



SUMITOMO CORPORATION OF AMERICA

*Annual Report 1999*





*Keitaro Yokohata,  
Sumitomo Corporation of America  
President and Chief Executive Officer*

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## PRESIDENT'S MESSAGE

I am pleased to report that we ended the century with a strong growth curve, and a solid financial platform that will allow us to continue our broad range of investments in opportunities this year and beyond.

Although in 1999 our total trading volume was lower than the previous year, our net income results after taxes increased by more than \$17 million, and crossed the \$50 million level for the first time. At the same time we strengthened our cash flow.

Thanks to the dedicated effort of SCOA employees enforcing reforms in every part of their business and operations, this company was able to set all-time records for income as well as improve upon shareholder value added. This was one of our best performances ever as a company.

Besides the sale of our leasing subsidiary, Phoenixcor, one of the big factors that contributed to our strong returns last year, was the continued strong U.S. economy, which allowed our subsidiary and affiliate companies to come in strong in their consolidated earnings. We also strengthened our future earning power through various investments we made in companies in the information technology and new media industry.

All this helped us to sustain impressive growth in 1999, contributing to a strong financial base, and creating enduring value.

Global prospects in 2000 remain promising for healthy economic growth with low inflation, propelled by the forces of the new economy. SCOA is managing for this new economy by creating an entrepreneurial network that is global in scope, but deeply rooted in local markets.

SCOA will continue its steps to implement the corporate reform package and achieve its goal of improving its balance sheet by reviewing its risk asset management; improving productivity; increasing market competitiveness; and expanding earnings. In 1999, we realized a good return on our investments by streamlining and divesting companies with low profitability or poor future prospects. I believe we improved our market value, and will continue to do so this year as we monitor costs, reduce risks and increase profitability of our assets.

Last year, corporations all over the world were consumed with addressing the unknown impact of the Y2K problem. We took the matter seriously and worked hard at fixing problems and preparing our entire company to handle unforeseen problems. The preparation paid off. We were pleased when the clocks rolled over and we had no significant problems.

Looking forward into the 21st Century we anticipate the Internet will forever change the way we do our business.

From the most straightforward administrative functions, to operations, to marketing and sales, to supply chain management, to finance, to customer relationships – many parts of our business will be touched by this new economy revolution.

In 1999, the company initiated a special “core business” task force to discuss ideas and strategies for creating more business opportunities. E-commerce and supply chain management were the biggest challenges that were identified, and we immediately created a special team to address these issues. Additionally, our business divisions have been asked to develop action plans to create cross-divisional business opportunities to further integrate business expansion.

Because of the scope and range of our business, SCOA will not have a single e-business strategy. Rather, we are developing multiple strategies and plans across the corporation. Each of our business groups has the responsibility to develop plans that are appropriate for their business and region. On an enterprise-wide basis, we already have a number of projects underway that span all of our businesses, and our integrated team is exploring the opportunities that lie ahead.

It is evident that perfect execution is imperative in this increasingly competitive, fast-paced business environment. The best thought-out plans are not worth very much if we do not implement them with excellence and precision. We need to be quick and flexible to take advantage of opportunities in today's marketplace.

For this reason, we need to recruit and retain the best and brightest employees. We will foster employees with rich experience and who act responsibly both in the company and in the community, and inspire others to act as well. We will also place great emphasis on both enriching our technology, and leveraging the knowledge base of the people that make up our business and management teams.

The key to growth is a continuous entrepreneurial spirit that permeates every function and individual in each and every part of our organization. We will focus on creating a truly progressive culture that cultivates new business opportunities throughout the corporation. We are continuing a tradition of reinvention and renewal to meet changing circumstances. We will approach our business challenges in a comprehensive and integrated fashion. This ability to refocus businesses and redirect resources will be critical as we move forward in the 21st century.



Keitaro Yokohata  
*Sumitomo Corporation of America*  
*President and Chief Executive Officer*

## CONSOLIDATED BALANCE SHEETS

(In Thousands of Dollars)

	December 31,	
	1999	1998
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 117,924	\$ 123,807
Investments	195	196
Accounts and notes receivable:		
Third party, net of allowance for doubtful accounts of \$2,119 and \$2,400 for 1999 and 1998, respectively	359,402	392,571
Net investment in leases	955	953
Parent company and affiliates (net)	252,049	192,076
Inventories	311,623	348,338
Advance payments to suppliers	78,236	84,861
Prepaid expenses and other assets	25,077	17,619
Net investment in subsidiary held for sale	—	34,492
Total current assets	<u>1,145,461</u>	<u>1,194,913</u>
<b>Investments</b>	<b>258,674</b>	217,706
<b>Long-Term Receivables:</b>		
Third party	18,664	37,832
Net investment in leases	23,425	23,767
Parent company and affiliates, (net)	117,888	147,719
<b>Property and Equipment</b> —Net of accumulated depreciation and amortization of \$105,574 and \$91,516 for 1999 and 1998, respectively	198,177	188,114
<b>Investments in Associated Companies and Other Assets</b>	<u>189,312</u>	<u>151,844</u>
<b>Total Assets</b>	<u><b>\$1,951,601</b></u>	<u><b>\$1,961,895</b></u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Current Liabilities:</b>		
Commercial paper	\$241,125	\$ 40,361
Notes payable	101,822	193,504
Securities sold under agreement to repurchase	—	153,385
Current portion of long-term debt	48,150	102,685
Accounts payable	173,195	161,802
Advances received, accrued expenses and other liabilities	58,675	41,964
Total current liabilities	<u>622,967</u>	<u>693,701</u>
<b>Long-Term Liabilities</b>	<u>760,423</u>	843,483
<b>Minority Interest</b>	<u>58,009</u>	36,058
<b>Commitments and Contingencies</b>		
<b>Stockholder's Equity:</b>		
Common stock, no par value—authorized, 300,000 shares; issued and outstanding, 182,650 shares and 177,650 shares for 1999 and 1998, respectively	361,000	311,000
Retained earnings	101,397	71,345
Accumulated other comprehensive income	47,805	6,308
Total stockholder's equity	<u>510,202</u>	<u>388,653</u>
<b>Total Liabilities and Stockholder's Equity</b>	<u><b>\$1,951,601</b></u>	<u><b>\$1,961,895</b></u>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

