PBF Energy Inc.
Form 10-Q
August 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2017
Or
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35764

PBF ENERGY INC.
(Exact name of registrant as specified in its charter)

DELAWARE	45-3763855
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Sylvan Way, Second Floor Parsippany, New Jersey	07054
(Address of principal executive offices)	(Zip Code)

(973) 455-7500
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [x] No [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
þ	o	o	o	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

As of July 31, 2017, PBF Energy Inc. had outstanding 109,715,727 shares of Class A common stock and 27 shares of Class B common stock.

PBF ENERGY INC.
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017
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This Quarterly Report on Form 10-Q is filed by PBF Energy Inc. ("PBF Energy") which is a holding company whose primary asset is an equity interest in PBF Energy Company LLC ("PBF LLC"). PBF Energy is the sole managing member of, and owner of an equity interest representing approximately 96.6% of the outstanding economic interests in PBF LLC as of June 30, 2017. PBF Energy operates and controls all of the business and affairs and consolidates the financial results of PBF LLC and its subsidiaries. PBF LLC is a holding company for the companies that directly and indirectly own and operate our business. PBF Holding Company LLC ("PBF Holding") is a wholly-owned subsidiary of PBF LLC and PBF Finance Corporation ("PBF Finance") is a wholly-owned subsidiary of PBF Holding. As of June 30, 2017, PBF LLC also holds a 44.1% limited partner interest, a non-economic general partner interest and all of the incentive distribution rights in PBF Logistics LP ("PBFX" or the "Partnership"), a publicly traded master limited partnership. PBF Energy, through its ownership of PBF LLC, consolidates the financial results of PBFX and its subsidiaries and records a noncontrolling interest in its consolidated financial statements representing the economic interests of PBFX's unit holders other than PBF LLC. Collectively, PBF Energy and its consolidated subsidiaries, including PBF LLC, PBF Holding, and PBFX are referred to hereinafter as the "Company" unless the context otherwise requires.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain “forward-looking statements”, as defined in the Private Securities Litigation Reform Act of 1995 (“PSLRA”), of expected future developments that involve risks and uncertainties. You can identify forward-looking statements because they contain words such as “believes,” “expects,” “may,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates,” or “anticipates” or similar expressions that relate to our strategy, plans or intentions. All statements we make relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results or to our strategies, objectives, intentions, resources and expectations regarding future industry trends are forward-looking statements made under the safe harbor provisions of the PSLRA except to the extent such statements relate to the operations of a partnership or limited liability company. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results.

Important factors that could cause actual results to differ materially from our expectations, which we refer to as “cautionary statements,” are disclosed under “Management's Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Form 10-Q and the Annual Report on Form 10-K for the year ended December 31, 2016 of PBF Energy Inc., which we refer to as our 2016 Annual Report on Form 10-K, and in our other filings with the SEC. All forward-looking information in this Quarterly Report on Form 10-Q and subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Some of the factors that we believe could affect our results include:

- supply, demand, prices and other market conditions for our products, including volatility in commodity prices;
- the effects of competition in our markets;
- changes in currency exchange rates, interest rates and capital costs;
- adverse developments in our relationship with both our key employees and unionized employees;
- our ability to operate our businesses efficiently, manage capital expenditures and costs (including general and administrative expenses) and generate earnings and cash flow;
- our substantial indebtedness;
- our supply and inventory intermediation arrangements expose us to counterparty credit and performance risk;
- termination of our A&R Intermediation Agreements with J. Aron, which could have a material adverse effect on our liquidity, as we would be required to finance our intermediate and refined products inventory covered by the agreements. Additionally, we are obligated to repurchase from J. Aron certain intermediates and finished products located at the Paulsboro and Delaware City refineries’ storage tanks upon termination of these agreements;
- restrictive covenants in our indebtedness that may adversely affect our operational flexibility;
- payments to the current and former holders of PBF LLC Series A Units and PBF LLC Series B Units under our tax receivable agreement for certain tax benefits we may claim;
- our assumptions regarding payments arising under PBF Energy’s tax receivable agreement and other arrangements relating to our organizational structure are subject to change due to various factors, including, among other factors, the timing of exchanges of PBF LLC Series A Units for shares of our Class A common

stock as contemplated by the tax receivable agreement, the price of our Class A common stock at the time of such exchanges, the extent to which such exchanges are taxable, and the amount and timing of our income;
•our expectations and timing with respect to our acquisition activity and whether such acquisitions are accretive or dilutive to shareholders;
•our expectations with respect to our capital improvement and turnaround projects;
•the status of an air permit to transfer crude through the Delaware City refinery's dock;
•the impact of disruptions to crude or feedstock supply to any of our refineries, including disruptions due to problems at PBFX or with third party logistics infrastructure or operations, including pipeline, marine and rail transportation;
•the possibility that we might reduce or not make further dividend payments;
•the inability of our subsidiaries to freely pay dividends or make distributions to us;
•the impact of current and future laws, rulings and governmental regulations, including the implementation of rules and regulations regarding transportation of crude oil by rail;
•the effectiveness of our crude oil sourcing strategies, including our crude by rail strategy and related commitments;
•adverse impacts related to legislation by the federal government lifting the restrictions on exporting U.S. crude oil;
•adverse impacts from changes in our regulatory environment, such as the effects of compliance with the California Global Warming Solutions Act (also referred to as "AB32"), or from actions taken by environmental interest groups;
•market risks related to the volatility in the price of Renewable Identification Numbers ("RINs") required to comply with the Renewable Fuel Standards and greenhouse gas ("GHG") emission credits required to comply with various GHG emission programs, such as AB32;
•our ability to successfully integrate the completed acquisition of the Torrance refinery and related logistics assets (collectively, the "Torrance Acquisition") into our business and realize the benefits from such acquisition;
•liabilities arising from the Torrance Acquisition that are unforeseen or exceed our expectations;
•risk associated with the operation of PBFX as a separate, publicly-traded entity;
•potential tax consequences related to our investment in PBFX; and
•any decisions we continue to make with respect to our energy-related logistical assets that may be transferred to PBFX.

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this Quarterly Report on Form 10-Q may not in fact occur. Accordingly, investors should not place undue reliance on those statements.

Our forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by applicable law, including the securities laws of the United States, we do not intend to update or revise any forward-looking statements. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing.

