ITOCHU Corporation

Where We Are Going
The Road Ahead

Annual Report 2007

For the year ended March 31, 2007

Contents

Forward-Looking Statements
This Annual Report contains forward-looking statements regarding ITOCHU Corporation's corporate plans, strategies, forecasts and other statements that are not historical facts. They are based on current expectations, estimates, forecasts and projections about the industries in which ITOCHU Corporation operates. As the expectations, estimates, forecasts and projections are subject to a number of risks, uncertainties and assumptions, including without limitation, changes in economic conditions; fluctuations in currency exchange rates; changes in the competitive environment; the outcome of pending and future litigation; and the continued availability of financing, financial instruments and financial resources, they may cause actual results to differ materially from those presented in such forward-looking statements. ITOCHU Corporation, therefore, wishes to caution that readers should not place undue reliance on forward-looking statements and, further, that ITOCHU Corporation undertakes no obligation to update any forward-looking statements as a result of new information, future events or other developments.

Where We Stand

The Path We Have Taken

—A history of reform and challenge

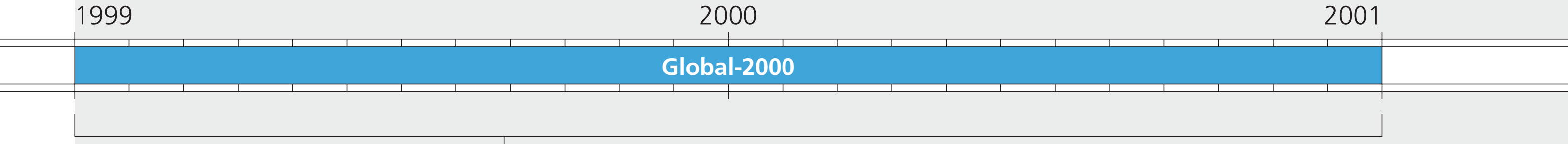
Under the mid-term management plan Frontier-2006, we shifted gear, adopting a more aggressive posture. In the fiscal year ended March 2007, the final year of the plan, we achieved new record highs in key indicators of earnings for consecutive years as the plan's initiatives for expanding revenue and earnings successfully bore fruit.

However, the road so far has by no means been easy. The cumulative effect of the series of management reforms that we have implemented since the late 1990s in line with the goal of "Challenges for Success in the 21st Century" has bolstered our earnings structure, forming the cornerstone of ITOCHU's current growth.

In this section, we look back at the Company's history of reform and challenge.

Clearing Away a Negative Legacy (Fiscal 2000–Fiscal 2001)

At the end of the 1990s, ITOCHU was burdened by inefficient assets and unprofitable businesses, mainly in the construction and real estate sectors, as well as a large amount of interest-bearing debt. Although the Company boasted top-class earning power among general trading companies, most of its profits were allocated to interest payments and the disposal of under-performing assets. In addition, at the end of March 1999, only about 60% of the Company's 1,027 consolidated subsidiaries were reporting profits. With losses reported by Group companies offsetting the profits generated by Group companies, the need for a solution grew urgent.



Global-2000

> The mid-term management plan Global-2000 set the goals of "Reorganization of the Profit Structure" and "Challenges for Success in the 21st Century." The Risk Capital Management (RCM) method was introduced in order to efficiently allocate resources and quantify risk. Through RCM, ITOCHU disposed of inefficient assets and down-sized or withdrew from unprofitable businesses and strove to improve its financial health. In addition, we identified A&P (Attractive and Powerful) segments that were "attractive" to our customers and in which we had "powerful" capabilities. Management resources were weighted toward these segments in an attempt to enhance earning power. (Current core operating company ITOCHU Techno-Solutions Corporation (CTC) was listed during this period.)

> ¥303.9 billion

Restructuring losses posted in fiscal 2000, arising from the disposal of inefficient assets and withdrawal from unprofitable businesses

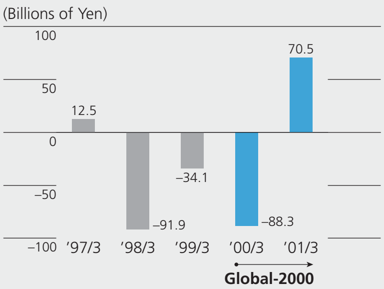
As a result of restructuring losses, ITOCHU recorded a net loss of ¥88.3 billion in fiscal 2000. However, in the following fiscal year, ITOCHU posted its highest-ever net income of ¥70.5 billion.

> ¥1,648.4 billion

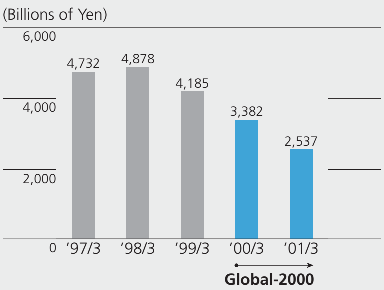
Reduction in net interest-bearing debt over the period of the plan

At the end of fiscal 1999, net interest-bearing debt stood at ¥4,185.2 billion. By the end of fiscal 2001, this had been reduced to ¥2,536.8 billion, a decrease of more than ¥1,600 billion.

Net Income (Loss)



Net Interest-Bearing Debt

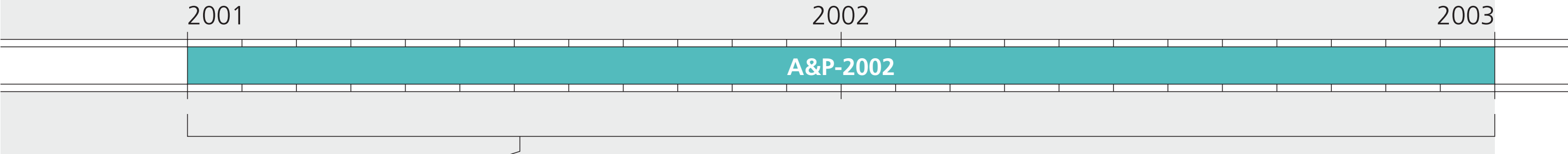


Summary

Global-2000 was determined "to settle what occurred in the 20th century during the 20th century." By restructuring our operations from the viewpoint of global standards, we succeeded in almost completely clearing away the "Negative Legacy" that was impeding the Company's growth in the 21st century. The plan's targets were therefore achieved.

Implementing Reforms to Establish a Highly Profitable Business Model (Fiscal 2002–Fiscal 2003)

Global-2000 succeeded in disposing of the bulk of ITOCHU's inefficient assets. While continuing to strengthen the Company's consolidated financial position, the next task was to move beyond conventional trading company business models and to establish a highly profitable business model.

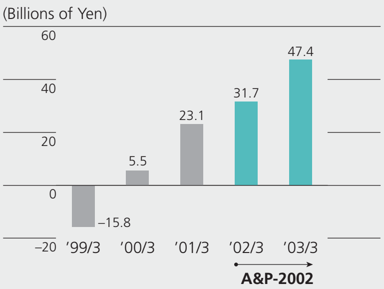


A&P-2002

> The mid-term management plan A&P-2002 set the goal of establishing a highly profitable business model by moving beyond conventional trading company business models and developing new business through the A&P Strategy*1. Risk and asset efficiency were quantified across all businesses, and, through a policy of selection and concentration, resources were intensively allocated to high-efficiency assets, mainly in A&P segments. At the same time, we continued to either dispose of or downsize inefficient assets and to improve our financial health by reducing interest-bearing debt.

*1 A&P Strategy: A strategy to increase profitability by intensively allocating resources to A&P (Attractive and Powerful) segments that were "attractive" to our customers and in which we had "powerful" capabilities.

Net Income (Loss) from Subsidiaries and Equity-Method Associated Companies

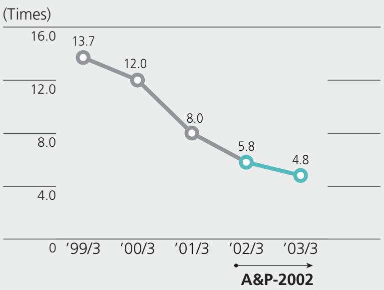


> ## ¥47.4 billion

Net income from subsidiaries and equity-method associated companies in fiscal 2003

Over the period of the plan, we rationalized Group companies in order to strengthen Group consolidated management. In fiscal 2003, we recorded the highest-ever net income from subsidiaries and equity-method associated companies.

NET DER



> ## 8.0 times → 4.8 times

NET DER at the end of fiscal 2001 (8.0 times) and end of fiscal 2003 (4.8 times)

There was a major improvement in the NET DER through the reduction of interest-bearing debt and the replenishment of stockholders' equity. A comparison with the NET DER at the end of fiscal 1999 (13.7 times) gives an indication of the determined efforts we made to improve our financial position.

Summary

A sharp drop in stock prices at the end of fiscal 2003 led to large devaluation and disposal losses on marketable securities. As a result, we did not meet A&P-2002's target for consolidated net income. However, under the policy of selection and concentration, the earning power of ITOCHU was steadily strengthened. Resources were intensively allocated to high-efficiency assets, and we disposed of or downsized inefficient assets. And the targets for reduction in consolidated total assets and interest-bearing debt were greatly exceeded.

Building the Foundations for Aggressive Business (Fiscal 2004–Fiscal 2005)

Under the previous mid-term management plans, ITOCHU made substantial progress in improving its financial health and shifting management resources to high-efficiency assets, mainly in the A&P segments. The next step was to raise profitability company-wide by further evolving the A&P Strategy and constructing a firm base for our full-fledged shift to aggressive business.

2003 | 2004 | 2005

Super A&P-2004

Super A&P-2004

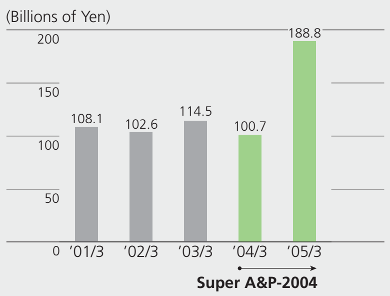
> The mid-term management plan Super A&P-2004 aimed to radically accelerate selection and concentration based on the A&P segments in a bid to double earnings. The Consumer-Related and Retail-Related sectors and Asia centered on China, where ITOCHU had overwhelming strengths, were defined as Super Powerful segments. Priority was given to strengthening these segments and, at the same time, removing factors obstructing the shift to aggressive business.

¥147.2 billion

Total impairment losses recognized on fixed assets and others in fiscal 2004

As a result of recognition of impairment losses on fixed assets and others in fiscal 2004, ITOCHU recorded a consolidated net loss of ¥31.9 billion. But in fiscal 2005, ITOCHU achieved a V-shaped recovery in the final year of the plan, posting its highest-ever consolidated net income of ¥77.8 billion.

Adjusted Profit



¥74.3 billion

Increase in adjusted profit*2 over the period of the plan

Adjusted profit stood at ¥114.5 billion in fiscal 2003. In fiscal 2005, the plan's final year, adjusted profit had soared to ¥188.8 billion, the highest-ever level. Further, net income, operating income, and equity in earnings of associated companies reached all-time highs.

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

Summary

The plan's major quantitative targets, including that for consolidated net income, were attained. The objectives of reforming the profit structure and improving the financial position, which had been set from Global-2000, were integrated under this plan and successfully achieved. Preparations were thus complete for our concerted effort to shift to aggressive business.

Moving to Aggressive Business (Fiscal 2006–Fiscal 2007)

Under the A&P Strategy, ITOCHU had made solid progress in reforming its profit structure and improving its financial position. Now, the stage had been set for a major strategic shift to aggressive business. The key objective was to expand earnings in all Division Companies and to confirm ITOCHU's position as a highly profitable corporate group. In selecting and concentrating management resources, the emphasis would switch from the broad level of the A&P segments to a tighter focus on Division Company priority areas. While continuing to enhance solid management, ITOCHU would accelerate the shift to aggressive business.

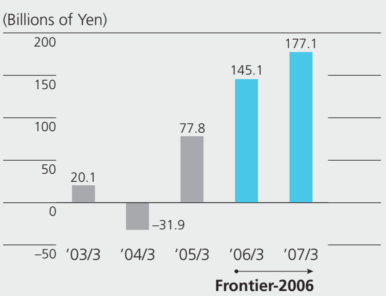
2005 2006 2007

Frontier-2006

Frontier-2006

> The mid-term management plan Frontier-2006 undertook to enhance solid management through the further improvement of our financial position and strengthened risk management. At the same time, Frontier-2006 aimed at a major shift to aggressive business guided by three principles: expanding earnings (challenge); creating new businesses (create); and, through this, aiming to become a highly profitable corporate group achieving over ¥100 billion in consolidated net income in a steady and sustainable manner (commit). In accordance with these principles, the core initiatives were strengthening vertical linkage in the Division Company sectors and promoting company-wide horizontal integration.

Net Income (Loss)



> **¥177.1 billion**

Consolidated net income in fiscal 2007

ITOCHU achieved its third consecutive highest-ever consolidated net income, even while absorbing an equity loss recognition arising from a significant loss recorded by Orient Corporation. The quantitative targets set at the beginning of the plan were greatly exceeded.

> **¥310.0 billion**

Net investment over the two years of the plan

We achieved a well-balanced allocation of investment, mainly between our priority Consumer-Related sector and Natural Resource/Energy-Related sector. And we made steady progress in strengthening our profit structure in order to expand earnings.

Summary

We greatly surpassed the quantitative targets set under Frontier-2006. Through the plan, ITOCHU confirmed its resilience to changes in the external environment as "a highly profitable corporate group achieving over ¥100 billion in consolidated net income in a steady and sustainable manner." With the significantly enhanced earning power achieved under Frontier-2006, ITOCHU will take on greater challenges, in a wider range of areas, in Japan and beyond.

Consolidated Financial Highlights

ITOCHU Corporation and Subsidiaries
Years ended March 31

	Millions of Yen					Increase (Decrease)	Millions of U.S. Dollars
	2007	2006	2005	2004	2003	2007/2006	**2007**
For the fiscal year:							
Revenue	**¥2,647,202**	¥2,218,221	¥1,991,238	¥1,738,747	¥1,681,718	19.3%	**$22,424**
Gross trading profit	**908,676**	714,374	630,761	555,895	564,967	27.2	**7,697**
Net financial expenses*[1]	**(7,555)**	(7,816)	(6,878)	(14,215)	(20,579)	(3.3)	**(64)**
Net interest expenses*[2]	**(29,218)**	(26,032)	(21,040)	(24,743)	(30,655)	12.2	**(247)**
Dividends received	**21,663**	18,216	14,162	10,528	10,076	18.9	**183**
Equity in earnings (losses) of associated companies	**(20,069)**	51,737	31,764	22,859	18,539	—	**(170)**
Net income (loss)	**177,059**	145,146	77,792	(31,944)	20,078	22.0	**1,500**
At fiscal year-end:							
Total assets	**¥5,271,512**	¥4,797,013	¥4,472,345	¥4,487,282	¥4,486,405	9.9	**$44,655**
Stockholders' equity	**896,195**	726,816	510,397	422,866	426,220	23.3	**7,592**
Net interest-bearing debt*[3]	**1,630,928**	1,724,314	1,891,086	1,977,048	2,025,048	(5.4)	**13,815**
Cash flows:							
Cash flows from operating activities	**¥ 235,917**	¥185,147	¥ 126,624	¥184,780	¥ 168,843	27.4	**$1,998**
Cash flows from investing activities	**(83,394)**	(79,871)	(127,600)	(55,300)	5,253	—	**(706)**
Cash flows from financing activities	**(100,920)**	(85,193)	(125,342)	(79,695)	(114,041)	—	**(855)**
Cash and cash equivalents at end of year	**532,856**	477,707	452,934	579,565	534,156	11.5	**4,514**

	Yen (Unless otherwise specified)					Increase	U.S. Dollars
Per share:							
Net income (loss)	**¥111.95**	¥ 91.74	¥ 49.16	¥ (20.20)	¥ 13.12	22.0%	**$0.95**
Stockholders' equity	**566.78**	459.47	322.54	267.25	269.53	23.4	**4.80**
Cash dividends	**14.0**	9.0	7.0	—	5.0	55.6	**0.12**
Ratios:							
Gross trading profit ratio (%)	**7.8**	6.8	6.6	5.8	5.4		
ROA (%)	**3.5**	3.1	1.7	—	0.4		
ROE (%)	**21.8**	23.5	16.7	—	4.9		
Ratio of stockholders' equity to total assets (%)	**17.0**	15.2	11.4	9.4	9.5		
Net debt-to-equity ratio (NET DER) (times)	**1.8**	2.4	3.7	4.7	4.8		
Interest coverage (times)	**6.7**	5.7	5.7	2.7	2.7		

	Millions of Yen					Increase (Decrease)	Millions of U.S. Dollars
(Reference)							
Total trading transactions	**¥11,579,059**	¥10,473,885	¥9,576,039	¥9,516,967	¥10,446,371	10.6%	**$98,086**
Adjusted profit*[4]	**241,931**	252,038	188,807	100,676	114,454	(4.0)	**2,049**

All figures are for fiscal years, which begin on April 1 of the years preceding and extend through March 31.
The Japanese yen amounts for the year ended March 31, 2007 have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥118.05 = U.S.$1, the official rate of The Bank of Tokyo-Mitsubishi UFJ, Ltd., as of March 31, 2007.
Revenue is presented in accordance with "Emerging Issues Task Force (EITF)" No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent."
Total trading transactions are presented in accordance with Japanese accounting practice.
Total trading transactions consist of sales with respect to transactions in which the companies act as principal and the total amount of transactions in which the companies act as agent.
Net income (loss) per share and stockholders' equity per share are calculated by using the shares that exclude the number of treasury stock from that of common stock issued.

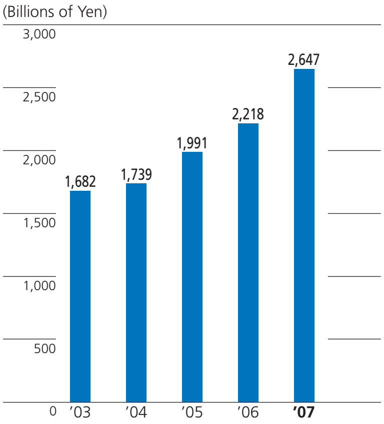
*1 Net financial expenses = Net interest expenses + Dividends received
Calculation formula (Fiscal 2007: ¥ billion): (–7.6) = (–29.2) + 21.7

*2 Net interest expenses = Interest income + Interest expense
Calculation formula (Fiscal 2007: ¥ billion): (–29.2) =16.1 + (–45.3)

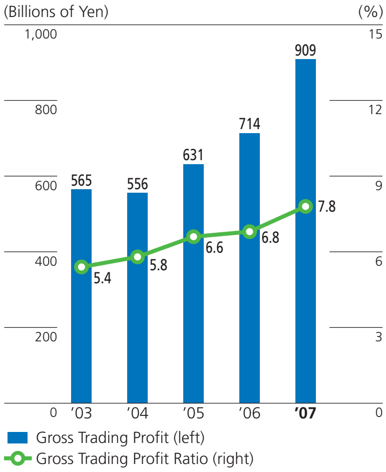
*3 Net interest-bearing debt = Interest-bearing debt – Cash, cash equivalents and time deposits
Calculation formula (Fiscal 2007: ¥ billion): 1,630.9 = 2,165.6 – 534.7

*4 Adjusted profit = Gross trading profit + Selling, general and administrative expenses + Net financial expenses + Equity in earnings (losses) of associated companies
Calculation formula (Fiscal 2007: ¥ billion): 241.9 = 908.7 + (–639.1) + (–7.6) + (–20.1)

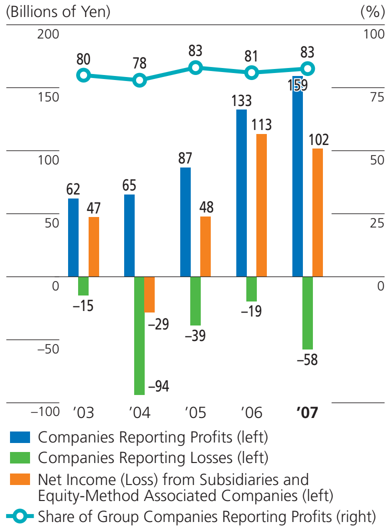
Revenue



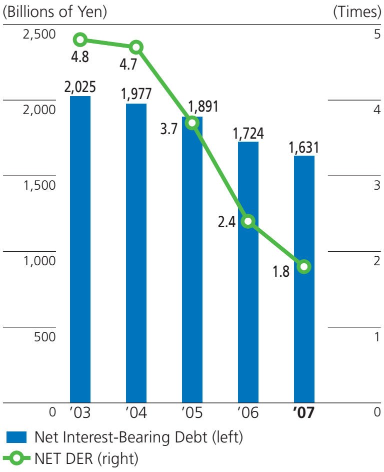
Gross Trading Profit / Gross Trading Profit Ratio



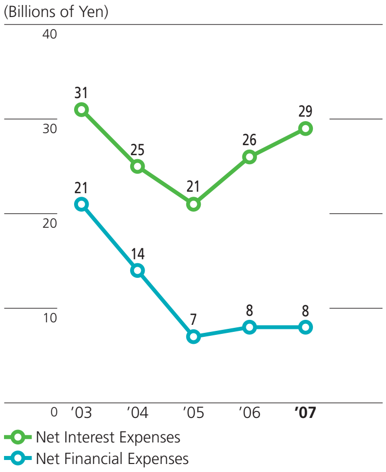
Net Income (Loss) from Subsidiaries and Equity-Method Associated Companies



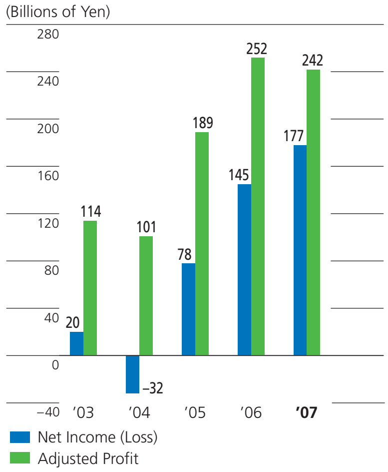
Net Interest-Bearing Debt / NET DER



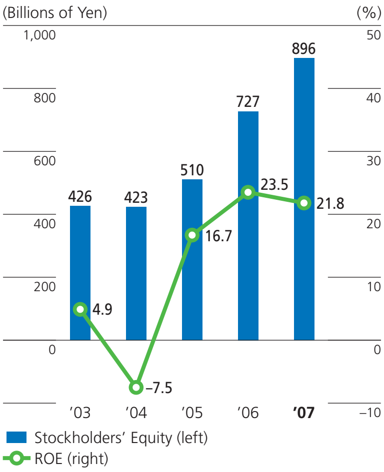
Net Interest Expenses / Net Financial Expenses



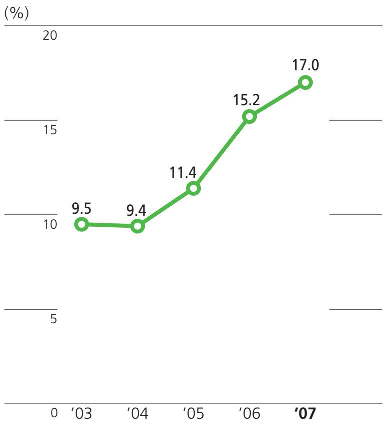
Net Income (Loss) / Adjusted Profit



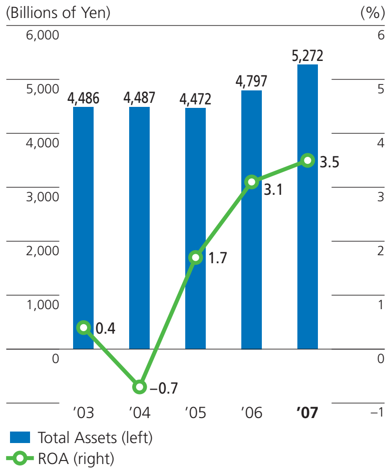
Stockholders' Equity / ROE



Ratio of Stockholders' Equity to Total Assets



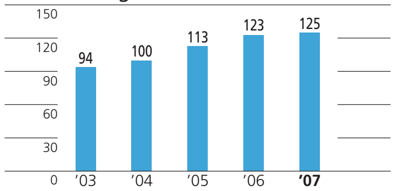
Total Assets / ROA



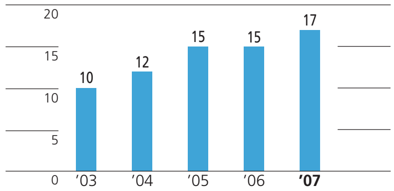
Segment Highlights

Textile Company

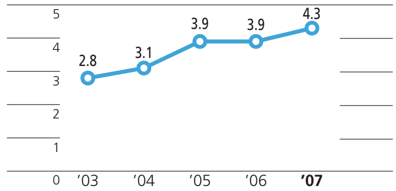
Gross Trading Profit (Billions of Yen)



Net Income (Billions of Yen)

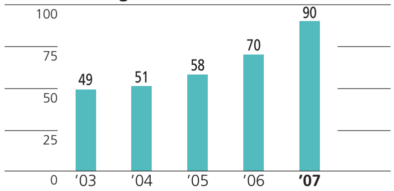


ROA (%)

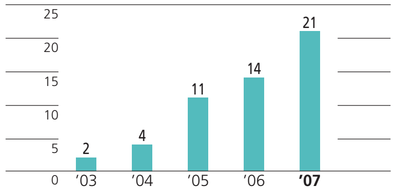


Machinery Company

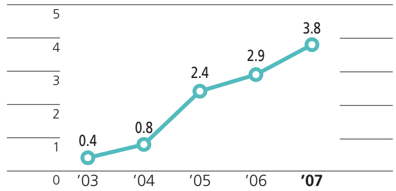
Gross Trading Profit (Billions of Yen)



Net Income (Billions of Yen)

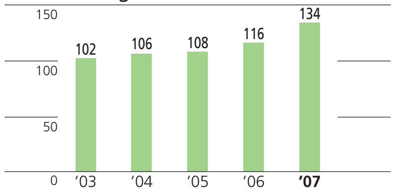


ROA (%)

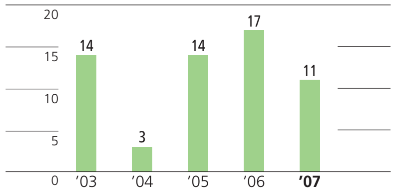


Aerospace, Electronics & Multimedia Company

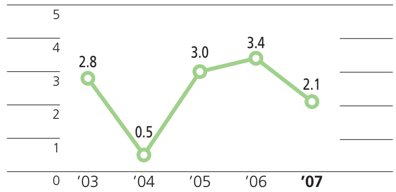
Gross Trading Profit (Billions of Yen)



Net Income (Billions of Yen)

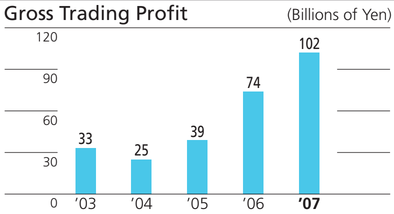


ROA (%)

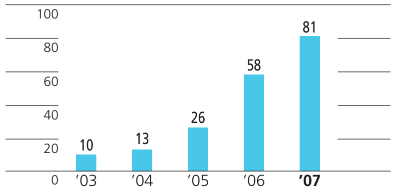


Energy, Metals & Minerals Company

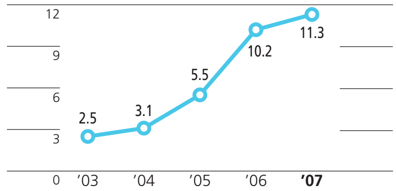
Gross Trading Profit (Billions of Yen)



Net Income (Billions of Yen)

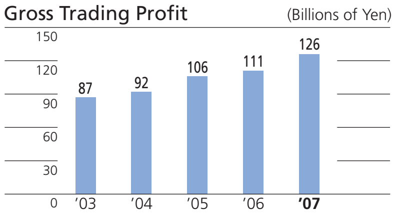


ROA (%)

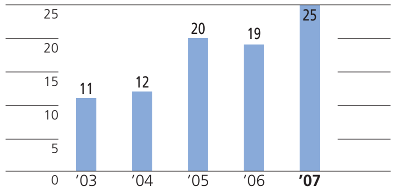


Chemicals, Forest Products & General Merchandise Company

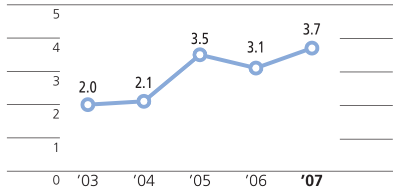
Gross Trading Profit (Billions of Yen)



Net Income (Billions of Yen)

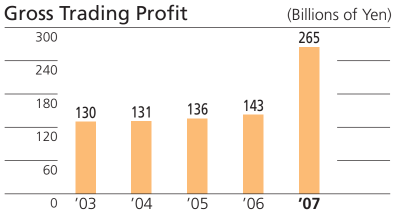


ROA (%)

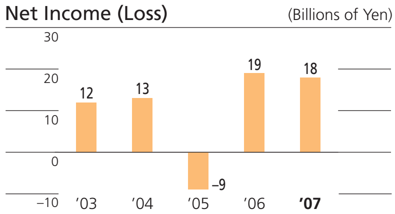


Food Company

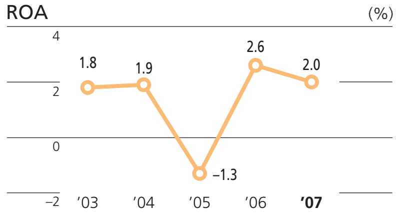
Gross Trading Profit (Billions of Yen)



Net Income (Loss) (Billions of Yen)

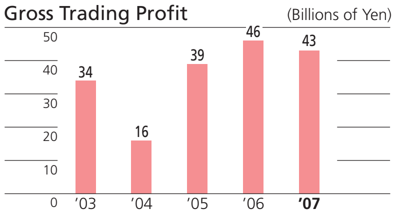


ROA (%)

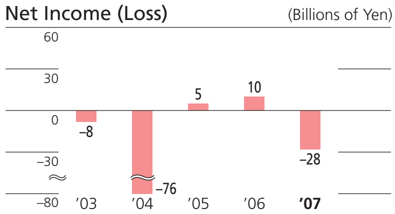


Finance, Realty, Insurance & Logistics Services Company

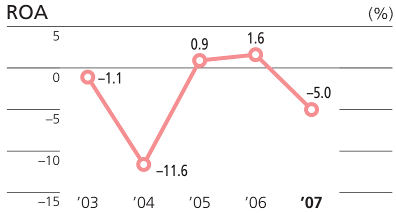
Gross Trading Profit (Billions of Yen)



Net Income (Loss) (Billions of Yen)



ROA (%)



Where We Are Going

The Road Ahead

—Enhancing corporate value on the world stage

Overcoming adverse circumstances and leveraging the situation to chart a course for higher growth is the DNA that has underpinned our development since our founding. And that DNA is evolving further to shape a new ITOCHU.

The Frontier+ 2008 mid-term management plan, which begins with the fiscal year ending March 2008, represents a compass pointing the way forward and our vision for the future. In keeping with the new plan's more aggressive management stance, we have set our sights high and taken up the challenge of becoming "A Global Enterprise That Is Highly Attractive to All Stakeholders."

In this section, we review and analyze our performance under Frontier-2006 and explain how we intend to raise corporate value going forward under our new mid-term management plan Frontier+ 2008.

To Our Stakeholders

Eizo Kobayashi
President and Chief Executive Officer

Under the mid-term management plan Frontier-2006, ITOCHU reached its objective of "Becoming a Highly Profitable Corporate Group Achieving over ¥100 Billion in Consolidated Net Income in a Steady and Sustainable Manner."

We will now move forward with the implementation of our new mid-term management plan, Frontier+ 2008, under which we will adopt an even more aggressive management policy and strive to enhance corporate value on the world stage.

ITOCHU Realizes Its Objective of Becoming a Highly Profitable Corporate Group

In the late 1990s, ITOCHU was in a challenging position, burdened by inefficient assets and unprofitable businesses as well as large amounts of interest-bearing debt. In the years that followed, we implemented a series of reforms to overcome this adverse situation and to create a new ITOCHU.

In the mid-term management plan Global-2000 (fiscal 2000 to fiscal 2001), we set the goals of "Reorganization of the Profit Structure" and "Challenges for Success in the 21st Century." While taking measures to eliminate inefficient assets and unprofitable businesses, we intensively allocated resources to A&P (Attractive and Powerful) segments that were "attractive" to our customers and in which we had "powerful" capabilities. In the following mid-term management plans, A&P-2002 (fiscal 2002 to fiscal 2003) and Super A&P-2004 (fiscal 2004 to fiscal 2005), we further strengthened our financial position while forming the foundations for growth by making aggressive upfront investment.

The recently completed Frontier-2006 (fiscal 2006 to fiscal 2007) built on these foundations for growth and shifted the Company to a more aggressive posture. The plan set out two principles—"Shift to Aggressive Business" and "Enhancement of Solid Management"—and accordingly ITOCHU moved to expand its revenue and earnings and further bolster its financial strength. I believe that the results we achieved under Frontier-2006 allowed us to realize our objective of "Becoming a Highly Profitable Corporate Group Achieving over ¥100 Billion in Consolidated Net Income in a Steady and Sustainable Manner."

Positive Results from Two Years of Aggressive Business and Solid Management

In the fiscal year under review, ended March 2007, we achieved new highs in consolidated net income and other key indicators of earnings for the third consecutive year. By Division Company, the Aerospace, Electronics & Multimedia Company and the Food Company recorded decreased net income, reflecting the absence of gains on sales of marketable securities posted in the previous fiscal year. The Finance, Realty, Insurance & Logistics Services Company registered a net loss due to a significant loss recorded by an equity-method associated company as a result of the revised Moneylending Control Law in Japan. Aside from those companies, all other Division Companies achieved record-high levels of net income. We believe that the various initiatives pursued under "Shift to Aggressive Business" bolstered basic earning power throughout the ITOCHU Group.

Frontier-2006 outlined a strategy to strengthen vertical linkage, whereby Division Companies accelerate resource allocation to core segments. The plan also set out a strategy to promote horizontal integration targeting group-wide projects in the Consumer-Related and Natural Resource/Energy-Related sectors, where we have considerable strengths.

In the Consumer-Related sector, we promoted our strategy of global brand deployment in textiles. In addition, we accelerated business development in China and made a general food wholesaler a consolidated subsidiary. In the Natural Resource/Energy-Related sector, we invested to increase production capacity at existing projects while setting the stage for growth by moving into new sectors, such as the retail natural gas business. ITOCHU also explored new fields with a view to creating businesses, such as preventive medicine in the Life & Healthcare sector.

Further, we made significant achievements in line with "Enhancement of Solid Management." Total stockholders' equity reached a new high at the end of the fiscal year as a result of the increase in net income. Through continued efforts to reduce interest-bearing debt, we achieved a net debt-to-equity ratio (NET DER) of 1.8 times, an improvement of 0.6 points from the end of the previous fiscal year, and we further strengthened our financial position. In addition, we introduced several initiatives to promote management efficiency, including the implementation of our Basic Policy regarding the Internal Control System and the launch of the ITOCHU DNA Project—Designing New Age—to stimulate innovation in all our business processes.

* Please see pages 12 and 13 for an analysis of our performance under Frontier-2006.

Enhancing Corporate Value on the World Stage

Building on the themes pursued under Frontier-2006 and our achievements, we have set even higher goals under our new mid-term management plan Frontier+ 2008—Enhancing Corporate Value on the World Stage.

Under Frontier+ 2008, we will take a more aggressive stance in a bid to dramatically increase revenue and earnings. It is also our aim to be "A Global Enterprise That Is Highly Attractive to All Stakeholders." To those ends, we will step up efforts to achieve gains in revenue and earnings worldwide guided by three main principles: "Maintain a Global Perspective," "Create New Initiatives," and "Enhance Human Resources."

As we strive toward realizing our goal of making the ITOCHU Group a truly global enterprise, we ask for the continued understanding and support of our stakeholders.

* Please see pages 14 to 24 for further information on our Frontier+ 2008 mid-term management plan and our scenario for becoming a truly global enterprise.

July 2007

Eizo Kobayashi
President and Chief Executive Officer

An Analysis of Performance under Frontier-2006

In this section, we analyze our performance under Frontier-2006 to determine whether we reached our objective of "Becoming a Highly Profitable Corporate Group Achieving over ¥100 Billion in Consolidated Net Income in a Steady and Sustainable Manner."

QUANTITATIVE ANALYSIS

Frontier-2006 set the following quantitative targets for the fiscal year ended March 2007: net income of ¥110 billion, total assets of ¥5 trillion, and a NET DER of less than 3.0 times.

ITOCHU exceeded the target for consolidated net income by a large margin, despite the net loss recorded by Orient Corporation (Orico).

Looking at net income by Division Company, the Aerospace, Electronics & Multimedia Company recorded a decline in net income from the fiscal year ended March 2005, primarily because of the absence of gains on sales of marketable securities. The Finance, Realty, Insurance & Logistics Services Company registered a net loss, mainly due to the effect on Orico of the revised Moneylending Control Law in Japan. All other Division Companies showed steady growth in net income during the two-year period of the plan.

For both the Machinery Company and the Chemicals, Forest Products & General Merchandise Company, net income surpassed ¥20 billion. The Textile Company and the Food Company both recorded net income levels approaching ¥20 billion. Meanwhile, for the Energy, Metals & Minerals Company, net income soared to over ¥80 billion, as the Company's equity interests in natural resource development increased and upfront investments began to yield returns. **Overall, the analysis indicates that the basic earning power of ITOCHU's Division Companies has been significantly enhanced.**

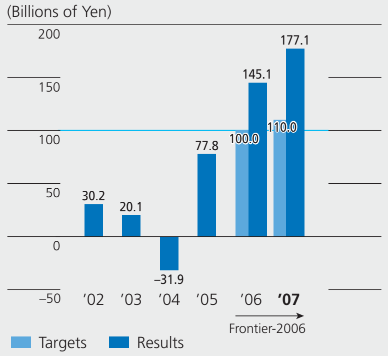
Regarding the profit/loss balance of Group companies and overseas trading subsidiaries, the net loss recorded by Orico was offset by an increase in aggregate profits of Group companies reporting profits. **Overall, Group companies and overseas trading subsidiaries reported aggregate profits of ¥124.5[*1] billion in the fiscal year ended March 2007, a marked increase on the figure of ¥74.5 billion[*2] in the fiscal year ended March 2005.**

Brisk investment activity in line with the Frontier-2006 principle of "Shift to Aggressive Business" led to higher total assets, which stood at ¥5.3 trillion at the end of March 2007.

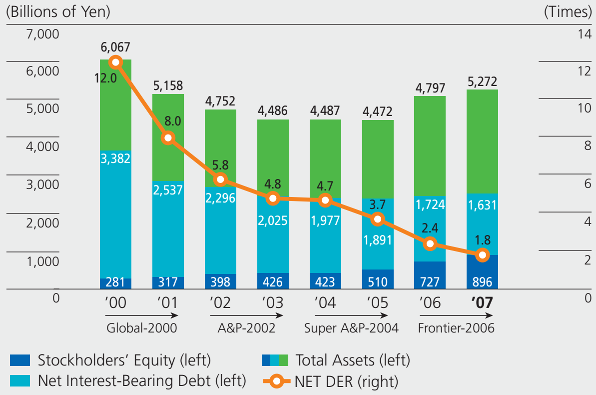
Initial Targets and Results

Years ended March 31 (Billions of Yen)	2005 Results	2006 Targets	2006 Results	2007 Targets	2007 Results
Net income	¥ 77.8	¥ 100.0	**¥ 145.1**	¥ 110.0	**¥ 177.1**
Total assets	4,472.3	4,700.0	**4,797.0**	5,000.0	**5,271.5**
NET DER (times)	3.7	3.3	**2.4**	Less than 3.0	**1.8**

Net Income (Loss)



Total Assets / Stockholders' Equity / Net Interest-Bearing Debt / NET DER



Strict control of net interest-bearing debt resulted in a ¥260.0 billion decrease over the two-year period of Frontier-2006. Further, stockholders'equity increased by a significant amount, reaching ¥896.2 billion at year-end, compared with ¥510.4 billion at the end of March 2005. As a result, **the NET DER declined to 1.8 times, a considerable improvement of 1.9 points from the level at the beginning of the plan** and representing the attainment of solid management.

This analysis shows that **the quantitative targets set at the beginning of Frontier-2006 were achieved.** Moreover, the well-balanced growth of Division Companies proves that the entire ITOCHU Group adhered to the principles of "Shift to Aggressive Business" and "Enhancement of Solid Management."

*1 Excludes the effect of impairment adjustments for FamilyMart Co., Ltd.
*2 Includes the tax effect of the loss recognized on investment in Orico

QUALITATIVE ANALYSIS

Net investment over the two years of the plan reached approximately ¥310 billion, significantly higher than the initial target of ¥200 billion. About 25% of this amount was allocated to the Consumer-Related sector, 25% to the Natural Resource/Energy-Related sector, and the remaining 50% to various other sectors, including machinery, IT, finance, and chemicals. **We believe this to be a well-balanced allocation of investment.**

Under the Frontier-2006 policy of strengthening vertical linkage, Division Companies worked to increase revenue and earnings by identifying core segments and accelerating the allocation of resources to those segments. At the same time, ITOCHU promoted horizontal integration for projects spanning Division Company boundaries in the Consumer-Related and Natural Resource/Energy-Related sectors, where it has considerable strengths.

In the Consumer-Related sector, we promoted the global development of our brand business in textiles. At the same time, in food-related business, we deployed our SIS*3 strategy on a global basis, and, by making NIPPON ACCESS, INC., a consolidated subsidiary and merging it with Nishino Trading Co., Ltd., we created one of the largest food wholesale operations in Japan.

In the Natural Resource/Energy-Related sector, we implemented several initiatives aimed at tapping into growing worldwide demand for natural and energy resources to achieve solid gains in revenue and earnings. We continued to invest in our iron ore project in Western Australia to expand production capacity. We entered the retail natural gas business in the United States and acquired equity interests in gas fields in the Gulf of Mexico. Also, production expanded smoothly at the ACG oil field development project in the Azerbaijan Republic.

In other sectors, in the automobile-related business, we strengthened our capital partnership with Isuzu Motors Limited and formed a joint venture, Isuzu Network Company Limited, to reinforce domestic sales. Also, we developed business in the area of life cycle process management for commercial vehicles. In addition, we made an investment in the North American controlling subsidiary of Akebono Brake Industry Co., Ltd. In the Life & Healthcare sector, we entered the field of preventive medicine, where we envisage growth stemming from Japan's low birthrate and aging population. In chemical products, our largest investment in China, the Ningbo PTA plant, started up production of high purified terephthalic acid (PTA).

*3 SIS (Strategic Integrated System): A supply and demand system based on customer needs that seamlessly links upstream food resource development and processing, midstream distribution, and downstream retail and sales.

CONCLUSION

In quantitative terms, ITOCHU greatly exceeded the plan's targets and, therefore, confirmed its position as a highly profitable corporate group. In qualitative terms, the Company has steadily developed its existing businesses and advanced into new sectors to set the stage for increased revenue and earnings.

After reviewing our results and achievements under Frontier-2006, **we conclude that the objective of "Becoming a Highly Profitable Corporate Group Achieving over ¥100 Billion in Consolidated Net Income in a Steady and Sustainable Manner" was achieved.**

An Overview of the New Mid-Term Management Plan Frontier+ 2008
—Accelerating Aggressive Business for the Next-Generation ITOCHU

In Frontier+ 2008, ITOCHU sets the even more ambitious goal of becoming "A Global Enterprise That Is Highly Attractive to All Stakeholders." The plan, which covers the period from April 2007 through March 2009, will be implemented in line with three main guiding principles: "Maintain a Global Perspective," "Create New Initiatives," and "Enhance Human Resources."

FRONTIER+ 2008 OUTLINE

Building on the themes pursued under Frontier-2006, Frontier+ 2008 calls for a further acceleration of the shift to aggressive business and for ITOCHU to become "A Global Enterprise That Is Highly Attractive to All Stakeholders." Having set ourselves even more ambitious goals, we will implement a range of initiatives based on aggressive business, solid management, and a global human resources strategy that is the foundation for all strategy.

