Financial Section

CONTENTS

SIX-YEAR SUMMARY

ITOCHU Corporation and Subsidiaries
Years ended March 31

	Millions of Yen						Millions of U.S. dollars (Note 6)
Years ended March 31	2005	2004	2003	2002	2001	2000	2005
P/L (For the year):							
Total revenue (Note1)	¥ 1,991,238	¥ 1,738,747	¥ 1,681,718	¥ 1,688,128	¥ —	¥ —	$ 18,542
Gross trading profit	630,761	555,895	564,967	578,656	611,596	612,491	5,874
Net income (loss)	77,792	(31,944)	20,078	30,191	70,507	(88,271)	724
Per share (Yen, U.S. dollars):							
Net income (loss) (Note2)	¥ 49.16	¥ (20.20)	¥ 13.12	¥ 21.18	¥ 49.46	¥ (61.93)	$ 0.46
Cash dividends	7	—	5	5	5	—	0.07
Stockholders' equity (Note2)	322.54	267.25	269.53	278.99	222.34	197.37	3.00
Total trading transactions (Note3)	9,576,039	9,516,967	10,446,371	11,395,240	12,135,105	12,143,878	89,171
Gross trading profit ratio (%) (Note4)	6.6	5.8	5.4	5.1	5.0	5.0	
Adjusted profit (Note5)	188,807	100,676	114,454	102,557	108,065	70,938	1,758
B/S (At year-end):							
Total assets	¥ 4,472,345	¥ 4,487,282	¥ 4,486,405	¥ 4,752,319	¥ 5,157,519	¥ 6,067,125	$ 41,646
Short-term interest-bearing debts	676,870	885,253	990,939	991,410	1,263,714	1,553,251	6,303
Long-term interest-bearing debts	1,669,834	1,676,657	1,583,481	1,803,321	1,806,794	2,520,127	15,549
Interest-bearing debts	2,346,704	2,561,910	2,574,420	2,794,731	3,070,508	4,073,378	21,852
Net Interest-bearing debts	1,891,086	1,977,048	2,025,048	2,296,398	2,536,840	3,382,326	17,610
Long-term debt, excluding current maturities (including long-term interest-bearing debts)	1,750,815	1,757,313	1,637,916	1,863,629	1,868,185	2,574,964	16,303
Stockholders' equity	510,397	422,866	426,220	397,668	316,940	281,325	4,753
Cash flows:							
Cash flows from operating activities	¥ 126,624	¥ 184,780	¥ 168,843	¥ 216,503	¥ 160,335	¥ 224,816	$ 1,179
Cash flows from investing activities	(127,600)	(55,300)	5,253	214,008	564,707	197,658	(1,188)
Cash flows from financing activities	(125,342)	(79,695)	(114,041)	(232,047)	(717,602)	(320,418)	(1,167)
Cash and cash equivalents at end of year	452,934	579,565	534,156	479,734	274,936	264,187	4,218
Ratio:							
ROA (%)	1.7	—	0.4	0.6	1.3	—	
ROE (%)	16.7	—	4.9	8.4	23.6	—	
Ratio of stockholders' equity to total assets (%)	11.4	9.4	9.5	8.4	6.1	4.6	
Net debt-to-equity ratio (times)	3.7	4.7	4.8	5.8	8.0	12.0	
Interest coverage (times)	5.7	2.7	2.7	2.1	1.5	0.9	
Common stock information:							
Stock price (Yen, U.S. dollars):							
Opening price	¥ 466	¥ 287	¥ 425	¥ 444	¥ 547	¥ 251	$ 4.34
High	573	480	506	520	566	625	5.34
Low	403	231	198	269	395	250	3.75
Closing price	540	468	288	430	445	547	5.03
Market capitalization (Yen in billions and U.S. dollars in billions)	856	742	456	613	634	780	7.97
Trading volume (yearly, million shares)	1,533	1,304	1,221	847	887	1,832	
Number of common stock issued (at year-end, 1,000 shares)	1,584,890	1,584,890	1,583,488	1,425,488	1,425,488	1,425,383	
Exchange rates into U.S. currency:							
(Federal Reserve Bank of New York)							
At year-end	¥ 107.22	¥ 104.18	¥ 118.07	¥ 132.70	¥ 125.54	¥ 102.73	
Average for the year	107.28	112.75	121.10	125.64	111.65	110.02	
Range:							
Low	114.30	120.55	133.40	134.77	125.54	124.45	
High	102.26	104.18	115.71	115.89	104.19	101.53	
Number of Employees (At year-end, Consolidated)	40,890	40,737	39,109	36,529	38,867	40,683	

Note: 1. "Revenue" has been presented since fiscal year 2002 in accordance with "Emerging Issues Task Force (EITF)" No.99-19.
2. "Net income (loss) per share" and "Stockholders' equity per share" are calculated by using the shares that exclude the number of treasury stock from that of common stock issued.
3. "Total trading transactions" is presented in accordance with Japanese accounting practice, and is not meant to present sales or revenue in accordance with U.S. GAAP.
4. "Gross trading profit ratio" is the percentage of "Gross trading profit" to "Total trading transactions."
5. Please refer to "notes" on page2 for the calculation formula for these items.
6. The Japanese yen amounts for the year ended March 31, 2005 have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥107.39=U.S.$1 (official rate dated March 31, 2005 announced by The Bank of Tokyo-Mitsubishi,Ltd.).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Figures in yen for the fiscal year ended March 31, 2005("Fiscal 2005") have been converted into U.S. dollars, solely for the convenience of the reader, using an exchange rate of ¥107.39 = U.S.$1 as of March 31, 2005 as announced by The Bank of Tokyo-Mitsubishi, Ltd.

In this Management's Discussion and Analysis of Financial Condition and Results of Operations, "the Company" refers solely to ITOCHU Corporation, "ITOCHU" represents ITOCHU Corporation and its subsidiaries including its associated companies accounted for by the equity method, while "Group companies" refers its subsidiaries and associated companies accounted for by the equity method, unless otherwise indicated.

Overview

In Fiscal 2005 Japan's economy has continued a slow recovery since last summer. The main reasons of the sluggish growth were weak exports and tepid capital equipment spending as well as continued cautious hiring by corporations, which kept a damper on a recovery in personal consumption. At the same time, the Nikkei Stock Index remained in a tight range around ¥11,000 reflecting concerns over the health of the economic recovery. On the foreign exchange rate , the yen fell slightly against the dollar in the first half of the fiscal year on the back of a rising U.S. interest rates but strengthened modestly to around ¥105 in the second half amid fears over the U.S. current account deficits. Economic conditions overseas continued to recover. In the U.S., the economy enjoyed good growth as robust corporate profits helped a rise in employment and capital expenditures. China continued strong growth driven by active infrastructure investment and brisk exports. Amid these conditions, prices for many primary commodities continued to soar on surging demand from China.

Fiscal 2005 was the final year of ITOCHU's mid-term management plan 'Super A&P-2004' (stands for "Active and Powerful") a two-year plan from the fiscal year ended March 31, 2004 ("fiscal 2004") through fiscal 2005, with the year positioned as the capstone to the A&P strategy as a pace quickened to build a solid foundation starting for High Jump expecting from the fiscal year ending March 31, 2006 ("fiscal 2006").

Specific achievements during fiscal 2005, in the consumer and retail related sector, ITOCHU bolstered the textile related business by expanding existing brands such as Paul Smith and LANVIN, and promoted alliances with new brands such as HANG TEN and SPALDING. In food related sector, ITOCHU strengthened domestic food-distribution function by making a follow-on investment in NIPPON ACCESS INC. and by setting up Dolce Co., Ltd, a wholesale confectionary company, with Nishino Trading Co., Ltd. Overseas, together with FamilyMart Co., Ltd.("FamilyMart"), ITOCHU embarked on a full-fledged development of convenience stores in China and also established a new company to prepare for the opening of stores in the U.S. In the information and multimedia related sector, the shares of Excite Japan Co., Ltd., a core subsidiary in the e-business field, were listed on the Jasdaq Securities Exchange in November 2004. Excite Japan Co., Ltd. will try to diversify its services and heighten its brand awareness to bolster its role as a core consumer business. In natural resource development related sector, ITOCHU made the decision to invest in expansion of iron ore mines in west Australia to meet a surge in demand led by China. Additionally, the crude oil development project in Azerbaijan launched full-scale production in the Azeru field.

In the financial services related sector, the shares of kabu.com Securities Co., Ltd, an online security broker, listed on the First Section of the Tokyo Stock Exchange in March 2005. In addition, ITOCHU determined to participate in a business of and make an investment in Orient Corporation ("Orico") with the aim of expanding business operations in financial and a wide array of downstream fields. In chemicals, forest products and general merchandise related sector, a new A&P segment, together with ITOCHU Chemical Frontier Corporation, ITOCHU invested in Sanjiuhonsoubou Medical & Pharmaceutical Co., Ltd., a Japanese subsidiary of Sanjiu Enterprise Group, the largest pharmaceutical company in China. In automobile related sector, ITOCHU acquired the preferred shares of Isuzu Motors Ltd. ("Isuzu"), a very important customer, with the aim of expanding the business including production and sales in North America and China. Furthermore, to develop leading-edge technologies into future profit sources, the firm has to actively pursue strategic global tie-ups. To this end, ITOCHU made a capital and business tie-up with Sosei Co., Ltd, a biopharmaceutical company. Additionally, ITOCHU established "AJI New Business Expansion Fund" together with The Small and Medium Size Enterprise Agency to further promote investments in and alliances with small- and medium-sized companies.

Business Results for Fiscal 2005 - A Comparison between Fiscal 2005 and Fiscal 2004

Revenue (the total of "Sales revenue" and "Trading margins and commissions on trading transactions") increased by 14.5% or ¥252.5 billion from the previous fiscal year to ¥1,991.2 billion ($18,542 million) principally from an increase in natural resource-related transactions amid a spike in commodity market prices in Energy, Metals and Minerals segment and from strong demand in the construction machinery and general merchandise field in North America.

Gross trading profit increased by 13.5% or ¥74.9 billion from the previous fiscal year to ¥630.8 billion ($5,874 million). Profits increased in Textile segment due largely to higher transaction volumes tied to newly acquired business transactions; in Machinery segment as a result of an increase in ship related business, higher sales of automobiles in Europe, and solid performance in the construction machinery business in North America; in Energy, Metals and Minerals segment due mainly to rising market prices of coal, iron ore as well as higher crude oil prices and transaction volume; in Chemicals, Forest Products and General Merchandise segment on the back of high market prices for chemical products, and solid growth in building material transactions in North America; and in Finance, Realty, Insurance and Logistics Services segment due primarily to an increase in residential unit sales. In addition no significant impairment losses on long-lived assets and write-downs of real estate inventories were recorded in this fiscal year compared to the previous fiscal year.

Selling, general and administrative expenses increased by 0.9% or ¥3.9 billion from the previous fiscal year to ¥466.8 billion ($4,347 million) with the expansion in business and despite a decrease in pension plan reserves. In Fiscal 2004, following the transfer of the substitutional portion of Employee's Pension Fund to the government in Japan, *Settlement loss from the transfer of the substitutional portion of the Employee's Pension Fund* of ¥22.8 billion and *Subsidy from government on the transfer of the substitutional portion of the Employees' Pension Fund* of ¥19.6 million were recognized respectively.

Provisions for doubtful receivables improved by 41.8% or ¥4.4 billion from the previous fiscal year to ¥6.2 billion ($58 million) due principally to a decrease in bad debt.

The net financial expenses, the net of *interest income, interest expense* and *dividends received*, improved by 51.6% or ¥7.3 billion from the previous fiscal year to expense of ¥6.9 billion ($65 million). This resulted principally from an increase in dividends from LNG-related investments and a decrease in interest expenses by 15.0% or ¥3.7 billion caused by a reduction of interest-bearing debts.

Loss on disposal of investments and marketable securities, including write-down deteriorated by ¥11.8 billion from the previous fiscal year to ¥25.4 billion ($236 million) due primarily to an impairment loss of ¥45.1 billion relating to the investment in FamilyMart despite of IPO gains of subsidiaries and associated companies.

Losses on property and equipment-net improved by ¥123.5 billion from the previous fiscal year to ¥6.0 billion ($55 million), mainly reflecting the absence of large impairment losses on long-lived assets recorded in the previous year.

Other-net improved by ¥14.4 billion from the previous fiscal year to a gain of ¥0.4 billion ($4 million) due principally to improved foreign exchange results.

As a result, *income (loss) before income taxes, minority interests, equity in earnings of associated companies and extraordinary items* improved by ¥212.0 billion from the previous fiscal year to ¥120.0 billion ($1,117 million).

Income taxes increased by ¥108.0 billion from the previous fiscal year to ¥62.5 billion ($582 million), *Minority interests* increased by 13.4% or ¥1.3 billion from the previous fiscal year to ¥11.4 billion ($107 million). Additionally, *Equity in earnings of associated companies* improved by 39.0% or ¥8.9 billion to ¥31.8 billion ($296 million) due principally to strong operating performance of a steel business associated company. *Net income before extraordinary items* improved by ¥111.6 billion from the previous fiscal year to ¥77.8 billion ($724 million).

Extraordinary items - gain on negative goodwill totaling ¥1.8 billion (less applicable income taxes of ¥1.3 billion) was recognized in 2004 due to newly acquired associated companies. As a result, *Net income (loss)* improved by ¥109.7 billion to ¥77.8 billion.

Total trading transactions, represent transaction volume and are parenthetically disclosed in the statement of operations, increased due principally to a large increase in Energy, Metals, and Minerals segment resulting from rising market prices for coal, iron ore, and crude oil, and also due to a large increase in Chemicals, Forest Products & General Merchandise segment caused by favorable market prices in chemical products as well as higher building material transactions in North American market. Although the termination of low-efficiency transactions and the impact of the stronger yen in this fiscal year over the transactions provided negative effects, total trading transactions increased by 0.6% or ¥59.1 billion from the previous fiscal year to ¥9,576.0 billion ($89,171 million), marking the first annual increase in trading transactions since the year ended March 31, 1999 ("Fiscal 1999").

Years ended March 31	Billions of Yen 2005	2004	Increase (Decrease)	Millions of U.S. dollars 2005
Revenue	¥ 1,991.2	¥ 1,738.7	¥ 252.5	$ 18,542
Cost of sales	(1,360.5)	(1,182.9)	(177.6)	(12,668)
Gross trading profit	630.8	555.9	74.9	5,874
Selling, general and administrative expenses	(466.8)	(462.9)	(3.9)	(4,347)
Settlement loss from the transfer of the substitutional portion of the Employees' Pension Fund	—	(22.8)	22.8	—
Subsidy from government on the transfer of the substitutional portion of the Employees' Pension Fund	—	19.6	(19.6)	—
Provision for doubtful receivables	(6.2)	(10.6)	4.4	(58)
Interest income	10.8	12.8	(2.0)	100
Interest expense	(31.8)	(37.6)	5.7	(296)
Dividends received	14.2	10.5	3.6	131
Loss on disposal of investments and marketable securities, including write-downs	(25.4)	(13.6)	(11.8)	(236)
Loss on property and equipment-net	(6.0)	(129.4)	123.5	(55)
Other-net	0.4	(14.0)	14.4	4
Income (loss) before income taxes, minority interests, equity in earnings (losses) and extraordinary items	120.0	(92.0)	212.0	1,117
Income taxes	62.5	(45.5)	108.0	582
Income (loss) before minority interests, equity in earnings and extraordinary items	57.4	(46.6)	104.0	535
Minority interests	(11.4)	(10.0)	(1.3)	(107)
Equity in earnings of associated companies	31.8	22.9	8.9	296
Net income (loss) before extraordinary items	77.8	(33.8)	111.6	724
Extraordinary items — gain on negative goodwill	—	1.8	(1.8)	—
Net income (loss)	77.8	(31.9)	109.7	724

Operating Segment Information

Years ended March 31	Billions of Yen			Millions of U.S. dollars
	2005	2004	2003	2005
Trading transactions				
Textile	¥ 829	¥ 817	¥ 872	$ 7,720
Machinery	1,167	1,407	1,747	10,864
Aerospace, Electronics & Multimedia	631	634	794	5,875
Energy, Metals & Minerals	2,471	2,138	2,216	23,014
Chemicals, Forest Products & General Merchandise	1,893	1,715	1,800	17,629
Food	2,112	2,345	2,523	19,666
Finance, Realty, Insurance & Logistics Services	243	236	269	2,264
Other, Adjustments & Eliminations	230	225	226	2,139
Total	¥ 9,576	¥ 9,517	¥ 10,446	$ 89,171
Gross trading profit				
Textile	¥ 113	¥ 100	¥ 93	$ 1,051
Machinery	58	51	49	540
Aerospace, Electronics & Multimedia	108	105	101	1,010
Energy, Metals & Minerals	39	25	33	364
Chemicals, Forest Products & General Merchandise	106	92	87	986
Food	136	131	130	1,268
Finance, Realty, Insurance & Logistics Services	39	16	34	366
Other, Adjustments & Eliminations	31	35	37	289
Total	¥ 631	¥ 556	¥ 565	$ 5,874
Net income (loss)				
Textile	¥ 14.8	¥ 11.7	¥ 10.4	$ 138
Machinery	10.5	3.9	2.4	97
Aerospace, Electronics & Multimedia	14.4	2.6	14.3	134
Energy, Metals & Minerals	25.7	12.9	10.0	239
Chemicals, Forest Products & General Merchandise	20.3	11.5	10.7	188
Food	(9.3)	13.3	11.9	(86)
Finance, Realty, Insurance & Logistics Services	5.4	(75.6)	(8.4)	50
Other, Adjustments & Eliminations	(3.9)	(12.2)	(31.2)	(36)
Total	¥ 77.8	¥ (31.9)	¥ 20.1	$ 724
Identifiable assets				
Textile	¥ 377	¥ 383	¥ 371	$ 3,513
Machinery	451	434	490	4,204
Aerospace, Electronics & Multimedia	489	464	484	4,557
Energy, Metals & Minerals	491	444	391	4,572
Chemicals, Forest Products & General Merchandise	584	557	525	5,435
Food	728	711	654	6,779
Finance, Realty, Insurance & Logistics Services	615	610	693	5,730
Other, Adjustments & Eliminations	736	884	878	6,856
Total	¥ 4,472	¥ 4,487	¥ 4,486	$ 41,646

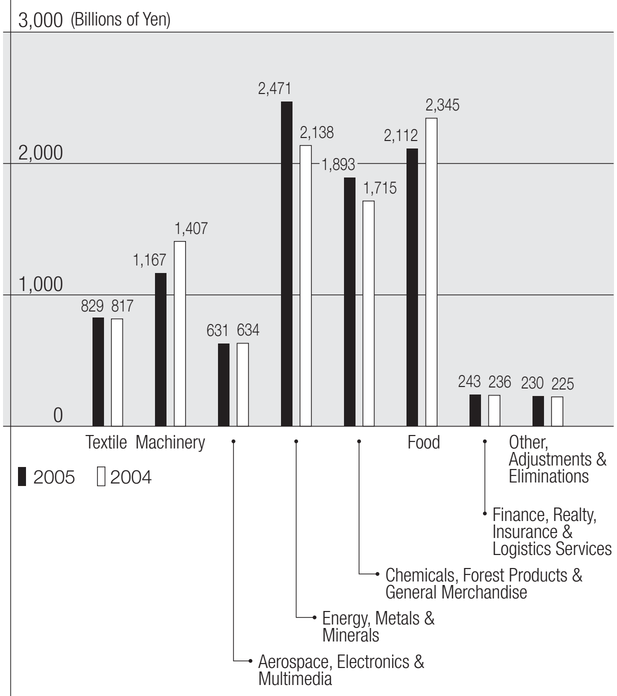
The analysis by operating segment is based on the division company system which the Company adopted for measuring management performance. The total trading transactions shown in the following analysis represent those recorded in a division company and exclude transfers between operating segments.

Textile:
Trading transactions increased by 1.5% or ¥12.1 billion year-over-year to ¥829.1 billion ($7,720 million) led by growth from the acquisition of new trade rights in brand-related fields as well as new transactions. Gross trading profit increased by 12.5% or ¥12.5 billion year-over-year to ¥112.8 billion ($1,051 million) due principally to contributions from new subsidiaries in brand-related fields in addition to existing businesses. Along with the rise in gross trading profits, net income surged by 26.8% or ¥3.1 billion year-over-year to ¥14.8 billion ($138 million). Reflecting the collection of operating receivables, identifiable assets in this segment decreased by 1.4% or ¥5.5 billion to ¥377.2 billion ($3,513 million).

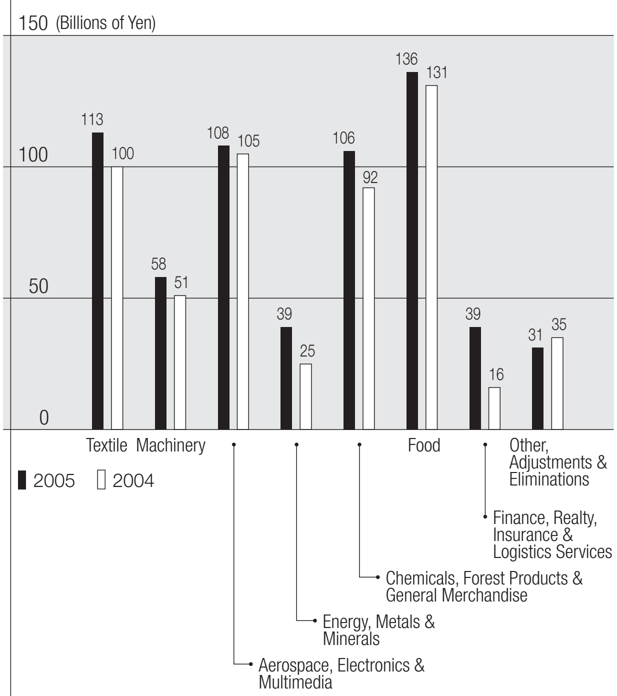
Machinery:
Trading transactions decreased by 17.1% or ¥240.3 billion to ¥1,166.7 billion ($10,864 million) as a result of the termination of low profit transactions as well as the effect of large plant projects experienced in the previous fiscal year which did not recur in the current year. Gross trading profits increased by 13.4% or ¥6.9 billion to ¥58.0 billion ($540 million) due mainly to strength in transactions of ships and automobile sales in Europe and North America as well as positive trends in North American construction machinery operations. With the improvement in gross trading profits, a large decrease in impairment losses in long-lived assets, and an increase in equity in earnings of associated companies, net income jumped by 171.9% or ¥6.6 billion to ¥10.5 billion ($97 million). Identifiable assets in this segment increased by 4.1% or ¥17.9 billion to ¥451.4 billion ($4,204 million) due principally to an additional investment in Isuzu and an increase in automobiles and ships transactions although a decrease in operating receivables resulted from collections.