(In Thousands of Dollars)

	Years Ended December 31,	
	1999	1998
<b>Gross Trading Volume</b> .....	<b>\$3,416,517</b>	\$ 3,918,062
<b>Gross Trading Profit</b> .....	<b>\$ 206,048</b>	\$ 211,424
<b>Financing Income and Expense:</b>		
Interest income .....	<b>59,428</b>	73,967
Interest expense .....	<b>(72,047)</b>	(94,761)
Interest - net .....	<b>(12,619)</b>	(20,794)
<b>Trading and Administrative Expenses</b> .....	<b>(175,263)</b>	(173,719)
<b>Investment and Other Income - Net</b> .....	<b>61,973</b>	24,445
<b>Minority Interest</b> .....	<b>(1,365)</b>	2,313
<b>Equity in Earnings of Subsidiary Held for Sale</b> .....	<b>2,278</b>	9,846
<b>Income Before Provision for Income Taxes</b> .....	<b>81,052</b>	53,515
<b>Provision for Income Taxes</b> .....	<b>(31,000)</b>	(21,400)
<b>Net Income</b> .....	<b>\$ 50,052</b>	\$ 32,115

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

(In Thousands of Dollars)

	Years Ended December 31, 1999 and 1998				
	Comprehensive Income	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholder's Equity
<b>Balance, January 1, 1998</b>		\$311,000	\$69,230	\$10,608	\$390,838
Comprehensive income:					
Net income .....	\$32,115	—	32,115	—	32,115
Other comprehensive loss, net of tax:					
Unrealized loss on investments .....	<u>(4,300)</u>	—	—	(4,300)	(4,300)
Comprehensive income .....	<u>\$27,815</u>				
Cash dividends paid .....		<u>—</u>	<u>(30,000)</u>	<u>—</u>	<u>(30,000)</u>
<b>Balance, December 31, 1998</b> .....		311,000	71,345	6,308	388,653
Comprehensive income:					
Net income .....	\$50,052	—	50,052	—	50,052
Other comprehensive income, net of tax:					
Unrealized gain on investments .....	<u>41,497</u>	—	—	41,497	41,497
Comprehensive income .....	<u>\$91,549</u>				
Issuance of common stock .....		50,000	—	—	50,000
Cash dividends paid .....		<u>—</u>	<u>(20,000)</u>	<u>—</u>	<u>(20,000)</u>
<b>Balance, December 31, 1999</b> .....		<u>\$361,000</u>	<u>\$101,397</u>	<u>\$47,805</u>	<u>\$510,202</u>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of Dollars)

	Years Ended December 31,	
	1999	1998
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 50,052	\$ 32,115
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,115	17,701
Deferred income taxes	(7,958)	2,160
Undistributed earnings of affiliates	(6,491)	(7,867)
Gain on sale of subsidiaries	(39,019)	—
Other noncash items	(198)	(5,940)
Changes in operating assets and liabilities:		
Accounts and notes receivable	11,790	81,725
Inventories	38,174	(43,662)
Advance payments to suppliers	6,625	(21,887)
Prepaid expenses and other assets	(7,436)	8,151
Accounts payable	16,272	(50,126)
Advances received, accrued expenses and other liabilities	17,484	11,321
Net cash provided by operating activities	<u>99,410</u>	<u>23,691</u>
<b>Cash Flows From Investing Activities:</b>		
Payments for purchases of:		
Held-to-maturity and available-for-sale investments	(2,016)	(42)
Other investments	(21,559)	(8,374)
Property and equipment - net	(19,683)	(3,823)
Investments in associated companies	(16,085)	(18,270)
Investment in businesses - net of cash acquired	(7,150)	(3,546)
Proceeds from sales of:		
Available-for-sale investments	10,381	14,499
Other investments and subsidiaries	76,690	28,403
Principal collections on held-to-maturity investments	57,065	59,661
Increase in long-term receivables	(47,670)	(45,733)
Principal collections on long-term receivables	61,312	124,621
Change in cash balance of subsidiary held for sale	—	(3,540)
Net cash provided by investing activities	<u>91,285</u>	<u>143,856</u>
<b>Cash Flows From Financing Activities:</b>		
Increase (decrease) in commercial paper - net	100,764	(565,813)
(Decrease) increase in short-term notes payable to banks	(92,857)	466,437
Proceeds from issuance of long-term debt	166,154	6,008
Principal payments of long-term debt	(259,329)	(115,985)
Securities sold under agreement to repurchase	(153,385)	(35,025)
Issuance of common stock	50,000	—
Dividend paid to shareholder	(20,000)	(30,000)
Contribution by minority interest	12,075	3,327
Net cash used in financing activities	<u>(196,578)</u>	<u>(271,051)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(5,883)</b>	<b>(103,504)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>123,807</b>	<b>227,311</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 117,924</u></b>	<b><u>\$ 123,807</u></b>
<b>Supplemental Cash Flow Information:</b>		
Interest paid	<u>\$ 89,558</u>	<u>\$ 136,674</u>
Income taxes paid	<u>\$ 28,824</u>	<u>\$ 11,675</u>