Three main principles will guide our efforts in executing the plan: "Maintain a Global Perspective," or increase earnings worldwide by developing business as a truly global enterprise; "Create New Initiatives," or leverage change, take on challenges, and open up new areas; and "Enhance Human Resources," or seek, foster, and fully draw on the talents of personnel worldwide.

We have set a target for consolidated net income of ¥210 billion for the fiscal year ending March 2008. For the fiscal year ending March 2009, we have also set a target of ¥210 billion for consolidated net income. This figure takes into account the absorption of the absence of the projected tax effect for Orient Corporation (Orico) that will be recorded in the fiscal year ending March 2008.

Consolidated total assets were raised by more than ¥790 billion under Frontier-2006. In accordance with more aggressive management under Frontier+ 2008, we intend to raise total assets by ¥500 billion each fiscal year, for an accumulated increase of ¥1.0 trillion to a total of ¥6.3 trillion at March 31, 2009.

In addition, stockholders' equity will be increased through higher net income and the steady accumulation of retained earnings, and strict control of net interest-bearing debt will continue with a view to lowering the NET DER to below 1.7 times.

OUTLINE

Frontier+ 2008—Enhancing Corporate Value on the World Stage

Basic Policy

In addition to continuing efforts reflecting Frontier-2006 themes, we will be more aggressive. At the same time, we will strive to become "A Global Enterprise That Is Highly Attractive to All Stakeholders."

[Global Perspective] Increase earnings worldwide by developing business as a truly global enterprise

[Create New Initiatives] Leverage change, take on challenges, and open up new areas

[Enhance Human Resources] Seek, foster, and fully utilize the talents of personnel worldwide

Key Measures

Develop new business areas
Accelerate overseas business development
Strengthen core businesses

Human resources strategy with global perspective

Financial strategy
Risk management
Governance / Internal control
Corporate social responsibility

Quantitative Targets

(Billions of Yen)

	FY 2007 (Results)	FY 2008 (Targets)	FY 2009 (Targets)
Net income	¥ 177.1	¥ 210.0	¥ 210.0
Total assets	5,271.5	5,800.0	6,300.0
NET DER (times)	1.8	1.7	Less than 1.7

MAJOR INITIATIVES FOR AGGRESSIVE BUSINESS

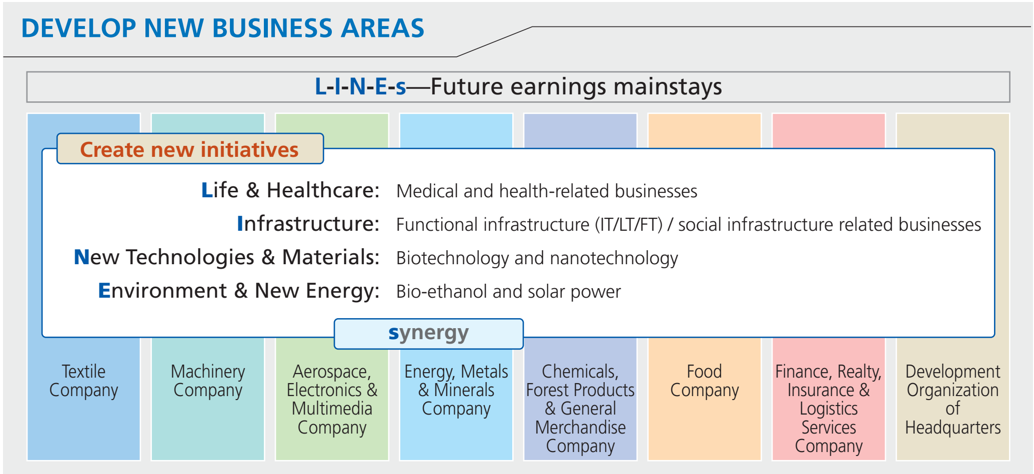
1 DEVELOP NEW BUSINESS AREAS

Creating New Initiatives in L-I-N-E-s*1—Future Earnings Mainstays

Targeting an earnings structure that will be the base for sustainable high growth, we will execute a series of company-wide horizontal integration initiatives designed to develop new business areas. Division Companies will concentrate their resources on the L-I-N-E-s priority areas to develop the earnings base of the future. These priority areas are the Life & Healthcare sector, which is centered on medical and health-related businesses; the Infrastructure sector, which includes IT, Logistics Technologies, and Financial Technologies; the New Technologies & Materials sector, which is mainly focused on biotechnology and nanotechnology; and the Environment & New Energy sector, which is mainly centered on bio-ethanol and solar power.

Among these new sectors, we will weight the allocation of management resources to the Life & Healthcare sector to develop it into a new earnings pillar, and this effort will be coordinated by the newly established Healthcare Business Department at our Headquarters. In addition, through the horizontal linkage of these new sectors with our existing core businesses, we will seek synergistic increases in earnings.

*1 "L-I-N-E-s" stands for ITOCHU's newly prioritized business sectors and the synergies that can be developed from them: Life & Healthcare, Infrastructure, New Technologies & Materials, Environment & New Energy, synergy.



2 ACCELERATE OVERSEAS BUSINESS DEVELOPMENT

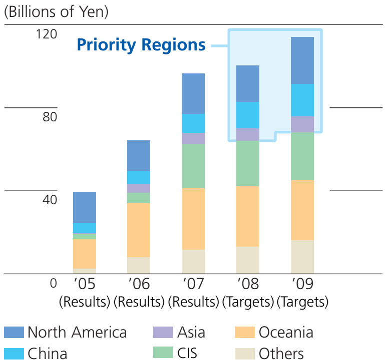
Increasing Earnings Worldwide with a Global Perspective

The priority areas for accelerating overseas business development are North America, China, and Asia. In particular, we will introduce a company-wide horizontal approach in efforts targeting Asia and promote business in Singapore, Thailand, Indonesia, Vietnam, and India, centered on the Consumer-Related sector, under the recently appointed Chief Executive for Asia. We will also strengthen our business development efforts in areas rich in natural resources, including the CIS, the Near and Middle East, and Brazil as well as in such countries as Algeria, where we have competitive advantages.

About 70% of company-wide investment will be directed overseas, focusing on these regions. Through these initiatives, we aim to secure stable and continuous earnings from overseas businesses*2 of more than ¥100 billion a year.

*2 Overseas businesses = Overseas subsidiaries and associates

Increase Earnings from Overseas Businesses



* For fiscal years

3 STRENGTHEN CORE BUSINESSES

Focusing on the Scale and Growth Rate of Net Income

In accordance with our A&P Strategy, under Frontier-2006 we maintained our basic management indices and allocated resources to highly efficient sectors that have a Return on Assets (ROA) of more than 2% and a Risk Return Index (RRI)*3 of more than 8%.

Under Frontier+ 2008, as we accelerate aggressive business, we will continue to apply these investment criteria to enhance asset efficiency. At the same time, we will take into consideration indices of income scale and growth rate as criteria for strengthening core businesses.

*3 Risk Return Index (RRI) = Return calculated from net income / risk assets

INVESTMENT PLAN

Frontier+ 2008 earmarks gross investment of ¥500 billion and net investment of ¥400 billion over the two years of the plan. Investment will be concentrated on profitable projects, selected according to the basic management indices of an ROA of more than 2% and an RRI of more than 8%, with income scale and growth rate also considered. From the perspectives of risk dispersal and securing of stable earnings, we will strive for balanced investment in the following sectors: the Consumer-Related sector, the Natural Resource/Energy-Related sector, and other sectors, including automobile-related business, information technology, finance, and chemicals. We will downsize or withdraw from projects that do not meet the investment criteria outlined above or that lack strategic potential.

MAJOR INVESTMENT TARGETS

Consumer-Related sector	Brand marketing	Form alliances with brand holders, acquire new trademark rights, and develop businesses in China and other Asian countries
	Food	Advance global SIS (Strategic Integrated System) strategy, in addition to domestic SIS strategy
	General merchandise	Develop businesses and trading globally around a core of building materials, pulp and paper, and rubber and tires
Natural Resource/ Energy-Related sector	Natural resource development	Enhance earnings base through the expansion of existing projects and the acquisition of new projects in metals and energy and through synergies with trading business
Other sectors	Automobile-related	Expand trading in growth markets and develop automobile-related business in strategic markets
	Information technology	Pursue scale with CTC (ITOCHU Techno-Solutions Corporation) at the core and develop service businesses that exploit IT infrastructure
	Finance	Expand retail business with Orico playing the central role and develop market trading and wholesale services
	Chemicals	Develop business on a global scale, from basic chemicals through to plastic products and pharmaceuticals

HUMAN RESOURCES STRATEGY WITH A GLOBAL PERSPECTIVE

Enhancing "Personnel Power" for ITOCHU's Future

Human resources are at the heart of our bid to become a truly global enterprise. We are therefore accelerating the nurturing of personnel who have a global perspective. In December 2003, we formulated our "Promotion Plan on Human Resource Diversification," which called for the utilization of a wide range of human talent, irrespective of gender, nationality, or age. We will now further promote this basic concept through a series of initiatives. Global HR Development Centers have been set up in Japan, New York, London, Shanghai, and Singapore to collect regional block data on the employment environment, labor regulations, and wage levels. Within these development centers, we will form committees composed of local staff who have specific expertise to assist in the framing of our global human resources strategy. As we review and streamline the entire Group personnel system, we will also develop training programs that target management candidates for our Headquarters and major Group companies.

Frontier+ 2008

STRATEGY FOR RETAIL FINANCIAL SERVICES

Pursuing Synergies with Orico and Development of the Retail Card Business

We intend to seamlessly integrate the products and services as well as the logistics and marketing know-how of the ITOCHU Division Companies with Orico's operational resources, which include 680,000 member stores and a 24-million customer base. We will create synergies to further strengthen our competitive advantage in retail financial services.

In March 2007, we merged the insurance agency businesses of Orico Trading Co., Ltd., and ITOCHU Insurance Services Co., Ltd., to form ITOCHU Orico Insurance Services Co., Ltd. We also undertook horizontal collaboration among Division Companies, such as creating the Orico-ITOCHU Synergy Book, which details the products and services that ITOCHU and Orico can jointly provide to Orico member stores.

In April 2007, Famima Credit Corporation formed a partnership with T CARD & MARKETING Co., Ltd., which handles the Tsutaya W Card and T-Point programs. Through the complementary functions of this partnership and the retail card program of POCKETCARD Co., Ltd., we intend to construct a system capable of generating steady earnings.

Pursuing New Business Development with the Mizuho Financial Group

In response to the capital restructuring program adopted by Orico in April 2007, ITOCHU agreed to consider an overall strategic business alliance with the Mizuho Financial Group in the retail finance area. ITOCHU and the Mizuho Financial Group will also explore possibilities for new business development through the utilization of their respective channels and customer bases.

FINANCIAL STRATEGY, RISK MANAGEMENT, AND STEPS TO STRENGTHEN AND STREAMLINE THE MANAGEMENT SYSTEM

ITOCHU will firmly adhere to its policy of solid management, which is necessary for the pursuit of aggressive business. We will further enhance stockholders' equity and continue to strictly control net interest-bearing debt in preparedness for unforeseen contingencies. At the same time, risk assets will be rigorously controlled through Risk Capital Management.

With regard to strengthening and streamlining the management system, ITOCHU is working to build a corporate governance system that improves the transparency of decision making and includes appropriate oversight and supervisory functions. We have also established the Internal Control Committee in order to construct a suitable and efficient internal control system. Linked to these initiatives, we will further promote operational efficiency and speed through the ITOCHU DNA Project—Designing New Age—*4, a business process re-engineering project launched in April 2006.

In addition, we will actively promote our corporate social responsibility (CSR) activities. Externally, we aim to have our stakeholders gain a deeper understanding of ITOCHU's CSR activities, and, internally, we will achieve a wider dissemination of our CSR mission.

*4 A project intended to enhance the visualization of operational processes. Routine tasks will be examined and standardized or integrated for greater efficiency, and the quality and speed of operations will be improved.

SPECIAL FEATURE

The Symbol of Our Strong Determination: "+"

Straight Talk from the President—Frontier+ 2008 and the Road Ahead for ITOCHU

Eizo Kobayashi
President and Chief Executive Officer

We are certainly not complacent about our present condition, and we are beginning to sketch out more ambitious plans and a grand design to advance our operations.

The "+" in Frontier+ 2008 signifies our determination to progress further and to take aggressive business, solid management, and human resources development to the next level.

REVIEW OF FRONTIER-2006

"Quantitative targets were achieved, but qualitative issues remain."

After recovering from challenging circumstances in the late 1990s, ITOCHU emphasized "solid management" through to the implementation of its Frontier-2006 mid-term management plan. In that sense, Frontier-2006 marked an important turning point for the Company. Under the plan, while strictly enhancing solid management, we shifted to a more aggressive business stance, and in the final year of the plan we achieved net income well above our original target. We also made significant progress in strengthening our financial position. Although there was still room for greater improvement, our ability to clear the quantitative targets set under Frontier-2006, even while absorbing the Orico-related losses, has deepened my confidence in ITOCHU's basic earning power.

On the other hand, the qualitative results present quite a different picture to the quantitative results. Under Frontier-2006, net investment was ¥310 billion, significantly surpassing the original target. Our evaluation is that we maintained a well-balanced allocation of investment among the priority areas: the Consumer-Related sector, the Natural Resource/Energy-Related sector, and other key sectors. However, the question remains whether our upfront investments to make ITOCHU an attractive growth prospect were sufficient.

On the human resources front as well, progress has not been sufficient. ITOCHU does business on a global basis, but for several years we have been aware that our human resources development has not kept pace with our globalization. Since 2004, we have implemented our "Promotion Plan on Human Resource Diversification." However, if we look at the number of women in the management layer, or ask ourselves about the kind of positions held by overseas employees, we cannot say that the present level is satisfactory.

To sum up our achievements in the past two fiscal years, the results at the visible, quantitative level can be judged satisfactory. At the qualitative level, despite many initiatives that can be highly evaluated, a number of basic issues remain.

MAIN OBJECTIVES OF FRONTIER+ 2008

"We will make constant efforts to realize improvements daily."

Frontier+ 2008—Enhancing Corporate Value on the World Stage includes a range of strategies that are designed to address the unresolved issues that have carried over from Frontier-2006. If we look at Japan's present economic structure, it is likely that the economy will grow at about 2% annually, a low growth rate characteristic of an advanced nation. So, for ITOCHU to achieve sustainable levels of high growth, it must move its earnings base overseas. Under Frontier+ 2008, we will therefore invest overseas more than ever before, with the aim of attaining continuous earnings from overseas of over ¥100 billion a year. An indispensable factor in meeting this target is the utilization of our human resources in every country.

Unfortunately, in this respect, ITOCHU does not compare well with European or U.S. companies, which implement truly borderless strategies for business development.

Looking at our operating branches and offices worldwide, the management layer is almost exclusively Japanese. To become a company that is recognized around the world—a truly global enterprise—we must not only raise earnings in global markets but also develop and utilize a management layer that is drawn from all our international personnel. During the two-year period of Frontier+ 2008, I want to create a system whereby personnel from around the world are energetically introduced into our management layer in the major overseas Group companies and at ITOCHU Headquarters.

The "+" in Frontier+ 2008 signifies our determination to make even greater progress than we did under Frontier-2006 in the areas of aggressive business, solid management, and human resources development. Our objective of becoming a truly global enterprise is not something that can be achieved in a day. We will devote all our energies to its attainment by making step-by-step improvements on a daily basis.

DEVELOPMENT OF NEW BUSINESS AREAS

"We will pioneer L-I-N-E-s sectors and nurture them to develop into future business pillars."

In line with the Frontier+ 2008 guiding principle of "Create New Initiatives," we are making concerted efforts to develop new business areas. In the Life & Healthcare sector, as Japan's society ages, it is estimated that the potential market for business related to medication, functional food, preventive medicine, medical care, and healthcare is about ¥60 trillion. ITOCHU already has more than 20 departments working in these areas, generating sales of roughly ¥100 billion. However, if we implement horizontal integration, I believe we can create even greater synergies.

Functional Infrastructure comprises IT, which is used to make commercial transactions more efficient; Logistics Technologies, which are logistics networks created by logistics services companies; and Financial Technologies, which are utilized primarily for trading company finance. As a general trading company, ITOCHU has worked over a long period of time to refine its expertise in each of these areas, and they may be termed unique strategic tools for the Company.

By integrating this Functional Infrastructure with the social infrastructure of local municipalities, we can promote the creation of highly sophisticated commercial infrastructure networks. Another possible application of Functional Infrastructure is to construct new value chains in regions where infrastructure is still not fully deployed.

We also position biotechnology as an area with significant potential. In step with the development of IT, there has been startling progress in technology related to human genome analysis and genetic information. Application development for nanotechnology is also progressing rapidly, as business, academic institutions, and the public sector partner to pursue research. Estimates suggest that, by 2010, the scale of the biotechnology market could be ¥25 trillion, while that of the nanotechnology market could be ¥27 trillion, testifying to the extremely fast growth in these areas.

We also foresee many business opportunities in areas related to the environment and energy conservation, which constitute the greatest challenge in the 21st century.

We will work to develop new businesses in these sectors, which we term as L-I-N-E-s sectors, and nurture them to become independent business divisions or companies.

CRITERIA FOR INVESTMENT DECISIONS

"We will execute strict risk control based on our unique investment criteria."

While accelerating the shift to aggressive business, our investment decisions continue to be based on the strict and cautious selection of profitable projects. As a general trading company, ITOCHU is subject to various risks, including market risk and credit risk. To counter these risks, ITOCHU has adopted the Risk Capital Management method and uses the Risk Return Index (RRI) to measure return on risk assets where risk has been quantified. By employing these methods, we measure the efficiency of assets and allocate resources to highly efficient assets.

We define the characteristics of each Division Company's business field and then strictly select projects where the RRI exceeds 8.0%. In addition, we also apply a range of criteria that must be cleared to give a multifaceted investment judgment, including ROA and income scale. For overseas investment, we are enhancing the precision of our investment judgment by taking into account foreign exchange risk as well as the hurdle rate for each country.

We will apply Exit Rules to companies that we have little reason to hold. By that I mean companies that are making losses, companies that have low efficiency despite being profitable, or companies that have low strategic importance. In this way, we will improve asset efficiency as well as revenue and earnings company-wide.

BUSINESS PROCESS RE-ENGINEERING AN ENDLESS TASK

"We will actively promote the ITOCHU DNA Project."

Since April 2006, we have been promoting the ITOCHU DNA Project—Designing New Age—. This project concentrates on business process re-engineering and aims to reinforce the "power and ability of each of our organizations," which is a key factor in determining the competitiveness of general trading companies.

The project enhances the visualization of operational processes, examining routine tasks in order to standardize or integrate them, and promotes more efficient, higher-quality, and speedier operations. Such improvements can raise the overall competitiveness of ITOCHU as an organization—for example, bringing out extra marketing power in a sales division or promoting the specialization of administrative staff. ITOCHU is celebrating its 150th anniversary, and we will deepen this ongoing initiative in order for us to enjoy another 150 years of successful business.

STRATEGY FOR RETAIL FINANCIAL SERVICES

"Our spirit is to overcome challenges and strive for further growth."

In 2005, ITOCHU acquired 21% of the common stock of Orient Corporation (Orico). The move was designed to enhance ITOCHU's presence in the payment solutions area of its strong Consumer-Related sector and to expand operations into the credit card business. Under the revised Moneylending Control Law in Japan, Orico posted a significant loss associated with setting up an allowance for losses on interest repayments and recorded a net loss. ITOCHU believes that Orico has resolved future concerns by recording these losses and through the full support of the Mizuho Financial Group.

With 680,000 member stores, a 24-million customer base, and considerable know-how, Orico is an important strategic partner for ITOCHU in the retail finance area. Furthermore, in May 2007, ITOCHU subscribed for a ¥30 billion third-party allotment of preferred shares from Orico, and on this occasion ITOCHU agreed to consider forming a strategic business alliance with the Mizuho Financial Group in order to strengthen its strategy for retail financial services. In particular, we intend to promote business in the card sector, a key infrastructure area for retail financial services, through a strategic alliance with the Mizuho Financial Group. At present, we are exploring the possibility for ITOCHU to participate in the third-party credit-card processing business of Mizuho Financial Group subsidiary UC CARD Co., Ltd. ITOCHU and the Mizuho Financial Group will also discuss the establishment of new financial businesses through the full utilization of their respective business channels and customer base resources.

Through such measures, we have transformed the challenge of the revised Moneylending Control Law into an opportunity to expand our business. And we will continue to accelerate our strategy for retail financial services.

BASIC DIVIDEND POLICY

"We aim to further increase the consolidated dividend payout ratio."

ITOCHU uses retained earnings to replenish stockholders' equity to promote its growth strategy as well as to maintain and reinforce its competitive power. ITOCHU's basic policy regarding dividend payments calls for giving consideration to consolidated performance and maintaining a stable distribution of returns to stockholders. During Frontier+ 2008, we aim to replenish non-consolidated stockholders' equity while progressively increasing the dividend and increasing the consolidated dividend payout ratio. We made an annual dividend payment of ¥14.00 per share in the fiscal year under review, and our intention is to raise this by ¥3.00, for a dividend payment of ¥17.00 per share for the fiscal year ending March 2008.


RISK MANAGEMENT FOR NATURAL RESOURCES AND ENERGY PRICE FLUCTUATIONS

"We will cautiously ascertain investment value."

For coal and iron ore, there is increasing demand from China and other emerging markets, and we do not expect demand to fall significantly. For crude oil and LNG, supply-side surplus production capacity has stabilized, so overall we expect the current price levels to continue. On the other hand, we take account of geopolitical risk and risk related to fluctuations in the supply-demand balance of natural resources and energy. We carefully calculate future cash flow when evaluating new projects, and we strictly select projects that meet our investment criteria. Also, we try to lengthen the period of contracts in order to lighten price fluctuation risk.

FUTURE ROLE OF GENERAL TRADING COMPANIES

"In a period of great change, general trading companies can take the initiative."

I believe that great business chances are coming the way of general trading companies. Functional specialization is proceeding in many industries at a speed never seen before, and this trend is deepening both domestically and overseas. This gives general trading companies a distinct advantage as they can create business synergies from their know-how and networks, which span many business areas.

General trading companies have functional infrastructure, which they have nurtured in value chains that extend from upstream to midstream and downstream. This infrastructure can give them the advantage to take the initiative in many sectors. To give the example of a company that sells certain commercial goods. When the company completes a sale of commercial goods, its commercial activities in that area come to an end. ITOCHU, on the other hand, has staff with rich know-how that can use this as a starting point for further business development. We can create a new framework, constructing networks based on IT and logistics technology. We are also able to participate in the management of stores, which are in direct contact with consumers.

In this period of dramatic change, as social and economic systems become increasingly complex, the ability of general trading companies to take multiple initiatives across a wide range of sectors is a considerable strength. And there will be greater opportunities in the future.

FUNDAMENTAL STRENGTH OF ITOCHU

"Our dominant positions are in clothing, food, and housing—areas that support daily life."

Many people would identify ITOCHU's core competence as textile trading, which Chubei Itoh founded 150 years ago. As our business developed from this origin in textiles, we moved into the clothing, food, and housing areas, and the inheritance of this base of operations is our current strength in the Consumer-Related sector. In clothing and textiles, we are placed well in advance of our competitors. Our business ranges from the procurement of textile raw materials to high-value-added brands and advanced technology. We have a portfolio of more than 100 powerful brands, and our know-how and value chain stretches from discovering exciting brands to marketing. In food, we are promoting our Strategic Integrated System (SIS), a supply and demand system based on customer needs, and we now have an overwhelmingly dominant position in the upstream, midstream, and downstream sectors. In housing, we have established a commanding position in building materials, particularly in Japan and the United States. Furthermore, we are displaying our strengths in the IT, multimedia, and financial services sectors and continually creating new businesses. These are the advantages that clearly differentiate us from competitors. At the same time, our strength lies in our earnings structure, which is well balanced across segments.

PROSPECTS FOR ITOCHU

"Our profile needs to change from a microcosm of the Japanese economy to a microcosm of the global economy."

In the past, general trading companies were often described as microcosms of the Japanese economy. However, ITOCHU is now seeking to become a microcosm of the global economy. To achieve this, we first have to take a commanding view of the world economy and be acutely aware of which sectors are growing and what our mission should be. Then, we need to strengthen our decision-making power in order to make appropriate investments within carefully considered regions and time frames.

The current earnings level, when contrasted with our future image of ITOCHU, cannot be described as satisfactory. Frontier+ 2008 maps out the way forward for realizing our future image of ITOCHU, which has an earnings level of a different dimension.

I believe that our present financial position and earning power give us the perfect opportunity to step onto the world stage and become a truly global enterprise.

Division Companies

From its original business of textiles, ITOCHU has expanded its areas of operations to include natural resource development, machinery, foods, consumer-related businesses, and financial services. At the same time, it has developed an integrated business structure that encompasses not only trading but also investment and project organization.

Based on the Division Company System introduced in April 1997, ITOCHU has seven Division Companies. The aim of this system is to maximize revenue and earnings in each field of business through a swift decision-making process. In addition, we are working to maximize the earnings of the entire Group through the horizontal integration of projects spanning the Division Companies and in close cooperation with ITOCHU Headquarters.

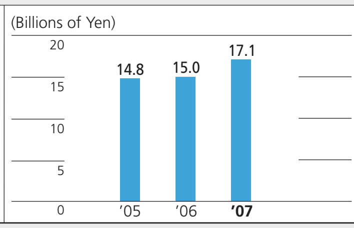
Division Companies at a Glance

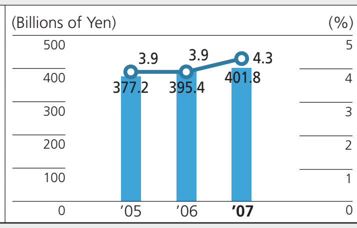
Division Companies	Performance	

Textile Company

Net Income (Loss) | Total Assets / ROA ■ Total Assets (left) -○- ROA (right)

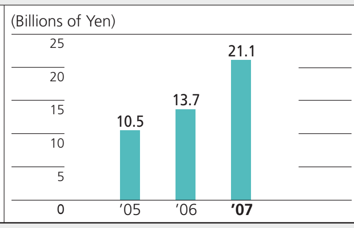
Major Group Companies
- Prominent Apparel Ltd.
- Tommy Hilfiger Japan Corporation
- JOI'X CORPORATION

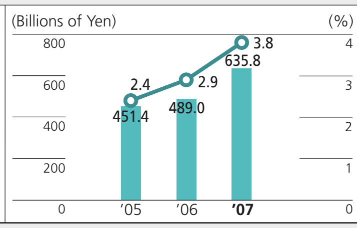




Machinery Company

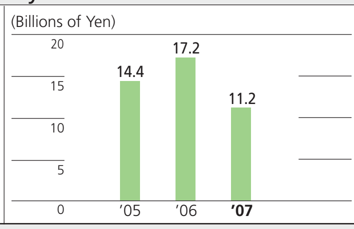
Major Group Companies
- ITOCHU Sanki Corporation
- ITOCHU CONSTRUCTION MACHINERY CO., LTD.
- MCL Group Limited
- ITOCHU Automobile America Inc.
- Century Leasing System, Inc.

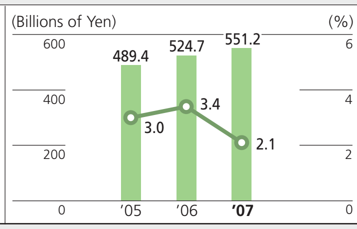




Aerospace, Electronics & Multimedia Company

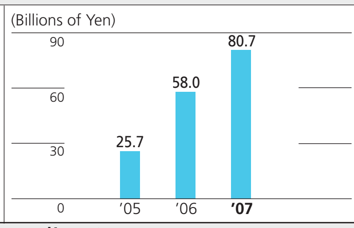
Major Group Companies
- ITOCHU Techno-Solutions Corporation
- ITC NETWORKS CORPORATION
- Excite Japan Co., Ltd.
- SPACE SHOWER NETWORKS INC.

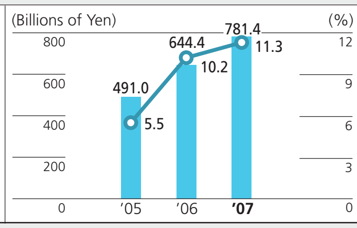




Energy, Metals & Minerals Company

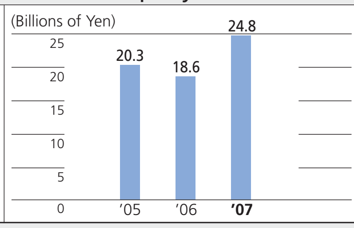
Major Group Companies
- ITOCHU Non-Ferrous Materials Co., Ltd.
- ITOCHU Petroleum Japan Ltd.
- ITOCHU Minerals & Energy of Australia Pty Ltd
- ITOCHU Oil Exploration (Azerbaijan) Inc.
- Marubeni-Itochu Steel Inc.

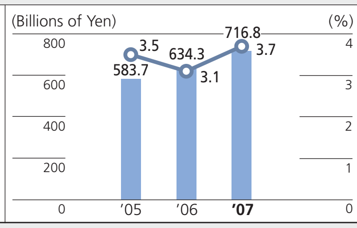




Chemicals, Forest Products & General Merchandise Company

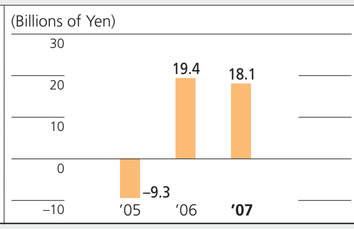
Major Group Companies
- ITOCHU Kenzai Corp.
- ITOCHU Pulp & Paper Corp.
- ITOCHU CHEMICAL FRONTIER Corporation
- ITOCHU PLASTICS INC.
- PrimeSource Building Products, Inc.

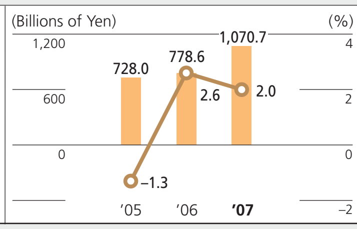




Food Company

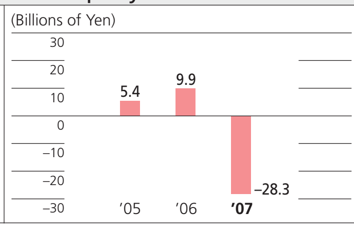
Major Group Companies
- NIPPON ACCESS, INC.
- Japan Foods Co., Ltd.
- FamilyMart Co., Ltd.

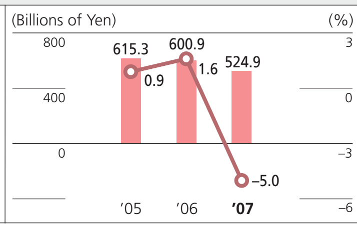




Finance, Realty, Insurance & Logistics Services Company

Major Group Companies
- ITOCHU Finance Corporation
- CENTURY 21 REAL ESTATE OF JAPAN LTD.
- i-LOGISTICS CORP.
- Orient Corporation
- FX PRIME Corporation
- eGuarantee, Inc.





Frontier+ 2008 Strategies	Major Products and Services
• Pioneer and develop new businesses and aggressively implement M&A activities • Expand revenue and earnings from overseas operations • Boost earning power of operating companies	• Raw materials • Textiles • Apparel products • Fashion goods • Industrial textiles • Branded products or services, such as apparel, food, household goods, and music
• Further expand core businesses, centered on automobiles, ships, petroleum and chemical plants, and construction machinery • Develop new business fields, including environment, energy conservation, alternative energy sources (solar cells), IPPs and water resources, railway, transport, and infrastructure • Enhance management efficiency by accumulating high-quality assets	• Gas, oil, and petrochemical plants • Ships • Automobiles • Rolling stock • Power-generating equipment • Construction machinery • Textile machinery • Industrial machinery • Electronic devices and equipment • Water resources and environment-related equipment • Machinery related to renewable and alternative energy sources
• Accelerate growth in core businesses of aerospace, IT solutions, and mobile • Turn upfront investments in life science and mobile & contents into sources of profit • Pioneer new businesses	• Broadcasting and communication business • Electronic systems • Internet-related business • Equipment for broadcasting and communication services • Programming supply and entertainment business • Mobile telecommunication equipment and services • Life science business • Systems and related equipment for computers and information processing • Semiconductor equipment • Aircraft and in-flight equipment • Air transportation management systems • Space-related equipment • Security equipment
• Expand equity interests in natural resource development projects • Strengthen value chains through activities including M&A • Train personnel to manage global network • Commercialize and realize profitability in new energy businesses, including solar energy, DME, and bio-ethanol • Construct profitable models for environment-related businesses, such as greenhouse gas emissions credit trading and resource recycling	• Iron ore • Coal • Aluminum • Steel scrap • Steel products • Crude oil • Petroleum products • LPG • LNG • Nuclear fuel
• Bolster core businesses, including building materials in North America, pulp trading, and basic and fine chemicals, and strengthen overseas operations • Develop new businesses in Life & Healthcare and Environment & New Energy-related sectors • Pursue a Group personnel strategy • Strengthen risk management and maintain strict compliance	• Building materials • Logs and lumber • Pulp • Paper • Crude rubber • Tires • Ceramic products • Basic chemicals • Fine chemicals • Pharmaceutical products • Inorganic chemicals • Plastics • Various consumer products
• Move forward with application of SIS strategy in domestic market as well as at overseas bases exporting to Japan • Develop SIS strategy for overseas markets • Create value-added businesses and turn them into profit-generating operations • Implement organizational reform of management structure of Group companies • Pursue personnel strategy • Strengthen risk management • Maintain strict compliance and continuously pursue food safety	• Wheat and barley • Vegetable oils • Soybeans and corn • Beverage materials (juice, coffee) • Sugar, sweeteners • Dairy products • Marine, livestock and agri products • Frozen foods • Processed foods and pet foods • Soft drinks and liquor
• Support Orico's new medium-term plan in cooperation with Mizuho Financial Group • Establish a solid position in fund and securitization businesses, particularly in areas of private equity and real estate securitization • Draw on Division Companies' strengths to develop overseas operations • Increase revenue and earnings through development and restructuring of core operating companies • Strengthen risk-taking capabilities in areas of insurance and logistics	• Foreign exchange and securities trading, asset management business • Loans • FX margin account trading • Credit card/shopping credit • Other financial services • Property development, sales and purchase, and asset management • Brokerage and advisory service • Equity investment to funds • Private finance initiatives • House construction • REIT management • Golf courses • Insurance agent and insurance broker • Domestic and international 3PL • Chartering

Textile Company

The starting point for our business is textiles. The Textile Company pursues added value and seeks to seize the initiative in all fields of the textile industry.

President, Textile Company
Masahiro Okafuji

DEAN & DELUCA Nagoya store

Paul Smith New York store

BUSINESS OVERVIEW AND STRENGTHS

From its origins in linen trading, the Company's business now ranges from fashion to hi-tech fibers, with a product mix that spans apparel, accessories, interior fabrics, and industrial textiles. The Company's basic management policy is to exploit marketing strength in the operating areas that extend from the procurement of raw materials to the delivery of finished products. We continuously strive to strengthen our brand business, to optimize materials, procurement, production, and sales, and to cultivate new businesses.

In terms of revenue and earnings and our operational development capability, the Company has a position of overwhelming strength among general trading companies in the textile industry. This strong position can be explained by our flexible creativity and foresight, which allow us to continually define new business models, such as pioneering downstream markets and building a firm foundation in advance of competitors.

In the brand business, we have built up an unassailable position based on an innovative business model that encompasses a wide range of areas. We conduct importing and licensing activities, and we supply products from our own manufacturing bases. We also work to expand both sales channels and product lineups. Furthermore, we pursue the long-term stabilization of trademark rights through tie-ups and M&A activities and aggressive business development ahead of competitors in the Asian market.

Our marketing excellence in introducing and cultivating valuable brands is unmatched. We intend to refine such excellence even further and solidify our position in the brand business. Our fundamental strength also lies in the breadth of our operations—from raw materials to finished products, industrial textiles, and advanced technology—and in our advanced global network.

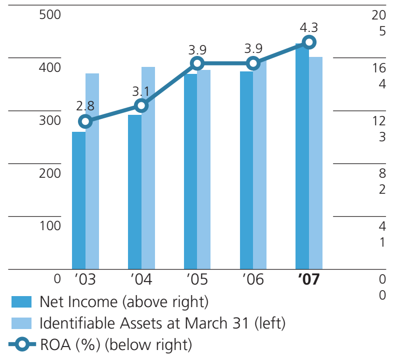
BUSINESS PERFORMANCE IN FISCAL 2007

The domestic textile industry continued to contract overall, but new market opportunities began to emerge. Many of these opportunities center on casual wear and accessories for baby boomers, who are now retiring in large numbers. The apparel products and distribution sectors saw stepped-up corporate restructuring and M&A activity, in some cases with investment funds. The global trade environment for textiles was volatile as the Euro and Chinese renminbi appreciated, labor costs soared in China, and quota restrictions on imports to the United States were lifted.

In this environment, the Company set the following priorities: seize opportunities for new businesses; grow revenue and earnings of subsidiaries and associates; increase revenue and earnings in overseas operations; and strengthen risk management.

In seizing opportunities for new businesses, we are placing emphasis on the development of our brand business and advanced technology. We proceeded with application development based on exclusive sales rights for the curved-surface printing technology developed by venture company Shuhou Co., Ltd. Such applications included sales of

Net Income /
Identifiable Assets / ROA



Financial Highlights

(Billions of Yen)

Years ended March 31	2003	2004	2005	2006	**2007**
Gross trading profit	¥ 93.5	¥100.3	¥112.8	¥122.9	**¥124.6**
Net income	10.4	11.7	14.8	15.0	**17.1**
Identifiable assets at March 31	370.8	382.7	377.2	395.4	**401.8**
ROA (%)	2.8	3.1	3.9	3.9	**4.3**

Net Income from Major Group Companies

(Billions of Yen)

Years ended March 31	2005	2006	**2007**
Prominent Apparel Ltd.	¥0.2	¥0.0	**¥0.6**
Tommy Hilfiger Japan Corporation	0.6	0.6	**0.7**
JOI'X CORPORATION	0.8	1.2	**1.1**

LeSportsac Shanghai flagship store


Example of curved-surface printing for mobile phones by Shuhou Co., Ltd.

related decoration technology to major Japanese mobile phone makers. In February 2007, we strengthened our business relationship with Shuhou Co., Ltd., when the company made a third-party allocation of shares to ITOCHU. This move will enhance the operational foundation for application development targeting automobile interiors and sporting goods as well as for global sales expansion. In the inkjet printing business, InkMax Co., Ltd., completed facilities for the mass production of anhydrous dyes in collaboration with Tsuyakin Kogyo Co., Ltd., MITSUBISHI PENCIL CO., LTD., Tokai Senko K.K., and Toshin Kogyo Co., Ltd. Further, we reached an agreement with Outlast Technologies, Inc., of the United States, and Outlast Asia, LLC., that gives us exclusive import, production, and sales rights as well as exclusive trademark rights for Outlast temperature-adaptive materials.

In accordance with the mid-term management plan Frontier-2006, we pursued initiatives to strengthen vertical linkage and promote horizontal integration. In strengthening our vertical linkage, we entered into the previously mentioned agreement with Outlast Technologies, Inc., and worked to develop textile applications for the processed material Platinacron, which uses platinum nanocolides. To promote horizontal integration, we are exploring ways to expand applications of the silver fiber Mu-func with the Chemicals, Forest Products & General Merchandise Company.

Our investments in the brand business showed favorable results, and LeSportsac, Paul Smith, and FILA brands all contributed to the Company's results. In addition, major subsidiaries and affiliates, including Tommy Hilfiger Japan Corporation and JOI'X CORPORATION, posted strong performances.

As a result, in the fiscal year ended March 2007, gross trading profit increased ¥1.8 billion from the previous fiscal year, to ¥124.6 billion. Net income rose ¥2.1 billion, to ¥17.1 billion, representing the Textile Company's sixth consecutive year of increased net income.

NEW MID-TERM MANAGEMENT PLAN STRATEGIES

In Japan, the textile market peaked in 1992, and it has been contracting ever since. To expand our operations in this severe environment, it is necessary to pioneer new business sectors. To that end, we are aggressively implementing M&A activities, the acquisition of trademark rights, and management participation in the brand and apparel fields. Further, we are exploring and developing differentiated advanced technologies.

We will accelerate our business development in overseas markets, such as in China and elsewhere in Asia, focusing on the brands for which we have acquired rights through M&A activities or management participation.

Machinery Company

Seeking to contribute to both local communities and international society, the Machinery Company develops its overseas operations in the fields of automobile, ship, plant, construction machinery, industrial machinery related and other businesses with the strong support of the ITOCHU global network. Concern for the environment is a priority as we develop machinery-related businesses in such fields as water resources, the environment, renewable energy, and alternative energy sources.

President, Machinery Company
Takanobu Furuta

Jointly owned LNG carrier intended for Algeria

BUSINESS OVERVIEW AND STRENGTHS

The Machinery Company is composed of the Plant & Project Division, the Automobile Division, and the Industrial Machinery & Solution Division.

The Plant & Project Division covers business in gas, petrochemicals, electric power, railway, transport, infrastructure, ships, environment-related products, and other areas. In these fields, the division delivers services with high added value as it develops new projects, undertakes EPC*1 business and project finance, and makes capital investments. The division also conducts business in water resources and environment-related equipment as well as activities related to renewable and alternative energy.

The Automobile Division works through the ITOCHU global network and with strategic partners to develop and expand its various automobile-related operations, including wholesale, retail, finance, and distribution, in such major markets as Europe, the United States, Asia, and Japan.

The Industrial Machinery & Solution Division is striving to become a highly skilled group that promotes industrial growth on a global scale. The division is engaged in the wholesale and retail trade of construction machinery and overseas project development. The division also handles a wide variety of products distinct from the other divisions. The division's overall strength lies in steadily meeting customer needs through ties with ITOCHU Group companies.

The Machinery Company has a long history of trading and business investment in overseas markets. About one-third of our personnel are stationed at overseas branches and subsidiaries. We pursue business actively not just in the major U.S. and Asian markets but also in the BRICs and other emerging markets. Our highly efficient management ensures an ROA that is among the highest for general trading companies in the machinery industry. We are striving to allocate resources to priority areas with the aim of achieving even higher revenue and earnings.

*1 EPC: Engineering, Procurement & Construction

Construction machinery delivered for mines in Mongolia

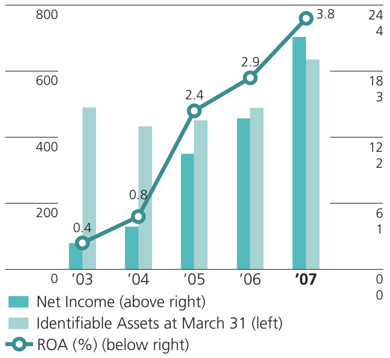
BUSINESS PERFORMANCE IN FISCAL 2007

The business environment was generally favorable. Automobile sales expanded in North America as well as in Russia, the Commonwealth of Independent States, and other emerging markets. Global demand for construction machinery expanded, trade in the ship market was brisk, and there was an increase in the number of environment-related projects.

In this environment, while leveraging our highly efficient management, we reallocated management resources to key areas and accelerated the shift to aggressive business. As we nurtured the development potential of our operating companies, we moved into new business areas and implemented large-scale strategic investment, including M&A.

Net Income / Identifiable Assets / ROA

(Billions of Yen) (Billions of Yen / %)



Financial Highlights

(Billions of Yen)

Years ended March 31	2003	2004	2005	2006	**2007**
Gross trading profit	¥ 48.6	¥ 51.1	¥ 58.0	¥ 69.5	**¥ 90.5**
Net income	2.4	3.9	10.5	13.7	**21.1**
Identifiable assets at March 31	490.1	433.6	451.4	489.0	**635.8**
ROA (%)	0.4	0.8	2.4	2.9	**3.8**

Net Income (Loss) from Major Group Companies

(Billions of Yen)

Years ended March 31	2005	2006	**2007**
ITOCHU Sanki Corporation	¥0.3	¥0.4	**¥ 0.4**
ITOCHU CONSTRUCTION MACHINERY CO., LTD.	0.3	0.4	**0.7**
MCL Group Limited	0.2	0.4	**(0.4)**
ITOCHU Automobile America Inc.	1.1	1.1	**1.2**
Century Leasing System, Inc.	1.1	1.3	**1.6**

Isuzu Motors' new-type *ELF*, winner of Good Design Award in fiscal 2007

In the Plant & Project Division, ship orders increased supported by the strong ship market. In the United States, we made a joint investment with Starwood Energy Group Global, LLC, in the North American IPP*2 CalPeak. We also concluded a financing agreement with Petroleo Brasileiro S.A. for the modernization of its REVAP oil production plant.

