MITSUI & CO LTD
Form 6-K
December 04, 2007

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Semi-Annual Consolidated Financial Statements

for the six-month period ended September 30, 2007

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

of the Securities Exchange Act of 1934

For the month of December 4, 2007

Commission File Number 09929

Mitsui & Co., Ltd.

(Translation of registrant s name into English)

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

(Address of principal executive offices)

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

Form 20-F __X__ Form 40-F ______

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

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

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

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

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

Yes ______ No __X__

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

Signatures

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

Date: December 4, 2007

MITSUI & CO., LTD.

By:	/s/ Kazuya Imai
Name:	Kazuya Imai
Title:	Executive Vice President
	Chief Financial Officer

Semi-Annual Consolidated Financial Statements

for the six-month period ended September 30, 2007

English translation of semi-annual consolidated financial statements for the six-month period ended September 30, 2007, which were prepared in accordance with U.S. GAAP and filed as part of the Semi-Annual Securities Report with the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on December 3, 2007.

Consolidated Balance Sheets (Unaudited)

Mitsui & Co., Ltd. and subsidiaries

September 30, 2006 and 2007 and March 31, 2007

	Millions of Yen		
	September 30, 2006	September 30, 2007	March 31, 2007
ASSETS			
Current Assets:			
Cash and cash equivalents (Notes 2 and 4)	¥ 706,464	¥ **797,855**	¥ 800,032
Time deposits	8,343	**6,816**	6,591
Marketable securities (Notes 2 and 4)	167,945	**13,032**	11,670
Trade receivables (Note 7):			
Notes and loans, less unearned interest	487,647	**468,304**	475,271
Accounts	2,112,643	**2,228,873**	2,199,614
Associated companies	170,967	**246,008**	240,950
Allowance for doubtful receivables (Note 2)	(27,233)	**(25,598)**	(29,824)
Inventories (Notes 2 and 7)	752,497	**735,520**	696,470
Advance payments to suppliers	96,296	**113,009**	96,702
Deferred tax assets current (Note 2)	26,196	**29,251**	21,354
Derivative assets (Note 2)	337,749	**241,572**	254,319
Other current assets	310,272	**256,717**	300,627
Total current assets	5,149,786	**5,111,359**	5,073,776
Investments and Non-current Receivables (Notes 2 and 7):			
Investments in and advances to associated companies (Notes 4, 5 and 9)	1,471,592	**1,396,363**	1,587,571
Other investments (Note 4)	964,794	**1,518,612**	1,238,853
Non-current receivables, less unearned interest	529,142	**484,206**	462,935
Allowance for doubtful receivables (Note 2)	(95,179)	**(60,794)**	(69,775)
Property leased to others at cost, less accumulated depreciation (Notes 6 and 13)	236,784	**250,488**	259,240
Total investments and non-current receivables	3,107,133	**3,588,875**	3,478,824
Property and Equipment at Cost (Notes 2 and 7):			
Land, land improvements and timberlands	197,256	**189,230**	191,537
Buildings, including leasehold improvements	354,725	**398,258**	379,814
Equipment and fixtures	466,658	**830,212**	790,510
Mineral rights	165,543	**148,036**	151,752
Vessels	22,339	**31,646**	33,666
Projects in progress	126,162	**167,087**	130,529
Total	1,332,683	**1,764,469**	1,677,808
Accumulated depreciation	(459,162)	**(729,338)**	(689,508)
Net property and equipment	873,521	**1,035,131**	988,300
Intangible Assets, less Accumulated Amortization (Note 2)	82,011	**129,094**	104,445
Deferred Tax Assets Non-current (Note 2)	46,492	**29,200**	34,972
Other Assets	118,661	**137,176**	132,995

Total	¥ 9,377,604	**¥ 10,030,835**	¥ 9,813,312

See notes to consolidated financial statements.

