ITOCHU Corporation

Annual Report 2006

For the Year Ended March 31, 2006

Profile

The history of ITOCHU Corporation dates back to 1858 when the Company's founder Chubei Itoh commenced linen trading operations. Since then, the Company has evolved and grown over about 150 years into a business engaged in the domestic trading, import/export, and overseas trading of various products such as textiles, machinery, information and communications-related products, metals, products related to oil and other energy sources, general merchandise, chemicals, and provisions and food. Moreover, ITOCHU has made multifaceted investments in insurance agencies, finance, construction, real estate trading, and warehousing as well as operations and businesses incidental or related to those fields.

Building on its highly efficient profit structure and solid financial position gained through the advancement of its A&P strategy, ITOCHU started a mid-term management plan "Frontier-2006: A Shift to Aggressive Business and Enhancement of Solid Management" in the fiscal year ended March 2006. The Company is aiming to become a high-profit corporate group earning over ¥100 billion in consolidated net income in a steady and sustainable manner by (1) taking on the challenge of expanding earnings, (2) creating new businesses, and (3) enhancing solid management including a further improvement of its financial position. ITOCHU has been working toward these goals utilizing the collective strength of the ITOCHU Group to flexibly respond to drastic changes in the business environment. In terms of the shift to aggressive business, our efforts resulted in another record high profit in the fiscal year ended March 2006 following on from the previous fiscal year. Also in terms of the enhancement of solid management, we achieved a further improvement in the NET DER (debt-to-equity ratio). Given these results, it can be concluded that ITOCHU made a solid step forward in the fiscal year ended March 2006.

In the fiscal year ending March 2007, the last year of "Frontier-2006," ITOCHU will continue and strengthen the basic policy of this mid-term management plan and will aim to build the optimum management system that can support the "aggressive business" and "solid management" in our business operations with the banner being "Acceleration of the shift to aggressive business," while further advancing the goals we have already achieved earlier than originally planned, expanding earnings, creating new businesses, and improving the financial position.

*A&P Strategy: ITOCHU's strategy for enhancing profitability by intensively allocating management resources to areas that are Attractive to customers and where ITOCHU is Powerful. ITOCHU has advanced the A&P strategy through the implementation of two mid-term management plans: A&P-2002 (the fiscal year ended March 2002 - the fiscal year ended March 2003) and Super A&P-2004 (the fiscal year ended March 2004 - the fiscal year ended March 2005).

Contents

Financial Highlights

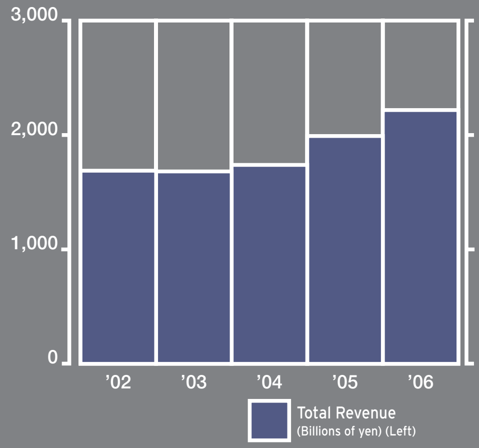
ITOCHU Corporation and Subsidiaries
Years ended March 31

	2006	2005	2004	2003	2002	2006/2005	2006
	Millions of Yen					Increase (Decrease) %	Millions of U.S. dollars
For the fiscal year:							
Revenue	¥ 2,218,221	¥1,991,238	¥1,738,747	¥ 1,681,718	¥ 1,688,128	11.4%	$18,883
Gross trading profit	714,374	630,761	555,895	564,967	578,656	13.3	6,081
Net Financial Expenses*	(7,816)	(6,878)	(14,215)	(20,579)	(21,942)	13.6	(67)
Net Interest Expenses*	(26,032)	(21,040)	(24,743)	(30,655)	(34,939)	23.7	(222)
Dividends Received	18,216	14,162	10,528	10,076	12,997	28.6	155
Equity in Earnings of Associated Companies	51,737	31,764	22,859	18,539	11,362	62.9	441
Net income (loss)	145,146	77,792	(31,944)	20,078	30,191	86.6	1,236
At fiscal year-end:							
Total assets	4,797,013	4,472,345	4,487,282	4,486,405	4,752,319	7.3	40,836
Stockholders' equity	726,816	510,397	422,866	426,220	397,668	42.4	6,187
Net interest-bearing debt*	1,724,314	1,891,086	1,977,048	2,025,048	2,296,398	(8.8)	14,679
Cash flows:							
Cash flows from operating activities	185,147	126,624	184,780	168,843	216,503	46.2	1,576
Cash flows from investing activities	(79,871)	(127,600)	(55,300)	5,253	214,008	—	(680)
Cash flows from financing activities	(85,193)	(125,342)	(79,695)	(114,041)	(232,047)	—	(725)
Cash and cash equivalents at end of year	477,707	452,934	579,565	534,156	479,734	5.5	4,067
	Yen (Unless otherwise specified)					Increase (Decrease) %	U.S. dollars (Unless otherwise specified)
Per share (Yen and U.S. Dollars):							
Net income (loss)	¥ 91.74	¥ 49.16	¥ (20.20)	¥ 13.12	¥ 21.18	86.6%	$ 0.78
Stockholders' equity	459.47	322.54	267.25	269.53	278.99	42.5	3.91
Cash dividends	9.0	7.0	—	5.0	5.0	28.6	0.08
Ratios:							
Gross trading profit ratio (%)	6.8	6.6	5.8	5.4	5.1		
ROA (%)	3.1	1.7	—	0.4	0.6		
ROE (%)	23.5	16.7	—	4.9	8.4		
Ratio of stockholders' equity to total assets (%)	15.2	11.4	9.4	9.5	8.4		
Net debt-to-equity ratio (NET DER) (times)	2.4	3.7	4.7	4.8	5.8		
	Millions of Yen					Increase (Decrease) %	Millions of U.S. dollars
(Reference)							
Total trading transactions	¥10,473,885	¥9,576,039	¥9,516,967	¥10,446,371	¥11,395,240	9.4%	$89,162
Adjusted profit*	252,038	188,807	100,676	114,454	102,557	33.5	2,146

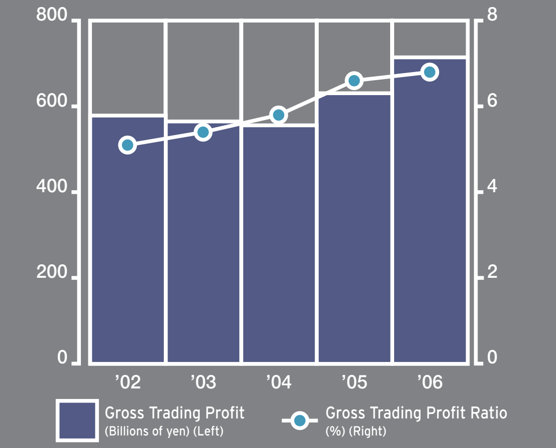
All figures are for fiscal years, which begin on April 1 of the years preceding and extend through March 31.
The Japanese yen amounts for the year ended March 31, 2006, have been translated into United States dollar amounts, solely for the convenience of the reader, at the rate of ¥117.47 = U.S.$1, the official rate of The Bank of Tokyo-Mitsubishi UFJ, Ltd., as of March 31, 2006.
Revenue is presented in accordance with "Emerging Issues Task Force (EITF)" No.99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent."
Total trading transactions are presented in accordance with Japanese accounting practice.
Total trading transactions consist of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.
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.

*Net financial Expenses=Net Interest Expenses + Dividends Received
Calculation formula (Fiscal 2006: ¥ billion):(-7.8) =(-26.0) +18.2
*Net Interest Expenses=Interest Income + Interest Expense
*Net interest-bearing debt = Interest-bearing debt – Cash, cash equivalents and time deposits
Calculation formula (Fiscal 2006: ¥ billion):1,724.3 =2,226.5 – 502.2
*Adjusted profit=Gross trading profit + Selling, general and administrative expenses + Net financial expenses + Equity in earnings of associated companies
Calculation formula (Fiscal 2006: ¥ billion):252.0 =714.4 + (-506.3) + (-7.8) + 51.7

Total Revenue



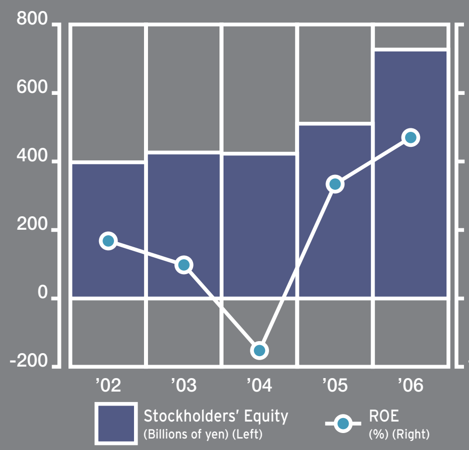
Gross Trading Profit and Gross Trading Profit Ratio



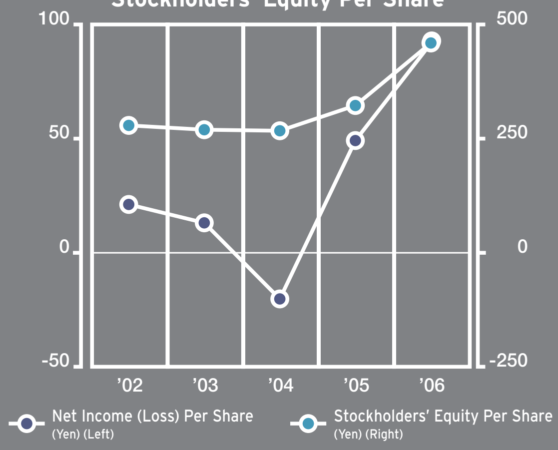
Net Income (Loss) and Adjusted Profit

Total Assets and ROA

Stockholders' Equity and ROE



Net Income (Loss) Per Share and Stockholders' Equity Per Share



ITOCHU at a Glance

1. We Have Achieved Mid-Term Management Plan "Frontier-2006" Goals Ahead of Schedule – Will Accelerate the "Shift to aggressive business"

We embarked on the mid-term management plan, "Frontier-2006," (a two-year plan covering the fiscal years ended March 2006 and ending March 2007) in the fiscal year ended March 2006, positioning these two years as the period during which we will have established ourselves as a highly profitable corporate group that steadily and consistently generates net income in excess of ¥100 billion, under the banner of the "Shift to aggressive business" and the "Enhancement of solid management."

In the fiscal year ended March 2006, the initial year of the mid-term management plan, on the front of "aggressive business," we were able to steadily enhance our earnings base, achieving all-time highs in terms of both gross trading profit and net income, with all business segments posting increases in gross trading profit for the second consecutive year.

On the front of "solid management," the net debt-to-equity ratio (NET DER) declined to 2.4 times, achieving the goal of bringing it down to below 3 times during the duration of the mid-term management plan ahead of schedule.

This demonstrates that our steady and strenuous efforts toward enhancing asset efficiency and improving the financial strength have borne fruit, and allows us to further accelerate the "Shift to aggressive business" while at the same time continuing the "Enhancement of solid management" in the fiscal year ending March 2007.

2. Priority Areas for the "Shift to aggressive business"

Under the mid-term management plan, "Frontier-2006," we will identify core segments and areas of business for each Division Company for a further acceleration of selection and concentration for the "vertical reinforcement" of our business operations, while continuing to reshuffle and upgrade our assets. For the "horizontal integration" of business, we will reinforce our in-house system to facilitate company-wide projects and strive to exert our collective strength as a corporate group to expand profits in Consumer Related sectors where our group has particular strength as well as in sectors related to Natural Resource Development where demand is likely to expand. In overseas markets, we are putting more management resources in the priority markets of North America and Asia including China with great potential business opportunities in the hope of further increasing profits there. We also have made upfront investments in emerging markets such as Russia, India and Brazil.

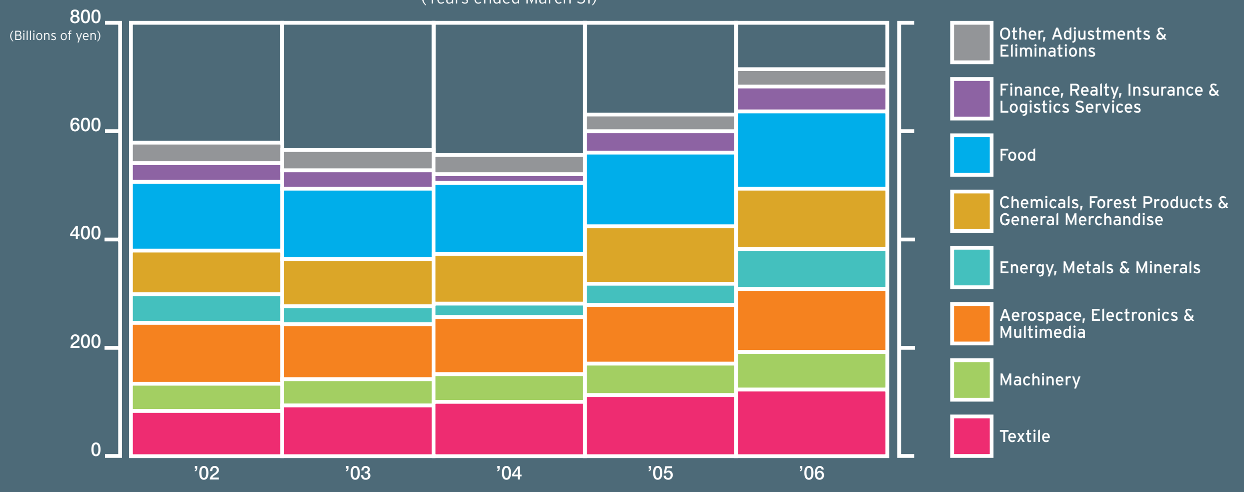
3. Development of New Businesses and Further Improvement of Financial Strength

We will continue to strive to create a stream of new businesses in the second and final year of "Frontier-2006." We will expand consumer businesses amid the falling birthrate and graying population as well as increasingly diversified consumer needs and bolster the healthcare and living services sector catering mainly to the senior segment of the population in such areas as medical treatment, nursing care, hobbies and travel. In the high-tech sector, we will make strategic upfront investments by exploiting our global strategic alliances and strive to have projects in progress yield profits as early as possible.

As part of ongoing efforts to enhance financial strength, we will continue to control interest-bearing debt.

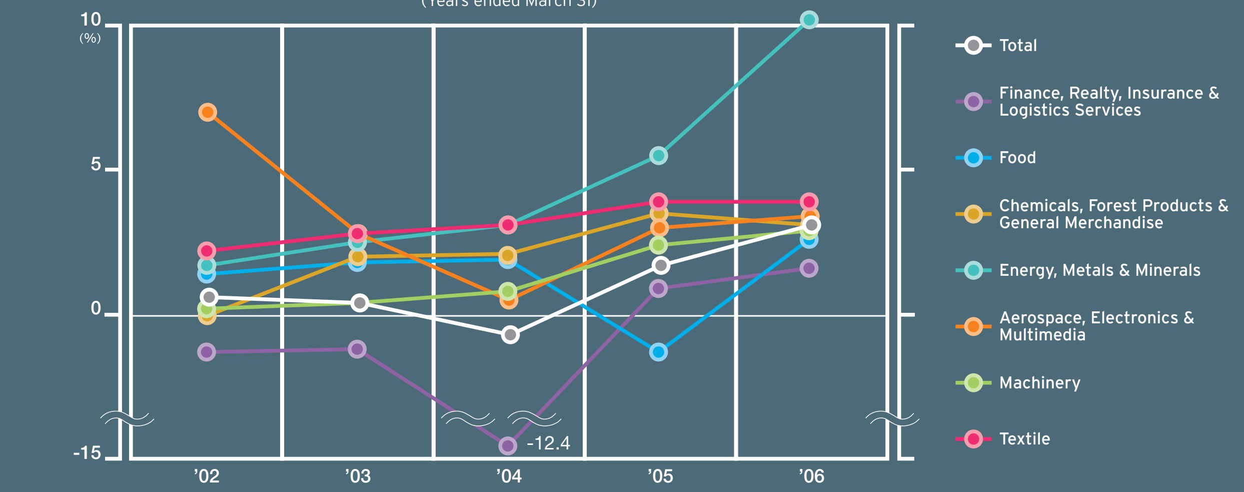
Cumulative Gross Trading Profit

(Years ended March 31)



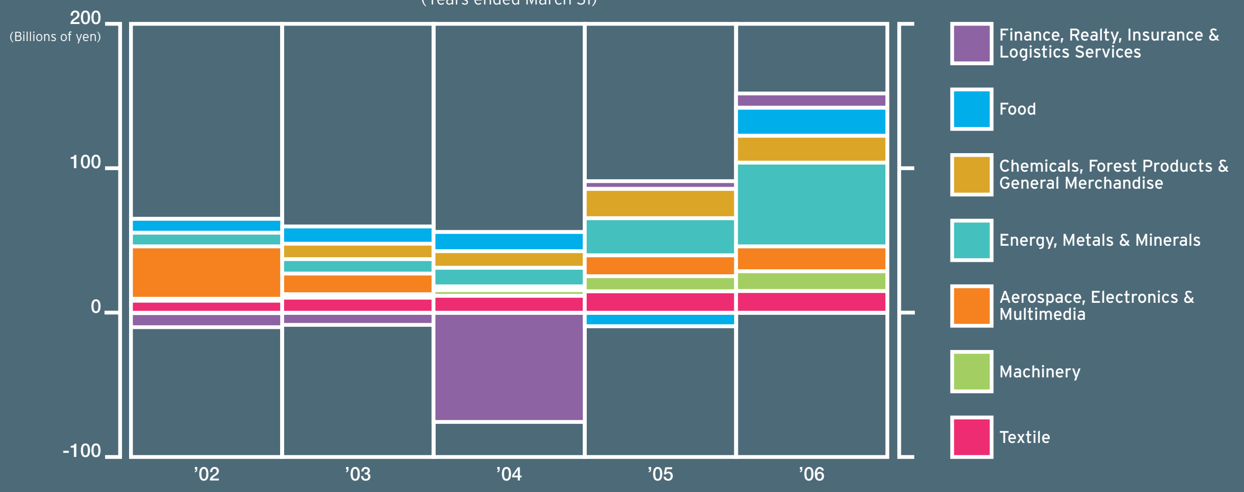
Changes in ROA

(Years ended March 31)



Changes in Net Income

(Years ended March 31)



To All of ITOCHU's Stakeholders

Eizo Kobayashi
President and Chief Executive Officer

ITOCHU launched the mid-term management plan "Frontier-2006" (a two-year plan covering the fiscal years ended March 2006 and ending March 2007) in the fiscal year ended March 2006 and positioned these two years as a period for ITOCHU Group to gain a foothold for becoming a highly profitable entity achieving over ¥100 billion in consolidated net income in a steady and sustainable manner. We are endeavoring every day to expand our earnings and reinforce our business foundation by foreseeing changes, always seeking the frontier, and pursuing my motto of "Challenge, Create, and Commit."

Looking at the Annual Financial Statements for the fiscal year ended March 2006, the initial year of Frontier-2006, as to "aggressive business," we achieved record-high net income and record highs for all of the other main income items, our gross trading profit increased in all of our business segments for the second consecutive year, and we steadily strengthened our "basic earning power." As a cornerstone for the future, in the Consumer Related sector and Natural Resource Development sector we executed promising investments that are expected to operate highly efficiently in future.

As to "solid management," with our improving net debt-to-equity ratio (NET DER) down to 2.4 times we have already achieved our target for the mid-term management plan — NET DER below 3 times.

ITOCHU has steadily advanced the "Shift to aggressive business" and "Enhancement of solid management" stipulated in the mid-term management plan "Frontier-2006."

Main Points in the Fiscal Year Ended March 2006

The main "aggressive business" and "solid management" points in the fiscal year ended March 2006 are as follows.

1. Steady execution of a "Shift to aggressive business" – Expansion of earnings -

ITOCHU renewed record-high consolidated net income of ¥145.1 billion that surpassed our long-standing goal of ¥100 billion. In addition to consolidated net income we also achieved record-high gross trading profit (¥714.4 billion), income before income taxes, minority interests, equity in earnings of associated companies, and cumulative effect of an accounting change (¥216.9 billion), equity in earnings of associated companies (¥51.7 billion), adjusted profit (¥252.0 billion),* and parent company net income (¥54.4 billion), etc. Gross trading profit showed particularly strong growth, with a 13.3% year-on-year increase. We have achieved an increase in gross trading profit in all of our business segments for two consecutive years. Net income has nearly doubled on a consolidated basis since the previous fiscal year and net income for the parent company alone has increased by approximately 1.6 times. Thus we have achieved record-high net income which is well balanced between the group as a whole and the parent company and we have steadily expanded earnings.

Furthermore, as a cornerstone for future earnings expansion, we have made up-front investments in Orient Corporation (Orico), acquired new natural resource related equity shares, and participated in iron ore production enhancement projects. We have also proactively and steadily made a strategic move into our brand business.

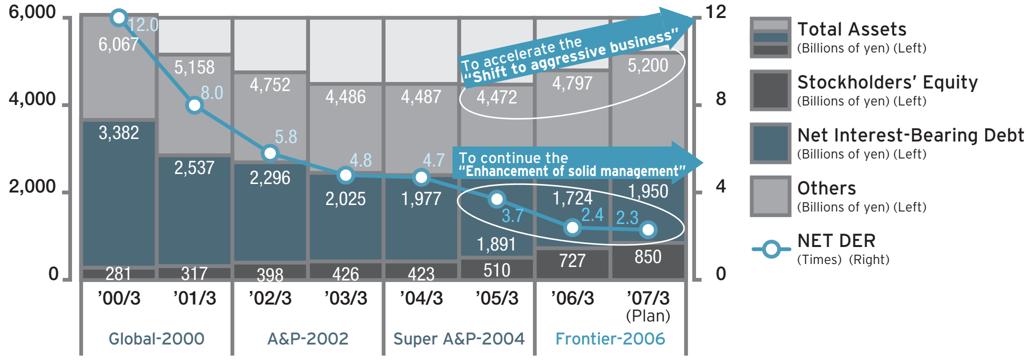
ITOCHU's efforts to date to boost asset efficiency and improve our financial position have born fruit and I firmly believe that we have almost completed the foundation to support a highly profitable corporate group earning over ¥100 billion in consolidated net income in a steady and sustainable manner.

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

2. Further promotion of the "Enhancement of solid management" underpinning "aggressive business" — Reinforcement of our financial position —

Reflecting our shift to aggressive business, total assets reached ¥4.797 trillion, a ¥324.7 billion increase from the end of the previous fiscal year, due to the increase in trade receivables and investment. Total stockholders' equity achieved an all-time high of ¥726.8 billion. Meanwhile we continued to promote control of interest-bearing debt and have reduced them to ¥1.724 trillion, ¥166.8 billion less than at the end of the previous fiscal year. As a result we achieved a NET DER of 2.4 times, an improvement of 1.3 points compared to the end of the previous fiscal year. It signifies that we have achieved the target in the mid-term management plan of a NET DER "below 3.0 times" well ahead of schedule. I am convinced that the enhancement of our financial position is making steady progress.

Further Improvement of Financial Position
(As of March 31)



"Frontier-2006" - Shift to Aggressive Business and Enhancement of Solid Management – Toward the Final Fiscal Year of the Plan

Assessing the outlook for the future business environment surrounding the ITOCHU Group, domestically we expect a positive growth cycle will be maintained in which the high level of corporate profits will bring about an increase in employment and capital investment and this in turn will lead to an expansion in production and earnings.

Turning our eyes to overseas, the economies of the U.S.A. and China are expected to expand in spite of a slight slow down. An accelerated recovery driven by domestic demand is forecast for the economies of Europe and Southeast Asia. Meanwhile it will be necessary to pay continuous attention to an increase in inflationary pressures from the world-wide economic expansion.

Further promotion of the mid-term management plan "Frontier-2006"

Taking into consideration these situations both at home and abroad, the ITOCHU Group has decided to continue and further strengthen the basic policies of "Frontier-2006" in the final fiscal year of the plan, the fiscal year ending March 2007. We will establish the optimal management system underpinning "aggressive business" and "solid management," accelerate the shift to aggressive business, and continue to enhance solid management. The banner to success is now "Acceleration of the shift to aggressive business."

(1) Earning expansion

ITOCHU will accelerate the management resources injection in the core segments led by each Division Company in order to expand earnings to take advantage of our vertical strength. Furthermore, we will strengthen the promotion structure of our company-wide projects, work toward horizontal integration in the Consumer Related and Natural Resource Development sectors, the fortes of the ITOCHU Group, and shoot for earning expansion. In addition in the priority markets of North America and Asia including China, we aim to expand our earnings further, while positioning Russia, India, and Brazil as emerging markets and proactively proceeding with strategic moves for future earning expansion.

(2) New business creation

We will expand the consumer business where needs are diversifying further amid the accelerated declining birthrate and aging society. We will strengthen the healthcare & living services sector including medical treatment, nursing care, hobbies, travel, primarily for seniors. In the area of innovative technologies, we will take the initiatives of boosting global strategic alliances and realizing earlier profit generation. Furthermore, we have established the "Corporate Development Meeting" with the president as chairperson and will strengthen our endeavors to develop new businesses including the consumer business, healthcare & living services sector, and innovative technologies businesses.

(3) Further promotion of enhancement of solid management

ITOCHU will continue the strict control of interest-bearing debt, make further advancement of our financial position, formulate more sophisticated risk management policies toward further strengthened risk management. We will continuously monitor internal control systems for their evaluation and improvement and work tirelessly to strengthen them. Concerning our corporate social responsibility (CSR) efforts, we will strengthen our communication with our stakeholders and constantly work to improve and enhance CSR. Moreover we will steadfastly pursue our endeavors to establish more highly transparent corporate governance.

(4) Promotion of the establishment of a management system to underpin "aggressive business" and to enhance "solid management"

ITOCHU has launched a business reorganization project, "ITOCHU DNA Project ～Designing New Age～," in order to augment our "power and ability of organization," that is organizational power and the force of every single employee while pursuing optimization of the Group as a whole, and to build up ever stronger consolidated management with a view to ITOCHU ten years from now. In the human resources (HR) area, ITOCHU will go forward with proactive utilization of a wealth of human resources regardless of gender, nationality, and age based on the Promotion Plan on Human Resource Diversification. We will also work to upgrade the human resources portfolio system for the entire ITOCHU Group.

In the fiscal year ending March 2007 ITOCHU will aim for ¥155 billion in consolidated net income, even higher than the figure for the fiscal year ended March 2006. As part of our efforts to further accelerate our shift toward aggressive business we have prospects of consolidated total assets of ¥5.2 trillion, approximately ¥400 billion increase from the end of the fiscal year ended March 2006, and net interest-bearing debt of ¥1.95 trillion, an increase of approximately ¥200 billion. At the same time we are continuing our policy to control interest-bearing debt and further improve NET DER from the figure of the fiscal year ended March 2006.

Frontier-2006 Plan, Results, Forecast

(Billions of Yen)

	Frontier-2006 Initial Plan		Results, Forecast	
	fiscal year ended March 2006 (plan)	fiscal year ending March 2007 (plan)	fiscal year ended March 2006 (results)	fiscal year ending March 2007 (Forecast)
Net Income	100.0	110.0	145.1	155.0
Total Assets	4,700.0	5,000.0	4,797.0	5,200.0
NET DER	3.3 times	Below 3.0 times	2.4 times	2.3 times

As I stated above, ITOCHU will continue to tackle the "Shift to aggressive business" and the "Enhancement of solid management" of our mid-term management plan "Frontier-2006" under the banner of the "Acceleration of the shift to aggressive business" in the fiscal year ending March 2007. ITOCHU Group will enhance its corporate value to reward its stakeholders not to mention, we intend to contribute to regional and global societies including proactive measures to tackle global environmental issues.

It is my code of conduct and conviction that ITOCHU should be a group of "good corporate citizens with humanity and high motivation to take on challenges." I am also convinced that every employee should have their own ambitions, growing and developing to achieve them and that ultimately ITOCHU as a whole can fulfill the expectations of all its stakeholders. As president of ITOCHU, I will share the spirit of "Challenge, Create, and Commit" with all of our employees and will make concerted efforts together toward future growth.

Thank you for your continued support and understanding of ITOCHU and our Group companies.

July 2006

Eizo Kobayashi
President and Chief Executive Officer

Mid-Term Management Plan, "Frontier-2006"

(Two-Year Plan for the fiscal year ended March 2006 and the fiscal year ending March 2007)

Outline of Mid-Term Management Plan, "Frontier-2006"

The basic policy of "Frontier-2006," a mid-term management plan which has been in progress in ITOCHU Group since the fiscal year ended March 2006, is to expand its earnings and to strengthen the management system during this two-year period (the fiscal year ended March 2006 and the fiscal year ending March 2007) to establish a highly profitable corporate group constantly achieving more than ¥100 billion in net income by foreseeing changes, seeking the Frontier always, and pursuing the three principles of "Challenge, Create and Commit." There are two key phrases set forth in "Frontier-2006." One is the "Shift to aggressive business" and the other is the "Enhancement of solid management." ITOCHU is working on these two strategies through the following five measures.

1) ITOCHU will challenge the expansion of earnings. By defining core segments/areas within each Division Company, ITOCHU will further accelerate the selection and concentration of management resources while continuing promotion of the reallocation and upgrades of assets. In addition, by maximizing synergy among ITOCHU groups, ITOCHU plans to further increase earnings in the Consumer Related sector, a strong business domain of ITOCHU, and the Natural Resource Development sector where demand increase is expected. In overseas markets, ITOCHU will not only expand business in markets in North America and Asia including China where many business opportunities are anticipated, 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 business fields for future profits by creating new value-added products and services in healthcare and living services (healthcare, nursing care, medical treatment, hobbies and cultural education, etc.), consumer business, and innovative technologies, which are new potential markets generated by changes in population structure accompanied by the declining birthrate and rapidly aging of society, diversifying lifestyle, and innovation in technologies.

3) To enhance the "solid management" that supports "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 its financial position and reinforcement of risk management.

4) ITOCHU aims at establishing a management system that supports "aggressive business." In addition to setting up highly transparent corporate governance, ITOCHU is actively pursuing Corporate Social Responsibility (CSR) through communication with society including shareholders. In addition, ITOCHU is reinforcing internal control in order to strengthen compliance and to secure the 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.

Numerical Plan and Summary

	Billions of Yen		
	2005 (Result)	2006 (Result)	2007 (Forecast)
Net Income	77.8	145.1	155.0
Total Assets	4,472.3	4,797.0	5,200.0
NET DER	3.7 times	2.4 times	2.3 times

(Years Ending March 31)

Establish a highly profitable corporate group that constantly achieves more than 100 billion yen in net income

Further Promotion of "Frontier-2006" in Its Final Year, the Fiscal Year Ending March 2007

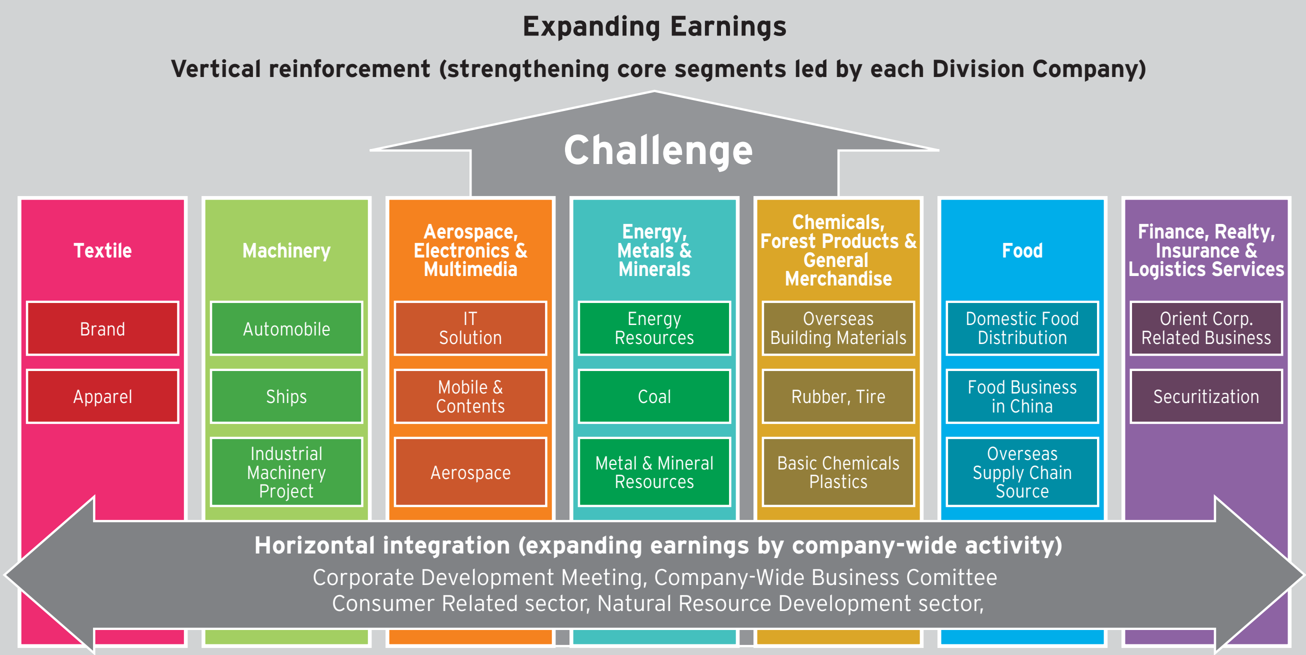
ITOCHU Group has decided to continue and reinforce the basic policies of our mid-term management plan, "Frontier-2006." With the banner of the "Accelerate the shift to aggressive business," ITOCHU will develop an optimum management system to support "aggressive business" and "solid management" in order to accelerate the shift to aggressive business as well as to continue the enhancement of solid management.

1) In order to expand earnings, ITOCHU will strengthen the vertical linkage and enhance earnings by accelerating resource allocation into core segments/areas with the initiatives by each Division Company. ITOCHU will also reinforce a promotion framework for company-wide projects involving all the group companies and strengthen the horizontal integration in the Consumer Related sector, a strong business domain of ITOCHU, and the Natural Resource Development sector where demand increase is expected. Furthermore, ITOCHU will plan to expand earnings from priority overseas markets of North America, China, and the rest of Asia.

2) In order to promote the creation of new businesses, ITOCHU will expand the consumer business in response to the falling birthrate and the aging population as well as diversifying consumer needs, strengthen the fields in medical treatment, senior care, hobbies and travel, etc., for the healthcare and living service area especially targeted at senior citizens, and take the initiative utilizing our global strategic alliances and aim at promptly making profits from projects in the innovative new technologies area.

3) In order to further promote solid management, ITOCHU will continue to strictly control the amount of interest-bearing debt and achieve continuous improvement of its financial position while upgrading risk management methods further to reinforce risk control. ITOCHU is also making efforts to steadily improve the internal controlling system and working on CSR on an ongoing basis by better communication with stakeholders. ITOCHU will continuously make every effort to establish highly transparent corporate governance.

4) In order to establish a management system that supports both "aggressive business" and "solid management," ITOCHU will promote a business reorganization project, "ITOCHU DNA Project ~Designing New Age~." In HR area, ITOCHU will promote and maximize the diversity of employees, regardless of gender, nationality, or age, based on "Promotion Plan on Human Resource Diversification" which was formulated in December 2003.



Q&A with Mr. Eizo Kobayashi,

President and Chief Executive Officer

The fiscal year ending March 2007 is the final year for ITOCHU's mid-term management plan, Frontier-2006. It is also the year to establish a highly profitable group that can steadily and sustainably generate a consolidated net income of more than ¥100 billion with the shift to aggressive business strategy and the enhancement of solid management style.

We would like to describe ITOCHU's strategy and efforts towards the future by first, explaining the challenges we face, and second, answering questions that you may have about our group.

Where do you find ITOCHU's strengths, compared with other trading companies?

We think that ITOCHU has strengths in various fields, especially in the fields related to consumer business and information Industry.

ITOCHU started business in textile trading. Since then, our business has expanded to fiber material, international trade of textile, apparel, and industrial material businesses. At present, ITOCHU focuses on brand business and innovative technologies which have greater value added. For example, ITOCHU's brand business controls every aspect of marketing from planning, sales promotion, and sale of products, with the concept of delivering the products as well as their historical background to our consumers. Such ITOCHU's efforts have led to the formations of new business models, ahead of other competitors. Another example is ITOCHU's successful establishment of Value Chains in its foods services that cover from upper stream (production) to downstream (retail) under the initiative of our SIS (Strategic Integrated System) strategy. The Value Chains have grown into the largest scale in the food service industry in Japan. In June 2006, ITOCHU also acquired NIPPON ACCESS INC. as its subsidiary by TOB. In this way, ITOCHU is stepping up its efforts in the Consumer Related sector.

Concerning the field related to information industry, ITOCHU TECHNO-SCIENCE Corporation, ITOCHU Group's key subsidiary, and CRC Solutions Corp. have agreed that both companies will merge in October 2006 to form a leading company in the IT service industry in Japan.

Against the backdrop of high resource prices, ITOCHU enjoyed steady growth in the Natural Resource Development sector. In other sectors, the Division Companies also made solid profits by focusing their corporate resources into their respective core business segments. ITOCHU is characterized as having a good balance of profits in each business segment, which we would like to maintain.

Would you tell us your strategy and efforts for the Consumer Related sector, a strength of ITOCHU?

Our mid-term management plan, Frontier-2006, has sought to boost ITOCHU's revenues by reinforcing our vertical strengths, that is having the textile company and the food company to take initiative and to lead the Consumer Related sector. For example, in the area of brand business, we have acquired FILA's master license, invested in Paul Smith Ltd. of Britain, and acquired LeSportsac Inc. of the United States. In food related business, ITOCHU acquired NIPPON ACCESS INC. in June 2006 as its subsidiary to seek its total optimization and information scale expansion in the domestic food distribution market, an important business segment for ITOCHU.

ITOCHU has also been seeking to boost its profits by reinforcing lateral coalitions where ITOCHU can exercise its comprehensive strengths as a general trading company and develop business over several sectors which will generate synergy. As a part of such coalitions, ITOCHU has invested in Orient Corporation (Orico), established Excite Credit Co., Ltd., an Internet-based financing company, and Asclass LSA Inc., a housing improvement support company, for synergy in broader areas.

ITOCHU concluded a memorandum of understanding on business cooperation with general merchandise retailer UNY Co., Ltd. in January 2006. With this MoU, we will enhance our efforts to expand our transaction (mainly wholesale of foods), promote joint product development and sales, and product distribution. We also intend to facilitate collaboration in the area of real estate development.

ITOCHU is determined to extend businesses and increase profits in the Consumer Related sector by expanding brand business further and reinforcing cooperation with Orico and UNY.

Would you tell us about the progress in Orico-related business and its future plan?

ITOCHU has three principles for coalition with Orico; 1) establishment of new businesses, 2) promotion of support to Orico member merchants, and 3) support to Orico's operation. Under these principles, over 200 business projects have been discussed so far among Orico Business Integrated Department, our division that seeks business synergy with Orico, Orico's ITOCHU Coalition Division, and Alliance Promotion Division II. At present, some 100 business projects are listed for examination on a steady basis, which will be materialized one after another when feasible.

Among others, the following coalition business projects have already been implemented:

– Housing Improvement Support Business
Orico foresees that housing improvement is one of Orico's key businesses in the following generation. Based on the concept of "safe and secure housing improvement service," ITOCHU and Orico established Asclass LSA Inc. in April 2006. The subsidiary will provide good local builders with the brand power and proposal tools that are needed to promote housing improvement service.

– Financing Business with Excite Japan Co.
Excite Japan Co., Ltd., a portal site operator, Orient Corporation, and ITOCHU Corporation have jointly established Excite Credit Co., Ltd., a financing service company on the Internet. The joint venture started operation in April 2006.

ITOCHU will continue to increase and accelerate collaboration projects in seeking greater synergy with Orico.

ITOCHU made a good performance in the Natural Resource Development sector for the fiscal year ended March 2006. Do you foresee the business will continue to expand after the fiscal year ending March 2007? Also what is your growth strategy for other businesses?

We do not foresee any possibilities of sharp drops in resource and energy prices during the fiscal year ending March 2007, because steady demand for resources is expected to continue from China and other countries. In addition, there is little possibility that resource producing countries can make a sharp increase in their production capacities in a short-term. Thus, ITOCHU anticipates that our Natural Resource Development sector will remain to be our important profits sector for the fiscal year ending March 2007.

However, we foresee that current high prices are unlikely to continue after the fiscal year ending March 2007. Accordingly, we are careful in examining new resource development projects to prevent, so-called, "high price buy."

Our consolidated net income for the fiscal year ended March 2006 comprises some 40% of net income earned in the Natural Resource Development sector, 30% in the Consumer Related sector, and 30% in other sectors. ITOCHU will maintain these net income percentages, namely earning some 30% of net income in each of these sectors in order to maintain a balanced corporate management.

Would you tell us ITOCHU's view of investment and criteria for screening on decision making?

ITOCHU is a general trading company that engages in vast and diverse operations, encountering various risks, such as market risk and credit risk. To counter these risks, ITOCHU has adopted Risk Capital Management (RCM) that focuses on corporate risk management. At present, the Company grasps a total of risk volumes and implements the control of individual business portfolios of the Division Companies.

Among others, ITOCHU's basic view of investment is to carefully screen business projects whose return to risk asset (RRI: Risk Return Index) exceeds shareholders' equity cost. In addition to our RRI criterion, ITOCHU, as an investor, determines whether the target company deserves our investment by examining criteria of the target company, such as RRI, ROA, income scale, and the number of years to clear cumulative losses. As for overseas investment, ITOCHU takes foreign exchange risks into consideration and sets shareholders' equity cost by the country to determine whether or not to make investment.

We also think that reallocation of assets is essential for utilizing limited Group resources and forming high-profits and high-efficiency Group companies, besides examining new investment projects. In line with this view, ITOCHU monitors not only deficit-ridden Group companies but also profitable businesses if their income scale is small or if their operation is not efficient. Then, the Company sells the assets of those that cannot meet the criteria or withdraws from the industry.

According to ITOCHU's mid-term management plan, you will invest some ¥200 billion (in net value) for two years. Would you tell us the progress that you have made so far and a plan for the final year?

ITOCHU invests in businesses and projects with good prospects but withdraws from those in low efficiency and poor strategic role within the Group.

ITOCHU invested a little over ¥230 billion (in gross value) in new projects for the fiscal year ended March 2006. The major investment projects include Orico, North Sea oil field concession, iron ore related expansion in Australia, and acquisition of a new brand in the area of textile.

On the other hand, ITOCHU withdrew from businesses and projects worth of some ¥110 billion. The net difference of ¥120 billion is the actual investment for the fiscal year ended March 2006. We anticipate that our investment level will remain almost the same for the fiscal year ending March 2007.

ITOCHU will continue to screen projects and boost investment as we have done in the past based on our investment criteria. Meanwhile, we will also continue to implement our exit criterion steadily to low efficient businesses and projects.

Human Resources is said to be essential for a trading company. Would you tell us ITOCHU's basic view of Human Resources and its policy?

ITOCHU recognizes that securing and training workers are extremely important in order to uphold high competitiveness and to target higher growth all the time.

We continue to employ new graduates as our main recruitment source and mid-career personnel as immediately useful players to complement the new graduate recruitment source. Under this recruitment policy, ITOCHU sets a goal of employing 150 to 160 workers annually from its mid-to-long term viewpoints.

ITOCHU anticipates that it will become difficult to secure workers stably, due to the increasing retirement of the baby-boomer generations and declining birth rates. To counter the situation, the Company will continue to maximize the diversity of employees, regardless of gender, nationality, and age based on the "Promotion Plan on Human Resource Diversification" that the Company formulated in December 2003.

ITOCHU bases its Human Resources policy on precisely grasping the capability, aptitude, and preference of workers and appointing the right person in the right place, regardless of the age and sex in order to make the most of them.

Moreover, ITOCHU has been emphasizing the training of employees for the management position who can work in the world-level. Such targets include young and female management personnel and thus, we can promote consolidated management of the Group. Furthermore, ITOCHU has established personnel programs in Group companies abroad, that aims to promote the appointment of local staff in the management of ITOCHU.

Would you tell us ITOCHU's strategy abroad?

