

# Financial Section of Annual Report 2009

## Contents

96	Management's Discussion and Analysis of Financial Condition and Results of Operations
122	Six-Year Financial Summary
124	Consolidated Balance Sheets
126	Consolidated Statements of Income
127	Consolidated Statements of Comprehensive Income
128	Consolidated Statements of Shareholders' Equity
129	Consolidated Statements of Cash Flows
130	Notes to Consolidated Financial Statements
169	Independent Auditors' Report
170	Supplementary Explanation
171	Management Internal Control Report (Translation)
172	Independent Auditors' Report filed under the Financial Instruments and Exchange Act of Japan (Translation)
174	Responsibility Statement

### Forward-Looking Statements

This financial section of Mitsubishi Corporation's Annual Report 2009 contains forward-looking statements about Mitsubishi Corporation's future plans, strategies, beliefs and performance that are not historical facts. They are based on current expectations, estimates, forecasts and projections about the industries in which Mitsubishi Corporation operates and beliefs and assumptions made by management. As the expectations, estimates, forecasts and projections are subject to a number of risks, uncertainties and assumptions, they may cause actual results to differ materially from those projected. Mitsubishi Corporation, therefore, wishes to caution readers not to place undue reliance on forward-looking statements. Furthermore, the company undertakes no obligation to update any forward-looking statements as a result of new information, future events or other developments.

Risks, uncertainties and assumptions mentioned above include, but are not limited to, commodity prices; exchange rates and economic conditions; the outcome of pending and future litigation; and the continued availability of financing, financial instruments and financial resources.

---

The Three Corporate Principles and the Corporate Standards of Conduct, the cornerstones of our corporate philosophy, underpin our system for ensuring the fairness of financial information. These are the basis upon which we have established internal regulations and ensure that all employees comply with these regulations. Furthermore, we have made public a Corporate Disclosure Policy that prescribes our basic position with respect to the release of significant information in accordance with laws such as the Financial Instruments and Exchange Law and the Companies Act in Japan and regulations of the Tokyo Stock Exchange.

Furthermore, we maintain an effective framework for deciding on important management issues. Such issues are first discussed and decisions are reached by the Executive Committee, MC's highest-ranking decision-making body of executive officers, and then passed on to the Board of Directors for a final resolution. Moreover, the status of business execution and other important management information is reported to the Executive Committee and the Board of Directors. Regarding business processes and the status of management, the Internal Audit Dept. and internal audit organizations of individual business groups and overseas offices conduct internal audits, including of affiliated companies. The results of each internal audit are reported to the president, corporate auditors and other concerned parties as well as to the Board of Directors and Executive Committee.

Based on this internal framework, we have clarified the division of duties and responsibilities for preparing financial information. Accounting procedures are performed in accordance with internal regulations based on the maintenance of an adequate administrative system in each responsible division.

MC has had a Disclosure Committee, which evaluated the information contained in the financial section of this annual report for the year ended March 31, 2009 and confirmed that the content is adequate.

Regarding the consolidated financial statements included in this annual report, we received an unqualified audit report from the independent auditors following a strict external audit.

Management is responsible for establishing adequate systems of internal control and financial reporting as above.



A handwritten signature in black ink, appearing to read 'Ryoichi Ueda', written over a white background.

Ryoichi Ueda  
Member of the Board,  
Executive Vice President,  
Chief Financial Officer  
Mitsubishi Corporation

---

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## 1. Results of Operations

In the fiscal year ended March 31, 2009, the economic environment was extremely tough due to the worldwide spread of the financial crisis that originated in the U.S. Not only did the financial crisis cause major turmoil in financial markets, it rapidly spread to the real economy, catalyzing a sudden contraction of demand, which in turn led to a global downturn in production and trade. Major volatility was also seen, with large fluctuations witnessed in foreign currencies, highlighted by the yen appreciating and euro weakening. International commodity prices also dropped.

The Japanese economy, meanwhile, had to contend with a fall in overseas demand and a stronger yen because of the global financial crisis. Exports, which had driven Japan's economy until midway through the fiscal year, plummeted in the second half, precipitating significant production cutbacks. As a result, the Japanese economy lurched deeper into recession as business sentiment rapidly deteriorated, most notably in the manufacturing industry.

Against this economic backdrop, we recorded consolidated net income of ¥369.9 billion in the fiscal year ended March 31, 2009. This represented a year-on-year decline of ¥100.9 billion, or 21.4%, and reflected lower earnings in all business groups with the exception of the Metals Group, which posted a ¥58.5 billion increase in consolidated net income thanks largely to higher Australian coking coal prices. While the decline in consolidated net income was our first in seven fiscal years, consolidated net income was still our third highest ever.

Gross profit at ¥1,463.2 billion and operating income at ¥588.9 billion were record highs. These record performances reflected higher coking coal prices, high prices for crude oil up to the end of September 2008, and stable consolidated net income in chemicals, living essentials and elsewhere. However, consolidated net income was dragged down by deterioration in foreign exchange gains and losses accompanying volatility in foreign currency markets, sharp deterioration in net loss on marketable securities and investments due mainly to write-offs of listed shares resulting from falling stock prices, and deterioration in loss on property and equipment due to impairment losses. For the fiscal year ended March 31, 2009, we booked total write-offs of non-performing assets of approximately ¥180.0 billion, including listed share write-offs of ¥89.6 billion (after-tax). By recording these non-performing asset write-offs, however, we believe that we have cleaned up our balance sheet, so we are now well positioned to act quickly when the economic environment improves.

Core earnings for the fiscal year ended March 31, 2009 were ¥855.8 billion, a record high like gross profit and operating income.

Total shareholders' equity declined ¥490.1 billion from March 31, 2008 to ¥2,383.4 billion at March 31, 2009 despite the

accumulation of consolidated net income up to the third quarter of the fiscal year. The decline reflected a decrease in net unrealized gains on securities available for sale resulting from the economic turbulence sparked by the financial crisis, as well as an increase in foreign currency translation adjustments on overseas investments due to the yen's appreciation. The decline in shareholders' equity also reflected the payment of dividends. Over the past year, we continued to raise funds to secure liquidity so that we could ride out the instability in financial markets. This led to higher interest-bearing liabilities. Net interest-bearing liabilities were ¥3,551.2 billion at March 31, 2009, ¥129.3 billion, or 3.8%, higher than at March 31, 2008. The net debt-to-equity ratio rose from 1.2 times a year ago to 1.5 times.

Free cash flows were a negative ¥140.8 billion as we made substantial investments during the past fiscal year, although net cash provided by operating activities was higher year on year. Financing activities provided net cash of ¥650.5 billion, the result of raising funds ahead of schedule in order to ensure greater liquidity to ride out financial market instability. Net cash provided by financing activities rose sharply from the fiscal year ended March 31, 2008.

In terms of our forecasts for the fiscal year ending March 31, 2010, we are projecting consolidated net income of ¥220.0 billion, down ¥149.9 billion, or 41%, year on year. This is despite the absence of the approximate ¥180.0 billion charge for non-performing asset write-offs that we incurred in the fiscal year ended March 31, 2009, as we do not expect any short-term recovery in foreign currencies and commodity prices and the real economy. This forecast conservatively assumes a Nikkei Average of around ¥9,000 for the fiscal year. Based on this assumption, we have factored a write-off of marketable securities available for sale of ¥20.0 billion into our forecast. We estimate that for every ¥1,000 change in the Nikkei Average at the end of each quarter from ¥9,000, there will be a change in write-offs of around ¥20.0 billion (after-tax). However, because write-offs are booked according to changes in individual share prices, if changes in the prices of shares we hold are not linked to changes in the Nikkei Average, this sensitivity assumption will not necessarily apply.

\* Core Earnings = Operating income (before the deduction of credit (provision) for doubtful receivables) + Interest expense (net of interest income) + Dividend income + Equity in earnings of affiliated companies

Operating income reflects companies' (a) gross profit, (b) selling, general and administrative expenses, and (c) (provision) credit for doubtful receivables.

Note: Earnings forecasts and other forward-looking statements in this annual report are management's current views and beliefs in accordance with data currently available, and are subject to a number of risks, uncertainties and other factors that may cause actual results to differ materially from those projected.

## Core Earnings

	Millions of Yen				
	2005.3	2006.3	2007.3	2008.3	2009.3
Gross profit — SG&A expenses .....	¥194,732	¥356,861	¥411,602	¥351,196	<b>¥597,677</b>
Interest expense (net of interest income) .....	(1,732)	(4,409)	(14,411)	(12,292)	<b>(23,318)</b>
Dividend income .....	44,281	72,065	136,999	134,623	<b>124,663</b>
Equity in earnings of affiliated companies .....	99,624	124,797	152,208	155,008	<b>156,763</b>
Core earnings .....	¥336,905	¥549,314	¥686,398	¥628,535	<b>¥855,785</b>

### Fiscal Year Ended March 31, 2009 vs. Fiscal Year Ended March 31, 2008

#### 1) Total Revenues

Consolidated total revenues were ¥6,146.4 billion, up ¥115.6 billion, or 1.9%, from the fiscal year ended March 31, 2008. There was a ¥164.2 billion, or 3.1%, year-on-year increase in revenues from trading, manufacturing and other activities to ¥5,444.3 billion, despite lower commodity prices having a negative effect on revenues at the parent company. The rise was mostly the result of increased revenues due to higher commodity prices at subsidiaries.

Trading margins and commissions on trading transactions decreased ¥48.6 billion, or 6.5%, to ¥702.1 billion.

The main reasons for changes by segment were as follows:

- The Industrial Finance, Logistics & Development Group saw revenues decrease ¥81.8 billion year on year due mainly to lower transactions in the real estate-related business.
- The Metals Group recorded a ¥342.9 billion increase in revenues due to higher sales prices at an Australian resource-related subsidiary (coking coal).
- The Machinery Group saw revenues decline ¥239.5 billion from the fiscal year ended March 31, 2008 on account of lower sales in overseas automobile operations and the effect of deconsolidating some subsidiaries.
- The Chemicals Group posted a ¥132.7 billion year-on-year decline in revenues, principally due to decreased revenues from lower commodity prices at the parent company.
- The Living Essentials Group recorded an increase of ¥183.1 billion in revenues due mainly to new consolidations of subsidiaries at the parent company.

#### 2) Gross Profit

Gross profit increased ¥290.9 billion, or 24.8%, to a record high of ¥1,463.2 billion. This all-time-high result mainly reflected higher earnings on transactions due to increased sales prices at an Australian resource-related subsidiary (coking coal) and increased earnings from new consolidations.

#### 3) Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses rose ¥44.4 billion, or 5.4%, to ¥865.5 billion, mainly due to increased pension expenses at the parent company and new consolidations. The increase came despite reduced personnel expenses at overseas subsidiaries.

#### 4) Provision for Doubtful Receivables

The provision for doubtful receivables in the fiscal year ended March 31, 2009 was ¥8.8 billion, ¥12.7 billion worse than the credit for doubtful receivables recorded in the previous fiscal year when there was a partial reversal of provisions and other factors.

#### 5) Interest Expense (net of interest income)

Net interest expense was ¥23.3 billion, ¥11.0 billion higher year on year. This was the result of increased fundraising expenses accompanying higher yen interest and higher interest expenses at subsidiaries.

#### 6) Dividend Income

Dividend income decreased ¥10.0 billion, or 7.4%, to ¥124.7 billion. The main reason was a drop in dividend income particularly from non-ferrous metals-related businesses in line with falling commodity prices.

#### 7) Loss on Marketable Securities and Investments—Net

In the fiscal year ended March 31, 2009, we recorded a net loss of ¥155.8 billion, ¥213.3 billion worse than the net gain recorded in the previous fiscal year. In addition to lower gains on the sales of shares, this reflected increased write-offs of listed shares due to falling share prices across the board.

#### 8) Loss on Property and Equipment—Net

We recorded a net loss on property and equipment of ¥45.2 billion, ¥39.4 billion more than the net loss recorded in the fiscal year ended March 31, 2008. This increase reflected mainly impairment losses on property and equipment at overseas resource-related projects.

### 9) Other Income (Expense)—Net

We recorded net other expense of ¥100.9 billion, ¥124.5 billion worse than the net other income recorded in the fiscal year ended March 31, 2008. This mainly reflected deterioration in foreign exchange gains and losses of overseas subsidiaries commensurate with gross profit.

### 10) Income From Continuing Operations Before Income Taxes

Income from continuing operations before income taxes decreased ¥164.3 billion, or 29.7%, to ¥388.2 billion. Although gross profit increased ¥290.9 billion year on year to a record high, the overall decline reflected the net loss on marketable securities and investments due to falling share prices, the higher net loss on property and equipment, increased SG&A expenses, and the drop in net other income to net other expenses because of foreign currency movements.

#### 11) Income Taxes

Income taxes decreased ¥32.8 billion to ¥148.9 billion. This was due mainly to the decline in pre-tax income. As a result, our effective tax rate was approximately 38%.

### 12) Minority Interests in Income of Consolidated Subsidiaries

Minority interests in income of consolidated subsidiaries decreased ¥20.7 billion to ¥30.7 billion.

### Dividend Income, Equity in Earnings of Affiliated Companies, Interest Expenses (net of interest income)

	Billions of Yen		
	2007.3	2008.3	2009.3
Dividend income .....	¥137.0	¥134.6	<b>¥124.7</b>
Equity in Earnings of Affiliated Companies .....	152.2	155.0	<b>156.8</b>
Interest Expenses (net of interest income) ...	(14.4)	(12.3)	<b>(23.3)</b>

### 13) Equity in Earnings of Affiliated Companies

Equity in earnings of affiliated companies rose ¥1.8 billion, or 1.1%, to ¥156.8 billion, although these earnings were depressed by the booking of listed share write-offs at an overseas IPP business. The main reason for the overall increase was higher earnings at overseas energy resource-related businesses which benefited from strong crude oil and other commodity prices in the first six months of the fiscal year ended March 31, 2009.

### 14) Net Income

Net income decreased ¥100.9 billion, or 21.4%, to ¥369.9 billion. As a result, ROE declined 2.2 percentage points from 16.3% to 14.1%.

### Net Income per Share (Diluted EPS), Cash Dividends, Return on Equity (ROE), Price Earnings Ratio (PER), Price Book-value Ratio (PBR)

	2007.3	2008.3	2009.3
Diluted EPS (yen) .....	¥247.17	¥282.55	<b>¥224.75</b>
Cash dividends (yen) .....	46.00	56.00	<b>52.00</b>
ROE (%) .....	15.9	16.3	<b>14.1</b>
PER (times) .....	11.01	10.61	<b>5.71</b>
PBR (times) .....	1.6	1.7	<b>0.9</b>

### Fiscal Year Ended March 31, 2008 vs. Fiscal Year Ended March 31, 2007

#### 1) Total Revenues

Consolidated total revenues were ¥6,030.8 billion, up ¥962.1 billion, or 19.0%, year on year. There was a ¥935.2 billion, or 21.5%, year-on-year increase in revenues from trading, manufacturing and other activities and a ¥26.9 billion, or 3.7%, rise in trading margins and commissions on trading transactions. The increase in revenues was mainly due to the following factors:

- The Energy Business Group saw revenues increase ¥304.3 billion, the result of higher revenues from trading, manufacturing and other activities due mainly to increased oil-related transactions at the parent company on the back of rising crude oil prices and the effect of new consolidation.
- The Machinery Group recorded a rise of ¥115.4 billion in revenues due to higher revenues from trading, manufacturing and other activities in Asian and European automobile businesses.
- The Chemicals Group posted a ¥167.1 billion rise in revenues, reflecting higher revenues from trading, manufacturing and other activities thanks to increased petrochemical products transactions at the parent company on the back of rising prices.
- The Living Essentials Group recorded an increase of ¥247.1 billion in revenues, the result of higher revenues from trading, manufacturing and other activities due to new food-related company consolidations and other factors.

#### 2) Gross Profit

Gross profit increased ¥26.7 billion, or 2.3%, to a record ¥1,172.2 billion, despite the impact of a lower coking coal price. This growth was mainly due to generally firm commodity prices as well as new consolidations of food-related companies in the Living Essentials Group.

#### 3) Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses rose ¥87.1 billion, or 11.9%, to ¥821.0 billion. In addition to the impact of new consolidations, this was mainly due to higher personnel expenses in line with business expansion.

**4) Credit (Provision) for Doubtful Receivables**

Credit for doubtful receivables was ¥3.9 billion, a ¥5.2 billion improvement on the provision in the previous fiscal year. This improvement reflected the partial reversal of provisions and other factors.

**5) Interest Expense (net of interest income)**

Net interest expense was ¥12.3 billion, a ¥2.1 billion improvement on the fiscal year ended March 31, 2007. While rising yen interest rates increased interest expenses, higher interest income at overseas subsidiaries had a major impact, resulting in lower net interest expense.

**6) Dividend Income**

Dividend income decreased ¥2.4 billion, or 1.7%, to ¥134.6 billion. The main reason for this decline was lower dividends from resource-related projects.

**7) Gain on Marketable Securities and Investments—Net**

In the fiscal year ended March 31, 2008, we recorded a net gain of ¥57.4 billion, down ¥28.2 billion from the fiscal year ended March 31, 2007, when we booked a ¥43.8 billion gain on sale of Diamond City Co., Ltd. shares.

**8) Loss on Property and Equipment—Net**

We recorded a net loss on property and equipment of ¥5.9 billion, ¥2.8 billion more than the net loss recorded in the fiscal year ended March 31, 2007, when we booked gains on the sale of land, ships and other property and equipment.

**9) Other Expense (Income)—Net**

We posted other income—net of ¥23.6 billion, a ¥37.4 billion improvement on the fiscal year ended March 31, 2007. This result was principally attributable to an improvement in foreign currency gains and losses at overseas subsidiaries.

**10) Income From Continuing Operations Before Income Taxes**

Income from continuing operations before income taxes decreased ¥49.0 billion, or 8.1%, from the fiscal year ended March 31, 2007 to ¥552.5 billion, despite the increase in gross profit, and improved net interest expense and other income—net. The overall decline reflected higher SG&A expenses, lower dividend income and decreased net gain on marketable securities and investments, and increased net loss on property and equipment.

**11) Income Taxes**

Income taxes decreased ¥102.4 billion compared with the fiscal year ended March 31, 2007. This was due to the decline in pre-tax income, the absence of the tax burden on large dividends in the fiscal year ended March 31, 2007 and tax credits in the fiscal year ended March 31, 2008. As a result, our effective tax rate was approximately 33%, down from the fiscal year ended March 31, 2007.

**12) Minority Interests in Income of Consolidated Subsidiaries**

Minority interests in income of consolidated subsidiaries rose ¥6.2 billion year on year to ¥51.4 billion, mainly as a consequence of new consolidations in the Living Essentials Group.

**13) Equity in Earnings of Affiliated Companies**

Equity in earnings of affiliated companies rose ¥2.8 billion, or 1.8%, to ¥155.0 billion due to business expansion in overseas IPP businesses and strong performances at petrochemical business-related companies.

**14) Net Income**

Net income climbed ¥51.6 billion, or 12.3%, to ¥470.9 billion, bettering the fiscal year ended March 31, 2007 record result. As a result, ROE increased slightly from 15.9% to 16.3%.

## 2. Year Ended March 31, 2009 Segment Information

### Operating Segments

**1) Business Innovation Group**

The Business Innovation Group develops businesses in high-growth industries that have significant benefits for society to create future earnings streams. The Business Innovation Group's businesses include new energy and the environment, medical healthcare, ICT (information and communications technology) and media consumer businesses.

In the fiscal year ended March 31, 2009, the segment recorded a consolidated net loss of ¥4.3 billion, a decrease of ¥5.3 billion year on year. This was the result of higher selling, general and administrative expenses accompanying business expansion and higher upfront expenses resulting from increased investments.

**2) Industrial Finance, Logistics & Development Group**

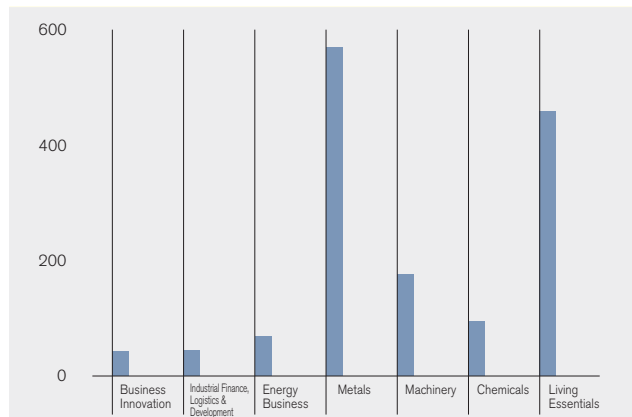
The Industrial Finance, Logistics & Development Group is developing *shosha*-type industrial finance businesses. These include merchant banking and M&A businesses such as asset management and buyout investment; asset finance and business development businesses such as leasing businesses and real estate funds; and businesses in other fields including real estate development, ownership and management, and logistics services and insurance.

The segment recorded a consolidated net loss of ¥41.2 billion, ¥65.4 billion worse than the previous fiscal year's consolidated net income. This was the result of share write-offs, and lower fund investment and real estate-related earnings.

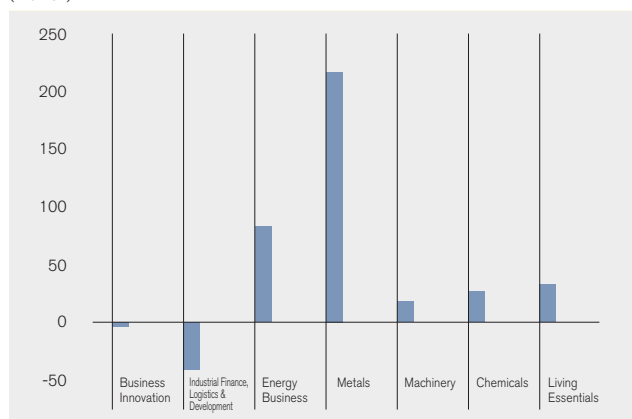
**3) Energy Business Group**

The Energy Business Group, in addition to developing and investing in oil and gas projects, conducts trading activities in areas such as crude oil, petroleum products, liquefied petroleum gas (LPG), liquefied natural gas (LNG), and carbon materials and products.

**Gross Profit by Operating Segment** (Year Ended March 31, 2009)  
(¥ billion)



**Net Income (Loss) by Operating Segment** (Year Ended March 31, 2009)  
(¥ billion)



**Total Assets and Return on Assets by Operating Segment**  
(As of March 31, 2009)



■ Total Assets by Operating Segment (Left)  
— Return on Assets by Operating Segment (Right)

The segment posted consolidated net income of ¥82.8 billion, a decline of ¥11.4 billion, or 12.1%, from the previous fiscal year, despite higher dividend income and equity in earnings of overseas resource-related business investees due to higher crude oil prices in the first six months of the fiscal year ended March 31, 2009. The overall decline in segment consolidated net income principally reflected impairment losses on property and plant at overseas resource-related subsidiaries.

**4) Metals Group**

The Metals Group trades, develops businesses and invests in a range of fields. These include steel products such as steel sheets and thick plates, steel raw materials such as coking coal and iron ore, and non-ferrous raw materials and products such as copper and aluminum.

The segment recorded consolidated net income of ¥216.7 billion, up ¥58.4 billion, or 36.9%, year on year. Segment consolidated net income rose mainly due to higher sales prices at an Australian resource-related subsidiary (coking coal), although the segment recorded share write-offs, lower dividend income due to falling resource prices and a drop in Metal One Corporation's earnings.

**5) Machinery Group**

The Machinery Group trades machinery in a broad range of fields, in which it also develops businesses and invests. These fields extend from large plants for producing essential industrial materials, including electricity, natural gas, petroleum, chemicals and steel, to equipment and machinery for transportation and distribution industries, including ships, trains and automobiles. It is also active in the aerospace and defense industries, and in general industrial equipment and machinery, including construction machinery, machine tools, and agricultural machinery.

The segment recorded consolidated net income of ¥17.7 billion, down ¥50.4 billion, or 73.9%, year on year. While ship charter fee income increased, the overall decrease in earnings was attributable to impairment losses on property and equipment and share write-offs, lower sales and the impact of forex fluctuations in overseas automobile operations, and other factors.

**6) Chemicals Group**

The Chemicals Group trades and invests in the commodity chemicals and functional chemicals fields. Commodity chemicals include petrochemicals, olefins and aromatics, methanol, ammonia, chlor-alkali, fertilizer and inorganic chemicals. Functional chemicals include plastics, functional materials, electronic materials, food ingredients, and fine chemicals.

The segment recorded consolidated net income of ¥26.8 billion, down ¥7.9 billion, or 22.8%. The lower segment consolidated net income reflected the absence of tax benefits from a higher equity interest in a petrochemical business-related company in the fiscal year ended March 31, 2008 and lower earnings on transactions at overseas regional subsidiaries.

#### 7) Living Essentials Group

The Living Essentials Group provides products and services in wide-ranging fields related to foods (commodity), foods (products), textiles and general merchandise. These fields extend from the procurement of raw materials to the consumer market.

The segment posted consolidated net income of ¥32.8 billion, ¥18.1 billion, or 35.6%, lower year on year. The lower earnings were mainly due to share write-offs and lower equity in earnings of general merchandise-related business investees because of lower sales and other factors.

#### Performance of Consolidated Subsidiaries and Affiliates

	Billions of Yen		
	2007.3	2008.3	2009.3
Total profits .....	¥423.0	¥429.8	¥518.1
No. of companies reporting profits .....	459	456	433
Total losses .....	¥ (30.4)	¥ (29.9)	¥ (94.8)
No. of companies reporting losses .....	116	129	157
Percentage of profitable group companies .....	80%	78%	73%

#### Geographic Information

##### 1) Japan

Operating transactions edged down ¥5.1 billion from ¥18,150.6 billion to ¥18,145.5 billion due to a decrease in metals- and chemical products-related transactions at the parent company because of falling prices, although energy-related transactions rose at the parent company and transactions rose at Metal One. Gross profit increased ¥29.0 billion, or 3.8%, to ¥795.4 billion due mainly to the effect of new consolidations of food-related subsidiaries.

##### 2) U.S.A.

Operating transactions decreased ¥311.5 billion, or 19.5%, to ¥1,289.3 billion, despite a boost from new consolidations of food-related companies. The decrease reflected the impact of lower commodity prices and foreign currency movements at overseas regional subsidiaries. Gross profit decreased ¥8.7 billion, or 11.2%, to ¥68.7 billion, despite a boost from new consolidations of food-related companies. The decrease was mainly due to the deconsolidation of some overseas regional subsidiaries and the effect of foreign currency movements.

##### 3) Australia

Operating transactions increased sharply by ¥319.5 billion, or 85.0%, to ¥695.5 billion, the result mainly of higher sales prices at an Australian resource-related subsidiary (coking coal). Gross profit increased ¥287.9 billion, or 327.7%, to ¥375.8 billion for similar reasons.

##### 4) Other

Operating transactions decreased ¥716.9 billion, or 24.1%, to ¥2,258.8 billion. In addition to a decrease in operating transactions at overseas regional subsidiaries in the U.K. and Germany due to falling commodity prices and foreign currency movements, operating transactions decreased in Thai and European automobile operations due to lower sales units and foreign currency movements. Gross profit decreased ¥17.3 billion, or 7.2%, to ¥223.3 billion due mainly to lower sales units and foreign currency movements in Thai and European automobile operations.

Note: "Operating transactions" is a voluntary disclosure solely for the convenience of Japanese investors (see Note 1 in the accompanying notes to the consolidated financial statements).

### 3. Fiscal Year Ended March 31, 2008 Segment Information

#### Operating Segments

##### 1) Business Innovation Group

The group recorded consolidated net income of ¥1.1 billion, down ¥0.8 billion, or 43.6%, from the fiscal year ended March 31, 2007. While the conversion of a temporary staffing affiliated company into a subsidiary and healthy transactions at IT-related subsidiaries had a beneficial impact on earnings, the overall bottom-line result mainly reflected the absence of gains on share sales recorded in the fiscal year ended March 31, 2007.

##### 2) Industrial Finance, Logistics & Development Group

This group posted consolidated net income of ¥24.2 billion, down ¥10.0 billion, or 29.3%, year on year, despite recording higher gains on the sale of developed real estate and higher REIT-related earnings, as well as a strong overall performance in the logistics business. The decline mainly reflected the absence of the gain on the sale of Diamond City shares in the fiscal year ended March 31, 2007.

##### 3) Energy Business Group

The Energy Business Group recorded consolidated net income of ¥94.2 billion, ¥20.1 billion, or 27.1% higher year on year, the result chiefly of a gain on the effect of rising crude oil prices at overseas resource-related subsidiaries, the sale of part of equity interest in the Sakhalin II Project, and some foreign tax credits on overseas dividends.

#### 4) Metals Group

The Metals Group posted consolidated net income of ¥158.2 billion, down ¥28.2 billion, or 15.1%, from the fiscal year ended March 31, 2007, the result mainly of a large decline in net income at an Australian resource-related subsidiary (coking coal) due to a lower coking coal price and other factors. However, the decline in consolidated net income was limited by higher earnings at companies involved with other metal resources such as copper and ferrochrome.

#### 5) Machinery Group

This group posted consolidated net income of ¥68.1 billion, ¥8.7 billion, or 14.7% more than in the fiscal year ended March 31, 2007, due to new consolidations in the overseas IPP business, as well as recovery of the auto market in Asia and foreign exchange rate movements. Limiting an even higher increase was the absence of gains on the sales of shares recorded in the fiscal year ended March 31, 2007.

#### 6) Chemicals Group

This group recorded consolidated net income of ¥34.7 billion, ¥14.7 billion, or 73.7% more than in the fiscal year ended March 31, 2007. The increase was due to tax benefits from a higher equity interest in a petrochemical business-related company and strong transactions at overseas regional subsidiaries.

#### 7) Living Essentials Group

The group posted consolidated net income of ¥51.0 billion, ¥2.7 billion, or 5.6% higher year on year, the result of strong performances in food-related businesses, including the effect of making some affiliated companies subsidiaries, and the effect of applying the equity method of accounting to a general merchandise-related company.

### Geographic Information

#### 1) Japan

Operating transactions rose ¥1,940.3 billion, or 12.0%, to ¥18,150.6 billion due to higher metals- and machinery-related transactions at the parent company, increased transactions at Metal One and the effect of new consolidations. Gross profit rose ¥72.2 billion, or 10.4%, to ¥766.3 billion, reflecting mainly the effect of new consolidations of food-related subsidiaries.

#### 2) U.S.A.

Operating transactions climbed ¥221.0 billion, or 16.0%, to ¥1,600.8 billion due mainly to the effect of converting some food-related companies into subsidiaries. Gross profit increased ¥11.5 billion, or 17.5%, to ¥77.4 billion due mainly to higher chemical product transactions at U.S. regional subsidiaries and the effect of new consolidations.

#### 3) Other

Operating transactions increased ¥415.2 billion, or 14.1%, to ¥3,351.6 billion, the result of higher automobile-related transactions at Chinese regional subsidiaries and European subsidiaries, as well as the impact of a weaker yen on the yen-conversion of results at Thai automobile-related subsidiaries. Gross profit decreased ¥57.1 billion, or 14.8%, to ¥328.5 billion, primarily reflecting a lower coking coal price at an Australian resource-related subsidiary (coking coal).

Note: "Operating transactions" is a voluntary disclosure solely for the convenience of Japanese investors (see Note 1 in the accompanying notes to the consolidated financial statements).

### 4. Fiscal Year Ended March 31, 2009 Operating Environment and Fiscal Year Ending March 31, 2010 Outlook by Operating Segment

Effective April 1, 2009, MC implemented a progressive reorganization of the Business Innovation Group to establish the new Corporate Development Section, leaving the following six business groups.

#### 1) Industrial Finance, Logistics & Development Group

The Industrial Finance, Logistics & Development Group was formed on April 1, 2007. It is developing a *shosha*-type industrial finance business in areas such as asset finance<sup>\*1</sup>, by integrating expertise in assets and businesses that MC has obtained as a *sogo shosha* with financial expertise.

In the first six months of the fiscal year ended March 31, 2009, we took a number of initiatives aimed at medium- and long-term growth. We established Marunouchi Capital Co., Ltd., an investment fund management company to strengthen our buyout investment<sup>\*2</sup> business in Japan, and structured a buyout investment fund of ¥100.0 billion. In addition, we subscribed to a private placement of shares to raise capital by Mitsubishi UFJ Lease & Finance Company Limited to strengthen our cooperation with this company in the leasing business at home and abroad. In another development, we established MC Aviation Partners Inc. with the goal of flexibly promoting our aircraft leasing business on a global scale.

In the second half of the fiscal year ended March 31, 2009, the financial crisis that began in the U.S. spread quickly to the rest of the world, leading to falling stocks, and then had a major impact on real economies.

