

Financial Section

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Financial Review

Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating Environment

Overview

The Toyota Tsusho Group's principal business activity is the trading of a broad range of products in Japan and throughout the world. The Group's businesses also include manufacturing and processing, sales, business investment and services. The Group's operations are classified into six operating divisions on the basis of products and services offered: Metals; Machinery & Electronics; Automotive; Energy & Chemicals; Produce & Foodstuffs; and Consumer Products, Services & Materials.

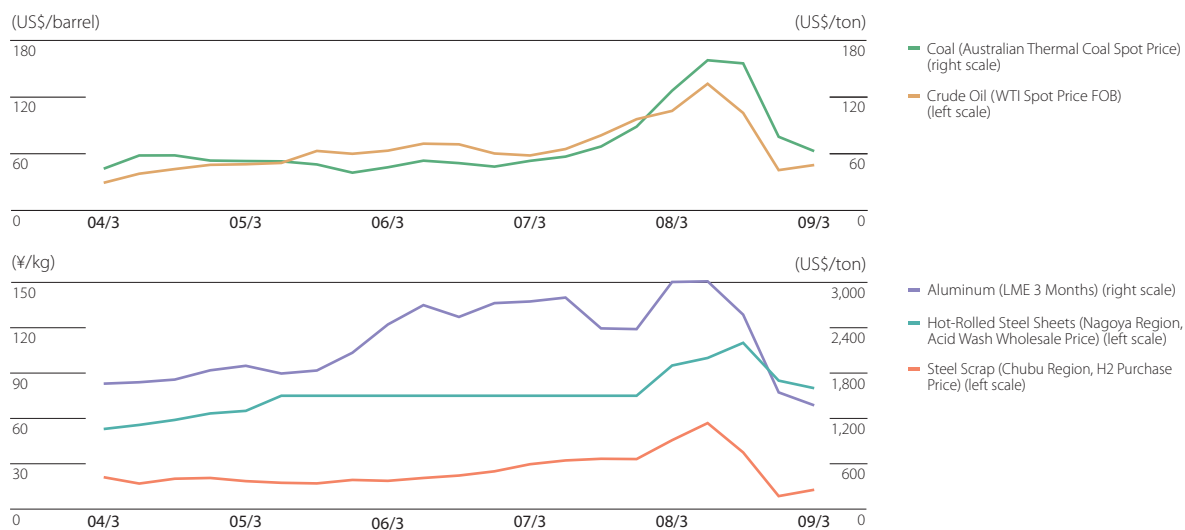
Each business is managed by head office divisions and the subsidiaries and affiliates overseen by each division. The Group has a diversified portfolio that covers products and services in an extensive range of industries and markets. The Group's operating results are therefore affected by economic trends in Japan and external factors, including global political, regulatory and economic trends, movements in coal, oil and other international commodity prices, and foreign exchange fluctuations. The Group's principal customers, including the Toyota Group, are involved in the automotive sector. Therefore, the Group's strategies and operating results in three principal business segments in particular—Metals, Machinery & Electronics, and Automotive—are affected by the operating environment and technology trends in the automobile industry in Japan and overseas.

Economic Environment

In fiscal 2009, the year ended March 31, 2009, the global economy was impacted in the first half by soaring prices in certain commodity markets, notably resources and grain. In the second half, however, the economic picture changed markedly as a sharp economic slowdown in the U.S. triggered by the shock of the Lehman Brothers collapse led to the onset of a global financial crisis. Serious recessions followed in Western countries, newly emerging economies and elsewhere.

The U.S. economy slid deeper into recession mainly due to worsening corporate performances and rising unemployment in addition to financial market turmoil. European economies faced an increasingly uncertain outlook with a downturn in exports and capital expenditures in the second half, and upheaval in financial markets mainly precipitated by plummeting energy prices. Meanwhile, the Russian economy saw internal demand weaken drastically in line with the abrupt drop in resource prices. While affected by the global downturn to a certain extent, Asian economies remained relatively firm compared with their Western counterparts, with expansion driven mainly by high levels of growth in China and India. Meanwhile, the Japanese economy suffered unavoidable production cutbacks in the nation's core automobile and electronics industries, due to the impact of the global economic downturn.

Crude Oil, Steel and Coal Prices



Trends in the Automotive Industry and Toyota Group

The automobile industry, one of our primary sources of earnings, currently faces a period of profound change. In January-June 2008, global automobile sales continued to post high levels of growth, fueled by higher demand in the BRICS and the ASEAN and African regions together with advances in motorization in conjunction with economic growth. However, in July-December 2008, global automobile production and sales both dropped precipitously due to the negative impact of the global financial crisis triggered by the Lehman shock. Overall, global automobile production in 2008 (calendar year) decreased 3.7% year on year to 70,526 thousand units.