Our mid-term management plan, "Frontier-2006," sets a goal of earning a half of consolidated net income in overseas. ITOCHU will boost profits in North America, China, and other Asian regions, which have been defined as priority markets in "Frontier-2006," for the fiscal year ending March 2007. ITOCHU has also defined Russia, India, and Brazil to be emerging markets with growth potential and is introducing a number of preceding aggressive steps to boost revenues in these markets in the future.

ITOCHU saw increasing profits in its building material related business, construction equipment business, and small generators related business in the North America market due to steady demand for housing and facilities. The Company foresees increasing profits for the fiscal year ending March 2007 compared with the previous fiscal year, due to favorable performances of the Group companies that are continuing to boost revenues.

ITOCHU also saw a favorable performance in China for the fiscal year ended March 2006 due to a strong performance in its financing business and increasing revenues stemmed from trading of chemicals and nonferrous materials. ITOCHU invested in the beverage business established by the Dingxin group and the Asahi group, and in the leading automobile dealer in the city of Chengdu in the Sichuan Province. Both investment projects are closely associated with the local industry. Since China entried into the WTO in 2001, many domestic markets have been opened to overseas corporations, domestic laws and regulations have been eased, and legislative arrangement has been promoted. With these movements, ITOCHU obtained the authorization of the Company as a Regional Headquarters of Transnational Corporation from the Ministry of Commerce of China in September 2005. The authorization has enabled ITOCHU to acquire a right to have international trade, a right to market products in the domestic market, and a right to invest in outside China.

ITOCHU established a trading subsidiary in India in April 2006 to boost revenues stemming from trades within the emerging market. During the fiscal year ended March 2006, ITOCHU increased exports to India centering on energy-related products, chemicals (synthetic fiber materials), and textiles (fabric products). Moreover, the Company has won an LNG terminal expansion project contract, and has been preparing itself for the infrastructure business including new freight railway and traffic system construction.

For Russia and the surrounding areas, ITOCHU made a sharp increase in sales for the fiscal year ended March 2006, mainly due to boosting trade of crude oil from Azerbaijan and Russia and increased sales of automobiles in Russia. It is noteworthy to report that the ACG Oil Field Development Project started crude oil production in the western Azeri oil field, which has been on the gradual increase of production.

ITOCHU regards Brazil to be an important nation as a resource producer. Thus, the Company has been cooperating on a number of resource and energy related projects. Particularly, ITOCHU has worked and will continue to work with Petróleo Brasileiro S.A.(Petrobras) for joint projects including investment in resources outside Brazil. Concerning pulp business, ITOCHU has set a goal of becoming No. 1 in terms of pulp trade volumes in the world. To this end, the Company is focusing on increase in trade of pulps in Asia, North America, and Europe through Celulose Nipo-Brasileira S.A (CENIBRA) in which ITOCHU has invested through Japan Brazil Paper and Pulp Resources Development Co., Ltd. (JBP).

We have heard that "ITOCHU DNA Project ～Designing New Age～ " would be implemented in the fiscal year ending March 2007. Would you explain to us the project?

The ITOCHU DNA Project aims to innovate the entire business processes of ITOCHU group. All of us will discuss the future image of ITOCHU. Thus, we set up the ITOCHU DNA Project Office in April 2006 to supervise and promote the project in order to make the most of ITOCHU Group and to reinforce power and ability of each organization with greater competitiveness by raising the quality of our business processes.

The basic principles of the project lie in raising the level of "aggressive business" and "solid management" by reinforcing the capabilities of the ITOCHU Group companies and each employee, namely reinforcing power and ability of each organization. At the same time, we will reinforce the current management system by adding the viewpoint of total optimization to the Division Company System which functions as the optimal management in various business fields Group's quick decision-making system. All of these will reinforce consolidated management of the Group and define the actual and future image of ITOCHU.

ITOCHU will expand the visualization of operating processes. Routine tasks will be examined to standardize or integrate for greater efficiency, which will improve quality and speed of the process. At the same time, ITOCHU will try to create extra power for sales, promote the specialization and enhancement of administrative staffs' abilities, and then reinforce power and ability of each organization. Moreover, ITOCHU will build up a Group-level management information control system that can immediately provide management information that has become more important and essential for quick decision-making. Furthermore, ITOCHU will rebuild settlement processes in search of total optimization for the purposes of making early consolidated settlements of accounts, institutionalizing the disclosure of quarterly settlements of accounts, and securing the credibility of financial statements (precise settlement of accounts) that is required by internal control of the Group. Through the expanding visualization of operating processes, ITOCHU will implement effective risk management, compliance, and internal control across the Group.

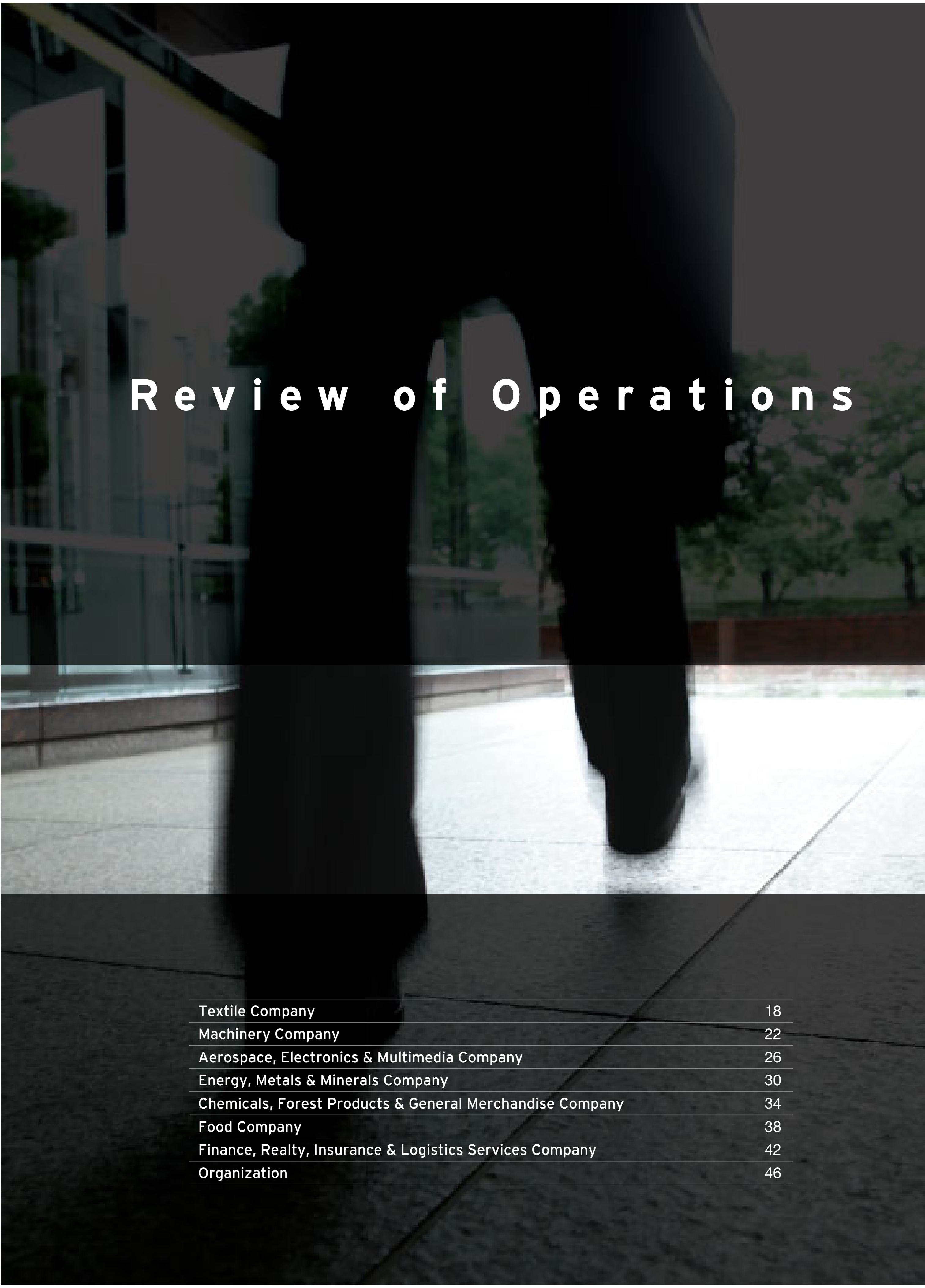
This ITOCHU DNA Project has no period defined. We plan to root the project in ITOCHU and the Group as a continuous movement. Thus, the project is a part of changes in the way of thinking of employees. Although institutional systems may change, the way of thinking of employees will remain as the lasting DNA of ITOCHU and the Group systems.

Would you tell us ITOCHU's policy of dividend distribution?

ITOCHU places its policy of dividend distribution to stockholders upon "improving shareholders' equity with retained earnings to promote growth strategy; maintaining and reinforcing corporate competitiveness; and making stable and continuous distributions of dividends after corporate performances are taken into account."

ITOCHU thinks we can enhance our business value and contributable to stockholders when the Company improves stockholders' equity, makes preceding efforts for business expansion and strategic investment and promotes growth strategy, all of which will be useful for surviving intensified competitions and boosting revenues steadily. At the same time, ITOCHU sees that stable and continuous distributions of dividends to stockholders are important.

ITOCHU distributed ¥7 of annual dividend per share for the fiscal year ended March 2005, and ¥9 of annual dividend per share for the fiscal year ended March 2006. Its ROE was kept at a high percentage of 23.5%. The Company plans to distribute ¥10 of annual dividend per share for the fiscal year ending March 2007.



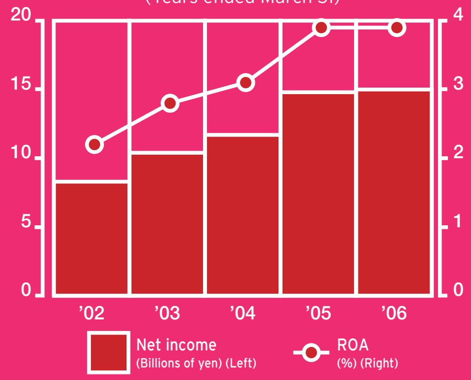
Review of Operations

Review of Operations

Textile Company

Masahiro Okafuji
President, Textile Company

Net Income and ROA
(Years ended March 31)



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	83.5	93.5	100.3	112.8	122.9
Net income (loss)	8.3	10.4	11.7	14.8	15.0
Identifiable assets at March 31	384.1	370.8	382.7	377.2	395.4
ROA (%)	2.2	2.8	3.1	3.9	3.9

Net Income from Major Group Companies* (Billions of yen)

Years ended March 31	'04	'05	'06
Prominent Apparel Ltd.	0.4	0.2	0.0
Tommy Hilfiger Japan Corporation	0.7	0.6	0.6

*ITOCHU's share of net income

The Textile Company is engaged in diverse businesses covering all fields of the textile industry, ranging from fashion items, such as apparel products, accessories, and interior fabrics, to hi-tech fibers and other industrial textiles. Involved in all stages, from raw materials to finished goods and brand-name products, we mobilize our global network to manufacture and market our products. Major affiliates with worldwide operations include JOI'X Corporation, Prominent Apparel Ltd., and Tommy Hilfiger JAPAN, Corporation.

Business Overview

The Textile Company's fundamental policy is to demonstrate its marketing strengths across the board, from procurement of raw materials to delivery of final products. Based on this policy, we are strengthening our brand businesses while actively seeking the most appropriate locations for our production and sales operations. At the same time, we are continually striving to create new businesses.

The Company's brand business is one of its most outstanding strengths. Here, we draw on our marketing strengths, which range from discovering exciting brands to establishing their acceptance in the market, to enter alliances or make acquisitions aimed at achieving long-term stabilization of trademark rights. We are also working to fortify our capabilities in such areas as sales in non-Japanese markets. Backed by these unparalleled strengths, we are introducing new and valuable brands while nurturing our existing portfolio of more than 100 labels.

In the materials and apparel products sector, we have a global production and sales system that makes full use of local factories situated throughout the world. These activities center on the operations of ITOCHU Textile Materials (Asia) Ltd. in Hong Kong and ITOCHU Textile (China) Co., Ltd. in China, as well as Prominent Apparel Ltd., which has operations in Hong Kong, the United States, and Europe. We deploy this system to pursue customer-focused businesses with added value, while at the same time expanding our business domains to include all areas pertaining to consumer lifestyles. We handle luxury fashion brands in full items, including LANVIN, Paul Smith, and mila schön. We have extended our business range to sports brands, such as CONVERSE, furthermore to brands related to shoes, bags, jewels and tableware such as BALLY, CHROME HEARTS , SCAVIA , and Richard Ginori . In addition, we have sought to blend food, fashion, and music through the DEAN & DELUCA and Blue Note brands. Meanwhile, we are actively creating a new business model that makes full use of information technology. One example is Magaseek, an online shopping site that lets visitors purchase products shown in women's magazines online or by mobile phone.

Strengths

The Textile Company creates new value for people's daily lives, constantly expanding across the globe from its origins in Japan. Our business began with textile fabrics, and has since expanded to include raw materials, finished products, and industrial textile materials.

Adhering to its fundamental strategies of "pursuing added value" and "seizing the initiative," the Company embraces customer-focused concepts to steadily grow its businesses.

In terms of net income, the Textile Company holds the No. 1 spot among general trading companies in the textile industry. The Textile Company's strengths include: (1) broad business portfolio, ranging from textile raw materials to finished products, including brands, industrial materials, and advanced technologies; (2) vertical integration, making full use of our global network for material procurement, product development, manufacture, and sales; (3) the largest brand business among all trading companies, together with formidable marketing power; and (4) business expansion in China and other Asian countries ahead of others in the industry (local production and sale of raw materials, textiles, and apparel products, as well as development of brand business and alliances with local companies).

Our focus on boosting marketing power and maximizing brand value does not mean that we are shifting our focus to the downstream end of the value chain. While we are forging new frontiers in downstream activities, our aim is to bring products from upstream and midstream clients, who boast advanced technological capabilities, and introduce those products throughout Japan and the world. Covering all aspects of the textile industry will give us the synergy to maximize our comprehensive strengths.

We will always be a textile company. While many trading companies have recently distanced themselves from their "textile" origins, we want to diversify our business in such a way that textiles remain at the heart of them all. We will continue to seek higher added value while maintaining deep roots in the Japanese textile industry.

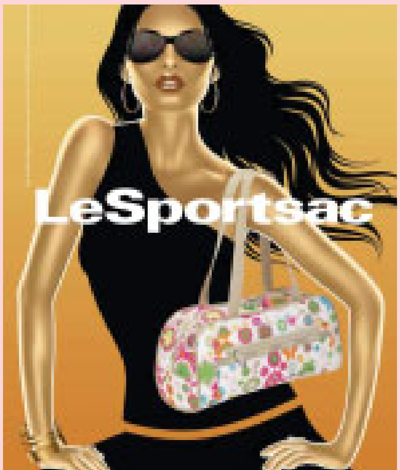
Business Performance in the Fiscal Year Ended March 2006

During the period under review, the macroeconomic environment surrounding the textile industry benefited from trends in China, which opened its markets to foreign investment, and in Japan, where improvements in corporate performances helped boost individual incomes. The year saw a major change in textile trading as the United States abolished restrictions on import volumes, while in Japan the distribution industry underwent restructuring. Negative aspects included widening performance disparities between companies and regions and overall weakening of Japan's textile manufacturing industry.

Organization (As of April 1, 2006)
Textile Company

- **Textile Material & Industrial Textile Division**
  - Textile Material Department
  - Industrial Textile Department
- **Textile Division**
  - Textile Department 1
  - Textile Department 2
- **Apparel Division**
  - Apparel Department 1
  - Apparel Department 2
- **Brand Marketing Division 1**
  - Brand Marketing Department 1
  - Brand Marketing Department 2
- **Brand Marketing Division 2**
  - Brand Marketing Department 3
  - Lifestyle Department
- Planning & Coordinating Department
- Accounting & Control Department
- Credit & Affiliate Administration Department
- IT Business Development Department

TOPICS



LeSportsac 2006 Spring Summer image visual

Brand business: Acquired major trademark rights and initiated new large-scale projects

In December 2005, the Textile Company acquired a stake in Paul Smith Group Holdings Ltd. to further reinforce its existing partnership.

In February 2006, we acquired LeSportsac, Inc., jointly with U.S. fashion goods manufacturer, Brand Science LLC. With a focus on maintaining the quality of branded products and engaging in product development, we will develop a stable long-term business by reinforcing sales in Japan, other Asian countries, Hawaii, and Oceania.

In March 2006, we signed a master licensing agreement with Fila Luxembourg, s.a.r.l., a subsidiary of U.S.-based Sport Brands International, LLC, covering the FILA brand in Japan. Going forward, we will actively promote marketing strategies for the FILA brand and strengthen our ties with Sport Brands International. We will also strive to enhance the value of the FILA brand while passing on production and distribution rights for apparel products to sub-licensees, primarily Renown Incorporated.

Under these circumstances, in the fiscal year ended March 2006 the Textile Company adopted a consumer-oriented marketing strategy. Identifying Consumer Related sectors, centering on brand apparel products, we worked to acquire trademark rights for major brands and initiated large-scale projects. Highlights included: (1) forming a collaborative arrangement with United Arrows Ltd. to strengthen domestic sales and enhance the image of the luxury CHROME HEARTS brand, as well as the establishment of a joint venture with U.S.-based Chrome Hearts Inc. to promote worldwide sales; (2) the acquisition of casual bag maker LeSportsac Inc. in alliance with U.S. accessory company Brand Science, and subsequent sales development in Asia and Oceania; (3) the purchase of a 40% stake in U.K.-based Paul Smith Group Holdings Ltd. to strengthen our partnership; and (4) the acquisition of a master license for the Italian FILA brand in Japan, and measures aimed at expanding that business.

In advanced technologies, we entered into a capital tie-up with textile manufacturer Tosco Co., Ltd. The alliance gives the Textile Company exclusive marketing rights for next-generation exhaust gas purification filters for diesel engines. We are currently undertaking development of the filters in cooperation with Tosco, with a view to launching the products swiftly mainly in Europe, the world's largest diesel car market, as well as in Japan. We have also initiated a project to develop inkjet printing and curved-surface printing systems.

Mid-to-Long Term Challenges and Strategies

The Textile Company will concentrate on the following three strategies in the medium and long terms: (1) reallocate and upgrade assets; (2) expand overseas earnings; and (3) recruit and train competent management personnel.

Policies and Outlook for the Fiscal Year Ending March 2007

In the fiscal year ending March 2007, the second and final year of the "Frontier-2006" mid-term management plan, we will aim to increase consolidated revenues and earnings. To this end, we will focus on the following three key initiatives: (1) acquire new businesses; (2) expand the earnings of our business companies; and (3) increase earnings of overseas operations while implementing appropriate risk management procedures.

Number of Employees	
Consolidated*	5,644
Non-consolidated	673

*The number of consolidated employees is based on actual working employees excluding temporary staff.

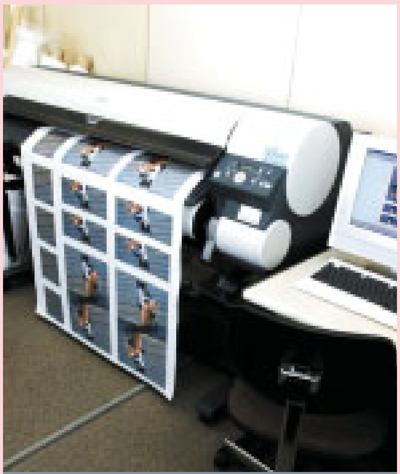
Number of Subsidiaries and Associate	
Domestic	38
Overseas	24

Major products & Services

- Raw material • Textile
- Apparel products • Fashion goods
- Industrial textile, and Branded products or service such as apparel, food, household goods and music.

Advanced Technologies Business

In a joint venture with Denenchofu Roman Co., Ltd., we established InkMax Co., Ltd., covering the inkjet printing business. Through an alliance with Canon Marketing Co., Ltd., we will market products that use patented technology to print directly onto fabric. The technology incorporates a new, environmentally friendly dyeing technique that uses a special water based ink receptive polymer.



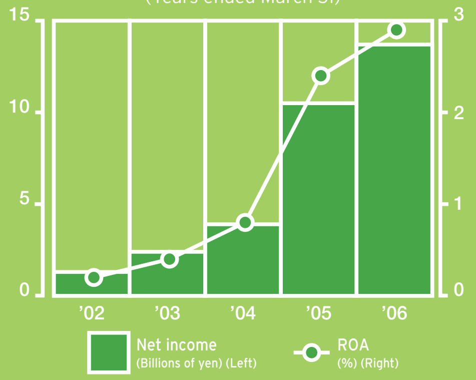
Fabric printing process by InkMax technology

Review of Operations

Machinery Company

Takanobu Furuta
President, Machinery Company

Net Income and ROA
(Years ended March 31)



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	50.2	48.6	51.1	58.0	69.5
Net income (loss)	1.3	2.4	3.9	10.5	13.7
Identifiable assets at March 31	588.1	490.1	433.6	451.4	489.0
ROA (%)	0.2	0.4	0.8	2.4	2.9

Net Income from Major Group Companies* (Billions of yen)

Years ended March 31	'04	'05	'06
ITOCHU Sanki Corporation	0.3	0.3	0.4
Century Medical, Inc.	0.2	0.3	0.1
MCL Group Ltd.	0.5	0.2	0.4
ITOCHU Automobile America, Inc.	0.6	1.1	1.1
Century Leasing System, Inc.	1.0	1.1	1.3

*ITOCHU's share of net income

The Machinery Company is engaged in infrastructure-related projects such as automobiles, ships, construction machinery, industrial machinery, plants, railways, highways and bridges and offers associated services.

Major affiliates include ITOCHU Construction Machinery Co., Ltd., Century Medical, Inc., MCL Group Ltd., ITOCHU Automobile America Inc., and Century Leasing System, Inc.

Business Overview

The Plant & Project Division undertakes projects in gas, petrochemicals, power, transport related infrastructure, ships, environment and other areas. These projects are carried out through project financing schemes, leasing and other methods. In addition to supplying and installing the infrastructure of conventional plants, ships, and rolling stock and financial transactions related to these, the division has aggressively sought resource development and ship transportation projects, and business investments around the world, including structured finance in crude oil production plant in Brazil, LNG ship transportations using own LNG carriers, and water, steam and electricity supplying business in Saudi Arabia. At home and abroad, the Plant & Project Division constantly strives to provide high-level, value-added services with the aim of meeting customer needs starting from project development to post-construction plant operation and maintenance.

The Automobile Division started its operations in the 1950s to coincide with the commencement of Japanese automobile exports. Capitalizing on ITOCHU's worldwide network, the division has grown its business globally, serving local customers. It has also been aggressively developing various automobile-related businesses in major North American, European and Asian countries. These include retail, auto financing, logistics and wholesaling. The division's team of professionals utilizes the expertise garnered from active involvement and experience in global automobile businesses as well as widespread contacts that span the entire automobile industry, including major Japanese, U.S. and European auto manufacturers. It is continuously upgrading its quality of services to meet customer's needs at every stage of life with automobile.

The Industrial Machinery & Solution Division has expanded business in an attempt to become a high-skilled group that will shoulder industrial growth globally. In the high-precision processing and new energy field, handling of electric semiconductors and LCD panels, solar batteries and lithium ion battery-related development and business expansion are being performed mainly in Europe, the U.S., and Asia. In the medical field, the division supplies and distributes medical materials to hospitals in Japan while importing medical equipment from abroad, and operates businesses in North and Central America. In the construction and industrial machinery field, the division is engaged in businesses in Japan, Europe, the U.S., China, Asia, and Africa while participating in official development assistance projects in developing countries. Additionally, the division is engaged in businesses in fields such as textile, synthetic resin, food, environmental, and port machinery.

Strengths

One of the features of the Machinery Company is its highly efficient management and its ROA is among the highest for machinery segment of general trading companies. Another feature is its proactive overseas expansion with its long-standing focus on trading in the overseas markets and it has nearly one-third of its personnel at overseas branches and subsidiaries.

The Machinery Company intends to further enhance its strengths and expand into new areas of business and has identified the following as its key policies — (1) allocating management resources to core segments, (2) aggressively pursuing the core market of the U.S. as well as the emerging markets in the BRICs, and (3) revenue generation in new business models.

Business Performance in the Fiscal Year Ended March 2006

From a macroeconomic perspective, despite negative factors such as rising costs of plant construction caused by price increase in steel products, the overall environment surrounding the industry was a favorable one for the Machinery Company, thanks to expansion in the automobile and construction machinery markets in countries and regions such as Europe, the U.S., Russia and Commonwealth of Independent States, strong shipping market, expansion of plant business in oil producing countries, rising demand for various environment-related projects and improved export competitiveness due to the weaker yen.

Under such circumstances, the Machinery Company's automobile-related business in Europe and the U.S. and construction machinery business in North America did well for the fiscal year ended March 2006 and the strong shipping market also gave a boost to its business. As a result, gross trading profit of the Machinery Company rose 11.5 billion yen to 69.5 billion yen compared with the previous fiscal year and net income increased by 3.2 billion yen on year to 13.7 billion yen.

During the fiscal year ended March 2006, the Company won orders for more than 50 ships from China, Europe and Japan including nine bulkers for Greek ship owners. In Saudi Arabia, the Company started working jointly with Sasakura Engineering Co., Ltd. on a seawater desalination plant rehabilitation project and embarked on a business to supply water, electricity and steam for the Rabigh Project. In North America, the Company invested

Organization (As of April 1, 2006)
Machinery Company

- **Plant & Project Division**
  - Marine Department
  - Oil, Gas & Petrochemical Project Department
  - Transport & Infrastructure Projects Department
  - Utility Solution Business Department
- **Automobile Division**
  - Automobile Department No.1
  - Automobile Department No.2
  - Automobile Department No.3
  - Department of Automobile Business Strategy and Development
  - Isuzu Business Promotion Department
- **Industrial Machinery & Solution Division**
  - Medical Solution Business Department
  - Industrial Machinery & Project Department
  - Fine Process Machinery Department
- Planning & Coordinating Department
- Administration Department
- Affiliate Administration & Risk Management Department

TOPICS

An automobile dealer of Nissan in Chengdu, Sichuan province, China

Investing in Automobile Dealer in Sichuan Province, China

In February, ITOCHU Group made a capital investment in Sichuan Ganghong Group Co.,Ltd.(hereinafter, "Gang Hong"), the No. 1 automobile dealer in terms of sales in Chengdu, Sichuan province, China (investment ratio: ITOCHU Corporation — 20%; ITOCHU (China) Holding Co., Ltd. — 20%). ITOCHU Corporation and Gang Hong Group had established an auto repair company in 1997 and the good relationship built on the subsequent joint management contributed to the Machinery Company becoming the first foreign company to gain approval to enter the automobile sales business in China. Gang Hong currently handles six brands from Japan, the U.S., Europe and South Korea (Nissan, Honda, Buick, in an IPP project at Green Country Energy LCC near Tulsa, Oklahoma.

As part of its endeavors in the automobile business in BRICs, the Machinery Company made a capital investment in Sichuan Ganghong Group Co., Ltd. of China, the top dealer in Chengdu, Sichuan province, and participated in a joint manufacturing project with Akebono Brake Industry Co., Ltd. in Guangzhou and Suzhou. Furthermore, the Company established a subsidiary in Russia in order to promote the sales of automobiles made by SUZUKI MOTOR CORPORATION.

Mid-to-Long Term Challenges and Strategies

While maintaining its highly efficient management style, the Machinery Company aims to "accelerate the shift to aggressive business" through the active allocation of its management resources to core segments by further shuffling of assets, a move which had brought about an increase in total assets in the past fiscal year, reversing the declining trend until then. In addition, the Company plans to grow Group Companies into core businesses by increasing their profitability as part of its efforts towards enhancement of consolidated business management. Furthermore, the Company intends to assess the potential of new business areas such as medical, new technology, etc. in which it has been making anticipatory explorations, while considering large-scale strategic investments to boost consolidated profitability.

Policies and Outlook for the Fiscal Year Ending March 2007

In the fiscal year ending March 2007, which is the final year of Frontier-2006, the Machinery Company will continue to implement its core measures. During the fiscal year, plant projects especially in Middle East, China and India are expected to maintain the momentum while North America, East Europe and Russia are expected to lead the continued favorable trend in automobile business. In the Industrial Machinery & Solution Division, the Company has been receiving lots of inquiries regarding resource related construction machineries while the market for industrial machineries is estimated to be brisk both in Japan and overseas. In general, the Machinery Company is expected to perform strongly in the current fiscal year.

Number of Employees	
Consolidated*	6,687
Non-consolidated	569

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	24
Overseas	57

Major products & Services

• Oil • Gas and petrochemical plants • Ships • Automobiles • Rolling stock • Power generating equipment • Construction Machinery • Textile Machinery • Industrial Machinery • Medical devices • Electronic device and equipment

Chevrolet, Audi and Hyundai) with annual sales of about 7,000 units a year (2005). ITOCHU Group is committed to contribute to further growth of Gang Hong Group by utilizing the expertise in automobile sales it has amassed in Japan, the U.S. and Europe.

Signing of Plant Construction Contract with Lakeside Energy from Waste Ltd., U.K.

On 26th September, 2005, ITOCHU Corporation and TAKUMA Co., Ltd. signed a contract to deliver an energy from waste plant (EPC full turn key contract with four-year O&M service: approximately 23 billion yen) to Lakeside Energy from Waste Ltd., which was jointly established by tow major UK waste management companies; Grundon Waste Management Ltd. and Viridor Waste Management Ltd. The plant is due to open in July 2008 and will have the capacity to incinerate approximately 1,400 tons/day of waste and generate 37 MW of electricity. Furthermore, this is a memorable milestone as it is the first contract for a Japanese incinerator engineering company in Europe, the place where incineration technology originated.

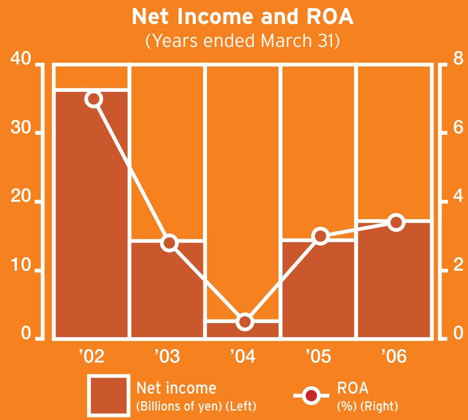
Looking forward, since the EU Landfill Directive has been announced and European countries are obliged to reduce the amount of waste to be landfilled, ITOCHU in collaboration with TAKUMA, intends to actively follow the energy from waste business in the U.K. and elsewhere in Europe.

Rendering of the plant of Lakeside Energy from Waste Ltd., U.K.

Review of Operations

Aerospace, Electronics & Multimedia Company

Shigeki Nishiyama
President, Aerospace, Electronics & Multimedia Company



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	112.4	101.5	105.5	108.4	116.4
Net income (loss)	36.3	14.3	2.6	14.4	17.2
Identifiable assets at March 31	526.2	484.3	464.3	489.4	524.7
ROA (%)	7.0	2.8	0.5	3.0	3.4

Net Income from Major Group Companies* (Billions of yen)

Years ended March 31	'04	'05	'06
ITOCHU TECHNO-SCIENCE Corporation	3.5	5.1	5.5
CRC Solutions Corp.	0.2	1.0	1.1
ITC NETWORKS CORPORATION	1.7	2.3	2.1

*ITOCHU's share of net income

The Aerospace, Electronics & Multimedia Company is engaged in businesses related to networks, content and mobile multimedia and also undertake transactions in aircraft and related equipment and investment in high-tech venture businesses.

Among major operating companies under our wings are ITOCHU TECHNO-SCIENCE Corporation and CRC Solutions Corp. (they are set to merge into ITOCHU Techno-Solutions Corporation in October 2006), as well as Excite Japan Co., ITC NETWORKS CORPORATION, NANO Media Inc., and ITOCHU Aviation Co., Ltd.

Business Overview

ITOCHU boasts top-class profitability in the information and telecommunications field among general trading companies, possessing subsidiaries that are industry leaders in sectors where sustained growth is expected. These subsidiaries include the IT service providers ITOCHU TECHNO-SCIENCE Corporation and CRC Solutions Corp. (they are set to merge into ITOCHU Techno-Solutions Corporation in October 2006), web portal business Excite Japan Co., Ltd., mobile services business ITC NETWORKS CORPORATION, and aerospace business ITOCHU Aviation Co., Ltd.

Strengths

Our basic strategy focuses on development of new core businesses for future growth and enhancement of corporate value of the core operating companies. By selectively putting our management resources in the three core segments of 1) aerospace, 2) IT solutions, and 3) mobile & contents, we have achieved the steady expansion of businesses for future earnings growth.

Our strength lies in that we have put together "the group of companies that can be industry leaders" in highly profitable business sectors where sustained growth is expected. We can be most significantly characterized by the cluster of companies in high-profit sectors where sustained growth is expected, including IT services providers ITOCHU TECHNO-SCIENCE Corporation and CRC Solutions Corp. (to be renamed ITOCHU Techno-Solutions Corporation after their merger set for October 2006), web portal business Excite Japan Co., mobile services businesses ITC NETWORKS CORPORATION and NANO Media Inc., and aerospace business JAPAN AEROSPACE CORPORATION.

Business Performance in the Fiscal Year Ended March 2006

As for the macroeconomic environment for each sector, the IT sector, despite the continuation of falling prices across a broad spectrum of IT products and services, was spurred by sustained IT-related investment thanks to an increasing number of companies achieving an earnings recovery, the diffusion of broadband services, and the overhaul and enhancement of systems to meet security and compliance requirements. The media and mobile sector witnessed an emergence of business opportunities stemming from the ongoing integration of communication and broadcasting as seen in the expansion of optical broadband lines and one-segment broadcast, and growth of new services due to the spread of electronic money-enabled mobile phone handsets.

Amid these developments, we addressed the following matters in the fiscal year ended March 2006. On Demand TV, Inc., a video distribution service for users of the NTT Group's FLET'S Internet services, extended the coverage of video-on-demand services to the whole country. Two of our mobile business operators debuted on stock exchanges. NANO Media Inc. was listed on the Mothers market of the Tokyo Stock Exchange in November 2005, while ITC NETWORKS CORPORATION gained a listing on the Second Section of the Tokyo Stock Exchange in March 2006, as part of our efforts to expand the business on both fronts of hardware and software.

Our earnings performance for the fiscal year ended March 2006 improved from the previous fiscal year, thanks to favorable developments in domestic IT businesses, led by ITOCHU TECHNO-SCIENCE Corporation, the contribution from JAPAN AEROSPACE CORPORATION, an aerospace business operator we took over in the fiscal year ended March 2005, and the exchange listing of the two media-related business firms.

Organization (As of April 1, 2006)
Aerospace, Electronics & Multimedia Company

- **Aerospace & Electronic Systems Division**
  - Aerospace & Defence Department
  - Commercial Aerospace & Electronics Department
- **IT & Business Solutions Division**
  - Information Technology Business Department
  - Business Solutions Department
- **Media Business Division**
  - Network & Content Business Department
  - Mobile & Wireless Department
- Planning & Coordinating Department
- Accounting & Control Department
- Affiliate Administration & Support Department

TOPICS

In the fiscal year ended March 2006, two of our mobile business operators made their debut on the stock exchanges.

NANO Media Inc.: Listed on the Mothers market of the Tokyo Stock Exchange in November 2005

NANO Media Inc., which manages official websites for entertainment, is also broadening the base of users through the distribution of content for mobile phones, including EPG (Electronic Program Guide) in conjunction with radio and television operators. The company is also in the business of developing application software for mobile handsets. Taking advantage of the strength of mobile media, NANO Media will continue to seek to open up new fields of business in collaboration with existing media (including broadcasting companies and publishers).

A NANO application for mobile handsets

Mid-to-Long Term Challenges and Strategies

Regarding the Mid-to-Long Term challenges and strategies, we will strive to foster a core operating company that will follow ITOCHU Techno-Solutions Corporation and ITC NETWORKS CORPORATION. Another Mid-to-Long Term challenge is to create new core businesses, which will drive additional growth for the future. For instance, we engage web portal, Excite Japan, business process outsourcing ("BPO") in the areas of IT, temporary office staff agency and healthcare industry.

Policies and Outlook for the Fiscal Year Ending March 2007

In the fiscal year ending March 2007, the final year of our "Frontier-2006" mid-term management plan, we will take steps to ensure a future increase in consolidated net income by continuing to make sustained efforts to steadily carry out the concentration of management resources and integration of business operations within our Division Company in a whole range of sectors including aerospace, IT solutions, and mobile & contents.

Number of Employees	
Consolidated*	7,794
Non-consolidated	321

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	67
Overseas	13

Major products & Services

- Broadcasting and communication business
- Electronics systems
- Equipment for broadcasting and communication systems
- Programming supply and entertainment business
- Mobile telecommunication equipment and services
- Systems and related equipment for computer and information processing
- Semiconductor equipment
- Aircraft and in-flight equipment
- Air Transportation Management Systems
- Space-related equipment
- Security equipment

ITC NETWORKS CORPORATION: Listed on the Second Section of the Tokyo Stock Exchange in March 2006

ITC NETWORKS CORPORATION provides, as its core business, mobile phone contract and sales services at NTT DoCoMo shops and mass-market discount outlets. The company is now also into the solutions business, providing mobile phone-based marketing support services.

A handset outlet shop operated by ITC NETWORKS

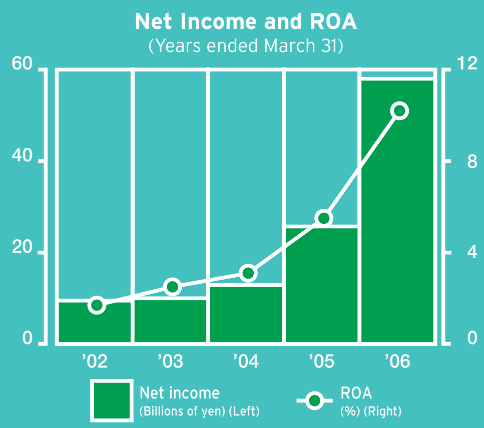
On Demand TV, Inc. extends coverage to the whole of Japan

On Demand TV, Inc., which provides the broadband TV service, "On-Demand TV," for users of FLET'S in the business area of Nippon Telegraph and Telephone West Corp. (NTT West), extended coverage to the business area of Nippon Telegraph and Telephone East Corp. (NTT East), launching its services across Japan.

Review of Operations

Energy, Metals & Minerals Company

Yoichi Kobayashi
President, Energy, Metals & Minerals Company



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	52.7	33.0	24.7	39.1	73.9
(Metals & Minerals)	40.9	19.2	14.4	25.8	48.2
(Energy)	11.7	13.8	10.3	13.3	25.6
Net income (loss)	9.5	10.0	12.9	25.7	58.0
Identifiable assets at March 31	401.6	391.6	443.7	491.0	644.4
ROA (%)	1.7	2.5	3.1	5.5	10.2

Net Income from Major Group Companies* (Billions of yen)

Years ended March 31	'04	'05	'06
ITOCHU Non-Ferrous Materials Co., Ltd.	0.5	0.8	1.0
ITOCHU Petroleum Japan Ltd.	1.5	0.4	2.5
ITOCHU Minerals & Energy of Australia Pty Ltd	5.3	13.9	25.9
Marubeni-Itochu Steel Inc.	3.1	9.7	15.9
ITOCHU Oil Exploration (Azerbaijan) Inc.	2.3	2.0	5.2

*ITOCHU's share of net income

The Energy, Metals & Minerals Company, working to expand its profit through the synergetic activities in "natural resources development" and "trading", focuses its energies on the expansion of the existing business in collaboration with the major group companies, such as ITOCHU Non-Ferrous Materials Co., Ltd., ITOCHU Petroleum Japan Ltd., Marubeni-Itochu Steel Inc., ITOCHU ENEX CO., LTD. and ITOCHU Minerals & Energy of Australia Pty Ltd. At the same time, taking a long-term perspective, it actively works to cultivate the new businesses, including those based on alternative energy sources.

Business Overview

The Company is involved in mineral and coal mining and steel processing, as well as such conservation-related businesses including greenhouse gas emission rights trading. The Company also engages in domestic and international trading of iron ore, coal, and other steel raw materials, as well as non-ferrous/light metals and steel products. In addition, we trade crude oil, petroleum products, gas, and nuclear fuels domestically and internationally. Among all those, the energy resources development, mineral resources, and coal are selected as the key segments.

With regard to the mineral resources and coal, we are working to expand the businesses in iron ore development and aluminum refining projects in Australia, as well as coal mining projects in Australia and Indonesia.

Concerning the energy resources development, we are maximizing the Group's net income through two main initiatives – the first, strengthening of the trade in crude oil and petroleum products based primarily on the Company's own equity crude oil and gas, and the second, the building up of the Company's domestic distribution and sales networks, taking full advantage of the existing service station network.

In addition, we are also working to cultivate new businesses in the development and utilization of new environmentally-friendly fuel sources for energy such as dimethyl ether (DME), solar power, and liquefied coal.

With regard to steel products, it established Marubeni-Itochu Steel Inc., jointly with Marubeni Corporation. As a major steel distributor, Marubeni-Itochu Steel Inc. will handle the fabrication and sales of products, as well as solutions and service functions vis-à-vis the customers through its more than 100 of domestic and overseas subsidiaries and affiliates.

Strengths

One of the Company's major strengths is its asset efficiency, which is top-ranked among the Japanese trading houses. We have a well-balanced investment portfolio including profitable projects in the mineral resources, coal, and energy resources development segments. At the same time, we are also working to expand the scope of our trade in energy-related products. The establishment of Marubeni-Itochu Steel Inc. has greatly improved the efficiency of doing this business, and is also contributing to the increased profitability of the Company. We will target the expansion of the profit with the synergetic approach as between "natural resources development" and "trading" by: (1) actively investing in profitable projects and assets with a focus on the natural resources development sector; and (2) bolstering global trading, centering on products generated from the Company's natural resource development projects.

Business Performance in the Fiscal Year Ended March 2006

Our business performance in the period was influenced by mixed conditions. On the one hand, we benefited from continuous high prices of the commodities we handle, such as crude oil, petroleum products, coal, iron ore, and other mineral materials, as well as non-ferrous/light metal materials and products, and steel products. At the same time, however, this was tempered by the strong Australian dollar and fewer opportunities and high cost to acquire equity in natural resource development projects, as well as increases in the cost of resource equipment and materials.

In response, we undertook a number of initiatives. In April 2005, for example, we acquired the equity in the Alba and Caledonia oil fields in the U.K. North Sea. We also decided to proceed with the expansion of the development of iron ore project in Western Australia. In Japan, we reached an agreement to establish a business alliance with Osaka Gas Co., Ltd., for the import and domestic sale of liquid petroleum gas (LPG). As part of this agreement, we acquired a stake in Nissho Petroleum Gas Corporation, a subsidiary of Osaka Gas. In the meantime, the ACG (Azeri-Chirag-Gunashli) Oil Field Development Project in the Azerbaijan Republic commenced oil production at the West Azeri oil field and has steadily increased production volume.

During the year, we recorded a significant increase in net income from our businesses in metals and mineral resources and coal. This was due to price increases for iron ore and coal with these stable shipments, as well as improved results recorded by ITOCHU Minerals & Energy of Australia Pty Ltd (IMEA) and other subsidiaries and affiliates. In the steel sector, Marubeni-Itochu Steel Inc. posted favorable results underpinned by a strong demand for steel for use in automobiles and steel pipes. In the energy sector, net income from crude oil and LNG equities increased as a result of high oil prices. Group Companies engaged in energy trading, including ITOCHU Petroleum Japan Ltd. and ITOCHU ENEX CO., LTD. also posted solid results. As a result, the Company's consolidated net income increased considerably from the previous fiscal year.

Organization (As of April 1, 2006)
Energy, Metals & Minerals Company

- **Metals, Mineral Resources & Coal Division**
  - Metals & Mineral Resources Department
  - Coal Department
- **Energy Trade Division**
  - International Energy Trading Department
  - Energy Sales & Supply Department
- **Energy Development Division**
  - Exploration & Production Department
  - Natural Gas Project Department
- Planning & Coordinating Department
- Control Department
- Affiliate Administration & Risk Management Department
- Steel Business Administration Department

TOPICS


Offshore platform of the West Azeri Field courtesy of AIOC

Azerbaijan ACG Oil Field Development Project and BTC Pipeline

In February 2005, the Company began oil production in the Central Azeri oil field of the ACG (Azeri-Chirag-Gunashli) project, in which it holds equity of 3.9%. In December 2005, production started at the West Azeri oil field.

