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SIX-YEAR FINANCIAL SUMMARY

For the years ended March 31

1. Key Financial Indicators

	Billions of Yen						Millions of U.S. Dollars
	2007	2006	2005	2004	2003	2002	2007
Total assets	8,430.5	6,711.9	5,533.1	5,012.5	4,856.2	4,860.2	71,445
Shareholders' equity	1,473.1	1,304.0	934.9	730.8	618.7	658.0	12,484
Shareholders'equity ratio (%)	17.5	19.4	16.9	14.6	12.7	13.5	17.5
Return on Equity (%)	15.2	14.3	10.2	9.9	2.2	7.4	15.2
Return on Assets (%)	2.8	2.6	1.6	1.4	0.3	1.0	2.8
Interest-bearing liabilities (gross)	3,355.6	3,152.5	2,840.1	2,795.9	2,830.6	2,813.4	28,438
Interest-bearing liabilities (net)	2,913.3	2,622.2	2,376.0	2,377.6	2,502.8	2,528.8	24,689
Debt-Equity Ratio (gross) (times)	2.3	2.4	3.0	3.8	4.6	4.3	2.3
Debt-Equity Ratio (net) (times)	2.0	2.0	2.5	3.3	4.0	3.8	2.0
Working Capital	1,310.3	1,021.8	897.0	694.0	346.9	194.5	11,105

2. Consolidated Statements of Income

	Billions of Yen						Millions of U.S. Dollars
	2007	2006	2005	2004	2003	2002	2007
Revenues:							
Sales of tangible products	2,495.0	2,079.6	1,586.1	1,284.1	1,129.4	966.5	21,144
Sales of services and others	582.2	501.8	463.2	424.5	408.9	419.4	4,934
Total revenues	3,077.2	2,581.4	2,049.3	1,708.6	1,538.3	1,385.9	26,078
Cost:							
Cost of tangible products sold	2,076.6	1,737.7	1,361.8	1,097.5	948.2	817.0	17,598
Cost of services and others	142.9	137.1	124.4	109.8	93.7	81.6	1,211
Total cost	2,219.5	1,874.8	1,486.2	1,207.3	1,041.9	898.6	18,809
Gross profit	857.7	706.6	563.1	501.3	496.4	487.3	7,269
Other income (expenses):							
Selling, general and administrative expenses	(609.9)	(515.8)	(437.9)	(422.4)	(406.3)	(400.8)	(5,169)
Settlements on copper trading litigation	9.6	(0.1)	2.8	(7.1)	0.2	4.3	81
(Provision for) reversal of allowance for doubtful receivables	(8.0)	(14.7)	(12.9)	(8.0)	(5.6)	12.6	(68)
Impairment losses on long-lived assets	(9.8)	(12.4)	(29.5)	(5.2)	(20.4)	(4.8)	(83)
Gain (Loss) on sale of property and equipment, net	2.4	(0.4)	11.5	13.3	3.3	2.8	20
Interest income	32.9	19.0	14.6	15.7	24.9	32.3	279
Interest expense	(70.0)	(39.0)	(23.2)	(22.0)	(30.9)	(46.0)	(593)
Dividends	14.1	10.4	6.4	6.9	6.4	6.6	119
Gain (Loss) on marketable securities and other investments, net	44.4	41.8	20.0	16.3	(47.1)	(8.9)	377
Equity in earnings of associated companies, net	70.3	51.4	37.4	20.7	9.8	0.2	596
Other, net	(1.8)	1.0	(1.0)	(0.5)	(2.1)	(2.4)	(15)
Total other income (expenses)	(525.8)	(458.8)	(411.8)	(392.3)	(467.8)	(404.1)	(4,456)
Income before income taxes and minority interests in earnings of subsidiaries	331.9	247.8	151.3	109.0	28.6	83.2	2,813
Income taxes	114.8	80.7	57.8	35.7	8.4	30.2	973
Income before minority interests in earnings of subsidiaries	217.1	167.1	93.5	73.3	20.2	53.0	1,840
Minority interests in earnings of subsidiaries, net	(6.1)	(6.9)	(8.4)	(6.7)	(6.3)	(5.3)	(52)
Net income	211.0	160.2	85.1	66.6	13.9	47.7	1,788
Total trading transactions*	10,528.3	10,336.3	9,898.6	9,197.9	9,229.6	9,645.4	89,223

* 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
	2007	2006	2005	2004	2003	2002	2007
Net income	211.0	160.2	85.1	66.6	13.9	47.7	1,788
Net unrealized holding gains (losses) on securities available-for-sale adjustments	11.9	152.4	28.5	79.5	(30.5)	(34.8)	101
Foreign currency translation adjustments	25.7	46.0	0.7	(26.1)	(13.9)	27.7	218
Net unrealized gains (losses) on derivatives adjustments	4.7	(8.2)	(1.0)	0.4	0.1	(0.9)	40
Total comprehensive income (loss)	253.3	350.4	113.3	120.4	(30.4)	39.7	2,147

4. Consolidated Balance Sheets

	Billions of Yen						Millions of U.S. Dollars
	2007	2006	2005	2004	2003	2002	2007
Current assets:							
Cash and cash equivalents	436.8	522.0	453.9	415.6	324.4	276.7	3,702
Time deposits	5.5	8.3	10.2	2.7	3.4	7.9	47
Marketable securities	17.3	22.1	23.1	2.8	7.7	5.6	147
Receivables—trade:							
Notes and loans	292.6	265.0	307.1	238.2	270.7	289.4	2,480
Accounts	1,722.1	1,646.1	1,355.7	1,178.0	1,095.8	1,072.5	14,594
Associated companies	100.0	98.3	84.9	151.2	138.3	162.4	848
Allowance for doubtful receivables	(13.6)	(15.3)	(11.0)	(8.9)	(9.8)	(10.7)	(115)
Inventories	757.5	705.2	503.8	412.3	413.1	406.6	6,419
Deferred income taxes	39.3	32.0	39.2	37.6	29.3	24.2	333
Advance payments to suppliers	55.6	50.2	56.9	51.6	47.8	46.5	471
Assets held for sale	1,516.4	—	—	—	—	—	12,851
Other current assets	228.1	310.4	271.2	140.1	116.1	134.0	1,933
Total current assets	5,157.8	3,644.3	3,095.0	2,621.2	2,436.8	2,415.1	43,710
Investments and long-term receivables:							
Investments in and advances to associated companies	559.5	469.5	394.6	384.0	375.7	285.4	4,742
Other investments	833.8	783.0	502.7	469.0	413.6	583.3	7,066
Long-term receivables	706.1	662.1	620.8	597.5	666.1	680.3	5,984
Allowance for doubtful receivables	(28.4)	(40.7)	(45.7)	(50.0)	(76.2)	(83.1)	(241)
Total investments and long-term receivables	2,071.0	1,873.9	1,472.4	1,400.5	1,379.2	1,465.9	17,551
Property and equipment, at cost	1,371.7	1,263.7	1,129.7	1,157.4	1,126.8	1,120.4	11,624
Accumulated depreciation	(507.0)	(444.2)	(409.3)	(388.8)	(365.8)	(344.0)	(4,296)
	864.7	819.5	720.4	768.6	761.0	776.4	732.8
Prepaid expenses, non-current	47.4	94.7	94.8	98.6	110.7	77.1	402
Deferred income taxes, non-current	11.6	13.5	10.2	9.4	46.3	19.0	99
Other assets	278.0	266.0	140.3	114.2	122.2	106.7	2,355
Total	8,430.5	6,711.9	5,533.1	5,012.5	4,856.2	4,860.2	71,445
Current liabilities:							
Short-term debt	461.9	539.6	412.2	452.1	615.8	773.8	3,915
Current maturities of long-term debt	416.5	428.5	438.5	330.6	382.2	356.5	3,530
Payables—trade:							
Notes and acceptances	107.9	93.3	101.7	107.5	115.2	166.6	914
Accounts	1,103.8	1,070.9	879.0	771.1	728.7	673.0	9,354
Associated companies	38.7	29.7	18.3	22.8	25.6	25.4	328
Income taxes	54.9	33.0	20.2	15.9	17.1	9.8	465
Accrued expenses	103.8	93.0	60.5	61.2	47.7	37.5	879
Advances from customers	79.1	90.5	85.4	66.2	60.4	64.8	671
Liabilities associated with assets held for sale	1,329.3	—	—	—	—	—	11,265
Other current liabilities	151.5	244.0	182.2	99.8	97.2	113.2	1,284
Total current liabilities	3,847.4	2,622.5	2,198.0	1,927.2	2,089.9	2,220.6	32,605
Long-term debt, less current maturities	2,764.4	2,447.2	2,213.7	2,218.5	2,046.0	1,883.6	23,427
Accrued pension and retirement benefits	9.8	13.2	11.8	10.9	9.1	8.5	83
Deferred income taxes, non-current	239.5	230.3	85.7	38.8	3.9	14.6	2,030
Minority interests	96.3	94.7	89.0	86.3	88.6	74.9	816
Commitments and contingent liabilities							
Shareholders' equity:							
Common stock	219.3	219.3	219.3	169.4	169.4	169.4	1,858
Additional paid-in capital	279.7	279.5	238.9	189.6	189.5	189.5	2,370
Retained earnings:							
Appropriated for legal reserve	17.7	17.7	17.7	17.7	17.7	17.7	150
Unappropriated	755.2	579.2	442.6	365.9	307.8	302.4	6,400
	772.9	596.9	460.3	383.6	325.5	320.1	6,550
Accumulated other comprehensive income (loss)	222.2	213.8	17.1	(11.2)	(65.0)	(20.7)	1,884
Treasury stock, at cost	(21.0)	(5.5)	(0.7)	(0.6)	(0.7)	(0.3)	(178)
Total shareholders' equity	1,473.1	1,304.0	934.9	730.8	618.7	658.0	12,484
Total	8,430.5	6,711.9	5,533.1	5,012.5	4,856.2	4,860.2	71,445

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 balance sheets as of March 31, 2002 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, 2007.

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

1. INTRODUCTION

We are an integrated trading company (*sogo shosha*) 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, 2007, we had total assets of ¥8,430.5 billion and 61,490 employees worldwide. For the fiscal year ended March 31, 2007, our consolidated net income was ¥211.0 billion.

While promoting the autonomous management style of each business unit and having the corporate group focus on its core functions, we reengineered our business units in order to further expand our earnings base and strengthen services and functions we offer to our customers. The organization was reformed to eight business units on April 1, 2007. The eight industry-based business segments are:

- Metal Products
- Transportation & Construction Systems
- Infrastructure
- Media, Network & Lifestyle Retail
- Chemical & Electronics
- Mineral Resources & Energy
- General Products & Real Estate
- Financial & Logistics

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, 2007. 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," a medium-term plan from April 1, 2005 to March 31, 2007, we set quantitative targets of a consolidated risk-adjusted return ratio of 7.5% or over in each fiscal year and consolidated net income of ¥110 billion in the fiscal year ended March 31, 2006 and ¥120 billion in the fiscal year ended March 31, 2007, for a two-year total of ¥230 billion. We were able to reach these targets successfully, and recorded a consolidated net income of ¥160.2 billion in the fiscal year ended March 31, 2006 and ¥211.0 billion in the fiscal year ended March 31, 2007, a two-year total of ¥371.2 billion.

Under the AG Plan, in addition to pursuing these quantitative targets, we aimed for sustained growth through a globally consolidated drive to achieve three qualitative targets, 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."

Under the "GG Plan," the new medium-term plan that we launched this April, our basic policy is to pursue further improvement of the quality of business operations heading for a new stage

of growth. We will establish a truly solid earnings base through rigorously strengthening and expanding core businesses. At the same time, we will further enhance our management quality and secure a solid foothold so as to ensure sustained growth. As for quantitative targets, our aim for the consolidated risk-adjusted return ratio is a two-year average of over 15% and our aim for consolidated net income is ¥235 billion for the fiscal years ending March 31, 2008 and 2009 respectively, a two-year total of ¥470 billion. Effective April 1, 2007, we strategically reorganized our nine industry-based business units into eight. Under this new structure, we believe that we are better positioned to attain the targets of the GG Plan and implement dynamic business strategies over the longer term.

3. ECONOMIC ENVIRONMENT

During the period under review, higher energy prices contributed to increased inflationary pressures, leading to the tightening of monetary policy in various countries, but the global economy continued to grow strongly on the whole. The upward momentum in international commodity prices eased, but crude oil, nonferrous metals, and other commodities continued to trade at high price levels, reflecting lively demand and the presence of geopolitical risk.

In Japan, unseasonable weather dampened the growth of consumer spending, but the current economic expansion became the longest in the postwar period, surpassing the "Izanagi boom" during the period from 1965 to 1970 thanks to the ongoing strength in capital investment by businesses and the pickup in exports, particularly of automobiles. Against this improving economic climate, in July 2006, the Bank of Japan revoked the zero-interest-rate policy it had been implementing since March 2001, and, in February 2007, the Bank raised interest rates again.

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 revenues 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 aircraft; 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 of our revenues. For the fiscal year ended March 31, 2007, sales of services and others accounted for 18.9% of our total revenues, but the gross profit from sales of services and others accounted for 51.2% 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, goodwill and other intangible assets. We have recognized impairment losses with respect to our real estate, goodwill and other intangible 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 October 13, 2006, the Company, Sumisho Lease Co., Ltd. ("SCL"), Sumisho Auto Leasing Corporation ("SAL"), Sumitomo Mitsui Financial Group, Inc. ("SMFG"), SMBC Leasing Company, Limited, a wholly owned subsidiary of SMFG ("SMBC Leasing") and SMBC Auto Leasing Company, Limited, a wholly owned subsidiary of SMBC Leasing announced that they reached a basic agreement to pursue strategic joint businesses in leasing and auto leasing.

The Sumitomo Corporation Group and the SMFG Group agreed to position their leasing as a strategic joint business and to jointly aim to establish the best leasing businesses in Japan through the merger of SCL and SMBC Leasing. SCL, utilizing various value chain of the Sumitomo Corporation Group, has a unique customer base and know-how. On the other hand, SMBC Leasing, leveraging capabilities of the SMFG Group to provide financial solutions, has a different customer base and know-how. This merger will enable two groups to combine the different customer bases and know-how of each group.

SCL and SMBC Leasing plan to merge on October 1, 2007. In anticipation of this merger, on December 14, the Company acquired 26,177,722 shares of SCL through the tender offer (the "TOB") between October 31 and December 7, 2006, which meant all shares subscribed in the TOB. As a result of the TOB, the Company owns approximately 97% of the shares of SCL and SCL has become a consolidated subsidiary of the Company.

The accompanying consolidated financial statements for the year ended March 31, 2007 include the operating results of SCL based on ownership of approximately 37% of shares outstanding prior to the TOB and 97% of SCL shares outstanding after December 13, 2006.

