

MITSUI & CO LTD  
Form 6-K  
August 18, 2008

## **FORM 6-K**

### **SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Report of Foreign Private Issuer**

**Quarterly Consolidated Financial Statements for the three-month period ended June 30, 2008**

**Pursuant to Rule 13a-16 or 15d-16**

**of the Securities Exchange Act of 1934**

**For the month of August 18, 2008**

**Commission File Number 09929**

## **Mitsui & Co., Ltd.**

**(Translation of registrant's name into English)**

**2-1, Ohtemachi 1-chome Chiyoda-ku, Tokyo 100-0004 Japan**

**(Address of principal executive offices)**

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

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Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): \_\_\_\_\_

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes \_\_\_\_\_ No X

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_\_

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 18, 2008

**MITSUI & CO., LTD.**

By: /s/ Junichi Matsumoto

Name: Junichi Matsumoto

Title: Executive Director

Executive Vice President

Chief Financial Officer

**Quarterly Consolidated Financial Statements**

**for the three-month period ended June 30, 2008**

English translation of quarterly consolidated financial statements for the three-month period ended June 30, 2008, which were prepared in accordance with U.S. GAAP and filed as part of the Quarterly Securities Report with the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on August 14, 2008.

## Consolidated Balance Sheets

Mitsui &amp; Co., Ltd. and subsidiaries

June 30, 2008 and March 31, 2008

Millions of Yen

## Assets

	June 30, 2008	March 31, 2008
<b>Current Assets:</b>		
Cash and cash equivalents (Note 1)	¥ 910,289	¥ 899,264
Time deposits	14,918	12,302
Marketable securities (Note 1)	16,167	7,114
Trade receivables :		
Notes and loans, less unearned interest	455,126	424,406
Accounts	2,189,596	2,125,640
Associated companies	287,120	228,831
Allowance for doubtful receivables (Note 1)	(22,530)	(23,289)
Inventories (Note 1)	781,023	739,721
Advance payments to suppliers	141,970	95,188
Deferred tax assets - current (Note 1)	39,496	37,766
Derivative assets (Note 1)	388,699	319,041
Other current assets (Note1)	327,606	260,645
<b>Total current assets</b>	<b>5,529,480</b>	<b>5,126,629</b>
<b>Investments and Non-current Receivables (Note 1):</b>		
Investments in and advances to associated companies (Note 3)	1,465,496	1,333,042
Other investments	1,384,062	1,281,476
Non-current receivables, less unearned interest	479,600	497,265
Allowance for doubtful receivables (Note 1)	(59,347)	(58,957)
Property leased to others - at cost, less accumulated depreciation	206,273	184,447
<b>Total investments and non-current receivables</b>	<b>3,476,084</b>	<b>3,237,273</b>
<b>Property and Equipment at Cost (Note 1):</b>		
Land, land improvements and timberlands	174,465	188,848
Buildings, including leasehold improvements	376,135	385,104
Equipment and fixtures	865,183	815,202
Mineral rights	150,505	146,120
Vessels	34,839	33,789
Projects in progress	212,871	176,987
<b>Total</b>	<b>1,813,998</b>	<b>1,746,050</b>
Accumulated depreciation	(755,499)	(729,715)
<b>Net property and equipment</b>	<b>1,058,499</b>	<b>1,016,335</b>
<b>Intangible Assets, less Accumulated Amortization (Note 1)</b>	<b>132,478</b>	<b>128,504</b>
<b>Deferred Tax Assets Non-current (Note 1)</b>	<b>19,265</b>	<b>20,574</b>

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<b>Other Assets</b>	<b>77,559</b>	77,079
<b>Total</b>	<b>¥ 10,293,365</b>	¥ 9,606,394

See notes to consolidated financial statements.

Millions of Yen

## Liabilities and Shareholders Equity

	June 30, 2008	March 31, 2008
<b>Current Liabilities:</b>		
Short-term debt	¥ 553,504	¥ 464,547
Current maturities of long-term debt	295,611	276,620
Trade payables:		
Notes and acceptances	80,067	79,414
Accounts	1,976,076	1,888,911
Associated companies	80,024	69,476
Accrued expenses:		
Income taxes (Note 1)	92,900	127,411
Interest	20,886	21,924
Other	95,758	85,526
Advances from customers	171,011	113,939
Derivative liabilities (Note 1)	414,277	267,503
Other current liabilities (Notes 1 and 4)	88,597	114,857
<b>Total current liabilities</b>	<b>3,868,711</b>	<b>3,510,128</b>
<b>Long-term Debt, less Current Maturities</b>	<b>2,962,000</b>	<b>2,944,383</b>
<b>Accrued Pension Costs and Liability for Severance</b>		
<b>Indemnities</b> (Note 1)	<b>32,041</b>	<b>32,754</b>
<b>Deferred Tax Liabilities - Non-current</b> (Note 1)	<b>446,546</b>	<b>387,337</b>
<b>Other Long-Term Liabilities</b> (Notes 1 and 4)	<b>318,362</b>	<b>304,156</b>
<b>Contingent Liabilities</b> (Note 4)		
<b>Minority Interests</b>	<b>272,845</b>	<b>243,976</b>
<b>Shareholders' Equity</b>		
Common stock - no par value		
Authorized, 2,500,000,000 shares;		
Shares issued: 2008.6 - 1,822,731,135 shares; 2008.3 - 1,820,183,809 shares	338,662	337,544
Capital surplus	433,427	432,245
Retained earnings:		
Appropriated for legal reserve	48,336	47,463
Unappropriated	1,457,736	1,397,313
Accumulated other comprehensive income (loss) (Note 1):		
Unrealized holding gains and losses on available-for-sale securities	177,138	140,446
Foreign currency translation adjustments	(30,726)	(135,196)
Defined benefit pension plans	(31,600)	(32,160)
Net unrealized gains and losses on derivatives	5,715	1,135
<b>Total accumulated other comprehensive income (loss)</b>	<b>120,527</b>	<b>(25,775)</b>
Treasury stock, at cost: shares in treasury: 2008.6 - 3,799,584 shares; 2008.3 - 3,543,891 shares	(5,828)	(5,130)
<b>Total shareholders' equity</b>	<b>2,392,860</b>	<b>2,183,660</b>
<b>Total</b>	<b>¥ 10,293,365</b>	<b>¥ 9,606,394</b>





