FINANCIAL SECTION

Management's Discussion and Analysis of Operations

1. Operating Environment

Although Japan has yet to emerge from its lengthy recession, signs of an upturn have become apparent in the economy. This steady build up of economic momentum can be attributed to management reform in the business sector, the impact of the government's stimulus measures, and improved exports, especially to other Asian nations. While corporate capital outlays and exports are forecast to continue to strengthen, the public works investment that has so far underpinned the economy is likely to decline. As a result, economic recovery is anticipated to be gradual.

Elsewhere in Asia, increased exports to industrial countries, expanded fiscal expenditure, and improved domestic demand are expected to accelerate the recovery of newly industrialized economies (NIEs) and members of the Association of Southeast Asian Nations (ASEAN). The situation, however, varies from country to country. In China, for example, although public investment will be maintained, lackluster consumer spending will likely retard economic growth.

Consumer spending remains strong in the United States due to the rising stock market and the favorable employment and earnings picture. Corporate investment, especially in fields such as information and communications, has been healthy, and the U.S. economy has maintained its high growth levels. Even so, there are some potentially worrying aspects, including the effect of higher oil prices, a possible stock market correction, and the serious current account deficit. On balance, growth is predicted to slow down gradually. On the other hand, European Union (EU) members are likely to see their economies expand, fueled by growing domestic demand and rising exports supported by the weak euro.

Although circumstances thus differ on a regional basis, the macroeconomic environment is generally stable or improving. But for individual businesses, globalization and the information revolution are intensifying competition and the struggle for survival.

2. Income Analysis

Overview

The Company reported net income of ¥35.0 billion this year compared to a net loss of ¥13.0 billion in the previous year. This significant improvement resulted from the following developments occurring in the current year as well as from the effect of special provisions recorded by management in the prior year:

• Current operating income improved by ¥40.7 billion this year, recovering to a more normal level after having recorded unusually large provisions for losses in 1999. The 1999 provisions for losses related to Southeast Asia exposures, as well as provisions for anticipated losses from certain business investments, all as part of the process for improving the quality of assets.

• Other income (expenses) improved by ¥12.0 billion as a result of gains on investments and other assets that increased by ¥23.6 billion. However, these gains were partially offset by a provision for impairment of long-lived assets, primarily related to an overseas project.

• Equity in earnings of associated companies increased ¥8.0 billion, due to improvement of performance of associated companies in Southeast Asia and Japan.

Following are further comments on comparison of the current and prior year results.

Trading Transactions

Total trading transaction for fiscal year 2000 amounted to ¥10,656.0 billion, a 6.4% decrease from the previous fiscal year, mainly due to decrease of export transaction caused by yen appreciation, the sluggish domestic economy, decrease of infrastructure-associated business in Asia, and decrease in trading of ships, despite the increase in fuels due to the rising price of crude oil and naphtha.

Breakdown of Trading by Operating Segment:

	Billions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Iron & Steel Group	**¥ 910**	¥ 1,019	**$ 8,832**
Machinery & Electric Group and Media, Electronics & Information Business Group	**3,958**	4,374	**38,427**
Nonferrous Metals/Chemicals/ Petroleum & Carbon Group	**1,870**	1,857	**18,152**
Living Related Group and Retail & Consumer Services Division	**2,313**	2,317	**22,457**
Domestic Branches	**860**	921	**8,356**
Overseas Trading Subsidiaries	**673**	825	**6,537**
Segment Total	**10,584**	11,313	**102,761**
Corporate Eliminations	**72**	66	**696**
Consolidated	**¥ 10,656**	¥ 11,379	**$ 103,457**

Iron & Steel Group

Trading decreased by 10.7% from the previous fiscal year due mainly to a slump in domestic steel demand and yen appreciation.

Machinery & Electric Group and Media, Electronics & Information Business Group

Transactions decreased by 9.5% from the previous fiscal year due mainly to decrease of export transactions caused by yen appreciation, decrease of infrastructure-associated business in Asia, and decrease in trading of ships and cars.

Nonferrous Metals/Chemicals/ Petroleum & Carbon Group

Trading increased by 0.7% from the previous fiscal year. Nonferrous metals and chemicals decreased due mainly to decrease of export transactions caused by yen appreciation and the sluggish domestic economy. In fuels, the increase was due to the rising price of crude oil and naphtha.

Others

Trading of overseas trading subsidiaries decreased by 18.4% from the previous fiscal year due mainly to yen appreciation.

Gross Trading Profit

Total gross trading profit held fairly steady at ¥474.6 billion.

Expansion of CATV-associated business and drugstore business contributed, despite the decrease of steel and machinery export transactions caused by yen appreciation.

Selling, General and Administrative Expenses

Due to reinforcement of cost competitiveness, personnel expenses, travel expenses and entertainment expenses decreased, although depreciation increased due to consolidation of certain associated companies. As a result, selling, general and administrative expenses remained level on an overall basis.

Provision for Doubtful Receivables

Total provision for doubtful receivables decreased by ¥40.4 billion from the prior year.

In 1999, the Company provided for future losses on Southeast Asia exposures, as well as provisions for anticipated losses of business investments, all as part of the process of improving the quality of assets.

Operating Income

As described above, due to significant provisions for doubtful receivables in the previous fiscal year, operating income increased by ¥40.7 billion, to ¥58.5 billion.

Other Income (Expenses)

Net interest expense decreased by ¥2.9 billion to ¥22.0 billion as a result of reduction of debt. Gain on sales of subsidiaries (¥17.1 billion) includes proceeds from sales of domestic cigarette business and lease business in the U.S. Gain on marketable securities and investments, net increased by ¥33.6 billion to ¥43.4 billion, as a result of proceeds from sale of media and electronics-associated business investment and sale of unwinding cross holding securities. Gain on sale of property and equipment decreased by ¥27.1 billion to ¥1.3 billion as a result of profits on sale of office buildings in Tokyo and Osaka in the previous fiscal year. Other, net expenses increased ¥13.6 billion to ¥47.1 billion. This included a provision for impairment of long-lived assets related to a certain overseas project.

Equity in Earnings of Associated Companies

Due mainly to recovery of performance of associated companies in mainly Southeast Asia and Japan, this increased by ¥8.0 billion to ¥5.6 billion.

Net income (Loss)

As a result of the above, the net income was ¥35.0 billion for this fiscal year, an increase of ¥48.1 billion from the net loss of the previous fiscal year.

3. Liquidity and Capital Resources

The Company promoted reducing total assets. As of March 31, 2000, total assets amounted to ¥4,905 billion, a decrease of ¥485 billion from the previous fiscal year. This is mainly due to the following:

• Supported by new credit lines, the Companies lowered amount of cash and cash equivalents.

• Through securitization transaction, the Company reduced long-term receivable.

• Receivable and payable-trade decreased due to downturn in trading volume.

With reduction of assets, the Company reduced interest-bearing liabilities. As of March 31, 2000, interest-bearing liabilities amounted to ¥2,721 billion, a decrease of ¥527 billion from the previous fiscal year. On the other hand, in order to strengthen and stabilize our funding position, the Company increased its funding for the long term and decreased that for the short term.

As a result of the above, working capital as of March 31, 2000 increased ¥134 billion to ¥188 billion from the prior year.

Shareholders’ equity as of March 31, 2000 amounted to ¥634 billion, an increase of ¥65 billion from the previous fiscal year. This was partly due to increase of net unrealized holding gains on securities available-for-sale by rising fair market value of securities. As a result, shareholders’ equity ratio, as of March 31, 2000 was 12.9%, an increase of 2.3 points.

By reducing interest-bearing liabilities and by increasing shareholders’ equity, debt-equity ratio (interest-bearing liabilities/shareholders’ equity), as of March 31, 2000 improved 1.4 to 4.3 points.

	Billions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Short-term			
Loans, principally from banks	**¥ 273**	¥ 781	**$ 2,650**
Commercial paper	**286**	442	**2,779**
	559	1,223	**5,429**
Long-term			
Secured long-term debt	**81**	124	**786**
Unsecured long-term debt			
Loans, principally from banks	**1,677**	1,494	**16,283**
Bonds and Notes	**404**	407	**3,923**
	2,162	2,025	**20,992**
Interest-bearing liabilities	**2,721**	3,248	**26,421**
Others	**179**	186	**1,737**
	¥ 2,900	¥ 3,434	**$ 28,158**

Loan Securitization

In March 2000, the Companies entered into a securitization transaction whereby ship loans totaling ¥100 billion ($971 million) were sold to a unrelated special-purpose company ("SPC"). Part of the loan to the SPC was rated "Aa3" by Moody's. At the same time, the Company made a subordinated loan of ¥10 billion ($97 million) to the SPC. As a result of these transactions, a net amount of ¥90 billion ($874 million) loans was eliminated from the consolidated balance sheets as of March 31, 2000 in accordance with SFAS No.125 "Accounting for transfers and servicing of financial assets and extinguishments of liabilities."

Credit Lines

The Companies entered into line of credit agreements with three syndicates, the first consisting of nine major foreign banks headed by Citibank and the second consisting of seven Japanese city banks headed by Sumitomo Bank, Ltd. and the last consisting of 12 Japanese regional banks headed by Sumitomo Bank, Ltd. These lines of credits are US$900 million with the foreign banks and ¥340 billion and ¥150 billion with the Japanese banks, respectively. As of March 31, 2000, the Companies have not drawn down any loans using these lines of credit.