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 the 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, aircraft and intangibles subject to amortization, 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. We also review goodwill and other intangible assets with indefinite useful life for impairment at least annually, or more often if events or circumstances, such as adverse changes in the business climate, indicate that there may be impairment. 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, 2007 Compared to Fiscal Year Ended March 31, 2006

Total Revenues. Total revenues increased by ¥495.8 billion, or 19.2%, from ¥2,581.4 billion in the fiscal year ended March 31, 2006, to ¥3,077.2 billion in the fiscal year ended March 31, 2007. The increase was mainly due to the consolidation of newly acquired subsidiaries and the expansion of business bases at our subsidiaries.

Gross Profit. Gross profit increased by ¥151.1 billion, or 21.4%, from ¥706.6 billion in the fiscal year ended March 31, 2006 to ¥857.7 billion in the fiscal year ended March 31, 2007. The increase was mainly contributed from our tubular products, steel plates, and non-ferrous metal businesses, automobile lease and finance business in Asia, IPP (Independent Power Producer) business mainly in Asia, Sumisho Computer Systems Corporation, and metal products business in overseas subsidiaries and branches.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by ¥94.1 billion, or 18.2%, from ¥515.8 billion in the fiscal year ended March 31, 2006 to ¥609.9 billion in the fiscal year ended March 31, 2007, in line with the growth in revenues.

Settlements on Copper Trading Litigation. In the fiscal year ended March 31, 2007, we gained ¥9.6 billion from settlements received on the copper trading litigation compared to a net expense of ¥0.1 billion on settlements paid in the fiscal year ended March 31, 2006.

Provision for Doubtful Receivables. The provision for doubtful receivables decreased by ¥6.7 billion, or 45.6%, to ¥8.0 billion in the fiscal year ended March 31, 2007, compared to ¥14.7 billion in the fiscal year ended March 31, 2006. Provision for doubtful receivables recognized for the fiscal year ended March 31, 2007 was mainly related to receivables in overseas businesses from which we withdrew.

Impairment Losses on Long-Lived Assets. Impairment losses on long-lived assets decreased by ¥2.6 billion, or 21.0%, from ¥12.4 billion in the fiscal year ended March 31, 2006 to ¥9.8 billion in the fiscal year ended March 31, 2007. Impairment losses recognized for the fiscal year ended March 31, 2007 were mainly related to a mining right for gas development in North America.

Gain on Sale of Property and Equipment, Net. We recorded a gain on sale of property and equipment of ¥2.4 billion for the fiscal year ended March 31, 2007 while we recorded a loss of ¥0.4 billion for the fiscal year ended March 31, 2006.

Interest Income. Interest income increased by ¥13.9 billion, or 73.2%, from ¥19.0 billion in the fiscal year ended March 31, 2006 to ¥32.9 billion in the fiscal year ended March 31, 2007. This was mainly due to higher U.S. dollar and Japanese yen interest rates.

Interest Expense. Interest expense increased by ¥31.0 billion, or 79.5%, from ¥39.0 billion in the fiscal year ended March 31, 2006 to ¥70.0 billion in the fiscal year ended March 31, 2007. The increase was mainly due to higher U.S. dollar and Japanese yen interest rates and the increase of U.S. dollar-denominated loans.

Dividends. Total dividend income increased by ¥3.7 billion, or 35.6%, from ¥10.4 billion in the fiscal year ended March 31, 2006 to ¥14.1 billion in the fiscal year ended March 31, 2007. This was mainly due to the increased dividends from foreign investments and domestic listed companies.

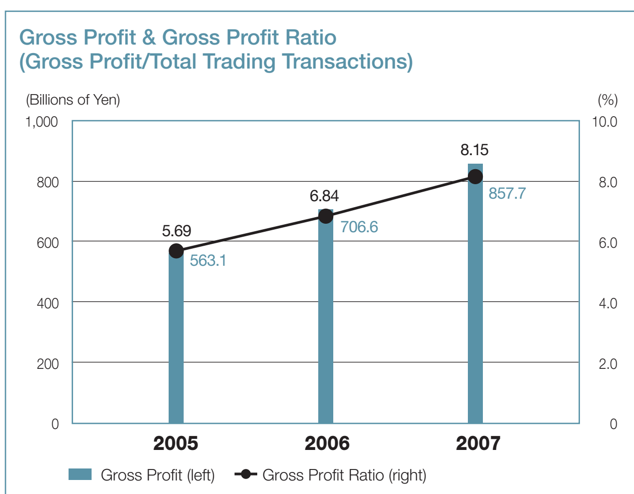
Other than Temporary Impairment Losses on Securities. Other than temporary impairment losses on securities decreased by ¥0.8 billion, or 21.6%, from ¥3.7 billion in the fiscal year ended March 31, 2006 to ¥2.9 billion in the fiscal year ended March 31, 2007.

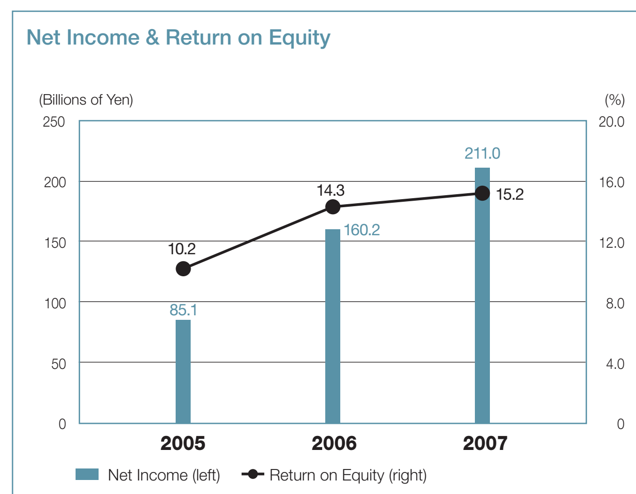
Gain on Sale of Marketable Securities and Other Investments, Net. Gain on sale of marketable securities and other investments increased by ¥3.0 billion, or 6.8%, from ¥44.0 billion for the fiscal year ended March 31, 2006 to ¥47.0 billion for the fiscal year ended March 31, 2007. Capital gain of INPEX Holdings Inc. contributed for the fiscal year ended March 31, 2007.

Equity in Earnings of Associated Companies, Net. Equity in earnings of associated companies increased by ¥18.9 billion, or 36.8%, from ¥51.4 billion in the fiscal year ended March 31, 2006 to ¥70.3 billion in the fiscal year ended March 31, 2007. The increase was mainly due to strong performances by the copper business in the Americas, steel pipe business in the North America, Jupiter Telecommunications Co., Ltd., and Jupiter TV Co., Ltd.

Income Taxes. Income taxes increased by ¥34.1 billion, or 42.3%, from ¥80.7 billion in the fiscal year ended March 31, 2006 to ¥114.8 billion in the fiscal year ended March 31, 2007, attributable to the increase in 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 ¥0.8 billion, or 11.6%, from ¥6.9 billion in the fiscal year ended March 31, 2006 to ¥6.1 billion in the fiscal year ended March 31, 2007. The decrease was mainly attributable to the increase in our ownership in Sumisho Auto Leasing Corporation during the fiscal year ended March 31, 2006.





Net Income. As a result of the factors discussed above, net income increased by ¥50.8 billion, or 31.7%, from ¥160.2 billion in the fiscal year ended March 31, 2006 to ¥211.0 billion in the fiscal year ended March 31, 2007.

Total Trading Transactions. Total trading transactions increased ¥192.0 billion, or 1.9%, from ¥10,336.3 billion in the fiscal year ended March 31, 2006 to ¥10,528.3 billion in the fiscal year ended March 31, 2007. This was mainly due to the continuous strong performances by tubular products, steel plates, and non-ferrous metal businesses, mineral resources businesses and the effect of newly consolidated subsidiaries. The increase was partially offset by the decrease in transactions resulting from our review of unprofitable businesses.

8. OPERATING SEGMENT ANALYSIS

We manage and assess our business through eleven 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 segments based on industries, including: 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 years ended March 31, 2007 and 2006.

Breakdown of Gross Profit by Operating Segment

	Billions of Yen				Millions of U.S. Dollars
For the years ended March 31, 2007 and 2006	2007	2006	increase/ decrease	increase/ decrease	2007
Metal Products	¥ 77.6	¥ 65.4	¥ 12.2	18.7%	$ 658
Transportation & Construction Systems	134.6	127.5	7.1	5.6	1,140
Machinery & Electric	38.4	29.3	9.1	31.1	326
Media, Electronics & Network	59.8	47.2	12.6	26.7	507
Chemical	34.6	35.5	(0.9)	(2.5)	293
Mineral Resources & Energy	47.9	48.7	(0.8)	(1.6)	406
Consumer Goods & Service	109.4	98.6	10.8	11.0	927
Materials & Real Estate	88.7	56.2	32.5	57.8	751
Financial & Logistics	29.2	25.0	4.2	16.8	247
Domestic Regional Business Units and Offices	41.4	41.1	0.3	0.7	351
Overseas Subsidiaries and Branches	226.4	141.6	84.8	59.9	1,919
Segment Total	888.0	716.1	171.9	24.0	7,525
Corporate and Eliminations	(30.3)	(9.5)	(20.8)	(218.9)	(256)
Consolidated	¥857.7	¥706.6	¥151.1	21.4%	$7,269

Breakdown of Net Income (Loss) by Operating Segment

	Billions of Yen				Millions of U.S. Dollars
For the years ended March 31, 2007 and 2006	2007	2006	increase/ decrease	increase/ decrease	2007
Metal Products	¥ 26.3	¥ 18.9	¥ 7.4	39.2%	$ 223
Transportation & Construction Systems	26.7	19.8	6.9	34.8	226
Machinery & Electric	16.6	8.0	8.6	107.5	141
Media, Electronics & Network	11.2	14.9	(3.7)	(24.8)	95
Chemical	5.1	5.4	(0.3)	(5.6)	43
Mineral Resources & Energy	33.0	22.9	10.1	44.1	280
Consumer Goods & Service	5.5	14.9	(9.4)	(63.1)	47
Materials & Real Estate	15.1	12.4	2.7	21.8	128
Financial & Logistics	5.9	6.2	(0.3)	(4.8)	50
Domestic Regional Business Units and Offices	7.6	5.3	2.3	43.4	64
Overseas Subsidiaries and Branches	43.2	28.2	15.0	53.2	366
Segment Total	196.2	156.9	39.3	25.0	1,663
Corporate and Eliminations	14.8	3.3	11.5	348.5	125
Consolidated	¥211.0	¥160.2	¥ 50.8	31.7%	$1,788

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Metal Products

Gross profit increased by ¥12.2 billion, or 18.7%, from ¥65.4 billion in the fiscal year ended March 31, 2006 to ¥77.6 billion in the fiscal year ended March 31, 2007. The increase was mainly due to the strong performance in our tubular products, steel plates, and non-ferrous metal businesses. Net income increased by ¥7.4 billion, or 39.2%, from ¥18.9 billion in the fiscal year ended March 31, 2006 to ¥26.3 billion in the fiscal year ended March 31, 2007.

Transportation & Construction Systems

Gross profit increased by ¥7.1 billion, or 5.6%, from ¥127.5 billion in the fiscal year ended March 31, 2006 to ¥134.6 billion in the fiscal year ended March 31, 2007. 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 ¥6.9 billion, or 34.8%, from ¥19.8 billion in the fiscal year ended March 31, 2006 to ¥26.7 billion in the fiscal year ended March 31, 2007. The increase was mainly due to the increase in gross profit and increased earnings from Sumisho Auto Leasing Corporation, which became a wholly owned subsidiary in the fiscal year ended March 31, 2006.

Machinery & Electric

Gross profit increased by ¥9.1 billion, or 31.1%, from ¥29.3 billion in the fiscal year ended March 31, 2006 to ¥38.4 billion in the fiscal year ended March 31, 2007. The increase was mainly due to the strong performance in the IPP business mainly in Asia. Net income increased by ¥8.6 billion, or 107.5%, from ¥8.0 billion in the fiscal year ended March 31, 2006 to ¥16.6 billion in the fiscal year ended March 31, 2007. In addition to the increase in gross profit, equity in earnings from the IPP/IWPP (Independent Water and Power Producer) businesses in Asia and Middle East contributed to the increase in net income.

Media, Electronics & Network

Gross profit increased by ¥12.6 billion, or 26.7%, from ¥47.2 billion in the fiscal year ended March 31, 2006 to ¥59.8 billion in the fiscal year ended March 31, 2007. The increase was mainly due to the improvement in profitability of Sumisho Computer Systems Corporation. Net income decreased by ¥3.7 billion, or 24.8%, from ¥14.9 billion in the fiscal year ended March 31, 2006 to ¥11.2 billion in the fiscal year ended March 31, 2007. The decrease was due to the capital gain in the previous year, while the increase in equity in earnings from Jupiter Telecommunications Co., Ltd. and Jupiter TV Co., Ltd. as well as the increase in gross profit contributed to the net income.

Chemical

Gross profit decreased by ¥0.9 billion, or 2.5%, from ¥35.5 billion in the fiscal year ended March 31, 2006 to ¥34.6 billion in the fiscal year ended March 31, 2007. The decrease was mainly attributable to the U.S. PVC pipe business which turned in a strong performance in the previous year due to the steep rise in market prices caused by Hurricane Katrina. Net income decreased by ¥0.3 billion, or 5.6%, from ¥5.4 billion in the fiscal year ended March 31, 2006 to ¥5.1 billion in the fiscal year ended March 31, 2007.

Mineral Resources & Energy

Gross profit decreased by ¥0.8 billion, or 1.6%, from ¥48.7 billion in the fiscal year ended March 31, 2006 to ¥47.9 billion in the fiscal year ended March 31, 2007. The decrease was mainly due to the decreases in oil production in the North Sea and gas production in North America. Net income increased by ¥10.1 billion, or 44.1%, from ¥22.9 billion in the fiscal year ended March 31, 2006 to ¥33.0 billion in the fiscal year ended March 31, 2007. The increase was mainly due to the increase in equity in earnings from our copper business in the Americas and the capital gain from selling INPEX Holdings Inc. stock.

Consumer Goods & Service

Gross profit increased by ¥10.8 billion, or 11.0%, from ¥98.6 billion in the fiscal year ended March 31, 2006 to ¥109.4 billion in the fiscal year ended March 31, 2007. The increase was mainly due to the strong performance by Summit, Inc., a food supermarket. Net income decreased by ¥9.4 billion, or 63.1%, from ¥14.9 billion in the fiscal year ended March 31, 2006 to ¥5.5 billion in the fiscal year ended March 31, 2007. The decrease was due to the gain on sale of the investment in Coach Japan Inc. in the previous year.

