



*Sumitomo*  
Corporation



# ANNUAL REPORT 2000

Year ended March 31



Sumitomo Corporation plays a key global role in the exchange of goods, services, and technology among nations and cultures. We are one of Japan's largest *sogo shosha*, or integrated trading companies, and have long been one of the world's largest businesses in terms of sales. Sumitomo Corp. has 8,192 employees, and together with its 767 consolidated subsidiaries and associated companies around the world employs 33,057 people. Over the years, the scope of our business has expanded from that of a trader to become an investor, financier, and expeditor of ideas. Building on an illustrious tradition that can be traced back four centuries, we continue to display a remarkable ability to adapt quickly to the changing times.

## Management Principles

We aim to be a global organization that constantly stays a step ahead in dealing with change, creates new value, and contributes broadly to society.

- To achieve prosperity and realize dreams through sound business activities.
- To place prime importance on integrity and sound management with utmost respect for the individual.
- To foster a corporate culture full of vitality and conducive to innovation.

Sumitomo Corporation and Consolidated Subsidiaries

## Financial Highlights

Years ended March 31

|   | Millions of Yen     |                     | Millions of<br>U.S. Dollars |
|---|---------------------|---------------------|-----------------------------|
|   | 2000                | 1999                | 2000                        |
| <b>Total Trading Transactions</b>           | <b>¥ 10,656,046</b> | <b>¥ 11,378,831</b> | <b>\$ 103,457</b>           |
| <b>Gross Trading Profit</b>                 | <b>474,674</b>      | <b>472,858</b>      | <b>4,608</b>                |
| <b>Net Income (Loss)</b>                    | <b>35,065</b>       | <b>(13,076)</b>     | <b>340</b>                  |
| <b>Total Assets</b>                         | <b>4,904,644</b>    | <b>5,389,356</b>    | <b>47,618</b>               |
| <b>Shareholders' Equity</b>                 | <b>634,223</b>      | <b>569,653</b>      | <b>6,158</b>                |
|   |                     |                     |                             |
|   | Yen                 |                     | U.S. Dollars                |
|   |                     |                     |                             |
| <b>Amounts Per Share</b>                    |                     |                     |                             |
| <b>Net Income (Loss)</b>                    |                     |                     |                             |
| Basic                                       | ¥ 32.94             | ¥ (12.28)           | \$ 0.32                     |
| Diluted                                     | 32.31               | (12.28)             | 0.31                        |
| <b>Cash Dividends declared for the year</b> | <b>¥ 8.00</b>       | <b>¥ 8.00</b>       | <b>\$ 0.08</b>              |

- Prepared on the basis of accounting principles generally accepted in the United States of America.
- The U.S. Dollar amounts represent translation of Japanese Yen amounts at the rate of ¥103=US\$1.
- See Notes to Consolidated Financial Statements.

### Caution Concerning Forward-looking Statements

This annual report includes "forward-looking statements" so that the investor can better understand a company's future prospects and make informed investment decisions. Since these forward-looking statements are the management's present expectations of future events, they are inherently susceptible to uncertainty and changes in circumstances. Therefore, the reader is advised not to put undue reliance on these statements, and the company is under no obligation — and expressly disclaims any such obligation — to update or alter its forward-looking statements.

## C O N T E N T S

|  |    |
|--|----|
| Financial Highlights                       |    |
| Message from the President                 | 1  |
| Feature: Focus on Strategic Business Areas | 6  |
| The Year in Review                         | 12 |
| Financial Section                          | 35 |
| Corporate Data                             | 65 |

# MESSAGE FROM THE PRESIDENT



President and Chief Executive Officer Kenji Miyahara

***Increasing our profits and strengthening our corporate constitution  
by exercising our integrated strength***

***Working toward achievement of our objectives in the year  
for completion of the Reform Package***

## Business Environment

First I would like to offer a brief review of the business environment in which our company is operating.

Within Japan, the economy had been struggling to find its way out of the prolonged recession, but signs of gradual improvement have become visible, thanks to the efforts by enterprises to implement management reform and also, since last year, the effects of the government's various stimulus measures and the recovery of exports, particularly to other Asian markets. In the period ahead we can expect to see a continued recovery in capital investment and growth in exports, but we are also likely to see a decline in the public works investment that has been sustaining the economy up to now, and the pace of the recovery is forecast to be gradual.

Elsewhere in Asia, although the picture differs somewhat from country to country, the newly industrializing economies (NIEs) and members of

the Association of Southeast Asian Nations (ASEAN) are expected to progress further in their recoveries thanks to increased exports to industrialized countries and expanded fiscal outlays, along with a brightening of the prospects for domestic demand. In China, although public investment will be maintained, consumer spending will probably continue to be sluggish, and the pace of economic expansion is thus expected to remain on the slow side.

The U.S. has continued to enjoy strong consumer spending, reflecting the rising stock market and the healthy employment and income situation; in addition, investment by enterprises, particularly in the fields of information and communications, has been strong, and the economy has sustained its rapid growth. But there are some causes for concern, such as the prospects for a stock market correction, the impact of higher oil prices, and the high level of the current account deficit, and growth can be expected to decelerate slowly.

The members of the European Union (EU) are

expected to enjoy steady growth in domestic demand, accompanied by rising exports due to the decline of the euro, causing their economies to continue to expand.

So while the situation differs from region to region, overall the macroeconomic environment is either steady or improving. On the level of individual corporations, however, globalization and the information revolution are causing competition to heat up, making the struggle for survival even more severe.

### Sumitomo Corporation's Core Competencies: Integrated Strength

In order for us to increase our profits, strengthen our corporate constitution, and meet the expectations of our stakeholders as the competition among corporations grows ever more intense and the changes in the business environment ever more severe, we must clearly recognize our strengths, that is to say, our own core competencies, and keep reinforcing them.

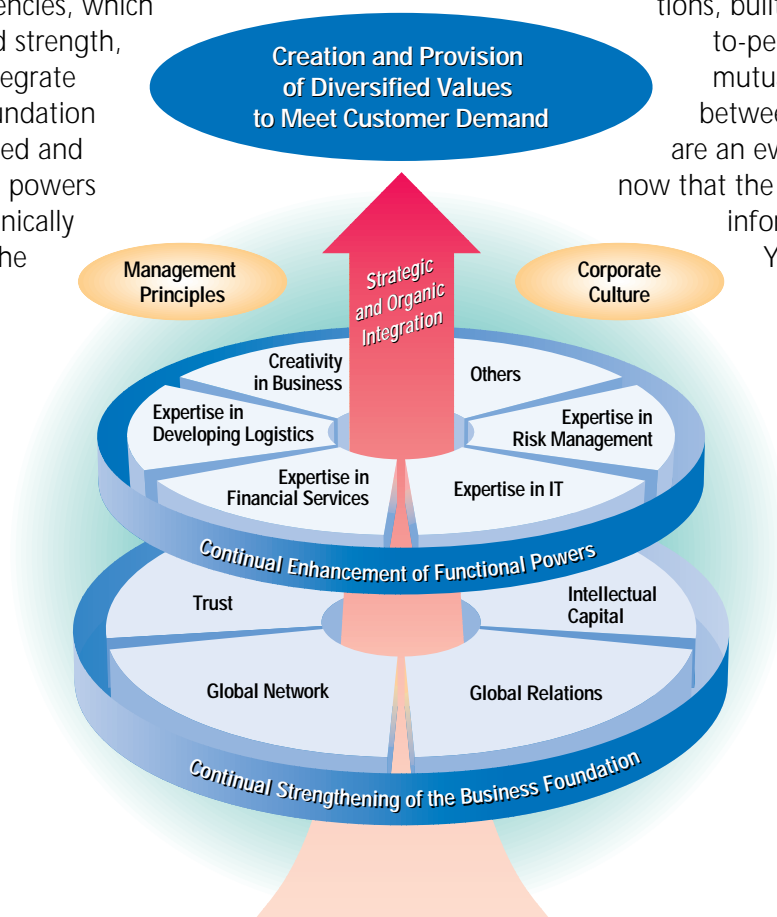
Our core competencies, which we call our integrated strength, lie in our ability to integrate our solid business foundation and variety of advanced and specialized functional powers strategically and organically in a way that meets the diverse needs of our clients and creates new value in ways

that anticipate the changes in the world around us. Let me explain about our business foundation and our functional powers, which are elements of this strength.

As we have continued to pursue our global activities, we have sought to find and perform the appropriate role for our company in the context of the changing times. We have constantly worked to strengthen our business foundation and at the same time to enhance our existing functional powers and add new ones.

The prime element of our business foundation is the trust that Sumitomo Corp. has fostered over the years, backed up by Sumitomo's business philosophy. This trust, which is the sum of the results of each individual piece of business we have undertaken, is our pride and one of our major assets. Another key element is our global network, consisting of branches, offices, and subsidiaries spread all around the world. Then there are our global relations, the close and multifaceted ties that we have established with over 100,000 counterparts in every sort of business field worldwide on the basis of the trust in us and the global network we have created. I believe that these global rela-

tions, built up through person-to-person contacts and mutual understanding between differing cultures, are an even more valuable asset now that the focus of the times is on information technology (IT). Yet another key element of our sound business foundation is our precious intellectual





capital, including the business-related know-how, experience, and information that our diversely talented employees have accumulated as they have dealt with numerous issues in a variety of fields.

Based on this foundation, our organization possesses a wide range of advanced and specialized functional powers. Among these are the power to create new businesses, a process that includes discovery of new products, development of new markets, and organizing of operations; the power to build logistic connections, which brings into play our multimodal transportation capabilities; the power to provide financial services, based on our ability to offer both traditional forms of financing and advanced financial technologies such as securitization; the power to put IT to work, which has supported the construction of various Supply Chain Management (SCM) systems and our progress in electronic commerce; and the power to manage risks, which we have gained through our many years of involvement in variegated business activities.

Our company's combination of this sound business foundation and these advanced and varied functional powers makes it a truly unique actor on the global business stage.

The advance of business over the Internet in recent times has led some to suggest that the intermediary function of integrated trading companies is losing its meaning and that our profitability may decline as a result. My view, however, is that by actively making use of IT, financial technology (FT), and logistics technology (LT), our company can further enhance its integrated strength, and that we can view this new age as offering us tremendous chances to expand our existing businesses and create new ones.

## Completion of the Reform Package

In October 1998 our company adopted a "Reform Package" consisting of three quantitative targets and a set of concrete measures for their achievement, the aim being to increase our profits and strengthen our corporate constitution to prepare for further development in the 21st century. The current business year, ending March 2001, will see completion of this Reform Package, and we are now making company-wide efforts to accomplish this. Let me briefly report on the state of our progress.



### Definitions of "Three Strategic Measures"

- Consolidated Risk Adjusted Return Ratio:**  
 The ratio of consolidated cash-based return (free cash flow = operating profit + depreciation - cash used for investment) to consolidated risk adjusted assets (the sum of (a) advance, inventory, fixed assets, and securities multiplied by each risk weight on the balance sheet and (b) off-balance sheet risk such as market risk).
- Business Base:**  
 The amount of added value generated by the business (operating profit + labor costs + depreciation + interest expenses).
- Expected Growth Rate:**  
 The rate of increase of the above-mentioned business base.

### **(1) Profit growth by expansion of core businesses**

The first item of the Reform Package is profit growth by expansion of core businesses. Based on this, we have been selecting and consolidating our core businesses.

In fiscal 1998 we carried out a selection process to determine what our core businesses were in qualitative and quantitative terms for each of our business divisions. In order to support the quantitative evaluation process, we introduced three strategic measures as our own set of company-wide management indicators, centering on the risk adjusted return ratio, which is designed to determine the level of profit for each business against the degree of risk that it entails. We used this to analyze the profitability of our diverse businesses by comparison with our cost of capital.

Each of our business divisions then moved to expand what were determined to be our core businesses. To back up this effort on a company-wide basis, we implemented a subsidy for promotion of core businesses, covering some of the costs for feasibility studies, and set up a Mergers & Acquisitions (M&A) Team to pursue M&A activities and a Strategic Business Development Task Force to find core businesses for the future.

Through such activities we have been further increasing our profits by expanding our core businesses, and I believe that steady implementation of the concrete measures incorporated in the Reform Package will achieve our target of a consolidated risk adjusted return ratio of 8% or more during the current fiscal year.

### **(2) Strengthening the corporate constitution through improving quality of assets**

In connection with the second item in the Reform Package, strengthening the corporate constitution through improving the quality of assets, we have been actively shifting to superior assets by pulling out of those businesses that do not produce appropriate returns, disposing of nonperforming assets, and investing in businesses with better future prospects and higher growth potential. Through these efforts we have reduced the overall level of our risk adjusted assets, and I understand that we are on the way to achieve the goal of reducing our consolidated risk adjusted assets to within the scope of our risk buffer, namely our shareholders' equity and the latent gains from our holdings of negotiable securities and real estate.

### **(3) Realization of effective, efficient management and reinforcement of cost competitiveness**

With respect to the third and fourth items of our Reform Package, realization of effective, efficient management and reinforcement of cost competitiveness, we have strengthened our system of efficient management based on regional initiative through such moves as the grouping of our domestic branches and offices into broad regional blocks, and we have moved as scheduled to achieve greater efficiency through outsourcing, including the spinning off of administrative operations relating to accounting and foreign exchange. And we have steadily improved our cost competitiveness by cutting various expenses and slimming our payrolls.

The above is an overview of our progress toward achieving the goals of the Reform Package. Through these efforts we will continue striving toward profit growth and the strengthening of our corporate constitution.

In addition to the efforts we have been devoting to these key management issues, we have also been at work in the following areas.

#### **● Enhancement of information systems**

In order to support the making of speedy and appropriate management decisions, we are now working on the construction of a system to provide consolidated management information to executives in a timely manner and a system to support integrated risk management on a consolidated basis, along with main systems for sales and accounting. We are also working to strengthen our infrastructure to handle e-commerce.

The company approached the year 2000 problem as a critical issue, setting up a company-wide task force as the center of a thorough readiness effort, thanks to which we avoided any ill effects.

#### **● Environmental management**

In June 1999 we received certification under the ISO 14001 international environmental standard for our headquarters in Osaka and Tokyo; we are this year working to extend the scope of this certification to some of our domestic branches, offices, and subsidiaries. In addition, recognizing the rising public concern over corporate activities for environmental protection, we have drawn up and made public an "Environmental Report" describing our own activities in this area.

## ● Introduction of the SC Values

This January, Sumitomo Corp. drew up a set of nine SC Values in order to ensure that all executives and employees are faithfully observing the company's Management Principles and Activity Guidelines and putting them into practice in their day-to-day work. The SC Values will also be used as a tool for human resources development and evaluation. This set includes nine key phrases in line with the values that are implicit in the Management Principles and Activity Guidelines. I believe that the introduction of these SC Values will help all of the company's executives and employees to deepen their understanding of the Management Principles and Activity Guidelines, to share the values contained therein, and to incorporate them into their own activities, leading to the further exercising of the integrated strength that is the summation of our core competencies, thereby increasing profits and strengthening our corporate constitution.

## ● Copper trading incident

Several civil lawsuits were filed and are still pending against the company in the United States. The company intends to vigorously defend itself against these lawsuits. Meanwhile, the company is making maximum efforts to recover the damages, bringing suits for damages against foreign financial institutions etc. that abetted the unauthorized copper trading. Apart from these lawsuits, Merrill Lynch and the company resolved in May 2000 all issues between them concerning the copper trading incident in consideration of payment by Merrill Lynch of US\$275 million to the company.

Through such activities, we will make every effort to meet the expectations of our shareholders. In closing, I wish to ask our shareholders and investors for your further support and encouragement in the period ahead.

July 2000



Kenji Miyahara  
President  
and Chief Executive Officer

## SC VALUES

### For Managerial Staff

1. **Integrity and Sound Management:** To comply with laws and regulations, while maintaining the highest ethical standards.
2. **Integrated Corporate Strength:** To create no boundaries within the organization; always to act with company-wide perspective.
3. **Vision:** To create a clear vision of the future, and to communicate to share it within the organization.
4. **Change and Innovation:** To accept and integrate diversity in values and behavior, and to embrace change as an opportunity for action.
5. **Commitment:** To act responsibly and with initiative to achieve organizational objectives.
6. **Enthusiasm:** To act with enthusiasm and confidence, and to motivate others through such action.
7. **Speed:** To make quick decisions and act promptly.
8. **Human Development:** To fully support the development of others' potential.
9. **Professionalism:** To achieve and maintain high levels of expertise and skills.