Cash Flow Analysis

In fiscal 2000, net cash provided by operating activities and investment activities amounted to ¥110.6 billion and ¥159.6 billion, respectively. These came mainly from decrease of receivable & payable-trade, loan securitization, and reduction of financial assets.

Free cash flow for fiscal 2000 amounted to ¥270.2 billion, an increase of ¥408.8 billion from the prior fiscal year.

Due to increasing free cash flow, the Companies repaid interest-bearing liabilities. Net cash used in financial activities was ¥349.8 billion.

As a result, cash and cash equivalents decreased ¥89.0 billion, including effect of exchange rate changes on cash and cash equivalents.

Sumitomo Corporation and Consolidated Subsidiaries

Consolidated Balance Sheets

As of March 31, 2000 and 1999

ASSETS	Millions of Yen 2000	Millions of Yen 1999	Millions of U.S. Dollars 2000
Current assets:			
Cash and cash equivalents	**¥ 211,385**	¥ 300,385	**$ 2,052**
Time deposits	**6,149**	44,678	**60**
Marketable securities (Notes 5 and 11)	**30,480**	114,974	**296**
Receivables—trade (Notes 6, 11 and 16)			
Notes and loans	**351,526**	403,285	**3,413**
Accounts	**1,066,175**	1,202,134	**10,351**
Associated companies	**128,841**	202,307	**1,251**
Allowance for doubtful receivables (Note 8)	**(11,554)**	(11,267)	**(112)**
Inventories	**373,334**	398,402	**3,625**
Deferred income taxes (Note 12)	**25,815**	20,489	**251**
Advance payments to suppliers	**71,644**	79,354	**696**
Other current assets	**78,759**	71,227	**763**
Total current assets	**2,332,554**	2,825,968	**22,646**
Investments and long-term receivables:			
Investments in and advances to associated companies (Notes 7 and 16)	**180,264**	214,744	**1,750**
Other investments (Notes 5, 11 and 16)	**887,884**	830,008	**8,620**
Long-term receivable (Notes 6, 11 and 16)	**661,159**	772,609	**6,419**
Allowance for doubtful receivables (Note 8)	**(87,185)**	(88,236)	**(846)**
Total investments and long-term receivables	**1,642,122**	1,729,125	**15,943**
Property and equipment, at cost (Notes 9 and 11)	**1,185,342**	1,040,261	**11,508**
Accumulated depreciation	**(367,818)**	(299,801)	**(3,571)**
	817,524	740,460	**7,937**
Other assets	**112,444**	93,803	**1,092**
Total	**¥4,904,644**	¥5,389,356	**$ 47,618**

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Current liabilities:			
Short-term debt (Notes 10, 11 and 16)	**¥559,182**	¥1,223,181	**$ 5,429**
Current maturities of long-term debt (Notes 10, 11 and 16)	**398,224**	251,910	**3,866**
Payables—trade (Note 16)			
Notes and acceptances	**201,650**	214,725	**1,958**
Accounts	**739,045**	814,449	**7,175**
Associated companies	**37,381**	33,361	**363**
Accrued income taxes	**8,560**	6,088	**83**
Other accrued expenses	**57,686**	64,878	**560**
Advances from customers	**67,791**	97,873	**658**
Other current liabilities	**75,515**	65,533	**734**
Total current liabilities	**2,145,034**	2,771,998	**20,826**
Long-term debt, less current maturities (Notes 10, 11 and 16)	**1,942,900**	1,959,143	**18,863**
Accrued pension and severance liabilities (Note 13)	**41,646**	54,358	**404**
Deferred income taxes (Note 12)	**74,068**	6,247	**719**
Minority interests	**66,773**	27,957	**648**
Commitments and contingent liabilities (Notes 11 and 21)			
Shareholders' equity: (Notes 14 and 17)			
Common stock, ¥50 par value—authorized, 2,000,000,000 shares; issued and outstanding, 1,064,462,662 shares in 2000 and 1999	**169,432**	169,432	**1,645**
Additional paid-in capital	**189,536**	189,536	**1,840**
Retained earnings			
Appropriated for legal reserve	**16,384**	15,532	**159**
Unappropriated	**230,697**	205,000	**2,240**
	247,081	220,532	**2,399**
Accumulated other comprehensive income (loss) (Note 15)	**28,174**	(9,847)	**274**
Total shareholders' equity	**634,223**	569,653	**6,158**
Total	**¥4,904,644**	¥5,389,356	**$ 47,618**

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

Sumitomo Corporation and Consolidated Subsidiaries

Statements of Consolidated Income

For the years ended March 31, 2000 and 1999

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Total trading transactions (Notes 7 and 18)	**¥10,656,046**	¥11,378,831	**$ 103,457**
Gross trading profit	**¥ 474,674**	¥ 472,858	**$ 4,608**
Selling, general and administrative expenses	**408,688**	407,182	**3,968**
Provision for doubtful receivables (Note 8)	**7,483**	47,932	**72**
Total	**416,171**	455,114	**4,040**
Operating income (Note 18)	**58,503**	17,744	**568**
Other income (expenses):			
Interest expense (net of interest income: 2000 and 1999—¥43,069 million ($418 million) and ¥64,753 million)	**(22,070)**	(24,981)	**(214)**
Dividends	**5,646**	6,634	**55**
Gain on sale of subsidiaries	**17,170**	–	**167**
Gain on marketable securities and investments, net (Note 5)	**43,480**	9,821	**422**
Gain on sale of property and equipment, net	**1,312**	28,497	**13**
Other, net (Notes 9 and 21)	**(47,192)**	(33,625)	**(459)**
Other income (expenses), net	**(1,654)**	(13,654)	**(16)**
Income before income taxes and equity in earnings (losses) of associated companies	**56,849**	4,090	**552**
Income taxes (Note 12):			
Current	**24,893**	19,360	**241**
Deferred	**2,543**	(4,613)	**25**
Total	**27,436**	14,747	**266**
Income (loss) before equity in earnings (losses) of associated companies	**29,413**	(10,657)	**286**
Equity in earnings (losses) of associated companies, net (after income tax effect) (Notes 7 and 12)	**5,652**	(2,419)	**54**
Net income (loss)	**¥ 35,065**	¥ (13,076)	**$ 340**
Amounts per share (Note 17):	Yen	Yen	U.S. Dollars
Net income (loss):			
Basic	**¥ 32.94**	¥ (12.28)	**$ 0.32**
Diluted	**32.31**	(12.28)	**0.31**
Cash dividends declared for the year	**¥ 8.00**	¥ 8.00	**$ 0.08**

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

Sumitomo Corporation and Consolidated Subsidiaries

Statements of Consolidated Shareholders' Equity

For the years ended March 31, 2000 and 1999

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Common stock:			
Balance, beginning and end of year	**¥ 169,432**	¥ 169,432	**$ 1,645**
Additional paid-in capital:			
Balance, beginning and end of year	**¥ 189,536**	¥ 189,536	**$ 1,840**
Retained earnings:			
Balance, beginning of year	**¥ 220,532**	¥ 242,124	**$ 2,141**
Net income (loss)	**35,065**	(13,076)	**340**
Cash dividends paid	**(8,516)**	(8,516)	**(82)**
Balance, end of year	**¥ 247,081**	¥ 220,532	**$ 2,399**
Accumulated other comprehensive income (loss) (Note 15):			
Balance, beginning of year	**¥ (9,847)**	¥ 18,298	**$ (95)**
Other comprehensive income (loss) for the year, net of tax	**38,021**	(28,145)	**369**
Balance, end of year	**¥ 28,174**	¥ (9,847)	**$ 274**
Disclosure of comprehensive income (loss):			
Net income (loss) for the year	**¥ 35,065**	¥ (13,076)	**$ 340**
Other comprehensive income (loss) for the year, net of tax (Note 15)	**38,021**	(28,145)	**369**
Comprehensive income (loss) for the year	**¥ 73,086**	¥ (41,221)	**$ 709**

