# Business report & financial statements

## Fiscal Year 2006

(From April 1, 2006, to March 31, 2007)

# Sojitz Corporation

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[ Forward-looking Statements ]

This document contains forward-looking statements about Sojitz Corporation's future plans, strategies, beliefs and performance that are not historical facts. Such statements are based on the company's assumptions and beliefs in light of competitive, financial and economic data currently available and are subject to a number of risks, uncertainties and assumptions that, without limitation, relate to world economic conditions, exchange rates and commodity prices. Accordingly, Sojitz Corporation cautions readers that actual results may differ materially from those projected in this document.

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# Business Report

(From April 1, 2006 to March 31, 2007)

## 1. Current circumstances of the group

### (1) Review of progress and performance in operations

Economic climate

During the consolidated year-to-date (hereafter called FY2006), the world economy was solid despite unease at the sustainability of economic growth and geopolitical risks. In particular, the robust expansion of the BRICs countries and other emerging nations continued to uphold economies worldwide, as well as resource and product prices. While there was a worldwide significant readjustment of share prices in February 2007 out of concern regarding credit and interest rates in these regions, the upheaval proved to be temporary.

The US implemented financial measures to relieve inflationary pressure, but there were actualized signs of worry about the housing market which has led the country's sustained boom period so far. Nonetheless, employment remained strong, wages were on the increase and there was continued buoyancy of consumption, so any effects those worries may have had on financial markets was temporary, and the economy maintained a balanced growth in line with its growth potential.

In Europe, German and French capital and construction investment helped to push the whole European economy upwards, and consumer spending continued to grow steadily. Regarding currency exchange, the Euro remained strong against other currencies but the effect on exports was limited, and the European economy continued on a gentle growth trajectory.

Many countries in Asia displayed pleasing economic growth. Higher exports provided impetus to local economies, while domestic demand also continued to expand in conjunction with economic performance. A coup d'etat in Thailand in September 2006 had only limited impact on economic activity.

Meanwhile, despite a boost in efforts to arrest growth by China's central government, surging exports and dramatic growth in fixed asset investment saw a high rate of growth for the Chinese economy once again. In 2006, GDP grew by 10.7%— higher than the government's target growth rate of 8%. Similarly, India boasted a high rate of economic growth, with the manufacturing industry continuing to flex its muscle. The NIEs and ASEAN countries shared concerns of IT inventory adjustment and slowing foreign demand, but their economies still managed to progress steadily.

For its part, Japan saw strong growth in capital investment thanks to stable prices and robust corporate revenues, as well as in consumer spending and demand. These factors, combined with the repealing of the zero-interest policy by financial authorities in July 2006, served to maintain a steady economy for what is now the longest post-war growth period.

Sojitz Group performance

In FY2006, the Sojitz Group performed as outlined below.

Net Sales

In FY2006, consolidated net sales totaled 5,218,153 million yen — a 4.9% increase over the previous year. A year-on-year comparison of net sales by type of transaction shows an increase in sales revenues over all transaction types. Exports were up by 10.3% led by the Energy, Mineral Resources, Machinery & Aerospace division, while Machinery & Aerospace spearheaded an increase in import sales of 8.8%. Domestically, revenues in the Real Estate Development & Forest Products, Chemicals & Plastics division were down, but there were increases in Consumer Lifestyle Business, Energy & Mineral Resources, resulting in an overall boost of

0.3%, while internationally, the Machinery & Aerospace, Chemicals & Plastics, and Consumer Lifestyle Business worked steadily and achieved an increase of 5.6%.

When looking at sales by product division, it can be seen that the Machinery & Aerospace division was boosted by robust sales of aircraft and automotive items to an increase of 16.7%; the Energy & Mineral Resources division bolstered sales by 6.6% on the back of steady resource prices and growth in the amounts of oil and mineral resources sold; the Chemicals & Plastics division was up 5.7% on favorable market climates; while the Consumer Lifestyle Business division improved 5.3% respectively over the previous year thanks to growth in foodstuff and apparel. Conversely, while there was an improvement in forest product market conditions, a drop in sales of construction material and equipment saw a 9.4% drop in sales for the Real Estate Development & Forest Products division and a partial decline in sales of machinery in America resulted in a 6.2% decrease in sales in overseas subsidiaries as compared with the previous year.

Gross trading profit

With steady sales in the Machinery & Aerospace category of aircraft and automotive products, and in the Energy & Mineral Resources category of mineral resources and coal, as well as forest products and fertilizer, Gross trading profit reached 254,466 million yen, an increase of 5.1% over the previous year.

Operating income

While there was a rise in selling, general and administrative expenses on the back of increased personnel expenses, the improved Gross trading profit enabled us to boost operating income by 2.3% over the previous year to 77,932 million yen.

Recurring profit

Increased equity in earnings such as Metal One Corporation, better earnings on interest resulting from an improvement in Sojitz's credit rating, maturity of reserves for financial claims and improvements in other income saw Recurring profit reach 89,535 million yen, an increase of 13.7% over the previous year.

Extraordinary income and losses

Extraordinary income included: 12,952 million yen in gains on sale of securities; 11,596 million yen in gain on sale and disposal of properties; 5,259 million yen in reversal of allowance for doubtful accounts, making for a total of 30,562 million yen. Extraordinary losses included: 20,059 million yen in loss, and provision for loss, on dissolution of subsidiaries and affiliates as well as reserves; 3,957 million yen in evaluation loss on sale of investment securities making a total of 32,012 million yen. Overall, the extraordinary losses outweighed incomes by 1,449 million yen.

Net income

Net income before income taxes and minority interests for FY2006 was 88,085 million yen. From this, 18,841 million yen in income taxes current and 4,971 million yen in income taxes deferred were recorded, as well as 5,506 million yen in minority interest in income were deducted, resulting in a net income of 58,766 million yen, a 34.5% increased comparing with the previous quarter.

Below is an overview of the Sojitz Group's business by product division

Machinery & Aerospace

Automotive

Export of complete built-up (CBU) vehicles and exports of Complete Knock Down (CKD) components remained strong. In particular, exports of Subaru vehicles to Subaru Motor (Russia) and the Russian and other NIS/N Europe markets, Mitsubishi and Hyundai vehicles and knockdown components to MMC Automotriz, S.A. (Venezuela), as well as Suzuki, Mitsubishi and Isuzu finished cars to the Middle East and Africa were robust. Our upstream business involve joint ventures between strategic partners in China, India and Thailand in which Sojitz has a capital interest and Japanese parts manufacturers in order to assist Japanese auto-manufacturers in their global strategies. Meanwhile, as part of our midstream and downstream business we established a Subaru distributor in the Ukraine as a joint venture with local capital, as well as a similar set-up for Isuzu vehicles involving local capital and Isuzu Motors, thereby strengthening our overseas sales business.

Industrial Systems

The trend of strong sales of Fuji Machine Mfg. surface mounters in Southeast Asia, Brazil and India through our sales and service subsidiaries continued this year. Aiming to bolster our sales capacity and expand profits, and hoping to acquire a sales and service network and achieve optimal synergy in China, we acquired First Technology China, Ltd., a major sales agency.

Civil Aviation

Our consulting services regarding the import and sales of US Boeing aircraft contributed greatly to large purchase orders by All Nippon Airways and Japan Airlines of Boeing's strategic next-generation medium-sized aircraft, the 787 and the 737 New Generation. We also act as distributor of Canadian Bombardier commuter aircraft and business jets, and this year succeeded in clinching the private and government sectors: commuter aircraft were sold to domestic airlines and ocean patrol craft to the Japan Coast Guard. Our aircraft lease operations were also healthy, with a joint-holding deal (in which Sojitz has a 26% share) involving nine Boeing 737-800s together including Icelandair and UFJ Central Lease, in which Sojitz handles marketing and lease management on a for-fee basis, we have racked up steady gains in this unique form of operating, lease business.

Defense

After delivering the first of four Boeing AH-64D Apache helicopters to the Japan Ground Self Defense Forces in March 2006, we went on to deliver the remaining three right on time. Operating tests start this fiscal year, and preparations are underway to ensure the helicopters are ready for full use by the forces starting in 2009. The program is scheduled to continue for around twenty years.

Marine

The ocean freight market underwent an adjustment in the summer but has recovered well since the autumn to the extent that, at year's end, we saw spot transactions at high prices not seen since autumn 2003. Continued demand for new marine vessels allowed us to advance negotiations for new products in some division for delivery in 2011 and 2012. Given these circumstances, Sojitz Marine & Engineering Corporation sales of new and used vessels, charter brokerage, as well as marine material and equipment reached records in terms of increase in revenue and profit, and a large back-log of orders yet to fill cloud be increased on a grand scale. Meanwhile, our own shipping business remains robust, and we continue to invest to make a development in Sojitz fleet with an eye to the future.

<u>Energy & Mineral Resources</u>

Energy

Delays in increasing gas production in the Gulf of Mexico and stagnation in the domestic oil-product business (e.g., people buying less because of spiraling petrol prices) represented a negative aspect to the year, but the topping out of crude oil prices contributed to profits from the North Sea Field and the beginning of crude oil production in Egypt resulted in pleasing performance by upstream oil concession rights. As a result, our oil business generally progressed according to plan. LNG Japan Corporation, 50% of its capital is contributed by Sojitz, chiefly from increased dividend income from the effects of higher oil prices on concession rights held, and this in turn made a significant contribution to consolidated revenues.

Mineral Resources

Higher-than-expected prices on the molybdenum market have seen Sojitz's molybdenum mining concession in Canada performing well, which has contributed to a sharp increase in revenue. Meanwhile, expanded production by the nickel project in the Philippines, combined with higher prices, has resulted in a dramatic rise in income. Construction has begun on a second plant with a similar capacity to our current facility, approximately 10,000 tons of nickel per year, aiming to commence operations in 2009.

Commercial production at the Minerva coal mine in Australia is progressing steadily, and the purchase of extra concessions has seen a substantial increase in the volume of coal handled. Also in Australia, expansion work at our alumina project to annual increase production by 250,000 tons to 3.5 million tons was completed in July 2006, and production is currently proceeding apace. We have also begun a study for commercialization, aimed at boosting annual output in response to the projected future increase in demand for alumina.

Metal One Corporation, which is 40% owned by the Company, performed well in all steel product division supported by a remarkably strong increase in demand across all manufacturing sectors including automobiles and shipbuilding. Metal One Corporation also saw growth in steel pipes for the energy industry, which remains very buoyant worldwide, resulting in a strong increase in revenue.

<u>Chemicals & Plastics</u>

Chemicals

After the merger with Sojitz Chemical Corporation, the Group's core company in this business, new divisions have established in October 2006, in addition to existing Fertilizer & Methanol business. These include inorganic chemicals & industrial minerals, organic chemicals, specialty chemicals departments in Tokyo and Osaka, as well as fine chemicals and cosmetics. Solvents for inks, paints and thinners are domestic leading products in our organic chemicals business, and repeated price increases starting in FY2005 have made this an increasingly competitive area, but using Sojitz's domestic tank facilities to import solvents from China contributed to a rise in revenues. In the synthetic fiber raw material business, sales of terephthalic acid, (PTA) main material of polyester, and oleum for polyester textiles remained strong, particularly in Thailand and India. Our large-scale molding plastic meton business in the USA was hit by higher prices for raw materials, but improved production efficiency and a new order for big-rig US Kenworth trucks ensured a rise in revenues. Similarly, an increase in tank capacity saw sales of liquid chemicals in Vietnam lead to improved profits. In the Inorganic chemicals & industrial minerals business, exporting Sodium hydroxide to China lost its market share to cheap Chinese products, but sustained high foreign and domestic demand for caustic soda saw a rise in the volume of salt as raw material processed and caustic soda exports. Additionally, a robust global steel industry contributed to increased revenues and profits on sales of fire-proof materials, minerals and incidental materials. In the specialty chemicals business, prices of paints, inks, adhesive resins and construction materials were raised, and this rise contributed to a recovery of profitability for manufacturers. There was growth in demand, too, with car paints, environmentally-friendly paints and flooring materials and other construction items particularly prominent, while Chinese business was also healthy, which resulted in a relatively good year in this area.

Rare-earth magnets and alloys for use in batteries saw substantial growth in the hybrid car and electronics fields. Both of the bolstering of resource policies by the Chinese government and increasing of domestic demand in China doubled the price of some basic materials. Meanwhile, the fine chemicals business progressed well on the back of strong sales of petroleum refining catalysts and exports of intermediate products from India.

Plastics

Inflating of raw material prices continued in FY2006, but core group company Pla-net Corporation (name changed to Sojitz Pla-Net Corporation on April 1, 2007) was able to capitalize on burgeoning business pertaining to resins and raw materials for new computer game devices both in Japan and overseas. Indeed, this is one area in which the broad-ranging capabilities of the Sojitz Group, which has a joint venture company in China dealing in plastics compounds to fulfill its coloring and processing requirements, proves invaluable. Furthermore, in response to demand from the food industry for packaging materials that use clean, environmentally-friendly energy as a way of maximizing added value for their products, we at Sojitz have developed and released *Naruhotto*, an insulated container that keeps food hot. *Naruhotto* has been such a success that the Ministry of Economy, Trade and Industry recently awarded it a coveted place among the 100 *Japanesque Modern Collection*. While keeping boxed lunches hot is the most obvious usage, we foresee broadly expanded sales of this revolutionary new material that has the value-adding capacity to meet a range of other needs.

Fertilizer

While global prices for fertilizer raw materials remain high, there was strong market penetration of our top-quality brands and sales expansion of original brands in Thailand, the Philippines, and Vietnam, where we have our joint venture companies that manufacture and sell advanced chemical fertilizer, allowed our companies there to increase sales. The three Sojitz joint ventures boast record sales, reaching a total of 1.8 million tons in 2006, a 20% increase over the previous year..

Methanol Business

PT Kaltim Methanol Industri, a methanol manufacturer in Indonesia conducted a catalytic exchange at the beginning of the year, and accident-free, stable operations led the company to respectable production and sales of 670,000 tons for the year. There were problems with large-scale plants in the American and European markets mid-year but Asian markets reaped the benefits to the tune of the highest prices in twelve years. Indeed, Sojitz enjoyed significant growth in demand in for methanol for use in bio-diesel in our main sales territory. Southeast Asia, thus making for a pleasing market performance.

Real Estate Development & Forest Products

Condominiums

In light of current market conditions in the condominium business, the Company’s primary business in the construction and urban development segment, which were characterized by a rapid run-up in prices of land available for purchase and further polarization of sales, we continued to bolster our controls from a purchasing, planning and sales perspective and concentrated on maintaining earnings.

In the Tokyo metropolitan area, Sojitz constructed a number of rental condominium projects in Minami Senju, Higashi Shinagawa, Oji and Shiomi areas of Tokyo including Mid Southern Residence Gotenyama, an urban high-rise condominium project with 240 units, all of which have been sold. In suburban condominium projects, we worked aggressively to introduce all-electric-no-gas condominiums designed to promote the shift to energy conservation, successfully selling 400 units of the Prista (Residence I) complex in Chiba Prefecture and 105 units at ST Place Hatogaya in Saitama Prefecture.

In the Kansai region, where competition for sales is increasingly fierce, we sold 166 units of the family-oriented condominium complex Lestage Otori Kitamachi.

Moreover, we have developed an integrated brand for condominiums: Imprest. The term is a creation of our own, and signifies the pinnacle of awe-inspiring, impressive quality in living environments. Indeed, we believe that condominiums should offer sophistication, comfort and innovation, and we are inspired by our new brand to provide all of our customers with homes that trigger a sense of wonder in excess of their highest expectations.

Commercial Facility Development

Phase II expansion construction (45 new specialty stores plus a multiplex cinema) of Mallage Saga, which opened in March 2003, was completed in November 2006, and the mall is already bustling with customers. Wary of the revision of Japan’s “three urban development laws,” we plan to continue development of the Mallage series of large-scale shopping centers, as well as broaden our scope to include development of more community-centric and urban core-type shopping centers in the future.

Construction has begun on the Kobe Sanda Premium Outlet (name TBC) in Kobe City. Scheduled to open in the summer of 2007, this will be the sixth outlet mall in Japan developed, owned and managed through Chelsea Japan Co., Ltd., 30% owned by Sojitz.

Forest Products

The rise in producers’ prices for forest products led by a global increase in demand, as well as a weakened yen meant an overall rise in forest product costs from Sojitz’s perspective. Nonetheless, we were able to pass these costs along to the domestic market for most products, chiefly plywood, thus ensuring profits.

Overseas, we are striving to expand our business and commercial rights, with emphasis on Russia and China as strategic areas. Our joint-venture lumber factory in Jiangsu Province of China with Tachikawa Forest Products Co., Ltd., began operations in December 2006. We have also set up lumber firm with the aim of processing Russian forest resources in Manzhouli, China, beginning in summer 2007.

Our environmentally considerate business is beginning to flourish now, with sales of source wood certified by the Forest Stewardship Council as having been supplied through sustainable forest management, and of similarly certified wood products taking hold. We have set lofty goals for further development in this area.

Consumer Lifestyle Business

| | |
|---|---|
| Foods (Upstream) | We at Sojitz have worked to develop our businesses in upstream sectors, including trilateral transactions involving Canadian and Australian wheat, imports of rice from China, raw sugar from Thailand and Fiji, chocolate from Europe, and livestock feed ingredients from the USA and China. |
| (Midstream, Downstream) | We worked hard at our domestic business in the food arena, mainly Sojitz Foods, a specialized trading company/wholesaler with functions to develop and import foods. However, increased competition in consumer markets saw revenues dip below targets. Still, in December 2006, we entered into a joint venture agreement with Beijing San Yuan Group to set up a comprehensive food wholesale company that will offer complete distribution services for frozen, chilled and un-chilled foods in Beijing. China is fast becoming an economic powerhouse, and we anticipated further growth as the volume of deep frozen tuna sold by Dalian Global Food Corp., a group company established in Dalian in 2003, increases steadily. |
| Lifestyle | As agent for Aprica, the top brand in baby care products, we at Sojitz supply baby goods to major baby goods chains and discount retailers nationwide. Additionally, we set up an internet sales company in April 2006 and established Bonboture, an Aprica online store, in order to put our full weight behind online sales of Aprica items.<br>We at Sojitz had planned to develop our footwear retail business in Japan jointly with Payless ShoeSource, Inc., the largest footwear retailing chain in the USA, however a change in the policies to focus our business resources on leveraging their purchasing power to corner the wholesale market, we have decided to work at bolstering our efforts aimed at joint promoting our Japanese OEM business. |
| Textiles (Apparel) | In December 2006, Nichimen Infinity, a wholly-owned subsidiary of Sojitz, acquired a 35% issued shares in SS Holdings, the parent company of apparel and everyday goods retailer Shop & Shops, thus entering into a capital partnership with the firm. The shared aim is to use their considerable retail expertise to advance SPA businesses and develop new brands and business types. SS Holdings has established a wholesale and retail sales company in Shanghai through which to sell its brands, including the flagship, McGregor, and has opened new McGregor boutiques in three Isetan department stores. The future focus will be on selling the McGregor brand within China. |
| (Materials) | Sojitz Textile (Shanghai) Co., Ltd., received approval to operate in China as a commercial company in August 2006, and immediately acquired Chinese domestic sales, importing and exporting rights, thus boosting our ability to expand sales within China and trilateral trade. The textiles market is shifting its focus increasingly to China, and Sojitz Textile (Shanghai) Co., Ltd. is labouring hard to establish a system to use China as a launch pad to expand sales within that textiles market, the materials and sleepwear markets in Japan, China, Europe and the USA. |
| (Specialty Materials) | Deepening our ties with Lenzing AG (Austria), which is part of the Lenzing Group, the world's leading manufacturer of cellulose textiles, we continued to make exclusive use of TENCEL® brand rayon in cotton for apparel and sleepwear. We further plan to further develop new products and applications for home textiles using eco-friendly cellulose textiles. |
| (Bedclothes) | Sojitz took a 15% capital interest in A-Fontane Holdings Ltd. (Hong Kong), a retailer of sleepwear in Hong Kong and southern China. Using a joint bedclothes factory with enviable technological capacity to produce quality bedclothes for the Japanese market, we also aim to combine this with the functions of Sojitz Textile (Shanghai), Co., Ltd., to expand sales within China. |

Overseas Subsidiaries

| | |
|---|---|
| The Americas | Supported by a bullish domestic U.S. market, major products in our leading sectors such as machinery (i.e. rolling stock), civilian aircraft, mineral resources (chiefly iron ore), automotive products (i.e., parts distribution and assembly as well as dealerships) and commodities Nike products sold stably. Using the business environment offered by the Americas, a world leader in industrial technology, we |

are committed to redoubling our efforts to create a solid profit-earning foundation focussing on the aircraft, energy, chemical and textile segments so as to expand our advanced-technology operations.

Europe, Russian NIS

In Europe, Sojitz's traditional strengths continued to perform well: exports and imports of industrial and ship machinery remained strong, while solvent sales in Turkey also remained robust. Moreover, investments in North Sea oil and gas concessions were made in cooperation with Company headquarters, thus increasing group assets and contributing to increased group profits, and we further boosted sales of marine products inside and outside Europe. As the EU expands, so do the business opportunities, and in order to make the most of these, we at Sojitz place considerable importance on working to open up new commercial channels in Eastern Europe, Turkey, and the Russian NIS.

Asia

All countries in Asia carried on the trend of strong growth from the previous year, and with solid steps being taken towards free trade, as illustrated by Vietnam's entry into the WTO, our major business in Asia—chemicals such as raw materials for synthetic fiber, paints, and adhesives; plastics for automobiles, household appliances and office automation equipment; and foodstuffs such as wheat, livestock feed and palm and other food oils—performed solidly. We invested with confidence in overseas subsidiaries in FY2006 with the aim of securing stable revenue in the future. Accordingly, projects such as a sales joint venture with a food manufacturer in Singapore and a car assembly and sales business in Thailand were put into action, and investments were also made in Vietnam, a country of increasing strategic importance, and India, which is enjoying stellar economic growth. We at Sojitz look forward to continuing our Asian investments in the future.

China Region

The Chinese market maintains a high rate of growth, and we achieved an expansion in sales in areas such as basic-material-producing chemical plants, resources, industrial minerals as well as organic and specialty chemical materials in response to rampant domestic Chinese demand. In FY2006 we ventured further into mainland China with our businesses supplying plastics for home appliances and office automation equipment than we have ever achieved before.

<u>Other businesses</u>

IT

Nissho Electronics Corporation, a consolidated Sojitz subsidiary, experienced a drop in sales as a result of more stringent material management policies (to wit, the company shifted focus from low-profit products to more profitable items) but its telecom carrier solutions remained popular. Overall, Nissho Electronics managed to raise its Gross trading profit and, thanks to further improvements to management efficiency, succeeded in increasing Recurring profit as well.

Elsewhere, in the amine and other content sector, Sojitz continues to develop its content planning, production, procurement, and distribution domestically and internationally through a range of activities such as the capital investment in A.D. Vision, Inc., the leading distributor of Japanese anime in the USA and operation of a joint investment company established with Index Corporation, which aims to evolve its own global mobile content and media business.