In this context, the Group's primary customers, namely Toyota Motor Corporation and other Japanese automobile manufacturers, were saddled with burgeoning inventories and idle assets due to the sudden changes in the operating environment. In response, Japanese automobile manufacturers worked to adjust inventory levels and downsize idle assets arising from drastic production cutbacks commensurate with falling sales volume. Consequently, in fiscal 2009, overseas production by the Toyota Group decreased 16% year on year to 3,710 thousand units. And from the beginning of fiscal 2010, automobile manufacturers have been taking some steps to reduce the extent of production cutbacks, due in part to progress with inventory adjustments.

Meanwhile, there has been growing consciousness of the need to reduce environmental impact year after year, particularly with regard to important themes for the automobile industry such as protecting the global environment, raising fuel economy to improve air quality, and reducing exhaust emissions. In industrialized countries and regions such as Japan, the U.S. and the EU, demand is rapidly increasing for hybrid and electric vehicles, in step with the introduction of preferential government policies for purchasing eco-friendly vehicles. For its part, Toyota Motor Corporation has seen steady expansion in sales of eco-friendly vehicles, with sales volume of the new Prius hybrid model, which was launched in May 2009, significantly outstripping targets.

In terms of the outlook for the global automobile market in 2009, global automobile sales are projected to decrease more than 10% year on year, after declining by around 10% in 2008, despite some signs of recovery in the market. It is generally expected that several years will be needed before the market will see a return to the level of global automobile sales in 2007. Going forward, we also anticipate structural changes in the automobile market. For example, in the U.S. and other industrialized nations, we foresee further expansion in green automobile markets focused on reducing

environmental impact, along with contraction in markets for conventional large vehicles.

Business Performance of Toyota Tsusho Corporation

Operating Results

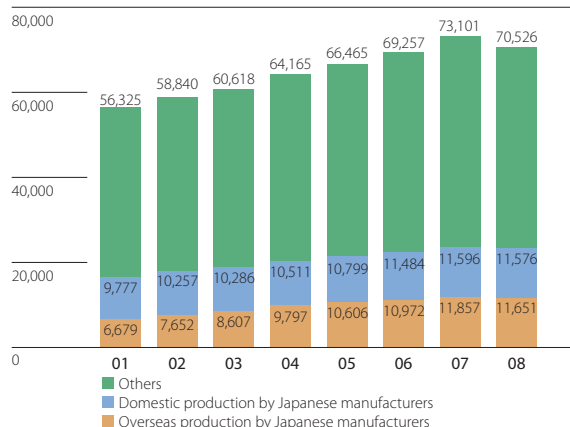
Looking at the global economic environment in fiscal 2009, in the first half of the fiscal year, economic growth in developed countries slowed due to the financial market turmoil triggered by the U.S. sub-prime loan crisis. Asian economies that were previously spearheading global economic growth began to lose momentum due to a decline in exports to the U.S. Furthermore, previously soaring resource prices plummeted as speculative funds fled the market and the global economy sputtered. In the second half, a credit crunch unfolded globally following the bankruptcy of a major U.S. investment bank, and combined with worsening corporate earnings and weak consumer spending, the global real economy contracted faster than generally expected.

Meanwhile, the Japanese economy showed strong signs of stagnation in the first half as corporate earnings were hurt by higher raw materials prices and exports slowed in response to the downturn in overseas economies. In the second half, the Japanese economy rapidly slid into recession due to the yen's sharp appreciation, production cutbacks to reduce inventories, waning capital expenditures and unease about job security.

In this context, the Toyota Tsusho Group posted consolidated net sales of ¥6,286.9 billion, a decrease of ¥713.4 billion, or 10.2%, year on year.

Global Automobile Production

(Calendar year; Unit: 1,000 vehicles)



Source: Organisation Internationale des Constructeurs d'Automobiles
Production by Japanese automobile manufacturers: Japan
Automobile Manufacturers Association

Consolidated operating income decreased ¥40.6 billion, or 30.9%, year on year to ¥91.0 billion.

Net income for fiscal 2009 declined ¥27.3 billion, or 40.4%, to ¥40.2 billion.

Segment Information

Results of Operations by Operating Segment

Metals Division

(Net Sales ¥1,942.2 Billion; Down 7.9%)

In the steel sheet, bars and tubes field, the Metals Division worked to improve the efficiency of its operations through such means as inventory reductions at domestic and overseas coil centers. In the steel raw materials field, the Division established new scrap steel processing companies in the U.K. and Hokkaido. In nonferrous metals, we established an aluminum melting and production company in Hokkaido. In addition, we entered the rare earth business on a full scale, arranging Indian and Vietnamese supply sources. Despite these efforts, net sales in the Metals Division decreased ¥166.8 billion, or 7.9%, year on year to ¥1,942.2 billion due to sharp production cutbacks by automakers and falling metals prices. Operating income in this segment fell ¥15.0 billion, or 42.1%, year on year to ¥20.4 billion, in line with lower net sales.