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

Sumitomo Corporation and Consolidated Subsidiaries

Statements of Consolidated Cash Flows

For the years ended March 31, 2000 and 1999

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Operating activities:			
Net income (loss)	**¥ 35,065**	¥ (13,076)	**$ 340**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**62,124**	53,363	**603**
Provision for doubtful receivables	**7,483**	47,932	**72**
Gain on sale of subsidiaries	**(17,170)**	—	**(167)**
Gain on marketable securities and investments, net	**(43,480)**	(9,821)	**(422)**
Gain on sale of property and equipment, net	**(1,312)**	(28,497)	**(13)**
Provision for impairment of long-lived assets	**30,824**	12,816	**299**
Equity in (earnings) losses of associated companies	**(5,652)**	2,419	**(54)**
Changes in operating assets and liabilities, excluding effect of acquisitions and divestitures			
Receivables	**130,471**	121,377	**1,267**
Inventories	**20,442**	14,687	**198**
Payables	**(85,074)**	(189,362)	**(826)**
Other, net	**(23,161)**	3,708	**(224)**
Net cash provided by operating activities	**110,560**	15,546	**1,073**
Investing activities:			
Expenditures for property and equipment	**(145,631)**	(97,626)	**(1,414)**
Proceeds from sale of property and equipment	**47,227**	55,429	**458**
Acquisition of investments	**(133,537)**	(178,043)	**(1,296)**
Proceeds from sale and maturity of investments	**306,229**	178,235	**2,973**
Increase in loans receivable	**(96,525)**	(183,473)	**(937)**
Reduction of loans receivable	**141,763**	84,561	**1,376**
Net increase (decrease) in time deposits	**40,072**	(13,279)	**389**
Net cash provided by (used in) investing activities	**159,598**	(154,196)	**1,549**
Financing activities:			
Net decrease in short-term debt	**(599,037)**	(295,983)	**(5,816)**
Proceeds from long-term debt	**740,777**	590,407	**7,192**
Repayment of long-term debt	**(492,177)**	(258,501)	**(4,779)**
Cash dividends paid	**(8,516)**	(8,516)	**(82)**
Proceeds from minority interest	**9,164**	—	**89**
Net cash provided by (used in) financing activities	**(349,789)**	27,407	**(3,396)**
Effect of exchange rate changes on cash and cash equivalents	**(9,369)**	(4,477)	**(90)**
Net decrease in cash and cash equivalents	**(89,000)**	(115,720)	**(864)**
Cash and cash equivalents, beginning of year	**300,385**	416,105	**2,916**
Cash and cash equivalents, end of year	**¥ 211,385**	¥ 300,385	**$ 2,052**

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

Notes to Consolidated Financial Statements

1. Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which Sumitomo Corporation (the "Company") is incorporated and principally operates. The translation of Japanese yen amounts into United States dollar amounts with respect to the year ended March 31, 2000 are included solely for the convenience of readers and have been made at the rate of ¥103 = US$1, the approximate rate of exchange on March 31, 2000. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into United States dollars at above or any other rate.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America ("U.S. GAAP"). In certain respects, effect has been given in the consolidated financial statements to adjustments that have not been entered in the Company and its consolidated subsidiaries' general books of account, which are maintained principally in accordance with accounting practices prevailing in the countries of incorporation. The major adjustments include those relating to (1) foreign currency translation, (2) valuation of debt and equity securities, (3) impairment losses of long-lived assets and loans receivable, (4) accounting for pension costs, (5) deferred gain on sales of property for tax purposes and (6) accrual of certain expenses and losses.

2. Description of Business

The Company is one of the major Japanese *sogo shosha*, or integrated trading companies. As a "Globally Integrated Trading Corporation," the Company and its consolidated subsidiaries (together, the "Companies") purchase, distribute and market a wide variety of commodities including raw materials, industrial goods, and consumer goods, for Japanese domestic trade, trade between Japan and other nations, and trade between third-party nations.

The Companies not only operate worldwide with trade in various commodities but also provide various services, such as financing arrangements for customers and suppliers, planning and coordinating, and operating industrial projects, and gathering a broad range of information. In connection with these services, the Companies engage in a wide range of business activities—developing market potential, providing services for logistics and transportation and for information and communications, engaging in construction, developing natural resources, functioning as organizer, investing in the growing high-technology and multimedia fields, and promoting environmental protection.

3. Summary of Significant Accounting Policies

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

(a) Consolidation and Investments in Subsidiaries and Associated Companies

The consolidated financial statements include the accounts of the Company and all of its majority-owned domestic and foreign subsidiaries.

Associated companies consist of companies and corporate joint ventures owned 20% to 50%. Investments in associated companies, with minor exceptions, are accounted for by the equity method. All significant intercompany accounts and transactions have been eliminated. The excess of cost of the Companies' investments in subsidiaries and associated companies over their equity in the net assets at the dates of acquisition is generally amortized over periods ranging from five to fifteen years.

The accounts of certain subsidiaries have been included on the basis of fiscal periods ended three months or less prior to March 31.

Minority interests in income (loss) of consolidated subsidiaries, which were included in "Other, net" in the accompanying statements of consolidated income, were ¥3,684 million ($36 million) and ¥3,922 million for the years ended March 31, 2000 and 1999, respectively.

(b) Cash Equivalents

For purposes of the statements of consolidated cash flows, the Companies consider highly liquid investments, including short-term time deposits, with an original maturity of three months or less, to be cash equivalents.

(c) Trading Transactions

The Companies' total trading transactions includes the sales value of transactions in which the Companies act as principal and generally includes those in which the Companies act as agent. As to a substantial portion of the transactions in which the Companies act as principal, legal title to and payment for the goods pass through the Companies without physical acquisition or delivery by the Companies. Gross trading profit primarily consists of gross profit on principal transactions and commissions received on agency transactions.

(d) Foreign Currency Translation

Foreign currency financial statements of subsidiaries have been translated in accordance with SFAS No. 52, "Foreign Currency Translation." Pursuant to this statement, the assets and liabilities of foreign subsidiaries and associated companies are translated into Japanese yen at the respective year-end exchange rates. All income and expense accounts are translated at average rates of exchange. The resulting accumulated translation adjustments are included in a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

Foreign currency receivables and payables are translated into their respective companies' functional currencies at year-end exchange rates and the resulting exchange gains or losses are recognized in earnings. (see Note 19)

(e) Inventories

Inventories mainly consist of commodities, materials and real estate for development and resale. Certain commodities such as nonferrous and precious metals, which have immediate marketability at quoted market prices, are marked to market. Cost of other commodities and materials is stated primarily at the lower of average cost or market. Cost of real estate held for development and resale is stated at the lower of cost specifically identified or market.

(f) Marketable Securities and Other Investments

The Companies apply SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," to all marketable securities. Under this statement, all debt securities and marketable equity securities are classified as either (1) available-for-sale securities, which are accounted for at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of the accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets, or (2) held-to-maturity securities, which are accounted for at amortized cost. Unrealized losses deemed to be other than temporary declines of market values are charged to income.

Non-marketable securities held as investments are carried at cost.

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

(g) Allowance for Doubtful Receivables

An allowance for doubtful receivables is established in amounts considered to be appropriate based primarily upon the Companies' past credit loss experience and an evaluation of potential losses in the outstanding receivables.

In addition, the Companies apply SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118 (collectively, SFAS No. 114). Under this statement, loss is recognized for an impaired loans if the present value of expected future cash flows discounted at the loan's contractual effective interest rate (or, alternatively, at the observable market price of the loan or the fair value of the underlying collateral) is less than the recorded investment.

(h) Property and Equipment

Property and equipment is stated at cost. Depreciation is computed principally on the declining balance method for equipment and on the straight-line or declining balance methods for buildings over their estimated useful lives.

(i) Commodity Forwards and Futures Contracts

The Company and certain subsidiaries enter into commodity forwards and futures contracts principally as a means of hedging their inventories and trading commitments against market price fluctuations. These contracts relate principally to precious metals (mainly gold, platinum and silver) and nonferrous metals (mainly aluminum, nickel and copper). Changes in the market value of those forwards and futures contracts, as well as related inventory positions, are basically recognized in income.

(j) Long-Lived Assets

The Companies have applied SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment based on a cash flow analysis of related operations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The statement requires that such assets, if impaired or to be disposed of, be reported at the lower of carrying amount or fair value less cost to sell. (See Note 9)

(k) Employees' Benefit Plans

Costs of defined benefit plans, with certain minor exceptions, have been determined in accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions" (as amended by SFAS 132).

Most of the domestic subsidiaries have unfunded severance indemnity plans and the accrued severance liabilities of these subsidiaries are recorded based on the vested benefit obligation, which is the amount payable if all employees covered by the severance indemnities plan voluntarily terminated their employment at each balance sheet date.

(l) Income Taxes

Income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes."

Under this statement, the tax effect of temporary differences between the financial statements and income tax bases of assets and liabilities is recognized as deferred income taxes, using enacted tax rates applicable to the periods in which the differences are expected to affect taxable income.

Provision for deferred income taxes is not made on undistributed earnings of foreign and certain domestic subsidiaries and associated companies because the Company considers that such earnings are permanently invested and/or would not result in material additional taxation should they be distributed to the Company under current circumstances.

(m) Derivative Financial Instruments

The Companies utilize interest rate swap, interest rate cap, and futures contracts as a means of managing their interest rate exposures on certain assets and liabilities under current hedge accounting. The amounts received or paid under the swap contracts are recognized as interest on the assets or liabilities hedged over the life of the contracts. Premiums paid for interest rate caps are amortized over the life of contracts and expensed as a part of interest expense.

The Companies also utilize foreign exchange forward contracts principally as hedges of receivables or payables and commitments denominated in foreign currencies. The gains and losses related to these forward contracts are offset against recognized gains and losses on the items hedged.

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

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported therein. For example, estimates are used when accounting for the allowance for doubtful receivables, inventories, long-term assets, income taxes and contingencies. Due to the inherent uncertainty involved in making estimates, actual results may differ significantly from those estimated and significant changes to estimates could occur in the future.

(o) Comprehensive Income

The Companies have applied SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income consists of net income (loss), changes in foreign currency translation adjustments, net unrealized holding gains (losses) of securities available-for-sale, and pension liability adjustments, and is included in the statements of consolidated shareholders' equity.