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Statement of Consolidated Income

Mitsui & Co., Ltd. and subsidiaries

For the Three-Month Period Ended June 30, 2008

Millions of Yen

	<b>Three-Month Period ended June 30, 2008</b>
<b>Revenues (Note 1):</b>	
Sales of products	¥ 1,346,921
Sales of services	138,275
Other sales	40,675
<b>Total revenues</b>	<b>1,525,871</b>
[Total Trading Transactions (Notes 1 and 3) Three-month period ended June 30, 2008 ¥4,287,897 million]	
<b>Cost of Revenues (Note 1)</b>	
Cost of products sold	1,188,869
Cost of services sold	42,569
Cost of other sales	19,453
<b>Total cost of revenues</b>	<b>1,250,891</b>
<b>Gross Profit</b>	<b>274,980</b>
<b>Other Expenses (Income):</b>	
Selling, general and administrative (Note 1)	150,718
Provision for doubtful receivables (Note 1)	997
Interest income (Note 1)	(10,692)
Interest expense (Note 1)	19,689
Dividend income	(24,616)
Gain on sales of securities - net (Note 1)	(6,412)
Loss on write-down of securities (Note 1)	10,628
Gain on disposal or sales of property and equipment - net	(2,228)
Impairment loss of long-lived assets (Note 1)	473
Other expense - net	11,164
<b>Total other expenses</b>	<b>149,721</b>
<b>Income before Income Taxes, Minority Interests and Equity in Earnings</b>	<b>125,259</b>
<b>Income Taxes (Note 1)</b>	<b>53,155</b>
<b>Income before Minority Interests and Equity in Earnings</b>	<b>72,104</b>
<b>Minority Interests in Earnings of Subsidiaries</b>	<b>(13,646)</b>
<b>Equity in Earnings of Associated Companies Net (After Income Tax Effect) (Note 1)</b>	<b>44,626</b>
<b>Net Income</b>	<b>¥ 103,084</b>
	<b>Yen</b>
<b>Net Income per Share (Notes 1 and 2)</b>	
Basic	¥ 56.71

Diluted	¥	56.48
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See notes to consolidated financial statements.

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Statement of Consolidated Shareholders' Equity

Mitsui & Co., Ltd. and subsidiaries

For the Three-Month period Ended June 30, 2008

Millions of Yen

**Common Stock:**

Balance at beginning of period	
Shares issued: 2008.6 - 1,820,183,809 shares	¥ 337,544
Common stock issued upon conversion of bonds	
Shares issued: 2008.6 - 2,547,326 shares	1,118

Balance at end of period	
Shares issued: 2008.6 - 1,822,731,135 shares	¥ 338,662

**Capital Surplus:**

Balance at beginning of period	¥ 432,245
Conversion of bonds	1,115
Gain on sales of treasury stock	67

Balance at end of period	¥ 433,427
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**Retained Earnings:**

**Appropriated for Legal Reserve:**

Balance at beginning of period	¥ 47,463
Transfer from unappropriated retained earnings	873

Balance at end of period	¥ 48,336
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**Unappropriated:**

Balance at beginning of period	¥ 1,397,313
Net income	103,084
Cash dividends paid	(41,788)
Transfer to retained earnings appropriated for legal reserve	(873)

Balance at end of period	¥ 1,457,736
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**Accumulated Other Comprehensive Income (Loss) (After Income Tax Effect)(Note1):**

Balance at beginning of period	¥ (25,775)
Unrealized holding gains and losses on available-for-sale securities	36,692
Foreign currency translation adjustments	104,470
Defined benefit pension plans	560
Net unrealized gains and losses on derivatives	4,580

Balance at end of period	¥ 120,527
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**Treasury Stock, at Cost:**

Balance at beginning of period	¥ (5,130)
Purchases of treasury stock	¥ (825)
Sales of treasury stock	¥ 127

Balance at end of period	¥ (5,828)
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**Comprehensive Income:**

Net income	¥ 103,084
Other comprehensive income (after income tax effect)(Note1):	
Unrealized holding gains and losses on available-for-sale securities	36,692
Foreign currency translation adjustments	104,470
Defined benefit pension plans	560
Net unrealized gains and losses on derivatives	4,580
<b>Comprehensive Income</b>	<b>¥ 249,386</b>

See notes to consolidated financial statements.

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Statement of Consolidated Cash Flows

Mitsui & Co., Ltd. and subsidiaries

For the Three-Month Period ended June 30, 2008

Millions of Yen

	<b>Three-Month Period ended June 30, 2008</b>
<b>Operating Activities:</b>	
Net income	¥ 103,084
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	34,495
Pension and severance costs, less payments	1,752
Provision for doubtful receivables	997
Gain on sales of securities - net	(6,412)
Loss on write-down of securities	10,628
Gain on disposal or sales of property and equipment - net	(2,228)
Impairment loss of long-lived assets	473
Deferred income taxes	(18,640)
Minority interests in earnings of subsidiaries	13,646
Equity in earnings of associated companies, less dividends received	(9,606)
Changes in operating assets and liabilities:	
Increase in trade receivables	(63,310)
Increase in inventories	(68,103)
Increase in trade payables	53,242
Increase in advance payments to suppliers	(48,356)
Increase in advances from customers	54,947
Other - net	(25,942)
<b>Net cash provided by operating activities</b>	<b>30,667</b>
<b>Investing Activities:</b>	
Net increase in time deposits	(2,011)
Investments in and advances to associated companies	(16,072)
Sales of investments in and collection of advances to associated companies	5,044
Acquisitions of other investments	(30,111)
Proceeds from sales of other investments	18,265
Increase in long-term loan receivables	(22,888)
Collection of long-term loan receivables	22,563
Additions to property leased to others and property and equipment	(62,461)
Proceeds from sales of property leased to others and property and equipment	6,826
<b>Net cash used in investing activities</b>	<b>(80,845)</b>
<b>Financing Activities:</b>	
Net increase in short-term debt	65,388
Proceeds from long-term debt	72,627
Repayments of long-term debt	(52,752)
Purchases of treasury stock - net	(632)
Payments of cash dividends	(41,788)
<b>Net cash provided by financing activities</b>	<b>42,843</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>18,360</b>

<b>Net Increase in Cash and Cash Equivalents</b>		11,025
<b>Cash and Cash Equivalents at Beginning of Period</b>		899,264
<b>Cash and Cash Equivalents at End of Period</b>	¥	910,289

See notes to consolidated financial statements.