Oil produced from these oil fields has been exported to Black Sea via the existing pipelines. However, in June 2006, the Company began exporting via the BTC (Baku-Tbilisi-Ceyhan) pipeline, in which it possesses a certain right to capacity. The completion of the BTC pipeline establishes an overland route for the oil produced at the area of the Caspian Sea, including the Azerbaijan, via Georgia to the Turkish coast of the Mediterranean Sea, without having to transport the same through the Bosporus Strait.

Based on the scheduled production from East Azeri and Deepwater Gunashli oil fields, the production volume is expected to reach more than one million barrels per day by around the year 2009.

The Company plans to take full advantage of the know-how it has acquired through such development projects to expand its business activities in the key segments of oil, gas, and other energy resource development.

LPG Business Tie-up with Osaka Gas Co., Ltd.

The Company reached an agreement with Osaka Gas Co., Ltd., to establish a business alliance for the import and domestic sale of LPG. As part of the agreement, we

Mid-to-Long Term Challenges and Strategies

Our Mid-to-Long Term strategy is to broaden our earnings base by continuing to act in accordance with the Company's basic policies. We will invest in both new and existing projects and attempt to achieve a good balance between expansion and new acquisitions in our key segments of iron ore, coal, alumina, oil and gas. We will do our best to raise our earnings base by investing in the new and existing projects and expansion of the trading business with the core of a value chain trades supported by natural resources obtained through our own projects.

Policies and Outlook for the Fiscal Year Ending March 2007

The fiscal year ending March 2007, the second and final year of the "Frontier-2006" mid-term management plan, will not necessarily be a favorable year for implementing measures targeting Mid-to-Long Term perspectives. Although we anticipate a certain level of earnings due to the high prices of natural resources, we expect that, at the same time, there will be fewer opportunities to acquire equity in natural resource development and that any such acquisition will also be more expensive. Under these circumstances, the Company will broaden its earnings base through a well-balanced portfolio by acquisition of new equities and, increased investments and acquisition of more shares in existing projects.

Number of Employees	
Consolidated*	564
Non-consolidated	313

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	17
Overseas	17

Major products & Services

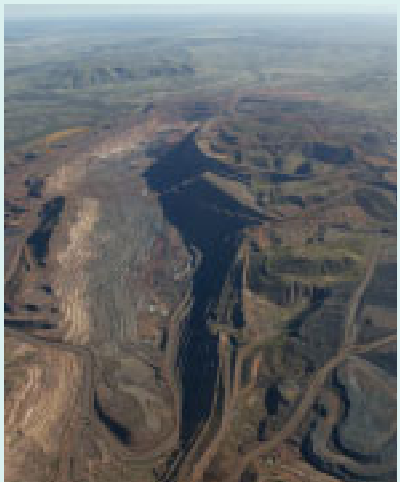
- Crude oil • Petroleum products
- LPG • LNG • Iron ore • Coal
- Aluminum • Steel scrap
- Steel products

acquired a stake in Nissho Petroleum Gas Corporation, a subsidiary of Osaka Gas. Under the alliance, the ITOCHU and Osaka Gas groups will expand customer services and strengthen competitiveness by maximizing each of their strengths.

Tank Base

Expansion of Iron Ore Mining Project in Western Australia

In October 2005, the Company decided to go ahead with the expansion of its iron ore mining project in Western Australia. With our main project partner in Western Australia, BHP Billiton, we have developed iron ore mines and expanded transportation and port facilities. Completion of the Rapid Growth Project 3 will increase total annual production capacity of the Western Australian iron ore operations to 129 million tons. We will continue examining opportunities for further expansion to meet rising world demand, generated primarily from the Asian region.



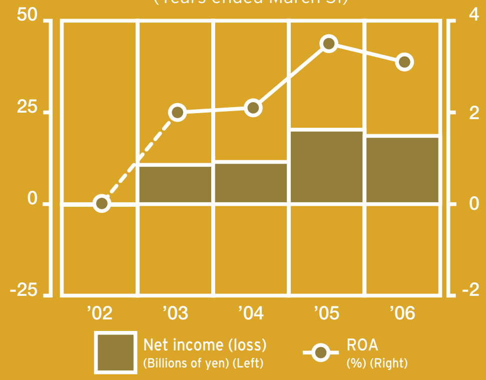
Mt. Whaleback Iron Ore Mine

Review of Operations

Chemicals, Forest Products & General Merchandise Company

Yosuke Minamitani
President, Chemicals, Forest Products & General Merchandise Company

Net Income and ROA
(Years ended March 31)



Financial Highlights

(Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	80.7	87.1	91.9	105.9	111.1
(Forest Products & General Merchandise)	51.6	56.1	59.7	70.4	72.7
(Chemicals)	29.1	31.0	32.3	35.5	38.4
Net income (loss)	(0.2)	10.7	11.5	20.3	18.6
Identifiable assets at March 31	532.7	524.6	557.4	583.7	634.3
ROA (%)	—	2.0	2.1	3.5	3.1

Net Income from Major Group Companies*1

(Billions of yen)

Years ended March 31	'04	'05	'06
ITOCHU Kenzai Corp.	1.0	1.5	0.8
ITOCHU Pulp & Paper Corp.	0.6	0.5	1.1
ITOCHU CHEMICAL FRONTIER Corporation *2	1.3	1.2	1.3
ITOCHU PLASTICS INC.	1.7	1.8	2.6
Prime Source Building Products Inc.	3.2	7.5	7.7

*1 ITOCHU's share of net income
*2 ITOCHU Techno Chemical Inc. and ITOCHU CHEMICAL FRONTIER Corporation merged into the new ITOCHU CHEMICAL FRONTIER Corporation in April 2005. The above figures before the merger are just summed up the two old entities'.

The Chemicals, Forest Products & General Merchandise Company is engaged in business activities involving various materials such as lumber, pulp, paper, rubber, tire, glass and cement, and organic/inorganic chemicals, plastics, and other chemicals. It also handles retail and retail support businesses for lifestyle goods.

Major subsidiaries and associates include ITOCHU Kenzai Corp., ITOCHU Pulp & Paper Corp., ITOCHU CHEMICAL FRONTIER Corporation, ITOCHU PLASTICS INC., DAIKEN CORPORATION, Takiron Co., Ltd., and C.I. Kasei Company, Limited

Business Overview

The Company supplies general materials involving lumber, pulp, paper, rubber, tire, glass and cement, in the Forest Products & General Merchandise Division. In the Chemicals Division, operations focus on organic and inorganic chemicals and plastics. The Company and the Group as a whole are engaged in businesses in close collaboration with all industrial sectors as well as a wide range of customers from upstream to downstream, reaching individual consumers.

For further improvements in operating profits from these business segments, the Company is implementing strategies such as allocating more management resources to strategic areas, increasing overseas profits, developing core subsidiaries, and challenging for profit-making in the retail and other new business areas.

The following subsidiaries are positioned as core members of the Company: ITOCHU Kenzai Corp., ITOCHU Pulp & Paper Corp., ITOCHU CERATECH CORP., ITOCHU CHEMICAL FRONTIER Corporation, ITOCHU PLASTICS INC., and VCJ Corporation. A far-reaching program designed to create the optimum structure and raise profitability across the entire Group is also in place.

On the other hand, as its efforts to make profits in new business areas, the Company is working on biotechnology-related businesses as well as the development and marketing of packaging materials for supermarkets and food vendors.

Strengths

As its primary directions, the Company has decided to launch a new commitment to the upstream sector and to maintain to allocate management resources to the mid-stream and retail sector. Both of the two Divisions comprising the Company boast their industry's highest-level of profitability.
Also, it has been placing its focus on the following key areas:

1) Forest Products & General Merchandise Division
   Expansion of building material related business in North America, Development of forestation, Pulp manufacturing and trading business, Worldwide expansion of the rubber and tire business, Strengthening of the retail business.
2) Chemicals Division
   Resource development-type projects such as manufacturing of methanol and fluoric acid, Market oriented-type projects such as manufacturing raw materials for synthetic fiber and sulfuric acid, and Expansion of general-purpose synthetic resin business.

The Company practices growth plans in the key areas with strongly-performing subsidiaries. In the Forest Products & General Merchandise Division — PrimeSource Building Products Inc., CIPA Lumber Co., Ltd. and Pacific Woodtech Corporation are expanding their business in the growing North American building material market, CENIBRA in Brazil has established an environmentally friendly sustainable operation with its logs 100% obtained from well managed own forestation, subsidiaries of natural rubber and tires strengthen their integrated operation from the procurement of natural rubber to wholesale/retail of tire in USA, Europe and Japan. In the Chemicals Division — C.I. Kasei Company, Limited and Takiron Co., Ltd., subsidiaries listed on the first section of the TSE, are producing highly value added building, packing, and agricultural materials as well as developing innovate technology business such as medical and nano technology related products, Ningbo Mitsubishi Chemical Co., Ltd., is planning to produce PTA (PTA : high purity terephthalic acid) which is a raw material of polyester fiber and the construction of the plant is now smoothly progressing. With all subsidiaries and associates including the listed above, the Company focuses on achieving higher goals.

Business Performance in the Fiscal Year Ended March 2006

The Company was influenced by the macroeconomic environment surrounding the industries. Favorably affected by the strong performance of the U.S. building materials market and chemicals market in the world, the Company had a steady growth in its earnings from its overseas housing materials-related enterprises and trading in the chemicals sector. On the other hand, associates of the company in resource supplying countries were negatively affected by appreciation of their currency. Furthermore, the sluggishness in the domestic housing materials market had an adverse impact on the trading of building materials.

Organization (As of April 1, 2006)
Chemicals, Forest Products & General Merchandise Company

- **Forest Products & General Merchandise Division**
  - Wood Products & Materials Department
  - Paper Materials & Products Department
  - Tire & Rubber Department
  - General Merchandise Department
- **Chemicals Division**
  - Organic Chemicals Department No.1
  - Organic Chemicals Department No.2
  - Inorganic Chemicals Department
  - Plastics Department
  - Life & Living Department
- **Planning & Coordinating Department**
- **Accounting & Control Department**
- **Affiliate Administration & Risk Management Department**

TOPICS

Signing Ceremony of the methanol project in Brunei

Participation in the methanol project in Brunei

The Company agreed with Mitsubishi Gas Chemical Co, Inc. and Petroleum Brunei (a Brunei government agency) to produce 900,000 tons of methanol from natural gas supplied in Brunei. The joint venture agreement was signed in November 2005, and the joint venture company named Brunei Methanol Company Sdn Bhd was established in March 2006. The joint venture company is now accelerating its efforts for the operational launch scheduled in 2009. These efforts include the signing of the letter of intent with Brunei Shell Petroleum Sdn Bhd for supplying natural gas to the project. This is a resource development-type project that utilizes the cost-competitive natural gas. With the geographic advantage of being

In the midst of the environment above, the Company made the following efforts during the fiscal period: As a new commitment to the upstream sector, which is one of its core strategies, the Company decided to participate in the large-sized chemical (methanol) project in Brunei, jointly with Mitsubishi Gas Chemical Co, Inc. In the PTA (polyester fiber materials) manufacturing business jointly with Mitsubishi Chemical Corporation, the plant construction is well underway, promising a full-fledged production in 2007. The PTA manufacturing business is a project launched in a consumption area, in response to the increased polyester production in China. In the life, human care, and pharmaceuticals area, which is designated as the area of corporate-wide focus in ITOCHU's mid-term management plan "Frontier-2006," the Company and its group companies made investment in REMEJE PHARMACEUTICALS (CHINA) CO., LTD., a pharmaceutical wholesaler licensed to sell products across China. In the retail sector, ITOCHU acquired SANIPAK COMPANY OF JAPAN, LTD., the top vender in plastic bags in Japan, to expand wrapping materials-related business. As mentioned above, the Company took measures in a steady manner for all of the sectors.

Mid-to-Long Term Challenges and Strategies

The Company's products such as lumber, pulp, and chemicals are susceptible to the impact of these market conditions. In order to respond to all possible changes in the business environment and to establish a continuous high profitable revenue base, we actively allocate management resources to priority areas and build the best portfolio.

Policies and Outlook for the Fiscal Year Ending March 2007

In the fiscal year ending March 2007, the last year covered by the Frontier-2006, we are determined to meet the following goals: 1) expansion of the housing materials business in the North America; 2) expansion of the pulp trading in the global market; 3) expansion of the tire-retailing business; 4) strengthening of the efforts in the generic and crude drugs area; 5) undertaking of further efforts to develop large-scale petrochemical projects; 7) launching of new efforts for the packaging materials and sulfuric acid/fluoric acid businesses in China; 8) expansion of the synthetic resin-related businesses.

Number of Employees	
Consolidated*	7,785
Non-consolidated	447

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	44
Overseas	49

Major products & Services

- Logs & Lumber • Pulp & Paper
- Crude Rubber and Tires
- Ceramic products
- Basic chemicals • Fine chemicals
- Pharmaceutical products
- Inorganic chemicals • Plastics
- Various consumer products

located close to the consuming market of Japan and other Asian countries, the project is expected to achieve high profitability.

Ningbo PTA project is smoothly progressing

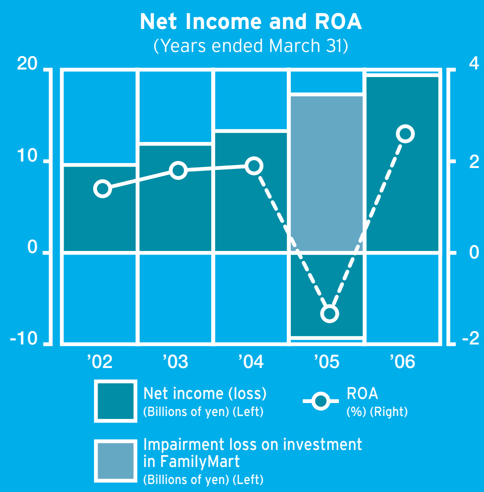
In the synthetic fiber field, the Company participated in the first Japanese joint venture PTA project in China with Mitsubishi Chemical Corporation. The construction of the plant started in June 2005, and is smoothly progressing toward beginning of production in the second half of the fiscal year ending March 2007. PTA is raw material of synthetic fiber and PET resins, and the demand in China is now 12 million tons. This is the world's largest market and further growth is anticipated. Placing this project as the core of our synthetic fiber business, the Company intends to expand business of raw material and derivatives of PTA.

Construction site

Review of Operations

Food Company

Shigeharu Tanaka
President, Food Company



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	126.9	130.1	130.9	136.2	142.6
Net income (loss)	9.6	11.9	13.3	(9.3)	19.4
Identifiable assets at March 31	665.1	654.4	711.6	728.0	778.8
ROA (%)	1.4	1.8	1.9	—	2.6

Net Income from Major Group Companies* (Billions of yen)

Years ended March 31	'04	'05	'06
Nishino Trading Co., Ltd.	0.9	0.7	0.7
Japan Foods Co., Ltd.	0.1	0.2	0.0
FamilyMart Co., Ltd.	4.2	4.0	4.3

*ITOCHU's share of net income

The Food Company efficiently integrates the production, distribution, and sale of food products in Japan and overseas through its business activities, which cover all aspects of food, from procurement and development of resources to retail of finished products.

The Company's major subsidiaries and associates are ITOCHU-SHOKUHIN Co., Ltd., Nishino Trading Co., Ltd., NIPPON ACCESS INC., Japan Foods Co., Ltd., FUJI OIL CO., LTD., FamilyMart Co., Ltd., and Prima Meat Packers, Ltd.

Business Overview

The Food Company seamlessly brings together all aspects of the food business, from the development of food resources in Japan and overseas to manufacturing and processing, distribution, and retail operations. We are developing our business by applying a Strategic Integrated System (SIS), whereby we are building a supply and demand system based on customer needs.

In the retail sector, we acquired a controlling interest in FamilyMart in February 1998. Through this full-scale entry into the retail industry, we have established a system that allows the timely transmission of information obtained from the downstream sector to midstream and upstream operations. In January 2006, we agreed to form a comprehensive alliance with Uny Co., Ltd., a supermarket chain operator, to develop stronger ties between our two companies.

In the food resources sector, we make effective use of our existing supply bases in North America, Asia, Australia, South America, and elsewhere, and we also have sales networks that further strengthen ties between these bases and the retail sector. Working in collaboration with leading overseas manufacturers, we concentrate on products that set ITOCHU part from other manufacturers, while developing resources in various regions for a wide range of products. By establishing two U.S. based subsidiaries, we forged ahead of our competitors in exporting non-genetically-modified (non-GM) corn and soybeans to Japan. The Food Company is also engaged in the production and distribution of eggs from chickens fed using mainly non-GM corn.

In the overseas production and processing sector, we established a beer brewing business jointly with Asahi Breweries, Ltd. In another initiative with Asahi Breweries and Ting Hsin International Group (China), we manufacture soft drinks. In Indonesia, we are engaged in the production and sale of canned tuna through a joint venture with Hagoromo Foods Corporation.

In the domestic distribution sector, the Food Company has built a nationwide distribution network through ITOCHU-SHOKUHIN Co., Ltd., a joint venture with two affiliated wholesalers. In March 2001, that company was listed on the First Section of the Tokyo Stock Exchange. In 1998, we established ITOCHU FRESH CORPORATION

Inc. to handle fresh meat products, seafood, and fruit and vegetables.

Under this organizational structure, we are seeking to strengthen our earnings base by bolstering the Group's integrated strengths and competitiveness with a view to becoming a prominent global foods company.

Strengths

As a leading food company, we aim to achieve stable and continuous consolidated net income in the order of ¥20.0 billion per year. To this end, we will continue applying our SIS strategy to our Japanese and overseas operations, delivering exports to Japan to increase earnings of our core businesses and major investments. We will also develop and pursue SIS strategies in our Asian markets, primarily China and Thailand, and expand our businesses related to overseas bases supplying the Japanese market, as well as the domestic consumer market.

The Food Company boasts a net income level that places it among the top trading companies in the industry. Especially in the domestic food distribution sector, the Group's turnover of food at the wholesale level is around ¥2.0 trillion as one of the leaders in this sector. In the retail segment, the chain of FamilyMart stores is one of the largest in the convenience store industry.

The Food Company has four key strengths. First, in upstream operations, we have stable overseas operations for the supply of food resources. One example is U.S.-based CGB Enterprises, Inc., which collects and ships grain products. Second, in domestic midstream operations, we have nationwide food distribution networks for handling foods and food products in all temperature ranges. These networks were established by three major Group companies: ITOCHU-SHOKUHIN Co., Ltd., NIPPON ACCESS INC., and Nishino Trading. Third, we are active in the downstream sector. Here, our retail operations center on FamilyMart and its peripheral business, as well as Uny. Fourth, we have joint businesses in China through strategic alliances with Ting Hsin International Group.

Business Performance in the Fiscal Year Ended March 2006

At the macro level, the domestic food industry will be affected by an expected decline in Japan's total population, once it reaches its peak in 2006. In addition, food expenditure is forecast to decrease in line with the country's falling birth rate and aging population. The domestic food industry is also undergoing reorganization on all levels.

In overseas markets, business opportunities are increasing, thanks to continued near-double-digit growth of China's food market and liberalization of foreign investment in that nation.

Under these circumstances, in the fiscal year ended March 2006 we worked to strengthen our business base in the domestic food distribution sector. In April 2005, for example, we increased our stake in Showa Co., Ltd., making it a consolidated company. In January 2006, we agreed to form a business alliance with Uny. Under the

Organization (As of April 1, 2006)

Food Company

- **Provisions Division**
  - Oilseeds, Oils & Fats Department
  - Grain & Feed Department
  - Sugar, Confectionary Materials & Dairy Products Department
  - Coffee & Beverage Marketing Department
- **Fresh Food & Food Business Solutions Division**
  - Marine Products Department
  - Meat Products Department
  - Agri Products & Food Service Department
  - Inported Food Marketing & Distribution Department
- **Food Products Marketing & Distribution Division**
  - Food Products Marketing & Distribution Department
  - FamilyMart Department
- Planning & Coordinating Department
- Administration Department
- Affiliate Administration & Risk Management Department

TOPICS

A "Uny" store in Japan

Strengthening Retail Interests through Alliance with Uny

In January 2006, we signed a memorandum with Uny Co., Ltd., with which we have a long association in food distribution. According to the agreement, we will not only expand our dealings at the wholesale food level, but also cooperate in a variety of sectors, including product development and marketing, information technology, logistics, and property development. We will pursue a range of joint measures, making effective use of our mutual business resources. Specifically, we will target the seamless integration of Uny's retail stores with the ITOCHU's consumer business development capabilities, global network, product planning and procurement strengths, brand marketing, and retail support expertise.

Accelerate Establishment of FamilyMart Stores Overseas

Making use of the know-how it has cultivated domestically, the Food Company will pursue aggressive expansion of FamilyMart convenience stores overseas in cooperation with FamilyMart Co., Ltd. Following previous launches in Taiwan, South Korea, Thailand, and Shanghai, we opened our first store on the U.S. West Coast in July 2005. As a general trading company, ITOCHU intends to provide full support for FamilyMart's "Global 20,000 Store Plan" alliance, we will collaborate with Uny and other companies on a range of initiatives. In June 2006, we increased our interest in NIPPON ACCESS INC., with the purchase of common stock. As a result, NIPPON ACCESS INC. became a core subsidiary of ITOCHU's domestic food distribution group.

Overseas, we accelerated the establishment of FamilyMart stores. In July 2005, we opened the first Famima!! store on the U.S. West Coast, and in Shanghai we launched our 100th store. These initiatives are bringing us closer to our target of achieving a global 20,000-store network.

In China, we strengthened ties with our Japanese partners and leading local companies as we pursued further business opportunities. Together with Japanese food conglomerate Kagome Co., Ltd., and Ting Hsin International Group, we established a joint venture to produce chilled fresh vegetable and fruit juices. We also launched a project with Asahi Breweries and Ting Hsin International Group to manufacture soft drinks.

As a result, in the fiscal year ended March 2006 we posted record-high consolidated net income of ¥19.4 billion.

Mid-to-Long Term Challenges and Strategies

The Food Company will concentrate on the following three strategies over the mid-to-long terms: (1) To adapt to changes in the market structure caused by Japan's aging society and long-term population decline caused by falling birthrates; (2) To seek new markets in line with the shift to higher quality and more functional foods; and (3) To play an active role in the new domestic retail market, building on our involvement in supermarkets and convenience stores.

Policies and Outlook for the Fiscal Year Ending March 2007

In the fiscal year ending March 2007, the second and final year of the "Frontier-2006" mid-term management plan, we will aim to increase consolidated revenues and earnings. To this end, we will focus on the following two key initiatives: (1) To continue applying our SIS strategy to the domestic market, as well as to overseas bases exporting to Japan, thus increasing the earnings of core businesses and major investment projects; and (2) To develop SIS strategies for overseas markets, including China and other Asian markets, especially Thailand, while expanding overseas operations that supply food to Japan and broadening the domestic consumer market.

Number of Employees	
Consolidated*	6,418
Non-consolidated	379

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	73
Overseas	23

Major products & Services

• Wheat, Barley • Vegetable Oils • Soybeans, Corn • Beverage Materials (Juice, Coffee) • Sugar, Sweeteners • Dairy Products • Marine, Livestock, Agri Products • Frozen Foods • Processed Foods, Pet Foods • Soft Drinks, Liquor

Famima!! store at Santa Monica, U.S.

(around 8,000 stores in Japan and 12,000 stores overseas), while strengthening its ties with FamilyMart in peripheral areas, such as food supplies, logistics, and vendor operations, by mobilizing our functions as a trading company.

NIPPON ACCESS INC. Becomes Consolidated Subsidiary

In June 2006, ITOCHU increased its stake in NIPPON ACCESS INC., transforming that company into a consolidated company. Here, our strategy to clearly position NIPPON ACCESS INC. as a core subsidiary in ITOCHU's domestic food distribution group. As a result, it will accelerate growth and strengthen the competitiveness of the Food Company in the domestic food distribution market, one of the key aims of our SIS strategy. Looking ahead, we are also considering a merger with Nishino Trading, a core company in our domestic food group, in April 2007. We believe that closer and more effective use of these companies' business resources will enable the Food Company to expand the scale of its operations and strengthen its functional capabilities.

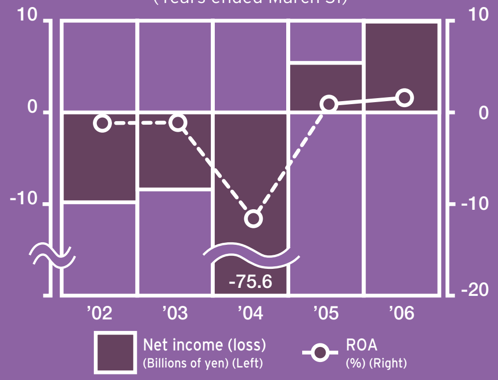

A distribution center of NIPPON ACCESS INC.

Review of Operations

Finance, Realty, Insurance & Logistics Services Company

Takao Shiomi
President, Finance, Realty, Insurance & Logistics Services Company

Net Income and ROA
(Years ended March 31)



Financial Highlights (Billions of yen)

Years ended March 31	'02	'03	'04	'05	'06
Gross trading profit	34.4	33.8	16.0	39.3	46.0
Net income (loss)	(9.8)	(8.4)	(75.6)	5.4	9.9
Identifiable assets at March 31	773.4	692.7	609.7	615.3	600.9
ROA (%)	—	—	—	0.9	1.6

Net Income from Major Group Companies*[1] (Billions of yen)

Years ended March 31	'04	'05	'06
ITOCHU Finance Corporation*[2]	4.1	2.7	3.2
CENTURY 21 REAL ESTATE OF JAPAN LTD.	0.2	0.2	0.3
i-LOGISTICS CORP.	0.2	0.4	0.6
kabu.com Securities Co., Ltd.*[2]	0.7	0.9	2.1
Orient Corporation	—	—	3.1

*1 ITOCHU's share of net income
*2 The net income of ITOCHU Finance Corporation includes that of kabu.com Securities Co., Ltd.

The Finance, Realty, Insurance & Logistics Services Company provides the structuring and sales of financial products as well as insurance and reinsurance agency and consulting services. We are also undertaking warehousing, trucking, international intermodal transport, construction and real estate development and management services.

Key operating subsidiaries and associates in the Company include ITOCHU Finance Corporation, CENTURY 21 REAL ESTATE OF JAPAN LTD., kabu.com Securities Co., Ltd., Orient Corporation, and i-LOGISTICS CORP.

Business Overview

We have four divisions: 1) Financial Services: total financial service business mainly focusing on financial market and retail finance; 2) Construction & Realty: creation and promotion of "lifestyle values"; 3) Insurance Services: strengthening of risk solutions functions; and 4) Logistics Services: offering of high value-added distribution functions linking "people, goods, money and information."

Strengths

Among general trading companies, we are at the forefront of each sector. As the basic strategy for each sector to underpin our leading position, in the Financial Services Division, we will focus on four strategic areas ("market business," "capital investment," "midsize and small company business" and "retail finance") and seek to boost overseas business bases in order to seek higher profits from operations abroad. Giving top priority to "retail finance" among the four strategic areas, we will seek to maximize the synergy effect of the business and capital tie-up with Orient Corporation (Orico), the core company in the retail finance business, to enhance its corporate value, and also seek to build a portfolio of assets geared to consumer-oriented businesses. In the Construction & Realty Division, we will seek to further broaden the scope of businesses, including real estate securitization, on top of the existing core business area of housing development and management. We will enhance the management of our subsidiaries and affiliates to achieve higher profits as a group for a higher degree of consolidated management. The major challenge in the Insurance Services Division is to maximize our consolidated income earlier possible through producing profitable retail insurance business models. Our basic strategy in the Logistics Services Division calls for 1) higher profits from existing businesses through enhanced consolidated management and extensive global operations; and 2) strengthening of domestic logistics solutions services, China business and chartering.

Each division has its unique strength. The Financial Services Division has high operational compatibility with other business divisions in different industries. For example, the division is extending its operations horizontally, a distinct feature of a general trading company with a broad spectrum of business fields, through cooperation with the Insurance Services Division in the credit card businesses and collaboration with the Construction & Realty Division in real estate securitization, as well as cooperation with the Information Industry Division in IT-based financial businesses. The Construction & Realty Division is also seeking horizontal collaboration, promoting cooperation, including personnel exchanges, with the Financial Services Division for residential real estate investment trust (REIT) management and with the Logistics Services Division for equity investment in logistics facilities funds. For the Insurance Services Division, we are the only company of Japanese origin to have insurance broking networks globally, including Hong Kong, USA, UK and Thailand. The London branch of Cosmos Services Co., a subsidiary in Hong Kong, is the first Japanese-affiliated firm registered as a broker of Lloyd's of London. The Logistics Services Division is strong in 1) domestic and international third-party logistics (LT/FT/IT functions) on the back of comprehensive coordination functions as a general trading company; 2) an extensive overseas network including China; and 3) chartering know-how.

Business Performance in the Fiscal Year Ended March 2006

Reflecting the generally favorable macroeconomic environment, our business climate is favorable overall. In such an environment, the Financial Services Division, with the business and capital tie-up with Orico as a starting point, sought to improve the added value of the retail finance business, including an extra push given to tie-up projects. Foreign exchange and stock index trading, hedge funds and other asset management, private equity investment, and lending to midsize and small businesses through ITOCHU Finance Corporation turned in a robust performance.

In the Construction & Realty Division, we made our debut of residential REIT (Advance Residence Investment Corporation) on the Tokyo Stock Exchange, an expansion of logistics funds, and a tie-up agreement with Mapletree Investments Pte. Ltd. of Singapore.

In the Insurance Services Division, operating companies achieved favorable earnings results, led by the domestic insurance agent ITOCHU Insurance Services Co., Ltd. and credit guarantee service firm eGuarantee, Inc.

In the Logistics Services Division, some equity shares in i-LOGISTICS CORP. were transferred to the Temasek group of Singapore and Kawasaki Kisen Kaisha, Ltd., as part of the division's efforts to push ahead with its global strategy. We also worked to reinforce the distribution network in China, expand the 3PL business (winning new customers for the distribution of pharmaceutical products) and launch the new business of chartering ships.

Organization (As of April 1, 2006)

Finance, Realty, Insurance & Logistics Services Company

- **Financial Services Division**
  - Financial Markets Department
  - Financial Strategic Investment Department
  - Financial Business Development Department
- **Construction & Realty Division**
  - Construction & Realty Department No.1
  - Construction & Realty Department No.2
  - Osaka Construction & Realty Department
- **Insurance Services Division**
  - Insurance Business Development Department
  - Marine & Global Insurance Department
- **Logistics Services Division**
  - Logistics Department No.1
  - Logistics Department No.2
- Planning & Coordinating Department
- Administration Department
- Orico Business Integrated Department

TOPICS

Corporate logo of ASCLASS LSA Inc.

Establishment of home remodeling support firm ASCLASS LSA Inc.

Jointly with Orico, we established a new company, ASCLASS LSA Inc., in April 2006 to provide remodeling support services for select local builders. In order to help create and promote the living environment matching lifestyles of customers and provide home remodeling support services with a high degree of satisfaction, ASCLASS, with building contractors having business ties with ITOCHU as members, will undertake its operations by relying on the respective strength of business partners, including the utilization of Orico's financial services and the network of member branches as well as sales-promotional tie-up loans jointly provided by Mizuho Bank and Orico.

Mid-to-Long Term Challenges and Strategies

As for Mid-to-Long Term challenges and strategies for the Financial, Construction & Realty, Insurance and Logistics Services Company, we have set forth four goals for the Financial Services Division: 1)To enhance profitability by active switching into quality assets and bolster financial strength; 2) To secure qualified staff in light of the expansion of business operations and the move into overseas markets and foster professionals in the sector as a human resources development strategy; 3) To strengthen business footholds abroad to increase profits from overseas businesses; and 4) To promote the division's integrated management through enhanced communication.

The strategic priority in the Construction & Realty Division is to bolster the real estate securitization business, including a broadening of the scope of areas covered.

In the Insurance Services Division, our priority challenge is to strengthen and expand NEWGT (reinsurance company) as a core of the division's future profitability.

In the Logistics Services Division, we will narrow down areas for offensive business efforts and focus on 1) domestic logistics solutions (in particular, medical supplies and pharmaceuticals); 2) overseas operations (distribution of everyday consumer goods, automobile-related equipment and electronic materials in China, Asia, and Central and Eastern Europe); 3) multifunctional operations in chartering; and 4) promotion of the alliance with strategic partners and M&A in order to support and reinforce operating companies.

Policies and Outlook for the Fiscal Year Ending March 2007

In the Financial Services Division, we will redouble efforts to increase profit levels in the retail finance sector centering on Orico, and take advantage of the information network to find attractive new investment projects with the aim of lifting consolidated net income. While giving full play to the strength of ITOCHU Finance Corporation in providing comprehensive financial services, we will also strive to steadily build up a track record in the private equity business to make it a solid pillar of the division's future profitability. Furthermore, in pursuit of higher profits from overseas operations in the future, we will strive to bolster overseas business footholds, positioning Asia as the cornerstone region in this endeavor.

In the Construction & Realty Division, we will seek to expand the scope of business focusing on real estate securitization and also enhance efforts on the overseas property solution business utilizing our experiences & networks.

In the Insurance Services Division, we will make investments necessary to carry out the division's strategy that reflects a more offensive footing.

In the Logistics Services Division, in a bid to increase consolidated net income, we will seek to strengthen cooperation at home and overseas with i-LOGISTICS CORP., our core business partner, focus our efforts on important segments and important regions (Japan, China, Asia, and Central and Eastern Europe), strengthen global logistics operations particularly those originating in China, implement the leverage strategy through M&A and alliances, and further expand the scope of business fields.

Number of Employees	
Consolidated*	1,976
Non-consolidated	378

*The number of consolidated employees is based on actual working employees excluding temporary staff.

Number of Subsidiaries and Associate	
Domestic	43
Overseas	28

Major products & Services

• Foreign Exchange & Securities Trading • Asset Management Business • Loan • Online Securities • Credit Card/ Shopping Credit • Other Financial Services • Property Development, Sales & Purchase, Asset Management • Brokerage & Advisory Service • Equity Investment to Fund • Private Finance Initiative • House Construction • REIT Management • Golf Courses Own & Operate • Insurance agent • AInsurance broker • Domestics & International Third Party Logistics • Chartering

The distribution network of the ITOCHU Group in China

We are the only Japanese general trading company that maintains a distribution network that covers the whole of China solely by group companies.

Multi-functional regional distribution center (Beijing Pacific Logistics Co., Ltd.)

Organization

As of July 1, 2006

- **General Meeting of Stockholders**
  - Board of Corporate Auditors, Corporate Auditors
    - Corporate Auditors' Office
  - Board of Directors
    - Chairman of the Board
    - President and C.E.O.
      - Headquarters Management Committee
      - Directors, Auditors & Executive Officers Meeting
      - Chief Financial Officer
      - Chief Compliance Officer
      - Chief Information Officer
      - Audit Division
      - Secretariat
      - ITOCHU DNA Project Office
      - Chief Corporate Planning Officer
        - Corporate Planning and Administration Division
        - Affiliate Administration & Risk Management Division
        - Corporate Communications Division
        - IT Planning Division
          - Investor Relations Department
      - Chief Officer for International Operations
        - International Operations Division
      - Chief Administration Officer
        - Finance Division
        - General Accounting Control Division
        - Human Resources Division
        - Legal Division
        - General Affairs Division
        - CSR & Compliance Division
      - Chief Operating Officer, Division Companies Operation
        - Corporate Development Office
        - Strategic Business Development Department
        - Innovative Technology Business Development Office
      - Chief Officer for Kansai District Operation
      - Textile Company
      - Machinery Company
      - Aerospace, Electronics & Multimedia Company
      - Energy, Metals & Minerals Company
      - Chemicals, Forest Products & General Merchandise Company
      - Food Company
      - Finance, Realty, Insurance & Logistics Services Company
        - Overseas Office
        - Domestic Office

In addition to the above organization, the GMC (Group Management Committee) was established to heighten the overall value of the ITOCHU Group.

Corporate Governance and Corporate Social Responsibility

Corporate Governance

ITOCHU operates its business in accordance with the "ITOCHU's Credo and Way" and the "ITOCHU Corporation Code of Conduct." Our fundamental policy is to work towards the long-term improvement and preservation of our corporate value through building positive and effective relationships with our stakeholders. In order to execute our business activities in a fair and efficient manner in accordance with our fundamental policy, we will increase the transparency of our decision-making process and construct a management system that incorporates appropriate monitoring and supervisory functions.

Furthermore, we will operate our business on a basis of trust with our shareholders by ensuring adequate and timely disclosure of information and developing and maintaining accountability to the stockholders.

Management System

ITOCHU has adopted "the Board of Corporate Auditors" management system. The Board of Directors determines the important matters regarding ITOCHU and supervises the performance of the directors. Furthermore, in order to streamline our operations, we have adopted the Executive Officer System under which executive officers carry out their respective duties under the command and supervision of the Representative Directors. The Board of Corporate Auditors contributes to the sound growth of ITOCHU by monitoring the Company's management and performance of the Board of Directors. For example, the Corporate Auditors regularly attend Board meetings and other important internal meetings, meet on a regular basis with top managers, and periodically receive updated information. ITOCHU has also established the Advisory Board, which is made up of outside experts from various fields and which provides expert and objective opinions on the state of our management. In order to enhance the managerial responsibility and accountability of the directors, in the fiscal year ended March 2006 we discontinued the directors' retirement and severance allowance and integrated such allowance into each director's annual compensation package, which is determined taking into account the director's performance. Finally, beginning in the fiscal year ending March 2007 the term of office of directors and executive officers will be reduced to one year.

The Headquarters Management Committee and Other Internal Committees

The Headquarters Management Committee (HMC) is established as the supporting body to the President, and is the forum where in-depth discussions on general management policy and important issues relating to management take place on a regular basis. In addition to the HMC, We have also created other internal committees to examine and discuss management issues in specific areas, and to assist the decision-making of the President and the Board of Directors. (Please see the table on page 49.)

Division Company System

Under the Division Company System that we have had in place since fiscal year 1998, each of the seven Companies — Textile; Machinery; Aerospace, Electronics & Multimedia; Energy, Metals & Minerals; Chemicals, Forest Products & General Merchandise; Food; and Finance, Realty, Insurance & Logistics Services — assumes responsibility for the operation of its business. Decision-making in each of these Division Companies rests with its president, who, with the support from the Division Company Management Committee (DMC), promptly and effectively addresses and reacts to the changes in the market and the needs of the clients. While the Division Companies have independent decision-making capacity, the Headquarters performs centralized planning and strategizing function over ITOCHU as a whole. The Headquarter maintains control over the Division Companies by exercising supervisory authority over important matters, and by setting financial, investment and other covenants (such as the maintenance of total assets, the incurrence of interest-bearing debt, and risk assets, etc.). With discrete management at the Division Companies level on the one hand, and centralized business strategy planning and administration for ITOCHU as a whole by the Headquarters on the other hand, we have built a well-balanced and efficient management system.

Internal Control

On April 19, 2006, the Board of Directors passed a resolution approving the "Basic Policy Regarding the Internal Control System." (Please see the table on page 50 for an outline of the policy.). In order to ensure the proper working of our Internal Control System, we will continue to revisit and improve this Basic Policy on a periodic basis.

The general objectives of internal control are three-fold: (1) to achieve full compliance with laws and regulations, (2) to ensure the accuracy, truthfulness and reliability of financial reporting, and (3) to improve the effectiveness and efficiency of management. With regard to the first objective, compliance with laws and regulations has always been and will continue to be an integral part of our continued endeavor to enhance the compliance system, as is described in detail on page 50. With respect to the second objective, we are developing internal regulations that incorporate appropriate control functions into the actual business process and are undertaking various internal control projects in order to ensure the accuracy, truthfulness and reliability of our financial reporting. Finally, with respect to the third objective, we have launched the "ITOCHU DNA Project ～Designing New Age～" as of the fiscal year ending March 2007, a business process re-engineering project aimed at improving the effectiveness and efficiency of our management.

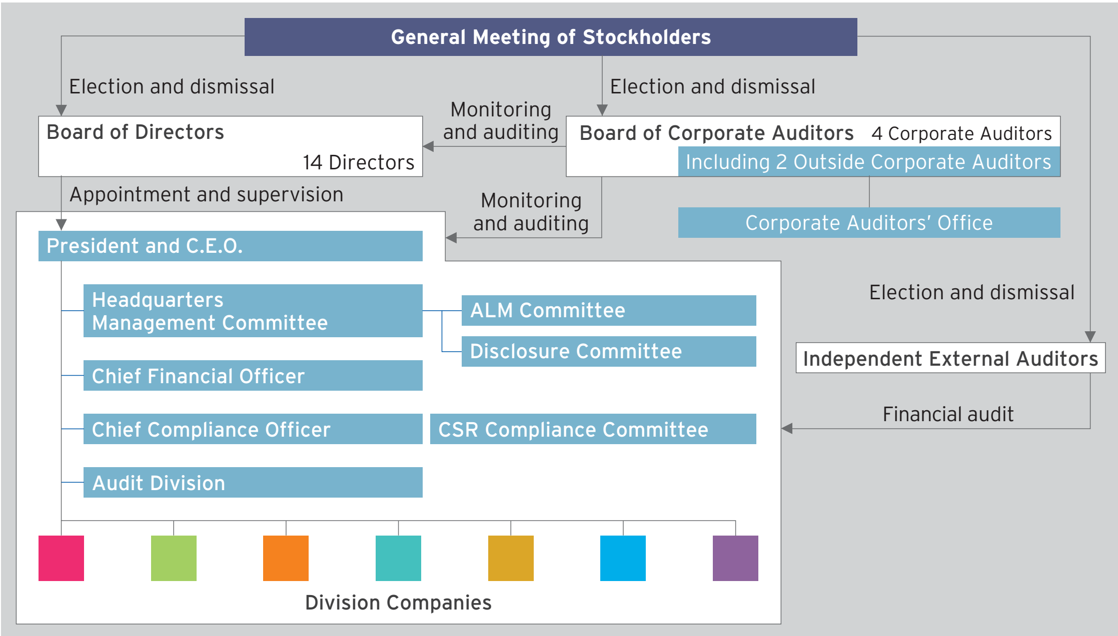
Risk Management

To adequately address the various risks associated with our business operations, such as market risk, credit risk, and investment risk, we have developed the requisite risk management system and risk management techniques, for example, establishing a full range of management regulations, investment criteria, and risk limits, and developing reporting and monitoring systems, and managing company-wide as well as matter-specific risks. Furthermore, we regularly review the effectiveness of the risk management system and are working to develop ever more sophisticated risk management techniques.

Reinforcing Disclosure and Accountability

The ITOCHU Corporate Code of Conduct states that "ITOCHU values communication with its shareholders, other stakeholders, and the public at large, and will fulfill its duty to make full, fair, and timely disclosure of corporate information". In keeping with this commitment, we have taken steps to ensure that our practice of disclosure is timely and appropriate. We have established internal policy on disclosure and implemented a communication system to ensure close contacts among concerned organizations. We have also continued to enhance our disclosure system by, for instance, establishing a Disclosure Committee in the fiscal year ended March 2006 and establishing an Investor Relations Department during the fiscal year ending March 2007.

Current ITOCHU's Corporate Governance System



Notes 1: Each Division Company has a Division Company President and a Division Company Chief Financial Officer.
2: Internal control systems and mechanisms have been implemented at every level of ITOCHU. Only the important internal control systems and mechanisms are described herein.

Principal Internal Committees

Name	Objectives
ALM* Committee	Performs comprehensive balance sheets and risk management analysis, and makes recommendations on monitoring systems and improvement measures for management
Strategic Investment Committee	Deliberates and makes recommendations on strategic investment as planned in the mid-term management plan
Company-Wide Business Committee	Maximizes the collective and comprehensive strengths in company-wide business; and supports and promotes the realization of synergies between the Division Companies
Corporate Officer Compensation Consultative Committee	Deliberates and makes recommendations on the implementation and operation of the corporate officers compensation system
CIO* Committee	Deliberates, promotes, and makes recommendations on policies for the introduction and implementation of Information Technology to the ITOCHU Group
Disclosure Committee	Deliberates and makes recommendations on internal control policies and measures concerning information disclosure (including disclosure of financial statements)
CSR Compliance Committee	• Deliberates, promotes, and makes recommendations on policies and measures concerning CSR • Implements policies and programs for the full understanding of, and compliance with, the Company's management principles and corporate code of conduct
DNA* Project Committee	Deliberates and makes recommendations on policies and measures for promoting business process re-engineering throughout the entire ITOCHU Group

*ALM=Asset Liability Management *CIO=Chief Information Officer *DNA=Designing New Age

Outline of the Basic Policy Regarding the Internal Control System

Notes

1. System to Ensure Compliance by Directors and Employees to Laws, Regulations and the Articles of Incorporation

(1) Corporate Governance

1) As the decision-making body, the Board of Directors is to decide important matters in accordance with laws and regulations, the Articles of Incorporation, the "Board of Directors Regulations," and other internal regulations, and as the supervisory body, the Board of Directors is to supervise the performance of the directors.