Machinery & Electronics Division

(Net Sales ¥1,355.0 Billion; Down 14.3%)

In the machinery business, the Machinery & Electronics Division posted lower order bookings as major customers in the automobile industry curtailed capital spending plans. In the industrial vehicle and construction machinery business, we established a new

operating company in Thailand to strengthen operations. In the information and electronics fields, we strove to expand our automotive software business in Thailand, but handling volume decreased as a result of a decline in sales prices. In the field of automotive production parts, parts sales declined due to the impact of production cutbacks by automakers and inventory reductions.

As a result, net sales in the Machinery & Electronics Division decreased ¥226.9 billion, or 14.3%, from the previous fiscal year to ¥1,355.0 billion. Operating income fell ¥17.0 billion, or 47.7%, to ¥18.6 billion, in line with lower net sales.

Automotive Division

(Net Sales ¥809.5 Billion; Down 13.7%)

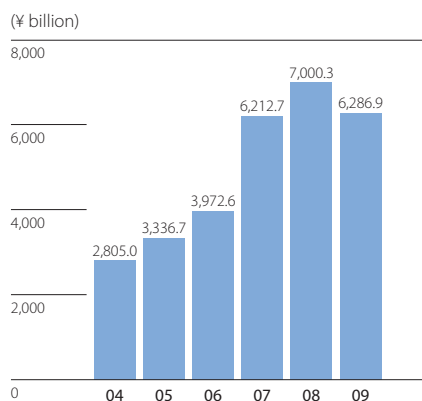
The Automotive Division worked to expand its agency and dealership network in newly emerging economies such as China, Asia, and Africa. However, handling volume decreased due to a global downturn in auto sales. Consequently, net sales declined ¥128.8 billion, or 13.7%, year on year to ¥809.5 billion. Operating income fell ¥5.8 billion, or 13.5%, to ¥36.8 billion due to a drop in earnings accompanying lower net sales mainly at automobile sales subsidiaries in Europe.

Energy & Chemicals Division

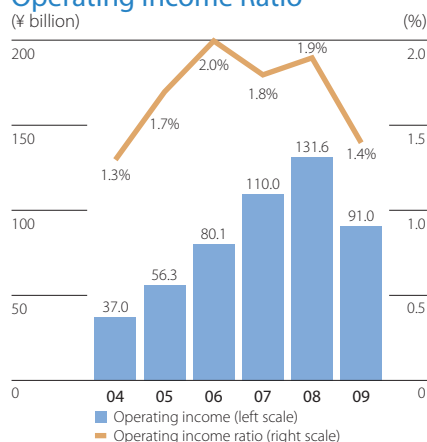
(Net Sales ¥1,399.4 Billion; Down 10.4%)

In the synthetic resin business, the Energy & Chemicals Division worked to expand sales of various chemical raw materials, packaging materials and other products. However, the Division handled decreased volume due to a drop in the prices of crude oil, naphtha and other commodities, and weaker demand for automotive and home electronics materials.

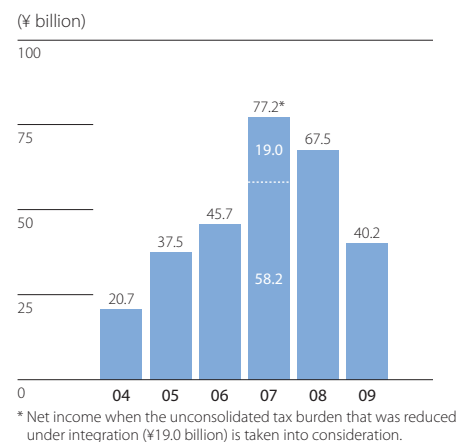
Net Sales



Operating Income and Operating Income Ratio



Net Income



In the energy and plant business, we obtained multiple orders for power generation equipment from the Egyptian Electricity Authority. We also partnered with the Egyptian Natural Gas Holding Company to launch an offshore gasfield drilling services business. Proactive actions were also taken to pursue future growth opportunities, such as the signing of a memorandum of agreement with a Kazakhstani sovereign wealth fund to form a joint venture in fertilizer production and power generation, and the commencement of feasibility studies for business commercialization.

As a result, net sales decreased ¥162.9 billion, or 10.4%, year on year to ¥1,399.4 billion. Operating income rose ¥0.5 billion, or 11.9%, year on year to ¥4.5 billion due to improving earnings from an Australian coal project, despite a drop in earnings as a result of provisions to the allowance for doubtful accounts.

Produce & Foodstuffs Division (Net Sales ¥366.0 Billion; Up 9.1%)

In the feed grain business, the Produce & Foodstuffs Division began importing barley from Kazakhstan for the first time, to ensure a stable supply of feed grain resources. We also strove to

geographically diversify source regions and expand sales channels by primarily focusing on feed grain supplies from South America to Southeast Asia. In the foodstuffs business, amid a trend toward greater accountability for food safety, we bolstered our quality controls mainly by stepping up screening and oversight of overseas suppliers. We also began a vegetable growing business in Japan, with the aim of supplying reliable and safe food.

As a result, net sales rose ¥30.6 billion, or 9.1%, year on year to ¥366.0 billion. Operating income climbed ¥1.8 billion, or 42.1%, to ¥6.1 billion, mainly reflecting higher net sales in line with rising prices.

