FINANCIAL SECTION

REFERENCE INFORMATION

SIX-YEAR FINANCIAL SUMMARY

For the years ended March 31

1. Key Financial Indicators

	Billions of Yen						Millions of U.S. Dollars
	2006	2005	2004	2003	2002	2001	**2006**
Total assets	**6,711.9**	5,533.1	5,012.5	4,856.2	4,860.2	4,954.1	**56,880**
Shareholders' equity	**1,304.0**	934.9	730.8	618.7	658.0	627.0	**11,051**
Shareholders' equity ratio (%)	**19.4**	16.9	14.6	12.7	13.5	12.7	**19.4**
Return on Equity (%)	**14.3**	10.2	9.9	2.2	7.4	8.0	**14.3**
Return on Assets (%)	**2.6**	1.6	1.4	0.3	1.0	1.0	**2.6**
Interest-bearing liabilities (gross)	**3,152.5**	2,840.1	2,795.9	2,830.6	2,813.4	2,704.4	**26,716**
Interest-bearing liabilities (net)	**2,622.2**	2,376.0	2,377.6	2,502.8	2,528.8	2,447.7	**22,222**
Debt-Equity Ratio (gross) (times)	**2.4**	3.0	3.8	4.6	4.3	4.3	**2.4**
Debt-Equity Ratio (net) (times)	**2.0**	2.5	3.3	4.0	3.8	3.9	**2.0**
Working Capital	**1,021.8**	897.0	694.0	346.9	194.5	173.8	**8,659**

2. Consolidated Statements of Income

	Billions of Yen						Millions of U.S. Dollars
	2006	2005	2004	2003	2002	2001	**2006**
Revenues:							
Sales of tangible products	**2,079.6**	1,586.1	1,284.1	1,129.4	966.5	948.5	**17,624**
Sales of services and others	**501.8**	463.2	424.5	408.9	419.4	430.8	**4,252**
Total revenues	**2,581.4**	2,049.3	1,708.6	1,538.3	1,385.9	1,379.3	**21,876**
Cost:							
Cost of tangible products sold	**1,737.7**	1,361.8	1,097.5	948.2	817.0	807.0	**14,726**
Cost of services and others	**137.1**	124.4	109.8	93.7	81.6	83.9	**1,161**
Total cost	**1,874.8**	1,486.2	1,207.3	1,041.9	898.6	890.9	**15,887**
Gross profit	**706.6**	563.1	501.3	496.4	487.3	488.4	**5,989**
Other income (expenses):							
Selling, general and administrative expenses	**-515.8**	-437.9	-422.4	-406.3	-400.8	-390.6	**-4,371**
Settlements on copper trading litigation	**-0.1**	2.8	-7.1	0.2	4.3	12.4	**-1**
(Provision for) reversal of allowance for doubtful receivables	**-14.7**	-12.9	-8.0	-5.6	12.6	-31.9	**-125**
Loss on termination and restructuring of projects	**—**	—	—	—	—	-44.3	**—**
Impairment losses on long-lived assets	**-12.4**	-29.5	-5.2	-20.4	-4.8	-7.7	**-105**
Gain (Loss) on sale of property and equipment, net	**-0.4**	11.5	13.3	3.3	2.8	1.0	**-3**
Interest income	**19.0**	14.6	15.7	24.9	32.3	42.3	**161**
Interest expense	**-39.0**	-23.2	-22.0	-30.9	-46.0	-60.3	**-330**
Dividends	**10.4**	6.4	6.9	6.4	6.6	6.0	**88**
Gain (Loss) on marketable securities and other investments, net	**41.8**	20.0	16.3	-47.1	-8.9	72.3	**354**
Equity in earnings of associated companies, net	**51.4**	37.4	20.7	9.8	0.2	-6.4	**435**
Other, net	**1.0**	-1.0	-0.5	-2.1	-2.4	-1.2	**8**
Total other income (expenses)	**-458.8**	-411.8	-392.3	-467.8	-404.1	-408.4	**-3,889**
Income before income taxes and minority interests in earnings of subsidiaries	**247.8**	151.3	109.0	28.6	83.2	80.0	**2,100**
Income taxes	**-80.7**	-57.8	-35.7	-8.4	-30.2	-24.3	**-684**
Income before minority interests in earnings of subsidiaries	**167.1**	93.5	73.3	20.2	53.0	55.7	**1,416**
Minority interests in earnings of subsidiaries, net	**-6.9**	-8.4	-6.7	-6.3	-5.3	-5.2	**-58**
Net income	**160.2**	85.1	66.6	13.9	47.7	50.5	**1,358**
Total trading transactions*	**10,336.3**	9,898.6	9,197.9	9,229.6	9,645.4	10,080.1	**87,595**

* Total trading transactions represents the gross transaction volume of trading activities, or the nominal aggregate value of the transactions for which the Companies act as principal or as agent. Total trading transactions is a measure commonly used by Japanese trading companies. It is not to be construed as equivalent to, or a substitute for, sales or revenues under accounting principles generally accepted in the United States of America ("U.S. GAAP").

3. Consolidated Statements of Comprehensive Income (Loss)

	Billions of Yen						Millions of U.S. Dollars
	2006	2005	2004	2003	2002	2001	**2006**
Net income	**160.2**	85.1	66.6	13.9	47.7	50.5	**1,358**
Net unrealized holding gains (losses) on securities available-for-sale adjustments	**152.4**	28.5	79.5	-30.5	-34.8	-72.8	**1,291**
Foreign currency translation adjustments	**46.0**	0.7	-26.1	-13.9	27.7	28.2	**390**
Net unrealized gains (losses) on derivatives adjustments	**-8.2**	-1.0	0.4	0.1	-0.9	—	**-70**
Total comprehensive income (loss)	**350.4**	113.3	120.4	-30.4	39.7	5.9	**2,969**

4. Consolidated Balance Sheets

	Billions of Yen						Millions of U.S. Dollars
	2006	2005	2004	2003	2002	2001	**2006**
Current assets:							
Cash and cash equivalents	**522.0**	453.9	415.6	324.4	276.7	251.5	**4,424**
Time deposits	**8.3**	10.2	2.7	3.4	7.9	5.2	**71**
Marketable securities	**22.1**	23.1	2.8	7.7	5.6	14.9	**187**
Receivables-trade:							
Notes and loans	**265.0**	307.1	238.2	270.7	289.4	396.7	**2,246**
Accounts	**1,646.1**	1,355.7	1,178.0	1,095.8	1,072.5	1,174.2	**13,950**
Associated companies	**98.3**	84.9	151.2	138.3	162.4	195.1	**833**
Allowance for doubtful receivables	**-15.3**	-11.0	-8.9	-9.8	-10.7	-11.6	**-130**
Inventories	**705.2**	503.8	412.3	413.1	406.6	418.6	**5,977**
Deferred income taxes	**32.0**	39.2	37.6	29.3	24.2	23.7	**271**
Advance payments to suppliers	**50.2**	56.9	51.6	47.8	46.5	61.1	**425**
Other current assets	**310.4**	271.2	140.1	116.1	134.0	97.2	**2,630**
Total current assets	**3,644.3**	3,095.0	2,621.2	2,436.8	2,415.1	2,626.6	**30,884**
Investments and long-term receivables:							
Investments in and advances to associated companies	**469.5**	394.6	384.0	375.7	285.4	242.5	**3,978**
Other investments	**783.0**	502.7	469.0	413.6	583.3	704.0	**6,636**
Long-term receivables	**662.1**	620.8	597.5	666.1	680.3	648.2	**5,611**
Allowance for doubtful receivables	**-40.7**	-45.7	-50.0	-76.2	-83.1	-95.9	**-345**
Total investments and long-term receivables	**1,873.9**	1,472.4	1,400.5	1,379.2	1,465.9	1,498.8	**15,880**
Property and equipment, at cost	**1,263.7**	1,129.7	1,157.4	1,126.8	1,120.4	1,038.7	**10,709**
Accumulated depreciation	**-444.2**	-409.3	-388.8	-365.8	-344.0	-333.4	**-3,764**
	819.5	720.4	768.6	761.0	776.4	705.3	**6,945**
Prepaid expenses, non-current	**94.7**	94.8	98.6	110.7	77.1	52.9	**803**
Deferred income taxes, non-current	**13.5**	10.2	9.4	46.3	19.0	14.7	**114**
Other assets	**266.0**	140.3	114.2	122.2	106.7	55.8	**2,254**
Total	**6,711.9**	5,533.1	5,012.5	4,856.2	4,860.2	4,954.1	**56,880**
Current liabilities:							
Short-term debt	**539.6**	412.2	452.1	615.8	773.8	820.5	**4,573**
Current maturities of long-term debt	**428.5**	438.5	330.6	382.2	356.5	285.8	**3,632**
Payables-trade:							
Notes and acceptances	**93.3**	101.7	107.5	115.2	166.6	233.5	**790**
Accounts	**1,070.9**	879.0	771.1	728.7	673.0	824.0	**9,076**
Associated companies	**29.7**	18.3	22.8	25.6	25.4	51.1	**252**
Income taxes	**33.0**	20.2	15.9	17.1	9.8	8.7	**280**
Accrued expenses	**93.0**	60.5	61.2	47.7	37.5	45.5	**788**
Advances from customers	**90.5**	85.4	66.2	60.4	64.8	71.4	**767**
Other current liabilities	**244.0**	182.2	99.8	97.2	113.2	112.3	**2,067**
Total current liabilities	**2,622.5**	2,198.0	1,927.2	2,089.9	2,220.6	2,452.8	**22,225**
Long-term debt, less current maturities	**2,447.2**	2,213.7	2,218.5	2,046.0	1,883.6	1,772.9	**20,739**
Accrued pension and retirement benefits	**13.2**	11.8	10.9	9.1	8.5	8.1	**111**
Deferred income taxes, non-current	**230.3**	85.7	38.8	3.9	14.6	24.4	**1,952**
Minority interests	**94.7**	89.0	86.3	88.6	74.9	68.9	**802**
Commitments and contingent liabilities							
Shareholders' equity:							
Common stock	**219.3**	219.3	169.4	169.4	169.4	169.4	**1,858**
Additional paid-in capital	**279.5**	238.9	189.6	189.5	189.5	189.5	**2,368**
Retained earnings:							
Appropriated for legal reserve	**17.7**	17.7	17.7	17.7	17.7	17.2	**150**
Unappropriated	**579.2**	442.6	365.9	307.8	302.4	263.7	**4,909**
	596.9	460.3	383.6	325.5	320.1	280.9	**5,059**
Accumulated other comprehensive income (loss)	**213.8**	17.1	-11.2	-65.0	-20.7	-12.7	**1,812**
Treasury stock, at cost	**-5.5**	-0.7	-0.6	-0.7	-0.3	-0.1	**-46**
Total shareholders' equity	**1,304.0**	934.9	730.8	618.7	658.0	627.0	**11,051**
Total	**6,711.9**	5,533.1	5,012.5	4,856.2	4,860.2	4,954.1	**56,880**

Notes: 1. For the fiscal year ended March 31, 2005, the Companies reclassified Mining rights from Other assets to Property and equipment, at cost and Accumulated depreciation in a manner consistent with the accounting guidance in Emerging Issues Task Force ("EITF") Issue No. 04-02. The presentation of the prior years has been reclassified accordingly.

2. The Companies restated prior year consolidated financial statements with respect to the accounting of deferred taxes related to investments in affiliates.Consolidated statements of income and consolidated statements of comprehensive income (loss) for the year ended March 31, 2001, and consolidated balance sheets as of March 31, 2002 and 2001 are not audited.

3. The U.S. dollar amounts represent translations of Japanese yen amounts at the rate of ¥118=U.S.$1, the approximate exchange rate on March 31, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. INTRODUCTION

We are an integrated trading company (sogo shosha). We are engaged in a wide range of business activities on a global basis. Our business foundation consists of trust, global relations with over 100,000 business partners around the world, a global network with offices and subsidiaries worldwide, intellectual capital, and advanced functions in business development, logistic solutions, financial services, IT solutions, risk management and intelligence gathering and analysis. Through integration of these elements, we provide a diverse array of values to our customers. Based on this business foundation and these functions, we engage in general trading of a wide range of goods and commodities and in various business activities. We act as both principal and agent in these trading transactions. We also provide a range of services for a variety of industries, such as: financing for customers and suppliers; planning, coordination and operation of urban and industrial infrastructure projects; consulting in areas such as system integration and technology development; and transportation and logistics. In addition, we engage in other diverse business activities, including investing in a variety of industries ranging from biotechnology to communications; developing natural resources; manufacturing and processing products such as steel products and textiles; developing and managing real estate; and operating retail stores.

We conduct our business through nine industry-based business segments and two sets of regional operations (domestic and overseas) that correspond to the operating segments monitored by the chief operating decision makers. Our industry-based business segments are:

- Metal Products
- Transportation & Construction Systems
- Machinery & Electric
- Media, Electronics & Network
- Chemical
- Mineral Resources & Energy
- Consumer Goods & Service
- Materials & Real Estate
- Financial & Logistics

Each business segment operates with a degree of autonomy in pursuing its strategic goals, managing operations and ensuring accountability. Each business unit also has its own planning and administration department to enable prompt decision-making and facilitate efficient operation. In today's increasingly global business environment, our worldwide network of offices, subsidiaries and associated companies, and our global relationships with customers, suppliers and business partners have allowed us to conduct and expand our operations around the world. Our nine industry-based business units and domestic and overseas operations regularly collaborate with one another to leverage their combined strengths to conduct their respective businesses more effectively as well as to meet our corporate targets and goals. We have designed our infrastructure to centralize and consolidate information from all of our business units and domestic and overseas operations to facilitate proper integration and risk control.

As of March 31, 2006, we had total assets of ¥6,711.9 billion and 51,700 employees worldwide. For the fiscal year ended March 31, 2006, our consolidated net income was ¥160.2 billion.

2. OUR MEDIUM-TERM TARGETS

The following discussion of our medium-term targets contains forward-looking statements and measures that have been calculated based on a number of judgments, estimates and assumptions. Unless otherwise stated, the forward-looking statements reflect management's current assumptions and expectations of future events as of March 31, 2006. Accordingly, they are inherently susceptible to uncertainties and changes in circumstances and are not guarantees of future performance.

In recent years, we have been setting targets for, and monitoring the progress of, our businesses and operations by establishing medium-term plans. Under the AG Plan for two years starting this term, we set quantitative targets of consolidated risk-adjusted return ratio of 7.5% or over in each year and a consolidated net income of ¥230 billion over the two years of the plan; ¥110 billion in fiscal year 2005 (April 2005 to March 2006) and ¥120 billion in fiscal year 2006 (April 2006 to March 2007). In the period under review, corresponding to the first year of the plan, we achieved the targeted results, recording consolidated risk-adjusted return ratio of 15% and a consolidated net income of ¥160.2 billion. Our projected consolidated net income in fiscal year 2006 is ¥170 billion.

In addition to pursuing these quantitative targets, in order to build a foundation for sustained growth, we have adopted a set of basic policies to implement on a globally consolidated basis under the AG Plan, namely, "expansion of our earnings base through dynamic growth strategies," "implementation of human resource strategies matching our growth strategies," and "pursuit of soundness and efficiency."

3. ECONOMIC ENVIRONMENT

During the period under review, the global economy continued to grow strongly, although high energy prices contributed to increased inflationary pressures and larger imbalances in international payment balances. International commodity prices ran at high levels, notably for crude oil and nonferrous metals, reflecting lively demand.

The Japanese economy experienced a phase of marking time through the summer of 2005, due to the sluggish performance of exports and the adjustments of inventories by digital-home appliance and information-technology-related firms. After that, improvement in employment and incomes contributed to further stabilize consumer spending. High levels of corporate profits powered growing capital investment and exports recovered strongly. As a result, the economy pulled out of a long-lasting stagnant phase and continued to expand thereafter.

4. CERTAIN LINE ITEMS IN OUR CONSOLIDATED STATEMENTS OF INCOME

The following is a description of certain line items in our consolidated statements of income:

Revenues. We categorize our revenues into sales of tangible products and sales of services and others. We generate revenue from sales of tangible products:

- in connection with our wholesale, retail, manufacturing and processing operations;
- in connection with our real estate operations; and
- under long-term construction type arrangements.

We enter into transactions that include multiple element arrangements, which may include any combination of products, equipment and installation services.

We generate revenue from sale of services and others in connection with:

- customized software development services contracts and other software related services;
- direct financing and operating leases of commercial real estate, automobiles, vessels and aircrafts; and
- other service arrangements, such as arranging finance and coordinating logistics in connection with trading activities.

Gross Profit. Gross profit primarily consists of:

- gross profit on transactions for which we act as a principal; and
- fees and commissions received on transactions for which we act as an agent.

To the extent revenues are recorded on a gross basis, any expenses or commissions or other payments to third parties that are directly attributable to the sales are recorded as cost of sales. Gross profit reflects the net amount of gross revenues after cost of sales. As part of sales of services and others, we recognize revenues from fees and commissions on a net basis. As a result, sales of services and others contribute a larger portion of our gross profit than they do our revenues. For the fiscal year ended March 31, 2006, sales of services and others accounted for 19.4% of our total revenues, but the gross profit from sales of services and others accounted for 51.6% of our gross profit.

Settlements on Copper Trading Litigation. Since 1996, we have been involved in a number of legal proceedings relating to unauthorized copper trading by a former employee. Any settlement and related costs in connection with the copper trading litigation are reported as settlements on copper trading litigation.

Provision for Doubtful Receivables. Provision for doubtful receivables represents additions to the valuation allowance provided for probable losses inherent in the trade receivables and long-term loans portfolio. In cases where we are able to collect on such receivables and loans due to changes in circumstances, we subsequently record a reversal of the allowance for doubtful receivables. See "6—CRITICAL ACCOUNTING POLICIES—Collectibility of Receivables."

Impairment Losses on Long-Lived Assets. To operate our global business, we maintain a significant amount of long-lived assets. A large portion of such long-lived assets are our real estate holdings. We have recognized impairment losses with respect to our real estate assets. For a detailed discussion of our accounting policy with respect to such impairment losses, see "6—CRITICAL ACCOUNTING POLICIES—Recoverability of Long-Lived Assets."

Gain on Sale of Property and Equipment, Net. As a result of strategic and aggressive replacement of our asset portfolio, we may, at times, recognize gains and losses on sales of some of our real estate assets.

Dividends. Dividends reflect dividends declared by companies in which we hold interests other than our consolidated subsidiaries or associated companies.

Other than Temporary Impairment Losses on Securities. We maintain a significant level of investments in order to supplement our trading activities. When the fair value of an investment is deemed to have suffered an other-than-temporary decline in value, we recognize impairment losses on such investments. For a detailed discussion of our accounting policy with respect to our marketable securities and other investments, see "6—CRITICAL ACCOUNTING POLICIES—Impairment of Investments in Marketable Securities and Other Investments."

Gain on Sale of Marketable Securities and Other Investments, Net. We recognize gains on sales of our non-trading marketable securities and other investments when we elect to sell investment holdings.

Gain on Issuances of Stock by Subsidiaries and Associated Companies. If an affiliate company issue shares to a third party, we may recognize gain based on the effect of the difference in our book value per share in the investment and the price at which shares are sold to the third party.

Equity in Earnings of Associated Companies, Net. In connection with our investment strategy and the development of business opportunities, we may, from time to time, acquire or make investments in newly established or existing companies, enter into joint ventures with other entities or form strategic business alliances with industry participants, in each case in a variety of business segments. In general, we account for the earnings or losses of such investee under the equity method when the level of the investment is between 20% and 50% of the total voting equity of the investee.

Total Trading Transactions. Total trading transactions is a voluntary disclosure and represents the gross transaction volume of trading transactions, or the nominal aggregate value of the transactions for which we act as principal or as agent. Total trading transactions is not meant to represent sales or revenues in accordance with U.S. GAAP. Total trading transactions should not be construed as equivalent to, or a substitute or proxy for, revenues, or as an indicator of our operating performance, liquidity or cash flows generated by operating, investing or financing activities. A substantial part of total trading transactions represents transactions in which we participate without physical acquisition of goods or without significant inventory risk. We have included the information concerning total trading transactions because it is used by similar Japanese trading companies as an industry benchmark, and we believe it is a useful supplement to results of operations data as a measure of our performance compared to other similar Japanese trading companies.

5. EFFECTS OF RECENT TRANSACTIONS ON OUR CONSOLIDATED STATEMENTS OF INCOME

On April 28, 2005, we entered into a Share Exchange Agreement with Sumisho Auto Leasing Corporation ("SAL"), a majority-owned subsidiary, pursuant to which we exchanged shares of us for shares of SAL held by minority shareholders (included Sumisho Lease Co.,Ltd, an associated company). SAL became a wholly-owned subsidiary of us.

On September 18, 2005, we and Sumitomo Corporation of America ("SCOA"), our U.S. subsidiary, entered into an agreement to purchase TBC Corporation ("TBC"), one of the leading marketers of automotive replacement tires in the U.S., from its shareholders, for approximately $1.1 billion. The purchase was consummated on November 17, 2005. As of March 31, 2006, we had a 100% ownership of the voting shares of TBC, including a 60% ownership interest held directly by SCOA.

TBC is a U.S. tire wholesaler and retailer founded in 1956. TBC engages in the retail chain business and franchise outlets throughout the U.S. as well as the wholesales business. TBC is the nation's largest independent marketer of tire. We have been engaged in the tire wholesale business through SCOA and Treadways Corporation, a wholly owned subsidiary. The purpose of the acquisition is to greatly expand our tire business in the retail market, where we see substantial opportunities for growth and profitability.

The accompanying consolidated financial statements for the year ended March 31, 2006 include the operating results of TBC from the date of purchase.

6. CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, which are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of these evaluations form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions. For a summary of our significant accounting policies, including the critical accounting policies discussed below, see note 2 to our consolidated financial statements.

The following are the critical accounting policies that are important to our financial condition and results of operations and require significant management judgments and estimates:

Revenue Presentation – Gross Versus Net

Acting as an intermediary in executing transactions with third parties is a distinctive role of an integrated trading company (sogo shosha). In recognizing revenue from transactions, we must determine whether we are acting as a "principal" in the transaction, and should report revenue on a gross basis based on the sales amount of the transaction, or acting as an "agent" in the transaction, and should recognize net fees or commissions earned. The evaluation of the relevant factors in making this determination is subject to significant subjective judgments. In certain situations, others might make a different determination. Similarly, if our risks and obligations in a certain type of transaction change, the determination of whether revenue should be recognized on a net or gross basis for that type of transaction may also change. Revenues related to a substantial portion of the trading transactions in all our business segments are recognized on a net basis. The amounts of gross profit and net income are not affected by whether revenue is reported on a gross or net basis.

Factors that indicate that we are acting as a principal, and thus should recognize revenue on a gross basis include:

- we are the primary obligor in the arrangement;
- we have general inventory risk (before customer order is placed or upon customer return);
- we have physical loss inventory risk (after customer order or during shipping);
- we have latitude in establishing price;
- we change the product or perform part of the services;
- we have discretion in supplier selection;

- we are involved in the determination of product or service specifications; and
- we have credit risk.

Factors that indicate that we are acting as an agent, and thus should recognize revenue on a net basis relative to the service offered include:
- the supplier (not us) is the primary obligor in the arrangement;
- the amount we earn is fixed; and
- the supplier (not us) has credit risk.

Revenue Recognition

Most of our revenues are the result of (i) the sale of tangible products in connection with our wholesale, retail, manufacturing, and processing operations from which revenue is recognized based on the transfer of title, deliver or shipment, or the attainment of customer acceptance, or (ii) from the provision of services and the other sales, from which revenue is recognized based on the delivery of services. Revenue recognition in these situations does not involve difficult, subjective or complex judgments or estimations.

Recognition of revenue using the percentage-of-completion method for certain long-term construction-type arrangements is based on the ratio that costs incurred bear to total estimated project costs and is dependent on our ability to estimate these costs reliably. The impact of revisions of profit estimates on fixed price contracts is recognized in the period in which the revisions are made; anticipated losses on fixed price contracts are charged to earnings when losses can be estimated; and provisions are made for contingencies in the period in which they become known and losses are estimable.

Collectibility of Receivables

We engage in a variety of businesses and carry substantial notes and loans receivable, accounts receivable, receivables for associated companies, and long-term receivables. In maintaining our allowance for doubtful receivables, our estimate of probable losses requires consideration of historical loss experience, adjusted for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates, financial health of specific customers and market sectors, collateral values, and the present and expected future levels of interest rates. This estimation requires us to make assumptions and judgments about inherently uncertain matters, and we cannot predict with absolute certainty the amount of losses inherent in the portfolio.

Operating segments that hold greater amounts of long-term receivables than other segments are Transportation & Construction Systems and Machinery & Electric Business Units.

Recoverability of Long-Lived Assets

We maintain significant long-lived assets in the operation of our global business. We review long-lived assets, such as real estate and aircraft, for impairment whenever events or changes in circumstances suggest that the carrying amount of such assets may not be recoverable. Determining whether impairment has occurred typically requires various estimates and assumptions, including determining whether cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We use internal discounted cash flow estimates, quoted market prices, when available, and independent appraisals, as appropriate, to determine fair value. We derive cash flow estimates from our historical experience and our internal business plans, and apply an appropriate discount rate. Changes in strategy or in market conditions could significantly affect these determinations.

Impairment of Investments in Marketable Securities and Other Investments

We regularly review investment securities for impairment based on criteria that include the extent to which the investment's carrying value exceeds its market value, the duration of the market decline, our ability to hold to recovery, and the financial strength and specific prospects of the issuer of the security. We monitor market conditions and the performance of the investees to identify potentially impaired investments. The fair value of non-marketable securities for which impairment losses are recognized is determined based on estimated discounted future cash flows, or other appropriate valuation methods.