2) Each director is to carry out such director's functions and duties as designated by the Board of Directors in accordance with laws and regulations, the Articles of Incorporation, resolutions by the Board of Directors, and internal regulations.

3) ITOCHU is to adopt The Executive Officer System to strengthen the decision-making function and supervisory function of the Board of Directors, and to streamline executive decision-making. The executive officers are to be appointed pursuant to a resolution by the Board of Directors, and are to carry out their designated functions and duties under the command and supervision of the Representative Directors.

4) The corporate auditors are to oversee the performance of the directors based on the "Board of Corporate Auditors Regulations" and "Auditors' Auditing Standards."

(2) Compliance

1) Directors and employees are to conduct themselves in accordance with the "ITOCHU's Credo and Way" and the "ITOCHU Corporation Code of Conduct."

2) ITOCHU is to establish a department that oversees all compliance matters, including all matters relating to the Chief Compliance Officer and the CSR Compliance Committee. In addition, the "ITOCHU Group Compliance Program" is to be created to further enhance our compliance system.

(3) Internal Control to Ensure Reliability of Financial Reporting

1) ITOCHU is to have in place internal regulations concerning commercial transactions management and accounting, and is to create the position of Chief Financial Officer to ensure the reliability of financial reporting.

2) ITOCHU is to establish the Disclosure Committee and regularly review and improve the internal control systems to ensure the reliability of financial reporting.

(4) Internal audits

ITOCHU is to establish the Audit Division under the direct control of the President. The Audit Division is to regularly implement internal audits of all aspects of business operations based on the "Audit Regulations." Such internal audits are to examine compliance with laws and regulations, the Articles of Incorporation, and internal regulations, as well as, among other matters, the appropriateness of the procedures and nature of the exercise of duties and responsibilities.

2. System for the Storage and Preservation of Information Related to Director Duties

The directors are to appropriately store and preserve important documents and related materials concerning the performance of their duties, including the minutes of the General Meeting of Stockholders, in accordance with the "Information Management Regulations," the "Document Management Rules" and other internal regulations. All documents and information so stored and preserved are to be subject to inspection by the directors and auditors at any time.

3. Regulations Concerning the Management of the Risk of Loss and Other Relevant Risk Management System

To adequately address the various risks associated with our business operations, such as market risk, credit risk, country risk, and investment risk, ITOCHU is to establish internal committees and responsible departments, and is to develop the necessary risk management system and risk management techniques, for example establishing a full range of management regulations, investment criteria, risk limits and transaction limits, and developing reporting and monitoring systems, and managing company-wide as well as matter-specific risks . Furthermore, ITOCHU is to regularly review the effectiveness of the risk management system.

4. System to Ensure Efficient Performance of Directors

(1) The HMC and other Internal Committees

The HMC (Headquarters Management Committee) as a supporting body to the President, and a number of other internal committees, are to facilitate the proper and agile decision-making by the President and the Board of Directors.

(2) Division Company System

Under the Division Company System, the position of Company President is to be created at each Company, and each Company is to manage its business autonomously in accordance with laws and regulations, the Articles of Incorporation, and internal regulations. Furthermore, each Company is to establish its own numerical targets, and regularly evaluate its performance by comparing against such numerical targets.

(3) Clearly Define the Scope of Authority and Responsibilities

In order to ensure the appropriateness and efficiency of the performance of the management, ITOCHU is to develop internal regulations to clearly define the scope of authority and responsibilities of each corporate officer and divisional manager.

5. System to Ensure the Adequacy of Operations of the ITOCHU Group (Consisting of ITOCHU Corporation and its Subsidiaries)

(1) Subsidiary Management System

ITOCHU is to establish a department that oversees all the subsidiaries. Furthermore, relevant departments within ITOCHU Corporation are to exercise jurisdiction over their responsible subsidiaries, and provide managerial guidance to such subsidiaries in accordance with the internal regulations concerning consolidated company management. In principle, ITOCHU Corporation is to send directors and auditors to each subsidiary to ensure the adequacy of the subsidiary's operations.

(2) Compliance

ITOCHU Corporation is to provide guidance to its subsidiaries for the purpose of implementing a compliance system at each subsidiary in accordance with the "ITOCHU Group Compliance Program," and is to implement full compliance in the entire ITOCHU Group through education and training.

(3) Internal Audits

All of the operations and activities of the subsidiaries are to be subject to internal audits by the Audit Division.

6. Matters Concerning Supporting Personnel to Auditors and Independence of such Personnel from the Directors

ITOCHU is to establish the Corporate Auditors Office under the direct jurisdiction of the Board of Corporate Auditors and is to put in place full-time employees with the sole responsibility of supporting the work of the Corporate Auditors. The supervisory authority over such employees is to belong exclusively to the Board of Corporate Auditors, and evaluation of such employees is to be carried out by the Corporate Auditors designated by the Board of Corporate Auditors. Any transfer orders or disciplinary actions relating to such employees are to require prior approval by the Board of Corporate Auditors.

7. System for Reporting by Directors and Employees to Corporate Auditors

(1) Attendance at Important Meetings

The Corporate Auditors are to attend meetings of the Board of Directors, the HMC meetings, and other important meetings, and interview the directors and other relevant persons regarding the performance of their duties. In addition, the Corporate Auditors are to have the right to inspect all relevant materials.

(2) Reporting System

1) The directors and corporate officers are to regularly report to the Corporate Auditors about their performance. Furthermore, in addition to the matters required by laws and regulations, the directors are to report all the decisions that could have a major impact on the finance or business of ITOCHU to the Corporate Auditors immediately after such decisions are made.

2) Employees are to have the right to report directly to the Corporate Auditors any matters that could cause serious damage to ITOCHU.

8. Other Relevant Systems to Ensure the Proper Functioning of Audits

(1) Coordination with the Auditors in the Audit Division

The Audit Division is to maintain close communication and coordination with the Corporate Auditors with respect to matters such as formulation of the internal audit plan for each business year, and internal audit results.

(2) Retaining External Experts

When deemed necessary, the Corporate Auditors are to independently retain external experts for the implementation of an audit.

Corporate Officers

As of July 1, 2006

Makoto Kato
Vice Chairman
Sumitaka Fujita
Vice Chairman
Akira Yokota
Executive Vice President
Kouhei Watanabe
Executive Vice President
Toshihito Tamba
Senior Managing Director
Eizo Kobayashi
President and
Chief Executive Officer
Uichiro Niwa
Chairman

Board of Directors

President and Chief Executive Officer

Eizo Kobayashi
1972 Joined ITOCHU Corporation
2004 President and Chief Executive Officer

Chairman

Uichiro Niwa
1962 Joined ITOCHU Corporation
2004 Chairman

Vice Chairmen

Makoto Kato
Chief Officer for Kansai District Operation
1964 Joined ITOCHU Corporation
2006 Vice Chairman

Sumitaka Fujita
1965 Joined ITOCHU Corporation
2006 Vice Chairman

Executive Vice Presidents

Akira Yokota
Chief Operating Officer, Division Companies Operation;
Executive Advisory Officer for Machinery Company and Energy, Metals & Minerals Company
1967 Joined ITOCHU Corporation
2003 Executive Vice President

Kouhei Watanabe
Chief Corporate Planning Officer;
Chief Information Officer;
Executive Advisory Officer for Food Company
1971 Joined ITOCHU Corporation
2006 Executive Vice President

Senior Managing Directors

Toshihito Tamba
Chief Administration Officer;
Chief Financial Officer;
Chief Compliance Officer
1972 Joined ITOCHU Corporation
2005 Senior Managing Director

Shigeki Nishiyama
President, Aerospace, Electronics & Multimedia Company
1974 Joined ITOCHU Corporation
2006 Senior Managing Director

Masahiro Okafuji
President, Textile Company
1974 Joined ITOCHU Corporation
2006 Senior Managing Director

Managing Directors

Yosuke Minamitani
President, Chemicals, Forest Products & General Merchandise Company
1974 Joined ITOCHU Corporation
2006 Managing Director

Shigeharu Tanaka
President, Food Company
1974 Joined ITOCHU Corporation
2006 Managing Director

Takanobu Furuta
President, Machinery Company
1973 Joined ITOCHU Corporation
2006 Managing Director

Yoichi Kobayashi
President, Energy, Metals & Minerals Company
1973 Joined ITOCHU Corporation
2006 Managing Director

Takao Shiomi
President, Finance, Realty, Insurance & Logistics Services Company
1975 Joined ITOCHU Corporation
2006 Managing Director

Haruo Sakaguchi Corporate Auditor
Nobuyoshi Umeno Standing Corporate Auditor
Tsutomu Miyakushi Standing Corporate Auditor
Tadashi Kudo Corporate Auditor

Board of Corporate Auditors

Corporate Auditors

Tsutomu Miyakushi
1968 Joined ITOCHU Corporation
2003 Standing Corporate Auditor

Nobuyoshi Umeno
1968 Joined ITOCHU Corporation
2004 Standing Corporate Auditor

Haruo Sakaguchi
1989 ~ 1990 Vice Chairman, Japan Federation of Bar Association
Chairman, Osaka Bar Association
2001 Chairman, Osaka Public Bid Monitoring Committee
2003 Corporate Auditor, ITOCHU Corporation

Tadashi Kudo
2002 President & Chief Executive Officer, Mizuho Bank, Ltd.
2004 Advisor, Mizuho Bank, Ltd.
2005 Corporate Auditor, ITOCHU Corporation

Executive Officers

Managing Executive Officers

Etsuro Nakanishi
Executive Vice President, Textile Company;
Chief Operating Officer, Textile Division
1971 Joined ITOCHU Corporation
2005 Managing Executive Officer

Toru Ota
General Manager for Nagoya Area
1970 Joined ITOCHU Corporation
2005 Managing Executive Officer

Yoshio Akamatsu
President & C.E.O., ITOCHU International Inc.
1974 Joined ITOCHU Corporation
2005 Managing Executive Officer

Masahiro Nakagawa
Deputy Chief Corporate Planning Officer;
Chief Officer for International Operations;
General Manager, International Operations Division
1974 Joined ITOCHU Corporation
2005 Managing Executive Officer

Nobuo Kuwayama
General Manager for China;
Chairman, ITOCHU (China) Holding Co., Ltd.;
Chairman & General Manager, ITOCHU Shanghai Ltd.
1971 Joined ITOCHU Corporation
2006 Managing Executive Officer

Minoru Akimitsu
General Manager, IT Planning Division;
Manager, ITOCHU DNA Project Office
1973 Joined ITOCHU Corporation
2006 Managing Executive Officer

Yoshihisa Aoki
Executive Vice President, Food Company;
Chief Operating Officer, Food Products Marketing & Distribution Division
1974 Joined ITOCHU Corporation
2006 Managing Executive Officer

Hiroo Inoue
Executive Vice President, Aerospace, Electronics & Multimedia Company
1975 Joined ITOCHU Corporation
2006 Managing Executive Officer

Yoshihisa Suzuki
Executive Vice President & CAO, ITOCHU International Inc.;
President, ITOCHU Canada Ltd.
1979 Joined ITOCHU Corporation
2006 Managing Executive Officer

Executive Officers

Yoshio Matsumi
General Manager, Innovative Technology Business Development Office
1969 Joined ITOCHU Corporation
2004 Executive Officer

Tadayuki Seki
General Manager, Finance Division
1973 Joined ITOCHU Corporation
2004 Executive Officer

Akitomo Noto
Chief Operating Officer, Fresh Food & Food Business Solutions Division
1973 Joined ITOCHU Corporation
2004 Executive Officer

Toyoshige Yamada
General Manager, Strategic Business Development Department
1973 Joined ITOCHU Corporation
2004 Executive Officer

Kazutoshi Maeda
Deputy Chief Administration Officer
1974 Joined ITOCHU Corporation
2004 Executive Officer

Kenichi Kamiyoshi
Senior Vice President, Textile Company;
Chief Operating Officer,Textile Material & Industrial Textile Division
1974 Joined ITOCHU Corporation
2004 Executive Officer

Shuichi Morozumi
Chief Operating Officer, Forest Products & General Merchandise Division
1975 Joined ITOCHU Corporation
2004 Executive Officer

Takeyoshi Ide
General Manager for European Operation;
C.E.O., ITOCHU Europe PLC;
C.E.O., ITOCHU Deutschland GmbH
1975 Joined ITOCHU Corporation
2004 Executive Officer

Masahito Tominaga
General Manager, Affiliate Administration & Risk Management Division
1971 Joined ITOCHU Corporation
2005 Executive Officer

Kazuhide Sasa
Chief Operating Officer, Brand Marketing Division 1
1974 Joined ITOCHU Corporation
2005 Executive Officer

Shozo Yoneya
General Manager, General Accounting Control Division
1974 Joined ITOCHU Corporation
2005 Executive Officer

Kenji Okada
Chief Operating Officer, Construction & Realty Division
1974 Joined ITOCHU Corporation
2005 Executive Officer

Tetsushi Ishizuka
General Manager, Human Resources Division
1975 Joined ITOCHU Corporation
2005 Executive Officer

Koji Takayanagi
Chief Operating Officer, Energy Trade Division
1975 Joined ITOCHU Corporation
2005 Executive Officer

Toru Nomura
Chief Operating Officer, Plant & Project Division
1976 Joined ITOCHU Corporation
2005 Executive Officer

Yoshio Matsukawa
Chief Operating Officer, Energy Development Division
1974 Joined ITOCHU Corporation
2006 Executive Officer

Takeshi Kumekawa
Chief Operating Officer, Brand Marketing Division 2
1974 Joined ITOCHU Corporation
2006 Executive Officer

Kunihiko Tamano
Chief Financial Officer, Energy, Metals & Minerals Company;
General Manager, Energy, Metals & Minerals Control Department
1974 Joined ITOCHU Corporation
2006 Executive Officer

Yoshiharu Matsumoto
General Manager, Corporate Communications Division
1975 Joined ITOCHU Corporation
2006 Executive Officer

Satoshi Kikuchi
General Manager, Corporate Planning & Administration Division
1976 Joined ITOCHU Corporation
2006 Executive Officer

Shintaro Ishimaru
Assistant, Chief Corporate Planning Officer
2006 Joined ITOCHU Corporation
2006 Executive Officer

Toru Matsushima
Chief Operating Officer, Automobile Division
1979 Joined ITOCHU Corporation
2006 Executive Officer

Yuji Fukuda
Chief Operating Officer, Chemicals Division
1979 Joined ITOCHU Corporation
2006 Executive Officer

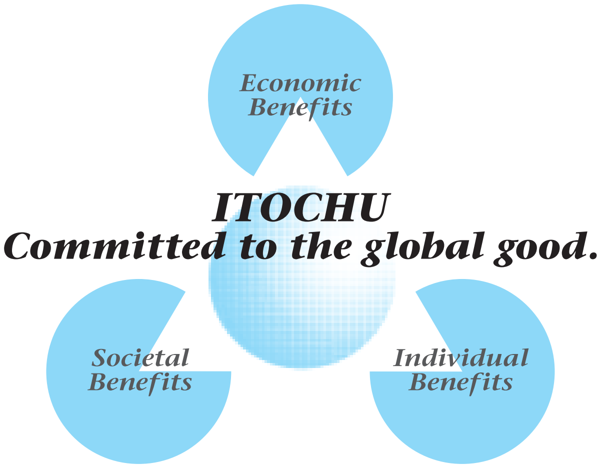
Corporate Social Responsibility (CSR)

Promotion of Corporate Social Responsibility

Compliance with corporate credo and code of conduct

In order to contribute as a good corporate citizen to the creation of a sustainable society, ITOCHU has set forth a corporate ideal of being "Committed to the Global Good" in "The ITOCHU Credo" Also, ITOCHU has established the "ITOCHU Corporation Code of Conduct" as a concrete formulation of "The ITOCHU Credo" and as a standard of judgment and conduct for its employees. We are making every effort to ensure that our employees understand them thoroughly and comply with them. In the fiscal year ended March 2006, we created new e-learning programs on "The ITOCHU Credo" and "ITOCHU Corporation Code of Conduct," and had all employees, including overseas local staff, take the programs.

The ITOCHU Credo
-Committed to the global good-



Strengthening CSR efforts

ITOCHU has ever implemented corporate social responsibility (CSR) through its business activities. ITOCHU has positioned the issue of CSR as one of the prioritized measures in the Company's mid-term management plan, "Frontier-2006", and it is decided that the CSR promotion office set up in April 2005 is mainly in charge of enhancing our CSR efforts in a more organized and systematic manner. The basic policy and concrete measures pertaining to CSR will be discussed and formulated by the CSR Compliance Committee. ITOCHU has thus laid out the framework for promoting CSR more actively.

ITOCHU Corporation Code of Conduct

1) Observance of Laws and Regulations
ITOCHU respects the laws and regulations of the countries where it does business and international rules, and will pursue the highest standards of ethical behavior in its dealings with customers, suppliers, employees, shareholders, and other stakeholders.

2) Supply of Quality Products and Services
ITOCHU is concerned with product safety and the conservation of the environment, energy, and natural resources, and maintains a keen interest in the supply of safe and quality products. ITOCHU will carefully consider the social utility of products and services it supplies.

3) Management with a Long-Term Vision
ITOCHU will not pursue short-term interests at the expense of its reputation for integrity, and will conduct its business with a long-term vision.

4) Fair Dealing
ITOCHU recognizes that free and fair competition is a fundamental principle of the market economy and will engage in free and fair competition. In addition, ITOCHU will maintain a fair, sound, and open relationship with government agencies and political bodies.

5) Disclosure
ITOCHU values communication with its shareholders, other stakeholders, and the public at large, and will fulfill its duty to make full, fair, and timely disclosure of corporate information.

6) The Environment
ITOCHU will remain vigilant in addressing today's critical environmental issues.

7) Good Corporate Citizen
ITOCHU will seek harmony between the pursuit of profit and contribution to society, and will actively fulfill its role as a good corporate citizen.

8) Working Conditions
ITOCHU will promote good working conditions for its employees, respect the dignity and personality of employees, and foster an open culture where ideas can be freely expressed and creativity can be fully developed.

9) Policy Against Antisocial Organizations
ITOCHU will stand firmly against forces or organizations that threaten the order and security of the public.

10) Globalization
ITOCHU will respect the cultures and customs of all countries in which it operates, and conduct its overseas activities in a way that contributes to development in all such locales.

11) Compliance
ITOCHU intends that all directors, officers, and employees of ITOCHU understand and comply with this Code and will develop a system to enhance the understanding, implementation and effectiveness of this Code.

12) Commitment by Executives
The executives of ITOCHU will take the lead in implementing and enforcing this Code, and will vigorously address violations through investigations. Fair and appropriate disclosure shall be made of any such incidents, and appropriate discrepancy measures, based on principles of accountability, including action directed toward themselves, shall be taken by ITOCHU's executives.

ITOCHU's Concept of Corporate Social Responsibility

ITOCHU, as a global company, believes that we must be a good corporate citizen not only in Japan but also worldwide and strongly recognizes the need to co-exist with society as a corporate citizen.

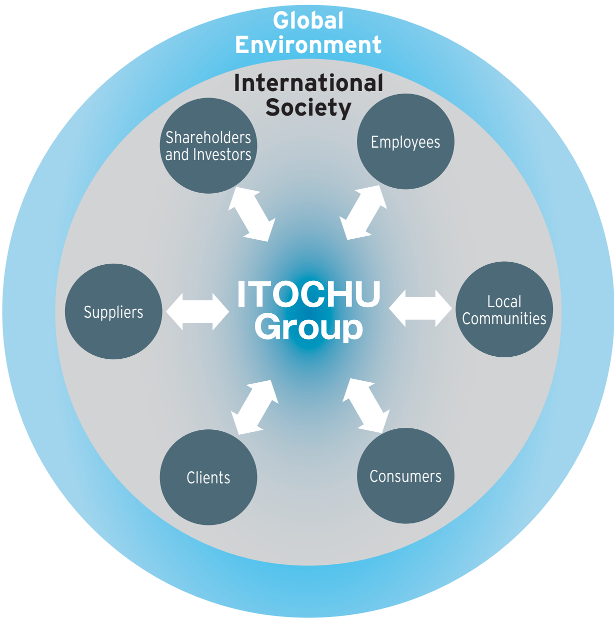
With its business operations expanding into diversified fields and various regions in the world, ITOCHU Group maintains relations with various stakeholders. In order to successfully co-exist with society, we think it most important to grasp the expectations and concerns of these stakeholders through better communication and to reflect them in our daily business operations. We believe that continuing efforts to listen seriously to the voices of our stakeholders and to reflect them in the management will make us a company that is supported, trusted, and needed by society over 10 or even 100 years into the future.

Based on these recognitions, ITOCHU has summed up its concept of corporate social responsibility as follows:

Basic perspective on CSR

As a constituent of society, a corporate enterprise has obligations to fulfill in order to be a good corporate citizen. Therefore, ITOCHU Group must take account of the needs and requests of various stakeholders, and through active communication with them, develop and implement management visions and specific initiatives that benefit society. This shall enable the ITOCHU Group to gain their support and trust as well as to ensure its sustainability.

Major stakeholders of ITOCHU Group



*Besides those noted above, the list of our major stakeholders includes many other parties, such as NGOs and NPOs, financial institutions, government ministries and agencies, mass media, and the coming generations.

Toward effective CSR activity

The core of our CSR activity is a firm desire to contribute to the creation of a sustainable society through our businesses. Promotion of effective CSR activities in our work demands sure execution of specific approaches. To this end, it is indispensable to clearly define targets and draft concrete plans. So we had a series of discussions and have consequently defined the basic policies in the CSR promotion for the duration of ITOCHU's mid-term management plan, "Frontier-2006," as follows.

Basic policies in the CSR promotion activities during "Frontier-2006"

1. Strengthening communication with stakeholders
2. Enhancing safety and reliability in the product, service, and human aspects
3. Promoting CSR-related education and enlightenment

Formulation of CSR action plans

Our seven Division Companies are involved in respectively different industries and fields. We therefore adopted the policy of having each Division Company formulate its own CSR action plan, in the belief that targets had to be set separately for each domain.

*Please see CSR Report (page 9-22) for the action plans of our Division Companies.

Furthermore, concerning company-wide CSR issues that need to be reinforced and addressed, we consider it important to regularly review the progress of CSR promotion from company-wide perspective, identify the issues and tackle them under the headquarters leadership.

*Please see CSR Report (page 29-30) for the action plans of which will be promoted under the headquarters leadership.

The results are to be reviewed biannually for ongoing improvement of the action plans.

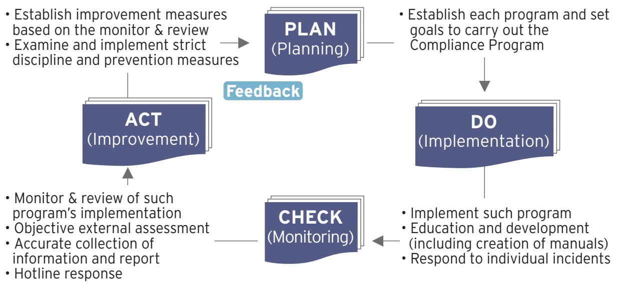
In the belief that it is vital to take a group-wide approach to CSR, we are taking steps for the spread of CSR activities from ITOCHU Corporation to our group companies in Japan and, in turn, to those in other countries, by sharing the ITOCHU's CSR perspective and conducting seminars on CSR.

Compliance

To do "Kyo sei" (living and working together for the common good) as a good corporate citizen, ITOCHU Corporation must strictly comply with the laws and regulations in the society as a minimum prerequisite. ITOCHU Corporation regards compliance as a very foundation and bottom line of CSR, and is taking related approaches.

Continuous improvement through the PDCA cycle

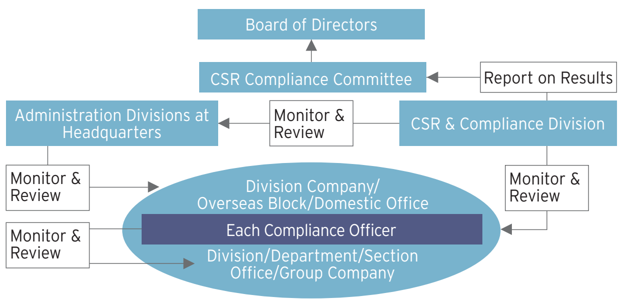
To implement compliance, each organization within the ITOCHU Group has formulated "compliance program" as its action plan. Based on these programs, we are pursuing a continuous improvement of compliance by engaging our business activities in accordance with the PDCA cycle.



Check of activities through monitor and review

As one of the mechanisms for the check portion of the PCDA cycle, we have established a system to monitor the status of the creation and improvement of various programs, and compliance manuals and the implementation of education and training programs by each organization within the ITOCHU Group, and then, to review the results for improvement. More specifically, we semi-annually mail questionnaires to our division companies, administration divisions at headquarters, domestic and overseas branches and offices, and group companies to obtain their responses on this subject. Moreover, the questionnaires are sent by each of those organizations to front-line people within the unit, and we report on the findings to the top management.

Mechanism of Monitor & Review



Results of questionnaires on monitor and review (excerpt)

Questionnaire items	Results				
	March 2004	September 2004	March 2005	September 2005	March 2006
1. Percentage of our group companies that have formulated compliance programs	82%	83%	94%	97%	99%
2. Percentage of our overseas offices that have formulated compliance programs	69%	71%	87%	99%	99%

Compliance education and training

We have classified laws and regulations into two categories: "company-wide laws" (laws and regulations that commonly apply to all types of business) and "industry-specific laws" (laws and regulations that apply to specific types of goods and services handled). A list of applicable laws as well as compliance manuals are prepared by each administration division at headquarters for the former, and the respective units of the division companies for the latter.

Provision of Internal Information System (Hotline)

In 2002, we set up "provision of internal information system (Hotline)" as a system for reporting compliance accidents/incidents. We partially revised this system when the Public Interest Provider Protection Law (in Japan) went into effect in April 2006.

Internal Audit

Audit Division conducts an audit on a yearly basis in order to check if the compliance framework, including the examination of the aforementioned Monitor & Review, is functioning sufficiently. In addition to this, regular audit is also conducted to check if the relevant institution is adequately meeting compliance requirements.

Security Trade Control

To prevent the proliferation of weapons of mass destruction and conventional weapons, Japan maintains strict security trade control based on Foreign Exchange and Foreign Trade Law. To observe such laws and regulations we have implemented our own internal security trade control program. Further, to make sure we do not take part in business transactions that threaten international peace and security, not only does ITOCHU meticulously comply with existing government laws and regulations , but we are voluntarily taking extra measures to ensure that our stakeholders and corporate reputation are adequately safeguarded through our implementation of a global security risk management program.

The potential intersection of corporate operations with global terrorism or the development and proliferation of weapons of mass destruction can give rise to reputational and financial risks for ITOCHU and other companies with extensive international involvements.

Accordingly Itochu recognizes that, as a responsible member of society and the business community, we need to manage carefully the potential risks associated with business operations in certain areas. In response to the growing field of corporate governance termed global security risk, ITOCHU has developed and implemented corporate policies, procedures and internal reporting structures to ensure that we perform rigorous, security-minded due diligence with respect to certain projects and transactions.

Environmental Issues

Environmental Assessment

ITOCHU deals with a wide variety of products and makes investments in various kinds of businesses both in Japan and overseas. Consequently, our business activities may have a great impact on the global environment. With this recognition, ITOCHU formulated ITOCHU's Environmental Policy in 1997 and, based on this policy, ITOCHU started trying to contribute to the realization of a sustainable, recycling-based society. ITOCHU considers the most important thing is the system for environmental assessment through which we conduct thorough checks beforehand on transactions of new products or investments in new projects, from an environmental point of view.

All proposals for dealing with a new product must receive an assessment by Global Environment Office which examines the proposal from an environmental point of view when it has been filed. Proposals for a new investment or new development will be inspected thoroughly in terms of environmental impact, and when they are judged to have an environmental impact in any respect, advice will be sought from Global Environment Office and if necessary, an environmental assessment by a specialized institution will be conducted (environmental impact preliminary surveys concerning the natural environment of the concerned area, laws and regulations of the concerned country, international treaties, etc.)


Hon. Prof. Wangari Maathai speaking to the employees of Tokyo Headquarters

Environmental Management Systems

ITOCHU has built a company-wide Environmental Management System with Head of the Global Environment Committee appointed by the President being the chief officer in charge. The Global Environment Committee functions as a consultative body. The Executive Environmental Manager appointed by Head of the Global Environment Committee will oversee the actual implementation. Each Division has an environmental manager (75 in total) and "eco leaders" are also appointed to work under the environmental manager. ITOCHU received ISO14001 certification in 1997 and implements environmental management and annual internal environmental audits that conforms to the ISO14001 standard.

With respect to the Group Companies, ITOCHU also established an environmental manager position in March 2005 mainly in domestic consolidated subsidiaries, based on the recognition that they need further promotion of environmental efforts. Also, ITOCHU has conducted every year since the fiscal year ended March 2002 an environmental assessment (actual condition survey) for some twenty companies selected from among the Group Companies for which special environmental attention is required. ITOCHU intends to maintain the environmental management efforts for its Group Companies in a more articulate way by identifying the areas and industries that need focused efforts while further promoting environmental risk prevention as well as environmental conservation.

Support for MOTTAINAI* Campaign

When we consider how we can contribute to environmental conservation through our business, ITOCHU recognizes that it is most important for us to implement each of our business operations in environmentally-sound ways. One of the business operations which ITOCHU has recently implemented in order to contribute to the creation of a recycling-oriented society is the MOTTAINAI Campaign which is getting a lot of attention lately.

The MOTTAINAI Campaign was proposed by honorary professor Wangari Maathai, the first environmental activist who won the Nobel Peace Prize for her achievements in promoting afforestation and in other activities. ITOCHU joined the MOTTAINAI Campaign in July 2005 and created the MOTTAINAI brand, the first brand in the world featuring environmentally-friendly, recycling-oriented products. ITOCHU will use its vast expertise in commercializing various brands and the licensing business and work together with the MOTTAINAI base office (The Mainichi Newspapers) in order to support expansion of the MOTTAINAI Campaign on a global scale. ITOCHU intends to commercialize products incorporating the "3R's" precepts (Reduce, Reuse, Recycle) such as those that would generate less waste, those that are reusable, and those that are recyclable. We will also be promoting the campaign through the business we excel in, that is, our contents business (music distribution, film and event) from a unique viewpoint.

Please see CSR Report (page 39 - 41) for more details.

*"Mottainai" whose origin is a Buddhist term has a meaning of respects for ties with everything.

Social Contributions

One of the three pillars of our Credo is the "Societal Benefits," that is, the building of societies that are enriched and more fulfilling. To achieve these benefits, we are committed to retaining an international perspective, remaining aware of the role we must play as a good corporate citizen, and practicing activities of social contribution both inside and outside Japan.

Social Contributions through Business

ITOCHU aims to contribute to society through our businesses and considers it important that we implement activities toward this goal. A unique example of such efforts is our alliances with local governments in Gifu, Fukui, Shimane, Miyagi, Mie, and other prefectures in Japan to assist local firms that are distinguished by outstanding feature or new technologies. ITOCHU provides diverse support from investment in good regional enterprises to support in expansion of business opportunities and human resources development.

Other Forms of Social Contribution

In addition to social contribution efforts through our own businesses, ITOCHU provides support for issues of global concern such as food aid and emergency assistance after large-scale disasters. Furthermore, we have held the ITOCHU LOBBY CONCERT every year since 1992 and invited local residents and those from facilities for disabled persons to come and enjoy the performance. ITOCHU and its Group Companies have also been supporting Center for Climate System Research, The University of Tokyo (CCSR) in their research on global warming since 1991. Furthermore, the ITOCHU Foundation provides support to the activities of individuals and private-sector groups promoting children's reading and related guidance, aiming to contribute to the sound upbringing of children to lead the way into the next generation. ITOCHU also proactively supports the employees' volunteer activities through a volunteer leave and offers subsidies for employee seminar fee.

Providing Comfortable Working Conditions for Our Employees

For the sustainable development of a company like ITOCHU, whose business extends internationally and to various sectors, it is indispensable to secure and develop a diverse set of employees regardless of gender, nationality, or age. ITOCHU also considers it necessary to provide comfortable working environments and to ensure the safety and wellbeing of its employees. At the same time, we seek to create a corporate atmosphere conducive to freedom and creativity while respecting the personality and distinctive traits of individuals as far as possible.

Securing and Developing Diverse Human Resources

To sharpen our response to economic globalization and promote consolidated management, it is vital to utilize employees in accordance with the specific situations of our respective business fields. Thus, we formulated our Promotion Plan on Human Resource Diversification in December 2003. This plan aims to maximize the diversity of employees, regardless of gender, nationality, or age, and to this end, we have implemented concrete programs for equal opportunity career development, for developing overseas local staff, utilizing senior employees, and developing strong career pathing.

Meanwhile, in order to provide opportunities to work together with people who have physical and other handicaps, we established ITOCHU Uneedus Co., Ltd., in 1987 as a special company under the Law for Employment Promotion, etc., of the Disabled. Since then, we have maintained a high level of employment, and as of April 1, 2006, disabled people accounted for 2.2% of our total workforce, compared with 1.8% as mandated by law.

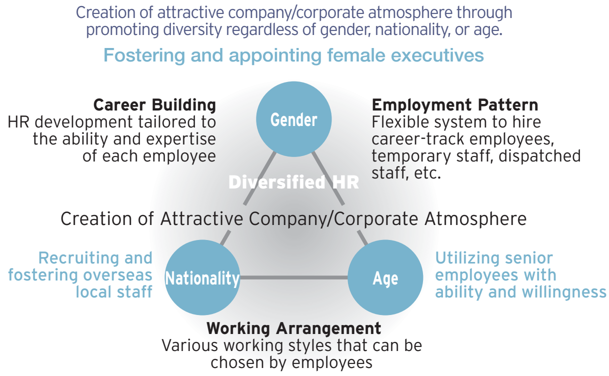
In our efforts to employ diverse personnel, ITOCHU was selected as a Business of Excellence for the Employment of Disabled Persons by the Minister of Health, Labor, and Welfare in the fiscal year ended March 2002, and received the Corporation Award for the Promotion of Gender Equality from the Director-General of the Tokyo Labor Bureau for the fiscal year ended March 2006.

Providing Comfortable Working Conditions for Our Employees

To provide attractive working conditions which enable employees to balance work and family obligations comfortably, ITOCHU has implemented various measures to support child care and nursing care for its employees. We are making efforts to publicize the content of such measures and promote understanding of co-workers including supervisors so that a greater number of employees will be able to fully utilize these measures.

To maintain the mental health of employees and address their job-related concerns, we implement measures that place focus on prevention rather than treatment. We have started Stress Management Program (checkup on the mental health of employees) in 2005 and also set up a system to provide in-house counseling from psychiatrists and clinical psychologists. Moreover, we provide career counseling and career support for employees with different aptitudes and diverse work experiences.

Creation of Attractive Company/Corporate Atmosphere



Other Information

Global Network/Bank List

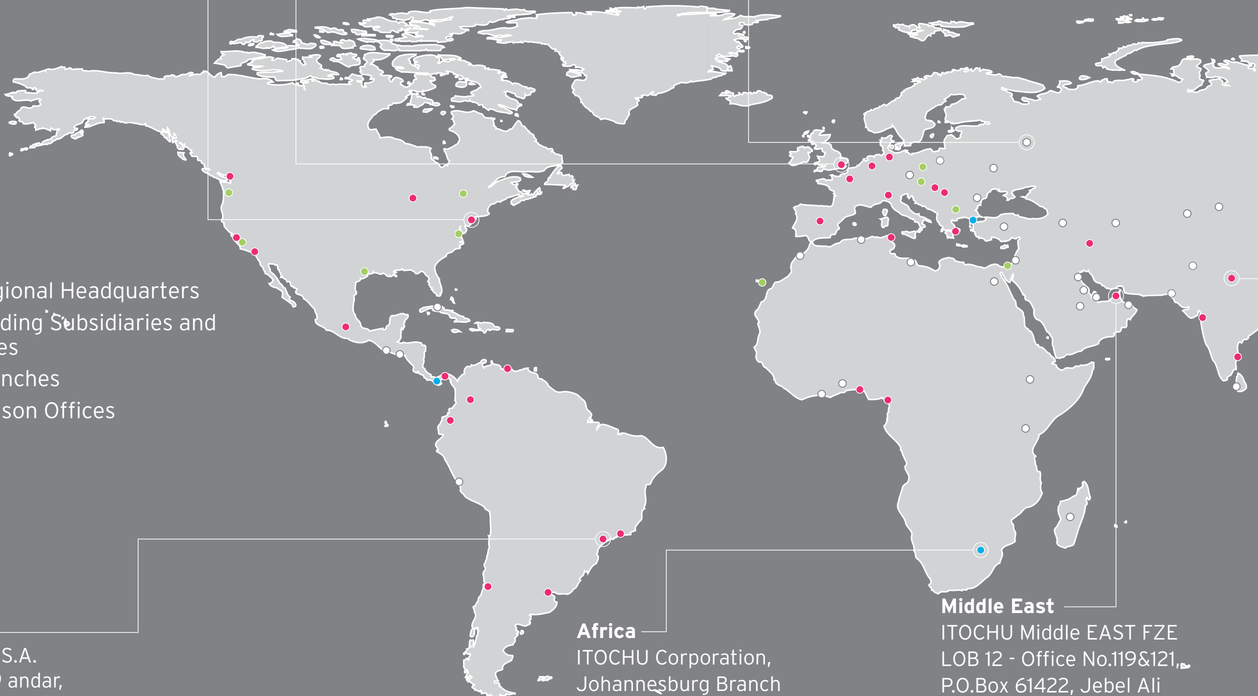
As of July 1, 2006

Global Network

North America
ITOCHU INTERNATIONAL INC.
22nd and 23rd floors, Bank of America Plaza, 335 Madison Avenue,
New York N.Y. 10017, U.S.A.
Telephone: 1-212-818-8000
Facsimile: 1-212-818-8361
- New York. Chicago. San Francisco. Los Angeles. Vancouver

Europe
ITOCHU Europe PLC
The International Press Center,
76 Shoe Lane,
London EC4A 3PJ, U.K.
Telephone: 44-20-7827-0822
Facsimile: 44-20-7583-1847
- London. Düsseldorf. Hamburg. Paris. Milano. Madrid. Athens. Budaors. Budapest. Tunis
- Alger. Casablanca. Praha. Bucharest. Warszawa

CIS
ITOCHU Corporation, Moscow Office
Savvinskaya Office Building, 9th Floor,
Savvinskaya Nab., 15, Moscow, 119435,
RUSSIAN FEDERATION
Telephone: 7-495-961-1456
Facsimile: 7-495-961-1447/1448
- Moscow. Yuzhno-Sakhalinsk. Almaty Kiev. Ashgabat. Tashkent. Baku



◎ Overseas Regional Headquarters
- Overseas Trading Subsidiaries and Their Branches
- Overseas Branches
- Overseas Liaison Offices
- Others

Latin America
ITOCHU BRASIL S.A.
Av. Paulista 37 19 andar,
Vila Mariana, São Paulo, CEP 01311-902, BRAZIL
Telephone: 55-11-3170-8501
Facsimile: 55-11-3170-8549
- São Paulo. Rio de Janeiro. Panama. Buenos Aires. Bogota. Mexico City. Santiago Caracas. Quito
- Panama
- Guatemala. San Salvador. Lima. Havana

Africa
ITOCHU Corporation,
Johannesburg Branch
Muirfield Block No.7,
Fourways Park Roos Street
Fourways 2055, SOUTH AFRICA
Telephone: 27-11-465-0030
Facsimile: 27-11-465-0635/0604
- Lagos. Douala
- Johannesburg
- Abidjan. Accra. Nairobi. Addis Ababa. Tananarive

Middle East
ITOCHU Middle EAST FZE
LOB 12 - Office No.119&121,
P.O.Box 61422, Jebel Ali
Free Zone, Dubai, U.A.E.
Telephone: 971-4-881-9026
Facsimile: 971-4-881-9027
- Dubai. Tehran
- Istanbul
- Cairo. Amman. Ankara. Riyadh. Damman. Kuwait. Muscat. Doha. Toripoli Karachi. Islamabad

Bank List

ITOCHU has financial transactions with these banks.