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## **1. BASIS OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **I. BASIS OF FINANCIAL STATEMENTS**

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which Mitsui & Co., Ltd. (the Company) is incorporated and principally operates.

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 ). Effect has been given in the consolidated financial statements to adjustments which have not been entered in Mitsui & Co., Ltd. and subsidiaries (collectively, the companies) general books of account maintained principally in accordance with accounting practices prevailing in the countries of incorporation. Major adjustments include those relating to accounting for derivative instruments and hedging activities, recognition of expected losses on purchase and sale commitments, accounting for certain investments including non-monetary exchange of investments, accounting for warrants, accounting for pension costs and severance indemnities, recognition of installment sales on the accrual basis of accounting, accounting for business combinations, accounting for goodwill and other intangible assets, accounting for asset retirement obligations, accounting for consolidation of variable interest entities, accounting for leasing, accounting for stock issuance costs and accounting for uncertainty in income taxes.

Total trading transactions, as presented in the accompanying Statement of Consolidated Income, are voluntary disclosures as permitted by Financial Accounting Standards Board ( FASB ) Emerging Issues Task Force Issue ( EITF ) No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, and represent the gross transaction volume or the aggregate nominal value of the sales contracts in which the companies act as principal and transactions in which the companies serve as agent. Total trading transactions should not be construed as equivalent to, or a substitute or a proxy for, revenues, or as an indicator of the companies' operating performance, liquidity or cash flows generated by operating, investing or financing activities. The companies have included the gross transaction volume information because similar Japanese trading companies have generally used it as an industry benchmark. As such, management believes that total trading transactions are a useful supplement to the results of operations information for users of the consolidated financial statements.

### **II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Consolidation***

The consolidated financial statements include the accounts of the Company, its majority-owned domestic and foreign subsidiaries, the variable interest entities ( VIEs ) where the Company or one of its subsidiaries is a primary beneficiary, and its proportionate share of the assets, liabilities, revenues and expenses of certain of its oil and gas producing, and mining unincorporated joint ventures in which the companies own an undivided interest in the assets, and pursuant to the joint venture agreements, are severally liable for their share of each liability. The VIEs are defined by FASB Interpretation ( FIN ) No. 46, Consolidation of Variable Interest Entities (revised December 2003) an Interpretation of ARB No. 51 .

The difference between the cost of investments in VIEs which are not a business and the equity in the fair value of the net assets at the dates of acquisition is accounted for as an extraordinary gain or loss while the excess of the cost of investments in other subsidiaries that meet the definition of a business over the equity in the fair value of the net assets at the dates of acquisition is accounted for as goodwill.

Certain subsidiaries with a first-quarter-end on or after March 31, but prior to the parent company's first-quarter-end of June 30, are included on the basis of the subsidiaries' respective first-quarter-ends.

#### ***Foreign currency translation***

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 52, Foreign Currency Translation. Pursuant to this statement, the assets and liabilities of foreign subsidiaries and associated companies are translated into Japanese yen at the respective year-end exchange rates. All income and expense accounts are translated at average rates of exchange. The resulting translation adjustments are included in accumulated other comprehensive income (loss).

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at year-end exchange rates with the resulting gains and losses recognized in earnings.

#### ***Cash equivalents***

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Cash equivalents are defined as short-term (original maturities of three months or less), highly liquid investments which are readily convertible into cash and have no significant risk of change in value including certificates of deposit, time deposits, financing bills and commercial papers with original maturities of three months or less.

### *Allowance for doubtful receivables*

In accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan* an amendment of FASB Statements No. 5 and 15, as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures* an amendment of FASB Statement No. 114, an impairment loss for a specific loan deemed to be impaired is measured based on the present value of expected cash flows discounted at the loan's original effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for doubtful receivables is recorded for all receivables not subject to the accounting requirement of SFAS No. 114 based primarily upon the companies' credit loss experiences and an evaluation of potential losses in the receivables.



### *Inventories*

Inventories, consisting mainly of commodities and materials for resale, are stated at the lower of cost, principally on a specific-identification basis, or market.

### *Derivative instruments and hedging activities*

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* an amendment of FASB Statement No. 133, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, all derivative instruments are recognized and measured at fair value as either assets or liabilities in the Consolidated Balance Sheets. The accounting for changes in the fair value depends on the intended use of the derivative instruments and their resulting hedge designation.

The companies enter into derivative commodity instruments, such as future, forward, option and swap contracts, as a means of hedging the exposure to changes in the fair value of inventories and unrecognized firm commitments and the exposure to variability in the expected future cash flows from forecasted transactions, principally for non-ferrous metals, crude oil and agricultural products.

Changes in the fair value of derivative commodity instruments, designated and effective as fair value hedges, are recognized in sales of products or cost of products sold as offsets to changes in the fair value of the hedged items. Changes in the fair value of derivative commodity instruments, designated and effective as cash flow hedges, are initially recorded as other comprehensive income and reclassified into earnings as sales of products or cost of products sold when the hedged transactions affect earnings. Changes in the fair value of the ineffective portion are recognized in sales of products or cost of products sold immediately.

Changes in the fair value of derivative commodity instruments, for which hedge requirements are not met under SFAS No. 133, are currently recognized in sales of products or cost of products sold without any offsetting changes in the fair value of the hedged items.

The Company and certain subsidiaries also enter into agreements for derivative commodity instruments as a part of their trading activities. These derivative instruments are marked to market and gains or losses resulting from these contracts are reported in other sales.

Changes in the fair value of all open positions of precious metals traded in terminal (future) markets are recognized in other sales in order to reflect the fair value of commodity trading transactions consisting of inventories, unrecognized firm commitments and derivative commodity instruments as a whole.