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1999 and 1998

(In Thousands of Dollars)

### 1. ORGANIZATION

Sumitomo Corporation of America (the "Company") is a wholly-owned subsidiary of Sumitomo Corporation, Japan ("SC"). The Company, which is headquartered in New York City, is an integrated global trading firm with diversified investments in businesses producing both capital and consumer products. The Company's principal business activities include trade (import/export, domestic and countertrade), investments, financing, leasing, distribution, product management, discovery, and application of new technologies and development of natural resources. The Company's principal business activities have been classified into the following reportable segments: Steel; Machinery; Chemicals, plastics, non-ferrous metals & fuel; Foodstuff, real estate & other; and Treasury & corporate. The Company's target markets include North America, South America and Southeast Asia. A significant portion of the Company's transactions are with SC.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation** - The consolidated financial statements include the accounts of all wholly-owned and majority-owned subsidiaries. All material intercompany profits, transactions and balances between the Company and its subsidiaries have been eliminated. The equity method of accounting is used for investments in associated companies in which the Company has an interest of 50% or less and has the ability to exercise significant influence over their financial and operating affairs.

**Sale of Subsidiaries** - In November 1998, the Company announced its intention to sell an 80% owned subsidiary. The Company consummated the sale in 1999. At December 31, 1998, the Company has shown the assets of the subsidiary and the related liabilities, which were paid off from the proceeds of the sale, as a single net amount in the consolidated balance sheet. Additionally, the Company has shown its share of earnings from the subsidiary separately in the consolidated statement of income.

Additionally, during 1999 the Company disposed of a majority-owned subsidiary whose principal business activities included the import/export, distribution and sale of shoes.

**Gross Trading Volume and Profit** - During 1999, the Company changed its method of presentation for gross trading volume from including the value of trading transactions in which it acts as principal and those in which it acts as agent to include only those trading transactions in which the Company acts as principal. In connection with this change, certain 1998 amounts have been reclassified to conform with the method of presentation in 1999. As to a substantial portion of the trading transactions in which the Company acts as principal, title to and payment for the goods pass through the Company, without physical acquisition and delivery. Gross trading profit consists of gross margin on principal transactions and commissions received on agency transactions. Gross trading profit also includes leasing and brokerage revenue, less interest and related expenses.

**Cash and Cash Equivalents** - Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

**Investments** - The Company accounts for its investments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, which requires debt and marketable equity securities to be classified within trading, available-for-sale or held-to-maturity portfolios. The Company has classified its investments as either available-for-sale or held-to-maturity. The available-for-sale portfolio is carried at fair value with changes in unrealized gains and losses recorded as a separate component of accumulated other comprehensive income. The held-to-maturity portfolio is carried at amortized cost. The Company accounts for gains and losses on the sale of investments under the specific identification method.

**Derivative Financial Instruments** - In the ordinary course of business, the Company enters into transactions in financial instruments with off-balance sheet risk in order to reduce its exposure to market and interest rate risk and in connection with its normal proprietary trading and investing activities. These transactions include purchasing and selling forward and futures contracts and entering into interest rate swap agreements.

The Company enters into futures and forward contracts in certain of its trading activities in order to hedge inventories, future commitments and anticipated transactions. Some of these transactions qualify for hedge accounting, whereby any gain or loss on the contracts is deferred until the underlying transaction is realized. Other futures and forward contracts are marked to market with the resulting gain or loss included in the determination of net income for the period.

The Company enters into interest rate swap agreements as part of its asset and liability management strategy. Accordingly, amounts received or paid under the swap agreements are recognized as adjustments to interest related to the hedged asset or liability.

**Securities Sold Under Agreement to Repurchase** - During 1998, the Company entered into a securities lending contract to sell and repurchase certain of its marketable debt securities. Due to the agreement to repurchase, the sale of these marketable debt securities has not been recorded. At December 31, 1998, the liability to repurchase the marketable debt securities sold under the agreement has been reported as a current liability. As of December 31, 1999, there were no securities lending contracts outstanding.

**Inventories** - Certain non-ferrous metals, which have immediate marketability at quoted market prices, are marked to market. Other inventories are stated at the lower of cost (specific identification or average cost method) or market.

**Property and Equipment** - Property and equipment consists primarily of a commercial office building and manufacturing and administrative facilities, which are stated at cost less accumulated depreciation.

