FINANCIAL SECTION

Contents

Management's Discussion and Analysis of Operations

1. Operating Environment (For the year ended March 31, 2001, compared with the previous fiscal year)

The Japanese economy recovered gradually for a while, due to increased exports and corporate capital outlays. However, consumer spending remained sluggish at the beginning of the year contrary to general expectations and exports declined from the autumn of 2000, as the economies in the U.S. and Asia slowed down. As a result, the economic recovery stalled. Against this backdrop, the stock market showed a general downward trend throughout the year.

Newly industrializing economies (NIEs) and members of the Association of Southeast Asian Nations (ASEAN) continued to recover in the first half of the year, driven by an increase in exports centering on IT-related products coupled with a recovery in domestic demand. Their economic recovery slowed down, however, in the second half as the growth in exports was arrested owing to the slowdown of the U.S. economy. On the other hand, the Chinese economy continued to grow steadily, backed by increasing exports and effective fiscal policies.

In the U.S., the economy continued to grow in the first half of the year, thanks to higher capital spending, mainly in IT. However, a tightening of monetary policy in the first half started to show its effects and industrial output declined in the second half. Business confidence plummeted at the beginning of 2001, with a sharp fall in stock prices led by IT shares, prompting an easing of the monetary policy.

European Union (EU) members saw their economies grow throughout the year, as exports rose with the weak euro, and capital expenditure and consumer spending remained strong. However, some worrying signs have been appearing since the beginning of 2001, such as declining business confidence and unemployment in Germany ceasing to fall.

2. Income Analysis (For the year ended March 31, 2001, compared with the previous fiscal year)

Overview

Net income increased by ¥5.2 billion from the previous fiscal year to ¥40.3 billion this year. The main factors that contributed to this growth were an increase in gross trading profit thanks to the strong performance of the majority of consolidated subsidiaries, reductions in various expenses as implemented to strengthen cost-competitiveness, gains on media and electronics-associated business investment, and settlement received on copper trading litigation. The main factors that affected the Company's performance negatively are aggressive direct write-offs resulting from the sale or pulling out of unprofitable businesses executed as the final step to complete the Reform Package, and the impairment of long-lived assets related to low-return businesses.

Total Trading Transactions

Total trading transactions for fiscal 2001 amounted to ¥10,080 billion, a 5.4% decrease from the previous fiscal year. This was due mainly to a decline in domestic trading of machinery, the sale of the domestic cigarette business, a decrease in infrastructure-associated business in Asia, and a reduction in the international trading of ships, despite the increase in the fuels business due to the rising price of crude oil and petroleum products.

Gross Trading Profit

Although total trading transactions decreased by 5.4%, gross trading profit increased by ¥13.7 billion from the previous fiscal year to ¥488.4 billion due to increased profits from Sumitomo Corporation of America, from the production of PVC pipe for housing use also in North America, and from IT-related business in Japan.

Breakdown of Total Trading Transactions by Operating Segment:

For the years ended March 31, 2001, 2000, and 1999	Billions of Yen 2001	2000	1999	Millions of U.S. Dollars 2001
Iron & Steel Group	¥ 931	¥ 910	¥ 1,019	$ 7,390
Machinery & Electric Group and Media, Electronics & Information Business Group	3,671	3,958	4,374	29,139
Non-ferrous Metals/Chemicals/Petroleum & Carbon Group	1,866	1,870	1,857	14,806
Living Related Group and Retail & Consumer Services Division	1,902	2,313	2,317	15,094
Domestic Branches	855	860	921	6,784
Overseas Trading Subsidiaries	750	673	825	5,952
Segment Total	9,975	10,584	11,313	79,165
Corporate and Eliminations	105	72	66	835
Consolidated	¥10,080	¥10,656	¥11,379	$80,000

Iron & Steel Group
Trading increased by 2.4% from the previous fiscal year due mainly to the addition of newly consolidated subsidiaries in fiscal 2001.

Machinery & Electric Group and Media, Electronics & Information Business Group
Trading decreased by 7.2% from the previous fiscal year due mainly to a decline in domestic trading of machinery, decrease of infrastructure-associated business in Asia, and decrease in the international trading of ships.

Non-ferrous Metals/Chemicals/Petroleum & Carbon Group
Trading decreased by 0.2% from the previous fiscal year due mainly to a drop in the trading of nonferrous metals, offsetting the increase in the fuels business due to the rising price of crude oil and petroleum products.

Living Related Group and Retail & Consumer Services Division
Trading decreased by 17.8% from the previous fiscal year due mainly to the sale of the domestic cigarette business.

Overseas Trading Subsidiaries
Trading increased by 11.4% from the previous fiscal year due mainly to the steady growth of steel pipe trading through subsidiaries in North America and Asia.

Breakdown of Gross Trading Profit by Operating Segment:

For the years ended March 31, 2001, 2000, and 1999	Billions of Yen 2001	2000	1999	Millions of U.S. Dollars 2001
Iron & Steel Group	¥ 39	¥ 34	¥ 40	$ 306
Machinery & Electric Group and Media, Electronics & Information Business Group	155	158	144	1,231
Non-ferrous Metals/Chemicals/Petroleum & Carbon Group	75	70	73	598
Living Related Group and Retail & Consumer Services Division	143	159	149	1,138
Domestic Branches	21	20	21	164
Overseas Trading Subsidiaries	61	51	55	483
Segment Total	494	492	482	3,920
Corporate and Eliminations	(6)	(17)	(9)	(44)
Consolidated	¥488	¥475	¥473	$3,876

Iron & Steel Group
Gross profit increased by 13.3% from the previous fiscal year due mainly to the sale of our interests in an unprofitable coal business in Australia and the addition of newly consolidated subsidiaries in fiscal 2001.

Machinery & Electric Group and Media, Electronics & Information Business Group
Gross profit decreased by 2.0% from the previous fiscal year. Although profit rose in the information business thanks to the steady growth of software development and mobile phone sales subsidiaries in Japan, this was offset by the decrease in the infrastructure-associated business in Asia.

Non-ferrous Metals/Chemicals/Petroleum & Carbon Group
Gross profit increased by 8.0% from the previous fiscal year due mainly to the steady growth of the production of PVC pipe for housing use in the chemicals field and the rising price of crude oil and petroleum products in the fuels field.

Living Related Group and Retail & Consumer Services Division
Gross profit decreased by 9.8% from the previous fiscal year due to the sale of the domestic cigarette business, although the retail and consumer services business grew steadily.

Overseas Trading Subsidiaries
Gross profit increased by 20.6% from the previous fiscal year due mainly to the steady growth of steel pipe trading through Sumitomo Corporation of America.

Selling, General and Administrative Expenses

Due to reinforcement of cost-competitiveness and a change in the accounting status of domestic CATV operating companies from consolidated subsidiaries to associated companies, to which the equity method is applied, personnel expenses fell by 6.0% to ¥12.5 billion, while equipment expenses fell by 7.0% to ¥5.4 billion. As a result, selling, general and administrative expenses decreased by ¥18.1 billion from the previous fiscal year to ¥390.5 billion.

Provision for Doubtful Receivables

Total provision for doubtful receivables increased by ¥1.4 billion from the previous fiscal year to ¥8.9 billion.

Operating Income

As described above, due to the increase in gross trading profit and the decrease in selling, general and administrative expenses, operating income increased by ¥30.3 billion from the previous fiscal year to ¥88.8 billion.

Other Income (Expenses)

Interest Expense (Net of Interest Income)

Net interest expense decreased by ¥4 billion from the previous fiscal year to ¥18 billion as a result of a reduction in interest-bearing liabilities due to the disposal of various businesses.

Dividends

Total dividends received remained on a par with the previous fiscal year at ¥5.9 billion.

Gain on Marketable Securities and Investments

Although the Company continued to realize gains on investments sold in media and electronics-associated businesses and sales from unwinding cross-held securities as in the previous year, overall gain on marketable securities and investments decreased by ¥6.1 billion from the previous fiscal year, to ¥37.2 billion net, due to other than temporary valuation losses in certain investments caused by the downturn in the stock markets.

