Marubeni CORPORATION

Annual Report 2006

Financial Section

For the fiscal year ended March 31, 2006

From Recovery to a New Launch

Contents

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From Recovery to a New Launch

Eleven-Year Summary

Marubeni Corporation
Years ended March 31

	Millions of Yen 2006	Thousands of U.S. Dollars 2006	2005	2004
For the year:				
Revenues:				
Revenues from trading and other activities	**¥2,949,058**	**$25,205,624**	¥2,877,455	¥2,622,546
Commissions on services and trading margins	**190,787**	**1,630,658**	161,108	148,674
Total	**3,139,845**	**26,836,282**	3,035,563	2,771,220
Total volume of trading transactions	**8,686,532**	**74,243,863**	7,936,348	7,902,494
Gross trading profit	**502,024**	**4,290,803**	433,395	406,761
Net income (loss)	**73,801**	**630,778**	41,247	34,565
At year-end:				
Total assets	**4,587,072**	**39,205,744**	4,208,037	4,254,194
Net interest-bearing debt	**1,876,350**	**16,037,179**	1,823,909	1,969,323
Total shareholders' equity	**663,787**	**5,673,393**	443,152	392,982
Amounts per 100 shares (¥/US$):				
Basic earnings (loss)	**4,834**	**41.32**	2,661	2,285
Diluted earnings (loss)	**4,046**	**34.58**	2,231	2,016
Cash dividends	**700**	**5.98**	400	300
Cash flows (for the year):				
Net cash provided by (used in) operating activities	**133,408**	**1,140,239**	173,824	201,560
Net cash (used in) provided by investing activities	**(193,781)**	**(1,656,248)**	46,043	57,983
Net cash (used in) provided by financing activities	**(46,037)**	**(393,479)**	(238,057)	(233,938)
Cash and cash equivalents at end of year	**368,936**	**3,153,299**	459,194	478,731
Ratios:				
Return on assets (%)	**1.7**		1.0	0.8
Return on equity (%)	**13.3**		9.9	10.6
Shareholders' equity to total assets (%)	**14.5**		10.5	9.2
Net D/E ratio (times)	**2.8**		4.1	5.0
Consolidation:				
Consolidated subsidiaries	**388**		369	348
Equity-method affiliates	**167**		156	154
Total	**555**		525	502
Number of employees:				
Consolidated	**27,377**		24,106	24,417
Non-consolidated	**3,562**		3,586	3,717
Stock price (Tokyo Stock Exchange) (¥):				
High	**667**		362	295
Low	**306**		223	106

Notes: 1. The presentation of earnings is pursuant to Issue 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," published by the Financial Accounting Standards Board's Emerging Issues Task Force. Earnings have also been disclosed in accordance with US GAAP since 2003.
2. For the convenience of investors in Japan, the presentation of net sales is consistent with customary accounting practices in Japan.
3. U.S. dollar amounts above and elsewhere in this report are converted from yen, for convenience only, at the prevailing rate of ¥117 to US$1 as of March 31, 2006.

Millions of Yen

2003	2002	2001	2000	1999	1998	1997	1996
¥2,520,531	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
160,636	–	–	–	–	–	–	–
2,681,167	–	–	–	–	–	–	–
8,793,303	8,972,245	9,436,863	10,222,442	11,960,157	13,640,517	13,969,977	13,540,560
424,643	436,804	479,754	453,496	522,356	534,485	496,550	475,221
30,312	(116,418)	15,036	2,060	(117,729)	17,230	20,113	15,117
4,321,482	4,805,669	5,320,604	5,584,353	6,511,841	7,388,101	7,550,347	7,644,002
2,264,117	2,712,906	3,089,839	3,328,437	3,966,471	4,432,159	4,555,208	4,403,714
260,051	263,895	342,297	324,301	354,017	475,253	512,929	560,589
2,030	(7,792)	1,006	138	(7,880)	1,153	1,346	1,012
1,896	(7,792)	940	138	(7,880)	1,054	1,289	1,010
300	–	–	–	300	600	600	600
194,788	198,456	179,305	184,701	232,414	254,221	24,308	107,547
113,241	74,504	187,993	257,006	99,101	(58,769)	66,036	(252,345)
(294,001)	(150,104)	(456,125)	(594,878)	(213,321)	(91,879)	(209,412)	267,217
466,511	466,642	329,811	405,308	579,366	480,825	373,015	485,844
0.7	–	0.3	0.0	–	0.2	0.3	0.2
11.6	–	4.5	0.6	–	3.5	3.8	2.9
6.0	5.5	6.4	5.8	5.4	6.4	6.8	7.3
8.7	10.3	9.0	10.3	11.2	9.3	8.9	7.9
327	354	412	456	488	479	459	436
157	161	186	190	201	214	203	188
484	515	598	646	689	693	662	624
24,829	28,140	30,956	31,342	–	–	–	–
3,914	4,234	4,855	5,344	5,844	6,041	6,386	6,702
151	262	401	486	345	525	638	602
86	58	200	205	155	177	421	404

All statements herein regarding future events reflect the judgment of Marubeni and its consolidated subsidiaries as of March 31, 2006.

1. Overview of Business Results

(1) Business Results

In terms of overseas economies for the period under review, following the tightening of monetary policy in the U.S., the global economy decelerated somewhat and settled in a moderate growth path. However, as high growth in the Chinese and Asian economies continued, global demand for energy and basic resources consistently expanded, and sharp rises in prices of primary goods such as crude oil, iron ore and non-ferrous metals continued.

In the U.S., rate hikes aimed at preventing inflation were effective in slowing domestic demand, stabilizing the trend in both the economy and prices. While the current account deficit continued to expand, the Homeland Investment Act (HIA), a provision of the American Jobs Creation Act (AJCA) of 2004, resulted in a repatriation of overseas earnings during the year by U.S. corporations, which led to a slightly stronger U.S. dollar.

In Europe, the economic recovery continued, driven by exports and capital expenditures, and the pace of recovery firmed from around the second quarter of the fiscal year.

In Asia, economic expansion continued, spearheaded by China and India. China continued to record high growth supported by strong growth in exports and investments in fixed assets. In addition, as China's foreign currency reserves continued to rise amid increasing demands from developed countries, particularly the U.S., that China reform its foreign exchange policy, the Chinese government moved to slightly revalue the yuan's exchange rate in July 2005, and the currency continued to slowly appreciate thereafter. India also recorded high growth driven by strong personal consumption, capital expenditures and exports. The continuation of mild economic growth was also seen in Hong Kong, Taiwan, South Korea and the ASEAN nations.

Russia and other basic-material exporting countries saw sharp rises in exports, which benefited from expanding global demand for primary commodities and sharply rising prices, which fed over into domestic demand and supported strong economic expansion. In Brazil, however, economic activity faltered due to the impact of monetary tightening.

Looking at Japan's economy for the period, strong expansion continued, supported by balanced growth in personal consumption, capital expenditures and exports. Personal consumption was buoyed by a mild increase in wages and improved consumer confidence, while capital expenditures were backed by a growth in renewal demand and a recovery in corporate willingness to invest, while exports were supported by the continued stable expansion in the global economy and a weak yen. Reflecting the strong economic recovery, the stock market was supported by overseas fund inflows, and the Nikkei 225 index appreciated nearly 50% during the fiscal year ended March 31, 2006.

Driving the recovery in corporate and investor confidence toward increased investment, as well as the weak yen, was the Bank of Japan's (BOJ) indicated intention to maintain historically low policy rates over the long term by maintaining its quantitative easing policy. In the second half of the fiscal year, as the excess supply problem for Japan's economy began to diminish and the possibility of an emergence from deflation increased, the Bank of Japan, in March 2006, abandoned this policy, which had been in place since March 2001. Nonetheless, the BOJ has judged that inflationary pressures will be constrained and has moved to a policy of zero interest rates.

In this climate, the Company's consolidated total volume of trading transactions increased ¥750.2 billion, or 9.5%, year on year to ¥8,686.5 billion. Gross trading profit grew ¥68.6 billion, or 15.8%, to ¥502.0 billion. Despite a ¥28.8 billion worsening in expenses and other from a year earlier, income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies increased ¥39.9 billion, or 64.7%, to ¥101.5 billion.

Similarly, income from continuing operations before minority interests and equity in earnings of affiliated companies-net (after income tax effects) soared ¥31.0 billion, or 124.6%, year on year to ¥55.8 billion.

As a result, net income for the fiscal year under review, including a ¥6.4 billion loss from discontinued operations, climbed ¥32.6 billion, or 78.9%, to ¥73.8 billion. Net income was buoyed by net equity in the earnings of affiliated companies, which improved ¥9.1 billion, or 43.9%, year on year. In addition, "Revenue," as defined under U.S. GAAP, was ¥3,139.8 billion, ¥104.3 billion, or 3.4%, higher than a year earlier.

①Business Results by Operating Segment

Agri-Marine Products transactions increased ¥11.0 billion, or 1.1%, to ¥990.8 billion. The bulk of transactions were centered on sugar as a foodstuff. Gross trading profit declined ¥2.0 billion, or 2.8%, to ¥69.3 billion, largely due to conversion of certain subsidiaries into affiliated companies.

Textile transactions edged ¥2.9 billion, or 0.8%, higher to ¥358.2 billion, mostly due to an increase in apparel product transactions and new consolidation. Gains from the same factors, as well as the benefit of a weaker yen in raw material exports, lifted gross operating profit ¥1.2 billion, or 4.7%, to ¥26.4 billion.

Forest Products & General Merchandise transactions were up ¥15.8 billion, or 2.0%, to ¥808.2 billion, buoyed by the MUSI Pulp Project. Gross trading profit increased ¥1.5 billion, or 3.2%, to ¥48.1 billion. Although profits were negatively impacted by exit from the leisure business, this was more than offset by profitability of the MUSI Pulp Project.

Chemicals transactions climbed ¥114.5 billion, or 17.2%, to ¥782.0 billion, buoyed by increased transactions in basic chemicals, electronic materials and synthetic resin. Operating profit was up ¥2.7 billion, or 10.2%, to ¥29.6 billion, reflecting the increased transactions.

Energy transactions rose ¥417.7 billion, or 23.5%, to ¥2,191.7 billion, due to an increase in petroleum-related transactions. Gross trading profit increased ¥29.3 billion, or 69.7%, to ¥71.5 billion, reflecting the increase in petroleum-related transactions and concessions in natural resource fields.

Metals & Mineral Resources transactions increased ¥122.7 billion, or 20.1%, to ¥732.0 billion, due mainly to an increase in the price of coal, iron ore and copper. Gross trading profit rose ¥8.7 billion, or 55.3%, to ¥24.4 billion, reflecting the increased transactions.

Transportation Machinery transactions rose ¥117.2 billion, or 16.7%, to ¥817.1 billion, owing to an increase in transactions related to vessels, construction and agricultural machinery, and automobiles. Gross trading profit increased ¥4.5 billion, or 8.8%, to ¥56.2 billion, due to the transactions related to automobiles, vessels, construction and agricultural machinery, and civilian aircraft.

Industrial Machinery & Information Business transactions declined ¥64.5 billion, or 14.2%, to ¥391.0 billion, reflecting the conversion of computer companies into affiliated companies through mergers. However, gross trading profit rose ¥2.4 billion, or 6.6%, to ¥39.1

billion, as an increase in profits from information-related companies offset the effect of a decline in volume of transactions.

Plant, Power & Infrastructure Project transactions increased ¥11.0 billion, or 1.7%, to ¥677.5 billion, due mainly to a rise in transactions from electric power companies. Gross trading profit rose ¥2.4 billion, or 8.4%, to ¥30.7 billion, reflecting the increased volume of transactions.

Development & Construction transactions decreased ¥33.6 billion, or 17.0%, to ¥163.3 billion, due to a decline in real estate fund transactions and the sale of domestic subsidiaries. Gross trading profit rose ¥0.1 billion, or 0.4%, to ¥27.6 billion, due to a decline in profits from the sale of domestic subsidiaries, despite an increase in profit from domestic condominium and real estate fund businesses.

Finance & Logistics Business transactions rose ¥4.5 billion, or 20.9%, to ¥25.8 billion, due to an increase in logistics-related transactions. Gross trading profit rose ¥1.3 billion, or 22.1%, to ¥7.1 billion, reflecting the increased volume of transactions.

Iron & Steel Strategies and Coordination transactions declined ¥0.3 billion, or 24.0%, to ¥0.9 billion. Gross trading profit decreased ¥0.3 billion, or 24.0%, to ¥0.9 billion. Marubeni-Itochu

Operating Segment Information

Trading Transactions

	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen
	2006	2006	2005
Agri-Marine Products	¥ 990,810	$ 8,468,461	¥ 979,855
Textile	358,187	3,061,427	355,311
Forest Products & General Merchandise	808,209	6,907,769	792,377
Chemicals	782,016	6,683,897	667,473
Energy	2,191,672	18,732,239	1,773,951
Metals & Mineral Resources	731,991	6,256,333	609,274
Transportation Machinery	817,140	6,984,102	699,939
Industrial Machinery & Information Business	390,964	3,341,573	455,487
Plant, Power & Infrastructure Projects	677,510	5,790,684	666,461
Development & Construction	163,285	1,395,598	196,844
Finance & Logistics Business	25,768	220,239	21,313
Iron & Steel Strategies and Coordination Department	902	7,709	1,187
Domestic Branches and Offices	149,359	1,276,573	141,992
Overseas Corporate Subsidiaries and Branches	1,148,819	9,818,966	1,070,212
Corporate and Elimination	(550,100)	(4,701,707)	(495,328)
Consolidated	¥8,686,532	$74,243,863	¥7,936,348

Gross Trading Profit

	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen
	2006	2006	2005
Agri-Marine Products	¥ 69,323	$ 592,504	¥ 71,312
Textile	26,366	225,350	25,174
Forest Products & General Merchandise	48,109	411,188	46,612
Chemicals	29,605	253,034	26,857
Energy	71,478	610,923	42,132
Metals & Mineral Resources	24,392	208,479	15,709
Transportation Machinery	56,214	480,462	51,673
Industrial Machinery & Information Business	39,144	334,564	36,714
Plant, Power & Infrastructure Projects	30,680	262,222	28,313
Development & Construction	27,643	236,265	27,530
Finance & Logistics Business	7,064	60,376	5,785
Iron & Steel Strategies and Coordination Department	902	7,709	1,187
Domestic Branches and Offices	5,328	45,538	4,898
Overseas Corporate Subsidiaries and Branches	79,934	683,197	76,517
Corporate and Elimination	(14,158)	(121,008)	(27,018)
Consolidated	¥ 502,024	$ 4,290,803	¥ 433,395

Note: Trading transactions have been prepared according to accounting principles generally accepted in Japan.

Steel Inc. achieved favorable results due to the success of aggressive business development centered on Japan, China, Southeast Asia and the U.S.

Domestic Branches and Offices transactions rose ¥7.4 billion, or 5.2%, to ¥149.4 billion, reflecting an increase in the sale of machines and energy transactions, despite a decline in total volume of transactions caused by the transfer of the commercial rights to trade raw materials for steel to an affiliated company. Gross trading profit increased ¥0.4 billion, or 8.8%, to ¥5.3 billion, due to brisk transactions related to condominiums.

Overseas Corporate Subsidiaries and Branches transactions increased ¥78.6 billion, or 7.3%, to ¥1,148.8 billion, due mainly to a rise in the sales of automobiles, construction machinery and agricultural chemical businesses in the U.S. Gross trading profit rose ¥3.4 billion, or 4.5%, to ¥79.9 billion, mainly from an increase in profits from agricultural chemical-related businesses in the U.S.

②Business Results by Geographic Region

Japan

Trading transactions climbed ¥677.3 billion, or 8.7%, to ¥8,436.4 billion, primarily from growth in energy-related transactions. Operating profit rose ¥17.8 billion, or 51.2%, to ¥52.5 billion, on the back of increased earnings from iron and steel strategies and coordination and plant, power and infrastructure projects.

North America

Trading transactions increased ¥136.6 billion, or 13.3%, to ¥1,161.7 billion, spurred upward by higher energy- and food-related transactions. Operating profit rose ¥17.8 billion, or 129.2%, to ¥31.6 billion, largely from increased energy-related earnings.

Europe

Trading transactions increased ¥35.6 billion, or 8.7%, to ¥442.6 billion, the result of higher transactions related to plant, power and infrastructure projects and energy. Operating profit increased ¥6.7 billion, or 55.4%, to ¥18.8 billion, reflecting higher energy- and automotive-related earnings.

Asia and Oceania

Trading transactions rose ¥19.6 billion, or 3.0%, to ¥665.5 billion, as the impact of lower energy-related transactions was outweighed by growth in transactions at overseas subsidiaries and transactions related to forest products and general merchandise. Operating profit climbed ¥14.7 billion, or 86.2%, to ¥31.8 billion, lifted by higher earnings from metals and mineral resources and development and construction.

Other Regions

Trading transactions increased ¥28.4 billion, or 14.5%, to ¥224.3 billion, mainly due to higher transportation machinery transactions. Operating profit rose ¥1.1 billion, or 11.3%, to ¥10.8 billion, primarily from growth in transportation machinery earnings.

Please note that figures for trading transactions and operating profit have been prepared according to accounting principles generally accepted in Japan (Japan GAAP).

(2) Cash Flow

Net cash provided by operating activities declined ¥40.4 billion from the previous fiscal year to ¥133.4 billion, as an increase in notes and accounts receivable-trade outweighed higher revenues from trading transactions by overseas subsidiaries. Net cash used in investing activities was ¥193.8 billion, largely due to an increase in

Total Volume of Trading Transactions by Region

(Years ended March 31)

	Billions of Yen	
	2006	2005
Japan	**¥8,436.4**	¥7,759.1
North America	**1,161.7**	1,025.1
Europe	**442.6**	407.0
Asia & Oceania	**665.5**	645.9
Other Regions	**224.3**	195.8

Note: Trading transactions have been prepared according to accounting principles generally accepted in Japan.

purchases of property, plant and equipment and property leased to others using proceeds from operating activities.

These activities resulted in negative free cash flow of ¥60.4 billion for the fiscal year under review.

Net cash used in financing activities was ¥46.0 billion. In addition to the payments of long-term debt, cash was primarily used for higher cash dividends paid to shareholders in light of improved business performance.

As a result, cash and cash equivalents as of March 31, 2006, stood at ¥368.9 billion, ¥90.3 billion lower than at the previous fiscal year-end.

2. Purchases, Contracts and Trading Transactions

(1) Purchases

Information regarding purchases has been omitted since the actuarial difference between purchases and trading transactions is negligible. For details regarding trading transactions, refer to "Overview of Business Results" and "Segment Information" under the "Notes to Consolidated Financial Statements" section in this report.

(2) Contracts

Information regarding contracts has been omitted since the actuarial difference between contracts and trading transactions is negligible. For details regarding trading transactions, refer to "Overview of Business Results" and "Segment Information" under the "Notes to Consolidated Financial Statements" section in this report.

(3) Trading Transactions

For details, refer to "Overview of Business Results" and "Segment Information" under the "Accounting Information" section in this report.

Trading transactions have been prepared using Japan GAAP for the convenience of investors in Japan.

3. Issues to be Addressed

(1) Fundamental Management Policy

Marubeni has been promoting its three-year, medium-term management plan, the "V" PLAN, since April 2004. Through a strengthening of portfolio management and an emphasis on thorough risk-return management, the Company has worked to strengthen its earnings base and improve its financial position in order to achieve the stated targets for the fiscal year ended March 31, 2006 of consolidated net income of ¥50 billion, consolidated net interest-bearing debt of under ¥2 trillion, and a net debt/equity (D/E) ratio of less than 5.0 times. As discussed in the following section (2) "Progress on the "V" PLAN Medium-term Management Plan," all of the numerical targets as originally outlined in the plan were achieved during the fiscal year under review, which represents the final year of the "V" PLAN.

Based on the recognition that Marubeni's corporate activities are interlinked with the interests of various stakeholders in terms of the economic, environmental and social impact they may have, the Company seeks to secure a stable and sustainable corporate base by endeavoring to serve the interests of its customers, business partners, shareholders, employees and local communities, thereby gaining their trust, as well as by implementing environment-conscious management.

Qualitatively, by continuing to promote corporate governance, strengthening corporate social responsibility (CSR), further enhancing its internal controls, and bolstering its compliance system, Marubeni is working to ensure management transparency and maximize corporate value.