Materials & Real Estate

Gross profit increased by ¥32.5 billion, or 57.8%, from ¥56.2 billion in the fiscal year ended March 31, 2006 to ¥88.7 billion in the fiscal year ended March 31, 2007. The increase was mainly due to the strong performance in condominium sales and the contribution of TBC Corporation. Net income increased by ¥2.7 billion, or 21.8%, from ¥12.4 billion in the fiscal year ended March 31, 2006 to ¥15.1 billion in the fiscal year ended March 31, 2007.

Financial & Logistics

Gross profit increased by ¥4.2 billion, or 16.8%, from ¥25.0 billion in the fiscal year ended March 31, 2006 to ¥29.2 billion in the fiscal year ended March 31, 2007. The increase was mainly due to the strong performance in the commodity trading business. Net income of ¥5.9 billion in the fiscal year ended March 31, 2007 was at the same level as the net income of ¥6.2 billion in the fiscal year ended March 31, 2006.

Domestic Regional Business Units and Offices

Gross profit increased by ¥0.3 billion, or 0.7%, from ¥41.1 billion in the fiscal year ended March 31, 2006 to ¥41.4 billion in the fiscal year ended March 31, 2007. The increase was mainly due to the strong performances in metal products businesses. Net income increased by ¥2.3 billion, or 43.4%, from ¥5.3 billion in the fiscal year ended March 31, 2006 to ¥7.6 billion in the fiscal year ended March 31, 2007.

Overseas Subsidiaries and Branches

Gross profit increased by ¥84.8 billion, or 59.9%, from ¥141.6 billion in the fiscal year ended March 31, 2006 to ¥226.4 billion in the fiscal year ended March 31, 2007. The increase was mainly due to the strong performances in metal products businesses primarily in Sumitomo Corporation of America and the contribution of TBC Corporation. Net income increased by ¥15.0 billion, or 53.2%, from ¥28.2 billion in the fiscal year ended March 31, 2006 to ¥43.2 billion in the fiscal year ended March 31, 2007.

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 issuance of commercial paper. 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, 2007, we had ¥3,654.7 billion of short-term and long-term debt. Our short-term debt, excluding current maturities of long-term debt was ¥461.9 billion, a decrease of ¥77.7 billion from the previous year. Our short-term debt consisted of ¥316.2 billion of loans, principally from bank, and ¥145.7 billion of commercial paper.

As of March 31, 2007, we had long-term debt of ¥3,192.8 billion, an increase of ¥298.3 billion from the previous year, including current maturities of ¥428.4 billion. As of March 31, 2007, the balance of our borrowings from banks and insurance companies was ¥2,368.8 billion, an increase of ¥262.3 billion from the previous year, and the balance of notes and bonds was ¥524.9 billion, an increase of ¥18.5 billion from the previous year.

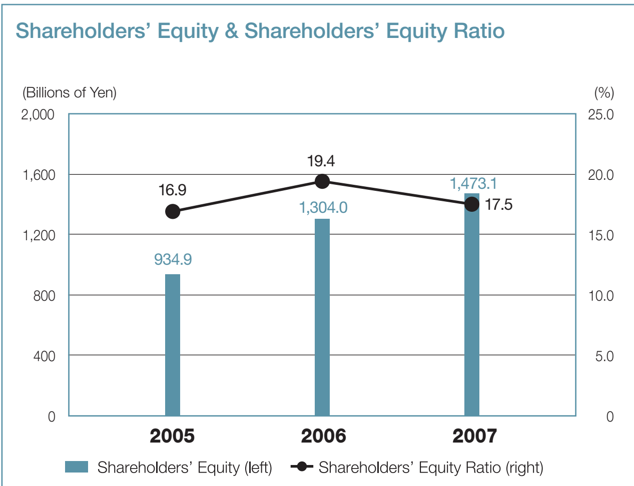
Most of our loans from banks contain covenant provisions customary in Japan. We do not believe those provisions materially limit our operating or financial flexibility. However, some credit agreements require us to obtain prior approval for any dividend payments or other distributions to shareholders. 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."

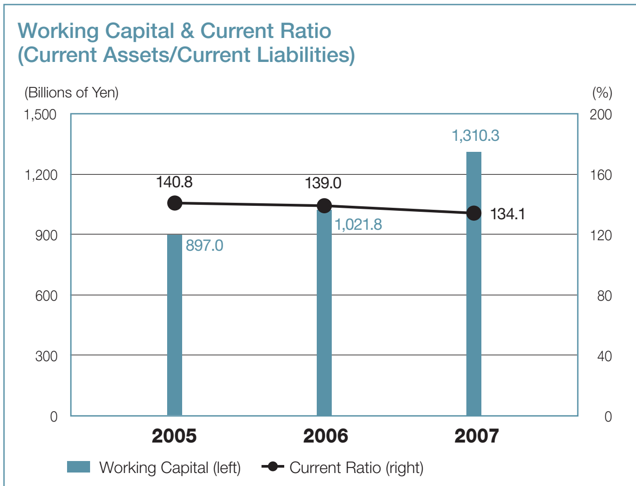
In addition, as of March 31, 2007, we had several committed lines of credit available for immediate borrowing providing an aggregate of up to $1,150 million and ¥445 billion in short-term loans. To date, we have not drawn on any of these lines of credit. We believe these lines of credit do not contain 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 $1,100 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 ¥330 billion line of credit provided by a syndicate of major Japanese banks; and
- a ¥115 billion line of credit provided by a syndicate of Japanese regional banks.

As of March 31, 2007, our long-term and short-term credit ratings are A2/P-1 from Moody's Investors Service, A/A-1 from Standard & Poor's and A+/a-1 from Rating and Investment Information, Inc. On April 20, 2007, Rating and Investment Information, Inc. raised our long-term credit ratings to AA- and short-term credit ratings to a-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; and
- a U.S.$1,500 million Euro-denominated commercial paper program established by Sumitomo Corporation Capital Europe.





Our total assets increased by ¥1,718.6 billion to ¥8,430.5 billion from March 31, 2006. Of the increase, about ¥1,500 billion was due to the temporary consolidation of Sumisho Lease Co., Ltd. Also, operating assets increased as a result of expanding our core businesses and fixed assets increased due to the strategic investments such as silver and zinc mine in Bolivia.

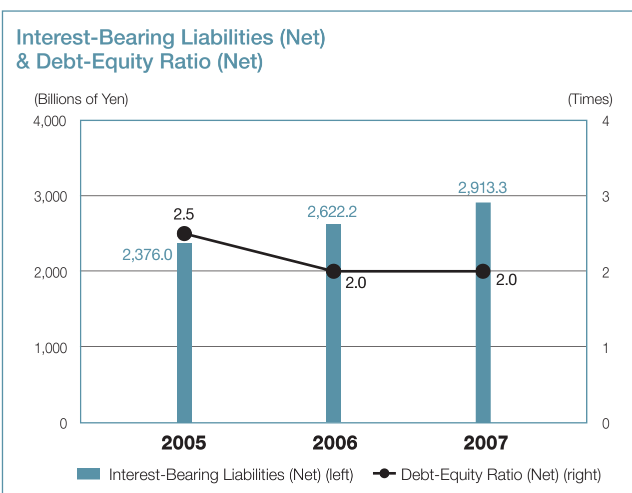
As of March 31, 2007, our shareholders' equity was ¥1,473.1 billion, representing an increase of ¥169.1 billion from March 31, 2006, due to the increase in retained earnings. Our ratio of shareholders' equity to total assets was 17.5%, down 1.9 points due to the temporary consolidation of Sumisho Lease Co., Ltd. Our interest-bearing liabilities (net) were ¥2,913.3 billion, an increase of ¥291.1 billion. As a result, our net debt-to-equity ratio was 2.0 as of March 31, 2007.

As of March 31, 2007, we had current trade receivables of ¥2,014.7 billion from third parties and ¥100.0 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, 2007 were ¥13.6 billion. As of March 31, 2007, we had current trade payables of ¥1,211.7 billion to third parties and ¥38.7 billion to associated companies.

We had working capital of ¥1,310.3 billion as of March 31, 2007 compared to ¥1, 021.8 billion as of March 31, 2006.

Liquidity and Capital Resources

	Billions of Yen			Millions of U.S. Dollars
As of March 31, 2007, 2006 and 2005	2007	2006	2005	2007
Short-term				
Loans, principally from banks	¥ 316.2	¥ 408.7	¥ 299.9	$ 2,680
Commercial paper	145.7	130.9	112.3	1,235
	461.9	539.6	412.2	3,915
Long-term, including current maturities of long-term debt				
Secured long-term debt				
Loans	237.4	208.5	249.2	2,012
Bonds	25.3	10.8	7.9	214
Unsecured long-term debt				
Loans	2,131.4	1,898.0	1,739.8	18,063
Bonds and notes	499.6	495.6	431.0	4,234
	2,893.7	2,612.9	2,427.9	24,523
Interest-bearing liabilities (gross)	3,355.6	3,152.5	2,840.1	28,438
Cash and cash equivalents & time deposits	442.3	530.3	464.1	3,749
Interest-bearing liabilities (net)	2,913.3	2,622.2	2,376.0	24,689
Total assets	8,430.5	6,711.9	5,533.1	71,445
Shareholders' equity	1,473.1	1,304.0	934.9	12,484
Shareholders' equity ratio (%)	17.5	19.4	16.9	
Debt-equity ratio (gross) (times)	2.3	2.4	3.0	
Debt-equity ratio (net) (times)	2.0	2.0	2.5	



The following table sets forth our cash flow information for the years ended March 31, 2007, 2006 and 2005:

Summary Statements of Consolidated Cash Flows

	Billions of Yen			Millions of U.S. Dollars
For the years ended March 31, 2007, 2006 and 2005	2007	2006	2005	2007
Net cash (used in) provided by operating activities	¥ 191.2	¥ (62.8)	¥ (20.8)	$ 1,621
Net cash used in investing activities	(453.1)	(141.4)	(55.9)	(3,840)
Free cash flow	(261.9)	(204.2)	(76.7)	(2,219)
Net cash provided by financing activities	176.1	262.1	115.8	1,492
Effect of exchange rate changes on cash and cash equivalents	4.4	8.3	(0.8)	38
Effect of the change in the reporting period of subsidiaries and associated companies	3.8	1.9	—	32
Cash and cash equivalents included in assets held for sale	(7.6)	—	—	(65)
Net increase in cash and cash equivalents	¥ (85.2)	¥ 68.1	¥ 38.3	$ (722)

Net cash provided by operating activities was ¥191.2 billion for the fiscal year ended March 31, 2007 compared to ¥62.8 billion used in operating activities for the fiscal year ended March 31, 2006. Each business segment generated 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 ¥453.1 billion for the fiscal year ended March 31, 2007 compared to ¥141.4 billion for the fiscal year ended March 31, 2006. This was mainly due to the expansion of core businesses including lease businesses, and the strategic investments such as the acquisition of Sumisho Lease Co., Ltd. shares through a tender offer and investments in mineral resources rights.

As a result, free cash flow, calculated as net cash provided by operating activities plus net cash used in investing activities, was ¥261.9 billion cash out for the fiscal year ended March 31, 2007 compared to ¥204.2 billion cash out for the fiscal year ended March 31, 2006.

Net cash provided by financing activities was ¥176.1 billion for the fiscal year ended March 31, 2007 compared to ¥262.1 billion for the fiscal year ended March 31, 2006. Net cash provided by financing activities for the fiscal year ended March 31, 2007 was mainly resulting from raising funds to acquire shares of Sumisho Lease Co., Ltd. through a tender offer.

As of March 31, 2007, 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	¥3,192.8	¥428.4	¥382.7	¥372.0	¥412.2	¥502.6	¥1,094.9
Operating leases	379.2	42.4	38.9	36.3	37.5	31.4	192.7
Total	¥3,572.0	¥470.8	¥421.6	¥408.3	¥ 449.7	¥534.0	¥1,287.6

Long-term debt includes capital lease obligations.

As of March 31, 2007, we had long-term financing commitments in the aggregate amount of ¥14.4 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 ¥1,080.7 billion as of March 31, 2007. Scheduled deliveries are at various dates through 2012.

As of March 31, 2007, 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 ¥317.0 billion in property, equipment and other assets and made ¥300.7 billion of other investments in the fiscal year ended March 31, 2007. 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, 2007, we were contingently liable to certain banks for the aggregate amount of ¥125.9 billion for discounted trade notes receivable (principally relating to export transactions maturing through 2009) sold to those banks on a recourse basis.

As of March 31, 2007, we were contingently liable for guarantees (continuing through 2032) in the aggregate amount of ¥127.9 billion, including ¥81.5 billion relating to our associated companies and ¥4.1 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 ¥15.6 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, 2007.

11. LITIGATION

(1) Copper Trading 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 all of the related civil lawsuits by October 31, 2006.

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 was recognized in the year ending March 31, 2007.

(2) Other Litigation

Except 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.

12. NEW ACCOUNTING PRONOUNCEMENTS

In June, 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN No. 48 clarifies the criteria for recognizing tax benefits under SFAS No. 109, "Accounting for Income Taxes." FIN No. 48 also requires additional financial statement disclosures about uncertain tax positions. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Companies are evaluating the effect of impact on the Companies' consolidated financial statements.

In September, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. SFAS No. 157 applies when other accounting pronouncements require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The application of SFAS No. 157 is not expected to have a significant impact on the Companies' consolidated financial statements.

