

FINANCIAL SECTION

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Five-Year Financial Summary

For the years ended March 31

1. Key Financial Indicators

	Billions of Yen					Millions of U.S. Dollars
	2004	2003	2002	2001	2000	2004
Total assets	5,012.5	4,856.2	4,860.2	4,954.1	4,904.6	48,197
Shareholders' equity	730.8	618.7	658.0	627.0	629.8	7,027
Shareholders' equity ratio	14.6	12.7	13.5	12.7	12.8	14.6
Return on Equity (%)	9.9	2.2	7.4	8.0	5.4	9.9
Return on Assets (%)	1.4	0.3	1.0	1.0	0.6	1.4
Interest-bearing liabilities (gross)	2,795.9	2,830.6	2,813.4	2,704.4	2,721.4	26,883
Interest-bearing liabilities (net)	2,377.6	2,502.8	2,528.8	2,447.7	2,503.8	22,862
Debt-Equity Ratio (gross) (times)	3.8	4.6	4.3	4.3	4.3	3.8
Debt-Equity Ratio (net) (times)	3.3	4.0	3.8	3.9	4.0	3.3
Working Capital	694.0	346.9	194.5	173.8	187.5	6,673

2. Consolidated Statements of Income

	Billions of Yen					Millions of U.S. Dollars
	2004	2003	2002	2001	2000	2004
Revenues:						
Sales of tangible products	1,284.1	1,129.4	966.5	948.5	930.0	12,347
Sales of services and others	424.5	408.9	419.4	430.8	417.5	4,082
Total revenues	1,708.6	1,538.3	1,385.9	1,379.3	1,347.5	16,429
Cost of revenues:						
Cost of tangible products sold	1,097.5	948.2	817.0	807.0	802.3	10,553
Cost of services and others	109.8	93.7	81.6	83.9	70.5	1,055
Total cost of revenues	1,207.3	1,041.9	898.6	890.9	872.8	11,608
Gross profit	501.3	496.4	487.3	488.4	474.7	4,821
Other income (expenses):						
Selling, general and administrative expenses	-422.4	-406.3	-400.8	-390.6	-408.7	-4,061
Settlements on copper trading litigation	-7.1	0.2	4.3	12.4	-1.8	-69
(Provision for) reversal of allowance for doubtful receivables	-8.0	-5.6	12.6	-31.9	-7.5	-77
Loss on termination and restructuring of projects	—	—	—	-44.3	-5.5	—
Impairment losses on long-lived assets	-5.2	-20.4	-4.8	-7.7	-30.8	-50
Gain on sale of property and equipment, net	13.3	3.3	2.8	1.0	1.3	128
Interest income	15.7	24.9	32.3	42.3	43.1	151
Interest expense	-22.0	-30.9	-46.0	-60.3	-65.1	-212
Dividends	6.9	6.4	6.6	6.0	5.6	67
Gain (loss) on marketable securities and other investments, net	16.3	-47.1	-8.9	72.3	60.6	157
Equity in earnings of associated companies, net	20.7	9.8	0.2	-6.4	5.7	199
Other, net	-0.5	-2.1	-2.4	-1.2	-12.8	-5
Total other income (expenses)	-392.3	-467.8	-404.1	-408.4	-415.9	-3,772
Income before income taxes and minority interests in earnings of subsidiaries	109.0	28.6	83.2	80.0	58.8	1,049
Income taxes	-35.7	-8.4	-30.2	-24.3	-30.2	-344
Income before minority interests in earnings of subsidiaries	73.3	20.2	53.0	55.7	28.6	705
Minority interests in earnings of subsidiaries, net	-6.7	-6.3	-5.3	-5.2	3.7	-64
Net income	66.6	13.9	47.7	50.5	32.3	641
Total trading transactions*	9,197.9	9,229.6	9,645.4	10,080.1	10,656.0	88,441

* Total trading transactions represents the gross transaction volume of trading activities, or the nominal aggregate value of the transactions for which the Companies 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 accounting principles generally accepted in the United States of America ("U.S. GAAP")

3. Consolidated Statements of Comprehensive Income (Loss)

	Billions of Yen					Millions of U.S. Dollars
	2004	2003	2002	2001	2000	2004
Net income	66.6	13.9	47.7	50.5	32.3	641
Net unrealized holding gains (losses) on securities available for sale adjustments	79.5	-30.5	-34.8	-72.8	68.5	764
Foreign currency translation adjustments	-26.1	-13.9	27.7	28.2	-30.2	-251
Net unrealized gains (losses) on derivatives adjustments	0.4	0.1	-0.9	—	—	4
Total comprehensive income (loss)	120.4	-30.4	39.7	5.9	70.6	1,158

4. Consolidated Balance Sheets

	Billions of Yen					Millions of U.S. Dollars
	2004	2003	2002	2001	2000	2004
Current assets:						
Cash and cash equivalents	415.6	324.4	276.7	251.5	211.4	3,996
Time deposits	2.7	3.4	7.9	5.2	6.2	26
Marketable securities	2.8	7.7	5.6	14.9	30.5	27
Receivables-trade						
Notes and loans	238.2	270.7	289.4	396.7	351.5	2,290
Accounts	1,178.0	1,095.8	1,072.5	1,174.2	1,066.2	11,327
Associated companies	151.2	138.3	162.4	195.1	128.8	1,453
Allowance for doubtful receivables	-8.9	-9.8	-10.7	-11.6	-11.6	-85
Inventories	412.3	413.1	406.6	418.6	373.3	3,965
Deferred income taxes	37.6	29.3	24.2	23.7	25.8	362
Advance payments to suppliers	51.6	47.8	46.5	61.1	71.7	496
Other current assets	140.1	116.1	134.0	97.2	78.8	1,347
Total current assets	2,621.2	2,436.8	2,415.1	2,626.6	2,332.6	25,204
Investments and long-term receivables:						
Investments in and advances to associated companies	384.0	375.7	285.4	242.5	180.3	3,692
Other investments	469.0	413.6	583.3	704.0	887.9	4,509
Long-term receivables	597.5	666.1	680.3	648.2	661.1	5,745
Allowance for doubtful receivables	-50.0	-76.2	-83.1	-95.9	-87.2	-480
Total investments and long-term receivables	1,400.5	1,379.2	1,465.9	1,498.8	1,642.1	13,466
Property and equipment, at cost	1,144.0	1,126.8	1,120.4	1,038.7	1,185.3	11,001
Accumulated depreciation	-388.6	-365.8	-344.0	-333.4	-367.8	-3,737
	755.4	761.0	776.4	705.3	817.5	7,264
Prepaid expenses, non-current	98.6	110.7	77.1	52.9	38.3	948
Deferred income taxes, non-current	9.4	46.3	19.0	14.7	2.9	90
Other assets	127.4	122.2	106.7	55.8	71.2	1,225
Total	5,012.5	4,856.2	4,860.2	4,954.1	4,904.6	48,197
Current liabilities:						
Short-term debt	452.1	615.8	773.8	820.5	559.2	4,347
Current maturities of long-term debt	330.6	382.2	356.5	285.8	398.2	3,179
Payables-trade						
Notes and acceptances	107.5	115.2	166.6	233.5	201.7	1,033
Accounts	771.1	728.7	673.0	824.0	739.0	7,414
Associated companies	22.8	25.6	25.4	51.1	37.4	220
Income taxes	15.9	17.1	9.8	8.7	8.6	153
Accrued expenses	61.2	47.7	37.5	45.5	57.7	589
Advances from customers	66.2	60.4	64.8	71.4	67.7	637
Other current liabilities	99.8	97.2	113.2	112.3	75.5	959
Total current liabilities	1,927.2	2,089.9	2,220.6	2,452.8	2,145.0	18,531
Long-term debt, less current maturities	2,218.5	2,046.0	1,883.6	1,772.9	1,942.9	21,331
Accrued pension and retirement benefits	10.9	9.1	8.5	8.1	41.6	105
Deferred income taxes, non-current	38.8	3.9	14.6	24.4	78.5	373
Minority interests	86.3	88.6	74.9	68.9	66.8	830
Commitments and contingent liabilities						
Shareholders' equity:						
Common stock	169.4	169.4	169.4	169.4	169.4	1,629
Additional paid-in capital	189.6	189.5	189.5	189.5	189.5	1,823
Retained earnings:						
Appropriated for legal reserve	17.7	17.7	17.7	17.2	16.4	170
Unappropriated	365.9	307.8	302.4	263.7	222.6	3,518
	383.6	325.5	320.1	280.9	239.0	3,688
Accumulated other comprehensive income (loss)	-11.2	-65.0	-20.7	-12.7	31.9	-108
Treasury stock, at cost	-0.6	-0.7	-0.3	-0.1	—	-5
Total shareholders' equity	730.8	618.7	658.0	627.0	629.8	7,027
Total	5,012.5	4,856.2	4,860.2	4,954.1	4,904.6	48,197

Notes: 1. For the fiscal year ended March 31, 2004, the Company and its subsidiaries (together, the "Companies") have reported revenues in a manner consistent with the accounting guidance in Emerging Issues Task Force ("EITF") Issue No. 99-19. The revenues of prior years have been reported accordingly.

2. For the fiscal year ended March 31, 2004, equity in earnings of associated companies has been included in other income (expenses). The presentation of the prior years has been reclassified accordingly.

3. The Companies restated prior year consolidated financial statements with respect to the accounting of deferred taxes related to investments in affiliates.

4. Consolidated statements of income and consolidated statements of comprehensive income (loss) for the years ended March 31, 2001 and 2000, and consolidated balance sheets as of March 31, 2002, 2001 and 2000 are not audited.

5. The U.S. dollar amounts represent translations of Japanese yen amounts at the rate of ¥104=U.S.\$1, the approximate exchange rate on March 31, 2004.

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

1. INTRODUCTION

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, from metals, machinery, electronics, energy and mineral resources, chemicals, textiles and food products to 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 industry-based business units and two sets of regional operations, domestic and overseas. The busi-

ness units and regional operations are referred to as "segments" in our consolidated financial statements, consistent with our determination of business segments in accordance with U.S. GAAP. Our industry-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

As of March 31, 2004, we had total assets of ¥5,012.5 billion and 33,799 employees worldwide. For the fiscal year ended March 31, 2004, our consolidated net income was ¥66.6 billion.

2. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

In the past, we reported total trading transactions and gross trading profit in our consolidated statements of income. For the fiscal year ended March 31, 2004, we have reported revenue from sales of tangible products, revenue from sales of services and others, cost of tangible products sold and cost of services and others in a manner consistent with the accounting guidance in Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" as to reporting revenues based on the gross amount billed or the net amount retained. We have restated our consolidated financial statements for the

fiscal years ended March 31, 2003 and 2002 in order to conform to the presentation for the fiscal year ended March 31, 2004. This restatement had no effect on reported gross profit or net income for the years restated.

We also restated our consolidated financial statements for the fiscal years ended March 31, 2003 and 2002 and as of March 31, 2003 with respect to the accounting for deferred taxes related to investments in affiliates and the effect of tax rate changes on deferred taxes recognized as part of other comprehensive income (loss).

See note 2 to our Consolidated Financial Statement.

3. OUR MEDIUM-TERM TARGETS

The following discussion of our medium-term targets contains forward-looking statements and measures that have been calculated based on a number of judgments, estimates and assumptions.

In recent years, we have been setting targets for, and monitoring the progress of, our businesses and operations by establishing medium-term plans. We are currently in the process of implementing our AA Plan, covering the period from April 2003 to March 2005. Under the AA Plan, we seek to expand our profitability and earnings base by maximizing our integrated corporate strength and seek to strengthen our financial condition by enhancing our management efficiency and soundness.

As part of our efforts to efficiently allocate our resources, we use two key management measures that we call "risk-adjusted assets" and "risk-adjusted return ratio." "Risk adjusted assets" is the maximum amount of losses that could be incurred if all identified potential risks were actually to occur. The amount of risk-adjusted assets is calculated by multiplying the amount of assets, including receivables, inventory, fixed assets and investments, by a ratio which reflects the potential risk of loss as determined by us and then adding the amount of potential losses with respect to our derivative transactions, commitments and guarantees. In determining the potential risk of loss, we make various assumptions taking into account, among

other things, market risk, country risk and asset portfolio. In addition, we account for risks inherent to particular industries, and, accordingly, the ratio of potential risk of loss to total assets varies among our business units. We estimate the potential loss amount with a certain statistical confidence level based on the volatility of the market value of the assets. As of March 31, 2003, our risk-adjusted assets were approximately ¥900 billion compared to our total assets of ¥4,856.2 billion, indicating that our estimate of maximum potential loss on our assets at such date was around 18% of our total assets. As we expand our risk-adjusted assets through the AA Plan, we expect the maximum potential loss with respect to our assets to increase to around 20% of our total assets. Although we believe that our risk-adjusted asset measure appropriately reflects the risks associated with our assets and related businesses, our assumptions and estimates relating to the risks associated with our assets and related businesses may be wrong. In order to measure whether we are achieving returns in proportion to the level of risk that we assume, we calculate a measure that we refer to as "risk-adjusted return ratio," which is the ratio of net income to risk-adjusted assets.

We have set certain financial targets that we aim to achieve through the implementation of the AA Plan initially in May 2003 and subsequently reviewed such targets in April 2004, based on our assumptions and estimates of the global economy, the outlook for our industry sectors and the

future business results that we aim to achieve at the time of the initial AA Plan targets were announced and at the time of their review. Under the AA Plan, we are targeting to achieve an annualized average after-tax consolidated risk-adjusted return ratio of at least 6% for the two fiscal years ending March 31, 2005. The AA Plan represents a proactive business plan setting the consolidated net income targets at the highest levels ever set—aiming to achieve consolidated net income of ¥130 billion for two years (¥60 billion for fiscal year ended March 31, 2004 and ¥70 billion for fiscal year ending March 31, 2005). We also seek to expand our current and future earnings base by targeting to achieve a ¥180 billion increase in our risk-adjusted assets, which in turn is expected to increase our total assets by approximately ¥300 billion. Our consolidated net income for the fiscal year ended March 31, 2004 was ¥66.6 billion, which exceeded the first year AA Plan target set at ¥60 billion.

Our financial targets set forth above are based on various assumptions and strategic goals, including among other things:

- General recovery of the Japanese economy, and continued expansion of the economies in the United States and China;

- Relative stability of the Japanese stock market, real estate values in Japan and interest rates;
- Certain assumptions with respect to foreign currency exchange rates, including an average U.S. dollar-Japanese yen exchange rate of \$1.00=¥110 during the fiscal year ending March 31, 2005;
- Successful expansion of what we believe will be our key growth businesses, such as our automobile leasing business and information technology and media business, and growth regions, such as China;
- Continued strong performance of certain of our associated companies, such as our media-related and leasing-related associated companies;
- Certain assumptions regarding future commodity price movements, including copper, gold, oil, gas and coal prices;
- Stability of and improvement in the Asian economy, particularly in countries where we have large-scale projects, such as Indonesia; and
- Continued migration of manufacturing operations from Japan to other Asian countries, and the related prospects for new business opportunities in our various business segments.

4. ECONOMIC ENVIRONMENT

During the first part of the period under review, even after the declaration of the end of major combat operations in Iraq, the global economy experienced a spell of sluggishness due to concerns about terrorism and the spread of Severe Acute Respiratory Syndrome (SARS), but in the second half of the fiscal year strong growth in the U.S. and Chinese economies powered a general recovery. Also, commodity prices on international markets rose in response to increased demand, particularly from China.

The Japanese economy was basically marking time for a while during the first half of the fiscal year because of factors like the cool, rainy summer, but it subsequently picked up, driven largely by rises in exports and capital investment. Consumer spending, particularly purchases of digital appliances, also showed improvement against a backdrop of a somewhat brighter employment situation and a recovery of stock prices.

5. CERTAIN LINE ITEMS IN OUR CONSOLIDATED STATEMENTS OF INCOME

The following is a description of certain of our line items in our consolidated statements of income:

Revenues. We categorize our revenues into sales of tangible products and sales of services and others. We generate revenue from sales of tangible products:

- in connection with our wholesale, retail, manufacturing and processing operations;
- in connection with our real estate operations; and
- under long-term construction type arrangements.

We also enter into transactions that include multiple element arrangements, which may include any combination of products, equipment and installation services. We also generate revenue from sale of services and others in connection with:

- customized software development services contracts and other software related services;
- direct finance or operating leases of commercial real estate, automobiles, vessels and aircraft; and
- other service arrangements, such as arranging finance and coordinating transportation and logistics for customers and suppliers in connection with the general trading of products and commodities.

Gross Profit. Gross profit primarily consists of:

- gross profit on transactions for which we act as a principal; and
- fees and commissions received on transactions for which we act as an agent.

To the extent revenues are recorded on a gross basis, any expenses or commissions or other payments to third parties that are directly attributable to the sales are recorded as cost of sales. Gross profit reflects the net amount of gross revenues after cost of sales. As part of sales of services and others, we recognize revenues from fees and commissions, which generally have a larger gross margin than revenues on transactions for which we act as principal. As a result, sales of services and others contribute to a larger portion of our gross profit than they do to our revenues. For the fiscal year ended March 31, 2004, sales of services and others accounted for 24.8% of our total revenues, but the gross profit from sales of services and others accounted for 62.8% of our gross profit.

Settlements on Copper Trading Litigation. Since 1996, we have been involved in a number of legal proceedings relating to unauthorized copper trading by a former employee. Any settlement in connection with the copper trading litigation are reported as settlements on copper trading litigation.

(Provision for) Reversal of Allowance for Doubtful Receivables. Provision for allowance for doubtful receivables represents the valuation allowance provided for probable losses inherent in the trade receivables and long-term loans portfolio. In cases where we ultimately are able to collect on such receivables and loans, we subsequently record a reversal of allowance for doubtful receivables. Provisions are reversed when subsequent developments lead us to believe that the receivables will be recoverable. See “7. Critical Accounting Policies—Collectibility of Receivables.”

Impairment Losses on Long Lived Assets. To operate our global business, we maintain a significant amount of long-lived assets. A large portion of such long-lived assets are our real estate holdings. In recent years, mainly due to the decline in the Japanese real estate market, we have, from time to time, recorded impairment losses with respect to our real estate assets. For a detailed discussion of our accounting policy with respect to such impairment losses, see “7. Critical Accounting Policies—Recoverability of Long-Lived Assets.”

Gain on Sale of Property and Equipment, Net. To operate our global business, we maintain a significant amount of property and equipment. A large portion of our property is our real estate assets, such as office rental buildings. In recent years, mainly due to the decline in the Japanese real estate market, we have, from time to time, recorded losses with respect to some of our real estate assets. In the Tokyo and Osaka metropolitan regions, however, we have, at times, been able to realize gains on sales of some of our real estate assets. In addition, when we withdraw from a business, we may recognize losses on sales of property and equipment associated with such business.

Dividends. Dividends reflect dividends declared by companies in which we hold interests other than our consolidated subsidiaries or associated companies.

Gain (Loss) on Marketable Securities and Other Investments, Net. In order to supplement our trading activities, we maintain a significant

level of investments. From time to time, we recognize gains or losses on sales of our marketable securities and other investments when we elect to sell some of such investment holdings. In addition, when some of our investments were presumed to have suffered an other-than-temporary decline in value, we may recognize impairment losses on such investments. For a detailed discussion of our accounting policy with respect to our marketable securities and other investments, see “7. Critical Accounting Policies—Impairment of Investment in Marketable Securities and Other Investments.”

Equity in Earnings of Associated Companies, Net. In connection with our investment strategy and the development of business opportunities, we may, from time to time, acquire or make investments in newly established or existing companies, enter into joint ventures with other entities or form strategic business alliances with industry participants, in each case in a variety of business segments. In general, we account for the earnings or losses of such investee under the equity method when the level of the investment is between 20% and 50% of equity in the investee.

Total Trading Transactions. Total trading transactions is a voluntary disclosure and represents the gross transaction volume of trading transactions, or the nominal aggregate value of the transactions for which we act as principal or as agent. Total trading transactions is not meant to represent sales or revenues in accordance with U.S. GAAP. Total trading transactions should not be construed as equivalent to, or a substitute or proxy for, revenues, or as an indicator of our operating performance, liquidity or cash flows generated by operating, investing or financing activities. A substantial part of total trading transactions represents transactions in which we participate without physical acquisition of goods or without significant inventory risk. We have included the information concerning total trading transactions because it is used by similar Japanese trading companies as an industry benchmark, and we believe it is a useful supplement to results of operations data as a measure of our performance compared to other similar Japanese trading companies.

6. EFFECTS OF RECENT TRANSACTIONS ON OUR CONSOLIDATED STATEMENTS OF INCOME

In the fiscal year ended March 31, 2004, through a series of transactions, we acquired the steel product business lines from Nichimen Corporation. The total acquisition cost was approximately ¥11 billion for these business lines which included several steel processing centers as well as steel trading operations. In addition, Kawasho Lavie Corporation and Kubota Lease Corporation, both of which focus on domestic automobile leasing

business, became subsidiaries of Sumisho Auto Leasing Corp. starting January 2003 and April 2003, respectively. The inclusion of these three companies in our consolidated financial results for the fiscal year ended March 31, 2004 increased our revenues, cost of revenues and selling, general and administrative expenses.

7. 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:

Revenue Presentation—Gross Versus Net

Acting as an intermediary in executing transactions with third parties is a distinctive role of an integrated trading company (*sogo shosha*). In recognizing revenue from transactions, we must determine whether we are acting as a “principal” in the transaction, and should report revenue on a gross basis based on the sales amount of the transaction, or we are acting as an “agent” in the transaction, and should recognize net fees or commissions earned. The evaluation of the relevant factors in making this determination is subject to significant subjective judgments. In certain situations, others might make a different determination. Similarly, if our risks and obligations in a certain type of transactions change, the determination of whether revenue should be recognized on a net or gross basis for that type of transaction may also change. Revenues related to a substantial portion of the trading transactions in all our business segments are recognized on a net basis. The amounts of gross profit and net income are not affected by whether revenue is reported on a gross or net basis.

Factors that indicate that we are acting as a principal, and thus should recognize revenue on a gross basis include:

- we are the primary obligor in the arrangement;
- we have general inventory risk (before customer order is placed or upon customer return);
- we have physical loss inventory risk (after customer order or during shipping);
- we have latitude in establishing price;
- we change the product or perform part of the services;
- we have discretion in supplier selection;
- we are involved in the determination of product or service specifications; and
- we have credit risk.

Factors that indicate that we are acting as an agent, and thus should recognize revenue on a net basis relative to the service offered include:

- the supplier (not us) is the primary obligor in the arrangement;
- the amount we earn is fixed; and
- the supplier (not us) has credit risk.

Revenue Recognition

Most of our revenues are the result of (i) the sale of tangible products in connection with our wholesale, retail, manufacturing, and processing operations from which revenue is recognized based on the transfer of title, deliver or shipment, or the attainment of customer acceptance, or (ii) from the provision of services, from which revenue is recognized based on the delivery of services. Revenue recognition in these situations does not involve difficult, subjective or complex judgments or estimations.

