ment diminish due to poor corporate results for investees, or should stock prices be expected to drop below specified levels for a considerable period of time. Such occurrences could have a serious, adverse effect on the financial position and results of operations of ITOCHU Group.

(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 March 31, 2006, 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.

(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 taxes has a substantial impact on ITOCHU's consolidated financial statements.

Considering the necessity of an allowance for deferred income taxes, ITOCHU Group reports the realizable amount of deferred income taxes, 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 taxes 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 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 European and North American companies 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, adversely affecting 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 operation 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.

For the reference sake, the lawsuit brought against ITOCHU International Inc. and its subsidiary, III Holding Inc. (formerly known as Copelco Financial Services Group, Inc.) (collectively, "III") by Citibank N.A. and its subsidiary, Citibank Canada (collectively, "Plaintiff") in connection with the Plaintiff's acquisition of all the common stocks of Copelco Capital Inc., a subsidiary of III Holding Inc. for a purchase price of approximately 666 million U.S. dollars 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 reached between the Plaintiff and III dated August 9, 2005. As a result of the basic agreement, a definitive settlement agreement was entered into between the Plaintiff and III on August 18, 2005, and III paid the settlement amount in 185 million U.S. dollars (¥19.5 billion) to the Plaintiff, and the lawsuit was withdrawn with prejudice on August 19, 2005.