Gain on Securities Transferred to Pension Fund

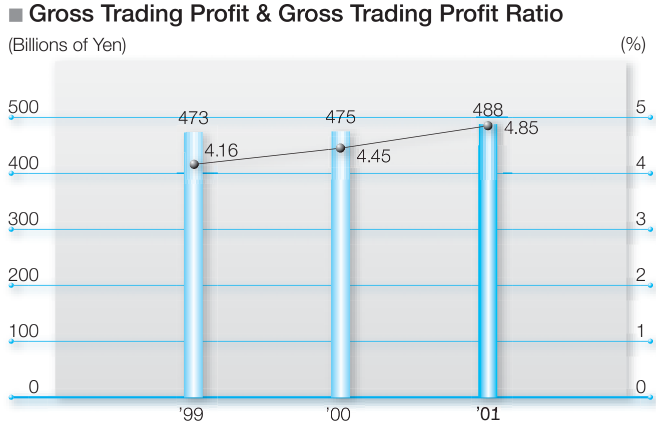
The Company contributed a part of its marketable securities to the pension fund at market price. The Company recognized gain amounted to ¥35 billion.

Gain on Sale of Subsidiaries

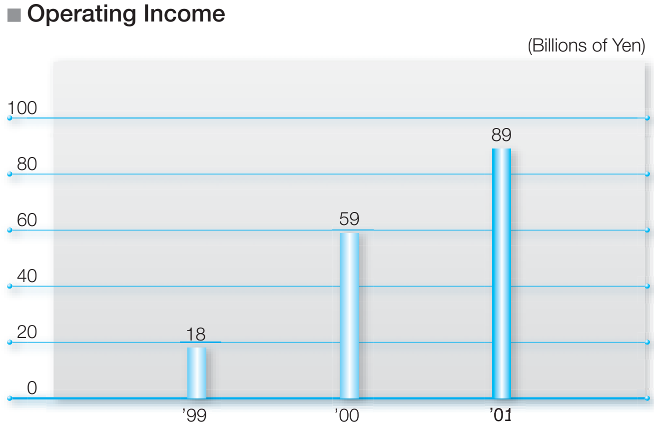
The gain of ¥17.1 billion reported in the previous fiscal year resulted from the sale of a domestic cigarette business and a leasing business in the U.S., implemented as part of the switching of existing assets.

Gain on Sale of Property and Equipment

■ Gross Trading Profit & Gross Trading Profit Ratio



■ Operating Income



Gain on sale of property and equipment remained on a par with the previous fiscal year at ¥1 billion.

Impairment Losses of Long-lived Assets

In the previous fiscal year, assets related to an overseas mining project and certain property held by the Company for sale were deemed to be impaired, resulting in a loss of ¥30.8 billion. This fiscal year, a loss of ¥7.7 billion was reported related to real estate property.

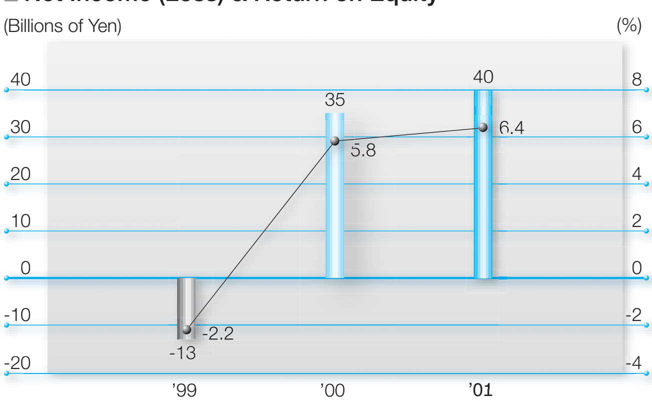
Settlement Received/(Paid) on Copper Trading Litigation

The Company received ¥30 billion from a U.S. financial institution in a settlement of issues concerning the copper trading litigation and paid ¥10.9 billion to settle civil lawsuits brought against the Company in the U.S.

Loss on Termination and Restructuring of Projects

Loss on termination and restructuring of projects increased by ¥61.8 billion from the previous fiscal year to ¥67.2 billion. This increase was due to additional loss of direct write-offs of businesses, amounting to approximately ¥30 billion, as the Company vigorously implemented its policy of selling or pulling out of unprofitable businesses to complete the Reform Package; and provisions of approximately ¥37 billion for losses related to low-performing businesses and Southeast Asia exposures.

■ Net Income (Loss) & Return on Equity



Other Income (Loss)

A loss of ¥13 billion was reported due to legal fees in lawsuits concerning the copper trading litigation, minority interests, and amorization of consolidation differences.

Equity in Earnings (Losses) of Associated Companies

The Company reported a loss of ¥6.5 billion in this category, a decrease of ¥12.1 billion from the previous fiscal year. This was due mainly to the reduction in ownership percentage of certain domestic CATV operating companies, which were categorized as consolidated subsidiaries in the previous fiscal year. Those associated companies currently have operating losses.

Net Income (Loss)

As a result of the above, the net income for this fiscal year was ¥40.3 billion, an increase of ¥5.2 billion from the previous fiscal year.

3. Liquidity and Capital Resources (For the year ended March 31, 2001, compared with the previous fiscal year)

Financial Position

As of March 31, 2001, total assets amounted to ¥4,950 billion, remaining at about the same level as the previous fiscal year.

This was due to an increase of receivables and payables-trade as a result of steady expansion of operating activities, which offset a reduction caused by the disposal of unprofitable businesses, implemented as the final step to complete the Reform Package, and a decrease in the market value of securities due to the sluggish stock market.

In addition to reduction of assets related to low-return operations, the Company also continued to reduce interest-bearing liabilities. As of March 31, 2001, these amounted to ¥2,704.3 billion, a decrease of ¥16.9 billion from the previous fiscal year.

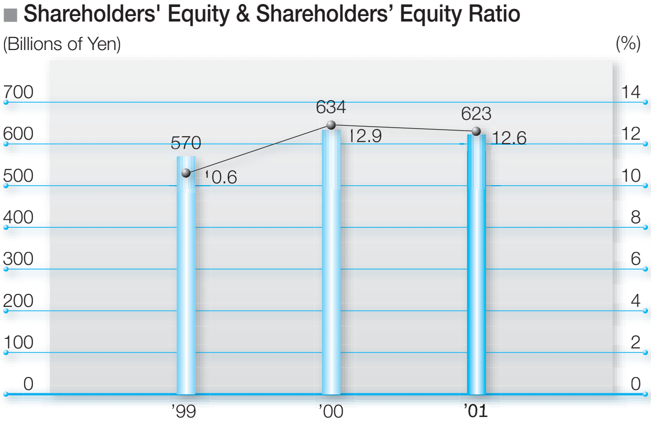
Shareholders' equity amounted to ¥622.9 billion, a decrease of ¥11.2 billion from the previous fiscal year. This was due to a decrease of net unrealized holding gains on securities available-for-sale caused by a downturn in the stock market, although retained earnings increased, with the net income growing to ¥40.3 billion this year. As a result, shareholders' equity ratio fell by 0.3 points to 12.6%.

With both interest-bearing liabilities and shareholders' equity remaining at more or less the same level, debt-equity ratio (interest-bearing liabilities/shareholders' equity) stayed at the same level as the previous fiscal year at 4.3 points.

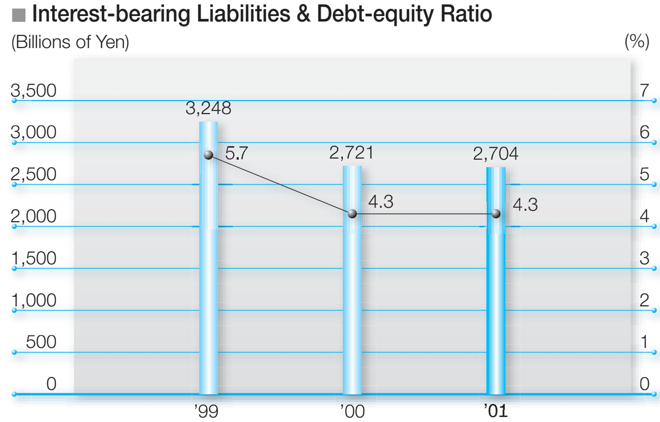
Liquidity and Capital Resources

	Billions of Yen			Millions of U.S. Dollars
As of March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Short-term				
Loans, principally from banks	¥ 405	¥ 273	¥ 781	$ 3,212
Commercial paper	416	286	442	3,300
	821	559	1,223	6,512
Long-term				
Secured long-term debt	75	81	124	597
Unsecured long-term debt				
Loans	1,504	1,677	1,494	11,939
Bonds and notes	304	404	407	2,415
	1,883	2,162	2,025	14,951
Interest-bearing liabilities	2,704	2,721	3,248	21,463
Others	175	179	186	1,387
	¥2,879	¥2,900	¥3,434	$22,850
Total assets	¥4,950	¥4,905	¥5,389	$39,286
Shareholders' equity	¥ 623	¥ 634	¥ 570	$ 4,944
Shareholders' equity ratio (%)	12.6	12.9	10.6	
Debt-equity ratio (times)	4.3	4.3	5.7	

■ Shareholders' Equity & Shareholders' Equity Ratio



■ Interest-bearing Liabilities & Debt-equity Ratio



Credit Lines

The Company entered into line of credit agreements with three syndicates, the first consisting of nine major foreign banks headed by Citibank, the second consisting of seven Japanese city banks headed by Sumitomo Bank, Ltd. as of April 1, 2001, Sumitomo Mitsui Banking Corp., and the last consisting of 12 Japanese regional banks also headed by Sumitomo Bank, Ltd. These lines of credit are US$950 million with the foreign banks and ¥340 billion and ¥150 billion with the Japanese banks, respectively. As of March 31, 2001, the Company has not drawn down any loans using these lines of credit.

