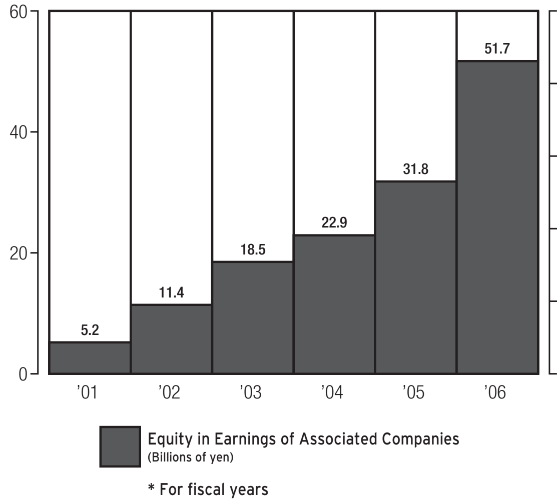
an improvement in net gain on non-trading derivatives for dividends received (improvement of ¥2.0 billion compared with the previous fiscal year).

Equity in earnings of associated companies:
"Equity in earnings of associated companies" for Fiscal 2006 increased by 62.9% or ¥20.0 billion to ¥51.7 billion (US$441 million) compared with the previous fiscal year, highest-ever of ITOCHU Group. The increase was a result of the contribution by a newly consolidated finance-related associated company in Finance, Realty, Insurance & Logistics Services, in addition to a good performance of automobile-related associated company in North America in Machinery, a steel product-related associated company and overseas crude oil trading-related associated companies in Energy, Metals & Minerals and pulp-related associated company in Chemicals, Forest Products & General Merchandise. The results of major equity-method for associated companies are shown in the following "Major Group Companies Reporting Profits" and "Major Group Companies Reporting Losses" in "Performance of Subsidiaries and Equity-Method Associated Companies."

Cumulative effect of Accounting Change
In accordance with an early adoption of EITF 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry", the cost, which of removing overburden and waste materials to access material deposits are referred to as "stripping costs," incurred during the production phase of a mine are recognized as variable production costs and included in the costs of the inventory produced during the period that the stripping costs are incurred. The cumulative effect of an accounting change, after income tax effect, was a loss of ¥3.4 billion (US$29 million), which is presented as an independent item.

Adjusted profit:
Adjusted profit (net of gross trading profit, selling, general and administrative expenses, net interest expenses, dividends received and equity in earnings of associated companies), that ITOCHU believes to be indicating of the basic earning power while it is a non-GAAP measure, increased by 33.5% or ¥63.2 billion or about 1.3 times to ¥252.0 billion (US$2,145 million) compared with the previous fiscal year, which was highest-ever of ITOCHU Group. Judging from the fact that this ¥63.2 billion profit comprises ¥44.2 billion from gross trading profit and selling, general and administrative expenses and ¥20.0 billion from equity in earnings of associated companies, ITOCHU believes that the Group's basic earning power has been strengthened in a well-balanced manner.

Equity in Earnings of Associated Companies



Adjusted Profit