Discussion and Analysis of Results of Operations

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

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

Analysis of Results of Operations for Fiscal 2005
Recognition of Goodwill Impairment Loss on FamilyMart Stock

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

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

Revenue:

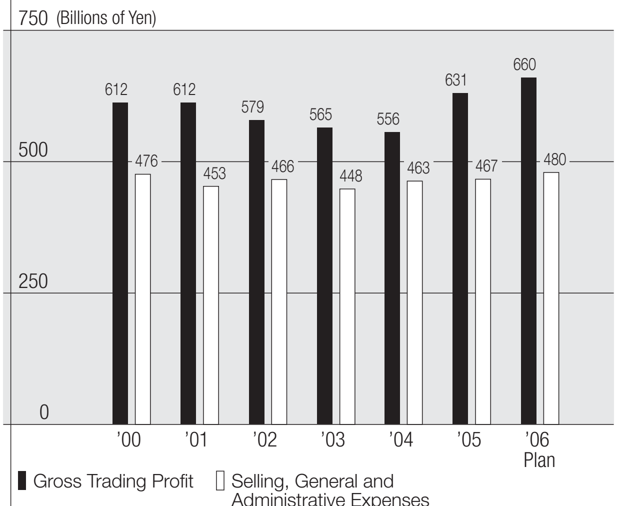
From the previous fiscal year, the Company and its subsidiaries have presented both revenue and its corresponding cost for the fiscal year under review and the previous fiscal years in accordance with Emerging Issues Task Force (EITF) Issue 99-19, "Reporting Revenue Gross as a Principal versus Net as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

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

Gross trading profit:

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

Gross Trading Profit; Selling, General and Administrative Expenses



* For fiscal years