### For Non-Managerial Staff

1. **Integrity and Sound Management:** To comply with laws and regulations, while maintaining the highest ethical standards.
2. **Integrated Corporate Strength:** To achieve teamwork through active communication.
3. **Vision:** To hold a clear vision of the future.
4. **Change and Innovation:** To accept and integrate diversity in values and behavior, and to embrace change as an opportunity for action.
5. **Commitment:** To accept functional responsibility and act with initiative.
6. **Enthusiasm:** To act with enthusiasm.
7. **Speed:** To act promptly.
8. **Human Development:** To act positively to develop oneself.
9. **Professionalism:** To achieve and maintain high levels of expertise and skills.

# Focus on Strategic Business Areas

We have been selecting our core businesses with high profitability and growth potential since 1998, applying three strategic measures in analyzing our diversified global operations. As a result, we were able to confirm that core businesses exist in every product area and in all regions within our existing operations. We will continue to strengthen and expand these businesses to promote profit growth.

In addition, we have been engaged in downstream retailing directly to consumers, and in

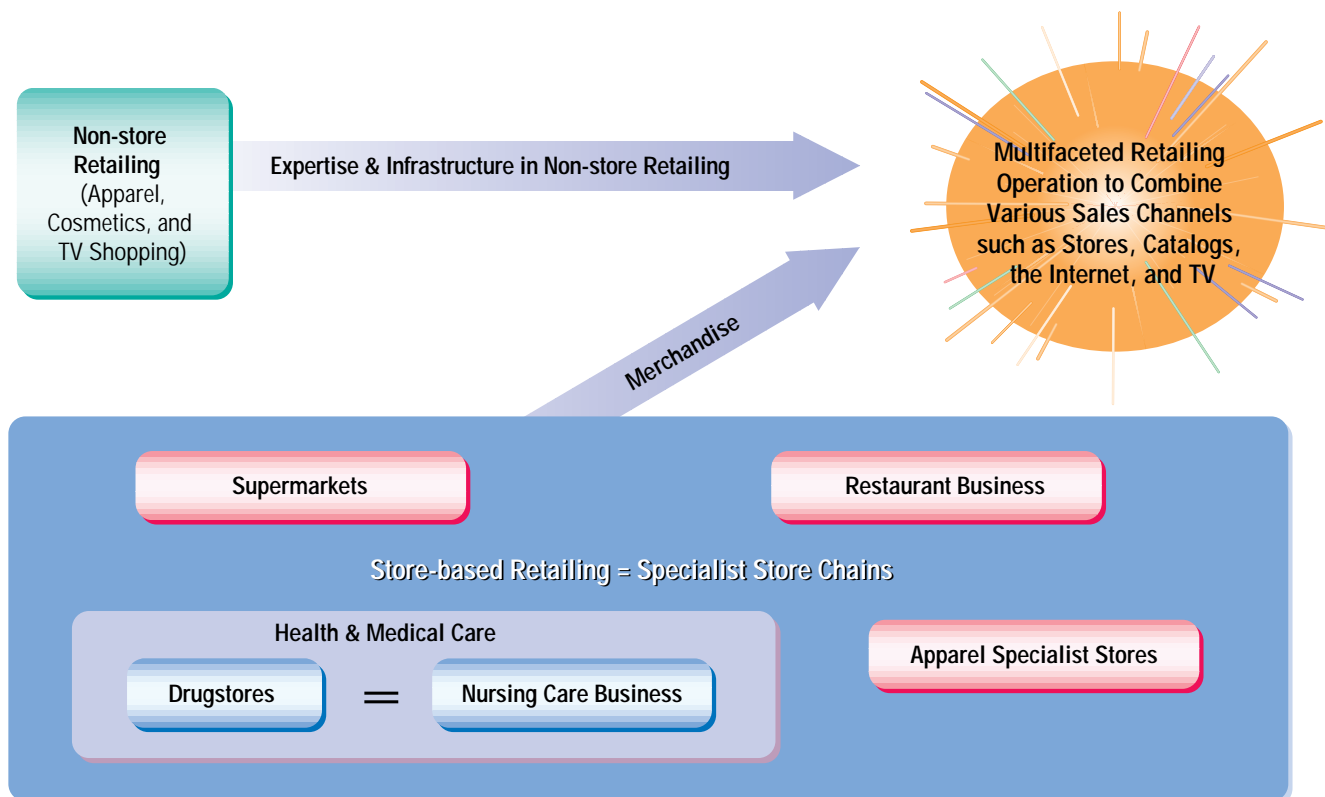
the communications business, as strategic business areas. With business environments rapidly being transformed due to the increasing popularity of the Internet, our existing businesses are developing and new opportunities are emerging. We will explore these, taking full advantage of our strong business base.

The following summarizes some of our main activities in these strategic areas.

## Downstream Retailing Directly to Consumers

*We are developing our retailing business in multiple fields ahead of other companies. In non-store retailing, we are undertaking various types of catalog sales and TV shopping, mainly through Otto-Sumisho Inc. For store-based retailing, we are operating specialist stores in food and beverages, apparel, and health and medical care. The Summit supermarket chain is a typical example.*

*As new channels and media directly accessing consumers, such as the Internet, are emerging, we intend to develop multifaceted retailing business, combining our expertise and infrastructure accumulated through non-store retailing operations with our existing merchandise.*





### **Apparel Mail-order Business**

As a core venture in non-store retailing, in 1986 we established Otto-Sumisho Inc. jointly with Otto Versand GmbH, the world's largest mail-order house based in Germany. The company has grown steadily, setting a new trend in the catalog sales industry by offering fashions directly from Europe and America. Bearing in mind the rapid growth of the Internet, we intend to expand its operations into various new fields as a core venture in our business-to-consumer (B2C) e-commerce strategy.

### **Cosmetics Mail-order Business**

Otto-Sumisho set up Club Createurs Beaute Japon, Inc. jointly with French L'Oréal S.A., one of the world's largest cosmetics companies, and Trois Suisses International, a French subsidiary of Otto Versand. With a line-up of skin-care, hair-care, and fragrance products, including a popular brand of Agnes b, the company intends to expand its customer base rapidly.

### **TV Shopping**

Sumisho Home Shopping, which uses television as a sales channel, was launched in 1995. With national coverage through key stations and other terrestrial broadcasting stations, the venture has grown into a stable business, successfully marketing through television many best-selling goods such as Bodyblades, a fitness product. We are diversifying and expanding its sales channels for those products into such areas as wholesaling to retailers and Internet marketing. We are also operating Jupiter Shop Channel, another TV shopping program, broadcast through satellite and CATV networks.

### **Drugstores**

In response to the move to separate dispensing from medical practice, Sumisho Retail Stores Inc. launched a drugstore chain in 1994. It currently operates 26 drugstores under the two brands of TomoD's and American Pharmacy. In addition, we acquired Asahi Medix Co., Ltd., which runs 50 drugstores and 154 film-processing outlets, to accelerate expansion of the chain.

### **Supermarkets**

Stable growth is expected in the supermarket business. Following the launch of the Summit supermarket chain in 1963, we now operate 68 stores in the Tokyo metropolitan area. To strengthen and expand its business base, we formed a capital tie-up with Mammy Mart Corp., which operates 37 stores in Saitama. In addition, we recently reinforced our relationship with The Seiyu, Ltd. through capital participation in the company. We expect that the partnership will contribute to expanding our supermarket business.

We will continue to strengthen and expand our business in this field by utilizing our integrated strength, such as in merchandise development, based on our global network.

### **Restaurant Business**

We launched an Italian-style coffee shop chain, Segafredo Zanetti, in 1998 through an exclusive licensing agreement with Segafredo Zanetti, an Italian coffee wholesaler. We are opening more Segafredo Zanetti outlets, which are a new type of coffee shop offering excellent espresso, a unique menu of snacks such as panini sandwiches, and a variety of alcoholic drinks.

### **Apparel Specialist Stores**

Since opening the first Eddie Bauer store, specializing in the popular American outdoor casual clothing brand, we now operate 38 outlets in major cities nationwide. In addition to these stores, the brand is also marketed through mail order, thus achieving synergistic effects. We plan to expand the scope of the business by utilizing its multiple sales channels, with the Internet as the latest addition.

### **Nursing Care-related Business**

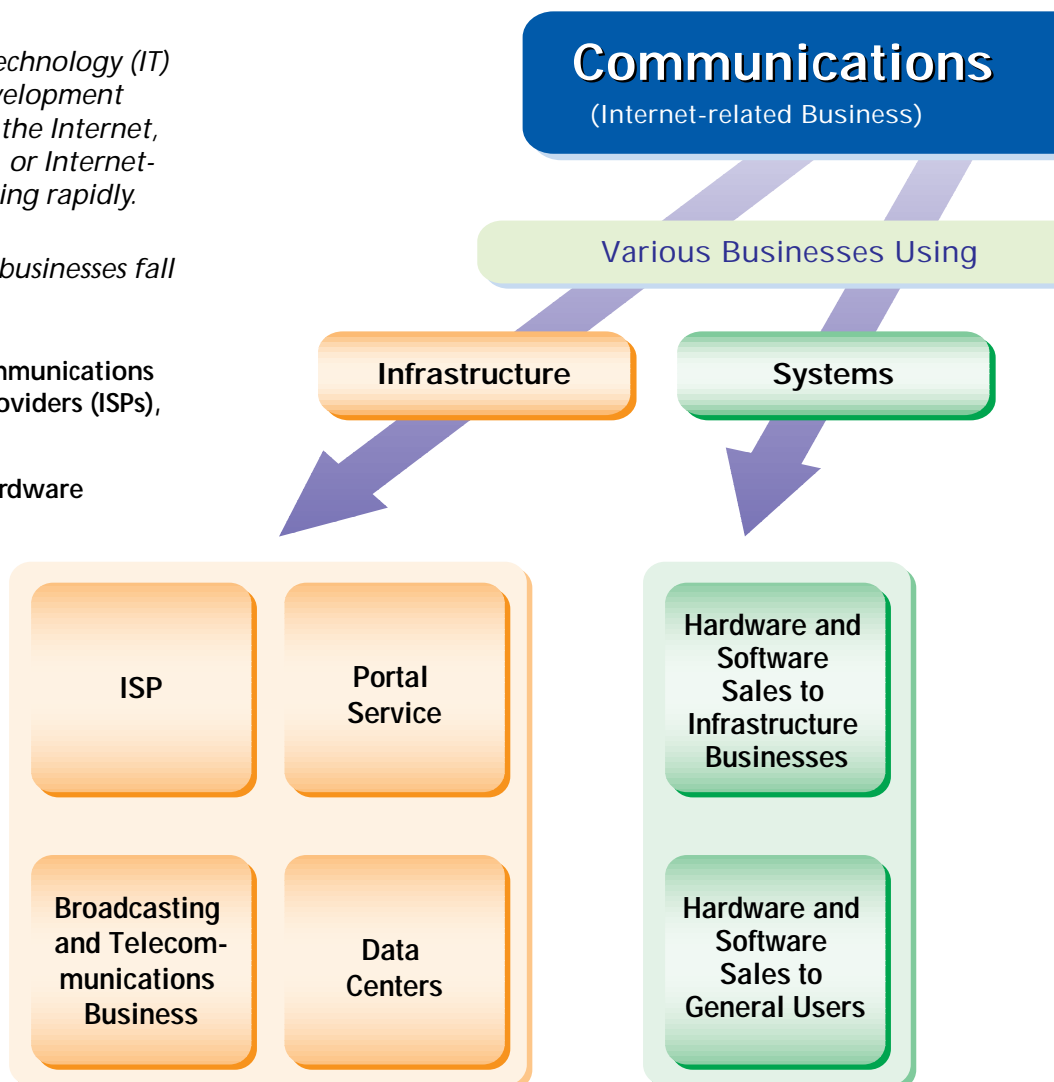
We are considering entering into nursing care-related business in partnership with Pasona Caregiver Inc. We plan to expand our operations in this area aggressively, enhancing synergy with our drugstore chain.

# Communications Business (Internet-related Business)

*While advances in Information Technology (IT) are contributing to the rapid development of information networks such as the Internet, businesses that rely on networks, or Internet-related businesses, are also growing rapidly.*

*Our activities in Internet-related businesses fall into four strategic categories:*

1. Infrastructure such as telecommunications networks, Internet Service Providers (ISPs), and data centers;
2. Systems such as computer hardware and software;
3. Content provision; and
4. Electronic commerce (e-commerce)



## Infrastructure

### Internet Service Provider (ISP)

Our involvement in the Internet business started in 1993 when we invested in Internet Initiative Japan, Inc. (IIJ), one of the first Internet Service Providers in Japan. Jointly with IIJ, we set up Asia Internet Holding Co., Ltd., which provides infrastructure to connect 10 Asian countries via the Internet.

@Home Japan Co., Ltd., set up jointly with @Home Corp. of the U.S., provides services offering high-speed and high-volume access (100 times greater than conventional telephone lines) to CATV operators nationwide.

### Broadcasting and Telecommunications Business

We have been developing our businesses in this field mainly through Jupiter Telecommunications Co., Ltd. (J-COM), the largest CATV general management company in Japan. With the information revolution progressing further, higher transmission speeds and larger data volume capacities have become the most important theme, making digital broadcasting essential. To this end, we will continue to invest in facilities and equipment to digitize our CATV networks, seeking higher speeds and employing large data-capacity circuits.

# Business

Networks such as the Internet

Content

E-commerce

Programming

Films and Games

**B2B**  
(Business-to-Business)

Existing Business

New Business

**B2C**  
(Business-to-Consumer)

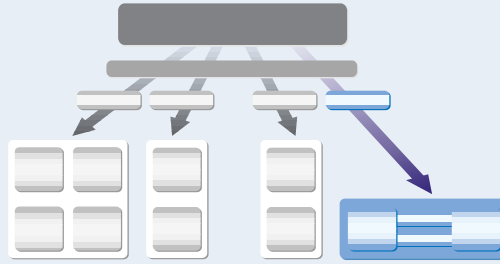
## Portal Service

Lycos Japan, Inc., set up jointly with Lycos, Inc. of the U.S. and IJ, operates an Internet search service called LYCOS. LYCOS' channels provide various services including key word and directory searches together with community sites and news services.

## Data Centers

Data centers are equipped with servers to exchange data and create databases. Sumisho Computer Systems Corp. (SCS), in which we hold equity, has already started in this area. We are currently examining our future business strategies, including the possibility of establishing new data centers.

## E-commerce



### E-commerce: Business-to-Business (B2B)

#### *Existing Business Adopting E-commerce*

As an example of existing business adopting e-commerce, BIO-NET is selling furniture and fittings via the Internet. Through this system, users such as architects and general contractors can obtain information in image and text formats provided by domestic and overseas manufacturers. The user is able to search the product database for the items required and then request estimates before concluding a purchasing contract.

We are also operating Asia Business Venture Holdings Pte. Ltd. (ABVH), which provides services necessary for international e-commerce. For instance, through ABVH's services, used-car dealers in New Zealand can obtain information on used vehicles offered for sale by their Japanese counterparts or search the database and place an order. When a deal is finalized, the vehicles are shipped directly to dealers in New Zealand, and the payment is settled via ABVH's system.

Furthermore, utilizing the latest advances in information technology (IT) and logistics technology (LT), we are applying the Supply Chain Management (SCM) system to various transactions, such as tubular product supply to BP Amoco p.l.c. and other major oil companies, importation of pork for the Inaba Wako Japanese restaurant chain, and the wastepaper yard business, providing high-value-added service to our customers.

In the B2B e-commerce area, we set up MetalSite Japan for steel products jointly with MetalSite L.P. in the U.S., and have invested in ChemConnect Inc., an U.S. e-commerce site for chemicals.

#### *Creating New Business*

Set up jointly with WAM!NET, Inc. of the U.S., WAM!NET Japan Co., Ltd. is an example of our new business ventures in this field. WAM!NET Japan opened a network center and started pro-

viding advertising agencies, newspapers, publishers, and printers with high-speed, large-volume graphic data transfer services. In the graphic art and design industry, large-volume graphic data were previously copied to magnetic disk and delivered by local messenger or similar means. By enabling large-volume data to be transferred via network, data exchange has become markedly faster — to the greater convenience of users.

### E-commerce: Business-to-Consumer (B2C)

#### *Existing Business Adopting E-commerce*

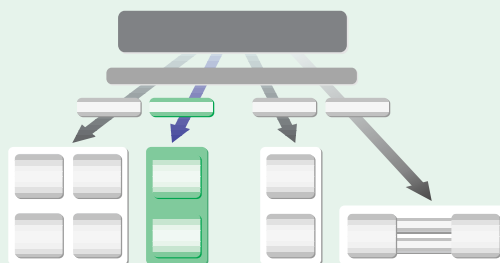
As well as marketing apparel and other items via the Internet as mentioned previously, we are engaged in a number of ventures in the B2C area. These include launching a flower gift site in partnership with JFTD, the largest flower delivery service in Japan with a network of 8,000 flower shops nationwide, and setting up Car@ (car.at.com), an auction site for used motor vehicles.