(p) Amounts Per Share

Basic net income per share has been computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during each year. Diluted net income per share reflects the potential dilution and has been computed on the basis that all convertible debentures were converted at the beginning of the year or at the time of issuance (if later), and that all convertible bonds were converted at the beginning of the year to the extent that it is not antidilutive.

Cash dividends per share presented in the accompanying statements of consolidated income represent the cash dividends declared applicable to each respective year, including dividends paid and recorded after the end of the year.

(q) Advertising

The costs of advertising are expensed as incurred.

(r) New Accounting Standards

The Financial Accounting Standards Board ("FASB") has issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which will require that an entity recognize all derivatives as either assets or liabilities in the balance sheets, and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss), depending on whether a derivative is designated as a part of a hedge transaction and, if it is, depending on the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings.

The Companies will adopt SFAS No. 133 for the year beginning April 1, 2001. Currently, the future effect of adopting SFAS No. 133 on the Companies' consolidated financial statements has not yet been determined.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position No. 98-1 (SOP 98-1), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP No. 98-1 provides guidance on when costs for internal use computer software should be capitalized or expensed as incurred and is effective for fiscal years beginning after December 15, 1998. The effect of adopting this statement was immaterial for the year ended March 31, 2000.

In April 1998, the AICPA also issued SOP No. 98-5 "Reporting on the Costs of Start-Up Activities." SOP No. 98-5 requires that costs of start-up activities, including organization costs, should be expensed as incurred and is effective for fiscal years beginning after December 15, 1998. The effect of adopting this statement was immaterial for the year ended March 31, 2000.

(s) Reclassifications

Certain reclassifications of previously reported amounts have been made to conform with current classifications.

4. Cash Flow Information

Additional cash flow information was as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Cash paid during the year for:			
Interest	**¥74,966**	¥93,773	**$728**
Income taxes	**23,192**	21,153	**225**
Non-cash investing and financing activities:			
Capital lease obligations incurred	**7,778**	1,430	**76**
Reduction of loan receivables through securitization:			
Receivable-operating assets	**44,300**	—	**430**
Loan receivables	**46,000**	—	**447**

5. Marketable Securities and Other Investments

(a) Marketable securities

Pursuant to SFAS No. 115, all of the Companies' marketable equity securities and debt securities were classified either as available-for-sale or held-to-maturity securities. Information regarding each category of the securities classified as available-for-sale and held-to-maturity as of March 31, 2000 and 1999, including securities of which certain of the companies were the beneficial owners under trust agreements with trust companies, was as follow (excluding non-marketable investments discussed below):

As of March 31, 2000:	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 370,228	¥ 273,747	¥ 30,372	¥ 613,603
Debt securities	33,513	45	1,400	32,158
Held-to-maturity	60,119	110	870	59,359
	¥ 463,860	¥ 273,902	¥ 32,642	¥ 705,120

As of March 31, 1999:	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 379,702	¥ 131,489	¥ 8,840	¥ 502,351
Debt securities	130,494	420	240	130,674
Held-to-maturity	86,137	1,795	1,721	86,211
	¥ 596,333	¥ 133,704	¥ 10,801	¥ 719,236

As of March 31, 2000:	Millions of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 3,594	$ 2,657	$ 295	$ 5,956
Debt securities	326	0	14	312
Held-to-maturity	584	1	8	577
	$ 4,504	$ 2,658	$ 317	$ 6,845

The carrying values of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2000 and 1999 were summarized by contractual maturities as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2000		1999		**2000**	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	**¥ 17,118**	**¥ 13,362**	¥ 88,799	¥ 17,049	**$ 166**	**$ 130**
Due after one year through five years	**4,173**	**13,168**	5,979	31,308	**41**	**128**
Due after five years through ten years	**1,812**	**21,365**	16,491	21,578	**17**	**207**
Due after ten years	**9,055**	**12,224**	19,405	16,202	**88**	**119**
Total	**¥ 32,158**	**¥ 60,119**	¥ 130,674	¥ 86,137	**$ 312**	**$ 584**

Proceeds from sales and gross realized gains and losses on available-for-sale securities for the years ended March 31, 2000 and 1999 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Proceeds from sales	**¥ 102,165**	¥ 62,186	**$ 992**
Gross realized gains	**¥ 36,127**	¥ 23,491	**$ 351**
Gross realized losses	**2,239**	892	**22**
Net realized gains	**¥ 33,888**	¥ 22,599	**$ 329**

(b) Non-marketable securities and other

Other investments as of March 31, 2000 and 1999 included investments in non-traded, unassociated companies and life insurance policies, etc., amounting to ¥212,484 million ($2,063 million) and ¥225,820 million, respectively. Investments in non-traded, unassociated companies were carried at cost and investments in life insurance policies were reported at cash surrender value.

6. Loan securitization

In March 2000, the Companies entered into a securitization transaction whereby ship loans totaling ¥100 billion ($971 million) were sold to an unrelated special-purpose company (“SPC”). At the same time, the Company made a subordinated loan of ¥10 billion ($97 million) to the SPC. As a result of these transactions, a net amount of ¥90 billion ($874 million) loans were eliminated from the consolidated balance sheet as of March 31, 2000 in accordance with SFAS No. 125 “Accounting for transfers and servicing of financial assets and extinguishments of liabilities.”

7. Investments in and Advances to Associated Companies

The associated companies operate principally in the manufacturing and service industries and participate substantially in the Companies' trading transactions as either purchasers or suppliers.

Investments in and advances to associated companies as of March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Investments in capital stock	**¥ 150,306**	¥ 170,502	**$ 1,459**
Advances	**29,958**	44,242	**291**
Total	**¥ 180,264**	¥ 214,744	**$ 1,750**

The carrying value of investments in associated companies as of March 31, 2000 and 1999 approximated the companies' equity in the underlying net assets. Investments in common stock of associated companies, as of March 31, 2000 and 1999 included marketable securities with the carrying amounts of ¥24,917 million ($242 million) and ¥39,458 million, respectively, with corresponding aggregate quoted market values of ¥26,299 million ($255 million) and ¥70,934 million, respectively.

Summarized financial information with respect to the associated companies, which are accounted for by the equity method, for the years ended March 31, 2000 and 1999 is presented below:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Current assets	**¥ 641,530**	¥ 695,969	**$ 6,228**
Property, land and equipment—net	**657,549**	561,966	**6,384**
Other assets	**653,938**	636,307	**6,349**
Total assets	**¥ 1,953,017**	¥ 1,894,242	**$ 18,961**
Current liabilities	**¥ 988,501**	¥ 1,003,364	**$ 9,597**
Non-current liabilities	**573,676**	524,659	**5,569**
Shareholders' equity	**390,840**	366,219	**3,795**
Total liabilities and shareholders' equity	**¥ 1,953,017**	¥ 1,894,242	**$ 18,961**

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Net sales	**¥ 771,845**	¥ 815,961	**$ 7,494**
Net income (loss)	**¥ 11,983**	¥ (23,138)	**$ 116**

The Companies' total trading transactions with associated companies during the years ended March 31, 2000 and 1999 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Sales transactions	**¥ 252,614**	¥ 289,002	**$ 2,453**
Purchase transactions	**¥ 709,776**	¥ 595,822	**$ 6,891**

8. Allowance for Doubtful Receivables

An analysis of the allowance for doubtful receivables for the years ended March 31, 2000 and 1999 is presented as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Balance, beginning of year	**¥ 99,503**	¥ 65,332	**$ 966**
Provision for doubtful receivables	**7,483**	47,932	**72**
Net charge-off	**(7,592)**	(13,299)	**(74)**
Foreign currency translation adjustments	**(655)**	(462)	**(6)**
Balance, end of year	**¥ 98,739**	¥ 99,503	**¥ 958**

As of March 31, 2000 and 1999, the total recorded trade receivables and long-term loans that were considered to be impaired under SFAS No. 114 was ¥127,033 million ($1,233 million) and ¥118,032 million, respectively, and the related valuation allowance provided as at each year-end were ¥73,248 million ($711 million) and ¥73,066 million, respectively.

The Companies generally recognize interest income on impaired loans on a cash basis. Interest income on impaired loans recognized for the years ended March 31, 2000 and 1999 was not material.

9. Property and Equipment

Property and equipment as of March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Land and land improvements	¥ **223,653**	¥ 200,383	$ **2,171**
Buildings, including leasehold improvements	**426,063**	381,389	**4,137**
Machinery and equipment	**439,495**	382,503	**4,267**
Projects in progress	**96,131**	75,986	**933**
Total	**1,185,342**	1,040,261	**11,508**
Less: Accumulated depreciation	**(367,818)**	(299,801)	**(3,571)**
Property and equipment—net	¥ **817,524**	¥ 740,460	$ **7,937**

Depreciation expenses for the years ended March 31, 2000 and 1999 were ¥54,347 million ($528 million) and ¥49,431 million, respectively.

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Companies made assessment for the potential impairment of long-lived assets and as a result certain land for development, assets related to a mining project and other long-lived assets to be held and used were deemed to be impaired because the assets were not expected to recover their entire carrying value through future estimated cash flows. The loss recognized for the years ended March 31, 2000 and 1999, totaling ¥30,824 million ($299 million) and ¥12,816 million, respectively, were included in "Other, net" in the accompanying Statements of Consolidated Income.