Consumer Products, Services & Materials Division (Net Sales ¥311.5 Billion; Down 17.8%)

In the textiles field, we established an apparel retailing joint venture in Hong Kong and entered the Chinese retail apparel market for the first time. In the nursing care field, we made GUTT REHABILITATION LTD. a subsidiary with the aim of expanding sales and rentals of nursing care products, while enhancing the functionality of distribution facilities.

In housing materials, we made an investment to become the leading shareholder in Lilycolor Co., Ltd. in order to build and

Net Sales by Business Segment (¥ billion)

	2007	2008	2009
Metals	1,845.5	2,109.0	1,942.2
Machinery & Electronics	1,535.1	1,581.9	1,355.0
Automotive	751.7	938.3	809.5
Energy & Chemicals	1,269.2	1,562.3	1,399.4
Produce & Foodstuffs	349.6	335.4	366.0
Consumer Products, Services & Materials	382.7	379.0	311.5
Others	78.6	94.1	103.0

Operating Income by Business Segment (¥ billion)

	2007	2008	2009
Metals	34.4	35.4	20.4
Machinery & Electronics	30.6	35.6	18.6
Automotive	33.2	42.6	36.8
Energy & Chemicals	4.5	4.0	4.5
Produce & Foodstuffs	3.7	4.3	6.1
Consumer Products, Services & Materials	7.8	10.5	4.4
Others	(4.4)	(0.9)	(0.0)

functionally strengthen our value chain in the interior products industry. In the insurance field, we established insurance brokerages in India and Indonesia. The new brokerages have started to provide optimal insurance coverage, mainly for Japanese companies. However, in automotive interior materials, we received fewer orders due to the impact of production cutbacks by automakers. Combined with the impact of the real estate market downturn, net sales decreased ¥67.5 billion, or 17.8%, year on year to ¥311.5 billion. Operating income fell ¥6.1 billion, or 57.7%, to ¥4.4 billion, mainly due to reduced handling volume of automotive interior materials and lower condominium sales.

Results of Operations by Geographic Segment

Japan

In fiscal 2009, net sales in Japan declined ¥594.9 billion, or 12.3%, year on year to ¥4,245.9 billion mainly due to lower transaction volume in the Metals Division, Machinery & Electronics Division, and Energy & Chemicals Division. Operating income decreased ¥32.6 billion, or 60.0%, year on year to ¥21.7 billion.

Asia & Oceania

Net sales in Asia & Oceania decreased ¥20.2 billion, or 1.9%, year on year to ¥1,051.0 billion, mainly reflecting lower transaction volume at local subsidiaries in Asia. Despite the decrease in net sales,

operating income grew ¥4.9 billion, or 17.8%, to ¥32.8 billion, mainly due to increased earnings from an Australian coal project.

North America

Net sales in North America decreased ¥18.1 billion, or 3.8%, year on year to ¥455.1 billion, mainly due to a decrease in transaction volume at U.S. subsidiaries. Operating income decreased ¥5.0 billion, or 40.9%, year on year to ¥7.2 billion, mainly due to a drop in earnings in line with lower net sales.

Europe

Net sales in Europe declined ¥97.6 billion, or 20.8%, year on year to ¥371.9 billion, mainly due to lower transaction volume at automobile sales subsidiaries and other local subsidiaries in Europe. Operating income decreased ¥9.2 billion, or 45.7%, year on year to ¥11.0 billion, mainly due to a drop in earnings in line with lower net sales.

Others

In fiscal 2009, net sales in other regions increased ¥17.4 billion, or 12.0% to ¥162.8 billion, owing mainly to higher transaction volume at automobile sales subsidiaries and other local subsidiaries in Africa. Operating income was ¥17.2 billion, mostly the same as the previous fiscal year.

Net Sales by Geographic Segment

(¥ billion)

	2007	2008	2009
Japan	4,253.4	4,840.8	4,245.9
Asia & Oceania	949.7	1,071.2	1,051.0
North America	537.3	473.2	455.1
Europe	340.9	469.5	371.9
Others	131.2	145.4	162.8

Operating Income by Geographic Segment

(¥ billion)

	2007	2008	2009
Japan	44.6	54.4	21.7
Asia & Oceania	22.9	27.8	32.8
North America	12.9	12.3	7.2
Europe	14.8	20.3	11.0
Others	15.7	17.3	17.2

Assets, Liabilities and Equity

As of March 31, 2009, total assets were ¥2,130.0 billion, down ¥473.1 billion from a year earlier. The main reasons were decreases in trade notes and accounts receivable in line with lower net sales and a decline in investment securities due to a drop in share prices.

Net assets declined ¥52.7 billion from a year earlier to ¥586.9 billion. The equity component of net assets decreased ¥54.9 billion, mainly owing to decreased net unrealized gains on available-for-sale securities, net of taxes, and a drop in foreign currency translation adjustments due to the yen's appreciation, despite an increase in retained earnings. Consequently, the shareholders' equity ratio increased 2.4 percentage points from a year earlier to 24.9% as of March 31, 2009.