Depreciation and amortization are determined by applying the straight-line method over the estimated useful lives of the related assets.

**Impairment of Long-Lived Assets** - In accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*, the Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset in question may not be recoverable.

**Other Assets** - Other assets includes goodwill which represents the excess of the purchase price over the fair value of the net assets of acquired businesses and is generally amortized on a straight-line basis over the period of expected benefit, not to exceed 20 years. Amortization expense amounted to \$4,485 and \$4,262 for the years ended December 31, 1999 and 1998, respectively.

**Income Taxes** - Income taxes are accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A valuation allowance is provided when, in assessing the realizability of deferred tax assets, management considers it more likely than not some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

**Comprehensive Income** - SFAS No. 130, *Reporting Comprehensive Income*, establishes guidelines for the reporting and presentation of comprehensive income in the financial statements. Comprehensive income includes unrealized gains and losses on debt and equity securities classified as available-for-sale and included as a component of stockholder's equity.

**Cash Flows** - Businesses acquired during 1999 resulted in an increase in the Company's balance sheet of \$6,846 of non-cash assets and a decrease of \$304 in minority interest and other liabilities. Businesses acquired during 1998 resulted in an increase in the Company's balance sheet of \$4,158 of non-cash assets and an increase of \$612 in minority interest and other liabilities.

**Accounting Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**New Accounting Pronouncements** - In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and to measure those instruments at fair value. This Statement, as amended, is effective for fiscal years beginning after June 15, 2000. The Company is currently evaluating the effects of this Statement on its accounting and reporting for derivative instruments and hedging activities.

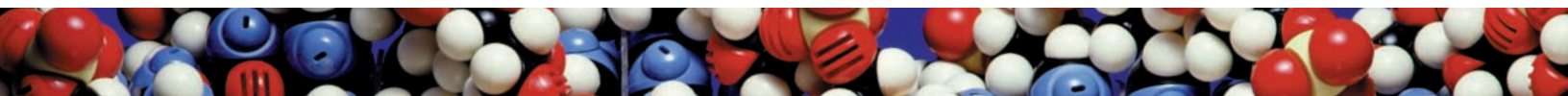
**Reclassifications** - Certain amounts applicable to the prior year have been reclassified to conform to the classifications followed in 1999.

### 3. INVESTMENTS

Current and non-current investment portfolios consist primarily of marketable debt securities, including various collateralized mortgage obligations and asset-backed securities primarily bearing floating rates of interest. The debt instruments in the held-to-maturity investment portfolio have maturity dates from May 2007 to March 2024.

The cost basis of marketable equity securities amounted to \$9,006 and \$10,167 at December 31, 1999 and 1998, respectively. For the years ended December 31, 1999 and 1998, realized gains on marketable equity securities were \$6,111 and \$7,723, respectively, and realized losses for marketable equity securities were \$936 and \$366, respectively. The Company recorded unrealized gains and losses on marketable equity securities for the years ended December 31, 1999 and 1998 of \$41,497 and \$4,300, net of \$34,240 and \$2,949 for income taxes and \$9,862 and \$124 for minority interest, respectively. In addition, the company has certain investments in non-marketable securities, representing interests in companies which are not publicly traded.

As of December 31, 1999 and 1998, the carrying amount of investments in associated companies amounted to \$113,411 and \$93,358, respectively. The Company's share of income, net of taxes of associated companies, amounted to \$17,715 and \$11,676, for the years ended December 31, 1999 and 1998, respectively. Included in long-term receivables and accounts and notes receivable are amounts receivable from associated companies aggregating \$353,507 and \$341,730 as of December 31, 1999 and 1998, respectively.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 1999 and 1998

(In Thousands of Dollars)

**4. COMMERCIAL PAPER AND NOTES PAYABLE**

Commercial paper borrowings outstanding at December 31, 1999 and 1998 had weighted average maturities of 56 and 34 days and interest rates averaging 6.6% and 6.5%, respectively.

Interest rates on notes payable (which averaged approximately 6.08% and 5.1% at December 31, 1999 and 1998, respectively) fluctuate based upon certain EuroDollar rates.

**5. LONG-TERM DEBT**

Included in long-term liabilities is long-term debt as follows:

	December 31,	
	1999	1998
Loans payable - floating and fixed, principally from 4.2% to 7.1% and 4.2% to 6.4% at December 31, 1999 and 1998, respectively	\$ 688,338	\$ 777,838
Medium-term notes - floating and fixed, principally at 6.5% and 5.5% at December 31, 1999 and 1998, respectively	20,000	20,000
Commercial paper and other	12,963	116,638
	<b>721,301</b>	914,476
Less current portion	<b>(48,150)</b>	(102,685)
	<b>\$ 673,151</b>	\$ 811,791

At December 31, 1999, there were no commercial paper borrowings classified as long-term debt in the financial statements. At December 31, 1998, commercial paper borrowings amounting to \$100,000 were reclassified as long-term debt based upon the Company's ability and intent to maintain or refinance these obligations on a long-term basis.

Principal payments on long-term debt for the fiscal years subsequent to December 31, 1999 are as follows: 2000 - \$48,150; 2001 - \$125,280; 2002 - \$293,859; 2003 - \$80,628; 2004 - \$123,166; 2005 and thereafter - \$50,218.