Environment

In order to ensure correct processing of industrial waste and improve work processes in this area, the Ministry of the Environment aims to boost the spread of its “electronic manifest” from the current 4% to 50% by 2010. We at Sojitz have offered a manifesto administration ASP service for major corporations since 2003. This fiscal year, we are working to overhaul the system and establish it as the defacto-standard system for the steel and scrap tire industries, and to promote computerization among the construction industry.

[Consolidated Sales by transaction type] (Millions of yen)

| | FY2006 | | FY2005 | | Year-on-year | |
|---|---|---|---|---|---|---|
| | Apr. 2006 to Mar. 2007 | Composition ratio (%) | Apr. 2005 to Mar. 2006 | Composition ratio (%) | Change | Rate of change (%) |
| Export | 842,546 | 16.2 | 764,204 | 15.4 | 78,342 | 10.3 |
| Import | 1,321,336 | 25.3 | 1,214,944 | 24.4 | 106,392 | 8.8 |
| Domestic | 2,014,624 | 38.6 | 2,008,210 | 40.4 | 6,414 | 0.3 |
| International | 1,039,645 | 19.9 | 984,699 | 19.8 | 54,946 | 5.6 |
| Total | 5,218,153 | 100.0 | 4,972,059 | 100.0 | 246,094 | 4.9 |

[Consolidated Sales by business segment] (Millions of yen)

| | FY2006 | | FY2005 | | Year-on-year | |
|---|---|---|---|---|---|---|
| | Apr. 2006 to Mar. 2007 | Composition ratio (%) | Apr. 2005 to Mar. 2006 | Composition ratio (%) | Change | Rate of change (%) |
| Machinery, aerospace | 1,118,192 | 21.4 | 958,343 | 19.3 | 159,849 | 16.7 |
| Energy, mineral resources | 1,286,934 | 24.7 | 1,207,031 | 24.3 | 79,903 | 6.6 |
| Chemicals, plastics | 668,737 | 12.8 | 632,861 | 12.7 | 35,876 | 5.7 |
| Real estate development, forest products | 380,340 | 7.3 | 419,746 | 8.4 | (39,406) | (9.4) |
| Consumer Lifestyle Business | 913,833 | 17.5 | 868,055 | 17.5 | 45,778 | 5.3 |
| Overseas Subsidiaries | 720,832 | 13.8 | 768,547 | 15.4 | (47,715) | (6.2) |
| Others | 129,283 | 2.5 | 117,474 | 2.4 | 11,809 | 10.1 |
| Total | 5,218,153 | 100 | 4,972,059 | 100 | 246,094 | 4.9 |

Note: See (5) Major business segments of the Sojitz Group for main products handled by each business unit.

## (2) Financing

### 1) Financing

The Sojitz medium-term business plan, entitled *New Stage 2008*, sets forth a financial strategy that involves a basic policy aimed at improving the stability of our financing structure. To that end, we have implemented policies aimed at achieving a liquidity ratio of at least 120% and a long-term financing ratio of approximately 70%, both of which are targets for the period ended March 2009, the final year of the plan. In terms of direct financing, continuing the trend of FY2005, we sourced funds from the public bond market in FY2006 as well, issuing a total of 75 billion yen in public bonds over four occasions following an issue of 15 billion yen in August 2006. In terms of indirect financing, we worked aggressively to switch from short-term funds to long-term, taking out a total of 81.7 billion yen in syndicated loans so as to ensure a stable, efficient financing structure.

Additionally, as part of our drive to restructure capital through the disposal of preferred shares, we issued a total of 300 billion yen in third- and fourth-series unsecured convertible bonds in May 2006 to Nomura Securities (Bermuda). Sojitz is bound to purchase outstanding preferred shares with a total face value of 560.4 billion yen for a total of 342.92 billion yen (maximum amount depending on time of purchase: 354,128 million yen). The aim of issuing the convertible bonds is to minimize any decrease in shareholders' equity by purchasing preferred shares in accordance with the amount of capital realized by converting the bonds. The cumulative amount of those bonds converted to common shares as of March 31, 2007 was 225 billion yen; on March 30, 2007, outstanding preferred shares with a face value of 230.4 billion yen (purchased for a total of 240,920 million yen) were purchased and cancelled.

### 2) Succession of other companies' business rights and obligations upon merger or demerger

Pursuant to a board of directors' resolution on May 23, 2006, Sojitz merged with wholly-owned subsidiary Sojitz Urban Development Corporation on August 1, 2006.

Similarly, the company merged with Global Chemical Holdings, Inc., a chemical business and wholly-owned Sojitz subsidiary, as well as with wholly-owned subsidiary Sojitz Chemical Corporation on October 1, 2006 pursuant to a board of directors' resolution on June 30, 2006.

### 3) Acquisition or disposition of other companies' shares, other equity or stock acquisition rights

On March 28, 2007, Sojitz acquired from Japan Airlines Corporation for 3,832,500 common shares in Jalux, Inc., (out of 6,560,000 shares of common stock owned by JAL; 30% of the outstanding share total), pursuant to a board of directors' resolution on March 23, 2007, thus making Jalux an affiliate of Sojitz accounted for under the equity method.

### (3) Assets, profits and losses in the past three business years

#### 1) Sojitz Group assets, profits and losses

The group's assets, profits and losses in FY2006 and over the past three business years is as outlined below.

(Millions of yen)

| Item \ FY | FY2003 | FY2004 | FY2005 | FY2006 |
|---|---|---|---|---|
| Sales | 5,861,737 | 4,675,903 | 4,972,059 | 5,218,153 |
| Recurring profit | 48,461 | 58,088 | 78,773 | 89,535 |
| Net income/loss | (33,609) | (412,475) | 43,706 | 58,766 |
| Net income/loss per share | (172.52) | (1,876.48) | 126.21 | 85.51 |
| Total assets | 3,077,022 | 2,448,478 | 2,521,679 | 2,619,507 |
| Total shareholders' equity | 316,234 | 280,241 | 426,949 | 531,635 |
| Total shareholders' equity per share | 235.43 yen | (1,440.26) yen | (368.95) yen | 145.70 |
| Consolidated subsidiaries | 329 | 329 | 321 | 334 |
| Companies Subject to the Equity Method | 228 | 188 | 192 | 200 |

Notes: 1. On October 1, 2005, Sojitz merged with the former Sojitz Corporation, its wholly-owned subsidiary company, and following the transfer of the subsidiary's operations to Sojitz as the surviving entity, the company changed its trade name to Sojitz Corporation.
2. Amounts less than one million yen have been discarded.
3. Accounting standards issued by ASBJ are applied to calculate current net income/loss per share and net assets per share. The current net income or net deficit per share is calculated by subtracting the number of treasury shares from the average number of common shares issued during the term. Also, the net assets per share is calculated by subtracting the number of preferred shares issued by the end of the term multiplied by the issuing price from the net assets at the end of the term, and dividing it by the number of common shares issued by the end of the term with the number of treasury shares subtracted.

#### 2) Sojitz Group assets, profits and losses

The company's assets, profits and losses in FY2006 and over the past three business years is as outlined below.

(Millions of yen)

| Item \ FY | FY2003 | FY2004 | FY2005 | FY2006 |
|---|---|---|---|---|
| Sales | - | - | 1,328,787 | 2,833,207 |
| Gains on sales | 2,897 | 2,160 | 1,335 | 0 |
| Recurring profit | 164 | 186 | 19,767 | 55,316 |
| Net income/loss | 83 | (563,141) | 16,808 | 21,010 |
| Net income/loss per share | 0.43 | (2,561.51) | 48.55 | 30.57 |
| Total assets | 504,917 | 316,597 | 1,810,259 | 1,916,431 |
| Total shareholders' equity | 472,421 | 280,246 | 442,417 | 451,254 |
| Total shareholders' equity per share | 967.26 yen | (1,439.89) | (330.61) | 110.73 |

Notes: 1. On October 1, 2005, Sojitz merged with the former Sojitz Corporation, its wholly-owned subsidiary company, and following the transfer of the subsidiary's operations to Sojitz as the surviving entity, the company changed its trade name to Sojitz Corporation.
2. Amounts less than one million yen have been discarded.
3. Accounting standards issued by ASBJ are applied to calculate current net income/loss per share and net assets per share. The current net income or net deficit per share is calculated by subtracting the number of treasury shares from the average number of common shares issued during the term. Also,

the net assets per share is calculated by subtracting the number of preferred shares issued by the end of the term multiplied by the issuing price from the net assets at the end of the term, and dividing it by the number of common shares issued by the end of the term with the number of treasury shares subtracted.

### (4) Business outlook and challenges

Looking at the business climate that we at the Sojitz Group find ourselves in at present, it can be seen that risk factors such as oil prices and interest rates remain in the USA, but we predict that there will be a continuation of gentle growth.

Meanwhile, in Europe, there will be a slight, temporary slowing of the economy as the effects of a strong Euro—chiefly foreign demand—kick in.

In Asian markets, while China will beef up its macro controls its high rate of growth will continue in the run-up to the Beijing Olympics in 2008. Also, NIEs and ASEAN economies will show healthy growth, and it is foreseen that India, which is restructuring its economy, will continue to experience a high rate of growth.

We predict that the Japanese economy will maintain its economic expansion on the back of steady capital investment and rising consumer spending.

In light of this business climate, we at the Sojitz Group consider the achievement of the three pillars of our *New Stage 2008* medium-term business plan—further advancement of growth strategies, further impetus to capital and financial strategies and upgrading of the risk management systems—which began in FY2006 to be our overriding goals.

#### 1) Further advancement of growth strategies

By dividing growth strategies into three types—resource-securing, value chain and core trading—and incorporating growth strategies to expand our capabilities and business investment (our plan is to invest 300 billion yen during the period of the plan) into our three-year plan and establishing a steadfast follow-up framework, we aim to put those growth strategies into aggressive practice.

In terms of resource-securing strategies, FY2006 saw Sojitz make additional investments in North Sea oil fields and Filipino nickel projects, while value-chain strategies were manifested by capital participation in Jalux, whose strengths lie in downstream operations, as well as the establishment of a car sales company in the Ukraine in partnership with Isuzu Motors. Core trading strategies were advanced in the form of ongoing projects that leveraged Sojitz’s unique strengths.

Moving forward, we aim to expand our network in strategic countries, pursue innovative investments and bolster the network linking our Japanese and overseas sites.

Indeed, we at Sojitz are committed to using our SCVA business management techniques to withdraw from unprofitable businesses and devote our energies to areas in which we have a competitive advantage in an ongoing manner, thereby revamping our revenue structures and maintaining and expanding a high quality portfolio of businesses.

#### 2) Further impetus to capital and financial strategies

**Restructuring capital structures**

In order to restrict any future large-scale dilution of shares that may result from the conversion of preferred shares to common shares, we pursued a capital policy that entailed the purchase and cancellation of all 560.4 billion yen worth of preferred shares that are due to become convertible in May 2008 (out of a total of 576 billion yen worth outstanding at the beginning of FY2006) for a purchase price of 342.9 billion yen. We also issued 300 billion yen worth of convertible bonds in May 2006 in order to minimize any reduction in shareholders’ equity through the acquisition of external funds.

The cumulative amount of bonds converted to common shares reached 225 billion yen, and preferred shares purchased and cancelled was 240.9 billion yen, of which outstanding amounts issued was 230.4 billion yen. Therefore, preferred dividends were cut by 4.3 billion yen in FY2006.

**Improved stability of finance structures**

We are endeavoring to shift from long-term borrowings through the ongoing issuance of corporate bonds in order to diversity our borrowing means and improve the balance of long-term and Short-term loans payable. For details on borrowings in FY2006, please see section (2) 1).

**3) Upgrading of risk management**

To complement our growth strategies, we are working to bolster and upgrade the Sojitz Group's management of risk in order to ensure that growth is sustained. It is our belief that implementation of the risk management system—including rating systems, credit management standards, business investment standards, after-the-fact control systems and country-specific risk management—is a task to be performed by the entire Sojitz Group. Risk assets will continue to be kept to within 100% of shareholders' equity (our basic stance is to aim to control risk assets at around 80% of shareholders' equity). Indeed, not only are we dedicated to reinforcing internal control and compliance systems and maintaining highly transparent business management systems, we also place grave importance on ensuring we discharge our responsibility to explain our business circumstances to shareholders and other stakeholders, and you may rest assured that we will continue our efforts to ensure our corporate governance is unparalleled.

It is through these policies that we are determined to achieve our initial target under the *New Stage 2008* plan: a consolidated net income of 60 billion yen.

### (5) Major business segments of the group

The Sojitz Group is a comprehensive collection of companies involved in the manufacturing and sale of various types of products and the provision of services overseas and domestically, our chief focus being trade and the sale and purchase of goods. We also have demonstrable talent for planning and coordinating projects.

In addition, we invest in and fund a variety of businesses worldwide becoming of a major corporate group consisting of 401 subsidiaries and 208 affiliates through which to carry on our business activities (of a total of 609 related companies, 534 are part of our consolidated operations).

The following is an outline of our business segments, and their core products and services, as well as the main affiliated companies in those areas.

Business Segments (as of March 31, 2007)

| Type of business | Major products or services | Major companies |
|---|---|---|
| Machinery & Aerospace | Automobiles and car parts; auto manufacturing equipment and facilities; construction machinery; bearings; power generators; industrial machinery; marine vessels; rolling stock; airplanes and all related equipment; electronic, communication and home electronic equipment; steel manufacturing; steel, cement and chemical plants and equipment; metal processing machinery and related equipment. | • Sojitz Machinery Corporation (import/export and sale of general industrial machinery; subsidiary)<br>• Sojitz Aerospace Corporation (import/export and sale of aerospace- and defense-related equipment; subsidiary)<br>• Sojitz Marine & Engineering Corporation (sale, purchase and charter brokerage of marine vessels; import/export and domestic sale of shipping equipment and materials; subsidiary)<br>• MMC Automotriz, S.A. (sale and assembly of automobiles; subsidiary)<br>• Sojitz Aircraft Leasing B.V. (aircraft leasing; subsidiary)<br>109 subsidiaries (23 domestic, 86 overseas)<br>48 affiliates (3 domestic, 45 overseas) |
| Energy & Mineral Resources | Oil; gas; petroleum products; nuclear fuel; machinery for nuclear power generation; coal; ironstone; alloy iron (nickel, molybdenum, vanadium, rare metals); alumina; aluminum; copper; lead; zinc; tin; precious metals; machinery and equipment for offshore oil production; power generation; electricity-related equipment and materials (generation, transformation and distribution); energy and chemical projects; LNG operations, steel-manufacturing-related operations; new energy business; environment-related business. | • Sojitz Energy Corporation (sale of petroleum products; subsidiary)<br>• Ject Corporation (trading in coke, carbon and mineral products; subsidiary)<br>• Tokyo Yuso Co., Ltd. (oil storage facility management, warehousing and transportation; subsidiary)<br>• Catherine Hill Resources Pty. Ltd. (investment in coal mines; subsidiary)<br>• Sojitz Moly Resources, Inc. (invests in molybdenum mines; subsidiary)<br>• Metal One Corporation (import/export and domestic and international sale of steel-related products; affiliate)<br>• LNG Japan Corporation (LNG business and related investments; affiliate)<br>• Alconix Corporation (sale of nonferrous products, construction and electronic material; affiliate) (*1)<br>• Nissho Petroleum Gas Corporation (import and sale of LPG and petroleum products; affiliate)<br>• Japan Alumina Associates (Australia) Pty. Ltd. (alumina production; affiliate)<br>42 subsidiaries (12 domestic, 30 overseas)<br>25 affiliates (7 domestic, 18 overseas) |

| Type of business | Major products or services | Major companies |
|---|---|---|
| Chemical & Plastics | Organic chemicals; inorganic chemicals, specialty chemicals, fine chemicals; industrial salt; chemical fertilizers; cosmetics; chemical food ingredients; ceramic, mineral products; rare earth; general-purpose resins; raw materials for plastics such as engineering plastics; films and sheets for industrial, packaging or food applications; electronic materials such as liquid crystal and electrolytic copper foil; plastic moulding machinery; and other plastics products. | • Pla-Net Holdings, Inc. (plastics business holdings; subsidiary) (*2)<br>• Pla-Net Corporation (domestic and offshore trading of plastic materials and products; subsidiary) (*3)<br>• Pla Matels Corporation (domestic and offshore trading of plastic materials and products; subsidiary) (*1)<br>• Nissho Iwai Cement Corporation (sale of ceramic construction materials such as cement and ready-mix concrete; subsidiary)<br>• P.T. Kaltim Methanol Industri (sale and manufacturing of methanol; subsidiary)<br>• Thai Central Chemical Public Co., Ltd. (production and sale of fertilizers, sale of imported fertilizers; subsidiary)<br>• Arysta Lifescience Corporation (agricultural chemicals; affiliate)<br>51 subsidiaries (20 domestic, 31 overseas)<br>36 affiliates (10 domestic, 26 overseas) |
| Real Estate Development & Forest Products | Planning, construction and subdivision of condominiums; development and sale of housing sites; sale, purchase, development, lease and management of buildings; construction contracting; sale, purchase, lease, brokerage, and management of real estate; development of commercial facilities; construction materials; imported raw wood; sawmilling and wood products such as plywood and bonded wood; housing construction materials. | • Sojitz Materials Corporation (sale of construction materials; subsidiary)<br>• Sojitz Realnet Corporation (sale, purchase, brokerage of real estate; subsidiary)<br>• Sojitz General Property Management Corporation (building, condominium, commercial facility and other real estate management; subsidiary)<br>• Yoshimoto Ringyo Co., Ltd. (sale of lumber and plywood; subsidiary)<br>• New Real Creation, Inc. (Real estate purchase and sales, investment and brokerage, receivable sales; subsidiary)<br>• Sojitz Commerce Development Corporation (development, construction, operation and lease of retail property; subsidiary)<br>• Sojitz Housing Materials Corporation (sale of lumber, plywood and all types of construction materials; subsidiary)<br>• Chelsea Japan Co., Ltd. (development, ownership, leasing and management of commercial facilities; subsidiary)<br>• Tachikawa Forest Products (N.Z.) Ltd. (sawmilling and sale of lumber products; affiliate)<br>35 subsidiaries (20 domestic, 15 overseas)<br>15 affiliates (7 domestic, 8 overseas) |

| Type of business | Major products or services | Major companies |
|---|---|---|
| Consumer Lifestyle Business | Raw feathers and feather products; cotton and chemical fibers; bonded textile; knitted clothes and knit products; fibrous raw material; fibrous raw material for industrial supplies and related products; apparel; interior accessory; bedclothes, bedding and home interior accessory and related products; cereal grain; wheat flour; oils and fats; oilcake and raw materials for feed; stock farm products and marine products; farmed marine products and processed food; fruit and vegetables; frozen vegetables; frozen food; snack and candy; ingredients for snacks and candy; coffee beans; sugar; other food products and ingredients; nursery items; general merchandise; wood chips and forestry. | • Nichimen Infinity Inc. (planning, manufacturing and sale of men's, women's and children's apparel; subsidiary)<br>• Sojitz Foods Corporation (sale of sugar; glycated products; dairy products; farm, livestock and marine products; processed foods; and other foodstuffs; subsidiary)<br>• Daiichibo Co., Ltd. (manufacturing and sale of textiles, storage distribution, shopping center management; subsidiary)<br>• Sojitz General Merchandise Corporation (import/export and sale of general merchandise; subsidiary)<br>• Nissho Iwai Meat & Agri-Products Corporation (import and domestic sale of meat, gardening products and feed; subsidiary)<br>• Singapore Co., Ltd. (planning, manufacturing and sale of clothing; subsidiary)<br>• Now Apparel Ltd. (production, management and sale of secondary textile products; subsidiary)<br>• Vietnam Japan Chip Vung Ang Corporation (manufacturing and sale of wood chip and tree-planting program; subsidiary)<br>• Fuji Nihon Seito Corporation (manufacturing, refining, processing and sale of sugar; affiliate) (*1)<br>• Yamazaki-Nabisco Co., Ltd. (manufacturing of snacks and candy; affiliate)<br>• Nissho Iwai Paper & Pulp Corporation (sale of wrapping and packaging materials, containers and machinery; affiliate)<br>• P.T. Moriuchi Indonesia (manufacture of industrial fabrics; subsidiary)<br>38 subsidiaries (22 domestic, 16 overseas)<br>37 affiliates (16 domestic, 21 overseas) |
| Overseas Subsidiaries | General trading company dealing with various products, headquartered in major cities abroad. Their business activities hold a great variety. | • Sojitz Corporation of America (subsidiary)<br>• Sojitz Europe plc (subsidiary)<br>• Sojitz Asia Pte. Ltd. (subsidiary)<br>• Sojitz (Hong Kong) Limited (subsidiary)<br>• Sojitz (China) Co., Ltd. (subsidiary)<br>65 subsidiaries (all overseas)<br>20 affiliates (all overseas) |

| Type of business | Major products or services | Major companies |
|---|---|---|
| Others | Occupational-ability-related consulting; local corporation; logistic services; insurance agency services; venture capital; management and operation of corporate rejuvenation funds; IT industry-related business; content; environment-related businesses; medical equipment and healthcare; real-estate leasing; data processing; computer software development. | • Nissho Electronics Corporation (Network services; subsidiary) (*1)<br>• NextGen, Inc. (network services; subsidiary) (*1)<br>• Sojitz Kyushu Corporation (domestic local corporation; subsidiary)<br>• Sojitz Logistics Corporation (logistic services business, land, sea, and air cargo, international nonvessel operating common carrier (NVOCC) transportation; subsidiary)<br>• Sojitz Insurance Agency Corporation (insurance agency services; subsidiary)<br>• Sojitz Shared Services Corporation (occupational-ability-related consulting; subsidiary)<br>• Synergy Capital Ltd. (management and operation of corporate rejuvenation fund; affiliate)<br>• Jalux Inc. (logistics and services in the airline, airport, lifestyle and customer service sectors; affiliated) (*1)<br>• TechMatrix Corporation (IT systems and consulting; affiliate)<br>61 subsidiaries (38 domestic, 23 overseas)<br>27 affiliates (16 domestic, 11 overseas) |

Notes: (*1) Of the affiliated companies, Jalux and Nissho Electronics were listed on the first section of the Tokyo Stock Exchange, Fuji Nihon Seito was listed on the second section of the Tokyo Stock Exchange, TechMatrix, Pla Matels and Alconix were listed on JASDAQ, and NextGen was listed on the Hercules market; all as of March 31, 2007.

(*2) As of April 1, 2007, Pla-Net Holdings changed its company name to Sojitz Pla-Net Holdings, Inc.

(*3) As of April 1, 2007, Pla-Net Corporation changed its company name to Sojitz Pla-Net Corporation.