Tax Asset Valuation

A valuation allowance is established on deferred tax assets when, in management's judgment, it is more likely than not, that the deferred tax asset, or a portion thereof, will not be realized. In assessing the realizability of deferred tax assets, we must determine whether we will be able to generate adequate future taxable income in the tax jurisdictions that give rise to the deferred tax assets during the periods in which the underlying temporary differences become deductible or before tax net operating loss carryforwards expire. We consider all available evidence, both positive and negative, in making this assessment. Determination of the allowance is based on estimates and judgment. A change in the ability of our operations to generate future taxable income in the tax jurisdictions that give rise to the deferred tax assets could change our assessment as to the realizability of these assets.

7. RESULTS OF OPERATIONS

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Total Revenues. Total revenues increased by ¥532.1 billion, or 26.0%, from ¥2,049.3 billion in the fiscal year ended March 31, 2005, to ¥2,581.4 billion in the fiscal year ended March 31, 2006. The increase was mainly due to the effects of acquisition of TBC in September 2005 and the strong performance of the coal business in Australia.

Gross Profit. Gross profit increased by ¥143.5 billion, or 25.5%, from ¥563.1 billion in the fiscal year ended March 31, 2005 to ¥706.6 billion in the fiscal year ended March 31, 2006. The increase was mainly contributed from metal businesses, automobile lease and finance business in Asia, coal business in Australia and newly consolidated subsidiaries such as TBC.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by ¥77.9 billion, or 17.8%, from ¥437.9 billion in the fiscal year ended March 31, 2005 to ¥515.8 billion in the fiscal year ended March 31, 2006. This was mainly due to an increase in personnel expenses resulting from the newly consolidated subsidiaries, and the expansion of business activities at the subsidiaries.

Settlements on Copper Trading Litigation. In the fiscal year ended March 31, 2006, we expensed ¥0.1 billion for settlements on copper trading litigation compared to a net gain of ¥2.8 billion on settlements on copper trading litigation in the fiscal year ended March 31, 2005.

Provision for Doubtful Receivables. The provision for doubtful receivables increased by ¥1.8 billion, or 14.0%, to ¥14.7 billion in the fiscal year ended March 31, 2006, compared to ¥12.9 billion in the fiscal year ended March 31, 2005. This was mainly related to receivables in an overseas business from which we withdrew and a telecommunication project in South America.

Impairment Losses on Long-Lived Assets. Impairment losses on long-lived assets decreased by ¥17.1 billion, or 58.0%, from ¥29.5 billion in the fiscal year ended March 31, 2005 to ¥12.4 billion in the fiscal year ended March 31, 2006. Impairment losses recognized for the fiscal year ended March 31, 2006 were primarily related to an intangible brand asset of a subsidiary in the United States.

Gain on Sale of Property and Equipment, Net. We recorded a loss on sale of property and equipment of ¥0.4 billion for the fiscal year ended March 31, 2006 compared to a gain on sale of property and equipment of ¥11.5 billion for the fiscal year ended March 31, 2005. We recognized a gain on the sale of an office building belonging to Sumitomo Corporation of America in the fiscal year ended March 31, 2005.

Interest Income. Interest income increased by ¥4.4 billion, or 30.1%, from ¥14.6 billion in the fiscal year ended March 31, 2005 to ¥19.0 billion in the fiscal year ended March 31, 2006. This was mainly due to higher U.S. interest rates.

Interest Expense. Interest expense increased by ¥15.8 billion, or 68.1%, from ¥23.2 billion in the fiscal year ended March 31, 2005 to ¥39.0 billion in the fiscal year ended March 31, 2006. The increase was primarily due to higher U.S. interest rates and the effect of newly consolidated subsidiaries.

Dividends. Total dividend income increased by ¥4.0 billion, or 62.5%, from ¥6.4 billion in the fiscal year ended March 31, 2005 to ¥10.4 billion in the fiscal year ended March 31, 2006. This was mainly due to the increased dividend from domestic companies.

Other than Temporary Impairment Losses on Securities. Other than temporary impairment losses on securities decreased by ¥5.2 billion, or 58.4%, from ¥8.9 billion in the fiscal year ended March 31, 2005 to ¥3.7 billion in the fiscal year ended March 31, 2006.

Gain on Sale of Marketable Securities and Other Investments, Net. Gain on sale of marketable securities and other investments increased by ¥27.7 billion, or 169.9%, from ¥16.3 billion for the fiscal year ended March 31, 2005 to ¥44.0 billion for the fiscal year ended March 31, 2006. Sale of our stake in Coach Japan Inc. contributed for the year 2006.

Gain on Issuances of Stock by Subsidiaries and Associated Companies. Gain on issuances of stock by subsidiaries and associated companies decreased by ¥11.1 billion, or 88.1%, from ¥12.6 billion for the fiscal year ended March 31, 2005 to ¥1.5 billion for the fiscal year ended March 31, 2006. Jupiter Telecommunications was listed on the Jasdaq Securities Exchange and shares were sold to the public. As a result of this offering, we recognized a gain for the fiscal year ended March 31, 2005.

Equity in Earnings of Associated Companies, Net. Equity in earnings of associated companies increased by ¥14.0 billion, or 37.4%, from ¥37.4 billion in the fiscal year ended March 31, 2005 to ¥51.4 billion in the fiscal year ended March 31, 2006. The increase was mainly due to continuous strong performances by Jupiter Telecommunications, Jupiter TV and steel pipe business in the North America. In addition, electric power projects in Asia began to contribute earnings.

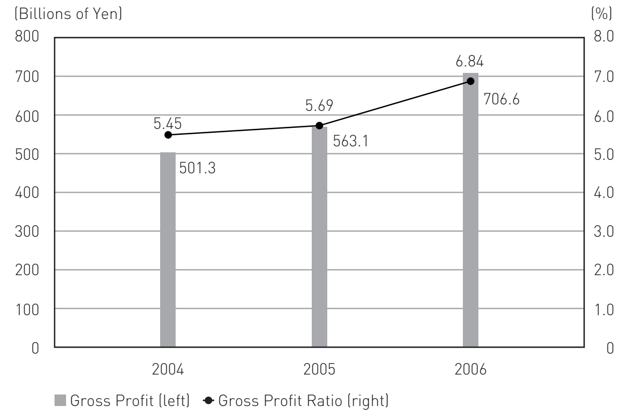
Income Taxes. Income taxes increased by ¥22.9 billion, or 39.6%, from ¥57.8 billion in the fiscal year ended March 31, 2005 to ¥80.7 billion in the fiscal year ended March 31, 2006. The increase was primarily due to increase of income before income taxes and minority interests in earnings of subsidiaries.

Minority Interests in Earnings of Subsidiaries, Net. Minority interests in earnings of subsidiaries decreased by ¥1.5 billion, or 17.9%, from ¥8.4 billion in the fiscal year ended March 31, 2005 to ¥6.9 billion in the fiscal year ended March 31, 2006. The decrease was mainly attributable to our making Sumisho Auto Leasing Corporation a wholly owned subsidiary.

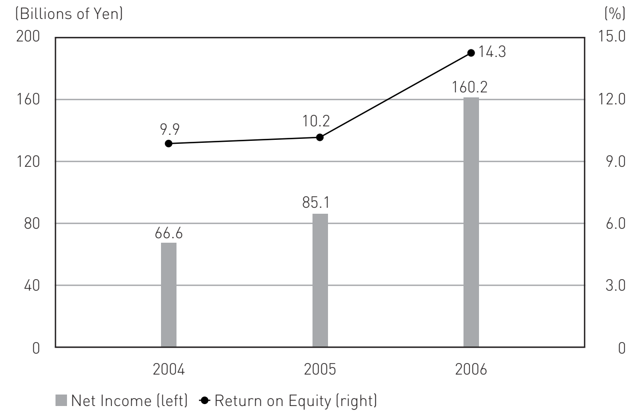
Net Income. As a result of the factors discussed above, net income increased by ¥75.1 billion, or 88.2%, from ¥85.1 billion in the fiscal year ended March 31, 2005 to ¥160.2 billion in the fiscal year ended March 31, 2006.

Total Trading Transactions. Total trading transactions increased ¥437.7 billion, or 4.4%, from ¥9,898.6 billion in the fiscal year ended March 31, 2005 to ¥10,336.3 billion in the fiscal year ended March 31, 2006. This was mainly due to the continuous strong performances by metal businesses and mineral resources businesses and the effect of newly consolidated subsidiaries. The increase was partially offset by review of the unprofitable businesses.

GROSS PROFIT & GROSS PROFIT RATIO (GROSS PROFIT/TOTAL TRADING TRANSACTIONS)



NET INCOME & RETURN ON EQUITY



8. OPERATING SEGMENT ANALYSIS

We manage and assess our business through 11 operating segments, including nine operating segments based on industries and two operating segments based on a geographical focus.

We conduct our business through nine business units based on industries. Our business units consist of: Metal Products; Transportation & Construction Systems; Machinery & Electric; Media, Electronics & Network; Chemical; Mineral Resources & Energy; Consumer Goods & Service; Materials & Real Estate; and Financial & Logistics.

In addition, we conduct our business through regional operations—domestic and overseas. Domestically, in addition to our subsidiaries and offices throughout Japan, we have three regional business units, which are distinct from the industry-based business units, that oversee activities in the Kansai, Chubu and Kyushu-Okinawa regions. Our overseas operations are conducted by our overseas subsidiaries, such as Sumitomo Corporation of America, and branch offices. These regional operations conduct trading activities in all industry sectors based on their specialized knowledge of the regions. In addition, they work together on certain projects with our industry-based business units in order to develop products and services that are more focused for any particular region. In such cases, revenue and expenses are shared by the units based on their respective roles. These regional operations constitute the "Domestic Regional Business Units and Offices" and "Overseas Subsidiaries and Branches" segments in our consolidated financial statements.

The following table sets forth our operating results by operating segments for the fiscal years ended March 31, 2006 and 2005.

Breakdown of Gross Profit by Operating Segment

	Billions of Yen				Millions of U.S. Dollars
For the years ended March 31, 2006 and 2005	**2006**	2005	increase/ decrease	increase/ decrease	**2006**
Metal Products	**¥ 65.4**	¥ 49.9	¥ 15.5	31.1%	**$ 554**
Transportation & Construction Systems	**127.5**	113.3	14.2	12.5	**1,081**
Machinery & Electric	**29.3**	32.2	(2.9)	(9.0)	**248**
Media, Electronics & Network	**47.2**	44.1	3.1	7.0	**400**
Chemical	**35.5**	28.5	7.0	24.6	**301**
Mineral Resources & Energy	**48.7**	35.2	13.5	38.4	**413**
Consumer Goods & Service	**98.6**	98.9	(0.3)	(0.3)	**836**
Materials & Real Estate	**56.2**	38.7	17.5	45.2	**476**
Financial & Logistics	**25.0**	17.0	8.0	47.1	**212**
Domestic Regional Business Units and Offices	**41.1**	41.2	(0.1)	(0.2)	**348**
Overseas Subsidiaries and Branches	**141.6**	78.1	63.5	81.3	**1,200**
Segment Total	**716.1**	577.1	139.0	24.1	**6,069**
Corporate and Eliminations	**(9.5)**	(14.0)	4.5	(32.1)	**(81)**
Consolidated	**¥ 706.6**	¥ 563.1	¥ 143.5	25.5%	**$ 5,988**

Breakdown of Net Income (Loss) by Operating Segment

	Billions of Yen				Millions of U.S. Dollars
For the years ended March 31, 2006 and 2005	**2006**	2005	increase/ decrease	increase/ decrease	**2006**
Metal Products	**¥ 18.9**	¥ 13.3	¥ 5.6	42.1%	**$ 160**
Transportation & Construction Systems	**19.8**	13.5	6.3	46.7	**168**
Machinery & Electric	**8.0**	3.8	4.2	110.5	**68**
Media, Electronics & Network	**14.9**	24.8	(9.9)	(39.9)	**126**
Chemical	**5.4**	4.7	0.7	14.9	**46**
Mineral Resources & Energy	**22.9**	14.9	8.0	53.7	**194**
Consumer Goods & Service	**14.9**	4.6	10.3	223.9	**126**
Materials & Real Estate	**12.4**	(8.4)	20.8	—	**105**
Financial & Logistics	**6.2**	2.8	3.4	121.4	**53**
Domestic Regional Business Units and Offices	**5.3**	4.7	0.6	12.8	**45**
Overseas Subsidiaries and Branches	**28.2**	22.4	5.8	25.9	**239**
Segment Total	**156.9**	101.1	55.8	55.2	**1,330**
Corporate and Eliminations	**3.3**	(16.0)	19.3	—	**28**
Consolidated	**¥ 160.2**	¥ 85.1	¥ 75.1	88.2%	**$ 1,358**

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Metal Products

Gross profit increased by ¥15.5 billion, or 31.1%, from ¥49.9 billion in the fiscal year ended March 31, 2005 to ¥65.4 billion in the fiscal year ended March 31, 2006. The increase was mainly attributable to the strong performances in steel pipes, steel plates, and non-ferrous metal businesses. Net income increased by ¥5.6 billion, or 42.1%, from ¥13.3 billion in the fiscal year ended March 31, 2005 to ¥18.9 billion in the fiscal year ended March 31, 2006.

Transportation & Construction Systems

Gross profit increased by ¥14.2 billion, or 12.5%, from ¥113.3 billion in the fiscal year ended March 31, 2005 to ¥127.5 billion in the fiscal year ended March 31, 2006. The increase was mainly due to the continuing strong performance in the automobile lease and finance business in Asia and the ship business contributed strongly, reflecting good market conditions. Net income increased by ¥6.3 billion, or 46.7%, from ¥13.5 billion in the fiscal year ended March 31, 2005 to ¥19.8 billion in the fiscal year ended March 31, 2006.

Machinery & Electric

Gross profit decreased by ¥2.9 billion, or 9.0%, from ¥32.2 billion in the fiscal year ended March 31, 2005 to ¥29.3 billion in the fiscal year ended March 31, 2006. The decrease was mainly due to the decrease of plant export volume mainly to Asia. Net income increased by ¥4.2 billion, or 110.5%, from ¥3.8 billion in the fiscal year ended March 31, 2005 to ¥8.0 billion in the fiscal year ended March 31, 2006. The increase was mainly due to equity in earnings of electric power projects in Asia and Middle East.

Media, Electronics & Network

Gross profit increased by ¥3.1 billion, or 7.0%, from ¥44.1 billion in the fiscal year ended March 31, 2005 to ¥47.2 billion in the fiscal year ended March 31, 2006. The increase was mainly due to a full year of operations of United Cinemas Co., Ltd. Net income decreased by ¥9.9 billion, or 39.9%, from ¥24.8 billion in the fiscal year ended March 31, 2005 to ¥14.9 billion in the fiscal year ended March 31, 2006. The decrease was due to the gain resulting from the public offering and listing of Jupiter Telecommunications on the Jasdaq Securities Exchange that was recognized in the previous year.

Chemical

Gross profit increased by ¥7.0 billion, or 24.6%, from ¥28.5 billion in the fiscal year ended March 31, 2005 to ¥35.5 billion in the fiscal year ended March 31, 2006. The increase was mainly due to the strong performance of the PVC pipe business in the U.S. Net income increased by ¥0.7 billion, or 14.9%, from ¥4.7 billion in the fiscal year ended March 31, 2005 to ¥5.4 billion in the fiscal year ended March 31, 2006.

Mineral Resources & Energy

Gross profit increased by ¥13.5 billion, or 38.4%, from ¥35.2 billion in the fiscal year ended March 31, 2005 to ¥48.7 billion in the fiscal year ended March 31, 2006. The increase was mainly due to the strong performance in the coal business in Australia and the oil business in North Sea. Net income increased by ¥8.0 billion, or 53.7%, from ¥14.9 billion in the fiscal year ended March 31, 2005 to ¥22.9 billion in the fiscal year ended March 31, 2006.

Consumer Goods & Service

Gross profit of ¥98.6 billion in the fiscal year ended March 31, 2006 was level compared to gross profit of ¥98.9 billion in the fiscal year ended March 31, 2005. Net income increased by ¥10.3 billion, or 223.9%, from ¥4.6 billion in the fiscal year ended March 31, 2005 to ¥14.9 billion in the fiscal year ended March 31, 2006. The increase was due to the gain on sale of the investment in Coach Japan Inc.

Materials & Real Estate

Gross profit increased by ¥17.5 billion, or 45.2%, from ¥38.7 billion in the fiscal year ended March 31, 2005 to ¥56.2 billion in the fiscal year ended March 31, 2006. The increase was mainly due to the acquisition of TBC. Net income was 12.4 billion in the fiscal year ended March 31, 2006 compared to a net loss of ¥8.4 billion in the fiscal year ended March 31, 2005. The change was mainly due to the recognition of an impairment loss on real estate in the Yokohama area in the previous year.

Financial & Logistics

Gross profit increased by ¥8.0 billion, or 47.1%, from ¥17.0 billion in the fiscal year ended March 31, 2005 to ¥25.0 billion in the fiscal year ended March 31, 2006. The increase was mainly due to the recovery in the commodity business and a strong performance in sales of overseas industrial park. Net income increased by ¥3.4 billion, or 121.4%, from ¥2.8 billion in the fiscal year ended March 31, 2005 to ¥6.2 billion in the fiscal year ended March 31, 2006.

Domestic Regional Business Units and Offices

Gross profit of ¥41.1 billion in the fiscal year ended March 31, 2006 compared to gross profit of ¥41.2 billion in the fiscal year ended March 31, 2005. Net income increased by ¥0.6 billion, or 12.8% from ¥4.7 billion in the fiscal year ended March 31, 2005 to ¥5.3 billion in the fiscal year ended March 31, 2006.

Overseas Subsidiaries and Branches

Gross profit increased by ¥63.5 billion, or 81.3%, from ¥78.1 billion in the fiscal year ended March 31, 2005 to ¥141.6 billion in the fiscal year ended March 31, 2006. The increase was mainly due to the acquisition of TBC and the strong performances in metal businesses mainly of Sumitomo Corporation of America. Net income increased by ¥5.8 billion, or 25.9%, from ¥22.4 billion in the fiscal year ended March 31, 2005 to ¥28.2 billion in the fiscal year ended March 31, 2006.

9. LIQUIDITY AND CAPITAL RESOURCES

In general, we seek to fund our operations through cash flow from operations, bank debt and debt raised in the capital markets and through commercial paper issuances. Our basic policy for fund raising activities is to secure stable, medium- to long-term low-interest rate funds and liquidity for our operations. As of March 31, 2006, we had ¥3,434.1 billion of short-term and long-term debt. Our short-term debt, excluding current maturities of long-term debt was ¥539.6 billion, increased by ¥127.4 billion from the previous year. Our short-term debt consisted of ¥408.7 billion of loans, principally from banks and ¥130.9 billion of commercial paper.

As of March 31, 2006, we had long-term debt of ¥2,894.5 billion, increased by ¥221.7 billion from the previous year, including current maturities of ¥447.4 billion. As of March 31, 2006, the balance of our borrowings from banks and insurance companies was ¥2,106.5 billion, an increase of ¥117.5 billion from the previous year, and the balance of notes and bonds was ¥506.5 billion, an increase of ¥67.5 billion from the previous year.

Most of our loans from banks contain covenant provisions customary in Japan. We do not believe those provisions materially limit our operating or financial flexibility. However, some credit agreements require us to obtain prior approval for any dividend payments or other distributions to shareholders. Several of the loan agreements require maintenance of certain financial ratios and minimum levels of tangible net worth. Under some agreements, principally with government-owned financial institutions, we may be required to make early repayments of an outstanding amount, if the lender concludes that we are able to repay the outstanding amount through improved earnings or from the proceeds of an equity or debt offering, and makes such prepayment request. Certain agreements provide that the banks may require the borrower to receive bank approval prior to the payment of dividends and other appropriations of earnings. We have not been asked to make any such prepayment and currently do not anticipate any prepayment request. See "RISK FACTORS – Risks stemming from restriction on access to liquidity and capital."

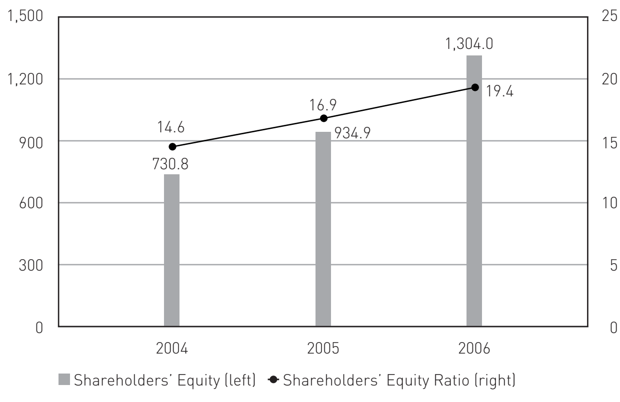
In addition, as of March 31, 2006, we had several committed lines of credit available for immediate borrowing providing an aggregate of up to $1,050 million and ¥350 billion in short-term loans. To date, we have not drawn on any of these lines of credit. We believe these lines of credit do not contain any material covenants, ratings triggers or other restrictions that could potentially impair our ability to draw down funds. We also have several uncommitted lines of credit. These lines of credit consist of :

- a $1,000 million multi-borrower and multi-currency line of credit provided by a syndicate of major European and U.S. banks, under which we can obtain loans for Sumitomo Corporation or any of our subsidiaries in the United Kingdom, Netherlands and the United States;
- a $50 million U.S. dollar-denominated line of credit provided to Sumitomo Corporation of America by a major U.S. bank;
- a ¥250 billion line of credit provided by a syndicate of major Japanese banks; and
- a ¥100 billion line of credit provided by a syndicate of Japanese regional banks.

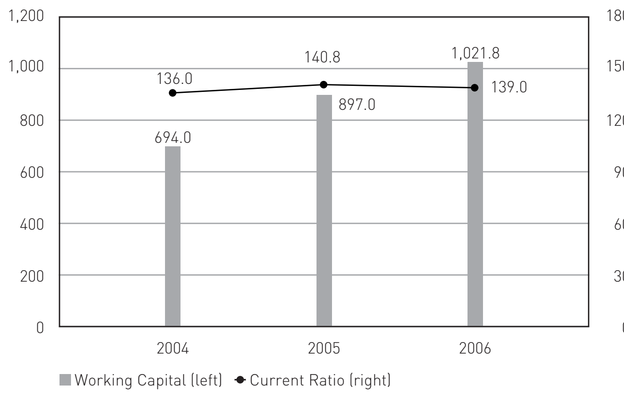
As of March 31, 2006, our long-term and short-term credit ratings are A3/P-2 from Moody's Investors Service, A/A-1 from Standard & Poor's and A+/a-1 from Rating and Investment Information, Inc. On June 5, 2006, Moody's raised our long-term credit ratings to A2 and short-term credit ratings to P-1. In order to facilitate our access to capital markets for funding, we have established several funding programs, including:

- a ¥200 billion Japanese shelf registration for primary debt offerings;
- a ¥1.0 trillion commercial paper program in Japan;
- a $1,500 million commercial paper program, established by our U.S. subsidiary, Sumitomo Corporation of America;
- a U.S.$3,000 million Euro Medium Term Note program jointly established by Sumitomo Corporation Capital Europe PLC, Sumitomo Corporation Capital Netherlands N.V., Sumitomo Corporation of America and Sumitomo Corporation Capital Asia.
- a U.S.$1,500 million Euro-denominated commercial paper program established by Sumitomo Corporation Capital Europe.

SHAREHOLDERS' EQUITY & SHAREHOLDERS' EQUITY RATIO



WORKING CAPITAL & CURRENT RATIO
(CURRENT ASSETS/CURRENT LIABILITIES)



We had total assets of ¥6,711.9 billion, which was an increase of ¥1,178.8 billion from March 31, 2005. This was mainly due to the increase of operating assets to expand the earning base, the depreciation of yen, and the rise in stock prices.

As of March 31, 2006, our shareholders' equity was ¥1,304.0 billion, representing an increase of ¥369.1 billion from March 31, 2005, due to the increase in retained earnings, improvement in foreign currency translation adjustments due to the depreciation of yen, and the increase in unrealized holding gains on securities available-for-sale due to the strong performance in stock market. As a result, our ratio of shareholders' equity to total assets improved by 2.5 percentage points to 19.4%. Net interest-bearing liabilities was ¥2,622.2 billion, an increase of ¥246.2 billion from March 31, 2005. As a result, our net debt-to-equity ratio was 2.0 times as of March 31, 2006.

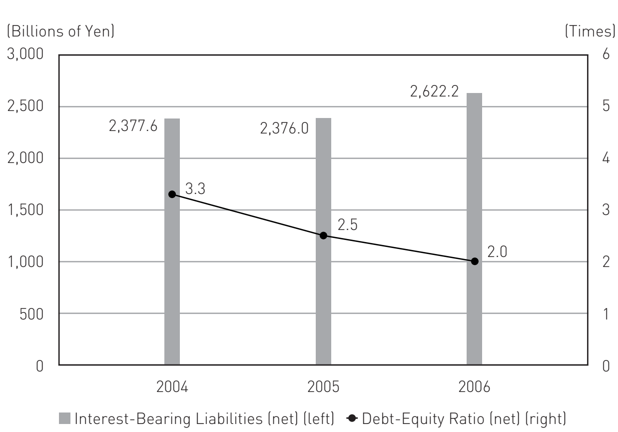
As of March 31, 2006, we had current trade receivables of ¥1,911.1 billion from third parties and ¥98.3 billion from associated companies. Our current trade receivables in Japan are generally collected within six months. We make allowances for doubtful current receivables, which at March 31, 2006 were ¥15.3 billion. As of March 31, 2006, we had current trade payables of ¥1,164.2 billion to third parties and ¥29.7 billion to associated companies.

We had working capital of ¥1,021.8 billion as of March 31, 2006 compared to ¥897.0 billion as of March 31, 2005.

