

Annual Report
2005

SOMPO
JAPAN



FORWARD-LOOKING STATEMENTS: This annual report contains certain forward-looking statements relating to future plans and targets, and related operating investments. We caution that there can be no assurance that such targets and plans can or will actually be achieved.

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Sompo Japan

Sompo Japan Insurance Inc. (Sompo Japan) was founded on July 1, 2002, with the merger of The Yasuda Fire and Marine Insurance Company, Limited, and The Nissan Fire and Marine Insurance Company, Limited.

Sompo Japan immediately set to work realizing its vision of becoming “a new business presence suited to a new age” and establishing a new corporate image as a comprehensive service provider group for risk and asset management.

Continuing liberalization and deregulation as well as harsh economic conditions present the insurance and financial industries with an increasingly challenging business environment.

Management Philosophy of Sompo Japan Insurance Inc.

SOMPO JAPAN will offer excellent risk “solutions” to individuals and corporations. With services that always exceed customer expectations, SOMPO JAPAN will create shareholder value and grow together with our employees SOMPO JAPAN will be a high-profile Japanese corporation, with progressive strategy and dynamic business activity.

Policy of Sompo Japan Insurance Inc.: The 5 “S”s

SERVICE, NOT SALES

We will supply the best coverage for the client’s particular situation and the finest service in the event of need

SHAREHOLDER VALUE

We will identify specific measures to increase shareholder value, and put them into practice

SET AND STICK TO HIGH TARGETS

We will take bold action to keep ahead, refusing to be deterred by any obstacle, to meet the high targets we set ourselves

STIMULATING WORK ENVIRONMENT

We will create a workplace that is open and filled with stimulation, inspiring each other to improve

SPIRIT OF FAIRNESS

We will act with a spirit of fairness and integrity based on high ethical standards and rational judgement

Consolidated Financial Highlights in FY2004

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Net premiums written	¥1,376,233	¥1,377,900	¥1,288,664	\$12,812,895
Total interest and dividend income	94,511	85,917	77,870	879,909
Net income (loss)	51,766	55,088	(29,265)	481,948
Total assets	5,874,859	5,689,037	5,331,704	54,695,643

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥107.41=U.S.\$1.00, the approximate rate prevailing at March 31, 2005.
 2. Total interest and dividend income comprises "Interest and dividend income on deposits of premiums, etc." and net "Interest and dividend income."

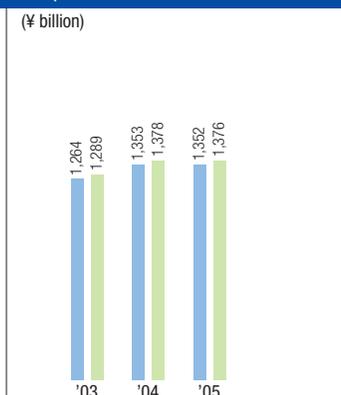
Non-Consolidated Financial Highlights in FY2004

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Net premiums written	¥1,351,915	¥1,352,877	¥1,264,284	\$12,586,491
Total interest and dividend income	82,706	75,114	68,484	770,003
Net income (loss)	56,898	64,175	(15,472)	529,727
Total assets	5,157,080	5,072,285	4,785,865	48,013,034

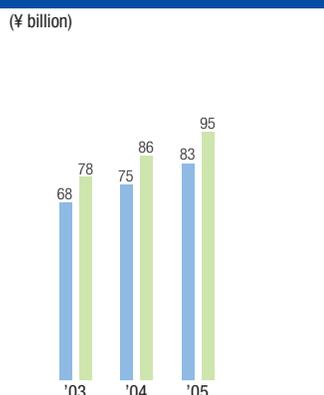
	Percent		
Loss ratio	64.8	56.8	54.4
Expense ratio	30.9	31.9	33.5

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥107.41=U.S.\$1.00, the approximate rate prevailing at March 31, 2005.
 2. Total interest and dividend income comprises "Interest and dividend income on deposits of premiums, etc." and net "Interest and dividend income."

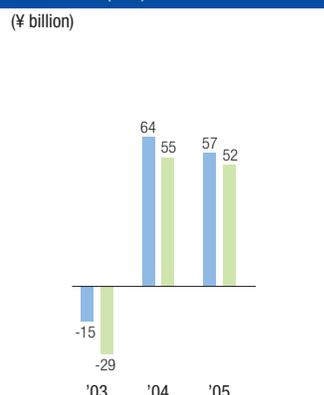
Net premiums written



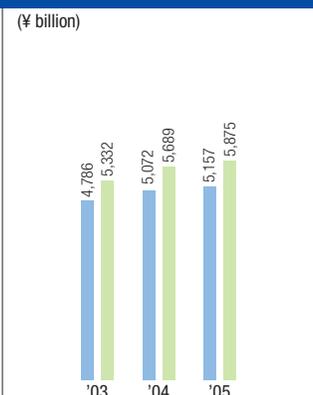
Total interest and dividend income



Net income (loss)



Total assets



Consolidated
 Non-Consolidated

Maximum Utilization of Core Competencies



The term “core competence” refers to the source of a company’s competitive advantage. Sompo Japan has four core competencies, which are intangible assets that we have built up over the years through the investment of substantial management resources: Distribution channels, Claims handling network, Product development and IT (Information Technology) support capability. Our basic policy is to maximally utilize these core competencies to secure competitive leadership through differentiation in time, cost advantage and expertise. In line with this policy, we engage in selectivity and concentration on high-priority businesses.

Distribution channels

Sompo Japan has approximately 60,000 sales agencies in Japan. They accurately respond to customer needs, propose various plans based on understanding of risk profiles and provide advice on the optimal choice of products. A network of 528 company sales offices nationwide supports the activities of the agencies. We have also actively introduced new sales methods involving use of the Internet and call centers.

Claims handling network

Approximately 7,400 Sompo Japan employees at 229 service centers nationwide provide high-quality claims handling services. Nighttime and holiday service centers extend the convenience of our claims handling services. By means of the Clover Support claims handling system, we realize prompt, accurate communication with customers and swift payment of claims.

Product development

Sompo Japan has introduced a series of new products, such as “ONE-do” need-segmented automobile insurance and “New Fire Insurance,” which was developed on the concept of offering greater customer convenience and simplified policy administration. In 2004, we introduced “Dr. Japan,” unprecedented whole life medical insurance incorporating unique features such as insurance premium reductions in the event that market interest rates rise. During the first nine months since introduction, we have achieved sales of more than 160,000 policies and received favorable reviews from various participants.

IT support capability

Sophisticated IT systems provide powerful support for the development of new products such as need-segmented automobile insurance, which requires various types of data, as well as rapid and accurate transaction of business by agencies and sales offices and the loss adjustments conducted to provide necessary support at the appropriate time to customers who have met with accidents.



Q. How would you review the fiscal year 2004?

The year 2004 was marked as a year of natural disasters with successive outbreaks of numerous typhoons and earthquakes, in which the amount of insurance payments to cover losses from natural disasters hit the highest on record. Under such unusual business circumstances, we exhausted our full-scale efforts in processing insurance claims submitted by our disaster-affected customers by mobilizing our corporate-wide human resources, including even sales and administrative workforces. The words of appreciation and encouragement for our efforts by our customers reaffirmed the importance of social obligation to be undertaken by non-life insurance companies.

Our business performance for the year 2004 showed a declining profit due to the impact of these natural disasters, but we are not discouraged as we were successful in achieving an industry-leading level of processing-cost performance through our continuous efforts in operational efficiency improvements. Based on this fact, we could reaffirm that our Mid-Term Management Plan for strengthening our management bases under the concept of “Flow-

business-oriented Sampo-Japan” was progressing smoothly as envisaged.

Q. What are the major subjects of your current business activities?

Following our corporate-wide campaign launched in 2004 under the title of “Declaration of Kando-Sozo,” we have been trying to provide products and services that can be accepted by our customers, not only with their customary satisfaction but also with “pleasant surprise, delight, and emotion.” To provide better products and services, we will continue to diversify and improve our contact functions with customers by expanding our call center and Internet Web site functions.

In the field of automobile insurance, which is our main line of business, we will continue to concentrate our sales efforts on our new need-diversifying automobile insurance product called “ONE-do,” which features the “completely cashless scheme at the time of contract,” and which has so far been well accepted by customers and shown steady growth in sales, despite fierce competition in the market.

In July 2004, we launched a new long-term medical insurance called “Dr. Japan” to capture the rapidly expanding market demands for this type of third-sector insurance product, of which sales have been growing at a satisfactory pace.

In response to growing attention to corporate social responsibility (CSR) in the fields of environmental problems and social contribution issues, we organized a number of symposiums and seminars in various parts of the country, gaining favorable comments from audiences. We also created a professional internship program called “Sampo Japan CSO Learning” for university students to help them acquire on-the-job professional knowledge and experience. Our group affiliates are also actively engaged in CSR issues. For example, our investment trust company established a Social Responsibility Investment Fund (SRI Fund) and developed “CSR Management Diagnostic Program” for controlling risk management. As such, CSR issues are being addressed on a group-wide scale.

In our corporate philosophy, the subject of legal compliance is considered to constitute a key element in successful management that should be addressed with a top priority. Based on this notion, we impose a compliance examination for all corporate personnel, including directors and executive officers, and carry out comprehension training programs four times each year.

In view of the enforcement of the Privacy Protection Law, to take place in April 2005, we have developed an enhanced security control system for the protection of our customer information data so as to avoid any inconvenience caused to our customers.

Q. Tell me about your next business development plans together with the outlook for the future.

We continue to attach utmost importance to the promotion of our automobile insurance business as it constitutes our biggest income source. In fiscal year 2004, we successfully achieved our goal of “becoming the leader of the three major players in this business field in terms of premium growth ratio.”

Despite the progression of the aging society with fewer children, we consider that, if we design effective strategies for products, services and sales methods, the automobile insurance business may still have room for expansion in view of the growing number of car ownerships. With our innovative product development, we will continue to develop new high usability and user-friendliness insurance products such as our existing “ONE-do.” Our solid customer base broadened by the success in automobile insurance business can be exploited for sales expansion of other insurance products through cross-selling activities.

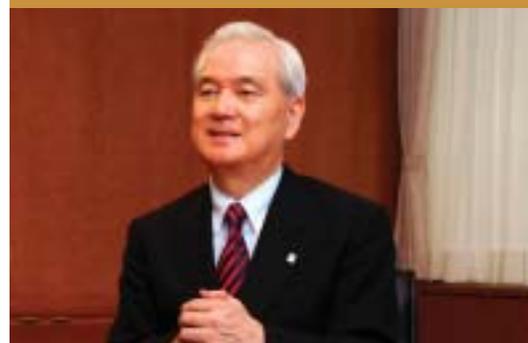
With regard to our potential new business, we are considering penetration into high profitability business fields such as life insurance business, defined contribution pension plan business, and Chinese business by keeping the “Principle of Selection and Concentration” in mind, placing emphasis on ROE, and making utmost use of our core competence that comprises the four elements of “Distribution channel,” “Claims handling network,” “Product development,” and “IT support capability.”

The life insurance business and defined contribution pension plan business can be promoted efficiently with a favorable synergy effect, since both products can benefit by exploiting the same customer base built in our non-life insurance business.

Sompo Japan Himawari Life has consistently recorded stable growth and may shortly contribute to our consolidated business performance to an amount of several billion yen. In the defined contribution pension plan business, we have successfully acquired top-class clients in both individual and corporate type products where we can expect a high growth potential thanks to the popularity of bundle services (unitary operation control service) developed by Sompo Japan DC Securities.

We recognize that China could become the world’s largest market with a huge growth potential. On June 1, 2005, we established the first local subsidiary of a Japanese non-life insurance company in Dalian under the local name of “Sompo Japan Insurance (China) Co., Ltd.” subject to a Chinese license granted in April 2005 with operations commencing on July 1, 2005. Currently, we are also trying to acquire and accumulate Chinese management expertise and know-how through business alliances with major Chinese insurance companies.

Our Mid-Term Management Plan formulated at the time of creation of Sompo Japan will terminate at the end of fiscal year 2005. In finalizing the Mid-Term Targets, we are determined to make our utmost efforts for the successful accomplishment of business goals and upgrading our corporate value. Your continued support and assistance will be highly appreciated.



A handwritten signature in black ink that reads "H. Hirano". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Hiroshi Hirano
President and Chief Executive Officer

Sompo Japan is working to establish an even greater presence by transcending the traditional areas of non-life insurance companies, by encouraging liberal thinking and a willingness to take on new challenges, and through the achievement of a “Comprehensive Service Provider Group for Risk and Asset Management.”

Corporate Vision

Movement of further deregulation in the insurance and financial industries, as well as dramatic changes in the social and business environment have necessitated each individual to control and oversee his own risks and life plans and those of his/her family members as a personal responsibility.

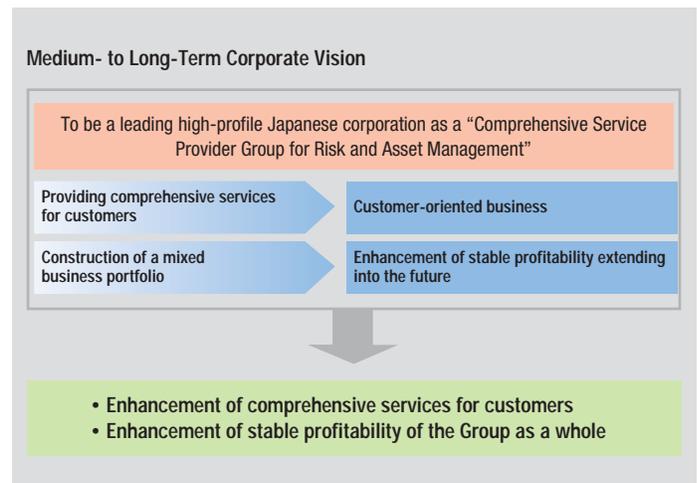
Nevertheless, it may be difficult for each individual customer to correctly recognize various risks surrounding them and make the right decisions to address such risks, including risks in daily life, risks on health problems and risks in asset management for life savings.

Under the rapidly changing business climate, it has become increasingly important for corporate customers to correctly evaluate more diversified and complex business risks and implement effective and efficient risk control measures, which may be difficult to address by themselves.

Born in an era of great transition, Sompo Japan has aimed at becoming a reliable and familiar business supporter for our customers, capable of offering professional advisory services that will be useful for risk management or life planning by individual customers, or suitable for stabilization and progress of business management by corporate customers. We help our customers acquire a realistic perception of the various risks surrounding them and identify and propose a way to answer such risk issues.

Sompo Japan aims at becoming a “Comprehensive Service Provider Group for Risk and Asset Management,” with its corporate mission being a supply of the highest quality products and services developed from our customers’ viewpoint. To fulfill this corporate mission, we are determined to enhance our power in the development of outstanding quality products and services, make utmost use of group companies’ business functions, strengthen business alliance with first class players in various business fields concerned, and make a great leap forward beyond the traditional business concept of non-life insurance industry to create a new business vision.

To achieve the aforementioned business goals, we have to continue to earn our customers’ trust and satisfaction, which constitutes the very source of success in our business. With such a notion in mind, we launched our group-wide campaign called “Declaration of Kando-Sozo” in 2004 so as to provide such quality products and services that may well surpass our customers’ expectations.



Mid-Term Business Strategy

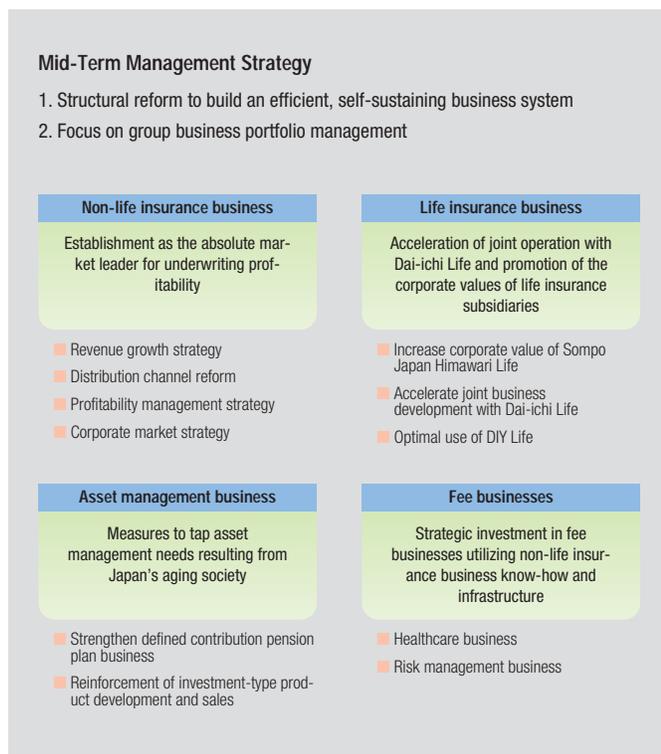
Sompo Japan has designed a Mid-Term Business Strategy focusing on structural reform to build an efficient, self-sustaining business system suited to this era of liberalization, and the collective efforts of the entire Sompo Japan Group is implementing this strategy.

We started this Mid-Term Business Strategy at our establishment in FY2002, at the same time, determining our corporate vision. In conjunction with this, a Mid-Term Earnings Target for FY2005 was drafted and numerical targets were revised in May 2004 in light of changes in the business environment. FY2004 will see even greater efforts made to realize these goals.

The concept of the Mid-Term Business Strategy is to expand

non-life and life insurance business, asset management business, and fee business, with a view to develop and offer products/services from the customers' perspective.

In addition to the endeavor of individual Group companies to become strong and self-sustaining enterprises in accordance with their respective roles in the Group's overall strategy, Sampo Japan Group will share management philosophies and policy directions to strengthen group management.



Forming the "Comprehensive Life and Non-Life Insurance Group with Supreme Quality and Strength"

Sampo Japan will accelerate its evolution as a "Comprehensive Life and Non-life Insurance Group with Supreme Quality and Strength" through comprehensive alliance with Dai-ichi Mutual Life Insurance Company (hereinafter referred to as "Dai-ichi Life").

In August 2000, the two companies announced the formation of "Comprehensive Life and Non-Life Insurance Group," which was an innovative new business model created ahead of other

insurance companies. So as to materialize the merits of this new business model as early as possible, we will further reinforce our close business relationship with Dai-ichi Life, a leading firm in the life insurance industry.

Dai-ichi Life sales personnel began handling Sampo Japan's non-life insurance products in 2001, selling approximately 540,000 policies in FY2004. Reciprocally, Sampo Japan's sales agents began handling Dai-ichi Life's products from November 2001 with about 3,600 agents having acquired approximately 13,000 new policies during FY2004. Furthermore, in FY2004, a new business alliance between the two companies was initiated in the field of defined contribution pension plan business.

Both companies have set even higher business goals for FY2005 so that they may provide their superior level of products and services to each other's customers and upgrade their corporate value through joint efforts to reinforce their customer service quality and product competitiveness.

Non-Life Insurance Business

Yasuda Fire & Marine Insurance Company was established in 1888 as the first fire insurance company in Japan; Nissan Fire & Marine Insurance company was incorporated in 1911 as the first casualty insurance company in Japan; and Taisei Fire & Marine Insurance Company was incorporated in Taiwan in 1920. These three insurance companies have steadily expanded their business scale centering on automobile insurance, thanks to the favorable business background of rapidly growing motorization. In the year 2002, they merged into a single business entity together with Dai-ichi Property & Casualty Insurance Co., Ltd., incorporated in 1996 as a wholly-owned subsidiary of Dai-ichi Mutual Life Insurance Company. The newly born company named as Sampo Japan has grown today to occupy the second leading position in non-life insurance industry, transfigured by repeated realignments and consolidations. We are proud of our industry-leading levels of developing ability in products and services, operational efficiency, ability of readiness in handling accidents and damage, and powerful sales ability accumulated through the long history of our business experience. We believe that these abilities, reinforced by maximizing the synergy effects generated from our business consolidation and collaboration, should have satisfied our customers.

Our customer base has spread through the sales channels of Dai-ichi Life, financial institutions, automobile dealers, Credit Saison, and Saison Automobile & Fire Insurance Co.,Ltd. as well as traditional ones. We pledge to continue to satisfy all of our customers by providing products and services of the highest quality.

Realizing a More Efficient Business Structure

Sompo Japan has faced up to the challenge of building a highly efficient business system by utilizing deregulation and highly-developed IT (Information Technology) to carry out structural reforms in its operational management and processes.

In January 2004, we launched a newly developed automobile insurance called “ONE-do,” featuring a “completely cashless scheme at the time of contract” system that was convenient and efficient for our customers and in contract processing. Since then, this strategic product has been well-accepted by customers and has shown steady growth in sales, with as many as 4,640,000 policies having been sold in FY2004.

Our “New Fire Insurance,” featuring a similar product concept to ONE-do launched in September 2004, has also earned favorable response from our customers with more than 1,000,000 policies having already been sold so far.

For the further enhancement of our customers’ convenience and operational efficiency in contractual procedures, we will launch a new savings-type casualty insurance named “Yutolead” in September 2005 by integrating the existing eight savings-type casualty insurance products.

Under the philosophy of providing customers with the highest quality products and services, Sompo Japan will work to enhance the profitability of its non-life insurance business and seek to lead the industry in profitability by improving the efficiency of its operations and distributing management resources rationally.

Strengthening Corporate Governance

Stronger corporate governance is vital for responding to a drastically changing business environment with agility and for duly controlling risk while not losing business opportunities.

We introduced an operating officer system to clearly define the roles of company directors and operating officers. The Board of Directors is responsible for making corporate decisions on impor-

tant managerial issues, and for supervising the work performed by operating officers, while the operating officers are responsible for conducting appropriate and swift operational matters.

In Sompo Japan, we have 11 directors who accommodate such business environment where the operating officers can devote themselves to the missions assigned to them, arrange procedures for timely board meetings, and make swift decisions on managerial issues.

The existing five company auditors (of which three are external auditors) are individually responsible for auditing specific business matters and monitoring the actions and conduct of directors and officers. They also attend board meetings and other important meetings.

We have also instituted a Personnel Committee (composed of eight members, of which three are external auditors) for selecting and screening candidates for directors and officers positions through committee meetings, so as to assure transparency in managerial-level personnel affairs.

In addition, we have instituted three independent and specialized departments: the Compliance Department, the Risk Management Department, and the Internal Audit Department, as we consider that specialized functions such as the formation of a prompt and efficient operating system, company-wide awareness of compliance issues, formation of highly sophisticated risk control system capable of addressing complicated insurance underwriting or asset management work are all indispensable for us to realize effective internal control.