Aerospace, Electronics & Multimedia:
Trading transactions decreased by 0.5% or ¥3.1 billion to ¥630.9 billion ($5,875 million). Trading transaction increases from mobile phone-related operations and an acquisition in the aerospace field were offset by the termination of lower profit transactions and decreases in domestic communications-related operations. Despite the drop in domestic communications-related transactions, gross trading profit increased by 2.8% or ¥2.9 billion to ¥108.4 billion ($1,010 million) due mainly to the impact from the aerospace-related acquisition and positive trends in mobile phone-related operations. Net income soared by 457.7% or ¥11.8 billion to ¥14.4 billion ($134 million) on the back of the improvement in gross trading profits as well as IPO gains of subsidiaries and a decrease in losses from business liquidations. Boosted by the impact of the acquisition in the aerospace sector, identifiable assets in this segment increased by 5.4% or ¥25.1 billion to ¥489.4 billion ($4,557 million).

Total Trading Transactions by Operating Segment



Gross Trading Profit by Operating Segment



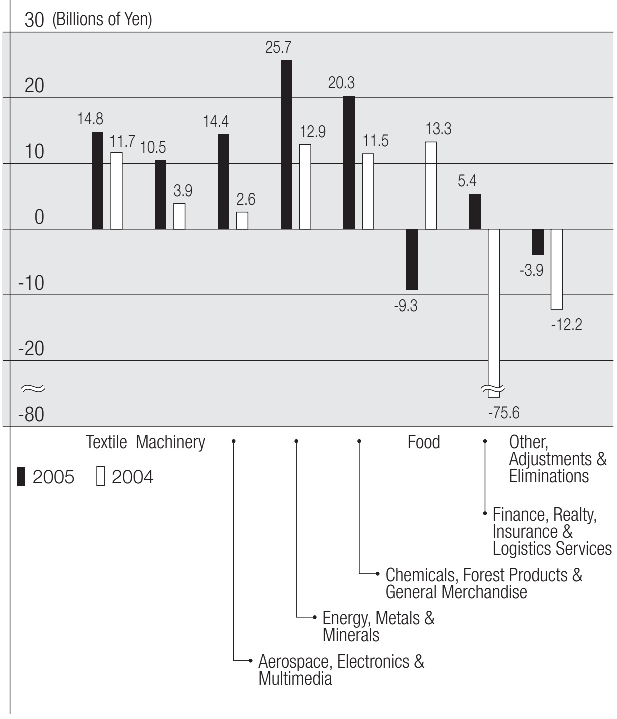
Energy, Metals & Minerals:
Trading transactions increased by 15.6% or ¥333.3 billion to ¥2,471.5 billion ($23,014 million) as a result of higher prices for coal and iron ore and increases in transaction volumes. Price increases for crude oil and petroleum products coupled with increases in transaction volumes also contributed to the gain in trading transactions. Gross trading profits increased by 58.1% or ¥14.4 billion to ¥39.1 billion ($364 million) due to increases in product prices and a rise in transaction volumes. Net income increased by 98.6% or ¥12.7 billion to ¥25.7 billion ($239 million) as a result of the gain in gross trading profits, increases in dividends received from LNG-related investments, and good results at steel-product manufacturing associated company. Identifiable assets in this segment increased by 10.7% or ¥47.3 billion to ¥491.0 billion ($4,572 million) as a result of a rise in crude oil and petroleum product prices and a rise in operating receivables stemming from greater overseas trade activity.

Chemicals, Forest Products & General Merchandise:
Trading transactions increased by 10.4% or ¥178.3 billion to ¥1,893.2 billion ($17,629 million) due to higher market prices for chemical products and strength in the North American residential housing market. Gross trading profits increased by 15.3% or ¥14.0 billion to ¥105.9 billion ($986 million) due to the strength in chemical product market prices and the North American housing market which boosted performance at residential housing material-related subsidiaries. Net income increased by 75.6% or ¥8.7 billion to ¥20.3 billion ($188 million) as a result of the higher gross trading profits. Identifiable assets in this segment increased by 4.7% or ¥26.4 billion to ¥583.7 billion ($5,435 million) on the back of an increase in operating receivables in connection with the rise in revenues cited above and the building out of inventories.

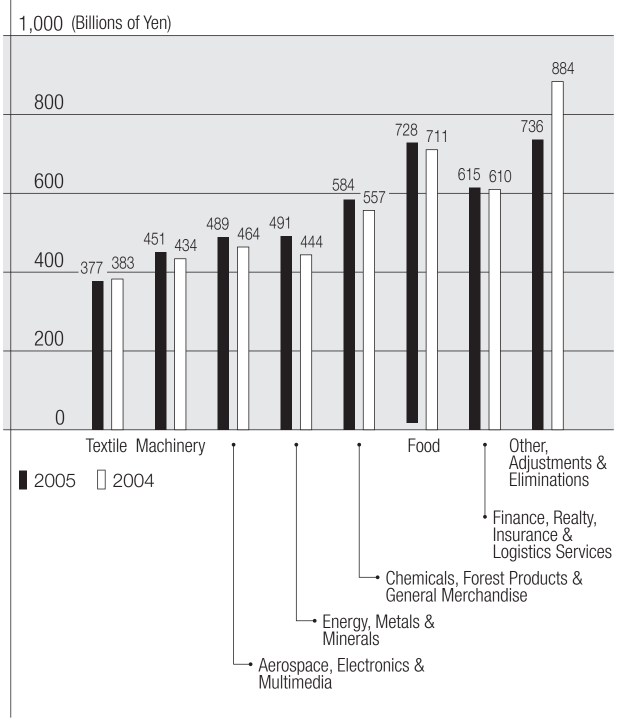
Food:
Trading transactions fell by 9.9% or ¥233.2 billion to ¥2,111.9 billion ($19,666 million) as higher market prices for raw materials used in foodstuffs and higher volumes among food distributor subsidiaries were not enough to offset the impact of a reduction in low-efficiency transactions. Gross trading profits increased by 4.0% or ¥5.2 billion to ¥136.2 billion ($1,268 million) due to higher volumes among subsidiaries in food raw materials and food distribution. Net income decreased by ¥22.6 billion resulting in a net loss of ¥9.3 billion ($86 million) as gains from higher gross trading profits and larger income from associated companies were offset by the impairment loss on the equity method investment in FamilyMart. Identifiable assets in this segment increased by 2.3% or ¥16.4 billion to ¥728.0 billion ($6,779 million) as the impact of the impairment of the equity method investment cited above was offset by additional investments, as well as, an increase in operating receivables.

Finance, Realty, Insurance & Logistics Services:
Trading transactions increased by 3.1% or ¥7.3 billion to ¥243.1 billion ($2,264 million) due to robust condo sales and contributions from newly launched distribution-related operations. Gross trading profits increased by 146.3% or ¥23.4 billion to ¥39.3 billion ($366 million) on the back of strong condo sales as well as decreases in losses on the disposal of residential property and valuation losses recorded as a result of a revision in the market values of inventories of real estate for sale in

Net Income (Loss) by Operating Segment



Identifiable Assets by Operating Segment



fiscal 2004. Net income increased by ¥81.0 billion to a profit of ¥5.4 billion ($50 million) as a result of the listing of an associated company and the resultant gain from the stock sale as well as a decrease in write-downs for impaired assets. Identifiable assets at the end of fiscal 2005 in this segment increased by 0.9% or ¥5.6 billion to ¥615.3 billion ($5,730 million) as new investment in a preferred stock of Orico offset decreases tied mainly to the exit from construction projects.

Other, Adjustments & Eliminations:
Trading transactions increased by 2.1% or ¥4.8 billion to ¥229.7 billion ($2,139 million) largely as a result of higher revenues in North American building material-related operations. Gross trading profits fell by 12.5% or ¥4.4 billion to ¥31.0 billion ($289 million) as foreign exchange losses and changes in segment classification of subsidiaries offset the strength in North American housing material-related businesses. Net income improved by 68.2% or ¥8.3 billion to a loss of ¥3.9 billion ($36 million) as a result of lower pension costs, improved returns on securities and other investments, and decreases in impairment charges on fixed assets. Identifiable assets in this segment decreased by 16.7% or ¥148.0 billion to ¥736.3 billion ($6,856 million) as a result of decreases in cash and cash equivalents.

Geographical Segment Information

Japan:
Trading transactions fell by 5.1% or ¥380.2 billion to ¥7,143.5 billion ($66,520 million) as reductions of low-efficiency transactions offset the positive impact from higher market prices of chemical and energy-related products. Identifiable assets in this segment dropped by 3.3% or ¥132.7 billion to ¥3,836.5 billion ($35,725 million) largely reflecting decreases in cash and cash equivalents.

North America:
Trading transactions surged by 25.1% or ¥95.5 billion to ¥476.6 billion ($4,438 million) due to increased energy-related transactions as well as strength in the housing market in Chemicals, Forest Products & General Merchandise segment. Identifiable assets in this segment increased by 6.9% or ¥19.0 billion to ¥295.3 billion ($2,749 million) as operating receivables increased consistent with the increase in revenues and inventory build out.

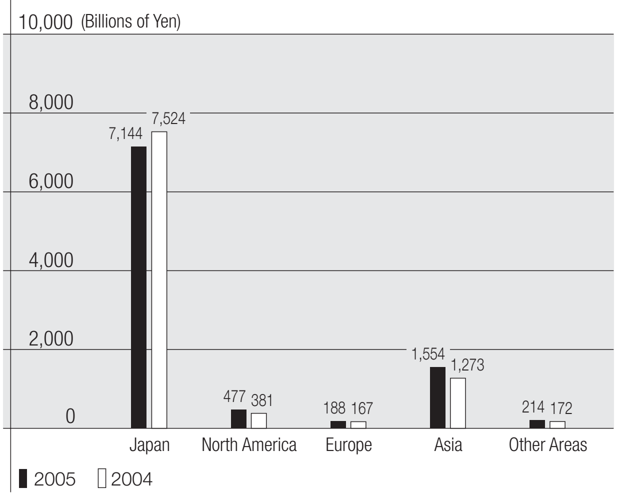
Europe:
Trading transactions increased by 12.2% or ¥20.4 billion to ¥187.6 billion ($1,747 million). Identifiable assets in this segment were consistent with fiscal 2004, up 1.1% or ¥1.7 billion to ¥160.7 billion ($1,497 million).

Asia:
Trading transactions increased by 22.0% or ¥280.5 billion to ¥1,553.9 billion ($14,469 million) as a result of higher energy market prices and an increase in transaction volumes. Identifiable assets in this segment increased by 11.1% or ¥22.6 billion to ¥225.1 billion ($2,096 million) as higher crude oil prices pushed energy-related products up and brisk overseas trade resulted in a rise in operating receivables.

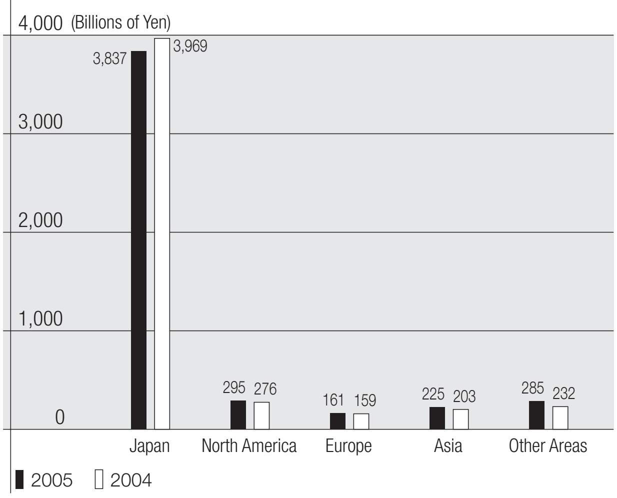
Other:
Trading transactions increased by 25.0% or ¥42.9 to ¥214.4 billion ($1,997million) on the back of higher prices and an increase in transaction volumes for metal materials-related coal and iron ore. Identifiable assets in this segment increased by 22.9% or ¥53.2 billion to ¥285.2 billion ($2,656 million) on a rise in operating receivables that came in tandem with higher market prices and transaction volumes in coal and iron ore.

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

Total Trading Transactions by Geographical Segment



Identifiable Assets by Geographical Segment



Discussion and Analysis of Results of Operations

Fiscal 2005 was the final year of ITOCHU's mid-term management plan 'Super A&P-2004' (stands for "Attractive and Powerful"), a two-year plan from fiscal 2004 through fiscal 2005. The year was positioned as the capstone to ITOCHU's A&P strategy as ITOCHU's pace quickened to build a solid foundation starting from fiscal 2006 for High Jump.

A discussion and analysis of results of operations for fiscal 2005 follows.

Analysis of Results of Operations for Fiscal 2005

Recognition of Goodwill Impairment Loss on FamilyMart Stock

In fiscal 2005, the Company recognized a ¥45.1 billion (¥26.6 billion, after income tax) impairment loss on ITOCHU's indirect equity method investment in FamilyMart.

The loss represents the difference between the carrying value of the investment in FamilyMart and estimated fair value. The fair value was determined by the Company and its subsidiaries using discounted cash flow analyses prepared by third-party appraisers using the best-estimated future cash flows available and by reference to the quoted market price of FamilyMart's publicly traded common stock.

Revenue:

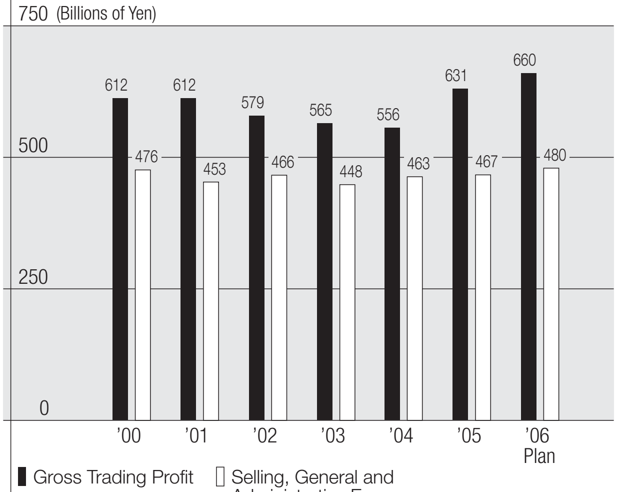
From the previous fiscal year, the Company and its subsidiaries have presented both revenue and its corresponding cost for the fiscal year under review and the previous fiscal years in accordance with Emerging Issues Task Force (EITF) Issue 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" (EITF 99-19). EITF 99-19 requires that certain revenue transactions with corresponding cost of revenue be presented on a gross basis when the company is the primary obligor in the arrangement, when the company has general inventory risk before a customer order is placed or upon customer return, or depending on relevant facts and circumstances of the transactions. Other than these transactions, the company should recognize revenue on a net basis. In accordance with EITF 99-19, 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, including sales of manufacturing, processing and service rendering, and sales with general inventory risk before customer order. In fiscal 2005, "Sales revenue" of ¥1,598.7 billion ($14,887 million) and "Trading margins and commissions on trading transactions" of ¥392.6 billion ($3,655 million), totaling ¥1,991.2 billion ($18,542 million), increased by ¥252.5 billion or 14.5% from the previous fiscal year. This was due to an expansion of trade in natural resources in conjunction with a large hike in commodity prices for the minerals and energy markets, and a rise in revenue from Machinery and forest products & general merchandise-related sector in North America.

The forecasts that follow are forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available at the end of fiscal 2005, and thus involve certain risks and uncertainties. Actual results may differ materially depending on a number of factors, including changing economic conditions in major markets and fluctuations in currency exchange rate.

Gross trading profit:

Gross trading profit for fiscal 2005 increased by 13.5% or ¥74.9 billion from the previous year to ¥630.8 billion ($5,874 million). This marked a substantial turnaround in addition to ending the downward trend that had continued since fiscal 2000. In the previous fiscal year, ITOCHU booked losses on real estate inventories of ¥20.2 billion. Excluding these extraordinary factors, this marked an increase of ¥54.7 billion in gross trading profit on an adjusted basis. Of this, the impact from joining and leaving subsidiaries was a ¥13.4 billion increase and a ¥3.9 billion decrease, respectively. The negative impact stemming from the stronger yen in translating subsidiaries' gross trading profit was ¥5.9 billion. Excluding these increases and decreases; there was a rise in profits for existing companies of ¥51.1 billion. The increase was primarily attributed to: Textile, in which trade grew due to the acquisition of new trading rights; Machinery, which enjoyed favorable business in shipping trade, European auto sales, and North American construction equipment business; Energy, Metals & Minerals where the prices and trade volume of coal, iron ore, and crude oil increased; Chemicals, Forest Products & General Merchandise, which enjoyed a high market price for chemicals and solid trade in housing construction materials in North America; and Finance, Realty, Insurance & Logistics Services, which recorded an increase in profits due to its strong condominium sales.

Gross Trading Profit; Selling, General and Administrative Expenses



* For fiscal years

Selling, general and administrative expenses:
Selling, general and administrative expenses increased by 0.9% or ¥3.9 billion from the previous fiscal year to ¥466.8 billion ($4,347 million). The impact from joining and leaving subsidiaries was a ¥11.0 billion increase and a ¥3.9 billion decrease, respectively, but the effect of the yen's appreciation against the U.S. dollar in translating overseas subsidiaries' selling, general and administrative expenses was included for approximately ¥3.5 billion. Excluding these factors, selling, general and administrative expenses increased by ¥0.4 billion. Expenses for pension plans improved dramatically to ¥19.3 billion (excluding liquidation losses and redemption balances related to the settlement of a substantial portion of the Employee's Pension Fund the previous fiscal year totaling ¥3.2 billion). This resulted from a reduction of the projected benefit obligation accompanying a restructuring of retirement pension plans and a reduction in amortization costs such as actuarial losses in accordance with the improvement in asset management primarily arising from a strong domestic stock market. On the other hand, expenses increased due to an expansion of the operations of existing businesses in such areas as increases in commissions paid, which included distribution expenses (¥9.2 billion ($86 million) increase from the previous fiscal year). Total selling, general and administrative expenses therefore were ¥3.9 billion higher than the previous period.

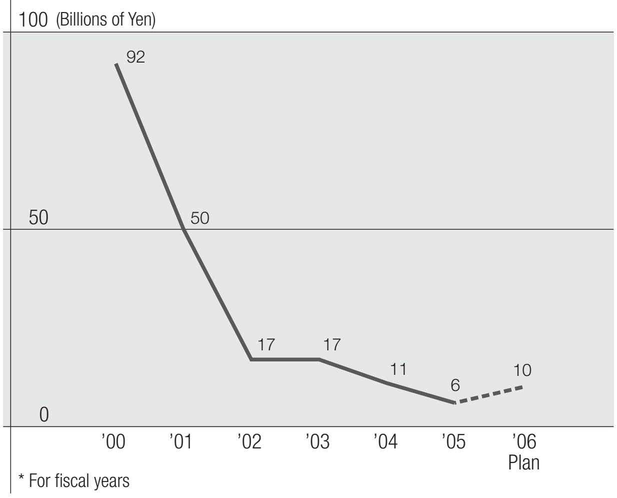
Provision for doubtful receivables:
The amount of reversal of the provision for doubtful receivables through collections of receivables decreased compared to the previous fiscal year (approximately ¥3.2 billion ($30 million)); however, the provision for doubtful receivables improved by 41.8% or ¥4.4 billion from the previous fiscal year to ¥6.2 billion ($58 million), due to the recording of approximately ¥6.0 billion in reserves for Construction and Realty in 2004.

Net financial expenses (Net of interest income, interest expense, and dividends received):
Net financial expenses improved by 51.6% or ¥7.3 billion from the previous fiscal year to ¥6.9 billion ($65 million). *Net interest expenses*, consisting of interest income and interest expense, improved by 15.0% or ¥3.7 billion to ¥21.0 billion. Interest income decreased by 16.0% or ¥2.0 billion due to the drop in interest rates and the collection of loans receivable. Interest expense improved by 15.3% or ¥5.7 billion year-on-year owing to the drop in interest rates (average interest rate dropped by 0.16% from 1.46% to 1.30%) resulting in a decrease of ¥4.1 billion and the decrease in interest-bearing debts (average debts outstanding decreased by ¥113.9 billion from ¥2,568.2 billion to ¥2,454.3 billion) resulting in a decrease of ¥1.7 billion.

Dividends received increased by 34.5% or ¥3.6 billion to ¥14.2 billion due to the increase in dividends received from LNG-related investments and bank shares.

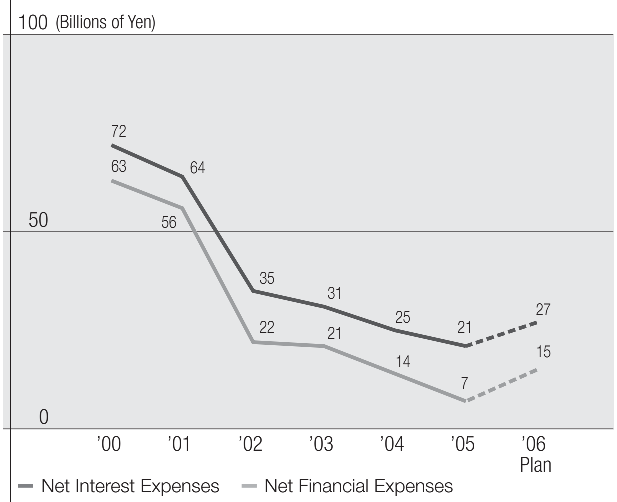
Other profit (loss):
Loss on disposal of investments and marketable securities, including write-down increased by ¥11.8 billion from the previous fiscal year to a loss of ¥25.4 billion ($236 million). Although ITOCHU recognized ¥28.6 billion in profits on the sale of marketable securities from the listing of companies in

Provision for Doubtful Receivables



* For fiscal years

Net Financial Expenses



* For fiscal years

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

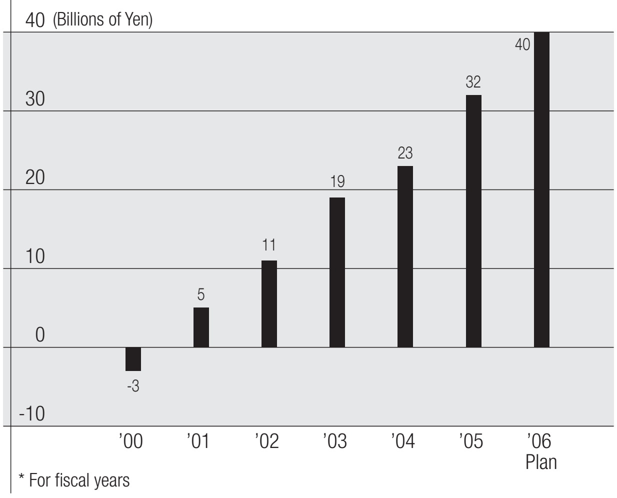
the communications and financial related sectors and the sale of shares of a certain bank, ITOCHU recognized a ¥46.9 billion of other-than-temporary impairment on marketable securities which included a ¥45.1 billion impairment loss on equity method goodwill of ITOCHU's investment in FamilyMart. In addition to this, ITOCHU also recognized a ¥7.1 billion loss on the restructuring of businesses. As a result, total losses on the disposal of investments and marketable securities increased to ¥25.4 billion for fiscal 2005 from ¥13.6 billion fiscal 2004.