Cash Flow

Cash and cash equivalents as of March 31, 2009 stood at ¥242.5 billion, an increase of ¥68.4 billion from a year earlier. The increase primarily reflected net cash provided by operating and financing activities, which outweighed net cash used by investing activities.

(Cash flows from operating activities)

In fiscal 2009, operating activities provided net cash of ¥123.7 billion, ¥19.0 billion more than in fiscal 2008, mainly due to net income.

(Cash flows from investing activities)

In fiscal 2009, investing activities used net cash of ¥54.8 billion, ¥18.1 billion more than in fiscal 2008. Cash was mainly used for payments for purchase of property and equipment, and investment securities.

(Cash flows from financing activities)

In fiscal 2009, financing activities provided net cash of ¥4.6 billion, ¥27.6 billion more than the net cash used in fiscal 2008, largely as a result of an increase in interest-bearing debt.

Financial Strategy and Capital Structure

The financial strategy of the Company and its consolidated subsidiaries is focused on the efficient use of assets and fund procurement commensurate with its asset base. The goal is to achieve stable growth throughout the Group and to maintain a sound financial position.

Efficient Use of Assets

Aiming to "generate maximum profit with minimum funds," we strive to use funds more efficiently through the efficient use of working capital through such means as collecting sales receivables earlier and reducing inventories, as well as by reducing idle, inefficient fixed assets. We aim both to enhance corporate value and improve our financial position by directing funds generated by the above measures to investments in businesses with high growth potential and the repayment of interest-bearing debt.

Fund Procurement Commensurate With Asset Base

In principle, the Group will finance fixed assets with long-term loans and shareholders' equity, while financing working capital with short-term borrowings. At the same time, we also have adopted a policy of funding the less liquid portion of working capital with long-term debt. In addition, we have established a multi-currency revolving credit facility that allows us to respond to unexpected events and safely meet the funding requirements of overseas subsidiaries.

Looking ahead, we will strive to enhance the efficient use of assets and secure funding, taking into consideration cash flows generated from operating activities, the condition of assets, economic conditions and the financial environment. One concrete initiative was the roll-out of a Global Cash Management Service (GCMS) at domestic affiliated companies. Using this system, we are enhancing funding efficiency through such means as reducing idle money and thoroughly applying the Toyotsu Value Achievement (TVA) performance benchmark.

Outlook for the Toyota Tsusho Group

The Toyota Tsusho Group has formulated "VISION 2015—LEAD THE NEXT" in its quest to become a value-generating company. Guided by this vision, our strategic intentions are to create next-generation businesses in our six business domains—namely, our six operating divisions*—and achieve a 50:50 earnings ratio for our automotive and non-automotive businesses with a view to ensuring a healthy balance of future business profits.

* Six operating divisions: Metals, Machinery & Electronics, Automotive, Energy & Chemicals, Produce & Foodstuffs, and Consumer Products, Services & Materials.

With the automotive field as our core source of earnings, we will seize growth opportunities while targeting renewed expansion by creating new functions and comprehensively honing our strengths. In non-automotive fields, we will seek to achieve a cross-fertilization of functionality and knowledge gained in the automotive business, to generate synergies with the automotive field and thus establish and nurture second and third pillars of earnings for the Group.

While conducting rigorous risk management, we will actively allocate management resources to projects deemed worthy of investment, as we work to develop businesses designed to unlock new growth potential.

The economic outlook remains challenging, even as the business environment is entering an unprecedented period of major transformation. In this context, to realize our corporate vision, we will move management onto both the offensive and defensive by seeing this transformative period as a business opportunity and moving forward aggressively, while at the same time fortifying our base in core businesses.

On the offensive front, we will work to develop new overseas markets based on our global regional strategy, create more new functions in existing core businesses, and allocate management resources to new businesses by rigorously prioritizing businesses.

On the defensive front, reaffirming the principle of "real places, real things, and reality," we will carry out general safety inspections of production sites, raise operating efficiency with an emphasis on eliminating unreasonable and unnecessary requirements in existing businesses, and systematically nurture human resources who can succeed globally, from a long-term perspective.

Outlook for the Current Fiscal Year

For the fiscal year ending March 31, 2010, Toyota Tsusho projects consolidated net sales of ¥5,000 billion, down ¥1,286.9 billion, or 20.5%, from fiscal 2009. We also forecast a ¥34.0 billion, or 37.4%, decrease in operating income to ¥57.0 billion. After deducting income taxes, we are targeting net income of ¥25.0 billion, down ¥15.2 billion, or 37.8%, from fiscal 2009.