Each of the three departments is responsible for carrying out its own mission as assigned to it.

The Compliance Committee is in charge of compliance control, with the Compliance Department assuming the secretariat role, reporting directly to the Board of Directors for corporate-wide awareness and recognition of compliance issues.

We have also instituted the “Rules and Regulations on Corporate Compliance,” which stipulates fundamental norms to be observed by all directors, officers, and employees.

The officer in charge of these three departments does not assume any responsibilities in any profit-center departments, so as to assure the independence and effectiveness of the internal control system.

Life Insurance Business

Sompo Japan Group offers a full range of sophisticated life insurance products from three companies -Sompo Japan Himawari Life Insurance Co.,Ltd. and Sompo Japan DIY Life Insurance Co.,Ltd., both of which are group companies, and Dai-ichi Life, a strategic business partner- to meet the wide-ranging needs of customers.

Sompo Japan Himawari Life was first created in 1983 in a collaboration with Signa Corporation (based in Philadelphia, U.S.A.), which later transformed into a wholly-owned subsidiary of The Yasuda Fire & Marine Insurance Company (currently Sompo Japan) in December 2001. Through its long corporate history as a foreign-capitalized life insurance company, the company provides a distinctive line of third-sector insurance products. These include medical insurance developed and sold ahead of other domestic life and non-life insurance companies, and “Multiple Income Protection,” a type of personal type death security product. The company also handles large-scale death security insurance products developed for business owners. With such a distinctive line of products and long accumulated expertise, Sompo Japan Himawari Life is ready to satisfy every requirement of its customers.

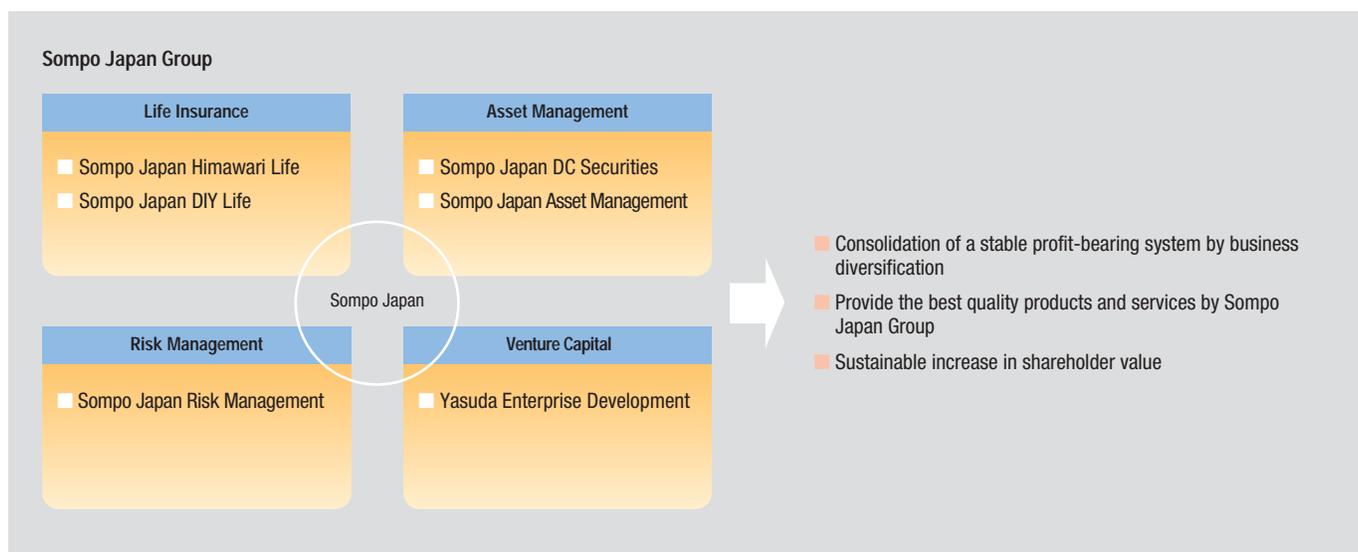
The progress of the aging society and the amendment of the Social Health Law will create additional new demands for third-sector insurance products, including medical insurance. Among

non-life-insurance-related life insurance subsidiaries, Sompo Japan Himawari Life proudly holds an outstanding number of third sector insurance contracts over its rivals, and Sompo Japan itself developed a new type of whole life medical insurance product called “Dr. Japan,” released into the market through its non-life agencies in July 2004, in order to accelerate the groupwide business development in the expanding third sector market.

Implementing combined sales of medical insurance products, separately developed by Sompo Japan and Sompo Japan Himawari Life, with different product concepts may better fit the diversified needs of our customers.

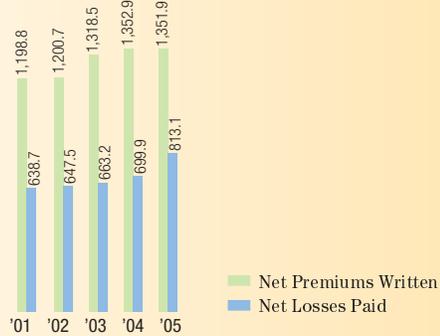
Strategic New Businesses

The arrival of the aging society, volatile changes in the social environment and systems, and resultant diversified business risks will create variety of new customer needs. So as to meet these new needs, we will continue to develop new products and high quality services, which, together with our existing non-life and life insurance products, will be useful for medium- to long-term asset formation by our customers and the prevention, reduction, and control of risks.

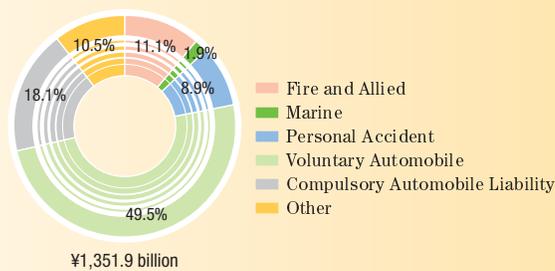


Underwriting Operations

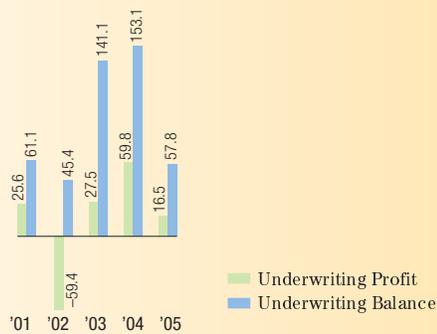
Net Premiums Written and Net Losses Paid (¥ billion)



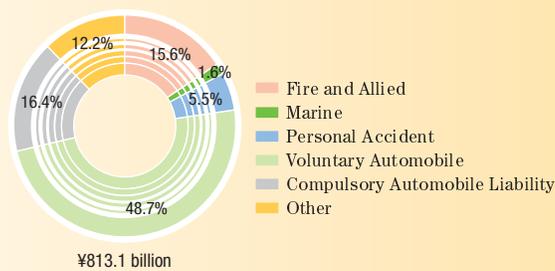
Breakdown of Net Premiums Written (For the year ended March 31, 2005)



Underwriting Profit (¥ billion)

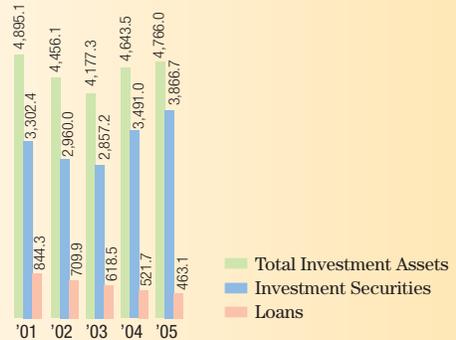


Breakdown of Net Losses Paid (For the year ended March 31, 2005)

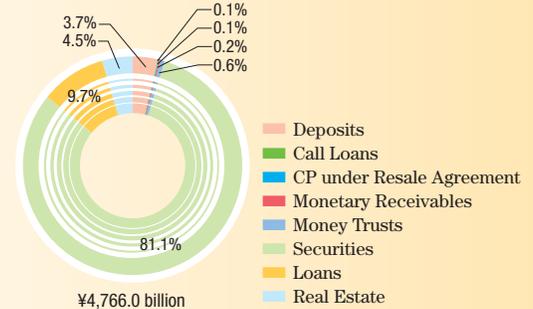


Investment Operations

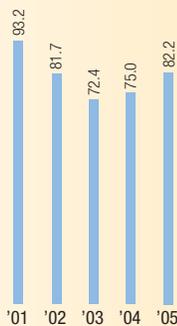
Investment Assets (¥ billion)



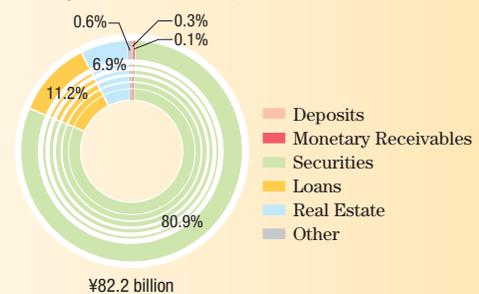
Breakdown of Investment Assets (March 31, 2005)



Interest and Dividend Income on Investment Assets (¥ billion)



Breakdown of Interest and Dividend Income on Investment Assets (For the year ended March 31, 2005)



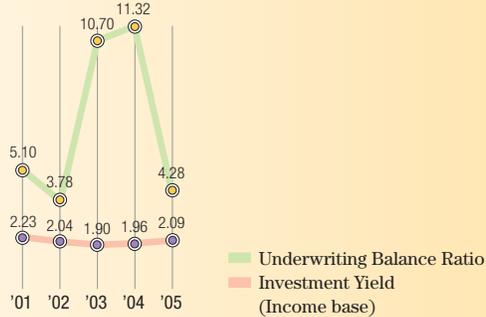
Figures in 2001 and 2002 are accumulations of The Yasuda Fire and Marine Insurance Co., Ltd., The Nissan Fire and Marine Insurance Co., Ltd. and Dai-ichi Property and Casualty Insurance Co., Ltd. For 2003, figures are accumulations of The Yasuda Fire and Marine Insurance Co., Ltd. and The Nissan Fire and Marine Insurance Co., Ltd. until the end of June, and Sompo Japan Insurance Inc. from July.

Operating Indicators

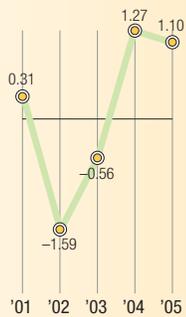
Loss Ratio and Expense Ratio (%)



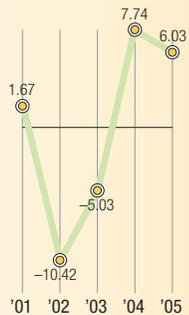
Underwriting Balance Ratio and Investment Yield (Income base) (%)



Return on Assets (%)

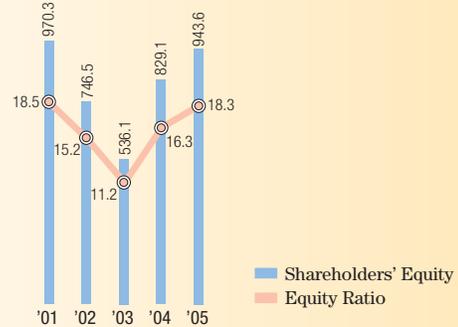


Return on Equity (%)

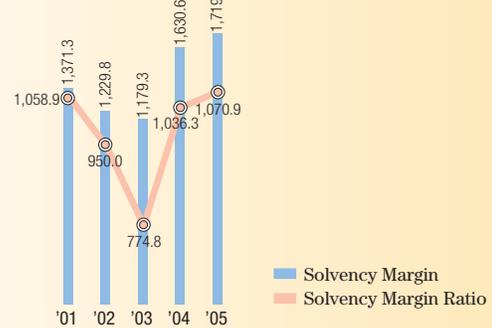


Financial Soundness

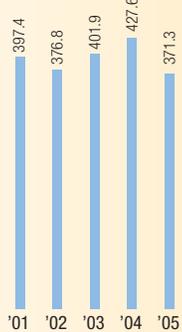
Shareholders' Equity Ratio (¥ billion / %)



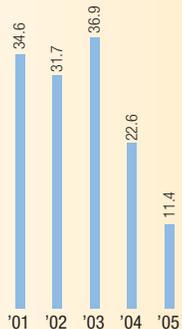
Solvency Margin (Former Yasuda Fire & Marine) (¥ billion / %)



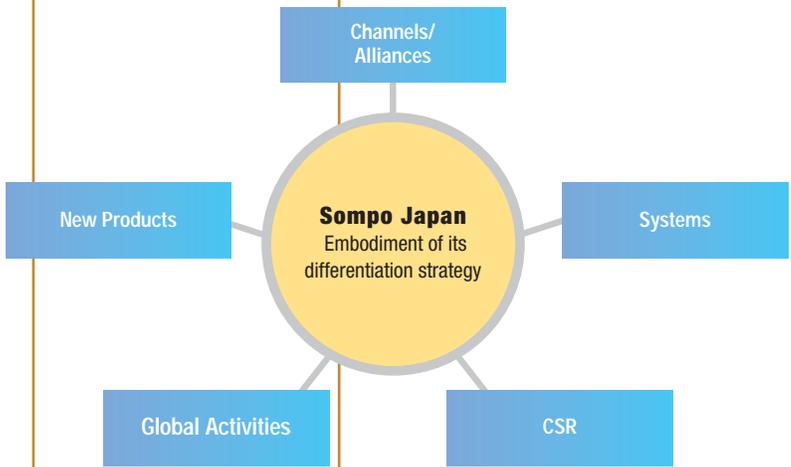
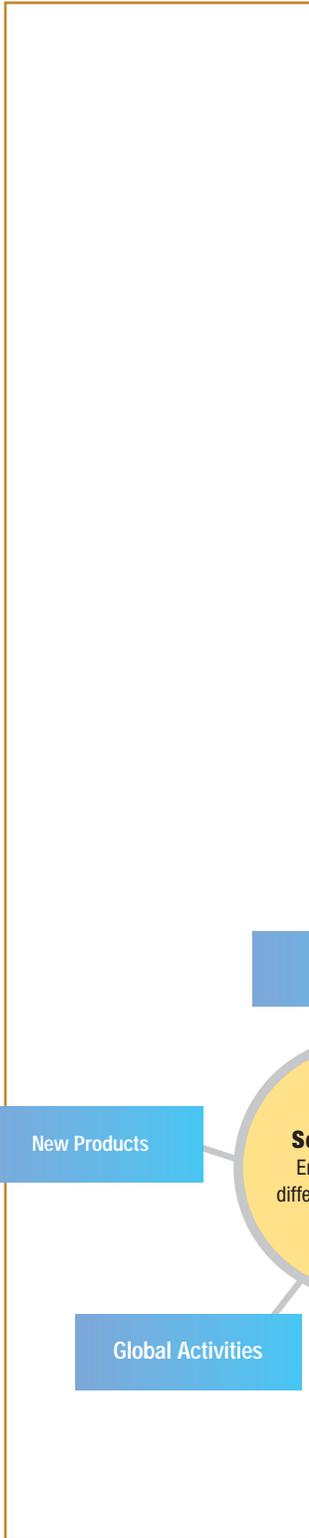
Catastrophic Loss Reserves (¥ billion)



Risk-Monitored Loans (¥ billion)



[BUILDING UP] A STRATEGIC FRAMEWORK



Sompo Japan dissolves the former employees' pension fund and introduces a defined contribution (DC) plan

Sompo Japan has implemented a fundamental review of its former corporate pension plan to design a “long-term sustainable pension plan” in line with the times, dissolved its employees' pension fund and introduced a defined contribution (DC) system as a completely new corporate pension plan in March 2005. By doing so, we are able to meet various needs of employees and stabilize the business results by eliminating the financial risks associated with the former pension plan.

Sompo Japan acquires Sompo Japan Financial Guarantee Insurance

Sompo Japan has completed its acquisition of Sompo Japan Financial Guarantee Insurance Co., Ltd. (SJFG), a wholly-owned subsidiary of Sompo Japan, on July 1, 2005, with the aim of a strategic reorganization of its financial guarantee business. SJFG has been steadily expanding its activities in domestic and overseas financial guarantee services since its establishment in 2000. We expect that this acquisition will bring about a strong synergistic effect, as it will combine SJFG's advanced expertise with Sompo Japan's business fields. In addition, SJFG's business alliance with Ambac Assurance Corporation, the second largest U.S. financial guarantee insurance company, has been succeeded by Sompo Japan.

Development of Integrated Risk Management System for Insurance Companies

Sompo Japan and Mizuho-DL Financial Technology Co., Ltd. have jointly developed a new integrated risk management model, which is appropriate to the asset-liability management of insurance companies. This new model has been in development for about two years, since April 2003. It is a unique model that applies the same standards to measuring all the various risks involved with asset management, including market risk and credit risk as well as evaluating the impact of interest rates on liabilities. We will make effective use of this model to promote the efficiency of capital as well as risk management.

Opening Call Center Facility in Saga (Saga “Don Don Don” Call Center)

Sompo Japan agreed with Saga Prefecture and Saga City to open a call center facility in Saga (the Saga “Don Don Don” Call Center) in the first half of calendar year 2006, and concluded a Business Advance Agreement with the both local governments on April 12, 2005. Using the Saga “Don Don Don” Call Center we will identify common interests with local communities, offer job opportunities to women and handicapped persons, and aim at reactivating the local community and economy. The call center will be engaged in supporting various inquiries about products from customers and sales agents.



Further expanding our presence in China

Sompo Japan becomes the first Japanese non-life insurance company authorized to establish a affiliated companies in China In April 2005, Sompo Japan received authorization from the China Insurance Regulatory Commission to establish affiliated companies, and on June 1 we founded Sompo Japan Insurance (China) Co., Ltd., in the city of Dalian as a wholly owned subsidiary of Sompo Japan. This is the first Japanese non-life insurance local subsidiary established in China. In future, we will be expanding the functions of the Dalian Head Office and setting up branches in Shanghai, Suzhou, Guangzhou and other regions into which Japanese companies are expanding their operations in order to provide them with high-quality insurance services.

Offering earthquake risk management services to Japanese companies expanding into China

Development of an earthquake risk assessment model for eastern China In January 2005, Sompo Japan Risk Management launched an earthquake risk management service for Japanese companies operating in, or planning to expand into, eastern Mainland China. This marks the first time a Japanese company has ever undertaken earthquake risk management services in China. Eastern Mainland China faces the potential risk of a major epicentral earthquake similar to the magnitude 7.8 Tangshan Earthquake of 1976, and a model has been developed enabling a quantitative assessment of the risk of such an earthquake.

Sompo Japan becomes one of the first foreign insurance companies to establish a joint insurance brokerage business venture in China In December 2004, Sompo Japan announced its equity and management participation in China Insurance Brokers Co., Ltd., a joint insurance broker established by PICC Holding Company, a holding company for PICC P&C, the largest non-life insurance company in the People's Republic of China. This was the first time foreign companies have entered China's insurance brokerage business, and Sompo Japan intends to utilize this joint venture to expand the scope of its sales.

Creating a service framework for the personal accident and life insurance sector in China

Business alliance with Ping An Life Insurance Company of China, Ltd. In October 2004, Sompo Japan entered into an alliance agreement, mainly in the areas of personal accident and life insurance, with Ping An Life Insurance Company of China, Ltd., the second largest life insurance company in China. Among the first steps taken by Sompo Japan via this alliance was co-development of automobile passenger personal accident insurance, and we hope to take advantage of Ping An Life's know-how to provide other insurance products, in particular personal accident insurance, to customers throughout China.

Agreement concluded on mutual technical assistance/exchange

Technical tie-up with China Pacific Property Insurance in the area of risk management In June 2005, Sompo Japan Risk Management concluded a technical tie-up agreement with China Pacific Property Insurance Company in the area of risk management. Exchanges of data on losses from fires and natural disasters and of information on loss prevention as well as the provision of risk analysis techniques will allow the two companies to complement each other's risk management operations. This tie-up will also enable the Sompo Japan Group to offer Japanese companies expanding into China risk management services more closely tailored to local conditions.

[DEVELOPING NEW PRODUCTS AND SERVICES]



ONE-do, an Automobile Insurance Product for Segmented Needs



New Fire Insurance



Dr. Japan, a New Whole-life Medical Insurance Product

Deployment of “Clover Support”—a new claim handling system for fire and casualty insurance products

Sompo Japan commenced operations of a new claim handling system called “Clover Support” for fire and casualty insurance products on January 17, 2005. The introduction of this system has enabled the Company to offer more precise advice and counseling to customers as well as to make an effective progress in claims management. By using this system, the Company aims at reducing the payment time to policyholders by 30%. In addition, the Company also expects that multiple functions embedded in this system, including input support, document preparation, and progress management support functions, will realize a 30% reduction in operating tasks. Currently, the Company is preparing for full-scale operation of this system, which is planned for the end of September 2005.

Variation of premium payment methods

Sompo Japan has introduced “Pay-easy payment services” (originally begun as an electronic settlement function for national tax and other charges) in “One-do,” “New Fire Insurance,” and other products, for the cashless settlement of initial premiums in April 2004—which is an industry first. These new services will enhance the convenience of premium payment methods and procedures for customers as well as the speed and efficiency of cash management operations for the Company.

Sompo Japan launches “Dr. Japan”—a new type of whole-life medical insurance with premium reductions in the event of rising interest rates

In order to respond to the increasing needs for medical insurance reflecting the increase in the self-payment burden and the advancement of the aging society, Sompo Japan launched a whole-life medical insurance product called “Dr. Japan” in July 2004, which provides lifetime medical coverage for policyholders. Dr. Japan offers several innovatory benefits to policyholders. Under this product, the premium may be automatically reduced when market interest rates rise after a certain period after the purchase of the policy, and policyholders will be exempt from the payment of premiums if they should fall into a specified condition of three major diseases (cancer, acute myocardial infarction, or stroke). These new features have been well received on the market, and the number of new policies has reached approximately 160,000 in the nine months since its inception.





