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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. healthcare-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

Years ended March 31	Billions of Yen 2006	2005	Increase (Decrease)	Millions of U.S. dollars 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.

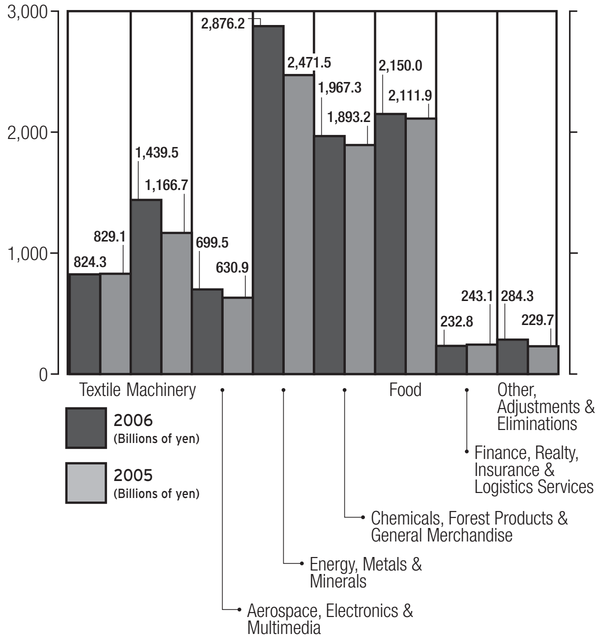
Aerospace, Electronics & Multimedia:

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.

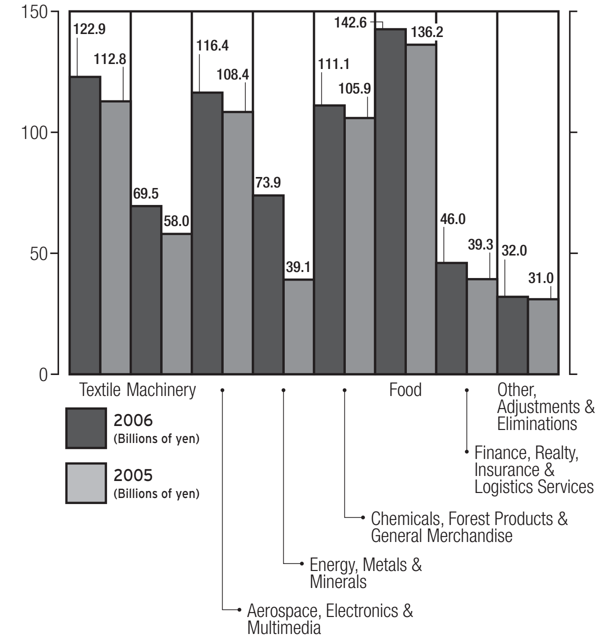
Energy, Metals & Minerals:

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



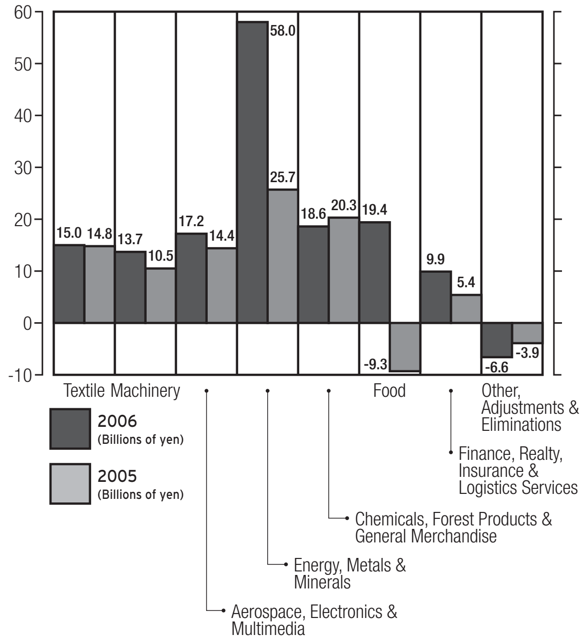
to higher prices in coal, iron ore and crude oil. Net income increased by 125.8% or ¥32.3billion to ¥58.0 billion (US$493 million) compared with the previous fiscal year, mainly due to good performance of a steel product-related associated company in addition to the increase in gross trading profit. 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.