#### *Creating New Business*

As a new type of B2C e-commerce, we launched a service to deliver music online, as well as provide music information, through iPPee K.K., which we set up jointly with RealNetworks Inc. of the U.S.

We also established BIT Club, a consortium of companies from the music, consumer electronics, publishing, and broadcasting industries, to devise a form of e-commerce that combines digital broadcasting with the Internet. The server for home use to be adopted for this service is a satellite broadcasting converter with a memory system to support digital broadcasting via broadcasting satellite scheduled to start at the end of 2000. Using this server, home users will be able to download content such as music and games any time they want.

## Systems



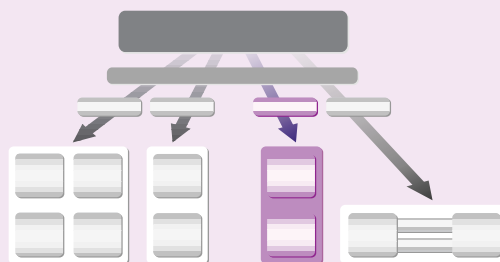
### Hardware and Software Sales to Infrastructure Businesses

We are investing in VA Linux Systems, Inc., an U.S. manufacturer of servers to support Linux, an increasingly popular operating system that is distributed as freeware. We have agreed with VA Linux to set up a joint venture to market VA Linux's products and provide related services in Japan, including system integration, operation, and maintenance. Through this venture, we intend to establish our leading position in the domestic Linux market.

### Hardware and Software Sales to General Users

As sole agent in Japan, we are marketing cable modems produced by Terayon Communication Systems, Inc. of the U.S., in which we are investing. Terayon products presently hold a 40% market share in Japan. As Internet connection via CATV circuits is expected to grow, for which cable modems are essential, we intend to expand our market share further.

## Content



### Programming Services

We are operating various channels through Jupiter Programming Co., Ltd., including the CSN1 Movie Channel, Discovery Channel, J Sky Sports, Nikkei CNBC, Shop Channel, and the Golf Network, firmly establishing our position as Japan's top programming provider in each genre.

### Films and Games

We are engaged in the production and distribution or marketing of films and games through Asmik Ace Entertainment, Inc., set up jointly with Kadokawa Shoten Publishing Co., Ltd. Films we have produced include such box-office hits as *Fuyajo* (Sleepless Town) and *Scream*. We are also operating cinema complexes nationwide jointly with United Cinemas International (UCI) and Kadokawa Shoten Publishing.

*These are some of our activities in our strategic business areas of downstream retailing directly to consumers and in communications. We will continue to expand our operations and develop new services in these fields, while simultaneously increasing our capabilities in areas such as logistics, insurance, and finance to support these activities.*

*We are committed to establishing ourselves as a new type of service provider, staying ahead in a rapidly changing world.*



# THE YEAR IN REVIEW

|                                  |           |
|----------------------------------|-----------|
| Performance by Operating Segment | <b>13</b> |
|----------------------------------|-----------|

## IRON & STEEL

|                              |           |
|------------------------------|-----------|
| Iron & Steel Division, No. 1 | <b>14</b> |
| Iron & Steel Division, No. 2 | <b>15</b> |
| Iron & Steel Division, No. 3 | <b>16</b> |

## MACHINERY & ELECTRIC/MEDIA, ELECTRONICS & INFORMATION BUSINESS

|  |           |
|--|-----------|
| Ship, Aerospace & Transportation Systems | <b>17</b> |
| Motor Vehicles & Construction Equipment  | <b>18</b> |
| Machinery & Electric Systems             | <b>19</b> |
| Plant                                    | <b>20</b> |
| Power & Telecommunication Project        | <b>21</b> |
| Media Business                           | <b>22</b> |
| Electronics                              | <b>23</b> |

## NONFERROUS METALS/CHEMICALS/PETROLEUM & CARBON

|                              |           |
|------------------------------|-----------|
| Nonferrous Metals            | <b>24</b> |
| Fine & Inorganic Chemicals   | <b>25</b> |
| Plastics & Organic Chemicals | <b>26</b> |
| Petroleum & Carbon           | <b>27</b> |

## LIVING RELATED/RETAIL & CONSUMER SERVICES

|                            |           |
|----------------------------|-----------|
| Foodstuff & Fertilizer     | <b>28</b> |
| Textile                    | <b>29</b> |
| General Products           | <b>30</b> |
| Construction & Real Estate | <b>31</b> |
| Retail & Consumer Services | <b>32</b> |

|                               |           |
|-------------------------------|-----------|
| Financial & Commodity Markets | <b>33</b> |
|-------------------------------|-----------|

|                       |           |
|-----------------------|-----------|
| Logistics & Insurance | <b>34</b> |
|-----------------------|-----------|

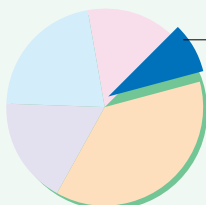
# PERFORMANCE BY OPERATING SEGMENT

Fiscal Year 2000

## Iron & Steel

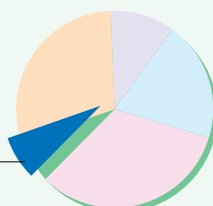
### Trading Transactions

The group accounted for **8.5%** of Sumitomo's total business.



7.4%

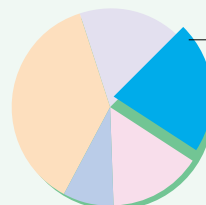
### Assets



## Living Related/ Retail & Consumer Services

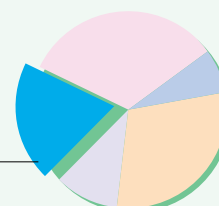
### Trading Transactions

The group accounted for **21.7%** of Sumitomo's total business.



19.7%

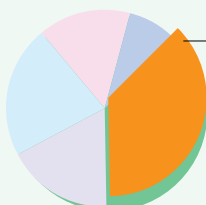
### Assets



## Machinery & Electric/ Media, Electronics & Information Business

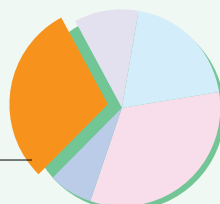
### Trading Transactions

The group accounted for **37.1%** of Sumitomo's total business.



29.8%

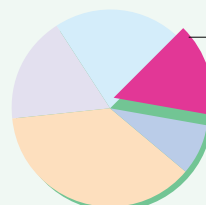
### Assets



## Others (Branches, Offices & Subsidiaries)

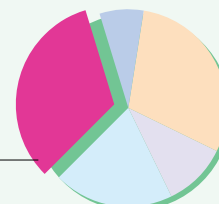
### Trading Transactions

The group accounted for **15.2%** of Sumitomo's total business.



32.7%

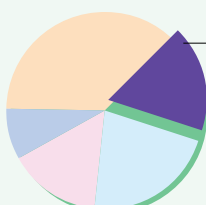
### Assets



## Nonferrous Metals/Chemicals/ Petroleum & Carbon

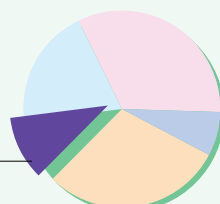
### Trading Transactions

The group accounted for **17.5%** of Sumitomo's total business.



10.4%

### Assets



## Total

### Trading Transactions

10,656,046

(million yen)

### Assets

4,904,644

## Iron & Steel Division, No. 1

*Exploration, development, and trading of iron ore, coal, ferroalloys, refractories, new iron sources such as direct reduction processing, steel scraps, and other raw materials. Domestic and international trading of plate, construction-steel products, rail accessories (rails and rolling stock), automotive components (forgings and castings), and nickel-hydro battery materials. Investments related to the above.*

### OPERATING ENVIRONMENT

Domestic crude steel production increased to 98 million tons in fiscal 1999, up by 7 million tons over the previous year, in which production had dropped to its lowest level. Accordingly, imports of metallurgical coal and iron ore also rose. Sales of coal for electric power generation increased too, due to the opening of new coal-fired thermal power stations. Demand for steel construction materials in civil engineering and construction remained low except for housing. We also faced a difficult year in steel for domestic shipbuilding. On the other hand, exports of heavy rails to North America continued at a brisk pace. In plate, demand for energy-related projects in Southeast Asia showed some increase.

### STRATEGIES

Construction work on the Bontang coal mine in Indonesia, the development of which we financed, was completed on schedule and it started full-scale shipments in fiscal 1999. With the greater importance of coal for power generation, the new mine is highly appreciated by domestic electric utilities as a stable supply source. We are importing "mixed rare earth metal," which is used for nickel-hydro batteries, from China. Mixed rare earth metal is processed into hydrogen-occlusion alloy to be used for batteries for mobile phones, electric cars, etc., and demand is steadily increasing. We are establishing MetalSite Japan, together with Marubeni Corp.,

Itochu Corp., and MetalSite L.P. in the U.S., to launch e-commerce of iron and steel products. Starting with general-purpose goods, the range of items traded will be gradually expanded. In response to the increasing importance of environmental issues, we will continue to promote a method of rooftop greening that uses a special type of highly waterproof steel sheet, and the *Kawahotaru* method of building river revetments using natural materials. Business related to tracks, such as rails and PANDROL rail fastenings, and that pertaining to rolling stock will be merged in order to expand overseas sales of rolling stock-related products and rails with consolidated marketing power.

### HIGHLIGHTS

■ Arkansas Steel Associates, of Arkansas, U.S., celebrated the 10th anniversary of its establishment in 1989 as a joint venture with Yamato Kogyo Co., Ltd. Its main product, tie plates that fix rails on their ties, holds a dominant share in the U.S. market. To improve competitiveness and diversify into a new range of products, about \$20 million was invested in plant and equipment in fiscal 1999. ■ We are investing in Auburn Steel Co., Inc., a mini mill (electric furnace mill) in the U.S., jointly with Arkansas Steel Associates, of which we own 50%. Auburn Steel has mills in Auburn, N.Y., and Lemont, Illinois, and is producing reinforcing bars, together with merchant and special quality bar-steel products. The combined output of crude steel from these two companies' three mills was just under 900,000 tons in fiscal 1999, and is expected to reach 1 million tons in 2000.



A bird's-eye view of Arkansas Steel Associates. Sumitomo is operating electric furnace mill business in the U.S., where Arkansas Steel Associates is a joint venture with Yamato Kogyo Co., Ltd.

## Iron & Steel Division, No. 2

*Domestic and international trading of carbon-steel sheet products, stainless-steel products, wire rods, specialty steel products, and containers. Investments related to the above.*

### OPERATING ENVIRONMENT

Although domestic demand for steel products remained low, exports showed an improvement. While exports to the U.S. experienced a substantial drop due to a number of dumping charges, the economic recovery among ASEAN countries and increased demand for steel products from Korea and Taiwan contributed to a rise in overall exports.

### STRATEGIES

We are aggressively pursuing policies to strengthen the corporate constitution of our domestic and overseas subsidiaries and realize more efficient management, as well as developing new businesses and markets in Japan and abroad. To achieve lower logistics costs and reinforce competitiveness through our Supply Chain Management (SCM) method, we are planning to bring steel service centers in South-

east Asia under the control of a general management company in Singapore. Three steel service centers in the U.S. will also be consolidated. By connecting these centers via computer networks, we aim to reduce inventory costs and improve operational efficiency.

### HIGHLIGHTS

■ Jointly with Itochu Corp., we acquired Mazda Steel Co., Ltd., the Mazda Group's steel service center specializing in steel sheet for automobiles. We hold a 51% share and Itochu the remainder. The company president will be appointed from our management. ■ A new steel service center that had been under construction as the second plant of TMC, Inc. was completed in January 2000. It will be operated as the Carolina Division of SteelSummit Holding, Inc., our fully owned subsidiary.



A new steel service center in Greenville, South Carolina, U.S., is operated as SteelSummit Holding's Carolina Division.

## Iron & Steel Division, No. 3

*Domestic and international trading of carbon, alloy, and stainless-steel tubular products such as OCTG, line pipe, and specialty tubes for boilers, heat exchangers, and mechanical use. Investments related to the above.*

### OPERATING ENVIRONMENT

In the world market, demand for OCTG and line pipe was weak as oil companies remained cautious about making investments in drilling, despite pressure to increase production due to the surge in crude oil prices. At the same time, overseas steel pipe makers continued their low-pricing strategy. As a result, both prices and sales volume remained sluggish. In the domestic market, although there were signs of moderate economic recovery, the construction and electric power industries remained depressed, and we continued to face difficult conditions.

### STRATEGIES

We are pursuing a number of policies to overcome these difficult business conditions. Deploying our Supply Chain Management (SCM), we started to provide our customers with a comprehensive service including transport, inspection, and stock management, as well as product sales. We endeavored to gain new long-term contracts with oil companies, as well as to renew existing ones. Special efforts were made to expand sales of products with high added value and low competition, such as chrome-nickel alloy and high-alloy OCTG. We are involved in developing high-strength, large-diameter welded pipe for overland gas pipelines, together with

Sumitomo Metal Industries, Ltd. and a major Western oil company. By consolidating and strengthening our subsidiaries, we aim to cut costs and reinforce purchasing and sales strength. As a first step, Sumisho Pipe & Steel Co., Ltd. and Tonichi Kokan Co., Ltd. were merged. We realized cost reduction and operational efficiency by outsourcing the domestic and international trading operation of specialty tubes to a subsidiary.

### HIGHLIGHTS

■ While we are already providing SCM services to BP Amoco in the North Sea area, we now have reached a basic agreement with Petroleum Development Oman L.L.C. (Shell) to conclude a similar SCM service contract. These contracts cover our comprehensive service, including assistance in demand forecasting, logistics, stock operation, maintenance, disposition of surplus, etc., for OCTG, making full use of software developed by us. Furthermore, we are working to provide similar SCM services to other major oil companies, thereby constructing a global SCM network. ■ We delivered 100,000 tons of large-diameter welded pipe for 220 kilometers of offshore pipeline, connecting an offshore natural gas field off the east coast of the Malaysian Peninsula with the mainland. The gas field is being developed by Petronas Carigali Sdn. Bhd., the Malaysian national oil company, and Esso Production Malaysia Inc. The gas will be supplied for such usage as electric power stations and will contribute to the Malaysian energy industry. ■ We received large orders from domestic and overseas electric utilities for boiler tubes and related tubular products produced by Sumitomo Metal Industries.



Sumitomo provides 90% of the pipe for drilling and offshore pipelines for BP Amoco production facilities such as this production platform in the North Sea.



## Ship, Aerospace & Transportation Systems

*Trading, contracting, and operation of new and secondhand ships, and related equipment; ship financing. Commercial aircraft and related systems, equipment, and components; aircraft leasing and financing. Spacecraft-related equipment. Electronics systems for defense and related components. Worldwide contracting for rail and urban transportation projects. Investments related to the above.*



EDSA MRT Line 3 is a 17-kilometer rail transit system connecting Makati and Quezon City in Metro Manila. The line began service in December 1999 over a 13-kilometer section.

### OPERATING ENVIRONMENT

In the shipping business, although the slump in the freight market continued, orders received by Japanese shipyards for medium-size bulk carriers increased, creating a slight upsurge due to the general sentiment that prices had bottomed out, coupled with the anticipation of market recovery. On the other hand, most of the new orders for large tankers and container ships went to Korean shipbuilders, which gained price competitiveness due to the weak won. In the aircraft business, as the value of airplanes rose as operating assets, competition in the leasing market intensified. In rail-related business, new investments in railroads in the U.S. remained vigorous, while signs of recovery were observed in Asia.

### STRATEGIES

In shipping, we endeavored to win new customers in Japan and abroad, as well as to secure quality projects. We will continue to pursue this policy in fiscal 2000. In the aircraft business, we expanded our profit base by creating new leasing projects under thorough risk management. Fully utilizing the

know-how we acquired through this process, we aim to expand and diversify the financial technology business. In the defense-related sector, we focused on information technology and digital communications, a policy that we will continue in fiscal 2000. In the rail-related business, we will continue to concentrate on promoting city transport projects in North America and Asian countries, particularly in the Philippines, Taiwan, and Indonesia.

### HIGHLIGHTS

■ EDSA MRT Line 3, an urban transportation system in Manila, the construction of which started in October 1996, began service on December 15, 1999, over a section of about 13 kilometers with 10 stations. ■ We won a leasing contract for three new Boeing 757-200 passenger airliners from Iberia Airlines, in which we were able to maximize our competitive edge using the latest financial technology. We also improved our profitability in existing projects with this financial technology. ■ We participated in a joint project between Sumitomo Precision Products Co., Ltd. and Hamilton Sundstrand in the U.S. to develop a new air-conditioning system for medium-size passenger airliners.