Liquidity and Capital Resources

	Billions of Yen			Millions of U.S. Dollars
As of March 31, 2006, 2005 and 2004	**2006**	2005	2004	**2006**
Short-term				
Loans, principally from banks	**¥ 408.7**	¥ 299.9	¥ 206.6	**$ 3,464**
Commercial paper	**130.9**	112.3	245.5	**1,109**
	539.6	412.2	452.1	**4,573**
Long-term, including current maturities of long-term debt				
Secured long-term debt				
Loans	**208.5**	249.2	102.6	**1,767**
Bonds	**10.8**	7.9	7.7	**91**
Unsecured long-term debt				
Loans	**1,898.0**	1,739.8	1,785.8	**16,085**
Bonds and notes	**495.6**	431.0	447.7	**4,200**
	2,612.9	2,427.9	2,343.8	**22,143**
Interest-bearing liabilities (gross)	**3,152.5**	2,840.1	2,795.9	**26,716**
Cash and cash equivalents & time deposits	**530.3**	464.1	418.3	**4,494**
Interest-bearing liabilities (net)	**2,622.2**	2,376.0	2,377.6	**22,222**
Total assets	**6,711.9**	5,533.1	5,012.5	**56,881**
Shareholders' equity	**1,304.0**	934.9	730.8	**11,051**
Shareholders' equity ratio (%)	**19.4**	16.9	14.6	
Debt-Equity ratio (gross) (times)	**2.4**	3.0	3.8	
Debt-Equity ratio (net) (times)	**2.0**	2.5	3.3	

INTEREST-BEARING LIABILITIES (NET) & DEBT-EQUITY RATIO (NET)



Financial Section

The following table sets forth our cash flow information for the fiscal years ended March 31, 2006, 2005 and 2004:

Summary Statements of Consolidated Cash Flows

For the years ended March 31, 2006, 2005 and 2004	Billions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Net cash (used in) provided by operating activities	**¥ (62.8)**	¥ (20.8)	¥ 61.8	**$ (532)**
Net cash (used in) provided by investing activities	**(141.4)**	(55.9)	57.9	**(1,198)**
Free cash flow	**(204.2)**	(76.7)	119.7	**(1,730)**
Net cash provided by (used in) financing activities	**262.1**	115.8	(23.6)	**2,221**
Effect of exchange rate changes on cash and cash equivalents	**8.3**	(0.8)	(4.9)	**70**
Effect of the change in the reporting period of subsidiaries and associated companies	**1.9**	—	—	**16**
Net increase in cash and cash equivalents	**¥ 68.1**	¥ 38.3	¥ 91.2	**$ 577**

Net cash used in operating activities was ¥62.8 billion for the fiscal year ended March 31, 2006 compared to ¥20.8 billion for the fiscal year ended March 31, 2005. Each business segment created cash from strong business results. On the other hand, we also used cash to increase our operating assets related to the expansion of businesses.

Net cash used in investing activities was ¥141.4 billion for the fiscal year ended March 31, 2006 compared to ¥55.9 billion for the fiscal year ended March 31, 2005. In the fiscal year ended March 31, 2006, we collected cash of ¥85.0 billion by sales and lease back of the corporate headquarters building (Harumi Triton Square Office Tower Y). At the same time, we used cash for strategic investments to expand our earnings base, such as through the TBC acquisition.

Free cash flow which is net cash used in operating activities plus net cash used in investing activities, was ¥204.2 billion cash out for the fiscal year ended March 31, 2006 compared to ¥76.7 billion for the fiscal year ended March 31, 2005.

Net cash provided by financing activities was ¥262.1 billion for the fiscal year ended March 31, 2006 compared to ¥115.8 billion for the fiscal year ended March 31, 2005. This was mainly due to the new loans in order to expand the business activities and use cash for strategic investments.

As of March 31, 2006, our contractual cash obligations for the periods indicated were as follows:

	Billions of Yen						
	Payments due by period						
	Total	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	More than 5 years
Long-term debt	**¥ 2,894.5**	¥ 447.4	¥ 444.6	¥ 335.6	¥ 284.9	¥ 371.6	**¥ 1,010.4**
Operating leases	**373.8**	40.6	39.1	33.6	31.2	28.6	**200.7**
Total	**¥ 3,268.3**	¥ 488.0	¥ 483.7	¥ 369.2	¥ 316.1	¥ 400.2	**¥ 1,211.1**

Long-term debt includes capital leases.

As of March 31, 2006, we had long-term financing commitments in the aggregate amount of ¥21.0 billion in connection with loans and investments in equity capital.

We enter into long-term purchase commitments in the normal course of our trading operations that provide for either fixed prices or basic purchase prices adjustable to market. Those commitments are in most instances matched with counterparty sales contracts. Long-term purchase contracts at fixed prices or at basic purchase prices adjustable to market amounted to ¥639.4 billion as of March 31, 2006. Scheduled deliveries are at various dates through 2012.

As of March 31, 2006, we have no material commitments for capital expenditures.

In addition to our commitments discussed above, in connection with our businesses, from time to time, we incur various contingent liabilities, such as guarantees of our customers' obligations. In addition, we are, from time to time, subject to contingent liabilities arising from litigation. These contingent liabilities are discussed in detail in "10—CONTINGENCIES" and "11—LITIGATION" described below. Although we currently do not believe that our cash needs under such contingent liabilities will be significant, if, contrary to expectations, defaults under guarantees are substantial or there is a major adverse outcome in our litigation, such contingent liabilities may create significant new cash needs for us.

Our primary future recurring cash needs will be for working capital, capital investments in new and existing business ventures and debt service. Our growth strategy contemplates the making of investments, in the form of acquisitions, equity investments and loans. We invested ¥188.5 billion in property and equipment and made ¥238.7 billion of other investments in the fiscal year ended March 31, 2006. We are currently contemplating acquisitions of companies complementary to our existing businesses and also to related business areas in all business segments.

These investments, however, are either at a preliminary evaluation stage or are subject to a number of conditions, and accordingly, may not be completed. And we believe that our existing cash, current credit arrangements and cash flow from operations will be sufficient to meet our cash needs during the foreseeable future, although we cannot assure you that this will be the case. If our future cash flows from operations are less than we expect, we may need to incur additional debt, pursue other sources of liquidity, or modify our investment plans.

10. CONTINGENCIES

In connection with our businesses, from time to time, we incur various contingent liabilities, such as guarantees of our customers' obligations. We conduct business with counterparties around the world, and we make an effort to control the related trade receivables and guarantees in order to minimize concentrations of credit risks. We do not anticipate losses on the commitments and guarantees discussed below in excess of established allowances.

From time to time, we sell certain trade notes receivable to banks and other financial institutions on a recourse basis in the ordinary course of our business. In particular, we enter into such transactions when we believe holding a particular receivable may expose us to unnecessary risks, such as foreign currency exchange risks associated with a non-yen-denominated receivable matched with a yen-denominated payable. As of March 31, 2006, we were contingently liable to certain banks for the aggregate amount of ¥41.7 billion for discounted trade notes receivable (principally relating to export transactions maturing through 2007) sold to those banks on a recourse basis.

As of March 31, 2006, we were contingently liable for guarantees (continuing through 2031) in the aggregate amount of ¥76.9 billion, including ¥35.0 billion relating to our associated companies and ¥4.7 billion to our employees but excluding discounted trade notes receivable sold to banks on a recourse basis as discussed above. The guarantees were primarily to enhance the credit standings of our associated companies, suppliers, buyers and employees, and in respect of the residual value on operating leases.

We also provide residual value guarantees to compensate for any potential shortfall between a specified price and actual sale proceeds on fixed dates from 2012 to 2015 in the aggregate amount of ¥13.3 billion, for some owners in relation to transportation equipment subject to operating leases. If the market value of the transportation equipment is less than the guaranteed value on the fixed date, we will be required to compensate for the shortfall. The current estimated future value of such transportation equipment is higher than the guaranteed value, and consequently there was no allowance for the liabilities under these guarantees as of March 31, 2006.

11. LITIGATION

In June 1996, we announced that we had incurred significant losses resulting from unauthorized copper trading by a former employee. Following the announcement, regulatory authorities in the United States and the United Kingdom conducted investigations into our copper trading activities. Several lawsuits were also brought against us, alleging, among other things, manipulation of the price of copper. We reached settlements with the regulators in the United States and the United Kingdom, and reached settlements or otherwise resolved many of the related civil lawsuits.

We reached a settlement with the plaintiff of a class action suit in Canada in which we are involved as a defendant in December 2005 and a Canadian court approved the settlement on June 19, 2006. As for one individual lawsuit in the U.S., on February 6, 2006, the Court of Appeals for the Seventh Circuit affirmed the decision by the Wisconsin federal court, which granted the motion to dismiss the case, and this decision became final and conclusive as of May 9, 2006 as the plaintiff made no further appeals to the Supreme Court.

Settlement paid and related attorney fees incurred for the year ended March 31, 2006 were included in "Settlements on copper trading litigation" in the accompanying Consolidated Statements of Income.

We and UBS AG (headquarters: Switzerland) reached a settlement of a lawsuit filed by us against UBS AG in relation to the illicit copper trading by our former employee in the Tokyo High Court on April 7, 2006. Under the settlement, UBS AG, without any admission of wrongdoing or unlawful act, paid us the full amount of ¥10 billion ($85 million) on April 27, 2006, which will be recognized in the year ending March 31, 2007.

All litigation resulting from the unauthorized copper trading in which we were involved as a party other than the litigation mentioned above had been resolved by settlement or otherwise by March 31, 2005.

12. NEW ACCOUNTING PRONOUNCEMENTS

In December, 2004, FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29." SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchange of similar productive assets in paragraph 21 (b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for fiscal years beginning after June 15, 2005 and the Companies do not expect the adoption of SFAS No. 153 will have a material impact on the Companies' consolidated financial statements.

In March, 2005, the EITF issued EITF Issue No. 04-6 "Accounting for Stripping Costs Incurred during Production in the Mining Industry." EITF 04-6 provides guidance as to stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred. EITF 04-6 is effective for the first reporting period in fiscal years beginning after December 15, 2005. The Companies are evaluating the effect of impact on the Companies' consolidated financial statements.

In March, 2005, the FASB issued FIN No.47 "Accounting for Conditional Asset Retirement Obligations" which requires conditional asset retirement obligations to be recognized if a legal obligation exists to perform asset retirement activities and a reasonable estimate of the fair value of the obligation exists can be made. FIN 47 also provides guidance as to when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective for fiscal years ending after December 15, 2005. The Companies adopted FIN 47 and there was no material impact on the Companies' consolidated financial statements.

In September, 2005, the EITF issued EITF Issue No. 04-13 "Accounting for Purchases and Sales of Inventory with the Same Counterparty." EITF 04-13 provides guidance as to when purchases and sales of inventory with the same counterparty should be accounted for as a single exchange transaction. EITF 04-13 also provides guidance as to when a nonmonetary exchange of inventory should be accounted for at fair value. EITF 04-13 will be applied to new arrangements entered into, and modifications or renewals of existing arrangements, beginning in the first interim or annual reporting period beginning after March 15, 2006. The application of EITF 04-13 is not expected to have a significant impact on the Companies' consolidated financial statements.

In November, 2005, the FASB issued FSP 115-1 and 124-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments", which addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of the impairment loss. It also requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 and 124-1 is effective for reporting periods beginning after December 15, 2005. The adoption of this FSP is not expected to have a material effect on the Companies' consolidated financial statements.

13. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

In the normal course of business, we are exposed to risks arising from fluctuations in interest and currency exchange rates, commodity prices and equity prices. In order to manage these risks, we use financial and commodity derivative instruments including: foreign exchange forwards, currency swaps and options; interest rate swaps, futures and options; and commodity futures, forwards, swaps, and options. To a lesser degree, we also use derivative commodity instruments for trading purposes within prescribed position limits and loss limits imposed under the risk management structure described below.

Interest Rate Risk

Our business activities expose us to market risks arising from changes in interest rates, which we monitor and take measures to minimize through our Financial Resources Management Group. In particular, interest rate fluctuations will impact our borrowing costs because a significant amount of our outstanding debt instruments are floating rate instruments and because we have short-term borrowings that we refinance from time to time. However, the impact on our borrowing costs will be partially offset by increased returns on some of our assets which will also be impacted by interest rate fluctuations. In addition, we are engaged in financing activities, such as automobile financing, which could be affected by interest rate fluctuations. To manage this risk, we enter into interest rate swap agreements, future contracts and option contracts which serve to modify and match the interest rate characteristics of our assets and liabilities.

Foreign Currency Exchange Rate Risk

The nature of our global operations expose us to market risks caused by fluctuations in foreign currency exchange rates related to imports, exports and financing in currencies other than the local currency. Each business department manages its foreign currency exchange rate risk by entering into internal foreign exchange forward contracts with our Financial Resources Management Group. Through those internal transactions and otherwise, the Financial Resources Management Group monitors the company-wide market risks arising from the changes in foreign exchange rates associated with underlying transactions denominated in foreign currencies. The Financial Resources Management Group enters into foreign exchange forward contracts, currency swap agreements and currency option contracts with third parties for hedging purposes.

Commodity Price Risk

As major participants in global commodity markets, we trade in physical precious and base metals, energy products (crude oil and refined oil products) and agricultural products (wheat, coffee, sugar and others), and utilize a variety of derivatives related to these commodities. Derivatives on those commodities are often used to hedge price movements in the underlying physical transactions. To a lesser degree, we use such instruments for trading purposes within well-defined position limits and loss limits. In addition, we are engaged in mining and oil and gas production operations, which are subject to fluctuations in commodity prices.

Equity Price Risk

We are exposed to equity price risk inherent in stock we hold in financial institutions and our customers and suppliers for strategic purposes and in the other investments held by us. We do not take continuous hedging measures against the market exposures on those securities.

The cost, fair value and unrealized holding net gains on our marketable equity securities as of March 31, 2006 and 2005 were as follows:

The cost, fair value and net unrealized gains on marketable equity securities

	Billions of Yen		Millions of U.S. Dollars
As of March 31,2006 and 2005	**2006**	2005	**2006**
Cost	**¥ 170.9**	¥ 151.3	**$ 1,448**
Fair value	**617.0**	337.4	**5,229**
Net unrealized gains	**446.1**	186.1	**3,781**

Risk Management Structure

Any business department wishing to enter into a derivative transaction or any other type of transaction exposing us to market risk must obtain approval from the President or General Manager, depending on the magnitude of the transaction, before it enters into the transaction. The President or General Manager, as the case may be, reviews requests with the assistance of staff members who have expertise in derivative contracts. The request must identify the counterparty, the applicable market and credit risks and state the objectives of the transaction, the trading limit, and the loss limit amount.

The Financial Resources Management Group provides the following with respect to the execution and monitoring of transactions:

- back office support services for financial and derivative commodity transactions, such as opening accounts, confirming the execution of contracts, processing settlement and delivery of funds, and maintaining accounting records for the transactions;
- confirmation of balances of each transaction position; and
- monitoring of the status of positions and analyzing and calculating the risks of related transactions on a company-wide basis, and issuing periodic reports to our senior management, including semi-annual reports to our board of directors.

Our subsidiaries are required to comply with the risk management structure described above when they execute commodity market transactions.

VaR (Value-at-Risk)

VaR is a statistical measure of the potential maximum loss in the fair value of a portfolio that may result from adverse market movements in underlying risk factors, which is calculated over a defined period and within a certain confidence level. We use the VaR method to measure the market risk for certain market-sensitive commodity transactions and certain financial transactions. The following table sets forth the year-end, high, low, and average VaR figures (which are generally calculated on a three-day holding period) as of the end of each month in the fiscal year ended March 31, 2006:

VaR

	Billions of Yen			
For the years ended March 31, 2006	At year-end	High	Low	Average
	6.7	8.6	5.1	6.6

We estimated VaR during the defined periods using the Monte Carlo simulation method with a confidence level of 99%. As VaR incorporates historical data regarding changes in market risk factors, our actual results may differ materially from the calculations above.

We periodically conduct backtesting in which estimated quantitative risks are compared with actual gains or losses to verify the accuracy of our VaR measurement model. The actual value of gains or losses never exceeded VaR in our backtesting during the twelve months ended December 31, 2005, which was the most recent period for which backtesting was conducted. Based on our backtesting, we believe our VaR model provided reasonably accurate measurements.

CONSOLIDATED BALANCE SHEETS

Sumitomo Corporation and Subsidiaries
As of March 31, 2006 and 2005

ASSETS	Millions of Yen 2006	Millions of Yen 2005	Millions of U.S. Dollars 2006
Current assets:			
Cash and cash equivalents	**¥ 522,000**	¥ 453,891	**$ 4,424**
Time deposits	**8,331**	10,246	**71**
Marketable securities (Notes 5 and 11)	**22,087**	23,154	**187**
Receivables—trade (Notes 6, 11 and 21):			
Notes and loans	**265,022**	307,133	**2,246**
Accounts	**1,646,126**	1,355,706	**13,950**
Associated companies	**98,278**	84,884	**833**
Allowance for doubtful receivables	**(15,335)**	(11,005)	**(130)**
Inventories (Note 7)	**705,257**	503,767	**5,977**
Deferred income taxes (Note 12)	**31,998**	39,161	**271**
Advance payments to suppliers	**50,165**	56,878	**425**
Other current assets (Notes 9 and 13)	**310,411**	271,218	**2,630**
Total current assets	**3,644,340**	3,095,033	**30,884**
Investments and long-term receivables (Notes 6, 11 and 21)**:**			
Investments in and advances to associated companies (Note 8)	**469,482**	394,618	**3,978**
Other investments (Note 5)	**783,015**	502,658	**6,636**
Long-term receivables	**662,075**	620,835	**5,611**
Allowance for doubtful receivables	**(40,703)**	(45,672)	**(345)**
Total investments and long-term receivables	**1,873,869**	1,472,439	**15,880**
Property and equipment, at cost (Notes 9, 11 and 21)	**1,263,682**	1,129,655	**10,709**
Accumulated depreciation	**(444,179)**	(409,263)	**(3,764)**
	819,503	720,392	**6,945**
Prepaid expenses, non-current (Note 13)	**94,710**	94,838	**803**
Deferred income taxes, non-current (Note 12)	**13,511**	10,149	**114**
Goodwill and other intangible assets (Notes 3, 10 and 21)	**259,264**	113,567	**2,197**
Other assets	**6,697**	26,709	**57**
Total (Note 19)	**¥ 6,711,894**	¥ 5,533,127	**$ 56,880**

The accompanying notes to consolidated financial statements are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	2005	Millions of U.S. Dollars 2006
Current liabilities:			
Short-term debt (Note 11)	**¥ 539,567**	¥ 412,217	**$ 4,573**
Current maturities of long-term debt (Note 11)	**428,545**	438,534	**3,632**
Payables—trade (Note 21):			
Notes and acceptances	**93,278**	101,735	**790**
Accounts	**1,070,921**	878,952	**9,076**
Associated companies	**29,713**	18,266	**252**
Income taxes (Note 12)	**33,060**	20,226	**280**
Accrued expenses	**92,975**	60,539	**788**
Advances from customers	**90,483**	85,392	**767**
Other current liabilities (Notes 11, 12 and 22)	**243,972**	182,197	**2,067**
Total current liabilities	**2,622,514**	2,198,058	**22,225**
Long-term debt, less current maturities (Notes 11 and 21)	**2,447,170**	2,213,651	**20,739**
Accrued pension and retirement benefits (Note 13)	**13,180**	11,782	**111**
Deferred income taxes, non-current (Note 12)	**230,364**	85,708	**1,952**
Minority interests	**94,691**	89,037	**802**
Commitments and contingent liabilities (Note 22)			
Shareholders' equity (Notes 14 and 18)**:**			
Common stock — authorized 2,000,000,000 shares; issued 1,250,602,867 and 1,204,608,547 shares in 2006 and 2005, respectively	**219,279**	219,279	**1,858**
Additional paid-in capital	**279,470**	238,859	**2,368**
Retained earnings:			
Appropriated for legal reserve	**17,696**	17,686	**150**
Unappropriated	**579,217**	442,630	**4,909**
	596,913	460,316	**5,059**
Accumulated other comprehensive income (Note 15)	**213,767**	17,083	**1,812**
Treasury stock, at cost: 6,212,224 and 797,043 shares in 2006 and 2005, respectively	**(5,454)**	(646)	**(46)**
Total shareholders' equity	**1,303,975**	934,891	**11,051**
Total	**¥ 6,711,894**	¥ 5,533,127	**$ 56,880**

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Revenues (Note 19):				
Sales of tangible products	**¥ 2,079,576**	¥ 1,586,057	¥ 1,284,117	**$ 17,624**
Sales of services and others	**501,835**	463,242	424,479	**4,252**
Total revenues	**2,581,411**	2,049,299	1,708,596	**21,876**
Cost (Notes 9 and 20):				
Cost of tangible products sold	**1,737,706**	1,361,767	1,097,503	**14,726**
Cost of services and others	**137,058**	124,402	109,761	**1,161**
Total cost	**1,874,764**	1,486,169	1,207,264	**15,887**
Gross profit (Note 19)	**706,647**	563,130	501,332	**5,989**
Other income (expenses):				
Selling, general and administrative expenses (Notes 9, 10 and 13)	**(515,807)**	(437,849)	(422,363)	**(4,371)**
Settlements on copper trading litigation (Note 22)	**(109)**	2,815	(7,139)	**(1)**
Provision for doubtful receivables (Note 6)	**(14,707)**	(12,896)	(8,019)	**(125)**
Impairment losses on long-lived assets (Notes 9 and 10)	**(12,423)**	(29,548)	(5,178)	**(105)**
Gain (loss) on sale of property and equipment, net (Note 9)	**(362)**	11,468	13,320	**(3)**
Interest income	**18,998**	14,562	15,684	**161**
Interest expense	**(38,951)**	(23,207)	(22,058)	**(330)**
Dividends	**10,423**	6,386	6,934	**88**
Other than temporary impairment losses on securities	**(3,723)**	(8,927)	(23,237)	**(32)**
Gain on sale of marketable securities and other investments, net (Note 5)	**43,966**	16,339	39,557	**373**
Gain on issuances of stock by subsidiaries and associated companies (Note 8)	**1,534**	12,603	—	**13**
Equity in earnings of associated companies, net (Notes 8 and 12)	**51,374**	37,387	20,693	**435**
Other, net	**947**	(914)	(491)	**8**
Total other income (expenses)	**(458,840)**	(411,781)	(392,297)	**(3,889)**
Income before income taxes and minority interests in earnings of subsidiaries (Note 12)	**247,807**	151,349	109,035	**2,100**
Income taxes (Note 12)	**80,737**	57,849	35,697	**684**
Income before minority interests in earnings of subsidiaries	**167,070**	93,500	73,338	**1,416**
Minority interests in earnings of subsidiaries, net	**(6,833)**	(8,427)	(6,717)	**(58)**
Net income (Note 19)	**¥ 160,237**	¥ 85,073	¥ 66,621	**$ 1,358**
Total trading transactions* (Note 19)	**¥10,336,265**	¥ 9,898,598	¥ 9,197,882	**$ 87,595**
	Yen			U.S. Dollars
Net income per share of common stock (Note 18):				
Basic	**¥ 130.18**	¥ 72.83	¥ 62.66	**$ 1.10**
Diluted	**130.17**	72.82	61.31	**1.10**

* Total trading transactions represents the gross transaction volume of trading activities, or the nominal aggregate value of the transactions for which the Companies act as principal or as agent. Total trading transactions is a measure commonly used by Japanese trading companies. It is not to be construed as equivalent to, or a substitute for, sales or revenues under accounting principles generally accepted in the United States of America ("U.S. GAAP").