### (6) Group business locations and employees

#### 1) Sojitz Group business locations

**a. Sojitz Corporation**

| | | |
|---|---|---|
| Japan: | HQ | Tokyo |
| | Branches | Sapporo, Sendai, Nagoya, Fukuoka |
| Overseas: | Branches | Singapore, Philippines, Thailand, Malaysia, Myanmar, Pakistan, Saudi Arabia, Republic of South Africa |

**b. Subsidiaries**

| | | |
|---|---|---|
| Domestic: | Local companies | Sendai, Hamamatsu, Toyama, Fukui, Hiroshima, Fukuoka, Nagasaki, Naha |
| Overseas: | Overseas Subsidiaries | 26 countries, incl. USA, Canada, Brazil, Mexico, UK, Netherlands, Russia, UAE, India, Singapore, Malaysia, Philippines, Indonesia, Thailand, China, Taiwan, and New Zealand |

#### 2) Sojitz Group employees

| Segment | Number of employees |
|---|---|
| Machinery & Aerospace | 2,836 |
| Energy & Mineral Resources | 827 |
| Chemicals & Plastics | 4,106 |
| Real Estate Development & Forest Products | 1,308 |
| Consumer Lifestyle Business | 5,648 |
| Overseas Subsidiaries | 1,883 |
| Others | 2,236 |
| Total | 18,844 |

Sojitz Corporation employees

| Number of employees | Compared with previous year | Average age | Average term of continuous employment |
|---|---|---|---|
| 2,167 | +239 | 40.16 years old | 13.81 years |

Notes: 1. The chart above does not include 227 locally-hired overseas employees.
2. The average term of continuous employment is calculated including years spent at former Sojitz Corporation.

### (7) Major subsidiaries

#### 1) Major subsidiaries and affiliates

(Subsidiaries)

(Millions of yen, otherwise noted)

| Company | Capital | Percentage of equity participa-tion (%) | Main business activities |
|---|---|---|---|
| Sojitz Corporation of America | US$581,449,093 | 100 | Offshore trade |
| Sojitz Europe plc. | 13,240<br>£73,117,500 | 100 | Offshore trade |
| Sojitz Asia Pte. Ltd. | US$136,507,474 | 100 | Offshore trade |
| Sojitz (Hong Kong) Ltd. | HK$703,840,000 | 100 | Offshore trade |
| Sojitz Aerospace Corporation | 1,410 | 100 | Import/export and sale of aerospace- and defence-related equipment |
| Sojitz Machinery Corporation | 1,500 | 100 | Import/export and sale of general machinery |
| Sojitz Marine & Engineering Corporation | 411 | 100 | Sale, purchase and charter brokerage of vessels, Japanese sales and import/export of shipping-related equipment and materials |
| Sojitz Energy Corporation | 500 | 97.07 | Sale of petroleum products |
| Pla-Net Holdings, Inc. | 6,164 | 100<br>(*1) | Plastics business holdings |
| Pla-Net Corporation | 3,000 | 100<br>(*2) (*3) | Domestic and offshore trading of plastic materials and products |
| Pla Matels Corporation | 793 | 46.55<br>(*4) | Domestic and offshore trading of plastic materials and products |
| Sojitz Materials Corporation | 1,039 | 100 | Sale of construction materials |
| Sojitz Commerce Development Corporation | 200 | 100 | Development, construction, operation and lease of retail property |
| Sojitz General Property Management Corporation | 324 | 100 | Building, condominium, commercial facility and other real estate management |
| Sojitz Realnet Corporation | 300 | 100 | Sale, purchase, brokerage of real estate |
| Sojitz General Merchandise Corporation | 450 | 100 | Import/export and sale of general merchandise |
| Sojitz Foods Corporation | 412 | 100 | Sale of sugar; glycated products; dairy products; farm, livestock and marine products; processed foods; and other foodstuffs |
| Daiichibo Co., Ltd. | 4,000 | 100 | Manufacturing and sale of textiles, storage distribution, shopping center management |
| Nichimen Infinity Inc. | 2,946 | 100 | Planning, manufacturing and sale of men's, women's and children's apparel |
| Nichimen Fashion Co., Ltd. | 100 | 100<br>(*5) | Cotton and synthetic fabric printing, planning, processing and wholesaling of plain and dyed textiles |
| Nissho Electronics Corporation | 14,336 | 40.18 | Network services |

Notes: (*1) As of April 1, 2007, Pla-Net Holdings changed its company name to Sojitz Pla-Net Holdings, Inc.
(*2) Pla-Net Corporation is a wholly-owned subsidiary of Pla-Net Holdings.
(*3) As of April 1, 2007, Pla-Net Corporation changed its company name to Sojitz Pla-Net Corporation.
(*4) Pla Matels Corporation is 46.55%-owned subsidiary of Pla-Net Corporation.
(*5) Nichimen Fashion Co., Ltd. is a wholly-owned subsidiary of Nichimen Infinity Inc.

(Affiliates)

| Company | Common and preferred stock (Millions of yen) | Percentage of equity participation (%) | Main business activities |
|---|---|---|---|
| Metal One Corporation | 100,000 | 40 | Import/export and domestic and international sale of steel-related products |
| LNG Japan Corporation | 8,002 | 50 | LNG business and related investments |
| Jalux Inc. | 2,558 | 30 | Logistics and services in the airline, airport, lifestyle and customer service sectors |

**2) Mergers**

1. Global Chemical Holdings and Sojitz Chemical Corporation merged with Sojitz Corporation on October 1, 2006.
2. Jalux became a Sojitz affiliate upon acquisition by Sojitz of a share in Jalux from Japan Airlines on March 28, 2007.

**3) Result of mergers**

1. Sojitz now has 334 consolidated subsidiaries and 200 companies accounted for under the equity-method.
2. The business performance of the Sojitz Group in FY2006 is set forth in section (1).

### (8) Major creditors and borrowed amounts

(Billions of yen)

| Creditor | Amount outstanding |
|---|---|
| Bank of Tokyo-Mitsubishi UFJ (*2) | 163.8 |
| Mizuho Corporate Bank (*2) | 104.2 |
| Sumitomo Trust and Banking (*2) | 84.5 |
| Norinchukin Bank (*2) | 68.3 |
| Sumitomo Mitsui Banking (*2) | 48.8 |
| Development Bank of Japan (*2) | 41.5 |
| Mitsubishi UFJ Trust and Banking (*2) | 38.4 |
| Aozora Bank | 34.8 |
| Resona Bank (*2) | 31.2 |
| Shinkin Central Bank | 20.5 |

Notes: (*1) Amounts less than 100 million have been rounded down to the nearest 100 million.
(*2) Sojitz accepts that these loans may be assigned in part or in whole upon request by the lender.

## 2. Shares

### (1) Total number of shares authorized to be issued

| | | |
|---|---|---|
| Common shares: | 1,349,000,000 | (end of FY 2005: 989,000,000) |
| Class-I preferred shares | 78,900,000 | (end of FY 2005: 90,000,000) |
| Class-II preferred shares | 26,300,000 | (end of FY 2005: 33,000,000) |
| Class-III preferred shares | 1,500,000 | (end of FY 2005: 11,000,000) |
| Class-IV preferred shares | 19,950,000 | (end of FY 2005: 40,000,000) |
| Class-V preferred shares | 12,875,000 | (end of FY 2005: 15,000,000) |
| Class-VI preferred shares | 0 | (end of FY 2005: 1,000,000) |

### (2) Total number of outstanding shares

| | | |
|---|---|---|
| Common shares | 1,068,105,228 | (end of FY 2005: 404,208,888) |
| First Series Class-I preferred shares | 0 | (end of FY 2005: 6,300,000) |
| Second Series Class-I preferred shares | 0 | (end of FY 2005: 26,300,000) |
| Third Series Class-I preferred shares | 0 | (end of FY 2005: 26,300,000) |
| Fourth Series Class-I preferred shares | 0 | (end of FY 2005: 26,300,000) |
| First Series Class-II preferred shares | 0 | (end of FY 2005: 26,300,000) |
| First Series Class-III preferred shares | 1,500,000 | (end of FY 2005: 1,500,000) |
| First Series Class-IV preferred shares | 19,950,000 | (end of FY 2005: 19,950,000) |
| First Series Class-V preferred shares | 10,875,000 | (end of FY 2005: 10,875,000) |
| Second Series Class-V preferred shares | 0 | (end of FY 2005: 2,000,000) |

Notes: Increases/decreases in the total number of shares issued during FY2006, and the reasons for such changes, are as follows.

Common shares: Increase due to the exercise of stock acquisition rights attached to the bonds with stock acquisition rights: 615,804,739

Increase due to the conversion of 6,300,000 First Series Class-I preferred shares into common shares: 48,091,601

Preferred Shares: Decrease due to the conversion into common shares:

| | |
|---|---|
| First Series Class-I shares | 6,300,000 |

Decrease due to the own share purchase and cancellation:

| | |
|---|---|
| Second Series Class-I shares | 26,300,000 |
| Third Series Class-I shares | 26,300,000 |
| Fourth Series Class-I shares | 26,300,000 |
| First Series Class-II shares | 26,300,000 |
| Second Series Class-V shares | 2,000,000 |

### (3) Number of shareholders

| | |
|---|---|
| Common shares | 162,081 |
| Class-III preferred shares | 2 |
| Class-IV preferred shares | 1 |
| Class-V preferred shares | 1 |

## (4) Major shareholders

### 1) Common shares

| Shareholder | Investment in Sojitz Corporation | |
|---|---|---|
| | Shares held | Investment ratio (%) |
| Japan Trustee Services Bank(*2) | 93,611,000 | 8.76 |
| Master Trust Bank of Japan(*3) | 85,784,000 | 8.03 |
| Japan Securities Finance, Co., Ltd. | 43,178,000 | 4.04 |
| Bank of New York GCM Client Accounts EISG | 36,519,000 | 3.42 |
| Trust & Custody Services Bank(*4) | 28,650,000 | 2.68 |
| UBS AG London Asia Equities | 19,307,000 | 1.81 |
| Morgan Stanley and Co., Inc. | 16,104,000 | 1.51 |
| Nomura Trust and Banking(*5) | 13,163,000 | 1.23 |
| Goldman Sachs International | 13,017,000 | 1.22 |
| JP Morgan Chase CREF JASDEC Lending Account | 11,500,000 | 1.08 |

Notes: (*1) Share numbers less than 1000 are rounded down to the nearest thousand.
(*2) The number of the shares held by the Japan Trustee Services Bank includes 89,353,000 shares held in trust accounts.
(*3) The number of the shares held by the Master Trust Bank of Japan includes 85,321,000 shares held in trust accounts.
(*4) The number of the shares held by the Trust & Custody Services Bank includes 27,845,000 shares held in trust accounts.
(*5) The number of the shares held by Nomura Trust and Banking includes 13,163,000 shares held in trust accounts.

### 2) Class-III preferred shares

| Shareholder | Investment in Sojitz Corporation | |
|---|---|---|
| | Shares held | Investment ratio (%) |
| Lehman Brothers Asia Capital Company | 1,000,000 | 66.67 |
| Lehman Brothers Commercial Corporation Asia | 500,000 | 33.33 |

### 3) Class-IV preferred shares

| Shareholder | Investment in Sojitz Corporation | |
|---|---|---|
| | Shares held | Investment ratio (%) |
| Bank of Tokyo-Mitsubishi UFJ | 19,950,000 | 100 |

### 4) Class-V preferred shares

| Shareholder | Investment in Sojitz Corporation | |
|---|---|---|
| | Shares held | Investment ratio (%) |
| Bank of Tokyo-Mitsubishi UFJ | 10,875,000 | 100 |

## 3. Directors

### (1) Directors and corporate auditors

| Name | Position | Responsibilities | Representation of Other Companies |
|---|---|---|---|
| Akio Dobashi | Representative Director and President | | |
| Yutaka Kase | Representative Director and Executive Vice President | Adviser to the President responsible for Business Group and supervising Group Administration Dept. | |
| Masaki Hashikawa | Representative Director and Executive Vice President | Adviser to the President and corporate supervisor except for Group Administration Dept. | |
| Yasuyuki Fujishima | Representative Director and Senior Managing Executive Officer | CCO responsible for Internal Control Administration Office, Compliance Dept. and New Business Development Group | |
| Katsuhiko Kobayashi | Director and Senior Managing Executive Officer | Responsible for Risk Management Dept., Risk Management Planning Div. and Legal Dept. | |
| Yoji Sato | Director and Senior Managing Executive Officer | CFO responsible for Human Resources & General Affairs Dept., Finance Dept., and Corporate Planning Dept. | |
| Keisuke Ishihara | Director and Managing Executive Officer | Responsible for Group Administration Dept. | |
| Shigeo Muraoka | Director | | Advisor, Institute of Energy Economics, Japan |
| Yoshihiko Miyauchi | Director | | Chairman and CEO of Orix Corp., CEO of the Orix Group |
| Joji Wada | Full-time Standing Auditor | | |
| Shunsaku Yahata | Full-time Standing Auditor | | |
| Kenji Okazaki | Full-time Standing Auditor | | |
| Yoshiaki Ishida | Corporate auditor | | |
| Kazuo Hoshino | Corporate auditor | | |

Notes: 1. Shigeo Muraoka is an independent director as stipulated in Article 2 Item 15 of the Company Law.
2. Shunsaku Yahata, Yoshiaki Ishida and Kazuo Hoshino are independent corporate auditors as stipulated in Article 2 Item 16 of the Company Law.
3. Katsuhiko Kobayashi and Keisuke Ishihara retired from directors on March 31, 2007.
4. Akio Dobashi appointed Representative Director and Chairman, and Yutaka Kase appointed Representative Director and President on April 1, 2007.

### (2) Directors’ and auditors’ remuneration

(Millions of yen)

| | Directors | | Corporate auditors | | Total | | Remarks |
|---|---|---|---|---|---|---|---|
| | Number of persons to be paid | Amount | Number of persons to be paid | Amount | Number of persons to be paid | Amount | |
| Remuneration pursuant to resolution of General Shareholders’ Meeting | 9 | 336 | 5 | 122 | 14 | 458 | (*1), (*2) |
| Internal | 8 | 327 | 2 | 67 | 10 | 395 | |
| External | 1 | 9 | 3 | 54 | 4 | 63 | |

(*1) Directors’ maximum remuneration: 24 million yen per month as per a resolution at the Ordinary General Shareholders’ Meeting held on June 28, 2005 (excludes employee’s salary)

(*2) Corporate auditors’ maximum remuneration: 8.5 million yen per month as per a resolution at the Ordinary General Shareholders’ Meeting held on June 28, 2005.

Notes: The above-written amounts include the FY2006 provisions for retirement benefits for directors and auditors.

### (3) Independent directors’ concurrent positions

| Position | Name | Other organization | Concurrent position | Relationship |
|---|---|---|---|---|
| Independent director | Shigeo Muraoka | Institute of Energy Economics, Japan | Advisor | N/A |

### (4) Independent director’s and independent corporate auditors’ main activities

| Position | Name | Main activities |
|---|---|---|
| Independent director | Shigeo Muraoka | Muraoka attended all meetings of the board of directors in FY2006. A veteran of important positions throughout the economic community, Muraoka has a broad knowledge and valuable expertise about management, and he provides comment wherever necessary. |
| Independent corporate auditor | Shunsaku Yahata | Yahata attended all meetings of the boards of directors and corporate auditors in FY2006. A veteran of important positions throughout the economic community, Yahata has a broad knowledge and valuable expertise about management, and he provides comment wherever necessary. |
| Independent corporate auditor | Yoshiaki Ishida | Ishida attended 18 of 21 meetings of the board of directors in FY2006, and 13 of 14 meetings of the board of corporate auditors. A veteran of important positions throughout the economic community, Ishida has a broad knowledge and valuable expertise about management, and he provides comment wherever necessary. |
| Independent corporate auditor | Kazuo Hoshino | Hoshino attended 15 of 21 meetings of the board of directors in FY2006, and 13 of 14 meetings of the board of corporate auditors. A veteran of important positions throughout the economic community, Hoshino has a broad knowledge and valuable expertise about management, and he provides comment wherever necessary. |

### (5) Limited liability agreements with independent director and independent corporate auditors

We have executed agreements with independent director Shigeo Muraoka and independent auditors Katsuaki Ishida and Kazuo Hoshino limiting their liability to either ten million yen or the minimum liability amount stipulated in Article 425 Clause 1 of the Corporate Law, whichever is greater.

## 4. Accounting auditors

### (1) Accounting auditor's name

KPMG Azsa & Co.

Ernest and Young ShinNihon

### (2) FY2006 accounting auditors' remuneration

(Millions of yen)

| | Amount | |
|---|---|---|
| | KPMG Azsa | Earnst & Young ShinNihon |
| FY2006 remuneration | 298 | 94 |
| Total amount of monies and other financial benefits payable by Sojitz Corp. and subsidiaries to accounting auditors | 440 | 188 |

Notes: 1. The audit agreement between Sojitz Corporation and the accounting auditors does not and cannot practically distinguish between remuneration for audits stipulated by the Company Law and those stipulated by the Securities and Exchange Law. For this reason, the amount of the above item 3 includes remuneration amount for audits based on the Securities and Exchange Law.

2. A total of eleven major Sojitz Group subsidiaries, including Sojitz Corporation of America, Sojitz Europe plc., Sojitz Asia Pte. Ltd., Sojitz (Hong Kong) Ltd., Daiichibo Co., Ltd., Nichimen Infinity Inc. are subject to audits (limited to those provided for in the Corporate or Securities and Exchange Laws, or, foreign laws of the pertinent country that correspond to these) by CPAs or auditing firms (or other parties that hold qualifications that correspond to CPA or auditing firm in the pertinent foreign country) other than KPMG Azsa & Co.

### (3) Activities other than auditing

We at Sojitz entrust our accounting auditors to provide advisory services pertaining to the establishment of internal control systems regarding financial reporting, a task which constitutes activities stipulated in Article 2, Paragraph 1 of the Certified Public Accountant Law.

### (4) Guidelines for decisions to dismiss or not re-appoint accounting auditors

In the event that the board of corporate auditors deems that an accounting auditor has committed any act stipulated in Article 340, Paragraph 1 of the Company Law or otherwise causes any situation that may cause material hindrance to the auditing of Sojitz, the company shall dismiss the pertinent accounting auditors.

In addition, a director of the company shall, with the approval of or upon request by the board of corporate auditors, table a motion at a meeting of shareholders to dismiss or not re-appoint the pertinent auditor and select another suitable auditing firm.

### (5) Accounting auditors dismissed in FY2006

Ernst & Young ShinNihon

## 5. A system to ensure correct processes

### (1) Fundamental stance to governance

At Sojitz, we consider corporate governance to be a vital part of doing business. In order to keep our corporate governance robust, we are proactive in clarifying our business and disclosure responsibilities to shareholders and other stakeholders, and we strive to maintain a highly transparent management framework and implement aggressive monitoring and supervision. Through these policies we aim to continually raise group-wide profitability and maximize corporate value.

### (2) Governance

**Business management framework pertaining to decision-making, execution and supervision, and other corporate governance**

**1) Sojitz governance institutions**

**a. Organization**

Governance is overseen by the Sojitz board of corporate auditors

**b. Directors and executive officers**

The Sojitz board of directors is comprised of nine directors (two of which are independent directors). It is the highest-level decision-making organ in the company and, as such, deliberates and decides on matters of basic policy and the most important issues pertaining to the running of the Sojitz Group. The President currently chairs meetings of the board and will do so pursuant to the Articles of Incorporation until the board meeting scheduled for June 2007, alongside of the current Articles of Incorporation, however in order to reinforce our governance framework, we propose to amend the Sojitz articles of incorporation at the AGM scheduled for June 27, 2007 so that the chairman of the board will chair subsequent board meetings.

Aiming to clarify authority and responsibility by separating management decision-making and execution, and to speed up the decision-making and executive processes, we at Sojitz have an executive officer system. The term of office of directors and executive officers is limited to one year in order to better allow the company to adapt swiftly and appropriately to rapid changes in the business climate, and to more effectively clarify responsibility to management.

Shigeo Muraoka is our one independent director at present; serving on a limited-liability contract. He was selected because of his experience in a variety of important positions throughout the economic community, his noble disposition and piercing insight, and his ability to provide objective advice regarding Sojitz business. Muraoka attended all board meetings in FY2006.

While director Yoshihiko Miyauchi does not meet the criteria for “independent director” as stipulated in Article 2 Item 15 of the Company Law, we believe that his independence from Sojitz makes him an independent director.

We also have a nominating committee and remuneration committee, both headed by independent directors, that act as advisory bodies to the board of directors so as to ensure fairness and transparency in director appointment and remuneration.

**c. Corporate auditors**

The board of corporate auditors is comprised of five auditors, three of whom are independent auditors and three of whom are full-time auditors. The board is independent from the board of directors, and audits the directors' execution of their duties.

Our independent auditors are Shunsaku Yahata, Yoshiaki Ishida and Kazuo Hoshino. They were selected because of their experience in a variety of important positions throughout the economic community, their noble dispositions and piercing insight, and their broad knowledge and valuable expertise about management. Ishida and Hoshino serve on limited-liability contracts. The independent auditors' main activities have been as follows.

Yahata attended all 21 board of directors meetings in FY2006.
Ishida attended 18 of 21 board of directors meetings in FY2006.
Hoshino attended 15 of 21 board of directors meetings in FY2006.

There is close cooperation between the corporate auditors, accounting auditors and the Internal Audit Department, as illustrated by regular audit reports to corporate auditors by accounting auditors, which allows sharing of information and efficiency in auditing processes. Furthermore, the independence of accounting auditors is monitored, and the Audit Department outlines its annual audit plan and provides biennial auditing reports to the board of corporate auditors. Additionally, this cooperation is underscored by constant, interactive exchange of information. In one example, full-time corporate auditors attend audit review meetings held by the Audit Department and submit the corporate auditors' written opinions in response to the Audit Department's auditing activities.

**d. Support for independent directors and auditors**

We provide support for independent directors such as by providing information about items on the agenda of board meetings well in advance of the meetings, as well as relaying relevant reports and other pertinent matters.

The board of corporate auditors has a dedicated support organization, the Corporate Auditors' Office, which is manned by three dedicated staff to help provide information, relevant reports and other pertinent matters to independent auditors.

**e. Internal committees**

To tackle management issues that affect the entire Sojitz organization, we have established several internal committees. These are the Internal Control, Compliance, and CSR Committees.

The current Compliance Committee has taken over the functions of the former Compliance Committee as well as the Security Trade Control Committee and the Information Security Committee set up in July 2006, while the current CSR Committee has taken over the functions of the former CSR Promotion and Environment Committees. This merging has served to concentrate the work of committees that were already closely related, and aims to make the committees a more group-wide endeavor.

**2) Executives, auditing, supervision, nomination, and remuneration decisions**

**a. Supervision of executives**

We at Sojitz have the following bodies to supervise the executive branch.

- Management Committee (meets twice-monthly)

  The committee is comprised of managing directors and the heads of the Sales and Corporate Divisions, and deliberates and decides on important matters pertaining to the running of the business.

- Finance and Investment Deliberation Committee (meets twice monthly)
  The committee is comprised of managing directors and the heads of the Corporate Division, and deliberates and decides on major finance and investment opportunities.

**b. Selection of directors, remuneration decisions**

We at Sojitz have the following advisory bodies to the board of directors to help select directors and decide on remuneration.