The Company has Japanese yen denominated liabilities, which are included in loans payable (US dollar equivalent of \$218,418 and \$368,418 at December 31, 1999 and 1998, respectively). The Company has entered into foreign currency and interest rate swap agreements in order to hedge its currency risks and to convert its debt to floating rate. Such loans bear interest at rates ranging from 6 month LIBOR (6.13% at December 31, 1999), minus 9 basis points to 6 month LIBOR, plus 9 basis points.

At December 31, 1999, the Company was contingently liable on unused letters of credit in the amount of \$9,411.

**6. INCOME TAXES**

The provision for income taxes for the years ended December 31, 1999 and 1998 are comprised of a current provision of \$38,958 and \$8,135, respectively, and a deferred benefit and provision of \$7,958 and \$13,265, respectively. Deferred income tax assets of \$28,587 and \$1,999 and deferred income tax liabilities of \$87,272 and \$31,692 as of December 31, 1999 and 1998, respectively, have been included in the consolidated balance sheets within the captions prepaid expenses and other assets, investments in associated companies and other assets, and long-term liabilities, respectively. Certain net deferred income tax liabilities that existed at December 31, 1998 have been transferred, along with other assets and liabilities, to an affiliate which is accounted for under the equity method.

Deferred income taxes arising from temporary differences result primarily from the use of accelerated depreciation methods for tax purposes, from certain provisions for losses not deductible until realized and taxes provided for future distribution of earnings of subsidiaries and investees that are not included in the Company's consolidated income tax return. The effective income tax rate is higher than the statutory Federal rate of 35%, primarily due to state and local income taxes of \$6,386 and \$3,018 for the years ended December 31, 1999 and 1998, respectively, and certain expenses that are not deductible for tax purposes.

**7. LEASES****Net Investment in Leases**

The net investment in leases is as follows:

	December 31,	
	1999	1998
Lease and finance receivables . . . . .	\$ 16,916	\$ 18,583
Guaranteed and estimated residual values . . . . .	4,421	4,421
Less unearned income and other . . . . .	(5,672)	(6,626)
Net investment in leveraged leases	8,715	8,342
Less current portion . . . . .	(955)	(953)
Net investment in leases . . . . .	<b>\$ 23,425</b>	<b>\$ 23,767</b>

Future minimum lease and finance receivables and guaranteed payments to be received in each of the five succeeding years and thereafter are as follows: 2000 - \$1,858; 2001 - \$1,858; 2002 - \$1,858; 2003 - \$1,858; 2004 - \$1,858; 2005 and thereafter - \$11,856.

**Operating Leases**

**Lessor** - The Company owns and leases a commercial office building and land in New York City. The Company leases office space within this building to various tenants under long-term leases. The minimum annual rentals for the next five years and thereafter are as follows: 2000 - \$15,018; 2001 - \$14,758; 2002 - \$14,298; 2003 - \$13,536; 2004 - \$12,618; 2005 and thereafter - \$47,033.

**Lessee** - The Company rents various facilities and office space under long-term leases. Future minimum annual rental payments under these leases are as follows: 2000 - \$9,695; 2001 - \$9,254; 2002 - \$7,661; 2003 - \$6,227; 2004 - \$5,993; 2005 and thereafter - \$12,148. Rent expense for the years ended December 31, 1999 and 1998 was \$11,793 and \$13,565, respectively.

## 8. SALE OF SUBSIDIARIES

In November 1998, the Company announced its intention to sell an 80% owned subsidiary, whose operations consisted primarily of the leasing and financing of capital equipment. The Company consummated the sale in 1999. The transaction resulted in the sale of 100% of the common stock of the subsidiary, at which time the Company recorded a gain. As a result of this transaction, at December 31, 1998, the Company has shown the assets of the subsidiary and the related liabilities, which were paid off from the proceeds of the sale, as a single net amount in the consolidated balance sheets. Additionally, the Company has shown its share of earnings from the subsidiary separately in the consolidated statements of income.

Selected financial information related to this subsidiary is as follows:

	<b>December 31,</b>
	<b>1998</b>
Net investment in leases . . . . .	\$ 797,242
Cash . . . . .	21,360
Other assets . . . . .	37,639
Total assets . . . . .	<u>\$ 856,241</u>
Total liabilities . . . . .	<u>\$ 813,126</u>
Stockholder's equity . . . . .	43,115
Total liabilities and stockholder's equity .	<u>\$ 856,241</u>
Income before taxes . . . . .	<u>\$ 11,166</u>
Net income . . . . .	<u>\$ 6,601</u>

Additionally, during 1999 the Company disposed of a majority-owned subsidiary whose principal business activities included the import/export, distribution and sale of shoes.

As a result of these transactions, the Company recorded a net gain which was included in the caption Investment and Other Income in the financial statements.

## 9. EMPLOYEE BENEFIT PLANS

The Company's non-contributory defined benefit pension plan (the "Plan") covers eligible staff members who are permanent employees of the Company. The Company's funding policy is to make contributions in accordance with applicable governmental regulatory requirements. Contributions are intended to provide benefits attributed to service to date and for those expected to be earned in the future. The Company has no significant unfunded pension liabilities for 1999 and 1998. At March 31, 1999 and 1998, the end of each Plan year, the fair value of the Plan's assets was \$8,455 and \$8,383, respectively. The Plan benefit obligation was \$7,857 and \$7,307 at March 31, 1999 and 1998, respectively. Additionally, net periodic pension expense was approximately \$625 and \$600 for the years ended March 31, 1999 and 1998, respectively.