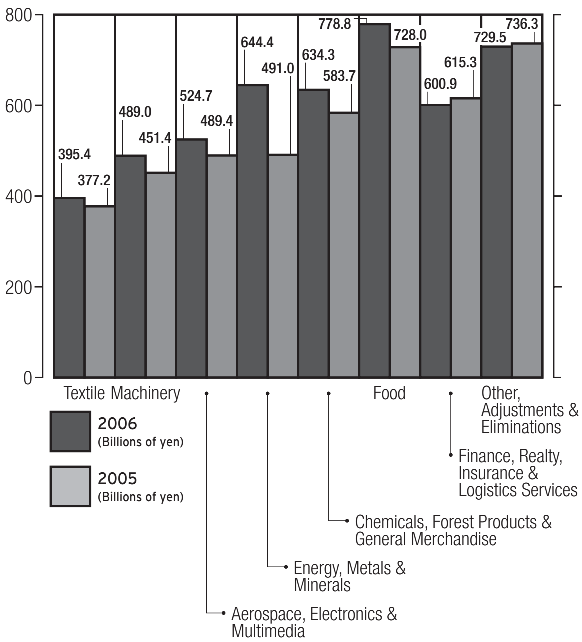
Food:
Trading transactions increased by 1.8% or ¥38.1 billion to ¥2,150.0 billion (US$18,303 million) compared with the previous fiscal year, due to contributions by newly consolidated subsidiaries in addition to an increase in food distribution transactions. Gross trading profit increased by 4.7% or ¥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.

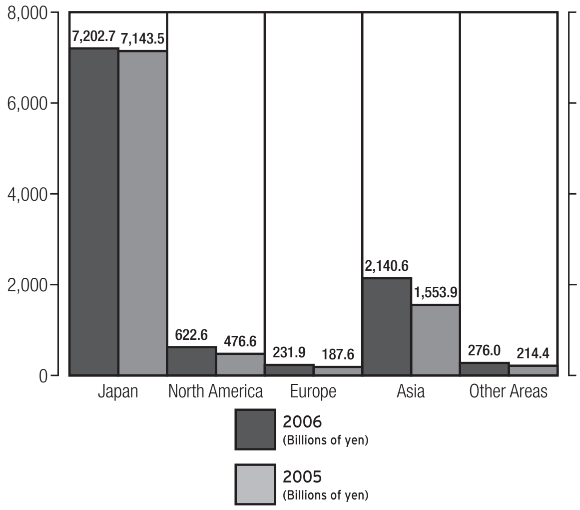
North America:
Trading transactions increased by 30.6% or ¥146.0 billion to ¥622.6 billion (US$5,300 million) compared with the previous fiscal year, mainly due to increases in construction machinery, automobile, energy, and Forest Products & General Merchandise. Identifiable assets increased by 7.7% 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.

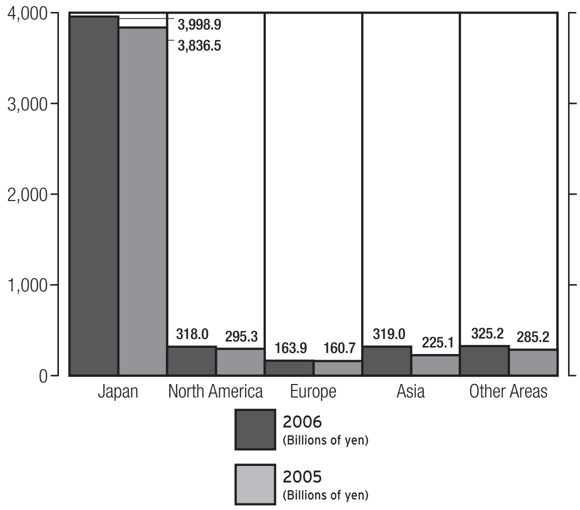
Asia:
Trading transactions increased 37.8% or ¥586.8 billion to ¥2,140.6 billion (US$18,223 million) compared with the previous fiscal year, mainly due to higher prices in crude oil. Identifiable assets increased by 41.7% or ¥93.8 billion to ¥319.0 billion (US$2,715 million) compared with the previous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

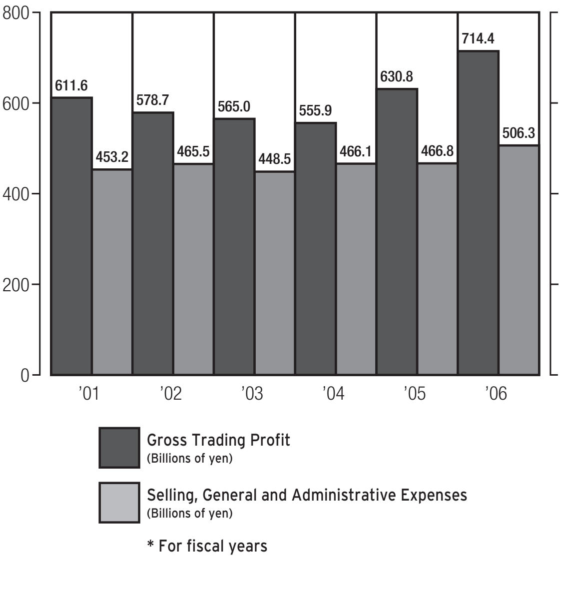
Gross trading profit:

"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.

