Financial Section

Contents

Five-Year Financial Summary

1. Key Financial Indicators

	Billions of Yen				
Years ended March 31	2003	2002	2001	2000	1999
Total Assets	4,863.7	4,852.6	4,950.1	4,904.6	5,389.4
Shareholders' Equity	626.3	650.4	623.0	634.2	569.7
Shareholders' Equity Ratio (%)	12.9	13.4	12.6	12.9	10.6
ROE (%)	4.4	7.1	6.4	5.8	-2.2
ROA (%)	0.6	0.9	0.8	0.7	-0.2
Interest-Bearing Liabilities (gross)	2,830.6	2,813.4	2,704.4	2,721.4	3,247.9
Interest-Bearing Liabilities (net)	2,502.8	2,528.8	2,447.7	2,503.9	2,902.8
Debt-Equity Ratio (gross) (times)	4.5	4.3	4.3	4.3	5.7
Debt-Equity Ratio (net) (times)	4.0	3.9	3.9	3.9	5.1
Working Capital	346.9	194.5	173.8	187.6	54.0

2. Consolidated Statements of Income

	Billions of Yen				
For the years ended March 31	2003	2002	2001	2000	1999
Gross trading profit	496.4	487.3	488.4	474.7	472.9
Other income (expense)					
Selling, general and administrative expenses	(406.3)	(400.8)	(390.6)	(408.7)	(407.2)
(Provision for)/reversal of allowance for doubtful receivables (including doubtful receivables and others in specific countries)	(5.6)	14.2	(31.9)	(7.5)	(48.0)
Interest expense, net	(6.0)	(13.8)	(18.0)	(22.1)	(25.0)
(Interest income)	24.9	32.2	42.3	43.0	64.7
(Interest expense)	(30.9)	(46.0)	(60.3)	(65.1)	(89.7)
Dividends	6.4	6.7	6.0	5.6	6.6
Gain (loss) on marketable securities and investments, net	(47.1)	(7.6)	72.3	43.5	9.8
(Gain on sale of marketable securities and investments, net)	16.7	27.8	80.2	51.4	32.8
(Valuation loss on marketable securities and investments)	(66.1)	(50.4)	(42.9)	(7.9)	(23.0)
(Gain on marketable securities transferred to pension fund)	2.3	15.0	35.0	—	—
Gain on sale of property and equipment, net	3.3	2.8	1.0	1.3	28.5
Settlement received (paid) on copper trading litigation, net	2.0	11.5	19.1	—	(17.6)
Impairment losses of long-lived assets	(20.4)	—	(7.7)	(30.8)	(12.8)
Loss on termination and restructuring of projects	—	(7.7)	(44.3)	(5.5)	—
Gain on sale of subsidiaries	—	—	—	17.2	—
Other, net	(3.9)	(9.6)	(7.8)	(14.6)	(7.0)
Total	(477.6)	(404.3)	(401.9)	(421.6)	(472.7)
Income before income taxes, minority interests in earnings (losses) of subsidiaries, and equity in earnings (losses) of associated companies	18.8	83.0	86.5	53.1	0.2
Income taxes	6.1	(32.8)	(34.5)	(27.4)	(14.8)
Income (loss) before minority interests in earnings (losses) of subsidiaries and equity in earnings (losses) of associated companies	24.9	50.2	52.0	25.7	(14.6)
Minority interests in earnings (losses) of subsidiaries	(6.4)	(5.2)	(5.2)	3.7	3.9
Equity in earnings (losses) of associated companies	9.8	0.2	(6.5)	5.7	(2.4)
Net income	28.3	45.2	40.3	35.1	(13.1)

3. Consolidated Balance Sheets

	Billions of Yen				
As of March 31	2003	2002	2001	2000	1999
Current assets					
Cash and cash equivalents	324.4	276.7	251.5	211.4	300.4
Time deposits	3.4	7.9	5.2	6.2	44.7
Marketable securities	7.7	5.6	14.9	30.5	115.0
Receivables - trade					
Notes and loans	270.7	289.4	396.7	351.5	403.3
Accounts	1,095.8	1,072.5	1,174.2	1,066.2	1,202.1
Associated companies	138.3	162.4	195.1	128.8	202.3
Allowance for doubtful receivables	(9.8)	(10.7)	(11.6)	(11.6)	(11.3)
Inventories	413.1	406.6	418.6	373.3	398.4
Deferred income taxes	29.3	24.2	23.7	25.8	20.5
Advance payments to suppliers	47.8	46.5	61.1	71.7	79.4
Other current assets	116.1	134.0	97.2	78.8	71.2
Total current assets	2,436.8	2,415.1	2,626.6	2,332.6	2,826.0
Investments and long-term receivables					
Investments in and advances to associated companies	375.7	285.4	242.5	180.3	214.7
Other investments	413.6	583.3	704.0	887.9	830.0
Long-term receivables	666.1	680.3	648.2	661.1	772.6
Allowance for doubtful receivables	(76.2)	(83.1)	(95.9)	(87.2)	(88.2)
Total investments and long-term receivables	1,379.2	1,465.9	1,498.8	1,642.1	1,729.1
Property and equipment					
Property and equipment less accumulated depreciation	761.0	776.4	705.3	817.5	740.5
Other assets	286.7	195.2	119.4	112.4	93.8
Total	4,863.7	4,852.6	4,950.1	4,904.6	5,389.4
Current liabilities					
Short-term debt	615.8	773.8	820.5	559.2	1,223.2
Current maturities of long-term debt	382.2	356.5	285.8	398.2	251.9
Payables - trade					
Notes and acceptances	115.2	166.6	233.5	201.7	214.7
Accounts	728.7	673.0	824.0	739.0	814.4
Associated companies	25.6	25.4	51.1	37.4	33.4
Income taxes	17.1	9.8	8.7	8.6	6.1
Accrued expenses	47.7	37.5	45.5	57.7	64.9
Advances from customers	60.4	64.8	71.4	67.7	97.9
Other current liabilities	97.2	113.2	112.3	75.5	65.5
Total current liabilities	2,089.9	2,220.6	2,452.8	2,145.0	2,772.0
Long-term debt, less current maturities	2,045.9	1,883.6	1,772.9	1,942.9	1,959.1
Accrued pension and retirement benefits	9.1	8.5	8.1	41.6	54.4
Deferred income taxes	3.9	14.6	24.4	74.1	6.2
Minority interests	88.6	74.9	68.9	66.8	28.0
Shareholders' equity					
Common stock	169.4	169.4	169.4	169.4	169.4
Additional paid-in capital	189.5	189.5	189.5	189.5	189.5
Retained earnings:					
Appropriated for legal reserve	17.7	17.7	17.3	16.4	15.5
Unappropriated	317.7	297.9	261.7	230.7	205.1
Accumulated other comprehensive income (loss)					
Net unrealized holding gains (losses) on securities available for sale	(6.2)	23.9	58.0	129.3	60.2
Foreign currency translation adjustments	(60.3)	(46.8)	(72.7)	(101.1)	(70.0)
Net unrealized gains (losses) on derivatives	(0.8)	(0.9)	—	—	—
Treasury stock, at cost	(0.7)	(0.3)	(0.2)	—	—
Total shareholders' equity	626.3	650.4	623.0	634.2	569.7
Total	4,863.7	4,852.6	4,950.1	4,904.6	5,389.4

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

1. Overview

We are an integrated trading company (sogo shosha). Through our worldwide network, we engage in general trading, including the purchase, supply, distribution and marketing of a wide range of goods and commodities, including metals, machinery, electronics, fuels, chemicals, textiles, food products and consumer goods. We act as both principal and agent in these trading transactions. We also provide a range of services for a variety of industries, such as: financing for customers and suppliers; planning, coordination and operation of urban and industrial infrastructure projects; consulting in areas such as system integration and technology development; and transportation and logistics. In addition, we engage in other diverse business activities, including investing in a variety of industries ranging from biotechnology to communications; developing natural resources; manufacturing and processing products such as steel products and textiles; developing and managing real estate; and operating retail stores.

We conduct our business through nine product and service-based business units and two sets of regional operations, domestic and overseas. Our product and service-based business units are:

- Metal Products
- Transportation & Construction Systems
- Machinery & Electric
- Media, Electronics & Network
- Chemical
- Mineral Resources & Energy
- Consumer Goods & Service
- Materials & Real Estate
- Financial & Logistics

Each business unit operates with a degree of autonomy in pursuing strategic goals, managing operations and ensuring accountability. Each business unit also has its own Planning and Administration Department to enable prompt decision-making and facilitate efficient operation. In today's increasingly global business environment, our worldwide network of offices, subsidiaries and associated companies and our global relationships with customers, suppliers and business partners have allowed us to conduct and expand our operations around the world. Our nine product and service-based business units and domestic and overseas operations regularly collaborate with one another to leverage their combined strengths to conduct their respective businesses more effectively as well as to meet our corporate targets and goals. We have designed our infrastructure to centralize and consolidate information from all of our business units and domestic and overseas operations to facilitate proper integration and risk control.

As an integrated trading company, a large part of our business is to achieve high returns while minimizing the wide array of risks we are exposed to. We categorize these risks into following two types for our internal risk management.

- Quantifiable-Risks :
  Risks which can be quantified and expressed by the figures, such as credit risk, market risk and investment risk
- Non-Quantifiable-Risks :
  Risks which cannot be easily quantified, such as operational risk, legal risk and risks relating to labor relations and natural disaster

Our basic policy to manage these risks are as follows.

- Quantifiable-Risks :
  To maintain the balance of Risk-adjusted Assets and Risk Buffers, and driving for maximization of Risk-adjusted Return Ratio
- Non-Quantifiable-Risks :
  To take effective measures to minimize these risks beforehand, to monitor the effectiveness of measures after risks are taken and to focus on preventing loss from spreading when loss events occur. Firm-wide project team was established in our company last year in order to improve the management structure for Non-Quantifiable Risks by monitoring and reviewing it.

With respect to individual decisions on whether or not to assume certain risks relating to specific projects, the business units are charged with taking responsibility for risk assessment for exposure amounts up to a certain level. The head of each business unit is supported by the unit's Planning and Administration Department in risk management activities and decision-makings.

The Corporate Group (Financial Resources Management Group) develops, implements and operates risk management infrastructure and decision-making tools such as the internal credit rating system of customers and counterparties and the hurdle rate and exit rule for investments, monitors the total risk taken throughout the company, and also manages risk exposure concentrated in certain countries and business areas. In addition, when there is a decision made with regard to a large scale project, the Corporate Group also participates in the process in order to check and give some advice to the business units.

2. Critical Accounting Policies

The preparation of our consolidated financial statements in accordance 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 financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, which are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of these evaluations form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions. For a summary of our significant accounting policies, including the critical accounting policies discussed below, see note 3 to our consolidated financial statements.

The following are the critical accounting policies that are important to our financial condition and results of operations and require significant management judgments and estimates:

Collectibility of Receivables

We maintain an allowance for doubtful receivables at a level which, in the judgment of management, is adequate to provide for probable losses that can be reasonably expected. In estimating the level of probable loss, we consider individual customers' credit risks taking into account such factors as historical performance, changes of original terms, internal risk-ratings, conditions of the relevant industry, and other specific factors applicable to the customer as well as general risk factors including sovereign risk where the customer operates. We also maintain a specific allowance for impaired loans. The impairment allowance for each loan is the difference between the loan's book value and one of the following: (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the loan's market price if available, or (3) the fair value of collateral if the loan is collateral dependent. Detailed reviews of impaired loans are conducted twice a year. We also reassess our impaired loans in response to significant changes in the borrower, such as bankruptcy, legal proceedings and requests to reschedule payments. In addition to the specific allowance, an allowance is established for probable losses that are not individually identified but are expected to occur, due to the risks that are inherent in the loan portfolio, based on default probability and loss severity from our past experience.

Recoverability of Long-Lived Assets

To operate our global business, we need to maintain significant long-lived assets. We review long-lived assets, such as our real estate assets, property and intangible assets including goodwill, for impairment whenever events or changes in circumstances suggest that the carrying amount of such assets may not be recoverable. We determine whether an asset is impaired by comparing its carrying amount to the future net cash flows that it is expected to generate. If the asset is determined to be impaired, we record an impairment loss equal to the amount by which the carrying amount of the asset exceeds its fair value. If an asset is determined to be disposed of, we report it as the lesser of its carrying amount or fair value less the cost to sell. The determination of estimated future net cash flows involves significant judgments. Changes in strategy or in market conditions could significantly impact these judgments and require adjustments to recorded asset balances.

Marketable Securities and Investments

We maintain a significant level of investments and the valuation of such investments involves some assumptions. All debt securities and marketable equity securities are classified as either (1) trading securities, which are accounted for at fair value with unrealized gains and losses included in earnings, (2) available-for-sale securities, which are accounted for at fair value with unrealized gains and losses excluded from earnings and reported as accumulated other comprehensive income (loss) in our balance sheet, or (3) held-to-maturity securities, which are accounted for at amortized cost. Unrealized losses deemed to be other-than-temporary declines in market values are charged to income. Specifically, we recognize impairment losses on securities whose values have declined at least 30% in relation to their acquired cost and have remained at that level for a period of six or more continuous months. We also recognize additional impairment losses on securities whose values as of the end of our fiscal year have declined by at least 50% in relation to their acquired cost after evaluating their recoverability against the acquired cost.

With respect to the unlisted securities that we hold, we identify the securities that should be assessed for possible impairment by comparing the net assets of the issuer with the book value we have recorded for the securities. If we determine that our portion of the net assets of an issuer is (1) not more than 50% of the book value we have recorded for the securities of such issuer or (2) less than the book value we have recorded for the securities of such issuer and such issuer has incurred net losses for two consecutive fiscal years, then we evaluate the securities and the issuer to determine whether our investment is recoverable in the future. If we conclude that the investment is not recoverable, the book value of the unlisted securities is written down to the fair value as determined by management. In addition, if we determine that the fair value of the unlisted securities declines to less than 50% of the book value we have recorded for the investment, the book value of the unlisted securities is written down to the fair value as determined by management.

With respect to our investment in funds, we write down the book value of the investment in any fund, if our share of the fund's net assets, as calculated based on the fund's financial statements, including unrealized losses and gains, is less than the book value we have recorded for such investment, irrespective of the degree of the shortfall.

Tax Asset Valuation

The tax effect of temporary differences between the financial statement and income tax bases of assets and liabilities is recognized as deferred income taxes, using statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

A valuation allowance is established to reduce certain deferred tax assets relating to deductible temporary differences and net operating loss carry forwards where it is more likely than not that we will be unable to realize the benefits of those deferred tax assets. As for tax losses carried forward, based on the Japanese tax law, the establishment of deferred tax assets for the tax benefits that are expected to be utilized in the subsequent five fiscal years is general, and this is the period we use for the establishment of our deferred tax assets. The amount of tax benefits that we expect to utilize depends on our estimates of future taxable income. Although we believe that the realization, less the valuation allowance, of our deferred tax assets is probable, our valuation allowance may change if we revise the estimates of future taxable income.

3. Operating Environment (For the year ended March 31, 2003, compared with the previous fiscal year)

During the period under review, the recovery in the global economy was slow; though consumer spending held relatively firm, the downward trend in stock prices put dampers on investment in plant and equipment. Particularly during the second half of the fiscal year, increased uncertainties about the situation with Iraq intensified the sense of economic stagnation.

In the United States, consumer spending remained brisk, and residential investment also remained at high levels, but as the result of such factors as the falling stock market, weak consumer prices, and costlier oil, business investment did not pick up until the latter part of the fiscal year, and the overall economic recovery was only gradual.

In the countries of the European Union (EU), external demand helped prop up growth, but business sentiment deteriorated, causing a delay in the recovery of investment. In addition, the persistence of a harsh employment situation produced a slowdown in consumer spending. As a result, the pace of economic expansion dropped further.

Asian economies achieved recoveries thanks to a return to export growth combined with a gradual improvement in consumer spending and other forms of domestic demand. The pace of growth speeded up again in China in particular, reflecting a strong inflow of foreign investment and expanded production.

Within Japan, the losses of financial institutions due to the disposal of nonperforming loans expanded further; this, combined with uncertainties about the prospects for Iraq, caused stock prices to fall. Meanwhile, fiscal constraints forced further cuts in public investment, while the persistent deflationary trend and the falling stock market put dampers on private-sector demand. The overall economic picture thus continued to be bleak.

4. Results of Operations (For the year ended March 31, 2003, compared with the previous fiscal year)

Effects of Certain Transactions on Our Statement of Income

We began to record the results of two of our former consolidated subsidiaries, MS Communications Co., Ltd. and Sumisho & Mitsuibussan Kenzai Co., Ltd., on an equity method basis. This change was a result of our forming alliances with third-party partners with respect to these two companies, and the resulting dilution of our shareholdings in these companies to below 50%. The change was effective for MS Communications Co., Ltd. in July 2001 and for Sumisho & Mitsuibussan Kenzai Co., Ltd. in February 2002. Due to this change, these two companies became classified as associated companies and certain line items in our statement of income were affected. Specifically, our gross trading profit and selling, general and administrative expenses decreased, while our equity in earnings of associated companies increased.

Results of Operations

Gross Trading Profit

Gross trading profit increased by ¥9.1 billion, or 1.9%, from ¥487.3 billion in the fiscal year ended March 31, 2002 to ¥496.4 billion in the fiscal year ended March 31, 2003. The increase was primarily a result of the expansion of our automobile dealer and financing operations in Europe and Asia, higher sales volume of system development and software package by Sumisho Computer Systems Corp., higher sales volume achieved by our consumer goods and food operations, and the increase in sales of condominiums and office leases in metropolitan areas. The increase was partially offset by the slowdown in the domestic economy, which impacted in particular the Machinery & Electric Business Unit and the Domestic Regional Business Units, Offices and Branch Offices segment and lower sales volume for agricultural agents, which affected the Chemical Business Unit. The increase was further offset by a ¥9.4 billion decrease as a result of the change in accounting treatment of MS Communications Co., Ltd. and Sumisho & Mitsuibussan Kenzai Co., Ltd.