For the fiscal year under review, the Company sought to raise the level of CSR awareness among employees and directors by conducting e-learning training sessions regarding the environment and compliance. Moreover, an additional contribution of over ¥300 million was provided to the Marubeni Foundation, which has provided ¥100 million a year in funding support for social welfare organizations continuously for the past 31 years. In terms of internal controls, two outside directors were elected during the fiscal year under review in order to strengthen corporate governance, and the Group has been focusing on ensuring the credibility of financial reporting since the previous fiscal year. A two-year preparatory period for documentation of operations and evaluation was also completed.

(2) Progress on the "V" PLAN Medium-term Management Plan

In addition to consolidated net income of ¥73.8 billion for the fiscal year under review, enabling the Company to record its third consecutive year of historical highs and greatly exceed plan targets, net interest-bearing debt as of March 31, 2006 was ¥1,876.4 billion. This figure, on the one hand, reflects new investment in priority fields, but also progress in achieving further asset replacement. Notably, the Company maintained its "under ¥2 trillion" target for net interest-bearing debt even as earnings capabilities expanded. As a result of expanded shareholders' equity due to the buildup of consolidated net income, the conversion of convertible bonds into shares, and other factors amid declining consolidated net interest-bearing debt, the debt/equity ratio as of March 31, 2006 improved to 2.83 times, significantly better than originally planned.

(3)"G" PLAN: The New Medium-term Management Plan

As previously explained, all of the numerical targets of the "V" PLAN were exceeded by a significant margin. Going forward, now that both its earnings base and financial structure are on a solid footing through completion of the "V" PLAN, the Group will implement a new two-year medium-term management plan called the "G" PLAN* in order to further accelerate growth for a dynamic leap forward.

Under the "G" PLAN, the Group will seek to build a rock-solid "defense" by further strengthening management systems. At the same time, its diverse human resources will be proactively and boldly tackling the challenge of business domain expansion and seeking to establish an aggressive management style for providing more sophisticated and diversified trading company functions to customers, along with aggressive investments in priority fields. It is thus that the Group will realize continuous growth and further progress.

While maintaining a careful balance between "offense" and "defense" and executing CSR-focused management, the Group will be working to selectively apply management resources in priority fields (through new investment of ¥500 to ¥600 billion over the next two years), continue thoroughly implementing portfolio management, strengthen risk management, promote human resource utilization and education, enhance CSR and internal controls, and leverage overall strengths through horizontal collaboration (collaboration between divisions, etc.). The quantitative targets are to limit risk assets to within the size of shareholders' equity, achieve two-year consolidated net income of ¥220 billion, a Risk-Return of at least 10%, an ROA of over 2%, a net D/E ratio of 2 to 3 times, and total assets of approximately ¥5 trillion. By implementing these measures, the Group aims to become:

1) a corporate group with "win-win" relationships with customers, providing high-quality merchandise, services, and functions from the customers' standpoint;
2) a corporate group that anticipates changes in the business environment, contributing to society and realizing sustainable growth through persistent challenge, voluntary reform and creation of new value; and
3) a corporate group with a stable revenue base by expanding prime assets and pursuing greater efficiency.

* For details concerning the new "G" PLAN medium-term management plan, please visit the Marubeni corporate website.

4. Business Risks

Major risks that could have a serious impact on investor decisions associated with the business operations and other activities of Marubeni Corporation and its consolidated subsidiaries are outlined below. The risks discussed, however, are not inclusive of the full range of possible risks faced in the broad range of activities engaged in by Marubeni and its consolidated subsidiaries. Any number of additional risks other than those discussed below could also impact business performance. Furthermore, risks considered to have a low likelihood of materializing have also been disclosed, from the perspective of ensuring proactive information disclosure. Forward-looking statements with respect to the risks discussed below reflect the reasonable judgment of the Company's management based on information available as of March 31, 2006.

1. Risk regarding overall Marubeni operations

(1) Impact of the Japanese and global economies on the Marubeni Group

Marubeni and its consolidated subsidiaries are a general trading company engaged in a wide range of business activities in Japan and over 70 other countries. Examples include the production and procurement of natural resources and other primary commodities, as well as the manufacture and sale of finished goods. As a result, the Marubeni Group is impacted by the economic conditions prevailing in Japan and other countries where it has operations, as well as by the state of the global economy as a whole. Worsening economic conditions on either of these fronts could adversely affect the operating activities, performance and financial position of Marubeni and its consolidated subsidiaries.

(2) Credit risks regarding business partners

Marubeni and its consolidated subsidiaries extend credit to business partners in the form of accounts receivable, advances, loans, guarantees and other means. The incurrence of credit risk due to the inability of business partners to fulfill their credit obligations could negatively impact the Company's business results and financial position.

To prevent credit risks from materializing, Marubeni and its consolidated subsidiaries conduct extensive risk management at the credit screening stage. Nevertheless, Marubeni can offer no guarantee that these measures will be sufficient to avoid credit risks. In preparation for the incurrence of possible losses when credit risk becomes apparent, Marubeni and its consolidated subsidiaries establish allowances for doubtful accounts based on the estimated amount of the loss, the business partner's creditworthiness, collateral value and other set factors. In the event of such losses, however, the Company cannot guarantee that actual losses will not exceed these established allowances.

(3) Risk of breach of contract by business partners

As part of sales activities, Marubeni and its consolidated subsidiaries conclude merchandise supply, subcontracting, operational outsourcing, and other types of contracts with business partners. A breach of contract by these business partners could adversely affect the Company's business results and financial condition.

(4) Investment risk

Marubeni and its consolidated subsidiaries, both independently and in collaboration with other companies, establish new companies and purchase existing enterprises in the course of their business operations. Most of these business investments are of minimal liquidity and require sizeable amounts of capital. Marubeni or its consolidated subsidiaries may be unable to withdraw from such businesses in an optimal manner or timeframe, which could inevitably require the commitment of an additional expenditure of capital.

A decline in the value of these investments or the necessity of additional expenditures of capital could adversely affect the Company's business results and financial condition. In an effort to prevent the occurrence of risks associated with investments and other activities, Marubeni and its consolidated subsidiaries conduct extensive risk management, including checking new investments to determine whether expected returns are commensurate with the risks involved. Nevertheless, the Marubeni Group can offer no guarantee that these measures will be sufficient to avoid these risks.

(5) Concentrated risk exposure

As part of commercial and investment activities, Marubeni and its consolidated subsidiaries are concentrated in specific investment targets, markets and regions, such as sales activities in Indonesia and the Philippines. As a result, lackluster performance by these investment targets, or a deteriorating operating environment in these markets or regions, could adversely affect the business results and financial condition of Marubeni and its consolidated subsidiaries.

(6) Ability to procure funds and procurement cost

Marubeni and its consolidated subsidiaries engage in fund procurement with an emphasis on maintaining an optimal mix of funding in line with the requirements of their respective asset portfolios and ensuring liquidity. However, significant disruptions in major global capital markets, shortages of cash flow from operating activities, declining profitability, failure in asset-liability management, or a sharp downgrade in the credit ratings of Marubeni and its consolidated subsidiaries by ratings agencies could constrain fund procurement or lead to an increase in fund procurement cost, which may adversely affect the business results and financial condition of Marubeni and its consolidated subsidiaries.

(7) Fluctuations in the price of goods and merchandise

Because Marubeni and its consolidated subsidiaries handle a variety of merchandise, changes in their respective market conditions can adversely affect business performance. To mitigate the risk of fluctuations in market conditions for certain merchandise, contracts and scheduled contracts, Marubeni and its consolidated subsidiaries enter into commodity futures and forward contracts. However, the Company cannot guarantee that these hedge transactions will completely cover its exposure in these areas.

(8) Impairment of real estate, machinery and equipment, and other property, plant and equipment

Marubeni and its consolidated subsidiaries hold real estate, machinery and equipment, and other property, plant and equipment for sale and lease to other parties as well as for their own use. A decline in the intrinsic value of these assets could force the Marubeni Group to book impairment losses. Marubeni and its consolidated subsidiaries apply accounting principles generally accepted in the United States (US GAAP) in an effort to enact suitable impairment measures for property, plant and equipment. A dramatic decline in asset value could, nonetheless, have a negative impact on the Marubeni Group's business results and financial position.

(9) Fluctuations in foreign currency exchange rates

Marubeni and its consolidated subsidiaries conduct transactions under a variety of currencies and terms, which exposes Marubeni's business results to fluctuations in currency exchange rates. To mitigate the risk of exchange rate fluctuations associated with transactions, receivables and liabilities denominated in foreign currencies, Marubeni and its consolidated subsidiaries enter into forward-exchange contracts and other derivative transactions. However, the Company cannot guarantee that these hedge transactions will completely cover its exposure in these areas.

(10) Fluctuations in interest rates

Marubeni and its consolidated subsidiaries procure necessary funds from financial institutions, the issuance of bonds and other means from capital markets. Furthermore, net interest-bearing debt is procured at fixed interest rates and variable interest rates. While the interest risk of the majority of the operating assets held by Marubeni and its consolidated subsidiaries offset the interest rate risk associated with debt, changes in market interest rates could adversely affect the Company's earnings. Through asset-liability management, Marubeni and its consolidated subsidiaries utilize interest rate swaps and other agreements to mitigate the risk of interest rate fluctuations. However, the Company cannot guarantee that these hedge transactions will completely cover its exposure in this area.

(11) Gains and losses from marketable debt and equity securities

To strengthen business relationships and for other purposes, Marubeni and its consolidated subsidiaries invest in marketable debt securities, marketable equity securities and other types of securities. At the time of purchase, these securities are classified as trading, held-to-maturity, or available-for-sale securities, in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," published by the Financial Accounting Standards Board (FASB) of the U.S.

Trading and available-for-sale securities held by Marubeni and its consolidated subsidiaries carry the risk of fluctuations in original value due to changes in fair value. The posting of losses on the devaluation of these securities at low points in fair value may adversely affect the business results and financial condition of Marubeni and its consolidated subsidiaries.

(12) Laws and regulations

In the course of operations, Marubeni and its consolidated subsidiaries are subject to a broad range of laws and regulations both in Japan and other applicable countries. Changes in or unanticipated interpretations of these laws and regulations could increase the obligations pertaining to legal and regulatory compliance placed on Marubeni and its consolidated subsidiaries. Accordingly, changes or altered interpretations of laws and regulations may result in punitive measures, including the interruption of Marubeni's operating activities, lower the Company's credibility or cause the occurrence of other circumstance that could adversely impact the Company's business results or financial condition.

(13) Significant litigation

In the course of business activities in Japan and overseas, Marubeni and its consolidated subsidiaries may be party to litigation, disputes and other legal proceedings. When party to such litigation, predicting the outcome is impossible given the inherent uncertainty of these matters. The Company cannot guarantee that such litigation will not adversely affect the business results and financial condition of Marubeni and its consolidated subsidiaries.

(14) Environmental risk

Marubeni and its consolidated subsidiaries conduct business activities globally across a broad range of industries, and environmental pollution as a result of these activities could result in business stoppage, significant expenses to install pollution control facilities, pollution remediation expenses and legal fees in response to litigation by local residents. In addition, the Group's social reputation could be damaged. An environmental management system was introduced in the fiscal year ended March 31, 2000 to cope with such environmental risks, under which environmental impact evaluations are made for each new financing and development project as a means of assessing the potential environmental burden and reducing environmental risk. This notwithstanding, there is no guarantee that potential environmental burdens can be completely avoided.

(15) Natural disaster risk

Earthquakes and other natural disasters could cause damage and loss to the Group's offices and facilities and inhibit the normal business activities of Marubeni and its consolidated subsidiaries. While every effort has been made to implement appropriate countermeasures such as the preparation of disaster preparedness manuals, earthquake countermeasures and fire prevention drills, the potential for damages from natural disasters cannot be completely mitigated. Consequently, there is no guarantee that such disasters will not have a material negative impact on the Group's earnings.

(16) Other risks inherent and related to overall Marubeni operations

Negligence on the part of employees charged with executing business operations, and malfunctions pertaining to computer systems supporting business activities, are among the other risks that may adversely affect the business results and financial condition of Marubeni and its consolidated subsidiaries.

2. Risk Management

Marubeni and its consolidated subsidiaries operate an integrated decision-making process, which is deployed when assessing the provision of credit facilities, investments and other key matters on a case-by-case basis. When investigating new business opportunities and other important projects, the Marubeni Group is obligated to report regularly to the Corporate Management Committee and similar management bodies, and this duty is reflected in related decision-making. In this way, the Marubeni Group seeks to circumvent risks by enhancing risk management on a case-by-case basis.

With a view to mitigating risk company-wide, the Marubeni Group has an integrated risk management system in place to ascertain a range of quantifiable or measurable risks. Examples include market, credit and investment risks associated with specific countries, business formats, and customers. In this integrated system, fundamental risk management policies and internal regulations are formulated to ensure proper decision-making and monitoring of these risks. Likewise, organizations, management systems, management options and systems infrastructure are also kept in place for executing these policies and regulations.

For compliance risk and other difficult to quantify or immeasurable risks, the Marubeni Group strives to prevent these risks systemically by enhancing corporate governance, putting internal control systems in place and bolstering its compliance structure.

Nevertheless, numerous risks can arise during the course of the wide-ranging operations of Marubeni and its consolidated subsidiaries. Moreover, the risk management framework operated by the Marubeni Group may be unable to prevent the occurrence of a variety of risks that carry the possibility of future occurrence. As a result, the Marubeni Group cannot guarantee its ability to completely manage such risks.

3. The Medium-term Management Plan

Following the completion of the prior management plan (the "V" PLAN), which put the Marubeni Group on a solid footing in terms of its earnings base and financial position, the Company and its consolidated subsidiaries inaugurated the "G" PLAN, the Group's new two-year management plan, in April 2006 in order to further accelerate its leap forward in growth. The numerical targets of the plan are to achieve two-year consolidated net income of ¥220 billion, a Risk-Return of more than 10%, ROA of more than 2%, a net D/E ratio of 2 to 3 times, and total assets of approximately ¥5 trillion. However, these objectives were prepared based on certain assumptions, hypotheses and projections regarding the persistence of certain economic conditions, industry trends, and other concerns. A number of unknown and uncontrollable factors could prevent the completion of these objectives.

4. Uncertainty Regarding Financial Condition and Changes in Operating Results

Factors that have caused the performance and financial condition of Marubeni and its consolidated subsidiaries to fluctuate in the past include the following items: gains and losses on the sale of real estate and devaluation losses pertaining to real estate; realized gains and losses and devaluation losses associated with marketable and investment securities; allowances for bad debt, and losses stemming from the realignment of Marubeni Group companies. To improve their financial position, Marubeni and its consolidated subsidiaries have taken steps to reduce total assets and net interest-bearing debt, reduce or establish allowances for underperforming and unprofitable assets, pare down expenses, shift resources to high-growth fields, and minimize exposure to high-risk assets. While Marubeni and its consolidated subsidiaries are confident that substantial progress has been made in enhancing their financial positions, there is no guarantee that greater losses will not be posted in the future.

5. Risks Regarding Significant Account Policies and Estimates

Refer to "Significant Accounting Policies and Estimates" under "Management's Discussion and Analysis of Financial Position and Business Results" for more information.

5. Significant Business Contracts

Acquisition of rights to oil and gas exploration assets in the U.S. Gulf of Mexico

Marubeni reached agreement with Pioneer Natural Resources Company, an independent U.S.-based oil exploration and production firm, to acquire rights to oil and gas assets in U.S. waters in the Gulf of Mexico held by that company's wholly owned subsidiary, Pioneer Natural Resources USA Inc. A sale and purchase agreement pertaining to these rights was formally signed on February 23, 2006 (U.S. time) by Marubeni Offshore Production (USA) Inc., a wholly owned subsidiary of Marubeni Corporation, and Pioneer Natural Resources USA. Based on this contract, Marubeni Offshore Production (USA) purchased rights to the aforementioned oil and gas assets (total of 96 blocks) for US$1.16 billion (¥137.0 billion) on March 28, 2006 (U.S. time).

6. R&D Activities

No items to report.

7. Management's Discussion and Analysis of Financial Position and Business Results

Forward-looking statements in the following discussion reflect the judgment of Marubeni and its consolidated subsidiaries as of March 31, 2006.

(1) Significant Accounting Policies and Estimates

Marubeni prepares its consolidated financial statements in accordance with accounting principles generally accepted and recognized in the U.S. For more details regarding significant accounting policies, refer to "Significant Accounting Policies" found under "Notes to Consolidated Financial Statements." In preparing important accounting policies and these statements, certain accounting estimates and assumptions are utilized as needed when calculating assets and liabilities as of the fiscal year-end, the disclosure of contingent assets and liabilities, and earnings and expenses incurred during the year. In determining accounting estimates and assumptions, management makes what it believes to be reasonable inference of these amounts based on past experience and on a case-by-case basis. Estimates and assumptions made in this way have an inherent degree of uncertainty and actual results could differ from those estimates. Management considers the following estimates and assumptions as those that will have a material impact on the Company's consolidated financial statements.

Allowances for doubtful accounts

When evaluating credit risk associated with accounts receivable, notes receivable, loans receivable, and other receivables, Marubeni and its consolidated subsidiaries classify such according to latent risk carried by the obligor or geographical region concerned. Based on this classification, an allowance is established for a given receivable considered as a loss, posted at an amount equal to the current value of the receivables (projected cash flow minus the initial effective interest rate), or the fair value of the asset as collateral. Projected cash flow and fair value as collateral are estimated based on the most accurate credit information available from specialists regarding the past payment history of each applicable obligor or region. For general receivables not covered above, allowances are calculated based on the historical rate of default for each risk category. The historical rate of default is determined by specialists, based on past experience in each applicable risk area.

While Marubeni believes these estimates to be reasonable, unexpected changes and other factors could significantly impact the Company's consolidated financial statements.

Valuation of marketable securities

In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," published by the FASB, Marubeni and its consolidated subsidiaries classify securities as trading, held-to-maturity, or available-for-sale.

Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Available-for-sale securities are carried at fair value with the unrealized gains and losses, net of taxes, reported in accumulated other comprehensive loss in shareholders' equity. For held-to-maturity and available-for-sale securities, declines in value judged other than temporary are posted as devaluation losses.

Declines in the value of marketable securities judged other than temporary are determined by examining the length of time that market value remains below book value and the percent decline in value. For securities without market quotations, a comprehensive examination of the possibility of recovery—based on projected business results—net assets and other measures of the percent in actual value, are used to make this determination.

While Marubeni believes these estimates to be reasonable, unforeseeable changes to the assumptions used could result in a higher-than-expected loss, which could significantly impact the Company's consolidated financial statements.

Loss on long-lived assets

Projected cash flows are utilized when determining devaluation losses for long-lived assets held by Marubeni and its consolidated subsidiaries. Projected cash flows are estimated based on a pre-established set of criteria.

While Marubeni believes these estimates to be reasonable, unforeseeable changes to the terms and criteria used could result in a reassessment of projected cash flows, which could significantly impact the Company's consolidated financial statements.

Deferred tax assets

In their financial statements and for tax purposes, Marubeni and its consolidated subsidiaries post transitional differences and losses carried forward as deferred tax assets. Regarding transitional differences and losses carried forward lowered due to future tax changes, a valuation allowance is posted for the portion for which realization is deemed unlikely, with deferred tax assets reduced accordingly. The projected amount of future tax to be collected is estimated based on future applicable income taxes and tax strategies.

While Marubeni believes these estimates to be reasonable, unforeseeable changes to the terms and criteria used could result in a reassessment of the projected amount of tax to be collected, which could significantly impact the Company's consolidated financial statements.

Retirement benefit expenses

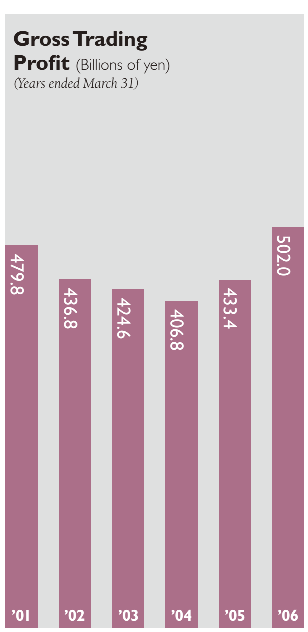
Marubeni and its consolidated subsidiaries utilize actuarial pension accounting based on pre-established criteria to calculate severance pay and pension obligations for regular employees. These pre-established criteria include the discount rate, the retirement rate, the mortality rate, the rate of salary increase, and the rate of expected return on pension assets.