Loss on property and equipment-net amounted to ¥6.0 billion, an improvement of ¥123.5 billion from the previous fiscal year. This marked a tremendous improvement from the previous period, when ITOCHU suffered a ¥121.8 billion impairment loss for fixed assets, as well as a ¥2.3 billion impairment loss in overseas aircraft leases.

Due to an improvement in losses on foreign exchange and the booking of reserves for losses on guarantees for debt, ITOCHU recognized a ¥0.4 billion profit for *other-net* in fiscal 2005. This was an improvement of ¥14.4 billion from the previous fiscal year.

Equity in earnings of associated companies:
Equity in earnings of associated companies for the current fiscal year increased to ¥31.8 billion ($296 million), an ¥8.9 billion (39.0%) improvement from the previous period. This was due to the commencement of natural gas production and a strong demand for Energy, Metals & Minerals from the steel products industry, in addition to solid demand experienced by equity-method associated companies for Aerospace, Electronics & Multimedia, Food and Finance, Realty, Insurance & Logistics Service. The results of major equity-method associated companies were shown under "Major Group Companies Reporting Profits" and "Major Group Companies Reporting Losses" under the title of "Performance of Subsidiaries and Equity-Method Associated Companies."

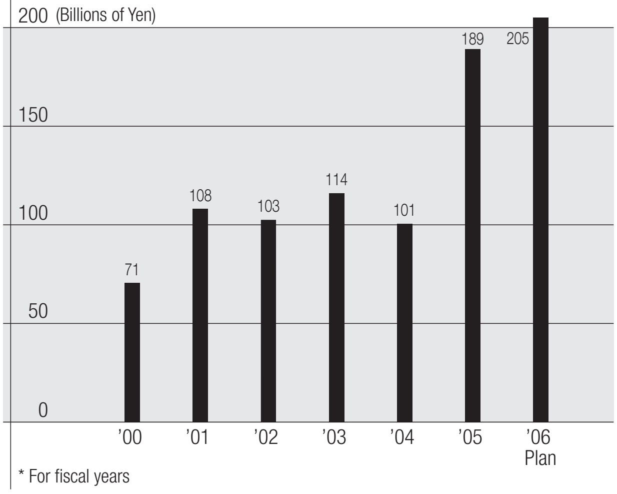
Equity in Earnings of Associated Companies



* For fiscal years

Adjusted profit:
Adjusted profit (net of gross trading profit, selling, general and administrative expenses, net interest expenses, dividends received and equity in earnings of associated companies (including ¥2.2 billion, consisting of ¥1.8 billion of extraordinary gain and ¥0.4 billion of minority interest, in profit from the negative goodwill arising from an acquisition of an equity-method associated company in fiscal 2004)), indicates the basic earning power of ITOCHU. As such, adjusted profit for fiscal 2005 was ¥188.8 billion ($1,758 million), an improvement of ¥88.1 billion (87.5%) from the previous fiscal year. Excluding disposal and devaluation losses for real estate inventories of ¥20.2 billion from previous fiscal year, this represents an increase of ¥68.0 billion. As can be seen, this indicates a significant improvement in and a strengthening of the Company's basic earning power.

Adjusted Profit



* For fiscal years

Increase/Decrease against Ordinary P/L of fiscal 2004

	Billions of Yen			
	2005	2004 Ordinary P/L (*2)	2004 Impairment losses (*1)	Changes
Gross trading profit	¥ 630.8	¥ 576.1	(20.2)	54.7
Loss on disposal of investments and marketable securities, including write-down	(25.4)	(12.2)	(1.5)	(13.2)
Loss on property and equipment-net	(6.0)	(7.6)	(121.8)	1.7
Other-net	0.4	(10.2)	(3.8)	10.6
Income (loss) before income taxes, minority interests, equity in earnings of associated companies and extraordinary items	120.0	55.1	(147.2)	64.8
Income taxes	(62.5)	(23.5)	69.0	(39.0)
Minority interests	(11.4)	(10.3)	0.2	(1.1)
Net income (loss)	77.8	46.1	(78.0)	31.7
Adjusted Profit	¥ 188.8	¥ 120.9	(20.2)	68.0

(*1) "Impairment losses" presents the special losses recognized in accordance with "Early application of impairment for fixed assets, the change of forecasts for fiscal year ending March 2004 and cash dividends" which was announced by ITOCHU on April 2, 2004.
(*2) "Ordinary P/L" presents the actual amounts that exclude the special losses of the above (*1) from the results of fiscal 2004.

Performance of Subsidiaries and Equity-Method Associated Companies

For fiscal 2005, the Company's consolidated results included 451 subsidiaries (222 domestic and 229 overseas) and 205 equity-method associated companies (94 domestic and 111 overseas) totaling 656 companies. The following table presents information regarding the profitability of these companies.

Profits/Losses of Group Companies Reporting Profits/Losses

	Billions of Yen								
	2005			2004			Changes		
Years ended March 31	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total
Group companies excluding overseas trading subsidiaries	¥ 86.7	¥ (38.8)	¥ 47.9	¥ 65.4	¥ (94.0)	¥ (28.5)	¥ 21.2	¥ 55.2	¥ 76.4
Overseas trading subsidiaries	14.7	(1.5)	13.2	5.3	(0.3)	5.0	9.3	(1.2)	8.1
Total	¥ 101.3	¥ (40.3)	¥ 61.1	¥ 70.8	¥ (94.3)	¥ (23.5)	¥ 30.6	¥ 54.0	¥ 84.6

Share of Group Companies Reporting Profits

	2005			2004			Changes		
Years ended March 31	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Companies reporting profits	**255**	**290**	**545**	232	270	502	23	20	43
Group companies	**316**	**340**	**656**	314	331	645	2	9	11
Share	**80.7%**	**85.3%**	**83.1%**	73.9%	81.6%	77.8%	6.8%	3.7%	5.3%

The following tables, excluding the effects of an impairment loss on FamilyMart stock in fiscal 2005 and an impairment loss on fixed assets in fiscal 2004, are provided for reference.

Profits/Losses of Group Companies Reporting Profits/Losses
(Excluding the effect of impairment loss on shares of FamilyMart Co., Ltd. in 2005 (Note) and losses on fixed assets in 2004 (Note))

	Billions of Yen								
	2005			2004			Changes		
Years ended March 31	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total
Group companies excluding overseas trading subsidiaries	**¥ 90.4**	**¥ (15.9)**	**¥ 74.5**	¥ 69.4	¥ (19.6)	¥ 49.8	¥ 21.0	¥ 3.7	¥ 24.7
Overseas trading subsidiaries	**14.7**	**(1.5)**	**13.2**	5.3	(0.3)	5.0	9.3	(1.2)	8.1
Total	**¥ 105.1**	**¥ (17.4)**	**¥ 87.7**	¥ 74.8	¥ (19.9)	¥ 54.9	¥ 30.4	¥ 2.4	¥ 32.8

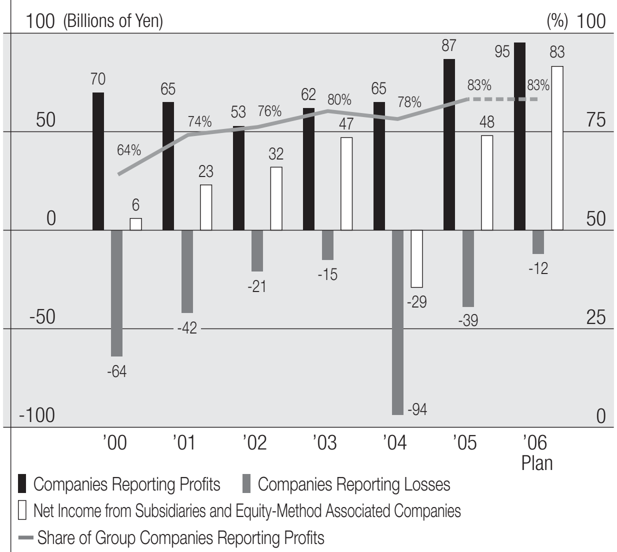
Share of Group Companies Reporting Profits
(Excluding the effect of impairment loss on shares of FamilyMart Co., Ltd. in 2005 (Note) and losses on fixed assets in 2004 (Note))

	2005			2004			Changes		
Years ended March 31	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Companies reporting profits	**256**	**290**	**546**	263	271	534	(7)	19	12
Group companies	**316**	**340**	**656**	314	331	645	2	9	11
Share	**81.0%**	**85.3%**	**83.2%**	83.8%	81.9%	82.8%	(2.8%)	3.4%	0.4%

Note: "Impairment loss on shares of FamilyMart" presents the loss on goodwill impairment relating to shares of FamilyMart Co., Ltd, which was announced by ITOCHU Corporation on Apr. 5, 2005. "Impairment losses on fixed assets" presents the special losses recognized in accordance with "Early application of impairment accounting for fixed assets, the change of forecasts for fiscal year ending March 2004 and cash dividends" which was announced by ITOCHU Corporation on Apr. 2, 2004.

For fiscal 2005, the net income from subsidiaries and equity-method associated companies (the aggregate profits/losses of subsidiaries and equity-method associated companies excluding overseas trading subsidiaries, the same definition applies below) amounted to a gain of ¥47.9 billion, a significant rise compared to a loss of ¥28.5 billion in the previous fiscal year. Similarly, the share of Group companies reporting profits (the ratio of companies reporting profits to total Group companies) also improved from 77.8% to 83.1%. Excluding the impairment loss on investment in FamilyMart recognized in fiscal 2005 and the impairment losses on long-lived assets recognized in fiscal 2004, Group companies recorded a profit of ¥74.5 billion, with 83.2% of the companies recording a profit. This marked an improvement of ¥24.7 billion and 0.4 percentage points, respectively. Profits from ITOCHU's overseas trading subsidiaries reached ¥13.2 billion, an increase of ¥8.1 billion from the previous fiscal year. As can be seen from the improvement in both profits and losses for the combined total of Group companies and overseas trading subsidiaries, the profitability of consolidated companies has shown strong improvement.

Net Income from Subsidiaries and Equity-Method Associated Companies



* For fiscal years

The table below presents major Group companies reporting profits or losses for the fiscal years ended March 2005 and 2004.

Major Group Companies Reporting Profits

Years ended March 31	Shares	(*1) Net income (loss) Billions of Yen 2005	2004	Reasons for changes
Domestic subsidiaries				
ITOCHU TECHNO-SCIENCE Corporation (*2)	48.44%	¥ 5.1	¥3.5	Increase of ITOCHU's shares by additional investment
ITOCHU Finance Corporation (*3)	88.14%	2.7	4.1	Recorded gain on negative goodwill in the previous fiscal year due to a new equity-method associated company, POCKET CARD CO., LTD.
ITC NETWORKS CORPORATION	97.39%	2.3	1.7	Favorable sales of cellular phone
ITOCHU PLASTICS INC.	100.00%	1.8	1.7	Steady growths in plastics
ITOCHU Kenzai Corp.	85.84%	1.5	1.0	Increase due to steady markets of domestic building
ITOCHU CHEMICAL FRONTIER Corporation ..	99.90%	1.0	1.2	Steady growth due to the higher market prices
ITOCHU Non-Ferrous Materials Co., Ltd.	100.00%	0.8	0.5	Increase due to an effect of combination of business
Nishino Trading Co., Ltd.	75.73%	0.7	0.9	Decrease due to increase of selling, general, and administrative expense
CONVERSE JAPAN CO., LTD.	100.00%	0.6	0.5	Continue steady performance
TOMMY HILFIGER JAPAN, INC.	60.00%	0.6	0.7	Continue steady performance
Overseas subsidiaries				
ITOCHU Minerals & Energy of Australia Pty Ltd (*5)	100.00%	¥13.9	¥5.3	Rising prices of coal and iron ore and increase in sales volume
ITOCHU International Inc. (*4)	100.00%	8.6	1.4	Steady growths in field of building materials and construction machinery
Prime Source Building Products Inc. (*4)	100.00%	7.5	3.2	Increase in building materials-related business in North America, in addition to special demand due to hurricane
ITOCHU Oil Exploration (Azerbaijan) Inc. (*6) ...	100.00%	2.0	2.3	Decrease due to increase of non-operating expenses
ITOCHU Hong Kong Ltd.	100.00%	1.5	1.2	Steady growth in profit of consumer credit-related company
ITOCHU Automobile America. Inc.	100.00%	1.1	0.6	Increase due to a new equity-method associated company
ITOCHU (Thailand) Ltd.	100.00%	1.0	0.8	Steady growth in field of chemicals, forest products & general merchandise
CIPA Lumber Co., Ltd.	100.00%	0.9	0.3	Increase in building materials-related business in North America
ITOCHU(China)Holding Co., Ltd.	100.00%	0.9	0.8	Steady growth in field of mineral resources and chemicals
ITOCHU Singapore Pte, Ltd.	100.00%	0.8	0.3	Increase in gross trading profit in the field of chemicals
ITOCHU Australia Ltd. (*5)	100.00%	0.7	0.1	Increase in profit of mineral resource and textile-related subsidiaries
Domestic equity-method associated companies				
Marubeni-Itochu Steel Inc.	50.00%	¥ 9.7	¥3.1	Steady growths in North America and increase in dealing volume of steel pipe etc
FamilyMart Co., Ltd.	30.59%	4.0	4.2	Due to impairment loss on fixed assets by the early application of accounting standards, despite steady ordinary P/L.
JAPAN OHANET OIL & GAS CO., LTD. (*6) ...	35.00%	1.0	0.0	Increase due to starting of oil production from this fiscal year
kabu.com Securities Co., Ltd. (*3)	23.93%	0.9	0.7	Improvement of stock market and expansion of market share
Overseas equity-method associated companies				
Mazda Canada Inc.	40.00%	¥ 0.7	¥0.4	Steady growth in sales
CGB ENTERPRISES, INC.	50.00%	0.6	0.1	Steady growth in grain and transportation business

(*1) The Company's share of net income(loss) are the figures after adjusting to U.S. GAAP, which can be different from the figures each company announces.
(*2) The Company's ownership of voting shares includes consideration of any shares contributed to the pension trusts.
(*3) The net income of ITOCHU Finance Corporation includes that of kabu.com Securities Co., Ltd.
(*4) The net income of ITOCHU International Inc. includes 80% of that of Prime Source Building Products Inc.
(*5) The net income of ITOCHU Australia Ltd. includes 3.7% of that of ITOCHU Minerals & Energy of Australia.
(*6) Net income (of ITOCHU Oil Exploration (Azerbaijan) Inc. and JAPAN OHANET OIL & GAS CO., LTD.) was included in net income of ITOCHU Oil Exploration Co., Ltd. in the last fiscal year.

Major Group Companies Reporting Losses

Years ended March 31	Shares	(*1) Net income (loss) Billions of Yen 2005	2004	Reasons for changes
Domestic subsidiaries (*2)				
Roy-ne Co., Ltd	74.92%	¥(0.5)	¥ 0.0	Due to impairment loss on fixed assets
Overseas subsidiaries				
ITOCHU Europe PLC.	100.00%	¥(1.5)	¥ 0.3	Low performances in affiliated companies
ITOCHU Airlease B.V.	100.00%	(0.8)	(0.5)	Impairment losses for aircraft assets
Domestic equity-method associated companies				
Japan Brazil Paper and Pulp Resources Development Co., Ltd	25.94%	¥(0.6)	¥ 1.7	Due to recognition of goodwill impairment loss on CENIBRA
Overseas equity-method associated companies				
P.T. PURADELTA LESTARI P.T. PEMBANGUNAN DELTAMAS	25.00%	¥(1.9)	¥(1.7)	Effect of exchange loss in Indonesian rupiah

(*1) The Company's share of net income(loss) are the figures after adjusting to U.S. GAAP, which can be different from the figures each company announces.
(*2) There is Family Corporation Inc., that made a loss on goodwill impairment relating to shares of FamilyMart Co., Ltd., besides above mentioned.

Management Policy for the Future

ITOCHU has started a new mid-term management plan, "Frontier-2006, a shift to aggressive business and solid management," (a two-year plan for fiscal 2006 and 2007).

The "Frontier-2006" plan defines these two years as a period to make ITOCHU a highly profitable corporate group constantly achieving more than 100 billion yen in net income. By foreseeing changes, always seeking a "frontier", and pursuing three principles of "challenge, create and commit," ITOCHU will expand earnings and strengthen its management system with the following five measures.

1) ITOCHU will challenge the expansion of earnings. Under the "Frontier-2006" plan, ITOCHU defines core segments/areas within each Division Company to further accelerate the reallocation and upgrades of assets. In addition, by maximizing synergy among ITOCHU groups, ITOCHU plans to further increase earnings in consumer related sector, a strong business domain of ITOCHU and Natural resource development sector where demand increase is expected. In overseas markets, ITOCHU will not only expand business in North America and Asia including China, where ITOCHU can take a lot of business opportunities, but will also strengthen business in emerging countries such as Russia, India and Brazil, regarding them as potential markets for future expansion of business.

2) ITOCHU will create new business. ITOCHU will develop core fields for future profits by creating new value-added products and services in healthcare and living services (healthcare, medical treatment, hobbies and cultural educations, etc), consumer business, and innovative technologies, which are new potential markets generated by changes in population structure accompanied by declining birthrate and rapidly aging of society, diversifying lifestyle, and innovation in technologies.

3) To maintain a "solid management" that support "aggressive business," ITOCHU will keep controlling the amount of interest-bearing debt and enhance risk management on a consolidated basis by continuing the basic policy of further improvement of financial position and reinforcement of risk management.

4) ITOCHU aims at establishing a management system that supports "aggressive business." In addition to setting up a highly transparent corporate governance, ITOCHU will actively pursue CSR (Corporate Social Responsibility) through communications with society including shareholders. In addition, ITOCHU will reinforce internal control in order to strengthen risk management and secure credibility of financial reporting.

5) ITOCHU as a whole group will implement a more flexible human resource strategy to obtain, educate and rotate employees in order to realize ITOCHU's growth strategy.

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

Outlook for Fiscal 2006

Primary Issues to Address in fiscal 2006

Starting with fiscal 2006, the ITOCHU launched a new mid-term management plan, "Frontier 2006: A shift to aggressive business and solid management" (Two-year plan from fiscal 2006 through fiscal 2007).

Forecast for Fiscal 2006

Domestically, ITOCHU forecasts a gradual brightening of the outlook for individual consumers in fiscal 2006 due to an easing in wage cuts and a gradual recovery in employment as capital expenditure expands, also supported by strong corporate profits and a recovery in exports, primarily for IT equipment. The pace of recovery is expected to increase gradually. Overseas, ITOCHU must continue to pay careful attention to even greater imbalances in the U.S. economy, concerns over overheated capital investment in China, and further hikes in prices for primary commodities, particularly for crude oil.

Under these circumstances, the Company is expecting consolidated forecasts as presented in the table below for the fiscal 2006.

These forecasts are forward looking statements that are based on management's assumptions and beliefs, based on information currently available at the end of fiscal 2005, and involve risks and uncertainties. Thus, factors that could cause actual results to differ materially from such statements include, without limitation, global economic and market conditions and changes in foreign currency exchange rate.

	Billions of Yen	
	Full year	
Years ended March 31	2006 Forecasts	2005 Results
Gross trading profit	¥ 660	¥ 631
(Total trading transactions: 2006 full year forecasts ¥9,600; 2005 full year results ¥9,576)		
Selling, general and administrative expenses	(480)	(467)
Provision for doubtful accounts	(10)	(6)
Net interest expenses	(27)	(21)
Dividends	12	14
Other P/L	0	(31)
Income before income taxes, minority interests and equity in earnings (losses)	155	120
Income taxes	(82)	(63)
Income before minority interests and equity in earnings (losses)	73	57
Minority interests	(13)	(11)
Equity in earnings (losses) of associated companies	40	32
Net income	¥ 100	¥ 78
Total assets	¥ 4,700	¥ 4,472
Gross interest-bearing debts	2,400	2,347
Net interest-bearing debts	under 2,000	1,891
Total stockholders' equity	600	510

(Note)	2006 Forecasts	2005 Results
Yen to U.S. dollars rate	100.00	107.94
Crude oil price (U.S.dollars per BBL)	35.00	38.00

Dividend policy and distribution of the current fiscal year's profit

ITOCHU's basic policy regarding dividend payments is a consistent and stable distribution of returns to the stockholders, while increasing stockholders' equity, and maintaining and strengthening its competitive power by retaining earnings.

For the fiscal year ending March 2006, ITOCHU intends to make an eight-yen (four yen for each of the interim and the year-end) dividend payment per share.

Liquidity and Capital Resources

Basic Policy for Funding

The Company aims to ensure flexibility so that it can quickly respond to changes in the financial circumstances, and take advantage of opportunities to lower its overall financing costs. It also aims to diversify its 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 the improvement of the long-term funding balance.

In Japan, most corporations still rely on indirect financing as their primary source of funding with the largest percentage of indirect financing coming from domestic banks. Most domestic banks have adopted a positive earning expansion policy in accordance with improved prospects over the disposal of bad loans—a management issue for a number of years—as well as the rebuilding of equity capital. In Company's dealings with them, these financial institutions appreciate Company's improved financial position and return to profitability. They have shown a favorable attitude towards lending, and we expect no difficulty in procuring funds through indirect financing. Moreover, as of the end of fiscal 2005, the Company had obtained a rating for its long-term bonds of A from the Japanese ratings institution JCR, Ba1 from the U.S. ratings institution Moody's Investors Service (Moody's), and BBB– from Standard & Poor's (S&P). On May 19, 2005, Moody's raised the Company's rating to Baa3 from Ba1. All of the Company's ratings have become "Investment Grade", and better funding conditions are expected. In the future, aiming to secure an even higher rating, the Company will make concerted efforts to improve Company's financial position through the continuation of high profitability and risk management.

With respect to bonds, the Company registers a bond issuance every two years. In the two years from August 2003 to July 2005, a new issuance in the amount of ¥300 billion was registered, enabling the flexible issuance of bonds.

Under this issuance registration system, straight bonds were issued in the amounts of ¥10 billion (with five-year maturities) in August 2004, ¥10 billion (with three-year maturities) in September, and ¥10 billion (with ten-year maturities) in November, for a total of ¥30 billion. The outstanding balance of bonds (excluding MTNs issued by the Company) was ¥250 billion ($2,326 million) as of March 31, 2005.

Furthermore, the Company, ITOCHU International Inc. in the U.S. and a finance subsidiary in the U.K. have registered a total of $5 billion in a Medium Term Note Program (MTN) in order to be flexible in fulfilling short and long-term funding needs. The outstanding balance of the MTN was approximately $0.3 billion as of March 31, 2005.

Interest-Bearing Debts

Interest-bearing debts as of March 31, 2005 decreased by ¥215.2 billion from the previous fiscal year to ¥2,346.7 billion ($21,852 million). As a result of the efforts to secure long-term funds to provide the structure for stable fund-raising, the ratio of long-term interest-bearing debts to total interest-bearing debts increased to 71% from 65% at the end of fiscal 2004. Moreover, the net DER (debt-to-equity ratio) improved by 1.0 to 3.7 times from 4.7 times at the end of fiscal 2004. Also, the average interest rate of borrowing, or interest expenses, divided by the average balance of interest-bearing debts, improved by 16 basis points from 1.46% in fiscal 2004 to 1.30% in fiscal 2005.