Total trading transactions decreased by ¥415.8 billion, or 4.3%, from ¥9,645.4 billion in the fiscal year ended March 31, 2002 to ¥9,229.6 billion in the fiscal year ended March 31, 2003. The decrease was attributable mainly to the continued withdrawal from less profitable business and the change in accounting treatment of MS Communications Co., Ltd. and Sumisho & Mitsuibussan Kenzai Co., Ltd., which had been consolidated subsidiaries during the previous fiscal year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by ¥5.5 billion, or 1.4%, from ¥400.8 billion in the fiscal year ended March 31, 2002 to ¥406.3 billion in the fiscal year ended March 31, 2003. The principal factors for the increase included higher personnel expenses resulting from the expansion of the business activities of Summit, Inc., Sumisho Computer Systems Corp. and other subsidiaries, higher personnel costs resulting from rising retirement benefit expenses, and higher depreciation of software resulting from computer system upgrades. The increase was partially offset by a ¥7.9 billion decrease as a result of the change in accounting treatment of MS Communications Co., Ltd. and Sumisho & Mitsuibussan Kenzai Co., Ltd.

(Provision for)/Reversal of Allowance for Doubtful Receivables

Provision for doubtful receivables including doubtful receivables and others in specific countries was ¥5.6 billion in the fiscal year ended March 31, 2003 compared to a reversal of allowance of ¥14.2 billion in the fiscal year ended March 31, 2002. Provision for doubtful receivables and others in specific countries was ¥4.8 billion in the fiscal year ended March 31, 2003 compared to a reversal of allowance for doubtful receivables of ¥12.3 billion in the fiscal year ended March 31, 2002. The provision for doubtful receivables in the fiscal year ended March 31, 2003 was primarily a result of two sets of receivables, one in the Philippines and the other in Indonesia, which the debtors wished to reschedule and which we expected would not be paid. We also made a provision of ¥6.8 billion, reflecting 156 cases of doubtful receivables, which was partially offset by a reversal of allowance of ¥5.7 billion, reflecting 74 cases where we were able to collect certain doubtful receivables previously subject to provisions and by a reversal in general allowances of ¥0.3 billion.

Interest Expense, Net of Interest Income

Interest expense decreased by ¥7.8 billion, or 56.5%, from ¥13.8 billion in the fiscal year ended March 31, 2002 to ¥6.0 billion in the fiscal year ended March 31, 2003. The decrease was primarily due to lower interest rates, particularly with respect to debt denominated in U.S. dollars. Average six-month TIBOR for debt denominated in Japanese yen decreased from 0.19% during the fiscal year ended March 31, 2002 to 0.1%, and the average six-month LIBOR for debt denominated in U.S. dollars decreased from 3.9% during the fiscal year ended March 31, 2002 to 1.87%.

Dividends

Total dividends received decreased by ¥0.3 billion, or 4.5%, from ¥6.7 billion in the fiscal year ended March 31, 2002 to ¥6.4 billion in the fiscal year ended March 31, 2003.

Gain (Loss) on Marketable Securities and Investment, Net

Loss on marketable securities and investments increased by ¥39.5 billion from ¥7.6 billion in the fiscal year ended March 31, 2002 to ¥47.1 billion in the fiscal year ended March 31, 2003. The increase was attributable mainly to impairment losses of ¥66.1 billion related to the securities held by us as the overall Japanese stock market declined significantly. The impairment losses consisted of a ¥42.5 billion loss related to listed securities, including a ¥34.6 billion loss due to the steep decline in the stock prices of five financial institutions, and a ¥23.6 billion loss related to unlisted securities. The impairment losses were partially offset by a ¥16.7 billion gain on the sale of marketable securities and investments related to our media and electronics businesses. We also recognized gain on securities transferred to pension fund amounted to ¥2.3 billion in the fiscal year ended March 31, 2003.

Gain on Sale of Property and Equipment, Net

Gain on sale of property and equipment increased by ¥0.5 billion, or 17.9%, from ¥2.8 billion in the fiscal year ended March 31, 2002 to ¥3.3 billion in the fiscal year ended March 31, 2003.

Settlement Received on Copper Trading Litigation, Net

Settlement amounts received on copper trading litigation were ¥2.0 billion in the fiscal year ended March 31, 2003 compared to ¥11.5 billion (net of payment) in the fiscal year ended March 31, 2002.

Impairment Losses of Long-Lived Assets

We recorded impairment losses of long-lived assets of ¥20.4 billion for the fiscal year ended March 31, 2003. The impairment losses were attributable mainly to the impact of lower real estate prices and lower profitability of some of our commercial assets. We recorded impairment losses of ¥11.2 billion in connection with real estate in the Kansai region, ¥2.0 billion in connection with real estate in the Kanto region, and ¥7.2 billion in connection with rental office building in the Kanto region.

Other Income (Loss), Net

Other losses decreased by ¥5.7 billion, or 59.4%, from ¥9.6 billion in the fiscal year ended March 31, 2002 to ¥3.9 billion in the fiscal year ended March 31, 2003. The decrease was primarily a result of lower legal fees related to the copper trading litigation. In addition, in the fiscal year ended March 31, 2002, we had expenses related to the relocation of our headquarters completed during that year.

Minority Interest in Earnings of Subsidiaries

Minority interests in earnings of subsidiaries increased by ¥1.1 billion, or 23.1%, from ¥5.2 billion in the fiscal year ended March 31, 2002 to ¥6.4 billion in the fiscal year ended March 31, 2003. The increase was attributable mainly to an increased contribution to our operating results by Sumisho Computer Systems Corp. and Sumisho Auto Leasing Corp.

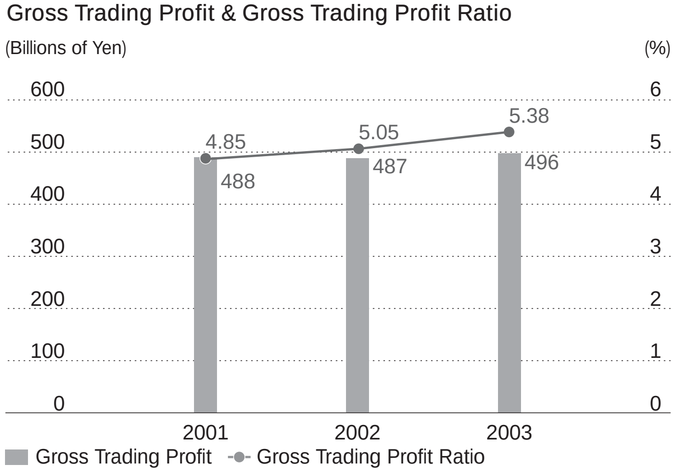
Equity in Earnings (losses) of Associated Companies

Equity in earnings of associated companies increased by ¥9.6 billion from ¥0.2 billion in the fiscal year ended March 31, 2002 to ¥9.8 billion in the fiscal year ended March 31, 2003. The increase was primarily a result of the strong performances by Jupiter Telecommunications Co., Ltd. and Jupiter Programming Co., Ltd., led by increased subscriptions, and an increased number of transactions arranged by Sumisho Lease Co., Ltd. The inclusion of earnings from MS Communications Co., Ltd. and Sumisho & Mitsuibussan Kenzai Co., Ltd., which were previously consolidated subsidiaries, also improved our equity in earnings of associated companies by ¥1.0 billion.

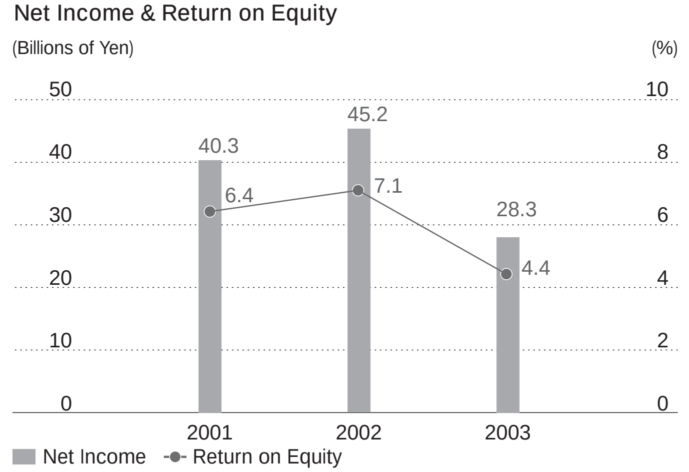
Net Income

Net income decreased by ¥16.9 billion, or 37.4%, from ¥45.2 billion in the fiscal year ended March 31, 2002 to ¥28.3 billion in the fiscal year ended March 31, 2003. Our net income decreased primarily as a result of declines in the value of real estate and securities owned by us.

Gross Trading Profit & Gross Trading Profit Ratio



Net Income & Return on Equity



5. Results by Operating Segment (For the year ended March 31, 2003, compared with the previous fiscal year)

We manage and assess our business through 11 operating segments, including nine operating segments based on products and services. The following tables set forth Gross Trading Profit and Net Income by operating segments for the fiscal years ended March 31, 2003 and 2002:

Breakdown of Gross Trading Profit by Operating Segment

	Billions of Yen				Millions of U.S. Dollars
For the years ended March 31, 2003 and 2002	2003	2002	increase/ decrease	increase/ decrease	2003
Metal Products	¥ 37.2	¥ 36.6	¥ 0.6	1.6%	$ 310
Transportation & Construction Systems	86.2	78.5	7.7	9.8	718
Machinery & Electric	28.6	30.6	(2.0)	(6.5)	238
Media, Electronics & Network	40.9	42.0	(1.1)	(2.6)	341
Chemical	23.6	25.5	(1.9)	(7.5)	196
Mineral Resources & Energy	31.6	30.1	1.5	5.0	264
Consumer Goods & Service	86.0	81.9	4.1	5.0	717
Materials & Real Estate	48.4	42.6	5.8	13.6	404
Financial & Logistics	15.5	14.5	1.0	6.9	129
Domestic Regional Business Units, Offices and Branch Offices	51.2	53.1	(1.9)	(3.6)	426
Overseas Subsidiaries and Branches	59.3	59.1	0.2	0.3	494
Segment Total	508.5	494.5	14.0	2.8	4,237
Corporate and Eliminations + U.S. GAAP Adjustments	(12.1)	(7.2)	(4.9)	68.1	(100)
Consolidated	¥ 496.4	¥ 487.3	¥ 9.1	1.9%	$ 4,137

Breakdown of Net Income (Loss) by Operating Segment

	Billions of Yen				Millions of U.S. Dollars
For the years ended March 31, 2003 and 2002	2003	2002	increase/ decrease	increase/ decrease	2003
Metal Products	¥ 6.4	¥ 4.5	¥ 1.9	42.2%	$ 53
Transportation & Construction Systems	5.6	4.3	1.3	30.2	47
Machinery & Electric	1.8	4.1	(2.3)	(56.1)	15
Media, Electronics & Network	8.5	6.3	2.2	34.9	71
Chemical	1.1	1.9	(0.8)	(42.1)	9
Mineral Resources & Energy	3.9	2.4	1.5	62.5	32
Consumer Goods & Service	5.3	5.1	0.2	3.9	44
Materials & Real Estate	1.6	3.0	(1.4)	(46.7)	14
Financial & Logistics	2.0	1.3	0.7	53.8	17
Domestic Regional Business Units, Offices and Branch Offices	(4.9)	4.1	(9.0)	—	(41)
Overseas Subsidiaries and Branches	7.1	7.9	(0.8)	(10.1)	59
Segment Total	38.4	44.9	(6.5)	(14.5)	320
Corporate and Eliminations + U.S. GAAP Adjustments	(10.1)	0.3	(10.4)	—	(84)
Consolidated	¥ 28.3	¥ 45.2	¥ (16.9)	(37.4)%	$ 236

Metal Products

Gross trading profit increased by ¥0.6 billion, or 1.6%, from ¥36.6 billion in the fiscal year ended March 31, 2002 to ¥37.2 billion in the fiscal year ended March 31, 2003. Net income increased by ¥1.9 billion, or 42.2%, from ¥4.5 billion in the fiscal year ended March 31, 2002 to ¥6.4 billion in the fiscal year ended March 31, 2003. The increase was attributable mainly to a rapid growth in the export, primarily to Asian countries. In the Iron and Steel business, we increased exports of steel sheets to Asia, where a number of steel processing centers and significant customers are located. Gross trading profit increased as a result of a recovery in the margin for steel processing. In addition, the several steel export operations purchased from Nomura Trading Holdings Co., Ltd. during the fiscal year contributed to gross trading profit. In the Tubular Products business, the sales of goods related to the oil and gas sector also contributed to the results of this unit.

Transportation & Construction Systems

Gross trading profit increased by ¥7.7 billion, or 9.8%, from ¥78.5 billion in the fiscal year ended March 31, 2002 to ¥86.2 billion in the fiscal year ended March 31, 2003. The increase was attributable mainly to the expansion of our automobile dealer and auto finance in Europe and Asia. Net income increased by ¥1.3 billion, or 30.2%, from ¥4.3 billion in the fiscal year ended March 31, 2002 to ¥5.6 billion in the fiscal year ended March 31, 2003.

In the Ship business, our orders reached a record high reflecting strong sales of new ships in the market. Our associated company, Oshima Shipbuilding Co., Ltd., showed strong performance primarily due to higher unit sales volume. In the Aerospace Leasing business, we were relatively unaffected by the financial crises experienced by North American carriers because most of our operating leases were with European carriers. In the Motor Vehicles business, Sumisho Auto Leasing Corp. expanded its lease financing operations with the purchase of the auto leasing business. In the Construction Machinery & Mining Systems business, we performed well in Europe and China due mainly to higher sales volume.

Machinery & Electric

Gross trading profit decreased by ¥2.0 billion, or 6.5%, from ¥30.6 billion in the fiscal year ended March 31, 2002 to ¥28.6 billion in the fiscal year ended March 31, 2003. The decrease was attributable mainly to the lower sales volume in the domestic market for machinery and equipment, which was partially offset by improved results in the plant export business mainly to the Asian region. With regards to domestic operations, the long-term domestic economic slowdown continued to impact adversely the domestic machinery and equipment sector.

Net income decreased by ¥2.3 billion, or 56.1%, from ¥4.1 billion in the fiscal year ended March 31, 2002 to ¥1.8 billion in the fiscal year ended March 31, 2003. The decrease reflected impairment losses recorded in connection with certain marketable securities.

Media, Electronics & Network

Gross trading profit decreased by ¥1.1 billion, or 2.6%, from ¥42.0 billion in the fiscal year ended March 31, 2002 to ¥40.9 billion in the fiscal year ended March 31, 2003. The decrease was attributable mainly to the ¥3.9 billion decrease in gross trading profit reflecting the change in accounting treatment of MS Communications Co., Ltd., which was partially offset by increased sales of system development and software package by Sumisho Computer Systems Corp. and an increased level of EMS (Electronics Manufacturing Services) provided by Sumitronics Asia Holding Pte. Ltd. Net income increased by ¥2.2 billion, or 34.9%, from ¥6.3 billion in the fiscal year ended March 31, 2002 to ¥8.5 billion in the fiscal year ended March 31, 2003. The increase was primarily a result of the improved earnings of associated companies, which increase was partially offset by decrease in gain on marketable securities and investments.

In the Media business, Jupiter Telecommunications Co., Ltd. had 1,626,300 subscribers as of March 31, 2003, an increase of 20% over the previous year. Jupiter Programming Co., Ltd. increased its revenues and profits, as its subscriber base increased in the fiscal year ended March 31, 2003. In the Network business, Sumisho Computer Systems Corp., Sumisho Electronics Co., Ltd. and MS Communications Co., Ltd. increased their earnings. In addition, sales volume increased for EMS in China and ASEAN countries, and Sumitronics Asia Holding Pte. Ltd. and Sumitronics Corporation both reported higher sales volume.

Chemical

Gross trading profit decreased by ¥1.9 billion, or 7.5%, from ¥25.5 billion in the fiscal year ended March 31, 2002 to ¥23.6 billion in the fiscal year ended March 31, 2003. Net income decreased by ¥0.8 billion, or 42.1%, from ¥1.9 billion in the fiscal year ended March 31, 2002 to ¥1.1 billion in the fiscal year ended March 31, 2003. The decrease was largely due to the decline of our agricultural agents business for CIS and Middle East region.

In the Inorganic & Specialty Chemical business, the business sales volume increased in the areas of electronic components in Korea, Taiwan and China, and also through efforts and success in commencing Supply Chain Management business, supplying all raw materials utilized by a single customer. In comparison, sales volume in the paper and soda ash businesses declined. In the Medical Science business, sales of intermediates slowed down in the United States. Although the Agri Science business saw higher sales volume in Eastern Europe, the lower sales volume in the Middle East and the CIS caused a significant overall decline in the sales. In the Plastics & Organic Chemicals business, Cantex Inc. reported higher profits in its North American polyvinyl chloride pipes and joints business mainly as a result of higher market price level. Organic chemicals maintained stable business results throughout the year mainly as a result of higher sales volume.

Mineral Resources & Energy

Gross trading profit increased by ¥1.5 billion, or 5.0%, from ¥30.1 billion in the fiscal year ended March 31, 2002 to ¥31.6 billion in the fiscal year ended March 31, 2003. Net income increased by ¥1.5 billion, or 62.5%, from ¥2.4 billion in the fiscal year ended March 31, 2002 to ¥3.9 billion in the fiscal year ended March 31, 2003.

In the Mineral Resources business, our Australian coal operations increased earnings significantly due to strong market conditions. The Batu Hijau project, which is a copper and gold mining operation in Indonesia, improved operating results of the mining company in Indonesia as it raised productivity and achieved cost reductions. In the Energy business, revenues and profits related to the LPG business increased as a result of higher sales volume, the restructuring of domestic retail businesses, and the strengthening of its sales network. Our oil business also increased profits expanding trading operations.

Consumer Goods & Service

Gross trading profit increased by ¥4.1 billion, or 5.0%, from ¥81.9 billion in the fiscal year ended March 31, 2002 to ¥86.0 billion in the fiscal year ended March 31, 2003. Net income increased by ¥0.2 billion, or 3.9%, from ¥5.1 billion in the fiscal year ended March 31, 2002 to ¥5.3 billion in the fiscal year ended March 31, 2003. The Consumer Goods & Service Business Unit has been responding rapidly to changing patterns of consumer preference, such as the increasing sensitivity to the origin of food products. In this environment, in the Retail & Consumer Services business, we increased its profitability primarily as a result of the higher sales volume of its food, mail order, drug and brand businesses. In the Foodstuff & Fertilizer business, we achieved favorable results due to increases in overall sales volume.