The companies enter into derivative financial instruments such as interest rate swap agreements, foreign exchange forward contracts, currency swap agreements, and interest rate and currency swap agreements as a means of hedging their interest rate and foreign exchange exposure.

Changes in the fair value of interest rate swap agreements, designated and effective as fair value hedges for changes in the fair value of fixed-rate financial assets or liabilities attributable to changes in the designated benchmark interest rate, are recognized in interest income and expense as offsets to changes in the fair value of hedged items. Changes in the fair value of interest rate swap agreements, designated and effective as cash flow hedges for changes in the cash flows of floating-rate financial assets or liabilities attributable to changes in the designated benchmark interest rate, are initially recorded in other comprehensive income and reclassified into earnings as interest income and expense when the hedged transactions affect earnings. Changes in the fair value of the ineffective portion are recognized in interest income and expense immediately.

Changes in the fair value of foreign exchange forward contracts and currency swap agreements, designated and effective as cash flow hedges for changes in the cash flows of foreign-currency-denominated assets or liabilities, unrecognized firm commitments and forecasted transactions attributable to changes in the related foreign currency exchange rate, are initially recorded in other comprehensive income and reclassified into earnings as foreign exchange gains or losses when the hedged transactions affect earnings. Changes in the fair value of the ineffective portion are recognized in foreign exchange gains or losses immediately.

Changes in the fair value of interest rate and currency swap agreements, designated and effective as fair value hedges or cash flow hedges for changes in the fair values or cash flows of foreign-currency-denominated assets or liabilities attributable to changes in the designated benchmark interest rate or the related foreign currency exchange rate are recorded as either earnings or other comprehensive income depending on the treatment of foreign currency hedges as fair value hedges or cash flow hedges.

Changes in the fair value of derivative financial instruments, for which hedge requirements are not met under SFAS No. 133, are currently recognized in interest income and expense for interest rate swap agreements and in foreign exchange gains or losses for foreign exchange forward contracts, currency swap agreements and interest rate and currency swap agreements.

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The Company and certain subsidiaries also enter into agreements for certain derivative financial instruments as a part of their trading activities. These derivative instruments are marked to market and the related gains or losses are reported in other sales.

The companies use derivative instruments and non-derivative financial instruments in order to reduce the foreign currency exposure in the net investment in a foreign operation. The foreign currency transaction gains or losses on these instruments, designated as and effective as hedging instruments, are deferred and recorded as foreign currency translation adjustments within other comprehensive income to the extent they are effective as hedge. These amounts are only recognized in income upon the complete or partial sale of the related investment or the complete liquidation of the investment.

For the Statements of Consolidated Cash Flows, cash flows from derivative commodity instruments and derivative financial instruments that qualify for hedge accounting are included in the same category as the items being hedged.

***Debt and marketable equity securities***

The companies classify debt and marketable equity securities, at acquisition, into one of three categories: held-to-maturity, available-for-sale or trading under provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities.

Trading securities are carried at fair value and unrealized holding gains and losses are included in earnings.

Debt securities are classified as held-to-maturity and measured at amortized cost in the Consolidated Balance Sheets only if the companies have the positive intent and ability to hold those securities to maturity. Premiums and discounts amortized in the period are included in interest income.

Debt and marketable equity securities other than those classified as trading or held-to-maturity securities are classified as available-for-sale securities and carried at fair value with related unrealized holding gains and losses reported in accumulated other comprehensive income (loss) in shareholders' equity on a net-of-tax basis.

For other than a temporary decline in the value of debt and marketable equity securities below their cost or amortized cost, the investment is reduced to its fair value, which becomes the new cost basis of the investment. The amount of the reduction is reported as a loss for the year in which such determination is made. Various factors, such as the extent which the cost exceeds the market value, the duration of the market decline, the financial condition and near-term prospects of the issuer, and the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value, are reviewed to judge whether the decline is other than temporary.

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

***Non-marketable equity securities***

Non-marketable equity securities are carried at cost. When other than a temporary decline in the value of such securities below their cost occurs, the investment is reduced to its fair value and an impairment loss is recognized. Various factors, such as the financial condition and near-term prospects of the issuer, are reviewed to judge whether it is other than temporary.

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

***Investments in associated companies***

Investments in associated companies (20% to 50%-owned corporate investees, corporate joint ventures, and less than 20%-owned corporate investees over which the companies have the ability to exercise significant influence) and noncontrolling investments in general partnerships, limited partnerships and limited liability companies are accounted for under the equity method, after appropriate adjustments for intercompany profits and dividends. The differences between the cost of such investments and the companies' equity in the underlying fair value of the net assets of associated companies at the dates of acquisition are recognized as equity method goodwill.

For other than a temporary decline in the value of investments in associated companies below the carrying amount, the investment is reduced to its fair value and an impairment loss is recognized.

***Leasing***

The companies are engaged in lease financing consisting of direct financing leases and leveraged leases, and in operating leases of properties. For direct financing leases, unearned income is amortized to income over the lease term at a constant periodic rate of return on the net investment. Income on leveraged leases is recognized over the life of the lease at a constant rate of return on the positive net investment. Initial direct costs are deferred and amortized using the interest method over the lease period. Operating lease income is recognized as other sales over the term of underlying leases on a straight-line basis.

The companies are also lessees of various assets. Rental expenses on operating leases are recognized over the respective lease terms using the straight-line method.

***Property and equipment***

Property and equipment are stated at cost.

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Depreciation of property and equipment (including property leased to others) is computed principally under the declining-balance method for assets located in Japan and under the straight-line method for assets located outside Japan, using rates based upon the estimated useful lives of the related property and equipment. Mineral rights are amortized over their respective estimated useful lives using the straight-line method or the unit-of-production method.

Leasehold improvements are amortized over the lesser of the useful life of the improvement or the term of the underlying lease.

Significant renewals and additions are capitalized at cost. Maintenance and repairs, and minor renewals and betterments are charged to expense as incurred.

### *Impairment of long-lived assets*

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets to be held and used or to be disposed of other than by sale are reviewed, by using undiscounted future cash flows, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Such impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell.