The Industrial Finance, Logistics & Development Group's key business domains are the financial and real estate markets. As such, this business group felt the direct and significant effects of trends in each market. Due to write-downs of shares, and lower fund investment- and real estate-related earnings, we posted a

## Performance at Principal Subsidiaries and Affiliates (Profits over ¥1.0 billion or losses over ¥1.0 billion)

### Companies Reporting Profits

Group	Company Name	Share- holding (%)	Equity in earnings (¥ Billion)		Main Business
			Fiscal Year Ended March 31, 2009 Full Year	Fiscal Year Ended March 31, 2008 Full Year	
Domestic:					
Metals	JECO Corporation	70.00	14.0	26.1	Investment company for Minera Escondida Ltda. copper mines
Metals	Metal One Corporation	60.00	13.3	21.0	Steel products operations
Living Essentials	LAWSON, INC.	32.67	8.2	7.0	Franchise chain of LAWSON convenience stores
Chemicals	SPDC Ltd.	30.39	8.0	8.5	Investment and petroleum and petrochemicals-related business
Energy	MPDC Gabon Co., Ltd.	100.00	5.0	5.6	Exploration, development and production of oil in Gabon
Industrial Finance, Logistics & Development	Mitsubishi UFJ Lease & Finance Company Ltd.	20.00	3.1	3.4	Leasing, installment sales, other financing
Energy	Astomos Energy Corporation	49.00	2.0	1.8	Import, trading, domestic distribution and sales of LPG
Metals	MC Resources Trade & Logistics	100.00	2.0	1.5	Sales of ferrous raw materials and services business
Living Essentials	RYOSHOKU LIMITED	51.16	1.8	1.3	Wholesale of food products
Business Innovation	IT Frontier Corporation	100.00	1.6	1.6	IT-related business solutions, system integration services, IT management services and product marketing, etc.
Industrial Finance, Logistics & Development	Mitsubishi Corporation LT, Inc.	100.00	1.6	1.7	Warehousing, leasing and real estate operations
Energy	Angola Japan Oil Co., Ltd.	51.00	1.5	1.1	Exploration, development and production of oil in Angola
Living Essentials	San-Esu Inc.	91.93	1.4	1.0	Wholesale of confectionary products
Living Essentials	Mitsubishi Shoji Packaging Corporation	88.22	1.3	1.4	Marketing of packaging materials and paper, kraft liner boards, and cardboard as well as import and export of paper and paperboard
Chemicals	Mitsubishi Shoji Plastics Corp.	100.00	1.2	1.5	Marketing of synthetic raw material and plastics
Living Essentials	Dai-Nippon Meiji Sugar Co., Ltd.	100.00	1.2	1.3	Manufacturing and wholesale of sugar products
Machinery	Mitsubishi Corporation Technos	100.00	1.2	1.4	Sales of machine tools and industrial machinery
Metals	Mitsubishi Shoji Light Metal Sales Corporation	100.00	1.1	0.3	Trading of aluminum ingots and other non ferrous metal ingots
Living Essentials	Life Corporation	20.84	1.1	0.9	Supermarket chain stores
Living Essentials	Nihon Shokuhin Kako Co., Ltd.	59.77	1.1	0.3	Manufacturing of corn starch and related processed products
Innovation	T-Gaia Corporation	22.78	1.1	0.0	Handling of subscriber contracts for various communication services, sales of handsets and equipment
Note: MS Communications Co., Ltd. merged with Telepark Corp. in the fiscal year ended March 31, 2009. The latter was the surviving company and was subsequently renamed T-Gaia Corporation.					
Overseas:					
Metals	Mitsubishi Development Pty Ltd (Australia)	100.00	191.7	61.7	Investment in as well as production and sales of metal resources, mainly coal
Metals	Iron Ore Company of Canada (Canada)	26.18	14.5	5.9	Iron ore production and sales
Metals	M.C. Inversiones Limitada (Chile)	100.00	12.6	7.9	Investment company for Los Colorados iron ore mine
Metals	MCA Metals Holding GMBH (Austria)	100.00	10.4	13.9	Investment company for Mozambican MOZAL aluminum smelter
Machinery	Tri Petch Isuzu Sales Co., Ltd. (Thailand)	88.73	5.1	11.1	Importing and distribution of automobiles
Metals	MC Copper Holdings B.V. (The Netherlands)	100.00	4.5	7.5	Investment company for Chilean Los Pelambres copper mine
Corporate Staff	Mitsubishi Corporation International N.V. (U.K.)	100.00	4.3	1.6	Trading
Living Essentials	Princes Limited (U.K.)	100.00	4.2	5.4	Manufacturing and wholesale of food products
Energy	Diamond Gas Resources Pty, Ltd. (Australia)	100.00	4.1	11.3	Sales of crude oil and condensate
Metals	Hernic Ferrochrome (Pty) Ltd. (Republic of South Africa)	50.98	4.0	2.2	Production and sales of ferrochrome in South Africa
Machinery	Isuzu Operations (Thailand) Co., Ltd. (Thailand)	80.00	3.8	4.8	Exporting and distribution of automobiles
Machinery	Diamond Generating Corporation (U.S.A.)	100.00	2.9	2.3	Independent power producer in North America
Metals	Triland Metals Ltd. (U.K.)	100.00	2.8	2.6	London Metal Exchange (LME) broker
Machinery	Isuzu Motors Co., (Thailand) Ltd. (Thailand)	27.50	2.7	3.9	Manufacturing of automobiles
Metals	Ryowa Development II Pty, Ltd. (Australia)	100.00	2.7	2.3	Investment company for BOYNE aluminum smelter and sales of aluminum
Corporate Staff	Mitsubishi International Corporation (U.S.A.)	100.00	2.2	11.0	Trading
Industrial Finance, Logistics & Development	MC Aviation Financial Services (Europe) B.V. (The Netherlands)	100.00	1.8	0.5	Aircraft leasing and finance
Metals	Petro-Diamond Risk Management Ltd. (U.K.)	100.00	1.6	0.7	Energy-related commodity risk management
Corporate Staff	Mitsubishi Corporation (Shanghai) Ltd. (China)	100.00	1.6	3.1	Trading
Energy	Diamond Tanker Pte. Ltd. (Singapore)	100.00	1.5	1.4	Marine transportation, etc.
Metals	Ryowa Development Pty, Ltd. (Australia)	100.00	1.5	1.3	Investment company for BOYNE aluminum smelter and sales of aluminum
Living Essentials	Indiana Packers Corporation (U.S.A.)	80.00	1.5	0.8	Processing and sales of pork
Living Essentials	AGREX, Inc. (U.S.A.)	100.00	1.4	1.9	Storage and marketing of grain
Machinery	TEAM DIAMOND HOLDING CORP (Philippines)	51.21	1.3	1.0	Management of power generation assets at Ilijan, Philippines
Energy	Petro-Diamond Inc. (U.S.A.)	100.00	1.2	0.8	Marketing and sales of petroleum products
Living Essentials	MCC Development Corporation (U.S.A.)	30.00	1.2	2.6	Holding company of ready-mixed concrete companies
Chemicals	Metanol de Oriente, METOR, S.A. (Venezuela)	25.00	1.1	2.6	Manufacturing and marketing of methanol
Corporate Staff	Mitsubishi Australia Limited (Australia)	100.00	1.0	1.4	Trading
Corporate Staff	Mitsubishi Corporation (Taiwan) Ltd. (Taiwan)	100.00	1.0	1.0	Trading

## Companies Reporting Loss

Group	Company Name	Shareholding (%)	Equity in earnings (¥ Billion)		Main Business
			Fiscal Year Ended March 31, 2009 Full Year	Fiscal Year Ended March 31, 2008 Full Year	
Domestic:					
Living Essentials	Meidi-ya Corporation	80.00	(1.1)	(2.5)	Wholesale of food products
Metals	NIKKEI MC ALUMINIUM CO., LTD.	45.00	(1.4)	0.3	Manufacturing and sales of secondary aluminum alloy ingots
Chemicals	Kohjin Co., Ltd.	73.09	(1.4)	0.3	Manufacturing of special papers, plastic films, biochemicals and fine chemicals
Metals	Mitsubishi Corporation Futures & Securities Ltd.	100.00	(1.5)	(0.4)	Commodity broker
Overseas:					
Energy	MC KRUENG MANE LIMITED (U.K.)	100.00	(1.1)	-	Exploration of crude oil and natural gas
Energy	ENERGI MEGA PRATAMA INC. (Indonesia)	25.00	(1.1)	0.6	Stockholding company for the companies engaged in exploration, development, and production of oil and natural gas in Indonesia
Industrial Finance, Logistics & Development	MC Capital Inc. (U.S.A.)	100.00	(1.4)	(0.6)	Investment and related activities
Machinery	MMC Automoviles Espana S.A. (Spain)	75.00	(1.6)	0.7	Importing and distribution of automobiles
Industrial Finance, Logistics & Development	Diamond Realty Investments UK (U.K.)	100.00	(1.7)	(0.1)	Real estate fund investment company
Machinery	The Colt Car Company Ltd. (U.K.)	100.00	(1.7)	0.4	Importing and distribution of automobiles
Industrial Finance, Logistics & Development	Diamond Realty Investments, Inc. (U.S.A.)	100.00	(5.3)	1.3	Real estate investment
Metals	MC Iron and Steel Pty Ltd. (Australia)	100.00	(5.4)	(1.5)	Steel manufacturing using the direct iron ore smelting reduction process
Machinery	OneEnergy Limited (Cayman Islands, British overseas territory)	50.00	(6.2)	4.2	Independent power producer in Southeast Asia and Taiwan
Energy	MCX Exploration (USA) Ltd. (U.S.A.)	100.00	(18.6)	0.7	Exploration, development and production of oil and natural gas

consolidated net loss of ¥41.2 billion in this business group in the fiscal year ended March 31, 2009.

Some time will be needed before the turmoil caused by the financial and economic crises abates and market conditions stabilize. However, eyeing a return to the medium- and long-term trends shaping the financial market environment in Japan, we will push steadily ahead with strategies to establish a solid business base for responding to a changing market environment. These trends include the emergence of institutions other than banks that are meeting corporate finance needs, such as non-banks and funds; the increasing propensity of Japanese households to invest rather than save their money; and the flow of private-sector capital into the public sector.

In the fiscal year ending March 31, 2010, we plan to further strengthen and refine the necessary functions for developing our *shosha*-type industrial finance business in the finance, development and construction and logistics services fields.

In the Merchant Banking, M&A Division, we will continue to make buyout investments in Japan through Marunouchi Capital, and reinforce our financial product asset management business. In the lease business, we plan to step up cooperation with Mitsubishi UFJ Lease & Finance Company and expand our aircraft leasing business. In the real estate-related business, we aim to build an organic value chain by strengthening and fusing Group functions in finance, development and construction and logistics services.

\*1 Asset finance: a technique for raising funds by selling, securitizing or otherwise liquidating real estate, accounts receivable or other assets.

\*2 Buyout investment: an investment technique for earning an investment return by investing in an existing company and providing management support to increase the invested company's corporate value.

## 2) Energy Business Group

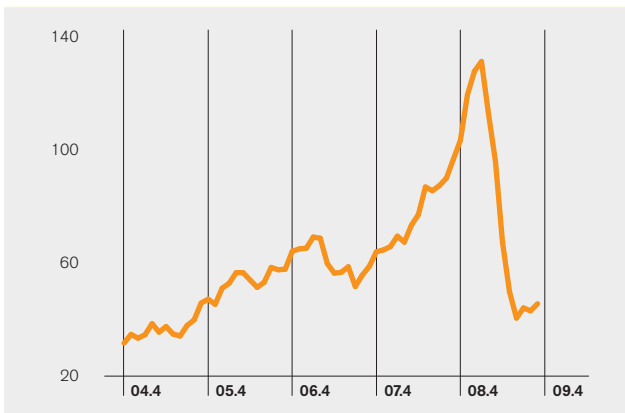
In the first half of 2008, crude oil prices rose steeply, on concerns over tight supplies. These concerns were stoked by limited surplus production capacity among OPEC (Organization of the Petroleum Exporting Countries) member countries and no spare capacity among non-OPEC members to meet robust crude oil demand fueled by high global economic growth. Due also to the inflow of speculative money into commodity markets, including crude oil, as an inflation hedge against the weak U.S. dollar in the wake of the U.S. subprime loan problem, the price per barrel of crude oil rocketed from around US\$90 at the beginning of 2008 to a historic high of US\$147.27 in July 2008. While the price per barrel of crude oil subsequently drifted lower, the defining moment for the year came with the collapse of Lehman Brothers in September. The ensuing financial unease and economic downturn that enveloped the world resulted in the crude oil price plummeting to US\$32.40 per barrel in December 2008, a freefall of more than US\$100.

Since the beginning of 2009, amid an ongoing decline in demand for crude oil due to the economic downturn, the crude oil price in the first half of 2009 has been propped up by a reduction in OPEC crude oil production of 4.2 million barrels per day that was decided in stages from September to December 2008, as well as by policies implemented on a global scale to eliminate financial unease and stimulate economies. More recently, the crude oil price has risen from its low, with speculative money once again entering the commodity markets due to fears that quantitative easing will ignite inflation. Increasing signs that economic activity has bottomed out have also supported the recent rise in the crude oil price.

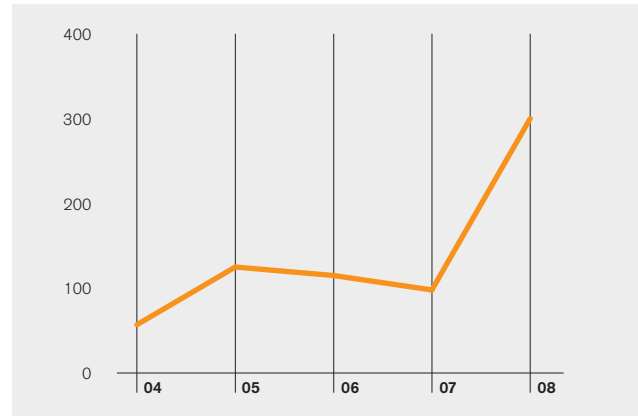
On the other hand, with oil inventories rising worldwide because of persistently weak demand for oil amid the economic recession, a higher crude oil price is difficult to imagine as long as there is no recovery in oil demand, since OPEC production cutbacks have created surplus production capacity on the supply side.

Our consolidated net income projection for the fiscal year ending March 31, 2010 for this business group assumes a crude oil price of US\$50/BBL (Dubai spot price). The Energy Business Group owns upstream rights to LNG and oil and liquefaction facilities in Western Australia, Malaysia, Brunei, the U.S., including the Gulf of Mexico, Gabon, Angola and other parts of the world. Therefore, our operating results are subject to the effect of fluctuations in the price of crude oil. A US\$1/BBL change in the price of crude oil has an approximate ¥1.0 billion effect on our consolidated net income, mainly through a change in equity method earnings. However, because of timing differences, this price fluctuation might not be immediately reflected in our operating results in the fiscal year in which it occurs.

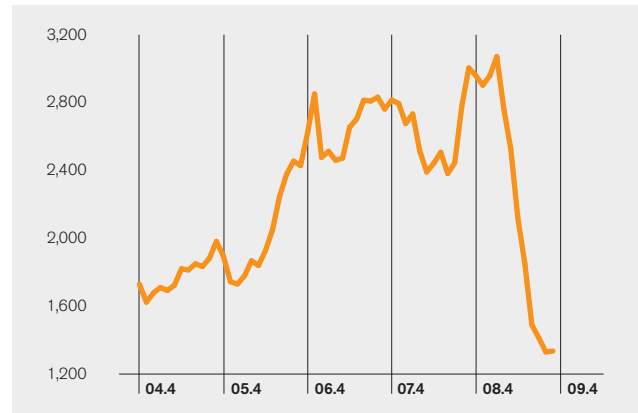
**Crude Oil Price (Dubai Spot Price)**  
(US\$/BBL)



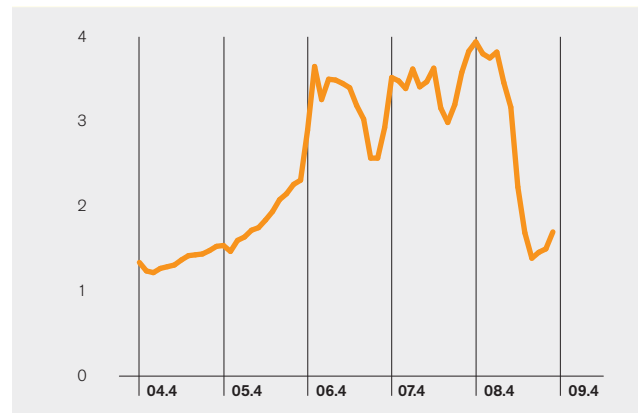
**FOB Price of Australian Coking Coal Shipped to Japan**  
(US\$/MT)



**Aluminum Price**  
(US\$/MT)



**Copper Price**  
(US\$/lb)



### 3) Metals Group

In the metal resources business, supplies of metals resources, which have remained tight since the latter half of 2003, experienced a reversal due to the global economic slowdown during the second half of the fiscal year ended March 31, 2009 that accompanied the financial crisis. Demand dropped sharply, commodity prices nosedived and the business environment deteriorated markedly. In non-ferrous metals, particularly copper and aluminum, prices went into a tailspin as the crude oil price plummeted and speculative money fled the market. Prices remained low thereafter during the second half of the fiscal year ended March 31, 2009. The average annual price of copper cathode fell from US\$3.44 per pound for the fiscal year ended March 31, 2008 to US\$2.66 per pound for the fiscal year ended March 31, 2009. Meanwhile, the price of primary aluminum ingots was US\$2,227 per MT, down from US\$2,624 per MT for the fiscal year ended March 31, 2008. Reflecting these price falls and stock price declines accompanying the economic slowdown, dividend income from copper- and aluminum-related business investees dropped sharply, and we recorded write-downs on listed shares. Even so, consolidated net income in the metal resources business rose on account of a large year-on-year increase in net income of ¥130.0 billion to ¥191.7 billion at key Australian resource-related subsidiary MDP due mainly to higher coking coal prices.

At present, mines are cutting back production in the metal resources field due to lower demand and lower commodity prices. Because a recovery in demand is expected to take some time, the outlook for supply and demand in 2009 remains uncertain. In terms of projected results for the metal resources business in the fiscal year ending March 31, 2010, we are unfortunately expecting to see a large decline in consolidated net income because of sharply lower earnings at MDP in line with lower coking coal prices, in addition to continued low commodity prices.

In the steel products business, world raw steel production in 2008 declined for the first time in 10 years by 1.2% to 1.33 billion tonnes due to a sharp drop in demand accompanying the worldwide economic slowdown during the second half of the fiscal year ended March 31, 2009. With the price of steel products also falling, Metal One Corporation, which was established in January 2003 by joint investment of Mitsubishi Corporation (60%) and Sojitz Corporation (40%), recorded a drop in net income for the fiscal year ended March 31, 2009 to ¥22.1 billion, from ¥35.1 billion in the fiscal year ended December 31, 2007. Metal One's net income reflected lower volumes mainly due to lower demand and stock price and inventory write-downs.

For the fiscal year ending March 31, 2010, the forecast for Metal One's earnings is unclear in light of the continued uncertainty surrounding demand.

### 4) Machinery Group

The Machinery Group's operating environment was strong overall in the first six months of the fiscal year ended March 31, 2009, as it benefited from a generally robust world economy, characterized by brisk demand in newly emerging countries and elsewhere, and buoyant shipping and shipbuilding markets. In the second half, however, a rapid and dramatic change in the economic environment, highlighted by slumping global demand and falling resource prices as real economies deteriorated in the wake of the financial crisis, had a significant impact on all businesses of the Machinery Group, including plant, the sale of machinery and equipment in large volumes, shipping and automobile operations.

In the plant business, in the first six months of the fiscal year under review, on the strength of continued favorable conditions, mainly in Asia, Europe and Latin America, we won a large number of orders for power generation plants, steelmaking plants and other plants. We also diversified our suppliers. After the financial crisis erupted, we saw orders fall as new projects were postponed or frozen, resulting in plant orders for the fiscal year ended March 31, 2009 of just over ¥800.0 billion, which was lower than the previous fiscal year. Although the business environment is expected to remain difficult for the time being, we will work to generate earnings by focusing on high-priority projects that are highly likely to come to fruition.

In our business where we sell machinery and equipment in large volumes, the business environment was severe, particularly in the wake of the financial crisis as demand dropped and the yen appreciated. In the face of these conditions, we will work to strengthen our operations to ensure we are ready for an economic recovery.

The shipping-related business, meanwhile, performed better than the previous fiscal year, despite a rapid fall in market prices during the second half of the fiscal year. This overall increase year on year was the result of conditions remaining favorable in the maritime shipping and shipbuilding markets and brisk inquiries for building new ships in the first six months of the fiscal year. The operating environment is expected to remain tough for the foreseeable future, but we plan to take steps to create an earnings structure that is less susceptible to changes in market prices.

In business related to Mitsubishi Motors Corporation (MMC) brand automobiles, the business environment was harsh after the financial crisis broke, as sales fell in overseas automobile operations, tracking contraction in the worldwide auto market. Volatility

in foreign currency markets also negatively shaped the business environment. For the time being, at the same time as strengthening our existing business base in Indonesia and Western European countries, we will take actions in Russia, China and other newly emerging countries, which are strategic from a medium- to long-term perspective.

In business related to Isuzu Motors Limited (Isuzu) brand automobiles, the business environment was similarly difficult after the financial crisis began. For the time being, we intend to strengthen the foundations of our existing businesses, including a manufacturing and sales business for commercial vehicles in Thailand that is operated as a joint venture with Isuzu Motors. At the same time, we will focus on expanding the export business of completed vehicles from Thailand to other countries as a medium- to long-term strategy.

#### **5) Chemicals Group**

During the past fiscal year, the global financial crisis spread to the real economy, catalyzing large falls in crude oil and naphtha prices. This in turn led to much lower prices for chemical products worldwide in the second half of 2008. Demand has also contracted in the wake of the real economic downturn.

In China, a recovery trend has been seen in some sectors thanks to the success of government measures to stimulate domestic demand and inventory adjustments after the Chinese New Year in 2009. However, the longer-term outlook is unpredictable. At the same time, new facilities being constructed by Middle Eastern oil-producing countries to harness their overwhelming competitive edge in natural gas to produce petrochemical products—the so-called “2008–2009 Problem”—will be completed soon and are expected to become fully operational as early as the second half of 2009.

In Asia, a key product market, companies operating in petrochemical industries in Japan and neighboring countries will determine their supply positions in neighboring markets while adjusting capacity utilization to reflect worldwide raw materials and fuel trends, market conditions and economic potential. Accordingly, the industry as a whole is expected to see further conversion, closure and consolidation of surplus facilities.

Furthermore, as environmental problems increase, we expect to see accelerated development of future energy sources, resulting in greater focus on chemical products as key materials. With efforts already under way to develop and mass-produce materials in a bid to cut costs, we expect to see various moves on a global basis to secure the necessary resources and to develop product technologies.

In light of these economic and chemical industry trends, we plan to focus on strengthening transactions locally in growth markets.

At the same time as strengthening core businesses, namely Saudi Arabian petrochemical operations, Venezuelan methanol business and aromatics in Malaysia, we will continue to develop the value chain in midstream and downstream sectors and strengthen consolidated businesses. We will also continue to take up the challenge of entering environment-related products, life science and other fields that respond to increasing needs. And we plan to strengthen trading and make more related business investments.

#### **6) Living Essentials Group**

The Living Essentials Group is seeing major changes in economic conditions. In addition to sluggish consumption caused by the recent financial crisis and diversifying consumer values, we are witnessing increasing interest in food safety and environmental preservation. Major changes are also taking place in terms of the global supply and demand of primary produce such as food and forestry resources amid economic development and population growth in emerging nations and increasing demand for biofuels. This has ignited fierce competition for procuring resources. Competition among companies has also grown more intense in this business environment. We therefore expect to see the pace of change quicken going forward, with companies prioritizing their businesses and more consolidations that transcend business models.

The Living Essentials Group sees business opportunities in all this change and will flexibly and swiftly respond to these shifting market conditions by actively reforming its existing business models and developing new businesses. This should result in more growth for this business group.

In the food field, with tight supplies expected to continue worldwide, we will push ahead with efforts to strengthen our framework for procuring raw materials globally in order to respond to market needs, such as for the stable supply of food and for quality products. At the same time, we plan to build and reinforce integrated value chains extending from raw materials to transportation and processing, and product distribution and sales. These value chains will revolve around core subsidiaries in each field. And we will continue to actively target our efforts at growth markets overseas. The functions of AGREX Inc., a U.S. subsidiary engaged in storage and marketing of grain, and Princes Limited, a U.K. subsidiary of manufacturing of food products and soft drinks, will play a pivotal role here.

The Textile Division faces a challenging business environment in which personal consumption is slowing and competition based on low prices is escalating, including with foreign competitors. However, we are providing outstanding products worldwide based on more sophisticated OEM functions in the apparel field and under solid alliances with SPA companies (specialty store retailers of private label apparel). And we will continue looking to actively sell environment-related products and materials for optical communications, among other functional materials.

The General Merchandise Division felt the full impact of the economic crisis, most notably in its U.S. cement operations. However, the Division will bolster paper-related businesses, centered on Hokuetsu Paper Mills, Ltd., Mitsubishi Shoji Packaging Corporation and Canadian subsidiary Alpac Forest Products Inc. Moreover, we will upgrade the basic capabilities of our cement businesses in the U.S. and China so that they are well placed to benefit from an economic recovery going forward. And we will steadily expand sales of tires in overseas growth markets.

The Living Essentials Group established two new organizations in April 2009. One was the Next Generation Business Development unit. Directly managed by the CEO of the Living Essentials Group, this new unit was established with the goal of developing future new businesses. It will do this by promoting cross-divisional strategies related to retailing and food intermediary distribution, as well as by strengthening functions in the consumer market. The other newly established organizational body is the Human Care & Media Division. This Division will develop business in the health care field, which is expected to grow in size as a market along with the aging of Japan's population and increasing awareness of lifestyle diseases. It is also active in the media field, providing services that cater to changing market needs to consumers as well as retail businesses.

## 5. R&D Activities

Research and development costs in the fiscal year ended March 31, 2009 were ¥2.6 billion. Included in these costs are product development expenses in the animal feed business at food-related consolidated subsidiary Nosan Corporation ("Nosan"); and development expenses for foodservice and home-use products for confectionery and breadmaking manufacturers, deep-frozen food manufacturers and fast-food booked at another food-related consolidated subsidiary Nitto Fuji Flour Milling Co., Ltd. It also included product development and application development expenses for sugar alcohols, seasonings and other products at chemical products-related consolidated subsidiary Mitsubishi Shoji Food Tech Co., Ltd.

## 6. Liquidity and Capital Resources

### 1) Fund Procurement and Liquidity Management

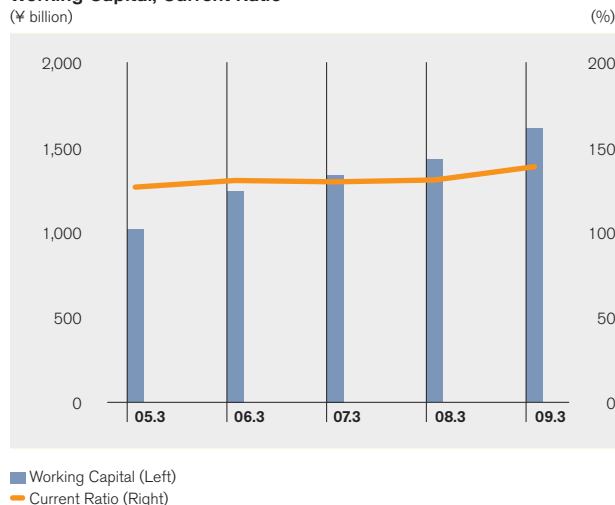
Our basic policy concerning the procurement of funds to support business activities is to raise funds in a stable and cost-effective manner. For fundraising purposes, we select and utilize, as needed, both direct financing, such as commercial paper and corporate bonds, and indirect financing, including bank loans. We seek to use the most advantageous means, according to market conditions at the time. We have a strong reputation in capital markets. Regarding indirect financing, we maintain good relationships with a broad range of financial institutions in addition to our main banks, including foreign-owned banks, life insurance companies and regional banks. This diversity allows us to procure funds on terms that are cost competitive.

In the fiscal year ended March 31, 2009, the world witnessed a credit crunch and concerns about liquidity. In this environment, we sought to diversify our fundraising sources. Assuming that the financial crisis would worsen, we also secured liquidity in yen and U.S. dollars, two key safe haven currencies, at an early stage.

As a result of these fundraising activities, on March 31, 2009, gross interest-bearing liabilities stood at approximately ¥4,900.0 billion, approximately ¥700.0 billion higher than March 31, 2008. Of these gross interest-bearing liabilities, approximately 79% represented long-term financing. Gross interest-bearing liabilities at Mitsubishi Corporation were approximately ¥3,500.0 billion, of which approximately 85% represented long-term financing, and the average remaining period was about 5 years.

In the fiscal year ending March 31, 2010, our top priority is to maintain our financial soundness given the drastically changing

### Working Capital, Current Ratio



business environment. We plan to continue raising funds mainly through long-term financing. Furthermore, so as to prepare for future demand for funds, we will seek to diversify funding sources and at the same time look to continue raising funding efficiency on a consolidated basis. Furthermore, because financial markets remain unpredictable, we will remain vigilant and secure sufficient cash and deposits, as well as increase our bank commitment lines to enhance our liquidity further.

Regarding management of funds on a consolidated basis, we have a group financing policy in which funds are raised principally by Mitsubishi Corporation, as well as domestic and overseas finance companies and overseas regional subsidiaries, and distributed to other subsidiaries. As of March 31, 2009, group financing accounted for around 66% of the gross interest-bearing liabilities of subsidiaries subject to this policy. Looking ahead, we plan to enhance our fund management system on a consolidated basis, especially in light of our stated management policy of continuously upgrading consolidated management.

The current ratio as of March 31, 2009 was 139% on a consolidated basis. In terms of liquidity, management has judged that Mitsubishi Corporation has a high level of financial soundness. Mitsubishi Corporation, Mitsubishi International Corporation (U.S.A.) and Mitsubishi Corporation Finance PLC (U.K.) as of March 31, 2009 had ¥857.8 billion in short-term debt, namely commercial paper and bonds scheduled for repayment within a year. But, since the sum of cash and deposits and bond investments due to mature within a year together with a commitment line amount to ¥1,364.6 billion, we believe we have a sufficient level of liquidity to meet current obligations. The coverage ratio for short-term debt is 159%. Mitsubishi Corporation has a yen-denominated commitment line of ¥510.0 billion with major Japanese banks, a commitment line of US\$1.0 billion with leading U.S. and European banks, and a soft currency facility with major U.S. and European banks equivalent to US\$0.3 billion.

To raise funds in global financial markets and ensure smooth business operations, we obtain ratings from three agencies: Rating and Investment Information, Inc. (R&I), Moody's Investors Service and Standard and Poor's (S&P). Our current ratings (long-term/short-term) are AA-/a-1+ (outlook stable) by R&I, A1/P-1 (outlook stable) by Moody's, and A+/A-1 (outlook stable) by S&P.

#### Rating Information (As of June 1, 2009)

Credit Agency	Long-term/Short-term
Rating and Investment Information, Inc. (R&I)	AA-/a-1+ (outlook stable)
Moody's Investors Service	A1/P-1 (outlook stable)
Standard and Poor's (S&P)	A+/A-1 (outlook stable)

#### Interest Coverage Ratio

	Billions of Yen		
	2007.3	2008.3	2009.3
Operating income .....	¥410.3	¥355.1	<b>¥588.9</b>
Interest income .....	59.9	74.3	<b>59.1</b>
Dividend income .....	137.0	134.6	<b>124.7</b>
Total .....	607.2	564.0	<b>772.7</b>
Interest expense .....	(74.3)	(86.6)	<b>(82.5)</b>
Interest coverage ratio (times) .....	8.2	6.5	<b>9.4</b>

\* Operating income = Gross profit – (Selling, general and administrative expenses + Provision for doubtful receivables)

#### 2) Total Assets, Liabilities and Shareholders' Equity

Total assets as of March 31, 2009 were ¥10,918.0 billion, down ¥832.4 billion, or 7.1%, from March 31, 2008.

Current assets decreased ¥289.5 billion, or 4.8%, from March 31, 2008 to ¥5,801.9 billion at March 31, 2009. Cash and deposits increased as we raised funds to increase liquidity so that we could weather instability in the financial markets. Derivative assets also increased due to changes in market prices. However, the overall decrease in current assets was on account of a large decline in trade receivables due to falling crude oil and other commodity prices and foreign currency movements.

Total investments and non-current receivables decreased ¥585.6 billion, or 15.8%, from March 31, 2008 to ¥3,120.2 billion at March 31, 2009. This mainly reflected a decrease in unrealized gains on listed shares held by Mitsubishi Corporation and overseas resource-related subsidiaries.

Property and equipment-net decreased ¥33.6 billion, or 2.1%, to ¥1,577.0 billion.

Total liabilities decreased ¥313.0 billion, or 3.7%, to ¥8,229.5 billion.

Current liabilities decreased ¥471.8 billion, or 10.1%, to ¥4,188.9 billion, despite an increase in fundraising at Mitsubishi Corporation and finance subsidiaries to make sure we were prepared for financial market instability. The overall decline was principally the result of lower trade payables due to falling crude oil and other commodity prices and foreign currency movements.

Long-term liabilities increased ¥158.8 billion, or 4.1%, to ¥4,040.5 billion, although deferred income taxes decreased due to a decline in unrealized gains on shareholdings. The increase was largely the result of fundraising at Mitsubishi Corporation and finance subsidiaries to insulate us from financial market instability.

Minority interests decreased ¥29.4 billion, or 8.8%, to ¥305.2 billion, the result of a decrease commensurate with unrealized gains and losses at consolidated subsidiaries and so forth.

Total shareholders' equity decreased ¥490.1 billion, or 17.1%, to ¥2,383.4 billion, despite the consolidated net income result. In addition to the payment of dividends and a decrease in net unrealized gains on securities available for sale resulting from a decrease in unrealized gains on listed shareholdings, this reflected a decrease in foreign currency translation adjustments as a result of a decline in net assets denominated in U.S. dollars, Australian dollars, the euro, the British pound and the Thai baht due to the yen's rapid appreciation.

Net interest-bearing liabilities, gross interest-bearing liabilities minus cash, cash equivalents, and time deposits, at March 31, 2009 were ¥3,551.2 billion, an increase of ¥129.3 billion, or 3.8%, from March 31, 2008. As a result, the net debt-to-equity ratio, which is net interest-bearing liabilities divided by total shareholders' equity of ¥2,383.4 billion at year-end, increased from 1.2 times at March 31, 2008 to 1.5 times.

#### Interest-Bearing Liabilities, Net Debt-to-Equity Ratio, Return on Invested Capital (ROIC)

	Billions of Yen		
	2007.3	2008.3	2009.3
Short-term borrowings . . . . .	¥ 958.9	¥1,126.9	<b>¥ 1,464.9</b>
Long-term borrowings . . . . .	2,854.8	3,056.7	<b>3,414.4</b>
Cash and deposits . . . . .	(767.5)	(761.7)	<b>(1,328.1)</b>
Interest-bearing liabilities (net) . . . . .	3,046.2	3,421.9	<b>3,551.2</b>
Total shareholders' equity . . .	2,918.4	2,873.5	<b>2,383.4</b>
Net debt-to-equity ratio (times) . . . . .	1.0	1.2	<b>1.5</b>
ROIC (core earnings) (%) . . . .	11.5	10.0	<b>14.4</b>

Notes: 1. Interest-bearing liabilities excludes the impact of adopting SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

2. Short-term borrowings above is the total of short-term debt, commercial paper and current maturities of long-term debt. Long-term borrowings is the total of long-term debt and long-term bonds.

3. ROIC (core earnings) = Core earnings / (Total shareholders' equity + Interest-bearing liabilities)

### 3) Cash Flows

Cash and cash equivalents at March 31, 2009 were ¥1,215.1 billion, up ¥465.0 billion, or 62.0%, from March 31, 2008.

Net cash provided by operating activities was ¥550.4 billion. Cash was chiefly provided by increased cash flows from transactions at resource-related subsidiaries and firm growth in dividend income from business investments, mainly resource-related companies. Another factor was a decline in working capital requirements.

There was a ¥231.3 billion, or 72.5%, year-on-year increase in cash flows from operating activities in the fiscal year ended March 31, 2009 due to a year-on-year increase in cash flows from operating transactions and a decline in working capital requirements.

Net cash used in investing activities was ¥691.2 billion. In addition to cash used for the purchase of additional shares in Chiyoda Corporation and Mitsubishi UFJ Lease & Finance Company Limited via subscription to a private placement, cash was used for the acquisition of new rights in a coking coal project by an overseas resource-related subsidiary.

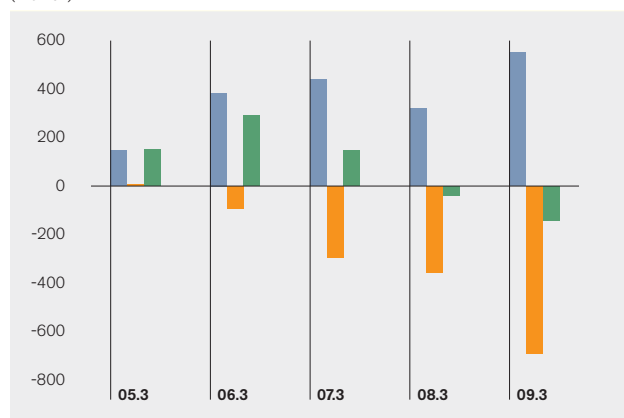
Net cash used in investing activities increased ¥334.6 billion, or 93.8%, from the fiscal year ended March 31, 2008. This reflected the absence of proceeds from the sale of some of Mitsubishi Corporation's equity interest in the Sakhalin II Project in the fiscal year ended March 31, 2008, as well as the acquisition of new working interests in a coking coal project in Australia.

As a result of the above, free cash flow, the sum of operating and investing cash flows, was a negative ¥140.8 billion.

Net cash provided by financing activities was ¥650.5 billion. One of the main uses of cash was for the payment of dividends at the parent company. The net cash inflow, however, reflected fund procurement to meet increased requirements for new investments, etc., as well as to ensure we were prepared for financial market instability.

Financing activities in the fiscal year ended March 31, 2009 provided ¥581.1 billion, or 836.4% more cash than in the fiscal year ended March 31, 2008. This reflected share buybacks in the fiscal year ended March 31, 2008 as well as the aforementioned reasons.

#### Cash Flows (¥ billion)



■ Net Cash Provided by Operating Activities  
 ■ Net Cash Provided by (Used in) Investing Activities  
 ■ Free Cash Flows

## 7. Strategic Issues

### 1) Management Issues and Plans

#### ■ Medium-Term Management Plan—INNOVATION 2009

In April 2008, Mitsubishi Corporation launched a two-year medium-term management plan ending in March 2010 called INNOVATION 2009. Carrying on from its four-year predecessor, INNOVATION 2007, this plan envisioned the Company as “A New Industry Innovator.” Under this plan, Mitsubishi Corporation had been executing management initiatives to realize three basic concepts: Grasp Change and Open Up A New Era (Develop Growth Strategy); Develop Human Assets (Utilize and Develop Human Assets); and Reinforce Internal Systems (Continuously Strengthen the Management System).