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Common stock:				
Balance, beginning of year	**¥ 219,279**	¥ 169,439	¥ 169,439	**$ 1,858**
Issuance of common stock	**—**	49,840	—	**—**
Balance, end of year	**¥ 219,279**	¥ 219,279	¥ 169,439	**$ 1,858**
Additional paid-in capital:				
Balance, beginning of year	**¥ 238,859**	¥ 189,621	¥ 189,548	**$ 2,024**
Increase due to Share Exchange Agreement (Note 3)	**39,896**	—	—	**338**
Increase due to grant of stock options	**742**	—	—	**6**
Issuance of common stock	**—**	49,199	—	**—**
Gain (loss) on sale of treasury stock	**(27)**	39	73	**(0)**
Balance, end of year	**¥ 279,470**	¥ 238,859	¥ 189,621	**$ 2,368**
Retained earnings:				
Balance, beginning of year	**¥ 460,316**	¥ 383,580	¥ 325,467	**$ 3,901**
Net income	**160,237**	85,073	66,621	**1,358**
Cash dividends	**(22,140)**	(9,070)	(8,508)	**(188)**
Effect of the change in the reporting period of subsidiaries and associated companies	**(1,500)**	733	—	**(12)**
Balance, end of year	**¥ 596,913**	¥ 460,316	¥ 383,580	**$ 5,059**
Accumulated other comprehensive income (loss) (Note 15)**:**				
Balance, beginning of year	**¥ 17,083**	¥ (11,237)	¥ (64,993)	**$ 145**
Other comprehensive income, net of tax	**190,138**	28,274	53,756	**1,611**
Effect of the change in the reporting period of subsidiaries and associated companies	**6,546**	46	—	**56**
Balance, end of year	**¥ 213,767**	¥ 17,083	¥ (11,237)	**$ 1,812**
Treasury stock:				
Balance, beginning of year	**¥ (646)**	¥ (555)	¥ (749)	**$ (5)**
Increase due to Share Exchange Agreement (Note 3)	**(4,625)**	—	—	**(39)**
Disposition (purchase) of treasury stock, net	**(183)**	(91)	194	**(2)**
Balance, end of year	**¥ (5,454)**	¥ (646)	¥ (555)	**$ (46)**
Total	**¥ 1,303,975**	¥ 934,891	¥ 730,848	**$ 11,051**
Comprehensive income:				
Net income	**¥ 160,237**	¥ 85,073	¥ 66,621	**$ 1,358**
Other comprehensive income, net of tax (Note 15)	**190,138**	28,274	53,756	**1,611**
Comprehensive income	**¥ 350,375**	¥ 113,347	¥ 120,377	**$ 2,969**

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Operating activities:				
Net income	**¥ 160,237**	¥ 85,073	¥ 66,621	**$ 1,358**
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization	**94,239**	77,967	81,177	**799**
Provision for doubtful receivables	**14,707**	12,896	8,019	**125**
Impairment losses on long-lived assets	**12,423**	29,548	5,178	**105**
(Gain) loss on sale of property and equipment, net	**362**	(11,468)	(13,320)	**3**
Other than temporary impairment losses on securities	**3,723**	8,927	23,237	**32**
Gain on sale of marketable securities and other investments, net	**(43,966)**	(16,339)	(39,557)	**(373)**
Gain on issuances of stock by subsidiaries and associated companies	**(1,534)**	(12,603)	—	**(13)**
Equity in earnings of associated companies, less dividends received	**(32,114)**	(33,238)	(17,395)	**(272)**
Changes in operating assets and liabilities, excluding effect of acquisitions and divestitures:				
Increase in receivables	**(267,595)**	(245,975)	(108,271)	**(2,268)**
Increase in inventories	**(96,570)**	(90,807)	(3,449)	**(818)**
Increase in payables	**146,392**	139,720	62,027	**1,241**
(Increase) decrease in prepaid expenses	**(18,360)**	28,883	(6,258)	**(156)**
Other, net	**(34,696)**	6,585	3,745	**(294)**
Net cash (used in) provided by operating activities	**(62,752)**	(20,831)	61,754	**(531)**
Investing activities:				
Expenditures for property and equipment	**(188,505)**	(122,062)	(148,212)	**(1,598)**
Proceeds from sale of property and equipment	**163,500**	60,768	79,938	**1,386**
Acquisition of available-for-sale securities	**(63,542)**	(20,183)	(28,700)	**(538)**
Proceeds from sale of available-for-sale securities	**58,381**	30,268	122,959	**495**
Proceeds from maturities of available-for-sale securities	**1,093**	834	4,298	**9**
Acquisition of held-to-maturity securities	**(14,014)**	(1,932)	(2,435)	**(119)**
Proceeds from maturities of held-to-maturity securities	**3,350**	3,632	13,064	**28**
Acquisition of other investments	**(238,692)**	(148,182)	(55,376)	**(2,023)**
Proceeds from sale of other investments	**91,149**	63,958	22,959	**772**
Increase in loans receivable	**(338,038)**	(135,603)	(74,804)	**(2,865)**
Collection of loans receivable	**382,620**	220,017	123,724	**3,243**
Net decrease (increase) in time deposits	**1,270**	(7,348)	514	**11**
Net cash (used in) provided by investing activities	**(141,428)**	(55,833)	57,929	**(1,199)**
Financing activities:				
Net increase (decrease) in short-term debt	**115,389**	(56,911)	(175,757)	**978**
Proceeds from issuance of long-term debt	**728,289**	267,816	466,572	**6,172**
Repayment of long-term debt	**(551,063)**	(193,647)	(305,663)	**(4,670)**
Proceeds from issuance of common stock	**—**	98,625	—	**—**
Cash dividends paid	**(22,140)**	(9,070)	(8,508)	**(188)**
Capital contribution from minority interests	**2,233**	862	549	**19**
Proceeds (repayment) from securities lending activities	**(10,349)**	10,349	—	**(88)**
Acquisition of treasury stock, net	**(214)**	(2,199)	(775)	**(2)**
Net cash provided by (used in) financing activities	**262,145**	115,825	(23,582)	**2,221**
Effect of exchange rate changes on cash and cash equivalents	**8,284**	(844)	(4,885)	**70**
Effect of the change in the reporting period of subsidiaries and associated companies	**1,860**	—	—	**16**
Net increase in cash and cash equivalents	**68,109**	38,317	91,216	**577**
Cash and cash equivalents, beginning of year	**453,891**	415,574	324,358	**3,847**
Cash and cash equivalents, end of year	**¥ 522,000**	¥ 453,891	¥ 415,574	**$ 4,424**

The accompanying notes to consolidated financial statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

1. DESCRIPTION OF BUSINESS

Sumitomo Corporation (the "Company") is an integrated trading company (sogo shosha). The Company and its subsidiaries (together, the "Companies") are engaged in a wide range of business activities on a global basis. The Companies' business foundation consists of trust, global relations with over 100,000 business partners around the world, a global network with offices and subsidiaries worldwide, intellectual capital, and advanced functions in business development, logistic solutions, financial services, IT solutions, risk management and intelligence gathering and analysis. Through integration of these elements, the Companies provide a diverse array of values to our customers. Based on this business foundation and these functions, the Companies engage in general trading of a wide range of goods and commodities and in various business activities. The Companies act as both principal and agent in these trading transactions. The Companies also provide a range of services for a variety of industries, such as: financing for customers and suppliers; planning, coordination and operation of urban and industrial infrastructure projects; consulting in areas such as system integration and technology development; and transportation and logistics. In addition, the Companies engage in other diverse business activities, including investing in a variety of industries ranging from biotechnology to communications; developing natural resources; manufacturing and processing products such as steel products and textiles; developing and managing real estate; and operating retail stores.

The Companies conduct business through nine industry-based business segments and two sets of regional operations (domestic and overseas) that correspond to the operating segments monitored by the chief operating decision makers (see Note 19). The Companies' industry-based business segments are:

- Metal Products
- Transportation & Construction Systems
- Machinery & Electric
- Media, Electronics & Network
- Chemical
- Mineral Resources & Energy
- Consumer Goods & Service
- Materials & Real Estate
- Financial & Logistics

Each business segment operates with a degree of autonomy in pursuing strategic goals, managing operations and ensuring accountability.

"Trading" as used in the following descriptions of the Companies' industry-based business segments represents sales transactions where the business segment acts as a principal or an agent. See revenue recognition discussed in Note 2 (o).

Metal Products— The Metal Products Business Unit segment engages in global trading involving ferrous and non-ferrous metal products and investment in processing and manufacturing. In steel sheets and tubular products business, we are offering supply chain management (SCM) services in response to the customer's precise needs. This segment is comprised of three Iron Steel Divisions, the Tubular Products Division, the Metal Products for Automotive Industries Division and the Non-Ferrous Products & Metals Division.

Transportation & Construction Systems— The Transportation & Construction Systems Business Unit segment engages in global transactions involving ships, aircraft, transportation systems, motor vehicles, construction equipment and related components and parts. Activities of this segment range from trading, leasing and financing to designing and arranging the construction of public transportation systems. This segment consists of the Ship, Aerospace & Transportation Systems Division, Automotive Division and the Construction & Mining Systems Division.

Machinery & Electric— The Machinery & Electric Business Unit segment engages in a wide range of large-scale infrastructure development projects relating to, among other things, power generation, telecommunications facilities, water and sewage facilities and natural gas and oil pipelines. Activities of this segment include planning, developing and managing as well as investing in and financing, infrastructure projects in emerging markets and supplying manufacturing equipment and systems for various domestic industries. This segment is also engaged in trading and investing in businesses such as telecommunications and information technology, energy-saving and environment-friendly technology, and medical and life science products. This segment consists of the E & M (Electric and Machinery) New Business Development Division, the Power & Energy Project Division and the Information, Telecommunication & Industrial Project Division.

Media, Electronics & Network— The Media, Electronics & Network Business Unit segment engages in a range of media and communications activities, including cable TV operations; production and distribution of programming and content; and development and sales of telecommunications and electronics equipment and related components, systems and devices. In addition to the Companies' investments, the Companies provide services such as marketing and strategic development, technology transfer and manufacturing and engineering support. The Companies also supply various materials and components to electronics manufacturers, including silicon wafers, LED chips and assembled printed circuit boards. This segment consists of the Media Division, the Network Division and the Electronics Division.

Chemical— The Chemical Business Unit segment engages in the trading of source materials, products and semi-finished goods involving synthetic resins and organic chemicals, and also partakes in businesses relating to inorganic chemicals, electronic and performance chemicals, pharmaceuticals, medical services, agricultural chemicals and pet supplies. Activities of this segment also include research and development of life science products and investment in and financing of new ventures.

This segment consists of the Basic & Performance Chemicals Division and the Life Science Division.

Mineral Resources & Energy— The Mineral Resources & Energy Business Unit segment develops and trades various mineral and energy sources including coal, iron ore, non-ferrous metal, noble metal, petroleum, natural gas and liquefied natural gas (LNG). This segment also trades ferrous and non-ferrous raw materials, petroleum products, liquefied petroleum gas (LPG), solar and storage batteries, carbon products and nuclear fuels. This segment consists of two Mineral Resources Divisions and the Energy Division.

Consumer Goods & Service— The Consumer Goods & Service Business Unit segment engages in trading, production, processing, distribution of food commodities, textiles, clothing and other consumer goods. In addition, activities of this segment include the distribution of fertilizers and the operation of retail businesses such as supermarkets, drugstores, direct-marketing and a high-end brand name clothing and accessories. This segment consists of the Food Business Division and the Lifestyle & Retail Business Division.

Materials & Real Estate— The Materials & Real Estate Business Unit segment engages in trading, marketing and distribution of raw materials and other products such as cement, timber, wood-chips, paper pulp, used paper and tires, and in manufacturing and sale of ready-mixed concrete and building materials. This segment is also engaged in a variety of real estate activities relating to office buildings and commercial and residential real property. This segment consists of the Materials & Supplies Division and the Construction & Real Estate Division.

Financial & Logistics— Financial & Logistics Business Unit segment engages in such finance-related businesses as commodity futures trading, derivative transactions, private equity investments, mergers and acquisition-related activities, consumer and small-business financing, and the development and marketing of alternative investment instruments, and in logistics services ranging from delivery, customs clearance and transportation services to the development and operation of industrial parks. Acting as a broker, this segment also arranges for insurance in connection with trading conducted by other business segments. This segment consists of the Financial Service Division and the Logistics & Insurance Business Division.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Principles of Presentation and Consolidation

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into United States dollars for the year ended March 31, 2006 is included solely for the convenience of readers and has been made at the rate of ¥118 = U.S. $1, the approximate exchange rate prevailing at the Federal Reserve Bank of New York on March 31, 2006. Such translation should not be construed as a representation that the Japanese yen amounts have been, or could in the future be converted into United States dollars at that or any other rate.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company and most of its subsidiaries' accounting records are maintained principally in accordance with accounting practices prevailing in the countries of domicile. Adjustments to those records have been made to present these consolidated financial statements in accordance with U.S. GAAP. The significant adjustments include those relating to the accounting for the valuation of certain investment securities, pension costs, accrual of certain expenses and losses, derivative instruments and hedging activities, leases, business combinations, and deferred taxes.

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Associated companies consist of companies and corporate joint ventures owned 20% to 50%, or those owned less than 20% in the case where the Companies have the ability to exercise significant influence over operating and financial policies. Investments in associated companies are accounted for by the equity method. All significant intercompany accounts and transactions have been eliminated. The accounts of certain subsidiaries that have a fiscal year end within three months prior to March 31 have been included in the consolidated financial statements based on their fiscal year. A loss in value of an investment that is other than a temporary decline is recognized.

During the fiscal year ended March 31, 2006 and 2005, some subsidiaries and associated companies changed their reporting periods to March 31. The effect of these changes was included in the accompanying Consolidated Statements of Shareholders' Equity and Comprehensive Income and of Cash Flows classified as "Effect of the change in the reporting period of subsidiaries and associated companies."

The Companies also consolidate variable interest entities for which they are the primary beneficiary, in accordance with FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities ("FIN 46R")."

(b) Cash Equivalents

The Companies consider highly liquid investments, including short-term time deposits, with an original maturity of three months or less, to be cash equivalents.

(c) Foreign Currency Translation

The Company's functional and reporting currency is Japanese yen. Under the provision of Statements of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Transactions," assets and liabilities denominated in foreign currencies are translated into Japanese yen at the respective year-end exchange rates. All income and expense accounts are translated at the average rates of exchange prevailing during each fiscal year in consolidating the financial statements of overseas subsidiaries whose functional currency is other than Japanese yen. The resulting accumulated translation adjustments are included in a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. All foreign currency transaction gains and losses are included in income in the period incurred.

(d) Inventories

Inventories mainly consist of commodities, materials and real estate held for development and resale. The cost of inventories is determined based on the moving average basis or specific-identification basis. Precious metals that have immediate marketability at quoted market prices are valued at market value with unrealized gains and losses included in earnings. Other commodities and materials are stated at the lower of average cost or market. Real estate held for development and resale are stated at the lower of cost or net realizable value.

(e) Marketable Securities and Other Investments

Marketable equity securities and all debt securities

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" requires all investments in debt and marketable equity securities to be classified as either trading, available-for-sale, or held-to-maturity securities. All of the Companies' investments in debt securities and marketable equity securities are classified as either (i) trading securities, which are accounted for at fair value with unrealized gains and losses included in earnings, (ii) available-for-sale securities, which are accounted for at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of accumulated other comprehensive income (loss), net of related taxes in the accompanying consolidated balance sheets, or (iii) held-to-maturity securities, which are accounted for at amortized cost. Those securities that mature or are expected to be sold in one year are classified as current assets.

A decline in fair value of any available-for-sale or held-to-maturity security below the amortized cost basis that is deemed to be other than temporary results in a write-down of the amortized cost basis to fair value as a new cost basis and the amount of the write-down is included in earnings. Impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment. Fair value is determined based on quoted market prices.

On a continuous basis, but no less frequently than at the end of each semi-annual period, the Companies evaluate the cost basis of available-for-sale securities and held-to-maturity security for possible impairment. Factors considered in assessing whether an indication of other than temporary impairment exists include: the degree of change in the ratio of market prices per share to book value per share at date of evaluation compared to that at date of acquisition, the financial condition and prospects of each investee company, industry conditions in which the investee company operates, the fair value of an available-for-sale security relative to the cost basis of the investment, the period of time the fair value of an available-for-sale security has been below the cost basis of the investment and other relevant factors.

The cost of securities sold is determined based on the average cost of all the shares of such security held at the time of sale.

Other investments

Non-marketable equity securities held as investments are carried at cost. Management semi-annually assesses the result of the underlying companies, the performance of the underlying companies relative to plan, industry conditions, financial condition and prospects and determines whether any events or changes in circumstances that might have a significant adverse effect on fair value are identified. When events or changes in circumstances that might have a significant adverse effect on fair value are identified, management assesses whether the fair value of the investment has declined below its carrying amount. If a decline in fair value below cost is judged to be other than temporary, after considering the period of time that the estimated fair value has been below the carrying amount of the investment, the carrying value of the investment is written down to its estimated fair value. Fair value is determined based on analysis of discounted estimated cash flows, valuation models based on revenues, profitability and net worth, market value of comparable companies, and other valuation approaches.

(f) Allowance for Doubtful Receivables

An allowance for doubtful receivables is maintained at the level which, in the judgment of management, is adequate to provide for probable losses that can be reasonably estimated. Management considers individual customers' risk factors such as historical performance, recent developments, changes in original terms, internal risk-ratings, industry trends, and other specific factors applicable to the customer as well as general risk factors including, but not limited to, sovereign risk of the country where the customer resides.

The Companies maintain a specific allowance for impaired loans. A loan is considered impaired pursuant to SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." Pursuant to SFAS No. 114, a loan is impaired if it is probable that the Companies will not collect all principal and interest due. An impairment allowance is recognized equal to the difference between the loan's book value and either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price if available, or the fair value of collateral if the loan is collateral dependent. In addition to the specific allowance, an allowance is established for probable losses that are not individually identified but are expected to have occurred that are inherent in portfolios of similar loans. This allowance for losses is based on relevant observable data that include, but are not limited to, historical experience, delinquencies, loan stratification by portfolio, and when applicable, geography, collateral type, and size of the loan balance. Past due balances are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(g) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation of buildings, including leasehold improvements, is computed principally under the straight-line method. Depreciation of Machinery and equipment is computed under the straight-line method or the declining-balance method. Depreciation of mineral rights is computed under the units-of-production over the estimated proven and probable reserve tons.

SFAS No. 143, "Accounting for Asset Retirement Obligations" addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company records the fair value of an asset retirement obligation as a liability with the corresponding increases to the carrying amount of the long lived assets that are amortized over the life of the assets. The liability is adjusted each period to reflect the passage of time and changes in the estimates.

(h) Impairment of Long-Lived Assets

Long-lived assets and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of the asset to estimated undiscounted future cash flows without interest expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair values are determined based on market values, appraisal or discounted future cash flows based on realistic assumptions less costs to sell.

Assets to be disposed of are reported separately in the balance sheet at the lower of the carrying amount or fair value less cost to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(i) Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquired entity over the net of the amount assigned to assets acquired and liabilities assumed. SFAS No. 141, "Business Combinations" requires that all business combinations are accounted for by the purchase method. Under SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized and instead requires annual impairment testing thereof at least annually. Intangible assets with a definite useful life are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144. Intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment based on fair value at least annually until the remaining life would be determined to no longer be indefinite.

Goodwill and intangible assets not subject to amortization are tested for impairment at the reporting unit level at least annually, or more often if events or circumstances, such as adverse changes in the business climate, indicate that there may be impairment.

(j) Stock Option Plan

The Company has stock option plans as incentive plans for directors, executive officers, and corporate officers under the Company's qualification system.

The Company accounted for these arrangements under SFAS No. 123, "Accounting for Stock-Based Compensation," amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123," through June 30, 2005. SFAS No. 123 gave entities a choice of recognizing compensation expense related to the granted of stock options by either adopting a fair value method or continuing to measure compensation using the intrinsic value approach under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations including FIN No. 44, "Accounting for Certain Transactions involving Stock Compensation." The Company chose to continue using the intrinsic-value-based method of accounting prescribed by APB Opinion No. 25 for fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the market price of the underlying common stock exceeds the exercise price on the date of grant. No such compensation expense was incurred for the three months ended June 30, 2005 and the years ended March 31, 2005 and 2004. Had compensation expense for the Company's stock option plans been determined through June 30, 2005 using the fair value method of SFAS No. 123, as amended, the Companies' net income and net income per share for the years ended March 31, 2006, 2005 and 2004 would have been as follows:

		Millions of Yen			Millions of U.S. Dollars
		2006	2005	2004	**2006**
Net income:	As reported	**¥ 160,237**	¥ 85,073	¥ 66,621	**$ 1,358**
	Deduct: Total stock-based compensation cost determined under fair value method for all awards	**—**	(37)	(35)	**—**
	Pro forma	**¥ 160,237**	¥ 85,036	¥ 66,586	**$ 1,358**

		Yen			U.S. Dollars
		2006	2005	2004	**2006**
Basic net income per share:	As reported	**¥ 130.18**	¥ 72.83	¥ 62.66	**$ 1.10**
	Pro forma	**130.18**	72.80	62.63	**1.10**
Diluted net income per share:	As reported	**130.17**	72.82	61.31	**1.10**
	Pro forma	**130.17**	72.79	61.27	**1.10**

The fair value of these stock options was estimated using the Black-Scholes option pricing model with the following weighted-average valuation assumption:

	2006	2005	2004
Expected life	**—**	4.5 years	4.5 years
Risk-free rate	**—**	0.97%	0.36%
Expected volatility	**—**	39.23%	43.56%
Expected dividend yield	**—**	0.96%	0.91%

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. This statement is a revision of SFAS No. 123 and supersedes APB Opinion No. 25, and its related implementation guidance. SFAS No. 123R requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock options. Incremental compensation costs arising from subsequent modifications of awards after the grant date must also be recognized. The Company adopted SFAS No. 123R effective July 1, 2005 under the modified prospective method of application. Under this method, compensation expense for stock options granted or modified after June 30, 2005 is recognized based on SFAS No. 123R. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of July 1, 2005 is recognized in accordance with SFAS No. 123R as the requisite service is rendered on or after that date. The adoption of SFAS No. 123R decreased income before minority interests in earnings of subsidiaries and net income by ¥45 million ($0 million).

The fair value of stock options that were granted after June 30, 2005, was estimated using the Black-Scholes option pricing model with the following weighted-average valuation assumptions:

	2006
Expected life	**4.5 years**
Risk-free rate	**0.43%**
Expected volatility	**34.64%**
Expected dividend yield	**1.00%**

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

(l) Derivative Instruments and Hedging Activities

The Companies account for derivatives and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities," as amended, which requires that all derivative instruments be recorded on the accompanying consolidated balance sheets at their respective fair values. The Companies utilize derivative instruments to manage interest rate risk, foreign currency risk and the risk of the price fluctuation of commodity inventories and trading commitments. The primary derivative instruments used by the Companies include foreign exchange forward contracts, currency swaps, interest rate swaps and commodity future contracts.

On the date a derivative contract is entered into, the Companies designate the derivative as either a hedge of the fair value of a recognized asset or liability (fair-value hedge), a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge), or a hedge of a net investment in a foreign operation. For all hedging relationships the Companies formally document the hedging relationship and their risk-management objective and strategy for undertaking the hedge, the hedging instrument, the item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring effectiveness and ineffectiveness. This process includes linking all derivatives that are designated as hedges to specific assets and liabilities on the accompanying consolidated balance sheets. The Companies also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income (loss) on the accompanying consolidated balance sheets to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. If a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair value, to the extent effective as a hedge, are recorded in the cumulative translation adjustments account within other comprehensive income (loss). The ineffective portion of the change in fair value of a derivative instrument that qualifies as either a fair-value hedge, a cash-flow hedge or a hedge of a net investment in foreign operation is reported in earnings. Changes in the fair value of derivative trading instruments are reported in current period earnings.

The Companies discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, or the derivative is de-designated as a hedging instrument, because management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Companies continue to carry the derivative on the accompanying consolidated balance sheets at its fair value and no longer adjust the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. In all other situations in which hedge accounting is discontinued, the Companies continue to carry the derivative at its fair value on the accompanying consolidated balance sheets and recognize any subsequent changes in its fair value in earnings.

(m) Use of Estimates in the Preparation of the Financial Statements

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with U.S. GAAP. Significant items subject to such estimates and assumptions include the allowance for doubtful receivables, inventories, investments, impairment of long-lived assets, deferred income taxes and contingencies. Actual results could differ from those estimates.

(n) Net Income per Share

Net income per share is presented in accordance with the provisions of SFAS No. 128, "Earnings per Share." Under SFAS No. 128, basic net income per share excludes dilution for potential common shares and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares.

(o) Revenue Recognition

The Companies recognize revenue when it is realized or realizable and earned. The Companies consider revenue realized or realizable and earned when it has 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.

The Companies also enter into transactions that include multiple element arrangements, which may include any combination of products, equipment, and installation services. In accordance with the FASB's EITF No. 00-21, "Guide to Accounting for Revenue Arrangements with Multiple Deliverables," if certain elements are delivered prior to others in the arrangement, revenue is deferred until the delivery of the last element, unless transactions are such that the price of a deliverable, when it is regularly sold on a standalone basis of the undelivered elements, is available and the functionality of the delivered element is not dependent on the undelivered elements. The Companies allocate revenue involving multiple elements to each element based on its relative fair value.

Gross versus Net. In the normal course of business, the Companies frequently act as an intermediary or agent in executing transactions with third parties. In these arrangements, the Companies determine whether to report revenue based on the "gross" amount billed to the ultimate customer for goods or services provided or on the "net" amount received from the customer after commissions and other payments to third parties. However, the amounts of gross profit and net income are not affected by whether revenue is reported on a gross or net basis.

Determining whether revenue should be reported gross or net is based on an assessment of whether the Companies are acting as a "principal" or an "agent" in a transaction. Accordingly, to the extent that the Companies are acting as a principal in a transaction, the Companies report revenue on a gross basis and to the extent that the Companies are acting as an agent in a transaction, the Companies report revenue on a net basis. The determination of whether the Companies are acting as a principal or an agent in a transaction involves judgment and is based on an evaluation of the terms of an arrangement.

Factors that indicate that the Companies act as a principal, and thus recognize revenue on a gross basis include: (i) the Companies are the primary obligor in the arrangement, (ii) the Companies have general inventory risk (before customer order is placed or upon customer return), (iii) the Companies have physical loss inventory risk (after customer order or during shipping), (iv) the Companies have latitude in establishing price, (v) the Companies change the product or perform part of the services, (vi) the Companies have discretion in supplier selection, (vii) the Companies are involved in the determination of product or service specifications, and (viii) the Companies have credit risk.

Factors that indicate that the Companies act as an agent, and thus recognize revenue on a net basis relative to the service offered include: (i) the supplier (not the Companies) is the primary obligor in the arrangement, (ii) the amount the Companies earn is fixed, and (iii) the supplier (not the Companies) has credit risk.

Revenue from sales of tangible products

The Companies generate revenue from sales of tangible products (i) in connection with the Companies' wholesale, retail, manufacturing and processing operations, (ii) in connection with the Companies' real estate operations, and (iii) under long-term construction type arrangements.

The Companies recognize revenue from sales of tangible products in connection with the Companies' wholesale, retail, manufacturing and processing operations when title and risk of loss have been transferred to the customer. Depending upon the terms of the contract, this may occur at the time of delivery or shipment or upon the attainment of customer acceptance. The conditions of acceptance are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specifications are not recognized as revenue until the attainment of customer acceptance. The Companies' policy is not to accept product returns unless the products are defective. The Companies have no material exposure to losses under warranty provisions on transactions with which the Companies are involved. Such losses are recognized when probable and estimable. The effects of rebate and discount programs are recognized as a reduction of revenue. The effects of such programs are not material. The Companies recognize revenue upon delivery, shipment, or upon the attainment of customer acceptance for steel service center operations in which the Companies process and cut steel sheets to customer specifications [Metal Products], dealership operations in which the Companies sell automobiles to general consumers and distribute construction equipment and machinery to construction companies [Transportation & Construction Systems], plastic products [Chemical], service station operations in which the Companies provide petroleum for automobiles [Mineral Resources & Energy], and retail business operations such as supermarkets and drugstores [Consumer Goods & Service].

Revenues from sale of land, office-buildings, and condominiums are recognized using the full accrual method provided that various criteria relating to the terms of the transactions are met. These criteria deal with whether (i) a sale is consummated, (ii) the buyer's initial and continuing investments are adequate, (iii) the seller's receivable is not subject to future subordination, and (iv) the seller has transferred to the buyer the usual risks and rewards of ownership and does not have a substantial continuing involvement with the property. Revenues relating to transactions that do not meet the established criteria are deferred and recognized when the criteria are met or using the installment or cost recovery methods as appropriate in the circumstances.