10. Short-Term Debt and Long-Term Debt

Short-term debt as of March 31, 2000 and 1999 consisted of the following:

	Millions of Yen				Millions of U.S. Dollars
	2000		1999		**2000**
		Interest Rate		Interest Rate	
Loans, principally from banks	¥ **272,936**	**3.36%**	¥ 780,891	**2.05%**	$ **2,650**
Commercial paper	**286,246**	**0.66**	442,290	**1.02**	**2,779**
	¥ **559,182**		¥ 1,223,81		$ **5,429**

The interest rates represent weighted average rates in effect at March 31, 2000 and March 31, 1999, regardless of borrowing currencies, though the range of the interest rate varies by borrowing currency.

The Companies entered into line of credit agreements with three syndicates of domestic and foreign banks, totaling US$900 million with the foreign bank syndicate and ¥490 billion ($4,757 million) with the Japanese bank syndicates.

The Companies have not drawn down any loans using these lines of credit.

Long-term debt as of March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Secured long-term debt:			
Banks and insurance companies, maturing serially through 2014, principally 2.0% to 7.9%	**¥ 80,970**	¥ 123,672	**$ 786**
Unsecured long-term debt:			
Banks and insurance companies, maturing serially through 2034, principally 0.2% to 7.0%	**1,677,210**	1,494,431	**16,283**
1.6% convertible bonds due 2002 payable in Japanese yen (convertible into common stock at ¥1,074.60 per share)	**3,053**	3,053	**30**
1.5% convertible bonds due 2004 payable in Japanese yen (convertible into common stock at ¥1,237.30 per share)	**35,702**	35,702	**347**
3.0% bonds due 2000 payable in Japanese yen	**60,000**	60,000	**583**
1.0% bonds due 2004 payable in Japanese yen	**50,000**	–	**485**
Various notes and bonds with interest rates from 0% to 6.7% maturing from 2000 to 2009	**255,241**	307,828	**2,478**
Capital lease obligation	**38,468**	38,692	**373**
Other	**140,480**	147,675	**1,364**
	2,341,124	2,211,053	**22,729**
Less: Current portion	**(398,224)**	(251,910)	**(3,866)**
	¥ 1,942,900	¥ 1,959,143	**$ 18,863**

As of March 31, 2000 and 1999, 31,695,821 shares of common stock were reserved for conversion of the convertible bonds.

Annual maturities of long-term debt as of March 31, 2000 were as follows:

Year ending March 31	Millions of Yen	Millions of U.S. Dollars
2001	¥ 398,224	$ 3,866
2002	320,023	3,107
2003	341,076	3,311
2004	279,601	2,715
2005	265,292	2,576
2006 and thereafter	736,908	7,154
Total	¥ 2,341,124	$ 22,729

The Companies entered into interest rate swap and currency swap contracts for certain short-term and long-term debt to manage interest rate exposure. The effective interest rates for long-term bank loans and insurance company debt of ¥1,758,180 million ($17,069 million) and ¥1,618,103 million outstanding as of March 31, 2000 and 1999, respectively, and notes, bonds and medium-term notes of ¥403,996 million ($3,923 million) and ¥406,583 million outstanding as of March 31, 2000 and 1999, respectively, after giving effect to such swap agreements, were generally based on LIBOR (London Interbank Offered Rate).

Substantially all the short-term and long-term loans from banks are made under agreements which, as is customary in Japan, provide that the bank may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guarantors with respect to the loans, and that the bank may treat any collateral, whether furnished as security for short-term or long-term loans or otherwise, as collateral for all indebtedness to such bank. Certain agreements relating to long-term bank loans provide that the bank may require the borrower to submit proposals as to the payment of dividends and other appropriations of earnings for the bank's review and approval before presentation to the shareholders. Default provisions of certain agreements grant certain rights of possession to the banks. Under certain agreements, principally with Government-owned financial institutions, the borrower is required, upon request of the lender, to apply the proceeds from the sales of any debentures or common stock to the reduction of such loans. During the years ended March 31, 2000 and 1999, the Companies did not receive any such request and do not expect any at present time and for the foreseeable future.

11. Pledged Assets

The following table summarizes assets pledged as collateral for short-term and long-term debt and contingent liabilities of the Companies as of March 31, 2000:

	Millions of Yen	Millions of U.S. Dollars
Marketable securities and other investments	¥ 101,672	$ 987
Receivables and long-term receivables	58,263	566
Property and equipment, less related accumulated depreciation	107,179	1,040
	¥ 267,114	$ 2,593

The obligations secured by such collateral were as follows:

	Millions of Yen	Millions of U.S. Dollars
Short-term debt	¥ 312	$ 3
Long-term debt	128,641	1,249
Contingent liabilities—guarantees of contracts	40,516	393
	¥ 169,469	$ 1,645

Trust receipts issued under customary import financing arrangements give recipient banks a security interest in the merchandise imported and/or the accounts receivable or sales proceeds resulting from the sale of such merchandise. The Companies follow the practice of repaying the related notes and acceptances payable at the maturity dates without applying the sales proceeds to the specific notes or acceptances. The large number of transactions makes it impracticable to determine the aggregate amounts of assets covered by outstanding trust receipts.

See Note 10 for a description of the right of the lending banks to require the companies to provide collateral (or additional collateral) not included in pledged assets summarized in the table above.

12. Income Taxes

Income taxes in Japan applicable to the Companies, imposed by the national, prefectural and municipal governments, in the aggregate resulted in a normal effective statutory rate of approximately 42% for the year ended March 31, 2000. Due to changes in Japanese income tax regulations, effective April 1, 1999, the normal statutory tax rate was reduced from approximately 48% to 42%. Such rates have been used in calculating the future expected tax effects of significant temporary differences. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The reconciliation between taxes calculated at the normal statutory tax rate in Japan and the Companies' provision for income taxes for the years ended March 31, 2000 and 1999 is summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Income before income taxes and equity in earnings (losses) of associated companies	**¥ 56,849**	¥ 4,090	**$ 552**
Tax provision computed at normal income tax rate	**¥ 23,877**	¥ 1,963	**$ 232**
Increases (decreases) in tax due to:			
Expenses not deductible for tax purposes	**2,823**	3,652	**27**
Operating losses of certain subsidiaries, net of tax benefits realized	**2,038**	4,944	**20**
Lower income tax rates applicable to income in certain foreign countries	**(3,731)**	(2,430)	**(36)**
Effect of taxation on dividends	**3,355**	4,213	**32**
Effect of tax rate exchange	**–**	2,882	**–**
Other—net	**(926)**	(477)	**(9)**
Total provision for income taxes	**¥ 27,436**	¥ 14,747	**$ 266**

Total income taxes recognized for the years ended March 31, 2000 and 1999 were applicable to the following:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Income before income taxes and equity in losses of associated companies	**¥ 27,436**	¥ 14,747	**$ 266**
Equity in earnings (losses) of associated companies	**1,624**	1,693	**16**
Shareholders' equity:			
Net unrealized holding gains on securities available-for-sale	**50,061**	3,484	**486**
Pension liability adjustments	**2,208**	(5,752)	**21**
Total income taxes	**¥ 81,329**	¥ 14,172	**$ 789**

Significant components of the deferred tax assets and liabilities as of March 31, 2000 and 1999 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Assets:			
Allowance for doubtful receivables	**¥ 40,957**	¥ 36,489	**$ 398**
Accrued pension and severance liabilities	**10,520**	15,964	**102**
Unrecognized intercompany profit	**9,552**	12,649	**93**
Net operating loss carry forwards	**52,682**	77,382	**511**
Inventories and Property and equipment	**42,252**	27,426	**410**
Accrual and other	**15,924**	3,164	**155**
Gross deferred tax assets	**171,887**	173,074	**1,669**
Less: Valuation allowance	**(34,447)**	(32,485)	**(335)**
Deferred tax assets—less valuation allowance	**137,440**	140,589	**1,334**
Liabilities:			
Valuation of debt and equity securities	**111,184**	52,288	**1,079**
Deferred gain on sale of property for tax purposes	**37,574**	37,965	**365**
Undistributed earnings of affiliated companies	**13,987**	16,569	**136**
Installment sales	**6,606**	7,604	**64**
Other	**13,597**	11,668	**132**
Gross deferred tax liabilities	**182,948**	126,094	**1,776**
Net deferred tax assets (liabilities)	**¥ (45,508)**	¥ 14,495	**$ (442)**

A valuation allowance is established to reduce certain deferred tax assets with respect to deductible temporary differences and net operating loss carry forwards where it is more likely than not that the Companies will be unable to realize the benefits of those deferred tax assets.

Provision for income taxes is not made on undistributed earnings of foreign and certain domestic subsidiaries and associated companies because the Company considers that such earnings are permanently reinvested and/or would not result in material additional taxation should they be distributed to the Company under current circumstances. As of March 31, 2000 and 1999, the amounts of undistributed earnings of such subsidiaries on which a deferred tax liability has not been recognized in the accompanying consolidated financial statements aggregated to ¥75,661 million ($735 million) and ¥83,744 million, respectively.

13. Accrued Pension and Severance Liabilities

The Company has non-contributory defined benefit pension plans covering substantially all employees other than directors. The plans provide benefits based upon years of service, compensation at the time of severance and other factors.