The breakdown of the interest-bearing debts as of March 31, 2005 and 2004 is as follows:

	Billions of Yen		Millions of U.S. dollars
	2005	2004	2005
Short-term debt	¥ 421.7	¥ 549.8	$ 3,927
Current maturities of long-term debt	160.5	279.0	1,495
Current maturities of debentures	94.6	56.5	881
Short-term total	676.9	885.3	6,303
Long-term debt	1,472.7	1,414.8	13,714
Debentures	186.0	247.3	1,732
Long-term total	1,658.7	1,662.0	15,446
Total interest-bearing debts	2,335.6	2,547.3	21,749
SFAS 133 fair value adjustment (Note)	11.1	14.7	103
Adjusted total interest-bearing debts	2,346.7	2,561.9	21,852
Cash, cash equivalents and time deposits	455.6	584.9	4,243
Net interest-bearing debts	¥ 1,891.1	¥ 1,977.0	$ 17,610

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

Financial Position

Total assets as of the end of the fiscal year decreased by ¥14.9 billion from fiscal 2004 to ¥4,472.3 billion ($41,646 million) due to improved collections of trade receivables, reductions resulted form the write down of impaired goodwill involving FamilyMart, a decrease in cash and cash equivalents applied to the repayments of interest-bearing debts, which were partially offset by increases in trade receivables and inventory due to rising prices of marketable commodities represented by crude oil prices and new or additional investments in Orico and Isuzu. Stockholder's equity increased ¥87.5 billion (20.7%) from fiscal 2004 to ¥510.4 billion ($4,753 million). This was due to improvements in unrealized holdings gains (losses) on securities and foreign currency translation adjustments, in addition to an accumulation of retained earnings through solid business performance. As a result, the equity ratio showed a 2.0 percentage point improvement from fiscal 2004 to 11.4%.

Net interest-bearing debts less cash and cash equivalents and time deposits decreased by ¥86.0 billion (4.3%) to ¥1,891.1 billion ($17,610 million) from fiscal 2004. As a result, and also partly because of the increase in shareholder's equity, net DER (debt-to-equity ratio) improved by 1.0 from fiscal 2004 to 3.7 times.

The main increases or decreases from the end of fiscal 2004 in the items on the balance sheet are as follows:

Cash and cash equivalents decreased by ¥126.6 billion to ¥452.9 billion ($4,218 million) from fiscal 2004. This was due to repayment of interest-bearing debts to improve the Company's financial position after securing sufficient liquidity reserves.

Trade receivables (less allowance for doubtful receivables) increased ¥28.4 billion to ¥1,085.9 billion ($10,111 million) from fiscal 2004. This was due primarily to increases in Chemicals, Forest products & General Merchandise and Energy, Metals & Minerals, in accordance with increased net sales caused by rising prices and volumes of marketable commodities.

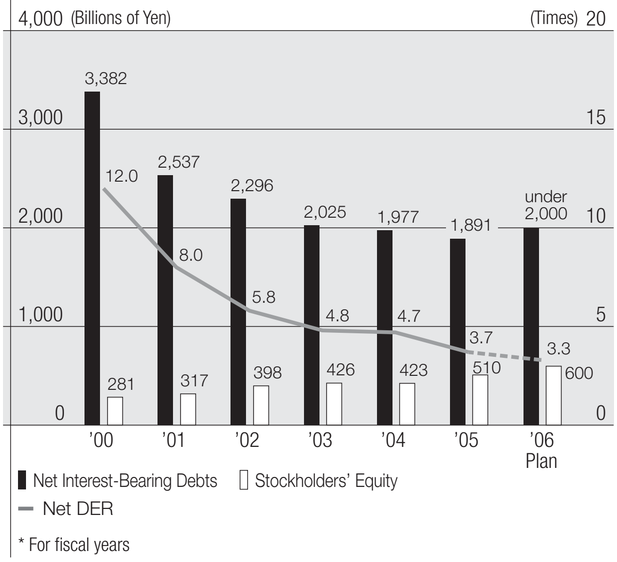
Inventories increased ¥45.9 billion from fiscal 2004 to ¥420.1 billion ($3,912 million) as a result of increases in Machinery, Aerospace, Electronics & Multimedia, Energy, Metals & Minerals, Chemicals, Forest products & General Merchandise, which occurred due to rising prices of marketable commodities and sales volume expansion.

Additionally, there was an increase in ***advances to suppliers*** (a ¥39.7 billion increase from fiscal 2004 to ¥86.5 billion ($805 million), due mainly to growth in the Machinery, Aerospace, Electronics & Multimedia) and a decrease in ***other current assets***, (a ¥25.4 billion decrease from fiscal 2004 to ¥191.6 billion ($1,784 million), due to reductions mainly in income receivable).

As a result, current assets for the fiscal year were ¥2,441.9 billion ($22,739 million), down ¥21.3 billion from fiscal 2004.

Investments in and advances to associated companies increased due to the incorporation of equity-method associated companies in Energy, Metals & Minerals, and Food. However, there was a decrease of ¥9.0 billion to ¥472.5 billion ($4,400 million) from fiscal 2004 due to the decrease (¥45.1 billion) resulting from the write down of impaired goodwill involving FamilyMart.

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



Other investments increased by ¥55.3 billion to ¥441.8 billion ($4,114 million) from fiscal 2004, due primarily to new investments in the preferred stocks of Orico and additional investments in Isuzu.

Other non-current receivables (less allowance for doubtful receivables) experienced a decrease, due mainly to the collection of machinery-related non-current receivables, dropping ¥21.9 billion from fiscal 2004 to ¥186.4 billion ($1,735 million).

As a result, total investments and non-current receivables were up ¥24.4 billion from fiscal 2004 to ¥1,100.6 billion ($10,249 million).

At the end of fiscal 2005, EITF 04-2,"Whether Mineral Rights are Tangible or Intangible Assets." has been applied to ***property and equipment, at cost (less accumulated depreciation)*** and ***mineral rights***. Although conventionally included in Other Assets, such rights are now included in property and equipment. After reclassifying fiscal 2004's figure in the same way, the value is down ¥9.7 billion from fiscal 2004 at ¥497.4 billion ($4,631 million).

Deferred tax assets, non-current increased due to the recognition of the impairment of the equity method investment in FamilyMart, however the final result was a ¥20.0 billion decrease from fiscal 2004 to ¥109.1 billion ($1,016 million). The decrease was a result of tax basis losses through dispositions of loans, corporate stocks, and real estate. Such losses had already been recognized for financial statement purposes. The net value of short-term and long-term deferred tax assets and liabilities also dropped by ¥15.2 billion from fiscal 2004 to ¥136.7 billion ($1,274 million), due to losses of taxation.

Goodwill and other intangible assets, less accumulated amortization increased ¥7.9billion from fiscal 2004 to ¥94.7 billion ($882 million) due mainly to additional purchases of consolidated subsidiary company stock.

Short-term debt was down ¥128.1 billion from fiscal 2004 to ¥421.7 billion ($3,927 million), and ***current maturities of long-term debt*** were down ¥80.3 billion from fiscal 2004 to ¥255.2 billion ($2,376 million). This was due to repayments of interest-bearing debts, efforts for long-term funding and the classification of ¥210.0 billion ($1,955 million) of the current maturities of long-term debt. The Company has entered into commitment line agreements which are intended to be used solely in support of refinancing the current maturities of long-term debt. (Note: Refer to Note 9 “Short-term and long-term debt” to the consolidated financial statements)

Trade payables increased by ¥57.9 billion to ¥966.9 billion ($9,004 million) from fiscal 2004. This was due primarily to increases in Energy, Metals & Minerals, Chemicals, Forest products & General and Food, in accordance with improved business due to rising prices of marketable commodities.

In addition, there was an increase in ***advances from customers*** (a ¥36.7 billion increase from fiscal 2004 to ¥90.2 billion ($839 million), due mainly to increases in Machinery, Aerospace, Electronics & Multimedia). There were also increases in ***other current liabilities***, (a ¥17.4 billion increase from fiscal 2004 ¥161.1 billion ($1,501 million), mainly due to increases in Aerospace, Electronics & Multimedia).

As a result, current liabilities were ¥2,060.1 billion ($19,184 million), down ¥85.0 billion from fiscal 2004.

Reserves for Liquidity

The basic policy of the Company is to maintain and secure and adequate amount for short-term interest-bearing debts and contingent liabilities due within three months from a certain point of time for the necessary amount of reserves required for liquidity. 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, the Company must maintain adequate reserves to repay liabilities during such a period in order to cope with unpredictable events.

The Company has a long-term commitment line with financial institutions totaling ¥210.0 billion ($1,955 million) with a May 18, 2007 maturity. Against the background of this long-term commitment line, the Company has the intention and the ability for a long-term rollover of current maturities of long-term debt from financial institutions. It thus classified ¥210.0 billion ($1,955 million) of current maturities of long-term debt to non-current liabilities on the consolidated balance sheets. This was part of ¥465.2 billion ($4,331 million) in non-current liabilities with a deadline of one year or less based on loan contracts at the end of fiscal 2005.

However, in the table that follows, classification as shown below is in accordance with loan contract repayments.

Primary liquidity resources for this fiscal year, the summation of cash, cash equivalents, time deposits (¥455.6 billion), commitment line agreements (short-term ¥300.0 billion and long-term 210.0 billion) and commitment long-term loan agreement (¥17.0 billion) were ¥982.6 billion, a reduction of ¥62.3 billion from the previous fiscal year.

The total amount of liquidity reserves, or primary liquidity reserves and secondary liquidity reserves (other assets that can be changed into cash in a short period of time) stood at ¥1,440.1 billion. The Company believes that this amount constitutes adequate reserves of liquidity, since it is more than three times the necessary liquidity amount (short-term interest-bearing debts and contingent liabilities due within three months), which amounted to ¥361.5 billion as of March 31,2005.

Necessary Liquidity

	Billions of Yen		Millions of U.S. dollars
March 31	2005	Necessary liquidity	2005
Short-term interest-bearing debts	¥ 421.7	¥ 210.9 (421.7/6 months x 3 months)	$ 1,964
Current maturities of long-term interest-bearing debts (*)	465.2	116.3 (465.2/12 months x 3 months)	1,083
Contingent liabilities (Guarantees [substantial risk] for monetary indebtedness of associated companies and customers)	137.3	34.3 (137.3/12 months x 3 months)	319
Total		¥ 361.5	$ 3,366

(*) The Figure includes current maturities of long-term debt (¥255.2 billion) and a long-term commitment line with financial institutions (¥210.0 billion)

Primary Liquidity Reserves

	Billions of Yen	Millions of U.S. dollars
	Liquidity reserves	Liquidity reserves
1. Cash, cash equivalents and time deposits	¥ 455.6	$ 4,243
2. Commitment line agreements	510.0	4,749
3. Commitment long-term loan agreement	17.0	158
Total primary liquidity reserves	¥ 982.6	$ 9,150

Secondary Liquidity Reserves

	Billions of Yen	Millions of U.S. dollars
	Liquidity reserves	Liquidity reserves
4. Available portion of Over Draft for the Company's cash management service	¥ 111.4	$ 1,037
5. Available-for-sale securities (Fair value on consolidated basis)	190.5	1,774
6. Notes receivable	155.6	1,449
Total secondary liquidity reserves	¥ 457.5	$ 4,260
Total liquidity reserves	¥ 1,440.1	$ 13,410

Capital resources

As part of ITOCHU's medium-term management plan until the end of March 2007 (Frontier-2006), Company's basic policy is pursuing the selection, focusing, and reallocating and upgrading of assets to expand the scale of profits and create new business.

With respect to promoting this plan, the source for new expenditures for investment activities is financing from operating cash flow. This includes the sale and recovery of assets in the course of redeployment, as well as from the accumulation of profits. Any shortfall in financial resources when new investments are made a priority, is to be covered through borrowed money and the issuance of bonds. However, any increase in the total of interest-bearing debts will be held in check through the implementation of strict controls.

Cash and cash equivalents for this fiscal year were reduced by 21.8% or ¥126.6 billion from fiscal 2004 to ¥452.9 billion ($4,218 million). This reflects efforts to reduce interest-bearing debts through a liquidation of cash and cash equivalents to improve the Company's financial position. Cash flow requirements for in investment activities, such as the acquisition of tangible fixed assets, and new and additional investments, primarily in machinery and money-related, were essentially covered by cash from operating activities through an accumulation of profit.

Net cash provided by operating activities for fiscal 2005 increased ¥126.6 billion ($1,179 million). While there was a reduction due to increases in trade receivables and inventory caused by the active expansion of trading transactions and rising prices of marketable commodities such as crude oil, there were also large-scale increases in profit accumulation based on solid business performance. This includes increases in gross trading profits by all operating segments including the Energy, Metals & Minerals as well as the Chemicals, Forest products & General Merchandise.

Net cash used in investing activities for fiscal 2005 involved expenditure of ¥127.6 billion ($1,188 million). This was mainly due to new and additional investment in Orico in the financial sector and Isuzu in the machinery sector, as well as the acquisition of tangible fixed assets. Though this figure exceeds last year's level of ¥55.3 billion resulting from the acquisition of trademarks and mining rights, and from new and additional investments, net cash provided by operating activities essentially covered these increases.

Net cash used in financing activities for fiscal 2005 amounted to ¥125.3 billion ($1,167 million). This reflects continued efforts to reduce interest-bearing liabilities to improve the Company's financial position, and topped ¥79.7 billion from the previous fiscal year.

The following table shows a summary of cash flows for the fiscal years ended March 31, 2005 and 2004.

	Billions of Yen		Millions of U.S. dollars
	2005	2004	2005
Net cash provided by operating activities	¥ 126.6	¥ 184.8	$ 1,179
Net cash used in investing activities	(127.6)	(55.3)	(1,188)
Net cash used in financing activities	(125.3)	(79.7)	(1,167)
Effect of exchange rate changes on cash and cash equivalents	(0.3)	(4.4)	(3)
Net increase in cash and cash equivalents	(126.6)	45.4	(1,179)
Cash and cash equivalents at beginning of year	579.6	534.2	5,397
Cash and cash equivalents at end of year	¥ 452.9	¥ 579.6	$ 4,218

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

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

ITOCHU issues various guarantees for indebtedness including bank loans to subsidiaries, equity-method associated companies and customers. Because the guaranteed borrowings of subsidiaries are included in the Company's consolidated financial statements, off-balance sheet guarantees are solely the total guarantees to equity-method associated companies and customers. The breakdown of guarantees as of March 31, 2004 and 2003 is as follows:

	Billions of Yen		Millions of U.S. dollars
	2005	2004	2005
Guarantees for equity-method associated companies:			
Maximum potential amount of future payments	¥ 137.1	¥ 171.9	$ 1,277
Amount of substantial risk	82.4	103.8	768
Guarantees for customers:			
Maximum potential amount of future payments	¥ 137.6	¥ 135.2	$ 1,281
Amount of substantial risk	79.0	65.5	736
Total:			
Maximum potential amount of future payments	¥ 274.7	¥ 307.1	$ 2,558
Amount of substantial risk	161.5	169.2	1,503

The maximum potential amount of future payments of the Company under the guarantee contracts is presented above. The amount of substantial risk represents the total amount of the substantial risk taken, based on the actual amount of liability incurred by the guaranteed parties as of the end of the respective term within the pre-determined guaranteed limit established under the guarantee contracts. The amounts that can be recovered from third parties under the back-to-back guarantees submitted by them to the Company or subsidiaries concerned have been excluded in determining the amount of substantial risk. The disclosures related to guarantees are shown in Note 22 "Commitments and Contingent Liabilities" to the consolidated financial statements.

The disclosures related to variable interest entities defined under the provisions of Financial Accounting Standard Board Interpretation No. 46 "Consolidation of Variable Interest Entities" are shown in Note 21 "Variable Interest Entities" to the consolidated financial statements.

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

	Billions of Yen				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debts	¥ 421.7	421.7	—	—	—
Long-term debts (including capital leases)	1,994.9	255.2	782.8	506.9	450.0
Capital leases	39.9	8.6	13.2	5.6	12.5
Operating leases	98.8	19.8	27.2	17.2	34.6

	Millions of U.S. dollars				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debts	$ 3,927	3,927	—	—	—
Long-term debts (including capital leases)	18,576	2,376	7,290	4,720	4,190
Capital leases	372	80	124	52	116
Operating leases	920	184	253	161	322

Risk Information

ITOCHU is exposed to various risks such as market risks, credit risks and investment risks, due to the nature of a wide range of their business. These risks include unpredictable uncertainty and may have significant effects on their future business and financial performance. ITOCHU 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 event, ITOCHU appropriately determines its assumption and estimates based on information at the end of fiscal year 2005.

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

To give an overview of ITOCHU's main areas of business, the domestic economy has a relatively strong influence on a consumer and retail-related segment such as textiles and food. Trade in machinery such as plants, autos and industrial machinery, trade in mineral resources, energy and chemical products and investments in development are all largely dependent on economic trends in the U.S. and Asia countries, which take the lead in the world economy. Furthermore, with the steady expansion of demand in China, one of ITOCHU's priority markets, ITOCHU has conducted business and trade in China at a rapid pace for many areas of business. Consequently, Chinese economic trends have a possibility to seriously affect the financial position and results of operations of ITOCHU.

(2) Market Risks
ITOCHU is exposed to market risks such as foreign exchange rate risks, interest rate risks, commodity price risks and stock price risks. ITOCHU 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 a limit and by utilizing a variety of derivative instruments for hedging purposes. Reference should be made to the accounting policy for derivative instruments in note 2, "Basis of Financial Statements and Summary of Significant Accounting Policies" and note 18, "Financial Instruments" to the consolidated financial statements.

Foreign Exchange Rate Risk
The Company and certain Group companies are exposed to foreign exchange rate risk related to transactions denominated in foreign currencies due to its significant involvement in import/export trading. ITOCHU is working to manage ITOCHU's foreign currency balance by contract amount, debt and liabilities, the amount of ITOCHU's own/other's risk, and short/long-term and set limits on foreign exchange rate risks (limit of balance and that of loss). ITOCHU is also working to minimize foreign exchange rate risks using derivative transactions such as forward exchange contracts and currency swap contracts. However, ITOCHU cannot guarantee a complete avoidance of such foreign exchange rate risks by utilizing derivative instruments.

Since the Company is engaged in businesses involving foreign currencies with a number of overseas trading subsidiaries and other overseas group companies, the figures denominated in Japanese yen on its consolidated balance sheets are also exposed to so-called foreign currency translation risk. This translation risk has no impact on the performance of the business conducted in foreign currencies. In addition, a long period is generally needed to recover the amount of investments. Accordingly, the Company does not hedge the translation risk, as the term of effectiveness provided by hedging is limited.

Interest Rate Risk
ITOCHU is exposed to interest rate risk in both fund raising and in its lending, investing, and operating activities. Interest rate risk refers to the risk of earnings fluctuation caused by changes to interest rates, when mismatches in interest rate sensitivity to assets/liabilities and durations occur. Interest rate risk, on the whole, consists of balance, magnitude of interest rate change, and duration. ITOCHU is working to quantify interest rate risks to control such risks in a concrete and objective manner. 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 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 is exposed to commodity price risks due to such factors as market fluctuations. ITOCHU has established a fundamental risk management policy on an individual Division Company basis, assessing purchase contracts, inventories, and sales contracts, etc. and setting and managing a balance limit and loss cut limit for each individual product and conducting periodic reviews. In addition, ITOCHU works to minimize commodity price risk by utilizing derivatives such as futures or forward contracts as means of hedging. Despite these measures, ITOCHU cannot guarantee a complete avoidance of commodity price risks.

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

Stock Price Risk
ITOCHU holds available-for-sale securities which are vulnerable to price fluctuation. ITOCHU strives to maintain appropriate levels of investment and to minimize stock price risk by applying exit rules for inefficient investments that ITOCHU has little reason to hold. The fair value of the available-for-sale securities held by the Company and its subsidiaries was ¥190.5 billion ($1,774 million) as of March 31, 2005. However, assuming that the price of these investments fluctuated and the fair value of these available-for-sale marketable securities decreased, it could seriously affect the financial position and results of operations of ITOCHU.

(3) Credit Risks

ITOCHU conducts a vast array of commercial transactions with its trading partners, both domestically and overseas. ITOCHU therefore bears credit risk from the non-payment of obligations held by the Group due to the deteriorating credit status or insolvency of ITOCHU's partners.

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

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

(4) Country Risk

ITOCHU has trading relationships with many foreign countries. These include handling foreign goods and investments in foreign trading partners. ITOCHU therefore is exposed to country risks resulting from regulations imposed by foreign governments, political instability, or restrictions on the transfers of funds.

In response to these country risks, in addition to taking appropriate countermeasures for each transaction, with the aim of avoiding a concentration of exposure, ITOCHU is endeavoring to manage risk by setting total limit guidelines and limits for each country and setting credit policies in accordance with each country.

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

(5) Investment Risk

Investing in a variety of businesses is one of the major business activities of ITOCHU. In managing ITOCHU's portfolio of investments strategically, ITOCHU faces serious decisions regarding the initiation of new investments that will produce profit commensurate with the attendant risk and the withdrawal from investments that do not produce profits consistent with attendant risks.

In considering a new investment, monitoring existing businesses and withdrawing from an investment, ITOCHU has a standard for decision making. However, serious adverse influences on the future corporate results and financial standing of ITOCHU are possible in the event that ITOCHU is unable to achieve ITOCHU's forecasted results due to a deteriorating economic environment for businesses in which ITOCHU has invested or the deteriorating corporate results and financial standing of ITOCHU's partners, and in the event that ITOCHU is unable to withdraw from a business or restructure ITOCHU's business under a timeframe or method that ITOCHU desires. In such instances, whole or partial investment losses or the infusion of additional funds may be required; in such case it could affect the future corporate results and financial standing of ITOCHU.

In fiscal 2005, the Company recognized ¥45.1 billion (¥26.6 billion, after income tax) of impairment loss on ITOCHU's equity method investment in FamilyMart, in which ITOCHU has an interest through ITOCHU's consolidated subsidiary, Family Corporation Inc.

Excluding FamilyMart losses for investments in equity-method associated companies were insignificant for fiscal 2005. However, the necessity of booking impairment losses could arise should the likelihood of recovering ITOCHU's investment diminish due to poor corporate results for investees, or should stock prices be expected to drop below specified levels for a considerable period of time. Such occurrences could have a serious, adverse effect on the financial position and results of operations of ITOCHU.

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

ITOCHU is exposed to impairment loss risks on fixed assets held, such as real estate, aircraft, and ships. Impairment losses on fixed assets for the fiscal year ended March 31, 2005 were minimal and ITOCHU does not foresee at present any necessity for booking impairment losses. However, ITOCHU would be required to recognize impairment losses should the economic value of fixed assets deteriorate due to decreased demand or further deterioration in market conditions for each of the assets. Such an occurrence could seriously affect the future corporate results of ITOCHU.