***Business combinations***

In accordance with SFAS No. 141, Business Combinations, the purchase method of accounting is used for all business combinations. The companies separately recognize and report acquired intangible assets as goodwill or other intangible assets. Any excess of fair value of acquired net assets over cost arising from a business combination is allocated as a pro rata reduction of the amounts that otherwise would have been assigned to certain acquired assets and the remaining excess is immediately recognized as an extraordinary gain.

***Goodwill and other intangible assets***

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is not amortized but tested for impairment annually or more frequently if impairment indicators arise. Identifiable intangible assets with a finite useful life are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144. Any identifiable intangible asset determined to have an indefinite useful life is not amortized, but instead tested for impairment in accordance with SFAS No. 142 until its useful life is determined to be no longer indefinite.

Equity method goodwill is reviewed for impairment as a part of other than a temporary decline in the value of investments in associated companies below the carrying amount in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock.

***Oil and gas producing activities***

Oil and gas exploration and development costs are accounted for using the successful efforts method of accounting. The costs of acquiring properties, costs of drilling and equipping exploratory wells, and costs of development wells and related plant and equipment are capitalized, and amortized using the unit-of-production method. Exploratory well costs are expensed, if economically recoverable reserves are not found. Other exploration costs, such as geological and geophysical costs, are expensed as incurred.

In accordance with SFAS No. 144, proved properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the proved properties are determined to be impaired, an impairment loss is recognized based on the fair value. Unproven properties are assessed annually for impairment in accordance with the guidance in SFAS No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies, with any impairment charged to expense. The companies' policy is to consider the unproved properties not impaired if the estimated reserves of those properties can be established to be economically viable. Economically viable means that they may be developed in such a way that it is probable that over their project lives they will generate, at a minimum, zero net cash flow on an undiscounted pre-tax basis, based on current prices. For the purpose of this test, the current price is the price at the end of the period for which the review is conducted for the reserves concerned.

***Mining operations***

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

In open pit mining operations, it is necessary to remove overburden and other waste materials to access mineral deposits. The costs of removing waste materials are referred to as stripping costs. During the development of a mine, before production commences, such costs are generally capitalized as part of the development costs. Removal of waste materials continues during the production stage of the mine. Such post-production stripping costs are variable production costs to be considered a component of mineral inventory costs and are recognized as a component of costs of products sold in the same period as the related revenues from the sales of the minerals. Depending on the configuration of the mineral deposits, the post-production stripping costs could lead to a lower of cost or market inventory adjustment.

***Asset retirement obligations***

In accordance with SFAS No. 143, Accounting for Asset Retirement Obligations, the companies record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the companies capitalize the related cost by increasing the carrying amount of the long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

***Pension and severance indemnities plans***

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The companies have pension plans and/or severance indemnities plans covering substantially all employees other than directors. The costs of the pension plans and severance indemnities plans are accrued based on amounts determined using actuarial methods, in accordance with SFAS No. 87, Employers Accounting for Pensions, and SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB statements No. 87, 88, 106, and 132(R).

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### ***Guarantees***

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

### ***Revenue recognition***

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

#### ***Sales of products***

Sales of products include the sales of various products as a principal in the transactions, the manufacture and sale of a wide variety of products such as metals, chemicals, foods and general consumer merchandise, the development of natural resources such as coal, iron ore, oil and gas, and the development and sale of real estate. The companies recognize those revenues at the time the delivery conditions agreed with customers are met. These conditions are usually considered to have been met when the goods are received by the customer, the title to the warehouse receipts is transferred, or the implementation testing is duly completed.

For long-term construction contracts such as railroad projects, depending on the nature of the contract, revenues are accounted for by the percentage-of-completion method if estimates of costs to complete and extent of progress toward completion of long-term contracts are reasonably dependable, otherwise the companies use the completed contract method.

The Company and certain subsidiaries enter into buy/sell arrangements, mainly relating to transactions of crude oil and petroleum products. Under buy/sell arrangements, which are entered into primarily to optimize supply or demand requirements, the Company and certain subsidiaries agree to buy (sell) a specific quality and quantity of commodities to be delivered at a specific location and/or time while agreeing to sell (buy) the same quality and quantity of the commodities at a different location and/or time to the same counterparty. The buy/sell arrangements are reported on a net basis in the Statements of Consolidated Income.

#### ***Sales of services***

Sales of services include the revenues from trading margins and commissions related to various trading transactions in which the companies act as a principal or an agent. Specifically, the companies charge a commission for the performance of various services such as logistic and warehouse services, information and communication services, and technical support. For some back-to-back sales and purchase transactions of products, the companies act as a principal and record the net amount of sales and purchase prices as revenues. The companies also facilitate conclusion of the contracts between manufacturers and customers and deliveries for the products between suppliers and customers. Revenues from service related businesses are recorded as revenues when the contracted services are rendered to third-party customers pursuant to the agreements.

#### ***Other sales***

Other sales principally include the revenues from leasing activities of real estate, rolling stock, ocean transport vessels, aircraft, equipment and others, the revenues from derivative commodity instruments and derivative financial instruments held for trading purposes, and the revenues from external consumer financing. See accounting policies for leasing and derivative instruments and hedging activities for the revenue recognition policies regarding leasing and derivative transactions, respectively.

### ***Research and development expenses***

Research and development costs are charged to expenses when incurred.

### ***Advertising expenses***

Advertising costs are charged to expenses when incurred.

### ***Issuance of stock by subsidiaries and associated companies***

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A subsidiary or an associated company may issue its shares to third parties at amounts per share in excess of or less than the Company's average per share carrying value. With respect to such transactions, the resulting gains or losses arising from the change in equity interest are recorded in income for the year in which such shares are issued.

### *Income taxes*

Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes and tax loss carryforwards. These deferred taxes are measured using the currently enacted tax rates in effect for the year in which the temporary differences or tax loss carryforwards are expected to reverse. Valuation allowances are established when it is more likely than not that some or all of the deferred tax assets will not be realized.