## Motor Vehicles & Construction Equipment

*Worldwide trading, distribution, and marketing of motor vehicles, motorcycles, automotive components, automotive production facilities, and construction and industrial equipment.*

### OPERATING ENVIRONMENT

In fiscal 1999, automobile production in Japan dropped below 10 million units for the first time in 20 years. On the other hand, domestic sales of light cars reached a record high, indicating a clear shift in demand toward low-priced automobiles. Although exports to North America remained strong and Southeast Asian sales increased from the previous year, this was offset by a large decrease in demand in Central and South America along with the Middle East, resulting in a slight decrease in overseas sales. In construction equipment, domestic demand in civil engineering and construction remained in a slump. Against this backdrop, equipment rental has grown steadily, and sales to North America continued at a brisk pace. The European market has expanded thanks to the EU. Demand from China was vigorous and Southeast Asian sales are improving, too.

### STRATEGIES

We are building a more stable business foundation by strengthening our retail network, as well as bolstering the organizational structure and management of our subsidiaries. Performance will be improved through the higher quality of services offered by each dealer, rather than by increasing the overall number of dealers. We plan to strengthen risk-management systems by adopting streamlined dealer management via a general management company. We will continue to expand our financing business into new markets in addition to our current business in Indonesia and Thailand. Regarding domestic leasing and rental business, Sumitomo Auto Leasing Corp. acquired leasing credits from Apollo Service Co., Ltd. As these credits are mainly for individuals, this should contribute to increasing our share in the personal leasing area. We are also continuing to expand our rental business for construction equipment.

### HIGHLIGHTS

■ In January 2000, we delivered a body assembly line to Opel Polska SP.z.o.o. for the Opel Agila, jointly developed by GM/Opel and Suzuki Motor. This project includes a quality control system for bodies, which has traditionally been the manufacturers' responsibility. As such outsourcing by automakers is expected to become more common, we plan to explore its potential aggressively as a new business opportunity. ■ Sumitomo Australia Ltd. was awarded a gold medal by Ford Australia in appreciation of our performance as a supplier of wiring harnesses for Ford since 1994. We also won a gold medal in U.S. Ford's World Excellence Award program for the same service.



Opel Agila, the bodies of which are manufactured in Opel's factory in Poland. Sumitomo delivered its body assembly line in January 2000.

## Machinery & Electric Systems

*Domestic and international trading, including engineering and installation services, of machinery and equipment for the heavy and chemical industry, and for the food industry, and of computers and software for office and manufacturing automation.*

### OPERATING ENVIRONMENT

While domestic investment in plant and equipment remains in a slump, businesses in information technology, communications, and life sciences continue to expand. Responding to the growing demand, we are focusing our resources on these areas.

### STRATEGIES

We are concentrating our resources on high-growth businesses and large-scale regional development projects, while shifting operations in traditional businesses to affiliated companies. In various high-growth fields, such as digital broadcasting, next-generation cellular phone systems, network infrastructure, CATV, and telephone services for the Internet, we maintained our competitive edge by responding quickly to newly emerging demands. In life sciences, we continued to strengthen our expertise in businesses related to biotechnology, pharmaceuticals, medical equipment, and global environmental protection, particularly in areas related to clean energy such as distributed generation systems and automobiles fueled by natural gas.

### HIGHLIGHTS

■ We invested ¥300 million in the Biofrontier Global Investment Fund, the largest Japanese investment syndicate specializing in bioscience. The syndicate was established in March 2000, with some 20 firms including major pharmaceutical companies participating. We are the only trading company to invest in the fund. We expect it to give us an advantage in hardware, software, and system sales in this field, with access through the syndicate to the latest information on global bioscience business, and anticipate capital gains from this investment.



**Generators contribute to better economic performance by reducing utility costs as well as countering global warming.**

■ Together with Meidensha Corp., we obtained a franchise for micro turbine generators manufactured by Capstone Turbine Corp. We imported the engine generators and controls of Capstone's 30-kilowatt gas turbine generators to use in a product we developed specifically for the Japanese market. As deregulation in electricity progresses, the product is also attracting attention as an independent power supply unit. ■ We started marketing Web server software by Zeus Technology Ltd., a British company, which is rapidly expanding its market share in the Internet server area. We are also planning to set up a support company in Japan with Zeus Technology. ■ Jointly with Pasona Softbank, Inc. and Internet Research Institute, Inc., we established Internet Helpdesk, Inc. to provide customer services to e-commerce sites and Internet Service Providers (ISP).



## Plant

*Worldwide contracting for engineering, procurement, and construction of machinery and plants in the oil and gas, chemical and petrochemical, iron and steel, cement, desalination, and other industries. Worldwide contracting for development of underground resources, agriculture, fisheries, water resources, forestry, and other environmental resources; and development of social and industrial infrastructure such as educational and medical systems, and airport and port systems.*

### OPERATING ENVIRONMENT

While large-scale projects have been delayed because of the economic confusion in Asia, the market is showing some signs of recovery and we anticipate new projects and investment for increased oil production and development of resources in the Middle East as well as Central and South America. Regarding official development assistance (ODA) projects, while grant aid projects proceeded more or less on schedule in terms of equipment and construction, social infrastructure projects with yen-denominated loans were delayed.

### STRATEGIES

In fiscal 2000, we will concentrate on the development of new projects in which we take the initiative, projects involving public financing such as ODA and other public funding, and ODA projects. These projects will be in oil, gas pipelines, desalination, and other industrial plants. We will also actively promote our involvement in ODA-funded large-scale infrastructure projects, including grant aid projects

and those relating to medical equipment, water supply and drainage, refuse disposal, and ports and airports. Although exports of industrial equipment and machinery were favorable in the first half of 1999, profits fell in the second half due to the strong yen, and this trend is expected to continue in 2000.

### HIGHLIGHTS

- We are engaged in a project to utilize the gas produced as a by-product in an undersea oil field in Brazil as its oil production increases. This project, worth more than ¥80 billion, is partly financed by the Japan Bank for International Cooperation.
- We are financing a ¥250 billion undersea gas pipeline project in the Black Sea in Russia, along with the Japan Bank for International Cooperation.
- As part of the ODA projects in Africa, we completed harbor improvement in Maputo, a fishing port in Mozambique, including providing a dredger and constructing a bridge. In addition, we built schools and roads in various countries in the region.



Qatar Fuel Additives Co.'s methanol/MTBE plant, for which Sumitomo undertook project finance.

## Power & Telecommunication Project

*Worldwide trading and contracting of projects for power generation, transmission, and distribution systems, and telecommunications and information systems and equipment. Telecommunications business. Investments related to the above.*

### OPERATING ENVIRONMENT

Although many large-scale projects were postponed because of the economic crisis in Southeast Asia, some evidence of recovery has been noted recently. There is a move to start projects that were delayed, although it will be some time before they make an impact on our business results. Also, strong activities have been observed, with large-scale projects being organized in the Indian market, which has recently undergone rapid modernization, and in the Middle Eastern market, benefiting from surging oil prices.

### STRATEGIES

In this environment, we will strengthen our involvement in ODA projects in power and telecommunications, while simultaneously continuing to bolster our relationship with overseas manufacturers to increase our global competitiveness. We will also promote secure projects in the fields of electric power and telecommunications. We intend to step up our domestic electricity business that explores new sources of energy, in view of deregulation in electricity retail sales. In telecommunications, we are expanding our involvement in new businesses to meet rapid changes in the industry. As information technology is also transforming the electricity and telecommunications industries, we intend to explore new types of business to take advantage of new developments in these fields. We will also continue to promote exports of power generation and transmission systems and telecommunications systems to selected markets.

### HIGHLIGHTS

■ The cellular phone business launched in Mongolia in 1996 by MobiCom Corp., a joint venture with KDD Corp. and NEWCOM Co., Ltd., is growing rapidly in excess of our initial estimates, thanks to

increasing demand for telephone services. ■ We received a ¥2.5 billion order for two gas-turbine generators to be built by Ishikawajima-Harima Heavy Industries Co., Ltd. for a leading engineering company in India.



A boiler of a coal-fired thermal power station that Sumitomo is building in Vietnam through a partnership with manufacturers in Korea, the U.S., the U.K., and Australia. Construction is expected to be completed in 2001.



## Media Business

*Planning, developing, and promoting business in the fields of telecommunications, information and communications services, visual media, CATV, and satellite communications.*

### OPERATING ENVIRONMENT

As the popularity of the Internet, mobile phones, and cable television (CATV) rises, the information technology and media industries are growing and changing rapidly. New services that use information networks are constantly emerging, while high-speed Internet connections and mobile phones with Internet applications are spreading rapidly. Reorganization in the industry is also progressing, as witnessed in the merger between AOL, a "new economy" Internet company, and Time Warner, a traditional media firm.

### STRATEGIES

We have completed most of the unification process of our CATV business, transferring its operations to Jupiter Telecommunications Co., Ltd. (J-COM) to establish a solid base for further expansion. We achieved a substantial increase in the overall number of subscribers through integrated management using J-COM's multiple-system operation method. We established @Home Japan Co., Ltd., a provider of high-speed Internet services via CATV networks, to launch services in the first half of 2000. In a move to expand and develop content-related business, we also set up a new joint venture with United Cinemas International and Kadokawa Shoten Publishing Co., Ltd. to build and operate cinema complexes. We will actively promote new business opportunities by fully utilizing our expertise in a wide variety of areas, including infrastructure such as telecommunications, satellites, and CATV, content provision, e-commerce, portal services, and profile databases, and by enhancing synergy between these businesses. J-COM will continue to upgrade and digitize its systems and equipment to provide various communications services including Internet access via CATV networks, digital broadcasting by broadcasting satellites, and other new services.



**@Home Japan's network operation center at its head office in the Aobadai area of Meguro in Tokyo. The company provides high-speed Internet services.**

### HIGHLIGHTS

■ Sales of Yamaha's low-priced remote routers for ISDN continued to expand, thanks to the growing popularity of personal computers for home use and the increased number of Internet users. Sales of Terayon cable modems, for which we hold exclusive agency rights in Japan, also increased significantly, gaining the top domestic share. ■ Having entered into a strategic partnership with Network Associates, Inc., the world's largest specialist company in network security in the U.S., we started marketing its software, systems, and services. We also launched sales of subscriber management systems by Redback Networks Inc. of the U.S., which enable telecommunication operators to manage broadband services efficiently. ■ From the autumn of 1999, Lycos Japan, Inc. has been implementing a number of marketing campaigns including TV commercials featuring Ayumi Hamasaki, a popular young singer, resulting in a rapid increase in the number of page views, highlighting the site's popularity. ■ The film *Poppoya-Railroad Man*, which we invested in and helped produce, was a big box-office hit, winning awards in nine categories including best film in the Japan Academy Awards and garnering other awards both in Japan and abroad.

## Electronics

*Marketing of consumer electronics, computer and communication components, devices, semiconductor materials, and software; investment in information technology and related fields.*

### OPERATING ENVIRONMENT

In information technology, IT-related investments increased due to the rapid development of e-business. The semiconductor market improved in the second half of the fiscal year, and demand for semiconductors for mobile phones, personal computers, games, and DVDs remains brisk. The market for silicon wafers also strengthened, pushing up the price. Thanks to the vigorous market, investment in the semiconductor industry increased. On the other hand, fierce price competition in hard disk drives (HDDs) for PCs drove down the price of magnets for HDDs.

### STRATEGIES

We concentrated on expanding our product range and commercial rights in the IT field through developing new Net businesses, as well as increasing our venture and fund investments. We will continue to expand our investments, create new businesses, and support our affiliated companies. In consumer electronic components, we increased the scope of our business and profits by using the Supply Chain Management (SCM) system. In fiscal 2000, we aim to increase sales volume by strengthening our cooperation with Sumitronics Asia in international

electronic component and material procurement. At the same time, to improve profits through efficient management, we plan to establish our new subsidiary, Sumitronics Corp., in Japan as a trading company specializing in electronic components, and transfer our operations and human resources in this area to that firm. In magnetic materials for silicon wafers and HDDs, we increased our profits by expanding sales volume and cutting distribution costs. As well as continuing this policy in fiscal 2000, we plan to increase sales by launching a joint venture in color filters. We will also endeavor to develop business in materials for optical communication and optical memory.

### HIGHLIGHTS

- We increased our holdings in WAM!NET Japan K.K., which was established in August 1999 to provide high-speed graphic data transfer services, and also invested in WAM!NET, Inc., the largest service provider for high-speed digital transfer in the U.S. Initially, WAM!NET, Inc. held a 90% share in WAM!NET Japan and we accounted for the remainder. By increasing our share to 40%, we have been able to participate in its management.
- Together with major digital consumer electronics manufacturers, broadcasting stations, Warner Music Japan Co., Ltd., and Obunsha Co., Ltd., we formed a study group, BIT Club, to look into e-commerce business combining digital broadcasting and the Internet.
- We concluded a sole agency agreement with Colorado Micro Display, Inc., a U.S. venture company, to market in Japan micro liquid crystal displays to be used for video camera viewfinders and similar products.



WAM!NET's digital graphic data centers in Las Vegas and Minneapolis enable worldwide users to store their valuable data safely for long periods.

## Nonferrous Metals

*Worldwide trading of ores, raw materials, refined metals, and finished products of such nonferrous metals as copper, lead, zinc, aluminum, nickel, titanium, uranium, and precious metals. Investment in projects involving mine development and metal products.*

### OPERATING ENVIRONMENT

Although the price of nonferrous metals stopped falling for the first time since 1997, weak demand, compounded by the strong yen, made it a difficult year for the industry. Against this backdrop, mergers and business tie-ups accelerated in the nonferrous metals industry in Japan and abroad.

### STRATEGIES

In this severe environment, we concentrated our resources on core businesses and strengthened our organization. In the aluminum coil processing business, we integrated our subsidiaries and affiliated companies. We began building a global network in the aluminum product business and strengthened our system. In the mining business, construction work for the Rey De Plata lead and zinc mine in Mexico, in which we hold mining rights and interests, is progressing. It is scheduled to start production in July 2000. The mine is our second project in Mexico, following the Tizapa mine, which began producing in 1994. The Nonferrous Metals

Business Development Department was newly created in April 2000 to undertake all operations relating to raw and processed materials used in the high-tech industry, as well as related natural resources projects, which were previously the responsibility of several departments. Through this new department, we plan to develop new projects and expand our sales through enhanced efficiency.

### HIGHLIGHTS

■ Sumisho Metalex Corp. was listed on the OTC market in February 2000, the first among the domestic nonferrous metal sales arms of major trading companies. ■ The Batu Hijau copper and gold mine in Indonesia, the development of which started in 1997, completed mine development and construction work on related infrastructure such as mineral processing and harbor facilities. It started production in September 1999. This mine is one of the largest in the world, and is expected to become a valuable supply source for copper smelting companies worldwide in the next 20 years or more.



Carrying the first shipment from the Batu Hijau copper and gold mine in Indonesia, the Astro Ace left for Japan in December 1999.



## Fine & Inorganic Chemicals

*Worldwide trading of inorganic chemicals for industrial use, chemicals for fertilizer such as sulfur, sulfuric acid, and ammonia; pharmaceuticals and their intermediates; feed additives; specialty chemicals for semiconductors and liquid crystal; and agricultural chemicals and disinfectant. Investment and finance in areas related to the above.*

### OPERATING ENVIRONMENT

The export-intensive fine and inorganic chemicals business experienced a difficult year due to the strong yen throughout fiscal 1999. While the Chinese market remained sluggish, the European and North American ones were brisk, and the Asian market was also recovering, showing different trends from market to market. Under these circumstances, we continued to expand our global markets for pharmaceuticals and their related intermediate products, and sulfuric acid from copper smelting.

### STRATEGIES

To cope with the fast-changing business environment and improve profitability, we aggressively restructured our subsidiaries and have transferred some of our operations to them. We strategically reorganized the business structure of Sumitomo Shoji Chemicals Co., Ltd., in view of transferring our business to it, as a core company in the specialty and electronics chemicals business. Sumisho Specialty Chemicals International Co., Ltd. and Sumisho Agro Ltd. were merged to form Sumisho Agro International Ltd. We transferred some of our commercial rights and staff to this new firm, which is intended to become a global center of the agricultural chemicals business. We also implemented a number of policies to develop our businesses. We built new sulfuric acid tanks with a combined capacity of 120,000 tons in Florida, U.S., and Chile, to expand the sulfuric acid trade of Interacid Trading S.A. We introduced a Supply Chain Management (SCM) system to efficiently manage orders and the stock of paint additives produced by BYK Chemie GmbH in Germany. The system contributed to cost reduction and also promoted information sharing between suppliers and users. Sumit Agro Bulgaria was established to import and trade agricultural chemicals in Bulgaria.