- Nominating committee (meets twice in a year)
  Chaired by independent directors, the committee deliberates on and proposes standards and methods for the selecting and assessing director and executive officer candidates.
- Remuneration Committee (meets once in a year)
  Chaired by independent directors, the committee deliberates on and proposes standards for directors' and executive officers' remuneration, as well as systems pertaining to performance assessments and remuneration.

**c. Corporate, accounting and internal auditing**

- Corporate auditing

| | |
|---|---|
| Organization: | Board of corporate auditors |
| Staff: | Five auditors, including three independent auditors. Of the five, three are full-time, two are part-time; one of the independent auditors is full-time). |
| Procedure | Pursuant to the Corporate Audit Standards established by the board of corporate auditors and in line with audit plans and task assignments, corporate auditors attend meetings of the board of directors and other important meetings such as those of the Management and Finance and Investment Deliberation Councils. They receive reports from directors about their performance of tasks, read vital decision-making documents, and requested business reports from subsidiaries, thus auditing the company and monitoring and supervising its management.<br>In order to maintain robust corporate auditing, the board of corporate auditors has a dedicated support organization, the Corporate Auditors' Office, which is manned by three dedicated staff. |

- Accounting audit

Previously, we at Sojitz has a joint audit system for accounting audits under the Company Law (the Commercial Code up to FY2005) and the Securities and Exchange Law under which we engaged both Ernst & Young ShinNihon and KPMG Azusa & Co. However, we ended the joint auditing arrangement by terminating the contract Ernst & Young ShinNihon on October 30, 2006 with the agreement of both parties, and are now audited by KPMG Azusa & Co., alone. Details of the surviving auditing firm, its executive officers and staff working with Sojitz, as well as details of the auditing firm whose contract was terminated and its executive officers, are as follows.

The surviving auditing firm and its executive staff

| CPAs | | Auditing firm |
|---|---|---|
| Designated member | Masaji Tomiyama | KPMG Azusa & Co. |
| Executive officers | Junshi Ono | |
| | Takuichi Arai | |
| | Iwao Hirano | |

A staff of thirteen CPAs and nineteen assistant CPAs work on Sojitz accounting audits.

The terminated auditing firm and its executive officers

| CPAs | | Auditing firm |
|---|---|---|
| Designated member<br>Executive officers | Shoji Wakamatsu | Ernst & Young ShinNihon |
| | Hiroyuki Okuyama | |
| | Kenzo Oka | |

Because all the CPAs that audited Sojitz served for less than seven years, details have been omitted.

- Internal Audits

Organization: Audit Department

Staff: 30 people up to department head

Procedures: Based on an audit plan authorized by the board of directors at the beginning of each fiscal year, the department audits the Sales Divisions and Finance Department, consolidated subsidiaries and Sojitz USA, Europe and China. The domestic departments (including those that engage in hedge trading and other future transactions) and consolidated subsidiaries are audited annually; others biennially.

The Sales Division keeps a close and timely eye on trade risks. The department, together with the group companies, has a Self-inspection System, which entails repeatedly running in-house checks in order to enable them to nip problems in the bud, thereby continually promoting efficiency of processes, preventing losses and maintaining a strong focus on risk management. Under this system, a check list compiled by the Audit Department is used to conduct biannual independent checks, and areas identified as needing improvement are subjected to thorough follow-ups.

Placing emphasis on compliance, reliable financial reporting and risk management, we closely monitor audited departments to ensure that internal control systems and governance are functioning correctly. After testing and assessments, reports are furnished to the President and advice given on how to effectively improve the workplace.

After auditing, the audited departments, heads of departments and directors responsible for the corporate divisions hold an audit review meeting with the corporate auditors to report on the audited departments' business based on audit records.

Summaries of the audit reports are submitted to the President. Also, the President and Executive Vice President receive direct reports and explanations and take necessary actions at monthly audit report meetings. In order to ensure the audited departments work swiftly to improve that areas identified during audits as needing improvement, they are required to report back after three and six months, while follow-up audits are conducted to check on their progress.

**(3) Policies regarding shareholders and other stakeholder**

**1) Efforts to ensure frank shareholders meetings and unhindered exercising of voting rights**

We at Sojitz have a range of measures in place for shareholders' meetings:

- Early serving of shareholders meeting convention notices
- Avoiding holding shareholders' meetings on days on which many companies hold theirs
- Computerized exercising of voting rights
- Publishing of quarterly *Shareholders Magazine* business reports (four times publishment in a year)
- Website for non-corporate shareholders

**2) Investor relations**

At Sojitz, the Corporate Planning Department IR Section looks after investor relations (as of April 1, 2007, this section became the IR Division under the jurisdiction of the CFO). The section organizes regular seminars for analysts and institutional investors around the time our quarterly financial statements are released. Having begun holding periodic seminars for foreign investors in 2005, we now fully intend to make these a continuing part of our investor relations activities. There is also a generous range of materials—generally hand-outs from investor seminars—on the Sojitz website.

Through our website for individual shareholder and investor surveys, as well as revamping the former biannual *Business Report* into the quarterly *Shareholders Magazine* (four times publishment in a year), we at Sojitz have beefed up our shareholder relations activities to address the needs of non-institutional investors as well.

**3) Respect for stakeholders' circumstances**

- Respect for stakeholders' circumstances

  At Sojitz, we have Standards for the Compliance Code of Conduct that stipulates how we should orient our daily actions to pleasing our stakeholders and how the Sojitz Group makes the earning and maintaining the trust of stakeholders a group-wide goal.

- Environmental protection, CSR

  We at the Sojitz Group take the view that CSR is an integral part of corporate activities. In doing so, we aim to strike a balance between the economy, the environment and the community so as to best make a contribution to our stakeholders. Furthermore, we are proactive in implementing environment-minded measures such as energy and resource conservation, waste reduction, recycling and "green" purchasing, etc.. Indeed, every Sojitz employee makes an effort to reduce environmental impact, and the promotion of eco-friendly business is a group-wide target. We operate a range of businesses in a variety of fields that are conducive to protection of the natural environment.

- Disclosure of information for stakeholders

  Under the Sojitz Standards for the Compliance Code of Conduct, not only do we provide information that is legally required to be disclosed, we offer information not subject to law but still relevant in order that we might promote more accurate understanding among stakeholders and better earn their trust.

### (4) Internal control system: basic stance and implementation

#### 1) Basic stance

We at Sojitz have long striven to implement and maintain internal control systems for our regulations, organization and systems, and on May 12, 2006, the following resolution was passed at a board meeting setting forth a basic policy regarding the implementation of the System to Ensure Correct Processes.

**a. System to ensure compliance in execution of business by directors and employees**

- The Sojitz Group Compliance Code of Conduct, Standards for the Compliance Code of Conduct and the Sojitz Group Compliance Program were implemented in an attempt to ensure that all titled employees of the Sojitz Group complied with law, the Articles of Incorporation and internal regulations.
- A compliance framework was set up centered on the Compliance Committee to clarify the duties for which each department of the company is responsible, and to comply with the all relevant laws and keep abreast of any changes therein.
- Separate internal regulations were established for security trade control, prevention of insider trading and other legally sensitive areas, and an aggressive effort made to ensure compliance regarding these issues.

**b. System for storage and handling of information regarding directors' execution of business**

The Board of Directors Regulations and internal regulations pertaining to document management are to stipulate a term of storage of Board meeting minutes, collective decision documents and other important documents pertaining to directors' execution of business longer than that required by law, as well as the company department responsible for doing so, and a system established so that these can be viewed where necessary.

**c. Regulations regarding management of loss risks; other systems**

- Internal regulations and procedures were implemented to help identify and classify internal and external risks that may lead to losses, and a company department appointed to be responsible for such risk management. Through this, we aim to prevent losses and minimize any that may arise.
- Credit and business investment risks are to be evaluated and dealt with appropriately in accordance with risk management regulations. Market risks are to be minimized as much as possible in line with relevant regulations. Regulations and manuals are to be prepared for natural disaster contingencies.
- The various internal regulations and procedures implemented are to be subjected to ongoing checks as to their efficacy, and improvements made where necessary. In the event that any new risk may arise as a result of changes in the business climate, internal regulations are to be implemented swiftly to deal with them, and a person and department appointed to be responsible.

**d. System to ensure efficient execution of directors' business**

- Assignment of directors' and executive officers' roles and departments' tasks, chain of command, authority and decision-making rules are to be clearly established.
- Important matters to be decided on by the board of directors are to be clearly defined by the Board of Directors Regulations, and a management committee and other deliberation councils and committees formed in order to deliberate and decide on such important matters and areas. Matters which are to be reported to the board of directors shall also be clearly defined by the Board of Directors Regulations, and the pertinent parties caused to make such reports.
- Management policies are to be promptly communicated throughout the company via the Management Committee or Corporate Planning Department, and the company will endeavor to ensure thorough awareness among titled employees by oral and written means.

**e. System to Ensure Correct Processes throughout the Sojitz Group**

- The Group Administration Department* will host a section dedicated to the administration and operation of the Sojitz Group companies. This will help ensure healthy management of the group companies and offer a boost for the Audit Department by conducting internal audits of group companies and assessing the correctness of their business.
  *NB: The Group Administration Department was incorporated into the Corporate Planning Department in April 2007, and its functions transferred to the CPD.
- The Compliance Code of Conduct and Program apply to the whole group, and all group companies are expected to comply.
- Group companies' business processes are to be inspected and strengthened with an eye to assessing internal control systems pertaining to consolidated financial reporting.

**f. Corporate auditors' staff and a system to ensure their independence from directors**

A Corporate Auditors Office is to be established and staffed as necessary in order to help the corporate auditors with their work. The staff will perform their work in line with corporate auditors' instructions, and assessments and transfers of such staff shall require the approval of the corporate auditors.

**g. System for directors', employees' and other reports to corporate auditors**

- The Board of Directors Regulations shall stipulate that any director that makes a discovery of something which may cause significant damage to Sojitz shall promptly report to the corporate auditors. Upon completion of investigation by the Audit Department, a copy of the internal audit report shall be distributed to the corporate auditors.
- The board of corporate auditors may demand reports where necessary from accounting auditors, directors or other persons.

**h. System to otherwise ensure the efficacy of corporate auditing**

- Corporate auditors shall attend meetings of the board of directors and shall offer their opinions as necessary. They may also attend important meetings such as those of the Management Committee so as to be directly privy to proceedings from deliberations regarding important matters to reports.
- The representative director shall meet regularly with the corporate auditors and exchange opinions on issues with which the company must deal, the corporate auditing environment and other important audit-related matters.

**2) Implementation**

**a. Overview**

Sojitz internal control systems center on the inspection and bolstering of legal compliance systems, led by the Compliance Committee, and of risk management methods, led by the Risk Management Planning Division, and on the promotion of the internal control system throughout the Sojitz Group as a whole, led by the Internal Control Systems Committee. We are also preparing a system for the assessment, reporting and auditing of internal control systems regarding to financial reporting as contained in the Law on Sales of Financial Products.

**b. Compliance**

We are engaged in the following activities in order to ensure compliance.

- The Sojitz Group Compliance Code of Conduct and Standards for the Compliance Code of Conduct have been printed in booklet form and distributed to titled employees of all group companies so as to ensure thorough awareness of the importance of compliance. Moving forward, we will place more emphasis in education, such as by holding regular training workshops tailored to specific tiers of our corporate hierarchy, e-learning training at the

Company and compliance training workshops aimed exclusively at group companies.

- Aiming to prevent or swiftly identify and react to breaches of law within the Sojitz Group, we preach the importance of initial reports to the Compliance Committee, and are attempting to ensure full awareness of the issue. We have also set up a whistleblower hotline to the CCO and an outside attorney.
- The Audit Department conducts compliance-centric audits of all companies in the Sojitz Group. The audits focus strongly on compliance with law, articles of incorporation and internal regulations.

**c. Risk management**

We are engaged in the following activities to manage risks.

- Credit risks are controlled through the use of an internal credit rating system for each trading partner.
- Country risks are controlled through the use of a country rating system, which determines a maximum volume of exposure for each country.
- Business investment risks are controlled through the use of a system that assesses partner risks and business-specific qualities in addition to the aforementioned country risks, and establishes stringent criteria—e.g., comparison with internal rates of return—for deciding on whether or not to proceed with new projects. There are regular follow-up checks and strict criteria for withdrawal.
- Combining all of the aforementioned risk management methods, our comprehensive risk management system allows us to accurately judge the volume of risk assets overall and keep risk assets pinned to shareholders' equity (our basic stance being to keep it around 80% of shareholders' equity).

**d. Group companies business management**

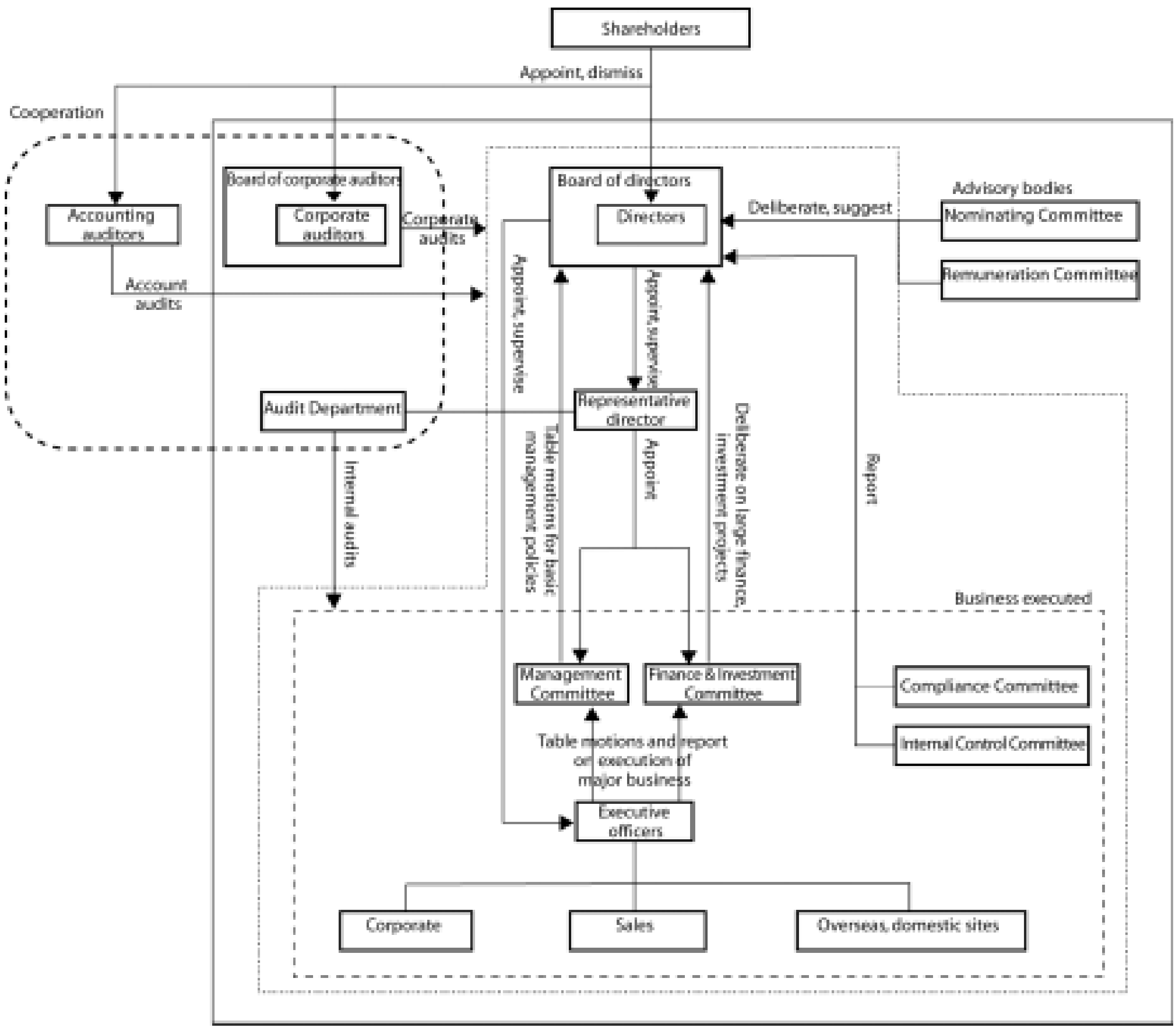
Business management of the Sojitz Group companies centers on the integrated establishment and maintenance of a business management system group by the Group Administration Department (the Corporate Planning Department as of April 2007), and on beefing up the discouragement of inappropriate actions and bolstering our ability to identify problems early and prevent losses through annual audits of group companies by the Audit Department. In this way, we encourage self-inspection and attitude adjustment in our workplaces. Additionally, close cooperation between the Audit Department and major group companies is strong, as illustrated by corporate auditors reviewing group companies' audits through the Audit Department and exchanging information with their counterparts at group companies. In this way, we at Sojitz enjoy an efficient monitoring framework aptly suited to consolidated management.

**e. Ensuring reliability of financial reporting**

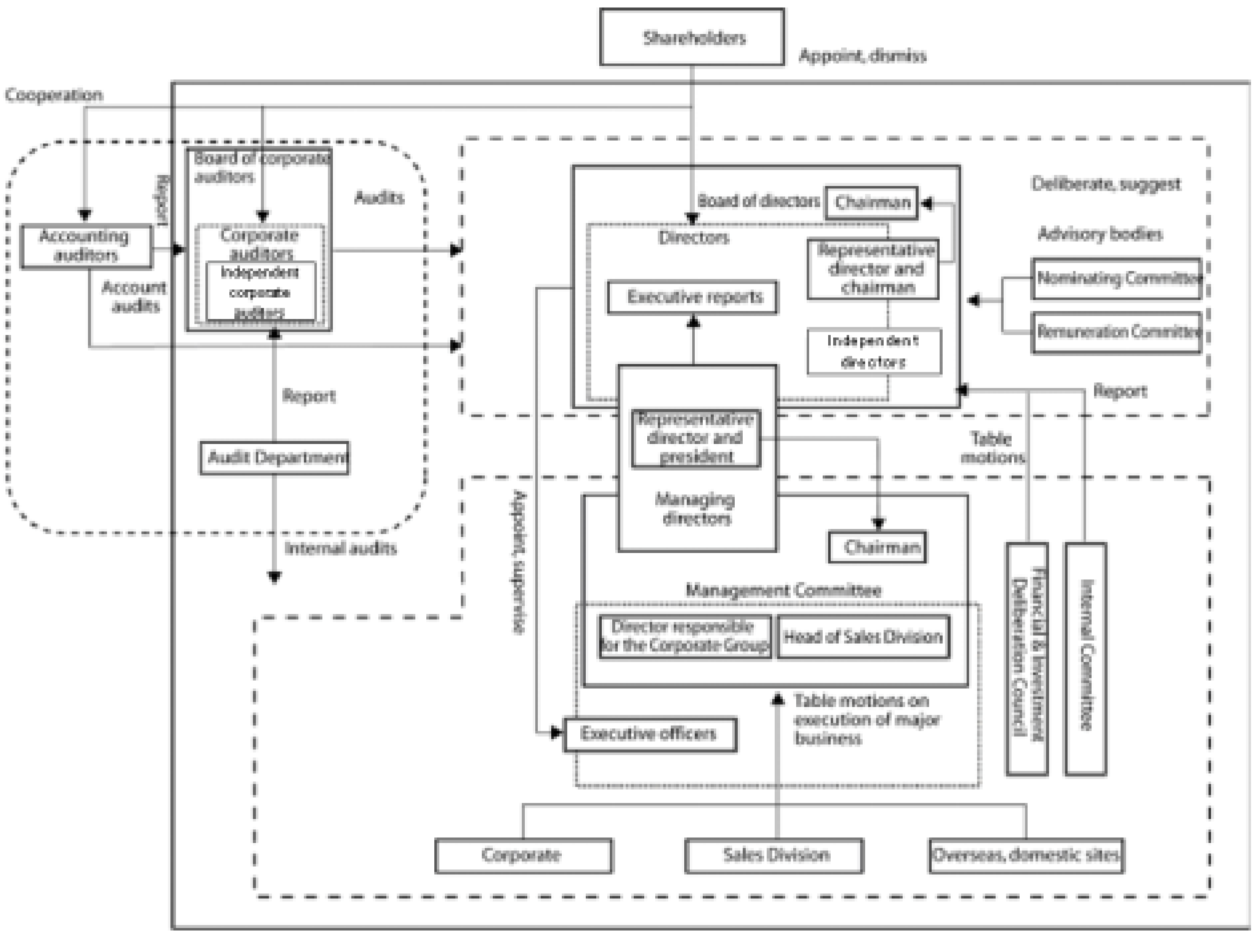
The Internal Control System Committee plays a central role in securing the reliability of financial reports by setting the basic policies and plans for inspecting and assessing internal control systems, and carrying those plans out. Through those assessments, we aim to maintain and improve those the internal control systems, and to continually monitor them and evolve them to ever-higher quality.

The diagrams below outline the Sojitz corporate governance structure, including internal control systems.

