewing the business environment of Fiscal 2009, U.S. economy is expected to have prolonged business stagnation though some effect may be in sight from lowered short-term interest rate and tax reduction. Economies of Europe and emerging countries are also expected to slow down due to higher commodity prices and sluggish U.S. economy.

Regarding Japanese economy, low growth rate is expected to continue due to increase declining in export and capital investment while increase in personal consumption is anticipated led by restoration of housing investment and mild improvement for employment environment. Furthermore, sufficient attention may be required for a worldwide downturn of economy due to possibility of loss increase related to subprime loan.

Under these circumstances, It is likely that ITOCHU and its subsidiaries will increase year-on-year earnings and as overall, continue posting favorable consolidated business results, centered on Energy, Metals & Minerals.

MANAGEMENT POLICY FOR THE FUTURE

Further Advancement of Frontier+ 2008 mid-term management plan

In Fiscal 2009, the last year of mid-term management plan "Frontier+ 2008," ITOCHU has decided to add "implementation of the measures for becoming a truly global enterprise" to the basic policies introduced last year while continuing working on the basic policies, in order to strengthen the engagement in the plan.

Firstly, "Expansion of business areas and further strengthening of core businesses." ITOCHU takes actions to reinforce in "opening up new areas" and further promote "to accelerate overseas operations" for achieving sustainable high growth as Global Enterprise. Furthermore, in "strengthening core businesses," ITOCHU continues to prioritize growth rate and to promote strategic investments in profitable opportunities and sustainable growth.

Secondly, "Solid management." ITOCHU continues to improve its financial position and to proceed with better risk management. For enhancing the transparency of decision-making process and implementing more effective and efficient corporate governance with proper check and monitor system, ITOCHU makes every effort to manage the board of directors and to make appropriate decision-making conducted by them. For internal control, ITOCHU continues to carry out efficient improvement and management under the efficient management system. For penetration of the compliance program, ITOCHU ensures to improve it so as to grasp facing situation more precisely and to take the most appropriate measures. For CSR (Corporate Social Responsibility) activities, ITOCHU is engaged in enterprise-wide, cross-sectional efforts and expands such engagement to overseas and Group companies. Also, taking this year of ITOCHU's 150 years-anniversary since establishment as a good opportunity, ITOCHU boosts up contribution activities to society. In a work reformation project, "ITOCHU DNA Project," ITOCHU has been making process with more efficiency, and is planning to proceed forward to the next phase for completion of development of the most supportive program.

Thirdly, "Taking actions in human resources strategy with global perspective." In the previous fiscal year, ITOCHU created the human resource strategy with global perspective across the Group worldwide, and promoted variety of measures and modification of the personnel system for diversified and global talent with a view to "seeking, fostering and utilizing the talents of personnel worldwide." In Fiscal 2009, ITOCHU further promotes those measures as well as focuses on work-life balance to actualize this human resource strategy.

With all above mentioned, as a truly global enterprise, ITOCHU enhances corporate value to reward its stake holders and contributes to regional and global societies including proactive actions to global environmental issues.

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

ITOCHU maintains and reinforces its competitive power as well as increases stockholders' equity by retaining earnings to promote growth 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+ 2008," ITOCHU increases dividend amount gradually and aims to improve consolidated dividend payout ratio, while improving parent company's stockholders' equity.

At the moment, for Fiscal 2009, ITOCHU will plan full-year cash dividends of ¥21.0 per share, comprising interim cash dividends of ¥10.5 per share and year-end cash dividends of ¥10.5 per share.

LIQUIDITY AND CAPITAL RESOURCES

Basic Policy for Funding

ITOCHU aims to ensure flexibility in funding so that we can quickly respond to changes in financial circumstances, and take advantage of opportunities to lower our overall financing costs. ITOCHU also aims to diversify our funding sources and methods in order to enhance the stability of its financing, while endeavoring to find the optimum balance in its funding structure, including improvement in the long-term funding balance. Further, ITOCHU is working to improve consolidated capital efficiency and funding structure by concentrating funding on the parent company for domestic subsidiaries with the meaning of Group Finance from this fiscal year.

Regarding funding methods, ITOCHU flexibly uses such indirect financing as bank loans and such direct financing as bond issuance. As to indirect financing, ITOCHU maintains favorable and wide relationship with various financial institutions, which enables it to raise required funds. In direct financing, ITOCHU registered a new issuance of bonds up to ¥300.0 billion, covering the two-year period from August 2007 to July 2009 in accordance with the bond-issuance registration system in Japan. Also, in order to heighten capital efficient and lower capital costs, ITOCHU undertakes funding through commercial paper. ITOCHU Corporation, ITOCHU International Inc. in the United States, and ITOCHU FINANCE (Europe) PLC in the United Kingdom have registered a total of US$5.0 billion in a Euro Medium Term Note Programme (Euro MTN).

Regarding credit ratings, Standard & Poor's (S&P) raised our long-term rating from BBB to BBB+ in May 2007 and from BBB+ to A– in March 2008. Rating and Investment Information, Inc. (R&I) upgraded our long-term credit rating from A– to A in December 2007. ITOCHU believes these upgrades can contribute to a further improvement in our funding conditions. Aiming to secure even higher ratings, ITOCHU will continue concerted efforts to improve our financial position through high profitability and thorough risk management.

Ratings as of fiscal year-end were as follows.

Credit Rating Agency	Long-term Debt	Short-term Debt
Japan Credit Rating Agency (JCR)	A+ / Stable	J-1
Rating & Investment Information (R&I)	A / Stable	a-1
Moody's Investors Service	Baa1 / Stable	P-2
Standard & Poor's (S&P)	A– / Stable	A-2

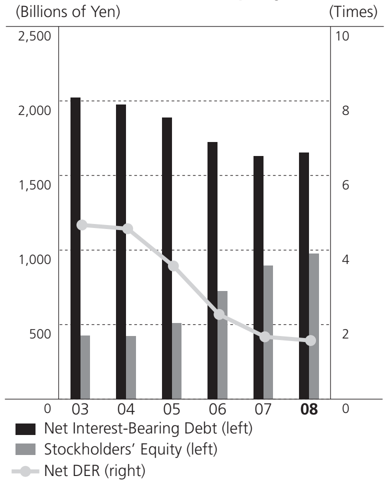
Interest-Bearing Debt

Interest-bearing debt as of March 31, 2008, decreased by ¥61.2 billion to ¥2,104.4 billion (US$21,004 million), compared with the previous fiscal year-end. The net DER (debt-to-equity ratio) improved by 0.1 point to 1.7 times from 1.8 times compared with the previous fiscal year-end. Further, the ratio of long-term interest-bearing debt to total interest-bearing debt significantly increased from 76% to 82% compared with the previous fiscal year-end as a result of improving financial structure due to repaying subsidiaries' external short-term interest-bearing debt and shifting to Group Financing.

Details of interest-bearing debt as of March 31, 2007 and as of March 31, 2008 were as follows:

	Billions of Yen		Millions of U.S. Dollars
March 31	**2008**	2007	**2008**
Short-term debt	**¥ 264.5**	¥ 373.7	**$ 2,640**
Commercial paper	**43.0**	—	**429**
Current maturities of long-term debt	**72.0**	138.5	**719**
Current maturities of debentures	**4.0**	5.8	**40**
Short-term total	**383.5**	518.0	**3,828**
Long-term loans payable	**1,519.8**	1,456.3	**15,169**
Debentures	**201.1**	191.2	**2,007**
Long-term total	**1,720.9**	1,647.6	**17,176**
Total interest-bearing debt	**2,104.4**	2,165.6	**21,004**
Cash and cash equivalents and time deposits	**449.9**	534.7	**4,491**
Net interest-bearing debt	**¥1,654.5**	¥1,630.9	**$16,513**

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



* For fiscal years

Financial Position

Fiscal year ended March 31, 2008 compared to fiscal year ended March 31, 2007

Total assets decreased by 0.3% or ¥16.1 billion to ¥5,255.4 billion (US$52,445 million), principally due to the effect of the yen's appreciation, a decrease in cash and cash equivalents, a decline in other investments due to a fall in stock prices, and the disposal of office buildings, which offset an increase in trade receivables in Energy, Metals & Minerals and Chemicals, Forest Products & General Merchandise, an increase in mineral rights due to the acquisition of equity interests in the natural resource development business area, and increase in investments in and advances to associated companies stemming from an increase in additional investment in Orient Corporation and a rise in equity in earnings of associated companies.

Stockholders' equity increased by 9.2% or ¥82.3 billion to ¥978.5 billion (US$9,766 million), mainly because higher net income absorbed cash dividends, a deterioration of foreign currency translation adjustment due to the appreciation of the yen, and a decrease in unrealized holding gains on securities and a deterioration of pension liability adjustments accompanying the fall in stock prices. The ratio of stockholders' equity to total assets improved by 1.6 points to 18.6%.

The main increases and decreases from the previous fiscal year-end in respective items in consolidated balance sheets were as follows.

Cash and cash equivalents decreased by ¥86.5 billion to ¥446.3 billion (US$4,455 million).

Time deposits increased by ¥1.7 billion to ¥3.6 billion (US$36 million).

Trade receivables (less allowance for doubtful receivables) increased by ¥143.3 billion to ¥1,564.9 billion (US$15,619 million), due to factors including increased transactions for Machinery, Energy, Metals & Minerals, and Chemicals, Forest Products & General Merchandise.

Inventories increased by ¥1.2 billion to ¥531.5 billion (US$5,305 million).

Advances to suppliers increased by ¥2.4 billion to ¥101.0 billion (US$1,008 million).

Other current assets declined by ¥32.6 billion to ¥242.1 billion (US$2,416 million), which was largely the result of loans collection.

As a result, total current assets increased by ¥27.6 billion to ¥3,094.5 billion (US$30,886 million).

Investments in and advances to associated companies increased by ¥48.8 billion to ¥656.9 billion (US$6,556 million), because of additional investment in Orient Corporation and a rise in equity in earnings of associated companies.

Other investments decreased by ¥84.7 billion to ¥547.8 billion (US$5,468 million), primarily reflecting a decrease in unrealized holding gains on securities resulting from the fall in stock prices.

Other non-current receivables (less allowance for doubtful receivables) increased by ¥19.3 billion to ¥96.4 billion (US$963 million), which resulted from such factors as a rise in long-term trade receivables in Machinery.

As a result, total investments and non-current receivables decreased by ¥16.7 billion to ¥1,301.1 billion (US$12,986 million).

Property and equipment, at cost (less accumulated depreciation) declined by ¥17.0 billion to ¥513.0 billion (US$5,121 million), mainly as a consequence of a decrease in land and buildings that accompanied the disposal of office buildings.

Goodwill and other intangible assets (less accumulated amortization) increased ¥0.1 billion to ¥147.9 billion (US$1,476 million).

Prepaid pension cost decreased by ¥56.1 billion to ¥30.1 billion (US$300 million), reflecting a decrease in the pension assets due to the fall in stock prices.

Deferred tax assets, non-current, increased by ¥17.8 billion to ¥49.5 billion (US$494 million), largely due to an increase of pension liability adjustments and decrease of unrealized holding gains on securities, which cancelled the effect of continued implementation of measures for reduction in deductible temporary differences through disposal of receivables, securities, and real estate. Further, net deferred tax assets increased by ¥18.1 billion to ¥59.9 billion.

Short-term debt and **Current maturities of long-term debt** respectively decreased by ¥66.3 billion to ¥307.4 billion (US$3,069 million), and by ¥68.3 billion to ¥76.0 billion (US$759 million), mostly as a result of continued efforts to repay interest-bearing debt and to lengthen loan periods in order to establish a stable funding structure. (Please refer to Note 10: Short-term and long-term debt in Notes to Consolidated Financial Statements.)

Trade payables decreased by ¥38.9 billion to ¥1,285.7 billion (US$12,833 million), because of a reduction in Machinery, Aerospace, Electronics & Multimedia, Forest

Products & General Merchandise, and Food.

Due to associated companies decreased by ¥26.7 billion to ¥19.4 billion, mainly reflecting a reduction in deposits from associated companies. **Advances from customers** increased by ¥11.0 billion to ¥118.4 billion, because of an increase in Machinery. **Other current liabilities** decreased by ¥5.7 billion to ¥199.3 billion.

As a result, current liabilities decreased by ¥199.8 billion to ¥2,189.5 billion (US$21,853 million).

Reserves for Liquidity

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

Primary liquidity resources at the end of Fiscal 2008, the sum of cash, cash equivalents, time deposits (¥449.9 billion) and commitment line agreements (yen short-term ¥100.0 billion, yen long-term ¥300.0 billion, multiple currency short-term US$500 million) was ¥900.0 billion, a decrease of ¥102.7 billion compared with the previous fiscal year-end. However, ITOCHU believes that this amount constitutes adequate reserves for liquidity, since it is 3.6 times of the necessary liquidity amounts (short-term interest-bearing debt and contingent liabilities due within three months), which amounted to ¥252.9 billion as of March 31, 2008.

Secondary liquidity reserves (other assets that can be changed in to cash in short period of time) stand at ¥653.4 billion. When added to primary liquidity reserves, the total amount of liquidity reserves stands at ¥1,553.4 billion.

ITOCHU Corporation has long-term commitment line agreements with financial institutions totaling ¥300.0 billion (US$2,994 million). As a result of the availability of this long-term commitment line, ITOCHU has the intention and the ability for a long-term rollover of current maturities of long-term debt from financial institutions.

ITOCHU thus classified ¥232.4 billion (US$2,319 million) of current maturities of long-term debt as non-current liabilities on the consolidated balance sheet, which was part of ¥308.4 billion (US$3,078 million) in non-current liabilities with a maturity of one year or less based on loan contracts at the end of Fiscal 2008.

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

Necessary Liquidity

	Billions of Yen		Millions of U.S. Dollars
March 31	2008	Necessary Liquidity	2008
Short-term interest-bearing debt	¥307.4	¥153.7 (307.4/6 months x 3 months)	$1,534
Current maturities of long-term interest-bearing debt	(Note) 308.4	77.1 (308.4/12 months x 3 months)	770
Contingent liabilities (Guarantees [substantial risk] for monetary indebtedness of equity-method associated companies and customers)	88.2	22.1 (88.2/12 months x 3 months)	220
Total		¥252.9	$2,524

Note: The figure is the total of current maturities of long-term debt (¥76.0 billion) and long-term commitment line with financial institutions (¥232.4 billion).