Recognition of revenue using the percentage-of-completion method for certain long-term construction-type arrangements is based on the ratio that costs incurred bear to total estimated project costs and is dependent on our ability to estimate these costs reliably. The impact of revisions of profit estimates on fixed price contracts is recognized in the period in which the revisions are made; anticipated losses on fixed price contracts are charged to earnings when losses can be estimated; and provisions are made for contingencies in the period in which they become known and losses are estimable.

Collectibility of Receivables

We engage in a variety of businesses and carry substantial notes and loans receivable, accounts receivable, receivables for associated companies, and

long-term receivables. In maintaining our allowance for doubtful receivables, our estimate of probable losses requires consideration of historical loss experience, adjusted for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates, financial health of specific customers and market sectors, collateral values, and the present and expected future levels of interest rates. This estimation requires us to make assumptions and judgments about inherently uncertain matters, and we cannot predict with absolute certainty the amount of losses inherent in the portfolio.

Operating segments that hold greater amounts of long-term receivables than other segments are Transportation & Construction Systems and Machinery & Electric Business Units.

Recoverability of Long-Lived Assets

We maintain significant long-lived assets in the operation of our global business. We review long-lived assets, such as real estate and aircraft, for impairment whenever events or changes in circumstances suggest that the carrying amount of such assets may not be recoverable. Determining whether impairment has occurred typically requires various estimates and assumptions, including determining whether cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset’s residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We use internal discounted cash flow estimates, quoted market prices, when available, and independent appraisals as appropriate to determine fair value. We derive cash flow estimates from our historical experience and our internal business plans, and apply an appropriate discount rate. Changes in strategy or in market conditions could significantly affect these determinations.

Impairment of Investments in Marketable Securities and Other Investments

We regularly review investment securities for impairment based on criteria that include the extent to which the investment’s carrying value exceeds its market value, the duration of the market decline, our ability to hold to recovery and the financial strength and specific prospects of the issuer of the security. We monitor market conditions and the performance of the investees to identify potentially impaired investments. The fair value of non-marketable securities for which impairment losses are recognized is determined based on estimated discounted future cash flows, or other appropriate valuation methods.

Tax Asset Valuation

A valuation allowance is established on deferred tax assets when, in management’s judgment, it is more likely than not, that the deferred tax asset, or a portion thereof, will not be realized. In assessing the realizability of deferred tax assets, we must determine whether we will be able to generate adequate future taxable income in the tax jurisdictions that give rise to the deferred tax assets during the periods in which the underlying temporary differences become deductible or before tax net operating loss carryforwards expire. We consider all available evidence, both positive and negative, in making this assessment. Determination of the allowance is based on estimates and judgment. A change in the ability of our operations to generate future taxable income in the tax jurisdictions that give rise to the deferred tax assets could change our assessment as to the realizability of these assets.

8. RESULTS OF OPERATIONS

Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003

Total Revenues. Total revenues increased by ¥170.3 billion, or 11.1%, from ¥1,538.3 billion in the fiscal year ended March 31, 2003, to ¥1,708.6 billion in the fiscal year ended March 31, 2004. The increase was mainly due to the expansion of our automotive financing and leasing operation in Japan, Asia and Europe, the acquisition of the steel products business lines from Nichimen, and the higher level of sales from our consumer goods and food operations, particularly from our supermarket chain, Summit, Inc. The increase was partially offset by a decline in revenue resulting from lower coal production when a coal mine collapsed in Australia and the impact of the stronger yen which reduced the yen value of foreign currency denominated revenue, which impacted our overseas operations, particularly Sumitomo Corporation of America.

Gross Profit. Gross profit increased by ¥4.9 billion, or 1.0%, from ¥496.4 billion in the fiscal year ended March 31, 2003 to ¥501.3 billion in the fiscal year ended March 31, 2004. The increase in gross profit was primarily driven by the increase in revenues discussed above. In particular, the expansion of our automotive financing and leasing operation in Japan and Asia and the acquisition of the steel products business lines from Nichimen contributed to a ¥5.7 billion and a ¥3.0 billion increase in gross profit, respectively. The increase was partially offset by losses recorded upon disposal and revaluation of some of our real estate held as inventory for sale and partially by the decrease in revenues discussed above.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by ¥16.1 billion, or 4.0%, from ¥406.3 billion in the fiscal year ended March 31, 2003 to ¥422.4 billion in the fiscal year ended March 31, 2004. This was mainly due to an increase in personnel and facility-related expenses resulting from the expansion of the business activities of our subsidiaries such as Sumisho Auto Leasing and the increase in the number of new stores of Summit. Our acquisition of the steel products business lines from Nichimen contributed to a ¥2.3 billion increase in selling, general and administrative expenses. In addition, we recorded higher personnel costs as a result of increased retirement benefits expenses as the value of pension assets decreased when the Japanese stock declined to its 20-year historical low in April 2003. We also had higher amortization charges resulting from our computer system upgrades.

Settlements on Copper Trading Litigation. In the fiscal year ended March 31, 2004, we expensed ¥7.1 billion for settlements on copper trading litigation compared to a net gain of ¥0.2 billion on settlements on copper trading litigation in the fiscal year ended March 31, 2003. The settlement expensed in the fiscal year ended March 31, 2004 reflected the amount to settle certain lawsuits brought against us.

(Provision for) Reversal of Allowance for Doubtful Receivables. The provision for the allowance for doubtful receivables increased by ¥2.4 billion, or 42.9%, to ¥8.0 billion in the fiscal year ended March 31, 2004, compared to ¥5.6 billion in the fiscal year ended March 31, 2003. The provision reflected the recognition of losses incurred in connection with our polyvinyl chloride manufacturing business in Asia, as well as doubtful receivables resulting from the deteriorating creditworthiness of textile related clients and aircraft lessees.

Impairment Losses on Long-Lived Assets. Impairment losses on long-lived assets decreased by ¥15.2 billion, or 74.5%, from ¥20.4 billion in the fiscal year ended March 31, 2003 to ¥5.2 billion in the fiscal year ended March 31, 2004. The impairment losses for the fiscal year ended March 31, 2004 were attributable to the devaluation of three aircraft resulting from the sluggish aircraft market and the devaluation of three real estate properties.

Gain on Sale of Property and Equipment, Net. Gain on sale of property and equipment increased by ¥10.0 billion, or 303.0%, from ¥3.3 billion in the fiscal year ended March 31, 2003 to ¥13.3 billion in the fiscal year ended March 31, 2004, mainly due to the sale of the Sumitomo Building located in Osaka.

Interest Income. Interest income decreased by ¥9.2 billion, or 36.9%, from ¥24.9 billion in the fiscal year ended March 31, 2003 to ¥15.7 billion in the fiscal year ended March 31, 2004. The decrease was primarily due to lower interest rates, particularly with respect to interest-earning assets denominated in U.S. dollars. Average six-month TIBOR for debt denominated in Japanese yen decreased from 0.10% during the fiscal year ended March 31, 2003 to 0.09%, and the average six month LIBOR for debt denominated in U.S. dollars decreased from 2.13% during the fiscal year ended March 31, 2003 to 1.35%.

Interest Expense. Interest expense decreased by ¥8.9 billion, or 28.8%, from ¥30.9 billion in the fiscal year ended March 31, 2003 to ¥22.0 billion in the fiscal year ended March 31, 2004. The decrease was primarily due to lower interest rates discussed above, particularly with respect to debt denominated in U.S. dollars.

Dividends. Total dividend income increased by ¥0.5 billion, or 7.8%, from ¥6.4 billion in the fiscal year ended March 31, 2003 to ¥6.9 billion in the fiscal year ended March 31, 2004, primarily reflecting the resumption of dividend payments of Sumitomo Metal Industries, Ltd., as the company returned to profitable operations for the fiscal year ended March 31, 2003.

Gain (Loss) on Marketable Securities and Other Investments, Net. We recorded a net gain on marketable securities and investments of ¥16.3 billion for the fiscal year ended March 31, 2004 compared to a net loss on marketable securities and investments of ¥47.1 billion for the fiscal year ended March 31, 2003. The improvement was mainly attributable to a ¥16.2 billion gain on sale of equity securities of listed financial institutions, which were sold as part of our efforts to reduce our investment exposure to that sector, and a ¥6.2 billion gain on transfer of securities to employee retirement benefit trust compared to a gain of ¥2.3 billion in the prior fiscal year. These gains were partially offset by impairment losses which consisted mainly of other than temporary losses related to the unlisted securities, including a ¥9.6 billion loss related to POWEREDCOM, Inc., which was completely written off.

Equity in Earnings of Associated Companies, Net. Equity in earnings of associated companies increased by ¥10.9 billion, or 111.2%, from ¥9.8 billion in the fiscal year ended March 31, 2003 to ¥20.7 billion in the fiscal year ended March 31, 2004. The increase was primarily a result of JCOM, recording a profit for the first time as a result of increased subscriptions, improved profitability of the Batu Hijau project and continuing profitability of Sumisho Lease Co., Ltd and Jupiter Programming Co., Ltd. (JPC).

Income Taxes. Income taxes increased by ¥27.3 billion, or 325.0%, from ¥8.4 billion in the fiscal year ended March 31, 2003 to ¥35.7 billion in the fiscal year ended March 31, 2004. The increase was primarily due to increase of income before income taxes and minority interests in earnings of subsidiaries.

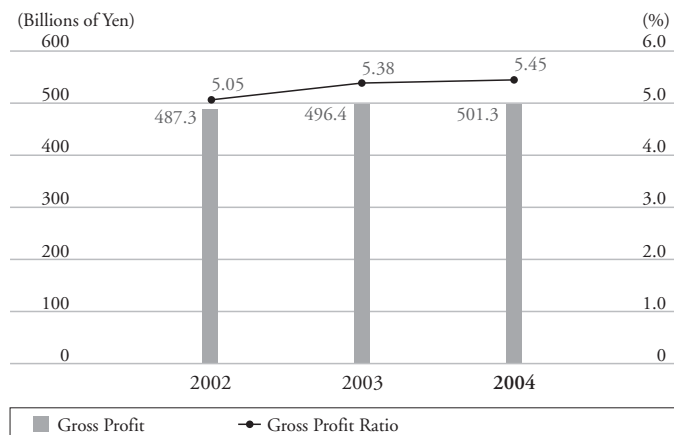
Minority Interests in Earnings of Subsidiaries, Net. Minority interests in earnings of subsidiaries increased by ¥0.4 billion, or 6.3%, from ¥6.3 billion in the fiscal year ended March 31, 2003 to ¥6.7 billion in the fiscal year ended March 31, 2004. The increase was attributable mainly to the increased profitability of Sumisho Auto Leasing.

Net Income. As a result of the factors discussed above, net income increased by ¥52.7 billion, or 379.1%, from ¥13.9 billion in the fiscal year ended March 31, 2003 to ¥66.6 billion in the fiscal year ended March 31, 2004.

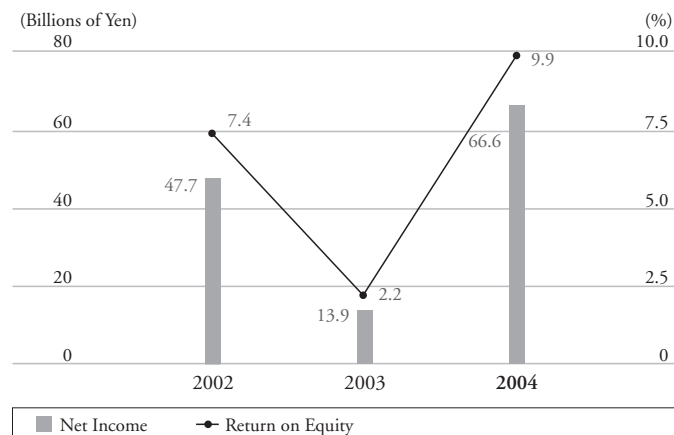
Total Trading Transactions. Total trading transactions decreased ¥31.7 billion, or 0.3%, from ¥9,229.6 billion in the fiscal year ended

March 31, 2003 to ¥9,197.9 billion in the fiscal year ended March 31, 2004. Although increases in commodity prices, such as fuel prices, increased the value of our total trading transaction, such increases were offset by the impact of the stronger yen which decreased the yen value of foreign currency denominated transactions. In addition, we withdrew from certain lower margin trading activities.

Gross Profit & Gross Profit Ratio (Gross Profit/Total Trading Transactions)



Net Income & Return on Equity



9. OPERATING SEGMENT ANALYSIS

We manage and assess our business through 11 operating segments, including nine operating segments based on industries and two operating segments based on geographical focus.

We conduct our business through nine business units based on industries. Our business units consist of: Metal Products; Transportation & Construction Systems; Machinery & Electric; Media, Electronics & Network; Chemical; Mineral Resources & Energy; Consumer Goods & Service; Materials & Real Estate; and Financial & Logistics.

In addition, we conduct our business through two sets of regional operations—domestic and overseas. Domestically, in addition to our subsidiaries, offices and branch offices throughout Japan, we have three regional business units, which are distinct from the industry-based business units, that oversee activities in the Kansai, Chubu and Kyushu-Okinawa regions. Our overseas operations are conducted by our overseas subsidiaries, such as Sumitomo Corporation of America, Inc., and branch offices. These regional operations conduct trading activities in all industry

sectors based on their specialized knowledge of region. In addition, they work together on certain projects with our industry-based business unit in order to develop products and services that are more focused for that particular region. In such cases, revenue and expenses are shared by the units based on their respective roles. These regional operations constitute the “Domestic Regional Business Units and Offices” and “Overseas Subsidiaries and Branches” segments in our consolidated financial statements.

For the fiscal year ended March 31, 2004, the real estate related business previously included in the Domestic Regional Business Units and Offices segment has been transferred to the Material & Real Estate Business Unit segment due to our reorganization. Accordingly, revenues, gross profit and net income for the years ended March 31, 2003 and 2002 have been restated to conform to the presentation for the fiscal year ended March 31, 2004.

The following table sets forth our operating results by operating segments for the fiscal years ended March 31, 2004 and 2003:

Breakdown of Gross Profit by Operating Segment

For the years ended March 31, 2004 and 2003	Billions of Yen				Millions of U.S. Dollars
	2004	2003	increase/ decrease	increase/ decrease	2004
Metal Products	¥ 42.0	¥ 37.2	¥ 4.8	12.9 %	\$ 403
Transportation & Construction Systems	98.6	86.2	12.4	14.4	948
Machinery & Electric	28.2	28.6	(0.4)	(1.4)	271
Media, Electronics & Network	40.8	40.9	(0.1)	(0.2)	392
Chemical	22.8	23.6	(0.8)	(3.4)	219
Mineral Resources & Energy	27.1	31.6	(4.5)	(14.2)	261
Consumer Goods & Service	90.4	86.0	4.4	5.1	870
Materials & Real Estate	47.8	57.8	(10.0)	(17.3)	460
Financial & Logistics	15.7	15.5	0.2	1.3	151
Domestic Regional Business Units and Offices	40.4	41.8	(1.4)	(3.3)	389
Overseas Subsidiaries and Branches	55.8	59.3	(3.5)	(5.9)	536
Segment Total	509.6	508.5	1.1	0.2	4,900
Corporate and Eliminations	(8.3)	(12.1)	3.8	31.4	(79)
Consolidated	¥ 501.3	¥ 496.4	¥ 4.9	1.0 %	\$ 4,821

Breakdown of Net Income (Loss) by Operating Segment

For the years ended March 31, 2004 and 2003	Billions of Yen				Millions of U.S. Dollars
	2004	2003	increase/ decrease	increase/ decrease	2004
Metal Products	¥ 7.6	¥ 6.3	¥ 1.3	20.6 %	\$ 73
Transportation & Construction Systems	9.6	5.6	4.0	71.4	92
Machinery & Electric	1.8	1.8	0.0	0.0	17
Media, Electronics & Network	7.5	8.5	(1.0)	(11.8)	72
Chemical	(0.1)	1.1	(1.2)	—	(1)
Mineral Resources & Energy	7.1	3.9	3.2	82.1	69
Consumer Goods & Service	5.8	5.3	0.5	9.4	56
Materials & Real Estate	9.1	(5.7)	14.8	—	88
Financial & Logistics	2.4	2.0	0.4	20.0	23
Domestic Regional Business Units and Offices	1.7	2.5	(0.8)	(32.0)	16
Overseas Subsidiaries and Branches	7.0	7.1	(0.1)	(1.4)	67
Segment Total	59.5	38.4	21.1	54.9	572
Corporate and Eliminations	7.1	(24.5)	31.6	—	69
Consolidated	¥ 66.6	¥ 13.9	¥ 52.7	379.1 %	\$ 641

Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003

Metal Products

Gross profit increased by ¥4.8 billion, or 12.9%, from ¥37.2 billion in the fiscal year ended March 31, 2003 to ¥42.0 billion in the fiscal year ended March 31, 2004. The increase was mainly attributable to the acquisition of the steel products business lines from Nichimen, the increased sales of steel sheets by our Asian steel service centers, the increased export activities of steel sheets to Asia and the increase of the price of such products. Net income increased ¥1.3 billion, or 20.6%, from ¥6.3 billion in the fiscal year ended March 31, 2003 to ¥7.6 billion in the fiscal year ended March 31, 2004. In addition to the factors discussed above, net income increased due to gain on sale of marketable securities and investments.

Transportation & Construction Systems

Gross profit increased by ¥12.4 billion, or 14.4%, from ¥86.2 billion in the fiscal year ended March 31, 2003 to ¥98.6 billion in the fiscal year ended March 31, 2004. The increases were mainly due to the expansion of domestic and Asian automobile financing businesses, which are operated through Sumisho Auto Leasing (which acquired Kawasho Lavie and Kubota Lease) and P.T. Oto Multiartha, the improvement of our motor vehicle sales and import business in Turkey and the higher sales volume of overseas construction equipment business mainly in the United States. Net income increased ¥4.0 billion, or 71.4%, from ¥5.6 billion in the fiscal year ended March 31, 2003 to ¥9.6 billion in the fiscal year ended March 31, 2004.

Machinery & Electric

Gross profit decreased by ¥0.4 billion, or 1.4%, from ¥28.6 billion in the fiscal year ended March 31, 2003 to ¥28.2 billion in the fiscal year ended March 31, 2004. Although plant export volume was increasing at the end of the fiscal year mainly to Asia, there was an overall decrease in plant sales volume for the year ended March 31, 2004 compared with the sales volume in the previous fiscal year. Furthermore, as a result of the decline in capital investments in Japan, there is a continuing lack of demand in domestic machinery and equipment market. Net income remained unchanged in the fiscal year ended March 31, 2004 from ¥1.8 billion in the fiscal year ended March 31, 2003. In the fiscal year ended March 31, 2003, we recorded a significant amount of impairment losses relating to securities and investments, but had no such significant impairment losses in the fiscal year ended March 31, 2004.

Media, Electronics & Network

Gross profit decreased by ¥0.1 billion, or 0.2%, from ¥40.9 billion in the fiscal year ended March 31, 2003 to ¥40.8 billion in the fiscal year ended March 31, 2004. The decrease was due to increased competition of systems integration services. The decrease was partially offset by higher commissions and fees received from our fabless electronic machinery production outsourcing services, or EMS, business in China and ASEAN countries and from the increased trading volume of materials used for electronic components, such as LED chips and electronics components. Net income decreased ¥1.0 billion, or 11.8%, from ¥8.5 billion in the fiscal year ended March 31, 2003 to ¥7.5 billion in the fiscal year ended March 31, 2004. The decrease was mainly due to the recognition of a ¥9.6 billion impairment loss relating to the unlisted securities of POWEREDCOM, and a decrease in gains from securities and investments profits compared to the fiscal year ended March 31, 2003. The decline was partially offset by increased earnings from JCOM, which became profitable for the first time along with JPC and MS Communications.

Chemical

Gross profit decreased by ¥0.8 billion, or 3.4%, from ¥23.6 billion in the fiscal year ended March 31, 2003 to ¥22.8 billion in the fiscal year ended March 31, 2004. The decrease was primarily attributable to the decreased sales by Cantex Inc., our North American polyvinyl chloride pipes and joints subsidiary, as competition intensified. We had a net loss of ¥0.1 billion in the fiscal year ended March 31, 2004 compared to net income of ¥1.1 billion in the fiscal year ended March 31, 2003, mainly due to the recognition of the losses incurred in connection with our withdrawal from the polyvinyl chloride manufacturing business in Asia.

Mineral Resources & Energy

Gross profit decreased by ¥4.5 billion, or 14.2%, from ¥31.6 billion in the fiscal year ended March 31, 2003 to ¥27.1 billion in the fiscal year ended March 31, 2004. The decreases were primarily due to the decline in the coal business in Australia as the coal production output decreased when a coal mine collapsed. Net income, however, increased ¥3.2 billion, or 82.1%, from ¥3.9 billion in the fiscal year ended March 31, 2003 to ¥7.1 billion in the fiscal year ended March 31, 2004, as earnings from the Batu Hijau project improved. The Batu Hijau project, which is a copper and gold mining operation in Indonesia, reported stronger performance as a result of an increase in copper and gold prices and increased production output.

Consumer Goods & Service

Gross profit increased by ¥4.4 billion, or 5.1%, from ¥86.0 billion in the

fiscal year ended March 31, 2003 to ¥90.4 billion in the fiscal year ended March 31, 2004. The increases were mainly due to increased sales at our supermarket chain, Summit, as we focused on catering to changing consumer preference patterns, such as the increasing sensitivity to the origin of food products. Our drugstore and brand businesses also recorded higher sales. Net income increased ¥0.5 billion, or 9.4%, from ¥5.3 billion in the fiscal year ended March 31, 2003 to ¥5.8 billion in the fiscal year ended March 31, 2004 as a result of the increased gross profit as well as gains on sales of securities recorded in this segment.

Materials & Real Estate

Gross profit decreased by ¥10.0 billion, or 17.3%, from ¥57.8 billion in the fiscal year ended March 31, 2003 to ¥47.8 billion in the fiscal year ended March 31, 2004, primarily as a result of losses recorded upon disposal and revaluation of some of our real estate held as inventory for sale. Unit sales of condominiums declined compared to the previous fiscal year as the previous fiscal year was a particularly successful year for our projects in the Tokyo metropolitan region. The decrease was partially offset by sales of units in recently completed large scale urban projects such as Aoyama Park Tower, as well as properties in the suburban areas targeted towards families such as Genecity Shikiasakadai. On the other hand, we recorded a net income of ¥9.1 billion in the fiscal year ended March 31, 2004 compared to a net loss of ¥5.7 billion in the fiscal year ended March 31, 2003. The change was mainly due to the recognition of a gain from the sale of the Sumitomo Building in Osaka in the fiscal year ended March 31, 2004, while having recognized impairment losses in connection with some of our real estate assets in the prior fiscal year.

