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# Eleven-Year Summary

Marubeni Corporation  
Years ended March 31

	Millions of Yen	Thousands of U.S. Dollars*		
	2004	2004	2003	2002
<b>For the year:</b>				
Trading transactions				
Domestic .....	¥2,562,165	\$24,171,368	¥2,928,999	¥3,232,883
Export .....	1,188,582	11,213,037	1,101,830	1,209,677
Import .....	1,346,790	12,705,566	1,477,899	1,519,451
Offshore .....	2,808,103	26,491,538	3,284,575	3,010,234
Total volume of trading transactions .....	7,905,640	74,581,509	8,793,303	8,972,245
Gross trading profit .....	409,461	3,862,840	424,643	436,804
Net income (loss) .....	34,565	326,085	30,312	(116,418)
<b>At year-end:</b>				
Total assets .....	4,254,194	40,133,906	4,321,482	4,805,669
Net interest-bearing debt .....	1,969,323	18,578,519	2,264,117	2,712,906
Total shareholders' equity .....	392,982	3,707,377	260,051	263,895
<b>Amounts per 100 shares (¥/US\$):</b>				
Basic earnings (loss) .....	2,285	21.56	2,030	(7,792)
Diluted earnings (loss) .....	2,016	19.02	1,896	(7,792)
Cash dividends .....	300	2.83	300	-
<b>Cash Flows (for the year):</b>				
Net cash provided by (used in) operating activities .....	201,560	1,901,509	194,788	198,456
Net cash provided by (used in) investing activities .....	57,983	547,009	113,241	74,504
Net cash (used in) provided by financing activities .....	(233,938)	(2,206,961)	(294,001)	(150,104)
Cash and cash equivalents at end of year .....	478,731	4,516,330	466,511	466,642
<b>Ratios:</b>				
Return on assets (%) .....	0.8		0.7	-
Return on equity (%) .....	10.6		11.6	-
Shareholders' equity to total assets (%) .....	9.2		6.0	5.5
Net D/E ratio (times) .....	5.0		8.7	10.3
<b>Consolidation:</b>				
Consolidated subsidiaries .....	348		327	354
Equity-method affiliates .....	154		157	161
Total .....	502		484	515
<b>Number of employees:</b>				
Consolidated .....	24,417		24,829	28,140
Non-consolidated .....	3,717		3,914	4,234
<b>Stock price (Tokyo Stock Exchange) (¥):</b>				
High .....	295		151	262
Low .....	106		86	58

Notes: 1. Trading transactions have been prepared according to accounting principles generally accepted in Japan.

2. U.S. dollar amounts above and elsewhere in this report are converted from yen, for convenience only, at the prevailing rate of ¥106 to US\$1 as of March 31, 2004.

Millions of Yen

2001	2000	1999	1998	1997	1996	1995	1994
¥3,754,652	¥ 4,571,183	¥ 5,183,131	¥ 5,931,831	¥ 6,604,469	¥ 6,967,511	¥ 6,741,379	¥ 7,020,640
1,184,653	1,250,165	2,163,734	2,535,228	2,190,089	1,976,749	2,058,938	2,247,539
1,760,793	1,425,294	1,452,026	1,710,749	1,727,032	1,531,517	1,619,055	1,775,125
2,736,765	2,975,800	3,161,266	3,462,709	3,448,387	3,064,783	2,449,590	2,300,504
9,436,863	10,222,442	11,960,157	13,640,517	13,969,977	13,540,560	12,868,962	13,343,808
479,754	453,496	522,356	534,485	496,550	475,221	460,167	451,596
15,036	2,060	(117,729)	17,230	20,113	15,117	10,368	5,493
5,320,604	5,584,353	6,511,841	7,388,101	7,550,347	7,644,002	6,844,022	7,059,389
3,089,839	3,328,437	3,966,471	4,432,159	4,555,208	4,403,714	4,079,368	3,932,907
342,297	324,301	354,017	475,253	512,929	560,589	480,451	438,810
1,006	138	(7,880)	1,153	1,346	1,012	694	368
940	138	(7,880)	1,054	1,289	1,010	694	368
–	–	300	600	600	600	600	600
179,305	184,701	232,414	254,221	24,308	107,547	(99,929)	227,959
187,993	257,006	99,101	(58,769)	66,036	(252,345)	(158,296)	436,054
(456,125)	(594,878)	(213,321)	(91,879)	(209,412)	267,217	(4,188)	(772,509)
329,811	405,308	579,366	480,825	373,015	485,844	359,436	642,575
0.3	0.0	–	0.2	0.3	0.2	0.2	0.1
4.5	0.6	–	3.5	3.8	2.9	2.3	1.2
6.4	5.8	5.4	6.4	6.8	7.3	7.0	6.2
9.0	10.3	11.2	9.3	8.9	7.9	8.5	9.0
412	456	488	479	459	436	410	422
186	190	201	214	203	188	164	157
598	646	689	693	662	624	574	579
30,956	31,342	–	–	–	–	–	–
4,855	5,344	5,844	6,041	6,386	6,702	7,064	7,190
401	486	345	525	638	602	580	545
200	205	155	177	421	404	415	410

# Management's Discussion and Analysis of Financial Position and Business Results

## 1 | Financial Review

### (1) Operating Environment

During the fiscal year ended March 31, 2004, negative effects stemming from the war in Iraq and the outbreak of SARS proved to be limited in scope, allowing the global economy, led by the United States and China, to stage an impressive comeback in the second half of the year. In the U.S., corporate and consumer sentiment was buoyed by the announcement of an official end to hostilities in Iraq. Benefits gained from proactive financial deregulation and large-scale tax breaks also combined to lift stock prices higher. Together, these factors accelerated the pace of economic recovery, largely driven by consumer spending and capital investment. A rebound in employment, however, was hindered by ongoing corporate streamlining made possible through IT, as well as the shift to offshore production. Other lingering points of uncertainty remain, including concerns over growing fiscal and current-account deficits.

In Europe, while a higher euro caused exports to stagnate in the first half of the year, signs of economic recovery began to appear in the second half of the year as benefits emerged from the European Central Bank's aggressive deregulation measures.

In Asia, China found itself at ground zero for the SARS outbreak in spring 2003. By June, however, the epidemic had run its course, enabling the Asian economy to sidestep any substantial impact from the disease. China achieved a high 9.1% rate of growth, supported largely by a sharp jump in investments in property and equipment, as well as brisk exports. Meanwhile, firm domestic demand in Thailand, Malaysia, the Philippines, and Indonesia helped those economies to hold steady. South Korea, Taiwan, Hong Kong and Singapore, bolstered by an upswing in the global economy, also moved towards economic recovery in the second half of the year, particularly in exports.

In Russia, higher price levels for crude oil led to strong economic performance, while in Central and South America, the economy bottomed out as Brazil and Argentina kept turbulence

in their respective financial and currency markets in check.

In Japan, the economy continued along a recovery track, supported by a strong showing in exports. Providing the backdrop to this performance was economic growth in Asia, particularly China, and a stable exchange rate thanks to major interventions by the Japanese government and the Bank of Japan. In financial markets, in addition to extension of the Bank of Japan's quantitative easing policy, lingering doubts about the stability of Japan's financial system dissipated as overseas investors snapped up Japanese stocks, lifting the Nikkei 225 Stock Average at the close of March 2004 46.9% higher than a year earlier. Japanese corporations, encouraged by these macroeconomic factors, saw business confidence improve, as witnessed by the ongoing recovery in capital investments. Japan was still unable to completely overcome persistent deflation, as the severity of conditions on the employment and personal income side remained unchanged, and consumer spending managed to pick up only slightly during the fiscal year.

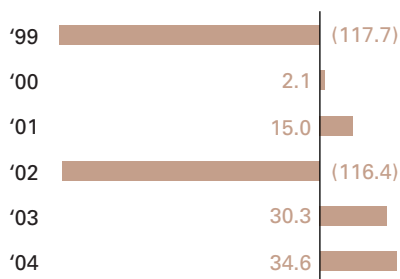
### (2) Operating Results

For the fiscal year ended March 31, 2004, the Marubeni Group posted consolidated net income of ¥34.6 billion, up ¥4.3 billion over the previous year. This figure, a record high for the Company, was ¥0.5 billion more than its previous record net income, ¥34.1 billion, posted in the fiscal year ended March 31, 1992. Marubeni's seven commodity-related segments (i.e. Agri-Marine Products, Textile, Forest Products & General Merchandise, Chemicals, Energy, Metals & Mineral Resources, and Transportation & Industrial Machinery) accounted for ¥32.2 billion, or 93% of total net income.

Gross trading profit declined ¥15.2 billion year on year to ¥409.5 billion. If ¥17.2 billion in lost earnings from the liquidation and sale of consolidated subsidiaries is excluded, gross trading profit would actually have risen ¥2.0 billion over the previous year. By operating segment, six segments posted higher earnings, while eight segments saw a decrease in earnings on the year.

### Net Income (Loss)

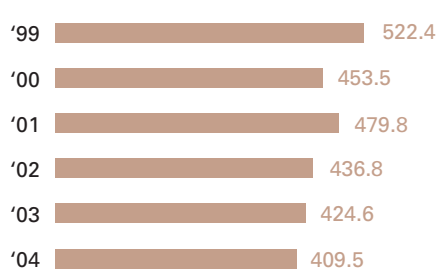
(Years ended March 31)



(Billions of yen)

### Gross Trading Profit

(Years ended March 31)



(Billions of yen)

Selling, general and administrative (SG&A) expenses fell ¥15.6 billion to ¥330.0 billion. A decline of ¥17.8 billion was owed to the liquidation and sale of consolidated subsidiaries. Excluding this, SG&A expenses actually increased ¥2.2 billion year on year. By item, the largest component of this decrease was lower personnel expenses, declining ¥7.6 billion to ¥157.8 billion. Of this figure, roughly ¥4.0 billion was accounted for by a decline in retirement benefit expenses, stemming from adoption of the cash balance pension plan by the parent company.

The provision for doubtful accounts was ¥0.8 billion, an improvement of ¥4.9 billion compared to a year earlier. This was attributed to the absence of major doubtful accounts during the year, and a reversal due to a decline in the balance of total receivables.

Interest income fell ¥6.2 billion year on year to ¥20.4 billion, mainly the result of a decline in assets and deterioration in interest income chiefly at the parent company, finance subsidiaries and overseas corporate subsidiaries. Interest expense, meanwhile, improved ¥6.3 billion year on year to ¥43.8 billion, primarily due to lower interest-bearing debt, the result of a decrease in interest expenses at the parent company and overseas corporate subsidiaries.

Dividend income rose ¥0.4 billion from the previous year to ¥7.2 billion. Of this figure, ¥3.2 billion (¥2.0 billion domestically, ¥1.2 billion from overseas) was posted by the parent company. Domestic consolidated subsidiaries posted dividends of ¥0.4 billion, with overseas subsidiaries posting dividends of ¥3.6 billion.

Impairment loss on investment securities was ¥10.5 billion, an improvement of ¥16.6 billion year on year. This was primarily due to the absence of impairment loss on investment securities in banks of ¥23.3 billion posted in the previous year. Of the loss posted for the fiscal year ended March 31, 2004, ¥0.6 billion was related to an impairment loss on investment securities in Sithe Energies, Inc.

Gain on sales of investment securities—net was ¥26.5 billion, a year-on-year improvement of ¥12.2 billion. This was mainly

attributable to gains on the sale of listed stocks of ¥14.8 billion from actions such as the elimination of shares held for cross-shareholding purposes, and gain on the sale of shares in Ever Power IPP Co., Ltd., an independent power producer (IPP) in Taiwan, of ¥4.7 billion. The gain was achieved despite the absence of a gain on an exchange of shares at Vectant Group of ¥6.6 billion posted a year earlier.

The loss on property, plant and equipment worsened ¥10.1 billion compared with the previous year to ¥1.6 billion. A gain on the sale of company-owned real estate holdings by the parent company was offset by an impairment loss on goodwill and other concerns. Another factor was the absence of gains on the sale of property, plant and equipment at consolidated subsidiaries posted in the previous year.

Other—net worsened by ¥1.9 billion during the year, and consisted of ¥6.5 billion for losses incurred in liquidating subsidiaries and affiliated companies, and ¥5.1 billion in net foreign currency translation loss. While losses for liquidating subsidiaries and affiliated companies improved by ¥6.0 billion from the previous year, this was countered by the absence of a gain of ¥5.0 billion on the retirement of repurchased corporate bonds posted a year ago.

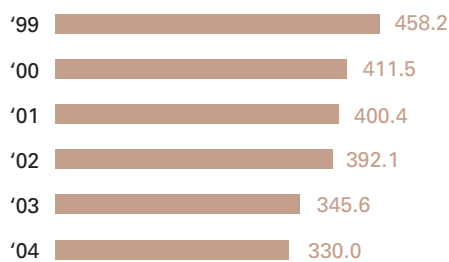
Equity in earnings of affiliated companies was ¥14.3 billion, up ¥0.9 billion year on year.

### (3) Business Results by Operating Segment

**Agri-Marine Products** transactions declined ¥166.7 billion, or 16.3% year on year, to ¥856.8 billion. The bulk of transactions were related to food distribution. Gross trading profit rose ¥2.9 billion, or 4.9%, to ¥61.4 billion. This was largely due to new consolidated subsidiaries related to food distribution and the management integration of subsidiaries dealing in livestock feed. **Textile** transactions edged ¥17.4 billion, or 4.7%, lower to ¥352.9 billion, mostly due to market weakness in Japan and lower exports. Accordingly, gross trading profit slipped ¥0.6 billion, or 2.4%, to 23.9 billion.

## Selling, General and Administrative Expenses

(Years ended March 31)



(Billions of yen)

**Forest Products & General Merchandise** transactions were up ¥25.7 billion, or 3.5%, to ¥771.5 billion. This was due to higher transaction volume for plywood and wooden building materials, as well as the consolidation of a paper-related subsidiary. Gross trading profit moved ¥0.8 billion, or 1.9%, higher to ¥42.0 billion, as the increase in transactions was complemented by improved profit margins from woodchip transactions and other factors.

**Chemicals** transactions dipped ¥5.4 billion, or 1.0%, to ¥564.5 billion, due to the deconsolidation and sale of companies involved in plastics. Tracking this decline, gross trading profit fell ¥4.3 billion, or 14.8%, to ¥24.9 billion.

**Energy** transactions were ¥1,995.0 billion, a decline of ¥314.7 billion, or 13.6%, year on year. This was attributable to a decline in import agent transactions. Gross trading profit rose ¥1.2 billion, or 4.1%, to ¥30.8 billion. This was mostly the result of higher earnings from petroleum-related transactions.

**Metals & Mineral Resources** transactions, bolstered by high prices for non-ferrous and light metals, climbed ¥50.9 billion, or 11.5%, to ¥493.2 billion. However, gross trading profit slid ¥1.8 billion, or 13.0%, to ¥12.2 billion, largely due to the negative impact of currency exchange rates.

**Transportation & Industrial Machinery** transactions edged ¥6.0 billion, or 0.8%, higher to ¥782.6 billion. This growth owed to an upsurge in aircraft-related business and the transfer of commercial rights in digital product transactions. In line with this increase, gross trading profit rose ¥1.4 billion, or 2.6%, to ¥55.8 billion.

**Utility & Infrastructure** transactions, despite increased involvement in the building of a water pipeline in the Middle East and other projects, were down ¥60.8 billion, or 14.4%, to ¥361.0 billion due to the completion of power generation projects in South-east Asia and other factors. Gross trading profit soared ¥8.7 billion, or 73.8%, to ¥20.6 billion. This stemmed largely from higher

## Operating Segment Information

Trading Transactions	Millions of yen	Thousands of U.S. dollars	Millions of yen	
	2004	2004	2003	2002
Agri-Marine Products .....	¥ 856,810	\$ 8,083,113	¥1,023,513	¥1,044,794
Textile .....	352,864	3,328,906	370,277	438,388
Forest Products & General Merchandise .....	771,508	7,278,377	745,776	728,484
Chemicals .....	564,526	5,325,717	569,928	538,859
Energy .....	1,995,014	18,820,887	2,309,753	2,196,948
Metals & Mineral Resources .....	493,206	4,652,887	442,344	476,097
Transportation & Industrial Machinery .....	782,603	7,383,047	776,578	774,203
Utility & Infrastructure .....	361,018	3,405,830	421,850	329,750
Plant & Ship .....	613,097	5,783,934	736,476	600,694
Development & Construction .....	178,748	1,686,302	185,840	184,927
Finance & Logistics Business .....	17,891	168,783	37,834	46,460
Telecom & Information (IT Business) .....	167,762	1,582,660	386,162	467,143
Domestic Branches and Offices .....	159,246	1,502,321	172,935	297,363
Overseas Corporate Subsidiaries and Branches ...	1,035,614	9,769,943	1,065,367	1,100,057
Corporate and Elimination .....	(444,267)	(4,191,198)	(451,330)	(251,922)
Consolidated .....	¥7,905,640	\$74,581,509	¥8,793,303	¥8,972,245

Gross Trading Profit	Millions of yen	Thousands of U.S. dollars	Millions of yen	
	2004	2004	2003	2002
Agri-Marine Products .....	¥ 61,436	\$ 579,585	¥ 58,559	¥ 60,276
Textile .....	23,914	225,604	24,494	28,134
Forest Products & General Merchandise .....	42,009	396,311	41,242	40,833
Chemicals .....	24,945	235,330	29,279	28,694
Energy .....	30,817	290,726	29,615	30,285
Metals & Mineral Resources .....	12,163	114,745	13,984	14,589
Transportation & Industrial Machinery .....	55,769	526,123	54,371	52,466
Utility & Infrastructure .....	20,567	194,028	11,832	10,564
Plant & Ship .....	8,836	83,358	13,866	10,251
Development & Construction .....	27,909	263,292	34,027	32,183
Finance & Logistics Business .....	4,900	46,226	6,523	6,774
Telecom & Information (IT Business) .....	19,952	188,226	32,559	33,205
Domestic Branches and Offices .....	5,427	51,198	6,081	6,585
Overseas Corporate Subsidiaries and Branches ...	73,458	693,000	72,827	74,704
Corporate and Elimination .....	(2,641)	(24,912)	(4,616)	7,261
Consolidated .....	¥409,461	\$3,862,840	¥424,643	¥436,804

Note: Trading transactions have been prepared according to accounting principles generally accepted in Japan.

earnings related to water pipeline projects in the Middle East and a high-speed rail project in Taiwan, and the consolidation of operating companies associated with power generation.