The Companies generate revenue from sales of tangible products under long-term construction type arrangements, principally in connection with the construction of power plants in which the Companies provide engineering, procurement and construction [Machinery & Electric] under the percentage-of-completion method as prescribed by AICPA Statement of Position ("SOP") No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Progress toward completion is measured using the cost-to-cost method. Under the cost-to-cost method, revenues are recognized based on the ratio that costs incurred bear to total estimated costs. The Companies review cost performance and estimate to complete projections on its contracts at least quarterly, and in many cases, more frequently. The impact of revisions of profit estimates on fixed price contracts are recognized in the period in which the revisions are made. Anticipated losses on fixed price contracts are charged to earnings when such losses can be estimated. Provisions are made for contingencies in the period in which they become known pursuant to specific contract terms and conditions are estimable.

Revenue from sales of services and others

The Companies also generate revenue from sales of services and others in connection with (i) customized software development services contracts and other software related services, (ii) direct financing and operating leases of automobiles, vessels, and aircrafts, and (iii) all other service arrangements such as arranging finance and coordinating logistics in connection with trading activities.

The Companies recognize revenue from customized software development services contracts and other software related services in accordance with the provisions of SOP No. 97-2, "Software Revenue Recognition," as amended by SOP No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition, With Respect to Certain Transactions." Revenue from the customized software services contracts that require the Companies to develop, manufacture or modify information technology (IT) systems to a customer's specification, and to provide services related to the performance of such contracts, is recognized upon customer acceptance if pricing is fixed and determinable and collectibility is probable. The terms of such service contracts are less than one year. Revenue from maintenance is recognized over the contractual period or as the services are performed [Media, Electronics & Network].

The Companies recognize revenue from direct financing leases using methods that approximate the interest method. Related origination and other non-refundable fees and direct origination costs are deferred and amortized as an adjustment of interest and direct financing lease income over the contractual lines of the arrangements. Rental income on operating leases is recognized on an accrual basis.

The accrual of interest income on direct financing leases is generally suspended and an account placed on non-accrual status when payment of principal on interest is contractually delinquent for ninety days or more, or earlier when in the opinion of management, full collection of principal and interest is doubtful. To the extent that the estimated value of collateral does not satisfy both the principal and accrued income receivables, previously accrued interest is reversed. Proceeds received on non-accrued loans are applied to the outstanding principal balance until such time as the outstanding receivable is collected, charged off, on returned to accrual status.

Direct financing leases are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Operating lease equipment is carried at cost less accumulated depreciation and is depreciated to estimated residual value using the straight-line method over the projected economic life of the asset. Equipment acquired in satisfaction of loans and subsequently placed on operating lease is recorded at the lower of carrying value or estimated fair value when acquired. Management performs periodic reviews of the estimated residual values and recognizes impairment losses in the period they are determined to occur. The Companies recognize revenue from operating leases in connection with automobiles leased to consumers, vessels leased to shipping companies, aircrafts leased to airlines [Transportation & Construction Systems], and rental of commercial real estate [Materials & Real Estate].

Revenue from all other service arrangements include transactions in which the Companies act between customer and supplier as agent or broker to provide such services as arranging finance or coordinating logistics in connection with trading activities. Such revenues are recognized when the contracted services are rendered to third-party customers.

Total trading transactions

Total trading transactions is a voluntary disclosure and represents the gross transaction volume of trading transactions, or the nominal aggregate value of the transactions for which the Companies act as principal or as agent. Total trading transactions is not meant to represent sales or revenues in accordance with U.S. GAAP. Total trading transactions should not be construed as equivalent to, or a substitute or proxy for, revenues, or as an indicator of our operating performance, liquidity or cash flows generated by operating, investing or financing activities. A substantial part of total trading transactions represents transactions in which the Companies participate without physical acquisition of goods or without significant inventory risk. The Companies have included the information concerning total trading transactions because it is used by similar Japanese trading companies as an industry benchmark, and the Companies believe it is a useful supplement to results of operations data as a measure of the Companies' performance compared to other similar Japanese trading companies.

(p) Issuance of Stock by Subsidiaries and Associated Companies

The Company recognizes a gain or loss when a subsidiary or an associated company issues its shares to third parties at amounts in excess or less than the Company's average carrying value. Such a gain or loss is recognized only when the realization of a gain or loss is reasonably assured and the value of the proceeds can be objectively determined.

(q) Capitalized Software Costs

The Companies capitalize certain costs incurred to purchase or develop software for internal-use. Costs incurred to develop software for internal-use are expensed as incurred during the preliminary project stage, which includes costs for making strategic decisions about the project, determining performance and system requirements and vendor demonstration cost. Costs incurred subsequent to the preliminary project stage through implementation are capitalized. The Companies also expense costs incurred for internal-use software projects in the post implement stage such as costs for training and maintenance.

Costs incurred to develop software to be sold are capitalized subsequent to the attainment of technological feasibility in the form of detailed program design. Those costs include coding and testing performed subsequent to establishing technological feasibility. Costs incurred prior to reaching technological feasibility are expensed as incurred. Capitalized software costs are amortized on a product-by-product basis. The annual amortization is the greater of the amount computed using (i) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (ii) the straight-line method over the remaining estimated economic life of the product including the period being reported on. Amortization starts when the product is available for general release to customers.

(r) New Accounting Standards

In December, 2004, FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets — an amendment of APB Opinion No. 29." SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchange of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for fiscal years beginning after June 15, 2005 and the Companies do not expect the adoption of SFAS No. 153 will have a material impact on the Companies' consolidated financial statements.

In March, 2005, the EITF issued EITF Issue No. 04-6 "Accounting for Stripping Costs Incurred during Production in the Mining Industry." EITF 04-6 provides guidance as to stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred. EITF 04-6 is effective for the first reporting period in fiscal years beginning after December 15, 2005. The Companies are evaluating the effect of impact on the Companies' consolidated financial statements.

In March, 2005, the FASB issued FIN No.47 "Accounting for Conditional Asset Retirement Obligations" which requires conditional asset retirement obligations to be recognized if a legal obligation exists to perform asset retirement activities and a reasonable estimate of the fair value of the obligation exists can be made. FIN 47 also provides guidance as to when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective for fiscal years ending after December 15, 2005. The Companies adopted FIN 47 and there was no material impact on the Companies' consolidated financial statements.

In September, 2005, the EITF issued EITF Issue No. 04-13 "Accounting for Purchases and Sales of Inventory with the Same Counterparty." EITF 04-13 provides guidance as to when purchases and sales of inventory with the same counterparty should be accounted for as a single exchange transaction. EITF 04-13 also provides guidance as to when a nonmonetary exchange of inventory should be accounted for at fair value. EITF 04-13 will be applied to new arrangements entered into, and modifications or renewals of existing arrangements, beginning in the first interim or annual reporting period beginning after March 15, 2006. The application of EITF 04-13 is not expected to have a significant impact on the Companies' consolidated financial statements.

In November, 2005, the FASB issued FSP 115-1 and 124-1, "The Meaning of Other-Than Temporary Impairment and its Application to Certain Investments," which addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of the impairment loss. It also requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 and 124-1 is effective for reporting periods beginning after December 15, 2005. The adoption of this FSP is not expected to have a material effect on the Companies' consolidated financial statements.

(s) Reclassifications

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation.

3. AQUISITIONS

2006

On April 28, 2005, the Company entered into a Share Exchange Agreement with Sumisho Auto Leasing Corporation (“SAL”), a majority-owned subsidiary, pursuant to which the Company exchanged shares of the Company for shares of SAL held by minority shareholders (included Sumisho Lease Co.,Ltd, an associated company). SAL became a wholly-owned subsidiary of the Company. The share exchange was consummated on August 2, 2005, and was implemented in accordance with Article 358 of the Code. For each SAL share, 5.03 shares of the Company were allotted. In connection with the share exchange, the Company issued 45,994,320 new shares. There was no increase in the Companies’ “Common stock” but there was an increase of ¥39,896 million ($338 million) in the Companies’ “Additional paid-in capital” on the Consolidated Balance Sheets as a result of the share exchange.

In connection with this purchase, ¥13,863 million ($117 million) and ¥13,795 million ($117 million) were assigned to intangible assets subject to amortization and goodwill, respectively. The intangible assets subject to amortization consist primarily of customer relationships, trademarks, and lease agreements with the weighted-average amortization period of 13 years.

On September 18, 2005, the Company and Sumitomo Corporation of America (“SCOA”), its U.S. subsidiary, entered into an agreement to purchase TBC Corporation (“TBC”), one of the leading marketers of automotive replacement tires in the U.S., from its shareholders, for approximately $1.1 billion. The purchase was consummated on November 17, 2005. As of March 31, 2006, the Company had a 100% ownership of the voting shares of TBC, including a 60% ownership interest held directly by SCOA.

TBC is a U.S. tire wholesaler and retailer founded in 1956. TBC engages in the retail chain business and franchise outlets throughout the U.S. as well as the wholesales business. TBC is the nation’s largest independent marketer of tire. The company has been engaged in the tire wholesale business through SCOA and Treadways Corporation, a wholly owned subsidiary. The purpose of the acquisition is to greatly expand our tire business in the retail market, where we see substantial opportunities for growth and profitability.

The accompanying consolidated financial statements for the year ended March 31, 2006 include the operating results of TBC from the date of purchase.

In connection with this purchase, ¥49,867 million ($423 million) and ¥49,577 million ($420 million) were assigned to intangible assets subject to amortization and goodwill, respectively. The intangible assets subject to amortization consist primarily of trademarks, sales licenses and customer relationships with the weighted-average amortization period of 25 years.

The following table summarizes the estimated fair values of the assets purchased and liabilities assumed at the date of purchase.

	Millions of Yen	Millions of U.S. Dollars
Current assets	**¥ 63,883**	**$ 541**
Property and equipment	**17,924**	**152**
Goodwill and other intangible assets	**99,444**	**843**
Other assets	**3,805**	**32**
Total assets purchased	**185,056**	**1,568**
Current liabilities	**(32,725)**	**(277)**
Non-current liabilities	**(19,673)**	**(167)**
Total liabilities assumed	**(52,398)**	**(444)**
Net assets purchased	**¥ 132,658**	**$ 1,124**

Pro forma results of operations for the above business combination have not been presented because the effects were not material to the Companies’ consolidated financial statements.

For the year ended March 31, 2006, other than SAL and TBC acquisitions, the Companies made additional significant business acquisitions of an aggregate purchase amount of ¥29,580 million ($251 million) with respect to eleven companies, including operations such as the steel pipe distributor in U.S., the manufacturing and sales of fertilizers in Australia, a cinema complex business, and a coil center. In connection with these business combinations, ¥10,112 million ($86 million) and ¥5,564 million ($47 million) were recognized in other intangible assets and goodwill, respectively. The intangible assets subject to amortization consist primarily of sales licenses, trademarks and customer relationships

The Companies recognized preliminary estimates with respect to the value of the underlying net assets of the above acquisitions in determining amounts of goodwill. The amount of goodwill may be adjusted upon completion of the purchase price allocation.

2005

On May 27, 2004, the Company and SCOA entered into an agreement to purchase JWC Hartz Holdings, Inc., the holding company of The Hartz Mountain Corporation ("Hartz"), a U.S. pet supplies company, from J. W. Childs Equity Partners II, L.P., for approximately $400 million. The purchase was consummated on June 21, 2004. After this purchase, Hartz merged with JWC Hartz Holdings, Inc. As of March 31, 2005, the Company had a 96.3% ownership of the voting shares of Hartz, including a 56.3% ownership interest held directly by SCOA.

Hartz produces and sells pet supplies, with six manufacturing facilities in the U.S. and Brazil and three distribution centers in North America. This purchase provides the Companies an entry into the U.S. pet supplies business and a base for further development of that business in Japan, Europe, and the Americas, taking advantage of the Companies' international distribution and sourcing capabilities.

The consolidated financial statements for the year ended March 31, 2005 include the operating results of Hartz from the date of purchase.

In connection with this purchase, ¥4,458 million, ¥14,060 million and ¥10,701 million were assigned to intangible assets subject to amortization, intangible assets not subject to amortization and goodwill, respectively. The intangible assets subject to amortization consist primarily of sales licenses of ¥3,409 million with an amortization period of 15 years. The intangible assets not subject to amortization consist of trademarks of ¥14,060 million.

The following table summarizes the estimated fair values of the assets purchased and liabilities assumed at the date of purchase.

	Millions of Yen
Current assets	¥ 11,472
Property and equipment	6,315
Goodwill and other intangible assets	29,219
Other assets	1,931
Total assets purchased	48,937
Current liabilities	(6,026)
Total liabilities assumed	(6,026)
Net assets purchased	¥ 42,911

Pro forma results of operations for the above business combination have not been presented because the effects were not material to the Companies' consolidated financial statements.

For the year ended March 31, 2005, other than Hartz acquisition, the Companies made additional significant business acquisitions of an aggregate purchase amount of ¥36,548 million with respect to nine companies, including operations such as the exclusive distributor in Japan for a German luxury chenille fabrics brand, the manufacturing and sales of automotive parts, the rights to oil fields in the British waters of the North Sea, and a cinema complex business. In connection with these business combinations, ¥7,742 million, ¥ 3,195 million and ¥1,824 million were recognized in import and sales licenses, other intangible assets and goodwill, respectively.

The Companies recognized preliminary estimates with respect to the value of the underlying net assets of the above acquisitions in determining amounts of goodwill. The amount of goodwill may be adjusted upon completion of the purchase price allocation.

4. CASH FLOW INFORMATION

Supplemental disclosure of cash flow information for the years ended March 31, 2006, 2005 and 2004 is as follows:

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Cash paid during the year for:				
Interest	**¥ 37,483**	¥ 22,178	¥ 21,825	**$ 318**
Income taxes	**52,541**	34,884	25,487	**445**
Non-cash investing and financing activities:				
Capital lease obligations incurred	**30,398**	13,155	9,865	**258**
Fair value of securities transferred to employee pension trust	**—**	—	9,505	**—**
Stock issued under Share Exchange Agreement (Note 3)	**39,896**	—	—	**338**
Acquisition of subsidiaries:				
Fair value of assets acquired	**266,916**	137,063	48,398	**2,262**
Fair value of liabilities assumed	**96,206**	62,191	38,566	**815**
Minority interests assumed	**6,056**	1,250	1,318	**51**
Cash paid, net	**(164,654)**	(73,622)	(8,514)	**(1,395)**

5. MARKETABLE SECURITIES AND OTHER INVESTMENTS

Marketable securities and other investments as of March 31, 2006 and 2005 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Marketable securities-current:			
Trading	**¥ 19,248**	¥ 5,183	**$ 163**
Available-for-sale	**678**	15,461	**6**
Held-to-maturity	**2,161**	2,510	**18**
	¥ 22,087	¥ 23,154	**$ 187**

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Other investments:			
Available-for-sale	**¥ 637,899**	¥ 338,905	**$ 5,406**
Held-to-maturity	**18,989**	7,711	**161**
Non-marketable securities and other investments	**126,127**	156,042	**1,069**
	¥ 783,015	¥ 502,658	**$ 6,636**

(a) Marketable Equity Securities and All Debt Securities

Information regarding each category of securities classified as trading, available-for-sale and held-to-maturity as of March 31, 2006 and 2005 is as follows (excluding non-marketable securities and other investments discussed below):

	Millions of Yen			
As of March 31, 2006:	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading	**¥ 19,248**	**¥ —**	**¥ —**	**¥ 19,248**
Available-for-sale:				
Equity securities	**170,959**	**446,257**	**169**	**617,047**
Debt securities	**21,370**	**160**	**—**	**21,530**
Held-to-maturity	**21,150**	**4**	**33**	**21,121**
	¥ 232,727	**¥ 446,421**	**¥ 202**	**¥ 678,946**

	Millions of Yen			
As of March 31, 2005:	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading	¥ 5,183	¥ —	¥ —	¥ 5,183
Available-for-sale:				
Equity securities	151,294	187,827	1,736	337,385
Debt securities	16,949	32	—	16,981
Held-to-maturity	10,221	54	—	10,275
	¥ 183,647	¥ 187,913	¥ 1,736	¥ 369,824

As of March 31, 2006:	Millions of U.S. Dollars Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading	**$ 163**	**$ —**	**$ —**	**$ 163**
Available-for-sale:				
Equity securities	**1,449**	**3,782**	**2**	**5,229**
Debt securities	**181**	**2**	**—**	**183**
Held-to-maturity	**179**	**0**	**0**	**179**
	$ 1,972	**$ 3,784**	**$ 2**	**$ 5,754**

Debt securities classified as available-for-sale securities and held-to-maturity securities mainly consist of preferred stock that must be redeemed, Japanese government and municipal bonds, and corporate debt securities. Gross unrealized losses on marketable securities that had been in a continuous unrealized loss position for twelve months or longer as of March 31, 2006 were immaterial.

The carrying values of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2006 and 2005 are summarized by contractual maturities as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2006		2005		**2006**	
	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity
Due in one year or less	**¥ 678**	**¥ 2,161**	¥ 15,461	¥ 2,510	**$ 6**	**$ 18**
Due after one year through five years	**20,834**	**18,742**	1,022	7,498	**177**	**159**
Due after five years through ten years	**18**	**178**	5	170	**0**	**1**
Due after ten years	**—**	**69**	493	43	**—**	**1**
Total	**¥ 21,530**	**¥ 21,150**	¥ 16,981	¥ 10,221	**$ 183**	**$ 179**

Proceeds from sales and gross gain and loss on sale of securities on available-for-sale securities for the years ended March 31, 2006, 2005 and 2004 are as follows:

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Proceeds from sales	**¥ 58,381**	¥ 30,268	¥122,959	**$ 495**
Gross gain on sale of securities	**¥ 12,382**	¥ 15,811	¥ 42,985	**$ 105**
Gross loss on sale of securities	**22**	343	2,522	**0**
Net realized gains	**¥ 12,360**	¥ 15,468	¥ 40,463	**$ 105**

For the year ended March 31, 2004, the Company contributed certain available-for-sale marketable equity securities, other than those of its subsidiaries or associated companies, to an employee retirement benefit trust (the "Trust") fully administrated and controlled by an independent bank trustee. The fair market value of those securities at the time of contribution was ¥9,505 million for the year ended March 31, 2004. Net realized gains of ¥6,250 million from such contribution were recognized in the accompanying consolidated statements of income for the year ended March 31, 2004.

(b) Non-Marketable Securities and Other Investments

Other investments as of March 31, 2006 and 2005 included investments in non-traded, unassociated companies, and others, amounting to ¥126,127 million ($1,069 million) and ¥156,042 million, respectively. As of March 31, 2006 and 2005, investments in non-traded securities of unassociated companies, and others carried at cost were ¥113,893 million ($965 million) and ¥136,903 million, respectively. If there is decline in the fair value of an investment below its carrying amount that is determined to be other than temporary, the investment is written down to its fair value. As of March 31, 2006 and 2005, investments with aggregate cost of ¥ 109,103 million ($925 million) and ¥ 129,932 million were not evaluated for fair value because no events or changes in circumstances that might have a significant adverse effect on the fair value were identified in the impairment evaluation, and estimation of fair value is not practicable.

6. RECEIVABLES

Receivables by operating segment as of March 31, 2006 and 2005 are summarized as follows:

	Millions of Yen				
As of March 31, 2006:	Notes and loans receivable	Accounts receivable	Receivables from associated companies	Long-term receivables	Total
Metal Products	**¥ 67,115**	**¥ 239,740**	**¥ 18,262**	**¥ 8,332**	**¥ 333,449**
Transportation & Construction Systems	**46,779**	**185,530**	**27,445**	**266,574**	**526,328**
Machinery & Electric	**10,954**	**65,433**	**1,309**	**256,286**	**333,982**
Media, Electronics & Network	**1,416**	**121,156**	**2,716**	**43,829**	**169,117**
Chemical	**16,829**	**114,179**	**1,674**	**5,309**	**137,991**
Mineral Resources & Energy	**26,861**	**214,058**	**17,705**	**30,099**	**288,723**
Consumer Goods & Service	**13,652**	**63,651**	**304**	**42,557**	**120,164**
Materials & Real Estate	**18,443**	**79,780**	**3,750**	**29,874**	**131,847**
Financial & Logistics	**22,747**	**105,793**	**48**	**30,568**	**159,156**
Others	**40,226**	**456,806**	**25,065**	**16,630**	**538,727**
	265,022	**1,646,126**	**98,278**	**730,058**	**2,739,484**
Less: Allowance for doubtful receivables	**(2,417)**	**(12,464)**	**(454)**	**(40,703)**	**(56,038)**
Total	**¥ 262,605**	**¥ 1,633,662**	**¥ 97,824**	**¥ 689,355**	**¥ 2,683,446**

	Millions of Yen				
As of March 31, 2005:	Notes and loans receivable	Accounts receivable	Receivables from associated companies	Long-term receivables	Total
Metal Products	¥ 58,187	¥ 187,255	¥ 15,174	¥ 12,146	¥ 272,762
Transportation & Construction Systems	10,464	189,444	22,753	238,001	460,662
Machinery & Electric	13,655	69,806	709	257,886	342,056
Media, Electronics & Network	1,337	99,953	2,758	37,560	141,608
Chemical	18,724	104,374	1,373	5,144	129,615
Mineral Resources & Energy	22,066	140,062	6,437	44,883	213,448
Consumer Goods & Service	14,490	57,121	228	34,683	106,522
Materials & Real Estate	19,307	71,787	1,986	15,250	108,330
Financial & Logistics	30,239	52,448	113	15,104	97,904
Others	118,664	383,456	33,353	34,089	569,562
	307,133	1,355,706	84,884	694,746	2,442,469
Less: Allowance for doubtful receivables	(1,923)	(8,552)	(530)	(45,672)	(56,677)
Total	¥ 305,210	¥ 1,347,154	¥ 84,354	¥ 649,074	¥ 2,385,792

As of March 31, 2006:	Millions of U.S. Dollars Notes and loans receivable	Accounts receivable	Receivables from associated companies	Long-term receivables	Total
Metal Products	**$ 568**	**$ 2,032**	**$ 155**	**$ 71**	**$ 2,826**
Transportation & Construction Systems	**396**	**1,572**	**233**	**2,259**	**4,460**
Machinery & Electric	**93**	**554**	**11**	**2,172**	**2,830**
Media, Electronics & Network	**12**	**1,027**	**23**	**371**	**1,433**
Chemical	**143**	**968**	**14**	**45**	**1,170**
Mineral Resources & Energy	**228**	**1,814**	**150**	**255**	**2,447**
Consumer Goods & Service	**116**	**539**	**2**	**361**	**1,018**
Materials & Real Estate	**156**	**676**	**32**	**253**	**1,117**
Financial & Logistics	**193**	**897**	**0**	**259**	**1,349**
Others	**341**	**3,871**	**213**	**141**	**4,566**
	2,246	**13,950**	**833**	**6,187**	**23,216**
Less: Allowance for doubtful receivables	**(20)**	**(106)**	**(4)**	**(345)**	**(475)**
Total	**$ 2,226**	**$ 13,844**	**$ 829**	**$ 5,842**	**$ 22,741**

The following analysis of activity in the allowance for credit losses for the years ended March 31, 2006, 2005 and 2004 encompasses allowance for receivables.

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Balance, beginning of year	**¥ 56,677**	¥ 58,808	¥ 85,947	**$ 480**
Provision for allowance for doubtful receivables	**14,707**	12,896	8,019	**125**
Charge-off	**(16,459)**	(14,990)	(34,896)	**(139)**
Foreign currency translation adjustments	**1,113**	(37)	(262)	**9**
Balance, end of year	**56,038**	56,677	58,808	**475**
Less: Current portion	**(15,335)**	(11,005)	(8,851)	**(130)**
Long-term portion	**¥ 40,703**	¥ 45,672	¥ 49,957	**$ 345**

As of March 31, 2006 and 2005, the total gross amount of long-term receivables considered impaired was ¥56,984 million ($483 million) and ¥62,586 million, respectively, and the related valuation allowance provided as at each year-end was ¥37,853 million ($321 million) and ¥44,140 million, respectively. The amount of long-term receivables considered impaired, for which no allowance for doubtful receivable was provided, was ¥1,142 million ($10 million) and ¥1,142 million as of March 31, 2006 and 2005, respectively.

The average investment in impaired receivables for the years ended March 31, 2006 and 2005 was ¥60,541 million ($513 million) and ¥68,325 million, respectively.

The Companies recognize interest income on impaired loans on a cash basis. Interest income on impaired loans recognized for the years ended March 31, 2006, 2005 and 2004 was not material.

7. INVENTORIES

Major segments that hold inventories are Overseas Subsidiaries and Branches, Transportation & Construction Systems, Metal Products, and Materials & Real Estate. Real estate held for development and resale aggregated ¥51,416 million ($436 million) and ¥62,078 million as of March 31, 2006 and 2005, respectively, mainly in Materials & Real Estate.

8. INVESTMENTS IN AND ADVANCES TO ASSOCIATED COMPANIES

Associated companies operate principally in the manufacturing and service industries and participate substantially in the Companies' revenue generating transactions as either purchasers or suppliers.

Investments in and advances to associated companies as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Investments in common stock	**¥ 401,498**	¥ 320,707	**$ 3,402**
Advances	**67,984**	73,911	**576**
Total	**¥ 469,482**	¥ 394,618	**$ 3,978**

Investments in common stock in the above include goodwill amounting to ¥52,959 million ($449 million) and ¥47,588 million as of March 31, 2006 and 2005, respectively. Ending balance as of march 31, 2006 includes goodwill still under purchase price allocation. Associated companies numbered 249 and 230 and weighted average ownership percentages for those associated companies were approximately 28% and 31% as of March 31, 2006 and 2005, respectively. Investments in common stock of certain associated companies as of March 31, 2006 and 2005 included marketable securities of public associated companies with carrying amounts of ¥66,396 million ($563million) and ¥72,286 million, respectively, with corresponding aggregate quoted market values of ¥112,247 million ($951 million) and ¥118,205 million, respectively.

