

To Our Stakeholders

I'm pleased to write to you again this year. Fiscal 2007, the year ended March 31, 2007, was the first year of the "step" period of INNOVATION 2007. This period is positioned as one for building toward the achievement of two goals during the subsequent "jump" period (from fiscal 2009 to fiscal 2010) and beyond: consistently generating consolidated net income of at least ¥400.0 billion and ROE of 15% on average over the medium and long terms even assuming some correction in resource prices. Due in part to a spectacular run-up in resource prices, in fiscal 2007 we turned in a stellar performance—consolidated net income at ¥415.9 billion eclipsed our initial forecast of ¥370.0 billion. Our sights are now set on new heights of excellence. As I will explain later in this letter, we are determined to demonstrate our capabilities as "A New, Industry Innovator."

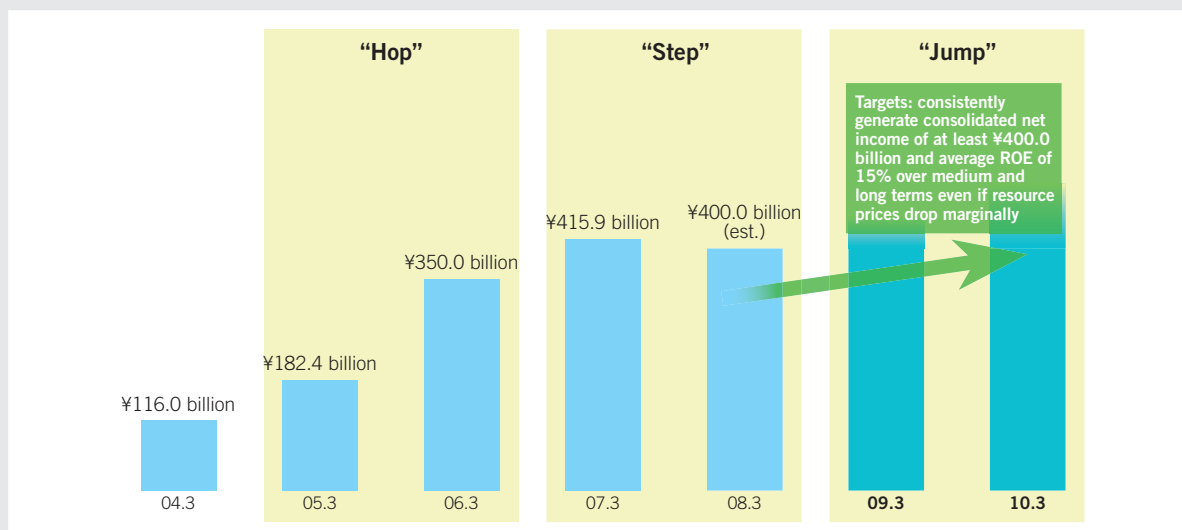
INNOVATION 2007 "Step"

- Fiscal 2007 performance
- Sakhalin II Project and support for Mitsubishi Motors Corporation
- Achieving further growth
- Retention and development of human resources
- Strengthening the consolidated management system



Yorihiro Kojima
President and CEO

INNOVATION 2007



Fiscal 2007 Performance

In fiscal 2007, we posted consolidated net income of ¥415.9 billion. This figure was noteworthy in two respects: it marked the fourth straight year of bottom-line growth, and it was a record for MC. One of the chief contributors was the Metals Group, where net income leapt 38% to ¥186.8 billion. The Metals Group's performance was underpinned by continued strength in its coking coal operations and soaring prices for metal resources such as copper and aluminum. The Energy Business Group also made another significant contribution, posting high net income of ¥74.0 billion on a par with fiscal 2006.

Non-resource business groups performed well too. The Machinery Group, while benefiting from large gains on the sale of marketable securities, recorded net income of ¥83.2 billion, 18% higher year on year. The Chemicals and Living Essentials Groups, meanwhile, continued to post steady earnings growth.

ROE was 15.6%. This key indicator of how efficiently we use the money shareholders invest in MC has now averaged more than 15% for the past 3 years. Shareholders' equity, which topped ¥2 trillion for the first time at the previous fiscal year-end, stood at ¥2,950.9 billion as of March 31, 2007, approaching another milestone—the ¥3 trillion mark. The net debt-to-equity ratio (DER), an indicator of financial soundness, declined for the fourth year running, to 1.0.