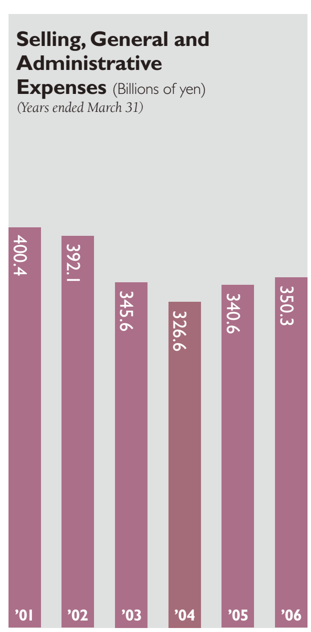
While Marubeni believes these estimates to be reasonable, unforeseeable changes to the criteria used could significantly impact the Company's consolidated financial statements.

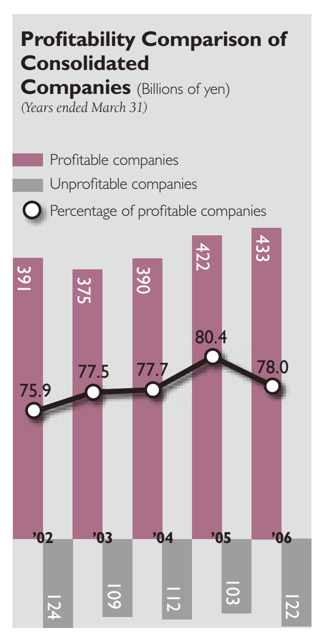
(2) Analysis of Operating Results for the Fiscal Year Ended March 31, 2006

Consolidated net income climbed ¥32.6 billion over the previous year, to ¥73.8 billion, resulting in record earnings for the third consecutive year. In terms of the operating results of consolidated subsidiaries, 122 companies were unprofitable, compared to 433 profitable companies. The percentage of companies achieving profitability was thus 78.0%. While this represents a decline of 2.4 percentage points from 80.4% for the previous fiscal year, total income from these companies improved by ¥32.2 billion.

The analysis of income is as follows. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the amounts, after consideration of tax effects, of losses from discontinued operations (including operations scheduled for disposal or sale), have been classified under "Loss from discontinued operations (after income tax effects)" on the Consolidated Statements of Income. Furthermore, some items from the Consolidated Statements of Income for the fiscal year ended March 31, 2005 have been reclassified in relation to operations discontinued during the fiscal year ended March 31, 2006.







Gross trading profit was ¥502.0 billion, representing a year-on-year increase of ¥68.6 billion. In terms of operating segments, profits rose in 13 segments and declined in 2 segments during the year under review. For a breakdown of operating segments, refer to "Overview of Business Results."

Selling, general and administrative expenses increased ¥11.1 billion from the previous fiscal year, to ¥350.3 billion. By item, the largest component of this was personnel expenses, which rose ¥6.6 billion to ¥168.0 billion, followed by operational outsourcing costs, which rose ¥2.4 billion to ¥23.1 billion. The latter was primarily due to higher outsourcing costs at domestic subsidiaries.

Provision for doubtful accounts rose ¥2.2 billion to ¥8.5 billion, largely due to an increase in allowances for overseas receivables.

Interest income decreased ¥0.4 billion to ¥23.1 billion. Interest expense, meanwhile, increased ¥4.0 billion to ¥47.2 billion, primarily from the impact of higher U.S. dollar-denominated interest rates.

Dividend income rose ¥3.1 billion from the previous year to ¥12.1 billion, mainly atop an increase of ¥2.3 billion in dividend income from overseas consolidated subsidiaries. Of this figure, ¥4.6 billion (¥2.8 billion in Japan, ¥1.8 billion from overseas) was received by the parent company. Domestic consolidated subsidiaries received dividends of ¥0.7 billion, with overseas consolidated subsidiaries receiving dividends of ¥6.7 billion.

Impairment loss on investment securities was ¥17.9 billion, up ¥10.5 billion from the previous year, mostly due to devaluation losses posted on optical transmission equipment-related investments.

Gain on sales of investment securities was ¥14.5 billion, representing a year-on-year decline of ¥21.7 billion. This decrease was mainly the result of lower gains on the sale of listed stocks.

Loss on property, plant and equipment increased ¥15.0 billion to ¥21.3 billion, and was mainly attributable to impairment losses at resource-related affiliated companies overseas.

Other-net improved by ¥31.4 billion from the previous fiscal year, to ¥5.0 billion, primarily due to the absence of an allowance of ¥21.3 billion posted in the previous fiscal year for losses accompanying the withdrawal from petrochemical operations in Indonesia.

Equity in earnings of affiliated companies–net was ¥29.7 billion, up ¥9.1 billion, mainly due to the continuation of strong results at Marubeni-Itochu Steel Inc.

(3) Factors With a Significant Impact on Operating Results

① Off-balance sheet arrangements and contractual obligations

Marubeni and its consolidated subsidiaries guarantee debt of affiliated companies and third parties in the ordinary course of business. For more information, refer to "Commitments and contingent liabilities" under "Notes to Consolidated Financial Statements."

② Others

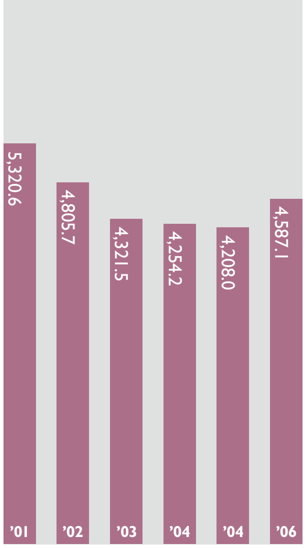
For information regarding other factors with a significant impact on operating results and financial condition, refer to "Business Risks."

(4) Strategic Status and Outlook

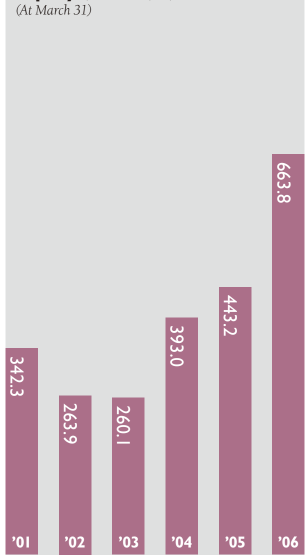
Marubeni launched a three-year medium-term management plan, the "V" PLAN, in April 2003. While carefully managing the progress, the Company set out to complete the quantitative and qualitative objectives set forth in the plan, the final year of which was the fiscal year ended March 31, 2006. For more details regarding progress on completion of "V" PLAN objectives, refer to "Issues to be Addressed."

In April 2006, Marubeni inaugurated a new two-year management plan, the "G" PLAN, so named because the plan aims to attain sustainable growth, as well as future glory for the Marubeni name. Over its two-year duration, the plan will see Marubeni make be-

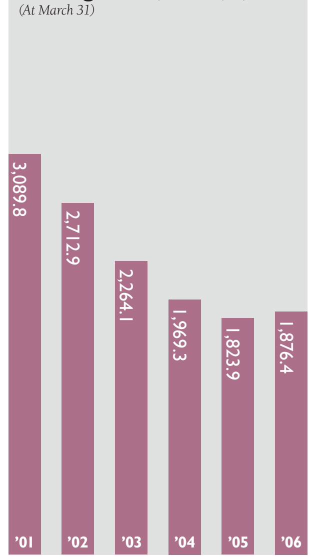
Total Assets (Billions of yen)
(At March 31)



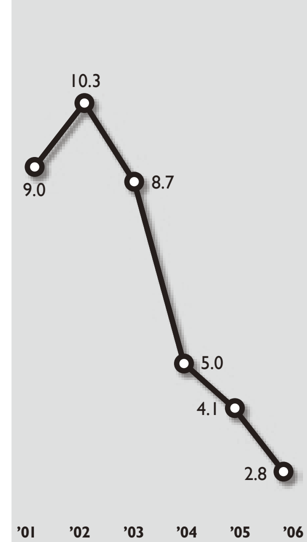
Shareholders' Equity (Billions of yen)
(At March 31)



Net Interest-Bearing Debt (Billions of yen)
(At March 31)



Net D/E Ratio (Times)
(At March 31)



tween ¥500.0 billion to ¥600.0 billion in new investments. These investments will not only target fields such as energy and resource development, where market conditions are currently strong, but also in overseas IPP, foodstuffs and food products, pulp and paper, chemicals, industrial machinery and plant, healthcare, financial services, environmental, and other strategic fields. In assembling prime assets in these areas, the Company is seeking to further bolster its already strong earnings base by targeting consolidated net income of ¥100.0 billion for the fiscal year ending March 31, 2007. Please refer to "Issues to be Addressed" for more information regarding the "G" PLAN.

With a renewed resolve, every member of Marubeni, executives and employees alike, is boldly committed to achieving the "G" PLAN's objectives for the fiscal year ending March 31, 2007.

(5) Liquidity and Funding Sources

① Financial Position

Consolidated total assets as of March 31, 2006 stood at ¥4,587.1 billion, up ¥379.0 billion from the previous fiscal year-end. This result stemmed from an increase primarily in property, plant and equipment, mostly from investment in new energy projects overseas.

Total shareholders' equity rose ¥220.6 billion to ¥663.8 billion. In addition to an increase in net income to ¥73.8 billion, this resulted from the conversion of the Company's 8th unsecured convertible bond issue, worth ¥61.7 billion, into shares, as well as an improvement of ¥62.4 billion in unrealized gains on investment securities.

Consolidated interest-bearing debt declined ¥19.4 billion to ¥2,267.0 billion. Consolidated net interest-bearing debt, after deduction of cash and cash equivalents, was ¥1,876.4 billion as of March 31, 2006, up ¥52.4 billion from a year earlier. As a result, the net D/E ratio at the fiscal year-end improved 1.29 percentage points, from 4.12 times to 2.83 times. With this performance, the Company far exceeded objectives targeted by the "V" PLAN, namely consolidated net interest-bearing debt of ¥2 trillion or less, and a net D/E ratio of between 4 and 5 times.

② Fund Procurement

The fundamental policy of Marubeni and its consolidated subsidiaries is to maintain an optimal mix of funding in line with the requirements of its asset portfolio. The goal is to sustain a stable level of liquidity while trimming financing costs. Funding sources included indirect procurement from banks, life insurers and other financial institutions, and direct procurement through the issuance of bonds, commercial paper and other means.

Marubeni has established the following programs to procure funds directly from the capital markets.

- Shelf registration for the public sale of ordinary bonds in Japan: ¥500.0 billion
- Commercial Paper program
  - Marubeni Europe plc: US$300 million
  - Marubeni International Finance p.l.c.: US$900 million
- Euro Medium-Term Note Program
  - Five-company joint program (Marubeni Corporation, Marubeni America Corporation, Marubeni Europe p.l.c., Marubeni International Finance plc, Marubeni Finance Holland B.V.): US$5.0 billion

To aid in procuring funds from capital markets, Marubeni has acquired credit ratings from Moody's Investors Service (Moody's), Standard & Poor's (S&P), Rating and Investment Information, Inc. (R&I), and Japan Credit Rating Agency, Ltd. (JCR).

In February 2006, S&P upgraded Marubeni's long-term rating from BB to BBB-, and its long-term senior unsecured debt rating from

BBB- to BBB; and in June 2006, R&I upgraded its long-term rating from BBB- to BBB. Marubeni remains committed to conducting portfolio management, enhancing risk management and taking other actions needed to raise its profitability and credit ratings even higher.

③ Liquidity

Marubeni and its consolidated subsidiaries maintain a sufficient level of liquidity mainly through cash and deposits and the establishment of credit facilities. As of March 31, 2006, cash and deposits totaled ¥390.6 billion. Details regarding credit facilities are as follows:

- Marubeni Corporation
  ¥415.0 billion from a syndicate of major and regional Japanese banks (short term: ¥115.0 billion, long term: ¥300.0 billion)
- Overseas finance subsidiary
  US$35 million from a major Japanese bank (short term)
- Marubeni Corporation, Marubeni America Corporation, Marubeni Europe plc, Marubeni Finance Holland B.V.
  These four companies have available credit facilities (short term) totaling US$380 million, secured mainly through major European and U.S. banks

In addition to these credit facilities, Marubeni and its consolidated subsidiaries hold highly liquid marketable securities. In all, these assets provide sufficient liquidity to cover short-term loans and the current portion of long-term debt, which totaled ¥588.1 billion as of March 31, 2006.

Consolidated Balance Sheets

Marubeni Corporation
At March 31, 2006 and 2005

ASSETS	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars *(Note 1)* 2006
Current assets:			
Cash and cash equivalents *(Notes 2 and 19)*	¥ 368,936	¥ 459,194	$ 3,153,299
Time deposits *(Notes 9 and 19)*	21,674	3,256	185,248
Investment securities *(Notes 2, 5, 9 and 19)*	20,989	32,946	179,393
Notes and accounts receivable – trade *(Notes 2, 7, 9 and 21)*:			
Notes receivable	90,973	101,298	777,547
Accounts receivable	896,781	783,001	7,664,795
Due from affiliated companies	79,553	94,453	679,940
Allowance for doubtful accounts	(17,910)	(24,620)	(153,077)
Inventories *(Notes 2 and 9)*	395,599	376,480	3,381,188
Advance payments to suppliers	109,330	83,529	934,444
Deferred income taxes *(Notes 2 and 12)*	32,048	43,483	273,915
Prepaid expenses and other current assets	170,644	140,332	1,458,496
Total current assets	2,168,617	2,093,352	18,535,188
Investments and long-term receivables:			
Affiliated companies *(Notes 2, 6 and 9)*	314,261	325,380	2,685,991
Securities and other investments *(Notes 2, 5, 9 and 19)*	615,361	483,928	5,259,496
Notes, loans and accounts receivable – trade, net of unearned interest *(Notes 2, 7, 9, 19 and 21)*	214,763	270,792	1,835,581
Allowance for doubtful accounts *(Notes 2 and 7)*	(81,964)	(84,696)	(700,547)
Property leased to others, at cost, less accumulated depreciation of ¥79,796 million ($682,017 thousand) in 2006 and ¥69,835 million in 2005*(Notes 2 and 9)*	231,747	248,338	1,980,744
Total investments and long-term receivables	1,294,168	1,243,742	11,061,265
Property, plant and equipment, at cost *(Notes 2 and 9)*:			
Land and land improvements	187,634	178,348	1,603,710
Buildings	316,204	284,105	2,702,598
Equipment	604,705	360,024	5,168,419
Mining rights	22,973	20,611	196,350
	1,131,516	843,088	9,671,077
Accumulated depreciation	(350,707)	(310,782)	(2,997,496)
Net property, plant and equipment	780,809	532,306	6,673,581
Prepaid pension cost *(Note 11)*	83,746	84,709	715,778
Deferred income taxes *(Notes 2 and 12)*	52,364	89,284	447,556
Intangible assets *(Notes 2, 3, 8 and 11)*	89,325	35,548	763,462
Goodwill *(Notes 2 and 8)*	27,936	27,509	238,769
Other assets *(Note 9)*	90,107	101,587	770,145
Total assets	¥4,587,072	¥4,208,037	$39,205,744

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	2005	Thousands of U.S. dollars *(Note 1)* 2006
Current liabilities:			
Short-term loans *(Notes 9, 10 and 19)*	¥ 368,491	¥ 344,597	$ 3,149,496
Current portion of long-term debt *(Notes 9, 10 and 19)*	219,650	314,501	1,877,350
Notes and accounts payable – trade:			
Notes and acceptances payable *(Note 9)*	186,741	207,663	1,596,077
Accounts payable	715,370	650,387	6,114,274
Due to affiliated companies	46,432	44,817	396,855
Advance payments received from customers	97,673	80,502	834,812
Accrued income taxes *(Note 12)*	16,220	13,541	138,632
Deferred income taxes *(Notes 2 and 12)*	3,310	3,849	28,291
Accrued expenses and other current liabilities *(Note 9)*	307,342	222,721	2,626,854
Total current liabilities	1,961,229	1,882,578	16,762,641
Long-term debt, less current portion *(Notes 9, 10 and 19)*	1,879,739	1,813,722	16,066,145
Employees' retirement benefits *(Note 11)*	9,129	9,319	78,026
Deferred income taxes *(Notes 2 and 12)*	26,189	18,851	223,838
Minority interests in consolidated subsidiaries	46,999	40,415	401,701
Commitments and contingent liabilities *(Note 22)*			
Shareholders' equity *(Note 13)*:			
Preferred stock *(Note 14)*:			
Class I with no stated value:			
Authorized shares – 100,000,000 shares			
Issued and outstanding shares – 75,500,000 shares in 2006 and 2005 (aggregate liquidation preference of ¥75,500 million)	37,750	37,750	322,650
Class II with no stated value:			
Authorized shares – 100,000,000 shares			
No shares issued and outstanding	–	–	–
Common stock:			
Authorized shares – 4,300,000,000 shares			
Issued and outstanding shares – 1,608,451,165 shares in 2006 and 1,494,021,081 shares in 2005	224,936	194,039	1,922,530
Capital surplus	155,903	125,436	1,332,504
Retained earnings	193,772	131,195	1,656,171
Accumulated other comprehensive income (loss) *(Notes 12 and 15)*:			
Unrealized gains on investment securities *(Note 5)*	109,035	46,661	931,923
Currency translation adjustments	(53,450)	(89,586)	(456,838)
Unrealized losses on derivatives	(2,116)	(1,554)	(18,085)
Minimum pension liability adjustment *(Note 11)*	(1,717)	(647)	(14,675)
Cost of common stock in treasury – 1,232,651 shares in 2006 and 854,465 shares in 2005	(326)	(142)	(2,787)
Total shareholders' equity	663,787	443,152	5,673,393
Total liabilities and shareholders' equity	¥4,587,072	¥4,208,037	$39,205,744

See accompanying notes.

Consolidated Statements of Income

Marubeni Corporation
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars *(Note 1)*
	2006	2005	2004	2006
Revenues *(Note 2)*:				
Revenues from trading and other activities	¥2,949,058	¥2,874,455	¥2,620,865	$25,205,624
Commissions on services and trading margins	190,787	161,108	150,158	1,630,658
Total	3,139,845	3,035,563	2,771,023	26,836,282
(Total volume of trading transactions: 2006, ¥8,686,532 million ($74,243,863 thousand) 2005, ¥7,936,348 million 2004, ¥7,902,494 million) *(Notes 2, 6 and 17)*				
Cost of revenues from trading and other activities	2,637,821	2,602,168	2,364,262	22,545,479
Gross trading profit	502,024	433,395	406,761	4,290,803
Expenses and other:				
Selling, general and administrative expenses	350,261	339,183	326,567	2,993,683
Loss on the transfer of the substitutional portion of the employee pension fund liabilities, net of subsidy received of ¥13,405 million in 2005 *(Note 11)*	–	1,453	–	–
Provision for doubtful accounts *(Note 7)*	8,515	6,298	805	72,778
Interest income	(23,095)	(23,445)	(20,393)	(197,393)
Interest expense	47,212	43,244	43,420	403,521
Dividend income	(12,065)	(8,989)	(7,198)	(103,120)
Impairment loss on investment securities	17,895	7,438	10,451	152,949
Gain on sales of investment securities *(Note 5)*	(14,477)	(36,147)	(26,528)	(123,735)
Loss on property, plant and equipment *(Note 8)*	21,292	6,288	1,549	181,983
Other – net *(Notes 2 and 18)*	5,033	36,482	17,962	43,017
Total	400,571	371,805	346,635	3,423,683
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	101,453	61,590	60,126	867,120
Provision for income taxes *(Note 12)*:				
Current	34,653	27,332	20,810	296,180
Deferred	10,955	9,393	14,913	93,632
	45,608	36,725	35,723	389,812
Income from continuing operations before minority interests and equity in earnings of affiliated companies	55,845	24,865	24,403	477,308
Minority interests	(5,427)	(1,440)	(2,988)	(46,385)
Equity in earnings of affiliated companies – net (after income tax effects) *(Notes 6 and 12)*	29,747	20,672	14,271	254,248
Income from continuing operations	80,165	44,097	35,686	685,171
Loss from discontinued operations (after income tax effect) *(Note 4)*	(6,364)	(2,850)	(1,121)	(54,393)
Net income	¥ 73,801	¥ 41,247	¥ 34,565	$ 630,778
Income available to preferred shareholders *(Note 23)*	¥ 1,510	¥ 1,510	¥ 442	$ 12,906
Net income available to common shareholders	¥ 72,291	¥ 39,737	¥ 34,123	$ 617,872

	Yen			U.S. dollars *(Note 1)*
Earnings per 100 shares of common stock *(Note 16)*:				
Basic:				
Income from continuing operations	¥ 5,260	¥ 2,852	¥ 2,360	$ 44.96
Net income	¥ 4,834	¥ 2,661	¥ 2,285	$ 41.32
Diluted:				
Income from continuing operations	¥ 4,394	¥ 2,384	¥ 2,081	$ 37.56
Net income	¥ 4,046	¥ 2,231	¥ 2,016	$ 34.58

See accompanying notes.