However, the Mitsubishi Corporation Group’s business environment has increasingly deteriorated, with the global economy entering a period of protracted sluggishness after the financial crisis that originated in the U.S. in the fall of 2008 spread rapidly to real economies worldwide.

As an urgent measure to counter this deteriorating business environment, Mitsubishi Corporation in October 2008 formed the president-led Financial Crisis Response Taskforce. This taskforce was charged with assessing in a timely manner conditions at the business frontlines, including the condition of large suppliers, the management status of business investees, and cash flows of the Mitsubishi Corporation Group. A framework was established to provide a unified response and necessary countermeasures were implemented.

After having adhered to the three basic concepts of its INNOVATION 2009 medium-term management plan, Mitsubishi Corporation reviewed its response to a changing business landscape and decided to prioritize its financial soundness for the time being.

In accordance with this stance, Mitsubishi Corporation decided to limit the growth in investments under its prevailing investment plan. Positioning the fiscal year ending March 31, 2010 as a year for responding immediately to changes in its business environment, Mitsubishi Corporation will work as a whole to address management issues with a sense of urgency. Among other actions, the Company will improve monitoring of low-profit businesses and cut costs.

While the business environment is difficult, Mitsubishi Corporation believes that the structural changes taking place globally will give rise to new industry needs, which will present a perfect opportunity for the Company to create new growth drivers for the future.

In April 2009, Mitsubishi Corporation initiated a progressive reorganization of the Business Innovation Group to establish the

new Corporate Development Section. This new section, which reports directly to the Company’s president, has designated four areas for corporate development so that the Company does not let growth opportunities slip through its fingers: “Functional Development,” “Business Sector Development,” “Customer Relationship Development” and “Regional Development.” We will engage in business development on a Companywide basis in the new energy and the environment and water fields, where we expect to successfully create new growth drivers over the medium and long terms, and fields related to IT, which is an essential part of the Company’s systems infrastructure. In terms of “Regional Development,” the Corporate Development Section will engage in infrastructure projects, which is a promising business field worldwide, among other areas. “Customer Relationship Development,” meanwhile, is an increasingly important domain from a medium- to long-term perspective for extending points of contact with industry in industries undergoing restructuring. The Corporate Development Section will concentrate on all these areas on a Companywide basis to lay the foundations for future growth, including making investments of a certain size.

The Mitsubishi Corporation Group’s business environment may be increasingly challenging, but the Company sees growth opportunities in these changing conditions. Mitsubishi Corporation is determined to create a company that wins recognition from shareholders, customers and all other stakeholders and realizes its vision of being “A New Industry Innovator” that contributes to society.

#### INNOVATION 2009’s Basic Concepts and Management Initiatives

##### 1. Grasp Change and Open Up A New Era for MC (Develop Growth Strategy)

Mitsubishi Corporation is implementing measures to develop businesses globally. These will include strengthening functions for identifying ever-changing global trends in an integrated fashion, and proposing strategy. Furthermore, in order to ensure that the Company effectively utilizes its business resources to enhance the quality of its business portfolio and drive growth over the medium and long terms, Mitsubishi Corporation will continue to reallocate business resources to fields where more growth can be expected over the medium and long terms such as the newly established Corporate Development Section.

##### 2. Develop Human Assets (Utilize and Develop Human Assets)

Mitsubishi Corporation will continue to build systems and environments in which its unique, multi-skilled workforce can excel, across both consolidated and global operations. The Company will also assign and relocate its people, ensuring that the right

employees are at the ready in those fields and regions where growth is expected. In this way, Mitsubishi Corporation will make the most effective, Companywide use of limited resources. From hereon Mitsubishi Corporation will work to further invigorate each organization and employee.

### 3. Reinforce Internal Systems

#### (Continuously Strengthen the Management System)

Mitsubishi Corporation will develop a stronger sense of unity throughout its consolidated companies, shore up its management foundations, and build a corporate group that is strengthened by bonds of "trust and responsibility." This goal is to increase the overall corporate value of MC on a consolidated basis and sustain growth and in this way contribute to the advancement of society. To this end, the Company will enhance the functions of its offices worldwide and further refine compliance, internal controls, process reform and system infrastructure on a Group-wide basis.

#### 2) Basic Policy Regarding the Appropriation of Profits

##### ■ Investment Plans

We plan to invest in the resources and energy fields, which we expect to remain key earnings drivers, as well as corporate development fields (including New Energy & the Environment), which we see as future sources of earnings. We will also invest in the finance, machinery, chemicals, living essentials and other fields. All investments will be made with the aim of sustaining our growth.

Given the major deterioration in the business environment due to the worldwide economic crisis that began as a financial crisis in the U.S. in September 2008, we have partially revamped our investment plans. For the time being, we will prioritize our financial soundness. Regarding new investments, in principle, we will realign our existing asset portfolio.

##### ■ Capital Structure Policy and Dividend Policy

Our basic policy is to sustain growth and maximize corporate value by balancing earnings growth, capital efficiency and financial soundness. For this, we will continue to utilize retained earnings for investments to drive growth, with the aim of achieving average ROE of at least 15% over the medium and long terms.

However, given the backdrop of the persistent economic crisis since last year, we will give utmost priority to maintaining our financial soundness among the three aforementioned targets.

In terms of our dividend policy, our basic policy is to increase the annual dividend per share through earnings growth. However, comprehensively considering recent changes in the global investment environment, and to answer shareholders' expectations for a stable dividend, among other factors, we plan to reward shareholders by raising the targeted consolidated payout ratio from 20% to between 20% and 25%. We will also purchase treasury stock

flexibly depending on earnings growth, progress with our investment plans and other factors.

Although consolidated net income at ¥369.9 billion was lower than the forecast announced in January this year, we paid a dividend per common share applicable to the fiscal year ended March 31, 2009 of ¥52, the same as previously forecast. (The interim dividend applicable to the fiscal year ended March 31, 2009 was ¥36 per share, making the year-end dividend ¥16 per share.)

In accordance with the aforementioned policy, we plan to pay a dividend of ¥34 per share for the fiscal year ending March 31, 2010, providing we achieve our current consolidated net income\* forecast of ¥220.0 billion and thereby raise the dividend payout ratio to 25%.

\* Refers to "Consolidated net income attributable to Mitsubishi Corporation," which is equivalent to consolidated net income through the fiscal year ended March 31, 2009.

[For Reference: Annual Ordinary Dividends]

Fiscal year ended March 31, 2003 = ¥8 per common share  
 Fiscal year ended March 31, 2004 = ¥12 per common share  
 Fiscal year ended March 31, 2005 = ¥18 per common share  
 Fiscal year ended March 31, 2006 = ¥35 per common share  
 Fiscal year ended March 31, 2007 = ¥46 per common share  
 Fiscal year ended March 31, 2008 = ¥56 per common share  
 Fiscal year ended March 31, 2009 = ¥52 per common share

### 3) Main Investment Activities

In April 2008, Mitsubishi Corporation subscribed to a private placement of shares to raise capital by Mitsubishi UFJ Lease & Finance Company Limited, increasing its shareholding to 20.00% of Mitsubishi UFJ Lease & Finance Company's issued shares. As a result, Mitsubishi UFJ Lease & Finance Company became an equity-method affiliate.

MC and Mitsubishi UFJ Lease & Finance Company have been cooperating closely for a long time on the expansion of domestic businesses and launch of overseas businesses. For example, recently we established an auto-leasing joint venture company, entered into general leasing business in Saudi Arabia and also entered into the fleet leasing business in Turkey. We determined that the maintenance and further development of our relationship would help accelerate growth of our Industrial Finance, Logistics & Development businesses and cultivate large-scale businesses. We therefore decided to subscribe to the private placement because it was seen as an extremely effective strategy.

We see the leasing business as a financial services business focused on assets and services in which we can leverage our

unique general trading company expertise. Looking ahead, by combining the respective expertise of MC and Mitsubishi UFJ Lease & Finance Company, we plan to develop joint businesses in business domains in Japan and overseas.

In September 2008, BMA acquired 100% of the Saraji East project, an undeveloped metallurgical coal resource located near Dysart in the Bowen Basin, Queensland, Australia, from New Hope Corporation Limited. BMA is a coking coal joint venture in which Mitsubishi Corporation holds a 50% interest through its subsidiary Mitsubishi Development Pty Ltd. The remaining 50% interest is held by BHP Billiton Ltd.

As a result of drilling before the acquisition of this interest, the Saraji East project has found extensive high-quality metallurgical coal inferred resources. Furthermore, due to the proximity of the Saraji East coking coal project adjacent to the Saraji Mine already owned by BMA, significant synergies are expected with existing coking coal operations.

In April 2008, Mitsubishi Corporation subscribed to a private placement of shares to raise capital by Chiyoda Corporation, raising its shareholding ratio from 10.27% to 33.40%. As a result, Chiyoda Corp. was accounted for as an equity-method affiliate from the fiscal year ended March 31, 2009. Chiyoda Corp. is a leading company in the chemical plant engineering industry. It has a track record of constructing large-projects, including LNG plants, and is well known and respected among overseas customers.

MC and Chiyoda Corp. have cooperated in a wide range of activities, including tendering for projects, construction and procuring construction materials and equipment over many years. We believe that by subscribing to the shares offered by Chiyoda Corp. through the private placement, we will build an even stronger relationship with this company than before. And by drawing on our strengths such as our extensive network and know-how in the energy and chemical product fields, we are committed to working with Chiyoda Corp. to drive further growth in both companies.

In December 2008, we inked a comprehensive business alliance agreement with AEON Co., Ltd. and increased our shareholding in this company to 5.05% of its issued shares. Under the

alliance agreement, MC and AEON will work to modernize and streamline distribution mechanisms, create systems for procuring products offering quality and prices that satisfy consumers, and implement initiatives in finance, IT and marketing designed to maximize consumer convenience. MC and AEON enjoy a friendly business relationship, having cooperated in various fields, such as shopping center development and product procurement, from the founding days of JUSCO Co., Ltd., the forerunner to AEON. The comprehensive business alliance is thus based on a relationship of trust cultivated over many years. MC and AEON will take advantage of each other's networks—AEON's store and customer network and MC's global procurement and information network—with the aim of raising corporate value at both companies over the medium and long term.

#### 4) Outlook for Fiscal Year Ending March 31, 2010

We are forecasting consolidated operating transactions of ¥17,000.0 billion, ¥5,389.1 billion down on the fiscal year ended March 31, 2009 due to an expected drop in transaction volumes because of falling commodities markets and a deteriorating real economy. Gross profit is forecast to decline ¥353.2 billion to ¥1,110.0 billion due to lower coking coal prices and other factors. Combined with the fact that selling, general and administrative expenses are projected to remain on a par with the fiscal year ended March 31, 2009, operating income is forecast to decline ¥358.9 billion to ¥230.0 billion. In other items, we are forecasting lower dividend income and equity-method earnings from business investees, although we are expecting an improvement in gain (loss) on marketable securities and investments—net given the share write-offs booked in the fiscal year ended March 31, 2009.

As a result, "Consolidated net income attributable to Mitsubishi Corporation" is projected at ¥220.0 billion, a decrease of ¥149.9 billion year on year. Projections are based on the following assumptions.

\* Consolidated net income attributable to Mitsubishi Corporation is equivalent to consolidated net income through the fiscal year ended March 31, 2009.

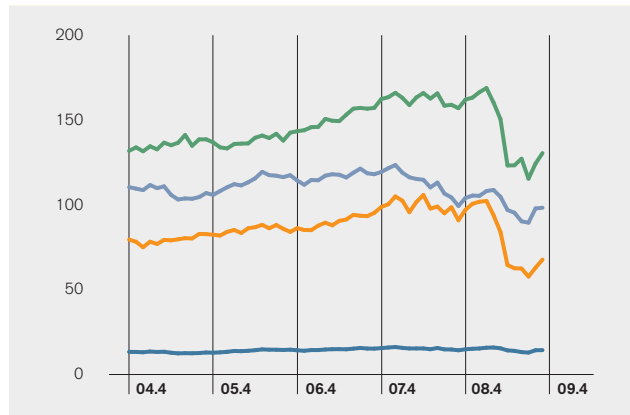
#### Reference: Change of basic assumptions

	2010.3 (Est.)	2009.3 (Act.)	Change
Exchange rate (¥/US\$)	¥100.0/US\$1	¥100.7/US\$1	-¥0.7/US\$1
Crude oil price (US\$/BBL)	US\$50.0/BBL	US\$81.8/BBL	-US\$31.8/BBL
Interest rate (TIBOR, %)	0.70%	0.82%	-0.12%

Note: Earnings forecasts and other forward-looking statements in this annual report are management's current views and beliefs in accordance with data currently available, and are subject to a number of risks, uncertainties and other factors that may cause actual results to differ materially from those projected.

### Exchange Rates of Major Currencies

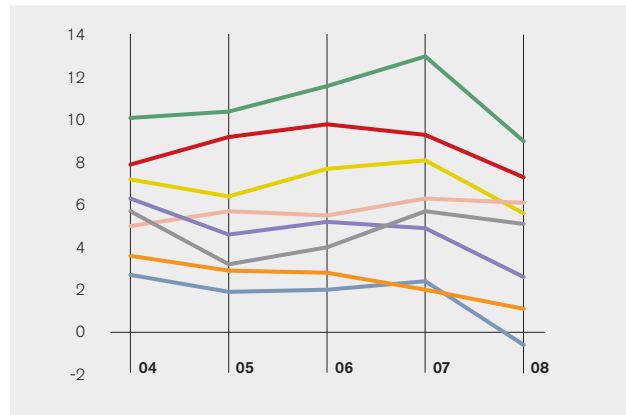
(¥)



— US\$ — A\$  
— Euro — Yuan

### Real GDP Growth Rates of Major Countries / Regions

(%)



— Japan — India  
— U.S.A. — China  
— Brazil — Thailand  
— Russia — Indonesia

## 8. Business Risks

### 1) Risks of Changes in Global Macroeconomic Conditions

As we conduct businesses on a global scale, there is a relationship between our operating results and economic trends in major countries around the world. Economic trends in Japan are undeniably important, but the impact of economic trends in overseas countries on our operating results has also become significant.

The financial crisis, which was triggered by the collapse of a major U.S. financial institution in September 2008, has reverberated rapidly and affected real economies around the world. The resulting decline in corporate activity and consumer sentiment dealt a major blow to the world economy in the fiscal year ended March 31, 2009. Japan's economy experienced a fall in overseas demand and a stronger yen in the wake of the global financial crisis. As a result, the Japanese economy lurched deeper into recession, with a rapid drop-off in exports, which had driven Japan's economy, precipitating significant production cutbacks.

A continued decline in prices for energy and metal resources due to falling global demand going forward could further affect our resource-related import transactions and earnings from business investments. Furthermore, the worldwide economic slowdown could affect our entire export-related business, including plants, construction machinery parts, automobiles, steel products, ferrous raw materials, chemical products, and other products.

In Thailand and Indonesia, we have various automobile businesses, including automobile assembly plants, distribution and sales companies and financial services companies jointly established with Japanese automakers. Because automobile sales volume reflects internal demand in each of these countries,

economic trends in both Thailand and Indonesia may have a significant bearing on earnings from our automobile operations.

### 2) Market Risks

(Unless otherwise stated, calculations of effects on future consolidated net income are based on consolidated net income for the fiscal year ended March 31, 2009. Consolidated net income, as used hereinafter, refers to "Consolidated net income attributable to Mitsubishi Corporation," which is equivalent to consolidated net income through the fiscal year ended March 31, 2009.)

#### (1) Commodity Market Risk

In the course of our business activities, we are exposed to various risks relating to movements in prices of commodities as a trader, an owner of rights to natural and energy resources, and a producer and seller of industrial products of our investees. Product categories that may have a large impact on our operating results are as follows:

#### (Energy Resources)

We hold upstream rights to LNG and crude oil, and/or liquefaction facilities in Western Australia, Malaysia, Brunei, Gabon and other regions. Movements in LNG and crude oil prices may have a significant impact on operating results in these businesses.

Fundamentally, LNG prices are linked to crude oil prices. As an estimate, a US\$1/BBL fluctuation in the price of crude oil would have an approximate ¥1 billion effect on consolidated net income for LNG and crude oil combined, mainly through a change in equity-method earnings. However, fluctuations in the price of LNG and crude oil might not be immediately reflected in our operating results because of timing differences.

### (Metal Resources)

Through wholly owned Australian subsidiary Mitsubishi Development Pty Ltd (MDP), we sell around 28 million tons of coal per year, mainly coking coal, a ferrous raw material. Fluctuations in the price of coking coal may affect our consolidated operating results through MDP's earnings. The majority of the coking coal is sold on the basis of annual contracts, and the price is set once a year through negotiations with purchasers and becomes the price that is used for shipments in the applicable fiscal year. Therefore, movements in the price of coking coal during a fiscal year are expected to have only a small impact on our operating results for that fiscal year. However, MDP's operating results cannot be determined by the coal price alone since MDP's operating results are also significantly affected by other factors besides coal prices, such as fluctuations in exchange rates for the Australian dollar, U.S. dollar and yen, production costs, and sales volumes.

In addition, as a producer, we are exposed to the risk of price fluctuations in copper and aluminum. Regarding copper, we estimated that a US\$100 fluctuation in the price per MT of copper would have a roughly ¥0.8 billion effect on consolidated net income during the fiscal year ended March 31, 2008. However, a reexamination of conditions in the fiscal year ended March 31, 2009 has shown that other variables besides price fluctuations can have a large impact on earnings. These include the grade of mined ore, the status of production operations, and reinvestment plans (capital expenditures).

This makes a similar sensitivity estimate for copper difficult at present. Regarding aluminum, a US\$100 fluctuation in the price per MT of aluminum would have a ¥1.0 billion effect on our consolidated net income.

### (Petrochemical Products)

We are engaged in a broad range of trading activities for petrochemical products manufactured from raw materials such as naphtha and natural gas. The prices of petrochemical products are largely determined for each product on an individual basis based on the prices of the above raw materials, supply-demand dynamics and other factors. Fluctuations in the prices of these raw materials may affect earnings from these trading transactions.

We have made investments in manufacturing and sales companies for petrochemicals such as ethylene glycol, paraxylene and methanol in Saudi Arabia, Malaysia and Venezuela. Our equity-method earnings would be affected by changes in the operating results of these companies due to price movements.

### (2) Foreign Currency Risk

We bear some risk of fluctuations in foreign currency rates relative to the yen in the course of our trading activities, such as export, import and offshore trading. While we use forward contracts and

other hedging strategies, there is no assurance that we can completely avoid foreign currency risk.

In addition, dividends received from overseas businesses and equity in earnings of overseas consolidated subsidiaries and equity-method affiliates are relatively high in proportion to our consolidated net income. Because most of these earnings are denominated in foreign currencies, which are converted to yen solely for reporting purposes, an appreciation in the yen relative to foreign currencies has a negative impact on consolidated net income. In terms of sensitivity, a ¥1 change relative to the U.S. dollar would have an approximate ¥1.6 billion effect on consolidated net income.

Regarding our investments in overseas businesses, an appreciation in the yen poses the risk of lowering shareholders' equity through a negative effect on the foreign currency translation adjustments account. Consequently, we implement various measures to prevent increased exposure to foreign currency risk on investments, such as by hedging foreign currency risks with respect to new large investments. However, there is no assurance that we can completely avoid these risks.

### (3) Stock Price Risk

As of March 31, 2009, we owned approximately ¥1,200.0 billion (market value basis) of marketable securities, mostly equity issues of customers, suppliers and affiliated companies. These investments expose us to the risk of fluctuations in stock prices. As of the same date, we had net unrealized gains of approximately ¥290.0 billion based on market prices, a figure that could change depending on future trends in stock prices.

In our corporate pension fund, some of the pension assets managed are marketable stocks. Accordingly, a fall in stock prices could cause an increase in pension expenses by reducing pension assets.

### (4) Interest Rate Risk

As of March 31, 2009, we had gross interest-bearing liabilities of approximately ¥4,879.3 billion. Because almost all of these liabilities bear floating interest rates, there is a risk of an increase in interest expenses caused by a rise in interest rates.

However, the vast majority of these interest-bearing liabilities are related to trade receivables, loans receivable and other operating assets that are positively affected by changes in interest rates. Consequently, because a rise in interest rates produces an increase in income from these assets, while there is a time lag, interest rate risk is offset. For the remaining interest-bearing liabilities exposed to interest rate risk without such offsets, commensurate asset holdings such as investment securities, property and equipment generate trading income as well as other income streams such as dividends that are strongly correlated with

economic cycles. Accordingly, even if interest rates increase as the economy improves, leading to higher interest expenses, we believe that these expenses would be offset by an increase in income from the corresponding asset holdings.

However, our operating results may be negatively affected temporarily if there is a rapid rise in interest rates because increased income from commensurate asset holdings would fail to offset the effects of a preceding increase in interest expenses.

To monitor market movements in interest rates and respond flexibly to market risks, we established the ALM (Asset Liability Management) Committee. This committee establishes fund procurement strategy and manages the risk of interest rate fluctuations.

### **3) Credit Risk**

We extend credit to customers in the form of trade credit, including accounts receivables and advance payments, finance, guarantees and investments due to our various operating transactions. We are therefore exposed to credit risk in the form of losses arising from deterioration in the credit of or bankruptcy of customers. Furthermore, we utilize derivative instruments, primarily swaps, options and futures, for the purpose of hedging risks. In this case, we are exposed to the credit risk of the counterparties to these derivative instruments.

To manage this risk, we have established credit and transaction limits for each customer as well as introduced an internal rating system. Based on internal rules determined by internal ratings and the amount of credit, we also hedge risk by requiring collateral or a guarantee depending on the credit profile of the counterparty.

However, there is no guarantee that we will be able to completely avoid credit risk with these risk hedging strategies. We reduce transactions and take measures to protect our receivables when there is deterioration in the credit condition of customers. We also have a policy for dealing with bankrupt customers and work to collect receivables. However, failure to collect receivables and other credit would affect our operating results.

### **4) Country Risk**

We bear country risk in relation to transactions and investments with overseas companies in the form of delays or inability to collect money or conduct business activities due to socioeconomic conditions in the countries where they are domiciled.

We take appropriate risk hedging measures that involve, in principle, hedges via third parties through such means as taking out insurance, depending on the nature of the project. Furthermore, we have established a Country Risk Committee, under which country risk is managed through a country risk countermeasure system. The country risk countermeasure system classifies countries with which we trade into six categories based on risk money in terms of the sum total of the amount of investments,

advances, and guarantees, and the amount of trade receivables, net of hedges, as well as creditworthiness by country (country rating). Country risk is controlled through the establishment of risk limits for each category.

However, even with these risk hedging measures, it is difficult to completely avoid risks caused by deterioration in the political, economic, or social conditions in the countries or regions where our customers, portfolio companies or we have ongoing projects. Such eventualities may have a significant impact on our operating results.

### **5) Business Investment Risk**

We participate in the management of various companies by acquiring equity and other types of interests. These business investment activities are carried out with the aim of increasing our commercial rights and deriving capital gains. However, we bear various risks related to business investments, such as the possible inability to recover our investments and exit losses and being unable to earn the planned profits. Regarding the management of business investment risk, in the case of new business investments, we clarify the investment meaning and purpose, quantitatively grasp the downside risk of investments and evaluate whether the investment return exceeds the minimum expected rate of return, which is determined internally according to the extent of the risk. After investing, we manage risk on an individual basis with respect to business investments to achieve the investment goals set forth in the business plan formulated every year. Furthermore, we apply exit rules for the early sale of our equity interest or the liquidation of the investee in order to efficiently replace assets in our portfolio.

While we follow strict standards for the selection and management of investments, it is impossible to completely avoid the risk of investments not delivering the expected profits. Therefore, we may incur losses resulting from such actions as the withdrawal from an investment.

### **6) Risks Related to Specific Investments**

#### **Investment in and Operations with Mitsubishi Motors Corporation**

Following requests from Mitsubishi Motors Corporation (MMC), we injected equity totaling ¥140.0 billion in MMC from June 2004 through January 2006 by subscribing to private placements of MMC shares. As a result, our risk exposure to MMC was approximately ¥170.0 billion as of March 31, 2009.

For the fiscal year ended March 31, 2009, MMC posted consolidated sales of ¥1,973.6 billion, operating profit of ¥3.9 billion and a net loss of ¥54.9 billion in part due to the impact of the global financial crisis.

We cooperate with this automaker in countries around the world, particularly in Asia and Europe, to conduct businesses centered on local sales companies and downstream business fields. Our risk exposure in connection with these dealings, such as investments in businesses, finance, trade receivables and other related business was approximately ¥240.0 billion as of March 31, 2009.

Our total MMC-related risk exposure, including both the aforementioned risk exposure to MMC proper and our risk exposure to related business, was thus around ¥410.0 billion as of March 31, 2009.

### **7) Risks Related to Compliance**

We are engaged in businesses in all industries through our many offices around the world. These activities subject us to a wide variety of laws and regulations. Specifically, we must comply with the Companies Act, tax laws, Financial Instruments and Exchange Act, anti-monopoly laws, trade-related laws, environmental laws and various business laws in Japan. In addition, in the course of conducting business overseas, we must abide by the laws and regulations in the countries and regions where we operate.

We have established a Compliance Committee, which is headed by a Chief Compliance Officer, who is at the forefront of our efforts to raise awareness of compliance. This officer also directs and supervises compliance with laws and regulations on a consolidated basis.

Notwithstanding these initiatives, compliance risks cannot be completely avoided. Failure to fulfill our obligations under related laws and regulations could affect our businesses and operating results.

### **8) Risks From Natural Disasters**

A natural disaster, such as an earthquake, heavy rain or flood, that damages our offices, facilities or systems and affects employees could hinder sales and production activities.

We have established adequate countermeasures, having prepared an employee safety check system; disaster contingency manual for business contingency plan (BCP) execution; earthquake-proof measures for buildings, facilities or systems (including backup of data); and introduced a program of disaster prevention drills. However, no amount of preparation of this sort can completely avoid the risk of damage caused by a natural disaster. Accordingly, damage from a natural disaster could affect the company's operating results.

Note: Earnings forecasts and other forward-looking statements in this annual report are management's current views and beliefs in accordance with data currently available, and are subject to a number of risks, uncertainties and other factors that may cause actual results to differ materially from those projected.

## **9. Critical Accounting Policies and Estimates**

The preparation of these consolidated financial statements requires management to make estimates that may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the fiscal year-end and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management reviews its estimates and judgments, including the valuation of receivables, investments, long-lived assets, inventories, revenue recognition, income taxes, financing activities, restructuring costs, pension benefits, contingencies, litigation and others. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following are our critical accounting policies and estimates. These policies and estimates were considered "critical" because:

- the estimate requires us to make assumptions about matters that are highly uncertain at the time the estimate is made, and
- different assumptions that we reasonably could have used in the current period could have a material impact on the presentation of our financial condition, changes in financial condition, or results of operations.

### **1) Valuation of Receivables**

The valuation of receivables is a critical accounting estimate, as the balance of our trade receivables, notes and loans is significant. We perform ongoing credit valuations of our customers and adjust credit limits based upon the customer's payment history and current credit worthiness, as determined by our review of the customer's current credit information. We continuously monitor collections and payments from our customers. We establish credit limits and an allowance for doubtful accounts based upon factors surrounding specific customer collection issues that we have identified, past credit loss experience, historical trends, evaluation of potential losses in the receivables outstanding, credit ratings from applicable agencies and other information.

For each of our customers, we monitor financial condition, credit level and collections on receivables as part of an effort to reach an appropriate accounting estimate for the allowance for doubtful accounts. Also, for the valuation of long-term loans receivables, we use the discounted cash flow method, which is based on assumptions such as an estimate of the future repayment plan and discount rates.

For the year ended March 31, 2008, we decreased our total allowance for doubtful accounts by ¥11.4 billion, or 13.9%, to ¥70.5 billion.

For the year ended March 31, 2009, we decreased our total allowance for doubtful accounts by ¥7.8 billion, or 11.1%, to ¥62.7 billion. The allowance for doubtful accounts represented approximately 1.6% and 1.8% of our total receivables (current and non-current) as of March 31, 2008 and 2009, respectively.

Management believes that the evaluation of receivables is reasonable, the balance of the allowance for doubtful accounts is adequate and the receivables are presented at net realizable value; however, these valuations include uncertainties that may result in the need for the company to increase the allowance for doubtful accounts in the future.

## 2) Valuation of Investments

The valuation of investments is a critical accounting estimate because fair value is susceptible to change from period to period, and also because the outstanding balance of our investments is significant.

We assess impairment of investments by considering whether a decline in value is other-than-temporary based on, among others, the length of time and the extent to which the fair value has been less than the carrying value and our intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. We assess impairment of available-for-sale securities based on their market values, while equity-method investments and other investments are assessed by considering their market values, financial condition, performance, business circumstance, near-term prospects and future cash flows of the issuer.

If the decline in value is judged to be other-than-temporary, the carrying value of the investment is written down to fair value.

In each of the last three years, we have assessed investments for impairment using similar methods and determined that, based on our assumptions, certain investments have been other-than-temporarily impaired. For the years ended March 31, 2007, 2008 and 2009, impairment losses of ¥4.3 billion, ¥14.9 billion, and ¥166.1 billion respectively, were recognized in "(Gain) loss on marketable securities and investments—net" in the consolidated statements of income to reflect the declines in fair value of certain available-for-sale securities, investments in affiliated companies and other investments that were considered to be other-than-temporary.

Management believes that the carrying value of its investments and evaluation of its investments determined not to be other-than-temporarily impaired is reasonable. However, these valuations are subject to a number of uncertainties which may require further write-downs in the future.

## 3) Impairment of Long-Lived Assets

We review the carrying value of our long-lived asset or asset group, other than goodwill and other intangible assets, to be held and used, and to be disposed of, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable.

Recoverability of an asset or asset group to be held and used is measured by comparing the carrying amount of the asset or group to undiscounted future cash flows expected to be generated by the asset. A long-lived asset to be disposed of by sale is reported at the lower of the carrying amount or fair value less costs to sell, and is no longer depreciated. A long-lived asset to be disposed of other than by sale is considered as held and used until disposed of.

If the carrying value of the asset is considered impaired, an impairment loss is recorded for the amount by which the carrying value of the asset exceeds its estimated fair value.

Estimated fair values of assets are primarily determined based on independent appraisals and discounted cash flow analysis. These evaluations use many estimates and assumptions such as future market growth, forecast revenue and costs, useful lives of utilization of the assets, discount rates and other factors.

In each of the last three years, we have determined that, based on our estimates and assumptions, certain long-lived assets were impaired. These amounts were included in "Loss on property and equipment—net" in the consolidated statements of income. For the years ended March 31, 2007, 2008 and 2009, such impairment losses amounted to ¥9.5 billion, ¥7.9 billion and ¥45.6 billion respectively.

During the year ended March 31, 2009, due to lower oil reserves estimates and oil price decline, we recognized impairment losses for long-lived assets, including oil and gas properties owned by a subsidiary included in Energy Business and Machinery segments.

Management believes that the estimates of discounted cash flows and fair values are reasonable; however, these valuations are subject to a number of uncertainties that may change the valuation of the long-lived assets due to unforeseen changes in business assumptions. As a result, we may be required to recognize further impairment in the future.

## 4) Pension Benefit Costs and Obligations

Employee pension benefit costs and obligations are dependent on assumptions used by actuaries in calculating such amounts. The discount rate and the expected long-term rate of return on plan assets are two critical assumptions in determining periodic pension benefit costs and pension liabilities. We evaluate these assumptions annually or when events occur that may have an impact on these critical assumptions.

The discount rate assumptions are determined on the rate available on high-quality fixed-income investments with a duration that approximately matches our employees' estimated period of service and benefit payments at the respective measurement dates of each plan. We increased the weighted average discount rate to 3.1%, an increase of 0.1 of a percentage point for the year ended March 31, 2008. For the year ended March 31, 2009, we set the weighted average discount rate at 3.1%, equal to the previous year.

The assumption for the expected long-term return on plan assets is determined after considering the investment policy, long-term historical returns, asset allocation, and future estimates of long-term investment returns. We used the expected long-term rate of return of 3.7% for the year ended March 31, 2008. As there was a downturn in investment returns, due mainly to a sharp decline in the domestic equity market, we calculated pension benefit costs for the year ended March 31, 2009 using a rate of return of 3.4%, a decrease of 0.3 of a percentage point from the previous year.

In accordance with U.S. GAAP, the difference between actual results and assumptions is accumulated and amortized over future periods. Therefore, actual results generally affect the expenses recognized in future periods. Management believes that the actuarial assumptions and methods used are appropriate in the circumstances. However, differences in actual experience or changes in assumptions may affect the pension obligations and future expenses.

### 5) Revenue Recognition

We are engaged in business activities such as buying and selling of various commodities worldwide, providing financing for customers and suppliers relating to such activities, and organizing and coordinating industrial projects through our global business networks. We conduct import, export, offshore and domestic production, sales, marketing and distribution of a wide variety of products, including steel resources and non-ferrous metals, oil and gas products, machinery, information technology and electronics, chemicals, food products and general consumer merchandise. We also perform various services such as consulting, information technology services, technical support, transportation and logistics. Revenue recognition policies require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance applied to individually complex transactions. In general, we recognize revenues when they are realized or realizable and earned. Revenues are realized or realizable and earned when we have persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectibility

is reasonably assured. In addition to this general policy, the following are specific revenue recognition policies.

#### Revenues from trading, manufacturing and other

**activities**—We earn revenues from trading, manufacturing and other activities. Manufacturing and other activities are typically conducted through consolidated subsidiaries.

**Trading activities**—We earn revenues from various trading transactions in which we act as a principal, carry commodity inventory, and make a profit or loss on the spread between bid and asked prices for commodities.

**Manufacturing activities**—Manufacturing activities include the manufacture of a wide variety of products, such as electronics, metals, machinery, chemicals and general consumer merchandise, and the development of natural resources.

Revenues from trading and manufacturing activities are recognized at the time the delivery conditions, as agreed to by customers, are met. These conditions are usually considered to have been met when the goods have been delivered to and accepted by the customer, title to the warehouse receipts have been transferred, or the implementation testing has been duly completed.

For long-term construction businesses, depending on the nature of the contract, revenues from long-term construction projects are accounted for by the completed contract method, unless costs to complete and extent of progress toward completion of long-term contracts are reasonably dependable, in which case we use the percentage of completion method.

**Other activities**—Other activities consist of services, and rental or leasing activities. Service-related activities include performance of various services such as financial and logistics services, information and communications, technical support and other service-related activities. We are also engaged in certain rental activities or leasing of properties, including office buildings, aircraft and other industrial assets.

Revenues from service-related activities are recognized when the contracted services have been rendered to third party customers pursuant to the agreements. Revenues from rental or leasing activities are recognized over the terms of the underlying leases on a straight-line basis.

**Trading margins and commissions on trading transactions**—We earn margins and commissions related to various trading transactions in which we act as a principal or an agent. Through our trading activities, we facilitate our customers' purchases and sales of commodities and other products and earn a commission for this service. The trading margins and commissions are recognized when we have met the general policy conditions as stated above.

#### 6) Derivatives

We utilize derivative instruments primarily to manage interest rate risks, to reduce exposure to movements in foreign exchange rates, and to hedge various inventory and trading commitments. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, No. 149 and No. 155 (collectively "SFAS No. 133"), all derivative instruments are reported on the balance sheet at fair value. SFAS No. 133 establishes criteria for designation and effectiveness of hedging relationships.

With the adoption of SFAS No. 133, we are required to make assumptions in order to estimate the fair value of derivative instruments for which quoted market prices are not available and related hedged items.

Generally, on the date on which the derivative contract is executed, we designate such derivative as either a fair value hedge or a cash flow hedge to the extent that hedging criteria are met. Changes in fair values of derivatives that are designated as fair value hedges are recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments. Derivative instruments designated as cash flow hedges include interest rate swaps to convert floating liabilities to fixed rate liabilities and foreign currency swaps to mitigate variability of the functional currency equivalent cash flows of certain debt obligations. Changes in fair values of derivatives that are designated as cash flow hedges are deferred and recorded as a component of accumulated other comprehensive income (loss) until the hedged transactions occur and are recognized in earnings.