The Company's funding policy is to contribute an amount deductible for income tax purposes. Contributions are intended to provide not only for benefits attributable to service to date but also for those expected to be earned in the future.

Net periodic pension costs of the Company's pension plans for the years ended March 31, 2000 and 1999 included the following components:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Service cost—benefits earned during the year	**¥ 3,482**	¥ 3,325	**$ 34**
Interest cost on projected benefit obligation	**4,275**	4,532	**42**
Expected return on plan assets	**(1,978)**	(1,823)	**(19)**
Net amortization and deferral	**2,264**	1,722	**22**
Net periodic pension cost	**¥ 8,043**	¥ 7,756	**$ 79**

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

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Change in benefit obligation:			
Benefit obligation, beginning of year	**¥ 122,153**	¥ 113,296	**$ 1,186**
Service cost	**3,482**	3,325	**34**
Interest cost	**4,275**	4,532	**42**
Actuarial loss	**195**	10,585	**2**
Benefits paid	**(8,390)**	(9,585)	**(82)**
Benefit obligation, end of year	**¥ 121,715**	¥ 122,153	**$ 1,182**
Change in plan assets:			
Fair value of plan assets, beginning of year	**¥ 67,100**	¥ 60,757	**$ 652**
Actual return on plan assets	**6,305**	608	**61**
Employer contribution	**11,869**	10,707	**115**
Benefits paid from plan assets	**(4,464)**	(4,972)	**(43)**
Fair value of plan assets, end of year	**¥ 80,810**	¥ 67,100	**$ 785**
Funded status	**¥ (40,905)**	¥ (55,053)	**$ (397)**
Unrecognized actuarial loss	**13,974**	18,648	**136**
Unrecognized net obligation at transition being recognized over 14 years	**3,444**	5,166	**33**
Net amount recognized	**¥ (23,487)**	¥ (31,239)	**$ (228)**
Net amounts recognized in the consolidated balance sheets consist of:			
Liability for postretirement benefits	**¥ (33,757)**	¥ (48,489)	**$ (327)**
Intangible asset included in other assets	**3,444**	5,166	**33**
Accumulated other comprehensive income, gross of tax	**6,826**	12,084	**66**
Net amount recognized	**¥ (23,487)**	¥ (31,239)	**$ (228)**

Assumptions used for 2000 and 1999 in determining costs for the plan and the funded status information shown above were principally as follows:

Weighted-average discount rate	3.5%
Average rate of increase in future compensation levels	3.8%
Expected long-term rate of return on plan assets	3.0%

Most of the domestic subsidiaries have unfunded severance indemnity plans and/or funded pension plans under which their employees, other than directors, are entitled, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, to lump-sum severance indemnities based on compensation at the time of severance, years of service and other factors.

As of March 31, 2000, the benefit obligation of domestic subsidiaries under these plans were ¥23,256 million ($226 million) at the discount rate of 3.5%, which were approximately equal to the aggregated fair value of plan assets and accruals.

In addition to unfunded severance indemnity plans or funded pension plans, certain domestic subsidiaries and associated companies also participate in an Employee Pension Fund (EPF) as a group, which is stipulated by the Japanese Welfare Pension Insurance Law. This plan serves as a substitute for the Japan Government pension plan funded by social security taxes paid by employees and the employer. The EPF consists of two portions (1) Social security tax portion funded by employees and the companies and (2) Corporate portion funded by the companies. Contributions are made based upon the aggregate cost method. The plan assets of EPF can not be specifically allocated to the individual participants nor to the corporate portion. The Company did not apply accounting for single-employer defined benefit pension plans under SFAS No. 87 for the plan as the effect on the consolidated financial statements of the implementation of SFAS No. 87 is not significant. The total assets of the EPF reported by the trustee at March 31, 1999 approximately the amount of accrued benefit obligation at that date.

The amounts charged to income by domestic subsidiaries for the years ended March 31, 2000 and 1999 were ¥3,201 million ($31 million) and ¥2,543 million, respectively.

Defined benefit plans of foreign subsidiaries are not material.

14. Shareholders' Equity

(a) Common Stock and Capital Surplus

Under the Commercial Code of Japan ("the Code"), certain issuance of common shares, including conversions of debt issued and exercise of warrants, are required to be credited to the common stock account for at least the greater of par value or 50% of the proceeds.

The Code permits, upon approval of the Board of Directors, transfer of amounts from additional paid-in capital to the common stock account.

As of March 31, 2000 and 1999, associated companies owned 514,119 shares and 672,862 shares of the Company's common stock, respectively.

(b) Appropriated for Legal Reserve

The Code provides that an amount at least equal to 10% of all cash dividend payments, which are made as an appropriation of retained earnings applicable to each fiscal period, shall be appropriated as a legal reserve until such reserve equals 25% of the stated amount of capital stock. Legal reserve may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

(c) Unappropriated Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Code is based on the amount recorded in the Company's general books of account maintained in accordance with generally accepted Japanese accounting practices. The adjustments included in the accompanying financial statements but not recorded in the general books of account, as explained under "Basis of Financial Statements" in Note 1, have no effect on the determination of retained earnings available for dividends under the Code.

In addition to the Code provision requiring an appropriation for legal reserve as discussed above, the Code imposes certain limitations on the amount of retained earnings available for dividends. Retained earnings of ¥164,118 million ($1,593 million) and ¥158,470 million, shown by the Company's general books of account as of March 31, 2000 and 1999, respectively, exclusive of the amount previously appropriated for legal reserve, were not restricted by the limitations under the Code.

The Code permits transfers, upon approval of shareholders, of a portion of unappropriated retained earnings available for dividends to capital stock account without issuance of any shares.

Dividends are approved by the shareholders at the meeting held subsequent to the statutory fiscal period to which the dividends are payable to shareholders of record at the end of each such fiscal or interim six-month period. Dividends are reported in the consolidated statements of shareholders' equity when paid.

(d) Stock Option Plan

On June 23, 2000, the shareholders authorized the acquisition of 161,000 shares of the Company's common stock for the total consideration not exceeding ¥274 million ($3 million) during the period up to the closing of the next annual general shareholders' meeting in 2001. The Company intends to transfer such treasury shares to directors and certain employees under an agreement granting them the right to request such transfers at a predetemined price. The purchase price is set to be equal to an amount obtained by multiplying by 1.05 an average of the closing prices applicable to ordinary transactions of shares of the Company on the Tokyo Stock Exchange on all days for a month immediately preceding the month in which the date of grant of the right falls, provided that the exercise price shall not be less than the average acquisition price of the treasury shares. The options vest 100% on the grant date and will be exercisable from April 1, 2001 to June 30, 2005.

15. Other Comprehensive Income (Loss)

Changes in each component of accumulated other comprehensive income (loss) for the years ended March 31, 2000 and 1999 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Foreign currency translation adjustments:			
Balance, beginning of year	**¥ (63,703)**	¥ (38,055)	**$ (618)**
Adjustment for the year	**(34,159)**	(25,648)	**(332)**
Balance, end of year	**¥ (97,862)**	¥ (63,703)	**$ (950)**
Net unrealized holding gains on securities available-for-sale:			
Balance, beginning of year	**¥ 60,188**	¥ 56,353	**$ 585**
Adjustment for the year	**69,130**	3,835	**671**
Balance, end of year	**¥ 129,318**	¥ 60,188	**$ 1,256**
Pension liability adjustments:			
Balance, beginning of year	**¥ (6,332)**	¥ —	**$ (62)**
Adjustment for the year	**3,050**	(6,332)	**30**
Balance, end of year	**¥ (3,282)**	¥ (6,332)	**$ (32)**
Total accumulated other comprehensive income (loss):			
Balance, beginning of year	**¥ (9,847)**	¥ 18,298	**$ (95)**
Adjustment for the year	**38,021**	(28,145)	**369**
Balance, end of year	**¥ 28,174**	¥ (9,847)	**$ 274**

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

	Millions of Yen		
	Pretax Amount	Tax (Expense) or Benefit	Net of Tax Amount
2000:			
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	¥ (32,944)	¥ —	¥ (32,944)
Less: reclassification adjustment for losses included in net income	(1,215)	—	(1,215)
Net adjustment	(34,159)	—	(34,159)
Net unrealized holding gains on securities available-for-sale:			
Unrealized holding gains arising during the year	149,409	(62,752)	86,657
Less: reclassification adjustment for gains included in net income	(30,218)	12,691	(17,527)
Net unrealized gains	119,191	(50,061)	69,130
Pension liability adjustments	5,258	(2,208)	3,050
Other comprehensive income (loss)	¥ 90,290	¥ (52,269)	¥ 38,021
1999:			
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	¥ (30,309)	¥ —	¥ (30,309)
Less: reclassification adjustment for gains included in net loss	4,661	—	4,661
Net adjustment	(25,648)	—	(25,648)
Net unrealized holding gains on securities available-for-sale:			
Unrealized holding gains arising during the year	18,126	(8,628)	9,498
Less: reclassification adjustment for gains included in net loss	(10,807)	5,144	(5,663)
Net unrealized gains	7,319	(3,484)	3,835
Pension liability adjustments	(12,084)	5,752	(6,332)
Other comprehensive income (loss)	¥ (30,413)	¥ 2,268	¥ (28,145)

	Millions of U.S. Dollars		
2000:	Pretax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	$ (320)	$ —	$ (320)
Less: reclassification adjustment for losses included in net income	(12)	—	(12)
Net adjustment	(332)	—	(332)
Net unrealized holding gains on securities available-for-sale:			
Unrealized holding gains arising during the year	1,451	(610)	841
Less: reclassification adjustment for gains included in net income	(294)	124	(170)
Net unrealized gains	1,157	(486)	671
Pension liability adjustments	51	(21)	30
Other comprehensive income (loss)	$ 876	$ (507)	$ 369

16. Financial Instruments

(a) Financial Instruments and Risk Management

The Companies are parties to derivative financial instruments ("derivatives") which they use in the normal course of business to manage the exposure to fluctuations in foreign exchange rates and interest rates. The primary derivatives used by the Companies include foreign exchange forward contracts, currency swaps, interest rate swaps, futures and options.