Consolidated Statements of Changes in Shareholders' Equity

Marubeni Corporation
At March 31, 2006, 2005 and 2004

	Millions of yen						Thousands of U.S. dollars *(Note 1)*	
	2006		2005		2004		2006	
Class I preferred stock *(Note 14)*:								
Balance at beginning of year	¥ 37,750		¥ 37,750		¥ –		$ 322,650	
Stock issued	–		–		37,750		–	
Balance at end of year	¥ 37,750		¥ 37,750		¥ 37,750		$ 322,650	
Common stock:								
Balance at beginning of year	¥194,039		¥194,039		¥194,039		$1,658,453	
Conversion of convertible debentures	30,897		–		–		264,077	
Balance at end of year	¥224,936		¥194,039		¥194,039		$1,922,530	
Capital surplus:								
Balance at beginning of year	¥125,436		¥125,430		¥ 87,765		$1,072,102	
Gain on sales of treasury stock	22		6		–		188	
Conversion of convertible debentures	30,445		–		–		260,214	
Excess of proceeds from issuance of preferred stock over the amount assigned to the preferred stock account *(Note 14)*	–		–		37,665		–	
Balance at end of year	¥155,903		¥125,436		¥125,430		$1,332,504	
Retained earnings (accumulated deficit):								
Balance at beginning of year	¥131,195		¥ 94,870		¥ 64,786		$1,121,325	
Net income	73,801	¥ 73,801	41,247	¥41,247	34,565	¥34,565	630,778	$ 630,778
Cash dividends – common and preferred stocks	(11,224)		(4,922)		(4,481)		(95,932)	
Balance at end of year	¥193,772		¥131,195		¥ 94,870		$1,656,171	
Accumulated other comprehensive income (loss) *(Note 15)*:								
Balance at beginning of year	¥(45,126)		¥(59,025)		¥(86,441)		$ (385,692)	
Unrealized gains on investment securities, net of reclassification *(Note 5)*		62,374		11,734		43,290		533,111
Currency translation adjustments, net of reclassification		36,136		(1,659)		(15,247)		308,854
Unrealized (losses) gains on derivatives, net of reclassification		(562)		3,859		(597)		(4,803)
Minimum pension liability adjustment *(Note 11)*		(1,070)		(35)		(30)		(9,145)
Other comprehensive income, net of tax	96,878	96,878	13,899	13,899	27,416	27,416	828,017	828,017
Comprehensive income		¥170,679		¥55,146		¥61,981		$1,458,795
Balance at end of year	¥ 51,752		¥(45,126)		¥(59,025)		$ 442,325	
Cost of common stock in treasury:								
Balance at beginning of year	¥ (142)		¥ (82)		¥ (98)		$ (1,214)	
Treasury stock (repurchased) sold	(184)		(60)		16		(1,573)	
Balance at end of year	¥ (326)		¥ (142)		¥ (82)		$ (2,787)	
Disclosure of reclassification amount for the year ended:								
Unrealized gains on investment securities arising during the period	¥ 66,293		¥ 28,315		¥ 51,762		$ 566,607	
Less: reclassification adjustments for gains included in net income	(3,919)		(16,581)		(8,472)		(33,496)	
Net unrealized gains	¥ 62,374		¥ 11,734		¥ 43,290		$ 533,111	
Currency translation adjustments arising during period	¥ 33,832		¥ (4,295)		¥(17,803)		$ 289,162	
Less: reclassification adjustments for losses included in net income	2,304		2,636		2,556		19,692	
Net currency translation adjustments	¥ 36,136		¥ (1,659)		¥(15,247)		$ 308,854	
Unrealized gains (losses) on derivatives arising during the period	¥ 3,383		¥ 6,431		¥ (5)		$ 28,915	
Less: reclassification adjustments for gains included in net income	(3,945)		(2,572)		(592)		(33,718)	
Net unrealized (losses) gains on derivatives	¥ (562)		¥ 3,859		¥ (597)		$ (4,803)	

See accompanying notes.

Consolidated Statements of Cash Flows

Marubeni Corporation
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars *(Note 1)*
	2006	2005	2004	2006
Operating activities				
Net income	¥ 73,801	¥ 41,247	¥ 34,565	$ 630,778
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	72,684	64,358	54,261	621,231
Provision for doubtful accounts	8,515	6,298	805	72,778
Equity in earnings of affiliated companies, less dividends received	(13,262)	(13,049)	(598)	(113,350)
Loss (gain) on investment securities	3,418	(28,709)	(16,077)	29,214
Loss on property, plant and equipment	21,292	6,288	1,555	181,983
Deferred income taxes	10,955	9,393	14,913	93,632
Loss from discontinued operations (after income tax effect) *(Note 4)*	6,364	2,850	–	54,393
Changes in operating assets and liabilities:				
Notes and accounts receivable	(45,810)	(4,080)	57,711	(391,538)
Inventories	452	17,561	(1,102)	3,863
Advance payments to suppliers and prepaid expenses and other assets	(88,039)	(4,045)	15,138	(752,470)
Prepaid pension cost	1,136	21,088	7,208	9,709
Notes, acceptances and accounts payable	31,670	33,201	18,839	270,684
Advance payments received from customers and accrued expenses and other liabilities	90,306	38,199	(2,704)	771,846
Accrued income taxes	695	1,283	(637)	5,940
Other	(40,769)	(18,059)	17,683	(348,454)
Net cash provided by operating activities	133,408	173,824	201,560	1,140,239
Investing activities				
Proceeds from sales of available-for-sale securities	13,410	50,728	33,717	114,615
Proceeds from redemptions of available-for-sale securities	1,630	–	1,679	13,932
Purchases of available-for sale securities	(42,116)	(50,847)	(20,730)	(359,966)
Proceeds from redemptions of held-to-maturity securities	26,114	1,316	1,033	223,197
Proceeds from sales of other investments	70,989	66,174	82,576	606,743
Acquisition of other investments	(100,594)	(40,121)	(61,352)	(859,778)
Proceeds from sales of property, plant and equipment and property leased to others	14,030	20,849	15,195	119,915
Purchases of property, plant and equipment and property leased to others	(211,037)	(65,324)	(66,478)	(1,803,735)
Collection of loans receivable	52,606	98,813	131,470	449,624
Loans made to customers	(18,813)	(35,545)	(59,127)	(160,795)
Net cash (used in) provided by investing activities	(193,781)	46,043	57,983	(1,656,248)
Financing activities				
Net increase (decrease) in short-term loans	5,348	(119,698)	(173,240)	45,709
Proceeds from long-term debt	525,792	387,677	458,836	4,493,949
Payments of long-term debt	(566,042)	(497,929)	(589,521)	(4,837,966)
Cash dividends paid – common and preferred stocks	(11,224)	(4,922)	(4,481)	(95,932)
(Purchase) sale of treasury stock, net	(168)	(54)	16	(1,436)
Proceeds from issuance of preferred stock	–	–	75,415	–
Other	257	(3,131)	(963)	2,197
Net cash used in financing activities	(46,037)	(238,057)	(233,938)	(393,479)
Effect of exchange rate changes on cash and cash equivalents	16,152	(1,347)	(13,385)	138,052
Net (decrease) increase in cash and cash equivalents	(90,258)	(19,537)	12,220	(771,436)
Cash and cash equivalents at beginning of year	459,194	478,731	466,511	3,924,735
Cash and cash equivalents at end of year	¥ 368,936	¥ 459,194	¥ 478,731	$ 3,153,299
Supplemental cash flow information:				
Cash paid during the year for:				
Interest	¥ 47,808	¥ 45,045	¥ 45,071	$ 408,615
Income taxes	33,131	27,072	21,149	283,171
Non-cash investing and financing activities:				
Exchange of assets:				
Fair value of assets received	–	66	18,397	–
Carrying value of assets surrendered	–	14	16,665	–
Acquisition of subsidiaries *(Note 3)*:				
Fair value of assets acquired	172,738	–	–	1,476,393
Fair value of liabilities assumed	97,088	–	–	829,812
Minority interest	14,317	–	–	122,367
Acquisition cost of subsidiaries	61,333	–	–	524,214
Non-cash acquisition costs of subsidiaries	51,356	–	–	438,940
Cash acquired	4,305	–	–	36,795
Acquisitions of subsidiaries, net of cash acquired	5,672	–	–	48,479
Issuance of common stock pursuant to conversion of convertible debentures	61,678	–	–	527,162

See accompanying notes.

1. Basis of Financial Statements

Marubeni Corporation (the "Company"), a Japanese corporation, maintains its books and records and prepares its financial statements in Japanese yen. The accompanying consolidated financial statements differ from the non-consolidated financial statements issued for domestic purposes in Japan. In addition to consolidation, they reflect certain adjustments not recorded in the Company's books, which in the opinion of management are appropriate to present the Company's financial position, results of operations, and cash flows in accordance with accounting principles generally accepted in the United States. The principal adjustments are: (1) recognition of installment sales on the accrual basis, (2) recognition of the value ascribed to warrants, (3) accounting for pension costs, (4) accounting for certain investments in debt and marketable equity securities, (5) deferred gain on sales of property for tax purposes, (6) accounting for goodwill and other intangible assets, (7) accounting for derivative instruments and hedging activities, (8) accounting for sale-leaseback of real estate and other, (9) accounting for debt issuance costs, (10) reporting revenue gross as a principal or net as an agent, and (11) reporting discontinued operations.

Certain reclassifications have been made in the 2005 and 2004 financial statements to conform to the presentation for 2006.

The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2006 is included solely for the convenience of readers outside of Japan and has been made at ¥117 to $1, the exchange rate prevailing on March 31, 2006. The translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at this or any other rate.

2. Significant Accounting Policies

Consolidation

The consolidated financial statements of the Company include the accounts of all majority owned domestic and foreign subsidiaries (together, the "Companies"). Significant intercompany transactions and accounts have been eliminated. When a subsidiary sells stock to unrelated third parties, the Company's shareholdings in the subsidiary decreases while the price per share changes, depending on the price of the new stock issued. The Company recognizes such a change in the price per share in earnings at the time of the sale of stock.

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 46, *Consolidation of Variable Interest Entities*, an interpretation of ARB No. 51 (FIN 46). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements. FIN 46 requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party absorbs a majority of the VIE's losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

Certain subsidiaries have been included on the basis of a fiscal year-end on or after December 31, but prior to the parent company's fiscal year-end of March 31. There have been no significant transactions with such subsidiaries during the intervening periods.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates due to inherent uncertainty in nature. Significant estimates and assumptions reflected accompanying consolidated financial statements include allowance for doubtful accounts, valuation of investment securities, impairment of long-lived assets, deferred income taxes and employees' retirement benefits.

Foreign currency translation

Assets and liabilities included in financial statements of foreign subsidiaries and affiliated companies are translated into Japanese yen at the respective year end rates. All income and expenses accounts are translated at the average rates prevailing during the year. The resulting translation adjustments are included in accumulated other comprehensive loss.

Foreign currency-denominated receivables and payables are translated into Japanese yen at the year end rates with the resulting gains and losses recognized in earnings of the year.

Cash equivalents

The Companies consider deposits in banks and securities purchased under resale agreements with an original maturity of three months or less to be cash equivalents.

Investment securities

Management determines the appropriate classification of investment securities as either trading, held-to-maturity or available-for-sale securities at the date of purchase.

Trading securities

Trading securities are held for resale in anticipation of short-term market movements. Trading securities, consisting primarily of marketable equity securities, are stated at fair value. Gains and losses are included in gain/loss on sales of investment securities.

Held-to-maturity securities

Debt securities are classified as held-to-maturity when the Companies have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Interest on securities classified as held-to-maturity is included in interest income. Declines in fair value judged to be other than temporary on held-to-maturity securities are included in impairment loss on investment securities.

Available-for-sale securities

Marketable equity securities not classified as trading and debt securities not classified as trading or held-to-maturity are classified as available-for-sale securities and are carried at fair value, with the unrealized gains and losses, net of taxes, reported in accumulated other comprehensive loss in shareholders' equity. The amortized cost of debt securities in this category is adjusted for the amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Realized gains and losses and declines in fair value judged to be other than temporary on available-for-sale securities are included in gain/loss on sales of investment securities and impairment loss on investment securities, respectively. The average cost of securities sold is used in the determination of realized gains or losses. Interest and dividends on investment securities classified as available-for-sale are included in interest income and dividend income, respectively.

Inventories

Inventories, which primarily consist of commodities, merchandise and real estate held for sale, are stated at the lower of cost (primarily specific or moving average cost) or market (generally replacement cost). Inventories included real estate for sale of ¥81,798 million ($699,128 thousand) and ¥93,338 million at March 31, 2006 and 2005, respectively.

Investments

The Companies' investments in affiliated companies (investees over which the Companies have the ability to exercise significant influence) are stated at cost, adjusted for equity in their undistributed earnings or accumulated losses since acquisition. Other investments are primarily non-marketable equity securities and are stated at cost, adjusted for any declines in value judged to be other than temporary.

Loans and allowance for doubtful accounts

Loans including accounts receivable are stated at cost.

In evaluating the credit risk relating to loans, the Companies categorize them based on the potential exposures for credit ratings of debtors, geographical and other considerations. When a loan is impaired, the allowance for credit losses is determined based on discounted cash flows using the loans' initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. For other loans, the allowance for credit losses is determined based on a historical bad debt ratio by the credit risk category. When loans are legally or contractually determined to be uncollectible, the loans are offset against their respective allowances.

Cash received on impaired loans is either applied against the principal of such loans or reported as interest income, based on management's judgment with regard to the collectibility of the principal. The Companies discontinue the accrual of interest when loans are past due for a period of 180 days or more. The accrual of interest is resumed when agreements for rescheduling of payment is made and receipt of interest is probable.

Loans ninety days past due are noted as delinquent and monitored for collectibility. The recorded investments in loans ninety days past due and still accruing interest were not significant at March 31, 2006 and 2005.

Leases

The Company and certain of its subsidiaries lease fixed assets under direct financing leases and operating leases as lessors. Income from direct financing leases is recognized by amortization of unearned income over the lease term at a constant periodic rate of return on the net investment. Operating lease income is recognized over the lease term on a straight-line basis.

The Company and certain of its subsidiaries lease fixed assets under operating leases and capital leases as lessees. For capital lease obligations, interest expense is recognized over the lease term at a constant periodic rate on the lease obligation. Accumulated depreciation of the leased assets is recognized over the lease term on a straight-line basis. Rental expense on operating leases is recognized over the lease term on a straight-line basis.

Depreciation

Depreciation of property, plant and equipment (including property leased to others) is determined by the declining-balance or the straight-line method (primarily for buildings) at rates based on the estimated useful lives of the respective assets, which are from 2 to 50 years. Mining rights are primarily amortized by the unit-of-production method or straight-line method at rates based on the estimated useful lives of 5 to 30 years.

Mining rights

The FASB issued FASB Emerging Issue Task Force Issue 04-2, *Whether Mineral Rights are Tangible or Intangible Assets* (EITF 04-2). In this regard, the FASB also issued FASB Staff Position (FSP) No. 141-1 and 142-1, which amend SFAS 141 and SFAS142. In accordance with EITF 04-2 and FSP No. 141-1 and 142-1, all mining rights are included in Property, plant and equipment in the consolidated balance sheets.

Long-lived assets other than goodwill and other intangible assets

Long-lived assets held and used are evaluated for impairment and written down to their fair value if the sum of their expected future cash flows is less than the carrying amount of the assets. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Business combinations

In accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*, the purchase method of accounting is used for all business combinations. The Company separately recognizes and presents acquired intangible assets as goodwill or other intangible assets.

Goodwill and other intangible assets

Effective April 1, 2002, the Companies adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. SFAS 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Additionally, SFAS 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized. The Companies annually test goodwill for impairment using the two-step process prescribed in SFAS 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any.

Asset retirement obligations

Effective for the year ended March 31, 2004, the Companies adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). SFAS 143 requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. The adoption of SFAS 143 did not have a material impact on the Company's financial positions and results of operations.

Financial instruments with characteristics of both liabilities and equity

Effective for the year ended March 31, 2004, the Companies adopted Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS 150). SFAS 150 established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS 150 did not have a material impact on the Company's financial positions and results of operations.

Revenue recognition and total volume of trading transactions

The trading transactions undertaken by the Companies take many forms and consist of those in which the Companies act as principal and those in which the Companies act as agent. In agency transactions, payment for goods is made directly by the purchaser to the supplier. The Companies derive revenues from sales of goods, performance of services and commissions on trading transactions.

Although the Companies legally act as a principal, certain transactions are reported net, as commissions, when the margins thereon are in substance considered commissions in accordance with FASB Emerging Issue Task Force Issue 99-19 *Reporting Revenue Gross as a Principal versus Net as an Agent* (EITF 99-19). When the Company is not the primary obligor and do not have general inventory risk, it generally presents the transaction net. The presentation may change according to changes in form or substance of transactions.

The total volume of trading transactions, which is voluntarily disclosed in the statements of income, includes the sales value of all transactions in which the Companies participate, regardless of the form of such transaction, based on the practice of the Japanese trading companies.

The Companies' revenues and commissions are recognized when they are realized or realizable and earned. Revenues and commissions 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 collection is reasonably assured.

Sale of goods: In acting as a principal, revenue from the sale of goods is recognized when the delivery conditions are met. These conditions are considered to have been met when the goods are received by the customer or title to securities such as bills of lading are transferred to the customer. In addition, if required the implementation testing needs to be fully completed and any future obligations need to be perfunctory and not affect the customer's final acceptance of the arrangement of revenue to be recognized.

Performance of services: Commissions are recognized when the contracted services to the third-party customers are completed. In acting as agent, the Companies recognize commissions when contracted services are fully rendered to the customers.

Long-term and large scale construction arrangements: Revenue is recognized by the completed-contract method unless reasonably dependable estimates of costs and extent of progress can be made, in which case revenue is recognized by the percentage-of-completion method.

Shipping and handling costs are included in cost of revenues.

Other expenses – net

Other expenses – net includes losses incurred in liquidating subsidiaries and affiliated companies of ¥896 million ($7,658 thousand), ¥412 million and ¥6,549 million for the years ended March 31, 2006, 2005 and 2004, respectively.

Other expenses – net for the year ended March 31, 2005 also includes a loss on investment in and receivables from P.T. Chandra Asri of ¥21,347 million.

The aggregated amounts of losses on sales of loans, included in other expenses – net were ¥923 million ($7,889 thousand) and ¥1,023 million for the years ended March 31, 2006 and 2004, respectively. Such amount was not significant for the year ended March 31, 2005.

Derivative instruments and hedging activities

The Companies apply Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended by SFAS138 and SFAS149.

The Companies recognize all derivative instruments on the consolidated balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of a hedge will be immediately recognized in earnings. For derivative and non-derivative financial instruments designated as hedging the foreign currency exposure of a net investment in foreign subsidiaries and affiliates, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment to the extent the hedges are effective. Gains and losses related to the hedge ineffective portion and related to the portion of hedging instruments excluded from the assessment of hedge effectiveness are included in other expenses – net. The Companies expect to reclassify ¥1,791 million ($15,308 thousand) of net loss on derivative instruments from accumulated other comprehensive income to earnings during the 12 months ending March 31, 2007, due to actual export and import transactions or receipts and payments of interest. The maximum length of time over which the Companies are hedging their exposure to the variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payments of variable interest on existing financial instruments is 25 months.

Income taxes

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. A valuation allowance is recognized to reduce the deferred tax assets to the amount that is considered more likely than not to be realized.