Primary Liquidity Reserves

March 31	Billions of Yen 2008 Liquidity Reserves	Millions of U.S. Dollars 2008 Liquidity Reserves
1. Cash, cash equivalents and time deposits	¥449.9	$4,490
2. Commitment line agreements	450.1	4,492
Total primary liquidity reserves	¥900.0	$8,983

Secondary Liquidity Reserves

March 31	Billions of Yen 2008 Liquidity Reserves	Millions of U.S. Dollars 2008 Liquidity Reserves
3. Available portion of over draft for ITOCHU parent	¥ 158.2	$ 1,579
4. Available-for-sale securities (Fair value on a consolidated basis)	305.8	3,053
5. Notes receivable	189.4	1,890
Total secondary liquidity reserves	¥ 653.4	$ 6,522
Total liquidity reserves	¥1,553.4	$15,505

Capital Resources

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

Cash and cash equivalents as of March 31, 2008 decreased by 16.2%, or ¥86.5 billion, to ¥446.3 billion (US$4,455 million) compared with the previous fiscal year-end. This was mainly due to efficient control of cash and cash equivalents and progress in repayment of interest-bearing debt.

Cash flows from operating activities for Fiscal 2008 recorded a net cash-inflow of ¥65.6 billion (US$654 million). This was mainly due to strong operating income from overseas natural resource-related business despite increasing payments related with higher working capital through expanding business lines.

Cash flows from investing activities for Fiscal 2008 recorded a net cash-outflow of ¥65.8 billion (US$656 million). This was mainly due to cash-outflow regarding new investment and new capital expenditure in metal resource development, energy development and consumer-related area as well as additional investment in Orient Corporation, which was offset by cash-inflow regarding disposal of coal mining interests, office buildings and investment securities. Cash flows from investing activities are almost covered with cash flows provided by operating activities.

Cash flows from financing activities for Fiscal 2008 recorded a net cash-outflow of ¥81.3 billion (US$811 million). This was due to continued efforts of reducing interest-bearing liabilities to improve ITOCHU's financial position.

A summary of cash flows for fiscal years ended March 31, 2008 and 2007 is as follows:

March 31	Billions of Yen 2008	Billions of Yen 2007	Millions of U.S. Dollars 2008
Cash flows from operating activities	¥ 65.6	¥ 235.9	$ 654
Cash flows from investing activities	(65.8)	(83.4)	(656)
Cash flows from financing activities	(81.3)	(100.9)	(811)
Effect of exchange rate changes on cash and cash equivalents	(5.0)	3.5	(50)
Net increase (decrease) in cash and cash equivalents	(86.5)	55.1	(863)
Cash and cash equivalents at beginning of year	532.9	477.7	5,318
Cash and cash equivalents at end of year	¥446.3	¥ 532.9	$4,455

OFF-BALANCE SHEET ARRANGEMENTS AND AGGREGATE CONTRACTUAL OBLIGATIONS

ITOCHU and its subsidiaries issue various guarantees for indebtedness including bank loans to subsidiaries, equity-method associated companies and customers. Because the guaranteed borrowings of subsidiaries are included in the Company's consolidated financial statements, off-balance sheet guarantees are solely the total guarantees to equity-method associated companies and customers. The break-down of guarantees as of March 31, 2008 and 2007 is as follows:

	Billions of Yen		Millions of U.S. Dollars
March 31	**2008**	2007	**2008**
Guarantees for equity-method associated companies:			
Maximum potential amount of future payments	**¥ 81.2**	¥100.6	**$ 811**
Amount of substantial risk	**49.7**	62.9	**496**
Guarantees for customers:			
Maximum potential amount of future payments	**¥108.1**	¥140.6	**$1,079**
Amount of substantial risk	**64.7**	97.1	**646**
Total:			
Maximum potential amount of future payments	**¥189.3**	¥241.2	**$1,890**
Amount of substantial risk	**114.5**	160.0	**1,142**

The maximum potential amount of future payments of the Company under the guarantee contracts is presented above. The amount of substantial risk represents the total amount of the substantial risk taken, based on the actual amount of liability incurred by the guaranteed parties as of the end of the respective term within the pre-determined guaranteed limit established under the guarantee contracts. The amount that can be recovered from third parties under the back-to-back guarantees submitted by the Company or its subsidiaries concerned have been excluded in determining the amount of substantial risk. The disclosures related to guarantees are shown in Note 24 "Commitments and Contingent Liability" to the consolidated financial statements.

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

	Billions of Yen				
	2008				
March 31	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term loans payable	¥ 264.5	¥264.5	¥ —	¥ —	¥ —
Commercial paper	43.0	43.0	—	—	—
Long-term debt	1,971.1	76.0	556.8	433.8	904.5
(Capital leases including long-term debt)	(33.1)	(6.1)	(10.0)	(5.7)	(11.3)
Operating leases	93.3	21.7	27.9	16.2	27.4

	Millions of U.S. Dollars				
	2008				
March 31	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term loans payable	$ 2,640	$2,640	$ —	$ —	$ —
Commercial paper	429	429	—	—	—
Long-term debt	19,674	759	5,558	4,330	9,028
(Capital leases including long-term debt)	(331)	(61)	(101)	(56)	(113)
Operating leases	931	217	278	162	274

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 has appropriately determined its assumptions and estimates based on information currently available as of March 31, 2008.

(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, import/export trade between overseas affiliates as well as development of energy, metal resources and mineral resources. 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, 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 world while the domestic economy has a relatively strong influence on the consumer and retail-related segments such as textiles and food. However, economic trends in the world has been more and more influential even on these consumer and retail-related segments as economic globalization proceeds.

Furthermore, in North America, China & Asia, which ITOCHU regards as priority areas, 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 Risk

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.

Foreign Exchange Rate Risk

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

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

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

Interest Rate Risk

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

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

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

Commodity Price Risk

As a trading company handling a diverse array of commodities, ITOCHU Group is exposed to commodity price risk 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 sets and manages a balance limit and loss cut limit for each individual product with conducting periodic reviews.

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

ITOCHU Group also participates in resource development businesses such as the energy, metals and minerals sector and other manufacturing businesses. Production in these businesses is also exposed to the same commodity price risk 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.

Stock Price Risk

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

The Group strives to maintain appropriate levels of investment and to minimize the risk by applying Exit Rule for inefficient investments that ITOCHU Group 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, the necessity of recognizing holding loss on securities may arise, and it could seriously affect the financial position and results of operations of ITOCHU Group.

(3) Credit Risks

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

In ITOCHU, the credit department, which is independent of the business departments, manages credit risk on both quantitative and qualitative bases. Each proposal submitted by a business division undergoes careful screening by the credit department, which then sets an appropriate credit limit upon the completion of review. Specific expiration dates are set for credit limits. These limits and the status of trade receivables are monitored on a periodic basis along with periodic reviews of the status of debt collections and delinquencies. The necessary reserves are determined and booked on this basis. With all these measures, however, the occurrence of credit risks cannot be completely avoided, and such occurrences could seriously affect the financial position and results of operations of ITOCHU Group.

(4) Country Risk

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

ITOCHU Group 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 Group cannot entirely deny the possibility that those events may have a significant impact on the debt collection and sustainability of ITOCHU Group's 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 Group 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.

However, in ITOCHU Group'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 due to poor corporate results of investees, or stock prices is expected ITOCHU's investment diminishes 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 commercial papers and 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 an upheaval in the financial systems in major financial markets, the Group could experience an inability to raise funds from financial institutions or investors 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, 2008, there was no shortfall in accumulated pension assets.

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

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

(9) Risks Due to Deferred Income Taxes

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

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

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

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

(10) Risks Due to Competition

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

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

(11) Risks Associated with Significant Lawsuits

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

However, there shall be no assurance that domestic or 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

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 by reinforcing the compliance system.

With all these measures, however, there is a possibility of the situation where, including personal misconduct by employees, risks associated with compliance or suffering social disgrace cannot be removed. Also, ITOCHU cannot deny that additional regulations or abrupt changes in regulations by legislative, judicial, and regulatory bodies are a possibility both domestically and overseas, and there are possibilities of major change in laws and regulations by political/economical changes.

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

In Fiscal 2008, a case was revealed where a former employee of the Company had committed improper accounting treatment in transactions of foreign-made beverage-use ethanol for substantially long time. To prevent recurrence of these cases, ITOCHU has decided on taking measures to make all employees thoroughly aware of compliance, implement personnel reassignment periodically and strictly, strengthen supervisory framework covering segregation of duties, and ensure the controlling processes for individual transactions, and assure to execute them accordingly.

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 services.

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. ITOCHU Group has established information systems to facilitate the sharing of information and to improve the efficiency of operations.

In order to maintain a secure operation of its information systems, ITOCHU Group has established security guidelines and has developed crisis control measures.

Despite these measures, ITOCHU Group 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.

(14) Natural Disaster Risk

Natural disasters such as earthquake may adversely affect the operations of ITOCHU Group. ITOCHU has implemented measures such as developing Business Continuity Plan (BCP) under large-scale disasters, introducing the safety confirmation system, creating a disaster manual, reinforcing earthquake resistance, and conducting emergency drill. Also, various measures have been implemented individually in each Group company. However, since ITOCHU Group operates business activities in a vast range of regions, damage from disasters cannot be completely avoided.

Therefore, damage inflicted from natural disaster could seriously affect the financial position and results of operations of ITOCHU Group.

CRITICAL ACCOUNTING POLICIES

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

Evaluation of Investments

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

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

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

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

Provision for Doubtful Receivables

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

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

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

Deferred Income Taxes

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

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

Impairment of Long-Lived Assets

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

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

Goodwill and Other Intangible Assets

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

Cost of Retirement and Severance Benefits

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

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

NEW ACCOUNTING PRONOUNCEMENTS

a. Accounting for Uncertainty in Income Taxes

From the fiscal year, the Company and its consolidated subsidiaries adopted the FASB interpretation (FIN) 48 "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109," which was issued in June 2006.

FIN 48 stipulates recognition and measurement procedure based on that estimates of income taxes contains uncertainty. The effect of adoption of FIN 48 on the Company and its subsidiaries' financial position and results of operations was immaterial.

b. Fair Value Measurements

SFAS 157 "Fair Value Measurements" was issued in September 2006.

SFAS 157 sets definition of "fair value" and applied the approach of categorizing fair value in accordance with separate three levels to reflect the degree of objectivity of estimates.

SFAS 157 is applicable from the fiscal year ending March 2009. The Company is currently examining the effect of the adoption of SFAS 157 on the financial position and operation results of the Company and its subsidiaries, and at the present, the effect cannot be reasonably estimated.

c. Fair Value Option

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

SFAS 159 enables selection in the measurement of financial instruments as of the date of the balance sheet between fair value measurement or previous methods, based on certain restrictions.

SFAS 159 is applicable from the fiscal year ending March 2009. The effect in relation to the financial position and operation results of the Company and its subsidiaries cannot be reasonably estimated in the event that the Company and its subsidiaries adopt the fair value option.

d. Business Combinations

SFAS 141 (R) "Business Combinations (Revised 2007)" was issued in December 2007. Regarding business combinations, SFAS 141 (R) entails a change in approach from previous purchase methods to acquisition methods that focus acquisition of control. Further, SFAS 141 (R) introduces the approach to recognize of goodwill as well as for non-controlling interests.

SFAS 141 (R) is applicable from the fiscal year ending March 2010. The Company is currently examining the effect of adopting SFAS 141 (R) on the financial position and operation results of the Company and its subsidiaries, and at the present, the effect cannot be reasonably estimated.

e. Non-controlling Interests in Consolidated Financial Statements

SFAS 160 "Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No.51" was issued in December 2007.

SFAS 160 changes minority interests, the previous designation, to non-controlling interests and adopts an approach of regarding noncontrolling interests as a component of stockholders' equity. Accordingly, the Company will change its presentation of consolidated financials statements. Further, purchases to increase interests or dispose of a portion of interests while maintaining control are capital transactions, and the Company will never recognize any gain or loss.

SFAS 160 is applicable from the fiscal year ending March 2010. The Company is currently examining the effect of adopting SFAS 160 on the financial position and operation results of the Company and its subsidiaries, and at the present, the effect cannot be reasonably estimated.

f. Disclosures about Derivative Instruments and Hedging Activities

SFAS 161 "Disclosures about Derivative Instruments and Hedging Activities" was issued in March 2008.

SFAS 161 requires more detailed disclosures of derivative instruments and hedging activities.

SFAS 161 is applicable from the quarter ending March 2010. The Company is currently examining the effect of adopting SFAS 161 on the financial disclosure of the Company and its subsidiaries, and at the present the effect cannot be reasonably estimated.