Sompo Japan DC Securities commenced DCPARK Services

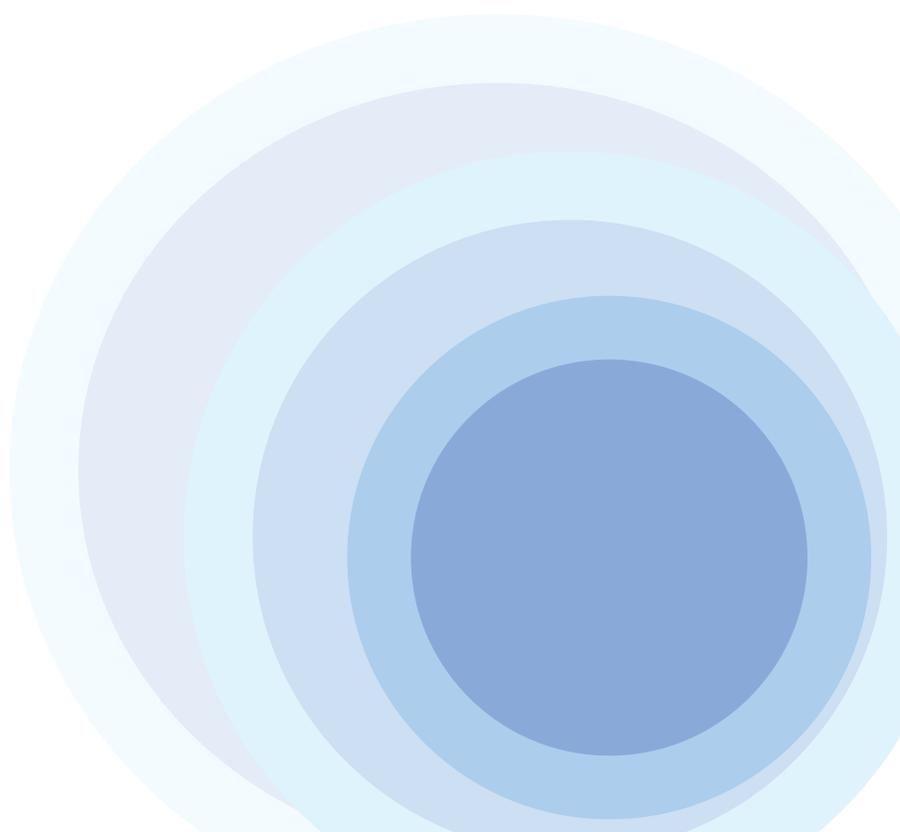
Sompo Japan DC Securities Inc. changed its record-keeping system (a mission-critical system for DC record-related operations) to “DCPARK,” which was jointly developed with Nihon Unisys, Ltd. for the purpose of meeting the diversified needs of customers quickly and less expensively on the basis of our accumulated expertise. Sompo Japan DC Securities commenced services with this new system on July 20, 2004, enabling Sompo Japan group companies to offer more enhanced DC services to customers.

Sompo Japan expands product variety in trade insurance

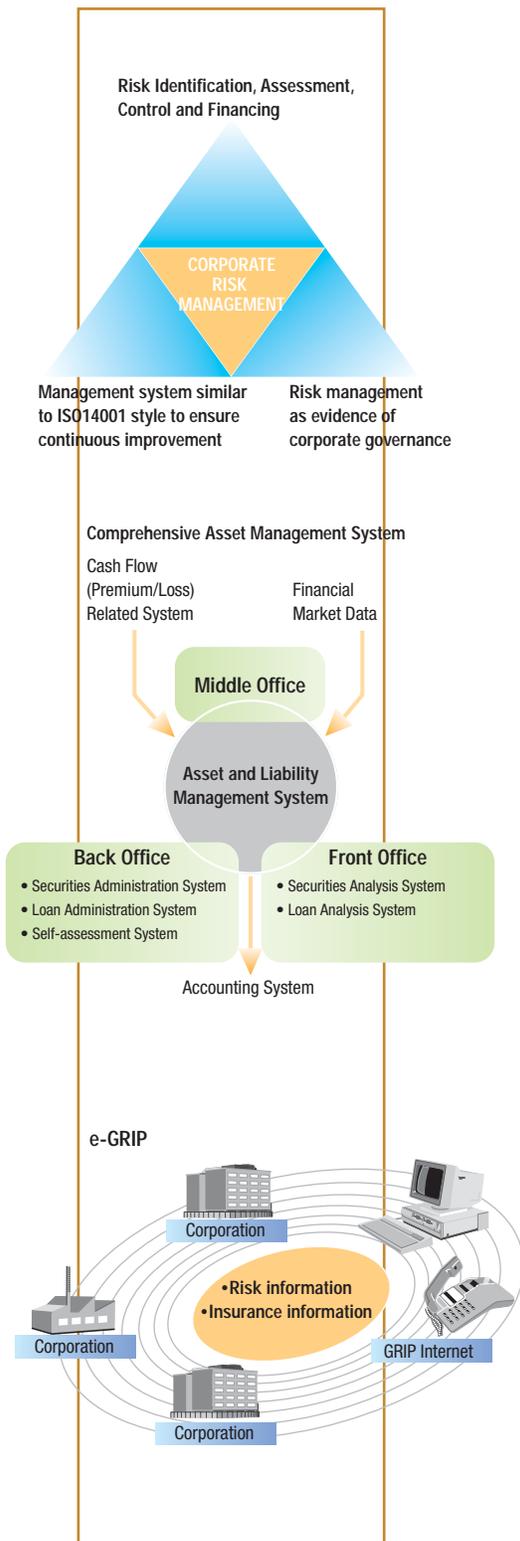
In May 2005, Sompo Japan expanded its product lineup in the trade insurance sector, which covers risks associated with the collection of receivables relevant to export and foreign investment activities made by Japanese companies. In particular, the Company commenced underwriting of export credit insurance in cooperation with Coface SA, a French insurer with an excellent underwriting track record and expertise in the trade insurance sector. In addition, the Company has added two new product lines in general export insurance (specific insurance) and foreign investment insurance underwritten by Nippon Export and Investment Insurance within its sales representation business, with a view to meeting the varying needs of its customers.

New product for individual customers—“New Fire Insurance”

Sompo Japan launched a new fire insurance product for individual customers named “New Fire Insurance” on September 2004. We have developed the product under the same concept of “One-do,” auto insurance with a cashless payment system, simultaneously enhancing convenience for customers and simplifying operations of agents. In addition, we have integrated all the fire insurance products for individual customers into “New Fire Insurance” to make this product easier for customers to understand. “New Fire Insurance” has been well received on the market, and the number of new policies now totals more than 1,000,000.



[MAINTAINING A FIRM GRIP ON RISK]



STRENGTHENING RISK MANAGEMENT

Risk management is an important tool to assess the value of corporations and investments. The Sompo Japan Group offers wide-ranging risk consultation services to corporate customers. Sompo Japan is also enhancing its asset management operations to respond flexibly and appropriately to financial and economic change, at the same time sustaining healthy assets.

Reorganized to Provide Total Risk Management Consulting for Enterprises

Expanding on its original “individual risk”-based consulting platform, Sompo Japan established a risk management firm, Sompo Japan Risk Management, for risk assessments and subsequent solution proposals, which is structured from the corporate customer’s standpoint. Sompo Japan Risk Management deals with a broad range of risks affecting companies, from “pure” risks such as valued asset risk, loss of profits risk and liability risk to speculative risk. Sompo Japan Risk Management comprises the following departments:

- Research & Development Department
- Risk Engineering Department
- Engineering Due Diligence Department
- Risk Consulting Department
- Inspection Department

Global Risk Management

Sompo Japan Risk Management has a global management service network and provides quality services to our clients operating their business in global basis. We focus to promote alliances with local partners who specialize in risk engineering and risk management fields. Specifically, Sompo Japan Group provides risk management services to business entering the Chinese market, even from their planning phase.

e-GRIP (e-Global Risk Information Program)

Sompo Japan Risk Management has developed a system that integrates information on corporate risks through the Internet (e-GRIP), thus making it possible to assist risk managers working on global business projects. The advanced information technology (IT) applications of e-GRIP allow risk managers instantaneous visual access to our policies and accident information worldwide.

Earthquake Risk Consulting

Japan is one of the countries suffering most seriously from earthquakes. In addition, typhoons and other natural disasters frequently occur in this country. Sompo Japan Risk Management analyzes the degree of earthquake risk for each business establishment in various parts of Japan through computer simulation based on advanced ground data and carries out accurate modeling. This global-standard-based methodology allows those enterprises requiring priority treatment to be promptly identified.

Earthquake Business Continuity Management (Earthquake BCM)

Earthquake BCM is becoming a part of standard procedure in disaster prevention for a business entity. Many of our clients have multiple production location and a huge number of suppliers depended on. Risk assessment is the first step for setting up BCM and, with the sophisticated seismic risk evaluation system developed by Sompo Japan Risk Management, we offer our clients in evaluating of seismic risk for their multiple locations including supplier as well as establishing a continuity plan properly and in an effective way.



Business Interruption Risk Evaluation Program

In case a company's production facilities are damaged because of fire or other disasters, the company takes measures to limit losses by increasing production at other factories or commissioning production to other companies. Sompo Japan Risk Management supports the strengthening and promotion of such measures by quantitatively analyzing the risk of business interruption, factoring in the crisis management systems of individual corporations.

ENSURING COMPREHENSIVE ASSET MANAGEMENT

Amid the changes continuously taking place in financial markets around the world, asset management has played a vital role in the operations of non-life insurers. Always at the forefront of change, Sompo Japan makes every effort to ensure that its asset management system, as well as its trading and risk management methods, is among the most sophisticated in the industry.

To maintain the quality of its assets and to carry out efficient and flexible asset management that meets the demands of ever-changing financial and economic conditions, we have established the following departments:

- Investment Planning Department
(handles asset allocation)
- Financial Services Department and Global Securities Investment Department
(carry out investment and lending activities)
- Investment Administrative Department
(gives managerial support to above departments)

To make full use of our advanced asset management know-how, each department is equipped with a continuous-improvement management system, which enables the implementation of sophisticated asset and liability management strategies.

Furthermore, we have established self-assessment rules to serve as the basis for rigorous examinations of assets, with the aim of ensuring a high-quality balance sheet.

With a global network that includes offices in Tokyo, New York and London, our asset management operations cover all major international financial markets.

[EXPANDING GLOBAL ACTIVITIES]



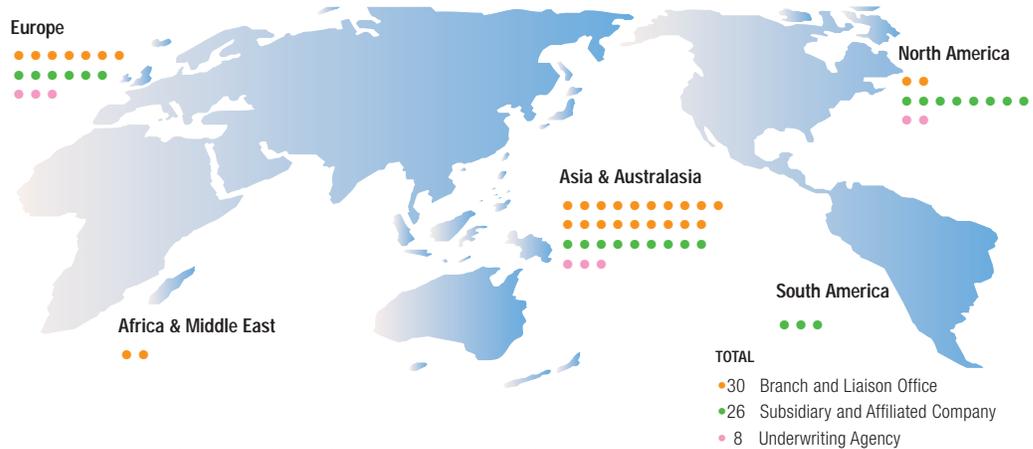
In 2005, Sompo Japan established the affiliated company Sompo Japan Insurance (China) Co., Ltd. in Dalian, China.



Sompo Japan Insurance Company of America, based in New York City, provides services for North America, including Canada and Mexico.



Sompo Japan Insurance Company of America



EXPANDING GLOBAL ACTIVITIES

Sompo Japan has set up a network of overseas subsidiaries and underwriting agencies in Europe, Africa and the Middle East; North, Central and South America; and China, Southeast Asia and Oceania to establish a sales system covering every major area of the world. Under this system, we offer insurance services mainly to Japan-based companies around the globe.

WORLDWIDE SERVICE NETWORK

Sompo Japan aims to support Japanese companies by providing comprehensive insurance services around the world. To this end, we maintain a global network comprising the following:

International Operations Sompo Japan's international network encompasses operations covering nearly the entire world, including the regions of North America (comprising the United States, Canada and Mexico, with its main office in New York); South America (main office in São Paulo); Europe, Africa and the Middle East (main office in London); East Asia (main office in Beijing); and South Asia and Australasia (main office in Singapore).

This expansive network allows us to provide customers with a wide range of support as they work to expand their worldwide operations.

At present, we have offices in 39 cities in 24 countries, to which we have dispatched approximately 120 highly skilled personnel. In addition, the Company provides insurance and claim settlement services through 26 subsidiaries.

Reinsurance With operations in Japan, London and Hong Kong and a staff of about 50, the Commercial Risk Solutions Department offers superior reinsurance services. Particularly in Asia, as one of the world's leading insurance companies, Sompo Japan strives to provide sound reinsurance capability in the region through Sompo Japan Reinsurance Company Limited, based in Hong Kong. Sompo Japan has also been a corporate member of Lloyd's of London since 1993.

Reinsurance Commercial Risk Solutions Department offers worldwide reinsurance services in Tokyo and Hong Kong. Particularly in Asia, Sompo Japan provides reinsurance capacity through Sompo Japan Reinsurance Company Limited based in Hong Kong. Sompo Japan has also been a corporate member of Lloyd's of London since 1993.



East Asia As the economy in East Asia continues to expand, many companies from all over the world, including Japan, are making inroads into these markets.

Due to the great potentiality in East Asian insurance market, especially in China, Sompo Japan has established liaison offices in Hong Kong, Beijing, Shanghai, Suzhou, Chongqing, Shenzhen, Guangzhou and Taipei.

On July 1, 2003, as the first licensed foreign non-life insurance company in Dalian after China's accession to WTO, our Dalian Branch Office began operation.

Sompo Japan acquired the approval to reorganize the Dalian Branch Office to an affiliated company in April, 2005, founded the first affiliated company "Sompo Japan Insurance (China) Co. Ltd." in the Japanese non-life insurance company, and started business from July.

South Asia and Australasia Sompo Japan has established a network centered on its wholly-owned subsidiary, Sompo Japan Insurance Company (Asia) Pte Ltd, in Singapore, to provide insurance services in the countries of South Asia and Australasia. At present, we maintain subsidiaries in Indonesia, the Philippines, Thailand and Vietnam, as well as in Singapore.

We have established an alliance with MNI (Malaysia National Insurance Bhd.) in Malaysia to provide insurance services, and liaison offices in Australia, India and Myanmar, to provide insurance information to customers.

We will continue working to provide sophisticated insurance services that meet the needs of customers in this vibrant area of the world.

Europe Sompo Japan has been serving clients in Europe for over 40 years since it first set up a liaison office in London in 1958.

At present, a wholly-owned subsidiary, Sompo Japan Insurance Company of Europe Limited, conducts underwriting and provides claim settlement, risk management and insurance information mainly to Japanese enterprises. With offices in the U.K., Belgium, France, Germany, Italy, the Netherlands and Spain, our operations cover the insurance markets of Europe as well as those of Africa and the Middle East.

North America In North America, Sompo Japan conducts property and casualty insurance operations through its U.S. subsidiary, Sompo Japan Insurance Company of America with its main regional bases in New York. The Company also has branch offices in Los Angeles, Chicago, Nashville, Atlanta and San Francisco. In addition, the Company provides service in Canada through its Toronto office, and in Mexico by its subsidiary, Sompo Japan Insurance De Mexico, S.A. de C.V., which began operation in March 1998.

In January 2004, Sompo Japan America acquired 100% ownership of SJA Insurance Agency, LLC, from Royal & SunAlliance (RSA). Under this new framework, Sompo Japan America strengthened its own underwriting capability and administrative processing functions, while providing high quality services by outsourcing the claim handling and loss control services through the excellent third party administrators in the U.S.

South America Sompo Japan's main base of operations in South America is its subsidiary Yasuda Seguros S.A., in Brazil. This company was established in 1958, primarily to serve the insurance needs of Japanese companies setting up operations in the area. In 1959, the company became the first subsidiary of a Japanese insurance company licensed to underwrite insurance in Brazil.

At present, the company is providing services for the insurance needs of affiliates of Japanese companies and numerous local companies.



A brochure for SRI fund
“Mirai no Chikara”
(Empowering Our Common Future)



CSR training for new employees



Eco-sign stickers

TO REALIZE A SUSTAINABLE SOCIETY

Sompo Japan established a Corporate Social Responsibility (CSR) Office in December 2003, and is undertaking various challenges related to CSR, such as environmental protection and corporate citizenship, through active communication with multi-stakeholders.

HIGHLIGHTS

Supporting Companies that Fulfill Their Social Responsibilities — Launch of New SRI Fund —
Mirai no Chikara (Empowering Our Common Future) Socially Responsible Investment (SRI), investment that takes into consideration not only the financial aspect but also the environmental and social aspects, is growing globally.

The Sompo Japan Group is undertaking the development, diffusion and promotion of SRI as an important CSR activity of the core business of the financial institution.

Following the launch of the Eco Fund “*Buna no Mori*” (Beech Forest) in September 1999, Sompo Japan developed the new SRI fund, “*Mirai no Chikara*”, which is to conduct a comprehensive evaluation of CSR of companies and select investees in March 2005. It was the first launch of a publicly offered SRI Fund by a non-life insurance company group in Japan.

Participating in the “Carbon Disclosure Project” In February 2005, Sompo Japan announced its participation in the “Carbon Disclosure Project” (CDP), the international effort by global institutional investors aiming to promote global warming countermeasures of companies. Begun in the U.K. in 2002, this project enables the global institutional investors who endorse the aim, to jointly send questionnaires concerning global warming countermeasures to FTSE 500 companies and request information disclosure. The number of institutional investors participating in the project increases every year; in 2005, there were 143 companies including Sompo Japan.

Training Employees for CSR Awareness

In-service training on “CSR Literacy” With the goal of increasing the capacity of employees to incorporate CSR in their day-to-day business activities, from fiscal 2003, all 19,000 employees of Sompo Japan, including group companies, have been receiving in-service training on “CSR Literacy” with overall CSR, including compliance, respect for human rights and environmental protection as the theme.

Furthermore, we are supporting the deepening of CSR understanding by employees through on-line education courses on “CSR Fundamentals” and “Introduction to Environmental Issues”.

CSR Training For New Employees Every year, our new employees receive training regarding the CSR activities of Sompo Japan. At the training held in April 2005, in addition to group discussions on “CSR of Sompo Japan” with Sompo Japan’s and other companies’ CSR reports as the subject matter, the whole-day training included, thanks to the help of a local social welfare council, classes that use wheelchairs and eyemasks to provide mobility and visual impairment experiences, and an introductory course in sign language.

TACKLING ENVIRONMENTAL ISSUES

The “Sompo Japan Environmental Principles,” introduced in October 2002, guide our environmental activities. The followings are the some of our efforts.

Insurance Products for Reducing Environmental Risks

In recent years, illegal waste dumping and soil contamination are among the emerging environmental risks that companies face. Aiming to provide total solutions for customers, Sompo Japan offers insurance to cover the liability of dischargers when commissioned medical or industrial waste is illegally dumped. Also, Sompo Japan provides soil contamination insurance and cost cap insurance.



Development of Eco Fund “*Buna no Mori*” (Beech Forest)

Sompo Japan Asset Management Co., Ltd. and Sompo Japan jointly developed “*Buna no Mori*,” an eco Fund investment trust product that invests in businesses tackling environmental issues. The fund’s total net assets were about ¥12.1 billion as of June 30, 2005.

Resource and Energy Conservation

Sompo Japan’s head office building and its Data Processing Center are both ISO14001 certified. Since fiscal 2002 the Data Processing Center has been achieving “zero emissions”—defined as producing no waste requiring disposal in a landfill—a first among financial institutions in Japan. We have also introduced a unique environmental management system known as “*E-Koto Project*” at offices around the country. Implementing the system, developed through the know-how of ISO certificate acquisition, involves specific reduction targets for the use of electric power, gas, water, paper and other resources.

CORPORATE CITIZENSHIP

Sompo Japan, as a good corporate citizen, actively implements initiatives that contribute to society. We also encourage our employees’ volunteer activities. Our initiatives on contributing to society focus mainly on three areas: fine arts, welfare, and the environment.

Recently, we have been strengthening our cooperation with CSOs (Civil Society Organizations, also known as NPOs or NGOs) in practicing our activities.

Seiji Togo Memorial Sompo Japan Museum of Art

Seiji Togo Memorial Sompo Japan Museum of Art, located on the 42nd floor of the Headquarters building, opened its doors in June of 1976. The museum’s collection is comprised of the works of Seiji Togo, a noted Japanese modern artist closely associated throughout his life with our company. The museum has since accumulated in its collection such acquisitions as Vincent van Gogh’s “Sunflowers” in October 1987, Paul Gauguin’s “L’Allee des Alyscamps, Arles” in January 1989, and Paul Cezanne’s “Pommes et Serviette” in January 1990.

Special exhibitions of artists such as Pierre Bonnard, Kotaro Takamura and Pablo Picasso from the Jacqueline Collection were held during fiscal 2004. Welcoming 190,000 visitors annually, a total number exceeding 3.6 million people have enjoyed the collection since the Museum’s opening.

For Children’s Safety—Yellow Badge Donation

Every April, Sompo Japan joins Mizuho Financial Group, Meiji Yasuda Life Insurance Company, and Dai-ichi Mutual Life Insurance Company in a program in which every child entering the first grade in elementary school is given a yellow traffic safety badge that also confers insurance protection against traffic-related injury. This not only raises the children’s awareness about traffic safety, but by eliciting the cooperation of drivers and local citizens, it also contributes to preventing traffic accidents. Started in 1966, the campaign celebrated its 41st anniversary in April 2005 and has so far offered 50.66 million badges.

Contribution to Social Welfare

Through the Sompo Japan Foundation established in October 1977, we assist organizations specialized in the field of social welfare and disability. The Sompo Japan Foundation Award, the only prize of its kind in Japan, is awarded to researchers of the field, while the total ¥1.2 billion was awarded to welfare groups and organizations for people with disabilities during fiscal 2004.

Public Seminars on the Environment

Sompo Japan has joined with an NPO and the Sompo Japan Environment Foundation to host a series of open public seminars on the environment. Entering its 12th year in fiscal 2004, this event has been attended by approximately 10,800 people, such as company representatives, government officials, NPOs and students.