Materials & Real Estate

Gross trading profit increased by ¥5.8 billion, or 13.6%, from ¥42.6 billion in the fiscal year ended March 31, 2002 to ¥48.4 billion in the fiscal year ended March 31, 2003. The increase was attributable mainly to the increase in the sales of condominiums in the Tokyo metropolitan area and in the rentals of office space, which was partially offset by the effects of the change in accounting treatment of Sumisho & Mitsuibussan Kenzai Co., Ltd. Net income decreased by ¥1.4 billion, or 46.7%, from ¥3.0 billion in the fiscal year ended March 31, 2002 to ¥1.6 billion in the fiscal year ended March 31, 2003. The decrease was attributable mainly to impairment losses recorded in connection with our rental office building.

Construction & Real Estate business increased largely due to its strategic emphasis on residential sales and leases in the Tokyo metropolitan area. For example, our buildings located in the Tokyo metropolitan area, such as Tokyo Twin Parks and Shiroganedai Front, remained profitable. In addition, the recently-renovated office space at our former headquarters, consisting of space in four towers totaling 76,000 square meters, began to generate rental income in the fiscal year ended March 31, 2003.

Financial & Logistics

Gross trading profit increased by ¥1.0 billion, or 6.9%, from ¥14.5 billion in the fiscal year ended March 31, 2002 to ¥15.5 billion in the fiscal year ended March 31, 2003. Net income increased by ¥0.7 billion, or 53.8%, from ¥1.3 billion in the fiscal year ended March 31, 2002 to ¥2.0 billion in the fiscal year ended March 31, 2003.

In the Financial Services business, our commodity trading business was not significantly affected compared to the previous fiscal year despite the erratic fluctuations in commodity prices. The fluctuations were primarily a result of an increased flow of funds into the commodities markets due to several factors, including the economic slowdown, the decline in the Japanese stock markets, and the global decline in stock prices. In the Logistics & Insurance business, the trend of shifting manufacturing operations to China and the ASEAN countries has increased demand for our logistics services. However, the trend has been partially offset by continued price competition. Revenues of the insurance broker business increased due to higher commissions.

Domestic Regional Business Units, Offices and Branch Offices

Gross trading profit decreased by ¥1.9 billion, or 3.6%, from ¥53.1 billion in the fiscal year ended March 31, 2002 to ¥51.2 billion in the fiscal year ended March 31, 2003. The decrease was attributable mainly to the impact of the extended downturn of the domestic economy. Low demand has resulted in low trading volume in the iron, steel and textile sectors. The decrease in investment projects has also resulted in a decline in the machinery and equipment sectors.

We had a net loss of ¥4.9 billion in the fiscal year ended March 31, 2003 compared to net income of ¥4.1 billion in the fiscal year ended March 31, 2002. The decrease was primarily the result of impairment losses recorded in connection with our real estate.

Overseas Subsidiaries and Branches

Gross trading profit increased by ¥0.2 billion, or 0.3%, from ¥59.1 billion in the fiscal year ended March 31, 2002 to ¥59.3 billion in the fiscal year ended March 31, 2003. The increase was primarily due to higher sales volume of pipes and chemical business of Sumitomo Corporation (Singapore) Pte. Ltd. and our subsidiaries in China. However, the increase was partially offset by the lower sales volume of the steel pipe business of Sumitomo Corporation of America. Net income decreased by ¥0.8 billion, or 10.1%, from ¥7.9 billion in the fiscal year ended March 31, 2002 to ¥7.1 billion in the fiscal year ended March 31, 2003. The decrease was mainly due to lower sales volume of pipes and steel business of Sumitomo Corporation of America and the impact of the devaluation of the Argentine peso on some of the U.S. dollar-denominated payables of our Argentine subsidiary.

6. Liquidity and Capital Resources

Financial Position

As of March 31, 2003, total assets increased by ¥11.1 billion to ¥4,863.7 billion from March 31, 2002. This was due to an increase of operating assets by expanding the earning base and an increase of cash and cash equivalents to maintain sufficient liquidity, despite a decrease of foreign currency assets' value caused by appreciation of the yen and a decrease of other investments because of weak stock prices. Shareholders' equity decreased by ¥24.1 billion to ¥626.3 billion from March 31, 2002, affected by declining stock prices and an appreciation of the yen. As a result, the shareholders' equity ratio decreased by 0.5 points to 12.9%.

Net interest-bearing liabilities decreased by ¥26.0 billion to ¥2,502.8 billion and debt to equity ratio (net interest-bearing liabilities/shareholders' equity) was 4.0 times as of March 31, 2003.

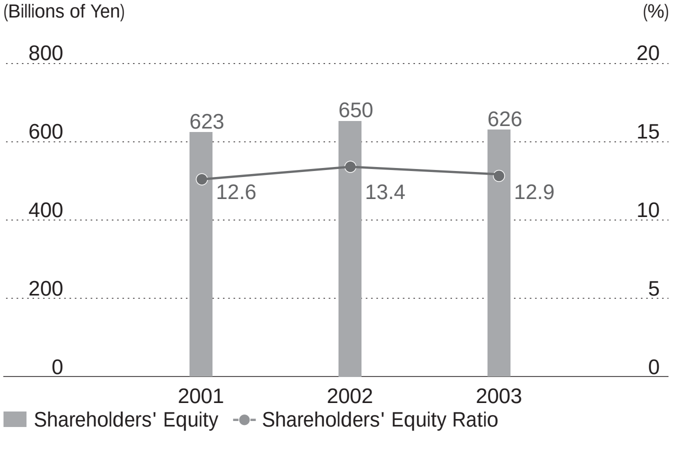
Liquidity

As of March 31, 2003, we held ¥324.4 billion in cash and cash equivalents and ¥3.4 billion in fixed time deposits. We had working capital of ¥346.9 billion as of March 31, 2003 compared to ¥194.5 billion as of March 31, 2002. The significant increase in our working capital was primarily a result of our effort to replace our short-term debt with more stable long-term debt and to increase our cash holdings in anticipation of increased instability in the financial markets in Japan and the rest of the world.

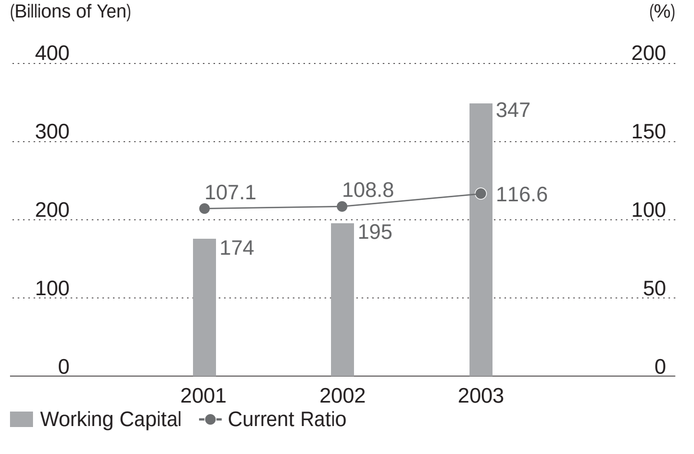
Capital Resources

We seek to fund our operations through cash flow from operations, bank debt and debt raised in the capital markets and through commercial paper issuances. Our basic policy for fund raising activities is to secure stable, medium- to long-term funds and liquidity for our opera-

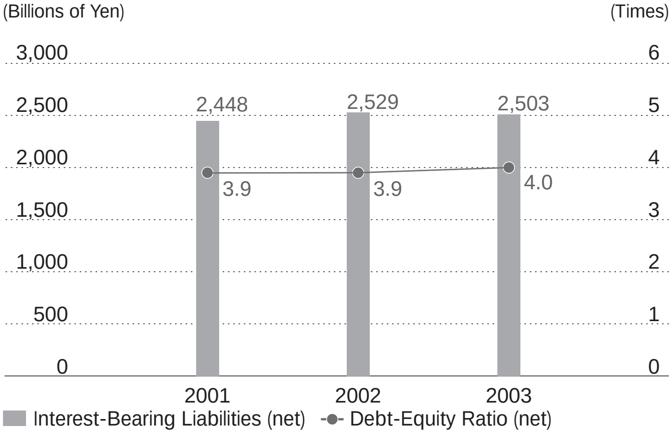
Shareholders' Equity & Shareholders' Equity Ratio



Working Capital & Current Ratio (Current Assets/Current Liabilities)



Interest-Bearing Liabilities (net) & Debt-Equity Ratio (net)



tions. During the fiscal year ended March 31, 2003, we shifted a significant portion of our debt financing from short-term debt to long-term debt to take advantage of the low interest rate environment, particularly in the Japanese financial markets. We reduced approximately ¥158.0 billion of short-term debt and increased our long-term debt by approximately ¥175.2 billion from March 31, 2002 to March 31, 2003.

In order to facilitate our access to capital markets for funding, we have established several funding programs, including

- a ¥200 billion Japanese shelf registration for primary debt offerings;
- a ¥100 billion Japanese shelf registration for secondary debt offerings to facilitate the sale of any unsold allotments in our Euro-market debt offerings;
- a ¥2.4 trillion commercial paper program in Japan;
- a U.S. $500 million U.S. Medium Term Note program and a U.S. $1.5 billion commercial paper program, both established by our U.S. subsidiary, Sumitomo Corporation of America (“SCOA”);
- a U.S.$2 billion Euro Medium Term Note program jointly established by Sumitomo Corporation Capital Europe Plc (U.K.) (“SCCE”) and Sumitomo Corporation Capital Netherlands N.V. (“SCNL”); and
- a U.S.$1.5 billion Euro-denominated commercial paper program established by SCCE.

We have currently obtained long-term and short-term credit ratings from Moody’s Investors service of Baa1/P-2, Standard & Poor’s of n.a./A-2, and Rating and Investment Information, Inc. of A+/a-1.

As of March 31, 2003, we obtained several committed lines of credit providing an aggregate of up to U.S. $980 million and ¥350 billion in short-term loans, including:

- a U.S. $930 million multi-borrower and multi-currency line of credit provided by a syndicate of major European and U.S. banks, under which we can obtain loans for Sumitomo Corporation, SCOA, SCCE, and SCNL in Yen, U.S. Dollar, and Euro;
- a U.S. $50 million U.S. dollar-denominated line of credit provided to SCOA by a major U.S. bank;
- a ¥250 billion line of credit provided by a syndicate of major Japanese banks; and
- a ¥100 billion line of credit provided by a syndicate of Japanese regional banks.

To date, we have not drawn on any of these lines of credit. We believe these lines of credit do not contain any material covenants, ratings triggers or other restrictions that could potentially impair our ability to draw down funds.

We also have several uncommitted lines of credit providing an aggregate of up to U.S. $2.7 billion and ¥244.9 billion in short-term loans.

Liquidity and Capital Resources

	Billions of Yen			Millions of U.S. Dollars
As of March 31, 2003, 2002, and 2001	2003	2002	2001	2003
Short-term				
Loans, principally from banks	¥ 326	¥ 385	¥ 405	$ 2,718
Commercial paper	290	389	416	2,414
	616	774	821	5,132
Long-term				
Secured long-term debt				
Loans	74	75	75	616
Bonds	4	—	—	34
Unsecured long-term debt				
Loans	1,697	1,615	1,504	14,144
Bonds and notes	440	349	304	3,662
	2,215	2,039	1,883	18,456
Interest-bearing liabilities (gross)	2,831	2,813	2,704	23,588
Cash and cash equivalents & time deposits	328	284	256	2,731
Interest-bearing liabilities (net)	2,503	2,529	2,448	20,857
Total assets	4,864	4,853	4,950	40,531
Shareholders' equity	626	650	623	5,219
Shareholders' equity ratio (%)	12.9	13.4	12.6	
Debt-Equity ratio (gross) (times)	4.5	4.3	4.3	
Debt-Equity ratio (net) (times)	4.0	3.9	3.9	

Net cash provided by operating activities was ¥67.0 billion for the fiscal year ended March 31, 2003 compared to ¥72.7 billion for the fiscal year ended March 31, 2002. The increase in accounts receivable and inventory in the fiscal year ended March 31, 2003 was mainly due to the expansion of our automobile dealer and financing business and other operations.

Net cash used in investing activities was ¥59.9 billion for the fiscal year ended March 31, 2003 compared to ¥78.8 billion for the fiscal year ended March 31, 2002. In the fiscal year ended March 31, 2003, we acquired leasing assets at Sumisho Auto Leasing Corp. We made a capital investment of ¥13.4 billion in Sumitomo Metal Industries, Ltd. and ¥8.9 billion in a joint acquisition of the steel pipe division of North Star Steel Company. In addition, we extended a ¥69.0 billion loan to Jupiter Telecommunications Co., Ltd. Our cash investments were partially offset by a ¥36.5 billion cash inflow as a result of the cancellation of a ¥45.0 billion insurance reserve and sales of listed securities in Japan.

Free cash flow, which is net cash provided by operating activities less net cash used in investing activities, was ¥7.2 billion for the fiscal year ended March 31, 2003.

Net cash provided by financing activities was ¥43.0 billion in the fiscal year ended March 31, 2003 compared to ¥26.7 billion for the fiscal year ended March 31, 2002. The increase was attributable to our efforts to obtain increased levels of cash and deposits in anticipation of unstable financial markets in the future. We mainly increased our long-term debt while repaying a portion of our outstanding short-term debt. As a result, cash and cash equivalents increased to ¥324.4 billion as of March 31, 2003.

The following table sets forth our cash flow information for the fiscal years ended March 31, 2003, 2002 and 2001:

Summary Statements of Consolidated Cash Flows

	Billions of Yen			Millions of U.S. Dollars
For the years ended March 31, 2003, 2002, and 2001	2003	2002	2001	2003
Net cash provided by operating activities	¥ 67.0	¥ 72.7	¥ 85.7	$ 559
Net cash used in investing activities	(59.9)	(78.8)	(62.8)	(499)
Free cash flow	7.2	(6.1)	22.9	60
Net cash provided by financing activities	43.0	26.7	14.0	358
Effect of exchange rate changes on cash and cash equivalents	(2.5)	4.6	3.2	(21)
Net increase in cash and cash equivalents	¥ 47.6	¥ 25.2	¥ 40.1	$ 397

7. Quantitative and Qualitative Disclosure about Market Risk

In the normal course of business, we are exposed to risks arising from fluctuations in interest and foreign currency exchange rates, commodity prices and equity prices. In order to manage these risks, we use derivative financial and commodity instruments including: foreign exchange forwards, currency swaps and options; interest rate swaps, futures and options; and commodity futures, and forwards and options. To a lesser degree, we also use derivative commodity instruments for trading purposes within prescribed position limits and loss limits imposed under the risk management structure described below.

The officers in the relevant department have expert knowledge regarding the risks inherent in the markets in which their respective departments operate and the instruments available to hedge against those risks and are responsible for maintaining market risk within prescribed limits.

Interest Rate Risk

Our business activities expose us to market risks arising from changing interest rates, which we monitor and take measures to minimize through our Financial Resources Management Group. To manage these risks, we enter into interest rate swap agreements, future contracts and option contracts which serve to modify and match the interest rate characteristics of our assets and liabilities.

Foreign Currency Exchange Rate Risk

The global nature of our operations exposes us to market risks caused by fluctuations in foreign currency exchange rates. Each business department manages its foreign currency exchange rate risk by entering into internal foreign exchange forward contracts with our Financial Resources Management Group. Through those internal transactions and otherwise, the Financial Resources Management Group monitors the company-wide market risks arising from the changes in foreign exchange rates associated with underlying transactions denominated in foreign currencies. The Financial Resources Management Group enters into foreign exchange forward contracts, currency swap agreements and currency option contracts with third parties for hedging purposes.

Commodity Price Risk

As major participants in global commodities markets, we trade in physical precious and base metals, energy products (crude oil and refined oil products) and agricultural products (wheat, coffee, sugar and others), and utilize a variety of derivatives related to these market-sensitive commodities. Derivatives on those commodities are often used to hedge price movements in the underlying physical transactions. To a lesser degree, we use such instruments for trading purposes within well-defined position limits and loss limits.

Equity Price Risk

We are exposed to equity price risk inherent in stock issued by financial institutions and our customers and suppliers for strategic purposes and in the other investments held by us. We do not take continuous hedging measures against the market exposures on those securities.

The cost, fair value and net unrealized gains on our marketable equity securities at March 31, 2003 and 2002 were as follows:

The cost, fair value and net unrealized gains on marketable equity securities

	Billions of Yen		Millions of U.S. Dollars
As of March 31, 2003 and 2002	2003	2002	2003
Cost	¥ 229	¥ 246	$ 1,905
Fair value	231	297	1,923
Net unrealized gains	2	51	18

The decline in net unrealized gains from the fiscal year ended March 31, 2002 to the fiscal year ended March 31, 2003 was due mainly to the overall decline in Japanese stock prices.

Risk Management Structure

Pursuant to our rules and regulations, any business department wishing to enter into a derivative transaction or any other type of transaction exposing us to market risk must obtain approval from the management, before it enters into the transaction. The management reviews requests with the assistance of staff members who have expertise in derivative contracts. The request must identify the counterparty, the applicable market and credit limit and state the objectives of the transaction, the trading limit, and the loss limit amount.

The Financial Resources Management Group provides the following functions with respect to the execution and monitoring of transactions:

- providing back office support services for financial and derivative commodity transactions, such as opening accounts, confirming the execution of contracts, processing settlement and delivery, and maintaining accounting records for the transactions;
- confirming the balances of each transaction position; and
- monitoring the status of positions and analyzing and calculating the risks of related transactions on a company-wide basis, and issues periodic reports to our senior management, including semi-annual reports to our board of directors.

VaR (Value-at-Risk)

We use the VaR method to measure the market risk for market-sensitive commodities transactions and certain financial transactions. VaR is a statistical measure of the maximum potential loss in the fair value of a portfolio that may result from adverse market movements in underlying risk factors, which is calculated over a defined period and within a certain confidence level.

The following table sets forth the year-end, high, low, and average VaR figures (which are calculated using holding periods, principally three days, determined in consideration for liquidity of each commodity or financial transaction) as of the end of each month in the fiscal year ended March 31, 2003.

VaR

	Billions of Yen			
For the year ended March 31, 2003	At year-end	High	Low	Average
	3.9	3.9	2.4	3.4

We estimated VaR during the defined periods using mainly Monte Carlo simulation method with a confidence level of 99%. We periodically conduct backtesting in which estimated quantitative risks are compared with actual gains or losses to verify the accuracy of our VaR measurement model. The actual value of gains or losses never exceeded VaR in our backtesting during the eighteen months ended September 30, 2002, which was the most recent period for which backtesting was conducted. We believe our VaR model provided reasonably accurate measurements based on our backtesting.