In the Automobile Division, we deepened our alliances with strategic partners. We strengthened our capital partnership with Isuzu Motors Limited by acquiring all of Isuzu Motors' preferred stocks and replacing those stocks with a prescribed number of common stock. We also established Isuzu Network Company Limited, to strengthen domestic operations, and Isuzu Finance of America, Inc., a captive sales finance company for Isuzu products in North America. We acquired stocks in Akebono Brake Industry Co., Ltd., to enter into a capital tie-up targeting increased sales of Akebono Corporation's products both domestically and overseas, centered on North America.

In the Industrial Machinery & Solution Division, we strengthened our construction machinery business through the acquisition of Midlantic Machinery, Inc., the North American dealer for Komatsu's construction machinery. Further, the Company has successfully become one of five companies participating in a joint venture for the East West Highway construction project East Construction Area (399km) in Algeria. This project is the largest overseas social infrastructure project to be undertaken by Japanese companies, with estimated construction costs of approximately ¥540 billion.

In addition to leveraging our vertical linkage as outlined above, we engaged in measures to promote horizontal integration. We worked with other Division Companies to undertake the East West Highway construction project in Algeria. Also, as part of efforts to explore alternative energy sources, we formed a solar cell business development group with the Energy, Metals & Minerals Company.

As a result, in the fiscal year ended March 2007, gross trading profit was up ¥20.9 billion from the previous fiscal year, to ¥90.5 billion. Net income rose ¥7.5 billion, to ¥21.1 billion, due in part to such special factors as gains from sales of marketable securities.

*2 IPP (Independent Power Producer): An independent business operation in which private companies construct and operate power-generating facilities and sell power to electric utilities for retail customers.

Algeria East West Highway

NEW MID-TERM MANAGEMENT PLAN STRATEGIES

We plan to expand earnings through stepped-up investment in the following areas: automobile-related business; the environment, energy conservation, and alternative energy sources (solar cells); and IPPs, water resources, railway, transport, and infrastructure. At the same time, we will enhance our key strength of highly efficient management by accumulating high-quality assets through investing in profitable projects. We will also reinforce management through strengthened risk management.

Aerospace, Electronics & Multimedia Company

As a leading player in each of its fields of business, including aerospace, IT solutions, and multi-channel media, the Company is targeting further growth by leveraging its DNA—the unique nature of the Company that has driven its continuous aggressive development of new businesses in past decades.

President, Aerospace, Electronics & Multimedia Company
Shigeki Nishiyama

"European Helicopter" sold by EuroHeli Corporation

BUSINESS OVERVIEW AND STRENGTHS

The Aerospace, Electronics & Multimedia Company comprises the Aerospace & Electronic Systems Division, the IT & Business Solutions Division, and the Media Business Division. We are involved in a wide range of businesses, including aerospace, IT solutions, e-business, mobile phone distribution, and video content media. Our aim is to strengthen our core businesses first, which contribute to the continuous expansion of our net income, and then to focus on new business development that will create additional profit in the near future. To those ends, we clarify strategy in each business sector and allocate resources properly and efficiently.

In the aerospace business, we enjoy a high domestic market share in compact jet, helicopter, and avionics* sales through the operations of Group companies ITOCHU AVIATION CO., LTD., JAPAN AEROSPACE CORPORATION, and EuroHeli Corporation. In the IT solutions business, ITOCHU Techno-Solutions Corporation (CTC), formed in October 2006 through the merger of ITOCHU TECHNO-SCIENCE Corporation and CRC Solutions Corp., is an industry leader, with a business model that integrates overseas advanced technology products and our systems development capabilities and maintenance services. In the e-business, Excite Japan Co., Ltd., is expanding the scope of its business in the specialist field of web portal services. In mobile & contents, we offer a range of services through ITC NETWORKS CORPORATION, which boasts an impressive track record in mobile phone sales, NANO Media Inc., which distributes content to mobile phones, and On Demand TV, Inc., which provides online video-on-demand (VOD) distribution services through FTTH.

* Avionics: Electric equipment for aviation and space use

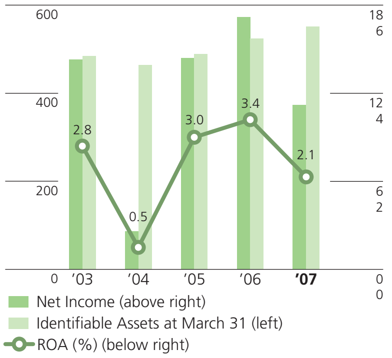
Excite portal site

BUSINESS PERFORMANCE IN FISCAL 2007

The business environment in the domestic air transportation industry did not turn positive. Although passenger numbers increased, supported by Japan's economic recovery, the industry was affected by several negative factors. Crude oil prices remained at a high level, and the emergence of discount airlines forced airfares down. In contrast, trends in the IT industry were generally positive. Investment in information systems expanded, spurred by the new Corporate Law in Japan and the Japanese version of the Sarbanes-Oxley Act. In addition, the increasingly wide diffusion of FTTH encouraged the expansion of online broadband broadcasting. The mobile & contents market was also buoyant, supported by the start of number portability. New business opportunities arose from the rapid adoption of one-segment digital terrestrial broadcasts and the

Net Income /
Identifiable Assets / ROA

(Billions of Yen) (Billions of Yen / %)



Financial Highlights

(Billions of Yen)

Years ended March 31	2003	2004	2005	2006	**2007**
Gross trading profit	¥101.5	¥105.5	¥108.4	¥116.4	**¥133.5**
Net income	14.3	2.6	14.4	17.2	**11.2**
Identifiable assets at March 31	484.3	464.3	489.4	524.7	**551.2**
ROA (%)	2.8	0.5	3.0	3.4	**2.1**

Net Income from Major Group Companies

(Billions of Yen)

Years ended March 31	2005	2006	**2007**
ITOCHU Techno-Solutions Corporation*	¥6.1	¥6.6	**¥7.4**
ITC NETWORKS CORPORATION	2.3	2.1	**1.8**
Excite Japan Co., Ltd.	0.4	0.6	**0.2**
SPACE SHOWER NETWORKS INC.	0.1	0.2	**0.2**

* The net income of ITOCHU Techno-Solutions Corporation includes that of former CRC Solutions Corp.

CTC data center

diffusion of payment systems on mobile phones. In the Life & Healthcare sector, demand increased for preventive medicine and healthcare products.

In this setting, we continued to strengthen existing businesses and started new businesses. In IT solutions, CTC, newly created through the merger of two Group companies, expanded our earning base. Also, the launch of VOD services by On Demand TV, Inc., a joint venture with NTT, is expected to bring large returns in a couple of years.

We expanded our business domain in the mobile field. ITC NETWORKS CORPORATION acquired Idomco Communications, a second-tier mobile phone retailer, thereby broadening our operational base in mobile phone distribution. Further, Asurion Japan K.K. began the provision of insurance and warranty services for mobile phones.

The mid-term management plan Frontier-2006 positioned the Life & Healthcare sector as a future pillar of earnings. We formed Wellness Communications Corporation, which provides services that allow employees to schedule medical examinations and view health-check results via the Internet. In addition, we established a second PET Center for cancer examinations for preventive medicine.

As a result, in the fiscal year ended March 2007, gross trading profit increased ¥17.1 billion from the previous fiscal year, to ¥133.5 billion, supported by strong performances in IT solutions and mobile phone distribution. Net income decreased ¥6.0 billion, to ¥11.2 billion, reflecting the initial public offering of two subsidiaries in the previous fiscal year.

NEW MID-TERM MANAGEMENT PLAN STRATEGIES

Our specific challenges under the new mid-term management plan are to accelerate growth in our core businesses, centered on CTC, ITC NETWORKS CORPORATION, Excite Japan Co., Ltd., NANO Media Inc., and the aviation subsidiaries; to turn our upfront investments in VOD and the Life & Healthcare sector into sources of profit; and to pioneer new business sectors continuously.

On Demand TV, Inc., VOD service

Energy, Metals & Minerals Company

The Energy, Metals & Minerals Company aims to participate in global economic development through expansion of its synergetic activities in "natural resource development" and "trading." At the same time, taking a longer-term perspective, we are also accepting the challenge of the shifting paradigm of new environmentally friendly businesses, such as greenhouse gas emissions credit trading, solar energy, dimethyl ether (DME), and bio-ethanol.

President, Energy, Metals & Minerals Company
Yoichi Kobayashi

Newlands Coal Mine in Australia
Courtesy of Xstrata Coal Queensland Pty Limited

BUSINESS OVERVIEW AND STRENGTHS

The Energy, Metals & Minerals Company's fundamental strategy is to expand the revenue base through a synergetic approach between "natural resource development" and "trading." Natural resource development is our highest priority, and we are actively increasing our investment portfolio in attractive projects. In addition, we seek to enhance profitability through the creation of value chains supported by natural resources obtained through our own projects.

The focus of our mineral resources and coal businesses is growth of our revenue base centered on active expansion of our investment portfolio, including iron ore development in Australia, alumina refining projects in Australia, and coal mining projects in Australia and Indonesia. At the same time, we will continue to expand our trading activities in these commodities.

In the steel industry, Marubeni-Itochu Steel Inc., a major steel products distributor, handles the fabrication, logistics, and sales of products as well as solutions and service functions for customers through its more than 100 domestic and overseas subsidiaries and associates.

The Company's energy trading and energy resource development is growing in a broad base of commodities and regions, including oil and gas development projects in Azerbaijan, the U.K. North Sea, and Sakhalin; LNG projects in the Middle East; and natural gas development projects in North America. We are also increasing our global trading of crude oil and petroleum products, LNG, LPG, and natural uranium.

Additionally, we are seeking to advance new environmentally friendly businesses, such as the trading of greenhouse gas emission credits, solar energy, coal gasification and liquefaction, DME, and bio-ethanol.

The Company's strengths include a highly profitable investment portfolio in mineral resources, coal, and energy resources that is well balanced in terms of products, geographic distribution, and investment partners. These strengths are enhanced by the trade revenue provided by our Group companies in key industries, such as Marubeni-Itochu Steel Inc. in steel products and ITOCHU ENEX CO., LTD., and ITOCHU Petroleum Japan Ltd. in energy trading.

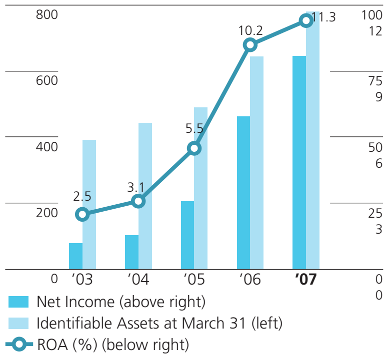
Offshore platform of the Central Azeri Oil Field
Courtesy of AIOC

BUSINESS PERFORMANCE IN FISCAL 2007

The Company's performance in the fiscal year benefited from continuous high prices of the commodities that were handled, such as crude oil, iron ore, and coal. Our equity holdings in these assets expanded along with the revenue from these businesses. However, the high price environment also meant high operating costs at our projects, which had a negative impact on revenue. Further, the high price of natural resource assets has impaired opportunities for new resource acquisitions.

Net Income / Identifiable Assets / ROA

(Billions of Yen) (Billions of Yen / %)



Financial Highlights

(Billions of Yen)

Years ended March 31	2003	2004	2005	2006	**2007**
Gross trading profit	¥ 33.0	¥ 24.7	¥ 39.1	¥ 73.9	**¥102.1**
(Metals & Minerals)	19.2	14.4	25.8	48.2	**46.5**
(Energy)	13.8	10.3	13.3	25.6	**55.6**
Net income	10.0	12.9	25.7	58.0	**80.7**
Identifiable assets at March 31	391.6	443.7	491.0	644.4	**781.4**
ROA (%)	2.5	3.1	5.5	10.2	**11.3**

Net Income from Major Group Companies

(Billions of Yen)

Years ended March 31	2005	2006	**2007**
ITOCHU Non-Ferrous Materials Co., Ltd.	¥ 0.8	¥ 1.0	**¥ 1.2**
ITOCHU Petroleum Japan Ltd.	0.4	2.5	**5.1**
ITOCHU Minerals & Energy of Australia Pty Ltd	13.9	25.9	**28.9**
ITOCHU Oil Exploration (Azerbaijan) Inc.	2.0	5.2	**21.2**
Marubeni-Itochu Steel Inc.	9.7	15.9	**16.8**

Mt. Whaleback Iron Ore Mine in Western Australia

In response, we have accelerated our shift to aggressive business development through investment in highly profitable projects and assets. At the same time, we have improved our operations management and reinforced the risk management structure of our subsidiaries and associates.

With regard to specific activities undertaken in the fiscal year, in mineral resources and coal, we increased our revenue base by proceeding with the expansion of the iron ore project in Western Australia and continuing to expand investment in Australian coal mining projects. In energy resource development, production steadily increased in the ACG (Azeri-Chirag-Gunashli) Oil Field Development Project in Azerbaijan. We also invested in Qalhat LNG S.A.O.C. in Oman, entered into natural gas development in North America, and worked on new resource exploratory and development projects. In energy trade, we added Kansas Energy LLC, of the United States, a company that handles natural gas sales within the United States, to our global trade network of crude oil and petroleum products. We expect this to create added synergy with our natural resource development businesses. For new energy sources, we strengthened our linkages with other Division Companies within ITOCHU. These activities included investment in NorSun AS, of Norway, a company that produces silicon wafers for solar cells, and the start-up of a pre-feasibility study for a bio-ethanol project in Brazil.

As a result, in the fiscal year ended March 2007, gross trading profit increased ¥28.2 billion from the previous fiscal year, to ¥102.1 billion. Net income rose ¥22.7 billion, to ¥80.7 billion.

NEW MID-TERM MANAGEMENT PLAN STRATEGIES

Under the Frontier+ 2008 mid-term management plan, we will seek to strengthen our core businesses internationally. This will be achieved by expanding our equity interests in natural resource development projects, strengthening our value chains through such activities as M&A, and training employees to manage our global network. Further, we will develop and commercialize new energy businesses, such as solar energy, DME, and bio-ethanol, as well as environment-related fields, such as greenhouse gas emissions credit trading and resource recycling.

Truck running on environmentally friendly DME

Chemicals, Forest Products & General Merchandise Company

The Chemicals, Forest Products & General Merchandise Company has built solid value chains in diverse industries, ranging from upstream—raw materials—to downstream—finished products. We are developing businesses from a global perspective to precisely meet customer needs.

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

CENIBRA, Brazil

Home construction site in North America; materials supplied by PrimeSource Building Products, Inc., and other companies

BUSINESS OVERVIEW AND STRENGTHS

The Chemicals, Forest Products & General Merchandise Company is divided into two divisions. The Forest Products & General Merchandise Division supplies building materials, lumber, pulp, paper, rubber, tires, glass, and cement. In the Chemicals Division, operations cover organic and inorganic chemical products, synthetic resins, electronic materials, and pharmaceuticals.

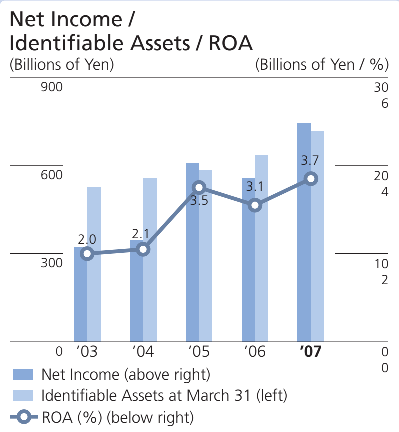
The Company's principal strategies are to make a fresh commitment to the upstream sector and to continue the deployment of management resources in midstream and downstream retail sectors. Based on these strategies, we provide materials to diverse industries upstream and deliver final products to customers downstream, thereby meeting a wide range of customer needs.

The Forest Products & General Merchandise Division maintains the top position among general trading companies in terms of consolidated net income. This commanding position is due to a highly competitive group of subsidiaries and associates. In building materials, we have a powerful group of companies, including PrimeSource Building Products, Inc., our highly profitable North American subsidiary, and ITOCHU Kenzai Corp., which is based in Japan. In forestation, pulp manufacturing, and trading, we have built a broad value chain. This chain starts from our overseas forestation business in Australia and extends to Celulose Nipo-Brasileira S.A. (CENIBRA) in Brazil, which has built an environmentally friendly, sustainable operation with logs 100% obtained from its own forestation, and to our paper sales company in Japan, ITOCHU Pulp & Paper Corp. Our rubber and tire operations are also based on a value chain that spans the largest natural rubber procurement and processing business among general trading companies as well as the wholesale and retail of tires in Japan, the United States, and Europe.

The Chemicals Division's fundamental policy is to create a broad portfolio of chemical products, from upstream to downstream, and to build up profitable assets in each sector. The division handles a diverse range of products, from highly competitive raw materials to pharmaceuticals and electronic materials. The division has a global sales network for general-purpose synthetic resins, and in China, where demand for polyester fiber raw materials is growing rapidly, it moved in advance of competitors to establish a manufacturing operation. We also moved positively in the retail sector and entered such new business areas as pharmaceuticals, life & healthcare, and bio-science. We have a powerful group of subsidiaries and associates that ensure our top profitability among general trading companies. C.I. KASEI Co., Ltd., and TAKIRON Co., Ltd., manufacture high-value-added plastic products, while ITOCHU CHEMICAL FRONTIER Corporation and ITOCHU PLASTICS INC. cover a variety of fields, from organic chemical products to pharmaceuticals and from synthetic resins to electronic materials.

BUSINESS PERFORMANCE IN FISCAL 2007

The Company had to contend with a number of negative factors in the fiscal year under review. The North American housing market slowed and production costs in the overseas pulp manufacturing industry increased. Raw materials and fuel costs also rose,



Financial Highlights

(Billions of Yen)

Years ended March 31	2003	2004	2005	2006	**2007**
Gross trading profit	¥ 87.1	¥ 91.9	¥105.9	¥111.1	**¥126.2**
(Forest Products & General Merchandise)	56.1	59.7	70.4	72.7	**79.4**
(Chemicals)	31.0	32.3	35.5	38.4	**46.8**
Net income	10.7	11.5	20.3	18.6	**24.8**
Identifiable assets at March 31	524.6	557.4	583.7	634.3	**716.8**
ROA (%)	2.0	2.1	3.5	3.1	**3.7**

Net Income from Major Group Companies

(Billions of Yen)

Years ended March 31	2005	2006	**2007**
ITOCHU Kenzai Corp.	¥1.5	¥0.8	**¥2.4**
ITOCHU Pulp & Paper Corp.	0.5	1.1	**0.8**
ITOCHU CHEMICAL FRONTIER Corporation	1.2	1.3	**1.8**
ITOCHU PLASTICS INC.	1.8	2.6	**3.2**
PrimeSource Building Products, Inc.	7.5	7.7	**7.4**


SHOWA ALUMINUM POWDER K.K. headquarters

while a deteriorating price structure in the LCD TV market triggered the consolidation of inventories of electronic materials. However, these factors were balanced by several positive factors. In Japan, the housing market was robust, supported by generally strong economic conditions and an anticipated rise in interest rates. Favorable conditions prevailed in the global pulp, natural rubber, and chemical products markets and demand for chemical products increased in Asia, led by China.

In this environment, the Company's priority strategies were to improve overseas earnings and to expand profit in key segments. In tackling these priorities, we took various initiatives from the perspectives of strengthening our vertical linkage and promoting horizontal integration.

As part of efforts to strengthen vertical linkage, the Company bolstered its North American building materials operations through the acquisition of Terminal Commercial Company DBA Pacific Steel & Supply by PrimeSource Building Products, Inc., and the acquisition of Galleher Corporation, a flooring distributor.

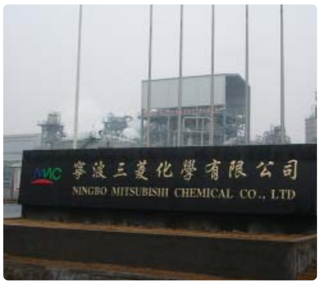
In forestation, pulp manufacturing and trading, our core strategic company, CENIBRA, raised its annual production capacity by 200,000 tons, a major step toward realizing the Company's goal of becoming the world's top pulp trader.

In one of the Company's key areas of expertise, synthetic fiber raw materials, joint venture Ningbo Mitsubishi Chemical Co., Ltd., started up production of high purified terephthalic acid (PTA) in China. Also, the Company moved to strengthen its activities in the North American adhesive market by acquiring the U.S. adhesive maker The Reynolds Company. Domestically, the Company acquired SHOWA ALUMINUM POWDER K.K. as part of its efforts to expand the metallic paints business.

In addition to strengthening vertical linkage, the Company also worked to promote horizontal integration through initiatives with other Division Companies. For example, it carried out a joint pre-feasibility study on bio-ethanol fuel with three other Division Companies and reinforced its involvement with the Food Company in the convenience store wrapping materials business.

Moreover, the Company embarked on a number of initiatives to create new businesses. In an agreement with Shimane Prefectural authorities, ITOCHU Forestry Corp. collaborated with a local general contractor to develop a benthic zone purification system.

As a result, in the fiscal year ended March 2007, gross trading profit increased ¥15.1 billion from the previous fiscal year, to ¥126.2 billion. Net income rose ¥6.1 billion, to ¥24.8 billion.



Ningbo Mitsubishi Chemical Co., Ltd., produces 600,000 tons of PTA annually.

NEW MID-TERM MANAGEMENT PLAN STRATEGIES

Frontier+ 2008 calls for the strengthening of core businesses and the acceleration of overseas development. Specifically, the Company will implement a growth strategy in the North American building materials market, expand global pulp trade, secure stable earnings through its global tire sales network, and promote activities in the rubber processing industry. It will also invest to secure profits in large-scale petrochemical business and strengthen its overseas operations in synthetic resins. At the same time, we will take steps to develop new businesses in such areas as life & healthcare, the environment, and new energy-related fields, including the bio-ethanol business.

Food Company

The Food Company is working on the global promotion of its Strategic Integrated System, a supply and demand system based on customer needs, while continuing its mission to be the leading company in the domestic food industry.

President, Food Company
Shigeharu Tanaka

NIPPON ACCESS, INC.'s Hiroshima Low Temperature Center

Kyushu Medical Center, an example of FamilyMart's new strategy

BUSINESS OVERVIEW AND STRENGTHS

The Food Company boasts top-class profitability among general trading companies in the domestic food industry. Its global strategy centers on the establishment of a Strategic Integrated System (SIS), a supply and demand system based on customer needs that seamlessly links upstream food resource development and processing, midstream distribution, and downstream retail and sales.

In the food resources sector, by making effective use of our existing supply bases in North America, Asia, Australia, and Latin America and by enhancing the linkage between these centers with our retail sector, we are strengthening our global sales network.

In the manufacturing and processing sector, our domestic operations are mainly conducted by ITOCHU Sugar Co., Ltd., and ITOCHU Feed Mills Co., Ltd. Overseas, in China we have entered the soft drinks manufacturing sector with ASAHI BREWERIES, LTD., and Ting Hsin International Group (China). In Indonesia, we have formed a strategic partnership with Hagoromo Foods Corporation for the production and sale of canned marine products.

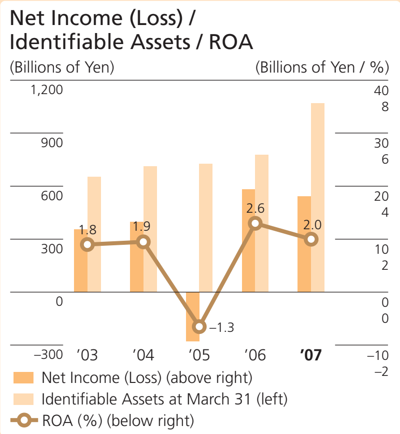
In the domestic food distribution sector, ITOCHU SHOKUHIN Co., Ltd., and NIPPON ACCESS, INC., have established the largest wholesale network in the country. This network allows for the distribution of food and food products in all temperature ranges nationwide. ITOCHU FRESH Corporation and Universal Food Co., Ltd., handle the distribution of fresh food and serve the restaurant sector.

In the retail sector, FamilyMart Co., Ltd., one of Japan's leading convenience store chains, is at the core of our efforts to establish a system whereby customer needs are conveyed to the midstream and upstream sectors in a timely and accurate manner.

In addition, we are promoting comprehensive joint dealings with our business partner Uny Co., Ltd., mainly centered on the food wholesale business. The Food Company boasts the highest levels of profitability, positioning it second among general trading companies in terms of consolidated net income. Our strength lies in the solid base we have established for implementing our SIS strategy, whereby we build a supply and demand system based on customer needs in upstream, midstream, and downstream sectors. Upstream, the Company has established overseas supply bases for raw materials, such as the grain handling operations of U.S.-based CGB ENTERPRISES, INC. Midstream, we have constructed a nationwide distribution network for products in all temperature ranges. Meanwhile, in the downstream sector, which plays a central role in the SIS strategy, FamilyMart Co., Ltd., is one of the leaders in Japan's retail industry, and the Company is widely recognized for its excellence in each of its fields of operations.

BUSINESS PERFORMANCE IN FISCAL 2007

Companies in Japan's food industry continue to face a severe business environment as families have fewer children and the population ages. The resulting contraction in demand



Financial Highlights

(Billions of Yen)

Years ended March 31	2003	2004	2005	2006	**2007**
Gross trading profit	¥130.1	¥130.9	¥136.2	¥142.6	**¥ 264.6**
Net income (loss)	11.9	13.3	(9.3)	19.4	**18.1**
Identifiable assets at March 31	654.4	711.6	728.0	778.8	**1,070.7**
ROA (%)	1.8	1.9	(1.3)	2.6	**2.0**

Net Income from Major Group Companies

(Billions of Yen)

Years ended March 31	2005	2006	**2007**
NIPPON ACCESS, INC.	¥0.7	¥0.5	**¥2.1**
Japan Foods Co., Ltd.	0.2	0.0	**0.1**
FamilyMart Co., Ltd.	4.0	4.3	**4.7**

River grain elevator
of CGB Enterprises, Inc.

and oversupply situation is intensifying competition. At the same time, raw materials price rises have not been fully passed on to consumer prices, and the industry has recently seen restructuring through M&A and other activities. On the other hand, positive factors influencing the industry include steady increases in personal spending in China and other Asian countries.

In this environment, the Company is applying the SIS strategy to the domestic market as well as to overseas bases exporting to Japan. In addition, we accelerated the development of our global SIS strategy.

In the domestic food distribution sector, we made NIPPON ACCESS, INC., a consolidated subsidiary in June 2006 through a take over bid and merged it with Nishino Trading Co., Ltd., in April 2007. These moves both increased our scale of operations and strengthened our functions in the sector.

In China, as part of the ongoing SIS strategy, we made Shanghai-based general food wholesaler Shanghai Zhongxin Marketing Development Co., Ltd., a consolidated subsidiary in December 2006. Also, we established Shandong ASAHI Green Source High-Tech Farm Co., Ltd., a joint venture with Sumitomo Chemical Co., Ltd., and ASAHI BREWERIES, LTD. The new company will verify traceability and develop natural recycling agricultural technology to ensure the safe manufacture and supply of agricultural products to the Chinese market. We continued to deepen our strategic partnerships in China. The soft drinks manufacturing business formed with ASAHI BREWERIES, LTD., and Ting Hsin International Group (China) expanded steadily.

The transfer of NIPPON ACCESS, INC., to a consolidated subsidiary and its subsequent merger with Nishino Trading Co., Ltd., and the transfer of the Shanghai-based general food wholesaler to a consolidated subsidiary represent efforts to meet the Frontier-2006 goal of strengthening our vertical linkage. Among efforts to realize the plan's goal of promoting horizontal integration, we can cite our collaboration with other Division Companies in the Uny Group partnership, the bio-ethanol fuel project, and the project with SEIBU Railway Co., Ltd.

As a result, for the fiscal year ended March 2007, gross trading profit was up ¥122.1 billion from the previous fiscal year, to ¥264.6 billion. Net income decreased ¥1.3 billion, to ¥18.1 billion.

Soft drink factory in China

NEW MID-TERM MANAGEMENT PLAN STRATEGIES

In accordance with Frontier+ 2008, we will move forward with the application of our SIS strategy in the domestic market as well as at overseas bases exporting to Japan. In addition, we will develop the SIS strategy for overseas markets, especially in China and other Asian countries. We will also create value-added businesses that can deliver higher-quality and functional foods and endeavor to turn them into profit-generating operations.

Finance, Realty, Insurance & Logistics Services Company

Among general trading companies, the Finance, Realty, Insurance & Logistics Services Company's four divisions all have a strong presence in their respective sectors. By capitalizing on our strengths in diverse fields and delivering creative services to customers, we aim to expand consolidated net income.

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

Social contribution credit cards of Orient Corporation
1. *Pink Ribbon Card*
2. *MOTTAINAI Card*

i-LOGISTICS CORP.

Domestic and international 3PL

BUSINESS OVERVIEW AND STRENGTHS

The Company is composed of the Financial Services Division, the Construction & Realty Division, the Insurance Services Division, and the Logistics Services Division.

The Financial Services Division leverages the uniquely broad business range of a general trading company to offer services in financial markets, corporate solutions, and retail finance.

The Construction & Realty Division continues to bolster its housing development and management operations and, through the use of real estate securitization, is expanding into rental estate, logistics facilities, and commercial facilities.

The Insurance Services Division is actively developing its core insurance agency and brokerage businesses, both domestically and internationally. Also, the division has recently expanded the scope of its activities to reinsurance and the insurance underwriting business. It aims to establish a wide-ranging value chain that stretches from reinsurance to intermediation services.

The Logistics Services Division develops businesses in the fields of global logistics solutions and global logistics infrastructure. Through these operations, it offers seamless, high-value-added logistics functions linking "people, goods, money, and information."

Each division has unique strengths. In the Financial Services Division, we moved into the retail sector early on, and we now have an overwhelmingly strong position among general trading companies. Moreover, our expertise in foreign exchange trading and asset management is highly regarded within the financial services industry. In the private equity business, our tie-ups with other Division Companies allow us to offer a wide range of services.

In the Construction & Realty Division, we are pursuing real estate securitization, a field where general trading companies have unique strengths.

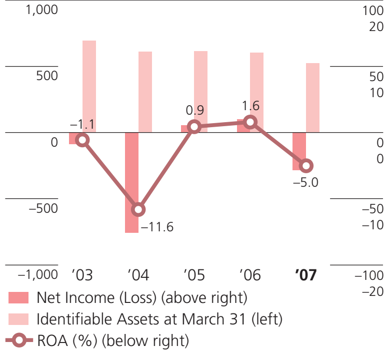
In the Insurance Services Division, in addition to our expertise acquired in the non-life insurance business, we have also enhanced our strength in the area of life insurance, through the integration of Orico Trading Co., Ltd., into our insurance operations. We have the largest insurance brokerage network among Japanese companies operating abroad.

In the Logistics Services Division, the ITOCHU Group China Distribution Network covers the whole of China and offers a one-stop service, integrating domestic and international logistics.

BUSINESS PERFORMANCE IN FISCAL 2007

In the Financial Services Division, we established our credit card business strategy, leveraged the unique characteristics of ITOCHU Finance Corporation to provide integrated financial services, strengthened our dealings in the private equity business, and expanded our overseas development, centered on Asia. In our core retail finance sector, Famima Credit Corporation made solid progress in securing card holders, and the Famima Card is becoming a pillar of the credit card business in this sector. Orient Corporation (Orico) is positioned as a key element in the downstream portion of the consumer-related value chain. We worked with the Mizuho Financial Group to reform Orico's profit

Net Income (Loss) / Identifiable Assets / ROA



Financial Highlights

(Billions of Yen)

Years ended March 31	2003	2004	2005	2006	**2007**
Gross trading profit	¥ 33.8	¥ 16.0	¥ 39.3	¥ 46.0	**¥ 43.3**
Net income (loss)	(8.4)	(75.6)	5.4	9.9	**(28.3)**
Identifiable assets at March 31	692.7	609.7	615.3	600.9	**524.9**
ROA (%)	(1.1)	(11.6)	0.9	1.6	**(5.0)**

Net Income (Loss) from Major Group Companies

(Billions of Yen)

Years ended March 31	2005	2006	**2007**
ITOCHU Finance Corporation	¥2.7	¥3.2	**¥ 2.3**
CENTURY 21 REAL ESTATE OF JAPAN LTD.	0.2	0.3	**0.4**
i-LOGISTICS CORP.	0.4	0.6	**0.4**
Orient Corporation	—	3.1	**(40.6)**
FX PRIME Corporation	(0.1)	0.3	**0.1**
eGuarantee, Inc.	0.0	0.1	**0.1**

eGuarantee, Inc., listed on JASDAQ during the fiscal year.

structure and took steps to increase synergies between Orico and other divisions and Division Companies.

In the Construction & Realty Division, we expanded our logistics fund, developed commercial facilities, and strengthened our tie-up with Singapore-based Mapletree Investments Pte. Ltd. Also, Advance Residence Investment Corporation, which is managed by our subsidiary rental residential REIT, carried out an initial increase the capital after its IPO, and further growth is expected.

In the Insurance Services Division, eGuarantee, Inc., which provides solutions for credit risk in commercial transactions and financial markets, listed on JASDAQ. Also, we invested in Shinsai Partners Inc., the first "small-amount, short-term" insurance company in Japan, and established a capital and operational tie-up.

In the Logistics Services Division, we focused on generating higher revenue and earnings through cooperation with i-LOGISTICS CORP., striving to strengthen domestic and international third-party logistics. We also promoted capital and operational tie-ups with companies that have a strong presence in the automobile logistics sector in central and eastern Europe.

Throughout the fiscal year, we strengthened our vertical linkage in accordance with Frontier-2006. In the Financial Services Division, we partnered with Orico in the establishment of Excite Credit Co., Ltd., and ASCLASS LSA Inc., as we integrated the respective networks and expertise of Orico and ITOCHU. We also invested in Rezon Capital Partners and the "China Mezannine Finance fund." In the Insurance Services Division, we integrated the insurance agency businesses of Orico Trading Co., Ltd., and ITOCHU Insurance Services Co., Ltd.

In the real estate securitization business of the Construction & Realty Division, we newly formed the Commercial Infrastructure fund, the Fukuoka residential fund, and the Supply Chain Infrastructure fund, and carried out the expansion of the business domain.

To strengthen horizontal integration, we cooperated with FamilyMart Co., Ltd., in promoting Famima Credit Corporation's card membership strategy and created the Orico-ITOCHU Synergy Book, whereby ITOCHU consumer-related goods and services are being provided to 670,000 Orico member stores nationwide.

Although we sold stocks held in the fiscal year ended March 2007, we were affected by Orico's loss provisions to cover future financial risk caused by the amendment of the Moneylending Control Law. Consequently, in the fiscal year ended March 2007, net income was down ¥38.2 billion from the previous fiscal year, to a net loss of ¥28.3 billion.

Advance Residence Investment Corporation

Rental residential REIT Advance Residence Investment Corporation

NEW MID-TERM MANAGEMENT PLAN STRATEGIES

In accordance with Frontier+ 2008, we intend to strengthen our retail finance business, centered on Orico, through our partnership with the Mizuho Financial Group. In funds and securitization businesses, we will focus on private equity and real estate securitization and strive to establish a firm position in the financial services industry. We will also exploit the comprehensive strengths of the Company in developing our overseas operations. Finally, we will work to raise revenue while strengthening risk-taking functions in our insurance and logistics businesses.

Headquarters

ITOCHU has adopted the Division Company System as a means of maximizing organizational speed and flexibility. The following three executive positions have been created to integrate and extract the full potential of our diversified corporate resources: Chief Operating Officer, Division Companies Operation, Chief Corporate Planning Officer, and Chief Administration Officer.

Division Companies Operation

Chief Operating Officer, Division Companies Operation
Akira Yokota

In addition to increasing organizational competencies of each Division Company, the Chief Operating Officer is responsible for promoting cross-divisional collaboration and development of new projects to enhance ITOCHU's overall financial performance as well as providing direction and guidance to the Division Companies to fully integrate ITOCHU's strategic business initiatives.

Reporting directly to the Chief Operating Officer, the Healthcare Business Department, the Innovative Technology Business Development Office, and the Corporate Development Office are actively engaged in facilitating cross-divisional collaboration to achieve the key objective of maximizing ITOCHU's overall earnings, as outlined in the mid-term management plan "Frontier+ 2008."

Healthcare Business Department

With the aging of society, the Life & Healthcare sector is expected to grow. This department promotes the creation of new markets, realizes new businesses and manages joint projects among Division Companies within the sector. The department was newly established in May 2007 by consolidating the former Medical Solutions Department in the Machinery Company with other related development organizations.

Innovative Technology Business Development Office

This office is focusing on exploring and securing new business opportunities through varieties of investments to growing innovative technologies, including biotechnology and nanotechnology. The office also provides marketing support and acts as an organizer by matching seeds with market needs in cutting-edge technological fields, developing new technologies, and creating new businesses based on those technologies.

Corporate Development Office

The office provides comprehensive support for the development and promotion of cross-divisional projects in penetrating strategic markets, such as the Environment & New Energy and Consumer-Related sectors. In addition, the office plays a pivotal role in promoting regional businesses through cooperation with local governments. The office also provides administrative support to the Company-Wide Business Committee.

Corporate Planning

Chief Corporate Planning Officer
Kouhei Watanabe

The Corporate Planning & Administration Division, the Corporate Communications Division, the Investor Relations Department, the IT Planning Division, the Affiliate Administration Division, and the International Operations Division, headed by the Chief Corporate Planning Officer, formulate company-wide management plans and support strategic initiatives. Under Frontier+ 2008, these divisions and department promote ITOCHU's global strategic development through cooperation with administrative divisions at the Headquarters.

Planning and promoting company-wide management plans

Company-wide management plans are primarily formulated by the Corporate Planning & Administration Division, which also gives guidance and directives for strategic execution under the management plans of all Division Companies' planning and coordinating departments. Acting as the control tower for the entire ITOCHU Group, the division is also responsible for allocating management resources, monitoring progress relative to plans, evaluating performance, and coordinating and monitoring Group business strategies.

Supporting strategic pursuits

The Corporate Communications Division and the Investor Relations Department provide lateral strategic support through external and internal communications. The IT Planning Division formulates IT strategies and constructs the IT infrastructure, supporting ITOCHU's global development in terms of information systems. Practical support for each Division Company's and operating company's strategic pursuits is provided by the Affiliate Administration Division in Japan and by the International Operations Division overseas. The International Operations Division also works with the Human Resources Division to "cultivate global human resources" overseas and "accelerate global business development" under Frontier+ 2008.

Administration

Chief Administration Officer
Toshihito Tamba

The Chief Administration Officer is responsible for implementing financial strategies and strengthening risk management, promoting CSR, enhancing internal control, and promoting personnel strategies at the Headquarters. In order to further strengthen administrative functions, the administrative organization comprises eight divisions, including the Risk Management Division and the Business Accounting & Control Division from the current fiscal year.

Strengthening risk management

As a means of strengthening risk management, the Risk Management Division was moved from corporate planning to the supervision of the Chief Administration Officer during the previous fiscal year. Utilizing a risk map that evaluates and comprehensively manages market, credit, investment, and other risks facing the Company, the division strives to control risk assets on a consolidated basis.

Enhancing internal control, compliance, and CSR

In order to enhance internal control, the Disclosure Committee, with the CFO Office and the Administration Office, is investigating and formulating internal control policies and measures related to disclosure, including financial reporting. The committee also plays an important role in maintaining internal controls throughout the Group by confirming the accuracy of the contents of financial statements. Striving to achieve proactive and independent CSR, the CSR & Compliance Division has primary responsibility for promoting understanding of ITOCHU's CSR activities to external parties and for encouraging the awareness of those activities internally.

Human resources strategy with global perspective

The Human Resources Division seeks to enhance group-wide human resources through organic networking of personnel strategies at each Division Company and overseas base, as a means of promoting aggressive business development in countries around the world.

A Good Corporate Citizen

ITOCHU is celebrating the 150th anniversary of its founding. There is only one reason why the Company has been able to continue operating for such a long period of time, and that is the unwavering execution of founder Chubei Itoh's management philosophy of *"sampo yoshi"*—the idea that transactions must benefit *("yoshi")* all three parties *("sampo")*, that is, the seller, the buyer, and the society. It is this philosophy that guides the Company in its activities as a good corporate citizen in the areas of corporate governance, social responsibility, and environmental conservation and in building strong relationships with all of its stakeholders around the world.

Corporate Governance

ITOCHU operates its business in accordance with the "ITOCHU Credo and Way" and the "ITOCHU Corporation Code of Conduct." Our fundamental policy is to work toward the long-term preservation and enhancement of our corporate value by building positive and effective relationships with our stakeholders. To execute our business activities in a fair and efficient manner in accordance with our fundamental policy, we are increasing the transparency of our decision-making process and constructing a corporate governance system that incorporates appropriate monitoring and supervisory functions. Furthermore, we will operate our business on a basis of trust with our stakeholders by ensuring adequate and timely disclosure of information and by maintaining accountability to our stockholders.

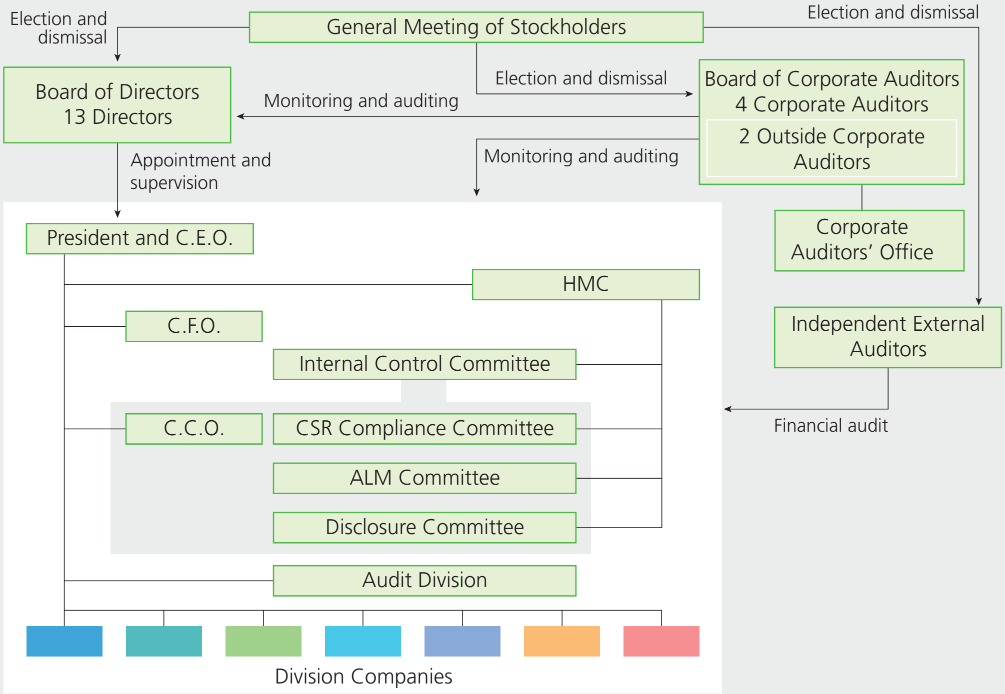
ITOCHU'S CORPORATE GOVERNANCE SYSTEM

ITOCHU's corporate governance system is made up of the General Meeting of Stockholders, which is the highest decision-making body; the Board of Directors, which makes important decisions at the next level; and the Board of Corporate Auditors, which oversees the operational execution of Directors.

The Headquarters Management Committee (HMC) is a supporting body of the President and is where company-wide management policy and important issues are discussed and decided. Management issues are also examined and discussed by various internal committees that support the decision making of the President and the Board of Directors.

With the aim of increasing decision-making speed and management efficiency, ITOCHU introduced the Division Company System in the fiscal year ended March 1998 and the Executive Officer System in the following year. Each Division Company is responsible for the management of its field of operations, and each Division Company's President receives decision-making assistance from the Division Company Management Committee (DMC). At the same time, the Headquarters focuses on planning overall management strategy and ensuring comprehensive coordination through centralized management of the Division Companies. In addition, Executive Officers carry out the operations for which they are responsible in an appropriate and efficient manner, under the guidance and supervision of Representative Directors. The terms of office of Directors and Executive Officers were reduced to one year in the fiscal year ended March 2007.