(7) Risks Due to Fund Raising

ITOCHU uses ALM (Asset Liability Management) to ensure the necessary funding for its businesses and to ensure liquidity through borrowings from domestic and international financial institutions, as well as the issuance of corporate bonds. However, should ITOCHU's credit worthiness in the stock market deteriorate due to a significant lowering of the Company's credit rating, or should there be a significant change in the lending policies of financial institutions such as restriction of credit for ITOCHU's Company due to an upheaval in the financial systems in primary financial markets, ITOCHU could experience an inability to raise funds when necessary or under desirable conditions and could consequently experience an increase in funding costs. This could exert a serious, adverse influence on the financial position and results of operations of ITOCHU.

(8) Risks Due to Benefit Expenses and Benefit Obligations

The benefit expenses and benefit obligations of ITOCHU are calculated based on mathematical calculations that utilize a variety of assumptions such as the discount rate for benefit obligations and the expected rate of return on investment of pension assets. For fiscal 2005, there was no shortfall in accumulated pension assets after returning the public pension portion held by the employee pension fund to the government and shifting part of a tax qualified pension to defined contribution pension plan. However, should it become necessary to change the assumptions on which the mathematical calculations are based or should pension assets be affected by a deterioration in the stock market, it is possible that benefit expenses and benefit obligations could increase and that additional contributions to pension assets would be necessary. The financial position and results of operations of ITOCHU could be seriously affected by such occurrences.

(9) Risks Due to Deferred Income Taxes

Deferred income tax assets are an important factor in ITOCHU's consolidated balance sheets. Therefore, accounting judgment on evaluation of deferred income taxes has a substantial impact on ITOCHU's consolidated financial statements. To consider the necessity of an allowance for deferred income taxes, ITOCHU reports the realizable amount of deferred income taxes, taking into consideration future taxable income and feasible tax planning strategies. The management of ITOCHU believes these estimations of realizable amount of deferred income taxes are rational. However, allowance for deferred income taxes may increase or decrease depending on changes in taxable income during the tax planning period, changes in the tax system in each country including changes in tax rates and changes in tax planning strategies. In that case it could affect the financial position and results of operations of ITOCHU.

(10) Risks Due to Competition

Due to ITOCHU's involvement in many different industries and the fact that ITOCHU handles a vast array of products and services, ITOCHU is open to competition from many different companies, both domestic and foreign, including competition from other general trading companies. ITOCHU cannot deny the existence of other companies with superior experience, technology, and funding capacity, who are in a position to provide products and services that meet customer needs. Moreover, the possibility of ever-greater competition from companies in newly developing countries like China exists in addition to ongoing competition from European and North American companies due to the economic globalization of primary markets such as China and the U.S. ITOCHU could also find its competitiveness unsustainable due to future events such as deregulation, changes in the business environment such as entrance into other industries, and technological innovation. The advent of such risks could cause a corresponding loss in competitiveness for ITOCHU, adversely affecting to the financial position and results of operations of ITOCHU.

(11) Risks Associated with Significant Lawsuits

In July 2001, Citibank, N.A. and Citibank Canada, a wholly-owned subsidiary of Citibank, N.A. (together, "Citibank"), filed a complaint against ITOCHU International Inc. and III Holding Inc. (previously named Copelco Financial Services Group, Inc.), a wholly owned subsidiary of ITOCHU International Inc. (collectively, "III"), in the United States District Court for the Southern District of New York. Citibank was alleging violation of the federal securities laws, fraud, and breach of contract and related claims arising in connection with Citibank's acquisition of all the common stock of Copelco Capital. Inc. ("Copelco"), a former wholly-owned subsidiary of III Holding Inc., for a purchase price of approximately US$666 million in May 2000. More specifically, Citibank was alleging that Citibank relied on the accuracy of Copelco's financial statements and other documents and statements provided and given by III to Citibank and that such financial statements had not been prepared in compliance with U.S. GAAP and/or in accordance with Copelco's internal accounting rules and practices in connection with, inter alia, accounting and collection policies and procedures of lease receivables, the amount of charge-off concerning delinquent lease receivables, loss reserve methodology, earnings from general ledger accounts and reconciliation of investment accounts, based upon which Citibank sought compensatory damages and related costs and attorney's fees. Disclosures made by Citibank during pre-trial discovery indicated its belief that the total amount of the damages suffered was approximately US$459 million. In February 2005, pursuant to a stipulation with III, Citibank dismissed with prejudice its claims related to the alleged violation of the federal securities laws and fraud, and withdrew its suit in the United States District Court. Plaintiff then re-filed its complaint against III in the New York Supreme Court for New York County alleging breach of contract and contractual indemnity. According to the complaint re-filed by Citibank, Citibank is alleging that Copelco's stockholder's equity was overstated by approximately US$159 million and it continues to seek an unspecified amount of compensatory damages and related costs and attorney's fees as noted above.

III is defending this action vigorously and maintains that it has no liability in this matter. However, due to the inherent uncertainty of litigation, it is not possible to predict the ultimate outcome of this litigation. Accordingly, there can be no assurance that III will prevail in the action or that the Company's consolidated financial position may not be materially adversely affected by such action.

(12) Risks Associated with Compliance

Risks Related to Laws and Regulations

ITOCHU is subject to a number of diverse laws and regulations both domestically and overseas due to the vast array of products and services ITOCHU provides. To be specific, ITOCHU 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 conducts business overseas. ITOCHU is aware that the observance of laws and regulations is a serious obligation on the part of the Company and ITOCHU has committed every effort into the observance of these laws and regulations through the compliance program that ITOCHU has created. Despite this, ITOCHU cannot deny that additional regulations or abrupt changes in regulations by legislative, judicial, and regulatory bodies are a possibility both domestically and overseas. Also there are possibilities of major change in laws and regulation by political/economical changes. If ITOCHU infringe on such laws and regulations, then ITOCHU could experience a restriction of business activities, legal sanctions, and a consequent loss of public trust. This could exert a serious, adverse influence on the financial position and results of operations of ITOCHU.

Risks Related to the Environment

ITOCHU has designated global environmental issues as one of the most important elements of its management policy. ITOCHU is actively working on environmental issues designated by ITOCHU's environmental policy to deal with the risk of infringement of laws and regulations pertaining to the environment by each business, the destruction of the natural environment by natural resource development, real estate development and goods and service. Despite these efforts, ITOCHU 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 could suffer the loss of public trust and could suffer serious adverse effects to the financial position and results of operations of ITOCHU.

(13) Risks Associated with Information Systems and Information Security

In ITOCHU, a code of conduct concerning the handling of information is set for all directors and employees and high priority is placed on maintaining a high information security level in the Company. ITOCHU has established an information system to facilitate the sharing of information internally within ITOCHU and externally with clients, and to improve the efficiency of operations. In order to maintain a secure operation of ITOCHU's information systems, ITOCHU has established a firewall to prevent outside intrusions to the network, established security guidelines, and have developed crisis control measures. Despite these measures, ITOCHU cannot completely avoid the possibility of unauthorized access from the outside, the leakage of sensitive company information due to computer viruses, or operational failure of the system due to damage to information system equipment arising from natural disasters or accidents or from trouble with telecommunications circuitry. If such events occur, this could cause a deterioration of operational efficiency and depending on the seriousness of the damage, have a serious adverse effect on the financial position and results of operations of ITOCHU.

Moreover, ITOCHU gathers and maintains personal information in the course of ITOCHU's operations. Such information relates to the Company, retailing, credit and financing, and services offered. In conjunction with the enactment of laws pertaining to the safeguarding of personal information on April 1, 2005 (Personal Information Protection Act), ITOCHU is making even greater efforts to safeguard personal information. However, ITOCHU cannot completely avoid the possibility of personal information being transmitted outside the Company due to improper acts by employees or intrusion from the outside, and the consequent fraudulent use or diversion of such information. If such events occur, ITOCHU would face a grave loss of public trust, and could face serious adverse effects to the financial position and results of operations.

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. ITOCHU evaluates 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 ITOCHU judges 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 investments, in accordance with U.S. Accounting Principles Board Opinions No.18, as is the case for impairment of long-lived assets, ITOCHU judges 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 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 income. Therefore, accounting judgment on evaluation of receivables has a substantial impact on the Company's consolidated financial statements.

In the Company, the credit department of each Division Company, which is independent of business departments of each Division Company, manages and evaluates credit risk from both quantitative and qualitative perspectives, monitoring regularly the credit limit and the status quo of trade receivables, and reviewing regularly the status quo of debt collection and delinquency to discuss and record the required provision for doubtful receivables. The Company estimates 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 tax assets are an important factor in the Company's consolidated balance sheets. Therefore, accounting judgment on evaluation of deferred income taxes has a substantial impact on the Company's consolidated financial statements. To consider record of allowance for deferred tax assets, ITOCHU reports the realizable amount of deferred income taxes, taking into consideration future taxable income and feasible tax planning. 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 these estimations of realizable amount of deferred income taxes are rational. However, allowance for deferred income taxes may increase or decrease depending on changes in taxable income during the tax planning period 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, ITOCHU recognizes 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 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 no longer amortized, but are instead tested for impairment at least annually and between annual tests if 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 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 certain Group companies 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 comprehensively judges all available information including market trends such as interest rate changes.

The management of the Company believes 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 Conditional Asset Retirement Obligations
In March 2005, the Financial Accounting Standards Board ("FASB") issued Interpretation 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143." FIN 47 clarifies that the term conditional asset retirement obligation as used in SFAS 143 refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity.

FIN 47 is effective for fiscal years ending after December 15, 2005, and the effect of adoption of FIN 47 on the Company and its subsidiaries' financial position and results of operations is currently under consideration and cannot be reasonably estimated until further analysis is completed.

b. Accounting for Stripping Costs Incurred during Production in the Mining Industry
The FASB EITF reached a consensus at the meeting of March, 2005 on EITF 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry." In Issue EITF 04-6, the cost of removing overburden and waste materials to access mineral deposits are referred to as "stripping costs," and stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred. EITF 04-6 is effective for the first reporting period in financial statements issued for fiscal years beginning after December 15, 2005, and the effect of adoption of EITF 04-6 on the Company and its subsidiaries' financial position and results of operations is currently under consideration and cannot be reasonably estimated until further analysis is completed.

c. Accounting Changes and Error Corrections
In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3."
SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Because the effects are attributable to future events, the effect of adoption of SFAS 154 on the Company and its subsidiaries' financial position and results of operations cannot be reasonably estimated.

CONSOLIDATED BALANCE SHEETS

ITOCHU Corporation and Subsidiaries
As of March 31, 2005 and 2004

	Millions of Yen		Millions of U.S. dollars (Note 2)
Assets	2005	2004	2005
Current assets:			
Cash and cash equivalents (notes 2 and 7)	¥ 452,934	¥ 579,565	$ 4,218
Time deposits (note 7)	2,684	5,297	25
Marketable securities (notes 2, 3 and 7)	49,149	42,302	458
Trade receivables (note 7):			
Notes	155,593	130,562	1,449
Accounts (note 20)	950,482	948,795	8,850
Allowance for doubtful receivables (notes 2 and 5)	(20,222)	(21,937)	(188)
Net trade receivables	1,085,853	1,057,420	10,111
Due from associated companies	90,174	83,709	840
Inventories (notes 2 and 7)	420,069	374,171	3,912
Advances to suppliers	86,453	46,739	805
Prepaid expenses	22,878	20,658	213
Deferred tax assets (notes 2 and 12)	40,096	36,279	373
Other current assets	191,605	217,039	1,784
Total current assets	2,441,895	2,463,179	22,739
Investments and non-current receivables:			
Investments in and advances to associated companies (notes 2, 4 and 7)	472,468	481,451	4,400
Other investments (notes 2, 3, 7 and 8)	441,783	386,522	4,114
Other non-current receivables (notes 7 and 20)	329,582	382,872	3,069
Allowance for doubtful receivables (notes 2 and 5)	(143,229)	(174,662)	(1,334)
Net investments and non-current receivables	1,100,604	1,076,183	10,249
Property and equipment, at cost (notes 2, 7, 8 and 20):			
Land	165,148	158,584	1,538
Buildings	310,907	317,596	2,895
Machinery and equipment	250,298	260,272	2,331
Furniture and fixtures	49,217	53,528	458
Mineral rights	28,230	26,486	263
Construction in progress	4,482	7,875	42
Total property and equipment, at cost	808,282	824,341	7,527
Less accumulated depreciation	310,924	317,270	2,896
Net property and equipment	497,358	507,071	4,631
Goodwill and other intangible assets, less accumulated amortization (notes 2 and 6)	94,749	86,843	882
Prepaid pension cost (notes 2 and 10)	178,890	183,743	1,666
Deferred tax assets, non-current (notes 2 and 12)	109,085	129,101	1,016
Other assets	49,764	41,162	463
Total	¥ 4,472,345	¥ 4,487,282	$ 41,646

Liabilities and Stockholders' Equity	Millions of Yen 2005	Millions of Yen 2004	Millions of U.S. dollars (Note 2) 2005
Current liabilities:			
Short-term debt (notes 7 and 9)	¥ 421,697	¥ 549,809	$ 3,927
Current maturities of long-term debt (notes 7 and 9)	255,173	335,444	2,376
Trade payables:			
Notes and acceptances (note 7)	161,798	154,902	1,507
Accounts	805,150	754,147	7,497
Total trade payables	966,948	909,049	9,004
Due to associated companies	42,050	42,941	392
Income taxes payable (note 12)	24,032	18,275	224
Accrued expenses	98,136	92,240	914
Advances from customers	90,153	53,467	839
Deferred tax liabilities (notes 2 and 12)	802	208	7
Other current liabilities	161,148	143,714	1,501
Total current liabilities	2,060,139	2,145,147	19,184
Long-term debt, excluding current maturities (notes 7, 9 and 20)	1,750,815	1,757,313	16,303
Accrued retirement and severance benefits (notes 2 and 10)	22,405	21,512	209
Deferred tax liabilities, non-current (notes 2 and 12)	11,653	13,261	108
Commitments and contingent liabilities (note 22)			
Minority interests	116,936	127,183	1,089
Stockholders' equity:			
Common stock (note 15):			
Authorized 3,000,000,000 shares;			
issued:			
1,584,889,504 shares 2005 and 2004	202,241	202,241	1,883
Capital surplus (notes 15 and 16)	137,024	136,915	1,276
Retained earnings (note 16):			
Legal reserve	3,927	3,450	37
Other retained earnings	184,273	106,958	1,716
Accumulated other comprehensive income (loss) (notes 2, 12 and 17)			
Foreign currency translation adjustments	(63,419)	(67,767)	(590)
Minimum pension liability adjustments (note 10)	(2,047)	(634)	(19)
Unrealized holding gains on securities (note 3)	52,746	45,653	491
Unrealized holding losses on derivative instruments (note 18)	(3,522)	(3,234)	(33)
Total accumulated other comprehensive loss	(16,242)	(25,982)	(151)
Treasury stock, at cost			
2,476,563 shares 2005			
2,582,665 shares 2004	(826)	(716)	(8)
Total stockholders' equity	510,397	422,866	4,753
Total	¥ 4,472,345	¥ 4,487,282	$ 41,646

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of Yen			Millions of U.S. dollars (Note 2)
	2005	2004	2003	2005
Revenue (notes 2 and 20):				
Sales revenue	¥ 1,598,672	¥ 1,355,372	¥ 1,312,657	$ 14,887
Trading margins and commissions on trading transactions	392,566	383,375	369,061	3,655
Total trading transactions (notes 2, 4 and 14): 2005: ¥ 9,576,039 million ($89,171 million) 2004: ¥ 9,516,967 million 2003: ¥ 10,446,371 million				
Total revenue	1,991,238	1,738,747	1,681,718	18,542
Cost of sales	(1,360,477)	(1,182,852)	(1,116,751)	(12,668)
Gross trading profit (note 14)	630,761	555,895	564,967	5,874
Selling, general and administrative expenses (notes 6, 10 and 20)	(466,840)	(462,894)	(448,473)	(4,347)
Settlement loss from the transfer of the substitutional portion of the Employees' Pension Fund (notes 2 and 10)	—	(22,767)	—	—
Subsidy from government on the transfer of the substitutional portion of the Employees' Pension Fund (notes 2 and 10)	—	19,606	—	—
Provision for doubtful receivables (note 5)	(6,181)	(10,624)	(16,845)	(58)
Interest income	10,774	12,819	16,939	100
Interest expense	(31,814)	(37,562)	(47,594)	(296)
Dividends received	14,162	10,528	10,076	131
Loss on disposal of investments and marketable securities, including write-down (notes 3, 8 and 19)	(25,384)	(13,633)	(13,182)	(236)
Loss on property and equipment-net (note 8)	(5,959)	(129,432)	(755)	(55)
Other-net (notes 2 and 11)	439	(13,982)	(7,458)	4
Income (loss) before income taxes, minority interests, equity in earnings of associated companies and extraordinary items	119,958	(92,046)	57,675	1,117
Income taxes (notes 2 and 12):				
Current	46,987	31,122	31,287	437
Deferred	15,556	(76,579)	14,365	145
Total income taxes	62,543	(45,457)	45,652	582
Income (loss) before minority interests, equity in earnings of associated companies and extraordinary items	57,415	(46,589)	12,023	535
Minority interests	(11,387)	(10,042)	(10,484)	(107)
Equity in earnings of associated companies (note 4)	31,764	22,859	18,539	296
Net income (loss) before extraordinary items	77,792	(33,772)	20,078	724
Extraordinary items- gain on negative goodwill, less applicable income taxes of ¥1,271 million (note 2)	—	1,828	—	—
Net income (loss)	¥ 77,792	¥ (31,944)	¥ 20,078	$ 724

	Yen			U.S. dollars (Note 2)
	2005	2004	2003	2005
Net income (loss) per common share before extraordinary items (notes 2 and 13)	¥ 49.16	¥ (21.36)	¥ 13.12	$ 0.46
Extraordinary items per common share— gain on negative goodwill, less applicable income taxes	—	1.16	—	—
Net income (loss) per common share	¥ 49.16	¥ (20.20)	¥ 13.12	$ 0.46

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of Yen			Millions of U.S. dollars (Note 2)
	2005	2004	2003	2005
Common stock (note 15):				
Balance at beginning of year issued:				
1,584,889,504 shares 2005				
1,583,487,736 shares 2004				
1,425,487,736 shares 2003	¥ 202,241	¥ 202,241	¥ 174,749	$ 1,883
Issuance of common stock 158,000,000 shares 2003	—	—	27,492	—
Acquisition of minority interests through issuance of common stock 1,401,768 shares 2004	—	—	—	—
Balance at end of year				
1,584,889,504 shares 2005 and 2004				
1,583,487,736 shares 2003	¥ 202,241	¥ 202,241	¥ 202,241	$ 1,883
Capital surplus (notes 15 and 16):				
Balance at beginning of year	¥ 136,915	¥ 136,842	¥ 111,348	$ 1,275
Issuance of common stock	—	—	27,285	—
Acquisition of minority interests through issuance of common stock	—	141	—	—
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	—	(82)	(1,791)	—
Excess arising from retirement of treasury stock	109	14	—	1
Balance at end of year	¥ 137,024	¥ 136,915	¥ 136,842	$ 1,276
Retained earnings (note 16):				
Legal reserve:				
Balance at beginning of year	¥ 3,450	¥ 3,212	¥ 3,410	$ 33
Transfer from other retained earnings	575	301	16	5
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	(98)	(63)	(214)	(1)
Balance at end of year	¥ 3,927	¥ 3,450	¥ 3,212	$ 37
Other retained earnings:				
Balance at beginning of year	¥ 106,958	¥ 143,014	¥ 128,468	$ 996
Net income (loss)	77,792	(31,944)	20,078	724
Cash dividends	—	(3,956)	(7,521)	—
Transfer to legal reserve	(575)	(301)	(16)	(5)
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	98	145	2,005	1
Balance at end of year	¥ 184,273	¥ 106,958	¥ 143,014	$ 1,716
Accumulated other comprehensive loss (notes 2, 3, 10, 12, 17 and 18):				
Balance at beginning of year	¥ (25,982)	¥ (58,408)	¥ (20,264)	$ (242)
Other comprehensive income (loss)	9,740	32,426	(38,144)	91
Balance at end of year	¥ (16,242)	¥ (25,982)	¥ (58,408)	$ (151)
Treasury stock:				
Balance at beginning of year	¥ (716)	¥ (681)	¥ (43)	$ (7)
Net change in treasury stock	(110)	(35)	(638)	(1)
Balance at end of year	¥ (826)	¥ (716)	¥ (681)	$ (8)
Total	¥ 510,397	¥ 422,866	¥ 426,220	$ 4,753
Comprehensive income (loss):				
Net income (loss)	¥ 77,792	¥ (31,944)	¥ 20,078	$ 724
Other comprehensive income (loss) (net of tax) (notes 2, 12 and 17):				
Net change in foreign currency translation adjustments during the year	4,348	(16,558)	(20,563)	41
Minimum pension liability adjustments (note 10)	(1,413)	794	(689)	(13)
Net change in unrealized holding gains (losses) on securities during the year (note 3)	7,093	46,034	(17,827)	66
Net change in unrealized holding gains (losses) on derivative instruments during the year (note 18)	(288)	2,156	935	(3)
Total other comprehensive income (loss)	9,740	32,426	(38,144)	91
Total	¥ 87,532	¥ 482	¥ (18,066)	$ 815

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of Yen			Millions of U.S. dollars (Note 2)
	2005	2004	2003	2005
Cash flows from operating activities:				
Net income (loss)	¥ 77,792	¥ (31,944)	¥ 20,078	$ 724
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	40,086	40,184	33,794	373
Provision for doubtful receivables	6,181	10,624	16,845	58
Loss on disposal of investments and marketable securities, including write-down	25,384	13,633	13,182	236
Loss on property and equipment-net	5,959	129,432	755	55
Equity in earnings of associated companies, less dividends received	(25,942)	(17,310)	(12,104)	(242)
Deferred income taxes	15,556	(76,579)	14,365	145
Minority interests	11,387	10,042	10,484	107
Extraordinary items-gain on negative goodwill	—	(1,828)	—	—
Change in assets and liabilities:				
Trade receivables	(66,084)	78,110	103,642	(615)
Due from associated companies	(6,786)	9,747	21,308	(63)
Inventories	(42,907)	26,592	20,780	(400)
Trade payables	54,274	(10,784)	(40,894)	505
Due to associated companies	(890)	5,429	(331)	(8)
Other-net	32,614	(568)	(33,061)	304
Net cash provided by operating activities	126,624	184,780	168,843	1,179
Cash flows from investing activities:				
Payments for purchases of property, equipment and other assets	(68,656)	(71,735)	(47,310)	(639)
Proceeds from sales of property, equipment and other assets	11,841	23,789	30,754	110
Net (increase) decrease in investments in and advances to associated companies	11,686	(8,546)	(8,558)	109
Payments for purchases of other investments	(115,154)	(46,611)	(47,335)	(1,072)
Proceeds from sales of other investments	27,792	38,998	43,354	259
Proceeds from sales of subsidiaries' common stock	7,113	2,098	4,385	66
Origination of other non-current loan receivables	(54,500)	(56,409)	(52,797)	(507)
Collections of other non-current loan receivables	56,310	53,634	70,116	524
Net decrease in time deposits	653	9,769	2,573	6
Net (increase) decrease in marketable securities	(4,685)	(287)	10,071	(44)
Net cash (used in) provided by investing activities	(127,600)	(55,300)	5,253	(1,188)
Cash flows from financing activities:				
Proceeds from long-term debt	324,230	602,557	483,477	3,019
Repayments of long-term debt	(397,535)	(627,925)	(620,534)	(3,702)
Net decrease in short-term debt	(50,153)	(47,543)	(22,205)	(467)
Proceeds from issuance of common stock	—	—	54,777	—
Proceeds from minority interests through issuance of subsidiaries' common stock	1,586	393	1,405	15
Cash dividends	—	(3,956)	(7,521)	—
Cash dividends to minority interests	(3,266)	(3,270)	(3,164)	(30)
Net (increase) decrease in treasury stock	(204)	49	(276)	(2)
Net cash used in financing activities	(125,342)	(79,695)	(114,041)	(1,167)
Effect of exchange rate changes on cash and cash equivalents	(313)	(4,376)	(5,633)	(3)
Net increase (decrease) in cash and cash equivalents	(126,631)	45,409	54,422	(1,179)
Cash and cash equivalents at beginning of year	579,565	534,156	479,734	5,397
Cash and cash equivalents at end of year	¥ 452,934	¥ 579,565	¥ 534,156	$ 4,218
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	¥ 31,048	¥ 42,204	¥ 49,915	$ 289
Income taxes	39,701	30,808	35,162	370
Information regarding non-cash investing and financing activities:				
Contribution of securities to pension trust (note 10)	—	—	52,358	—
Withdrawal of plan assets (note 10)	10,484	25,618	—	98
Non-monetary exchange of shares	—	628	3,054	—
Exchange of assets in transfer of business:				
Assets contributed	—	5,630	—	—
Liabilities extinguished	—	92	—	—
Assets received	—	5,538	—	—

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 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, 2005 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥107.39=U.S.$1 (the official rate as of March 31, 2005 announced by The Bank of Tokyo-Mitsubishi, Ltd.). The translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

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

(2) Summary of Significant Accounting Policies

a. Basis of Consolidation

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

In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") 46 "Consolidation of Variable Interest Entities" (revised December 2003) ("FIN 46R"), 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 they are primary beneficiaries 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. Significant transactions occurring between the subsidiaries' fiscal year-ends (if not March 31) and March 31 are properly adjusted in the consolidated financial statements.