In accordance with FIN No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, the companies recognize and measure uncertainty in income taxes. Interests and penalties incurred in relation to income taxes are reported in current income taxes in the Statements of Consolidated Income.

### *Net income per share*

Basic net income per share 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 as a result of issuance of shares upon conversion of the companies' convertible bonds.



### III. DISCONTINUED OPERATIONS

In accordance with SFAS No. 144, the companies have the policy of presenting the results of discontinued operations (including operations of a subsidiary that either has been disposed of or is classified as held for sale) as a separate line item in the Statements of Consolidated Income under income from discontinued operations net (after income tax effect).

The figures of discontinued operations during the three-month period ended June 30, 2008 were immaterial to the companies financial position and results of operations, and as a result, were not reclassified in the Consolidated Financial Statements as of June 30, 2008.

### IV. NEW ACCOUNTING STANDARDS

#### *Fair value measurements*

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements.

SFAS No.157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

Effective April 1, 2008, the companies adopted the measurement provisions of this statement for financial assets, financial liabilities, and nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The effect of the adoption of this statement on the companies financial position and results of operations was immaterial. For nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis, this statement will be adopted in fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The effect of the adoption of this statement on the companies financial position and results of operations will be immaterial.

#### *Fair value option*

On April 1, 2008, the companies adopted 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 an entity to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value. An entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings.

The effect of the adoption of this statement on the companies financial position and results of operations was immaterial.

#### *Offsetting of amounts related to certain contracts*

On April 1, 2008, the companies adopted FASB Staff Position ( FSP ) No. FIN 39-1, Amendment of FASB Interpretation No. 39.

FSP No. FIN 39-1 amends FIN No. 39, Offsetting of Amounts Related to Certain Contracts an interpretation of APB Opinion No. 10 and FASB Statement No. 105, to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement.

As a result of the adoption of this FSP, the companies elected to offset ¥181,813 million in derivative assets against other current liabilities and ¥122,801 million in derivative liabilities against other current assets respectively in the Consolidated Balance Sheets as of June 30, 2008. The companies have also offset ¥72,292 million in derivative assets against other current liabilities and ¥12,193 million in derivative liabilities against other current assets respectively in the Consolidated Balance Sheets as of March 31, 2008 through retrospective application.

### 2. NET INCOME PER SHARE

The following is a reconciliation of basic net income per share to diluted net income per share for the three-month period ended June 30, 2008:

Three Month Period Ended  
June 30, 2008

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	Net income (numerator) Millions of Yen	Shares (denominator)  In Thousands	Per share amount  Yen
<b>Basic Net Income per Share:</b>			
Net income available to common shareholders	¥ 103,084	1,817,643	¥ 56.71
<b>Effect of Dilutive Securities:</b>			
Convertible Bonds	¥ 9	7,550	
<b>Diluted Net Income per Share:</b>			
Net income available to common shareholders after effect of dilutive securities	¥ 103,093	1,825,193	¥ 56.48

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**3. SEGMENT INFORMATION**

Millions of Yen

Three-month period ended June 30, 2008 :	Machinery & Infrastructure							
	Iron & Steel Products	Mineral & Metal Resources	Projects	Chemical	Energy	Foods & Retail	Consumer Service & IT	Logistics & Financial Markets
Total trading transactions:	¥ 389,722	¥ 402,492	¥ 535,230	¥ 682,605	¥ 741,666	¥ 520,086	¥ 224,626	¥ 48,267
Gross profit	¥ 17,666	¥ 40,997	¥ 28,195	¥ 27,483	¥ 75,027	¥ 19,668	¥ 19,795	¥ 14,304
Operating income (loss)	¥ 8,955	¥ 37,739	¥ 5,960	¥ 13,476	¥ 63,617	¥ 4,005	¥ (5,161)	¥ 5,939
Equity in earnings (losses) of associated companies	¥ 856	¥ 20,266	¥ 9,689	¥ 2,272	¥ 10,011	¥ 685	¥ 829	¥ (1,639)
Net income (loss)	¥ 5,793	¥ 36,372	¥ 15,893	¥ 1,473	¥ 30,572	¥ 3,171	¥ (2,123)	¥ 2,897
Total assets at June 30, 2008	¥ 661,734	¥ 1,028,892	¥ 1,584,611	¥ 876,952	¥ 1,932,600	¥ 701,779	¥ 699,460	¥ 836,095
Investments in and advances to associated companies at June 30, 2008	¥ 25,218	¥ 443,432	¥ 416,521	¥ 41,078	¥ 165,220	¥ 66,258	¥ 121,555	¥ 26,848
Depreciation and amortization	¥ 569	¥ 1,887	¥ 2,777	¥ 2,140	¥ 17,249	¥ 1,586	¥ 1,583	¥ 973
Additions to property leased to others and property and equipment	¥ 2,587	¥ 13,243	¥ 14,322	¥ 1,709	¥ 20,682	¥ 991	¥ 1,397	¥ 579

Millions of Yen

Three-month period ended June 30, 2008 :	Europe, the Middle East and Africa				Total	All Other	Adjustments and Eliminations	Consolidated Total
	Americas	Asia Pacific						
Total trading transactions:	¥ 458,441	¥ 122,160	¥ 161,591	¥ 4,286,886	¥ 1,016	¥ (5)	¥ 4,287,897	
Gross profit	¥ 19,228	¥ 3,975	¥ 7,748	¥ 274,086	¥ 1,505	¥ (611)	¥ 274,980	
Operating income (loss)	¥ 1,170	¥ (2,361)	¥ 1,505	¥ 134,844	¥ 109	¥ (11,688)	¥ 123,265	
Equity in earnings (losses) of associated companies	¥ 1,219	¥ 324	¥ 159	¥ 44,671	¥ 8	¥ (53)	¥ 44,626	
Net income (loss)	¥ 2,086	¥ 379	¥ 11,815	¥ 108,328	¥ 1,537	¥ (6,781)	¥ 103,084	
Total assets at June 30, 2008	¥ 761,565	¥ 274,770	¥ 369,984	¥ 9,728,442	¥ 2,822,915	¥ (2,257,992)	¥ 10,293,365	
Investments in and advances to associated companies at June 30, 2008	¥ 45,740	¥ 30,667	¥ 69,407	¥ 1,451,944	¥ 2,687	¥ 10,865	¥ 1,465,496	
Depreciation and amortization	¥ 2,665	¥ 390	¥ 135	¥ 31,954	¥ 223	¥ 2,318	¥ 34,495	