Cash Flow Analysis

In fiscal 2001, net cash provided by operating activities was ¥85.7 billion, almost the same amount as the operating income, while net cash of ¥62.8 billion was used in investing activities, mainly relating to completion of the new Harumi Head Office building.

Free cash flow for fiscal 2001 amounted to ¥22.9 billion. The drop of ¥247.2 billion from the previous fiscal year was due to the decrease of application of securities and time deposits last year as a result of securitization of ship loans and reduction of financial assets.

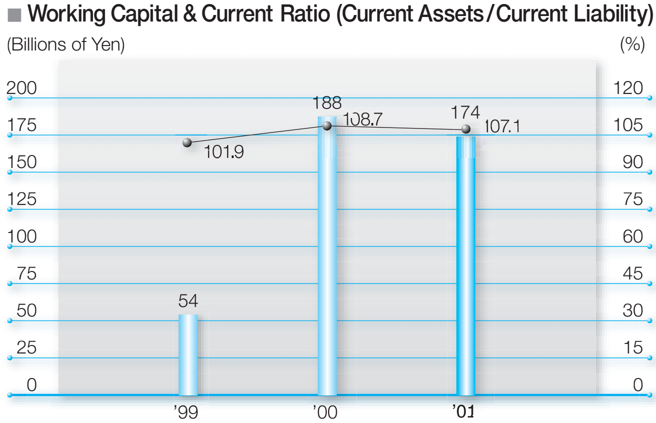
On the other hand, net cash provided by financing activities amounted to ¥14 billion.

As a result, cash and cash equivalents increased by ¥40.1 billion, including the effect of exchange rate changes on cash and cash equivalents.

Summary of Statements of Consolidated Cash Flows

		Billions of Yen		Millions of U.S. Dollars
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Net cash provided by Operating Activities	¥ 86	¥ 110	¥ 15	$ 681
Net cash provided by (used in) Investing Activities	(63)	160	(154)	(499)
Free Cash Flow	23	270	(139)	182
Net cash provided by (used in) Financing Activities	14	(350)	27	111
Effect of exchange rate changes on cash and cash equivalents	3	(9)	(4)	25
Net increase (decrease) in cash and cash equivalents	¥ 40	¥ (89)	¥(116)	$ 318

■ Working Capital & Current Ratio (Current Assets/Current Liability)



Sumitomo Corporation and Consolidated Subsidiaries

Consolidated Balance Sheets

As of March 31, 2001 and 2000

ASSETS

	Millions of Yen		Millions of U.S. Dollars
	2001	2000	2001
Current assets:			
Cash and cash equivalents	¥ 251,532	¥ 211,385	$ 1,996
Time deposits	5,194	6,149	41
Marketable securities (Notes 5 and 11)	14,877	30,480	118
Receivables—trade (Notes 6 and 11)			
Notes and loans	396,661	351,526	3,148
Accounts	1,174,220	1,066,175	9,319
Associated companies	195,120	128,841	1,549
Allowance for doubtful receivables (Note 8)	(11,600)	(11,554)	(92)
Inventories	418,585	373,334	3,322
Deferred income taxes (Note 12)	23,697	25,815	188
Advance payments to suppliers	61,072	71,644	485
Other current assets	97,232	78,759	772
Total current assets	2,626,590	2,332,554	20,846
Investments and long-term receivables:			
Investments in and advances to associated companies (Note 7)	242,516	180,264	1,925
Other investments (Notes 5 and 11)	704,039	887,884	5,588
Long-term receivable (Notes 6 and 11)	648,156	661,159	5,144
Allowance for doubtful receivables (Note 8)	(95,957)	(87,185)	(762)
Total investments and long-term receivables	1,498,754	1,642,122	11,895
Property and equipment, at cost (Notes 9 and 11)	1,038,712	1,185,342	8,244
Accumulated depreciation	(333,368)	(367,818)	(2,646)
	705,344	817,524	5,598
Other assets	119,391	112,444	947
Total	¥4,950,079	¥4,904,644	$39,286

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of Yen 2001	2000	Millions of U.S. Dollars 2001
Current liabilities:			
Short-term debt (Notes 10 and 11)	¥ 820,534	¥ 559,182	$ 6,512
Current maturities of long-term debt (Notes 10 and 11)	285,764	398,224	2,268
Payables—trade			
Notes and acceptances	233,473	201,650	1,853
Accounts	824,005	739,045	6,540
Associated companies	51,107	37,381	406
Accrued income taxes	8,701	8,560	69
Other accrued expenses	45,473	57,686	361
Advances from customers	71,462	67,791	567
Other current liabilities	112,321	75,515	891
Total current liabilities	2,452,840	2,145,034	19,467
Long-term debt, less current maturities (Notes 10 and 11)	1,772,856	1,942,900	14,071
Accrued pension and severance liabilities (Note 13)	8,113	41,646	64
Deferred income taxes (Note 12)	24,358	74,068	193
Minority interests	68,955	66,773	547
Commitments and contingent liabilities (Notes 11 and 22)			
Shareholders' equity (Notes 14 and 17):			
Common stock, ¥50 par value—authorized 2,000,000,000 shares; issued 1,064,462,662 shares in 2001 and 2000	169,432	169,432	1,345
Additional paid-in capital	189,536	189,536	1,504
Retained earnings:			
Appropriated for legal reserve	17,235	16,384	137
Unappropriated	261,675	230,697	2,077
	278,910	247,081	2,214
Accumulated other comprehensive income (loss) (Note 15)	(14,728)	28,174	(117)
Treasury stock, at cost: 185,543 shares in 2001	(193)	—	(2)
Total shareholders' equity	622,957	634,223	4,944
Total	¥4,950,079	¥4,904,644	$39,286

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, 2001, 2000, and 1999

	Millions of Yen 2001	2000	1999	Millions of U.S. Dollars 2001
Total trading transactions (Notes 7 and 18)	¥10,080,062	¥10,656,046	¥11,378,831	$80,000
Gross trading profit (Note 18)	¥ 488,400	¥ 474,674	¥ 472,858	$ 3,876
Selling, general and administrative expenses	390,578	408,688	407,182	3,100
Provision for doubtful receivables (Note 8)	8,969	7,483	47,932	71
Total	399,547	416,171	455,114	3,171
Operating income (Note 18)	88,853	58,503	17,744	705
Other income (expenses):				
Interest expense (net of interest income: 2001, 2000, and 1999—¥42,299 million ($336 million), ¥43,069 million, and ¥64,753 million)	(18,010)	(22,070)	(24,981)	(143)
Dividends	5,979	5,646	6,634	47
Gain on marketable securities and investments, net (Notes 5, 7, and 13)	37,289	43,480	9,821	296
Gain on securities transferred to pension fund (Notes 5 and 13)	35,040	—	—	278
Gain on sale of subsidiaries	—	17,170	—	—
Gain on sale of property and equipment, net	1,035	1,312	28,497	8
Impairment losses of long-lived assets	(7,753)	(30,824)	(12,816)	(61)
Settlement received/(paid) on copper trading litigation (Note 22)	19,125	—	(17,563)	152
Loss on termination and restructuring of projects (Note 20)	(67,269)	(5,461)	—	(534)
Other, net	(13,014)	(10,907)	(3,246)	(103)
Other income (expenses), net	(7,578)	(1,654)	(13,654)	(60)
Income before income taxes and equity in earnings (losses) of associated companies	81,275	56,849	4,090	645
Income taxes (Note 12):				
Current	30,286	24,893	19,360	241
Deferred	4,193	2,543	(4,613)	33
Total	34,479	27,436	14,747	274
Income (loss) before equity in earnings (losses) of associated companies	46,796	29,413	(10,657)	371
Equity in earnings (losses) of associated companies, net (after income tax effect) (Notes 7 and 12)	(6,452)	5,652	(2,419)	(51)
Net income (loss)	¥ 40,344	¥ 35,065	¥ (13,076)	$ 320