	Millions of Yen		
	September 30, 2006	September 30, 2007	March 31, 2007
LIABILITIES AND SHAREHOLDER S EQUITY			
Current Liabilities:			
Short-term debt (Note 7)	¥ 772,800	¥ **513,693**	¥ 658,747
Current maturities of long-term debt (Note 7)	359,413	**290,806**	371,865
Trade payables:			
Notes and acceptances	118,715	**93,783**	98,199
Accounts	2,046,939	**1,987,220**	1,966,800
Associated companies	100,313	**60,805**	64,730
Accrued expenses:			
Income taxes (Note 2)	44,704	**149,203**	85,692
Interest	22,015	**27,196**	25,324
Other	75,238	**74,023**	84,625
Advances from customers	118,105	**137,803**	113,586
Derivative liabilities (Note 2)	259,030	**181,381**	198,735
Other current liabilities (Notes 2, 11 and 12)	168,455	**105,283**	141,899
Total current liabilities	4,085,727	**3,621,196**	3,810,202
Long-term Debt, less Current Maturities (Note 7)	2,699,250	**2,945,476**	2,887,528
Accrued Pension Costs and Liability for Severance Indemnities (Note 2)	37,822	**32,045**	33,209
Deferred Tax Liabilities Non-current (Note 2)	334,321	**472,876**	450,181
Other Long-Term Liabilities (Notes 2 and 12)	254,306	**337,720**	283,226
Commitments and Contingent Liabilities (Notes 7 and 12)			
Minority Interests	136,720	**239,392**	238,687
Shareholders Equity			
Common stock no par value			
Authorized, 2,500,000,000 shares;			
Shares issued: 2006.9 1,725,089,234 shares; 2007.9 1,817,617,100 shares; 2007.3 1,787,538,428 shares	295,797	**336,417**	323,213
Capital surplus	390,545	**431,094**	417,900
Retained earnings:			
Appropriated for legal reserve	38,860	**41,071**	39,670
Unappropriated (Notes 5 and 17)	955,286	**1,287,299**	1,072,234
Accumulated other comprehensive income (loss) (Note 2):			
Unrealized holding gains and losses on available-for-sale securities (Note 4)	205,376	**261,334**	258,922
Foreign currency translation adjustments	(56,536)	**11,510**	(9,409)
Minimum pension liability adjustment	(5,407)		
Defined benefit pension plans		**2,994**	2,287
Net unrealized gains and losses on derivatives (Note 14)	8,090	**14,903**	8,930
Total accumulated other comprehensive loss	151,523	**290,741**	260,730
Treasury stock, at cost: shares in treasury: 2006.9 2,435,983 shares; 2007.9 3,311,019 shares; 2007.3 2,911,367 shares	(2,553)	**(4,492)**	(3,468)
Total shareholders equity	1,829,458	**2,382,130**	2,110,279
Total	¥ 9,377,604	¥ **10,030,835**	¥ 9,813,312

See notes to consolidated financial statements.

Statements of Consolidated Income (Unaudited)

Mitsui & Co., Ltd. and subsidiaries

For the Six-Month Periods Ended September 30, 2006, 2007 and for the Year Ended March 31, 2007

		Millions of Yen	
	Six-Month Period Ended September 30, 2006	Six-Month Period Ended September 30, 2007	Year Ended March 31, 2007
Revenues (Notes 2, 5 and 9):			
Sales of products (Note 14)	¥ 1,958,839	¥ **2,377,588**	¥ 4,107,503
Sales of services	270,236	**277,095**	556,733
Other sales	69,628	**84,121**	149,309
Total revenues	2,298,703	**2,738,804**	4,813,545
Total Trading Transactions (Notes 2 and 9)			
Six-month period ended September 30, 2006 ¥ 7,597,799 million			
Six-month period ended September 30, 2007 ¥ 8,205,220 million			
Year ended March 31, 2007 ¥ 15,292,634 million			
Cost of Revenues (Notes 2 and 5)			
Cost of products sold (Note 14)	1,784,872	**2,136,432**	3,710,666
Cost of services sold	67,658	**75,523**	158,621
Cost of other sales	38,268	**47,532**	74,721
Total cost of revenues	1,890,798	**2,259,487**	3,944,008
Gross Profit	407,905	**479,317**	869,537
Other Expenses (Income):			
Selling, general and administrative (Notes 2, 6 and 10)	282,697	**296,747**	576,588
Provision for doubtful receivables (Note 2)	1,637	**2,336**	13,108
Interest income (Notes 2 and 14)	(22,440)	**(32,314)**	(50,322)
Interest expense (Notes 2 and 14)	40,557	**56,027**	92,391
Dividend income	(27,773)	**(28,419)**	(49,188)
Gain on sales of securities net (Notes 2 and 4)	(26,541)	**(51,032)**	(58,800)
Loss on write-down of securities (Notes 2 and 4)	3,207	**12,663**	11,687
Gain on disposal or sales of property and equipment net	(1,242)	**(6,672)**	(5,627)
Impairment loss of long-lived assets (Notes 2 and 10)	9,926	**2,232**	19,626
Impairment loss of goodwill (Note 10)	16,528		16,528
Compensation and other charges related to DPF incident (Note 11)	(3,864)		(3,864)
Other (income) expense net (Note 12)	5,106	**(1,593)**	6,463
Total other expenses	277,798	**249,975**	568,590
Income from Continuing Operations before Income Taxes, Minority Interests and Equity in Earnings	130,107	**229,342**	300,947
Income Taxes (Note 2)**:**			
Current (Note 12)	64,300	**99,909**	130,874
Deferred	(9,014)	**(10,414)**	8,046
Total	55,286	**89,495**	138,920

Income from Continuing Operations before Minority Interests and Equity in Earnings		74,821		**139,847**		162,027
Minority Interests in Earnings of Subsidiaries		(1,798)		**(20,678)**		(17,875)
Equity in Earnings of Associated Companies Net (After Income Tax Effect) (Notes 2 and 5)		74,512		**72,290**		153,105
Income from Continuing Operations		147,535		**191,459**		297,257
Income from Discontinued Operations Net (After Income Tax Effect) (Note 2)		6,920		**60,462**		4,245
Net Income	¥	154,455	**¥**	**251,921**	¥	301,502

				Yen		
Net Income per Share (Notes 2 and 8):						
Basic:						
Continuing operations	¥	85.64	**¥**	**106.60**	¥	171.80
Discontinued operations		4.01		**33.66**		2.46
Total	¥	89.65	**¥**	**140.26**	¥	174.26
Diluted:						
Continuing operations	¥	80.90	**¥**	**105.01**	¥	163.00
Discontinued operations		3.79		**33.14**		2.32
Total	¥	84.69	**¥**	**138.15**	¥	165.32

See notes to consolidated financial statements.