North America
JPMorgan Chase Bank
Bank of America, N.A.
Citibank, N.A.
Wells Fargo Bank, N.A.
Wachovia Bank, N.A.
Comerica Bank
Canadian Imperial Bank of Commerce

Central & South America
Banamex S.A. Grupo Financiero Citigroup
Banco de Credito-Helm Financial Service

Europe & Africa
Credit Lyonais
Banca Nazionale del Lavoro
Standard Chartered Bank
BNP Paribas
Societe Generale
San Paolo-IMI S.p.A.
The Standard Bank of South Africa Limited
Investec Bank Limited
ING Bank N.V.
ABN AMRO Bank N.V.
Deusche Bank
CALYON
Bayerische Hypo- und Vereinsbank AG
Barclays Bank PLC

Middle East
Union National Bank
Saudi American Bank

Oceania
Westpac Banking Corporation
Australia and New Zealand Banking Group Limited

Ulaanbaatar

China
ITOCHU (CHINA) HOLDING CO. LTD.
Unit401, 4F West Wing Office, China World Trade Center, No. 1 Jian Guo Men Wai Avenue, Beijing,
THE PEOPLE'S REPUBLIC OF CHINA
(ZIP code: 100004)
Telephone: 86-10-6505-1122
Facsimile: 86-10-6505-1148/1149
- Beijing. Shanghai. Dalian. Tianjin. Qingdao Hong Kong. Guangzhou. Shenzhen. Nanjing
- Sichuan. Shenyang. ChangChun

Asia

Taiwan
ITOCHU TAIWAN CORPORATION
SHIH YEH BUILDING 8F, No. 9, Section 1, Chang An East Road, Taipei 104,
TAIWAN. R.O.C.
Telephone: 886-2-2551-9931
Facsimile: 886-2-2521-8691
- Taipei

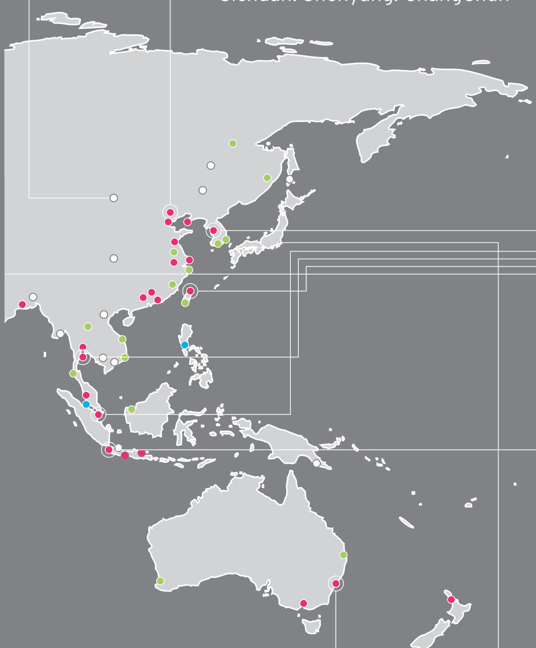
Korea
ITOCHU Korea LTD.
Shin Dong Ah Insurance Building, 21st Floor, #43, 2KA, Taepyung-ro, Chung-ku, Seoul, 100-864,
REPUBLIC OF KOREA
Telephone: 82-2-6366-2600
Facsimile: 82-2-6366-2662
- Seoul

Indonesia
PT ITOCHU INDONESIA
Menara, Cakrawala 10th Floor, Jl. M.H.Thamrin No.9, Jakarta, 10340, INDONESIA
Telephone: 62-21-31926570
Facsimile: 62-21-3902363
- Jakarta, Surabaya, Bandung
- Jakarta

Eastern ASEAN
ITOCHU Singapore Pte, Ltd.
9 Raffles Place 41-01,
Republic Plaza, SINGAPORE 048619
Telephone: 65-6230-0400
Facsimile: 65-6230-0560
- Singapore, Kuala Lumpur
- Kuala Lumpur, Manila

Indochina
ITOCHU (THAILAND) LTD.
5th Floor Harindhorn Tower 54
North Sathorn Road, Bangrak,
Bangkok 10500, THAILAND
Telephone: 66-2-266-3086
Facsimile: 66-2-266-3132
- Bangkok
- Hanoi, Ho Chi Minh City, Yangon, Phnom Penh

South West Asia
ITOCHU India Pvt. Ltd.
World Trade Tower,
Ground Floor Barakhamba Lane,
New Delhi, 110 001, INDIA
Telephone: 91-11-2341-1891
Facsimile: 91-11-2341-3898
- New Delhi, Mumbai, Kolkata, Chennai
- Colombo, Dhaka



Oceania
ITOCHU Australia Ltd.
Level 29, Grosvenor Place,
225 George Street, Sydney,
N.S.W. 2000, AUSTRALIA
Telephone: 61-2-9239-1500
Facsimile: 61-2-9241-3955
- Sydney. Melbourne. Auckland
- Port Moresby

Japan

Headquarters

Tokyo
5-1, Kita-Aoyama 2-chome,
Minato-ku, Tokyo, 107-8077, JAPAN
Telephone: 81-03-3497-2121
Facsimile: 81-03-3497-4141

Osaka
1-3, Kyutaro-machi 4-chome,
Chuo-ku, Osaka, 541-8577, JAPAN
Telephone: 81-06-6241-2121
Facsimile: 81-06-6241-3220

Nagoya. Kyushu. Cyugoku. Hokkaidou Touhoku. Niigata. Sizuoka. Toyama Kanazawa. Fukui. Koube. Sikoku. Naha Ooita. Imabari. Tochio

Asia
The Hongkong and Shanghai Banking Corporation Limited
Bank of China
Industrial and Commercial Bank of China
Bank of Communications
Bangkok Bank Public Company Limited
Kasikornbank Public Company Limited
Bankthai Public Company Limited
Malayan Banking Berhad
RHB Bank Berhad

Japan
Mizuho Corporate Bank, Ltd.
Sumitomo Mitsui Banking Corporation
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Shinsei Bank, Ltd.
Aozora Bank, Ltd.
Resona Bank, Limited
The Sumitomo Trust and Banking Co., Ltd.
The Chuo Mitsui Trust and Banking Company, Limited.
Mizuho Trust & Banking Co., Ltd.
Mitsubishi UFJ Trust and Banking Corporation
Japan Bank for International Cooperation
Development Bank of Japan
The Norinchukin Bank
Shinkin Central Bank

Major Subsidiaries and Associated Companies

As of March 31, 2006

Textile Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	CI FABRIC LTD.	100.0	Manufacture and wholesale of fabrics for apparel and home furnishings	3
		ITOCHU HOME FASHION CORPORATION	100.0	Manufacture and wholesale of home furnishings	2
		SAKASE ADTECH CO., LTD.	90.0	Manufacture and wholesale of textile fabrics for industry and home furnishings	3
		ROY-NE CO., LTD.	92.2	Manufacture and wholesale of woven and knitted products	3
		ITOCHU MODEPAL CO., LTD.	100.0	Manufacture and wholesale of apparel	3
		UNICO CORPORATION	100.0	Manufacture and wholesale of uniforms	3
		Tommy Hilfiger Japan, Corporation	60.0	Sale of Tommy Hilfiger brand products	12
		Liond'or Co., Ltd.	100.0	Manufacture and wholesale of men's apparel	3
		CI GARMENTS SERVICE CO., LTD	100.0	Retail of men's and ladies' apparel and sale of garment material	3
		HUNTING WORLD JAPAN Co., Ltd.	100.0	Import and sale of Hunting World brand products	3
		JOI'X CORPORATION	100.0	Sale of men's apparel	7
		ORIZZONTI CO., LTD.	100.0	Sale of Interplanet brand and Vivienne Westwood brand apparel	3
		CORONET CORPORATION	100.0	Manufacture, import and wholesale of apparel	3
		ITOCHU FASHION SYSTEM Co., Ltd.	100.0	Comprehensive consulting in the fashion industry	3
		Richard-Ginori Japan Corporation	50.0	Import and sale of Richard Ginori & Pagnossin Group brand products	12
		Bally Japan Ltd.	80.0	Sale of BALLY brand products	1
		RAIKA CO., LTD	100.0	Manufacture and wholesale of apparel	3
		CI Shopping Service Co., Ltd.	100.0	Sale of everyday items aimed at ITOCHU Group employees and families	3
	Overseas	ITOCHU WOOL LTD. (Australia)	100.0	Purchase and wholesale of wool and animal hair	3
		ITOCHU Textile Materials (Asia) Ltd. (Hong Kong S.A.R., China)	100.0	Wholesale of chemical fibers, filament yarns and cotton yarns	3
		HANGZHOU FUJITOMI SILK GARMENTS CO., LTD. (China)	80.0	Manufacture, export and wholesale of textile products	12
		Prominent Apparel Ltd. (Hong Kong S.A.R., China)	100.0	Production control and wholesale of textile and apparel	3
		TIANJIN HUADA GARMENT CO., LTD. (China)	100.0	Manufacture of uniforms	12
		UNIMAX SAIGON CO., LTD. (Vietnam)	80.0	Manufacture of uniforms	12
		QINGDAO TRI-GENTS CLOTHING CO., LTD. (China)	80.0	Manufacture of men's suits	12
		ITOCHU TEXTILE (CHINA) CO., LTD (China)	100.0	Production control and wholesale of textile materials, fabrics and apparel	12
Associates	Domestic	DEAN & DELUCA JAPAN Co., Ltd.	20.4	Operation of cafeteria chain and other new business	2
		AYAHA CORPORATION	33.5	Manufacture of tire cords, etc.	3
	Overseas	Thai shikibo co., ltd. (Thailand)	30.0	Manufacture of cotton yarn	12
		BULGARI KOREA LTD. (Republic of Korea)	49.0	Import and sale of BVLGARI brand products	12

Note: □Newly consolidated subsidiaries in the fiscal year ended March 2006

Machinery Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	ITOCHU Plant & Machinery Corporation	100.0	Export and import of small-to-medium-scale plant and equipment and domestic environmental businesses	3
		IMECS Co., Ltd.	100.0	Ownership and operation of ship, chartering, ship machinery, Second-Hand Ship, SoftWare Development and administration management of overseas shipping companies	3
		EneSol Inc.	90.0	Sale of equipment and systems for energy conservation, and distributed power generation services	3
		ITOCHU Automobile Corporation	100.0	Export/Import and Inter-third trade of car parts	3
		ITOCHU Sanki Corporation	100.0	Wholesale of industrial machinery	3
		ITOCHU Texmac Corporation	100.0	Wholesale of textile machinery	3
		Century Medical, Inc.	100.0	Wholesale of medical equipment and materials	3
	Overseas	MCL Group Ltd. (U.K.)	100.0	Warehousing, Retail and financing of motor vehicles	12
		ITOCHU Automobile America Inc. (U.S.A.)	100.0	Holding company for auto-related business	12
		Auto Investment Inc. (U.S.A.)	100.0	Retail of motor vehicles	12
		PROMAX Automotive, Inc. (U.S.A.)	100.0	Third-party logistics services	12
		MULTIQUIP INC.	100.0	Distribution of portable construction equipment	12
		North American Energy Services Inc. (U.S.A.)	100.0	Power plant operation & maintenance services provider for independent power producers and utilities	12
Associates	Domestic	Century Leasing System, Inc.	20.1	Diversified leasing business	3
	Overseas	Mazda Canada Inc. (Canada)	40.0	Import and wholesale of motor vehicles	3

Aerospace, Electronics & Multimedia Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	ITOCHU TECHNO-SCIENCE Corporation	52.7	System consultation, integration, administration, maintenance, support, training, and outsourcing	3
		CRC Solutions Corp.	46.5	Information Processing service, system integration, sales, administration, and support	3
		Excite Japan Co., Ltd.	66.0	Internet portal services	3
		SPACE SHOWER NETWORKS INC.	51.2	Music channel on cable/satellite television	3
		NANO Media Inc.	51.9	Content publishing, Mobile site operating, Application development	3
		ITC NETWORKS CORPORATION	70.8	Retail network of mobile phones	3
	Overseas	ITOCHU AirLease B.V. (Netherlands)	100.0	Lease of commercial aircraft	3
Associates	Domestic	JAMCO CORPORATION	20.7	Maintenance of aircraft and manufacture of aircraft interior	3
		ImageONE Co., Ltd.	20.6	Sale of remote-sensing satellite images and sale of medical diagnosis images	9
		SUNCALL CORPORATION	21.9	Manufacturing and sales of optical communication devices, electronic devices, and car related devices	3

Energy, Metals & Minerals Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	ITOCHU Non-Ferrous Materials Co., Ltd.	100.0	Import/Export and wholesale of non-ferrous/light metals and products	3
		ITOCHU Oil Exploration Co., Ltd.	96.4	Exploration and production of oil, gas and other hydrocarbon resources	12
		ITOCHU Petroleum Japan Ltd.	100.0	International trade of crude oil and petroleum products, charter and operation of oil tankers, sales of bunker fuel oil, operation of oil storage facilities	3
		ITOCHU Energy Marketing Co., Ltd.	100.0	Domestic wholesale of petroleum products	3
	Overseas	ITOCHU Minerals & Energy of Australia Pty Ltd (Australia)	100.0	Investment and sales in projects of iron ore, coal and bauxite mining, manufacture of alumina and oil exploration.	3
		ITOCHU Petroleum Co., (Hong Kong) Ltd. (Hong Kong S.A.R., China)	100.0	International trade of crude oil, LPG and petroleum products	3
		ITOCHU Oil Exploration (Azerbaijan) Inc. (Cayman Islands British West Indies)	100.0	Exploration and production of crude oil & gas	12
		IPC(USA), Inc. (U.S.A.)	50.0	International trade of crude oil and petroleum products	12
Associates	Domestic	Marubeni-Itochu Steel Inc.	50.0	Import/Export and wholesale of steel products	3
		ITOCHU ENEX CO., LTD.	40.2	Wholesale of petroleum products and gas	3
		Japan Ohanet Oil & Gas Co., Ltd.	35.0	Exploration and production of gas and condensate	12
		□ NISSHO Petroleum Gas Corporation	25.0	Wholesale of LPG and petroleum products	3
	Overseas	Chemoil Corporation (U.S.A.)	50.0	Sale and distribution of bunker fuel oil	12
		Galaxy Energy Group Ltd. (British Virgin Islands)	25.0	International trade of crude oil and petroleum products	12
		Chemoil Energy Limited (Hong Kong S.A.R., China) On April 19, 2006, company name changed from BERKSHIRE OIL CO., LTD.	50.0	International trade of petroleum products	12

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Chemicals, Forest Products & General Merchandise Company					
Subsidiaries	Domestic	ITOCHU Kenzai Corp.	85.9	Wholesale of wood products and building materials	3
		Daishin Plywood Co., Ltd.	100.0	Manufacture of plywood	3
		ITOCHU Forestry Corp.	100.0	Landscaping, greenery development and wastewater treatment systems	3
		ITOCHU Pulp & Paper Corp.	100.0	Wholesale of paper, paperboards, and various paper materials	3
		ITOCHU Ceratech Corp.	100.0	Manufacture and sale of ceramic raw materials and products	3
		ITOCHU Windows Co., Ltd.	100.0	Manufacture and sale of insulating glass	3
		I.C.S. Co., Ltd.	95.0	Sale of tires and wheels	3
		IFA Co., LTD.	100.0	Manufacture, wholesale of shoes and bags	3
		ILLUMS JAPAN CO., LTD.	85.0	Retail of Scandinavian modern design interior	2
		BEAVER TOZAN CORPORATION	51.0	DIY store	3
		ITOCHU CHEMICAL FRONTIER Corporation	96.4	Wholesale of fine chemicals and related raw materials	3
		ITOCHU PLASTICS INC.	100.0	Development and wholesale of plastics and related products	3
		The Japan Cee-Bee Chemical Co., Ltd.	90.0	Manufacture and processing of metal pretreatment chemicals	3
		VCJ Corporation	80.0	Wholesale of DVD/video and plastic products for retailers	3
		Chemical Logitec Co., Ltd.	100.0	Management of chemical storage warehouses and transport of chemical and other cargos	3
	Overseas	CIPA Lumber Co. Ltd. (Canada)	100.0	Manufacture of veneer	12
		Pacific Woodtech Corporation (U.S.A)	100.0	Manufacture of LVL & I-Joist	12
		Prime Source Building Products, Inc. (U.S.A.)	100.0	Wholesale of building materials	12
		PT. Aneka Bumi Pratama (Indonesia)	100.0	Processing of natural rubber	12
		Am-Pac Tire Distributors Inc. (U.S.A.)	100.0	Wholesale and retail of tires	12
		Stapleton's (Tyre Services) Ltd. (U.K.)	100.0	Wholesale and retail of tires	12
		ITOCHU Plastics Pte. Ltd. (Singapore)	100.0	Wholesale of plastic resins	12
		Plastribution Limited (U.K.)	100.0	Wholesale of synthetic resins	12
		Hexa Color (Thailand) Ltd. (Thailand)	50.5	Plastics coloring compound operations	12
		Hinbo International Industrial Co., Ltd. (China)	77.2	Manufacture of plasticizer for polyvinyl chloride	12
		Rubber Net (Asia) Pte Ltd. (Singapore)	80.0	Sale of crude rubber	12
		ITOCHU Chemicals America Inc. (U.S.A.)	100.0	Wholesale of chemical products and synthetic resins	12
		ZHEJIANG YIPENG CHEMICAL CO., LTD. (China)	60.0	Manufacture of anhydrous fluoric acid	12
Associates	Domestic	Japan Brazil Paper and Pulp Resources Development Co., Ltd.	25.9	Investment in CENIBRA, one of the largest eucalyptus pulp manufacturers in Brazil	3
		DAIKEN CORPORATION	20.1	Manufacture of building materials and construction parts	3
		PPG-CI Co., Ltd.	49.0	Import and sale of float-glass	11
		Takiron Co., Ltd.	26.8	Manufacture of flat and corrugated plastic sheets	3
		C.I. Kasei Company, Limited	36.6	Manufacture of PVC pipe and film and related materials	3
		TOHO EARTHTECH, INC.	34.2	Exploration and production of natural gas and iodine	3
		SANKYU PHARMACEUTICAL CO., LTD.	23.1	Manufacture and wholesale of Chinese herbal medicine and Supplement, Import and sale of Chinese herb.	3
		On June 1, 2005, company name changed from SANJIHONSOUBOU MEDICAL & PHARMACEUTICAL CO., LTD.			
	Overseas	Daiken Sarawak Sdn. Bhd. (Malaysia)	15.0	Manufacture of medium-density fiberboard	12
		Albany Plantation Forest Company of Australia Pty. Ltd. (Australia)	28.4	Plantation of eucalyptus trees for papermaking	3
		SOUTH EAST FIBRE EXPORTS PTY. LTD. (Australia)	37.5	Manufacture of woodchip	12
		Thaitech Rubber Corporation (Thailand)	33.0	Processing of natural rubber	12
		Siam Riso Wood Products Co., Ltd. (Thailand)	44.0	Manufacture of particle board	12
		Shanghai Baoling Plastics Co., Ltd. (China)	22.6	Manufacture of plastic products	12
		Shanghai Jinpu Plastic Packaging Material Co., Ltd. (China)	30.0	Manufacture of polypropylene films	12
		Tetra Chemicals (Singapore) Pte. Ltd. (Singapore)	40.0	Sale and manufacture of MTBE (Methyl t-Butyl Ether)	12
		SUMIPEX (THAILAND) CO., LTD. (Thailand)	49.0	Manufacture of PMMA sheet	12

Note: ■Subsidiaries changed from associates and vice versa in the fiscal year ended March 2006

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Food Company					
Subsidiaries	Domestic	ITOCHU Feed Mills Co., Ltd.	85.9	Manufacture and wholesale of compound feeds	3
		ITOCHU Rice Corporation	89.6	Rice wholesale	3
		ITOCHU Sugar Co., Ltd.	100.0	Manufacture and processing of sugar and by-products	3
		I-FOODS Co., Ltd.	100.0	Import and wholesale of food materials	3
		ITOCHU FRESH Corporation	100.0	Processing and wholesale of perishables	3
		Universal Food Co., Ltd.	98.0	Planning and service providing in food service business	3
		ITOCHU-SHOKUHIN Co., Ltd.	50.9	Wholesale and distribution of foods	9
		Nishino Trading Co., Ltd.	85.2	Wholesale of foods and sundries	3
		Yayoi Foods Co., Ltd.	93.2	Manufacture of frozen prepared foods	3
		Family Corporation Inc.	100.0	Logistics services of frozen, chilled and dry foods and sundries for convenience store chain, retailers and food service business	3
	Overseas	Oilseeds International Ltd. (U.S.A.)	100.0	Safflower oil manufacture	7
		P.T. Aneka Tuna Indonesia (Indonesia)	47.0	Production and marketing of canned tuna	12
Associates	Domestic	Fuji Oil Co., Ltd.	21.5	Integrated manufacturer of cooking oil and soybean protein	3
		Japan Foods Co., Ltd.	40.2	Production of soft drinks	3
		AI Beverage Holding Co. Ltd.	20.0	Holding company of Chinese soft drink manufacturers	12
		Prima Meat Packers, Ltd.	39.7	Production and marketing of meat, ham, sausage and processed foods	3
		Yoshinoya D&C Co., Ltd.	21.1	Operation of Gyu-don store chain and other new business	2
		NIPPON ACCESS, INC.	32.3	Wholesale and distribution of foods	3
		FamilyMart Co., Ltd.	31.0	Operation of a convenience store chain, using the name FamilyMart and a franchise system	2
	Overseas	Palmaju Edible Oil Sdn. Bhd. (Malaysia)	30.0	Refining of palm oil	12
		CGB ENTERPRISES, INC. (U.S.A.)	50.0	Handling of grain and operation of barges	5
		Asahi Breweries ITOCHU (Holdings) Limited (Hong Kong S.A.R., China)	40.0	Holding company of Chinese beer manufacturers	12
		Cholburi Sugar & Trading Corp., Ltd. (Thailand)	20.0	Sugar manufacture	9
		Winner Food Products Ltd. (Hong Kong S.A.R., China)	26.0	Manufacture and wholesale of processed foods	12
		TAIWAN DISTRIBUTION CENTER CO., LTD. (Taiwan)	39.4	Wholesale of foods and sundries	12
Finance, Realty, Insurance & Logistics Services Company					
Subsidiaries	Domestic	ITOCHU Finance Corporation	90.1	Loan and other finance-related business	3
		ITOCHU Capital Securities, Ltd.	100.0	Structuring and distribution of fund of funds and other investment products	3
		FX Prime Corporation	100.0	Foreign exchange margin trade	3
		ITOCHU Property Development, Ltd.	100.0	Development and sale of housing (apartments, condominiums and homes)	3
		ITOCHU Housing Co., Ltd.	100.0	Real estate agent and property consultant	3
		CENTURY 21 REAL ESTATE OF JAPAN LTD.	55.3	Headquarters of real estate franchise system	3
		ITOCHU Urban Community Ltd.	100.0	Operation and management of real estate property	3
		ITOCHU Commnet Co., Ltd.	100.0	Operation of rental residences	3
		ITOPIA Home Co., Ltd.	100.0	Planning and construction of homes	3
		ITOCHU Insurance Services Co., Ltd.	100.0	Insurance agency	3
		I&T Risk Solutions Co.,Ltd. On April 1, 2006, company name changed from ITOCHU Insurance Brokers Co., Ltd.	62.8	Insurance broking services and risk consulting	3
		eGuarantee, Inc.	48.3	Integrated payment solutions through the eGuarantee financial portal for B2B marketplaces and financing providers	3
		Naigai Travel Service Co., Ltd.	97.2	Travel agency	3
	Overseas	ITOCHU Finance (Europe) PLC (U.K.)	100.0	Proprietary financial investment and development of new financial business in Europe	2
		ITOCHU Finance (Asia) Ltd. (Hong Kong S.A.R., China)	100.0	Proprietary financial investment and development of new financial business in Asia	2
		ITOCHU Financial Services INC.	100.0	Proprietary financial investment and development of new financial business in North America	12
		COSMOS SERVICES COMPANY LIMITED (Hong Kong S.A.R., China)	95.0	Consulting and broking of insurance and reinsurance	3
		COSMOS SERVICES (AMERICA) INC. (U.S.A.)	100.0	Consulting and broking of insurance	12
		Eurasia Sped Kft. (Hungary)	84.8	Transport and warehousing	12
		Guangzhou Global Logistics Corp. (China)	57.7	Warehousing and trucking	12
		SIG Logistics, Inc. (U.S.A.)	100.0	Distribution center for convenience store chain	12

Note: □Newly consolidated subsidiaries in the fiscal year ended March 2006
■Subsidiaries changed from associates and vice versa in the fiscal year ended March 2006

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Associates	Domestic	kabu.com Securities Co., Ltd.	23.0	Online stock brokerage	3
		Priva Co., Ltd.	20.9	Online consumer loan	3
		Famima Credit Corporation	36.5	Credit card business for FamilyMart convenience store chain	2
		POCKETCARD CO., LTD.	23.0	Credit card business	2
		□ Orient Corporation	21.0	Consumer Credit	3
		Superex Corporation	21.9	Logistics center	3
		■ i-LOGISTICS CORP.	48.7	Comprehensive logistics services	3
	Overseas	P.T. Maligi Permata Industrial Estate (Indonesia)	50.0	Development, sale and management of industrial parks	12
		□ Beijing Pacific Logistics Co., ltd. (China)	50.0	Logistics Business in China	12
		TING TONG (CAYMAN ISLANDS) HOLDING CORPORATION (Cayman Islands British West Indies)	50.0	Management of logistics in China	12
Overseas Trading Subsidiaries and their Subsidiaries					
Subsidiaries		ITOCHU International Inc. (U.S.A.)	100.0	Overseas Trading Subsidiary	12
		Telerent Leasing Corp. (U.S.A.)	100.0	Distribution and lease of televisions to hotels and hospitals	12
		Master-Halco, Inc. (U.S.A.)	100.0	Manufacturing and distribution of fence materials and security products	12
		Enprotech Corp.(U.S.A.)	100.0	Maintenance and repair of industrial machineries in automotive, steel and bottling industries	12
		ITOCHU Europe PLC. (U.K.)	100.0	Overseas Trading Subsidiary	12
		ITOCHU Hong Kong Ltd. (Hong Kong S.A.R., China)	100.0	Overseas Trading Subsidiary	3
		ITOCHU (China) Holding Co., Ltd. (China)	100.0	Overseas Trading Subsidiary	12
		ITOCHU Australia Ltd. (Australia)	100.0	Overseas Trading Subsidiary	3
		ITOCHU (THAILAND) LTD. (Thailand)	100.0	Overseas Trading Subsidiary	3
		ITOCHU Singapore Pte Ltd. (Singapore)	100.0	Overseas Trading Subsidiary	3

Financial Section

Six-Year Summary

ITOCHU Corporation and Subsidiaries
Years ended March 31

	Millions of Yen						Millions of U.S. dollars (Note 6)
Years ended March 31	2006	2005	2004	2003	2002	2001	2006
P/L (For the year):							
Revenue (Note 1)	¥ 2,218,221	¥ 1,991,238	¥ 1,738,747	¥ 1,681,718	¥ 1,688,128	¥ —	$ 18,883
Gross trading profit	714,374	630,761	555,895	564,967	578,656	611,596	6,081
Net income (loss)	145,146	77,792	(31,944)	20,078	30,191	70,507	1,236
Per share (Yen, U.S. dollars):							
Net income (loss) (Note 2)	¥ 91.74	¥ 49.16	¥ (20.20)	¥ 13.12	¥ 21.18	¥ 49.46	$ 0.78
Cash dividends	9	7	—	5	5	5	0.08
Stockholders' equity (Note 2)	459.47	322.54	267.25	269.53	278.99	222.34	3.91
Total trading transactions (Note 3)	10,473,885	9,576,039	9,516,967	10,446,371	11,395,240	12,135,105	89,162
Gross trading profit ratio (%) (Note 4)	6.8	6.6	5.8	5.4	5.1	5.0	
Adjusted profit (Note 5)	252,038	188,807	100,676	114,454	102,557	108,065	2,146
B/S (At year-end):							
Total assets	¥ 4,797,013	¥ 4,472,345	¥ 4,487,282	¥ 4,486,405	¥ 4,752,319	¥ 5,157,519	$ 40,836
Short-term interest-bearing debt	555,531	676,870	885,253	990,939	991,410	1,263,714	4,729
Long-term interest-bearing debt	1,670,937	1,669,834	1,676,657	1,583,481	1,803,321	1,806,794	14,224
Interest-bearing debt	2,226,468	2,346,704	2,561,910	2,574,420	2,794,731	3,070,508	18,954
Net Interest-bearing debt	1,724,314	1,891,086	1,977,048	2,025,048	2,296,398	2,536,840	14,679
Long-term debt, excluding current maturities (including long-term interest-bearing debt)	1,762,103	1,750,815	1,757,313	1,637,916	1,863,629	1,868,185	15,001
Stockholders' equity	726,816	510,397	422,866	426,220	397,668	316,940	6,187
Cash flows:							
Cash flows from operating activities	¥ 185,147	¥ 126,624	¥ 184,780	¥ 168,843	¥ 216,503	¥ 160,335	$ 1,576
Cash flows from investing activities	(79,871)	(127,600)	(55,300)	5,253	214,008	564,707	(680)
Cash flows from financing activities	(85,193)	(125,342)	(79,695)	(114,041)	(232,047)	(717,602)	(725)
Cash and cash equivalents at end of year	477,707	452,934	579,565	534,156	479,734	274,936	4,067
Ratio:							
ROA (%)	3.1	1.7	—	0.4	0.6	1.3	
ROE (%)	23.5	16.7	—	4.9	8.4	23.6	
Ratio of stockholders' equity to total assets (%)	15.2	11.4	9.4	9.5	8.4	6.1	
Net debt-to-equity ratio (times)	2.4	3.7	4.7	4.8	5.8	8.0	
Interest coverage (times)	5.7	5.7	2.7	2.7	2.1	1.5	
Common stock information:							
Stock price (Yen, U.S. dollars):							
Opening price	¥ 541	¥ 466	¥ 287	¥ 425	¥ 444	¥ 547	$ 4.61
High	1,056	573	480	506	520	566	8.99
Low	484	403	231	198	269	395	4.12
Closing price	1,011	540	468	288	430	445	8.61
Market capitalization (Yen and U.S. dollars in billions)	1,602	856	742	456	613	634	13.64
Trading volume (yearly, million shares)	1,580	1,533	1,304	1,221	847	887	
Number of shares of common stock issued (at year-end, 1,000 shares)	1,584,890	1,584,890	1,584,890	1,583,488	1,425,488	1,425,488	
Exchange rates into U.S. currency:							
(Federal Reserve Bank of New York)							
At year-end	¥ 117.48	¥ 107.22	¥ 104.18	¥ 118.07	¥ 132.70	¥ 125.54	
Average for the year	113.67	107.28	112.75	121.10	125.64	111.65	
Range:							
Low	120.93	114.30	120.55	133.40	134.77	125.54	
High	104.41	102.26	104.18	115.71	115.89	104.19	
Number of Employees (At year-end, Consolidated)	42,967	40,890	40,737	39,109	36,529	38,867	

Note: 1. "Revenue" has been presented since the fiscal year ended March 31, 2002 in accordance with "Emerging Issues Task Force (EITF)" No.99-19.
2. "Net income (loss) per share" and "Stockholders' equity per share" are calculated by using the number of shares issued and outstanding.
3. "Total trading transactions" is presented in accordance with Japanese accounting practice, and is not meant to present sales or revenue in accordance with U.S. GAAP.
4. "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 this item.
6. The Japanese yen amounts for the year ended March 31, 2006 have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥117.47=U.S.$1 (official rate dated March 31, 2006 announced by The Bank of Tokyo-Mitsubishi UFJ, Ltd.)

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

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

Figures in yen for the fiscal year ended March 31, 2006 ("Fiscal 2006") have been converted into U.S. dollars, solely for the convenience of the reader, using an exchange rate of ¥117.47 = US$1 as of March 31, 2006 as announced by The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Overview

During Fiscal 2006, the Japanese economy picked up the pace for recovery primarily due to a resurgence of exports mainly to the U.S. and Asian/Middle East countries, a steady increase in consumer spending owing to expansion in employment and higher wages, and steady and favorable equipment investments supported by high-level corporate profits. Further, economic expansion is still expected due to the continuous resolution of the "three excesses," namely facilities, employment, and debt, which have lingered since the "bubble economy" in Japan burst.

Nikkei Stock Average turned upwards in the middle of this year due to the full recovery of economy and exceeded ¥17,000 at the end of Fiscal 2006. Regarding foreign exchange rates, the yen had been dropping since the beginning of Fiscal 2006 in reaction to an increase in the U.S. dollar's interest rate and is currently in the high 110's to the U.S. dollar. Meanwhile, the Bank of Japan lifted the quantitative easing policy, which had continued for five years, in March 2006. Overseas economic conditions continue to be in good condition. In the U.S., the economy enjoyed good growth as robust corporate profits continued to give a rise in employment and capital expenditures. In addition, the European economy has shown some signs of gradual recovery. China has also experienced consistent, high-level growth supported by strong exports and investments in infrastructure. Under these circumstances, the prices of natural resource-related commodities continue to rise due to stronger demands.

ITOCHU Corporation and its group companies have started a new mid-term management plan, "Frontier-2006," a two-year plan for Fiscal 2006 and fiscal year ending March 31, 2007 ("Fiscal 2007").

The "Frontier-2006" plan defines these two years as a period to make ITOCHU a highly profitable corporate group consistently achieving more than ¥100.0 billion in net income. By anticipating changes, always seeking a "frontier" and pursuing the three principles of "challenge, create and commit," ITOCHU has been engaged in growing earnings and strengthening its business base.

Specific achievements during Fiscal 2006 were as follows:

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

ITOCHU signed a Memorandum of Understanding with Uny Co., Ltd., which provides for comprehensive cooperation in food-related business. ITOCHU aims to expand its food distribution business, but also expects to utilize the business resources of both companies including Uny's retail sites and ITOCHU's retail support capability in areas in adoption to the food-related business.

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

In Natural Resource Development-related areas, ITOCHU started an iron-ore production enhancement project in West Australia. Regarding the ACG oil development project in Azerbaijan, crude oil production started in western oil field of Azeri and has been increasing favorably.

In the other areas, ITOCHU invested in the top automobile dealer in Chengdu city in Sichuan province, China to start an automobile dealer business in China.

In Mobile area, NANO Media Inc., which is engaged in content distribution for cellular phones and application development, was listed on the Tokyo Stock Exchange ("TSE") Mothers, while ITC NETWORKS CORPORATION, a cellular phone distributor, was listed on the second section of TSE. This is an achievement of ITOCHU's efforts at business expansion in both hardware and software.

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

Business Results for Fiscal 2006 - A Comparison between Fiscal 2006 and Fiscal 2005

Revenue (the total of "Sales revenue" and "Trading margins and commissions on trading transactions") increased by 11.4% or ¥227.0 billion to ¥2,218.2 billion (US$18,883 million) compared with the previous fiscal year, because of the increases in transactions in automobiles, domestic IT-related businesses, as well as resource-related businesses due to higher market prices.

Gross trading profit increased by 13.3% or ¥83.6 billion to ¥714.4 billion (US$6,081 million) compared with the previous fiscal year. An increase in gross trading profit occurred in every segment including Textile contributed by a newly consolidated Men's apparel company, Machinery supported by growth in the automobile business in Europe and the U.S. and good performance of the construction machinery business in North America, Aerospace, Electronics & Multimedia from steady growth in domestic IT industry-related business, and Energy, Metals & Minerals due to higher prices of coal, iron ore, and crude oil.

Selling, general and administrative expenses, increased by 8.4% or ¥39.4 billion to ¥506.3 billion (US$4,310 million), due to business expansion and newly consolidated companies.

Provision for doubtful receivables increased by 138.3% or ¥8.5 billion to ¥14.7 billion (US$125 million) compared with the previous fiscal year, mainly due to a loss on Iraq receivables.

Although ***net interest expenses*** increased by 23.7% or ¥5.0 billion, due to a rise in the U.S. interest rate, the increase in ***net financial expenses*** (net of interest income, interest expense, and dividend received) was less at 13.6% or ¥0.9 billion to ¥7.8 billion (US$67 million) compared with the previous fiscal year, mainly because of an increase in dividends received from LNG-related investments.

Gain (loss) on disposal of investments and marketable securities, net of write-down improved by ¥77.0 billion to a again of ¥51.6 billion (US$439 million) compared with the previous fiscal year, due to profits from sales of U.S. 7-Eleven, Inc. (¥13.6 billion or US$112 million) and U.S. health-care-related securities (¥10.8 billion or US$101 million), and the absence of an impairment loss on investment in FamilyMart (¥45.1 billion) taken in the previous fiscal year.

Loss on property and equipment - net decreased by ¥2.0 billion to a loss of ¥7.9 billion (US$67 million).

Other - net decreased by ¥12.8 billion to a loss of ¥12.4 billion (US$105 million) reflecting payment of a legal settlement (¥19.5 billion or US$185 million) by an overseas trading subsidiary in the U.S. in Fiscal 2006.

As a result, ***income before income taxes, minority interests, equity in earnings of associated companies, and cumulative effect of an accounting change*** increased by 80.8% or ¥96.9 billion to ¥216.9 billion (US$1,846 million) compared with the previous fiscal year.

Income taxes increased by 71.0% or ¥44.4 billion to ¥106.9 billion (US$910 million) compared with the previous fiscal year, while ***minority interests*** increased by 15.0% or ¥1.7 billion to ¥13.1 billion (US$112 million) compared with the previous fiscal year. Additionally, ***equity in earnings of associated companies*** increased by 62.9% or ¥20.0 billion to ¥51.7 billion (US$441 million) compared with the previous fiscal year, due to contributions by a steel products-related associated company and a new finance-related associated company. ***Income before cumulative effect of an accounting change*** increased 91.0% or ¥70.8 billion to ¥148.6 billion (US$1,265 million) compared with the previous fiscal year.

Net income increased by 86.6% or ¥67.4 billion to ¥145.1 billion (US$1,236 million) compared with the previous fiscal year, after additional charge of ¥3.4 billion (US$29 million) representing, the cumulative effect of an accounting change (early adoption of Accounting for Stripping Costs in Mining Industry).

Total trading transactions increased by 9.4% or ¥897.8 billion to ¥10,473.9 billion (US$89,162 million) compared with the previous fiscal year, mainly in Machinery due to an increase in plant and automobile volume; in Energy, Metals & Minerals as a result of rising prices for coal, iron ore and crude oil; and in Chemicals, Forest Products & General Merchandise due to steadily high market prices in chemicals, continuous growth in the building material market in North America and contributions by newly consolidated subsidiaries.

Consolidated Statements of Operations

	Billions of Yen			Millions of U.S. dollars
Years ended March 31	2006	2005	Increase (Decrease)	2006
Revenue	¥ 2,218.2	¥ 1,991.2	¥ 227.0	$ 18,883
Cost of sales	(1,503.8)	(1,360.5)	(143.4)	(12,802)
Gross trading profit	714.4	630.8	83.6	6,081
Selling, general and administrative expenses	(506.3)	(466.8)	(39.4)	(4,310)
Provision for doubtful receivables	(14.7)	(6.2)	(8.5)	(125)
Interest income	13.4	10.8	2.6	114
Interest expense	(39.4)	(31.8)	(7.6)	(336)
Dividends received	18.2	14.2	4.1	155
Gain (loss) on disposal of investments and marketable securities, net of write-down	51.6	(25.4)	77.0	439
Loss on property and equipment-net	(7.9)	(6.0)	(2.0)	(67)
Other-net	(12.4)	0.4	(12.8)	(105)
Income before minority interests, equity in earnings of associated companies and cumulative effect of an accounting change	216.9	120.0	96.9	1,846
Income taxes	106.9	62.5	44.4	910
Income before income taxes, minority interests, equity in earnings of associated companies and cumulative effect of an accounting change	109.9	57.4	52.5	936
Minority interests	(13.1)	(11.4)	(1.7)	(112)
Equity in earnings of associated companies	51.7	31.8	20.0	441
Income before cumulative effect of an accounting change	148.6	77.8	70.8	1,265
Cumulative effect of an accounting change, less applicable income taxes of ¥1.5 billion ($12million)	(3.4)	—	(3.4)	(29)
Net income	145.1	77.8	67.4	1,236

Operating Segment Information

	Billions of Yen			Millions of U.S. dollars
Years ended March 31	2006	2005	2004	2006
Trading transactions				
Textile	¥ 824.3	¥ 829.1	¥ 817.0	$ 7,017
Machinery	1,439.5	1,166.7	1,406.9	12,254
Aerospace, Electronics & Multimedia	699.5	630.9	634.0	5,955
Energy, Metals & Minerals	2,876.2	2,471.5	2,138.2	24,484
Chemicals, Forest Products & General Merchandise	1,967.3	1,893.2	1,715.0	16,747
Food	2,150.0	2,111.9	2,345.1	18,303
Finance, Realty, Insurance & Logistics Services	232.8	243.1	235.8	1,982
Other, Adjustments & Eliminations	284.3	229.7	224.9	2,420
Total	¥ 10,473.9	¥ 9,576.0	¥ 9,517.0	$ 89,162
Gross trading profit				
Textile	¥ 122.9	¥ 112.8	¥ 100.3	$ 1,046
Machinery	69.5	58.0	51.1	592
Aerospace, Electronics & Multimedia	116.4	108.4	105.5	991
Energy, Metals & Minerals	73.9	39.1	24.7	629
Chemicals, Forest Products & General Merchandise	111.1	105.9	91.9	946
Food	142.6	136.2	130.9	1,213
Finance, Realty, Insurance & Logistics Services	46.0	39.3	16.0	391
Other, Adjustments & Eliminations	32.0	31.0	35.5	273
Total	¥ 714.4	¥ 630.8	¥ 555.9	$ 6,081
Net income (loss)				
Textile	¥ 15.0	¥ 14.8	¥ 11.7	$ 128
Machinery	13.7	10.5	3.9	116
Aerospace, Electronics & Multimedia	17.2	14.4	2.6	147
Energy, Metals & Minerals	58.0	25.7	12.9	493
Chemicals, Forest Products & General Merchandise	18.6	20.3	11.5	159
Food	19.4	(9.3)	13.3	165
Finance, Realty, Insurance & Logistics Services	9.9	5.4	(75.6)	84
Other, Adjustments & Eliminations	(6.6)	(3.9)	(12.2)	(56)
Total	¥ 145.1	¥ 77.8	¥ (31.9)	$ 1,236
Identifiable assets				
Textile	¥ 395.4	¥ 377.2	¥ 382.7	$ 3,366
Machinery	489.0	451.4	433.6	4,163
Aerospace, Electronics & Multimedia	524.7	489.4	464.3	4,467
Energy, Metals & Minerals	644.4	491.0	443.7	5,485
Chemicals, Forest Products & General Merchandise	634.3	583.7	557.4	5,400
Food	778.8	728.0	711.6	6,630
Finance, Realty, Insurance & Logistics Services	600.9	615.3	609.7	5,115
Other, Adjustments & Eliminations	729.5	736.3	884.3	6,210
Total	¥ 4,797.0	¥ 4,472.3	¥ 4,487.3	$ 40,836

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

Textile:

Trading transactions (excluding inter-segment transactions; the same definition applies below) decreased by 0.6% or ¥4.8 billion to ¥824.3 billion (US$7,017 million) compared with the previous fiscal year, mainly due to a decline in up/midstream operations despite an increase due to the contribution by a newly consolidated men's apparel-related subsidiary. Gross trading profit increased by 8.9% or ¥10.0 billion to ¥122.9 billion (US$1,046 million) compared with the previous fiscal year, due to the contribution by the newly consolidated men's apparel-related subsidiary despite a decline in upstream operations. Net income increased by 1.3% or ¥0.2 billion to ¥15.0 billion (US$128 million) compared with the previous fiscal year, mainly due to gains on sales of investment securities while equity in earnings of associated companies deteriorated. Identifiable assets increased by 4.8% or ¥18.2 billion to ¥395.4 billion ($3,366 million) compared with the previous fiscal year, mainly due to an increase in new investments.

Machinery:

Trading transactions increased by 23.4% or ¥272.9 billion to ¥1,439.5 billion (US$12,254 million) compared with the previous fiscal year, due to increases in plant and automobile transactions. Gross trading profit improved by 20.0% or ¥11.6 billion to ¥69.5 billion (US$592 million) compared with the previous fiscal year, due to the expansion of the automobile business in Europe and the U.S. as well as good performance in construction machinery business in North America. Net income increased by 30.5% or ¥3.2 billion to ¥13.7 billion (US$116 million) compared with the previous fiscal year, due to an increase in equity in earnings of associated companies and gains on sales of investment securities. Identifiable assets increased by 8.3% or ¥37.6 billion to ¥489.0 billion (US$4,163 million) compared with the previous fiscal year, mainly due to an increase in trade receivables resulting from the increases in plant and automobile transactions.

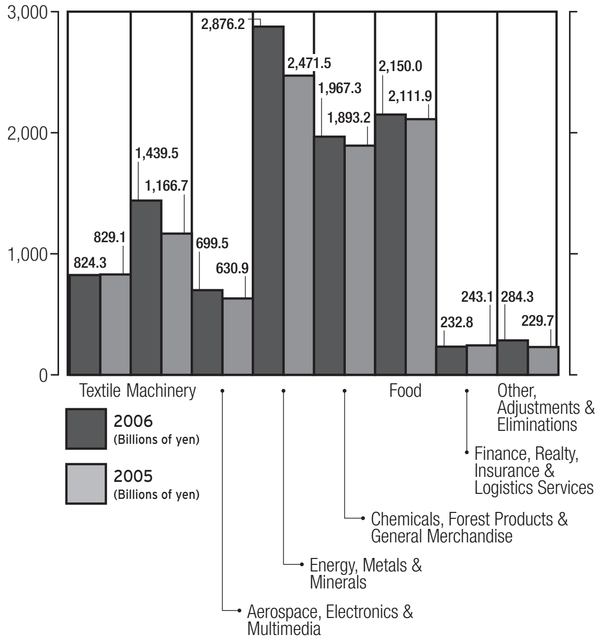
Aerospace, Electronics & Multimedia:

Trading transactions increased by 10.9% or ¥68.6 billion to ¥699.5 billion (US$5,955 million) compared with the previous fiscal year, due to good performance in domestic IT industry-related business and an increase in aerospace-related business. Gross trading profit increased by 7.4% or ¥8.0 billion to ¥116.4 billion (US$991 million) compared with the previous fiscal year, due to good performance in domestic IT industry-related business. Net income increased by 19.8% or ¥2.8 billion to ¥17.2 billion (US$147 million) compared with the previous fiscal year, due to gains on sales of investment securities concerning the listing of media-related subsidiaries in addition to the increase in gross trading profit. Identifiable assets increased by 7.2% or ¥35.3 billion to ¥524.7 billion (US$4,467 million) compared with the previous fiscal year, mainly due to an increase in trade receivables resulting from sales increase in domestic IT industry-related business in the fourth quarter of Fiscal 2006.