Consolidated Balance Sheets

ITOCHU Corporation and Subsidiaries
As of March 31, 2008 and 2007

Assets	Millions of Yen 2008	Millions of Yen 2007	Millions of U.S. Dollars (note 2) 2008
Current assets:			
Cash and cash equivalents (notes 2, 4 and 8)	¥ 446,311	¥ 532,856	$ 4,455
Time deposits (note 8)	3,559	1,845	36
Marketable securities (notes 2, 4 and 8)	30,776	31,161	307
Trade receivables (note 8):			
Notes	189,446	163,449	1,891
Accounts (note 12)	1,391,211	1,273,464	13,886
Allowance for doubtful receivables (notes 2 and 6)	(15,781)	(15,358)	(158)
Net trade receivables	1,564,876	1,421,555	15,619
Due from associated companies	105,993	105,884	1,058
Inventories (notes 2 and 8)	531,534	530,335	5,305
Advances to suppliers	100,973	98,604	1,008
Prepaid expenses	29,797	32,103	297
Deferred tax assets (notes 2 and 15)	38,564	37,898	385
Other current assets	242,103	274,664	2,416
Total current assets	3,094,486	3,066,905	30,886
Investments and non-current receivables:			
Investments in and advances to associated companies (notes 2, 5, 8 and 13)	656,884	608,121	6,556
Other investments (notes 2, 4, 7 and 8)	547,790	632,527	5,468
Other non-current receivables (notes 8 and 12)	149,600	143,628	1,493
Allowance for doubtful receivables (notes 2 and 6)	(53,167)	(66,450)	(531)
Total investments and non-current receivables	1,301,107	1,317,826	12,986
Property and equipment, at cost (notes 2, 7, 8, 12 and 17):			
Land	121,977	160,620	1,218
Buildings	303,790	328,397	3,032
Machinery and equipment	288,542	276,368	2,880
Furniture and fixtures	57,163	57,594	571
Mineral rights	85,396	45,905	852
Construction in progress	10,629	16,090	106
Total property and equipment, at cost	867,497	884,974	8,659
Less accumulated depreciation	354,480	354,929	3,538
Net property and equipment	513,017	530,045	5,121
Goodwill and other intangible assets, less accumulated amortization (notes 2 and 9)	147,924	147,975	1,477
Prepaid pension cost (notes 2 and 13)	30,077	86,180	300
Deferred tax assets, non-current (notes 2, 13 and 15)	49,452	31,612	494
Other assets	119,357	90,969	1,191
Total	¥5,255,420	¥5,271,512	$52,455

See notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Millions of Yen 2008	Millions of Yen 2007	Millions of U.S. Dollars (note 2) 2008
Current liabilities:			
Short-term debt (notes 8 and 10)	**¥ 307,446**	¥ 373,723	**$ 3,069**
Current maturities of long-term debt (notes 8 and 10)	**76,017**	144,317	**759**
Trade payables (note 8):			
Notes and acceptances	**152,041**	181,197	**1,518**
Accounts	**1,133,683**	1,143,422	**11,315**
Total trade payables	**1,285,724**	1,324,619	**12,833**
Due to associated companies	**19,382**	46,083	**193**
Accrued expenses	**135,430**	135,335	**1,352**
Income taxes payable (note 15)	**46,898**	51,059	**468**
Advances from customers	**118,351**	107,308	**1,181**
Deferred tax liabilities (notes 2 and 15)	**908**	1,812	**9**
Other current liabilities (note 12)	**199,302**	205,040	**1,989**
Total current liabilities	**2,189,458**	2,389,296	**21,853**
Long-term debt, excluding current maturities (notes 2, 8, 10, 11 and 12)	**1,895,088**	1,795,333	**18,915**
Accrued retirement and severance benefits (notes 2 and 13)	**19,602**	21,748	**196**
Deferred tax liabilities, non-current (notes 2 and 15)	**27,183**	25,885	**271**
Commitments and contingent liabilities (note 24)			
Minority interests (note 13)	**145,618**	143,055	**1,454**
Stockholders' equity:			
Common stock (note 18):			
Authorized: 3,000,000,000 shares;			
issued: 1,584,889,504 shares 2008 and 2007	**202,241**	202,241	**2,019**
Capital surplus (note 18)	**137,211**	136,842	**1,369**
Retained earnings (note 18):			
Legal reserve	**10,373**	7,423	**104**
Other retained earnings	**657,683**	469,736	**6,564**
Accumulated other comprehensive income (loss) (notes 2, 15 and 19):			
Foreign currency translation adjustments	**(24,948)**	903	**(249)**
Pension liability adjustments (note 13)	**(73,379)**	(41,335)	**(732)**
Unrealized holding gains on securities (note 4)	**74,389**	122,736	**742**
Unrealized holding losses on derivative instruments (note 20)	**(2,510)**	(441)	**(25)**
Total accumulated other comprehensive income (loss)	**(26,448)**	81,863	**(264)**
Treasury stock, at cost:			
4,183,607 shares 2008			
3,693,789 shares 2007	**(2,589)**	(1,910)	**(26)**
Total stockholders' equity	**978,471**	896,195	**9,766**
Total	**¥5,255,420**	¥5,271,512	**$52,455**

Consolidated Statements of Operations

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of Yen			Millions of U.S. Dollars (note 2)
	2008	2007	2006	2008
Revenue (notes 2, 12 and 17):				
Sales revenue	¥ 2,233,523	¥ 2,094,850	¥ 1,806,650	$ 22,293
Trading margins and commissions on trading transactions	627,687	552,352	411,571	6,265
Total trading transactions (notes 2, 5 and 17): 2008: ¥12,412,456 million ($123,889 million) 2007: ¥11,579,059 million 2006: ¥10,473,885 million				
Total revenue	2,861,210	2,647,202	2,218,221	28,558
Cost of sales	(1,865,306)	(1,738,526)	(1,503,847)	(18,618)
Gross trading profit (note 17)	995,904	908,676	714,374	9,940
Selling, general and administrative expenses (notes 9, 12 and 13)	(723,403)	(639,121)	(506,257)	(7,220)
Provision for doubtful receivables (note 6)	(5,977)	(4,934)	(14,728)	(60)
Interest income	17,829	16,117	13,409	178
Interest expense	(49,985)	(45,335)	(39,441)	(499)
Dividends received	24,447	21,663	18,216	244
Gain on disposal of investments and marketable securities, net of write-down (notes 4 and 21)	16,384	46,850	51,601	164
Gain (loss) on property and equipment–net (note 7)	6,675	(6,785)	(7,917)	67
Other–net (notes 2, 9, 14 and 23)	833	3,099	(12,388)	8
Income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	282,707	300,230	216,869	2,822
Income taxes (notes 2, 15 and 21):				
Current	91,922	80,261	65,232	918
Deferred	30,078	8,665	41,691	300
Total income taxes	122,000	88,926	106,923	1,218
Income before minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	160,707	211,304	109,946	1,604
Minority interests	(12,360)	(14,176)	(13,098)	(123)
Equity in earnings (losses) of associated companies (notes 5 and 17)	70,238	(20,069)	51,737	701
Income before cumulative effect of an accounting change	218,585	177,059	148,585	2,182
Cumulative effect of an accounting change, less applicable income taxes (notes 2 and 17)	—	—	(3,439)	—
Net income	¥ 218,585	¥ 177,059	¥ 145,146	$ 2,182

	Yen			U.S. Dollars (note 2)
	2008	2007	2006	2008
Net income per common share (notes 2 and 16):				
Income before cumulative effect of an accounting change	¥138.27	¥111.95	¥93.91	$1.38
Cumulative effect of an accounting change, less applicable income taxes	—	—	(2.17)	—
Net income per common share	¥138.27	¥111.95	¥91.74	$1.38
Diluted net income per common share:				
Income before cumulative effect of an accounting change	¥128.52	¥111.95	¥93.91	$1.28
Cumulative effect of an accounting change, less applicable income taxes	—	—	(2.17)	—
Diluted net income per common share	¥128.52	¥111.95	¥91.74	$1.28

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of Yen			Millions of U.S. Dollars (note 2)
	2008	2007	2006	2008
Common stock (note 18):				
Balance at beginning of year issued: 1,584,889,504 shares 2008, 2007 and 2006	¥ 202,241	¥202,241	¥202,241	$ 2,019
Balance at end of year 1,584,889,504 shares 2008, 2007 and 2006	¥ 202,241	¥202,241	¥202,241	$ 2,019
Capital surplus (note 18):				
Balance at beginning of year	¥ 136,842	¥137,035	¥137,024	$ 1,366
Excess arising from retirement of treasury stock	16	8	11	0
Increase (decrease) arising from group realignment between subsidiaries	353	(201)	—	3
Balance at end of year	¥ 137,211	¥136,842	¥137,035	$ 1,369
Retained earnings (note 18):				
Legal reserve:				
Balance at beginning of year	¥ 7,423	¥ 5,667	¥ 3,927	$ 74
Transfer from other retained earnings	3,075	1,822	1,797	31
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	(125)	(66)	(57)	(1)
Balance at end of year	¥ 10,373	¥ 7,423	¥ 5,667	$ 104
Other retained earnings:				
Balance at beginning of year	¥ 469,736	¥310,261	¥184,273	$ 4,688
Net income	218,585	177,059	145,146	2,182
Cash dividends	(27,688)	(15,828)	(17,418)	(276)
Transfer to legal reserve	(3,075)	(1,822)	(1,797)	(31)
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	125	66	57	1
Balance at end of year	¥ 657,683	¥469,736	¥310,261	$ 6,564
Accumulated other comprehensive income (loss) (notes 2, 4, 13, 15, 19 and 20):				
Balance at beginning of year	¥ 81,863	¥ 72,889	¥ (16,242)	$ 817
Other comprehensive income (loss)	(108,311)	47,451	89,131	(1,081)
Adjustment to initially apply SFAS No.158	—	(38,477)	—	—
Balance at end of year	¥ (26,448)	¥ 81,863	¥ 72,889	$ (264)
Treasury stock:				
Balance at beginning of year	¥ (1,910)	¥ (1,277)	¥ (826)	$ (19)
Net change in treasury stock	(679)	(633)	(451)	(7)
Balance at end of year	¥ (2,589)	¥ (1,910)	¥ (1,277)	$ (26)
Total	¥ 978,471	¥896,195	¥726,816	$ 9,766
Comprehensive income:				
Net income	¥ 218,585	¥177,059	¥145,146	$ 2,182
Other comprehensive income (loss) (net of tax) (notes 2, 15 and 19):				
Net change in foreign currency translation adjustments during the year	(25,851)	26,704	37,618	(258)
Minimum pension liability adjustments (note 13)	—	(772)	(39)	—
Pension liability adjustments (note 13)	(32,044)	—	—	(320)
Net change in unrealized holding gains (losses) on securities during the year (note 4)	(48,347)	25,047	44,943	(482)
Net change in unrealized holding gains (losses) on derivative instruments during the year (note 20)	(2,069)	(3,528)	6,609	(21)
Total other comprehensive income (loss) (net of tax)	(108,311)	47,451	89,131	(1,081)
Total	¥ 110,274	¥224,510	¥234,277	$ 1,101

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of Yen			Millions of U.S. Dollars (note 2)
	2008	2007	2006	2008
Cash flows from operating activities:				
Net income	¥ 218,585	¥ 177,059	¥ 145,146	$ 2,182
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	71,569	56,383	44,062	714
Provision for doubtful receivables	5,977	4,934	14,728	60
Gain on disposal of investments and marketable securities, net of write-down	(16,384)	(46,850)	(51,601)	(164)
(Gain) loss on property and equipment–net	(6,675)	6,785	7,917	(67)
Equity in (earnings) losses of associated companies, less dividends received	(55,444)	39,849	(43,239)	(553)
Deferred income taxes	30,078	8,665	41,691	300
Minority interests	12,360	14,176	13,098	123
Cumulative effect of an accounting change, less applicable income taxes	—	—	3,439	—
Change in assets and liabilities:				
Trade receivables	(162,053)	(106,945)	(92,507)	(1,617)
Due from associated companies	(2,666)	(35,766)	(3,329)	(27)
Inventories	(13,473)	(45,132)	(26,045)	(135)
Trade payables	(19,939)	125,348	91,919	(199)
Due to associated companies	(26,994)	(217)	4,705	(269)
Other–net	30,611	37,628	35,163	306
Net cash provided by operating activities	65,552	235,917	185,147	654
Cash flows from investing activities:				
Payments for purchases of property, equipment and other assets	(118,800)	(79,159)	(68,809)	(1,186)
Proceeds from sales of property, equipment and other assets	78,582	28,591	36,392	784
Increase in investments in and advances to associated companies	(53,267)	(44,581)	(77,864)	(531)
Decrease in investments in and advances to associated companies	38,495	33,578	34,640	384
Acquisitions of available-for-sale securities	(23,286)	(40,428)	(19,710)	(232)
Proceeds from sales of available-for-sale securities	19,779	35,705	32,951	197
Proceeds from maturities of available-for-sale securities	808	132	204	8
Acquisitions of held-to-maturities securities	—	(60)	—	—
Acquisitions of other investments	(54,844)	(78,070)	(85,134)	(547)
Proceeds from sales of other investments	35,492	45,791	48,257	354
Acquisitions of a subsidiary, net of cash acquired	—	(11,407)	—	—
Proceeds from sales of subsidiaries' common stock	9,684	5,877	25,460	97
Origination of other non-current loan receivables	(48,817)	(49,703)	(38,212)	(487)
Collections of other non-current loan receivables	52,666	48,309	52,445	526
Net (increase) decrease in time deposits	(2,266)	22,031	(20,491)	(23)
Net cash used in investing activities	(65,774)	(83,394)	(79,871)	(656)
Cash flows from financing activities:				
Proceeds from long-term debt	324,994	617,455	503,202	3,244
Repayments of long-term debt	(324,581)	(681,150)	(578,895)	(3,240)
Net increase (decrease) in short-term debt	(48,071)	(22,215)	2,413	(480)
Proceeds from minority interests through issuance of subsidiaries' common stock	1,082	6,244	9,017	11
Cash dividends	(27,688)	(15,828)	(17,418)	(276)
Cash dividends to minority interests	(6,352)	(4,805)	(3,073)	(63)
Net increase in treasury stock	(678)	(621)	(439)	(7)
Net cash used in financing activities	(81,294)	(100,920)	(85,193)	(811)
Effect of exchange rate changes on cash and cash equivalents	(5,029)	3,546	4,690	(50)
Net increase (decrease) in cash and cash equivalents	(86,545)	55,149	24,773	(863)
Cash and cash equivalents at beginning of year	532,856	477,707	452,934	5,318
Cash and cash equivalents at end of year	¥ 446,311	¥ 532,856	¥ 477,707	$ 4,455
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	¥ 48,979	¥ 42,485	¥ 39,044	$ 489
Income taxes	94,312	65,744	40,162	941
Information regarding non-cash investing and financing activities:				
Withdrawal of plan assets (note 13)	—	27,742	—	—
Non-monetary exchange of shares (note 4):				
Fair market value of shares received	2,114	6,941	3,539	21
Costs of shares surrendered	598	3,451	3,093	6
Acquisitions of a subsidiary (note 3):				
Fair value of assets acquired	—	233,512	—	—
Fair value of liabilities assumed	—	204,919	—	—
Acquisition costs of a subsidiary	—	28,593	—	—
Non-cash acquisition costs	—	13,877	—	—
Cash acquired	—	3,309	—	—
Acquisitions of a subsidiary, net of cash acquired	—	11,407	—	—

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ITOCHU Corporation and Subsidiaries

1. Nature of Operations

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

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

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

(1) Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2008 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥100.19=U.S.$1 (the official rate as of March 31, 2008 announced by The Bank of Tokyo-Mitsubishi UFJ, Ltd.). The translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

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

(2) Summary of Significant Accounting Policies

a. Basis of Consolidation

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

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

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

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

b. Foreign Currency Translation

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

c. Cash Equivalents

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

d. Inventories

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

e. Marketable Securities and Other Investments

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

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

f. Investments in Associated Companies

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

g. Impaired Loans and Allowance for Doubtful Receivables

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

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

h. Long-lived Assets

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

i. Depreciation

Depreciation of property and equipment (including property leased to others) is computed principally by the unit-of-production method for mineral rights, and by the straight-line method or the declining-balance method for property and equipment other than land, construction in progress and mineral rights, using rates based upon the estimated useful lives of the related property and equipment (6 to 65 years for Buildings, 2 to 25 years for Machinery and equipment, 2 to 20 years for Furniture and fixtures).

j. Goodwill and Other Intangible Assets

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

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

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

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

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

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

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

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

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

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

on a net basis are presented as "Trading margins and commissions on trading transactions" in the consolidated statements of operations.