In February, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value on a contract-by-contract basis. SFAS No. 159 contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Companies are evaluating the effect of impact 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 of the Corporate 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, 2007 and 2006 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, 2007 and 2006	2007	2006	2007
Cost	¥198.4	¥170.9	$1,681
Fair value	659.2	617.0	5,587
Net unrealized gains	¥460.8	¥446.1	$3,906

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, 2007:

VaR

	Billions of Yen			
For the year ended March 31, 2007	At year-end	High	Low	Average
	¥5.8	¥7.8	¥5.0	¥6.4

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, 2006, 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, 2007 and 2006

	Millions of Yen		Millions of U.S. Dollars
ASSETS	2007	2006	2007
Current assets:			
Cash and cash equivalents	¥ 436,814	¥ 522,000	$ 3,702
Time deposits	5,514	8,331	47
Marketable securities (Notes 5 and 11)	17,304	22,087	147
Receivables—trade (Notes 6, 11 and 21):			
Notes and loans	292,630	265,022	2,480
Accounts	1,722,118	1,646,126	14,594
Associated companies	100,014	98,278	848
Allowance for doubtful receivables	(13,594)	(15,335)	(115)
Inventories (Note 7)	757,473	705,257	6,419
Deferred income taxes (Note 12)	39,314	31,998	333
Advance payments to suppliers	55,617	50,165	471
Assets held for sale (Note 3)	1,516,385	—	12,851
Other current assets (Note 13)	228,161	310,411	1,933
Total current assets	5,157,750	3,644,340	43,710
Investments and long-term receivables (Notes 6, 11 and 21):			
Investments in and advances to associated companies (Note 8)	559,537	469,482	4,742
Other investments (Note 5)	833,825	783,015	7,066
Long-term receivables	706,107	662,075	5,984
Allowance for doubtful receivables	(28,454)	(40,703)	(241)
Total investments and long-term receivables	2,071,015	1,873,869	17,551
Property and equipment, at cost (Notes 9, 11 and 21)	1,371,650	1,263,682	11,624
Accumulated depreciation	(506,959)	(444,179)	(4,296)
	864,691	819,503	7,328
Goodwill and other intangible assets (Notes 3, 10 and 21)	255,526	259,264	2,165
Prepaid expenses, non-current (Note 13)	47,428	94,710	402
Deferred income taxes, non-current (Note 12)	11,632	13,511	99
Other assets	22,435	6,697	190
Total (Note 19)	¥8,430,477	¥6,711,894	$71,445

See the accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2007	2006	Millions of U.S. Dollars 2007
Current liabilities:			
Short-term debt (Note 11)	¥ 461,931	¥ 539,567	$ 3,915
Current maturities of long-term debt (Note 11)	416,491	428,545	3,530
Payables—trade (Note 21):			
Notes and acceptances	107,865	93,278	914
Accounts	1,103,839	1,070,921	9,354
Associated companies	38,654	29,713	328
Income taxes (Note 12)	54,919	33,060	465
Accrued expenses	103,755	92,975	879
Advances from customers	79,152	90,483	671
Liabilities associated with assets held for sale (Note 3)	1,329,288	—	11,265
Other current liabilities (Note 12)	151,509	243,972	1,284
Total current liabilities	3,847,403	2,622,514	32,605
Long-term debt, less current maturities (Notes 11 and 21)	2,764,352	2,447,170	23,427
Accrued pension and retirement benefits (Note 13)	9,835	13,180	83
Deferred income taxes, non-current (Note 12)	239,507	230,364	2,030
Minority interests	96,252	94,691	816
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 shares in 2007 and 2006	219,279	219,279	1,858
Additional paid-in capital	279,711	279,470	2,370
Retained earnings:			
Appropriated for legal reserve	17,696	17,696	150
Unappropriated	755,159	579,217	6,400
	772,855	596,913	6,550
Accumulated other comprehensive income (Note 15)	222,290	213,767	1,884
Treasury stock, at cost: 15,118,112 and 6,212,224 shares in 2007 and 2006, respectively	(21,007)	(5,454)	(178)
Total shareholders' equity	1,473,128	1,303,975	12,484
Total	¥8,430,477	¥6,711,894	$71,445

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2007, 2006 and 2005

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Revenues (Note 19):				
Sales of tangible products	¥ 2,495,030	¥ 2,079,576	¥1,586,057	$21,144
Sales of services and others	582,180	501,835	463,242	4,934
Total revenues	3,077,210	2,581,411	2,049,299	26,078
Cost (Notes 9 and 20):				
Cost of tangible products sold	2,076,591	1,737,706	1,361,767	17,598
Cost of services and others	142,930	137,058	124,402	1,211
Total cost	2,219,521	1,874,764	1,486,169	18,809
Gross profit (Note 19)	857,689	706,647	563,130	7,269
Other income (expenses):				
Selling, general and administrative expenses (Notes 9, 10 and 13)	(609,900)	(515,807)	(437,849)	(5,169)
Settlements on copper trading litigation (Note 22)	9,584	(109)	2,815	81
Provision for doubtful receivables (Note 6)	(8,041)	(14,707)	(12,896)	(68)
Impairment losses on long-lived assets (Notes 9 and 10)	(9,822)	(12,423)	(29,548)	(83)
Gain (loss) on sale of property and equipment, net (Note 9)	2,355	(362)	11,468	20
Interest income	32,936	18,998	14,562	279
Interest expense	(70,022)	(38,951)	(23,207)	(593)
Dividends	14,095	10,423	6,386	119
Other than temporary impairment losses on securities	(2,850)	(3,723)	(8,927)	(24)
Gain on sale of marketable securities and other investments, net (Note 5)	46,970	43,966	16,339	398
Gain on issuances of stock by subsidiaries and associated companies (Note 8)	360	1,534	12,603	3
Equity in earnings of associated companies, net (Notes 8 and 12)	70,307	51,374	37,387	596
Other, net	(1,732)	947	(914)	(15)
Total other income (expenses)	(525,760)	(458,840)	(411,781)	(4,456)
Income before income taxes and minority interests in earnings of subsidiaries (Note 12)	331,929	247,807	151,349	2,813
Income taxes (Note 12)	114,843	80,737	57,849	973
Income before minority interests in earnings of subsidiaries	217,086	167,070	93,500	1,840
Minority interests in earnings of subsidiaries, net	(6,082)	(6,833)	(8,427)	(52)
Net income (Note 19)	¥ 211,004	¥ 160,237	¥ 85,073	$ 1,788
Total trading transactions* (Note 19)	¥10,528,277	¥10,336,265	¥9,898,598	$89,223

	Yen			U.S. Dollars
Net income per share of common stock (Note 18):				
Basic	¥ 169.93	¥ 130.18	¥ 72.83	$ 1.44
Diluted	169.90	130.17	72.82	1.44

*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").

See the accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2007, 2006 and 2005

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Common stock:				
Balance, beginning of year	¥ 219,279	¥ 219,279	¥169,439	$ 1,858
Issuance of common stock	—	—	49,840	—
Balance, end of year	¥ 219,279	¥ 219,279	¥219,279	$ 1,858
Additional paid-in capital:				
Balance, beginning of year	¥ 279,470	¥ 238,859	¥189,621	$ 2,368
Increase due to Share Exchange Agreement (Note 3)	—	39,896	—	—
Increase due to grant of stock options	263	742	—	2
Gain (loss) on sale of treasury stock	(22)	(27)	39	(0)
Issuance of common stock	—	—	49,199	—
Balance, end of year	¥ 279,711	¥ 279,470	¥238,859	$ 2,370
Retained earnings appropriated for legal reserve:				
Balance, beginning of year	¥ 17,696	¥ 17,686	¥ 17,686	$ 150
Reclassification due to merger under common control (Note 14)	—	10	—	—
Balance, end of year	¥ 17,696	¥ 17,696	¥ 17,686	$ 150
Unappropriated retained earnings:				
Balance, beginning of year	¥ 579,217	¥ 442,630	¥365,894	$ 4,909
Net income	211,004	160,237	85,073	1,788
Cash dividends	(36,188)	(22,140)	(9,070)	(307)
Reclassification due to merger under common control (Note 14)	—	(10)	—	—
Effect of the change in the reporting period of subsidiaries and associated companies	2,406	(1,500)	733	20
Effect of the change of the accounting principles and others (Note 14)	(1,280)	—	—	(10)
Balance, end of year	¥ 755,159	¥ 579,217	¥442,630	$ 6,400
Accumulated other comprehensive income (loss), net of tax (Note 15):				
Balance, beginning of year	¥ 213,767	¥ 17,083	¥ (11,237)	$ 1,812
Other comprehensive income, net of tax	42,329	190,138	28,274	359
Adjustment to initially apply SFAS No.158 (Note 13)	(30,436)	—	—	(258)
Effect of the change in the reporting period of subsidiaries and associated companies	(3,370)	6,546	46	(29)
Balance, end of year	¥ 222,290	¥ 213,767	¥ 17,083	$ 1,884
Treasury stock, common stock:				
Balance, beginning of year	¥ (5,454)	¥ (646)	¥ (555)	$ (46)
Increase due to Sumisho Lease becoming a Subsidiary (Note 3)	(15,468)	—	—	(131)
Increase due to Share Exchange Agreement (Note 3)	—	(4,625)	—	—
Other, net	(85)	(183)	(91)	(1)
Balance, end of year	¥ 21,007	¥ (5,454)	¥ (646)	$ (178)
Total	¥1,473,128	¥1,303,975	¥934,891	$12,484
Comprehensive income:				
Net income	¥ 211,004	¥ 160,237	¥ 85,073	$ 1,788
Other comprehensive income, net of tax (Note 15)				
Net unrealized holding gains on securities available-for-sale	11,925	152,393	28,543	101
Foreign currency transaction adjustments	25,688	45,974	755	218
Net unrealized gains (losses) on derivatives	4,716	(8,229)	(1,024)	40
Comprehensive income	¥ 253,333	¥ 350,375	¥113,347	$ 2,147

See the accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2007, 2006 and 2005

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Operating activities:				
Net income	¥ 211,004	¥ 160,237	¥ 85,073	$ 1,788
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	113,278	94,239	77,967	960
Provision for doubtful receivables	8,041	14,707	12,896	68
Impairment losses on long-lived assets	9,822	12,423	29,548	83
(Gain) loss on sale of property and equipment, net	(2,355)	362	(11,468)	(20)
Other than temporary impairment losses on securities	2,850	3,723	8,927	24
Gain on sale of marketable securities and other investments, net	(46,970)	(43,966)	(16,339)	(398)
Gain on issuances of stock by subsidiaries and associated companies	(360)	(1,534)	(12,603)	(3)
Equity in earnings of associated companies, less dividends received	(44,412)	(32,114)	(33,238)	(376)
Changes in operating assets and liabilities, excluding effect of acquisitions and divestitures:				
Increase in receivables	(92,375)	(267,595)	(245,975)	(783)
Increase in inventories	(87,503)	(96,570)	(90,807)	(741)
Increase in payables	106,887	146,392	139,720	906
Decrease (increase) in prepaid expenses	10,266	(18,360)	28,883	87
Other, net	3,062	(34,696)	6,585	26
Net cash provided by (used in) operating activities	191,235	(62,752)	(20,831)	1,621
Investing activities:				
Expenditures for property, equipment and other assets	(317,034)	(188,505)	(122,062)	(2,687)
Proceeds from sale of property, equipment and other assets	43,174	163,500	60,768	366
Acquisition of available-for-sale securities	(35,327)	(63,542)	(20,183)	(299)
Proceeds from sale of available-for-sale securities	48,246	58,381	30,268	409
Proceeds from maturities of available-for-sale securities	75	1,093	834	1
Acquisition of held-to-maturity securities	(165)	(14,014)	(1,932)	(1)
Proceeds from maturities of held-to-maturity securities	2,395	3,350	3,632	20
Acquisition of other investments	(300,749)	(238,692)	(148,182)	(2,549)
Proceeds from sale of other investments	35,368	91,149	63,958	299
Increase in loans and other receivables	(434,036)	(338,038)	(135,603)	(3,678)
Collection of loans and other receivables	497,551	382,620	220,017	4,216
Net decrease (increase) in time deposits	7,382	1,270	(7,348)	63
Net cash used in investing activities	(453,120)	(141,428)	(55,833)	(3,840)
Financing activities:				
Net (decrease) increase in short-term debt	(28,140)	115,389	(56,911)	(238)
Proceeds from issuance of long-term debt	779,713	728,289	267,816	6,608
Repayment of long-term debt	(539,739)	(551,063)	(193,647)	(4,574)
Proceeds from issuance of common stock	—	—	98,625	—
Cash dividends paid	(36,188)	(22,140)	(9,070)	(307)
Capital contribution from minority interests	565	2,233	862	4
(Repayment) proceeds from securities lending activities	—	(10,349)	10,349	—
Acquisition of treasury stock, net	(105)	(214)	(2,199)	(1)
Net cash provided by financing activities	176,106	262,145	115,825	1,492
Effect of exchange rate changes on cash and cash equivalents	4,414	8,284	(844)	38
Effect of the change in the reporting period of subsidiaries and associated companies	3,815	1,860	—	32
Cash and cash equivalents included in assets held for sale (Note 3)	(7,636)	—	—	(65)
Net increase in cash and cash equivalents	(85,186)	68,109	38,317	(722)
Cash and cash equivalents, beginning of year	522,000	453,891	415,574	4,424
Cash and cash equivalents, end of year	¥ 436,814	¥ 522,000	¥ 453,891	$ 3,702

See the accompanying notes to consolidated financial statements.

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, two Automotive Divisions 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 Infrastructure Business Division and the Power & Energy 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 and invests in businesses, relating to inorganic chemicals, electronic and performance chemicals, pharmaceuticals, medical services, agricultural chemicals and pet supplies.

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— The 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, 2007 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, 2007. 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. A loss in value of an investment that is other than a temporary decline is recognized in the period incurred. 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.

During the fiscal year ended March 31, 2007, 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 all 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. There was no grant of stock options from April 1, 2005 to June 30, 2005 and there was grant of stock options for the year ended March 31, 2005. As a result, no such compensation expense was incurred for the three months ended June 30, 2005 and the year ended March 31, 2005. 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 and 2005 would have been no impact and immaterial, respectively.

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. See Note 14 about the effect of the adoption of SFAS No. 123R.

(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 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 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, sales type leases and leveraged leases using methods that approximate the interest method. The Companies recognize revenue from the sales of equipments under sales type leases at the inception of lease. 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, sales type leases and leveraged 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, or charged off, on returned to accrual status.

Direct financing leases, sales type leases and leveraged 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 June, 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN No. 48 clarifies the criteria for recognizing tax benefits under SFAS No. 109, "Accounting for Income Taxes." FIN No. 48 also requires additional financial statement disclosures about uncertain tax positions. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Companies are evaluating the effect of impact on the Companies' consolidated financial statements.

In September, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. SFAS No. 157 applies when other accounting pronouncements require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The application of SFAS No. 157 is not expected to have a significant impact on the Companies' consolidated financial statements.

In February, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value on a contract-by-contract basis. SFAS No. 159 contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Companies are evaluating the effect of impact 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. ACQUISITIONS

2007

On October 13, 2006, the Company, Sumisho Lease Co., Ltd. ("SCL"), Sumisho Auto Leasing Corporation ("SAL"), Sumitomo Mitsui Financial Group, Inc. ("SMFG"), SMBC Leasing Company, Limited, a wholly owned subsidiary of SMFG ("SMBC Leasing") and SMBC Auto Leasing Company, Limited, a wholly owned subsidiary of SMBC Leasing announced that they reached a basic agreement to pursue strategic joint businesses in leasing and auto leasing.

The Sumitomo Corporation Group and the SMFG Group agreed to position their leasing as a strategic joint business and to jointly aim to establish the best leasing businesses in Japan through the merger of SCL and SMBC Leasing. SCL, utilizing various value chain of the Sumitomo Corporation Group, has a unique customer base and know-how. On the other hand, SMBC Leasing, leveraging capabilities of the SMFG Group to provide financial solutions, has a different customer base and know-how. This merger will enable two groups to combine the different customer bases and know-how of each group.