Consolidated Balance Sheets

Sumitomo Corporation and Subsidiaries
As of March 31, 2003 and 2002

	Millions of Yen		Millions of U.S. Dollars
ASSETS	2003	2002	2003
Current assets:			
Cash and cash equivalents	¥ 324,358	¥ 276,726	$ 2,703
Time deposits	3,360	7,870	28
Marketable securities (Notes 5 and 12)	7,643	5,567	64
Receivables—trade (Notes 6, 7 and 12)			
Notes and loans	270,737	289,416	2,256
Accounts	1,095,814	1,072,464	9,132
Associated companies	138,329	162,454	1,153
Allowance for doubtful receivables	(9,762)	(10,683)	(81)
Inventories (Note 22)	413,091	406,615	3,442
Deferred income taxes (Note 13)	29,273	24,203	244
Advance payments to suppliers	47,802	46,533	398
Other current assets	116,129	133,970	968
Total current assets	2,436,774	2,415,135	20,307
Investments and long-term receivables:			
Investments in and advances to associated companies (Note 8)	375,743	285,418	3,131
Other investments (Notes 5 and 12)	413,572	583,276	3,447
Long-term receivables (Notes 6, 7 and 12)	666,049	680,365	5,550
Allowance for doubtful receivables (Note 7)	(76,185)	(83,122)	(635)
Total investments and long-term receivables	1,379,179	1,465,937	11,493
Property and equipment, at cost (Notes 9 and 12)	1,126,793	1,120,352	9,390
Accumulated depreciation	(365,777)	(344,006)	(3,048)
	761,016	776,346	6,342
Prepaid expenses, non-current (Note 14)	110,660	77,077	922
Deferred income taxes, non-current (Note 13)	53,846	11,358	449
Other assets (Note 10)	122,220	106,701	1,018
Total	¥4,863,695	¥4,852,554	$ 40,531

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

	Millions of Yen		Millions of U.S. Dollars
LIABILITIES AND SHAREHOLDERS' EQUITY	2003	2002	2003
Current liabilities:			
Short-term debt (Notes 11 and 12)	¥ 615,840	¥ 773,829	$ 5,132
Current maturities of long-term debt (Notes 11 and 12)	382,164	356,527	3,185
Payables—trade			
Notes and acceptances	115,189	166,565	960
Accounts	728,680	672,954	6,072
Associated companies	25,565	25,361	213
Income taxes (Note 13)	17,075	9,840	142
Accrued expenses	47,695	37,456	398
Advances from customers	60,462	64,831	504
Other current liabilities (Note 13)	97,245	113,254	810
Total current liabilities	2,089,915	2,220,617	17,416
Long-term debt, less current maturities (Notes 11 and 12)	2,045,957	1,883,581	17,050
Accrued pension and retirement benefits (Note 14)	9,075	8,544	75
Deferred income taxes (Note 13)	3,914	14,561	33
Minority interests	88,584	74,885	738
Commitments and contingent liabilities (Notes 12, 23 and 24)			
Shareholders' equity (Notes 15 and 18):			
Common stock–			
authorized 2,000,000,000 shares; issued			
1,064,608,547 shares in 2003 and 2002	169,439	169,439	1,412
Additional paid-in capital	189,548	189,548	1,580
Retained earnings:			
Appropriated for legal reserve	17,686	17,686	147
Unappropriated	317,694	297,927	2,647
	335,380	315,613	2,794
Accumulated other comprehensive income (loss) (Note 16)	(67,368)	(23,858)	(561)
Treasury stock, at cost: 1,075,699 and 415,598			
shares in 2003 and 2002, respectively	(749)	(376)	(6)
Total shareholders' equity	626,250	650,366	5,219
Total	¥ 4,863,695	¥ 4,852,554	$ 40,531

Consolidated Statements of Income

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Gross trading profit (from total trading transactions:				
2003, ¥9,229,576 million ($76,913 million);				
2002, ¥9,645,379 million;				
2001, ¥10,080,062 million) (Notes 8, 19 and 20)	¥ 496,449	¥ 487,274	¥ 488,400	$ 4,137
Other income (expense):				
Selling, general and administrative expenses (Notes 9, 10 and 14)	(406,334)	(400,839)	(390,578)	(3,386)
(Provision for)/reversal of allowance for doubtful receivables				
(including doubtful receivables and others in specific countries:				
2003, ¥(4,759) million ($(40) million);				
2002, ¥12,289 million;				
2001, ¥(22,975) million) (Notes 7 and 21)	(5,588)	14,222	(31,944)	(47)
Interest expense (net of interest income:				
2003, ¥24,895 million ($207 million);				
2002, ¥32,268 million;				
2001, ¥42,299 million)	(6,006)	(13,752)	(18,010)	(50)
Dividends	6,373	6,653	5,979	53
Gain (loss) on marketable securities and investments,				
net (Notes 5, 8 and 14)	(47,125)	(7,640)	72,329	(393)
Gain on sale of property and equipment, net	3,283	2,798	1,035	27
Settlement received on copper trading litigation, net (Note 24)	2,022	11,512	19,125	17
Impairment losses of long-lived assets (Note 9)	(20,371)	—	(7,753)	(170)
Loss on termination and restructuring of projects (Notes 7 and 21)	—	(7,650)	(44,294)	—
Other, net	(3,870)	(9,570)	(7,840)	(31)
Total	(477,616)	(404,266)	(401,951)	(3,980)
Income before income taxes, minority interests in earnings of subsidiaries, and equity in earnings (losses) of associated companies	18,833	83,008	86,449	157
Income taxes (Note 13)	6,032	(32,774)	(34,479)	50
Income before minority interests in earnings of subsidiaries and equity in earnings (losses) of associated companies	24,865	50,234	51,970	207
Minority interests in earnings of subsidiaries	(6,353)	(5,227)	(5,174)	(52)
Equity in earnings (losses) of associated companies (Notes 8 and 13)	9,768	209	(6,452)	81
Net income	¥ 28,280	¥ 45,216	¥ 40,344	$ 236

	Yen			U.S. Dollars
Amounts per share:				
Net income (Note 18):				
Basic	¥ 26.58	¥ 42.49	¥ 37.91	$ 0.22
Diluted	26.18	41.59	37.14	0.22
Cash dividends declared for the year	¥ 8.00	¥ 8.00	¥ 8.00	$ 0.07

The accompanying notes to consolidated financial statements are an integral part of these statements.

Statements of Consolidated Shareholders' Equity and Comprehensive Income

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Common stock:				
Balance, beginning of year	¥ 169,439	¥ 169,432	¥ 169,432	$ 1,412
Increase	—	7	—	—
Balance, end of year	¥ 169,439	¥ 169,439	¥ 169,432	$ 1,412
Additional paid-in capital:				
Balance, beginning of year	¥ 189,548	¥ 189,536	¥ 189,536	$ 1,580
Increase	—	12	—	—
Balance, end of year	¥ 189,548	¥ 189,548	¥ 189,536	$ 1,580
Retained earnings:				
Balance, beginning of year	¥ 315,613	¥ 278,910	¥ 247,081	$ 2,629
Net income	28,280	45,216	40,344	236
Cash dividends paid	(8,513)	(8,513)	(8,515)	(71)
Balance, end of year	¥ 335,380	¥ 315,613	¥ 278,910	$ 2,794
Accumulated other comprehensive income (loss) (Note 16):				
Balance, beginning of year	¥ (23,858)	¥ (14,728)	¥ 28,174	$ (199)
Other comprehensive loss for the year, net of tax	(43,510)	(9,130)	(42,902)	(362)
Balance, end of year	¥ (67,368)	¥ (23,858)	¥ (14,728)	$ (561)
Treasury stock:				
Balance, beginning of year	¥ (376)	¥ (193)	¥ —	$ (3)
Purchase of treasury stock	(373)	(183)	(193)	(3)
Balance, end of year	¥ (749)	¥ (376)	¥ (193)	$ (6)
Disclosure of comprehensive income (loss):				
Net income for the year	¥ 28,280	¥ 45,216	¥ 40,344	$ 236
Other comprehensive loss for the year, net of tax (Note 16)	(43,510)	(9,130)	(42,902)	(362)
Comprehensive income (loss) for the year	¥ (15,230)	¥ 36,086	¥ (2,558)	$ (126)

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Operating activities:				
Net income	¥ 28,280	¥ 45,216	¥ 40,344	$ 236
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	71,817	65,624	57,424	598
Provision for/(reversal of) allowance for doubtful receivables	5,588	(14,222)	31,944	47
(Gain) loss on marketable securities and investments, net	47,125	7,640	(72,329)	393
Gain on sale of property and equipment, net	(3,283)	(2,798)	(1,035)	(27)
Impairment losses of long-lived assets	20,371	—	7,753	170
Loss on termination and restructuring of projects	—	7,650	44,294	—
Equity in (earnings) losses of associated companies	(9,768)	(209)	6,452	(81)
Changes in operating assets and liabilities, excluding effect of acquisitions and divestitures:				
Receivables	(39,720)	111,518	(124,889)	(331)
Inventories	(31,151)	22,577	(33,115)	(260)
Payables	31,110	(146,423)	125,476	259
Other, net	(53,331)	(23,847)	3,429	(445)
Net cash provided by operating activities	67,038	72,726	85,748	559
Investing activities:				
Expenditures for property and equipment	(90,432)	(156,527)	(132,313)	(754)
Proceeds from sale of property and equipment	38,163	39,459	86,352	318
Acquisition of investments in securities	(115,585)	(169,868)	(337,386)	(963)
Proceeds from sale and maturity of investments in securities	152,116	161,711	335,227	1,267
Increase in loans receivable	(141,724)	(119,033)	(153,391)	(1,181)
Repayment of loans receivable	94,397	166,001	134,124	787
Net decrease (increase) in time deposits	3,187	(566)	4,564	27
Net cash used in investing activities	(59,878)	(78,823)	(62,823)	(499)
Financing activities:				
Net increase (decrease) in short-term debt	(153,214)	9,049	269,631	(1,277)
Proceeds from long-term debt	545,600	302,605	229,532	4,547
Repayment of long-term debt	(343,529)	(274,588)	(481,186)	(2,863)
Cash dividends paid	(8,513)	(8,513)	(8,515)	(71)
Proceeds from (distributions to) minority interests	2,667	(1,902)	4,555	22
Net cash provided by financing activities	43,011	26,651	14,017	358
Effect of exchange rate changes on cash and cash equivalents	(2,539)	4,640	3,205	(21)
Net increase in cash and cash equivalents	47,632	25,194	40,147	397
Cash and cash equivalents, beginning of year	276,726	251,532	211,385	2,306
Cash and cash equivalents, end of year	¥ 324,358	¥ 276,726	¥ 251,532	$ 2,703

The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Sumitomo Corporation and Subsidiaries

1. BASIS OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which Sumitomo Corporation (the "Company") is incorporated and principally operates. The translation of Japanese yen amounts into United States dollars in the year ended March 31, 2003 is included solely for the convenience of readers and has been made at the rate of ¥120 =US$1, the approximate exchange rate on March 31, 2003. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into United States dollars at that or any other rate.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company and most of its subsidiaries' accounting records are maintained principally in accordance with accounting practices prevailing in the countries of incorporation. Adjustments to those records have been made to present these financial statements in accordance with U.S. GAAP. The significant adjustments include those relating to the valuation of certain investment securities, impairment losses of long-lived assets and loans receivable, accounting for pension costs, deferred gain on sales of property, accounting for derivative instruments and hedging activities, and accounting for business combinations.

2. DESCRIPTION OF BUSINESS

The Company is an integrated trading company (sogo shosha). Through their worldwide network, the Company and its subsidiaries (together, the "Companies"), engage in general trading, including the purchase, supply, distribution and marketing of a wide range of goods and commodities, including metals, machinery, electronics, fuels, chemicals, textiles, food products and consumer goods. The Companies act as both principal and agent in these trading transactions. The Companies also provide a range of services for a variety of industries, such as: financing for customers and suppliers; planning, coordination and operation of urban and industrial infrastructure projects; consulting in areas such as system integration and technology development; and transportation and logistics. In addition, the Companies engage in other diverse business activities, including investing in a variety of industries ranging from biotechnology to communications; developing natural resources; manufacturing and processing products such as steel products and textiles; developing and managing real estate; and operating retail stores.

The Companies conduct business through nine product and service-based business units and two sets of regional operations, domestic and overseas. The Companies' product and service-based business units are:

- Metal Products
- Transportation & Construction Systems
- Machinery & Electric
- Media, Electronics & Network
- Chemical
- Mineral Resources & Energy
- Consumer Goods & Service
- Materials & Real Estate
- Financial & Logistics

Each business unit operates with a degree of autonomy in pursuing strategic goals, managing operations and ensuring accountability. Each business unit also has its own Planning and Administration Department to enable prompt decision-making and facilitate efficient operation. In today's increasingly global business environment, the Companies' worldwide network of offices, subsidiaries and associated companies and the Companies' global relationships with customers, suppliers and business partners have allowed the Companies to conduct and expand operations around the world. The Companies' nine product and service-based business units and domestic and overseas operations regularly collaborate with one another to leverage their combined strengths to conduct their respective businesses more effectively as well as to meet the Companies' corporate targets and goals. The Companies have designed infrastructure to centralize and consolidate information from all of business units and domestic and overseas operations to facilitate proper integration and risk control.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarized below:

(a) Consolidation and Investments in Subsidiaries and Associated Companies

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Associated companies consist of companies and corporate joint ventures owned 20% to 50%, or those owned less than 20% in the case where the Companies have the ability to exercise significant influence over operating and financial policies. Investments in associated companies are accounted for by the equity method. All significant intercompany accounts and transactions have been eliminated. The accounts of certain subsidiaries that have a fiscal year end within three months prior to March 31 have been included in the financial statements based on their fiscal year.

(b) Cash Equivalents

The Companies consider highly liquid investments, including short-term time deposits, with an original maturity of three months or less, to be cash equivalents.

(c) Foreign Currency Translation

Foreign currency receivables and payables are translated into their respective companies' functional currencies at year-end exchange rates. The resulting exchange gains or losses are recognized in earnings (see Note 20). 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 accumulated translation adjustments are included in a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

(d) Inventories

Inventories mainly consist of commodities, materials and real estate for development and resale. The cost of inventories is determined based generally on the moving average basis or specific-identification basis. Precious metals, that have immediate marketability at quoted market prices, are valued at market value with unrealized gains and losses included in earnings. Other commodities and materials are stated primarily at the lower of average cost or market. Real estates held for development and resale are stated at the lower of cost specifically identified or net realizable value.

(e) Marketable Securities and Other Investments

All debt securities and marketable equity securities are classified as either (1) trading securities, which are accounted for at fair value with unrealized gains and losses included in earnings, (2) available-for-sale securities, which are accounted for at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets, or (3) held-to-maturity securities, which are accounted for at amortized cost. Unrealized losses deemed to be other than temporary declines of market values are charged to income.

Non-marketable securities held as investments are carried at cost. For declines in fair value considered other than temporary on non-marketable securities, impairment losses are recognized in earnings.

The cost of securities sold is determined based on the average cost of all the shares of such securities held at the time of sale.

(f) Allowance for Doubtful Receivables

An allowance for doubtful receivables is maintained at the level which, in the judgment of management, is adequate to provide for probable losses that can be reasonably expected. Management considers individual customers' credit risks such as historical performance, any changes of original terms, internal risk-ratings, industry, and other specific factors applicable to the customer as well as general risk factors including sovereign risk where the customer resides.

The Companies maintain a specific allowance for impaired loans. An impairment allowance is the difference between the loans' book value and either the present value of expected future cash flows discounted at the loans' effective interest rate, the loans' market price if available, or the fair value of collateral if the loans are collateral dependent. In addition to the specific allowance, an allowance is established for probable losses that are not individually identified but are expected to have occurred that are inherent in the loans portfolio based on default probability and loss severity from the Companies' past experience. Past due balances over 3 months and a specified amount are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(g) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed principally under the declining-balance method for assets in Japan, and under the straight-line method for assets located outside Japan, over their estimated useful lives.

(h) Impairment of Long-Lived Assets

On April 1, 2002, the Companies adopted Statement of Financial Accounting Standard ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Long-lived assets and purchased intangibles subject to amortization are reviewed for impairment based on a cash flow analysis of related operations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Those assets considered impaired are reported at the lower of carrying amount or fair value. Those assets to be disposed of would be reported separately at fair value less cost to sell, and are no longer depreciated. The adoption of SFAS No. 144 did not have material impact on the consolidated financial statements. Prior to adoption of SFAS No. 144, the Companies accounted for long-lived assets in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

(i) Goodwill and Other Intangible Assets

Goodwill represents the excess of cost of the Companies' investments in subsidiaries and associated companies over their equity in the net assets at the dates of acquisition. On April 1, 2002, the Companies adopted SFAS No. 142, "Goodwill and Other Intangible Assets," reclassifying certain intangible assets from goodwill to other intangible assets. Goodwill is not amortized, but instead tested for impairment at the reporting unit (which is one level below the operating segments). Goodwill is tested annually or more often if events or circumstances, such as adverse changes in the business climate, indicate that there may be impairment. Other recognized intangible assets determined to have indefinite useful life are not amortized, but instead tested for impairment until its life is determined to be no longer indefinite (see Note 10). There was no impairment of goodwill upon adoption of SFAS No. 142. Prior to the adoption of SFAS No. 142, goodwill was amortized mainly over 5 years on a straight-line basis.

(j) Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for stock options. This statement gives entities a choice of recognizing related compensation expense by adopting the new fair value method or continuing to measure compensation using the intrinsic value approach under Accounting Principles Board ("APB") Opinion No. 25 ("Accounting for Stock Issued to Employees"), the former standard. The Company chose to use the measurement prescribed by APB Opinion No. 25 and no additional compensation cost was incurred for the years ended March 31, 2003, 2002 and 2001. Had compensation cost for the Company's stock option plans been determined consistent with SFAS No. 123, the Company's net income and net income per share for the years ended March 31, 2003, 2002 and 2001 would have been as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Net income : As reported	¥ 28,280	¥ 45,216	¥ 40,344	$ 236
Deduct: Total stock-based compensation cost determined under fair value method for fixed stock option plans, net of related tax effects	(19)	(21)	(34)	(0)
Pro forma	28,261	45,195	40,310	236

	Yen			U.S. Dollars
	2003	2002	2001	2003
Basic earnings per share: As reported	¥ 26.58	¥ 42.49	¥ 37.91	$ 0.22
Pro forma	26.56	42.47	37.87	0.22
Diluted earnings per share: As reported	26.18	41.59	37.14	0.22
Pro forma	26.16	41.58	37.10	0.22

(k) Income Taxes

The tax effect of temporary differences between the financial statement and income tax basis of assets and liabilities is recognized as deferred income taxes, using enacted tax rates applicable to the periods in which the differences are expected to affect taxable income.