**Plant & Ship** transactions declined ¥123.4 billion, or 16.8%, to ¥613.1 billion on fewer energy and chemical plant transactions mainly for the Middle East and Africa. Reflecting this decline, gross trading profit dropped ¥5.0 billion, or 36.3%, to ¥8.8 billion.

**Development & Construction** transactions were down ¥7.1 billion, or 3.8%, to ¥178.7 billion, dragged lower by diminishing growth in domestic housing-related sales. In addition to this decline, the sale of subsidiaries overseas involved in real estate and other factors caused gross trading profit to fall ¥6.1 billion, or 18.0%, to ¥27.9 billion.

**Finance & Logistics Business** transactions declined ¥19.9 billion, or 52.7%, to ¥17.9 billion, due to the exclusion of leasing-related subsidiaries. This decrease caused gross trading profit to fall ¥1.6 billion, or 24.9%, to ¥4.9 billion.

**Telecom & Information** transactions were down ¥218.4 billion from the previous year, or 56.6%, to ¥167.8 billion, the result of weakness in overseas communications projects and the transfer of commercial rights to other segments. Tracking this decline, gross trading profit fell ¥12.6 billion, or 38.7%, to ¥20.0 billion.

**Domestic Branches and Offices** transactions, impacted by lower transactions related to Agri-Marine Products and machinery, decreased ¥13.7 billion, or 7.9%, to ¥159.2 billion. Gross trading profit was ¥5.4 billion, a decline of ¥0.7 billion, or 10.8%, compared to the previous year. This was attributable to lower earnings from Development & Construction-related projects in Japan.

**Overseas Corporate Subsidiaries and Branches** transactions edged ¥29.8 billion, or 2.8%, lower year on year to ¥1,035.6 billion, mostly due to a decline in non-ferrous metal and foodstuff transactions at Marubeni Europe. In contrast, gross trading profit edged ¥0.6 billion, or 0.9%, higher to ¥73.5 billion. This was mainly due to higher earnings at a leasing company in the portfolio of Marubeni America.

## Total Volume of Trading Transactions by Region

(Years ended March 31)

	Billions of yen	
	2004	2003
Japan .....	<b>¥6,925.4</b>	¥7,895.3
North America .....	<b>1,430.8</b>	1,606.8
Europe .....	<b>368.3</b>	451.6
Asia & Oceania .....	<b>564.8</b>	560.5
Other regions .....	<b>825.4</b>	815.8

Note: Trading transactions have been prepared according to accounting principles generally accepted in Japan.

## (4) Business Results by Geographical Region

**Japan:** Trading transactions declined ¥969.9 billion from the previous year, or 12.3%, to ¥6,925.4 billion, the result of lower transactions related to Agri-Marine Products and Transportation & Industrial Machinery. Operating profit rose ¥6.7 billion, or 15.5%, to ¥49.6 billion, mainly on the back of higher earnings in Utility & Infrastructure-related business.

**North America:** Trading transactions were down ¥176.0 billion, or 11.0%, to ¥1,430.8 billion, impaired primarily by lower Energy-related transactions. Operating profit was similarly impacted, falling ¥1.7 billion, or 23.6%, to ¥5.6 billion.

**Europe:** Trading transactions, mostly influenced by lower Utility & Infrastructure-related business, declined ¥83.4 billion, or 18.5%, to ¥368.3 billion. Operating profit, meanwhile, increased ¥0.1 billion, or 2.2%, to ¥6.9 billion.

**Asia and Oceania:** Trading transactions edged ¥4.3 billion, or 0.8%, higher to ¥564.8 billion, primarily due to a higher volume of Utility & Infrastructure-related business. This higher business volume, as well as that for Energy-related business, lifted operating profit ¥2.0 billion, or 18.6%, to ¥12.4 billion.

**Other Regions:** Boosted mainly by a higher transaction volume of Transportation & Industrial Machinery-related business, trading transactions rose ¥9.6 billion year on year, or 1.2%, to ¥825.4 billion. In contrast, operating profit fell ¥0.8 billion, or 13.7%, to ¥4.9 billion, mainly because of lower earnings from Agri-Marine-related business.

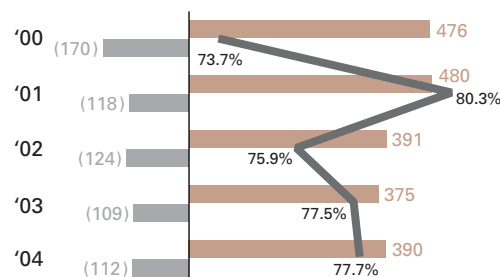
Please note that figures for trading transactions and operating profit have been prepared according to accounting principles generally accepted in Japan.

## (5) Business Results from Principal Consolidated Subsidiaries and Affiliates

In terms of the operating results of consolidated subsidiaries, 112 companies were unprofitable, compared to 390 profitable companies. The percentage of companies achieving profitability was 77.7%, an improvement of 0.2 of a percentage point compared to 77.5% in the previous year.

## Profitability Comparison of Consolidated Companies

(Years ended March 31)



(Companies)

■ Profitable companies ■ Unprofitable companies  
— Percentage of profitable companies

## 2 | Liquidity and Funding Sources

### (1) Financial Position

Consolidated total assets fell ¥67.3 billion year on year to ¥4,254.2 billion. Marubeni enacted a review of underperforming transactions and sold off assets, resulting in fewer notes and accounts receivable-trade. This progress offset an increase in property, plant and equipment from the purchase of overseas IPP assets.

Total shareholders' equity rose ¥132.9 billion over the previous year to ¥393.0 billion. In addition to an increase of ¥75.4 billion in capital and capital surplus from the issuance of preferred stock, other factors contributing to this result included a net unrealized gain on investment securities of ¥43.3 billion stemming from a recovery in stock market performance.

Consolidated interest-bearing debt declined ¥290.2 billion from a year earlier to ¥2,454.8 billion. Net interest-bearing debt, after deduction of cash and cash equivalents, fell ¥294.8 billion year on year to ¥1,969.3 billion. As a result, the net D/E ratio improved 3.7 points to 5.01 times, from 8.71 times at the previous fiscal year-end.

### (2) Liquidity

As part of contingency plans, Marubeni secures a sufficient level of cash deposits on hand and has established committed credit lines to maintain liquidity.

As of March 31, 2004, the balance of cash deposits totaled ¥485.5 billion. Details regarding committed credit facilities are as follows:

- *Parent company*
  - ¥400.0 billion from a major Japanese banking syndicate (short term: ¥248.0 billion, long term: ¥152.0 billion)
  - ¥50.0 billion from a regional banking syndicate (short term)
- *Overseas finance subsidiary*
  - US\$95 million from a major Japanese banking syndicate (short term)

As of March 31, 2004, Marubeni has not borrowed against any part of these committed credit facilities.

In addition to the abovementioned credit facilities, the Company also holds highly liquid marketable securities among its assets. Combined, these assets provide sufficient liquidity to cover short-term loans and the current portion of long-term debt and bonds, which totaled ¥803.6 billion as of March 31, 2004.

### (3) Fund Procurement

Marubeni's fundamental policy is to maintain an optimal mix of funding in line with the requirements of its asset portfolio. The goal is to sustain a stable level of liquidity while at the same time trimming financing costs. Funding sources included indirect procurement from banks and other financial institutions, and direct procurement through the issuance of bonds, commercial paper and other means. In the fiscal year ended March 31, 2004, indirect procurement comprised 87% of funding, while direct procurement accounted for 13%. The Company is also securitizing receivables and taking other actions to diversify its funding sources.

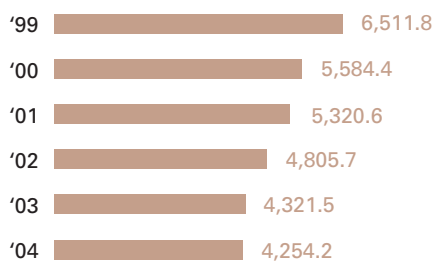
In a move to enhance its financial position, Marubeni issued ¥75.5 billion in preferred stock in December 2003. The funds procured were allotted for investment in the Company's core businesses.

Marubeni also established the following programs as methods of procuring funds directly from capital markets.

- *Registered framework for the issuance of ordinary bonds issued publicly in Japan: ¥500.0 billion*
- *Commercial paper program*
  - Parent company: ¥1,700.0 billion
  - Marubeni America Corporation (U.S.A.): US\$300 million; Marubeni Europe plc (U.K.): US\$300 million; Marubeni International Finance p.l.c. (U.K.): US\$900 million

### Total Assets

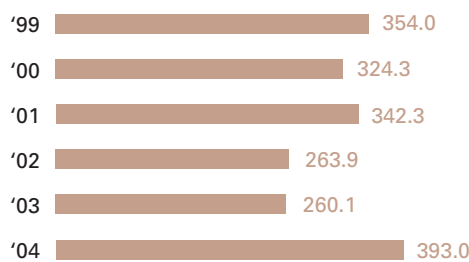
(At March 31)



(Billions of yen)

### Shareholders' Equity

(At March 31)



(Billions of yen)

- *Euro Medium-term Note Programme*
  - Parent company: US\$2 billion
  - Four company joint program (Marubeni America Corporation, Marubeni Europe plc; Marubeni International Finance p.l.c., Marubeni Finance Holland B.V.): US\$5.0 billion

#### (4) Cash Flows

Net cash provided by operating activities came to ¥201.6 billion, or ¥6.8 billion more than a year earlier, thanks to efforts to shrink receivables and other steps taken to improve efficiency. Net cash provided by investing activities was ¥58.0 billion, owing to the sales and redemption of marketable and investment securities, and the collection of loans receivable. The result was free cash inflow for the year of ¥259.5 billion.

Net cash used in financing activities was ¥233.9 billion, after free cash inflow and proceeds from preferred stock issued were used to reduce interest-bearing debt. Cash and cash equivalents at the year-end were ¥478.7 billion, or ¥12.2 billion higher than at the previous fiscal year-end.

### 3 | Risk Information

#### (1) Risks regarding overall Marubeni operations

##### a. Impact of the Japanese and global economies on the Marubeni Group

Marubeni and its consolidated subsidiaries are active in Japan and over 70 other countries, and conduct an array of commercial and investment activities over a wide range of industries and fields. As a result, the Marubeni Group is impacted by the economic conditions prevailing in Japan and other countries where it has operations, as well as the state of the global economy as a whole. Worsening economic conditions on either of these fronts could adversely affect the operating activities, performance and financial position of Marubeni and its consolidated subsidiaries.

##### b. Credit risks regarding business partners

Marubeni and its consolidated subsidiaries extend credit to business partners in the form of accounts receivables, advances, loans, guarantees and other means. The incurrence of credit risk due to the inability of business partners to fulfill their credit obligations could negatively impact business results and financial position.

In preparation for the incurrence of possible losses when the aforementioned credit risk becomes apparent, Marubeni and its consolidated subsidiaries establish allowances for doubtful accounts based on the estimated amount of the loss, the business partner's creditworthiness, collateral value and other set factors. In the event of such losses, however, the Company cannot guarantee that actual losses will not exceed these established allowances.

##### c. Risk of breach of contract by business partners

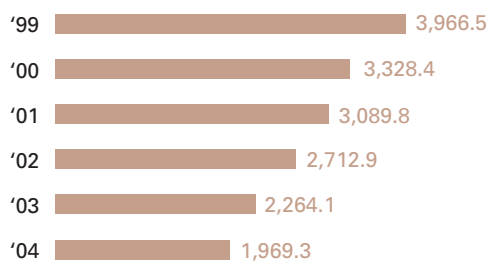
As part of sales activities, Marubeni and its consolidated subsidiaries conclude merchandise supply, subcontracting, operational outsourcing, and other types of contracts with business partners. A breach of contract by these business partners could adversely affect the Company's business results and financial condition.

##### d. Investment risk

Marubeni and its consolidated subsidiaries, both independently and in collaboration with other companies, establish new companies and purchase existing enterprises in the course of their business operations. Most of these business investments are of minimal liquidity and require sizeable amounts of capital. Marubeni or its consolidated subsidiaries may be unable to withdraw from such businesses in an optimal manner or timeframe, which could inevitably require the commitment of an additional expenditure of capital. A decline in the value of these investments or the necessity of additional expenditures of capital could adversely affect the Company's business results and financial condition.

#### Net Interest-Bearing Debt

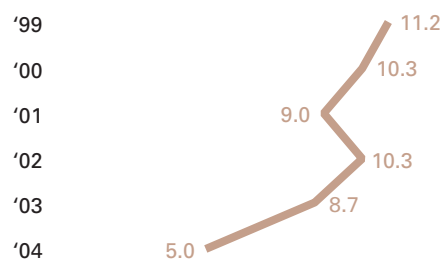
(At March 31)



(Billions of yen)

#### Net D/E Ratio

(At March 31)



(Times)

*e. Concentrated risk exposure*

As part of commercial and investment activities, Marubeni and its consolidated subsidiaries are concentrated in specific investment areas, markets and regions, such as plant-related business, real-estate business in Japan, and sales activities in Indonesia and the Philippines. As a result, lackluster performance by these investment targets, or a deteriorating operating environment in these markets or regions, could adversely affect the business results and financial condition of Marubeni and its consolidated subsidiaries.

*f. Ability to procure funds and procurement cost*

Marubeni and its consolidated subsidiaries engage in fund procurement with an emphasis on maintaining an optimal mix of funding in line with the requirements of their respective asset portfolios and ensuring liquidity. However, significant disruptions in major global capital markets could constrain fund procurement or lead to an increase in fund procurement cost, which may adversely affect the business results and financial condition of Marubeni and its consolidated subsidiaries.

*g. Fluctuations in the price of goods and merchandise*

Because Marubeni and its consolidated subsidiaries handle a variety of merchandise, changes in their respective market conditions can adversely affect business performance. To mitigate the risk of fluctuations in market conditions for certain merchandise, contracts and anticipated transactions, Marubeni and its consolidated subsidiaries enter into commodity futures and forward contracts. However, the Company cannot guarantee that these hedge transactions will completely cover its exposure in these areas.

*h. Fluctuations in foreign currency exchange rates*

Marubeni and its consolidated subsidiaries conduct transactions under a variety of currencies and terms, which exposes Marubeni's operating results to fluctuations in currency exchange rates. To mitigate the risk of exchange rate fluctuations associated with

transactions, receivables and liabilities denominated in foreign currencies, Marubeni and its consolidated subsidiaries enter into forward-exchange contracts and other derivative transactions. However, the Company cannot guarantee that these hedge transactions will completely cover its exposure in these areas.

*i. Fluctuations in interest rates*

Marubeni and its consolidated subsidiaries procure necessary funds from financial institutions, the issuance of bonds and other means from capital markets. Further, net interest-bearing debt is procured at fixed interest rates and variable interest rates. While the interest risk of the majority of the operating assets held by Marubeni and its consolidated subsidiaries offset the interest rate risk associated with debt, changes in market interest rates could adversely affect the Company's earnings. Through Asset-Liability Management, Marubeni and its consolidated subsidiaries utilize interest rate swaps and other agreements to mitigate the risk of interest rate fluctuations. However, the Company cannot guarantee that these hedge transactions will completely cover its exposure in this area.

*j. Gains and losses on marketable debt and equity securities*

To strengthen business relationships and for other purposes, Marubeni and its consolidated subsidiaries invest in marketable debt securities, marketable equity securities and other types of securities. At the time of purchase, these securities are classified as trading, held-to-maturity, or available-for-sale securities, in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, published by the Financial Accounting Standards Board (FASB) of the United States.

Trading and available-for-sale securities held by Marubeni and its consolidated subsidiaries carry the risk of fluctuations in original value due to changes in the fair value. The posting of impairment losses on these securities at low points in fair value may adversely affect the operating results and financial position of Marubeni and its consolidated subsidiaries.

#### *k. Laws and regulations*

In the course of operations, Marubeni and its consolidated subsidiaries are subject to a broad range of laws and regulations both in Japan and other applicable countries. Changes in or unanticipated interpretations of these laws and regulations could increase the obligations pertaining to legal and regulatory compliance placed on Marubeni and its consolidated subsidiaries. Accordingly, changes or altered interpretations of laws and regulations may result in punitive measures, including the interruption of Marubeni's operating activities, lower the Company's credibility or cause the occurrence of other circumstances that could adversely impact the Company's business results or financial conditions.

#### *l. Significant Litigation*

In the course of business activities in Japan and overseas, Marubeni and its consolidated subsidiaries may be party to litigation, disputes and other legal proceedings. When party to such litigation, predicting the outcome is impossible given the inherent uncertainty of these matters. The Company cannot guarantee that such litigation will not adversely affect the business results and financial condition of the Marubeni and its consolidated subsidiaries.

*m. Other risks inherent and related to overall Marubeni operations*  
Negligence on the part of employees charged with executing business operations, and malfunctions pertaining to computer systems supporting business activities are among the other risks that may adversely affect the business results and financial condition of Marubeni and its consolidated subsidiaries.