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

For the purpose of the consolidated statements of cash flows, 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.

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

The Company and its subsidiaries periodically review its 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).

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 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" 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, 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. Asset Retirement Obligations

In accordance with SFAS 143, "Accounting for Asset Retirement Obligations" the Company and its subsidiaries recognize the fair value of a long-live 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.

j. Depreciation

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

k. Goodwill and Other Intangible Assets

In accordance with SFAS141, "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 more indicate that it is 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.

In accordance with SFAS 141, the Company and its subsidiaries recognized as an extraordinary gain the remaining excess of fair value of acquired net assets over the cost relating to an investment in associated companies for the year ended March 31, 2004. The extraordinary gain recognized was ¥1,828 million, net of tax of ¥1,271 million, and has been presented in the consolidated statements of operations as "Extraordinary items — gain on negative goodwill, less applicable income taxes of ¥1,271 million."

l. 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, manufactured product sales, processed product sales, development of natural resources and 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 and 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 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 order. 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. The Company and its subsidiaries retroactively adopted EITF 99-19 from the year ended March 31, 2004, and the adoption did not have an impact on gross trading profit, net income or loss or stockholders' equity.

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.

m. Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities

The Company and certain subsidiaries transferred the substitutional portion of the Employees' Pension Funds to the Japanese Government during the year ended March 31, 2004. In accordance with EITF 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities," the Company and certain subsidiaries recognized a "Settlement loss from the transfer of the substitutional portion of the Employees' Pension Fund" of ¥22,767 million and a "Subsidy from the government on the transfer of the substitutional portion of the Employees' Pension Fund" of ¥19,606 million for the year ended March 31, 2004.

n. 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.

o. 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 to the portion of a deferred tax asset for which it is more likely than not that a tax benefit will not be realized.

p. Net Income (Loss) Per Share

Basic net income (loss) per share is computed dividing 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.

q. Comprehensive Income (Loss)

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

r. 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 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 or cash flow of recognized assets or liabilities, unrecognized firm commitments or forecasted transactions and derivatives that are designated and qualify as foreign-currency fair value or cash flow hedges 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 off-setting 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.

s. 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.

t. 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.

u. 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.

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, oil- and gas-producing entities have been reclassified as tangible assets on Consolidated Balance Sheets as of March 31, 2005, although such mineral rights were previously classified as intangible assets.

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 Standards

a. Accounting for Conditional Asset Retirement Obligations
In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143." FIN 47 clarifies that the term conditional asset retirement obligation as used in SFAS 143 refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Although the timing and (or) method of settlement may be conditional on a future event, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Accordingly, FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated when incurred. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored in the measurement of the liability when sufficient information exists.

In addition, FIN 47 clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

FIN 47 is effective for fiscal years ending after December 15, 2005, and the effect of adoption of FIN 47 on the Company and its subsidiaries' financial position and results of operations is currently under consideration and cannot be reasonably estimated until further analysis is completed.

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

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

EITF 04-6 is effective for the first reporting period in financial statements issued for fiscal years beginning after December 15, 2005, and the effect of adoption of EITF 04-6 on the Company and its subsidiaries' financial position and results of operations is currently under consideration and cannot be reasonably estimated until further analysis is completed.

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

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

Accounting Principles Board ("APB") Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle, but SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, SFAS 154 requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, SFAS 154 requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable.

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

Moreover, SFAS 154 carries forward the guidance contained in APB Opinion 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate, and likewise requires justification of a change in accounting principle on the basis of preferability.

SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Because the effects are attributable to future events, the effect of adoption of SFAS 154 on the Company and its subsidiaries' financial position and results of operations 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.

The Company made some corrections of consolidated financial statements for the prior years corresponding to the corrections made by ITOCHU TECHNO-SCIENCE Corporation ("CTC"), a subsidiary of the Company. CTC concluded that some transactions with Medialinks Corporation did not qualify for revenue recognition. The correction by the Company was to reclassify "Trading margins and commissions on trading transactions" to other income in the amount of ¥1,070 million for the year ended March 31, 2003, and did not have an impact on net income or stockholders' equity.

3. 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, 2005 and 2004 were as follows:

	Millions of Yen			
	2005			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	¥ 12,642	¥ 1	¥ 1	¥ 12,642
Total	¥ 12,642	¥ 1	¥ 1	¥ 12,642
Held-to-maturity:				
Debt securities	¥ 16	¥ —	¥ —	¥ 16
Total-Current	¥ 12,658	¥ 1	¥ 1	¥ 12,658
Non-current:				
Available-for-sale:				
Equity securities	¥ 102,243	¥ 75,687	¥ 1,988	¥ 175,942
Debt securities	2,065	—	172	1,893
Total	¥ 104,308	¥ 75,687	¥ 2,160	¥ 177,835
Held-to-maturity:				
Debt securities	¥ 10	¥ —	¥ —	¥ 10
Total-Non-current	¥ 104,318	¥ 75,687	¥ 2,160	¥ 177,845

	Millions of Yen			
	2004			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	¥ 8,626	¥ 1	¥ 1	¥ 8,626
Total	¥ 8,626	¥ 1	¥ 1	¥ 8,626
Held-to-maturity:				
Debt securities	¥ 1	¥ —	¥ —	¥ 1
Total-Current	¥ 8,627	¥ 1	¥ 1	¥ 8,627
Non-current:				
Available-for-sale:				
Equity securities	¥ 97,462	¥ 70,177	¥ 158	¥ 167,481
Debt securities	3,590	42	181	3,451
Total	¥ 101,052	¥ 70,219	¥ 339	¥ 170,932
Held-to-maturity:				
Debt securities	¥ 50	¥ —	¥ —	¥ 50
Total-Non-current	¥ 101,102	¥ 70,219	¥ 339	¥ 170,982

	Millions of U.S. dollars			
	2005			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	$ 118	$ 0	$ 0	$ 118
Total	$ 118	$ 0	$ 0	$ 118
Held-to-maturity:				
Debt securities	$ 0	$ —	$ —	$ 0
Total-Current	$ 118	$ 0	$ 0	$ 118
Non-current:				
Available-for-sale:				
Equity securities	$ 952	$ 705	$ 19	$ 1,638
Debt securities	19	—	1	18
Total	$ 971	$ 705	$ 20	$ 1,656
Held-to-maturity:				
Debt securities	$ 0	$ —	$ —	$ 0
Total-Non-current	$ 971	$ 705	$ 20	$ 1,656

In addition to the securities listed above, the Company and its subsidiaries held trading securities carried at fair value of ¥36,491 million ($340 million) and ¥33,675 million as of March 31, 2005 and 2004, respectively. The portion of net trading losses for the year that relates to trading securities still held at March 31, 2005 was ¥256 million ($2 million). The portion of net trading gains for the year that relates to trading securities still held at March 31, 2004 and 2003 were ¥1,897 million and ¥1,483 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, 2005 were as follows:

	Millions of Yen					
	2005					
	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	¥ 12	¥ 1	—	—	¥ 12	¥ 1
Total	¥ 12	¥ 1	—	—	¥ 12	¥ 1
Held-to-maturity:						
Debt securities	¥ —	¥ —	—	—	¥ —	¥ —
Total-Current	¥ 12	¥ 1	—	—	¥ 12	¥ 1
Non-current:						
Available-for-sale:						
Equity securities	¥ 23,231	¥ 1,988	—	—	¥ 23,231	¥ 1,988
Debt securities	1,821	172	—	—	1,821	172
Total	¥ 25,052	¥ 2,160	—	—	¥ 25,052	¥ 2,160
Held-to-maturity:						
Debt securities	¥ —	¥ —	—	—	¥ —	¥ —
Total-Non-current	¥ 25,052	¥ 2,160	—	—	¥ 25,052	¥ 2,160

	Millions of U.S.dollars					
	2005					
	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	$ 0	$ 0	—	—	$ 0	$ 0
Total	$ 0	$ 0	—	—	$ 0	$ 0
Held-to-maturity:						
Debt securities	$ —	$ —	—	—	$ —	$ —
Total-Current	$ 0	$ 0	—	—	$ 0	$ 0
Non-current:						
Available-for-sale:						
Equity securities	$ 216	$ 19	—	—	$ 216	$ 19
Debt securities	17	1	—	—	17	1
Total	$ 233	$ 20	—	—	$ 233	$ 20
Held-to-maturity:						
Debt securities	$ —	$ —	—	—	$ —	$ —
Total-Non-current	$ 233	$ 20	—	—	$ 233	$ 20

At March 31, 2005 the Company and its subsidiaries held the securities of approximately 40 issuers with an unrealized holding loss in its available-for-sale portfolio. The severity of decline in fair value below cost was 1% to 25% 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 values 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, 2005.

The contractual maturities of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2005 were as follows:

	Millions of Yen		Millions of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Available-for-sale:				
Due within one year	¥ 12,642	¥ 12,642	$ 118	$ 118
Due after one year through five years	1,450	1,326	13	13
Due after five years through ten years	502	462	5	4
Due after ten years	113	105	1	1
Total	¥ 14,707	¥ 14,535	$ 137	$ 136
Held-to-maturity:				
Due within one year	¥ 16	¥ 16	$ 0	$ 0
Due after one year through five years	10	10	0	0
Due after five years through ten years	—	—	—	—
Due after ten years	—	—	—	—
Total	¥ 26	¥ 26	$ 0	$ 0

The gross realized gains and losses on sales of available-for-sale securities for the years ended March 31, 2005, 2004 and 2003 were gains of ¥12,118 million ($113 million), ¥10,541 million and ¥20,028 million, and losses of ¥942 million ($9 million), ¥185 million and ¥9,319 million, respectively. The proceeds from sales of available-for-sale securities were ¥23,209 million ($216 million) and ¥21,225 million for the years ended March 31, 2005 and 2004, 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 ¥263,938 million ($2,458 million) and ¥215,540 million as of March 31, 2005 and 2004, respectively.
The Company and its subsidiaries determined that the carrying amount 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.

4. Investments in Associated Companies

Summarized financial information in respect of associated companies as of March 31, 2005 and 2004, and for the years ended March 31, 2005, 2004 and 2003 is shown below:

	Millions of Yen		Millions of U.S. dollars
	2005	2004	2005
Current assets	¥ 2,190,830	¥ 2,085,865	$ 20,401
Non-current assets, principally property and equipment	2,058,890	2,024,308	19,172
Total assets	4,249,720	4,110,173	39,573
Current liabilities	2,103,862	1,907,846	19,591
Long-term debt and others	1,168,026	1,285,738	10,877
Net assets	¥ 977,832	¥ 916,589	$ 9,105

	Millions of Yen			Millions of U.S. dollars
	2005	2004	2003	2005
Total trading transactions	¥ 5,522,258	¥ 5,049,194	¥ 4,596,262	$ 51,422
Net earnings	63,260	55,311	43,387	589

Included above in current assets, non-current assets, current liabilities and long-term debt and others are amounts due to and from the Company and its subsidiaries as shown in the accompanying consolidated balance sheets.

Total trading transactions and purchases of the Company and its subsidiaries with associated companies for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

	Millions of Yen			Millions of U.S. dollars
	2005	2004	2003	2005
Total trading transactions	¥ 697,563	¥ 642,112	¥ 562,810	$ 6,496
Purchases	157,612	143,984	176,187	1,468

Dividends received from associated companies for the years ended March 31, 2005, 2004 and 2003 were ¥5,822 million ($54 million), ¥5,549 million and ¥6,435 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 CENTURY LEASING SYSTEM, INC. (20.1%), Marubeni-Itochu Steel Inc. (50.0%), FamilyMart Co., Ltd. (31.0%) and kabu.com Securities Co., Ltd. (25.7%). The percentages shown parenthetically in the above sentence are voting shares held by the Company and its subsidiaries at March 31, 2005.

Investments in the common stock of associated companies include marketable equity securities in the carrying amounts of ¥252,881 million ($2,355 million) and ¥280,282 million at March 31, 2005 and 2004, respectively. Corresponding aggregate quoted market values were ¥300,215 million ($2,796 million) and ¥231,624 million at March 31, 2005 and 2004, respectively.

The balances of equity method goodwill as of March 31, 2005 and 2004 were ¥106,372 million ($991 million) and ¥136,342 million, respectively.

During the year ended March 31, 2005, the Company and its subsidiaries recorded a ¥45,121 million ($420 million) impairment loss on the equity method goodwill of their investment in FamilyMart Co., Ltd ("FamilyMart"). The loss is included in "Loss on disposal of investments and marketable securities, including write-down" in the consolidated statements of operations and represents the difference between the carrying value of the investment in FamilyMart and estimated fair value. The fair value was determined by the Company and its subsidiaries using discounted cash flow analyses prepared by third-party appraisers which were prepared using the best-estimated future cash flows available and by reference to the quoted market price of FamilyMart's publicly traded common stock.

5. Impaired Loans and Allowance for Doubtful Receivables

An analysis of the changes in the allowance for doubtful receivables is as follows:

	Millions of Yen		Millions of U.S. dollars
	2005	2004	2005
Balance at beginning of year	¥ 196,599	¥ 230,866	$ 1,831
Provision for doubtful receivables	6,181	10,624	58
Charge-offs	(46,854)	(36,812)	(436)
Other	7,525	(8,079)	69
Balance at end of year	¥ 163,451	¥ 196,599	$ 1,522

Other changes consisted primarily of the effects due to changes in the number of consolidated subsidiaries and changes in foreign currency exchange rates. Net change during the year ended March 31, 2003 was a decrease of ¥45,045 million.

The carrying amounts of impaired loans within the scope of SFAS 114 as of March 31, 2005 and 2004 were ¥183,566 million ($1,709 million) and ¥219,923 million, respectively. The allowance for doubtful receivables related to those impaired loans was ¥133,120 million ($1,240 million) and ¥158,663 million, as of March 31, 2005 and 2004, respectively. 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, 2005, 2004 and 2003 were ¥200,513 million ($1,867 million), ¥245,049 million and ¥292,959 million, respectively. The amounts of interest income recognized on the impaired loans for the years ended March 31, 2005, 2004 and 2003 were not significant.

6. Goodwill and Other Intangible Assets

Intangible assets subject to amortization at March 31, 2005 and 2004 comprised the following:

	Millions of Yen				Millions of U.S. dollars	
	2005		2004		2005	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Trademarks	¥ 23,305	¥ (8,046)	¥ 23,744	¥ (6,612)	$ 217	$ (75)
Software	37,036	(19,534)	40,429	(20,434)	345	(182)
Others	17,812	(5,522)	18,801	(6,325)	166	(52)
Total	¥ 78,153	¥ (33,102)	¥ 82,974	¥ (33,371)	$ 728	$ (309)

Intangible assets subject to amortization that were acquired during the year ended March 31, 2005 totaled ¥9,315 million ($87 million), and consisted primarily of software of ¥5,082 million ($47 million) and agent contracts of ¥3,506 million ($33 million). The weighted average amortization periods for software and agent contracts that were acquired during the year ended March 31, 2005 were both 5 years. They are generally amortized using the straight-line method for software and agent contracts.

The aggregate amortization expense for intangible assets for the years ended March 31, 2005, 2004 and 2003 were ¥10,789 million ($100 million), ¥9,513 million and ¥9,800 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
2006	¥ 10,060	$ 94
2007	8,935	83
2008	5,283	49
2009	3,851	36
2010	2,519	23

The carrying amount of intangible assets with indefinite useful lives which are therefore not subject to amortization comprised the following at March 31, 2005 and 2004:

	Millions of Yen		Millions of U.S. dollars
	2005	2004	2005
Unlimited land lease	¥ 1,532	¥ 1,883	$ 14
Trademarks and others	6,629	5,619	62
Total	¥ 8,161	¥ 7,502	$ 76

Intangible assets with indefinite useful life that are not subject to amortization were acquired during the year ended March 31, 2005, and mainly consisted of franchise agreements of ¥1,326 million ($12 million).

As a result of testing for impairment of goodwill, impairment losses amounting to ¥549 million ($5 million), ¥474 million and ¥1,077 million, respectively, were recognized during the years ended March 31, 2005, 2004 and 2003.

The changes in the carrying amounts of goodwill by operating segment during the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen						
	Machinery	Aerospace, Electronics & Multimedia	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other	Total
Balance at March 31, 2003	¥ 2,535	¥ 1,362	¥ 7,311	¥ 20	¥ —	¥ 4,275	¥ 15,503
Acquired	511	13,349	68	—	—	1,035	14,963
Impairment losses	—	—	—	—	—	(474)	(474)
Other changes (Note1)	(60)	1,074	(843)	(20)	144	(549)	(254)
Balance at March 31, 2004	¥ 2,986	¥ 15,785	¥ 6,536	¥ —	¥ 144	¥ 4,287	¥ 29,738
Acquired	1,202	11,820	—	—	—	166	13,188
Impairment losses	—	—	—	—	—	(549)	(549)
Other changes (Note1)	(130)	—	(176)	—	(4)	(530)	(840)
Balance at March 31, 2005	¥ 4,058	¥ 27,605	¥ 6,360	¥ —	¥ 140	¥ 3,374	¥ 41,537

Note: 1. "Other changes" primarily consists of translation adjustments and reclassification from (to) other accounts.
2. Each segment of "Textile" and "Energy, Metals & Minerals" has no goodwill as of March 31, 2005, 2004 and 2003.

	Millions of U.S. dollars						
	Machinery	Aerospace, Electronics & Multimedia	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other	Total
Balance at March 31, 2004	$ 28	$ 147	$ 61	$ —	$ 1	$ 40	$ 277
Acquired	11	110	—	—	—	2	123
Impairment losses	—	—	—	—	—	(5)	(5)
Other changes (Note1)	(1)	—	(2)	—	(0)	(5)	(8)
Balance at March 31, 2005	$ 38	$ 257	$ 59	$ —	$ 1	$ 32	$ 387

Note: 1. "Other changes" primarily consists of translation adjustments and reclassification from (to) other accounts.
2. Each segment of "Textile", "Energy, Metals & Minerals" and "Food" has no goodwill as of March 31, 2005 and 2004.

7. Pledged Assets

The following assets were pledged as collateral at March 31, 2005 and 2004:

	Millions of Yen		Millions of U.S. dollars
	2005	2004	2005
Cash and cash equivalents and time deposits	¥ 345	¥ 288	$ 3
Marketable securities	59	58	1
Trade receivables	13,898	24,358	129
Inventories	3,530	1,441	33
Investments and non-current receivables	85,885	129,376	800
Property and equipment, at cost	111,072	105,912	1,034
Total	¥ 214,789	¥ 261,433	$ 2,000

Collateral was pledged to secure the following obligations at March 31, 2005 and 2004:

	Millions of Yen		Millions of U.S. dollars
	2005	2004	2005
Short-term debt	¥ 16,230	¥ 22,248	$ 151
Long-term debt	160,254	191,999	1,492
Guarantees of contracts and others	69,512	53,196	648
Total	¥ 245,996	¥ 267,443	$ 2,291

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 deposited cash with it against any debt (including debt arising out of contingent obligations) to the bank that has become due at stated maturity or earlier.

8. Impairment of Long-lived Assets

The Company and its subsidiaries recognized impairment losses on long-lived assets of ¥4,735 million ($44 million), ¥125,343 million and ¥2,150 million for the years ended March 31, 2005, 2004 and 2003, respectively, which were included in "Loss on property and equipment-net" in the consolidated statements of operations. The impaired assets were primarily domestic commercial rental buildings in the Finance, Realty, Insurance & Logistics Services operating segment for the year ended March 31, 2005 and domestic commercial rental buildings and golf courses in the Finance, Realty, Insurance & Logistics Services operating segment and domestic property held for lease and unutilized assets in the Other, Adjustments & Eliminations operating segment for the year ended March 31, 2004. The impairments were generally due to the slow recovery of rents for commercial buildings and to the continuous decline in the market value of land in Japan.

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

Impairment losses recognized for the years ended March 31, 2005, and 2004 by operating segment were as follows:

	Millions of Yen		Millions of U.S. dollars
	2005	2004	2005
Textile	¥ 783	¥ 188	$ 7
Machinery	87	1,913	1
Aerospace, Electronics & Multimedia	703	1,330	6
Chemicals, Forest Products & General Merchandise	192	7	2
Food	578	1,035	5
Finance, Realty, Insurance & Logistics Services	1,144	91,920	11
Other, Adjustments & Eliminations	1,248	28,950	12
Total	¥ 4,735	¥ 125,343	$ 44

The Company also recognized impairment losses on investments in real estate of ¥1,457 million and ¥583 million for the years ended March 31, 2004 and 2003, respectively, which were included in "Loss on disposal of investments and marketable securities, including write-down" in the consolidated statements of operations. The impaired assets included certain domestic land held for development purpose.

The impairments were mainly due to the continuous decline in the market value of land in Japan.