Special exhibitions at Seiji Togo Memorial Sompo Japan Museum of Art



Yellow Badge Donation



A vehicle donated to welfare organization by Sompo Japan Foundation



Public Seminar on the Environment



An activity of “Chikyu Club”
Sign Language Chorus



The “Puppet Theatre Project—The
fire of *Inamura* (rice sheaves)”



CSR Report 2004



CSR Dialogue

Sompo Japan “Chikyu (Earth) Club”

The Sompo Japan “Chikyu Club,” an employee-managed volunteer organization, plans and carries out activities that benefit the local communities with the collaboration of local Sompo Japan Agencies and NPOs. To support employees’ volunteer works, the company offers such programs as paid holidays and a matching donation system.

The “Puppet Theatre Project—The Fire of *Inamura* (rice sheaves)”

As part of disaster prevention education, the Shizuoka Chikyu Club provides various assistance for developing “Puppet Theater Project—the Fire of *Inamura*” and staging a puppet play about the legend of a man who sets fire to his precious rice sheaves at hilltop to attract his fellow villagers from their homes below in order to save them from a tsunami. Volunteers from 13 puppet groups in Shizuoka Prefecture produced the play with funding from the Chikyu Club Fund since January 2004. The puppet play is conveying the terror of tsunamis and the preciousness of life to children throughout the Prefecture. It was also performed at a related event of the World Conference on Disaster Reduction in Kobe in January 2005. The Chikyu Club members nearby also joined, and provided various supports as volunteers.

ENHANCEMENT OF CSR COMMUNICATION

Continued interactive communication with the wide range of our stakeholders is indispensable for the promotion of CSR. At Sompo Japan, we are creating various opportunities for stakeholder engagement.

Publication of the “CSR Report”

We publish the “CSR Report” annually as a communication tool to introduce Sompo Japan’s general CSR activities.

Publishing since 1998, the report not only provides detailed performance of the corporation’s CSR efforts but is also used as a medium for dialogues with stakeholders. The report is available both in Japanese and English.

Holding of “CSR Dialogue”

Since fiscal 2001, the “Stakeholder Meeting” is held once a year to exchange a wide range of opinions regarding Sompo Japan’s CSR initiatives with multiple stakeholders, including the general public, business people, students and employees.

In fiscal 2004, we held the “CSR Dialogue—Let’s talk together! Sompo Japan’s CSR—” specifically for Sompo Japan and group company employees, regarding the CSR that Sompo Japan should carry out, and approximately 80 employees participated.

EXTERNAL APPRAISAL

Socially Responsible Investment (SRI) Indices

SRI examining corporate financial standing as well as its environmental and social efforts, has been growing in global financial markets.

Sompo Japan is the only Japanese insurance company included in the Dow Jones Sustainability Index (DJSI), the largest SRI stock index jointly developed by SAM Group Holding AG (Switzerland) and Dow Jones Inc. (U.S.). It is also listed in the FTSE4Good Index in the U.K., the Ethibel Sustainability Index (ESI) in Belgium, and MS-SRI in Japan.

Honors and Awards

Ranked 2nd in the Environmental Management Survey for the Financial Institution Category by Nihon Keizai Shinbun Inc. (December 2004)

Ranked 1st for the Second Consecutive Year in Integrex Inc. “Company’s Sincerity and Transparency (Ethical and Social Performance) Survey”(March 2005)

Non-Consolidated Financial Review

Net Premiums Written by Category (Millions of yen)

Years ended March 31,	2005	2004	2003	2002	2001
Fire and Allied Insurance	¥ 150,367	¥ 157,448	¥ 153,957	¥127,432	¥119,498
Marine Insurance	25,199	24,849	22,904	17,716	17,827
Personal Accident Insurance	120,795	114,802	112,992	95,067	96,712
Voluntary Automobile Insurance	669,097	673,589	643,628	524,125	500,852
Compulsory Automobile Liability Insurance	244,156	241,858	196,708	89,771	87,202
Other Insurances	142,300	140,331	134,095	109,504	104,119
Total	¥1,351,915	¥1,352,877	¥1,264,284	¥963,615	¥926,210

FEATURES OF THIS FISCAL YEAR

Prior to the formation of Sompo Japan, we formulated our medium-term management plan in May 2002, and at the same time set our medium-term earnings forecast target for the end of fiscal 2005.

To achieve the aforementioned medium-term earnings goal, we have made our best efforts throughout fiscal 2004 to maximize shareholder value by expanding our earnings flow and bringing down management costs.

In the development of new products, we successfully launched our whole life medical insurance product called “Dr. Japan” in July 2004, which was very well received by consumers, selling more than 160,000 policies by the end of March 2005.

In addition, we developed a variety of seasonally-differentiated weather derivative products and a rider for the cost of eye-witness reports in personal traffic injury, attachable to our segmented-needs-adaptive automobile insurance called “ONE-do.”

For ensuring renewal of “ONE-do” contracts, we also started to provide an easy-to-understand maturity notification service called the “Safe Renewal Guide” and a user-oriented renewal alarm service called “Safe renewal support,” to avoid inadvertent termination of contracts.

OVERVIEW OF THE INSURANCE UNDERWRITING BUSINESS

The net annual premiums written in underwriting income declined by 0.1% compared to a year earlier to stand at ¥1,351,915 million, while net loss paid in underwriting expenses increased by 16.2% from a year earlier to stand at ¥813,097 million due to damage caused by natural disasters. These included a large number of typhoons, which altogether pushed up the loss ratio by 8.0 percentage points, compared to a year earlier, to reach a high of 64.8%.

Annual operating costs and general administrative expenses declined by 6.4% from a year earlier to stand at ¥199,588 million due to the successful implementation of corporate-wide rationalization and efficiency control. The net annual operating ratio fell 1.0 point to 30.9%.

As a result, the net underwriting balance obtained by deducting amounts, such as net claims paid, loss adjustment costs, sundry expenses and collection costs, operating costs and general administrative expenses, from the net premiums written, declined by 62.2% from a year earlier to stand at ¥57,813 million.

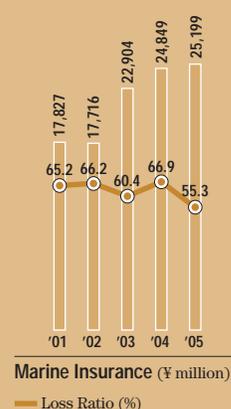
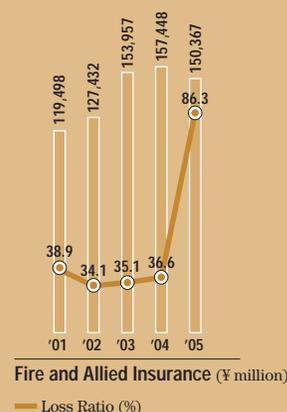
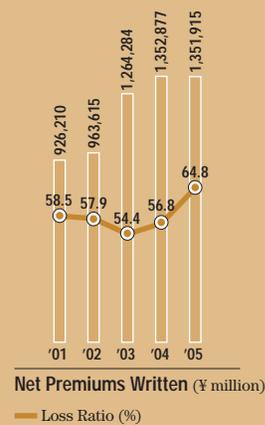
The net underwriting profit obtained by adjusting the aforementioned net underwriting balance with amounts such as premiums on savings-type insurance, maturity repayments, reserve for outstanding losses and claims and reversal from the liability reserve, declined by 72.5% from a year earlier to stand at ¥16,465 million.

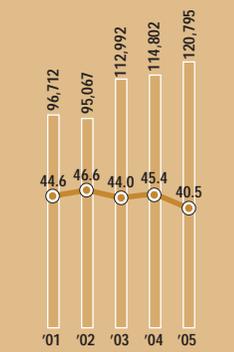
■ Fire and Allied Insurance

Despite a steady growth in long-term insurance products and corporate contracts, the net premiums written declined by 4.5% from a year earlier to stand at ¥150,367 million, reflecting increasingly fierce market competition, while the loss ratio was pushed up by 49.7% from a year earlier to reach a high at 86.3% due to the negative effects of natural disasters, including a large number of typhoons.

■ Marine Insurance

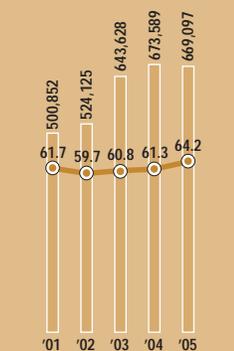
Despite such negative impact on premium revenue as reduced war insurance premiums brought about by the calmer Iraqi situation and the appreciation of the yen in value in the foreign exchange markets, the net premiums written increased by 1.4% from a year earlier to stand at ¥25,199 million due to relatively active movement in trading cargoes, while the loss ratio dropped by 11.7% from a year earlier to stay at 55.2%.





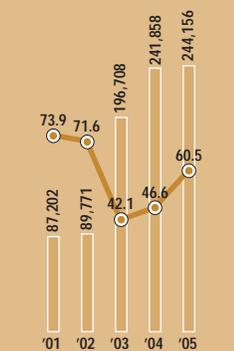
Personal Accident Insurance
(¥ million)

— Loss Ratio (%)



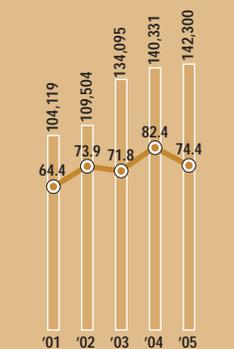
Voluntary Automobile Insurance
(¥ million)

— Loss Ratio (%)



Compulsory Automobile Liability Insurance
(¥ million)

— Loss Ratio (%)



Other Insurances (¥ million)

— Loss Ratio (%)

■ Personal Accident Insurance

Thanks to the steady sales performance in overseas travel insurance and comprehensive casualty insurance, the net premiums written increased by 5.2% from a year earlier to stand at ¥120,795 million, while the loss ratio dropped by 4.9% from a year earlier to stay at 40.5%.

■ Voluntary Automobile Insurance

Our newly launched automobile insurance product named “ONE-do” introduced to the market in January 2004 showed a successful sales performance, selling as many as 4.64 million policies during fiscal 2004.

Despite the increased sales in terms of insurance policies resulting from the acquisition of new contracts and the cultivation of markets for medium or small sized industries, both realized by the utmost use of surplus business hours generated from ONE-do’s streamlined operational procedures, the net premiums written declined by 0.7% from a year earlier to stand at ¥669,097 million due to decreased premium rates brought about by the escalation of no-claims discounts.

The loss ratio was pushed up by 2.9% from a year earlier to reach a high of 64.2%.

■ Compulsory Automobile Liability Insurance

Despite the negative impact caused by fewer renewal demands relating to compulsory periodical safety inspections, as well as demands in new car registrations, both showed a steady growth over a year earlier; the net premiums written increased by 1.0% from a year earlier to stand at ¥244,156 million due to the expanded sales network, while the loss ratio was pushed up by 13.9% from a year earlier to reach a high of 60.5% due to such negative factors as abolishment of the government’s re-insurance scheme.

■ Other Insurance

Thanks to the steady growth in General Liability Insurance brought about by increasing concerns over the risk of leaks in privacy, the net premiums written increased by 1.4% from a year earlier to stand at ¥142,300 million, while the loss ratio dropped by 8.0% from a year earlier to stay at 74.4%.

OVERVIEW OF ASSET MANAGEMENT

Net Losses Paid (Millions of yen)	Loss Ratio (%)		2005		2004		2003		2002	
	Net Losses Paid	Loss Ratio								
Years ended March 31,										
Fire and Allied Insurance	¥126,893	86.3%	¥ 55,605	36.6%	¥ 52,004	35.1%	¥ 41,708	34.1%		
Marine Insurance	12,987	55.2	15,387	66.9	12,536	60.4	10,797	66.2		
Personal Accident Insurance	44,534	40.5	46,790	45.4	44,424	44.0	39,455	46.6		
Voluntary Automobile Insurance	395,819	64.2	375,609	61.3	357,106	60.8	285,355	59.7		
Compulsory Automobile Liability Insurance	133,212	60.5	97,863	46.6	69,730	42.1	52,872	71.6		
Other Insurances	99,652	74.4	108,654	82.4	88,532	71.8	76,055	73.9		
Total	¥813,097	64.8%	¥699,908	56.8%	¥624,333	54.4%	¥506,242	57.9%		

The total assets at the end of this fiscal year increased by ¥84,795 million compared to a year earlier to stand at ¥5,157,080 million, of which working assets such as securities and loans increased by ¥122,502 million to stand at ¥4,765,982 million.

The appraisal profit of our share portfolio (hidden profit) at the end of this fiscal year increased by ¥103,747 million compared to a year earlier to stand at ¥881,956 million, which, after deducting the equivalent value of corporate income tax, increased the net appraisal profit of the share portfolio (shareholder equity) by ¥66,304 million compared to a year earlier to stand at ¥563,658 million.

In managing our working assets, we have continuously exerted our best efforts to make the return on investment more efficient, while paying due precaution and prudence to ensuring the safety and liquidity of our investment portfolio by enhancing the risk control system.

Despite a difficult investment environment due to the continued low level of domestic interest rates lasting throughout 2004, income from interest and dividends increased by ¥7,592 million compared to a year earlier to stand at ¥82,706 million due to efforts to improve our investment efficiency.

The net investment income, obtained by adjusting the aforementioned interest and dividend income with amounts such as the profit on securities sold or transfer of investment income on savings-type insurance premiums, declined by ¥26,094 million compared to a year earlier to stand at ¥80,813 million.

In currency-exchange-risk hedging transactions, our position-taking against the risk of a higher yen caused the cost of our derivative products to stand at ¥9,731 million due to an unexpectedly cheaper yen value lasting throughout 2004, which, together with appraisal losses on the share portfolio and losses on securities sold, decreased the net investment expenses by ¥1,567 million yen to stand at ¥20,212 million.

ORDINARY PROFIT AND NET INCOME

Ordinary income for fiscal 2004 stood at ¥1,735,517 million, while ordinary expenses stood at ¥1,661,281 million, which caused our ordinary profit for fiscal 2004 to stand at ¥74,236 million.

After adjusting the aforementioned ordinary profit for extraordinary profit and loss, corporate income tax, local residential taxes and tax expense adjustments, the final net income for fiscal 2004 stood at ¥56,898 million.

FINANCIAL POSITION

Shareholders' equity was ¥943,628 million at the end of the fiscal year. The equity ratio was 18.3%. The solvency margin reached ¥1,719,839 million, the solvency margin ratio was 1,070.9%.

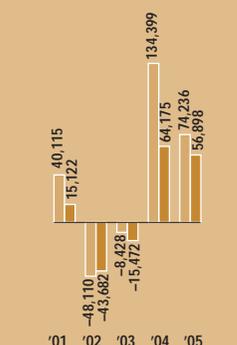
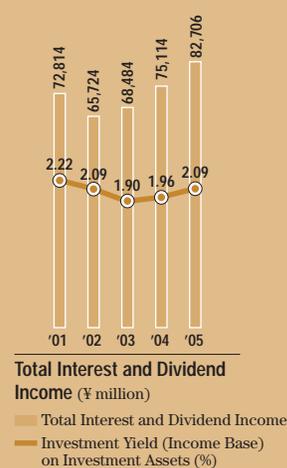
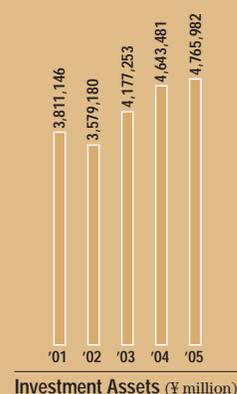
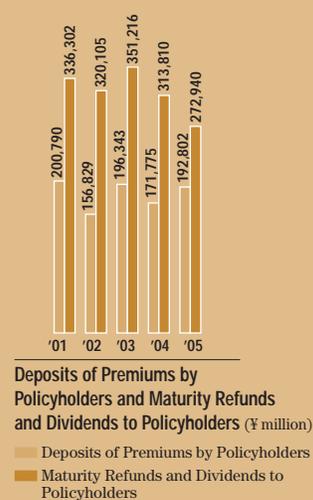
Assets by Category (Millions of yen)

March 31,	2005	2004	2003	2002	2001
Cash	¥ 162,897	¥ 200,796	¥ 206,726	¥ 220,315	¥ 81,746
Short-Term Investments	47,568	171,178	181,357	125,322	239,367
Investments in Securities	3,866,653	3,491,036	2,875,170	2,411,620	2,563,451
Loans	463,126	521,734	618,491	557,824	645,580
Accrued Investment Income	13,184	11,671	9,778	11,352	11,590
Property and Equipment, at Cost	466,467	513,494	557,934	480,107	501,292
Less Accumulated Depreciation	(228,556)	(238,769)	(242,515)	(194,917)	(197,461)
Premiums Receivable and Agents' Balances	101,782	86,133	75,407	59,873	59,251
Reinsurance Balances Recoverable	120,175	117,426	126,125	71,688	67,908
Other Business Balances Receivable	11,889	9,596	7,675	7,859	9,101
Other Assets	155,199	152,357	177,459	100,913	90,901
Deferred Tax Assets	—	64,144	221,124	45,571	—
Customers' Liabilities for Acceptances and Guarantees	—	—	—	414	10,871
Reserve for Possible Loan Losses	(23,154)	(28,352)	(28,695)	(16,132)	(16,710)
Reserve for Possible Losses on Investment Securities	(150)	(159)	(171)	(149)	(165)
Total	¥5,157,080	¥5,072,285	¥4,785,865	¥3,881,660	¥4,066,722

Solvency Margin Ratio (%)

March 31,	2005	2004	2003	2002
Solvency Margin (a) (Millions of yen)	¥1,719,839	¥1,630,598	¥1,179,390	¥1,229,792
Risk Total (b) (Millions of yen)	321,187	314,691	304,445	258,906
Solvency Margin Ratio (c=a/(b/2))	1,070.9%	1,036.3%	774.8%	950.0%

Note: Because the standards for calculating these figures were revised every year, figures in the same line for the respective years are not comparable.



TRENDS IN PERFORMANCE AND FINANCIAL INDICATORS

■ Profit and Loss

Even as liberalization of insurance sales and further deregulation have led to more heated competition in the non-life insurance industry, a recovery mode has been seen in all sectors other than automobile insurance, despite no apparent expansion in the size of the non-life insurance market itself.

Thus can be briefly described the third year in business of the Sompo Japan Group, established to realize the business vision of becoming a “comprehensive service provider group for risk and asset management.” Prior to the start-up of Sompo Japan, a medium-term management plan was drafted in May 2002 for Sompo Japan and medium-term profit targets set for the end of FY2005. Throughout FY2004 Sompo Japan sought to maximize shareholder value by expanding cash flow and reducing operational costs. As a result, the Company’s consolidated operating results for this fiscal year were as follows.

Ordinary income rose by ¥2,721 million year on year to ¥1,899,801 million despite a decline in gains from the sale of securities because of increased premiums received from savings-type insurance and life insurance policies underwritten as well as higher interest and dividend revenue from asset investments.

At the same time, ordinary expenses climbed by ¥58,497 million year on year to ¥1,830,557 million due to a substantial increase in net loss paid made in the wake of typhoons and other natural disasters.

Ordinary profit, i.e., ordinary income less ordinary expenses, came to ¥69,244 million, representing a year-on-year drop of ¥55,776 million.

After special gains and losses, income taxes (corporate and inhabitant taxes), deferred income taxes, and gain of minority interests, etc., there was a net profit for the period of ¥51,766 million, down ¥3,322 million from the preceding period.

■ Segment Review

Strong sales of “Dr. Japan” new long-term medical insurance and a business alliance with Dai-ichi Mutual Life Insurance Company generated higher profits in the non-life insurance business, but stagnant growth in our mainstay automobile insurance business due to growing no-claim discounts and lower income from long-term fire insurance associated with housing loans contributed to a ¥1,667 million decline year-on-year in net premiums written to ¥1,376,233 million. Ordinary income, the sum of investment income and net premiums written, was ¥1,723,085 million, lower by ¥16,298 million than the corresponding figure for the previous fiscal year.

Ordinary expenses were up by ¥40,732 million year on year to ¥1,649,772 million, despite more diligent cost-cutting efforts, as a consequence of a substantial rise in the claims paid out for an above-average number of natural disasters.

The life insurance business saw ordinary income climb by ¥20,631 million to ¥183,780 million as a steady expansion in the scope of business brought in a year-on-year increase of ¥20,418 million in life insurance premiums.

Ordinary expenses grew year on year by ¥19,306 million to ¥187,778 million, as the provision for underwriting reserve was increased at Sompo Japan Himawari Life Insurance Co., Ltd., in conjunction with a rise in life insurance premiums.

■ Financial Position

Total assets at the end of the consolidated fiscal year under review were higher year on year by ¥185,822 million, amounting to ¥5,874,859 million.

An increase in unrealized gains on securities available for sale produced a year-on-year rise in shareholders’ equity of ¥109,455 million totaling to ¥902,294 million.

Cash flows from operating activities were ¥111,890 million, down by ¥56,364 million from the previous consolidated fiscal year, due among other factors to the substantial increase in net insurance claims paid stemming from natural disasters.

Cash flows from investment activities was negative, with the outflow of ¥58,353 million from the previous consolidated fiscal year to ¥219,050 million in part because of a decrease in the amount of securities sold.

Cash flows from financial activities saw a net outflow of ¥23,869 million, ¥16,462 million less than the previous consolidated fiscal year, due to the redemption of convertible corporate bonds.

As a result, the balance of cash and cash equivalents at the end of the fiscal year was ¥234,445 million, a drop of ¥130,910 million from the preceding fiscal year.