### HIGHLIGHTS

- Together with the Plastics & Organic Chemicals Division, we invested in ChemConnect Inc., an e-commerce site for chemicals in the U.S. ChemConnect is one of the forerunners in e-commerce and a leader in chemicals. Its investors include leading chemical manufacturers such as Bayer, BASF, ICI, and Dow Chemical, as well as major investment groups including Goldman Sachs and Andersen Consulting. We will promote e-commerce in Japan and Asia in partnership with ChemConnect.
- To expand our commercial rights in Eastern Europe and the CIS, where potential demand for agricultural chemicals is high, we established a logistics center in Hungary and introduced an SCM system for regional sales companies to share stock information. We are reinforcing our retail sales, fully utilizing the SCM system. By offering sales information to manufacturers, SCM contributes to timely delivery of goods, maintaining a full range of products stocked through accurate stock information, enhanced operational efficiency, and precise production planning.



Sumitomo is operating various businesses taking full advantage of its expertise in a wide range of fields from high technology to natural resources.

## Plastics & Organic Chemicals

*Worldwide trade and investment  
in the organic chemical, plastics,  
and synthetic rubber industries.*

### OPERATING ENVIRONMENT

Ethylene production in Japan rose from the previous year's 7.07 million tons to 7.69 million tons, exceeding the previous 1997 record of 7.42 million tons thanks to increased exports of ethylene and its derivatives to the Asian market, where the economy is recovering from the currency crisis. Although domestic demand for petrochemical products is seeing a moderate recovery, the pace is still slow, promoting further restructuring among manufacturers and reorganization in the industry. While no major alliance between companies, as was witnessed in the West, was announced this year, domestic manufacturers restructured their production through temporary or permanent closure of production facilities, and focused on areas in which they have a competitive edge in the world market. On the other hand, overseas demand improved significantly due to the growing U.S. market, where the economy continued at a brisk pace, as well as thanks to the revival of Asian economies, clearly signaling recovery in the petrochemicals industry.

### STRATEGIES

Against this backdrop, we stepped up the reorganization of unprofitable businesses including withdrawing from some areas. We started to take part in e-commerce business, while introducing Supply Chain Management (SCM) systems to our subsidiaries and affiliated companies. We also reinforced staffing in our Asian bases, such as China and India. In fiscal 2000, we will continue to reinforce our profit base through focusing our resources on selected areas, as well as actively promoting investment and finance in secure projects and areas in

which we are strong. We will also step up the introduction of SCM systems to subsidiaries and affiliated companies.

### HIGHLIGHTS

■ Cantex Inc., our wholly owned manufacturer of polyvinyl chloride pipes in the U.S., recorded solid business results again this year, partly resulting from the continuing growth of the U.S. economy. ■ We acquired the management rights of Nippon Giken Industrial Co., Ltd., the largest manufacturer and distributor of plastic bags for home use. We have expanded the sale of Dio-Cut, which minimizes dioxin at the time of disposal, through the company's sales channels. ■ We invested in Sang-A Flontec Co., Ltd., a Korean fluoro plastics molder, along with Japan International Development Organization Ltd. and Tenma Corp. We plan to strengthen and expand its business base with a view to listing its stock in the future. ■ We invested in Bataan Polyethylene Corp., a polyethylene production and distribution project in the Philippines, along with BP Amoco of the U.K. and Petronas of Malaysia. We are undertaking its plant construction and will supply it with raw materials including ethylene. The corporation obtained project financing arranged by International Finance Corp., and it is now build-

ing the plant to start operation in July 2000. ■ Anticipating the rise of e-commerce in the chemical industry, we invested in ChemConnect Inc., a leader in the e-commerce of chemicals in the U.S., jointly with the Fine & Inorganic Chemicals Division.

**Sang-A Flontec of Korea, in which we acquired a stake, supplies the high-tech industry with fluoro plastic and precision engineering plastic products.**





## Petroleum & Carbon

*Worldwide import, export, offshore trade, and domestic sales of crude oil, petroleum products, liquefied petroleum gas (LPG), petroleum coke, carbon raw materials, and carbon products. Exploration and development of oil and liquefied natural gas (LNG). Development of wind-power generation and cogeneration. Electricity retailing.*

### OPERATING ENVIRONMENT

Petroleum and carbon business faced increasingly severe conditions with the price of crude oil skyrocketing due to OPEC's coordinated production cuts, while the price of domestic petroleum products remained in a slump. Against this backdrop, major realignments and mergers in the oil industry continued, including a worldwide merger of Mobil and Exxon, the formation of Nippon Mitsubishi Oil Corp., and a partnership between Showa Shell Sekiyu K.K. and Japan Energy Corp. in Japan. At the same time, deregulation is encouraging new players such as foreign concerns and trading companies to join the domestic mains gas and electric power industries.

### STRATEGIES

We are expanding the scope of our business through consolidating our overall expertise, simultaneously identifying core businesses and focusing our management resources on them. In oil, we are working to increase domestic sales and international trade through Nansei Sekiyu K.K., while expanding domestic gasoline sales through Sumisho Oil Corp. and increasing the volume of D/D crude oil contracts. In LPG, we continued to reinforce our domestic retail system, which operates through three core subsidiaries, as well as vertically integrating all transactional stages from import to retail. In carbon, we continued to examine overseas investment opportunities, and to develop new markets and fields such as carbon fiber. In natural resources development, we are participating in natural gas projects in Russia and Indonesia, and in the development of oil and gas fields in the North Sea, Asia, and the Middle East. In response to the diversification of the energy industry, we are also engaged in wind-power generation, electricity retailing, and cogeneration. The latter is a system to improve energy efficiency by generating and utilizing electric power and heat simultaneously, using kerosene, heavy oil, and LPG as fuel.

### HIGHLIGHTS

- Sumisho Oil Corp., one of our key subsidiaries, celebrated its 30th anniversary. Having completed restructuring ahead of its competitors, the firm is expanding its petroleum products trade, while pursuing the efficient operation of gas stations.
- Our three key LPG subsidiaries' customers reached 120,000 in total, securing our top place in sales among trading companies.
- We signed an exclusive contract for LPG to be exported from Vietnam for the first time.
- We are engaged in the global marketing of SK blocks, which are used as cathodes in aluminum smelting.
- Our carbon fibers are now put to use for reinforcing bridges and repairing balconies in the U.S. In Europe, the product is used for industrial rollers and various sports goods such as fishing rods. It is also employed to strengthen iron frames in subway construction in London, U.K.



Because they are lighter and stronger than steel, carbon fibers (top) are used for reinforcement and repair in a wide range of fields. SK block (below) is employed as a cathode to electrolyze alumina in aluminum smelting.

## Foodstuff & Fertilizer

*Worldwide trading of grains, oil seeds, sugar, meat and dairy products, seafood products, fruits and vegetables, consumer products, and fertilizers. Coordination of projects involving the production and distribution of agricultural and fishery products.*

### OPERATING ENVIRONMENT

International prices for major foodstuffs such as grains, oils, and sugar remained low in general, with soybeans and corn recording their lowest prices in more than 20 years in the midterm. Although some domestic users of soybeans and cornstarch paid a premium price for nongenetically modified produce, this did not affect the overall prices. The food business in Japan underwent further restructuring in all stages of distribution to survive the prolonged slump in consumption. We also endeavored to expand our commercial rights, while maintaining existing ones at the same time, by proposing a comprehensive restructuring strategy including streamlined logistics and transactions to our customers.

### STRATEGIES

In fiscal 1999, we focused on and expanded sales of vegetables, fish, and meat, in particular Specific Pathogen Free (SPF) pork, to restaurants and food processors through SC Foods Co., Ltd. and Sumisho Fresh Meat Co., Ltd. We put particular emphasis on direct involvement in production to develop new imports. In the banana business, we strengthened domestic processing facilities, while expanding the sales of premium bananas, which enjoy a high profit margin. We maintained our position as Japan's top

fodder importer, improving the operational efficiency of our eight fodder-processing facilities in North America, and adding another base in West Australia. We sold S.C.A. Tobacco Corp. (SCAT), our wholly owned imported tobacco sales subsidiary, to the world's second-largest tobacco manufacturer, British American Tobacco plc (BAT), and secured capital to reinvest in areas with growth potential. In fiscal 2000, we plan to launch an e-commerce site for gift flowers, and are also examining various other opportunities in e-business. We will continue to secure our commercial rights through promoting our Supply Chain Management (SCM) system and logistics restructuring to our customers. We will also continue our efforts to increase vegetable, meat, and fish sales. To this end, we will increase SC Foods' direct involvement in production in order to develop new imports, as well as pursuing strategic marketing of meat through Sumisho Fresh Meat.

### HIGHLIGHTS

■ Together with the Meat & Meat Products Dept., and Sumisho Fresh Meat Co., Ltd., our wholly owned subsidiary, we successfully proposed a comprehensive logistics system to Inaba Wako, a restaurant chain that operates about 150 restaurants nationwide, to streamline its stocking system of main food materials. Scheduled to be implemented in August 2000, the new system is expected to reduce logistics costs by more than 5%. ■ Kagome Co., Inc. concluded a licensing agreement with Alicorp Co., Ltd. in Peru to offer its expertise in tomato product development for home use, manufacturing equipment, and quality control. We acted as an intermediary to realize this deal. We will engage in the export and marketing of Alicorp's tomato products and raw material for tomato ketchup. The Peruvian government welcomed this move, expecting the production of tomatoes — the country's main produce — to increase with higher quality, thus benefiting its agricultural infrastructure as well as encouraging exports.



Sumitomo has participated in FOOD EX JAPAN, an international food and beverage exhibition, with our food-related company.

Worldwide trading of raw cotton and man-made fibers, various types of yarns; woven and knit fabrics; apparel; and home furnishings, including floor and wall coverings. Licensing of brands, including designer and national brands. Investment in textile manufacturers, converters, wholesalers, and retailers.

## OPERATING ENVIRONMENT

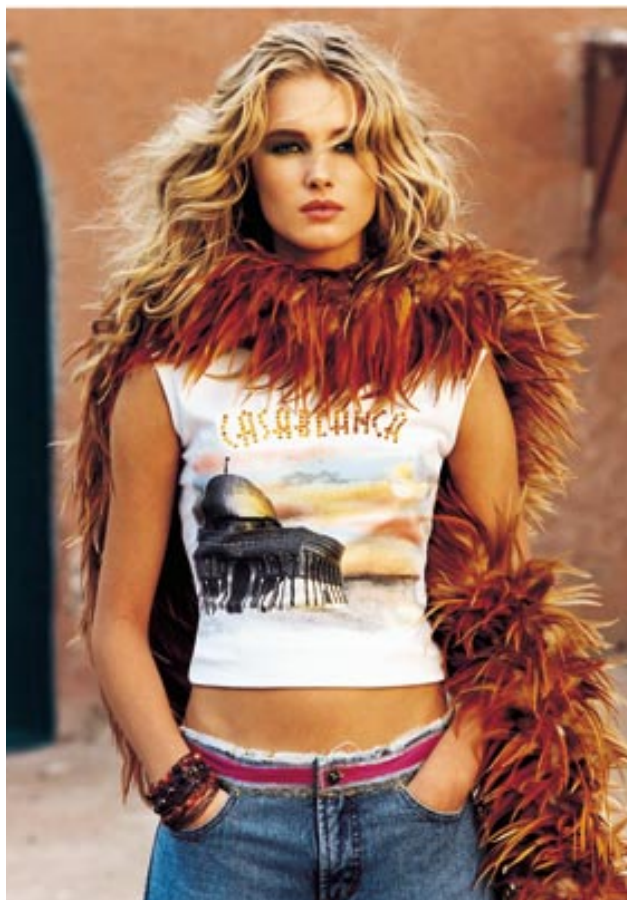
Although some indications of recovery were observed in the second half of the fiscal year, domestic consumer spending remained weak. The markets for clothing and other textile goods continued to face difficulties, with retail prices dropping further. The raw materials and textile markets also remained depressed; in particular the price of cotton yarn kept dropping. As a result, textile imports and domestic sales of raw materials, textiles, and final products remained sluggish.

## STRATEGIES

In this harsh environment, we bolstered our apparel business by achieving a shorter delivery time of high-quality goods by expanding overseas manufacturing, particularly in Vietnam and China. We also increased our share of raw cotton imports in Japan, while developing environmentally friendly products and Supply Chain Management (SCM) systems for apparel manufacturing. In fiscal 2000, we will continue to strengthen and expand our international operations. In particular, we aim to increase the volume of Asian trade through Sumitex Hong Kong Ltd. Further integration of management systems among our subsidiaries and affiliated companies will be pursued through mergers and closures. We will also continue to introduce SCM systems in apparel manufacturing to achieve operational efficiency, and strengthen and expand our business.

## HIGHLIGHTS

■ We concluded a master licensee agreement for RUSTY, a U.S. surfing brand, to start marketing it in Japan beginning with the 2000 spring/summer collection. ■ K.S. Koyo Co., Ltd., a blanket sales company established jointly with Kanebo, Ltd. and Koyo Senshoku Co., Ltd., launched the MY B series of acrylic and cotton blankets. With a simple yet



As a licensee of XOXO, an American brand of casual clothing, Sumitomo is marketing its women's wear, bags, watches, and other items through department stores and boutiques nationwide.

sophisticated design to meet the taste of modern consumers, the series is available in 16 and 8 plain pastel colors in acrylic and cotton, respectively.

■ We increased our holdings to 100% from 87.5% in Summit Wool Spinners Ltd., a New Zealand company producing yarn for wool carpets. The firm is steadily expanding its output, mainly to Australia, where considerable construction is under way for the Sydney Olympics, and to the U.S., where the economy is continuing to grow.



## General Products

*Worldwide trading of cement and concrete products, logs and lumber products, building materials, wood chips, pulp, paper products, wastepaper, and tires and tubes.*



Plastun harbor in Siberia, Russia, from which raw timber and engineering wood are shipped. The harbor, an important shipping base to Japan, offers many advantages such as being ice-free thanks to its natural geographical features and its own facilities.

### OPERATING ENVIRONMENT

Although housing starts in 1999 rose by 4.0% from the previous year to 1.23 million for the first time in three years, thanks partly to tax incentives, general demand remained low. Demand for timber and construction materials is also expected to remain sluggish. Domestic demand for cement continued to drop due to the prolonged slump in private construction, while exports also remained depressed as Asian economies have yet to recover fully. Although the paper industry is showing signs of recovery since the second half of the year when it bottomed out, demand remains weak, driving down the profits of manufacturers and distributors. In this light, reorganization in the cement and paper industries accelerated, with large-scale mergers and tie-ups between manufacturers and distributors.

### STRATEGIES

In this severe environment, we concentrated our management resources on core businesses, with particular emphasis on reinforcing our domestic and overseas sourcing. In timber, we established PTS Hardwood Co., Ltd. in Russia to produce hardwood glulam, in addition to STS Technowood Co., Ltd. that is already manufacturing conifer glulam in

the country. Responding to the increasing importance of environmental issues, we are actively promoting our business in recycling resources such as wastepaper and in reforestation projects. We are launching an e-commerce site for the wastepaper trade to match sellers with buyers, as well as expanding the number of wastepaper yards.

### HIGHLIGHTS

- STS Technowood Co., Ltd., which produces conifer engineering wood in Plastun, Siberia, is steadily growing, clearing its accumulated loss in only its third year of operation. As the next step in this business, we established a new company, PTS Hardwood, Co., Ltd. to produce hardwood engineering wood using oak and other broadleaf trees.
- In the paper pulp business, we decided to launch a full-scale reforestation project in Ecuador, following similar projects in Chile and South Africa.
- In paper recycling, we invested in Green Ohmoto Inc. in Osaka and Green Fujikawa Inc. in Fukuoka to create bases for nationwide operations, while expanding sales of wastepaper produced by Summit Pulp & Paper Inc. in the U.S. In the tire business, we started marketing tires made in Indonesia, as well as promoting sales to North America, our main market.