ITOCHU's Current Corporate Governance System



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

PRINCIPAL INTERNAL COMMITTEES

Name	Objectives
Internal Control Committee	• Evaluates and confirms the status of implementation and operation of internal control systems based on the Basic Policy regarding the Internal Control System and proposes further improvements to the HMC and directors
ALM*1 Committee	• Performs comprehensive balance sheet and risk management analysis and makes recommendations on monitoring systems and improvement measures for management
Strategic Investment Committee	• Deliberates and makes recommendations on strategic investment as planned in the management plan
Company-wide Business Committee	• Maximizes the collective and comprehensive strengths in company-wide business and supports and promotes the realization of synergies between the Division Companies
Corporate Officer Compensation Consultative Committee	• Deliberates and makes recommendations on the implementation and operation of the corporate officers' compensation system
CIO*2 Committee	• Deliberates, promotes, and makes recommendations on policies for the introduction and implementation of information technology to the ITOCHU Group
Disclosure Committee	• Deliberates and makes recommendations on internal control policies and measures concerning information disclosure (including disclosure of financial statements)
CSR Compliance Committee	• Deliberates, promotes, and makes recommendations on policies and measures concerning CSR • Implements policies and programs for the full understanding of, and compliance with, the Company's management principles and corporate code of conduct
DNA*3 Project Committee	• Deliberates and makes recommendations on policies and measures for promoting business process re-engineering throughout the entire ITOCHU Group

*1 ALM = Asset Liability Management *2 CIO = Chief Information Officer *3 DNA = Designing New Age

ROLE OF BOARD OF CORPORATE AUDITORS

The role of objective management oversight is undertaken by Corporate Auditors, including outside corporate auditors, who regularly attend meetings of the Board of Directors and other important internal meetings. Corporate Auditors are strengthening cooperation with the Company's independent auditors and the Audit Division in order to enhance the audit function. They also discuss internal audit planning with the Audit Division and hold regular meetings among themselves. In addition, the Corporate Auditors' Office, reporting directly to the Board of Corporate Auditors, supports Corporate Auditors in the performance of their duties. Though ITOCHU does not appoint outside Directors, Corporate Auditors fully carry out the oversight function within the Company.

INTERNAL CONTROL

Compliance with laws and regulations is one of the goals of our internal control system. The Chief Compliance Officer and the CSR Compliance Committee are playing a major role in enhancing the Company's compliance system. We have built up a structure over time that incorporates appropriate internal controls into the actual business process in order to ensure the reliability of ITOCHU's financial reports. To strengthen this process, preparations are being made to introduce a company-wide internal control audit in the current fiscal year, and this effort is being led by a project team. Another operational reform project, the ITOCHU DNA Project—Designing New Age—, was launched in the fiscal year under review to improve management effectiveness and efficiency.

On April 19, 2006, the Board of Directors formulated the Basic Policy regarding the Internal Control System (summary on page 48), and at that time it was decided to revisit and improve internal controls on a periodic basis to ensure their effectiveness. Furthermore, in the fiscal year ending March 2008, we established the Internal Control Committee. This committee evaluates and confirms the status of internal controls and their operation, based on the Basic Policy, and suggests improvements to the HMC and the Board of Directors.

ESTABLISHMENT OF ADVISORY BOARD

As a means of further raising the quality of its corporate governance, ITOCHU established the Advisory Board, which comprises experts from outside the Company, with the aim of receiving objective, specialized third-party opinions.

ACCOUNTABILITY

ITOCHU is working to maintain communication not only with stockholders but also with society in general. To ensure timely and appropriate disclosure of impartial and accurate corporate information in accordance with disclosure rules, a system is in place to facilitate close contact among related parties company-wide.

Basic Policy regarding the Internal Control System (Outline—Approved: April 19, 2006; Revised: April 18, 2007)

Notes

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

(1) Corporate Governance

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

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

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

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

(2) Compliance

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

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

(3) Internal Control to Ensure Reliability of Financial Reporting

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

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

(4) Internal Audits

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

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

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

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

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

4. System to Ensure Efficient Performance of Directors

(1) The HMC and Other Internal Committees

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

(2) Division Company System

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

(3) Clearly Define the Scope of Authority and Responsibilities

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

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

(1) Subsidiary Management System

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

(2) Compliance

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

(3) Internal Audits

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

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

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

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

(1) Attendance at Important Meetings

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

(2) Reporting System

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

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

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

(1) Coordination with the Auditors in the Audit Division

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

(2) Retaining External Experts

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

The status of internal controls during the fiscal year ended March 2007 was evaluated at a meeting of the Board of Directors convened on April 18, 2007, and compliance with the Basic Policy regarding the Internal Control System was confirmed.

Corporate Officers

As of July 1, 2007

EIZO KOBAYASHI
President and Chief Executive Officer
1972 Joined ITOCHU Corporation
2004 President and Chief Executive Officer

UICHIRO NIWA
Chairman
1962 Joined ITOCHU Corporation
2004 Chairman

SUMITAKA FUJITA
Vice Chairman
1965 Joined ITOCHU Corporation
2006 Vice Chairman

AKIRA YOKOTA
Executive Vice President
Chief Operating Officer, Division Companies Operation
1967 Joined ITOCHU Corporation
2003 Executive Vice President

KOUHEI WATANABE
Executive Vice President
Chief Corporate Planning Officer; Chief Information Officer
1971 Joined ITOCHU Corporation
2006 Executive Vice President

TOSHIHITO TAMBA
Senior Managing Director
Chief Administration Officer; Chief Financial Officer; Chief Compliance Officer
1972 Joined ITOCHU Corporation
2005 Senior Managing Director

SHIGEKI NISHIYAMA
Senior Managing Director
President, Aerospace, Electronics & Multimedia Company
1974 Joined ITOCHU Corporation
2006 Senior Managing Director

MASAHIRO OKAFUJI
Senior Managing Director
President, Textile Company
1974 Joined ITOCHU Corporation
2006 Senior Managing Director

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

SHIGEHARU TANAKA
Managing Director
President, Food Company
1974 Joined ITOCHU Corporation
2006 Managing Director

TAKANOBU FURUTA
Managing Director
President, Machinery Company
1973 Joined ITOCHU Corporation
2006 Managing Director

YOICHI KOBAYASHI
Managing Director
President, Energy, Metals & Minerals Company
1973 Joined ITOCHU Corporation
2006 Managing Director

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

MASAHITO TOMINAGA
Corporate Auditor
1971 Joined ITOCHU Corporation
2005 Executive Officer
2007 Standing Corporate Auditor

NOBUYOSHI UMENO
Corporate Auditor
1968 Joined ITOCHU Corporation
2001 Managing Executive Officer
2004 Standing Corporate Auditor

HARUO SAKAGUCHI
Corporate Auditor
1989–1990 Vice Chairman, Japan Federation of Bar Association; Chairman, Osaka Bar Association
2001–2006 Chairman, Osaka Public Bid Monitoring Committee
2003 Corporate Auditor, ITOCHU Corporation

TADASHI KUDO
Corporate Auditor
2002–2003 President & Chief Executive Officer, Mizuho Bank, Ltd.
2004 Advisor, Mizuho Bank, Ltd.
2005 Corporate Auditor, ITOCHU Corporation

Approach to Auditing

Haruo Sakaguchi, Corporate Auditor

Drawing on my many years of experience and specialist knowledge as a lawyer specializing in business, I strive to move beyond a formal approach to gain an accurate understanding of the actual state of compliance and other audit areas. Specifically, as ITOCHU is a general trading company that has adopted the Division Company System, I look closely at whether disclosure at each Division Company is sufficient and whether decisions are reached through a process of adequate discussion and verification among the people involved.

With the Corporate Law having taken effect on May 1, 2006, I examine whether internal control systems and corporate governance structures are firmly in place and functioning properly in accordance with the spirit of the law.

I would also like to fulfill my responsibilities as an auditor by not only attending more management meetings but also actively pursuing issues, through comments like “Doesn’t that proposal require more study” or “Shouldn’t this be discussed further,” on which it is difficult for employees to express their opinions.

MANAGING EXECUTIVE OFFICERS

TORU OTA
General Manager for Nagoya Area
1970 Joined ITOCHU Corporation
2005 Managing Executive Officer

YOSHIO AKAMATSU
Chief Executive for Asia
1974 Joined ITOCHU Corporation
2005 Managing Executive Officer

MASAHIRO NAKAGAWA
Deputy Chief Corporate Planning Officer; Chief Officer for International Operations
1974 Joined ITOCHU Corporation
2005 Managing Executive Officer

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

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

HIROO INOUE
Manager, ITOCHU DNA Project Office; Deputy Chief Operating Officer, Division Companies Operation; General Manager, Innovative Technology Business Development Office
1975 Joined ITOCHU Corporation
2006 Managing Executive Officer

YOSHIHISA SUZUKI
President & C.E.O., ITOCHU International Inc.; President, ITOCHU Canada Ltd.
1979 Joined ITOCHU Corporation
2006 Managing Executive Officer

TADAYUKI SEKI
General Manager, Finance Division
1973 Joined ITOCHU Corporation
2007 Managing Executive Officer

KAZUTOSHI MAEDA
Deputy Chief Administration Officer (Legal, General Affairs, CSR & Compliance)
1974 Joined ITOCHU Corporation
2007 Managing Executive Officer

TAKEYOSHI IDE
General Manager for European Operation; C.E.O., ITOCHU Europe PLC.; C.E.O., ITOCHU Deutschland GmbH
1975 Joined ITOCHU Corporation
2007 Managing Executive Officer

TATSUO FUJINO
Deputy Chief Corporate Planning Officer; Chief Officer for Kansai Operations
2006 Joined ITOCHU Corporation
2007 Managing Executive Officer

EXECUTIVE OFFICERS

KAZUHIDE SASA
Chief Operating Officer, Brand Marketing Division 1
1974 Joined ITOCHU Corporation
2005 Executive Officer

SHOZO YONEYA
Deputy Chief Administration Officer (Internal Control, Accounting)
1974 Joined ITOCHU Corporation
2005 Executive Officer

KENJI OKADA
Executive Vice President, Finance, Realty, Insurance & Logistics Services Company; Chief Operating Officer, Construction & Realty Division
1974 Joined ITOCHU Corporation
2005 Executive Officer

TETSUSHI ISHIZUKA
General Manager, Human Resources Division
1975 Joined ITOCHU Corporation
2005 Executive Officer

KOJI TAKAYANAGI
Executive Vice President, Energy, Metal & Minerals Company; Chief Operating Officer, Energy Trade Division
1975 Joined ITOCHU Corporation
2005 Executive Officer

TORU NOMURA
Executive Vice President, Machinery Company; Chief Operating Officer, Plant & Project Division
1976 Joined ITOCHU Corporation
2005 Executive Officer

YOSHIO MATSUKAWA
Chief Operating Officer, Energy Development Division
1974 Joined ITOCHU Corporation
2006 Executive Officer

TAKESHI KUMEKAWA
Senior Vice President, Textile Company; Chief Operating Officer, Brand Marketing Division 2
1974 Joined ITOCHU Corporation
2006 Executive Officer

KUNIHIKO TAMANO
General Manager, Business Accounting & Control Division
1974 Joined ITOCHU Corporation
2006 Executive Officer

YOSHIHARU MATSUMOTO
General Manager, Corporate Communications Division
1975 Joined ITOCHU Corporation
2006 Executive Officer

SATOSHI KIKUCHI
General Manager, Corporate Planning & Administration Division
1976 Joined ITOCHU Corporation
2006 Executive Officer

SHINTARO ISHIMARU
General Manager, IT Planning Division
2006 Joined ITOCHU Corporation
2006 Executive Officer

TORU MATSUSHIMA
Chief Operating Officer, Automobile Division
1979 Joined ITOCHU Corporation
2006 Executive Officer

YUJI FUKUDA
Chief Operating Officer, Chemicals Division
1979 Joined ITOCHU Corporation
2006 Executive Officer

KOICHI WADA
Chief Operating Officer, Apparel Division
1975 Joined ITOCHU Corporation
2007 Executive Officer

MITSUGU KUNO
Executive Vice President, ITOCHU International Inc.; General Manager, Food Division, ITOCHU International Inc.
1975 Joined ITOCHU Corporation
2007 Executive Officer

KIMIO KITAMURA
General Manager, General Accounting Control Division
1975 Joined ITOCHU Corporation
2007 Executive Officer

KAZUAKI TAKADA
Chief Operating Officer, Media Business Division
1976 Joined ITOCHU Corporation
2007 Executive Officer

SHUICHI KOSEKI
Chief Operating Officer, Textile Material & Fabric Division
1979 Joined ITOCHU Corporation
2007 Executive Officer

ICHIRO NAKAMURA
Chief Operating Officer, Metals, Mineral Resources & Coal Division
1979 Joined ITOCHU Corporation
2007 Executive Officer

TOMOFUMI YOSHIDA
Chief Operating Officer, Forest Products & General Merchandise Division
1979 Joined ITOCHU Corporation
2007 Executive Officer

SHIGEMITSU TAKATORI
Chief Operating Officer, IT & Business Solutions Division
1980 Joined ITOCHU Corporation
2007 Executive Officer

Corporate Social Responsibility

As a global company engaged in multifaceted business activities in a wide range of fields and various regions of the world, ITOCHU fully recognizes the impact of its actions, contributes to building sustainable societies through its core businesses, and plays a role as a good corporate citizen.

BASIC PERSPECTIVE ON CSR AT ITOCHU

ITOCHU has a keen awareness of the need to coexist with society as a good corporate citizen. The circumstances currently surrounding society contain many factors on a global scale that threaten sustainability, such as global warming and other environmental problems and poverty in developing countries. These are critical issues that cannot be resolved unless industries and citizens in addition to the public sectors take initiatives respectively. As we are engaged in a multifaceted business activities at many locations both in Japan and abroad, we must firmly realize the magnitude of the impact our activities can have on society and take proactive approaches to environmental problems and other global issues.

We are also making ongoing efforts to listen to the views in society and to respond to its needs. While contributing to the creation of a sustainable society through our core businesses, we aspire to be the kind of company that is supported, trusted, and needed by society ten and even 100 years from now.

CSR Approaches through Dialogue with Our Stakeholders

In each and every one of our wide range of corporate activities, we always take care to avoid arbitrary logic and judgments. For this reason, in our approaches to CSR as well, we engage in dialogue with our stakeholders based on the premise that judgments in society are by definition correct.

Besides those noted right, our major stakeholders include many other parties, such as NGOs and NPOs, financial institutions, government ministries and agencies, mass media, and the coming generations.

Major stakeholders of the ITOCHU Group

ROOTED IN *SAMPO YOSHI*

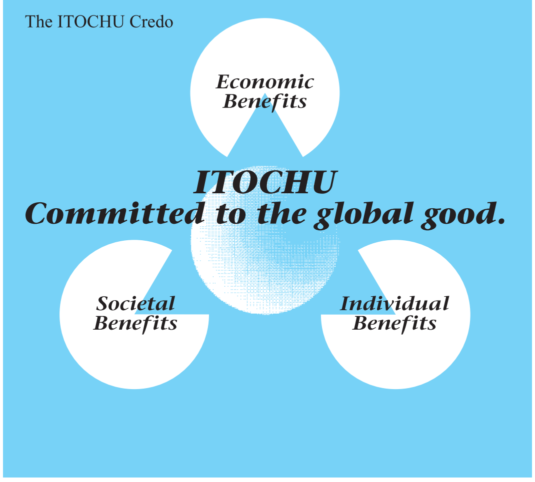
ITOCHU traces its origins to the fabric wholesale business started by Chubei Itoh, its founder, in 1858, in the twilight years of the Tokugawa Shogunate. Chubei grounded his business in the spirit of "*sampo yoshi*," a management philosophy embraced by merchants in the feudal province of Omi, where he was born. The central idea is that transactions must be good for ("*yoshi*") all three parties ("*sampo*"), that is, the seller, the buyer, and the society. It may be viewed as a precursor of today's idea of CSR, which rests on the belief that companies ought to do business that delivers a balanced benefit to all of their stakeholders. ITOCHU has been steadily practicing this ideal for some 150 years.

PENETRATION AND PRACTICE OF THE ITOCHU CREDO

In 1992, ITOCHU established its corporate credo, "Committed to the global good.," in the aim of considering how to make a commitment to society down the road as a global company and putting it into practice. In our view, the fulfillment of CSR is nothing less than the sharing and realization of this credo by all of our employees. In August 2006, at the initiative of the ITOCHU Labor Union, a conference for consultation on the ITOCHU Credo between the management and the union was held. The conference reiterated the background leading up to the adoption of the Credo and reconfirmed its various connotations. It also underscored the necessity of having the ITOCHU Credo shared by all employees as a concrete target and sense of values so that it is reflected in actual corporate activities. We also implemented the union's proposal that the ITOCHU Credo be printed on business cards as a means of instilling the philosophy in employees.

In addition, we formulated the ITOCHU Corporation Code of Conduct as an explicit statement of corporate behavior based on the ITOCHU Credo. We are continuously making efforts to promote understanding of the ITOCHU Credo among employees by distributing pamphlets on the Credo and the Code of Conduct and instructing them through e-learning programs.

The ITOCHU Credo
—Committed to the global good.



The ITOCHU Corporation Code of Conduct

(1) Observance of Laws and Regulations
(2) Supply of Quality Products and Services
(3) Management with a Long-Term Vision
(4) Fair Dealing
(5) Disclosure
(6) The Environment
(7) Good Corporate Citizen
(8) Working Conditions
(9) Policy against Antisocial Organizations
(10) Globalization
(11) Compliance
(12) Commitment by Executives

INCORPORATING CSR INTO THE MID-TERM MANAGEMENT PLAN

In Frontier+ 2008, our mid-term management plan, we have positioned the promotion of CSR activities as a key priority. To give due consideration to CSR in corporate activities, each organizational unit identified priorities for CSR activities during the term of Frontier+ 2008 when formulating its basic mid-term plan.

We strive to make our CSR activities more effective by mapping out CSR tasks when formulating our management plans.

BASIC POLICIES IN THE CSR PROMOTION ACTIVITIES IN THE YEAR ENDING MARCH 2008

ITOCHU has determined basic policies for the CSR promotion activities in the course of Frontier+ 2008. The policies include the same three items from the past, including "ensuring and enhancing safety and reliability (going beyond the level of mere compliance with laws and regulations)," which is a strong requirement of society. We added to them a fourth item (expanding the scope of CSR activity) to encourage the spread of these activities throughout the Group, including overseas offices, as a corporation practicing consolidated management on a global scale.

Basic policies in the CSR promotion activities during Frontier+ 2008

(1) Strengthening communication with stakeholders

(2) Ensuring and enhancing safety and reliability in the products, service and human aspects

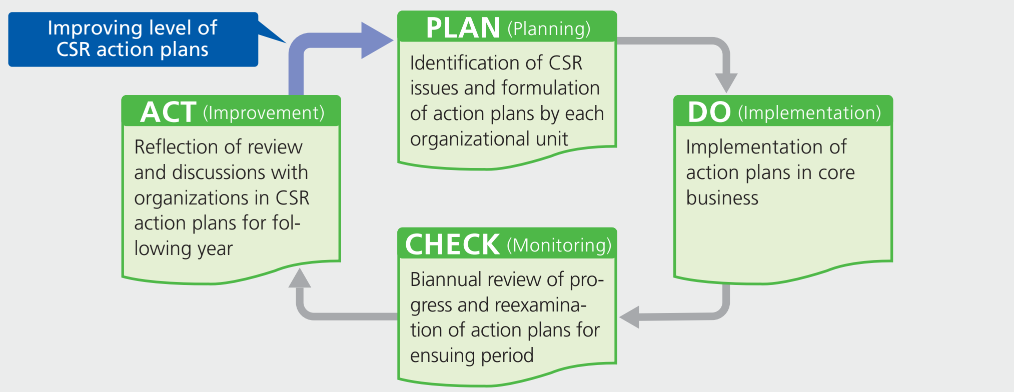
(3) Promoting CSR-related education and enlightenment

(4) Expanding the scope of CSR activities

METHODS AND STRUCTURE FOR PROMOTING CSR

We are building a framework to raise the effectiveness of our CSR activities where each individual employee plays key roles in driving businesses and projects. Reflecting ITOCHU's business structure with activities in a wide range of fields, all Division Companies and Administrative Divisions at Headquarters formulate their own CSR action plans. Under these action plans, each organizational unit identifies specific issues, sets goals, implements appropriate measures, and reviews their progress biannually. A PDCA cycle system is employed to improve the next period's plans and to continuously raise the effectiveness of our CSR activities.

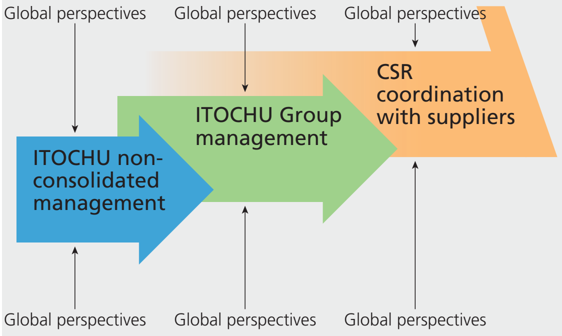
CSR Action Plan—PDCA Cycle



EXPANDING THE SCOPE OF CSR ACTIVITIES

As the ITOCHU Group practices consolidated management on a global scale, it is critical to carry out CSR activities throughout the Group. For this reason, under Frontier+ 2008, we are going to systematically expand CSR activities to the whole Group by applying the methodology of defining CSR action plans implemented in ITOCHU. Several major domestic Group companies and certain overseas offices have already begun promoting CSR, and going forward these activities will be extended to our supply chain.

Road Map to Expand the Scope of CSR Management



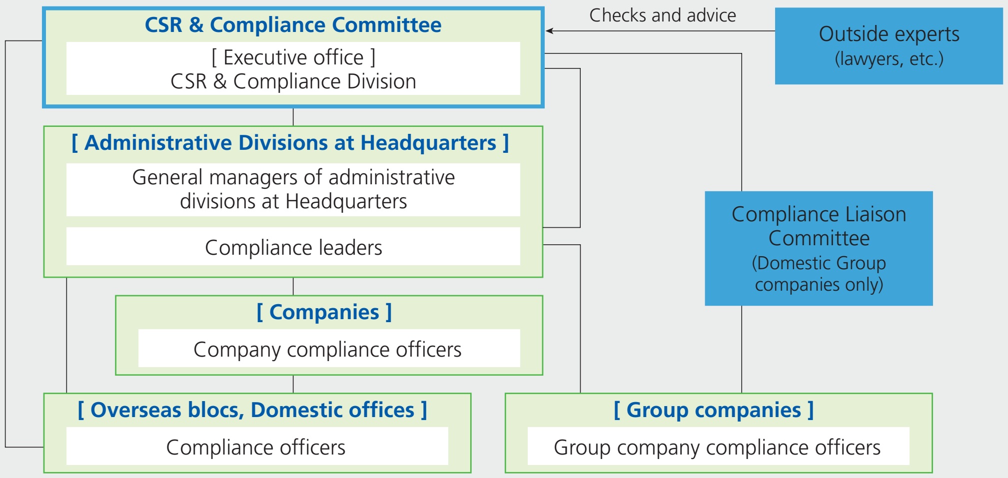
Compliance

ITOCHU's compliance structure, which was originally created with the slogan of "Clean, Honest, and Beautiful," is the foundation of the Company's CSR program. Keeping in mind the fact that "what has been built up over 150 years can be lost in a day," ITOCHU is taking steps to advance its compliance structure, from the construction stage to a phase of fine-tuning operation and performance, to achieve an even higher level of compliance.

ITOCHU GROUP'S COMPLIANCE STRUCTURE

The ITOCHU Group's compliance structure revolves around ITOCHU's Chief Compliance Officer (C.C.O.), the CSR Compliance Committee, and the Compliance Office. Each Division Company, domestic branch office, overseas bloc, and Group company has appointed its compliance officer and has been working to implement compliance enhancement according to operations in its organization.

Compliance Structure



MONITOR AND REVIEW

We have in place a mechanism of monitor and review to check the status of compliance activities throughout the entire Group on a semiannual basis. At the time of conducting our most recent monitor and review during the year under review, we introduced a new system under which each Division Company identified the items particularly related to its business activities and confirmed the status of compliance.

COMPLIANCE EDUCATION AND TRAINING

In recognition of the fact that individual training for employees is of the utmost importance in order to maintain thorough compliance, each employee undergoes education and training through classes conducted within each Group organization. We also plan to continue providing compliance education through e-learning and by providing information via e-mail magazines.

INTERNATIONAL TRADE-SECURITY CONTROL PROGRAM / ESTABLISHMENT OF THE CUSTOMS CONTROL OFFICE

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

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

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

In addition, ITOCHU implemented an e-learning program on trade-security control for all employees during the fiscal year ended March 2007 and made an internal assessment of the risk profile for every sales department through an export-control self-check list during years ended March 2006 and 2007. Furthermore, the Customs Control Office was established at the Headquarters on April 1, 2007, to further strengthen the Company's customs control functions.

Employee Relations

ITOCHU's diverse group of personnel underpins the Company's stable and continuous growth. Accordingly, the Frontier+ 2008 mid-term management plan incorporates the slogan, "Valuing people and enhancing the competitive strength of individual employees by respecting, utilizing, and cultivating their careers." With the aim of being a highly regarded global company, we proactively support all our employees, regardless of gender, nationality, or age, so that they can realize their full potential.

MOVING FORWARD WITH HUMAN RESOURCE DIVERSIFICATION

One of the principles in ITOCHU's personnel structure is to further diversify staffing in order to enhance the Company's strength in terms of human resources. Specific measures have been implemented since January 2004 based on the "Promotion Plan on Human Resource Diversification" with the aim of "Valuing people and enhancing the competitive strength of individual employees by respecting, utilizing, and cultivating their careers."

Promotion Plan on Human Resource Diversification

(January 2004–March 2009)

OBJECTIVES

- Provide maximum support to fully utilize the strengths and abilities of a variety of employees, regardless of gender, nationality, or age
- Create an attractive company and corporate atmosphere through the execution of the plan

(1) Securing a diverse employee base and providing comfortable working conditions

ITOCHU aims to create an attractive company and corporate atmosphere by further diversifying its employee base. Specifically, we are increasing the number of women in career-track jobs and aggressively working to secure and cultivate national staff* overseas. We are also actively hiring mid-career employees as we make steady progress in personnel diversification. At the same time, we must provide comfortable working conditions for our employees and promote work-life balance in order for them to remain active in the workforce. Therefore, we regularly conduct attitude surveys and are expanding our facilities for child care and nursing care.

(2) Promoting personnel development

ITOCHU stresses the cultivation of managers and worldwide staff from a consolidated, global perspective. We also work to provide systematic personnel development for our diverse staff, including wide-ranging support for young employees and career guidance for career-track women employees and for mid-career employees.

* National staff refers to locally hired staff at overseas offices.

National staff from overseas bases participated in training at ITOCHU Headquarters

STRENGTHENING COMMUNICATION WITH EMPLOYEES

Communication between top management and employees is indispensable if we are to create an attractive company and corporate atmosphere. The Company-Wide Employee Meeting ("CWEM") has been held semiannually in principle since the fiscal year ended March 2002, and the "Diversity Forum" was established in September 2006 as a venue for employees to independently put together specific proposals related to personnel diversity and present them to top management. In addition, along with dispatching messages, top management constantly strives to listen carefully to employees and improve two-way communication.


Communication between management and employees through "CWEM"

Social Contributions

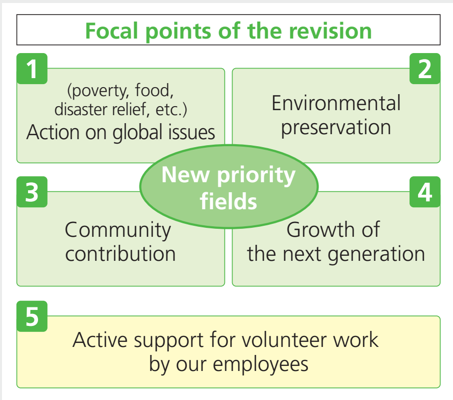
Viewing issues from a global perspective, ITOCHU shall always remain aware of the role that it is to play as a good corporate citizen, see that its activities are in harmony with both local communities and the international community, and contribute to the rise of societies offering a higher quality of life.

BASIC ACTIVITY GUIDELINES

ITOCHU adheres to the corporate philosophy of being "Committed to the global good.," and social contribution is one of its standards of corporate behavior. Based on our recognition of the necessity to further enrich our social contribution activities, as expected of a good corporate citizen, we partially revised our Basic Policy for Social Contribution Activities in 2006. The revised policy is shown below. Going forward, we intend to enhance our social contribution programs in accordance with this basic policy.

Basic Activity Guidelines

1. As a globally active enterprise, ITOCHU Corporation shall take proactive approaches to humanitarian issues around the world and help to build a better, more humane world.
2. ITOCHU Corporation shall vigorously pursue activities of environmental preservation and contribute to sustainable social advancement.
3. As a good corporate citizen, ITOCHU Corporation shall construct favorable relationships, and harmonize its business, with local communities.
4. ITOCHU Corporation shall conduct activities to support the sound development of youth as tomorrow's leaders and work for the emergence of fulfilling and vibrant communities.
5. ITOCHU Corporation shall provide positive support for the activities of social contribution by each and every one of its employees.



The Basic Policy for Social Contribution Activities and the five important post-revision points are linked.

SPECIFIC PROGRAMS

Addressing global issues

The world is faced with a variety of social issues, and at present ITOCHU is focusing its efforts on hunger and poverty and emergency relief for major natural disasters.

Environmental conservation

Since 1992, we have held Summer School Programmes on the Environment. With an emphasis on "environmental education for the next generation," "living in harmony with one's surroundings," and "cultivating employee volunteers," the summer school is primarily for elementary school students in Tokyo's Minato Ward and staffed by employees and university student volunteers.

Regional contributions

ITOCHU promotes a variety of local activities at its domestic branches and overseas locations. Among such activities, our Kyushu Branch Office and Coca-Cola West Holdings Co., Ltd., have jointly conducted forest conservation activities at the Sawayaka nature reserve in Tosu City, Saga Prefecture.

Educating the next generation

ITOCHU established the ITOCHU FOUNDATION in 1974 and continues to positively support its activities. For 32 years, the foundation has supported reading programs for children (BUNKO), managed a center for children (Center for Tokyo Elementary and Junior High School Students), and held outdoor educational activities.

Actively supporting voluntary efforts of ITOCHU staff

ITOCHU actively supports the volunteer activities of its employees, primarily through the Friendship Network (Fureai no Network).

Environmental Issues

ITOCHU considers addressing global environmental issues to be one of its most important management priorities. As part of implementing the responsibilities under its corporate philosophy of being “Committed to the global good.,” ITOCHU constantly strives to tackle global environmental issues from new perspectives as it looks to leave a positive legacy for the next generation.

ENVIRONMENTAL POLICY

ITOCHU formulated its Guidelines on the Environment in April 1993 and commenced voluntary environment-related activities based on those guidelines. On the occasion of the Tokyo and Osaka headquarters acquiring ISO 14001 certification in December 1997, the Environmental Policy was formulated in October 1997 based on the 1993 Guidelines and the “ITOCHU’s Corporate Code of Conduct,” which was established in October 1997.
The Environmental Policy was partially revised in July 2004 and continues to be the policy under which we operate today.

ITOCHU’s Environmental Policy

1 Basic Philosophy

Global environmental issues are a matter of serious global concern, since they affect the future of mankind. As a member of the international community, ITOCHU is positioning issues of environmental concern as one of the most important management policies.

ITOCHU is committed to economic development in harmony with the natural environment, under the corporate ideal of being “Committed to the Global Good.” We are actively promoting involvement by addressing environmental issues based on ITOCHU’s Corporate Code of Conduct, in order to protect our precious earth and make a lasting contribution to the global community.

2 Basic Policy

ITOCHU’s products and services encompass textiles, machinery, aerospace, electronics, multimedia, energy, metals, minerals, chemicals, forest products, general merchandise, food, finance, realty, insurance, and logistics services by way of imports and exports between Japan and various countries and offshore trading. We are also engaged in development and business investment activities in Japan and abroad. Through such activities, ITOCHU will periodically work to evaluate and continually improve its environmental policy. At the same time, we shall define our basic policy on environmental conservation as follows: (only titles are listed)

1) Consideration for environmental impact
2) Observance of environmental laws and regulations
3) Promotion of environmental conservation activities
4) Harmonious coexistence with society
5) Promotion of educational activities

July 2004
Eizo Kobayashi
President and Chief Executive Officer

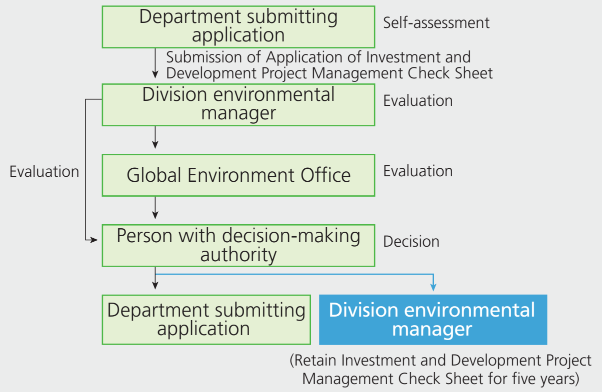
LCA METHOD OF EVALUATING THE ENVIRONMENTAL IMPACT OF PRODUCTS

ITOCHU provides trading businesses and is engaged in investment activities. With regard to trading businesses, regular annual environmental risk evaluations are carried out for each project using the Life Cycle Assessment (LCA) method. The business activities of each company are assessed to determine their impact on the environment. A scoring system is used to quantify the environmental impact of each product throughout its life span, from its raw materials to disposal. Products receiving over a certain score are deemed as having a “significant environmental aspect” and are managed accordingly.

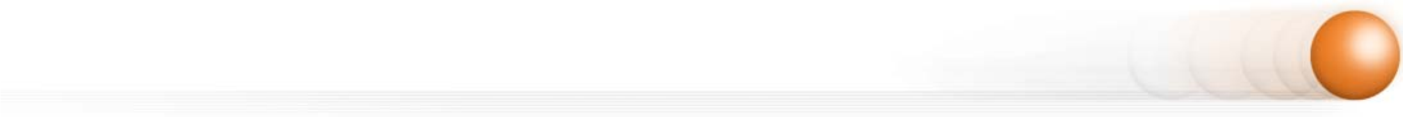
ENVIRONMENTAL IMPACT EVALUATION FOR NEW INVESTMENT PROJECTS

When making applications for new investment projects, the applying department fills out the Application of Investment and Development Project Management Check Sheet, in which it evaluates the environmental impact of the project from all angles (nature, social environment, pollution, legal, etc.). After this process, if necessary, external specialist institutions are also asked to provide impact assessments. Projects are assessed and, in turn, approved, put on hold, or turned down using the process shown in the chart.

Flow Chart of Environmental Assessment in New Investment and Development



Operational Structure



Organizational Structure

As of July 1, 2007

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

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

- Textile Material & Fabric Division
- Apparel Division
- Brand Marketing Division 1
- Brand Marketing Division 2
- Planning & Coordinating Department
- Affiliate Administration Section
- Monitoring & Review Section
- IT Business Development Department

- Textile Material & Fabric Department
- Fabric & Apparel Department
- Apparel Department 1
- Apparel Department 2
- Brand Marketing Department 1
- Brand Marketing Department 2
- Brand Marketing Department 3
- Industrial Textile & Lifestyle Department

Number of Employees	
Consolidated*	4,935
Non-consolidated	643

Number of Subsidiaries and Associates	
Domestic	35
Overseas	23

- Plant & Project Division
- Automobile Division
- Industrial Machinery & Solution Division
- Planning & Coordinating Department
- Affiliate Administration Department

- Marine Department
- Plant & Project Business Development Department
- Plant & Project Department No. 1
- Plant & Project Department No. 2
- Automobile Department No. 1
- Automobile Department No. 2
- Automobile Business Promotion Department
- Isuzu Business Department
- Construction Machinery & Overseas Project Department
- Industrial Machinery & System Department

Number of Employees	
Consolidated*	8,504
Non-consolidated	572

Number of Subsidiaries and Associates	
Domestic	22
Overseas	62

- Aerospace & Electronic Systems Division
- IT & Business Solutions Division
- Media Business Division
- Planning & Coordinating Department
- Affiliate Administration Department

- Aerospace & Defence Department
- Aircraft & Electronics Department
- Information Technology Business Department
- Business Solutions Department
- Network & Content Business Department
- Mobile & Wireless Department

Number of Employees	
Consolidated*	9,014
Non-consolidated	320

Number of Subsidiaries and Associates	
Domestic	70
Overseas	14

- Metals, Mineral Resources & Coal Division
- Energy Trade Division
- Energy Development Division
- Planning & Coordinating Department
- Affiliate Administration Section
- Steel Business Administration Department

- Metals & Mineral Resources Department
- Coal Department
- International Energy Trading Department
- Energy Sales & Supply Department
- Exploration & Production Department
- Natural Gas Project Department

Number of Employees	
Consolidated*	588
Non-consolidated	317

Number of Subsidiaries and Associates	
Domestic	17
Overseas	19

- Forest Products & General Merchandise Division
- Chemicals Division
- Planning & Coordinating Department
- Affiliate Administration Department

- Wood Products & Ceramic Materials Department
- Paper Materials & Products Department
- Tire & Rubber Department
- Organic Chemicals Department No. 1
- Organic Chemicals Department No. 2
- Inorganic Chemicals Department
- Plastics Department
- Retail & Plastics Materials Department

Number of Employees	
Consolidated*	8,014
Non-consolidated	441

Number of Subsidiaries and Associates	
Domestic	39
Overseas	47

- Provisions Division
- Fresh Food & Food Business Solutions Division
- Food Products Marketing & Distribution Division
- Planning & Coordinating Department
- Affiliate Administration Department

- Oilseeds, Oils & Fats Department
- Grain & Feed Department
- Sugar, Confectionary Materials & Dairy Products Department
- Coffee & Beverage Marketing Department
- Marine Products Department
- Meat Products Department
- Agri Products & Food Service Department
- Imported Food Marketing & Distribution Department
- Food Products Marketing & Distribution Department
- FamilyMart Department

Number of Employees	
Consolidated*	7,407
Non-consolidated	383

Number of Subsidiaries and Associates	
Domestic	79
Overseas	19

- Financial Services Division
- Construction & Realty Division
- Insurance Services Division
- Logistics Services Division
- Planning & Coordinating Department
- Affiliate Administration Department
- Orico Business Integrated Department

- Financial Markets Department
- Financial Solution Development Department
- Consumer Credit Business Department
- Construction & Realty Department No. 1
- Construction & Realty Department No. 2
- Osaka Construction & Realty Department
- Insurance Department No. 1
- Insurance Department No. 2
- Logistics Solution Department
- Logistics Projects Department

Number of Employees	
Consolidated*	1,936
Non-consolidated	373

Number of Subsidiaries and Associates	
Domestic	44
Overseas	28

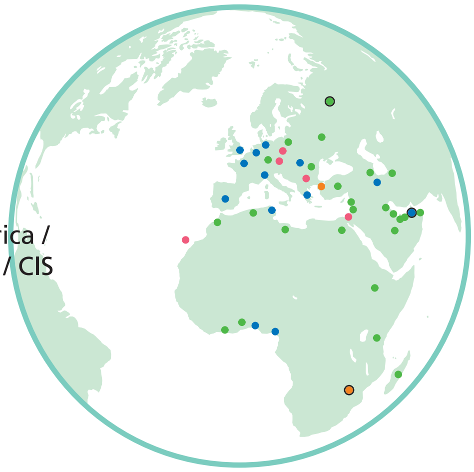
* The number of consolidated employees is based on actual working employees excluding temporary staff.

Global Network / Bank List

As of July 1, 2007

[Global Network]

North America /
Latin America



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Nagoya, Kyushu, Chugoku, Hokkaido, Tohoku, Niigata, Shizuoka, Toyama, Kanazawa, Fukui, Kobe, Shikoku, Naha, Oita, Tochio

[Bank List]

ITOCHU has financial transactions with the following banks.

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

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

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

Middle East
Saudi American Bank
Union National Bank

Oceania
Australia and New Zealand Banking Group Limited
Westpac Banking Corporation

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

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

Major Subsidiaries and Associated Companies

As of March 31, 2007

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Textile Company					
Subsidiaries	Domestic	CI FABRIC LTD.	100.0	Manufacture and wholesale of fabrics for apparel and home furnishings	3
		ITOCHU HOME FASHION CORPORATION	100.0	Manufacture and wholesale of home furnishings	2
		SAKASE ADTECH CO., LTD.	90.0	Manufacture and wholesale of textile fabrics for industry and home furnishings	3
		ROY-NE CO., LTD.	89.8	Manufacture and wholesale of woven and knitted products	3
		ITOCHU MODEPAL CO., LTD.	100.0	Manufacture and wholesale of apparel	3
		UNICO CORPORATION	100.0	Manufacture and wholesale of uniforms	3
		Tommy Hilfiger Japan, Corporation	75.0	Sale of Tommy Hilfiger brand products	12
		MAGASeek Corporation	64.4	Retail website of fashion apparel by PC and mobile	3
		Liond'or Co., Ltd.	100.0	Manufacture and wholesale of men's apparel	3
		CI GARMENTS SERVICE CO., LTD	100.0	Retail of men's and women's apparel and sale of garment material	3
		HUNTING WORLD JAPAN Co., Ltd.	100.0	Import and sale of Hunting World brand products	3
		JOI'X CORPORATION	100.0	Sale of men's apparel	7
		CORONET CORPORATION	100.0	Manufacture, import and wholesale of apparel	3
		ITOCHU FASHION SYSTEM Co., Ltd.	100.0	Comprehensive consulting in the fashion industry	3
		Richard-Ginori Japan Corporation	50.0	Import and sale of Richard Ginori and Pagnossin Group brand products	12
		RAIKA CO., LTD	100.0	Manufacture and wholesale of apparel	3
		CI Shopping Service Co., Ltd.	100.0	Sale of everyday items aimed at ITOCHU Group employees and families	3
	Overseas	ITOCHU WOOL LTD. (Australia)	100.0	Purchase and wholesale of wool and animal hair	3
		ITOCHU Textile Materials (Asia) Ltd. (Hong Kong S.A.R., China)	100.0	Wholesale of chemical fibers, filament yarns and cotton yarns	3
		Prominent Apparel Ltd. (Hong Kong S.A.R., China)	100.0	Production control and wholesale of textile and apparel	3
		TIANJIN HUADA GARMENT CO., LTD. (China)	100.0	Manufacture of uniforms	12
		UNIMAX SAIGON CO., LTD. (Vietnam)	80.0	Manufacture of uniforms	12
		ITOCHU TEXTILE (CHINA) CO., LTD (China)	100.0	Production control and wholesale of textile materials, fabrics and apparel	12
Associates	Domestic	DEAN & DELUCA JAPAN Co., Ltd.	20.4	Operation of cafeteria chain and other new business	2
		AYAHA CORPORATION	33.5	Manufacture of tire cords, etc.	3
	Overseas	Thai shikibo co., ltd. (Thailand)	30.0	Manufacture of cotton yarn	12
Machinery Company					
Subsidiaries	Domestic	ITOCHU Plant & Machinery Corporation*	100.0	Export and import of small-to-medium-scale plant and equipment and domestic environmental businesses	3
		IMECS Co., Ltd.	100.0	Ownership and operation of ships, chartering, ship machinery, second-hand ships, software development and administration management of overseas shipping companies	3
		EneSol Inc.*	100.0	Sale of equipment and systems for energy conservation and distributed power generation services	3
		ITOCHU Automobile Corporation	100.0	Export/Import and inter-third trade of car parts	3
		ITOCHU CONSTRUCTION MACHINERY CO., LTD.	100.0	Sales and rental of construction machinery	3
		ITOCHU Sanki Corporation	100.0	Wholesale of industrial machinery	3
		ITOCHU Texmac Corporation	100.0	Wholesale of textile machinery	3
		Century Medical, Inc.	100.0	Wholesale of medical equipment and materials	3
	Overseas	MCL Group Limited (U.K.)	100.0	Warehousing, retail and financing of motor vehicles	12
		ITOCHU Automobile America Inc. (U.S.A.)	100.0	Retail, distribution and trading of motor vehicles	12
		Auto Investment Inc. (U.S.A.)	100.0	Retail of motor vehicles	12
		PROMAX Automotive, Inc. (U.S.A.)	100.0	Third-party logistics services	12
		MULTIQUIP INC. (U.S.A.)	100.0	Distribution and manufacturing of light construction equipment and generators	12
		North American Energy Services Inc. (U.S.A.)	100.0	Power plant operation and maintenance services provider for independent power producers and utilities	12

* On April 1, 2007, ITOCHU Plant & Machinery Corporation and EneSol Inc. merged to form ITOCHU Plantech Inc.

