

comprehensive consideration of the magnitude of the decline in terms of net asset value, the financial conditions of the invested companies, and the outlook for their future performance.

For the impairment of marketable investments in associated companies, in accordance with U.S. Accounting Principles Board Opinions No.18, as is the case for impairment of long-lived assets, ITOCHU judges whether or not a price decline is other than temporary not only by measuring the magnitude of the decline in market value but also comprehensively considering the possibility of collection based on the estimated future cash flows generated from the investment.

The management of ITOCHU believes these investment evaluations are rational. However, difference in estimates such as estimated future cash flows due to unforeseen changes in business conditions may impair the value of investments and have a material impact on ITOCHU's consolidated financial statements.

Provision for Doubtful Accounts

Trade receivables including notes and accounts, in addition to loans, represent a large amount in ITOCHU's consolidated balance sheets, and provision for doubtful accounts is an important factor in ITOCHU's consolidated statements of income. Therefore, accounting judgment on evaluation of receivables has a substantial impact on ITOCHU's consolidated financial statements.

In ITOCHU, the credit department of each Division Company, which is independent of business departments of each Division Company, manages and evaluates credit risk from both quantitative and qualitative perspectives, monitoring regularly the credit limit and the status quo of trade receivables, and reviewing regularly the status quo of debt collection and delinquency to discuss and record the required provision for doubtful accounts. ITOCHU estimates the recoverable amount and records the required provision for doubtful accounts, after comprehensively considering the status quo of collection, past insolvency record, financial conditions of debtors and value of collateral.

The management of ITOCHU believes that these estimations of provisions for doubtful accounts are rational. However, deterioration of the debtors' financial conditions and declines in estimated collateral value due to unpredictable changes in business conditions may reduce the recoverable amounts from the latest estimation, and an increase in provision for doubtful accounts may have a material impact on ITOCHU's consolidated financial statements.

Deferred Income Taxes

Deferred income taxes reported on the 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 record of allowance for deferred income taxes, ITOCHU reports the realizable amount of deferred income taxes, taking into consideration future taxable income and feasible tax planning. To evaluate realizable amount, it considers information such as historical records and any available information related to the future.

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 and changes in tax planning standards, which may have a material impact on ITOCHU's consolidated financial statements.

Impairment of Long-Lived Assets

If a part of the carrying amount is determined to be unrecoverable due to changes in the situation for long-lived assets used for business and intangible assets whose useful lives are definite, ITOCHU recognizes the impairment of long-lived assets based on fair value by calculating the sum of the outcome of the use of the long-lived asset and future cash flows (before discounts) resulting from its sale, and in case the sum falls below the carrying amount.

The management of ITOCHU believes these calculations of estimated future cash flows and fair value have been done in a rational manner. However, fluctuations in estimated future cash flows and fair value due to unpredictable changes in business conditions may reduce the evaluation of long-lived assets, which may have a material impact on ITOCHU's consolidated financial statements.

Goodwill and Other Intangible Assets

Goodwill and non-amortizable intangible assets with indefinite useful lives are no longer amortized, but instead tested for impairment at least annually. Fair value, which is indispensable for the impairment test, is estimated by discounted future cash flows based on the business plan.

The management of ITOCHU believes these calculations of estimated future cash flows and fair value have been done in a rational manner. However, fluctuations in estimated future cash flows and fair value due to unpredictable changes in business conditions may reduce the evaluation of goodwill and other intangible assets, which may have a material impact on ITOCHU's consolidated financial statements.