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

PBF ENERGY INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except share and per share data)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents (PBFX: $51,054 and $64,221, respectively)	$173,031	$746,274
Accounts receivable	611,642	620,175
Inventories	1,875,164	1,863,560
Marketable securities - current (PBFX: $0 and $40,024, respectively)	—	40,024
Prepaid expense and other current assets	73,262	137,222
Total current assets	2,733,099	3,407,255
Property, plant and equipment, net (PBFX: $664,431 and $608,802, respectively)	3,457,321	3,328,770
Deferred tax assets	476,893	379,306
Deferred charges and other assets, net	813,907	506,596
Total assets	$7,481,220	$7,621,927
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$449,199	$535,907
Accrued expenses	1,609,311	1,467,684
Deferred revenue	6,161	13,292
Current portion of long-term debt (PBFX: $0 and $39,664, respectively)	—	39,664
Total current liabilities	2,064,671	2,056,547
Long-term debt (PBFX: $532,804 and $532,011, respectively)	2,159,547	2,108,570
Payable to related parties pursuant to tax receivable agreement	611,392	611,392
Deferred tax liabilities	50,822	45,699
Other long-term liabilities	225,795	229,035
Total liabilities	5,112,227	5,051,243
Commitments and contingencies (Note 10)		
Equity:		
Class A common stock, $0.001 par value, 1,000,000,000 shares authorized, 109,722,252 shares outstanding at June 30, 2017, 109,204,047 shares outstanding at December 31, 2016	94	94
Class B common stock, $0.001 par value, 1,000,000 shares authorized, 27 shares outstanding at June 30, 2017, 28 shares outstanding at December 31, 2016	—	—
Preferred stock, $0.001 par value, 100,000,000 shares authorized, no shares outstanding at June 30, 2017 and December 31, 2016	—	—
Treasury stock, at cost, 6,102,104 shares outstanding at June 30, 2017 and 6,087,963 shares outstanding at December 31, 2016	(151,547)	(151,547)
Additional paid in capital	2,255,922	2,245,788
Retained earnings/(Accumulated deficit)	(253,498)	(44,852)
Accumulated other comprehensive loss	(23,816)	(24,439)
Total PBF Energy Inc. equity	1,827,155	2,025,044
Noncontrolling interest	541,838	545,640
Total equity	2,368,993	2,570,684
Total liabilities and equity	$7,481,220	$7,621,927

See notes to condensed consolidated financial statements.

PBF ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	$5,017,225	$3,858,467	$9,771,698	$6,658,652
Cost and expenses:				
Cost of products and other	4,605,693	3,249,444	8,802,460	5,661,539
Operating expenses (excluding depreciation of $62,683, $49,682, $121,852 and $103,918 for the periods presented, respectively)	412,859	276,598	864,226	576,597
General and administrative expenses	41,090	43,373	84,920	80,955
Loss on sale of assets	29	3,222	912	3,222
Depreciation and amortization expense	68,703	51,060	129,635	106,993
	5,128,374	3,623,697	9,882,153	6,429,306
Income (loss) from operations	(111,149)	234,770	(110,455)	229,346
Other income (expenses):				
Change in fair value of catalyst leases	1,104	(1,748)	(1,484)	(4,633)
Debt extinguishment costs	(25,451)	—	(25,451)	—
Interest expense, net	(40,698)	(35,940)	(77,881)	(73,467)
Income (loss) before income taxes	(176,194)	197,082	(215,271)	151,246
Income tax (benefit) expense	(72,043)	76,434	(91,090)	53,934
Net income (loss)	(104,151)	120,648	(124,181)	97,312
Less: net income attributable to noncontrolling interests	5,512	17,118	16,559	23,170
Net income (loss) attributable to PBF Energy Inc. stockholders	$(109,663)	$103,530	$(140,740)	$74,142
Weighted-average shares of Class A common stock outstanding				
Basic	108,779,992	97,836,366	108,770,237	97,822,875
Diluted	108,779,992	103,278,622	108,770,237	103,364,478
Net income (loss) available to Class A common stock per share:				
Basic	$(1.01)	$1.06	$(1.30)	$0.76
Diluted	$(1.01)	$1.06	$(1.30)	$0.76
Dividends per common share	$0.30	$0.30	$0.60	$0.60

See notes to condensed consolidated financial statements.

PBF ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$(104,151)	$120,648	$(124,181)	$97,312
Other comprehensive income:				
Unrealized gain on available for sale securities	43	99	70	405
Net gain on pension and other post-retirement benefits	287	316	574	632
Total other comprehensive income	330	415	644	1,037
Comprehensive income (loss)	(103,821)	121,063	(123,537)	98,349
Less: comprehensive income attributable to noncontrolling interests	5,524	17,138	16,581	23,220
Comprehensive income (loss) attributable to PBF Energy Inc. stockholders	$(109,345)	$103,925	$(140,118)	$75,129

See notes to condensed consolidated financial statements.
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PBF ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net income (loss)	$ (124,181)	$ 97,312
Adjustments to reconcile net income (loss) to net cash (used in) provided by operations:		
Depreciation and amortization	134,595	112,523
Stock-based compensation	13,842	12,709
Change in fair value of catalyst leases	1,484	4,633
Deferred income taxes	(92,464)	92,973
Non-cash change in inventory repurchase obligations	(3,107)	26,172
Non-cash lower of cost or market inventory adjustment	167,134	(216,843)
Debt extinguishment costs	25,451	—
Pension and other post-retirement benefit costs	21,121	15,355
Loss on sale of assets	912	3,222
Changes in operating assets and liabilities:		
Accounts receivable	8,533	(193,107)
Inventories	(178,738)	82,579
Prepaid expense and other current assets	63,853	(29,170)
Accounts payable	(138,802)	58,186
Accrued expenses	113,494	157,345
Deferred revenue	(7,131)	

Current	2,165	6,543	6,681
Deferred	446	3,176	(713)
Total	2,611	9,719	5,968
Income before minority interests and equity in earnings	3,041	11,773	6,937
Minority interests in (income) of consolidated subsidiaries	(1,123)	(1,765)	(2,877)
Equity in earnings (losses) of affiliated companies	205	(598)	(786)
Income before cumulative effect of accounting change	2,123	9,410	3,274
Cumulative effect of accounting change (Note 1)	(265)		(265)
Net income	¥ 1,858	¥ 9,410	¥ 3,009
	Yen		
Per share data (Notes 1 and 7)			
Income before cumulative effect of accounting change:			
Basic	¥ 2.23	¥ 9.48	¥ 3.36
Diluted	2.23	9.36	3.36
Cumulative effect of accounting change:			
Basic	(0.28)		(0.27)
Diluted	(0.28)		(0.27)
Net income:			

Basic	1.95	9.48	3.09
Diluted	1.95	9.36	3.09
Dividends per share (Note 1)	3.00	3.00	6.00

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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3. Consolidated Statements of Shareholders Equity

