

**Selling, general and administrative expenses:**

**Selling, general and administrative expenses** increased by 0.9% or ¥3.9 billion from the previous fiscal year to ¥466.8 billion (\$4,347 million). The impact from joining and leaving subsidiaries was a ¥11.0 billion increase and a ¥3.9 billion decrease, respectively, but the effect of the yen's appreciation against the U.S. dollar in translating overseas subsidiaries' selling, general and administrative expenses was included for approximately ¥3.5 billion. Excluding these factors, selling, general and administrative expenses increased by ¥0.4 billion. Expenses for pension plans improved dramatically to ¥19.3 billion (excluding liquidation losses and redemption balances related to the settlement of a substantial portion of the Employee's Pension Fund the previous fiscal year totaling ¥3.2 billion). This resulted from a reduction of the projected benefit obligation accompanying a restructuring of retirement pension plans and a reduction in amortization costs such as actuarial losses in accordance with the improvement in asset management primarily arising from a strong domestic stock market. On the other hand, expenses increased due to an expansion of the operations of existing businesses in such areas as increases in commissions paid, which included distribution expenses (¥9.2 billion (\$86 million) increase from the previous fiscal year). Total selling, general and administrative expenses therefore were ¥3.9 billion higher than the previous period.

**Provision for doubtful receivables:**

The amount of reversal of the provision for doubtful receivables through collections of receivables decreased compared to the previous fiscal year (approximately ¥3.2 billion (\$30 million)); however, the provision for doubtful receivables improved by 41.8% or ¥4.4 billion from the previous fiscal year to ¥6.2 billion (\$58 million), due to the recording of approximately ¥6.0 billion in reserves for Construction and Realty in 2004.

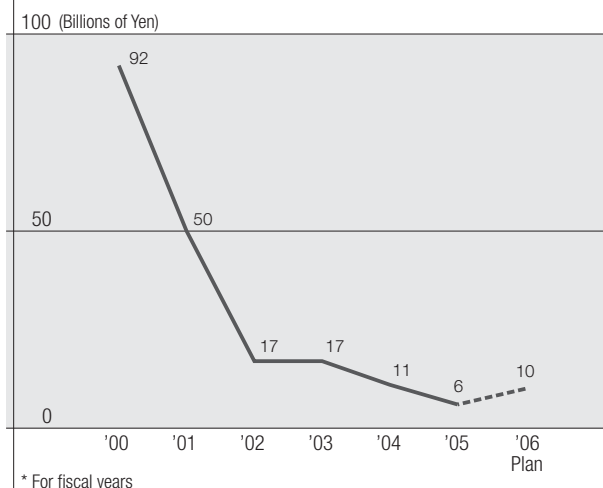
**Net financial expenses (Net of interest income, interest expense, and dividends received):**

**Net financial expenses** improved by 51.6% or ¥7.3 billion from the previous fiscal year to ¥6.9 billion (\$65 million). **Net interest expenses**, consisting of interest income and interest expense, improved by 15.0% or ¥3.7 billion to ¥21.0 billion. Interest income decreased by 16.0% or ¥2.0 billion due to the drop in interest rates and the collection of loans receivable. Interest expense improved by 15.3% or ¥5.7 billion year-on-year owing to the drop in interest rates (average interest rate dropped by 0.16% from 1.46% to 1.30%) resulting in a decrease of ¥4.1 billion and the decrease in interest-bearing debts (average debts outstanding decreased by ¥113.9 billion from ¥2,568.2 billion to ¥2,454.3 billion) resulting in a decrease of ¥1.7 billion.

Dividends received increased by 34.5% or ¥3.6 billion to ¥14.2 billion due to the increase in dividends received from LNG-related investments and bank shares.

**Other profit (loss):**

**Loss on disposal of investments and marketable securities, including write-down** increased by ¥11.8 billion from the previous fiscal year to a loss of ¥25.4 billion (\$236 million). Although ITOCHU recognized ¥28.6 billion in profits on the sale of marketable securities from the listing of companies in

**Provision for Doubtful Receivables****Net Financial Expenses**