SCL and SMBC Leasing plan to merge on October 1, 2007. In anticipation of this merger, on December 14, the Company acquired 26,177,722 shares of SCL through the tender offer (the "TOB") between October 31 and December 7, 2006, which meant all shares subscribed in the TOB. As a result of the TOB, the Company owns approximately 97% of the shares of SCL and SCL has become a consolidated subsidiary of the Company. On May 22, 2007, the Company and SCL entered into a Share Exchange Agreement to make SCL a wholly-owned subsidiary of the Company, based on the resolution of their respective Board of Directors held on the same day. The share exchange is expected to take place on July 1, 2007, and approvals of the general meetings of shareholders will not be needed at each company because the Share Exchange will be executed through a simplified share exchange for the Company and through a short-form share exchange for SCL, based on Article 796, Paragraph 3 and Article 784, Paragraph 1 of the Company Law of Japan, respectively. In accordance with the Share Exchange Agreement, the Company will pay ¥7,000 ($59) per common stock to the shareholders of SCL, exclusive of the Company.

The accompanying consolidated financial statements for the year ended March 31, 2007 include the operating results of SCL based on ownership of approximately 37% of shares outstanding prior to the TOB and 97% of SCL shares outstanding after December 13, 2006.

In connection with this purchase, ¥92,580 million ($785 million) was assigned to goodwill.

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
Cash and cash equivalents	¥ 3,629	$ 31
Receivables—trade	1,271,771	10,777
Property and equipment	48,235	409
Goodwill and other intangible assets	95,561	810
Other investments	41,014	348
Other assets	28,742	243
Total assets purchased	1,488,952	12,618
Payables—trade	(64,853)	(549)
Debt	(1,131,843)	(9,592)
Other liabilities	(75,863)	(643)
Total liabilities assumed	(1,272,559)	(10,784)
Treasury stock	15,468	131
Book value of investment before acquisition	(48,387)	(410)
Net assets purchased	¥ 183,474	$ 1,555

SCL and SMBC Leasing plan to merge on October 1, 2007 and the new leasing company is expected to become an associated company of the Company. Thus, assets and liabilities of SCL have been presented as assets held for sale and liabilities associated with assets held for sale on the consolidated financial statements.

The following table shows the components of assets held for sale and liabilities associated with assets held for sale as of March 31, 2007, respectively. Assets held for sale are included in the Corporate segment.

	Millions of Yen	Millions of U.S. Dollars
Cash and cash equivalents	¥ 7,636	$ 65
Receivables—trade	1,296,549	10,988
Property and equipment	47,802	405
Goodwill and other intangible assets	95,625	810
Other investments	40,986	347
Other assets	27,787	236
Assets held for sale	¥1,516,385	$12,851
Payables—trade	¥ 60,515	$ 513
Debt	1,188,245	10,070
Other liabilities	80,528	682
Liabilities associated with assets held for sale	¥1,329,288	$11,265

For the year ended March 31, 2007, other than the SCL acquisition, the Companies made material business acquisitions of an aggregate purchase amount of ¥12,492 million ($106 million) with respect to five companies, including operations such as the sales of basic Petrochemicals in the U.S., a drugstore chain, men's and women's apparel, shearing, slitting and sale of steel plates, and manufacturing and sales of electric equipment, industrial facilities and others. In connection with these business combinations, ¥1,612 million ($14 million) and ¥4,351 million ($37 million) were recognized in other intangible assets and goodwill, respectively. The intangible assets subject to amortization consist primarily of customer relationships and a noncompete agreement.

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.

2006

On April 28, 2005, the Company entered into a Share Exchange Agreement with 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 which was superseded. 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 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 and ¥13,795 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 and ¥49,577 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
Current assets	¥ 63,883
Property and equipment	17,924
Goodwill and other intangible assets	99,444
Other assets	3,805
Total assets purchased	185,056
Current liabilities	(32,725)
Non-current liabilities	(19,673)
Total liabilities assumed	(52,398)
Net assets purchased	¥132,658

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 the SAL and TBC acquisitions, the Companies made material business acquisitions of an aggregate purchase amount of ¥29,580 million with respect to eleven companies, including operations such as a steel pipe distributor in the U.S., the manufacturing and sales of fertilizers in Australia, a cinema complex business, and shearing, slitting, and sale of steel plates. In connection with these business combinations, ¥10,112 million and ¥5,564 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.

4. CASH FLOW INFORMATION

Supplemental disclosure of cash flow information for the years ended March 31, 2007, 2006 and 2005 is as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Cash paid during the year for:				
Interest	¥ 70,886	¥ 37,483	¥ 22,178	$ 601
Income taxes	78,349	52,541	34,884	664
Non-cash investing and financing activities:				
Capital lease obligations incurred	26,710	30,398	13,155	226
Stock issued under Share Exchange Agreement (Note 3)	—	39,896	—	—
Acquisition of subsidiaries:				
Fair value of assets acquired	1,545,745	266,916	137,063	13,100
Fair value of liabilities assumed	(1,306,466)	(96,206)	(62,191)	(11,072)
Minority interests assumed	(3,759)	(6,056)	(1,250)	(32)
Fair value of treasury stock	15,468	—	—	131
Book value of investment before acquisition	(50,355)	—	—	(427)
Cash paid, net	200,633	164,654	73,622	1,700

5. MARKETABLE SECURITIES AND OTHER INVESTMENTS

Marketable securities and other investments as of March 31, 2007 and 2006 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Marketable securities—current:			
Trading	¥13,835	¥19,248	$117
Available-for-sale	359	678	4
Held-to-maturity	3,110	2,161	26
	¥17,304	¥22,087	$147

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Other investments:			
Available-for-sale	¥681,367	¥637,899	$5,774
Held-to-maturity	15,766	18,989	134
Non-marketable securities and other investments	136,692	126,127	1,158
	¥833,825	¥783,015	$7,066

(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, 2007 and 2006 is as follows (excluding non-marketable securities and other investments discussed below):

	Millions of Yen			
As of March 31, 2007:	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading	¥ 13,835	¥ —	¥ —	¥ 13,835
Available-for-sale:				
Equity securities	198,364	466,163	(5,314)	659,213
Debt securities	22,119	394	—	22,513
Held-to-maturity	18,876	1	(1)	18,876
	¥253,194	¥466,558	¥(5,315)	¥714,437

As of March 31, 2006:	Millions of Yen 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

As of March 31, 2007:	Millions of U.S. Dollars Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading	$ 117	$ —	$ —	$ 117
Available-for-sale:				
Equity securities	1,681	3,951	(45)	5,587
Debt securities	188	3	—	191
Held-to-maturity	160	0	(0)	160
	$2,146	$3,954	$(45)	$6,055

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, 2007 were immaterial.

The carrying values of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2007 and 2006 are summarized by contractual maturities as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2007		2006		2007	
	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity
Due in one year or less	¥ 359	¥ 3,110	¥ 678	¥ 2,161	$ 4	$ 26
Due after one year through five years	22,140	15,585	20,834	18,742	187	132
Due after five years through ten years	14	137	18	178	0	1
Due after ten years	—	44	—	69	—	1
Total	¥22,513	¥18,876	¥21,530	¥21,150	$191	$160

Proceeds from sales and gross gain and loss on sale of securities on available-for-sale securities for the years ended March 31, 2007, 2006 and 2005 are as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Proceeds from sales	¥48,246	¥58,381	¥30,268	$409
Gross gain on sale of securities	¥35,725	¥12,382	¥15,811	$303
Gross loss on sale of securities	235	22	343	2
Net realized gains	¥35,490	¥12,360	¥15,468	$301

(b) Non-Marketable Securities and Other Investments

Other investments as of March 31, 2007 and 2006 included investments in non-traded, unassociated companies, and others, amounting to ¥136,692 million ($1,158 million) and ¥126,127 million, respectively. As of March 31, 2007 and 2006, investments in non-traded securities of unassociated companies, and others carried at cost were ¥125,060 million ($1,060 million) and ¥113,893 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, 2007 and 2006, investments with aggregate cost of ¥121,203 million ($1,027 million) and ¥109,103 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, 2007 and 2006 are summarized as follows:

	Millions of Yen				
As of March 31, 2007:	Notes and loans receivable	Accounts receivable	Receivables from associated companies	Long-term receivables	Total
Metal Products	¥ 76,701	¥ 290,875	¥ 20,126	¥ 15,251	¥ 402,953
Transportation & Construction Systems	57,236	193,041	40,301	294,946	585,524
Machinery & Electric	10,567	92,959	1,055	241,669	346,250
Media, Electronics & Network	2,659	120,941	2,231	51,145	176,976
Chemical	16,402	137,792	5,405	1,844	161,443
Mineral Resources & Energy	30,409	224,761	397	29,125	284,692
Consumer Goods & Service	11,056	64,878	464	41,806	118,204
Materials & Real Estate	21,313	83,565	2,433	19,408	126,719
Financial & Logistics	22,786	86,898	100	62,371	172,155
Others	43,501	426,408	27,502	39,934	537,345
	292,630	1,722,118	100,014	797,499	2,912,261
Less: Allowance for doubtful receivables	(2,072)	(11,315)	(207)	(28,454)	(42,048)
Total	¥290,558	¥1,710,803	¥ 99,807	¥769,045	¥2,870,213

	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

As of March 31, 2007:	Millions of U.S. Dollars				
	Notes and loans receivable	Accounts receivable	Receivables from associated companies	Long-term receivables	Total
Metal Products	$ 650	$ 2,465	$171	$ 129	$ 3,415
Transportation & Construction Systems	485	1,636	341	2,500	4,962
Machinery & Electric	89	788	9	2,048	2,934
Media, Electronics & Network	22	1,025	19	433	1,499
Chemical	139	1,168	46	16	1,369
Mineral Resources & Energy	258	1,905	3	247	2,413
Consumer Goods & Service	94	550	4	354	1,002
Materials & Real Estate	181	708	21	164	1,074
Financial & Logistics	193	736	1	529	1,459
Others	369	3,613	233	338	4,553
	2,480	14,594	848	6,758	24,680
Less: Allowance for doubtful receivables	(17)	(96)	(2)	(241)	(356)
Total	$2,463	$14,498	$846	$6,517	$24,324

The following analysis of activity in the allowance for credit losses for the years ended March 31, 2007, 2006 and 2005 encompasses allowance for receivables.

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Balance, beginning of year	¥ 56,038	¥ 56,677	¥ 58,808	$ 475
Provision for allowance for doubtful receivables	8,041	14,707	12,896	68
Charge-off	(22,819)	(16,459)	(14,990)	(194)
Foreign currency translation adjustments	788	1,113	(37)	7
Balance, end of year	42,048	56,038	56,677	356
Less: Current portion	(13,594)	(15,335)	(11,005)	(115)
Long-term portion	¥ 28,454	¥ 40,703	¥ 45,672	$ 241

As of March 31, 2007 and 2006, the total gross amount of long-term receivables considered impaired was ¥45,711 million ($387 million) and ¥56,984 million, respectively, and the related valuation allowance provided as at each year-end was ¥28,435 million ($241 million) and ¥37,853 million, respectively. The amount of long-term receivables considered impaired, for which no allowance for doubtful receivable was provided, was ¥1,119 million ($9 million) and ¥1,142 million as of March 31, 2007 and 2006, respectively.

The average investment in impaired receivables for the years ended March 31, 2007 and 2006 was ¥51,781 million ($439 million) and ¥60,541 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, 2007, 2006 and 2005 was not material.

7. INVENTORIES

Major segments that hold inventories are Overseas Subsidiaries and Branches, Transportation & Construction Systems, Metal Products, and Materials & Real Estate, described in Note 19. Real estate held for development and resale aggregated ¥48,003 million ($407million) and ¥51,416 million as of March 31, 2007 and 2006, 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, 2007 and 2006 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Investments in common stock	¥468,145	¥401,498	$3,968
Advances	91,392	67,984	774
Total	¥559,537	¥469,482	$4,742

Investments in common stock in the above include goodwill amounting to ¥64,950 million ($550 million) and ¥52,959 million as of March 31, 2007 and 2006, respectively. Ending balance as of March 31, 2007 includes goodwill still under purchase price allocation. Associated companies numbered 249 and 249 and weighted average ownership percentages for those associated companies were approximately 32% and 28% as of March 31, 2007 and 2006, respectively. Investments in common stock of certain associated companies as of March 31, 2007 and 2006 included marketable securities of public associated companies with carrying amounts of ¥23,698 million ($201million) and ¥66,396 million, respectively, with corresponding aggregate quoted market values of ¥27,254 million ($231 million) and ¥112,247 million, respectively.

Summarized combined financial information of associated companies accounted for by the equity method as of March 31, 2007 and 2006 and for the years ended March 31, 2007, 2006 and 2005 are presented below:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Current assets	¥1,247,873	¥1,560,025	$10,575
Property and equipment, net	1,203,942	999,600	10,203
Other assets	631,902	1,372,427	5,355
Total assets	¥3,083,717	¥3,932,052	$26,133
Current liabilities	¥ 901,544	¥1,663,068	$ 7,640
Non-current liabilities	926,856	1,091,247	7,855
Shareholders' equity	1,255,317	1,177,737	10,638
Total liabilities and shareholders' equity	¥3,083,717	¥3,932,052	$26,133

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Gross profit	¥590,183	¥538,771	¥479,725	$5,002
Net income	¥223,310	¥175,254	¥110,452	$1,892

The two major associated companies accounted for by the equity method which are contained in the above summarized combined financial information are Jupiter Telecommunication Co., Ltd. (approximately 25.7% owned), and P.T. Newmont Nusa Tenggara (economic interest approximately 30.5% owned). The following summarized financial information for these two associated companies has been presented due to the relative significance of these entities to the Company's operations.

Jupiter Telecommunication Co., Ltd.

Jupiter Telecommunication Co., Ltd. ("Jupiter")'s summarized financial information as of March 31, 2007 and 2006 and for the years ended March 31, 2007, 2006 and 2005:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Current assets	¥ 54,644	¥ 61,100	$ 463
Property and equipment, net	333,797	282,432	2,829
Other assets	239,109	177,496	2,026
Total assets	¥627,550	¥521,028	$5,318
Current liabilities	¥ 70,111	¥ 54,148	$ 594
Non-current liabilities	273,271	210,306	2,316
Shareholders' equity	284,168	256,574	2,408
Total liabilities and shareholders' equity	¥627,550	¥521,028	$5,318

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Revenues	¥234,466	¥191,803	¥165,492	$1,987
Net income	¥ 25,598	¥ 20,352	¥ 10,301	$ 217

Jupiter is a Multiple System Operator (MSO) in Japan that provides multi-channel broadcasting, internet, and telephony services. As of March 31, 2007, the Company held an approximately 25.7% 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 per share, the same price as the subscription price of the shares issued and sold in an initial public offering, or ¥8,710 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, 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 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.

As to the reorganization of the Company's media business field, including Jupiter, is planned, refer to Note 23.