Statements of Consolidated Shareholders   Equity (Unaudited)

Mitsui & Co., Ltd. and subsidiaries

For the Six-Month Periods Ended September 30, 2006, 2007 and for the Year Ended March 31, 2007

	Millions of Yen		
	Six-Month Period Ended September 30, 2006	Six-Month Period Ended September 30, 2007	Year Ended March 31, 2007
Common Stock :			
Balance at beginning of period (year)			
Shares issued: 2006.9 1,725,018,515 shares; 2007.9 1,787,538,428 shares; 2007.3 1,725,018,515 shares	¥ 295,766	¥ **323,213**	¥ 295,766
Common stock issued upon conversion of bonds			
Shares issued: 2006.9 70,719 shares; 2007.9 30,078,672 shares; 2007.3 62,519,913 shares	31	**13,204**	27,447
Balance at end of period (year)			
Shares issued: 2006.9 1,725,089,234 shares; 2007.9 1,817,617,100 shares; 2007.3 1,787,538,428 shares	¥ 295,797	¥ **336,417**	¥ 323,213
Capital Surplus :			
Balance at beginning of period (year)	¥ 390,488	¥ **417,900**	¥ 390,488
Conversion of bonds	31	**13,162**	27,359
Gain on sales of treasury stock	26	**32**	53
Balance at end of period (year)	¥ 390,545	¥ **431,094**	¥ 417,900
Retained Earnings :			
Appropriated for Legal Reserve :			
Balance at beginning of period (year)	¥ 38,508	¥ **39,670**	¥ 38,508
Transfer from unappropriated retained earnings	352	**1,401**	1,162
Balance at end of period (year)	¥ 38,860	¥ **41,071**	¥ 39,670
Unappropriated (Notes 5 and 17):			
Balance at beginning of period (year)	¥ 825,306	¥ **1,072,234**	¥ 825,306
Cumulative effect of a change in accounting principle adoption of FIN No. 48 (Note 2)		**(5,113)**	
Net income	154,455	**251,921**	301,502
Cash dividends paid (Dividend paid per share: 2006.9 ¥14.0; 2007.9 ¥17.0; 2007.3 ¥31.0)	(24,123)	**(30,342)**	(53,412)
Transfer to retained earnings appropriated for legal reserve	(352)	**(1,401)**	(1,162)
Balance at end of period (year)	¥ 955,286	¥ **1,287,299**	¥ 1,072,234
Accumulated Other Comprehensive Income (Loss) (After Income Tax Effect) (Note 2):			
Balance at beginning of period (year)	¥ 129,842	¥ **260,730**	¥ 129,842
Unrealized holding gains and losses on available-for-sale securities (Note 4)	(10,723)	**2,412**	42,823
Foreign currency translation adjustments	26,743	**20,919**	73,870
Minimum pension liability adjustment	10		1,058
Defined benefit pension plans :			
Net prior service cost		**(18)**	
Net actuarial gain		**725**	
Adjustment to initially apply SFAS No. 158			6,646

Net unrealized gains and losses on derivatives (Note 14)	5,651	**5,973**	6,491
Balance at end of period (year)	¥ 151,523	¥ **290,741**	¥ 260,730
Treasury Stock, at Cost :			
Balance at beginning of period (year)			
Shares in treasury: 2006.9 2,064,447 shares; 2007.9 2,911,367 shares; 2007.3 2,064,447 shares	¥ (2,003)	¥ **(3,468)**	¥ (2,003)
Purchase of treasury stock			
Shares purchased: 2006.9 504,090 shares; 2007.9 427,302 shares; 2007.3 1,045,979 shares	(647)	**(1,060)**	(1,633)
Sales of treasury stock			
Shares sold: 2006.9 132,554 shares; 2007.9 27,650 shares; 2007.3 199,059 shares	97	**36**	168
Balance at end of period (year)			
Shares in treasury: 2006.9 2,435,983 shares; 2007.9 3,311,019 shares; 2007.3 2,911,367 shares	¥ (2,553)	¥ **(4,492)**	¥ (3,468)

Note: Appropriations of retained earnings are reflected in the financial statements upon shareholders approval.

Summary of Changes in Equity from Nonowner Sources (Comprehensive Income (Loss)) (Note 2)**:**			
Net income	¥ 154,455	¥ **251,921**	¥ 301,502
Other comprehensive income (loss) (after income tax effect):			
Unrealized holding gains and losses on available-for-sale securities (Note 4)	(10,723)	**2,412**	42,823
Foreign currency translation adjustments	26,743	**20,919**	73,870
Minimum pension liability adjustment	10		1,058
Defined benefit pension plans :			
Net prior service cost		**(18)**	
Net actuarial gain		**725**	
Net unrealized gains and losses on derivatives (Note 14)	5,651	**5,973**	6,491
Changes in equity from nonowner sources	¥ 176,136	¥ **281,932**	¥ 425,744

See notes to consolidated financial statements.