Provision for deferred income taxes is not provided for on undistributed earnings of subsidiaries and foreign corporate joint ventures. The Companies consider that such earnings are permanently reinvested for foreign subsidiaries and foreign corporate joint ventures or would not result in material additional taxation for domestic subsidiaries should they be distributed to the Companies under current circumstances.

(l) Commodity Forwards and Futures Contracts

The Companies enter into commodity forwards and futures contracts principally to hedge economically their inventories and trading commitments against market price fluctuations. These contracts relate principally to precious metals (mainly gold, platinum and silver) and nonferrous metals (mainly aluminum, nickel and copper). Changes in the market value of those forwards and futures contracts are recognized in current income.

(m) Derivative Financial Instruments

On April 1, 2001, the Companies adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The standard establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133, as amended, requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss), depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges is recognized in earnings. As of April 1, 2001, the adoption of SFAS No. 133, as amended, resulted in an immaterial impact to net income and a decrease to accumulated other comprehensive income of approximately ¥1,475 million.

Prior to the adoption of SFAS No. 133 on April 1, 2001, derivatives designated as hedges were accounted for as follows. The amounts received or paid under interest rate swap contracts were recognized as interest through earnings over the life of the contracts. Premiums paid for interest rate caps were amortized over the life of contracts as a part of interest expense. Gains and losses from revaluation of foreign exchange forward contracts were deferred until the time when the hedged transactions occur.

(n) Use of Estimates in the Preparation of the Financial Statements

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported therein. For example, estimates are used when accounting for the allowance for doubtful receivables, inventories, investments, impairment of long-lived assets, income taxes and contingencies. Due to the inherent uncertainty involved in making estimates, actual results may differ significantly from those originally estimated and changes to estimates could occur in the future.

(o) Amounts per Share

Basic net income per share has been computed by dividing net income by the weighted-average number of common shares outstanding during each year. Diluted net income per share has been computed assuming all convertible debentures were converted at the beginning of the year or at the time of issuance (if later), and that all convertible bonds were converted to the extent that it is not antidilutive.

Cash dividends per share presented in the accompanying consolidated statements of income represent the cash dividends declared applicable to each respective year, including dividends paid and recorded after the year end.

(p) Revenue Recognition

Gross trading profit primarily consists of gross profit on principal transactions and commissions received on agency transactions.

Gross trading profit is recognized, 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 accordance with Staff Accounting Bulletin ("SAB") No. 101 of the Securities and Exchange Commission ("SEC"), "Revenue Recognition in Financial Statements." In addition to this general policy, the followings are specific revenue recognition policies:

Gross trading profit from principal transactions and similar agency transactions is recognized at the time the delivery conditions agreed with customers are met. These conditions are considered met when the goods are received by the customer, title to the warehouse receipts are transferred, or the implementation testing is duly completed and any future obligations are perfunctory and do not affect the customer's final acceptance of the arrangement.

Gross trading profit from service related agency transactions is recognized when the contracted services are rendered to third-party customers according to the terms of contract.

Operating lease income is recognized over the term of underlying leases on a straight-line basis and income under long-term contracts in the plant construction contracts is recognized on a percentage of completion method on a cost to cost basis or the units of work performed method.

Revenue recognition policies regarding derivative instruments entered into hedging transactions and as a part of trading activities are described in the accounting policies for derivative commodity forwards and futures contracts and derivative financial instruments.

Total trading transactions represent the gross transaction volume of trading activities, or the nominal aggregate value of the transactions for which we act as principal or as agent. Total trading transactions is a measure commonly used by Japanese trading companies. It is not to be construed as equivalent to, or a substitute for, sales or revenues under U.S. GAAP.

(q) Issuance of stock by subsidiarieas and associated companies

The Company recognizes a gain or a loss when a subsidiary or an associated company issues its shares to third parties at amounts in excess or less than the Company's average carrying value.

(r) New Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized. Instead, these assets are tested at least annually for impairment. The adoption of SFAS No. 142 decreased the Companies' amortization expenses by ¥2.9 billion during the fiscal year ended March 31, 2003.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 applies to the legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and/or the normal operation of a long-lived asset. A legal obligation is an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract, or by legal construction of a contract under the doctrine of promissory estoppel. This statement is effective for fiscal years beginning after June 15, 2002. The Companies do not expect that the adoption of this statement will have a material impact on the Companies' consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets by establishing additional criteria as compared to the previous generally accepted accounting principles to determine when a long-lived asset is held for sale. It also broadens the definition of discontinued operations. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of this statement did not have a material impact on the Companies' consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement replaces the guidance provided by Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that costs associated with an exit or disposal activity be recognized when a liability is incurred rather than at the date of a commitment to an exit or disposal plan. This statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of this statement did not have a material impact on the Companies' consolidated financial statements.

In November 2002, the FASB issued Interpretation 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 Interpretation requires that guarantors recognize a liability for the fair value of the obligations it has undertaken in issuing a guarantee. In addition, the Interpretation will require entities to disclose the nature of, the maximum potential amount of future payments, the carrying amount of the liability for the guarantor's obligations and the nature of recourse provisions or available collateral that would enable the guarantor to recover the amounts paid under the guarantees. The initial recognition and initial measurement provisions apply to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The disclosure requirements in the Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the Interpretation did not have a material impact on the Companies' consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123." SFAS No.148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of the transition accounting for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances.

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.” Interpretation No. 46 addresses consolidation by business enterprises of variable interest entities. The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to entities established before January 31, 2003 in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Companies do not expect that the adoption of this interpretation will have a material impact on the Companies’ consolidated financial statements.

In February, 2003, the EITF issued EITF No. 03-2, “ Accounting for Defined Benefit Pension Plans Established under the Japanese Welfare Pension Insurance Law.” This EITF issue discusses the treatment of defined benefit pension plans established under the Japanese Welfare Pension Insurance Law (“JWPIL”). These plans are composed of (a) a substitutional portion based on the pay-related part of the old-age pension benefits prescribed by JWPIL and (b) a corporate portion based on a contributory defined benefit pension arrangement established at the discretion of each employer. Under this EITF issue, a series of steps for the separation of substitutional portion from the Employees’ Pension Fund plans (“EPFs”) is viewed as a single settlement transaction. This EITF will be applied to the Companies if they determine to separate and return the substitutional portion of the EPFs to the Government in the future.

In April 2003, FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, which are collectively referred to as derivatives, and for hedging activities under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. All provisions of SFAS No. 149 will be applied prospectively. The Companies do not expect the adoption of SFAS No. 149 will have a material effect on the Companies’ consolidated financial statements.

(s) Reclassifications

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation.

4. CASH FLOW INFORMATION

Additional cash flow information for the years ended March 31, 2003, 2002 and 2001 is as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Cash paid during the year for:				
Interest	¥ 30,139	¥ 47,240	¥ 69,805	$ 251
Income taxes	20,720	25,018	30,844	173
Non-cash investing and financing activities:				
Capital lease obligations incurred	9,558	5,179	6,312	80
Fair value of securities transferred to pension trust	5,069	21,541	61,112	42

5. MARKETABLE SECURITIES AND OTHER INVESTMENTS

(a) Marketable Securities

Information regarding each category of securities classified as available-for-sale and held-to-maturity as of March 31, 2003 and 2002 is as follows (excluding non-marketable investments discussed below):

	Millions of Yen			
As of March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 228,533	¥ 23,908	¥ 21,621	¥ 230,820
Debt securities	5,803	83	21	5,865
Held-to-maturity	22,550	22	9	22,563
	¥ 256,886	¥ 24,013	¥ 21,651	¥ 259,248

	Millions of Yen			
As of March 31, 2002	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 246,024	¥ 73,720	¥ 22,666	¥ 297,078
Debt securities	17,939	151	43	18,047
Held-to-maturity	28,859	9	127	28,741
	¥ 292,822	¥ 73,880	¥ 22,836	¥ 343,866

	Millions of U.S. Dollars			
As of March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 1,905	$ 199	$ 181	$ 1,923
Debt securities	48	1	0	49
Held-to-maturity	188	0	0	188
	$ 2,141	$ 200	$ 181	$ 2,160

The Company decided to liquidate one of its overseas subsidiaries, and sold its held-to-maturity security portfolio during the year ended March 31, 2002. The sale did not result in a significant gain or loss for the year ended March 31, 2002.

The carrying values of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2003 and 2002 are summarized by contractual maturities as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2003		2002		2003	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥ 4,298	¥ 3,064	¥ 1,790	¥ 3,375	$ 36	$ 25
Due after one year through five years	840	9,107	16,221	13,285	7	76
Due after five years through ten years	127	10,264	36	11,663	1	86
Due after ten years	600	115	—	536	5	1
Total	¥ 5,865	¥ 22,550	¥ 18,047	¥ 28,859	$ 49	$ 188

Proceeds from sales and gross realized gains and losses on available-for-sale securities for the years ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Proceeds from sales	¥ 64,291	¥ 47,555	¥ 163,248	$ 536
Gross realized gains	¥ 12,437	¥ 36,575	¥ 59,197	$ 104
Gross realized losses	2,741	3,651	1,359	23
Net realized gains	¥ 9,696	¥ 32,924	¥ 57,838	$ 81

For the years ended March 31, 2003, 2002, and 2001, the Company contributed certain marketable equity securities, other than those of its subsidiaries or associated companies, to an employee retirement benefit trust fully administrated and controlled by an independent bank trustee. The fair market value of those securities at the time of contribution was ¥5,069 million ($42 million), ¥21,541 million, and ¥61,112 million for the year ended March 31, 2003, 2002, and 2001 respectively. A net realized gain of ¥2,317 million ($19 million), ¥14,988 million, and ¥35,040 million from the transfer of securities to the pension fund was recognized in the accompanying consolidated statements of income for the years ended March 31, 2003, 2002, and 2001 respectively.

(b) Non-marketable Securities and Other Investments

Other investments as of March 31, 2003 included investments in non-traded, unassociated companies, and others, amounting to ¥161,980 million ($1,350 million) and other investments as of March 31, 2002 included investments in non-traded, unassociated companies and life insurance policies, and others, amounting to ¥244,859 million. Investments in non-traded securities of unassociated companies were carried at cost unless there is decline in value determined to be other than temporary, in which case the investment is written down to its fair value. Investments in life insurance policies were reported at cash surrender value.

(c) Gains and Losses on Marketable Securities and Other Investments

The amounts included in "Gain (loss) on marketable securities and other investments, net" in the consolidated statements of income for the years ended March 31, 2003, 2002 and 2001 are consisted of as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Net realized gains (losses):				
Marketable securities	¥ 7,379	¥ 17,936	¥ 22,798	$ 62
Marketable securities transferred to pension fund	2,317	14,988	35,040	19
Non-marketable securities	9,283	9,898	20,670	77
Issuance of stock by an equity investee	—	—	36,697	—
Other than temporary losses on securities	(66,104)	(50,462)	(42,876)	(551)
Total	¥ (47,125)	¥ (7,640)	¥ 72,329	$ (393)

6. LOAN SECURITIZATION

In March 2000, the Company securitized ship loans totaling ¥100 billion by selling them to an unrelated qualified special-purpose company ("QSPC"). At the same time, the Company granted a subordinated loan of ¥10 billion to the QSPC. As a result of these transactions, a net amount of ¥90 billion of loans were eliminated from the consolidated balance sheet as of March 31, 2000, the balance of which was ¥83 billion ($0.7 billion) and ¥84 billion as of March 31, 2003 and 2002, respectively. The Company retained interests, which are subordinate to the investors' interests. The value of the Company's interest is subject to credit and interest rate risk on the financial assets it sold, and calculated based on the key assumptions of expected credit loss rate of 0.15% and discount rate of 1.0%. The investors and QSPC have no other recourse to the Company's other assets if any loan borrowers fail to repay.

7. ALLOWANCE FOR DOUBTFUL RECEIVABLES

An analysis of the allowance for doubtful receivables for the years ended March 31, 2003, 2002 and 2001 is presented as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Balance, beginning of year	¥ 93,805	¥ 107,557	¥ 98,739	$ 782
Provision for/(reversal of) allowance for doubtful receivables	5,588	(14,222)	31,944	47
Provision for loss on termination and restructuring of projects	—	974	6,737	—
Charge-off	(12,991)	(1,281)	(29,786)	(109)
Foreign currency translation adjustments	(455)	777	(77)	(4)
Balance, end of year	85,947	93,805	107,557	716
Less: Current portion	(9,762)	(10,683)	(11,600)	(81)
Long-term portion	¥ 76,185	¥ 83,122	¥ 95,957	$ 635

The Company has provided an accrual for anticipated future losses on certain exposures mainly in Asia as a provision for doubtful receivables and others in specific countries for ¥22,975 million for the year ended March 31, 2001. During the year ended March 31, 2002, the Company reversed a provision for receivables on a plant construction project in Indonesia, which had been suspended due to the sudden unstable social and economic situation of that country. The reason for the last year's reversal is that the project was resumed. Provision for/(reversal of) allowance for doubtful receivables and others in specific countries included the reversal of ¥16,275 million related to the project, netted against new provision of ¥3,986 million for the year ended March 31, 2002. The Company currently does not expect to incur any losses related to this project. For the year ended March 31, 2003, the Company has provided an accrual for anticipated future losses on certain exposures mainly in Asia as a provision for doubtful receivables and others in specific countries for ¥4,759 million ($40 million).

As of March 31, 2003 and 2002, the total recorded long-term receivables considered impaired was ¥98,224million ($819million) and ¥114,211 million, respectively, and the related valuation allowance provided as at each year-end was ¥75,526million ($629million) and ¥69,859 million, respectively.

The Companies recognize interest income on impaired loans on a cash basis. Interest income on impaired loans recognized for the years ended March 31, 2003, 2002 and 2001 was not material.

8. INVESTMENTS IN AND ADVANCES TO ASSOCIATED COMPANIES

The associated companies operate principally in the manufacturing and service industries and participate substantially in the Companies' trading transactions as either purchasers or suppliers.

Investments in and advances to associated companies as of March 31, 2003 and 2002 consist of the following:

	Millions of Yen		Millions of U.S. Dollars
	2003	2002	2003
Investments in capital stock	¥ 243,825	¥ 220,559	$ 2,032
Advances	131,918	64,859	1,099
Total	¥ 375,743	¥ 285,418	$ 3,131

The carrying value of investments in associated companies as of March 31, 2003 and 2002 approximated the Companies' equity in the underlying net assets. Investments in common stock of certain associated companies as of March 31, 2003 and 2002 included marketable securities with carrying amounts of ¥36,258 million ($302 million) and ¥33,252 million, respectively, with corresponding aggregate quoted market values of ¥30,699 million ($256 million) and ¥31,472 million, respectively.

Summarized financial information of associated companies accounted for by the equity method as of March 31, 2003 and 2002, and for the years ended March 31, 2003, 2002 and 2001 is presented below:

	Millions of Yen		Millions of U.S. Dollars
	2003	2002	2003
Current assets	¥ 929,799	¥ 847,387	$ 7,748
Property, land and equipment, net	952,601	812,145	7,938
Other assets	887,728	1,029,007	7,398
Total assets	¥ 2,770,128	¥ 2,688,539	$ 23,084
Current liabilities	¥ 1,565,235	¥ 1,438,175	$ 13,043
Non-current liabilities	674,848	720,093	5,624
Shareholders' equity	530,045	530,271	4,417
Total liabilities and shareholders' equity	¥ 2,770,128	¥ 2,688,539	$ 23,084

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Trading transactions	¥ 1,837,930	¥ 1,387,037	¥ 907,992	$ 15,316
Net income (loss)	¥ 24,226	¥ (1,255)	¥ (16,063)	$ 202

The two major associated companies accounted for by the equity method which are contained in the above financial information are Sumisho Lease Co., Ltd. (approximately 34% owned) and Jupiter Telecommunication Co., Ltd. (approximately 28% owned). The following financial information for these two associated companies has been presented due to the relative significance of these entities to the Company's operation.

Sumisho Lease Co., Ltd.

	Millions of Yen		Millions of U.S. Dollars
	2003	2002	2003
Current assets	¥ 300,127	¥ 257,491	$ 2,501
Property, land and equipment, net	135,205	13,195	1,127
Other assets	569,819	654,254	4,748
Total assets	¥ 1,005,151	¥ 924,940	$ 8,376
Current liabilities	¥ 720,797	¥ 664,117	$ 6,007
Non-current liabilities	184,813	165,742	1,540
Shareholders' equity	99,541	95,081	829
Total liabilities and shareholders' equity	¥ 1,005,151	¥ 924,940	$ 8,376

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Trading transactions	¥ 118,265	¥ 112,646	¥ 120,032	$ 986
Net income (loss)	¥ 8,346	¥ 8,796	¥ 9,132	$ 70

Jupiter Telecommunication Co., Ltd.

	Millions of Yen		Millions of U.S. Dollars
	2003	2002	2003
Current assets	¥ 19,112	¥ 16,861	$ 159
Property, land and equipment, net	240,536	195,291	2,004
Other assets	155,113	157,771	1,293
Total assets	¥ 414,761	¥ 369,923	$ 3,456
Current liabilities	¥ 31,986	¥ 221,372	$ 266
Non-current liabilities	323,041	81,338	2,692
Shareholders' equity	59,734	67,213	498
Total liabilities and shareholders' equity	¥ 414,761	¥ 369,923	$ 3,456

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Trading transactions	¥ 116,631	¥ 76,561	¥ 35,818	$ 972
Net income (loss)	¥ (7,543)	¥ (26,964)	¥ (23,498)	$ (63)

In May 2000, the Company sold a 10% share of Jupiter Telecommunication Co., Ltd. ("Jupiter"), a 60% owned CATV operating subsidiary, to a third party. Later in September 2000, Jupiter acquired Titus Communications Corporation ("Titus"), another CATV operating company, by issuing new shares of Jupiter in exchange for shares of Titus. As a result of this new share issuance by Jupiter to third parties, the Company's ownership ratio decreased from 50% to 35%. Consequently, Jupiter became an associated company for which equity method accounting is applied during the year ended March 31, 2001. The Company recognized a gain amounting to ¥36,697 million from this transaction and the corresponding deferred tax liability during the year ended March 31, 2001, since the per share fair value of the newly issued shares by Jupiter to third parties was higher than the Company's carrying amount per share in Jupiter.