P.T. Newmont Nusa Tenggara

P.T. Newmont Nusa Tenggara ("PTNNT")'s summarized financial information as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Current assets	¥ 71,123	¥ 67,565	$ 603
Property and equipment, net	173,468	171,104	1,470
Other assets	50,760	42,127	430
Total assets	¥295,351	¥280,796	$2,503
Current liabilities	¥ 74,950	¥ 83,078	$ 635
Non-current liabilities	91,615	107,973	776
Shareholders' equity	128,786	89,745	1,092
Total liabilities and shareholders' equity	¥295,351	¥280,796	$2,503

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Revenues	¥108,860	¥109,876	¥116,015	$923
Net income	¥ 24,337	¥ 27,490	¥ 24,160	$206

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 owned a 20% "carried interest," as its capital interest, in PTNNT totaling ¥16,280 million ($138 million) as of March 31, 2007. NTP funded indirectly this carried interest and PTPI agreed to assign 70% of its rights to dividends from PTNNT to NTP, 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, 2007. On May 25, 2007, PTPI fully repaid the carried interest funded by NTP. As a result of the carried interest repayment, the Company's economic interest in PTNNT has been reduced from approximately 30.5% to approximately 26.0%.

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, 2007 and 2006 and for the years ended March 31, 2007, 2006 and 2005.

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
	2007	2006	2005	2007
Management and secondment fee, received	¥3,662	¥3,880	¥3,879	$31
Interest income	2,332	1,982	3,001	20
Interest expense	133	646	706	1

9. PROPERTY AND EQUIPMENT

Property and equipment, including property and equipment under capital leases (see Note 21) as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Land and land improvements	¥ 191,039	¥ 189,222	$ 1,619
Buildings, including leasehold improvements	379,189	354,788	3,213
Machinery and equipment	705,391	626,900	5,978
Projects in progress	26,571	21,705	225
Mining rights	69,460	71,067	589
Total	1,371,650	1,263,682	11,624
Less: Accumulated depreciation	(506,959)	(444,179)	(4,296)
Property and equipment, net	¥ 864,691	¥ 819,503	$ 7,328

Depreciation expense for the years ended March 31, 2007, 2006 and 2005 was ¥93,812 million ($795 million), ¥77,222 million and ¥64,548 million, respectively.

For the year ended March 31, 2005, wholly-owned subsidiary of the Company sold a part of its office buildings and recognized a gain amounting to approximately ¥12.8 billion, which was included in "Gain (loss) on sale of property and equipment, net" in the accompanying Consolidated Statements of Income.

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 mining rights of gas development in North America in Mineral Resources & Energy, were deemed to be impaired in the year ended March 31, 2007, and 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. The losses recognized from the impairment for the years ended March 31, 2007, 2006 and 2005 were applicable to the following segments:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Metal Products	¥ 53	¥ 725	¥ 156	$ 0
Transportation & Construction Systems	37	1,921	418	0
Machinery & Electric	141	35	42	1
Media, Electronics & Network	319	—	—	3
Chemical	12	—	—	0
Mineral Resources & Energy	6,790	98	1,670	58
Consumer Goods & Service	442	904	938	4
Materials & Real Estate	15	338	12,736	0
Domestic Regional Business Units and Offices	117	1,265	—	1
Overseas Subsidiaries and Branches	—	—	659	—
Corporate and Eliminations	1,490	543	865	13
Total	¥9,416	¥5,829	¥17,484	$80

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, 2007 and 2006 are as follows:

	Millions of Yen			Millions of U.S. Dollars		
	2007			2007		
	Gross amount	Accumulated amortization	Net carrying value	Gross amount	Accumulated amortization	Net carrying value
Software	¥ 70,704	¥48,405	¥ 22,299	$ 599	$410	$ 189
Sales licenses, trademarks and customer relationships	116,011	19,514	96,497	983	165	818
Other	11,268	3,036	8,232	95	26	69
Total	¥197,983	¥70,955	¥127,028	$1,677	$601	$1,076

	Millions of Yen		
	2006		
	Gross amount	Accumulated amortization	Net carrying value
Software	¥ 62,560	¥38,263	¥ 24,297
Sales licenses, trademarks and customer relationships	124,471	13,154	111,317
Other	12,086	2,528	9,558
Total	¥199,117	¥53,945	¥145,172

Intangible assets subject to amortization acquired during the year ended March 31, 2007 and 2006 were ¥12,564 million ($106 million) and ¥86,374 million, respectively, which were related primarily to acquisitions described in Note 3. During the years ended March 31, 2007 and 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. 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 such a stub period of the year ended March 31, 2007 were ¥2 million ($0.02 million) and the year ended March 31, 2006 were ¥4,346 million. The weighted-average amortization periods are five years for software, nine years for sales licenses, trademarks and customer relationships, and thirteen years for other. Aggregate amortization expense for the years ended March 31, 2007, 2006 and 2005 was ¥19,466 million ($165 million), ¥17,017 million and ¥13,419 million, respectively. Estimated amortization expenses for the next five years ending March 31 are: ¥18,384 million ($156 million) in 2008, ¥14,425 million ($122 million) in 2009, ¥11,044 million ($94 million) in 2010, ¥9,211 million ($78 million) in 2011, and ¥8,074 million ($68 million) in 2012, respectively.

The components of intangible assets not subject to amortization as of March 31, 2007 and 2006 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Leaseholds on land	¥17,051	¥17,441	$145
Trademarks	1,223	1,112	10
Other	522	893	4
Total	¥18,796	¥19,446	$159

In accordance with SFAS No. 142, these intangible assets were tested for impairment. During the year ended March 31, 2007, 2006 and 2005, the Companies recognized impairment losses of ¥93 million ($1 million), ¥6,103 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 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 (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, 2007 and 2006:

	Millions of Yen				
As of March 31, 2007:	Balance, beginning of year	Acquisition	Impairment losses	Foreign currency translation adjustments and other	Balance, end of year
Metal Products	¥ 1,359	¥ 1,210	¥ —	¥ 620	¥ 3,189
Transportation & Construction Systems	15,536	870	(32)	4,309	20,683
Media, Electronics & Network	8,857	610	—	—	9,467
Chemical	5,636	1,401	—	496	7,533
Consumer Goods & Service	1,915	2,311	(281)	2,453	6,398
Materials & Real Estate	19,465	574	—	593	20,632
Overseas Subsidiaries and Branches	41,878	687	—	(765)	41,800
Total	¥94,646	¥ 7,663	¥ (313)	¥7,706	¥109,702

	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 U.S. Dollars				
As of March 31, 2007:	Balance, beginning of year	Acquisition	Impairment losses	Foreign currency translation adjustments and other	Balance, end of year
Metal Products	$ 11	$10	$—	$ 6	$ 27
Transportation & Construction Systems	132	7	(0)	36	175
Media, Electronics & Network	75	5	—	—	80
Chemical	48	12	—	4	64
Consumer Goods & Service	16	20	(2)	20	54
Materials & Real Estate	165	5	—	5	175
Overseas Subsidiaries and Branches	355	6	—	(6)	355
Total	$802	$65	$ (2)	$65	$930

*Foreign currency translation adjustments and other consists of primarily reclassification to/from other accounts.

In accordance with SFAS No. 142, these goodwill amounts were tested for impairment. During the years ended March 31, 2007, 2006 and 2005, the Companies recognized impairment losses of ¥313 million ($2 million), ¥491 million and ¥292 million, respectively. These amounts were included in “Impairment losses on long-lived assets” in the accompanying Consolidated Statements of Income.

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, 2007 and 2006 consisted of the following:

	Millions of Yen				Millions of U.S. Dollars
	2007		2006		2007
		Weighted average interest rate		Weighted average interest rate	
Loans, principally from banks	¥316,201	3.64%	¥408,684	3.67%	$2,680
Commercial paper	145,730	4.76	130,883	2.18	1,235
Total	¥461,931		¥539,567		$3,915

The interest rates represent weighted average rates in effect as of March 31, 2007 and 2006 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 $1,150 million with foreign banks and ¥445,000 million ($3,771 million) with domestic banks. All of these lines of credit were unused as of March 31, 2007.

Long-term debt as of March 31, 2007 and 2006 and interest rates as of March 31, 2007 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Secured long-term debt:			
Banks and insurance companies, maturing serially through 2019, average rate 3.94%	¥ 237,369	¥ 208,496	$ 2,012
Bonds payable in Indonesian rupee due,			
2006, fixed rate	—	3,863	—
2007, fixed rates 10.62% to 13.37%	9,310	5,615	79
2008, fixed rates 10.85% to 13.22%	11,305	1,366	96
2009, fixed rate 12.89%	4,655	—	39
Unsecured long-term debt:			
Banks and insurance companies, maturing serially through 2025, average rate 1.73%	2,131,429	1,897,985	18,063
Bonds payable in Japanese yen due,			
2006, fixed rate	—	20,000	—
2007, floating rate 1.75%	10,040	20,313	85
2008, fixed rate 0.84%	13,993	13,972	119
2010, fixed rates 0.81% to 2.07%	29,968	29,626	254
2011, fixed rates 0.82% to 1.28%	31,604	30,983	268
2012, fixed and floating rates 1.07% to 1.57%	29,513	28,843	250
2013, fixed and floating rates 1.08% to 1.69%	54,555	53,217	462
2014, fixed rates 1.51% to 1.81%	30,090	29,481	255
2015, floating rate 1.26%	14,828	14,530	126
2016, fixed rates 1.70% to 2.12%	50,483	24,455	428
2017, floating rate 1.63%	9,498	9,189	80
2018, fixed and floating rates 1.89% to 1.97%	24,386	23,493	207
Various notes and bonds, maturing serially through 2018, average rate 1.99%	200,627	197,513	1,700
Capital lease obligations	44,001	67,867	373
Other	255,142	213,714	2,162
Total	3,192,796	2,894,521	27,058
Less: Current maturities	(428,444)	(447,351)	(3,631)
Long-term debt, less current maturities	¥2,764,352	¥2,447,170	$23,427

Annual maturities of long-term debt as of March 31, 2007 are as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2008	¥ 428,444	$ 3,631
2009	382,731	3,243
2010	372,042	3,153
2011	412,146	3,493
2012	502,551	4,259
2013 and thereafter	1,094,882	9,279
Total	¥3,192,796	$27,058

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, 2007, 2006 and 2005 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, 2007, 2006 and 2005.

Pledged Assets

The following table summarizes the book value of assets pledged as collateral for short-term debt and long-term debt, including current maturities of long-term debt of the Companies as of March 31, 2007:

	Millions of Yen	Millions of U.S. Dollars
Marketable securities and investments	¥103,688	$ 879
Trade receivables and long-term receivables	323,234	2,739
Property and equipment, net	44,067	373
Total	¥470,989	$3,991

Such collateral secured the following obligations:

	Millions of Yen	Millions of U.S. Dollars
Short-term debt	¥ 23,570	$ 200
Long-term debt, including current maturities of long-term debt	318,214	2,696
Total	¥341,784	$2,896

In addition to the above, marketable securities and investments of ¥33,271 million ($282 million) are pledged as substitution for guarantee deposit.

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 of 7.56%, which in the aggregate resulted in a statutory income tax rate of approximately 41%. 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, 2007, 2006 and 2005 is as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Domestic	¥186,258	¥132,613	¥ 76,638	$1,578
Foreign	145,671	115,194	74,711	1,235
Total	¥331,929	¥247,807	¥151,349	$2,813

Income tax provision for the years ended March 31, 2007, 2006 and 2005 is as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Current:				
Domestic	¥ 59,723	¥35,398	¥17,538	$506
Foreign	40,076	30,066	17,613	340
Deferred:				
Domestic	13,448	13,105	16,016	114
Foreign	1,596	2,168	6,682	13
Total	¥114,843	¥80,737	¥57,849	$973

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, 2007, 2006 and 2005 is summarized as follows:

	2007	2006	2005
Tax statutory income tax rate in Japan	41.0%	41.0%	41.0%
Increases (decreases) in tax rate due to:			
Expenses not deductible for tax purposes	0.7	1.2	2.1
Tax effect on undistributed earnings of associated companies and corporate joint ventures	(1.9)	(1.8)	(0.7)
Changes in valuation allowance	0.8	0.3	0.6
Difference in statutory tax rate of foreign subsidiaries	(4.2)	(5.3)	(4.7)
Other—net	(1.8)	(2.8)	(0.1)
The Companies' effective income tax rate	34.6%	32.6%	38.2%

Total income taxes recognized for the years ended March 31, 2007, 2006 and 2005 are allocated as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Income before income taxes and minority interests in earnings of subsidiaries	¥114,843	¥ 80,737	¥57,849	$ 973
Shareholders' equity:				
Net unrealized holding gains on securities available-for-sale	3,745	107,680	22,176	32
Foreign currency translation adjustments	1,416	3,316	507	12
Net unrealized gains (losses) on derivatives	2,507	(4,964)	(386)	21
Pension liability adjustments	(21,079)	—	—	(178)
Total income taxes	¥101,432	¥186,769	¥80,146	$ 860

The tax effects of temporary difference that give rise to significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Assets:			
Net operating loss carry forwards	¥ 20,387	¥ 16,660	$ 173
Investment securities	46,796	46,787	396
Inventories and long-lived assets	46,092	44,280	391
Allowance for doubtful receivables	1,800	9,873	15
Accrued pension and retirement benefits	28,563	10,179	242
Accrual and other	14,962	19,882	127
Gross deferred tax assets	158,600	147,661	1,344
Less: Valuation allowance	(13,051)	(12,271)	(111)
Deferred tax assets, less valuation allowance	145,549	135,390	1,233
Liabilities:			
Investment in marketable securities	(189,964)	(183,874)	(1,610)
Deferred gain on sales of property for tax purposes	(25,083)	(27,824)	(213)
Securities contributed to the Trust	(22,580)	(22,773)	(191)
Undistributed earnings of subsidiaries and associated companies	(55,241)	(40,625)	(468)
Long-lived assets	(31,322)	(33,893)	(265)
Other	(11,430)	(12,288)	(97)
Gross deferred tax liabilities	(335,620)	(321,277)	(2,844)
Net deferred tax liabilities	¥(190,071)	¥(185,887)	$(1,611)

Deferred income taxes as of March 31, 2007 and 2006 are reflected in the accompanying Consolidated Balance Sheets as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Assets:			
Deferred income taxes	¥ 39,314	¥ 31,998	$ 333
Deferred income taxes, non-current	11,632	13,511	99
Liabilities:			
Other current liabilities	(1,510)	(1,032)	(13)
Deferred income taxes, non-current	(239,507)	(230,364)	(2,030)
Net deferred tax liabilities	¥(190,071)	¥(185,887)	$(1,611)

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, 2007. 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, 2007, 2006 and 2005 was an increase of ¥780 million ($7 million), an increase of ¥1,712 million, and a decrease of ¥82 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 carryforwards) net of existing valuation allowance, as of March 31, 2007.

As of March 31, 2007 and 2006, 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 intends to reinvest those unremitted earnings indefinitely. A deferred tax liability will be recognized when the Company no longer plans to permanently reinvest the undistributed earnings. As of March 31, 2007 and 2006, 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 ¥347,967 million ($2,949 million) and ¥248,401 million, respectively. Calculation of the unrecognized deferred tax liability is not practicable.