Komatsu Ltd. and Consolidated Subsidiaries

September 30, 2002 and 2003, March 31, 2003

	Millions of yen		
	Six months ended September 30,		Year ended March 31,
	2002	2003	2003
Common stock			
Balance, beginning of year	¥ 67,870	¥ 67,870	¥ 67,870
Balance, end of year	¥ 67,870	¥ 67,870	¥ 67,870
Capital surplus			
Balance, beginning of year	¥ 117,439	¥ 135,686	¥ 117,439
Sales of treasury stock		(3)	9
Issuance of shares to acquire minority interests of consolidated subsidiaries			18,238
Balance, end of year	¥ 117,439	¥ 135,683	¥ 135,686
Retained earnings			
Appropriated for legal reserve			
Balance, beginning of year	¥ 20,852	¥ 21,030	¥ 20,852
Transfer from unappropriated retained earnings	(247)	17	178
Balance, end of year	¥ 20,605	¥ 21,047	¥ 21,030
Unappropriated retained earnings			
Balance, beginning of year	¥ 210,309	¥ 207,416	¥ 210,309
Net income	1,858	9,410	3,009
Cash dividends paid	(2,864)	(2,978)	(5,724)
Transfer to retained earnings appropriated for legal reserve	247	(17)	(178)
Others		4	
Balance, end of year	¥ 209,550	¥ 213,835	¥ 207,416
Accumulated other comprehensive income (loss)			
Balance, beginning of year	¥ (18,393)	¥ (32,981)	¥ (18,393)
Other comprehensive income (loss) for the year, net of tax	(10,554)	3,730	(14,588)
Balance, end of year	¥ (28,947)	¥ (29,251)	¥ (32,981)

Treasury stock			
Balance, beginning of year	¥ (2,934)	¥ (3,655)	¥ (2,934)
Purchase of treasury stock	(460)	(85)	(721)
Sales of treasury stock		35	
Balance, end of year	¥ (3,394)	¥ (3,705)	¥ (3,655)
Total shareholders equity	¥ 383,123	¥ 405,479	¥ 395,366
Disclosure of comprehensive income (loss)			
Net income for the year	¥ 1,858	¥ 9,410	¥ 3,009
Other comprehensive income (loss) for the year, net of tax	(10,554)	3,730	(14,588)
Comprehensive income (loss) for the year	¥ (8,696)	¥ 13,140	¥ (11,579)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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4. Consolidated Statements of Cash Flows

Komatsu Ltd. and Consolidated Subsidiaries

September 30, 2002 and 2003, March 31, 2003

	Millions of yen		
	Six months ended September 30,		Year ended March 31,
	2002	2003	2003
Operating activities			
Net income	¥ 1,858	¥ 9,410	¥ 3,009
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	33,411	34,356	70,229
Deferred income taxes	446	3,176	(713)
Net loss (gain) from sale of investment securities	(1,731)	(344)	6,454
Gain on sale of property	(271)	(386)	(3,410)
Loss on disposal or sale of fixed assets	1,232	1,764	3,974
Pension and retirement benefits, net	(32,524)	1,746	(29,939)
Changes in assets and liabilities:			
Decrease in trade receivables	32,555	10,920	9,470
Decrease (increase) in inventories	(706)	(2,190)	21,298
Increase (decrease) in trade payables	(14,182)	16,582	(20,580)
(Decrease) in income taxes payable	(2,001)	(1,385)	(368)
Other, net	(7,298)	(3,998)	(11,167)
Net cash provided by operating activities	10,789	69,651	48,257
Investing activities			
Capital expenditures	(39,471)	(31,851)	(69,182)
Proceeds from sales of property	1,756	7,771	18,627
Proceeds from sales of investment securities	6,134	11,896	9,453
Purchases of investment securities	(1,476)	(3,742)	(4,549)
Acquisition of subsidiaries, net of cash acquired	5,300		5,300
Collection of loan receivables	11,356	7,098	14,418
Disbursement of loan receivables	(11,123)	(6,346)	(10,537)
Decrease in time deposits	313	484	452
Net cash used in investing activities	(27,211)	(14,690)	(36,018)
Financing activities			
Proceeds from long-term debt	115,100	24,275	152,726
Repayments on long-term debt	(46,314)	(25,508)	(55,862)
Decrease in short-term debt, net	(32,239)	(24,774)	(61,115)
Repayments of capital lease obligations	(5,479)	(4,947)	(10,458)

Sale (purchase) of treasury stock, net	(460)	(49)	(721)
Dividends paid	(2,864)	(2,978)	(5,724)
Net cash provided by (used in) financing activities	27,744	(33,981)	18,846
Effect of exchange rate change on cash and cash equivalents	(318)	(1,169)	(325)
Net increase in cash and cash equivalents	11,004	19,811	30,760
Cash and cash equivalents, beginning of term	45,392	76,152	45,392
Cash and cash equivalents, end of term	¥ 56,396	¥ 95,963	¥ 76,152

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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5. Notes to Consolidated Financial Statements

1. Basis of Financial Statements

Accounting standards

The accompanying consolidated interim financial statements are stated in conformity with the accounting principles generally accepted in the United States of America (US GAAP). Segment information is disclosed in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 131. Certain reclassification has been made for prior terms to conform with the current year presentation. Komatsu Ltd. (hereinafter the Company) changed the name of others to Industrial Machinery, Vehicles and Others , starting in the interim period under review.

Preparation of consolidated interim financial statements and registration with the U.S. Securities and Exchange Commission

The company has prepared consolidated financial statements in accordance with US GAAP since 1963 preparatory to issuance in the following year of foreign-currency denominated convertible bonds in Europe. In 1970, the Company also registered its common stock with the U.S. Securities and Exchange Commission with the purpose of allotment of newly issued shares to shareholders in the United States of America. Since then, the Company has been obliged to notify and register its consolidated financial statements in accordance with US GAAP to the Securities and Exchange Commission as a foreign company subject to the Securities and Exchange Act of 1934 for issuance of securities. In 1975, the Company adopted the interim accounting settlement system, as a result of which the Company has prepared consolidated interim financial statements in accordance with US GAAP.

Summary of significant accounting policies

[1] Consolidation and investments in affiliated companies

The consolidated interim financial statements include the accounts of the company and all of its majority-owned domestic and foreign subsidiaries (hereinafter companies), except for certain subsidiaries of immaterial nature.

During the reporting period, the company established Komatsu DEUTSCHLAND GmbH in Germany which is treated as a consolidated company. Also, in this reporting term, Komatsu Kagawa Ltd and Komatsu Tokushima Ltd were merged as Komatsu Shikoku Ltd. Then Komatsu Tokushima was excluded from the scope of consolidation.

Investments in 20% to 50%-owned affiliated companies and non-consolidated subsidiaries are accounted for by the equity method. All significant inter-company transactions and balances have been eliminated.