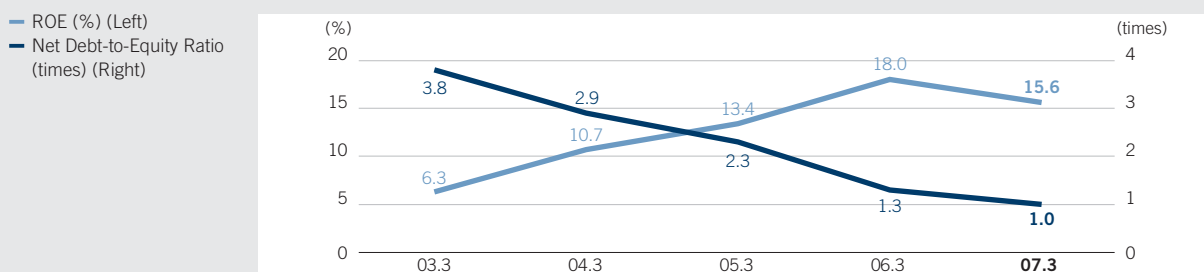
Last year, we reported plans to make investments totaling ¥1.2 trillion during the 2-year "step" period ending March 31, 2008, with the goal of driving earnings growth in the subsequent "jump" period. As of the end of March 2007, we had made investments of ¥450.0 billion. In fiscal 2008, we plan to invest in projects with sure returns, leveraging our global network to achieve our investment goals. There is still a large number of promising investment opportunities so we are confident that we can execute our investment plans.

In light of our robust performance, we paid an annual dividend per common share applicable to fiscal 2007 of ¥46. We have now increased the dividend every year since linking it to consolidated net income in fiscal 2005; the dividends for fiscal 2005 and fiscal 2006 were ¥18 and ¥35, respectively. Our basic policy will continue to be to use retained earnings to increase our corporate value. But, we are also committed to directly returning profits to shareholders with

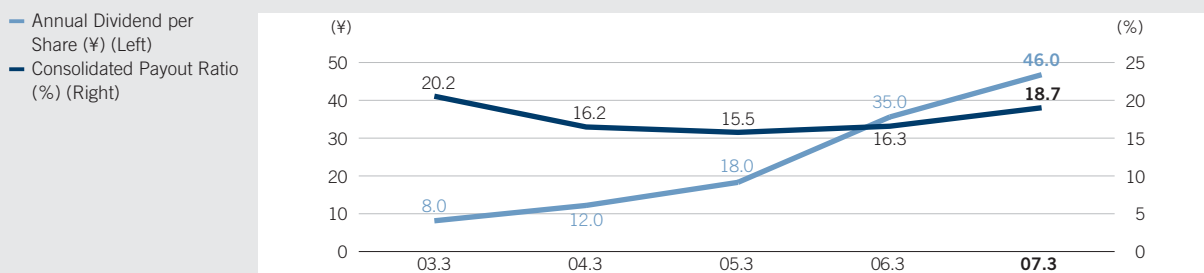
reference to our operating results in each fiscal year. While also taking into account our investment plans, the financial condition of the parent company and other factors, we will determine the dividend in a flexible manner with the target of a consolidated payout ratio of 15% or more.

For fiscal 2008, we are forecasting consolidated net income of ¥400.0 billion. This forecast is predicated on lower prices for coking coal and a decrease in gains on share sales, but higher earnings in businesses other than those associated with natural resources. We plan to pay a dividend of around ¥46 per share for fiscal 2008, the same as fiscal 2007, providing we achieve our consolidated net income forecast of ¥400.0 billion.

ROE and Net Debt-to-Equity Ratio



Annual Dividend per Share and Consolidated Payout Ratio



Sakhalin II Project and Support for Mitsubishi Motors Corporation

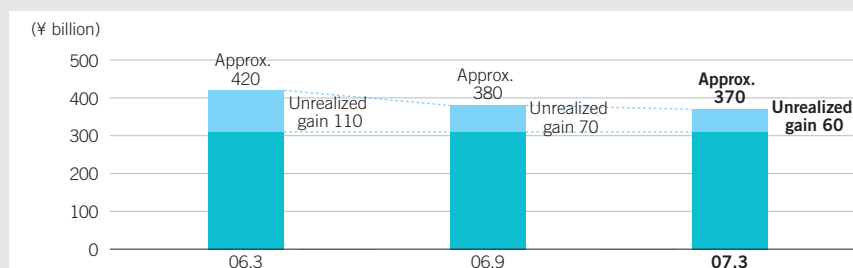
In April 2007, MC, Royal Dutch Shell plc and Mitsui & Co., Ltd. signed a Sale and Purchase Agreement with Russia's OAO Gazprom (Gazprom), to trigger the transfer of shares in Sakhalin Energy Investment Company, Ltd. (Sakhalin Energy), the operating in the Sakhalin II Project. We welcome the formal equity participation of Gazprom in Sakhalin Energy. We also believe that the new arrangement will ensure that LNG operations are launched on schedule. The four shareholders of Sakhalin Energy, including new partner Gazprom, will do their utmost to advance this important project.