Report of Independent Auditors

**The Board of Directors
Sompo Japan Insurance Inc.**

We have audited the accompanying consolidated balance sheets of Sompo Japan Insurance Inc. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sompo Japan Insurance Inc. and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their income and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Ernst & Young Shin Nihon

June 28, 2005

Consolidated Balance Sheets *Sompo Japan Insurance Inc. March 31, 2005 and 2004*

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
ASSETS			
Cash (Note 11)	¥ 197,837	¥ 231,756	\$ 1,841,886
Short-term investments (Notes 3 and 11)	59,685	177,896	555,675
Investments in securities (Notes 4 and 11)	4,464,645	4,002,441	41,566,381
Loans (Note 5)	471,245	528,242	4,387,348
Accrued investment income	16,795	15,234	156,363
Property and equipment, at cost (Note 6)	469,581	516,529	4,371,856
Less accumulated depreciation	(229,885)	(240,110)	(2,140,257)
	239,696	276,419	2,231,599
Insurance business balances receivable:			
Premiums receivable and agents' balances	110,297	94,731	1,026,878
Reinsurance balances recoverable	123,622	118,282	1,150,936
Other	12,033	9,642	112,029
	245,952	222,655	2,289,843
Other assets	171,439	166,860	1,596,118
Deferred tax assets (Note 7)	1,313	64,316	12,224
Excess of cost of investments over net assets acquired	30,585	32,453	284,750
Reserve for possible loan losses	(24,183)	(29,076)	(225,147)
Reserve for possible losses on investment securities	(150)	(159)	(1,397)
TOTAL ASSETS	¥5,874,859	¥5,689,037	\$54,695,643

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Underwriting funds:			
Reserve for outstanding losses and claims	¥ 644,501	¥ 593,945	\$ 6,000,382
Underwriting reserves	3,975,753	3,920,877	37,014,738
	4,620,254	4,514,822	43,015,120
Insurance business balances payable:			
Reinsurance balances payable	96,618	94,308	899,525
Other	6,491	7,751	60,432
	103,109	102,059	959,957
Accrued taxes	6,413	4,963	59,706
Long-term debt (Note 8)	—	15,000	—
Accrued severance benefits (Note 9)	84,932	111,632	790,727
Reserve for decline in value of assets	17,583	11,293	163,700
Other liabilities	128,007	134,129	1,191,760
Deferred tax liabilities (Note 7)	11,870	1,896	110,511
Total liabilities	4,972,168	4,895,794	46,291,481
Minority interests	396	404	3,687
Shareholders' equity (Notes 10 and 17):			
Common stock:			
Authorized 2,000,000,000 shares, issued 987,733,424 shares in 2004 and 2005	70,000	70,000	651,708
Additional paid-in capital	24,230	24,230	225,584
Retained earnings	254,744	211,560	2,371,698
Unrealized gains on securities available for sale	563,709	497,565	5,248,198
Translation adjustments	(7,666)	(8,005)	(71,371)
Treasury stock, 3,471,224 shares in 2004 and 3,592,881 shares in 2005, at cost	(2,722)	(2,511)	(25,342)
Total shareholders' equity	902,295	792,839	8,400,475
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	¥5,874,859	¥5,689,037	\$54,695,643

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income *Sompo Japan Insurance Inc. For the years ended March 31, 2005 and 2004*

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Ordinary income			
Underwriting income:			
Net premiums written	¥1,376,233	¥1,377,900	\$12,812,895
Deposits of premiums by policyholders	192,802	171,775	1,795,010
Interest and dividend income on deposits of premiums, etc. (Note 4)	46,295	45,724	431,012
Life insurance premiums written	174,626	154,207	1,625,789
Reversal of underwriting reserves	—	15,654	—
Other underwriting income	2,756	392	25,658
	1,792,712	1,765,652	16,690,364
Investment income:			
Interest and dividend income (Note 4)	48,216	40,194	448,897
Realized gain on sales of securities	42,046	62,256	391,453
Other investment income	3,575	17,447	33,284
	93,837	119,897	873,634
Other ordinary income	13,252	11,531	123,377
Total ordinary income	1,899,801	1,897,080	17,687,375
Ordinary expenses			
Underwriting expenses:			
Net losses paid	828,493	717,668	7,713,369
Loss adjustment expenses	63,771	68,978	593,716
Net commissions and brokerage fees	245,445	242,264	2,285,122
Maturity refunds and dividends to policyholders	272,940	313,810	2,541,104
Life insurance claims paid, etc.	33,427	32,124	311,209
Provision for reserve for outstanding losses	50,183	—	467,210
Provision for underwriting reserves	57,018	80,879	530,844
Other underwriting expenses	2,342	17,716	21,805
	1,553,619	1,473,439	14,464,379
Investment expenses:			
Realized loss on sales of securities	4,896	7,480	45,582
Devaluation loss on securities	1,609	3,848	14,980
Other investment expenses	14,048	10,100	130,789
	20,553	21,428	191,351
Operating, general and administrative expenses	254,976	268,805	2,373,857
Equity in losses of affiliates	423	711	3,938
Other ordinary expenses	986	7,677	9,180
Total ordinary expenses	1,830,557	1,772,060	17,042,705
Ordinary profit	69,244	125,020	644,670
Special gains and losses			
Provision for reserve for decline in value of assets	(6,290)	(5,855)	(58,561)
Expense for the merger	—	(357)	—
Impairment loss (Note 12)	(15,671)	(20,789)	(145,899)
Other special gains (losses), net	43,679	(19,452)	406,657
	21,718	(46,453)	202,197
Income before income taxes and minority interests	90,962	78,567	846,867
Income taxes (Note 7):			
Current	3,389	1,858	31,552
Prior	—	(657)	—
Deferred	35,768	22,327	333,004
Minority interests	39	(49)	363
Net income	¥ 51,766	¥ 55,088	\$ 481,948
		Yen	U.S. dollars (Note 2)
Net income per share:			
Basic	¥ 52.59	¥ 55.91	\$ 0.490
Diluted	52.22	55.50	0.486
Cash dividends per share attributable to the year	9.00	8.50	0.084

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity *Sompo Japan Insurance Inc. For the years ended March 31, 2005 and 2004*

	Thousands	Millions of yen					
	Thousands of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized gains on securities available for sale	Translation adjustments	Treasury stock
Balance at March 31, 2003	987,733	¥70,000	¥24,230	¥163,085	¥260,877	¥(6,351)	¥(2,008)
Net income	—	—	—	55,088	—	—	—
Cash dividends	—	—	—	(6,894)	—	—	—
Other increase in retained earnings	—	—	—	301	—	—	—
Increase of treasury stock—net	—	—	—	(20)	—	—	(503)
Net change during the year	—	—	—	—	236,688	(1,654)	—
Balance at March 31, 2004	987,733	¥70,000	¥24,230	¥211,560	¥497,565	¥(8,005)	¥(2,511)
Net income	—	—	—	51,766	—	—	—
Cash dividends	—	—	—	(8,366)	—	—	—
Director's bonus	—	—	—	(45)	—	—	—
Other increase in retained earnings	—	—	—	(163)	—	—	—
Increase of treasury stock—net	—	—	—	(8)	—	—	(211)
Net change during the year	—	—	—	—	66,144	339	—
Balance at March 31, 2005	987,733	¥70,000	¥24,230	¥254,744	¥563,709	¥(7,666)	¥(2,722)
		Thousands of U.S. dollars (Note 2)					
		Common stock	Additional paid-in capital	Retained earnings	Unrealized gains on securities available for sale	Translation adjustments	Treasury stock
Balance at March 31, 2004		\$651,708	\$225,584	\$1,969,649	\$4,632,390	\$(74,528)	\$(23,378)
Net income		—	—	481,948	—	—	—
Cash dividends		—	—	(77,889)	—	—	—
Director's bonus		—	—	(419)	—	—	—
Other increase in retained earnings		—	—	(1,517)	—	—	—
Increase of treasury stock—net		—	—	(74)	—	—	(1,964)
Net change during the year		—	—	—	615,808	3,157	—
Balance at March 31, 2005		\$651,708	\$225,584	\$2,371,698	\$5,248,198	\$(71,371)	\$(25,342)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows *Sompo Japan Insurance Inc. For the years ended March 31, 2005 and 2004*

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Operating activities			
Income before income taxes and minority interests	¥ 90,962	¥ 78,567	\$ 846,867
Depreciation	12,865	15,358	119,775
Impairment loss	15,671	20,789	145,899
Net amortization of excess of cost of investments over net assets acquired in subsidiaries	1,856	3,040	17,280
Increase (decrease) in reserve for outstanding losses and claims	50,270	(14,598)	468,020
Increase in underwriting reserves	54,748	79,158	509,710
Net reversal of reserve for possible loan losses	(4,876)	(190)	(45,396)
Reversal of reserve for possible losses on investment securities	(9)	(12)	(84)
Reversal of accrued severance benefits	(33,803)	(4,453)	(314,710)
Provision for reserve for decline in value of assets	6,290	5,855	58,561
Increase (decrease) in other reserves	115	(833)	1,071
Total interest and dividend income	(94,511)	(85,917)	(879,909)
Profit on securities	(35,360)	(51,348)	(329,206)
Interest expense	206	208	1,918
Loss on loans	542	1,441	5,046
Equity in losses of affiliates	423	711	3,938
Other, net	(53,294)	27,689	(496,174)
Subtotal	12,095	75,465	112,606
Interest and dividends received	101,685	92,331	946,699
Interest paid	(211)	(215)	(1,964)
Income taxes (paid) refunded	(1,679)	673	(15,632)
Net cash provided by operating activities	111,890	168,254	1,041,709
Investing activities			
Net decrease in short-term investments	17,649	50,916	164,314
Purchases of investment securities	(806,214)	(843,741)	(7,505,949)
Proceeds from sales or maturity of investment securities	477,813	549,062	4,448,496
Loans made	(144,381)	(150,960)	(1,344,204)
Collection of loans	200,435	244,952	1,866,074
Purchases of property and equipment	(7,629)	(7,936)	(71,027)
Proceeds from sales of property and equipment	45,904	10,009	427,372
Net decrease in cash due to purchase of a subsidiary	—	(1,324)	—
Other, net	(2,627)	(11,676)	(24,458)
Net cash used in investing activities	(219,050)	(160,698)	(2,039,382)
Financing activities			
Redemption of convertible bonds	(15,000)	—	(139,652)
Purchases of treasury stock	(424)	(668)	(3,947)
Dividends paid	(8,491)	(6,850)	(79,052)
Dividends paid to minority shareholders	(1)	(2)	(9)
Other, net	47	112	437
Net cash used in financing activities	(23,869)	(7,408)	(222,223)
Effect of exchange rate changes on cash and cash equivalents	119	(2,269)	1,108
Net decrease in cash and cash equivalents	(130,910)	(2,121)	(1,218,788)
Cash and cash equivalents at beginning of year	365,355	367,476	3,401,499
Cash and cash equivalents at end of year (Note 11)	¥ 234,445	¥ 365,355	\$ 2,182,711

See accompanying notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of preparation

Sompo Japan Insurance Inc. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements on the basis of the statutory accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan and have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(2) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

The excess of cost of investments over net assets acquired in consolidated subsidiaries at their acquisition dates is amortized within twenty years on a straight-line basis.

(3) Foreign currency translation

Revenue and expense accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, and, except for the components of shareholders' equity, the balance sheet accounts are also translated at the same exchange rates. The components of shareholders' equity are translated at the historical exchange rates.

(4) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(5) Investments in securities

Trading securities are carried at fair value and held-to-maturity bonds are carried at amortized cost. Marketable securities available for sale are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities available for sale are carried at cost or amortized cost. Shares of unconsolidated subsidiaries and affiliated companies are stated at cost. Cost of securities sold is determined by the moving average method.

When an investment in non-marketable securities is considered permanently impaired, it is written down to its estimated realizable value and is treated as a realized loss on an investment in the consolidated financial statements.

Securities held by the foreign consolidated subsidiaries are primarily stated at fair value.

(6) Derivative financial instruments and hedge accounting

Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for hedge accounting under which unrealized gain or loss is not charged to or credited to operations.

The Company applies fair value hedges to equity swaps entered into for the hedge of the future price fluctuation risk arising from the investment in equity securities.

The Company reviews the hedge effectiveness on a regular basis and examines whether designated derivatives are highly effective in offsetting changes in fair value of hedged items for the period from the inception of the hedging instruments to date.

(7) Depreciation

Depreciation of property and equipment of the Company and the domestic consolidated subsidiaries is computed by the declining-balance method, except for buildings acquired in Japan subsequent to March 31, 1998 on which depreciation is computed by the straight-line method at rates based on the estimated useful lives of the respective assets.

Depreciation of property and equipment of the foreign consolidated subsidiaries is computed by the straight-line method.

(8) Reserve for outstanding losses and claims

In accordance with the regulations of Insurance Business Law, the reserve for outstanding losses and claims, which represents the accumulation of the estimates for reported losses and includes provision for losses incurred but not reported (IBNR), has been established at an amount estimated to be sufficient, in the opinion of management, to discharge of all losses and claims incurred.

With respect to such lines of direct business as voluntary automobile, personal accident, liability, workers' compensation and nursing care written in Japan, the Enforcement Regulation of the Insurance Business Law and other relevant regulations stipulate the calculation method of IBNR reserve. In accordance with the methods, the Company provides IBNR reserve for these lines of business at an amount greater of:

- (a) An average of incurred but not reported losses for the last three years adjusted by the increase ratio of the incurred losses, or
- (b) A certain percentage (3% for voluntary automobile and 8% for the other lines of business) of the premium earned during the calculation year.

In addition, for the other direct businesses (except for compulsory automobile liability and earthquake insurance) and assumed reinsurance businesses, the estimates of losses for unreported claims are provided primarily based on the recent (partly long-term) experience trends of losses and other factors and/or the statement received from ceding reinsurance companies/brokers. The Company also utilizes outside actuaries to determine IBNR reserve for the assumed reinsurance businesses written in foreign markets and under run off.

(9) Underwriting reserves

Pursuant to the provisions of the Insurance Business Law and the related rules and regulations, the Company and the consolidated insurance subsidiaries in Japan are required to maintain underwriting reserves mainly calculated as follows:

(a) Premium reserve

Insurance other than compulsory automobile liability insurance and earthquake insurance:

Whichever is the greater of the unearned premiums or the underwriting balance at the end of the year for policies written during the year, by lines of business and types of policy.

Compulsory automobile liability insurance:

The accumulated total sum of the premiums written less the losses and claims incurred, and the related net investment income less the related income taxes and contributions to the Japan Red Cross Society and other Japanese institutions.

Insurance companies are not permitted to recognize any profit or loss from underwriting compulsory automobile liability insurance.

Earthquake insurance:

The accumulated total sum of the premiums written less the losses, claims incurred and net underwriting expense, and the related net investment income less income taxes.

Catastrophe reserve:

In addition to the above, in order to provide for any extraordinary risks which might arise from a catastrophe, the Company is required, under the standards for accounting practices of property and casualty insurance companies in Japan, to maintain a catastrophe reserve calculated at rates varying by line of business and ranging from 2% to 3.8% of the net premiums written, except for nuclear energy insurance, for which the provision is calculated at 50%.

(b) Policyholders' deposit funds

Underwriting reserves include premium reserve and policyholders' deposit funds for long-term saving type products. Policyholders deposit funds for long-term saving type products represent an accumulation of account deposits and credited income.

(10) Policy acquisition costs

The costs of acquiring and renewing business, which include agent commission and certain other costs directly related to the acquisition of business, are expensed when incurred as the Insurance Business Law in Japan does not permit insurance companies to defer and amortize these costs.

(11) Income taxes

Deferred tax assets and liabilities were initially recognized in the consolidated financial statements with respect to the differences between financial reporting and the tax basis of the assets and liabilities, and were measured using the enacted tax rates and laws which would be in effect when the differences were expected to reverse.

(12) Accrued severance benefits

An employee whose employment is terminated is entitled, in most cases, to a lump-sum payment, the amount of which is determined by reference to the current basic rate of pay, length of service and conditions under which the termination occurs.

In addition to the lump-sum severance benefit plan, the Company and domestic consolidated subsidiaries have a defined benefit pension plan covering substantially all their employees.

Accrued retirement benefits for employees at March 31, 2005 and 2004 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of March 31, 2005 and 2004, as adjusted for unrecognized actuarial loss, and unrecognized loss on plan amendments.

Actuarial loss and loss on plan amendments are amortized principally by the straight-line method over certain years within the average remaining years of service of the eligible employees.

Directors and statutory auditors are not covered by the plans. Post retirement benefits paid to these officers of the Company are charged to income when approved by the shareholders.

The Company obtained an approval of liquidation of the Sompo Japan welfare pension fund from the Ministry of Health, Labor and Welfare on March 30, 2005. This resulted in a ¥9,364 million (\$87,180 thousand) reversal of accrued severance benefits recognized in "Other special gains, net" for the year ended March 31, 2005.

(13) Reserve for possible loan losses

The Company and the consolidated insurance subsidiaries in Japan provide a reserve for possible loan losses pursuant to their internal rules for self-assessment of asset quality and for providing reserves for possible credit losses.

For loans to borrowers who are classified as substantially bankrupt or which are bankrupt in the formal legal sense, a reserve is provided at 100% of the amount remaining after deduction of the estimated recoverable amounts from the disposal of collateral and from guarantees.

For loans to borrowers who, although neither substantially bankrupt nor bankrupt in the legal sense, have experienced serious management difficulties and whose failure is imminent, a reserve is provided at an amount deemed necessary out of that remaining after deduction of the disposal of collateral and from guarantees.

For loans to borrowers whose loan repayment capability is deemed uncertain in the light of their earnings and financial condition, a reserve is provided at an amount based on the estimated bad debt expenses over the following three years.

The classification of borrowers and calculation of provision for possible loan losses are based on the result of the self-assessment, which is performed in accordance with the Company's internal policy and guidelines and is independently reviewed by internal audit unit.

For other loans, a reserve is provided based on their historical loan loss experience.

The reserve relating to loans to certain developing countries is provided based on the prospective loss after consideration of the relevant country's political and economic situations, etc.

The other consolidated subsidiaries provide reserves at amounts deemed sufficient to cover their estimated future losses on individual accounts.

(14) Reserve for possible losses on investment securities

Reserve for possible losses on investment securities is based on the estimated possible losses on non-marketable investment securities.

(15) Reserve for decline in value of assets

In accordance with the Insurance Business Law, the Company and the consolidated insurance subsidiaries in Japan are required to set aside a reserve to cover any declines in the value of their assets at an amount calculated at rates varying by type of asset and, unless permission is granted by the Prime Minister of Japan, to exclude all or a portion of this amount from such accounting treatment. Also, the Company and the consolidated insurance subsidiaries in Japan may reduce this reserve by an amount equivalent to the net loss resulting from reappraisals and sales of property and securities or from operations, or by a specified amount permitted by the Commissioner of Financial Services Agency for other reasons.

(16) Amounts per share

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal year. Diluted net loss per share is not required to disclose under accounting principles generally accepted in Japan.

Cash dividends per share represent the cash dividends declared as applicable to the respective years.

(17) Leases

The Company and consolidated subsidiaries lease certain equipment under noncancelable lease agreements and account for them as finance leases. Finance leases other than those which transfer the ownership of the leased property to the Company and consolidated subsidiaries are accounted for as operating leases.

(18) Amortization of software costs

Amortization of software costs of a domestic consolidated subsidiary is computed by the straight-line method based on the estimated useful life.

(19) Amortization of goodwill

The Company-recognized goodwill upon the merger with The Taisei Fire and Marine Insurance Company Limited in December 2002, which was included in "Other assets" in the consolidated balance sheets, was amortized over a period of five years by the straight-line method.

However, the Company expensed the remaining unamortized balance of goodwill at March 31, 2004, because estimate of cash flow based on goodwill will be uncertain in the future.

As a result, the Company recognized unamortized balance of goodwill of ¥17,972 million as special losses for the year ended March 31, 2004.

(20) Impairment of fixed assets

Effective the year ended March 31, 2004, the Company adopted the "Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Council and Financial Accounting Standard Implementation Guidance No. 6, "Implementation Guidance for Impairment of Fixed Assets" issued by Accounting Standard Board of Japan. The effect of this change was to decrease income before income tax and minority interests by ¥20,788 million for the year ended March 31, 2004.

(21) Reclassification

Effective the year ended March 31, 2005, "Income taxes – Prior" is presented as a component of "Income taxes – Current" due to immaterial amount involved. The income taxes in prior years included in "Income taxes – Current" as of March 31, 2005 are ¥150 million (\$1,397 thousand).

2. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥107.41 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2005. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

3. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Time deposits	¥23,448	¥ 28,980	\$218,304
CP under resale agreements	5,000	39,998	46,551
Money trusts	27,237	44,918	253,580
Call loans	4,000	60,000	37,240
Commercial paper	—	4,000	—
	¥59,685	¥177,896	\$555,675

The cost and related aggregate market values of money trusts as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cost	¥26,115	¥43,542	\$243,134
Market value	27,237	44,918	253,580
Net unrealized gain	¥ 1,122	¥ 1,376	\$ 10,446

The Company and their domestic consolidated subsidiaries recognized devaluation loss on marketable securities available for sale included in money trust if the market value is declined by 30% or more than their cost on the balance sheet date.

There was no devaluation loss on marketable securities available for sale included in money trust for the year ended March 31, 2005 and 2004.