Net Sales Forecasts by Business Segment

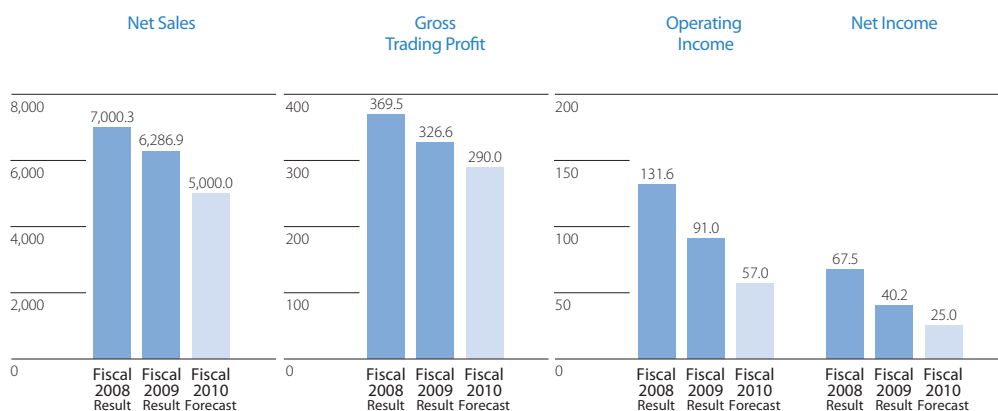
In fiscal 2010, the Metals Division is forecasting a decrease in net sales due to projected declines in prices and lower automobile output.

The Machinery & Electronics Division anticipates lower net sales based on projected lower automobile output and decreased handling volume of machinery equipment and electronic parts.

The Automotive Division is projecting lower net sales based on an anticipated decrease in handling volume mainly at overseas automobile sales subsidiaries.

Fiscal 2010 Forecasts

(¥ billion)



The Energy & Chemicals Division is forecasting lower net sales due to projected declines in crude oil prices and lower handling volume of mainly chemicals and synthetic resins.

The Produce & Foodstuffs Division is projecting lower net sales based on expectations of falling prices principally for animal feed.

The Consumer Products, Services & Materials Division is forecasting higher net sales based on anticipated sales of condominiums and commercial facilities.

Operating Income Forecasts by Business Segment

The Metals Division projects lower operating income in line with a projected decrease in net sales stemming mainly from an anticipated drop in automobile output.

The Machinery & Electronics Division anticipates lower operating income in line with a projected decline in net sales, chiefly reflecting

projected decreases in overseas automobile output and handling volumes of machinery and equipment, as well as electronic components.

The Automotive Division is forecasting a decline in operating income in line with a projected decrease in net sales at overseas automobile sales subsidiaries.

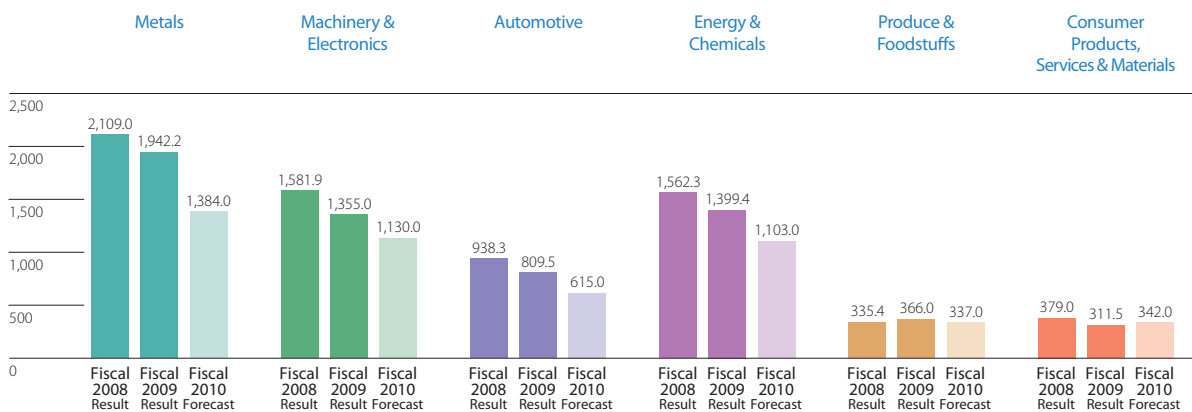
The Energy & Chemicals Division anticipates lower operating income in line with a projected decline in earnings from an Australian coal project.

The Produce & Foodstuffs Division expects operating income to remain mostly on a par with fiscal 2009, as projected declines in prices of animal feed and other commodities should be offset mainly by an increase in the handling volume for animal feed transactions.

The Consumer Products, Services & Materials Division foresees growth in operating income in line with a projected increase in net sales stemming from sales of condominiums and commercial facilities.