Statements of Consolidated Cash Flows (Unaudited)

Mitsui & Co., Ltd. and subsidiaries

Six-Month Periods Ended September 30, 2006, 2007 and Year Ended March 31, 2007

	Millions of Yen		
	Six-Month Period Ended September 30, 2006	Six-Month Period Ended September 30, 2007	Year Ended March 31, 2007
Operating Activities (Note 16):			
Net income	¥154,455	**¥251,921**	¥301,502
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from discontinued operations net (after income tax effect)	(6,920)	**(60,462)**	(4,245)
Depreciation and amortization	37,446	**66,891**	88,200
Pension and severance costs, less payments	(751)	**(2,971)**	(8,091)
Provision for doubtful receivables	1,637	**2,336**	13,108
Gain on sales of securities net	(26,541)	**(51,032)**	(58,800)
Loss on write-down of securities	3,207	**12,663**	11,687
Gain on disposal or sale of property and equipment net	(1,242)	**(6,672)**	(5,627)
Impairment loss of long-lived assets	9,926	**2,232**	19,626
Impairment loss of goodwill	16,528		16,528
Deferred income taxes	(9,014)	**(10,414)**	8,046
Minority interests in earnings of subsidiaries	1,798	**20,678**	17,875
Equity in earnings of associated companies, less dividends received	(20,256)	**(28,922)**	(43,033)
Changes in operating assets and liabilities:			
Increase in trade receivables	(188,458)	**(92,917)**	(315,368)
Increase in inventories	(50,941)	**(19,861)**	9,328
Increase in trade payables	134,370	**19,897**	128,608
Advance payments to suppliers	(19,747)	**(35,857)**	(38,578)
Advances from customers	28,021	**45,114**	41,004
Accrued expenses	(5,840)	**(4,580)**	29,265
Other net	(23,672)	**16,943**	13,402
Net cash used in operating activities of discontinued operations	1,954	**234**	14,838
Net cash provided by operating activities	35,960	**125,221**	239,275
Investing Activities (Note 16):			
Net (increase) decrease in time deposits	28,491	**(302)**	29,367
Investments in and advances to associated companies	(92,727)	**(146,623)**	(222,438)
Sales of investments in and collection of advances to associated companies	24,414	**271,547**	34,314
Acquisitions of available-for-sale securities	(84,054)	**(55,511)**	(135,117)
Proceeds from sales of available-for-sale securities	10,302	**19,125**	60,651
Proceeds from maturities of available-for-sale securities	43,842	**2,501**	106,687
Proceeds from maturities of held-to-maturity debt securities	21	**4,968**	1,509
Acquisitions of other investments	(35,799)	**(41,025)**	(101,696)
Proceeds from sales of other investments	20,329	**28,371**	53,329
Increase in long-term loan receivables	(38,536)	**(43,209)**	(75,230)
Collection of long-term loan receivables	50,134	**44,234**	111,251
Additions to property leased to others and property and equipment	(171,559)	**(156,504)**	(327,356)
Proceeds from sales of property leased to others and property and equipment	32,243	**89,670**	52,741
Acquisitions of subsidiaries, net of cash acquired	(24,245)	**(52,216)**	(11,474)

Proceeds from sales of subsidiaries, net of cash held by subsidiaries	5,132	**92,802**	5,434
Net cash used in investing activities	(232,012)	**57,828**	(418,028)
Financing Activities (Note 16):			
Net (decrease) increase in short-term debt	210,089	**(151,942)**	70,820
Proceeds from long-term debt	209,442	**315,208**	673,730
Repayments of long-term debt	(209,392)	**(318,772)**	(434,600)
Capital contribution from minority interests	17,095		17,095
Purchases of treasury stock net	(440)	**(991)**	(1,344)
Payments of cash dividends	(24,123)	**(30,342)**	(53,412)
Net cash provided by financing activities	202,671	**(186,839)**	272,289
Effect of Exchange Rate Changes on Cash and Cash Equivalents	2,780	**1,613**	9,431
Net (Decrease) Increase in Cash and Cash Equivalents	9,399	**(2,177)**	102,967
Cash and Cash Equivalents at Beginning of Year	697,065	**800,032**	697,065
Cash and Cash Equivalents at End of Period	¥706,464	**¥797,855**	¥800,032

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Mitsui & Co., Ltd. (Mitsui Bussan Kabushiki Kaisha) and subsidiaries (collectively, the companies), as *sogo shosha* or general trading companies, are engaged in business activities, such as trading in various commodities, financing for customers and suppliers relating to such trading activities worldwide, and organizing and coordinating industrial projects through their worldwide business networks.

The companies conduct sales, export, import, offshore trades and manufacture of products in the areas of Iron & Steel Products, Mineral & Metal Resources, Machinery & Infrastructure Projects, Chemical, Energy, Foods & Retail, and Consumer Service & IT, while providing g services for retailing, information and communications, technical support, transportation and logistics and financing.

Further, the companies are also engaged in development of natural resources such as oil and gas, and iron and steel raw materials.