Our support of Mitsubishi Motors Corporation (MMC) also holds much significance for MC. Together with Mitsubishi Heavy Industries, Ltd. and The Bank of Tokyo-Mitsubishi UFJ, Ltd., we continue to provide support to MMC. Since June 2004, we have injected equity totaling ¥140.0 billion in MMC. Including these investments, our MMC-related risk exposure as of March 31, 2007 was approximately ¥370.0 billion. MMC moved back into the black in fiscal 2007, delivering strong results in Europe, including Russia and the Ukraine, as well as in the Middle East. MMC still has much more work to do to grow sales in Japan, North America, Asia and in other regions. However, we are committed to helping MMC to achieve a successful turnaround, both as a shareholder and a business partner.

Achieving Further Growth

MC never sits still. We are a company that constantly takes up the challenge of doing business in new fields and regions by seizing on change. The global business environment is changing at a rapid pace and on a worldwide scale. Nowhere is this more evident than in the steel industry where restructuring is taking place worldwide. Other trends

MMC-related Risk Exposure



such as the emergence of resource nationalism and the entry of funds are catalyzing major change. Amid this change, we will execute our vision of being “A New, Industry Innovator” by building new business models and reforming our existing ones. That’s not to say that MC can bring about business innovation alone. But through the provision of functions in multifarious value chains, we will endeavor to innovate in a bid to drive more growth together with our customers and business partners.

To this end, it is only natural that we seek to strengthen our hand in existing fields where we are strong. But also crucial to sustained growth will be actions in fields that are expected to experience substantial expansion in the future.

In our view, three of those fields are finance, new energy and the environment, and medical health care. That’s why we call these fields Next-Generation Core Businesses. And it’s why in April this year we formed two new business groups—Industrial Finance, Logistics & Development Group and Business Innovation Group.

The former principally targets two types of finance business. One is asset finance. In this business, we can bring to bear our strengths as a *sogo shosha* in real estate development, real estate investment trusts (REITs), aircraft leasing and other areas. Second is asset management. Here, we will leverage our network and expertise in financial markets garnered through our investment activities over many years. The Business Innovation Group is at the vanguard of our efforts in the other two Next-Generation Core Businesses. Its brief is to develop new energy, emission credit and other businesses that will play a part in solving environmental issues like global warming and thereby protect the Earth. It will provide solutions in the medical health care field as well. To address trends such as Japan’s declining birth rate and aging population and reforms to medical and nursing care insurance systems, and the resulting needs, we plan to step up our activities in this field. One of our main vehicles will be businesses providing management support to hospitals. These businesses contribute to improvements in the quality of medical services at the same time as the more efficient operation of hospitals. You can read more about our two new business groups and their specific activities on page 14 of the feature section and pages 28 and 32 of the review of operations section of this annual report. We have strong expectations for the Industrial Finance, Logistics & Development Group and the Business Innovation Group. We are determined therefore to grow and develop them into major contributors to our earnings in the near future.

Retention and Development of Human Resources

People are the most important element in achieving further growth. Besides actively recruiting new university graduates and mid-career professionals, we place importance on developing and making full use of the human resources throughout the MC Group, including at our offices overseas and at subsidiaries and affiliates. Playing a central role in the development and utilization of our global workforce is the Center for Human Resources Development, which we established last year. In its endeavors, this center is working closely with frontline operations. MC has a diverse and multicultural workforce. Harnessing the inherent strengths of this varied workforce on a companywide basis irrespective of age, gender or nationality is important to our operations. Valuing this diversity, we continue to put in place systems and frameworks that will support the personal development of individual employees throughout their careers with MC. We also encourage vigorous dialogue at MC that transcends generations, regions and corporate affiliations. We believe that this creates an atmosphere that encourages employees and makes them feel part of the organization so that they want to stay with MC and that personnel retention doesn’t impede our growth going forward.

Strengthening the Consolidated Management System

In my view, future earnings opportunities for MC lie in increased development of our businesses globally. In this context, in order to grow over the medium and long terms, besides growing organically from within, we must also bring in growth from outside the company. This will entail the use of M&As and other actions, which will likely lead to an increase in the number of businesses subject to consolidation in our accounts. In seeking to take our existing businesses global and convert that extended reach into earnings, we must continue to strengthen our consolidated management system—accurate assessment of the status of each group company will be crucial. We, therefore, aim to build a consolidated management system that is cohesive and unified by enhancing internal control frameworks and systems not only at MC but also at subsidiaries.

In Closing

Through the conduct of business activities that take into account environmental and other considerations, MC has long met its corporate social responsibilities. The Three Corporate Principles, our corporate philosophy since our foundation, advocate the creation of businesses that match the times as well as benefit society and the natural environment. We therefore strive to conduct our business activities in a way that fulfills our social responsibilities with respect to people, society and the environment. As we look ahead, we are determined to continue conducting corporate activities that make a meaningful contribution to society both in Japan and overseas while adhering to the Three Corporate Principles, including fairness and integrity.

MC will continue to develop as a company with a unique business model. We hope that shareholders and other stakeholder will continue to support MC and our vision.



Yorihiro Kojima
President and CEO