## Construction & Real Estate

*Owning and managing properties, including office buildings, shopping malls, and rental housing. Developing, contracting, and consulting for residential properties, urban redevelopment projects, office buildings, distribution centers, and shopping centers. Planning and consulting related to housing and building sites, civil engineering, and construction work. Investments in all of the above.*

### OPERATING ENVIRONMENT

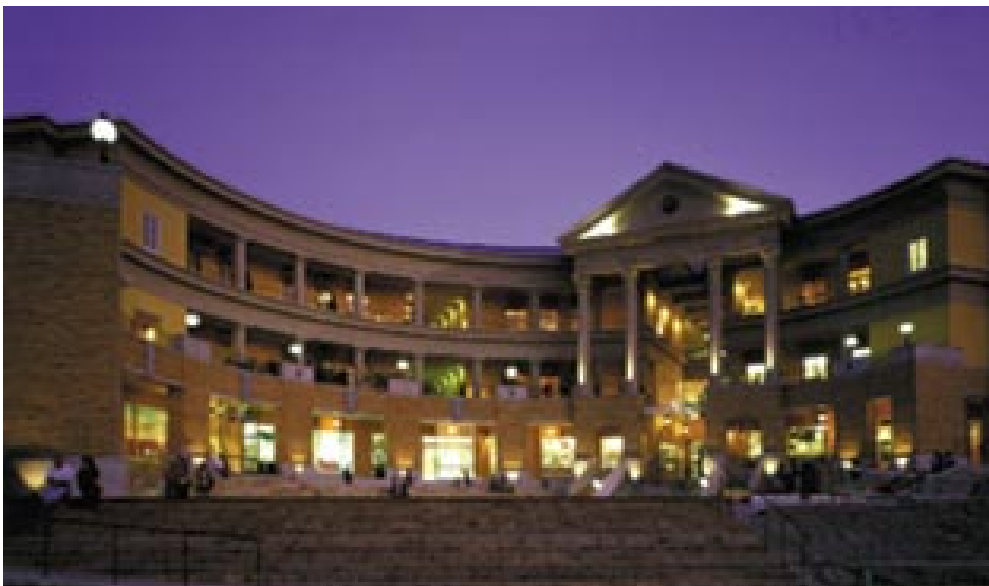
In the office building market, while overall vacancy rates continued to rise, demand for large, modern, and accessible buildings remained strong. Sales of condominiums were steady thanks to increased tax breaks for homebuyers.

### STRATEGIES

We concentrated on increasing profitability through well-balanced development of rental, sales, and fee-based businesses. As part of this strategy, we have been actively involved in the development of the Private Finance Initiative (PFI) in Japan, including organizing the Study Group for PFI, to open up new business opportunities. We will also continue to promote the development of commercial complexes such as shopping malls, as well as expanding our operations in management services for these complexes. We have also started housing plot sales in the Tokyo metropolitan area, where demand for houses close to downtown is increasing.

### HIGHLIGHTS

■ In December 1999, we began construction in Osaka of a commercial complex, office building, and two hotels next to the new train station for Universal Studios Japan, which is scheduled to open in the spring of 2001. ■ Bayside Mall, the second facility in the KISHIWADA CAN CAN multiple commercial complex and whose construction we participated in, opened in September 1999. The complex is part of the redevelopment project at the old Kishiwada harbor in Osaka Pref. ■ We began construction of a multipurpose building with commercial facilities, library, and hall in the Hashimoto area of Sagami-hara City in Kanagawa Pref. ■ Our proposal for the Sun Port Takamatsu Symbol Tower was accepted in a competition for plans for the redevelopment of the Takamatsu harbor in Kagawa Pref.



The KISHIWADA CAN CAN Bayside Mall, which houses 28 stores of mainly factory outlets, a cinema complex with nine screens and 2,600 seats, amusement facilities produced and operated by Sega, and other commercial stores.



## Retail & Consumer Services

*Various retail and downstream businesses handling a wide range of consumer goods and services.*

### OPERATING ENVIRONMENT

The severe business environment continued for the retail industry, with a prolonged slump in consumer spending. On the other hand, new opportunities emerged in the consumer-related business, including rapidly developing e-commerce and care-related business, which is expected to rise further following the introduction of the national nursing-care insurance system in April 2000.

### STRATEGIES

Placing priority on expansion and promotion of our existing businesses, with supermarket and drugstore chains as the core, we expanded the scale of our operations and increased synergy between businesses through capital tie-up with and acquisition of store chains. We also continued to open new Summit and TomoD's outlets. At the same time, we embarked on a number of new ventures in retail businesses with growth potential. We started full-scale operation of the Segafredo Zanetti chain, our first restaurant venture, opening a series of new outlets. Otto-Sumisho group, our core operation in the mail-order business, launched Internet marketing. We entered into care-related business through investing in Pasona Caregiver Inc. In fiscal 2000, we

will continue to strengthen the existing businesses. In particular, we will pursue further synergy through capital tie-up and acquisition in supermarket and drugstore operations, as well as developing new types of business.

### HIGHLIGHTS

■ We acquired a 20% stake in Mammy Mart Corp., a Saitama-based supermarket chain. To expand the scope of our business in the Kanto area, we are enhancing cooperation through tie-ups between our Summit supermarkets and Mammy Mart outlets with adjoining operational bases. ■ We bought Asahi Medix Co., Ltd., a drugstore chain, from The Seiyu, Ltd. We aim to achieve operational efficiency in our drugstore business by combining Asahi Medix's know-how in stocking and logistics infrastructure with Sumisho Retail Stores' expertise in running city-type dispensing drugstores. ■ In April 2000, we acquired an 11.83% stake in The Seiyu, Ltd. to strengthen our business relationship with the company. A joint project team will be set up to work out tie-up systems in merchandise supply, information, and logistics. The team will also explore the potential of joint business in various fields, including specialized apparel outlets and e-commerce. ■ Otto-Sumisho Inc. and Eddie Bauer Japan Inc. launched full-scale Internet marketing on their own Web sites on January 10 and March 1, 2000, respectively. ■ Following the success of its first outlet in Tokyo's Shibuya district, we opened a series of new outlets of Segafredo Zanetti in Hiroo, Shinjuku PePe, and Tama Plaza since December 1999 and plan to open more outlets this year.



The busy Drug Medico Akasaka store in Tokyo. The store is run by Asahi Medix, a drugstore chain acquired by Sumitomo.

# Financial & Commodity Markets

*Liquidation and securitization of assets. Financial services for Internet-related projects. Investment in venture capital and private equity funds. Services relating to M&A, OTC trading, pension fund management, and investment advisory business.*

## OPERATING ENVIRONMENT

As deregulation progresses, combined with the rapid progress of computerization, the financial industry is undergoing radical changes. In addition, the industry is witnessing considerable reorganization, with new players from other fields entering the financial business.

## STRATEGIES

Against this background, the Financial and Commodity Markets Division was established to expand the scope of our operations and profits in the financial business. The division will operate mainly in the following areas: liquidation and securitization of assets, and financial services for Internet-related projects; investment in venture capital and private equity funds, and services relating to M&A; commodity market trading in precious and base metals, energy-related products including crude oil; and agricultural produce for market-making and hedging for high-volume customers and traders. We will enter the investment advisory business in order to introduce investment in international commodity markets to pension funds as an effective investment strategy. In the Internet-related finance business, we are investing in DLJ direct SFG Securities Inc., a company specializing in Internet trading. We are also considering a number of Internet-related businesses, including granting credit for online transactions and providing infrastructure via the Internet required for securitization and liquidation of assets.

## HIGHLIGHTS

■ We securitized ¥100 billion worth of long-term lending collateralized by vessels and other assets. This marked one of the world's largest liquidations of its kind involving the pooling of claims of different terms against a number of shipping companies.



Taking orders from high-volume customers and internal divisions and for interbank transactions, the dealing team pursues best pricing through market activities. The team covers a wide range of goods and provides high-quality solutions to price change risk.

■ To further strengthen our business base in distribution and supermarket operations, we invested in The Seiyu, Ltd. and formed a business partnership with the company. Our Investment Development Department contributed to this project, together with the Retail & Consumer Services Division, in analyzing and evaluating the project, as well as acting in an advisory capacity. ■ Sumisho Capital Management Co., an investment management company, is to be established in the Cayman Islands to launch full-scale services in the alternative investment business, as well as to strengthen the pension fund management of our group companies, utilizing our expertise in fund management. Day-to-day operations will be undertaken in its Tokyo branch.

# Logistics & Insurance Business

*Comprehensive logistics services, marketing of industrial parks, and insurance services.*

## OPERATING ENVIRONMENT

The fast-paced information technology revolution also had a great impact on the distribution business, and e-commerce became essential in placing/receiving orders, distribution, and information sharing.

## STRATEGIES

In fiscal 1999, we concentrated on building Electronic Data Interchange (EDI) systems for logistics and Supply Chain Management (SCM) systems. In the domestic distribution business, we strengthened our operations by establishing a new subsidiary in the Kansai area, as well as by launching a TV shopping-related distribution business. We also reinforced our international air freight business by setting up an air freight company jointly with Hanshin Electric Railway Co., Ltd. In fiscal 2000, we will aggressively explore new opportunities in the distribution field. To meet this challenge, in April we restructured our division, the main role of which had been managerial, to operate as the sales force. In particular, we strengthened our setup for SCM and IT-related business by establishing the Net Solution Team and forming the Business Service Provider Team, to furnish our customers with business services using the latest information and logistics technologies.

## HIGHLIGHTS

- Our subsidiary that is developing and marketing the Thang Long Industrial Park in Hanoi, Vietnam, acquired ISO 14001 certification, an international environmental standard, as the first industrial park in the country. We have a 58% share in the company, with two members of our management holding posts in it, including the presidency.
- Sumitrans Europe GmbH won a contract from Asahi Beer Europe Ltd. for logistics in Europe for its

Asahi Super Dry beer, which will be produced in the region. To achieve efficient operations, we developed a distribution management system, the Logistics and Tracking System for Asahi Beer Europe Ltd. (LOSA), that uses the Internet. ■ We established Bluewell Reinsurance Co. (Bermuda) Ltd., a reinsurance firm, to enter into the rent-a-captive business, which was hitherto unexplored in Japan.



Sumitrans Europe won a contract for logistics in Europe for Asahi Super Dry beer, which is produced in the region. Our logistics management system using the Internet gave us a competitive edge.

# FINANCIAL SECTION

|  |           |
|--|-----------|
| Management's Discussion and Analysis of Operations | <b>36</b> |
| Consolidated Balance Sheets                        | <b>40</b> |
| Statements of Consolidated Income                  | <b>42</b> |
| Statements of Consolidated Shareholders' Equity    | <b>43</b> |
| Statements of Consolidated Cash Flows              | <b>44</b> |
| Notes to Consolidated Financial Statements         | <b>45</b> |
| Report of Independent Public Accountants           | <b>64</b> |



# Management's Discussion and Analysis of Operations

## 1. Operating Environment

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

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

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

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

## 2. Income Analysis

### Overview

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

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

- Other income (expenses) improved by ¥12.0 billion as a result of gains on investments and other assets that

increased by ¥23.6 billion. However, these gains were partially offset by a provision for impairment of long-lived assets, primarily related to an overseas project.

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

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

### Trading Transactions

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

## Breakdown of Trading by Operating Segment:

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

### Iron & Steel Group

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

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

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

### Nonferrous Metals/Chemicals/ Petroleum & Carbon Group

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

### Others

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

### **Gross Trading Profit**

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

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

### **Selling, General and Administrative Expenses**

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

### **Provision for Doubtful Receivables**

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

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

### **Operating Income**

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

### **Other Income (Expenses)**

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

### **Equity in Earnings of Associated Companies**

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

### **Net income (Loss)**

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

## **3. Liquidity and Capital Resources**

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

- Supported by new credit lines, the Companies lowered amount of cash and cash equivalents.
- Through securitization transaction, the Company reduced long-term receivable.
- Receivable and payable-trade decreased due to downturn in trading volume.

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

the Company increased its funding for the long term and decreased that for the short term.

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

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

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

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

### Loan Securitization

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

### Credit Lines

The Companies entered into line of credit agreements with three syndicates, the first consisting of nine major foreign banks headed by Citibank and the second consisting of seven Japanese city banks headed by Sumitomo Bank, Ltd. and the last consisting of 12 Japanese regional banks headed by Sumitomo Bank, Ltd. These lines of credits are US\$900

million with the foreign banks and ¥340 billion and ¥150 billion with the Japanese banks, respectively. As of March 31, 2000, the Companies have not drawn down any loans using these lines of credit.

### Cash Flow Analysis

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

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

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

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



# Consolidated Balance Sheets

As of March 31, 2000 and 1999

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

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

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

# Statements of Consolidated Income

For the years ended March 31, 2000 and 1999

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

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

# Statements of Consolidated Shareholders' Equity

For the years ended March 31, 2000 and 1999

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

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



# Statements of Consolidated Cash Flows

For the years ended March 31, 2000 and 1999

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

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

# Notes to Consolidated Financial Statements

## 1. Basis of Financial Statements

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

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in

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

## 2. Description of Business

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

The Companies not only operate worldwide with trade in various commodities but also provide various services, such as financing ar-

rangements for customers and suppliers, planning and coordinating, and operating industrial projects, and gathering a broad range of information. In connection with these services, the Companies engage in a wide range of business activities—developing market potential, providing services for logistics and transportation and for information and communications, engaging in construction, developing natural resources, functioning as organizer, investing in the growing high-technology and multimedia fields, and promoting environmental protection.

## 3. Summary of Significant Accounting Policies

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

### (a) Consolidation and Investments in Subsidiaries and Associated Companies

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

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

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

Minority interests in income (loss) of consolidated subsidiaries, which were included in "Other, net" in the accompanying state-

ments of consolidated income, were ¥3,684 million (\$36 million) and ¥3,922 million for the years ended March 31, 2000 and 1999, respectively.

### (b) Cash Equivalents

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

### (c) Trading Transactions

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

**(d) Foreign Currency Translation**

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

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

**(e) Inventories**

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

**(f) Marketable Securities and Other Investments**

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

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

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

**(g) Allowance for Doubtful Receivables**

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

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

**(h) Property and Equipment**

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

**(i) Commodity Forwards and Futures Contracts**

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

**(j) Long-Lived Assets**

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

**(k) Employees' Benefit Plans**

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

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

**(l) Income Taxes**

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

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

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

**(m) Derivative Financial Instruments**

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

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

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

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

**(o) Comprehensive Income**

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

**(p) Amounts Per Share**

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

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

**(q) Advertising**

The costs of advertising are expensed as incurred.

**(r) New Accounting Standards**

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

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

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

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

**(s) Reclassifications**

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



## 4. Cash Flow Information

Additional cash flow information was as follows:

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

## 5. Marketable Securities and Other Investments

### (a) Marketable securities

Pursuant to SFAS No. 115, all of the Companies' marketable equity securities and debt securities were classified either as available-for-sale or held-to-maturity securities. Information regarding each category of the securities classified as available-for-sale and held-to-

maturity as of March 31, 2000 and 1999, including securities of which certain of the companies were the beneficial owners under trust agreements with trust companies, was as follow (excluding non-marketable investments discussed below):

As of March 31, 2000:

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

As of March 31, 1999:

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

As of March 31, 2000:

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

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

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

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

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

#### (b) Non-marketable securities and other

Other investments as of March 31, 2000 and 1999 included investments in non-traded, unassociated companies and life insurance policies, etc., amounting to ¥212,484 million (\$2,063 million) and

¥225,820 million, respectively. Investments in non-traded, unassociated companies were carried at cost and investments in life insurance policies were reported at cash surrender value.

## 6. Loan securitization

In March 2000, the Companies entered into a securitization transaction whereby ship loans totaling ¥100 billion (\$971 million) were sold to an unrelated special-purpose company ("SPC"). At the same time, the Company made a subordinated loan of ¥10 billion (\$97 million) to the SPC. As a result of these transactions, a net

amount of ¥90 billion (\$874 million) loans were eliminated from the consolidated balance sheet as of March 31, 2000 in accordance with SFAS No. 125 "Accounting for transfers and servicing of financial assets and extinguishments of liabilities."

## 7. Investments in and Advances to Associated Companies

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

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

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

The carrying value of investments in associated companies as of March 31, 2000 and 1999 approximated the companies' equity in the underlying net assets. Investments in common stock of associated companies, as of March 31, 2000 and 1999 included market-

able securities with the carrying amounts of ¥24,917 million (\$242 million) and ¥39,458 million, respectively, with corresponding aggregate quoted market values of ¥26,299 million (\$255 million) and ¥70,934 million, respectively.

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

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

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

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

|                       | Millions of Yen |           | Millions of<br>U.S. Dollars |
|-----------------------|-----------------|-----------|-----------------------------|
|                       | 2000            | 1999      | 2000                        |
| Sales transactions    | ¥ 252,614       | ¥ 289,002 | \$ 2,453                    |
| Purchase transactions | ¥ 709,776       | ¥ 595,822 | \$ 6,891                    |

## 8. Allowance for Doubtful Receivables

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

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

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

¥73,248 million (\$711 million) and ¥73,066 million, respectively.

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

## 9. Property and Equipment

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

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

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

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Companies made assessment for the potential impairment of long-lived assets and as a result certain land for development,

assets related to a mining project and other long-lived assets to be held and used were deemed to be impaired because the assets were not expected to recover their entire carrying value through future estimated cash flows. The loss recognized for the years ended March 31, 2000 and 1999, totaling ¥30,824 million (\$299 million) and ¥12,816 million, respectively, were included in "Other, net" in the accompanying Statements of Consolidated Income.