Additions to property leased to others and property and equipment	¥	4,061	¥	773	¥	138	¥	60,482	¥	89	¥	1,890	¥	62,461
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Notes:

- (1) All Other includes business activities which primarily provide services, such as financing services and operations services to external customers and/or to the companies and associated companies. Total assets of All Other at June 30, 2008 consisted primarily of cash and cash equivalents and time deposits related to financing activities, and assets of certain subsidiaries related to the above services.
- (2) Net loss of Adjustments and Eliminations includes income and expense items that are not allocated to specific reportable operating segments, such as certain expenses of the corporate departments, and eliminations of intersegment transactions.  
Net loss of Adjustments and Eliminations for the three-month period ended June 30, 2008 includes (a) ¥5,913 million in general and administrative expenses of the corporate departments excluding pension costs, (b) a charge of ¥1,135 million for pension related items, and (c) a charge of ¥529 million related to tax items includes an adjustment of a difference between actual tax rate and intercompany tax rate, and so on (all amounts are after income tax effects).
- (3) Transfers between operating segments are made at cost plus a markup.
- (4) Operating income (loss) reflects the companies (a) gross profit, (b) selling, general and administrative expenses, and (c) provision for doubtful receivables, as presented in the Statements of Consolidated Income.
- (5) Effective April 1, 2008, some of the chemical and automobile subsidiaries located in North and South America, which had been included in Chemical and Machinery & Infrastructure Projects respectively, were transferred to Americas to further strengthen the regional strategies of these subsidiaries.

**4. CONTINGENT LIABILITIES****I. GUARANTEES**

The table below summarizes the companies' guarantees as defined in FIN No. 45 at June 30 and March 31, 2008. The maximum potential amount of future payments represents the amounts without consideration of possible recoveries under recourse provisions or from collateral held or pledged that the companies could be obliged to pay if there were defaults by guaranteed parties or there were changes in an underlying which would cause triggering events under market value guarantees and indemnification contracts. Such amounts bear no relationship to the anticipated losses on these guarantees and indemnifications, and they greatly exceed anticipated losses.

Millions of Yen

	Expire within 1 year	Expire after 1 year	Total amount outstanding	Recourse provisions/ collateral	Maximum potential amount of future payments	Carrying amount of liabilities	Expire no later than
<b>June 30, 2008:</b>							
Type of guarantees:							
Financial guarantees:							
Guarantees for third parties	¥ 20,541	¥ 89,913	¥ 110,454	¥ 42,519	¥ 167,850	¥ 1,440	2040
Guarantees for associated companies	24,469	54,925	79,394	2,137	103,361	2,811	2045
Guarantees to financial institutions for employees housing loans		7,333	7,333		7,333		2033
<b>Total</b>	<b>¥ 45,010</b>	<b>¥ 152,171</b>	<b>¥ 197,181</b>	<b>¥ 44,656</b>	<b>¥ 278,544</b>	<b>¥ 4,251</b>	
Performance guarantees	¥ 7,088	¥ 13,073	¥ 20,161	¥ 5,348	¥ 20,161	¥ 224	2013
Market value guarantees:							
Obligation to repurchase bills of exchange	¥ 67,864	¥ 101	¥ 67,965	¥ 56,661	¥ 67,965		2010
Minimum purchase price guarantees		10,288	10,288		10,288	¥ 502	2014
<b>Total</b>	<b>¥ 67,864</b>	<b>¥ 10,389</b>	<b>¥ 78,253</b>	<b>¥ 56,661</b>	<b>¥ 78,253</b>	<b>¥ 502</b>	
Derivative instruments	¥ 28,370	¥ 42,263	¥ 70,633		¥ 70,633	¥ 630	
<b>March 31, 2008:</b>							
Type of guarantees:							
Financial guarantees:							
Guarantees for third parties	¥ 11,028	¥ 65,021	¥ 76,049	¥ 17,912	¥ 130,378	¥ 470	2040
Guarantees for associated companies	23,152	49,399	72,551	2,172	77,686	2,494	2045
Guarantees to financial institutions for employees housing loans		7,693	7,693		7,693		2033
<b>Total</b>	<b>¥ 34,180</b>	<b>¥ 122,113</b>	<b>¥ 156,293</b>	<b>¥ 20,084</b>	<b>¥ 215,757</b>	<b>¥ 2,964</b>	
Performance guarantees	¥ 6,906	¥ 12,951	¥ 19,857	¥ 5,421	¥ 19,857	¥ 459	2013
Market value guarantees:							
Obligation to repurchase bills of exchange	¥ 56,335	¥ 101	¥ 56,436	¥ 42,938	¥ 56,436		2010
Minimum purchase price guarantees		10,290	10,290		10,290		2014
<b>Total</b>	<b>¥ 56,335</b>	<b>¥ 10,391</b>	<b>¥ 66,726</b>	<b>¥ 42,938</b>	<b>¥ 66,726</b>		
Derivative instruments	¥ 53,240	¥ 29,775	¥ 83,015		¥ 83,015	¥ 645	



**(1) Financial guarantees**

The companies provide various types of guarantees to the benefit of third parties and related parties principally to enhance their credit standings, and would be required to execute payments if a guaranteed party failed to fulfill its obligation with respect to a borrowing or trade payable.

Categories of financial guarantees are as follows:

*Guarantees for third parties*

The companies guarantee, severally or jointly with others, indebtedness of certain customers and suppliers in the furtherance of their trading activities.

*Guarantees for associated companies*

The companies, severally or jointly with others, issue guarantees for associated companies for the purpose of furtherance of their trading activities and credit enhancement of associated companies.

*Guarantees to financial institutions for employees housing loans*

As a part of the benefits program for its employees, the Company issues guarantees to financial institutions for employees housing loans. The maximum duration of the guarantees is 25 years. The Company obtains a mortgage on the employees assets, if necessary.