#### 7) Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations," ("SFAS No. 141R"). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective for fiscal years beginning

after December 15, 2008. The companies will adopt SFAS No. 141R as of April 1, 2009. The impact of the adoption of SFAS No. 141R on the companies' consolidated financial position and results of operations will be largely dependent on the size and nature of the business combinations completed after the adoption of this statement.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51." SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The companies will adopt SFAS No. 160 as of April 1, 2009. The adoption of SFAS No. 160 will impact the presentation of the companies' consolidated balance sheets and consolidated statements of income; however, it will not have a material impact on the companies' consolidated financial position and results of operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." The objective of SFAS No. 165 is to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Entities are required to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140." SFAS No. 166 is a revision to SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which removes the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 166 is effective for the reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The companies will adopt SFAS No. 166 as of April 1, 2010. The companies are currently evaluating SFAS No. 166 to determine its impact on the companies' consolidated financial position and results of operations.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." SFAS No. 167 is a revision to FIN No. 46R, and changes how a company determines whether an entity that is insufficiently capitalized or is not controlled through voting rights (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS No. 167 is effective for the reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The companies will adopt SFAS No. 167 as of April 1, 2010. The companies are currently evaluating SFAS No. 167 to determine its impact on the companies' consolidated financial position and results of operations.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments ("OTTI")." FSP No. FAS 115-2 and FAS 124-2 modifies existing OTTI model for investments in debt securities. Under the FSP No. FAS 115-2 and FAS 124-2, the primary change to the OTTI model for debt securities is the change in focus from an entity's intent and ability to hold a security until recovery. Instead, an OTTI is triggered if (1) an entity has the intent to sell the security, (2) it is more-likely-than-not that it will be required to sell the security before recovery, (3) it does not expect to recover its entire amortized cost basis of the security. In addition, the FSP No. FAS 115-2 and FAS 124-2 changes the presentation of an OTTI in the income statement. If the companies have the intent to sell the security or it is more-likely-than-not that it will be required to sell the security, the entire impairment will be recognized in earnings. However, if the companies do not intend to sell the security and it is not more-likely-than-not that it will be required to sell the security, but the security has suffered a credit loss, the impairment charge will be separated into the credit loss component, which is recorded in earnings, and the remainder of the impairment charge, which is recorded in other comprehensive income. FSP No. FAS 115-2 and FAS 124-2 is effective for fiscal years beginning after June 15, 2009. The companies will adopt FSP No. FAS 115-2 and FAS 124-2 as of April 1, 2009. The impact of the adoption of FSP No. FAS 115-2 and FAS 124-2 on the companies' consolidated financial position and results of operations will be largely dependent on the fair value of the investments in debt securities at each interim and fiscal year end.

## Six-Year Financial Summary

Mitsubishi Corporation and Subsidiaries  
Years ended March 31

	2004 As Adjusted* <sup>3</sup>	2005 As Adjusted* <sup>3</sup>
<b>Performance Measure:</b>		
Operating transactions* <sup>1</sup> .....	¥15,177,367	¥17,122,034
<b>Results of Operations:</b>		
Revenues .....	¥ 3,475,848	¥ 4,133,338
Gross profit .....	766,080	878,707
Net income from continuing operations .....	116,675	188,433
Net income .....	117,556	186,641
<b>Financial Position at Year-End:</b>		
Total assets .....	¥ 8,397,868	¥ 9,048,561
Working capital .....	828,971	1,017,681
Long-term debt, less current maturities .....	3,033,276	2,975,701
Total shareholders' equity .....	1,224,256	1,493,175
<b>Amounts per Share:</b>		
Net income from continuing operations per share:		
Basic EPS .....	¥74.52	¥120.36
Diluted EPS .....	68.78	111.17
Net income per share:		
Basic EPS .....	75.09	119.21
Diluted EPS .....	69.31	110.11
Cash dividends declared for the year .....	12.00	18.00
<b>Common Stock:</b>		
Number of shares outstanding at year-end* <sup>2</sup> .....	1,565,557	1,565,749
<b>Exchange Rates into U.S. Currency:</b>		
(Per the Federal Reserve Bank of New York)		
At year-end .....	¥104.18	¥107.22
Average for the year .....	112.75	107.28
Range:		
Low .....	120.55	114.30
High .....	104.18	102.26

Notes: The U.S. dollar amounts represent translations, for convenience, of yen amounts at the rate of ¥99=\$1.

\*<sup>1</sup> Operating transactions is a voluntary disclosure commonly made by Japanese trading companies, and is not meant to represent sales or revenues in accordance with U.S. GAAP. See Note 1.

\*<sup>2</sup> Treasury stock is not included.

\*<sup>3</sup> In accordance with APB No. 18, the parent company has retrospectively adjusted the prior years' figures, since the parent company acquired additional investments in cost method investees for the year ended March 31, 2009, and accounted for the parent company's ownership interest in the investees under the equity method.

Millions of Yen				Millions of U.S. Dollars
2006 As Adjusted*3	2007 As Adjusted*3	2008 As Adjusted*3	2009	2009
¥19,069,181	¥20,526,570	¥23,103,043	<b>¥22,389,104</b>	<b>\$226,153</b>
¥ 4,812,087	¥ 5,068,749	¥ 6,030,806	<b>¥ 6,146,406</b>	<b>\$ 62,085</b>
1,052,990	1,145,532	1,172,222	<b>1,463,152</b>	<b>14,779</b>
360,397	424,500	474,463	<b>365,366</b>	<b>3,691</b>
356,734	419,273	470,859	<b>369,936</b>	<b>3,737</b>
¥10,299,588	¥11,423,924	¥11,750,441	<b>¥10,918,003</b>	<b>\$110,283</b>
1,246,194	1,339,852	1,430,739	<b>1,612,979</b>	<b>16,293</b>
2,875,398	2,862,408	3,096,818	<b>3,467,766</b>	<b>35,028</b>
2,348,000	2,918,386	2,873,510	<b>2,383,387</b>	<b>24,075</b>
Yen				U.S. Dollars
¥221.75	¥251.62	¥285.99	<b>¥222.46</b>	<b>\$2.25</b>
211.72	250.25	284.71	<b>221.97</b>	<b>2.24</b>
219.50	248.52	283.82	<b>225.24</b>	<b>2.28</b>
209.56	247.17	282.55	<b>224.75</b>	<b>2.27</b>
35.00	46.00	56.00	<b>52.00</b>	<b>0.53</b>
Thousands of Shares				
1,685,767	1,688,303	1,641,203	<b>1,642,904</b>	
Yen per U.S. Dollar				
¥117.48	¥117.56	¥ 99.85	<b>¥ 99.15</b>	
113.67	116.55	113.61	<b>100.85</b>	
120.93	121.81	124.09	<b>110.48</b>	
104.41	110.07	96.88	<b>87.80</b>	

## Consolidated Balance Sheets

Mitsubishi Corporation and Subsidiaries  
March 31, 2008 and 2009

ASSETS	Millions of Yen		Millions of U.S. Dollars (Note 1)
	2008	2009	2009
<b>Current assets:</b>			
Cash and cash equivalents (Notes 2.x, 4 and 11) .....	¥ 750,128	¥ 1,215,099	\$ 12,274
Time deposits .....	11,540	113,029	1,142
Short-term investments (Notes 4 and 11) .....	87,862	60,058	607
Receivables—trade (Notes 8 and 23):			
Notes and loans .....	587,150	491,577	4,965
Accounts .....	2,955,325	2,186,044	22,081
Affiliated companies .....	211,556	162,298	1,639
Allowance for doubtful receivables (Note 6) .....	(29,948)	(29,029)	(293)
Inventories .....	1,075,563	1,005,934	10,161
Advance payments to suppliers .....	129,469	136,270	1,376
Deferred income taxes (Note 14) .....	62,573	63,301	639
Assets held for sale (Note 17) .....	6,526		
Other current assets (Notes 10, 11 and 15) .....	243,651	397,339	4,014
Total current assets .....	6,091,395	5,801,920	58,605
<b>Investments and non-current receivables:</b>			
Investments in and advances to affiliated companies (Notes 5 and 11) .....	1,128,387	1,085,349	10,963
Other investments (Notes 4, 8 and 11) .....	2,102,726	1,523,364	15,388
Non-current notes, loans and accounts receivable—trade (Notes 8 and 23) .....	515,202	545,096	5,506
Allowance for doubtful receivables (Note 6) .....	(40,580)	(33,651)	(340)
Total investments and non-current receivables .....	3,705,735	3,120,158	31,517
<b>Property and equipment—net</b> (Notes 7, 8 and 23) .....	1,610,621	1,576,985	15,929
<b>Goodwill</b> (Note 9) .....	54,089	49,017	495
<b>Other intangible assets—net</b> (Note 9) .....	73,532	73,383	741
<b>Other assets</b> (Notes 10, 11, 14 and 15) .....	215,069	296,540	2,996
<b>Total assets</b> .....	¥11,750,441	¥10,918,003	\$110,283

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Millions of U.S. Dollars (Note 1)
	2008	2009	2009
<b>Current liabilities:</b>			
Short-term debt (Notes 8 and 13) .....	¥ 742,421	¥ 1,038,926	\$ 10,494
Current maturities of long-term debt (Notes 8 and 13) .....	384,810	427,225	4,315
Payables—trade:			
Notes and acceptances .....	197,302	156,396	1,580
Accounts .....	2,509,533	1,812,793	18,311
Affiliated companies .....	124,796	86,151	870
Advances from customers .....	134,880	149,868	1,514
Accrued income taxes .....	62,309	42,397	428
Other accrued expenses (Note 15) .....	158,626	108,451	1,096
Liabilities held for sale (Note 17) .....	2,081		
Other current liabilities (Notes 10, 11, 14 and 16) .....	343,898	366,734	3,705
Total current liabilities .....	4,660,656	4,188,941	42,313
<b>Long-term liabilities:</b>			
Long-term debt (Notes 8 and 13) .....	3,096,818	3,467,766	35,028
Accrued pension and severance liabilities (Note 15) .....	51,724	85,181	860
Deferred income taxes (Note 14) .....	400,944	107,272	1,084
Other long-term liabilities (Notes 10, 11 and 16) .....	332,277	380,299	3,841
Total long-term liabilities .....	3,881,763	4,040,518	40,813
Total liabilities .....	8,542,419	8,229,459	83,126
<b>Minority interests</b> .....	334,512	305,157	3,082
<b>Commitments and contingent liabilities</b> (Note 26)			
<b>Shareholders' equity</b> (Notes 18, 19 and 27):			
Common stock—authorized, 2,500,000,000 shares; issued, 2008— 1,694,323,909 shares and 2009— 1,696,046,684 shares; outstanding, 2008— 1,641,203,155 shares and 2009— 1,642,903,585 shares .....	201,825	202,817	2,049
Additional paid-in capital .....	259,571	261,828	2,645
Retained earnings:			
Appropriated for legal reserve .....	41,295	42,136	426
Unappropriated .....	2,226,695	2,487,404	25,125
Accumulated other comprehensive income (loss):			
Net unrealized gains on securities available for sale .....	429,796	146,638	1,481
Net unrealized gains (losses) on derivatives .....	12,505	(23,464)	(237)
Defined benefit pension plans .....	(38,927)	(101,513)	(1,025)
Foreign currency translation adjustments .....	(107,746)	(480,911)	(4,858)
Subtotal .....	295,628	(459,250)	(4,639)
Less treasury stock—at cost, 53,120,754 shares in 2008 and 53,143,099 shares in 2009 .....	(151,504)	(151,548)	(1,531)
Total shareholders' equity .....	2,873,510	2,383,387	24,075
<b>Total liabilities and shareholders' equity</b> .....	¥11,750,441	¥10,918,003	\$110,283

## Consolidated Statements of Income

Mitsubishi Corporation and Subsidiaries  
Years Ended March 31, 2007, 2008 and 2009

	Millions of Yen			Millions of U.S. Dollars (Note 1)
	2007	2008	2009	2009
<b>Revenues</b> (Notes 10 and 11):				
Revenues from trading, manufacturing and other activities .....	¥4,345,002	¥5,280,155	<b>¥5,444,326</b>	<b>\$54,993</b>
Trading margins and commissions on trading transactions .....	723,747	750,651	<b>702,080</b>	<b>7,092</b>
Total revenues .....	5,068,749	6,030,806	<b>6,146,406</b>	<b>62,085</b>
[ Operating transactions (Notes 1, 5 and 21):				
2007—¥20,526,570 million;				
2008—¥23,103,043 million;				
2009—¥22,389,104 million—\$226,153 million ]				
<b>Cost of revenues from trading, manufacturing and other activities</b> (Notes 10 and 11) .....	3,923,217	4,858,584	<b>4,683,254</b>	<b>47,306</b>
<b>Gross profit</b> (Note 21) .....	1,145,532	1,172,222	<b>1,463,152</b>	<b>14,779</b>
<b>Other expenses (income):</b>				
Selling, general and administrative (Note 15) .....	733,930	821,026	<b>865,475</b>	<b>8,742</b>
Provision (credit) for doubtful receivables (Note 6) .....	1,298	(3,909)	<b>8,781</b>	<b>89</b>
Interest expense (net of interest income: 2007—¥59,882 million; 2008—¥74,293 million; 2009—¥59,144 million—\$597 million) (Note 10) .....	14,411	12,292	<b>23,318</b>	<b>236</b>
Dividend income .....	(136,999)	(134,623)	<b>(124,663)</b>	<b>(1,259)</b>
(Gain) loss on marketable securities and investments—net (Notes 4, 11 and 21) .....	(85,649)	(57,440)	<b>155,849</b>	<b>1,574</b>
Loss on property and equipment—net (Notes 7 and 9) .....	3,086	5,882	<b>45,236</b>	<b>457</b>
Other expense (income)—net (Notes 9, 10 and 22) .....	13,893	(23,555)	<b>100,928</b>	<b>1,019</b>
Total .....	543,970	619,673	<b>1,074,924</b>	<b>10,858</b>
<b>Income from continuing operations before income taxes</b> .....	601,562	552,549	<b>388,228</b>	<b>3,921</b>
<b>Income taxes</b> (Note 14):				
Current .....	246,998	205,529	<b>186,746</b>	<b>1,886</b>
Deferred .....	37,033	(23,863)	<b>(37,842)</b>	<b>(382)</b>
Total .....	284,031	181,666	<b>148,904</b>	<b>1,504</b>
<b>Income from continuing operations</b> .....	317,531	370,883	<b>239,324</b>	<b>2,417</b>
<b>Minority interests in income of consolidated subsidiaries</b> .....	(45,239)	(51,428)	<b>(30,721)</b>	<b>(310)</b>
<b>Equity in earnings of affiliated companies</b> (Notes 5, 10 and 21) ..	152,208	155,008	<b>156,763</b>	<b>1,584</b>
<b>Net income from continuing operations</b> .....	424,500	474,463	<b>365,366</b>	<b>3,691</b>
<b>(Loss) income from discontinued operations</b> (net of tax) (Note 17) .....	(5,227)	(3,604)	<b>4,570</b>	<b>46</b>
<b>Net income</b> .....	¥ 419,273	¥ 470,859	<b>¥ 369,936</b>	<b>\$ 3,737</b>
		Yen		U.S. Dollars (Note 1)
<b>Net income per share</b> (Note 20):				
Basic .....	¥248.52	¥283.82	<b>¥225.24</b>	<b>\$2.28</b>
Diluted .....	247.17	282.55	<b>224.75</b>	<b>2.27</b>

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income (Loss)

Mitsubishi Corporation and Subsidiaries  
Years Ended March 31, 2007, 2008 and 2009

	Millions of Yen			Millions of U.S. Dollars (Note 1)
	2007	2008	2009	2009
<b>Net income</b> .....	¥ 419,273	¥ 470,859	<b>¥ 369,936</b>	<b>\$ 3,737</b>
<b>Other comprehensive income (loss):</b>				
Net unrealized gains (losses) on securities available for sale (Note 4):				
Net unrealized holding gains (losses) during the year .....	160,928	(241,976)	<b>(557,449)</b>	<b>(5,631)</b>
Reclassification adjustments for net (gains) losses included in net income .....	(31,960)	(16,347)	<b>79,639</b>	<b>805</b>
Net change during the year .....	128,968	(258,323)	<b>(477,810)</b>	<b>(4,826)</b>
Income tax (expense) benefit (Note 14) .....	(52,883)	108,841	<b>194,652</b>	<b>1,966</b>
Total .....	76,085	(149,482)	<b>(283,158)</b>	<b>(2,860)</b>
Net unrealized gains (losses) on derivatives (Note 10):				
Net unrealized gains (losses) during the year .....	7,523	14,242	<b>(52,633)</b>	<b>(531)</b>
Reclassification adjustments for net losses (gains) included in net income .....	6,363	3,343	<b>(3,849)</b>	<b>(39)</b>
Net change during the year .....	13,886	17,585	<b>(56,482)</b>	<b>(570)</b>
Income tax (expense) benefit (Note 14) .....	(3,969)	(7,839)	<b>20,513</b>	<b>207</b>
Total .....	9,917	9,746	<b>(35,969)</b>	<b>(363)</b>
Minimum pension liability adjustments (Note 15) .....	1,626			
Income tax expense (Note 14) .....	(20)			
Total .....	1,606			
Defined benefit pension plans (Note 15) .....				
Net unrealized losses during the year .....		(73,676)	<b>(110,555)</b>	<b>(1,117)</b>
Reclassification adjustments for net losses included in net income .....		1,611	<b>5,038</b>	<b>51</b>
Net change during the year .....		(72,065)	<b>(105,517)</b>	<b>(1,066)</b>
Income tax benefit (Note 14) .....		31,138	<b>42,931</b>	<b>434</b>
Total .....		(40,927)	<b>(62,586)</b>	<b>(632)</b>
Foreign currency translation adjustments:				
Translation adjustments during the year .....	88,106	(106,805)	<b>(417,451)</b>	<b>(4,217)</b>
Reclassification adjustments for net losses included in net income .....	1	135	<b>798</b>	<b>8</b>
Net change during the year .....	88,107	(106,670)	<b>(416,653)</b>	<b>(4,209)</b>
Income tax (expense) benefit (Note 14) .....	(7,939)	3,861	<b>43,488</b>	<b>439</b>
Total .....	80,168	(102,809)	<b>(373,165)</b>	<b>(3,770)</b>
Total other comprehensive income (loss) .....	167,776	(283,472)	<b>(754,878)</b>	<b>(7,625)</b>
<b>Comprehensive income (loss)</b> .....	¥ 587,049	¥ 187,387	<b>¥(384,942)</b>	<b>\$(3,888)</b>

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Mitsubishi Corporation and Subsidiaries  
Years Ended March 31, 2007, 2008 and 2009

	Millions of Yen			Millions of U.S. Dollars (Note 1)
	2007	2008	2009	2009
<b>Common stock:</b>				
Balance, beginning of year—Shares issued, 2007—1,687,347,445 shares, 2008—1,689,902,896 shares, 2009—1,694,323,909 shares .....	¥ 197,818	¥ 199,228	¥ 201,825	\$ 2,039
Issuance of common stock and reclassification adjustment from additional paid-in capital upon exercise of stock options— 2007—893,000 shares, 2008—902,500 shares, 2009—531,700 shares (Note 24) .....	423	507	284	3
Issuance of common stock upon conversion of convertible bonds— 2007—1,662,451 shares, 2008—3,518,513 shares, 2009—1,191,075 shares (Notes 2.x and 13) .....	987	2,090	708	7
Balance, end of year—Shares issued, 2007—1,689,902,896 shares, 2008—1,694,323,909 shares, 2009—1,696,046,684 shares .....	¥ 199,228	¥ 201,825	¥ 202,817	\$ 2,049
<b>Additional paid-in capital:</b>				
Balance, beginning of year .....	¥ 251,598	¥ 254,376	¥ 259,571	\$ 2,622
Compensation costs related to stock options (Note 24) .....	1,302	1,608	1,303	13
Issuance of common stock and reclassification adjustment to common stock upon exercise of stock options (Note 24) .....	423	506	252	3
Repurchase of granted stock options (Note 24) .....	(56)			
Issuance of common stock upon conversion of convertible bonds (Notes 2.x and 13) .....	987	2,090	707	7
Gain (loss) on sales of treasury stock .....	122	991	(5)	
Balance, end of year .....	¥ 254,376	¥ 259,571	¥ 261,828	\$ 2,645
<b>Retained earnings appropriated for legal reserve:</b>				
Balance, beginning of year .....	¥ 37,704	¥ 38,649	¥ 41,295	\$ 417
Transfer from unappropriated retained earnings .....	945	2,646	841	9
Balance, end of year .....	¥ 38,649	¥ 41,295	¥ 42,136	\$ 426
<b>Unappropriated retained earnings:</b>				
Balance, beginning of year .....	¥1,462,703	¥1,848,419	¥2,226,695	\$22,492
Cumulative effect of changes in accounting principles, net of tax (Notes 2.l and 14) .....	(4,563)			
Net income .....	419,273	470,859	369,936	3,737
Total .....	1,877,413	2,319,278	2,596,631	26,229
Deduct:				
Cash dividends paid (annual rate per share: 2007—¥40.0; 2008—¥54.0; 2009—¥66.0—\$0.67) .....	67,475	89,937	108,386	1,095
Transfer to retained earnings appropriated for legal reserve .....	945	2,646	841	9
Total .....	68,420	92,583	109,227	1,104
The effect of change in fiscal year-end of certain subsidiaries, net of tax (Notes 2.ac and 14) .....	39,426			
Balance, end of year .....	¥1,848,419	¥2,226,695	¥2,487,404	\$25,125
<b>Accumulated other comprehensive income (loss) (net of tax):</b>				
Balance, beginning of year .....	¥ 399,294	¥ 579,100	¥ 295,628	\$ 2,986
Other comprehensive income (loss) .....	167,776	(283,472)	(754,878)	(7,625)
Adjustment to initially apply SFAS No. 158 (Notes 2.m and 14) .....	2,948			
The effect of change in fiscal year-end of certain subsidiaries (Notes 2.ac and 14) .....	9,082			
Balance, end of year .....	¥ 579,100	¥ 295,628	¥ (459,250)	\$ (4,639)
<b>Treasury stock:</b>				
Balance, beginning of year .....	¥ (1,117)	¥ (1,386)	¥ (151,504)	\$ (1,530)
Purchases—net (Note 19) .....	(269)	(150,118)	(44)	(1)
Balance, end of year .....	¥ (1,386)	¥ (151,504)	¥ (151,548)	\$ (1,531)
<b>Total shareholders' equity</b> .....	<b>¥2,918,386</b>	<b>¥2,873,510</b>	<b>¥2,383,387</b>	<b>\$24,075</b>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Mitsubishi Corporation and Subsidiaries  
Years Ended March 31, 2007, 2008 and 2009

	Millions of Yen			Millions of U.S. Dollars (Note 1)
	2007	2008	2009	2009
<b>Operating activities:</b>				
Net income	¥ 419,273	¥ 470,859	¥ 369,936	\$ 3,737
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	135,631	154,277	149,584	1,511
Provision (credit) for doubtful receivables	1,298	(3,909)	8,781	89
Provision for accrued pension and severance liabilities	16,391	16,633	21,283	215
(Gain) loss on marketable securities and investments—net	(85,649)	(57,440)	155,849	1,574
Loss on property and equipment—net	3,086	5,882	45,236	457
Equity in earnings of affiliated companies, less dividends received	(66,381)	(48,895)	(36,691)	(371)
Deferred income taxes	37,033	(23,863)	(37,842)	(382)
Minority interests in income of consolidated subsidiaries	45,239	51,428	30,721	310
Changes in operating assets and liabilities:				
Short-term investments—trading securities	24,692	6,005	20,171	204
Notes and accounts receivable—trade	(203,183)	(64,876)	687,974	6,949
Inventories	(74,316)	(156,063)	(54,843)	(554)
Notes, acceptances and accounts payable—trade	185,846	4,437	(570,756)	(5,765)
Advance payments to suppliers	(1,473)	(24,082)	(61,179)	(618)
Advances from customers	(6,528)	40,262	64,482	651
Other accounts receivable	27,866	(35,425)	23,487	237
Other accounts payable	(17,313)	34,165	(1,773)	(18)
Other accrued expenses	267	4,073	1,919	20
Other current assets	(16,372)	(64,219)	(116,324)	(1,175)
Other current liabilities	47,101	(6,837)	(117,228)	(1,184)
Other long-term liabilities	(4,170)	32,081	(14,998)	(152)
Other—net	(27,904)	(15,425)	(17,348)	(175)
Net cash provided by operating activities	440,434	319,068	550,441	5,560
<b>Investing activities:</b>				
Expenditures for property and equipment and other assets	(166,104)	(358,205)	(381,172)	(3,850)
Proceeds from sales of property and equipment	46,763	32,028	23,866	241
Investments in and advances to affiliated companies	(215,762)	(239,267)	(215,363)	(2,175)
Collection of advances to affiliated companies	120,065	290,416	50,096	506
Purchases of available-for-sale securities	(251,372)	(97,860)	(84,151)	(850)
Proceeds from sales and maturities of available-for-sale securities	162,100	115,945	40,830	412
Purchases of other investments	(26,561)	(103,010)	(62,152)	(628)
Proceeds from sales of other investments	34,342	29,825	41,684	421
Increase in loans receivable	(189,748)	(240,556)	(214,252)	(2,164)
Collection of loans receivable	194,417	221,615	216,290	2,185
Net increase in time deposits	(2,757)	(7,590)	(106,892)	(1,080)
Net cash used in investing activities	(294,617)	(356,659)	(691,216)	(6,982)
<b>Financing activities:</b>				
Net (decrease) increase in short-term debt	(8,290)	134,189	400,152	4,042
Proceeds from long-term debt—net of issuance cost	487,006	659,979	902,493	9,116
Repayment of long-term debt	(497,099)	(464,745)	(519,051)	(5,243)
Payment of dividends	(67,475)	(89,937)	(108,386)	(1,095)
Payment of dividends to minority interests	(24,675)	(22,342)	(25,158)	(254)
Proceeds from issuing common stocks upon exercise of stock options	846	1,013	536	5
Payment due to repurchase of granted stock options (Note 24)	(56)			
Purchase of treasury stock	(48)	(148,685)	(40)	
Net cash (used in) provided by financing activities	(109,791)	69,472	650,546	6,571
<b>Effect of exchange rate changes on cash and cash equivalents</b>	18,716	(35,443)	(44,800)	(452)
<b>Effect of change in fiscal year-end of certain subsidiaries (Note 2.ac)</b>	49,846			
<b>Net increase (decrease) in cash and cash equivalents</b>	104,588	(3,562)	464,971	4,697
<b>Cash and cash equivalents, beginning of year</b>	649,102	753,690	750,128	7,577
<b>Cash and cash equivalents, end of year</b>	¥ 753,690	¥ 750,128	¥ 1,215,099	\$ 12,274

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Mitsubishi Corporation and Subsidiaries

## 1. NATURE OF OPERATIONS AND BASIS OF FINANCIAL STATEMENTS

**Nature of Operations**—Mitsubishi Corporation (the “parent company”), together with its consolidated domestic and foreign subsidiaries (together, the “companies”) is a diversified organization engaged in a wide variety of business activities, providing various types of products and services on a global basis. Through the companies’ domestic and overseas network, the companies are engaged in general trading, including the purchasing, supplying and manufacturing of a wide range of products related to energy, metals, machinery, chemicals and living essentials products, in addition to financial businesses and development of natural resources and other projects. The companies are also engaged in other businesses such as development of new business models in the new energy and environmental fields, and new technology related businesses.

**Basis of Financial Statements**—The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the parent company is incorporated and principally operates. The translation of Japanese yen amounts into United States dollar amounts with respect to the year ended March 31, 2009 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥99=\$1, the rate of exchange on March 31, 2009. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into United States dollars at the above or any other rate.

The parent company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial

statements in conformity with accounting principles generally accepted in the countries of their respective domiciles. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements in order to conform with accounting principles generally accepted in the United States of America (“U.S. GAAP”). These adjustments have not been recorded in the statutory books of account.

“Operating transactions,” as presented in the consolidated statements of income, is a voluntary disclosure commonly made by Japanese trading companies and represents the gross transaction volume or the aggregate nominal value of the sales contracts in which the companies act as principal and transactions in which the companies serve as agent. Operating transactions exclude the contract value of transactions in which the companies’ role is limited to that of a broker. Operating transactions are not meant to represent sales or revenues in accordance with U.S. GAAP and should not be construed as equivalent to, or a substitute or proxy for, revenues. However, Emerging Issues Task Force (“EITF”), in its discussion of the conclusions reached in EITF Issue No. 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent,” stated: “Some Task Force members observed that the voluntary disclosure of operating transactions for those revenues reported net may be useful to users of financial statements.” Management believes operating transactions information is useful to users of the financial statements.

Certain reclassifications of prior years’ amounts have been made to conform to the presentation for 2009.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarized below:

### **a. Consolidation and Investments in Subsidiaries and Affiliated Companies**

—The consolidated financial statements include the accounts of the parent company and its majority-owned domestic and foreign subsidiaries. In addition, the companies consolidate variable interest entities (“VIEs”) where the companies are the primary beneficiary, which will absorb a majority of the VIE’s expected losses or residual returns if they occur, under the Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) No. 46, “Consolidation of Variable Interest Entities,” as revised in December 2003 (“FIN No. 46R”). See Note 25 for additional information of the companies’ involvement in VIEs. Unincorporated joint ventures, where the companies hold an undivided interest in the assets and are proportionately liable for the liabilities, are proportionately consolidated by the companies. Affiliated companies consist of companies owned 20% to 50%, certain companies owned less than 20% over which the companies exert significant influence, and corporate joint ventures. Investments in affiliated companies are accounted for by the equity method. If the decline in value of investments in affiliated companies accounted for by the equity method is judged to be

other-than-temporary, an impairment loss is recognized based on the fair value in accordance with APB No. 18, “The Equity Method for accounting for Investments in Common Stock.” Certain entities are also accounted for by the equity method where the companies hold majority voting interests but minority shareholders have substantive participating rights to significant decisions that would be expected to be related to the entities’ ordinary course of business, in accordance with EITF Issue No. 96-16, “Investor’s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights.” See Note 5. All significant intercompany accounts and transactions have been eliminated.

The accounts of certain subsidiaries with a fiscal year-end on or after December 31, but prior to the parent company’s fiscal year-end of March 31, are consolidated on the basis of the subsidiaries’ respective fiscal year-end. There were no significant events that occurred during the intervening period that would require adjustment to or disclosure in the accompanying consolidated financial statements.

A subsidiary or affiliated company may issue its shares to third parties at amounts per share in excess of or less than the companies’ average per share carrying value. With respect to such

transactions, the resulting gains or losses arising from the change in ownership are recorded in income in the year in which such shares are issued.

For the year ended March 31, 2009, the parent company acquired additional interests which increased their shareholding ratio of Mitsubishi UFJ Lease & Finance Company Limited and Chiyoda Corporation, former securities available for sale of the parent company, to 20.00% and 33.40% respectively. In addition, the parent company had the ability to exert significant influence

over the operations of both companies and therefore applied the equity method to the investments for the year ended March 31, 2009. The equity method was applied in a manner consistent with the accounting for a step-by-step acquisition in accordance with APB No. 18. Accordingly, the investments in Mitsubishi UFJ Lease & Finance Company Limited and Chiyoda Corporation and retained earnings of the parent company in prior years have been adjusted retrospectively.

The effect of the retrospective application was as follows:

	Millions of Yen			
	2007		2008	
	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted
<b>Consolidated Balance Sheets:</b>				
Investments in and advances to affiliated companies .....	¥1,304,949	¥1,335,629	¥1,084,393	¥1,128,387
Other investments .....	2,187,327	2,085,044	2,150,718	2,102,726
Long-term liabilities—Deferred income taxes .....	566,706	534,445	405,242	400,944
Retained earnings—Unappropriated .....	1,838,742	1,848,419	2,208,947	2,226,695
Net unrealized gains on securities available for sale .....	627,922	579,278	446,941	429,796
<b>Consolidated Statements of Income:</b>				
(Gain) loss on marketable securities and investments—net .....			(48,743)	(57,440)
Dividend income .....	(137,544)	(136,999)	(135,276)	(134,623)
Equity in earnings of affiliated companies .....	146,855	152,208	148,958	155,008
Income taxes .....	(282,978)	(284,031)	(175,643)	(181,666)
Net income .....	415,518	419,273	462,788	470,859
Yen				
<b>Earnings per share:</b>				
Net income from continuing operations				
Basic .....	¥249.39	¥251.62	¥281.13	¥285.99
Diluted .....	248.04	250.25	279.87	284.71
Net income				
Basic .....	246.30	248.52	278.95	283.82
Diluted .....	244.96	247.17	277.71	282.55

**b. Foreign Currency Translation**—Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 52, “Foreign Currency Translation.” Pursuant to this statement, the assets and liabilities of foreign subsidiaries and affiliated companies are translated into Japanese yen at the respective year-end exchange rates. All income and expense accounts are translated at average rates of exchange. The resulting translation adjustments, net of tax, are included in accumulated other comprehensive income (loss) (“AOCI”). Foreign currency receivables and payables are translated into Japanese yen at year-end exchange rates and resulting exchange gains or losses are recognized in earnings, which are included in “Other expense (income) —net” in the consolidated statements of income.

**c. Short-term Investments and Other Investments**—All debt securities and marketable equity securities are classified under the provisions of SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities” as: trading securities, which are accounted for at fair value with unrealized gains and losses included in earnings, or available-for-sale securities, which are accounted for at fair value with unrealized gains and losses excluded from earnings and reported, net of tax, in AOCI until realized. The appropriateness of the classification is reassessed at each balance sheet date in accordance with SFAS No. 115.

The cost of debt and marketable securities sold is determined based on the moving-average cost method.

The companies review the fair value of available-for-sale investments on a regular basis to determine if the fair value of any individual investment has declined below its cost and if such decline is other-than-temporary. If the decline in value is judged to be other-than-temporary, the cost basis of the investment is written down to fair value. Other-than-temporary declines in value are evaluated based on various factors such as the length of the time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value. The resulting realized loss is included in the consolidated statements of income in the period in which the decline was deemed to be other-than-temporary.

**d. Allowance for Doubtful Receivables**—An allowance for doubtful receivables is established in amounts considered to be appropriate based primarily upon the companies’ past credit loss experience and an evaluation of potential losses in the receivables outstanding.

For loans receivables, an allowance for doubtful receivables is recognized when it is probable that the companies will be unable to collect all amounts due according to the contractual terms of the

agreement. The impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate (or, alternatively, at the observable market price of the receivable or the fair value of the underlying collateral).

**e. Inventories**—Inventories, which mainly consist of commodities and materials, are stated at the lower of cost (principally on a moving-average basis or a specific-identification basis) or market (based on current replacement cost).

**f. Property and Equipment**—Property and equipment are stated at cost. Depreciation of property and equipment other than mineral rights is computed principally under the declining-balance method for assets held by the parent company and domestic subsidiaries and under the straight-line method for assets held by foreign subsidiaries, based on the estimated useful lives of the assets ranging principally from 10 to 50 years for buildings, from 5 to 20 years for machinery and equipment and from 12 to 24 years for aircrafts and vessels. Mineral rights are amortized using the unit-of-production method based on the estimated proven or probable reserves. Leasehold improvements are amortized over the lesser of the useful life of the improvement or the term of the underlying lease. Significant renewals and additions are capitalized at cost. Maintenance and repairs, and minor renewals and betterments are charged to income as incurred.

**g. Leases**—The companies lease properties under arrangements which are classified as direct financing leases and operating leases. For direct financing leases, unearned income is amortized to income over the lease term at a constant periodic rate of return on the net investment. Operating lease income is recognized over the term of underlying leases on a straight-line basis.

The companies are also lessees of various assets. For capital leases, leased assets and capital lease obligations are recognized by the present value of net minimum lease payments. Rental expenses under operating leases are recognized over the respective lease terms using a straight-line method.

**h. Impairment of Long-lived Assets**—In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the companies review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated discounted future cash flows, an impairment loss is recognized in the amount by which the carrying amount of the assets exceeds the fair value of the assets. A long-lived asset to be disposed of by sale is reported at the lower of the carrying amount or fair value less costs to sell, and is no longer depreciated. A long-lived asset to be disposed of other than by sale is considered as held and used until disposed of.

