(3) Credit Risks

ITOCHU conducts a vast array of commercial transactions with its trading partners, both domestically and overseas. ITOCHU therefore bears credit risk from the non-payment of obligations held by the Group due to the deteriorating credit status or insolvency of ITOCHU's partners.

In the Company, the credit department of each Division Company, which is independent of the business departments, manages credit risk on both quantitative and qualitative bases. Each proposal submitted by a business division undergoes careful screening by the credit department, which then sets an appropriate credit limit upon the completion of review. Specific expiration dates are set for credit limits. These limits and the status of trade receivables are monitored on a periodic basis along with periodic reviews of the status of debt collections and delinquencies. The necessary reserves are determined and booked on this basis.

Occurrence of credit risks could seriously affect the financial position and results of operations of ITOCHU.

(4) Country Risk

ITOCHU has trading relationships with many foreign countries. These include handling foreign goods and investments in foreign trading partners. ITOCHU therefore is exposed to country risks resulting from regulations imposed by foreign governments, political instability, or restrictions on the transfers of funds.

In response to these country risks, in addition to taking appropriate countermeasures for each transaction, with the aim of avoiding a concentration of exposure, ITOCHU is endeavoring to manage risk by setting total limit guidelines and limits for each country and setting credit policies in accordance with each country.

ITOCHU does however have debts in countries and regions where there is a relatively high probability of country risk emerging, and those in which business activities are being expanded through loans, investment and guarantees for monetary indebtedness. When those debts and business activities face events caused by political, economic, or social instability, ITOCHU cannot entirely deny the possibility that those events may have a significant impact on the sustainability of ITOCHU's transactions and business activities in such countries and regions. Such occurrences could have a serious, adverse effect on the financial position and results of operations of ITOCHU.

(5) Investment Risk

Investing in a variety of businesses is one of the major business activities of ITOCHU. In managing ITOCHU's portfolio of investments strategically, ITOCHU faces serious decisions regarding the initiation of new investments that will produce profit commensurate with the attendant risk and the withdrawal from investments that do not produce profits consistent with attendant risks.

In considering a new investment, monitoring existing businesses and withdrawing from an investment, ITOCHU has a standard for decision making. However, serious adverse influences on the future corporate results and financial standing of ITOCHU are possible in the event that ITOCHU is unable to achieve ITOCHU's forecasted results due to a deteriorating economic environment for businesses in which ITOCHU has invested or the deteriorating corporate results and financial standing of ITOCHU's partners, and in the event that ITOCHU is unable to withdraw from a business or restructure ITOCHU's business under a timeframe or method that ITOCHU desires. In such instances, whole or partial investment losses or the infusion of additional funds may be required; in such case it could affect the future corporate results and financial standing of ITOCHU.

In fiscal 2005, the Company recognized ¥45.1 billion (¥26.6 billion, after income tax) of impairment loss on ITOCHU's equity method investment in FamilyMart, in which ITOCHU has an interest through ITOCHU's consolidated subsidiary, Family Corporation Inc.

Excluding FamilyMart losses for investments in equity-method associated companies were insignificant for fiscal 2005. However, the necessity of booking impairment losses could arise should the likelihood of recovering ITOCHU's investment 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.

(6) Risks Due to Loss on Property and Equipment-net

ITOCHU is exposed to impairment loss risks on fixed assets held, such as real estate, aircraft, and ships. Impairment losses on fixed assets for the fiscal year ended March 31, 2005 were minimal and ITOCHU does not foresee at present any necessity for booking impairment losses. However, ITOCHU would be required to recognize impairment losses should the economic value of fixed assets deteriorate due to decreased demand or further deterioration in market conditions for each of the assets. Such an occurrence could seriously affect the future corporate results of ITOCHU.

(7) Risks Due to Fund Raising

ITOCHU 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 stock 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's Company due to an upheaval in the financial systems in primary financial markets, ITOCHU 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.

(8) Risks Due to Benefit Expenses and Benefit Obligations

The benefit expenses and benefit obligations of ITOCHU are calculated based on mathematical calculations that utilize a variety of assumptions such as the discount rate for benefit obligations and the expected rate of return on investment of pension assets. For fiscal 2005, there was no shortfall in accumulated pension assets after returning the public pension portion held by the employee pension fund to the government and shifting part of a tax qualified pension to defined contribution pension plan. However, should it become necessary to change the assumptions on which the mathematical calculations are based or should pension assets be affected by a deterioration in the stock market, it is possible that benefit expenses and benefit obligations could increase and that additional contributions to pension assets would be necessary. The financial position and results of operations of ITOCHU could be seriously affected by such occurrences.