In addition to the above, the companies are engaged in strategic business investments in new areas such as information technology, biotechnology and nanotechnology.

2. BASIS OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. BASIS OF FINANCIAL STATEMENTS

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

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

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

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Company, its majority-owned domestic and foreign subsidiaries, the variable interest entities (VIEs) where the Company or one of its subsidiaries is a primary beneficiary, and its proportionate shares of the assets, liabilities, revenues and expenses of certain of its oil and gas producing, and mining unincorporated joint ventures in which the companies own an undivided interest in the assets, and pursuant to the joint venture agreements, are severally liable for their share of each liability. The VIEs are defined by FASB Interpretation (FIN) No. 46, Consolidation of Variable Interest Entities (revised December 2003) an Interpretation of ARB No. 51 (FIN No. 46R). The unincorporated joint ventures proportionately consolidated in accordance with EITF No.00-1, Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures, by the companies include but are not limited to Main Pass Block 61 J/V (50%), WA-28-L J/V (40%), Block 9 J/V (35%), Robe River Iron Associates J/V (33%), Capricorn Coal Development J/V (30%) and Dawson J/V (49%).

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

Certain subsidiaries with a half year-end on or after June 30, but prior to the parent company s half year-end of September 30, are included on the basis of the subsidiaries respective half year-end.

Foreign currency translation

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

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

Cash equivalents

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

Allowance for doubtful receivables

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

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

Inventories

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

Derivative instruments and hedging activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Debt and marketable equity securities

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

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

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

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

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

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

Non-marketable equity securities

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

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

Investments in associated companies

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

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

Leasing

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

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

Property and equipment

Property and equipment are stated at cost.

Depreciation of property and equipment (including property leased to others) is computed principally under the declining-balance method for assets located in Japan and under the straight-line method for assets located outside Japan, using rates based upon the estimated useful lives of the related property and equipment. The estimated useful lives for buildings, equipment and fixtures, and vessels are primarily 8 to 65 years, 2 to 30 years, and 8 to 20 years, respectively. Mineral rights are amortized over their respective estimated useful lives, which are 7 to 20 years, using the straight-line method or the unit-of-production method.

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

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

Impairment of long-lived assets

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

Business combinations

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

Goodwill and other intangible assets

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

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

Intangible assets subject to amortization consist primarily of software, customer relationships, trademarks and patents which are amortized over their respective estimated useful lives using the straight-line method. The estimated useful lives for software, customer relationships, trademarks and patents are 3 to 5 years, 10 to 30 years, 5 to 10 years and 5 years, respectively. Intangible assets not subject to amortization mainly consist of land rights and trademarks.

Oil and gas producing activities

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

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

Mining operations

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

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

Asset retirement obligations

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

Pension and severance indemnities plans

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

Guarantees

In accordance with FIN No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others an Interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34, the companies recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken for guarantees made or revised after December 31, 2003.

Revenue recognition

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

Sales of products

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

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

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

Sales of services

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

Other sales

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

Research and development expenses

Research and development costs are charged to expenses when incurred.

Advertising expenses

Advertising costs are charged to expenses when incurred.

Issuance of stock by subsidiaries and associated companies

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

Income taxes

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

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

Net income per share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution as a result of issuance of shares upon conversion of the companies convertible bonds.

III. DISCONTINUED OPERATIONS

In accordance with SFAS No. 144, the companies present the results of discontinued operations (including operations of a subsidiary that either has been disposed of or is classified as held for sale) as a separate line item in the Statements of Consolidated Income under Income from Discontinued Operations Net (After Income Tax Effect). Amounts presented in the Statements of Consolidated Income and the Statements of Consolidated Cash Flows for the prior periods related to the discontinued operations have been reclassified to conform to the current period presentation.

Gain from discontinued operations before income taxes for the six-month periods ended September 30, 2006 and 2007 and for the year ended March 31, 2007 were ¥15,629 million, ¥114,189 million and ¥34,321 million, respectively, including gain (loss) on disposal before income taxes for the six-month period ended September 30, 2006 and 2007 and for the year ended March 31, 2007 were ¥51 million, ¥113,409 million and ¥51 million, respectively. Income tax loss for the six-month periods ended September 30, 2006 and 2007 and for the year ended March 31, 2007 were ¥(5,304) million, ¥(51,474) million and ¥(21,929) million, respectively and minority interests in earnings of subsidiaries for the six-month periods ended September 30, 2006 and 2007 and for the year ended March 31, 2007 were ¥(3,405) million, ¥(2,253) million and ¥(8,147) million, respectively.

Major components of discontinued operations for the six-month period ended September 30, 2007 were Sesa Goa business which the Group sold its entire stake in Sesa Goa Limited, Indian iron ore enterprise and whole oil and gas producing interests which Wandoo Petroleum Pty Limited held. Gain from Sesa Goa business after income tax effect for the six-month periods ended September 30, 2006 and 2007 and for the year ended March 31, 2007 were ¥3,188 million, ¥55,207 million and ¥1,365 million, respectively and whole oil and gas producing interests which Wandoo Petroleum Pty Limited held for the six-month periods ended September 30, 2006 and 2007 and for the year ended March 31, 2007 were ¥514 million, ¥5,509 million and ¥164 million, respectively.