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Associates	Domestic	Barracuda & Caratinga Investment Corporation	30.0	Investment in the project for the construction, ownership and operation of deep sea oil & gas production facilities	12
		Malha Gas Investment Co., Ltd.	30.0	Investment in the project for the construction, ownership and operation of gas pipelines	3
		□ ISUZU Network Company Limited	25.0	Commercial vehicle life cycle business	3
		MYSTAR ENGINEERING CORP.	20.3	Maintenance services for high-tech equipment	3
		Century Leasing System, Inc.	20.1	Diversified leasing business	3
	Overseas	Mazda Canada Inc. (Canada)	40.0	Import and wholesale of motor vehicles	3
		KOMATSU SOUTHERN AFRICA (PTY) LTD. (Republic of South Africa)	20.0	Sales and service of construction machinery	3

Aerospace, Electronics & Multimedia Company

Subsidiaries	Domestic	ITOCHU Techno-Solutions Corporation*	50.4	System consultation, integration, administration, maintenance, support, training and outsourcing	3
		Excite Japan Co., Ltd.	60.2	Internet directory service, information serching and providing service	3
		SPACE SHOWER NETWORKS INC.	51.1	Music channel on cable/satellite television	3
		NANO Media Inc.	51.6	Content publishing, mobile site operation and application development	3
		ITC NETWORKS CORPORATION	70.8	Retail network of mobile phones	3
	Overseas	ITOCHU AirLease B.V. (Netherlands)	100.0	Lease of commercial aircraft	3
Associates	Domestic	JAMCO Corporation	20.7	Maintenance of aircraft and manufacture of aircraft interior	3
		SUNCALL CORPORATION	21.9	Manufacture and sales of optical communication devices, electronic devices and assembly	3

* Formed on October 1, 2006, through the merger of ITOCHU TECHNO-SCIENCE Corporation and CRC Solutions Corp.

Energy, Metals & Minerals Company

Subsidiaries	Domestic	ITOCHU Non-Ferrous Materials Co., Ltd.	100.0	Import/Export and wholesale of non-ferrous/light metals and products	3
		ITOCHU Oil Exploration Co., Ltd.	96.4	Exploration and production of oil, gas and other hydrocarbon resources	12
		ITOCHU Petroleum Japan Ltd.	100.0	International trade of crude oil and petroleum products, charter and operation of oil tankers, sales of bunker fuel oil and operation of oil storage facilities	3
	Overseas	ITOCHU Minerals & Energy of Australia Pty Ltd (Australia)	100.0	Investment and sales in projects of iron ore, coal and bauxite mining, manufacture of alumina and oil exploration	3
		ITOCHU Petroleum Co., (Hong Kong) Ltd. (Hong Kong S.A.R., China)	100.0	International trade of crude oil, LPG and petroleum products	12
		ITOCHU Oil Exploration (Azerbaijan) Inc. (Cayman Islands, British West Indies)	100.0	Exploration and production of crude oil and gas	12
Associates	Domestic	Marubeni-Itochu Steel Inc.	50.0	Import/Export and wholesale of steel products	3
		ITOCHU ENEX CO., LTD.	39.1	Wholesale of petroleum products and gas	3
		NISSHO Petroleum Gas Corporation	25.0	Wholesale of LPG and petroleum products	3
		Japan Ohanet Oil & Gas Co., Ltd.	35.0	Exploration and production of gas and condensate	12
	Overseas	Galaxy Energy Group Ltd. (British Virgin Islands)	25.0	International trade of crude oil and petroleum products	12
		Chemoil Energy Limited (Hong Kong S.A.R., China)	37.5	International trade of petroleum products	12
		IPC (USA), Inc. (U.S.A.)	50.0	International trade of crude oil and petroleum products	12

Note: □ Newly consolidated subsidiaries in the fiscal year ended March 2007

Chemicals, Forest Products & General Merchandise Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	ITOCHU Kenzai Corp.	86.9	Wholesale of wood products and building materials	3
		Daishin Plywood Co., Ltd.	100.0	Manufacture of plywood	3
		ITOCHU Forestry Corp.	100.0	Landscaping, greenery development and wastewater treatment systems	3
		ITOCHU Pulp & Paper Corp.	100.0	Wholesale of paper, paperboards and various paper materials	3
		ITOCHU Ceratech Corp.	100.0	Manufacture and sale of ceramic raw materials and products	3
		ITOCHU Windows Co., Ltd.	66.0	Manufacture and sale of insulating glass	3
		I.C.S. Co., Ltd.	95.0	Sale of tires and wheels	3
		IFA Co., LTD.	100.0	Manufacture and wholesale of shoes and bags	3
		ILLUMS JAPAN CO., LTD.	85.0	Retail of Scandinavian modern design interior	2
		ITOCHU CHEMICAL FRONTIER Corporation	96.4	Wholesale of fine chemicals and related raw materials	3
		ITOCHU PLASTICS INC.	100.0	Development and wholesale of plastics and related products	3
		The Japan Cee-Bee Chemical Co., Ltd.	90.0	Manufacture and processing of metal pretreatment chemicals	3
		VCJ Corporation	80.0	Wholesale of DVD/video and plastic products for retailers	3
		Chemical Logitec Co., Ltd.	100.0	Management of chemical storage warehouses and transportation of chemicals and other cargos	3
		□ SHOWA ALUMINUM POWDER K.K.	85.1	Manufacture of aluminum paste	12
	Overseas	CIPA Lumber Co., Ltd. (Canada)	100.0	Manufacture of veneer	12
		Pacific Woodtech Corporation (U.S.A.)	100.0	Manufacture of LVL & I-Joist	12
		PrimeSource Building Products, Inc. (U.S.A.)	100.0	Wholesale of building materials	12
		PT. Aneka Bumi Pratama (Indonesia)	100.0	Processing of natural rubber	12
		Am-Pac Tire Distributors Inc. (U.S.A.)	100.0	Wholesale and retail of tires	12
		Stapleton's (Tyre Services) Ltd. (U.K.)	100.0	Wholesale and retail of tires	12
		ITOCHU Plastics Pte. Ltd. (Singapore)	100.0	Wholesale of plastic resins	12
		Plastribution Limited (U.K.)	100.0	Wholesale of synthetic resins	12
		Hinbo International Industrial Co., Ltd. (China)	77.2	Manufacture of plasticizer for polyvinyl chloride	12
		RUBBERNET (ASIA) PTE LTD. (Singapore)	80.0	Sale of crude rubber	12
		ITOCHU Chemicals America Inc. (U.S.A.)	100.0	Wholesale of chemical products and synthetic resins	12
		ZHEJIANG YIPENG CHEMICAL CO., LTD. (China)	60.0	Manufacture of anhydrous fluoric acid	12
		□ Galleher Corporation (U.S.A.)	100.0	Wholesale of flooring materials	12
Associates	Domestic	Japan Brazil Paper and Pulp Resources Development Co., Ltd.	25.9	Investment in CENIBRA, one of the largest eucalyptus pulp manufacturers in Brazil	3
		DAIKEN CORPORATION	20.1	Manufacture of building materials and construction parts	3
		PPG-CI Co., Ltd.	49.0	Import and sale of float-glass	11
		TAKIRON Co., Ltd.	26.8	Manufacture of flat and corrugated plastic sheets	3
		C.I. KASEI Co., Ltd.	36.6	Manufacture of PVC pipe and film and related materials	3
		TOHO EARTHTECH, INC.	34.2	Exploration and production of natural gas and iodine	3
		SANKYU PHARMACEUTICAL CO., LTD.	23.1	Manufacture and wholesale of Chinese herbal medicines and supplement, import and sale of Chinese herb	3
		Ningbo PTA Investment, Co., Ltd	35.0	Investment in manufacture of PTA in China	3
	Overseas	ALBANY PLANTATION FOREST COMPANY OF AUSTRALIA PTY. LIMITED (Australia)	28.4	Plantation of eucalyptus trees for papermaking	3
		SOUTH EAST FIBRE EXPORTS PTY. LTD. (Australia)	37.5	Manufacture of woodchip	12
		THAITECH RUBBER CORPORATION LTD. (Thailand)	33.0	Processing of natural rubber	12
		Siam Riso Wood Products Co., Ltd. (Thailand)	38.4	Manufacture of particle board	12
		Shanghai Baoling Plastics Co., Ltd. (China)	22.6	Manufacture of plastic products	12
		Shanghai Jinpu Plastic Packaging Material Co., Ltd. (China)	30.0	Manufacture of polypropylene films	12
		Tetra Chemicals (Singapore) Pte. Ltd. (Singapore)	40.0	Sale and manufacture of MTBE (Methyl t-Butyl Ether)	12
		SUMIPEX (THAILAND) CO., LTD. (Thailand)	49.0	Manufacture of PMMA sheet	12
		□ BRUNEI METHANOL COMPANY SDN. BHD. (Brunei)	25.0	Manufacture of methanol in Brunei	12
		■ Hexa Color (Thailand) Ltd. (Thailand)	20.0	Plastics coloring compound operations	12

Note: □ Newly consolidated subsidiaries in the fiscal year ended March 2007
Note: ■ Subsidiaries changed from associates and vice versa in the fiscal year ended March 2007

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month

Food Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	ITOCHU Feed Mills Co., Ltd.	85.9	Manufacture and wholesale of compound feeds	3
		ITOCHU Rice Corporation	89.6	Wholesale of rice	3
		ITOCHU Sugar Co., Ltd.	100.0	Manufacture and processing of sugar and by-products	3
		I-FOODS Co., Ltd.	100.0	Import and wholesale of food materials	3
		ITOCHU FRESH Corporation	100.0	Processing and wholesale of perishables	3
		Universal Food Co., Ltd.	98.0	Planning and service providing in food service business	3
		ITOCHU SHOKUHIN Co., Ltd.	50.9	Wholesale and distribution of foods	9
		Nishino Trading Co., Ltd.*	85.2	Wholesale of foods and sundries	3
		Yayoi Foods Co., Ltd.	93.2	Manufacture of frozen prepared foods	3
		Family Corporation Inc.	100.0	Logistics services of frozen, chilled and dry foods and sundries for convenience store chain, retailers and food service business	3
	■	NIPPON ACCESS, INC.*	60.6	Wholesale and distribution of foods	3
	Overseas	OILSEEDS INTERNATIONAL LTD. (U.S.A.)	100.0	Safflower oil manufacture	7
Associates	Domestic	Fuji Oil Co., Ltd.	25.5	Integrated manufacturer of cooking oil and soybean protein	3
		Japan Foods Co., Ltd.	34.8	Production of soft drinks	3
		AI Beverage Holding Co. Ltd.	20.0	Holding company of Chinese soft drink manufacturers	12
		Prima Meat Packers, Ltd.	39.7	Production and marketing of meat, ham, sausage and processed foods	3
		Yoshinoya D&C Co., Ltd.	21.1	Operation of Gyu-don store chain and other new business	2
		KI Fresh Access, Inc.	33.0	Wholesale of fruits and vegetables	3
		FamilyMart Co., Ltd.	32.5	Operation of a convenience store chain, using the name FamilyMart and a franchise system	2
		SHOW-WA Co., Ltd.	20.0	Wholesale of foods	3
	Overseas	PALMAJU EDIBLE OIL SDN. BHD. (Malaysia)	30.0	Refining of palm oil	12
		CGB ENTERPRISES, INC. (U.S.A.)	50.0	Handling of grain and operation of barges	5
		Asahi Breweries Itochu (Holdings) Limited (Hong Kong S.A.R., China)	40.0	Holding company of Chinese beer manufacturers	12
		CHOLBURI SUGAR & TRADING CORP., LTD. (Thailand)	20.0	Sugar manufacture	9
	■	P.T. ANEKA TUNA INDONESIA (Indonesia)	47.0	Production and marketing of canned tuna	12
		WINNER FOOD PRODUCTS LTD. (Hong Kong S.A.R., China)	26.0	Manufacture and wholesale of processed foods	12
		TAIWAN DISTRIBUTION CENTER CO., LTD. (Taiwan)	39.4	Wholesale of foods and sundries	12

* On April 1, 2007, Nishino Trading Co., Ltd. and NIPPON ACCESS, INC. merged to form NIPPON ACCESS, INC.

Finance, Realty, Insurance & Logistics Services Company

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	Domestic	ITOCHU Finance Corporation	90.1	Loan and other finance-related business	3
		ITOCHU Capital Securities, Ltd.	100.0	Structuring and distribution of fund of funds and other investment products	3
		FX PRIME Corporation	85.1	Foreign exchange margin trade	3
		ITOCHU Property Development, Ltd.	100.0	Development and sale of housing (apartments, condominiums and homes)	3
		ITOCHU Housing Co., Ltd.	100.0	Real estate agent and property consultant	3
		ITOCHU BUILDING CORPORATION	100.0	Leasing properties (buildings)	3
		CENTURY 21 REAL ESTATE OF JAPAN LTD.	55.3	Headquarters of real estate franchise system	3
		ITOCHU Urban Community Ltd.	100.0	Operation and management of real estate property	3
		ITOPIA Home Co., Ltd.	100.0	Planning and construction of homes	3
		ITOCHU Orico Insurance Services Co., Ltd.*	65.0	Insurance agency	3
		I&T Risk Solutions Co.,Ltd.	62.8	Insurance broking services and risk consulting	3
		Naigai Travel Service Co., Ltd.	97.2	Travel agency	3
	Overseas	ITOCHU Finance (Europe) PLC (U.K.)	100.0	Proprietary financial investment and development of new financial business in Europe	2
		ITOCHU Finance (Asia) LTD. (Hong Kong S.A.R., China)	100.0	Proprietary financial investment and development of new financial business in Asia	2
		ITOCHU Financial Services, Inc. (U.S.A.)	100.0	Proprietary financial investment and development of new financial business in North America	12
		COSMOS SERVICES CO., LTD. (Hong Kong S.A.R., China)	100.0	Consulting and broking of insurance and reinsurance	3
		COSMOS SERVICES (AMERICA) INC. (U.S.A.)	100.0	Consulting and broking of insurance	12
		EURASIA SPED Kft. (Hungary)	59.8	Transportation and warehousing	12
		Guangzhou Global Logistics Corp. (China)	57.7	Warehousing and trucking	12

Note: ■ Subsidiaries changed from associates and vice versa in the fiscal year ended March 2007

* On March 22, 2007, the name of ITOCHU Insurance Services Co., Ltd. was changed to ITOCHU Orico Insurance Services Co., Ltd.

		Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Associates	Domestics	CENTRAL ENGINEERING & CONSTRUCTION Co., Ltd.	50.0	Engineering and ventilation construction	3
		MINAMI AOYAMA Apartment Co., Ltd.	27.8	Leasing and operation of rental residences	3
		TOKYO HUMANIA ENTERPRISE INC.	48.6	Operation of hotel	3
		Priva Co., Ltd.	20.9	Online consumer loans	3
		Famima Credit Corporation	38.2	Credit card business for FamilyMart convenience store chain	2
		POCKETCARD Co., Ltd.	23.4	Credit card business	2
		Orient Corporation	21.0	Consumer credit	3
		Superex Corporation	21.9	Logistics center	3
		■ eGuarantee, Inc.	40.5	Integrated payment solutions through the eGuarantee financial portal for B2B marketplaces and financing providers	3
		i-LOGISTICS CORP.	49.2	Comprehensive logistics services	3
	Overseas	P.T. MALIGI PERMATA INDUSTRIAL ESTATE (Indonesia)	50.0	Development, sale and management of industrial parks	12
		Beijing Pacific Logistics Co., ltd. (China)	50.0	Logistics business in China	12
		TING TONG (CAYMAN ISLANDS) HOLDING CORPORATION (Cayman Islands, British West Indies)	50.0	Management of logistics in China	12

Overseas Trading Subsidiaries and their Subsidiaries

	Name	Voting Shares (%)	Operations	Fiscal Year-End Month
Subsidiaries	ITOCHU International Inc. (U.S.A.)	100.0	Overseas trading subsidiary	12
	Telerent Leasing Corporation (U.S.A.)	100.0	Distribution and lease of televisions to hotels and hospitals	12
	Master-Halco, Inc. (U.S.A.)	100.0	Manufacture and distribution of fence materials and security products	12
	Enprotech Corp. (U.S.A.)	100.0	Maintenance and repair of industrial machinery in automotive, steel and bottling industries	12
	ITOCHU Europe PLC. (U.K.)	100.0	Overseas trading subsidiary	12
	ITOCHU Singapore Pte, Ltd. (Singapore)	100.0	Overseas trading subsidiary	3
	ITOCHU Korea LTD. (Korea)	100.0	Overseas trading subsidiary	12
	ITOCHU (THAILAND) LTD. (Thailand)	100.0	Overseas trading subsidiary	3
	ITOCHU Hong Kong Ltd. (Hong Kong S.A.R., China)	100.0	Overseas trading subsidiary	3
	ITOCHU Latin America S.A. (Panama)	100.0	Overseas trading subsidiary	12
	ITOCHU Chile S.A. (Chile)	100.0	Overseas trading subsidiary	12
	ITOCHU BRASIL S.A. (Brazil)	100.0	Overseas trading subsidiary	12
	ITOCHU MIDDLE EAST FZE (U.A.E.)	100.0	Overseas trading subsidiary	3
	ITOCHU Australia Ltd. (Australia)	100.0	Overseas trading subsidiary	3
	ITOCHU (China) Holding Co., Ltd. (China)	100.0	Overseas trading subsidiary	12
	ITOCHU TAIWAN CORPORATION (Taiwan)	100.0	Overseas trading subsidiary	3

Note: ■ Subsidiaries changed from associates and vice versa in the fiscal year ended March 2007

Financial Section

Six-Year Summary

ITOCHU Corporation and Subsidiaries
Years ended March 31

	Millions of Yen						Millions of U.S. Dollars (Note 6)
Years ended March 31	**2007**	2006	2005	2004	2003	2002	**2007**
P/L (For the year):							
Revenue (Note 1)	**¥2,647,202**	¥2,218,221	¥1,991,238	¥1,738,747	¥1,681,718	¥1,688,128	**$22,424**
Gross trading profit	**908,676**	714,374	630,761	555,895	564,967	578,656	**7,697**
Net income (loss)	**177,059**	145,146	77,792	(31,944)	20,078	30,191	**1,500**
Per share (Yen and U.S. Dollars):							
Net income (loss) (Note 2)	**¥111.95**	¥ 91.74	¥ 49.16	¥ (20.20)	¥ 13.12	¥ 21.18	**$0.95**
Cash dividends	**14**	9	7	—	5	5	**0.12**
Stockholders' equity (Note 2)	**566.78**	459.47	322.54	267.25	269.53	278.99	**4.80**
Total trading transactions (Note 3)	**¥11,579,059**	¥10,473,885	¥9,576,039	¥9,516,967	¥10,446,371	¥11,395,240	**$98,086**
Adjusted profit (Note 4)	**241,931**	252,038	188,807	100,676	114,454	102,557	**2,049**
B/S (At year-end):							
Total assets	**¥5,271,512**	¥4,797,013	¥4,472,345	¥4,487,282	¥4,486,405	¥4,752,319	**$44,655**
Short-term interest-bearing debt	**518,040**	555,531	676,870	885,253	990,939	991,410	**4,389**
Long-term interest-bearing debt	**1,647,589**	1,670,937	1,669,834	1,676,657	1,583,481	1,803,321	**13,956**
Interest-bearing debt	**2,165,629**	2,226,468	2,346,704	2,561,910	2,574,420	2,794,731	**18,345**
Net interest-bearing debt	**1,630,928**	1,724,314	1,891,086	1,977,048	2,025,048	2,296,398	**13,815**
Long-term debt, excluding current maturities (including long-term interest-bearing debt)	**1,795,333**	1,762,103	1,750,815	1,757,313	1,637,916	1,863,629	**15,208**
Stockholders' equity	**896,195**	726,816	510,397	422,866	426,220	397,668	**7,592**
Cash flows:							
Cash flows from operating activities	**¥ 235,917**	¥185,147	¥ 126,624	¥184,780	¥ 168,843	¥ 216,503	**$1,998**
Cash flows from investing activities	**(83,394)**	(79,871)	(127,600)	(55,300)	5,253	214,008	**(706)**
Cash flows from financing activities	**(100,920)**	(85,193)	(125,342)	(79,695)	(114,041)	(232,047)	**(855)**
Cash and cash equivalents at end of year	**532,856**	477,707	452,934	579,565	534,156	479,734	**4,514**
Ratios:							
Gross trading profit ratio (%) (Note 5)	**7.8**	6.8	6.6	5.8	5.4	5.1	
ROA (%)	**3.5**	3.1	1.7	—	0.4	0.6	
ROE (%)	**21.8**	23.5	16.7	—	4.9	8.4	
Ratio of stockholders' equity to total assets (%)	**17.0**	15.2	11.4	9.4	9.5	8.4	
Net debt-to-equity ratio (times)	**1.8**	2.4	3.7	4.7	4.8	5.8	
Interest coverage (times)	**6.7**	5.7	5.7	2.7	2.7	2.1	
Common stock information:							
Stock price (Yen and U.S. Dollars):							
Opening price	**¥1,014**	¥ 541	¥466	¥287	¥425	¥444	**$ 8.59**
High	**1,223**	1,056	573	480	506	520	**10.36**
Low	**837**	484	403	231	198	269	**7.09**
Closing price	**1,168**	1,011	540	468	288	430	**9.89**
Market capitalization (Yen and U.S. Dollars in billions)	**1,851**	1,602	856	742	456	613	**15.68**
Trading volume (yearly, million shares)	**1,969**	1,580	1,533	1,304	1,221	847	
Number of shares of common stock issued (at year-end, 1,000 shares)	**1,584,890**	1,584,890	1,584,890	1,584,890	1,583,488	1,425,488	
Exchange rates into U.S. currency (Federal Reserve Bank of New York):							
At year-end	**¥117.56**	¥117.48	¥107.22	¥104.18	¥118.07	¥132.70	
Average for the year	**116.55**	113.67	107.28	112.75	121.10	125.64	
Range:							
Low	**121.81**	120.93	114.30	120.55	133.40	134.77	
High	**110.07**	104.41	102.26	104.18	115.71	115.89	
Number of employees (At year-end, consolidated)	**45,690**	42,967	40,890	40,737	39,109	36,529	

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. Adjusted profit = Gross trading profit + Selling, general and administrative expenses + Net financial expenses + Equity in earnings of associated companies
5. "Gross trading profit ratio" is the percentage of "Gross trading profit" to "Total trading transactions."
6. The Japanese yen amounts for the year ended March 31, 2007 have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥118.05=U.S.$1 (the official rate dated March 31, 2007 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, 2007 ("Fiscal 2007") have been converted into U.S. dollars, solely for the convenience of the reader, using an exchange rate of ¥118.05 = US$1 as of March 31, 2007 as announced by The Bank of Tokyo-Mitsubishi UFJ, Ltd.

OVERVIEW

During Fiscal 2007, the tempo of recovery for the Japanese economy slowed. Capital expenditure and exports both increased strongly, but growth in consumer spending was sluggish. The Nikkei Stock Average felt the pressure of lower stock valuations around the world and at one point fell to the ¥14,000 level. However, supported by the continuing gentle recovery in the Japanese economy, it returned to a level of around ¥17,000 by the end of the fiscal year. The yen-dollar rate moved in a range of ¥110-120 to the U.S. dollar. This was due to the gap between domestic and overseas interest rates, which caused funds to flow out of Japan and counterbalance the trade surplus. The Bank of Japan, which relinquished the zero-rate interest policy last July, continued by implementing a modest increase in short-term interest rates this February.

The overseas economy continued to expand strongly overall. In the U.S., housing investment declined rapidly, but high corporate earnings supported expansion in employment and capital expenditure. The U.S. economy therefore maintained steady growth. The Chinese economy displayed high growth throughout the fiscal year, backed by domestic infrastructure investment and strong exports. The European economy also grew strongly led by internal demand. Crude oil prices, which had risen dramatically until the middle of last year, fell in reaction and moved around the US$60 to a barrel level. In contrast, other primary material prices maintained their upward trend. Compared to crude oil, these materials had been slower in reaching the transition phase for upward movement.

ITOCHU Corporation and its group companies have implemented a mid-term management plan, "Frontier-2006," a two-year plan for Fiscal 2006 and Fiscal 2007. This fiscal year was the final year of the plan and we positioned it as the year when we would attain the target of making ITOCHU a highly profitable group consistently achieving more than ¥100 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 its earnings and strengthening its business base.

Specific achievements during fiscal 2007 were as follows:

<u>Consumer-related and Retail-related areas:</u>

ITOCHU continued the global rollout of major brands. In textile, the casual bag brand LeSportsac was deployed in China and a branch of the U.S. gourmet store Dean & Deluca was opened in Taiwan. The jewelry joint venture Chrome Hearts LLC opened stores in Hawaii and Paris, while Paul Smith Holdings Limited opened stores in New York and Paris.

In new business employing advanced technology, ITOCHU cooperated with SHU-HOU Co., Ltd., on applications for their curved surface printing technology. Facilities for anhydrous dyeing mass production in INKMAXCO., LTD.'s ink jet printing business were also completed.

In food-related business, ITOCHU energetically pursued a number of initiatives in China. These included establishing a general wholesale subsidiary in the East China region, and further expanding FamilyMart stores to Guangzhou (FamilyMart started in Shanghai from fiscal 2005.)

In Japan, ITOCHU converted NIPPON ACCESS, INC. into a subsidiary from an equity-method associated company last June (see note 3 of consolidated financial statements), and in turn NIPPON ACCESS, INC. merged with NISHINO TRADING CO., Ltd. in April this year. This new company will develop business as one of Japan's biggest food wholesalers.

<u>Natural Resource Development-related areas:</u>

ITOCHU decided to make an investment to increase supply at the iron-ore production project which it runs in Western Australia with BHP Billiton Ltd. and Mitsui & Co., Ltd.

In the United States, ITOCHU established a joint venture, Kansas Energy Co. LLC in order to enter the retail natural gas business. Interests in natural gas fields in the Gulf of Mexico area were acquired. Regarding the ACG oil development project in Azerbaijan, crude oil production started in the eastern oil field of Azeri as well.

<u>Other areas:</u>

ITOCHU received an order in Machinery for the construction of an expressway linking the east and west of Algeria. In automobile business, ITOCHU formed Isuzu Network Co., Ltd. with Isuzu Motors Ltd. to strengthen domestic sales and foster life cycle process management for commercial vehicles. An operational and capital tieup was also concluded with Akebono Brake Industry Co., Ltd. and ITOCHU invested in Akebono's North American subsidiary controlling company. In the Mobile area, Asurion Japan K.K. started a warranty service for mobile devices. In Life Science, ITOCHU established Wellness Communications Corporation which will focus on preventive medicine, a market set to expand in Japan's low-birthrate, aging society. In the Chemicals area, ITOCHU's largest investment in China, a manufacturing plant for high-purity terephthalic acid (PTA) in Ningbo, started operations. In the financial services area, eGuarantee, Inc., which engages in guaranty services, was listed on the JASDAQ stock exchange.

BUSINESS RESULTS FOR FISCAL 2007—A Comparison between Fiscal 2007 and Fiscal 2006

Revenue (the total of "Sales revenue" and "Trading margins and commissions on trading transactions") increased by ¥429.0 billion (19.3%) to ¥2,647.2 billion (US$22,424 million) compared with the previous fiscal year. In Machinery, automobile transactions increased; in Energy, Metals and Minerals, natural resources prices such as crude oil increased and there was a rise in sales volume; and in Food, there was an increase from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

Gross trading profit increased by ¥194.3 billion (27.2%) to ¥908.7 billion (US$7,697 million) compared with the previous fiscal year. In Machinery, automobile transactions in the U.S. and Europe were buoyant; in Aerospace, Electronics and Multimedia, there was steady growth in domestic IT business; in Energy, Metals & Minerals, there was a rise in crude oil prices and sales volume rose as full-scale production started in oil-fields owned; in Chemicals, Forest Products and General Merchandise, there was steady growth in domestic house building materials transactions and a robust chemical products market; and in Food, there was an increase from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

Selling, general and administrative expenses increased by ¥132.9 billion (26.2%) to ¥639.1 billion (US$5,414 million), compared with the previous fiscal year, mainly due to business expansion and the increase from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

Provision for doubtful receivables decreased by ¥9.8 billion from the previous fiscal year to ¥4.9 billion (US$42 million) mainly due to a loss on Iraq receivables posted last fiscal year.

Net financial expenses (net of interest income, interest expense and dividend received) decreased by ¥0.3 billion (3.3%) to ¥7.6 billion (US$ 64 million), compared with the previous fiscal year. Although net interest expenses increased by ¥3.2 billion (12.2%) due to rising interest rates, this was counterbalanced by increased dividends from energy-related investments.

Gain (loss) on disposal of investments and marketable securities, net of write-down, decreased by ¥4.8 billion to a gain of ¥46.9 billion (US$397 million), compared with the previous fiscal year, due to an increase in devaluation losses on investment securities.

Loss on property and equipment–net improved by ¥1.1 billion to a loss of ¥6.8 billion (US$57 million), compared with the previous fiscal year.

Other–net improved by ¥15.5 billion to a gain of ¥3.1 billion (US$26 million), compared with the previous fiscal year, mainly due to the absence of a loss on a legal settlement recorded by a U.S. subsidiary last year.

As a result, **income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change** increased by ¥83.4 billion (38.4%) to ¥300.2 billion (US$2,543 million), compared with the previous fiscal year.

Income taxes decreased by ¥18 billion (16.8%) to ¥88.9 billion (US$753 million) compared with the previous fiscal year. **Minority interests** increased by ¥1.1 billion (8.2%) to a loss of ¥14.2 billion (US$120 million), compared with the previous fiscal year. **Equity in earnings (losses) of associated companies** worsened by ¥71.8 billion to a loss of ¥20.1 billion (US$170 million) due to an equity loss recognition arising from a significant loss recorded by Orient Corporation under the revised Moneylending Control Law in Japan.

An additional charge of ¥3.4 billion was recorded representing the cumulative effect of an accounting change (early adoption of Emerging Issues Task Force ("EITF") 04-6—Accounting for Stripping Costs in Mining Industry) last fiscal year.

As a result of all the above, **Net income** increased by ¥31.9 billion (22.0%) to ¥177.1 billion (US$1,500 million compared with the previous fiscal year.

Total trading transactions according to Japanese accounting practices increased by ¥1,105.2 billion (10.6%) to ¥11,579.1 billion (US$98,086 million), compared with the previous fiscal year. In Machinery, automobile transactions increased; in Energy, Metals & Minerals, natural resources prices such as crude oil increased and there was a rise in sales volume; in Chemicals, Forest Products and General Merchandize, there was steady growth in domestic house building materials transactions and a robust chemical products market; and in Food, there was an increase from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

Consolidated Statements of Operations

Years ended March 31	Billions of Yen 2007	2006	Increase (Decrease)	Millions of U.S. Dollars 2007
Revenue	**¥ 2,647.2**	¥ 2,218.2	¥ 429.0	**$ 22,424**
Cost of sales	**(1,738.5)**	(1,503.8)	(234.7)	**(14,727)**
Gross trading profit	**908.7**	714.4	194.3	**7,697**
Selling, general and administrative expenses	**(639.1)**	(506.3)	(132.9)	**(5,414)**
Provision for doubtful receivables	**(4.9)**	(14.7)	9.8	**(42)**
Interest income	**16.1**	13.4	2.7	**137**
Interest expense	**(45.3)**	(39.4)	(5.9)	**(384)**
Dividends received	**21.7**	18.2	3.4	**183**
Gain (loss) on disposal of investments and marketable securities, net of write-down	**46.9**	51.6	(4.8)	**397**
Loss on property and equipment–net	**(6.8)**	(7.9)	1.1	**(57)**
Other–net	**3.1**	(12.4)	15.5	**26**
Income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	**300.2**	216.9	83.4	**2,543**
Income taxes	**88.9**	106.9	(18.0)	**753**
Income before minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	**211.3**	109.9	101.4	**1,790**
Minority interests	**(14.2)**	(13.1)	(1.1)	**(120)**
Equity in earnings (losses) of associated companies	**(20.1)**	51.7	(71.8)	**(170)**
Income before cumulative effect of an accounting change	**177.1**	148.6	28.5	**1,500**
Cumulative effect of an accounting change	**—**	(3.4)	3.4	**—**
Net income	**¥ 177.1**	¥ 145.1	¥ 31.9	**$ 1,500**

Operating Segment Information

Years ended March 31	Billions of Yen 2007	2006	2005	Millions of U.S. Dollars 2007
Trading transactions:				
Textile	¥ **806.5**	¥ 824.3	¥ 829.1	**$ 6,832**
Machinery	**1,588.8**	1,439.5	1,166.7	**13,459**
Aerospace, Electronics & Multimedia	**696.7**	699.5	630.9	**5,902**
Energy, Metals & Minerals	**3,020.0**	2,876.2	2,471.5	**25,582**
Chemicals, Forest Products & General Merchandise	**2,157.2**	1,967.3	1,893.2	**18,274**
Food	**2,828.9**	2,150.0	2,111.9	**23,963**
Finance, Realty, Insurance & Logistics Services	**221.7**	232.8	243.1	**1,878**
Other, Adjustments & Eliminations	**259.3**	284.3	229.7	**2,196**
Total	**¥11,579.1**	¥10,473.9	¥9,576.0	**$98,086**
Gross trading profit:				
Textile	¥ **124.6**	¥ 122.9	¥ 112.8	**$ 1,056**
Machinery	**90.5**	69.5	58.0	**766**
Aerospace, Electronics & Multimedia	**133.5**	116.4	108.4	**1,131**
Energy, Metals & Minerals	**102.1**	73.9	39.1	**865**
Chemicals, Forest Products & General Merchandise	**126.2**	111.1	105.9	**1,069**
Food	**264.6**	142.6	136.2	**2,241**
Finance, Realty, Insurance & Logistics Services	**43.3**	46.0	39.3	**367**
Other, Adjustments & Eliminations	**23.9**	32.0	31.0	**202**
Total	¥ **908.7**	¥ 714.4	¥ 630.8	**$ 7,697**
Net income (loss):				
Textile	¥ **17.1**	¥ 15.0	¥ 14.8	**$ 145**
Machinery	**21.1**	13.7	10.5	**179**
Aerospace, Electronics & Multimedia	**11.2**	17.2	14.4	**95**
Energy, Metals & Minerals	**80.7**	58.0	25.7	**684**
Chemicals, Forest Products & General Merchandise	**24.8**	18.6	20.3	**210**
Food	**18.1**	19.4	(9.3)	**153**
Finance, Realty, Insurance & Logistics Services	**(28.3)**	9.9	5.4	**(240)**
Other, Adjustments & Eliminations	**32.4**	(6.6)	(3.9)	**274**
Total	¥ **177.1**	¥ 145.1	¥ 77.8	**$ 1,500**
Identifiable assets at March 31:				
Textile	¥ **401.8**	¥ 395.4	¥ 377.2	**$ 3,404**
Machinery	**635.8**	489.0	451.4	**5,386**
Aerospace, Electronics & Multimedia	**551.2**	524.7	489.4	**4,669**
Energy, Metals & Minerals	**781.4**	644.4	491.0	**6,619**
Chemicals, Forest Products & General Merchandise	**716.8**	634.3	583.7	**6,072**
Food	**1,070.7**	778.8	728.0	**9,070**
Finance, Realty, Insurance & Logistics Services	**524.9**	600.9	615.3	**4,446**
Other, Adjustments & Eliminations	**588.9**	729.5	736.3	**4,989**
Total	¥ **5,271.5**	¥ 4,797.0	¥4,472.3	**$44,655**

OPERATING SEGMENT INFORMATION

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

Textile

Trading transactions (excluding inter-segment transactions; the same definition applies below) decreased by ¥17.7 billion (2.1%) to ¥806.5 billion (US$6,832 million), compared with the previous fiscal year, due mainly to a decline in midstream operations. Gross trading profit increased by ¥1.8 billion (1.4%) to ¥124.6 billion (US$1,056 million), compared with the previous fiscal year, due to an increase in brand related transactions which offset the decline caused by decrease in trading transactions. Net income increased by ¥2.1 billion (14.1%) to ¥17.1 billion (US$145 million), compared with the previous fiscal year, despite an increase in net financial expenses. The increase was due to a rise in equity in earnings of associated companies, mainly brand-related. Identifiable assets increased ¥6.4 billion (1.6%) compared with the previous fiscal year to ¥401.8 billion (US$3,404 million), as new brand-related investment rose.

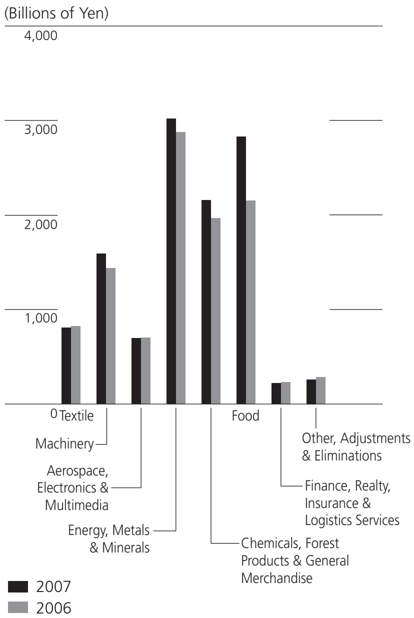
Machinery

Trading transactions increased by ¥149.3 billion (10.4%) to ¥1,588.8 billion ($US13,459 million) compared with the previous fiscal year, due to increases in automobile transactions. Gross trading profit improved by ¥20.9 billion (30.1%) to ¥90.5 billion (US$766 million) compared with the previous fiscal year, driven by steady growth in plant, shipping, automobile business in Europe and the U.S. as well as construction machinery business in North America. Despite an increase in net financial expenses, net income rose by ¥7.5 billion (54.5%) to ¥21.1 billion (US$179 million) compared with the previous fiscal year, driven by the increase in gross trading profit and gains on sales of investment securities. Identifiable assets increased by ¥146.7 billion (30%) to ¥635.8 billion (US$5,386 million) compared with the previous fiscal year, mainly due to an increase in accounts receivables and inventories from shipping and automobile transactions and increased automobile-related investment.

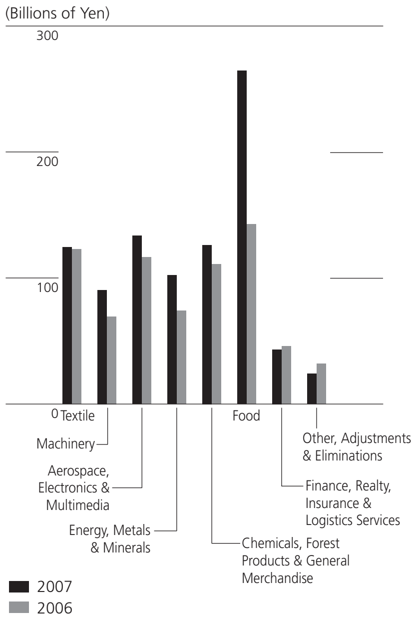
Aerospace, Electronics and Multimedia

Trading transactions decreased by ¥2.8 billion (0.4%) to ¥696.7 billion (US$5,902 million) compared with the previous fiscal year. Although there was good performance in domestic IT industry-related business, this was counterbalanced by a withdrawal from unprofitable transactions in the mobile phone business. Gross trading profit grew by ¥17.1 billion (14.7%) to ¥133.5 billion (US$1,131 million) compared with the previous fiscal year, driven by strong performance in domestic IT industry-related business and mobile phone business sales. Despite an increase in gross trading profit, net income decreased by ¥6.0 billion (34.9%) to ¥11.2 billion (US$95 million) compared with the previous fiscal year. This was due to the absence of gains on sales of investment securities concerning the listing of a subsidiary recorded in the last fiscal year as well as devaluation losses on investment securities in the current fiscal year. Identifiable assets increased by ¥26.5 billion (5.0%) to ¥551.2 billion (US$4,669 million) compared with the previous fiscal year, mainly due to increases in domestic IT industry-related business.

Total Trading Transactions by Operating Segment



Gross Trading Profit by Operating Segment



Energy, Metals and Minerals

Trading transactions increased by ¥143.8 billion (5.0%) to ¥3,020 billion ($US25,582 million) compared with the previous fiscal year, due to increases in crude oil and other natural resource prices as well as increases in sales volume. Gross trading profit rose by ¥28.2 billion (38.2%) to ¥102.1 billion ($US865 million) compared with the previous fiscal year, due to the increase in crude oil price and increases stemming from the move to full production of oil fields owned. Net income increased by ¥22.7 billion (39.2%) to ¥80.7 billion (US$684 million) compared with the previous fiscal year, driven by the increase in gross trading profit; gains on sales of investment securities from the listing of equity-method associated companies; and the cumulative effect of an accounting change regarding stripping costs in the mining industry recorded in the previous fiscal year. Identifiable assets increased by ¥137.0 billion (21.3%) to ¥781.4 billion (US$6,619 million) compared with the previous fiscal year, due to increases in trade receivables stemming from higher crude oil and other natural resource prices, as well as an increase in investment in plants by a natural resource development subsidiary.

Chemicals, Forest Products & General Merchandise

Trading transactions increased by ¥189.9 billion (9.7%) to ¥2,157.2 billion (US$18,274 million) compared with the previous fiscal year, supported by steady growth in domestic house building materials transactions and chemical products. Gross trading profit rose ¥15.1 billion (13.6%) to ¥126.2 billion (US$1,069 million), compared with the previous fiscal year, due to steady growth in domestic house building materials transactions and chemical products. Despite an increase in net interest expenses, net income rose by ¥6.1 billion (33.0%) to ¥24.8 billion (US$210 million) compared with the previous fiscal year, due to the increase in gross trading profit. Identifiable assets increased by ¥82.5 billion (13.0%) to ¥716.8 billion (US$6,072 million) compared with the previous fiscal year, due to an increase in trade receivables stemming from the generally high market turnover.

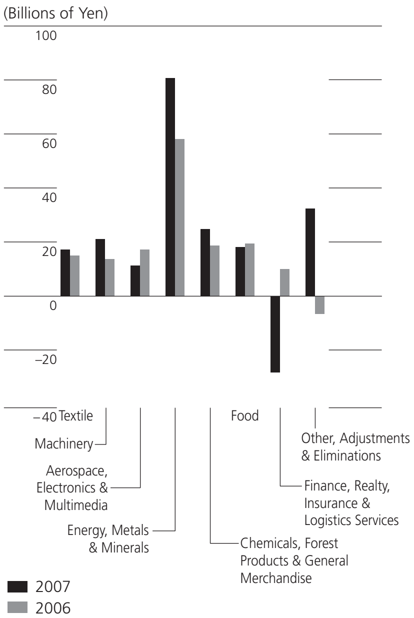
Food

Trading transactions increased by ¥678.8 billion (31.6%) to ¥2,828.9 billion (US$23,963 million), compared with the previous fiscal year, due to the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary. Gross trading profit increased by ¥122.1 billion (85.6%) to ¥264.6 billion (US$2,241 million) compared with the previous fiscal year, due to increases deriving from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary. Despite the increase in gross trading profit, net income decreased by ¥1.3 billion (6.8%) to ¥18.1 billion (US$153 million) compared with the previous fiscal year, due to the recording of gains on sales of investment securities in the previous period. Identifiable assets increased by ¥292.0 billion (37.5%) to ¥1,070.7 billion (US$9,070 million) compared with the previous fiscal year, due to the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary and an increase in trade receivables because of the special factor that the end of this fiscal year was a holiday.