3. Acquisitions

On October 12, 2005, Japan Indonesia Petrochemical Investment Corporation ("JIPIC"), a wholly owned subsidiary of the Company, exchanged its shares and loans in PT. Chandra Asri ("CA") with Commerzbank International Trust (Singapore) Ltd., for shares of two Indonesian companies in the musi pulp business. As a result of this exchange, PT. Tanjungenim Lestari Pulp & Paper ("TEL"), a pulp producing company, became a subsidiary wholly owned by the Company, JIPIC and Sumatra Pulp Corporation ("Sumatra"), a 49.95% owned subsidiary of Marubeni. In addition, PT. Musi Hutan Persada ("MHP"), a plantation company, became a subsidiary owned 60% by the Company and JIPIC. TEL was incorporated in 1990 and produces pulp from acacia logs, and has pulp production capacity of 450,000 tons per year. MHP was incorporated in 1991 and operates acacia plantation on 190,000 hectares out of authorized areas of 300,000 hectares and supplies logs for TEL. The results of operations of TEL and MHP have been consolidated in the consolidated statement of income from the date of acquisition. The pulp business is placed as one of the Company's core businesses and acquisition of the majority shares of TEL and MHP was made to further strengthen the business.

The aggregate purchase price was ¥61,333 million ($524,214 thousand), and the following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 14,744	$ 126,017
Property, plant and equipment	103,214	882,171
Intangible assets	50,771	433,940
Other non-current assets	4,009	34,265
Total assets acquired	172,738	1,476,393
Current liabilities	7,426	63,470
Long-term debt	80,542	688,393
Other non-current liabilities	9,120	77,949
Total liabilities assumed	97,088	829,812
Minority interest	14,317	122,367
Net assets acquired	¥ 61,333	$ 524,214

Minority interest above includes the Company's and Sumatra's interest of 45.06% in TEL, acquired prior to this acquisition.

As MHP was granted by the Indonesia government a right to use land of 300,000 hectares for plantation, ¥50,745 million ($433,718 thousand) were assigned to intangible assets subject to amortization over the remaining authorized period of 29 years.

Had the Company acquired TEL and MHP at April 1, 2004, the consolidated revenues, gross trading profits, net income, and basic and diluted earnings per 100 shares of common stock for the years ended March 31, 2006 and 2005 would be as follows:

	Pro Forma Information (Unaudited)		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Revenue	**¥3,153,954**	¥3,063,585	**$26,956,872**
Gross trading profit	**506,039**	439,739	**4,325,120**
Net income	**76,002**	38,409	**649,590**
	Yen		U.S. dollars
Basic earnings per 100 shares of common stock	**¥4,982**	¥2,471	**$42.58**
Diluted earnings per 100 shares of common stock	**4,166**	2,079	**35.61**

4. Discontinued Operations

In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), the Company separately presents the results of the operations in discontinued operations, net of income tax effects, which are either operations disposed of or reclassified as held for sale during the year, in the consolidated statements of income. The figures of statements of income and cashflows for the prior years have been reclassified to conform to this presentation.

The caring amounts of assets and liabilities of the discontinued operations were not significant at March 31, 2006 and 2005.

The loss from discontinued operations in the statement of income for the year ended March 31, 2006, 2005 and 2004, and selected financial information are as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Revenue	**¥ 281**	¥ 3,089	¥ 3,146	**$ 2,402**
Loss from discontinued operations, before income tax effect	**¥(1,793)**	¥(5,738)	¥(1,226)	**$(15,325)**
Loss on disposal	**(9,885)**	–	–	**(84,487)**
Income tax benefit	**5,314**	2,888	105	**45,419**
Loss from discontinued operations, after income tax effect	**¥(6,364)**	¥(2,850)	¥(1,121)	**$(54,393)**

Discontinued operations for the year ended March 31, 2006 are as follows:

The Company placed as a non-core business the leisure-related business including the ski business and theme park operations in the "V Plan," the 3 year business plan, which started in 2003. Based on the plan, the Company decided to exit from the leisure business operated through two subsidiaries, Hunter Mountain Shiobara Co. Ltd. ("HMS") and Nasu Kougen Resort Co. Ltd. ("NKR"), by selling them to thirdparties. NKR sold all assets and business related to the skiing ground operations to HMS, and then the Company sold all share in HMS to Tokyu Resort Corporation in November 2005. The Company also committed to sell all shares in NKR to Animal Escort Service Co. Ltd.

5. Marketable Equity Securities and Debt Securities

The following is a summary of available-for-sale securities and held-to-maturity securities at March 31, 2006 and 2005:

Available-for-sale securities

	Millions of yen							
	2006				2005			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:								
Debt securities	¥ 579	¥ –	¥ –	¥ 579	¥ 701	¥ 183	¥ (2)	¥ 882
Non-current:								
Debt securities	¥ 29,060	¥ 216	¥ (37)	¥ 29,239	¥ 22,720	¥ 501	¥ (9)	¥ 23,212
Marketable equity securities	153,508	167,980	(1,350)	320,138	140,249	74,516	(7,155)	207,610
Total	¥182,568	¥168,196	¥(1,387)	¥349,377	¥162,969	¥75,017	¥(7,164)	¥230,822

	Thousands of U.S. dollars			
	2006			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Debt securities	$ 4,949	$ –	$ –	$ 4,949
Non-current:				
Debt securities	$ 248,376	$ 1,846	$ (316)	$ 249,906
Marketable equity securities	1,312,034	1,435,726	(11,538)	2,736,222
Total	$1,560,410	$1,437,572	$(11,854)	$2,986,128

Held-to-maturity securities

	Millions of yen							
	2006				2005			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:								
Debt securities	¥6,000	¥ 4	¥ –	¥ 6,004	¥28,067	¥191	¥(120)	¥28,138
Non-current:								
Debt securities	¥9,236	¥797	¥ –	¥10,033	¥14,300	¥816	¥ –	¥15,116

	Thousands of U.S. dollars			
	2006			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Debt securities	$51,282	$ 34	$ –	$51,316
Non-current:				
Debt securities	$78,940	$6,812	$ –	$85,752

Debt securities which the Company held at March 31, 2006 and 2005 were mainly corporate bonds.

Management of the Company believes that the unrealized losses above are not other than temporary declines as either the market value has substantially recovered subsequent to the balance sheet date or the duration of decline is less than 9 months.

In addition to the securities listed above, the Companies held trading securities of ¥14,410 million ($123,162 thousand) and ¥3,997 million, at fair value, as of March 31, 2006 and 2005, respectively. The net unrealized holding losses on trading securities included in earnings for the years ended March 31, 2006, 2005 and 2004 amounted to ¥76 million ($650 thousand), ¥8 million and ¥0 million, respectively.

Gross realized gains on sales of available-for-sale securities totaled ¥7,218 million ($61,692 thousand), ¥28,611 million and ¥13,945 million, and gross realized losses totaled ¥457 million ($3,906 thousand), ¥144 million and ¥179 million for the years ended March 31, 2006, 2005 and 2004, respectively.

The Company wrote down certain marketable investment securities whose decline in value was considered to be other than temporary to their fair value. These write-downs amounted to ¥109 million ($932 thousand), ¥385 million and ¥197 million for the years ended March 31, 2006, 2005 and 2004.

The amortized cost and estimated fair value of debt and marketable equity securities at March 31, 2006 are summarized by contractual maturity below. Expected maturities may differ from contractual maturities because the issuers of certain securities have the right to prepay obligations without prepayment penalties.

	Available-for-sale securities			
	Cost	Fair Value	Cost	Fair Value
	Millions of yen		Thousands of U.S. dollars	
Due in one year or less	¥ 579	¥ 579	$ 4,949	$ 4,949
Due after one year through five years	17,256	17,470	147,487	149,316
Due after five years through ten years	11,215	11,181	95,855	95,564
Due after ten years	589	588	5,034	5,026
Total debt securities	29,639	29,818	253,325	254,855
Marketable equity securities	153,508	320,138	1,312,034	2,736,222
Total	¥183,147	¥349,956	$1,565,359	$2,991,077

	Held-to-maturity securities			
	Cost	Fair Value	Cost	Fair Value
	Millions of yen		Thousands of U.S. dollars	
Due in one year or less	¥ 6,000	¥ 6,004	$ 51,282	$ 51,316
Due after one year through five years	9,214	10,011	78,752	85,564
Due after five years through ten years	22	22	188	188
Total	¥15,236	¥16,037	$130,222	$137,068

6. Affiliated Companies

Investments in and amounts due from affiliated companies at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Investments in equity securities	¥295,427	¥262,407	$2,525,017
Long-term receivables	18,834	62,973	160,974
	¥314,261	¥325,380	$2,685,991

The financial information of affiliated companies at March 31, 2006 and 2005 and for the years ended March 31, 2006, 2005 and 2004, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Total assets	¥2,967,889	¥3,096,975	$25,366,573
Total liabilities	2,282,273	2,458,736	19,506,607
Net assets	¥ 685,616	¥ 638,239	$ 5,859,966

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Total volume of trading transactions	¥4,233,915	¥5,353,268	¥5,680,914	$36,187,308
Net income	71,212	79,998	32,753	608,650

The Companies' transactions with affiliated companies for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Sale transactions	¥314,739	¥360,027	¥319,276	$2,690,077
Purchase transactions	196,639	199,210	158,592	1,680,675

The unamortized balance of the difference between the cost of investment in affiliated companies and the Companies' equity in the net assets at the dates of acquisition amounted to ¥4,509 million ($38,538 thousand) and ¥9,326 million at March 31, 2006 and 2005, respectively.

Certain investments in the common stock of affiliated companies are marketable equity securities, which have carrying values of ¥37,366 million ($319,368 thousand) and ¥37,325 million at March 31, 2006 and 2005, respectively, with corresponding aggregate quoted market values of ¥69,951 million ($597,872 thousand) and ¥55,908 million.

7. Loans and Allowance for Doubtful Accounts

The changes in the allowance for doubtful accounts are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Balance at beginning of year	¥109,316	¥120,814	¥142,530	$ 934,325
Provision	8,515	6,298	805	72,778
Charge-offs	(14,435)	(18,572)	(21,096)	(123,376)
Other	(3,522)	776	(1,425)	(30,103)
Balance at end of year	¥ 99,874	¥109,316	¥120,814	$ 853,624

At March 31, 2006 and 2005, the recorded investments in loans that are considered to be impaired under Statements of Financial Accounting Standards No. 114 were ¥159,902 million ($1,366,684 thousand) and ¥185,934 million, respectively, and the allowance for credit losses related to those loans were ¥86,237 million ($737,068 thousand) and ¥99,476 million, respectively. The recorded investment in the impaired loans, net of the valuation allowance, is either secured by collateral or considered collectible based upon various analyses. The average recorded investments in impaired loans were ¥176,477 million ($1,508,350 thousand), ¥230,778 million and ¥283,259 million for the years ended March 31, 2006, 2005 and 2004, respectively. The Companies generally do not accrue for interest on those loans, and recognize interest income on a cash basis, which was ¥3,839 million ($32,812 thousand) and ¥2,901 million for the years ended March 31, 2006 and 2005. Such amount was not significant for the year ended March 31, 2004.

8. Long-Lived Assets

The gross carrying amounts and accumulated amortization of intangible assets as of March 31, 2006 and 2005 were as follows:

	Millions of yen			
	2006		2005	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Amortized intangible assets:				
Licenses and operating rights	¥ 77,008	¥ (5,073)	¥22,124	¥ (2,541)
Software	13,541	(7,528)	11,053	(5,243)
Additional minimum pension liability	2,223	(863)	2,337	(725)
Other	11,032	(4,409)	11,979	(7,069)
Intangible assets not subject to amortization:				
Land rent rights	2,350	–	2,841	–
Other	1,044	–	792	–
	¥107,198	¥(17,873)	¥51,126	¥(15,578)

	Thousands of U.S. dollars	
	2006	
	Gross carrying amount	Accumulated amortization
Amortized intangible assets:		
Licenses and operating rights	$658,188	$ (43,359)
Software	115,735	(64,342)
Additional minimum pension liability	19,000	(7,376)
Other	94,291	(37,683)
Intangible assets not subject to amortization:		
Land rent rights	20,085	–
Other	8,923	–
	$916,222	$(152,760)

The amortized intangible assets acquired during the year ended March 31, 2006 totaled to ¥58,981 million ($504,111 thousand) and consisted primarily of operating rights of ¥51,741 million ($442,231 thousand) and software of ¥2,825 million ($24,145 thousand). The weighted-average amortization periods of operating rights and software acquired for the year ended March 31, 2006 are 29 years (straight-line method) and 5 years (straight-line method), respectively. The total amount of the amortized intangible assets acquired during the year ended March 31, 2005 was ¥5,337 million, which included operating rights of ¥2,346 million and software of ¥2,335 million. The weighted-average amortization periods of operating rights and software acquired for the year ended March 31, 2005 are 23 years (straight-line method) and 5 years (straight-line method), respectively. The amount of the residual value of the amortized intangible assets is not significant.

The amortization expense for intangible assets was ¥5,734 million ($49,009 thousand) and ¥5,899 million for the years ended March 31, 2006 and 2005. The estimated amortization expense for the next five years is as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥5,516	$47,145
2008	5,070	43,334
2009	4,737	40,487
2010	4,154	35,504
2011	3,642	31,128

The changes in the carrying amount of goodwill by operating segment for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen							
	Agri-marine products	Textile	Chemicals	Energy	Transportation machinery	Industrial machinery and information business	Overseas corporate subsidiaries and branches	Total
Balance at March 31, 2004	¥7,371	¥ –	¥1,091	¥ 993	¥4,057	¥8,096	¥ 7,185	¥28,793
Goodwill acquired during the year	–	–	–	–	–	–	–	–
Impairment losses	–	–	–	–	–	–	–	–
Effect of exchange rate and other	(78)	–	56	(993)	(15)	–	(254)	(1,284)
Balance at March 31, 2005	7,293	–	1,147	–	4,042	8,096	6,931	27,509
Goodwill acquired during the year	–	1,094	–	–	–	–	–	1,094
Impairment losses	–	(552)	–	–	–	–	(1,467)	(2,019)
Effect of exchange rate and other	–	–	22	–	351	–	979	1,352
Balance at March 31, 2006	¥7,293	¥ 542	¥1,169	¥ –	¥4,393	¥8,096	¥ 6,443	¥27,936

	Thousands of U.S. dollars							
	Agri-marine products	Textile	Chemicals	Energy	Transportation machinery	Industrial machinery and information business	Overseas corporate subsidiaries and branches	Total
Balance at March 31, 2005	$62,333	$ –	$9,803	$ –	$34,547	$69,197	$ 59,239	$235,119
Goodwill acquired during the year	–	9,350	–	–	–	–	–	9,350
Impairment losses	–	(4,718)	–	–	–	–	(12,538)	(17,256)
Effect of exchange rate and other	–	–	188	–	3,000	–	8,368	11,556
Balance at March 31, 2006	$62,333	$ 4,632	$9,991	$ –	$37,547	$69,197	$ 55,069	$238,769

As a result of decreases in the estimated future cash flows due to the worsened business circumstance and conditions and changes in the management strategies, the Companies recognized impairment losses on goodwill of ¥2,019 million ($17,256 thousand) and ¥1,455 million for the years ended March 31, 2006 and 2004. There was no impairment loss on goodwill recognized for the year ended March 31, 2005. The fair value of the reporting unit was estimated using the expected present value of future cash flows.

Due to decreases in expected future cash flows below their carrying amounts, the Company and certain of its subsidiaries recognized impairment losses primarily on their facility, real estate and plant in the total amounts of ¥15,504 million ($132,513 thousand) and ¥13,558 million, which are included in loss on property, plant and equipment on the consolidated statement of income, for the years ended March 31, 2006 and 2005, based on their fair value. The fair value was primarily estimated using the discounted cash flow method and third-party appraisals. The segments affected by the impairment losses were primarily Energy of ¥6,402 million ($54,718 thousand), Metal and mineral resources of ¥3,980 million ($34,017 thousand) and Corporate of ¥1,587 million ($13,564 thousand) for the year ended March 31, 2006, and Forest product and general merchandise of ¥4,251 million, Development and construction of ¥3,664 million, Agri-marine products of ¥2,548 million and Industrial machinery and information business of ¥1,813 million for the year ended March 31, 2005. The amount of impairment losses for the year ended March 31, 2004 was immaterial.

9. Pledged Assets

The following table summarizes assets pledged as collateral for the Company's obligations at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Time deposits	¥ 10,199	¥ 7,967	$ 87,171
Investment securities, securities and other investments and investments in affiliated companies	60,428	134,882	516,479
Notes, loans and accounts receivable – trade (current and non-current)	47,279	40,977	404,094
Inventories	6,655	12,543	56,880
Property, plant and equipment, and property leased to others, net of accumulated depreciation	358,225	256,407	3,061,752
Other assets	13,108	10,836	112,034
	¥495,894	¥463,612	$4,238,410

The obligations secured by such collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Short-term loans	¥ 67,529	¥ 36,157	$ 577,171
Other current liabilities	16,133	12,930	137,889
Long-term debt	202,197	201,470	1,728,180
Guarantees of contracts, etc.	20,962	10,533	179,162
	¥306,821	¥261,090	$2,622,402

In addition, acceptances payable at March 31, 2006 and 2005 were secured by trust receipts on inventories, the standard terms of which provide that the proceeds from the sales of any such collateral be delivered to the respective bank to be applied against outstanding acceptances. However, the Companies have, in general, followed the practice of paying acceptances on their maturity dates. Given the substantial volume of the Company's transactions, it would not be practicable to determine the total amount of inventories and/or proceeds from the sales of such inventories covered by outstanding trust receipts.

As is customary in Japan, security, if requested by a lending bank, must be given and the bank has the right to offset cash deposited with it against any debt or obligations that become due and, in the case of default or certain other specified events, against all debt payable to the bank. To date, no such request has been made to the Companies and no such rights have been exercised.

10. Short-Term Loans and Long-Term Debt

Short-term loans and their weighted average interest rates, regardless of currencies, at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Short-term loans from banks and others	¥368,491	¥344,597	$3,149,496
Weighted average interest rates	2.58%	1.13%	

Long-term debt at March 31, 2006 and 2005 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
4.0% reverse dual currency notes due 2005	¥ –	¥ 11,898	$ –
2.13% notes due 2005	–	5,800	–
1.48% notes due 2006	3,800	3,800	32,479
1.15% notes due 2005	–	36,637	–
1.27% notes due 2006	7,700	7,700	65,812
1.13% notes due 2006	28,100	28,100	240,171
Libor + 0.73% notes due 2007	15,578	15,578	133,145
2.0% notes due 2006	15,000	15,000	128,205
1.91% notes due 2006	10,000	10,000	85,470
1.27% (1.60% after June 13, 2005) notes due 2007	9,350	10,000	79,915
1.11% notes due 2007	10,000	10,000	85,470
1.43% notes due 2009	10,000	10,000	85,470
1.38% notes due 2009	15,000	15,000	128,205
0.86% notes due 2007	10,000	10,000	85,470
1.28% notes due 2009	10,000	10,000	85,470
0.98% notes due 2009	10,000	10,000	85,470
0.87% notes due 2010	20,000	20,000	170,940
1.32% notes due 2012	10,000	10,000	85,470
1.38% notes due 2012	10,000	10,000	85,470
1.37% notes due 2015 with prepayment options	5,000	5,000	42,735
0.80% notes due 2010	20,000	–	170,940
1.28% notes due 2012	15,000	–	128,205
1.09% notes due 2010	30,000	–	256,410
1.56% notes due 2012	10,000	–	85,470
1.50% notes due 2012	10,000	–	85,470
0.85% convertible debentures due 2006	–	64,500	–
Medium-term notes due from 2005 to 2007 principally at rates from 0.5% to 6.1% or at floating rates	24,265	12,759	207,393
Loans from government-owned banks and government agencies:			
Secured, due serially through 2016 principally at rates from 0.2% to 6.7%	10,420	12,922	89,060
Unsecured, due serially through 2019 principally at rates from 1.2% to 5.6%	59,093	95,524	505,068
Loans principally from banks and insurance companies:			
Secured, due serially through 2018 principally at rates from 0.5% to 9.7%	212,223	186,027	1,813,872
Unsecured, due serially through 2015 principally at rates from 0.2% to 9.0%	1,312,002	1,298,213	11,213,692
Other	200,920	186,461	1,717,266
	2,103,451	2,110,919	17,978,213
SFAS133 fair value adjustments	(4,062)	17,304	(34,718)
	2,099,389	2,128,223	17,943,495
Less current portion	219,650	314,501	1,877,350
	¥1,879,739	¥1,813,722	$16,066,145

The SFAS 133 fair value adjustments above represent adjustments made to the balance of the debt in accordance with SFAS 133 with respect to changes in the fair value of hedged long-term debt attributable to fluctuations of interest rates during the term of the hedge.