[2] Translation of foreign currency accounts

Under the provisions of SFAS No. 52, Foreign Currency Transaction, assets and liabilities are translated at the exchange rates prevailing at each interim term- or year-end, and income and expenses are translated at the average rates of exchange prevailing during each interim term or year in consolidating the financial statements of overseas subsidiaries. The resulting translation adjustments are included in other comprehensive income (loss) in the accompanying consolidated interim financial statements.

[3] Reserves for doubtful accounts

In preparation for possible losses on receivables, the Company made provision for ordinary claims based on historical default rates in addition to specific amounts deemed un-collectable, taking into consideration the collectability of such individual claims.

[4] Inventories

Inventories, consisting of finished products including finished parts held for sale, work in process, and materials and supplies, are stated at the lower of cost or market. Cost is determined by the last-in, first-out method for finished parts held for sale and by using actual costs accumulated under a job-order cost system for other finished products and work in process. Cost of materials and supplies represents average cost.

[5] Investment securities

In compliance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, all of the Company s investments in debt and equity securities are categorized as available-for-sale securities, which are stated at fair value. Changes in fair values are included as a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated financial statements.

Unrealized losses are charged against net earnings when a decline in market value below cost is determined to be other than temporary based primarily on the financial condition of the issue and the extent and length of the time of the decline. Investments whose market values have declined below cost that extends for six months are automatically written down to the fair value in all cases.

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[6] Land and buildings held for sale

Land and buildings held for sale are stated at the lower of cost or market value less cost to sell. During the previous fiscal year ended March 31, 2003, the Company recorded a total charge of ¥ 6,348 million in other expense to reduce the carrying values of assets held for sale to current estimated market values less cost to sell.

[7] Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost (net of accumulated depreciation). Depreciation is computed principally using the declining-balance method at rates based on the estimated useful lives of assets.

Certain leased machinery and equipment are accounted for as capital leases in conformity with SFAS No. 13, Accounting for Leases.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized.

[8] Goodwill and Other Intangible Assets

The company has adopted SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets .

SFAS No. 141 requires the use of only the purchase method of accounting for business combinations and refines the definition of intangible assets acquired in a purchase business combination. SFAS No. 142 eliminates the amortization of goodwill and instead requires annual impairment testing thereof. SFAS No. 142 also requires recognized intangible assets with a definite useful life to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144. Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment based on its fair value until its life is determined to no longer be indefinite.

The Company fully adopted the provisions of SFAS No. 141 and SFAS No. 142 as of April 1, 2002. Goodwill acquired in business combinations completed before July 1, 2001, was amortized through March 31, 2002. In connection with the transition provision of SFAS No. 142, the Company was required to perform an assessment of whether there was an indication that any existing goodwill was impaired as of April 1, 2002. To accomplish this, the Company (1) identified its reporting units, (2) determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units, and (3) determined the fair value of each reporting unit. The Company completed the transitional assessment and recognized an impairment loss amounting to ¥265 million as of April 1, 2002 since the carrying amount of the applicable reporting unit s goodwill exceeded its implied fair value. The Company also completed the annual assessments for the year ended March 31, 2003 and the semiannual assessments for six months ended September 30, 2003 and determined that no additional goodwill impairment charge was necessary.

[9] R&D expenses and advertisement expenses

Expenditures for R&D activities and advertising are charged to income as incurred.

[10] Revenue recognition

The companies recognize revenue from product sales at the time when (1) title and risk of all ownership is transferred to independently owned and operated dealers or customers, (2) products are received and accepted by the customers for major products such as construction equipment etc. (3) sales price is fixed or determinable and (4) amounts are reasonably assured of collection.

[11] Income taxes

In accordance with SFAS No. 109, Accounting for Income Taxes, the deferred tax provision is determined by the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on temporary differences between accounting and tax bases of assets and liabilities using prevailing tax rates as of each balance-sheet date.

The companies compute and record income taxes currently payable based on taxable income, which may be different from accounting income.

Tax effect is not recognized for undistributed earnings of foreign subsidiaries and affiliated companies because the Company considers that such earnings are permanently reinvested or would not result in material additional taxation if they were distributed to the Company under the current circumstances.

Deferred tax assets are reduced by a valuation allowance to the amount that management believes is more likely than not to be realized.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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[12] Postretirement benefits

The defined benefit plans are accounted for in accordance with SFAS No. 87, Employers Accounting for Pensions, except for certain subsidiaries pension plans which in the aggregate are not significant. Certain domestic subsidiaries also have local severance payment plans under which accrued severance liabilities are stated on the vested benefits obligation basis, which is the amount required to be paid if all eligible employees voluntarily terminated their employment as of the balance-sheet date.

Amortization of unrecognized net gain or loss is included as a component of the Company s net periodic pension cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of (1) the projected benefit obligation or (2) the fair value of that plan s assets.

In such case, the amount of amortization recognized by the Company is the resulting excess divided by average remaining service period of active employees expected to receive benefits under the plan. The expected return on plan assets is determined based on the historical long-term rate of return on plan assets. The discount rate is determined based on the rates of return of high-quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefits.

[13] Per share data

Basic net income per share has been computed by dividing net income by the weighted-average number of common shares outstanding during each fiscal year, after deducting treasury shares. Diluted net income per share reflects the potential dilution computed on the basis that all convertible bonds were converted at the beginning of the year and that all stock options were exercised (less the number of treasury shares assumed to be purchased from proceeds using the average market price of the Company s common shares) to the extent that each is not anti-dilutive.

Dividends per share shown in the accompanying consolidated statements of income have been calculated based on dividends approved and paid in each fiscal year.

[14] Consolidated interim statements of cash flows

For the purpose of the consolidated interim statements of cash flows, cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

[15] Derivative financial instruments

The companies use various derivative financial instruments to manage their interest rate and foreign exchange exposure.

Effective April 1, 2001, the Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133. SFAS No. 133 as amended requires that all derivatives, including derivatives embedded in other financial instruments, be measured at fair value and recognized as either assets or liabilities on the consolidated balance sheet. Changes in the fair values of derivative instruments not designated or not qualifying as hedges under SFAS No. 133 and any ineffective portion of qualified hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in other comprehensive income (loss), and recognized in earnings when the hedged item is recognized in earnings.

In April 2003, the Financial Accounting Standard Board FASB issued No. 149 (Amendment of Statement 133 on Derivative Instruments and Hedging Activities). This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, (Accounting for Derivative Instruments and Hedging Activities).

The company adopted FASB No. 149 from July 1, 2003. The effect of adopting this statement was not material to the consolidated financial position or results of operations.

[16] Impairment of long-lived assets and long-lived assets to be disposed of

The company adopted SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets . The long-lived assets and certain identifiable intangibles to be held and used by the companies are reviewed for impairment based on a cash flow analysis of related operations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets and certain identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

[17] Comprehensive income

The Company has adopted SFAS No. 130 Reporting Comprehensive Income. Comprehensive income consists of net income, changes in foreign currency translation adjustments, net unrealized holding gains on securities available for sale, pension liability adjustments and net unrealized holding gains (losses) on certain derivative financial instruments, and is included in the consolidated interim statements of shareholders equity.