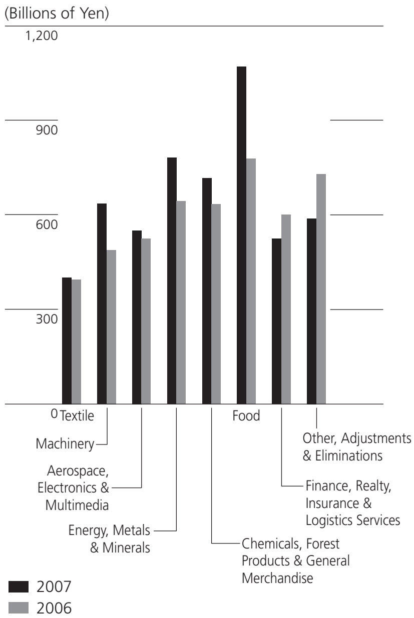
Finance, Realty, Insurance & Logistics Services

Trading transactions decreased by ¥11.1 billion (4.8%) to ¥221.7 billion (US$1,878 million) compared with the previous fiscal year, due to the conversion of a logistics subsidiary into an equity-method associated company. Gross trading profit decreased ¥2.7 billion (5.8%) to ¥43.3 billion (US$367 million) compared with the previous fiscal year, due to decreases associated with the conversion of a logistics subsidiary into an equity-method associated company. Net income deteriorated by ¥38.2 billion to a loss of ¥28.3 billion (US$240 million) compared with the

Net Income (Loss)
by Operating Segment



Identifiable Assets
by Operating Segment



previous fiscal year, due mainly to a deterioration in equity in earnings (losses) of associated companies caused primarily by a significant loss recorded by Orient Corporation under the revised Moneylending Control Law in Japan. Identifiable assets decreased by ¥76 billion (12.6%) to ¥524.9 billion (US$4,446 million) compared with the previous fiscal year, due to a decrease in investments caused by the recognition of equity loss in Orient Corporation and a decrease in real-estate-related assets.

Other Adjustments and Eliminations

Trading transactions decreased by ¥25 billion (8.8%) to ¥259.3 billion (US$2,196 million) compared with the previous fiscal year. Gross trading profit decreased by ¥8.2 billion (25.5%) to ¥23.9 billion (US$202 million) compared with the previous fiscal year, accompanying the sale of a U.S. healthcare related subsidiary in the previous fiscal year. Net income improved by ¥39.0 billion to ¥32.4 billion (US$274 million) compared with the previous fiscal year, reflecting a loss recorded in the previous fiscal year related to the legal settlement by the overseas trading subsidiary in the U.S., and a decrease in income taxes accompanying increased foreign tax credit. Identifiable assets decreased by ¥140.6 billion (19.3%) to ¥588.9 billion (US$4,989 million) compared with the previous fiscal year, due to a reduction of prepaid pension expenses accompanying the return of pension trust assets and the adoption of Statement of Financial Accounting Standards ("SFAS") No. 158 ("Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132 (R)"); and a reduction of deductible temporary differences.

GEOGRAPHICAL SEGMENT INFORMATION

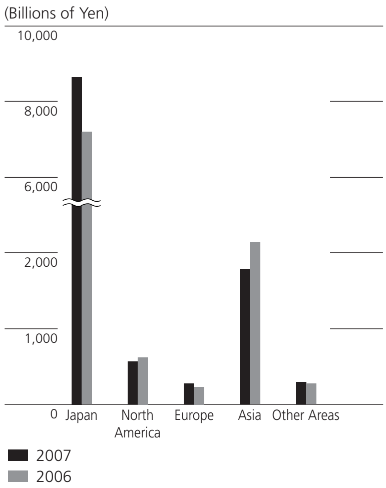
Japan

Trading transactions (excluding inter-segment transactions; the same definition applies below) increased by ¥1,449.5 billion (20.1%) to ¥8,652.2 billion (US$73,293 million) compared with the previous fiscal year, due to increases deriving from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary; increases deriving from rises in the crude oil price and the transfer of business from an Asian energy-related subsidiary; and an increase in automobile transactions. Identifiable assets increased by ¥369.2 billion (9.2%) to ¥4,368.1 billion (US$37,002 million) compared with the previous fiscal year, due to the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary; the transfer of business from an Asian energy-related subsidiary; and an increase in trade receivables due to the rise in the crude oil price.

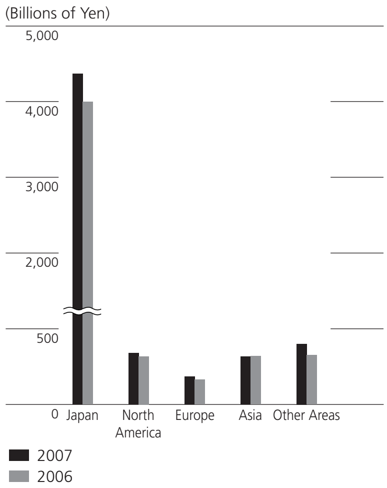
North America

Trading transactions decreased by ¥56.4 billion (9.1%) to ¥566.2 billion (US$4,796 million) compared with the previous fiscal year. Identifiable assets increased by ¥21.1 billion (6.6%) to ¥339.1 billion (US$2,873 million) compared with the previous fiscal year, due to an increase in trade receivables of automobile and construction machinery-related subsidiaries.

Trading Transactions by Geographical Segment



Identifiable Assets by Geographical Segment



Europe

Trading transactions increased by ¥44.6 billion (19.2%) to ¥276.5 billion (US$2,342 million) compared with the previous fiscal year, due to increases in automobile and energy-related transactions. Identifiable assets increased by ¥17.2 billion (10.5%) to ¥181.1 billion (US$1,534 million) due to an increase in trade receivables of automobile-related subsidiaries which offset the decline caused by sale of aircrafts.

Asia

Trading transactions decreased by ¥351.5 billion (16.4%) to ¥1,789.1 billion (US$15,155 million) compared with the previous fiscal year. The rise in the crude oil price caused energy-related transactions to increase but a portion of energy-related business was transferred to Japan. Identifiable assets also decreased by ¥3.4 billion (1.1%) to ¥315.6 billion (US$2,674 million) compared with the previous fiscal year, due to the transferring of a portion of energy-related business to Japan which offsets increases in trade receivables of automobile-related transactions.

Other

Trading transactions increased by ¥19.1 billion (6.9%) to ¥295.1 billion (US$2,500 million) compared with the previous fiscal year, mainly due to higher prices of iron ore. Identifiable assets increased by ¥75.8 billion (23.3%) to ¥400.9 billion (US$3,396 million) compared with the previous fiscal year, due to increased metal resource and energy-related transactions.

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

DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

As mentioned above, ITOCHU Corporation and its group companies positioned this fiscal 2007 as the year when we would attain the target of making ITOCHU a highly profitable group consistently achieving more than ¥100 billion net income; and through anticipating changes, always seeking "frontier" and pursuing the three principles of "challenge, create and commit," we have been engaged in growing our earnings and strengthening our business base.

As a result, consolidated net income for Fiscal year 2007 stood at ¥177.1 billion (US$1,500 million), greatly exceeding the original target (¥110.0 billion). Moreover, the forecast announced at the beginning of this fiscal year (¥155.0 billion) was exceeded as well. In addition, gross trading profit; income before income taxes, minority interests, equity in earnings (losses) of associated companies, and cumulative effect of an accounting change; and net income all recorded their highest levels ever. Stockholders' equity rose to ¥896.2 billion (US$7,592 million), also a record high, while a continued reduction of interest-bearing debt meant that the NET DER (Net Debt-to-equity ratio) improved to 1.8 times, under two times. ITOCHU believes that it proves that the financial base is steadily strengthening more.

Descriptions of the outlook for Fiscal 2008 and later are forward-looking statements that are based on management's assumptions and beliefs, considering information currently available at the end of Fiscal 2007, 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 2007 AND OUTLOOK FOR FISCAL 2008

Revenue

In accordance with EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," the Company and its subsidiaries present certain revenue transactions with corresponding cost of revenues on a gross basis in 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 2007, "Sales revenue" as a gross basis was ¥2,094.9 million (US$17,745 million) and "Trading margins and commissions on trading transactions" as a net basis was ¥552.4 billion (US$4,679 million). The total revenue was ¥2,647.2 billion (US$22,424 million) an increase of ¥429.0 billion (19.3%) compared with the previous fiscal year. This was attributable to increased automobile transactions in Machinery; increased price of crude oil and natural resources as well as increased sales volume in Energy, Metals and Minerals; and increases deriving from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary in Food.

Gross Trading Profit

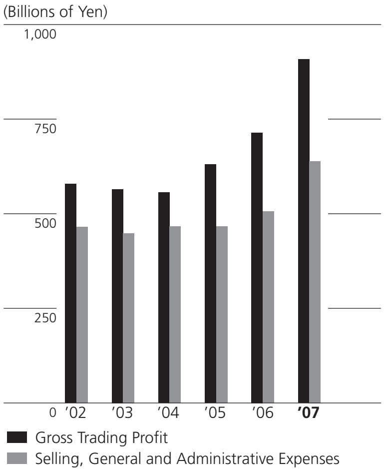
"Gross Trading Profit" for fiscal 2007 increased by ¥194.3 billion (27.2%) to ¥908.7 billion (US$7,697 million) compared with the previous fiscal year. The effect from joining and leaving of subsidiaries was a ¥122.1 billion increase and ¥11.4 billion decrease, respectively. The favorable effect of the yen's depreciation against the U.S. dollar in translating overseas subsidiaries was approximately ¥13.3 billion. Excluding these increases and decreases the substantial rise in profits for existing companies was ¥70.3 billion. By segment, the reasons for increase in gross trading profit were as follows: Machinery was supported by strong performance in automobile transactions in the U.S. and Europe; Aerospace, Electronics & Multimedia through steady growth in domestic IT industry-related business; Energy, Metals & Minerals due to the increase in crude oil price and sales increases stemming from the move to full production of oil fields owned; Chemicals, Forest

Products & General Merchandise due to steady growth in domestic house building materials transactions and chemical products; and Food due to increases deriving from the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

Selling, General and Administrative Expenses

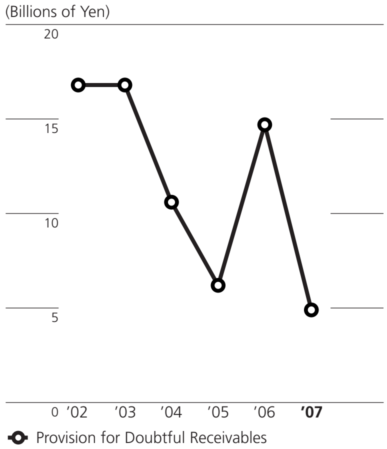
"Selling, general and administrative expenses" for Fiscal 2007 increased by ¥132.9 billion (26.2%) to ¥639.1 billion (US$5,414 million) compared with the previous fiscal year mainly due to conversion of NIPPON ACCESS, INC. into a consolidated subsidiary. There was an increase of ¥29.9 billion in personnel expenses to ¥255.8 billion; and an increase in service charges including distribution costs of ¥73.4 billion to ¥192.1 billion. The effect from joining and leaving of subsidiaries was a ¥114.7 billion increase and ¥11.1 decrease, respectively. The negative effect of the yen's depreciation against the U.S. dollar in translating overseas subsidiaries was approximately ¥6.6 billion. Excluding these increases and decreases the substantial rise in "selling, general and administrative expenses" was ¥22.7 billion.

Gross Trading Profit; Selling, General and Administrative Expenses



* For fiscal years

Provision for Doubtful Receivables



* For fiscal years

Provision for Doubtful Receivables

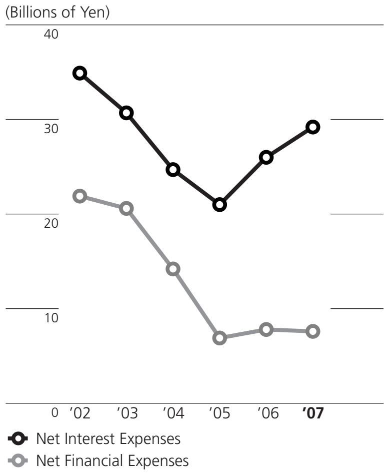
"Provision for doubtful receivables" in Fiscal 2007 improved by ¥9.8 billion to ¥4.9 billion (US$42 million) compared with the previous fiscal year. This was mainly due to a loss on Iraq receivables posted last fiscal year.

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

Net financial expenses for Fiscal 2007 improved by ¥0.3 billion (3.3%) to ¥7.6 billion (US$64 million) compared with the previous fiscal year.

Net interest expenses, consisting of "interest income" and "interest expense" increased by ¥3.2 billion (12.2%) to ¥29.2 billion (US$247 million) compared with the previous fiscal year. "Interest income" increased by ¥2.7 billion (20.2%) compared with the previous fiscal year, mainly due to rises in interest rates. However "interest expense" also increased by ¥5.9 billion (14.9%) compared with the previous fiscal year, mainly due to higher interest rates (the average interest rate rose by 0.34 points from 1.72% to 2.06%) despite improvement resulting from a decrease in interest-bearing debt (average debt outstanding decreased by ¥90.5 billion from ¥2,286.6 billion to ¥2,196.0 billion).

Net Financial Expenses



* For fiscal years

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

Financial Section

Dividends received increased by ¥3.4 billion (18.9%) to ¥21.7 billion (US$183 million) compared with the previous fiscal year, due to an increase in dividends received from LNG-related investments (increased by ¥2.0 billion to ¥11.9 billion).

Other Profit (Loss)

"Gain (loss) on disposal of investments and marketable securities, net of write-down" for fiscal 2007 decreased by ¥4.8 billion to a gain of ¥46.9 billion (US$397 million) compared with the previous fiscal year. Gains on exchange of investment securities of ¥3.5 billion were recognized in this fiscal year. Impairment loss on investment securities increased by ¥4.6 billion to ¥9.3 billion compared with the previous fiscal year. Gain on sales of investment securities deteriorated by ¥3.6 billion to ¥52.6 billion, compared with the previous fiscal year.

"Loss on property and equipment-net" for Fiscal 2007 improved by ¥1.1 billion to ¥6.8 billion (US$57 million), compared with the previous fiscal year. Loss on the sale of property was ¥0.4 billion, a ¥2.6 billion deterioration from a gain in the last fiscal year. However impairment loss on fixed assets and others improved by ¥3.8 billion to a loss of ¥6.4 billion, compared with the previous fiscal year. This was due to the recognition of an impairment loss in a domestic subsidiary resulting from deteriorated cash flow by changing rental terms that was recorded in the previous fiscal year.

"Other-net" for Fiscal 2007 improved by ¥15.5 billion to a gain of ¥3.1 billion (US$26 million), compared with the previous fiscal year. This was due to a loss on the legal settlement of ¥19.5 billion by the overseas trading subsidiary in the U.S. to Citigroup, recorded in the last fiscal year.

Equity in Earnings (Losses) of Associated Companies

"Equity in earnings (losses) of associated companies" for Fiscal 2007 declined by ¥71.8 billion to a loss of ¥20.1 billion (US$170 million dollars), compared with the previous fiscal year. This was mainly due to an equity loss recognition of ¥68.6 billion related to a significant loss recorded by Orient Corporation under the revised Moneylending Control Law in Japan.

The results of major equity-method 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."

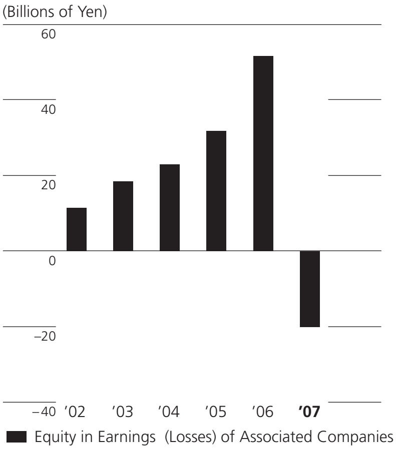
Cumulative Effect of an Accounting Change

In the last fiscal year, in accordance with an early adoption of EITF 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry," the costs, which of removing overburden and waste materials to access material deposits ("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, net of tax, was a loss of ¥3.4 billion, which was presented as an separate item last fiscal year.

Adjusted Profit

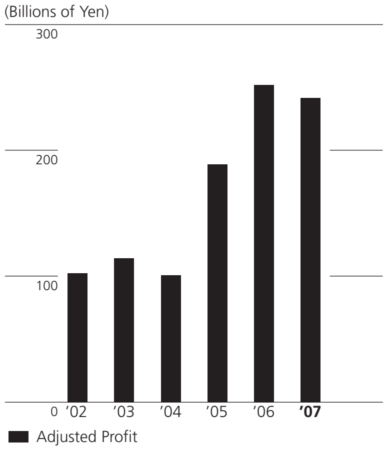
Adjusted profit (net of gross trading profit, selling, general and administrative expenses, net interest expenses, dividends received and equity in earnings (losses) of associated companies), that ITOCHU thinks to be indicating of basic earning power while it is a non-GAAP measure, decreased by ¥10.1 billion (4.0%) to ¥241.9 billion (US$2,049 million) compared with the previous fiscal year. This was due to a deterioration in equity in earnings (losses) of associated companies (in Orient Corporation).

Equity in Earnings (Losses) of Associated Companies



* For fiscal years

Adjusted Profit



* For fiscal years

PERFORMANCE OF SUBSIDIARIES AND EQUITY-METHOD ASSOCIATED COMPANIES

For Fiscal 2007, the Company's consolidated results included 438 subsidiaries (212 domestic and 226 overseas) and 213 equity-method associated companies (102 domestic and 111 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								
	2007			2006			Changes		
Years ended March 31	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total	Profitable	Unprofitable	Total
Group companies excluding overseas trading subsidiaries	**¥159.2**	(Note) **¥(57.5)**	**¥101.7**	¥132.6	¥(19.4)	¥113.2	¥26.6	¥(38.1)	¥(11.5)
Overseas trading subsidiaries	**23.1**	**(0.3)**	**22.8**	16.1	(0.3)	15.7	7.0	0.0	7.1
Total	**¥182.3**	(Note) **¥(57.9)**	**¥124.5**	¥148.7	¥(19.8)	¥128.9	¥33.7	¥(38.1)	¥ (4.4)

Note: Includes tax effect of loss recognized regarding investment in Orient Corporation.

Share of Group Companies Reporting Profits

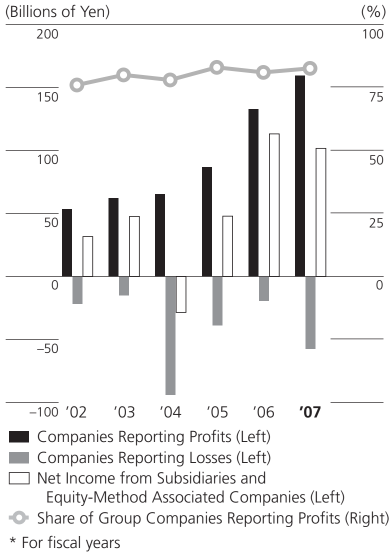
	2007			2006			Changes		
Years ended March 31	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
No. of companies reporting profits	**264**	**274**	**538**	262	268	530	2	6	8
No. of group companies	**314**	**337**	**651**	315	336	651	(1)	1	0
Share	**84.1%**	**81.3%**	**82.6%**	83.2%	79.8%	81.4%	0.9pts.	1.5pts.	1.2pts.

For Fiscal 2007, 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) decreased by ¥11.5 billion to ¥101.7 billion, compared with the previous fiscal year. Although Orient Corporation recorded a significant loss under the revised Moneylending Control Law in Japan, an energy-related subsidiary saw major income increases as full-scale production started in the oil fields owned, thus limiting the overall decrease. Profits from ITOCHU's overseas trading subsidiaries increased by ¥7.1 billion to ¥22.8 billion, compared with the previous fiscal year, principally due to the absence of the loss incurred by the legal settlement to Citigroup last fiscal year. The aggregate profits of Group companies reporting profits increased by ¥33.7 billion to ¥182.3 billion, compared with the previous fiscal year. Meanwhile the aggregate losses of Group companies reporting losses worsened by ¥38.1 billion to ¥57.9 billion, compared with the previous fiscal year. This was mainly due to the impact of the equity loss recognition in Orient Corporation.

The aggregate profits of Group companies reporting profits are steadily increasing and the aggregate losses of Group companies reporting losses are shrinking, if the impact of Orient Corporation is excluded. Overall, profitability of consolidated companies is steadily improving.

With regard to the share of Group companies reporting profits (the ratio of companies reporting profits to total Group companies), this improved by 1.2% from 81.4% in the last fiscal year to 82.6%.

Net Income (Loss) 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, 2007 and 2006.

Major Group Companies Reporting Profits

Years ended March 31	Shares	Net Income (Loss) (*1) Billions of Yen 2007	2006	Reasons for Changes
Domestic subsidiaries				
ITOCHU Petroleum Japan Ltd. (*2)	100.0%	¥ 5.1	¥ 2.5	Steady growth mainly in crude & heavy oil transactions, and increase due to gain on sales of investment securities concerning the listing of an equity-method associated company
ITOCHU PLASTICS INC.	100.0%	3.2	2.6	Good performance in plastic and wrapping materials as well as gain on sales of investment securities
ITOCHU Kenzai Corp.	86.9%	2.4	0.8	Increase due to good market price in raw materials and improved bottom lines for subsidiaries
ITOCHU Finance Corporation	90.1%	2.3	3.2	Declined due to decrease in equity in earnings of associated companies from selling of associated company in the previous fiscal year
ITOCHU CHEMICAL FRONTIER Corporation	96.2%	1.8	1.3	Good performance in sales of generic medical materials and polymer materials
ITOCHU Non-Ferrous Materials Co., Ltd.	100.0%	1.2	1.0	Steady growth in raw materials such as aluminium, titanium, and copper
JOI'X CORPORATION	100.0%	1.1	1.2	Decrease due to increased cost with new shops despite the steady growth in sales of men's apparel
ITOCHU Pulp & Paper Corp.	100.0%	0.8	1.1	Decrease due to recovery delay in domestic paper prices and the absence of gain on sales of investment securities recorded in the previous fiscal year
Tommy Hilfiger Japan, Corporation	75.0%	0.7	0.6	Steady growth in sales of Tommy Hilfiger brand products
ITOCHU CONSTRUCTION MACHINERY CO., LTD	100.0%	0.7	0.4	Steady growth in sales of construction machinery
Overseas subsidiaries				
ITOCHU Minerals&Energy of Australia Pty Ltd (*3) (Australia)	100.0%	28.9	25.9	Increase due to higher price in iron ore and effect of an accounting change in stripping costs in the previous fiscal year despite dropping price in coal
ITOCHU Oil Exploration (Azerbaijan) Inc. (Cayman)	100.0%	21.2	5.2	Increase in sales volume by higher oil price and oil production increase
ITOCHU International Inc. (*5) (U.S.A.)	100.0%	12.8	7.9	Steady growth in group companies and the absence of the loss on legal settlement in the previous fiscal year
PrimeSource Building Products, Inc. (*5) (U.S.A.)	100.0%	7.4	7.7	Decrease with influence of declined number of housebuilding in US since the middle of the year
ITOCHU Hong Kong Ltd. (Hong Kong)	100.0%	2.5	1.8	Steady growth in consumer finance and textile related affiliates
ITOCHU (China) Holding Co., Ltd. (China)	100.0%	2.3	1.5	Good performance in chemicals, non-ferrous, and textile
CIECO Energy (UK) Limited (U.K.)	100.0%	1.6	0.5	Newly consolidated in the second quarter of the previous fiscal year, increased due to higher oil price
ITOCHU Australia Ltd. (*3) (Australia)	100.0%	1.5	1.0	Increase due to higher profit from mineral and energy-related subsidiary
ASTARTE SHIP HOLDING S.A. (Panama)	100.0%	1.4	0.5	Profit on sale of self-owned ship
ITOCHU Automobile America Inc. (U.S.A.)	100.0%	1.2	1.1	Slight increase through offsetting increased expenses and interest expenses with sales increase
Domestic associated companies				
Marubeni-ITOCHU Steel Inc.	50.0%	16.8	15.9	Good performance in domestic and export businesses
FamilyMart Co., Ltd. (*4)	32.3%	4.7	4.3	Decrease in non-ordinary loss
Japan Brazil Paper and Pulp Resources Development Co., Ltd	25.9%	1.8	1.3	Good performance due to higher market price in pulp despite the effects of depreciation of Brazilian Real and higher cost of materials and fuel
AI Beverage Holding Co., Ltd,	20.0%	1.3	1.0	Good performance in tea beverage
Japan Ohanet Oil & Gas Co., Ltd.	35.0%	0.9	0.7	Steady growth in production & sales of natural gas, LPG, and condensate
Overseas associated companies				
Chemoil Energy Limited (*2, 6) (Hong Kong)	37.5%	3.5	2.5	Good performance in transactions of bunker oil
Mazda Canada Inc. (Canada)	40.0%	1.5	1.6	Slight decrease due to loss from marine accident of automobile carrier vessel in spite of good sales

Financial Section

Major Group Companies Reporting Losses

Years ended March 31	Shares	Net Income (Loss) (*1) Billions of Yen 2007	2006	Reasons for Changes
Domestic subsidiaries				
EAST IZU DEVELOPMENT Co.Ltd.	100.0%	**¥ (1.6)**	0.0	Impairment loss in this fiscal year, due to worsened cash flow by revision of building repair planning and change to lease agreement conditions
CIECO North Sea Ltd.	80.0%	**(1.1)**	0.6	Decrease due to production decrease, higher running cost, and increased decommissioning cost
ITOCHU BUILDING CORPORATION	100.0%	**(1.0)**	(2.7)	Disposal of unprofitable property though showing improvement compared with the previous fiscal year
Overseas subsidiaries				
MCL GROUP LIMITED (U.K.)	100.0%	**(0.4)**	0.4	Decrease in logistics business
ITOCHU India Pvt. Ltd. (India)	100.0%	**(0.3)**	—	Established in this fiscal year, deficit recorded due to operating expenses
C.I. Finance (CAYMAN) LTD. (Cayman)	100.0%	**(0.3)**	1.0	Due to worsened fund business profit
Domestic associated companies				
Orient Corporation (*7)	21.2%	**(40.6)**	3.1	Significant loss from revision of Moneylending Control Law in Japan
On Demand TV, Inc. (*8)	44.0%	**(1.8)**	(1.2)	Prior expenses for shifting to full-scale operation
DAIKEN CORPORATION	19.5%	**(1.1)**	0.4	Impairment loss on property for sale
Famima Credit Corporation (*4)	52.4%	**(0.4)**	(0.5)	Deficit shrunk by improved profit due to increased number of members

(*1) Net income (loss) figures are after adjusting to U.S. GAAP, that can be different from the figures, which each company announces.
(*2) The net income of ITOCHU Petroleum Japan Ltd, includes 15.5% of that of Chemoil Energy Limited.
(*3) The net income of ITOCHU Australia Ltd, includes 3.7% of that of ITOCHU Minerals & Energy of Australia Pty Ltd.
(*4) The net income of FamilyMart Co., Ltd. includes 11.4% of that of Famima Credit Corporation.
(*5) The net income of ITOCHU lnternational Inc. includes 80% of that of PrimeSource Building Products, Inc.
(*6) Chemoil Energy Limited changed its name from BERKSHIRE OIL CO., LTD. Also, Chemoil Energy Limited merged CHEMOIL CORP, which was our equity-method associated company. The net income of Chemoil Energy Limited in the same period of the previous fiscal year shows the total of those of the former BERKSHIRE OIL CO., LTD and CHEMOIL CORP.
(*7) The figure of Net Income (Loss) of Orient Corporation for fiscal 2007 includes tax effect on equity in losses of Orient Corporation recognized in fiscal 2007.
(*8) From this year, On Demand TV, Inc. is classified as an equity-method associated company because ITOCHU's voting share percentage becomes less than 50%.

OUTLOOK FOR FISCAL 2008

In Fiscal 2008, the Japanese economy is expected to continue expanding at a moderate pace. An improving employment environment and rising wages should bolster consumer spending, but growth in capital expenditure and exports is predicted to remain sluggish. Overseas, warnings about inflationary pressure are leading to cautious economic policies. On the other hand, corporate earnings are forecast to continue at a high level, resulting in steady economic expansion.

In this business environment, ITOCHU forecasts steady growth in gross trading profit for all its operating segments in Fiscal 2008. At the same time, the equity losses of Oriental Corporation is forecast to turn to profit. ITOCHU therefore expects solid growth overall. Moreover, in "Frontier+2008," ITOCHU is aiming to "become a global enterprise highly attractive to all stakeholders," and then ITOCHU is sure to plan and perform substantial and effective actions so as to open up new areas and accelerate overseas operations.

Financial Section

MANAGEMENT POLICY FOR THE FUTURE

Start the Mid-Term Management Plan "Frontier$^+$ 2008—Enhancing Corporate Value on the World Stage"
ITOCHU has framed a new mid-term management plan, "Frontier$^+$ 2008—Enhancing Corporate Value on the World Stage." The plan is set to run from Fiscal 2008 to Fiscal 2009.

Frontier$^+$ 2008 inherits the concepts of Frontier-2006, while striving to be more aggressive. Simultaneously the aim is to "become a global enterprise, highly attractive to all stakeholders." Business will be developed with a global perspective, to enhance profit worldwide. The spirit will be to leverage change, take on challenges and open up new areas. ITOCHU will also seek, foster and utilize the talents of human resources worldwide. To achieve these goals, the following initiatives will be pursued.

Firstly, the expansion of business areas and strengthening of core business. To become a truly attractive global enterprise, ITOCHU must create a profit structure capable of sustained high growth. The two main initiatives here will be: "Open up new business areas" and "Accelerate overseas business operations." As for another initiative, "Strengthen core business," ITOCHU will prioritize growth, by promoting strategic investments and opportunities for sustainable revenue expansion.

Second, ITOCHU will maintain the current solid management by continuing to improve its financial condition and implementing strict risk management. The transparency of decision-making will be enhanced and the corporate governance system constantly improved for checking and monitoring. In addition, ITOCHU has established an Internal Control Committee to bolster its internal control systems. Corporate Social Responsibility (CSR) activities will be positively developed to permeate the entire company and to achieve better communication with stakeholders. The business reengineering project, "ITOCHU DNA (Designing New Age) Project," started last April and will be promoted strongly.

Thirdly, ITOCHU will promote a Human Resources strategy from a global perspective. To successfully develop business in each country, ITOCHU will strengthen the diverse human resources in the Group—at Division Company and international level. Frontier$^+$ 2008 will specifically focus on fostering human talent from a global perspective.

Through the above efforts, ITOCHU will strive to enhance Group business results and meet the expectations of shareholders. At the same time, as a global enterprise, ITOCHU will contribute to regional and global societies, including proactive approaches to 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.

During Frontier$^+$ 2008, ITOCHU plans to increase the dividend amount gradually and to improve the dividend payout ratio, while enhancing the parent company's stockholders' equity. At the moment, for Fiscal 2008, ITOCHU intends to make a 17-yen (8.5 yen for the interim and 8.5 yen for the year-end) dividend payment per share.

LIQUIDITY AND CAPITAL RESOURCES

Basic Policy for Funding

ITOCHU aims to ensure flexibility in funding so that we can quickly respond to changes in financial circumstances, and take advantage of opportunities to lower our overall financing costs.

ITOCHU also aims to diversify our funding sources and methods in order to enhance the stability of its financing, while endeavoring to find the optimum balance in its funding structure, including improvement in the long-term funding balance.

For indirect financing, financial institutions have appreciated ITOCHU's improved financial position and expanded profitability. They have shown a favorable attitude toward lending, and ITOCHU expects no difficulty in procuring funds in terms of quantity or quality.

With respect to financing from capital markets, ITOCHU Corporation registers a bond issuance every two years, in accordance with the bond-issuance registration system. 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, ITOCHU Corporation, ITOCHU International Inc. in the U.S. and a finance subsidiary in the U.K., have registered a total of US$5 billion in a Euro Medium Term Note Programme (MTN) in order to be flexible in fulfilling short and long-term funding needs.

Concerning ratings, in May 2006, the Japanese ratings institution Rating and Investment Information, Inc. (R&I) gave ITOCHU a one-notch upgrade of our domestic commercial paper programme rating from a-2 to a-1. In addition ITOCHU newly obtained an issuer rating of A– from R&I in May 2006. In addition, in August 2006, ITOCHU received a two-notch upgrade in our issuer rating from Baa3 to Baa1 from a U.S. rating institution, Moody's Investors Service (Moody's), and in May 2007, an upgrade from BBB to BBB+ from Standard & Poors. ITOCHU believes these upgrades can contribute to a significant improvement in our financing conditions.

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

Interest-Bearing Debt

Interest-bearing debt as of March 31, 2007 decreased by ¥60.8 billion (2.7%) to ¥2,165.6 billion (US$18,345 million), compared with the previous fiscal year-end. Net interest-bearing debt (net of cash and cash equivalents and time deposits) decreased by ¥93.4 billion (5.4%) to ¥1,630.9 billion (US$13,815 million dollars), compared with the previous fiscal year-end. The net DER (debt-to-equity ratio) improved by 0.6 to 1.8 times from 2.4 times compared with the previous fiscal year-end, testifying to the steady strengthening of our financial base.

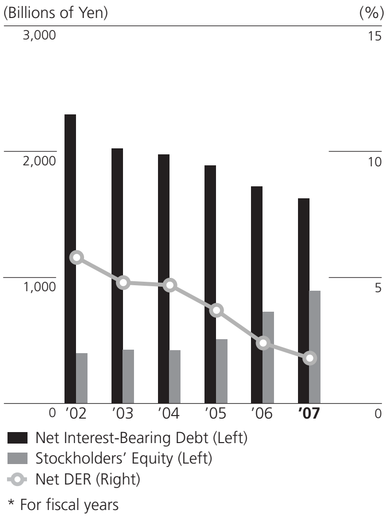
As a result of efforts to secure long-term funds to provide the structure for stable fund-raising, the ratio of long-term interest-bearing debt to total interest-bearing debt was at the high level of 76%.

Details of interest-bearing debt as of March 31, 2006 and as of March 31, 2007 were as follows:

	Billions of Yen		Millions of U.S. Dollars
March 31	**2007**	2006	**2007**
Short-term debt	**¥ 373.7**	¥ 382.4	**$ 3,166**
Current maturities of long-term debt	**138.5**	133.2	**1,174**
Current maturities of debentures	**5.8**	39.9	**49**
Short-term total	**518.0**	555.5	**4,389**
Long-term loans payable	**1,459.6**	1,519.7	**12,364**
Debentures	**191.2**	160.8	**1,620**
Long-term total	**1,650.9**	1,680.5	**13,984**
Total interest-bearing debt	**2,168.9**	2,236.0	**18,373**
SFAS 133 fair value adjustment (Note)	**(3.3)**	(9.5)	**(28)**
Adjusted total interest-bearing debt	**2,165.6**	2,226.5	**18,345**
Cash and cash equivalents and time deposits	**534.7**	502.2	**4,530**
Net interest-bearing debt	**¥1,630.9**	¥1,724.3	**$13,815**

Note: 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.

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



Financial Position

Total assets as of March 31, 2007 increased by ¥474.5 billion (9.9%) to ¥5,271.5 billion (US$44,655 million), compared with the previous fiscal year-end. This was due to the following: increases in Food, due to the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary; in Machinery, increases in trade receivables and inventories related to increasing automobile transactions as well as increases in automobile-related investment; in Energy, Metals & Minerals, increases in trade receivables related to rising crude oil and natural resource prices as well as increased investments in plants of a natural resource development subsidiary; in Chemicals, Forest Products & General Merchandise, an increase in trade receivables due to higher market price.

Stockholders' equity rose by ¥169.4 billion (23.3%) to ¥896.2 billion (US$7,592 million), compared with the previous fiscal year-end. Decreases were caused by dividend payments and the recording of a pension liability adjustment due to the adoption of SFAS 158 ("Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132 (R)"). On the other hand, there was an accumulation of retained earnings due to strong operating results, and increases in unrealized holding gains on securities through rising stock prices as well as favorable foreign currency translation adjustments due to the yen' s depreciation at the end of Fiscal 2007. As a result, the ratio of equity to total assets showed a 1.8 point improvement from the previous fiscal year-end to 17.0%.

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

Cash and cash equivalents increased by ¥55.1 billion to ¥532.9 billion (US$4,514 million), compared with the previous fiscal year-end. Payments were made for strong investing activity as well as payments for reducing interest-bearing debt. However, income from operating activities such as robust overseas natural resource-related transactions surpassed the payments, resulting in the increase.

Time deposits decreased by ¥22.6 billion to ¥1.8 billion (US$16 million), compared with the previous fiscal year-end.

Trade receivables (less allowance for doubtful receivables) increased by ¥210.5 billion to ¥1,421.6 billion (US$12,042 million), compared with the previous fiscal year-end. This was primarily due to increased shipping and automobile-related transactions in Machinery; rising market prices in Chemicals, Forest Products & General Merchandise; and the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary in Food.

Inventories increased by ¥71.5 billion to ¥530.3 billion (US$4,492 million) compared with the previous fiscal year. This was due to increased automobile-related transactions in Machinery; rising crude oil and natural resource prices in Energy, Metals & Minerals; rising market prices in Chemicals, Forest Products & General Merchandise; and the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary in Food.

Additionally, there was a decrease in **advances to suppliers** of ¥22.6 billion to ¥98.6 billion (US$835 million), compared with the previous fiscal year-end, due to decreases in Machinery. There was an increase in **other current assets** of ¥94.1 billion to ¥274.7 billion (US$2,327 million) compared with the previous fiscal year-end, due to increases in Energy, Metals & Minerals, Food, and Finance, Realty, Insurance & Logistics Services.

As a result, current assets were ¥3,066.9 billion (US$25,980 million), an increase of ¥387.3 billion compared with the previous fiscal year-end.

Other investments increased by ¥104.1 billion to ¥632.5 billion (US$5,358 million) compared with the previous fiscal year-end, due to increased automobile-related investment and increases in unrealized holding gains on securities from rising stock prices.

Other non-current receivables (less allowance for doubtful receivables) decreased by ¥15.6 billion to ¥77.2 billion (US$654 million) compared with the previous fiscal year-end, mainly due to a decrease in long-term loan receivable of a finance-related subsidiary.

As a result, total investments and non-current receivables were up ¥77.6 billion to ¥1,317.8 billion (US$11,163 million), compared with the previous fiscal year-end.

Property and equipment, at cost (less accumulated depreciation) increased by ¥42.3 billion to ¥530 billion (US$4,490 million), compared with the previous fiscal year-end, due to an increase of investment in plants of a natural resource development subsidiary.

Goodwill and other intangible assets, less accumulated amortization increased by ¥30.4 billion to ¥148 billion (US$1,253 million) compared with the previous fiscal year-end, due to increases related to the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary.

Deferred tax assets, non-current, decreased by ¥15.8 billion to ¥31.6 billion (US$268 million) compared with the previous fiscal year-end, due to a decrease in deductible temporary differences through dispositions of receivables, securities, and real estate concerned. The net deferred tax assets also dropped by ¥10.6 billion from the previous fiscal year-end to ¥41.8 billion (US$354 million), due to an increase in deferred tax liabilities resulting from unrealized holding gains on available-for-sale securities together with decreasing of deductible temporary differences.

Short-term debt decreased by ¥8.7 billion to ¥373.7 billion (US$3,166 million) compared with the previous fiscal year-end and **current maturities of long-term debt** decreased by ¥28.8 billion to ¥144.3 billion (US$1,223 million) compared with the previous fiscal year-end. This was due to repayments of interest-bearing debt as well as efforts for long-term funding. (Note: Refer to Note 10 "Short-term and long-term debt" in the "Notes to Consolidated Financial Statements".)

Trade payables increased by ¥246.4 billion to ¥1,324.6 billion (US$11,221 million) compared with the previous fiscal year-end, due to increases in shipping, automobile, and North American construction machinery transactions in Machinery; rising market prices in metal resources and general merchandize; and the conversion of NIPPON ACCESS, INC. into a consolidated subsidiary in Food.

There was a decrease in **advances from customers** of ¥28.5 billion to ¥107.3 billion (US$909 million) compared with the previous fiscal year-end, mainly due to decreases in Machinery. There was an increase in **other current liabilities** of ¥41.5 billion to ¥205.0 billion (US$1,737 million) compared with the previous fiscal year-end, mainly due to increases in Energy and Food.

As a result, current liabilities were ¥2,389.3 billion (US$20,240 million), up by ¥259.5 billion compared with the previous fiscal year-end.

Reserves for Liquidity

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

Primary liquidity resources at the end of Fiscal 2007, the sum of cash, cash equivalents, time deposits (¥534.7 billion), commitment line agreements (yen short-term ¥100.0 billion, yen long-term ¥300.0 billion, foreign currency short-term US$500 million) and commitment long-term loan agreements (¥9.0 billion) was ¥1,002.7 billion (US$8,494 million), a decrease of ¥15.5 billion compared with the previous fiscal year-end. However, ITOCHU believes that this amount constitutes adequate reserves for liquidity, since it is 3.5 times of the necessary liquidity amount (short-term interest-bearing debt and contingent liabilities due within three months), which amounted to ¥289.8 billion (US$2,455 million) as of March 31, 2007. The equivalent amount of the last fiscal year-end was 3.0 times of the necessary liquidity amount.

Secondary liquidity reserves (other assets that can be changed into cash in a short period of time) stand at ¥748.2 billion. When added to primary liquidity reserves, the total amount of liquidity reserves stands at ¥1,750.9 billion (US$14,832 million).

ITOCHU Corporation has a long-term commitment line with financial institutions totaling ¥300.0 billion (US$2,541 million). As a result of the availability of this long-term commitment line, ITOCHU has the intention and the ability for a long-term rollover of current maturities of long-term debt from financial institutions. ITOCHU thus classified ¥144.4 billion (US$1,223 million) of current maturities of long-term debt as non-current liabilities on the consolidated balance sheets. This was part of ¥288.7 billion (US$2,446 million) in non-current liabilities with a deadline of one year or less based on loan contracts at the end of Fiscal 2007.

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

Necessary Liquidity

	Billions of Yen		Millions of U.S. Dollars
March 31	2007	Necessary liquidity	2007
Short-term interest-bearing debt	¥373.7	¥186.9 (373.7/6 months x 3 months)	$1,583
Current maturities of long-term interest-bearing debt	(Note) 288.7	72.2 (288.7/12 months x 3 months)	612
Contingent liabilities (Guarantees [substantial risk] for monetary indebtedness of equity-method associated companies and customers)	122.9	30.7 (122.9/12 months x 3 months)	260
Total		¥289.8	$2,455

Note: The figure is the total of current maturities of long-term debt (¥144.3 billion) and long-term commitment line with financial institutions (¥144.4 billion).

Primary Liquidity Reserves

March 31	Billions of Yen 2007 Liquidity Reserves	Millions of U.S. Dollars 2007 Liquidity Reserves
1. Cash, cash equivalents and time deposits	¥ 534.7	$4,530
2. Commitment line agreements	459.0	3,888
3. Commitment long-term loan agreement	9.0	76
Total primary liquidity reserves	¥1,002.7	$8,494

Secondary Liquidity Reserves

March 31	Billions of Yen 2007 Liquidity Reserves	Millions of U.S. Dollars 2007 Liquidity Reserves
4. Available portion of over draft for ITOCHU's cash management service	¥ 180.2	$ 1,527
5. Available-for-sale securities (Fair value on a consolidated basis)	404.6	3,427
6. Notes receivable	163.4	1,384
Total secondary liquidity reserves	¥ 748.2	$ 6,338
Total liquidity reserves	¥1,750.9	$14,832

Capital Resources

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

Cash and cash equivalents as of March 31, 2007 increased by ¥55.1 billion (11.5%) to ¥532.9 billion (US$4,514 million) compared with the previous fiscal year-end. Despite payments for robust investment activities as well as payments to decrease interest-bearing debt, inflows from operating activities, such as strong performance in overseas natural resource related transactions, surpassed the above payment amounts.

Cash flows from operating activities for Fiscal 2007 recorded a net cash-inflow of ¥235.9 billion (US$1,998 million). This was mainly due to strong operating transaction income such as overseas natural resource related transactions.

Cash flows from investing activities for Fiscal 2007 recorded a net cash outflow of ¥83.4 billion (US$706 million). This was mainly due to additional investments in NIPPON ACCESS, INC.; automobile-related investments; and a capital expenditure investment for a natural resource development related subsidiary. However, net cash provided by operating activities covered this amount.

