

Notes to the Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared based on the accounts and records maintained by Showa Shell Sekiyu K.K. (the "Company") and its consolidated subsidiaries (hereinafter referred to in total as the "Companies") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(1) Principles of Consolidation

Consolidated subsidiaries as at December 31, 2003 were as follows: (21 companies)

Showa Yokkaichi Sekiyu Co., Ltd.	Nakagawa Oil Co., Ltd.	Petro Star Kansai K.K.
East Ogishima Oil Terminal K.K.	K.K. Shinyo Sekiyu	Shoseki Shoji K.K.
Showa Shell Sempaku K.K.	Tokyo Shell Pack K.K.	Chuo Shell Sekiyu Hanbai K.K.
K.K. Rising Sun	Heiwa Kisen Kaisha, Ltd.	Siris Co., Ltd.
Shoseki Gas K.K.	Shoseki Kako K.K.	K.K. Sun Road
Shoseki Engineering & Construction Co., Ltd.	Nippon Grease Co., Ltd.	Petro Star Kanto Co., Ltd.
Shoseki Overseas Oil Development Co., Ltd.	Shoseki Home Gas K.K.	Stela Hyogo K.K.(*)

(*) *Stela Hyogo K.K. has been consolidated due to the increase of materiality of its impact on the consolidated financial statements of the Company.*

Major non-consolidated subsidiaries

Akusam Inc. K.K. Hayawa

(The non-consolidated companies listed above are small and do not have a material effect on the consolidated financial statements of the Company as a whole.)

Among the consolidated companies, Petro Star Kansai K.K. has changed its fiscal year-end to September 30 in 2003. Shoseki Home Gas K.K., Siris Co., Ltd., K.K. Sun Road, K.K. Shinyo Sekiyu, Nakagawa Oil Co., Ltd., and Petro Star Kanto Co., Ltd. have a fiscal year-end of September 30, and Tokyo Shell Pack K.K. has a fiscal year-end of October 31. The consolidated financial statements incorporated the accounts of the above companies with adjustments for significant transactions arisen after the date of their respective year-end.

(2) Investments in Non-consolidated Subsidiaries and Affiliates

Affiliates accounted for by the equity method as at December 31, 2003 were as follows: (14 companies)

Toa Oil Co., Ltd.	Osaka Shell Pack K.K.
Seibu Oil Co., Ltd.	Shell Tokuhatsu K.K.
Daiya Shoseki K.K.	Anzen Sekiyu K.K.
Shell Sekiyu Osaka Sales Office K.K.	Japan Oil Network Co., Ltd.
Central Oil Gas Co., Ltd.	Mieseki Shoji K.K.
Niigata Joint Oil Stockpiling Co., Ltd.	Joyo Shell Sekiyu Hanbai K.K.
Central Energy K.K.(*)	Nissho Koyu K.K.(**)

(*) *Kotohira Oil Co., Ltd. has been merged with Shikoku Central Oil K.K. and changed its name to Central Energy K.K.*

(**) *Nissho Koyu K.K. has been accounted for by the equity method from the current year due to the increase of materiality of its impact on the consolidated financial statements of the Company.*

Major affiliates not accounted for by the equity method are as follows:

Kyokuyo Co., Ltd. Onsite Power K.K.

(The above companies do not have a material effect on the consolidated financial statements of the Company as a whole.)

(3) Standards and Methods for Valuing Principal Assets

Investments in securities:

Held-to-maturity debt securities, that the Companies have intent to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, and are amortised over the period to maturity.

Available-for-sale securities, for which market value is available, are valued at the fair market value prevailing at the fiscal year-end. Net unrealized gains or losses on these securities are reported as a separate component of the shareholders' equity at a net-of-tax amount.

Available-for-sale securities, for which market value is not available, are valued at cost, cost being determined by the moving average method.

In cases where the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliates, or available-for-sale securities has declined significantly and such impairment of the value is not deemed to be temporary, those securities are written down to the fair value and the resulting losses are included in net income for the period.

Derivatives:

Derivatives are valued at fair value.