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[18] Use of estimates

The Company s management has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in order to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from the estimates and assumptions.

The Company has identified five areas where it believes assumptions and estimates are particularly critical to the financial statements. These are the determination of the allowance for doubtful receivables, impairment on long-lived assets and goodwill, pension liabilities and expenses, fair value of financial instruments and realization of deferred income tax assets.

2. Supplemental Cash Flow Information

Additional cash flow information is as follows:

	Millions of yen		
	Previous interim term ended September 30, 2002	**Interim term ended September 30, 2003**	**Previous fiscal year ended March 31, 2003**
Cash items			
Interest paid:	¥ 6,779	¥ 6,753	¥ 14,370
Income taxes paid:	3,948	7,458	6,831

	Millions of yen		
	Previous interim term ended September 30, 2002	**Interim term ended September 30, 2003**	**Previous fiscal year ended March 31, 2003**
Non-cash items			
Net effect resulting from posting lease assets			
Capital lease obligations incurred	6,562	5,517	12,022
Acquisition of minority interests of two consolidated subsidiaries through stock for stock exchanges:			
Net assets acquired			18,238

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3. Investment Securities

Investment securities at September 30, 2002 and 2003 and March 31, 2003 primarily consisted of securities available for sale.

The cost, gross unrealized holding gains and losses, and fair value for such investment securities by major security type at September 30, 2002 and 2003, and March 31, 2003 are as follows:

	Millions of yen			
	At September 30, 2002			
		Gross unrealized holding		
	Cost	Gains	Losses	Fair value
Investment securities available for sale:				
Marketable debt securities	¥ 1,407	¥	¥	¥ 1,407
Marketable equity securities	23,171	6,619	39	29,751
Other investment securities	12,012			12,012
	¥ 36,590	¥ 6,619	¥ 39	¥ 43,170

	Millions of yen			
	At September 30, 2003			
		Gross unrealized holding		
	Cost	Gains	Losses	Fair value
Investment securities available for sale:				
Marketable debt securities	¥ 10	¥	¥	¥ 10
Marketable equity securities	17,858	18,258	88	36,028
Other investment securities	12,557			12,557
	¥ 30,425	¥ 18,258	¥ 88	¥ 48,595

	Millions of yen
	At March 31, 2003

	Gross unrealized holding			
	Cost	Gains	Losses	Fair value
Investment securities available for sale:				
Marketable debt securities	¥ 10	¥	¥	¥ 10
Marketable equity securities	12,602	4,912	1,040	16,474
Other investment securities	14,278			14,278
	¥ 26,890	¥ 4,912	¥ 1,040	¥ 30,762

Maturities of marketable debt securities at September 30, 2002 and 2003 and at March 31, 2003 primarily fall within five years.

Unrealized holding gains and losses are included as a component of accumulated other comprehensive income (loss) until realized.

Proceeds from the sale of marketable securities and investment securities available for sale were ¥6,134 million, and ¥11,896 million for the six months ended September 30, 2002, and 2003, respectively, and ¥9,453 million for the year ended March 31, 2003.

Net realized gains (losses) on the sale of marketable securities and investment securities available for sale during the six months ended September 30, 2002 and 2003 amounted to ¥1,731 million of gains and ¥344 million of gains, respectively, and ¥(6,454) million of losses for the year ended March 31, 2003.

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4. Pledged Assets

At September 30, 2002 and 2003 and at March 31, 2003, assets pledged as collateral for short-term debt, long-term debt and guarantee for debt were as follows:

	Millions of yen		
	At September 30, 2002	At September 30, 2003	At March 31, 2003
Time deposits	¥	¥ 74	¥
Trade notes and accounts receivable	925	574	756
Inventories		1,669	
Property, plant and equipment-less accumulated depreciation	32,409	28,042	31,160
Total	¥ 33,334	¥ 30,359	¥ 31,916

The above pledged assets were classified by type of liabilities to which they relate as follows:

	Millions of yen		
	At September 30, 2002	At September 30, 2003	At March 31, 2003
Liabilities appearing in the consolidated balance sheets as:			
Short-term debt	¥ 845	¥ 2,804	¥ 911
Long-term debt	31,908	27,147	29,883
Guarantee for debt	581	408	1,122
Total	¥ 33,334	¥ 30,359	¥ 31,916

5. Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) at September 30, 2002 and 2003 and at March 31, 2003 was as follows:

	Millions of yen		
	Previous interim term ended September 30,	Interim term ended September 30, 2003	Previous

	2002		fiscal year ended March 31, 2003
Foreign currency translation adjustments:			
Balance, beginning of year	¥ (10,344)	¥ (16,929)	¥ (10,344)
Aggregate adjustment for the term resulting from translation of foreign currency financial statements	(7,656)	(6,671)	(6,585)
Balance, end of term	¥ (18,000)	¥ (23,600)	¥ (16,929)
Net unrealized holding gains on securities available for sale:			
Balance, beginning of term	¥ 3,055	¥ 1,263	¥ 3,055
Net increase (decrease)	(274)	8,502	(1,792)
Balance, end of term	¥ 2,781	¥ 9,765	¥ 1,263
Pension liability adjustments:			
Balance, beginning of term	¥ (10,927)	¥ (15,478)	¥ (10,927)
Adjustment for the term	(949)	829	(4,551)
Balance, end of term	¥ (11,876)	¥ (14,649)	¥ (15,478)
Net unrealized holding gains (losses) on derivative instruments:			
Balance, beginning of term	¥ (177)	¥ (1,837)	¥ (177)
Net increase (decrease)	(1,675)	1,070	(1,660)
Balance, end of term	¥ (1,852)	¥ (767)	¥ (1,837)
Total accumulated comprehensive income (loss):			
Balance, beginning of term	¥ (18,393)	¥ (32,981)	¥ (18,393)
Other comprehensive income (loss) for the term	(10,554)	3,730	(14,588)
Balance, end of term	¥ (28,947)	¥ (29,251)	¥ (32,981)

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6. Rent Expenses

The consolidated companies lease office space and equipment, employees housing, etc., under cancelable and non-cancelable operating lease agreements. Rent expenses under such leases amounted to ¥6,956 million and ¥6,338 million for the six months ended September 30, 2002 and 2003, respectively, and ¥12,944 million for the year ended March 31, 2003. Certain lease contracts for equipment that would be classified as capital leases in conformity with SFAS No.13 were capitalized. At September 30, 2002 and 2003 and at March 31, 2003, the future minimum lease payments under these leases were as follows:

	Millions of yen		
	At September 30, 2002		
	Capital lease	Operating lease	Total lease commitments
Term ending September 30,			
2003	¥ 11,848	¥ 1,721	¥ 13,569
2004	10,955	1,580	12,535
2005	7,867	1,460	9,327
2006	6,497	975	7,472
2007	1,809	790	2,599
Thereafter	2,513	2,264	4,777
Total minimum lease payments	41,489	¥ 8,790	¥ 50,279
Less: amounts representing interest	(3,333)		
Present value of net minimum capital lease payments	¥ 38,156		

	Millions of yen		
	At September 30, 2003		
	Capital lease	Operating lease	Total lease commitments
Term ending September 30,			
2004	¥ 13,441	¥ 1,727	¥ 15,168
2005	11,237	1,442	12,679
2006	8,105	1,141	9,246
2007	4,500	882	5,382
2008	2,763	712	3,475
Thereafter	1,813	2,088	3,901
Total minimum lease payments	41,859	¥ 7,992	¥ 49,851

Less: amounts representing interest	(3,283)
Present value of net minimum capital lease payments	¥ 38,576

	Millions of yen		
	At March 31, 2003		
	Capital lease	Operating lease	Total lease commitments
Year ending March 31,			
2004	¥ 16,052	¥ 1,737	¥ 17,789
2005	11.636	1,615	13,251
2006	7,860	1,257	9,117
2007	4,144	1,032	5,176
2008	2,148	893	3,041
Thereafter	2,317	2,840	5,157
Total minimum lease payments	44,157	¥ 9,374	¥ 53,531
Less: amounts representing interest	(3,083)		
Present value of net minimum capital lease payments	¥ 41,074		

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7. Net Income per Share

A reconciliation of basic net income per share before cumulative effects of changes in accounting principles and diluted net income per share before cumulative effects of changes in accounting principles is as follows:

	Millions of yen		
	Previous interim term ended September 30, 2002	Interim term ended September 30, 2003	Previous fiscal year ended March 31, 2003
Net income before cumulative effects of changes in accounting principles	¥ 2,123	¥ 9,410	¥ 3,274
Effect of dilutive securities:			
1.8% Japanese yen convertible bonds, due 2004		149	
Stock Option			
Diluted net income before cumulative effects of changes in accounting principles	¥ 2,123	¥ 9,559	¥ 3,274
	Shares		
Average common shares outstanding, less treasury stocks	953,930,723	992,484,365	973,306,865
Dilutive effect of:			
1.8% Japanese yen convertible bonds, due 2004		28,260,914	
Stock Option		173,066	
Diluted common shares outstanding	953,930,723	1,020,918,345	973,306,865
	Yen		
Net income per share before cumulative effects of changes in accounting principles			
Basic	¥ 2.23	¥ 9.48	¥ 3.36
Diluted	¥ 2.23	9.36	¥ 3.36

8. Commitments and Contingent Liabilities

[1] At September 30, 2002 and 2003 and at March 31, 2003, the consolidated companies were contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥14,342 million, ¥12,429 million and ¥16,975 million, respectively, and also as guarantors of indebtedness of others, including letters of awareness and keep-well agreements aggregating ¥24,489 million, ¥21,189 million and ¥21,500 million including ¥3,340 million, ¥2,958 million and ¥3,117 million relating to affiliated companies. With regard to the sale of a subsidiary, the Company guarantees to the purchaser to pay up to ¥4,258 million as of September 30, 2002 and 2003 and at March 31, 2003 relating to the credit risk of subsidiary s outstanding receivables at the time of the sale. The management of the Company believes that losses from those contingent liabilities, if any, would not have a material effect on the consolidated financial statements.

[2] Commitments for capital expenditures outstanding at September 30, 2002 and 2003 and at March 31, 2003, aggregated approximately ¥2,000 million, ¥2,300 million and ¥5,600 million, respectively.

[3] The companies are involved in certain legal actions and claims arising in the ordinary course of their business. It is the opinion of management and legal counsel that such litigation and claims will be resolved without material effect on the companies financial positions.

[4] The companies have business transactions with customers, dealers and associates around the world, and their trade receivables from and guarantees to such parties are well diversified to minimize concentration of credit risk. Management does not anticipate incurring losses on their trade receivables in excess of allowances provided for doubtful accounts.

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9. Derivative Financial Instruments

Risk management policy

The companies are exposed to market risk primarily from changes in foreign currency exchange rates and interest rates with respect to debt obligations, international operations and foreign currency denominated credits and debts. In order to manage these risks that arise in the normal course of business, the companies enter into various derivative transactions for hedging pursuant to their policies and procedures. The companies do not enter into derivative financial transactions for trading or speculative purposes.

The companies have entered into interest rate swap and cap agreements, partly concurrent with currency swap agreements for the purpose of managing the risk resulting from changes in cash flow or fair value that arise in their interest rate and foreign currency exposure with respect to certain short-term and long-term debts and investment securities.

The companies operate internationally, which exposes the companies to foreign exchange risk against existing assets and liabilities and transactions denominated in foreign currencies (principally the U.S. dollar and the euro). In order to reduce these risks, the companies execute forward exchange contracts and option contracts (purchased) based on their projected cash flow in foreign currencies.

The companies are exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but they do not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties.

Fair value hedges

The companies use derivative financial instruments designated as fair value hedges to manage primarily interest rate and foreign exchange risks associated with debt obligations. Principally cross-currency swap, interest rate swap and foreign exchange contracts are used to hedge such risk for debt obligations.

Changes in fair value of the hedged debt obligations and derivative instruments designated as fair value hedge are offset and recognized in other expenses. For the interim term ended September 30, 2003, hedge ineffectiveness resulting from fair value hedging activities was not material to the companies result of operations. During the same period, no fair value hedges were discontinued.

Cash flow hedges

The companies use derivative financial instruments designated as cash flow hedges to manage the companies foreign exchange risks associated with forecast transactions and the companies interest risks associated with debt obligations. For transactions denominated in foreign currencies, the companies typically hedge forecast and firm commitment exposures to the variability in cash flow basically up to one year. For the variable rate debt obligations, the companies enter into interest rate swap contracts to manage the changes in cash flows. The companies record the changes in fair value of derivative instruments designated as cash flow hedges in other comprehensive income (loss). These amounts are reclassified into earnings through interest and other income or expenses when the hedged items impact earnings. Approximately ¥254 million of existing losses included in accumulated other comprehensive income (loss) at September 30, 2003 will be reclassified into earnings within twelve months from that date. No cash flow hedges were discontinued during the interim term ended September 30, 2002 as a result of anticipated transactions whose occurrence is no longer probable.