**As of March 31, 2007**



**Beginning with 2007 AGM (June 27)**



# Financial statements

## Consolidated financial statements

Consolidated Balance Sheet

(Millions of yen)

| Account | As of Mar. 31, 2007 | As of Mar. 31, 2006 |
|---|---|---|
| **Assets** | | |
| Current Assets | 1,615,081 | 1,510,454 |
| Cash and deposits | 471,570 | 521,937 |
| Trade notes and trade accounts receivable | 672,658 | 613,513 |
| Securities | 7,251 | 6,471 |
| Inventories | 315,885 | 214,163 |
| Short-term loans receivable | 23,182 | 44,237 |
| Deferred tax assets-current | 8,591 | 8,886 |
| Others current assets | 130,636 | 116,416 |
| Allowance for doubtful receivables | (14,695) | (15,172) |
| Fixed Assets | 1,000,951 | 1,010,200 |
| Tangible assets | 229,966 | 246,665 |
| Buildings and structures | 54,171 | 49,228 |
| Machinery and vehicles and transport equipment | 100,906 | 115,231 |
| Land | 59,684 | 67,973 |
| Construction in progress | 3,084 | 2,921 |
| Other tangible assets | 12,119 | 11,309 |
| Intangible assets | 99,127 | 100,131 |
| Consolidated Adjustment Accounts | - | 76,897 |
| Goodwill | 69,925 | - |
| Other intangible assets | 29,202 | 23,233 |
| Investments and other fixed assets | 671,857 | 663,403 |
| Investments securities | 518,615 | 488,291 |
| Long-term loans receivable | 39,304 | 38,867 |
| Non-performing receivables | 162,305 | 176,527 |
| Deferred tax assets-non-current | 19,754 | 23,880 |
| Others | 49,916 | 58,793 |
| Allowance for doubtful receivables | (118,039) | (122,956) |
| Deferred assets | 3,475 | 1,024 |
| Total assets | 2,619,507 | 2,521,679 |

| Account | As of Mar. 31, 2007 | As of Mar. 31, 2006 |
|---|---|---|
| **Liabilities** | | |
| Current Liabilities | 1,219,497 | 1,416,716 |
| Trade notes and trade accounts payable | 531,508 | 451,438 |
| Short-term loans payable | 501,055 | 775,555 |
| Commercial paper | 10,000 | 29,200 |
| Short-term loans receivable | 896 | 9,358 |
| Income taxes payable | 8,811 | 7,774 |
| Deferred tax liabilities-current | 34 | 41 |
| Allowance for employees' bonus | 7,412 | 5,148 |
| Other current liabilities | 159,778 | 138,198 |
| Non-current liabilities | 868,374 | 640,887 |
| Bonds, less current portion | 245,540 | 99,036 |
| Long-term loans payable | 560,187 | 473,109 |
| Deferred tax liabilities-non-current | 13,078 | 13,553 |
| Deferred tax liabilities-revaluation | 1,238 | 445 |
| Allowance for retirement benefits | 22,526 | 25,558 |
| Reserve for retirement benefits for directors and auditors | 1,394 | - |
| Other non-current liabilities | 24,409 | 29,185 |
| Total Liabilities | 2,087,872 | 2,057,603 |
| Minority interests | - | 37,125 |
| **Shareholders' Equity** | | |
| Common and preferred stock | - | 130,549 |
| Capital surplus | - | 166,754 |
| Retained earnings | - | 92,487 |
| Revaluation difference on land | - | (2,619) |
| Net unrealized gains on available-for-sale securities | - | 90,547 |
| Foreign currency translation adjustments | - | (50,655) |
| Treasury stock | - | (113) |
| Total shareholders' equity | - | 426,949 |
| Total liabilities, minority interest and shareholders' equity | - | 2,521,679 |

| Account | As of Mar. 31, 2007 | As of Mar. 31, 2006 |
|---|---|---|
| **Net assets** | | |
| Total shareholders' equity | 428,464 | - |
| Common and preferred stock | 122,790 | - |
| Capital surplus | 158,593 | - |
| Retained earnings | 147,206 | - |
| Treasury stock | (126) | - |
| Total valuation and translation adjustments | 60,122 | - |
| Net unrealized gains on available-for-sale securities | 94,316 | - |
| Deferred gains or losses on hedges | 623 | - |
| Land revaluation difference | (1,935) | - |
| Valuation difference on available-for-sale securities | (32,882) | - |
| Minority interests | 43,048 | |
| Total net assets | 531,635 | - |
| Total liabilities and net assets | 2,619,507 | - |

# Consolidated Statement of Income

(Millions of yen)

| Account | FY 2006 (From April 1, 2006, to March 31, 2007) | | FY 2005 (From April 1, 2005, to March 31, 2006) | |
|---|---|---|---|---|
| Net sales | | 5,218,153 | | 4,972,059 |
| Cost of sales | | 4,963,686 | | 4,729,892 |
| Gross trading profit | | 254,466 | | 242,166 |
| Selling, general and administrative expenses | | 176,533 | | 165,964 |
| Operating income | | 77,932 | | 76,202 |
| Non-operating revenue | | 62,030 | | 59,718 |
| Interest income | 14,995 | | 13,213 | |
| Dividends | 6,052 | | 6,816 | |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 23,752 | | 19,149 | |
| Gain of sale of securities | 1,872 | | 2,042 | |
| Other income | 15,357 | | 18,496 | |
| Non-operating expenses | | 50,427 | | 57,147 |
| Interest income | 38,332 | | 38,571 | |
| Interest expense on commercial papers | 89 | | 1,572 | |
| Other expenses | 12,005 | | 17,003 | |
| Recurring profit | | 89,535 | | 78,773 |
| Extraordinary Income | | 30,562 | | 20,025 |
| Gain on sale and disposal of properties | 11,596 | | 3,962 | |
| Gain on sale of investment securities | 12,952 | | 9,522 | |
| Gain on sale of investment in partners | 188 | | 12 | |
| Dilution gain from changes in equity interest | 227 | | - | |
| Gain on reversal of allowance for doubtful accounts | 5,259 | | 5,797 | |
| Gain on sale of certain overseas receivables | 30 | | 617 | |
| Gain on bad debt recovered | 308 | | 112 | |
| Extraordinary loss-net | | 32,012 | | 29,384 |
| Loss on sales and disposal of properties | 2,144 | | 1,723 | |
| Impairment losses on fixed assets | 3,393 | | 2,022 | |
| Loss on sale of investment securities | 293 | | 3,367 | |
| Loss on sale of investment in partnership | 9 | | 1,238 | |
| Loss on devaluation of securities | 3,957 | | 950 | |
| Dilution loss from changes in equity interest | 150 | | 2,954 | |
| Loss, and provision for loss on dissolution of subsidiaries and affiliates | 20,059 | | 11,645 | |
| Restructuring loss | 1,380 | | 5,482 | |
| Special early retirement benefits | 160 | | - | |
| Provision for retirement benefits for directors, executive officers and corporate auditors | 463 | | - | |
| Income before income taxes and minority interests | | 88,085 | | 69,414 |
| Income taxes; Current | | 18,841 | | 16,484 |
| Income taxes; Deferred | | 4,971 | | 5,840 |
| Minority interests | | 5,506 | | 3,383 |
| Net income | | 58,766 | | 43,706 |

# Consolidated Statement of Changes in Shareholders' Equity

FY2006 (from April 1, 2006 to March 31, 2007) (Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Common and preferred stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of March 31, 2006 | 130,549 | 166,754 | 92,487 | (113) | 389,678 |
| Change in FY2006 | | | | | |
| New shares issued (share acquisition rights exercised) | 112,790 | 112,209 | | | 225,000 |
| Transfer from Common and preferred stock to capital surplus | (120,549) | 120,549 | | | - |
| Current net income | | | 58,766 | | 58,766 |
| Bonuses to directors and auditors through appropriation of retained earnings | | | (15) | | (15) |
| Reversal of variance of land revaluation | | | (1,221) | | (1,221) |
| Change due to increase/decrease in subsidiaries and equity-method companies | | | (2,565) | | (2,565) |
| Change due to change in accounting system(*1) | | | (56) | | (56) |
| Gain/loss on evaluation of unrealized derivatives | | | (30) | | (30) |
| Pension liability adjustment(*1) | | | (158) | | (158) |
| Acquisition of treasury stock | | | | (240,931) | (240,931) |
| Cancellation of treasury stock | | (240,920) | | 240,920 | - |
| Changes due to changes in equity-method company equity ratio | | | | (2) | (2) |
| Net changes in accounts other than total shareholders' equity during the consolidated fiscal year | | | | | |
| Total change during FY2006 | (7,759) | (8,160) | 54,719 | (13) | 38,785 |
| Balance as of March 31, 2007 | 122,790 | 158,593 | 147,206 | (126) | 428,464 |

| | Total valuation and translation adjustments | | | | | Minority interest | Total net assets |
|---|---|---|---|---|---|---|---|
| | Net unrealized gain on other securities | Deferred gains or losses on hedges | Land revaluation difference | Foreign currency translation adjustments | Total valuation and translation adjustments | | |
| Balance as of March 31, 2006 | 90,547 | - | (2,619) | (50,655 | 37,271 | 37,125 | 464,075 |
| Change in FY2006 | | | | | | | |
| New shares issued (share acquisition rights exercised) | | | | | | | 225,000 |
| Transfer from Common and preferred stock to capital surplus | | | | | | | - |
| Current net income | | | | | | | 58,766 |
| Bonuses to directors and auditors through appropriation of retained earnings | | | | | | | (15) |
| Reversal of variance of land revaluation | | | | | | | (1,221) |
| Change due to increase/decrease in subsidiaries and equity-method companies | | | | | | | (2,565) |
| Change due to change in accounting system(*1) | | | | | | | (56) |
| Gain/loss on evaluation of unrealized derivatives | | | | | | | (30) |
| Pension liability adjustment(*1) | | | | | | | (158) |
| Acquisition of treasury stock | | | | | | | (240,931) |
| Cancellation of treasury stock | | | | | | | - |
| Changes due to changes in equity-method company equity ratio | | | | | | | (2) |
| Net changes in accounts other than total shareholders' equity during the consolidated fiscal year | 3,769 | 623 | 684 | 17,772 | 22,850 | 5,922 | 28,773 |
| Total change during FY2006 | 3,769 | 623 | 684 | 17,772 | 22,850 | 5,922 | 67,559 |
| Balance as of March 31, 2007 | 94,316 | 623 | (1,935) | (32,882) | 60,122 | 43,048 | 531,635 |

(*1)Increase/decrease in conjunction with processing at overseas affiliates

## Notes on Consolidated Accounts

### Basis of presenting consolidated financial statements

### 1. Scope of consolidation

**(1) Number of consolidated affiliates: 334**

The principal consolidated affiliates of the Sojitz Group are:

Sojitz Aerospace Corporation, Sojitz Machinery Corporation, Sojitz Marine & Engineering Corporation, Sojitz Energy Corporation, Pla-Net Holdings, Inc., Sojitz Pla-Net Corporation, Pla Matels Corporation, Sojitz Building Materials Corporation, Sojitz Commerce Development Corporation, Sojitz General Property Management Corporation, Sojitz Realnet Corporation, Sojitz General Merchandise Corporation, Sojitz Foods Corporation, Daiichibo, Co., Ltd., Nichimen Infinity, Inc., Nichimen Fashion, Co., Ltd., Nissho Electronics Corporation, Sojitz Corporation of America, Sojitz Europe plc., Sojitz Asia Pte. Ltd., Sojitz (Hong Kong) Ltd.

Twenty-nine companies were brought under Sojitz consolidation during the consolidated accounting year as a result of new incorporation or acquisition of existing companies; sixteen consolidated companies were sold.

**(2) Principal non-consolidated affiliate**

CRJ Investment, Inc.

**Reason for excluding this company from the consolidation:**

Since the amounts of the total assets, net sales, net income and retained earnings of this company are so low that they would not significantly influence the consolidated financial statements, the company is excluded from the scope of consolidation.

### 2. Application of equity method

**(1) Number of non-consolidated affiliates and subsidiaries accounted for by the equity method: 200**

The principal equity-method affiliates of the Sojitz Group are:

Metal One Corporation, Jalux, Inc., LNG Japan Corporation

Thirty-four companies became equity-method companies during the consolidated accounting year as a result of new incorporation or acquisition of existing companies; twenty-six companies were sold and therefore became non-equity-method companies.

**(2) Principal non-consolidated affiliates and subsidiaries not accounted for by the equity method:**

Shinwa Gosei Jushi Co., Ltd.

**Reason for the equity method not applying to this company:**

Since the amounts of the net income and retained earnings of this company are so low that they would not significantly influence the consolidated financial statements, the company is excluded from the target to which the equity method applies.

### 3. Consolidated subsidiaries' business years

A total of 206 consolidated affiliates use settling days different from that of the consolidated settlement of accounts. If the settling day of a consolidated affiliate differs from the consolidated settling day by up to three months, the financial statements of that affiliate are used for consolidated accounting. If the settling day difference significantly influences a business transaction, adjustment required for consolidation is made on the business transaction. If the settling day of a consolidated affiliate differs from the consolidated settling day by longer than three months, a settlement procedure considered as reasonable for a consolidated affiliate is conducted for that affiliate on the consolidated settling day.

## 4. Accounting standards

### (1) Standards and methods of valuation of significant assets

#### 1) Securities (including investment securities)

Trading securities

The market value method is used.

Cost of sales is generally calculated using the moving average method.

Bonds held to maturity

The amortization method (straight line method) is used.

Other securities

Those with fair market value

Such securities are valuated by the market value method based on the market value on the consolidated settling day (related valuation differences are directly charged or credited to the shareholders' equity and cost of securities sold is calculated using the moving average method).

Those without fair market value

Such securities are valuated at their cost based on the moving average method. Investments in a limited partnership for investment or a similar partnership (considered as marketable securities in accordance with Article 2, Paragraph 2 of the Securities Exchange Law) are stated at their net equity value based on the most recent financial statements that are available on the settlement report date as specified in the partnership agreement.

#### 2) Derivatives

The market value method is used.

#### 3) Investment-purpose money trusts

The market value method is used.

#### 4) Inventories

Inventories are generally valuated at their cost based on the specific identification method or moving average method, but some foreign consolidated affiliates use a lower-of-cost-or-market method based on a specific identification scheme.

### (2) Methods of depreciation and amortization for significant depreciable assets

#### 1) Tangible assets

The declining balance method is generally used. However, the straight line method has been used for buildings (excluding their attached facilities) that were acquired on or after April 1, 1998.

The useful lives for major tangible fixed assets are as follows:

| | |
|---|---|
| Buildings and structures: | 2 to 65 years |
| Machinery and transportation equipment: | 2 to 25 years |

#### 2) Intangible assets

The straight line method is generally used. Software for in-house use is amortized by the straight line method based on the in-house service life (5 years). Certain consolidated subsidiaries use the unit-of-production method for mining rights.

**(3) Accounting standards for significant reserves/allowances**

**1) Allowance for doubtful receivables**

In preparation for losses from bad receivables, bad loans, or other bad debts, the possibility of recovery of general debts is considered based on the actual bad debt write-off rate, while for specific debts where default is likely, it is considered on an individual basis. The expected write-off amount as the result of this consideration is listed in accounts.

**2) Allowance for employees' bonus**

In preparation for the payment of employee bonuses, the amount expected to be paid is listed in accounts.

**3) Reserve for retirement benefits**

In preparation for the payment of retirement benefits to employees, this reserve is stated at the amount reasonably expected to be paid at the end of this period, based on the retirement benefit liabilities at the end of this period and the expected amount of pension assets.

**Additional Information**

We at Sojitz previously used a system comprising a fixed-contribution pension scheme and pre-paid retirement allowance scheme, but as of April 1, 2006, our system has been changed, with either a lump-sum retirement allowance scheme or a pre-paid retirement allowance scheme to accompany the fixed-contribution pension scheme. The impact of this change to gains and losses in and after FY2006 is negligible.

**4) Reserve for retirement benefits for directors and auditors**

In preparation for payment of retirement allowances to directors and executive officers, the predicted amount payable at the end of FY2006 as calculated pursuant to the internal regulations is listed in accounts.

**(4) Standards for converting significant assets or liabilities in foreign currency to those in local currency**

Credits and debts in foreign currency are converted to those in yen at the spot exchange rate on the consolidated settling day and the exchange differences are stated as profit or loss. The assets and liabilities of overseas affiliates are converted to yen equivalents at the spot exchange rate on the pertinent affiliate's settling day, and earnings and expenses are converted to yen equivalents at the current-period average exchange rate. The exchange differences are included in the minority interest and in the foreign exchange translation adjustment contained in the Shareholders' Equity section.

**(5) Accounting method for significant lease transactions**

For finance lease transactions in which the ownership of lease properties are not recognized as transferred to the lessee, the accounting method for ordinary lease transactions is used. Some overseas consolidated affiliates, however, use accounting methods associated with sale-and-purchase transactions are used.

**(6) Significant hedge accounting methods**

**1) Hedge accounting method**

In general, the deferred hedge accounting is used. Exchange contracts, currency swaps, and currency options that fulfill the allocation requirements are subjected to the allocation accounting method, while interest rate swaps that fulfill the specific matching criteria are subjected to the accounting methods stipulated by those criteria.

**2) Hedging instruments and hedged items**

Exchange reservation, currency swap, and currency option transactions are used as hedging instruments against exchange rate variation risks involved in transactions in foreign currencies; interest rate swap, interest rate cap, and interest rate option transactions are used as hedging instruments against interest rate variation risks involved in debts, loans, coupon bonds, and similar transactions; commodity future, forward delivery, and similar transactions are used as hedging instruments against precious metals, grain, petroleum, and other merchandise price variation risks.

**3) Hedge policy**

To avoid currency, interest rate, securities value, merchandise price variation risks that may arise during our business activities, derivative transactions are generally used to hedge these risks in accordance with in-house management regulations.

**4) Hedge effectiveness evaluation method**

Cumulative cash-flow or market fluctuations in hedged items are compared with those in as hedging instruments at half-year intervals. The effectiveness is evaluated based on the fluctuations in both quantities. However, effectiveness evaluation is not conducted on interest rate swaps that rely on accounting methods to which specific matching criteria are applied.

**(7) Other basis of presenting consolidated financial statements**

**1) Accounting for deferred assets**

Start-up costs of domestic consolidated subsidiaries are amortized on a straight line basis over 5 years; those of overseas consolidated subsidiaries over the period stipulated by local accounting standards. Stock issue costs are amortized on a straight line basis over 3 years. Bond issue costs are amortized on a straight line basis over the period of bond maturity. Costs of issuing bonds issued on or before March 31, 2006 are amortized over the period of bond maturity or 3 years, whichever is shorter. However, if this cost is low in amount, it is included in the lump-sum expenses.

**2) Treating paid interests associated with large real-estate development projects as part of historical cost**

Interests paid for a large real-estate development project (whose total investment is 2 billion yen or more and whose development period exceeds one year) during the normal development period are treated as part of the historical cost.

**3) Accounting for consumption tax**

The tax-excluded method is used.

**4) Application of the consolidated tax system**

The consolidated tax system is applied.

## 5. Valuation of consolidated affiliates' assets and liabilities

The assets and liabilities of consolidated affiliates are totally valuated at their market values.

## 6. Amortization of goodwill

Goodwill is amortized on a straight line basis over five to 20 years, but if this cost is low in amount, it is included in the lump-sum expenses of the pertinent year.

## Changes in accounting policy

**Accounting standards pertaining to listing of net assets in the balance sheet**

**Partial change in accounting standards pertaining to decrease in treasury stock and reserves**

Since the current consolidated accounting year, "the accounting standards associated with listing of net assets in the balance sheet ("ASBJ Statement No. 5 Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standard Board of Japan on December 9, 2005)", "the policy for application of accounting standards associated with listing of net assets in the balance sheet ("ASBJ Guidance No. 8 Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standard Board of Japan on December 9, 2005)" and revised accounting standards pertaining to decreases in treasury stock and reserves ("ASBJ Statement No. 1 (revised 2006) Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" issued by the Accounting Standard Board of Japan on August 11, 2006) and the policy for application of accounting standards associated with decreases in treasury stock and reserves ("ASBJ Guidance No. 2 (revised 2006) Guidance on Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" issued by the Accounting Standard Board of Japan on August 11, 2006) have been applied.

As a result, previous total capital was equivalent to 487,962 million yen.

**Tentative solutions of accounting of deferred assets**

Since the current consolidated accounting year, a statement pertaining to accounting of deferred assets for the time being ("PITF No. 19 Tentative Solution on Accounting for Deferred Assets" issued by the Accounting Standard Board of Japan on August 11, 2006) has applied. The impact of this on Recurring profit and income before income taxes and minority interests compared with the hypothetical use of previous methods was negligible.

**Accounting standards for directors bonuses**

Since the current consolidated accounting year, accounting standards for directors' bonuses (ASBJ Statement No. 4 Accounting Standard for Directors' Bonus issued by the Accounting Standard Board of Japan on November 29, 2005) has applied. The impact of this on gains and losses was negligible.

**Accounting standards for business combinations**

Since the current consolidated accounting year, accounting standards for business combinations (issued by the Accounting Standard Board of Japan on October 31, 2005) and accounting standards for separation of business ("ASBJ Statement No. 7 Accounting Standard for Business Divestitures" issued by the Accounting Standard Board of Japan on December 27, 2005) and guidelines for application of accounting standards for business combination and separation ("ASBJ Guidance No. 10 Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" issued by the Accounting Standard Board of Japan on December 27, 2005) have applied.

Changes to listings in the consolidated financial statements resulting from enforcement of company accounting rules.

**Consolidated balance sheet**

Starting in FY2006, previous listings for goodwill (*renketsu chosei kanjo* and *eigyoken*) have been integrated into the listing *noren* (still "goodwill" in English). Incidentally, at the end of FY2005, *eigyoken* was listed in the "other intangible assets" section of the consolidated balance sheet, the amount being stood at 987 million yen.

**Consolidated statement of income**

Starting in FY2006, negative amounts of amortization of goodwill will be listed under the "Others" section of non-operating income. Incidentally, at the end of FY2005, negative amounts of amortization of goodwill were listed in the "sales and general expenses" section, the amount being 1,429 million yen.

**Reserve for retirement benefits for directors and auditors**

The revised *Auditing of reserves under the Special Taxation Measures Law and reserves and allowances under the special laws* (The Japanese Institute of Certified Public Accountants (JICPA) First Auditors Committee Report No. 42 issued on April 13, 2007) is now applicable to FY2006, which began before issuance of that report. Therefore, starting in this consolidated accounting year, we will list the retirement benefits for directors and auditors in accounts as stipulated in the report. Incidentally, the Sojitz Corporation executive officers do not constitute directors as stipulated under the Company Law, and are subject to a separate set of regulations from regular employees and therefore, reserves for executive officers' retirement benefits are included in reserve for retirement benefits for directors and auditors. The impact of this change on operating income and income before income taxes and minority interests compared with the hypothetical use of previous methods was negligible.

# Notes on Consolidated Balance Sheet

## 1. Amounts of less than one million yen have been discarded.

## 2. Mortgaged assets and liabilities

### (1) Assets offered as collateral for borrowings

(Millions of yen)

| Mortgaged assets | | Corresponding liabilities | |
|---|---|---|---|
| Type | End-of-year book value | | |
| Cash and deposits | 1,025 | Trade notes and trade accounts payable | 17,192 |
| Accounts receivable | 3,452 | Short-term loans payable | 24,484 |
| Inventories | 34,152 | Other current liabilities | 32,213 |
| Short-term loans receivable | 71 | Corporate bonds | 220 |
| Buildings and structures | 9,634 | Long-term loans payable | 28,183 |
| Machinery and transportation equipment | 20,128 | | |
| Land | 10,183 | | |
| Intangible fixed assets (Other) | 117 | | |
| Investment securities | 106,550 | | |
| Long-term loans receivable | 218 | | |
| Investments and other assets (Other) | 216 | | |
| Total | 185,750 | Total | 102,293 |

Note: In addition to the above, Sojitz has 25,303 million yen in investment securities, short-term loans receivable and long-term loans receivable in the form of shares in subsidiaries eliminated in consolidation and 7,625 million yen in subsidiary loans, and Sojitz Corporation of America's borrowings of 14,401 million yen are mortgaged under the U.S. personal property security laws.

### (2) Assets offered as security deposit, etc.

Cash and deposits: 2,514 million yen

Investment securities (including securities) 32,103 million yen

Note: In addition to the above, Sojitz has 9,484 million yen in investment securities in the form of shares in subsidiaries eliminated in consolidation.

## 3. Accumulated depreciation of tangible fixed assets 132,996 million yen

## 4. Guaranteed debts

(Millions of yen)

| Guaranteed party | Amount of guaranteed debts |
|---|---|
| LNG Japan | 10,277 |
| Bontang LNG Train-H Investment Co., Ltd. | 3,816 |
| Bontang Train-G Project Finance, Co., Ltd. | 2,024 |
| Usiminas Siderurgias De Minas Gerais S.A. | 1,947 |
| Japan Bridge Corporation | 1,941 |
| Others (122 debts) | 27,735 |
| Total | 47,743 |

Note: The guaranteed debts listed above represent mainly guarantees of borrowings from financial institutions, and include 431 million yen in quasi guarantee acts.