As of March 31, 2007, the Companies have aggregate net operating loss carryforwards of ¥53,979 million ($457 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
2008	¥ 342	$ 3
2009	738	6
2010	2,194	18
2011	2,007	17
2012	1,030	9
2013 and thereafter	47,668	404
Total	¥53,979	$457

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.

On March 31, 2007, the Companies adopted the rule of the recognition of funded status in SFAS No.158,"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." Thus, the Companies recognized funded status (the difference between fair value of plan assets and projected benefit obligations) of its pension plans in consolidated balance sheets, with a corresponding adjustment to accumulated other comprehensive income, net of tax.

As a result of this amendment, prepaid expenses, non-current, has decreased by ¥52,577 million ($446 million), accrued pension and retirement benefits has decreased by ¥1,258 million ($11 million) and accumulated other comprehensive income, net of tax, has decreased by ¥30,436 million ($258 million), while minority interests has increased by ¥115 million ($1 million) and deferred income taxes, non-current, has increased by ¥20,998 million ($178 million). This amendment has no impact on earnings.

Net periodic pension costs for the years ended March 31, 2007, 2006 and 2005 include the following components:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Service cost—benefits earned during the year	¥ 7,297	¥ 7,185	¥ 7,143	$ 62
Interest cost on projected benefit obligation	5,047	4,862	4,280	43
Expected return on plan assets	(5,220)	(4,593)	(4,070)	(44)
Amortization of unrecognized actuarial loss	2,181	5,147	6,565	18
Amortization of unrecognized prior service cost	213	61	(11)	2
Loss on settlements and curtailments	(73)	1,430	383	(1)
Net periodic pension cost	¥ 9,445	¥14,092	¥14,290	$ 80

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
	2007	2006	2007
Change in benefit obligations:			
Projected benefit obligations, beginning of year	¥198,571	¥192,235	$1,683
Effect of the change in the reporting period of subsidiaries	(393)	(2,107)	(3)
Service cost	7,297	7,185	62
Interest cost	5,047	4,862	43
Actuarial (gain) loss	(4,155)	1,618	(35)
Plan amendments	155	852	1
Benefits paid	(8,976)	(8,385)	(76)
Settlements	(5,094)	(1,035)	(43)
Acquisitions and divestitures	875	2,833	7
Foreign currency translation adjustments	556	513	4
Projected benefit obligations, end of year	193,883	198,571	1,643
Change in plan assets:			
Fair value of plan assets, beginning of year	220,379	185,617	1,868
Effect of the change in the reporting period of subsidiaries	—	(1,971)	—
Actual return on plan assets	(3,024)	30,533	(26)
Employer contribution	12,432	13,756	105
Benefits paid from plan assets	(7,693)	(7,097)	(65)
Settlements	(4,696)	(2,380)	(40)
Acquisitions and divestitures	1,083	1,598	9
Foreign currency translation adjustments	461	323	4
Fair value of plan assets, end of year	218,942	220,379	1,855
Funded status	25,059	21,808	212
Unrecognized actuarial loss	—	48,363	—
Unrecognized prior service cost	—	933	—
Net amount recognized	¥ 25,059	¥ 71,104	$ 212
Amounts recognized in the accompanying Consolidated Balance Sheets consist of:			
Other current assets and Prepaid expenses, non-current (Prepaid cost for retirement benefits)	¥ 34,894	¥ 84,284	$ 295
Accrued pension and retirement benefits	(9,835)	(13,180)	(83)
Net amount recognized	¥ 25,059	¥ 71,104	$ 212

The amounts recognized in accumulated other comprehensive income (pretax amount) as of March 31, 2007 are as follows.

	Millions of Yen	Millions of U.S. Dollars
Actuarial loss	¥50,164	$425
Prior service cost	1,155	10
Total	¥51,319	$435

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

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 an employee retirement benefit trust in order to maintain a sufficient level of funding at the end of fiscal year.

The asset allocations are as follows:

	2007 Actual Allocation	2006 Actual Allocation
Equity securities	54%	56%
Debt securities	30%	30%
Other*	16%	14%
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 50% equity securities, 31% debt securities and 19% other.

Assumptions used for the years ended March, 31 2007, 2006 and 2005 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

	2007	2006	2005
Discount rate	2.6%	2.6%	2.2%
Expected long-term rate of return on plan assets	2.3%	2.3%	2.2%
Rate of expectable salary increase	3.0%	2.7%	2.7%

Weighted average assumptions used to determine the benefit obligations

	2007	2006
Discount rate	2.6%	2.6%
Rate of expectable salary increase	3.2%	3.0%

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
	2007	2006	2007
Accumulated benefit obligations, end of year	¥186,490	¥190,931	$1,580

The employer's contributions expected to be paid for the year ending March 31, 2008 are ¥12,580 million ($107 million).

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

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2008	¥ 9,897	$ 84
2009	10,189	86
2010	9,939	84
2011	10,209	86
2012	11,086	94
2013 – 2017	53,871	457
Total	¥105,191	$891

The actuarial loss and prior service cost that will be amortized into net periodic pension costs for the year ending March 31, 2008 are ¥2,433 million ($21 million) and ¥347 million ($3 million), respectively.

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, 2007, 2006 and 2005 were ¥1,669 million ($14 million), ¥1,972 million and ¥1,179 million, respectively.

14. SHAREHOLDERS' EQUITY

(a) Common Stock and Additional Paid-in Capital

Under the Company Law of Japan ("the Company Law"), at least 50% of the proceeds of certain issues of common shares shall be credited to the common stock account. The remainder of the proceeds shall be credited to additional paid-in capital. The Company Law permits, upon approval of the general meeting of shareholders, transfer of amounts from additional paid-in capital to the common stock account.

As discussed in Note 3, under the Commercial Code of Japan which was superseded ("the Code"), 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 for the year ended March 31, 2006.

(b) Appropriated for Legal Reserve

The Company Law provides that 10% of dividends of retained earnings shall be appropriated as additional paid-in capital or 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, or transferred to retained earnings by resolution of the shareholders.

For the year ended March 31, 2006, under the Code, there was an increase of ¥10 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

Retained earnings available for dividends under the Company Law is based on the amount recorded in the Company's general accounting records maintained in accordance with accounting principles generally accepted in Japan.

The Company Law limits the amount of retained earnings available for dividends. Retained earnings of ¥210,363 million ($1,783 million) and ¥177,211 million, shown by the Company's accounting records as of March 31, 2007 and 2006, respectively, exclusive of the amount previously appropriated for legal reserve, were not restricted by the limitations under the Company Law.

Dividends are approved by the shareholders at the 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.

On June 22, 2007, the shareholders authorized a cash dividend to shareholders of record as of March 31, 2007 of ¥18 ($0.15) per share for a total of ¥22,495 million ($191 million).

(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 from September 1, 2006 entitles the recipient to acquire 100 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). Each stock option granted until August 31, 2006 entitles the recipient to acquire 1,000 shares of common stock under the same conditions described above.

The options vest 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.

On June 23, 2006, the shareholders authorized the issue of new stock options up to 189,000 shares of common stock. The options for 189,000 shares were granted under this authorization. On June 22, 2007, the shareholders authorized the issue of new stock options up to 196,000 shares of common stock.

The following table summarizes information about stock option activity for the years ended March 31, 2007, 2006 and 2005:

	2007			2006		2005	
	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	367,000	¥ 882	$ 7	530,000	¥ 826	487,000	¥798
Granted	189,000	1,624	14	177,000	948	181,000	873
Exercised	142,000	831	7	218,000	714	48,000	738
Cancelled or expired	31,000	1,028	9	122,000	1,034	90,000	818
Outstanding, end of year	383,000	1,255	11	367,000	882	530,000	826
Options exercisable, end of year	199,000	¥ 914	$ 8	191,000	¥ 821	357,000	¥803

The following table summarizes information about stock options outstanding and exercisable as of March 31, 2007:

	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	13,000	¥ 654	$ 6	1.02	13,000	¥654	$ 6
801 ~ 1,000	186,000	932	8	3.04	186,000	932	8
1,600 ~ 1,800	184,000	1,624	14	4.25	—	—	—
	383,000	¥1,255	$11	3.55	199,000	¥914	$ 8

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

	2007	2006
Expected life	4.5 years	4.5 years
Risk-free rate	1.30%	0.43%
Expected volatility	32.91%	34.64%
Expected dividend yield	1.2%	1.0%

The Company has stock-linked compensation plans for directors and executive officers. Under the plans, each stock option granted from September 1, 2006 entitles the recipient to acquire 100 shares of common stock at an exercise price equal to ¥1 ($0.01) per share. Each stock option granted until August 31, 2006 entitles the recipient to acquire 1,000 shares of common stock at an exercise price equal to ¥1 per share.

The options vest 100% at grant date. The options granted are exercisable starting the day after leaving their positions as both director and executive officer of the Company. The options are exercisable for ten years from that date.

On June 23, 2006, the shareholders authorized the issue of new stock options under these stock-linked compensation plans up to 150,000 shares of common stock based on the plans. Options for 111,000 shares were granted under this authorization. On June 22, 2007, the shareholders authorized the issue of new stock options up to 140,000 shares of common stock based on the plans.

The following table summarizes information about stock option activity under the stock-linked compensation plans for the year ended March 31, 2007:

	Number of shares
Outstanding, beginning of year	—
Granted	111,000
Exercised	—
Cancelled or expired	—
Outstanding, end of year	111,000
Options exercisable, end of year	—

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

	2007
Expected life	2.9 years
Risk-free rate	0.99%
Expected volatility	27.29%
Expected dividend yield	1.2%

Compensation expense incurred based on the stock option plans and the stock-linked compensation plans for the years ended March 31, 2007 and 2006 were ¥220 million ($2 million) and ¥45 million, respectively.

(e) Effect of the Change in the Reporting Period of Subsidiaries and Associated Companies

EITF Issue No. 06-9 "Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year-End of a Parent Company and that of a Consolidated Entity or between the Reporting Period of an Investor and that of an Equity Method Investee" was effective in the year ended March 31, 2007. The adoption of this issue had no effect on the Companies' consolidated financial statements.

(f) Effect of the Change of the Accounting Principles and Others

The adoption of EITF Issue No. 04-6 "Accounting for Stripping Costs Incurred during Production in the Mining Industry" increased unappropriated retained earnings by ¥908 million ($8 million). 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. In connection with EITF 04-6, the Companies has changed accounting policy as to cost of ongoing underground development in advance incurred before 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 cost of ongoing underground development in advance are incurred. This change decreased unappropriated retained earnings by ¥2,188 million ($18 million). As it is impracticable to determine the period-specific effects of this change on all prior periods presented, total amount is included directly in the consolidated statements of shareholders' equity and comprehensive income.

15. OTHER COMPREHENSIVE INCOME (LOSS)

Changes in each component of accumulated other comprehensive income (loss) for the years ended March 31, 2007, 2006 and 2005 are as follows:

	Millions of Yen			Millions of U.S. Dollars
	2007	2006	2005	2007
Net unrealized holding gains (losses) on securities available-for-sale:				
Balance, beginning of year	¥251,013	¥ 98,651	¥ 70,108	$2,127
Adjustment for the year	11,279	152,362	28,543	96
Balance, end of year	¥262,292	¥251,013	¥ 98,651	$2,223
Foreign currency translation adjustments:				
Balance, beginning of year	¥ (27,750)	¥ (80,141)	¥(80,896)	$ (235)
Adjustment for the year	23,553	52,391	755	199
Balance, end of year	¥ (4,197)	¥ (27,750)	¥(80,141)	$ (36)
Net unrealized gains (losses) on derivatives:				
Balance, beginning of year	¥ (9,496)	¥ (1,427)	¥ (449)	$ (80)
Adjustment for the year	4,127	(8,069)	(978)	35
Balance, end of year	¥ (5,369)	¥ (9,496)	¥ (1,427)	$ (45)
Pension liability adjustments:				
Balance, beginning of year	¥ —	¥ —	¥ —	$ —
Adjustment for the year	(30,436)	—	—	(258)
Balance, end of year	¥ (30,436)	¥ —	¥ —	$ (258)
Total accumulated other comprehensive income (loss):				
Balance, beginning of year	¥213,767	¥ 17,083	¥(11,237)	$1,812
Adjustment for the year	8,523	196,684	28,320	72
Balance, end of year	¥222,290	¥213,767	¥ 17,083	$1,884

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

2007:	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	¥ 50,814	¥(18,184)	¥ 32,630
Effect of the change in the reporting period of subsidiaries and associated companies	(923)	277	(646)
Reclassification adjustment for gains included in net income	(34,867)	14,162	(20,705)
Adjustment for the year	15,024	(3,745)	11,279
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	27,732	(1,539)	26,193
Effect of the change in the reporting period of subsidiaries and associated companies	(2,135)	—	(2,135)
Reclassification adjustment for losses included in net income	(628)	123	(505)
Adjustment for the year	24,969	(1,416)	23,553
Net unrealized losses on derivatives:			
Unrealized losses arising during the year	(14,728)	6,734	(7,994)
Effect of the change in the reporting period of subsidiaries and associated companies	(841)	252	(589)
Reclassification adjustment for losses included in net income	22,203	(9,493)	12,710
Adjustment for the year	6,634	(2,507)	4,127
Pension liability adjustments:			
Adjustment to initially apply SFAS No. 158	(51,515)	21,079	(30,436)
Adjustment for the year	(51,515)	21,079	(30,436)
Other comprehensive income	¥ (4,888)	¥ 13,411	¥ 8,523

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

2007:	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	$ 430	$(154)	$ 276
Effect of the change in the reporting period of subsidiaries and associated companies	(8)	2	(6)
Reclassification adjustment for gains included in net income	(295)	120	(175)
Adjustment for the year	127	(32)	95
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	235	(13)	222
Effect of the change in the reporting period of subsidiaries and associated companies	(18)	—	(18)
Reclassification adjustment for losses included in net income	(5)	1	(4)
Adjustment for the year	212	(12)	200
Net unrealized losses on derivatives:			
Unrealized losses arising during the year	(125)	57	(68)
Effect of the change in the reporting period of subsidiaries and associated companies	(7)	2	(5)
Reclassification adjustment for losses included in net income	188	(80)	108
Adjustment for the year	56	(21)	35
Pension liability adjustments:			
Adjustment to initially apply SFAS No. 158	(436)	178	(258)
Adjustment for the year	(436)	178	(258)
Other comprehensive income	$ (41)	$ 113	$ 72

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, 2007, net derivative losses of ¥12,710 million ($108 million), net of related income tax benefit of ¥ 9,493 million ($80 million), were reclassified into earnings. For the year ended March 31, 2006, net derivative losses of ¥921 million, net of related income tax benefit of ¥580 million, were likewise reclassified. As of March 31, 2007, net derivative losses that were expected to be reclassified into earnings, net of the related tax benefit, within the next fiscal year were ¥3,956 million ($34 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, 2007, net derivative losses of ¥639 million ($5 million), were included in foreign currency translation adjustments. For the year ended March 31, 2006, net derivative gains of ¥22 million, were likewise included.