Inventories:

Inventories are valued at cost, cost being determined mainly by using the weighted-average method.

(4) Depreciation Methods for Major Assets

Property, plant and equipment:

Depreciation is computed mainly using the straight-line method. The range of useful lives are those determined by Japanese tax law. Major oil refining facilities at Showa Shell's Kawasaki Refinery and Showa Yokkaichi Sekiyu's Yokkaichi Refinery are depreciated over their estimated useful lives (20 years).

Intangible fixed assets:

Depreciation is computed using the straight-line method. Software for in-house use is depreciated using the straight-line method based on its estimated useful life (five years).

(5) Reserves and Allowances

Allowance for doubtful accounts:

Allowance for doubtful accounts is made against potential losses on collection at an amount measured using a historical bad debt ratio, plus an amount individually measured based on the collectibility of accounts that are expected to be uncollectible due to bad financial conditions or insolvency.

Reserve for bonuses:

In principle, the Company provides for an amount equivalent to the current year portion of estimated future bonus payments.

Reserve for retirement benefits:

Reserve for retirement benefits is provided, based on estimated present value of projected benefit obligations and fair value of pension plan assets at the fiscal year end in order to cover required retirement benefits for eligible employees.

Unrecognized actuarial gains and losses are recognized in expenses using the straight-line method over a fixed period (13 to 14 years), which is within the average estimated effective remaining working life of the employees, commencing from the following period.

Unrecognized prior service costs are recognized in expenses using the straight-line method over a fixed period (14 years), which is within the average estimated effective remaining working life of the employees.

(Additional information)

The Company changed its period of amortization of unrealized actuarial gains and losses from 14 years to 13 years, due to a decrease of the average effective remaining working life of the employees. As a result of this change, income from operations, ordinary income, and income before income taxes and minority interests decreased by ¥67 million compared with the results calculated based on the former method.

Special reserve for repairs:

The Company provides for an amount equivalent to the estimated amount needed to cover maintenance and repair expenses for the current fiscal year, such as the regular maintenance expenses of machinery and equipment in refineries, and the periodical inspection and maintenance expenses of tanks required by the Fire Defense Law.

(6) Translation of Foreign Currency Accounts

All monetary assets and liabilities of the Companies are translated into Japanese yen at the spot rate prevailing at the year-end. Resulting exchange gains or losses are charged or credited to income.

(7) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. The leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(8) Income Taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitants taxes and enterprise taxes. Income taxes are determined using the asset and liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

(9) Consumption Tax

Consumption tax is imposed at the flat rate of 5 percent on all domestic consumption of goods and services (with certain exemptions).

The consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services is not included in the amounts of respective revenue and cost or expense items in the accompanying consolidated statements of income.

(10) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the appropriation of retained earnings proposed by the Board of Directors is subject to approval by the shareholders at a meeting, which must be held within three months of the end of each fiscal year. The appropriation charged to retained earnings as reflected in the accompanying consolidated statements of shareholders' equity represents that applicable to the immediately preceding fiscal year that was approved at the shareholders' meeting and disposed of during the year. Dividends are paid to shareholders on the shareholders' register as at the end of each financial year.

(11) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, demand deposits in banks, time deposits whose maturity periods do not exceed three months and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

3. INVENTORIES

Inventories as at December 31, 2003 and 2002 consisted of the following:

	Millions of yen	
	2003	2002
Finished products	¥ 44,875	¥ 51,408
Crude oil	35,987	43,687
Crude oil in transit	32,641	26,999
Work in process	15,325	15,150
Containers and supplies	4,219	4,600
	¥133,047	¥141,844

4. SECURITIES

a) Investments in securities as at December 31, 2003 and 2002 consisted of the following:

	Millions of yen	
	2003	2002
Available-for-sale securities	¥11,572	¥ 9,529
Investments in non-consolidated subsidiaries and affiliates	15,020	15,720
	¥26,592	¥25,249

b) Available-for-sale securities for which market value is available are as follows:

December 31, 2003	Millions of yen		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	¥1,923	¥5,744	¥3,821
Securities with unrealized loss:			
Shares	117	111	(6)

c) Amount of available-for-sale securities sold in fiscal 2003 and 2002 are as follows:

	Millions of yen	
	2003	2002
Amount sold during the year	¥659	¥395
Realized gain	57	8
Realized loss	33	67

d) Details of available-for-sale securities without market quotation are as follows:

	Millions of yen	
	2003	2002
Available-for-sale securities:		
Unlisted shares (excluding OTC shares)	¥5,702	¥6,106
Unlisted bonds	15	15

5. SHORT-TERM AND LONG-TERM DEBT

Short-term debt as at December 31, 2003 and 2002 is summarized as follows:

	Millions of yen	
	2003	2002
Short-term bank loans	¥36,892	¥16,100
Commercial paper	19,000	55,000
	¥55,892	¥71,100

Notes: The weighted average interest rates on short-term debt outstanding at the year-end are as follows:

	%	
	2003	2002
Short-term bank loans	0.27%	0.73%
Commercial paper	0.01	0.05

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

December 31,	Millions of yen	
	2003	2002
Loans from banks, other financial institutions, etc. due from 2005 to 2013	¥35,058	¥ —
Loans from banks, other financial institutions, etc. due from 2004 to 2012	—	49,431
0.71 per cent bond due 2010	15,000	—
3.25 per cent bond due 2005	15,000	15,000
3.05 per cent bond due 2003	—	10,000
2.00 per cent bond due 2003	—	5,000
	65,058	79,431
Less: portion due within one year	12,614	31,415
	¥52,444	¥48,016

Notes: 1. All bonds shown above are unsecured.

2. The weighted average interest rate on long-term loans (excluding current portion) from banks outstanding as at December 31, 2003 and 2002 were 2.25 percent and 2.49 percent, respectively.

Annual maturities of bonds are as follows:

	Millions of yen
Within one year	¥ —
More than one year less than two years	15,000
More than two years less than three years	—
More than three years less than four years	—
More than four years less than five years	—
More than five years	15,000
	¥30,000

Annual maturities of long-term debt, except for bonds, are as follows:

	Millions of yen
Within one year	¥12,614
More than one year less than two years	9,279
More than two years less than three years	6,398
More than three years less than four years	3,083
More than four years less than five years	684
More than five years	3,000
	¥35,058

6. LEASE TRANSACTIONS

(1) Lessee

a) Finance leases

Information relating to finance leases, excluding those for which the ownership of the leased assets is considered to be transferred to the lessee, as of, and for the years ended December 31, 2003 and 2002 is as follows:

December 31, 2003	Millions of yen		
	Acquisition costs	Accumulated depreciation	Balance
Buildings, structures and tanks	¥ 469	¥ 234	¥ 235
Machinery and equipment	3,229	1,644	1,585
Other property, plant and equipment	1,041	729	312
Intangible fixed assets	90	78	12
	¥4,829	¥2,685	¥2,144

December 31, 2002	Millions of yen		
	Acquisition costs	Accumulated depreciation	Balance
Buildings, structures and tanks	¥ 469	¥ 177	¥ 292
Machinery and equipment	2,912	1,196	1,716
Other property, plant and equipment	1,089	672	417
Intangible fixed assets	82	63	19
	¥4,552	¥2,108	¥2,444

Lease payments and depreciation for the years ended December 31, 2003 and 2002 amounted to ¥791 million and ¥754 million, respectively.

Depreciation is calculated using the straight-line method over the lease term of the leased assets assuming no residual value.

The scheduled maturities of future lease rental payments of finance leases as of December 31, 2003 and 2002 were as follows:

	Millions of yen	
	2003	2002
Due within one year	¥1,922	¥2,117
Due over one year	3,652	3,920
	¥5,574	¥6,037

b) Operating leases

	Millions of yen	
	2003	2002
Due within one year	¥23	¥ 81
Due over one year	46	61
	¥69	¥142

(2) Lessor

Finance leases

The scheduled maturities of future lease rental payments of finance leases as of December 31, 2003 and 2002 were as follows:

	Millions of yen	
	2003	2002
Due within one year	¥1,205	¥1,359
Due over one year	2,225	2,234
	¥3,430	¥3,593

Note: Finance leases transaction as lessor relate to sublease transactions.