To hedge against exposure related to the payment of interest and the repayment of the principal of certain short-term loans and long-term debt denominated in foreign currencies, the Company and certain of its subsidiaries enter into foreign exchange contracts.

To strengthen the asset liability management and to hedge against exposure to changes in foreign currency exchange rates, the Company and certain of its subsidiaries entered into several interest rate swap agreements, including interest rate and currency swap agreements, of short-term loans and long-term debt. The floating interest rates are, in general, based upon the six-month or three-month LIBOR (London Interbank Offered Rate). The interest rate swap agreements are to remain in effect through the maturity dates of the short-term loans and long-term debt.

The indentures covering the 0.85% convertible debentures due 2006 issued in November 1996 provided that the holders may convert the debentures into shares of common stock at the conversion price of ¥539 ($4.61). The convertible debentures of ¥61,678 million ($527,162 thousand) out of ¥64,500 million ($551,282 thousand) were converted into shares of common stock during the year ended March 31, 2006 while the remaining of ¥2,822 million ($24,120 thousand) were redeemed in cash on March 31, 2006.

On March 6, 2006, the Company changed its short-term line of credit of ¥100,000 million ($854,701 thousand) out of ¥215,000 million ($1,837,607 thousand) to long-term. As a result, the Company had an unused long-term line of credit arrangement of ¥300,000 million ($2,564,103 thousand) and an unused short-term line of credit arrangement of ¥115,000 million ($982,906 thousand) with a syndicate of financial institutions at March 31, 2006. Of such arrangements, ¥239,559 million ($2,047,513 thousand) was utilized to reclassify short-term loans and long-term debt due within one year to long-term debt on the consolidated balance sheet at March 31, 2006, as the Company had an intention and ability to refinance them when due. The Company had an unused long-term line of credit of ¥200,000 million and unused long-term refinance arrangements of ¥100,786 million, and reclassified short-term loans and long-term debt due within one year to long-term debt of ¥259,591 million on the consolidated balance sheet at March 31, 2005.

In addition to the above, the Company and certain of its subsidiaries have unused short-term lines of credit of $415 million at March 31, 2006 and 2005.

Long-term debt subsequent to March 31, 2006 matures as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥219,829	$1,878,880
2008	250,445	2,140,556
2009	432,486	3,696,461
2010	221,692	1,894,803
2011	211,671	1,809,154
Thereafter	767,328	6,558,359

Certain agreements principally with Government-owned financial institutions provide that earlier repayment may be required if, in the judgment of the lenders, the Company or certain of its subsidiaries have achieved higher than expected earnings or received sufficient proceeds from the issuance of common stock or debentures to repay its loans. To date, none of the lenders has made such a request.

Certain of the long-term debt agreements stipulate, among other things, that the Companies, upon request, submit for the lenders' approval the proposed appropriations of income, including dividends, before such appropriations can be submitted to the shareholders. The Companies have never received such a request.

11. Employees' Retirement Benefits

The Company and certain of its subsidiaries have unfunded lump-sum retirement plans which, in general, cover all employees other than directors. In addition, the Company and certain of its subsidiaries have contributory and non-contributory funded defined benefit pension plans with independent trustees covering eligible employees. Under the terms of the lump-sum retirement plans, eligible employees are entitled under most circumstances, upon mandatory retirement or earlier voluntary severance, to indemnities based on their compensation as of the date of severance and years of service.

On April 15, 2003 and May 1, 2004, the Marubeni Welfare Pension Fund (the "MWPF") received approval from the Japanese government to transfer the future and past benefit obligations related to the substitutional portion for the government-defined benefit prescribed by the Welfare Pension Insurance Law of Japan, respectively. On August 25, 2004, the Marubeni Corporate Pension Fund (former MWPF) transferred the obligations and assets to the government. According to the consensus reached by the Emerging Issue Task Force on Issue No. 03-2, ***Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities***, and Statement of Financial Accounting Standards No. 88, ***Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits***, the Company accounted for the entire process as a settlement upon completion of the transfer to the Japanese government of the substitutional portion of the future and past benefit obligations and the related plan assets.

During the years ended March 31, 2005 and 2004, the Company withdrew cash of ¥15,000 million and ¥5,000 million from the trust, respectively, since the plan assets exceeded constantly the benefit obligations due to an increase in fair value of plan assets and the transfer of the above benefit obligations.

The measurement date used to determine pension benefit obligations and plan assets was mainly March 31.

The reconciliation of beginning and ending balances of the projected benefit obligation and plan assets, and the funded status of the Company's and certain subsidiaries' plans are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Change in projected benefit obligation			
Projected benefit obligation at beginning of year	¥209,491	¥245,034	$1,790,521
Service cost	5,396	6,040	46,120
Interest cost	5,749	5,838	49,137
Actuarial loss (gain)	4,055	(97)	34,658
Foreign currency exchange rate changes	2,424	(491)	20,718
Benefits paid	(11,282)	(10,843)	(96,427)
Plan amendment	(53)	–	(453)
Transfer of the substitutional portion of the employee pension fund and other	–	(35,990)	–
Projected benefit obligation at end of year	215,780	209,491	1,844,274
Change in plan assets			
Fair value of plan assets at beginning of year	216,808	251,310	1,853,060
Actual return on plan assets	40,972	8,653	350,188
Foreign currency exchange rate changes	1,949	(409)	16,658
Employees' contributions	265	257	2,265
Employer's contribution	3,331	2,327	28,470
Benefits paid	(9,036)	(8,809)	(77,231)
Transfer of the substitutional portion of the employee pension fund and other	–	(36,521)	–
Fair value of plan assets at end of year	254,289	216,808	2,173,410
Funded status	38,509	7,317	329,136
Unrecognized prior service cost	(16,467)	(17,242)	(140,743)
Unrecognized net actuarial loss	56,688	90,139	484,513
Net amount recognized	¥ 78,730	¥ 80,214	$ 672,906
Amounts recognized in the consolidated balance sheet consist of:			
Prepaid benefit cost – current	¥ 375	¥ 2,106	$ 3,205
Prepaid benefit cost – non-current	83,746	84,709	715,778
Accrued benefit liability	(9,129)	(9,319)	(78,026)
Intangible assets	1,360	1,612	11,624
Accumulated other comprehensive income, before income tax effect	2,378	1,106	20,325
Net amount recognized	¥ 78,730	¥ 80,214	$ 672,906

The accumulated benefit obligation for all defined benefit pension plans was ¥207,811 million ($1,776,162 thousand) and ¥201,629 million at March 31, 2006 and 2005, respectively.

The changes in additional minimum pension liability included in other comprehensive income, excluding tax effect, were ¥1,541 million ($13,171 thousand) and ¥55 million of losses for the years ended March 31, 2006 and 2005, respectively.

The components of net periodic benefit cost of the Company's and certain subsidiaries' plans for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service cost – benefits earned during the year	¥ 5,396	¥ 6,040	¥ 6,051	$ 46,120
Interest cost on projected benefit obligation	5,749	5,838	6,245	49,137
Expected return on plan assets	(6,525)	(6,763)	(8,214)	(55,769)
Amortization of unrecognized prior service cost	(947)	(727)	(810)	(8,094)
Amortization of unrecognized net actuarial loss	5,124	5,451	5,987	43,794
Amortization of unrecognized obligation at transition	–	–	622	–
Employees' contributions	(265)	(257)	(253)	(2,265)
Net loss on transfer of the substitutional portion of the employee pension fund liabilities	–	1,453	–	–
Net periodic benefit cost	¥ 8,532	¥11,035	¥ 9,628	$ 72,923

Details of the net loss on the transfer of the substitutional portion of the employee pension fund liabilities for the year ended March 31, 2005 is as follows:

	Millions of yen
Subsidy from government	¥(13,405)
Settlement loss:	
Derecognition of accrued salary progression	(1,064)
Recognition of unrealized actuarial loss	15,922
	¥ 1,453

The aggregate projected benefit obligation and aggregate fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Aggregate projected benefit obligation	**¥40,410**	¥33,021	**$345,385**
Aggregate fair value of plan assets	**28,940**	21,802	**247,350**

The aggregate accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Aggregate accumulated benefit obligation	**¥25,402**	¥21,600	**$217,111**
Aggregate fair value of plan assets	**16,411**	12,373	**140,265**

The weighted-average assumptions used to determine benefit obligations at March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rates	**2.5%**	2.5%
Rates of increases in future salary levels	**4.7%**	4.7%

The weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Discount rates	**2.5%**	2.5%	2.5%
Rates of increases in future salary levels	**4.7%**	4.8%	3.3%
Expected long-term rates of return on plan assets	**2.7%**	2.7%	3.0%

The overall expected long-term rates of return are calculated based on the historical returns for certain years adjusted by the target rate of return for the components of the current asset portfolio.

The weighted-average asset allocations of the Company's plan assets at March 31, 2006 and 2005 were as follows:

Asset category	2006	2005
Equity securities	**43.3%**	38.3%
Debt securities	**32.5%**	45.0%
Other	**24.2%**	16.7%
Total	**100.0%**	100.0%

Plan assets are generally invested 40%, 50% and 10% in equity securities, debt securities and other. The allocation to foreign equity and debt securities is approximately 15% of the total plan assets.

In making investment decisions, the main objective is to secure the necessary return over the long term to cover pension and retirement benefit payments. The primary investment policy is to analyze the risk/return characteristics by asset class and to invest in a diversified portfolio taking into consideration of the correlation between asset classes. The Company sets a policy asset mix with investments in equities, bonds, and alternative investments. Based on this policy, the Company selects multiple investment managers who execute the strategy. When selecting an investment manager, the Company gives consideration to management philosophy and content, investment management policy and investment style, investment control systems including information collection mechanism and decision-making process, compliance systems, investment experience and track record of the investment manager as well as their investment professional in charge of managing pension money.

As a result of the introduction of the cash-balance plan, the performance of certain plan assets is matched with the related pension benefits.

The benefits expected to be paid in the next ten years are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 9,342	$ 79,846
2008	9,822	83,949
2009	10,390	88,804
2010	10,688	91,350
2011	10,894	93,111
2012 – 2016	57,167	488,607
	¥108,303	$925,667

The amount of contributions expected to be paid to the plan during the year ending March 31, 2007 is approximately ¥2,400 million ($20,513 thousand).

12. Income Taxes

The Company files a consolidated income tax return in Japan.

Total income taxes recognized for the years ended March 31, 2006, 2005 and 2004 were applicable to the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	**¥45,608**	¥36,725	¥35,723	**$389,812**
Equity in earnings of affiliated companies	**1,855**	5,055	3,746	**15,854**
Loss from discontinued operations	**(5,314)**	(2,888)	(105)	**(45,419)**
Other comprehensive income	**44,556**	7,170	28,902	**380,821**
Total income taxes	**¥86,705**	¥46,062	¥68,266	**$741,068**

Taxes on income applicable to the Company would normally result in statutory tax rates of approximately 41%, 41% and 44% (including a temporary surtax of 2%) for the years ended March 31, 2006, 2005 and 2004, respectively. A reconciliation of the statutory income tax rates to the effective income tax rates expressed as a percentage of income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies is as follows:

	2006	2005	2004
Statutory income tax rates	**41.0%**	41.0%	44.0%
Tax effect of subsidiaries' operations	**(0.2)**	11.4	15.1
Tax effect of permanent differences	**2.3**	4.4	2.5
Difference in tax rates of foreign subsidiaries	**(9.1)**	(8.5)	(9.6)
Tax effect on undistributed earnings of subsidiaries and other	**12.9**	10.6	5.9
Other	**(1.9)**	0.7	1.5
Effective income tax rates on income from continuing operations	**45.0%**	59.6%	59.4%

The significant components of deferred tax assets and deferred tax liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 79,025**	¥ 78,377	**$ 675,427**
Inventories	**10,828**	9,631	**92,547**
Investment securities	**–**	10,616	**–**
Employees' retirement benefits	**2,634**	212	**22,513**
Unrealized profit on Intercompany transactions	**8,541**	8,506	**73,000**
Investments in affiliated companies	**–**	9,904	**–**
Net operating loss carryforwards	**44,519**	29,959	**380,504**
Other	**55,088**	42,138	**470,838**
Total deferred tax assets	**200,635**	189,343	**1,714,829**
Valuation allowance	**(32,100)**	(32,725)	**(274,359)**
Total deferred tax assets – net	**168,535**	156,618	**1,440,470**

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax liabilities:			
Property, plant and equipment	¥ 52,586	¥ 31,940	$449,453
Investment securities	25,882	–	221,214
Undistributed earnings	11,712	4,557	100,103
Investment in affiliated companies	13,676	–	116,889
Other	9,766	10,054	83,469
Total deferred tax liabilities	113,622	46,551	971,128
Net deferred tax assets	¥ 54,913	¥110,067	$469,342

The net changes in the valuation allowance for deferred tax assets were ¥625 million ($5,342 thousand) and ¥8,249 million of decreases for the years ended March 31, 2006 and 2005, respectively.

At March 31, 2006, certain subsidiaries had net operating loss carryforwards amounting to ¥119,536 million ($1,021,675 thousand), subject to expiration as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 18,066	$ 154,410
2008	7,970	68,120
2009	8,061	68,897
2010	8,208	70,154
2011	10,040	85,812
2012 and thereafter	41,993	358,915
Indefinite period	25,198	215,367
Total	¥119,536	$1,021,675

No provision has been made for Japanese income taxes on the undistributed earnings of the Company's domestic subsidiaries earned prior to March 31, 1993 or on part of the undistributed earnings of the Company's foreign subsidiaries with no distribution plan, which amounted to ¥89,588 million ($765,709 thousand) and ¥134,116 million at March 31, 2006 and 2005, respectively. The Company considers such earnings to be permanently invested. Determination of the amount of the related unrecognized deferred income tax liability is not practicable.

Realization of the Company's net deferred tax assets is dependent on the Company generating sufficient taxable income or the Company executing certain available tax strategies. Although realization is not assured, management believes it is more likely than not that the net deferred tax assets will be realized.

13. Shareholders' Equity

The amount of retained earnings available for dividends under the Japanese Commercial Code (the "JCC") is based on the amount recorded on the Company's books maintained in accordance with Japanese accounting practices. The adjustments included in the accompanying consolidated financial statements but not recorded on the books, as explained in Note 1, have no effect on the determination of retained earnings available for dividends under the JCC. Under the JCC, the unrealized gains of ¥94,172 million ($804,889 thousand) at March 31, 2006 are deducted from the net assets used in determining retained earnings available for dividends. The retained earnings available for dividends amounted to ¥65,446 million ($559,368 thousand) at March 31, 2006.

At March 31, 2006, 122,564,935 shares of common stock were reserved for conversion of Class I preferred stock issued in 2003, calculated based on the closing price of the common stock of the Company at the Tokyo Stock Exchange on March 31, 2006.

Effective October 1, 2001, the par value of the Company's shares was eliminated, as prescribed by an amendment of the JCC.

The JCC requires that an amount equal to at least 10% of cash dividends and other distributions from retained earnings paid by the Company be appropriated as a legal reserve to the extent that the total amount of additional paid-in capital and the legal reserve equals 25% of the capital stock. The amounts of additional paid-in capital and the legal reserve were ¥88,729 million ($758,368 thousand) and nil at March 31, 2006, respectively.

14. Preferred Stock

The Company is authorized to issue 100 million shares of Class I Preferred Stock and 100 million shares of Class II Preferred Stock. Both classes of preferred stock are non-voting and have equal preference with the Company's common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of the Company. However, during a period that no preferred dividends are paid preferred shareholders have a voting right per share until preferred dividends are declared. Preferred dividends are non-cumulative and non-participating. Preferred shareholders are entitled to a liquidation distribution at ¥1,000 ($8.55) per share and do not have the right to participate in any further liquidation distributions.

Class I Preferred Stock

Class I Preferred Stock is convertible into common stock at the option of preferred shareholders during a conversion period. Class I Preferred Stock will be mandatorily converted into common stock on the date immediately following the closing date of the conversion period. At the time of issuance of preferred stock, the Board of Directors determines the issue price, annual dividend (not more than ¥100 per share), and conversion terms, including a conversion period.

On December 16, 2003, the Company issued 75.5 million shares of Class I Preferred Stock at ¥1,000 per share or ¥75,500 million in aggregate. The Company allocated ¥37,750 million to preferred stock with the remainder, net of issuance costs, recognized as capital surplus based on the JCC and the decision of the Board of Directors of the Company. The annual dividend is ¥20 ($0.17) per share. At the option of the preferred shareholders, Class I Preferred Stock is convertible into common stock during the period from September 1, 2006 to December 12, 2013 at the conversion price, which is initially the average market closing price of the common stock of the Company traded on the Tokyo Stock Exchange (the "TSE") for the 30 business days starting from the 45th business day prior to the starting day of the conversion period, but not less than ¥50 ($0.43). The conversion price will then be reset annually on September 1 (the "conversion price adjustment day") of each year from 2007 to 2013 if there is a decline in the market price of the Company's common stock, but not less than 70% of the initial conversion price or ¥50 ($0.43), whichever higher. The market price above is defined as the price which is the average closing price of the common stock of the Company traded on the TSE for the 30 business days starting from 45th business day prior to the conversion price adjustment day of each year. Class I Preferred Stock shares which are not converted at the option of the shareholders will be mandatorily converted into common stock on December 13, 2013, at the conversion price determined based on the average market closing price of the common stock traded on the TSE for the 30 business days starting from the 45th business day prior to the date of mandatory conversion.

Class II Preferred Stock

Class II Preferred Stock is redeemable at the option of the Company. At the time of issuance, the Board of Directors will determine the issue price, annual dividend (not more than ¥100 per share), and redemption terms, including a redemption price.

No shares of the Class II Preferred Stock were issued and outstanding at March 31, 2006.