Financial & Logistics

Gross profit increased by ¥0.2 billion, or 1.3%, from ¥15.5 billion in the fiscal year ended March 31, 2003 to ¥15.7 billion in the fiscal year ended March 31, 2004 mainly due to increases in fees and commissions relating to our domestic distribution business and our insurance brokerage business. In addition, our distribution business in China was not severely affected by SARS and Bird Flu, while the Shanghai and Beijing package delivery companies expanded their businesses by securing large contracts. Net income increased ¥0.4 billion, or 20.0%, from ¥2.0 billion in the fiscal year ended March 31, 2003 to ¥2.4 billion in the fiscal year ended March 31, 2004, as a result of higher gross profit and higher gains on sales of equity securities.

Domestic Regional Business Units and Offices

Gross profit decreased by ¥1.4 billion, or 3.3%, from ¥41.8 billion in the fiscal year ended March 31, 2003 to ¥40.4 billion in the fiscal year ended March 31, 2004. The decreases were mainly due to our selective withdrawal from some of our less profitable textile businesses. Net income decreased ¥0.8 billion, or 32.0% from ¥2.5 billion in the fiscal year ended March 31, 2003 to ¥1.7 billion in the fiscal year ended March 31, 2004, mainly due to lower gross profit and the provision for allowance for doubtful receivables relating to our textile business counterparties.

Overseas Subsidiaries and Branches

Gross profit decreased by ¥3.5 billion, or 5.9%, from ¥59.3 billion in the fiscal year ended March 31, 2003 to ¥55.8 billion in the fiscal year ended March 31, 2004. The decrease was due to the effect of the stronger yen, as the foreign currency denominated revenues of the overseas subsidiaries and branches were recorded at lower yen values. Net income decreased ¥0.1 billion, or 1.4%, from ¥7.1 billion in the fiscal year ended March 31, 2003 to ¥7.0 billion in the fiscal year ended March 31, 2004.

10. LIQUIDITY AND CAPITAL RESOURCES

In general, 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 low-interest rate funds and liquidity for our operations. During the fiscal year ended March 31, 2004, we shifted a portion of our debt financing from short-term debt to long-term debt to take advantage of the low interest rate and tighter credit spread environment, particularly in the Japanese financial markets. We reduced ¥215.3 billion of short-term debt, including current maturities of long-term debt, and increased our long-term debt, excluding current maturities of long-term debt, by ¥172.5 billion from March 31, 2003 to March 31, 2004.

Our short-term debt, excluding current maturities of long-term debt, as of March 31, 2004 was ¥452.1 billion. Our short-term debt consisted of:

- ¥206.6 billion of loans, principally from banks, with an average interest rate of 2.47%; and
- ¥245.5 billion of commercial paper with an average interest rate of 0.10%.

As of March 31, 2004, we had long-term debt of ¥2,549.0 billion, including current maturities of ¥330.6 billion and capital lease obligations of ¥44.2 billion. We increased our long-term debt, including current maturities, between March 31, 2003 and March 31, 2004 mostly by increasing the balance of our borrowings from banks and insurance companies by ¥117.2 billion and by increasing the balance of notes and bonds by ¥11.8 billion, mostly through the issuance of new notes and bonds. Moreover, we reduced the weighted average interest rate of our long-term debt for the fiscal year ended March 31, 2004 to 1.46% compared to 1.67% for the prior fiscal year due to the lower interest rate environment around the world. See the table setting forth our contractual cash obligations below for detailed information on the repayment schedule of our long-term debt.

All of our loans from banks contain provisions customary in Japan. We do not believe those provisions materially limit our operating or financial flexibility. Some credit agreements, however, require us to obtain prior approvals for any dividend payments or other distributions to shareholders. Several of the loan agreements require maintenance of certain financial ratios and minimum levels of tangible net worth. We may be required to make early repayments of outstanding amounts under some agreements, principally with government-owned financial institutions, if the lender concludes that we are able to repay the outstanding amount through improved earnings or from the proceeds of an equity or debt offering, and makes such prepayment request. We have not been asked to make any such prepayment and currently do not anticipate any prepayment request.

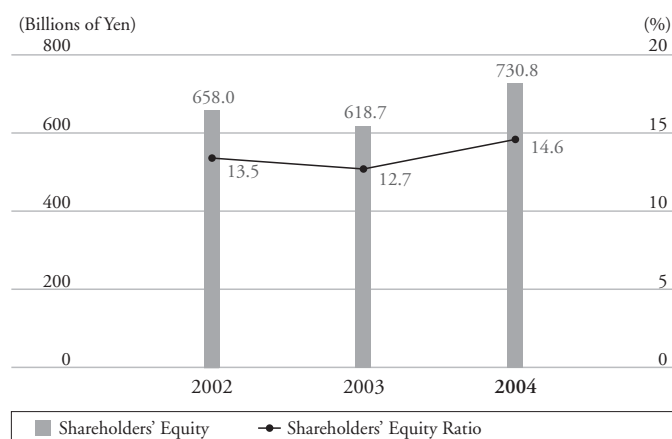
In addition, as of March 31, 2004, we had several committed lines of credit available for immediate borrowing providing an aggregate of up to \$980 million and ¥350 billion in short-term loans, including:

- a \$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 or any of our subsidiaries in the United Kingdom, Netherlands and the United States;
- a \$50 million U.S. dollar-denominated line of credit provided to Sumitomo Corporation of America 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.

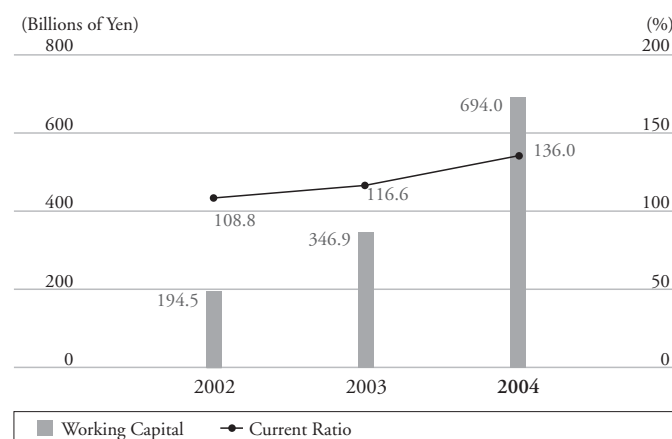
To date, we have not drawn on any of these lines of credit. We believe these lines of credit do not contain any material covenants, ratings triggers or other restrictions that could potentially impair our ability to draw down funds.

We also have several uncommitted lines of credit.

Shareholders' Equity & Shareholders' Equity Ratio



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



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 \$500 million U.S. Medium Term Note program and a \$1.5 billion commercial paper program, both established by our U.S. subsidiary, Sumitomo Corporation of America;
- a U.S.\$2 billion Euro Medium Term Note program jointly established by Sumitomo Corporation Capital Europe PLC and Sumitomo Corporation Capital Netherlands N.V.; and
- a U.S.\$1.5 billion Euro-denominated commercial paper program established by Sumitomo Corporation Capital Europe.

Our long-term and short-term credit ratings are Baa1/P-2 from Moody's Investors Service, BBB+/A-2 from Standard & Poor's and A+/a-1 from Rating and Investment Information, Inc.

As of March 31, 2004, we had total assets of ¥5,012.5 billion, which was an increase of ¥156.3 billion from March 31, 2003. This was mainly due to the increase in operating assets in connection with the expansion of our business base and an increase in unrealized gains on available-for-sale marketable securities due to the recovery of the stock market.

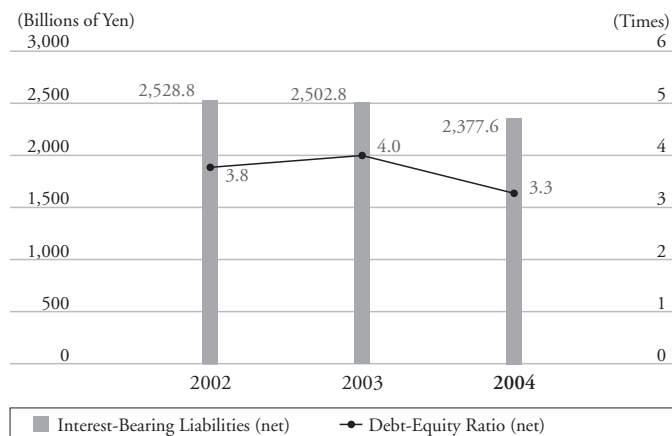
As of March 31, 2004, our shareholders' equity was ¥730.8 billion, which was an increase of ¥112.1 billion from March 31, 2003, due to the increase in retained earnings and an increase in unrealized gains on available-for-sale marketable securities resulting from the recovery of the stock market. As a result, our ratio of shareholders' equity to total assets improved by 1.9 percentage points to 14.6%. Net interest-bearing debt, which is interest-bearing debt less cash and cash equivalents, was ¥2,377.6 billion, which was a decrease of ¥125.2 billion from March 31, 2003. As a result, our net debt-to-equity ratio was 3.3 times as of March 31, 2004.

As of March 31, 2004, we held ¥415.6 billion in cash and cash equivalents and ¥2.7 billion in fixed time deposits.

As of March 31, 2004, we had current trade receivables of ¥1,416.2 billion from third parties and ¥151.2 billion from associated companies. Our current trade receivables in Japan are generally collected within six months. We make allowances for doubtful current receivables, which at March 31, 2004 were ¥8.9 billion. As of March 31, 2004, we had current trade payables of ¥878.6 billion to third parties and ¥22.8 billion to associated companies.

We had working capital of ¥694.0 billion as of March 31, 2004 compared to ¥346.9 billion as of March 31, 2003. The significant increase is due to the fact that in order to prepare for the increase in assets expected for the period ending March 31, 2005, we raised long-term capital and shifted short-term borrowing to long-term borrowing to secure stable funds.

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



Liquidity and Capital Resources

As of March 31, 2004, 2003, and 2002	Billions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Short-term			
Loans, principally from banks	¥ 206.6	¥ 326.2	\$ 1,987
Commercial paper	245.5	289.6	2,360
	452.1	615.8	4,347
Long-term			
Secured long-term debt			
Loans	102.6	73.9	987
Bonds	7.7	4.1	74
Unsecured long-term debt			
Loans	1,785.8	1,697.3	17,171
Bonds and notes	447.7	439.5	4,305
	2,343.8	2,214.8	22,537
Interest-bearing liabilities (gross)	2,795.9	2,830.6	26,884
Cash and cash equivalents & time deposits	418.3	327.8	4,022
Interest-bearing liabilities (net)	2,377.6	2,502.8	22,862
Total assets	5,012.5	4,856.2	48,197
Shareholders' equity	730.8	618.7	7,027
Shareholders' equity ratio (%)	14.6	12.7	
Debt-Equity ratio (gross) (times)	3.8	4.6	
Debt-Equity ratio (net) (times)	3.3	4.0	

The following table sets forth our cash flow information for the fiscal years ended March 31, 2004, 2003 and 2002:

Summary Statements of Consolidated Cash Flows

For the years ended March 31, 2004, 2003, and 2002	Billions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Net cash provided by operating activities	¥ 61.8	¥ 67.0	¥ 72.7	\$ 594
Net cash used in investing activities	57.9	(59.9)	(78.8)	557
Free cash flow	119.7	7.1	(6.1)	1,151
Net cash provided by financing activities	(23.6)	43.0	26.7	(227)
Effect of exchange rate changes on cash and cash equivalents	(4.9)	(2.5)	4.6	(47)
Net increase in cash and cash equivalents	¥ 91.2	¥ 47.6	¥ 25.2	\$ 877

Net cash provided by operating activities was ¥61.8 billion for the fiscal year ended March 31, 2004 compared to ¥67.0 billion for the fiscal year ended March 31, 2003. Although our net income increased in the fiscal year ended March 31, 2004, the increase in accounts receivables adversely affected net cash provided by operating activities. The increase in accounts receivable and accounts payable, which impacted our cash flow from operating activities, was mainly due to the expansion of our subsidiaries' business activities.

Net cash provided by investing activities was ¥57.9 billion for the fiscal year ended March 31, 2004 compared to net cash used in investing activities of ¥59.9 billion for the fiscal year ended March 31, 2003. In the fiscal year ended March 31, 2004, we increased the sales of our securities holdings and increased the collection of our loan receivables. The cash from these transactions was partially invested as we acquired additional leasing assets at Sumisho Auto Leasing in connection with our expansion into the automobile leasing business. We also purchased an additional interest in

Sumisho Computer System Corp. In addition, we increased our coal mining interests by purchasing additional stakes in coal mines in Australia.

Free cash flow, which is net cash provided by operating activities plus net cash provided by investing activities, was ¥119.7 billion for the fiscal year ended March 31, 2004 compared to ¥7.1 billion for the fiscal year ended March 31, 2003.

Net cash used in financing activities was ¥23.6 billion for the fiscal year ended March 31, 2004 compared to net cash provided by financing activities of ¥43.0 billion for the fiscal year ended March 31, 2003. The change was attributable to our efforts to repay some of our outstanding short-term debt and lower overall borrowings.

As of March 31, 2004, we had long-term financing commitments in the aggregate amount of ¥32.3 billion in connection with loans, investments in equity capital and financing on a deferred payment basis for equipment purchased by customers.

As of March 31, 2004, our contractual cash obligations for the periods indicated were as follows:

	Billions of Yen				
	Payments due by period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Long term debt ⁽¹⁾	¥ 2,549.0	¥ 330.6	¥ 817.0	¥ 617.8	¥ 783.6
Operating leases	107.9	14.5	23.7	18.4	51.3
Total	¥ 2,656.9	¥ 345.1	¥ 840.7	¥ 636.2	¥ 834.9

(1) Long-term debt includes capital leases.

We enter into long-term purchase commitments in the normal course of our trading operations that provide for either fixed prices or basic purchase prices adjustable to market. Those commitments are in most instances matched with counterparty sales contracts. Long-term purchase contracts at fixed prices or at basic purchase prices adjustable to market amounted to ¥349.7 billion as of March 31, 2004. Scheduled deliveries are at various dates through 2020.

We currently have no material commitments for capital expenditures or for any other transaction that are expected to result in material changes in our cash flows.

In addition to our commitments discussed above, in connection with our business, from time to time, we create various contingent liabilities, such as guarantees of our customers' obligations. In addition, we are, from time to time, subject to contingent liabilities arising from litigation. These contingent liabilities are discussed in detail in "—Contingencies" and "—Litigation" described below. Although we currently do not believe that our cash needs under such contingent liabilities will be significant, if, contrary to expectations, defaults under guarantees are substantial or there is a major adverse outcome in our litigation, such contingent liabilities may create significant new cash needs for us.

Our primary future recurring cash needs will be for working capital, capital investments in new and existing business ventures and debt service.

In the fiscal year ended March 31, 2004, we invested ¥148.2 billion in property and equipment and made ¥55.4 billion of other investments in an effort to increase our earnings base. In June 2004, we acquired JWC Hartz Holdings, Inc. for approximately ¥40 billion. We plan to make further investments in future periods in our existing businesses and consider acquisitions of new businesses in order to expand our earnings base. We are currently contemplating acquisitions of companies complementary to our existing businesses in the Transportation & Construction Systems, Mineral Resources & Energy, Chemical and Overseas Subsidiaries & Branches segments. We are also reviewing additional investments in existing projects and investments in new projects in the Machinery & Electric, Mineral Resources & Energy and Media, Electronics & Network sectors. These investments, however, are either at a preliminary evaluation stage or are subject to a number of conditions, and accordingly, may not be completed.

Our growth strategy contemplates the making of investments, in the form of acquisitions, equity investments or loans. We believe that our existing cash, current credit arrangements and cash flow from operations will be sufficient to meet our cash needs during the foreseeable future, although we cannot assure you that this will be the case. If our future cash flows from operations are less than we expect, we may need to incur additional debt, pursue other sources of liquidity, or modify our investment plans.

11. CONTINGENCIES

In connection with our businesses, from time to time, we create various contingent liabilities, such as guarantees of our customers' obligations. We conduct business with counterparties around the world, and we make an effort to control the related trade receivables and guarantees in order to minimize concentrations of credit risks. We do not anticipate losses on the commitments and guarantees discussed below in excess of established allowances.

From time to time, we sell certain trade notes receivable to banks and other financial institutions on a recourse basis in the ordinary course of our business. In particular, we enter into such transactions when we believe holding a particular receivable may expose us to unnecessary risks, such as foreign currency exchange risks associated with a non-yen-denominated receivable matched with a yen-denominated payable. As of March 31, 2004, we were contingently liable to certain banks for the aggregate amount of ¥50.5 billion for discounted trade notes receivable (principally relating to export transactions maturing through 2005) sold to those banks on a recourse basis.

As of March 31, 2004, we were contingently liable for guarantees (continuing through 2029) in the aggregate amount of ¥103.1 billion, includ-

ing ¥32.0 billion relating to our associated companies and ¥6.9 billion to our employees but excluding discounted trade note receivable sold to banks on a recourse basis as discussed above. We were able to reduce this amount compared to the amount as of March 31, 2002 as we were released from our guarantee relating to some of JCOM's borrowings. The guarantees were primarily to enhance the credit standings of our associated companies, suppliers, buyers and employees, and in respect of the residual value on operating leases.

We also provide residual value guarantees to compensate for any potential shortfall between a specified price and actual sale proceeds on fixed dates from 2012 to 2015 in the aggregate amount of ¥11.6 billion, for some owners in relation to transportation equipment subject to operating leases. If the market value of the transportation equipment is less than the guaranteed value on the fixed date, we will be required to compensate for the shortfall. The current estimated future value of such transportation equipment is higher than the guaranteed value, and consequently there was no allowance for the liabilities under these guarantees as of March 31, 2004.

12. LITIGATION

In June 1996, we announced that we had incurred significant losses resulting from unauthorized copper trading by a former employee. Following the announcement, regulatory authorities in the United States and the United Kingdom conducted investigations into our copper trading activities. Several lawsuits were also brought against us, alleging, among other things, manipulation of the price of copper. We have reached agreements with regulators in the United States and the United Kingdom, and

reached settlements or otherwise resolved many of the related civil lawsuits. Nevertheless, as of the date of this report, we have one class action lawsuit pending in Canada and one individual lawsuit pending in the United States arising out of the copper trading incident. In addition, we have sued two companies for recovery of losses incurred in connection with the copper trading incident in the United Kingdom and Japan.

13. NEW ACCOUNTING PRONOUNCEMENTS

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (revised December 2003) ("FIN 46R"), "Consolidation of Variable Interest Entities ("VIEs")," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," which was issued in January 2003. We were required to apply FIN 46R to variable interests in VIEs from the period ending after March 31, 2004. For any VIEs created before December 31, 2003, which must be consolidated under FIN 46R, the assets, liabilities and noncontrolling interests of

the VIEs initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, the fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIEs. We were required to apply FIN 46R to special-purpose entities in consolidated financial statements as of December 31, 2003, and to other VIEs in consolidated financial statements as of March 31, 2004. The adoption of this statement did not have a material impact on our consolidated financial statements.

14. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

In the normal course of business, we are exposed to risks arising from fluctuations in interest and currency exchange rates, commodity prices and equity prices. In order to manage these risks, we use financial and commodity derivative instruments including: foreign exchange forwards, currency swaps and options; interest rate swaps, futures and options; and commodity futures, forwards, swaps, 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.

Interest Rate Risk

Our business activities expose us to market risks arising from changes in interest rates, which we monitor and take measures to minimize through our Financial Resources Management Group. In particular, interest rate fluctuations will impact our borrowing costs because a significant amount of our outstanding debt instruments are floating rate instruments and because we have short-term borrowings that we refinance from time to time. However, the impact on our borrowing costs will be partially offset by increased returns on some of our assets which will also be impacted by interest rate fluctuations. In addition, we are engaged in financing activities, such as automobile financing, which could be affected by interest rate fluctuations. To manage this risk, 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 nature of our global operations exposes us to market risks caused by fluctuations in foreign currency exchange rates related to imports, exports and financing in currencies other than the local currency. 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 commodity 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 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. In addition, we are engaged in mining and oil and gas production operations, which are subject to fluctuations in commodity prices. In recent months, there have been significant fluctuations in the market price of commodities such as copper, gold, coal, oil and gas. Such fluctuation in market prices may influence the results of operation for the Mineral Resources & Energy unit.

Equity Price Risk

We are exposed to equity price risk inherent in stock we hold in 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 unrealized holding net gains on our marketable equity securities at March 31, 2004 and 2003 were as follows:

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

As of March 31, 2004 and 2003	Billions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Cost	¥ 164.7	¥ 228.5	\$ 1,584
Fair value	300.1	230.8	2,885
Net unrealized gains	135.4	2.3	1,301

The increase in unrealized holding gain was due primarily to the improvement of the Japanese stock market.

Risk Management Structure

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 President or General Manager, depending on the magnitude of the transaction, before it enters into the transaction. The President or General Manager, as the case may be, 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 risks and state the objectives of the transaction, the trading limit, and the loss limit amount.

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

- back office support services for financial and derivative commodity transactions, such as opening accounts, confirming the execution of contracts, processing settlement and delivery of funds, and maintaining accounting records for the transactions;
- confirmation of balances of each transaction position; and

- monitoring of the status of positions and analyzing and calculating the risks of related transactions on a company-wide basis, and issuing periodic reports to our senior management, including semi-annual reports to our board of directors.

Our major overseas subsidiaries are required to comply with the risk management structure described above when they execute commodity market transactions.

VaR (Value at Risk)

VaR is a statistical measure of the potential maximum 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. We use the VaR method to measure the market risk for certain market-sensitive commodities transactions and certain financial transactions. The following table sets forth the year-end, high, low, and average VaR figures (which are generally calculated on a three day holding period) as of the end of each month in the fiscal year ended March 31, 2004:

VaR

For the year ended March 31, 2004	Billions of Yen			
	At year-end	High	Low	Average
	4.1	4.7	3.1	3.9

We estimated VaR during the defined periods using the Monte Carlo simulation method with a confidence level of 99%. As VaR incorporates historical data regarding changes in market risk factors, our actual results may differ materially from the calculations above.

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 twelve months ended September 30, 2003, which was the most recent period for which backtesting was conducted. Based on our backtesting, we believe our VaR model provided reasonably accurate measurements.