## 10. Short-Term Debt and Long-Term Debt

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

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

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

The Companies entered into line of credit agreements with three

syndicates of domestic and foreign banks, totaling US\$900 million with the foreign bank syndicate and ¥490 billion (\$4,757 million) with the Japanese bank syndicates.

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



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

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

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

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

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

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

such swap agreements, were generally based on LIBOR (London Interbank Offered Rate).

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

## 11. Pledged Assets

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

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

The obligations secured by such collateral were as follows:

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

Trust receipts issued under customary import financing arrangements give recipient banks a security interest in the merchandise imported and/or the accounts receivable or sales proceeds resulting

from the sale of such merchandise. The Companies follow the practice of repaying the related notes and acceptances payable at the maturity dates without applying the sales proceeds to the specific notes or acceptances. The large number of transactions makes it impracticable to determine the aggregate amounts of assets covered by outstanding trust receipts.

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

## 12. Income Taxes

Income taxes in Japan applicable to the Companies, imposed by the national, prefectural and municipal governments, in the aggregate resulted in a normal effective statutory rate of approximately 42% for the year ended March 31, 2000. Due to changes in Japanese income tax regulations, effective April 1, 1999, the normal

statutory tax rate was reduced from approximately 48% to 42%. Such rates have been used in calculating the future expected tax effects of significant temporary differences. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

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

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

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

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

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

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

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

Provision for income taxes is not made on undistributed earnings of foreign and certain domestic subsidiaries and associated companies because the Company considers that such earnings are permanently

reinvested and/or would not result in material additional taxation should they be distributed to the Company under current circumstances. As of March 31, 2000 and 1999, the amounts of undistributed earnings of such subsidiaries on which a deferred tax liability has not been recognized in the accompanying consolidated financial statements aggregated to ¥75,661 million (\$735 million) and ¥83,744 million, respectively.

### 13. Accrued Pension and Severance Liabilities

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

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

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

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

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

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

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

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

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

As of March 31, 2000, the benefit obligation of domestic subsidiaries under these plans were ¥23,256 million (\$226 million) at the discount rate of 3.5%, which were approximately equal

to the aggregated fair value of plan assets and accruals.

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

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

Defined benefit plans of foreign subsidiaries are not material.



## 14. Shareholders' Equity

### (a) Common Stock and Capital Surplus

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

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

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

### (b) Appropriated for Legal Reserve

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

### (c) Unappropriated Retained Earnings and Dividends

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

In addition to the Code provision requiring an appropriation for legal reserve as discussed above, the Code imposes certain limitations

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

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

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

### (d) Stock Option Plan

On June 23, 2000, the shareholders authorized the acquisition of 161,000 shares of the Company's common stock for the total consideration not exceeding ¥274 million (\$3 million) during the period up to the closing of the next annual general shareholders' meeting in 2001. The Company intends to transfer such treasury shares to directors and certain employees under an agreement granting them the right to request such transfers at a 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.

## 15. Other Comprehensive Income (Loss)

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

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

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

|  | Millions of Yen |                          |                   |
|--|-----------------|--------------------------|-------------------|
|  | Pretax Amount   | Tax (Expense) or Benefit | Net of Tax Amount |
| <b>2000:</b>   |                 |                          |                   |
| Foreign currency translation adjustments:  |                 |                          |                   |
| Aggregated adjustment for the year resulting from translation of foreign currency financial statements | ¥ (32,944)      | ¥ —                      | ¥ (32,944)        |
| Less: reclassification adjustment for losses included in net income                                    | (1,215)         | —                        | (1,215)           |
| Net adjustment   | (34,159)        | —                        | (34,159)          |
| Net unrealized holding gains on securities available-for-sale:   |                 |                          |                   |
| Unrealized holding gains arising during the year   | 149,409         | (62,752)                 | 86,657            |
| Less: reclassification adjustment for gains included in net income                                     | (30,218)        | 12,691                   | (17,527)          |
| Net unrealized gains   | 119,191         | (50,061)                 | 69,130            |
| Pension liability adjustments  | 5,258           | (2,208)                  | 3,050             |
| Other comprehensive income (loss)  | ¥ 90,290        | ¥ (52,269)               | ¥ 38,021          |

|  |            |         |            |
|--|------------|---------|------------|
| <b>1999:</b>   |            |         |            |
| Foreign currency translation adjustments:  |            |         |            |
| Aggregated adjustment for the year resulting from translation of foreign currency financial statements | ¥ (30,309) | ¥ —     | ¥ (30,309) |
| Less: reclassification adjustment for gains included in net loss                                       | 4,661      | —       | 4,661      |
| Net adjustment   | (25,648)   | —       | (25,648)   |
| Net unrealized holding gains on securities available-for-sale:   |            |         |            |
| Unrealized holding gains arising during the year   | 18,126     | (8,628) | 9,498      |
| Less: reclassification adjustment for gains included in net loss                                       | (10,807)   | 5,144   | (5,663)    |
| Net unrealized gains   | 7,319      | (3,484) | 3,835      |
| Pension liability adjustments  | (12,084)   | 5,752   | (6,332)    |
| Other comprehensive income (loss)  | ¥ (30,413) | ¥ 2,268 | ¥ (28,145) |

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

---

## 16. Financial Instruments

### (a) Financial Instruments and Risk Management

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

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

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

#### (3) Concentration of Credit Risk

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

### (b) Fair Value of Financial Instruments

In accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," and SFAS No. 119, "Disclosures about Derivative Financial Instruments and Fair Value of Financial Instruments," the Companies have provided the follow-

ing fair value estimates and information about valuation methodologies.

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

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

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

#### (2) Marketable Securities and Other Investments

See Note 5.

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

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

#### (4) Long-Term Debt

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

#### (5) Off-Balance-Sheet Financial Commitments

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

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

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

#### (7) Foreign Exchange Forward Contracts

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

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

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

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



## 17. Net Income Per Share

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

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

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

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

## 18. Segment Information

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

The Companies operate on a worldwide basis principally within the following operating segments:

1) Iron and Steel Group, 2) Machinery & Electric Group and Media, Electronics & Information Business Group, 3) Nonferrous Metals/ Chemicals/Petroleum & Carbon Group, 4) Living Related Group and Retail & Consumer Services Division, 5) Domestic Branches, 6) Overseas Trading Subsidiaries.

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

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

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

Operating segments:

**2000:**

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

**1999:**

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

**2000:**

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

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

## Geographic information:

### 2000:

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

### 1999:

|        | Millions of Yen      |                   |
|--------|----------------------|-------------------|
|        | 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 for the years ended March 31, 2000 and 1999.

## 19. Foreign Exchange Gains and Losses

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

## 20. Rental Expense

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

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

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

## 21. Commitments and Contingent Liabilities

### (a) Commitments and Guarantees

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

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

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

primarily to suppliers and customers as indirect financing arrangements.

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

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

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

## **(b) Litigation**

### **(i) Fiscal 1999 Settlements**

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

### **(ii) Pending Litigation**

There are several class actions and individual lawsuits claiming recovery of loss incurred by plaintiffs in these suits, which are pending in connection with the copper incident in the United States. In the District Court of Wisconsin, a class action and three individual suits are pending. In California, a class action and a separate suit filed jointly by 51 companies in the State Superior Court is pending.

An additional suit was filed in New York State Court by an individual. Generally these suits allege violations of Federal and/or State antitrust laws primarily in connection with alleged manipulation of the price of copper. The class actions purport to represent physical copper purchasers nationwide and/or copper scrap and recycled copper purchasers in various states. The individual suits generally have similar claims and include fraud, unfair trade practices, etc.

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

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

### **(iii) Claims against Others**

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

---

## **22. Subsequent Events**

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

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

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

# Report of Independent Public Accountants



---

A Member Firm of  
Andersen Worldwide SC

Sumitomo Corporation:

We have audited the accompanying consolidated balance sheets of Sumitomo Corporation (a Japanese corporation) and consolidated subsidiaries as of March 31, 2000 and 1999, and the related statements of consolidated income, consolidated shareholders' equity and consolidated cash flows for the years then ended, expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

A handwritten signature in cursive script that reads "Arthur Andersen".

Tokyo, Japan  
May 17, 2000

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





# CORPORATE DATA

|   |           |
|---|-----------|
| Principal Subsidiaries and Associated Companies | <b>66</b> |
| Global Network                                  | <b>70</b> |
| Officers  | <b>72</b> |
| Organization                                    | <b>74</b> |

# PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

## Iron & Steel

### Sumisho Reftech Co., Ltd.

Manufacture and sale of and technical service for fireproof materials; import and sale of steel-related materials and equipment

### Sekisho Shoji Kaisha, Ltd.

Scrapyard for ferrous and nonferrous metals

### S•C Material Co., Ltd.

Scrap-iron yard operation

### Sumisho Tekko Hanbai Co., Ltd.

Sale of steel products

### Mazda Steel Co., Ltd.

Shearing, slitting, and blanking of steel sheets

### Hokkaido Shearing Kaisha, Ltd.

Fabrication and sale of steel products

### Sumisho Iron & Steel Corp.

Trading of special steel, wire rods, and steel bars

### Fukusaki Coil Center Co., Ltd.

Processing and sale of steel sheets

### Sumisho Steel Sheets Works Co., Ltd.

Fabrication and sale of steel products

### SC Tubulars Co., Ltd.

Sale of specialty tubular products

### Sumisho Pipe and Steel Co., Ltd.

Sale of steel piping and other steel products

### Nowla Engineering Co., Ltd.

Planning and design of piping for buildings; processing and sale of prefabricated units

### Sumisho Tokai Kokan Co., Ltd.

Sale of steel piping, especially seamless type

### Daiei Steel Pipe Co., Ltd.

Sale of steel piping, especially seamless type

### Auburn Steel Co., Inc. (U.S.A.)

Steel mini mill

### SC Steel Investment, Inc. (U.S.A.)

Investment in Arkansas Steel Associates

### Arkansas Steel Associates (U.S.A.)

Steel mini mill

### Sumisho Coal Development Pty. Ltd. (Australia)

Development of coal mine in North Goonyela, Australia

### Sumisho Coal Australia Pty. Ltd. (Australia)

Investment in Oaky Creek coal mine

### CST Steel Center Co., Ltd. (Thailand)

Sale of construction steel products

### Asian Steel Co. Ltd. (Singapore)

Supervision of coil centers and other operations in Asia

### CS. Metal Co., Ltd. (Thailand)

Shearing, slitting, and sale of steel plates

### JS Steel Cebu Corp. (Philippines)

Shearing, slitting, and sale of steel plates

### S.Y. Metal Ltd. (Hong Kong)

Steel service center, sale of steel materials

### Shanghai Summit Metal Products Co., Ltd. (China)

Shearing, slitting, and sale of steel plates

### Tianjin Hua Zhu Metal Products Co., Ltd. (China)

Shearing, slitting, and sale of steel plates

### Myanmar Sai Steel Industry Co., Ltd. (Myanmar)

Manufacture and sale of galvanized plates

### Shanghai Hi-Tec Metal Products Co., Ltd. (China)

Manufacture and sale of metal-processing products and metal molds

### Thai Special Wire Co., Ltd. (Thailand)

Manufacture and sale of PC wire and strand

### SC Pipe Services Inc. (U.S.A.)

Investment in VAMPTS Co.

## Machinery & Electric

### Sumisho Auto Lease Corp.

Leasing of motor vehicles

### Sumisho Machinery Trade Corp.

Trading of machinery and equipment

### Hokkaido District Heating Co., Ltd.

District heating and cooling in Sapporo

### SC Machinex Corp.

Sale of machinery and equipment

### SC Machinex Kansai Corp.

Sale of machinery and equipment

### SC Machinex Chubu Corp.

Sale of machinery and equipment

### SC Machinex Tohoku Corp.

Sale of machinery and equipment

### SC Machinex Kobe Corp.

Sale of machinery and equipment

### SC Machinex Kyushu Corp.

Sale of machinery and equipment

### Biott Corp.

Sale, installation, and maintenance of biochemical-related machinery

### SC Wado Co., Ltd.

Sale of machine tools

### Inax Corp.

Sale of industrial washing machines

### Inamoto Manufacturing Co., Ltd.

Manufacture and sale of industrial washing machines

### Ciphergen Biosystems K.K.

Import and sale of protein analysis systems

### Chugoku Systech Corp.

Sale and installation of air-conditioning equipment

### Sumisho Marine Co., Ltd.

Central management of Sumitomo Corp.'s loans and shipping fleet

### Sumisho Aero-Systems Corp.

Sale of aerospace equipment

### Nippon Katan Co., Ltd.

Manufacture and sale of hardware for transmitters and automotive parts

### GE Packaged Power, Ltd.

Service and maintenance of gas-turbine power plants

### Blue-Tech Corp.

Rental of aerial work platforms

### FCS Dis Ticaret Ltd. Sirketi (Turkey)

Sale of automotive spare parts and accessories

### Plaza Motors Corp. (Puerto Rico)

Sale and import of Mazda/Kia motor vehicles

### Nissan Otomotiv A.S. (Turkey)

Sale and import of Nissan motor vehicles

### P.T. Oto Multiartha (Indonesia)

Financing of vehicles

### Summit Motors (Vladivostok) (Russia)

Sale of Toyota motor vehicles

### Toyota Canarias S.A. (Spain)

Sale of Toyota motor vehicles

### Daihatsu Autohandels GmbH (Austria)

Sale of Daihatsu motor vehicles

### Summit Development S.A. (Belgium)

Automotive business holding company

### Summit Motors (Cameroun) S.A. (Cameroon)

Sale of motor vehicles

### Summit Investment Australia Pty. Ltd. (Australia)

Holding and management company of automotive dealership

### Summit Auto Lease Australia Pty. Ltd. (Australia)

Leasing of motor vehicles

### Summit Auto Management (Thailand)

Holding and management company of automotive dealership

### Summit Motor Management, Inc. (U.S.A.)

Holding and management company of automotive dealership

### Summit Motors Investment (U.K.) Ltd. (U.K.)

Holding and management company of automotive dealership

### ZHU FU (Tianjin) International Trade Co., Ltd. (China)

Sale of Ford passenger and commercial vehicles

### Komatsu Canada Ltd. (Canada)

Wholesaling construction machinery and management of dealers in Canada

### Komatsu España S.A. (Spain)

Sale of construction machinery

### SMS International Corp. (U.S.A.)

Sale of construction machinery

### Red Australia Equipment Pty. Ltd. (Australia)

Forklift hire/rental, and sale/service of material-handling equipment in Australia

### SC Construction Machinery (Shanghai) Ltd. (China)

Sale of construction machinery

## Media, Electronics & Information Business

### Nippon Card Co., Ltd.

Production and sale of point-card systems and equipment

### Nippon Game Card Co., Ltd.

Issuing and marketing of prepaid cards for leisure facilities

### Sumisho Tele Mate Co., Ltd.

Sale of telephone circuits and equipment

**Cross Beam Networks Corp.**  
Sale and distribution of modems, software, EC

**Lycos Japan, Inc.**  
Internet portal hub

**Engage Technologies Japan Inc.**  
Sale of Internet one-to-one marketing software & services

**Asia Internet Holding Co., Ltd.**  
Providing international Internet-related telecommunications services

**Interactive Solutions, Inc.**  
Internet advertising agency

**@Home Japan Co., Ltd.**  
CATV-Internet service provider

**Jupiter Programming Co., Ltd.**  
Management and operation of programming services

**Cable Soft Network Corp.**  
Supplier of movie programming

**Jupiter Golf Network Co., Ltd.**  
Supplier of golf programming

**Jupiter Shop Channel Co., Ltd.**  
Supplier of TV shopping programming

**Discovery Japan Inc.**  
Supplier of documentary programming

**J-Sports Co., Ltd.**  
Supplier of sports programming

**Asmik Ace Entertainment Inc.**  
Production and distribution of movies, videos, and game software

**Step Visual Corp.**  
Production and sale of visual software; acquisition and sale of video rights

**United Cinemas Co., Ltd.**  
Construction & operation of multiplex cinemas

**Jupiter Telecommunications Co., Ltd.**  
Cable television multiple system operation

**J-COM Tokyo Co., Ltd.**  
Cable television operation

**J-COM Shonan Co., Ltd.**  
Cable television operation

**CATV Yokosuka, Inc.**  
Cable television operation

**Urawa Cable Television Network Corp.**  
Cable television operation

**You Ai Net Saitama Co., Ltd.**  
Cable television operation

**Jupiter Gunma Co., Ltd.**  
Cable television operation

**Tsuchiura Cable Television Co., Ltd.**  
Cable television operation

**Kisarazu Cable Television Co., Ltd.**  
Cable television operation

**J-COM Kansai Co., Ltd.**  
Cable television operation

**Osaka Cable TV Corp.**  
Cable television operation

**Sakai Cable TV Corp.**  
Cable television operation

**Cablenet Kobe Ashiya Co., Ltd.**  
Cable television operation

**Jupiter Hokusetsu Co., Ltd.**  
Cable television operation

**Hiroshima City Cable TV Co., Ltd.**  
Cable television operation

**Cable Vision 21 Inc.**  
Cable television operation

**Fukuoka Cable Network Co., Ltd.**  
Cable television operation

**J-Com Kitakyushu Co., Ltd.**  
Cable television operation

**Cablenet Shimonoseki Co., Ltd.**  
Cable television operation

**Kansai Multimedia Service Co., Ltd.**  
CATV-Internet service provider

**AJCC Corp.**  
Leasing of cable television converters

**Cable System Engineering Corp.**  
Engineering and construction of CATV transmission networks and station equipment

**Billingsoft Japan Co., Ltd.**  
Development and sale of CATV billing software

**JSAT Corp.**  
Satellite communications

**Japan Digital Broadcasting Services Inc.**  
Satellite digital broadcasting

**Pay Per View Japan, Inc.**  
Supplier of movie programming

**Sumisho Computer Systems Corp.**  
Data processing services; development and sale of computer software

**Sumisho Electronics Co., Ltd.**  
Sale of office computers, systems, and software

**Sumisho Electronic Devices Co., Ltd.**  
Development, design, and sale of semiconductor and electronic devices

**Sumisho Datacom Inc.**  
Sale of corporate data communications systems

**SC Hightech Corp.**  
Sale of software designed for semiconductors

**SC SemiCon Technology Co., Ltd.**  
Marketing, and maintenance of and consulting for semiconductor manufacturing systems