## 5. Notes discounted — 31,627 million yen

## 6. Notes transferred by endorsement — 388 million yen

## 7. Accounting for notes mature on the settlement date

Notes that reach maturity on the settlement date are settled as of the conversion date of the notes. The following notes mature on the settlement date will be included in the accounts of FY2007 because the final date of the consolidated accounting year was a bank holiday.

| | |
|---|---|
| Notes receivable: | 14,167 million yen |
| Notes payable: | 13,851 million yen |

## 8. Revaluation of land

Some domestic consolidated subsidiaries revaluated their business-purpose land pursuant to the Law Concerning Revaluation of Land (Law No. 34 promulgated on March 31, 1998) and state the land revaluation differences in the section of Shareholders' Equity.

**Revaluation method**

In general, land is revaluated based on appraisal reports from real estate appraisers as defined in Article 2, Paragraph 5 of the Enforcement Ordinance of the Law Concerning Revaluation of Land (Ordinance No. 119 promulgated on March 31, 1998).

**Dates of revaluation**

On and before March 31, 2002

**Difference between the market value of revaluated land at the end of the current period and the book value:**

473 million yen

## Notes on consolidated statement of income

Less than one million yen are discarded.

## Notes on consolidated statement of changes in shareholder's equity

## 1. Amounts of less than one million yen have been discarded.

## 2. Types and numbers of shares outstanding at the end of FY2006

| | |
|---|---:|
| Common shares: | 1,068,105,228 |
| First Series Class-III preferred shares: | 1,500,000 |
| First Series Class-IV preferred shares | 19,950,000 |
| First Series Class-V preferred shares | 10,875,000 |
| Total: | 1,100,430,228 |

## 3. Dividends

Dividends with a record date falling within FY2006 which come into effect in the next consolidated fiscal year

A motion is to be tabled at the AGM scheduled for June 27, 2007 suggesting the following dividends for common and preferred shares.

**Common share dividends**

| | | |
|---|---|---|
| 1) | Amount of dividends: | 6,407 million yen |
| 2) | Source of dividend funds: | Retained earnings |
| 3) | Dividend per share: | 6.00 yen |
| 4) | Record date: | March 31, 2007 |
| 5) | Effective date: | June 28, 2007 |

**First Series Class-III preferred share dividends**

| | | |
|---|---|---|
| 1) | Amount of dividend: | 22 million yen |
| 2) | Source of dividend funds: | Retained earnings |
| 3) | Dividend per share: | 15.00 yen |
| 4) | Record date: | March 31, 2007 |
| 5) | Effective date: | June 28, 2007 |

**First Series Class-V preferred share dividends**

| | | |
|---|---|---|
| 1) | Amount of dividend: | 1,563 million yen |
| 2) | Source of dividend funds: | Retained earnings |
| 3) | Dividend per share: | 143.76 yen |
| 4) | Record date: | March 31, 2007 |
| 5) | Effective date: | June 28, 2007 |

## Notes on per-share information

**1. Shareholders' equity per share: 145.70 yen**

**2. Current net income per share: 85.51 yen**

## Additional information

### Acquisition of treasury stock

At the AGM of June 27, 2006, Sojitz Corporation established a budget for the acquisition of Second, Third, and Fourth Series Class-I preferred shares, and First Series Class-II preferred shares. Pursuant to an amendment of the Articles of Incorporation approved and passed at that AGM, the company also established additional conditions for the acquisition of First Series Class-II preferred shares and First Series Class-IV and Class-V preferred shares, as well as Second Series Class-V preferred shares. Then, in accordance with a resolution passed at the board meeting of April 28, 2006, "an agreement to acquire preferred shares" was executed on the same day.

Under that agreement, the initial purchase was made on March 30, 2007, of Second, Third and Fourth Series Class-I preferred shares, as well as First Series Class-II preferred shares and Second Series Class-V preferred shares with a total issue price of 230.4 billion yen for a purchase price of 240,920 million yen. These were cancelled on the same day. Thus, as of March 31, 2007, preferred shares subject to the aforementioned agreement and the major provisions of that agreement are as follows:

**(1) Types of shares**

First Series Class-IV preferred shares
First Series Class-V preferred shares

**(2) Acquisition price**

| Type | Acquisition price per share | Issue price and purchase price | percentage of issue price |
|---|---|---|---|
| First Series Class-IV preferred shares | 2,300 yen | 10,000 yen | 23% |
| First Series Class-V preferred shares | 5,160 yen | 12,000 yen | 43% |

Note: Acquisitions in and after October 2007 will incur an increase in acquisition price per share by 2% of the issue price of each preferred share.

**(3) Total share acquisition price**

| | |
|---|---|
| First Series Class-IV preferred shares | 45,885 million yen |
| First Series Class-V preferred shares | 56,115 million yen |
| Total | 1,020 million yen |

Note: Acquisitions after October 2007 will incur an increase in acquisition price per share by 2% of the issue price of each preferred share. Assuming that all the preferred shares are acquired at the increased price, the total amount of acquisition price will be 108.6 billion yen.

**(4) Total number of shares to be acquired**

| Type | number of shares | ratio to issued shares |
|---|---|---|
| First Series Class-IV preferred shares | 19,950,000 | 100% |
| First Series Class-V preferred shares | 10,875,000 | 100% |
| Total: | 30,825,000 | |

**(5) Companies from which Sojitz will acquire shares, number of shares and total acquisition price**

First Series Class-IV preferred shares

| Companies from which Sojitz will acquire shares | Number of shares | Total acquisition price |
|---|---|---|
| Bank of Mitsubishi Tokyo UFJ | 19,950,000 shares | 45,885,000,000 yen |

Note: Acquisitions after October 2007 will incur an increase in acquisition price per share by 2% of the issue price of each preferred share. Assuming that all the preferred shares are acquired at the increased price, the total amount of acquisition price will be 49,875 million yen.

First Series Class-V preferred shares

| Companies from which Sojitz will acquire shares | Number of shares | Total acquisition price |
|---|---|---|
| Bank of Mitsubishi Tokyo UFJ | 10,875,000 shares | 56,115,000,000 yen |

Note: Acquisitions after October 2007 will incur an increase in acquisition price per share by 2% of the issue price of each preferred share. Assuming that all the preferred shares are acquired at the increased price, the total amount of acquisition price will be 58,725 million yen.

**(6) Acquisition dates**

(i) A date specified by Sojitz ("additional acquisition date") falling between April 1, 2007 and the day preceding the AGM scheduled for June 2007; (ii) September 28, 2007; (iii) March 31, 2008.

**(7) Total acquisition on each acquisition date**

Total amount of bonds with acquisition rights converted during the period from the day of the board resolution pertaining to the acquisition on the immediately preceding acquisition date (in case of initial acquisition, the date of issuance of the third and fourth series unsecured bonds until the day of the board resolution) pertaining to the acquisition on the current acquisition date. Notwithstanding the above, the company may, at its discretion, exceed the above-mentioned total amount of acquisition.

**(8) Order of acquisition**

The order of acquisition shall be: First Series Class-IV, and then First Series Class-V.

**(9) Acquisition Method**

**Class-IV & Class-V preferred shares**

These shall be acquired in accordance with the conditions established pursuant to the amendment of the Articles of Incorporation and by following the procedures provided for in the Company Law.

**(10) Conditions Precedent**

Acquisition of preferred shares by the company based on the abovementioned agreement is subject to all following conditions:

1) All of convertible bonds to be issued to Nomura Securities (Bermuda), Ltd., the issue of which was approved on April 28, 2006, are issued;
2) The motion to amend the Company's Articles of Incorporation to increase the total number of shares authorized to be issued and the number of shares of Common shares to be issued is approved at the AGM (hereinafter referred to as "The AGM") held on June 27, 2006, and resolutions of the General Meetings of Class Shareholders required under the Company Law is passed;
3) Each proposal at this AGM with regard to reductions of capital and capital reserves is approved, and reductions of capital and additional paid-in capital become effective;
4) The proposal at this AGM to establish authorized limits for acquisition of treasury shares with regard to Class-I and Class-II Preferred Shares is approved;
5) In the event that any outstanding preferred shares were not acquired in accordance with the agreement on the acquisition date of March 30, 2007 or the additional acquisition date (assuming that the company specifies such a date), a proposal to establish authorized limits for acquisition of treasury stock is approved at the AGM or other shareholders' meeting immediately after this AGM;
6) The proposal at this AGM to amend the company's Articles of Incorporation to add conditions for the acquisition of Class-IV and Class-V preferred shares by the Company is approved and passed by all the relevant classes of shareholders, and also the acquisition of preferred shares is allowed under the Commercial Code and the Company

Law.

**(11) Restriction of Transfer**

No holder of preferred shares shall be allowed to transfer those preferred shares in possession to third parties without prior consent of the company during a period between April 28, 2006 and March 31, 2008.

**(12) Term of Agreement**

The term of the agreement shall last from April 28, 2006 until whichever date below falls first.

1) The date on which acquisition and settlement of all preferred shares are completed in accordance with the agreement.
2) The date on which the conditions precedent set forth in (10) were determined not to be fulfilled.
3) March 31, 2008

## Notes on significant subsequent events

1. Based on the resolution passed at the board meeting held on March 23, 2007 pertaining to the upper limit for issuance of domestic unsecured common corporate bonds in the first half of FY2007 and an overview of such issue, the Company issued domestic unsecured common corporate bonds on April 25, 2007. Details of such bonds are as follows:

| | | |
|---|---|---|
| (1) | Corporate bonds issued: | 12th Series unsecured corporate bonds |
| (2) | Total amount of corporate bonds: | 10 billion yen |
| (3) | Amount of each bond: | 100 million yen |
| (4) | Total issue price: | 10 billion yen |
| (5) | Issue price: | 100 yen per 100 yen of principal |
| (6) | Interest rate: | 1.60% per annum |
| (7) | Interest payment date: | April 25 and October 25 each year, with interest incurred on and after October 26, 2009 to be paid on the redemption date |
| (8) | Method of redemption | |
| | a. Redemption at maturity | |
| | b. Purchase and cancellation | |
| (9) | Redemption price: | 100 yen per 100 yen of principal |
| (10) | Closing date: | April 25, 2007 |
| (11) | Issue date: | April 25, 2007 |
| (12) | Redemption deadline: | April 23, 2010 |
| (13) | Issue location: | Japan |
| (14) | Subscription method: | General subscription |
| (15) | Security, guarantee: | Unsecured, non-guaranteed |
| (16) | Use of funds raised: | Working capital |

2. As for the fourth series unsecured convertible corporate bonds with stock acquisition rights, issued May 25, 2006 (150 billion yen in total), by resolution at the board meeting on April 28, 2006, the stock acquisition rights were exercised through May 16, 2007 as follows:

| | | |
|---|---|---|
| (1) | Stock name: | 4th Series unsecured convertible corporate bonds with stock acquisition rights |
| (2) | Date: | May 10, 2007 and May 14, 2007 |
| (3) | Number of shares delivered: | 45,892,610 |
| | (including newly issued shares | 45,892,610) |
| | (including treasury shares | —) |
| (4) | Exercise (conversion) price: | |
| | and conversion face value | 435.8 yen |
| | | 20 billion yen |
| (5) | Total exercised amount | 95 billion yen (63.3% of total issued converted) |
| (6) | Outstanding | 55 billion yen |

As a result, capital and capital reserve increased 10,004 million yen and 9,995 million yen respectively.

# Consolidated Cash Flow Statement

(Millions of yen)

| | | FY2006 (From April 1, 2006 to March 31, 2007) | FY2005 (From April 1, 2005 to March 31, 2006) |
|---|---|---|---|
| 1. | Net cash provided by operating activities | | |
| 2. | Income before income taxes and minority interests | 88,085 | 69,414 |
| 3. | Depreciation and amortization | 23,928 | 25,958 |
| 4. | Loss on revaluation of securities | 3,957 | 950 |
| 5. | Decrease (increase) in allowance for doubtful receivables | (6,148) | (110,810) |
| 6. | Interest and dividend income | (21,048) | (20,030) |
| 7. | Interest expense | 38,421 | 40,143 |
| 8. | Equity in earnings of unconsolidated subsidiaries and affiliates | (23,752) | (19,149) |
| 9. | Gain (loss) on sales of securities | (14,787) | (4,025) |
| 10. | Gain (loss) on sales and disposal of property & equipment | (9,452) | (2,238) |
| 11. | Impairment loss on fixed assets | 3,393 | 2,022 |
| 12. | Decrease in trade receivables | (62,697) | 26,492 |
| 13. | Increase (decrease) in inventories | (99,052) | (8,492) |
| 14. | Increase (decrease) in trade payables | 78,685 | (34,978) |
| 15. | Other, net | 7,507 | 77,899 |
| 16. | **Net cash provided by operating activities** | 7,040 | 43,155 |
| 17. | Net cash provided by investment activities | | |
| 18. | Decrease in time deposit, net | 9,392 | 2,541 |
| 19. | Decrease (increase) in marketable securities, net | 84 | (1,151) |
| 20. | Payments for property & equipment | (28,774) | (25,518) |
| 21. | Proceeds from sale of property & equipment | 38,255 | 16,462 |
| 22. | Payments for purchase of investment securities | (35,763) | (24,380) |
| 23. | Proceeds from sale of investment securities | 46,480 | 59,272 |
| 24. | Decrease in short-term loans receivable, net | 36,315 | 27,022 |
| 25. | Increase of long-term loans receivable | (22,914) | (9,717) |
| 26. | Collection of long-term loans receivable | 8,576 | 37,546 |
| 27. | Other, net | (8,945) | 17,077 |
| 28. | **Net cash provided by investing activities** | 42,706 | 99,155 |
| 29. | Net cash provided by financing activities | | |
| 30. | Increase (decrease) in short-term debt, net | (201,386) | (233,618) |
| 31. | Decrease in commercial paper, net | (19,200) | (110,000) |
| 32. | Proceeds from long-term debt | 274,898 | 487,025 |
| 33. | Repayments of long-term debt | (266,922) | (262,600) |
| 34. | Proceeds from issuance of bonds | 374,626 | 154,872 |
| 35. | Redemption of bonds | (12,668) | (46,030) |
| 36. | Payment for purchase of preferred shares | (240,920) | (44,000) |
| 37. | Other, net | (3,903) | (1,453) |
| 38. | **Net cash provided by financing activities** | (95,476) | (55,805) |
| 39. | Effect of exchange rate changes on cash & cash equivalents | 3,419 | 11,921 |
| 40. | Net decrease in cash & cash equivalents | (42,310) | 98,426 |
| 41. | Cash & cash equivalents at the beginning of the period | 506,254 | 409,266 |
| 42. | Effect of change in scope of consolidation | 329 | (1,438) |
| 43. | Cash & cash equivalents at the end of the period | 464,273 | 506,254 |

## Consolidated Business Segment Information

# Business segment information

### FY2006 (From April 1, 2006, to March 31, 2007)

(Millions of yen)

| | Machinery & Aerospace | Energy & Mineral Resources | Chemicals and Plastics | Real Estate Develop-ment & Forest Products | Consumer Lifestyle Business | Overseas Subsidiaries | Other Business | Total | Eliminated or Corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| I. Net sales and operating income/loss | | | | | | | | | | |
| Sales | | | | | | | | | | |
| (1) Sales to outside customers | 1,118,192 | 1,286,934 | 668,737 | 380,340 | 913,833 | 720,832 | 129,283 | 5,218,153 | - | 5,218,153 |
| (2) Internal sales between segments | 13,895 | 7,526 | 48,440 | 2,393 | 13,307 | 333,966 | 22,792 | 442,322 | (442,322) | - |
| Total | 1,132,088 | 1,294,460 | 717,178 | 382,733 | 927,140 | 1,054,798 | 152,075 | 5,660,475 | (442,322) | 5,218,153 |
| Operating expenses | 1,116,376 | 1,275,570 | 695,359 | 371,024 | 921,533 | 1,052,911 | 149,994 | 5,582,771 | (442,550) | 5,140,220 |
| Operating income | 15,711 | 18,889 | 21,818 | 11,708 | 5,607 | 1,887 | 2,080 | 77,704 | 228 | 77,932 |
| II. Assets (at the end of March 2007) | 355,323 | 504,317 | 370,225 | 272,799 | 316,111 | 363,495 | 171,580 | 2,353,853 | 265,654 | 2,619,507 |

Notes: 1. The unallocatable operating expenses that fall in the "Elimination or corporate" category amount to 1,584 million yen. The main portion is expenses of skill groups of Sojitz Corp.

2. The company-wide assets that fall in the "Elimination or corporate" category amount to 431,910 million yen. The main portion is in the form of cash, deposits, idle funds for investment, such as government and private bonds and securities.

### FY2005 (From April 1, 2005, to March 31, 2006)

| | Machinery & Aerospace | Energy & Mineral Resources | Chemicals and Plastics | Real Estate Develop-ment & Forest Products | Consumer Lifestyle Business | Overseas Subsidiaries | Other Business | Total | Eliminated or Corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| I.Net sales and operating income/loss | | | | | | | | | | |
| Sales | | | | | | | | | | |
| (1) Sales to outside customers | 958,343 | 1,207,031 | 632,861 | 419,746 | 868,055 | 768,547 | 117,474 | 4,972,059 | - | 4,972,059 |
| (2) Internal sales between segments | 12,434 | 10,279 | 46,354 | 3,105 | 14,015 | 318,325 | 20,792 | 425,306 | (425,306) | - |
| Total | 970,778 | 1,217,310 | 679,216 | 422,851 | 882,070 | 1,086,872 | 138,266 | 5,397,366 | (425,306) | 4,972,059 |
| Operating expenses | 954,737 | 1,199,293 | 662,659 | 413,244 | 874,096 | 1,082,226 | 135,698 | 5,321,956 | (426,098) | 4,895,857 |
| Operating income | 16,040 | 18,017 | 16,556 | 9,606 | 7,973 | 4,646 | 2,568 | 75,409 | 792 | 76,202 |
| II. Assets (at the end of March 2006) | 325,062 | 462,958 | 360,939 | 232,052 | 292,281 | 441,054 | 176,164 | 2,290,514 | 231,165 | 2,521,679 |

Notes: 1. The unallocatable operating expenses that fall in the "Elimination or corporate" category amount to 3,770 million yen. The main portion is expenses of skill groups of Sojitz Corporation and its predecessor, the former Sojitz Corp.

2. The company-wide assets that fall in the "Elimination or corporate" category amount to 447.487 million yen. The main portion is in the form of cash, deposits, idle funds for investment, such as government and private bonds and securities.

* Products handled by each segment are listed under Section 1. (5) of the Business Report.

## Non-consolidated financial statements

### Non-consolidated Balance Sheet

(Millions of yen)

| Account | As of March 31, 2007 | As of March 31, 2006 |
|---|---|---|
| **Assets** | | |
| Current Assets | 905,173 | 797,840 |
| Cash and deposits | 274,927 | 280,992 |
| Trade notes receivable | 42,539 | 34,454 |
| Trade accounts receivable | 250,647 | 181,274 |
| Securities | 399 | 399 |
| Merchandise | 100,436 | 69,145 |
| Real estate for sale | 54,292 | 24,042 |
| Merchandise in transit | 27,543 | 15,984 |
| Advance payments | 18,482 | 15,712 |
| Prepaid expenses | 3,538 | 5,303 |
| Deferred tax assets | 1,996 | 3,090 |
| Short-term loans receivable | 2,317 | 3,067 |
| Short-term loans to subsidiaries | 67,955 | 107,352 |
| Guarantee deposits | 3,775 | 3,052 |
| Accrued revenue | 1,684 | 1,212 |
| Accounts receivable | 52,301 | 46,255 |
| Others | 5,469 | 9,452 |
| Allowance for doubtful receivables | (3,136) | (2,954) |
| Fixed assets | 1,008,178 | 1,011,395 |
| Tangible assets | 8,586 | 8,680 |
| Buildings | 3,934 | 3,755 |
| Structures | 398 | 373 |
| Machinery | 153 | 279 |
| Vehicles and transport equipment | 98 | 101 |
| Instruments and utensils | 642 | 631 |
| Land | 3,359 | 3,539 |
| Intangible assets | 23,262 | 5,473 |
| Telephone subscription rights | 29 | 30 |
| Telecommunication service rights | 2 | 2 |
| Software | 5,322 | 5,411 |
| Goodwill | 17,902 | - |
| Others | 6 | 29 |
| Investments and other assets | 976,329 | 997,240 |
| Investment securities | 242,105 | 240,431 |
| Subsidiary stock | 589,979 | 594,269 |
| Subsidiary bonds | 0 | 0 |
| Marketable securities of other related companies | 8,881 | 715 |
| Investments | 4,199 | 2,942 |
| Investments in subsidiaries | 27,412 | 27,304 |
| Long-term loans | 5,177 | 5,162 |
| Long-term loans to employees | 44 | 49 |
| Long-term loans to subsidiaries | 39,920 | 47,184 |
| Long-term receivables | 183,660 | 197,544 |
| Long-term expenses in advance | 5,860 | 6,143 |
| Deferred tax assets | 3,779 | 10,938 |
| Others | 10,550 | 9,428 |
| Allowance for doubtful receivables | (132,189) | (144,874) |
| Allowance for investment loss | (13,052) | - |
| Deferred assets | 3,079 | 1,024 |
| Stock issue cost | 2,569 | 701 |
| Bond issue cost | 510 | 323 |
| Total assets | 1,916,431 | 1,810,259 |

| Account | As of March 31, 2007 | As of March 31, 2006 |
|---|---|---|
| **Liabilities** | | |
| Current liabilities | 681,885 | 788,331 |
| Notes payable | 15,403 | 8,302 |
| Export & import | 15,155 | 26,378 |
| Accounts payable | 215,792 | 149,108 |
| Short-term borrowings | 315,071 | 469,973 |
| Short-term borrowings from subsidiaries | - | 500 |
| Commercial paper | 10,000 | 29,200 |
| Corporate bonds (redeemed within one year) | 500 | - |
| Accrued payable | 10,754 | 14,111 |
| Accrued expenses | 3,632 | 3,353 |
| Accrued income and other taxes | 1,235 | 852 |
| Advance receipts | 13,482 | 13,280 |
| Deposits | 72,689 | 66,859 |
| Income in advance | 415 | 513 |
| Guarantee deposits | 2,577 | 1,828 |
| Allowance for employees’ bonus | 3,097 | 1,796 |
| Others | 2,077 | 2,273 |
| Non-current liabilities | 783,291 | 579,510 |
| Bonds, less current portion | 245,000 | 95,500 |
| Long-term loans payable | 497,072 | 409,419 |
| Long-term borrowings from subsidiaries | 16,700 | 44,532 |
| Allowance for retirement benefits | 14,502 | 17,999 |
| Reserve for retirement benefits for directors and auditors | 690 | - |
| Others | 9,323 | 12,060 |
| Total Liabilities | 1,465,176 | 1,367,842 |
| **Shareholders' Equity** | | |
| Common and preferred stock | - | 130,549 |
| Capital surplus | - | 227,981 |
| Additional paid-in capital | - | 91,676 |
| Other capital surplus | - | 136,304 |
| Gain on reduction of capital or capital reserves | - | 136,304 |
| Retained earnings | - | 20,583 |
| Unappropriated retained earnings | - | 20,583 |
| Difference in valuation of other marketable securities | - | 63,387 |
| Treasury stock | - | (84) |
| Total shareholders' equity | - | 442,417 |
| Total liabilities, minority interest and shareholders' equity | - | 1,810,259 |
| **Net assets** | | |
| Total shareholders’ equity | 384,109 | - |
| Common and preferred stock | 122,790 | - |
| Capital surplus | 219,820 | - |
| Capital reserves | 114,709 | - |
| Other capital surplus | 105,110 | - |
| Retained earnings | 41,594 | - |
| Other retained earnings | 41,594 | - |
| Deferred retained earnings | 41,594 | - |
| Treasury stock | (96) | - |
| Valuation and translation adjustments | 67,145 | - |
| Net unrealized gain on other securities | 66,406 | - |
| Deferred gains or losses on hedges | 739 | - |
| Total net assets | 451,254 | - |
| Total liabilities and net assets | 1,916,431 | - |