Consolidated Balance Sheets

Sumitomo Corporation and Subsidiaries
As of March 31, 2004 and 2003

ASSETS	Millions of Yen		Millions of U.S. Dollars
	2004	2003 Restated (Note 2)	2004
Current assets:			
Cash and cash equivalents	¥ 415,574	¥ 324,358	\$ 3,996
Time deposits	2,690	3,360	26
Marketable securities (Notes 5 and 10)	2,823	7,643	27
Receivables—trade (Notes 6, 10 and 21)			
Notes and loans	238,213	270,737	2,290
Accounts	1,178,006	1,095,814	11,327
Associated companies	151,156	138,329	1,453
Allowance for doubtful receivables	(8,851)	(9,762)	(85)
Inventories (Note 20)	412,340	413,091	3,965
Deferred income taxes (Note 11)	37,613	29,273	362
Advance payments to suppliers	51,541	47,802	496
Other current assets	140,128	116,129	1,347
Total current assets	2,621,233	2,436,774	25,204
Investments and long-term receivables:			
Investments in and advances to associated companies (Note 7)	383,980	375,743	3,692
Other investments (Notes 5 and 10)	468,986	413,572	4,509
Long-term receivables (Notes 6, 10 and 21)	597,461	666,049	5,745
Allowance for doubtful receivables (Note 6)	(49,957)	(76,185)	(480)
Total investments and long-term receivables	1,400,470	1,379,179	13,466
Property and equipment, at cost (Notes 8, 10 and 21)	1,144,048	1,126,793	11,001
Accumulated depreciation	(388,639)	(365,777)	(3,737)
	755,409	761,016	7,264
Prepaid expenses, non-current (Note 12)	98,589	110,660	948
Deferred income taxes, non-current (Note 11)	9,369	46,308	90
Goodwill and other intangible assets (Note 9)	91,551	68,779	880
Other assets	35,844	53,441	345
Total	¥5,012,465	¥4,856,157	\$ 48,197

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Millions of U.S. Dollars
	2004	2003 Restated (Note 2)	2004
Current liabilities:			
Short-term debt (Note 10)	¥ 452,064	¥ 615,840	\$ 4,347
Current maturities of long-term debt (Note 10)	330,622	382,164	3,179
Payables—trade			
Notes and acceptances	107,474	115,189	1,033
Accounts	771,092	728,680	7,414
Associated companies	22,829	25,565	220
Income taxes (Note 11)	15,890	17,075	153
Accrued expenses	61,228	47,695	589
Advances from customers	66,232	60,462	637
Other current liabilities (Notes 11 and 22)	99,773	97,245	959
Total current liabilities	1,927,204	2,089,915	18,531
Long-term debt, less current maturities (Note 10)	2,218,415	2,045,957	21,331
Accrued pension and retirement benefits (Note 12)	10,895	9,075	105
Deferred income taxes, non-current (Note 11)	38,797	3,914	373
Minority interests	86,306	88,584	830
Commitments and contingent liabilities (Note 22)			
Shareholders' equity (Notes 13 and 17):			
Common stock –			
authorized 2,000,000,000 shares;			
issued 1,064,608,547 shares in 2004 and 2003	169,439	169,439	1,629
Additional paid-in capital	189,621	189,548	1,823
Retained earnings:			
Appropriated for legal reserve	17,686	17,686	170
Unappropriated	365,894	307,781	3,518
	383,580	325,467	3,688
Accumulated other comprehensive loss (Note 14)	(11,237)	(64,993)	(108)
Treasury stock, at cost: 773,461 and 1,075,699			
shares in 2004 and 2003, respectively	(555)	(749)	(5)
Total shareholders' equity	730,848	618,712	7,027
Total	¥ 5,012,465	¥ 4,856,157	\$ 48,197

Consolidated Statements of Income

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Millions of U.S. Dollars
	2004	2003 Restated (Note 2)	2002 Restated (Note 2)	2004
Revenues (Note 18):				
Sales of tangible products	¥1,284,117	¥1,129,376	¥ 966,521	\$ 12,347
Sales of services and others	424,479	408,952	419,362	4,082
Total revenues	1,708,596	1,538,328	1,385,883	16,429
Cost of revenues:				
Cost of tangible products sold	1,097,503	948,201	816,992	10,553
Cost of services and others	109,761	93,678	81,617	1,055
Total cost of revenues	1,207,264	1,041,879	898,609	11,608
Gross profit (Notes 8, 18 and 19)	501,332	496,449	487,274	4,821
Other income (expenses):				
Selling, general and administrative expenses (Notes 8, 9 and 12)	(422,363)	(406,334)	(400,839)	(4,061)
Settlements on copper trading litigation (Note 22)	(7,139)	192	4,296	(69)
(Provision for) reversal of allowance for doubtful receivables (Note 6)	(8,019)	(5,588)	12,588	(77)
Impairment losses on long-lived assets (Note 8)	(5,178)	(20,371)	(4,805)	(50)
Gain on sale of property and equipment, net (Note 8)	13,320	3,283	2,798	128
Interest income	15,684	24,895	32,268	151
Interest expense	(22,058)	(30,901)	(46,020)	(212)
Dividends	6,934	6,373	6,653	67
Gain (loss) on marketable securities and other investments, net (Notes 5 and 12)	16,320	(47,125)	(8,851)	157
Equity in earnings of associated companies, net (Notes 7 and 11)	20,693	9,768	209	199
Other, net	(491)	(2,040)	(2,354)	(5)
Total other income (expenses)	(392,297)	(467,848)	(404,057)	(3,772)
Income before income taxes and minority interests in earnings of subsidiaries	109,035	28,601	83,217	1,049
Income taxes (Note 11)	(35,697)	(8,374)	(30,260)	(344)
Income before minority interests in earnings of subsidiaries	73,338	20,227	52,957	705
Minority interests in earnings of subsidiaries, net	(6,717)	(6,353)	(5,227)	(64)
Net income	¥ 66,621	¥ 13,874	¥ 47,730	\$ 641
Total trading transactions*	¥9,197,882	¥9,229,576	¥9,645,379	\$ 88,441
		Yen		U.S. Dollars
Amounts per share of common stock:				
Net income (Note 17):				
Basic	¥ 62.66	¥ 13.04	¥ 44.85	\$ 0.60
Diluted	61.31	13.00	43.89	0.59
Cash dividends declared for the year	8.00	8.00	8.00	0.08

* Total trading transactions represents the gross transaction volume of trading activities, or the nominal aggregate value of the transactions for which the Companies 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 accounting principles generally accepted in the United States of America ("U.S. GAAP")

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

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Millions of
	2004	2003 Restated (Note 2)	2002 Restated (Note 2)	U.S. Dollars
Common stock:				
Balance, beginning of year	¥ 169,439	¥ 169,439	¥ 169,432	\$ 1,629
Increase	—	—	7	—
Balance, end of year	¥ 169,439	¥ 169,439	¥ 169,439	\$ 1,629
Additional paid-in capital:				
Balance, beginning of year	¥ 189,548	¥ 189,548	¥ 189,536	\$ 1,822
Increase	73	—	12	1
Balance, end of year	¥ 189,621	¥ 189,548	¥ 189,548	\$ 1,823
Retained earnings:				
Balance, beginning of year	¥ 325,467	¥ 320,106	¥ 280,889	\$ 3,129
Net income	66,621	13,874	47,730	641
Cash dividends	(8,508)	(8,513)	(8,513)	(82)
Balance, end of year	¥ 383,580	¥ 325,467	¥ 320,106	\$ 3,688
Accumulated other comprehensive income (loss) (Note 14):				
Balance, beginning of year	¥ (64,993)	¥ (20,750)	¥ (12,704)	\$ (625)
Other comprehensive income (loss), net of tax	53,756	(44,243)	(8,046)	517
Balance, end of year	¥ (11,237)	¥ (64,993)	¥ (20,750)	\$ (108)
Treasury stock:				
Balance, beginning of year	¥ (749)	¥ (376)	¥ (193)	\$ (7)
Disposition (purchase) of treasury stock, net	194	(373)	(183)	2
Balance, end of year	¥ (555)	¥ (749)	¥ (376)	\$ (5)
Total	¥ 730,848	¥ 618,712	¥ 657,967	\$ 7,027
Comprehensive income (loss):				
Net income	¥ 66,621	¥ 13,874	¥ 47,730	\$ 641
Other comprehensive income (loss), net of tax (Note 14)	53,756	(44,243)	(8,046)	517
Comprehensive income (loss)	¥ 120,377	¥ (30,369)	¥ 39,684	\$ 1,158

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, 2004, 2003 and 2002

	Millions of Yen			Millions of U.S. Dollars
	2004	2003 Restated (Note 2)	2002 Restated (Note 2)	2004
Operating activities:				
Net income	¥ 66,621	¥ 13,874	¥ 47,730	\$ 641
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	81,177	71,817	65,624	781
Provision for (reversal of) allowance for doubtful receivables	8,019	5,588	(12,588)	77
Impairment losses on long-lived assets	5,178	20,371	4,805	50
Gain on sale of property and equipment, net	(13,320)	(3,283)	(2,798)	(128)
(Gain) loss on marketable securities and other investments, net	(16,320)	47,125	8,851	(157)
Equity in (earnings) losses of associated companies, less dividend received	(17,395)	(7,954)	3,233	(167)
Changes in operating assets and liabilities, excluding effect of acquisitions and divestitures:				
(Increase) decrease in receivables	(108,271)	(39,720)	111,518	(1,041)
(Increase) decrease in inventories	(3,449)	(31,151)	22,577	(33)
Increase (decrease) in payables	62,027	31,110	(146,423)	596
Increase in prepaid expenses	(6,258)	(39,622)	(24,651)	(61)
Other, net	3,745	(1,117)	(5,152)	36
Net cash provided by operating activities	61,754	67,038	72,726	594
Investing activities:				
Expenditures for property and equipment	(148,212)	(90,432)	(156,527)	(1,425)
Proceeds from sale of property and equipment	79,938	38,163	39,459	767
Acquisition of available-for-sale securities	(28,700)	(75,177)	(102,362)	(276)
Proceeds from sale of available-for-sale securities	122,959	59,222	114,348	1,182
Proceeds from maturities of available-for-sale securities	4,298	7,709	8,851	41
Acquisition of held-to-maturity securities	(2,435)	(8,384)	(100)	(23)
Proceeds from maturities of held-to-maturity securities	13,064	14,693	15,477	126
Acquisition of other investments	(55,376)	(32,024)	(67,406)	(532)
Proceeds from sale of other investments	22,959	70,492	23,035	221
Increase in loans receivable	(74,804)	(141,724)	(119,033)	(719)
Collection of loans receivable	123,724	94,397	166,001	1,190
Net decrease (increase) in time deposits	514	3,187	(566)	5
Net cash provided by (used in) investing activities	57,929	(59,878)	(78,823)	557
Financing activities:				
Net (decrease) increase in short-term debt	(175,757)	(153,214)	9,049	(1,690)
Proceeds from issuance of long-term debt	466,572	545,600	302,332	4,486
Repayment of long-term debt	(305,663)	(343,529)	(276,288)	(2,939)
Cash dividends paid	(8,508)	(8,513)	(8,513)	(82)
Capital contribution from minority interests	549	3,040	254	5
Acquisition of treasury stock	(775)	(373)	(183)	(7)
Net cash (used in) provided by financing activities	(23,582)	43,011	26,651	(227)
Effect of exchange rate changes on cash and cash equivalents	(4,885)	(2,539)	4,640	(47)
Net increase in cash and cash equivalents	91,216	47,632	25,194	877
Cash and cash equivalents, beginning of year	324,358	276,726	251,532	3,119
Cash and cash equivalents, end of year	¥ 415,574	¥ 324,358	¥ 276,726	\$ 3,996

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

Notes to Consolidated Financial Statements

Sumitomo Corporation and Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

1. DESCRIPTION OF BUSINESS

Sumitomo Corporation (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, energy and mineral resources, chemicals, textiles, food products and consumer goods in Japan, North America, Asia and other areas in the world. 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 industry-based business segments and two sets of regional operations; domestic and overseas which are in line with the operating segments monitored by the chief operating decision makers (see Note 18). The Companies’ industry-based business segments 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 segment operates with a degree of autonomy in pursuing strategic goals, managing operations and ensuring accountability.

“Trading” as used in the following descriptions of the Companies’ industry-based business segments represents sales transactions where the business segment acts as a principal or an agent. See revenue recognition discussed in Note 3 (o).

Metal Products—The Metal Products Business Unit segment engages in transactions involving iron and steel and non-ferrous metals. The global businesses of this segment cover trading, processing, manufacturing and investment activities involving ferrous and non-ferrous metal raw materials and products. In addition to continually seeking to enhance operational efficiency, the segment also pursues new opportunities such as online sales of maintenance, repair and operating supplies such as factory tools. This segment is comprised of two Iron & Steel Divisions, the Tubular Products Division, the Non-Ferrous Products & Metals Division and the Metal Products for Automotive Industries Division.

Transportation & Construction Systems—The Transportation & Construction Systems Business Unit segment engages in global transactions involving ships, aircraft, transportation systems, motor vehicles, construction equipment and related components and parts. Activities of this segment range from trading, leasing and financing to designing and arranging the construction of public transportation systems. This segment consists of the Ship, Aerospace & Transportation Systems Division, the

Motor Vehicles Business Division and the Construction & Mining Systems Division.

Machinery & Electric—The Machinery & Electric Business Unit segment engages in a wide range of large-scale infrastructure development projects relating to, among other things, power generation, telecommunications facilities, water and sewage facilities and natural gas and oil pipelines. Activities of this segment include planning, developing and coordinating as well as investing in and financing, infrastructure projects in emerging markets and supplying manufacturing equipment and systems for various domestic industries. This segment is also engaged in trading and investing in businesses such as biotechnology, clean energy, medical devices, water management and telecommunications and information technology. This segment consists of the E&M (Electric and Machinery) New Business Development Division, the Power & Energy Project Division and the Information, Telecommunication & Industrial Project Division.

Media, Electronics & Network—The Media, Electronics & Network Business Unit segment engages in a range of media and communications activities, including cable TV operations; production and distribution of programming and content; and development and sales of telecommunications and electronics equipment and related components, systems and devices. In addition to the Companies’ investments, the Companies provide services such as marketing and strategic development, technology transfer and manufacturing and engineering support. The Companies also supply various materials and components to electronics manufacturers, including silicon wafers, LED chips and assembled printed circuit boards. This segment consists of the Media Division, the Network Division and the Electronics Division.

Chemical—The Chemical Business Unit segment engages in the trading of source materials, products and semi-finished goods as well as other related businesses, involving a variety of chemicals including inorganic chemicals, specialty chemicals, pharmaceuticals, agricultural chemicals, synthetic resins and organic chemicals. Activities of this segment range from distribution of chemicals to research and development of life science products and investment in and financing of new ventures. This segment consists of the Performance Chemicals Division and the Plastics & Organic Chemicals Division.

Mineral Resources & Energy—The Mineral Resources & Energy Business Unit segment develops and trades various raw materials, minerals and energy sources including coal, iron ore, ferrous and non-ferrous metal, petroleum, natural gas, liquefied natural gas, or LNG, and liquefied petroleum gas, or LPG. This segment also trades semi-manufactured goods and finished products relating to petroleum, LPG, batteries and carbon products. In addition, this segment conducts the retail sales of electricity in Japan. This segment consists of the Mineral Resources Division and two Energy Divisions.

Consumer Goods & Service—The Consumer Goods & Service Business Unit segment engages in trading, production, processing, distribution of food commodities, textiles, clothing and other consumer goods. In addition, activities of this segment include the distribution of fertilizers and the operation of retail businesses such as supermarkets, drugstores, direct-marketing and a high-end brand name clothing and accessories. This segment consists of the Retail & Consumer Services Division, the Foodstuff & Fertilizer Division and the Textile Division.

Materials & Real Estate—The Materials & Real Estate Business Unit segment engages in trading, marketing and distribution of raw materials and other products such as cement, timber, paper pulp, used paper and tires, and in a variety of real estate activities such as the development, sale and management of commercial and residential real property. This segment consists of the Materials & Supplies Division and the Construction & Real Estate Division.

Financial & Logistics—Financial & Logistics Business Unit segment engages in such finance-related businesses as commodity futures trading, derivative transactions, private equity investments, mergers and acquisition-related activities, consumer and small-business financing, and the development and marketing of alternative investment instruments, and in logistics services ranging from delivery, customs clearance and transportation services to the development and operation of industrial parks. Acting as a broker, this segment also arranges for insurance in connection with trading conducted by other business segments. This segment consists of the Financial Service Division and the Logistics & Insurance Business Division.

2. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

In the past, the Companies reported total trading transactions and gross trading profit in their consolidated statements of income. For the fiscal year ended March 31, 2004, the Companies have reported revenue from sales of tangible products, revenue from sales of services and others, cost of tangible products sold and cost of services and others in a manner consistent with the accounting guidance in Emerging Issues Task Force (“EITF”) Issue No. 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent” as to reporting revenues based on the gross amount billed or the net amount retained. The Companies have restated prior year consolidated financial statements in order to conform to the current year presentation. This restatement had no effect on reported gross profit or net

income for the years restated.

The Companies also restated prior year consolidated financial statements with respect to the accounting of deferred taxes related to investments in affiliates and the effect of tax rate changes on deferred taxes recognized as part of other comprehensive income (loss).

This restatement resulted in changes to deferred income taxes (non-current), shareholders’ equity, income tax expense (benefit), net income and net income per share for the years restated.

As a result of the restatement, shareholders’ equity and retained earnings as of April 1, 2001 increased by ¥4,003 million and ¥1,979 million, respectively.

The effect of the restatement on the consolidated balance sheet as of March 31, 2003 is as follows:

	Millions of Yen	
	2003	
	Previously reported	Restated
Assets		
Current assets	¥2,436,774	¥2,436,774
Deferred income taxes, non-current	53,846	46,308
Other non-current assets	2,373,075	2,373,075
Total assets	¥4,863,695	¥4,856,157
Liabilities and Shareholders’ equity		
Liabilities	¥4,237,445	¥4,237,445
Shareholders’ equity:		
Common stock	169,439	169,439
Additional paid –in capital	189,548	189,548
Retained earnings:		
Appropriated for legal reserve	17,686	17,686
Unappropriated	317,694	307,781
Accumulated other comprehensive loss:		
Foreign currency translation adjustments	(60,287)	(54,797)
Net unrealized holding losses on securities available-for-sale	(6,262)	(9,377)
Net unrealized losses on derivatives	(819)	(819)
Total accumulated other comprehensive loss	(67,368)	(64,993)
Treasury stock, at cost	(749)	(749)
Total shareholders’ equity	626,250	618,712
Total liabilities and shareholders’ equity	¥4,863,695	¥4,856,157

The effect of the restatement on the consolidated statements of income for the years ended March 31, 2003 and 2002 is as follows:

	Millions of Yen			
	2003		2002	
	Previously reported	Restated	Previously reported	Restated
Revenues:				
Sales of tangible products	¥ —	¥ 1,129,376	¥ —	¥ 966,521
Sales of services and others	—	408,952	—	419,362
Total revenues	—	1,538,328	—	1,385,883
Cost of revenues:				
Cost of tangible products sold	—	948,201	—	816,992
Cost of services and others	—	93,678	—	81,617
Total cost of revenues	—	1,041,879	—	898,609
Gross profit	496,449	496,449	487,274	487,274
Other income (expenses)	(467,848)	(467,848)	(404,057)	(404,057)
Income before income taxes and minority interests in earnings of subsidiaries	28,601	28,601	83,217	83,217
Income taxes	6,032	(8,374)	(32,774)	(30,260)
Income before minority interests in earnings of subsidiaries	34,633	20,227	50,443	52,957
Minority interests in earnings of subsidiaries, net	(6,353)	(6,353)	(5,227)	(5,227)
Net income	¥ 28,280	¥ 13,874	¥ 45,216	¥ 47,730
Yen				
Amounts per share of common stock:				
Net income:				
Basic	¥ 26.58	¥ 13.04	¥ 42.49	¥ 44.85
Diluted	26.18	13.00	41.59	43.89

For the consolidated statements of cash flows, the restatement had no net affect on reported net cash provided by operating activities, net cash used in investing activities, net cash provided by financing activities and net

increase in cash and cash equivalents for the years ended March 31, 2003 and 2002.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Principles of Presentation and Consolidation

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into United States dollars for the year ended March 31, 2004 is included solely for the convenience of readers and has been made at the rate of ¥104=U.S.\$1, the approximate exchange rate prevailing at the Federal Reserve Bank of New York on March 31, 2004. Such translation should not be construed as a representation that the Japanese yen amounts have been, or could in the future be converted into United States dollars at that or any other rate.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the

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

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 consolidated 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

The Company's functional and reporting currency is Japanese yen. Under the provision of Statements of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Transactions," assets and liabilities are translated into Japanese yen at the respective year-end exchange rates. All income and expense accounts are translated at the average rates of exchange prevailing during each fiscal year in consolidating the financial statements of overseas subsidiaries whose functional currency is other than Japanese yen. The resulting accumulated translation adjustments are included in a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. All foreign currency transaction gains and losses are included in income in the period incurred.

(d) Inventories

Inventories mainly consist of commodities, materials and real estate held for development and resale. The cost of inventories is determined based 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 at the lower of average cost or market. Real estate held for development and resale are stated at the lower of cost or net realizable value.

(e) Marketable Securities and Other Investments

The Companies conform with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires all investments in debt and marketable equity securities to be classified as either trading, available-for-sale, or held-to-maturity securities. As of March 31, 2004 and 2003, all of the Companies' investments in debt securities and marketable equity securities are classified as either (i) trading securities, which are accounted for at fair value with unrealized gains and losses included in earnings, (ii) 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 loss, net of related taxes in the accompanying consolidated balance sheets, or (iii) held-to-maturity securities, which are accounted for at amortized cost. Those securities, which mature or are expected to be sold in one year, are classified as current assets.

A decline in fair value of any available-for-sale or held-to-maturity security below the amortized cost basis that is deemed to be other than temporary results in a write-down of the amortized cost basis to fair value as a new cost basis and the amount of the write-down is included in earnings.

On a continuous basis, but no less frequently than at the end of each semi-annual period, the Companies evaluate the cost basis of an available-for-sale security for possible impairment. Factors considered in assessing

whether an indication of other than temporary impairment exists include: the degree of change in ratio of market prices per share to book value per share at date of evaluation compared to that at date of acquisition, the financial condition and prospects of each investee company, industry conditions in which the investee company operates, the fair value of an available-for-sale security relative to the cost basis of the investment, the period of time the fair value of an available-for-sale security has been below the cost basis of the investment and other relevant factors.

The Companies evaluate the cost basis of held-to-maturity securities for possible impairment by taking into consideration the financial condition, business prospects and credit worthiness of the issuer.

Impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment. Fair value is determined based on quoted market prices.

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

Non-marketable securities held as investments are carried at cost. Management assesses semi-annually whether the value of non-marketable securities have declined below cost. If the decline in value below cost is judged to be other than temporary, the carrying value of the securities is written down to its estimated fair value. Factors considered in this assessment include the performance of the underlying company relative to plan, industry conditions, financial condition and prospects, and the period of time that estimated fair value has been below the carrying amount of the investment. Fair value is determined based on analysis of discounted estimated cash flows, valuation models based on revenues, profitability and net worth, market value of comparable companies, and other valuation approaches.

(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 estimated. Management considers individual customers' risk factors such as historical performance, recent developments, changes in original terms, internal risk-ratings, industry trends, and other specific factors applicable to the customer as well as general risk factors including, but not limited to, sovereign risk of the country where the customer resides.

The Companies maintain a specific allowance for impaired loans. A loan is considered impaired pursuant to SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." Pursuant to SFAS No. 114, a loan is impaired if it is probable that the Companies will not collect all principal and interest due. An impairment allowance is recognized equal to 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 portfolios of similar loans. This allowance for losses is based on relevant observable data that include, but are not limited to, historical experience, delinquencies, loan stratification by portfolio, and when applicable, geography, collateral type, and size of the loan balance. Past due balances 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.