**i. Business Combinations**—In accordance with SFAS No. 141, "Business Combinations," all business combinations are accounted for by the purchase method. The companies separately recognize and report acquired intangible assets as goodwill or intangible assets.

**j. Goodwill and Other Intangible Assets**—Under SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually. Other intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144.

**k. Oil and Gas Exploration and Development**—Oil and gas exploration and development costs are accounted for by the successful efforts method of accounting. The costs of acquiring properties, drilling and equipping exploratory wells, and development wells and related plants and equipment are capitalized and amortized using the unit-of-production method. Should the efforts to produce commercial reserves be determined unsuccessful, the exploratory well costs are charged to expense. Other exploration costs such as geological and geophysical costs are expensed as incurred. Proved properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with SFAS No. 144. If the proved properties are determined to be impaired, an impairment loss is recognized based on the fair value. Unproved properties are assessed at least annually for impairment in accordance with the guidance in SFAS No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies," with any impairment charged to expense.

**l. Mining Operations**—Mining exploration costs are expensed as incurred until the mining project has been established as commercially viable by a final feasibility study. Once established as commercially viable, costs are capitalized as development costs and are amortized using the unit-of-production method based on the proven and probable reserves.

In accordance with EITF Issue No. 04-6, "Accounting for Stripping Costs Incurred During Production in the Mining Industry," the stripping costs incurred during the production phase of the mine are accounted for as variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred. In accordance with EITF Issue No. 04-6, the cumulative effect of initially adopting this consensus was accounted for as an adjustment to the opening balance of unappropriated retained earnings in the year ended March 31, 2007. As a result, "Unappropriated retained earnings" as of March 31, 2007, decreased by ¥4,563 million.

**m. Employees' Benefit Plans**—The companies have defined benefit pension plans, defined contribution pension plans and/or unfunded severance indemnity plans. The costs of defined benefit pension plans are accrued based on amounts determined using actuarial methods. The costs of severance indemnity plans are principally accrued based on the vested benefit obligation, which is the amount required to be paid if all employees covered by the severance indemnity plans voluntarily terminated their employment at each balance sheet date.

Effective March 31, 2007, the companies adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)." The companies recognize the funded status of the benefit plans, which is the difference between the fair value of plan assets and benefit obligations. By adopting SFAS No. 158, the companies recognized previous unrecognized gains (losses) and prior service costs (credits) as a component of AOCI, net of tax, on March 31, 2007. As a result, "Accumulated other comprehensive income (loss) (net of tax)," as of March 31, 2007, increased by ¥2,948 million.

**n. Asset Retirement Obligations**—In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations," the companies record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the related long-lived asset, if a reasonable estimate can be made. Over time, the liability is accreted to its present value each period and the asset is depreciated over its useful life.

**o. Costs Associated with Exit or Disposal Activities**—Costs associated with an exit or disposal activity are accounted for in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Under this Statement, a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred rather than the date of an entity's commitment to an exit plan.

**p. Stock-based Compensation**—The companies recognize compensation cost in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"). Stock-based compensation cost is measured at grant date, based on the estimated fair value of the award and recognizes the cost on a straight-line basis over the employee's requisite service period. The fair value of stock options is estimated using a Black-Sholes option pricing model.

**q. Revenue Recognition**—The companies recognize revenues when they are realized or realizable and earned. Revenues are realized or realizable and earned when the companies have persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectibility is reasonably assured. In addition to this general policy, the following are specific revenue recognition policies.

*Revenues from trading, manufacturing and other activities*—The companies earn revenues from trading, manufacturing and other activities. Manufacturing and other activities are typically conducted through consolidated subsidiaries.

*Trading Activities*—The companies earn revenues from various trading transactions in which they act as a principal, carry commodity inventory, and make a profit or loss on the spread between bid and asked prices for commodities.

*Manufacturing Activities*—Manufacturing activities include the manufacture of a wide variety of products, such as electronics, metals, machinery, chemicals and general consumer merchandise, and the development of natural resources.

Revenues from trading and manufacturing activities are recognized at the time the delivery conditions as agreed to by customers are met. These conditions are usually considered to have been met when the goods have been delivered to and accepted by the customer, title to the warehouse receipts has been transferred, or the implementation testing has been duly completed.

For long-term construction businesses, depending on the nature of the contract, revenues from long-term construction projects are accounted for by the completed contract method, unless costs to complete and extent of progress toward completion of long-term contracts are reasonably dependable, in which case the companies use the percentage-of-completion method.

*Other Activities*—Other activities consist of services, and rental or leasing activities. Service-related activities include performance of various services such as financial and logistics services, information and communications, technical support and other service-related activities.

The companies are also engaged in certain rental activities or leasing of properties, including office buildings, aircrafts and other industrial assets.

Revenues from service-related activities are recognized when the contracted services have been rendered to third-party customers pursuant to the agreement. Revenues from rental or leasing activities are recognized over the terms of the underlying leases on a straight-line basis.

*Trading margins and commissions on trading transactions*—The companies earn revenues from margins and commissions related to various trading transactions in which they act as a principal or an agent. Through the companies' trading activities, they facilitate their customers' purchases and sales of commodities and other products and earn a commission for this service. The trading margins and commissions are recognized when the companies have met the general policy conditions as stated above.

**r. Advertising Costs**—Advertising costs are expensed when incurred. Advertising costs for the years ended March 31, 2007, 2008 and 2009 were ¥9,504 million, ¥17,070 million and ¥16,335 million (\$165 million), respectively.

**s. Research and Development Costs**—Research and development costs are charged to expense when incurred. Research and development costs for the years ended March 31, 2007, 2008 and 2009 were ¥2,734 million, ¥3,213 million and ¥2,604 million (\$26 million), respectively.

**t. Income Taxes**—The provision for income taxes is computed based on "Income from continuing operations before income taxes" in the accompanying consolidated statements of income. The tax effects of temporary differences between the financial statements and income tax basis of assets and liabilities as well as operating loss carryforwards are recognized as deferred income taxes, using enacted tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is provided for any portion of the deferred tax assets where it is considered more-likely-than-not that they will not be realized.

In accordance with FIN No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109," the companies recognize the financial statement effects of tax positions when they are more-likely-than-not, based on the technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Interest and penalties accrued related to unrecognized tax benefits are included in income taxes in the consolidated statements of income.

**u. Derivatives**—The companies utilize derivative instruments primarily to manage interest rate risks, reduce exposure to movements in foreign exchange rates, and to hedge various inventory and trading commitments. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, No. 149 and No. 155 (collectively, "SFAS No. 133"), all derivative instruments are reported on the balance sheet at fair value. SFAS No. 133 establishes criteria for designation and effectiveness of hedging relationships.

Generally, on the date on which the derivative contract is executed, the companies designate such derivative as either a fair value hedge or a cash flow hedge to the extent that hedging criteria are met. Changes in the fair values of derivatives that are designated as fair value hedges are recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments. Changes in the fair values of derivatives that are designated as cash flow hedges are deferred and recorded as a

component of AOCI until the hedged transactions occur and are recognized in earnings. Changes in fair value of derivatives not designated as hedging instruments and those held or issued for trading purposes are recorded currently in earnings. See Note 10.

In April 2007, the FASB issued Staff Position ("FSP") No. 39-1, "Amendment of FASB Interpretation No. 39" ("FSP No. FIN 39-1"). FSP No. FIN 39-1 amended certain provisions of FIN No. 39, "Offsetting of Amounts Related to Certain Contracts" and clarified the acceptability of the existing market practice of offsetting the amounts recognized for cash collateral against the amounts recognized for net derivative positions executed with the same counterparty under the same master netting arrangement. As it was consistent with the companies' previous accounting practice, this amendment did not affect the companies' consolidated financial statements as of March 31, 2009.

**v. Use of Estimates in the Preparation of the Financial Statements**—The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect

amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates. Significant estimates underlying the accompanying consolidated financial statements include the allowance for doubtful accounts, valuation of investments, valuation of long-lived assets, pension, asset retirement obligations and uncertain tax positions.

**w. Earnings per Share ("EPS")**—Basic EPS is computed by dividing net income by the weighted-average number of common shares outstanding during each year. Diluted EPS is computed by using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of stock options and convertible bonds that were outstanding during the year. See Note 20.

**x. Consolidated Statements of Cash Flows**—For purposes of the consolidated statements of cash flows, cash equivalents are defined as highly liquid investments, including short-term time deposits with original maturities of three months or less, which are readily convertible into cash and have no significant risk of changes in value.

Additional cash flow information was as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Cash paid during the year for:				
Interest (net of amounts capitalized) .....	¥ 73,536	¥ 83,010	¥ 84,918	\$ 858
Income taxes .....	195,661	283,242	201,522	2,036
Non-cash investing and financing activities:				
Exchange of shares in connection with business combinations and reorganizations involving investees:				
Fair market value of shares received .....	4,060	896	12,431	126
Cost of shares surrendered .....	888	105	5,374	54
Acquisition of subsidiaries:				
Fair value of assets acquired (including goodwill) .....	143,541	243,647	53,622	542
Fair value of liabilities assumed .....	102,069	165,866	42,052	425
Minority interests assumed .....	11,162	43,648	443	5
Cash paid, net .....	30,310	34,133	11,127	112
Acquisition of investment by business split-off:				
Transferred assets .....	77,296			
Transferred liabilities .....	68,609			
Acquired investment .....	8,687			
Issuance of common stock upon conversion of convertible bonds .....	1,974	4,180	1,415	14

**y. Guarantees**—In accordance with FIN No. 45, "Guarantor's Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an Interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34," the companies recognize, at the inception of a guarantee, a liability for fair value of the obligation undertaken for the guarantee.

**z. Discontinued Operations**—In accordance with SFAS No. 144, the companies present the results of discontinued operations as a separate line item in the Consolidated Statements of Income under loss from discontinued operations, net of taxes. See Note 17.

**aa. Fair Value Measurements**—Effective April 1, 2008, the companies adopted SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In accordance with the provisions of FSP No. FAS157-2, "Effective Date of FASB Statement No. 157," the companies have decided to defer adoption of SFAS No. 157 for

one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. See Note 11.

**ab. Fair Value Option**—Effective April 1, 2008, the companies adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of SFAS No. 115." SFAS No. 159 provides companies with an option to report selected financial assets and financial liabilities with fair value. The companies have not elected to measure any financial assets and financial liabilities at fair value which were not previously required to be measured at fair value.

**ac. Change of Subsidiaries' Fiscal Year Ends**—In the years ended March 31, 2007 and 2008, certain subsidiaries changed their fiscal year ends to March 31, primarily from December 31, to conform the subsidiaries' year ends to that of the parent company.

For the year ended March 31, 2007, the earnings or losses of the subsidiaries for the stub period in excess of 12 months were

directly credited or charged to "Unappropriated retained earnings." The other comprehensive income and cash flows of the subsidiaries for the stub period are separately presented in the consolidated statements of shareholders' equity and the consolidated statements of cash flows, respectively.

In accordance with EITF Issue No. 06-9, "Reporting a Change in (or the Elimination of) a Previously Existing Difference Between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or Between the Reporting Period of an Investor and That of an Equity Method Investee," the parent company reported the elimination of a previously existing difference between the parent company's reporting period and the reporting period of a consolidated entity in the parent company's consolidated financial statements as a change in accounting principle in accordance with provisions of SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3." Accordingly, the parent company has retrospectively adjusted the prior periods' consolidated financial statements to reflect the effect of the change of the subsidiaries' fiscal year ends which occurred for the year ended March 31, 2008.

**ad. New Accounting Standards**—In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. The companies will adopt SFAS No. 141R as of April 1, 2009. The impact of the adoption of SFAS No. 141R on the companies' consolidated financial position and results of operations will be largely dependent on the size and nature of the business combinations completed after the adoption of this statement.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51." SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The companies will adopt SFAS No. 160 as of April 1, 2009. The adoption of SFAS No. 160 will impact the presentation of the companies' consolidated balance sheets and consolidated statements of income; however, it will not have a material impact on the companies' consolidated financial position and results of operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." The objective of SFAS No. 165 is to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Entities are required to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140." SFAS No. 166 is a revision to SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which removes the concept of qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 166 is effective for the reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The companies will adopt SFAS No. 166 as of April 1, 2010. The companies are currently evaluating SFAS No. 166 to determine its impact on the companies' consolidated financial position and results of operations.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." SFAS No. 167 is a revision to FIN No. 46R, and changes how a company determines whether an entity that is insufficiently capitalized or is not controlled through voting rights (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS No. 167 is effective for the reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The companies will adopt SFAS No. 167 as of April 1, 2010. The companies are currently evaluating SFAS No. 167 to determine its impact on the companies' consolidated financial position and results of operations.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments ("OTTI")." FSP No. FAS 115-2 and FAS 124-2 modifies the existing OTTI model for investments in debt securities. Under the FSP No. FAS 115-2 and FAS 124-2, the primary change to the OTTI model for debt securities is the change in focus from an entity's intent and ability to hold a security until recovery. Instead, an OTTI is triggered if (1) an entity has the intent to sell the security, (2) it is more-likely-than-not that it will be required to sell the security before recovery, (3) it does not expect to recover its entire amortized cost basis of the security. In addition, the FSP No. FAS 115-2 and FAS 124-2 changes the presentation of an OTTI in the income statement. If the companies have the intent to sell the security or it is more-likely-than-not that it will be required to sell the security, the entire impairment will be recognized in earnings. However, if the companies do not intend to sell the security and it is not more-likely-than-not that it will be required to sell the security, but the security has suffered a credit loss, the impairment charge will be separated into the credit loss component, which is recorded in earnings, and the remainder of the impairment charge, which is recorded in other comprehensive income. FSP No. FAS 115-2 and FAS 124-2 is effective for fiscal years beginning after June 15, 2009. The companies will adopt FSP No. FAS 115-2 and FAS 124-2 as of April 1, 2009. The impact of the adoption of FSP No. FAS 115-2 and FAS 124-2 on the companies' consolidated financial position and results of operations will be largely dependent on the fair value of the investments in debt securities at each interim and fiscal year end.

### 3. ACQUISITIONS

**Private Equity Portfolio Companies in North America**—One of the U.S. subsidiaries, which is in the business of acquiring private equity portfolio companies, acquired the following two companies during the year ended March 31, 2007: (1) Avon Automotive Holdings, Inc., a company involved in the manufacture of rubber and polymer products primarily for the automotive industry, and (2) P&O Packaging, Ltd., a company involved in the manufacture and marketing of polyethylene film for sale to the packaging and film converting industries.

The aggregate fair value of the acquired net assets was ¥12,974 million and the aggregate purchase price was ¥16,873 million. The value assigned to the acquired intangible assets was ¥1,362 million which consisted primarily of customer relationships of ¥1,199 million, and is being amortized on a straight-line basis ranging between 13 and 15 years. Goodwill of ¥3,899 million was recognized at the date of acquisition. The goodwill has been assigned to the Other segment.

**Nosan Corporation**—In June 2007, the parent company acquired a 34.05% equity interest in Nosan Corporation, a company mainly involved in manufacturing assorted feed for livestock, through its tender offer. Prior to the acquisition, the companies owned a 22.17% interest of Nosan Corporation which was accounted for by the equity method. As a result of the tender offer, the companies' controlling interest of Nosan Corporation increased to 56.22% making it a consolidated subsidiary. The acquisition will enable the companies to further strengthen the integrated business structure from upstream to downstream by leveraging the advantages of Nosan Corporation's expertise in animal feed technology development and production technology as well as production infrastructure, together with the companies' expertise in procuring raw materials for animal feed, meat production and processing technology as well as expertise in selling meat.

For the year ended March 31, 2008, the acquisition was accounted for in accordance with SFAS No. 141, and accordingly, the acquisition cost of ¥15,793 million has been allocated to the assets acquired and the liabilities assumed based on their respective fair values at the date of acquisition. Total amounts assigned to the acquired assets and the assumed liabilities at the date of acquisition were ¥74,406 million and ¥42,412 million, respectively. The companies also recognized goodwill of ¥8,028 million at the date of acquisition. The goodwill has been assigned to the Living Essentials segment. The acquisition cost was determined based on the overall assessment, including evaluation report by the financial advisor, using the discounted cash flow method and others, and the results of due diligence on Nosan Corporation. The results of operations of Nosan Corporation have been included in the companies' consolidated statement of income since the acquisition date.

**Kentucky Fried Chicken Japan**—In December 2007, the parent company acquired a 33.15% equity interest in Kentucky Fried Chicken Japan, a company involved in distribution of fried chicken, processed chicken and pizza, through its tender offer. Prior to the acquisition, the companies owned a 31.11% interest of Kentucky Fried Chicken Japan which was accounted for by the equity method. As a result of the tender offer, the companies' controlling interest of Kentucky Fried Chicken Japan increased to 64.26% making it a consolidated subsidiary. The acquisition will enable the companies to further expand profits and improve corporate value of Kentucky Fried Chicken Japan by enhancing human resources, supporting raw material procurement, logistics, product development, marketing and pursuing synergies with the companies.

For the year ended March 31, 2008, the acquisition was accounted for in accordance with SFAS No. 141, and accordingly, the acquisition cost of ¥14,971 million has been allocated to the assets acquired and the liabilities assumed based on their respective fair values at the date of acquisition. Total amounts assigned to the acquired assets and the assumed liabilities at the date of acquisition were ¥48,386 million and ¥17,594 million, respectively. In connection with the acquisition, the companies recognized intangible assets subject to amortization which are franchise agreements of ¥7,274 million. The franchise agreements will continue to be amortized on a straight-line basis over their estimated useful lives of 17 years. The companies also recognized goodwill of ¥3,315 million at the date of acquisition. The goodwill has been assigned to the Living Essentials segment. The acquisition cost was determined based on the evaluation report on Kentucky Fried Chicken Japan by the financial advisor, using the market price analysis and others. The results of operations of Kentucky Fried Chicken Japan have been included in the companies' consolidated statement of income since the acquisition date.

**Automotive Brake Hose Business**—In January 2008, the parent company acquired the three companies, Flexitech Europe SAS (France), Flexitech RO S.R.L. (Romania) and Flexitech, Inc. (USA), which are involved in the automotive brake hose business, through a newly established holding company in Japan. These acquisitions will enable the companies to play a leading role in the movement toward worldwide reorganization of the automotive brake hose business.

The aggregate fair value of the acquired net assets was ¥2,119 million, excluding the minority interest of ¥711 million, and the aggregate purchase price was ¥7,301 million. Goodwill of ¥5,182 million was recognized at the date of acquisition. The goodwill has been assigned to the Industrial Finance, Logistics & Development segment.

#### 4. SHORT-TERM INVESTMENTS AND OTHER INVESTMENTS

*Debt and Marketable Equity Securities*—Pursuant to SFAS No. 115, substantially all of the companies' debt securities, principally corporate bonds and commercial paper, and marketable equity securities, were classified as available-for-sale except for certain items

categorized as trading securities. Information regarding each category of securities classified as trading and available-for-sale at March 31, 2008 and 2009 was as follows:

Millions of Yen				
March 31, 2008	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities classified as:				
Trading .....				¥ 63,135
Available-for-sale:				
Equity securities .....	¥578,618	¥807,196	¥(24,187)	1,361,627
Debt securities .....	316,453	765	(7,824)	309,394
Millions of Yen				
March 31, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities classified as:				
Trading .....				¥ 26,965
Available-for-sale:				
Equity securities .....	¥552,360	¥357,861	¥(39,562)	870,659
Debt securities .....	339,908	309	(26,268)	313,949
Millions of U.S. Dollars				
March 31, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities classified as:				
Trading .....				\$ 272
Available-for-sale:				
Equity securities .....	\$5,580	\$3,615	\$(400)	8,795
Debt securities .....	3,433	3	(265)	3,171

The carrying amounts of available-for-sale securities with original maturities of three months or less included in cash and cash equivalents in the consolidated balance sheets were ¥127,620 million and ¥183,111 million (\$1,850 million) for the years ended March 31, 2008 and 2009, respectively.

The carrying values of debt securities classified as available-for-sale at March 31, 2009, by contractual maturity, were as follows:

	Millions of Yen	Millions of U.S. Dollars
Due in one year or less .....	¥216,194	\$2,184
Due after one year through five years .....	70,114	708
Due after five years through ten years .....	25,458	257
Due after ten years .....	2,183	22
Total .....	<u>¥313,949</u>	<u>\$3,171</u>

Proceeds from sales and gross realized gains and losses on available-for-sale securities for the years ended March 31, 2007, 2008 and 2009 were as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Proceeds from sales .....	¥162,100	¥115,945	¥40,830	\$412
Gross realized gains .....	¥ 35,652	¥ 27,106	¥ 5,082	\$ 51
Gross realized losses .....	(345)	(1,102)	(1,048)	(10)
Net realized gains .....	<u>¥ 35,307</u>	<u>¥ 26,004</u>	<u>¥ 4,034</u>	<u>\$ 41</u>

The changes in net unrealized holding gains and losses on trading securities that were included in earnings were gains of ¥1,874 million, ¥2,894 million and losses of ¥5,604 million (\$57 million), for the years ended March 31, 2007, 2008 and 2009, respectively.

For the years ended March 31, 2007, 2008 and 2009, losses of ¥2,568 million, ¥9,382 million and ¥85,432 million (\$863 million), respectively, were recognized on write-downs of available-for-sale securities to reflect the decline in market value considered to be other-than-temporary.

The following table sets forth gross unrealized losses and the fair value of the companies' investments which have unrealized losses that are not deemed to be other-than-temporary, aggregated by investment category and by the length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2008 and 2009:

	Millions of Yen					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2008						
Marketable equity securities	¥101,030	¥(23,684)	¥ 2,319	¥(503)	¥103,349	¥(24,187)
Debt securities	110,269	(7,351)	12,404	(473)	122,673	(7,824)
Total	¥211,299	¥(31,035)	¥14,723	¥(976)	¥226,022	¥(32,011)

	Millions of Yen					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2009						
Marketable equity securities	¥101,690	¥(38,531)	¥ 2,938	¥ (1,031)	¥104,628	¥(39,562)
Debt securities	39,480	(14,140)	49,872	(12,128)	89,352	(26,268)
Total	¥141,170	¥(52,671)	¥52,810	¥(13,159)	¥193,980	¥(65,830)

	Millions of U.S. Dollars					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2009						
Marketable equity securities	\$1,027	\$(389)	\$ 30	\$ (10)	\$1,057	\$(400)
Debt securities	399	(143)	503	(123)	902	(265)
Total	\$1,426	\$(532)	\$533	\$(133)	\$1,959	\$(665)

*Marketable equity securities*—The companies' unrealized losses on investments in marketable equity securities mainly relate to common stock of approximately 360 customers and suppliers of the companies. The unrealized losses were due to changes in market prices. The fair value of individual investments is approximately 1% to 49% less than cost. The market conditions became worse than those of the prior year, as a result of increasing financial uncertainty triggered by the failures of major financial institutions in the United States. However, based on the companies' ability and intent to hold the investment for a reasonable period of time sufficient for a recovery of fair value and the fact that the domestic stock markets have gradually showed a certain level of recovery after the year-end, the companies do not consider these investments to be other-than-temporarily impaired at March 31, 2009.

*Debt securities*—The companies' unrealized losses on investments in debt securities, which relate to approximately 80 corporate bonds with individual fair value of approximately 1% to 68% less than cost, were ¥26,268 million (\$265 million) at March 31, 2009. The unrealized losses were mainly caused by the worsened market conditions as mentioned above. However, the companies have their ongoing review process which includes consideration of the investment rating, the contractual nature of the investments, the underlying collateral, the rights to and priority of the investment's cash flows, and the condition of the issuers. Based on that review and the companies' ability and intent to hold these investments for a period of time sufficient for a recovery of fair value, the companies do not consider these investments to be other-than-temporarily impaired at March 31, 2009.

In connection with certain business combinations and reorganizations undertaken by entities in which the parent company held shares, in accordance with EITF No. 91-5, "Nonmonetary Exchange of Cost-Method Investments," the parent company recognized gains or losses on the exchange of its investment for the acquiree's shares, based on the difference between the fair value of the acquirer's shares and the recorded basis of the shares surrendered, amounting to net gains of ¥3,172 million and ¥791 million for the years ended March 31, 2007 and 2008, respectively. No gain or loss was recorded for the year ended March 31, 2009.

*Investments Other than Debt and Marketable Equity Securities*—Other investments include investments in non-marketable equity securities of unaffiliated customers, suppliers and certain financial institutions, which include certain preferred stocks, amounting to ¥508,983 million and ¥480,231 million (\$4,851 million) at March 31, 2008 and 2009, respectively. Other investments also include guarantee deposits, investments in non-current time deposits, etc., amounting to ¥75,069 million and ¥74,729 million (\$755 million) at March 31, 2008 and 2009, respectively.

Investments in non-marketable equity securities of unaffiliated companies are carried at cost ("cost-method investments"), as fair value is not readily determinable. However, if there are identified events or circumstances that have a significant adverse effect on the fair value of an investment, the fair value is estimated to have declined and such decline is judged to be other-than-temporary, the investment is written down to its estimated fair value.

Cost-method investments of ¥505,782 million and ¥469,524 million (\$4,743 million) at March 31, 2008 and 2009, respectively, were not evaluated for impairment since there were no identified events or circumstances that could have had a significant adverse effect on fair values of investments and the

companies determined that it was not practicable to estimate the fair values of the investments.

Impairment losses recognized for cost-method investments were ¥1,698 million, ¥5,518 million and ¥19,444 million (\$196 million) for the years ended March 31, 2007, 2008 and 2009, respectively.

## 5. INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES

Affiliated companies are accounted for using the equity method of accounting and consist of 20% to 50% owned and certain less-than-20% owned companies over which the companies are able to exert significant influence over the operating and financial decisions, and corporate joint ventures.

Affiliated companies include, among others, LAWSON, INC. ("LAWSON," 32.67%), Japan Australia LNG (MIMI) Pty, Ltd. (50.00%), OneEnergy Limited (50.00%), MI Berau B.V. ("MI Berau," 56.00%), Hokuetsu Paper Mills, Ltd. (24.09%), SPDC Ltd. (30.39%), Mozal S.A.R.L. (25.00%), ENCORE ENERGY PTE. LTD. (39.40%), Chiyoda Corporation (33.75%) and Mitsubishi UFJ Lease & Finance Co., Ltd (20.00%).

The companies hold a 56% ownership interest in MI Berau, a Netherlands corporation. MI Berau is a joint venture, participating in the Tangguh LNG Project in Indonesia, established with INPEX CORPORATION ("INPEX"), a minority shareholder holding a 44% ownership interest. Under the joint venture agreement with INPEX,

significant decisions regarding MI Berau's operations require unanimous consent by the companies and INPEX. The rights given to INPEX in the joint venture agreement are considered substantive participating rights, and control over the operations or assets of MI Berau do not rest with the companies. Accordingly, the companies account for investment in MI Berau using the equity method in accordance with EITF Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights."

The affiliated companies operate mainly in the manufacturing, resource development and service industries, and significantly participate in the companies' operating transactions as either purchasers or suppliers. They principally operate in Japan, Asia, Oceania, Europe and North America.

Investments in and advances to affiliated companies at March 31, 2008 and 2009 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Investments in affiliated companies .....	¥1,084,569	<b>¥1,048,744</b>	<b>\$10,593</b>
Advances .....	43,818	<b>36,605</b>	<b>370</b>
Total .....	¥1,128,387	<b>¥1,085,349</b>	<b>\$10,963</b>

The difference between the carrying value of the investments in affiliated companies and the companies' equity in the underlying net assets of such affiliated companies was principally composed of equity method goodwill of ¥119,596 million and ¥169,533 million (\$1,712 million) at March 31, 2008 and 2009, respectively.

Investments in affiliated companies included investments in marketable equity securities with carrying amounts of ¥304,151 million and ¥369,356 million (\$3,731 million) at March 31, 2008 and 2009, respectively. Corresponding aggregate quoted market values were

¥292,067 million and ¥335,846 million (\$3,392 million), respectively. Included in such amounts were investment in LAWSON of ¥134,563 million and ¥138,354 million (\$1,398 million) with quoted market values of ¥142,881 million and ¥132,189 million (\$1,335 million) at March 31, 2008 and 2009, respectively.

Summarized financial information with respect to the affiliated companies accounted for using the equity method for the years ended March 31, 2007, 2008 and 2009 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Current assets .....	¥ 6,380,688	<b>¥ 6,575,455</b>	<b>\$ 66,418</b>
Property and equipment—net .....	2,938,579	<b>2,798,704</b>	<b>28,270</b>
Other assets .....	1,807,578	<b>1,722,588</b>	<b>17,400</b>
Total assets .....	¥11,126,845	<b>¥11,096,747</b>	<b>\$112,088</b>
Current liabilities .....	¥ 4,970,139	<b>¥ 5,143,419</b>	<b>\$ 51,954</b>
Non-current liabilities .....	2,861,789	<b>2,816,474</b>	<b>28,449</b>
Minority interest .....	185,691	<b>128,132</b>	<b>1,294</b>
Shareholders' equity .....	3,109,226	<b>3,008,722</b>	<b>30,391</b>
Total liabilities and shareholders' equity .....	¥11,126,845	<b>¥11,096,747</b>	<b>\$112,088</b>

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Revenues .....	¥5,759,996	¥6,581,882	<b>¥6,944,164</b>	<b>\$70,143</b>
Gross profit .....	¥1,661,456	¥1,727,406	<b>¥1,977,492</b>	<b>\$19,975</b>
Net income .....	¥ 510,383	¥ 527,088	<b>¥ 526,735</b>	<b>\$ 5,321</b>

Revenues from affiliated companies for the years ended March 31, 2007, 2008 and 2009 were ¥307,672 million, ¥363,217 million and ¥383,069 million (\$3,869 million), respectively. Purchases from affiliated companies for the years ended March 31, 2007, 2008 and 2009 were ¥552,419 million, ¥666,893 million and ¥523,306 million (\$5,286 million), respectively.

Dividends received from affiliated companies for the years ended March 31, 2007, 2008 and 2009 were ¥85,827 million, ¥106,113 million and ¥120,072 million (\$1,213 million), respectively.

Impairment losses recognized for investments in affiliated companies was ¥61,221 million (\$619 million) for the year ended March 31, 2009. See Note 11.

## 6. ALLOWANCE FOR DOUBTFUL RECEIVABLES

Analyses of the allowance for doubtful receivables for the years ended March 31, 2007, 2008 and 2009 are as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Balance at beginning of year .....	¥96,866	¥ 81,946	<b>¥ 70,528</b>	<b>\$ 712</b>
Provision (credit) for doubtful receivables .....	1,298	(3,909)	<b>8,781</b>	<b>89</b>
Net charge-offs:				
Charge-offs .....	(20,683)	(13,303)	<b>(15,489)</b>	<b>(156)</b>
Recoveries .....	4,517	4,940	<b>3,516</b>	<b>35</b>
Total net charge-offs .....	(16,166)	(8,363)	<b>(11,973)</b>	<b>(121)</b>
Other* .....	(52)	854	<b>(4,656)</b>	<b>(47)</b>
Balance at end of year .....	¥81,946	¥70,528	<b>¥62,680</b>	<b>\$633</b>

\* "Other" principally includes the effect of consolidation/deconsolidation of certain subsidiaries and the effect of changes in foreign currency exchange rates.

At March 31, 2008 and 2009, the total recorded investment in loans that were considered to be impaired under SFAS No. 114 and amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan," including those trade receivables with terms exceeding one year, was ¥38,470 million and ¥41,570 million (\$420 million), respectively, and the related allowance for credit losses provided at each year-end was ¥33,969 million and ¥39,233 million (\$396 million), respectively.

The average amounts of impaired loans during the years ended March 31, 2007, 2008 and 2009 were ¥57,751 million, ¥43,136 million and ¥40,020 million (\$404 million), respectively.

Interest income on impaired loans recognized for each of the three years in the period ended March 31, 2009 was not material. The companies generally recognize interest income on impaired loans on a cash basis.

## 7. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2008 and 2009 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Real estate held for development and resale .....	¥ 96,432	<b>¥ 105,450</b>	<b>\$ 1,065</b>
Land .....	293,956	<b>293,459</b>	<b>2,964</b>
Buildings, including leasehold improvements .....	696,462	<b>679,717</b>	<b>6,866</b>
Machinery and equipment .....	899,523	<b>801,992</b>	<b>8,101</b>
Aircrafts and vessels .....	429,014	<b>436,856</b>	<b>4,413</b>
Mineral rights .....	261,365	<b>279,718</b>	<b>2,825</b>
Projects in progress .....	59,628	<b>59,859</b>	<b>605</b>
Total .....	2,736,380	<b>2,657,051</b>	<b>26,839</b>
Less accumulated depreciation .....	(1,125,759)	<b>(1,080,066)</b>	<b>(10,910)</b>
Property and equipment—net .....	¥ 1,610,621	<b>¥ 1,576,985</b>	<b>\$ 15,929</b>

Depreciation expense for the years ended March 31, 2007, 2008 and 2009 was ¥111,110 million, ¥132,443 million and ¥128,625 million (\$1,299 million), respectively.

The impairment loss on long-lived assets for the year ended March 31, 2009 related principally to oil and gas properties owned by subsidiaries included in Energy Business and Machinery segments due to lower oil and the gas reserves estimates and oil price decline. For the years ended March 31, 2007 and 2008, these losses were principally due to chemical products manufacturing

equipment owned by a subsidiary, distribution centers, warehouses and land for lease owned by a subsidiary, and equipment used in connection with a phone line project carried out by a subsidiary. These impairments for the years ended March 31, 2007 and 2008 mainly related to declining profitability resulting from the deterioration of business environment caused by an increase in competition, and to changes in management policies of subsidiaries.

Impairment losses recognized for the years ended March 31, 2007, 2008 and 2009 were applicable to the following segments:

Segment	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Business Innovation	¥ 26	¥ 641	¥ 8	
Industrial Finance, Logistics & Development	603		690	\$ 7
Energy Business	1,227	2,759	28,624	289
Metals	6,066	739	4,464	45
Machinery	1,278	797	9,682	98
Chemicals	4,621	4,892	1,885	19
Living Essentials	277	1,047	264	3
Other*	(4,620)	(2,954)		
Total	¥9,478	¥7,921	¥45,617	\$461

\* "Other" represents impairment losses attributable to the assets for corporate use which have not been allocated to specific operating segments, and reclassification to "(Loss) Income from discontinued operations (net of tax)."

These impairment losses were included in "Loss on property and equipment—net" in the accompanying consolidated statements of income and were determined by the difference between the carrying value and the estimated fair value of these assets. The companies assess whether the carrying amount of long-lived assets are recoverable by using undiscounted cash flows, whenever events or changes in circumstances indicate that the carrying amount of an

asset may not be recoverable. Estimated fair values of assets were primarily determined based on independent appraisals and discounted cash flows.

Capitalized interest was ¥42 million, ¥223 million and ¥732 million (\$7 million) for the years ended March 31, 2007, 2008 and 2009, respectively.

## 8. PLEDGED ASSETS

At March 31, 2009, assets pledged as collateral for short-term debt, long-term debt and guarantees of contracts and others of the companies were as follows:

	Millions of Yen	Millions of U.S. Dollars
Notes, loans and accounts receivable—trade (current and non-current)	¥ 39,389	\$ 398
Non-current investment securities (carrying value)	169,580	1,713
Property and equipment (net of accumulated depreciation)	240,728	2,431
Other	25,724	260
Total	¥475,421	\$4,802

The above pledged assets were classified by type of liabilities to which they relate as follows:

	Millions of Yen	Millions of U.S. Dollars
Short-term debt	¥ 38,774	\$ 391
Long-term debt	243,621	2,461
Guarantees of contracts and others	193,026	1,950
Total	¥475,421	\$4,802

Trust receipts issued under customary import financing arrangements give banks a security interest in the merchandise imported and/or sales proceeds resulting from the sale of such merchandise. The companies follow the practice of repaying the related notes and acceptances payable at maturity without applying the sales proceeds to specific notes or acceptances. The large number of

transactions makes it impracticable to determine the aggregate amounts of assets covered by outstanding trust receipts.