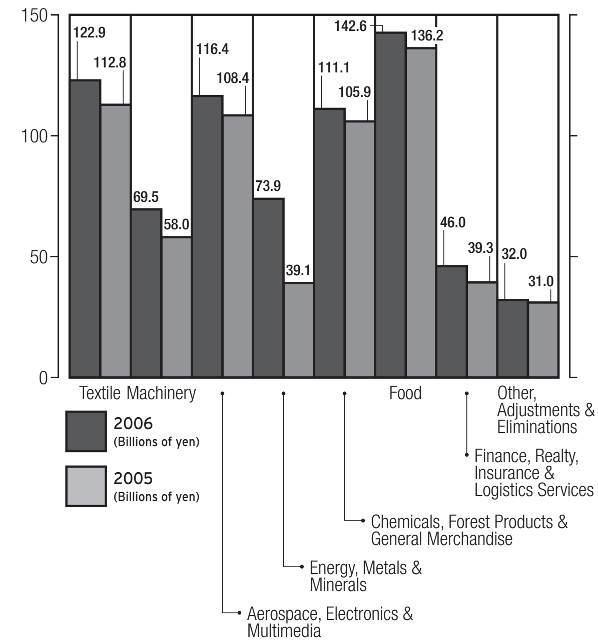
Energy, Metals & Minerals:

Trading transactions increased by 16.4% or ¥404.7 billion to ¥2,876.2 billion (US$24,484 million) compared with the previous fiscal year, mainly due to higher prices in coal, iron ore and crude oil. Gross trading profit increased by 89.0% or ¥34.8 billion to ¥73.9 billion (US$629 million) compared with the previous fiscal year, mainly due

Total Trading Transactions by Operating Segment



Gross Trading Profit by Operating Segment



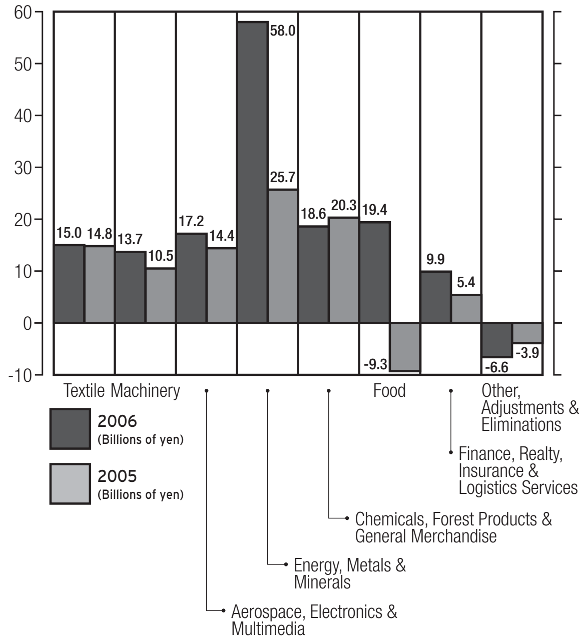
to higher prices in coal, iron ore and crude oil. Net income increased by 125.8% or ¥32.3billion to ¥58.0 billion (US$493 million) compared with the previous fiscal year, mainly due to good performance of a steel product-related associated company in addition to the increase in gross trading profit. Identifiable assets increased by 31.2% or ¥153.4 billion to ¥644.4 billion (US$5,485 million) compared with the previous fiscal year, mainly due to an increase in trade receivables of energy resulting from a higher price in crude oil.

Chemicals, Forest Products & General Merchandise:
Trading transactions increased by 3.9% or ¥74.1 billion to ¥1,967.3 billion (US$16,747 million) compared with the previous fiscal year, due to an increase resulting from continuous high market prices in chemicals, steady growth in housing material-related transactions in North America, and contributions by newly consolidated subsidiaries. Gross trading profit increased by 4.9% or ¥5.2 billion to ¥111.1 billion (US$946 million) compared with the previous fiscal year, due to good performance in the housing material business in North America and domestic chemical-related subsidiaries in addition to contributions by newly consolidated subsidiaries. Net income decreased by 8.0% or ¥1.6 billion to ¥18.6billion (US$159 million) compared with the previous fiscal year, mainly due to an increase in Selling, general and administrative expenses in downstream businesses despite good performance of domestic chemical related-subsidiaries and improvement in equity in earnings of associated companies. Identifiable assets increased by 8.7% or ¥50.6 billion to ¥634.3 billion (US$5,400 million) compared with the previous fiscal year, due to increases in trade receivables and inventories due to high market prices and the yen's depreciation against U.S. dollar.

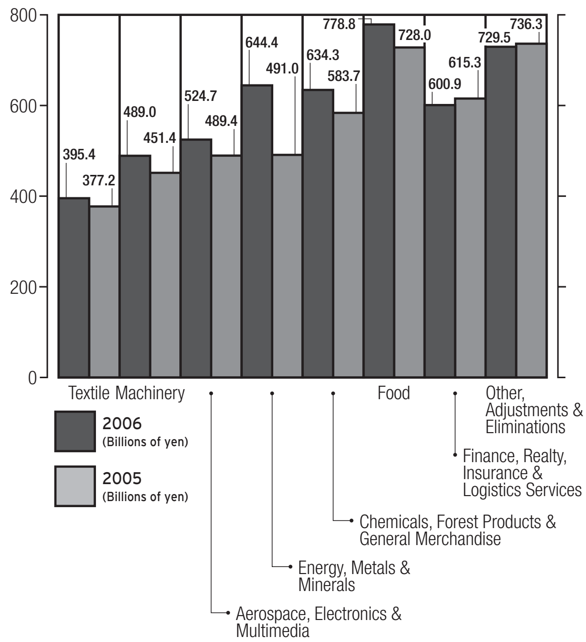
Food:
Trading transactions increased by 1.8% or ¥38.1 billion to ¥2,150.0 billion (US$18,303 million) compared with the previous fiscal year, due to contributions by newly consolidated subsidiaries in addition to an increase in food distribution transactions. Gross trading profit increased by 4.7% or ¥6.4 billion to ¥142.6 billion (US$1,213 million) compared with the previous fiscal year, due to contributions by newly consolidated subsidiaries in addition to an increase in food distribution transactions. Net income (loss) improved by ¥28.7 billion to a profit of ¥19.4 billion (US$165 million) compared with the previous fiscal year, mainly due to the absence of an impairment loss on investment in FamilyMart Co., Ltd (the effect of impairment loss was ¥26.6 billion) that was taken in the previous fiscal year partially offset by an increase in Selling, general and administrative expenses and a decrease in equity in earnings of associated companies. Identifiable assets increased by 7.0% or ¥50.8 billion to ¥778.8 billion (US$6,630 million) compared with the previous fiscal year, due to increases in trade receivables and inventories resulting from increase in transactions as well as an increase in investment securities.

Finance, Realty, Insurance & Logistics Services:
Trading transactions decreased by 4.2% or ¥10.2 billion to ¥232.8 billion (US$1,982 million) compared with the previous fiscal year, due to a reduction of condominium sales in construction-related transactions. Gross trading profit increased by 16.9% or ¥6.6 billion to ¥46.0 billion (US$391 million) compared with the previous fiscal year, due to contributions by construction- related and finance-related subsidiaries and a logistics subsidiary. Net income increased by 84.2% or ¥4.5 billion to a profit of ¥9.9 billion (US$84 million) compared with the previous fiscal year, due to contribution by a new finance-related associated company and gains on sales of investment securities in addition to the increase in gross trading profit. Identifiable assets decreased by 2.3% or ¥14.5 billion to ¥600.9 billion (US$5,115 million) compared with the previous fiscal year, due to a reduction in construction-related

Net Income (Loss) by Operating Segment



Identifiable Assets by Operating Segment



assets and a domestic logistics group company classified from a subsidiary to an equity-method associated company despite a new investment in finance-related associated company.

Other, Adjustments & Eliminations:
Trading transactions increased by 23.7% or ¥54.6 billion to ¥284.3 billion (US$2,420 million) compared with the previous fiscal year, mainly due to good performance in overseas trading subsidiaries in Asia. Gross trading profit increased by 3.2% or ¥1.0 billion to ¥32.0 billion (US$273 million) compared with the previous fiscal year, mainly due to good performance in overseas trading subsidiaries in Asia. Net loss deteriorated by 71.0% (¥2.7 billion) to a loss of ¥6.6 billion (US$56 million) compared with the previous fiscal year, reflecting payment of a legal settlement by an overseas trading subsidiary in the U.S. despite the increase in gross trading profit and an increase in gains on sales of investment securities. Identifiable assets decreased by 0.9% or ¥6.7 billion to ¥729.5 billion (US$6,210 million) compared with the previous fiscal year, mainly due to sales of a healthcare-related security by overseas trading subsidiary despite an increase in cash and cash equivalents.

Geographical Segment Information

Japan:
Trading transactions (excluding inter-segment transactions; the same definition applies below) increased by 0.8% or ¥59.2 billion to ¥7,202.7 billion (US$61,316 million) compared with the previous fiscal year, due to increases in transactions in Machinery; Aerospace & Electronics; and Chemicals, Forest Products & General Merchandise reflecting growth of sales or high level of market prices despite reductions in less profitable businesses transactions. Identifiable assets increased by 4.2% or ¥162.4 billion to ¥3,998.9 billion (US$34,042 million) compared with the previous fiscal year, mainly due to an increase in trade receivables of Aerospace & Electronics and Food as well as an investment in finance-related associated company.

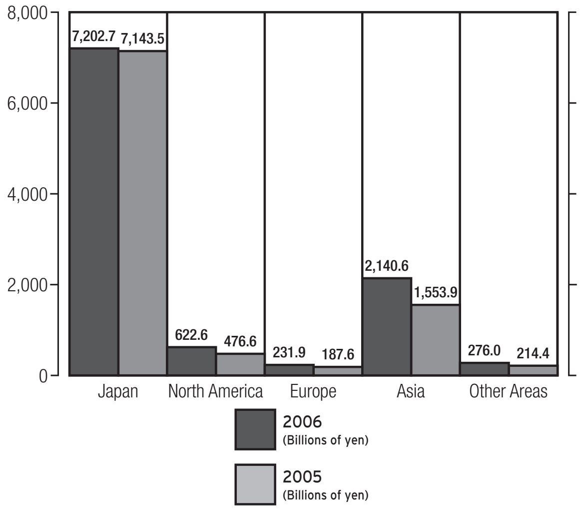
North America:
Trading transactions increased by 30.6% or ¥146.0 billion to ¥622.6 billion (US$5,300 million) compared with the previous fiscal year, mainly due to increases in construction machinery, automobile, energy, and Forest Products & General Merchandise. Identifiable assets increased by 7.7% or ¥22.8 billion to ¥318.0 billion (US$2,707 million) compared with the previous fiscal year, mainly due to an increase in trade receivables of construction machinery, automobile, and Forest Products & General Merchandise despite decrease due to sales of a healthcare-related security of an overseas trading subsidiary in the U.S.

Europe:
Trading transactions increased by 23.6% or ¥44.3 billion to ¥231.9 billion (US$1,974 million) compared with the previous fiscal year, mainly due to increases in automobile, aircraft, energy and logistics-related businesses. Identifiable assets increased 2.0% or ¥3.2 billion to ¥163.9 billion (US$1,395 million) compared with the previous fiscal year, mainly due to the acquisition of equity shares in new energy resource development projects despite a decrease in aircraft-related business.

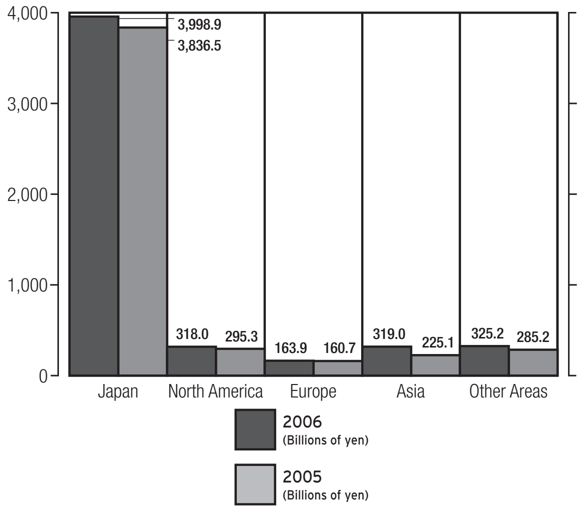
Asia:
Trading transactions increased 37.8% or ¥586.8 billion to ¥2,140.6 billion (US$18,223 million) compared with the previous fiscal year, mainly due to higher prices in crude oil. Identifiable assets increased by 41.7% or ¥93.8 billion to ¥319.0 billion (US$2,715 million) compared with the previous fiscal year, mainly due to an increase in trade receivables of Energy, Metals & Minerals.

Other:
Trading transactions increased by 28.7% or ¥61.6 billion to ¥276.0 billion (US$2,349 million) compared with the previous fiscal year, mainly due to higher prices in coal and iron ore. Identifiable assets in this segment increased by 14.0%

Trading Transactions by Geographical Segment



Identifiable Assets by Geographical Segment



or ¥39.9 billion to ¥325.2 billion (US$2,768 million) compared with the previous fiscal year, mainly due to an increase in trade receivables resulting from higher prices and transaction volume in coal and iron ore.

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

Discussion and Analysis of Results of Operations

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

The Frontier-2006 plan defined these two years as a period to make ITOCHU a highly profitable corporate group constantly achieving more than ¥100.0 billion in net income. By anticipating change, always seeking a "frontier," and pursuing three principles of "challenge, create and commit," ITOCHU has been engaged in expanding earnings and strengthening its business base.

A discussion and analysis of results of operations for Fiscal 2006 follows.

Descriptions of the outlook for Fiscal 2007 and later are forward-looking statements that are based on management's assumptions and beliefs, considering information currently available at the end of Fiscal 2006, and involve risks and uncertainties. Thus, factors that could cause actual results to differ materially from such statements include, without limitation, the factors in the following Risk Information and the other potential risk and uncertain factors.

Analysis of Results of Operations in Fiscal 2006 and Outlook for Fiscal 2007

Revenue:

In accordance with Emerging Issues Task Force ("EITF") Issue 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," the Company and its subsidiaries present certain revenue transactions with corresponding cost of revenues on a gross basis in the consolidated statements of operations for transactions traded as a primary obligor in manufacturing, processing and service rendering and for sales with general inventory risk before customer order. Otherwise, the Company and its subsidiaries present revenue on a net basis in the consolidated statements of operations. In Fiscal 2006, "Sales revenue" as a gross basis was ¥1,806.7 billion (US$15,380 million) and "Trading margins and commissions on trading transactions" as a net basis was ¥411.6 billion (US$3,503 million). The total revenue was ¥2,218.2 billion (US$18,883 million), and increased by 11.4% or ¥227.0 billion compared with the previous fiscal year. This was mainly due to an expansion of automobile transactions and domestic IT industry-related transactions and an increase in resource-related transactions resulting from higher prices.

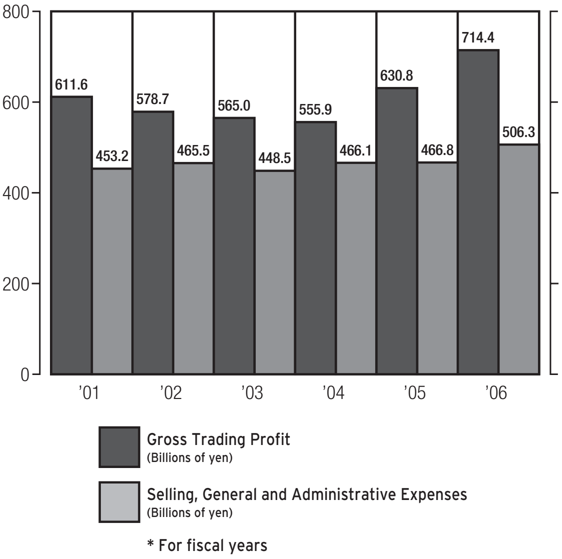
Gross trading profit:

"Gross trading profit" for Fiscal 2006 increased by 13.3% or ¥83.6 billion to ¥714.4 billion (US$6,081 million) compared with the previous fiscal year. The effect from joining and leaving of subsidiaries was a ¥19.2 billion increase and a ¥4.5 billion decrease, respectively. The favorable effect of the yen's depreciation against the U.S. dollar in translating overseas subsidiaries was approximately ¥4.4 billion. Excluding these increases and decreases the substantial rise in profits for existing companies of ¥64.5 billion. An increase in gross trading profit occurred in all segments including Textile contributed by a newly consolidated Men's apparel company, Machinery supported by growth in automobile business in Europe and the U.S. as well as good performance of construction machinery business in North America, Aerospace, Electronics & Multimedia through steady growth in domestic IT industry-related business, and Energy, Metals & Minerals due to higher prices in coal, iron ore, and crude oil. The gross trading profit for Fiscal 2006 was highest-ever of ITOCHU Group.

Selling, general and administrative expenses:

"Selling, general and administrative expenses" for Fiscal 2006 increased by 8.4% or ¥39.4 billion to ¥506.3 billion (US$4,310 million) compared with the previous fiscal year. The effect from joining and leaving of subsidiaries was a ¥12.0 billion increase and a ¥3.6 billion decrease, respectively. The negative effect of the yen's depreciation against the U.S. dollar in translating overseas subsidiaries was approximately ¥1.5 billion. Excluding these increases and decreases the substantial rise in "selling, general and administrative expenses" was ¥29.6 billion. With an increase in expenses due to an expansion of the operation in existing businesses, such as personnel expenses (¥225.9 billion, an increase of ¥16.3 billion compared with the previous fiscal year) and service charge including distribution costs (¥118.7 billion, an increase of ¥12.6 billion compared with the previous fiscal year), "selling, general and administrative expenses", as a whole, was ¥39.4 billion higher than the previous fiscal year.

Gross Trading Profit; Selling, General and Administrative Expenses



Provision for doubtful receivables:
"Provision for doubtful receivables" for Fiscal 2006 increased by 138.3% or ¥8.5 billion to ¥14.7 billion (US$125 million) compared with the previous fiscal year, mainly due to a loss on Iraq receivables (¥7.7 billion).

Net financial expenses (Net of "interest income," "interest expense," and "dividends received"):
Net financial expenses for Fiscal 2006 deteriorated by 13.6% or ¥0.9 billion to ¥7.8 billion (US$67 million) compared with the previous fiscal year. Net interest expenses, consisting of "interest income" and "interest expense," deteriorated by 23.7% or ¥5.0 billion to ¥26.0 billion (US$222 million) compared with the previous fiscal year. Although "interest income" increased by 24.5% or ¥2.6 billion compared with the previous fiscal year mainly due to the rise in the U.S. dollar interest rate, "interest expense" increased by 24.0% or ¥7.6 billion compared with the previous fiscal year, mainly due to higher interest rates (The average interest rate rose by 0.42% from 1.30% to 1.72%.) resulting from the rise in U.S. dollar interest rates, despite improvement resulting from a decrease in interest-bearing debt (average debt outstanding decreased by ¥167.7 billion from ¥2,454.3 billion to ¥2,286.6 billion).

Dividends received increased by 28.6% or ¥4.1 billion to ¥18.2 billion (US$155 million) compared with the previous fiscal year, due to an increase in dividends received from LNG-related investments (increased by ¥3.0 billion to ¥9.9 billion compared with the previous fiscal year).

Other profit (loss):
"Gain (loss) on disposal of investments and marketable securities, net of write-down" for Fiscal 2006 improved by ¥77.0 billion to ¥51.6 billion (US$439 million) compared with the previous fiscal year. Gain on sales of investment securities increased by ¥30.5 billion to ¥59.1 billion compared with the previous fiscal year, mainly due to sale of 7-Eleven Inc. (¥13.6 billion), and the U.S. healthcare-related security (¥10.8 billion) and gains on initial public offering of domestic IT-related subsidiaries.

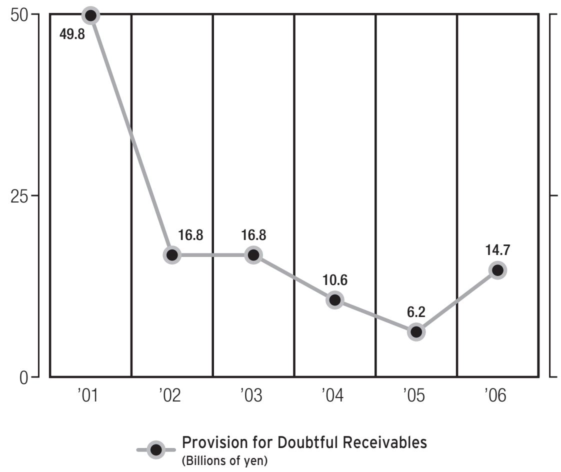
Impairment loss on marketable securities improved by ¥42.2 billion to ¥4.6 billion compared with the previous fiscal year, mostly due to the absence of an impairment loss on investment in FamilyMart Co., Ltd. ("FamilyMart") (¥45.1 billion) taken in the previous fiscal year. In addition, loss on the restructuring of businesses also improved by ¥4.2 billion to ¥2.9 billion compared with the previous fiscal year, as a whole, "gain (loss) on disposal of investments and marketable securities, net of write-down" improved greatly from a loss of ¥25.4 billion in the previous fiscal year to a profit of ¥51.6 billion.

In the previous fiscal year, ITOCHU recognized a ¥45.1 billion (¥26.6 billion, after income tax effect) impairment loss on investment in FamilyMart held by Family Corporation Inc., a subsidiary. The fair value was determined comprehensively considering discounted cash flow analyses prepared by third-party appraisers based on the best information available and the quoted market price of FamilyMart. However, since the carrying amount had exceeded the quoted market price for a considerable period of time, ITOCHU evaluated the fair value using discounted cash flow analysis based on a more conservative estimate considering the market price.

"Loss on property and equipment-net" for Fiscal 2006 deteriorated by ¥2.0 billion to ¥7.9 billion (US$67 million) compared with the previous fiscal year. Gain on the sale of property improved by ¥3.7 billion to ¥2.3 billion compared with the previous fiscal year. However, impairment loss on fixed assets and others deteriorated by ¥5.7 billion to ¥10.2 billion compared with the previous fiscal year, mainly due to the recognition of impairment loss in a domestic subsidiary resulting from deteriorated cash flow by changing rental agreement terms.

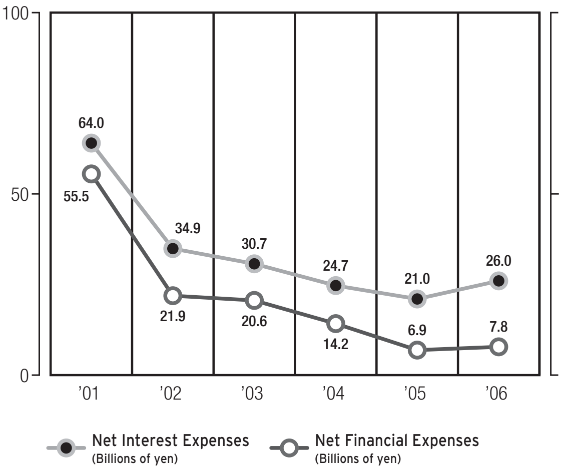
"Other-net" for Fiscal 2006 deteriorated by ¥12.8 billion to a loss of ¥12.4 billion (US$105 million) compared with the previous fiscal year. This resulted mainly from the payment of a legal settlement of ¥19.5 billion (US$185 million) by an overseas trading subsidiary in the U.S. to Citigroup despite

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

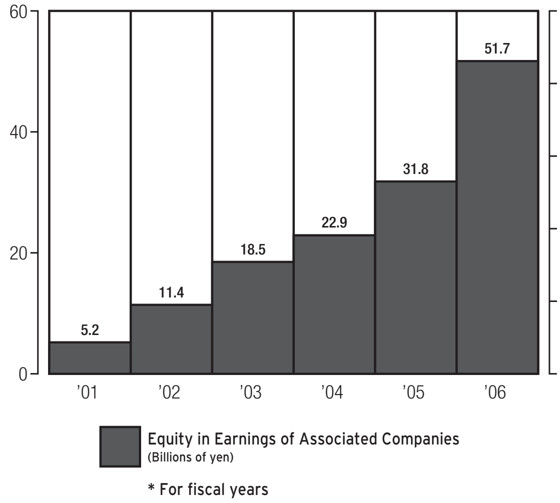
an improvement in net gain on non-trading derivatives for dividends received (improvement of ¥2.0 billion compared with the previous fiscal year).

Equity in earnings of associated companies:
"Equity in earnings of associated companies" for Fiscal 2006 increased by 62.9% or ¥20.0 billion to ¥51.7 billion (US$441 million) compared with the previous fiscal year, highest-ever of ITOCHU Group. The increase was a result of the contribution by a newly consolidated finance-related associated company in Finance, Realty, Insurance & Logistics Services, in addition to a good performance of automobile-related associated company in North America in Machinery, a steel product-related associated company and overseas crude oil trading-related associated companies in Energy, Metals & Minerals and pulp-related associated company in Chemicals, Forest Products & General Merchandise. The results of major equity-method for associated companies are shown in the following "Major Group Companies Reporting Profits" and "Major Group Companies Reporting Losses" in "Performance of Subsidiaries and Equity-Method Associated Companies."

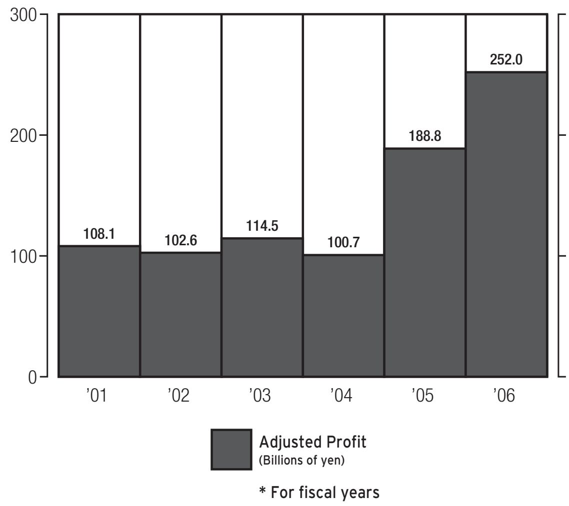
Cumulative effect of Accounting Change
In accordance with an early adoption of EITF 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry", the cost, which of removing overburden and waste materials to access material deposits are referred to as "stripping costs," incurred during the production phase of a mine are recognized as variable production costs and included in the costs of the inventory produced during the period that the stripping costs are incurred. The cumulative effect of an accounting change, after income tax effect, was a loss of ¥3.4 billion (US$29 million), which is presented as an independent item.

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), that ITOCHU believes to be indicating of the basic earning power while it is a non-GAAP measure, increased by 33.5% or ¥63.2 billion or about 1.3 times to ¥252.0 billion (US$2,145 million) compared with the previous fiscal year, which was highest-ever of ITOCHU Group. Judging from the fact that this ¥63.2 billion profit comprises ¥44.2 billion from gross trading profit and selling, general and administrative expenses and ¥20.0 billion from equity in earnings of associated companies, ITOCHU believes that the Group's basic earning power has been strengthened in a well-balanced manner.

Equity in Earnings of Associated Companies



Adjusted Profit



Performance of Subsidiaries and Equity-Method Associated Companies

For Fiscal 2006, the Company's consolidated results included 442 subsidiaries (220 domestic and 222 overseas) and 209 equity-method associated companies (95 domestic and 114 overseas) totaling 651 companies. The following table presents information regarding the profitability of these companies.

Profits/Losses of Group Companies Reporting Profits/Losses

	Billions of Yen								
	2006			2005			Changes		
Years ended March 31	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total
Group companies excluding overseas trading subsidiaries	¥ 132.6	¥ (19.4)	¥ 113.2	¥ 86.7	¥ (38.8)	¥ 47.9	¥ 45.9	¥ 19.3	¥ 65.3
Overseas trading subsidiaries	16.1	(0.3)	15.7	14.7	(1.5)	13.2	1.4	1.2	2.6
Total	¥ 148.7	¥ (19.8)	¥ 128.9	¥ 101.3	¥ (40.3)	¥ 61.1	¥ 47.3	¥ 20.5	¥ 67.8

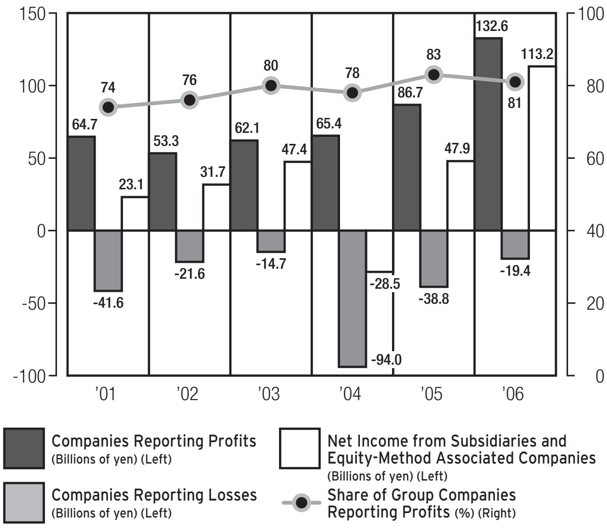
Share of Group Companies Reporting Profits

	2006			2005			Changes		
Years ended March 31	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Companies reporting profits	262	268	530	255	290	545	7	(22)	(15)
Group companies	315	336	651	316	340	656	(1)	(4)	(5)
Share	83.2%	79.8%	81.4%	80.7%	85.3%	83.1%	2.5%	(5.5%)	(1.7%)

For Fiscal 2006, the net income from subsidiaries and equity-method associated companies (the aggregate profits/losses of subsidiaries and equity-method associated companies excluding overseas trading subsidiaries; the same below) increased substantially by ¥65.3 billion to ¥113.2 billion, 2.4 times higher than the previous fiscal year. Profits from ITOCHU's overseas trading subsidiaries increased by ¥2.6 billion to ¥15.7 billion compared with the previous fiscal year, mainly due to profit achieved by a European subsidiary and an increase in profits by subsidiaries in China, Hong Kong, and Australia, which offset the decrease in profits by subsidiaries in the U.S. as a result of the payment of a legal settlement to Citigroup. The aggregate profits/losses of Group companies reporting profits, consisting of profits from subsidiaries and equity-method associated companies and profits from overseas trading subsidiaries, increased by ¥47.3 billion compared with the previous year, while the losses of Group companies reporting losses decreased by ¥20.5 billion compared with the previous year. The profitability of domestic and overseas consolidated companies has improved and made a well-balanced contribution to the total consolidated profit.

With regard to the share of Group companies reporting profits (the ratio of companies reporting profits to total Group companies), there was deterioration from 83.1% in the previous fiscal year to 81.4%. This was mainly due to losses reported from newly established companies for investments in new business areas, as well as an increase in the number of Group companies reporting losses relating to restructuring of businesses by the Company's overseas subsidiaries.

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 31, 2006 and 2005.

Major Group Companies Reporting Profits

Years ended March 31	Shares	(*1) Net income (loss) Billions of Yen 2006	2005	Reasons for changes
Domestic subsidiaries				
ITOCHU TECHNO-SCIENCE Corporation	48.7%	¥ 5.5	¥ 5.1	Increase due to good results in system transactions for IT and financial industries
ITOCHU Finance Corporation (*2)	90.1%	3.2	2.7	Increase due to finance-related business
ITOCHU PLASTICS INC.	100.0%	2.6	1.8	Increase due to continuous good performance in plastic products, wrapping/industrial materials
ITOCHU Petroleum Japan Ltd. (*3)	100.0%	2.5	0.4	Provision for a large customer in the previous fiscal year Good performance in tanker market and crude oil trade in this fiscal year
ITC NETWORKS CORPORATION	70.8%	2.1	2.3	Decrease from expenses for new shops despite increase in prepaid products transactions
ITOCHU CHEMICAL FRONTIER Corporation (*4)	96.3%	1.3	1.2	Increase in gross trading profit and increase due to cost-cutting
JOI'X CORPORATION	100.0%	1.2	0.8	Increase due to good sales
CRC Solutions Corp.	40.3%	1.1	1.0	Increase due to steady performance in Data Center business
ITOCHU Pulp & Paper Corp.	100.0%	1.1	0.5	Write-down of securities in the previous fiscal year, steady growth in this fiscal year
ITOCHU Non-Ferrous Materials Co., Ltd.	100.0%	1.0	0.8	Increase due to business expansion in freezer machine trading for marine containers in addition to continuous good performance in raw material transactions
ITOCHU Kenzai Corp.	85.9%	0.8	1.5	Low performance in a subsidiary due to high material cost, and impairment loss on property
Overseas subsidiaries				
ITOCHU Minerals & Energy of Australia Pty Ltd (*5)	100.0%	¥25.9	¥13.9	Substantial increase due to higher price in coal and iron ore
ITOCHU International Inc. (*6)	100.0%	7.9	8.6	Decrease due to loss of legal settlement despite steady growth in Group Companies and gain on sales of securities
Prime Source Building Products, Inc. (*6)	100.0%	7.7	7.5	Increase due to expansion of product line and acceleration of cost-cutting
ITOCHU Oil Exploration (Azerbaijan) Inc.	100.0%	5.2	2.0	Increase in sales due to a start of full-scale production and good market of crude oil
ITOCHU Hong Kong Ltd.	100.0%	1.8	1.5	Good results of consumer credit related associated company and profit increase from insurance subsidiary
ITOCHU(China)Holding Co., Ltd.	100.0%	1.5	0.9	Increase due to trade increase in Chemicals, Forest Products & General Merchandise
ITOCHU Automobile America Inc.	100.0%	1.1	1.1	Almost at the same level as previous fiscal year due to worsened financial expenses by higher interest rate despite increase from acquisition of a dealer
ITOCHU Australia Ltd. (*5)	100.0%	1.0	0.7	Increase due to good performance of mineral and energy resource-related company
ITOCHU Europe PLC. (*7)	100.0%	0.9	(1.5)	Increase due to depreciation/allowance at a subsidiary in the previous fiscal year
ITOCHU (Thailand) Ltd.	100.0%	0.8	1.0	Decrease due to a good result in chemicals in the previous fiscal year
Domestic equity-method associated companies				
Marubeni-Itochu Steel Inc.	50.0%	¥15.9	¥ 9.7	Good performance in automotive steel and tubular products
FamilyMart Co., Ltd. (*8)	30.7%	4.3	4.0	Good performance due to sales increase of ready-to-eat food products and increase in number of stores
kabu.com Securities Co., Ltd. (*2)	22.6%	2.1	0.9	Increase in number of customers and volumes of stock deal
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	25.9%	1.3	(0.6)	Impairment loss on goodwill of investment in Cenibra for the previous fiscal year
Century Leasing System, Inc.	20.2%	1.3	1.1	Good lease transactions mainly on IT instruments through recovering demand for investments in facilities
AI Beverage Holding Co., Ltd.	20.0%	1.0	0.0	Contribution from beverage business in China invested in the previous fiscal year
Overseas equity-method associated companies				
BERKSHIRE OIL CO., LTD. (*3)	50.0%	¥ 1.9	¥ 0.7	Good heavy oil trading and good sales of bunker oil in Panama
Mazda Canada Inc.	40.0%	1.6	0.7	Good sales of Mazda's cars in Canada

Major Group Companies Reporting Losses

Years ended March 31	Shares	(*1) Net income (loss) Billions of Yen 2006	2005	Reasons for changes
Domestic subsidiaries				
ITOCHU BUILDING CORPORATION	100.0%	¥(2.7)	¥ 0.2	Recognition of impairment loss due to worsened cash flow by changing rental agreement terms
On Demand TV, Inc.	66.3%	(1.2)	(0.1)	Increase in promotional expenses in order to obtain customer viewers
ILLUMS JAPAN CO. LTD.	85.0%	(0.9)	(0.3)	Decrease due to impairment loss on property and equipment in addition to low performance of the two new stores and higher cost
Overseas subsidiaries				
Stapleton's (Tyre Services) Ltd. (*7)	100.0%	¥(2.4)	¥(0.5)	Decrease in sales by low performance of U.K. market and decrease due to restructuring loss for management improvement by store-closing and warehouse-consolidation
ITOCHU AirLease B.V.	100.0%	(1.1)	(0.8)	Decrease mainly due to impairment loss on aircraft and bad loans
Domestic equity-method associated companies				
Famima Credit Corporation (*8)	49.9%	¥(0.5)	¥(0.6)	Deficit decrease due to improvement of profit by increased number of customer

(*1) Net income(loss) are figures after adjusting to U.S. GAAP, which can be different from the figures, which each company announces.
(*2) The net income of ITOCHU Finance Corporation includes 4.2% of that of kabu.com Securities Co., Ltd.
(*3) The net income of ITOCHU Petroleum Japan Ltd. includes 25% of that of BERKSHIRE OIL CO., LTD.
(*4) ITOCHU Techno-Chemical Inc was merged with ITOCHU CHEMICAL FRONTIER Corporation in April 2005, and thus, the net income of ITOCHU Techno-Chemical Inc is included in that of ITOCHU CHEMICAL FRONTIER Corporation in the previous fiscal year.
(*5) The net income of ITOCHU Australia Ltd. includes 3.7% of that of ITOCHU Minerals & Energy of Australia Pty Ltd.
(*6) The net income of ITOCHU International Inc. includes 80% of that of Prime Source Building Products, Inc.
(*7) The net income of ITOCHU Europe PLC includes 8.1% of that of Stapleton's (Tyre Services) Ltd.
(*8) The net income of FamilyMart Co., Ltd. includes 10.2% of that of Famima Credit Corporation.

Outlook for Fiscal 2007

Looking forward to the business environment of Fiscal 2007, for the Japanese economy, a steady and continuous good cycle is expected through increase in employment and capital investment by high-level corporate profits, which leads to expansion of production and profit. For overseas economies, the U.S. and China are still expected to expand in spite of a slight slowdown. For European and South East Asian economies, it is predicted that recovery will be accelerated mainly due to their domestic demand. Meanwhile, it is necessary to pay constant attention to increasing inflationary pressures from worldwide economic expansion.

Under these circumstances, concerning with outlook for Fiscal 2007, it is anticipated to increase expenses due to expansion of the operation in existing and newly consolidated subsidiaries and to deteriorate in net financial expenses due to the effect of the rise in U.S. dollar interest rates. However, ITOCHU expects good results in all operating segments as follows.

Textile: further contribution by a newly consolidated brand-related subsidiary is expected.

Machinery: it is expected to consistently expand in the automobile-related business in Europe and the U.S. and in the construction machinery-related business in North America.

Aerospace, Electronics & Multimedia: a steady growth in domestic IT industry-related business is expected despite a decrease in gains on sales of marketable securities and on initial public offerings.

Energy, Metals & Minerals: an increase in production volume of Azerbaijan crude oil is expected.

Chemicals, Forest Products & General Merchandise: it is expected to increase profits of major domestic subsidiaries and to improve performance in downstream business.

Food: an increase in profits is expected through the promotion of "Strategic Integrated System."

Finance, Realty, Insurance & Logistics Services: further contribution mainly by finance-related business is expected.

Management Policy for the Future

Further promotion of ITOCHU's mid-term management plan, Frontier-2006

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

1) ITOCHU will take on a challenge to expand earnings. ITOCHU will strengthen the vertical linkage and enhance earnings by accelerating resource injection into core segments/areas with the Company's initiatives. ITOCHU will also reinforce a promotion framework for cross-company projects involving the entire group companies and strengthen the horizontal linkage in Consumer related sector and Natural resource development sector which are both strong domain of ITOCHU to expand earning capacity. Furthermore, ITOCHU will plan to expand earnings from priority markets of North America, China, and Asia, and at the same time, to promote businesses in Russia, India, and Brazil, which we regard as emerging markets, so as to gain the initiative for future profits.
2) ITOCHU will create new businesses. ITOCHU will expand the consumer business in response to diversified consumer needs, strengthen the fields in medical treatment, senior care, hobbies and travel, etc for the healthcare and living service area especially targeted at senior citizens, and take the initiative and aim at promptly making profits from projects in innovative new technologies area. In addition, ITOCHU will establish a new organization, "Council of Entire Company Development" with the President as chairperson to reinforce the involvement in new businesses such as consumer business, healthcare and living service, and innovative technologies.
3) ITOCHU will further promote solid management. ITOCHU will continue to strictly control the amount of interest-bearing debt and achieve continuous improvement in financial position while upgrading risk management policy further to strengthen risk control. For internal controlling system, ITOCHU steadily evaluates and improves the system by continuous monitoring. ITOCHU is also working on CSR (Corporate Social Responsibility) on an ongoing basis through better communication with stakeholders. ITOCHU will continuously make every effort to establish highly transparent corporate governance.
4) ITOCHU aims at establishing a management system that supports both "Aggressive business" and "Solid management." ITOCHU has started a business reorganization project, "ITOCHU DNA (Designing New Age) Project," in order to strengthen "Workplace Force" that is the force of every organization and individual and to build up ever stronger consolidated management with a view to the optimization of whole and a prospect of future ITOCHU Group ten years from now. In HR area, ITOCHU will go forward to promote to utilize a wealth of human resources including seniors, women, foreigners, or mid-career recruitment based on HR diversification promoting program. ITOCHU will also try to improve HR portfolio for entire ITOCHU Group.

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

Dividend Policy and Distribution of the Current Fiscal Year's Profit

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

For Fiscal 2007, ITOCHU intends to make a ten yen (five 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 in funding so that it can quickly respond to changes in 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 improvement in 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 with domestic banks. Most domestic banks have adopted a positive earning expansion policy in accordance with near completion of bad loan disposal—a management issue over a number of years—as well as the rebuilding of equity capital. The financial institutions appreciated the Company's improved financial position and recovered profitability. They have shown a favorable attitude towards lending, and the Company expects no difficulty in procuring funds through indirect financing.

With respect to financing from the capital markets, better funding conditions are expected because the Company has received upgrades: a one-notch upgrade of its issuer rating from Ba1 to Baa3 from a U.S. ratings institution Moody's Investors Service (Moody's) in May 2005; a one-notch upgrade of its senior debt rating from A to A+ from a Japanese ratings institution Japan Credit Rating Agency, Ltd. (JCR) in December 2005; a one-notch upgrade of its long-term corporate credit rating from BBB- to BBB from a U.S. ratings institution Standard & Poor's (S&P) in February 2006; and a one-notch upgrade of its domestic commercial paper programme rating from a-2 to a-1 from a Japanese ratings institution Rating and Investment Information, Inc. (R&I) in May 2006. In addition the Company has newly obtained an issuer rating of A- from R&I in May 2006.

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

Concerning bonds, the Company registers a bond issuance every two years. In the two years from August 2005 to July 2007, a new issue in the amount of ¥300 billion was registered, enabling the flexible issuance of bonds.

Furthermore, the Company, ITOCHU International Inc. in the U.S. and a finance subsidiary in the U.K., have registered a total of US$5 billion in an Euro Medium Term Note Programme (MTN) in order to be flexible in fulfilling short- and long-term funding needs.

Interest-Bearing Debt

Interest-bearing debt as of March 31, 2006 decreased by ¥120.2 billion to ¥2,226.5 billion (US$18,954 million) compared with the previous fiscal year. As a result of efforts to secure long-term funds to provide the structure for stable fund-raising, the ratio of long-term interest-bearing debt to total interest-bearing debt increased to 75% from the previous year's 71%. Moreover, the net DER (debt-to-equity ratio) improved by 1.3 to 2.4 times from 3.7 times compared with the previous fiscal year.

The breakdown of the interest-bearing debt as of March 31, 2006 and 2005 is as follows:

	Billions of Yen		Millions of U.S. dollars
March 31	2006	2005	2006
Short-term debt	¥ 382.4	¥ 421.7	$ 3,256
Current installments of long-term debt	133.2	160.5	1,134
Current installments of debentures	39.9	94.6	339
Short-term total	555.5	676.9	4,729
Long-term loans payable	1,519.7	1,472.7	12,937
Debentures	160.8	186.0	1,369
Long-term total	1,680.5	1,658.7	14,306
Total interest-bearing debt	2,236.0	2,335.6	19,035
SFAS 133 fair value adjustment (Note)	(9.5)	11.1	(81)
Adjusted total interest-bearing debt	2,226.5	2,346.7	18,954
Cash, cash equivalents and time deposits	502.2	455.6	4,275
Net interest-bearing debt	¥ 1,724.3	¥ 1,891.1	$ 14,679

(Note) This 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.

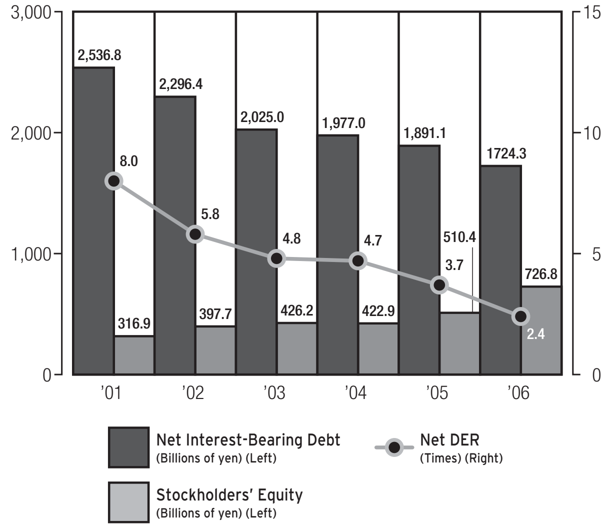
Financial Position

Total assets as of March 31, 2006 increased by 7.3% or ¥324.7 billion to ¥4,797.0 billion (US$40,836 million) compared with the previous fiscal year, due to increases in trade receivables and inventories related to increasing volume of transactions and rising prices of marketable commodities such as metals and mineral resources, energy and chemicals; an investment in Orient Corporation; and increases in equity in earnings of associated companies and in investments of available-for-sale securities resulting from rising stock prices.