	Yen 2001	2000	1999	U.S. Dollars 2001
Amounts per share (Note 17):				
Net income (loss):				
Basic	¥37.91	¥32.94	¥(12.28)	$0.30
Diluted	37.14	32.31	(12.28)	0.29
Cash dividends declared for the year	¥ 8.00	¥ 8.00	¥ 8.00	$0.06

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, 2001, 2000, and 1999

	Millions of Yen			Millions of U.S. Dollars
	2001	2000	1999	2001
Common stock:				
Balance, beginning and end of year	¥169,432	¥169,432	¥169,432	$1,345
Additional paid-in capital:				
Balance, beginning and end of year	¥189,536	¥189,536	¥189,536	$1,504
Retained earnings:				
Balance, beginning of year	¥247,081	¥220,532	¥242,124	$1,961
Net income (loss)	40,344	35,065	(13,076)	320
Cash dividends paid	(8,515)	(8,516)	(8,516)	(67)
Balance, end of year	¥278,910	¥247,081	¥220,532	$2,214
Accumulated other comprehensive income (loss) (Note 15):				
Balance, beginning of year	¥ 28,174	¥ (9,847)	¥ 18,298	$ 224
Other comprehensive income (loss) for the year, net of tax	(42,902)	38,021	(28,145)	(341)
Balance, end of year	¥ (14,728)	¥ 28,174	¥ (9,847)	$ (117)
Treasury Stock				
Balance, beginning of year	¥ —	¥ —	¥ —	$ —
Purchase of treasury stock	(193)	—	—	(2)
Balance, end of year	¥ (193)	¥ —	¥ —	$ (2)
Disclosure of comprehensive income (loss):				
Net income (loss) for the year	¥ 40,344	¥ 35,065	¥ (13,076)	$ 320
Other comprehensive income (loss) for the year, net of tax (Note 15)	(42,902)	38,021	(28,145)	(341)
Comprehensive income (loss) for the year	¥ (2,558)	¥ 73,086	¥ (41,221)	$ (21)

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, 2001, 2000, and 1999

	Millions of Yen			Millions of U.S. Dollars
	2001	2000	1999	2001
Operating activities:				
Net income (loss)	¥ 40,344	¥ 35,065	¥ (13,076)	$ 320
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	57,424	62,124	53,363	456
Provision for doubtful receivables	8,969	7,483	47,932	71
Gain on marketable securities and investments, net	(37,289)	(43,480)	(9,821)	(296)
Gain on securities transferred to pension fund	(35,040)	—	—	(278)
Gain on sale of subsidiaries	—	(17,170)	—	—
Gain on sale of property and equipment, net	(1,035)	(1,312)	(28,497)	(8)
Impairment losses of long-lived assets	7,753	30,824	12,816	61
Loss on termination and restructuring of projects	67,269	5,461	—	534
Equity in earnings (losses) of associated companies	6,452	(5,652)	2,419	51
Changes in operating assets and liabilities, excluding effect of acquisitions and divestitures				
Receivables	(124,889)	130,471	121,377	(991)
Inventories	(33,115)	20,442	14,687	(263)
Payables	125,476	(85,074)	(189,362)	996
Other, net	3,429	(28,622)	3,708	28
Net cash provided by operating activities	85,748	110,560	15,546	681
Investing activities:				
Expenditures for property and equipment	(132,313)	(145,631)	(97,626)	(1,050)
Proceeds from sale of property and equipment	86,352	47,227	55,429	685
Acquisition of investments	(337,386)	(133,537)	(178,043)	(2,678)
Proceeds from sale and maturity of investments	335,227	306,229	178,235	2,661
Increase in loans receivable	(153,391)	(96,525)	(183,473)	(1,217)
Reduction of loans receivable	134,124	141,763	84,561	1,064
Net increase (decrease) in time deposits	4,564	40,072	(13,279)	36
Net cash provided by (used in) investing activities	(62,823)	159,598	(154,196)	(499)
Financing activities:				
Net decrease in short-term debt	269,631	(599,037)	(295,983)	2,140
Proceeds from long-term debt	229,532	740,777	590,407	1,822
Repayment of long-term debt	(481,186)	(492,177)	(258,501)	(3,819)
Cash dividends paid	(8,515)	(8,516)	(8,516)	(68)
Proceeds from minority interest	4,555	9,164	—	36
Net cash provided by (used in) financing activities	14,017	(349,789)	27,407	111
Effect of exchange rate changes on cash and cash equivalents	3,205	(9,369)	(4,477)	25
Net increase (decrease) in cash and cash equivalents	40,147	(89,000)	(115,720)	318
Cash and cash equivalents, beginning of year	211,385	300,385	416,105	1,678
Cash and cash equivalents, end of year	¥ 251,532	¥211,385	¥ 300,385	$ 1,996

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, 2001 are included solely for the convenience of readers and have been made at the rate of ¥126=US$1, the approximate rate of exchange on March 31, 2001. 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 valuation of certain investment securities, impairment losses of long-lived assets and loans receivable, accounting for pension costs, deferred gain on sales of property for tax purposes and 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 twenty 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 of consolidated subsidiaries, which were included in "Other, net" in the accompanying statements of consolidated income, were loss of ¥5,174 million ($41 million), income of ¥3,684 million and income of ¥3,922 million for the years ended March 31, 2001, 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) trading securities, which are accounted for at fair value with unrealized gains and losses included in earnings, (2) 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 (3) 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 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 recognized in current income.

(j) Impairment of 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 No.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 mainly 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, investments, impairment of long-lived 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

In September 2000, the Financial Accounting Standards Board ("FASB") issued SFAS No.140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," a replacement of SFAS No.125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No.140 revises the standards for accounting for securitizations and requires certain disclosures. SFAS No.140 is effective for all transfers of financial assets occurring after March 31, 2001, and for disclosures relating to securitization transactions for fiscal years ending after December 15, 2000. The effect of adopting SFAS No.140 has not been material.

In June 1998, FASB issued SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities," as amended, in June 2000, by SFAS No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No.133." SFAS No.133, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No.133 requires, as amended, that an entity recognize all derivatives as either assets or liabilities in the balance sheet 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 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. SFAS No.133, as amended by SFAS No.138, is effective for the fiscal year beginning after June 15, 2000. The Companies adopted SFAS No.133 and 138 for the year beginning April 1, 2001. As of April 1, 2001, the adoption of the new accounting resulted in immaterial impact to net income and a decrease to accumulated other comprehensive income of approximately ¥1,500 million ($12 million).

(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
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Cash paid during the year for:				
Interest	¥69,805	¥74,966	¥93,773	$554
Income taxes	30,844	23,192	21,153	245
Non-cash investing and financing activities:				
Capital lease obligations incurred	6,312	7,778	1,430	50
Reduction of loan receivables through securitization:				
Receivable	—	44,300	—	—
Loan receivables	—	46,000	—	—
Transfer of securities to pension trust	¥61,112	¥ —	¥ —	$485

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 trading, available-for-sale or held-to-maturity securities. Information regarding each category of the securities classified as trading, available-for-sale and held-to-maturity as of March 31, 2001 and 2000, including securities of which certain of the Companies were the beneficial owners under trust agreements with trust companies, was as follows (excluding non-marketable investments discussed below):

				Millions of Yen
As of March 31, 2001:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading securities	¥ 149	¥ —	¥ —	¥ 149
Available-for-sale:				
Equity securities	305,291	128,567	13,417	420,441
Debt securities	15,224	702	59	15,867
Held-to-maturity	41,014	32	746	40,300
	¥361,678	¥129,301	¥14,222	¥476,757

				Millions of Yen
As of March 31, 2000:	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

				Millions of U.S. Dollars
As of March 31, 2001:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading securities	$ 1	$ —	$ —	$ 1
Available-for-sale:				
Equity securities	2,423	1,020	106	3,337
Debt securities	121	6	0	126
Held-to-maturity	325	0	6	320
	$2,870	$1,026	$112	$3,784

A U.S. subsidiary sold its held-to-maturity security portfolio based on the subsidiary's view of the increased risk of issuer's credit worthiness during the year ended March 31, 2001. The sale did not result in a significant gain or loss for the year ended March 31, 2001.