See Note 13 for a description of the right of the lending banks to require the companies to provide collateral (or additional collateral) not included in pledged assets summarized in the first paragraph of this note.

## 9. GOODWILL AND OTHER INTANGIBLE ASSETS

Under SFAS No. 142, goodwill and other intangible assets with indefinite useful lives are not amortized and other intangible assets with finite useful lives are amortized over their respective estimated useful lives. The fair value for the basis of determining the impairment loss of goodwill and other intangible assets was calculated based on the discounted future cash flow method.

### Other Intangible Assets

The following tables present information regarding carrying amounts and accumulated amortization balances of other intangible assets by major asset class at March 31, 2008 and 2009:

March 31, 2008	Millions of Yen		
	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets subject to amortization:			
Software .....	¥ 80,308	¥(43,536)	¥36,772
Manufacturing, sales and services licenses, and trademarks .....	53,886	(35,819)	18,067
Customer relationship .....	1,564	(29)	1,535
Other .....	12,105	(6,428)	5,677
<b>Total .....</b>	<b>¥147,863</b>	<b>¥(85,812)</b>	<b>¥62,051</b>
Intangible assets not subject to amortization:			
Trade names .....			¥ 2,934
Rights to use land .....			2,691
Customer relationship .....			2,365
Other .....			3,491
<b>Total .....</b>			<b>¥11,481</b>

March 31, 2009	Millions of Yen			Millions of U.S. Dollars		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets subject to amortization:						
Software .....	¥ 90,074	¥(48,020)	¥42,054	\$ 910	\$(485)	\$425
Manufacturing, sales and services licenses, and trademarks .....	47,624	(34,536)	13,088	481	(349)	132
Customer relationship .....	2,021	(452)	1,569	20	(5)	15
Other .....	11,276	(5,278)	5,998	114	(53)	61
<b>Total .....</b>	<b>¥150,995</b>	<b>¥(88,286)</b>	<b>¥62,709</b>	<b>\$1,525</b>	<b>\$(892)</b>	<b>\$633</b>
Intangible assets not subject to amortization:						
Trade names .....			¥ 3,359			\$ 34
Rights to use land .....			2,643			27
Customer relationship .....			2,365			24
Other .....			2,307			23
<b>Total .....</b>			<b>¥10,674</b>			<b>\$108</b>

Intangible assets subject to amortization acquired during the year ended March 31, 2008 amounted to ¥25,494 million, which primarily consisted of ¥15,691 million of software and ¥7,274 million of franchise agreements related to Kentucky Fried Chicken Japan included in "Manufacturing, sales and services licenses, and trademarks." The weighted-average amortization period for software is 5 years. The amortization period for the franchise agreements related to Kentucky Fried Chicken Japan is 17 years.

Intangible assets subject to amortization acquired during the year ended March 31, 2009 amounted to ¥22,789 million (\$230 million), which primarily consisted of ¥17,626 million (\$178 million)

of software. The weighted-average amortization period for intangible assets subject to amortization acquired during the year ended March 31, 2009 is 6 years. The weighted-average amortization period for software is 5 years.

Intangible assets not subject to amortization acquired during the years ended March 31, 2008 and 2009 totaled ¥191 million and ¥1,499 million (\$15 million), respectively.

Amortization expense for intangible assets subject to amortization was ¥18,089 million, ¥17,161 million and ¥17,078 million (\$173 million) for the years ended March 31, 2007, 2008 and 2009, respectively.

As of March 31, 2009, estimated amortization expense in each of the next five years is as follows:

	Millions of Yen	Millions of U.S. Dollars
Year ending March 31:		
2010 .....	¥14,807	\$149
2011 .....	12,256	124
2012 .....	9,604	97
2013 .....	7,299	74
2014 .....	3,854	39

Based on the results of the impairment testing, impairment losses of ¥1,688 million, ¥151 million and ¥313 million (\$3 million) were recorded for the years ended March 31, 2007, 2008 and 2009, respectively.

These impairment losses are included in "Loss on property and equipment—net."

### Goodwill

The following tables show changes in the carrying amount of goodwill by reporting operating segment for the years ended March 31, 2008 and 2009:

Segment	March 31, 2008					March 31, 2009									
	Millions of Yen					Millions of Yen					Millions of U.S. Dollars				
	Balance, Beginning of Year	Goodwill Additions	Impairment Losses	Other*	Balance, End of Year	Balance, Beginning of Year	Goodwill Additions	Impairment Losses	Other*	Balance, End of Year	Balance, Beginning of Year	Goodwill Additions	Impairment Losses	Other*	Balance, End of Year
Business Innovation .....	¥ 693	¥ 1,491		¥ 66	¥ 2,250	¥ 2,250	¥ 353		¥ (11)	¥ 2,592	\$ 23	\$ 3			\$ 26
Industrial Finance, Logistics & Development .....	96	5,523		(96)	5,523	5,523			(784)	4,739	56			(8)	48
Energy Business .....															
Metals .....	8,655	4,409		(136)	12,928	12,928	589	¥(1,446)	(53)	12,018	130	6	\$(14)	(1)	121
Machinery .....	1,303	1,076			2,379	2,379	506		(16)	2,869	24	5			29
Chemicals .....	662			(28)	634	634			(267)	367	6			(2)	4
Living Essentials .....	14,176	13,444	¥(99)	(858)	26,663	26,663	573	(298)	(1,455)	25,483	269	6	(3)	(15)	257
Other .....	9,159	(431)		(5,016)	3,712	3,712	100	(2,842)	(21)	949	38	1	(29)		10
Total .....	¥34,744	¥25,512	¥(99)	¥(6,068)	¥54,089	¥54,089	¥2,121	¥(4,586)	¥(2,607)	¥49,017	\$546	\$21	\$(46)	\$(26)	\$495

\* "Other" includes effects of divestitures and foreign currency exchange rate changes.

During the years ended March 31, 2007, 2008 and 2009, the companies recognized impairment losses of ¥838 million, ¥99 million and ¥4,586 million (\$46 million), respectively, which are included in "Other expense (income)—net." See Note 22.

## 10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

**Overall Risk Management**—The companies, in the normal course of business, are exposed to market risks from changes in interest rates, foreign exchange rates and commodity prices. To manage the exposures to these risks, the companies generally identify their net exposures and take advantage of natural offsets. Additionally, the companies enter into various derivative transactions pursuant to the companies' risk management policies in response to counterparty exposure and to hedge specific risks.

The primary types of derivatives used by the companies are interest rate swaps, forward exchange contracts, currency swaps and commodity futures contracts. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value or cash flows of the underlying exposures being hedged. Whenever practical, designation is performed on a specific exposure basis to qualify for hedge accounting. In these circumstances, the companies assess, both at the inception of the hedge and on an on-going basis, whether the hedging derivatives are highly effective in offsetting changes in fair values or cash flows of hedged items. Should it be determined that a derivative is not highly effective as a hedge, the companies will discontinue hedge accounting.

The companies do not enter into derivative instruments that contain credit risk related contingent features.

**Interest Rate Risk Management**—The companies' financing, investing and cash management activities are exposed to market risk from changes in interest rates. In order to manage these exposures, the companies have entered into interest rate swap contracts. Interest rate swaps are used, in most instances, to convert fixed rate assets or debts to floating rate assets or debts, as well as convert some floating rate assets or debts to a fixed basis. The objective of maintaining this mix of fixed and floating rate assets and debt allows the companies to manage the overall value of cash flows attributable to certain assets and debt instruments.

**Foreign Currency Risk Management**—The companies operate globally and are exposed to foreign currency risks related to purchasing, selling, financing and investing in currencies other than the local currencies in which the companies operate. The companies' strategy to manage foreign currency risks is to net foreign currency exposures on recognized assets, liabilities and unrecognized firm commitments by taking advantage of natural offsets, and purchase forward exchange contracts and other contracts to preserve the economic value of cash flows in non-functional currencies. The companies believe that in circumstances where these foreign currency contracts have not been designated as hedging instruments under SFAS No. 133, such contracts effectively hedge the impact of the variability in exchange rates. Principal currencies hedged include the U.S. dollar, the Euro and the Australian dollar.

**Commodity Price Risk Management**—The companies are exposed to price fluctuations of various commodities used in their trading and other operating activities. The companies enter into commodity futures, forwards, options and swaps contracts, to hedge the variability in commodity prices in accordance with their risk management procedures. Except in certain cases where these contracts have been designated as a cash flow hedge, they are generally not designated as hedging instruments under SFAS No. 133.

**Fair Value Hedge**—Derivative instruments designated as fair value hedges primarily relate to interest rate swaps used to convert fixed rate assets or debt obligations to floating rate assets or debts. Changes in fair values of hedged assets and debt obligations, and hedging derivative instruments are recognized in earnings in "Other expense (income)—net." The amount of hedge ineffectiveness recognized on fair value hedges was losses of ¥79 million and ¥29 million for the years ended March 31, 2007 and 2008, respectively, and gains of ¥222 million (\$2 million) for the year ended March 31, 2009. During the same periods, there was no gain or loss recognized in earnings as the result of a hedged firm commitment no longer qualifying as a fair value hedge.

**Cash Flow Hedge**—Derivative instruments designated as cash flow hedges include interest rate swaps to convert floating rate liabilities to fixed rate liabilities and foreign currency swap contracts to eliminate variability in functional-currency-equivalent cash flows on certain debt obligations. Additionally, commodity swaps and futures contracts are utilized and qualify as cash flow hedges. Current open contracts hedge forecasted transactions until 2020. Derivative gains and losses included in AOCI are reclassified into earnings at the time that the associated hedged transactions impact the income statement. Approximately ¥14,400 million (\$145 million) of these net derivative losses, net of tax, included in AOCI at March 31, 2009 will be reclassified into earnings within 12 months from that date. During the year ended March 31, 2009, there was no gain or loss reclassified from AOCI at March 31, 2008, into earnings as a result of the discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur by the end of the originally specified time period.

**Hedge of the Net Investment in Foreign Operations**—The parent company enters into foreign exchange forward contracts to hedge the foreign currency exposures of its net investments in foreign operations. Changes in fair values of hedging instruments have been included in foreign currency translation adjustments within "Other comprehensive income." The net amount of gains or losses included in the foreign currency translation adjustments was losses of ¥20,508 million for the year ended March 31, 2007, and gains of ¥9,718 million and ¥47,069 million (\$475 million) for the years ended March 31, 2008 and 2009, respectively.

**Derivative Instruments Used for Other than Hedging Activities**—The parent company and certain subsidiaries enter into derivative financial instruments as a part of their trading activities. The companies clearly distinguish derivatives used in trading activities from derivatives used for risk management purposes. As part of their internal control policies, the companies have set strict limits on the positions which can be taken in order to minimize potential losses for these derivative transactions and periodically monitor the open positions for compliance.

**Impact of Derivatives on the Consolidated Balance Sheets**—The following table summarizes the fair value of derivative instruments designated as accounting hedges under SFAS No.133, and the fair value of derivative instruments not designated as accounting hedges by type of derivative contract on a gross basis at March 31, 2009.

	Millions of Yen			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as accounting hedges</b>				
Interest rate contracts	Other current assets	¥ 1,217	Other current liabilities	¥ 318
	Other assets	52,531	Other long-term liabilities	3,972
Foreign exchange contracts	Other current assets	6,523	Other current liabilities	24,673
	Other assets	9,506	Other long-term liabilities	1,210
Commodity contracts	Other current assets	233	Other current liabilities	901
	Other assets	4,180	Other long-term liabilities	2,787
Total derivatives designated as accounting hedges		¥ 74,190		¥ 33,861
<b>Derivatives not designated as accounting hedges</b>				
Interest rate contracts	Other current assets	¥ 3,080	Other current liabilities	¥ 4,299
	Other assets	12,178	Other long-term liabilities	17,682
Foreign exchange contracts	Other current assets	59,897	Other current liabilities	47,207
	Other assets	41,786	Other long-term liabilities	9,700
Commodity contracts	Other current assets	561,775	Other current liabilities	464,766
	Other assets	187,803	Other long-term liabilities	156,442
Total derivatives not designated as accounting hedges		¥ 866,519		¥ 700,096
<b>Total Derivatives (gross basis)</b>		¥ 940,709		¥ 733,957
FIN No. 39 Netting*		¥(567,612)		¥(601,853)
<b>Derivatives on Consolidated Balance Sheet</b>				
	Other current assets	¥ 197,951	Other current liabilities	¥ 104,766
	Other assets	175,146	Other long-term liabilities	27,338
<b>Total Derivatives on Consolidated Balance Sheet</b>		¥ 373,097		¥ 132,104

	Millions of U.S. Dollars			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair value	Balance Sheet Location	Fair value
<b>Derivatives designated as accounting hedges</b>				
Interest rate contracts	Other current assets	\$ 12	Other current liabilities	\$ 3
	Other assets	531	Other long-term liabilities	40
Foreign exchange contracts	Other current assets	66	Other current liabilities	249
	Other assets	96	Other long-term liabilities	12
Commodity contracts	Other current assets	2	Other current liabilities	9
	Other assets	42	Other long-term liabilities	28
Total derivatives designated as accounting hedges		\$ 749		\$ 341
<b>Derivatives not designated as accounting hedges</b>				
Interest rate contracts	Other current assets	\$ 31	Other current liabilities	\$ 43
	Other assets	123	Other long-term liabilities	179
Foreign Exchange contracts	Other current assets	605	Other current liabilities	477
	Other assets	422	Other long-term liabilities	98
Commodity contracts	Other current assets	5,674	Other current liabilities	4,695
	Other assets	1,897	Other long-term liabilities	1,580
Total derivatives not designated as accounting hedges		\$ 8,752		\$ 7,072
<b>Total Derivatives (gross basis)</b>		\$ 9,501		\$ 7,413
FIN No. 39 Netting*		\$(5,732)		\$(6,079)
<b>Derivatives on Consolidated Balance Sheet</b>				
	Other current assets	\$ 2,000	Other current liabilities	\$ 1,058
	Other assets	1,769	Other long-term liabilities	276
<b>Total Derivatives on Consolidated Balance Sheet</b>		\$ 3,769		\$ 1,334

\* FIN No. 39 permits the netting of derivative assets and derivative liabilities and the related cash collateral received and paid when a legally enforceable master netting agreement exists between the companies and a derivative counterparty. At March 31, 2009, the amounts of the cash collateral paid and received that were offset based on FIN No. 39 were ¥84,271 million (\$852 million) and ¥50,030 million (\$505 million), respectively. The amounts of the cash collateral paid and received that were not offset were ¥21,955 million (\$222 million) and ¥32,840 million (\$332 million), respectively.

**Impact of Derivatives and Hedged Items on the Consolidated Statements of Income and on Other Comprehensive Income**—The following tables summarize the pretax gains or losses reported on derivative instruments designated and qualifying as accounting hedges for the quarter ended March 31, 2009 (from January 1, 2009 to March 31, 2009).

#### Derivatives Designated as Fair Value Hedge

Derivative type	Location of Gain or (Loss) Recognized in Earnings on Derivative/Hedged Item	Amount of Gain or (Loss) Recognized in Earnings on Derivative		Amount of Gain or (Loss) Recognized in Earnings on Hedged Item	
		Millions of Yen	Millions of U.S. Dollars	Millions of Yen	Millions of U.S. Dollars
Interest rate contracts	Other expense (income)	¥(3,046)	\$(31)	¥3,047	\$31
Foreign exchange contracts	Other expense (income)	(5,638)	(57)	5,567	56

#### Derivatives Designated as Cash Flow Hedge

Derivative type	Amount of Gain or (Loss) Recognized in OCI (effective portion*)		Location of Gain or (Loss) Reclassified from AOCI into Earnings	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (effective portion*)	
	Millions of Yen	Millions of U.S. Dollars		Millions of Yen	Millions of U.S. Dollars
Interest rate contracts	¥(1,516)	\$(15)	Interest expense	¥ (98)	\$ (1)
			Equity in earnings of affiliated companies	(115)	(1)
Foreign exchange contracts	2,273	23	Other expense (income)	(26,492)	(268)
Commodity contracts	3,070	31	Revenues/(cost of revenues)	(1,722)	(17)
			Equity in earnings of affiliated companies	(131)	(1)

\* Amounts related to ineffective portion and excluded from hedge effective testing are immaterial.

During the quarter ended March 31, 2009 (from January 1, 2009 to March 31, 2009), the amount reclassified from AOCI at December 31, 2008, into earnings as a result of the discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur by the end of the originally specified time period was losses of ¥11,884 million (\$120 million).

#### Derivatives Designated as Net Investment Hedge

Derivative type	Amount of Gain or (Loss) Recognized in OCI (effective portion*)	
	Millions of Yen	Millions of U.S. Dollars
Foreign exchange contracts	¥18,691	\$189

\* Amounts related to ineffective portion and excluded from hedge effective testing are immaterial. No gains or (losses) were reclassified from AOCI into earnings for the quarter ended March 31, 2009.

## 11. FAIR VALUE MEASUREMENTS

Effective April 1, 2008, the companies adopted SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 establishes a three-level valuation hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1—Inputs are quoted prices for identical assets or liabilities in active markets.

Level 2—Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities.

Level 3—Unobservable inputs that reflect the entity's own assumptions.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information regarding assets and liabilities that are measured at fair value on a recurring basis at March 31, 2009:

	Millions of Yen					Millions of U.S. Dollars				
	Level 1	Level 2	Level 3	Netting*	Total	Level 1	Level 2	Level 3	Netting*	Total
<b>Assets:</b>										
Cash equivalents . . . .		¥ 183,111			¥ 183,111		\$ 1,850			\$ 1,850
Investments . . . . .	¥878,655	122,861	¥26,946		1,028,462	\$8,875	1,241	\$272		10,388
Derivative assets . . . .	55,741	879,175	5,793	¥(567,612)	373,097	563	8,880	58	\$(5,732)	3,769
Total assets . . . . .	¥934,396	¥1,185,147	¥32,739	¥(567,612)	¥1,584,670	\$9,438	\$11,971	\$330	\$(5,732)	\$16,007
<b>Liabilities:</b>										
Derivative liabilities . . .	¥ 13,480	¥ 714,761	¥ 5,716	¥(601,853)	¥ 132,104	\$ 136	\$ 7,220	\$ 57	\$(6,079)	\$ 1,334
Total liabilities . . . . .	¥ 13,480	¥ 714,761	¥ 5,716	¥(601,853)	¥ 132,104	\$ 136	\$ 7,220	\$ 57	\$(6,079)	\$ 1,334

\* FIN No. 39 "Offsetting of Amounts Related to Certain Contracts," permits the netting of derivative assets and derivative liabilities and the related cash collateral received and paid when a legally enforceable master netting agreement exists between the companies and a derivative counterparty. See Note 10.

Investments classified in Level 1 are comprised principally of equity securities, which are valued using quoted market prices in active markets. Investments and Cash equivalents classified in Level 2 are valued using quoted market prices for similar assets in active markets, or quoted prices for identical or similar assets in markets that are not active. This category includes corporate bonds and commercial papers. Investments classified in Level 3 are valued based on unobservable inputs, such as net assets of the investees and estimated cash flows for discounted future cash flow method. This category includes the majority of fund investments.

Derivatives are comprised of financial derivatives and commodity

derivatives. Derivatives classified in Level 1 are traded either on exchanges or liquid over-the-counter markets, which are valued using quoted prices. Derivatives classified in Level 2 are valued by pricing models using observable market inputs, such as interest rates and foreign currency exchange rates. Derivatives classified in Level 3 are comprised principally of more structured derivatives, which are valued based on unobservable inputs that reflect the companies' own assumptions.

The following table presents the changes in Level 3 assets and liabilities that are measured at fair value on a recurring basis for the year ended March 31, 2009.

Millions of Yen						
	Balance at Beginning of Year	Net Realized/Unrealized Gains (Losses) Included in Earnings	Net Realized/Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss)	Purchases, Issuances, and Settlements	Balance at End of Year	Net Change in Unrealized Gains (Losses) Related to Assets Still Held at End of Year
Investments	¥62,700	¥(13,207)	¥(3,395)	¥(19,152)	¥26,946	¥(8,773)
Derivatives, net*	46	59	(46)	18	77	77
Total	¥62,746	¥(13,148)	¥(3,441)	¥(19,134)	¥27,023	¥(8,696)

Millions of U.S. Dollars						
	Balance at Beginning of Year	Net Realized/Unrealized Gains (Losses) Included in Earnings	Net Realized/Unrealized Gains (Losses) Included in Other Comprehensive Income (Loss)	Purchases, Issuances, and Settlements	Balance at End of Year	Net Change in Unrealized Gains (Losses) Related to Assets Still Held at End of Year
Investments	\$633	\$(133)	\$(35)	\$(193)	\$272	\$(89)
Derivatives, net*		1			1	1
Total	\$633	\$(132)	\$(35)	\$(193)	\$273	\$(88)

\* Total Level 3 derivative exposures have been netted on these tables for presentation purpose only.

All gains and losses included in earnings are reported in "(Gain) loss on marketable securities and investments—net" for investments and "Revenues/(Cost of revenues)" for derivative assets and liabilities in the consolidated statements of income.

#### Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The following table presents assets and liabilities measured at fair value on a nonrecurring basis for the year ended March 31, 2009:

Millions of Yen					
	Fair Value Measurement Amount	Level 1	Level 2	Level 3	Total Gains (Losses)
Investments*	¥96,285	¥81,101	¥904	¥14,280	¥(80,689)

Millions of U.S. Dollars					
	Fair Value Measurement Amount	Level 1	Level 2	Level 3	Total Gains (Losses)
Investments*	\$973	\$819	\$9	\$145	\$(815)

\* Fair value measurement amount of "Investments" includes investments in affiliated companies of ¥81,101 million (\$819 million) and cost-method investments of ¥15,184 million (\$154 million). Total gains (losses) of "Investments" includes impairment losses recognized for investments in affiliated companies of ¥61,221 million (\$619 million) and impairment losses recognized for cost-method investments of ¥19,444 million (\$196 million).

Investments presented above are measured at fair value on a nonrecurring basis as a result of other-than-temporary impairments. The fair value of the investments classified as Level 1 instruments above are determined using quoted prices in active markets. The fair value of the investments classified as Level 3 instruments above are determined using unobservable inputs such as net assets of the investees and estimated cash flows for the discounted future cash flow method.

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The companies, in the normal course of their business, are parties to various financial instruments. The companies engage in operating transactions with a significant number of customers in a wide variety of industries all over the world, and their receivables from and guarantees to such parties are broadly diversified. Consequently, in management's opinion, no significant concentration of credit risk exists for the companies. Credit risk exposure of these financial instruments in the event of counterparty nonperformance is controlled through credit approvals, limits and monitoring procedures based on the credit policies. The companies require collateral to the extent considered necessary.

The estimated fair value of financial instruments has been determined using available market information or valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value; therefore, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The effect of using different market assumptions and/or estimation methodologies may be material to the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

### Current Financial Assets and Current Financial Liabilities—

The estimated fair values of cash, time deposits with original maturities of three months or less included in cash equivalents, time deposits, trade receivables and payables, and short-term debt approximate their carrying amounts due to the relatively short maturities of these instruments. See Note 11 for the valuation methodology of the fair value of available-for-sale securities with original maturities of three months or less included in cash equivalents.

**Short-term Investments and Other Investments**—The fair values of marketable investments included in "Short-term investments" and "Other investments" are estimated using the valuation methodology set forth in Note 11. It is not practicable to estimate the fair values of the non-marketable investments, which consist of approximately one thousand small investments in customers and suppliers, as such estimation was not readily determinable. However, the fair values of the non-marketable investments which are estimated to have declined and such decline is judged to be other-than-temporary are estimated using the valuation methodology set forth in Note 11.

**Non-current Notes, Loans, Accounts Receivable and Advances to Affiliated Companies**—The fair values of these items are estimated by discounting estimated future cash flows using a rate which is commensurate with the risks involved.

**Long-term Debt**—The fair values of the companies' debt are estimated based on the present value of estimated future cash flows computed using interest rates that are currently available to the companies for debt with similar terms and remaining maturities.

**Derivative Instruments**—The fair values of the derivative instruments are estimated using the valuation methodology set forth in Note 11.

The following table presents the carrying amounts and estimated fair values of financial instruments valued under SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" at March 31, 2008 and 2009. Accordingly, certain amounts which are not considered financial instruments are excluded from the table. The fair value of the derivative instruments is excluded from the table below as written in Note 10.

	Millions of Yen				Millions of U.S. Dollars	
	2008		2009		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:						
Current financial assets other than short-term investments, net of allowance for doubtful receivables .....	¥4,485,751	¥4,485,751	¥4,139,018	¥4,139,018	\$41,808	\$41,808
Short-term investments and other investments, for which it is:						
Practicable to estimate fair value .....	1,610,652	1,610,652	1,039,869	1,039,869	10,504	10,504
Not practicable to estimate fair value .....	579,936		543,553		5,490	
Non-current notes, loans and accounts receivable and advances to affiliated companies, net of allowance for doubtful receivables .....	418,564	422,313	410,042	394,597	4,142	3,986
Financial liabilities:						
Current financial liabilities .....	3,794,987	3,794,987	3,202,717	3,202,717	32,351	32,351
Long-term debt, including current maturities, and non-current trade payables, included in "Other long-term liabilities" .....	3,695,209	3,694,358	4,100,803	4,034,045	41,422	40,748

## 13. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at March 31, 2008 and 2009 consisted of the following:

	2008		2009		2009
	Millions of Yen	Interest Rate	Millions of Yen	Interest Rate	Millions of U.S. Dollars
Bank loans .....	¥632,029	2.4%	¥ 740,406	1.7%	\$ 7,479
Commercial paper .....	110,392	1.8	298,520	0.5	3,015
Total .....	¥742,421		¥1,038,926		\$10,494

The interest rates represent weighted average rates on outstanding balances at March 31, 2008 and 2009. As for short-term debt with collateral, see Note 8.

Long-term debt at March 31, 2008 and 2009 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Long-term debt with collateral (see Note 8):			
Banks and insurance companies, maturing serially through 2034—principally 1%–2.9% ...	¥ 108,026	¥ 97,996	\$ 990
Government-owned banks and government agencies, maturing serially through 2022—principally 1%–2.9% .....	23,124	15,564	157
Banks and others, maturing serially through 2017 (payable in foreign currencies)—principally 1%–6.9% .....	40,794	30,582	309
Government-owned bank, maturing serially through 2014 (payable in foreign currency)—principally 5%–6.9% .....	11,242	12,784	129
Japanese yen bonds (fixed rate 0.56% to 1.5%, due 2008–2009) .....	1,100	500	5
Japanese yen bonds (floating rate 0.91% to 2.77%, due 2010–2013) .....	2,600	4,820	49
U.S. dollar bonds (fixed rate 6.07%, due 2021) .....	8,339	6,342	64
Total .....	195,225	168,588	1,703
Long-term debt without collateral:			
Banks and insurance companies, maturing serially through 2027—principally 0%–1.9% ...	1,725,755	2,026,832	20,473
Government-owned banks and government agencies, maturing serially through 2023—principally 0%–1.9% .....	95,794	113,470	1,146
Government-owned banks, maturing serially through 2019 (payable in foreign currency)—principally 1%–2.9% .....	66,651	47,615	481
Banks and others, maturing serially through 2020 (payable in foreign currencies)—principally 1%–5.9% .....	235,608	182,237	1,841
Japanese yen callable bonds (floating rate 1.2% as of March 31, 2009, due 2015) ...	10,000	10,000	101
Japanese yen callable bonds (adjustable fixed rate 0.6%, due 2008) .....	10,000		
Japanese yen callable bonds (adjustable fixed rate 1.04%, due 2014) .....	15,000		
Japanese yen callable bonds (adjustable fixed rate 0.9%, due 2015) .....	10,000	10,000	101
Japanese yen extensible bonds (floating rate 0.938% as of March 31, 2009, due 2009) .....	34,400	34,400	347
Japanese yen bonds (floating rate 1.01%–1.89% as of March 31, 2009, due 2009–2010) .....	57,100	57,000	576
Japanese yen bonds (floating rate 1.18%–2.1% as of March 31, 2009, due 2013–2014) .....	65,000	65,000	657
Japanese yen bonds (floating rate 1.317%–3.0% as of March 31, 2009, due 2015–2016) .....	55,000	55,000	556
Japanese yen bonds (floating rate 0.852%–2.65% as of March 31, 2009, due 2017) ...	30,000	30,000	303
Japanese yen bonds (fixed rate 2.11% to 2.125%, due 2008) .....	60,000		
Japanese yen bonds (fixed rate 2.08% to 2.425%, due 2009) .....	120,000	85,000	858
Japanese yen bonds (fixed rate 2.07% to 2.24%, due 2010) .....		85,000	858
Japanese yen bonds (fixed rate 0.618% to 3.18%, due 2010–2019) .....	252,000	469,000	4,737
Japanese yen bonds (fixed rate 0.2% to 1.02%, due 2009–2011) .....	10,650	10,280	104
Japanese yen bonds (fixed rate 0.91% to 1.43%, due 2011–2015) .....	57,160	120	1
Thai baht bonds (fixed rate 5.84%, due 2009) .....	10,931	5,520	56
Reverse dual currency Japanese yen/U.S. dollar bonds (fixed rate 3%, due 2009) ...	15,000		
Japanese yen convertible bond (zero coupon, due 2011) .....	2,370	955	10
Medium-term notes (payable in Japanese yen), due 2008–2019—0.38%–3.05% in 2008 and due 2009–2028—0.48%–3.05% in 2009 .....	85,341	66,905	676
Medium-term notes (payable in U.S. dollars), due 2008–2018—3.2%–5.5% in 2008 and due 2009–2018—2.84%–5.00% in 2009 .....	10,945	7,872	80
Commercial paper (payable in Japanese yen), with average interest rate of 0.47% ...	210,000	310,000	3,131
Total .....	3,244,705	3,672,206	37,093
Total .....	3,439,930	3,840,794	38,796
Add unamortized issue premium .....	(17)	(63)	
Add mark to market adjustment—under SFAS No. 133 .....	41,715	54,260	547
Total .....	3,481,628	3,894,991	39,343
Less current maturities .....	(384,477)	(426,019)	(4,303)
Less mark to market adjustment related to “current maturities”—under SFAS No. 133 .....	(333)	(1,206)	(12)
Long-term debt, less current maturities .....	¥3,096,818	¥3,467,766	\$35,028

On June 17, 2002, the parent company completed an offering of ¥150,000 million zero coupon convertible bonds with stock acquisition rights due 2011 (the "Convertible Bonds"), receiving net proceeds of approximately ¥149,910 million. The bonds are convertible, at the option of the holder, into the parent company's common stock at a conversion price of ¥1,188 per share, exercisable on or after July 1, 2002, subject to computational provisions in the related indenture. The bonds are redeemable at the option of the parent company commencing June 17, 2007 through June 16, 2008 at the redemption price of 103% (102% commencing June 17, 2008 through June 16, 2009) of the principal. During the years ended March 31, 2008 and 2009, ¥4,180 million and ¥1,415

million (\$14 million) of the Convertible Bonds were converted into common stock, at a conversion price of ¥1,188 per share. The bonds were sold at a premium of ¥3,750 million which has been recorded as part of the bond payable and amortized over the term of the bonds. The parent company paid ¥3,750 million for debt issuance costs related to the bonds. The debt issuance costs have been included in other assets and are being amortized to interest expense over the term of the bonds.

Annual maturities of long-term debt as of March 31, 2009, based on their contractual terms, are as follows, excluding the effect of the SFAS No. 133 mark to market adjustment:

	Millions of Yen	Millions of U.S. Dollars
Year ending March 31:		
2010 (included in current liabilities) .....	¥ 426,019	\$ 4,303
2011 .....	369,059	3,728
2012 .....	435,021	4,394
2013 .....	401,401	4,055
2014 .....	896,256	9,053
2015 and thereafter .....	1,313,038	13,263
Total .....	<u>¥3,840,794</u>	<u>\$38,796</u>

The companies entered into interest rate swap and currency swap contracts for certain short-term and long-term debt to manage interest rate and foreign currency exposure. The effective interest rates after giving effect to such swap agreements were generally based on the three month LIBOR (London Interbank Offered Rate).

The companies maintain lines of credit with various banks, including Japanese yen facilities of ¥510,000 million (\$5,152 million) held by the parent company and ¥114,007 million (\$1,152 million) held by a domestic subsidiary, and a U.S. dollar facility of \$1,290 million which the parent company and a U.S. subsidiary held at March 31, 2009. The parent company, the domestic subsidiary and the U.S. subsidiary compensate banks for these facilities in the form of commitment fees, which were insignificant in each of the past three years. Certain commitment fees on the lines of credit are based on the parent company's current debt rating. The parent company, the domestic subsidiary and the U.S. subsidiary are required to maintain certain financial covenants to keep the facilities. The short-term and long-term portions of unused lines of credit, including over draft contracts as well as the above committed lines, totaled ¥952,532 million (\$9,622 million) and ¥413,562 million (\$4,177 million), respectively, at March 31, 2009, compared with ¥1,029,317 million and ¥352,827 million, respectively, at March 31, 2008.

The parent company has the intent to utilize its unused long-term lines of credit, discussed above, totaling ¥310,000 million and maturing in December 2013, solely in support of the parent company's commercial paper program of ¥310,000 million. The commercial paper program is used from time to time to fund

working capital and other general corporate requirements. The outstanding commercial paper of ¥210,000 million at March 31, 2008 and ¥310,000 million (\$3,131 million) at March 31, 2009 was classified as long-term debt on the consolidated balance sheets since the parent company has the intent and ability to refinance these borrowings on a long-term basis through continued commercial paper borrowings, supported by the available lines of credit.

Substantially all of the short-term and long-term loans from banks are made under agreements which, as is customary in Japan, provide that the bank may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guarantors with respect to the loans, and that the bank may treat any collateral, whether furnished as security for short-term or long-term loans or otherwise, as collateral for all indebtedness to such bank. Certain agreements relating to long-term bank loans provide that the bank may require the borrower to submit proposals as to the payment of dividends and other appropriations of earnings for the bank's review and approval before presentation to the shareholders. Default provisions of certain agreements grant certain rights of possession to the banks. Under certain agreements, principally with government-owned financial institutions, the borrower is required, upon request of the lender, to reduce outstanding loans before scheduled maturity dates when the lender considers that the companies are able to reduce such loans through increased earnings or by additional cash flow raised through stock issuances or bond offerings. During the years ended March 31, 2008 and 2009, the companies have not received any request of the kind described above and do not expect that any such request will be made.