Stockholders' equity rose by 42.4% or ¥216.4 billion to ¥726.8 billion (US$6,187 million) compared with the previous fiscal year. This was due to improvements in unrealized holding gains on securities through rising stock prices and favorable foreign currency translation adjustments due to the yen' s depreciation at the end of Fiscal 2006, in addition to an accumulation of retained earnings realized by net income for Fiscal 2006. As a result, the ratio of equity to total assets showed a 3.7 point improvement from the previous fiscal year to 15.2%.

Net interest-bearing debt (less cash and cash equivalents and time deposits) decreased by 8.8% or ¥166.8 billion to ¥1,724.3 billion (US$14,679 million) compared with the previous fiscal year. As a result, and partly because of the increase in shareholder's equity, the net DER (debt-to-equity ratio) improved by 1.3 times to 2.4 times compared with the previous fiscal year.

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



* For fiscal years

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

Cash and cash equivalents increased by ¥24.8 billion to ¥477.7 billion (US$4,067 million) compared with the previous fiscal year. This was due to an increase in temporary cash holdings as a resource for repayment of interest-bearing debt toward the end of their maturities although the Company repaid interest-bearing debt to improve its financial position utilizing increased cash flow from operating activities resulting from strong net income.

Similarly, ***time deposits*** also increased by ¥21.8 billion to ¥24.4 billion (US$208 million) compared with the previous fiscal year.

Trade receivables (less allowance for doubtful receivables) increased by ¥125.2 billion to ¥1,211.0 billion (US$10,309 million) compared with the previous fiscal year. This was due primarily to increases in Energy and Chemicals, Forest Products & General Merchandise, in accordance with increased transactions caused by rising prices.

Inventories increased by ¥38.8 billion to ¥458.9 billion (US$3,906 million) compared with the previous fiscal year, as a result of increases in Machinery, Chemicals, Forest Products & General Merchandise, and Food, due to a sales expansion and rising prices of marketable commodities.

Additionally, there was an increase in ***advances to suppliers***, a ¥34.8 billion increase to ¥121.3 billion (US$1,032 million) compared with the previous fiscal year, mainly due to increases in Machinery, Aerospace, Electronics & Multimedia and a decrease in other current assets, a ¥11.1 billion decrease to ¥180.5 billion (US$1,537 million) compared with the previous fiscal year, mainly due to the reduction in loans receivable and due from banks.

As a result, current assets were ¥2,679.6 billion (US$22,811 million), an increase of ¥237.7 billion compared with the previous fiscal year.

Investments in and advances to associated companies increased by ¥146.5 billion to ¥619.0 billion (US$526.9 million) compared with the previous fiscal year, due to the investment in Orient Corporation and an increase in earnings of associated companies in Energy, Metals & Minerals, and Food.

Other investments increased by ¥86.7 billion to ¥528.4 billion (US$4,499 million) compared with the previous fiscal year, primarily due to the acquisition of new energy resource-related stakes and higher valuation of available-for-sale securities resulting from a rise in stock prices.

Other non-current receivables (less allowance for doubtful receivables) decreased by ¥93.5 billion to ¥92.8 billion (US$790 million) compared with the previous fiscal year, mainly due to the disposal of Iraqi receivables and the decrease of non-current receivables in health-related business in the U.S.

As a result, total investments and non-current receivables were up ¥139.7 billion to ¥1,240.3 billion (US$10,558 million) compared with the previous fiscal year.

Property and equipment, at cost (less accumulated depreciation) decreased by ¥9.6 billion to ¥487.8 billion (US$4,152 million) as a result of the Company's efforts to reduce non-profitable assets despite an increase in Energy, Metals & Minerals-related assets.

Goodwill and other intangible assets, less accumulated amortization increased by ¥22.8 billion to ¥117.6 billion (US$1,001 million) compared with the previous fiscal year, mainly due to an increase in intangible assets resulting from the acquisition of trademarks in Textile.

Deferred tax assets, non-current, decreased by ¥61.7 billion to ¥47.4 billion compared with the previous fiscal year principally due to tax deductions through dispositions of receivables, securities, 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 ¥84.3 billion from the previous fiscal year to ¥52.5 billion (US$446 million), due to an increase in deferred tax liabilities resulting from revaluation gains on available-for-sale securities and tax deductions.

Short-term debt decreased by ¥39.3 billion to ¥382.4 billion (US$3,256 million) compared wit the previous fiscal year, and ***current maturities of long-term debt*** decreased by ¥82.1 billion to ¥173.1 billion (US$1,473 million) from the previous fiscal year. This was due to repayments of interest-bearing debt as well as efforts for long-term funding. (Note: Refer to Note 9 "Short-term and long-term debt" in the consolidated financial statements.)

Trade payables increased by ¥111.2 billion to ¥1,078.2 billion (US$9,178 million) compared with the previous fiscal year. This was primarily due to increases in Energy; Chemicals, Forest Products & General Merchandise; and Food, in accordance with increases in business transactions resulting from rising prices of marketable commodities. In addition, there was an increase in ***advances from customers***, a ¥45.6 billion increase to ¥135.8 billion (US$1,156 million) compared with the previous fiscal year, mainly due to increases in Machinery, Aerospace, Electronics & Multimedia).

As a result, current liabilities were ¥2,129.8 billion (US$18,131 million), down by ¥69.7 billion compared with the previous fiscal year.

Reserves for Liquidity

The basic policy of the Company is to maintain and secure an adequate amount of reserves required for liquidity covering short-term interest-bearing debt and contingent liabilities due within three months. This policy is based on the scenario whereby new funding may be unavailable for about three months because of market turmoil. In such a case, 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 ¥260.0 billion (US$2,214 million). 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 ¥260.0 billion (US$2,214 million) of current maturities of long-term debt as non-current liabilities on the consolidated balance sheets. This was part of ¥433.1 billion (US$3,686 million) in non-current liabilities with a deadline of one year or less based on loan contracts at the end of Fiscal 2006. However, the classification as shown below is in accordance with loan contract repayments.

Primary liquidity resources at the end of Fiscal 2006, the sum of cash, cash equivalents, time deposits (¥502.2 billion), commitment line agreements (short-term ¥250.0 billion and long-term ¥260.0 billion) and commitment long-term loan agreements (¥ 6.0 billion) was ¥ 1,018.2 billion, an increase of ¥ 35.6 billion compared with the previous fiscal year.

The total amount of liquidity reserves, or primary liquidity reserves plus secondary liquidity reserves (other assets that can be changed into cash in a short period of time) stood at ¥ 1,539.2 billion. The Company believes that this amount constitutes adequate reserves of liquidity, since it is more than four times the necessary liquidity amount (short-term interest-bearing debt and contingent liabilities due within three months), which amounted to ¥ 334.5 billion as of March 31, 2006.

Necessary Liquidity

	Billions of Yen		Millions of U.S. dollars
March 31	2006	Necessary liquidity	2006
Short-term interest-bearing debt	¥ 382.4	¥ 191.2 (382.4/6 months x 3 months)	$ 1,628
Current installments of long-term interest-bearing debt	(*) 433.1	108.3 (433.1/12 months x 3 months)	922
Contingent liabilities (Guarantees [substantial risk] for monetary indebtedness of associated companies and customers)	139.9	35.0 (139.9/12 months x 3 months)	298
Total		¥ 334.5	$ 2,848

(*) The figure is the total of current maturities of long-term debt (¥173.1 billion) and long-term commitment line with financial institutions (¥260.0 billion).

Primary Liquidity Reserves

March 31, 2006	Billions of Yen Liquidity reserves	Millions of U.S. dollars Liquidity reserves
1. Cash, cash equivalents and time deposits	¥ 502.2	$ 4,275
2. Commitment line agreements	510.0	4,342
3. Commitment long-term loan agreement	6.0	51
Total primary liquidity reserves	¥ 1,018.2	$ 8,668

Secondary Liquidity Reserves

March 31, 2006	Billions of Yen Liquidity reserves	Millions of U.S. dollars Liquidity reserves
4. Available portion of over draft for the Company's cash management service	¥ 104.1	$ 886
5. Available-for-sale securities (Fair value on a consolidated basis)	267.5	2,277
6. Notes receivable	149.4	1,272
Total secondary liquidity reserves	¥ 521.0	$ 4,435
Total liquidity reserves	¥ 1,539.2	$ 13,103

Capital Resources

As part of ITOCHU's medium-term management plan Frontier-2006, the Company's basic policy is to pursue the selection, focusing, and reallocating and upgrading of assets in order 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 flows. This includes the sale and recovery of assets in the course of reallocation of assets, as well as from the accumulation of profits. In case of any shortfall in financial resources when new investments are made a priority is to be covered through borrowed money and the issuance of bonds. In regard to interest-bearing debt, however, the Company will continue its efforts to maintain strict controls over them.

Cash and cash equivalents as of March 31, 2006 were increased by 5.5% or ¥24.8 billion from the previous fiscal year to ¥477.7 billion (US$4,067 million). This was due to an increase in temporary cash holdings as a resource for repayment of interest-bearing debt toward the end of their maturities. Instead, the Company repaid interest-bearing debt to improve its financial position utilizing increased cash flows from operating activities resulting from strong net income.

Cash flow requirements for investment activities, such as the acquisition of tangible fixed assets and new and additional investments were covered by cash flows from operating activities through an accumulation of profit.

Cash flows from operating activities for Fiscal 2006 recorded a net cash-inflow of ¥185.1 billion (US$1,576 million) due to an increase in net income resulting from the good business performance. This includes increases of gross trading profit in all operating segments including Energy, Metals & Minerals as well as Chemicals, Forest Products & General Merchandise.

Cash flows from investing activities for Fiscal 2006 recorded a net cash-outflow of ¥79.9 billion (US$680 million). This was mainly due to the investment in Orient Corporation and the acquisition of tangible fixed assets. However, net cash provided by operating activities covered this amount.

Cash flows from financing activities for Fiscal 2006 recorded a net cash-outflow of ¥85.2 billion (US$725 million). This was mainly due to continued efforts of reducing interest-bearing liabilities to improve the Company's financial position.

The following table shows a summary of cash flows for fiscal years ended March 31, 2006 and 2005.

	Billions of Yen		Millions of U.S. dollars
March 31	2006	2005	2006
Net cash provided by operating activities	¥ 185.1	¥ 126.6	$ 1,576
Net cash provided by investing activities	(79.9)	(127.6)	(680)
Net cash used in financing activities	(85.2)	(125.3)	(725)
Effect of exchange rate changes on cash and cash equivalents	4.7	(0.3)	40
Net increase in cash and cash equivalents	24.8	(126.6)	211
Cash and cash equivalents at beginning of year	452.9	579.6	3,856
Cash and cash equivalents at end of year	¥ 477.7	¥ 452.9	$ 4,067

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 vary depending on future conditions, such as the condition of financial markets, the 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, 2006 and 2005 is as follows:

	Billions of Yen		Millions of U.S. dollars
March 31	2006	2005	2006
Guarantees for equity-method associated companies:			
Maximum potential amount of future payments	¥ 140.3	¥ 137.1	$ 1,194
Amount of substantial risk	96.1	82.4	818
Guarantees for customers:			
Maximum potential amount of future payments	¥ 131.8	¥ 137.6	$ 1,122
Amount of substantial risk	81.6	79.0	695
Total:			
Maximum potential amount of future payments	¥ 272.1	¥ 274.7	$ 2,316
Amount of substantial risk	177.7	161.5	1,513

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 23 "Commitments and Contingent Liabilities" to the consolidated financial statements.

The disclosures related to variable interest entities are shown in Note 22 "Variable Interest Entities" of the consolidated financial statements.

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

	Billions of Yen				
March 31, 2006	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debt	¥ 382.4	¥ 382.4	¥ —	¥ —	¥ —
Long-term debt	1,944.7	173.1	679.2	459.1	633.3
(Capital leases included in long-term debt)	(37.9)	(7.9)	(13.4)	(6.6)	(10.0)
Operating leases	108.2	21.7	30.2	19.3	37.1

	Millions of U.S. dollars				
March 31, 2006	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debt	$ 3,256	$ 3,256	$ —	$ —	$ —
Long-term debt	16,555	1,474	5,782	3,908	5,391
(Capital leases included in long-term debt)	(323)	(67)	(114)	(57)	(85)
Operating leases	921	184	257	165	315

Risk Information

ITOCHU Group is exposed to various risks such as market risks, credit risks and investment risks, due to the nature of a wide range of their businesses. These risks include unpredictable uncertainties and may have significant effects on their future business and financial performance. ITOCHU Group has enhanced their risk management policy and risk management methodology to monitor and manage these risks, but it is impossible to completely avoid all these risks.

With respect to descriptions about future events, ITOCHU appropriately has determined its assumption and estimates based on information currently available at the year end, March 31, 2006.

(1) Corporate Result Risks Due to Macroeconomic Factors

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

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

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

(2) Market Risks

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

i) Foreign Exchange Rate Risk

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

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

ii) Interest Rate Risk

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

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

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

iii) Commodity Price Risk

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

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

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

iv) Stock Price Risk

ITOCHU Group holds available-for-sale securities which are vulnerable to price fluctuation. ITOCHU strives to maintain appropriate levels of investment and to minimize stock price risk by applying Exit Rule for inefficient investments that ITOCHU has little reason to hold. However, assuming that the price of these investments fluctuated and the fair value of these available-for-sale marketable securities decreased, it could seriously affect the financial position and results of operations of ITOCHU Group.

(3) Credit Risks

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

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

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

(4) Country Risk

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

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

(5) Investment Risk

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

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

Besides, the necessity of booking impairment losses could arise should the likelihood of recovering ITOCHU's investment diminish due to poor corporate results for investees, or should stock prices be expected to drop below specified levels for a considerable period of time. Such occurrences could have a serious, adverse effect on the financial position and results of operations of ITOCHU Group.

(6) Risks Due to Loss on Property and Equipment-net
ITOCHU Group is exposed to impairment loss risks on fixed assets held, such as real estate, aircraft, and ships.

ITOCHU does not foresee at present any necessity for booking additional impairment losses. However, ITOCHU Group might be required to recognize impairment losses should the economic value of fixed assets deteriorate due to decreased demand or deterioration in market conditions for each of the assets. Such an occurrence could seriously affect the financial position and results of operations of ITOCHU Group.

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

(8) Risks Due to Benefit Expenses and Benefit Obligations
The benefit expenses and benefit obligations of ITOCHU are calculated based on actuarial calculations that utilize a variety of assumptions such as the discount rate for benefit obligations and the expected rate of return on pension assets. As of March 31, 2006, there was no shortfall in accumulated pension assets. However, should it become necessary to change the assumptions on which the actuarial calculations are based or should pension assets be affected by a deterioration in the stock market, it is possible that pension expenses and benefit obligations could increase and that additional contributions to pension assets might be necessary. The financial position and results of operations of ITOCHU Group could be seriously affected by such occurrences.

(9) Risks Due to Deferred Income Taxes
Deferred income tax assets are an important factor in ITOCHU's consolidated balance sheets. Therefore, accounting judgment on evaluation of deferred income taxes has a substantial impact on ITOCHU's consolidated financial statements.

Considering the necessity of an allowance for deferred income taxes, ITOCHU Group reports the realizable amount of deferred income taxes, taking into consideration future taxable income and feasible tax planning strategies.

The management of ITOCHU Group believes these estimations of realizable amount of deferred income taxes are rational. However, allowance for deferred income taxes may increase or decrease depending on changes in taxable income during the tax planning period, changes in the tax system in each country including changes in tax rates and changes in tax planning strategies. In that case it could affect the financial position and results of operations of ITOCHU Group.

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

(11) Risks Associated with Significant Lawsuits
There is no significant, currently pending lawsuit, arbitration, or other legal proceeding that may materially affect the financial position or results of the operation of ITOCHU Group.

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

For the reference sake, the lawsuit brought against ITOCHU International Inc. and its subsidiary, III Holding Inc. (formerly known as Copelco Financial Services Group, Inc.) (collectively, "III") by Citibank N.A. and its subsidiary, Citibank Canada (collectively, "Plaintiff") in connection with the Plaintiff's acquisition of all the common stocks of Copelco Capital Inc., a subsidiary of III Holding Inc. for a purchase price of approximately 666 million U.S. dollars in May, 2000, which was pending before the New York Supreme Court for New York County was settled though outside-court mediation by a basic agreement for settlement reached between the Plaintiff and III dated August 9, 2005. As a result of the basic agreement, a definitive settlement agreement was entered into between the Plaintiff and III on August 18, 2005, and III paid the settlement amount in 185 million U.S. dollars (¥19.5 billion) to the Plaintiff, and the lawsuit was withdrawn with prejudice on August 19, 2005.

(12) Risks Associated with Compliance

i) Risks Related to Laws and Regulations

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

ii) Risks Related to the Environment

ITOCHU Group has designated global environmental issues as one of the most important elements of its management policy. The Group is actively working on environmental issues designated by ITOCHU's environmental policy to deal with the risk of infringement of laws and regulations pertaining to the environment by each business, the destruction of the natural environment by natural resource development, real estate development and goods and service. Despite these efforts, ITOCHU Group cannot guarantee that the Group's business activities will not affect the world environment, and ITOCHU cannot completely avoid the possibility that the opposition of environmental protection groups will impede the business growth. Should such events occur, the ITOCHU Group could suffer the loss of public trust and could suffer serious adverse effects on the financial position and results of operations of ITOCHU Group.

(13) Risks Associated with Information Systems and Information Security

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

Despite these measures, ITOCHU cannot completely avoid the possibility of unauthorized access from the outside, the leakage of sensitive company information due to computer viruses, or operational failure of the system due to damage to information system equipment arising from natural disasters or accidents or from trouble with telecommunications circuitry. If such events occur, this could cause a deterioration of operational efficiency, and depending on the seriousness of the damage, could result in a serious adverse effect on the financial position and results of operations of ITOCHU Group.

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 operations. Therefore, accounting judgment on evaluation of receivables has a substantial impact on the Company's consolidated financial statements.

In the Company, the credit department 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 current condition of trade receivables, and reviewing regularly the current condition of debt collection and delinquency to discuss and record the required provision for doubtful receivables. The Company 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 strategies. To evaluate realizable amount, it considers information such as historical records and any available information related to the future.

The management of the Company believes 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.

The Company and its subsidiaries adopted FIN47 at the end of Fiscal 2006, and the effect of adoption of FIN47 on the Company and its subsidiaries' financial position and results of operation was immaterial.

b. Accounting for Stripping Costs in the Mining Industry

The FASB EITF reached a consensus at the meeting of March, 2005 on EITF 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry." In Issue EITF 04-6, the 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. The Company and its subsidiaries early adopted EITF 04-6 in Fiscal 2006. Cumulative effect of an accounting change, net of tax was ¥3,439 million and was presented in the consolidated statement of operations.

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, 2006 and 2005

	Millions of Yen		Millions of U.S. dollars (Note 2)
Assets	2006	2005	2006
Current assets:			
Cash and cash equivalents (notes 2 and 7)	¥ 477,707	¥ 452,934	$ 4,067
Time deposits (note 7)	24,447	2,684	208
Marketable securities (notes 2, 3 and 7)	48,282	49,149	411
Trade receivables (note 7):			
Notes	149,386	155,593	1,271
Accounts (note 11)	1,079,404	950,482	9,189
Allowance for doubtful receivables (notes 2 and 5)	(17,755)	(20,222)	(151)
Net trade receivables	1,211,035	1,085,853	10,309
Due from associated companies	93,569	90,174	797
Inventories (notes 2 and 7)	458,876	420,069	3,906
Advances to suppliers	121,252	86,453	1,032
Prepaid expenses	28,771	22,878	245
Deferred tax assets (notes 2 and 14)	35,165	40,096	299
Other current assets	180,519	191,605	1,537
Total current assets	2,679,623	2,441,895	22,811
Investments and non-current receivables:			
Investments in and advances to associated companies (notes 2, 4 and 7)	619,007	472,468	5,269
Other investments (notes 2, 3, 6 and 7)	528,440	441,783	4,499
Other non-current receivables (notes 7 and 11)	196,409	329,582	1,672
Allowance for doubtful receivables (notes 2 and 5)	(103,600)	(143,229)	(882)
Net investments and non-current receivables	1,240,256	1,100,604	10,558
Property and equipment, at cost (notes 2, 6, 7, 11 and 16):			
Land	152,149	165,148	1,295
Buildings	293,605	310,907	2,499
Machinery and equipment	263,637	250,298	2,244
Furniture and fixtures	52,607	49,217	448
Mineral rights	41,296	28,230	352
Construction in progress	10,582	4,482	90
Total property and equipment, at cost	813,876	808,282	6,928
Less accumulated depreciation	326,088	310,924	2,776
Net property and equipment	487,788	497,358	4,152
Goodwill and other intangible assets, less accumulated amortization (notes 2 and 8)	117,576	94,749	1,001
Prepaid pension cost (notes 2 and 12)	186,105	178,890	1,585
Deferred tax assets, non-current (notes 2 and 14)	47,365	109,085	403
Other assets	38,300	49,764	326
Total	¥ 4,797,013	¥ 4,472,345	$ 40,836

See notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Millions of Yen 2006	Millions of Yen 2005	Millions of U.S. dollars (Note 2) 2006
Current liabilities:			
Short-term debt (notes 7 and 9)	¥ 382,434	¥ 421,697	$ 3,256
Current maturities of long-term debt (notes 7 and 9)	173,097	255,173	1,473
Trade payables (note 7) :			
Notes and acceptances	156,395	161,798	1,331
Accounts	921,797	805,150	7,847
Total trade payables	1,078,192	966,948	9,178
Due to associated companies	46,680	42,050	397
Accrued expenses	111,078	98,136	946
Income taxes payable (note 14)	38,361	24,032	327
Advances from customers	135,790	90,153	1,156
Deferred tax liabilities (notes 2 and 14)	605	802	5
Other current liabilities	163,589	161,148	1,393
Total current liabilities	2,129,826	2,060,139	18,131
Long-term debt, excluding current maturities (notes 2, 7, 9, 10 and 11)	1,762,103	1,750,815	15,001
Accrued retirement and severance benefits (notes 2 and 12)	19,081	22,405	162
Deferred tax liabilities, non-current (notes 2 and 14)	29,470	11,653	251
Commitments and contingent liabilities (note 23)			
Minority interests	129,717	116,936	1,104
Stockholders' equity:			
Common stock (note 17):			
Authorized 3,000,000,000 shares;			
issued:			
1,584,889,504 shares 2006 and 2005	202,241	202,241	1,722
Capital surplus (notes 17 and 18)	137,035	137,024	1,167
Retained earnings (note 18):			
Legal reserve	5,667	3,927	48
Other retained earnings	310,261	184,273	2,641
Accumulated other comprehensive income (loss) (notes 2, 14 and 19)			
Foreign currency translation adjustments	(25,801)	(63,419)	(220)
Minimum pension liability adjustments (note 12)	(2,086)	(2,047)	(18)
Unrealized holding gains on securities (note 3)	97,689	52,746	832
Unrealized holding gains (losses) on derivative instruments (note 20)	3,087	(3,522)	26
Total accumulated other comprehensive income (loss)	72,889	(16,242)	620
Treasury stock, at cost			
3,042,395 shares 2006			
2,476,563 shares 2005	(1,277)	(826)	(11)
Total stockholders' equity	726,816	510,397	6,187
Total	¥ 4,797,013	¥ 4,472,345	$ 40,836

Consolidated Statements of Operations

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of Yen			Millions of U.S. dollars (Note 2)
	2006	2005	2004	2006
Revenue (notes 2, 11 and 16):				
Sales revenue	¥ 1,806,650	¥ 1,598,672	¥ 1,355,372	$ 15,380
Trading margins and commissions on trading transactions	411,571	392,566	383,375	3,503
Total trading transactions (notes 2, 4 and 16): 2006: ¥ 10,473,885 million ($89,162 million) 2005: ¥ 9,576,039 million 2004: ¥ 9,516,967 million				
Total revenue	2,218,221	1,991,238	1,738,747	18,883
Cost of sales	(1,503,847)	(1,360,477)	(1,182,852)	(12,802)
Gross trading profit (note 16)	714,374	630,761	555,895	6,081
Selling, general and administrative expenses (notes 8, 11 and 12)	(506,257)	(466,840)	(462,894)	(4,310)
Settlement loss from the transfer of the substitutional portion of the Employees' Pension Fund (notes 2 and 12)	—	—	(22,767)	—
Subsidy from government on the transfer of the substitutional portion of the Employees' Pension Fund (notes 2 and 12)	—	—	19,606	—
Provision for doubtful receivables (note 5)	(14,728)	(6,181)	(10,624)	(125)
Interest income	13,409	10,774	12,819	114
Interest expense	(39,441)	(31,814)	(37,562)	(336)
Dividends received	18,216	14,162	10,528	155
Gain (loss) on disposal of investments and marketable securities, net of write-down (notes 3, 4, 6 and 21)	51,601	(25,384)	(13,633)	439
Loss on property and equipment-net (note 6)	(7,917)	(5,959)	(129,432)	(67)
Other-net (notes 2, 13 and 24)	(12,388)	439	(13,982)	(105)
Income (loss) before income taxes, minority interests, equity in earnings of associated companies, extraordinary items and cumulative effect of an accounting change	216,869	119,958	(92,046)	1,846
Income taxes (notes 2, 14 and 21):				
Current	65,232	46,987	31,122	555
Deferred	41,691	15,556	(76,579)	355
Total income taxes	106,923	62,543	(45,457)	910
Income (loss) before minority interests, equity in earnings of associated companies, extraordinary items and cumulative effect of an accounting change	109,946	57,415	(46,589)	936
Minority interests	(13,098)	(11,387)	(10,042)	(112)
Equity in earnings of associated companies (notes 4 and 16)	51,737	31,764	22,859	441
Income (loss) before extraordinary items and cumulative effect of an accounting change	148,585	77,792	(33,772)	1,265
Extraordinary items- gain on negative goodwill, less applicable income taxes of ¥1,271 million (note 2)	—	—	1,828	—
Income (loss) before cumulative effect of an accounting change	148,585	77,792	(31,944)	1,265
Cumulative effect of an accounting change, less applicable income taxes of ¥1,474 million ($12 million) (notes 2 and 16)	(3,439)	—	—	(29)
Net income (loss)	¥ 145,146	¥ 77,792	¥ (31,944)	$ 1,236

	Yen			U.S. dollars (Note 2)
	2006	2005	2004	2006
Income (loss) per common share before extraordinary items and cumulative effect of an accounting change (notes 2 and 15)	¥ 93.91	¥ 49.16	¥ (21.36)	$ 0.80
Extraordinary items per common share— gain on negative goodwill, less applicable income taxes	—	—	1.16	—
Cumulative effect of an accounting change per common share, less applicable income taxes (note 2)	(2.17)	—	—	(0.02)
Net income (loss) per common share	¥ 91.74	¥ 49.16	¥ (20.20)	$ 0.78

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of Yen			Millions of U.S. dollars (Note 2)
	2006	2005	2004	2006
Common stock (note 17):				
Balance at beginning of year issued: 1,584,889,504 shares 2006 and 2005; 1,583,487,736 shares 2004	¥ 202,241	¥ 202,241	¥ 202,241	$ 1,722
Acquisition of minority interests through issuance of common stock 1,401,768 shares 2004	—	—	—	—
Balance at end of year 1,584,889,504 shares 2006, 2005 and 2004	¥ 202,241	¥ 202,241	¥ 202,241	$ 1,722
Capital surplus (notes 17 and 18):				
Balance at beginning of year	¥ 137,024	¥ 136,915	¥ 136,842	$ 1,167
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)	—
Excess arising from retirement of treasury stock	11	109	14	0
Balance at end of year	¥ 137,035	¥ 137,024	¥ 136,915	$ 1,167
Retained earnings (note 18):				
Legal reserve:				
Balance at beginning of year	¥ 3,927	¥ 3,450	¥ 3,212	$ 33
Transfer from other retained earnings	1,797	575	301	15
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	(57)	(98)	(63)	(0)
Balance at end of year	¥ 5,667	¥ 3,927	¥ 3,450	$ 48
Other retained earnings:				
Balance at beginning of year	¥ 184,273	¥ 106,958	¥ 143,014	$ 1,569
Net income (loss)	145,146	77,792	(31,944)	1,236
Cash dividends	(17,418)	—	(3,956)	(149)
Transfer to legal reserve	(1,797)	(575)	(301)	(15)
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	57	98	145	0
Balance at end of year	¥ 310,261	¥ 184,273	¥ 106,958	$ 2,641
Accumulated other comprehensive income (loss) (notes 2, 3, 12, 14, 19 and 20):				
Balance at beginning of year	¥ (16,242)	¥ (25,982)	¥ (58,408)	$ (138)
Other comprehensive income	89,131	9,740	32,426	758
Balance at end of year	¥ 72,889	¥ (16,242)	¥ (25,982)	$ 620
Treasury stock:				
Balance at beginning of year	¥ (826)	¥ (716)	¥ (681)	$ (7)
Net change in treasury stock	(451)	(110)	(35)	(4)
Balance at end of year	¥ (1,277)	¥ (826)	¥ (716)	$ (11)
Total	¥ 726,816	¥ 510,397	¥ 422,866	$ 6,187
Comprehensive income (loss):				
Net income (loss)	¥ 145,146	¥ 77,792	¥ (31,944)	$ 1,236
Other comprehensive income (loss) (net of tax) (notes 2, 14 and 19):				
Net change in foreign currency translation adjustments during the year	37,618	4,348	(16,558)	320
Minimum pension liability adjustments (note 12)	(39)	(1,413)	794	(0)
Net change in unrealized holding gains (losses) on securities during the year (note 3)	44,943	7,093	46,034	382
Net change in unrealized holding gains (losses) on derivative instruments during the year (note 20)	6,609	(288)	2,156	56
Total other comprehensive income	89,131	9,740	32,426	758
Total	¥ 234,277	¥ 87,532	¥ 482	$ 1,994

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of Yen			Millions of U.S. dollars (Note 2)
	2006	2005	2004	2006
Cash flows from operating activities:				
Net income (loss)	¥ 145,146	¥ 77,792	¥ (31,944)	$ 1,236
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	44,062	40,086	40,184	375
Provision for doubtful receivables	14,728	6,181	10,624	125
(Gain) loss on disposal of investments and marketable securities, net of write-down	(51,601)	25,384	13,633	(439)
Loss on property and equipment-net	7,917	5,959	129,432	67
Equity in earnings of associated companies, less dividends received	(43,239)	(25,942)	(17,310)	(368)
Deferred income taxes	41,691	15,556	(76,579)	355
Minority interests	13,098	11,387	10,042	112
Extraordinary items-gain on negative goodwill, less applicable income taxes	—	—	(1,828)	—
Cumulative effect of an accounting change, less applicable income taxes	3,439	—	—	29
Change in assets and liabilities:				
Trade receivables	(92,507)	(66,084)	78,110	(787)
Due from associated companies	(3,329)	(6,786)	9,747	(28)
Inventories	(26,045)	(42,907)	26,592	(222)
Trade payables	91,919	54,274	(10,784)	782
Due to associated companies	4,705	(890)	5,429	40
Other-net	35,163	32,614	(568)	299
Net cash provided by operating activities	185,147	126,624	184,780	1,576
Cash flows from investing activities:				
Payments for purchases of property, equipment and other assets	(68,809)	(68,656)	(71,735)	(586)
Proceeds from sales of property, equipment and other assets	36,392	11,841	23,789	310
Net (increase) decrease in investments in and advances to associated companies	(43,224)	11,686	(8,546)	(368)
Payments for purchases of other investments	(97,852)	(115,154)	(46,611)	(833)
Proceeds from sales of other investments	67,011	27,792	38,998	570
Proceeds from sales of subsidiaries' common stock	25,460	7,113	2,098	217
Origination of other non-current loan receivables	(38,212)	(54,500)	(56,409)	(325)
Collections of other non-current loan receivables	52,445	56,310	53,634	446
Net (increase) decrease in time deposits	(20,491)	653	9,769	(174)
Net (increase) decrease in marketable securities	7,409	(4,685)	(287)	63
Net cash used in investing activities	(79,871)	(127,600)	(55,300)	(680)
Cash flows from financing activities:				
Proceeds from long-term debt	503,202	324,230	602,557	4,284
Repayments of long-term debt	(578,895)	(397,535)	(627,925)	(4,928)
Net increase (decrease) in short-term debt	2,413	(50,153)	(47,543)	21
Proceeds from minority interests through issuance of subsidiaries' common stock	9,017	1,586	393	77
Cash dividends	(17,418)	—	(3,956)	(149)
Cash dividends to minority interests	(3,073)	(3,266)	(3,270)	(26)
Net (increase) decrease in treasury stock	(439)	(204)	49	(4)
Net cash used in financing activities	(85,193)	(125,342)	(79,695)	(725)
Effect of exchange rate changes on cash and cash equivalents	4,690	(313)	(4,376)	40
Net increase (decrease) in cash and cash equivalents	24,773	(126,631)	45,409	211
Cash and cash equivalents at beginning of year	452,934	579,565	534,156	3,856
Cash and cash equivalents at end of year	¥ 477,707	¥ 452,934	¥ 579,565	$ 4,067
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	¥ 39,044	¥ 31,048	¥ 42,204	$ 332
Income taxes	40,162	39,701	30,808	342
Information regarding non-cash investing and financing activities:				
Withdrawal of plan assets (note 12)	—	10,484	25,618	—
Non-monetary exchange of shares	3,539	—	628	30
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, 2006 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117.47=U.S.$1 (the official rate as of March 31, 2006 announced by The Bank of Tokyo-Mitsubishi UFJ, Ltd.). The translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

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

(2) Summary of Significant Accounting Policies

a. Basis of Consolidation

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

In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") 46 "Consolidation of Variable Interest Entities an interpretation of Accounting Research Bulletins ("ARB") No.51" (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 the Company or one of its subsidiary is primary beneficiary and will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

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

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

b. Foreign currency translation

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

c. Cash Equivalents

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

d. Inventories

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

e. Marketable Securities and Other Investments

In accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company

and its subsidiaries classify certain investments included in "Marketable securities" and "Other investments" by the ability and intent as held-to-maturity, trading or available-for-sale securities, and report held-to-maturity securities at amortized cost, trading securities at fair value with unrealized holding gains and losses included in earnings, and available-for-sale securities at fair value with unrealized holding gains and losses included in "Accumulated other comprehensive income (loss)" in stockholders' equity on a net-of-tax basis. The cost of certain investments sold is determined using the moving-average cost method.
The Company and its subsidiaries periodically review 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).

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

f. Investments in Associated Companies

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

g. Impaired Loans and Allowance for Doubtful Receivables

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

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

h. Long-lived Assets

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

i. Depreciation

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

j. Goodwill and Other Intangible Assets

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

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."

k. Asset Retirement Obligations

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

l. Leases

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

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

m. Retirement and Severance Benefits

The Company and certain subsidiaries have defined benefit pension plans covering substantially all of their employees. The costs of the defined benefit pension plans are accrued based on amounts determined using actuarial methods, in accordance with SFAS 87, "Employers' accounting for pensions."

n. Guarantees

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

o. Revenue recognition

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

The Company and its subsidiaries recognize revenues from product sales, including wholesale, retail sales, manufactured product sales, processed product sales, 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, and information, communications and technical support. The revenues are recognized when the contracted services have been rendered to the third-party customers pursuant to the arrangements. Transactions from other activities of the Company and its subsidiaries include software development and maintenance services, and leasing 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.

Trading Transactions

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

p. 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.

q. 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.

r. Income Taxes

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

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

s. 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.

t. 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.

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

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

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

In addition, a formal assessment is made at the hedge's inception and periodically thereafter at every quarter on an on-going 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.

v. 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.

w. 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, although such mineral rights were previously classified as intangible assets.

x. 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.

The Company and its subsidiaries adopted FIN 47 at the end of the year ended March 31, 2006, and the effect of adoption of FIN 47 on the Company and its subsidiaries' financial position and results of operations was immaterial.

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

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

EITF 04-6 is effective for the first reporting period in financial statements issued for fiscal years beginning after December 15, 2005. The Company and its subsidiaries early adopted EITF 04-6 in the year ended March 31, 2006. Cumulative effect of an accounting change, net of tax was ¥3,439 million and was presented in the consolidated statements of operations.

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 principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

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

SFAS 154 is effective for 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.

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, 2006 and 2005 were as follows:

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

	Millions of 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
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 U.S. dollars			
	2006			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	$ 164	$ —	$ 0	$ 164
Held-to-maturity:				
Debt securities	0	—	—	0
Total-Current	$ 164	$ —	$ 0	$ 164
Non-current:				
Available-for-sale:				
Equity securities	$ 904	$ 1,195	$ 1	$ 2,098
Debt securities	15	—	0	15
Total	919	1,195	1	2,113
Held-to-maturity:				
Debt securities	0	—	—	0
Total-Non-current	$ 919	$ 1,195	$ 1	$ 2,113

In addition to the securities listed above, the Company and its subsidiaries held trading securities carried at fair value of ¥28,989 million ($247 million) and ¥36,491 million as of March 31, 2006 and 2005, respectively. The portion of net trading gains for the year that relates to trading securities still held at March 31, 2006 and 2004 were ¥2,594 million ($22 million) and ¥1,897 million, respectively. The portion of net trading losses for the year that relates to trading securities still held at March 31, 2005 was ¥256 million.

Securities with gross unrealized holding losses and the length of time that such individual securities have been in a continuous unrealized loss position as of March 31, 2006 were as follows:

	Millions of Yen					
	2006					
	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	¥ 116	¥ 2	¥ —	¥ —	¥ 116	¥ 2
Held-to-maturity:						
Debt securities	—	—	—	—	—	—
Total-Current	¥ 116	¥ 2	¥ —	¥ —	¥ 116	¥ 2
Non-current:						
Available-for-sale:						
Equity securities	¥ 7,184	¥ 61	¥ —	¥ —	¥ 7,184	¥ 61
Debt securities	806	21	—	—	806	21
Total	7,990	82	—	—	7,990	82
Held-to-maturity:						
Debt securities	—	—	—	—	—	—
Total-Non-current	¥ 7,990	¥ 82	¥ —	¥ —	¥ 7,990	¥ 82

	Millions of U.S.dollars					
	2006					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Current:						
Available-for-sale:						
Debt securities	$ 1	$ 0	$ —	$ —	$ 1	$ 0
Held-to-maturity:						
Debt securities	—	—	—	—	—	—
Total-Current	$ 1	$ 0	$ —	$ —	$ 1	$ 0
Non-current:						
Available-for-sale:						
Equity securities	$ 61	$ 1	$ —	$ —	$ 61	$ 1
Debt securities	7	0	—	—	7	0
Total	68	1	—	—	68	1
Held-to-maturity:						
Debt securities	—	—	—	—	—	—
Total-Non-current	$ 68	$ 1	$ —	$ —	$ 68	$ 1

At March 31, 2006 the Company and its subsidiaries held the securities of 28 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 value of these securities would recover in the near-term. Based on that evaluation and the Company and its subsidiaries' intent and ability to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company and its subsidiaries did not consider these investments to be other-than-temporarily impaired at March 31, 2006.

The contractual maturities of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2006 were as follows:

	Millions of Yen		Millions of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Available-for-sale:				
Due within one year	¥ 19,294	¥ 19,292	$ 164	$ 164
Due after one year through five years	1,173	1,169	10	10
Due after five years through ten years	495	481	4	4
Due after ten years	78	75	1	1
Total	¥ 21,040	¥ 21,017	$ 179	$ 179
Held-to-maturity:				
Due within one year	¥ 1	¥ 1	$ 0	$ 0
Due after one year through five years	15	15	0	0
Due after five years through ten years	—	—	—	—
Due after ten years	—	—	—	—
Total	¥ 16	¥ 16	$ 0	$ 0

The gross realized gains and losses on sales of available-for-sale securities for the years ended March 31, 2006, 2005 and 2004 were gains of ¥23,926 million ($204 million), ¥12,118 million and ¥10,541 million, and losses of ¥60 million ($1 million), ¥942 million and ¥185 million, respectively. The proceeds from sales of available-for-sale securities were ¥32,951 million ($281 million), ¥23,209 million and ¥21,225 million for the years ended March 31, 2006, 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 ¥280,198 million ($2,386 million) and ¥263,938 million as of March 31, 2006 and 2005, respectively.

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

4. Investments in Associated Companies

Summarized financial information in respect of associated companies as of March 31, 2006 and 2005, and for the years ended March 31, 2006, 2005 and 2004 is shown below:

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Current assets	¥ 4,625,846	¥ 2,190,830	$ 39,379
Non-current assets, principally property and equipment	2,680,672	2,058,890	22,820
Total assets	7,306,518	4,249,720	62,199
Current liabilities	3,332,076	2,103,862	28,365
Long-term debt and others	2,918,157	1,168,026	24,842
Stockholders' equity	1,056,285	977,832	8,992
Total liabilities and stockholders' equity	¥ 7,306,518	¥ 4,249,720	$ 62,199

	Millions of Yen			Millions of U.S. dollars
	2006	2005	2004	2006
Total trading transactions	¥ 6,526,254	¥ 5,522,258	¥ 5,049,194	$ 55,557
Net earnings	125,826	63,260	55,311	1,071

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, 2006, 2005 and 2004 are summarized as follows:

	Millions of Yen			Millions of U.S. dollars
	2006	2005	2004	2006
Total trading transactions	¥ 817,657	¥ 697,563	¥ 642,112	$ 6,961
Purchases	184,549	157,612	143,984	1,571

Dividends received from associated companies for the years ended March 31, 2006, 2005 and 2004 were ¥8,498 million ($72 million), ¥5,822 million and ¥5,549 million, respectively.

The Company and its subsidiaries account for investments in associated companies (generally companies owned 20% to 50%) by the equity method. Significant equity method investees include Orient Corporation (21.0%), Century Leasing System, Inc. (20.1%), Marubeni-Itochu Steel Inc. (50.0%), FamilyMart Co., Ltd. (31.0%) and kabu.com Securities Co., Ltd. (23.0%). The percentages shown parenthetically in the above sentence are voting shares held by the Company and its subsidiaries at March 31, 2006.

Investments in the common stock of associated companies include marketable equity securities in the carrying amounts of ¥321,085 million ($2,733 million) and ¥252,881 million at March 31, 2006 and 2005, respectively. Corresponding aggregate quoted market values were ¥445,621 million ($3,793 million) and ¥300,215 million at March 31, 2006 and 2005, respectively.

The balances of equity method goodwill as of March 31, 2006 and 2005 were ¥173,906 million ($1,480 million) and ¥106,372 million, respectively.

Upon the adoption of SFAS 142 on April 1, 2002, the Company and its subsidiaries ceased amortization of goodwill and have subsequently tested such goodwill for impairment. During the year ended March 31, 2005, the Company and its subsidiaries recorded a ¥45,121 million impairment loss on the equity method goodwill of their investment in FamilyMart Co., Ltd ("FamilyMart"). The loss was included in "Gain (loss) on disposal of investments and marketable securities, net of write-down" in the consolidated statements of operations and represents the difference between the carrying value of the investment in FamilyMart and estimated fair value. The fair value was determined by the Company and its subsidiaries using discounted cash flow analysis prepared by third-party appraisers, which were prepared using the best-estimated future cash flow available, and by reference to the quoted market price of FamilyMart's publicly traded common stock.

5. Impaired Loans and Allowance for Doubtful Receivables

An analysis of the changes in the allowance for doubtful receivables for the years ended March 31, 2006, 2005 and 2004 is as follows:

	Millions of Yen			Millions of U.S. dollars
	2006	2005	2004	2006
Balance at beginning of year	¥ 163,451	¥ 196,599	¥ 230,866	$ 1,391
Provision for doubtful receivables	14,728	6,181	10,624	125
Charge-offs	(67,231)	(46,854)	(36,812)	(572)
Other	10,407	7,525	(8,079)	89
Balance at end of year	¥ 121,355	¥ 163,451	¥ 196,599	$ 1,033

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

The carrying amounts of impaired loans within the scope of SFAS 114 and the allowance for doubtful receivables related to those impaired loans as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Impaired loans	¥ 104,751	¥ 183,566	$ 892
Allowance for doubtful receivables related to those impaired loans	¥ 95,043	¥ 133,120	$ 809

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, 2006, 2005 and 2004 were as follows:

	Millions of Yen			Millions of U.S. dollars
	2006	2005	2004	2006
Average amounts of impaired loans	¥ 144,159	¥ 200,513	¥ 245,049	$ 1,227

The amounts of interest income recognized on the impaired loans for the years ended March 31, 2006, 2005 and 2004 were not significant.