Trading Transactions

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

p. Costs Associated with Exit or Disposal Activities

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

q. Income Taxes

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

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

According to FIN 48 "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109," the Company and its subsidiaries recognize the financial statement effects of tax positions when they are more likely than not, based on the technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Interest and penalties accrued related to unrecognized tax benefits are included in Income taxes in the consolidated statements of operation.

r. Net Income (Loss) Per Share

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

s. Comprehensive Income (Loss)

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

t. Derivative Instruments and Hedging Activities

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

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

- "Fair value hedge": a hedge of the fair value of a recognized asset or liability, or of an unrecognized firm commitment. The changes in fair value of recognized assets or liabilities, or unrecognized firm commitments and related derivative instruments that are designated and qualify as fair value hedges are recorded in earnings if the hedges are considered highly effective.
- "Cash flow hedge": a hedge of the variability of cash flow to be received or paid related to a forecasted transaction, or a recognized asset or liability. The changes in fair value of derivative instruments that are designated and qualify as cash flow hedges are recorded in "Accumulated other comprehensive income (loss)" if the hedges are considered highly effective. This treatment is continued until earnings are affected by the variability in cash flows to be received or paid related to the forecasted transactions or the recognized assets or liabilities designated as the hedged items. The ineffective portion of the hedge is currently reported in earnings.
- "Foreign currency hedge": a hedge of foreign-currency fair value or cash flow. The changes in fair value of

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

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

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

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

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

u. Issuance of Stock by Subsidiaries or Associated Companies

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

v. Classification of Mineral Rights

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

w. Use of Estimates

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

(3) New Accounting Pronouncements

a. Accounting for Uncertainty in Income Taxes

In June 2006, FIN 48, "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109" was issued.

FIN 48 provides recognition and measurement of uncertainty in income taxes under understanding that there exists uncertainty in estimation of income taxes payable.

The effect of adoption of FIN 48 on the Company and its subsidiaries' financial position and results of operations was immaterial.

b. Fair Value Measurements

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

SFAS 157 provides definition of "fair value" and applies the approach of categorizing fair value in accordance with three separate levels to reflect the degree of objectivity of estimates.

SFAS 157 is effective for fiscal years beginning after November 15, 2007 (that is, the fiscal year ended on March 31, 2009), and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. At present the effect cannot be reasonably estimated.

c. Fair Value Option

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

SFAS 159 permits companies to measure the balance of financial instruments at fair value as of the date of balance sheet. Entities can choose either to use a fair value measurement or previous methods by respective financial instrument under certain constrains.

SFAS 159 is effective for fiscal years beginning after November 15, 2007 (that is, the fiscal year ended on March 31, 2009). The effect in relation to the financial position and operation results of the Company and its subsidiaries cannot be reasonably estimated in the event that the Company and its subsidiaries adopt the fair value option.

d. Business Combination

In December 2007, SFAS 141 (R) "Business Combination (Revised 2007)" was issued.

SFAS 141 (R) entails a change in approach from previous "purchase method" to "acquisition method" that focus acquisition of control regarding business combinations.

Further, SFAS 141 (R) introduces the approach to recognize of goodwill as well as for non-controlling interests.

SFAS 141 (R) is effective for fiscal years beginning on or after December 15, 2008, and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. At present the effect cannot be reasonably estimated.

e. Non-controlling Interests in Consolidated Financial Statements

In December 2007, SFAS 160 "Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" was issued.

SFAS 160 changes minority interests, the previous designation, to non-controlling interests and adopts an approach of regarding non-controlling interests as a component of equity. Accordingly, the Company will change its presentation of consolidated financial statements. Further, purchases to increase interests or dispose of a portion of interests while maintaining control are capital transactions, and the Company will no longer recognize any gain or loss.

SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 (that is, the fiscal year ended on March 31, 2010), and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. At present the effect cannot be reasonably estimated.

f. Disclosures about Derivative Instruments and Hedging Activities

In March 2008, SFAS 161 "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" was issued.

SFAS 161 enhances disclosures of derivative instruments and hedging activities, such as that of qualitative disclosures about objectives and strategies for using derivative instruments, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 (that is, the fourth quarter of Fiscal 2009), and the effect on the Company and its subsidiaries' financial disclosure is currently under consideration. At present the effect cannot be reasonably estimated.

(4) Reclassification

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

3. Business Combination

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

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

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

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

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

	Millions of Yen
	2007
Current assets	¥ 145,717
Property and equipment, at cost	37,967
Goodwill and other intangible assets, less accumulated amortization	23,931
Investments and other non-current assets	25,897
Fair value of assets acquired	233,512
Current liabilities	(182,659)
Non-current liabilities	(16,667)
Minority interests	(5,593)
Fair value of liabilities assumed	(204,919)
Acquisition costs of a subsidiary	¥ 28,593

Financial Section

4. Marketable Securities and Investments

Debt and Marketable Equity Securities

Debt and marketable equity securities included in "Marketable securities" and "Other investments" consist of trading, available-for-sale and held-to-maturity securities. The cost, gross unrealized holding gains, gross unrealized holding losses and fair value of available-for-sale and held-to-maturity securities by major security type as of March 31, 2008 and 2007 were as follows:

	Millions of Yen			
	2008			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	¥ 43,635	¥ —	¥ 10	¥ 43,625
Non-current:				
Available-for-sale:				
Equity securities	¥192,898	¥122,427	¥11,326	¥303,999
Debt securities	1,833	3	248	1,588
Total	194,731	122,430	11,574	305,587
Held-to-maturity:				
Debt securities	75	—	—	75
Total–Non-current	¥194,806	¥122,430	¥11,574	¥305,662

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

	Millions of U.S. Dollars			
	2008			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	$ 435	$ —	$ 0	$ 435
Non-current:				
Available-for-sale:				
Equity securities	$1,925	$1,222	$113	$3,034
Debt securities	18	0	2	16
Total	1,943	1,222	115	3,050
Held-to-maturity:				
Debt securities	1	—	—	1
Total–Non-current	$1,944	$1,222	$115	$3,051

The carrying amounts of available-for-sale debt securities included in cash and cash equivalents in the consolidated balance sheets were ¥43,372 million ($433 million) and ¥24,980 million as of March 31, 2008 and 2007, respectively.

In addition to the securities listed above, the Company and its subsidiaries held trading securities carried at fair value of ¥30,523 million ($305 million) and ¥30,720 million as of March 31, 2008 and 2007, respectively. The portion of net trading gains for the year that relates to trading securities still held at March 31, 2008, 2007 and 2006 were ¥2,014 million ($20 million), ¥877 million, and ¥2,594 million, respectively.

Securities with gross unrealized holding losses and the length of time that such individual securities have been in a continuous unrealized loss position as of March 31, 2008 were as follows:

	Millions of Yen					
	2008					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Current:						
Available-for-sale:						
Debt securities	¥ 81	¥ 10	¥—	¥—	¥ 81	¥ 10
Non-current:						
Available-for-sale:						
Equity securities	¥62,956	¥11,326	¥—	¥—	¥62,956	¥11,326
Debt securities	1,378	248	—	—	1,378	248
Total–Non-current	¥64,334	¥11,574	¥—	¥—	¥64,334	¥11,574

	Millions of U.S. Dollars					
	2008					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Current:						
Available-for-sale:						
Debt securities	$ 1	$ 0	$—	$—	$ 1	$ 0
Non-current:						
Available-for-sale:						
Equity securities	$628	$113	$—	$—	$628	$113
Debt securities	14	2	—	—	14	2
Total–Non-current	$642	$115	$—	$—	$642	$115

At March 31, 2008, the Company and its subsidiaries held the securities of 109 issuers with an unrealized holding loss in its available-for-sale portfolio. The unrealized losses on these securities, consisted primarily of customers of various industries, were due principally to a decline in the stock market. The severity of decline in fair value below cost was 0.3% to 29.9% and the duration of the impairment was less than 9 months. As a result of evaluation of individual severity and duration of these securities and the prospects of the issuer, the Company and its subsidiaries concluded the fair value of these securities would recover in the near term. Based on that evaluation and the Company and its subsidiaries' intent and ability to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company and its subsidiaries did not consider these investments to be other-than-temporarily impaired at March 31, 2008.

In accordance with EITF 91-5 "Nonmonetary Exchange of Cost-Method Investments," the Company and its subsidiaries recognized gains on the exchange of its investment securities in connection with certain business combinations amounting to ¥1,516 million ($15 million) and ¥3,490 million for the years ended March 31, 2008 and 2007, respectively, which are presented as part of "Gain on disposal of investments and marketable securities, net of write-down" in the consolidated statements of operations.

The contractual maturities of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2008 were as follows:

	Millions of Yen		Millions of U.S. Dollars	
	Cost	Fair Value	Cost	Fair Value
Available-for-sale:				
Due within one year	¥43,635	¥43,625	$435	$435
Due after one year through five years	130	132	1	1
Due after five years through ten years	1,649	1,404	16	14
Due after ten years	54	52	1	1
Total	¥45,468	¥45,213	$453	$451
Held-to-maturity:				
Due within one year	¥ —	¥ —	$ —	$ —
Due after one year through five years	75	75	1	1
Due after five years through ten years	—	—	—	—
Due after ten years	—	—	—	—
Total	¥ 75	¥ 75	$ 1	$ 1

The gross realized gains and losses on sales of available for-sale securities for the years ended March 31, 2008, 2007 and 2006 were gains of ¥13,661 million ($136 million), ¥22,692 million and ¥23,926 million, and losses of ¥13 million ($0.1 million), ¥66 million and ¥60 million, respectively. The proceeds from sales of available-for-sale securities were ¥19,779 million ($197 million), ¥35,705 million and ¥32,951 million for the years ended March 31, 2008, 2007 and 2006, respectively.

Investments Other Than Debt and Marketable Equity Securities

Other investments include investments in non-traded and unaffiliated customers and suppliers and long-term deposits amounting to ¥242,128 million ($2,417 million) and ¥252,593 million as of March 31, 2008 and 2007, respectively.

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

5. Investments in Associated Companies

Summarized financial information in respect of associated companies as of March 31, 2008 and 2007 and for the years ended March 31, 2008, 2007 and 2006 was as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Current assets	**¥4,333,216**	¥4,431,771	**$43,250**
Non-current assets, principally property and equipment	**2,600,709**	2,684,717	**25,958**
Total assets	**¥6,933,925**	¥7,116,488	**$69,208**
Current liabilities	**¥3,343,920**	¥3,421,904	**$33,376**
Long-term debt and others	**2,525,498**	2,994,631	**25,207**
Stockholders' equity	**1,064,507**	699,953	**10,625**
Total liabilities and stockholders' equity	**¥6,933,925**	¥7,116,488	**$69,208**

	Millions of Yen			Millions of U.S. Dollars
	2008	2007	2006	**2008**
Total trading transactions	**¥7,724,465**	¥6,993,940	¥6,526,254	**$77,098**
Net income (loss)	**¥ 412,725**	¥ (374,905)	¥ 125,826	**$ 4,119**

Total trading transactions and purchases by the Company and its subsidiaries with associated companies for the years ended March 31, 2008, 2007 and 2006 were summarized as follows:

	Millions of Yen			Millions of U.S. Dollars
	2008	2007	2006	**2008**
Total trading transactions	**¥806,445**	¥855,349	¥817,657	**$8,049**
Purchases	**¥198,681**	¥244,366	¥184,549	**$1,983**

Dividends received from associated companies for the years ended March 31, 2008, 2007 and 2006 were ¥14,794 million ($148 million), ¥19,780 million and ¥8,498 million, respectively.

The Company and its subsidiaries account for investments in associated companies (generally companies owned 20% to 50%) by the equity method. Significant equity method investees include Orient Corporation (32.1%), Century Leasing System, Inc. (20.1%), Marubeni-Itochu Steel Inc. (50.0%), FamilyMart Co., Ltd. (31.5%) and Isuzu Network Co., Ltd. (25.0%). The percentages shown parenthetically in the above sentence were voting shares held by the Company and its subsidiaries at March 31, 2008.

The Company and its subsidiaries invest in associated companies which issue convertible preference stocks. The Company and its subsidiaries' shares of reported profits and losses might be diluted by possible conversions of those preference stocks, and accordingly there might be material effects in the results of operation of the Company and its subsidiaries.

Investments in the common stock of equity-method associated companies include marketable equity securities in the carrying amounts of ¥319,582 million ($3,190 million) and ¥286,764 million at March 31, 2008 and 2007, respectively. Corresponding aggregate quoted market values were ¥264,207 million ($2,637 million) and ¥377,416 million at March 31, 2008 and 2007, respectively.