Undesignated derivative instruments

The companies have entered into interest rate swap contracts not designated as hedging instruments under SFAS No. 133 as a means of managing the Company and its group companies interest rate exposures for short-term and long-term debts. Forward contracts and option contracts (purchased) not designated as hedging instruments under SFAS No. 133 are also used to hedge certain foreign currency exposures. The changes in fair value of such instruments are recognized currently in earnings.

Notional principal amounts of derivative financial instruments outstanding at September 30, 2002, September 30, 2003 and March 31, 2003 are as follows.

	Million of yen		
	September 30, 2002	September 30, 2003	March 31, 2003
Forwards and options:			
Sale of foreign currencies	¥ 31,985	¥ 28,587	¥ 31,262
Purchase of foreign currencies	22,968	24,401	37,770
Option contracts (purchased)	4,017	3,411	3,772
Option contracts (sold)	1,238		361
Interest swap, currency swap and interest rate cap agreements	¥ 261,766	¥ 226,611	¥ 245,973

Net foreign currency transaction losses of ¥912 million, losses of ¥2,800 million, and losses of ¥1,507 million for the previous interim term-end, the interim term-end and the previous fiscal year-end respectively, were included in the determination of net income (loss).

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10. The Fair Value of Financial Instruments

[1] Cash and Cash Equivalents, Time Deposits, Trade Notes and Accounts Receivables, Other Current Assets, Short-Term Debt, Trade Notes and Accounts Payable, and Other Current Liabilities

The carrying amount approximates fair value because of the short maturity of these instruments.

[2] Investment Securities

The fair values of investment securities available for sale are based on quoted market prices.

[3] Installment Receivables

The fair values of installment receivables are based on the present value of future cash flows through maturity, discounted using estimated current interest rates. The fair values computed on such a basis approximate the carrying amounts.

[4] Derivative Financial Instruments

The fair values of derivative financial instruments, consisting principally of foreign currency contracts and interest swap agreements, are estimated by obtaining quotes from brokers.

The carrying amounts and the estimated fair values of the financial instruments, including financial instruments not qualifying as hedges, as of September 30, 2002, September 30, 2003 and March 31, 2003, are summarized as follows:

	Millions of yen					
	At September 30, 2002		At September 30, 2003		At March 31, 2003	
	Carrying amount	Estimated fair-value	Carrying amount	Estimated fair-value	Carrying amount	Estimated fair-value
Investment securities	¥ 43,170	¥ 43,170	¥ 48,595	¥ 48,595	¥ 30,762	¥ 30,762
Derivatives:						
Foreign exchange forward agreements:						
Assets	505	505	1,694	1,694	297	297
Liabilities	1,107	1,107	1,031	1,031	1,917	1,917
Interest rate swap, cross currency swap, and cap agreements:						
Assets	1,611	1,611	3,845	3,845	536	536

Liabilities	6,317	6,317	2,275	2,275	4,242	4,242

* Limitations

Fair value estimates are made at specific points in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could affect the estimates.

11. Lending Commitment

The Company and part of the consolidated subsidiaries enter into commitment contracts with financial institutions to make efficient raising of working capital. The balances of unexecuted borrowings as of September 30, 2002, September 30, 2003 and March 31, 2003, were ¥68,876 million, ¥42,663 million and ¥42,597 million respectively.

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12. Business Segment Information

Under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, in deciding how to allocate resources and in assessing performance. The operating segments are managed separately because each operating segment represents a strategic business unit that offers different products and services.

The company changed the name of Others to Industrial Machinery, Vehicles and Others starting in this current interim period. The companies operate on a worldwide basis principally with following three operating segments: 1) Construction and mining equipment, 2) Industrial Machinery, Vehicles and Others, 3) Electronics.

[1] Operating segments

	Millions of yen					
	Previous interim term (April 1 to September 30, 2002)					
	Construction & mining equipment	Industrial Machinery, Vehicles and Others	Electronics	Total	Eliminations and corporate	Consolidated
I Net sales and segment profit (loss)						
Net sales						
(1) Customers	¥ 371,388	¥ 103,690	¥ 43,351	¥ 518,429	¥	¥ 518,429
(2) Inter-segment	2,913	18,265	63	21,241	(21,241)	
Total	374,301	121,955	43,414	539,670	(21,241)	518,429
Segment Profit (loss)	13,622	2,840	(46)	16,416	(2,056)	14,360
II Assets, depreciation costs, and capital expenditure						
Assets	853,190	227,869	173,414	1,254,473	46,900	1,301,373
Depreciation costs	21,090	3,933	7,235	32,258		32,258
Capital expenditure	23,568	6,223	5,095	34,886		34,886
	Interim term (April 1 to September 30, 2003)					
I Net sales and segment profit						
Net sales						
(1) Customers	¥ 408,989	¥ 115,346	¥ 43,336	¥ 567,671	¥	¥ 567,671
(2) Inter-segment	4,473	19,488	95	24,056	(24,056)	
Total	413,462	134,834	43,431	591,727	(24,056)	567,671
Segment profit	24,756	5,145	746	30,647	(2,405)	28,242
II Assets, depreciation costs, and capital expenditure						

Assets	841,539	212,129	164,022	1,217,690	83,050	1,300,740
Depreciation costs	21,844	4,579	7,114	33,537		33,537
Capital expenditure	26,041	4,178	7,149	37,368		37,368

	Previous fiscal year (April 1, 2002 to March 31, 2003)					
I Net sales and segment profit (loss)						
Net sales						
(1) Customers	¥ 767,840	¥ 236,782	¥ 85,182	¥ 1,089,804	¥	¥ 1,089,804
(2) Inter-segment	6,620	37,754	159	44,533	(44,533)	
Total	774,460	274,536	85,341	1,134,337	(44,533)	1,089,804
Segment profit (loss)	28,990	8,841	(849)	36,982	(3,804)	33,178
II Assets, depreciation costs, and capital expenditure						
Assets	853,644	219,687	165,090	1,238,421	67,933	1,306,354
Depreciation costs	46,137	7,719	14,966	68,822		68,822
Capital expenditure	50,125	9,874	10,474	70,473		70,473

Adjustments between the aggregate amount of segment profit of each business segment and income before income taxes, minority interests and equity in earnings.

	Millions of yen		
	Previous Interim term ended September 30, 2002	Interim term ended September 30, 2003	Previous Fiscal year ended March 31, 2003
Total segment profit (loss)	¥ 16,416	¥ 30,647	¥ 36,982
Eliminations and corporate	(2,056)	(2,405)	(3,804)
Consolidated segment profit	14,360	28,242	33,178
Interest receivable and other income	7,753	6,479	13,436
Interest payable	7,117	7,161	14,693
Other expenses	9,344	6,068	19,016
Net income before income taxes, minority interests and equity in earnings	¥ 5,652	¥ 21,492	¥ 12,905

Notes: 1. Main products and business lines for each business segment are as follows.

a. Construction and mining equipment

Excavators, loaders, ground leveling and roadbed machinery, transporters, ground construction machinery, resource recycling machinery, engines, equipment and casting

b. Industrial Machinery, Vehicles and Others.