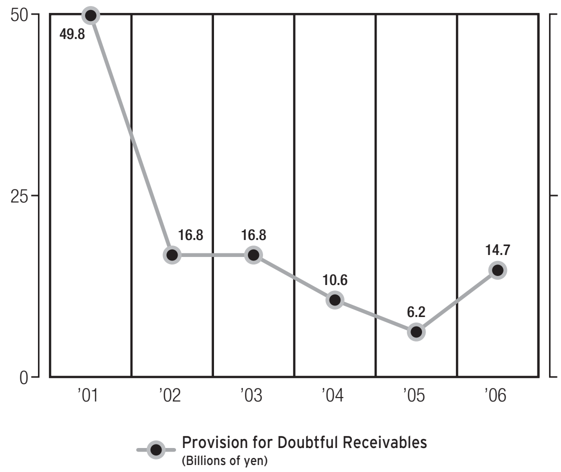
Impairment loss on marketable securities improved by ¥42.2 billion to ¥4.6 billion compared with the previous fiscal year, mostly due to the absence of an impairment loss on investment in FamilyMart Co., Ltd. ("FamilyMart") (¥45.1 billion) taken in the previous fiscal year. In addition, loss on the restructuring 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.

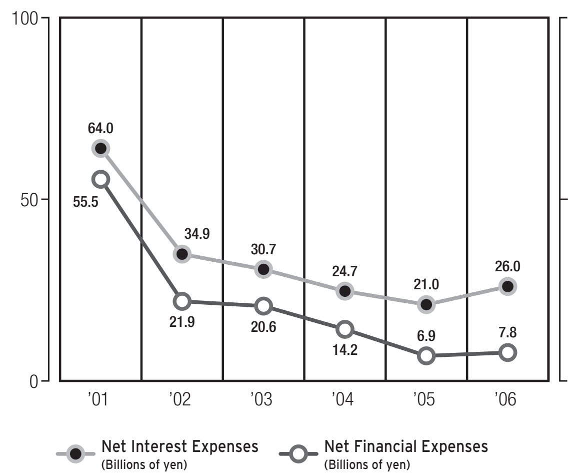
"Other-net" for Fiscal 2006 deteriorated by ¥12.8 billion to a loss of ¥12.4 billion (US$105 million) compared with the previous fiscal year. This resulted mainly from the payment of a legal settlement of ¥19.5 billion (US$185 million) by an overseas trading subsidiary in the U.S. to Citigroup despite

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

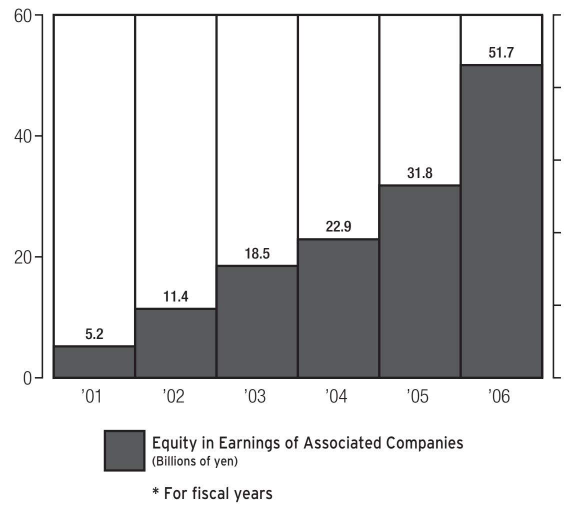
an improvement in net gain on non-trading derivatives for dividends received (improvement of ¥2.0 billion compared with the previous fiscal year).

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."