IV. RECLASSIFICATION

Certain reclassifications and format changes have been made to prior period amounts to conform to the current period presentation.

V. NEW ACCOUNTING STANDARDS

Accounting for certain hybrid financial instruments

During the six-month period ended September 30, 2007, the companies adopted SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140.

One of the amendments to SFAS No. 133 and SFAS No. 140 is that SFAS No. 155 permits an entity to elect fair value remeasurement for any hybrid financial instrument in its entirety with changes in fair value recognized in earnings, in which the hybrid financial instrument contains an embedded derivative that otherwise would require bifurcation.

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

Accounting for servicing of financial assets

During the six-month period ended September 30, 2007, the companies adopted SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140.

SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to choose either the amortization method or the fair value measurement method for subsequent measurement of each class of separately recognized servicing assets and servicing liabilities.

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

Accounting for Uncertainty in Income Taxes

During the six-month period ended September 30, 2007, the companies adopted FIN No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No.109.

FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109 (SFAS No. 109), Accounting for Income Taxes, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of all tax positions accounted for in accordance with SFAS No. 109.

Upon adoption of this interpretation the companies recognized a decrease of ¥(5,113) million in the opening balance of unappropriated retained earnings as disclosed in the Statements of Consolidated Shareholders Equity.

Employers Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R).

SFAS No. 158 requires the recognition of the overfunded or underfunded status of a defined benefit plan as an asset or liability in the statement of financial position and the recognition of changes in that funded status in comprehensive income in the year in which the changes occur. In addition, SFAS No. 158 requires the measurement date for the funded status of a plan to be the entity s date of its year-end statement of financial position, with limited exceptions.

The recognition and related disclosure provisions are effective as of the end of the previous fiscal year and the measurement date provisions are effective for fiscal years ending after December 15, 2008. The effect of adoption of this statement on the companies financial position and results of operations will be immaterial.

Fair Value Measurements

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

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

SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim period within those fiscal years. The effect of adoption of this statement on the companies financial position and results of operations will be immaterial.

Fair Value Option

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115.

SFAS No. 159 permits an entity to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value. An entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings.

SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The effect of adoption of this statement on the companies financial position and results of operations is not currently known and cannot be reasonably estimated until further analysis is completed.

Scope of Audit and Accounting for Investment Companies

In June 2007, American Institute of Certified Public Accountants (AICPA) issued the Statement of Position (SOP) No. 07-1, Clarification of the Scope of the Audit and Accounting Guide, Investment Companies, and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies .

SOP No. 07-1 provides guidance for determining whether an entity is within the scope of the Audit and Accounting Guide. In addition, SOP No. 07-1 prescribes that parent companies and equity method investors maintain the accounting methods adopted by investment companies in their financial statements and that they disclose certain related information.

SOP No. 07-1 was originally effective for financial statements issued for fiscal years beginning after December 14, 2007 but an indefinite delay of this effective date is currently under discussion. The effect of adoption of this statement on the companies financial position and results of operations is not currently known and cannot be reasonably estimated until further analysis is completed.

VI. USE OF ESTIMATES IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. BUSINESS COMBINATIONS

For the period ended September 30, 2006

The following are the primary business combinations, which were completed during the period ended September 30, 2006.

Gas Participacoes Ltda.

On October 31, 2005, the Company entered into a Share Purchase Agreement with Global Petroleum & Gas Industry, LLC to acquire all the outstanding shares of Gas Participacoes Ltda. (Gaspart) for about ¥18,648 million ($159 million). After satisfying the closing conditions, the Company closed the acquisition process on April 20, 2006. Gaspart was renamed to Mitsui Gas e Energia do Brasil on October 16, 2006. Gaspart is a holding company of six local distribution companies (LDC), four in northeast and two in southeast in Brazil, which have had a concession agreement with each state government to provide natural gas distribution on an exclusive basis in each state for 30 to 50 years. Gaspart s share in each LDC is from 23.0% to 24.5% in voting share base. Each LDC begun operations between 1992 and 1994 and mainly distributes to general industry and natural gas station.

In Brazil, the gas industry, and civilian gas use are still immature. Therefore, growth in demand is expected in the future. Coherent effort into gas business from upstream to downstream, such as entry into gas field development projects, LNG terminal projects, pipeline projects, and electric generation projects, is one of the main pillars of the infrastructure area, in which the Company intends to invest with emphasis. This acquisition is consistent with the companies core strategy.

The consolidated financial statements for the period ended September 30, 2006 include the operating results of Gaspart as a subsidiary from the closing date of the acquisition.

The purchase price was determined based on the expected future cash flows Gaspart will generate.

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

Salt Asia Holding Pty. Ltd.