In June 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 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 estoppels. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Companies adopted SFAS No. 143 on April 1, 2003 and adoption did not have a material impact on the Companies’ consolidated financial statements.

(h) Impairment of Long-Lived Assets

On April 1, 2002, the Companies adopted 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 whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows without interest expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair values are determined based on market values, appraisal or discounted future cash flows based on realistic assumptions less costs to sell.

Assets to be disposed of are reported separately in the balance sheet at the lower of the carrying amount or fair value less cost to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

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 over their equity in the net assets at the dates of acquisition. In June 2001, the FASB issued SFAS No. 141, “Business Combinations,” and SFAS No. 142, “Goodwill and Other Intangible Assets.” SFAS No. 141 requires the use of only the purchase method of accounting for business combinations and refines the definition of intangible assets acquired in a purchase business combination. SFAS No. 142 eliminates the amorti-

zation of goodwill and instead requires annual impairment testing thereof. SFAS No. 142 also requires acquired intangible assets with a definite useful life to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144. Any acquired intangible asset determined to have an indefinite useful life is not amortized, but instead is tested for impairment based on its fair value until its life would be determined to no longer be indefinite. Goodwill associated with equity method investments is not amortized but is tested for impairment at least annually.

The Companies fully adopted the provisions of SFAS No. 141 and SFAS No. 142 as of April 1, 2002. Goodwill acquired in business combinations completed before July 1, 2001, was amortized until March 31, 2002. In connection with the transitional impairment evaluation, SFAS No. 142 required the Companies to perform an assessment of whether there was an indication that goodwill was impaired as of April 1, 2002. To accomplish this, the Companies (i) identified its reporting units, (ii) determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units, and (iii) determined the fair value of each reporting unit. The Companies completed the transitional impairment assessment as of April 1, 2002 and determined that no goodwill impairment charge was necessary. In addition, the Companies tested goodwill for impairment as of March 31, 2004 and 2003 with no indicator of impairment. The goodwill and intangible assets are tested for impairment at the reporting unit level at least annually at the end of each fiscal year, or more often if events or circumstances, such as adverse changes in the business climate, indicate that there may be impairment.

Prior to the adoption of SFAS No. 142, goodwill was amortized using the straight-line method. Amortization periods for goodwill were mainly over five years.

(j) Stock Option Plan

The Company has stock option plans as incentive plans for directors and executive officers of the Company and corporate officers under the Company’s qualification system.

SFAS No. 123, “Accounting for Stock-Based Compensation,” amended by SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123,” 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,” and related interpretations including FASB Interpretation No. 44, “Accounting for Certain Transactions Involving Stock Compensation.” The Company chose to continue using the intrinsic-value-based method of accounting prescribed by APB Opinion No. 25 for fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the market price of the underlying common stock exceed the exercise price on the date of grant. No compensation expense was incurred for the years ended March 31, 2004, 2003 and 2002.

Had compensation expense for the Company’s stock option plans been determined consistent with SFAS No. 123 as amended, the Companies’ net income and net income per share for the years ended March 31, 2004, 2003 and 2002 would have been as follows:

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Net income: As reported	¥ 66,621	¥ 13,874	¥ 47,730	\$ 641
Deduct: Total stock-based compensation cost determined under fair value method for all awards, net of related tax effects	(21)	(19)	(21)	(1)
Pro forma	¥ 66,600	¥ 13,855	¥ 47,709	\$ 640

	Yen			U.S. Dollars
	2004	2003	2002	2004
Basic net income per share: As reported	¥ 62.66	¥ 13.04	¥ 44.85	\$ 0.60
Pro forma	62.64	13.02	44.83	0.60
Diluted net income per share: As reported	61.31	13.00	43.89	0.59
Pro forma	61.29	12.98	43.87	0.59

The fair value of these stock options is estimated using the Black-Scholes option pricing model with the following weighted-average valuation assumption:

	2004	2003	2002
Expected life	4.5 years	4.5 years	4.5 years
Risk-free rate	0.36%	0.32%	0.37%
Expected volatility	43.56%	45.84%	46.31%
Expected dividend yield	0.91%	0.92%	0.88%

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

(l) Derivative Instruments and Hedging Activities

The Companies account for derivatives and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities", as amended, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values. The Companies utilize derivative instruments to manage interest rate risk, foreign currency risk and the risk of the price fluctuation of commodity inventories and trading commitments. The primary derivative instruments used by the Companies include foreign exchange forward contracts, currency swaps, interest rate swaps and commodity future contracts. As of April 1, 2001, the adoption of SFAS No. 133, as amended, resulted in an immaterial impact to net income and an increase to accumulated other comprehensive loss of approximately ¥1,475 million.

On the date a derivative contract is entered into, the Companies designate the derivative as either a hedge of the fair value of a recognized asset or liability (fair-value hedge), a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge).

For all hedging relationships the Companies formally document the hedging relationship and their risk management objective and strategy for undertaking the hedge, the hedging instrument, the item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring effectiveness and ineffectiveness. This process includes linking all derivatives that are designated as fair-value, or cash-flow hedges to specific assets and liabilities on the balance sheet. The Companies also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income (loss) to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of the change in fair value of a derivative instrument that qualifies as either a fair-value hedge or a cash flow hedge is reported in earnings. Changes in the fair value of derivative trading instruments are reported in current period earnings.

The Companies discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, or the derivative is de-designated as a hedging instrument, because management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the Companies continue to carry the derivative on the balance sheet at its fair value and no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. In all other situations in which hedge accounting is discontinued, the Companies continue to carry the derivative at its fair value on the balance sheet and recognize any subsequent changes in its fair value in earnings.

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

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with U.S. GAAP. Significant items subject to such estimates and assumptions include the allowance for doubtful receivables, inventories, investments, impairment of long-lived assets, deferred income taxes and contingencies. Actual results could differ from those estimates.

(n) Net Income per Share

Net income per share is presented in accordance with the provisions of SFAS No. 128, "Earnings Per Share." Under SFAS No. 128, basic net income per share excludes dilution for potential common shares and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares.

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 after the year end.

(o) Revenue Recognition

The Companies recognize revenue when it is realized or realizable and earned. The Companies consider revenue realized or realizable and earned when it has 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.

Gross versus Net. In the normal course of business, the Companies frequently act as an intermediary or agent in executing transactions with third parties. In these arrangements, the Companies determine whether to report revenue based on the "gross" amount billed to the ultimate customer for goods or services provided or on the "net" amount received from the customer after commissions and other payments to third parties. However, the amounts of gross profit and net income are not affected by whether revenue is reported on a gross or net basis.

Determining whether revenue should be reported gross or net is based on an assessment of whether the Companies are acting as a "principal" or an "agent" in a transaction. Accordingly, to the extent that the Companies are acting as a principal in a transaction, the Companies report revenue on a gross basis and to the extent that the Companies are acting as an agent in a transaction, the Companies report revenue on a net basis. The determination of whether the Companies are acting as a principal or an agent in a transaction involves judgment and is based on an evaluation of the terms of an arrangement.

Factors that indicate that the Companies act as a principal, and thus recognize revenue on a gross basis include: (i) the Companies are the primary obligor in the arrangement, (ii) the Companies have general inventory risk (before customer order is placed or upon customer return), (iii) the Companies have physical loss inventory risk (after customer order or during shipping), (iv) the Companies have latitude in establishing price, (v) the Companies change the product or perform part of the services, (vi) the Companies have discretion in supplier selection, (vii) the Companies are involved in the determination of product or service specifications, and (viii) the Companies have credit risk.

Factors that indicate that the Companies act as an agent, and thus recognize revenue on a net basis relative to the service offered include: (i) the supplier (not the Companies) is the primary obligor in the arrangement, (ii) the amount the Companies earn is fixed, and (iii) the supplier (not the Companies) has credit risk.

Total Trading Transactions. Total trading transactions is a voluntary disclosure and represents the gross transaction volume of trading transactions, or the nominal aggregate value of the transactions for which the Companies act as principal or as agent. Total trading transactions is not meant to represent sales or revenues in accordance with U.S. GAAP. Total trading transactions should not be construed as equivalent to, or a substitute or proxy for, revenues, or as an indicator of our operating performance, liquidity or cash flows generated by operating, investing or financing activities. A substantial part of total trading transactions represents transactions in which the Companies participate without physical acquisition of goods or without significant inventory risk. The Companies have included the information concerning total trading transactions because it is used by similar Japanese trading companies as an industry benchmark, and the Companies believe it is a useful supplement to results of operations data as a measure of the Companies' performance compared to other similar Japanese trading companies.

Revenue from sales of tangible products

The Companies generate revenue from sales of tangible products (i) in connection with the Companies' wholesale, retail, manufacturing and processing operations, (ii) in connection with the Companies' real estate operations, and (iii) under long-term construction type arrangements. The Companies also enter into transactions that include multiple element arrangements, which may include any combination of products, equipment, and installation services. In accordance with the FASB's EITF Issue No. 00-21, "Guide to Accounting for Revenue Arrangements with Multiple Deliverables", if certain elements are delivered prior to others in the arrangement, revenue is deferred until the delivery of the last element, unless transactions are such that the price of a deliverable, when it is regularly sold on a standalone basis of the undelivered elements, is available and the functionality of the delivered element is not dependent on the undelivered elements. The Companies allocate revenue involving multiple elements to each element based on its relative fair value.

The Companies recognize revenue from sales of tangible products in connection with the Companies' wholesale, retail, manufacturing and processing operations when title and risk of loss have been transferred to the customer. Depending upon the terms of the contract, this may occur at the time of delivery or shipment or upon the attainment of customer acceptance. The conditions of acceptance are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specifications are not recognized as revenue until the attainment of customer acceptance. The Companies' policy is not to accept product returns unless the products are defective. The Companies have no material exposure to losses under warranty provisions on transactions with which

the Companies are involved. Such losses are recognized when probable and estimable. The effects of rebate and discount programs are recognized as a reduction of revenue. The effects of such programs are not material. The Companies recognize revenue upon delivery, shipment, or upon the attainment of customer acceptance for steel service center operations in which the Companies process and cut steel sheets to customer specifications [Metal Products], dealership operations in which the Companies sell automobiles to general consumers and distribute construction equipment and machinery to construction companies [Transportation & Construction Systems], plastic products [Chemical], service station operations in which the Companies provide petroleum for automobiles [Mineral Resources & Energy], and retail business operations such as supermarkets and drugstores [Consumer Goods & Service].

Revenues from sale of land, office-buildings, and condominiums are recognized using the full accrual method provided that various criteria relating to the terms of the transactions are met. These criteria deal with whether (i) a sale is consummated, (ii) the buyer's initial and continuing investments are adequate, (iii) the seller's receivable is not subject to future subordination, and (iv) the seller has transferred to the buyer the usual risks and rewards of ownership and does not have a substantial continuing involvement with the property. Revenues relating to transactions that do not meet the established criteria are defined and recognized when the criteria are met or using the installment or cost recovery methods as appropriate in the circumstances.

The Companies generate revenue from sales of tangible products under long-term construction type arrangements, principally in connection with the construction of power plants in which the Companies provide engineering, procurement and construction [Machinery & Electric] under the percentage-of-completion method as prescribed by AICPA Statement of Position ("SOP") No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Progress toward completion is measured using the cost-to-cost method. Under the cost-to-cost method, revenues are recognized based on the ratio that costs incurred bear to total estimated costs. The Companies review cost performance and estimate to complete projections on its contracts at least quarterly, and in many cases, more frequently. The impact of revisions of profit estimates on fixed price contracts are recognized in the period in which the revisions are made. Anticipated losses on fixed price contracts are charged to earnings when such losses can be estimated. Provisions are made for contingencies in the period in which they become known pursuant to specific contract terms and conditions are estimable.

Revenue from sales of services and others

The Companies also generate revenue from sales of services and others in connection with (i) customized software development services contracts and other software related services, (ii) direct financing and operating leases of automobiles, vessels, and aircrafts, and (iii) all other service arrangements such as arranging finance and coordinating logistics in connection with trading activities.

The Companies recognize revenue from customized software development services contracts and other software related services in accordance with the provisions of SOP No. 97-2, "Software Revenue Recognition" as amended by SOP No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition, With Respect to Certain Transactions." Revenue from the customized software services contracts that require the Companies to develop, manufacture or modify information technology

(IT) systems to a customer's specification, and to provide services related to the performance of such contracts, is recognized upon customer acceptance if pricing is fixed and determinable and collectibility is probable. The terms of such service contracts range less than one year. Revenue from maintenance is recognized over the contractual period or as the services are performed [Media, Electronics & Network].

The Companies recognize revenue from direct financing leases using methods that approximate the interest method. Related origination and other non-refundable fees and direct origination costs are deferred and amortized as an adjustment of interest and direct financing lease income over the contractual lines of the arrangements. Rental income on operating leases is recognized on an accrual basis.

The accrual of interest income on direct financing leases is generally suspended and an account placed on non-accrual status when payment of principal on interest is contractually delinquent for ninety days or more, or earlier when in the opinion of management, full collection of principal and interest is doubtful. To the extent that the estimated value of collateral does not satisfy both the principal and accrued income receivables, previously accrued interest is reversed. Proceeds received on non-accrued loans are applied to the outstanding principal balance until such time as the outstanding receivable is collected, charged off, or returned to accrual status.

Direct financing leases are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Operating lease equipment is carried at cost less accumulated depreciation and is depreciated to estimated residual value using the straight-line method over the projected economic life of the asset. Equipment acquired in satisfaction of loans and subsequently placed on operating lease is recorded at the lower of carrying value or estimated fair value when acquired. Management performs periodic reviews of the estimated residual values and recognizes impairment losses in the period they are determined to occur. The Companies recognize revenue from operating leases in connection with automobiles leased to consumers, vessels leased to shipping companies, aircrafts leased to airlines [Transportation & Construction Systems], and rental of commercial real estate [Materials & Real Estate].

Revenue from all other service arrangements include transactions in which the Companies act between customer and supplier as agent or broker to provide such services as arranging finance or coordinating logistics in connection with trading activities. Such revenues are recognized when the contracted services are rendered to third-party customers.

(p) Issuance of Stock by Subsidiaries and Associated Companies

The Company recognizes a gain or 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. Such a gain or loss is recognized only when the realization of a gain or loss is reasonably assured and the value of the proceeds can be objectively determined.

(q) Capitalized Software Costs

The Companies capitalize certain costs incurred to purchase or develop software for internal-use. Costs incurred to develop software for internal-use are expensed as incurred during the preliminary project stage, which includes costs for making strategic decisions about the project, determining performance and system requirements and vendor demonstration cost. Costs incurred subsequent to the preliminary project stage through imple-

mentation are capitalized. The Companies also expense costs incurred for internal-use software projects in the post implement stage such as costs for training and maintenance.

Costs incurred to develop software to be sold are capitalized subsequent to the attainment of technological feasibility in the form of detailed program design. Those costs include coding and testing performed subsequent to establishing technological feasibility. Costs incurred prior to reaching technological feasibility are expensed as incurred. Capitalized software costs are amortized on a product-by-product basis. The annual amortization is the greater of the amount computed using (i) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (ii) the straight-line method over the remaining estimated economic life of the product including the period being reported on. Amortization starts when the product is available for general release to customers.

(r) New Accounting Standards

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003) (“FIN 46R”), “Consolidation of Variable Interest Entities (“VIEs”),” which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the

entity. FIN 46R replaces FASB Interpretation No. 46, “Consolidation of Variable Interest Entities,” which was issued in January 2003. The Companies were required to apply FIN 46R to variable interests in VIEs from the period ending after March 31, 2004. For any VIEs created before December 31, 2003, which must be consolidated under FIN 46R, the assets, liabilities and noncontrolling interests of the VIEs initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, the fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIEs. The Companies were required to apply FIN 46R to special-purpose entities in consolidated financial statements as of December 31, 2003, and to other VIEs in consolidated financial statements as of March 31, 2004. The adoption of this statement did not have a material impact 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

Supplemental disclosure of cash flow information for the years ended March 31, 2004, 2003 and 2002 is as follows:

	Millions of Yen			Millions of
	2004	2003	2002	U.S. Dollars
Cash paid during the year for:				2004
Interest	¥ 21,825	¥ 30,139	¥ 47,240	\$ 210
Income taxes	25,487	20,720	25,018	245
Non-cash investing and financing activities:				
Capital lease obligations incurred	9,865	9,558	5,179	95
Fair value of securities transferred to employee pension trust	9,505	5,069	21,541	91
Acquisition of subsidiaries:				
Fair value of assets acquired	48,398	27,519	19,436	466
Fair value of liabilities assumed	38,566	29,775	10,573	371
Minority interests assumed	1,318	(4,883)	8,508	13
Cash paid, net	(8,514)	(2,627)	(355)	(82)

5. MARKETABLE SECURITIES AND OTHER INVESTMENTS

Marketable securities and other investments as of March 31, 2004 and 2003 are as follows:

	Millions of Yen		Millions of
	2004	2003	U.S. Dollars
Marketable securities-current:			
Trading	¥ 237	¥ 281	\$ 2
Available-for-sale	477	4,298	5
Held-to-maturity	2,109	3,064	20
	¥ 2,823	¥ 7,643	\$ 27
Other investments:			
Available-for-sale	¥ 301,403	¥ 232,387	\$ 2,897
Held-to-maturity	9,812	19,486	95
Non-marketable securities and other investments	157,771	161,699	1,517
	¥ 468,986	¥ 413,572	\$ 4,509

(a) Marketable Equity Securities and All Debt Securities

Information regarding each category of securities classified as trading, available-for-sale and held-to-maturity as of March 31, 2004 and 2003 is as follows (excluding non-marketable securities and other investments discussed below):

	Millions of Yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
As of March 31, 2004:				
Securities classified as:				
Trading	¥ 237	¥ —	¥ —	¥ 237
Available-for-sale:				
Equity securities	164,749	138,345	2,965	300,129
Debt securities	1,688	63	—	1,751
Held-to-maturity	11,921	16	1	11,936
	¥ 178,595	¥ 138,424	¥ 2,966	¥ 314,053

	Millions of Yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
As of March 31, 2003:				
Securities classified as:				
Trading	¥ 281	¥ —	¥ —	¥ 281
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
	¥ 257,167	¥ 24,013	¥ 21,651	¥ 259,529

Millions of U.S. Dollars				
As of March 31, 2004:	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading	\$ 2	\$ —	\$ —	\$ 2
Available-for-sale:				
Equity securities	1,584	1,330	29	2,885
Debt securities	16	1	—	17
Held-to-maturity	115	0	0	115
	<u>\$ 1,717</u>	<u>\$ 1,331</u>	<u>\$ 29</u>	<u>\$ 3,019</u>

Debt securities classified as available-for-sale securities and held-to-maturity securities mainly consist of Japanese government and municipal bonds and corporate debt securities. Gross unrealized losses on marketable

securities that had been in a continuous unrealized loss position for twelve months or longer as of March 31, 2004 were immaterial.

The carrying values of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2004 and 2003 are summarized by contractual maturities as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2004		2003		2004	
	Available -for-sale	Held-to -maturity	Available -for-sale	Held-to -maturity	Available -for-sale	Held-to -maturity
Due in one year or less	¥ 477	¥ 2,109	¥ 4,298	¥ 3,064	\$ 5	\$ 20
Due after one year through five years	738	9,009	840	9,107	7	87
Due after five years through ten years	15	791	127	10,264	0	8
Due after ten years	521	12	600	115	5	0
Total	<u>¥ 1,751</u>	<u>¥ 11,921</u>	<u>¥ 5,865</u>	<u>¥ 22,550</u>	<u>\$ 17</u>	<u>\$ 115</u>

Proceeds from sales and gross realized gains and losses on available-for-sale securities for the years ended March 31, 2004, 2003 and 2002 are as follows:

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Proceeds from sales	¥ 122,959	¥ 59,222	¥ 114,348	\$ 1,182
Gross realized gains	¥ 42,985	¥ 12,437	¥ 36,575	\$ 413
Gross realized losses	2,522	2,741	3,651	24
Net realized gains	<u>¥ 40,463</u>	<u>¥ 9,696</u>	<u>¥ 32,924</u>	<u>\$ 389</u>

For the years ended March 31, 2004, 2003 and 2002, the Company contributed certain available-for-sale marketable equity securities, other than those of its subsidiaries or associated companies, to an employee retirement benefit trust (the "Trust") fully administrated and controlled by an independent bank trustee. The fair market value of those securities at the time of contribution was ¥9,505 million (\$91 million), ¥5,069 million and ¥21,541 million for the years ended March 31, 2004, 2003 and 2002, respectively. Net realized gains of ¥6,250 million (\$60 million), ¥2,317 million and ¥14,988 million from such contribution were recognized in the accompanying consolidated statements of income for the years ended March 31, 2004, 2003 and 2002, respectively.

(b) Non-Marketable Securities and Other Investments

Other investments as of March 31, 2004 and 2003 included investments in non-traded, unassociated companies, and others, amounting to ¥157,771 million (\$1,517 million) and ¥161,699 million. Investments in non-traded securities of unassociated companies, and others 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.