#### **(2) Risk Management**

To consistently minimize risk and achieve higher returns, Marubeni and its consolidated subsidiaries operate an integrated risk management system. Marubeni and its consolidated subsidiaries ascertain the level of market, credit, investment and other quantifiable or measurable risk. Fundamental risk

management policies and internal regulations are formulated to ensure proper decision-making and monitoring of these risks. Organizations, management systems, management options and systems infrastructure are also kept in place for executing these policies and regulations. That said, compliance risk and other difficult to quantify or immeasurable risks can arise during the course of the wide-ranging operations of Marubeni and its consolidated subsidiaries. Moreover, the risk management framework operated by Marubeni and its consolidated subsidiaries may be unable to prevent the occurrence of a variety of risks that carry the possibility of future reoccurrence. As a result, the Company cannot guarantee its ability to completely manage such risks.

#### **(3) The New Medium-term Management Plan**

In December 2001, Marubeni and its consolidated subsidiaries launched the "A" PLAN, the previous medium-term management plan that reinvigorated the Company's earnings power and vitality. To build on this momentum for a further leap forward, the Company embarked on a new medium-term management plan, the "V" PLAN, from April 2003. With the goal of improving the Company's financial position and strengthening its earnings base, the new plan aims to achieve consolidated net income of ¥50.0 billion, consolidated net interest-bearing debt of ¥2 trillion or less, and a net D/E ratio of 5 times or less by the fiscal year ending March 31, 2006. However, these objectives were prepared based on certain assumptions, hypotheses and projections regarding the persistence of certain economic conditions, industry trends, and other concerns. A number of unknown and uncontrollable factors could prevent the completion of these objectives.

#### **(4) Uncertainty Regarding Financial Condition and Changes in Operating Results**

In the past, the following were among the factors that have caused the performance and financial condition of Marubeni and its consolidated subsidiaries to fluctuate: gains and losses on

the sale of real estate and devaluation losses pertaining to real estate; realized gains and losses and devaluation losses associated with marketable and investment securities; allowances for bad debt; and losses stemming from the realignment of Marubeni Group companies. To improve their financial position, Marubeni and its consolidated subsidiaries have taken steps to shrink total assets and net interest-bearing debt, reduce or establish allowances for underperforming and unprofitable assets, pare down expenses, shift management resources to high growth fields, and minimize exposure from high-risk assets. While Marubeni and its consolidated subsidiaries are confident that substantial progress has been made in enhancing their financial position, the Company cannot guarantee that greater losses will not be posted in the future.

#### 4 | Significant Accounting Policies and Estimates

Marubeni prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. In preparing these statements, certain accounting estimates and assumptions are utilized as needed when calculating assets and liabilities as of the fiscal year-end, the disclosure of contingent assets and liabilities, and earnings and expenses incurred during the year. In deciding accounting estimates and assumptions, management makes what it determines to be a reasonable inference of these amounts based on past experience and on a case-by-case basis. Estimates and assumptions made in this way have an inherent degree of uncertainty, and actual results could differ from those estimates. Management considers the following estimates and assumptions will have a material impact on the Company's consolidated financial statements.

##### **Allowances for doubtful accounts**

When evaluating credit risk associated with accounts receivable, notes receivable, loans receivable, and other receivables, Marubeni and its consolidated subsidiaries classify such according to latent risk carried by the obligor or geographical region concerned. Based on this classification, an allowance is established for a given receivable considered as a loss, posted at an amount equal to the current value of the receivables (projected cash flow minus the initial effective interest rate), or the fair value of the asset as collateral. Projected cash flow and fair value as collateral are estimated based on the most accurate credit information available from specialists regarding the past payment history of each applicable obligor or region. For general receivables not covered above, allowances are calculated based on the historical rate of default for each risk category. The historical rate of default is determined by specialists, based on past experience in each applicable risk area.

While Marubeni believes these estimates to be reasonable, unexpected changes and other factors could significantly impact the Company's consolidated financial statements.

##### **Valuation of marketable and investment securities**

In accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, published by the FASB, Marubeni and its consolidated subsidiaries classify securities as trading, held-to-maturity, or available-for-sale.

Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Available-for-sale securities are carried at fair value with the unrealized gains and losses, net of taxes, reported in accumulated other comprehensive loss in shareholders' equity. For held-to-maturity and available-for-sale securities, declines in value judged other than temporary are posted as devaluation losses.

Declines in the value of marketable securities judged other than temporary are determined by examining the length of time that market value remains below book value and the percent decline in value. For securities without market quotations, a comprehensive examination of the possibility of recovery—based on projected business results—net assets and other measures of the percent decline in actual value, are used to make this determination.

While Marubeni believes these estimates to be reasonable, unforeseeable changes to the assumptions used could result in a higher-than-expected loss, which could significantly impact the Company's consolidated financial statements.

#### **Impairment loss on long-lived assets**

Following a comparison of asset book value and the total projected cash flow, long-lived assets held by Marubeni and its consolidated subsidiaries for which the book value is judged uncollectible are posted at fair value as an impairment loss. Projected cash flows are estimated based on a pre-established set of criteria.

While Marubeni believes these estimates to be reasonable, unforeseeable changes to the terms and criteria used could result in a reassessment of projected cash flows, which could significantly impact the Company's consolidated financial statements.

#### **Deferred tax assets**

In their financial statements and for tax purposes, Marubeni and its consolidated subsidiaries recognize deferred tax assets on temporary differences and net operating loss carryforwards. Regarding temporary differences and net operating loss carryforwards lowered due to future tax changes, a valuation allowance is posted for the portion for which realization is deemed unlikely, with deferred tax assets reduced accordingly. The projected amount of future tax to be collected is estimated based on future applicable income taxes and tax strategies.

While Marubeni believes these estimates to be reasonable, unforeseeable changes to the terms and criteria used could result in a reassessment of the projected amount of tax to be collected, which could significantly impact the Company's consolidated financial statements.

#### **Retirement benefit expenses and obligations**

Marubeni and its consolidated subsidiaries utilize actuarial pension accounting based on pre-established criteria to calculate severance pay and pension obligations for regular employees. These pre-established criteria include the discount rate, the retirement rate, the mortality rate, the rate of salary increase, and the rate of expected return on pension assets.

While Marubeni believes these estimates to be reasonable, unforeseeable changes to the criteria used could significantly impact the Company's consolidated financial statements.

#### **New accounting standards**

Since October 1, 2003, Marubeni has applied the SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, published by the FASB. SFAS 150 stipulates methods for classifying and appraising financial instruments considered both as liabilities and as equity assets. Management believes that application of this accounting standard will have a negligible impact on the business results and financial condition of Marubeni and its consolidated subsidiaries.

## 5 | Off-balance Sheet Arrangements and Contractual Obligations

Marubeni guarantees debt of affiliated companies and third parties in the ordinary course of business. Should the guaranteed parties fail to make payments, the Company would be required to make such payments under these guarantees. The term of the guarantees is basically one year. The related guarantee fees are primarily received quarterly or semi-annually. Certain of these guarantees were secured by guarantees issued to the Company by other parties. The outstanding balance of guarantees, which approximated the maximum potential payment under these guarantees, was ¥180,230 million, including ¥110,557 million to affiliated companies, as of March 31, 2004, net of the amount secured by guarantees issued to the Company by other parties of ¥19,507 million. In the year ended March 31, 2003, these figures were ¥276,431 million, ¥151,355 million and ¥21,258 million, respectively.

## 6 | Significant Policies

Marubeni, in a move to propel earnings power and the vitality of its internal structure to a higher level, launched a new three-year medium-term management plan, the “V” PLAN, in April 2003. The management policies formulated in the “V” PLAN aim to forge the Company into a resilient group possessing the top operational units and business portfolio in the industry, and implement management strategies tailored to each business model. The ultimate goal is to strengthen the Company’s earnings base and improve its financial position by placing renewed emphasis on risk-return profiles and cash flows, and through sound management.

During the fiscal year ended March 31, 2004, Marubeni enacted the following measures in line with the fundamental management policies mentioned above.

As a measure for boosting capital outlined in the “V” PLAN, Marubeni issued ¥75.5 billion in preferred stock via private placement in December 2003. Funds gained were allotted to enhancing the Company’s financial position and for proactive investment in priority fields.

By the fiscal year ending March 31, 2006, the “V” PLAN targets consolidated net income of ¥50.0 billion, consolidated net interest-bearing debt of ¥2 trillion or less, and a net debt-to-equity ratio of 5 times or less. Progress made on realizing these objectives is outlined below.

Consolidated net income surpassed full-year forecasts, increasing to a record-high ¥34.6 billion, compared with consolidated net income for fiscal year ended March 31, 2003 of ¥30.3 billion.

Consolidated net interest-bearing debt was ¥1,969.3 billion, compared with ¥2,264.1 billion in the previous year, enabling Marubeni to achieve its objective of net interest-bearing debt of ¥2 trillion or less, originally slated for the year ending March 31, 2006, a full two years ahead of schedule. This feat was made possible through replacement of assets in priority fields, efforts to encourage the collection of long-term receivables, and the sale of marketable securities.

Accumulated increases in consolidated net income, reduction in consolidated net interest-bearing debt and a boost in capital from the issuance of preferred stock resulted in a net debt-to-equity ratio for the year of 5.01 times, compared with 8.71 times a year earlier, a substantial year-on-year improvement.

Complementing its earlier business unit system, from April 2003 Marubeni introduced the portfolio unit system, whereby its business segments and subsidiaries were organized into portfolio units, based on criteria such as products and services offered, business model, geography and client base. PATRAC (Profit After Tax less Risk Asset Cost), a risk-return indicator, is used to evaluate and judge the profitability and earnings performance of these portfolio units on a consolidated basis. The Company moved forward with replacing assets with those able

to increase PATRAC, allowing for more precise allocation of management resources.

Since achieving gross trading profit in the fiscal year ended March 31, 2001 of ¥479.8 billion following the reduction and deconsolidation of unprofitable businesses, gross trading profit has tended to drift lower in subsequent years. Addressing this issue is a priority for management at Marubeni and its consolidated subsidiaries.

That said, real consolidated operating profit (see note below), reflecting the benefits of shrinking unprofitable businesses, has risen from a low of ¥44.7 billion in the fiscal year ended March 31, 2002, to ¥79.0 billion in the fiscal year ended March 31, 2003, and to ¥79.4 billion in the fiscal year ended March 31, 2004. In the fiscal year ending March 31, 2005, the Company expects this figure to rise to ¥93.0 billion.

Looking ahead, while maintaining net interest-bearing debt of ¥2 trillion or less, Marubeni will work toward consolidated net income of ¥50.0 billion targeted by the “V” PLAN for the fiscal year ending March 31, 2006, with the fiscal year ending March 31, 2005 as a pivotal time for going on the offensive to expand earnings. Over the fiscal years ending March 31, 2005 and 2006, the Company intends to channel ¥80.0 to ¥100.0 billion into investments and businesses able to generate benefits in terms of gross trading profit and real operating profit at the earliest possible stage.

(Note) Real consolidated operating profit = consolidated gross trading profit – selling, general and administrative expenses

## 7 | Outlook

With the drive to strengthen the earnings base as a major component of the “V” PLAN medium-term management plan, Marubeni is proactively investing management resources in priority fields and developing its business models in priority markets.

In terms of specific actions, Marubeni positioned food distribution, natural resource development, paper and pulp, electronic materials, the overseas independent power producer (IPP) business, and new application technology areas as priority business fields, and invested accordingly. In the priority market of Asia, the Company is enacting measures for expanding its business scope, particularly in China. The newly established China Strategy Promotion Committee is spearheading the formulation of the Company’s merchandise, business, alliance and regional strategies in China. In addition to the ongoing promotion of greater selectivity and concentration in the Chinese market, in the fiscal year ended March 31, 2004 the Company dispatched 12 key people to China to enhance its measures for having personnel on the ground trained for the challenges of the Chinese market.

Marubeni also took a string of portfolio management actions, which included managing and evaluating the performance on a consolidated basis of the 101 portfolio units divided along business model lines. Portfolio units posting negative PATRAC for three consecutive business terms are designated as non-core units. Following withdrawal from such units, management resources are re-allotted to exemplary replacement assets. The Company will continue to enact portfolio management during the fiscal year ending March 31, 2005, the second year of the “V” PLAN, exiting from underperforming assets to invest management resources in priority fields and markets to further strengthen the Company’s earnings base.

# Consolidated Balance Sheets

Marubeni Corporation  
At March 31, 2004 and 2003

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
<b>Current assets:</b>			
Cash and cash equivalents (Notes 2 and 17) .....	¥ 478,731	¥ 466,511	\$ 4,516,330
Time deposits (Notes 8 and 17) .....	6,753	14,331	63,708
Investment securities (Notes 2, 4, 8 and 17):			
Marketable equity securities .....	3,387	182	31,953
Other .....	6,058	13,108	57,151
Notes and accounts receivable – trade (Notes 6 and 8):			
Notes receivable .....	98,227	108,048	926,670
Accounts receivable .....	764,545	824,784	7,212,689
Due from affiliated companies .....	106,391	131,655	1,003,689
Allowance for doubtful accounts .....	(26,949)	(32,068)	(254,236)
Inventories (Notes 2 and 8) .....	398,617	397,714	3,760,538
Advance payments to suppliers .....	85,490	67,741	806,509
Deferred income taxes (Note 11) .....	32,862	34,594	310,019
Prepaid expenses and other current assets .....	125,852	175,474	1,187,282
Total current assets .....	2,079,964	2,202,074	19,622,302
<b>Investments and long-term receivables:</b>			
Affiliated companies (Notes 2, 5 and 8) .....	337,451	364,648	3,183,500
Securities and other investments (Notes 2, 4, 8 and 17):			
Marketable equity securities .....	178,290	112,589	1,681,981
Other .....	307,575	337,955	2,901,651
Notes, loans and accounts receivable – trade, net of unearned interest, less allowance for doubtful accounts of ¥93,865 million (\$885,519 thousand) in 2004 and ¥110,462 million in 2003 (Notes 2, 6, 8 and 17) .....	206,184	245,887	1,945,132
Property leased to others, at cost, less accumulated depreciation of ¥55,628 million (\$524,792 thousand) in 2004 and ¥50,282 million in 2003 (Notes 2 and 8) .....	256,370	201,871	2,418,585
Total investments and long-term receivables .....	1,285,870	1,262,950	12,130,849
<b>Property, plant and equipment, at cost (Notes 2 and 8):</b>			
Land and land improvements .....	179,450	171,037	1,692,925
Buildings .....	288,668	276,190	2,723,283
Equipment .....	322,240	279,089	3,040,000
	790,358	726,316	7,456,208
Accumulated depreciation .....	(305,373)	(265,985)	(2,880,878)
Net property, plant and equipment .....	484,985	460,331	4,575,330
Prepaid pension cost (Note 10) .....	105,797	113,005	998,085
Deferred income taxes (Note 11) .....	118,274	157,335	1,115,792
Intangible assets (Notes 2, 7 and 10) .....	50,006	42,236	471,755
Goodwill (Notes 2 and 7) .....	28,793	23,553	271,632
Other assets (Note 3) .....	100,505	59,998	948,161
Total assets .....	¥4,254,194	¥4,321,482	\$40,133,906

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
<b>Current liabilities:</b>			
Short-term loans (Notes 8, 9 and 17) .....	¥ 474,735	¥ 561,139	\$ 4,478,632
Current portion of long-term debt (Notes 8, 9 and 17) .....	328,816	402,186	3,102,038
Notes and accounts payable – trade:			
Notes and acceptances payable (Note 8) .....	204,574	196,282	1,929,943
Accounts payable .....	629,279	608,386	5,936,594
Due to affiliated companies .....	44,228	44,717	417,245
Advance payments received from customers .....	76,684	60,553	723,435
Income taxes (Note 11) .....	13,262	13,773	125,113
Deferred income taxes (Note 11) .....	2,535	1,984	23,915
Accrued expenses and other current liabilities (Note 8) .....	190,705	216,880	1,799,104
Total current liabilities .....	1,964,818	2,105,900	18,536,019
<b>Long-term debt, less current portion (Notes 8, 9 and 17) .....</b>	<b>1,822,473</b>	<b>1,902,327</b>	<b>17,193,142</b>
<b>Employees' retirement benefits (Note 10) .....</b>	<b>8,786</b>	<b>9,571</b>	<b>82,887</b>
<b>Deferred income taxes (Note 11) .....</b>	<b>23,536</b>	<b>10,972</b>	<b>222,038</b>
<b>Minority interests in consolidated subsidiaries .....</b>	<b>41,599</b>	<b>32,661</b>	<b>392,443</b>
<b>Commitments and contingent liabilities (Note 19)</b>			
<b>Shareholders' equity (Notes 12 and 13):</b>			
Preferred stock:			
Class I with no stated value:			
Authorized shares – 100,000,000			
Issued and outstanding shares – 75,500,000 in 2004 .....	37,750	–	356,132
(aggregate liquidation preference of ¥75,500 million)			
Class II with no stated value:			
Authorized shares – 100,000,000			
No shares issued and outstanding shares .....	–	–	–
Common stock:			
Authorized shares – 4,300,000,000 in 2004 and 3,000,000,000 in 2003			
Issued and outstanding shares – 1,494,021,081 in 2004 and 2003 .....	194,039	194,039	1,830,557
Capital surplus .....	125,430	87,765	1,183,302
Retained earnings .....	94,870	64,786	895,000
Accumulated other comprehensive loss (Notes 4, 10, 11 and 14) .....	(59,025)	(86,441)	(556,840)
Cost of common stock in treasury – 714,433 shares in 2004 and 756,776 shares in 2003 .....	(82)	(98)	(774)
Total shareholders' equity .....	392,982	260,051	3,707,377
<b>Total liabilities and shareholders' equity .....</b>	<b>¥4,254,194</b>	<b>¥4,321,482</b>	<b>\$40,133,906</b>

See accompanying notes.