On May 31, 2006, the Company entered into an agreement with Akzo Nobel Chemicals International BV (Akzo Nobel) to purchase Akzo Nobel s investment in Salt Asia Holding Pty. Ltd. (Salt Asia, a 94.2% owned subsidiary of Akzo Nobel). After satisfying the closing conditions, the company completed the acquisition process on July 31, 2006. The total amount paid for the acquisition was approximately ¥8,044 million (A $91 million). Salt Asia is the holding company which has 92.7% ownership of voting shares of Onslow Salt Pty. Ltd. (Onslow), which operates a solar marine salt field in Western Australia. Onslow started delivery in May 2001 and supplies solar marine salt to the chlor-alkali industry.

The biggest application for salt from Onslow is as a raw material in the chlor-alkali industry. With rapidly rising demand from China putting pressure on supply demand balance, the Company intends to supply salt for use by this industry in Asian countries including Japan. In February 2005, the Company also acquired the parent of Shark Bay Salt Joint Venture, operating Shark Bay solar marine salt field in Western Australia. On completion of the Onslow acquisition, the Company will therefore have management control of a total annual salt production capacity of 3.8 million tons. The Company intends to take an efficient, unified management approach to the two salt fields, strengthening its position as a stable, comprehensive supplier of salt to the chlor-alkali industry and food manufacturing industry and actively developing its salt business operations.

The consolidated financial statements for the period ended September 30, 2006 include the operating results of Salt Asia as a subsidiary from the date of acquisition.

The purchase price was determined based on the expected future cash flows Salt Asia will generate.

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

For the period ended September 30, 2007

The following are the primary business combinations, which were completed during the period ended September 30, 2007.

Steel Technologies Inc.

On February 28, 2007, Mitsui & Co. (U.S.A), Inc. (Mitsui U.S.A,), a wholly owned subsidiary of the Company, agreed with Steel Technologies Inc. (Steel Tech) to acquire all the outstanding shares of Steel Tech. After obtaining the approval of its shareholders in a special shareholders meeting on May 30, 2007 and all the necessary regulatory approvals, Mitsui U.S.A. closed the acquisition process on June 1, 2007. The total amount paid for the acquisition was ¥47,946 million ($394 million). Steel Tech operates 25 steel processing facilities, including its joint venture operations, throughout the United States, Canada and Mexico, delivering processing capabilities and value-added services to customers in a variety of industries by leveraging its broad geographic network facilities.

The company positions creation of higher value-added marketing and logistics services in steel business as a core strategy and actively investing resources in this area. Through this acquisition, the companies obtain important business platform in North America, and using it as the base for steel product value chain management in the United States, the companies aim to strengthen the business foundation in the steel product industries in the Americas segment. This acquisition is consistent with the companies core strategy.

The consolidated financial statements for the period ended September 30, 2007 include the operating results of Steel Tech as a subsidiary from the closing date of the acquisition.

The purchase price was determined based on the expected future cash flows Steel Tech will generate.

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

Affiliated Financial Corporation and BayQuest Capital Corporation

On April 27, 2007, Mitsui & Co. (U.S.A), Inc. (Mitsui U.S.A,), a wholly owned subsidiary of the Company, agreed with the owner group of Affiliated Financial Corporation and BayQuest Capital Corporation (collectively AFC) to acquire 87.5% the outstanding shares of AFC for about ¥7,221 million ($63 million). After satisfying the closing conditions, Mitsui U.S.A. closed the acquisition process on September 21, 2007. AFC purchases, sells, securitizes and services retail automobile installment contracts originated by franchised and selected independent dealers in approximately 40 states. Through its loan purchases, AFC serves as a source of financing for more than 4,000 dealerships, providing financing to consumers indirectly.

The companies have considerable experience in automobile-related businesses worldwide, including logistics, assembly, distribution, dealerships, automotive parts and retail finance. This acquisition is intended to enhance the company s automobile value chain in the U.S. and is consistent with the companies core strategy.

The consolidated financial statements for the period ended September 30, 2007 include the operating results of AFC as a subsidiary from the closing date of the acquisition.

The purchase price was determined based on the expected future cash flows AFC will generate.

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

For the year ended March 31, 2007

The following are the primary business combinations, which were completed during the year ended March 31, 2007.

Gas Participacoes Ltda.

Please refer to the business combinations, which were completed during the period ended September 30, 2006.

The consolidated financial statements for the year ended March 31, 2007 included the operating results of Gaspart from the date of the acquisition.

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

Salt Asia Holding Pty. Ltd.

Please refer to the business combinations, which were completed during the period ended September 30, 2006.

The consolidated financial statements for the year ended March 31, 2007 included the operating results of Salt Asia from the date of the acquisition.

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

Dispolok GmbH

On September 29, 2006, the Company and Mitsui & Co. Europe Plc., a wholly-owned subsidiary of the Company, agreed with Siemens AG (Siemens) to purchase 100% of the ownership interests of Siemens Dispolok GmbH (Dispolok, which was renamed Dispolok GmbH after the acquisition) for ¥15,630 million. The acquisition was completed on October 4, 2006, after obtaining the approvals of the German Federal Cartel Office. Dispolok engaged in the leasing of locomotives manufactured by Siemens and provided the maintenance services in Europe.