(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 accompanying consolidated statements of income for the years ended March 31, 2004, 2003 and 2002 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Net realized gains (losses):				
Marketable securities	¥ 34,213	¥ 7,379	¥ 17,936	\$ 329
Marketable securities contributed to the Trust	6,250	2,317	14,988	60
Non-marketable securities	(906)	9,283	8,687	(9)
Other than temporary impairment losses on securities	(23,237)	(66,104)	(50,462)	(223)
Total	¥ 16,320	¥ (47,125)	¥ (8,851)	\$ 157

6. RECEIVABLES

Receivables by operating segment as of March 31, 2004 and 2003 are summarized as follows:

As of March 31, 2004:	Millions of Yen				
	Notes and loans receivable	Accounts receivable	Receivables for associated companies	Long-term receivables	Total
Metal Products	¥ 48,917	¥ 155,271	¥ 9,571	¥ 12,989	¥ 226,748
Transportation & Construction Systems	12,058	157,227	25,289	223,169	417,743
Machinery & Electric	14,581	78,692	7,213	221,148	321,634
Media, Electronics & Network	1,682	103,083	6,028	31,330	142,123
Chemical	19,365	89,514	1,709	2,849	113,437
Mineral Resources & Energy	7,847	91,675	1,171	23,841	124,534
Consumer Goods & Service	17,314	55,586	156	35,038	108,094
Materials & Real Estate	16,789	67,011	2,213	14,431	100,444
Financial & Logistics	20,270	83,501	686	20,792	125,249
Others	79,390	296,446	97,120	11,874	484,830
	238,213	1,178,006	151,156	597,461	2,164,836
Less: Allowance for doubtful receivables	(1,537)	(6,444)	(870)	(49,957)	(58,808)
Total	¥ 236,676	¥1,171,562	¥ 150,286	¥ 547,504	¥2,106,028

As of March 31, 2003:	Millions of Yen				
	Notes and loans receivable	Accounts receivable	Receivables for associated companies	Long-term receivables	Total
Metal Products	¥ 42,335	¥ 137,847	¥ 3,982	¥ 13,878	¥ 198,042
Transportation & Construction Systems	23,505	134,427	19,813	243,206	420,951
Machinery & Electric	17,605	88,061	1,650	250,603	357,919
Media, Electronics & Network	2,385	73,561	1,827	3,204	80,977
Chemical	19,525	88,322	3,206	8,690	119,743
Mineral Resources & Energy	11,692	88,108	323	23,379	123,502
Consumer Goods & Service	18,763	55,972	465	36,556	111,756
Materials & Real Estate	23,358	54,188	2,239	14,485	94,270
Financial & Logistics	15,397	46,592	80	34,803	96,872
Others	96,172	328,736	104,744	37,245	566,897
	270,737	1,095,814	138,329	666,049	2,170,929
Less: Allowance for doubtful receivables	(1,948)	(6,805)	(1,009)	(76,185)	(85,947)
Total	¥ 268,789	¥ 1,089,009	¥ 137,320	¥ 589,864	¥ 2,084,982

As of March 31, 2004:	Millions of U.S. Dollars				
	Notes and loans receivable	Accounts receivable	Receivables for associated companies	Long-term receivables	Total
Metal Products	\$ 470	\$ 1,493	\$ 92	\$ 125	\$ 2,180
Transportation & Construction Systems	116	1,512	243	2,146	4,017
Machinery & Electric	140	757	69	2,127	3,093
Media, Electronics & Network	16	991	58	302	1,367
Chemical	186	861	17	27	1,091
Mineral Resources & Energy	76	881	11	229	1,197
Consumer Goods & Service	166	534	2	337	1,039
Materials & Real Estate	162	644	21	139	966
Financial & Logistics	195	803	6	200	1,204
Others	763	2,851	934	113	4,661
	2,290	11,327	1,453	5,745	20,815
Less: Allowance for doubtful receivables	(15)	(62)	(8)	(480)	(565)
Total	\$ 2,275	\$ 11,265	\$ 1,445	\$ 5,265	\$ 20,250

The following analysis of activity in the allowance for credit losses for the years ended March 31, 2004, 2003 and 2002 encompasses allowance for accounts receivable, notes receivable and long-term receivables.

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Balance, beginning of year	¥ 85,947	¥ 93,805	¥ 107,557	\$ 826
Provision for (reversal of) allowance for doubtful receivables	8,019	5,588	(12,588)	77
Charge-off	(34,896)	(12,991)	(1,941)	(336)
Foreign currency translation adjustments	(262)	(455)	777	(2)
Balance, end of year	58,808	85,947	93,805	565
Less: Current portion	(8,851)	(9,762)	(10,683)	(85)
Long-term portion	¥ 49,957	¥ 76,185	¥ 83,122	\$ 480

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 condition of that country, because it was scheduled to resume in the year ended March 31, 2002. The outstanding receivables associated with this project were collected in full in early fiscal 2003. Provision for (reversal of) allowance for doubtful receivables included the reversal of ¥16,275 million related to the project, net of new provisions of ¥3,687 million for the year ended March 31, 2002. As of March 31, 2004 and 2003, the total gross amount of long-term receivables considered impaired was ¥74,052 million (\$712 million) and ¥98,224 million, respectively, and the related valuation

allowance provided as at each year-end was ¥47,848 million (\$460 million) and ¥75,526 million, respectively. The amount of long-term receivables considered impaired, for which no allowance for doubtful receivable was provided, was ¥1,149 million (\$11 million) and ¥4,949 million as of March 31, 2004 and 2003, respectively.

The average investment in impaired receivables for the years ended March 31, 2004 and 2003 was ¥89,480 million (\$860 million) and ¥106,467 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, 2004, 2003 and 2002 was not material.

7. INVESTMENTS IN AND ADVANCES TO ASSOCIATED COMPANIES

Associated companies operate principally in the manufacturing and service industries and participate substantially in the Companies' revenue generating transactions as either purchasers or suppliers.

Investments in and advances to associated companies as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Investments in common stock	¥ 267,712	¥ 243,825	\$ 2,574
Advances	116,268	131,918	1,118
Total	¥ 383,980	¥ 375,743	\$ 3,692

Investment in common stock in the above include goodwill amounting to ¥56,274 million (\$541 million) and ¥45,711 million as of March 31, 2004 and 2003, respectively. The number of associated companies were 217 and 187 and weighted average ownership percentages for those associated companies were approximately 35% as of March 31, 2004 and 2003, respectively. Investments in common stock of certain associated companies

as of March 31, 2004 and 2003 included marketable securities of public associated companies with carrying amounts of ¥42,055 million (\$404 million) and ¥36,258 million, respectively, with corresponding aggregate quoted market values of ¥70,685 million (\$680 million) and ¥30,699 million, respectively.

Summarized combined financial information of associated companies accounted for by the equity method as of March 31, 2004 and 2003 and for the years ended March 31, 2004, 2003 and 2002 is presented below:

	Millions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Current assets	¥1,155,561	¥ 929,799	\$ 11,111
Property and equipment, net	787,081	870,537	7,568
Other assets	1,060,053	969,792	10,193
Total assets	¥3,002,695	¥2,770,128	\$ 28,872

Current liabilities	¥1,500,908	¥1,565,235	\$ 14,432
Non-current liabilities	866,395	674,848	8,331
Shareholders' equity	635,392	530,045	6,109
Total liabilities and shareholders' equity	¥3,002,695	¥2,770,128	\$ 28,872

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Gross profit	¥ 364,467	¥ 308,955	¥ 227,578	\$ 3,504
Net income (loss)	¥ 58,344	¥ 24,226	¥ (1,255)	\$ 561

The three major associated companies accounted for by the equity method which are contained in the above summarized combined financial information are Sumisho Lease Co., Ltd. (approximately 36% owned), Jupiter Telecommunication Co., Ltd. (approximately 32% owned), and Nusa

Tenggara Partnership V.O.F. (approximately 44% owned). The following summarized financial information for these three associated companies has been presented due to the relative significance of these entities to the Company's operations.

Sumisho Lease Co., Ltd.

Sumisho Lease Co., Ltd.'s summarized financial information as of March 31, 2004 and 2003, and for the years ended March 31, 2004, 2003 and 2002:

	Millions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Current assets	¥ 393,000	¥ 300,127	\$ 3,779
Property and equipment, net	40,295	53,141	387
Other assets	741,370	651,883	7,129
Total assets	¥1,174,665	¥1,005,151	\$ 11,295
Current liabilities	¥ 869,493	¥ 720,797	\$ 8,361
Non-current liabilities	187,511	184,813	1,803
Shareholders' equity	117,661	99,541	1,131
Total liabilities and shareholders' equity	¥1,174,665	¥1,005,151	\$ 11,295

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Revenue	¥ 136,397	¥ 118,265	¥ 112,646	\$ 1,312
Net income	¥ 10,425	¥ 8,346	¥ 8,796	\$ 100

Sumisho Lease Co., Ltd. engages in a various range of financial services, including leasing and leasing-related financing services. Sumisho Lease

Co., Ltd. is listed on the first sections of the Tokyo Stock Exchange and Osaka Stock Exchange.

Jupiter Telecommunication Co., Ltd.

Jupiter Telecommunication Co., Ltd. ("Jupiter")'s summarized financial information as of December 31, 2003 and 2002, and for the years ended December 31, 2003, 2002 and 2001:

	Millions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Current assets	¥ 19,063	¥ 19,112	\$ 183
Property and equipment, net	244,227	240,536	2,348
Other assets	158,587	155,113	1,525
Total assets	¥ 421,877	¥ 414,761	\$ 4,056
Current liabilities	¥ 32,784	¥ 31,986	\$ 315
Non-current liabilities	292,324	323,041	2,811
Shareholders' equity	96,769	59,734	930
Total liabilities and shareholders' equity	¥ 421,877	¥ 414,761	\$ 4,056

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Revenue	¥ 143,159	¥ 116,631	¥ 76,561	\$ 1,377
Net income (loss)	¥ 5,351	¥ (7,543)	¥ (26,964)	\$ 51

Jupiter is a broadband provider of integrated entertainment, information and communication services in Japan. Jupiter also offers telephony services over its network. As of March 31, 2004, the Company held an approximately 32% interest in Jupiter; Liberty Media Corporation (“Liberty Media”) held an approximately 45% interest; and Microsoft Corporation (“Microsoft”) held an approximately 19% interest. Under certain

stockholder agreements, Liberty Media and the Company have agreed not to transfer the shares to a third party until the earlier of February 12, 2008 or an initial public offering of Jupiter stock. In addition, the Company, Liberty Media and Microsoft have each granted to the other a right of first refusal with respect to the Companies’ respective interests in Jupiter until an initial public offering of Jupiter stock.

Nusa Tenggara Partnership V.O.F.

Nusa Tenggara Partnership V.O.F. (“NTP”)’s summarized financial information as of December 31, 2003 and 2002, and for the years ended December 31, 2003, 2002 and 2001:

	Millions of Yen		Millions of
	2004	2003	U.S. Dollars
Current assets	¥ 34,813	¥ 37,542	\$ 335
Property and equipment, net	200,584	222,501	1,929
Other assets	27,982	32,807	269
Total assets	¥ 263,379	¥ 292,850	\$ 2,533
Current liabilities	¥ 59,033	¥ 54,606	\$ 568
Non-current liabilities	88,889	120,691	855
Shareholders’ equity	115,457	117,553	1,110
Total liabilities and shareholders’ equity	¥ 263,379	¥ 292,850	\$ 2,533

	Millions of Yen			Millions of
	2004	2003	2002	U.S. Dollars
Revenue	¥ 49,147	¥ 44,900	¥ 42,211	\$ 473
Net income (loss)	¥ 11,665	¥ 4,429	¥ (1,367)	\$ 112

NTP is a general partnership organized under the laws of the Netherlands. NTP is 43.75%-owned by Nusa Tenggara Mining Corporation, a 74.3%-owned subsidiary of the Company in Japan, and 56.25%-owned by Newmont Indonesia Limited, a subsidiary of Newmont Mining Corporation (“Newmont”), both Delaware, U.S.A. corporations. Both the Company and Newmont have significant participating rights in the NTP

business and unanimous approval is needed for various NTP decisions.

NTP holds an 80% interest in P.T. Newmont Nusa Tenggara (“PTNNT”), an Indonesian corporation that holds the Contract of Work issued by the Indonesian government, granting PTNNT sole rights to develop the Batu Hijau copper and gold mine located in Sumbawa, Nusa Tenggara Barat, Indonesia.

The Companies engage in various agency transactions with associated companies involving sales by third parties to associated companies and sales by associated companies to third parties. Net fees earned on these transactions are not material. Transactions with associated companies are summarized as follows:

	Millions of Yen			Millions of
	2004	2003	2002	U.S. Dollars
Management and secondment fee, received	¥ 3,851	¥ 3,175	¥ 2,372	\$ 37
Interest income	3,487	2,289	1,852	34
Interest expense	699	904	1,018	7

8. PROPERTY AND EQUIPMENT

Property and equipment, including property and equipment under capitalized operating leases (see Note 21) as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Land and land improvements	¥ 279,605	¥ 264,598	\$ 2,689
Buildings, including leasehold improvements	375,544	383,716	3,611
Machinery and equipment	466,901	464,861	4,489
Projects in progress	21,998	13,618	212
Total	1,144,048	1,126,793	11,001
Less: Accumulated depreciation	(388,639)	(365,777)	(3,737)
Property and equipment, net	¥ 755,409	¥ 761,016	\$ 7,264

Depreciation expense for the years ended March 31, 2004, 2003 and 2002 was ¥70,988million (\$683 million), ¥63,972 million and ¥60,843 million, respectively.

In October 2003, Osaka Hokko Development Co., Ltd., a 100%-

owned subsidiary of the Company, sold a part of its office building owned in Osaka and recognized a gain amounting to ¥12 billion (\$116 million). The gain is included in "Gain on sale of property and equipment, net" in the accompanying consolidated statements of income.

The Companies assessed the potential impairment of all material long-lived assets. As a result, certain assets including aircraft and real estate were deemed to be impaired because the assets were not expected to recover their entire carrying value through estimated undiscounted future cash flows due to the continuous decline in the market condition for real estate in Japan and the global decline in the market for aircrafts. The losses recognized from the impairment of such assets for the years ended March 31, 2004, 2003 and 2002 were applicable to the following segments:

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Transportation & Construction Systems	¥ 1,659	¥ —	¥ —	\$ 16
Materials & Real Estate	650	20,371	4,805	6
Domestic Regional Business Units and Offices	627	—	—	6
Corporate and Eliminations	2,242	—	—	22
Total	¥ 5,178	¥ 20,371	¥ 4,805	\$ 50

These amounts were included in "Impairment losses on long-lived assets" in the accompanying consolidated statements of income. Such impairment losses were calculated based on appraisals for assets or using the best

estimates of discounted future cash flows based on realistic assumptions as to continuing operations.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Intangible Assets

The components of intangible assets subject to amortization as of March 31, 2004 and 2003 are as follows:

	Millions of Yen			Millions of U.S. Dollars		
	2004		Net carrying value	2004		Net carrying value
Gross amount	Accumulated amortization	Gross amount		Accumulated amortization		
Software	¥ 50,423	¥ 22,074	¥ 28,349	\$ 485	\$ 212	\$ 273
Sales licenses and trademarks	20,463	7,631	12,832	197	73	124
Mining rights	13,325	181	13,144	128	2	126
Other	1,772	348	1,424	17	3	14
Total	¥ 85,983	¥ 30,234	¥ 55,749	\$ 827	\$ 290	\$ 537

Millions of Yen				
2003				
	Gross amount	Accumulated amortization	Net carrying value	
Software	¥ 39,423	¥ 15,217	¥ 24,206	
Sales licenses and trademarks	16,881	7,460	9,421	
Mining rights	351	88	263	
Other	2,315	1,078	1,237	
Total	¥ 58,970	¥ 23,843	¥ 35,127	

Intangible assets not subject to amortization as of March 31, 2004 and 2003 were ¥28,634 million (\$275 million) and ¥28,583 million, respectively, and mainly consisted of leaseholds on land held by the Companies that effectively have indefinite useful lives because of the Companies' rights to renew indefinitely at little or no cost and without material modification of the lease terms and their intent to renew indefinitely. The Companies make periodic lease payments on these leasehold contracts.

The amount of intangible assets subject to amortization acquired during the year ended March 31, 2004 was ¥33,938 million (\$326 million), primarily consisting of software of ¥13,820 million (\$133 million) and mining rights of ¥13,002 million (\$125 million) in Australia and during

the year ended March 31, 2003 was ¥16,536 million, primarily consisting of software of ¥10,725 million. The weighted-average amortization periods for software, sales licenses and trademarks, mining rights and other are five years, thirteen years, nineteen years and twenty years, respectively. Aggregate amortization expense for the year ended March 31, 2004, 2003 and 2002 was ¥10,189 million (\$98 million), ¥7,845 million and ¥4,781 million, respectively. Estimated amortization expenses for the next five years ending March 31 are: ¥11,958 million (\$115 million) in 2005, ¥11,117 million (\$107 million) in 2006, ¥9,819 million (\$94 million) in 2007, ¥6,740 million (\$65 million) in 2008, and ¥4,144 million (\$40 million) in 2009, respectively.

(b) Goodwill

The following table shows changes in the carrying amount of goodwill by operating segment for the years ended March 31, 2004 and 2003:

	Millions of Yen				Millions of U.S. Dollars				
	2004				2004				
	Balance, beginning of year	Acquisition	Foreign currency translation adjustments and other	Balance, end of year	Balance, beginning of year	Acquisition	Foreign currency translation adjustments and other	Balance, end of year	
Transportation & Construction Systems . . .	¥ 765	¥ —	¥ 54	¥ 819	\$ 8	\$ —	\$ 0	\$ 8	
Media, Electronics & Network	—	2,885	—	2,885	—	28	—	28	
Overseas Subsidiaries and Branches	4,304	—	(840)	3,464	41	—	(8)	33	
Total	¥ 5,069	¥ 2,885	¥ (786)	¥ 7,168	\$ 49	\$ 28	\$ (8)	\$ 69	

Millions of Yen				
2003				
	Balance, beginning of year	Acquisition	Foreign currency translation adjustments and other	Balance, end of year
Transportation & Construction Systems . . .	¥ 826	¥ —	¥ (61)	¥ 765
Media, Electronics & Network	—	—	—	—
Overseas Subsidiaries and Branches	4,737	—	(433)	4,304
Total	¥ 5,563	¥ —	¥ (494)	¥ 5,069

The following table presents the impact of SFAS No. 142 on net income and net income per share had the accounting standard been applied effective April 1, 2001:

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Net Income:				
Reported net income	¥ 66,621	¥ 13,874	¥ 47,730	\$ 641
Add back; Goodwill amortization	—	—	2,879	—
Adjusted net income	¥ 66,621	¥ 13,874	¥ 50,609	\$ 641
Basic Net Income per Share:				
Reported basic net income per share	¥ 62.66	¥ 13.04	¥ 44.85	\$ 0.60
Add back; Goodwill amortization	—	—	2.70	—
Adjusted basic net income per share	¥ 62.66	¥ 13.04	¥ 47.55	\$ 0.60
Diluted Net Income per Share:				
Reported diluted net income per share	¥ 61.31	¥ 13.00	¥ 43.89	\$ 0.59
Add back; Goodwill amortization	—	—	2.63	—
Adjusted diluted net income per share	¥ 61.31	¥ 13.00	¥ 46.52	\$ 0.59

10. SHORT-TERM AND LONG-TERM DEBT

Short-term debt as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen				Millions of U.S. Dollars
	2004	Weighted average interest rate	2003	Weighted average interest rate	2004
Loans, principally from banks	¥ 206,601	2.47%	¥ 326,197	2.26%	\$ 1,987
Commercial paper	245,463	0.10	289,643	0.11	2,360
	¥ 452,064		¥ 615,840		\$ 4,347

The interest rates represent weighted average rates in effect as of March 31, 2004 and 2003 though the range of the interest rates varies by borrowing currency.

The Companies have available for immediate borrowing, line of credit agreements with syndicates of domestic and foreign banks, totaling \$980 million with the foreign banks and ¥350 billion (\$3,365 million) with the domestic banks.

Long-term debt as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Weighted average interest rate	1.46%	1.67%	
Secured long-term debt:			
Banks and insurance companies, maturing serially through 2019, principally 1.0% to 6.0%	¥ 102,609	¥ 73,875	\$ 987
Bonds due 2004 payable in Indonesian rupee (fixed rate 19.1%)	3,840	4,080	37
Bonds due 2006 payable in Indonesian rupee (fixed rate 13.4%)	3,840	—	37
Unsecured long-term debt:			
Banks and insurance companies, maturing serially through 2024, principally 0.1% to 4.8%	1,785,767	1,697,292	17,171
Convertible bonds due 2004 payable in Japanese yen (fixed rate 1.5%, convertible into common stock at ¥1,237.30 per share)	—	35,702	—
Bonds due 2004 payable in Japanese yen (fixed rate 1.0%)	50,086	50,454	482
Bonds due 2013 payable in Japanese yen (fixed and floating rate: fixed rate 1.1% to 1.5%)	39,734	41,737	382
Bonds due 2005 payable in Euro (fixed rate 5.15%)	40,888	41,420	393
Various notes and bonds with interest rates from 0.1% to 4.0% maturing from 2004 to 2018	317,043	270,153	3,048
Capital lease obligation	44,169	43,189	425
Other	161,061	170,219	1,548
	2,549,037	2,428,121	24,510
Less: Current portion	(330,622)	(382,164)	(3,179)
	¥2,218,415	¥2,045,957	\$ 21,331

As of March 31, 2003, common stock reserved for conversion of convertible bonds was 28,854,764 shares. These bonds were redeemed in full on March 31, 2004 with no conversions.

Annual maturities of long-term debt as of March 31, 2004 are as follows:

Years ending March 31,	Millions of Yen	Millions of U.S. Dollars
2005	¥ 330,622	\$ 3,179
2006	414,056	3,982
2007	402,946	3,874
2008	354,875	3,412
2009	262,940	2,528
2010 and thereafter	783,598	7,535
Total	¥2,549,037	\$ 24,510

Most of short-term and long-term loans from banks contain certain covenants. 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. Several of the loan agreements require maintenance of certain financial ratios and minimum levels of tangible net worth. 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, 2004, 2003 and 2002 and currently do not anticipate any prepayment request.

The Companies have been in compliance with all of the short-term borrowing and long-term debt obligation covenants for the years ended March 31, 2004, 2003 and 2002.

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, 2004:

	Millions of Yen	Millions of U.S. Dollars
Marketable securities and other investments	¥ 61,182	\$ 588
Trade receivables and long-term receivables	83,022	798
Property and equipment, less related accumulated depreciation	136,425	1,312
	¥ 280,629	\$ 2,698

Such collateral secured the following obligations:

	Millions of Yen	Millions of U.S. Dollars
Short-term debt	¥ 8,294	\$ 80
Long-term debt, including current maturities of long-term debt	173,472	1,668
	¥ 181,766	\$ 1,748

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.