9. Short-term and Long-term Debt

Short-term debt at March 31, 2005 and 2004 is as follows:

	Millions of Yen		Millions of U.S. dollars
	2005	2004	2005
Short-term loans, mainly from banks	¥ 421,697	¥ 549,809	$ 3,927

Long-term debt at March 31, 2005 and 2004 is summarized below:

	Millions of Yen		Millions of U.S. dollars
	2005	2004	2005
Banks and financial institutions:			
Secured:			
Japan Bank for International Cooperation,			
due 2004-2013, interest mainly 1%-4%	¥ 48,393	¥ 54,592	$ 450
Other,			
due 2004-2015, interest mainly 1%-9%	111,861	137,407	1,042
Unsecured:			
Due 2004-2018,			
interest mainly 0%-13%	1,473,023	1,501,722	13,718
Debentures:			
Unsecured bonds and notes:			
Issued in 1997, 2.45% Yen Bonds due 2009	10,000	10,000	93
Issued in 1998, 3.10% Yen Bonds due 2008	30,000	30,000	279
Issued in 1998, 3.00% Yen Bonds due 2008	10,000	10,000	93
Issued in 1999, 2.20% Yen Bonds due 2004	—	10,000	—
Issued in 1999, 1.93% Yen Bonds due 2004	—	10,000	—
Issued in 1999, 1.93% Yen Bonds due 2004	—	9,100	—
Issued in 1999, 2.13% Yen Bonds due 2004	—	10,000	—
Issued in 1999, 3.19% Yen Bonds due 2009	10,000	10,000	93
Issued in 2001, 1.00% Yen Bonds due 2005	20,000	20,000	186
Issued in 2001, 1.00% Yen Bonds due 2005	30,000	30,000	279
Issued in 2001, 0.84% Yen Bonds due 2005	10,000	10,000	93
Issued in 2001, 1.02% Yen Bonds due 2006	10,000	10,000	93
Issued in 2002, 0.84% Yen Bonds due 2005	10,000	10,000	93
Issued in 2003, 0.84% Yen Bonds due 2006	10,000	10,000	93
Issued in 2003, 0.79% Yen Bonds due 2008	15,000	15,000	140
Issued in 2003, 0.41% Yen Bonds due 2006	10,000	10,000	93
Issued in 2003, 0.87% Yen Bonds due 2010	10,000	10,000	93
Issued in 2003, 0.47% Yen Bonds due 2007	10,000	10,000	93
Issued in 2003, 0.64% Yen Bonds due 2006	15,000	15,000	140
Issued in 2003, 1.14% Yen Bonds due 2008	10,000	10,000	93
Issued in 2004, 1.04% Yen Bonds due 2009	10,000	—	93
Issued in 2004, 0.54% Yen Bonds due 2007	10,000	—	93
Issued in 2004, 1.30%/2.55% Yen Bonds due 2014 (note 1)	10,000	—	93
Issued in and after 1995,			
Medium-Term Notes etc., maturing through 2009	30,635	44,628	285
Others	80,981	80,656	755
Total	1,994,893	2,078,105	18,576
SFAS 133 fair value adjustment (note2)	11,095	14,652	103
Total	2,005,988	2,092,757	18,679
Less current maturities	(255,173)	(335,444)	(2,376)
Long-term debt, less current maturities	¥ 1,750,815	¥ 1,757,313	$ 16,303

Note: 1. The bond, one-time callable, bearing 1.30% until November 25, 2009 and 2.55% from November 25, 2009 until maturity date. The Company has a right to redeem full amount of 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, "Accounting for Derivative Instruments and Hedging Activities".

Certain agreements with the Japan Bank for International Cooperation ("JBIC") require as follows;

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 debts as a means of managing their interest rate exposure.

Reference is made to note 7 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, 2005 are as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2006	¥ 255,173	$ 2,376
2007	511,633	4,764
2008	271,196	2,525
2009	341,194	3,177
2010	165,698	1,543
2011 and thereafter	449,999	4,191
Total	¥ 1,994,893	$ 18,576

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 available under such agreements were ¥510,000 million ($4,749 million) consisting of ¥300,000 million ($2,794 million) for short-term debt and ¥210,000 million ($1,955 million) for long-term debt at March 31, 2005. The Company intends that the long-term commitment line agreements be used solely in support of refinancing the current maturities of long-term debt. Because the agreements demonstrate the Company's ability to refinance and the Company has expressed an intention to do so, the Company has classified ¥210,000 million ($1,955 million) of the outstanding balance of ¥465,173 million ($4,331 million) of current maturities of long-term debt as non-current at March 31, 2005. ¥300,000 million ($2,794 million) of short-term commitment agreements were unused at March 31, 2005. The Company also has a loan agreement with a commitment line of ¥17,000 million ($158 million) which was unused at March 31, 2005.

10. 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.

The Company and certain subsidiaries follow EITF 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities." During the year ended March 31, 2004, the Company and certain subsidiaries transferred the substitutional portion of the Employees' Pension Fund ("EPF") to the government. The difference between the fair value of the obligation and the related assets of the substitutional portion was ¥19,606 million.

During the year ended March 31, 2004, the Company withdrew a portion of the plan assets in excess of the projected benefit obligation since the plan assets exceeded the projected benefit obligation, due to the return of the substitutional portion of EPF, a revision of the pension plans, and an increase in the fair value of the plan assets attributable to a rise in stock. During the year ended March 31, 2005, the company again 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 was ¥10,484 million ($98 million) and ¥3,600 million ($34 million), respectively, for the year ended March 31, 2005, and ¥25,618 million and ¥5,080 million, respectively, for the year ended March 31, 2004.

The Company follows SFAS 132 (revised 2003), "Employers Disclosures about Pensions and Other Postretirement Benefits," which issued by the FASB, in December 2003, that revises and prescribes employers disclosures about pension plans and other postretirement benefit plans, while it does not change the measurement or recognition provisions for those plans from SFAS 87, "Employers' Accounting for Pensions."

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

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
	2005	2004	2005
Change in benefit obligations:			
Projected benefit obligations at beginning of year	¥ 266,697	¥ 336,246	$ 2,483
Service cost	6,965	9,511	65
Interest cost	5,934	7,596	55
Plan participants' contributions	997	1,025	9
Unrecognized prior service cost	—	(25,782)	—
Actuarial gain	(4,612)	(9,715)	(43)
Benefits paid	(10,330)	(13,232)	(96)
Foreign currency translation adjustments	57	173	1
Other	5,967	(39,125)	56
Projected benefit obligation at end of year	271,675	266,697	2,530
Change in plan assets:			
Fair value of plan assets at beginning of year	339,031	308,102	3,157
Actual return on plan assets	(4,773)	74,243	(45)
Employer contributions	17,025	18,045	159
Plan participants' contributions	997	1,025	9
Benefits paid	(10,330)	(13,232)	(96)
Foreign currency translation adjustments	(20)	(68)	(0)
Other	(12,676)	(49,084)	(118)
Fair value of plan assets at end of year	329,254	339,031	3,066
Funded status at end of year	57,579	72,334	536
Unrecognized actuarial loss	147,127	141,110	1,370
Unrecognized prior service cost	(45,071)	(49,967)	(420)
Net amount recognized	159,635	163,477	1,486
Adjustments to recognize minimum pension liability:			
Accumulated other comprehensive loss before income tax effect	3,150	1,246	29
Net amount recognized in the consolidated balance sheets	156,485	162,231	1,457
Prepaid pension cost	178,890	183,743	1,666
Accrued retirement and severance benefits recognized in the consolidated balance sheets	(22,405)	(21,512)	(209)

	2005	2004	2005
Accumulated benefit obligations at end of year	¥ 270,622	¥ 264,644	$ 2,520
Weighted-average assumptions used to determine benefit obligations at the end of year:			
Discount rate	2.4%	2.4%	
Rate of compensation increase	1.0-6.0%	1.9-6.0%	
Weighted-average assumptions used to determine net periodic pension cost for the year:			
Discount rate	2.4%	2.4%	
Expected long-term rate of return on plan assets	2.3%	3.5%	
Rate of compensation increase	1.9-6.0%	2.3-6.7%	

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

The "Other" in the change in benefit obligations for the year ended March 31, 2005 included the amount attributable to a partial settlement in CPF of ¥4,936 million ($46 million). The "Other" in the change in plan assets for the year ended March 31, 2005 included a partial settlement in CPF of ¥5,389 million ($50 million) and the amount of the withdrawal from the plan assets, which was ¥14,084 million ($131 million).

The "Other" in the change in benefit obligations for the year ended March 31, 2004 included the amount by the transfer, which was ¥41,702 million, to the government by the Company and certain subsidiaries of the substitutional portion of EPF. The "Other" in the change in plan assets for the year ended March 31, 2004 included the transfer, which was ¥20,845 million, to the government of the substitutional portion of EPF, and the withdrawal, which was ¥30,698 million, from plan assets.

The fair value of equity securities of subsidiaries and associated companies included in plan assets was ¥13,746 million ($128 million) and ¥25,501 million at March 31, 2005 and 2004, respectively.

The net periodic pension cost for retirement and severance benefits for the years ended March 31, 2005, 2004 and 2003 consisted of the following:

	Millions of Yen			Millions of U.S. dollars
	2005	2004	2003	2005
Service cost	¥ 6,965	¥ 9,511	¥ 10,967	$ 65
Interest cost on projected benefit obligation	5,934	7,596	7,830	55
Expected return on plan assets	(7,011)	(7,178)	(7,006)	(65)
Amortization of unrecognized prior service cost	(4,897)	(3,230)	(2,741)	(46)
Amortization of unrecognized actuarial loss	7,219	22,622	13,670	67
Settlement and curtailment loss	1,138	—	—	11
Settlement loss of unrecognized actuarial loss from the transfer of the substitutional portion of the Employees' Pension Fund	—	24,018	—	—
De-recognition of the previously accrued salary progression	—	(1,251)	—	—
Net periodic pension cost	¥ 9,348	¥ 52,088	¥ 22,720	$ 87

Total expenses related to pension plans for the years ended March 31, 2005, 2004 and 2003 consisted of the following:

	Millions of Yen			Millions of U.S. dollars
	2005	2004	2003	2005
Net periodic pension cost for defined benefit pension plans	¥ 9,348	¥ 52,088	¥ 22,720	$ 87
The amount of cost recognized for defined contribution pension plans	1,053	373	—	10
Subsidy from government on the transfer of the substitutional portion of the Employees' Pension Fund	—	(19,606)	—	—
Total expenses for pension plans	¥10,401	¥ 32,855	¥ 22,720	$ 97

Plan assets of the Company and certain subsidiaries by asset category as of March 31, 2005 and 2004 and target allocation percentages were as follows:

	2005	2004	Target Allocation
Asset category:			
Equity securities	56.9%	59.5%	59.7%
Debt securities	18.3	18.0	12.0
Other	24.8	22.5	28.3
Total	100.0%	100.0%	100.0%

Other mainly included cash and 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 attempts to maintain an asset allocation that is consistent with the investment policy for the future periods while considering the standard deviation and correlation coefficient of invested assets as well as the estimated returns on invested assets. The Company also attempts to appropriately establish a target allocation, which would be revised as needed, on a mid- and long-term basis by considering the funded status of its pension plans. The Company, based on its target allocation, evaluates the trustees' investment methods for each major category of plan assets, to select the most suitable trustees and directs its investment guideline to the trustees. In selecting the trustees, the Company considers the investment philosophy and policy of the trustees, their investment methodology, their internal control and compliance policy for investing, their experience and past investment performance. Generally, the Company evaluates the trustees every three years from both a qualitative and quantitative perspective and changes the trustees as needed. The Company is currently evaluating its target allocation by referencing to the Company's pension plans which were revised during the year ended March 31, 2004.

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 ¥15,983 million ($149 million) to defined benefit pension plans in the year ending March 31, 2006.

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
2006	¥ 10,231	$ 95
2007	11,092	103
2008	12,506	116
2009	13,189	123
2010	13,774	128
2011 - 2015	71,675	667

11. Foreign Exchange Gains and Losses

Net foreign exchange gains of ¥5,372 million ($50 million) and losses of ¥8,737 million and ¥5,164 million for the years ended March 31, 2005, 2004 and 2003, respectively, were included in "Other-net" within the accompanying consolidated statements of operations.

12. 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 tax rate of approximately 41%. The normal tax rate was 42% for the years ended March 31, 2004 and 2003.

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 of the normal and the effective tax rate is as follows:

	2005	2004	2003
Normal income tax rate	41.0%	(42.0)%	42.0%
Expenses not deductible for tax purposes	1.3	1.7	2.8
Difference of tax rates for foreign subsidiaries	(2.3)	(2.3)	(3.0)
Tax benefits not recognized on operating losses of subsidiaries	3.6	3.2	3.0
Tax benefits on losses of subsidiaries	(4.0)	(5.9)	(11.1)
Tax on dividends	5.8	6.6	20.5
Effect on deferred tax assets and deferred tax liabilities from a change in the tax regulations	—	—	3.8
Foreign tax credits	2.0	7.4	5.3
Valuation allowance	4.3	(16.8)	11.4
Other	0.4	(1.3)	4.5
Effective income tax rate	52.1%	(49.4)%	79.2%

Amounts provided for income taxes for the years ended March 31, 2005, 2004 and 2003 were allocated as follows:

	Millions of Yen			Millions of U.S. dollars
	2005	2004	2003	2005
Income taxes	¥ 62,543	¥ (45,457)	¥ 45,652	$ 582
Extraordinary items-gain on negative goodwill	—	1,271	—	—
Other comprehensive (income) loss	(1,874)	29,992	(12,305)	(18)
Total income tax (benefit) expense	¥ 60,669	¥ (14,194)	¥ 33,347	$ 564

Significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Millions of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Inventories, property and equipment	¥ 131,984	¥ 134,834	$ 1,229
Allowance for doubtful receivables	41,455	52,689	386
Net operating loss carryforwards	17,057	11,915	159
Accrued retirement and severance benefits	2,532	5,472	24
Marketable securities and other investments	62,562	51,668	582
Other	31,388	40,179	292
Total deferred tax assets	286,978	296,757	2,672
Less valuation allowance	(54,839)	(46,725)	(510)
Deferred tax assets-net	232,139	250,032	2,162
Deferred tax liabilities:			
Installment sales	(483)	(549)	(4)
Accrued retirement and severance benefits	(45,043)	(45,127)	(419)
Marketable securities and other investments	(29,532)	(28,486)	(275)
Other	(20,355)	(23,959)	(190)
Total deferred tax liabilities	(95,413)	(98,121)	(888)
Net deferred tax assets	¥ 136,726	¥ 151,911	$ 1,274

Net changes in the valuation allowance for the years ended March 31, 2005, 2004 and 2003 were an increase of ¥8,114 million ($76 million), a decrease of ¥13,237 million and an increase of ¥8,043 million, respectively.

The amount of undistributed earnings of foreign subsidiaries for which no deferred tax liability has been provided aggregated ¥89,225 million ($831million) and ¥66,366 million at March 31, 2005 and 2004, 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:

	Millions of Yen	Millions of U.S. dollars
within 1 year	¥ 3,452	$ 32
within 2 years	176	2
within 3 years	41	0
within 4 years	5,596	52
within 5 years	3,015	28
After 5 to 10 years	7,909	73
After 10 to 15 years	1,898	18
After 15 years	28,100	262
Total	¥ 50,187	$ 467

Income (loss) before income taxes, minority interests, equity in earnings of associated companies and extraordinary items for the years ended March 31, 2005, 2004 and 2003 comprised as follows:

	Millions of Yen			Millions of U.S. dollars
	2005	2004	2003	2005
The Company and its domestic subsidiaries	¥ 72,407	¥ (98,052)	¥ 45,258	$ 674
Foreign subsidiaries	47,551	6,006	12,417	443
Total	¥ 119,958	¥ (92,046)	¥ 57,675	$ 1,117

Income taxes for the years ended March 31, 2005, 2004 and 2003 comprised as follows:

	Millions of Yen									Millions of U.S. dollars		
	2005			2004			2003			2005		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
The Company and its domestic subsidiaries	¥28,272	¥18,031	¥46,303	¥24,165	¥(72,462)	¥(48,297)	¥24,658	¥16,011	¥40,669	$263	$168	$431
Foreign subsidiaries	18,715	(2,475)	16,240	6,957	(4,117)	2,840	6,629	(1,646)	4,983	174	(23)	151
Total	¥46,987	¥15,556	¥62,543	¥31,122	¥(76,579)	¥(45,457)	¥31,287	¥14,365	¥45,652	$437	$145	$582

13. Net Income (loss) Per Share

The reconciliation of the numerators and denominators of the basic net income (loss) per share computations for the years ended March 31, 2005, 2004 and 2003 is as follows:

	Millions of Yen			Millions of U.S. dollars
	2005	2004	2003	2005
Numerator:				
Net income (loss) before extraordinary items	¥ 77,792	¥ (33,772)	¥ 20,078	$ 724
Extraordinary items-				
gain on negative goodwill, less applicable income taxes	—	1,828	—	—
Net income (loss)	¥ 77,792	¥ (31,944)	¥ 20,078	$ 724

	Number of Shares		
	2005	2004	2003
Denominator:			
Weighted-average number of common shares outstanding	1,582,392,847	1,581,431,830	1,529,761,706

	Yen			U.S. dollars
	2005	2004	2003	2005
Net income (loss) per common share before extraordinary items:	¥ 49.16	¥ (21.36)	¥ 13.12	$ 0.46
Extraordinary items per common share-				
gain on negative goodwill, less applicable income taxes:	—	1.16	—	—
Net income (loss) per common share:	¥ 49.16	¥ (20.20)	¥ 13.12	$ 0.46

Diluted net income per share for the years ended March 31, 2005, 2004 and 2003 was not presented, since the Company has simple capital structures and there were no potentially dilutive common shares, such as convertible bonds outstanding, that could increase the number of shares outstanding.

14. 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 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, textile to the final products in all fields of garments, home furnishing and industrial materials. This segment performs production and sales on a worldwide scale. In addition, the company promotes brand businesses, developments of industrial fibers and retail operations.

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

Aerospace, Electronics & Multimedia
The Aerospace, Electronics & Multimedia segment is engaged in business activities involving networks, content and mobile multimedia. In addition, the company promotes business activities on aircrafts and related equipments, and invests in high-tech ventures.

Energy, Metals & Minerals
The Energy, Metals & Minerals segment is engaged in metal and mineral resource developments, processing of steel products 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 company is engaged in energy resource developments 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 on basic chemicals, fine chemicals, plastics and inorganic chemicals.

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

Finance, Realty, Insurance & Logistics Services

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

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

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

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

There have been no trading transactions with a single major external customer (10% or more of total) for the years ended March 31, 2005, 2004 and 2003.

Information concerning operations in different operating segments for the years ended March 31, 2005, 2004 and 2003 was as follows:

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

	Millions of Yen								
	2004								
	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	¥817,006	¥1,406,927	¥633,996	¥2,138,232	¥1,714,950	¥2,345,137	¥235,778	¥224,941	¥9,516,967
Transfers between operating segments	1,710	123	1,197	734	7,801	242	7,735	(19,542)	—
Total trading transactions	¥818,716	¥1,407,050	¥635,193	¥2,138,966	¥1,722,751	¥2,345,379	¥243,513	¥205,399	¥9,516,967
Gross trading profit	¥100,342	¥ 51,104	¥105,466	¥ 24,711	¥ 91,914	¥ 130,921	¥ 15,965	¥ 35,472	¥ 555,895
Equity in earnings (losses) of associated companies	¥ 18	¥ 4,133	¥ 460	¥ 7,465	¥ 2,603	¥ 7,967	¥ 1,119	¥ (906)	¥ 22,859
Net income (loss)	¥ 11,681	¥ 3,855	¥ 2,575	¥ 12,924	¥ 11,534	¥ 13,279	¥ (75,631)	¥ (12,161)	¥ (31,944)
Identifiable assets at March 31	¥382,696	¥ 433,557	¥464,311	¥ 443,726	¥ 557,364	¥ 711,606	¥609,733	¥884,289	¥4,487,282
Depreciation and amortization	¥ 3,305	¥ 5,924	¥ 10,492	¥ 2,716	¥ 4,924	¥ 5,750	¥ 2,384	¥ 4,689	¥ 40,184

	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
	Millions of Yen								
	2003								
Trading transactions:									
Unaffiliated customers and associated companies	¥871,680	¥1,746,583	¥793,901	¥2,216,196	¥1,799,838	¥2,522,544	¥269,442	¥226,187	¥10,446,371
Transfers between operating segments	2,423	168	983	1,316	8,702	248	1,215	(15,055)	—
Total trading transactions	¥874,103	¥1,746,751	¥794,884	¥2,217,512	¥1,808,540	¥2,522,792	¥270,657	¥211,132	¥10,446,371
Gross trading profit	¥ 93,471	¥ 48,576	¥101,468	¥ 32,958	¥ 87,061	¥ 130,114	¥ 33,841	¥ 37,478	¥ 564,967
Equity in earnings (losses) of associated companies	¥ 528	¥ 3,090	¥ (946)	¥ 4,130	¥ 4,466	¥ 6,102	¥ 1,138	¥ 31	¥ 18,539
Net income (loss)	¥ 10,428	¥ 2,363	¥ 14,263	¥ 10,003	¥ 10,682	¥ 11,859	¥ (8,403)	¥ (31,117)	¥ 20,078
Identifiable assets at March 31	¥370,802	¥ 490,076	¥484,255	¥ 391,551	¥ 524,644	¥ 654,377	¥692,656	¥878,044	¥ 4,486,405
Depreciation and amortization	¥ 3,710	¥ 2,911	¥ 9,669	¥ 1,578	¥ 3,664	¥ 3,044	¥ 1,726	¥ 7,492	¥ 33,794

	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
	Millions of U.S. dollars								
	2005								
Trading transactions:									
Unaffiliated customers and associated companies	$ 7,720	$ 10,864	$ 5,875	$ 23,014	$ 17,629	$ 19,666	$ 2,264	$ 2,139	$ 89,171
Transfers between operating segments	7	1	34	9	59	3	70	(183)	—
Total trading transactions	$ 7,727	$ 10,865	$ 5,909	$ 23,023	$ 17,688	$ 19,669	$ 2,334	$ 1,956	$ 89,171
Gross trading profit	$ 1,051	$ 540	$ 1,010	$ 364	$ 986	$ 1,268	$ 366	$ 289	$ 5,874
Equity in earnings (losses) of associated companies	$ 3	$ 42	$ 17	$ 112	$ 11	$ 93	$ 23	$ (5)	$ 296
Net income (loss)	$ 138	$ 97	$ 134	$ 239	$ 188	$ (86)	$ 50	$ (36)	$ 724
Identifiable assets at March 31	$ 3,513	$ 4,204	$ 4,557	$ 4,572	$ 5,435	$ 6,779	$ 5,730	$ 6,856	$ 41,646
Depreciation and amortization	$ 37	$ 17	$ 93	$ 31	$ 49	$ 53	$ 20	$ 73	$ 373

Note: 1. The "Other, Adjustments & Eliminations" includes trading transactions, gross trading profit, equity in earnings (losses) of associated companies, net income (loss), and identifiable assets not allocated to the specified operating segments in domestic and foreign areas, eliminations and adjustments, etc.
2. Net income (loss) in Finance, Realty, Insurance & Logistics Services for the year ended March 31, 2004 includes ¥1,828 million of extraordinary item-gain on negative goodwill, less applicable income taxes ¥1,271 million.