6. Impairment of Long-lived Assets

The Company and its subsidiaries recognized impairment losses on long-lived assets of ¥12,855 million ($109 million), ¥4,735 million and ¥125,343 million for the years ended March 31, 2006, 2005 and 2004, respectively, which were included in "Loss on property and equipment-net" in the consolidated statements of operations. The impaired assets were primarily commercial rental buildings in the Finance, Realty, Insurance & Logistics Services operating segment and land in the Other, Adjustments & Eliminations operating segment for the year ended March 31, 2006 and domestic commercial rental buildings in the Finance, Realty, Insurance & Logistics Services operating segment for the year ended March 31, 2005 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 deterioration of rents for commercial buildings and to the decline in the market value of land.

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

Impairment losses recognized for the years ended March 31, 2006, 2005, and 2004 by operating segment were as follows:

	Millions of Yen			Millions of U.S. dollars
	2006	2005	2004	2006
Textile	¥ 258	¥ 783	¥ 188	$ 2
Machinery	390	87	1,913	3
Aerospace, Electronics & Multimedia	1,162	703	1,330	10
Chemicals, Forest Products & General Merchandise	581	192	7	5
Food	150	578	1,035	1
Finance, Realty, Insurance & Logistics Services	7,578	1,144	91,920	65
Other, Adjustments & Eliminations	2,736	1,248	28,950	23
Total	¥ 12,855	¥ 4,735	¥ 125,343	$ 109

The Company also recognized losses on investments in real estate of ¥1,457 million for the year ended March 31, 2004, which were included in "Gain (loss) on disposal of investments and marketable securities, net of 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 of land in Japan.

7. Pledged Assets

The following assets were pledged as collateral at March 31, 2006 and 2005:

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Cash and cash equivalents and time deposits	¥ 849	¥ 345	$ 7
Marketable securities	76	59	1
Trade receivables	11,962	13,898	102
Inventories	4,357	3,530	37
Investments and non-current receivables	54,064	85,885	460
Property and equipment, at cost less, accumulated depreciation	104,404	111,072	889
Total	¥ 175,712	¥ 214,789	$ 1,496

Collateral was pledged to secure the following obligations at March 31, 2006 and 2005:

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Short-term debt	¥ 15,761	¥ 16,230	$ 134
Long-term debt	116,281	160,254	990
Guarantees of contracts and others	80,136	69,512	682
Total	¥ 212,178	¥ 245,996	$ 1,806

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

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

8. Goodwill and Other Intangible Assets

Intangible assets subject to amortization at March 31, 2006 and 2005 comprised the following:

	Millions of Yen				Millions of U.S. dollars	
	2006		2005		2006	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Trademarks	¥ 25,713	¥ (9,812)	¥ 23,305	¥ (8,046)	$ 219	$ (84)
Software	37,734	(21,753)	37,036	(19,534)	321	(185)
Others	20,571	(6,399)	17,812	(5,522)	175	(54)
Total	¥ 84,018	¥ (37,964)	¥ 78,153	¥ (33,102)	$ 715	$ (323)

Intangible assets subject to amortization that were acquired during the year ended March 31, 2006 totaled ¥13,665 million ($116 million), and consisted primarily of software of ¥6,063 million ($52 million) and trademarks of ¥2,455 million ($21 million). The weighted average amortization periods for software and trademarks that were acquired during the year ended March 31, 2006 were 5 years and 13years. They are generally amortized using the straight-line method for software and trademarks.

The aggregate amortization expense for intangible assets for the years ended March 31, 2006, 2005 and 2004 were ¥12,789 million ($109 million), ¥10,789 million and ¥9,513 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
2007	¥ 10,428	$ 89
2008	8,722	74
2009	5,367	46
2010	3,993	34
2011	2,847	24

The carrying amount of intangible assets with indefinite useful lives which are therefore not subject to amortization comprised the following at March 31, 2006 and 2005:

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Trademarks	¥ 21,613	¥ 4,715	$ 184
Unlimited land lease	972	1,532	8
Others	1,848	1,914	16
Total	¥ 24,433	¥ 8,161	$ 208

Intangible assets with indefinite useful life that are not subject to amortization were acquired during the year ended March 31, 2006, and mainly consisted of trademarks of ¥16,139 million ($137 million).

As a result of testing for impairment of goodwill, impairment losses amounting to ¥379 million ($3 million), ¥549 million and ¥474 million, respectively, were recognized during the years ended March 31, 2006, 2005 and 2004.

The changes in the carrying amounts of goodwill by operating segment during the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen						
	Textile	Machinery	Aerospace, Electronics & Multimedia	Chemicals, Forest Products & General Merchandise	Finance, Realty, Insurance & Logistics Services	Other	Total
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
Acquired	218	1,707	262	1,279	91	339	3,896
Impairment losses	—	—	—	(119)	—	(260)	(379)
Other changes (Note1)	18	597	(2)	940	25	457	2,035
Balance at March 31, 2006	¥ 236	¥ 6,362	¥ 27,865	¥ 8,460	¥ 256	¥ 3,910	¥ 47,089

Note: 1. "Other changes" primarily consists of translation adjustments and reclassification from (to) other accounts.
2. The "Energy, Metals & Minerals" and "Food" segments had no goodwill at March 31, 2006, 2005 and 2004.

	Millions of U.S. dollars						
	Textile	Machinery	Aerospace, Electronics & Multimedia	Chemicals, Forest Products & General Merchandise	Finance, Realty, Insurance & Logistics Services	Other	Total
Balance at March 31, 2005	$ —	$ 35	$ 235	$ 54	$ 1	$ 29	$ 354
Acquired	2	14	2	11	1	3	33
Impairment losses	—	—	—	(1)	—	(2)	(3)
Other changes (Note1)	0	5	(0)	8	0	4	17
Balance at March 31, 2006	$ 2	$ 54	$ 237	$ 72	$ 2	$ 34	$ 401

Note: 1. "Other changes" primarily consists of translation adjustments and reclassification from (to) other accounts.
2. The "Energy, Metals & Minerals" and "Food" segments had no goodwill at March 31, 2006 and 2005.

9. Short-term and Long-term Debt

"Short-term debt" at March 31, 2006 and 2005 was as follows:

	2006		2005		2006
	Millions of Yen	Interest Rate	Millions of Yen	Interest Rate	Millions of U.S. dollars
Short-term loans, mainly from banks	¥ 382,434	2.3%	¥ 421,697	1.8%	$ 3,256

Note: The interest rates represent weighted average rates on outstanding balances at March 31, 2006 and 2005

"Long-term debt" at March 31, 2006 and 2005 is summarized below:

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Banks and financial institutions:			
Secured:			
Japan Bank for International Cooperation,			
due 2005-2013, interest mainly 1%-5%	¥ 54,805	¥ 48,393	$ 467
Other,			
due 2005-2021, interest mainly 1%-8%	61,476	111,861	523
Unsecured:			
Due 2005-2020,			
interest mainly 0%-19%	1,536,590	1,473,023	13,081
Debentures:			
Unsecured bonds and notes:			
Issued in 1997, 2.45% Yen Bonds due 2009	10,000	10,000	85
Issued in 1998, 3.10% Yen Bonds due 2008	30,000	30,000	255
Issued in 1998, 3.00% Yen Bonds due 2008	10,000	10,000	85
Issued in 1999, 3.19% Yen Bonds due 2009	10,000	10,000	85
Issued in 2001, 1.00% Yen Bonds due 2005	—	20,000	—
Issued in 2001, 1.00% Yen Bonds due 2005	—	30,000	—
Issued in 2001, 0.84% Yen Bonds due 2005	—	10,000	—
Issued in 2001, 1.02% Yen Bonds due 2006	10,000	10,000	85
Issued in 2002, 0.84% Yen Bonds due 2005	—	10,000	—
Issued in 2003, 0.84% Yen Bonds due 2006	—	10,000	—
Issued in 2003, 0.79% Yen Bonds due 2008	15,000	15,000	128
Issued in 2003, 0.41% Yen Bonds due 2006	10,000	10,000	85
Issued in 2003, 0.87% Yen Bonds due 2010	10,000	10,000	85
Issued in 2003, 0.47% Yen Bonds due 2007	10,000	10,000	85
Issued in 2003, 0.64% Yen Bonds due 2006	15,000	15,000	128
Issued in 2003, 1.14% Yen Bonds due 2008	10,000	10,000	85
Issued in 2004, 1.04% Yen Bonds due 2009	10,000	10,000	85
Issued in 2004, 0.54% Yen Bonds due 2007	10,000	10,000	85
Issued in 2004, 1.30%/2.55% Yen Bonds due 2014 (note 1)	10,000	10,000	85
Issued in 2005, 1.46% Yen Bonds due 2012	10,000	—	85
Issued in and after 1999,			
Medium-Term Notes etc., maturing through 2015	20,678	30,635	176
Others	91,166	80,981	777
Total	1,944,715	1,994,893	16,555
SFAS 133 fair value adjustment (note2)	(9,515)	11,095	(81)
Total	1,935,200	2,005,988	16,474
Less current maturities	(173,097)	(255,173)	(1,473)
Long-term debt, less current maturities	¥ 1,762,103	¥ 1,750,815	$ 15,001

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

Certain agreements with the Japan Bank for International Cooperation ("JBIC") require the followings;
1) The Company applies all or a portion of its operating income or the proceeds from the sale of any debentures or common stock to the reduction of outstanding loans when JBIC believes that the Company is able to reduce such loans through increased earnings
2) JBIC may request that any proposed distribution of earnings be submitted to the JBIC for review before presentation to the stockholders.

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

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

Reference is made to note 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, 2006 are as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2007	¥ 173,097	$ 1,473
2008	333,833	2,842
2009	345,394	2,940
2010	257,668	2,194
2011	201,449	1,715
2012 and thereafter	633,274	5,391
Total	¥ 1,944,715	$ 16,555

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 aggregated ¥510,000 million ($4,342 million) consisting of ¥250,000 million ($2,128 million) for short-term debt and ¥260,000 million ($2,214 million) for long-term debt at March 31, 2006. The Company intends that the long-term commitment line agreements be used solely in support of refinancing the current maturities of long-term debt. Since the agreements demonstrate the Company's ability to refinance and the Company has expressed an intention to do so, the Company has classified ¥260,000 million ($2,214 million) of the current maturities of long-term debt from current liabilities into non-current liabilities at March 31, 2006. The classified ¥260,000 million ($2,214 million) is included in '2012 and thereafter.' The Company has consistently refinanced the current maturities of long-term debt classified into non-current liabilities for more than five years. ¥250,000 million ($2,128 million) of short-term commitment agreements were unused at March 31, 2006.

The Company also has a loan agreement with a commitment line of ¥12,000 million ($102 million), ¥6,000 million ($51 million) of the commitment line was used and ¥6,000 million ($51 million) of the commitment line was unused at March 31, 2006.

10. Asset Retirement Obligations

The Company and its subsidiaries account for asset retirement obligations, consisting of the costs related to dismantlement of facilities and mine reclamation, based on SFAS 143, "Accounting for Asset Retirement Obligations" and FIN 47, "Accounting for Asset Retirement Obligations - an interpretation of FASB Statement No. 143") which was adopted at the end of the year ended March 31, 2006.

The asset retirement obligations are principally related to the costs of dismantlement of coal mining, iron-ore mining, and crude oil drilling facilities. These liabilities are included in "Long-term debt, excluding current maturities" on the consolidated balance sheets.

The changes in asset retirement obligations for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Balance at beginning of year	¥ 8,227	¥ 2,965	$ 70
Liabilities incurred	1,822	5,041	16
Liabilities settled	(291)	(58)	(2)
Accretion expense	635	179	5
Other	148	100	1
Balance at end of year	¥ 10,541	¥ 8,227	$ 90

11. 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, 2006 and 2005 were as follows:

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Total minimum lease payments to be received	¥ 14,600	¥ 16,678	$ 124
Less unearned income	(1,990)	(2,306)	(17)
Estimated unguaranteed residual value	1,760	4,680	15
Less allowance for doubtful receivables	(1,706)	(2,612)	(15)
Net investment in direct financing leases	¥ 12,664	¥ 16,440	$ 107

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, 2006 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2007	¥ 5,395	$ 46
2008	4,834	41
2009	2,089	18
2010	1,373	12
2011	648	5
2012 and thereafter	261	2
Total	¥ 14,600	$ 124

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, 2006 were ¥143,626 million ($1,223 million) and ¥40,392 million ($344 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, 2006 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2007	¥ 13,621	$ 116
2008	7,391	63
2009	5,877	50
2010	4,896	42
2011	4,144	35
2012 and thereafter	11,864	101
Total	¥ 47,793	$ 407

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 ¥42,717 million ($364 million) and ¥17,476 million ($149 million), respectively, as of March 31, 2006 and ¥43,078 million and ¥17,313 million, respectively, as of March 31, 2005. The components of the capital lease obligations as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Total minimum lease payments	¥ 37,919	¥ 39,900	$ 323
Less amount representing interest	(4,879)	(5,643)	(42)
Capital lease obligations	¥ 33,040	¥ 34,257	$ 281

The schedule of future minimum lease payments for each of the five succeeding years and thereafter as of March 31, 2006 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2007	¥ 7,852	$ 67
2008	8,330	71
2009	5,059	43
2010	3,720	32
2011	2,928	25
2012 and thereafter	10,030	85
Total	¥ 37,919	$ 323

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 ¥7,715 million ($66 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, 2006 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. dollars
2007	¥ 21,663	$ 184
2008	16,314	139
2009	13,856	118
2010	10,664	91
2011	8,663	74
2012 and thereafter	37,066	315
Total	¥ 108,226	$ 921

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 ¥14,021 million ($119 million).

12. Retirement and Severance Benefits

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

Certain subsidiaries and associated companies participate in a multiemployer plan (ITOCHU Union Pension Fund).

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, 2005, the Company withdrew a portion of the excess plan assets because the fair value of the plan assets constantly exceeded the projected benefit obligation. The fair value of the marketable securities and cash that the Company withdrew was ¥10,484 million and ¥3,600 million, respectively, for the year ended March 31, 2005.

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
	2006	2005	2006
Change in benefit obligations:			
Projected benefit obligations at beginning of year	¥ 271,675	¥ 266,697	$ 2,313
Service cost	7,170	6,965	61
Interest cost	6,447	5,934	55
Plan participants' contributions	639	997	5
Actuarial gain	11,360	(4,612)	97
Benefits paid	(10,866)	(10,330)	(93)
Foreign currency translation adjustments	475	57	4
Other	205	5,967	2
Projected benefit obligation at end of year	287,105	271,675	2,444
Change in plan assets:			
Fair value of plan assets at beginning of year	329,254	339,031	2,803
Actual return on plan assets	63,504	(4,773)	541
Employer contributions	14,968	17,025	127
Plan participants' contributions	639	997	5
Benefits paid	(10,866)	(10,330)	(92)
Foreign currency translation adjustments	290	(20)	3
Other	745	(12,676)	6
Fair value of plan assets at end of year	398,534	329,254	3,393
Funded status at end of year	111,429	57,579	949
Unrecognized actuarial loss	98,614	147,127	839
Unrecognized prior service cost	(40,176)	(45,071)	(342)
Net amount recognized	169,867	159,635	1,446
Adjustments to recognize minimum pension liability:			
Accumulated other comprehensive loss before income tax effect	2,843	3,150	23
Net amount recognized in the consolidated balance sheets	167,024	156,485	1,423
Prepaid pension cost	186,105	178,890	1,585
Accrued retirement and severance benefits recognized in the consolidated balance sheets	(19,081)	(22,405)	(162)
Accumulated benefit obligations at end of year	¥ 286,133	¥ 270,622	$ 2,436
Weighted-average assumptions used to determine benefit obligations at the end of year:			
Discount rate	2.2%	2.4%	
Rate of compensation increase	1.9-6.0%	1.0-6.0%	
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	2.4%	2.3%	
Rate of compensation increase	1.0-6.0%	1.9-6.0%	

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. 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 and the amount of the withdrawal from the plan assets, which was ¥14,084 million.

The fair value of equity securities of subsidiaries and associated companies included in plan assets was ¥15,623 million ($133 million) and ¥13,746 million at March 31, 2006 and 2005, respectively.

The net periodic pension cost for retirement and severance benefits for the years ended March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of Yen			Millions of U.S. dollars
	2006	2005	2004	2006
Service cost	¥ 7,170	¥ 6,965	¥ 9,511	$ 61
Interest cost on projected benefit obligation	6,447	5,934	7,596	55
Expected return on plan assets	(8,184)	(7,011)	(7,178)	(70)
Amortization of unrecognized prior service cost	(4,895)	(4,897)	(3,230)	(41)
Amortization of unrecognized actuarial loss	8,715	7,219	22,622	74
Settlement and curtailment loss	—	1,138	—	—
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	¥ 9,253	¥ 9,348	¥ 52,088	$ 79

Total expenses related to pension plans for the years ended March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of Yen			Millions of U.S. dollars
	2006	2005	2004	2006
Net periodic pension cost for defined benefit pension plans	¥ 9,253	¥ 9,348	¥ 52,088	$ 79
The amount of cost recognized for defined contribution pension plans	1,075	1,053	373	9
Subsidy from government on the transfer of the substitutional portion of the Employees' Pension Fund	—	—	(19,606)	—
Total expenses for pension plans	¥ 10,328	¥ 10,401	¥ 32,855	$ 88

The amount of contribution to a multi-employer plan (ITOCHU Union Pension Fund) was ¥3,518 million ($30 million) and ¥2,739 million for the years ended March 31, 2006 and 2005, respectively.

Plan assets of the Company and certain subsidiaries by asset category as of March 31, 2006 and 2005 and target allocation percentages were as follows:

	2006	2005	Target Allocation
Asset category:			
Equity securities	52.8%	56.9%	49.6%
Debt securities	25.6	18.3	30.4
Cash	12.9	19.8	13.9
Other	8.7	5.0	6.1
Total	100.0%	100.0%	100.0%

Note: Other mainly included life insurance company general accounts.

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

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

Cash flow of the Company and certain subsidiaries:

The Company and certain subsidiaries expect to contribute about ¥9,188 million ($78 million) to defined benefit pension plans in the year ending March 31, 2007.

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
2007	¥ 10,749	$ 92
2008	11,892	101
2009	12,997	111
2010	13,424	114
2011	13,684	116
2012 - 2016	71,404	608

13. Foreign Exchange Gains and Losses

Net foreign exchange gains of ¥2,774 million ($24 million) and ¥5,372 million and loss of ¥8,737 million for the years ended March 31, 2006, 2005 and 2004, respectively, were included in "Other-net" within the accompanying consolidated statements of operations.

14. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate result in a normal income tax rate of approximately 41%. The normal income tax rate was 42% for the years ended March 31, 2004.

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

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

A reconciliation between the normal and the effective income tax rate is as follows:

	2006	2005	2004
Normal income tax rate	41.0%	41.0%	(42.0)%
Expenses not deductible for tax purposes	1.0	1.3	1.7
Difference of tax rates for foreign subsidiaries	(2.5)	(2.3)	(2.3)
Tax effect on dividends	5.1	5.1	10.1
Valuation allowance	1.1	8.1	(11.6)
Other	3.6	(1.1)	(5.3)
Effective income tax rate	49.3%	52.1%	(49.4)%

Amounts provided for income taxes for the years ended March 31, 2006, 2005 and 2004 were allocated as follows:

	Millions of Yen			Millions of U.S. dollars
	2006	2005	2004	2006
Income taxes	¥ 106,923	¥ 62,543	¥ (45,457)	$ 910
Extraordinary items-gain on negative goodwill	—	—	1,271	—
Cumulative effect of an accounting change	(1,474)	—	—	(12)
Other comprehensive (income) loss	30,770	(1,874)	29,992	262
Total income tax (benefit) expense	¥ 136,219	¥ 60,669	¥ (14,194)	$ 1,160

Significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Millions of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Inventories, property and equipment	¥ 129,270	¥ 131,984	$ 1,101
Allowance for doubtful receivables	26,004	41,455	221
Net operating loss carryforwards	16,802	17,057	143
Accrued retirement and severance benefits	9,318	2,532	79
Marketable securities and investments	60,293	62,562	513
Other	31,104	31,388	265
Total deferred tax assets	272,791	286,978	2,322
Less valuation allowance	(56,640)	(54,839)	(482)
Deferred tax assets-net	216,151	232,139	1,840
Deferred tax liabilities:			
Installment sales	(396)	(483)	(3)
Accrued retirement and severance benefits	(53,261)	(45,043)	(454)
Marketable securities and investments	(67,385)	(29,532)	(574)
Other	(42,654)	(20,355)	(363)
Total deferred tax liabilities	(163,696)	(95,413)	(1,394)
Net deferred tax assets	¥ 52,455	¥ 136,726	$ 446

Net changes in the valuation allowance for the years ended March 31, 2006, 2005 and 2004 were an increase of ¥1,801 million ($15 million), an increase of ¥8,114 million and a decrease of ¥13,237 million, respectively.

The amount of undistributed earnings of foreign subsidiaries for which no deferred tax liability has been provided aggregated ¥129,710 million ($1,104 million) and ¥89,225 million at March 31, 2006 and 2005, 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	¥ 64	$ 0
within 2 years	2	0
within 3 years	3,357	29
within 4 years	3,058	26
within 5 years	3,428	29
After 5 to 10 years	9,434	80
After 10 to 15 years	1,078	9
After 15 years	28,500	243
Total	¥ 48,921	$ 416

"Income (loss) before income taxes, minority interests, equity in earnings of associated companies, extraordinary items and cumulative effect of an accounting change" for the years ended March 31, 2006, 2005 and 2004 comprised as follows:

	Millions of Yen			Millions of U.S. dollars
	2006	2005	2004	2006
The Company and its domestic subsidiaries	¥ 139,774	¥ 72,407	¥ (98,052)	$ 1,190
Foreign subsidiaries	77,095	47,551	6,006	656
Total	¥ 216,869	¥ 119,958	¥ (92,046)	$ 1,846

"Income taxes" for the years ended March 31, 2006, 2005 and 2004 comprised as follows:

	Millions of Yen									Millions of U.S. dollars		
	2006			2005			2004			2006		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
The Company and its domestic subsidiaries	¥40,725	¥41,111	¥ 81,836	¥28,272	¥18,031	¥46,303	¥24,165	¥(72,462)	¥(48,297)	$347	$350	$697
Foreign subsidiaries	24,507	580	25,087	18,715	(2,475)	16,240	6,957	(4,117)	2,840	208	5	213
Total	¥65,232	¥41,691	¥106,923	¥46,987	¥15,556	¥62,543	¥31,122	¥(76,579)	¥(45,457)	$555	$355	$910

15. 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, 2006, 2005 and 2004 is as follows:

	Millions of Yen			Millions of U.S. dollars
	2006	2005	2004	2006
Numerator:				
Income (loss) before extraordinary items and cumulative effect of an accounting change	¥ 148,585	¥ 77,792	¥ (33,772)	$ 1,265
Extraordinary items-gain on negative goodwill, less applicable income taxes	—	—	1,828	—
Cumulative effect of an accounting change, less applicable income taxes	(3,439)	—	—	(29)
Net income (loss)	¥ 145,146	¥ 77,792	¥ (31,944)	$ 1,236

	Number of Shares		
	2006	2005	2004
Denominator:			
Weighted-average number of common shares outstanding	1,582,159,754	1,582,392,847	1,581,431,830

	Yen			U.S. dollars
	2006	2005	2004	2006
Income (loss) per common share before extraordinary items and cumulative effect of an accounting change:	¥ 93.91	¥ 49.16	¥ (21.36)	$ 0.80
Extraordinary items per common share-gain on negative goodwill, less applicable income taxes:	—	—	1.16	—
Cumulative effect of an accounting change per common share, less applicable income taxes	(2.17)	—	—	(0.02)
Net income (loss) per common share:	¥ 91.74	¥ 49.16	¥ (20.20)	$ 0.78

Diluted net income per share for the years ended March 31, 2006, 2005 and 2004 is 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.

16. 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 for garments, home furnishing and industrial materials. This segment performs production and sales on a worldwide scale. In addition, the segment 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 segment promotes business activities on aircraft and related equipment, and invests in high-tech ventures.

Energy, Metals & Minerals
The Energy, Metals & Minerals segment is engaged in metal and mineral resource development, processing of steel products, environmental business including trading in greenhouse gas emissions and trading in iron ore, coal, pig iron and ferrous raw materials, non-ferrous and light metal and steel products in Japan and overseas. Also the segment is engaged in energy resource 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 in 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, 2006, 2005 and 2004.

Information concerning operations in different operating segments for the years ended March 31, 2006, 2005 and 2004 was as follows:

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

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

	Millions of 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

	Millions of U.S. dollars								
	2006								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies	$ 7,017	$ 12,254	$ 5,955	$ 24,484	$ 16,747	$ 18,303	$ 1,982	$ 2,420	$ 89,162
Transfers between operating segments	8	73	31	9	57	3	24	(205)	—
Total trading transactions	$ 7,025	$ 12,327	$ 5,986	$ 24,493	$ 16,804	$ 18,306	$ 2,006	$ 2,215	$ 89,162
Gross trading profit	$ 1,046	$ 592	$ 991	$ 629	$ 946	$ 1,213	$ 391	$ 273	$ 6,081
Equity in earnings (losses) of associated companies	$ (4)	$ 55	$ 15	$ 205	$ 24	$ 79	$ 68	$ (1)	$ 441
Net income (loss)	$ 128	$ 116	$ 147	$ 493	$ 159	$ 165	$ 84	$ (56)	$ 1,236
Identifiable assets at March 31	$ 3,366	$ 4,163	$ 4,467	$ 5,485	$ 5,400	$ 6,630	$ 5,115	$ 6,210	$ 40,836
Depreciation and amortization	$ 34	$ 26	$ 86	$ 46	$ 35	$ 49	$ 19	$ 80	$ 375

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

Geographic Information

Information concerning operations in different countries for the years ended March 31, 2006, 2005 and 2004 was as follows:

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

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

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

	Millions of 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 2006				
	Japan	United states	Australia	Other	Consolidated
Revenue	$ 11,276	$ 4,282	$ 929	$ 2,396	$ 18,883

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

	Millions of U.S. dollars 2006				
	Japan	Australia	United Kingdom	Other	Consolidated
Long-lived assets	$ 2,564	$ 584	$ 258	$ 746	$ 4,152

Geographical Segment Information

Information concerning operations in different geographical areas in accordance with Japanese reporting practices for the years ended March 31, 2006, 2005, and 2004 was as follows:

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

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

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

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 ¥74,149 million ($631 million), ¥67,822 million and ¥61,602 million for the years ended March 31, 2006, 2005 and 2004, respectively.

17. Common Stock

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code provides that at least 50% of the issue price of new shares shall be credited to the common stock account, unless otherwise specified in the Code.

18. Capital Surplus and Retained Earnings

The Code provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital 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 ¥60,694 million ($517 million) as of March 31, 2006.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code if the articles of incorporation of the company so stipulate.

The Code permits the transfer of a portion of unappropriated retained earnings available for dividends to the common stock account by resolution of the stockholders at the shareholders' meeting. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

At the June 29, 2000 shareholders' meeting of the Company, the shareholders approved a proposal to eliminate the Company's accumulated deficits of ¥109,799 million ($935 million) from the Company's books of account by a transfer from capital surplus as permitted by the Code.

Because the Company's accumulated deficits in the U.S. GAAP consolidated financial statements on that date was not significantly different from the Company's books of account, the Company reflected such deficits reclassification entry on its books of account when preparing the consolidated financial statements in reliance on private company's practices in the United States of America. The balance of the consolidated retained earnings at March 31, 2005 would have been ¥206,129 million ($1,755 million) including a legal reserve of ¥5,667 million ($48 million) had the Company not eliminated the accumulated deficits. The Code allows Japanese companies to purchase treasury stock upon resolution of the Board of Directors if the articles of incorporation of the company so stipulate. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders. 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 stockholders at the shareholders' meeting.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The Corporate Law provides as below;

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

Likewise the provisions under the Code, there is a limitation as to the amount available for distribution to the shareholders and the amount available for the purchase of treasury stocks. The amount of net assets after dividends must be maintained at no less than ¥3 million.

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

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula.

19. Other Comprehensive Income (Loss)

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

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

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

	Millions of 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 U.S. dollars		
	2006		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	$ 317	$ (0)	$ 317
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	3	0	3
Net change in foreign currency translation adjustments during the year	320	0	320
Minimum pension liability adjustments	3	(3)	(0)
Unrealized holding gains on securities:			
Amount arising during the year on available-for-sale securities	788	(289)	499
Reclassification adjustments for gains and losses realized in net income	(189)	72	(117)
Net change in unrealized holding gains on securities during the year	599	(217)	382
Unrealized holding gains on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	59	(26)	33
Reclassification adjustments for gains and losses realized in net income	39	(16)	23
Net change in unrealized holding gains on derivative instruments during the year	98	(42)	56
Other comprehensive income	$ 1,020	$ (262)	$ 758

20. Financial Instruments

(1) Derivative Instruments and Hedging Activities

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

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

Foreign Exchange Rate Risk Management

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

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

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

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

Interest Rate Risk Management

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

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

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

Commodity Price Risk Management

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

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

Risk Management Policy

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

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

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

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

Fair Value Hedge

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

The amount of the hedges' ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness was not material for the years ended March 31, 2006, 2005 and 2004.

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, 2006, 2005 and 2004.

Cash Flow Hedge

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

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

The amount of the hedges' ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness was not material for the years ended March 31, 2006, 2005 and 2004.

Net losses of ¥1,369 million ($12 million) into AOCI at March 31, 2006 are expected to be reclassified into earnings within the next 12 months.

As of March 31, 2006, 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 39 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, 2006, 2005 and 2004.

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, 2006 and 2005 were as follows:

	Millions of Yen				Millions of U.S. dollars	
	2006		2005		2006	
	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)	¥ 140,078	¥ 140,215	¥ 232,355	¥ 232,864	$ 1,192	$ 1,194
Financial Liabilities:						
Long-term debt (including current maturities)	¥ 1,935,200	¥ 1,934,576	¥ 2,005,988	¥ 2,006,809	$ 16,474	$ 16,469
Derivative Financial Instruments (Assets):						
Foreign exchange contracts (including currency swap agreements)	¥ 5,719	¥ 5,719	¥ 7,752	¥ 7,752	$ 49	$ 49
Interest rate swap agreements	6,663	6,663	11,278	11,278	57	57
Interest rate option agreements	2	2	161	161	0	0
Derivative Financial Instruments (Liabilities):						
Foreign exchange contracts (including currency swap agreements)	¥ 3,017	¥ 3,017	¥ 2,590	¥ 2,590	$ 26	$ 26
Interest rate swap agreements	10,977	10,977	7,763	7,763	93	93
Interest rate option agreements	15	15	—	—	0	0

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 are believed to 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.

21. Issuance of Stock by Subsidiaries or Associated Companies

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

The subsidiary also issued 3,100 shares of common stock in a public offering to third parties on November 29, 2005, the date of its listing on the Mothers market of the Tokyo Stock Exchange. The offering price per share was ¥771,900 and the total amount of the issuance was ¥2,393 million ($20 million). This issuance decreased the Company and its subsidiary's ownership of the subsidiary from 67.8% to 56.9%.

Furthermore, in December 2005, the subsidiary issued 600 shares at ¥771,900 per share, or ¥463 million ($4 million) in total, in order to facilitate the settlement of shares offered through over-allotment. This issuance decreased the Company and its subsidiary's ownership of the subsidiary to 51.9%.

The offering price per share of each issuance was in excess of the Company's carrying value per share of the subsidiary stock. The issuance of these shares was regarded as a sale of a part of the Company's interest in the subsidiary and the Company recognized a gain of ¥1,708 million ($15 million) for the year ended March 31, 2006, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company recognized ¥700 million ($6 million) of deferred tax liability on the recognized gain which is included in "Income taxes - Deferred."

ITC NETWORKS CORPORATION, a consolidated subsidiary, issued 12,000 shares of common stock in a public offering to third parties on March 10, 2006, the date of its listing on the second section of the Tokyo Stock Exchange. The offering price per share was ¥347,800 and the total amount of the issuance was ¥4,174 million ($36 million). This issuance decreased the Company's ownership of the subsidiary from 97.4% to 84.3%.

In March 2006, the subsidiary also issued 2,926 shares at ¥347,800 per share, or ¥1,018 million ($9 million) in total, in order to facilitate the settlement of shares offered through over-allotment. This issuance decreased the Company's ownership of the subsidiary to 70.8%.

The offering price per share of each issuance was in excess of the Company's carrying value per share of the subsidiary stock. The issuance of these shares was regarded as a sale of a part of the Company's interest in the subsidiary and the Company recognized a gain of ¥3,595 million ($31 million) for the year ended March 31, 2006, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company recognized ¥1,474 million ($13 million) of deferred tax liability on the recognized gain which is included in "Income taxes - Deferred."

Excite Japan Co., Ltd., a consolidated subsidiary, issued 3,500 shares of common stock in a public offering to third parties on November 2, 2004, the date of its listing on the JASDAQ market. The offering price per share was ¥1,222,000, 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 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 for the year ended March 31, 2005, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company recognized ¥1,248 million of deferred tax liability on the recognized gain which is included in "Income Taxes - Deferred."

kabu.com Securities Co., Ltd., an associated company, issued 36,000 shares of common stock in a public offering to third parties on March 17, 2005, the date of its listing on the first section of the Tokyo Stock Exchange. The offering price per share was ¥338,400, 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 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 for the year ended March 31, 2005, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company recognized ¥1,165 million of deferred tax liability on the recognized gain which is included in "Income Taxes - Deferred."

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

22. Variable Interest Entities

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

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

The total assets and maximum exposure to loss to the Company and its subsidiaries as a result of its involvement in the variable interest entities where the Company and its subsidiaries are not the primary beneficiary, but have significant variable interests, were ¥165,155 million ($1,406 million) and ¥37,099 million ($316 million), respectively, as of March 31, 2006 and ¥153,403 million and ¥27,253 million, respectively, as of March 31, 2005. 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.

23. Commitments and Contingent Liabilities

The Company and certain subsidiaries enter into purchase contracts for certain items, principally energy, machinery and chemical materials either at fixed or at variable prices. In most cases, these contracts are matched with counterparty sales contracts. At March 31, 2006, the outstanding purchase contracts amounted to ¥1,650,830 million ($14,053 million) of which deliveries are at various dates through 2026.

The Company and certain subsidiaries also had long-term financing commitments aggregating ¥34,640 million ($295 million) at March 31, 2006 for loans and investments in equity capital.

The Company and its subsidiaries issue various guarantees for indebtedness of associated companies and customers. The guarantees are principally for monetary indebtedness by third parties to enhance their credit standings. If a guaranteed party failed to fulfill its obligation, the Company and its subsidiaries would be required to execute payments. The maximum potential amount of future payments and the amount of substantial risk at March 31, 2006 and 2005 are summarized below:

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

	Millions of 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 U.S. dollars		
	2006		
	Guarantees for Monetary indebtedness	Other Guarantees	Total
Guarantees for associated companies:			
Maximum potential amount of future payments	$ 975	$ 219	$ 1,194
Amount of substantial risk	626	192	818
Guarantees for customers:			
Maximum potential amount of future payments	982	140	1,122
Amount of substantial risk	565	130	695
Total:			
Maximum potential amount of future payments	$ 1,957	$ 359	$ 2,316
Amount of substantial risk	1,191	322	1,513

The amount of substantial risk at March 31, 2006 and 2005 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 ¥1,740 million ($15 million) and ¥1,127 million at March 31, 2006 and 2005, 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 ¥12,473 million ($106 million) and ¥13,566 million at March 31, 2006 and 2005. 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 ¥70,233 million ($598 million) and ¥80,144 million at March 31, 2006 and 2005, 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, 2006 and 2005 were as follows:

2006	Millions of Yen	Millions of U.S. dollars
SAKHALIN OIL AND GAS DEVELOPMENT CO., LTD.	¥28,280	$241
Tokyo Humania Enterprise Inc.	11,487	98
Famima Credit Corporation	7,435	63
STAR CHANNEL, INC.	7,200	61
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	6,946	59
Quatro World Maritime S.A.	6,286	54
Ningbo Mitsubishi Chemical Co.,Inc.	6,195	53
JAPAN OHANET OIL & GAS CO., LTD.	5,552	47
AI BEVERAGE HOLDING CO. LTD.	5,259	45
Baku-Tbilishi-Ceyhan Pipeline Finance B.V.	4,999	43

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

The Company and its subsidiaries were contingently liable in the amounts of ¥5,488 million ($47 million) and ¥6,293 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, 2006 and 2005, respectively. The amounts of export bills of exchange discounted with banks in the ordinary course of business were ¥61,797 million ($526 million) and ¥72,317 million at March 31, 2006 and 2005, respectively.

There is no significant, currently pending lawsuit, arbitration, or other legal proceeding that may materially affect the financial position or results of operations of ITOCHU Group. However, there shall be no assurance that domestic or oversea business activities of ITOCHU Group may not become subject to any of such lawsuits, arbitrations or other legal proceedings.

24. Settlement of Lawsuit Against Our US Subsidiaries

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

Related to the other agreement, "Other-net" in the accompanying consolidated statements of operations for the year ended March 31, 2006, included ¥19,503 million ($185 million).

25. Subsequent events

At the ordinary general meeting of shareholders held on June 27, 2006, the Company was authorized to pay a cash dividend of ¥5 ($0.04) per share, or a total of ¥7,915 million ($67 million) to shareholders of record on March 31, 2006.

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building
13-23, Shibaura 4-chome
Minato-ku, Tokyo 108-8530
Japan

Tel: +81 3 3457 7321
Fax: +81 3 3457 1694
www.deloitte.com/jp

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, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2006 (all expressed in Japanese yen). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ITOCHU Corporation and subsidiaries as of March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, the Company changed its method of accounting for stripping costs incurred during production in the mining industry to conform to Financial Accounting Standards Board's Emerging Issues Task Force Issue No. 04-6.

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

Deloitte Touche Tohmatsu

June 14, 2006, except for Note 25, as to which the date is June 27, 2006

Member of
Deloitte Touche Tohmatsu

Stock Information

As of March 31, 2006

Transfer Agent of Common Stock:
The Chuo Mitsui Trust & Banking Co., Ltd.

Stock Listings:
Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

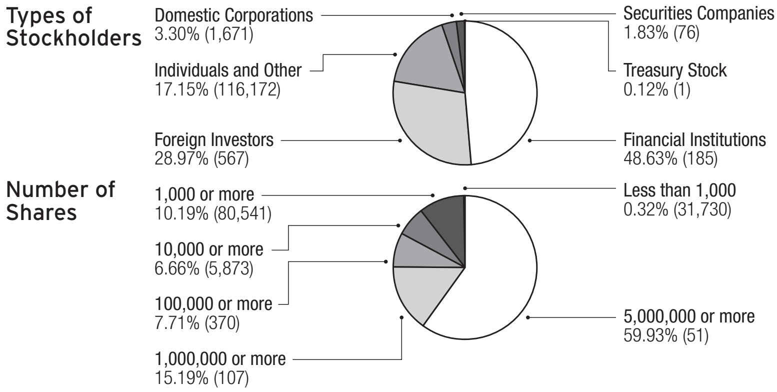
General Meeting of Stockholders:
June 27, 2006

Number of Common Stock Issued:
1,584,889,504

Number of Stockholders:
118,672

Breakdown of Stockholders:

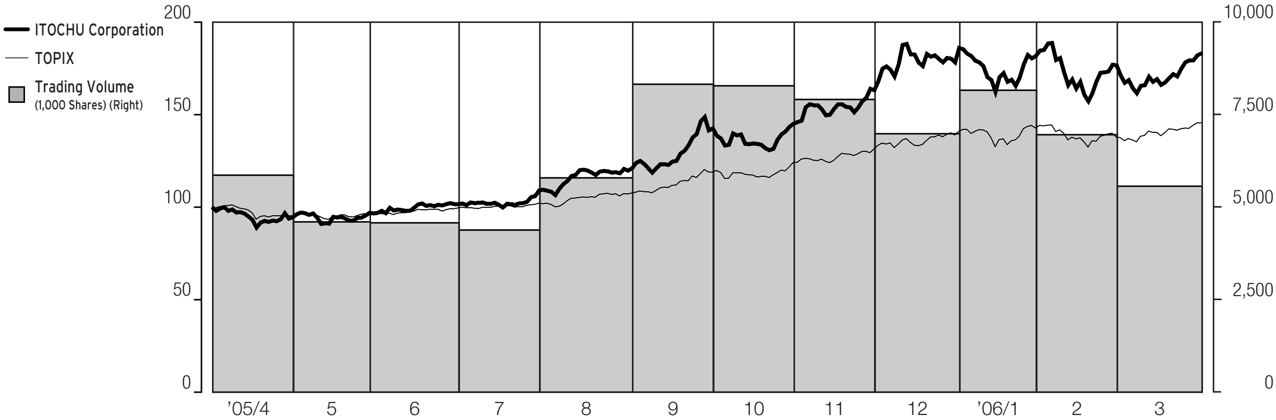
% (Number of Stockholders)



Major Stockholders:

Stock holders	Number of stocks held (1,000 shares)	Stock holding ratio (%)
Japan Trustee Services Bank, Ltd. (trust account)	143,359	9.05
The Master Trust Bank of Japan, Ltd. (trust account)	103,324	6.52
Mitsui Sumitomo Insurance Co., Ltd.	48,650	3.07
Nippon Life Insurance Company	41,057	2.59
Tokio Marine & Nichido Fire Insurance Co., Ltd.	39,797	2.51
NIPPONKOA Insurance Co., Ltd.	39,748	2.51
Mizuho Corporate Bank, Ltd.	30,503	1.92
Asahi Mutual Life Insurance Company	27,530	1.74
State Street Bank and Trust Company 505103	26,826	1.69
Trust & Custody Services Bank, Ltd. (Trust Account B)	24,046	1.52

Stock Performance of ITOCHU Corporation and Average Trading Volume Per Day



	'05/4	5	6	7	8	9	10	11	12	'06/1	2	3
Opening Price	¥ 541	516	528	560	583	665	775	799	909	1,002	1,005	967
High	556	540	566	589	671	827	798	910	1,056	1,039	1,044	1,020
Low	484	498	527	550	580	652	714	794	893	855	862	879
Closing Price	518	527	561	585	661	781	792	905	984	996	977	1,011
Trading Volume/Day (Unit: thousands)	5,864	4,603	4,577	4,382	5,792	8,322	8,280	7,911	6,984	8,160	6,958	5,566

Share price on April 1, 2005 (¥552) = 100

Corporate Information

As of March 31, 2006

ITOCHU Corporation

Founded:
1858

Incorporated:
1949

Tokyo Head Office:
5-1, Kita-Aoyama 2-chome,
Minato-ku, Tokyo 107-8077, Japan
Telephone: 81 (3) 3497-2121
Facsimile: 81 (3) 3497-4141

Osaka Head Office:
1-3, Kyutaromachi 4-chome,
Chuo-ku, Osaka 541-8577, Japan
Telephone: 81 (6) 6241-2121

Homepage:
http://www.itochu.co.jp/main/index_e.html
(Investor Information)
http://www.itochu.co.jp/main/ir/index_e.html

Offices:
Domestic: 18
Overseas: 135

Number of Employees:
Consolidated*: 42,967
Non-consolidated: 4,007
*The number of consolidated employees is based on actual working employees excluding temporary staff.

Common Stock:
¥202,241 million

Additional Copies of This Annual Report and Other Information May Be Obtained by Contacting:

Investor Relations Department, ITOCHU Corporation
5-1, Kita-Aoyama 2-chome, Minato-ku, Tokyo 107-8077, Japan
Telephone: 81 (3) 3497-7295 Facsimile: 81 (3) 3497-7985

ITOCHU Corporation
5-1, Kita-Aoyama 2-chome, Minato-ku,
Tokyo 107-8077, Japan
Telephone: 81(3)3497-2121
Facsimile: 81(3)3497-4141
Homepage: http://www.itochu.co.jp