Summarized combined financial information of associated companies accounted for by the equity method as of March 31, 2006 and 2005 and for the years ended March 31, 2006, 2005 and 2004 are presented below:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Current assets	**¥ 1,560,025**	¥ 1,436,634	**$ 13,220**
Property and equipment, net	**999,600**	889,724	**8,471**
Other assets	**1,372,427**	1,131,020	**11,631**
Total assets	**¥ 3,932,052**	¥ 3,457,378	**$ 33,322**
Current liabilities	**¥ 1,663,068**	¥ 1,520,532	**$ 14,093**
Non-current liabilities	**1,091,247**	1,008,257	**9,248**
Shareholders' equity	**1,177,737**	928,589	**9,981**
Total liabilities and shareholders' equity	**¥ 3,932,052**	¥ 3,457,378	**$ 33,322**

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Gross profit	**¥ 538,771**	¥ 479,725	¥ 364,467	**$ 4,566**
Net income	**¥ 175,254**	¥ 110,452	¥ 58,344	**$ 1,485**

The three major associated companies accounted for by the equity method which are contained in the above summarized combined financial information are Sumisho Lease Co., Ltd. (approximately 36.2% owned), Jupiter Telecommunication Co., Ltd. (approximately 25.9% owned), and P.T. Newmont Nusa Tenggara (economic interest approximately 30.5% owned). The following summarized financial information for these three associated companies has been presented due to the relative significance of these entities to the Company's operations.

Financial Section

Sumisho Lease Co., Ltd.

Sumisho Lease Co., Ltd.'s summarized financial information as of March 31, 2006 and 2005 and for the years ended March 31, 2006, 2005 and 2004:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Current assets	**¥ 499,005**	¥ 467,428	**$ 4,229**
Property and equipment, net	**28,468**	29,889	**241**
Other assets	**872,577**	745,233	**7,395**
Total assets	**¥ 1,400,050**	¥ 1,242,550	**$ 11,865**
Current liabilities	**¥ 891,178**	¥ 862,011	**$ 7,552**
Non-current liabilities	**347,715**	247,544	**2,947**
Shareholders' equity	**161,157**	132,995	**1,366**
Total liabilities and shareholders' equity	**¥ 1,400,050**	¥ 1,242,550	**$ 11,865**

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Revenues	**¥ 181,906**	¥ 153,742	¥ 136,397	**$ 1,542**
Net income	**¥ 25,879**	¥ 16,991	¥ 10,425	**$ 219**

Sumisho Lease Co., Ltd. engages in a variety of financial services, including leasing and leasing-related financing services. Sumisho Lease Co., Ltd. is listed on the first sections of the Tokyo Stock Exchange and the Osaka Securities Exchange.

Jupiter Telecommunication Co., Ltd.

Jupiter Telecommunication Co., Ltd. ("Jupiter")'s summarized financial information as of March 31, 2006, 2005, and for the years ended March 31, 2006, 2005 and December 31, 2003:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Current assets	**¥ 61,100**	¥ 52,379	**$ 518**
Property and equipment, net	**282,432**	255,412	**2,393**
Other assets	**177,496**	167,007	**1,504**
Total assets	**¥ 521,028**	¥ 474,798	**$ 4,415**
Current liabilities	**¥ 54,148**	¥ 36,786	**$ 459**
Non-current liabilities	**210,306**	213,385	**1,782**
Shareholders' equity	**256,574**	224,627	**2,174**
Total liabilities and shareholders' equity	**¥ 521,028**	¥ 474,798	**$ 4,415**

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Revenues	**¥ 191,803**	¥ 165,492	¥ 143,159	**$ 1,625**
Net income	**¥ 20,352**	¥ 10,301	¥ 5,351	**$ 172**

Jupiter is a Multiple System Operator (MSO) in Japan that provides multi-channel broadcasting, internet, and telephony services. As of March 31, 2006, the Company held an approximately 25.9% interest in Jupiter, which is indirectly owned through LGI/Sumisho Super Media, LLC ("Super Media"), a holding company that owns shares in Jupiter. Super Media is 41.3%-owned by the Company and 58.7%-owned by Liberty Global, Inc. ("LGI"). In March 2005, Jupiter issued 1,091,500 common shares at ¥80,000 per share, or ¥87,320 million in total, in an initial public offering. As a result of this offering, the Companies recognized a gain of ¥12,603 million, related to the difference between the Companies' book value per share in the investment and the price at which shares were sold to third parties, classified as "Gain on issuances of stock by subsidiaries and associated companies" and recognized deferred income taxes of ¥5,167 million on the gain for the year ended March 31, 2005.

In April 2005, Jupiter issued 114,608 common shares at ¥76,000 ($644) per share, the same price as the subscription price of the shares issued and sold in an initial public offering, or ¥8,710 million ($74 million) in total to facilitate the settlement of shares offered through over-allotment. As a result of this over-allotment, the Companies recognized a gain of ¥1,011 million ($9 million), related to the difference between the Companies' book value per share in the investment and the price at which shares were sold to third parties, classified as "Gain on issuances of stock by subsidiaries and associated companies" and recognized deferred income taxes of ¥414 million ($4 million) on the gain for the year ended March 31, 2006.

The Company and LGI have an agreement whereby the Company contribute substantially all of its remaining ownership interest in Jupiter to Super Media in September, 2005. Super Media will dissolve in March 2010 unless the Company and LGI agree otherwise.

P.T. Newmont Nusa Tenggara

P.T. Newmont Nusa Tenggara ("PTNNT")'s summarized financial information as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Current assets	**¥ 67,565**	¥ 45,693	**$ 573**
Property and equipment, net	**171,104**	182,212	**1,450**
Other assets	**42,127**	8,028	**357**
Total assets	**¥ 280,796**	¥ 235,933	**$ 2,380**
Current liabilities	**¥ 83,078**	¥ 59,363	**$ 704**
Non-current liabilities	**107,973**	101,667	**915**
Shareholders' equity	**89,745**	74,903	**761**
Total liabilities and shareholders' equity	**¥ 280,796**	¥ 235,933	**$ 2,380**

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Revenues	**¥ 109,876**	¥ 116,015	¥ 73,404	**$ 931**
Net income	**¥ 27,490**	¥ 24,160	¥ 11,656	**$ 233**

PTNNT, an Indonesian corporation holds a Contract of Work ("COW") issued by the Indonesian government, under which it explores on and develops on an exclusive basis mineral resources within certain defined areas in Sumbawa, Lombok and Nusa Tenggara Barat, Indonesia.

PTNNT is 80%-owned by Nusa Tenggara Partnership V.O.F. ("NTP"), a general partnership organized under the laws of the Netherlands, and 20%-owned by P.T. Pukuafu Indah ("PTPI").

NTP is 43.75%-owned by Nusa Tenggara Mining Corporation, an approximately 74.3%-owned subsidiary of the Company, and 56.25%-owned by Newmont Indonesia Limited ("NIL"), a subsidiary of Newmont Mining Corporation ("Newmont"), both U.S. corporations. Both the Company and Newmont have significant participating rights in the NTP business and unanimous approval is needed for vital NTP decisions.

PTPI owns a 20% "carried interest," as its capital interest, in PTNNT totaling ¥16,138 million ($137 million) as of March 31, 2006. NTP funded this carried interest and PTPI agreed to assign 70% of its rights to dividends for PTNNT to repay the carried interest, including interest thereon, pursuant to an agreement with NIL. Including its share of this carried interest, the Company's economic interest in PTNNT amounted to approximately 30.5% as of March 31, 2006.

Under the COW, a portion of NTP must be offered for sale to the Indonesian government or to Indonesian nationals. If this offer is accepted, the effect of this provision, combined with the effect of the repayment of the carried interest, could potentially reduce NTP's economic interest in PTNNT to 49%, and that of the Company's to approximately 15.9%.

Newmont consolidated PTNNT in accordance with FIN46R. NTP accounted for its 94% investment in PTNNT under the equity method of accounting. PTNNT's summarized financial information is included in the summarized combined financial information of associated companies accounted for by equity method as of March 31, 2005 and 2004 and for the years ended March 31, 2006, 2005 and 2004.

The Companies engage in various agency transactions with associated companies involving sales by third parties to associated companies and sales by associated companies to third parties. Net fees earned on these transactions are not material. Transactions with associated companies are summarized as follows:

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Management and secondment fee, received	**¥ 3,880**	¥ 3,879	¥ 3,851	**$ 33**
Interest income	**1,982**	3,001	3,487	**17**
Interest expense	**646**	706	699	**5**

9. PROPERTY AND EQUIPMENT

Property and equipment, including property and equipment under capital leases (see Note 21) as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Land and land improvements	**¥ 189,222**	¥ 204,089	**$ 1,603**
Buildings, including leasehold improvements	**354,788**	342,455	**3,007**
Machinery and equipment	**626,900**	537,134	**5,313**
Projects in progress	**21,705**	11,691	**184**
Mining rights	**71,067**	34,286	**602**
Total	**1,263,682**	1,129,655	**10,709**
Less: Accumulated depreciation	**(444,179)**	(409,263)	**(3,764)**
Property and equipment, net	**¥ 819,503**	¥ 720,392	**$ 6,945**

Depreciation expense for the years ended March 31, 2006, 2005 and 2004 was ¥77,222 million ($654 million), ¥64,548 million and ¥71,063 million, respectively.

For the years ended March 31, 2005 and 2004, wholly-owned subsidiaries of the Company sold parts of their office buildings and recognized gains amounting to approximately ¥12.8 billion and ¥12 billion, respectively, which were included in "Gain (loss) on sale of property and equipment, net" in the accompanying Consolidated Statements of Income.

The Companies sold and leased back the corporate headquarters building (Harumi Triton Square Office Tower Y) at April 4, 2005 in a transaction accounted for as sale and operating leaseback. The net carrying amount of this building as of March 31, 2005 was ¥84,983 million, and this amount was included as an asset held for sale in "Other current assets" in the accompanying Consolidated Balance Sheets.

The Companies assess the potential impairment of all material long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Certain assets, primarily real estate held for rent in Yokohama in Materials & Real Estate, were deemed to be impaired in the year ended March 31, 2005, and certain assets, including aircraft and real estate, were deemed to be impaired in the year ended March 31, 2004 reflecting the weak market conditions for real estate in Japan. The losses recognized from the impairment of such assets for the years ended March 31, 2006, 2005 and 2004 were applicable to the following segments:

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Metal Products	**¥ 725**	¥ 156	¥ —	**$ 6**
Transportation & Construction Systems	**1,921**	418	1,659	**16**
Machinery & Electric	**35**	42	—	**0**
Mineral Resources & Energy	**98**	1,670	—	**1**
Consumer Goods & Service	**904**	938	—	**8**
Materials & Real Estate	**338**	12,736	650	**3**
Domestic Regional Business Units and Offices	**1,265**	—	627	**11**
Overseas Subsidiaries and Branches	**—**	659	—	**—**
Corporate and Eliminations	**543**	865	2,242	**4**
Total	**¥ 5,829**	¥ 17,484	¥ 5,178	**$ 49**

These amounts were included in "Impairment losses on long-lived assets" in the accompanying Consolidated Statements of Income. Such impairment losses were calculated based on appraisals for assets or using the best estimates of discounted future cash flows based on realistic assumptions as to continuing operations.

10. GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Intangible Assets

The components of intangible assets subject to amortization as of March 31, 2006 and 2005 are as follows:

	Millions of Yen			Millions of U.S. Dollars		
	2006			**2006**		
	Gross amount	Accumulated amortization	Net carrying value	Gross amount	Accumulated amortization	Net carrying value
Software	**¥ 60,439**	**¥ 36,142**	**¥ 24,297**	**$ 512**	**$ 306**	**$ 206**
Sales licenses, trademarks and customer relationships	**124,471**	**13,154**	**111,317**	**1,054**	**111**	**943**
Other	**12,086**	**2,528**	**9,558**	**103**	**22**	**81**
Total	**¥ 196,996**	**¥ 51,824**	**¥145,172**	**$ 1,669**	**$ 439**	**$ 1,230**

	Millions of Yen		
	2005		
	Gross amount	Accumulated amortization	Net carrying value
Software	¥ 60,242	¥ 31,000	¥ 29,242
Sales licenses, trademarks and customer relationships	37,905	9,108	28,797
Other	5,413	1,213	4,200
Total	¥ 103,560	¥ 41,321	¥ 62,239

Intangible assets subject to amortization acquired during the year ended March 31, 2006 were ¥86,374 million ($732 million), primarily consisting of "Acquisitions" described in Note 3. Intangible assets subject to amortization acquired during the year ended March 31, 2005 were ¥36,243 million, primarily consisting of software of ¥11,648 million, import and sales license of a German luxury chenille fabric brand of ¥7,742 million and sales license of pet care products in the U.S., of ¥3,409 million. During the year ended March 31, 2005, some subsidiaries changed their fiscal year-ends to March 31, mainly from December 31, in order to conform the subsidiaries' year ends with that of the company. The earnings or losses of the subsidiaries for the stub period of the fiscal year exceeding 12 months were directly credited or charged to unappropriated retained earnings in order to maintain the comparability of periodic earnings. Intangible assets subject to amortization acquired during the concerned stub period were ¥4,346 million ($39 million). The weighted-average amortization periods are five years for software, twenty years for sales licenses, trademarks and customer relationships, and sixteen years for other. Aggregate amortization expense for the years ended March 31, 2006 and 2005 was ¥17,017 million ($144 million) and ¥13,419 million, respectively. Estimated amortization expenses for the next five years ending March 31 are: ¥20,249million ($172 million) in 2007, ¥17,549 million ($149 million) in 2008, ¥13,482 million ($114 million) in 2009, ¥9,817 million ($83 million) in 2010, and ¥8,209 million ($70 million) in 2011, respectively.

The components of intangible assets not subject to amortization as of March 31, 2006 and 2005 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Leaseholds on land	**¥ 17,441**	¥ 16,944	**$ 148**
Trademarks	**1,112**	13,454	**9**
Other	**893**	555	**8**
Total	**¥ 19,446**	¥ 30,953	**$ 165**

In accordance with SFAS No.142, these intangible assets were tested for impairment. During the year ended March 31, 2006 and 2005, the Companies recognized impairment losses of ¥6,103 million ($52 million) and ¥11,772 million, respectively. These amounts were included in "Impairment losses on long-lived assets" in the accompanying Consolidated Statements of Income. Impairment losses recorded for the year ended March 31, 2006 consist primarily of ¥4,785 million ($41 million) for the write-down of intangible assets related to an acquired brand name in the U.S. Fair value was determined based on the discounted cash flow of a revised business plan. The brand name intangible asset of ¥9,328 million ($79 million) (net of the impairment charge) was reclassified from intangible assets not subject amortization to intangible assets subject to amortization in 2006 and is being amortized over its estimated useful life. This impaired asset was included in the Chemical Business Unit segment and Overseas Subsidiaries and Branches segment. Impairment losses recorded for the year ended March 31, 2005 were primarily related to a leasehold on land of real estate for rent in Yokohama of ¥10,851 million, the amount of which was based on appraised value. This impaired asset was included in the Materials & Real Estate Business Unit segment.

(b) Goodwill

The following table shows changes in the carrying amount of goodwill by operating segment for the years ended March 31, 2006 and 2005:

	Millions of Yen				
As of March 31, 2006:	Balance, beginning of year	Acquisition	Impairment losses	Foreign currency translation adjustments and other	Balance, end of year
Metal Products	**¥ —**	**¥ 1,349**	**¥ —**	**¥ 10**	**¥ 1,359**
Transportation & Construction Systems	**861**	**14,897**	**—**	**(222)**	**15,536**
Media, Electronics & Network	**3,813**	**5,044**	**—**	**—**	**8,857**
Chemical	**4,253**	**65**	**—**	**1,318**	**5,636**
Consumer Goods & Service	**896**	**1,003**	**—**	**16**	**1,915**
Materials & Real Estate	**—**	**19,831**	**—**	**(366)**	**19,465**
Overseas Subsidiaries and Branches	**10,552**	**29,945**	**(491)**	**1,872**	**41,878**
Total	**¥ 20,375**	**¥ 72,134**	**¥ (491)**	**¥ 2,628**	**¥ 94,646**

	Millions of Yen				
As of March 31, 2005:	Balance, beginning of year	Acquisition	Impairment losses	Foreign currency translation adjustments and other	Balance, end of year
Transportation & Construction Systems	¥ 819	¥ —	¥ —	¥ 42	¥ 861
Media, Electronics & Network	2,885	928	—	—	3,813
Chemical	—	4,445	—	(192)	4,253
Consumer Goods & Service	—	896	—	—	896
Overseas Subsidiaries and Branches	3,464	7,737	(292)	(357)	10,552
Total	¥ 7,168	¥ 14,006	¥ (292)	¥ (507)	¥ 20,375

	Millions of U.S. Dollars				
As of March 31, 2006:	Balance, beginning of year	Acquisition	Impairment losses	Foreign currency translation adjustments and other	Balance, end of year
Metal Products	**$ —**	**$ 11**	**$ —**	**$ 0**	**$ 11**
Transportation & Construction Systems	**7**	**126**	**—**	**(2)**	**131**
Media, Electronics & Network	**32**	**43**	**—**	**—**	**75**
Chemical	**36**	**1**	**—**	**11**	**48**
Consumer Goods & Service	**8**	**9**	**—**	**0**	**17**
Materials & Real Estate	**—**	**168**	**—**	**(3)**	**165**
Overseas Subsidiaries and Branches	**89**	**254**	**(4)**	**16**	**355**
Total	**$ 172**	**$ 612**	**$ (4)**	**$ 22**	**$ 802**

In accordance with SFAS No. 142, these goodwill were tested for impairment. During the years ended March 31, 2006 and 2005, the Companies recognized impairment losses of ¥491 million ($4 million) and ¥292 million, respectively. These amounts were included in "Impairment losses on long-lived assets" in the accompanying Consolidated Statements of Income.

During the year ended March 31, 2006, some subsidiaries changed their fiscal year-ends to March 31, mainly from December 31, in order to conform the subsidiaries' year ends with that of the company. Goodwill acquired during the stub period of the fiscal year exceeding 12 months was ¥1,099 million ($9 million) and was included in "Foreign currency translation adjustments and other."

The Companies recognized preliminary estimates with respect to the value of the underlying net assets of the acquired companies in determining amounts of goodwill. These amounts of goodwill may be adjusted upon completion of the purchase price allocation.

11. SHORT-TERM AND LONG-TERM DEBT

Short-term debt as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen				Millions of U.S. Dollars
	2006		2005		**2006**
		Weighted average interest rate		Weighted average interest rate	
Loans, principally from banks	**¥ 408,684**	**3.67%**	¥ 299,943	2.93%	**$ 3,464**
Commercial paper	**130,883**	**2.18**	112,274	0.79	**1,109**
	¥ 539,567		¥ 412,217		**$ 4,573**

The interest rates represent weighted average rates in effect as of March 31, 2006 and 2005 though the range of the interest rates varies by borrowing currency.

The Companies have line of credit agreements available for immediate borrowing with syndicates of domestic and foreign banks, in the amount of $1,050 million with foreign banks and ¥350,000 million ($2,966 million) with domestic banks. All of these lines of credit were unused as of March 31, 2006.

Long-term debt as of March 31, 2006 and 2005 and interest rates as of March 31, 2006 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Secured long-term debt:			
Banks and insurance companies, maturing serially through 2019, average rate 3.01%	**¥ 208,496**	¥ 249,182	**$ 1,767**
Bonds payable in Indonesian rupee due,			
2006, fixed rates 8.37% to 13.37%	**3,863**	3,390	**33**
2007, fixed rates 10.62% to 13.12%	**5,615**	4,520	**48**
2008, fixed rate 10.85%	**1,366**	—	**12**
Unsecured long-term debt:			
Banks and insurance companies, maturing serially through 2025, average rate 1.58%	**1,897,985**	1,739,810	**16,085**
Bonds payable in Euro due,			
2005	**—**	42,313	**—**
Bonds payable in Japanese yen due,			
2006, fixed rates 1.45% to 1.51%	**20,000**	20,000	**169**
2007, fixed and floating rates 1.86% to 2.13%	**20,313**	20,778	**172**
2008, fixed rate 0.84%	**13,972**	14,054	**118**
2010, fixed rates 0.81% to 2.07%	**29,626**	30,600	**251**
2011, fixed rates 0.82% to 1.28%	**30,983**	31,815	**263**
2012, fixed and floating rates 1.07% to 2.20%	**28,843**	30,197	**244**
2013, fixed and floating rates 1.08% to 1.87%	**53,217**	40,601	**451**
2014, fixed and floating rates 1.51% to 2.24%	**29,481**	30,592	**250**
2015, floating rate 1.17%	**14,530**	—	**123**
2016, fixed rate 1.70%	**24,455**	—	**207**
2017, floating rate 1.96%	**9,189**	10,089	**78**
2018, fixed and floating rates 1.90% to 2.37%	**23,493**	—	**199**
Various notes and bonds, maturing serially through 2018, average rate 1.76%	**197,513**	159,992	**1,674**
Capital lease obligations	**67,867**	58,375	**575**
Other	**213,714**	186,515	**1,811**
	2,894,521	2,672,823	**24,530**
Less: Current maturities	**(447,351)**	(459,172)	**(3,791)**
	¥ 2,447,170	¥ 2,213,651	**$ 20,739**

Annual maturities of long-term debt as of March 31, 2006 are as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2007	¥ 447,351	$ 3,791
2008	444,605	3,768
2009	335,584	2,844
2010	284,911	2,415
2011	371,632	3,149
2012 and thereafter	1,010,438	8,563
Total	¥ 2,894,521	$ 24,530

Most of short-term and long-term loans from banks contain certain covenants. The banks may, under certain conditions, require the Companies to provide collateral (or additional collateral) or guarantors. The banks may treat any collateral as collateral for all indebtedness to such banks. Several of the loan agreements require maintenance of certain financial ratios and minimum levels of tangible net worth. Default provisions of certain agreements grant certain rights of possession to the banks. The borrower may be required to make early repayments of outstanding amounts under some agreements, principally with government-owned financial institutions, if the lender concludes that the borrower is able to repay the outstanding amount through improved earnings or from the proceeds of an equity or debt offering, and makes such prepayment request. Certain agreements provide that the banks may require the borrower to receive bank approval prior to the payment of dividends and other appropriations of earnings, before presentation to the shareholders. The Companies have not been asked to make any such prepayment during the years ended March 31, 2006, 2005 and 2004 and currently do not anticipate any prepayment request.

The Companies have been in compliance with all of the short-term borrowing and long-term debt obligation covenants for the years ended March 31, 2006, 2005 and 2004.

Pledged assets

The following table summarizes the book value of assets pledged as collateral for short-term debt, other current liabilities and long-term debt, including current maturities of long-term debt of the Companies as of March 31, 2006:

	Millions of Yen	Millions of U.S. Dollars
Marketable securities and investments	¥ 65,203	$ 553
Trade receivables and long-term receivables	280,946	2,380
Property and equipment, net	50,382	427
	¥ 396,531	$ 3,360

Such collateral secured the following obligations:

	Millions of Yen	Millions of U.S. Dollars
Short-term debt	¥ 16,581	$ 141
Other current liabilities	7,457	63
Long-term debt, including current maturities of long-term debt	286,480	2,428
	¥ 310,518	$ 2,632

Trust receipts issued under customary import financing arrangements give recipient banks a security interest in the merchandise imported and/or the accounts receivable or sales proceeds resulting from the sale of such merchandise. The Companies repay the related notes and acceptances payable at the maturity dates 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.

12. INCOME TAXES

The Company is subject to a national corporate tax of 30%, an inhabitant tax of 6.21% and a deductible business tax between 7.56% and 10.08%, which in the aggregate resulted in a statutory income tax rate of approximately 41%, 41% and 42% for the years ended March 31, 2006, 2005 and 2004, respectively. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, which reduce statutory business income tax rates from 9.6% to 7.2%. Accordingly, the Company's effective business tax rate was lowered from 10.08% to 7.56%. Consequently, the Company's aggregate statutory income tax rate was reduced to approximately 41%, effective for fiscal years beginning on or after April 1, 2004. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Income before income taxes and minority interests in earnings of subsidiaries for the years ended March 31, 2006, 2005 and 2004 is as follows:

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Domestic	**¥ 132,613**	¥ 76,638	¥ 75,948	**$ 1,124**
Foreign	**115,194**	74,711	33,087	**976**
Total	**¥ 247,807**	¥ 151,349	¥109,035	**$ 2,100**

Income tax provision (benefit) for the years ended March 31, 2006, 2005 and 2004 is as follows:

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Current:				
Domestic	**¥ 35,398**	¥ 17,538	¥ 15,697	**$ 300**
Foreign	**30,066**	17,613	9,047	**255**
Deferred:				
Domestic	**13,105**	16,016	11,184	**111**
Foreign	**2,168**	6,682	(231)	**18**
Total	**¥ 80,737**	¥ 57,849	¥ 35,697	**$ 684**

The reconciliation between the statutory income tax rate in Japan and the Companies' effective income tax rate reflected in the accompanying Consolidated Statements of Income for the years ended March 31, 2006, 2005 and 2004 is summarized as follows:

	%		
	2006	2005	2004
Tax statutory income tax rate in Japan	**41.0%**	41.0%	42.0%
Increases (decreases) in tax rate due to:			
Expenses not deductible for tax purposes	**1.2**	2.1	1.9
Tax effect on undistributed earnings of associated companies and corporate joint ventures	**(1.8)**	(0.7)	(1.9)
Changes in valuation allowance	**0.3**	0.6	(5.6)
Difference in statutory tax rate of foreign subsidiaries	**(5.3)**	(4.7)	(4.6)
Effect of change in enacted tax rate	**—**	—	(0.1)
Other—net	**(2.8)**	(0.1)	1.0
The Companies' effective income tax rate	**32.6%**	38.2%	32.7%

Financial Section

Total income taxes recognized for the years ended March 31, 2006, 2005 and 2004 are allocated as follows:

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Income before income taxes and minority interests in earnings of subsidiaries	**¥ 80,737**	¥ 57,849	¥ 35,697	**$ 684**
Shareholders' equity:				
Net unrealized holding gains on securities available-for-sale	**107,680**	22,176	54,899	**913**
Foreign currency translation adjustments	**3,316**	507	3,854	**28**
Net unrealized gains (losses) on derivatives	**(4,964)**	(386)	257	**(42)**
Total income taxes	**¥ 186,769**	¥ 80,146	¥ 94,707	**$ 1,583**

The tax effects of temporary difference that give rise to significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Assets:			
Net operating loss carry forwards	**¥ 16,660**	¥ 46,445	**$ 141**
Investment securities	**46,787**	37,929	**397**
Inventories and long-lived assets	**44,280**	40,960	**375**
Allowance for doubtful receivables	**9,873**	12,457	**84**
Accrued pension and retirement benefits	**10,179**	8,732	**86**
Accrual and other	**19,882**	9,752	**168**
Gross deferred tax assets	**147,661**	156,275	**1,251**
Less: Valuation allowance	**(12,271)**	(10,559)	**(104)**
Deferred tax assets, less valuation allowance	**135,390**	145,716	**1,147**
Liabilities:			
Investment in marketable securities	**(183,874)**	(75,584)	**(1,558)**
Deferred gain on sales of property for tax purposes	**(27,824)**	(43,926)	**(236)**
Securities contributed to the Trust	**(22,773)**	(22,944)	**(193)**
Undistributed earnings of subsidiaries and associated companies	**(40,625)**	(27,754)	**(344)**
Long-lived assets	**(33,893)**	(4,118)	**(287)**
Other	**(12,288)**	(8,651)	**(104)**
Gross deferred tax liabilities	**(321,277)**	(182,977)	**(2,722)**
Net deferred tax liabilities	**¥ (185,887)**	¥ (37,261)	**$ (1,575)**

Deferred income taxes as of March 31, 2006 and 2005 are reflected in the accompanying Consolidated Balance Sheets as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Assets:			
Deferred income taxes	**¥ 31,998**	¥ 39,161	**$ 271**
Deferred income taxes, non-current	**13,511**	10,149	**114**
Liabilities:			
Other current liabilities	**(1,032)**	(863)	**(8)**
Deferred income taxes, non-current	**(230,364)**	(85,708)	**(1,952)**
Net deferred tax liabilities	**¥ (185,887)**	¥ (37,261)	**$ (1,575)**

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at March 31, 2006. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. The net change in the total valuation allowance for the years ended March 31, 2006, 2005 and 2004 was an increase of ¥1,712 million ($15 million), a decrease of ¥82 million and a decrease of ¥3,342 million, respectively.