Geographic Information
Information concerning operations in different countries for the years ended March 31, 2005 and 2004 was as follows:

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

	Millions of Yen				
	2005				
	Japan	Australia	United Kingdom	Other	Consolidated
Long-lived assets	¥ 327,942	¥ 47,778	¥ 36,755	¥ 84,883	¥ 497,358

	Millions of Yen				
	2004				
	Japan	Australia	United Kingdom	Other	Consolidated
Long-lived assets	¥ 328,417	¥ 42,353	¥ 36,943	¥ 99,358	¥ 507,071

	Millions of U.S. dollars				
	2005				
	Japan	United states	Australia	Other	Consolidated
Revenue	$ 11,749	$ 3,945	$ 737	$ 2,111	$ 18,542

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

	Millions of U.S. dollars				
	2005				
	Japan	Australia	United Kingdom	Other	Consolidated
Long-lived assets	$ 3,054	$ 445	$ 342	$ 790	$ 4,631

Geographical Segment Information
Information concerning operations in different geographical areas in accordance with Japanese reporting practices for the years ended March 31, 2005, 2004, and 2003 was as follows:

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

	Millions of Yen						
	2004						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers and associated companies	¥ 7,523,783	¥ 381,107	¥ 167,225	¥ 1,273,337	¥ 171,515	¥ —	¥ 9,516,967
Transfers between geographical areas	1,081,327	189,351	30,686	1,272,877	385,288	(2,959,529)	—
Total trading transactions	¥ 8,605,110	¥ 570,458	¥ 197,911	¥ 2,546,214	¥ 556,803	¥ (2,959,529)	¥ 9,516,967
Identifiable assets at March 31	¥ 3,969,166	¥ 276,303	¥ 159,018	¥ 202,567	¥ 232,028	¥ (351,800)	¥ 4,487,282

	Millions of Yen						
	2003						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers							
and associated companies	¥ 8,227,527	¥ 484,551	¥ 159,584	¥ 1,362,552	¥ 212,157	¥ —	¥10,446,371
Transfers between geographical areas	1,027,004	202,224	34,901	971,614	392,989	(2,628,732)	—
Total trading transactions	¥ 9,254,531	¥ 686,775	¥ 194,485	¥ 2,334,166	¥ 605,146	¥ (2,628,732)	¥10,446,371
Identifiable assets at March 31	¥ 3,884,166	¥ 372,447	¥ 174,403	¥ 202,014	¥ 233,304	¥ (379,929)	¥ 4,486,405

	Millions of U.S. dollars						
	2005						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers							
and associated companies	$ 66,520	$ 4,438	$ 1,747	$ 14,469	$ 1,997	$ —	$ 89,171
Transfers between geographical areas	13,797	1,798	379	14,869	2,825	(33,668)	—
Total trading transactions	$ 80,317	$ 6,236	$ 2,126	$ 29,338	$ 4,822	$ (33,668)	$ 89,171
Identifiable assets at March 31	$ 35,725	$ 2,749	$ 1,497	$ 2,096	$ 2,656	$ (3,077)	$ 41,646

Note: 1. The method for classifying countries or areas is based on the degree of geographical proximity.
The main countries or areas belonging to each geographical area were as follows:
North America: United States Europe: United Kingdom
Asia: Singapore, China Other Areas: Latin America, Oceania, Middle East
2. The amounts of unallocated common assets included in the "Eliminations or Unallocated" were ¥67,822 million ($632 million), ¥61,602 million and ¥73,112 million for the years ended March 31, 2005, 2004 and 2003, respectively.

15. Common Stock

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code provides that at least one half of the issue price of new shares shall be credited to the common stock account, unless otherwise specified in the Code.

The Company issued 158,000,000 shares of common stock by public offering on July 25, 2002. One half of the amount for this issuance has been credited to the common stock account, and the remainder has been credited to the capital surplus account in accordance with the provisions of the Code.

On March 22, 2004, the Company issued 1,401,768 shares of common stock to acquire minority interests through re-organization of a subsidiary. All of the minority interests acquired through this issuance have been credited to the capital surplus account.

The Code permits Japanese companies to repurchase treasury stock upon the approval of the Board of Directors, as far as it is permitted under the Articles of Incorporation, subject to limitations imposed by the Code. The Code also permits Japanese companies to dispose of their own shares by resolution of the Board of Directors, unless otherwise specified in the Code, or if the Articles of Incorporation do not require a resolution of the shareholders at the shareholders' meeting.

Reference is made to note 23, "Subsequent events", for the amendment of the Articles of Incorporation at the ordinary general meeting of shareholders at June 29, 2005.

16. Capital Surplus and Retained Earnings

The Code provides that at least 10% of the total amount of cash dividends and other cash appropriations of retained earnings applicable to each fiscal period shall be appropriated to a legal reserve until an aggregated amount of capital surplus and legal reserve equals 25% of common stock.

The amount available for dividends under the Code is based on the amount recorded in the Company's books of account 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 books of account, have no effect on the determination of retained earnings available for dividends under the Code. The amount available for dividends under the Code was ¥28,800 million ($268 million) as of March 31, 2005.

At the June 29, 2000 shareholders' meeting of the Company, the shareholders approved a proposal to eliminate the Company's accumulated deficit of ¥109,799 million ($1,022 million) from the Company's books of account by a transfer from capital surplus as permitted by the Code.

Because the Company's accumulated deficit 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 in reliance on private company practices in the United States of America. The balance of the consolidated retained earnings as of March 31, 2005 would have been ¥78,401 million ($730 million) including a legal reserve of ¥3,927 million ($37 million) had the Company not eliminated the accumulated deficit.

17. Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) was as follows:

	Millions of Yen			Millions of U.S. dollars
	2005	2004	2003	2005
Foreign currency translation adjustments:				
Balance at beginning of year	¥ (67,767)	¥ (51,209)	¥ (30,646)	$ (631)
Change for the year	4,348	(16,558)	(20,563)	41
Balance at end of year	(63,419)	(67,767)	(51,209)	(590)
Minimum pension liability adjustments:				
Balance at beginning of year	(634)	(1,428)	(739)	(6)
Change for the year	(1,413)	794	(689)	(13)
Balance at end of year	(2,047)	(634)	(1,428)	(19)
Unrealized holding gains on securities:				
Balance at beginning of year	45,653	(381)	17,446	425
Change for the year	7,093	46,034	(17,827)	66
Balance at end of year	52,746	45,653	(381)	491
Unrealized holding losses on derivative instruments:				
Balance at beginning of year	(3,234)	(5,390)	(6,325)	(30)
Change for the year	(288)	2,156	935	(3)
Balance at end of year	(3,522)	(3,234)	(5,390)	(33)
Accumulated other comprehensive loss:				
Balance at beginning of year	(25,982)	(58,408)	(20,264)	(242)
Change for the year	9,740	32,426	(38,144)	91
Balance at end of year	¥ (16,242)	¥ (25,982)	¥ (58,408)	$ (151)

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

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

	Millions of Yen		
	2004		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥ (16,306)	¥ 20	¥ (16,286)
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	(111)	(161)	(272)
Net change in foreign currency translation adjustments during the year	(16,417)	(141)	(16,558)
Minimum pension liability adjustments	1,638	(844)	794
Unrealized holding gains on securities:			
Amount arising during the year on available-for-sale securities	81,650	(30,738)	50,912
Reclassification adjustments for gains and losses realized in net income	(8,260)	3,382	(4,878)
Net change in unrealized holding gains on securities during the year	73,390	(27,356)	46,034
Unrealized holding losses on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(1,891)	667	(1,224)
Reclassification adjustments for gains and losses realized in net income	5,698	(2,318)	3,380
Net change in unrealized holding gains on derivative instruments during the year	3,807	(1,651)	2,156
Other comprehensive income	¥ 62,418	¥ (29,992)	¥ 32,426

	Millions of Yen		
	2003		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥ (19,931)	¥ (224)	¥ (20,155)
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	(408)	—	(408)
Net change in foreign currency translation adjustments during the year	(20,339)	(224)	(20,563)
Minimum pension liability adjustments	(1,474)	785	(689)
Unrealized holding losses on securities:			
Amount arising during the year on available-for-sale securities	(36,825)	15,220	(21,605)
Reclassification adjustments for gains and losses realized in net income	6,411	(2,633)	3,778
Net change in unrealized holding losses on securities during the year	(30,414)	12,587	(17,827)
Unrealized holding losses on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(3,060)	1,189	(1,871)
Reclassification adjustments for gains and losses realized in net income	4,838	(2,032)	2,806
Net change in unrealized holding gains on derivative instruments during the year	1,778	(843)	935
Other comprehensive loss	¥ (50,449)	¥ 12,305	¥ (38,144)

	Millions of U.S. dollars		
	2005		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	$ 17	$ (0)	$ 17
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	23	1	24
Net change in foreign currency translation adjustments during the year	40	1	41
Minimum pension liability adjustments	(19)	6	(13)
Unrealized holding gains on securities:			
Amount arising during the year on available-for-sale securities	170	(42)	128
Reclassification adjustments for gains and losses realized in net income	(105)	43	(62)
Net change in unrealized holding gains on securities during the year	65	1	66
Unrealized holding losses on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(51)	25	(26)
Reclassification adjustments for gains and losses realized in net income	38	(15)	23
Net change in unrealized holding losses on derivative instruments during the year	(13)	10	(3)
Other comprehensive income	$ 73	$ 18	$ 91

18. 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 establish 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 hedge ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness was not material for the years ended March 31, 2005, 2004 and 2003.

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, 2005, 2004 and 2003.

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 hedge ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2005, 2004 and 2003.

Net losses of ¥2,464 million ($23 million), ¥3,380 million and ¥2,806 million were reclassified from AOCI into earnings during the years ended March 31, 2005, 2004 and 2003, respectively, when the hedged items affected earnings.

Net losses of ¥1,941 million ($18 million) in AOCI at March 31, 2005 are expected to be reclassified to earnings within the next 12 months.

As of March 31, 2005, 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 62 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, 2005, 2004 and 2003.

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, 2005 and 2004 were as follows:

	Millions of Yen				Millions of U.S. dollars	
	2005		2004		2005	
	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)	¥ 232,355	¥ 232,864	¥ 262,260	¥ 262,889	$ 2,164	$ 2,168
Financial Liabilities:						
Long-term debt (including current maturities)	¥ 2,005,988	¥ 2,006,809	¥ 2,092,757	¥ 2,093,503	$ 18,679	$ 18,687
Derivative Financial Instruments (Assets):						
Foreign exchange contracts (including currency swap agreements)	¥ 7,752	¥ 7,752	¥ 4,296	¥ 4,296	$ 72	$ 72
Interest rate swap agreements	11,278	11,278	14,830	14,830	105	105
Interest rate option agreements	161	161	195	195	1	1
Derivative Financial Instruments (Liabilities):						
Foreign exchange contracts (including currency swap agreements)	¥ 2,590	¥ 2,590	¥ 4,166	¥ 4,166	$ 24	$ 24
Interest rate swap agreements	7,763	7,763	4,924	4,924	72	72

Quoted market prices, where available, are used to estimate fair values of financial instruments. However fair values are estimated using 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 approximate fair values. The fair values for each category of securities is set forth in note 3 "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 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 option pricing model.

19. Issuance of Stock by Subsidiaries or Associated Companies

CENTURY LEASING SYSTEM, INC., an associated company, issued 10,000,000 shares of common stock in a public offering to third parties on September 18, 2003, the date of its listing on the second section of the Tokyo Stock Exchange. The offering price per share was ¥752, which was lower than the Company's carrying value per share of the associated company's stock.

This issuance decreased the Company's ownership of the associated company from 26.3% to 21.3%. The issuance of these shares for ¥7,520 million ($71 million) was regarded as a sale of part of the Company's interest in the associated company and the Company recognized a loss of ¥362 million ($3 million) for the year ended March 31, 2004, which is included in "Loss on disposal of investments and marketable securities, including write-down."

Excite Japan Co., Ltd., a consolidated subsidiary, issued 3,500 shares of common stock in a public offering to third parties on November 2, 2004, the date of its listing on the JASDAQ market. The offering price per share was ¥1,222,000, which was in excess of the Company's carrying value per share of the subsidiary stock.

This issuance decreased the Company and its subsidiaries' ownership of the subsidiary from 87.3% to 76.0%. The issuance of these shares for ¥4,277 million ($40 million) was regarded as a sale of part of the Company's interest in the subsidiary and the Company recognized a gain of ¥3,043 million ($28 million) for the year ended March 31, 2005, which is included in "Loss on disposal of investments and marketable securities, including write-down."

kabu.com Securities Co., Ltd., an associated company, issued 36,000 shares of common stock in a public offering to third parties on March 17, 2005, the date of its listing on the first section of the Tokyo Stock Exchange. The offering price per share was ¥338,400, which was in excess of the Company's carrying value per share of the associated company's stock.

This issuance decreased the Company and its subsidiary's ownership of the associated company from 29.7% to 26.3%. The issuance of these shares for ¥12,182 million ($113 million) was regarded as a sale of part of the Company's interest in the associated company and the Company recognized a gain of ¥2,842 million ($26 million) for the year ended March 31, 2005, which is included in "Loss on disposal of investments and marketable securities, including write-down."

20. 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, 2005 and 2004 were as follows:

	Millions of Yen		Millions of U.S. dollars
	2005	2004	2005
Total minimum lease payments to be received	¥ 16,678	¥ 22,321	$ 155
Less unearned income	(2,306)	(3,946)	(21)
Estimated unguaranteed residual value	4,680	12,547	43
Less allowance for doubtful receivables	(2,612)	(1,938)	(24)
Net investment in direct financing leases	¥ 16,440	¥ 28,984	$ 153

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, 2005 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2006	¥ 5,841	$ 54
2007	5,000	47
2008	4,028	37
2009	1,279	12
2010	518	5
2011 and thereafter	12	0
Total	¥ 16,678	$ 155

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, 2005 were ¥178,771 million ($1,665 million) and ¥41,708 million ($388 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, 2005 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2006	¥ 15,201	$ 142
2007	8,487	79
2008	6,447	60
2009	4,711	44
2010	3,445	32
2011 and thereafter	12,184	113
Total	¥ 50,475	$ 470

Lessee

The Company and certain subsidiaries lease buildings, industrial machinery and other machinery and equipment, under agreements which are classified as capital leases. The cost and accumulated depreciation of such leased assets were ¥43,078 million ($401 million) and ¥17,313 million ($161 million), respectively, as of March 31, 2005 and ¥43,666 million and ¥16,365 million, respectively, as of March 31, 2004. The components of the capital lease obligations as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Millions of U.S. dollars
	2005	2004	2005
Total minimum lease payments	¥ 39,900	¥ 42,196	$ 372
Less amount representing interest	(5,643)	(6,203)	(53)
Capital lease obligations	¥ 34,257	¥ 35,993	$ 319

The schedule of future minimum lease payments for each of the five succeeding years and thereafter as of March 31, 2005 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2006	¥ 8,600	$ 80
2007	6,561	61
2008	6,677	62
2009	3,395	32
2010	2,217	21
2011 and thereafter	12,450	116
Total	¥ 39,900	$ 372

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 ¥9,158 million ($85 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, 2005 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2006	¥ 19,763	$ 184
2007	15,487	144
2008	11,705	109
2009	9,160	85
2010	8,081	75
2011 and thereafter	34,622	323
Total	¥ 98,818	$ 920

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 ¥14,441 million ($134 million).

21. Variable Interest Entities

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

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

The total assets and maximum exposure to loss to the Company as a result of its involvement in the variable interest entities where the Company and its subsidiaries are not the primary beneficiary, but have significant variable interests, were ¥153,403 million ($1,428 million) and ¥27,253 million ($254 million), respectively, as of March 31, 2005 and ¥56,966 million and ¥22,673 million, respectively, as of March 31, 2004. The maximum exposure to loss, which includes loans and guarantees, are 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.

22. Commitments and Contingent Liabilities

The Company and certain subsidiaries enter into long-term purchase contracts for certain items either at fixed or at variable prices. In most cases, these contracts are matched with counterparty sales contracts.

The Company and its subsidiaries issue various guarantees for indebtedness of associated companies and customers. The guarantees are principally for monetary indebtedness by third parties to enhance their credit standings. If a guaranteed party failed to fulfill its obligation, the Company and its subsidiaries would be required to execute payments. The maximum potential amount of future payments and the amount of substantial risk at March 31, 2005 and 2004 are summarized below:

	Millions of Yen		
	2005		
	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for associated companies:			
Maximum potential amount of future payments	¥ 125,185	¥ 11,929	¥ 137,114
Amount of substantial risk	73,263	9,186	82,449
Guarantees for customers:			
Maximum potential amount of future payments	119,620	17,999	137,619
Amount of substantial risk	64,005	15,005	79,010
Total:			
Maximum potential amount of future payments	¥ 244,805	¥ 29,928	¥ 274,733
Amount of substantial risk	137,268	24,191	161,459

	Millions of Yen		
	2004		
	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for associated companies:			
Maximum potential amount of future payments	¥ 159,959	¥ 11,916	¥ 171,875
Amount of substantial risk	94,317	9,437	103,754
Guarantees for customers:			
Maximum potential amount of future payments	121,426	13,814	135,240
Amount of substantial risk	54,310	11,170	65,480
Total:			
Maximum potential amount of future payments	¥ 281,385	¥ 25,730	¥ 307,115
Amount of substantial risk	148,627	20,607	169,234

	Millions of U.S. dollars		
	2005		
	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for associated companies:			
Maximum potential amount of future payments	$ 1,166	$ 111	$ 1,277
Amount of substantial risk	682	86	768
Guarantees for customers:			
Maximum potential amount of future payments	1,113	168	1,281
Amount of substantial risk	596	139	735
Total:			
Maximum potential amount of future payments	$ 2,279	$ 279	$ 2,558
Amount of substantial risk	1,278	225	1,503

The amount of substantial risk at March 31, 2005 and 2004 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 ¥1,127 million ($10 million) and ¥1,642 million at March 31, 2005 and 2004, 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 ¥13,566 million ($126 million) and ¥15,004 million at March 31, 2005 and 2004. 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 ¥80,144 million ($746 million) and ¥88,088 million at March 31, 2005 and 2004, respectively.

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

The major associated companies and customers and the substantial risk of the related guarantees for monetary indebtedness at March 31, 2005 and 2004 were as follows:

	Millions of Yen	Millions of U.S. dollars
	2005	
SAKHALIN OIL AND GAS DEVELOPMENT CO., LTD.	¥ 15,340	$ 143
Tokyo Humania Enterprise Inc.	12,200	114
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	10,588	99
JAPAN OHANET OIL & GAS CO., LTD.	6,425	60
STAR CHANNEL, INC.	6,400	60
Quatro World Maritime S.A.	5,746	54
AI BEVERAGE HOLDING CO. LTD.	5,265	49
Marubeni-Itochu Steel Inc.	5,017	47
Marubeni-Itochu Steel America Inc.	3,531	33
Kawasaki Kisen Kaisha, Ltd	2,873	27

	Millions of Yen
	2004
Marubeni-Itochu Steel Inc.	¥ 29,568
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	11,231
JAPAN OHANET OIL & GAS CO., LTD	10,239
Tokyo Humania Enterprise Inc.	7,500
SAKHALIN OIL AND GAS DEVELOPMENT CO., LTD.	6,520
Marubeni-Itochu Steel America Inc.	6,482
Quatro World Maritime S.A.	4,901
STAR CHANNEL, INC.	4,200
Bontang Train • G Project	3,373
P.T. PANTJA MOTOR	2,995

The Company and its subsidiaries were contingently liable in the amounts of ¥6,293 million ($59 million) and ¥10,999 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, 2005 and 2004, respectively. The amounts of export bills of exchange discounted with banks in the ordinary course of business were ¥72,317 million ($673 million) and ¥53,940 million at March 31, 2005 and 2004, respectively.

In July 2001, Citibank, N.A. and Citibank Canada, a wholly-owned subsidiary of Citibank, N.A. (together, “Citibank”), filed a complaint against ITOCHU International Inc. and III Holding Inc. (previously named Copelco Financial Services Group, Inc.), a wholly owned subsidiary of ITOCHU International Inc. (collectively, “III”), in the United States District Court for the Southern District of New York. Citibank was alleging violation of the federal securities laws, fraud and breach of contract and related claims arising in connection with Citibank’s acquisition of all the common stock of Copelco Capital. Inc. (“Copelco”), a former wholly-owned subsidiary of III Holding Inc., for a purchase price of approximately U.S.$666 million in May 2000. More specifically, Citibank was alleging that Citibank relied on the accuracy of Copelco’s financial statements and other documents and statements provided and given by III to Citibank and that such financial statements had not been prepared in compliance with U.S. GAAP and/or in accordance with Copelco’s internal accounting rules and practices in connection with, inter alia, accounting and collection policies and procedures of lease receivables, the amount of charge-off concerning delinquent lease receivables, loss reserve methodology, earnings from general ledger accounts and reconciliation of investment accounts, based upon which Citibank sought compensatory damages and related costs and attorney’s fees. Disclosures made by Citibank during pretrial discovery indicated its belief that the total amount of the damages suffered was approximately U.S.$459 million. In February 2005, pursuant to a stipulation with III, Citibank dismissed with prejudice its claims related to the alleged violation of the federal securities laws and fraud, and withdrew its suit in the United States District Court. Plaintiff then re-filed its complaint against III in the New York Supreme Court for New York County alleging breach of contract and contractual indemnity. According to the complaint re-filed by Citibank, Citibank is alleging that Copelco’s stockholder’s equity was overstated by approximately U.S.$159 million and it continues to seek an unspecified amount of compensatory damages and related costs and attorney’s fees as noted above.

III is defending this action vigorously and maintains that it has no liability in this matter. However, due to the inherent uncertainty of litigation, it is not possible to predict the ultimate outcome of this litigation. Accordingly, there can be no assurance that III will prevail in the action or that the Company’s consolidated financial position may not be materially adversely affected by such action.

23. Subsequent events

At the ordinary general meeting of shareholders held on June 29, 2005, the Company was authorized to pay a cash dividend of ¥7 ($0.07) per share, or a total of ¥11,085 million ($103 million) to shareholders of record on March 31, 2005.

The Company was also authorized to amend the Articles of Incorporation to provide that the Company could purchase outstanding shares of its own common stock upon resolution of the Board of Directors.

Deloitte.

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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, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended (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. The consolidated financial statements of the Company for the year ended March 31, 2003 were audited by other auditors whose report, dated May 23, 2003, expressed an unqualified opinion on those statements.

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 2005 and 2004 consolidated financial statements present fairly, in all material respects, the financial position of ITOCHU Corporation and subsidiaries as of March 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

May 11, 2005, except for Note 23, as to which the date is June 29, 2005

Member of
Deloitte Touche Tohmatsu