The Company also sponsors a defined contribution 401(k) savings plan (the "Savings Plan") for eligible employees. The Company at its discretion matches employees' contributions up to specific limitations. In 1999 and 1998, the Company's contributions to the Savings Plan amounted to approximately \$675 and \$647, respectively.

## 10. RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company operates internationally, giving rise to significant exposure to market risks from changes in interest rates and foreign exchange rates. Derivative financial instruments are utilized by the Company to reduce those risks, as explained in this note. The Company does not hold or issue financial instruments for trading purposes.

The notional amounts of derivatives do not represent amounts exchanged by the parties and, thus, are not a measure of the Company's exposure through its use of derivatives. The amounts exchanged are determined by reference to the notional amounts, as well as other terms of the derivative transactions.

The Company is exposed to credit-related losses in the event of nonperformance by counterparties in relation to financial instruments, but does not expect any counterparties to fail to meet their obligations. The Company deals only with highly rated counterparties. The current credit exposure of derivatives is represented by contracts with a positive fair value at the reporting date.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 1999 and 1998

(In Thousands of Dollars)

The following table presents the notional amounts (when applicable), the carrying amounts and fair values of various financial instruments held by the Company at December 31, 1999 and 1998:

	December 31, 1999			December 31, 1998		
	Notional Amount	Carrying Amount	Estimated Fair Value	Notional Amount	Carrying Amount	Estimated Fair Value
		Asset (Liability)			Asset (Liability)	
<b>Nontrading Activities:</b>						
<b>Assets:</b>						
Investments - held-to-maturity	\$ —	\$ 110,913	\$ 110,751	\$ —	\$ 167,955	\$ 168,402
Investments - available-for-sale	—	108,120	108,120	—	19,830	19,830
Long-term receivables	—	124,335	124,025	—	155,841	156,706
<b>Liabilities:</b>						
Long-term debt	—	(238,418)	(274,053)	—	(388,418)	(381,872)
<b>Derivatives:</b>						
Hedging assets	13,074	—	(124)	15,204	—	900
Hedging liabilities	241,418	—	29,520	388,418	—	(7,839)

The Company's balance sheets also include the following financial instruments: cash and cash equivalents, accounts and notes receivable, commercial paper, notes payable, securities sold under agreement to repurchase, accounts payable and floating rate long-term debt. The Company considers the carrying amounts in the financial statements to approximate fair value for these financial instruments because of the relatively short period of time between the origination of the instruments and their expected realization and/or the fact that the instruments reprice frequently at market price.

The fair values of investments are estimated based on quoted market prices, broker quotations or estimates using present value or other valuation techniques. The fair value of long-term receivables and long-term debt is estimated using discounted cash flow analyses at interest rates currently being offered for similar instruments to lenders/borrowers with comparable credit ratings. The fair value of derivatives generally reflects the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains and losses of open contracts.

For other investments for which there are no market prices and other long-term receivables, it was not practicable to estimate a reasonable fair value amount.

Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

**11. SEGMENT AND RELATED INFORMATION**

SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, specifies that an enterprise shall report a measure of segment profit or loss, certain specific revenue and expense items, and segment assets. The Company's principal business activities have been classified into the following reportable segments: Steel; Machinery; Chemicals, plastics, non-ferrous metals & fuel; Foodstuff, real estate & other; and Treasury & corporate.

The Company evaluates segment profit performance based upon income before provision for income taxes. Information on the Company's reportable segments as of, and for the years ended, December 31, 1999 and 1998, respectively, is as follows:

<b>1999</b>	<b>Steel</b>	<b>Machinery</b>	<b>Chemicals, Plastics Nonferrous Metals &amp; Fuel</b>	<b>Foodstuff, Real Estate &amp; Other</b>	<b>Treasury &amp; Corporate</b>	<b>Inter-segment Eliminations</b>	<b>Total</b>
Gross trading volume	\$1,012,872	\$505,813	\$933,301	\$968,972	\$ —	\$ (4,441)	\$3,416,517
Gross trading profit	72,654	29,941	33,310	69,658	(33)	518	206,048
Income before provision for income taxes	5,739	15,175	13,293	27,866	18,979	—	81,052
Segment assets	289,018	283,937	189,739	399,700	1,221,608	(432,401)	1,951,601

<b>1998</b>	<b>Steel</b>	<b>Machinery</b>	<b>Chemicals, Plastics Nonferrous Metals &amp; Fuel</b>	<b>Foodstuff, Real Estate &amp; Other</b>	<b>Treasury &amp; Corporate</b>	<b>Inter-segment Eliminations</b>	<b>Total</b>
Gross trading volume	\$1,186,957	\$523,583	\$1,338,565	\$872,644	\$ —	\$ (3,687)	\$3,918,062
Gross trading profit	76,909	29,530	34,467	67,735	183	2,600	211,424
Income before provision (benefit) for income taxes	12,940	6,142	2,654	(675)	32,454	—	53,515
Segment assets	276,761	238,430	261,753	332,540	1,695,542	(843,131)	1,961,895

Interest expense is allocated to each segment based on an internal borrowing rate applied to the net assets of each segment. Segment income before provision for income taxes includes the results of equity investments.