4. INVESTMENTS IN SECURITIES

The components of investments in securities as of March 31, 2005 and 2004 and their fair value and other related information by holding intention are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Domestic securities:			
Bonds	¥1,673,792	¥1,402,162	\$15,583,205
Stocks	1,476,624	1,432,712	13,747,547
Foreign securities	1,220,356	1,082,961	11,361,661
Other securities	93,873	84,606	873,968
	¥4,464,645	¥4,002,441	\$41,566,381

a) Trading securities included in investments in securities as of March 31, 2005 and 2004 were ¥10,327 million (\$96,146 thousand) and ¥8,857 million, respectively.

b) Information regarding marketable securities classified as held-to-maturity bonds as of March 31, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2005			2005		
	Carrying value	Market value	Unrealized gain (loss)	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:						
Domestic bonds	¥384,593	¥393,906	¥ 9,313	\$3,580,607	\$3,667,312	\$ 86,705
Foreign bonds	150,378	155,574	5,196	1,400,037	1,448,413	48,376
Subtotal	534,971	549,480	14,509	4,980,644	5,115,725	135,081
Securities whose carrying value exceeds their market value:						
Domestic bonds	65,668	64,496	(1,172)	611,377	600,465	(10,912)
Foreign bonds	4,489	4,481	(8)	41,793	41,719	(74)
Subtotal	70,157	68,977	(1,180)	653,170	642,184	(10,986)
Total	¥605,128	¥618,457	¥13,329	\$5,633,814	\$5,757,909	\$124,095

	Millions of yen		
	2004		
	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:			
Domestic bonds	¥214,863	¥218,673	¥ 3,810
Foreign bonds	146,112	149,666	3,554
Subtotal	360,975	368,339	7,364
Securities whose carrying value exceeds their market value:			
Domestic bonds	141,865	137,859	(4,006)
Foreign bonds	36,280	35,787	(493)
Subtotal	178,145	173,646	(4,499)
Total	¥539,120	¥541,985	¥ 2,865

c) Information regarding marketable securities available for sale as of March 31, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2005			2005		
	Cost	Market value	Unrealized gain (loss)	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:						
Domestic securities:						
Bonds	¥1,103,096	¥1,132,346	¥ 29,250	\$10,269,956	\$10,542,277	\$ 272,321
Stocks	559,342	1,359,705	800,363	5,207,541	12,659,017	7,451,476
Foreign securities	589,761	656,134	66,373	5,490,746	6,108,686	617,940
Other securities	69,069	79,075	10,006	643,041	736,198	93,157
Subtotal	2,321,268	3,227,260	905,992	21,611,284	30,046,178	8,434,894
Securities whose cost exceeds their market value:						
Domestic securities:						
Bonds	86,001	84,912	(1,089)	800,680	790,541	(10,139)
Stocks	50,677	45,624	(5,053)	471,809	424,765	(47,044)
Foreign securities	348,568	330,756	(17,812)	3,245,210	3,079,378	(165,832)
Other securities	22,799	22,590	(209)	212,261	210,316	(1,945)
Subtotal	508,045	483,882	(24,163)	4,729,960	4,505,000	(224,960)
Total	¥2,829,313	¥3,711,142	¥881,829	\$26,341,244	\$34,551,178	\$8,209,934

	Millions of yen		
	2004		
	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:			
Domestic securities:			
Bonds	¥ 717,621	¥ 742,229	¥ 24,608
Stocks	572,092	1,310,409	738,317
Foreign securities	385,243	425,070	39,827
Other securities	53,537	61,331	7,794
Subtotal	1,728,493	2,539,039	810,546
Securities whose cost exceeds their market value:			
Domestic securities:			
Bonds	300,783	296,807	(3,976)
Stocks	55,400	50,807	(4,593)
Foreign securities	447,794	425,003	(22,791)
Other securities	30,685	30,313	(372)
Subtotal	834,662	802,930	(31,732)
Total	¥2,563,155	¥3,341,969	¥778,814

The Company and their domestic consolidated subsidiaries recognized devaluation loss on marketable securities available for sale if the market value is declined by 30% or more than their cost on the balance sheet date. Devaluation loss on marketable securities available for sale for the years ended March 31, 2005 and 2004 were ¥574 million (\$5,344 thousand) and ¥1,106 million, respectively.

d) Securities available for sale sold during each year were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Proceeds from sales	¥203,355	¥324,068	\$1,893,259
Gain on sales	42,046	62,256	391,453
Loss on sales	4,896	7,480	45,582

e) The redemption schedules as of March 31, 2005 and 2004 for available for sale securities and held-to-maturity bonds with maturity date were as follows:

	Millions of yen			
	2005			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	¥ 53,283	¥205,374	¥189,359	¥197,143
Municipal bonds	10,040	148,265	96,536	2,771
Corporate bonds	90,297	307,542	272,577	96,435
Foreign bonds	117,042	293,404	280,779	147,223
Other securities	2,393	14,858	13,333	4,073
Total	¥273,055	¥969,443	¥852,584	¥447,645

	Millions of yen			
	2004			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	¥ 27,257	¥151,820	¥ 94,763	¥ 79,300
Municipal bonds	8,633	148,178	120,022	3,886
Corporate bonds	89,719	322,074	269,550	83,482
Foreign bonds	91,560	298,671	232,140	130,360
Other securities	4,000	13,368	12,166	914
Total	¥221,169	¥934,111	¥728,641	¥297,942

	Thousands of U.S. dollars			
	2005			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	\$ 496,071	\$1,912,057	\$1,762,955	\$1,835,425
Municipal bonds	93,474	1,380,365	898,762	25,798
Corporate bonds	840,676	2,863,253	2,537,725	897,821
Foreign bonds	1,089,675	2,731,626	2,614,086	1,370,664
Other securities	22,279	138,330	124,131	37,921
Total	\$2,542,175	\$9,025,631	\$7,937,659	\$4,167,629

f) Total interest and dividend income for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Interest on bank deposits	¥ 338	¥ 552	\$ 3,147
Interest on CP under resale agreements	4	8	37
Interest on call loans	6	10	56
Interest and dividends on securities	77,840	65,450	724,700
Interest on loans	9,446	11,149	87,943
Income from real estate	5,550	7,365	51,671
Total income from investment assets	93,184	84,534	867,554
Interest on other assets	1,327	1,384	12,355
Total interest and dividend income	¥94,511	¥85,918	\$879,909
Presentation in the consolidated statements of income:			
Interest and dividend income on deposits of premiums, etc.	¥46,295	¥45,724	\$431,012
Interest and dividend income	48,216	40,194	448,897
Total interest and dividend income	¥94,511	¥85,918	\$879,909

5. LOANS

As of March 31, 2005 and 2004, the balances of loans included the following risk-monitored loans:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans to borrowers in bankruptcy	¥ 65	¥ 10	\$ 605
Overdue loans	7,941	13,537	73,932
Loans overdue for three months or more	1	2	9
Restructured loans	3,459	9,100	32,204
	¥11,466	¥22,649	\$106,750

Loans to borrowers in bankruptcy represent non-accrual loans to borrowers who are legally bankrupt as defined in Article 96-1-3 and 4 of the Japanese Tax Law Enforcement Regulation (Article 97 of 1965 Cabinet Order).

Overdue loans represent non-accrual loans other than (i) Loans to borrowers in bankruptcy and (ii) loans of which payments of interest are deferred in order to assist or facilitate the restructuring of borrowers in financial difficulties.

Loans overdue for three months or more represent loans on which the payment of principal and/or interest has not been received for three months or more from the due date, and which are not included in loans to borrowers in bankruptcy or overdue loans.

Restructured loans are loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.) and are not classified in any of the above categories.

6. PROPERTY AND EQUIPMENT

The components of property and equipment as of March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Land	¥ 108,380	¥ 124,203	\$ 1,009,031
Buildings	295,703	325,337	2,753,030
Furniture and equipment	64,709	65,430	602,449
Construction in progress	789	1,559	7,346
	469,581	516,529	4,371,856
Less accumulated depreciation	(229,885)	(240,110)	(2,140,257)
	¥ 239,696	¥ 276,419	\$ 2,231,599

7. INCOME TAXES

Income taxes applicable to the Company include corporation and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of approximately 36.09% for 2005 and 2004, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The provision for income taxes incurred is different from which would be obtained by applying the statutory tax rates to income before income taxes and minority interests due to the permanent difference and other items.

A reconciliation of effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2005 and 2004 to the statutory tax rate was as follows:

	2005	2004
Statutory tax rate	36.09%	36.09%
Effect of:		
Change in valuation allowance	7.18	(6.30)
Permanently nontaxable dividends received	(3.31)	(3.36)
Permanently nondeductible expenses	1.32	1.60
Inhabitants' per capita taxes	0.57	0.70
Equity in losses of affiliates	0.17	0.33
Other, net	1.03	0.89
Effective tax rate	43.05%	29.95%

Deferred tax assets and liabilities as of March 31, 2005 and 2004 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets (liabilities):			
Underwriting reserves	¥ 172,775	¥ 179,682	\$ 1,608,556
Tax loss carryforward	37,359	57,725	347,817
Devaluation loss on securities and real estate	35,524	33,215	330,733
Accrued severance benefits	29,036	37,228	270,329
Reserve for outstanding losses and claims	27,068	23,076	252,006
Intangible fixed assets in tax matters	13,054	13,537	121,534
Unrealized gains on securities available for sale	(318,810)	(281,546)	(2,968,160)
Other, net	22,188	22,449	206,573
Valuation allowance	(28,751)	(22,946)	(267,675)
Net deferred tax assets (liabilities)	¥ (10,557)	¥ 62,420	\$ (98,287)

8. LONG-TERM DEBT

Long-term debt as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
0.5% bond with stock options in yen due 2005	—	¥15,000	—

The 0.5% bond with stock options were issued on March 5, 1996 with a principal amount of ¥15,000 million (\$139,652 thousand) and were redeemed at March 30, 2005.

9. ACCRUED SEVERANCE BENEFITS

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2005 and 2004 for the Company's and the consolidated subsidiaries' severance benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Retirement benefit obligation	¥(136,807)	¥(376,507)	\$ (1,273,689)
Plan assets at fair value	6,969	178,045	64,882
Unfunded retirement benefit obligation	(129,838)	(198,462)	(1,208,807)
Unrecognized actuarial loss	33,979	79,008	316,348
Unrecognized loss on plan amendments	10,927	7,822	101,732
Net retirement benefit obligation	(84,932)	(111,632)	(790,727)
Accrued severance benefits	¥ (84,932)	¥(111,632)	\$ (790,727)

The government-sponsored portion of the benefits under the welfare pension fund plans has been included in the amounts shown in the above table.

The Company obtained an approval of liquidation of the Sampo Japan welfare pension fund from the Ministry of Health, Labor and Welfare on March 30, 2005. This resulted in a ¥9,364 million (\$87,180 thousand) reversal of accrued severance benefits recognized in "Other special gains, net" for the year ended March 31, 2005.

The components of severance benefit expenses for the years ended March 31, 2005 and 2004 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥12,605	¥16,236	\$117,354
Interest cost	7,416	7,491	69,044
Expected return on plan assets	(4,900)	(3,950)	(45,620)
Amortization of actuarial loss	7,871	9,691	73,280
Amortization of loss on plan amendments	859	1,691	7,997
Total	¥23,851	¥31,159	\$222,055

The assumptions used in accounting for the above plans for the years ended March 31, 2005 and 2004 were as follows:

	2005	2004
Discount rates	1.5 ~ 2.0%	2.0%
Expected return on plan assets	1.0 ~ 3.0%	1.0 ~ 3.0%

10. SHAREHOLDERS' EQUITY

In accordance with the Insurance Business Law of Japan, the Company has provided a legal reserve by appropriation of retained earnings, which is included in retained earnings. The Insurance Business Law of Japan provides that an amount equal to at least 20% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital equals 100% of the common stock. The legal reserve amounted to ¥24,600 million (\$229,029 thousand) and ¥22,900 million as of March 31, 2005 and 2004, respectively.

11. CASH AND CASH EQUIVALENTS

A reconciliation of "Cash and cash equivalents" in the consolidated statements of cash flows to "Cash" in the consolidated balance sheets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash	¥ 197,837	¥ 231,756	\$ 1,841,886
Short-term investments	59,685	177,896	555,675
Investments in securities	4,464,645	4,002,441	41,566,381
Short-term investments other than cash equivalents	(36,977)	(56,205)	(344,260)
Investments in securities other than cash equivalents	(4,450,745)	(3,990,533)	(41,436,971)
Cash and cash equivalents	¥ 234,445	¥ 365,355	\$ 2,182,711

12. IMPAIRMENT OF FIXED ASSETS

(1) Method of grouping

The Company and the consolidated subsidiaries group their fixed assets by purposes of use and measure impairment loss for each of the group. Assets for insurance business operations are classified as a group. Lease assets and unused property, such as a building for lease, computer center and company housing etc., are classified as other groups based on identifiable cash flows.

(2) The circumstances causing the impairment losses

The Company has accomplished its organization restructuring and its sales reorganization that resulted in some business premises being redundant.

Accordingly, the Company changed the purpose of these business premises into for lease or unused. Recoverable amount of some of these business premises significantly declined from their carrying value and impairment losses were recognized.

(3) Impairment loss

Impairment losses on fixed assets for the years ended March 31, 2005 and 2004 are summarized as follows:

		Millions of yen		
		2005		
Purpose of use	Asset group	Land	Buildings	Total
Lease	10 groups (Moriguchi building, etc.)	¥11,348	¥ 4,323	¥15,671

		Millions of yen		
		2004		
Purpose of use	Asset group	Land	Buildings	Total
Lease	11 groups (KY building Sendai, etc.)	¥ 8,902	¥ 2,154	¥11,056
Unused	11 groups (Sendai computer center, etc.)	3,916	5,817	9,733
Total		¥12,818	¥ 7,971	¥20,789

		Thousands of U.S. dollars		
		2005		
Purpose of use	Asset group	Land	Buildings	Total
Lease	10 groups (Moriguchi building, etc.)	\$105,651	\$40,248	\$145,899

(4) Recoverable amount

The impairment loss is recognized when carrying amount of property exceeds its recoverable amount. Recoverable amount used for the measurement of impairment loss on lease assets is determined at net realizable value on sale or future cash flows discounted at rate ranging from 5.7% to 9.5% and 6.0% to 9.5% for the years ended March 31, 2005 and 2004, respectively. Net realizable values are determined based on real estate appraisal and tax basis value. Recoverable amount for unused assets is determined at net realizable value on sale.

13. LEASES

The following pro forma amounts represented the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2005 and 2004, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Furniture and equipment:			
Acquisition costs	¥5,448	¥5,315	\$50,722
Accumulated depreciation	4,196	2,996	39,065
Accumulated impairment loss	—	—	—
Net book value	¥1,252	¥2,319	\$11,657

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,364 million (\$12,699 thousand) and ¥1,328 million for the years ended March 31, 2005 and 2004, respectively.

Future minimum lease payments subsequent to March 31, 2005 for noncancelable operating leases and for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
	Operating leases	Finance leases	Operating leases	Finance leases
2006	¥ 56	¥ 811	\$ 521	\$ 7,551
2007 and thereafter	68	441	633	4,105
Total	¥124	¥1,252	\$1,154	\$11,656

14. DERIVATIVES

The Company and domestic consolidated subsidiaries enter into forward foreign exchange contracts, currency options positions and currency swaps to reduce their exposure to fluctuations in foreign exchange rates relating to their assets denominated in foreign currencies. They also enter into interest rate swaps to reduce their exposure to fluctuations in interest rates relating to their debt securities and loans. In addition, they enter into equity swaps to offset their exposure to fluctuations in stock prices.

On the other hand, the Company and domestic consolidated subsidiaries enter into forward foreign exchange contracts, currency options positions, stock price index futures, bond futures, credit derivatives, weather derivatives and earthquake derivatives to gain investment income or premium income up to the limits permitted under their internal risk management policies.

The contract amounts of those transactions at March 31, 2005 and 2004 and the related market values were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2005		2004		2005	
	Contract amount	Market value	Contract amount	Market value	Contract amount	Market value
Forward foreign exchange contracts:						
Short positions	¥108,433	¥112,539	¥156,971	¥154,403	\$1,009,524	\$1,047,752
Long positions	118,309	121,649	106,591	105,314	1,101,471	1,132,567
Currency options positions:						
Short positions:						
Call options	—	—	73,806	—	—	—
(Options premiums)	(—)	(—)	(548)	(118)	(—)	(—)
Long positions:						
Call options	3,000	—	3,000	—	27,930	—
(Options premiums)	(10)	(—)	(10)	(—)	(93)	(—)
Put options	2,962	—	72,915	—	27,577	—
(Options premiums)	(210)	(152)	(758)	(727)	(1,955)	(1,415)
Currency swaps	4,000	10	4,000	43	37,240	93
Interest rate swaps	1,000	27	1,000	58	9,310	251
Bond futures:						
Short positions	—	—	9,804	9,831	—	—
Long positions	—	—	9,918	10,041	—	—
Credit derivatives:						
Short positions:	89,930	—	114,026	—	837,259	—
(Premiums)	(725)	(570)	(974)	(885)	(6,750)	(5,307)
Long positions:	2,900	—	2,900	—	26,999	—
(Premiums)	(15)	(11)	(15)	(8)	(140)	(102)
Weather derivatives:						
Short positions:	860	—	1,165	—	8,007	—
(Premiums)	(51)	(51)	(24)	(25)	(475)	(475)
Long positions:	50	—	900	—	466	—
(Premiums)	(—)	(—)	(—)	(—)	(—)	(—)
Earthquake derivatives:						
Short positions:	1,320	—	1,160	—	12,289	—
(Premiums)	(59)	(21)	(53)	(35)	(549)	(196)
Long positions:	1,320	—	1,160	—	12,289	—
(Premiums)	(53)	(18)	(47)	(31)	(493)	(168)

*1. The market value of the forward foreign exchange contracts was based on the forward rates as of March 31, 2005 and 2004.

*2. Derivative instruments to which hedge accounting is applied are excluded from the above table.

15. SEGMENT INFORMATION

The Company and consolidated subsidiaries operate principally in two business segments; property and casualty insurance and life insurance.

Information with respect to the two segments for the years ended March 31, 2005 and 2004 is summarized as follows:

	Millions of yen			
	2005			
	Property and casualty insurance	Life insurance	Adjustments and Eliminations	Consolidated
Ordinary income	¥1,716,042	¥183,759	¥ —	¥1,899,801
Adjustments and eliminations	7,043	21	(7,064)	—
Total	1,723,085	183,780	(7,064)	1,899,801
Ordinary expense	1,649,772	187,778	(6,993)	1,830,557
Ordinary profit (loss)	73,313	(3,998)	(71)	69,244
Assets	5,140,534	737,008	(2,683)	5,874,859
Depreciation	11,880	984	—	12,864
Impairment loss	15,671	—	—	15,671
Capital investment	7,924	444	—	8,368

	Millions of yen			
	2004			
	Property and casualty insurance	Life insurance	Adjustments and Eliminations	Consolidated
Ordinary income	¥1,733,979	¥163,101	¥ —	¥1,897,080
Adjustments and eliminations	5,404	47	(5,451)	—
Total	1,739,383	163,148	(5,451)	1,897,080
Ordinary expense	1,609,040	168,471	(5,451)	1,772,060
Ordinary profit (loss)	130,343	(5,323)	—	125,020
Assets	5,052,091	640,292	(3,346)	5,689,037
Depreciation	14,223	1,131	—	15,354
Impairment loss	20,789	—	—	20,789
Capital investment	8,349	194	—	8,543

	Thousands of U.S. dollars			
	2005			
	Property and casualty insurance	Life insurance	Adjustments and Eliminations	Consolidated
Ordinary income	\$15,976,557	\$1,710,818	\$ —	\$17,687,375
Adjustments and eliminations	65,571	196	(65,767)	—
Total	16,042,128	1,711,014	(65,767)	17,687,375
Ordinary expense	15,359,575	1,748,236	(65,106)	17,042,705
Ordinary profit (loss)	682,553	(37,222)	(661)	644,670
Assets	47,858,989	6,861,633	(24,979)	54,695,643
Depreciation	110,604	9,161	—	119,765
Impairment loss	145,899	—	—	145,899
Capital investment	73,773	4,134	—	77,907

The investment activities were considered as a part of insurance business rather than a separate.

Information related to geographical segments and overseas sale was not disclosed because overseas segments were immaterial.

16. STOCK OPTIONS

During the year ended March 31, 2005, stock options were granted to directors and officers of the Company. The number of options granted was 625 and related terms of the options are as follows:

Exercise price	Numbers of stocks issued
¥1,167 (\$10.9)	305 thousand
¥1,082 (\$10.1)	320 thousand

17. SUBSEQUENT EVENTS

The following appropriations of retained earnings were approved at a meeting of the shareholders held on June 28, 2005.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥9.0 = \$0.084 per share)	¥8,857	\$82,460

Report of Independent Auditors

The Board of Directors Sompo Japan Insurance Inc.

We have audited the accompanying non-consolidated balance sheets of Sompo Japan Insurance Inc. as of March 31, 2005 and 2004, and the related non-consolidated statements of income and shareholders' equity for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Sompo Japan Insurance Inc. at March 31, 2005 and 2004, and the non-consolidated results of their income for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.