15. Other Comprehensive Income (Loss)

The amount of income tax expense or benefit allocated to each component of other comprehensive income (loss) for the years ended March 31, 2006, 2005 and 2004 was as follows:

	Millions of yen		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2006			
Unrealized gains on investment securities arising during period	¥110,740	¥(44,447)	¥66,293
Less: reclassification adjustments for gains included in net income	(6,652)	2,733	(3,919)
Net unrealized gains	104,088	(41,714)	62,374
Currency translation adjustments arising during period	36,706	(2,874)	33,832
Less: reclassification adjustments for losses included in net income	2,630	(326)	2,304
Net currency translation adjustments	39,336	(3,200)	36,136
Unrealized gains on derivatives arising during the period	5,603	(2,220)	3,383
Less: reclassification adjustments for gains included in net income	(6,052)	2,107	(3,945)
Net unrealized gains on derivatives	(449)	(113)	(562)
Minimum pension liability adjustment	(1,541)	471	(1,070)
Other comprehensive income	¥141,434	¥(44,556)	¥96,878

	Thousands of U.S. dollars		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2006			
Unrealized gains on investment securities arising during period	$ 946,496	$(379,889)	$566,607
Less: reclassification adjustments for gains included in net income	(56,855)	23,359	(33,496)
Net unrealized gains	889,641	(356,530)	533,111
Currency translation adjustments arising during period	313,726	(24,564)	289,162
Less: reclassification adjustments for losses included in net income	22,479	(2,787)	19,692
Net currency translation adjustments	336,205	(27,351)	308,854
Unrealized gains on derivatives arising during the period	47,889	(18,974)	28,915
Less: reclassification adjustments for gains included in net income	(51,726)	18,008	(33,718)
Net unrealized gains on derivatives	(3,837)	(966)	(4,803)
Minimum pension liability adjustment	(13,171)	4,026	(9,145)
Other comprehensive income	$1,208,838	$(380,821)	$828,017

	Millions of yen		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2005			
Unrealized gains on investment securities arising during period	¥ 42,562	¥(14,247)	¥ 28,315
Less: reclassification adjustments for gains included in net income	(28,082)	11,501	(16,581)
Net unrealized gains	14,480	(2,746)	11,734
Currency translation adjustments arising during period	(2,531)	(1,764)	(4,295)
Less: reclassification adjustments for losses included in net income	2,993	(357)	2,636
Net currency translation adjustments	462	(2,121)	(1,659)
Unrealized gains on derivatives arising during the period	10,512	(4,081)	6,431
Less: reclassification adjustments for gains included in net income	(4,330)	1,758	(2,572)
Net unrealized gains on derivatives	6,182	(2,323)	3,859
Minimum pension liability adjustment	(55)	20	(35)
Other comprehensive income	¥ 21,069	¥ (7,170)	¥ 13,899

	Millions of yen		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2004			
Unrealized gains on investment securities arising during period	¥ 87,826	¥(36,064)	¥ 51,762
Less: reclassification adjustments for gains included in net income	(14,350)	5,878	(8,472)
Net unrealized gains	73,476	(30,186)	43,290
Currency translation adjustments arising during period	(19,714)	1,911	(17,803)
Less: reclassification adjustments for losses included in net income	3,238	(682)	2,556
Net currency translation adjustments	(16,476)	1,229	(15,247)
Unrealized losses on derivatives arising during the period	361	(366)	(5)
Less: reclassification adjustments for gains included in net income	(1,000)	408	(592)
Net unrealized losses on derivatives	(639)	42	(597)
Minimum pension liability adjustment	(43)	13	(30)
Other comprehensive income	¥ 56,318	¥(28,902)	¥ 27,416

The accumulated balance of each component of accumulated other comprehensive losses at March 31, 2006, 2005 and 2004 was as follows:

	Millions of yen				
	Unrealized gains (losses) on investment securities	Currency translation adjustments	Unrealized losses on derivatives	Minimum pension liability adjustment	Accumulated other comprehensive losses
Balance at March 31, 2003	¥ (8,363)	¥(72,680)	¥(4,816)	¥ (582)	¥(86,441)
Change in the period	43,290	(15,247)	(597)	(30)	27,416
Balance at March 31, 2004	34,927	(87,927)	(5,413)	(612)	(59,025)
Change in the period	11,734	(1,659)	3,859	(35)	13,899
Balance at March 31, 2005	**46,661**	**(89,586)**	**(1,554)**	**(647)**	**(45,126)**
Change in the period	**62,374**	**36,136**	**(562)**	**(1,070)**	**96,878**
Balance at March 31, 2006	**¥109,035**	**¥(53,450)**	**¥(2,116)**	**¥(1,717)**	**¥ 51,752**

	Thousands of U.S. dollars				
	Unrealized gains (losses) on investment securities	Currency translation adjustments	Unrealized losses on derivatives	Minimum pension liability adjustment	Accumulated other comprehensive losses
Balance at March 31, 2005	**$398,812**	**$(765,692)**	**$(13,282)**	**$ (5,530)**	**$(385,692)**
Change in the period	**533,111**	**308,854**	**(4,803)**	**(9,145)**	**828,017**
Balance at March 31, 2006	**$931,923**	**$(456,838)**	**$(18,085)**	**$(14,675)**	**$442,325**

16. Earnings per 100 Shares of Common Stock

The computation of basic earnings per 100 shares of common stock is based on the weighted average number of shares of common stock outstanding during the year. The computation of diluted earnings per 100 shares is based on the weighted average number of shares of common stock outstanding plus any potentially dilutive securities.

For additional disclosures regarding convertible debentures and preferred stocks, refer to Notes 10, 13 and 14.

The following table sets forth the computation of basic and diluted earnings per 100 shares:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Numerator:				
Income from continuing operations	¥ 80,165	¥ 44,097	¥ 35,686	$685,171
Loss from discontinued operations (after income tax effect)	(6,364)	(2,850)	(1,121)	(54,393)
Net income	73,801	41,247	34,565	$630,778
Less: Preferred stock dividends	(1,510)	(1,510)	(442)	(12,906)
Net income available to common shareholders (numerator for basic earnings per 100 shares):				
Income from continuing operations	78,655	42,587	35,244	672,265
Loss from discontinued operations (after income tax effect)	(6,364)	(2,850)	(1,121)	(54,393)
Net income	72,291	39,737	34,123	617,872
Effect of dilutive securities:				
Convertible debentures	168	323	323	1,436
Preferred stock	1,510	1,510	442	12,906
Numerator for diluted earnings per 100 shares:				
Income from continuing operations	80,333	44,420	36,009	686,607
Loss from discontinued operations (after income tax effect)	(6,364)	(2,850)	(1,121)	(54,393)
Net income	¥ 73,969	¥ 41,570	¥ 34,888	$632,214
Denominator:				
Denominator for basic earnings per 100 shares – weighted average shares	1,495,360,142	1,493,231,438	1,493,219,051	
Effect of dilutive securities:				
Convertible debentures	117,229,592	119,666,048	119,666,048	
Preferred stock	215,714,286	250,000,000	117,406,406	
Denominator for diluted earnings per 100 shares – adjusted weighted average shares and assumed conversions	1,828,304,020	1,862,897,486	1,730,291,505	

	Yen			U.S. dollars
Earnings per 100 shares of common stock:				
Basic:				
Income from continuing operations	¥5,260	¥2,852	¥2,360	$44.96
Loss from discontinued operations (after income tax effect)	(426)	(191)	(75)	(3.64)
Net income	¥4,834	¥2,661	¥2,285	$41.32
Diluted:				
Income from continuing operations	¥4,394	¥2,384	¥2,081	$37.56
Loss from discontinued operations (after income tax effect)	(348)	(153)	(65)	(2.98)
Net income	¥4,046	¥2,231	¥2,016	$34.58

Dividends of Class I preferred stocks are deducted from net income for net income available to common shareholders.

The convertible debentures issued in 1996 with a rate of 0.85% and the class I preferred stock issued in 2003 were dilutive for the years ended March 31, 2006, 2005 and 2004.

17. Segment Information

The Company's operating segments by which management evaluates performance and allocates resources are classified in terms of the nature of the products and services or areas. The segments, by product and service, are managed by the divisions of the Head Office. Domestic branches and offices, and overseas corporate subsidiaries and branches operate in the respective areas and are independent operating units. Each reportable segment purchases, distributes and markets a wide variety of industrial and consumer goods including raw materials and equipment relating to a multitude of industries and, in addition, provides the related financing, insurance and other services to these operations primarily on a worldwide basis. The Company has twelve segments identified by product and service, in addition to its domestic branches and offices, and overseas corporate subsidiaries and branches. These segments are outlined as follows:

Agri-marine products: This group produces, sells and distributes food and food products of all kind such as agricultural and sea-food products, livestock, processed food and beverages and their ingredients, foodstuffs for commercial use, livestock feed, fodder grain, soybeans, wheat and sugar on a worldwide basis.

Textile: This group has an integrated value chain covering upstream through downstream areas, purchases and produces raw materials for apparel and designs and sells apparel and living products in addition to rendering distribution services on a worldwide basis.

Forest products and general merchandise: Besides selling rubber products, footwear and housing and construction materials, the group manufactures and sells paper resources, paper and paperboard, and takes part in afforestation projects both domestically and internationally.

Chemicals: This group handles a wide variety of goods ranging from petrochemical feedstocks to electronic materials and agricultural chemicals both domestically and internationally. The group is especially focusing on East Asia including China as a primary market and conducting business with well-balanced investments and trades. In the petrochemical area, the group is also focusing on the Middle-east and South Asia.

Energy: This group focuses on products related to energy such as crude oil and gas. It also enters into various businesses which benefit from the exploration of energy resources, such as retail gas stations.

Metals and mineral resources: This group produces, processes and sells non-ferrous metals both domestically and internationally, in addition to developing and selling metals and mineral resources including non-ferrous metals and raw materials for steel production internationally.

Transportation machinery: This group imports and exports transportation-related equipment, including aircraft, defense-systems, passenger automobiles, construction equipment, agricultural equipment, and marine vessels as a wholesaler and a retailer both domestically and internationally. In addition, it provides a broad range of project solution, including investment, sales financing, leasing and assistance to overseas manufacturing.

Industrial machinery and information business: This group imports and exports production machinery, environmental and industrial machinery, textile machinery, personal computers and related equipment, and medical equipment, and markets them domestically. This group is also engaged in information technology-related businesses such as: IP network infrastructures; overseas communication facilities; citizen identification-related business; mobile communication-related products; cable TV and CS broadcasting; IC tag and radio frequency identification (RFID); ASP/ISP, etc., both domestically and internationally.

Plant, power and infrastructure projects: This group develops and operates social capital and infrastructure schemes such as power plants as an independent power producer (IPP), and water supply and sewage systems both domestically and internationally. In addition, the group provides engineering, procurement and construction (EPC) services for power projects, railway and transport projects, and environment infrastructure projects covering water and sewerage and waste management. Furthermore, it provides full-line services for plant projects in the oil and gas, petrochemicals, metal-resources, steel and environment sectors from EPC services to total coordination covering project development, financing, logistics and operation and maintenance.

Development and construction: This group develops and sells condominiums, rents and leases commercial property and invests in and manages private real estate funds and investment trusts in Japan, and also develops housing and residence outside of Japan.

Finance and logistics business: This group invests in and manages investment funds and trades financial products. It also operates a forwarding business, renders logistics related consultations and invests in infrastructure projects for logistics. In addition, this group acts as an agent in the insurance business.

Iron and steel strategies and coordination: This group produces, processes and sells substantially all steel products such as steel sheets, steel pipes and special steel, and also provides value-added solution services related to this industry, through its affiliated companies such as Marubeni-Itochu Steel Inc., operating domestically and internationally.

Domestic branches and offices: Domestic branches and offices are located throughout Japan, and handle various merchandise and carry out related activities.

Overseas corporate subsidiaries and branches: Overseas corporate subsidiaries and branches are located throughout the world, primarily in North America and Europe, and handle various merchandise and perform related activities.

The Companies' operating segment information for the years ended March 31, 2006, 2005 and 2004, were as follows:

Year ended March 31, 2006	Millions of yen Agri-marine products	Textile	Forest products and general merchandise	Chemicals	Energy	Metals and mineral resources	Transportation machinery	Industrial machinery and information business
Total volume of trading transactions:								
Outside customers	¥968,325	¥354,370	¥773,076	¥746,345	¥2,188,478	¥686,579	¥764,411	¥375,148
Inter-segment	22,485	3,817	35,133	35,671	3,194	45,412	52,729	15,816
Total	¥990,810	¥358,187	¥808,209	¥782,016	¥2,191,672	¥731,991	¥817,140	¥390,964
Gross trading profit	¥ 69,323	¥ 26,366	¥ 48,109	¥ 29,605	¥ 71,478	¥ 24,392	¥ 56,214	¥ 39,144
Segment net income (loss)	¥ 5,790	¥ (1,622)	¥ 359	¥ 3,738	¥ 26,654	¥ 16,137	¥ 9,939	¥ 888
Segment assets	¥433,782	¥130,461	¥519,785	¥181,919	¥ 603,758	¥265,141	¥310,599	¥191,990
Depreciation and amortization	¥ 6,382	¥ 320	¥ 4,362	¥ 1,013	¥ 23,417	¥ 4,368	¥ 2,540	¥ 4,324
Expenditures for segment assets	¥ 5,666	¥ 120	¥ 2,577	¥ 540	¥ 166,312	¥ 2,848	¥ 1,565	¥ 2,774

Year ended March 31, 2006	Millions of yen Plant, power and infrastructure projects	Development and construction	Finance and logistics business	Iron and steel strategies and coordination	Domestic branches and offices	Overseas corporate subsidiaries and branches	Corporate and elimination	Consolidated
Total volume of trading transactions:								
Outside customers	¥676,935	¥162,838	¥18,667	¥ 869	¥133,168	¥ 834,944	¥ 2,379	¥8,686,532
Inter-segment	575	447	7,101	33	16,191	313,875	(552,479)	–
Total	¥677,510	¥163,285	¥25,768	¥ 902	¥149,359	¥1,148,819	¥(550,100)	¥8,686,532
Gross trading profit	¥ 30,680	¥ 27,643	¥ 7,064	¥ 902	¥ 5,328	¥ 79,934	¥ (14,158)	¥ 502,024
Segment net income (loss)	¥ 5,477	¥ 1,119	¥ 3,971	¥17,040	¥ 653	¥ 4,012	¥ (20,354)	¥ 73,801
Segment assets	¥582,783	¥299,669	¥97,031	¥86,075	¥ 56,516	¥ 449,213	¥ 378,350	¥4,587,072
Depreciation and amortization	¥ 9,225	¥ 2,022	¥ 250	¥ –	¥ 194	¥ 13,027	¥ 1,240	¥ 72,684
Expenditures for segment assets	¥ 216	¥ 3,867	¥ 50	¥ –	¥ 1,286	¥ 21,611	¥ 1,605	¥ 211,037

Year ended March 31, 2006	Thousands of U.S. dollars Agri-marine products	Textile	Forest products and general merchandise	Chemicals	Energy	Metals and mineral resources	Transportation machinery	Industrial machinery and information business
Total volume of trading transactions:								
Outside customers	$8,276,282	$3,028,803	$6,607,487	$6,379,017	$18,704,940	$5,868,197	$6,533,427	$3,206,393
Inter-segment	192,179	32,624	300,282	304,880	27,299	388,136	450,675	135,180
Total	$8,468,461	$3,061,427	$6,907,769	$6,683,897	$18,732,239	$6,256,333	$6,984,102	$3,341,573
Gross trading profit	$ 592,504	$ 225,350	$ 411,188	$ 253,034	$ 610,923	$ 208,479	$ 480,462	$ 334,564
Segment net income (loss)	$ 49,487	$ (13,863)	$ 3,068	$ 31,949	$ 227,812	$ 137,923	$ 84,949	$ 7,590
Segment assets	$3,707,538	$1,115,051	$4,442,607	$1,554,863	$ 5,160,325	$2,266,162	$2,654,692	$1,640,940
Depreciation and amortization	$ 54,547	$ 2,735	$ 37,282	$ 8,658	$ 200,145	$ 37,333	$ 21,710	$ 36,957
Expenditures for segment assets	$ 48,427	$ 1,026	$ 22,026	$ 4,616	$ 1,421,470	$ 24,342	$ 13,376	$ 23,709

Year ended March 31, 2006	Thousands of U.S. dollars Plant, power and infrastructure projects	Development and construction	Finance and logistics business	Iron and steel strategies and coordination	Domestic branches and offices	Overseas corporate subsidiaries and branches	Corporate and elimination	Consolidated
Total volume of trading transactions:								
Outside customers	$5,785,769	$1,391,778	$159,547	$ 7,427	$1,138,188	$7,136,274	$ 20,334	$74,243,863
Inter-segment	4,915	3,820	60,692	282	138,385	2,682,692	(4,722,041)	–
Total	$5,790,684	$1,395,598	$220,239	$ 7,709	$1,276,573	$9,818,966	$(4,701,707)	$74,243,863
Gross trading profit	$ 262,222	$ 236,265	$ 60,376	$ 7,709	$ 45,538	$ 683,197	$ (121,008)	$ 4,290,803
Segment net income (loss)	$ 46,812	$ 9,564	$ 33,940	$145,641	$ 5,581	$ 34,291	$ (173,966)	$ 630,778
Segment assets	$4,981,051	$2,561,274	$829,325	$735,684	$ 483,043	$3,839,427	$ 3,233,762	$39,205,744
Depreciation and amortization	$ 78,846	$ 17,282	$ 2,137	$ –	$ 1,658	$ 111,342	$ 10,599	$ 621,231
Expenditures for segment assets	$ 1,846	$ 33,051	$ 427	$ –	$ 10,991	$ 184,709	$ 13,719	$ 1,803,735

Year ended March 31, 2005	Agri-marine products	Textile	Forest products and general merchandise	Chemicals	Energy	Metals and mineral resources	Transportation machinery	Industrial machinery and information business
	Millions of yen							
Total volume of trading transactions:								
Outside customers	¥961,434	¥352,094	¥752,093	¥638,752	¥1,772,710	¥579,913	¥658,535	¥446,512
Inter-segment	18,421	3,217	40,284	28,721	1,241	29,361	41,404	8,975
Total	¥979,855	¥355,311	¥792,377	¥667,473	¥1,773,951	¥609,274	¥699,939	¥455,487
Gross trading profit	¥ 71,312	¥ 25,174	¥ 46,612	¥ 26,857	¥ 42,132	¥ 15,709	¥ 51,673	¥ 36,714
Segment net income (loss)	¥ 1,169	¥ 2,612	¥ 7,520	¥ 4,513	¥ 15,888	¥ 9,813	¥ 9,185	¥ (14,827)
Segment assets	¥398,517	¥119,807	¥317,678	¥167,157	¥ 390,939	¥195,110	¥290,782	¥228,563
Depreciation and amortization	¥ 6,006	¥ 216	¥ 4,250	¥ 1,087	¥ 8,716	¥ 3,367	¥ 4,292	¥ 4,697
Expenditures for segment assets	¥ 6,428	¥ 253	¥ 2,514	¥ 812	¥ 9,281	¥ 8,624	¥ 2,872	¥ 3,918

Year ended March 31, 2005	Plant, power and infrastructure projects	Development and construction	Finance and logistics business	Iron and steel strategies and coordination	Domestic branches and offices	Overseas corporate subsidiaries and branches	Corporate and elimination	Consolidated
	Millions of yen							
Total volume of trading transactions:								
Outside customers	¥665,947	¥196,330	¥ 16,951	¥ 1,152	¥126,492	¥ 768,864	¥ (1,431)	¥7,936,348
Inter-segment	514	514	4,362	35	15,500	301,348	(493,897)	–
Total	¥666,461	¥196,844	¥ 21,313	¥ 1,187	¥141,992	¥1,070,212	¥(495,328)	¥7,936,348
Gross trading profit	¥ 28,313	¥ 27,530	¥ 5,785	¥ 1,187	¥ 4,898	¥ 76,517	¥ (27,018)	¥ 433,395
Segment net income (loss)	¥ (12,027)	¥ (11,362)	¥ 4,047	¥11,534	¥ (493)	¥ 6,187	¥ 7,488	¥ 41,247
Segment assets	¥643,435	¥317,692	¥128,760	¥64,368	¥ 52,844	¥ 435,506	¥ 456,879	¥4,208,037
Depreciation and amortization	¥ 9,539	¥ 2,274	¥ 260	¥ –	¥ 164	¥ 9,462	¥ 10,028	¥ 64,358
Expenditures for segment assets	¥ 10,696	¥ 874	¥ 28	¥ –	¥ 20	¥ 18,527	¥ 477	¥ 65,324

Year ended March 31, 2004	Agri-marine products	Textile	Forest products and general merchandise	Chemicals	Energy	Metals and mineral resources	Transportation machinery	Industrial machinery and information business
	Millions of yen							
Total volume of trading transactions:								
Outside customers	¥848,868	¥349,413	¥733,909	¥538,363	¥1,994,307	¥471,211	¥704,661	¥428,600
Inter-segment	7,942	3,451	37,599	26,163	707	21,995	14,114	13,287
Total	¥856,810	¥352,864	¥771,508	¥564,526	¥1,995,014	¥493,206	¥718,775	¥441,887
Gross trading profit	¥ 61,436	¥ 23,914	¥ 42,009	¥ 24,945	¥ 30,817	¥ 12,163	¥ 49,541	¥ 31,400
Segment net income (loss)	¥ 6,957	¥ 1,753	¥ 6,253	¥ 3,326	¥ 10,113	¥ 4,258	¥ 5,625	¥ (12,506)
Segment assets	¥417,735	¥127,045	¥315,720	¥147,118	¥ 319,584	¥180,257	¥262,640	¥239,525
Depreciation and amortization	¥ 6,009	¥ 318	¥ 4,382	¥ 1,209	¥ 10,226	¥ 2,714	¥ 3,306	¥ 5,090
Expenditures for segment assets	¥ 5,946	¥ 141	¥ 2,886	¥ 724	¥ 12,308	¥ 2,907	¥ 1,808	¥ 2,511

Year ended March 31, 2004	Plant, power and infrastructure projects	Development and construction	Finance and logistics business	Iron and steel strategies and coordination	Domestic branches and offices	Overseas corporate subsidiaries and branches	Corporate and elimination	Consolidated
	Millions of yen							
Total volume of trading transactions:								
Outside customers	¥761,358	¥178,247	¥ 15,872	¥ 936	¥145,796	¥ 729,620	¥ 1,333	¥7,902,494
Inter-segment	1,986	501	2,019	14	13,450	305,994	(449,222)	–
Total	¥763,344	¥178,748	¥ 17,891	¥ 950	¥159,246	¥1,035,614	¥(447,889)	¥7,902,494
Gross trading profit	¥ 24,314	¥ 27,909	¥ 4,900	¥ 950	¥ 5,427	¥ 73,458	¥ (6,422)	¥ 406,761
Segment net income (loss)	¥ (830)	¥ (154)	¥ 2,502	¥ 4,017	¥ 718	¥ 4,809	¥ (2,276)	¥ 34,565
Segment assets	¥700,911	¥330,506	¥144,432	¥55,835	¥ 60,625	¥ 439,013	¥ 513,248	¥4,254,194
Depreciation and amortization	¥ 4,461	¥ 2,712	¥ 244	¥ 2	¥ 184	¥ 9,658	¥ 2,770	¥ 53,285
Expenditures for segment assets	¥ 3,384	¥ 608	¥ 13	¥ –	¥ 56	¥ 31,935	¥ 1,251	¥ 66,478

The accounting policies of the reportable segments are the accounting principles generally accepted in Japan.