# Consolidated Statements of Changes in Shareholders' Equity

Marubeni Corporation  
At March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2004	2003	2004	
<b>Class I preferred stock (Note 13):</b>				
Balance at beginning of year .....	¥ -	¥ -	\$ -	
Stock issued .....	37,750	-	356,132	
Balance at end of year .....	¥ 37,750	¥ -	\$ 356,132	
<b>Common stock:</b>				
Balance at beginning of year .....	¥194,039	¥ 194,039	\$1,830,557	
Balance at end of year .....	¥194,039	¥ 194,039	\$1,830,557	
<b>Capital surplus:</b>				
Balance at beginning of year .....	¥ 87,765	¥ 216,993	\$ 827,972	
Transfer to retained earnings (accumulated deficit) (Note 12) .....	-	(129,228)	-	
Excess of proceeds from issuance of preferred stock over the amount assigned to the preferred stock account (Note 13) .....	37,665	-	355,330	
Balance at end of year .....	¥125,430	¥ 87,765	\$1,183,302	
<b>Retained earnings (accumulated deficit):</b>				
Balance at beginning of year .....	¥ 64,786	¥ (94,754)	\$ 611,189	
Net income .....	34,565	¥ 34,565 30,312	326,085	\$ 326,085
Cash dividends – common stock .....	(4,481)	-	(42,274)	
Transfer from capital surplus (Note 12) .....	-	129,228	-	
Balance at end of year .....	¥ 94,870	¥ 64,786	\$ 895,000	
<b>Accumulated other comprehensive loss (Note 14):</b>				
Balance at beginning of year .....	¥ (86,441)	¥ (52,375)	\$ (815,481)	
Unrealized gains (losses) on investment securities, net of reclassification (Note 4) .....	43,290	(8,749)	408,396	
Currency translation adjustments, net of reclassification ...	(15,247)	(20,854)	(143,840)	
Unrealized losses on derivatives, net of reclassification ...	(597)	(4,101)	(5,632)	
Minimum pension liability adjustment (Note 10) .....	(30)	(362)	(283)	
Other comprehensive income (loss), net of tax .....	27,416	(34,066)	258,641	258,641
Comprehensive income (loss) .....	¥ 61,981	¥ (3,754)	\$ 584,726	
Balance at end of year .....	¥ (59,025)	¥ (86,441)	\$ (556,840)	
<b>Cost of common stock in treasury:</b>				
Balance at beginning of year .....	¥ (98)	¥ (8)	\$ (925)	
Treasury stock sold (repurchased) .....	16	(90)	151	
Balance at end of year .....	¥ (82)	¥ (98)	\$ (774)	
<b>Disclosure of reclassification amount for the year ended:</b>				
Unrealized gains (losses) on investment securities arising during the period .....	¥ 51,762	¥ (19,036)	\$ 488,321	
Less: reclassification adjustments for (gains) losses included in net income .....	(8,472)	10,287	(79,925)	
Net unrealized gains (losses) .....	¥ 43,290	¥ (8,749)	\$ 408,396	
Currency translation adjustments arising during period ..	¥ (17,803)	¥ (27,252)	\$ (167,953)	
Less: reclassification adjustments for losses included in net income .....	2,556	6,398	24,113	
Net currency translation adjustments .....	¥ (15,247)	¥ (20,854)	\$ (143,840)	
Unrealized losses on derivatives arising during the period ..	(5)	(4,618)	(47)	
Less: reclassification adjustments for (gains) losses included in net income .....	(592)	517	(5,585)	
Net unrealized losses on derivatives .....	¥ (597)	¥ (4,101)	\$ (5,632)	

See accompanying notes.

# Consolidated Statements of Cash Flows

Marubeni Corporation  
Year ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
<b>Operating activities</b>			
Net income .....	¥ 34,565	¥ 30,312	\$ 326,085
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization .....	54,261	63,665	511,896
Provision for doubtful accounts .....	805	5,660	7,594
Equity in earnings of affiliated companies, less dividends received ....	(598)	(5,555)	(5,642)
(Gain) loss on investment securities .....	(16,077)	12,732	(151,670)
Loss (gain) on property, plant and equipment .....	1,555	(8,530)	14,670
Deferred income taxes .....	14,913	(657)	140,689
Changes in operating assets and liabilities:			
Notes and accounts receivable .....	57,711	76,603	544,443
Inventories .....	(1,102)	15,637	(10,396)
Advance payments to suppliers and prepaid expenses and other current assets .....	15,138	(1,062)	142,811
Prepaid pension cost .....	7,208	(8,819)	68,000
Notes, acceptances and accounts payable .....	18,839	(13,898)	177,726
Advance payments received from customers and accrued expenses and other current liabilities .....	(2,704)	19,155	(25,509)
Income taxes .....	(637)	3,996	(6,009)
Other .....	17,683	5,549	166,821
Net cash provided by operating activities .....	201,560	194,788	1,901,509
<b>Investing activities</b>			
Proceeds from sales and redemptions of securities and other investments .....	106,326	108,092	1,003,075
Purchases of securities and other investments .....	(52,346)	(82,796)	(493,830)
Proceeds from sales of property, plant and equipment and property leased to others .....	15,195	47,783	143,349
Purchases of property, plant and equipment and property leased to others .....	(66,478)	(59,663)	(627,151)
Collection of loans receivable .....	131,470	165,363	1,240,283
Loans made to customers .....	(59,127)	(61,523)	(557,802)
Purchases of intangible assets and other .....	(17,057)	(4,015)	(160,915)
Net cash provided by investing activities .....	57,983	113,241	547,009
<b>Financing activities</b>			
Net decrease in short-term loans .....	(173,240)	(53,423)	(1,634,339)
Proceeds from long-term debt .....	458,836	368,218	4,328,642
Payments of long-term debt .....	(589,521)	(609,920)	(5,561,518)
Proceeds from issuance of preferred stock .....	75,415	–	711,462
Cash dividends paid – common stock .....	(4,481)	–	(42,274)
Sale (purchase) of treasury stock .....	16	(90)	151
Other .....	(963)	1,214	(9,085)
Net cash used in financing activities .....	(233,938)	(294,001)	(2,206,961)
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>(13,385)</b>	<b>(14,159)</b>	<b>(126,274)</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>12,220</b>	<b>(131)</b>	<b>115,283</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>466,511</b>	<b>466,642</b>	<b>4,401,047</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥ 478,731</b>	<b>¥ 466,511</b>	<b>\$ 4,516,330</b>
<b>Supplemental cash flow information:</b>			
Cash paid during the year for:			
Interest .....	¥ 45,071	¥ 52,864	\$ 425,198
Income taxes .....	21,149	12,935	199,519
Non-cash investing activities:			
Exchange of assets:			
Fair value of assets received .....	18,397	30,270	173,557
Carrying value of assets surrendered .....	16,665	24,239	157,217
Contribution of securities to employee retirement benefit trusts .....	–	8,746	–

See accompanying notes.

# Notes to Consolidated Financial Statements

Marubeni Corporation  
Years ended March 31, 2004 and 2003

## 1 | Basis of Financial Statements

Marubeni Corporation (the “Company”), a Japanese corporation, maintains its books and records and prepares its financial statements in Japanese yen. The accompanying consolidated financial statements differ from the non-consolidated financial statements issued for domestic purposes in Japan. In addition to consolidation, they reflect certain adjustments not recorded in the Company’s books, which in the opinion of management are appropriate to present the Company’s financial position, results of operations, and cash flows in accordance with accounting principles generally accepted in the United States of America. The principal adjustments are: (1) recognition of installment sales on the accrual basis, (2) recognition of the value ascribed to warrants, (3) accounting for pension costs, (4) accounting for certain investments in debt and marketable equity securities,

(5) deferred gain on sales of property for tax purposes, (6) accounting for long-lived assets, (7) accounting for derivative instruments and hedging activities, (8) accounting for sale-leaseback of real estate and other, and (9) accounting for debt issuance costs.

Certain reclassifications have been made in the 2003 financial statements to conform to the presentation for 2004.

The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2004 is included solely for the convenience of readers outside of Japan and has been made at ¥106 to \$1, the exchange rate prevailing on March 31, 2004. The translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at this or any other rate.

## 2 | Significant Accounting Policies

### Consolidation

The consolidated financial statements of the Company include the accounts of all majority owned domestic and foreign subsidiaries (together, the “Companies”). Significant intercompany transactions and accounts have been eliminated. When a subsidiary sells stock to unrelated third parties, the Company’s shareholdings in the subsidiary decreases while the price per share increases or decreases, depending on the price of the new stock issued. The Companies recognize such a change in the price per share as a gain or loss at the time of the sale of stock.

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 46, *Consolidation of Variable Interest Entities* (FIN 46), an interpretation of ARB No. 51. In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements. FIN 46 requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIE’s activities, is entitled to receive a majority of the VIE’s residual returns (if no party absorbs a majority of the VIE’s losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

The Companies applied FIN 46 immediately for the Companies’ interests in VIEs created after January 31, 2003, and for the Companies’ interests in special purpose entities created before February 1, 2003 on October 1, 2003. The provisions of FIN 46, as revised, were adopted as of January 1 2004, for the Companies’ interests in all VIEs. The adoption of FIN 46 did not have a material impact on the Company’s financial positions and results of operations.

Certain subsidiaries have been included on the basis of a fiscal year-end on or after December 31, but prior to the parent

company’s fiscal year-end of March 31. There have been no significant transactions with such subsidiaries during the intervening periods.

### Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although the actual results could differ from those estimates, management does not believe that any differences would materially affect the consolidated financial statements of the Company.

### Cash equivalents

The Companies consider deposits in banks and securities purchased under resale agreements with an original maturity of three months or less to be cash equivalents.

### Investment securities

Management determines the appropriate classification of investment securities as either trading, held-to-maturity or available-for-sale securities at the date of purchase.

#### Trading securities

Trading securities are held for resale in anticipation of short-term market movements. Trading securities, consisting primarily of marketable equity securities, are stated at fair value. Gains and losses are included in gain/loss on sales of investment securities.

#### Held-to-maturity securities

Debt securities are classified as held-to-maturity when the Companies have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Interest on securities classified as held-to-maturity is included in interest income. Declines in fair value judged to be other than temporary on held-to-maturity securities are included in impairment loss on investment securities.

#### *Available-for-sale securities*

Marketable equity securities not classified as trading and debt securities not classified as trading or held-to-maturity are classified as available-for-sale securities and are carried at fair value, with the unrealized gains and losses, net of taxes, reported in accumulated other comprehensive loss in shareholders' equity. The amortized cost of debt securities in this category is adjusted for the amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Realized gains and losses and declines in fair value judged to be other than temporary on available-for-sale securities are included in gain/loss on sales of investment securities and impairment loss on investment securities, respectively. The average cost of securities sold is used in the determination of realized gains or losses. Interest and dividends on investment securities classified as available-for-sale are included in interest income and dividend income, respectively.

#### **Inventories**

Inventories, which primarily consist of commodities, merchandise and real estate held for sale, are stated at the lower of cost (primarily specific or moving average cost) or market (generally replacement cost). Inventories included real estate for sale of ¥106,947 million (\$1,008,934 thousand) and ¥115,140 million at March 31, 2004 and 2003, respectively.

#### **Investments**

The Companies' investments in affiliated companies (investees over which the Companies have the ability to exercise significant influence) are stated at cost, adjusted for equity in their undistributed earnings or accumulated losses since acquisition. Other investments are primarily non-marketable equity securities and are stated at cost, adjusted for any declines in value judged to be other than temporary.

#### **Loans and allowance for doubtful accounts**

Loans including accounts receivable are stated at cost.

In evaluating the credit risk relating to loans, the Companies categorize them based on the potential exposures for credit ratings of debtors, geographical and other considerations. When a loan is impaired, the allowance for credit losses is determined based on discounted cash flows using the loans' initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. For other loans, the allowance for credit losses is determined based on a historical bad debt ratio by the credit risk category. When loans are legally or contractually determined to be uncollectible, the loans are offset against their respective allowances.

Cash received on impaired loans is either applied against the principal of such loans or reported as interest income, based on management's judgment with regard to the collectibility of the principal. The Companies discontinue the accrual of interest when loans are past due for a period of 180 days or more. The accrual of interest is resumed when agreements for rescheduling of payment are made and receipt of interest is probable.

Loans ninety days past due are noted as delinquent and monitored for collectibility.

#### **Leases**

The Companies lease vessels, buildings and equipment to customers and other third parties. Finance leases are included in current and non-current accounts receivable in the consolidated balance sheet. Operating leases are presented separately as property leased to others in the consolidated balance sheet.

#### **Depreciation**

Depreciation of property, plant and equipment (including property leased to others) is determined by the declining-balance or the straight-line method (primarily for buildings) at rates based on the estimated useful lives of the respective assets, which are from 2 to 50 years.

#### **Long-lived assets other than goodwill and other intangible assets**

Long-lived assets held and used are evaluated for impairment and written down to their fair value if the sum of their expected future cash flows is less than the carrying amount of the assets. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

#### **Goodwill and other intangible assets**

Effective April 1, 2002, the Companies adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. SFAS 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Additionally, SFAS 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized. The Companies annually test goodwill for impairment using the two-step process prescribed in SFAS 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any.

#### **Asset retirement obligations**

Effective for the year ended March 31, 2004, the Companies adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). SFAS 143 requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. The adoption of SFAS 143 did not have a material impact on the Company's financial positions and results of operations.

#### **Financial instruments with characteristics of both liabilities and equity**

Effective for the year ended March 31, 2004, the Companies adopted Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS 150). SFAS 150 established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS 150 did not have a material impact on the Company's financial positions and results of operations.

#### **Guarantees**

Effective on January 1, 2003, the Companies adopted FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45) for guarantees, undertaken or modified after December 31, 2002, while the previous accounting for guarantees continues to be applied for guarantees issued before January 1, 2003. The adoption of FIN 45 did not have a material impact on the Company's financial position and results of operations.

**Revenue recognition and total volume of trading transactions**

The trading transactions undertaken by the Companies take many forms and consist of those in which the Companies act as principal and those in which the Companies act as agent. In agency transactions, payment for goods is made directly by the purchaser to the supplier. The Companies derive revenues from sales of goods, performance of services and commissions on trading transactions.

Prior to April 1, 2003, all revenue transactions of the Companies were presented on a net basis; that is, the related margins had been presented as gross trading profits in the statements of income. Subsequent to the issuance of the consolidated financial statements for the year ended March 31, 2003, the Company's management determined that certain transactions should be presented on a gross basis, in accordance with the consensus reached in FASB Emerging Issue Task Force Issue 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent* (EITF 99-19). Although the Companies legally act as a principal, certain transactions are reported net, as commissions, when the margins thereon are in substance considered commissions. The presentation may change according to changes in form or substance of transactions.

As a result of the adoption of EITF 99-19, the consolidated statement of income for the year ended March 31, 2003 has been restated. The adoption of this guidance did not have a material effect on the Company's financial position or results of operations. The total volume of trading transactions, which is voluntarily disclosed in the statements of income, includes the sales value of all transactions in which the Companies participate, regardless of the form of such transaction, based on the practice of the Japanese trading companies.

The Companies' revenues and commissions are recognized when they are realized or realizable and earned. Revenues and commissions are realized or realizable and earned when the Companies have persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collection is reasonably assured.

**Sale of goods:** In acting as a principal, revenue from the sale of goods is recognized when the delivery conditions are met. These conditions are considered to have been met when the goods are received by the customer or title to securities such as bills of lading are transferred to the customer or the implementation testing is fully completed and any future obligations are perfunctory and do not affect the customer's final acceptance of the arrangement.

**Performance of services:** Commissions are recognized when the contracted services to the third-party customers are completed. In acting as agent, the Companies recognize commissions when contracted services are fully rendered to the customers.

**Long-term and large scale construction arrangements:** Revenue is recognized by the completed-contract method unless reasonably dependable estimates of costs and extent of progress can be made, in which case revenue is recognized by the percentage-of-completion method.

Shipping and handling costs are included in determining the gross trading profit.

**Other expenses – net**

Other expenses – net includes losses incurred in liquidating subsidiaries and affiliated companies of ¥6,549 million (\$61,783 thousand) and ¥12,542 million for the years ended March 31, 2004 and 2003, respectively.

**Derivative instruments and hedging activities**

Effective April 1, 2001, the Companies adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended by SFAS 138 and SFAS 149. The Companies recognize all derivative instruments on the consolidated balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of a hedge will be immediately recognized in earnings. For derivative and non-derivative financial instruments designated as hedging the foreign currency exposure of a net investment in foreign subsidiaries and affiliates, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment to the extent the hedges are effective. Gains and losses related to the hedge ineffective portion and related to the portion of hedging instruments excluded from the assessment of hedge effectiveness are included in other expenses – net. The Companies expect to reclassify ¥1,784 million (\$16,830 thousand) of net losses on derivative instruments from accumulated other comprehensive income to earnings during the 12 months ending March 31, 2005, due to actual export and import transactions or receipts and payments of interest. The maximum length of time over which the Companies are hedging their exposure to the variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payments of variable interest on existing financial instruments is 12 months.

**Change in presentation of minority interest on the consolidated statements of income**

Minority interests, which were previously included in other expenses – net, have been separately stated below provision (benefit) for income taxes in the consolidated statement of income for the year ended March 31, 2004. Accordingly, the consolidated statement of income for the year ended March 31, 2003 has been restated.