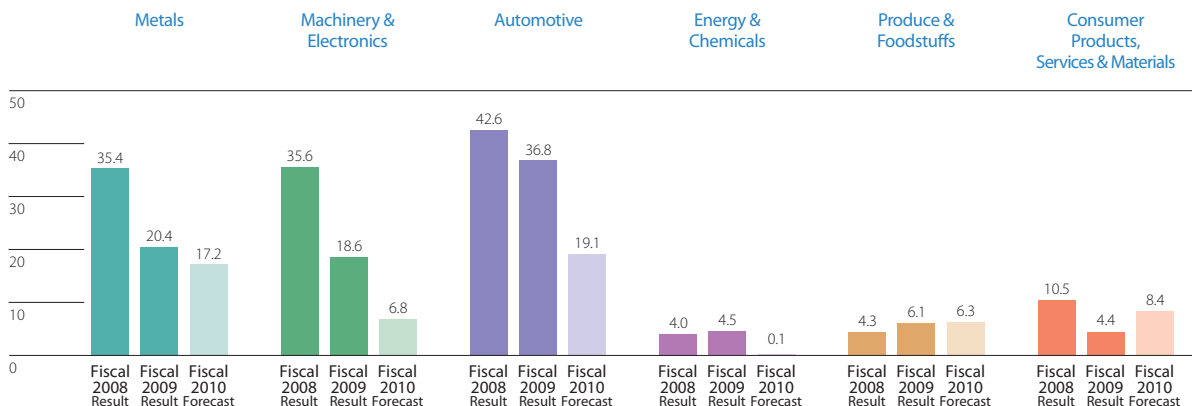
Net Sales Results and Forecasts by Business Segment

(¥ billion)



Operating Income Results and Forecasts by Business Segment

(¥ billion)



Business Risks and Uncertainties

The Company and its consolidated subsidiaries (the "Group") believe that the following risks and accounting policies may have a material impact on the decision-making of investors with regard to data contained in this annual report. Forward-looking statements contained in this report are based on the judgment of the Group as of the date of publication.

1. Risk Associated With Operating Activities

Dependence on Specific Customers

The Group consists of the Company, its 357 subsidiaries, and 193 affiliates. The main business line of the Group is the sale of automotive-related and other products in the domestic and overseas markets. In fiscal 2009 the Company's sales to the Toyota Group* accounted for 15.3% of net sales, with sales to Toyota Motor Corporation representing 7.1% of net sales. Therefore, trends in the automobile output of Toyota Motor Corporation may affect operating results of the Company.

* Toyota Motor Corporation, Toyota Industries Corporation, Aichi Steel Corporation, JTEKT Corporation, Toyota Auto Body Co., Ltd., Aisin Seiki Co., Ltd., Denso Corporation, Toyota Boshoku Corporation, Kanto Auto Works, Ltd., Toyoda Gosei Co., Ltd., Hino Motors, Ltd., Daihatsu Motor Co., Ltd.

Risk Associated With Customers' Credit

The Group faces a degree of risk arising from the collection of loans and receivables associated with commercial transactions of our domestic and overseas business customers. While the Group retains an allowance for doubtful accounts based on certain assumptions and estimates concerning customers' creditability, value of pledge and general economic situation, until customers complete the fulfillment of their obligations, there is no guarantee that customers will repay the debts owed to the Group or that customers will be in a sound financial condition to repay debts owed by each due date.

Risk Associated With Commodities

Commodities the Group deals with in its businesses, such as nonferrous metals, crude oil, petroleum products, rubber, food and textiles, are vulnerable to uncertainties arising from price fluctuations. While the Group takes various measures to reduce such risks, it may not be possible to completely avoid them.

Risk Associated With Business Investment

In the expansion of business operations, the Group intends to grow existing businesses, improve operational efficiencies and take on new business through strengthening of current partnerships or establishment of new partnerships with companies within or outside the Group. Therefore, the Group has established new ventures in partnership with other companies and has also invested in existing companies, and may continue to conduct such investing activities.

However, the Group may lose all or part of such investments or be obliged to provide additional funds in the event of a decline in the corporate worth or market value of the shares of invested companies. In such cases, the financial condition and/or results of the business operations of the Group may be adversely affected.

Risk Associated With Fluctuations in Interest Rates

A portion of interest-bearing debt of the Group is based on variable interest rates. For a considerable portion of such debt, we are able to absorb the effect of changes in interest rates within working capital. However, a certain portion of interest-bearing debt cannot be hedged against the risk of market fluctuations. Thus, we are susceptible to risk associated with fluctuations in interest rates. The results of the business operations of the Group may therefore be affected by changes in future interest rates.

Risk Associated With Exchange Rates

Of the product sales, investment and other business activities conducted by the Group, transactions denominated in U.S. dollars or other foreign currencies may be affected by changes in exchange rates. While the Group takes measures to constrain the impact of such risks, we may be unable to completely avoid them.

Risk Associated With Countries

The Group deals with many overseas counterparts in the trade of foreign products or investment. Therefore, the Group is exposed to risks arising from the manufacturing and purchase of foreign products, such as regulations imposed by foreign governments, political uncertainties, and fund transfer restraints, as well as loss on investment or reduced asset value.

Furthermore, export and import activities of the Group are generally affected by competitive conditions arising from international trade barriers, trade conflicts, free trade agreements and multilateral agreements. While the Group endeavors to avoid the concentration of our business on specific regions or countries, there is the possibility that future losses incurred in specific regions or countries may impact the overall performance of the Group.