The valuation allowance primarily relates to valuation allowance for deferred tax assets associated with net operating loss carryforwards incurred by certain foreign subsidiaries. The Company has performed an analysis for each of these subsidiaries to assess their ability to realize such deferred tax assets. Considering scheduled reversals of deferred tax liabilities, projections for future taxable income, historical performance, tax planning strategies, market conditions and other factors, as appropriate, management believes it is more likely than not that these subsidiaries will realize their respective deferred tax assets (principally net operating loss carry forwards) net of existing valuation allowance, as of March 31, 2006.

During the year ended March 31, 2004, the Company reversed a valuation allowance for deferred tax assets, amounting to ¥4,481 million, related to tax loss carryforwards of Nusa Tenggara Mining Corporation ("NTMC"), an approximately 74.3%-owned subsidiary of the Company, and deferred tax assets relating to NTMC's share of accumulated losses of the Batu Hijau project through its investment in the Nusa Tenggara Partnership (see Note 8). This reversal was based on the Company's projection of PTNNT earnings, which were calculated with reference to copper and gold prices under current market conditions. The Company considered that it was more likely than not that the deferred tax assets will be realized and a valuation allowance was no longer necessary.

As of March 31, 2006 and 2005, the Company has not provided a deferred tax liability on the undistributed earnings of its foreign subsidiaries and foreign corporate joint ventures because the Company does not intend to repatriate those unremitted earnings in the foreseeable future. A deferred tax liability will be recognized when the Company no longer plans to permanently reinvest the undistributed earnings. As of March 31, 2006 and 2005, the amounts of undistributed earnings of such foreign subsidiaries and foreign corporate joint ventures on which a deferred tax liability has not been recognized in the accompanying consolidated financial statements totaled to ¥248,401 million ($2,105 million) and ¥180,556 million, respectively. Calculation of the unrecognized deferred tax liability is not practicable.

As of March 31, 2006, the Companies have aggregate net operating loss carryforwards of ¥38,115 million ($323 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:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2007	**¥ 1,562**	**$ 13**
2008	**514**	**4**
2009	**1,400**	**12**
2010	**2,253**	**19**
2011	**3,727**	**32**
2012 and thereafter	**28,659**	**243**
Total	**¥ 38,115**	**$ 323**

13. ACCRUED PENSION AND RETIREMENT BENEFITS

The Company has non-contributory defined benefit pension plans (the "Plans") covering substantially all employees other than directors and executive officers. The Plans provide benefits based upon years of service, compensation at the time of severance, and other factors.

Most of the subsidiaries have unfunded retirement benefit plans and/or funded pension plans. Employees, other than directors, are entitled to, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, lump-sum retirement benefits based on compensation at the time of retirement, years of service and other factors.

Net periodic pension costs for the years ended March 31, 2006, 2005 and 2004 include the following components:

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Service cost — benefits earned during the year	**¥ 7,185**	¥ 7,143	¥ 6,288	**$ 61**
Interest cost on projected benefit obligation	**4,862**	4,280	4,516	**41**
Expected return on plan assets	**(4,593)**	(4,070)	(2,928)	**(39)**
Amortization of unrecognized actuarial loss	**5,147**	6,565	8,845	**44**
Amortization of unrecognized prior service cost	**61**	(11)	37	**0**
Loss on settlements and curtailments	**1,430**	383	—	**12**
Net periodic pension cost	**¥ 14,092**	¥ 14,290	¥ 16,758	**$ 119**

The reconciliation of beginning and ending balances of the projected benefit obligations and the fair value of the plan assets is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Change in benefit obligations:			
Projected benefit obligations, beginning of year	**¥ 192,235**	¥ 194,794	**$ 1,629**
Effect of the change in the reporting period of subsidiaries	**(2,107)**	—	**(18)**
Service cost	**7,185**	7,143	**61**
Interest cost	**4,862**	4,280	**41**
Actuarial (gain) loss	**1,618**	(9,992)	**14**
Plan amendments	**852**	231	**7**
Benefits paid	**(8,385)**	(7,122)	**(71)**
Settlements	**(1,035)**	(929)	**(9)**
Acquisitions and divestitures	**2,833**	3,919	**24**
Foreign currency translation adjustments	**513**	(89)	**5**
Projected benefit obligations, end of year	**198,571**	192,235	**1,683**
Change in plan assets:			
Fair value of plan assets, beginning of year	**185,617**	185,424	**1,573**
Effect of the change in the reporting period of subsidiaries	**(1,971)**	—	**(17)**
Actual return on plan assets	**30,533**	(4,127)	**259**
Employer contribution	**13,756**	8,600	**117**
Benefits paid from plan assets	**(7,097)**	(6,652)	**(60)**
Settlements	**(2,380)**	(514)	**(20)**
Acquisitions and divestitures	**1,598**	2,912	**14**
Foreign currency translation adjustments	**323**	(26)	**2**
Fair value of plan assets, end of year	**220,379**	185,617	**1,868**
Funded status	**21,808**	(6,618)	**185**
Unrecognized actuarial loss	**48,363**	78,310	**410**
Unrecognized prior service cost	**933**	116	**8**
Net amount recognized	**¥ 71,104**	¥ 71,808	**$ 603**
Amounts recognized in the accompanying Consolidated Balance Sheets consist of:			
Other current assets and Prepaid expenses, non-current (Prepaid cost for retirement benefits)	**84,284**	83,590	**714**
Accrued pension and retirement benefits	**(13,180)**	(11,782)	**(111)**
Net amount recognized	**¥ 71,104**	¥ 71,808	**$ 603**

The measurement dates used to determine the benefit obligations are mainly March 31 of each year.

The Company contributed certain marketable equity securities as described in Note 5 to an employee retirement benefit trust (the "Trust") in the year ended March 31, 2004. Those securities and cash held in this trust are qualified plan assets under SFAS No. 87, "Employers' Accounting for Pensions."

The Companies' funding policy is based on a number of factors including the tax deductibility of contributions, funded status, actuarial calculations and other considerations. 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. Also, the Company may contribute certain marketable equity securities, or cash to the Trust in order to maintain a sufficient level of funding at the end of fiscal year.

The asset allocations are as follows:

	2006	2005
	Actual allocation	Actual allocation
Equity securities	**56%**	57%
Debt securities	**30%**	27%
Other*	**14%**	16%
Total	**100%**	100%

*Other mainly includes cash, alternative investments and life insurance company general accounts.

The Companies set investment policies, strategies and target allocation and oversees the investment allocation process, which includes selecting investment managers, commissioning periodic asset-liability studies, setting long-term strategic targets and monitoring asset allocations. The target allocations are guidelines, not limitations, and occasionally the Companies will approve an allocation above or below a target allocation.

The Companies' target allocation is 53% equity securities, 31% debt securities and 16% other.

Assumptions used for the years ended March, 31 2006, 2005 and 2004 in determining costs and the funded status information shown above are principally as follows:

Weighted average assumptions used to determine the net periodic benefit cost

	2006	2005	2004
Discount rate	**2.6%**	2.2%	2.7%
Expected long-term rate of return on plan assets	**2.3%**	2.2%	2.0%
Rate of expectable salary increase	**2.7%**	2.7%	2.8%

Weighted average assumptions used to determine the benefit obligations

	2006	2005
Discount rate	**2.6%**	2.6%
Rate of expectable salary increase	**3.0%**	2.7%

The Companies' expected long-term rate of return on plan assets assumption is derived from a detailed study that includes a review of the asset allocation strategy, anticipated future long-term performance of individual asset classes, risks and correlations for each of the asset classes that comprise the funds' asset mix.

The accumulated benefit obligations for the defined benefit plans of the Companies are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Accumulated benefit obligations, end of year	**¥ 190,931**	¥ 185,052	**$ 1,618**

The employer's contributions expected to be paid for the year ending March 31, 2007 are ¥11,092 million ($94 million).

Benefits expected to be paid in the future are as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2007	**¥ 10,799**	**$ 91**
2008	**10,477**	**89**
2009	**10,504**	**89**
2010	**10,685**	**91**
2011	**10,839**	**92**
2012 - 2016	**56,465**	**478**
Total	**¥ 109,769**	**$ 930**

In addition to unfunded retirement benefit plans or funded pension plans, certain domestic subsidiaries and associated companies also participate in a multiemployer defined benefit pension plan, recognizing the required contributions for a period as net pension cost and recognizing any contributions due and unpaid as a liability. The total amount of the domestic subsidiaries' contributions to the plan for the years ended March 31, 2006, 2005 and 2004 were ¥ 1,972 million ($17 million), ¥1,179 million and ¥1,830 million, respectively.

14. SHAREHOLDERS' EQUITY

(a) Common Stock and Additional Paid-in Capital

Under the Commercial Code of Japan ("the Code"), at least 50% of the proceeds of certain issues of common shares, including exercise of warrants, shall be credited to the common stock account. The remainder of the proceeds shall be credited to the additional paid-in capital. The Code permits, upon approval of the Board of Directors, transfer of amounts from additional paid-in capital to the common stock account. The Code permits, upon approval of the Board, the total issuing price could be credited to the APIC, when the Company exchanges shares of the Company for shares of acquired entities.

As discussed in Note 3, the fair value of the Company shares transferred in accordance with Share Exchange Agreement related to Sumisho Auto Leasing Corporation was credited to additional paid-in capital.

(b) Appropriated for Legal Reserve

The Code provides that at least 10% of all cash dividend payments and bonuses to directors, made as an appropriation of retained earnings applicable to each fiscal period, shall be appropriated as a legal reserve until an aggregate amount of additional paid-in capital and legal reserve equals 25% of common stock. The legal reserve may be used to eliminate or reduce a deficit, transferred to common stock, or transferred to retained earnings until an aggregate amount of additional paid-in capital and the legal reserve equals 25% of common stock, by resolution of the shareholders.

For the year ended March 31, 2006, there was an increase of ¥10 million ($0 million) in "Appropriated for legal reserve" in the accompanying Consolidated Balance Sheets as a result of the merger between the Company and Osaka Hokko Development Co., Ltd..

(c) Unappropriated Retained Earnings and Dividends

Retained earnings available for dividends under the Code is based on the amount recorded in the Company's general accounting records maintained in accordance with accounting principles generally accepted in Japan. The U.S. GAAP adjustments included in the accompanying consolidated financial statements but not recorded in the general accounting records, as explained under "Summary of Significant Accounting Policies" in Note 2, have no effect in determining retained earnings available for dividends under the Code.

The Code limits the amount of retained earnings available for dividends. Retained earnings of ¥177,211 million ($1,502 million) and ¥154,177 million, shown by the Company's accounting records as of March 31, 2006 and 2005, respectively, exclusive of the amount previously appropriated for legal reserve, were not restricted by the limitations under the Code.

The Code permits transfers, upon shareholder approval, of a portion of unappropriated retained earnings available for dividends to common stock without issuance of any shares.

Dividends are approved by the shareholders at the ordinary general meeting of shareholders held subsequent to the statutory fiscal period to which the dividends are payable to shareholders. Interim dividends are approved by the Board of Directors for the interim six-month period. Dividends are reported in the accompanying Consolidated Statements of Shareholders' Equity and Comprehensive Income when approved.

The Board of Directors intends to recommend to the shareholders, at the ordinary general meeting of shareholders to be held on June 23, 2006, the declaration of a cash dividend to shareholders of record as of March 31, 2006 of ¥14 ($0.12) per share for a total of ¥17,496 million ($148 million).

The Company does not expect the enforcement of the Company Law of Japan (the "Law") which will become effective on May 1, 2006 will have a material impact in determining retained earnings available for dividends under the Law.

(d) Stock Option Plan

The Company has stock option plans for directors, executive officers of the Company, and corporate officers under the Company's qualification system. Under the plans, each stock option granted entitles the recipient to acquire 1,000 shares of common stock at an exercise price equal to the greater of (i) 105% of the average closing market price of the Company's common stock on the Tokyo Stock Exchange for the calendar month before the grant date (excluding days when there were no transactions), or (ii) the closing market price of the Company's common stock on the Tokyo Stock Exchange on the grant date (or the closing market price on the day immediately preceding such date, if there were no transactions on such date).

The options granted vested 100% at grant date. The options granted are exercisable starting April 1 of the fiscal year after the fiscal year in which they are granted. They are exercisable for four years and three months from that date. For the recognition of compensation expense related to the fixed price stock option plans for the years ended March 31, 2006, 2005 and 2004, see Note 2.

On June 24, 2005, the shareholders authorized the issue of new stock options up to 177,000 shares of common stock before the ordinary general meeting of shareholders to be held in 2006. Options for 177,000 shares were granted under this authorization. The Board intends to propose to the shareholders at the ordinary general meeting of shareholders to be held on June 23, 2006, the authorization of an additional issue of new stock options for up to 189,000 shares of common stock.

The Board intends to propose to the shareholders at the ordinary general meeting of shareholders to be held on June 23, 2006, the authorization of an issue of new stock options for up to 150,000 shares of common stock based on a Stock-Linked compensation plan for directors and executive officers. Under the plan, each stock option granted entitles the recipient to acquire 1,000 shares of common stock at an exercise price equal to ¥1 per share.

The following table summarizes information about stock option activity for the years ended March 31, 2006, 2005 and 2004:

	2006			2005		2004	
	Number of shares	Weighted average exercise price	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		Yen	U.S. Dollars		Yen		Yen
Outstanding, beginning of year	**530,000**	**¥ 826**	**$ 7**	487,000	¥ 798	391,000	¥ 890
Granted	**177,000**	**948**	**8**	181,000	873	167,000	632
Exercised	**218,000**	**714**	**6**	48,000	738	—	—
Cancelled or expired	**122,000**	**1,034**	**9**	90,000	818	71,000	910
Outstanding, end of year	**367,000**	**882**	**7**	530,000	826	487,000	798
Options exercisable, end of year	**191,000**	**¥ 821**	**$ 7**	357,000	¥ 803	320,000	¥ 885

The following table summarizes information about stock options outstanding and exercisable as of March 31, 2006:

	Outstanding				Exercisable		
Exercisable price range	Number of shares	Weighted average exercise price	Weighted average exercise price	Weighted average remaining life	Number of shares	Weighted average exercise price	Weighted average exercise price
Yen		Yen	U.S. Dollars			Yen	U.S. Dollars
¥ 601 — 800	**45,000**	**¥ 654**	**$ 6**	**2.03**	**45,000**	**¥ 654**	**$ 6**
801 — 1,000	**322,000**	**914**	**8**	**3.73**	**146,000**	**872**	**7**
	367,000	**¥ 882**	**$ 7**	**3.52**	**191,000**	**¥ 821**	**$ 7**

15. OTHER COMPREHENSIVE INCOME (LOSS)

Changes in each component of accumulated other comprehensive income (loss) for the years ended March 31, 2006, 2005 and 2004 are as follows:

	Millions of Yen			Millions of U.S. Dollars
	2006	2005	2004	**2006**
Net unrealized holding gains (losses) on securities available-for-sale:				
Balance, beginning of year	**¥ 98,651**	¥ 70,108	¥ (9,377)	**$ 836**
Adjustment for the year	**152,362**	28,543	79,485	**1,291**
Balance, end of year	**¥251,013**	¥ 98,651	¥ 70,108	**$ 2,127**
Foreign currency translation adjustments:				
Balance, beginning of year	**¥ (80,141)**	¥ (80,896)	¥ (54,797)	**$ (679)**
Adjustment for the year	**52,391**	755	(26,099)	**444**
Balance, end of year	**¥ (27,750)**	¥ (80,141)	¥ (80,896)	**$ (235)**
Net unrealized gains (losses) on derivatives:				
Balance, beginning of year	**¥ (1,427)**	¥ (449)	¥ (819)	**$ (12)**
Adjustment for the year	**(8,069)**	(978)	370	**(68)**
Balance, end of year	**¥ (9,496)**	¥ (1,427)	¥ (449)	**$ (80)**
Total accumulated other comprehensive income (loss):				
Balance, beginning of year	**¥ 17,083**	¥ (11,237)	¥ (64,993)	**$ 145**
Adjustment for the year	**196,684**	28,320	53,756	**1,667**
Balance, end of year	**¥213,767**	¥ 17,083	¥ (11,237)	**$ 1,812**

Tax effects allocated to each component of other comprehensive income (loss) are as follows:

2006:

	Millions of Yen		
	Pretax amount	Tax (expense) or benefit	Net-of-tax amount
Net unrealized holding gains on securities available-for-sale:			
Unrealized holding gains arising during the year	**¥ 272,421**	**¥ (112,714)**	**¥ 159,707**
Effect of the change in the reporting period of subsidiaries and associated companies	**(48)**	**17**	**(31)**
Reclassification adjustment for gains included in net income	**(12,331)**	**5,017**	**(7,314)**
Adjustment for the year	**260,042**	**(107,680)**	**152,362**
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	**48,573**	**(3,300)**	**45,273**
Effect of the change in the reporting period of subsidiaries and associated companies	**6,423**	**(6)**	**6,417**
Reclassification adjustment for losses included in net income	**711**	**(10)**	**701**
Adjustment for the year	**55,707**	**(3,316)**	**52,391**
Net unrealized losses on derivatives:			
Unrealized losses arising during the year	**(14,780)**	**5,630**	**(9,150)**
Effect of the change in the reporting period of subsidiaries and associated companies	**246**	**(86)**	**160**
Reclassification adjustment for losses included in net income	**1,501**	**(580)**	**921**
Adjustment for the year	**(13,033)**	**4,964**	**(8,069)**
Other comprehensive income	**¥ 302,716**	**¥ (106,032)**	**¥ 196,684**

2005:

	Millions of Yen		
	Pretax amount	Tax (expense) or benefit	Net-of-tax amount
Net unrealized holding gains on securities available-for-sale:			
Unrealized holding gains arising during the year	¥ 62,481	¥ (27,133)	¥ 35,348
Reclassification adjustment for gains included in net income	(11,762)	4,957	(6,805)
Adjustment for the year	50,719	(22,176)	28,543
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	708	(436)	272
Reclassification adjustment for losses included in net income	554	(71)	483
Adjustment for the year	1,262	(507)	755
Net unrealized losses on derivatives:			
Unrealized losses arising during the year	(2,460)	782	(1,678)
Effect of the change in the reporting period of subsidiaries and associated companies	78	(32)	46
Reclassification adjustment for losses included in net income	1,018	(364)	654
Adjustment for the year	(1,364)	386	(978)
Other comprehensive income	¥ 50,617	¥ (22,297)	¥ 28,320

2004:

	Millions of Yen		
	Pretax amount	Tax (expense) or benefit	Net-of-tax amount
Net unrealized holding gains on securities available-for-sale:			
Unrealized holding gains arising during the year	¥ 174,138	¥ (71,131)	¥ 103,007
Reclassification adjustment for gains included in net income	(39,754)	16,232	(23,522)
Adjustment for the year	134,384	(54,899)	79,485
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	(22,062)	(3,854)	(25,916)
Reclassification adjustment for gains included in net income	(183)	—	(183)
Adjustment for the year	(22,245)	(3,854)	(26,099)
Net unrealized gains on derivatives:			
Unrealized gains arising during the year	162	(66)	96
Reclassification adjustment for losses included in net income	465	(191)	274
Adjustment for the year	627	(257)	370
Other comprehensive income	¥ 112,766	¥ (59,010)	¥ 53,756

2006:

	Millions of U.S. Dollars		
	Pretax amount	Tax (expense) or benefit	Net-of-tax amount
Net unrealized holding gains on securities available-for-sale:			
Unrealized holding gains arising during the year	**$ 2,309**	**$ (956)**	**$ 1,353**
Effect of the change in the reporting period of subsidiaries and associated companies	**(0)**	**0**	**(0)**
Reclassification adjustment for gains included in net income	**(105)**	**43**	**(62)**
Adjustment for the year	**2,204**	**(913)**	**1,291**
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	**412**	**(28)**	**384**
Effect of the change in the reporting period of subsidiaries and associated companies	**54**	**(0)**	**54**
Reclassification adjustment for losses included in net income	**6**	**(0)**	**6**
Adjustment for the year	**472**	**(28)**	**444**
Net unrealized losses on derivatives:			
Unrealized losses arising during the year	**(125)**	**48**	**(77)**
Effect of the change in the reporting period of subsidiaries and associated companies	**2**	**(1)**	**1**
Reclassification adjustment for losses included in net income	**13**	**(5)**	**8**
Adjustment for the year	**(110)**	**42**	**(68)**
Other comprehensive income	**$ 2,566**	**$ (899)**	**$ 1,667**

16. DERIVATIVES AND HEDGING ACTIVITIES

Risk management policy

The Companies operate internationally, exposing them to the risk of changes in foreign exchange rates, interest rates and commodity prices. Derivative financial instruments are comprised principally of foreign exchange contracts, interest rate swaps and commodity future contracts utilized by the Company and certain of its subsidiaries to reduce these risks. The Companies assess foreign currency exchange rate risk, interest rate risk and commodity price risk by continually monitoring changes in these exposures and by evaluating hedging opportunities. The Companies hold or issue commodity derivatives for trading purposes. The Companies are also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are internationally recognized financial institutions and contracts are diversified across a number of major financial institutions.

Foreign currency exchange rate risk management

The Companies operate internationally 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 foreign exchange forward contracts and other contracts to preserve the economic value of cash flows in non-functional currencies.

Interest rate risk management

The Companies' exposure to the market risk of changes in interest rates relate primarily to its debt obligations. The fixed-rate debt obligations expose the Companies to variability in their fair values due to changes in interest rates. To manage the variability in fair values caused by interest rate changes, the Companies enter into interest rate swaps when it is determined to be appropriate based on market conditions. The interest rate swaps change the fixed-rate debt obligations to variable-rate debt obligations by entering into receive-fixed, pay-variable interest rate swaps. The hedging relationship between the interest rate swaps and the hedged debt obligations is highly effective in achieving offsetting changes in fair values resulting from interest rate risk.

Commodity price risk management

The Companies are exposed to price fluctuations of commodities used in their trading and other operating activities. To hedge the variability in commodity prices, the Companies enter into commodity futures, forwards and swaps contracts. These contracts relate principally to precious metals, nonferrous metals, crude oil and agricultural products.

Fair-value hedges

Fair-value hedges are hedges that eliminate the risk of changes in the fair values of assets and liabilities. The Companies use interest rate swaps to hedge the change of fair value on fixed-rate borrowings used to fund assets earning interest at variable rates. Changes in the fair value of derivatives designated as fair-value hedges are recorded in earnings and are offset by corresponding changes in the fair value of the hedged item to the extent of hedge effectiveness.

Cash-flow hedges

Cash-flow hedges are hedges that use derivatives to offset the variability of expected future cash flows. The Companies use commodity future contracts to hedge the variability of cash flows related to forecasted transactions and interest rate swaps to hedge the variability of cash flows related to floating-rate borrowings. The Companies record changes in the fair value of derivative instruments in other comprehensive income (loss) as a separate component of shareholders' equity. Such amounts are released to earnings contemporaneously when the hedged item affects earnings. For the year ended March 31, 2006, net derivative losses of ¥921 million ($8 million), net of related income tax benefit of ¥580 million ($5 million), were reclassified into earnings. For the year ended March 31, 2005, net derivative losses of ¥654 million, net of related income tax benefit of ¥364 million, were likewise reclassified. As of March 31, 2006, the amount that was expected to be reclassified into earnings, net of the related tax benefit, within the next fiscal year was ¥7,045 million ($60 million).

Hedge of the net investment in foreign operations

The Companies use currency swaps to hedge the foreign currency risk of the net investments in foreign operations. The Companies recorded changes in fair values of hedging instruments in foreign currency translation adjustments within other comprehensive income (loss) as a separate component of shareholders' equity to the extent of hedge effectiveness. For the year ended March 31, 2006, net derivative gains of ¥22 million ($0 million), was included in foreign currency translation adjustments.