11. INCOME TAXES

The Company is subject to a national corporate tax of 30%, an inhabitant tax of 6.21% and a deductible business tax of 10.08%, which in the aggregate resulted in a statutory income tax rate of approximately 42% for the years ended March 31, 2004, 2003 and 2002. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, which reduce statutory business income tax rates from 9.6% to 7.2%. Accordingly, the

excessive business tax rate applied to the Company was also lowered from 10.08% to 7.56%. Consequently, the statutory income tax rate will be approximately 41%, effective for fiscal years beginning on or after April 1, 2004. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Income before income taxes and minority interests in earnings of subsidiaries for the years ended March 31, 2004, 2003 and 2002 is as follows:

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Domestic	¥ 75,948	¥ (5,874)	¥ 60,182	\$ 731
Foreign	33,087	34,475	23,035	318
Total	¥ 109,035	¥ 28,601	¥ 83,217	\$ 1,049

Income tax provision (benefit) for the years ended March 31, 2004, 2003 and 2002 is as follows:

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Current:				
Domestic	¥ 15,697	¥ 18,650	¥ 16,307	\$ 151
Foreign	9,047	9,730	9,839	87
Deferred:				
Domestic	11,184	(19,435)	6,864	108
Foreign	(231)	(571)	(2,750)	(2)
Total	¥ 35,697	¥ 8,374	¥ 30,260	\$ 344

The reconciliation between taxes calculated at the statutory income tax rate in Japan and the Companies' effective income tax provision for the years ended March 31, 2004, 2003 and 2002 is summarized as follows:

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Income before income taxes and minority interests in earnings				
of subsidiaries	¥ 109,035	¥ 28,601	¥ 83,217	\$ 1,049
Tax provision computed at statutory income tax rate	¥ 45,795	¥ 12,012	¥ 34,951	\$ 440
Increases (decreases) in tax due to:				
Expenses not deductible for tax purposes	2,014	2,368	2,258	19
Tax effect on undistributed earnings of associated companies and corporate joint ventures	(2,037)	(870)	(2,216)	(19)
Changes in valuation allowance	(6,083)	(1,241)	549	(58)
Difference in statutory tax rate of foreign subsidiaries	(4,978)	(5,377)	(4,105)	(48)
Effect of change in enacted tax rate	(132)	1,447	—	(1)
Other—net	1,118	35	(1,177)	11
Total effective tax provision	¥ 35,697	¥ 8,374	¥ 30,260	\$ 344

Total income taxes recognized for the years ended March 31, 2004, 2003 and 2002 are allocated as follows:

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Income before income taxes and minority interests in earnings				
of subsidiaries	¥ 35,697	¥ 8,374	¥ 30,260	\$ 344
Shareholders' equity:				
Foreign currency translation adjustments	3,854	(709)	3,747	37
Net unrealized holding gains (losses) on securities available-for-sale ..	54,899	(19,794)	(23,717)	528
Net unrealized gains (losses) on derivatives	257	85	(682)	2
Total income taxes	¥ 94,707	¥ (12,044)	¥ 9,608	\$ 911

The tax effects of temporary difference that give rise to significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 are as follows:

	Millions of Yen		Millions of
	2004	2003	U.S. Dollars
Assets:			
Net operating loss carry forwards	¥ 85,290	¥ 53,824	\$ 820
Investment securities	14,202	36,126	136
Inventories, and property and equipment	32,543	42,755	313
Allowance for doubtful receivables	14,634	21,451	141
Accrued pension and retirement benefits	7,568	6,061	73
Accrual and other	13,005	15,845	125
Gross deferred tax assets	167,242	176,062	1,608
Less: Valuation allowance	(10,641)	(13,983)	(102)
Deferred tax assets, less valuation allowance	156,601	162,079	1,506
Liabilities:			
Investment in marketable securities	53,579	1,400	515
Deferred gain on sales of property for tax purposes	41,518	41,860	399
Deferred gain on securities contributed to the Trust	23,119	21,313	222
Undistributed earnings of subsidiaries and associated companies	17,024	13,437	164
Installment sales	1,834	2,730	18
Other	11,358	9,969	109
Gross deferred tax liabilities	148,432	90,709	1,427
Net deferred tax assets	¥ 8,169	¥ 71,370	\$ 79

Deferred income taxes at March 31, 2004 and 2003 are reflected in the consolidated balance sheets as follows:

	Millions of Yen		Millions of
	2004	2003	U.S. Dollars
Assets:			
Deferred income taxes	¥ 37,613	¥ 29,273	\$ 362
Deferred income taxes, non-current	9,369	46,308	90
Liabilities:			
Other current liabilities	(16)	(297)	(0)
Deferred income taxes, non-current	(38,797)	(3,914)	(373)
Net deferred tax assets	¥ 8,169	¥ 71,370	\$ 79

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at March 31, 2004. The amount of the

deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. The net change in the total valuation allowance for the years ended March 31, 2004 and 2003 was a decrease of ¥3,342 million (\$32 million) and a decrease of ¥1,240 million, respectively.

The valuation allowance primarily relates to valuation allowance for deferred tax assets associated with net operating loss carryforwards incurred by certain foreign subsidiaries. The Company has performed an analysis for each of these subsidiaries to assess their ability to realize such deferred tax assets. Considering scheduled reversal of deferred tax liabilities, projections for future taxable income, historical performance, tax planning strategies, market conditions and other factors, as appropriate, manage-

ment believes it is more likely than not that these subsidiaries will realize their respective deferred tax assets (principally net operating loss carry forwards) net of existing valuation allowance, at March 31, 2004.

During the year ended March 31, 2004, the Company reversed a valuation allowance for deferred tax assets, amounting to ¥4,481 million (\$43 million), related to tax loss carryforwards of Nusa Tenggara Mining Corporation (“NTMC”), a 74.3%-owned subsidiary of the Company, and deferred tax assets relating to NTMC’s share of accumulated losses of the Butu Hijau project through its investment in the Nusa Tenggara Partnership (see Note 7). This reversal was based on the Company’s projection of PTNNT earnings, which were calculated with reference to copper and gold prices under current market conditions. The Company considers that it is more likely than not that the deferred tax assets will be

realized and a valuation allowance is no longer necessary.

As of March 31, 2004 and 2003, the Company has not provided a deferred tax liability on the undistributed earnings of its foreign subsidiaries and foreign corporate joint ventures because the Company does not intend to repatriate those unremitted earnings in the foreseeable future. A deferred tax liability will be recognized when the Company no longer plans to permanently reinvest the undistributed earnings. As of March 31, 2004 and 2003, the amounts of undistributed earnings of such foreign subsidiaries and foreign corporate joint ventures on which a deferred tax liability has not been recognized in the accompanying consolidated financial statements totaled to ¥134,546 million (\$1,294 million) and ¥108,801 million, respectively. Calculation of the unrecognized deferred tax liability is not practicable.

As of March 31, 2004, the Companies have aggregate net operating loss carryforwards of ¥214,412 million (\$2,062 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 follows:

Years ending March 31,	Millions of Yen	Millions of U.S. Dollars
2005	¥ 4,258	\$ 41
2006	59,774	575
2007	5,437	52
2008	3,088	30
2009	5,202	50
2010 and thereafter	136,653	1,314
Total	¥ 214,412	\$ 2,062

12. ACCRUED PENSION AND RETIREMENT BENEFITS

The Company has non-contributory defined benefit pension plans (the “Plans”) covering substantially all employees other than directors and

executive officers. The Plans provide benefits based upon years of service, compensation at the time of severance, and other factors.

Net periodic pension costs of the Company’s pension plans for the years ended March 31, 2004, 2003 and 2002 include the following components:

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Service cost—benefits earned during the year	¥ 3,722	¥ 3,305	¥ 3,458	\$ 36
Interest cost on projected benefit obligation	3,680	4,038	4,003	35
Expected return on plan assets	(2,637)	(2,673)	(2,466)	(25)
Net amortization	8,093	4,648	3,918	78
Net periodic pension cost	¥ 12,858	¥ 9,318	¥ 8,913	\$ 124

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

	Millions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Change in benefit obligations:			
Projected benefit obligations, beginning of year	¥ 147,475	¥ 134,909	\$ 1,418
Service cost	3,722	3,305	36
Interest cost	3,680	4,038	35
Actuarial loss	8,947	10,486	87
Benefits paid	(5,472)	(5,263)	(53)
Projected benefit obligations, end of year	158,352	147,475	1,523
Change in plan assets:			
Fair value of plan assets, beginning of year	144,719	137,980	1,392
Actual return on plan assets	30,642	(34,088)	295
Employer contribution	9,505	46,107	91
Benefits paid from plan assets	(5,461)	(5,280)	(53)
Divestitures*	(17,000)	—	(163)
Fair value of plan assets, end of year	162,405	144,719	1,562
Funded status	4,053	(2,756)	39
Unrecognized actuarial loss	84,709	111,861	814
Prepaid cost for retirement benefits	¥ 88,762	¥ 109,105	\$ 853

*Divestitures represent return of the excess of plan asset over projected benefit obligation according to the Plans' policy.

The measurement dates used to determine the benefit obligations are March 31 of each year.

Because fair value of plan assets exceeded the accumulated benefit obligations as of March 31, 2004 and 2003, an additional minimum liability for retirement benefits in accumulated other comprehensive income (loss) was not recognized. Prepaid cost for retirement benefits as of March 31, 2004 and 2003 is included in "Prepaid expenses, non-current" in the accompanying consolidated balance sheets.

The Company contributed certain marketable equity securities as described in Note 5 to an employee retirement benefit trust (the "Trust") in the years ended March 31, 2004, 2003 and 2002. Those securities and

cash held in this trust are qualified plan assets under SFAS No. 87, "Employers' Accounting for Pensions."

The Company's funding policy is based on a number of factors including the tax deductibility of contributions, the Plans' 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.

The asset allocations are as follows:

	2004	2003
	Actual allocation	Actual allocation
Equity securities	66%	50%
Debt securities	30%	29%
Cash	4%	21%
Total	100%	100%

The Company sets investment policies, strategies and target allocation for the Plans and oversees the investment allocation process, which includes selecting investment managers, commissioning periodic asset-liability studies, setting long-term strategic targets and monitoring asset allocations.

The target allocations are guidelines, not limitations, and occasionally the Company will approve allocations above or below a target allocation. As of March 31, 2004 and 2003, the actual allocations are almost the same level as the target allocations.

Assumptions used for the year ended March 31, 2004, 2003 and 2002 in determining costs for the Plans and the funded status information shown above are principally as follows:

Weighted average assumptions used to determine the net periodic benefit cost for the Plans

	2004	2003	2002
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%

Weighted average assumptions used to determine the benefit obligations

	2004	2003
Discount rate	2.0%	2.5%
Rate of expectable salary increase	3.0%	3.0%

The Company's expected long-term rate of return on plan assets assumption is derived from a detailed study, which includes a review of the asset allocation strategy, anticipated future long-term performance of individual

asset classes, risks and correlations for each of the asset classes that comprise the funds' asset mix.

The accumulated benefit obligations for the defined benefit plans are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Accumulated benefit obligations, end of year	¥ 153,274	¥ 142,775	\$ 1,474

The employer's contribution expected to be paid to the Plans during the year ending March 31, 2005 is ¥10,749 million (\$103 million).

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 benefits based on compensation at the time of retirement, years of service and other factors. As of March 31, 2004 and 2003, the benefit obligation of subsidiaries under these plans were ¥32,653 million (\$314 million) at the discount rate of mainly 2.5% and at the expectable salary increase rate of mainly 1.5% and ¥30,977 million at the discount rate of mainly 2.5% and at the expectable salary increase rate of mainly 2.0% respectively, which were approximately equal to the aggregated fair value of plan assets and accrued pension and retirement benefitials.

The total amounts charged to income by subsidiaries for the years ended March 31, 2004, 2003 and 2002 were ¥4,932 million (\$47 million), ¥3,746 million and ¥3,859 million, respectively.

In addition to unfunded retirement benefit plans or funded pension plans, certain domestic subsidiaries and associated companies also participate in a multiemployer defined benefit pension plan, recognizing as net pension cost the required contributions for a period and recognizing as a liability any contributions due and unpaid. The total amount of contributions to the plan during the years ended March 31, 2004, 2003 and 2002 were ¥1,431 million (\$14 million), ¥1,589 million and ¥1,632 million, respectively.

13. 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 proceeds 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.

(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. The 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 principles generally accepted in Japan. The U.S. GAAP adjustments included in the accompanying consolidated financial statements but not recorded in the general accounting records, as explained under "Summary of Significant Accounting Policies" in Note 3, 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 ¥148,392 million (\$1,427 million) and ¥135,972 million, shown by the Company's accounting records as of March 31, 2004 and 2003, respectively, exclusive of the amount previously appropriated for legal reserve, were not restricted by the limitations under the Code.

The Code permits transfers, upon shareholder approval, of a portion of

unappropriated retained earnings available for dividends to common stock without issuance of any shares.

Dividends are approved by the 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 and comprehensive income when approved.

The Board of Directors intends to recommend to the shareholders, at the general meeting to be held on June 22, 2004, the declaration of a cash dividend to shareholders of record as of March 31, 2004 of ¥4 (\$0.04) per share for a total of ¥4,255 million (\$41 million).

(d) Stock Option Plan

The Company has stock option plans for directors, executive officers of the Company, and corporate officers under the Company's qualification system. Under the plans, each stock option granted entitles the recipient to acquire 1,000 shares of common stock at an exercise price equal to the greater of (i) 105% of the average closing market price of the Company's common stock on the Tokyo Stock Exchange for the calendar month before the grant date, or (ii) the closing market price of the Company's common stock on the Tokyo Stock Exchange on the grant date.

The options granted vested 100% at grant date. The options granted are exercisable starting April 1 of the fiscal year after the fiscal year in which they are granted. They are exercisable for four years and three months from that date. The Company recognized no compensation expense related to the fixed price stock option plans for each of the years in the three-year period ended March 31, 2004, because no options were granted at a price below the market price on grant date.

On June 20, 2003, the shareholders authorized the issue of new stock options up to 173,000 shares of common stock before the next shareholders meeting. Options for 167,000 shares were granted under this authorization. The Board intends to propose to the shareholders at the general meeting to be held on June 22, 2004, the authorization of an additional issue of new stock options for up to 184,000 shares of common stock.

The following table summarizes information about stock option activity for the years ended March 31, 2004, 2003 and 2002:

	2004			2003			2002		
	Number of shares	Weighted average exercise price	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price		
		Yen	U.S. Dollars		Yen		Yen		
Outstanding, beginning of year	391,000	¥ 890	\$ 9	301,000	¥ 1,003	155,000	¥ 1,171		
Granted	167,000	632	6	159,000	729	166,000	858		
Exercised	—	—	—	—	—	—	—		
Cancelled or expired	71,000	910	9	69,000	1,012	20,000	1,108		
Outstanding, end of year	487,000	798	8	391,000	890	301,000	1,003		
Options exercisable, end of year	320,000	¥ 885	\$ 9	232,000	¥ 1,000	139,000	¥ 1,171		

The following table summarizes information about stock options outstanding and exercisable as of March 31, 2004:

Exercisable price range	Outstanding				Exercisable		
	Number of shares	Weighted average exercise price	Weighted average exercise price	Weighted average remaining life	Number of shares	Weighted average exercise price	Weighted average exercise price
	Yen	Yen	U.S. Dollars		Yen	U.S. Dollars	
¥ 601 — 800	301,000	¥ 675	\$ 6	3.80	134,000	¥ 729	\$ 7
801 — 1,000	103,000	858	8	2.25	103,000	858	8
1,001 — 1,200	83,000	1,171	11	1.25	83,000	1,171	11
	487,000	¥ 798	\$ 8	3.04	320,000	¥ 885	\$ 9

14. OTHER COMPREHENSIVE INCOME (LOSS)

Changes in each component of accumulated other comprehensive income (loss) for the years ended March 31, 2004, 2003 and 2002 are as follows:

	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Foreign currency translation adjustments:				
Balance, beginning of year	¥ (54,797)	¥ (40,885)	¥ (68,547)	\$ (527)
Adjustment for the year	(26,099)	(13,912)	27,662	(251)
Balance, end of year	¥ (80,896)	¥ (54,797)	¥ (40,885)	\$ (778)
Net unrealized holding gains (losses) on securities available for sale:				
Balance, beginning of year	¥ (9,377)	¥ 21,076	¥ 55,843	\$ (90)
Adjustment for the year	79,485	(30,453)	(34,767)	764
Balance, end of year	¥ 70,108	¥ (9,377)	¥ 21,076	\$ 674
Net unrealized gains (losses) on derivatives:				
Balance, beginning of year	¥ (819)	¥ (941)	¥ —	\$ (8)
Cumulative effect of accounting change	—	—	(1,475)	—
Adjustment for the year	370	122	534	4
Balance, end of year	¥ (449)	¥ (819)	¥ (941)	\$ (4)
Total accumulated other comprehensive income (loss):				
Balance, beginning of year	¥ (64,993)	¥ (20,750)	¥ (12,704)	\$ (625)
Adjustment for the year	53,756	(44,243)	(8,046)	517
Balance, end of year	¥ (11,237)	¥ (64,993)	¥ (20,750)	\$ (108)

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

2004:	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	¥ (22,062)	¥ (3,854)	¥ (25,916)
Reclassification adjustment for losses included in net income	(183)	—	(183)
Adjustment for the year	(22,245)	(3,854)	(26,099)
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains arising during the year	174,138	(71,131)	103,007
Reclassification adjustment for gains included in net income	(39,754)	16,232	(23,522)
Adjustment for the year	134,384	(54,899)	79,485
Net unrealized gains on derivatives:			
Unrealized gains arising during the year	162	(66)	96
Reclassification adjustment for losses included in net income	465	(191)	274
Adjustment for the year	627	(257)	370
Other comprehensive income	¥ 112,766	¥ (59,010)	¥ 53,756
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)	¥ 709	¥ (16,661)
Reclassification adjustment for losses included in net income	2,749	—	2,749
Adjustment for the year	(14,621)	709	(13,912)
Net unrealized holding losses on securities available for sale:			
Unrealized holding losses arising during the year	(92,777)	36,946	(55,831)
Reclassification adjustment for losses included in net income	42,530	(17,152)	25,378
Adjustment for the year	(50,247)	19,794	(30,453)
Net unrealized losses on derivatives:			
Unrealized losses arising during the year	(335)	137	(198)
Reclassification adjustment for losses included in net income	542	(222)	320
Adjustment for the year	207	(85)	122
Other comprehensive loss	¥ (64,661)	¥ 20,418	¥ (44,243)

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	¥ (3,747)	¥ 24,992
Reclassification adjustment for losses included in net income	2,670	—	2,670
Adjustment for the year	31,409	(3,747)	27,662
Net unrealized holding losses on securities available for sale:			
Unrealized holding losses arising during the year	(75,098)	30,660	(44,438)
Reclassification adjustment for losses included in net income	16,614	(6,943)	9,671
Adjustment for the year	(58,484)	23,717	(34,767)
Net unrealized losses on derivatives:			
Cumulative effect of accounting change	(2,542)	1,067	(1,475)
Reclassification adjustment for losses included in net income	919	(385)	534
Adjustment for the year	(1,623)	682	(941)
Other comprehensive loss	¥ (28,698)	¥ 20,652	¥ (8,046)

2004:	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	\$ (212)	\$ (37)	\$ (249)
Reclassification adjustment for losses included in net income	(2)	—	(2)
Adjustment for the year	(214)	(37)	(251)
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains arising during the year	1,674	(684)	990
Reclassification adjustment for gains included in net income	(382)	156	(226)
Adjustment for the year	1,292	(528)	764
Net unrealized gains on derivatives:			
Unrealized gains arising during the year	2	(1)	1
Reclassification adjustment for losses included in net income	4	(1)	3
Adjustment for the year	6	(2)	4
Other comprehensive income	\$ 1,084	\$ (567)	\$ 517

15. DERIVATIVES AND HEDGING ACTIVITIES

Risk management policy

The Companies operate internationally, exposing them to the risk of changes in foreign exchange rates, interest rates and commodity prices. Derivative financial instruments are comprised principally of foreign exchange contracts, interest rate swaps and commodity future contracts utilized by the Company and certain of its subsidiaries to reduce these risks. The Companies assess foreign currency exchange rate risk, interest rate risk and commodity price risk by continually monitoring changes in these exposures and by evaluating hedging opportunities. The Companies hold or issue commodity derivatives for trading purposes. The Companies are also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are internationally recognized financial institutions and contracts are diversified across a number of major financial institutions.

Foreign currency exchange rate risk management

The Companies operate internationally and are exposed to foreign currency risks related to purchasing, selling, financing and investing in currencies other than the local currencies in which the Companies operate. The Companies' strategy to manage foreign currency risks is to net foreign currency exposures on recognized assets, liabilities and unrecognized firm commitments by taking advantage of natural offsets, and purchase foreign exchange forward contracts and other contracts to preserve the economic value of cash flows in non-functional currencies.

Interest rate risk management

The Companies' exposure to the market risk of changes in interest rates relate primarily to its debt obligations. The fixed-rate debt obligations expose the Companies to variability in their fair values due to changes in interest rates. To manage the variability in fair values caused by interest rate changes, the Companies enter into interest rate swaps when it is determined to be appropriate based on market conditions. The interest rate swaps change the fixed-rate debt obligations to variable-rate debt obligations by entering into receive-fixed, pay-variable interest rate swaps. The hedging relationship between the interest rate swaps and its hedged debt obligations is highly effective in achieving offsetting changes in fair values resulting from interest rate risk.

Commodity price risk management

The Companies are exposed to price fluctuations of commodities used in their trading and other operating activities. To hedge the variability in commodity prices, the Companies enter into commodity futures, forwards and swaps contracts. These contracts relate principally to precious metals, nonferrous metals, crude oil and agricultural products.

Fair-value hedges

Fair-value hedges are hedges that eliminate the risk of changes in the fair values of assets and liabilities. The Companies use interest rate swaps to hedge the change of fair value on fixed-rate borrowings used to fund assets earning interest at variable rates. Changes in the fair value of derivatives

designated as fair-value hedges are recorded in earnings and are offset by corresponding changes in the fair value of the hedged item to the extent of the hedge effectiveness.

Cash-flow hedges

Cash-flow hedges are hedges that use derivatives to offset the variability of expected future cash flows. The Companies use interest rate swaps to hedge the variability of cash flows related to floating-rate borrowings. The Companies record changes in the fair value of the interest rate swaps in other comprehensive income (loss) as a separate component of shareholders' equity. Such amounts are released to earnings contemporaneously when the hedged item affects earnings. For the year ended March 31, 2004, net derivative losses of ¥274 million (\$2 million), net of related income tax benefit of ¥191 million (\$2 million), were reclassified into earnings. For the year ended March 31, 2003, net derivative losses of ¥320 million, net of related income tax benefit of ¥222 million, were likewise reclassified. At March 31, 2004, the amount that was expected to be reclassified into earnings, net of the related tax benefit, within the next fiscal year was ¥173 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 remeasured with the changes in fair-value attributable to the hedged risk reported currently in earnings. The Companies use derivatives to hedge exposures when it makes economic sense to do so, including circumstances in which the hedging relationship does not qualify for hedge accounting.

The Companies use foreign exchange forward contracts to economically hedge the fluctuations of foreign exchange rates on foreign currency assets, liabilities and unrecognized firm commitments. The Companies also enter into commodity forwards, futures and swap contracts to economically hedge their inventories and unrecognized firm commitments against market price fluctuations. Certain commodity derivatives are entered into for trading purposes in extent of an approval of the management. These derivatives do not qualify for hedge accounting and any changes in their fair value are recognized to earnings.

Earnings effects of derivatives

For the years ended March 31, 2004 and 2003, the amount of hedge ineffectiveness recognized on fair-value hedges was losses of ¥2 million (\$0 million) and gains of ¥6 million, respectively. There was no gains or losses excluded from the assessment of hedge effectiveness for the years ended March 31, 2004 and 2003.

In the context of hedging relationships, "Effectiveness" refers to the degree to achieving offsetting changes in fair value or offsetting the variability in cash flows attributable to the risk being hedged.

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

16. 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 the Companies' financial instruments, and, therefore, fair values for such financial instruments are estimated using discounted cash flow analysis or other valuation techniques as deemed appropriate.

Cash, Cash Equivalents, Short-Term Investments, Accounts Receivable, Accounts Payable and Note Payable

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

Marketable Securities and Other Investments

The fair value of marketable securities was estimated using quoted market prices. Other investments include investments in common stock of non-traded and unaffiliated companies such as customers and suppliers, and investments in non-listed preferred stock of certain financial institutions. It is not practicable to estimate the fair value of investments in unlisted common stock because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost (see Note 5).

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.

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.

Guarantee of Third Party Debt

As a result of the adoption of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", the fair values of financial guarantees are estimated based on the premiums received or receivables by guarantors in an arm's length transactions with unrelated parties.

