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

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

Discussion and Analysis of Results of Operations

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

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

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

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

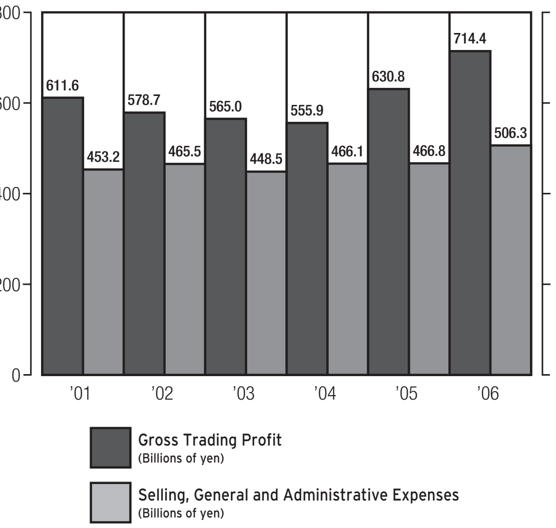
Analysis of Results of Operations in Fiscal 2006 and Outlook for Fiscal 2007

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

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

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

**Gross Trading Profit;
Selling, General and Administrative Expenses**



* For fiscal years