**Earnings per 100 shares of common stock**

The computation of basic earnings per 100 shares of common stock is based on the weighted average number of shares of common stock outstanding during the year. The computation of diluted earnings per 100 shares is based on the weighted average number of shares of common stock outstanding plus any potentially dilutive securities. For additional disclosures regarding convertible debentures and preferred stocks, refer to Notes 9, 12 and 13.

The following table sets forth the computation of basic and diluted earnings per 100 shares:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Numerator:</b>			
Net income .....	¥ 34,565	¥ 30,312	\$326,085
Less: Preferred stock dividends .....	(442)	–	(4,170)
Net income available to common shareholders (numerator for basic earnings per 100 shares) .....	34,123	30,312	321,915
<b>Effect of dilutive securities:</b>			
Convertible debentures .....	323	333	3,047
Preferred stock .....	442	–	4,170
Numerator for diluted earnings per 100 shares .....	¥ 34,888	¥ 30,645	\$329,132
<b>Denominator:</b>			
Denominator for basic earnings per 100 shares – weighted average shares ....	1,493,219,051	1,493,495,279	
<b>Effect of dilutive securities:</b>			
Convertible debentures .....	119,666,048	123,151,564	
Preferred stock .....	117,406,406	–	
Denominator for diluted earnings per 100 shares – adjusted weighted average shares and assumed conversions .....	1,730,291,505	1,616,646,843	
		Yen	U.S. dollars
<b>Earnings per 100 shares of common stock:</b>			
Basic .....	¥2,285	¥2,030	\$ 21.56
Diluted .....	¥2,016	¥1,896	\$ 19.02

Dividends of Class I preferred stocks are deducted from net income for net income available to common shareholders.

The convertible debentures issued in 1996 with a rate of 0.85% were dilutive for the years ended March 31, 2004 and 2003. The class I preferred stocks issued in 2003 were dilutive for the year ended March 31, 2004.

### 3 | Acquisitions

In November 2003, the Company together with Marubeni Power Venture, Inc., a wholly owned subsidiary, in the United States, acquired 100% of the outstanding common shares of Sithe Asia Holdings Limited (SAHL) from Sithe International Inc., a subsidiary of Sithe Energies Inc., an independent power producer (IPP) in the United States, (44.17%) and other shareholders (55.83%), in order to expand its power generating activities in Asia. The results of SAHL's operations have been included in the consolidated financial statements from the dates

of acquisition. SAHL and its subsidiaries are engaged in the development, construction, ownership and operation of electric and steam generating facilities in Philippines, Korea, China and Pakistan. The total power output capacity is 966 MW (or 652 MW for the portion owned by SAHL) at December 31, 2003.

The aggregate purchase price was ¥38,586 million, and the following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

	Millions of yen	Thousands of U.S. dollars
Current assets .....	¥106,992	\$1,009,359
Property leased to others .....	62,923	593,613
Other non-current assets .....	98,264	927,019
Total assets acquired .....	268,179	2,529,991
Current liabilities .....	88,172	831,811
Long-term debt .....	68,329	644,613
Other non-current liabilities .....	57,172	539,359
Total liabilities assumed .....	213,673	2,015,783
Minority interest .....	15,920	150,189
Net assets acquired .....	¥ 38,586	\$ 364,019

Minority interest above include the Company's direct interest of 41.35% in San Roque Power Corporation (SRPC), a subsidiary of SAHL, acquired prior to this acquisition.

Under the Power Purchase Agreement (PPA) between SRPC and National Power Corporation (NPC), SRPC constructed a power station and certain nonpower plant assets (dam and related facilities). These nonpower plant assets were transferred to NPC in April 2003. The construction costs of the nonpower plant assets were recognized as a deferred charge and included

in other assets on the accompanying consolidated balance sheet. The deferred charge is being amortized by the straight-line method over the PPA period of 25 years, and the balance was ¥59,532 million (\$561,623 thousand) at December 31, 2003.

Had the Company acquired SAHL at April 1, 2002, the consolidated revenues, gross trading profits, net income, and earnings per 100 shares for the years ended March 31, 2004 and 2003 would be as follow:

	Pro Forma Information (Unaudited)		
	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Revenue .....	¥2,813,615	¥2,704,999	\$26,543,538
Gross trading profit .....	416,361	428,617	3,927,934
Net income .....	38,373	30,369	362,009
		Yen	U.S. dollars
Basic earnings per 100 common shares .....	¥2,540	¥2,033	\$23.96
Diluted earnings per 100 common shares .....	2,236	1,899	21.09

#### 4 | Marketable Equity Securities and Debt Securities

The following is a summary of available-for-sale securities and held-to-maturity securities at March 31, 2004 and 2003:

	Available-for-sale securities							
	Millions of yen							
	2004				2003			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:								
Corporate bonds .....	¥ 5,509	¥ 80	¥ (104)	¥ 5,485	¥ 7,947	¥ 19	¥ (360)	¥ 7,606
Non-current:								
Corporate bonds .....	¥ 7,309	¥ 325	¥ -	¥ 7,634	¥ 7,205	¥ 252	¥ -	¥ 7,457
Other debt securities .....	-	-	-	-	2	-	(1)	1
Total debt securities .....	7,309	325	-	7,634	7,207	252	(1)	7,458
Marketable equity securities ...	121,454	62,829	(5,993)	178,290	124,353	17,068	(28,832)	112,589
Total .....	¥128,763	¥63,154	¥(5,993)	¥185,924	¥131,560	¥17,320	¥(28,833)	¥120,047
	Thousands of U.S. dollars							
	2004							
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value				
Current:								
Corporate bonds .....	\$ 51,972	\$ 754	\$ (981)	\$ 51,745				
Non-current:								
Corporate bonds .....	\$ 68,953	\$ 3,066	\$ -	\$ 72,019				
Other debt securities .....	-	-	-	-				
Total debt securities .....	68,953	3,066	-	72,019				
Marketable equity securities ...	1,145,792	592,726	(56,537)	1,681,981				
Total .....	\$1,214,745	\$595,792	\$(56,537)	\$1,754,000				

**Held-to-maturity securities**

Millions of yen

	2004				2003			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:								
Corporate bonds .....	¥ 573	¥ 10	¥ -	¥ 583	¥ 5,502	¥ 59	¥ -	¥ 5,561
Non-current:								
Corporate bonds .....	¥42,784	¥1,488	¥(150)	¥44,122	¥46,120	¥173	¥(3,398)	¥42,895

Thousands of U.S. dollars

	2004			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Corporate bonds .....	\$ 5,406	\$ 94	\$ -	\$ 5,500
Non-current:				
Corporate bonds .....	\$403,623	\$14,037	\$(1,415)	\$416,245

Management of the Company believes that the unrealized losses above are not other than temporary declines as either the market value has substantially recovered subsequent to the balance sheet date or the duration of decline is less than 9 months.

In addition to the securities listed above, the Companies held trading securities of ¥3,387 million (\$31,953 thousand) and ¥182 million, which are equal to their fair value, as of March 31, 2004 and 2003, respectively. The net unrealized holding losses on trading securities included in earnings for the years ended March 31, 2004 and 2003 amounted to nil and ¥5 million, respectively.

The proceeds from sales of available-for-sale securities amounted to ¥33,717 million (\$318,085 thousand) and ¥23,984 million for the years ended March 31, 2004 and 2003, respectively. Gross realized gains on sales of available-for-sale securities totaled ¥13,945 million (\$131,557 thousand) and ¥9,356 million, and gross realized losses totaled ¥179 million (\$1,689 thousand) and ¥846 million for the years ended March 31, 2004

and 2003, respectively.

The Company contributed certain available-for-sale securities to an employee retirement benefit trust at fair value of ¥8,746 million and recognized a loss of ¥1,611 million, which is included in gain on sales of investment securities – net for the year ended March 31, 2003.

The Companies wrote down certain marketable investment securities whose decline in value was considered to be other than temporary to their fair value. These write-downs amounted to ¥197 million (\$1,858 thousand) and ¥23,699 million for the years ended March 31, 2004 and 2003.

The amortized cost and estimated fair value of debt and marketable equity securities at March 31, 2004 are summarized by contractual maturity below. Expected maturities may differ from contractual maturities because the issuers of certain securities have the right to prepay obligations without prepayment penalties.

**Available-for-sale securities**

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Due in one year or less .....	¥ 375	¥ 375	\$ 3,538	\$ 3,538
Due after one year through five years .....	11,774	11,752	111,076	110,868
Due after five years .....	669	992	6,311	9,358
Total debt securities .....	12,818	13,119	120,925	123,764
Marketable equity securities .....	121,454	178,290	1,145,792	1,681,981
Total .....	¥134,272	¥191,409	\$1,266,717	\$1,805,745

**Held-to-maturity securities**

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Due in one year or less .....	¥ 573	¥ 583	\$ 5,406	\$ 5,500
Due after one year through five years .....	39,496	40,475	372,604	381,839
Due after five years .....	3,288	3,647	31,019	34,406
Total .....	¥43,357	¥44,705	\$409,029	\$421,745

## 5 | Affiliated Companies

Investments in and amounts due from affiliated companies at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Investments in equity securities .....	<b>¥256,404</b>	¥271,847	<b>\$2,418,906</b>
Long-term receivables .....	<b>81,047</b>	92,801	<b>764,594</b>
	<b>¥337,451</b>	¥364,648	<b>\$3,183,500</b>

The financial information of affiliated companies at March 31, 2004 and 2003 and for the years then ended, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Total assets .....	<b>¥3,166,112</b>	¥3,479,882	<b>\$29,868,981</b>
Total liabilities .....	<b>2,525,835</b>	2,855,211	<b>23,828,632</b>
Net assets .....	<b>¥ 640,277</b>	¥ 624,671	<b>\$ 6,040,349</b>

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Total volume of trading transactions .....	<b>¥5,680,914</b>	¥5,840,322	<b>\$53,593,528</b>
Net income .....	<b>32,753</b>	58,711	<b>308,991</b>

The Company's transactions with affiliated companies for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Sale transactions .....	<b>¥319,276</b>	¥458,504	<b>\$3,012,038</b>
Purchase transactions .....	<b>158,592</b>	442,467	<b>1,496,151</b>

The unamortized balance of the difference between the cost of investment in affiliated companies and the Company's equity in the net assets at the dates of acquisition amounted to ¥7,221 million (\$68,123 thousand) and ¥8,434 million at March 31, 2004 and 2003, respectively.

Certain investments in the common stock of affiliated

companies are marketable equity securities, which have carrying values of ¥46,271 million (\$436,519 thousand) and ¥41,162 million at March 31, 2004 and 2003, respectively, with corresponding aggregate quoted market values of ¥48,449 million (\$457,066 thousand) and ¥39,336 million.

## 6 | Loans and Allowance for Doubtful Accounts

The changes in the allowance for doubtful accounts are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Balance at beginning of year .....	<b>¥142,530</b>	¥149,554	<b>\$1,344,623</b>
Provision .....	<b>805</b>	5,660	<b>7,594</b>
Charge-offs .....	<b>(21,096)</b>	(7,999)	<b>(199,019)</b>
Other .....	<b>(1,425)</b>	(4,685)	<b>(13,443)</b>
Balance at end of year .....	<b>¥120,814</b>	¥142,530	<b>\$1,139,755</b>

At March 31, 2004 and 2003, the recorded investments in loans that are considered to be impaired under SFAS 114 were ¥264,500 million (\$2,495,283 thousand) and ¥295,065 million, respectively, and the allowance for credit losses related to those loans were ¥ 111,804 million (\$1,054,755 thousand) and ¥126,577 million, respectively. The recorded investment in the impaired loans, net of the valuation allowance, is either secured by collateral or considered collectible based upon various analyses. The average recorded investments in impaired loans were ¥283,259 million (\$2,672,255 thousand) and ¥300,570 million for the years ended March 31, 2004 and 2003, respectively. The

Companies generally recognize interest income on impaired loans on a cash basis, which was not significant for the years ended March 31, 2004 and 2003.

The recorded investments in loans on nonaccrual status were ¥119,953 million (\$1,131,632 thousand) and ¥131,581 million at March 31, 2004 and 2003, respectively, and the recorded investments in loans past due of ninety days and still accruing interest was not significant at March 31, 2004 and 2003.

The aggregated amount of losses on sales of loans was ¥1,023 million (\$9,651 thousand) and ¥1,790 million for the years ended March 31, 2004 and 2003, respectively.

## 7 | Goodwill and Other Intangible and Long-Lived Assets

The gross carrying amounts and accumulated amortization of intangible assets as of March 31, 2004 and 2003 were as follows:

	Millions of yen			
	2004		2003	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
<b>Amortized intangible assets:</b>				
Mining and operating rights .....	¥39,705	¥ (7,363)	¥32,080	¥(10,532)
Software .....	9,002	(2,432)	19,361	(10,611)
Additional minimum liability .....	4,675	(2,694)	4,720	(1,688)
Other .....	12,919	(7,814)	9,481	(4,323)
<b>Intangible assets not subject to amortization:</b>				
Land rent rights .....	2,868	–	2,953	–
Other .....	1,140	–	795	–
	<b>¥70,309</b>	<b>¥(20,303)</b>	<b>¥69,390</b>	<b>¥(27,154)</b>

	Thousands of U.S. dollars	
	2004	
	Gross carrying amount	Accumulated amortization
<b>Amortized intangible assets:</b>		
Mining and operating rights .....	\$374,575	\$ (69,462)
Software .....	84,924	(22,943)
Additional minimum liability .....	44,104	(25,415)
Other .....	121,877	(73,717)
<b>Intangible assets not subject to amortization:</b>		
Land rent rights .....	27,057	–
Other .....	10,755	–
	<b>\$663,292</b>	<b>\$(191,537)</b>

The major amortized intangible assets acquired for the year ended March 31, 2004 were mining and operating rights of ¥12,562 million (\$118,509 thousand). The weighted-average amortization periods of mining rights and software acquired for the year ended March 31, 2004 are 19 years (unit of production method) and 5 years (straight-line method), respectively. The

amount of the residual value of the amortized intangible assets is not significant.

The amortization expense for intangible assets was ¥8,471 million (\$79,915 thousand) and ¥7,263 million for the years ended March 31, 2004 and 2003. The estimated amortization expense for the next five years is as follows:

For the year ending March 31	Millions of yen	Thousands of U.S. dollars
2005 .....	¥7,373	\$69,557
2006 .....	6,012	56,717
2007 .....	4,826	45,528
2008 .....	3,438	32,434
2009 .....	2,852	26,906

The changes in the carrying amount of goodwill for the years ended March 31, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	Balance at beginning of year .....	¥23,553	¥17,393
Goodwill acquired during the year .....	8,364	8,555	78,905
Impairment losses .....	(1,455)	(2,050)	(13,726)
Effect of exchange rate and other .....	(1,669)	(345)	(15,745)
Balance at end of year .....	<b>¥28,793</b>	<b>¥23,553</b>	<b>\$271,632</b>

The goodwill recognized at March 31, 2004, primarily relates to the Telecom and Information, Agri-marine products, Transportation and industrial machinery and Energy segments. Goodwill of ¥7,371 million (\$69,538 thousand) acquired during the year belongs to the Agri-marine product segment.

As a result of decreases in the estimated future cash flows due to the worsened business circumstance and conditions and changes in the management strategies, the Companies

recognized impairment losses of ¥1,455 million (\$13,726 thousand): ¥774 million (\$7,301 thousand) in Chemical segment and ¥681 million (\$6,425 thousand) in Transportation and industrial machinery segment, and ¥2,050 million: ¥1,850 million in Chemical segment and ¥200 million in the Transportation and industrial machinery segment, for the years ended March 31, 2004 and 2003, respectively. The fair value of the reporting unit was estimated using the expected present value of future cash flows.

## 8 | Pledged Assets

The following table summarizes assets pledged as collateral for the Company's obligations at March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Time deposits .....	¥ 430	¥ 1,164	\$ 4,057
Investment securities, securities and other investments and investments in affiliated companies .....	159,523	94,073	1,504,934
Notes, loans and accounts receivable – trade (current and non-current) .....	35,342	22,357	333,415
Inventories .....	23,732	26,683	223,887
Property leased to others, net of accumulated depreciation .....	64,482	20,179	608,321
Property, plant and equipment, net of accumulated depreciation .....	163,999	139,910	1,547,160
Other assets .....	4,877	3,937	46,009
	<b>¥452,385</b>	<b>¥308,303</b>	<b>\$4,267,783</b>

The obligations secured by such collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Short-term loans .....	¥ 19,566	¥19,444	\$ 184,585
Other current liabilities .....	11,906	3,760	112,321
Long-term debt .....	184,444	56,581	1,740,038
Guarantees of contracts, etc. ....	11,552	7,546	108,981
	<b>¥227,468</b>	<b>¥87,331</b>	<b>\$2,145,925</b>

In addition, acceptances payable at March 31, 2004 and 2003 were secured by trust receipts on inventories, the standard terms of which provide that the proceeds from the sales of any such collateral be delivered to the respective bank to be applied against outstanding acceptances. However, the Companies have, in general, followed the practice of paying acceptances on their maturity dates. Given the substantial volume of the Company's transactions, it would not be practicable to determine the total amount of inventories and/or proceeds from the sales of such

inventories covered by outstanding trust receipts.

As is customary in Japan, security, if requested by a lending bank, must be given and the bank has the right to offset cash deposited with it against any debt or obligations that become due and, in the case of default or certain other specified events, against all debt payable to the bank. To date, no such request has been made to the Companies and no such rights have been exercised.