In Europe, the locomotive leasing market is growing rapidly under the influence of the railway liberalization policy executed by the EU; and, to enter the market, the companies established Mitsui Rail Capital Europe B.V. in October, 2004, and have been expanding the companies market share in stages. By acquiring Dispolok, the companies are able to expand the number of locomotive fleets owned, and complement the current portfolio of locomotives leasing business in functions, models, and areas. The acquisition is expected to contribute to the companies business performance by maintaining the superiority as a leasing company which also provides maintenance service for lessees. The companies positioned the infrastructure business as one of core business fields and this acquisition is consistent with the companies strategy.

The consolidated financial statements for the year ended March 31, 2007 included the operating results of Dispolok from the date of the acquisition.

The purchase price was determined based on the expected future cash flows Dispolok will generate.

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

SunWize Technologies, Inc.

On October 26, 2006, SunWize Technologies, Inc., owned 20% by the Company and 80% by Mitsui & Co. (U.S.A.), Inc. (a wholly owned subsidiary of the Company), agreed with SunWize Technologies, LLC (SunWize) to take over its solar power business by acquiring substantially all of the assets used in the business for ¥9,887 million ($84.0 million). After the regulatory review, the acquisition was completed on November 30, 2006. SunWize is a solar technology company which specializes in the design and manufacture of integrated solar power systems, the development of related projects and product distribution for the systems. SunWize offers a wide range of photovoltaic power solutions, such as a supply of preassembled parts and custom-engineered systems and manufacturing of special solar modules for battery-operated products. SunWize provides the goods and services to manufacturing, commercial, government and residential customers.

The market for solar power energy in the U.S. is expected to increase into the foreseeable future. By acquiring SunWize s business, the companies, which had been selling solar electric modules to customers through SunWize, have established a vertically integrated business structure reaching from procurement of the products to distribution though SunWize s dealer network. The companies believe that the acquisition will contribute to the companies performance in this developing market. This acquisition, with an established client base throughout the U.S., is consistent with the companies core strategy of making strategic investments in consumer businesses.

The consolidated financial statements for the year ended March 31, 2007 include the operating results of SunWize from the date of acquisition.

The purchase price was determined based on the expected future cash flows SunWize will generate.

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

Mitsui Oil & Exploration Co., Ltd.

The Company acquired an additional 3.0% interest in Mitsui Oil & Exploration Co., Ltd. (MOECO) for ¥6,240 million from Mitsui Engineering & Shipping Co., Ltd. (an unrelated party) on March 28, 2007. The carrying value of the Company s equity investment in MOECO immediately before the acquisition was ¥107,892 million. As a result of the Company increasing its ownership of voting shares of MOECO to 50.3%, MOECO became a subsidiary of the Company.

MOECO is actively engaged in several oil and natural gas exploration, development and production projects in Thailand and its neighboring Southeast Asian countries as well as the Middle East. At the end of March 2007, MOECO s share of daily production amounted to an equivalent of approximately 93,000 barrels of oil. The Company positions its energy business as a significant strategic business sector and continues to strengthen its revenue base by acquiring new oil and natural gas assets and replacing its reserves. The Company s acquisition of the MOECO shares is part of the Company s corporate strategy, which enables the companies to position MOECO as one of the core units of its energy upstream business, and to sustain its competitiveness under the current fierce global competition for acquiring oil and gas upstream assets. A closer relationship with MOECO allows the Company to obtain a wider variety of options for expanding its upstream business by adding Southeast Asia region to its current portfolio of the upstream assets in addition to Middle East, Sakhalin and Oceania areas, as well as strengthening companies oil and gas exploration activities. This acquisition of MOECO is consistent with the companies core strategy.

The consolidated financial statements for the year ended March 31, 2007 include the operating result of MOECO as a subsidiary from the date of acquisition.

The purchase price was determined based on the net assets of MOECO.

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

4. MARKETABLE SECURITIES AND OTHER INVESTMENTS

Debt and marketable equity securities

At September 30, 2006, 2007 and March 31, 2007, the cost, fair value and gross unrealized holding gains and losses on available-for-sale securities and held-to-maturity debt securities were as follows:

			Millions of Yen		
			Unrealized holding gains (losses)		
	Cost	Fair value	Gains	Losses	Net
September 30, 2006:					
Available-for-sale:					
Marketable equity securities	¥ 301,688	¥ 603,843	¥ 304,306	¥ (2,151)	¥ 302,155
Foreign debentures, commercial paper and other debt securities	320,374	320,415	79	(38)	41
Held-to-maturity debt securities, consisting principally of foreign debentures	10,747	10,747	0		0
September 30, 2007:					
Available-for-sale:					
Marketable equity securities	**¥ 411,469**	**¥ 879,417**	**¥ 474,271**	**¥ (6,323)**	**¥ 467,948**
Foreign debentures, commercial paper and other debt securities	**62,594**	**62,645**	**151**	**(100)**	**51**
Held-to-maturity debt securities, consisting principally of foreign debentures	**4,426**	**4,426**	**0**		**0**
March 31, 2007:					
Available-for-sale:					
Marketable equity securities	¥ 395,958	¥ 861,463	¥ 466,105	¥ (600)	¥ 465,505
Foreign debentures, commercial paper and other debt securities	51,096	51,176	85	(5)	80
Held-to-maturity debt securities, c					