Cash flows from financing activities for Fiscal 2007 recorded a net cash-outflow of ¥100.9 billion (US$855 million). This was mainly due to continued efforts of reducing interest-bearing liabilities to improve ITOCHU's financial position.

Below is a summary of cash flows for fiscal years ended March 31, 2007 and 2006.

March 31	Billions of Yen 2007	Billions of Yen 2006	Millions of U.S. Dollars 2007
Net cash provided by operating activities	¥ 235.9	¥185.1	$1,998
Net cash used in investing activities	(83.4)	(79.9)	(706)
Net cash used in financing activities	(100.9)	(85.2)	(855)
Effect of exchange rate changes on cash and cash equivalents	3.5	4.7	30
Net increase in cash and cash equivalents	55.1	24.8	467
Cash and cash equivalents at beginning of year	477.7	452.9	4,047
Cash and cash equivalents at end of year	¥ 532.9	¥477.7	$4,514

ITOCHU 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 ITOCHU is now unable to estimate accurately, because ITOCHU cannot control many of these. Nevertheless, ITOCHU 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 Corporation and its subsidiaries issue various guarantees for indebtedness including bank loans to subsidiaries, equity-method associated companies and customers. Because the guaranteed borrowings of subsidiaries are included in the Company's consolidated financial statements, off-balance sheet guarantees are solely the total guarantees to equity-method associated companies and customers. The breakdown of guarantees as of March 31, 2007 and 2006 is as follows:

	Billions of Yen		Millions of U.S. Dollars
March 31	**2007**	2006	**2007**
Guarantees for equity-method associated companies:			
Maximum potential amount of future payments	**¥100.6**	¥140.3	**$ 853**
Amount of substantial risk	**62.9**	96.1	**533**
Guarantees for customers:			
Maximum potential amount of future payments	**¥140.6**	¥131.8	**$1,190**
Amount of substantial risk	**97.1**	81.6	**823**
Total:			
Maximum potential amount of future payments	**¥241.2**	¥272.1	**$2,043**
Amount of substantial risk	**160.0**	177.7	**1,355**

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 25 "Commitments and Contingent Liabilities" in the "Notes to Consolidated Financial Statements".

The disclosures related to variable interest entities are shown in Note 23 "Variable Interest Entities" in the "Notes to 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				
	2007				
March 31	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debt	**¥ 373.7**	¥373.7	¥ —	¥ —	¥ —
Long-term debt	**1,942.9**	144.3	667.2	356.6	774.8
(Capital leases included in long-term debt)	**(35.4)**	(7.0)	(12.2)	(5.2)	(11.1)
Operating leases	**101.7**	20.5	30.6	19.3	31.2

	Millions of U.S. Dollars				
	2007				
March 31	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debt	**$ 3,166**	$3,166	$ —	$ —	$ —
Long-term debt	**16,458**	1,222	5,652	3,021	6,563
(Capital leases included in long-term debt)	**300**	59	104	43	94
Operating leases	**862**	174	260	164	264

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 assumptions and estimates based on information currently available at the year end, March 31, 2007.

(1) Corporate Result Risks Due to Macroeconomic Factors

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

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

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

(2) Market Risks

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

i) Foreign Exchange Rate Risk

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

ITOCHU is working to manage the Group's foreign currency balance based on independently specified criteria such as contract amount, debt and liabilities, and short/long-term, as well as setting limits on foreign exchange rate 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 ITOCHU is engaged in businesses involving foreign currencies with a number of overseas trading subsidiaries and other overseas group companies, the figures in Japanese yen on its consolidated balance sheets are also exposed to the risk of stockholders' equity fluctuation through the accounting for foreign currency translation adjustments resulting from translation gains or losses. This translation risk has no impact on the performance of the business itself conducted in foreign currencies. In addition, a long period is generally needed to recover the cost of investments. Accordingly, ITOCHU does not hedge the translation risk, as the effectiveness provided by hedging is considered to be limited.

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 floating interest loans is considered to be the interest mismatch amount exposed to interest rate risk. ITOCHU is working to quantify the interest rate risk to control the fluctuation of gains and losses due to interest rate change properly.

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

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

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

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

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

(5) Investment Risk

Investing in a variety of businesses is one of the major business activities of ITOCHU Group.

In managing the Group's portfolio of investments strategically, ITOCHU faces serious decisions regarding the initiation of new investments that will produce profit commensurate with the attendant risk, or the withdrawal from investments that do not produce profits consistent with attendant risks.

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

Meanwhile, in the current fiscal year, ITOCHU suffered a loss of approximate 40.6 billion yen against Net income due to a significant loss of Orient Corporation (hereinafter referred to as "Orico"), one of associate companies of ITOCHU, mainly along with the revision of Moneylending Control Law in Japan. ITOCHU understands that Orico's business foundation will go for a more stable one and the new mid-term management plan of Orico is likely to be achievable, judging from Orico's announcement of their capital policies. Therefore, in May, 2007, ITOCHU underwrote Orico's third-party allotment of new shares. In ITOCHU's engagement in investing activities, there may arise such cases that the Group is unable to achieve the Group's forecasted results due to a deteriorating economic environment for business in which the Group has invested or the deteriorating corporate results and financial standing of ITOCHU's partners, ITOCHU Group is unable to withdraw from a business or restructure the business under a timeframe or method that the Group desires, the likelihood of recovering ITOCHU's investment diminishes due to poor corporate results of investees, or stock prices is expected to drop below specified levels for a considerable period of time. In such cases, serious adverse influences on the future corporate results and financial standing of ITOCHU Group are possible including the necessities that the whole or partial investment is recognized as loss, and that the infusion of additional funds is required.

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

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

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

(7) Risks Due to Fund Raising

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

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

(8) Risks Due to Benefit Expenses and Benefit Obligations

The benefit expenses and benefit obligations of ITOCHU are calculated based on actuarial calculations that utilize a variety of assumptions such as the discount rate for benefit obligations and the expected rate of return on pension assets. As of the end of the consolidated fiscal period under review there was no shortfall in accumulated pension assets.

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

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

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

(9) Risks Due to Deferred Income Taxes

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

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

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

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

(10) Risks Due to Competition

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

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

(11) Risks Associated with Significant Lawsuits

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

(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, a code of conduct concerning the handling of information is enforced on all directors and employees and high priority is placed on maintaining a high information security level. ITOCHU has established information systems to facilitate the sharing of information internally within ITOCHU 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. The Company and its subsidiaries evaluate marketable securities based on their fair values. The difference between carrying amount and fair value is reported in the consolidated statements of operations for trading securities, while differences net of tax are reported in stockholders' equity as "unrealized holding gains on securities", for available-for-sale securities. When the Company and its subsidiaries judge that the price decrease of marketable securities is other than temporary, considering severity and duration of decline in the fair value against carrying amount, impairment losses are recognized for the devaluation of this value.

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

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

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

Provision for Doubtful Receivables

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

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

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

Deferred Income Taxes

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

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

Impairment of Long-Lived Assets

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

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

Goodwill and Other Intangible Assets

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

Cost of Retirement and Severance Benefits

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

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

NEW ACCOUNTING PRONOUNCEMENTS

a. Accounting for Stripping Costs in the Mining Industry

Regarding accounting for stripping costs incurred during production in the mining industry, the FASB EITF reached a consensus at the meeting of March 2005 on EITF 04-6, which is effective for fiscal years beginning after December 15, 2005 with early adoption permitted.

In EITF 04-6, stripping costs (costs of removing overburden and waste materials to access mineral deposits) 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.

ITOCHU early adopted EITF 04-6 from Fiscal 2006. The cumulative effect of an accounting change, net of tax, a loss of ¥3,439 million, was recognized in Fiscal 2006.

b. Accounting Changes and Error Corrections

As the general accounting standard regarding accounting principle change and error corrections, the FASB issued SFAS 154 in May 2005, which is effective for fiscal years beginning after December 15, 2005.

SFAS 154 requires retrospective application to financial statements for prior periods of cumulative effect of a change in accounting principles (direct effect only) unless it is impracticable to determine whether the effect is period-specific or cumulative. However in case that the pronouncement has specific transition provisions, it overrides SFAS 154.

SFAS 154 is applicable from this fiscal year. The Company and its subsidiaries had no effect by applying SFAS 154 on the Company and its subsidiaries' financial position and results of operations for this fiscal year.

c. Accounting for Uncertainty in Income Taxes

Regarding accounting for uncertainty in income taxes, FASB interpretations ("FIN") 48 was issued in June 2006, which is effective for fiscal years beginning after December 15, 2006.

FIN 48 provides that a company should estimate its income tax amount under a scenario that the company believes that it is more likely than not (the possibility is more than 50%), considering ongoing tax litigation, past or ongoing tax authority reassessments, new tax litigation settlements or new interpretations issued by the tax authorities.

FIN 48 is applicable from Fiscal 2008. The effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. Therefore at present, the effect cannot be reasonably estimated.

d. Fair Value Measurements

Regarding the definition and measurement of fair value, SFAS 157 "Fair Value Measurements" was issued in September 2006, which is effective for fiscal years beginning after November 15, 2007.

In SFAS 157, fair value is defined as the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the company would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability.

A fair value hierarchy with 3 levels (Level 1, 2 & 3) is established to evaluate the objectivity of the input information being used to estimate fair value.

SFAS 157 is applicable from Fiscal 2009, and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. Therefore at present, the effect cannot be reasonably estimated.

e. Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

Regarding employers' accounting for defined benefit pension and other postretirement plans, SFAS 158 was issued in September 2006, by which the previous accounting treatments were revised.

SFAS 158 requires that a company recognize the funded status of defined benefit obligation in the company's balance sheet. Net actuarial loss (gain) balance and prior service cost balance which remained unrecognized according to the previous standard should be recognized as a component of "Accumulated other comprehensive income (loss)," net of tax.

The Company and its subsidiaries applied the provisions for recognition and related disclosure of SFAS 158 from this fiscal year. The effect by applying SFAS 158 into the financial statements for this fiscal year is presented in Note 13 "Retirement and Severance Benefits" in the "Notes to Consolidated Financial Statements."

In addition, SFAS 158 stipulates that, effective for fiscal years ending after December 15, 2008, the measurement date should be the date of the consolidated balance sheet. The Company believes that there will be no material effect by applying this change.

f. Fair Value Option

In February 2007, SFAS 159 "Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of SFAS 115" was issued, which is effective for fiscal years beginning after November 15, 2007.

SFAS 159 permits companies to measure the balance of financial instruments at fair value as of the date of the balance sheet. Companies may choose either to use fair-value-method or previous methods by respective financial instrument. However once it has been decided to use fair-value-method, it is not permitted to return to the previous measurement methods for these instruments.

SFAS 159 is applicable from Fiscal 2009. The Company and its subsidiaries have not decided to apply fair-value-method for certain financial instruments yet, therefore at present, the effect on the Company and its subsidiaries' financial position and results of operations by applying SFAS 159 cannot be reasonably estimated.

g. Accounting for Planned Major Maintenance Activities

Regarding accounting for planned major maintenance activities, FASB Staff Positions ("FSP") AUG AIR-1 was issued in September 2006, which is effective from fiscal years beginning after December 15, 2006.

FSP AUG AIR-1 forbids to use accrue-in-advance method for accounting for planned major maintenance activities in not only the air transportation industry but also others.

FSP AUG AIR-1 is applicable from Fiscal 2008, and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. Therefore at present, the effect cannot be reasonably estimated.

Consolidated Balance Sheets

ITOCHU Corporation and Subsidiaries
As of March 31, 2007 and 2006

	Millions of Yen		Millions of U.S. Dollars (note 2)
Assets	**2007**	2006	**2007**
Current assets:			
Cash and cash equivalents (notes 2, 4 and 8)	**¥ 532,856**	¥ 477,707	**$ 4,514**
Time deposits (note 8)	**1,845**	24,447	**16**
Marketable securities (notes 2, 4 and 8)	**31,161**	48,282	**264**
Trade receivables (note 8):			
Notes	**163,449**	149,386	**1,385**
Accounts (note 12)	**1,273,464**	1,079,404	**10,787**
Allowance for doubtful receivables (notes 2 and 6)	**(15,358)**	(17,755)	**(130)**
Net trade receivables	**1,421,555**	1,211,035	**12,042**
Due from associated companies	**105,884**	93,569	**897**
Inventories (notes 2 and 8)	**530,335**	458,876	**4,492**
Advances to suppliers	**98,604**	121,252	**835**
Prepaid expenses	**32,103**	28,771	**272**
Deferred tax assets (notes 2 and 15)	**37,898**	35,165	**321**
Other current assets	**274,664**	180,519	**2,327**
Total current assets	**3,066,905**	2,679,623	**25,980**
Investments and non-current receivables:			
Investments in and advances to associated companies (notes 2, 5, 8 and 13)	**608,121**	619,007	**5,151**
Other investments (notes 2, 4, 7 and 8)	**632,527**	528,440	**5,358**
Other non-current receivables (notes 8 and 12)	**143,628**	196,409	**1,217**
Allowance for doubtful receivables (notes 2 and 6)	**(66,450)**	(103,600)	**(563)**
Total investments and net non-current receivables	**1,317,826**	1,240,256	**11,163**
Property and equipment, at cost (notes 2, 7, 8, 12 and 17):			
Land	**160,620**	152,149	**1,361**
Buildings	**328,397**	293,605	**2,782**
Machinery and equipment	**276,368**	263,637	**2,341**
Furniture and fixtures	**57,594**	52,607	**488**
Mineral rights	**45,905**	41,296	**389**
Construction in progress	**16,090**	10,582	**136**
Total property and equipment, at cost	**884,974**	813,876	**7,497**
Less accumulated depreciation	**354,929**	326,088	**3,007**
Net property and equipment	**530,045**	487,788	**4,490**
Goodwill and other intangible assets, less accumulated amortization (notes 2 and 9)	**147,975**	117,576	**1,253**
Prepaid pension cost (notes 2 and 13)	**86,180**	186,105	**730**
Deferred tax assets, non-current (notes 2, 13 and 15)	**31,612**	47,365	**268**
Other assets	**90,969**	38,300	**771**
Total	**¥5,271,512**	¥4,797,013	**$44,655**

See notes to consolidated financial statements.

Financial Section

Liabilities and Stockholders' Equity	Millions of Yen 2007	Millions of Yen 2006	Millions of U.S. Dollars (note 2) 2007
Current liabilities:			
Short-term debt (notes 8 and 10)	¥ 373,723	¥ 382,434	$ 3,166
Current maturities of long-term debt (notes 8 and 10)	144,317	173,097	1,223
Trade payables (note 8):			
Notes and acceptances	181,197	156,395	1,535
Accounts	1,143,422	921,797	9,686
Total trade payables	1,324,619	1,078,192	11,221
Due to associated companies	46,083	46,680	390
Accrued expenses	135,335	111,078	1,146
Income taxes payable (note 15)	51,059	38,361	433
Advances from customers	107,308	135,790	909
Deferred tax liabilities (notes 2 and 15)	1,812	605	15
Other current liabilities (note 12)	205,040	163,589	1,737
Total current liabilities	2,389,296	2,129,826	20,240
Long-term debt, excluding current maturities (notes 2, 8, 10, 11 and 12)	1,795,333	1,762,103	15,208
Accrued retirement and severance benefits (notes 2 and 13)	21,748	19,081	184
Deferred tax liabilities, non-current (notes 2 and 15)	25,885	29,470	219
Commitments and contingent liabilities (note 25)			
Minority interests (note 13)	143,055	129,717	1,212
Stockholders' equity:			
Common stock (note 18):			
Authorized: 3,000,000,000 shares;			
issued: 1,584,889,504 shares 2007 and 2006	202,241	202,241	1,713
Capital surplus (notes 18 and 19)	136,842	137,035	1,159
Retained earnings (note 19):			
Legal reserve	7,423	5,667	63
Other retained earnings	469,736	310,261	3,979
Accumulated other comprehensive income (loss) (notes 2, 15 and 20):			
Foreign currency translation adjustments	903	(25,801)	8
Minimum pension liability adjustments (note 13)	—	(2,086)	—
Pension liability adjustments (note 13)	(41,335)	—	(350)
Unrealized holding gains on securities (note 4)	122,736	97,689	1,040
Unrealized holding gains (losses) on derivative instruments (note 21)	(441)	3,087	(4)
Total accumulated other comprehensive income	81,863	72,889	694
Treasury stock, at cost:			
3,693,789 shares 2007			
3,042,395 shares 2006	(1,910)	(1,277)	(16)
Total stockholders' equity	896,195	726,816	7,592
Total	¥5,271,512	¥4,797,013	$44,655

Financial Section

Consolidated Statements of Operations

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of Yen			Millions of U.S. Dollars (note 2)
	2007	2006	2005	**2007**
Revenue (notes 2, 12 and 17):				
Sales revenue	**¥ 2,094,850**	¥ 1,806,650	¥ 1,598,672	**$ 17,745**
Trading margins and commissions on trading transactions	**552,352**	411,571	392,566	**4,679**
Total trading transactions (notes 2, 5 and 17): 2007: ¥11,579,059 million ($98,086 million) 2006: ¥10,473,885 million 2005: ¥ 9,576,039 million				
Total revenue	**2,647,202**	2,218,221	1,991,238	**22,424**
Cost of sales	**(1,738,526)**	(1,503,847)	(1,360,477)	**(14,727)**
Gross trading profit (note 17)	**908,676**	714,374	630,761	**7,697**
Selling, general and administrative expenses (notes 9, 12 and 13)	**(639,121)**	(506,257)	(466,840)	**(5,414)**
Provision for doubtful receivables (note 6)	**(4,934)**	(14,728)	(6,181)	**(42)**
Interest income	**16,117**	13,409	10,774	**137**
Interest expense	**(45,335)**	(39,441)	(31,814)	**(384)**
Dividends received	**21,663**	18,216	14,162	**183**
Gain (loss) on disposal of investments and marketable securities, net of write-down (notes 4, 5 and 22)	**46,850**	51,601	(25,384)	**397**
Loss on property and equipment–net (note 7)	**(6,785)**	(7,917)	(5,959)	**(57)**
Other–net (notes 2, 14 and 24)	**3,099**	(12,388)	439	**26**
Income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	**300,230**	216,869	119,958	**2,543**
Income taxes (notes 2, 15 and 22):				
Current	**80,261**	65,232	46,987	**680**
Deferred	**8,665**	41,691	15,556	**73**
Total income taxes	**88,926**	106,923	62,543	**753**
Income before minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change	**211,304**	109,946	57,415	**1,790**
Minority interests	**(14,176)**	(13,098)	(11,387)	**(120)**
Equity in earnings (losses) of associated companies (notes 5 and 17)	**(20,069)**	51,737	31,764	**(170)**
Income before cumulative effect of an accounting change	**177,059**	148,585	77,792	**1,500**
Cumulative effect of an accounting change, less applicable income taxes (notes 2 and 17)	**—**	(3,439)	—	**—**
Net income	**¥ 177,059**	¥ 145,146	¥ 77,792	**$ 1,500**

	Yen			U.S. Dollars (note 2)
	2007	2006	2005	**2007**
Income per common share before cumulative effect of an accounting change	**¥111.95**	¥93.91	¥49.16	**$0.95**
Cumulative effect of an accounting change per common share, less applicable income taxes	**—**	(2.17)	—	**—**
Net income per common share (notes 2 and 16)	**¥111.95**	¥91.74	¥49.16	**$0.95**

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of Yen			Millions of U.S. Dollars (note 2)
	2007	2006	2005	**2007**
Common stock (note 18):				
Balance at beginning of year				
issued: 1,584,889,504 shares 2007, 2006 and 2005	**¥202,241**	¥202,241	¥202,241	**$1,713**
Balance at end of year				
1,584,889,504 shares 2007, 2006 and 2005	**¥202,241**	¥202,241	¥202,241	**$1,713**
Capital surplus (notes 18 and 19):				
Balance at beginning of year	**¥137,035**	¥137,024	¥136,915	**$1,161**
Excess arising from retirement of treasury stock	**8**	11	109	**0**
Decrease arising from group realignment between subsidiaries	**(201)**	—	—	**(2)**
Balance at end of year	**¥136,842**	¥137,035	¥137,024	**$1,159**
Retained earnings (note 19):				
Legal reserve:				
Balance at beginning of year	**¥ 5,667**	¥ 3,927	¥ 3,450	**$ 48**
Transfer from other retained earnings	**1,822**	1,797	575	**15**
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	**(66)**	(57)	(98)	**(0)**
Balance at end of year	**¥ 7,423**	¥ 5,667	¥ 3,927	**$ 63**
Other retained earnings:				
Balance at beginning of year	**¥310,261**	¥184,273	¥106,958	**$2,628**
Net income	**177,059**	145,146	77,792	**1,500**
Cash dividends	**(15,828)**	(17,418)	—	**(134)**
Transfer to legal reserve	**(1,822)**	(1,797)	(575)	**(15)**
Redistribution arising from sale by parent of common stock of subsidiaries and associated companies	**66**	57	98	**0**
Balance at end of year	**¥469,736**	¥310,261	¥184,273	**$3,979**
Accumulated other comprehensive income (loss) (notes 2, 4, 13, 15, 20 and 21):				
Balance at beginning of year	**¥ 72,889**	¥ (16,242)	¥ (25,982)	**$ 617**
Other comprehensive income	**47,451**	89,131	9,740	**402**
Adjustment to initially apply SFAS No.158	**(38,477)**	—	—	**(325)**
Balance at end of year	**¥ 81,863**	¥ 72,889	¥ (16,242)	**$ 694**
Treasury stock:				
Balance at beginning of year	**¥ (1,277)**	¥ (826)	¥ (716)	**$ (11)**
Net change in treasury stock	**(633)**	(451)	(110)	**(5)**
Balance at end of year	**¥ (1,910)**	¥ (1,277)	¥ (826)	**$ (16)**
Total	**¥896,195**	¥726,816	¥510,397	**$7,592**
Comprehensive income:				
Net income	**¥177,059**	¥145,146	¥ 77,792	**$1,500**
Other comprehensive income (net of tax) (notes 2, 15 and 20):				
Net change in foreign currency translation adjustments during the year	**26,704**	37,618	4,348	**226**
Minimum pension liability adjustments (note 13)	**(772)**	(39)	(1,413)	**(6)**
Net change in unrealized holding gains on securities during the year (note 4)	**25,047**	44,943	7,093	**212**
Net change in unrealized holding gains (losses) on derivative instruments during the year (note 21)	**(3,528)**	6,609	(288)	**(30)**
Total other comprehensive income	**47,451**	89,131	9,740	**402**
Total	**¥224,510**	¥234,277	¥ 87,532	**$1,902**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ITOCHU Corporation and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of Yen			Millions of U.S. Dollars (note 2)
	2007	2006	2005	2007
Cash flows from operating activities:				
Net income	¥177,059	¥145,146	¥ 77,792	$ 1,500
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	56,383	44,062	40,086	478
Provision for doubtful receivables	4,934	14,728	6,181	42
(Gain) loss on disposal of investments and marketable securities, net of write-down	(46,850)	(51,601)	25,384	(397)
Loss on property and equipment–net	6,785	7,917	5,959	57
Equity in earnings of associated companies, less dividends received	39,849	(43,239)	(25,942)	338
Deferred income taxes	8,665	41,691	15,556	73
Minority interests	14,176	13,098	11,387	120
Cumulative effect of an accounting change, less applicable income taxes	—	3,439	—	—
Change in assets and liabilities:				
Trade receivables	(106,945)	(92,507)	(66,084)	(906)
Due from associated companies	(35,766)	(3,329)	(6,786)	(303)
Inventories	(45,132)	(26,045)	(42,907)	(382)
Trade payables	125,348	91,919	54,274	1,062
Due to associated companies	(217)	4,705	(890)	(2)
Other–net	37,628	35,163	32,614	318
Net cash provided by operating activities	235,917	185,147	126,624	1,998
Cash flows from investing activities:				
Payments for purchases of property, equipment and other assets	(79,159)	(68,809)	(68,656)	(670)
Proceeds from sales of property, equipment and other assets	28,591	36,392	11,841	242
Increase in investments in and advances to associated companies	(44,581)	(77,864)	(14,003)	(377)
Decrease in investments in and advances to associated companies	33,578	34,640	25,689	284
Payments for purchases of other investments	(118,560)	(97,852)	(115,154)	(1,004)
Proceeds from sales of other investments	59,519	67,011	27,792	504
Acquisitions of a subsidiary, net of cash acquired	(11,407)	—	—	(97)
Proceeds from sales of subsidiaries' common stock	5,877	25,460	7,113	50
Origination of other non-current loan receivables	(49,703)	(38,212)	(54,500)	(421)
Collections of other non-current loan receivables	48,309	52,445	56,310	409
Net (increase) decrease in time deposits	22,031	(20,491)	653	187
Net (increase) decrease in marketable securities	22,111	7,409	(4,685)	187
Net cash used in investing activities	(83,394)	(79,871)	(127,600)	(706)
Cash flows from financing activities:				
Proceeds from long-term debt	617,455	503,202	324,230	5,230
Repayments of long-term debt	(681,150)	(578,895)	(397,535)	(5,770)
Net increase (decrease) in short-term debt	(22,215)	2,413	(50,153)	(188)
Proceeds from minority interests through issuance of subsidiaries' common stock	6,244	9,017	1,586	53
Cash dividends	(15,828)	(17,418)	—	(134)
Cash dividends to minority interests	(4,805)	(3,073)	(3,266)	(41)
Net increase in treasury stock	(621)	(439)	(204)	(5)
Net cash used in financing activities	(100,920)	(85,193)	(125,342)	(855)
Effect of exchange rate changes on cash and cash equivalents	3,546	4,690	(313)	30
Net increase (decrease) in cash and cash equivalents	55,149	24,773	(126,631)	467
Cash and cash equivalents at beginning of year	477,707	452,934	579,565	4,047
Cash and cash equivalents at end of year	¥532,856	¥477,707	¥452,934	$ 4,514
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	¥ 42,485	¥ 39,044	¥ 31,048	$ 360
Income taxes	65,744	40,162	39,701	557
Information regarding non-cash investing and financing activities:				
Withdrawal of plan assets (note 13)	27,742	—	10,484	235
Non-monetary exchange of shares	6,941	3,539	—	59
Acquisitions of a subsidiary (note 3):				
Fair value of assets acquired	233,512	—	—	1,978
Fair value of liabilities assumed	204,919	—	—	1,736
Acquisition costs of a subsidiary	28,593	—	—	242
Non-cash acquisition costs	13,877	—	—	117
Cash acquired	3,309	—	—	28
Acquisitions of a subsidiary, net of cash acquired	11,407	—	—	97

See notes to consolidated financial statements.

Financial Section

Notes to Consolidated Financial Statements

ITOCHU Corporation and Subsidiaries

1. Nature of Operations

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

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

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

(1) Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2007 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥118.05=U.S.$1 (the official rate as of March 31, 2007 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, 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 Bulletin ("ARB") No. 51" (revised December 2003) ("FIN 46(R)"), which defines those entities whose equity has specified characteristics as variable interest entities, the Company and its subsidiaries consolidate variable interest entities, where it is concluded that the Company or one of its subsidiaries is primary beneficiary and will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

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

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

b. Foreign Currency Translation

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

c. Cash Equivalents

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

d. Inventories

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

e. Marketable Securities and Other Investments

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

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

f. Investments in Associated Companies

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

g. Impaired Loans and Allowance for Doubtful Receivables

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

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

h. Long-lived Assets

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

i. Depreciation

Depreciation of property and equipment (including property leased to others) is computed principally by the unit-of-production method for mineral rights and by the straight-line method 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.

k. Asset Retirement Obligations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

s. Comprehensive Income (Loss)
In accordance with SFAS 130, "Reporting Comprehensive Income," the Company and its subsidiaries report and present comprehensive income and loss and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. Comprehensive income and loss consists of not only net income or loss but also changes in foreign currency translation adjustments, 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.

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

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

- "Fair value hedge": a hedge of the fair value of a recognized asset or liability, or of an unrecognized firm commitment. The changes in fair value of recognized assets or liabilities, or unrecognized firm commitments and related derivative instruments that are designated and qualify as fair value hedges are recorded in earnings if the hedges are considered highly effective.

- "Cash flow hedge": a hedge of the variability of cash flow to be received or paid related to a forecasted transaction, or a recognized asset or liability. The changes in fair value of derivative instruments that are designated and qualify as cash flow hedges are recorded in "Accumulated other comprehensive income (loss)" if the hedges are considered highly effective.

  This treatment is continued until earnings are affected by the variability in cash flows to be received or paid related to the forecasted transactions or the recognized assets or liabilities designated as the hedged items. The ineffective portion of the hedge is currently reported in earnings.

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

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

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

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

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

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

u. Issuance of Stock by Subsidiaries or Associated Companies

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

v. Classification of Mineral Rights

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

w. Use of Estimates

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

(3) New Accounting Pronouncements

a. Accounting for 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 was effective for fiscal years beginning after December 15, 2005 with early adoption permitted. The Company and its subsidiaries early adopted EITF 04-6, from the year ended March 31, 2006. The cumulative effect of an accounting change, net of tax, a loss of ¥3,439 million, was recognized in the year ended March 31, 2006.

b. 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 case 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 the statements of operations for the period of the revision, however SFAS 154 requires retrospective application to prior periods' financial statements of cumulative effect of a change in accounting principles unless it is impracticable to determine either the period-specific effect 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 fiscal years beginning after December 15, 2005, and the Company and its subsidiaries adopted SFAS 154 in the year ended March 31, 2007. The Company and its subsidiaries had no effect by applying SFAS 154 on the Company and its subsidiaries' financial position and results of operations for the year ended March 31, 2007.

c. Accounting for Uncertainty in Income Taxes

In June 2006, FIN 48, "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS 109" was issued.

FIN 48 provides that a company should estimate its income tax amount under a scenario that the company believes that it is more likely than not (the possibility is more than 50%), considering ongoing tax litigation, past or ongoing tax authority reassessment, new tax litigation settlements or new interpretations issued by the tax authorities.

FIN 48 is effective for fiscal years beginning after December 15, 2006, and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. At present the effect cannot be reasonably estimated.

d. Fair Value Measurements

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

Prior to the statement there were different definitions of fair value and different methods of measurement. However in SFAS 157, fair value is defined as the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the company would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability.

A fair value hierarchy with 3 levels (Level 1, 2 & 3) is established to evaluate the objectivity of the input information being used to estimate fair value.

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

e. Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of SFAS No. 87, 88, 106 and 132 (R)" was issued.

SFAS 158 requires that a company recognize the funded status of a defined benefit pension plan—measured as the difference between the plan assets at fair value and the projected benefit obligation—in its consolidated balance sheet. Net actuarial loss (gain) balance and the unrecognized prior service cost balance are required to be recognized as a component of "Accumulated other comprehensive income (loss)," net of tax.

The Company and its subsidiaries applied the provisions for recognition and related disclosure of SFAS 158 from the year ended March 31, 2007. The effect of applying SFAS 158 into the consolidated financial statements for the year ended March 31, 2007 is presented in the Note 13 "Retirement and Severance Benefits" in the notes to Consolidated Financial Statements.

SFAS 158 stipulates that, effective for fiscal years ending after December 15, 2008, the measurement date should be the date of the consolidated balance sheet. The Company believes that there is no material effect by applying this change.

f. Fair Value Option

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

SFAS 159 permits companies to measure the balance of financial instruments at fair value as of the date of the balance sheet. Companies can choose either to use a fair value measurement or previous methods by respective financial instrument. However, once it has been decided to use the fair value method to measure certain financial instruments, it is not permitted to return to the previous measurement methods for those instruments.

SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company and its subsidiaries have not decided to apply the fair value method for certain financial instruments yet, therefore at present, the effect on the Company and its subsidiaries' financial position and results of operations by applying SFAS 159 cannot be reasonably estimated.

g. Accounting for Planned Major Maintenance Activities

In September 2006, FASB Staff Positions ("FSP") AUG AIR-1 (Accounting for Planned Major Maintenance Activities) was issued.

FSP AUG AIR-1 forbids the use of accrue-in-advance method to accounting for planned major maintenance activities in not only the air transportation industry but also others. The said accruals are not considered to meet the legitimate definition of liabilities.

FSP AUG AIR-1 is effective for fiscal years beginning after December 15, 2006, and the effect on the Company and its subsidiaries' financial position and results of operations is currently under consideration. At present the effect cannot be reasonably estimated.

(4) Reclassification

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

3. Business Combination

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

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

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

In connection with the acquisition, ¥3,497 million ($30 million) and ¥20,434 million ($173 million) were assigned to intangible assets subject to amortization and goodwill, respectively. The intangible assets subject to amortization consist primarily of software of ¥3,089 million ($26 million) with an amortization period of five years. The goodwill is not deductible for tax purposes and has been assigned to the Food operating segment.

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

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Current assets	¥ 145,717	$ 1,234
Property and equipment, at cost	37,967	322
Goodwill and other intangible assets, less accumulated amortization	23,931	203
Investments and other non-current assets	25,897	219
Fair value of assets acquired	233,512	1,978
Current liabilities	(182,659)	(1,547)
Non-current liabilities	(16,667)	(141)
Minority interests	(5,593)	(48)
Fair value of liabilities assumed	(204,919)	(1,736)
Acquisition costs of a subsidiary	¥ 28,593	$ 242

(Pro forma information)
The following table presents the unaudited pro forma results of operations, as if this acquisition had occurred on April 1, 2006 and 2005, respectively. The unaudited pro forma results of operations are for information purpose only and are not intended to represent what the Company's results of operations would have been if the acquisition had actually occurred on those days.

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Revenue	¥2,681,684	¥2,355,091	$22,717
Income before cumulative effect of an accounting change	177,059	149,033	1,500
Net income	177,059	145,594	1,500

	Yen		U.S. Dollars
	2007	2006	2007
Net income per share	¥111.95	¥92.02	$0.95

4. Marketable Securities and Investments

Debt and Marketable Equity Securities

Debt and marketable equity securities included in "Marketable securities" and "Other investments" consist of trading, available-for-sale and held-to-maturity securities. The cost, gross unrealized holding gains, gross unrealized holding losses and fair value of available-for-sale and held-to-maturity securities by major security type as of March 31, 2007 and 2006 were as follows:

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

	Millions of 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 U.S. Dollars			
	2007			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Current:				
Available-for-sale:				
Debt securities	$ 215	$ —	$ 0	$ 215
Non-current:				
Available-for-sale:				
Equity securities	$1,644	$1,569	$ 7	$3,206
Debt securities	12	—	0	12
Total	1,656	1,569	7	3,218
Held-to-maturity:				
Debt securities	1	—	—	1
Total–Non-current	$1,657	$1,569	$ 7	$3,219

The carrying amounts of available-for-sale debt securities included in cash and cash equivalents in the consolidated balance sheets were ¥24,980 million ($212 million) at March 31, 2007.

In addition to the securities listed above, the Company and its subsidiaries held trading securities carried at fair value of ¥30,720 million ($260 million) and ¥28,989 million as of March 31, 2007 and 2006, respectively. The portion of net trading gains for the year that relates to trading securities still held at March 31, 2007 and 2006 were ¥877 million ($7 million) and ¥2,594 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, 2007 were as follows:

	Millions of Yen					
	2007					
	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	¥ 118	¥ 1	¥—	¥—	¥ 118	¥ 1
Non-current:						
Available-for-sale:						
Equity securities	¥12,986	¥838	¥—	¥—	¥12,986	¥838
Debt securities	710	19	—	—	710	19
Total–Non-current	¥13,696	¥857	¥—	¥—	¥13,696	¥857

	Millions of U.S. Dollars					
	2007					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Current:						
Available-for-sale:						
Debt securities	$ 1	$ 0	$—	$—	$ 1	$ 0
Non-current:						
Available-for-sale:						
Equity securities	$110	$ 7	$—	$—	$110	$ 7
Debt securities	6	0	—	—	6	0
Total–Non-current	$116	$ 7	$—	$—	$116	$ 7

At March 31, 2007, the Company and its subsidiaries held the securities of 48 issuers with an unrealized holding loss in its available-for-sale portfolio. The severity of decline in fair value below cost was 1% to 28% 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, 2007.

In accordance with EITF 91-5 "Nonmonetary Exchange of Cost-Method Investments," the Company and its subsidiaries recognized gains on the exchange of its investment securities in connection with certain business combinations amounting to ¥3,490 million ($30 million) and ¥446 million for the years ended March 31, 2007 and 2006, respectively, which are presented as part of "Gain (loss) on disposal of investments and marketable securities, net of write-down" in the consolidated statements of operations.

The contractual maturities of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2007 were as follows:

	Millions of Yen		Millions of U.S. Dollars	
	Cost	Fair Value	Cost	Fair Value
Available-for-sale:				
Due within one year	¥25,422	¥25,421	$215	$215
Due after one year through five years	836	833	7	7
Due after five years through ten years	497	484	4	4
Due after ten years	68	65	1	1
Total	¥26,823	¥26,803	$227	$227
Held-to-maturity:				
Due within one year	¥ —	¥ —	$ —	$ —
Due after one year through five years	50	50	1	1
Due after five years through ten years	25	25	0	0
Due after ten years	—	—	—	—
Total	¥ 75	¥ 75	$ 1	$ 1

The gross realized gains and losses on sales of available-for-sale securities for the years ended March 31, 2007, 2006 and 2005 were gains of ¥22,692 million ($192 million), ¥23,926 million and ¥12,118 million, and losses of ¥66 million ($1 million), ¥60 million and ¥942 million, respectively. The proceeds from sales of available-for-sale securities were ¥35,705 million ($302 million), ¥32,951 million and ¥23,209 million for the years ended March 31, 2007, 2006 and 2005, 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 ¥252,593 million ($2,140 million) and ¥280,198 million as of March 31, 2007 and 2006, respectively.

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

5. Investments in Associated Companies

Summarized financial information in respect of associated companies as of March 31, 2007 and 2006 and for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Current assets	**¥4,431,771**	¥4,625,846	**$37,542**
Non-current assets, principally property and equipment	**2,684,717**	2,680,672	**22,742**
Total assets	**¥7,116,488**	¥7,306,518	**$60,284**
Current liabilities	**¥3,421,904**	¥3,332,076	**$28,987**
Long-term debt and others	**2,994,631**	2,918,157	**25,368**
Stockholders' equity	**699,953**	1,056,285	**5,929**
Total liabilities and stockholders' equity	**¥7,116,488**	¥7,306,518	**$60,284**

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Total trading transactions	**¥6,993,940**	¥6,526,254	¥5,522,258	**$59,246**
Net income (loss)	**¥ (374,905)**	¥ 125,826	¥ 63,260	**$ (3,176)**

Total trading transactions and purchases by the Company and its subsidiaries with associated companies for the years ended March 31, 2007, 2006 and 2005 were summarized as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Total trading transactions	**¥855,349**	¥817,657	¥697,563	**$7,246**
Purchases	**¥244,366**	¥184,549	¥157,612	**$2,070**

Dividends received from associated companies for the years ended March 31, 2007, 2006 and 2005 were ¥19,780 million ($168 million), ¥8,498 million and ¥5,822 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%), Marubeni-Itochu Steel Inc. (50.0%), Century Leasing System, Inc. (20.1%), FamilyMart Co., Ltd. (32.5%) and Isuzu Network Co., Ltd. (25.0%). The percentages shown parenthetically in the above sentence were voting shares held by the Company and its subsidiaries at March 31, 2007.

The Company converted Class A preferred shares issued by Orient Corporation into its common shares on April 2, 2007. After the conversion, the Company and its subsidiaries' voting shares for Orient Corporation Increased to 32.0%.

Investments in the common stock of associated companies include marketable equity securities in the carrying amounts of ¥286,764 million ($2,429 million) and ¥321,085 million at March 31, 2007 and 2006, respectively. Corresponding aggregate quoted market values were ¥377,416 million ($3,197 million) and ¥445,621 million at March 31, 2007 and 2006, respectively.

The differences between the carrying amount of the investments in equity-method associated companies and the Company and its subsidiaries' equity in the underlying net assets of such equity-method associated companies were ¥169,479 million ($1,436 million) and ¥173,836 million at March 31, 2007 and 2006, respectively. The differences consist of certain fair value adjustments (net of taxes) at the time of the investments in equity-method associated companies and equity-method goodwill. The fair value adjustments are primarily attributed to land and intangible assets.

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.

6. Impaired Loans and Allowance for Doubtful Receivables

An analysis of the changes in the allowance for doubtful receivables for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Balance at beginning of year	**¥121,355**	¥163,451	¥196,599	**$1,028**
Provision for doubtful receivables	**4,934**	14,728	6,181	**42**
Charge-offs	**(47,560)**	(67,231)	(46,854)	**(403)**
Other	**3,079**	10,407	7,525	**26**
Balance at end of year	**¥ 81,808**	¥121,355	¥163,451	**$ 693**

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

The carrying amounts of impaired loans within the scope of SFAS 114 and the allowance for doubtful receivables related to those impaired loans as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Impaired loans	**¥71,246**	¥104,751	**$604**
Allowance for doubtful receivables related to those impaired loans	**¥61,750**	¥ 95,043	**$523**

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, 2007, 2006 and 2005 were as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Average amounts of impaired loans	**¥87,999**	¥144,159	¥200,513	**$745**

The amounts of interest income recognized on the impaired loans for the years ended March 31, 2007, 2006 and 2005 were not significant.

7. Impairment of Long-lived Assets

The Company and its subsidiaries recognized impairment losses on long-lived assets of ¥7,493 million ($63 million), ¥12,855 million and ¥4,735 million for the years ended March 31, 2007, 2006 and 2005, respectively, which were included in "Loss on property and equipment–net" in the consolidated statements of operations. The impaired assets were primarily commercial land and buildings in the Finance, Realty, Insurance & Logistics Services operating segment for the year ended March 31, 2007. The impairments were generally due to the deterioration of earnings in relation to revisions of repair plans of buildings and changes to lease agreement conditions. The impaired assets were primarily commercial rental buildings in the Finance, Realty, Insurance & Logistics Services operating segment and land in the Other, Adjustments & Eliminations operating segment for the year ended March 31, 2006 and domestic commercial rental buildings in the Finance, Realty, Insurance & Logistics Services operating segment for the year ended March 31, 2005. 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, 2007, 2006, and 2005 by operating segment were as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Textile	**¥ 425**	¥ 258	¥ 783	**$ 4**
Machinery	**206**	390	87	**2**
Aerospace, Electronics & Multimedia	**22**	1,162	703	**0**
Chemicals, Forest Products & General Merchandise	**181**	581	192	**1**
Food	**514**	150	578	**4**
Finance, Realty, Insurance & Logistics Services	**6,145**	7,578	1,144	**52**
Other, Adjustments & Eliminations	**—**	2,736	1,248	**—**
Total	**¥7,493**	¥12,855	¥4,735	**$63**

8. Pledged Assets

The following assets were pledged as collateral at March 31, 2007 and 2006:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Cash and cash equivalents and time deposits	**¥ 273**	¥ 849	**$ 2**
Marketable securities	**105**	76	**1**
Trade receivables	**17,743**	11,962	**150**
Inventories	**4,524**	4,357	**39**
Investments and non-current receivables	**46,311**	54,064	**392**
Property and equipment, at cost, less accumulated depreciation	**44,000**	104,404	**373**
Total	**¥112,956**	¥175,712	**$957**

Collateral was pledged to secure the following obligations at March 31, 2007 and 2006:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Short-term debt	**¥15,524**	¥ 15,761	**$132**
Long-term debt	**44,678**	116,281	**378**
Guarantees of contracts and others	**15,243**	80,136	**129**
Total	**¥75,445**	¥212,178	**$639**

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

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

9. Goodwill and Other Intangible Assets

Intangible assets subject to amortization at March 31, 2007 and 2006 comprised the following:

	Millions of Yen				Millions of U.S. Dollars	
	2007		2006		**2007**	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Trademarks	**¥23,683**	**¥(11,373)**	¥25,713	¥ (9,812)	**$201**	**$ (96)**
Software	**44,939**	**(26,632)**	37,734	(21,753)	**381**	**(226)**
Other	**20,590**	**(6,916)**	20,571	(6,399)	**174**	**(59)**
Total	**¥89,212**	**¥(44,921)**	¥84,018	¥(37,964)	**$756**	**$(381)**

Intangible assets subject to amortization that were acquired during the year ended March 31, 2007 totaled ¥14,954 million ($127 million), and consisted primarily of software of ¥11,415 million ($97 million). The weighted average amortization period for software that was acquired during the year ended March 31, 2007 was 5 years. They are generally amortized using the straight-line method for software.