Financial derivative transactions are utilized to hedge interest rate and foreign currency positions associated with their business. Accordingly, market risk in these derivatives is largely offset by corresponding opposite movements in the position of underlying transactions and related assets and liabilities.

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

(1) Foreign Exchange Risk Management

The Companies' global operations in over 100 countries expose them to foreign currency risks related to buying, selling and financing in multiple currencies. The Companies have entered into foreign exchange forward contracts and currency swap agreements to hedge against the changes in foreign exchange rates associated with existing assets, obligations and identifiable commitments denominated in foreign currencies.

(2) Interest Rate Risk Management

The Companies' trading, financing and cash management activities expose them to market risk from changes in interest rates. Interest rate swaps are primarily used to convert certain specific debts to a floating basis as well as convert some floating rate assets or debts to a fixed basis. The Companies sometimes utilize interest rate futures and options.

(3) Concentration of Credit Risk

The Companies' global orientation in a variety of businesses with diverse customers and suppliers reduces concentrations of credit risks. The Companies deal with selective international financial institutions, with a certain rating or above by the international statistical credit rating agency, to mitigate the credit risk exposure of derivative financial instruments with off-balance-sheet risk. Credit risk represents the possibility that the counterparties may be unable to perform under the terms of the agreements. Management does not expect any losses as a result of counterparty default on financial instruments with off-balance-sheet risk. Credit risk is managed through the credit line approved by management and by monitoring the counterparties periodically.

(b) Fair Value of Financial Instruments

In accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," and SFAS No. 119, "Disclosures about Derivative Financial Instruments and Fair Value of Financial Instruments," the Companies have provided the following fair value estimates and information about valuation methodologies.

Quoted market prices, where available, are used to estimate fair values of financial instruments. However, quoted market prices are not available for a substantial portion of financial instruments, and fair values for such financial instruments are estimated using discounted cash flow analysis or other valuation techniques.

(1) Current Financial Assets other than Marketable Securities and Current Financial Liabilities

It is assumed that the carrying amount approximated fair value of the majority of these instruments because of their short maturities.

(2) Marketable Securities and Other Investments

See Note 5.

(3) Non-Current Trade Receivables and Advances to Associated Companies

The fair values of non-current trade receivables including long-term loans receivable, except for loans with floating rates whose carrying amount approximates fair value, are estimated by discounted cash flow analysis, using interest rates currently being offered for loans or accounts receivable with similar terms to borrowers or customers of similar credit quality and remaining maturities.

(4) Long-Term Debt

The fair values for long-term debt, except for debt with floating rates whose carrying amount approximates fair value, are estimated by discounted cash flow analysis, using rates currently available for similar types of borrowings with similar terms and remaining maturities.

(5) Off-Balance-Sheet Financial Commitments

The Company has not estimated the fair value of certain off-balance-sheet commitments such as financial guarantees and financing commitments (See Note 21). Because of uncertainty involved in attempting to assess the likelihood and timing of commitments being drawn upon, coupled with the lack of an established market, management does not believe it would be meaningful to provide an estimate of fair value.

(6) Interest Rate Swap and Cap Agreements and Currency Swap Agreements

The fair values of interest rate swap and cap agreements and currency swap agreements are estimated by obtaining quotes from brokers and other appropriate valuation techniques based on information available to the Companies.

(7) Foreign Exchange Forward Contracts

The fair values of foreign exchange forward contracts are estimated based on market prices for contracts with similar terms.

The estimated fair values of certain financial instruments and derivative financial instruments as of March 31, 2000 and 1999 were as follows:

As of March 31, 2000	Millions of Yen			Millions of U.S. Dollars		
	Notional amount	Carrying amount	Fair value	Notional amount	Carrying amount	Fair value
Financial assets:						
Non-current trade receivables and advances to associated companies (less allowance for doubtful receivables)	¥ —	¥ 684,684	¥ 700,625	$ —	$ 6,647	$ 6,802
Financial liabilities:						
Long-term debt (including current maturities)	—	2,341,124	2,396,406	—	22,729	23,266
Derivative financial instruments:						
Interest rate swap and cap agreements	1,001,508	—	37,456	9,723	—	364
Currency swap agreements	13,132	—	125	127	—	1
Foreign exchange forward contracts	218,202	81	1,252	2,118	1	12

As of March 31, 1999	Millions of Yen		
	Notional amount	Carrying amount	Fair value
Financial assets:			
Non-current trade receivables and advances to associated companies (less allowance for doubtful receivables)	¥ —	¥ 812,054	¥ 834,366
Financial liabilities:			
Long-term debt (including current maturities)	—	2,211,053	2,280,008
Derivative financial instruments:			
Interest rate swap agreements	922,728	—	44,045
Currency swap agreements	63,196	—	(32)
Foreign exchange forward contracts	337,391	(115)	(2,377)

17. Net Income Per Share

The reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share computations for the years ended March 31, 2000 and 1999 was as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	1999	**2000**
Net income (loss) available to common stockholders	**¥ 35,065**	¥ (13,076)	**$ 340**
Effect of dilutive securities:			
1.6% Japanese yen convertible debentures, due 2002	**31**	—	**0**
1.5% Japanese yen convertible debentures, due 2004	**325**	—	**3**
Diluted net income (loss)	**¥ 35,421**	¥ (13,076)	**$ 343**

	Number of Shares	
	2000	1999
Average common shares outstanding	**1,064,462,662**	1,064,462,662
Dilutive effect of:		
1.6% Japanese yen convertible debentures, due 2002	**2,841,057**	—
1.5% Japanese yen convertible debentures, due 2004	**28,854,764**	—
Diluted common shares outstanding	**1,096,158,483**	1,064,462,662

	Yen	Yen	U.S. Dollars
Net income (loss) per share:			
Basic	**¥ 32.94**	¥ (12.28)	**$ 0.32**
Diluted	**32.31**	(12.28)	**0.31**

18. Segment Information

Segment Reporting SFAS No.131, “Disclosures about Segment of an Enterprise and Related Information,” established standards for reporting information about operating segments in financial statements. The following operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The operating segments are managed separately because each operating segment represents a strategic business unit.

The Companies operate on a worldwide basis principally within the following operating segments:
1) Iron and Steel Group, 2) Machinery & Electric Group and Media, Electronics & Information Business Group, 3) Nonferrous Metals/ Chemicals/Petroleum & Carbon Group, 4) Living Related Group and Retail & Consumer Services Division, 5) Domestic Branches, 6) Overseas Trading Subsidiaries.

The reportable segments are identified based on the nature of products and services for the domestic and certain overseas operations under the control of the Company’s headquarters, and based on regional and geographic areas for domestic and overseas operations. Domestic Branches and Overseas Trading Subsidiaries are separate strategic business units and have the primary responsibility to manage the regional and geographic operations.

The Company evaluates performance based on the segment information for domestic operations in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”). The accounts of the Company and domestic subsidiaries are maintained in conformity with Japanese GAAP. The differences between accounting principles in Japan and the U.S. are described in Note 1. The adjustments from Japanese GAAP to U.S. GAAP are included in the line “Corporate and Eliminations” in the tables set forth below.