The differences between the carrying amount of the investments in equity-method associated companies and the Company and its subsidiaries' equity in the underlying net assets of such equity-method associated companies were ¥205,007 million ($2,046 million) and ¥169,479 million at March 31, 2008 and 2007, respectively. The differences consist of certain fair value adjustments (net of taxes) at the time of the investments in equity-method associated companies and equity-method goodwill. The fair value adjustments are primarily attributed to land and intangible assets.

For the year ended March 31, 2008, the Company recorded a ¥26,170 million ($261 million) impairment loss on the equity method investment in Orient Corporation ("Orico"). The loss included in "Equity in earnings (losses) of associated companies" in the accompanying consolidated statements of operations represents the difference between the carrying amount of the investment in Orico and estimated fair value. The estimated fair value was determined by the Company by applying the discounted cash flow analysis prepared by third party appraisers using the best-estimated future cash flow available, and with reference to the quoted market price of Orico's publicity traded common stock and potential dilution of the preferred stocks issued by Orico.

6. Impaired Loans and Allowance for Doubtful Receivables

An analysis of the changes in the allowance for doubtful receivables for the years ended March 31, 2008, 2007 and 2006 was as follows:

	Millions of Yen			Millions of U.S. Dollars
	2008	2007	2006	**2008**
Balance at beginning of year	**¥ 81,808**	¥121,355	¥163,451	**$ 817**
Provision for doubtful receivables	**5,977**	4,934	14,728	**60**
Charge-offs	**(15,797)**	(47,560)	(67,231)	**(158)**
Other	**(3,040)**	3,079	10,407	**(30)**
Balance at end of year	**¥ 68,948**	¥ 81,808	¥121,355	**$ 689**

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

The carrying amounts of impaired loans within the scope of SFAS 114 and the allowance for doubtful receivables related to those impaired loans as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Impaired loans	**¥68,264**	¥71,246	**$681**
Allowance for doubtful receivables related to those impaired loans	**¥51,167**	¥61,750	**$511**

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

The average amounts of impaired loans during the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of Yen			Millions of U.S. Dollars
	2008	2007	2006	**2008**
Average amounts of impaired loans	**¥69,755**	¥87,999	¥144,159	**$696**

The amounts of interest income recognized on the impaired loans for the years ended March 31, 2008, 2007 and 2006 were not significant.

7. Impairment of Long-lived Assets

The Company and its subsidiaries recognized impairment losses on long-lived assets of ¥5,932 million ($59 million), ¥7,493 million and ¥12,855 million for the years ended March 31, 2008, 2007 and 2006, respectively, which were included in "Gain (loss) on property and equipment–net" in the consolidated statements of operations. The impaired assets were primarily golf courses in the Finance, Realty, Insurance & Logistics Services operating segment for the year ended March 31, 2008. The impairments were generally due to the deterioration of earnings of the golf courses. The impaired assets were primarily commercial land and buildings in the Finance, Realty, Insurance & Logistics Services operating segment for the year ended March 31, 2007. The impairments were generally due to the deterioration of earnings in relation to revisions of repair plans of buildings and changes to lease agreement conditions. The impaired assets were primarily commercial rental buildings in the Finance, Realty, Insurance & Logistics Services operating segment and land in the Other, Adjustments & Eliminations operating segment for the year ended March 31, 2006. The impairments were generally due to the deterioration of rents for commercial buildings and to the decline in the market value of land.

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

Impairment losses recognized for the years ended March 31, 2008, 2007, and 2006 by operating segment were as follows:

	Millions of Yen			Millions of U.S. Dollars
	2008	2007	2006	2008
Textile	¥ 56	¥ 425	¥ 258	$ 1
Machinery	62	206	390	1
Aerospace, Electronics & Multimedia	56	22	1,162	1
Chemicals, Forest Products & General Merchandise	110	181	581	1
Food	886	514	150	8
Finance, Realty, Insurance & Logistics Services	4,635	6,145	7,578	46
Other, Adjustments & Eliminations	127	—	2,736	1
Total	¥5,932	¥7,493	¥12,855	$59

8. Pledged Assets

The following assets were pledged as collateral at March 31, 2008 and 2007:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	2008
Cash and cash equivalents and time deposits	¥ 285	¥ 273	$ 3
Marketable securities	70	105	1
Trade receivables	13,842	17,743	138
Inventories	4,076	4,524	40
Investments and non-current receivables	18,326	46,311	183
Property and equipment, at cost, less accumulated depreciation	29,725	44,000	297
Total	¥66,324	¥112,956	$662

Collateral was pledged to secure the following obligations at March 31, 2008 and 2007:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	2008
Short-term debt	¥ 9,789	¥15,524	$ 97
Long-term debt	15,703	44,678	157
Guarantees of contracts and others	8,086	15,243	81
Total	¥33,578	¥75,445	$335

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

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

9. Goodwill and Other Intangible Assets

Intangible assets subject to amortization at March 31, 2008 and 2007 comprised the following:

	Millions of Yen				Millions of U.S. Dollars	
	2008		2007		2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Trademarks	¥ 41,469	¥(12,499)	¥23,683	¥(11,373)	$ 414	$(125)
Software	47,250	(26,688)	44,939	(26,632)	471	(266)
Other	25,902	(8,987)	20,590	(6,916)	259	(90)
Total	¥114,621	¥(48,174)	¥89,212	¥(44,921)	$1,144	$(481)

Intangible assets subject to amortization that were acquired during the year ended March 31, 2008 totaled ¥15,791 million ($158 million), and consisted primarily of software of ¥9,786 million ($98 million). The weighted average amortization period for software that was acquired during the year ended March 31, 2008 was 5 years. Software is generally amortized using the straight-line method.

An impairment loss of ¥1,034 million ($10 million) was recognized for customer contracts, a component of intangible assets subject to amortization, held by MCL Group Limited (U.K.), which operates warehousing, retail and financing of motor vehicles.

The aggregate amortization expenses for intangible assets for the years ended March 31, 2008, 2007 and 2006 were ¥11,446 million ($114 million), ¥12,578 million and ¥12,789 million, respectively.

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

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2009	¥11,919	$119
2010	9,062	90
2011	5,459	54
2012	3,421	34
2013	1,565	16

The carrying amount of intangible assets with indefinite useful lives which are therefore not subject to amortization comprised the following at March 31, 2008 and 2007:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Trademarks	**¥1,576**	¥20,644	**$16**
Unlimited land lease	**110**	1,000	**1**
Other	**2,081**	2,154	**21**
Total	**¥3,767**	¥23,798	**$38**

Intangible assets with indefinite useful lives which are not subject to amortization were acquired during the year ended March 31, 2008, and mainly consisted of trademarks of ¥1,022 million ($10 million).

Based on valuations prepared by third-party appraisers, the Company and its subsidiaries determined useful lives of certain brand-related trademarks reflecting the pattern in which the economic benefits of the brand-related trademarks were consumed. As a result, the Company and its subsidiaries categorized the brand-related trademarks into Intangible assets subject to amortization at the beginning of the year ended March 31, 2008. Concerning the brand-related trademarks, the gross carrying amount was ¥20,184 million ($201 million) and the estimated useful lives were from 21 years to 28 years.

The changes in the carrying amounts of goodwill by operating segment during the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other	Total
Balance at March 31, 2006	¥236	¥ 6,362	¥27,865	¥ —	¥ 8,460	¥ —	¥ 256	¥3,910	¥47,089
Acquired	—	129	6,903	1,042	2,355	20,434	1,577	111	32,551
Impairment losses	—	—	—	—	—	—	—	(190)	(190)
Other changes (Note)	(236)	268	(4)	22	469	—	2	(85)	436
Balance at March 31, 2007	—	6,759	34,764	1,064	11,284	20,434	1,835	3,746	79,886
Acquired	**—**	**675**	**1,214**	**—**	**—**	**—**	**—**	**626**	**2,515**
Impairment losses	**—**	**(1,407)**	**—**	**—**	**(1,824)**	**—**	**—**	**—**	**(3,231)**
Other changes (Note)	**—**	**(974)**	**—**	**(44)**	**(953)**	**—**	**(10)**	**521**	**(1,460)**
Balance at March 31, 2008	**¥ —**	**¥ 5,053**	**¥35,978**	**¥1,020**	**¥ 8,507**	**¥20,434**	**¥1,825**	**¥4,893**	**¥77,710**

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

	Millions of U.S. Dollars							
	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other	Total
Balance at March 31, 2007	$ 67	$347	$11	$113	$204	$18	$37	$797
Acquired	**7**	**12**	**—**	**—**	**—**	**—**	**6**	**25**
Impairment losses	**(14)**	**—**	**—**	**(18)**	**—**	**—**	**—**	**(32)**
Other changes (Note)	**(10)**	**—**	**(1)**	**(10)**	**—**	**(0)**	**6**	**(15)**
Balance at March 31, 2008	**$ 50**	**$359**	**$10**	**$ 85**	**$204**	**$18**	**$49**	**$775**

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

As a result of testing for impairment of goodwill, impairment losses amounting to ¥3,231 million ($32 million), ¥190 million and ¥379 million, respectively, were recognized during the years ended March 31, 2008, 2007 and 2006. The impairment losses of goodwill were included in "Other–net" in the consolidated statements of operations.

An impairment loss in Machinery segment was recognized by the above-mentioned MCL Group Limited (U.K.), and an impairment loss in Chemicals, Forest Products & General Merchandise segment was recognized by Am-Pac Tire Distributions Inc. (U.S.A.) which operated wholesale and retail of tires.

10. Short-term and Long-term Debt

"Short-term debt" at March 31, 2008 and 2007 was as follows:

	Millions of Yen	Interest Rate	Millions of Yen	Interest Rate	Millions of U.S. Dollars
	2008		2007		2008
Short-term loans, mainly from banks	¥264,462	5.1%	¥373,723	3.4%	$2,640
Commercial paper	42,984	0.7%	—	—	429

Note: The interest rates represent weighted average rates on outstanding balances at March 31, 2008 and 2007.

"Long-term debt" at March 31, 2008 and 2007 is summarized below:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	2008
Banks and financial institutions:			
Secured:			
Japan Bank for International Cooperation, due 2007-2012, interest mainly 2.6%-5.5%	¥ 529	¥ 5,303	$ 5
Other, due 2007-2027, interest mainly 0.6%-8.3%	15,174	39,375	152
Unsecured:			
Due 2007-2025, interest mainly 0.4%-12.5%	1,569,948	1,553,434	15,669
Debentures:			
Unsecured bonds and notes:			
Issued in 1997, 2.45% Yen Bonds due 2009	10,000	10,000	100
Issued in 1998, 3.10% Yen Bonds due 2008	30,000	30,000	299
Issued in 1998, 3.00% Yen Bonds due 2008	10,000	10,000	100
Issued in 1999, 3.19% Yen Bonds due 2009	10,000	10,000	100
Issued in 2003, 0.79% Yen Bonds due 2008	15,000	15,000	150
Issued in 2003, 0.87% Yen Bonds due 2010	10,000	10,000	100
Issued in 2003, 0.47% Yen Bonds due 2007	—	10,000	—
Issued in 2003, 1.14% Yen Bonds due 2008	10,000	10,000	100
Issued in 2004, 1.04% Yen Bonds due 2009	10,000	10,000	100
Issued in 2004, 0.54% Yen Bonds due 2007	—	10,000	—
Issued in 2004, 1.30% / 2.55% Yen Bonds due 2014 (note 1)	10,000	10,000	100
Issued in 2005, 1.46% Yen Bonds due 2012	10,000	10,000	100
Issued in 2006, 2.17% Yen Bonds due 2016	15,000	15,000	150
Issued in 2006, 2.09% Yen Bonds due 2016	10,000	10,000	100
Issued in 2007, 2.11% Yen Bonds due 2017	10,000	10,000	100
Issued in 2007, 2.02% Yen Bonds due 2017	10,000	—	100
Issued in 2007, 1.99% Yen Bonds due 2017	10,000	—	100
Issued in 2007, 1.90% Yen Bonds due 2017	10,000	—	100
Issued in and after 1999, Medium-Term Notes (2.70%), etc., maturing through 2009	15,131	17,055	148
Others	174,149	147,744	1,739
Total	1,964,931	1,942,911	19,612
SFAS 133 fair value adjustment (note 2)	6,174	(3,261)	62
Total	1,971,105	1,939,650	19,674
Less current maturities	(76,017)	(144,317)	(759)
Long-term debt, less current maturities	¥1,895,088	¥1,795,333	$18,915

Note: 1. The bond, one-time callable, bears interest at the rate of 1.30% until November 25, 2009 then 2.55% from November 25, 2009 until the maturity date. The Company has a right to redeem the full amount of the outstanding balance on November 25, 2009.

2. SFAS 133 fair value adjustment: The amount of adjustment to record the fair value as of the balance sheet date for long-term debt which is hedged with derivatives, in accordance with SFAS 133.

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

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

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

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

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

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

The aggregate annual maturities of long-term debt after March 31, 2008 are as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2009	¥ 76,017	$ 759
2010	332,995	3,324
2011	223,809	2,234
2012	174,760	1,744
2013	259,031	2,585
2014 and thereafter	904,493	9,028
Total	¥1,971,105	$19,674

The Company has borrowing arrangements with many financial institutions and has entered into commitment line agreements with certain banks for working capital needs and stable funding. The amounts of the Japanese Yen facility available under such agreements aggregated ¥400,000 million ($3,992 million), consisting of ¥100,000 million ($998 million) for short-term debt and ¥300,000 million ($2,994 million) for long-term debt, at March 31, 2008, and ¥400,000 million, consisting of ¥100,000 million for short-term debt and ¥300,000 million for long-term debt, at March 31, 2007, respectively. The amount of the U.S. dollar facility of $500 million was held for short-term debt at March 31, 2008 and at March 31, 2007. The Company intends that the long-term commitment line agreements be used solely in support of refinancing the current maturities of long-term debt. Since the agreements demonstrate the Company's ability to refinance and the Company has expressed an intention to do so, the Company has classified ¥232,385 million ($2,319 million) and ¥144,370 million of the current maturities of long-term debt from current liabilities into non-current liabilities at March 31, 2008 and March 31, 2007, respectively. The classified ¥232,385 million ($2,319 million) is included in "2014 and thereafter." The Company has consistently refinanced the current maturities of long-term debt classified into non-current liabilities for more than five years. The short-term commitment agreements were unused at March 31, 2008 and 2007 respectively.