## 14. INCOME TAXES

Income taxes in Japan applicable to the companies, imposed by the national, prefectural and municipal governments, in the aggregate, resulted in a normal effective statutory rate of approximately 41% for the years ended March 31, 2007, 2008 and 2009. A tax reform bill was passed by the Diet and new tax laws were enacted in Japan on March 31, 2009. Under the new tax laws, dividends received from a foreign company, as defined, by a domestic corporation will be primarily excluded from its taxable income. The deferred tax liabilities balances for undistributed earnings of certain foreign subsidiaries and affiliated companies have been reversed to reflect

the new tax laws, which decreased income taxes and increased net income by ¥29,243 million for the year ended March 31, 2009. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

A reconciliation of the combined statutory income tax rates applied to income from continuing operations for the years ended March 31, 2007, 2008 and 2009 to the effective income tax rates on income from continuing operations reflected in the accompanying consolidated statements of income was as follows:

	2007	2008	2009
Combined statutory income tax rate applied to income from continuing operations	41.0%	41.0%	<b>41.0%</b>
Expenses not deductible for income tax purposes	1.0	0.8	<b>1.1</b>
Operating losses of certain subsidiaries	1.4	1.3	<b>6.5</b>
Tax benefits on losses of subsidiaries	(0.4)	(0.7)	<b>(1.6)</b>
Lower income tax rates applicable to income in certain foreign countries	(4.5)	(4.8)	<b>(10.2)</b>
Tax effect on earnings or losses of equity method investees	2.1	(2.0)	<b>0.5</b>
Effect of taxation on dividends	7.1	1.8	<b>3.0</b>
Reversal of valuation allowance for certain deferred tax assets	(0.9)		
Tax assessments		(3.2)	<b>(2.2)</b>
Other—net	0.4	(1.3)	<b>0.3</b>
Effective income tax rate on income from continuing operations	<u>47.2%</u>	<u>32.9%</u>	<u><b>38.4%</b></u>

Amounts provided for income taxes for the years ended March 31, 2007, 2008 and 2009 were allocated as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Income tax expense on income from continuing operation	¥284,031	¥ 181,666	<b>¥ 148,904</b>	<b>\$ 1,504</b>
(Loss) income from discontinued operations	320	194	<b>(9,266)</b>	<b>(93)</b>
Other comprehensive income (loss)	64,811	(136,001)	<b>(301,584)</b>	<b>(3,046)</b>
Directly charged to unappropriated retained earnings	17,156			
Directly charged to accumulated other comprehensive income (loss)	4,502			
Total income tax expense (benefit)	<u>¥370,820</u>	<u>¥ 45,859</u>	<u><b>¥(161,946)</b></u>	<u><b>\$ (1,635)</b></u>

Significant components of deferred tax assets and liabilities at March 31, 2008 and 2009 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
<b>Assets:</b>			
Allowance for doubtful receivables	¥ 5,854	<b>¥ 13,429</b>	<b>\$ 136</b>
Pension and severance	21,976	<b>58,683</b>	<b>593</b>
Impairment loss on property and equipment	4,145	<b>11,483</b>	<b>116</b>
Net operating loss carryforwards	26,520	<b>38,711</b>	<b>391</b>
Accruals and other	105,730	<b>95,357</b>	<b>963</b>
Gross deferred tax assets	164,225	<b>217,663</b>	<b>2,199</b>
Less valuation allowance	(26,471)	<b>(43,912)</b>	<b>(444)</b>
Deferred tax assets—less valuation allowance	<u>137,754</u>	<u><b>173,751</b></u>	<u><b>1,755</b></u>
<b>Liabilities:</b>			
Depreciation	32,613	<b>55,501</b>	<b>561</b>
Investments	316,065	<b>14,042</b>	<b>142</b>
Property and intangible fixed assets	55,335	<b>42,477</b>	<b>429</b>
Pension and severance	3,365	<b>1,008</b>	<b>10</b>
Other	48,263	<b>27,268</b>	<b>275</b>
Gross deferred tax liabilities	455,641	<b>140,296</b>	<b>1,417</b>
Net deferred tax (liabilities) assets	<u>¥(317,887)</u>	<u><b>¥ 33,455</b></u>	<u><b>\$ 338</b></u>

A valuation allowance is established to reduce certain deferred tax assets related to deductible temporary differences and net operating loss carryforwards where it is more likely than not that they will not be realized. The total valuation allowance increased by ¥4,393 million for the year ended March 31, 2007, decreased by ¥4,773 million for the year ended March 31, 2008, and increased by ¥17,441 million (\$176 million) for the year ended March 31,

2009. The increase of the valuation allowance for the year ended March 31, 2009 primarily reflected a decrease in the amount of deferred tax assets considered realizable in certain subsidiaries under the severe economic environment.

Net deferred tax liabilities were included in the consolidated balance sheets at March 31, 2008 and 2009 as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Current assets—Deferred income taxes .....	¥ 62,573	¥ 63,301	\$ 639
Other assets .....	25,704	78,688	795
Other current liabilities .....	(5,220)	(1,262)	(12)
Long-term liabilities—Deferred income taxes .....	(400,944)	(107,272)	(1,084)
Net deferred tax (liabilities) assets .....	¥(317,887)	¥ 33,455	\$ 338

No provision for income taxes is recognized on the undistributed earnings of subsidiaries where the parent company considers that such earnings are not expected to be remitted in the foreseeable future. At March 31, 2008 and 2009, the amount of undistributed earnings of subsidiaries on which a deferred tax liability has not been recognized in the accompanying consolidated financial statements aggregated ¥983,689 million and ¥807,147 million (\$8,153 million), respectively. Determination of the deferred tax

liability related to the undistributed earnings of foreign subsidiaries is not practicable.

At March 31, 2009, the companies had aggregate operating loss carryforwards of approximately ¥102,700 million (\$1,037 million) which may be used as a deduction in the determination of taxable income in future periods. If not utilized, such loss carryforwards expire as follows:

	Millions of Yen	Millions of U.S. Dollars
Year ending March 31:		
2010 .....	¥ 4,262	\$ 43
2011 .....	9,082	92
2012 .....	2,724	27
2013 .....	3,671	37
2014 .....	29,771	301
2015 through 2019 .....	35,532	359
2020 through 2024 .....	2,281	23
2025 and thereafter .....	15,377	155
Total .....	¥102,700	\$1,037

Income from continuing operations before income taxes for the years ended March 31, 2007, 2008 and 2009 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars		
	The Parent Company and Its Domestic Subsidiaries	Foreign Subsidiaries	Total	The Parent Company and Its Domestic Subsidiaries	Foreign Subsidiaries	Total
Year ended March 31, 2007 .....	¥326,379	¥275,183	¥601,562			
Year ended March 31, 2008 .....	¥271,946	¥280,603	¥552,549			
Year ended March 31, 2009 .....	¥ 42,242	¥345,986	¥388,228	\$426	\$3,495	\$3,921

Income taxes on income from continuing operations for the years ended March 31, 2007, 2008 and 2009 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars		
	The Parent Company and Its Domestic Subsidiaries	Foreign Subsidiaries	Total	The Parent Company and Its Domestic Subsidiaries	Foreign Subsidiaries	Total
Year ended March 31, 2007:						
Current	¥162,385	¥84,613	¥246,998			
Deferred	39,313	(2,280)	37,033			
Total	¥201,698	¥82,333	¥284,031			
Year ended March 31, 2008:						
Current	¥124,103	¥81,426	¥205,529			
Deferred	(20,953)	(2,910)	(23,863)			
Total	¥103,150	¥78,516	¥181,666			
Year ended March 31, 2009:						
Current	¥ 94,054	¥ 92,692	¥186,746	\$ 950	\$ 936	\$1,886
Deferred	(59,647)	21,805	(37,842)	(602)	220	(382)
Total	¥ 34,407	¥114,497	¥148,904	\$ 348	\$1,156	\$1,504

Effective April 1, 2007, the companies adopted FIN No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109."

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Balance at beginning of year	¥32,269	¥ 15,639	\$ 158
Additions for tax positions of the current year	198		
Additions for tax positions of prior years	940	253	3
Reductions for tax positions of prior years	(12,770)	(19)	
Settlements	(5,058)	(11,865)	(120)
Other	60	(53)	(1)
Balance at end of year	¥ 15,639	¥ 3,955	\$ 40

The amount of unrecognized tax benefits at March 31, 2008 and 2009 that would affect the effective tax rate, if recognized, were ¥15,353 million and ¥3,697 million (\$37 million), respectively.

The companies do not believe it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the next twelve months.

The companies recognize interest and penalties associated with uncertain tax positions as a component of income taxes in the consolidated statement of income. For the year ended March 31, 2008

and 2009, interest and penalties recognized as a component of accrued income taxes and other long-term liabilities in the consolidated financial position and results of operations are not material.

The companies file income tax returns in Japan and various foreign tax jurisdictions. In Japan, regular examinations by tax authorities have been completed for years before 2006. Apart from regular income tax examinations, tax authorities in Japan have the authority to conduct transfer pricing examinations for years after 2002.

## 15. ACCRUED PENSION AND SEVERANCE LIABILITIES

The parent company and certain of its subsidiaries have defined benefit pension plans covering substantially all employees other than directors. The primary defined benefit pension plans are the Corporate Pension Funds under the Defined Benefit Corporate Pension Law. The benefits for these plans are based upon years of service, compensation at the time of severance and other factors.

From April 2006, the parent company has started to convert certain portions of the Corporate Pension Funds into a defined contribution plan in phases.

In addition to the pension plans, most of the domestic subsidiaries have unfunded severance indemnity plans under which their employees, other than directors, are entitled, under most circumstances, to lump-sum severance indemnities upon mandatory retirement at normal retirement age or earlier termination of employment. The benefits for these plans are based upon years of service, compensation at the time of severance and other factors.

The following table sets forth the reconciliation of benefit obligation, plan assets and the funded status of the plans:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Change in benefit obligation:			
Benefit obligation at beginning of year	¥411,579	¥ 431,734	\$ 4,361
Service cost	12,358	12,207	124
Interest cost	12,382	12,325	124
Employee contributions	243	231	2
Plan amendments	302	(6)	
Actuarial gain	(7,385)	(15,197)	(154)
Benefits paid	(16,931)	(19,853)	(201)
Settlements	(2,843)	(3,270)	(33)
Acquisitions/divestitures and other—net	27,100	3,427	35
Change in foreign currency exchange rates	(5,071)	(9,651)	(97)
Benefit obligation at end of year	431,734	411,947	4,161
Change in plan assets:			
Fair value of plan assets at beginning of year	500,407	453,155	4,577
Actual loss on plan assets	(70,028)	(115,041)	(1,162)
Employer contributions	25,010	25,625	259
Employee contributions	243	231	2
Benefits paid	(14,504)	(15,448)	(156)
Settlements	(2,843)	(3,270)	(33)
Acquisitions/divestitures and other—net	20,344	3,487	35
Change in foreign currency exchange rates	(5,474)	(9,683)	(98)
Fair value of plan assets at end of year	453,155	339,056	3,424
Funded status at end of year	¥ 21,421	¥ (72,891)	\$ (737)
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension cost included in other current assets and other assets	¥ 67,542	¥ 8,936	\$ 90
Other accrued expenses	(947)	(1,173)	(12)
Accrued pension liability	(45,174)	(80,654)	(815)
Net amount recognized	¥ 21,421	¥ (72,891)	\$ (737)

The following table presents the pre-tax net loss and prior service cost recognized in AOCI for the years ended March 31, 2008 and 2009:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Net loss	¥(59,452)	¥(163,418)	\$ (1,651)
Prior service cost	(4,912)	(4,522)	(46)
Accumulated other comprehensive income (loss)	¥(64,364)	¥(167,940)	\$ (1,697)

Net periodic pension costs related to the parent company's and its subsidiaries' pension and indemnity plans for the years ended March 31, 2007, 2008 and 2009 include the following components:

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Service cost—benefits earned during the period	¥ 12,425	¥ 12,358	¥12,207	\$ 124
Interest cost on projected benefit obligation	10,866	12,382	12,325	124
Expected return on plan assets	(11,126)	(10,910)	(9,205)	(93)
Recognized net actuarial loss	2,755	557	3,027	30
Amortization of unrecognized prior service cost	334	654	383	4
Settlement (gain) loss	(349)	362	1,799	18
Net periodic pension cost	¥ 14,905	¥ 15,403	¥20,536	\$ 207

Other changes in plan assets and benefit obligation recognized in other comprehensive income for the years ended March 31, 2008 and 2009 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Current year actuarial loss .....	¥72,527	¥108,792	\$1,099
Recognized net actuarial loss .....	(557)	(3,027)	(31)
Settlement loss .....	(362)	(1,799)	(18)
Prior service cost due to amendments .....	216	(7)	
Amortization of unrecognized prior service cost .....	(654)	(383)	(4)
Total recognized in other comprehensive income .....	¥71,170	¥103,576	\$1,046

The following table presents the estimated net loss and prior service cost that will be amortized from AOCI into net periodic cost for the year ending March 31, 2010:

	Millions of Yen	Millions of U.S. Dollars
	2010	2010
Net loss .....	¥10,445	\$105
Prior service cost .....	393	4
Total .....	¥10,838	\$109

The total accumulated benefit obligation for the companies' defined benefit pension plans was ¥403,484 million and ¥386,995 million (\$3,909 million) as of March 31, 2008 and 2009, respectively.

The aggregate projected benefit obligation, aggregate accumulated benefit obligation and aggregate fair value of plan assets where accumulated benefit obligations exceeded plan assets as of March 31, 2008 and 2009 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Projected benefit obligation .....	¥89,760	¥352,319	\$3,559
Accumulated benefit obligation .....	82,795	332,926	3,363
Fair value of plan assets .....	47,832	272,521	2,753

### Plan Assets

The companies' weighted average asset allocation for its defined benefit pension plans for the years ended March 31, 2008 and 2009 was as follows:

	Asset Allocation	
	2008	2009
Asset category:		
Equity securities .....	55%	44%
Debt securities .....	17	31
Alternative investments .....	17	7
Cash and cash equivalent .....	10	16
Other .....	1	2
Total .....	100%	100%

### Investment Policies

The companies' investment policy for the defined benefit pension plan is to procure an adequate return to provide future payments of pension benefits over the long term by optimizing the risk tolerance and formulating a well-diversified portfolio such as equity securities, debt securities and alternative assets.

Considering the funded status of the pension plans and surrounding economic environments of investments, the companies'

investment policy would be revised as needed. Moreover, the companies continuously monitor and pay extra attention to the diversification of strategies and investment managers for the purpose of risk controlling and thereby pursuing the efficiency of management.

### Assumptions

The weighted average assumptions used to determine benefit obligations at March 31, 2008 and 2009 were as follows:

	2008	2009
Weighted average discount rate .....	3.1%	3.1%
Average rate of increase in future compensation levels .....	2.6	2.6

The weighted average assumptions used to determine net periodic benefit cost for the years ended March 31, 2007, 2008 and 2009 were as follows:

	2007	2008	2009
Weighted average discount rate .....	2.6%	3.0%	3.1%
Average rate of increase in future compensation levels .....	2.4	2.6	2.6
Expected long-term rate of return on plan assets .....	4.2	3.7	3.4

The companies determine assumptions for the expected long-term return on plan assets considering the investment policy, the historical returns, asset allocation and future estimates of long-term investment returns.

#### Contribution

The companies' funding policy is mainly to contribute an amount deductible for income tax purposes. Contributions are intended to

provide not only for benefits attributable to service to date but also for those expected to be earned in the future.

The companies expect to contribute approximately ¥27,000 million (\$273 million) to their defined benefit pension plans during the year ending March 31, 2010.

#### Estimated Future Benefit Payments

Estimated future benefit payments are as follows:

	Millions of Yen	Millions of U.S. Dollars
Year ending March 31:		
2010 .....	¥ 23,592	\$ 238
2011 .....	22,471	227
2012 .....	23,322	236
2013 .....	22,138	224
2014 .....	21,551	218
2015 through 2019 .....	114,634	1,158

#### Expense For Defined Contribution Plans

The parent company and certain of its subsidiaries have defined contribution plans. The expense for these defined contribution plans was ¥2,029 million, ¥1,717 million and ¥2,143 million (\$22 million) for the years ended March 31, 2007, 2008 and 2009, respectively.

#### Early Retirement Program

The parent company has offered an early retirement program to its employees. At March 31, 2008 and 2009, the liability for applicants to the program, discounted to reflect the present value of the expected cash flows, was ¥9,758 million and ¥7,165 million (\$72

million), respectively. Such liability is allocated between "Other accrued expenses" and "Accrued pension and severance liabilities" in the accompanying consolidated balance sheets, depending on when the additional benefit payment is expected to be made. Related expenses recognized by the parent company for the years ended March 31, 2007, 2008 and 2009, included in "Selling, general and administrative" expenses in the accompanying consolidated statements of income, were ¥1,486 million, ¥1,230 million and ¥747 million (\$8 million), respectively.

## 16. ASSET RETIREMENT OBLIGATIONS

The companies account for asset retirement obligations ("AROs"), consisting primarily of costs associated with mine reclamation, landfills and dismantlement of facilities under SFAS No. 143, "Accounting for Asset Retirement Obligations." These costs reflect the legal obligations associated with the normal operation of the companies' coal mining and oil and gas facilities. These liabilities are included in "Other current liabilities" and "Other long-term

liabilities" in the consolidated balance sheets. Additionally, the companies capitalized asset retirement costs by increasing the carrying amount of related long-lived assets, and recorded associated accumulated depreciation from the time the original assets are placed into service.

The changes in the carrying amount of AROs for the years ended March 31, 2008 and 2009 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Balance at beginning of year .....	¥25,815	¥ 30,281	\$ 306
Accretion expense .....	1,809	2,000	20
Payments .....	(665)	(1,265)	(13)
Liabilities incurred .....	4,879	17,746	179
Revisions in estimated cash flow .....		(63)	(1)
Other* .....	(1,557)	(10,284)	(103)
Balance at end of year .....	¥30,281	¥ 38,415	\$ 388

\* "Other" principally includes the effect of changes in foreign currency exchange rates and the effect of divestitures of certain subsidiaries.

## 17. DISCONTINUED OPERATIONS

In accordance with SFAS No. 144, the companies present the results of discontinued operations as a separate line item in the consolidated statements of income under (loss) income from discontinued operations (net of tax).

In March 2008, the companies decided to sell a U.S. chemical products manufacturing operation in the Chemicals segment, and the operation was classified as discontinued operations. The figures of the consolidated statements of income and the related notes for the prior years related to the discontinued operations were

reclassified during the year ended March 31, 2008. The companies sold the operation during the year ended March 31, 2009, and had no carrying amount of assets and liabilities reclassified as held for sale related to the operation at March 31, 2009.

Summarized selected financial information for the years ended March 31, 2007, 2008 and 2009 for the discontinued operations reclassified during the year ended March 31, 2008, and descriptions of assets and liabilities classified as held for sale at March 31, 2008, were as follows:

(Loss) income from discontinued operation	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Revenues	¥18,196	¥16,332		
Loss from discontinued operations before income taxes	(5,452)	(3,410)	¥(4,696)	\$(47)
Income taxes	(320)	(194)	9,266	93
Minority interests in (loss) income from discontinued operations	545			
(Loss) income from discontinued operations (net of tax)	(5,227)	(3,604)	4,570	46

Description of assets and liabilities classified as held for sale	Millions of Yen
	2008
Receivables—trade	¥2,050
Inventories	3,082
Property and equipment—net	1,338
Other	56
Total assets held for sale	¥6,526
Payables—trade	¥ 937
Other	1,144
Total liabilities held for sale	¥2,081

## 18. COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL

The Companies Act of Japan (the "Companies Act") requires in principle that the amount of payment for shares and assets delivered shall be the amount of common stock. However, the Companies Act permits, as an exception that an amount not exceeding 50% of such amount of payment and assets is able to be incorporated into the additional paid-in capital.

Under the Companies Act, Japanese companies are allowed to purchase and dispose of their treasury stock by resolution of the

Board of Directors. However, the disbursement amount for acquiring treasury stock cannot exceed the amount available for dividends to the shareholders, which is calculated by a specific formula in accordance with the Companies Act.

The Companies Act provides that subject to certain conditions, such as a resolution of the shareholders' meeting, common stock, reserves and surplus can be transferred among each other.

## 19. RETAINED EARNINGS AND DIVIDENDS

**Retained Earnings Appropriated for Legal Reserve**—The Companies Act requires that an amount equal to 10% of dividends from the retained earnings to be paid shall be appropriated and set aside as legal reserve until the total of additional paid-in capital and legal reserve amounts to 25% of the common stock account.

**Dividends**—Under the Companies Act, the total amount for dividends and acquisition or purchase of treasury stock may not exceed the distributable amount of the parent company, which is calculated based on the amount of the retained earnings recorded in the parent company's general books of accounts maintained in accordance with generally accepted Japanese accounting practices. The adjustments to the consolidated financial statements to conform with U.S. GAAP have no effect on the determination of the distributable amount under the Companies Act. The distributable amount was ¥710,298 million (\$7,174 million) as of March 31, 2009. The distributable amount under the Companies Act may fluctuate until the effective date for the distribution of dividends.

The Companies Act permits to pay dividends at any time during the fiscal year upon resolution at the shareholders' meeting. Furthermore, the parent company is also allowed to distribute a semiannual interim dividend by resolution of the Board of Directors.

In the accompanying consolidated statements of shareholders' equity, dividends and appropriations to the legal reserve shown for each year represent dividends paid out during the year and the appropriation to the legal reserve made in relation to the respective dividends.

**Purchase of Treasury Stock**—Under the Companies Act, the parent company is allowed to purchase treasury stock through market transactions by resolution of the Board of Directors.

In August 2007, the Board of Directors of the parent company decided to purchase treasury stock to implement a flexible capital structure policy according to changes in the business environment. As a result, the parent company purchased 51,759,000 shares of treasury stock through market transactions.

## 20. EARNINGS PER SHARE

The following table presents the reconciliation of the numerators and the denominators of the basic and diluted EPS computations:

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
<b>Numerator:</b>				
Net income from continuing operations	¥424,500	¥474,463	<b>¥365,366</b>	<b>\$3,691</b>
Effect of dilutive securities—Japanese yen convertible bonds	(29)	(32)	<b>(11)</b>	
Diluted income from continuing operations	¥424,471	¥474,431	<b>¥365,355</b>	<b>\$3,691</b>
(Loss) income from discontinued operations (net of tax)	(5,227)	(3,604)	<b>4,570</b>	<b>46</b>
Net income	¥419,273	¥470,859	<b>¥369,936</b>	<b>\$3,737</b>
Effect of dilutive securities—Japanese yen convertible bonds	(29)	(32)	<b>(11)</b>	
Diluted income	¥419,244	¥470,827	<b>¥369,925</b>	<b>\$3,737</b>
<b>Thousands of Shares</b>				
<b>Denominator:</b>				
Basic weighted average common shares outstanding	1,687,066	1,659,008	<b>1,642,386</b>	
Effect of dilutive securities:				
Stock options	2,933	3,456	<b>2,564</b>	
Japanese yen convertible bonds	6,184	3,873	<b>1,020</b>	
Diluted outstanding shares	1,696,183	1,666,337	<b>1,645,969</b>	
<b>Yen</b>				
<b>U.S. Dollars</b>				
<b>Per share amount:</b>				
Net income from continuing operations				
Basic	¥251.62	¥285.99	<b>¥222.46</b>	<b>\$2.25</b>
Diluted	250.25	284.71	<b>221.97</b>	<b>2.24</b>
(Loss) income from discontinued operations (net of tax)				
Basic	(3.10)	(2.17)	<b>2.78</b>	<b>0.03</b>
Diluted	(3.08)	(2.16)	<b>2.78</b>	<b>0.03</b>
Net income				
Basic	¥248.52	¥283.82	<b>¥225.24</b>	<b>\$2.28</b>
Diluted	247.17	282.55	<b>224.75</b>	<b>2.27</b>

## 21. SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The operating segments were determined based on the nature of the products and services offered. The companies' reportable operating segments consist of the following seven business groups:

**Business Innovation**—The Business Innovation group is engaged in R&D of new business fields, investments and trading activities in fields such as new energy, environment, human care business, information & communication technology-related business and the media consumer business.

**Industrial Finance, Logistics & Development**—The Industrial Finance, Logistics & Development group develops shosha-type industrial finance businesses, such as asset management, buyout investment, leasing business, REIT, investment to real estate, real estate development and logistics service.

**Energy Business**—The Energy Business group identifies and invests in oil and gas projects and focuses its trading activities on crude oil, petroleum products, liquefied petroleum gas, liquefied natural gas, and carbon materials and products.

**Metals**—The Metals group is mainly engaged in developing, manufacturing, marketing and distribution of metal and non-ferrous metal products such as steel, aluminum and copper.

**Machinery**—The Machinery group is engaged in investment, project development and trading activities in a variety of

business fields such as electricity, ships, automobiles, plants, industrial machinery and transportation systems.

**Chemicals**—The Chemicals group identifies and invests in chemical development projects and focuses its trading activities on basic chemicals such as synthetic fiber materials, petrochemicals, non-organic chemicals, fertilizers and specialty chemicals.

**Living Essentials**—The Living Essentials group invests in companies and focuses its trading activities on products such as foods, textiles, lumber and general merchandise.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that the disaggregated financial information has been prepared using a management approach, in which management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. Management evaluates segment performance based on several factors, of which the primary financial measure is net income (loss). In addition, management utilizes internally developed mechanisms for the purpose of internal operating decisions.

Intersegment transactions are priced with reference to prices applicable to transactions with unaffiliated parties.

Effective April 1, 2009, the companies have implemented a progressive reorganization of the "Business Innovation Group" to establish the "Corporate Development Divisions," in a move aimed at strengthening our corporate development and promotion framework.

The companies' operating segment information at and for the years ended March 31, 2007, 2008 and 2009 was as follows:

Millions of Yen											
2007	Business Innovation	Industrial Finance, Logistics & Development <sup>(a)</sup>	Energy Business	Metals	Machinery <sup>(b)</sup>	Chemicals	Living Essentials	Total	Other <sup>(c)</sup>	Adjustments and <sup>(d)</sup> Eliminations <sup>(e)(f)</sup>	Consolidated
Revenue	¥70,976	¥108,724	¥1,246,837	¥ 919,828	¥ 702,123	¥ 837,236	¥1,191,536	¥ 5,077,260	¥ 9,547	¥ (18,058)	¥ 5,068,749
Gross profit	36,258	44,264	80,907	365,719	176,530	86,252	348,655	1,138,585	9,523	(2,576)	1,145,532
Equity in earnings of affiliated companies	2,135	6,113	49,745	43,227	20,218	13,456	19,399	154,293	274	(2,359)	152,208
Net income (loss)	1,914	34,203	74,109	186,429	59,382	19,994	48,286	424,317	(5,050)	6	419,273
Segment assets	153,247	682,797	1,556,896	3,199,298	2,232,828	831,606	2,153,026	10,809,698	1,269,665	(655,439)	11,423,924
Investments in affiliated companies	21,490	67,065	511,654	114,555	190,670	87,152	297,863	1,290,449	3,051	3,347	1,296,847
Depreciation and amortization	3,929	16,005	12,950	34,541	25,716	5,224	17,400	115,765	19,706	160	135,631
Capital expenditures for long-lived assets	2,391	9,698	19,106	54,886	28,863	4,828	19,490	139,262	9,973	1,299	150,534
Operating transactions <sup>(g)</sup> :											
External customers	¥224,484	¥183,482	¥4,370,967	¥5,228,948	¥3,308,534	¥2,196,880	¥4,946,527	¥20,459,822	¥ 57,914	¥ 8,834	¥20,526,570
Intersegment	18,702	28,199	6,243	6,718	1,534	5,642	6,721	73,759	2,233	(75,992)	
Total	¥243,186	¥211,681	¥4,377,210	¥5,235,666	¥3,310,068	¥2,202,522	¥4,953,248	¥20,533,581	¥ 60,147	¥ (67,158)	¥20,526,570

Millions of Yen											
2008	Business Innovation	Industrial Finance, Logistics & Development <sup>(a)</sup>	Energy Business	Metals	Machinery <sup>(b)</sup>	Chemicals	Living Essentials	Total	Other <sup>(c)</sup>	Adjustments and <sup>(d)</sup> Eliminations <sup>(e)(f)</sup>	Consolidated
Revenue	¥ 69,068	¥194,795	¥1,551,052	¥ 980,544	¥ 817,455	¥1,004,349	¥1,438,572	¥ 6,055,835	¥ 13,473	¥ (38,502)	¥ 6,030,806
Gross profit	44,599	60,471	81,641	282,010	192,639	97,903	411,978	1,171,241	13,450	(12,469)	1,172,222
Equity in earnings of affiliated companies	1,802	6,033	45,410	41,679	27,815	11,965	21,129	155,833	146	(971)	155,008
Net income	1,080	24,185	94,206	158,241	68,104	34,728	50,966	431,510	34,802	4,547	470,859
Segment assets	197,017	804,305	1,705,803	3,281,536	2,207,037	831,746	2,274,109	11,301,553	1,206,029	(757,141)	11,750,441
Investments in affiliated companies	22,493	81,952	244,432	140,041	191,578	113,357	290,985	1,084,838	1,421	(1,690)	1,084,569
Depreciation and amortization	3,054	15,990	15,355	40,173	29,363	5,516	24,781	134,232	20,045		154,277
Capital expenditures for long-lived assets	5,716	99,186	93,510	58,416	44,878	4,039	27,178	332,923	3,822	(3,762)	332,983
Operating transactions <sup>(g)</sup> :											
External customers	¥255,553	¥253,233	¥5,000,063	¥5,707,493	¥3,900,738	¥2,472,522	¥5,478,620	¥23,068,222	¥ 71,379	¥ (36,558)	¥23,103,043
Intersegment	32,407	29,355	11,904	6,280	2,907	7,951	8,302	99,106	2,706	(101,812)	
Total	¥287,960	¥282,588	¥5,011,967	¥5,713,773	¥3,903,645	¥2,480,473	¥5,486,922	¥23,167,328	¥ 74,085	¥(138,370)	¥23,103,043

Millions of Yen

2009	Business Innovation	Industrial Finance, Logistics & Development	Energy Business	Metals	Machinery	Chemicals	Living Essentials	Total	Other <sup>(1)</sup>	Adjustments and Eliminations <sup>(2)</sup>	Consolidated
Revenue	¥ 67,284	¥113,003	¥1,554,131	¥1,323,490	¥ 577,916	¥ 871,604	¥1,621,643	¥ 6,129,071	¥ 7,022	¥ 10,313	¥ 6,146,406
Gross profit	42,200	45,002	68,832	569,650	175,544	95,033	458,908	1,455,169	6,981	1,002	1,463,152
Equity in earnings of affiliated companies	2,007	3,109	69,776	47,944	5,896	10,772	18,813	158,317	(1,852)	298	156,763
Net (loss) income <sup>(3)</sup>	(4,262)	(41,205)	82,778	216,690	17,742	26,797	32,819	331,359	37,132	1,445	369,936
Segment assets	191,859	836,701	1,342,270	2,901,728	2,009,585	629,690	2,110,062	10,021,895	1,934,536	(1,038,428)	10,918,003
Investments in affiliated companies	25,003	90,912	204,688	128,309	203,496	93,487	301,875	1,047,770	684	290	1,048,744
Depreciation and amortization	4,541	18,866	16,301	36,466	25,320	4,432	27,365	133,291	16,293		149,584
Capital expenditures for long-lived assets	10,831	54,421	33,974	182,267	44,560	3,922	26,000	355,975	5,649	(1,372)	360,252
Operating transactions <sup>(3)</sup> :											
External customers	¥257,840	¥205,467	¥5,152,350	¥5,448,600	¥3,537,889	¥2,129,799	¥5,576,598	¥22,308,543	¥ 69,502	¥ 11,059	¥22,389,104
Intersegment	35,041	29,598	10,735	8,104	8,779	8,927	9,722	110,906	2,787	(113,693)	
Total	¥292,881	¥235,065	¥5,163,085	¥5,456,704	¥3,546,668	¥2,138,726	¥5,586,320	¥22,419,449	¥ 72,289	¥ (102,634)	¥22,389,104

Millions of U.S. Dollars

2009	Business Innovation	Industrial Finance, Logistics & Development	Energy Business	Metals	Machinery	Chemicals	Living Essentials	Total	Other <sup>(1)</sup>	Adjustments and Eliminations <sup>(2)</sup>	Consolidated
Revenue	\$ 680	\$1,141	\$15,698	\$13,369	\$ 5,838	\$ 8,804	\$16,380	\$ 61,910	\$ 71	\$ 104	\$ 62,085
Gross profit	426	455	695	5,754	1,773	960	4,635	14,698	71	10	14,779
Equity in earnings of affiliated companies	20	31	705	484	60	109	190	1,599	(19)	3	1,583
Net (loss) income <sup>(3)</sup>	(43)	(416)	836	2,189	179	271	332	3,348	375	14	3,737
Segment assets	1,938	8,452	13,558	29,310	20,299	6,361	21,314	101,232	19,541	(10,490)	110,283
Investments in affiliated companies	253	918	2,068	1,296	2,056	944	3,049	10,584	7	2	10,593
Depreciation and amortization	46	191	165	368	256	45	276	1,347	164		1,511
Capital expenditures for long-lived assets	109	550	343	1,841	450	40	263	3,596	57	(14)	3,639
Operating transactions <sup>(3)</sup> :											
External customers	\$2,604	\$2,075	\$52,044	\$55,036	\$35,736	\$21,513	\$56,329	\$225,337	\$ 702	\$ 114	\$226,153
Intersegment	354	299	108	82	89	90	98	1,120	28	(1,148)	
Total	\$2,958	\$2,374	\$52,152	\$55,118	\$35,825	\$21,603	\$56,427	\$226,457	\$ 730	\$ (1,034)	\$226,153

<sup>(1)</sup> "Other" represents corporate departments which primarily provide services and operational support to the companies and affiliated companies. This column also includes certain revenue and expenses from business activities related to financing and human resource services that are not allocated to reportable operating segments. In perspective of efficiency of fund operations, the parent company received extra dividends from undistributed earnings of certain foreign subsidiaries for the year ended March 31, 2007, and taxes on those extra dividends received are also included in net income (loss) of "Other." Unallocated corporate assets categorized in "Other" were ¥1,269,665 million, ¥1,206,029 million and ¥1,934,536 million (\$19,541 million) at March 31, 2007, 2008 and 2009, respectively, which consist primarily of cash, time deposits and securities for financial and investment activities.

<sup>(2)</sup> "Adjustments and Eliminations" include certain income and expense items that are not allocated to reportable operating segments and intersegment eliminations.

<sup>(3)</sup> "Operating transactions" is a voluntary disclosure commonly made by Japanese trading companies, and is not meant to represent sales or revenues in accordance with U.S. GAAP. See Note 1.

<sup>(4)</sup> In accordance with EITF Issue No. 06-9 and SFAS No. 154, the parent company has retrospectively adjusted the prior periods' consolidated financial statements to reflect the effect of the change of the subsidiaries' fiscal year ends which occurred for the year ended March 31, 2008. The effects of the retrospective application are included in "Adjustments and Eliminations."

<sup>(5)</sup> In accordance with SFAS No. 144, the figures of "Consolidated" for the years ended March 31, 2007 and 2008 have been reclassified to conform to the last year presentation for discontinued operations. The reclassifications to "Loss from discontinued operations (net of tax)" are included in "Adjustments and Eliminations."

<sup>(6)</sup> In accordance with APB No. 18, the parent company has retrospectively adjusted the prior periods' operating segment information of "Industrial Finance, Logistics & Development" and "Machinery" for the years ended March 31, 2007 and 2008, since the parent company acquired additional investments in cost method investees for the year ended March 31, 2009, and accounted for the parent company's ownership interest in the investees under the equity method.

<sup>(7)</sup> The amount includes other-than-temporary impairment of investment (before tax) in "Industrial Finance, Logistics & Development," "Metals," "Machinery," and "Living Essentials" of ¥47,715 million (\$482 million), ¥55,773 million (\$563 million), ¥20,900 million (\$211 million), and ¥21,117 million (\$213 million), respectively.

**Geographic Information**

Operating transactions are attributed to geographic areas based on the location of the assets producing such revenues. Operating transactions, gross profit and long-lived assets at and for the years ended March 31, 2007, 2008 and 2009 were as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Operating transactions*:				
Japan .....	¥16,210,290	¥18,150,592	<b>¥18,145,484</b>	<b>\$183,288</b>
U.S.A. ....	1,379,801	1,600,815	<b>1,289,333</b>	<b>13,024</b>
Australia .....	421,531	375,988	<b>695,545</b>	<b>7,026</b>
Other .....	2,514,948	2,975,648	<b>2,258,742</b>	<b>22,815</b>
Total .....	<u>¥20,526,570</u>	<u>¥23,103,043</u>	<u><b>¥22,389,104</b></u>	<u><b>\$226,153</b></u>
Gross profit:				
Japan .....	¥ 694,070	¥ 766,336	<b>¥ 795,363</b>	<b>\$ 8,034</b>
Australia .....	178,641	87,860	<b>375,791</b>	<b>3,796</b>
U.S.A. ....	65,919	77,436	<b>68,747</b>	<b>694</b>
Other .....	206,902	240,590	<b>223,251</b>	<b>2,255</b>
Total .....	<u>¥ 1,145,532</u>	<u>¥ 1,172,222</u>	<u><b>¥ 1,463,152</b></u>	<u><b>\$ 14,779</b></u>
Long-lived assets:				
Japan .....	¥ 614,991	¥ 712,280	<b>¥ 689,322</b>	<b>\$ 6,963</b>
Australia .....	294,685	301,152	<b>333,168</b>	<b>3,365</b>
U.S.A. ....	97,649	168,524	<b>122,860</b>	<b>1,241</b>
Canada .....	69,987	82,233	<b>52,057</b>	<b>526</b>
Other .....	223,096	250,000	<b>274,128</b>	<b>2,769</b>
Total .....	<u>¥ 1,300,408</u>	<u>¥ 1,514,189</u>	<u><b>¥ 1,471,535</b></u>	<u><b>\$ 14,864</b></u>

\*"Operating transactions" is a voluntary disclosure commonly made by Japanese trading companies, and is not meant to represent sales or revenues in accordance with U.S. GAAP. See Note 1.