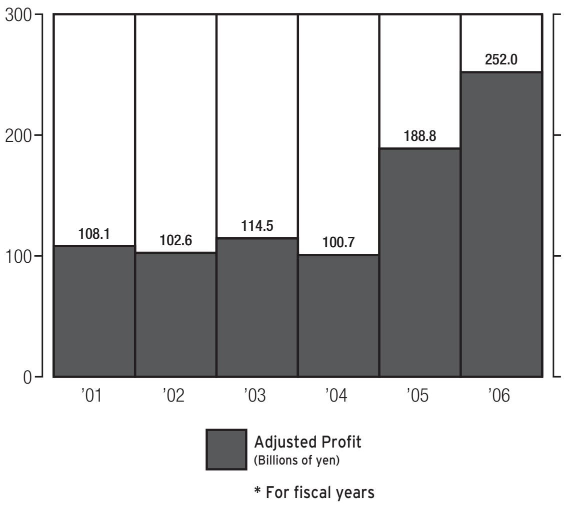
Cumulative effect of Accounting Change
In accordance with an early adoption of EITF 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry", the cost, which of removing overburden and waste materials to access material deposits are referred to as "stripping costs," incurred 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

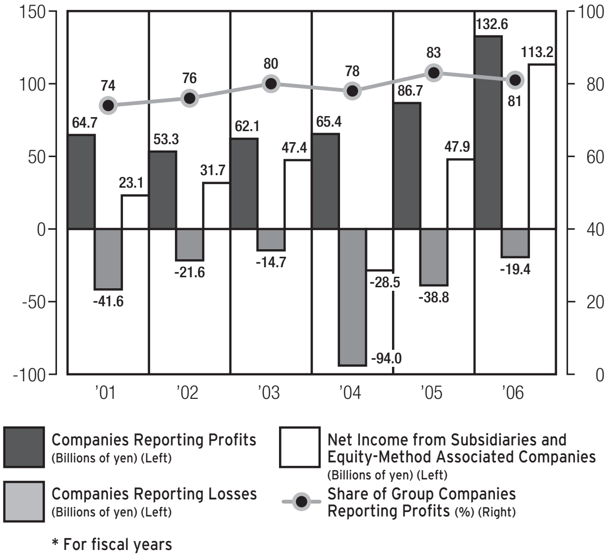
Share of Group Companies Reporting Profits

	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



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.

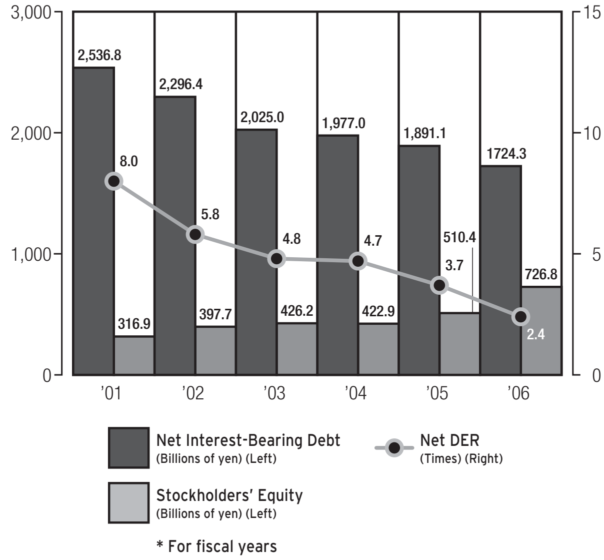
Financial Position

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)



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

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

	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
	Millions of U.S. dollars								
	2006								
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:

	Millions of Yen	Millions of U.S. dollars		Millions of Yen
	2006			2005
SAKHALIN OIL AND GAS DEVELOPMENT CO., LTD.	¥28,280	$241	SAKHALIN OIL AND GAS DEVELOPMENT CO., LTD.	¥15,340
Tokyo Humania Enterprise Inc.	11,487	98	Tokyo Humania Enterprise Inc.	12,200
Famima Credit Corporation	7,435	63	Japan Brazil Paper and Pulp Resources Development Co., Ltd.	10,588
STAR CHANNEL, INC.	7,200	61	JAPAN OHANET OIL & GAS CO., LTD.	6,425
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	6,946	59	STAR CHANNEL, INC.	6,400
Quatro World Maritime S.A.	6,286	54	Quatro World Maritime S.A.	5,746
Ningbo Mitsubishi Chemical Co.,Inc.	6,195	53	AI BEVERAGE HOLDING CO. LTD.	5,265
JAPAN OHANET OIL & GAS CO., LTD.	5,552	47	Marubeni-Itochu Steel Inc.	5,017
AI BEVERAGE HOLDING CO. LTD.	5,259	45	Marubeni-Itochu Steel America Inc.	3,531
Baku-Tbilishi-Ceyhan Pipeline Finance B.V.	4,999	43	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.

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Independent Auditors' Report

To the Board of Directors of
ITOCHU Corporation :

We have audited the accompanying consolidated balance sheets of ITOCHU Corporation and subsidiaries as of March 31, 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