All of the Company's segments derive a significant portion of their trading transactions from the Parent and its affiliates, which amounted to \$1,099,731 and \$1,054,494 for the years ended December 31, 1999 and 1998, respectively. No other single customer represents a significant portion of the Company's trading transactions.

The following table provides geographic information for customer trading transactions, which is based on the location of the customer:

	<b>December 31,</b>	
	<b>1999</b>	<b>1998</b>
United States	<b>\$ 2,190,767</b>	\$ 2,516,880
Japan	<b>958,785</b>	1,093,173
Other foreign countries	<b>266,965</b>	308,009
Total	<b><u>\$ 3,416,517</u></b>	<u>\$ 3,918,062</u>

## 12. COMPREHENSIVE INCOME

The components of accumulated other comprehensive income are as follows:

	<b>Unrealized Appreciation of Marketable Securities</b>
Balance, January 1, 1998	\$10,608
Unrealized appreciation, net of tax of \$232	400
Less reclassification adjustment, net of tax of \$3,181	(4,700)
Balance, December 31, 1998	6,308
Unrealized appreciation, net of tax of \$36,310	44,276
Less reclassification adjustment, net of tax of \$2,071	(2,779)
Balance, December 31, 1999	<u>\$47,805</u>

## 13. CONTINGENCIES

As noted in prior years, SC recorded certain extraordinary losses related to unauthorized copper trading transactions. The losses were covered by a special reserve which was set aside from retained earnings, with no amounts carried forward to future periods. The Company believes that it was not significantly affected by any of these transactions and that its employees acted in a proper and professional manner during the period in which these transactions occurred. SC has agreed to indemnify the Company against any costs, claims or liabilities that might arise, directly or indirectly as a result of the unauthorized copper trading transactions.

Six class action lawsuits were filed against the Company and other parties, including SC, alleging manipulation of the prices of copper futures and forward contracts during different periods between June 20, 1990 and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years Ended December 31, 1999 and 1998

(In Thousands of Dollars)

June 28, 1996. Additionally, regulatory and law enforcement authorities in the United States and Great Britain have conducted investigations into various trading and business activities in the copper market, including the trading and business activities of the Company and SC. The Company and SC have cooperated in these various investigations.

The Company and SC have reached agreements in May 1998 with regulatory authorities in both the United States and the United Kingdom. Without admitting or denying any of the allegations stemming from the copper trading incident, SC agreed to pay \$125 million in the proceeding brought by the U.S. Commodity Futures Trading Commission (the "CFTC"), with another \$25 million to be set aside for the potential resolution of certain claims by private parties. In the United Kingdom, SC agreed to pay £5 million, or approximately \$8 million, to the Financial Services Authority ("FSA"), formerly known as the Securities and Investments Board. The Company will not be contributing to any of the above payments made in connection with these settlement agreements. These agreements resolve all liability of the Company and SC to the above-mentioned authorities arising from or relating to the copper trading incident.

In October 1999, the United States District Court for the Southern District of New York issued an order approving the settlement agreement reached by the Company and SC, and dismissing the Company as a defendant in the class action lawsuits filed against it in federal court in New York. Without admitting or denying any wrongdoing or liability, SC has agreed to pay \$99 million to settle claims brought on behalf of a class consisting of all persons who traded copper futures or options on the Comex Division of the New York Mercantile Exchange between June 24, 1993 and June 15, 1996, inclusive. Of this \$99 million settlement, \$18 million will be paid from a fund established as part of SC's prior settlement with the CFTC, which is discussed above. The Company will not be contributing to this \$99 million payment in connection with the settlement of these class action lawsuits. The settlement agreement releases and forever discharges the Company and SC from all claims arising from or relating to this matter. Approximately 58 potential class members elected to opt out of the settlement. Those who timely elected to opt out are not bound by the settlement and have not released any claims against the Company.

On December 12, 1999, the Judicial Panel on Multidistrict litigation transferred and consolidated certain cases pending against the Company, along with other similarly situated actions brought against SC, in the Western District of Wisconsin for pretrial proceedings. These actions allege the defendants engaged in fraud and violations of antitrust statutes in connection with the alleged manipulation of the price of copper on the London Metal Exchange ("LME") between 1994 and 1996. The Company believes it has a number of valid defenses to these actions and intends to vigorously defend itself.

In addition to the situation described in the preceding paragraphs, the Company is a defendant in several other lawsuits incidental to its business.

In the opinion of management, the outcome of the litigation facing the Company will not have a material adverse effect on the financial position or operating results of the Company.

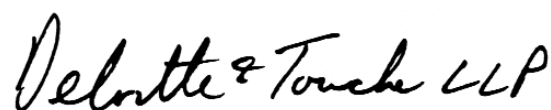
INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of  
Sumitomo Corporation of America

We have audited the accompanying consolidated balance sheets of Sumitomo Corporation of America (a wholly-owned subsidiary of Sumitomo Corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, stockholder's equity and cash flows for the years then ended. 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 generally accepted auditing standards. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Sumitomo Corporation of America and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.