**(2) Performance guarantees**

Main items of performance guarantees are contractual guarantees of Toyo Engineering Corporation regarding plant construction contracts executed under the name of the guaranteed party in the Middle East and other regions. The Company has pledged bank guarantees and performance bonds to the project owners, and in case that Toyo Engineering Corporation failed to fulfill the contractual obligation, the project owners would execute bank guarantees and performance bonds to claim compensation for damages.

**(3) Market value guarantees**

*Obligation to repurchase bills of exchange*

In connection with export transactions, the Company issues bills of exchange, some of which are discounted by its negotiating banks. If a customer fails to fulfill its obligation with respect to the bills, the Company would be obligated to repurchase the bills based on the banking transaction agreement. The maximum potential amount of future payments is represented by the aggregate par value of the bills discounted by the banks, and the recourse provisions and collateral are represented by the amount backed by letters of credit from the issuing banks of the customers.

*Minimum purchase price guarantees*

To support financing activities of a partner of a joint venture which owns interests in oil & gas producing fields, the companies have a commitment to bid a certain amount for the sale of the partner's stock by the bank which provides financing for the partner if the partner defaults. The companies provide marketing services of aircraft for domestic and overseas airline companies, and as a part of such businesses, the companies issue market value guarantees of the aircraft for certain customers.

**(4) Derivative instruments**

Certain derivative contracts, including written put options and credit default swaps, meet the accounting definition of guarantees under FIN No. 45 when it is probable that the counterparties have underlying assets or liabilities related to the derivative contracts.

The companies consider the business relationship with counterparties and other circumstances in deciding whether it is probable that the counterparties have underlying assets or liabilities, and did not include the derivative contracts with certain financial institutions and traders.

FIN No. 45 does not require disclosure about derivative contracts if such contracts permit or require net settlement and the companies have no basis for concluding that it is probable that the counterparties have underlying assets or liabilities.

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The companies have written put options as a part of their various derivative transactions related to energy, non-ferrous metals, precious metals and grain. The aggregation of notional amounts computed based on the strike prices and quantities of written options are disclosed as the total amount outstanding and the maximum potential amount of future payments. The carrying amount of liabilities is represented by the fair value of such written options recorded in the consolidated financial statements.

The companies manage the market and credit risks on these derivative instruments by monitoring fair values against loss limits and credit lines, and generally the maximum potential amount of future payments as stated above greatly overstates the companies' exposure to market and credit risks.

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**(5) Indemnification contracts*****Indemnification issued through corporate reorganization***

The companies divested certain of their businesses through a sale to a third-party purchaser and a spin-off to an associated company. In connection with these transactions, the companies have provided certain indemnities. The terms and conditions of indemnification differ by contract. The maximum potential amount of future payments could not be quantified because the limits of those indemnifications are often indefinite. No liabilities have been recorded for such indemnifications at June 30 or March 31, 2008.

***Joint obligation under membership agreement in commodity exchanges***

The companies are members of major commodity exchanges in Japan and overseas. In connection with these memberships, the companies provide guarantees to the exchanges. Under the membership agreements, if a member becomes unable to satisfy its obligations to the exchange, the other members would be required to meet such shortfalls apportioned among the non-defaulting members in the prescribed manner. The companies' maximum potential amount of future payments related to these joint obligations is not quantifiable and the probability of being required to make any payments under these obligations is remote.

**(6) Product warranties**

Certain subsidiaries provide warranties, in relation to their sales of products, including residential houses and automobiles, for the performance of such products during specified warranty periods, and are responsible for mending or payments of compensation against the claims by the customers regarding defects in performance or function. Estimated warranty costs are accrued at the time the products are sold based on the historical claim experiences.

Mitsui Bussan House-Techno, Inc., a 100% subsidiary engaged in the custom-made house building business, has already exited from the business due to the downturn of the business environment caused by declining demand, however, the companies retained the obligation for the future maintenance service, because the companies guarantee the periodical inspection and repair service for a certain period after the completion.

A tabular reconciliation of changes in such liabilities for the product warranties for the 1st quarter ended June 30, 2008 is as follows:

	Millions of Yen	
	<b>June 30, 2008</b>	
Balance at beginning of the quarter	¥	<b>7,639</b>
Payments made in cash or in kind		<b>(165)</b>
Accrual for warranties issued during the year		<b>429</b>
Changes in accrual related to pre-existing warranties		<b>(331)</b>
<b>Balance at end of the quarter</b>	<b>¥</b>	<b>7,572</b>

**II. LITIGATION**

Various claims and legal actions are pending against the companies in respect of contractual obligations and other arising out of the conduct of the companies' business. Appropriate provision has been recorded for the estimated loss on claims and legal actions. In the opinion of management, any additional liability will not materially affect the consolidated financial position, results of operations, or cash flows of the Company.

**III. OTHERS**

The Company was audited by the Tokyo Regional Taxation Bureau with regard to a transfer price taxation in connection with the LNG Project in Western Australia for the six fiscal years from the year ended March 31, 2000 to the year ended March 31, 2005. At the ends of June 2008, 2007 and 2006, the Company received notices of tax assessment from the Tokyo Regional Taxation Bureau for the years ended March, 2002, 2001 and 2000. Based on the notices of assessment, the taxable incomes were corrected by ¥10,039 million, ¥8,224 million and ¥4,863 million, and the additional tax liabilities for income taxes were ¥4,653 million, ¥3,686 million and ¥2,375 million, respectively. The Company has paid

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the additional taxes except for the additional tax for the year ended March, 2002. The Company disagrees with the assessment and registered its protest in August 2006, and in addition, lodged an application in November 2006 for the mutual agreement procedure pursuant to a provision in the tax treaty between Japan and Australia in order to settle the double taxation.

The Company believes that the amount of the correction for the years ended March 2002, 2001 and 2000 and the tax liabilities for the years ended March 31, 2003 or later, arising from the final correction, if any, will be affected by the result of the mutual agreement procedure, which is still continuing. The effect of this matter was recorded in accordance with FIN No.48 in the consolidated financial statements for the three-month period ended June 30, 2008 and the consolidated balance sheet as of March 31, 2008.

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