Derivatives not designated as hedges

SFAS No. 133 specifies criteria that must be met in order to apply hedge accounting. For example, hedge accounting is not permitted for hedged items that are remeasured with the changes in fair-value attributable to the hedged risk reported currently in earnings. The Companies use derivatives to hedge exposures when it makes economic sense to do so, including circumstances in which the hedging relationship does not qualify for hedge accounting.

The Companies use foreign exchange forward contracts to economically hedge the fluctuations of foreign exchange rates on foreign currency assets, liabilities and unrecognized firm commitments. The Companies also enter into commodity forwards, futures and swap contracts to economically hedge their inventories and unrecognized firm commitments against market price fluctuations. Certain commodity derivatives are entered into for trading purposes in extent of an approval of the management. These derivatives do not qualify for hedge accounting and any changes in their fair value are recognized to earnings.

Earnings effects of derivatives

For the years ended March 31, 2006, 2005 and 2004,the amount of hedge ineffectiveness recognized on fair-value hedges was losses of ¥1 million ($0 million), gains of ¥3 million and losses of ¥2 million, respectively. There were no gains or losses excluded from the assessment of hedge effectiveness for the years ended March 31, 2006, 2005 and 2004.

In the context of hedging relationships, "Effectiveness" refers to the degree of achieving offsetting changes in fair value or offsetting the variability in cash flows attributable to the risk being hedged.

Management continuously assesses effectiveness of these derivative transactions and market risks surrounding these transactions to formulate the Companies' policy regarding derivative transactions.

17. FINANCIAL INSTRUMENTS

In accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," the Companies have provided the following fair value estimates and information about valuation methodologies.

Quoted market prices, where available, are used to estimate fair values of financial instruments. However, quoted market prices are not available for a substantial portion of the Companies' financial instruments, and, therefore, fair values for such financial instruments are estimated using discounted cash flow analysis or other valuation techniques as deemed appropriate.

Cash, Cash Equivalents, Short-Term Investments, Accounts Receivable, Accounts Payable and Note Payable

The carrying amount approximates fair value of these instruments because of their short-term maturities.

Marketable Securities and Other Investments

The fair values of marketable securities are estimated using quoted market prices. Other investments include investments in common stock of non-traded and unaffiliated companies such as customers and suppliers, and investments in non-listed preferred stock of certain financial institutions. It is not practicable to estimate the fair value of investments in unlisted common stock because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost (see Note 5).

Non-Current Trade Receivables and Advances to Associated Companies

The fair values of non-current trade receivables including long-term loans receivable, except for loans with floating rates whose carrying amount approximates fair value, are estimated by discounted cash flow analysis, using interest rates currently being offered for loans or accounts receivable with similar terms to borrowers or customers of similar credit quality and remaining maturities.

Long-Term Debt

The fair values of long-term debt, except for debt with floating rates whose carrying amount approximates fair value, are estimated by discounted cash flow analysis, using rates currently available for similar types of borrowings with similar terms and remaining maturities.

Guarantee of Third Party Debt

As a result of the adoption of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," the fair values of financial guarantees are estimated based on the premiums received or receivables by guarantors in an arm's length transactions with unrelated parties (see Note 22).

Interest Rate Swaps, Currency Swap Agreements and Currency Option Contracts

The fair values of interest rate swaps, currency swap agreements and currency option contracts are estimated by obtaining quotes from brokers and other appropriate valuation techniques based on information available to the Companies.

Foreign Exchange Forward Contracts

The fair values of foreign exchange forward contracts are estimated based on market prices for contracts with similar terms.

Interest Rate Future Contracts and Bond Future Contracts

The fair values of interest rate future contracts and bond future contracts are estimated using quoted market prices.

The estimated fair values of certain financial instruments and derivative financial instruments as of March 31, 2006 and 2005 were as follows:

	Millions of Yen			Millions of U.S. Dollars		
As of March 31, 2006:	Notional amount	Carrying amount	Fair value	Notional amount	Carrying amount	Fair value
Financial Assets:						
Non-current trade receivables and advances to associated companies, less allowance for doubtful receivables	¥ —	¥ 705,826	¥ 711,427	$ —	$ 5,982	$ 6,029
Financial Liabilities:						
Long-term debt, including current maturities	—	2,875,715	2,876,716	—	24,370	24,379
Derivative Financial Instruments (Assets):						
Interest rate swaps	62,226	604	604	527	5	5
Interest rate future contracts	19,880	20	20	168	0	0
Currency swap agreements, and currency options	196,416	1,472	1,472	1,665	12	12
Foreign exchange forward contracts	622,229	9,224	9,224	5,273	78	78
Bond future contracts	520	4	4	4	0	0
Derivative Financial Instruments (Liabilities):						
Interest rate swaps	966,589	18,367	18,367	8,191	156	156
Interest rate future contracts	50,259	11	11	426	0	0
Currency swap agreements, and currency options	163,986	8,868	8,868	1,390	75	75
Foreign exchange forward contracts	291,766	2,253	2,253	2,473	19	19
Bond future contracts	46,548	301	301	394	3	3

	Millions of Yen		
As of March 31, 2005:	Notional amount	Carrying amount	Fair value
Financial Assets:			
Non-current trade receivables and advances to associated companies, less allowance for doubtful receivables	¥ —	¥ 669,716	¥ 674,267
Financial Liabilities:			
Long-term debt, including current maturities	—	2,652,185	2,664,913
Derivative Financial Instruments (Assets):			
Interest rate swaps	819,758	32,467	32,467
Currency swap agreements, and currency options	129,197	7,995	7,995
Foreign exchange forward contracts	100,874	1,490	1,490
Derivative Financial Instruments (Liabilities):			
Interest rate swaps	125,821	298	298
Currency swap agreements, and currency options	38,683	1,870	1,870
Foreign exchange forward contracts	410,412	7,173	7,173

The Companies' global operation in a variety of businesses with diverse customers and suppliers reduces concentrations of credit risks. The Companies deal with selected international financial institutions, with a certain credit rating or higher from the international statistical credit rating agency, in order to mitigate the credit risk exposure of derivatives with off-balance-sheet risk. Credit risk represents the possibility that the counterparties may be unable to perform under the terms of the agreements. Management does not expect any material losses as a result of counterparty default on financial instruments. Credit risk is managed through the credit line approved by management and by monitoring the counterparties periodically. The Companies require collateral to the extent considered necessary. There was no major customer comprising more than 10% of the sales transactions with the Companies for the years ended March 31, 2006, 2005 and 2004.

18. NET INCOME PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the years ended March 31, 2006, 2005 and 2004 is as follows:

	Millions of Yen			Millions of U.S. Dollars
Income (Numerator)	**2006**	2005	2004	**2006**
Net income—basic	**¥ 160,237**	¥ 85,073	¥ 66,621	**$ 1,358**
Effect of dilutive securities:				
1.5% Japanese yen convertible debentures, due 2004	**—**	—	331	**—**
Net income—diluted	**¥ 160,237**	¥ 85,073	¥ 66,952	**$ 1,358**

	Number of shares		
Shares (Denominator)	**2006**	2005	2004
Weighted-average shares—basic	**1,230,871,223**	1,168,142,925	1,063,190,319
Dilutive effect of:			
Stock options	**110,759**	54,334	9,287
1.5% Japanese yen convertible debentures, due 2004	**—**	—	28,854,764
Weighted-average shares—diluted	**1,230,981,982**	1,168,197,259	1,092,054,370

	Yen			U.S. Dollars
	2006	2005	2004	**2006**
Net income per share:				
Basic	**¥ 130.18**	¥ 72.83	¥ 62.66	**$ 1.10**
Diluted	**130.17**	72.82	61.31	**1.10**

Financial Section

19. SEGMENT INFORMATION

The Companies conduct business through the nine industry-based business segments as described in Note 1 and two sets of regional operations; domestic and overseas described as follows.

Domestic Regional Business Units and Offices—Domestic Regional Business Units and Offices segment conducts domestic regional operations in three regional business units, focused in the Kansai, Chubu and Kyushu-Okinawa regions, and two other regional offices. This region-focused operation conducts business activities in all industry sectors based on their specialized knowledge of the region. The region-focused operation also works together on certain projects with the industry-based business segments in order to develop products and services that are more focused on that particular region.

Overseas Subsidiaries and Branches—The Overseas Subsidiaries and Branches segment includes subsidiaries, branches located throughout the world and representative offices in China, with the largest operations in the Americas, Europe, China, and South East Asia. This region-focused operation conducts business activities in all industry sectors based on their specialized knowledge of the region. The region-focused operation also works together on certain projects with the industry-based business segments in order to develop products and services that are more focused on that particular region.

Each business segment operates with a degree of autonomy in pursuing strategic goals, managing operations and ensuring accountability. Each business segment also has its own planning and administration department and separate financial reporting. The reportable segments are organized based on the nature of products and services provided and on certain specific domestic and overseas region that oversee the business activities of all business in those regions. Segment financial information is evaluated regularly by the chief operating decision maker in order to assess performance and determine the allocation of resources.

Information by operating segment for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

Operating Segments:

2006:	Millions of Yen				
Segment	Revenues	Gross profit	Net income	Assets	Total trading transactions*
Metal Products	**¥ 345,350**	**¥ 65,396**	**¥ 18,888**	**¥ 662,844**	**¥ 1,466,038**
Transportation & Construction Systems	**703,360**	**127,544**	**19,800**	**1,037,044**	**1,682,400**
Machinery & Electric	**111,617**	**29,329**	**8,038**	**475,384**	**1,165,440**
Media, Electronics & Network	**92,465**	**47,245**	**14,891**	**441,711**	**456,954**
Chemical	**80,301**	**35,483**	**5,409**	**243,216**	**612,551**
Mineral Resources & Energy	**129,543**	**48,672**	**22,915**	**618,169**	**1,657,622**
Consumer Goods & Service	**350,089**	**98,550**	**14,878**	**367,984**	**776,339**
Materials & Real Estate	**168,685**	**56,230**	**12,416**	**587,683**	**453,084**
Financial & Logistics	**123,760**	**24,950**	**6,178**	**470,771**	**162,040**
Domestic Regional Business Units and Offices	**75,474**	**41,089**	**5,343**	**424,773**	**1,157,840**
Overseas Subsidiaries and Branches	**450,093**	**141,632**	**28,182**	**1,054,635**	**1,801,619**
Segment Total	**2,630,737**	**716,120**	**156,938**	**6,384,214**	**11,391,927**
Corporate and Eliminations	**(49,326)**	**(9,473)**	**3,299**	**327,680**	**(1,055,662)**
Consolidated	**¥ 2,581,411**	**¥ 706,647**	**¥ 160,237**	**¥ 6,711,894**	**¥ 10,336,265**

2005:

Segment	Revenues	Gross profit	Net income	Assets	Total trading transactions*
	Millions of Yen				
Metal Products	¥ 238,037	¥ 49,904	¥ 13,294	¥ 472,640	¥ 1,096,556
Transportation & Construction Systems	623,313	113,263	13,500	871,470	1,571,179
Machinery & Electric	124,204	32,176	3,836	457,367	1,462,786
Media, Electronics & Network	83,789	44,089	24,846	374,977	448,783
Chemical	57,952	28,498	4,669	217,234	525,677
Mineral Resources & Energy	82,294	35,155	14,881	497,078	1,732,578
Consumer Goods & Service	327,525	98,922	4,601	325,102	776,920
Materials & Real Estate	134,053	38,672	(8,441)	606,132	385,440
Financial & Logistics	108,341	17,043	2,768	232,792	134,205
Domestic Regional Business Units and Offices	66,274	41,222	4,701	396,207	1,070,653
Overseas Subsidiaries and Branches	221,373	78,133	22,435	625,377	1,318,628
Segment Total	2,067,155	577,077	101,090	5,076,376	10,523,405
Corporate and Eliminations	(17,856)	(13,947)	(16,017)	456,751	(624,807)
Consolidated	¥ 2,049,299	¥ 563,130	¥ 85,073	¥ 5,533,127	¥ 9,898,598

2004:

Segment	Revenues	Gross profit	Net income	Assets	Total trading transactions*
	Millions of Yen				
Metal Products	¥ 203,274	¥ 41,965	¥ 7,600	¥ 390,391	¥ 976,822
Transportation & Construction Systems	557,760	98,586	9,555	792,960	1,535,512
Machinery & Electric	78,681	28,235	1,789	435,727	1,329,198
Media, Electronics & Network	82,287	40,758	7,473	374,952	418,226
Chemical	42,485	22,791	(140)	174,866	429,918
Mineral Resources & Energy	72,070	27,126	7,127	345,682	1,420,501
Consumer Goods & Service	303,637	90,440	5,789	304,593	831,403
Materials & Real Estate	87,096	47,830	9,150	615,253	366,971
Financial & Logistics	76,509	15,675	2,441	193,540	96,626
Domestic Regional Business Units and Offices	61,985	40,437	1,661	379,277	1,156,594
Overseas Subsidiaries and Branches	162,043	55,767	7,006	493,258	1,151,742
Segment Total	1,727,827	509,610	59,451	4,500,499	9,713,513
Corporate and Eliminations	(19,231)	(8,278)	7,170	511,966	(515,631)
Consolidated	¥ 1,708,596	¥ 501,332	¥ 66,621	¥ 5,012,465	¥ 9,197,882

2006:

Segment	Millions of U.S. Dollars Revenues	Gross profit	Net income	Assets	Total trading transactions*
Metal Products	**$ 2,927**	**$ 554**	**$ 160**	**$ 5,617**	**$ 12,424**
Transportation & Construction Systems	**5,961**	**1,081**	**168**	**8,789**	**14,258**
Machinery & Electric	**946**	**249**	**68**	**4,029**	**9,877**
Media, Electronics & Network	**783**	**400**	**126**	**3,743**	**3,872**
Chemical	**680**	**301**	**46**	**2,061**	**5,191**
Mineral Resources & Energy	**1,098**	**413**	**194**	**5,239**	**14,048**
Consumer Goods & Service	**2,967**	**835**	**126**	**3,118**	**6,579**
Materials & Real Estate	**1,429**	**477**	**105**	**4,980**	**3,840**
Financial & Logistics	**1,049**	**211**	**53**	**3,990**	**1,373**
Domestic Regional Business Units and Offices	**640**	**348**	**45**	**3,600**	**9,812**
Overseas Subsidiaries and Branches	**3,814**	**1,200**	**239**	**8,938**	**15,268**
Segment Total	**22,294**	**6,069**	**1,330**	**54,104**	**96,542**
Corporate and Eliminations	**(418)**	**(80)**	**28**	**2,776**	**(8,947)**
Consolidated	**$ 21,876**	**$ 5,989**	**$ 1,358**	**$ 56,880**	**$ 87,595**

Corporate assets consist primarily of cash and cash equivalents and marketable securities maintained for general corporate purposes.

Transfers between segments are made at arm's-length prices.

*Total trading transactions represents the gross transaction volume of trading activities, or the nominal aggregate value of the transactions for which the Companies act as principal or as agent. Total trading transactions is a measure commonly used by Japanese trading companies. It is not to be construed as equivalent to, or a substitute for, sales or revenues under U.S. GAAP.

Geographic information:

2006:

	Millions of Yen		Millions of U.S. Dollars	
	Revenues	Long-lived assets	Revenues	Long-lived assets
Japan	**¥ 1,308,055**	**¥ 673,578**	**$ 11,085**	**$ 5,708**
Asia	**195,007**	**30,767**	**1,653**	**261**
North America:				
U.S.	**533,309**	**250,740**	**4,519**	**2,125**
Other	**122,953**	**16,623**	**1,042**	**141**
Europe	**296,228**	**122,229**	**2,510**	**1,036**
Other	**125,859**	**79,540**	**1,067**	**674**
Total	**¥ 2,581,411**	**¥ 1,173,477**	**$ 21,876**	**$ 9,945**

2005:

	Millions of Yen	
	Revenues	Long-lived assets
Japan	¥ 1,182,592	¥ 646,031
Asia	144,541	23,041
North America:		
U.S.	267,088	82,667
Other	90,473	12,868
Europe	249,233	101,906
Other	115,372	62,284
Total	¥ 2,049,299	¥ 928,797

2004:

	Millions of Yen	
	Revenues	Long-lived assets
Japan	¥ 985,172	¥ 741,741
Asia	117,667	21,330
North America:		
U.S.	194,218	29,438
Other	81,535	12,457
Europe	225,121	74,705
Other	104,883	65,878
Total	¥ 1,708,596	¥ 945,549

20. FOREIGN EXCHANGE GAINS AND LOSSES

Transaction gains and losses resulting from translating assets and liabilities denominated in a currency other than the functional currency of the reporting entity or from settling such items are included in earnings as they arise. Net foreign currency transaction losses of ¥6,945 million ($59 million), gains of ¥2,097 million, and losses of ¥3,463 million were included in the determination of net income for the years ended March 31, 2006, 2005 and 2004, respectively.

21. LEASES

As Lessor

The Companies lease vehicles, vessels, service equipment, and others 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, 2006 and 2005, included in "Receivables—trade" and "Long-term receivables" in the accompanying Consolidated Balance Sheets, are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	**2006**
Future minimum lease payments	**¥ 204,349**	¥ 197,843	**$ 1,732**
Unguaranteed residual value	**5,594**	4,953	**47**
Less: unearned income	**(23,263)**	(23,143)	**(197)**
Net investments	**¥ 186,680**	¥ 179,653	**$ 1,582**

The Companies also lease aircraft, office buildings and other industrial properties and equipment to third parties under cancelable and non-cancelable operating leases. As of March 31, 2006 and 2005, the cost of the leased property was ¥522,399 million ($4,427 million) and ¥500,096 million, respectively, and the accumulated depreciation of that was ¥185,931 million ($1,576 million) and ¥177,792 million, respectively, and these are included in "Property and equipment" and "Goodwill and other intangible assets"(see Notes 9 and 10).

Future minimum lease payments to be received as of March 31, 2006 are as follows:

	Millions of Yen			Millions of U.S. Dollars		
Year ending March 31,	Direct financing leases	Operating leases	Total	Direct financing leases	Operating leases	Total
2007	¥ 62,488	¥ 54,950	¥ 117,438	$ 529	$ 466	$ 995
2008	51,174	41,247	92,421	434	349	783
2009	36,636	28,813	65,449	311	244	555
2010	25,356	21,553	46,909	215	183	398
2011	12,636	15,399	28,035	107	130	237
2012 and thereafter	16,059	24,523	40,582	136	208	344
Total	¥ 204,349	¥ 186,485	¥ 390,834	$ 1,732	$ 1,580	$ 3,312

As Lessee

For the year ended March 31, 2006, the companies sold the corporate headquarter building (Harumi Triton Square Office Tower Y) for ¥86,000 million ($729 million) and leased back for a period of ten years. The lease was classified as an operating lease and the gain equivalent to the present value of the future minimum lease payment resulting from the sale-leaseback transaction was deferred and is recognized over the lease payment.

The Companies lease office space and certain other assets under cancelable and non-cancelable operating leases. Total rental expenses under such cancelable and non-cancelable leases for the years ended March 31, 2006, 2005 and 2004 were ¥38,966 million ($330 million), ¥28,022 million and ¥25,411 million, respectively. Certain lease contracts for equipment are classified as capital leases in conformity with SFAS No. 13 and are capitalized on the accompanying Consolidated Balance Sheets and included in "Property and equipment" (see Note 9).

As of March 31, 2006, the future minimum lease payments under capital lease and non-cancelable operating leases are as follows:

	Millions of Yen			Millions of U.S. Dollars		
Year ending March 31,	Capital leases	Non-cancelable operating leases	Total	Capital leases	Non-cancelable operating leases	Total
2007	¥ 20,481	¥ 40,595	¥ 61,076	$ 174	$ 344	$ 518
2008	17,273	39,049	56,322	146	331	477
2009	13,696	33,596	47,292	116	285	401
2010	10,142	31,192	41,334	86	264	350
2011	6,146	28,595	34,741	52	242	294
2012 and thereafter	7,060	200,733	207,793	60	1,701	1,761
	74,798	373,760	448,558	634	3,167	3,801
Less: amount representing interest	(6,931)			(59)		
	¥ 67,867			$ 575		

22. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments

The Companies customarily enter into long-term purchase commitments for certain items, principally ocean transport vessels and industry materials, either at fixed prices or at basic purchase prices adjustable to market. Such purchase commitments are in most instances matched with counter-party sales contracts. Long-term purchase contracts at fixed prices or at basic purchase prices adjustable to market amounted to ¥639,443 million ($5,419 million) as of March 31, 2006. Scheduled deliveries are at various dates through 2012.

The Companies also had long-term financing commitments of ¥21,005 million ($178 million) as of March 31, 2006 for loans and investments in equity capital.

(b) Guarantees

The Companies enter into various guarantee agreements. These agreements arise in transactions related to enhancing the credit standings of associated companies, suppliers, buyers and employees, and residual values on operating leases.

FIN 45 requires that the Companies recognize the fair value of guarantee and indemnification arrangements issued or modified after December 31, 2002, if these arrangements are within the scope of the Interpretation. The carrying amounts of the liabilities recognized for the Companies' obligations as a guarantor under those guarantees as of March 31, 2006 were insignificant.

The following table provides the undiscounted maximum amount of potential future payments for each major group of guarantees:

As of March 31, 2006:	Millions of Yen	Millions of U.S. Dollars
Discounted trade notes receivable with banks	**¥ 41,691**	**$ 353**
Guarantees of indebtedness:		
Associated companies	**35,041**	**297**
Third parties	**37,174**	**315**
Employees	**4,692**	**40**
Residual value guarantees	**13,300**	**113**
Total	**¥ 131,898**	**$ 1,118**

Discounted Trade Notes Receivable with Banks

The Companies are contingently liable for trade notes receivable sold to banks on a discounted basis with recourse to the Companies. These notes arise mainly from export transactions and mature through 2007. If an issuer of a note defaults on its payment, the Companies would be required to pay the banks for any loss. ¥31,503 million ($267 million) of discounted trade notes receivable outstanding as of March 31, 2006 was covered by letters of credit, whereby other banks would be required to pay for any defaults by the issuers of the notes. The Companies provided an allowance for losses of ¥72 million ($1 million) as of March 31, 2006 in "Other current liabilities" in the accompanying Consolidated Balance Sheets for estimated losses on the discounted trade notes receivable.

Guarantees of Indebtedness for Associated Companies

The Companies provide guarantees on certain of their associated companies' borrowings from banks, payables to suppliers and other indebtedness. These guarantees mature through 2021. Guarantees with third party guarantee aggregated ¥726 million ($6 million) as of March 31, 2006. The Companies would be obligated to reimburse the banks for losses, if any, if a borrower defaults on a guaranteed loan.

Guarantees of Indebtedness for Third Parties

The Companies also provide guarantees of indebtedness for third parties. These guarantees are arranged mainly with suppliers and customers and mature through 2015. The Companies must pay if a guaranteed party defaults on a guaranteed indebtedness. Guarantees with third party guarantee aggregated ¥1,340 million ($11 million) as of March 31, 2006. Certain of these guarantees are also collateralized by borrower assets.

Guarantees of Indebtedness for Employees

The Companies offer guarantees to banks for housing loans of employees as employee benefit. The maximum maturity of the guarantees is 25 years. The Companies would be obligated to reimburse the bank for losses, if any, if the employee defaults on a guaranteed loan. These guarantees are collateralized by the housing units related to the loans.

Residual Value Guarantees

The Companies also provide residual value guarantees to owners of transportation equipment leased by third parties under operating leases to compensate for the gap between fixed prices and actual disposal proceeds on dates specified in these contracts. These specified dates ranged from years 2012 to

2015 as of March 31, 2006. If the actual disposal amount of the equipment is less than the guaranteed value on the specified date, the Companies will be required to compensate for the shortfall so long as obligations by the lessee under the contract are satisfied. The current estimated future values of such transportation equipment are higher than the guaranteed values, and, accordingly, no allowance has been provided as of March 31, 2006.

Management does not anticipate incurring losses on the above commitments and guarantees in excess of established allowances.

(c) Litigation

(1) Copper Trading Litigation

As for the status of a variety of litigation resulting from unauthorized copper trading by a former employee of the Company which was discovered in June 1996, the Company reached a settlement with the plaintiff of a class action suit in Canada in which the Company is involved as a defendant in December 2005 and a Canadian court approved the settlement on June 19, 2006. As for one individual lawsuit in the U.S., on February 6, 2006, the Court of Appeals for the Seventh Circuit affirmed the decision by the Wisconsin federal court, which granted the motion to dismiss the case, and this decision became final and conclusive as of May 9, 2006 as the plaintiff made no further appeals to the Supreme Court.

Settlement paid and related attorney fees incurred for the year ended March 31, 2006 were included in "Settlements on copper trading litigation" in the accompanying Consolidated Statements of Income.

The Company and UBS AG (headquarters: Switzerland) reached a settlement of a lawsuit filed by the Company against UBS AG in relation to the illicit copper trading by a former employee of the Company in the Tokyo High Court on April 7, 2006. Under the settlement, UBS AG, without any admission of wrongdoing or unlawful act, paid the Company the full amount of ¥10 billion ($85 million) on April 27, 2006, which will be recognized in the year ending March 31, 2007.

All litigation resulting from the unauthorized copper trading in which the Company was involved as a party other than the litigation mentioned above had been resolved by March 31, 2005.

(2) Other Litigation

In addition to the situation described in the preceding paragraph (1), the Companies are also involved in certain legal actions and claims incidental to its business. In the opinion of management, none of these actions or claims will have a material adverse effect on the financial position on result of operations of the Companies.

Independent Auditors' Report

The Board of Directors and Shareholders
Sumitomo Corporation :

We have audited the accompanying consolidated balance sheets of Sumitomo Corporation and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2006, all expressed in 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sumitomo Corporation and subsidiaries as of March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements as of and for the year ended March 31, 2006 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into dollars on the basis set forth in note 2 of the notes to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
April 28, 2006