# Non-consolidated Statement of Income

(Millions of yen)

| | FY 2006 (From April 1, 2006, to March 31, 2007) | | FY 2005 (From April 1, 2005, to March 31, 2006) | |
|---|---|---|---|---|
| Net sales | | 2,833,207 | | 1,328,787 |
| Cost of sales | | 2,768,087 | | 1,301,278 |
| Gross trading profit | | 65,120 | | 27,508 |
| Operating revenues | | - | | 1,335 |
| Gross profit on operating revenues | | 65,120 | | 28,844 |
| Selling, general and administrative expenses | | 57,599 | | 26,227 |
| Operating income | | 7,520 | | 2,616 |
| Non-operating revenue | | 85,666 | | 39,639 |
| Interest receivable | 10,105 | | 6,564 | |
| Dividends income | 60,783 | | 26,486 | |
| Others | 14,777 | | 6,588 | |
| Non-operating expenses | | 37,870 | | 22,488 |
| Interest expenses | 28,030 | | 16,370 | |
| Commercial paper interest | 89 | | 279 | |
| Miscellaneous expenses | 9,750 | | 5,838 | |
| Recurring profit | | 55,316 | | 19,767 |
| Extraordinary Income | | 23,250 | | 5,327 |
| Gain on sales and disposal of properties | 19 | | 5 | |
| Gain on sales of stock of subsidiaries | 2,425 | | 1,167 | |
| Gain on sales of investment securities | 7,116 | | 3,308 | |
| Gain on sales of investment in partners | 181 | | 14 | |
| Gain on reversal of allowance for doubtful accounts | 6,110 | | 212 | |
| Gain on sales of certain overseas receivables | 30 | | 617 | |
| Gain on bad debt recovered | 7 | | 2 | |
| Gain on reorganization of affiliates | 7,359 | | - | |
| Extraordinary Loss | | 55,184 | | 9,019 |
| Loss on sales and disposal of properties | 15 | | 110 | |
| Loss on disposal of tangible fixed assets | 81 | | 110 | |
| Impairment loss on fixed assets | 240 | | 22 | |
| Loss on sales of investment securities | 267 | | 111 | |
| Loss on sale of investments in partnerships | 9 | | 1,264 | |
| Evaluation loss on investment securities | 3,517 | | 563 | |
| Loss on devaluation of securities | 111 | | - | |
| Loss, and provision for loss on dissolution of subsidiaries and affiliates | 18,335 | | 6,122 | |
| Restructuring loss | - | | 714 | |
| Omnibus share distinction loss | 19,089 | | - | |
| Provision for allowance for investment losses | 13,052 | | - | |
| Provision for retirement benefits for directors, executive officers and corporate auditors | 463 | | - | |
| Income before income taxes and minority interests | | 23,383 | | 16,075 |
| Corporate income tax, corporate inhabit tax and enterprise tax | | (3,899) | | (2,954) |
| Income tax; Deferred | | 6,272 | | 2,220 |
| Net income | | 21,010 | | 16,808 |

# Non-consolidated Statement of Changes in Shareholder's Equity

## FY2006 (From April 1, 2006, to March 31, 2007)

(Millions of yen)

| Account | Total shareholders' equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common and preferred stock | Capital surplus | | | Retained earnings | | Treasury stock | Total shareholders' equity |
| | | Capital reserves | Other capital surplus | Total capital surplus | Other retained earnings / Deferred retained earnings | Total retained earnings | | |
| Balance as of March 31, 2006 | 130,549 | 91,676 | 136,304 | 227,981 | 20,583 | 20,583 | (84) | 379,029 |
| Change during FY2006 | | | | | | | | |
| New shares issued (share acquisition rights exercised) | 112,790 | 112,209 | | 112,209 | | | | 225,000 |
| Transfer from Common and preferred stock to other capital surplus | (120,549) | | 120,549 | 120,549 | | | | - |
| Transfer from capital reserves to other capital surplus | | (89,176) | 89,176 | - | | | | - |
| Current net income | | | | | 21,010 | 21,010 | | 21,010 |
| Acquisition of treasury stock | | | | | | | (240,931 | (240,931) |
| Cancellation of treasury stock | | | (240,920) | (240,920) | | | 240,920 | - |
| Net change in accounts other than total shareholders' equity during FY2006 | | | | | | | | |
| Total change during FY2006 | (7,759) | 23,032 | (31,193) | (8,160 | 21,010 | 21,010 | (11) | 5,079 |
| Balance as of March 31, 2007 | 122,790 | 114,709 | 105,110 | 219,820 | 41,594 | 41,594 | (96) | 384,109 |

| Account | Valuation and translation adjustments | | | Total net assets |
|---|---|---|---|---|
| | Net unrealized gain/loss on other securities | Deferred gains or losses on hedges | Valuation and translation adjustments | |
| Balance as of March 31, 2006 | 63,387 | - | 63,387 | 442,417 |
| Change during FY2006 | | | | |
| New shares issued (share acquisition rights exercised) | | | | 225,000 |
| Transfer from Common and preferred stock to other capital surplus | | | | - |
| Transfer from capital reserves to other capital surplus | | | | - |
| Current net income | | | | 21,010 |
| Acquisition of treasury stock | | | | (240,931) |
| Cancellation of treasury stock | | | | - |
| Net change in accounts other than total shareholders' equity during FY2006 | 3,018 | 739 | 3,757 | 3,757 |
| Total change during FY2006 | 3,018 | 739 | 3,757 | 8,837 |
| Balance as of March 31, 2007 | 66,406 | 739 | 67,145 | 451,254 |

Notes on Non-consolidated Financial Statements

## Significant accounting policies

### 1. Standards and methods of valuation of assets

#### (1) Standards and methods of valuation of securities

Securities for sales/purchase

These are valuated at their market value. Cost of sales is generally calculated using the moving average method.

Bonds to be held to maturity

These are valuated using the depreciation method (straight line method).

Affiliates and subsidiaries shares

These are valuated based on their cost determined using the moving average method.

Other securities with fair market value

These are valuated by the market value method based on the market value on the closing date of the period (related valuation differences are directly charged or credited to the net assets and cost of securities sold is calculated using the moving average method).

Other securities without fair market value

These are valuated at their cost based on the moving average method. Investments in a limited partnership for investment or a similar partnership (that can be considered as marketable securities in accordance with Article 2, Paragraph 2 of the Securities Exchange Law) are stated at their net equity value on the most recent financial statements that are available on the settlement report date as specified in the partnership agreement.

#### (2) Derivatives

These are valuated by the market value method.

#### (3) Investment-purpose money trusts

These are valuated by the market value method.

#### (4) Inventories

These are generally valuated at their cost based on the specific identification method or moving average method.

### 2. Depreciation methods for fixed assets

#### (1) Tangible assets

These are depreciated by the declining balance method. However, the straight line method is used for buildings (excluding their attached facilities) that were acquired on or after April 1, 1998.

#### (2) Intangible assets

For these, the straight line method is generally used. Software for in-house use is amortized by the straight line method based on the in-house service life (5 years).

### 3. Accounting standards for reserves/allowances

#### (1) Allowance for doubtful receivables

In preparation for losses from bad receivables, bad loans, or other bad debts, possibility of recovery is considered for general debts based on the actual bad debt write-off rate, whereas it is considered individually for specific debts where default is likely. The expected write-off amount as the result of this consideration is listed in accounts.

### (2) Allowance for investment losses

In preparation for losses on investments in affiliates, we list in accounts the predicted amount of loss calculated individually in accordance with the company standards, which taking into account the financial situation and business value of the pertinent affiliate.

### (3) Allowance for bonuses

In preparation for the payment of employee bonuses, the amount expected to be paid is listed in accounts.

### (4) Reserve for retirement benefits

In preparation for the payment of retirement benefits to employees, the reserve for retirement benefits is listed in accounts based on the amount of retirement benefit liabilities at the end of the fiscal year.

**Additional information**

We at Sojitz previously used a system comprising a fixed-contribution pension scheme and pre-paid retirement allowance scheme, but as of April 1, 2006, our system has been changed, with either a lump-sum retirement allowance scheme or a pre-paid retirement allowance scheme to accompany the fixed-contribution pension scheme. The impact of this change to gains and losses in and after FY2006 is negligible.

### (5) Reserve for retirement benefits for directors and auditors

In preparation for payment of retirement allowances to directors and executive officers, the predicted amount payable at the end of FY2006 as calculated pursuant to internal regulations was listed in accounts.

## 4. Standards for converting assets or liabilities in foreign currency to those in local currency

Credits and debts in foreign currency are converted to those in yen at the spot exchange rate on the settlement date and the exchange differences are stated as profit or loss.

## 5. Accounting method for lease transactions

For finance lease transactions in which the ownership of lease properties are not recognized as transferred to the lessee, the accounting method for ordinary lease transactions is used.

## 6. Hedge accounting methods

### (1) Hedge accounting method

In general, the deferred-hedge accounting method is used. Exchange contracts, currency swaps, and currency options that fulfill the allocation requirements are subjected to the allocation accounting methods, while interest rate swaps that fulfill the specific matching criteria are subjected to the accounting methods stipulated by those criteria.

### (2) Hedging instruments and hedged items

Exchange contract, currency swap, and currency option transactions are used as hedging instruments against exchange rate variation risks involved in transactions in foreign currencies; interest rate swap, interest rate cap, and interest rate option transactions are used as hedging instruments against interest rate variation risks involved in debts, loans, coupon bonds, and similar transactions; commodity future, forward delivery, and similar transactions are used as hedging instruments against precious metals, grain, petroleum, and other merchandise price variation risks.

### (3) Hedge policy

To avoid currency, interest rate, securities value, merchandise price variation risks that may arise in conjunction with our business activities, we chiefly use derivative transactions to hedge these risks in accordance with the in-house management regulations.

**(4) Hedge effectiveness evaluation method**

Cumulative cash-flow or market fluctuations in hedged items are compared with those in hedging instruments at half-year intervals. The effectiveness is evaluated based on the fluctuations in both quantities. However, effectiveness evaluation is not conducted on interest rate swaps that rely on the accounting method to which the specific matching criteria are applied.

## 7. Other basis of presenting financial statements

**(1) Accounting for deferred assets**

Stock issue costs are amortized on a straight line basis over 3 years. Bond issue costs are amortized on a straight line basis over the period of bond maturity. Costs of issuing bonds issued on or before March 31, 2006 are amortized over the period of bond maturity or 3 years, whichever is shorter. However, if this cost is low in amount, it is included in the lump-sum expenses.

**(2) Treating interest paid in association with large real-estate development projects as part of historical cost**

Interests paid for a large real-estate development project (whose total investment is 2 billion yen or more and whose development period exceeds one year) during the normal development period are treated as part of the historical cost.

**(3) Accounting for consumption tax**

The tax-excluded method is used.

**(4) Application of the consolidated tax system**

The consolidated tax system is used.

## Changes in accounting policy

**Accounting standards pertaining to listing of net assets in the balance sheet**

**Partial change in accounting standards pertaining to decrease in treasury stock and reserves**

Since the current consolidated accounting year, the accounting standards associated with listing of net assets in the balance sheet ("ASBJ Statement No. 5 Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standard Board of Japan on December 9, 2005), the policy for application of accounting standards associated with listing of net assets in the balance sheet ("ASBJ Guidance No. 8 Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standard Board of Japan on December 9, 2005) and revised accounting standards pertaining to decreases in treasury stock and reserves ("ASBJ Statement No. 1 (revised 2006) Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" issued by the Accounting Standard Board of Japan on August 11, 2006) and the policy for application of accounting standards associated with decreases in treasury stock and reserves ("ASBJ Guidance No. 2 (revised 2006) Guidance on Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" issued by the Accounting Standard Board of Japan on August 11, 2006) have applied.

As a result, previous total capital was equivalent to 450,515 million yen.

**Accounting of deferred assets for the time being**

Since the current consolidated accounting year, a statement pertaining to accounting of deferred assets for the time being ("PITF No. 19 Tentative Solution on Accounting for Deferred Assets" issued by the Accounting Standard Board of Japan on August 11, 2006) has applied. The impact of this on ordinary income and income before income taxes and minority interests compared with the hypothetical use of previous methods was negligible.

**Accounting standards for directors bonuses**

Since the current consolidated accounting year, accounting standards for directors' bonuses ("ASBJ Statement No. 4 Accounting Standard for Directors' Bonus" issued by the Accounting Standard Board of Japan on November 29, 2005) has applied. The impact of this on gains and losses was none.

**Accounting standards for business combinations**

Since the current consolidated accounting year, accounting standards for business combinations (issued by the Accounting Standard Board of Japan on October 31, 2005) and accounting standards for separation of business ("ASBJ Statement No. 7 Accounting Standard for Business Divestitures and the related Implementation Guidance" issued by the Accounting Standard Board of Japan on December 27, 2005) and guidelines for application of accounting standards for business combination and separation ("ASBJ Guidance No. 10 Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" issued by the Accounting Standard Board of Japan on December 27, 2005) have applied.

**Allowance for loss on investments**

Beginning in FY2006, we have begun listing allowance for losses on investments in accounts. This change provides, from a perspective of ensuring financial health, for the reserving and listing in accounts of the predicted amount of loss incurred when the actual value of an investment falls in the current fiscal year to less than the investment made by Sojitz Corporation and it is clearly unlikely that the pertinent affiliate will recover.

As a result, income before income taxes listed in accounts was 13,052 million yen less than if previous methods had been used.

**Reserve for retirement benefits for directors and auditors**

The revised *Auditing of reserves under the Special Taxation Measures Law and reserves and allowances under special laws* (JICPA 1st Auditors Committee Report No. 42 issued on April 13, 2007) is now applicable to FY2006, which began before issuance of that report. Therefore, starting in FY2006, we will list the retirement benefits for directors and auditors in accounts as stipulated in the report. Incidentally, the Sojitz Corporation executive officers do not constitute directors as stipulated under the Company Law, and are subject to a separate set of regulations from regular employees and therefore, reserves for executive officers' retirement benefits are included in reserve for retirement benefits for directors and auditors. The impact of this change on operating income was a decrease of 227 million yen and on income before income taxes and minority interests of 690 million yen compared with the hypothetical use of previous methods.

<u>Notes on Non-consolidated Accounts</u>

## Important accounting policy

1. Standards and methods for valuating securities
   Securities for sales/purchase are valuated at their market value. Cost of sales is generally calculated using the moving average method. Bonds to be held to maturity are valuated using the depreciation method (straight line method). Shares of affiliates and subsidiaries are valuated based on their cost determined using the moving average method. Other securities with fair market value are valuated by the market value method based on the market value on the closing date of the period (related valuation differences are directly charged or credited to the shareholders' equity and cost of securities sold is calculated using the moving average method). Securities without fair market value are valuated at their cost based on the moving average method. Investments in a limited partnership for investment or a similar partnership (that can be considered as marketable securities in accordance with Article 2, Paragraph 2 of the Securities Exchange Law) are stated at their net equity value on the most recent financial statements that are available on the settlement report date as specified in the partnership agreement.

2. Inventories are generally valuated at their cost based on the specific identification method or moving average method.

3. Derivatives and investment-purpose money trusts are valuated by the market value method.

4. Tangible fixed assets are depreciated by the declining balance method. However, the straight line method is used for buildings (excluding their attached facilities) that were acquired on or after April 1, 1998. For intangible fixed assets, the straight line method is generally used. Software for in-house use is amortized by the straight line method based on the in-house service life (5 years).

5. In preparation for losses from bad receivables, bad loans, or other bad debts, possibility of recovery is considered for general debts based on the actual bad debt write-off rate, whereas it is considered individually for specific debts where default is likely. The expected write-off amount as the result of this consideration is listed in accounts.

6. In preparation for the payment of employee bonuses, the amount expected to be paid is listed in accounts.

7. In preparation for the payment of retirement benefits to employees, the reserve for retirement benefits is listed in accounts based on the retirement benefit liabilities at the end of the fiscal year.

8. Credits and debts in foreign currency are converted to those in yen at the spot exchange rate at the end of the period and the exchange differences are listed in accounts as profit or loss.

9. The start-up expenses and stock issue expenses are amortized using the straight line method over 3 years. Bond issue cost is amortized on the straight line basis over the period of bond maturity or the maximum period (3 years) specified by the Commercial Code Enforcement Regulations, whichever is shorter.

10. For finance lease transactions in which the ownership of lease properties are not recognized as transferred to the lessee, the accounting method for ordinary lease transactions is used.

11. For hedge accounting, the deferred hedge accounting method is generally used. Exchange contracts, currency swaps, and currency options that fulfill the allocation requirements are subjected to the allocation accounting. Interest rate swaps that fulfill the specific matching criteria are subjected to the accounting method that is pertinent to the specific criteria.

12.. Interests paid for large real-estate development projects (whose total investment is 2 billion yen or more and whose development period exceeds one year) during the normal development period are treated as part of the historical cost.

13. The accounting method for consumption tax is the tax excluded method.

14. The consolidated tax system is applied.

## Changes in accounting policy

### Accounting standards associated with the impairment of fixed assets

Beginning this fiscal year, the accounting standards associated with the impairment of fixed assets (Statement about the Establishment of Accounting Standards Associated with the Impairment of Fixed Assets issued by the Accounting Standard Board of Japan on August 9, 2002 and Guidelines for the Application of Accounting Standards Associated with the Impairment of Fixed Assets issued as business accounting standard application guidelines No. 6 on October 31, 2003) have applied. As a result, the income before income taxes has been reduced by 22 million yen. The cumulative impairment losses are directly deducted from appropriate asset values.

## Changes in listing

The merge with the previous Sojitz Corp., a business affiliate, on October 1, 2005 involved review of what should be or should not be included in particular financial statements, including unification of account names. As the result of this review, the following changes have been made effective since this business year.

### Balance sheet:

Equipment attached to leased buildings was listed as "Equipment attached to buildings." They are now listed as included in "Buildings."

### Statement of income

1) "Operating expenses" were separately listed. As the result of the review relating to the merge, they are included in "Selling, general and administrative expenses."
2) "Stock issue cost amortization" was stated separately. As the result of merge, it is less than 10% of the total non-operating expenses. Therefore, it is now included in "Other non-operating expenses."
3) Subsidiary stock valuation loss, which was stated as such, is now included in "Loss resulting from subsidiary reorganization and reserve."

## Additional information

### Revision to the retirement benefit plan

We used a combination of defined contribution pension and prepaid retirement benefit plans as our retirement benefit plan. On April 1, 2006, we decided to use the defined contribution pension and retirement lump-sum payment plan or prepaid retirement benefit plan. This change will have only a limited influence on the income/loss in 2006 onward.

## Notes on Balance Sheet

### 1. Amounts of less than one million yen have been discarded.

### 2. Mortgaged assets and liabilities

(Millions of yen)

| Mortgaged assets | | Corresponding liabilities | |
|---|---|---|---|
| Type | Book value at the end of fiscal year | | |
| Cash and deposits | 100 | The assets to the left have been offered as collateral for borrowings or as security deposit. The reasons for those assets being mortgaged are listed below. | |
| Accounts receivable | 971 | | |
| Merchandise | 31,981 | | |
| Short-term loans receivable (including those to affiliates) | 2,773 | Long-term borrowings (including those repaid within one year) | 20,102 |
| Investment securities (including shares in affiliates) | 171,161 | Advances received | 100 |
| Long-term loans receivable (including those to affiliates) | 5,143 | Deposits received | 31,981 |
| Total | 212,131 | Total | 52,184 |

Notes: 41,587 million yen of the Company's investment securities have been offered as security deposits.

### 3. Accumulated depreciation of tangible fixed assets: 4,858 million yen

### 4. Guaranteed debts

(Millions of yen)

| Guaranteed party | Amount of guaranteed debts |
|---|---|
| Sojitz Corporation of America | 39,343 |
| Sojitz Asia Pte. Ltd. | 23,140 |
| Sojitz (Hong Kong) Ltd. | 17,802 |
| Sojitz UK plc. | 13,433 |
| Sojitz (Thailand) Co., Ltd. | 11,590 |
| Sojitz Energy Corporation | 11,076 |
| LNG Japan | 10,277 |
| Sojitz Energy Project Limited | 10,172 |
| Sojitz Petroleum Co. (Singapore) Pte. Ltd. | 8,575 |
| Thai Central Chemical Public Co., Ltd. | 7,857 |
| Others (170 debts) | 101,566 |
| Total | 254,836 |

Note: The guaranteed debts listed above represent mainly guarantees of borrowings from financial institutions, and include 85,697 million yen in quasi guarantee acts.

### 5. Notes discounted: 27,979 million yen

Note: Outstanding inter-bank transactions, which represent the balance of export letters of credit yet to be purchased by banks, are included in the discounts on trade notes receivable because they can be treated as trade note discounts. Their amount is 13,877 million yen.

### 6. Accounting for notes that mature on the settlement date

Notes that mature on the settlement date are settled as of the conversion date of the notes. The following notes that mature on the settlement date will be included in the accounts of FY2007 because the final date of FY2006 was a bank holiday.

| | |
|---|---|
| Notes receivable: | 4,937 million yen |
| Notes payable: | 2,649 million yen |

**7. Monetary claims against and debts to affiliates**

| | |
|---|---|
| Short-term monetary claim: | 155,469 million yen |
| Long-term monetary claim: | 105,355 million yen |
| Short-term monetary debt: | 69,724 million yen |
| Long-term monetary debt: | 18,721 million yen |

## Notes on statement of income

**1. Amounts of less than one million yen have been discarded.**

**2. Transactions with affiliates**

| | |
|---|---|
| Sales to affiliates: | 294,723 million yen |
| Purchases from affiliates: | 410,339 million yen |
| Non-operating transactions with affiliates: | 71,237 million yen |

## Notes on statement of changes in shareholder’s equity

**1. Amounts of less than one million yen have been discarded.**

**2. Types and numbers of shares outstanding at the end of FY2006**

| | |
|---|---|
| Common shares: | 190,511 |

## Additional information

### Acquisition of treasury stock

At the AGM of June 27, 2006, Sojitz Corporation established a budget for the acquisition of Second, Third and Fourth Series Class-I preferred shares, and First Series Class-II preferred shares. Pursuant to an amendment of the Articles of Incorporation approved and passed at that AGM, the company also established additional conditions for the acquisition of First Series Class-II preferred shares and First Series Class-IV and Class-V preferred shares, as well as Second Series Class-V preferred shares. Then, in accordance with a resolution passed at the board meeting of April 28, 2006, an agreement to acquire preferred shares was executed on the same day.