Information by operating segment and geographic area reported for internal use by management for the years ended March 31, 2000 and 1999 is summarized as follows:

Operating segments:

2000:

	Millions of Yen							
	Trading transactions							
Segment	External customers	Inter segment	Total	Gross trading profit	Operating income	Segment assets	Depreciation and amortization	Capital expenditures
Iron & Steel Group	¥909,738	¥ 107,771	¥1,017,509	¥ 33,959	¥ 1,437	¥ 361,213	¥ 4,622	¥ 5,956
Machinery & Electric Group and Media, Electronics & Information Business Group	3,957,952	83,165	4,041,117	158,356	10,869	1,462,069	46,651	104,056
Nonferrous Metals/Chemicals/Petroleum & Carbon Group	1,869,701	290,342	2,160,043	69,722	12,124	509,150	6,451	7,662
Living Related Group and Retail & Consumer Services Division	2,313,047	35,370	2,348,417	158,924	22,984	966,192	14,272	32,146
Domestic Branches	860,669	16,639	877,308	20,111	2,904	248,209	287	69
Overseas Trading Subsidiaries	673,279	317,742	991,021	50,469	6,297	453,047	3,642	6,912
Segment Total	10,584,386	851,029	11,435,415	491,541	56,615	3,999,880	75,925	156,801
Corporate and Eliminations	71,660	(851,029)	(779,369)	(16,867)	1,888	904,764	(13,801)	6,479
Consolidated	¥10,656,046	¥ —	¥10,656,046	¥ 474,674	¥ 58,503	¥ 4,904,644	¥ 62,124	¥ 163,280

1999:

	Millions of Yen							
	Trading transactions							
Segment	External customers	Inter segment	Total	Gross trading profit	Operating income	Segment assets	Depreciation and amortization	Capital expenditures
Iron & Steel Group	¥1,018,973	¥ 126,721	¥1,145,694	¥ 40,492	¥ 6,029	¥ 366,080	¥ 5,513	¥ 11,434
Machinery & Electric Group and Media, Electronics & Information Business Group	4,374,367	101,286	4,475,653	144,291	8,536	1,481,938	35,285	44,577
Nonferrous Metals/Chemicals/Petroleum & Carbon Group	1,857,037	256,458	2,113,495	72,724	8,708	517,820	4,232	8,157
Living Related Group and Retail & Consumer Services Division	2,317,046	20,947	2,337,993	149,189	20,890	943,331	10,613	24,517
Domestic Branches	920,493	68,357	988,850	20,517	2,370	249,181	28	636
Overseas Trading Subsidiaries	825,043	1,262,616	2,087,659	55,264	4,597	557,170	3,676	6,188
Segment Total	11,312,959	1,836,385	13,149,344	482,477	51,130	4,115,520	59,347	95,509
Corporate and Eliminations	65,872	(1,836,385)	(1,770,513)	(9,619)	(33,386)	1,273,836	(5,984)	5,157
Consolidated	¥11,378,831	¥ —	¥11,378,831	¥ 472,858	¥ 17,744	¥ 5,389,356	¥ 53,363	¥ 100,666

2000:

	Millions of U.S. Dollars							
	Trading transactions							
Segment	External customers	Inter segment	Total	Gross trading profit	Operating income	Segment assets	Depreciation and amortization	Capital expenditures
Iron & Steel Group	$ 8,832	$ 1,046	$ 9,878	$ 330	$ 14	$ 3,507	$ 45	$ 58
Machinery & Electric Group and Media, Electronics & Information Business Group	38,427	807	39,234	1,537	106	14,195	453	1,010
Nonferrous Metals/Chemicals/Petroleum & Carbon Group	18,152	2,819	20,971	677	118	4,943	63	74
Living Related Group and Retail & Consumer Services Division	22,457	343	22,800	1,543	223	9,380	138	312
Domestic Branches	8,356	162	8,518	195	28	2,410	3	1
Overseas Trading Subsidiaries	6,537	3,085	9,622	490	61	4,399	35	67
Segment Total	102,761	8,262	111,023	4,772	550	38,834	737	1,522
Corporate and Eliminations	696	(8,262)	(7,566)	(164)	18	8,784	(134)	63
Consolidated	$ 103,457	$ —	$ 103,457	$ 4,608	$ 568	$ 47,618	$ 603	$ 1,585

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

Geographic information:

2000:	Millions of Yen		Millions of U.S.Dollars	
	Trading transactions	Long-lived assets	Trading transactions	Long-lived assets
Japan	¥ 9,354,451	¥ 717,495	$ 90,820	$ 6,966
U.S.A.	423,083	47,930	4,108	465
Other	878,512	164,543	8,529	1,598
Total	¥ 10,656,046	¥ 929,968	$ 103,457	$ 9,029

1999:	Millions of Yen	
Japan	¥ 9,840,724	¥ 635,974
U.S.A.	417,459	48,373
Other	1,120,648	149,916
Total	¥ 11,378,831	¥ 834,263

Transfers between segments are made at arm's-length prices. There were no sales to a single major external customer for the years ended March 31, 2000 and 1999.

19. Foreign Exchange Gains and Losses

Net foreign currency transaction losses included in the determination of net income (loss) for the years ended March 31, 2000 and 1999 were ¥4,236 million ($41 million) and ¥1,569 million, respectively.

20. Rental Expense

The Companies lease office space and certain other assets under cancelable and non-cancelable operating leases. Total rental expenses under such cancelable and non-cancelable leases for the years ended March 31, 2000 and 1999 were ¥25,511 million ($248 million) and ¥23,646 million, respectively. Certain lease contracts for equipment were classified as capital lease in conformity with SFAS No.13 "Accounting for Leases" and were capitalized on the accompanying consolidated balance sheets.

As of March 31, 2000, the future minimum lease payments under non-cancelable operating leases were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2001	¥ 9,973	$ 97
2002	8,811	85
2003	8,193	80
2004	7,464	72
2005	7,078	69
Thereafter	60,708	589
Total	¥ 102,227	$ 992

21. Commitments and Contingent Liabilities

(a) Commitments and Guarantees

The Companies, in the normal course of trading operations, enter into long-term purchase commitments, which provide for either fixed prices or basic prices adjustable to market. Such purchase commitments are in most instances matched with counterparty sales contracts.

The Companies are contingently liable for discounted trade notes receivable on a recourse basis with banks of ¥46,225 million ($449 million) as of March 31, 2000.

The Companies' contingent liabilities as of March 31, 2000 as a guarantor of indebtedness of others aggregated to ¥175,582 million ($1,705 million), including ¥46,020 million ($447 million) relating to associated companies. Such guarantees have been provided primarily to suppliers and customers as indirect financing arrangements.

The Companies also had long-term financing commitments aggregating to ¥139,814 million ($1,357 million) as of March 31, 2000 for loans, investments in equity capital and financing on a deferred-payment basis for the cost of equipment to be purchased by customers.

The Companies have business activities with customers, dealers and associates around the world and their trade receivables from and guarantees to such parties are well diversified to minimize concentrations of credit risks.

Management does not anticipate incurring losses on above commitment and guarantees in exess of established allowances.

(b) Litigation

(i) Fiscal 1999 Settlements

Following the discovery in June 1996 of unauthorized copper transactions by a former employee, several class actions against the Company and other defendants including Sumitomo Corporation of America were filed in New York and California and regulatory investigations were instituted against the Company in the United States and the United Kingdom. These claims alleged violations of relevant U.S. or U.K. laws including the U.S. Commodity Exchange Act and antitrust laws in connection with manipulation of the price of copper and other matters related to the copper incident. During fiscal 1999, a substantial number of settlements and agreements were reached with plaintiffs in these class actions and regulatory authorities in the U.S. and U.K. settling claims. For the year ended March 31, 1999, after considering reserves established in prior years, the company charged settlement expenses amounting to ¥17,563 million which is included in "Other, net" in the accompanying Statement of Consolidated Income.

(ii) Pending Litigation

There are several class actions and individual lawsuits claiming recovery of loss incurred by plaintiffs in these suits, which are pending in connection with the copper incident in the United States. In the District Court of Wisconsin, a class action and three individual suits are pending. In California, a class action and a separate suit filed jointly by 51 companies in the State Superior Court is pending. An additional suit was filed in New York State Court by an individual. Generally these suits allege violations of Federal and/or State antitrust laws primarily in connection with alleged manipulation of the price of copper. The class actions purport to represent physical copper purchasers nationwide and/or copper scrap and recycled copper purchasers in various states. The individual suits generally have similar claims and include fraud, unfair trade practices, etc.

The Company is also involved in certain legal actions and claims arising in the ordinary course of business.

Based on the advice of legal counsel, the Company believes it has valid defenses and intends to vigorously defend itself in these actions. In the opinion of management, the above litigation and claims will be resolved without material effect on the Companies' financial position.

(iii) Claims against Others

The Company has sued several firms and banks for recovery of losses it incurred in connection with the copper incident. Apart from these lawsuits, on May 24, 2000, the Company announced that the Company and an investment banking firm resolved all issues between them concerning the copper incident and the investment banking firm will pay the Company $275 million plus legal fees and the Company will release them from any claims stemming from the trading losses.

22. Subsequent Events

Subsequent to April 1, 2000, the Company has issued three uncollateralized bonds as follows:

Issue date	Principal amount	Issue price (per value ¥100)	Coupon rate	Maturity date
May 12, 2000	¥10 billion	¥100	1.51%	May 12, 2006
May 12, 2000	¥10 billion	¥100	2.07%	May 12, 2010
June 15, 2000	¥10 billion	¥100	1.45%	June 15, 2006

On June 23, 2000, the shareholders approved payment of a cash dividend to shareholders of record as of March 31, 2000 of ¥4 ($0.04) per share for a total of ¥4,258 million ($41 million) and transfer to legal reserve of ¥426 million ($4 million).

Report of Independent Public Accountants

ARTHUR ANDERSEN

A Member Firm of
Andersen Worldwide SC

Sumitomo Corporation:

We have audited the accompanying consolidated balance sheets of Sumitomo Corporation (a Japanese corporation) and consolidated subsidiaries as of March 31, 2000 and 1999, and the related statements of consolidated income, consolidated shareholders' equity and consolidated cash flows for the years then ended, 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 the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sumitomo Corporation and consolidated subsidiaries as of March 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the amounts in the accompanying consolidated financial statements translated into U.S. dollars have been computed on the basis set forth in Note 1.

Arthur Andersen

Tokyo, Japan
May 17, 2000
(Except for the matters discussed in Notes No. 14(d), 21(b) and 22, as to which the date is June 23, 2000.)