Corporate and elimination includes differences in accounting principles generally accepted in Japan and those in the United States. The principal differences are described in Note 1.

The total volumes of trading transactions are voluntarily disclosed based on the practice of the Japanese trading companies for the Japanese investors convenience.

Intersegment transactions are generally priced in accordance with the prevailing market prices.

Effective April 1, 2005, Transportation and industrial machinery segment, Utility and infrastructure segment, Plant and ship segment and Telecom and information segment were reorganized to Transportation machinery segment, Industrial machinery and information business segment and Plant, power and infrastructure projects segment. In addition, Iron and steel strategies and coordination segment, which had previously been included in Corporate and elimination due to immateriality, is shown separately for the year ended March 31, 2006. Segment information for the years ended March 31, 2005 and 2004 has been restated to conform to those changes.

The amounts for the years ended March 31, 2005 and 2004 have been reclassified to conform to the presentation required for discontinued operations under SFAS 144. The reclassifications to loss from discontinued operations (after income tax effect) are included in Corporate and elimination.

Revenues from external customers by country for the year ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
Country	2006	2005	2004	2006
Japan	¥2,228,200	¥2,232,674	¥2,072,368	$19,044,444
United States of America	462,159	404,195	429,211	3,950,077
United Kingdom	120,961	104,993	80,427	1,033,855
Other	328,525	293,701	189,214	2,807,906
Total	¥3,139,845	¥3,035,563	¥2,771,220	$26,836,282

Revenues from external customers are attributed to countries based on the location of operations.

The above revenue from external customers by country excludes those from discontinued operations based on SFAS 144. The figures for the years ended March 31, 2005 and 2004 have been reclassified to conform to this disclosure.

Revenue of a subsidiary that is legally located in Bermuda, which had been included in Other, is included in Japan, where it substantially operates, for the year ended March 31, 2006, as the materiality of the revenues increased. Figures for the years ended March 31, 2005 and 2004 have been restated to conform to this presentation.

Long-lived assets, including property leased to others, by country as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
Country	2006	2005	2006
Japan	¥ 451,139	¥481,329	$3,855,889
United States of America	279,897	115,689	2,392,282
Indonesia	159,324	1,176	1,361,744
Other	211,521	217,998	1,807,871
Total	¥1,101,881	¥816,192	$9,417,786

Revenues from external customers by product for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
Product	2006	2005	2004	2006
Machinery	¥ 538,525	¥ 536,028	¥ 418,960	$ 4,602,778
Energy	88,831	48,842	38,300	759,239
Metals	327,631	299,195	255,300	2,800,265
Chemicals	668,266	696,714	594,733	5,711,675
Forest products and general merchandise	381,176	331,386	343,215	3,257,915
Agri-marine products	681,071	662,389	623,150	5,821,120
Textile	322,862	314,568	327,246	2,759,504
Development and construction	131,483	146,441	170,316	1,123,786
Total	¥3,139,845	¥3,035,563	¥2,771,220	$26,836,282

There is no concentration by customer.

The above revenue from external customers by product excludes those from discontinued operations based on SFAS 144. The figures for the years ended March 31, 2005 and 2004 have been reclassified to conform to this disclosure.

18. Foreign Currency Transactions

Net foreign currency transaction gains and losses included in other income-net amounted to ¥5,358 million ($45,795 thousand) and ¥2,713 million of gains for the years ended March 31, 2006 and 2005, respectively, and ¥5,087 million of loss for the year ended March 31, 2004.

Net foreign currency transaction gains and losses include translation gains and losses resulting from remeasuring the financial statements of certain subsidiaries in highly inflationary economies into Japanese yen.

19. Financial Instruments

Risk management

Substantially all the derivative instruments which the Company and certain of its subsidiaries hold are utilized to hedge related market risks, and gains and losses on the derivative instruments are offset against losses and gains on the hedged assets and liabilities. The Company and certain of its subsidiaries also enter into derivative transactions for trading purposes. The Company has internal regulations regarding positions and loss limits and the actual positions and gains/losses are periodically reported to management. Although the Company and certain subsidiaries are exposed to credit risks in the event of nonperformance by the counterparties, such risks are minimized by avoiding a concentration of counterparties, selecting counterparties with high credit ratings and maintaining strict credit control.

The Company and certain of its subsidiaries have separate departments which confirm both each financial transaction and month-end outstanding balances directly with the counterparties from the departments which execute them. In addition, the Company has as its “middle-office” a “Risk Management Division,” in its Tokyo Head Office. The Risk Management Division independently analyzes various risks and exposures, reports the results of the analysis, and monitors and controls financing activities comprehensively. Furthermore, the Risk Management Division obtains derivative transaction data from the financial subsidiaries and foreign corporate subsidiaries, reports to management periodically in cooperation with the related departments, and strengthens the Company’s unified global control over derivative transactions.

Foreign exchange contracts

The Company and certain of its subsidiaries conduct business in various foreign currencies and enter into foreign exchange contracts principally to hedge foreign currency denominated transactions and receivables and payables to minimize the effect of foreign currency fluctuations. Gains and losses related to the hedge ineffective portion and related to the portion of hedging instruments excluded from assessment of hedge effectiveness were not significant for the years ended March 31, 2006, 2005 and 2004.

Interest rate swap agreements, including interest rate and currency swap agreements

The Company and certain of its subsidiaries enter into interest rate swap agreements primarily to change the fixed interest rates on the principal of certain debt securities, loans receivable, short-term loans and long-term debt to floating interest rates. Gains and losses related to the hedge ineffective portion and related to the portion of hedging instruments excluded from assessment of hedge effectiveness were not significant for the years ended March 31, 2006, 2005 and 2004. In addition, the Company and certain of its subsidiaries enter into interest rate swap agreements for trading purposes on a limited basis.

Commodity futures and forward contracts

The Company and certain of its subsidiaries enter into commodity futures and forward contracts principally as a means of hedging the risks associated with certain inventories, commitments and forecasted transactions. Gains and losses related to the hedge ineffective portion and related to the portion of hedging instruments excluded from the assessment of hedge effectiveness were not significant for the years ended March 31, 2006, 2005 and 2004.

Other derivative instruments

The Company and certain of its subsidiaries utilize options and other contracts primarily to hedge the risks associated with changes in interest rates and exchange rates. Gains and losses related to the hedge ineffective portion and related to the portion of hedging instruments excluded from assessment of hedge effectiveness were not significant for the years ended March 31, 2006, 2005 and 2004. In addition, the Company and certain of its subsidiaries enter into other derivative contracts for trading purposes on a limited basis.

Fair value of financial instruments

The estimated fair value of the financial instruments of the Companies has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange.

The following methodologies and assumptions were used by the Companies in estimating the fair value disclosures of the financial instruments:

Cash and cash equivalents, and time deposits: the carrying amounts of the cash and cash equivalents, and time deposits reflected in the consolidated balance sheets approximate their fair value.

Investment securities, securities and other investments: the fair value of marketable equity securities is based on quoted market prices. The carrying amount of the marketable equity securities reflected in the balance sheets represents their fair value. The fair value of investments in debt securities is based on quoted market prices or estimated using discounted cash flow analyses, based on the estimated current rates offered to the issuers for securities with similar terms and remaining maturities. It was not practicable to estimate the fair value of the investments other than marketable equity securities and debt securities without incurring excessive costs. The carrying amount of the portion of the portfolio for which fair value could not be estimated was ¥256,748 million ($2,194,427 thousand) and ¥238,806 million at March 31, 2006 and 2005, respectively, and represents the cost of this portion of the portfolio, which management believes is not impaired.

Non-marketable securities of ¥171,649 million ($1,467,085 thousand) and ¥167,362 million, included in the above at March 31, 2006 and 2005, respectively, included those securities that were not evaluated for impairment because the Company did not identify any events or changes in circumstances that might have had a significant adverse effect on the fair value of those investments, in the amounts of ¥157,395 million ($1,345,256 thousand) and ¥166,742 million at March 31, 2006 and 2005, respectively.

Long-term notes, loans and accounts receivable – trade: the fair value of long-term notes, loans and accounts receivable – trade is estimated using discounted cash flow analyses, based on the interest rates currently being offered to borrowers for similar long-term notes, loans and accounts receivable – trade with similar credit ratings.

Short-term loans: the carrying amount of the short-term loans reflected in the accompanying consolidated balance sheets approximates their fair value.

Long-term debt: the fair value of long-term debt is estimated using discounted cash flow analyses, based on the current borrowing rates for borrowing arrangements with similar terms and remaining maturities.

Foreign exchange contracts: the fair value of foreign exchange contracts is estimated based on the quoted market prices of comparable contracts, adjusted where necessary for maturity differences.

Interest rate swap agreements: the fair value of interest rate swap agreements is estimated using discounted cash flow analyses, based on the current swap rates for interest rate swap agreements with similar terms and remaining periods.

Commodity futures and forward contracts: the fair value of commodity futures and forward contracts is estimated based on the quoted market prices of comparable contracts, adjusted where necessary for maturity differences.

The carrying amounts and fair value of financial instruments and the derivative instruments at March 31, 2006 and 2005 were as follows (amounts in parentheses represent liabilities):

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		2006	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Short-term investments in debt securities	¥ 6,579	¥ 6,583	¥ 28,949	¥ 29,020	$ 56,231	$ 56,265
Long-term investments in debt securities	38,475	39,272	37,512	38,328	328,846	335,658
Long-term notes, loans and accounts receivable – trade (less allowance for doubtful accounts)	132,799	132,211	186,096	186,832	1,135,034	1,130,009
Long-term debt	(2,099,389)	(2,104,303)	(2,128,223)	(2,154,141)	(17,943,495)	(17,985,496)
Derivative instruments – assets:						
Interest rate swap agreements	9,265	9,265	22,095	22,095	79,188	79,188
Foreign exchange contracts	7,754	7,754	3,411	3,411	66,274	66,274
Commodity futures and forward contracts and other	26,513	26,513	76,810	76,810	226,607	226,607
Derivative instruments – liabilities:						
Interest rate swap agreements	(13,188)	(13,188)	(6,031)	(6,031)	(112,718)	(112,718)
Foreign exchange contracts	(1,258)	(1,258)	(2,427)	(2,427)	(10,752)	(10,752)
Commodity futures and forward contracts and other	(43,937)	(43,937)	(80,748)	(80,748)	(375,530)	(375,530)

20. Concentration of Credit Risk

Although the Companies operate as a general trading business, their fields of business comprise export, import, domestic and offshore trading in a wide variety of industrial, agricultural and consumer products, and also involve all levels of the production process from planning, investment, and research and development, through production, distribution and marketing. In addition, the Company operates in substantially all geographic areas of the world, and their customers are diversified. Accordingly, management of the Company believes there is no significant concentration of credit risk among its customers or in its investments. The Company requires collateral to the extent considered necessary.

21. Leases

Lessor:
The Company and certain of its subsidiaries lease containers, vessels and certain other assets, some of which are classified as direct financing leases. Net investments included in Notes, loans and accounts receivable – trade in the accompanying consolidated balance sheets at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Total minimum lease payments to be received	¥ 39,042	¥ 30,985	$ 333,692
Less unearned income	(12,652)	(10,878)	(108,136)
Net investments in direct financing leases	¥ 26,390	¥ 20,107	$ 225,556

The total minimum lease payments to be received by year at March 31, 2006 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 5,810	$ 49,658
2008	5,181	44,282
2009	4,758	40,667
2010	4,121	35,222
2011	3,313	28,316
Thereafter	15,859	135,547
Total	¥39,042	$333,692

The Company and certain of its subsidiaries also lease power stations, containers, office buildings and certain other assets under operating leases. The cost and accumulated depreciation of the leased property at March 31, 2006 and 2005 are shown on the accompanying consolidated balance sheets. At March 31, 2006, the future minimum rentals to be received on non-cancelable operating leases were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 34,114	$ 291,573
2008	28,894	246,957
2009	24,866	212,530
2010	21,029	179,735
2011	19,247	164,504
Thereafter	127,137	1,086,641
Total	¥255,287	$2,181,940

Lessee:

The Company and certain of its subsidiaries lease containers, office equipment and certain other assets, some of which are classified as capital leases. At March 31, 2006, the cost and accumulated depreciation of the leased property, included primarily in Property, plant and equipment in the accompanying consolidated balance sheets, are ¥36,964 million ($315,932 thousand) and ¥13,417 million ($114,675 thousand), respectively.

The total future minimum lease payments under capital leases by year together with the capital lease obligations at March 31, 2006 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 6,825	$ 58,333
2008	4,384	37,470
2009	3,209	27,427
2010	1,791	15,308
2011	1,229	10,504
Thereafter	7,774	66,445
Total minimum lease payments	25,212	215,487
Less amount representing interest	(3,965)	(33,889)
Capital lease obligation	¥21,247	$181,598

The Company and certain of its subsidiaries also lease containers, communication facility, vessels and certain other assets under operating leases. Rental expense amounted to ¥19,038 million ($162,718 thousand), ¥17,855 million and ¥19,448 million for the years ended March 31, 2006, 2005 and 2004, respectively.

At March 31, 2006, the future minimum rental payments under non-cancelable operating leases were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥13,817	$118,094
2008	11,602	99,162
2009	10,171	86,932
2010	7,257	62,026
2011	6,721	57,444
Thereafter	23,213	198,402
Total	¥72,781	$622,060

The future minimum rentals to be received under noncancelable subleases corresponding to the above future minimum rental payments were not significant at March 31, 2006.

22. Commitments and Contingent Liabilities

The Company had commitments to make additional investments or loans in aggregate amounts of approximately ¥40,000 million ($341,880 thousand) and ¥53,000 million at March 31, 2006 and 2005, respectively.

The Company guarantees debt of affiliated companies and third parties in the ordinary course of business. Should the guaranteed parties fail to make payments, the Company would be required to make such payments under these guarantees. The term of the guarantees is basically one year. The related guarantee fees are primarily received quarterly or semi-annually. The outstanding balances of guarantees (maximum potential amount of payment) were ¥121,809 million ($1,041,103 thousand) and ¥114,052 million, including ¥63,237 million ($540,487 thousand) and ¥58,506 million to affiliated companies, at March 31, 2006 and 2005, respectively. The amounts secured by secondary guarantees issued for the Company by other parties were ¥21,206 million ($181,248 thousand) and ¥17,246 million, including ¥20,891 million ($178,556 thousand) and ¥16,731 million to affiliated companies at March 31, 2006 and 2005, respectively.

The major parties who have received the Companies' guarantees and the amounts of guarantees, net of the amounts secured by guarantees issued by other parties, at March 31, 2006 and 2005 are as follows:

Guaranteed party	Millions of yen	Thousands of U.S. dollars
March 31, 2006:		
Daishowa-Marubeni International Ltd.	**¥ 20,891**	**$178,556**
Sakhalin Oil and Gas Development Co., Ltd.	**18,937**	**161,855**
Taweelah Asia Power Company	**8,670**	**74,103**
Thai Cold Rolled Steel Sheet Public Co. Ltd.	**8,228**	**70,325**
PT Indocement Tunggal Prakarsa Tbk.	**7,699**	**65,803**
Marubeni-Itochu Steel Inc.	**4,534**	**38,752**
Nippon Asahan Aluminium Co., Ltd.	**3,208**	**27,419**
Other	**28,436**	**243,042**
Total	**¥100,603**	**$859,855**
March 31, 2005:		
Daishowa-Marubeni International Ltd.	¥16,731	
Sakhalin Oil and Gas Development Co., Ltd.	10,163	
Thai Cold Rolled Steel Sheet Public Co. Ltd.	8,092	
Marubeni-Itochu Steel Inc.	5,085	
Braspetro Oil Services Company	4,463	
PT Indocement Tunggal Prakarsa Tbk.	4,159	
Marubeni-Itochu Steel America Inc.	3,571	
Other	44,542	
Total	¥96,806	

The liabilities recognized for the guarantees were ¥1,491 million ($12,744 thousand) and ¥1,281 million at March 31, 2006 and 2005, respectively.

The Company, its subsidiaries and affiliated companies conduct business activities on a global scale and are involved in transactions which are subject to review and jurisdiction by a wide range of authorities, both in Japan and abroad. Such business activities are not without risk and, from time to time, may involve legal actions, claims or other disputes. Although there are various matters pending at any one time, management is of the opinion that settlement of all such matters pending at March 31, 2006 would not have a material effect on the consolidated financial position or results of operations of the Companies.

23. Subsequent Events

At the June 23, 2006 annual meeting, the shareholders approved the payments of cash dividends of ¥5 ($0.04) per share of common stock or ¥8,037 million ($68,692 thousand) in aggregate and of ¥10 ($0.09) per share of Class I preferred stock issued in 2003 or ¥755 million ($6,453 thousand) in aggregate.

ERNST & YOUNG

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Report of Independent Auditors

The Board of Directors and Shareholders
Marubeni Corporation
(Marubeni Kabushiki Kaisha)

We have audited the accompanying consolidated balance sheets of Marubeni Corporation (the "Company") as of March 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 consolidated financial position of Marubeni Corporation at March 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in the United States.

We have also reviewed the translation of the financial statements mentioned above into United States dollars on the basis described in Note 1. In our opinion, such statements have been translated on such basis.

Ernst & Young ShinNihon

April 26, 2006
except for paragraph 1 of Note 23, as to which date is
June 23, 2006

Management Policies at Marubeni

Company Doctrine

Taking up the spirits of "Fairness, Innovation, Harmony," the Marubeni Group aims to proudly contribute to the economy and society though fair and upright corporate activities.

Management policy

- The Group with a solid "win-win"customer relationship, providing high quality merchandise, services and functions from the customers' standpoint.
- The Group with social contribution and sustainable growth, taking change of business environment in advance, through-out persistent challenge and innovation.
- The Group with stable revenue base, by piling up prime assets and pursuit of efficiency.

Business Strategy

Pursuing CSR prioritized management, balancing "Defensive" and "Offensive".

Measures

- Prioritizing allocation of management resources into strategic fields
- Reinforcement of portfolio Management
- Reinforcement of Risk Management
- Application and development of Human Resources
- Enhancing CSR and Internal Control
- Pursuing comprehensive strength with cross divisional function

Corporate Data

Founded
1858

Incorporated
December 1, 1949

Paid-in Capital
¥262,685,964,870

Number of Shareholders
143,638

Number of Shares Issued and Outstanding
1,608,451,165

Number of Employees
3,562 (plus 1,647 overseas employees)

Number of Domestic Offices*
13

Number of Overseas Branches & Offices and Overseas Corporate Subsidiaries*
48 overseas branches & offices and 23 overseas corporate subsidiaries with 73 offices for a total of 121 offices in 72 countries

Major Stockholders
Japan Trustee Services Bank, Ltd. (Trust Account)
The Master Trust Bank of Japan, Ltd. (Trust Account)
Sompo Japan Insurance Inc.
The Chase Manhattan Bank N.A., London
Tokio Marine & Nichido Fire Insurance Co., Ltd.
State Street Bank and Trust Company 505103
Mizuho Corporate Bank, Ltd.
Meiji Yasuda Life Insurance Company
Nippon Life Insurance Company
Goldman Sachs International

Stock Listings
Tokyo, Nagoya, Osaka

Transfer Agent of Common Stock
Mizuho Trust & Banking Co., Ltd.

Home Page Address
http://www.marubeni.com

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(As of March 31, 2006, except * as of April 1, 2006)

Marubeni CORPORATION

http://www.marubeni.com

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Printed in Japan