## 9 | Short-Term Loans and Long-Term Debt

Short-term loans at March 31, 2004 and 2003 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Short-term loans from banks and others .....	¥467,735	¥548,439	\$4,412,594
Commercial paper .....	7,000	12,700	66,038
	<b>¥474,735</b>	<b>¥561,139</b>	<b>\$4,478,632</b>

Long-term debt at March 31, 2004 and 2003 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
4.0% reverse dual currency notes due 2005 .....	¥ 11,898	¥ 12,196	\$ 112,245
2.0% notes due 2003 .....	–	14,500	–
2.0% notes due 2003 .....	–	39,376	–
2.12% notes due 2004 .....	4,600	4,600	43,396
2.0% notes due 2003 .....	–	10,473	–
2.0% notes due 2003 .....	–	18,460	–
2.5% notes due 2004 .....	8,700	8,723	82,075
2.3% notes due 2004 .....	7,600	7,600	71,698
2.0% notes due 2003 .....	–	27,929	–
2.0% notes due 2003 .....	–	23,119	–
2.0% notes due 2003 .....	–	4,600	–
2.37% notes due 2004 .....	3,400	3,400	32,075
2.13% notes due 2005 .....	5,800	5,800	54,717
1.52% notes due 2004 .....	10,600	10,600	100,000
1.75% notes due 2008 with prepayment options .....	4,400	4,400	41,509
1.2% notes due 2004 .....	8,300	8,300	78,302
1.48% notes due 2006 .....	3,800	3,800	35,849
1.15% notes due 2005 .....	36,637	36,637	345,632
1.27% notes due 2006 .....	7,700	7,974	72,642
1.13% notes due 2006 .....	28,100	28,100	265,094
0.81% notes due 2004 .....	27,163	27,163	256,255
Libor + 0.73% notes due 2007 .....	15,578	15,578	146,962
2.0% notes due 2006 .....	15,000	–	141,509
1.91% notes due 2006 .....	10,000	–	94,340
1.27% notes due 2007 .....	10,000	–	94,340
1.11% notes due 2007 .....	10,000	–	94,340
0.85% convertible debentures due 2006 .....	64,500	64,500	608,491
Medium-term notes due from 2002 to 2008 principally at rates from 0.1% to 4.4% or at floating rates .....	21,828	45,083	205,925
Loans from government-owned banks and government agencies:			
Secured, due serially through 2016 principally at rates from 1.1% to 6.7% .....	60,049	31,552	566,500
Unsecured, due serially through 2016 principally at rates from 0.9% to 6.4% ..	54,511	106,242	514,255
Loans principally from banks and insurance companies:			
Secured, due serially through 2013 principally at rates from 1.0% to 12.6% ....	119,875	20,939	1,130,896
Unsecured, due serially through 2018 principally at rates from 0.1% to 8.6% ..	1,427,061	1,577,877	13,462,840
Other .....	174,189	134,992	1,643,293
	<b>2,151,289</b>	<b>2,304,513</b>	<b>20,295,180</b>
Less current portion .....	<b>328,816</b>	<b>402,186</b>	<b>3,102,038</b>
	<b>¥1,822,473</b>	<b>¥1,902,327</b>	<b>\$17,193,142</b>

To hedge against exposure related to the payment of interest and the repayment of the principal of certain short-term loans and long-term debt denominated in foreign currencies, the Company and certain of its subsidiaries enter into foreign exchange contracts.

To strengthen the asset liability management and to hedge against exposure to changes in foreign currency exchange rates, the Company and certain of its subsidiaries entered into several interest rate swap agreements, including interest rate and currency swap agreements. The floating interest rates are, in general, based upon the six-month or three-month LIBOR (London Interbank Offered Rate). The interest rate swap agreements are to remain in effect through the maturity dates of the short-term loans and long-term debt.

The indentures covering the 0.85% convertible debentures

due 2006 issued in November 1996 provide that (1) the holders may convert the debentures into shares of common stock at the conversion price of ¥539 (\$5.1), and (2) the debentures are redeemable at the option of the Company at prices ranging from 100% to 101% of the principal amounts after March 31, 2004.

The Company has a line of credit arrangement of ¥450,000 million (\$4,245,283 thousand) with a syndicate of financial institutions. Of such arrangement, ¥152,000 million (\$1,433,962 thousand) can be utilized for a period of three years and is not cancelable. The Company intends to refinance ¥119,679 million (\$1,129,047 thousand) of short-term loans and long-term debt due within a year and has classified such amounts as long-term debt on the consolidated balance sheet at March 31, 2004. The respective amount was ¥133,527 million at March 31, 2003.

Long-term debt subsequent to March 31, 2004 matures as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005 .....	¥328,816	\$3,102,038
2006 .....	638,528	6,023,849
2007 .....	408,650	3,855,189
2008 .....	189,066	1,783,642
2009 .....	131,144	1,237,208
Thereafter .....	455,085	4,293,254

Certain agreements principally with Government-owned financial institutions provide that earlier repayment may be required if, in the judgment of the lenders, the Company or certain of its subsidiaries have achieved higher than expected earnings or received sufficient proceeds from the issuance of common stock or debentures to repay its loans. To date, none of the lenders has made such a request.

Certain of the long-term debt agreements stipulate, among other things, that the Companies, upon request, submit for the lenders' approval the proposed appropriations of income, including dividends, before such appropriations can be submitted to the shareholders. The Companies have never received such a request.

## 10 | Employees' Retirement Benefits

The Company and certain of its subsidiaries have unfunded lump-sum retirement plans which, in general, cover all employees other than directors. In addition, the Company and certain of its subsidiaries have contributory and non-contributory funded pension plans with independent trustees covering eligible employees. Under the terms of the lump-sum retirement plans, eligible employees are entitled under most circumstances, upon mandatory retirement or earlier voluntary severance, to indemnities based on their compensation as of the date of severance and years of service.

Effective April 1, 2003, the Company amended its welfare pension plan to introduce a cash balance plan and to reduce benefits of certain eligible people, and received approval from the Japanese government on June 5, 2003.

On April 15, 2003 and May 1, 2004, the Marubeni Welfare Pension Fund received approval from the Japanese government to transfer the future and past benefit obligation related to the substitutional portion for the government-defined benefit prescribed by the Welfare Pension Insurance Law of Japan respectively. According to the consensus reached by the

Emerging Issue Task Force on Issue No. 03-2, *Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities*, the Company will account for the entire process upon completion of the transfer to the Japanese government of the substitutional portion of the benefit obligation and the related plan asset. The effect to the Company's financial position and results of operations from consummating this transaction has not yet been determined because the amount of the benefit obligation and the related plan assets to be transferred may change.

During the year ended March 31, 2003, the Company contributed ¥22,246 million to a trust which was established to provide pension benefits and is legally segregated from the Company. The contribution was made to improve the funding of the benefit plans. During the year ended March 31, 2004, the Company withdrew cash of ¥5,000 million (\$47,170 thousand) from the trust since the plan assets exceeded the benefit obligations.

The reconciliation of beginning and ending balances of the projected benefit obligation and plan assets, and the funded status of the Company's and certain subsidiaries' plans are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Change in projected benefit obligation</b>			
Projected benefit obligation at beginning of year .....	¥244,268	¥252,218	\$2,304,415
Service cost .....	6,051	8,417	57,085
Interest cost .....	6,245	7,371	58,915
Actuarial losses .....	2,987	19,139	28,179
Foreign currency exchange rate changes .....	(1,595)	(1,221)	(15,047)
Benefits paid .....	(12,522)	(17,779)	(118,132)
Plan amendment .....	(400)	(23,877)	(3,773)
Projected benefit obligation at end of year .....	245,034	244,268	2,311,642
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of year .....	232,943	228,890	2,197,575
Actual return on plan assets .....	29,795	(11,724)	281,085
Foreign currency exchange rate changes .....	(1,374)	(1,102)	(12,962)
Employees' contributions .....	253	706	2,387
Employer's contribution .....	3,537	26,082	33,368
Benefits paid .....	(8,844)	(9,909)	(83,433)
Other .....	(5,000)	–	(47,170)
Fair value of plan assets at end of year .....	251,310	232,943	2,370,850

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Funded status .....	¥ 6,276	¥ (11,325)	\$ 59,208
Unrecognized net transition obligation being recognized over 15 years .....	–	622	–
Unrecognized prior service cost .....	(18,028)	(18,417)	(170,075)
Unrecognized net loss .....	113,583	138,303	1,071,537
Net amount recognized .....	¥101,831	¥109,183	\$960,670

Amounts recognized in the consolidated balance sheet consist of:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Prepaid benefit cost – current .....	¥ 1,784	\$ 16,830
Prepaid benefit cost – noncurrent .....	105,797	998,085
Accrued benefit liability .....	(8,786)	(82,887)
Intangible assets .....	1,981	18,689
Accumulated other comprehensive income, before tax .....	1,055	9,953
Net amount recognized .....	¥101,831	\$ 960,670

The components of net pension expense of the Company's and certain subsidiaries' plans for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost – benefits earned during the year .....	¥ 6,051	¥ 8,417	\$ 57,085
Interest cost on projected benefit obligation .....	6,245	7,371	58,915
Expected return on plan assets .....	(8,214)	(7,782)	(77,491)
Net amortization and deferrals .....	5,799	4,580	54,708
Employees' contributions .....	(253)	(706)	(2,387)
Net pension expense .....	¥ 9,628	¥11,880	\$ 90,830

The measurement date used to determine pension benefit obligations and plan assets was mainly March 31 for the years ended March 31, 2004 and 2003.

The accumulated benefit obligation for all defined benefit pension plans was ¥235,303 million (\$2,219,840 thousand) and ¥235,469 million at March 31, 2004 and 2003, respectively.

The decreases in minimum liability included in other comprehensive income (loss), excluding tax effect, were ¥43 million (\$406 thousand) and ¥696 million for the years ended March 31, 2004 and 2003, respectively.

The aggregate projected benefit obligation and aggregate fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Aggregate projected benefit obligation .....	¥30,455	¥243,738	\$287,311
Aggregate fair value of plan assets .....	19,938	232,406	188,094

The aggregate accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Aggregate accumulated benefit obligation .....	¥19,834	¥20,287	\$187,113
Aggregate fair value of plan assets .....	11,201	10,716	105,670

The weighted-average assumptions used to determine benefit obligations at March 31, 2004 and 2003 were as follows:

	2004	2003
Discount rates .....	2.5%	2.5%
Rates of increases in future salary levels .....	4.8%	3.3%

The weighted-average assumptions used to determine net pension expenses for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Discount rates .....	2.5%	3.0%
Rates of increases in future salary levels .....	3.3%	3.3%
Expected long-term rates of return on plan assets .....	3.0%	3.0%

The expected long-term rates of return are calculated based on the historical returns for certain years adjusted by the target rate of return for the components of the current asset portfolio.

The Company's pension plan weighted-average asset allocations at March 31, 2004 and 2003 were as follows:

Asset category	2004	2003
Equity securities .....	29.9%	25.5%
Debt securities .....	42.6	38.2
Other .....	27.5	36.3
Total .....	100.0%	100.0%

Plan assets are invested 30%, 60% and 10% in equity securities, debt securities and other. The allocation to foreign equity and debt securities is approximately 30% of the total plan assets. The primary policy for the fund management is to invest in various portfolios on a long-term basis and to mitigate the investment risks. As a result of the introduction of the cash-balance plan, the

performance of certain plan assets is matched with the related pension benefits.

The amount of contributions expected to be paid to the plan during the year ending March 31, 2005 is ¥2,400 million (\$22,642 thousand).

## 11 | Income Taxes

Effective the year ended March 31, 2003, the Company adopted the new the Japanese tax regulations allowing the Company to file a consolidated tax return.

Total income taxes recognized for the years ended March 31, 2004 and 2003 are applicable to the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Income before income taxes, minority interests and equity in earnings of affiliated companies .....	¥35,618	¥16,274	\$336,019
Equity in earnings of affiliated companies .....	3,746	6,486	35,340
Other comprehensive income (loss) .....	28,902	(6,403)	272,661
Total income taxes .....	¥68,266	¥16,357	\$644,020

Taxes on income applicable to the Company would normally result in a statutory tax rate of approximately 44% (including a temporary surtax of 2%). A reconciliation of the statutory income

tax rate to the effective income tax rates expressed as a percentage of income before income taxes, minority interests and equity in earnings of affiliated companies is as follows:

	2004	2003
Statutory income tax rate .....	44.0%	44.0%
Tax effect of subsidiaries' operations .....	16.3	28.8
Tax effect of permanent differences .....	2.6	6.5
Difference in tax rates of foreign subsidiaries .....	(9.8)	(15.1)
Tax effect on undistributed earnings of subsidiaries and other .....	6.0	(23.5)
Effect of tax rate change .....	-	12.7
Other .....	1.4	(8.6)
Effective income tax rates .....	60.5%	44.8%

The significant components of deferred tax assets and deferred tax liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Deferred tax assets:</b>			
Allowance for doubtful accounts .....	¥ 78,828	¥ 82,985	\$ 743,660
Inventories .....	7,422	7,468	70,019
Investment securities .....	22,145	52,574	208,915
Employees' retirement benefits .....	1,635	5,892	15,425
Unrealized profit .....	9,262	14,331	87,377
Investments in affiliated companies .....	17,535	20,055	165,425
Net operating loss carryforwards .....	40,352	28,255	380,679
Other .....	30,745	27,432	290,047
<b>Total deferred tax assets .....</b>	<b>207,924</b>	<b>238,992</b>	<b>1,961,547</b>
Valuation allowance .....	(40,974)	(28,284)	(386,547)
<b>Total deferred tax assets – net .....</b>	<b>166,950</b>	<b>210,708</b>	<b>1,575,000</b>
<b>Deferred tax liabilities:</b>			
Property, plant and equipment .....	28,838	21,675	272,057
Undistributed earnings .....	4,151	3,923	39,160
Other .....	8,896	6,137	83,925
<b>Total deferred tax liabilities .....</b>	<b>41,885</b>	<b>31,735</b>	<b>395,142</b>
<b>Net deferred tax assets .....</b>	<b>¥125,065</b>	<b>¥178,973</b>	<b>\$1,179,858</b>

The net changes in the valuation allowance for deferred tax assets were ¥12,690 million (\$119,717 thousand) of increase and ¥17,087 million of decrease for the years ended March 31, 2004 and 2003, respectively.

At March 31, 2004, the Company and certain of its subsidiaries have net operating loss carryforwards of ¥135,552 million (\$1,278,792 thousand), of which ¥126,462 million (\$1,193,038 thousand) will expire through 2011 in Japan and through 2023 outside of Japan, and ¥9,090 million (\$85,755 thousand) has no expiration date.

During March 2003, new tax legislation was enacted in Japan which will reduce the Company's and its domestic subsidiaries' statutory income tax rate from 42% to 41% for fiscal years ending after March 31, 2004. As a result, deferred income tax balances had decreased by ¥4,201 million, which had been charged to income for the year ended March 31, 2003.

No provision has been made for Japanese income taxes on the undistributed earnings of the Company's domestic subsidiaries earned prior to March 31, 1993 or on the undistributed earnings of the Company's foreign subsidiaries which amounted to ¥123,004 million (\$1,160,415 thousand) and ¥98,635 million at March 31, 2004 and 2003, respectively. The Company considers such earnings to be permanently invested. Determination of the amount of the related unrecognized deferred income tax liability is not practicable.

Realization of the Company's net deferred tax assets is dependent on the Company generating sufficient taxable income or the Company executing certain available tax strategies. Although realization is not assured, management believes it is more likely than not that the net deferred tax assets will be realized.

## 12 | Shareholders' Equity

The amount of retained earnings available for dividends under the Japanese Commercial Code (the "JCC") is based on the amount recorded on the Company's books maintained in accordance with Japanese accounting practices. The adjustments included in the accompanying consolidated financial statements but not recorded on the books, as explained in Note 1, have no effect on the determination of retained earnings available for dividends under the JCC. Under the JCC, the unrealized gains of ¥27,051 million (\$255,198 thousand) at March 31, 2004 are deducted from the net assets used in determining retained earnings available for dividends. The retained earnings available for dividends amounted to ¥17,876 million (\$168,642 thousand) at March 31, 2004.

At March 31, 2004, 119,666,048 shares and 266,784,452 shares of common stock were reserved for conversion of the 0.85% convertible debentures issued in 1996 and for conversion of Class I preferred stock issued in 2003, respectively.

Effective October 1, 2001, the par value of the Company's shares was eliminated, as prescribed by an amendment of the JCC.

## 13 | Preferred Stock

The Company is authorized to issue 100 million shares of Class I Preferred Stock and 100 million shares of Class II Preferred Stock. Both classes of preferred stock are non-voting and have equal preference with the Company's common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of the Company. However, during a period that no preferred dividends are paid preferred shareholders have a voting right per share until preferred dividends are declared. Preferred dividends are non-cumulative and non-participating. Preferred shareholders are entitled to a liquidation distribution at ¥1,000 (\$9.43) per share and do not have the right to participate in any further liquidation distributions. The Company may repurchase and hold any classes of preferred stocks, and retire them out of earnings available for distribution to the shareholders.

### *Class I Preferred Stock*

Class I Preferred Stock is convertible into common stock at the option of preferred shareholders during a conversion period. Class I Preferred Stock will be mandatorily converted into common stock on the date immediately following the closing date of the conversion period. At the time of issuance, the Board of Directors will determine the issue price, annual dividend (not exceed ¥100 per share), and conversion terms, including a conversion period.

On December 16, 2003, the Company issued 75.5 million shares of Class I Preferred Stock at ¥1,000 (\$9.43) per share or ¥75,500 million (\$712,264 thousand) in aggregate. The Company allocated ¥37,750 million (\$356,132 thousand) to preferred stock

The JCC requires that an amount equal to at least 10% of cash dividends and other distributions from retained earnings paid by the Company be appropriated as a legal reserve to the extent that the total amount of additional paid-in capital and the legal reserve equals 25% of the common stock. The amounts of additional paid-in capital and the legal reserve were ¥95,229 million (\$898,387 thousand) and zero at March 31, 2004, respectively.