Metal forging and stamping presses, sheet metal presses, machine tools, industrial vehicles, logistics business, etc.

c. Electronics

Electronic materials, telecommunication equipment, controlling and information equipment, and temperature adjustment equipment

2. Transactions between segments are made at estimated arm s length prices.
3. Segment profit (loss) represents net sales less cost of sales, and selling and general administrative expenses.
4. Recognizable assets are assets currently used for operating activities of each segment. Non-allocable assets consist mainly of cash and cash equivalents, marketable securities and investment securities held for the common purpose of all segments.

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[2] Geographic information

Net sales recognized by sales destination for the interim periods ended September 30, 2002 and 2003 and the year ended March 31, 2003 are as follows.

	Millions of yen					
	Japan	Americas	Europe	Asia (excl. Japan) & Oceania	Middle East & Africa	Consolidated
Previous interim term ended September 30, 2002	¥ 211,924	¥ 128,118	¥ 71,728	¥ 78,875	¥ 27,784	¥ 518,429
Interim term ended September 30, 2003	226,059	131,336	74,677	104,889	30,710	567,671
Previous fiscal year ended March 31, 2003	458,000	251,371	145,455	176,177	58,801	1,089,804

Sales and long-lived assets breakdown by region for the interim periods ended September 30, 2002 and 2003 and the year ended March 31, 2003 are as follows.

	Millions of yen				
	Previous interim term (April 1 to September 30, 2002)				
	Japan	Americas	Europe	Other regions	Consolidated
Net sales	¥ 260,179	¥ 131,364	¥ 64,817	¥ 62,069	¥ 518,429
Long-lived assets	315,983	109,022	13,211	32,972	471,188
	Interim term (April 1 to September 30, 2003)				
Net sales	¥ 281,595	¥ 130,203	¥ 65,764	¥ 90,109	¥ 567,671
Long-lived assets	311,727	98,935	13,215	28,014	451,891
	Previous fiscal year (April 1, 2002 to March 31, 2003)				
Net sales	¥ 558,798	¥ 257,027	¥ 132,165	¥ 141,814	¥ 1,089,804
Long-lived assets	307,187	103,504	12,857	31,560	455,108

Notes:
1. No individual country within Europe or other areas had a material impact on net sales or long-lived assets.
2. There were no sales to a single major external customer for the previous interim term ended September 30, 2002, the interim term ended September 30, 2003 and the previous fiscal year ended March 31, 2003.
3. Long-lived assets are composed of mainly land, buildings and machinery.

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The following information shows net sales and operating income (loss) recognized by geographic origin for the previous interim term ended September 30, 2002, the interim term ended September 30, 2003 and the previous fiscal year ended March 31, 2003. In addition to the disclosure requirements under SFAS No. 131, the Company discloses this information as supplemental information in light of the disclosure requirements of the Japanese Securities and Exchange Law, to which Japanese public companies are subject:

Geographical origin segment information

	Millions of yen						
	Previous interim term (April 1 to September 30, 2002)						
	Japan	Americas	Europe	Other regions	Total	Eliminations and corporate	Consolidated
I Net sales and operating income							
Net sales							
(1) Customers	¥ 260,179	¥ 131,572	¥ 64,817	¥ 61,861	¥ 518,429	¥	¥ 518,429
(2) Inter-segment	78,912	6,381	4,733	4,190	94,216	(94,216)	
Total	339,091	137,953	69,550	66,051	612,645	(94,216)	518,429
Segment profit	10,043	107	1,707	3,122	14,979	(619)	14,360
II Assets	943,187	328,263	87,198	112,955	1,471,603	(170,230)	1,301,373
	Interim term (April 1 to September 30, 2003)						
I Net sales and operating income							
Net sales							
(1) Customers	¥ 281,595	¥ 130,318	¥ 65,764	¥ 89,994	¥ 567,671	¥	¥ 567,671
(2) Inter-segment	86,459	5,371	6,505	3,493	101,828	(101,828)	
Total	368,054	135,689	72,269	93,487	669,499	(101,828)	567,671
Segment profit	16,334	1,867	3,545	8,058	29,804	(1,562)	28,242
II Assets	932,597	301,201	79,652	120,944	1,434,394	(133,654)	1,300,740
	Previous fiscal year (April 1, 2002 to March 31, 2003)						
I Net sales and operating income							
Net sales							
(1) Customers	¥ 558,798	¥ 257,351	¥ 132,165	¥ 141,490	¥ 1,089,804	¥	¥ 1,089,804
(2) Inter-segment	161,037	10,661	10,240	8,124	190,062	(190,062)	
Total	719,835	268,012	142,405	149,614	1,279,866	(190,062)	1,089,804
Segment profit (loss)	25,748	(1,913)	2,793	8,971	35,599	(2,421)	33,178
II Assets	930,650	314,605	89,744	122,253	1,457,252	(150,898)	1,306,354

Notes:
1. Transfers between segments are made at estimated arm s length prices.
2. Segment profit (loss) represents net sales less cost of sales and selling, general and administrative expenses.
3. Identifiable assets are those assets used in the operations of each segment.

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

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Overseas sales

	Millions of yen			
	Previous interim term (April 1 to September 30, 2002)			
	Americas	Europe	Other regions	Total
I Overseas sales	¥ 128,118	¥ 71,728	¥ 106,659	¥ 306,505
II Consolidated sales				518,429
III Percentage of overseas sales to consolidated sales	24.7	13.8	20.6	59.1
	Interim term (April 1 to September 30, 2003)			
I Overseas sales	¥ 131,336	¥ 74,677	¥ 135,599	¥ 341,612
II Consolidated sales				567,671
III Percentage of overseas sales to consolidated sales	23.1	13.2	23.9	60.2
	Previous fiscal year (April 1, 2002 to March 31, 2003)			
I Overseas sales	¥ 251,371	¥ 145,455	¥ 234,978	¥ 631,804
II Consolidated sales				1,089,804
III Percentage of overseas sales to consolidated sales	23.1	13.3	21.6	58.0

Notes:
1. Overseas sales are sales for customers in countries and regions other than Japan of the Company and its consolidated subsidiaries.
2. The regions are classified according to geographical criteria.
3. The principal countries and regions in the respective geographical categories are as follows

(1) Americas: the United States

(2) Europe: Germany and the United Kingdom

(3) Other regions: China, Australia and Southeast Asia

13. Important Subsequent Events

Nothing to be mentioned in this reporting period.