The aggregate amortization expenses for intangible assets for the years ended March 31, 2007, 2006 and 2005 were ¥12,578 million ($107 million), ¥12,789 million and ¥10,789 million, respectively.

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

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥12,510	$106
2009	9,181	78
2010	6,016	51
2011	4,203	36
2012	2,763	23

The carrying amount of intangible assets with indefinite useful lives which are therefore not subject to amortization comprised the following at March 31, 2007 and 2006:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Trademarks	**¥20,644**	¥21,613	**$175**
Unlimited land lease	**1,000**	972	**8**
Other	**2,154**	1,848	**18**
Total	**¥23,798**	¥24,433	**$201**

Intangible assets with indefinite useful lives which are not subject to amortization were acquired during the year ended March 31, 2007, and mainly consisted of trademarks of ¥415 million ($4 million).

An impairment loss of intangible assets with indefinite useful lives amounting to ¥475 million ($4 million) was recognized during the year ended March 31, 2007.

The changes in the carrying amounts of goodwill by operating segment during the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other	Total
Balance at March 31, 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 (Note)	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
Acquired	**—**	**129**	**6,903**	**1,042**	**2,355**	**20,434**	**1,577**	**111**	**32,551**
Impairment losses	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(190)**	**(190)**
Other changes (Note)	**(236)**	**268**	**(4)**	**22**	**469**	**—**	**2**	**(85)**	**436**
Balance at March 31, 2007	**¥ —**	**¥6,759**	**¥34,764**	**¥1,064**	**¥11,284**	**¥20,434**	**¥1,835**	**¥3,746**	**¥79,886**

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

	Millions of U.S. Dollars								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other	Total
Balance at March 31, 2006	$ 2	$54	$236	$—	$72	$ —	$ 2	$33	$399
Acquired	**—**	**1**	**58**	**9**	**20**	**173**	**14**	**1**	**276**
Impairment losses	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2)**	**(2)**
Other changes (Note)	**(2)**	**2**	**(0)**	**0**	**4**	**—**	**0**	**(0)**	**4**
Balance at March 31, 2007	**$—**	**$57**	**$294**	**$ 9**	**$96**	**$173**	**$16**	**$32**	**$677**

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

As a result of testing for impairment of goodwill, impairment losses amounting to ¥190 million ($2 million), ¥379 million and ¥549 million, respectively, were recognized during the years ended March 31, 2007, 2006 and 2005.

10. Short-term and Long-term Debt

"Short-term debt" at March 31, 2007 and 2006 was as follows:

	2007		2006		2007
	Millions of Yen	Interest Rate	Millions of Yen	Interest Rate	Millions of U.S. Dollars
Short-term loans, mainly from banks	**¥373,723**	**3.4%**	¥382,434	2.3%	**$3,166**

Note: The interest rates represent weighted average rates on outstanding balances at March 31, 2007 and 2006.

"Long-term debt" at March 31, 2007 and 2006 is summarized below:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Banks and financial institutions:			
Secured:			
Japan Bank for International Cooperation, due 2006-2013, interest mainly 1.7%-5.5%	**¥ 5,303**	¥ 54,805	**$ 45**
Other, due 2006-2021, interest mainly 0.6%-8.3%	**39,375**	61,476	**333**
Unsecured:			
Due 2006-2020, interest mainly 0.6%-8.0%	**1,553,434**	1,536,590	**13,160**
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	**253**
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, 1.02% Yen Bonds due 2006	**—**	10,000	**—**
Issued in 2003, 0.79% Yen Bonds due 2008	**15,000**	15,000	**126**
Issued in 2003, 0.41% Yen Bonds due 2006	**—**	10,000	**—**
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	**—**
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**	10,000	**85**
Issued in 2006, 2.17% Yen Bonds due 2016	**15,000**	—	**126**
Issued in 2006, 2.09% Yen Bonds due 2016	**10,000**	—	**85**
Issued in 2007, 2.11% Yen Bonds due 2017	**10,000**	—	**85**
Issued in and after 1999, Medium-Term Notes, etc., maturing through 2009	**17,055**	20,678	**144**
Others	**147,744**	91,166	**1,252**
Total	**1,942,911**	1,944,715	**16,459**
SFAS 133 fair value adjustment (note 2)	**(3,261)**	(9,515)	**(28)**
Total	**1,939,650**	1,935,200	**16,431**
Less current maturities	**(144,317)**	(173,097)	**(1,223)**
Long-term debt, less current maturities	**¥1,795,333**	¥1,762,103	**$15,208**

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

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

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

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

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

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

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

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

The aggregate annual maturities of long-term debt after March 31, 2007 are as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥ 144,317	$ 1,223
2009	365,279	3,095
2010	301,941	2,557
2011	194,766	1,650
2012	161,856	1,371
2013 and thereafter	774,752	6,563
Total	¥1,942,911	$16,459

The Company has borrowing arrangements with many financial institutions and has entered into commitment line agreements with certain banks for working capital needs and stable funding. The amounts of the Japanese Yen facility available under such agreements aggregated ¥400,000 million ($3,388 million), consisting of ¥100,000 million ($847 million) for short-term debt and ¥300,000 million ($2,541 million) for long-term debt, at March 31, 2007 and ¥510,000 million, consisting of ¥250,000 million for short-term debt and ¥260,000 million for long-term debt, at March 31, 2006, respectively. The amount of the U.S. dollar facility of $500 million was held for short-term debt at March 31, 2007. The Company intends that the long-term commitment line agreements be used solely in support of refinancing the current maturities of long-term debt. Since the agreements demonstrate the Company's ability to refinance and the Company has expressed an intention to do so, the Company has classified ¥144,370 million ($1,223 million) and ¥260,000 million of the current maturities of long-term debt from current liabilities into non-current liabilities at March 31, 2007 and March 31, 2006, respectively. The classified ¥144,370 million ($1,223 million) is included in "2013 and thereafter." The Company has consistently refinanced the current maturities of long-term debt classified into non-current liabilities for more than five years. The short-term commitment agreements were unused at March 31, 2007 and 2006 respectively.

The Company had a loan agreement with a commitment line of ¥45,000 million ($381 million), of which ¥36,000 million ($305 million) was used and ¥9,000 million ($76 million) was unused, at March 31, 2007 and the Company had a loan agreement with a commitment line of ¥12,000 million, of which ¥6,000 was used and ¥6,000 was unused, at March 31, 2006.

11. Asset Retirement Obligations

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

The changes in asset retirement obligations for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Balance at beginning of year	**¥10,541**	¥ 8,227	**$ 89**
Liabilities incurred	**1,511**	1,822	**13**
Liabilities settled	**(664)**	(291)	**(6)**
Accretion expense	**1,080**	635	**9**
Revisions to cost estimate	**2,261**	(246)	**19**
Other	**1,493**	394	**13**
Balance at end of year	**¥16,222**	¥10,541	**$137**

Note: "Other" includes foreign currency translation adjustments.

12. Leases

Lessor

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

The components of the net investment in direct financing leases as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Total minimum lease payments to be received	**¥10,977**	¥14,600	**$ 93**
Less unearned income	**(1,639)**	(1,990)	**(14)**
Estimated unguaranteed residual value	**284**	1,760	**2**
Less allowance for doubtful receivables	**(497)**	(1,706)	**(4)**
Net investment in direct financing leases	**¥ 9,125**	¥12,664	**$ 77**

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, 2007 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥ 3,830	$33
2009	2,723	23
2010	2,047	17
2011	1,298	11
2012	755	6
2013 and thereafter	324	3
Total	¥10,977	$93

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, 2007 were ¥99,264 million ($841 million) and ¥25,409 million ($215 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, 2007 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥ 8,199	$ 70
2009	4,058	34
2010	3,021	26
2011	2,827	24
2012	2,414	20
2013 and thereafter	6,477	55
Total	¥26,996	$229

Lessee

The Company and certain subsidiaries lease buildings, industrial machinery and other machinery and equipment under agreements, which are classified as capital leases. The cost and accumulated depreciation of such leased assets were ¥43,562 million ($369 million) and ¥18,165 million ($154 million), respectively, as of March 31, 2007 and ¥42,717 million and ¥17,476 million, respectively, as of March 31, 2006. The components of the capital lease obligations as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Total minimum lease payments	**¥35,431**	¥37,919	**$300**
Less amount representing interest	**(4,637)**	(4,879)	**(39)**
Capital lease obligations	**¥30,794**	¥33,040	**$261**

The schedule of future minimum lease payments for each of the five succeeding years and thereafter as of March 31, 2007 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥ 6,984	$ 59
2009	8,338	71
2010	3,858	33
2011	2,893	24
2012	2,298	19
2013 and thereafter	11,060	94
Total	¥35,431	$300

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 ¥4,665 million ($40 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, 2007 is as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2008	¥ 20,544	$174
2009	16,446	139
2010	14,190	120
2011	10,194	87
2012	9,123	77
2013 and thereafter	31,212	265
Total	¥101,709	$862

The total of minimum sublease rentals to be received in the future under noncancelable subleases, which correspond to future minimum lease payments under noncancelable operating leases, is ¥8,823 million ($75 million).

13. Retirement and Severance Benefits

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

Certain subsidiaries and associated companies participate in a multiemployer plan (ITOCHU Union Pension Fund). During the year ended March 31, 2007, the Company withdrew a portion of the excess plan assets because the fair value of the plan assets constantly exceeded the projected benefit obligation. The fair value of the marketable securities and cash that the Company withdrew were ¥27,742 million ($235 million) and ¥12,258 million ($104 million), respectively, for the year ended March 31, 2007.

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

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

The incremental effects of applying the recognition provisions of SFAS 158 on the accompanying consolidated balance sheet at March 31, 2007 are presented in the following table.

The effect of recognizing the additional minimum liability as of March 31, 2007, is included in the table below in the column labeled "Before application of SFAS 158."

The application of SFAS 158 had no effect on the consolidated statements of operations for the years ended March 31, 2005, 2006 and 2007.

	Millions of Yen		
	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Investments in and advances to associated companies	¥ 608,927	¥ (806)	¥ 608,121
Prepaid pension cost	151,801	(65,621)	86,180
Deferred tax assets, non-current	5,989	25,623	31,612
Accrued retirement and severance benefits	(24,898)	3,150	(21,748)
Minority interests	(142,232)	(823)	(143,055)
Accumulated other comprehensive income (loss)	2,858	38,477	41,335

	Millions of U.S. Dollars		
	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Investments in and advances to associated companies	$ 5,158	$ (7)	$ 5,151
Prepaid pension cost	1,286	(556)	730
Deferred tax assets, non-current	51	217	268
Accrued retirement and severance benefits	(211)	27	(184)
Minority interests	(1,205)	(7)	(1,212)
Accumulated other comprehensive income (loss)	24	326	350

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
	2007	2006	2007
Change in projected benefit obligations:			
Projected benefit obligations at beginning of year	¥287,105	¥271,675	$2,431
Service cost	9,171	7,170	78
Interest cost	5,677	6,447	48
Plan participants' contributions	636	639	5
Net actuarial gain	3,685	11,360	31
Benefits paid from plan asset	(12,866)	(10,866)	(109)
Benefits paid by employer	(5,328)	—	(45)
Foreign currency translation adjustments	1,812	475	15
Acquisition	10,467	205	89
Settlement and curtailment	(996)	—	(8)
Other	(50)	—	(0)
Projected benefit obligations at end of year	299,313	287,105	2,535
Change in plan assets:			
Fair value of plan assets at beginning of year	398,534	329,254	3,377
Actual return on plan assets	3,949	63,504	33
Employer contributions	4,948	14,968	42
Partial withdrawal of plan assets	(40,000)	—	(339)
Plan participants' contributions	636	639	5
Benefits paid from plan assets	(12,866)	(10,866)	(109)
Translation adjustments	1,461	290	12
Acquisition	7,083	745	60
Fair value of plan assets at end of year	363,745	398,534	3,081
Funded status at end of year	¥ 64,432	¥111,429	$ 546

Amounts recognized in accumulated comprehensive income (loss) at March 31, 2007 consisted of:

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Net actuarial loss	¥105,985	$ 898
Prior service cost	(39,518)	(335)
	¥ 66,467	$ 563

The estimated amounts of net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic pension cost for the next fiscal year are approximately ¥6,000 million ($51 million) (loss) and ¥5,000 million ($42 million) (gain), respectively.

Funded status at March 31, 2007 and 2006, reconciled to the net amount recognized in the consolidated balance sheets at that date, was summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Funded status	¥64,432	¥111,429	$546
Unrecognized net actuarial loss	—	98,614	—
Unrecognized prior service cost	—	(40,176)	—
Net amount recognized	¥64,432	¥169,867	$546

Amounts recognized in the consolidated balance sheets at March 31, 2007 and 2006 consisted of:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Prepaid pension cost	**¥ 86,180**	¥186,105	**$730**
Accrued retirement and severance benefits	**(21,748)**	(19,081)	**(184)**
Accumulated other comprehensive income (loss), before income tax effect	**—**	2,843	**—**
Net amount recognized	**¥ 64,432**	¥169,867	**$546**

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

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	**2007**
Accumulated benefit obligation	**¥298,336**	¥286,133	**$2,527**

Assumptions of projected benefit obligations and net periodic pension costs as of March 31, 2007 and 2006 were as follows:

	2007	2006
Weighted-average assumptions used to determine benefit obligations at the end of year:		
Discount rate	**2.1%**	2.2%
Rate of compensation increase	**1.1—7.5%**	1.9—6.0%
Weighted-average assumptions used to determine net periodic pension cost for the year:		
Discount rate	**2.2%**	2.4%
Expected long-term rate of return on plan assets	**2.2%**	2.4%
Rate of compensation increase	**1.9—6.0%**	1.0—6.0%

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

The fair value of equity securities of subsidiaries and associated companies included in plan assets was ¥12,069 million ($102 million) and ¥15,623 million at March 31, 2007 and 2006, respectively.

The net periodic pension costs for retirement and severance benefits for the years ended March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Service cost	**¥ 9,171**	¥ 7,170	¥ 6,965	**$ 78**
Interest cost	**5,677**	6,447	5,934	**48**
Expected return on plan assets	**(9,036)**	(8,184)	(7,011)	**(77)**
Amortization of unrecognized prior service cost	**(5,333)**	(4,895)	(4,897)	**(45)**
Amortization of unrecognized net actuarial loss	**5,539**	8,715	7,219	**47**
Settlement curtailment loss (gain)	**(739)**	—	1,138	**(6)**
Net periodic pension cost	**¥ 5,279**	¥ 9,253	¥ 9,348	**$ 45**

Total expenses related to pension plans for the years ended March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Net periodic pension cost for defined benefit pension plans	**¥5,279**	¥ 9,253	¥ 9,348	**$45**
The amount of cost recognized for defined contribution pension plans	**885**	1,075	1,053	**7**
Total expenses for pension plans	**¥6,164**	¥10,328	¥10,401	**$52**

The amount of contribution to the multi-employer plan (ITOCHU Union Pension Fund) was ¥3,188 million ($27 million) and ¥3,518 million for the years ended March 31, 2007 and 2006, respectively.

Plan assets of the Company and certain subsidiaries by asset category as of March 31, 2007 and 2006 and target allocation percentages were as follows:

	2007	2006	Target Allocation
Asset category:			
Equity securities	**48.5%**	52.8%	47.5%
Debt securities	**30.7**	25.6	36.7
Cash	**7.7**	12.9	8.5
Other	**13.1**	8.7	7.3
Total	**100.0%**	100.0%	100.0%

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

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

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

Cash Flow of the Company and Certain Subsidiaries:
The Company and certain subsidiaries expect to contribute about ¥2,582 million ($22 million) to defined benefit pension plans in the year ending March 31, 2008.

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
2008	11,268	95
2009	12,469	106
2010	13,010	110
2011	13,296	113
2012	13,862	117
2013-2017	66,952	567

14. Foreign Exchange Gains and Losses

Net foreign exchange gains of ¥2,153 million ($18 million), ¥2,774 million and ¥5,372 million for the years ended March 31, 2007, 2006 and 2005, respectively, were included in "Other–net" in the consolidated statements of operations.

15. Income Taxes

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

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

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

A reconciliation between the normal income tax rate and the effective income tax rate for the years ended March 31, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
Normal income tax rate	**41.0%**	41.0%	41.0%
Expenses not deductible for tax purposes	**0.9**	1.0	1.3
Difference of tax rates for foreign subsidiaries	**(2.4)**	(2.5)	(2.3)
Tax effect on dividends	**(1.2)**	2.3	4.9
Valuation allowance	**(3.4)**	1.1	8.5
Tax effect on investments in equity-method associated companies	**(6.5)**	3.8	(0.8)
Other	**1.2**	2.6	(0.5)
Effective income tax rate	**29.6%**	49.3%	52.1%

Amounts provided for income taxes for the years ended March 31, 2007, 2006 and 2005 were allocated as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Income taxes	**¥ 88,926**	¥106,923	¥62,543	**$ 753**
Cumulative effect of an accounting change	**—**	(1,474)	—	**—**
Other comprehensive (income) loss	**17,571**	30,770	(1,874)	**149**
Adjustment to initially apply SFAS No. 158	**(25,623)**	—	—	**(217)**
Total income tax (benefit) expense	**¥ 80,874**	¥136,219	¥60,669	**$ 685**

Significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Inventories, property and equipment	¥ 109,301	¥ 129,270	$ 926
Allowance for doubtful receivables	12,464	26,004	106
Net operating loss carryforwards	9,879	16,802	84
Accrued retirement and severance benefits	23,654	9,318	200
Marketable securities and investments	93,766	60,293	794
Other	37,192	31,104	315
Total deferred tax assets	286,256	272,791	2,425
Less valuation allowance	(56,305)	(56,640)	(477)
Deferred tax assets–net	229,951	216,151	1,948
Deferred tax liabilities:			
Installment sales	(381)	(396)	(3)
Accrued retirement and severance benefits	(46,423)	(53,261)	(393)
Marketable securities and investments	(86,130)	(67,385)	(730)
Other	(55,204)	(42,654)	(468)
Total deferred tax liabilities	(188,138)	(163,696)	(1,594)
Net deferred tax assets	¥ 41,813	¥ 52,455	$ 354

Net changes in the valuation allowance for the years ended March 31, 2007, 2006 and 2005 were a decrease of ¥335 million ($3 million), an increase of ¥1,801 million and an increase of ¥8,114 million, respectively.

The amount of undistributed earnings of foreign subsidiaries for which no deferred tax liability has been provided aggregated ¥191,279 million ($1,620 million) and ¥129,710 million at March 31, 2007 and 2006, respectively. Most of the undistributed earnings of domestic subsidiaries are not considered to be a taxable temporary difference under present Japanese tax laws. It is not practicable to determine the deferred tax liability for undistributed earnings of foreign subsidiaries.

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

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
Within 1 year	¥ 249	$ 2
Within 2 years	1,075	9
Within 3 years	1,977	17
Within 4 years	1,621	14
Within 5 years	1,311	11
After 5 to 10 years	6,127	52
After 10 to 15 years	1,147	10
After 15 years	19,874	168
Total	¥33,381	$283

"Income before income taxes, minority interests, equity in earnings (losses) of associated companies and cumulative effect of an accounting change" for the years ended March 31, 2007, 2006 and 2005 comprised the following:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
The Company and its domestic subsidiaries	¥189,698	¥139,774	¥ 72,407	$1,607
Foreign subsidiaries	110,532	77,095	47,551	936
Total	¥300,230	¥216,869	¥119,958	$2,543

"Income taxes" for the years ended March 31, 2007, 2006 and 2005 comprised the following:

	Millions of Yen									Millions of U.S. Dollars		
	2007			2006			2005			2007		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
The Company and its domestic subsidiaries	¥47,901	¥ 9,756	¥57,657	¥40,725	¥41,111	¥ 81,836	¥28,272	¥18,031	¥46,303	$406	$82	$488
Foreign subsidiaries	32,360	(1,091)	31,269	24,507	580	25,087	18,715	(2,475)	16,240	274	(9)	265
Total	¥80,261	¥ 8,665	¥88,926	¥65,232	¥41,691	¥106,923	¥46,987	¥15,556	¥62,543	$680	$73	$753

16. Net Income Per Share

The reconciliation of the numerators and denominators of the basic net income per share computations for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	**2007**
Numerator:				
Income before cumulative effect of an accounting change	**¥177,059**	¥148,585	¥77,792	**$1,500**
Cumulative effect of an accounting change, less applicable income taxes	**—**	(3,439)	—	**—**
Net income	**¥177,059**	¥145,146	¥77,792	**$1,500**

	Number of Shares		
	2007	2006	2005
Denominator:			
Weighted-average number of common shares outstanding	**1,581,543,157**	1,582,159,754	1,582,392,847

	Yen			U.S. Dollars
	2007	2006	2005	**2007**
Income per common share before cumulative effect of an accounting change	**¥111.95**	¥93.91	¥49.16	**$0.95**
Cumulative effect of an accounting change per common share, less applicable income taxes	**—**	(2.17)	—	**—**
Net income per common share	**¥111.95**	¥91.74	¥49.16	**$0.95**

Diluted net income per share for the years ended March 31, 2006 and 2005 was not presented, since the Company had simple capital structures and there were no potentially dilutive common shares, such as convertible bonds outstanding, that could increase the number of shares outstanding. Diluted net income per share for the year ended March 31, 2007 was not presented, since convertible preference stocks issued by associated companies had an antidilutive effect.

17. Segment Information

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

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

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

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

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

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

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

Chemicals, Forest Products & General Merchandise

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

Food

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

Finance, Realty, Insurance & Logistics Services

The Finance, Realty, Insurance & Logistics Services segment is engaged in structuring and sales of financial products, agency 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, 2007, 2006 and 2005.

Information concerning operations in different operating segments for the years ended March 31, 2007, 2006 and 2005 is as follows:

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

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

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

	Millions of U.S. Dollars								
	2007								
	Textile	Machinery	Aerospace, Electronics & Multimedia	Energy, Metals & Minerals	Chemicals, Forest Products & General Merchandise	Food	Finance, Realty, Insurance & Logistics Services	Other, Adjustments & Eliminations	Consolidated
Trading transactions:									
Unaffiliated customers and associated companies	$6,832	$13,459	$5,902	$25,582	$18,274	$23,963	$1,878	$2,196	$98,086
Transfers between operating segments	5	5	29	5	67	4	14	(129)	—
Total trading transactions	$6,837	$13,464	$5,931	$25,587	$18,341	$23,967	$1,892	$2,067	$98,086
Gross trading profit	$1,056	$ 766	$1,131	$ 865	$ 1,069	$ 2,241	$ 367	$ 202	$ 7,697
Equity in earnings (losses) of associated companies	$ 13	$ 49	$ (13)	$ 229	$ 20	$ 87	$ (559)	$ 4	$ (170)
Net income (loss)	$ 145	$ 179	$ 95	$ 684	$ 210	$ 153	$ (240)	$ 274	$ 1,500
Identifiable assets at March 31	$3,404	$ 5,386	$4,669	$ 6,619	$ 6,072	$ 9,070	$4,446	$4,989	$44,655
Depreciation and amortization	$ 38	$ 40	$ 58	$ 165	$ 41	$ 68	$ 14	$ 54	$ 478

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

2. Net income (loss) in "Energy, Metals & Minerals" for the year ended March 31, 2006 includes (¥3,439) million (($29) million) on net-of-tax basis of the cumulative effect of an accounting change resulting from early adoption of EITF 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry."

Geographic Information

Information concerning operations in different countries for the years ended March 31, 2007, 2006 and 2005 was as follows:

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

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

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

	Millions of 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 U.S. Dollars				
	2007				
	Japan	United States	Australia	Other	Consolidated
Revenue	**$13,476**	**$4,876**	**$989**	**$3,083**	**$22,424**

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

	Millions of U.S. Dollars				
	2007				
	Japan	Australia	United States	Other	Consolidated
Long-lived assets	**$2,743**	**$826**	**$269**	**$652**	**$4,490**

Geographical Segment Information

Information concerning operations in different geographical areas in accordance with Japanese reporting practices for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of Yen						
	2007						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers and associated companies	¥8,652,212	¥566,176	¥276,471	¥1,789,119	¥295,081	¥ —	¥11,579,059
Transfers between geographical areas	1,146,502	212,876	46,774	1,905,402	501,612	(3,813,166)	—
Total trading transactions	¥9,798,714	¥779,052	¥323,245	¥3,694,521	¥796,693	¥(3,813,166)	¥11,579,059
Identifiable assets at March 31	¥4,368,120	¥339,125	¥181,143	¥ 315,603	¥400,944	¥ (333,423)	¥ 5,271,512

	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 U.S. Dollars						
	2007						
	Japan	North America	Europe	Asia	Other Areas	Eliminations or Unallocated	Consolidated
Trading transactions:							
Unaffiliated customers and associated companies	$73,293	$4,796	$2,342	$15,155	$2,500	$ —	$98,086
Transfers between geographical areas	9,712	1,803	396	16,141	4,249	(32,301)	—
Total trading transactions	$83,005	$6,599	$2,738	$31,296	$6,749	$(32,301)	$98,086
Identifiable assets at March 31	$37,002	$2,873	$1,534	$ 2,674	$3,396	$ (2,824)	$44,655

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 "Eliminations or Unallocated" were ¥76,034 million ($644 million), ¥74,149 million and ¥67,822 million for the years ended March 31, 2007, 2006 and 2005, respectively.

18. Common Stock

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

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

19. Capital Surplus and Retained Earnings

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

The Corporate Law provides that there is a limit to the amount that can be distributed as dividends and the amount available for the purchase of treasury stocks. This amount is based on the amount recorded in the Company's statutory standalone financial statements in accordance with the financial accounting standards of Japan. The adjustments included in the accompanying consolidated financial statements to conform with U.S. GAAP, but not recorded in the statutory standalone financial statements, have no effect on the determination of the available balance as dividends or the purchase of treasury stocks under the Corporate Law. The amount available as dividends or the purchase of treasury stocks under the Corporate Law was ¥143,651 million as of March 31, 2007, provided however this figure might change by such as purchase of treasury stocks thereafter.

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

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

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

At the June 29, 2000 shareholders' meeting of the Company, held under the Commercial Code prior to revision, the shareholders approved a proposal to eliminate the Company's accumulated deficits of ¥109,799 million from the Company's books of account by a transfer from capital surplus as permitted by the 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 the deficit reclassification entry on its books of account when preparing the consolidated financial statements, following private company's practices in the United States of America. The balance of consolidated retained earnings at March 31, 2007 would have been ¥367,360 million, including a legal reserve of ¥7,423 million, had the company not eliminated the accumulated deficits.

20. Other Comprehensive Income (Loss)

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

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

	Millions of Yen		
	2006		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	¥ 37,246	¥ (16)	¥ 37,230
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	371	17	388
Net change in foreign currency translation adjustments during the year	37,617	1	37,618
Minimum pension liability adjustments	285	(324)	(39)
Unrealized holding gains 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 U.S. Dollars		
	2007		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities	$ 221	$ 0	$221
Reclassification adjustments for gains and losses realized upon sale or liquidation of investments in foreign entities	5	—	5
Net change in foreign currency translation adjustments during the year	226	0	226
Minimum pension liability adjustments	(9)	3	(6)
Unrealized holding gains on securities:			
Amount arising during the year on available-for-sale securities	543	(236)	307
Reclassification adjustments for gains and losses realized in net income	(161)	66	(95)
Net change in unrealized holding gains on securities during the year	382	(170)	212
Unrealized holding losses on derivative instruments:			
Amount arising during the year on derivative instruments for cash flow hedges	(33)	12	(21)
Reclassification adjustments for gains and losses realized in net income	(15)	6	(9)
Net change in unrealized holding losses on derivative instruments during the year	(48)	18	(30)
Other comprehensive income	$ 551	$(149)	$402

21. Financial Instruments

(1) Derivative Instruments and Hedging Activities

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

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

Foreign Exchange Rate Risk Management

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

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

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

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

Interest Rate Risk Management

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

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

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

Commodity Price Risk Management

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

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

Risk Management Policy

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

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

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

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

Fair Value Hedge

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

The amount of the hedges' ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness was not material for the years ended March 31, 2007, 2006 and 2005.

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, 2007, 2006 and 2005.

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, 2007, 2006 and 2005.

Net gains of ¥122 million ($1 million) in AOCI at March 31, 2007 are expected to be reclassified into earnings within the next 12 months.

As of March 31, 2007, 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 51 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, 2007, 2006 and 2005.

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, 2007 and 2006 were as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2007		2006		2007	
	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)	¥ 113,608	¥ 113,543	¥ 140,078	¥ 140,215	$ 962	$ 962
Financial liabilities:						
Long-term debt (including current maturities)	¥1,939,650	¥1,939,582	¥1,935,200	¥1,934,576	$16,431	$16,430
Derivative financial instruments (assets):						
Foreign exchange contracts (including currency swap agreements)	¥ 5,402	¥ 5,402	¥ 5,719	¥ 5,719	$ 46	$ 46
Interest rate swap agreements	1,892	1,892	6,663	6,663	16	16
Interest rate option agreements	—	—	2	2	—	—
Derivative financial instruments (liabilities):						
Foreign exchange contracts (including currency swap agreements)	¥ 1,492	¥ 1,492	¥ 3,017	¥ 3,017	$ 13	$ 13
Interest rate swap agreements	5,169	5,169	10,977	10,977	44	44
Interest rate option agreements	13	13	15	15	0	0

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

Current Financial Assets Other Than Marketable Securities and Current Financial Liabilities
The carrying amounts approximate fair values because of the short maturity of these instruments.

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

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

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

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

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

Interest Rate Option Agreements
The fair values of interest rate option agreements are estimated using the option pricing model.

22. Issuance of Stock by Subsidiaries or Associated Companies

Excite Japan Co., Ltd., a consolidated subsidiary, issued 4,700 shares to third parties in August 2006. The offering price per share was ¥423,700 and the total amount of the issuance was ¥1,991 million ($17 million). This issuance decreased the Company and its subsidiaries' ownership of the subsidiary from 65.9% to 60.8%.

The offering price per share of this issuance was in excess of the Company's carrying value per share of the subsidiary stock. The issuance of these shares was regarded as a sale of a part of the Company and its subsidiaries' interest in the subsidiary and the Company and its subsidiaries recognized a gain of ¥862 million ($7 million) for the year ended March 31, 2007, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company and its subsidiaries recognized ¥353 million ($3 million) of deferred tax liability on the recognized gain which is included in "Income taxes—Deferred."

MAGASeek Corporation, a consolidated subsidiary, issued 2,000 shares of common stock in a public offering to third parties on November 28, 2006, the date of its listing on the Mothers market of the Tokyo Stock Exchange. The offering price per share was ¥467,500 and the total amount of the issuance was ¥935 million ($8 million). This issuance decreased the Company's ownership of the subsidiary from 84.8% to 76.6%.

In December 2006, the subsidiary also issued 500 shares at ¥467,500 per share, or ¥234 million ($2 million) in total, in order to facilitate the settlement of shares offered through over-allotment. This issuance decreased the Company's ownership of the subsidiary from 65.9% to 64.4%.

The offering price per share of each issuance was in excess of the Company's carrying value per share of the subsidiary stock. The issuance of these shares was regarded as a sale of a part of the Company's interest in the subsidiary and the Company recognized a gain of ¥1,024 million ($9 million) for the year ended March 31, 2007, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company recognized ¥420 million ($4 million) of deferred tax liability on the recognized gain which is included in "Income taxes—Deferred."

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

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

The offering price per share of each issuance was in excess of the Company's carrying value per share of the associated company stock. The issuance of these shares was regarded as a sale of a part of the Company and its subsidiaries' interest in the associated company and the Company and its subsidiaries recognized a gain of ¥3,176 million ($27 million) for the year ended March 31, 2007, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company and its subsidiaries recognized ¥763 million ($6 million) of deferred tax liability on the recognized gain which is included in "Income taxes—Deferred."

eGuarantee, Inc., an associated company, issued 1,000 shares of common stock in a public offering to third parties on March 8, 2007, the date of its listing on the JASDAQ market. The offering price per share was ¥187,000 and the total amount of the issuance was ¥187 million (2 million). This issuance decreased the Company and its subsidiaries' ownership of the associated company from 48.3% to 45.9%.

The offering price per share of this issuance was in excess of the Company's carrying value per share of the associated company stock. The issuance of these shares was regarded as a sale of a part of the Company and its subsidiaries' interest in the associated company and the Company and its subsidiaries recognized a gain of ¥69 million ($1 million) for the year ended March 31, 2007, which is included in "Gain (loss) on disposal of investments and marketable securities, net of write-down." The Company and its subsidiaries recognized ¥28 million ($0 million) of deferred tax liability on the recognized gain which is included in "Income taxes—Deferred."

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

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

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

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

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

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

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

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 and the total amount of the issuance was ¥4,277 million. This issuance decreased the Company and its subsidiaries' ownership of the subsidiary from 87.3% to 76.0%.

The offering price per share of this issuance was in excess of the Company's carrying value per share of the subsidiary stock. The issuance of these shares was regarded as a sale of a part of the Company and its subsidiaries' interest in the subsidiary and the Company and its subsidiaries recognized a gain of ¥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 and its subsidiaries 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, and the total amount of the issuance was ¥12,182 million. This issuance decreased the Company and its subsidiaries' ownership of the associated company from 29.7% to 26.3%.

The offering price per share of this issuance was in excess of the Company's carrying value per share of the associated company's stock. The issuance of these shares was regarded as a sale of part of the Company and its subsidiaries' interest in the associated company and the Company and its subsidiaries 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 and its subsidiaries recognized ¥1,165 million of deferred tax liability on the recognized gain which is included in "Income Taxes—Deferred."

kabu.com Securities Co., Ltd., is no longer an associated company since the Company and its subsidiaries sold some of its shares during the year ended March 31, 2007.

23. 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 their involvement in the variable interest entities where the Company and its subsidiaries are not the primary beneficiary, but have significant variable interests, were ¥193,935 million ($1,643 million) and ¥37,876 million ($321 million), respectively, as of March 31, 2007 and ¥165,155 million and ¥37,099 million, respectively, as of March 31, 2006. The maximum exposure to loss, which includes loans and guarantees, is partially covered by guarantees provided by third parties, and has no relation to the loss estimated to be incurred from involvement with the variable interest entities.

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

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

According to this settlement, "Other–net" in the accompanying consolidated statements of operations for the year ended March 31, 2006, included ¥19,503 ($185 million) million.

25. Commitments and Contingent Liabilities

The Company and its subsidiaries enter into purchase contracts for certain items, principally energy, machinery and chemical materials either at fixed or at variable prices. In most cases, these contracts are matched with counterparty sales contracts. The outstanding purchase contracts amounted to ¥1,991,554 million ($16,870 million), and 1,650,830 million yen, for the years ended March 31, 2007 and 2006, respectively. The deliveries are at various dates through 2026.

The Company and its subsidiaries also had long-term financing commitments aggregating ¥37,201 million ($315 million) and ¥34,640 million for the years ended March 31, 2007 and 2006, respectively, 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, 2007 and 2006 are summarized below:

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

	Millions of 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 U.S. Dollars		
	2007		
	Guarantees for Monetary Indebtedness	Other Guarantees	Total
Guarantees for associated companies:			
Maximum potential amount of future payments	$ 724	$129	$ 853
Amount of substantial risk	409	124	533
Guarantees for customers:			
Maximum potential amount of future payments	993	197	1,190
Amount of substantial risk	632	190	822
Total:			
Maximum potential amount of future payments	$1,717	$326	$2,043
Amount of substantial risk	1,041	314	1,355

The amount of substantial risk at March 31, 2007 and 2006 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 ¥1,916 million ($16 million) and ¥1,740 million at March 31, 2007 and 2006, 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 ¥11,356 million ($96 million) and ¥12,473 million at March 31, 2007 and 2006. 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 ¥65,467 million ($555 million) and ¥70,233 million at March 31, 2007 and 2006, 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, 2007 and 2006 were as follows:

	Millions of Yen	Millions of U.S. Dollars		Millions of Yen
	2007			2006
SAKHALIN OIL AND GAS DEVELOPMENT CO., LTD.	¥36,086	$306	SAKHALIN OIL AND GAS DEVELOPMENT CO., LTD.	¥28,280
Famima Credit Corporation	9,851	83	Tokyo Humania Enterprise Inc.	11,487
Ningbo Mitsubishi Chemical Co., Ltd.	7,491	63	Famima Credit Corporation	7,435
Japan Brazil Paper and Pulp Resources Development Co., Ltd.	6,401	54	STAR CHANNEL, INC.	7,200
Rabigh Arabian Water and Electricity Company	5,141	44	Japan Brazil Paper and Pulp Resources Development Co., Ltd.	6,946
Baku-Tbilisi-Ceyhan Pipeline Finance B.V.	5,030	43	Quatro World Maritime S.A.	6,286
AI BEVERAGE HOLDING CO. LTD.	4,961	42	Ningbo Mitsubishi Chemical Co., Ltd.	6,195
JAPAN OHANET OIL & GAS CO., LTD.	4,006	34	JAPAN OHANET OIL & GAS CO., LTD.	5,552
STAR CHANNEL, INC.	3,954	33	AI BEVERAGE HOLDING CO. LTD.	5,259
Marubeni-Itochu Steel Inc.	3,723	32	Baku-Tbilishi-Ceyhan Pipeline Finance B.V.	4,999

The Company and its subsidiaries were contingently liable in the amounts of ¥4,580 million ($39 million) and ¥5,488 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, 2007 and 2006, respectively. The amounts of export bills of exchange discounted with banks in the ordinary course of business were ¥71,853 million ($609 million) and ¥61,797 million at March 31, 2007 and 2006, 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 overseas business activities of ITOCHU Group may not become subject to any of such lawsuits, arbitrations or other legal proceedings.

26. Subsequent Events

The Company issued in Japan 2.02% Yen Bonds due 2017 in an aggregate amount of ¥10,000 million ($85 million) on April 26, 2007, 1.99% Yen Bonds due 2017 in an aggregate amount of ¥10,000 million ($85 million) on May 21, in accordance with an approved resolution of the Board of Directors held on July 6, 2006.

Orient Corporation, an equity-method associated company, approved a capital reduction and an issuance of preferred shares, effective May 2, 2007, at its extraordinary shareholders' meeting convened on April 30, 2007. In response to the resolution, the Company subscribed ¥30 billion of Class J preferred shares. At the same meeting, it was approved to merge common shares and the ranged Class B-H preferred shares, effective June 4, 2007. This resolution meant that Orient Corporation received a waiver of the redeemable preferred shares to be merged.

The impact of this waiver on the Company's operating results in fiscal 2008 is a profit of ¥30.8 billion ($261 million), less applicable income tax basis.

At the ordinary general meeting of shareholders held on June 26, 2007, the Company was authorized to pay a cash dividend of ¥9 ($0.08) per share, or a total of ¥14,241 million ($121 million) to shareholders of record on March 31, 2007. The effective date of the dividend payment is June 27, 2007.

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, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2007 (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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Deloitte Touche Tohmatsu

June 13, 2007, except for Note 26, as to which the date is June 26, 2007

Supplemental Oil and Gas Information (Unaudited)

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

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

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Proved oil and gas properties	¥153,897	$1,304
Accumulated depreciation, depletion, amortization and valuation allowance	(76,481)	(648)
Net capitalized costs	¥ 77,416	$ 656

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

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Development costs	¥16,231	$137
Total costs incurred	¥16,231	$137

Table 3: Results of Operations for Producing Activities

	Millions of Yen	Millions of U.S. dollars
	2007	2007
Revenues:		
Sales to unaffiliated companies	¥77,708	$659
Expenses:		
Production costs	32,617	276
Depreciation, depletion, amortization and valuation allowances	13,533	115
Income tax expenses	13,231	112
Results of operations from producing activities (excluding corporate overhead and interest costs)	¥18,327	$156

Table 4: Reserve Quantity Information

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

	Crude Oil (Millions of Barrels)
	2007
Proved developed and undeveloped reserves:	
Beginning of year	112
Revision of previous estimates	(5)
Production	(8)
End of year	99
Proved developed reserves–end of year	99

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

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

(1) Standardized Measure of Discounted Future Net Cash Flows

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Future cash inflows	¥ 503,577	$ 4,266
Future production costs	(79,680)	(675)
Future development costs	(68,518)	(580)
Future income tax expenses	(132,929)	(1,126)
Undiscounted future net cash flows	222,450	1,885
10% annual discount for estimated timing of cash flows	(88,826)	(752)
Standardized measure of discounted future net cash flows	¥ 133,624	$ 1,133

(2) Details of Changes for the year

	Millions of Yen	Millions of U.S. Dollars
	2007	2007
Discounted future net cash flows at April 1	¥145,902	$1,236
Sales and transfer of oil and gas produced, net of production costs	(47,948)	(406)
Development costs incurred	14,399	122
Net changes in prices, development and production costs	(18,395)	(156)
Revisions of previous quantity estimates	45,641	387
Accretion of discount (10%)	(16,806)	(142)
Net changes in income taxes	8,275	70
Difference of foreign exchange rates	2,556	22
Discounted future net cash flows at March 31	¥133,624	$1,133

Corporate Information

As of March 31, 2007

Company Name:
ITOCHU Corporation

Founded:
1858

Incorporated:
1949

Common Stock:
¥202,241 million

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5-1, Kita-Aoyama 2-chome,
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Telephone: 81 (3) 3497-2121
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Chuo-ku, Osaka 541-8577, Japan
Telephone: 81 (6) 6241-2121

Homepage:
http://www.itochu.co.jp/main/index_e.html
(Investor Information)
http://www.itochu.co.jp/main/ir/index_e.html

Offices:
Domestic: 18
Overseas: 134

Number of Employees:
Consolidated*: 45,690
Non-consolidated: 4,037

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

Stock Information

As of March 31, 2007

Transfer Agent of Common Stock:
The Chuo Mitsui Trust & Banking Co., Ltd.

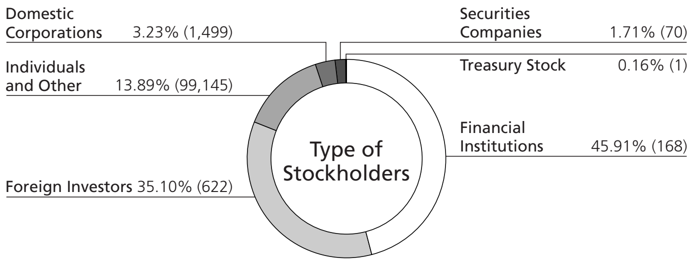
Stock Listings:
Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

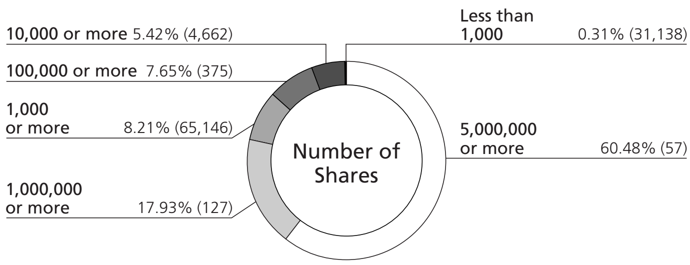
General Meeting of Stockholders:
June 26, 2007

Number of Common Stock Issued:
1,584,889,504

Number of Stockholders:
101,505

Breakdown of Stockholders:
% (Number of Stockholders)





Major Stockholders:

Stock holders	Number of stocks held (1,000 shares)	Stock holding ratio (%)
Japan Trustee Services Bank, Ltd. (trust account)	106,408	6.71
The Master Trust Bank of Japan, Ltd. (trust account)	93,939	5.93
Mitsui Sumitomo Insurance Co., Ltd.	48,650	3.07
Nippon Life Insurance Company	41,057	2.59
Tokio Marine & Nichido Fire Insurance Co., Ltd.	39,797	2.51
NIPPONKOA Insurance Co., Ltd.	39,748	2.51
Mizuho Corporate Bank, Ltd.	30,503	1.92
Asahi Mutual Life Insurance Company	27,530	1.74
State Street Bank and Trust Company 505103	25,618	1.62
Japan Trustee Services Bank, Ltd. (trust account 4)	24,875	1.57

Staying Ahead

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