7. INCOME TAXES

(1) The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of December 31, 2003 and 2002, are as follows:

Balance sheet item	Millions of yen	
	2003	2002
<i>Deferred tax assets:</i>		
Non-deductible portion of reserve for retirement benefits	¥ 29,432	¥ 29,058
Loss on write-down of investments in securities	2,421	3,645
Loss on write-down of fixed assets	1,273	1,560
Non-deductible portion of allowance for doubtful receivables	356	279
Others	8,196	6,993
Sub-total	41,678	41,535
Valuation allowance	(2,788)	(2,814)
Total deferred tax assets	¥ 38,890	¥ 38,721
<i>Deferred tax liabilities:</i>		
Deferred gains on fixed assets	¥ (9,009)	¥ (9,263)
Unrealized gains on available-for-sale securities	(1,553)	(423)
Others	(476)	(585)
Total deferred tax liabilities	(11,038)	(10,271)
Deferred tax assets, net	¥ 27,852	¥ 28,450

(2) Reconciliation between the statutory tax rate and the effective tax rate as at December 31, 2003 and 2002, is as follows:

	December 31	
	2003	2002
Statutory tax rate	42.0%	42.0%
Permanent differences:		
Non-deductible expenses such as entertainment expenses	1.11%	1.22%
Non-taxable income such as dividend income	(1.69)%	(2.97)%
Decrease in deferred tax assets due to tax rate change	1.95%	—
Others	(0.52)%	2.30%
Effective tax rate	42.85%	42.55%

New legislation was enacted in March 2003, which changes the aggregate effective tax rate to 40.7 percent from 42.0 percent in 2002. The effect of this tax rate change is to decrease deferred tax assets net of deferred tax liability by ¥669 million and to increase income taxes (deferred) and net unrealized gains on investments in securities by ¥719 million and ¥49 million, respectively.

8. RESERVE FOR RETIREMENT BENEFITS

The Companies operate various defined benefit plans, such as a contributory pension plan, qualified pension plan and a severance payment plan.

(1) The reserve for retirement benefits as of December 31, 2003 and 2002 is analyzed as follows:

	Millions of yen	
	2003	2002
Projected benefit obligations	¥(102,877)	¥(99,458)
Plan assets	9,500	8,924
Unfunded benefit obligations	(93,377)	(90,534)
Unrecognized actuarial differences	14,554	11,758
Unrecognized prior service costs	(739)	(796)
	¥ (79,562)	¥(79,752)

Note: Certain subsidiaries calculate the projected benefit obligation by the simple method permitted under Japanese GAAP.

(2) The net periodic pension expense related to the retirement benefits for fiscal 2003 and 2002 is as follows:

	Millions of yen	
	2003	2002
Service cost	¥2,071	¥2,293
Interest cost	2,907	2,920
Amortisation of unrecognized actuarial differences	954	837
Amortisation of unrecognized prior service costs	(57)	(4)
	¥5,875	¥6,046

Notes: 1. Service cost excludes employees' contributions pension plan operated by the Company.

2. Service cost includes net periodic pension expense incurred by the subsidiaries, which apply the simple method.

(3) Assumptions used in calculation of the above information are as follows:

	As of December 31, 2003	As of December 31, 2002
Method of attributing the projected benefits of services	Benefit/year of service approach	Benefit/year of service approach
Discount rate	2.5%	3.0%
Expected rate of return	0%	0%

9. DERIVATIVE TRANSACTIONS

(1) Conditions of Derivative Financial Instruments

In the normal course of business, the Companies use various financial instruments, including derivative financial instruments, to manage their exposures to market risks. The Companies do not use derivative financial instruments for speculative purposes. These instruments include foreign exchange contracts, foreign currency options, interest rate swaps, crude oil futures and forward contracts, petroleum futures and forward contracts and crude oil options.