The carrying values of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2001 and 2000 were summarized by contractual maturities as follows:

				Millions of Yen		Millions of U.S. Dollars
		2001		2000		2001
As of March 31, 2001 and 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	¥ 1,307	¥ 2,678	¥17,118	¥13,362	$ 10	$ 21
Due after one year through five years	14,560	13,277	4,173	13,168	116	105
Due after five years through ten years	—	12,483	1,812	21,365	—	99
Due after ten years	—	12,576	9,055	12,224	—	100
Total	¥15,867	¥41,014	¥32,158	¥60,119	$126	$325

Proceeds from sales and gross realized gains and losses on available-for-sale securities for the years ended March 31, 2001, 2000, and 1999 were as follows:

		Millions of Yen		Millions of U.S. Dollars
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Proceeds from sales	¥163,248	¥102,165	¥62,186	$ 1,296
Gross realized gains	¥ 59,197	¥ 36,127	¥23,491	$ 470
Gross realized losses	1,359	2,239	892	11
Net realized gains	¥ 57,838	¥ 33,888	¥22,599	$ 459

In fiscal 2001, the Company contributed certain marketable equity securities, which did not include those of its subsidiaries and affiliated companies, to an employee retirement benefit trust fully administrated and controlled by an independent bank trustee, with no cash proceeds thereon. The transfer of the available-for-sale securities has been accounted for as a sale in accordance with SFAS No.125 and accordingly the recorded pension liability has been reduced by the fair market value of the transferred securities. The fair market value of those securities at the time of contribution was ¥61,112 million ($485 million). Net realized gain of ¥35,040 million ($278 million) from transfer of securities to the pension fund was recognized in the accompanying statements of consolidated income for the year ended March 31, 2001.

(b) Non-marketable securities and other investments

Other investments as of March 31, 2001 and 2000 included investments in non-traded, unassociated companies and life insurance policies, etc., amounting to ¥241,445 million ($1,916 million) and ¥212,484 million, respectively. Investments in non-traded securities of 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 Company entered into a securitization transaction whereby ship loans totaling ¥100 billion were sold to an unrelated special-purpose company ("SPC"). At the same time, the Company made a subordinated loan of ¥10 billion to the SPC. As a result of these transactions, a net amount of ¥90 billion of loans was eliminated from the consolidated balance sheet as of March 31, 2000 in accordance with SFAS No.125 as replaced by SFAS No.140. The Company retained interests, which are subordinate to the investors' interests. Their value is subject to credit and interest rate risk on the sold financial assets, and calculated based on the key assumptions of expected credit loss rate of 0.15% and discount rate of 1.0%. The investors and SPC have no other recourse to the Company's other assets for failure of any loan borrowers to repay.

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, 2001 and 2000 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
As of March 31, 2001 and 2000	2001	2000	2001
Investments in capital stock	¥197,186	¥150,306	$1,565
Advances	45,330	29,958	360
Total	¥242,516	¥180,264	$1,925

The carrying value of investments in associated companies as of March 31, 2001 and 2000 approximated the companies' equity in the underlying net assets. Investments in common stock of certain associated companies, as of March 31, 2001 and 2000 included marketable securities with the carrying amounts of ¥30,509 million ($242 million) and ¥24,917 million, respectively, with corresponding aggregate quoted market values of ¥24,702 million ($196 million) and ¥26,299 million, respectively.

Summarized financial information with respect to the associated companies, which are accounted for by the equity method as of March 31, 2001 and 2000, and for the years ended March 31, 2001, 2000, and 1999 is presented below:

	Millions of Yen		Millions of U.S. Dollars
As of March 31, 2001 and 2000	2001	2000	2001
Current assets	¥ 686,809	¥ 641,530	$ 5,451
Property, land and equipment—net	683,935	657,549	5,428
Other assets	821,127	653,938	6,517
Total assets	¥2,191,871	¥1,953,017	$17,396
Current liabilities	¥1,206,606	¥ 988,501	$ 9,576
Non-current liabilities	597,164	573,676	4,740
Shareholders' equity	388,101	390,840	3,080
Total liabilities and shareholders' equity	¥2,191,871	¥1,953,017	$17,396

	Millions of Yen			Millions of U.S. Dollars
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Net sales	¥907,992	¥771,845	¥815,961	$7,206
Net income (loss)	¥ (16,063)	¥ 11,983	¥ (23,138)	$ (127)

The Companies' total transactions with associated companies during the years ended March 31, 2001, 2000, and 1999 were as follows:

	Millions of Yen			Millions of U.S. Dollars
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Trading transactions	¥208,607	¥252,614	¥289,002	$1,656
Purchase transactions	525,317	709,776	595,822	4,169

In May 2000, the Company sold a 10% share of Jupiter Telecommunications Co., Ltd. ("Jupiter"), a 60% owned CATV operating subsidiary in fiscal 2000, to a third party. Later in September 2000, Jupiter acquired Titus Communications Corporation ("Titus"), a CATV operating company, by exchanging new shares of Jupiter with the shares of Titus. Jupiter accounted for this acquisition by the purchase method in accordance with APB No.16 and recognized a significant amount of goodwill as of September 1, 2000. As a result of this transaction, the Company's ownership of Jupiter was diluted from 50% to 35% and the Company recognized gains arising from the issuance by Jupiter of its own shares, which was recorded in the accompanying consolidated statement of income in the year ended March 31, 2001.

8. ALLOWANCE FOR DOUBTFUL RECEIVABLES

An analysis of the allowance for doubtful receivables for the years ended March 31, 2001, 2000, and 1999 is presented as follows:

	Millions of Yen			Millions of U.S. Dollars
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Balance, beginning of year	¥ 98,739	¥99,503	¥65,332	$ 784
Provision for doubtful receivables	8,969	7,483	47,932	71
Provision for loss on termination and restructuring of projects	29,712	—	—	236
Net charge-off	(29,786)	(7,592)	(13,299)	(236)
Foreign currency translation adjustments	(77)	(655)	(462)	(1)
Balance, end of year	¥107,557	¥98,739	¥99,503	$ 854

As of March 31, 2001 and 2000, the total recorded trade receivables and long-term loans that were considered to be impaired under SFAS No.114 was ¥134,777 million ($1,070 million) and ¥127,033 million, respectively, and the related valuation allowance provided as at each year-end were ¥81,966 million ($651 million) and ¥73,248 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, 2001, 2000, and 1999 was not material.

9. PROPERTY AND EQUIPMENT

Property and equipment as of March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
As of March 31, 2001 and 2000	2001	2000	2001
Land and land improvements	¥ 243,616	¥ 223,653	$ 1,933
Buildings, including leasehold improvements	378,124	426,063	3,001
Machinery and equipment	402,801	439,495	3,197
Projects in progress	14,171	96,131	113
Total	1,038,712	1,185,342	8,244
Less: Accumulated depreciation	(333,368)	(367,818)	(2,646)
Property and equipment—net	¥ 705,344	¥ 817,524	$ 5,598

Depreciation expenses for the years ended March 31, 2001, 2000, and 1999 were ¥51,770 million ($411 million), ¥54,347 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 undiscounted cash flows. The losses recognized for the years ended March 31, 2001, 2000, and 1999, totaling ¥7,753 million ($61 million), ¥30,824 million and ¥12,816 million, respectively, were included in the accompanying Statements of Consolidated Income.

Such impairment losses were calculated based on appraisals for land and building or using the best estimate of discounted future cash flows based on the assumption to continue its operation.

10. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2001 and 2000 consisted of the following:

	Millions of Yen				Millions of U.S. Dollars
As of March 31, 2001 and 2000	2001		2000		2001
		Average Interest Rate		Average Interest Rate	
Loans, principally from banks	¥404,689	3.27%	¥272,936	3.36%	$3,212
Commercial paper	415,845	0.95	286,246	0.66	3,300
	¥820,534		¥559,182		$6,512

The interest rates represent weighted average rates in effect at March 31, 2001 and 2000, 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$950 million with the foreign bank syndicate and ¥490 billion ($3,889 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, 2001 and 2000 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
As of March 31, 2001 and 2000	2001	2000	2001
Secured long-term debt:			
Banks and insurance companies, maturing serially through 2011, principally 2.0% to 7.9%	¥ 75,269	¥ 80,970	$ 597
Unsecured long-term debt:			
Banks and insurance companies, maturing serially through 2022, principally 0.1% to 6.9%	1,504,311	1,677,210	11,939
1.6% convertible bonds due 2002 payable in Japanese yen (convertible into common stock at ¥1,074.60 per share)	3,053	3,053	24
1.5% convertible bonds due 2004 payable in Japanese yen (convertible into common stock at ¥1,237.30 per share)	35,702	35,702	283
1.0% bonds due 2004 payable in Japanese yen	50,000	50,000	397
5.15% bonds due 2005 payable in euro	31,966	—	254
3.0% bonds due 2000 payable in Japanese yen	—	60,000	—
Various notes and bonds with interest rates from 0% to 7.3% maturing from 2001 to 2010	183,554	255,241	1,457
Capital lease obligation	42,944	38,468	341
Other	131,821	140,480	1,047
	2,058,620	2,341,124	16,339
Less: Current portion	(285,764)	(398,224)	(2,268)
	¥1,772,856	¥1,942,900	$14,071

As of March 31, 2001 and 2000, 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, 2001 were as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2002	¥ 285,764	$ 2,268
2003	382,308	3,035
2004	300,098	2,382
2005	282,557	2,242
2006	194,307	1,542
2007 and thereafter	613,586	4,870
Total	¥2,058,620	$16,339

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 ¥1,579,580 million ($12,536 million) and ¥1,758,180 million outstanding as of March 31, 2001 and 2000, respectively, and notes, bonds and medium-term notes of ¥304,275 million ($2,415 million) and ¥403,996 million outstanding as of March 31, 2001 and 2000, 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, 2001, 2000, and 1999, the Companies did not receive any such request and management does not expect any at present time and for the foreseeable future.

11. PLEDGED ASSETS

The following table summarizes the book value of assets pledged as collateral for short-term and long-term debt and contingent liabilities of the Companies as of March 31, 2001:

As of March 31, 2001	Millions of Yen	Millions of U.S. Dollars
Marketable securities and other investments	¥ 76,840	$ 610
Receivables and long-term receivables	54,074	429
Property and equipment, less related accumulated depreciation	113,901	904
	¥244,815	$1,943

The obligations secured by such collateral were as follows:

As of March 31, 2001	Millions of Yen	Millions of U.S. Dollars
Short-term debt	¥ 14,482	$ 115
Long-term debt	114,942	912
Contingent liabilities—guarantees of contracts	3,289	26
	¥132,713	$1,053

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 years ended March 31, 2001 and 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, 2001, 2000, and 1999 is summarized as follows:

			Millions of Yen	Millions of U.S. Dollars
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Income before income taxes and equity in earnings (losses) of associated companies	¥81,275	¥56,849	¥ 4,090	$745
Tax provision computed at normal income tax rate	¥34,136	¥23,877	¥ 1,963	$271
Increases (decreases) in tax due to:				
Expenses not deductible for tax purposes	2,264	2,823	3,652	18
Operating losses of certain subsidiaries, net of tax benefits realized	(6,117)	2,038	4,944	(49)
Lower income tax rates applicable to income in certain foreign countries	(7,758)	(3,731)	(2,430)	(62)
Effect of taxation on dividends	7,737	3,355	4,213	62
Effect of tax rate change	—	—	2,882	—
Other—net	4,217	(926)	(477)	34
Total provision for income taxes	¥34,479	¥27,436	¥14,747	$274

Total income taxes recognized for the years ended March 31, 2001, 2000, and 1999 were applicable to the following:

		Millions of Yen		Millions of U.S. Dollars
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Income before income taxes and equity in earnings (losses) of associated companies	¥ 34,479	¥27,436	¥14,747	$ 274
Equity in earnings (losses) of associated companies	2,978	1,624	1,693	24
Shareholders' equity:				
Net unrealized holding gains on securities available for sale	(54,929)	50,061	3,484	(436)
Pension liability adjustments	3,544	2,208	(5,752)	28
Total income taxes	¥(13,928)	¥81,329	¥14,172	$ (110)

Significant components of the deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of Yen		Millions of U.S. Dollars
As of March 31, 2001 and 2000	2001	2000	2001
Assets:			
Allowance for doubtful receivables	¥ 39,534	¥ 40,957	$ 314
Accrued pension and severance liabilities	11,829	10,520	94
Unrecognized intercompany profit	8,248	9,552	65
Net operating loss carry forwards	61,898	52,682	491
Inventory, and Property and Equipment	23,813	42,252	189
Accrual and other	13,606	15,924	108
Gross deferred tax assets	158,928	171,887	1,261
Less: Valuation allowance	(8,484)	(34,447)	(67)
Deferred tax assets—less valuation allowance	150,444	137,440	1,194
Liabilities:			
Valuation of debt and equity securities	46,116	111,184	366
Deferred gain on sales of property for tax purposes	38,097	37,574	302
Gain on securities transferred to pension fund	14,717	—	117
Undistributed earnings of affiliated companies	22,427	13,987	178
Installment sales	5,641	6,606	45
Other	18,679	13,597	148
Gross deferred tax liabilities	145,677	182,948	1,156
Net deferred tax assets (liabilities)	¥ 4,767	¥ (45,508)	$ 38

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, 2001 and 2000, 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 ¥91,997 million ($730 million) and ¥75,661 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, 2001, 2000, and 1999 included the following components:

		Millions of Yen		Millions of U.S. Dollars
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Service cost—benefits earned during the year	¥3,040	¥3,482	¥3,325	$24
Interest cost on projected benefit obligation	4,235	4,275	4,532	34
Expected return on plan assets	(2,424)	(1,978)	(1,823)	(19)
Net amortization and deferral	1,872	2,264	1,722	14
Net periodic pension cost	¥6,723	¥8,043	¥7,756	$ 53

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
	2001	2000	2001
Change in benefit obligation:			
Benefit obligation, beginning of year	¥121,715	¥122,153	$ 966
Service cost	3,040	3,482	24
Interest cost	4,235	4,275	34
Actuarial loss	11,818	195	94
Benefits paid	(7,428)	(8,390)	(59)
Benefit obligation, end of year	¥133,380	¥121,715	$1,059
Change in plan assets:			
Fair value of plan assets, beginning of year	¥ 80,810	¥ 67,100	$ 641
Actual return on plan assets	(11,631)	6,305	(92)
Employer contribution	73,656	11,869	585
Benefits paid from plan assets	(5,613)	(4,464)	(45)
Fair value of plan assets, end of year	¥137,222	¥ 80,810	$1,089
Funded status	¥ 3,842	¥ (40,905)	$ 30
Unrecognized actuarial loss	39,697	13,974	315
Unrecognized net obligation at transition being recognized over 14 years	1,722	3,444	14
Net amount recognized	¥ 45,261	¥ (23,487)	$ 359
Net amounts recognized in the consolidated balance sheets consist of:			
Liability for postretirement benefits	¥ —	¥ (33,757)	$ —
Prepaid cost for postretirement benefits	45,261	—	359
Intangible asset included in other assets	—	3,444	—
Accumulated other comprehensive income, gross of tax	—	6,826	—
Net amount recognized	¥ 45,261	¥ (23,487)	$ 359

As described in Note 5, the Company contributed certain marketable equity securities to an employee retirement benefit trust. The securities held in this trust are qualified as plan assets under SFAS No.87.

Because fair value of plan assets exceeded the accumulated benefit obligation as of March 31, 2001, Liability for postretirement benefits and Accumulated other comprehensive income were not recognized.

Assumptions used for fiscal 2001, 2000, and 1999 in determining costs for the plan and the funded status information shown above were principally as follows:

	2001	2000	1999
Weighted-average discount rate	3.0%	3.5%	3.5%
Expected long-term rate of return on plan assets	3.0%	3.0%	3.0%

Most of the 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, 2001 and 2000, the benefit obligation of subsidiaries under these plans were ¥23,637 million ($188 million) and ¥23,256 million, respectively, at the discount rate of mainly 3.0% and 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 cannot 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 are not significant. The total assets of the EPF reported by the trustee at March 31, 2000 approximately the amount of accrued benefit obligation at that date.