At the June 26, 2002 shareholders' meeting of the Company, the shareholders approved a proposal to eliminate the Company's accumulated deficit of ¥148,072 million by an adjustment to the additional paid-in capital of ¥129,228 million and legal reserve ¥18,844 million, as permitted by the JCC. Since there are no such laws or rules in the United States of America, the accompanying consolidated financial statements reflect the transaction in such a way as permitted under the JCC and recorded in its statutory books. At March 31, 2004, an accumulated deficit of ¥34,358 million (\$324,132 thousand) would have existed had the Company not consummated the aforementioned transaction.

with the remainder, net of issuance costs, recognized as capital surplus based on the JCC and the decision of the Board of Directors of the Company. The annual dividend is ¥20 (\$0.19) per share. At the option of the shareholders, Class I Preferred Stock is convertible into common stock during the period from September 1, 2006 to December 12, 2013 at the conversion price, which is initially the average market closing price of the common stock of the Company traded on the Tokyo Stock Exchange (the "TSE") for the 30 business days starting from the 45th business day prior to the starting day of the conversion period, but not less than ¥50 (\$0.47). The conversion price will then be reset annually on September 1 of each year from 2007 to 2013 if there is a decline in the market price of the Company's common stock, but not less than 70% of the initial conversion price or ¥50 (\$0.47), whichever higher. Class I Preferred Stock shares which are not converted at the option of the shareholders will be mandatorily converted into common stock on December 13, 2013, at the conversion price determined based on the average market closing price of the common stock traded on the TSE for the 30 business days starting from the 45th business day prior to the date of mandatory conversion.

### *Class II Preferred Stock*

Class II Preferred Stock is redeemable at the option of the Company. At the time of issuance, the Board of Directors will determine the issue price, annual dividend (not exceed ¥100 per share), and redemption terms, including a redemption price.

No shares of the Class II Preferred Stock were issued and outstanding at March 31, 2004.

## 14 | Other Comprehensive Income (Loss)

The amount of income tax expense or benefit allocated to each component of other comprehensive income (loss) for the years ended March 31, 2004 and 2003 was as follows:

	Millions of yen		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
<b>2004</b>			
Unrealized gains on investment securities arising during period .....	¥ 87,826	¥(36,064)	¥ 51,762
Less: reclassification adjustments for gains included in net income .....	(14,350)	5,878	(8,472)
Net unrealized gains .....	73,476	(30,186)	43,290
Currency translation adjustments arising during period .....	(19,714)	1,911	(17,803)
Less: reclassification adjustments for losses included in net income .....	3,238	(682)	2,556
Net currency translation adjustments .....	(16,476)	1,229	(15,247)
Unrealized gains on derivatives arising during the period .....	361	(366)	(5)
Less: reclassification adjustments for gains included in net income .....	(1,000)	408	(592)
Net unrealized losses on derivatives .....	(639)	42	(597)
Minimum pension liability adjustment .....	(43)	13	(30)
Other comprehensive income .....	¥ 56,318	¥(28,902)	¥ 27,416
	Thousands of U.S. dollars		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
<b>2004</b>			
Unrealized gains on investment securities arising during period .....	\$ 828,547	\$(340,226)	\$ 488,321
Less: reclassification adjustments for gains included in net income .....	(135,377)	55,452	(79,925)
Net unrealized gains .....	693,170	(284,774)	408,396
Currency translation adjustments arising during period .....	(185,981)	18,028	(167,953)
Less: reclassification adjustments for losses included in net income .....	30,547	(6,434)	24,113
Net currency translation adjustments .....	(155,434)	11,594	(143,840)
Unrealized gains on derivatives arising during the period .....	3,406	(3,453)	(47)
Less: reclassification adjustments for gains included in net income .....	(9,434)	3,849	(5,585)
Net unrealized losses on derivatives .....	(6,028)	396	(5,632)
Minimum pension liability adjustment .....	(406)	123	(283)
Other comprehensive income .....	\$ 531,302	\$(272,661)	\$ 258,641
	Millions of yen		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
<b>2003</b>			
Unrealized losses on investment securities arising during period .....	¥(32,115)	¥13,079	¥(19,036)
Less: reclassification adjustments for losses included in net income .....	17,438	(7,151)	10,287
Net unrealized loss .....	(14,677)	5,928	(8,749)
Currency translation adjustments arising during period .....	(26,053)	(1,199)	(27,252)
Less: reclassification adjustments for losses included in net income .....	7,050	(652)	6,398
Net currency translation adjustments .....	(19,003)	(1,851)	(20,854)
Unrealized losses on derivatives arising during the period .....	(6,966)	2,348	(4,618)
Less: reclassification adjustments for losses included in net income .....	873	(356)	517
Net unrealized losses on derivatives .....	(6,093)	1,992	(4,101)
Minimum pension liability adjustment .....	(696)	334	(362)
Other comprehensive loss .....	¥(40,469)	¥ 6,403	¥(34,066)

The accumulated balance of each component of accumulated other comprehensive losses at March 31, 2004 and 2003 was as follows:

	Millions of yen				
	Unrealized gains (losses) on investment securities	Currency translation adjustments	Unrealized losses on derivatives	Minimum pension liability adjustment	Accumulated other comprehensive losses
Balance at March 31, 2002 .....	¥ 386	¥(51,826)	¥ (715)	¥(220)	¥(52,375)
Change in the period .....	(8,749)	(20,854)	(4,101)	(362)	(34,066)
Balance at March 31, 2003 .....	<b>(8,363)</b>	<b>(72,680)</b>	<b>(4,816)</b>	<b>(582)</b>	<b>(86,441)</b>
Change in the period .....	<b>43,290</b>	<b>(15,247)</b>	<b>(597)</b>	<b>(30)</b>	<b>27,416</b>
Balance at March 31, 2004 .....	<b>¥34,927</b>	<b>¥(87,927)</b>	<b>¥(5,413)</b>	<b>¥(612)</b>	<b>¥(59,025)</b>

	Thousands of U.S. dollars				
	Unrealized gains (losses) on investment securities	Currency translation adjustments	Unrealized losses on derivatives	Minimum pension liability adjustment	Accumulated other comprehensive losses
Balance at March 31, 2003 .....	<b>\$ (78,896)</b>	<b>\$(685,660)</b>	<b>\$(45,434)</b>	<b>\$(5,491)</b>	<b>\$(815,481)</b>
Change in the period .....	<b>408,396</b>	<b>(143,840)</b>	<b>(5,632)</b>	<b>(283)</b>	<b>258,641</b>
Balance at March 31, 2004 .....	<b>\$329,500</b>	<b>\$(829,500)</b>	<b>\$(51,066)</b>	<b>\$(5,774)</b>	<b>\$(556,840)</b>

## 15 | Segment Information

The Company's operating segments by which management evaluates performance and allocates resources are classified in terms of the nature of the products and services or areas. The segments, by products and services, are managed by the divisions of the Head Office. Domestic branches and offices, and overseas corporate subsidiaries and branches operate in the respective areas and are independent operating units. Each reportable segment purchases, distributes and markets a wide variety of industrial and consumer goods including raw materials and equipment relating to a multitude of industries and, in addition, provides the related financing, insurance and other services to these operations primarily on a worldwide basis. The Company has twelve segments identified by product and service, in addition to its domestic branches and offices, and overseas corporate subsidiaries and branches. These segments are outlined as follows:

**Agri-marine products:** This group produces and sells all sorts of foods such as agricultural and marine products, processed food and beverages, raw materials and fodder and manure in addition to distributing these products on a worldwide basis.

**Textile:** As an organization handling various textile-related goods from raw materials through finished products, the group purchases and produces raw materials for apparel and designs and sells apparel and living products in addition to rendering distribution services on a worldwide basis.

**Forest products and general merchandise:** Besides selling rubber products, footwear and housing materials, the group operates leisure facilities, manufactures and sells raw materials for paper production, paper and paperboard, and takes part in afforestation projects in Japan and internationally.

**Chemicals:** This group handles a wide variety of goods ranging from basic chemicals to leading-edge finished products for bio technology industries for sale in Japan and internationally. Especially, this group focuses on furthering bolster efficient operations in electric materials, retail, resource development and environmental area.

**Energy:** This group focuses on products related to energy such as oil, gas and nuclear energy. It also enters into various businesses which benefit from the development of resources, such as retail gas stations.

**Metals and mineral resources:** This group produces, processes and sells nonferrous light metals both domestically and internationally, in addition to processing and selling raw materials for production of steel and light metals internationally.

**Transportation and industrial machinery:** This group imports and exports airplanes, defense-related equipment, aerospace-related equipment, vehicles, construction equipment, agro-industrial equipment, environmental and industrial equipment and personal computers and related products both domestically and internationally.

**Utility and infrastructure:** This group develops and promotes the privatization of electricity, water and solid waste businesses both domestically and internationally. In addition, the group provides construction, installation and supplies businesses related to railroads, airports, harbors, bridges and others.

**Plant and ship:** This group constructs and supplies a wide variety of industrial plants and participates in investments in these businesses both domestically and internationally. In addition, it supplies cargo ships and tankers, and owns and operates a fleet.

**Development and construction:** This group develops and sells condominiums, rents and leases commercial buildings and invests in and manages real estate funds and trusts in Japan.

**Finance and logistics business:** This group invests in and manages investment funds and trades financial instruments. It also operates a forwarding business, renders logistics related consultations and invests in infrastructure projects for logistics. In addition, this group acts as an agent in the insurance business.

**Telecom and information:** This group is engaged in information technology-related businesses such as: IP network infrastructures; overseas communication facilities; cellular phones; wholesale and cable and BS/CS broadcasting; IC tag and radio frequency identification (RFID); ASP/ISP, etc., both domestically and internationally.

**Domestic branches and offices:** Domestic branches and offices are located throughout Japan and handle various merchandise and carry out related activities.

**Overseas corporate subsidiaries and branches:** Overseas corporate subsidiaries and branches are located throughout the world, primarily in North America and Europe, and handle various merchandise and perform related activities.

The Companies' operating segment information for the years ended March 31, 2004 and 2003, were as follows:

Millions of yen

Year ended March 31, 2004	Agri-marine products	Textile	Forest products and general merchandise	Chemicals	Energy	Metals and mineral resources	Transportation and industrial machinery	Utility and infrastructure
Total volume of trading transactions:								
Outside customers .....	¥848,868	¥349,413	¥733,909	¥538,363	¥1,994,307	¥471,211	¥758,976	¥360,977
Inter-segment .....	7,942	3,451	37,599	26,163	707	21,995	23,627	41
Total .....	¥856,810	¥352,864	¥771,508	¥564,526	¥1,995,014	¥493,206	¥782,603	¥361,018
Gross trading profit .....	¥ 61,436	¥ 23,914	¥ 42,009	¥ 24,945	¥ 30,817	¥ 12,163	¥ 55,769	¥ 20,567
Segment net income (loss) .....	¥ 6,957	¥ 1,753	¥ 6,253	¥ 3,326	¥ 10,113	¥ 4,258	¥ (448)	¥ 5,068
Segment assets .....	¥417,735	¥127,045	¥315,720	¥147,118	¥ 319,584	¥180,257	¥306,718	¥409,193
Depreciation and amortization .....	¥ 6,009	¥ 318	¥ 4,382	¥ 1,209	¥ 10,226	¥ 2,714	¥ 3,536	¥ 4,047
Expenditures for segment assets ..	¥ 5,946	¥ 141	¥ 2,886	¥ 724	¥ 12,308	¥ 2,907	¥ 1,877	¥ 2,333

Millions of yen

Year ended March 31, 2004	Plant and ship	Development and construction	Finance and logistics business	Telecom and information	Domestic branches and offices	Overseas corporate subsidiaries and branches	Corporate and elimination	Consolidated
Total volume of trading transactions:								
Outside customers .....	¥610,067	¥178,247	¥ 15,872	¥164,605	¥145,796	¥ 729,620	¥ 5,409	¥7,905,640
Inter-segment .....	3,030	501	2,019	3,157	13,450	305,994	(449,676)	-
Total .....	¥613,097	¥178,748	¥ 17,891	¥167,762	¥159,246	¥1,035,614	¥(444,267)	¥7,905,640
Gross trading profit .....	¥ 8,836	¥ 27,909	¥ 4,900	¥ 19,952	¥ 5,427	¥ 73,458	¥ (2,641)	¥ 409,461
Segment net income (loss) .....	¥ (4,451)	¥ (154)	¥ 2,502	¥ (7,880)	¥ 718	¥ 4,809	¥ 1,741	¥ 34,565
Segment assets .....	¥343,070	¥330,506	¥144,432	¥144,195	¥ 60,625	¥ 439,013	¥ 568,983	¥4,254,194
Depreciation and amortization .....	¥ 374	¥ 2,712	¥ 244	¥ 4,900	¥ 184	¥ 9,658	¥ 3,748	¥ 54,261
Expenditures for segment assets ..	¥ 1,198	¥ 608	¥ 13	¥ 2,295	¥ 56	¥ 31,935	¥ 1,251	¥ 66,478

Thousands of U.S. dollars

Year ended March 31, 2004	Agri-marine products	Textile	Forest products and general merchandise	Chemicals	Energy	Metals and mineral resources	Transportation and industrial machinery	Utility and infrastructure
Total volume of trading transactions:								
Outside customers .....	\$8,008,189	\$3,296,349	\$6,923,670	\$5,078,896	\$18,814,217	\$4,445,387	\$7,160,151	\$3,405,443
Inter-segment .....	74,924	32,557	354,707	246,821	6,670	207,500	222,896	387
Total .....	\$8,083,113	\$3,328,906	\$7,278,377	\$5,325,717	\$18,820,887	\$4,652,887	\$7,383,047	\$3,405,830
Gross trading profit .....	\$ 579,585	\$ 225,604	\$ 396,311	\$ 235,330	\$ 290,726	\$ 114,745	\$ 526,123	\$ 194,028
Segment net income (loss) .....	\$ 65,632	\$ 16,538	\$ 58,991	\$ 31,377	\$ 95,406	\$ 40,170	\$ (4,226)	\$ 47,811
Segment assets .....	\$3,940,896	\$1,198,538	\$2,978,491	\$1,387,906	\$ 3,014,943	\$1,700,538	\$2,893,566	\$3,860,311
Depreciation and amortization .....	\$ 56,689	\$ 3,000	\$ 41,340	\$ 11,406	\$ 96,472	\$ 25,604	\$ 33,358	\$ 38,179
Expenditures for segment assets ..	\$ 56,094	\$ 1,330	\$ 27,226	\$ 6,830	\$ 116,113	\$ 27,425	\$ 17,708	\$ 22,009

Thousands of U.S. dollars

Year ended March 31, 2004	Plant and ship	Development and construction	Finance and logistics business	Telecom and information	Domestic branches and offices	Overseas corporate subsidiaries and branches	Corporate and elimination	Consolidated
Total volume of trading transactions:								
Outside customers .....	\$5,755,349	\$1,681,575	\$ 149,736	\$1,552,877	\$1,375,434	\$6,883,208	\$ 51,028	\$74,581,509
Inter-segment .....	28,585	4,727	19,047	29,783	126,887	2,886,735	(4,242,226)	-
Total .....	\$5,783,934	\$1,686,302	\$ 168,783	\$1,582,660	\$1,502,321	\$9,769,943	¥(4,191,198)	\$74,581,509
Gross trading profit .....	\$ 83,358	\$ 263,292	\$ 46,226	\$ 188,226	\$ 51,198	\$ 693,000	\$ (24,912)	\$ 3,862,840
Segment net income (loss) .....	\$ (41,991)	\$ (1,453)	\$ 23,604	\$ (74,340)	\$ 6,774	\$ 45,368	\$ 16,424	\$ 326,085
Segment assets .....	\$3,236,509	\$3,117,981	\$1,362,566	\$1,360,330	\$ 571,934	\$4,141,632	\$ 5,367,765	\$40,133,906
Depreciation and amortization .....	\$ 3,528	\$ 25,585	\$ 2,302	\$ 46,226	\$ 1,736	\$ 91,113	\$ 35,358	\$ 511,896
Expenditures for segment assets ..	\$ 11,302	\$ 5,736	\$ 123	\$ 21,651	\$ 528	\$ 301,274	\$ 11,802	\$ 627,151

Millions of yen								
Year ended March 31, 2003	Agri-marine products	Textile	Forest products and general merchandise	Chemicals	Energy	Metals and mineral resources	Transportation and industrial machinery	Utility and infrastructure
Total volume of trading transactions:								
Outside customers .....	¥1,006,979	¥366,742	¥705,421	¥547,563	¥2,308,904	¥414,473	¥753,677	¥421,743
Inter-segment .....	16,534	3,535	40,355	22,365	849	27,871	22,901	107
Total .....	¥1,023,513	¥370,277	¥745,776	¥569,928	¥2,309,753	¥442,344	¥776,578	¥421,850
Gross trading profit .....	¥ 58,559	¥ 24,494	¥ 41,242	¥ 29,279	¥ 29,615	¥ 13,984	¥ 54,371	¥ 11,832
Segment net income (loss) .....	¥ 7,066	¥ 1,934	¥ 4,868	¥ 2,063	¥ 6,556	¥ 1,923	¥ 3,567	¥ 4,508
Segment assets .....	¥ 347,483	¥123,868	¥299,009	¥147,420	¥ 348,338	¥157,820	¥292,581	¥232,197
Depreciation and amortization .....	¥ 5,206	¥ 378	¥ 3,323	¥ 4,320	¥ 5,452	¥ 2,477	¥ 1,791	¥ 2,977
Expenditures for segment assets ..	¥ 8,710	¥ 199	¥ 3,851	¥ 2,418	¥ 5,507	¥ 1,153	¥ 1,375	¥ 2,641

Millions of yen								
Year ended March 31, 2003	Plant and ship	Development and construction	Finance and logistics business	IT business	Domestic branches and offices	Overseas corporate subsidiaries and branches	Corporate and elimination	Consolidated
Total volume of trading transactions:								
Outside customers .....	¥732,978	¥185,346	¥ 32,479	¥381,758	¥158,639	¥ 771,859	¥ 4,742	¥8,793,303
Inter-segment .....	3,498	494	5,355	4,404	14,296	293,508	(456,072)	-
Total .....	¥736,476	¥185,840	¥ 37,834	¥386,162	¥172,935	¥1,065,367	¥(451,330)	¥8,793,303
Gross trading profit .....	¥ 13,866	¥ 34,027	¥ 6,523	¥ 32,559	¥ 6,081	¥ 72,827	¥ (4,616)	¥ 424,643
Segment net income (loss) .....	¥ 1,277	¥ (205)	¥ 3,344	¥ (7,990)	¥ 836	¥ 4,943	¥ (4,378)	¥ 30,312
Segment assets .....	¥392,244	¥376,963	¥169,504	¥245,103	¥ 60,764	¥ 491,371	¥ 636,817	¥4,321,482
Depreciation and amortization .....	¥ 283	¥ 3,411	¥ 12,000	¥ 4,452	¥ 197	¥ 9,561	¥ 7,837	¥ 63,665
Expenditures for segment assets ..	¥ 582	¥ 2,072	¥ 7,475	¥ 2,868	¥ 117	¥ 14,521	¥ 6,174	¥ 59,663

Effective April 1, 2003, the name of the IT segment was changed to the Telecom and information business segment. Effective April 1, 2003, certain portfolio units (components of a segment) were transferred from Telecom and information business segment (the former IT segment) to the Transportation and industrial machinery or Utility and infrastructure segment.