Neither the companies nor any of their segments depended on any single customer, small group of customers, or government for more than 10% of their revenues for the years ended March 31, 2007, 2008 and 2009.

**22. OTHER EXPENSE (INCOME)—NET**

"Other expense (income)—net" for the years ended March 31, 2007, 2008 and 2009 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Net foreign exchange losses (gains) .....	¥17,446	¥(18,242)	<b>¥101,073</b>	<b>\$1,021</b>
Impairment loss of goodwill (See Note 9) .....	838	99	<b>4,586</b>	<b>46</b>
Miscellaneous .....	(4,391)	(5,412)	<b>(4,731)</b>	<b>(48)</b>
Total .....	<u>¥13,893</u>	<u>¥(23,555)</u>	<u><b>¥100,928</b></u>	<u><b>\$1,019</b></u>

## 23. LEASES

### Lessor

The companies lease vehicles, vessels, and other industrial machinery and equipment under arrangements which are classified as direct financing leases under SFAS No. 13, "Accounting for Leases."

Net investments in direct financing leases at March 31, 2008 and 2009, included in "Receivables—trade" and "Non-current notes, loans and accounts receivable—trade" in the accompanying consolidated balance sheets, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Total minimum lease payments to be received	¥252,171	¥255,733	\$2,583
Estimated unguaranteed residual value of leased assets	2,291	2,040	21
Less—unearned income	(35,790)	(43,033)	(435)
Investment in direct financing leases	218,672	214,740	2,169
Less—allowance for doubtful receivables	(1,168)	(1,223)	(12)
Net investment in direct financing leases	¥217,504	¥213,517	\$2,157

The companies also lease aircrafts, vessels and other industrial assets under operating leases.

The following provides an analysis of the companies' investment in property on operating leases and property held for lease by classes at March 31, 2009:

	Millions of Yen			Millions of U.S. Dollars		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Land	¥ 25,486		¥ 25,486	\$ 257		\$ 257
Buildings	46,444	¥ (8,393)	38,051	469	\$ (85)	384
Machinery and equipment	54,669	(31,292)	23,377	552	(316)	236
Aircrafts and vessels	380,192	(148,662)	231,530	3,841	(1,501)	2,340
Total	¥506,791	¥(188,347)	¥318,444	\$5,119	\$(1,902)	\$3,217

Future minimum lease payments to be received as of March 31, 2009 are as follows:

	Millions of Yen			Millions of U.S. Dollars
	Direct Financing Leases	Operating Leases	Total	Total
2010	¥ 79,804	¥ 39,219	¥119,023	\$1,202
2011	62,723	33,143	95,866	968
2012	37,093	27,842	64,935	656
2013	21,029	24,350	45,379	458
2014	12,718	24,218	36,936	374
2015 and thereafter	42,366	69,188	111,554	1,127
Total	¥255,733	¥217,960	¥473,693	\$4,785

### Lessee

The companies lease equipment, real estate and others under capital leases. The following provides an analysis of the companies' leased assets recorded under capital leases by classes as of March 31, 2008 and 2009:

2008	Millions of Yen		
	Cost	Accumulated Depreciation	Net
Buildings	¥ 6,074	¥ (2,649)	¥ 3,425
Machinery	29,814	(13,040)	16,774
Vessels and vehicles	8,739	(5,165)	3,574
Equipment and fixtures	30,008	(15,646)	14,362
Total	¥74,635	¥(36,500)	¥38,135

2009	Millions of Yen			Millions of U.S. Dollars		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Buildings .....	¥ 5,682	¥ (2,059)	¥ 3,623	\$ 57	\$ (20)	\$ 37
Machinery .....	27,123	(13,872)	13,251	274	(140)	134
Vessels and vehicles .....	5,576	(3,293)	2,283	57	(34)	23
Equipment and fixtures .....	22,693	(12,587)	10,106	229	(127)	102
Total .....	¥61,074	¥(31,811)	¥29,263	\$617	\$(321)	\$296

The following is a schedule by years of future minimum lease payments under capital leases together with components of the present value of the net minimum lease payments as of March 31,

2009. Minimum payments have not been reduced by minimum sublease revenues of ¥18,261 million (\$184 million) due in the future under subleases:

	Millions of Yen	Millions of U.S. Dollars
2010 .....	¥ 10,487	\$ 106
2011 .....	10,235	104
2012 .....	8,940	90
2013 .....	6,797	69
2014 .....	4,563	46
2015 and thereafter .....	22,896	231
Total minimum lease payments .....	¥ 63,918	\$ 646
Less amount representing interest .....	(5,224)	(53)
Present value of net minimum lease payments .....	58,694	593
Less current capital lease obligations .....	(10,611)	(107)
Long-term capital lease obligations .....	¥ 48,083	\$ 486

During the year ended March 31, 2005, the companies sold the Shinagawa Mitsubishi Building for ¥110,178 million, part of which was leased back from the purchaser for a period of approximately four and a half years. The lease was classified and accounted for as an operating lease. The gain equivalent to the present value of the future minimum lease payment resulting from the sale-leaseback transaction was deferred and has been amortized to offset rental expenses over the lease payment.

The companies also lease office space and certain other assets under operating leases. Total rental expenses under operating

leases, including the assets subject to the sale-leaseback transaction discussed above, for the years ended March 31, 2007, 2008 and 2009 were ¥32,245 million, ¥36,494 million and ¥44,553 million (\$450 million), respectively. Sublease rental income for the years ended March 31, 2007, 2008 and 2009 were ¥5,096 million, ¥5,214 million and ¥3,837 million (\$39 million), respectively.

Future minimum lease payments under noncancelable leases as of March 31, 2009 are as follows. Minimum payments have not been reduced by minimum sublease rentals of ¥23,442 million (\$237 million) due in the future under noncancelable subleases:

	Millions of Yen	Millions of U.S. Dollars
2010 .....	¥ 33,917	\$ 343
2011 .....	88,778	897
2012 .....	17,543	177
2013 .....	14,934	151
2014 .....	13,013	131
2015 and thereafter .....	74,672	754
Total .....	¥242,857	\$2,453

## 24. STOCK-BASED COMPENSATION

The parent company had two types of stock option plans, stock option Class A and Class B, for certain directors and executive officers, however, the parent company resolved to unify the plan at the Board of Directors' meeting held on July 20, 2007.

*The stock option plans resolved by the Board of Directors' meetings held in and before June 2007.*

Under the Class A plan, the right to purchase the shares of the parent company is granted at an exercise price determined based on the greater of the quoted price of the shares on the Tokyo Stock Exchange on the grant date or the average quoted price for a month prior to the grant date. The stock options are vested and immediately exercisable after 23 months from the grant date, and exercisable periods are 8 years from the vested day.

Under the Class B plan, the right to purchase the shares of the parent company is granted at an exercise price of ¥1 per share. The contractual term of the Class B stock option is 30 years. The stock option holders may exercise their stock acquisition right during the 10-year period starting on the day after leaving their position as either director or executive officer of the parent company. Notwithstanding the above, if the stock option holders do not leave their position as either director or executive officer of the parent company, they may exercise their right from the day after 25 years from the grant date. If they leave their position as either director or executive officer of the parent company before the next June 30 after the grant date, the exercisable number is discounted in accordance with the tenure months from the grant date.

*The stock option plans resolved by the Board of Directors' meetings held in and after July 2007.*

Under the unified plan, the right to purchase the shares of the parent company is granted at an exercise price of ¥1 per share. The contractual term of the stock option is 30 years. The stock options are vested and exercisable from the earlier of either the day after

23 months from the grant date or the day after leaving their position as either director or executive officer of the parent company. The stock option holders may exercise their stock acquisition right during the 10-year period starting on the day after leaving their position as either director or executive officer of the parent company. If they leave their position as either director or executive officer of the parent company before the next June 30 after the grant date, the exercisable number is discounted in accordance with the tenure months from the grant date.

The total stock-based compensation cost recognized for the years ended March 31, 2007, 2008 and 2009 was ¥1,302 million, ¥1,608 million and ¥1,303 million (\$13 million), respectively. The total tax benefit recognized related thereto for the years ended March 31, 2008 and 2009 was ¥383 million and ¥475 million (\$5 million), respectively. The tax benefit realized from stock options exercised for the year ended March 31, 2009 was ¥7 million (\$0 million). No stock-based compensation cost was capitalized for the years ended March 31, 2007, 2008 and 2009.

The weighted-average fair value of options granted under the parent company's stock option plan for the years ended March 31, 2007, 2008 and 2009 was ¥977, ¥3,062 and ¥2,645 (\$26.71) per share, respectively.

The fair value of these stock options is estimated using the Black Scholes option pricing model prospectively, that uses the assumptions noted in the following table. Risk-free interest rate is based on the yield of government bond in effect at the time of grant having a remaining life equal to the option's expected life. Expected volatilities are based on the historical volatility of the parent company's stock for the period equal to the option's expected life from the grant date. Expected dividend is based on the actual dividend in the prior year. Expected life represents the period of time that the options granted are expected to be outstanding.

	2007	2008	2009
Risk-free interest rate .....	1.69%	1.50%	<b>1.17%–1.54%</b>
Expected volatility .....	35.67%	33.74%	<b>35.78%–35.91%</b>
Expected dividend yield .....	1.44%–3,500%	4,600%	<b>5,600%</b>
Weighted-average dividend yield .....	1.63%	4,600%	<b>5,600%</b>
Expected life .....	7.00 years	7.00 years	<b>7.00 years</b>

The following table summarizes information about stock option activities for the years ended March 31, 2007, 2008 and 2009:

	2007		2008		2009		
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	
Years Ended March 31	Yen		Yen		Yen	U.S. Dollars	
Outstanding at beginning of the fiscal year .....	5,543,800	¥1,093	6,159,600	¥1,379	<b>5,621,500</b>	<b>¥1,331</b>	<b>\$13.4</b>
Granted .....	1,539,800	2,151	367,600	1	<b>434,200</b>	<b>1</b>	
Repurchased .....	(31,000)	944					
Canceled or expired .....			(3,200)	1	<b>(4,500)</b>	<b>1</b>	
Exercised .....	(893,000)	947	(902,500)	1,123	<b>(531,700)</b>	<b>1,007</b>	<b>10.2</b>
Outstanding at end of the fiscal year .....	<u>6,159,600</u>	1,379	<u>5,621,500</u>	1,331	<u><b>5,519,500</b></u>	<u><b>1,259</b></u>	<u><b>12.7</b></u>
Exercisable at end of the fiscal year .....	<u>3,065,200</u>	985	<u>3,531,800</u>	1,181	<u><b>4,415,900</b></u>	<u><b>1,573</b></u>	<u><b>15.9</b></u>

The following table summarizes information for options outstanding and exercisable at March 31, 2009:

	Exercise Price Range	Number of Shares	Weighted Average Remaining Life	Aggregate Intrinsic Value	
	Yen		Years	Millions of Yen	Millions of U.S. Dollars
Outstanding .....	<b>¥1-2,435</b>	<b>5,519,500</b>	<b>10.2</b>	<b>¥144</b>	<b>\$1</b>
Exercisable .....	<b>¥1-2,435</b>	<b>4,415,900</b>	<b>5.7</b>		

The total intrinsic value of options exercised for the years ended March 31, 2007, 2008 and 2009 was ¥1,283 million, ¥1,797 million and ¥687 million (\$7 million), respectively. As of March 31, 2009, the total unrecognized compensation cost related to non-vested stock options granted under the plans was ¥253 million (\$3 million). That cost is expected to be recognized over a weighted-average period of 0.3 years.

In March 2007, the parent company repurchased the stock options granted to a director. The total amount of the repurchase was ¥56 million determined by the estimated fair market value at the date of the transaction.

## 25. VARIABLE INTEREST ENTITIES

In accordance with FIN No. 46R, the companies evaluate their involvement with VIEs, and conclude that the companies are the primary beneficiary in arrangements where the companies absorb a majority of the VIE's expected losses. Even in cases where no single party absorbs a majority of the VIE's expected losses, the companies are determined to be the primary beneficiary if the companies receive a majority of the VIE's expected residual returns.

Following is the information regarding the VIEs that are consolidated by the companies as the companies are the primary beneficiary and those entities that the companies do not consolidate as the companies are not the primary beneficiary although the companies have significant interests in such VIEs.

### **VIEs Consolidated**

The companies utilize VIEs primarily in the real estate development business. The companies purchase real estate and beneficial interests in real estate for the purpose of resale after enhancing its value by developing real estate properties. The companies utilize these VIEs to obtain nonrecourse loans from third parties to limit the companies' risks on activities related to the real estate development and real estate investment trusts business.

The total amounts of equity investments without voting rights in these VIEs were ¥48,312 million and ¥81,630 million (\$825 million) at March 31, 2008 and 2009, respectively. Consolidated

total assets of these VIEs totaled ¥102,205 million and ¥134,819 million (\$1,362 million) and liabilities of these VIEs totaled ¥87,651 million and ¥131,568 million (\$1,329 million) at March 31, 2008 and 2009, respectively. The assets consisted of mainly property and equipment and the liabilities consisted of mainly long-term debt.

A portion of the assets is pledged as collateral for these VIEs' long-term debt. The carrying amount at March 31, 2009 was ¥56,237 million (\$568 million), and was classified as property and equipment in the Consolidated Balance Sheets.

### **VIEs Not Consolidated**

The companies have significant variable interests, in the form of equity investments, guarantees and loans, in VIEs involved in various businesses that the companies are not the primary beneficiary.

One of the significant VIEs, in which the companies have had significant variable interests since its establishment in the 2000s, is an entity established to execute project finance in the infrastructure business.

The following table summarizes the total assets and liabilities of these VIEs, and the companies' maximum exposures to loss as a result of the companies' involvement in these VIEs, at March 31, 2008 and 2009, respectively. The assets consisted of mainly property and equipment and the liabilities consisted of mainly long-term debt.

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Total assets .....	¥389,831	<b>¥386,246</b>	<b>\$3,901</b>
Total liabilities .....		<b>351,569</b>	<b>3,551</b>
Maximum exposures to loss .....	43,025	<b>74,335</b>	<b>751</b>

The companies' maximum exposures to loss, which primarily consisted of loans and guarantees, usually did not relate to the loss generally anticipated from the companies' involvement with the VIEs but is believed to exceed the anticipated loss considerably.

## 26. COMMITMENTS AND CONTINGENT LIABILITIES

### Long-term Commitments

The companies, in the normal course of trading operations, enter into substantial long-term purchase commitments for various commodities, principally metals, machinery, and chemical products at fixed prices or basis prices adjustable to market. Such purchase commitments are in most instances matched with counterparty sales contracts. At March 31, 2009, the outstanding long-term purchase commitments amounted to ¥4,137,937 million (\$41,797 million) of which deliveries are at various dates through 2038.

The companies also had long-term financing commitments aggregating ¥258,086 million (\$2,607 million) at March 31, 2009 for loans, investments in equity capital and financing on a deferred-payment basis for the cost of equipment to be purchased by customers.

### Guarantees

The companies are parties to various agreements under which they have undertaken obligations resulting from the issuance of certain guarantees. The guarantees have been issued for the companies' affiliates, customers and suppliers of the companies.

### Credit Guarantees

As of March 31, 2008 and 2009, the companies provided ¥195,443 million and ¥275,058 million (\$2,778 million), respectively, of credit guarantees for certain customers and suppliers, and ¥56,304 million and ¥52,124 million (\$527 million), respectively, for affiliates, in a form of standby letters of credit and performance guarantees. These credit guarantees enable our customers, suppliers, and affiliates to execute transactions or obtain desired financing arrangements with third parties. Most of these guarantees outstanding at March 31, 2009 will expire within ten years, with certain credit guarantees expiring by the end of 2033. Should the customers, suppliers, and affiliates fail to perform under

the terms of the transaction or financing arrangement, the companies would be required to perform on their behalf.

The companies have set internal ratings based on various information, such as the guaranteed party's financial statements, and manage risks of credit guarantees by establishing limits on guarantees for each guaranteed party based on these internal ratings and require collateral or a reinsurance as necessary.

At March 31, 2008 and 2009, the secured amount of credit guarantees was ¥8,379 million and ¥32,020 million (\$323 million), respectively.

The liabilities for these credit guarantees were ¥4,450 million and ¥6,124 million (\$62 million) at March 31, 2008 and 2009, respectively.

As of March 31, 2009, there were no credit guarantees with a high probability of resulting in a significant loss due to the enforcement of a guarantee.

### Indemnification

In the context of certain sales or divestitures of business, the companies occasionally commit to indemnify contingent losses, such as environmental losses, or the imposition of additional taxes. Due to the nature of the indemnifications, the companies' maximum exposure under these arrangements cannot be estimated. No provisions have been recorded for such indemnifications as the companies' obligations under them are not probable and estimable, except for certain cases which already have been claimed.

### Product Warranties

Certain subsidiaries accrue estimated product warranty cost, in relation to their sales of products, to provide for warranty claims.

The changes in the accrued product warranty cost for the years ended March 31, 2008 and 2009 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Balance at beginning of year	¥ 5,149	¥ 3,784	\$ 38
Accrued cost	2,058	1,875	19
Payments	(1,243)	(1,968)	(20)
Other*	(2,180)	(119)	(1)
Balance at end of year	¥ 3,784	¥ 3,572	\$ 36

\* "Other" principally includes the effect of changes in foreign currency exchange rates.

### Litigation

The companies are parties to litigation arising in the ordinary course of business. In the opinion of management, the liability of the

companies, if any, when ultimately determined from the progress of the litigation will not have a materially adverse effect on the operating results or financial position of the companies.

## 27. SUBSEQUENT EVENTS

### Dividends and Stock Option Plan

At the general shareholders' meeting held on June 24, 2009, the parent company's shareholders approved the following dividend payment and stock options grants:

**Dividends**—The parent company was authorized to pay a cash dividend of ¥16 (\$0.16) per share, or a total of ¥26,290 million (\$266 million) to shareholders of record on March 31, 2009.

**Stock option plan**—The parent company was authorized to grant additional options to certain directors to purchase up to 341,800 shares of the parent company's common stock in the period from June 25, 2009 to June 24, 2039, with payment due upon exercise of the stock acquisition right being ¥1 per share.

In addition, the parent company's Board of Directors' meeting held on May 15, 2009, approved to grant the same type of options to executive officers to purchase up to 1,080,200 shares of the parent company's common stock.

**SUPPLEMENTAL OIL AND GAS INFORMATION (Unaudited)**

The companies' oil and gas exploration, development and production activities are conducted through subsidiaries and equity method investees in offshore and onshore areas of the Pacific Rim, America, Africa and Europe. Supplementary information on the subsidiaries and on the companies' share of affiliated companies

presented below is prepared in accordance with the requirements prescribed by SFAS No. 69, "Disclosures about Oil and Gas Producing Activities," as of and for the years ended March 31, 2007, 2008 and 2009:

**Table 1: Capitalized Costs Relating to Oil and Gas Producing Activities**

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Unproved oil and gas properties .....	¥ 2,703	¥ 52,685	¥ 21,352	\$ 216
Proved oil and gas properties .....	42,133	78,845	104,137	1,052
Subtotal .....	44,836	131,530	125,489	1,268
Accumulated depreciation, depletion, amortization and valuation allowances .....	(13,454)	(24,300)	(32,847)	(332)
Net capitalized costs .....	¥ 31,382	¥107,230	¥ 92,642	\$ 936
 The companies' share of affiliated companies' net capitalized costs*1 .....	 ¥441,292	 ¥219,285	 ¥197,240	 \$1,992

**Table 2: Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities**

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Acquisition of proved properties .....	¥ 18	¥ 20,565	¥ 3,772	\$ 38
Acquisition of unproved properties .....	78	50,423	245	2
Exploration costs .....	3,534	8,547	6,630	67
Development costs .....	15,749	14,718	19,869	201
Total costs incurred .....	¥19,379	¥ 94,253	¥30,516	\$308
 The companies' share of affiliated companies' costs of property acquisition, exploration and development*1 .....	 ¥98,561	 ¥109,406	 ¥65,720	 \$664

**Table 3: Results of Operations for Producing Activities**

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Revenues:				
Sales to external customers .....	¥21,707	¥44,534	¥ 38,503	\$ 389
Sales to intersegment .....	11,570	12,273	15,569	157
Expenses:				
Production costs .....	11,202	19,604	20,738	210
Exploration expenses .....	2,947	7,030	5,727	58
Depreciation, depletion, amortization and valuation allowances .....	6,283	10,890	39,240	396
Income tax expenses .....	5,503	7,746	2,485	25
Results of operations from producing activities (excluding corporate overhead and interest costs) .....	¥ 7,342	¥11,537	¥(14,118)	\$(143)
 The companies' share of affiliated companies' results of operations from producing activities*2 .....	 ¥32,695	 ¥31,554	 ¥ 46,112	 \$ 466

**Table 4: Reserve Quantity Information**

In accordance with U.S. GAAP, proved gas reserves are constrained to those volumes that are related to firm sales commitments. The natural gas reserves at the end of each year are therefore only a fraction of the volume that is expected to be committed to sales

over time and upon which the decision to proceed with development was based. The proved oil reserves at March 31, 2007, 2008 and 2009 include only a small fraction of the volume that is calculated by a simple method.

	Crude Oil and Natural Gas Liquids (Millions of Barrels)			Natural Gas (Billions of Cubic Feet)		
	2007	2008	2009	2007	2008	2009
Proved developed and undeveloped reserves:						
Beginning of year	31	22	<b>45</b>	38	39	<b>39</b>
Revisions of previous estimates	(5)	17	<b>5</b>	(14)	(3)	<b>(14)</b>
Extensions and discoveries		7		14	5	<b>36</b>
Purchases		5	<b>7</b>	7	3	<b>10</b>
Production	(4)	(6)	<b>(4)</b>	(6)	(5)	<b>(4)</b>
End of year	<u>22</u>	<u>45</u>	<u><b>53</b></u>	<u>39</u>	<u>39</u>	<u><b>67</b></u>
Proved developed reserves—end of year	<u>22</u>	<u>31</u>	<u><b>44</b></u>	<u>18</u>	<u>20</u>	<u><b>19</b></u>
The companies' proportional interest in reserves of affiliated companies—end of year	<u>105</u>	<u>56</u>	<u><b>50</b></u>	<u>2,640</u>	<u>1,595</u>	<u><b>1,509</b></u>

**Table 5: Standardized Measure of Discounted Future Net Cash Flows and Changes therein Relating to Proved Oil and Gas Reserves**

In accordance with U.S. GAAP, a standardized measure of discounted future net cash flows relating to the proved reserve quantities is based on prices and costs at the end of each year, currently enacted tax rates and a 10% annual discount factor. The natural gas activities' standardized measure of discounted future net cash flows includes the full committed costs of development and operation for the asset under the integrated Production Sharing Agreement. On the other hand, revenues are registered only in relation to the currently estimated proved reserves stated in Table 4 (Reserve Quantity Information). The proved gas reserves are constrained to

those volumes that are related to firm sales commitments. The natural gas reserves at the end of each year are therefore only a fraction of the volume that is expected to be committed to sales over time and upon which the decision to proceed with development was based. Estimates of proved reserve quantities may change over time as new sales commitments become available. Consequently, the information provided here does not represent management's estimate of the companies' expected future cash flows or value of the proved reserves.

(1) Standardized Measure of Discounted Future Net Cash Flows	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Future cash inflows	¥180,306	¥ 440,708	<b>¥ 260,522</b>	<b>\$ 2,632</b>
Future production costs	(83,968)	(203,946)	<b>(130,043)</b>	<b>(1,314)</b>
Future development costs	(18,560)	(56,433)	<b>(75,367)</b>	<b>(761)</b>
Future income tax expenses	(25,643)	(47,522)	<b>(14,965)</b>	<b>(151)</b>
Undiscounted future net cash flows	52,135	132,807	<b>40,147</b>	<b>406</b>
10% annual discount for estimated timing of cash flows	(14,642)	(42,895)	<b>(17,264)</b>	<b>(175)</b>
Standardized measure of discounted future net cash flows	<u>¥ 37,493</u>	<u>¥ 89,912</u>	<u><b>¥ 22,883</b></u>	<u><b>\$ 231</b></u>
The companies' share of affiliated companies' standardized measure of discounted future net cash flows <sup>*2</sup>	<u>¥431,753</u>	<u>¥ 348,072</u>	<u><b>¥ 149,944</b></u>	<u><b>\$ 1,515</b></u>

(2) Details of Changes for the Year	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Discounted future net cash flows at April 1	¥ 52,824	¥ 37,493	<b>¥ 89,912</b>	<b>\$ 908</b>
Sales and transfer of oil and gas produced, net of production costs	(15,316)	(36,758)	<b>(28,340)</b>	<b>(286)</b>
Development costs incurred	13,368	12,195	<b>14,399</b>	<b>145</b>
Purchases of reserves		19,920	<b>(1,490)</b>	<b>(15)</b>
Net changes in prices, development and production costs	9,370	38,273	<b>(88,784)</b>	<b>(897)</b>
Extensions, discoveries and improved recovery, less related costs	5,016	12,740	<b>6,870</b>	<b>69</b>
Revisions of previous quantity estimates	(46,094)	9,937	<b>13,922</b>	<b>141</b>
Accretion of discount (10%)	5,117	4,946	<b>9,410</b>	<b>95</b>
Net change in income taxes	12,882	(7,838)	<b>16,396</b>	<b>166</b>
Difference of foreign exchange rates	326	(996)	<b>(9,412)</b>	<b>(95)</b>
Discounted future net cash flows at March 31	<u>¥ 37,493</u>	<u>¥ 89,912</u>	<u><b>¥ 22,883</b></u>	<u><b>\$ 231</b></u>

\*1 Natural gas activities include costs related to the production of LNG.

\*2 Natural gas activities include revenues and costs related to the production of LNG.

## Independent Auditors' Report



**Deloitte Touche Tohmatsu**  
 MS Shibaura Building  
 4-13-23, Shibaura  
 Minato-ku, Tokyo 108-8530  
 Japan  
 Tel: +81 3 3457 7321  
 Fax: +81 3 3457 1694  
[www.deloitte.com/jp](http://www.deloitte.com/jp)

To the Board of Directors and Shareholders of Mitsubishi Corporation  
 (Mitsubishi Shoji Kabushiki Kaisha):

We have audited the accompanying consolidated balance sheets of Mitsubishi Corporation (Mitsubishi Shoji Kabushiki Kaisha) and subsidiaries (the "Company") as of March 31, 2008 and 2009, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2009 (all expressed in Japanese yen). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion in accordance with attestation standards established by the American Institute of Certified Public Accountants on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mitsubishi Corporation and subsidiaries as of March 31, 2008 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the accompanying consolidated financial statements with respect to the years ended March 31, 2007 and 2008 have been retrospectively adjusted for the change in accounting related to the investments that qualified for the equity method of accounting during the year ended March 31, 2009.

Our audits also comprehended the translation of Japanese yen amounts into United States dollar amounts included in the consolidated financial statements with respect to the year ended March 31, 2009 and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu*

June 19, 2009 (June 24, 2009 as to the matters discussed in Note 27)

Member of  
**Deloitte Touche Tohmatsu**

#### NOTE TO READERS:

Notwithstanding the second paragraph of the Independent Auditors' Report, Deloitte Touche Tohmatsu ("DTT") has performed an audit of management's report on internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act of Japan. A translated copy of management's report on ICFR along with a translated copy of DTT's report is included within this annual report as information for readers.

## Supplementary Explanation

### Internal Controls Over Financial Reporting in Japan

The Financial Instruments and Exchange Act in Japan ("the Act") requires the management of Japanese public companies to annually evaluate whether internal controls over financial reporting ("ICFR") are effective as of each fiscal year-end and to disclose the assessment to investors in "Management Internal Control Report." The Act also requires that the independent auditors of the financial statements of these companies report on management's assessment of the effectiveness of ICFR in an Independent Auditors' Report ("indirect reporting"). Under the Act these reports are required for fiscal years beginning on or after April 1, 2008.

We have thus evaluated its internal controls over financial reporting as of March 31, 2009 in accordance with "The Standards and Practice Standards for Management Assessment and Audit of Internal Control Over Financial Reporting" published by the Business Accounting Council.

As a result of conducting an evaluation of internal controls over financial reporting in the fiscal year ended March 31, 2009, we concluded that its internal control system over financial reporting as of March 31, 2009 was effective and reported such in its Management Internal Control Report.

Our Independent Auditors, Deloitte Touche Tohmatsu, performed an audit of the Management Internal Control Report under the Act.

An English translation of the Management Internal Control Report and the Independent Auditors' Report filed under the Act is attached on the following pages.

Mitsubishi Corporation

## Management Internal Control Report (Translation)

### NOTE TO READERS:

Following is an English translation of management's report on internal control over financial reporting ("ICFR") filed under the Financial Instruments and Exchange Act of Japan. This report is presented merely as supplemental information.

There are differences between management assessment of ICFR under the Financial Instruments and Exchange Act ("ICFR under FIEA") and one conducted under the attestation standards established by the American Institute of Certified Public Accountants ("AICPA").

In management assessment of ICFR under FIEA, there is detailed guidance on the scope of management assessment of ICFR such as quantitative guidance on business location selection and/or account selection. In management assessment of ICFR under the attestation standards established by the AICPA, there is no such detailed guidance. Accordingly, based on the quantitative guidance which provides an approximate measure for the scope of assessment of internal control over business processes, we used a measure of approximately 70% of total assets and income before income taxes for the selection of significant location and business units.

(TRANSLATION)

### 1 [Matters relating to the basic framework for internal control over financial reporting]

Yorihiko Kojima, President and CEO, and Kiyoshi Fujimura, Director and Executive Vice President, are responsible for designing and operating effective internal control over financial reporting of our company (the "Company") and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in "The Standards and Practice Standards for Management Assessment and Audit of Internal Control Over Financial Reporting" published by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

### 2 [Matters relating to the scope of assessment, the basic date of assessment and the assessment procedures]

The assessment of internal control over financial reporting was performed as of March 31, 2009, which is the end of this fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on our entire financial reporting on a consolidation ("company-level controls."). And we appropriately selected business processes to be evaluated, analyzed these selected business processes, identified key controls that may have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of the Company.

We determined the required scope of assessment of internal control over financial reporting for the Company, as well as its consolidated subsidiaries and equity-method affiliated companies, from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality that may affect the reliability of the financial reporting is determined taking into account the materiality of quantitative and qualitative impacts. We confirmed that we had reasonably determined the scope of assessment of internal controls over business processes in light of the results of assessment of company-level controls conducted for the Company, its consolidated subsidiaries and equity-method affiliated companies. We did not include those consolidated subsidiaries and equity-method affiliated companies which do not have any material impact on the consolidated financial statements in the scope of assessment of company-level controls.

Regarding the scope of assessment of internal control over business processes, we accumulated locations and business units in descending order of total assets (before elimination of intercompany accounts) and income before income taxes (before elimination of intercompany transactions) for the prior fiscal year, and those locations and business units whose combined amount of total assets reaches approximately 70% of total assets on a consolidated basis and those locations and business units whose combined amount of income before income taxes reaches approximately 70% of consolidated income before income taxes on a consolidated basis were selected as "significant locations and business unit." At the selected significant locations and business units, we included, in the scope of assessment, (i) those business processes leading to sales or revenue, accounts receivable and inventories, and those leading to investments and loans, as significant accounts that may have a material impact on the business objectives of the Company, and (ii) those business processes leading to other quantitatively material accounts. Further, not only at selected significant locations and business units but also at other locations and business units, we added to the scope of assessment, as business processes having greater materiality considering their impact on the financial reporting, (i) those business processes relating to greater likelihood of material misstatements and significant accounts involving estimates and the management's judgment, and (ii) those business processes relating to businesses or operations dealing with high-risk transactions.

### 3 [Matters relating to the results of the assessment]

As a result of the assessment described above, we concluded that the Company's internal control over financial reporting was effective as of the end of this fiscal year.

### 4 [Supplementary information]

Not applicable

### 5 [Special information]

Not applicable

## Independent Auditors' Report filed under the Financial Instruments and Exchange Act of Japan (Translation)

### NOTE TO READERS:

Following is an English translation of Independent Auditors' Report filed under the Financial Instruments and Exchange Act of Japan. This report is presented merely as supplemental information.

There are differences between an audit of internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act ("ICFR under FIEA") and one conducted under the attestation standards established by the American Institute of Certified Public Accountants ("AICPA").

In an audit of ICFR under FIEA, the auditors express an opinion on management's report on ICFR, and do not express an opinion on the Company's ICFR directly. In an audit of ICFR under the attestation standards established by the AICPA, the auditors express an opinion on the Company's ICFR directly. Also in an audit of ICFR under FIEA, there is detailed guidance on the scope of an audit of ICFR, such as quantitative guidance on business location selection and/or account selection. In an audit of ICFR under the attestation standards established by the AICPA, there is no such detailed guidance. Accordingly, based on the quantitative guidance which provides an approximate measure for the scope of assessment of internal control over business processes, we used a measure of approximately 70% of total assets and income before taxes for the selection of significant location and business units.

(TRANSLATION)

Independent Auditors' Report  
(filed under the Financial Instruments and Exchange Act of Japan)

June 24, 2009

To the Board of Directors of Mitsubishi Corporation

Deloitte Touche Tohmatsu

Designated Partner,  
Engagement Partner,  
Certified Public Accountant: Masahiro Watanabe

Designated Partner,  
Engagement Partner,  
Certified Public Accountant: Shigeo Ogi

Designated Partner,  
Engagement Partner,  
Certified Public Accountant: Shuko Shimoe

Designated Partner,  
Engagement Partner,  
Certified Public Accountant: Takashi Mine

Designated Partner,  
Engagement Partner,  
Certified Public Accountant: Sachiko Yoshimizu

Designated Partner,  
Engagement Partner,  
Certified Public Accountant: Kazuaki Furuuchi

#### < Audit of Financial Statements >

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet as of March 31, 2009 of Mitsubishi Corporation (the "Company") and consolidated subsidiaries, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the fiscal year from April 1, 2008 to March 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mitsubishi Corporation and consolidated subsidiaries as of March 31, 2009, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America (Refer to "Preparing of consolidated financial statements").

#### < Audit of Internal Control over Financial Reporting >

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Mitsubishi Corporation as of March 31, 2009. The Company's management is responsible for designing and operating effective internal control over financial reporting and preparing its report on internal control over financial reporting. Our responsibility is to express an opinion on management's report on internal control over financial reporting based on our audit. There is a possibility that material misstatements will not completely be prevented or detected by internal control over financial reporting.

We conducted our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control over financial reporting is free of material misstatement. An audit includes examining, on a test basis, the scope, procedures and results of assessment of internal control made by management, as well as evaluating the overall presentation of the management's report on internal control over financial reporting. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Mitsubishi Corporation as of March 31, 2009 is effectively maintained, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

Our firm and the engagement partners do not have any financial interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Law.

(The above represents a translation, for convenience only, of the original report issued in the Japanese language.)

## Responsibility Statement

June 24, 2009

### Responsibility Statement

The following responsibility statement is made solely to comply with the requirements of DTR 4.1.12 of the Disclosure Rules and the Transparency Rules of the United Kingdom Financial Services Authority in its capacity as the United Kingdom Listing Authority, which apply to Mitsubishi Corporation as an issuer whose financial instruments are admitted to trading on the London Stock Exchange.

Yorihiko Kojima, President and CEO, confirms that, to the best of his knowledge, the financial statements were prepared fairly in all material respects in accordance with accounting principles generally accepted in the United State of America and that, to the best of his knowledge, the management report was prepared fairly in all material respects including the information about the development and performance of the business and the position of Mitsubishi Corporation and the undertakings included in the consolidation taken as a whole, together with the principal risks and uncertainties that they face.