The amounts charged to income by subsidiaries for the years ended March 31, 2001, 2000, and 1999 were ¥4,682 million ($37 million), ¥3,201 million and ¥2,543 million, respectively.

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, 2001 and 2000, associated companies owned 311,168 shares and 514,119 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 and bonuses to directors, 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 ¥170,002 million ($1,349 million) and ¥164,118 million, shown by the Company's general books of account as of March 31, 2001 and 2000, respectively, exclusive of the amount previously appropriated for legal reserve, were not restricted by the limitations under the Code. And there is a restriction on the payment of dividends relating to the treasury stock acquired for the stock option plan, amounting to ¥181 million ($1 million) as of March 31, 2001.

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.

The Board of Directors intends to recommend to the shareholders, at the next general meeting to be held on June 22, 2001, the declaration of a cash dividend to shareholders of record as of March 31, 2001 of ¥4 ($0.03) per share for a total of ¥4,257 million ($34 million), bonuses to directors of ¥250 million ($2 million), and transfer to legal reserve of ¥451 million ($4 million).

(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 ($2 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 predetermined 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.

SFAS No.123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for a stock option. This statement gives entities a choice of recognizing related compensation expense by adopting the new fair value method or to continue to measure compensation using the intrinsic value approach under APB Opinion No.25 ("Accounting for Stock Issued to Employees"), the former standard. The Company chose to use the measurement prescribed by APB Opinion No. 25 and no additional compensation cost was incurred in fiscal 2001. Had compensation cost for the Company's stock option plans been determined consistent with SFAS No.123, the Company's net income and net income per share for the year ended March 31, 2001 would have been as follows:

For the year ended March 31, 2001	Millions of Yen	Millions of U.S. Dollars
Net income	¥40,310	$320

For the year ended March 31, 2001	Yen	U.S. Dollars
Net income per share:		
Basic	¥37.87	$0.30
Diluted	37.10	0.29

The following table summarizes information about stock option activity for fiscal 2001:

	Number of shares	Weighted average exercise price		Weighted average remaining life
		Yen	U.S. Dollars	
Outstanding at March 31, 2000	—	—	—	
Granted	161,000	¥1,171	$9	
Exercised	—	—	—	
Cancelled or expired	6,000	1,171	9	
Outstanding at March 31, 2001	155,000	¥1,171	$9	4.25
Options exercisable at year-end	—			

The fair value of these stock options was estimated using the Black-Scholes option pricing model under the following assumptions:

	2001
Grant-date fair value	¥372 ($3)
Expected life	5 years
Risk-free rate	0.45%
Expected volatility	38.00%
Expected dividend yield	0.68%

The Board of Directors intends to recommend to the shareholders, at the next general meeting to be held on June 22, 2001, the acquisition of 166,000 shares of the Company's common stock for the total consideration not exceeding ¥183 million ($1 million) during the period up to the closing of the next annual general shareholders' meeting in 2002.

15. OTHER COMPREHENSIVE INCOME (LOSS)

Changes in each component of accumulated other comprehensive income (loss) for the years ended March 31, 2001, 2000, and 1999 were as follows:

		Millions of Yen		Millions of U.S. Dollars
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Foreign currency translation adjustments:				
Balance, beginning of year	¥ (97,862)	¥ (63,703)	¥ (38,055)	$ (776)
Adjustment for the year	25,114	(34,159)	(25,648)	199
Balance, end of year	¥ (72,748)	¥ (97,862)	¥ (63,703)	$ (577)
Net unrealized holding gains on securities available for sale:				
Balance, beginning of year	¥129,318	¥ 60,188	¥ 56,353	$1,026
Adjustment for the year	(71,298)	69,130	3,835	(566)
Balance, end of year	¥ 58,020	¥129,318	¥ 60,188	$ 460
Pension liability adjustments:				
Balance, beginning of year	¥ (3,282)	¥ (6,332)	¥ —	$ (26)
Adjustment for the year	3,282	3,050	(6,332)	26
Balance, end of year	¥ —	¥ (3,282)	¥ (6,332)	$ —
Total accumulated other comprehensive income (loss):				
Balance, beginning of year	¥ 28,174	¥ (9,847)	¥ 18,298	$ 224
Adjustment for the year	(42,902)	38,021	(28,145)	(341)
Balance, end of year	¥ (14,728)	¥ 28,174	¥ (9,847)	$ (117)

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
2001:			
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	¥ 19,651	¥ —	¥ 19,651
Less: Reclassification adjustment for losses included in net income	5,463	—	5,463
Net adjustment	25,114	—	25,114
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains (losses) arising during the year	(105,279)	44,217	(61,062)
Less: Reclassification adjustment for gains included in net income	(20,948)	10,712	(10,236)
Net unrealized gains (losses)	(126,227)	54,929	(71,298)
Pension liability adjustments	6,826	(3,544)	3,282
Other comprehensive income (loss)	¥ (94,287)	¥ 51,385	¥(42,902)
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 gains 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 losses 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		
	Pretax amount	Tax (expense) or benefit	Net of tax amount
2001:			
Foreign currency translation adjustments:			
Aggregated adjustment for the year resulting from translation of foreign currency financial statements	$ 156	$ —	$ 156
Less: Reclassification adjustment for losses included in net income	43	—	43
Net adjustment	199	—	199
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains (losses) arising during the year	(836)	351	(485)
Less: Reclassification adjustment for gains included in net income	(166)	85	(81)
Net unrealized gains (losses)	(1,002)	436	(566)
Pension liability adjustments	54	(28)	26
Other comprehensive income (loss)	$ (749)	$ 408	$(341)

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 mainly 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 continuously 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 manage ment 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 busi nesses 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 22). 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, Currency Swap Agreements, and Currency Option Contracts

The fair values of interest rate swap and cap agreements, currency swap agreements, and currency option contracts 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, 2001 and 2000 were as follows:

As of March 31, 2001:	Notional amount	Carrying amount	Fair value (Millions of Yen)	Notional amount	Carrying amount	Fair value (Millions of U.S. Dollars)
Financial Assets:						
Non-current trade receivables and advances to associated companies (less allowance for doubtful receivables)	¥ —	¥ 681,861	¥ 691,892	$ —	$ 5,412	$ 5,491
Financial Liabilities:						
Long-term debt (including current maturities)	—	2,058,620	2,136,944	—	16,338	16,960
Derivative Financial Instruments:						
Interest rate swap and cap agreements	813,254	—	46,085	6,454	—	366
Currency swap agreements and currency option contracts	75,064	(1,137)	(1,137)	596	(9)	(9)
Foreign exchange forward contracts	299,403	(1,427)	(4,307)	2,376	(11)	(34)

As of March 31, 2000:	Notional amount	Carrying amount	Fair value (Millions of Yen)
Financial Assets:			
Non-current trade receivables and advances to associated companies (less allowance for doubtful receivables)	¥ —	¥ 684,684	¥ 700,625
Financial Liabilities:			
Long-term debt (including current maturities)	—	2,341,124	2,396,406
Derivative Financial Instruments:			
Interest rate swap and cap agreements	1,001,508	—	37,456
Currency swap agreements	13,132	—	125
Foreign exchange forward contracts	218,202	81	1,252

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, 2001, 2000, and 1999 was as follows:

		Millions of Yen		Millions of U.S. Dollars
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999	2001
Net income (loss) available to common stockholders	¥40,344	¥35,065	¥(13,076)	$320
Effect of dilutive securities:				
1.6% Japanese yen convertible debentures, due 2002	31	31	—	0
1.5% Japanese yen convertible debentures, due 2004	325	325	—	3
Diluted net income (loss)	¥40,700	¥35,421	¥(13,076)	$323

			Number of Shares
For the years ended March 31, 2001, 2000, and 1999	2001	2000	1999
Average common shares outstanding	1,064,306,912	1,064,462,662	1,064,462,662
Dilutive effect of:			
1.6% Japanese yen convertible debentures, due 2002	2,841,057	2,841,057	—
1.5% Japanese yen convertible debentures, due 2004	28,854,764	28,854,764	—
Diluted common shares outstanding	1,096,002,733	1,096,158,483	1,064,462,662

For the years ended March 31, 2001, 2000, and 1999	Yen 2001	2000	1999	U.S. Dollars 2001
Net income (loss) per share:				
Basic	¥37.91	¥32.94	¥(12.28)	$0.30
Diluted	37.14	32.31	(12.28)	0.29

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 & Steel Group, 2) Machinery & Electric Group and Media, Electronics & Information Business Group, 3) Non-ferrous Metals/Chemicals/Petroleum & Carbon Group, 4) Living Related Group and Retail & Consumer Services Division, 5) Domestic Branches, and 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 (see Note 1).