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, 2007, 2006 and 2005, the amount of hedge ineffectiveness recognized on fair-value hedges and hedge of the net investment in foreign operations was losses of ¥124 million ($1 million), losses of ¥1 million and gains of ¥3 million, respectively. There were no gains or losses excluded from the assessment of hedge effectiveness for the years ended March 31, 2007, 2006 and 2005.

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 Notes 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, 2007 and 2006 were as follows:

	Millions of Yen			Millions of U.S. Dollars		
As of March 31, 2007:	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	¥ —	¥ 771,612	¥ 775,954	$ —	$ 6,539	$ 6,576
Financial Liabilities:						
Long-term debt, including current maturities	—	3,180,843	3,187,448	—	26,957	27,012
Derivative Financial Instruments (Assets):						
Interest rate swaps	352,270	1,457	1,457	2,985	12	12
Currency swap agreements, and currency options	129,876	1,882	1,882	1,101	16	16
Foreign exchange forward contracts	618,159	17,387	17,387	5,239	147	147
Bond future contracts	939	1	1	8	0	0
Derivative Financial Instruments (Liabilities):						
Interest rate swaps	910,507	5,034	5,034	7,716	43	43
Currency swap agreements, and currency options	328,921	11,256	11,256	2,787	95	95
Foreign exchange forward contracts	287,322	2,959	2,959	2,435	25	25
Bond future contracts	18,209	58	58	154	0	0

	Millions of Yen		
As of March 31, 2006:	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
Financial Liabilities:			
Long-term debt, including current maturities	—	2,875,715	2,876,716
Derivative Financial Instruments (Assets):			
Interest rate swaps	62,226	604	604
Interest rate future contracts	19,880	20	20
Currency swap agreements, and currency options	196,416	1,472	1,472
Foreign exchange forward contracts	622,229	9,224	9,224
Bond future contracts	520	4	4
Derivative Financial Instruments (Liabilities):			
Interest rate swaps	966,589	18,367	18,367
Interest rate future contracts	50,259	11	11
Currency swap agreements, and currency options	163,986	8,868	8,868
Foreign exchange forward contracts	291,766	2,253	2,253
Bond future contracts	46,548	301	301

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, 2007, 2006 and 2005.

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, 2007, 2006 and 2005 is as follows:

	Millions of Yen			Millions of U.S. Dollars
Income (Numerator)	**2007**	2006	2005	**2007**
Net income	**¥211,004**	¥160,237	¥85,073	**$1,788**

	Number of shares		
Shares (Denominator)	**2007**	2006	2005
Weighted-average shares—basic	**1,241,708,656**	1,230,871,223	1,168,142,925
Dilutive effect of:			
Stock options	**191,223**	110,759	54,334
Weighted-average shares—diluted	**1,241,899,879**	1,230,981,982	1,168,197,259

	Yen			U.S. Dollars
	2007	2006	2005	**2007**
Net income per share:				
Basic	**¥169.93**	¥130.18	¥72.83	**$1.44**
Diluted	**169.90**	130.17	72.82	**1.44**

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 Southeast and Southwest 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, 2007, 2006 and 2005 are summarized as follows:

Operating Segments:

2007:	Millions of Yen				
Segment	Revenues	Gross profit	Net income	Assets	Total trading transactions*
Metal Products	¥ 449,303	¥ 77,624	¥ 26,331	¥ 799,211	¥ 1,756,350
Transportation & Construction Systems	714,956	134,573	26,717	1,140,692	1,751,363
Machinery & Electric	141,998	38,444	16,619	481,668	326,576
Media, Electronics & Network	102,660	59,800	11,220	455,062	462,662
Chemical	83,364	34,593	5,082	272,682	762,221
Mineral Resources & Energy	140,917	47,884	33,010	717,356	2,007,272
Consumer Goods & Service	404,475	109,412	5,548	378,109	621,815
Materials & Real Estate	257,589	88,656	15,076	547,815	544,277
Financial & Logistics	140,305	29,154	5,864	430,059	170,568
Domestic Regional Business Units and Offices	70,730	41,377	7,568	501,278	1,109,864
Overseas Subsidiaries and Branches	690,664	226,436	43,208	1,035,653	2,055,666
Segment Total	3,196,961	887,953	196,243	6,759,585	11,568,634
Corporate and Eliminations	(119,751)	(30,264)	14,761	1,670,892	(1,040,357)
Consolidated	¥3,077,210	¥857,689	¥211,004	¥8,430,477	¥10,528,277

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:	Millions of Yen				
Segment	Revenues	Gross profit	Net income	Assets	Total trading transactions*
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

2007:	Millions of U.S. Dollars				
Segment	Revenues	Gross profit	Net income	Assets	Total trading transactions*
Metal Products	$ 3,808	$ 658	$ 223	$ 6,773	$14,884
Transportation & Construction Systems	6,059	1,140	226	9,667	14,842
Machinery & Electric	1,203	326	141	4,082	2,768
Media, Electronics & Network	870	507	95	3,856	3,921
Chemical	707	293	43	2,311	6,459
Mineral Resources & Energy	1,194	406	280	6,079	17,011
Consumer Goods & Service	3,428	927	47	3,204	5,270
Materials & Real Estate	2,183	751	128	4,643	4,612
Financial & Logistics	1,189	247	50	3,645	1,445
Domestic Regional Business Units and Offices	599	351	64	4,248	9,406
Overseas Subsidiaries and Branches	5,853	1,919	366	8,777	17,421
Segment Total	27,093	7,525	1,663	57,285	98,039
Corporate and Eliminations	(1,015)	(256)	125	14,160	(8,816)
Consolidated	$26,078	$7,269	$1,788	$71,445	$89,223

Corporate assets consist primarily of cash and cash equivalents and marketable securities maintained for general corporate purposes. As of March 31, 2007,"Assets held for sale", which is recognized in relation to the strategic reorganization of the Companies' lease business, is included in Assets of Corporate and Eliminations segment.

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:

2007:	Millions of Yen		Millions of U.S. Dollars	
	Revenues	Long-lived assets	Revenues	Long-lived assets
Japan	¥1,509,414	¥ 652,885	$12,792	$5,533
Asia	231,842	40,956	1,965	347
North America:				
U.S.	817,141	245,662	6,925	2,082
Other	113,669	17,295	963	146
Europe	264,108	117,213	2,238	993
Other	141,036	93,634	1,195	794
Total	¥3,077,210	¥1,167,645	$26,078	$9,895

2006:	Millions of Yen	
	Revenues	Long-lived assets
Japan	¥1,308,055	¥ 673,578
Asia	195,007	30,767
North America:		
U.S.	533,309	250,740
Other	122,953	16,623
Europe	296,228	122,229
Other	125,859	79,540
Total	¥2,581,411	¥1,173,477

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

20. FOREIGN EXCHANGE GAINS AND LOSSES

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 gains of ¥3,416 million ($29 million), losses of ¥6,945 million, and gains of ¥2,097 million were included in the determination of net income for the years ended March 31, 2007, 2006 and 2005, respectively.

21. LEASES

As Lessor

The Companies lease vehicles, vessels, power station, service equipment, and others under arrangements which are classified as direct financing leases, sales type leases or leveraged leases under SFAS No. 13, "Accounting for Leases."

Net investments in direct financing leases or sales type leases at March 31, 2007 and 2006, 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
	2007	2006	2007
Future minimum lease payments to be received	¥ 479,634	¥204,349	$4,065
Unguaranteed residual value	5,420	5,594	46
Less: Unearned income	(105,825)	(23,263)	(897)
Net investments	¥ 379,229	¥186,680	$3,214

The Companies also lease aircrafts, office buildings and other industrial properties and equipments to third parties under cancelable and non-cancelable operating leases. As of March 31, 2007 and 2006, the cost of the leased property was ¥576,272 million ($4,884 million) and ¥522,399 million, respectively, and the accumulated depreciation of that was ¥212,298 million ($1,799 million) and ¥185,931 million, respectively, and these are included in "Property and equipment" and "Goodwill and other intangible assets"(see Notes 9 and 10). Contingent rentals amounted to ¥5,550 million ($47 million) for the year ended March 31, 2007.

Future minimum lease payments to be received as of March 31, 2007 are as follows:

	Millions of Yen			Millions of U.S. Dollars		
Year ending March 31,	Direct financing leases and sales type leases	Non-cancelable operating leases	Total	Direct financing leases and sales type leases	Non-cancelable operating leases	Total
2008	¥ 94,059	¥ 70,358	¥164,417	$ 797	$ 596	$1,393
2009	75,095	51,841	126,936	637	439	1,076
2010	60,531	41,058	101,589	513	348	861
2011	46,502	29,768	76,270	394	252	646
2012	34,745	17,300	52,045	294	147	441
2013 and thereafter	168,702	50,925	219,627	1,430	432	1,862
Total	¥479,634	¥261,250	¥740,884	$4,065	$2,214	$6,279

The components of the net investment in leveraged leases at March 31, 2007 and 2006 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	2006	2007
Future minimum lease payments to be received (net of principal and interest on third-party nonrecourse debt)	¥ 3,931	¥—	$ 33
Unguaranteed residual value	7,633	—	65
Less: unearned income	(3,443)	—	(29)
Investments in leveraged leases	8,121	—	69
Less: deferred tax liabilities arising from leveraged leases	(596)	—	(5)
Net investments	¥ 7,525	¥—	$ 64

As Lessee

During the year ended March 31, 2006, the Companies sold the corporate headquarter building (Harumi Triton Square Office Tower Y) for ¥86,000 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 payments resulting from the sale-leaseback transaction was deferred and is recognized over the lease payments.

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, 2007, 2006 and 2005 were ¥54,207 million ($459 million), ¥38,966 million and ¥28,022 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, 2007, 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
2008	¥14,343	¥ 42,387	¥ 56,730	$122	$ 359	$ 481
2009	10,390	38,915	49,305	88	330	418
2010	9,259	36,291	45,550	78	308	386
2011	6,858	37,491	44,349	58	318	376
2012	3,711	31,429	35,140	32	266	298
2013 and thereafter	5,331	192,694	198,025	45	1,633	1,678
	49,892	379,207	429,099	423	3,214	3,637
Less: amount representing interest	(5,891)			(50)		
	¥44,001			$373		

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 ¥1,080,674 million ($9,158 million) as of March 31, 2007. Scheduled deliveries are at various dates through 2012.

The Companies also had long-term financing commitments of ¥14,409 million ($122 million) as of March 31, 2007 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, 2007 were insignificant.

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

As of March 31, 2007:	Millions of Yen	Millions of U.S. Dollars
Discounted trade notes receivable with banks	¥125,905	$1,067
Guarantees of indebtedness:		
Associated companies	81,538	691
Third parties	42,262	358
Employees	4,105	35
Residual value guarantees	15,606	132
Total	¥269,416	$2,283

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 2009. If an issuer of a note defaults on its payment, the Companies would be required to pay the banks for any loss. ¥99,683 million ($845 million) of discounted trade notes receivable outstanding as of March 31, 2007 was covered by letters of credit, whereby other banks would be required to pay for any defaults by the issuers of the notes.

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 ¥983 million ($8 million) as of March 31, 2007. 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 2025. The Companies must pay if a guaranteed party defaults on a guaranteed indebtedness. Guarantees with third party guarantee aggregated ¥910 million ($8 million) as of March 31, 2007. 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, 2007. 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, 2007.

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

(c) Litigation

(1) Copper trading litigation

All litigation resulting from the unauthorized copper trading by a former employee of the Company which was discovered in June 1996, in which the Company was involved as a defendant, was resolved by October 31, 2006.

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 was recognized in the year ending March 31, 2007.

(2) Other litigation

Except 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.

23. SUBSEQUENT EVENTS

(a) On May 22, 2007, the Company and Sumisho Lease Co., Ltd. ("SCL") entered into a Share Exchange Agreement to make SCL a wholly-owned subsidiary of the Company, based on the resolution of their respective Board of Directors held on the same day. The share exchange is expected to take place on July 1, 2007, and approvals of the general meetings of shareholders will not be needed at each company because the Share Exchange will be executed through a simplified share exchange for the Company and through a short-form share exchange for SCL, based on Article 796, Paragraph 3 and Article 784, Paragraph 1 of the Company Law of Japan, respectively. In accordance with the Share Exchange Agreement, the Company will pay ¥7,000 ($59) per common stock to the shareholders of SCL, exclusive of the Company.

(b) On May 22, 2007, the Company resolved the matter as follows at its Board of Directors held to promote the business expansion by strategic concentration and restructuring of management resources in the Company's media business field. The Company executed a comprehensive business restructuring agreement ("the Master Agreement") with Liberty Media International, Inc. ("LMI"), Liberty Programming Japan, Inc. (a wholly-owned subsidiary of LMI; "LPJ") and Jupiter TV Co., Ltd. (a joint venture with 50% investment by the Company and LPJ, respectively; "JTV") regarding the business restructuring of JTV. The Master Agreement includes the following items;

(1) The Company purchased one share of JTV to be issued under the third-party share allocation to turn JTV into a consolidated subsidiary of the Company on May 23, 2007.
(2) Corporate spin-off and establishment of a new company ("the Spin-off") under which JTV will be the Spin-off company and the new company to be established on and after July 2, 2007 ("JTV1") will be the Successor company. Company name of "JTV" will be changed to "SC Media & Commerce Inc." on and after July 2, 2007.
(3) The Company will acquire JTV as a wholly-owned subsidiary through a share exchange between the Company and JTV ("the Share Exchange") on July 3, 2007, which is conditional on the Spin-off being effective. The Company purchased for ¥105 billion ($890 million) all the shares of the Company for granting to LPJ upon the Share Exchange.
(4) Jupiter Telecommunications Co., Ltd. (approximately 25.7% owned by the Company) and JTV1 plan to merge on September 1, 2007, which is conditional on the Spin-off being effective.

(c) The Company has issued an uncollateralized bond as follows:
<The 34 round uncollateralized bond>

Issue date	Principal amount	Issue price (per value ¥100)	Coupon rate	Maturity date	Use of funds
June 13, 2007	¥10 billion ($85 million)	¥99.93 ($1)	1.98%	June 13, 2017	Working capital, repayment of debt and others

(d) The Company has early redeemed a callable uncollateralized bond as follows:
<The 14 round callable uncollateralized bond>

Redemption date	Redemption amount	Coupon rate	Original redemption date
June 18, 2007	¥10 billion ($85 million)	Until June 18, 2007, 1.14% Effective from June 19, 2007, 2.00%	June 18, 2013

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, 2007 and 2006, 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, 2007, 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2007, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements as of and for the year ended March 31, 2007 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
June 22, 2007