The Company had a loan agreement with a commitment line of ¥45,000 million, of which ¥36,000 million was used and ¥9,000 million was unused, at March 31, 2007. The Company had no loan agreement with a commitment line, at March 31, 2008.

11. Asset Retirement Obligations

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

The changes in asset retirement obligations for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Balance at beginning of year	**¥16,222**	¥10,541	**$162**
Liabilities incurred	**7,215**	1,511	**72**
Liabilities settled	**(1,562)**	(664)	**(16)**
Accretion expense	**1,210**	1,080	**12**
Revisions to cost estimate	**(758)**	2,261	**(7)**
Other	**(759)**	1,493	**(8)**
Balance at end of year	**¥21,568**	¥16,222	**$215**

Note: "Other" includes foreign currency translation adjustments.

12. Leases

Lessor

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

The components of the net investment in direct financing leases as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Total minimum lease payments to be received	**¥10,653**	¥10,977	**$106**
Less unearned income	**(1,823)**	(1,639)	**(18)**
Estimated unguaranteed residual value	**51**	284	**0**
Less allowance for doubtful receivables.	**(225)**	(497)	**(2)**
Net investment in direct financing leases	**¥ 8,656**	¥ 9,125	**$ 86**

The schedule of future minimum lease payments to be received from direct financing leases for each of the five succeeding years and thereafter as of March 31, 2008 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2009	¥ 3,338	$ 33
2010	2,732	27
2011	1,997	20
2012	1,456	15
2013	785	8
2014 and thereafter	345	3
Total	¥10,653	$106

The Company and certain subsidiaries lease aircraft, real estate, industrial machinery and certain other assets under operating leases. The cost and accumulated depreciation of the property held for lease as of March 31, 2008 were ¥20,866 million ($208 million) and ¥7,749 million ($77 million), respectively. The schedule of minimum future rentals on noncancelable operating leases for each of the five succeeding years and thereafter as of March 31, 2008 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2009	¥ 6,296	$ 63
2010	3,813	38
2011	3,233	32
2012	2,626	26
2013	1,998	20
2014 and thereafter	3,444	35
Total	¥21,410	$214

Lessee

The Company and certain subsidiaries lease buildings, industrial machinery and other machinery and equipment under agreements, which are classified as capital leases. The cost and accumulated depreciation of such leased assets were ¥39,669 million ($396 million) and ¥16,116 million ($161 million), respectively, as of March 31, 2008 and ¥43,562 million and ¥18,165 million, respectively, as of March 31, 2007. The components of the capital lease obligations as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Total minimum lease payments	**¥33,133**	¥35,431	**$331**
Less amount representing interest	**(4,967)**	(4,637)	**(50)**
Capital lease obligations	**¥28,166**	¥30,794	**$281**

The schedule of future minimum lease payments for each of the five succeeding years and thereafter as of March 31, 2008 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2009	¥ 6,084	$ 61
2010	5,072	51
2011	4,969	50
2012	3,255	32
2013	2,438	24
2014 and thereafter	11,315	113
Total	¥33,133	$331

The total of minimum sublease rentals to be received in the future under noncancelable subleases, which correspond to future minimum lease payments under capital leases, is ¥3,917 million ($39 million).

The Company and certain subsidiaries lease aircraft, real estate and certain other assets under agreements which are classified as operating leases. The schedule of future minimum lease payments under noncancelable operating leases for each of the five succeeding years and thereafter as of March 31, 2008 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2009	¥21,736	$217
2010	16,425	164
2011	11,445	114
2012	9,188	92
2013	7,059	70
2014 and thereafter	27,410	274
Total	¥93,263	$931

The total of minimum sublease rentals to be received in the future under noncancelable subleases, which correspond to future minimum lease payments under noncancelable operating leases, is ¥8,447 million ($84 million).

13. Retirement and Severance Benefits

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

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

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

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

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

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Change in projected benefit obligations:			
Projected benefit obligations at beginning of year	**¥299,313**	¥287,105	**$2,987**
Service cost	**8,965**	9,171	**89**
Interest cost	**6,182**	5,677	**62**
Plan participants' contributions	**635**	636	**6**
Net actuarial gain (loss)	**(237)**	3,685	**(2)**
Benefits paid from plan asset	**(14,447)**	(12,866)	**(144)**
Benefits paid by employer	**(4,110)**	(5,328)	**(41)**
Foreign currency translation adjustments	**(249)**	1,812	**(2)**
Acquisition	**—**	10,467	**—**
Settlement and curtailment	**(827)**	(996)	**(8)**
Other	**(192)**	(50)	**(2)**
Projected benefit obligations at end of year	**295,033**	299,313	**2,945**
Change in plan assets:			
Fair value of plan assets at beginning of year	**363,745**	398,534	**3,631**
Actual return (loss) on plan assets	**(47,716)**	3,949	**(476)**
Employer contributions	**3,552**	4,948	**35**
Partial withdrawal of plan assets	**—**	(40,000)	**—**
Plan participants' contributions	**635**	636	**6**
Benefits paid from plan assets	**(14,447)**	(12,866)	**(145)**
Translation adjustments	**(214)**	1,461	**(2)**
Acquisition	**—**	7,083	**—**
Settlement and curtailment	**(47)**	—	**(0)**
Fair value of plan assets at end of year	**305,508**	363,745	**3,049**
Funded status at end of year	**¥ 10,475**	¥ 64,432	**$ 104**

Amounts recognized in the consolidated balance sheets at March 31, 2008 and 2007 consisted of:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Prepaid pension cost	**¥ 30,077**	¥ 86,180	**$ 300**
Accrued retirement and severance benefits	**(19,602)**	(21,748)	**(196)**
	¥ 10,475	¥ 64,432	**$ 104**

Amounts recognized in accumulated other comprehensive income (loss), pre-tax, at March 31, 2008 and 2007 consisted of:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Net actuarial loss	**¥156,505**	¥105,985	**$1,562**
Prior service credit	**(34,010)**	(39,518)	**(339)**
	¥122,495	¥ 66,467	**$1,223**

The estimated amounts of net actuarial loss and prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic pension cost for the next fiscal year are approximately ¥10,000 million ($100 million) (loss) and ¥5,000 million ($50 million) (gain), respectively.

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

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	2008
Accumulated benefit obligation	¥294,082	¥298,336	$2,935

Assumptions of projected benefit obligations and net periodic pension costs as of March 31, 2008 and 2007 were as follows:

	2008	2007
Weighted-average assumptions used to determine benefit obligations at the end of year:		
Discount rate	2.3%	2.1%
Rate of compensation increase	1.0–6.0%	1.1–7.5%
Weighted-average assumptions used to determine net periodic pension cost for the year:		
Discount rate	2.1%	2.2%
Expected long-term rate of return on plan assets	2.6%	2.2%
Rate of compensation increase	1.1–7.5%	1.9–6.0%

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

The fair value of equity securities of subsidiaries and associated companies included in plan assets was ¥6,572 million ($66 million) and ¥12,069 million at March 31, 2008 and 2007, respectively.

The net periodic pension costs for retirement and severance benefits for the years ended March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2008	2007	2006	2008
Service cost	¥ 8,965	¥ 9,171	¥ 7,170	$ 89
Interest cost	6,182	5,677	6,447	62
Expected return on plan assets	(8,724)	(9,036)	(8,184)	(86)
Amortization of unrecognized prior service cost	(5,700)	(5,333)	(4,895)	(57)
Amortization of unrecognized net actuarial loss	5,855	5,539	8,715	58
Settlement curtailment loss (gain)	(906)	(739)	—	(9)
Net periodic pension cost	¥ 5,672	¥ 5,279	¥ 9,253	$ 57

Total expenses related to pension plans for the years ended March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2008	2007	2006	2008
Net periodic pension cost for defined benefit pension plans	¥5,672	¥5,279	¥ 9,253	$57
The amount of cost recognized for defined contribution pension plans	1,360	885	1,075	13
Total expenses for pension plans	¥7,032	¥6,164	¥10,328	$70

The amount of contribution to the multi employer plan (ITOCHU Union Pension Fund) was ¥4,242 million ($42 million) and ¥3,188 million for the years ended March 31, 2008 and 2007, respectively.

Plan assets of the Company and certain subsidiaries by asset category as of March 31, 2008 and 2007 and target allocation percentages were as follows:

	2008	2007	Target Allocation
Asset category:			
Equity securities	**45.1%**	48.5%	45.5%
Debt securities	**33.7**	30.7	40.1
Cash	**9.6**	7.7	6.4
Other	**11.6**	13.1	8.0
Total	**100.0%**	100.0%	100.0%

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

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

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

Cash Flow of the Company and Certain Subsidiaries: The Company and certain subsidiaries expect to contribute about ¥1,500 million ($15 million) to defined benefit pension plans in the year ending March 31, 2009.

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

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2009	¥13,630	$136
2010	13,974	139
2011	14,276	142
2012	14,487	145
2013	14,019	140
2014-2018	67,555	674

14. Foreign Exchange Gains and Losses

Net foreign exchange losses of ¥631 million ($6 million), gains of ¥2,153 million and ¥2,774 million for the years ended March 31, 2008, 2007 and 2006, respectively, were included in "Other–net" in the consolidated statements of operations.

15. Income Taxes

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

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

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

A reconciliation between the normal income tax rate and the effective income tax rate for the years ended March 31, 2008, 2007 and 2006 is as follows:

	2008	2007	2006
Normal income tax rate	**41.0%**	41.0%	41.0%
Expenses not deductible for tax purposes	**1.3**	0.9	1.0
Difference of tax rates for foreign subsidiaries	**(4.2)**	(2.4)	(2.5)
Tax effect on dividends received	**0.8**	(1.2)	2.3
Valuation allowance	**(0.5)**	(3.4)	1.1
Tax effect on investments in equity-method associated companies	**6.0**	(6.5)	3.8
Other	**(1.2)**	1.2	2.6
Effective income tax rate	**43.2%**	29.6%	49.3%

Amounts provided for income taxes for the years ended March 31, 2008, 2007 and 2006 were allocated as follows:

	Millions of Yen			Millions of U.S. Dollars
	2008	2007	2006	2008
Income taxes	**¥122,000**	¥ 88,926	¥106,923	**$1,218**
Cumulative effect of an accounting change	**—**	—	(1,474)	**—**
Other comprehensive (income) loss	**(56,018)**	17,571	30,770	**(559)**
Adjustment to initially apply SFAS No. 158	**—**	(25,623)	—	**—**
Total income tax (benefit) expense	**¥ 65,982**	¥ 80,874	¥136,219	**$ 659**

Significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Inventories, property and equipment	¥ 92,219	¥ 109,301	$ 920
Allowance for doubtful receivables	11,952	12,464	119
Net operating loss carryforwards	15,291	9,879	152
Accrued retirement and severance benefits	40,273	23,654	403
Marketable securities and investments	88,011	93,766	878
Other	40,770	37,192	407
Total deferred tax assets	288,516	286,256	2,879
Less valuation allowance	(61,138)	(56,305)	(610)
Deferred tax assets–net	227,378	229,951	2,269
Deferred tax liabilities:			
Accrued retirement and severance benefits	(45,640)	(46,423)	(455)
Marketable securities and investments	(54,591)	(86,130)	(545)
Undistributed earnings	(28,121)	(26,532)	(281)
Property, equipment and other intangible assets	(20,542)	(20,077)	(205)
Other	(18,559)	(8,976)	(185)
Total deferred tax liabilities	(167,453)	(188,138)	(1,671)
Net deferred tax assets	¥ 59,925	¥ 41,813	$ 598

Net changes in the valuation allowance for the years ended March 31, 2008, 2007 and 2006 were an increase of ¥4,833 million ($48 million), a decrease of ¥335 million and an increase of ¥1,801 million, respectively.

The amount of undistributed earnings of foreign subsidiaries for which no deferred tax liability has been provided aggregated ¥238,686 million ($2,382 million) and ¥191,279 million at March 31, 2008 and 2007, respectively. Most of the undistributed earnings of domestic subsidiaries are not considered to be a taxable temporary difference under present Japanese tax laws. It is not practicable to determine the deferred tax liability for undistributed earnings of foreign subsidiaries.

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

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
Within 1 year	¥ 1,430	$ 14
Within 2 years	1,245	12
Within 3 years	796	8
Within 4 years	1,177	12
Within 5 years	4,964	50
After 5 to 10 years	15,748	157
After 10 to 15 years	2,692	27
After 15 years	12,943	129
Total	¥40,995	$409

"Income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change" for the years ended March 31, 2008, 2007 and 2006 comprised the following:

	Millions of Yen			Millions of U.S. Dollars
	2008	2007	2006	2008
The Company and its domestic subsidiaries	¥147,930	¥189,698	¥139,774	$1,477
Foreign subsidiaries	134,777	110,532	77,095	1,345
Total	¥282,707	¥300,230	¥216,869	$2,822

"Income taxes" for the years ended March 31, 2008, 2007 and 2006 comprised the following:

	Millions of Yen									Millions of U.S. Dollars		
	2008			2007			2006			2008		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
The Company and its domestic subsidiaries	¥51,513	¥33,164	¥ 84,677	¥47,901	¥ 9,756	¥57,657	¥40,725	¥41,111	¥ 81,836	$514	$331	$ 845
Foreign subsidiaries	40,409	(3,086)	37,323	32,360	(1,091)	31,269	24,507	580	25,087	404	(31)	373
Total	¥91,922	¥30,078	¥122,000	¥80,261	¥ 8,665	¥88,926	¥65,232	¥41,691	¥106,923	$918	$300	$1,218

The Company and its subsidiaries adopted the provisions of FIN No. 48 "Accounting for Uncertainty in Income Taxes–Interpretation of SFAS No. 109," on April 1, 2007. As a result of the implementation of FIN No. 48, the Company and its subsidiaries recognized unrecognized tax benefit of ¥4,544 million ($45 million) , however no adjustment of consolidated retained earnings as of the beginning of Fiscal 2008 was to be recognized.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Millions of Yen	Millions of U.S. Dollars
	2008	2008
Balance at April 1, 2007	¥ 4,544	$ 45
Additions based on tax positions related to the current year	236	2
Additions for tax positions of prior years	14	0
Reductions for tax positions of prior years	(2,144)	(21)
Reductions as a result of a lapse of the applicable statute of limitations	(153)	(1)
Settlements	(661)	(7)
Effects on foreign currency translation	(89)	(1)
Balance at March 31, 2008	¥ 1,747	$ 17

Total amount of unrecognized tax benefits that would reduce the effective tax rate, if recognized, is ¥1,328 million ($13 million).