In February 2003, the Company sold an 8% share of Jupiter and recognized a gain amounting to ¥7,570 million ($63 million). As a result, the Company's ownership ratio decreased to 28%. During the year ended March 31, 2003, the Company reversed the deferred tax liability recognized previously in 2001 based on its overall tax position review related to Jupiter investment.

The Companies' total transactions with associated companies during the years ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Trading transactions	¥ 165,809	¥ 182,628	¥ 208,607	$ 1,382
Purchase transactions	¥ 865,031	¥ 691,952	¥ 525,317	$ 7,209

9.PROPERTY AND EQUIPMENT

Property and equipment as of March 31, 2003 and 2002 consists of the following:

	Millions of Yen		Millions of U.S. Dollars
	2003	2002	2003
Land and land improvements	¥ 264,598	¥ 275,779	$ 2,205
Buildings, including leasehold improvements	383,716	389,497	3,198
Machinery and equipment	464,861	444,058	3,874
Projects in progress	13,618	11,018	113
Total	1,126,793	1,120,352	9,390
Less: Accumulated depreciation	(365,777)	(344,006)	(3,048)
Property and equipment, net	¥ 761,016	¥ 776,346	$ 6,342

Depreciation expense for the years ended March 31, 2003, 2002 and 2001 was ¥63,972 million ($533million), ¥60,843 million and ¥51,770 million, respectively.

The Companies made assessment for the potential impairment of long-lived assets and, as a result, certain assets including domestic land and buildings for development purpose were deemed to be impaired because the assets were not expected to recover their entire carrying value through future estimated undiscounted cash flows. The losses recognized from impairments of such assets for the year ended March 31, 2003 were ¥20,371 million ($170 million), charged to Materials & Real Estate segment by ¥9,135 million ($76 million) and Domestic Regional Business Unit, Offices and Branch Offices segment by ¥11,236 million ($94 million). The amount of impairment losses were zero and ¥7,753, which were charged to Materials & Real Estate segment for the years ended March 31, 2002 and 2001, respectively. Such impairment losses were calculated based on appraisals for land and buildings or using the best estimates of discounted future cash flows based on the assumptions to continue its operation.

10. GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Intangible assets

The components of intangible assets subject to amortization as of March 31, 2003 are as follows:

	Millions of Yen		
	Gross amount	Accumulated amortization	Net carrying value
Software	¥ 50,233	¥ 16,502	¥ 33,731
Others	3,905	852	3,053
Total	¥ 54,138	¥ 17,354	¥ 36,784

	Millions of U.S. Dollars		
	Gross amount	Accumulated amortization	Net carrying value
Software	$ 418	$ 137	$ 281
Others	33	7	26
Total	$ 451	$ 144	$ 307

Intangible assets not subject to amortization as of March 31, 2003 were ¥27,299 million ($227 million)and mainly consisted of leaseholds held by the Companies, which substantially have the indefinite useful life by renewing the original lease terms in the contracts at the Companies' option. The Companies make periodical lease payments on these leasehold contracts.

The weighted-average amortization period is approximately five years and aggregate amortization expense for the year ended March 31, 2003 is ¥7,845 million ($65 million). Estimated amortization expense for the next five years ending March 31 is: ¥11,220 million ($94 million) in 2004, ¥9,534 million ($79 million) in 2005, ¥8,315 million ($69 million) in 2006, ¥6,996 million ($58 million) in 2007, and ¥719 million ($6 million) in 2008, respectively.

(b) Goodwill

After adopting SFAS No. 142, goodwill was not impaired for the year ended March 31, 2003, nor was any goodwill written off. As of March 31, 2003, the Companies had goodwill of ¥4,695 million ($39 million).

The following table presents the impact of SFAS No. 142 on net income and earnings per share had the accounting standard been in for the years ended March 31, 2002 and 2001:

	Millions of Yen	
	2002	2001
Net Income		
Reported net income	¥ 45,216	¥ 40,344
Goodwill amortization, net of taxes	2,879	1,159
Adjusted net income	¥ 48,095	¥ 41,503
	Yen	
Basic Earnings per Share		
Reported basic earnings per share	¥ 42.49	¥ 37.91
Goodwill amortization, net of taxes	2.70	1.09
Adjusted basic earnings per share	¥ 45.19	¥ 39.00
Diluted Earnings per Share		
Reported diluted earnings per share	¥ 41.59	¥ 37.14
Goodwill amortization, net of taxes	2.63	1.05
Adjusted diluted earnings per share	¥ 44.22	¥ 38.19

11. SHORT-TERM AND LONG-TERM DEBT

Short-term debt as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen				Millions of U.S. Dollars
	2003		2002		2003
		Weighted average interest rate		Weighted average interest rate	
Loans, principally from banks	¥ 326,197	2.26%	¥ 384,858	2.43%	$ 2,718
Commercial paper	289,643	0.11	388,971	0.13	2,414
	¥ 615,840		¥ 773,829		$ 5,132

The interest rates represent weighted average rates in effect as of March 31, 2003 and 2002, regardless of borrowing currencies, though the range of the interest rates varies by borrowing currency.

The Companies entered into line of credit agreements with syndicates of domestic and foreign banks, totaling $980 million with the foreign banks and ¥350 billion ($2,917 million) with Japanese banks. The Companies have not used these lines of credit.

Long-term debt as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2003	2002	2003
Weighted average interest rate	1.67%	1.95%	
Secured long-term debt:			
Banks and insurance companies, maturing serially through 2009, principally 1.5% to 6.7%	¥ 73,875	¥ 75,304	$ 616
19.1% bonds due 2004 payable in Indonesian rupiah	4,080	—	34
Unsecured long-term debt:			
Banks and insurance companies, maturing serially through 2022, principally 0.1% to 5.1%	1,697,292	1,615,373	14,144
1.5% convertible bonds due 2004 payable in Japanese yen (convertible into common stock at ¥1,237.30 per share)	35,702	35,702	298
1.0% bonds due 2004 payable in Japanese yen	50,454	50,735	421
5.15% bonds due 2005 payable in Euro	41,420	35,734	345
Bonds due 2013 payable in Japanese yen (fixed and floating rate: fixed rate 1.1% to 1.5%)	41,737	29,712	348
Various notes and bonds with interest rates from 0.8% to 6.5% maturing from 2003 to 2017	270,153	197,001	2,251
Capital lease obligation	43,189	47,845	360
Other	170,219	152,702	1,418
	2,428,121	2,240,108	20,235
Less: Current portion	(382,164)	(356,527)	(3,185)
	¥ 2,045,957	¥ 1,883,581	$ 17,050

Common stock reserved for conversion of the convertible bonds, as of March 31, 2003 and 2002, were 28,854,764 shares.

Annual maturities of long-term debt as of March 31, 2003 are as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2004	¥ 382,164	$ 3,185
2005	334,910	2,791
2006	371,149	3,093
2007	342,375	2,853
2008	317,946	2,650
2009 and thereafter	679,577	5,663
Total	¥ 2,428,121	$ 20,235

The Companies entered into interest rate swap and currency swap contracts to manage interest rate risk for certain short-term and long-term debt. The effective interest rates were generally based on LIBOR (London Interbank Offered Rate) for long-term bank loans and insurance company debt of ¥1,771,167 million ($14,760 million) and ¥1,690,677 million outstanding as of March 31, 2003 and 2002, respectively, and notes, bonds and medium-term notes of ¥443,546 million ($3,697million) and ¥348,884 million outstanding as of March 31, 2003 and 2002, respectively, after the effects of such swap agreements.

Most of all short-term and long-term loans from banks contain certain agreements customary in Japan. The banks may, under certain conditions, require the Companies to provide collateral (or additional collateral) or guarantors. The banks may treat any collateral as collateral for all indebtedness to such banks. Certain agreements relating to long-term bank loans provide that the banks may require the borrower to receive bank approval prior to the payment of dividends and other appropriations of earnings, before presentation to the shareholders. Default provisions of certain agreements grant certain rights of possession to the banks. The borrower may be required to make early repayments of outstanding amounts under some agreements, principally with government-owned financial institutions, if the lender concludes that the borrower is able to repay the outstanding amount through improved earnings or from the proceeds of an equity or debt offering, and makes such prepayment request. The Companies have not been asked to make any such prepayment during the years ended March 31, 2003, 2002 and 2001 and currently do not anticipate any prepayment request.

12. PLEDGED ASSETS

The following table summarizes the book value of assets pledged as collateral for short-term and long-term debt of the Companies as of March 31, 2003:

	Millions of Yen	Millions of U.S. Dollars
Marketable securities and other investments	¥ 65,783	$ 548
Trade receivables and long-term receivables	57,407	478
Property and equipment, less related accumulated depreciation	120,286	1,003
	¥ 243,476	$ 2,029

Such collateral secured the following obligations:

	Millions of Yen	Millions of U.S. Dollars
Short-term debt	¥ 20,519	$ 171
Long-term debt	116,342	970
	¥ 136,861	$ 1,141

Trust receipts issued under customary import financing arrangements give recipient banks a security interest in the merchandise imported and/or the accounts receivable or sales proceeds resulting from the sale of such merchandise. The Companies repay the related notes and acceptances payable at the maturity dates without applying the sales proceeds to specific notes or acceptances. The large number of transactions makes it impracticable to determine the aggregate amounts of assets covered by outstanding trust receipts.

See Note 11 for a description of the right of the lending banks to require the companies to provide collateral (or additional collateral) not included in pledged assets summarized in the table above.

13. INCOME TAXES

Income taxes in Japan imposed by the national, prefectural and municipal governments, in the aggregate, resulted in a normal effective statutory rate of approximately 42% for the years ended March 31, 2003, 2002 and 2001. Japanese income tax regulations were changed on March 31, 2003, and the normal statutory tax rate will be reduced from approximately 42% to 41% for fiscal year starting April 1, 2004. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Income tax provision (benefit) for the years ended March 31, 2003, 2002 and 2001 is as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Current: Domestic	¥ 18,650	¥ 16,307	¥ 17,124	$ 156
Foreign	9,730	9,839	13,162	81
Deferred: Domestic	(33,841)	9,378	4,315	(282)
Foreign	(571)	(2,750)	(122)	(5)
Total	¥ (6,032)	¥ 32,774	¥ 34,479	$ (50)

The reconciliation between taxes calculated at the normal statutory tax rate in Japan and the Companies' income tax provision for the years ended March 31, 2003, 2002 and 2001 is summarized as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Income before income taxes, minority interests in earnings of subsidiaries, and equity in earnings (losses) of associated companies	¥ 18,833	¥ 83,008	¥ 86,449	$ 157
Tax provision computed at normal income tax rate	¥ 7,910	¥ 34,863	¥ 36,309	$ 66
Increases (decreases) in tax due to:				
Expenses not deductible for tax purposes	2,368	2,258	2,264	20
Tax effect on retained earnings of subsidiaries and associated companies	(12,417)	163	(7,565)	(103)
Realized operating losses of certain subsidiaries	(330)	1,249	895	(3)
Lower income tax rates applicable to income in certain foreign countries	(5,377)	(4,105)	(7,758)	(45)
Effect of taxation on dividends	82	526	7,737	1
Effect of tax rate change	1,447	—	—	12
Other–net	285	(2,180)	2,597	2
Total tax (benefit) provision	¥ (6,032)	¥ 32,774	¥ 34,479	$ (50)

Total income taxes recognized for the years ended March 31, 2003, 2002 and 2001 are allocated as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Income before income taxes, minority interests in earnings of subsidiaries, and equity in earnings (losses) of associated companies	¥ (6,032)	¥ 32,774	¥ 34,479	$ (50)
Shareholders' equity:				
Foreign currency translation adjustments	(1,109)	5,436	—	(9)
Net unrealized holding losses on securities available for sale	(18,562)	(30,469)	(54,929)	(155)
Net unrealized gains (losses) on derivatives	85	(682)	—	1
Pension liability adjustments	—	—	3,544	—
Total income taxes	¥ (25,618)	¥ 7,059	¥ (16,906)	$ (213)

Significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2003	2002	2003
Assets:			
Net operating loss carry forwards	¥ 53,824	¥ 36,756	$ 449
Investment securities	36,126	25,842	301
Inventory, and property and equipment	29,591	29,845	247
Allowance for doubtful receivables	21,451	28,958	179
Unrecognized intercompany profit	13,164	13,409	110
Accrued pension and retirement benefits	6,061	12,492	50
Accrual and other	15,899	21,446	132
Gross deferred tax assets	176,116	168,748	1,468
Less valuation allowance	(9,403)	(9,733)	(78)
Deferred tax assets, less valuation allowance	166,713	159,015	1,390
Liabilities:			
Valuation of debt and equity securities	1,400	20,231	12
Deferred gain on sales of property for tax purposes	41,860	44,628	349
Gain on securities transferred to pension fund	21,313	20,964	177
Undistributed earnings of subsidiaries and associated companies	10,047	22,405	84
Installment sales	2,730	4,247	23
Other	10,455	25,945	87
Gross deferred tax liabilities	87,805	138,420	732
Net deferred tax assets	¥ 78,908	¥ 20,595	$ 658

A valuation allowance is established to reduce certain deferred tax assets relating to deductible temporary differences and net operating loss carryforwards where it is more likely than not that the Companies will be unable to realize the benefits of those deferred tax assets. The net change in the total valuation allowance for the years ended March 31, 2003 and 2002 was a decrease of ¥330 million ($3 million) and an increase of ¥1,249 million, respectively.

Income taxes are not provided for on undistributed earnings of subsidiaries and foreign corporate joint venture because the Companies consider that such earnings are permanently reinvested and/or would not result in material additional taxation should they be distributed to the Companies under current circumstances. As of March 31, 2003 and 2002, the amounts of undistributed earnings of such subsidiaries and associated companies on which a deferred tax liability has not been recognized in the accompanying consolidated financial statements totaled to ¥166,109 million ($1,384million) and ¥123,628 million, respectively.

As of March 31, 2003, the Companies have aggregate tax operating loss carryforwards of ¥139,996 million ($1,167 million), which may be used as a deduction in the determination of taxable income in future periods. If not utilized, such loss carryforwards expire as following schedule. Loss carryforwards after five years are attributed to certain foreign subsidiaries and the related deferred tax assets for such portion are generally offset by a valuation allowance.

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2004	¥ 10,566	$ 88
2005	762	7
2006	62,786	523
2007	716	6
2008	49,450	412
2009 and thereafter	15,716	131
Total	¥ 139,996	$ 1,167

14. ACCRUED PENSION AND RETIREMENT BENEFITS

The Company has non-contributory defined benefit pension plans covering substantially all employees other than directors. The plans provide benefits based upon years of service, compensation at the time of severance and other factors.

The Company's funding policy is based on a number of factors including the tax deductibility of contributions, the plan's funded status, actuarial calculations and other considerations. Contributions are intended to provide not only for benefits attributable to service to date but also for those expected to be earned in the future. Also, the Company may contribute certain marketable equity securities, or cash to an employee retirement benefit trust in order to maintain a sufficient level of funding at the end of fiscal year.

Net periodic pension costs of the Company's pension plans for the years ended March 31, 2003, 2002 and 2001 include the following components:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Service cost — benefits earned during the year	¥ 3,305	¥ 3,458	¥ 3,040	$ 27
Interest cost on projected benefit obligation	4,038	4,003	4,235	34
Expected return on plan assets	(2,673)	(2,466)	(2,424)	(22)
Net amortization and deferral	4,648	3,918	1,872	39
Net periodic pension cost	¥ 9,318	¥ 8,913	¥ 6,723	$ 78

The reconciliation of beginning and ending balances of the benefit obligations and the fair value of the plan assets of the Company's plans was as follows:

	Millions of Yen		Millions of U.S. Dollars
	2003	2002	2003
Change in benefit obligation:			
Benefit obligation, beginning of year	¥ 134,909	¥ 133,380	$ 1,124
Service cost	3,305	3,458	28
Interest cost	4,038	4,003	34
Actuarial (gain) loss	10,486	(879)	87
Benefits paid	(5,263)	(5,053)	(44)
Benefit obligation, end of year	¥ 147,475	¥ 134,909	$ 1,229
Change in plan assets:			
Fair value of plan assets, beginning of year	¥ 137,980	¥ 137,222	$ 1,150
Actual return on plan assets	(34,088)	(30,174)	(284)
Employer contribution	46,107	35,987	384
Benefits paid from plan assets	(5,280)	(5,055)	(44)
Fair value of plan assets, end of year	¥ 144,719	¥ 137,980	$ 1,206
Funded status	¥ (2,756)	¥ 3,071	$ (23)
Unrecognized actuarial loss	111,861	69,262	932
Prepaid cost for retirement benefits	¥ 109,105	¥ 72,333	$ 909

The Company contributed certain marketable equity securities as described in Note 5, and cash to an employee retirement benefit trust. Those securities and cash held in this trust are qualified as plan assets under SFAS No. 87.

Because fair value of plan assets exceeded the accumulated benefit obligation as of March 31, 2003 and 2002, liability for retirement benefits in accumulated other comprehensive income (loss) was not recognized. Prepaid cost for retirement benefits as of March 31, 2003 and 2002 are included in principally prepaid expenses, non-current.

Assumptions used for fiscal 2003, 2002 and 2001 in determining costs for the plan and the funded status information shown above were principally as follows:

	2003	2002	2001
Weighted-average discount rate	2.5%	3.0%	3.0%
Expected long-term rate of return on plan assets	3.0%	3.0%	3.0%
Rate of expectable salary increase	3.0%	3.0%	3.2%

Most of the subsidiaries have unfunded retirement benefit plans and/or funded pension plans. Employees, other than directors, are entitled to, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, lump-sum retirement benefit based on compensation at the time of retirement, years of service and other factors. As of March 31, 2003 and 2002, the benefit obligation of subsidiaries under these plans were ¥30,977 million ($258 million) at the discount rate of mainly 2.5%, and ¥28,090 million at the discount rate of mainly 3.0%, respectively, which were approximately equal to the aggregated fair value of plan assets and accruals.

In addition to unfunded retirement benefit plans or funded pension plans, certain domestic subsidiaries and associated companies also participate in an Employee Pension Fund ("EPF") as a group, which is stipulated by the Japanese Welfare Pension Insurance Law. This plan serves as a substitute for the Japan Government pension plan funded by social security taxes paid by employees and the employer. The EPF consists of two portions (1) social security tax portion funded by employees and the companies and (2) corporate portion funded by the companies. Contributions are made based upon the aggregate cost method. The plan assets of EPF cannot be specifically allocated to the individual participants nor to the corporate portion. The Company did not apply accounting for single-employer defined benefit pension plans under SFAS No. 87 for the plan as the effect on the consolidated financial statements of the implementation of SFAS No. 87 are not significant. The total estimated assets of the EPF at March 31, 2003 approximated the amount of accrued benefit obligation at that date.