All such instruments involve risk, including the credit risk of non-performance by counter-parties. However, at December 31, 2003, in the management's opinion, there was no significant risk of loss in the event of non-performance of the counter-parties on these financial instruments, because all counter-parties were major financial institutions and trading companies with a high credit rating.

(2) Fair Value Information of Derivative Financial Instruments

December 31, 2003	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Currency-related transactions			
To buy	¥14,565	¥14,452	¥(113)
To sell	3,219	3,213	6
			¥(107)
Commodity-related transactions			
To buy	18,997	19,228	231
To sell	18,975	19,182	(207)
			¥ 24

December 31, 2002	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Currency-related transactions			
To buy	¥24,107	¥23,619	¥(487)
To sell	2,526	2,516	9
			¥(478)
Commodity-related transactions			
To buy	10,843	11,447	604
To sell	9,442	9,901	(459)
			¥ 146

10. SUPPLEMENTARY STATEMENTS OF INCOME

The major elements of selling, general and administrative expenses for the period ended December 31, 2003 and 2002 are as follows.

	Millions of yen	
	2003	2002
Transportation expenses	¥ 41,613	¥ 42,599
Salaries	28,859	29,229
Rent expenses	5,761	6,445
Depreciation	5,289	5,516
Research and development expenses	2,399	1,990
Others	36,866	37,722
	¥120,787	¥123,501

11. COMMITMENTS AND CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of loans borrowed by non-consolidated subsidiaries, affiliates and other companies in the amount of ¥7,864 million, and employees in the amount of ¥1,648 million, as at December 31, 2003.

12. RELATED PARTY TRANSACTION

(1) Related Companies

Material transactions of the Company with its related companies, representing more than 10 percent of the consolidated sales or the total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements, for the years ended December 31, 2003 and 2002 are disclosed by each item.

The Company further discloses material balances and transactions with related companies where such balances and transactions, including the related amount in the footnote, represent more than 1 percent of the consolidated total assets, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements. Related party transactions in the fiscal years 2003 and 2002 are as follows:

Name of related company	Paid-in capital (millions of yen)	Direct equity ownership % by the Company	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2003	Account	Fiscal 2003
Seibu Oil Co., Ltd.	8,000	24.5%	Purchase of petroleum materials	¥151,338	Accounts payable (trade)	¥33,325
Toa Oil Co., Ltd.	4,961	37.4%	Trust of refining petroleum	24,786	Other current liabilities	2,606
			Payment of gasoline tax	105,009	Account payable (other)	27,430
Shell International Trading and Shipping Co., Ltd.	140 (millions of pounds)	—	Purchase of crude oil	132,182	Accounts payable (trade)	11,040

Name of related company	Paid-in capital (millions of yen)	Direct equity ownership % by the Company	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2002	Account	Fiscal 2002
Seibu Oil Co., Ltd.	8,000	24.5%	Purchase of petroleum materials	¥123,551	Accounts payable (trade)	¥43,336
Toa Oil Co., Ltd.	4,961	37.4%	Trust of refining petroleum	26,903	Other current liabilities	2,547
			Payment of gasoline tax	105,625	Accounts payable (other)	33,899
Shell International Trading and Shipping Co., Ltd.	140 (millions of pounds)	—	Purchase of crude oil	155,497	Accounts payable (trade)	17,765

(2) Related Individuals

Material transactions and balances of the Company with related individuals, including shareholders and directors, representing more than ¥1 million for the year ended December 31, 2003 are as follows.

Name	Description of post	Ownership (%)	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2003	Account	Fiscal 2003
Haruyuki Niimi	Representative director/ Chairman of Zaidanhojin Showa Shell Sekiyu Kankyo Kenyu Josei Zaidan	0%	Donation	¥35	—	—
Yoshihiko Miyauchi	Director/ Representative director of Orix Baseball Club K.K.	0%	Payment of advertisement fee	2	—	—