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.

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, 2004 and 2003 were as follows:

As of March 31, 2004:	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	¥ —	¥ 693,513	¥ 701,183	\$ —	\$ 6,668	\$ 6,742
Financial Liabilities:						
Long-term debt, including current maturities	—	2,549,037	2,561,723	—	24,510	24,632
Derivative Financial Instruments (Assets):						
Interest rate swap	757,677	30,597	30,597	7,285	294	294
Currency swap agreements, and currency option	101,824	6,259	6,259	979	60	60
Foreign exchange forward contracts . . .	208,210	4,604	4,604	2,002	44	44
Derivative Financial Instruments (Liabilities):						
Interest rate swap	168,639	(2,454)	(2,454)	1,622	(24)	(24)
Currency swap agreements, and currency option	17,818	(1,405)	(1,405)	171	(14)	(14)
Foreign exchange forward contracts . . .	223,527	(9,031)	(9,031)	2,149	(87)	(87)

As of March 31, 2003:		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	¥ —	¥ 744,396	¥ 757,311	
Financial Liabilities:				
Long-term debt, including current maturities	—	2,428,121	2,445,573	
Derivative Financial Instruments (Assets):				
Interest rate swap	903,864	49,720	49,720	
Currency swap agreements, and currency option	75,243	2,773	2,773	
Foreign exchange forward contracts . . .	239,804	5,597	5,597	
Derivative Financial Instruments (Liabilities):				
Interest rate swap	7,472	(884)	(884)	
Currency swap agreements, and currency option	31,127	(2,839)	(2,839)	
Foreign exchange forward contracts . . .	165,069	(1,582)	(1,582)	

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 credit 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. Credit risk is managed through the credit line approved by management and by monitoring the counterparties periodically. The Companies require collateral to the extent considered necessary. There was no major customer, which has more than 10% of the sales transactions with the Companies for the years ended March 31, 2004, 2003 and 2002.

17. NET INCOME PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the years ended March 31, 2004, 2003 and 2002 is as follows:

Income (Numerator)	Millions of Yen			Millions of U.S. Dollars
	2004	2003	2002	2004
Net income—basic	¥ 66,621	¥ 13,874	¥ 47,730	\$ 641
Effect of dilutive securities:				
1.6% Japanese yen convertible debentures, due 2002	—	—	38	—
1.5% Japanese yen convertible debentures, due 2004	331	331	325	3
Net income—diluted	¥ 66,952	¥ 14,205	¥ 48,093	\$ 644

Shares (Denominator)	Number of shares		
	2004	2003	2002
Weighted-average shares—basic	1,063,190,319	1,063,908,266	1,064,206,644
Dilutive effect of:			
Stock options	9,287	—	—
1.6% Japanese yen convertible debentures, due 2002	—	—	2,825,490
1.5% Japanese yen convertible debentures, due 2004	28,854,764	28,854,764	28,854,764
Weighted-average shares—diluted	1,092,054,370	1,092,763,030	1,095,886,898

	Yen			U.S. Dollars
	2004	2003	2002	2004
Net income per share:				
Basic	¥ 62.66	¥ 13.04	¥ 44.85	\$ 0.60
Diluted	61.31	13.00	43.89	0.59

18. SEGMENT INFORMATION

The Companies conduct business through the nine industry-based business segments as described in Note 1 and two sets of regional operations; domestic and overseas described as follows.

Domestic Regional Business Units and Offices—Domestic Regional Business Units and Offices segment conducts domestic regional operations in three regional business units, focused in the Kansai, Chubu and Kyushu-Okinawa regions, and two other regional offices. This region-focused operation conducts business activities in all industry sectors based on their specialized knowledge of the region. The region-focused operation also works together on certain projects with the industry-based business segments in order to develop products and services that are more focused on that particular region.

Overseas Subsidiaries and Branches—The Overseas Subsidiaries and Branches Units segment includes subsidiaries, branches located throughout the world and representative offices in China, with the largest operations in the United States, United Kingdom, and China. This region-focused operation conducts business activities in all industry sectors based on their specialized knowledge of the region. The region-focused operation also works together on certain projects with the industry-based

business segments in order to develop products and services that are more focused on that particular region.

Each business segment operates with a degree of autonomy in pursuing strategic goals, managing operations and ensuring accountability. Each business segment also has its own planning and administration department and separate financial reporting. The reportable segments are organized based on the nature of products and services provided and on certain specific domestic and overseas region that oversee the business activities of all business in those regions. Segment financial information is evaluated regularly by the chief operating decision maker in order to assess performance and determine the allocation of resources.

For the fiscal year ended March 31, 2004, the real estate related business previously included in the Domestic Regional Business Units and Offices segment has been transferred to the Materials & Real Estate Business Unit segment due to the Companies' reorganization. Accordingly, revenues, gross profit, net income, segment assets, depreciation and amortization, capital expenditures, and total trading transactions for the years ended March 31, 2003 and 2002 have been restated to conform to the presentation for the fiscal year ended March 31, 2004.

Information by operating segment for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

Operating Segments:

Segment	Millions of Yen						
	Revenues	Gross profit	Net income	Segment assets	Depreciation and amortization	Capital expenditures	Total trading transactions*
2004:							
Metal Products	¥ 203,274	¥ 41,965	¥ 7,600	¥ 390,391	¥ 1,781	¥ 3,063	¥ 976,822
Transportation & Construction Systems	557,760	98,586	9,555	792,960	28,960	85,617	1,535,512
Machinery & Electric	78,681	28,235	1,789	435,727	2,239	7,998	1,329,198
Media, Electronics & Network	82,287	40,758	7,473	374,952	1,987	5,795	418,226
Chemical	42,485	22,791	(140)	174,866	2,288	1,561	429,918
Mineral Resources & Energy	72,070	27,126	7,127	345,682	14,381	39,807	1,420,501
Consumer Goods & Service	303,637	90,440	5,789	304,593	4,838	12,223	831,403
Materials & Real Estate	87,096	47,830	9,150	615,253	12,027	6,828	366,971
Financial & Logistics	76,509	15,675	2,441	193,540	620	1,796	96,626
Domestic Regional Business Units and Offices	61,985	40,437	1,661	379,277	2,147	5,681	1,156,594
Overseas Subsidiaries and Branches	162,043	55,767	7,006	493,258	4,880	3,312	1,151,742
Segment Total	1,727,827	509,610	59,451	4,500,499	76,148	173,681	9,713,513
Corporate and Eliminations	(19,231)	(8,278)	7,170	511,966	5,029	12,425	(515,631)
Consolidated	¥1,708,596	¥ 501,332	¥ 66,621	¥5,012,465	¥ 81,177	¥ 186,106	¥9,197,882

2003:		Millions of Yen						
Segment	Revenues	Gross profit	Net income	Segment assets	Depreciation and amortization	Capital expenditures	Total trading transactions*	
Metal Products	¥ 157,567	¥ 37,179	¥ 6,341	¥ 344,055	¥ 1,989	¥ 1,573	¥ 920,406	
Transportation & Construction Systems	431,282	86,154	5,640	764,872	22,209	49,983	1,370,104	
Machinery & Electric	88,293	28,622	1,827	451,214	2,304	6,927	1,431,458	
Media, Electronics & Network	81,940	40,870	8,527	339,205	2,120	1,486	372,712	
Chemical	42,672	23,556	1,067	186,508	993	367	403,444	
Mineral Resources & Energy	80,543	31,626	3,857	309,513	2,235	4,835	1,412,064	
Consumer Goods & Service	278,920	86,052	5,293	271,461	4,191	7,583	866,143	
Materials & Real Estate	89,087	57,811	(5,729)	602,808	9,695	5,639	493,303	
Financial & Logistics	78,776	15,506	1,998	161,539	388	1,163	112,106	
Domestic Regional Business Units and Offices	62,103	41,781	2,466	416,567	1,267	1,324	1,292,510	
Overseas Subsidiaries and Branches	171,698	59,335	7,127	503,706	2,980	2,668	1,102,333	
Segment Total	1,562,881	508,492	38,414	4,351,448	50,371	83,548	9,776,583	
Corporate and Eliminations	(24,553)	(12,043)	(24,540)	504,709	21,446	24,361	(547,007)	
Consolidated	¥1,538,328	¥ 496,449	¥ 13,874	¥4,856,157	¥ 71,817	¥ 107,909	¥9,229,576	

2002:		Millions of Yen						
Segment	Revenues	Gross profit	Net income	Segment assets	Depreciation and amortization	Capital expenditures	Total trading transactions*	
Metal Products	¥ 133,632	¥ 36,602	¥ 4,512	¥ 314,112	¥ 1,774	¥ 2,564	¥ 915,232	
Transportation & Construction Systems	371,201	78,427	4,195	740,459	23,391	56,797	1,262,443	
Machinery & Electric	39,178	30,639	4,070	421,488	2,363	5,398	1,699,860	
Media, Electronics & Network	81,458	41,946	6,255	291,370	1,837	8,404	464,752	
Chemical	44,783	25,534	1,689	204,780	1,360	2,608	427,071	
Mineral Resources & Energy	77,941	30,059	2,403	266,705	2,407	3,147	1,203,170	
Consumer Goods & Service	257,916	81,925	5,060	277,404	862	8,239	907,885	
Materials & Real Estate	90,671	54,949	2,899	632,542	7,698	47,702	706,700	
Financial & Logistics	78,785	14,546	1,573	154,240	3,775	2,422	105,064	
Domestic Regional Business Units and Offices	63,139	40,744	4,177	438,488	1,140	2,208	1,613,407	
Overseas Subsidiaries and Branches	167,822	59,090	7,918	477,281	4,019	3,449	1,001,664	
Segment Total	1,406,526	494,461	44,751	4,218,869	50,626	142,938	10,307,248	
Corporate and Eliminations	(20,643)	(7,187)	2,979	641,286	14,998	6,584	(661,869)	
Consolidated	¥1,385,883	¥ 487,274	¥ 47,730	¥4,860,155	¥ 65,624	¥ 149,522	¥9,645,379	

2004:		Millions of U.S. Dollars						
Segment	Revenues	Gross profit	Net income	Segment assets	Depreciation and amortization	Capital expenditures	Total trading transactions*	
Metal Products	\$ 1,955	\$ 403	\$ 73	\$ 3,754	\$ 17	\$ 29	\$ 9,392	
Transportation & Construction Systems	5,363	948	92	7,624	278	823	14,765	
Machinery & Electric	757	271	17	4,190	22	77	12,781	
Media, Electronics & Network	791	392	72	3,605	19	56	4,021	
Chemical	408	219	(1)	1,681	22	15	4,134	
Mineral Resources & Energy	693	261	69	3,324	138	383	13,659	
Consumer Goods & Service	2,920	870	56	2,929	46	117	7,994	
Materials & Real Estate	837	460	88	5,916	116	66	3,529	
Financial & Logistics	736	151	23	1,861	6	17	929	
Domestic Regional Business Units and Offices	596	389	16	3,647	21	55	11,121	
Overseas Subsidiaries and Branches	1,558	536	67	4,743	47	32	11,074	
Segment Total	16,614	4,900	572	43,274	732	1,670	93,399	
Corporate and Eliminations	(185)	(79)	69	4,923	49	119	(4,958)	
Consolidated	\$ 16,429	\$ 4,821	\$ 641	\$ 48,197	\$ 781	\$ 1,789	\$ 88,441	

Certain restatements and reclassifications for the years ended March 31, 2003 and 2002 have been made to conform to the presentation for March 31, 2004.

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

Transfers between segments are made at arm's-length prices.

*Total trading transactions represents the gross transaction volume of trading activities, or the nominal aggregate value of the transactions for which the Companies 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.

Geographic Information:

2004:	Millions of Yen		Millions of U.S. Dollars	
	Revenues	Long-lived assets	Revenues	Long-lived assets
Japan	¥ 985,172	¥ 741,741	\$ 9,473	\$ 7,132
Asia	117,667	21,330	1,131	205
North America:				
U.S.	194,218	29,438	1,868	283
Other	81,535	12,457	784	120
Europe	225,121	74,705	2,165	718
Other	104,883	65,878	1,008	634
Total	¥1,708,596	¥ 945,549	\$ 16,429	\$ 9,092

2003:	Millions of Yen	
	Revenues	Long-lived assets
Japan	¥ 925,556	¥ 759,630
Asia	94,765	20,855
North America:		
U.S.	193,074	37,346
Other	70,735	13,223
Europe	177,336	76,365
Other	76,862	33,036
Total	¥1,538,328	¥ 940,455

2002:	Millions of Yen	
	Revenues	Long-lived assets
Japan	¥ 857,256	¥ 734,975
Asia	58,299	21,342
North America:		
U.S.	187,304	42,025
Other	79,008	12,725
Europe	142,155	70,798
Other	61,861	32,134
Total	¥1,385,883	¥ 913,999

19. FOREIGN EXCHANGE GAINS AND LOSSES

Transaction gains and losses resulting from translating assets and liabilities denominated in a currency other than the functional currency of the reporting entity or from settling such items are included in earnings as they arise. Net foreign currency transaction losses of ¥3,463 million (\$33

million), losses of ¥4,477 million, and gains of ¥2,018 million were included in the determination of net income for the years ended March 31, 2004, 2003 and 2002, respectively.

20. INVENTORIES

Major segments that hold inventories are Transportation & Construction Systems, Materials & Real Estate, Overseas Subsidiaries and Branches, and Metal Products. Real estate held for development and resale aggregated

¥67,863 million (\$653 million) and ¥62,180 million as of March 31, 2004 and 2003, respectively, mainly in Materials & Real Estate.

21. LEASES

Lessor

The Companies lease vehicles, vessels, service equipment, and others under arrangements which are classified as direct financing leases under SFAS No. 13, "Accounting for Leases."

Net investments in direct financing leases at March 31, 2004 and 2003, included in "Receivables—trade" and "Long-term receivables" in the accompanying consolidated balance sheets, are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Gross investments in direct financing leases	¥ 219,935	¥ 235,998	\$ 2,115
Unguaranteed residual value	2,043	3,381	19
Less: unearned income	(23,444)	(30,193)	(225)
Net investments	¥ 198,534	¥ 209,186	\$ 1,909

The Companies also lease aircrafts, office buildings and other industrial properties and equipment to third parties under operating leases. The cost and accumulated depreciation of the leased property at March 31, 2004, were ¥245,601 million (\$2,362 million) and ¥104,965 million (\$1,009 million), respectively, and are included in "Property and equipment" (see Note 8).

Future minimum lease payments to be received as of March 31, 2004 are as follows:

Year ending March 31,	Millions of Yen			Millions of U.S. Dollars		
	Direct financing leases	Operating leases	Total	Direct financing leases	Operating leases	Total
2005	¥ 55,586	¥ 40,754	¥ 96,340	\$ 534	\$ 392	\$ 926
2006	47,090	26,732	73,822	453	257	710
2007	34,421	19,003	53,424	331	183	514
2008	23,302	13,432	36,734	224	129	353
2009	15,260	7,758	23,018	147	74	221
2010 and thereafter	44,276	13,128	57,404	426	126	552
Total	¥ 219,935	¥ 120,807	¥ 340,742	\$ 2,115	\$ 1,161	\$ 3,276

Lessee

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, 2004, 2003 and 2002 was ¥25,411 million (\$244 million), ¥24,317 million and ¥24,757 million, respectively. Certain lease contracts for equipment are classified as capital leases in conformity with SFAS No. 13 and are capitalized on the accompanying consolidated balance sheets and included in "Property and equipment" (see Note 8).

As of March 31, 2004, the future minimum lease payments under capital lease and non-cancelable operating leases are as follows:

Years ending March 31,	Millions of Yen			Millions of U.S. Dollars		
	Capital leases	Non-cancelable operating leases	Total	Capital leases	Non-cancelable operating leases	Total
2005	¥ 17,207	¥ 14,492	¥ 31,699	\$ 165	\$ 139	\$ 304
2006	12,156	12,770	24,926	117	123	240
2007	8,068	10,920	18,988	78	105	183
2008	4,773	9,672	14,445	46	93	139
2009	3,556	8,748	12,304	34	84	118
2010 and thereafter	949	51,278	52,227	9	493	502
	46,709	107,880	154,589	449	1,037	1,486
Less: amount representing interest	(2,540)			(24)		
	¥ 44,169			\$ 425		

22. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments

The Companies customarily enter into long-term purchase commitments for certain items, principally ocean transport vessels and industry materials, either at fixed prices or at basic purchase prices adjustable to market. Such purchase commitments are in most instances matched with counter-party sales contracts. Long-term purchase contracts at fixed prices or at basic purchase prices adjustable to market amounted to ¥349,729 million (\$3,363 million) as of March 31, 2004. Scheduled deliveries are at various dates through 2020.

The Companies also had long-term financing commitments of ¥32,260 million (\$310 million) as of March 31, 2004 for loans, investments in equity capital and financing on a deferred-payment basis for the cost of equipment to be purchased by customers.

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

As of March 31, 2004:	Millions of Yen	Millions of U.S. Dollars
Discounted trade notes receivable with banks	¥ 50,455	\$ 485
Guarantees of indebtedness:		
Associated companies	32,026	308
Third parties	64,177	617
Employees	6,879	66
Residual value guarantees	11,580	112
Total	¥ 165,117	\$ 1,588

Discounted Trade Note Receivable with Banks

The Companies are contingently liable for trade notes receivable sold to banks on a discounted basis with recourse to the Companies. These notes arise mainly from export transactions and mature through 2005. If an issuer of a note defaults on its payment, the Companies would be required to pay the banks for any loss. ¥36,783 million (\$354 million) of discounted trade notes receivable outstanding as of March 31, 2004 was covered by letters of credit, whereby other banks would be required to pay for any defaults by the issuers of the notes. The Companies provided an allowance for losses of ¥73 million (\$1 million) as of March 31, 2004 in "Other current liabilities" in the accompanying consolidated balance sheets for estimated losses on the discounted trade notes receivable.

Guarantees of Indebtedness for Associated Companies

The Companies provide guarantees on certain of their associated companies' borrowings from banks, payables to suppliers and other indebtedness. These guarantees mature through 2021. Certain guarantees were guaranteed by third parties. Such third-party guarantees aggregated ¥1,458 million (\$14 million) as of March 31, 2004. The Companies would be obligated to reimburse the banks for losses, if any, a borrower defaults on a guaranteed loan.

Guarantees of Indebtedness for Third Parties

The Companies also provide guarantees of indebtedness for third parties. These guarantees are arranged mainly with suppliers and customers and mature through 2014. The Companies must pay if a guaranteed party

(b) Guarantees

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

The Companies adopted the provisions of FASB Interpretation No. 45. This 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. The carrying amounts of the liabilities recognized for the Companies' obligations as a guarantor under those guarantees as of March 31, 2004 were insignificant.

defaults on a guaranteed indebtedness. Certain guarantees were guaranteed by third parties. Such third-party guarantees aggregated ¥19,195 million (\$185 million) as of March 31, 2004. Certain of these guarantees are collateralized by borrower assets.

Guarantees of Indebtedness for Employees

The Company offers guarantees to banks for housing loans of employees as employee benefit. The maximum maturity of the guarantees is 25 years. The Companies would be obligated to reimburse the bank for losses, if any, if the employee defaults on a guaranteed loan. These guarantees are collateralized by the housing units related to the loans.

Residual Value Guarantees

The Companies also provide residual value guarantees to owners of transportation equipment leased by third parties under operating leases to compensate for the gap between fixed prices and actual disposal proceeds on dates specified in these contracts. These specified dates ranged from years 2012 to 2015 as of March 31, 2004. If the actual disposal amount of the equipment is less than the guaranteed value on the specified date, the Companies will be required to compensate for the shortfall so long as obligations by the lessee under the contract are satisfied. The current estimated future values of such transportation equipment are higher than the guaranteed values, and, accordingly, no allowance has been provided as of March 31, 2004.

Management does not anticipate incurring losses on the above commitments and guarantees in excess of established allowances.

(c) Litigation

(1) *The Copper-Related Litigation*

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, 2004, the following individual lawsuits were resolved; 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. In June 2003, the Company reached a settlement with a plaintiff in one individual lawsuit pending against the Company in Wisconsin and the Company paid \$29.5 million. In October 2003, the Company reached a settlement with a plaintiff in one individual lawsuit pending against the Company in Wisconsin and the Company paid \$17.5 million.

As of the end of March 2004, the Company has one class action suit pending in Canada and one individual lawsuit 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 damages for civil conspiracy and conduct that is contrary to the Canadian Competition Act et al, in the amount of CA\$40 million and punitive and exemplary damages in the amount of CA\$10 million. The class action is now pending in Ontario Superior Court. The individual lawsuit in the U.S. has similar U.S. antitrust law claims, seeking at least about \$355 million in damages (before trebling). In November 2003, the Wisconsin federal court granted the motion to dismiss filed by the Company and rendered an order dismissing the case. In March 2004, the plaintiff appealed the

case to the Court of Appeals for the Seventh Circuit. The Company expects to prevail as it has valid defense to these actions and intends to vigorously defend itself. However, it is not possible to predict or determine the outcome of such litigation, and accordingly, the Company can provide no assurance that it will prevail. An unfavorable outcome could have a material adverse impact on its consolidated results of operations, liquidity and financial position.

The Company has sued two companies for recovery of losses incurred in connection with the copper incident in the U.K. and Japan. Although in the lawsuit in Japan the Company is seeking approximately ¥27.8 billion in damages, in May 2004 the Tokyo District Court issued a judgment in favor of the defendant, and the Company has appealed to the Tokyo High Court. In the lawsuit in the U.K., the Company is seeking approximately \$695 million in damages. The suit is now pending in the High Court of Justice. No gain will be recognized in the consolidated financial statements until the recoverable amount has been determined, the legal process is complete, and a favorable outcome is assured.

Those settlement receipts and payments are stated in "Settlements on copper trading litigation" in the accompanying consolidated statements of income for the years ended March 31, 2004, 2003 and 2002, net of related attorney fees.

(2) *Other Litigation*

In addition to the situation described in the preceding paragraph (1), the Companies are 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 on result of operations of the Companies.

23. SUBSEQUENT EVENTS

On May 27, 2004, the Company and its U.S. subsidiary entered into an agreement to purchase JWC Hartz Holdings, Inc., the holding company of The Hartz Mountain Corporation, a U.S. pet supplies company, from J. W. Childs Equity Partners II, L.P., for approximately ¥40 billion.

Through this acquisition, the Companies will enter into the U.S. pet supplies business. The Hartz Mountain Corporation produces and sells pet supplies with six manufacturing facilities in the U.S. and Brazil and three distribution centers in North America.

Independent Auditors' Report



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, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2004, 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.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sumitomo Corporation and subsidiaries as of March 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 of the notes to consolidated financial statements, the Company restated its consolidated financial statements as of March 31, 2003 and for the two years ended March 31, 2003.

The consolidated financial statements as of and for the year ended March 31, 2004 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 3 of the notes to consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
April 28, 2004

(Except for the matters discussed in Note 23 of the notes to consolidated financial statements, as to which the date is May 27, 2004)