The total amounts charged to income by subsidiaries for the years ended March 31, 2003, 2002 and 2001 were ¥3,746 million ($31million), ¥3,859 million and ¥4,682 million, respectively.

15. SHAREHOLDERS' EQUITY

(a) Common Stock and Additional Paid-in Capital

Under the Commercial Code of Japan ("the Code"), at least 50% of the proceeds of certain issues of common shares, including conversions of convertible debentures and exercise of warrants, shall be credited to the common stock account. The remainder of the proceed shall be credited to the additional paid-in capital. The Code permits, upon approval of the Board of Directors, transfer of amounts from additional paid-in capital to the common stock account.

As of March 31, 2003 and 2002, associated companies owned 315,168 shares and 311,168 shares of the Company's common stock, respectively.

(b) Appropriated for Legal Reserve

The Code provides that at least 10% of all cash dividend payments and bonuses to directors, made as an appropriation of retained earnings applicable to each fiscal period, shall be appropriated as a legal reserve until an aggregate amount of additional paid-in capital and legal reserve equals 25% of common stock. Legal reserve may be used to eliminate or reduce a deficit, transferred to common stock, or transferred to retained earnings until an aggregate amount of additional paid-in capital and the legal reserve equals 25% of capital stock, by resolution of the shareholders.

(c) Unappropriated Retained Earnings and Dividends

Retained earnings available for dividends under the Code is based on the amount recorded in the Company's general accounting records maintained in accordance with accounting practices generally accepted in Japan. The adjustments included in the accompanying financial statements but not recorded in the general accounting records, as explained under "Basis of Financial Statements" in Note 1, have no effect in determining retained earnings available for dividends under the Code.

The Code limits the amount of retained earnings available for dividends. Retained earnings of ¥135,972 million ($1,133 million) and ¥176,796 million, shown by the Company's accounting records as of March 31, 2003 and 2002, respectively, exclusive of the amount previously appropriated for legal reserve, were not restricted by the limitations under the Code. There are also restrictions on the payment of dividends relating to net unrealized gains on investment in securities and earnings impact of derivatives under accounting principles generally accepted in Japan, amounting to ¥1,808 million ($15 million) as of March 31, 2003. The payment of dividends relating to the treasury stock amounting to ¥748 million ($6 million) as of March 31, 2003 is not permitted.

The Code permits transfers, upon shareholder approval, of a portion of unappropriated retained earnings available for dividends to capital stock account without issuance of any shares.

Dividends are approved by shareholders at the meeting held subsequent to the statutory fiscal period to which the dividends are payable to shareholders. Interim dividends are approved by the Board of Directors for the interim six-month period. Dividends are reported in the consolidated statements of shareholders' equity when approved.

The Board of Directors intends to recommend to the shareholders, at the general meeting to be held on June 20, 2003, the declaration of a cash dividend to shareholders of record as of March 31, 2003 of ¥4 ($0.03) per share for a total of ¥4,254 million ($35 million).

(d) Stock Option Plan

On June 23, 2000, the shareholders authorized the acquisition of 161,000 shares of the Company's common stock for the total consideration not exceeding ¥274 million during the period up to the closing of the shareholders' meeting held in 2001. On June 22, 2001, the shareholders authorized the acquisition of 166,000 shares of the Company's common stock for the total consideration not exceeding ¥183 million during the period up to the closing of the shareholders' meeting in 2002.

The Company intends to transfer such treasury shares to directors and certain employees under an agreement granting them the right to purchase the shares at a predetermined price. The options vest 100% on the grant date and are exercisable from April 1, 2001 to June 30, 2005 for the options issued on July 31, 2000 and April 1, 2002 to June 30, 2006 for the options issued on July 31, 2001.

On June 21, 2002, the shareholders authorized the issue of new share acquisition rights up to 161 units (1,000 common shares per new share acquisition right) to directors and certain employees. The options vest 100% on the grant date and are exercisable from April 1, 2003 to June 30, 2007.

The Board of Directors intends to recommend to the shareholders, at the general meeting to be held on June 20, 2003, the declaration of an additional issue of new share acquisition rights up to 173 (1,000 common shares per new share acquisition right) to directors, executive officers and employees.

The following table summarizes information about stock option activity for fiscal 2003, 2002 and 2001:

	Number of shares	Weighted average exercise price	Weighted average (years) remaining life
Outstanding at March 31, 2000	—	—	
Granted	161,000	¥ 1,171	
Exercised	—	—	
Cancelled or Expired	6,000	1,171	
Outstanding at March 31, 2001	155,000	1,171	4.25
Options exercisable at March 31, 2001	—	—	—
Granted	166,000	858	
Exercised	—	—	
Cancelled or Expired	20,000	1,108	
Outstanding at March 31, 2002	301,000	1,003	3.79
Options exercisable at March 31, 2002	139,000	1,171	4.25
Granted	159,000	729	
Exercised	—	—	
Cancelled or Expired	69,000	1,012	
Outstanding at March 31, 2003	391,000	¥ 890	3.39
Options exercisable at March 31, 2003	232,000	¥ 1,000	2.80

The following table summarizes information for options outstanding and exercisable at March 31, 2003:

Outstanding			Exercisable		
Number of shares	Weighted-average exercise price		Number of shares	Weighted-average exercise price	
	Yen	U.S. Dollars		Yen	U.S. Dollars
391,000	¥890	$ 7	232,000	¥ 1,000	$ 8

The fair value of these stock options was estimated using the Black-Scholes option pricing model under the following assumptions:

	2003	2002	2001
Grant-date fair value	¥202 ($ 2)	¥235	¥372
Expected life	4.5 years	4.5 years	5 years
Risk-free rate	0.32%	0.37%	0.45%
Expected volatility	45.84%	46.31%	38.00%
Expected dividend yield	0.92%	0.88%	0.68%

16.OTHER COMPREHENSIVE INCOME (LOSS)

Changes in each component of accumulated other comprehensive income (loss) for the years ended March 31, 2003, 2002 and 2001 are as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Foreign currency translation adjustments:				
Balance, beginning of year	¥ (46,775)	¥ (72,748)	¥ (97,862)	$ (390)
Adjustment for the year	(13,512)	25,973	25,114	(112)
Balance, end of year	¥ (60,287)	¥ (46,775)	¥ (72,748)	$ (502)
Net unrealized holding gains (losses) on securities available for sale:				
Balance, beginning of year	¥ 23,858	¥ 58,020	¥ 129,318	$ 199
Adjustment for the year	(30,120)	(34,162)	(71,298)	(251)
Balance, end of year	¥ (6,262)	¥ 23,858	¥ 58,020	$ (52)
Net unrealized gains (losses) on derivatives:				
Balance, beginning of year	¥ (941)	¥ —	¥ —	$ (8)
Cumulative effect of accounting change	—	(1,475)	—	—
Adjustment for the year	122	534	—	1
Balance, end of year	¥ (819)	¥ (941)	¥ —	$ (7)
Pension liability adjustments:				
Balance, beginning of year	¥ —	¥ —	¥ (3,282)	$ —
Adjustment for the year	—	—	3,282	—
Balance, end of year	¥ —	¥ —	¥ —	$ —
Total accumulated other comprehensive income (loss):				
Balance, beginning of year	¥ (23,858)	¥ (14,728)	¥ 28,174	$ (199)
Adjustment for the year	(43,510)	(9,130)	(42,902)	(362)
Balance, end of year	¥ (67,368)	¥ (23,858)	¥ (14,728)	$ (561)

Tax effects allocated to each component of other comprehensive income (loss) are as follows:

2003 :	Millions of Yen		
	Pretax amount	Tax (expense) or benefit	Net-of-tax amount
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	¥ (17,370)	¥ 1,109	¥ (16,261)
Reclassification adjustment for losses included in net income	2,749	—	2,749
Net adjustment	(14,621)	1,109	(13,512)
Net unrealized holding losses on securities available for sale:			
Unrealized holding losses arising during the year	(91,212)	37,397	(53,815)
Reclassification adjustment for losses included in net income	42,530	(18,835)	23,695
Net unrealized losses	(48,682)	18,562	(30,120)
Net unrealized gains (losses) on derivatives:			
Unrealized gains (losses) arising during the year	749	(307)	442
Reclassification adjustment for gains included in net income	(542)	222	(320)
Net unrealized gains (losses)	207	(85)	122
Other comprehensive income (loss)	¥ (63,096)	¥ 19,586	¥ (43,510)

2002:	Millions of Yen		
	Pretax amount	Tax (expense) or benefit	Net-of-tax amount
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	¥ 28,739	¥ (5,436)	¥ 23,303
Reclassification adjustment for losses included in net income	2,670	—	2,670
Net adjustment	31,409	(5,436)	25,973
Net unrealized holding losses on securities available for sale:			
Unrealized holding losses arising during the year	(81,245)	34,123	(47,122)
Reclassification adjustment for losses included in net income	16,614	(3,654)	12,960
Net unrealized losses	(64,631)	30,469	(34,162)
Net unrealized gains (losses) on derivatives:			
Unrealized gains (losses) arising during the year	(2,542)	1,067	(1,475)
Reclassification adjustment for losses included in net income	919	(385)	534
Net unrealized gains (losses)	(1,623)	682	(941)
Other comprehensive income (loss)	¥ (34,845)	¥ 25,715	¥ (9,130)

2001:	Millions of Yen		
	Pretax amount	Tax (expense) or benefit	Net-of-tax amount
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	¥ 19,651	¥ —	¥ 19,651
Reclassification adjustment for losses included in net income	5,463	—	5,463
Net adjustment	25,114	—	25,114
Net unrealized holding losses on securities available for sale:			
Unrealized holding losses arising during the year	(105,279)	44,217	(61,062)
Reclassification adjustment for gains included in net income	(20,948)	10,712	(10,236)
Net unrealized losses	(126,227)	54,929	(71,298)
Pension liability adjustments	6,826	(3,544)	3,282
Other comprehensive income (loss)	¥ (94,287)	¥ 51,385	¥ (42,902)

2003:	Millions of U.S. Dollars		
	Pretax amount	Tax (expense) or benefit	Net-of-tax amount
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	$ (145)	$ 9	$ (136)
Reclassification adjustment for losses included in net income	24	—	24
Net adjustment	(121)	9	(112)
Net unrealized holding losses on securities available for sale:			
Unrealized holding losses arising during the year	(760)	312	(448)
Reclassification adjustment for losses included in net income	354	(157)	197
Net unrealized losses	(406)	155	(251)
Net unrealized gains (losses) on derivatives:			
Unrealized gains (losses) arising during the year	6	(2)	4
Reclassification adjustment for gains included in net income	(4)	1	(3)
Net unrealized gains (losses)	2	(1)	1
Other comprehensive income (loss)	$ (525)	$ 163	$ (362)

17. FINANCIAL INSTRUMENTS

(a) Financial Instruments and Risk Management

The Companies are parties to derivative financial instruments ("derivatives"), which they use in the normal course of business to manage the exposure to fluctuations in foreign exchange rates and interest rates. The primary derivatives used by the Companies include foreign exchange forward contracts, currency swaps, and interest rate swaps. The Companies utilize interest rates futures, options, and currency options in certain occasions.

Derivatives are mainly utilized to hedge interest rate and foreign currency positions associated with the Companies' business. Accordingly, market risk in these derivatives is largely offset by corresponding opposite movements in the position of underlying transactions and related assets and liabilities and firm commitments. Certain derivatives are entered into for trading purposes. All derivatives are recorded at fair value as required by SFAS No. 133.

Fair value hedges: Under SFAS No. 133, fair value hedges are hedges that eliminate the risk of changes in the fair values of assets, liabilities and firm commitments. The Companies use interest rate swaps to hedge the interest rate risk on fixed-rate borrowings mainly from Japanese insurance companies used to fund assets earning interest at variable rates. The Companies receive a fixed rate of interest and pay a variable rate of interest to change the cash flow profile of a fixed rate borrowing to match the variable rate financial asset that it is funding. The Companies use foreign exchange forward contracts and currency swaps to hedge the effect of foreign currency exchange rates on firm commitments. Changes in the fair value of derivatives designated and effective as fair value hedges are recorded in earnings and are offset by corresponding changes in the fair value of the hedged item.

Cash Flow hedges: Under SFAS No. 133, cash flow hedges are hedges that use derivatives to offset the variability of expected future cash flows. Principally, the Companies use interest rate swaps to hedge the variability of cash flows related to floating-rate borrowings. Changes in the fair value of derivatives designated and effective as cash flow hedges are recorded in other comprehensive income as a separate component of equity and released to earnings contemporaneously with the earnings effects of the hedged item.

At March 31, 2003, the amount that is expected to be reclassified into earnings, net of the related tax effect, within the next year is ¥271 million ($2 million).

Derivatives not designated as hedges: SFAS No. 133 specifies criteria that must be met in order to apply hedge accounting. For example, hedge accounting is not permitted for hedged items that are marked to market through earnings. As described in Note 3 (m), the Companies enter into commodity forwards and futures contracts principally to hedge economically the risk of price fluctuations on their inventories and trading commitments against market price fluctuations. These derivatives do not qualify as hedges under SFAS No. 133 for the Companies and any changes in the fair value are charged to earnings.

Earnings effects of derivatives: As of March 31, 2003, there were no significant gains or losses on derivatives or portions thereof that were either ineffective as hedges, excluded from the assessment of hedge effectiveness, or associated with an underlying exposure that did not occur.

In the context of hedging relationships, "Effectiveness" refers to the degree to which fair value changes in the hedging instrument offset corresponding fair value changes in the hedged item. Certain elements of hedge positions cannot qualify for hedge accounting under SFAS No. 133 whether effective or not, and must therefore be marked to market through earnings.

Management continuously assesses effectiveness of these derivative transactions and market risks surrounding these transactions to formulate the Companies' policy regarding derivative transactions.

1) Foreign Exchange Risk Management

The Companies' global operations in over 100 countries expose them to foreign currency risks related to buying, selling and financing in multiple currencies. The Companies have entered into foreign exchange forward contracts and currency swap agreements to hedge against the changes in foreign exchange rates associated with existing assets, liabilities and firm commitments.

2) Interest Rate Risk Management

The Companies' trading, financing and cash management activities expose them to market risk from changes in interest rates. Interest rate swaps are primarily used to convert certain specific debts to a floating basis as well as convert some floating rate assets or debts to a fixed basis. The Companies sometimes utilize interest rate futures and options.

3) Concentration of Credit Risk

The Companies' global orientation in a variety of businesses with diverse customers and suppliers reduces concentrations of credit risks. The Companies deal with selective international financial institutions, with a certain rating or above by the international statistical credit rating agency, to mitigate the credit risk exposure of derivatives with off-balance-sheet risk. Credit risk represents the possibility that the counterparties may be unable to perform under the terms of the agreements. Management does not expect any material losses as a result of counterparty default on financial instruments with off-balance-sheet risk. Credit risk is managed through the credit line approved by management and by monitoring the counterparties periodically.

(b) Fair Value of Financial Instruments

In accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," the Companies have provided the following fair value estimates and information about valuation methodologies.

Quoted market prices, where available, are used to estimate fair values of financial instruments. However, quoted market prices are not available for a substantial portion of financial instruments, and fair values for such financial instruments are estimated using discounted cash flow analysis or other valuation techniques.

1) Current Financial Assets other than Marketable Securities and Current Financial Liabilities

The carrying amount approximates fair value of these instruments because of their short maturities.

2) Marketable Securities and Other Investments

See Note 5.

3) Non-Current Trade Receivables and Advances to Associated Companies

The fair values of non-current trade receivables including long-term loans receivable, except for loans with floating rates whose carrying amount approximates fair value, are estimated by discounted cash flow analysis, using interest rates currently being offered for loans or accounts receivable with similar terms to borrowers or customers of similar credit quality and remaining maturities.

4) Long-Term Debt
The fair values for long-term debt, except for debt with floating rates whose carrying amount approximates fair value, are estimated by discounted cash flow analysis, using rates currently available for similar types of borrowings with similar terms and remaining maturities.

5) Off-Balance-Sheet Financial Commitments
The Companies have not estimated the fair value of certain off-balance-sheet commitments (see Note 24). Because of uncertainty involved in attempting to assess the likelihood and timing of commitments being drawn upon, coupled with the lack of an established market, management does not believe it is practicable to estimate the fair value of these commitments. Guarantees issued or modified after December 31, 2002 were not material.

6) Interest Rate Swap, Currency Swap Agreements and Currency Option Contracts
The fair values of interest rate swap, currency swap agreements and currency option contracts are estimated by obtaining quotes from brokers and other appropriate valuation techniques based on information available to the Companies.

7) Foreign Exchange Forward Contracts
The fair values of foreign exchange forward contracts are estimated based on market prices for contracts with similar terms.

The estimated fair values of certain financial instruments and derivative financial instruments as of March 31, 2003 and 2002 were as follows:

As of March 31, 2003:	Millions of Yen			Millions of U.S. Dollars		
	Notional amount	Carrying amount	Fair value	Notional amount	Carrying amount	Fair value
Financial Assets:						
Non-current trade receivables and advances to associated companies, less allowance for doubtful receivables	¥ —	¥ 744,396	¥ 757,311	$ —	$ 6,203	$ 6,311
Financial Liabilities:						
Long-term debt, including current maturities	—	2,428,121	2,445,573	—	20,234	20,380
Derivative Financial Instruments:						
Interest rate swap	911,336	48,836	48,836	7,594	407	407
Currency swap agreements	106,370	(66)	(66)	886	(1)	(1)
Foreign exchange forward contracts:						
To sell foreign currencies	168,369	(1,591)	(1,591)	1,403	(13)	(13)
To buy foreign currencies	236,504	5,606	5,606	1,971	47	47

As of March 31, 2002:	Millions of Yen		
	Notional amount	Carrying amount	Fair value
Financial Assets:			
Non-current trade receivables and advances to associated companies, less allowance for doubtful receivables	¥ —	¥ 749,283	¥ 761,682
Financial Liabilities:			
Long-term debt, including current maturities	—	2,240,108	2,260,590
Derivative Financial Instruments:			
Interest rate swap	885,583	36,712	36,712
Currency swap agreements	43,546	(2,055)	(2,055)
Foreign exchange forward contracts:			
To sell foreign currencies	169,714	(8,558)	(8,558)
To buy foreign currencies	165,156	9,827	9,827

18. NET INCOME PER SHARE

The reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the years ended March 31, 2003, 2002 and 2001 was as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Net income available to common stockholders	¥ 28,280	¥ 45,216	¥ 40,344	$ 236
Effect of dilutive securities:				
1.6% Japanese yen convertible debentures, due 2002	—	38	31	—
1.5% Japanese yen convertible debentures, due 2004	331	325	325	2
Diluted net income	¥ 28,611	¥ 45,579	¥ 40,700	$ 238

	Number of shares		
	2003	2002	2001
Weighted-average shares	1,063,908,266	1,064,206,644	1,064,306,912
Dilutive effect of:			
1.6% Japanese yen convertible debentures, due 2002	—	2,825,490	2,841,057
1.5% Japanese yen convertible debentures, due 2004	28,854,764	28,854,764	28,854,764
Weighted-average shares for diluted earnings per share computation	1,092,763,030	1,095,886,898	1,096,002,733

	Yen			U.S. Dollars
	2003	2002	2001	2003
Net income per share:				
Basic	¥ 26.58	¥ 42.49	¥ 37.91	$ 0.22
Diluted	26.18	41.59	37.14	0.22

Stock options issued and outstanding had no dilutive effect because the average market price of the common stock did not exceed the exercise prices of the options.