Under that agreement, the initial purchase was made on March 30, 2007, of Second, Third and Fourth Series Class-I preferred shares, as well as First Series Class-II preferred shares and Second Series Class-V preferred shares with a total issue price of 230.4 billion yen for a purchase price of 240,920 million yen. These were cancelled on the dame day. Thus, as of March 31, 2007, preferred shares subject to the aforementioned agreement and the major provisions of that agreement are as follows.

**(1) Types of shares**

First Series Class-IV preferred shares
First Series Class-V preferred shares

**(2) Acquisition price**

| Type | Acquisition price per share | Issue price and purchase price | percentage of issue price |
|---|---|---|---|
| First Series Class-IV preferred shares | 2,300 yen | 10,000 yen | 23% |
| First Series Class-V preferred shares | 5,160 yen | 12,000 yen | 43% |

Notes: Acquisitions in and after October 2007 will incur an increase in acquisition price per share by 2% of the issue price of each preferred share.

**(3) Total share acquisition price**

| | |
|---|---|
| First Series Class-IV preferred shares | 45.885 billion yen |
| First Series Class-V preferred shares | 56.115 billion yen |
| Total | 102 billion yen |

Notes: Acquisitions after October 2007 will incur an increase in acquisition price per share by 2% of the issue price of each preferred share. Assuming that all the preferred shares are acquired at the increased price, the total amount of acquisition price will be 108.6 billion yen.

**(4) Total number of shares to be acquired**

| Type | number of shares | ratio to issued shares |
|---|---|---|
| First Series Class-IV preferred shares | 19,950,000 | 100% |
| First Series Class-V preferred shares | 10,875,000 | 100% |
| Total: | 30,825,000 | |

**(5) Companies from which Sojitz will acquire shares, number of shares and total acquisition price**

First Series Class-IV preferred shares

| Companies from which Sojitz will acquire shares | Number of shares | Total acquisition price |
|---|---|---|
| Bank of Mitsubishi Tokyo UFJ | 19,950,000 shares | 45,885,000,000 yen |

Notes: Acquisitions after October 2007 will incur an increase in acquisition price per share by 2% of the issue price of each preferred share. Assuming that all the preferred shares are acquired at the increased price, the total amount of acquisition price will be 49,875 million yen.

First Series Class-V preferred shares

| Companies from which Sojitz will acquire shares | Number of shares | Total acquisition price |
|---|---|---|
| Bank of Mitsubishi Tokyo UFJ | 10,875,000 shares | 56,115,000,000 yen |

Notes: Acquisitions after October 2007 will incur an increase in acquisition price per share by 2% of the issue price of each preferred share. Assuming that all the preferred shares are acquired at the increased price, the total amount of acquisition price will be 58,725 million yen.

**(6) Acquisition dates**

(i) A date specified by Sojitz ("additional acquisition date") falling between April 1, 2007 and the date preceding the AGM scheduled for June 2007; (ii) September 28, 2007; (iii) March 31, 2008.

**(7) Total acquisition on each acquisition date**

Total amount of bonds with acquisition rights converted during the period from the day of the board resolution pertaining to the acquisition on the immediately preceding acquisition date (in case of initial acquisition, the date of issuance of the third and fourth series unsecured bonds) until the day of the board resolution pertaining to the acquisition on the current acquisition date. Notwithstanding the above, the company may, at its discretion, exceed the above-mentioned total amount of acquisition.

**(8) Order of acquisition**

The order of acquisition shall be: First Series Class-IV, and then First Series Class-V.

**(9) Acquisition Method**

**Class-IV & Class-V preferred shares**

These shall be acquired in accordance with the conditions established pursuant to the amendment of the Articles of Incorporation and by following the procedures provided for in the Company Law.

**(10) Conditions precedent**

Acquisition of preferred shares by the company based on the agreement is subject to all following conditions:

1) All the convertible bonds to be issued to Nomura Securities (Bermuda), Ltd., the issue of which was approved on April 28, 2006, are issued;
2) The motion to amend the Company's Articles of Incorporation to increase the total number of shares authorized to be issued and the number of shares of common shares to be issued is approved at the AGM (hereinafter referred to as "This AGM") held on June 27, 2006, and resolutions of the General Meetings of Class Shareholders required under the Company Law is passed by all the relevant classes of shareholders at an AGM as required under the Company Law;
3) Each proposal at this AGM with regard to reductions of capital and capital reserves is approved, and reductions of capital and additional paid-in capital become effective;
4) The proposal at this AGM to establish authorized limits for acquisition of treasury shares with regard to Class-I and Class-II Preferred Shares is approved;
5) In the event that any outstanding preferred shares were not acquired in accordance with this agreement on the acquisition date of March 30, 2007 or the additional acquisition date (assuming that the company specifies such a date): a proposal to establish of authorized limits for acquisition of treasury stock is approved at the AGM or other shareholders' meeting immediately after this AGM;

6) The proposal at this AGM to amend the company's Articles of Incorporation to add a conditions for the acquisition of Class-IV and Class-V preferred shares by the Company is approved passed by all the relevant classes of shareholders, and also the acquisition of preferred shares is allowed under the Commercial Code and the Company Law.

**(11) Restriction of Transfer**

No holder of preferred shares shall be allowed to transfer those preferred shares in possession to third parties without prior consent of the company during a period between April 28, 2006 and March 31, 2008.

**(12) Term of agreement**

The term of the agreement shall last from April 28, 2006 until whichever date below falls first.

1) The date on which acquisition and settlement of all preferred shares are completed in accordance with the agreement.
2) The date on which the conditions precedent set forth in (10) were determined not to be fulfilled.
3) March 31, 2008

## Notes on accounting for tax effects

1. Amounts of less than one million yen have been discarded.

2. Major causes of deferred tax assets and liabilities

**Deferred tax assets**

| | |
|---|---|
| Allowance for doubtful receivables and write off in excess of maximum allowable amount: | 35,261 million yen |
| Loss on devaluation of investment securities: | 27,429 million yen |
| Loss from consolidation: | 11,616 million yen |
| Reserve for retirement benefits in excess of maximum allowable amount: | 3,218 million yen |
| Losses carried forward: | 241,827 million yen |
| Others: | 17,601 million yen |
| Subtotal: | 336,954 million yen |
| Valuation allowance: | (258,833) million yen |
| Total deferred tax assets: | 78,121 million yen |
| Offset against deferred tax liabilities: | (72,345) million yen |
| Deferred tax assets listed in accounts: | 5,776 million yen |

**Deferred tax liabilities**

| | |
|---|---|
| Gain from consolidation: | (25,667) million yen |
| Net unrealized gain on other securities: | (46,146) million yen |
| Others: | (531) million yen |
| Total deferred tax liabilities: | (72,345) million yen |
| Offset against deferred tax assets: | 72,345 million yen |
| Deferred tax liabilities listed in accounts: | — |
| Net deferred tax assets: | 5,776 million yen |

## Notes on leased fixed assets

Major fixed assets that Sojitz uses under lease agreements in addition to the fixed assets stated on the balance sheet include computer equipment.

## Transactions with affiliated parties

**Subsidiaries**

(Millions of yen)

| Classification | Company | Ownership including voting right | Relationship | Transactions | Amount of business | Account | As of March 31, 2007 |
|---|---|---|---|---|---|---|---|
| Subsidiary | Sojitz Corporation of America | Directly and wholly owned | Buyer and supplier of products; Sojitz Corp. director(s) on board | Debts guaranteed*<br>Guarantee fees received** | 39,343<br>39 | - | - |
| Subsidiary | Sojitz Asia Pte. Ltd. | Directly and wholly owned | Buyer and supplier of products; Sojitz Corp. director(s) on board | Debts guaranteed* | 23,140 | - | - |
| Subsidiary | Sojitz (Hong Kong) Ltd. | Directly and wholly owned | Buyer and supplier of products; Sojitz Corp. director(s) on board | Debts guaranteed *<br>Guarantee fees received** | 17,802<br>3 | - | - |
| Subsidiary | Sojitz UK plc. | Indirectly and wholly owned | Buyer and supplier of products; Sojitz Corp. director(s) on board | Debts guaranteed*<br>Guarantee fees received** | 13,433<br>29 | - | - |

**Terms of trade and policies for determining these**

* Sojitz Corporation guarantees the pertinent company's bank borrowings.

** Sojitz Corporation receives a fee of 0.1% per annum on the outstanding balance of the loans.

## Notes on per-share information

1. Shareholders' equity per share: 110.73 yen

2. Current net income per share: 30.57 yen

## Notes on transactions under the same parent company

Following transactions were carried out in this fiscal year between companies under the same parent company.

(1) Real estate development and forestry segment

(i) Name and business details of the former companies before combination

| | | |
|---|---|---|
| Existing company: | Sojitz Corporation | General trading company |
| Acquired company: | Sojitz Urban Development Corporation | General real estate business |

(ii) Legal form of business combination

Merger and acquisition type, whereby Sojitz Corporation became an existing company. Sojitz Urban Development Corporation liquidated.

(iii) Name of the company subsequent to business combination

Sojitz Corporation

(iv) Transaction details and purposes

(Purposes of acquisition)

The urban development segment of Sojitz has moved ahead in allotment sales of apartment room with Sojitz Urban Development Corporation. Sojitz will further enhance efficient management of the Group companies and the Group companies come tougher, fully making advantage of inherent functions of general trading companies. Thus, we will make improvement in daily operations and reduce costs through unification of the said businesses. To achieve these objectives, Sojitz acquired Sojitz Urban Development Corporation. Sojitz owned whole issued shares of Sojitz Urban Development Corporation, accordingly, we issued no shares nor the capital increased. In addition, we didn't make any cash payment in the transactions.

(Date of acquisition)

August 1, 2006

(v) Outline of the accounting treatments for the acquisition

The accounting treatments of the acquisition is based on the Accounting Standard for Business Combination, issued on October 31, 2003, by Accounting Standard Board of Japan, and ASBJ Guidance No. 10, Guidelines for Application of Accounting Standard for Business Combination and Separation, issued on December 27, 2005, by ASBJ, as transactions under the same parent company.

(2) Chemicals and plastics segment

(i) Name and business details of the former companies before companies

| | | |
|---|---|---|
| Existing company: | Sojitz Corporation | General trading company |
| Acquired company: | Global Chemical Holdings, Inc. | Holding company of chemical business |
| | Sojitz Chemical Corporation | Domestic and overseas transactions of chemical products and inorganic mineral products |

(ii) Legal form of business combination

Merger and acquisition type, whereby Sojitz Corporation became an existing company. Global Chemical Holdings, Inc. and Sojitz Chemical Corporation liquidated.

(iii) Name of the company subsequent to business combination

Sojitz Corporation

(iv) Transaction details and purposes

(Purposes of acquisition)

Chemical business of Sojitz advanced focusing on the business of fertilizer and methanol, both of which Sojitz were engaged in, and chemical business, that was carried out by Sojitz Chemical Corporation, as a core entity of these businesses. These two businesses of both companies has been a driving force for the chemical business. Further, the Group companies will aim efficient management and fully make advantage of the inherent functions of general trading companies, for accelerated business expansion around the globe. To achieve these objectives, we determined to consolidate the chemical business into Sojitz, acquiring Global Chemical Holdings, Inc., a holding company of chemical business, and its wholly owned subsidiary Sojitz Chemical Corporation. Sojitz owned whole shares of Global Chemical Holdings, Inc., which owned whole shares of Sojitz Chemical Corporation. Accordingly, we issued no shares nor the capital increased. In addition, we didn't make any cash payment in the transactions.

(Date of acquisition)

August 1, 2006

(v) Outline of the accounting treatments for the acquisition

The accounting treatments of the acquisition is based on the Accounting Standard for Business Combination, issued on October 31, 2003, by Accounting Standard Board of Japan, and ASBJ Guidance No. 10, Guidelines for Application of Accounting Standard for Business Combination and Separation, issued on December 27, 2005, by ASBJ, as transactions under the same parent company.

## Notes on significant subsequent events

1. Based on the resolution passed at the board meeting held on March 23, 2007 pertaining to the upper limit for issuance of domestic unsecured common corporate bonds in the first half of FY2007 and an overview of such issue, the company issued domestic unsecured common corporate bonds on April 25, 2007. Details of such bonds are as follows:

| | | |
|---|---|---|
| (1) | Corporate bonds issued: | 12th Series unsecured corporate bonds |
| (2) | Total amount of corporate bonds: | 10 billion yen |
| (3) | Amount of each bond: | 100 million |
| (4) | Total issue price: | 10 billion |
| (5) | Issue price: | 100 yen per 100 yen of principal |
| (6) | Interest rate: | 1.60% per annum |
| (7) | Interest payment date: | April 25 and October 25 each year, with interest incurred on and after October 26, 2009 to be paid on the redemption date |
| (8) | Method of redemption | |
| a. | Redemption at maturity | |
| b. | Purchase and cancellation | |
| (9) | Redemption price: | 100 yen per 100 yen of principal |
| (10) | Closing date: | April 25, 2007 |
| (11) | Issue date: | April 25, 2007 |
| (12) | Redemption deadline: | April 23, 2010 |
| (13) | Issue location: | Japan |
| (14) | Subscription method: | General subscription |
| (15) | Security, guarantee: | Unsecured, non-guaranteed |
| (16) | Use of funds raised: | Working capital |

2. As for the fourth series unsecured convertible corporate bonds with stock acquisition rights, issued May 25, 2006 (150 billion yen in total), by resolution at the board meeting on April 28, 2006, the stock acquisition rights were exercised through May 16, 2007 as follows:

| | | |
|---|---|---|
| (1) | Stock name: | 4th Series unsecured convertible corporate bonds with stock acquisition rights |
| (2) | Date: | May 10, 2007 and May 14, 2007 |
| (3) | Number of shares delivered: | 45,892,610 |
| | (including newly issued shares | 45,892,610) |
| | (including treasury shares | —) |
| (4) | Exercise (conversion) price: | |
| | and conversion face value | 435.8 yen |
| | | 20 billion yen |
| (5) | Total exercised amount | 95 billion yen (63.3% of total issued converted) |
| (6) | Outstanding | 55 billion yen |

As a result, capital and capital reserve increased 10,004 million yen and 9,995 million yen respectively.

Accounting Auditors' Audit Report Concerning the Consolidated Financial Statements: Full Copy

## Independent Auditors' Audit Report

May 16, 2007

To the Board of Directors,
Sojitz Corporation

KPMG AZSA & Co.

| | | |
|---|---|---|
| Designated and Engagement Partner<br>Certified Public Accountant | Masaji Tomiyama | Seal |
| Designated and Engagement Partner<br>Certified Public Accountant | Junshi Ono | Seal |
| Designated and Engagement Partner<br>Certified Public Accountant | Takuichi Arai | Seal |
| Designated and Engagement Partner<br>Certified Public Accountant | Iwao Hirano | Seal |

In accordance with Article 444, Paragraph 4 of the Corporate Law, we, the audit corporation, audited the consolidated financial statements, that is, the consolidated balance sheet, consolidated statement of income, consolidated statements of change in shareholders' equity and the notes to the consolidated financial statements of the Company for the consolidated fiscal term from April 1, 2006 to March 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on the consolidated financial statements.

We, the audit corporation, conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

These consolidated financial statements are in accordance with auditing standards generally accepted in Japan and they present fairly the financial position and the results of operations in every material matter which consists of Sojitz Corporation and its subsidiaries for the period of the consolidated financial statements of the Group.

Additional Information

As listed in the notes to material subsequent events in the consolidated notes, the Company issued domestic unsecured ordinary bonds on April 25, 2007. Also, equity warrant of unsecured convertible bonds with stock options was exercised on May 10, 2007 and on May 14, 2007.

Our firm and engagement partners have no interest in the Company which must be disclosed pursuant to the provisions of the Certified Public Accountants Law.

Accounting Auditors' Audit Report Concerning the Non-consolidated Financial Statements: Full Copy

## Independent Auditors' Audit Report

May 16, 2007

To the Board of Directors,
Sojitz Corporation

KPMG AZSA & Co.

| | | |
|---|---|---|
| Designated and Engagement Partner<br>Certified Public Accountant | Masaji Tomiyama | Seal |
| Designated and Engagement Partner<br>Certified Public Accountant | Junshi Ono | Seal |
| Designated and Engagement Partner<br>Certified Public Accountant | Takuichi Arai | Seal |
| Designated and Engagement Partner<br>Certified Public Accountant | Iwao Hirano | Seal |

In accordance with Article 436, Paragraph 2 Item 1 of the Corporate Law, we, the audit corporation audited the non-consolidated financial statements, that is, the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statements of change in shareholders' equity and the notes to non-consolidated financial statements and supplementary schedules of the Company for the 4th fiscal term from April 1, 2006 to March 31, 2007. These non-consolidated financial statements and supplementary schedules are the responsibility of the Company's management. Our responsibility is to independently express an opinion on the non-consolidated financial statements and the supplementary schedules based on our audit.

We, the audit corporation, conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the non-consolidated financial statements and supplementary schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the non-consolidated financial statements and supplementary schedules, assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

These non-consolidated financial statements and supplementary schedules are in accordance with auditing standards generally accepted in Japan and they present fairly the financial position and the results of operations in every material matter for the period of the non-consolidated financial statements.

Additional Information

As described in the paragraph under the changes of the auditing policy in the notes to the non-consolidated financial statements, the Company applied the accounting standard and others concerning business combinations from the period under review, and the Company posted a reserve for investment loss and a reserve for retirement benefits for directors.

As described in the notes to material subsequent events in the notes to the Consolidated Financial Statements, the Company issued domestic unsecured ordinary bonds on April 25, 2007. Also, equity warrant of unsecured convertible bonds with stock options was exercised on May 10, 2007 and on May 14, 2007.

Our firm and engagement partners have no interest in the Company which must be disclosed pursuant to the provisions of the Certified Public Accountants Law.

Board of Corporate Auditors' Audit Report: Full Copy

**Audit Report**

The Board of Corporate Auditors, based on the audit reports made by each Corporate Auditor concerning the execution of duties by Directors for the 4th fiscal term from April 1, 2006 to March 31, 2007, prepared this Audit Report and hereby submit it as follows:

1. The methods and details of the Audit Conducted by the Corporate Auditors and the Board of Corporate Auditors

The Board of Corporate Auditors determined auditing policies and allocation of duties, received reports from each Corporate Auditor concerning the implementation and the results of the audits, obtained reports on business operations from Directors and other relevant persons as well as the Accounting Auditors concerned, and requested explanations as necessary.

In accordance with the audit standards for the Corporate Auditors as established by the Board of Corporate Auditors, the auditing policies, the audit execution plan and allocation of duties, each Corporate Auditor communicated Directors, Internal Audit Department as well as other employees, committed to gather information and develop an audit environment, attended the meetings of the Board of Directors and other significant meetings; obtained reports on business operations from Directors and others; requested explanation as necessary; reviewed documents which record approval of material matters; conducted investigations regarding the status of the business operations and assets of the head office and other major offices.

In addition, the Corporate Auditors monitored and confirmed the condition of the system (the internal control system) implemented based on the corporate resolution concerning the implementation of system set forth in the Article 100, Paragraph 1 and 3 of the Corporate Law and required to ensure the execution of duties by Directors in accordance with related laws, regulations and the Articles of Incorporation of the Company.

Based on the methods as described above, the Board of Corporate Auditors deliberated the business reports and supplementary schedules for the period under review.

Furthermore, the Corporate Auditors monitored and confirmed if the Accounting Auditors holding independent position and performing appropriate audit received reports on auditing operations from the Accounting Auditors; and requested explanation as necessary. Also, the Corporate Auditors received a report from the Accounting Auditors that the Company implemented the "system to ensure appropriate execution of duties" (set forth in Article 159 of the Company's Calculation Rules) in accordance with the "Quality Control Standards for Audits " (Business Accounting Council, October 28, 2005) and others, and requested explanation as necessary.

Based on the methods as described above, the Board of Corporate Auditors deliberated the non-consolidated financial statements (the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statements of change in net assets and the notes to non-consolidated financial statements) and supplementary schedules and the consolidated financial statements (the consolidated balance sheet, consolidated statement of income, consolidated statements of change in net assets and the notes to non-consolidated financial statements for the period under review.

2. Results of audit

(1) Audit results of business operation reports and other documents concerned

1. The business report and supplementary schedules comply with the laws and regulations and with the articles of incorporation and correctly represents the company status.
2. The business activities performed by the directors were correct and did not seriously violate the laws, regulations, or the articles of incorporations.
3. The corporate resolution concerning the internal control system is fair and reasonable. There are not matters to be pointed out for the execution of duties by Directors regarding the internal control system.

(2) Audit results of the non-consolidated financial statements and supplementary schedules

The auditing methods and results of the Accounting Auditors, KPMG AZSA & Co., are fair and reasonable.

(3) Audit results of the consolidated financial statements

The auditing methods and results of the Accounting Auditors, KPMG AZSA & Co., are fair and reasonable.

3. Subsequent Events

In accordance with the resolution at the board meeting held on April 28, 2006, in addition to the notes of material subsequent events listed on the non-consolidated financial statements, regarding to the 4th issue of unsecured convertible bonds with stock options (150 billion yen in total) on May 25, 2006, equity warrant was exercised on May 17, 2007 as follows:

| | |
|---|---|
| (1) Security name | The 4th issue of unsecured convertible bonds with stock options |
| (2) Exercise date | May 17, 2007 |
| (3) Number of shares granted | 22,946,305 shares |
| (including 22,946,305 newly shares) | |
| (the number of treasury shares transferred thereof | 1 share) |
| (4) Exercise price (conversion price) and convertible face value | 435.8 yen 10 billion yen |
| (5) Aggregate exercise price at par | 105 billion yen (conversion ratio 70%) |
| (6) Balance unexercised | 45 billion yen |

As a result, as to the consolidated financial statements, the capital and the capital surplus increased by 5.002 billion yen and 4.997 billion respectively yen. Also, as to the non-consolidated financial statements, the capital and the capital reserve increased by 5.002 billion yen and 4.997 billion yen respectively.

May 17, 2007

Sojitz Corporation Board of Corporate Auditors

| | | |
|---|---|---|
| Corporate Auditor (regular) | Joji Wada | Seal |
| Independent Corporate Auditor (regular) | Toshiya Yahata | Seal |
| Corporate Auditor (regular) | Kenji Okazaki | Seal |
| Independent Corporate Auditor | Katsuaki Ishida | Seal |
| Independent Corporate Auditor | Kazuo Hoshino | Seal |