June 28, 2005

Non-Consolidated Balance Sheets *Sompo Japan Insurance Inc. March 31, 2005 and 2004*

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
ASSETS			
Cash	¥ 162,897	¥ 200,796	\$ 1,516,591
Short-term investments (Note 3)	47,568	171,178	442,864
Investments in securities (Note 4)	3,866,653	3,491,036	35,999,004
Loans (Note 5)	463,126	521,734	4,311,759
Accrued investment income	13,184	11,671	122,745
Property and equipment, at cost (Note 6)	466,467	513,494	4,342,864
Less accumulated depreciation	(228,556)	(238,769)	(2,127,884)
	237,911	274,725	2,214,980
Insurance business balances receivable:			
Premiums receivable and agents' balances	101,782	86,133	947,603
Reinsurance balances recoverable	120,175	117,426	1,118,844
Other	11,889	9,596	110,687
	233,846	213,155	2,177,134
Other assets	155,199	152,357	1,444,921
Deferred tax assets (Note 7)	—	64,144	—
Reserve for possible loan losses	(23,154)	(28,352)	(215,567)
Reserve for possible losses on investment securities	(150)	(159)	(1,397)
TOTAL ASSETS	¥5,157,080	¥5,072,285	\$48,013,034

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Underwriting funds:			
Reserve for outstanding losses and claims (Note 14)	¥ 586,687	¥ 538,879	\$ 5,462,126
Underwriting reserves (Notes 14 and 15)	3,295,787	3,338,729	30,684,173
	3,882,474	3,877,608	36,146,299
Insurance business balances payable:			
Reinsurance balances payable	92,287	92,081	859,203
Other	6,438	7,706	59,939
	98,725	99,787	919,142
Accrued taxes	3,572	3,732	33,256
Long-term debt (Note 8)	—	15,000	—
Accrued severance benefits (Note 9)	84,112	110,800	783,093
Reserve for decline in value of assets	17,547	11,270	163,365
Other liabilities	115,436	125,032	1,074,722
Deferred tax liabilities (Note 7)	11,586	—	107,867
Total liabilities	4,213,452	4,243,229	39,227,744
Shareholders' equity (Notes 10 and 17):			
Common stock:			
Authorized 2,000,000,000 shares, issued 987,733,424 shares in 2004 and 2005	70,000	70,000	651,708
Additional paid-in capital	24,230	24,230	225,584
Legal reserve	24,600	22,900	229,029
Retained earnings	263,862	217,083	2,456,587
Unrealized gains on securities available for sale	563,658	497,354	5,247,724
Treasury stock, 3,471,224 shares in 2004 and 3,592,881 shares in 2005, at cost	(2,722)	(2,511)	(25,342)
Total shareholders' equity	943,628	829,056	8,785,290
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	¥5,157,080	¥5,072,285	\$48,013,034

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Income *Sompo Japan Insurance Inc. For the years ended March 31, 2005 and 2004*

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Ordinary income			
Underwriting income:			
Net premiums written (Note 14)	¥1,351,915	¥1,352,877	\$12,586,491
Deposits of premiums by policyholders	192,802	171,775	1,795,010
Interest and dividend income on deposits of premiums, etc. (Note 4)	46,295	45,724	431,012
Reversal of reserve for outstanding losses	—	18,490	—
Reversal of underwriting reserves	42,942	5,162	399,795
Other underwriting income	2,701	27	25,147
	1,636,655	1,594,055	15,237,455
Investment income:			
Interest and dividend income (Note 4)	36,411	29,390	338,991
Realized gain on sales of securities	41,272	61,520	384,247
Other investment income	3,130	15,997	29,141
	80,813	106,907	752,379
Other ordinary income	18,049	14,933	168,038
Total ordinary income	1,735,517	1,715,895	16,157,872
Ordinary expenses			
Underwriting expenses:			
Net losses paid (Note 14)	813,097	699,908	7,570,031
Loss adjustment expenses	62,904	68,058	585,644
Net commissions and brokerage fees (Note 14)	218,514	218,488	2,034,392
Maturity refunds and dividends to policyholders	272,940	313,810	2,541,104
Provision for reserve for outstanding losses	47,808	—	445,098
Other underwriting expenses	2,337	17,681	21,757
	1,417,600	1,317,945	13,198,026
Investment expenses:			
Realized loss on sales of securities	4,870	6,788	45,340
Devaluation loss on securities	1,626	5,521	15,138
Other investment expenses	13,716	9,470	127,698
	20,212	21,779	188,176
Operating, general and administrative expenses	222,711	234,343	2,073,466
Other ordinary expenses	758	7,429	7,058
Total ordinary expenses	1,661,281	1,581,496	15,466,726
Ordinary profit	74,236	134,399	691,146
Special gains and losses			
Provision for reserve for decline in value of assets	(6,277)	(5,847)	(58,440)
Expense for the merger	—	(356)	—
Impairment loss (Note 11)	(15,671)	(20,789)	(145,899)
Other special gains (losses), net	43,745	(19,377)	407,272
	21,797	(46,369)	202,933
Income before income taxes	96,033	88,030	894,079
Income taxes (Note 7):			
Current	847	854	7,886
Prior	—	(606)	—
Deferred	38,288	23,607	356,466
Net income	¥ 56,898	¥ 64,175	\$ 529,727
		Yen	U.S. dollars (Note 2)
Net income per share:			
Basic	¥ 57.80	¥ 65.14	\$ 0.538
Diluted	57.39	64.66	0.534
Cash dividends per share attributable to the year	9.00	8.50	0.084

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity *Sompo Japan Insurance Inc. For the years ended March 31, 2005 and 2004*

	Thousands		Millions of yen				
	Thousands of shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Unrealized gains on securities available for sale	Treasury stock
Balance at March 31, 2003	987,733	¥70,000	¥24,230	¥21,500	¥161,223	¥261,170	¥(2,008)
Net income	—	—	—	—	64,175	—	—
Cash dividends	—	—	—	—	(6,895)	—	—
Transfer to legal reserve	—	—	—	1,400	(1,400)	—	—
Increase of treasury stock—net	—	—	—	—	(20)	—	(503)
Net change during the year	—	—	—	—	—	236,184	—
Balance at March 31, 2004	987,733	¥70,000	¥24,230	¥22,900	¥217,083	¥497,354	¥(2,511)
Net income	—	—	—	—	56,898	—	—
Cash dividends	—	—	—	—	(8,366)	—	—
Transfer to legal reserve	—	—	—	1,700	(1,700)	—	—
Director's bonuses	—	—	—	—	(45)	—	—
Increase of treasury stock—net	—	—	—	—	(8)	—	(211)
Net change during the year	—	—	—	—	—	66,304	—
Balance at March 31, 2005	987,733	¥70,000	¥24,230	¥24,600	¥263,862	¥563,658	¥(2,722)

	Thousands of U.S. dollars (Note 2)						
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Unrealized gains on securities available for sale	Treasury stock	
Balance at March 31, 2004	\$651,708	\$225,584	\$213,202	\$2,021,069	\$4,630,425	\$(23,378)	
Net income	—	—	—	529,727	—	—	
Cash dividends	—	—	—	(77,889)	—	—	
Transfer to legal reserve	—	—	15,827	(15,827)	—	—	
Director's bonuses	—	—	—	(419)	—	—	
Increase of treasury stock—net	—	—	—	(74)	—	(1,964)	
Net change during the year	—	—	—	—	617,299	—	
Balance at March 31, 2005	\$651,708	\$225,584	\$229,029	\$2,456,587	\$5,247,724	\$(25,342)	

See accompanying notes to non-consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying non-consolidated financial statements of Sompo Japan Insurance Inc. (the "Company") have been prepared on the basis of the same accounting policies as those discussed in Note 1 to the consolidated financial statements except as described below:

(1) Basis of preparation

The accompanying non-consolidated financial statements of the Company have been compiled from the financial statements prepared by the Company as required by the Securities and Exchange Law of Japan and have been prepared on the basis of the statutory accounting principles applicable to property and casualty insurance companies generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In addition, the notes to the non-consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(2) Foreign currency translation

All revenues and expenses arising from transactions in foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gains or losses are credited or charged to income.

(3) Investments in securities

Trading securities are carried at fair value and held-to-maturity bonds are carried at amortized cost. Marketable securities available for sale are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities available for sale are carried at cost or amortized cost. Shares of subsidiaries and affiliated companies are stated at cost. Cost of securities sold is determined by the moving average method.

When an investment in non-marketable securities is considered permanently impaired, it is written down to its estimated realizable value and is treated as a realized loss on an investment in the financial statements.

(4) Impairment of fixed assets

Effective the year ended March 31, 2004, the Company adopted the "Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Council and Financial Accounting Standard Implementation Guidance No. 6, "Implementation Guidance for Impairment of Fixed Assets" issued by Accounting Standard Board of Japan. The effect of this change was to decrease income before income tax by ¥20,788 million for the year ended March 31, 2004.

(5) Accrued severance benefits

The Company obtained an approval of liquidation of the Sompo Japan welfare pension fund from the Ministry of Health, Labor and Welfare on March 30, 2005. This resulted in a ¥9,364 million (\$87,180 thousand) reversal of accrued severance benefits recognized in "Other special gains, net" for the year ended March 31, 2005.

(6) Reclassification

Effective the year ended March 31, 2005, "Income taxes – Prior" is presented as a component of "Income taxes—Current" due to immaterial amount involved. The income taxes in prior years included in "Income taxes—Current" as of March 31, 2005 are ¥5 million (\$47 thousand).

2. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥107.41 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2005. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

3. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Time deposits	¥11,362	¥ 22,293	\$105,782
CP under resale agreements	5,000	39,998	46,551
Money trusts	27,206	44,887	253,291
Call loans	4,000	60,000	37,240
Commercial paper	—	4,000	—
	¥47,568	¥171,178	\$442,864

The cost and related aggregate market values of money trusts as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cost	¥26,084	¥43,511	\$242,845
Market value	27,206	44,887	253,291
Net unrealized gain	¥ 1,122	¥ 1,376	\$ 10,446

The Company recognized devaluation loss on marketable securities available for sale included in money trust if the market value is declined by 30% or more than their cost on the balance sheet date.

There was no devaluation loss on marketable securities available for sale included in money trust for the year ended March 31, 2005 and 2004.

4. INVESTMENTS IN SECURITIES

The components of investments in securities as of March 31, 2005 and 2004, and their fair value and other related information by holding intention are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Domestic securities:			
Bonds	¥1,177,959	¥1,021,967	\$10,966,940
Stocks	1,539,427	1,495,090	14,332,250
Foreign securities	1,056,648	890,269	9,837,520
Other securities	92,619	83,710	862,294
	¥3,866,653	¥3,491,036	\$35,999,004

a) The Company did not have any marketable securities classified as trading securities as of March 31, 2005 and 2004.

b) The Company did not have any marketable securities classified as held-to-maturity bonds as of March 31, 2005 and 2004.

c) Information regarding marketable securities available for sale as of March 31, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2005			2005		
	Cost	Market value	Unrealized gain (loss)	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:						
Domestic securities:						
Bonds	¥1,068,656	¥1,097,838	¥ 29,182	\$ 9,949,316	\$10,221,004	\$ 271,688
Stocks	558,825	1,358,353	799,528	5,202,728	12,646,430	7,443,702
Foreign securities	589,711	656,079	66,368	5,490,280	6,108,174	617,894
Other securities	67,818	77,823	10,005	631,394	724,541	93,147
Subtotal	2,285,010	3,190,093	905,083	21,273,718	29,700,149	8,426,431
Securities whose cost exceeds their market value:						
Domestic securities:						
Bonds	79,089	78,013	(1,076)	736,328	726,310	(10,018)
Stocks	50,676	45,624	(5,052)	471,800	424,765	(47,035)
Foreign securities	310,817	293,005	(17,812)	2,893,743	2,727,912	(165,831)
Other securities	22,797	22,588	(209)	212,243	210,297	(1,946)
Subtotal	463,379	439,230	(24,149)	4,314,114	4,089,284	(224,830)
Total	¥2,748,389	¥3,629,323	¥880,934	\$25,587,832	\$33,789,433	\$8,201,601

	Millions of yen		
	2004		
	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:			
Domestic securities:			
Bonds	¥ 707,604	¥ 732,211	¥ 24,607
Stocks	571,392	1,308,534	737,142
Foreign securities	385,194	425,018	39,824
Other securities	52,645	60,438	7,793
Subtotal	1,716,835	2,526,201	809,366
Securities whose cost exceeds their market value:			
Domestic securities:			
Bonds	290,803	286,828	(3,975)
Stocks	55,401	50,808	(4,593)
Foreign securities	391,508	368,718	(22,790)
Other securities	30,682	30,310	(372)
Subtotal	768,394	736,664	(31,730)
Total	¥2,485,229	¥3,262,865	¥777,636

The Company recognized devaluation loss on marketable securities available for sale if the market value is declined by 30% or more than their cost on the balance sheet date. Devaluation loss on marketable securities classified as securities available for sale for the years ended March 31, 2005 and 2004 were ¥574 million (\$5,344 thousand) and ¥1,106 million, respectively.

d) Securities classified as securities available for sale sold during each year were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
	Proceeds from sales	¥200,951	¥276,003
Gain on sales	41,272	61,520	384,247
Loss on sales	4,870	6,788	45,340

e) The redemption schedules as of March 31, 2005 and 2004 for available for sale securities and held-to-maturity bonds with maturity date were as follows:

	Millions of yen			
	2005			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	¥ 34,440	¥188,550	¥177,326	¥ 91,463
Municipal bonds	7,043	127,537	38,772	1,772
Corporate bonds	85,711	240,214	109,684	75,442
Foreign bonds	71,322	214,838	189,822	138,776
Other securities	2,393	14,858	13,334	4,073
Total	¥200,909	¥785,997	¥528,938	¥311,526

	Millions of yen			
	2004			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	¥ 13,246	¥121,643	¥ 81,667	¥ 59,252
Municipal bonds	8,633	124,106	70,314	3,886
Corporate bonds	78,765	260,213	119,423	80,813
Foreign bonds	51,862	223,992	123,233	115,037
Other securities	4,000	13,368	12,166	914
Total	¥156,506	¥743,322	¥406,803	¥259,902

	Thousands of U.S. dollars			
	2005			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	\$ 320,641	\$1,755,423	\$1,650,926	\$ 851,532
Municipal bonds	65,571	1,187,385	360,972	16,498
Corporate bonds	797,980	2,236,421	1,021,171	702,374
Foreign bonds	664,016	2,000,168	1,767,266	1,292,021
Other securities	22,279	138,329	124,141	37,919
Total	\$1,870,487	\$7,317,726	\$4,924,476	\$2,900,344

f) Total interest and dividend income for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Interest on bank deposits	¥ 234	¥ 498	\$ 2,179
Interest on CP under resale agreement	4	8	37
Interest on call loans	6	10	56
Interest and dividends on securities	66,633	54,942	620,361
Interest on loans	9,188	10,938	85,541
Income from real estate	5,649	7,705	52,593
Total income from investment assets	81,714	74,101	760,767
Interest on other assets	992	1,013	9,236
Total interest and dividend income	¥82,706	¥75,114	\$770,003
Presentation in the non-consolidated statements of income:			
Interest and dividend income on deposits of premiums, etc.	¥46,295	¥45,724	\$431,012
Interest and dividend income	36,411	29,390	338,991
Total interest and dividend income	¥82,706	¥75,114	\$770,003

5. LOANS

As of March 31, 2005 and 2004, the balances of loans included the following risk-monitored loans:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans to borrowers in bankruptcy	¥ 65	¥ 10	\$ 605
Overdue loans	7,877	13,467	73,336
Loans overdue for three months or more	—	—	—
Restructured loans	3,459	9,100	32,204
	¥11,401	¥22,577	\$106,145

Loans to borrowers in bankruptcy represent non-accrual loans to borrowers who are legally bankrupt as defined in Article 96-1-3 and 4 of the Japanese Tax Law Enforcement Regulation (Article 97 of 1965 Cabinet Order).

Overdue loans represent non-accrual loans other than (i) Loans to borrowers in bankruptcy and (ii) loans of which payments of interest are deferred in order to assist or facilitate the restructuring of borrowers in financial difficulties.

Loans overdue for three months or more represent loans on which the payment of principal and/or interest has not been received for three months or more from the due date, and which are not included in loans to borrowers in bankruptcy or overdue loans.

Restructured loans are loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.) and are not classified in any of the above categories.

6. PROPERTY AND EQUIPMENT

The components of property and equipment as of March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Land	¥ 108,020	¥ 123,856	\$ 1,005,679
Buildings	293,926	323,597	2,736,486
Furniture and equipment	63,732	64,482	593,353
Construction in progress	789	1,559	7,346
	466,467	513,494	4,342,864
Less accumulated depreciation	(228,556)	(238,769)	(2,127,884)
	¥ 237,911	¥ 274,725	\$ 2,214,980

7. INCOME TAXES

Income taxes applicable to the Company include corporation and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of approximately 36.09% for 2005 and 2004, respectively.

The provision for income taxes incurred is different from which would be obtained by applying the statutory tax rates to income before income taxes and minority interests due to the permanent difference and other items.

A reconciliation of the effective tax rates reflected in the non-consolidated statements of income for the years ended March 31, 2005 and 2004 to the statutory tax rate was as follows:

	2005	2004
Statutory tax rate	36.09%	36.09%
Effect of:		
Change in valuation allowance	5.85	(8.07)
Permanently nontaxable dividends received	(3.11)	(2.96)
Permanently nondeductible expenses	1.06	1.23
Other, net	0.86	0.81
Effective tax rate	40.75%	27.10%

Deferred tax assets and liabilities as of March 31, 2005 and 2004 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets (liabilities):			
Underwriting reserves	¥ 171,205	¥ 179,280	\$ 1,593,939
Devaluation loss on securities and real estate	35,520	33,213	330,695
Accrued severance benefits	28,752	36,936	267,685
Tax loss carryforward	27,034	47,336	251,690
Reserve for outstanding losses and claims	25,004	21,363	232,790
Intangible fixed assets in tax matters	12,040	12,543	112,094
Unrealized gains on securities available for sale	(318,298)	(280,856)	(2,963,393)
Other, net	23,526	25,081	219,030
Valuation allowance	(16,369)	(10,752)	(152,397)
Net deferred tax assets (liabilities)	¥ (11,586)	¥ 64,144	\$ (107,867)

8. LONG-TERM DEBT

See Note 8 to the consolidated financial statements.

9. ACCRUED SEVERANCE BENEFITS

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the non-consolidated balance sheets as of March 31, 2005 and 2004 for the Company's severance benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Retirement benefit obligation	¥(133,945)	¥(373,777)	\$ (1,247,044)
Plan assets at fair value	4,804	176,060	44,726
Unfunded retirement benefit obligation	(129,141)	(197,717)	(1,202,318)
Unrecognized actuarial loss	34,037	79,010	316,888
Unrecognized loss on plan amendments	10,992	7,907	102,337
Net retirement benefit obligation	(84,112)	(110,800)	(783,093)
Accrued severance benefits	¥ (84,112)	¥(110,800)	\$ (783,093)

The government-sponsored portion of the benefits under the welfare pension fund plans has been included in the amounts shown in the above table.

The Company obtained an approval of liquidation of the Sompo Japan welfare pension fund from the Ministry of Health, Labor and Welfare on March 30, 2005. This resulted in a ¥9,364 million (\$87,180 thousand) reversal of accrued severance benefits recognized in "Other special gains, net" for the year ended March 31, 2005.

The components of severance benefit expenses for the years ended March 31, 2005 and 2004 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥12,340	¥15,885	\$114,887
Interest cost	7,370	7,438	68,615
Expected return on plan assets	(4,880)	(3,934)	(45,433)
Amortization of actuarial loss	7,855	9,597	73,131
Amortization of loss on plan amendments	879	1,708	8,184
Total	¥23,564	¥30,694	\$219,384

The assumptions used in accounting for the above plans for the years ended March 31, 2005 and 2004 were as follows:

	2005	2004
Discount rates	1.5%	2.0%
Expected return on plan assets	3.0%	3.0%

10. LEGAL RESERVE

In accordance with the Insurance Business Law of Japan, the Company has provided a legal reserve by appropriation of retained earnings. The Insurance Business Law of Japan provides that an amount equal to at least 20% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital equals 100% of the common stock.

11. IMPAIRMENT LOSS

See Note 12 to the consolidated financial statements.

12. LEASES

The following pro forma amounts represented the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2005 and 2004, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Furniture and equipment:			
Acquisition costs	¥4,912	¥4,759	\$45,731
Accumulated depreciation	3,900	2,683	36,309
Accumulated impairment loss	—	—	—
Net book value	¥1,012	¥2,076	\$ 9,422

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,225 million (\$11,405 thousand) and ¥1,153 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2005 and 2004, respectively. Future minimum lease payments subsequent to March 31, 2005 for noncancelable operating leases and for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
	Operating leases	Finance leases	Operating leases	Finance leases
2006	¥41	¥ 702	\$382	\$6,536
2007 and thereafter	49	310	456	2,886
Total	¥90	¥1,012	\$838	\$9,422

13. DERIVATIVES

The Company enters into forward foreign exchange contracts, currency options positions and currency swaps to reduce its exposure to fluctuations in foreign exchange rates relating to its assets denominated in foreign currencies. The Company also enters into interest rate swaps to reduce its exposure to fluctuations in interest rates relating to its debt securities and loans. In addition, the Company enters into equity swaps to offset its exposure to fluctuations in stock prices.

On the other hand, the Company enters into forward foreign exchange contracts, currency options positions, stock price index futures, bond futures, credit derivatives, weather derivatives and earthquake derivatives to gain investment income or premium income up to the limits permitted under its internal risk management policies.

The contract amounts of those transactions at March 31, 2005 and 2004 and the related market values were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2005		2004		2005	
	Contract amount	Market value	Contract amount	Market value	Contract amount	Market value
Forward foreign exchange contracts:						
Short positions	¥108,433	¥112,539	¥156,971	¥154,403	\$1,009,524	\$1,047,752
Long positions	118,309	121,649	106,591	105,314	1,101,471	1,132,567
Currency options positions:						
Short positions:						
Call options	—	—	73,806	—	—	—
(Options premiums)	(—)	(—)	(548)	(118)	(—)	(—)
Long positions:						
Put options	—	—	70,002	—	—	—
(Options premiums)	(—)	(—)	(548)	(540)	(—)	(—)
Currency swaps	4,000	10	4,000	43	37,240	93
Interest rate swaps	1,000	27	1,000	58	9,310	251
Bond futures:						
Short positions	—	—	9,804	9,831	—	—
Long positions	—	—	9,918	10,041	—	—
Credit derivatives:						
Short positions:	80,153	—	104,249	—	746,234	—
(Premiums)	(705)	(551)	(957)	(865)	(6,564)	(5,130)
Weather derivatives:						
Short positions:	860	—	1,165	—	8,007	—
(Premiums)	(51)	(51)	(24)	(25)	(475)	(475)
Long positions:	50	—	900	—	466	—
(Premiums)	(—)	(—)	(—)	(—)	(—)	(—)
Earthquake derivatives:						
Short positions:	1,320	—	1,160	—	12,289	—
(Premiums)	(59)	(21)	(53)	(35)	(549)	(196)
Long positions:	1,320	—	1,160	—	12,289	—
(Premiums)	(53)	(18)	(47)	(31)	(493)	(168)

*1. The market value of the forward foreign exchange contracts was based on the forward rates as of March 31, 2005 and 2004.

*2. Derivative instruments to which hedge accounting is applied are excluded from the above table.

14. REINSURANCE

Reinsurance amounts included in the financial statements for the year ended March 31, 2005 and 2004 are as follows:

a) Reserve for outstanding losses and claims

	Millions of yen	Thousands of U.S. dollars
	2005	2005
Reserve for outstanding claims		
(before deducting ceded reserve for outstanding claims, excluding insurances stated in (ii))	¥597,198	\$5,559,985
Ceded reserve for outstanding claims relating to the above	68,344	636,291
Difference (i)	528,854	4,923,694
Reserve for outstanding claims involved in earthquake insurance and compulsory automobile liability insurance (ii)	57,833	538,432
Total (i + ii)	¥586,687	\$5,462,126

b) Underwriting reserves

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Ordinary underwriting reserve (before deducting ceded underwriting reserve)	¥ 906,241	¥ 1,658,903	\$ 8,437,213
Ceded underwriting reserve relating to the above	32,473	306,026	302,328
Difference (i)	873,768	1,352,877	8,134,885
Other underwriting reserve (ii)	2,422,019	¥699,908	22,549,288
Total (i + ii)	¥3,295,787	¥1,352,877	\$30,684,173

c) Net premiums written

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Premiums Written	¥1,658,714	¥1,658,903	\$15,442,827
→ Reinsurance Premiums Ceded	306,799	306,026	2,856,336
Net Premiums Written	¥1,351,915	¥1,352,877	\$12,586,491

d) Net losses paid

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Losses Paid	¥1,071,080	¥942,431	\$9,971,883
→ Reinsurance Recoverable	257,983	242,523	2,401,852
Net Losses Paid	¥ 813,097	¥699,908	\$7,570,031

e) Net commissions and brokerage fees

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Commissions and Brokerage fees	¥237,831	¥237,755	\$2,214,235
→ Ceded Reinsurance Commissions Received	19,317	19,267	179,843
Net Commissions and Brokerage fees	¥218,514	¥218,488	\$2,034,392

15. POLICYHOLDERS' DEPOSIT FUNDS

Underwriting reserves include premium reserve and policyholders' deposit funds for long-term saving type products. Policyholders' deposit funds for long-term saving type products represent an accumulation of account deposits and credited income. Underwriting reserves as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
(a) Premium reserve	¥1,684,244	¥1,685,328	\$15,680,514
(b) Policyholders' Deposit Funds	1,611,543	1,653,401	15,003,659
	¥3,295,787	¥3,338,729	\$30,684,173

*The catastrophe reserve which is included in premium reserve were ¥371,340 million (\$3,457,220 thousand) and ¥427,559 million as of March 31, 2005 and 2004, respectively.