Although the Company and its subsidiaries believe its estimates and assumptions of unrecognized tax benefits are reasonable, uncertainty regarding the final determination of tax audit settlements and any related litigation could affect the effective tax rate in the future periods.

Based on each of the items of which the Company and its subsidiaries are aware at March 31, 2008, no significant changes to the unrecognized tax benefits are expected within the next twelve months.

The Company and its subsidiaries recognize interest and penalties accrued related to unrecognized tax benefits in Income taxes in the consolidated statements of operations. Both interest and penalties accrued as of March 31, 2008 and interest and penalties included in income taxes for the year ended March 31, 2008 are not material.

The Company and its subsidiaries file income tax returns in Japan and various foreign tax jurisdictions. In Japan, the Company and its subsidiaries understand that regular income tax examinations by the tax authority up to fiscal year of 2006 have been substantially finished except that of transfer pricing. However according to the income tax regulation in Japan, Japanese tax authority still holds the right to execute income tax examination for the years on and after fiscal year of 2002. Moreover, the Company and its subsidiaries might be subject to income tax examinations by each jurisdiction's tax authority for certain years based on each tax regulation.

16. Net Income Per Share

The reconciliation of the numerators and denominators of the basic net income per share computations for the years ended March 31, 2008, 2007 and 2006 was as follows:

	Millions of Yen			Millions of U.S. Dollars
	2008	2007	2006	**2008**
Numerator:				
Income before cumulative effect of an accounting change	**¥218,585**	¥177,059	¥148,585	**$2,182**
Cumulative effect of an accounting change, less applicable income taxes	**—**	—	(3,439)	**—**
Net income	**¥218,585**	¥177,059	¥145,146	**$2,182**
Effect of dilutive securities:				
Convertible preferred stock	**(15,411)**	—	—	**(154)**
Diluted net income	**¥203,174**	¥177,059	¥145,146	**$2,028**

	Number of Shares		
	2008	2007	2006
Denominator:			
Weighted-average number of common shares outstanding	**1,580,878,959**	1,581,543,157	1,582,159,754

	Yen			U.S. Dollars
	2008	2007	2006	**2008**
Income per common share before cumulative effect of an accounting change	**¥138.27**	¥111.95	¥93.91	**$1.38**
Cumulative effect of an accounting change per common share, less applicable income taxes	—	—	(2.17)	—
Basic net income per common share	**¥138.27**	¥111.95	¥91.74	**$1.38**
Diluted net income per common share	**¥128.52**	¥111.95	¥91.74	**$1.28**

Diluted net income per share for the year ended March 31, 2006 was not presented, since the Company had simple capital structures and there were no potentially dilutive common shares, such as convertible bonds outstanding, that could increase the number of shares outstanding. The number of common shares and convertible preference shares issued by associated company outstanding decreased as a result of a reverse stock split for the year ended March 31, 2008. Thus diluted net income per share for the year ended March 31, 2007 has adjusted retroactively. As a result, diluted net income per share for the year ended March 31, 2007 was not presented since antidiluted effect.

17. Segment Information

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

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

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

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

Machinery
The Machinery segment is engaged in diverse business activities ranging from projects in plants, bridges, railways and other infrastructures to automobiles, ships, industrial machinery and other items. This segment also conducts business in water resources and environment-related equipment as well as activities related to renewable and alternative energy.

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

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

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

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

Finance, Realty, Insurance & Logistics Services

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

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

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

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

There have been no trading transactions with a single major external customer (10% or more of total) for the years ended March 31, 2008, 2007 and 2006.

Information concerning operations in different operating segments for the years ended March 31, 2008, 2007 and 2006 is as follows:

	Millions of Yen								
	2008								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies	¥690,690	¥1,432,308	¥722,625	¥3,829,107	¥2,289,521	¥3,036,830	¥182,068	¥229,307	¥12,412,456
Transfers between operating segments	609	677	4,275	322	18,937	279	111	(25,210)	—
Total trading transactions	¥691,299	¥1,432,985	¥726,900	¥3,829,429	¥2,308,458	¥3,037,109	¥182,179	¥204,097	¥12,412,456
Gross trading profit	¥115,236	¥ 100,477	¥138,952	¥ 127,464	¥ 122,640	¥ 324,665	¥ 41,381	¥ 25,089	¥ 995,904
Equity in earnings (losses) of associated companies	¥ 2,039	¥ 4,752	¥ (1,233)	¥ 25,463	¥ 2,017	¥ 7,951	¥ 29,595	¥ (346)	¥ 70,238
Net income (loss)	¥ 20,500	¥ 22,634	¥ 14,583	¥ 105,716	¥ 19,677	¥ 18,657	¥ 10,828	¥ 5,990	¥ 218,585
Identifiable assets at March 31	¥364,349	¥ 690,929	¥513,870	¥ 916,571	¥ 766,790	¥1,064,825	¥420,501	¥517,585	¥ 5,255,420
Depreciation and amortization	¥ 3,419	¥ 5,444	¥ 6,394	¥ 34,272	¥ 4,307	¥ 9,577	¥ 1,894	¥ 6,262	¥ 71,569

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

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

	Millions of U.S. Dollars								
	2008								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies	**$6,894**	**$14,296**	**$7,212**	**$38,218**	**$22,852**	**$30,311**	**$1,817**	**$2,289**	**$123,889**
Transfers between operating segments	**6**	**7**	**43**	**3**	**189**	**3**	**1**	**(252)**	**—**
Total trading transactions	**$6,900**	**$14,303**	**$7,255**	**$38,221**	**$23,041**	**$30,314**	**$1,818**	**$2,037**	**$123,889**
Gross trading profit	**$1,150**	**$ 1,003**	**$1,387**	**$ 1,272**	**$ 1,224**	**$ 3,241**	**$ 413**	**$ 250**	**$ 9,940**
Equity in earnings (losses) of associated companies	**$ 20**	**$ 48**	**$ (12)**	**$ 254**	**$ 20**	**$ 79**	**$ 295**	**$ (3)**	**$ 701**
Net income (loss)	**$ 205**	**$ 226**	**$ 146**	**$ 1,055**	**$ 196**	**$ 186**	**$ 108**	**$ 60**	**$ 2,182**
Identifiable assets at March 31	**$3,637**	**$ 6,896**	**$5,129**	**$ 9,148**	**$ 7,654**	**$10,628**	**$4,197**	**$5,166**	**$ 52,455**
Depreciation and amortization	**$ 34**	**$ 54**	**$ 64**	**$ 342**	**$ 43**	**$ 96**	**$ 19**	**$ 62**	**$ 714**

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

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

Geographic Information

Information concerning operations in different countries for the years ended March 31, 2008, 2007 and 2006 was as follows:

	Millions of Yen				
	2008				
	Japan	United States	Australia	Other	Consolidated
Revenue	**¥1,615,646**	**¥615,610**	**¥124,542**	**¥505,412**	**¥2,861,210**

	Millions of Yen				
	2008				
	Japan	Australia	United States	Other	Consolidated
Long-lived assets	**¥267,091**	**¥133,526**	**¥44,578**	**¥67,822**	**¥513,017**

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

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

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

	Millions of U.S. Dollars				
	2008				
	Japan	United States	Australia	Other	Consolidated
Revenue	**$16,126**	**$6,144**	**$1,243**	**$5,045**	**$28,558**

	Millions of U.S. Dollars				
	2008				
	Japan	Australia	United States	Other	Consolidated
Long-lived assets	**$2,666**	**$1,333**	**$445**	**$677**	**$5,121**

Note: "Revenue" is attributed to countries based on the location of the assets.

18. Common Stock, Capital Surplus and Retained Earnings

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

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

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

The Corporate Law provides that there is a limit to the amount that can be distributed as dividends and the amount available for the purchase of treasury stocks. This amount is based on the amount recorded in the Company's statutory standalone financial statements in accordance with the financial accounting standards of Japan. The adjustments included in the accompanying consolidated financial statements to conform with U.S. GAAP, but not recorded in the statutory standalone financial statements, have no effect on the determination of the available balance as dividends or the purchase of treasury stocks under the Corporate Law. The amount available as dividends or the purchase of treasury stocks under the Corporate Law was ¥190,870 million as of March 31, 2008, provided however this figure might change by such as purchase of treasury stocks thereafter.

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

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

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

At the June 29, 2000 shareholders' meeting of the Company, held under the Commercial Code prior to revision, the shareholders approved a proposal to eliminate the Company's accumulated deficits of ¥109,799 million from the Company's books of account by a transfer from capital surplus as permitted by the Commercial Code prior to revision. Because the Company's accumulated deficits in the U.S. GAAP consolidated financial statements on that date was not significantly different from the Company's books of account, the Company reflected the deficit reclassification entry on its books of account when preparing the consolidated financial statements, following private company's practices in the United States of America. The balance of consolidated retained earnings at March 31, 2008 would have been ¥558,257 million, including a legal reserve of ¥10,373 million, had the Company not eliminated the accumulated deficits.

19. Other Comprehensive Income (Loss)

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

	Millions of Yen		
	2008		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥ (26,509)	¥ 14	¥ (26,495)
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	644	—	644
Net change in foreign currency translation adjustments during the year	(25,865)	14	(25,851)
Pension liability adjustments:			
Amount arising during the year on pension liability adjustments	(54,908)	22,885	(32,023)
Reclassification adjustments for gains and losses realized in net income	(30)	9	(21)
Net change in pension liability adjustments during the year	(54,938)	22,894	(32,044)
Unrealized holding gains and losses on securities:			
Amount arising during the year on available-for-sale securities	(82,362)	32,889	(49,473)
Reclassification adjustments for gains and losses realized in net income	2,568	(1,442)	1,126
Net change in unrealized holding gains and losses on securities during the year	(79,794)	31,447	(48,347)
Unrealized holding gains and losses on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(3,542)	1,605	(1,937)
Reclassification adjustments for gains and losses realized in net income	(190)	58	(132)
Net change in unrealized holding gains and losses on derivative instruments during the year	(3,732)	1,663	(2,069)
Other comprehensive income (loss)	¥(164,329)	¥56,018	¥(108,311)

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

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

	Millions of U.S. Dollars		
	2008		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	$ (264)	$ 0	$ (264)
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	6	—	6
Net change in foreign currency translation adjustments during the year	(258)	0	(258)
Pension liability adjustments:			
Amount arising during the year on pension liability adjustments	(548)	228	(320)
Reclassification adjustments for gains and losses realized in net income	(0)	0	(0)
Net change in pension liability adjustments during the year	(548)	228	(320)
Unrealized holding gains and losses on securities:			
Amount arising during the year on available-for-sale securities	(822)	328	(494)
Reclassification adjustments for gains and losses realized in net income	26	(14)	12
Net change in unrealized holding gains and losses on securities during the year	(796)	314	(482)
Unrealized holding gains and losses on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(36)	16	(20)
Reclassification adjustments for gains and losses realized in net income	(2)	1	(1)
Net change in unrealized holding gains and losses on derivative instruments during the year	(38)	17	(21)
Other comprehensive income (loss)	$(1,640)	$559	$(1,081)

20. Financial Instruments

(1) Derivative Instruments and Hedging Activities

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

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

Foreign Exchange Rate Risk Management

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

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

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

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

Interest Rate Risk Management

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

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

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

Commodity Price Risk Management

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

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

Risk Management Policy

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

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

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

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

Fair Value Hedge

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

The amount of the hedges' ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness was not material for the years ended March 31, 2008, 2007 and 2006.

The amount of net gain or loss recognized in earnings when the hedged firm commitment no longer qualified as a fair value hedge was not material for the years ended March 31, 2008, 2007 and 2006.

Cash Flow Hedge

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

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

The amount of the hedges' ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness was not material for the years ended March 31, 2008, 2007 and 2006.

Net gains of ¥624 million ($6 million) in AOCI at March 31, 2008 are expected to be reclassified into earnings within the next 12 months.

As of March 31, 2008, the maximum length of time over which the Company and its subsidiaries are hedging their exposure to variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments is approximately 47 months.

The amount of net gain or loss reclassified into earnings because it was probable that forecasted transactions would not occur was immaterial for the years ended March 31, 2008, 2007 and 2006. Derivative instruments held or issued for trading purposes were insignificant.

(2) Fair Values of Financial Instruments

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

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

The estimated fair values of financial instruments as of March 31, 2008 and 2007 were as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2008		2007		2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:						
Other non-current receivables and advances to associated companies (less allowance for doubtful receivables)	¥ 122,359	¥ 123,020	¥ 113,608	¥ 113,543	$ 1,221	$ 1,228
Financial liabilities:						
Long-term debt (including current maturities)	¥1,971,105	¥1,971,892	¥1,939,650	¥1,939,582	$19,674	$19,682
Derivative financial instruments (assets):						
Foreign exchange contracts (including currency swap agreements)	¥ 8,583	¥ 8,583	¥ 5,402	¥ 5,402	$ 86	$ 86
Interest rate swap agreements	7,249	7,249	1,892	1,892	72	72
Derivative financial instruments (liabilities):						
Foreign exchange contracts (including currency swap agreements)	¥ 10,596	¥ 10,596	¥ 1,492	¥ 1,492	$ 106	$ 106
Interest rate swap agreements	7,564	7,564	5,169	5,169	75	75
Interest rate option agreements	165	165	13	13	2	2

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

Current Financial Assets Other Than Marketable Securities and Current Financial Liabilities

The carrying amounts approximate fair values because of the short maturity of these instruments.

