

**(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. To consider the necessity of an allowance for deferred income taxes, ITOCHU reports the realizable amount of deferred income taxes, taking into consideration future taxable income and feasible tax planning strategies. The management of ITOCHU 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.

**(10) Risks Due to Competition**

Due to ITOCHU's involvement in many different industries and the fact that ITOCHU handles a vast array of products and services, ITOCHU 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, who 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 China and the U.S. ITOCHU could also find its competitiveness unsustainable due to future events such as deregulation, changes in the business environment such as entrance into other industries, and technological innovation. The advent of such risks could cause a corresponding loss in competitiveness for ITOCHU, adversely affecting to the financial position and results of operations of ITOCHU.

**(11) Risks Associated with Significant Lawsuits**

In July 2001, Citibank, N.A. and Citibank Canada, a wholly-owned subsidiary of Citibank, N.A. (together, "Citibank"), filed a complaint against ITOCHU International Inc. and III Holding Inc. (previously named Copelco Financial Services Group, Inc.), a wholly owned subsidiary of ITOCHU International Inc. (collectively, "III"), in the United States District Court for the Southern District of New York. Citibank was alleging violation of the federal securities laws, fraud, and breach of contract and related claims arising in connection with Citibank's acquisition of all the common stock of Copelco Capital, Inc. ("Copelco"), a former wholly-owned subsidiary of III Holding Inc., for a purchase price of approximately US\$666 million in May 2000. More specifically, Citibank was alleging that Citibank relied on the accuracy of Copelco's financial statements and other documents and statements provided and given by III to Citibank and that such financial statements had not been prepared in compliance with U.S. GAAP and/or in accordance with Copelco's internal accounting rules and practices in connection with, inter alia, accounting and collection policies and procedures of lease receivables, the amount of charge-off concerning delinquent lease receivables, loss reserve methodology, earnings from general ledger accounts and reconciliation of investment accounts, based upon which Citibank sought compensatory damages and related costs and attorney's fees. Disclosures made by Citibank during pre-

trial discovery indicated its belief that the total amount of the damages suffered was approximately US\$459 million. In February 2005, pursuant to a stipulation with III, Citibank dismissed with prejudice its claims related to the alleged violation of the federal securities laws and fraud, and withdrew its suit in the United States District Court. Plaintiff then re-filed its complaint against III in the New York Supreme Court for New York County alleging breach of contract and contractual indemnity. According to the complaint re-filed by Citibank, Citibank is alleging that Copelco's stockholder's equity was overstated by approximately US\$159 million and it continues to seek an unspecified amount of compensatory damages and related costs and attorney's fees as noted above.

III is defending this action vigorously and maintains that it has no liability in this matter. However, due to the inherent uncertainty of litigation, it is not possible to predict the ultimate outcome of this litigation. Accordingly, there can be no assurance that III will prevail in the action or that the Company's consolidated financial position may not be materially adversely affected by such action.

**(12) Risks Associated with Compliance*****Risks Related to Laws and Regulations***

ITOCU is subject to a number of diverse laws and regulations both domestically and overseas due to the vast array of products and services ITOCHU provides. To be specific, ITOCHU is required to adhere to laws and regulations such as the laws for each industry, all laws pertaining to trade such as foreign exchange control laws, antitrust laws, intellectual property laws, waste disposal laws and the laws of each country in which ITOCHU conducts business overseas. ITOCHU is aware that the observance of laws and regulations is a serious obligation on the part of the Company and ITOCHU has committed every effort into the observance of these laws and regulations through the compliance program that ITOCHU has created. Despite this, ITOCHU cannot deny that additional regulations or abrupt changes in regulations by legislative, judicial, and regulatory bodies are a possibility both domestically and overseas. Also there are possibilities of major change in laws and regulation by political/economical changes. If ITOCHU infringe on such laws and regulations, then ITOCHU could experience a restriction of business activities, legal sanctions, and a consequent loss of public trust. This could exert a serious, adverse influence on the financial position and results of operations of ITOCHU.

***Risks Related to the Environment***

ITOCU has designated global environmental issues as one of the most important elements of its management policy. ITOCHU is actively working on environmental issues designated by ITOCHU's environmental policy to deal with the risk of infringement of laws and regulations pertaining to the environment by each business, the destruction of the natural environment by natural resource development, real estate development and goods and service. Despite these efforts, ITOCHU cannot guarantee that the Group's business activities will not affect the world environment, and ITOCHU cannot completely avoid the possibility that the opposition of environmental protection groups will impede the business growth. Should such events occur, the ITOCHU could suffer the loss of public trust and could suffer serious adverse effects to the financial position and results of operations of ITOCHU.