March 6, 2000

## BUSINESSES THROUGHOUT THE UNITED STATES

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### Business Groups

Aerospace, Transportation Equipment and Ship  
Automotive, Construction Equipment and Railroad Product  
Business Investment  
Chemicals and Plastics  
Electronic Materials and Equipment  
Foodstuff and Fertilizer  
General Products  
Information Technology  
Non-Ferrous Metals, Petroleum and Carbon  
Plant and Machinery  
Real Estate  
Rolled Steel and Ferrous Raw Materials  
Tubular Products

### Services

Trade  
Investment and Joint Ventures  
Financing  
Transportation and Distribution  
Leasing  
Information  
Technology Transfer  
Project Management  
Research and Marketing

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### Major Subsidiaries and Affiliated Companies

AB Tube Processing, Inc.  
Las Vegas, NV

600 Third Avenue Associates  
New York, NY

Distributor Metals Corp.  
Santa Fe Springs, CA

Sumitrans Corporation  
New Hyde Park, NY

Uniq Distributing Corp.  
Seattle, WA

Clickstream  
New York, NY

Michigan Steel Processing, Inc.  
New Boston, MI

Summit Specialty Chemicals Corp.  
Fort Lee, NJ

TMC, Inc.  
La Vergne, TN

Ohio Metal Processing, Inc.  
Cincinnati, OH

Atlantic Hills Corporation  
Atlanta, GA

Summit Pharmaceuticals Corp.  
Fort Lee, NJ

Summit Precision Polymers Corp.  
Fort Lee, NJ

Diversified CPC International, Inc.  
Channahon, IL

Presidio Venture Partners, LLC  
San Francisco, CA

Treadways Corporation  
North Wales, PA

Premier Pipe, Inc.  
Dallas, TX

Vicksmetal Corporation  
Frankfort, IN

Summit Pulp & Paper Inc.  
Compton, CA

Cantex Inc.  
Mineral Wells, TX

Servilamina Summit Mexicana, S.A. DE C.V.  
Querétaro, QRO, Mexico

## CORPORATE DATA

### *Founded*

1952

Web: <http://www.sumitomocorp.com>

### *Offices*

#### *New York (headquarters)*

Sumitomo Corporation of America  
600 Third Avenue  
New York, NY 10016-2001  
Tel: 212. 207-0700  
Fax 212. 207-0456

#### *Houston*

Sumitomo Corporation of America  
1000 Louisiana  
Suite 6800  
Houston, TX 77002-5014  
Tel: 713. 653-8400  
Fax: 713. 658-9246

#### *Portland*

Sumitomo Corporation of America  
1300 SW 5th Avenue  
Suite 3233  
Portland, OR 97201-5667  
Tel: 503. 226-3271  
Fax: 503. 220-0233

#### *Atlanta*

Sumitomo Corporation of America  
Six Concourse Parkway  
Suite 2150  
Atlanta, GA 30328-6184  
Tel: 770. 399-3160  
Fax: 770. 399-4690

#### *Los Angeles*

Sumitomo Corporation of America  
444 South Flower Street  
Suite 4800  
Los Angeles, CA 90071-2949  
Tel: 213. 627-4783  
Fax: 213-489-0300  
Fax: 213-623-7849

#### *San Francisco*

Sumitomo Corporation of America  
One California Street  
Suite 2300  
San Francisco, CA 94111-5493  
Tel: 415. 984-3200  
Fax: 415. 984-3360

#### *Chicago*

Sumitomo Corporation of America  
Two Prudential Plaza  
180 North Stetson  
Suite 4600  
Chicago, IL 60601-6710  
Tel: 312. 540-5000  
Fax: 312. 616-1041

#### *Philadelphia*

Sumitomo Corporation of America  
2300 Computer Avenue  
Suite A5  
Willow Grove, PA 19090-1733  
Tel: 215. 830-0960  
Fax: 215. 830-0965

#### *Santa Clara*

Sumitomo Corporation of America  
2900 Patrick Henry Drive  
Santa Clara, CA 95054-1813  
Tel: 408. 980-0681  
Fax: 408. 980-1445

#### *Denver*

7600 E. Orchard Road  
Suite 310-S  
Englewood, CO 80111-2520  
Tel: 303-623-2236  
Fax: 303-221-5664

#### *Pittsburgh*

Sumitomo Corporation of America  
5000 USX Tower  
600 Grant Street, 39th Floor  
Pittsburgh, PA 15219-2751  
Tel: 412. 391-1892  
Fax: 412. 765-2623

#### *Seattle*

Sumitomo Corporation of America  
Two Union Square  
601 Union Street  
Suite 1717  
Seattle, WA 98101-2382  
Tel: 206. 623-5270  
Fax: 206. 447-1879

#### *Detroit*

Sumitomo Corporation of America  
The American Center Building  
27777 Franklin Road  
Suite 1000  
Southfield, MI 48034-2337  
Tel: 248. 353-2320  
Fax: 248. 553-8661

#### *Washington, D.C.*

Sumitomo Corporation of America  
800 Connecticut Avenue NW  
Suite 1000  
Washington, DC 20006-2709  
Tel: 202. 785-9210  
Fax: 202. 861-0690