19. SEGMENT INFORMATION

The Companies operate on a worldwide basis principally within the following operating segments:
1) Metal Products, 2) Transportation & Construction Systems, 3) Machinery & Electric, 4) Media, Electronics & Network, 5) Chemical, 6) Mineral Resources & Energy, 7) Consumer Goods & Service, 8) Materials & Real Estate, 9) Financial & Logistics, 10) Domestic Regional Business Units, Offices and Branch Offices, and 11) Overseas Subsidiaries and Branches.

The reportable segments are identified based on the nature of products and services for the domestic and certain overseas operations under the control of the Company's headquarters, and based on regional and geographic areas for domestic and overseas operations. Domestic Branches and Overseas Trading Subsidiaries are separate strategic business units and have the primary responsibility to manage the regional and geographic operations.

The Companies evaluate performance based on the segment information for domestic operations in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") since fiscal year ended March 31, 2003. For the years ended March 31, 2002 and 2001, as the Companies evaluated performance based on the segment information for domestic operations in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), the adjustments to U.S. GAAP were included in the line "Corporate and Eliminations" in the tables set forth below (see Note 1). For the year ended March 31, 2003, the net impacts to net income by the change of the accounting principles from Japanese GAAP to U.S. GAAP in related operating segments are as follows: ¥378 million in Transportation & Construction Systems, ¥39 million in Machinery & Electric, ¥(496) million in Media, Electronics & Network, ¥(28) million in Consumer Goods & Service, ¥330 million in Financial & Logistics, ¥(2) million in Domestic Regional Business Units, Offices and Branch Offices, and ¥(221) million in Corporate and Eliminations.

Information by operating segment and geographic area reported for internal use by management for the years ended March 31, 2003, 2002 and 2001 are summarized as follows:

Operating Segments:

2003:	Millions of Yen					
Segment	Total trading transactions	Gross trading profit	Net income	Segment assets	Depreciation and amortization	Capital expenditures
Metal Products	¥ 920,406	¥ 37,179	¥ 6,341	¥ 344,055	¥ 1,989	¥ 1,573
Transportation & Construction Systems	1,370,104	86,154	5,640	764,872	22,209	49,983
Machinery & Electric	1,431,458	28,622	1,827	451,214	2,304	6,927
Media, Electronics & Network	372,712	40,870	8,527	339,205	2,120	1,486
Chemical	403,444	23,556	1,067	186,508	993	367
Mineral Resources & Energy	1,412,064	31,626	3,857	309,513	2,235	4,835
Consumer Goods & Service	866,143	86,052	5,293	271,461	4,191	7,583
Materials & Real Estate	400,160	48,428	1,615	449,586	7,490	3,112
Financial & Logistics	112,106	15,506	1,998	161,539	388	1,163
Domestic Regional Business Units, Offices and Branch Offices	1,385,653	51,164	(4,878)	569,789	3,472	3,851
Overseas Subsidiaries and Branches	1,102,333	59,335	7,127	503,706	2,980	2,668
Segment Total	9,776,583	508,492	38,414	4,351,448	50,371	83,548
Corporate and Eliminations	(547,007)	(12,043)	(10,134)	512,247	21,446	24,361
Consolidated	¥ 9,229,576	¥ 496,449	¥ 28,280	¥ 4,863,695	¥ 71,817	¥ 107,909

2002:	Millions of Yen					
Segment	Total trading transactions	Gross trading profit	Net income	Segment assets	Depreciation and amortization	Capital expenditures
Metal Products	¥ 915,232	¥ 36,602	¥ 4,463	¥ 314,112	¥ 1,774	¥ 2,564
Transportation & Construction Systems	1,280,539	78,459	4,357	738,215	41,515	56,797
Machinery & Electric	1,701,871	30,643	4,072	421,239	4,462	5,398
Media, Electronics & Network	464,752	41,946	6,318	291,370	1,837	8,404
Chemical	427,071	25,534	1,864	204,780	1,360	2,608
Mineral Resources & Energy	1,203,170	30,059	2,462	266,705	2,407	3,147
Consumer Goods & Service	907,885	81,925	5,089	277,404	862	8,239
Materials & Real Estate	613,214	42,616	2,970	480,349	5,698	20,282
Financial & Logistics	105,064	14,546	1,345	152,510	370	2,422
Domestic Regional Business Units, Offices and Branch Offices	1,706,893	53,077	4,124	590,681	3,140	29,628
Overseas Subsidiaries and Branches	1,001,664	59,090	7,879	477,281	4,019	3,449
Segment Total	10,327,355	494,497	44,943	4,214,646	67,444	142,938
Corporate and Eliminations	(681,976)	(7,223)	273	637,908	(1,820)	6,584
Consolidated	¥ 9,645,379	¥ 487,274	¥ 45,216	¥ 4,852,554	¥ 65,624	¥ 149,522

2001:	Millions of Yen					
Segment	Total trading transactions	Gross trading profit	Net income	Segment assets	Depreciation and amortization	Capital expenditures
Metal Products	¥ 826,850	¥ 35,662	¥ 3,279	¥ 331,974	¥ 2,544	¥ 3,091
Transportation & Construction Systems	1,284,680	72,977	2,631	660,452	31,902	55,815
Machinery & Electric	1,647,780	26,466	(5,999)	440,089	3,364	5,545
Media, Electronics & Network	524,741	49,588	15,416	361,320	1,870	7,416
Chemical	499,762	28,957	2,877	225,049	1,845	2,563
Mineral Resources & Energy	1,288,561	30,089	(7,071)	252,091	2,794	4,247
Consumer Goods & Service	956,457	77,919	3,014	269,348	4,669	8,698
Materials & Real Estate	592,810	37,038	(3,719)	524,826	6,757	26,552
Financial & Logistics	115,063	13,379	1,257	114,497	425	431
Domestic Regional Business Units, Offices and Branch Offices	1,999,740	55,681	2,594	706,008	3,487	4,777
Overseas Subsidiaries and Branches	1,082,555	60,883	5,996	482,888	3,939	4,817
Segment Total	10,818,999	488,639	20,275	4,368,542	63,596	123,952
Corporate and Eliminations	(738,937)	(239)	20,069	581,537	(6,172)	14,514
Consolidated	¥ 10,080,062	¥ 488,400	¥ 40,344	¥ 4,950,079	¥ 57,424	¥ 138,466

2003:	Millions of U.S. Dollars					
Segment	Total trading transactions	Gross trading profit	Net income	Segment assets	Depreciation and amortization	Capital expenditures
Metal Products	$ 7,670	$ 310	$ 53	$ 2,867	$ 17	$ 13
Transportation & Construction Systems	11,418	718	47	6,374	185	417
Machinery & Electric	11,929	238	15	3,760	19	58
Media, Electronics & Network	3,106	341	71	2,827	18	12
Chemical	3,362	196	9	1,554	8	3
Mineral Resources & Energy	11,767	264	32	2,579	19	40
Consumer Goods & Service	7,218	717	44	2,262	35	63
Materials & Real Estate	3,335	404	14	3,747	62	26
Financial & Logistics	934	129	17	1,346	3	10
Domestic Regional Business Units, Offices and Branch Offices	11,547	426	(41)	4,748	29	32
Overseas Subsidiaries and Branches	9,186	494	59	4,198	25	22
Segment Total	81,472	4,237	320	36,262	420	696
Corporate and Eliminations	(4,559)	(100)	(84)	4,269	178	203
Consolidated	$ 76,913	$ 4,137	$ 236	$ 40,531	$ 598	$ 899

Unallocated corporate assets consist primarily of cash and cash equivalents and marketable securities maintained for general corporate purposes.

Geographic information:

2003:	Millions of Yen		Millions of U.S. Dollars	
	Total trading transactions	Long-lived assets	Total trading transactions	Long-lived assets
Japan	¥ 6,361,999	¥ 759,630	$ 53,017	$ 6,330
Asia	1,401,199	20,855	11,677	174
North America				
U.S.	517,129	37,346	4,309	312
Other	161,996	13,223	1,350	110
Europe	473,475	76,365	3,945	636
Other	313,778	33,036	2,615	275
Total	¥ 9,229,576	¥ 940,455	$ 76,913	$ 7,837

2002:	Millions of Yen	
	Total trading transactions	Long-lived assets
Japan	¥ 6,814,565	¥ 734,975
Asia	1,127,999	21,342
North America		
U.S.	564,399	42,025
Other	155,159	12,725
Europe	718,131	70,798
Other	265,126	32,134
Total	¥ 9,645,379	¥ 913,999

2001:	Millions of Yen	
	Total trading transactions	Long-lived assets
Japan	¥ 6,698,465	¥ 666,464
Asia	1,211,023	18,015
North America		
U.S.	884,504	36,024
Other	356,651	7,411
Europe	634,657	37,517
Other	294,762	48,563
Total	¥ 10,080,062	¥ 813,994

Total trading transactions are attributed to geographic areas based on the location of customers.

Transfers between segments are made at arm's-length prices. There were no sales to a single major external customer amounted to 10% or more of the consolidated total trading transactions for the years ended March 31, 2003, 2002 and 2001.

20. FOREIGN EXCHANGE GAINS AND LOSSES

Net foreign currency transaction losses of ¥4,477 million ($37 million), gains of ¥2,018 million and gains of ¥8,231 million are included in the determination of net income for the years ended March 31, 2003, 2002 and 2001, respectively.

21. LOSS ON TERMINATION AND RESTRUCTURING OF PROJECTS

Loss on termination and restructuring of projects represent those costs that are directly associated with the Companies' decision to terminate or transform those businesses that do not produce appropriate returns and to dispose non-performing assets from those businesses. Such costs include, 1) loss on investment, 2) allowance for loss on doubtful receivables, 3) allowance for additional liabilities from guarantees and assumed obligations, 4) loss on tangible assets, 5) other termination or transformation costs such as severance payments, clean-up costs, demolition costs, and others.

22. INVENTORIES

Major segments that hold inventories are Overseas Subsidiary and Branches, Transportation & Construction Systems, Domestic Regional Business Units, Offices, and Branches, and Materials & Real Estate. Real estates held for development and resale are amounting to ¥62,180 million ($518 million) and ¥81,113 million as of March 31, 2003 and 2002, respectively, mainly in Domestic Regional Business Units, Offices, and Branches, and Materials & Real Estate.

23. RENTAL EXPENSE

The Companies lease office space and certain other assets under cancelable and non-cancelable operating leases. Total rental expenses under such cancelable and non-cancelable leases for the years ended March 31, 2003, 2002 and 2001 were ¥16,743 million ($140 million), ¥17,937 million and ¥20,842 million, respectively. Certain lease contracts for equipment were classified as capital lease in conformity with SFAS No. 13 "Accounting for Leases" and were capitalized on the accompanying consolidated balance sheets.

As of March 31, 2003, the future minimum lease payments under non-cancelable operating leases were as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2004	¥ 12,137	$ 101
2005	10,862	91
2006	9,748	81
2007	8,195	68
2008	7,454	62
2009 and thereafter	54,439	454
Total	¥ 102,835	$ 857

24. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments

The Companies, in the normal course of trading operations, enter into long-term purchase commitments, which provide for either fixed prices or basic prices adjustable to market. Such purchase commitments are in most instances matched with counter-party sales contracts.

The Companies also had long-term financing commitments of ¥37,746 million ($315 million) as of March 31, 2003 for loans, investments in equity capital and financing on a deferred-payment basis for the cost of equipment to be purchased by customers.

(b) Guarantees

The Companies have entered into various guarantee agreements. These agreements arose in transactions related to enhancing the credit standings of associated companies, suppliers, buyers and employees, and residual value on operating leases.

The Companies adopted the provisions of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The Interpretation requires that the Companies recognize the fair value of guarantee and indemnification arrangements issued or modified after December 31, 2002, if these arrangements are within the scope of this Interpretation. In addition, under previously existing generally accepted accounting principles, the Companies continue to monitor the conditions that are subject to the guarantees and indemnifications to identify whether it is probable that a loss has occurred, and the Companies would recognize any such losses under guarantees and indemnifications when losses are estimable. The guarantees and indemnifications issued or modified after December 31, 2002 are immaterial.

The following table provides the undiscounted maximum amount of potential future payments for each major group of guarantees:

As of March 31, 2003:	Millions of Yen	Millions of U.S. Dollars
Discounted trade note receivable with banks	¥ 48,998	$ 408
Guarantees of indebtedness		
Associated companies	30,834	257
Third parties	77,602	647
Employees	8,740	73
Residual value guarantees	14,970	125
Total	¥ 181,144	$ 1,510

The Companies are contingently liable for discounted trade note receivable on a recourse basis with banks, mainly arising from export transaction and maturing until 2005 gradually. If an issuer of note defaults on its payment, the Companies will be required to refund. The amount of ¥29,726 million ($248 million) is with letters of credit by certain banks. The Companies provide allowance of ¥77 million ($1 million) as of March 31, 2003.

The Companies have contingent liabilities as a guarantor of indebtedness, maturing until 2028 gradually. Such guarantees have been provided primarily to suppliers and customers as indirect financing arrangements and to their employees who have housing loans as a part of a welfare program. The Companies must pay in subrogation if the guaranteed party fail to make payments on due date. Certain guarantees are re-guaranteed by third party and the total re-guaranteed amount as of March 31, 2003 is ¥13,594 million ($113 million). Some of these guarantees are secured, but it is impractical to estimate the values of such collateral. The Companies provide allowance of ¥850 million ($7 million) as of March 31, 2003.

The Companies have business activities with customers, and counter-parties around the world, and their trade receivables from and guarantees to such parties are well diversified to minimize concentrations of credit risks.

The Companies also provide residual value guarantees to compensate the gap between a fixed price and actual disposal proceeds on a fixed date specified in the contracts ranging from years 2004 to 2015, for owners in relation to the transportation equipments through operating lease transactions. If the actual disposal amount of the relevant equipment is less than the guaranteed value on a fixed date, the Companies will be required to compensate for the shortfall amount so long as obligations by the lessee under the contract are satisfied. The current estimated future values of such transportation equipments are higher than the guaranteed value, and accordingly, no allowance has been provided as of March 31, 2003. Management does not anticipate incurring losses on above commitments and guarantees in excess of established allowances.

(c) Litigation

1) The Copper-Related Litigations

In June 1996, the Company announced that it had incurred significant losses arising from the decade-long unauthorized copper trading by a former employee.

During the year ended March 31, 2003, one class action suit and one individual lawsuit pending against the Company in Wisconsin and Washington D.C. respectively were dismissed by the Courts of Appeal in these respective jurisdiction and the two matters are now closed. As regards a class action suit in California, the companies who had appealed the judgment approving the settlement by which the Company agreed to pay $10.75 million to the relevant class dropped the appeal and the court subsequently dismissed this matter in October 2002.

In April 2003, three individual lawsuits pending against the Company in the U.S. and the U.K. were settled jointly on terms favorable to the Company and the respective U.S. and U.K. courts consequently dismissed these claims. As a result of the settlement, the Company recovered legal fees incurred in defending these claims from one of the plaintiffs in these matters.

As of the end of April 2003, the Company has one class action suit pending in Canada and has several individual lawsuits pending against it in the U.S. The class action suit purports to represent Canadians and Canadian entities who purchased physical copper. The plaintiff asserts claims under the Canadian Competition Act. The individual lawsuits in the U.S. generally have similar U.S. antitrust laws claims. The Company believes it has a number of valid defenses to these actions and intends to vigorously defend itself. In the opinion of management, the outcome of these litigations will not have a material adverse effect on the operation of the Company's business.

The Company has sued two companies for recovery of losses incurred in connection with the copper incident in the U.K. and Japan.

Those settlement receipts and payments are stated in "Settlement received on copper trading litigation" in the accompanying consolidated statements of income for the years ended March 31, 2003, 2002 and 2001, and are as follows:

	Millions of Yen			Millions of U.S. Dollars
	2003	2002	2001	2003
Receipt	¥ 2,022	¥ 17,708	¥ 30,001	$ 17
Payment	—	6,196	10,876	—
	¥ 2,022	¥ 11,512	¥ 19,125	$ 17

2) Other Litigations

In addition to the situation described in the preceding paragraph 1), the Company is also involved in certain legal actions and claims incidental to its business. In the opinion of management, none of these actions or claims will have a material adverse effect on the financial position of the Company.

Independent Auditors' Report

KPMG

The Board of Directors and Shareholders
Sumitomo Corporation:

We have audited the accompanying consolidated balance sheets of Sumitomo Corporation and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for the years then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The accompanying consolidated financial statements of Sumitomo Corporation and subsidiaries as of and for the year ended March 31, 2001 were audited by other auditors whose report thereon dated May 16, 2001, expressed an unqualified opinion on those statements.

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

In our opinion, the 2003 and 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sumitomo Corporation and subsidiaries as of March 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 3(i) to the consolidated financial statements, Sumitomo Corporation and subsidiaries changed their methods of accounting for goodwill and other intangible assets during the year ended March 31, 2003.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the amounts in the accompanying consolidated financial statements translated into United States dollars have been computed on the basis set forth in note 1 to the consolidated financial statements.

KPMG

April 30, 2003