Marketable Securities and Other Investments

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

Other Non-current Receivables and Advances to Associated Companies

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

Long-term Debt

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

Foreign Exchange Contracts

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

Currency and Interest Rate Swap Agreements

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

Interest Rate Option Agreements

The fair values of interest rate option agreements are estimated using the option pricing model.

21. Issuance of Stock by Subsidiaries or Associated Companies

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

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

MAGASeek Corporation, a consolidated subsidiary, issued 2,000 shares of common stock in a public offering to third parties on November 28, 2006, the date of its listing on the Mothers market of the Tokyo Stock Exchange. The offering price per share was ¥467,500 and the total amount of the issuance was ¥935 million. This issuance decreased the Company's ownership of the subsidiary from 84.8% to 76.6%. In December 2006, the subsidiary also issued 500 shares at ¥467,500 per share, or ¥234 million in total, in order to facilitate the settlement of shares offered through over-allotment. This issuance decreased the Company's ownership of the subsidiary from 65.9% to 64.4%.

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

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

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

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

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

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

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

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

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

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

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

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

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

22. Variable Interest Entities

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

Among these entities, those in which the Company and its subsidiaries are the primary beneficiary are principally entities undertaking real estate development businesses. The total assets of those entities are ¥7,296 million ($73 million) and ¥12,840 million as of March 31, 2008 and 2007, respectively. The creditors or beneficial interest holders of those entities do not have recourse to the general of the Company and its subsidiaries.

Variable interest entities in which the Company and its subsidiaries are not the primary beneficiary but have significant variable interests include entities undertaking ocean plying vessels businesses and real estate development businesses. In the fiscal year, additional variable interest entities included an entity established to finance production facilities for the production of crude oil and petroleum products. The involvement of the Company and its subsidiaries with those variable interest entities entails guarantees and subordinated loans, and the Company and its subsidiaries have significant variable interests in such entities.

The total assets and maximum exposure to loss to the Company and its subsidiaries as a result of their involvement in the variable interest entities where the Company and its subsidiaries are not the primary beneficiary, but have significant variable interests, were ¥577,671 million ($5,766 million) and ¥39,513 million ($394 million), respectively, as of March 31, 2008 and ¥193,935 million and ¥37,876 million, respectively, as of March 31, 2007. The maximum exposure to loss, which includes loans and guarantees, is partially covered by guarantees provided by third parties, and has no relation to the loss estimated to be incurred from involvement with the variable interest entities.

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

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

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

24. Commitments and Contingent Liabilities

The Company and its subsidiaries enter into purchase contracts for certain items, principally energy, machinery and chemical materials either at fixed or at variable prices. In most cases, these contracts are matched with counterparty sales contracts. The outstanding purchase contracts amounted to ¥2,175,550 million ($21,714 million), and ¥1,991,554 million, for the years ended March 31, 2008 and 2007, respectively. The deliveries are at various dates through 2026.

The Company and its subsidiaries also had long-term financing commitments aggregating ¥60,473 million ($604 million) and ¥37,201 million for the years ended March 31, 2008 and 2007, respectively, for loans and investments in equity capital.

The Company and its subsidiaries issue various guarantees for indebtedness of equity-method associated companies and customers. The guarantees are principally for monetary indebtedness by third parties to enhance their credit standings. If a guaranteed party fails to fulfill its obligation, the Company and its subsidiaries would be required to execute payments. The maximum potential amount of future payments and the amount of substantial risk at March 31, 2008 and 2007 are summarized below:

	Millions of Yen		
	2008		
	Guarantees for Monetary Indebtedness	Other Guarantees	Total
Guarantees for equity-method associated companies:			
Maximum potential amount of future payments	¥ 68,422	¥12,770	¥ 81,192
Amount of substantial risk	37,450	12,293	49,743
Guarantees for customers:			
Maximum potential amount of future payments	93,266	14,859	108,125
Amount of substantial risk	50,714	14,000	64,714
Total:			
Maximum potential amount of future payments	¥161,688	¥27,629	¥189,317
Amount of substantial risk	88,164	26,293	114,457

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

	Millions of U.S. Dollars		
	2008		
	Guarantees for Monetary Indebtedness	Other Guarantees	Total
Guarantees for equity-method associated companies:			
Maximum potential amount of future payments	$ 683	$128	$ 811
Amount of substantial risk	374	122	496
Guarantees for customers:			
Maximum potential amount of future payments	931	148	1,079
Amount of substantial risk	506	140	646
Total:			
Maximum potential amount of future payments	$1,614	$276	$1,890
Amount of substantial risk	880	262	1,142

The amount of substantial risk at March 31, 2008 and 2007 represents the actual amount of liability incurred by the guaranteed parties within the pre-determined guaranteed limit established under the guarantee contracts. The amounts that might be recovered from third parties have been excluded in determining the amount of substantial risk.

The carrying amount of the liability recognized for guarantees was ¥1,031 million ($10 million) and ¥1,916 million at March 31, 2008 and 2007, respectively.

The Company guarantees housing loans of its employees and those of certain subsidiaries as a part of the benefit program. These guarantees are included in the above guarantees. If the employees default on a payment, the Company would be required to make payments under the contracts. The maximum potential amounts of future payments under the contracts were ¥9,879 million ($99 million) and ¥11,356 million at March 31, 2008 and 2007. No provisions relating to the guarantees have been recorded in the consolidated financial statements.

The amounts that might be recovered from third parties have been excluded from determining the maximum potential amount of future payments. The amounts recoverable were ¥51,549 million ($515 million) and ¥65,467 million at March 31, 2008 and 2007, respectively.

Guarantees with the longest term for indebtedness of equity-method associated companies and customers issued by the Company and its subsidiaries expire on June 30, 2033.

The major equity-method associated companies and customers and the substantial risk of the related guarantees for monetary indebtedness at March 31, 2008 and 2007 were as follows:

	Millions of Yen	Millions of U.S. Dollars		Millions of Yen
	2008			2007
Sakhalin Oil and Gas Development Co., Ltd.	¥18,391	$184	Sakhalin Oil and Gas Development Co., Ltd.	¥36,086
Famima Credit Corporation	7,469	75	Famima Credit Corporation	9,851
Ningbo Mitsubishi Chemical Co., Ltd.	6,876	69	Ningbo Mitsubishi Chemical Co., Ltd.	7,491
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	5,150	51	Japan Brazil Paper and Pulp Resources Development Co., Ltd.	6,401
Baku-Tbilisi-Ceyhan Pipeline Finance B.V.	4,595	46	Rabigh Arabian Water and Electricity Company	5,141
AI Beverage Holding Co. Ltd.	4,572	46	Baku-Tbilisi-Ceyhan Pipeline Finance B.V.	5,030
Rabigh Arabian Water and Electricity Company	4,418	44	AI Beverage Holding Co. Ltd.	4,961
STAR CHANNEL, INC.	4,077	41	Japan Ohanet Oil & Gas Co., Ltd.	4,006
Consolidated Grain & Barge Co.	3,004	30	STAR CHANNEL, INC.	3,954
Japan Ohanet Oil & Gas Co., Ltd.	2,051	20	Marubeni-Itochu Steel Inc.	3,723

The Company and its subsidiaries were contingently liable in the amounts of ¥1,097 million ($11 million) and ¥4,580 million for the total trade notes receivable endorsed to suppliers in the settlement of accounts payable and discounted trade notes receivable on a recourse basis with banks at March 31, 2008 and 2007, respectively. The amounts of export bills of exchange discounted with banks in the ordinary course of business were ¥78,119 million ($780 million) and ¥71,853 million at March 31, 2008 and 2007, respectively.

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

However, there is 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 in the future.

25. Reorganization of Business Related to Petroleum Products

The Company and its associated company, Itochu Enex Co., Ltd. and its subsidiary ITOCHU Petroleum Japan Ltd. have resolved at the meetings of their respective Boards of Directors held on March 14, 2008, and have signed on that date the Master Agreement that the Company and ITOCHU Petroleum Japan Ltd. will spin out and transfer their petroleum product-related businesses into Itochu Enex Co., Ltd. effective October 1, 2008.

Based on the Master Agreement, the three companies agreed the spin-out and merger contracts on April 30, 2008. The above-mentioned petroleum product-related businesses consist primarily of domestic sales and export/import businesses of petroleum products (e.g., kerosene, gas oil) in Japan, operated under the Company's Energy Trade Division, and of the logistics business of chartering and operating of tankers, the supply of marine fuels, the operation of petroleum storage tanks, and trading of lubricating oil, operated by ITOCHU Petroleum Japan Ltd. In this process, Itochu Enex Co., Ltd. will allot and issue shares of its common stock to the Company and ITOCHU Petroleum Japan Ltd. Consequently, the Company and its subsidiaries will hold more than 50% of the outstanding voting rights of Itochu Enex Co., Ltd., on and after the effective date of these transactions.

The difference between the Company's equity in the net assets of the petroleum products trade businesses and the ITOCHU Petroleum Japan Ltd. businesses to be assumed by Itochu Enex Co., Ltd., and the fair value of the allotted shares of Itochu Enex Co., Ltd., will be recognized in earnings in the consolidated financial statements of the Company. The assets acquired and liabilities assumed will be accounted for by the purchase method in the consolidated financial statements of the Company.

26. Subsequent Events

The Company issued in Japan 2.28% Yen Bonds due 2018 in an aggregate amount of ¥20,000 million ($200 million) on June 20, 2008, in accordance with an approved reaolution of the Board of Directors held on July 27, 2007.

At the ordinary general meeting of shareholders held on June 25, 2008, the Company was authorized to pay a cash dividend of ¥9.5 ($0.09) per share, or a total of ¥15,028 million ($150 million) to shareholders of record on March 31, 2008. The effective date of the dividend payment is June 26, 2008.

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Independent Auditors' Report

To the Board of Directors of
ITOCHU Corporation:

We have audited the accompanying consolidated balance sheets of ITOCHU Corporation and subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2008 (all expressed in Japanese yen). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ITOCHU Corporation and subsidiaries as of March 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

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

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

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 20, 2008, except for Note 26, as to which the date is June 25, 2008

Supplemental Oil and Gas Information (Unaudited)

The Companies' oil and gas exploration, development and production activities are conducted through subsidiaries and associated companies in offshore and onshore areas of the U.K. North Sea, America, Africa, and the area of Caspian Sea and Pacific Rim. Supplementary information on the subsidiaries and associated companies presented below is prepared in accordance with the requirements prescribed by SFAS No. 69, "Disclosure about Oil and Gas Producing Activities," as of March 31, 2008 and 2007:

The Company has changed the method of estimation and presentations from this annual report. Accordingly, reclassifications and changes have been made to prior year amounts.

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

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Unproved oil and gas properties	**¥ 29,285**	¥ —	**$ 292**
Proved oil and gas properties	**194,357**	153,897	**1,940**
Subtotal	**¥223,642**	¥153,897	**$2,232**
Accumulated depreciation, depletion, amortization and valuation allowance	**(96,059)**	(76,481)	**(959)**
Net capitalized costs	**¥127,583**	¥ 77,416	**$1,273**
The companies' share of associated companies' net capitalized costs	**¥ 4**	¥ —	**$ 0**

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

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Acquisition of proved properties	**¥26,076**	¥ —	**$260**
Acquisition of unproved properties	**30,541**	—	**305**
Exploration costs	**2,253**	—	**23**
Development costs	**19,061**	16,231	**190**
Total costs incurred	**¥77,931**	¥16,231	**$778**
The companies' share of associated companies' costs of property acquisition, exploration and development	**¥ 959**	¥ —	**$ 10**

Table 3: Results of Operations for Producing Activities

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	**2008**
Revenues:			
Sales to unaffiliated companies	**¥94,853**	¥77,708	**$947**
Expenses:			
Production costs	**18,680**	32,617	**186**
Exploration expenses	**1,376**	—	**14**
Depreciation, depletion, amortization and valuation allowances	**23,106**	13,533	**231**
Income tax expenses	**22,689**	13,231	**227**
Total Expenses	**¥65,851**	¥59,381	**$658**
Results of operations from producing activities (excluding corporate overhead and interest costs)	**¥29,002**	¥18,327	**$289**
The companies' share of associated companies' result of operations from producing activities	**¥ (955)**	¥ —	**$ (10)**

Table 4: Reserve Quantity Information

In accordance with U.S. GAAP, the following table describes proved oil reserves and changes for the year ended March 31, 2007 and 2008.

	Crude Oil (Millions of Barrels)		Natural Gas (Billions of Cubic Feet)
	2008	2007	2008
Proved developed and undeveloped reserves:			
Beginning of year	80	81	—
Revision of previous estimates	(1)	7	—
Extensions and discoveries	—	—	—
Purchases	2	—	34
Production	(11)	(8)	(3)
End of year	70	80	31
Proved developed reserves–end of year	27	30	24

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

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

(1) Standardized Measure of Discounted Future Net Cash Flows

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	2008
Future cash inflows	¥ 776,530	¥ 503,577	$ 7,751
Future production costs	(193,027)	(79,680)	(1,927)
Future development costs	(97,195)	(68,518)	(970)
Future income tax expenses	(194,185)	(132,929)	(1,938)
Undiscounted future net cash flows	292,123	222,450	2,916
10% annual discount for estimated timing of cash flows	(117,591)	(88,826)	(1,174)
Standardized measure of discounted future net cash flows	¥ 174,532	¥ 133,624	$1 ,742

(2) Details of Changes for the Year

	Millions of Yen		Millions of U.S. Dollars
	2008	2007	2008
Discounted future net cash flows at April 1	¥133,624	¥145,902	$1,334
Sales and transfer of oil and gas produced, net of production costs	(75,125)	(47,948)	(750)
Development costs incurred	16,375	13,990	164
Purchases of reserves	22,584	—	225
Net changes in prices, development and production costs	118,773	(31,949)	1,185
Extensions, discoveries and improved recovery, less related costs	3,607	—	36
Revisions of previous quantity estimates	(19,260)	22,036	(192)
Accretion of discount (10%)	21,352	22,956	213
Net changes in income taxes	(39,648)	6,386	(396)
Difference of foreign exchange rates	(7,750)	2,251	(77)
Discounted future net cash flows at March 31	¥174,532	¥133,624	$1,742