As the financial information of those portfolio units does not exist for the year ended March 31, 2003, segment information based on the new organization for the year then ended has not been restated. The information for the segments affected by the transfer of those portfolio units under the old composition for the year ended March 31, 2004 is as follows:

	Millions of yen			Thousands of U.S. dollars		
	Transportation and industrial machinery	Utility and infrastructure	Telecom and information (former IT)	Transportation and industrial machinery	Utility and infrastructure	Telecom and information (former IT)
Total volume of trading transactions:						
Outside customers .....	¥663,383	¥360,977	¥260,198	\$6,258,330	\$3,405,443	\$2,454,698
Inter-segment .....	23,196	41	3,588	218,830	387	33,849
Total .....	¥686,579	¥361,018	¥263,786	\$6,477,160	\$3,405,830	\$2,488,547
Gross trading profit .....	¥ 53,679	¥ 20,567	¥ 22,042	\$ 506,406	\$ 194,028	\$ 207,943
Segment net income (loss) .....	¥ 5,991	¥ 5,427	¥ (14,678)	\$ 56,519	\$ 51,198	\$ (138,472)
Segment assets .....	¥273,187	¥378,376	¥208,543	\$2,577,236	\$3,569,585	\$1,967,386
Depreciation and amortization .....	¥ 3,341	¥ 4,047	¥ 5,095	\$ 31,519	\$ 38,179	\$ 48,065
Expenditures for segment assets .....	¥ 1,875	¥ 2,333	¥ 2,297	\$ 17,689	\$ 22,009	\$ 21,670

The accounting policies of the reportable segments are the accounting principles generally accepted in Japan. Corporate and elimination includes differences in accounting principles generally accepted in Japan and those in the United States of America. The principal differences are described in Note 1. Intersegment transactions are generally priced in accordance with the prevailing market prices.

Revenues from and total volumes of trading transactions with external customers by country are as follows:

Country	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Revenues:</b>			
Japan .....	¥2,074,965	¥2,004,744	\$19,575,142
United States of America .....	429,211	406,922	4,049,160
United Kingdom .....	80,427	78,167	758,745
Other .....	189,566	191,334	1,788,359
Total .....	¥2,774,169	¥2,681,167	\$26,171,406
<b>Total volumes of trading transactions:</b>			
Japan .....	¥5,209,443	¥5,864,552	\$49,145,689
United States of America .....	1,192,991	1,341,698	11,254,632
United Kingdom .....	200,216	271,730	1,888,830
Other .....	1,302,990	1,315,323	12,292,358
Total .....	¥7,905,640	¥8,793,303	\$74,581,509

Revenues from and total volumes of trading transactions with external customers are attributed to countries based on the location of operations.

Long-lived assets, including property leased to others, by country are as follows:

Country	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Japan .....	¥502,198	¥491,188	\$4,737,717
United States of America .....	97,827	99,318	922,896
Philippines .....	66,918	6,346	631,302
Other .....	74,412	65,350	702,000
Total .....	¥741,355	¥662,202	\$6,993,915

Revenues from and total volumes of trading transactions with external customers by product were as follows:

Product	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Revenues:</b>			
Machinery .....	¥ 418,960	¥ 431,029	\$ 3,952,453
Energy .....	38,300	37,626	361,320
Metals .....	255,300	246,809	2,408,491
Chemicals .....	594,733	557,318	5,610,689
Forest products and general merchandise .....	346,164	337,823	3,265,698
Agri-marine products .....	623,150	546,776	5,878,774
Textile .....	327,246	337,517	3,087,226
Development and construction .....	170,316	186,269	1,606,755
Total .....	¥2,774,169	¥2,681,167	\$26,171,406
<b>Total volumes of trading transactions:</b>			
Machinery .....	¥2,085,016	¥2,494,041	\$19,669,962
Energy .....	2,040,021	2,396,933	19,245,481
Metals .....	558,801	502,251	5,271,708
Chemicals .....	886,221	910,187	8,360,575
Forest products and general merchandise .....	841,877	807,806	7,942,236
Agri-marine products .....	898,438	1,063,732	8,475,830
Textile .....	409,478	425,279	3,863,000
Development and construction .....	185,788	193,074	1,752,717
Total .....	¥7,905,640	¥8,793,303	\$74,581,509

There is no concentration by customer.

## 16 | Foreign Currency Transactions

Net foreign currency transaction gains and losses included in other expenses – net amounted to ¥5,087 million (\$47,991 thousand) and ¥5,331 million of losses for the years ended March 31, 2004 and 2003, respectively. Net foreign currency

transaction gains and losses include translation gains and losses resulting from remeasuring the financial statements of certain subsidiaries in highly inflationary economies into Japanese yen.

## 17 | Financial Instruments

### *Risk management*

Substantially all the derivative instruments which the Company and certain of its subsidiaries hold are utilized to hedge related market risks, and gains and losses on the derivative instruments are offset against losses and gains on the hedged assets and liabilities. The Company and certain of its subsidiaries also enter into derivative transactions for trading purposes. The Company has internal regulations regarding positions and loss limits and the actual positions and gains/losses are periodically reported to management. Although the Company and certain subsidiaries are exposed to credit risks in the event of nonperformance by the counterparties, such risks are minimized by avoiding a concentration of counterparties, selecting counterparties with high credit ratings and maintaining strict credit control.

The Company and certain of its subsidiaries have separate departments which confirm their financial transactions with the counterparties from the departments which execute them. In addition, the Company has as its “middle-office” a “Risk Management Division,” in its Tokyo Head Office. The Risk Management Division independently performs direct confirmation procedures with the counterparties to each transaction and the month-end outstanding balances, analyzes various risks and exposures, reports the results of the analysis, and monitors and controls financial risks. Furthermore, the Risk Management Division obtains derivative transaction data from the financial subsidiaries and foreign corporate subsidiaries, reports to management periodically, and strengthens the Company’s unified global control over derivative transactions.

### *Foreign exchange contracts*

The Company and certain of its subsidiaries conduct business in various foreign currencies and enter into foreign exchange contracts principally to hedge foreign currency denominated transactions and receivables and payables to minimize the effect of foreign currency fluctuations. Gains and losses related to the hedge ineffective portion and related to the portion of hedging instruments excluded from assessment of hedge effectiveness were not significant for the years ended March 31, 2004 and 2003.

### *Interest rate swap agreements, including interest rate and currency swap agreements*

The Company and certain of its subsidiaries enter into interest rate swap agreements primarily to change the fixed interest rates on the principal of certain debt securities, loans receivable, short-term loans and long-term debt to floating interest rates. Gains and losses related to the hedge ineffective portion and related to the portion of hedging instruments excluded from assessment of hedge effectiveness were not significant for the years ended March 31, 2004 and 2003. In addition, the Company and certain of its subsidiaries enter into interest rate swap agreements for trading purposes on a limited basis.

### *Commodity futures and forward contracts*

The Company and certain of its subsidiaries enter into commodity futures and forward contracts principally as a means of hedging the risks associated with certain inventories, commitments and forecasted transactions. Gains and losses related to the hedge ineffective portion and related to the portion of hedging instruments excluded from the assessment of hedge effectiveness were not significant for the years ended March 31, 2004 and 2003.

### *Other derivative instruments*

The Company and certain of its subsidiaries utilize option contracts primarily to hedge the risks associated with changes in interest rates and exchange rates. Gains and losses related to the hedge ineffective portion and related to the portion of hedging instruments excluded from assessment of hedge effectiveness were not significant for the years ended March 31, 2004 and 2003. In addition, the Company and certain of its subsidiaries enter into other derivative contracts for trading purposes on a limited basis.

### *Fair value of financial instruments*

The estimated fair value of the financial instruments of the Companies has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange.

The following methodologies and assumptions were used by the Companies in estimating the fair value disclosures of the financial instruments:

Cash and cash equivalents, and time deposits: the carrying amounts of the cash and cash equivalents, and time deposits reflected in the consolidated balance sheets approximate their fair value.

Investment securities, securities and other investments: the fair value of marketable equity securities is based on quoted market prices. The carrying amount of the marketable equity securities reflected in the balance sheets represents their fair value. The fair value of investments in debt securities is based on quoted market prices or estimated using discounted cash flow analyses, based on the estimated current rates offered to the issuers for securities with similar terms and remaining maturities. It was not practicable to estimate the fair value of the investments other than marketable equity securities and debt securities without incurring excessive costs. The carrying amount of the portion of the portfolio for which fair value could not be estimated was ¥257,157 million (\$2,426,009 thousand) and ¥284,377 million at March 31, 2004 and 2003, respectively, and represents the cost of this portion of the portfolio, which management believes is not impaired.

Long-term notes, loans and accounts receivable – trade: the fair value of long-term notes, loans and accounts receivable – trade is estimated using discounted cash flow analyses, based on the interest rates currently being offered to borrowers for similar long-term notes, loans and accounts receivable – trade with similar credit ratings. The fair value of accounts receivable with collectibility concerns is reflected at their carrying value less the related allowance for doubtful accounts.

Short-term loans: the carrying amount of the short-term loans reflected in the accompanying consolidated balance sheets approximates their fair value.

Long-term debt: the fair value of long-term debt is estimated using discounted cash flow analyses, based on the current borrowing rates for borrowing arrangements with similar terms and remaining maturities.

Foreign exchange contracts: the fair value of foreign exchange contracts is estimated based on the quoted market prices of comparable contracts, adjusted where necessary for maturity differences.

Interest rate swap agreements: the fair value of interest rate swap agreements is estimated using discounted cash flow analyses, based on the current swap rates for interest rate swap agreements with similar terms and remaining periods.

Commodity futures and forward contracts: the fair value of commodity futures contracts is estimated based on the quoted market prices of comparable contracts, adjusted where necessary for maturity differences.

The carrying amounts and fair value of financial instruments and the derivative instruments at March 31, 2004 and 2003 were as follows (amounts in parentheses represent liabilities):

	Millions of yen				Thousands of U.S. dollars	
	2004		2003		2004	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Short-term investments in debt securities ...	¥ 6,058	¥ 6,068	¥ 13,108	¥ 13,167	\$ 57,151	\$ 57,245
Long-term investments in debt securities ...	50,418	51,756	53,578	50,353	475,642	488,264
Long-term notes, loans and accounts receivable – trade (less allowance for doubtful accounts) .....	206,184	205,588	245,887	245,666	1,945,132	1,939,509
Long-term debt .....	(2,151,289)	(2,115,799)	(2,304,513)	(2,252,911)	(20,295,180)	(19,960,368)
Derivative instruments (assets):						
Interest rate swap agreements .....	26,627	26,627	64,656	64,656	251,198	251,198
Foreign exchange contracts .....	2,698	2,698	5,100	5,100	25,453	25,453
Commodity futures and forward contracts and other .....	48,527	48,527	51,449	51,449	457,802	457,802
Derivative instruments (liabilities):						
Interest rate swap agreements .....	(8,096)	(8,096)	(14,462)	(14,462)	(76,377)	(76,377)
Foreign exchange contracts .....	(5,807)	(5,807)	(4,810)	(4,810)	(54,783)	(54,783)
Commodity futures and forward contracts and other .....	(52,292)	(52,292)	(52,816)	(52,816)	(493,321)	(493,321)

## 18 | Concentration of Credit Risk

Although the Company operates as a general trading business, their fields of business comprise export, import, domestic and offshore trading in a wide variety of industrial, agricultural and consumer products, and also involve all levels of the production process from planning, investment, and research and development, through production, distribution and marketing. In

addition, the Company operates in substantially all geographic areas of the world, and their customers are diversified. Accordingly, management of the Company believes there is no significant concentration of credit risk among its customers or in its investments. The Company requires collateral to the extent considered necessary.

## 19 | Commitments and Contingent Liabilities

Rental expense, primarily for office space and equipment, amounted to ¥19,448 million (\$183,472 thousand) and ¥17,269 million for the years ended March 31, 2004 and 2003, respectively.

At March 31, 2004, the future minimum lease payments payable and rentals receivable under non-cancelable operating leases were as follows:

Year ending March 31	Millions of yen		Thousands of U.S. dollars	
	Payable	Receivable	Payable	Receivable
2005 .....	¥ 9,821	¥ 24,121	\$ 92,651	\$ 227,557
2006 .....	7,129	20,561	67,255	193,972
2007 .....	5,984	19,417	56,453	183,179
2008 .....	5,475	18,083	51,651	170,594
2009 .....	4,880	16,306	46,038	153,830
Thereafter .....	14,056	107,678	132,604	1,015,830

The future minimum rentals to be received under noncancelable subleases corresponding to the above future minimum lease payments payable were not significant at March 31, 2004.

For the year ended March 31, 2003, the Company sold to a third party the buildings and property of Osaka headquarters and Nagoya branch for ¥12,500 million and ¥2,900 million, respectively, and leased back these facilities. The lease terms are 10 years and 2 years, respectively. The Company does not have continuing involvement under the sale-leaseback transactions.

The Company had commitments to make additional investments or loans in aggregate amounts of approximately ¥4,000 million (\$37,736 thousand) and ¥18,000 million at March 31, 2004 and 2003, respectively.

The Company guarantees debt of affiliated companies and third parties in the ordinary course of business. Should the guaranteed parties fail to make payments, the Company would be required to make such payments under these guarantees. The term of the guarantees is basically one year. The related guarantee fees are primarily received quarterly or semi-annually. Certain of these guarantees were secured by secondary

guarantees issued to the Company by other parties. The outstanding balance of guarantees, which approximated the maximum potential payment under these guarantees, was ¥180,230 million (\$1,700,283 thousand), including ¥110,557 million (\$1,042,991 thousand) to affiliated companies, at March 31, 2004, net of the amount secured by secondary guarantees issued to the Company by other parties of ¥19,507 million (\$184,028 thousand). The comparable amounts at March 31, 2003 were ¥276,431 million, ¥151,355 million and ¥21,258 million, respectively.

The Company, its subsidiaries and affiliated companies conduct business activities on a global scale and are involved in transactions which are subject to review and jurisdiction by a wide range of authorities, both in Japan and abroad. Such business activities are not without risk and, from time to time, may involve legal actions, claims or other disputes. Although there are various matters pending at any one time, management is of the opinion that settlement of all such matters pending at March 31, 2004 would not have a material effect on the consolidated financial position or results of operations of the Companies.

## 20 | Subsequent Events

At the June 25, 2004 annual meeting, the shareholders approved the payments of cash dividends of ¥3 (\$0.03) per share of common stock or ¥4,480 million (\$42,264 thousand) in aggregate and of ¥5.85 (\$0.06) per share of Class I preferred stock issued in 2003 or ¥442 million (\$4,170 thousand) in aggregate.

As discussed in note 10 to the consolidated financial statements, on May 1, 2004, the Marubeni Welfare Pension Fund

received approval from the Japanese government to transfer the benefit obligation related to the substitutional portion for the government-defined benefit prescribed by the Welfare Pension Insurance Law of Japan.

## Report of Independent Auditors

The Board of Directors and Shareholders  
Marubeni Corporation  
(Marubeni Kabushiki Kaisha)

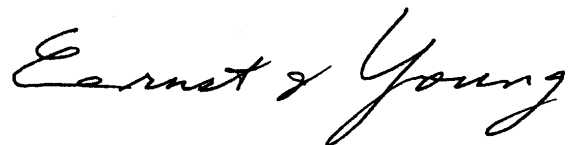
We have audited the accompanying consolidated balance sheets of Marubeni Corporation (the "Company") as of March 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 consolidated financial position of Marubeni Corporation at March 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the accompanying consolidated statement of income for the year ended March 31, 2003 has been restated.

We have also reviewed the translation of the financial statements mentioned above into United States dollars on the basis described in Note 1. In our opinion, such statements have been translated on such basis.



May 10, 2004  
except for paragraph 1 of Note 20, as to which date is  
June 25, 2004