Competition in Export and International Trade

Major export and other international trade of the Group is conducted in a fiercely competitive environment. The Group competes with domestic and overseas manufacturers and trading companies operating in international markets on a global level. Some of these competitors possess merchandise, technologies and experience superior to that of the Group. Thus, there is no guarantee that the Group will maintain a competitive edge.

Environment-related Risks

The Group is engaged in businesses in Japan and overseas that are exposed to a broad range of environment-related risks. To mitigate these risks, the Group conducts risk management throughout its supply chain. Specific activities include promoting traceability in the food domain, and enforcing compliance with laws and regulations concerning the handling of hazardous chemical substances in the chemical products domain.

Furthermore, the Group's businesses in Japan and overseas are susceptible to various environmental risks associated with waste disposal and other factors. The Group could conceivably incur additional costs in these businesses, due to changes in environmental regulations, environmental pollution caused by natural disasters, or other factors. These and other factors may affect the Group's business performance.

2. Effect of Natural Disasters and Other Events

The Group conducts sufficient reviews and training regarding the establishment and management of disaster response agencies, in order to safely and rapidly deal with natural disasters such as fires and earthquakes. For example, as an initiative to minimize the impact of earthquakes and other events on the Group's business operations, the Group conducts inspections and surveys of the seismic structure of its facilities and takes other appropriate measures as necessary.

However, a major, large-scale earthquake in the Tokai region or similar disaster may still have an impact on the Group's business operations.

Significant Accounting Policies and Estimates

The consolidated financial statements of the Group have been prepared in accordance with generally accepted accounting principles and practices in Japan. In producing these consolidated financial statements, the Company recognizes the following critical accounting policies can significantly affect important judgments and estimates the Company has employed to produce the consolidated financial statements of the Group. Forward-looking statements contained in this report are based on the judgment of the Company and its consolidated subsidiaries (the "Group") as of March 31, 2009.

Allowance for Doubtful Accounts

The Group records an allowance for doubtful accounts to cover estimated credit losses resulting from the inability of customers to make required payments. Additional provisions may be required in the event a customer's financial position worsens, thereby weakening repayment ability.

Inventories

The Group records as write-offs an amount equal to the difference between cost and estimated fair value based on projected future demand and market conditions. The Group may be required to book additional write-offs in the event that declines in future demand and market conditions exceed its projections.

Impairment of Tangible and Intangible Fixed Assets

The Group owns tangible and intangible fixed assets in order to enhance its operational capabilities and expand business. Calculation of the impairment of fixed assets is based on reasonable and supportable assumptions and projections of the grouping of assets, total undiscounted cash flows and recoverable value, with due consideration for the specific condition of each company. Additional write-offs may be required should losses or the uncollectible amount of book value beyond that reflected in the present book value arise due to a reduction in land prices, the impairment of assets or other causes.

Impairment of Marketable Securities

The Group owns the stock of specific customers and financial institutions in order to ensure continued business. Such stock includes listed stock with highly volatile prices and stock of non-listed companies for which it is difficult to determine fair market value.

For listed stock, an impairment loss is recorded when the stock market price at our closing date falls 30% or more below book value and such decline is deemed to be other than temporary. For the stock of non-listed companies, an impairment loss is recorded when the value of our investment as measured by the non-listed company's net assets declines by 50% or more below book value. In addition, additional write-offs may be necessary should losses or an uncollectible amount of book value beyond that reflected in present estimates arise due to market decline or poor performance by the invested company.

Deferred Tax Assets

The Group records valuation allowances in order to reduce deferred tax assets to realizable values. Future taxable income and prudent, achievable and sustainable tax payment schedules are considered in determining the appropriate valuation allowances. An adjusted amount for deferred income tax assets is recorded as a cost in the fiscal year in which it is deemed more likely than not that some portion or all of the deferred tax assets will not be realized. Conversely, in the event tax assets exceeding the net values as recorded in the financial statements are expected to be realized, an adjustment in deferred tax assets is recorded as income in the fiscal year in which the tax assets are expected to be realized.

Employee Retirement Benefits

Calculation of costs and obligations from employee retirement benefits is based on actuarial assumptions. These assumptions include discount rates, future levels of compensation, retirement ratios as well as mortality rates using recent statistical data and long-term returns on pension assets. In the pension system applied to the parent company and its domestic subsidiaries, discount rates are calculated by adjusting the market yield of Japanese government bonds by the number of years during which existing employees receive the pension. The expected return on assets is calculated using the weighted average of the expected long-term return on each category of assets in which the pension assets are invested. The extent to which actual results differ from the assumptions, or the extent to which assumptions are revised, will generally affect recognized expenses or recorded obligations in future periods, since such effects are accumulated and regularly recognized in the future. The amortization of the unrecognized actuarial difference comprising a portion of pension expenses is a regularly recognized expense of the effect of the change in assumptions and the impact of the difference between assumptions and actual results.