Credit Risk
ITOCHU manages credit risks that are involved when operating in a wide range of transactions with domestic and overseas business partners including customers and suppliers. The credit department of each Division Company, which is independent of the 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.

1. Registration System of Business Partners
   ITOCHU selects corporations eligible to be business partners based on the registration criteria.

2. Credit Analysis, Credit Limit and Reviewing System
1) Repeated and Continued Transactions: ITOCHU sets appropriate credit limits after credit analysis based on financial analysis and a credit survey, and regularly reviews and renews them.
2) Medium- to Long-Term Projects: Besides the above process, ITOCHU sets transaction criteria for each individual project, taking into consideration contract conditions and life-time profitability.

3. Quantitative Management of Credit Risk
   In addition to a financial analysis scoring system, ITOCHU conducts quantitative management of credit risk by using its proprietary credit rating model.

4. Large Volume Accounts and Problem Accounts
   ITOCHU conducts in-depth research of the credit characteristics for specified applicable accounts, reviews transaction policy from time to time, and, when necessary, discusses and records provision for doubtful accounts.

Country Risk
In transactions with developing countries, besides taking appropriate countermeasures against country risk for each transaction, ITOCHU has strengthened its credit risk management, utilizing the following systems to avoid concentration of exposure in specific countries;
a) Drawing basic policies for transactions with developing countries
b) Setting total limit guidelines and limits for each country
c) Providing in-house country credit ratings and drawing credit policies by country

ITOCHU also conducts reviews of country ratings, credit policies and limits by country from time to time, taking into consideration the status quo of risk exposure of ITOCHU, which is regularly recognized based on the analysis of information on developing countries garnered from inside and outside ITOCHU.

Investment Risk
Investing in a variety of businesses is one of the major business activities of ITOCHU. Investments are ITOCHU's largest risk assets and therefore, careful judgment is required when managing a strategic investment portfolio, investing in a business that is expected to earn profit commensurate to its risk, or exiting from a business unable to earn profit commensurate to its risk. ITOCHU uses the concept of RCM as its basic policy for investment. To consider a new investment, ITOCHU assesses profitability relative to investment risk based on NPV (Net Present Value) on a Risk Asset basis. To monitor an existing investment, for a timely exit decision, it utilizes strict exit criteria that take into account growth potential, and regularly reviews efficiency in terms of a risk return index.

*RCM: ITOCHU uses Risk Assets and Risk Return Index (RRI) as management benchmark.
*Risk Assets = Asset book value x Risk weight for each asset
*Risk Return Index (RRI) = Net income / Risk assets

Critical Accounting Policies

ITOCHU's consolidated financial statements are prepared in conformity with United States generally accepted accounting principles (U.S. GAAP). In preparation of the consolidated financial statements, the management of ITOCHU is required to make a number of estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, contingent assets and liabilities as of each balance sheet date, and revenues and expenses in each reporting period. The management periodically verifies and makes a decision of its estimates, judgments and assumptions based on the available information that is considered to be reasonable by judging from historical experiences and circumstances. These estimates, judgments and assumptions, however, which are often accompanied by uncertainties, may differ from actual results. These differences may have an effect on ITOCHU's consolidated financial statements and performances of every operating segment. The following accounting policies related to estimates, judgments and assumptions that management believes may materially affect consolidated financial statements.

Evaluation of Investments
Investment balance and profit from investments are important factors in ITOCHU's consolidated financial statements and therefore, accounting judgment on evaluation of investments has a substantial impact on ITOCHU's consolidated financial statements.

ITOCHU evaluates marketable securities based on their fair values. The difference between carrying amount and fair value is reported in the consolidated statements of income for trading securities, while, for available-for-sale securities, differences net of tax, are reported in stockholder's equity as unrealized gains (losses) on securities. When ITOCHU judges that the price decline of marketable securities is other than temporary, impairment losses are recognized for the devaluation of this value. The criteria used to judge an other-than-temporary price decline are the length of time the marketable securities have been below carrying amount and the magnitude of the decline.

For the impairment of non-marketable securities, judgment of an other-than-temporary price decline is conducted after a