16. STOCK OPTIONS

See Note 16 to the consolidated financial statements.

17. SUBSEQUENT EVENT

See Note 17 to the consolidated financial statements.

Balance Sheets (Sompo Japan Insurance Company of America)

December 31,	Thousands of U.S. dollars	
	2004	2003
ASSETS		
Cash and deposits	\$ 7,817	\$ 23,041
Investments in securities	459,762	348,683
Property and equipment	154	187
Other assets	48,643	35,132
Reserve for possible loan losses	(6,973)	(5,935)
Total assets	\$509,403	\$401,108
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Reserve for outstanding losses and claims	\$237,983	\$231,539
Underwriting reserves	26,295	27,182
Other liabilities	48,564	36,464
Total liabilities	312,842	295,185
Shareholders' equity:		
Common stock	12,058	12,058
Additional paid-in capital	258,852	158,852
Retained earnings	(74,349)	(64,987)
Total shareholders' equity	196,561	105,923
Total liabilities and shareholders' equity	\$509,403	\$401,108

Statements of Operations (Sompo Japan Insurance Company of America)

Years ended December 31,	Thousands of U.S. dollars	
	2004	2003
Ordinary income		
Underwriting income:		
Net premiums written	\$ 71,772	\$ 69,839
Reversal of reserve for outstanding losses	1,685	—
Reversal of underwriting reserves	887	6,396
	74,344	76,235
Investment income:		
Interest and dividend income	11,932	12,767
Realized gain on sales of securities	—	4,836
Other investment income	—	1
	11,932	17,604
Other ordinary income	46	105
Total ordinary income	86,322	93,944
Ordinary expenses		
Underwriting expenses:		
Net losses paid	51,928	69,707
Loss adjustment expenses	8,238	8,459
Net commissions and brokerage fees	3,136	7,081
Provision for reserve for outstanding losses	8,129	11,169
	71,431	96,416
Investment expenses:		
Realized loss on sales of securities	14	1,053
	14	1,053
Operating, general and administrative expenses	24,444	24,864
Other ordinary expenses	1,049	1,161
Total ordinary expenses	96,938	123,494
Ordinary loss	(10,616)	(29,550)
Loss before income taxes	(10,616)	(29,550)
Income taxes	(345)	—
Net loss	\$(10,271)	\$(29,550)

Balance Sheets (Sompo Japan Insurance Company of Europe Limited)

December 31,	Thousands of Great Britain pounds		Thousands of U.S. dollars
	2004	2003	2004
ASSETS			
Cash and deposits	£ 35,795	£ 14,596	\$ 68,625
Investments in securities	113,570	110,154	217,734
Property and equipment	53	78	102
Other assets	23,207	26,042	44,492
Total assets	£172,625	£150,870	\$330,953
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Reserve for outstanding losses and claims	£ 90,589	£ 86,540	\$173,675
Underwriting reserves	8,069	9,389	15,470
Other liabilities	10,242	8,307	19,636
Total liabilities	108,900	104,236	208,781
Shareholders' equity:			
Common stock	128,700	108,700	246,741
Retained earnings	(64,975)	(62,066)	(124,569)
Total shareholders' equity	63,725	46,634	122,172
Total liabilities and shareholders' equity	£172,625	£150,870	\$330,953

Statements of Operations (Sompo Japan Insurance Company of Europe Limited)

Years ended December 31,	Thousands of Great Britain pounds		Thousands of U.S. dollars
	2004	2003	2004
Ordinary income			
Underwriting income:			
Net premiums written	£ 18,407	£24,913	\$35,290
Reversal of underwriting reserves	1,350	3,966	2,588
	19,757	28,879	37,878
Investment income:			
Interest and dividend income	4,332	4,883	8,305
Realized gain on sales of securities	—	77	—
Other investment income	618	460	1,185
	4,950	5,420	9,490
Total ordinary income	24,707	34,299	47,368
Ordinary expenses			
Underwriting expenses:			
Net losses paid	17,656	21,367	33,850
Net commissions and brokerage fees	(785)	3,133	(1,505)
Provision for reserve for outstanding losses	3,742	5,046	7,174
Provision for underwriting reserves	—	(0)	—
	20,613	29,546	39,519
Investment expenses:			
Realized loss on sales of securities	123	490	236
Devaluation loss on securities	—	991	—
Other investment expenses	984	2,411	1,887
	1,107	3,892	2,122
Operating, general and administrative expenses	5,942	5,934	11,392
Total ordinary expenses	27,662	39,372	53,033
Ordinary loss	(2,955)	(5,073)	(5,665)
Loss before income taxes	(2,955)	(5,073)	(5,665)
Income taxes	(46)	614	(88)
Net loss	£ (2,909)	£ (5,687)	\$ (5,577)

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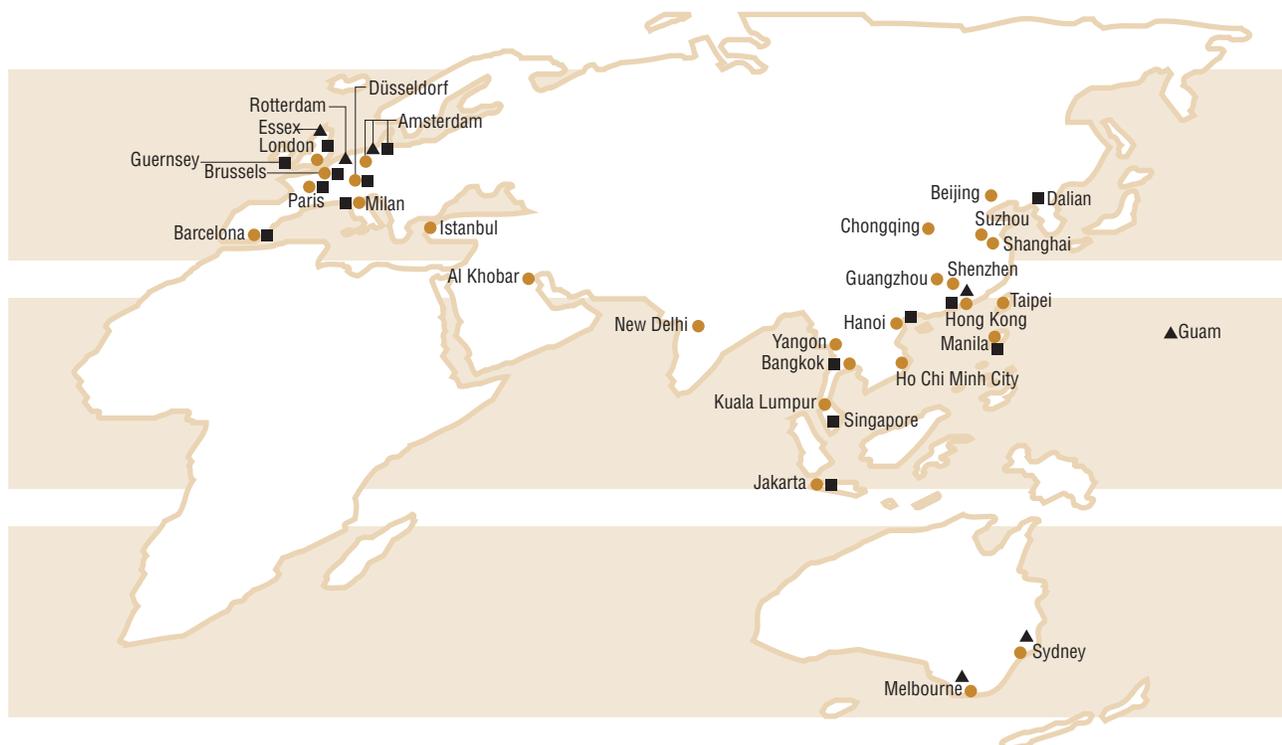
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Tel. 86-21-5407-5828 Fax. 86-21-5407-6055

Suzhou

Room 1606, Century Financial Tower, No.1 Suhua Road, Suzhou Industrial Park, Suzhou, Jiang Su Province, The People's Republic of China
Tel. 86-512-6762-2119 Fax. 86-512-6762-3119

Guangzhou

Room 1308-09, Goldlion Digital Network Center, 138 Tiyu Road East, Tianhe, Guangzhou, Guangdong Province, The People's Republic of China
Tel. 86-20-38780420, 86-20-38780546 Fax. 86-20-38780395

Chongqing

Room 60616, Chongqing Guest House Business Mansion, No. 283 Min Sheng Road, Yu Zhong District, Chongqing, The People's Republic of China
Tel. 86-23-63740709 Fax. 86-23-63740694

Singapore

50 Raffles Place, #03-03 Singapore Land Tower, Singapore 048623, Republic of Singapore
Tel. 65-6223-5293 Fax. 65-6225-7947

Kuala Lumpur

Sompo Japan Department, Malaysia National Insurance Berhad (9557T), Level 11, Tower 1, MNI Twins 11, Jalan Pinang, 50450 Kuala Lumpur, Malaysia
Tel. 603-2164-5925 Fax. 603-2164-5927

Jakarta

c/o PT Sompo Japan Insurance Indonesia, 18th Floor, Midplaza Building, Jl. Jend. Sudirman Kav. 10-11, Jakarta 10220, Republic of Indonesia
Tel. 62-21-570-6230 Fax. 62-21-5737040

Manila

c/o PGA Sompo Japan Insurance Inc., 5th Floor, Corinthian Plaza, 121 Paseo de Roxas, Legaspi Village, Makati, Metro Manila, Philippines
Tel. 63-2-811-3160 Fax. 63-2-811-3278

Bangkok

12th Floor, Abdulrahim Place, 990 Rama 4 Road, Silom, Bangrak, Bangkok 10500, Thailand
Tel. 66-2636-2333 Fax. 66-2636-2340

Sydney

Allianz Centre, 2 Market Street, Sydney, New South Wales 2000, Australia
Tel. 61-2-9390-6280 Fax. 61-2-9390-6445

Melbourne

Level 3, 601 Bourke Street, Melbourne, Victoria 3000, Australia
Tel. 61-3-9629-5216 Fax. 61-3-9600-4864

Hanoi

11th Floor, Hanoi Tung Shing Square, Unit 1102, 2 Ngo Quyen Street, Hoan Kiem District, Hanoi, Vietnam
Tel. 84-4-9340980 Fax. 84-4-9340981



Ho Chi Minh City
8th Floor, Sunwah Tower, 115 Nguyen Hue Street,
District 1, Ho Chi Minh City, Vietnam
Tel. 84-8-8219034 Fax. 84-8-8219037

Yangon
Room No. 1205, 12th Floor, Sakura Tower, No. 339,
Bogyoke Aung San Street, Kyauktada Township,
Yangon, Myanmar
Tel. 95-1-255355, 95-1-255404, 95-1-255405
Fax. 95-1-255403

New Delhi
c/o Mr. J.N. Bagga/Advisor
B-432, New Friends Colony, New Delhi 110065, India
Tel. 91-11-26832518, 91-11-26843078
Fax. 91-11-51628965

**SUBSIDIARIES AND
AFFILIATED COMPANY OFFICES ABROAD**

UNITED KINGDOM

Sompo Japan Claim Services (Europe) Limited
Level 4, 155 Bishopsgate,
London EC2M 3AY, U.K.

Sompo Japan Insurance Company of Europe Limited

LONDON
Level 4, 155 Bishopsgate, London EC2M 3AY, U.K.

DÜSSELDORF
Xantener Strasse 12, 40474 Düsseldorf, Germany

BRUSSELS
Avenue Louise 283, Bte 10, 1050 Brussels, Belgium

AMSTERDAM
World Trade Center A-12, Strawinskylaan 1209, 1077 XX
Amsterdam, The Netherlands

PARIS
31, Place de la Madeleine, 75008 Paris, France

MILAN
Via Spadari 9, 20123 Milano, Italy

BARCELONA
Torre Mapfre-Villa Olimpica Calle de la Marina, 16-18, Planta 36
08005, Barcelona, Spain

Sompo Japan Corporate Member Limited
Level 4, 155 Bishopsgate,
London EC2M 3AY, U.K.

Sompo Japan Asset Management (Europe) Limited
City Tower, Level 16, 40 Basinghall Street,
London EC2V 5DE, U.K.

Nissan Insurance Company (Europe) Ltd.
Level 4, 155 Bishopsgate,
London EC2M 3AY, U.K.

GUERNSEY

Ark Re Limited
P.O. Box 33, Maison Trinity,
Trinity Square, St. Peter Port, Guernsey,
GY1 4AT. Channel Islands

U.S.A.

Sompo Japan Insurance Company of America

NEW YORK
Two World Financial Center, 43rd Floor,
225 Liberty Street, New York,
New York 10281-1058, U.S.A.

LOS ANGELES
777 South Figueroa Street, Suite 4800, Los Angeles,
California 90017, U.S.A.

CHICAGO
120 North La Salle Street, Suite 1220, Chicago,
Illinois 60602, U.S.A.

ATLANTA
6 Concourse Parkway, Suite 2130, Atlanta,
Georgia 30328, U.S.A.

NASHVILLE
402 BNA Drive, Suite 409, Nashville,
Tennessee 37217, U.S.A.

SAN FRANCISCO
1001 Bayhill Drive, Suite 145, San Bruno,
California 94066, U.S.A.

Sompo Japan Fire & Marine Insurance Company of America

Two World Financial Center, 43rd Floor,
225 Liberty Street, New York,
New York 10281-1058, U.S.A.

Sompo Japan Claim Services (America), Inc.

Two World Financial Center, 43rd Floor,
225 Liberty Street, New York,
New York 10281-1058, U.S.A.

Nissan Management Inc.
Two World Financial Center, 43rd Floor,
225 Liberty Street, New York,
New York 10281-1058, U.S.A.

Yasuda Enterprise Development America Inc.
435 Tasso Street, Suite 205, Palo Alto,
California 94301, U.S.A.

SJA Insurance Agency, LLC
13850 Ballantyne Corporate Place, 2nd Floor,
Charlotte, North Carolina, 28277 U.S.A.

BERMUDA

Eterna Insurance Company Limited
Wessex House, 45 Reid Street, 4th Floor,
P.O. Box HM 2461, Hamilton HMJX, Bermuda

BRAZIL

Yasuda Seguros S.A.

SÃO PAULO

S.A. Rua Cubatão 320-15 abd. Paraiso CPE
04013-001 São Paulo-SP-Brasil

RIO DE JANEIRO

S.A. Rua da Ajuda, 35-28° and.
CEP 20069-900 Rio de Janeiro-RJ-Brasil

Vistomar s/c Ltda Servicos de Vistoria

Rua Cubatão, 320, 12° and. São Paulo-SP-Brasil

Sompo Japan do Brasil s/c Ltda.

Rua Cubatão, 320-Paraiso

São Paulo-SP-CEP 04013-001-Brasil

MEXICO

Sompo Japan Insurance De Mexico, S.A. de C.V.

Av. Insurgentes Sur 1196, Piso8 Col. Tlacoquemecatl
del Valle, C.P. 03200, México, D.F., México

CHINA

William S.T. Lee Insurance Company Limited

Room 1901, Lincoln House, Taikoo Place,
979 King's Road, Island East, Hong Kong, S.A.R.,
The People's Republic of China

Sompo Japan Insurance (China) Co., Ltd.

10F, Dalian Senmao Building,

147 Zhongshan Road. Xigang District,

Dalian 116011, People's Republic of China

Sompo Japan Reinsurance Company Limited

Room 1908, Lincoln House, Taikoo Place,

979 King's Road, Island East, Hong Kong, S.A.R.,

The People's Republic of China

SINGAPORE

Sompo Japan Insurance Company (Asia) Pte Ltd

50 Raffles Place, #03-03 Singapore Land Tower,

Singapore 048623, Republic of Singapore

INDONESIA

PT Sompo Japan Insurance Indonesia

18th Floor, Midplaza Building, Jl. Jend. Sudirman Kav. 10-11,

Jakarta 10220, Republic of Indonesia

PHILIPPINES

PGA Sompo Japan Insurance Inc.

5th Floor, Corinthian Plaza, 121 Paseo de Roxas, Legaspi Village,

Makati, Metro Manila, Philippines

THAILAND

Sompo Japan Service (Thailand) Co., Ltd.

12th Floor, Abdulrahim Place, 990 Rama 4 Road, Silom, Bangrak,

Bangkok 10500, Thailand

Sompo Japan Insurance (Thailand) Co., Ltd.

12th Floor, Abdulrahim Place, 990 Rama 4 Road, Silom, Bangrak,

Bangkok 10500, Thailand

VIETNAM

United Insurance Company of Vietnam

HANOI

11th Floor, Hanoi Tung Shing Square, Unit 1102,

2 Ngo Quyen Street, Hoan Kiem District, Hanoi, Vietnam

HO CHI MINH CITY

8th Floor, Sunwah Tower, 115 Nguyen Hue Street,

District 1, Ho Chi Minh City, Vietnam

UNDERWRITING AGENCIES

UNITED KINGDOM

Anthony William Monaghan

7 The Vale, Stock, Ingatestone, Essex, CM4 9PW, U.K.

THE NETHERLANDS

ROTTERDAM

Erasmus Verzekeringen B.V.

P.O. Box 1033, 3000 BA Rotterdam, The Netherlands

AMSTERDAM

Tollenaar & Wegener

Prof. J.H. Bavincklaan, 1 1183 AT Amstelveen, Postbus 2190 1180

ED, Amstelveen, The Netherlands

U.S.A.

Universe Insurance Underwriters Inc.

P.O. Box 11559, Tamuning, Guam 96931 M.I., U.S.A.

CANADA

Ace INA Insurance

The Exchange Tower, 130 King Street West, 12th Floor, Toronto,

Ontario M5X1A6, Canada

CHINA

William S.T. Lee Insurance Company Limited

Room 1901, Lincoln House, Taikoo Place, 979 King's Road, Island

East, Hong Kong, S.A.R.,

The People's Republic of China

Sompo Japan Reinsurance Company Limited

Room 1908, Lincoln House, Taikoo Place, 979 King's Road,

Island East, Hong Kong, S.A.R.,

The People's Republic of China

AUSTRALIA

Allianz Australia Insurance Limited

SYDNEY

Allianz Centre, 2 Market Street, Sydney,

New South Wales 2000, Australia

MELBOURNE

Level 3, 601 Bourke Street, Melbourne, Victoria 3000, Australia

President and Chief Executive Officer

Hiroshi Hirano

Director, Deputy President and
Senior Managing Executive Officer

Yukiyoshi Doi

Ryosaku Minato

Shigeki Nishikawa

Director, Managing Executive Officer

Masatoshi Sato

Izumi Inoue

Takaaki Komatsu

Yujiro Shimada

Hiroshi Oguchi

Jun Mochizuki

Koki Kazuma

Standing Corporate Auditor

Ichiro Suzuki

Corporate Auditor

Tsuneo Ando

Auditor

Yoshiki Yagi

Tohru Tsuji

Toshiaki Hasegawa

Senior Managing Executive Officer

Tsuneo Matsumoto

Yukio Nakamura

Yoshio Ito

Yoichi Takamiya

Kenji Kita

Managing Executive Officer

Mitsuo Nishimura

Hideo Suzuki

Osamu Yoneyama

Mitsuhiko Fuse

Junichiro Okawa

Shoji Watanabe

Keishiro Kinoshita

Ken-ichi Tomita

Hiroshi Kudo

Tohru Hara

Kazunori Kameyama

Takakazu Sugishita

Syuichi Murakami

Ryosuke Hoshino

Executive Officer

Tetsutaka Nagaoka

Kazunori Nakamura

Kazushige Tachibana

Akira Shinozaki

Toshio Mitsuuchi

Ken Endo

Toshio Asano

Toshio Matsuzaki

Toshiro Umezaki

Mitsuhiko Fukui

Hideaki Anzai

Hisashi Nakano

Masami Ishii

Eiichi Yoshimitsu

Takeshi Oiwa

Kengo Sakurada

Head Office 26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku,
Tokyo 160-8338, Japan
Tel: 03-3349-3111
URL: <http://www.sompo-japan.co.jp>

Founded October 1, 1888

Paid-in Capital ¥70,000 million

Total Assets ¥5,157,080 million

Net Premiums Written ¥1,351,915 million

Offices Domestic 336
Overseas 33

Agencies 63,385

Employees 14,705

**Independent Certified
Public Accountants** Ernst & Young Shin Nihon

**Number of Shares of
Common Stock Issued** 987,733,424

Stock Exchange Listings Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

Stock Transfer Agent Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku,
Tokyo 103-8670, Japan

General Meeting of Shareholders Held within four months of April 1

Investor Relations Investor Relations Office,
Corporate Planning Department
Sompo Japan Insurance Inc.
26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku,
Tokyo 160-8338, Japan

Ratings (as of July 1, 2005) AA- (Standard and Poor's)
Aa3 (Moody's)
AA (Japan Rating and Investment Information, Inc.)
AA+ (Japan Credit Rating Agency)

Domestic Subsidiaries and Associated Companies (as of July 1, 2005)

- Hitachi Capital Insurance Corporation
- Saison Automobile and Fire Insurance Co., Ltd.
- Sompo Japan Himawari Life Insurance Co., Ltd.
- Sompo Japan DIY Life Insurance Co., Ltd.
- Sompo Japan Claims Services Inc.
- Sompo Japan Commercial Line Services Inc.
- Sompo Japan Heartful Line Inc.
- Insurance Management Services Co., Ltd.
- Sompo Japan Life Support Inc.
- Sompo Japan Risk Management Inc.
- Sompo Japan Agency Support Inc.
- Japan Insurance Services Inc.
- Japan Insurance Agency Saitamanishi Inc.
- Taisho Sangyo Kabushiki Kaisha
- Area Support Japan Lloyd Co., Ltd.
- Area Support Japan 302 Enterprises Co., Ltd.
- Sompo Japan DC Securities Co., Ltd.
- Sompo Japan Asset Management Co., Ltd.
- Yasuda Enterprise Development Co., Ltd.
- Sompo Japan Credit Inc.
- Sompo Japan Building Management Inc.
- Sompo Japan Printing Service Inc.
- Sompo Japan Information Services Inc.
- Sompo Japan System Solutions Inc.
- Sompo Japan Research Institute Inc.
- Sompo Japan Fine Art Foundation
- Sompo Japan Foundation
- Sompo Japan Environment Foundation