Information by operating segment and geographic area reported for internal use by management for the years ended March 31, 2001, 2000, and 1999 are summarized as follows:

Operating segments:

Millions of Yen

2001: Segment	Total trading transactions: External customers	Inter segment	Total	Gross trading profit	Operating income	Segment assets	Depreciation and amortization	Capital expenditures
Iron & Steel Group	¥ 931,153	¥121,282	¥ 1,052,435	¥ 38,553	¥ 10,168	¥ 376,883	¥ 3,284	¥ 4,201
Machinery & Electric Group and Media, Electronics & Information Business Group	3,671,452	111,095	3,782,547	155,112	22,110	1,561,798	37,612	69,438
Non-ferrous Metals/ Chemicals/Petroleum & Carbon Group	1,865,546	360,452	2,225,998	75,370	16,051	620,629	4,879	6,539
Living Related Group and Retail & Consumer Services Division	1,901,870	44,371	1,946,241	143,402	16,929	1,040,214	13,518	39,074
Domestic Branches	854,816	24,152	878,968	20,579	3,929	272,102	855	789
Overseas Trading Subsidiaries	749,953	332,602	1,082,555	60,883	15,432	482,888	3,942	4,884
Segment Total	9,974,790	993,954	10,968,744	493,899	84,619	4,354,514	64,090	124,925
Corporate and Eliminations	105,272	(993,954)	(888,682)	(5,499)	4,234	595,565	(6,666)	13,541
Consolidated	¥10,080,062	¥ —	¥10,080,062	¥488,400	¥ 88,853	¥ 4,950,079	¥ 57,424	¥ 138,466

Millions of Yen

2000: Segment	Total trading transactions: 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	¥ 397,876	¥ 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	1,539,873	46,651	104,056
Non-ferrous Metals/ Chemicals/Petroleum & Carbon Group	1,869,701	290,342	2,160,043	69,722	12,124	560,494	6,451	7,662
Living Related Group and Retail & Consumer Services Division	2,313,047	35,370	2,348,417	158,924	22,984	1,024,654	14,272	32,146
Domestic Branches	860,669	16,639	877,308	20,111	2,904	241,457	287	69
Overseas Trading Subsidiaries	673,279	317,742	991,021	50,469	6,297	454,286	3,642	6,912
Segment Total	10,584,386	851,029	11,435,415	491,541	56,615	4,218,640	75,925	156,801
Corporate and Eliminations	71,660	(851,029)	(779,369)	(16,867)	1,888	686,004	(13,801)	6,479
Consolidated	¥10,656,046	¥ —	¥10,656,046	¥ 474,674	¥58,503	¥4,904,644	¥ 62,124	¥163,280

Millions of Yen

1999: Segment	Total trading transactions: 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
Non-ferrous 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

Millions of U.S. Dollars

2001: Segment	Total trading transactions: External customers	Inter segment	Total	Gross trading profit	Operating income	Segment assets	Depreciation and amortization	Capital expenditures
Iron & Steel Group	$ 7,390	$ 963	$ 8,353	$ 306	$ 81	$ 2,991	$ 26	$ 33
Machinery & Electric Group and Media, Electronics & Information Business Group	29,139	881	30,020	1,231	176	12,395	299	551
Non-ferrous Metals/ Chemicals/Petroleum & Carbon Group	14,806	2,861	17,667	598	127	4,926	39	52
Living Related Group and Retail & Consumer Services Division	15,094	352	15,446	1,138	134	8,256	107	310
Domestic Branches	6,784	192	6,976	164	31	2,160	7	6
Overseas Trading Subsidiaries	5,952	2,640	8,592	483	123	3,832	31	39
Segment Total	79,165	7,889	87,054	3,920	672	34,560	509	991
Corporate and Eliminations	835	(7,889)	(7,054)	(44)	33	4,726	(53)	108
Consolidated	$ 80,000	$ —	$ 80,000	$ 3,876	$ 705	$ 39,286	$ 456	$ 1,099

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

Geographic Information:

2001:	Millions of Yen Total trading transactions	Long-lived assets	Millions of U.S. Dollars Total trading transactions	Long-lived assets
Japan	¥ 8,803,092	¥ 672,495	$69,866	$5,337
U.S.A.	416,678	39,441	3,307	313
Other	860,292	112,799	6,827	896
Total	¥ 10,080,062	¥ 824,735	$80,000	$6,546

2000:	Millions of Yen Total trading transactions	Long-lived assets
Japan	¥ 9,354,451	¥717,495
U.S.A.	423,083	47,930
Other	878,512	164,543
Total	¥10,656,046	¥929,968

1999:	Millions of Yen Total trading transactions	Long-lived assets
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 amounted to 10% or more of the consolidated total trading transactions for the years ended March 31, 2001, 2000, and 1999.

19. FOREIGN EXCHANGE GAINS AND LOSSES

Net foreign currency transaction gains of ¥8,231 million ($65 million), losses of ¥4,236 million and losses of ¥1,569 million are included in the determination of net income (loss) for the years ended March 31, 2001, 2000, and 1999, respectively.

20. LOSS ON TERMINATION AND RESTRUCTURING OF PROJECTS

In order to strengthen the corporate constitution through improving the quality of assets, the Company has been actively shifting to superior assets by pulling out of those businesses that do no produce appropriate returns, disposing of nonperforming assets, and investing in businesses which management believes will have better future prospects and higher growth potential. As part of the process of improving the quality of assets, the Companies have withdrawn from or liquidated certain unprofitable projects including overseas mining projects, an overseas steel manufacturing plant, and a domestic golf business, and recognize the losses related to the exit cost of these projects. The Companies also provided an accrual for the losses on certain Southeast Asia exposures, as well as provisions for anticipated losses of business investments. The total losses recognized for the years ended March 31, 2001 and 2000 were ¥67,269 million ($534 million) and ¥5,461 million, respectively, in the accompanying statement of consolidated income.

21. 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, 2001, 2000, and 1999 were ¥20,842 million ($165 million), ¥25,511 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, 2001, the future minimum lease payments under non-cancelable operating leases were as follows:

Years ending March 31	Millions of Yen	Millions of U.S. Dollars
2002	¥ 11,432	$91
2003	9,511	75
2004	9,333	74
2005	7,750	62
2006	7,175	57
Thereafter	61,846	491
Total	¥107,047	$850

22. 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 \37,406 million ($297 million) as of March 31, 2001.

The Companies' contingent liabilities as of March 31, 2001 as a guarantor of indebtedness of others aggregated to ¥130,367 million ($1,035 million), including ¥36,005 million ($286 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 ¥68,682 million ($545 million) as of March 31, 2001 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 commitments and guarantees in excess of established allowances.

(b) Litigation

(1) 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. Prior to the beginning of fiscal 2000, a substantial number of settlements and agreements had been reached with plaintiffs in these class actions and regulatory authorities in the U.S. and U.K. settling claims. In May 2001, another settlement was reached with 51 companies that had sued the Company in California in October 1999. For these settlements, the Company charged settlement expenses amounting to ¥10,876 million ($86 million) and ¥17,563 million which are included in "Settlement received/(paid) on copper trading litigation" in the accompanying statement of consolidated income for the years ended March 31, 2001 and 1999, respectively.

(2) 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 in Wisconsin, a class action and three individual suits are pending. In California, a class action in the State Superior Court is pending. In New York State Court, a suit filed by an individual is pending. An additional suit was filed in the U.S. District Court for the District of Columbia 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.

(3) 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 paid the Company $275 million plus legal fees and the Company released them from any claims stemming from the trading losses.

The Company recognized ¥30,001 million ($238 million) gain which is included in "Settlement received/(paid) on copper trading litigation" in the accompanying statement of consolidated income for the year ended March 31, 2001.

Report of Independent Public Accountants

ARTHUR ANDERSEN

Sumitomo Corporation:

We have audited the accompanying consolidated balance sheets of Sumitomo Corporation (a Japanese corporation) and consolidated subsidiaries as of March 31, 2001 and 2000, and the related statements of consolidated income, consolidated shareholders' equity and consolidated cash flows for each of the three years in the period ended March 31, 2001, 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, 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 16, 2001