13. SEGMENT INFORMATION

(1) Business Segment Information

For the consolidated fiscal year ended December 31, 2003	Millions of yen					Eliminations and corporate	Consolidated
	Petroleum	Real estate	Others	Total			
I. Net sales and operating profit							
Net sales							
(1) Sales to outside customers	¥1,710,639	¥ 4,291	¥11,987	¥1,726,917	¥ —		¥1,726,917
(2) Inter-segment sales and transfers	88	115	6,879	7,082	(7,082)		—
Total sales	1,710,727	4,406	18,866	1,733,999	(7,082)		1,726,917
Operating expenses	1,678,189	1,880	18,021	1,698,090	(7,147)		1,690,943
Income from operations	¥ 32,538	¥ 2,526	¥ 845	¥ 35,909	¥ 66		¥ 35,974
II. Assets, depreciation and capital expenditures							
Assets	¥ 828,546	¥48,695	¥ 8,696	¥ 885,937	¥(3,638)		¥ 882,299
Depreciation	24,072	1,031	35	25,138	—		25,138
Capital expenditures	15,247	129	27	15,403	—		15,403

For the consolidated fiscal year ended December 31, 2002	Millions of yen					Eliminations and corporate	Consolidated
	Petroleum	Real estate	Others	Total			
I. Net sales and operating profit							
Net sales							
(1) Sales to outside customers	¥1,603,753	¥ 4,502	¥12,104	¥1,620,359	¥ —		¥1,620,359
(2) Inter-segment sales and transfers	104	123	6,815	7,042	(7,042)		—
Total sales	1,603,857	4,625	18,919	1,627,401	(7,042)		1,620,359
Operating expenses	1,570,810	1,900	18,303	1,591,013	(7,054)		1,583,959
Income from operations	¥ 33,047	¥ 2,725	¥ 616	¥ 36,388	¥ 12		¥ 36,400
II. Assets, depreciation and capital expenditures							
Assets	¥ 862,824	¥49,338	¥ 9,067	¥ 921,229	¥(4,539)		¥ 916,690
Depreciation	25,615	1,071	43	26,729	—		26,729
Capital expenditures	16,723	79	67	16,869	—		16,869

Notes: 1. Businesses are classified mainly on an internal management basis.

2. Main products and businesses in each business segment are as follows:

(1) Petroleum: Gasoline, naphtha, kerosene, gas oil, fuel oil, lubricating oil, LPG, asphalt, petrochemical products

(2) Real estate: Real estate leasing and management

(3) Others: Engineering, sale of automobile products, leasing business and car rental business

3. Non-allocatable operating expenses are not included in operating expenses in "Elimination and corporate" for the fiscal year.

4. Corporate assets are fully allocated to each segment and not included in assets in "Elimination and corporate."

5. Long-term prepaid expenses and their depreciation are included in depreciation and capital expenditures.

6. As mentioned in Note 2 (5), the Company has applied 13 years for amortization of unrealized actuarial gains and losses from this year. As a result of this change, operating expenses increased by ¥67 million and income from operations decreased by the same amount. The effect of this change for Real estate division and Others is immaterial.

(2) Geographic Segment Information

For the consolidated fiscal years ended December 31, 2003 and 2002, geographic segment information has been omitted as the Company has no consolidated subsidiaries or branches domiciled in countries or regions other than Japan.

(3) Overseas Sales

For the consolidated fiscal year ended December 31, 2003	Millions of yen		
	Asia	Others	Total
Overseas sales	¥126,513	¥77,588	¥ 204,101
Consolidated net sales			1,726,917
Overseas sales as a percentage of total consolidated net sales	7.3%	4.5%	11.8%

For the consolidated fiscal year ended December 31, 2002	Millions of yen		
	Asia	Others	Total
Overseas sales	¥144,649	¥54,731	¥ 199,380
Consolidated net sales			1,620,359
Overseas sales as a percentage of total consolidated net sales	8.9%	3.4%	12.3%

Notes: 1. Countries and regions are classified on the basis of geographic proximity.

2. Principal countries included in each geographic segment are as follows;

(1) Asia China, Singapore, Republic of Korea

(2) Others U.A.E., Bermuda, Switzerland, United Kingdom, U.S.A.

3. Overseas sales are net sales of the Company and its consolidated subsidiaries in countries and regions outside Japan.