**Asia Business Venture Holdings Pte. Ltd. (Singapore)**  
EDI, electronic trading service provider

**Auto Auction Network Ltd. (New Zealand)**  
E-commerce sale of used motor vehicles

**Electronic Commodity Exchange Asia Pte. Ltd. (Singapore)**  
E-commerce trading of electronic components

**Sumitronics Taiwan Co., Ltd. (Taiwan)**  
Sale of electronic products and parts

**Sumitronics Asia Holding Pte. Ltd. (Singapore)**  
Sale of electronic products and parts

**SC Electronics Korea Ltd. (Korea)**  
Sale of electronic products and parts

**Sumitronics Inc. (U.S.A.)**  
Sale of electronic machinery and parts

**Technoclean Philippines, Inc. (Philippines)**  
High-tech cleaning service for clean room garments

## Nonferrous Metals/ Chemicals/ Petroleum & Carbon

**Sumisho Metalex Corp.**  
Distribution of wide range of nonferrous metal products

**Nippon Nuclear Service Corp.**  
Nuclear fuel transport and related services and sale of related equipment

**Summit AEA Corp.**  
Sale of products and supply of services related to the nuclear power industry

**Nusa Tenggara Mining Corp.**  
Investment in and financing of the Batu Hijau copper/ gold mine development project in Indonesia

**Oriental Diamond, Inc.**  
Manufacturing and wholesaling of polished diamonds and jewelry

**Uno A Erre Japan Co., Ltd.**  
Import and sale of European gold jewelry, including the Italian Uno A Erre brand

**Sumisho Precious Metals, Inc.**  
Wholesaling of precious metals and retailing of jewelry

**Summit Aluminum Ltd.**  
Production of aluminum alloy ingots

**Alcut Co., Ltd.**  
Shearing, slitting, and blanking of aluminum coils, sheets, and circles

**Sumitomo Shoji Chemicals Co., Ltd.**  
Sale of chemical products

**Sumisho Fine Gas Co., Ltd.**  
Manufacturing and sale of hydrogen and other industrial gases

**Goei Shoji Kaisha, Ltd.**  
Sale of pharmaceuticals, agricultural chemicals, industrial chemicals, and plastics

**Summit Pharmaceuticals International Corp.**  
Dealing with licenses for new medical products

**Summit Agro International, Ltd.**  
Sale of agricultural chemicals, fertilizers, and other materials; sale and leasing of related equipment

**Sumisho Plaschem Co., Ltd.**  
Sale of chemical products

**Nihon Yoki Ryutsu Kaisha, Ltd.**  
Leasing of plastic transport containers for Japanese sake

**Hokko Bulk Terminal Corp.**  
Leasing and management of storage facilities for chemicals

**Sumitomo Shoji Plastics Co., Ltd.**  
Sale and trade of plastics

**Dai Hung Oil Development (Japan) Ltd.**  
Prospecting and development of Dai Hung oil field, Vietnam

**Sumisho Oil & Gas Exploration (Tarim) Ltd.**  
Prospecting and development of petroleum and gas at China's Tarim Basin

**Sumisho Oil Corp.**  
Sale of petroleum products and operation of gas stations

**Toa Koyu Co., Ltd.**  
Sale of petroleum products

**Sumisho Ekika Gas Kaisha, Ltd.**  
Sale and distribution of LPG in Honshu and Shikoku

**Sumisho Daiichi Sekiyu Gas Kaisha, Ltd.**  
Sale and distribution of LPG in Hokkaido

**Sumisho Kyushu LP-Gas Co., Ltd.**  
Sale and distribution of LPG in Kyushu

**SC Mineral Resources Pty. Ltd. (Australia)**  
Development of copper mine in Australia

**SC Minerals Canada Ltd. (Canada)**  
Development of copper mines in Canada

**SC Minerals America, Inc. (U.S.A.)**  
Development of gold exploration in the U.S.; investment in the Morenci copper mine in the U.S. and the La Candelaria copper mine in Chile

**SC Metal Pty. Ltd. (Australia)**  
Investment in aluminum smelting operation in Australia

**CS Non-Ferrous Center Co., Ltd. (Thailand)**  
Shearing, slitting, and sale of nonferrous metal sheets

**SPS Minerals Technology Sdn. Bhd. (Malaysia)**  
Pulverization, processing, and sale of feldspar

**Interacid Trading S.A. (Switzerland)**  
International trade of sulfur and sulfuric acid

**Summit Agro Europe Ltd. (U.K.)**  
Sale of agricultural chemicals

**Summit-Agro Ukraine O.O.O. (Ukraine)**  
Sale of agricultural chemicals

**Mars International Co., Ltd. (Myanmar)**  
Production and sale of mosquito coils and other household insecticides

**Cantex Inc. (U.S.A.)**  
Manufacture and sale of polyvinyl chloride pipes

**New Port Bulk Terminal Sdn. Bhd. (Malaysia)**  
Storage, transportation, and sale of liquid chemicals

**Summit Chemicals Asia Pte. Ltd. (Singapore)**  
Trading of and investment in fine and inorganic chemicals in ASEAN and West Asian regions

**Summit Chemicals Europe GmbH (Germany)**  
Sale of fine chemicals

## Living Related

**S.C. Food Development Co., Ltd.**  
Consulting on foodstuff development

**Hokkaido Agrifoods Co., Ltd.**  
Processing and sale of vegetables

**Sumisho Nosan Kaisha, Ltd.**  
Sale of fertilizers and agriculture-related materials

**Nittoh Bion Co., Ltd.**  
Manufacture and sale of fertilizer

**SC Fertilizer Investment Co., Ltd.**  
Fertilizer trade and investment

**Sumisho Fresh Meat Co., Ltd.**  
Sale of beef, pork, and processed meats, including chicken

**Chiba Grain Handling Center, Ltd.**  
Grain storage

**Kanazawa German Bakery Co., Ltd.**  
Production and sale of baked goods

**Ryohan Co., Ltd.**  
Retailing of rice

**Summit Oil Mill Co., Ltd.**  
Manufacture and sale of vegetable oil and oil meal

**Yoshihara Oil Mill, Ltd.**  
Manufacture and sale of vegetable oil and oil meal

**SC Foods Co., Ltd.**  
Import, development, and sale of foodstuffs

**Shinko Sugar Co., Ltd.**  
Sugar refining

**Sumifru Corp.**  
Import and sale of fruits and vegetables

**Allied Co., Ltd.**  
Import of flowers

**Sumisho Textile Co., Ltd.**  
Processing and sale of textile goods

**Tortoise Co., Ltd.**  
Processing and sale of interior goods and home furnishings to Consumers' Cooperatives

**Aries Co., Ltd.**  
Manufacture and sale of men's clothing

**Sumisho Montblanc Co., Ltd.**  
Processing and sale of work uniforms and related clothing products

**SC Interior Co., Ltd.**  
Sale and installation of office carpeting, curtains, and other interior products

**S.C. Cement Co., Ltd.**  
Sale of ready-mixed concrete and concrete products

**Sumisho Building Materials Co., Ltd.**  
Sale of building materials

**Sumisho Paper Co., Ltd.**  
Sale of paper products

**Seiko Paper Board Manufacturing Co., Ltd.**  
Manufacture of corrugated paper board

**Marusan Paper Manufacturing Co., Ltd.**  
Manufacture and sale of paper-board materials and special papers

**Kamikawachi Development Co., Ltd.**  
Owning golf course (Eastwood Country Club, Tochigi Pref.); owning, leasing, and management of office building and apartments

**Yasato Kosan Kaisha, Ltd.**  
Owning and operating golf course (Summit Golf Club, Ibaraki Pref.)

**Naganuma Kaihatsu Kaisha, Ltd.**  
Owning and operating golf course (Maoi Golf Resort, Hokkaido)

**Eastwood Country Club Co., Ltd.**  
Operating golf course (Eastwood Country Club, Tochigi Pref.)

**SC Building Co., Ltd.**  
Ownership, leasing, and management of real estate

**Yokohama Izumi Corp.**  
Owning, leasing, and management of a building complex in Minato Mirai 21

**Yokohama City Management Co., Ltd.**  
Management, operation, and leasing of multipurpose facilities in Minato Mirai 21

**Sumisho Building Management Co., Ltd.**  
Management and operation of office buildings and shopping centers

**Sumisho Urban Kaihatsu Co., Ltd.**  
Planning, development, management, and operation of shopping centers; microbrewery

**Osaka Hokko Development Co., Ltd.**  
Ownership, management, and operation of shopping center in front of Universal Studios Japan

**SC Building Management Corp.**  
Management and operation of office buildings

**Reibi Corp.**  
Management of buildings

**Sumisho Tatemono Kaisha, Ltd.**  
Sale and management of residential properties

**Sumisho Housing Mate Co., Ltd.**  
Management of condominiums

**Sumisho Urban Development Co., Ltd.**  
Ownership, leasing, and management of shopping center

**Sumisho Estem Corp.**  
Sale and management of residential properties

**Sumisho Estate Co., Ltd.**  
Management and operation of shopping center in Sendai

**Summit Inc.**  
Supermarket chain

**Summit Colmo, Inc.**  
General merchandise store chain

**Mammy Mart Corp.**  
Supermarket chain

**Otto-Sumisho Inc.**  
Mail-order business with Otto-Versand, Germany

**Eddie Bauer Japan Inc.**  
Import and sale of Eddie Bauer brand apparel and goods

**Club Createurs Beaute Japon, Inc.**  
Mail-order sale of cosmetics

**Sumisho Retail Stores Inc.**  
Drugstore chain

**Asahi Medix Co., Ltd.**  
Drugstore chain and DPE

**Pasona Caregiver Inc.**  
Caregiver service

**Sumisho Gourmet Coffee Inc.**  
Cafe chain

**Sumisho Fine Goods Corp.**  
Import and sale of sporting goods, luxury items, and furniture

**Sumifert Sdn. Bhd. (Malaysia)**  
Sale of fertilizers

**Summit-Quinphos (NZ) Ltd. (New Zealand)**  
Import and sale of fertilizers in New Zealand

**Thai SPF Products Co., Ltd. (Thailand)**  
Production and sale of SPF pork in Thailand

**Summit Specialty Oil Co., Inc. (U.S.A.)**  
Contracting of vegetable oil crushing and refining in the U.S.

**SC Investment Holdings, Inc. (U.S.A.)**  
Investment in citrus plantation in Florida

**Sumitex Hong Kong Ltd. (Hong Kong)**  
Sale of textile products and materials

**Summit Wool Spinners Ltd. (New Zealand)**  
Manufacture and sale of wool yarn for carpets

**Pacific Rainbow International Travel Products Ltd. (Hong Kong)**  
Planning and sale of character goods for worldwide travel retail market

**P.T. Summitas Property (Indonesia)**  
Leasing of office buildings

**Sumisho Development (Thailand) Co., Ltd. (Thailand)**  
Leasing of apartment and office buildings

**Vintners' Place Ltd. (U.K.)**  
Leasing of office buildings

## Financial & Commodity Markets

**Sumisho Capital Management Co. (Cayman Islands)**  
Financial services

## Logistics & Insurance

**Sumisho Logistics Co., Ltd.**  
Total logistics services

**Summit Air Service Corp.**  
Travel agency

**Sumitrans (Japan) Corp.**  
Global logistics provider

**All Trans Co., Ltd.**  
Logistics service provider

**Kansai All Trans Co., Ltd.**  
Logistics service provider

**Bluewell Corp.**  
Agent for casualty insurance and life insurance

**Nava Nakorn Distribution Centre Co., Ltd. (Thailand)**  
Warehousing and distribution services

**PT Bekasi Container Terminal (Indonesia)**  
Warehousing and distribution services

**Dragon Logistics Co., Ltd. (Vietnam)**  
Integrated logistics services

**AR Summit L.L.C. (UAE)**  
Warehousing and distribution services

**Shanghai Huayou Logistics Co., Ltd. (China)**  
Warehousing, distribution, and processing

**Yangsang International Distribution Center Ltd. (Korea)**  
International logistics services

**Bluewell Insurance (Singapore) Pte. Ltd. (Singapore)**  
Casualty insurance brokerage and reinsurance

**Thang Long Industrial Park Corp. (Vietnam)**  
Development, sale, and operation of industrial estate in Vietnam

**PT East Jakarta Industrial Park (Indonesia)**  
Sale, operation, and maintenance of industrial estate in Indonesia

## Others

**Chukyo Kokan Co., Ltd.**  
Sale of steel piping and other steel materials

**Summit F•A Systems Co., Ltd.**  
Sale of various kinds of machines and equipment

**Sumisho Chemicals & Plastics Nagoya Co., Ltd.**  
Wholesaling of general composite resins and chemicals

**Sumisho Material Chugoku Co., Ltd.**  
Sale of steel materials, pottery industry materials, and manufactured goods

**Sumisho Infra. Service Co. Ltd.**  
Sale of civil engineering and construction materials

**Sumisho Chemicals & Plastics Kyushu Co., Ltd.**  
Sale of chemicals and related materials in the Kyushu region

**Hokkaido Sekisan Kogyo Co., Ltd.**  
Macadam production

**Tamashima Sport Plaza Co., Ltd.**  
Sports club

**Sumisho Management Kyushu Co., Ltd.**  
Contracting of administrative work and accounting

**Jimtech Co., Ltd.**  
Office administration service

**Sumisho Personnel Service Co., Ltd.**  
Personnel services

**SC FOUR-S Inc.**  
Information services, including the development of business software

**Sumisho Finance Management Co., Ltd.**  
Financial services

**Sumisho Lease Co., Ltd.**  
Leasing

**SC Accounting Co., Ltd.**  
Accounting services

**Sumitomo Corp. Capital Europe Plc (U.K.)**  
Financial services to group companies

**Sumitomo Corp. Capital Asia Pte. Ltd. (Singapore)**  
Investment activities in venture businesses and financial services to group companies

**AB Tube Processing, Inc. (U.S.A.)**  
Tube processing for airbag inflators

**Michigan Steel Processing, Inc. (U.S.A.)**  
Steel service center (slitting and blanking of steel sheet for automotive industry)

**Ohio Metal Processing, Inc. (U.S.A.)**  
Steel service center (processing and sale of steel materials)

**Servilamina Summit Mexicana S.A. de C.V. (Mexico)**  
Steel service center (processing and sale of steel materials)

**TMC, Inc. (U.S.A.)**  
Steel service center (processing and sale of steel materials)

**Vicksmetal Corp. (U.S.A.)**  
Steel service center (processing and sale of electromagnetic steel plates for transformers)

**Distributor Metals Corp. (U.S.A.)**  
Sale of stainless steel materials

**Premier Pipe, Inc. (U.S.A.)**  
Distribution of pipes for petroleum industry

**Clickstream Capital L.L.C. (U.S.A.)**  
Investment in venture capital funds

**SCOA Capital LLC (U.S.A.)**  
Investments in buyouts

**Sumitomo Corp. Futures, Inc. (U.S.A.)**  
Commodities futures brokerage

**Diversified CPC International, Inc. (U.S.A.)**  
Mixing, refining, and sale of aerosol gases

**Summit Pharmaceuticals Corp. (U.S.A.)**  
Sale of pharmaceuticals, feed additives, and intermediate products

**Summit Specialty Chemicals Corp. (U.S.A.)**  
Sale of chemicals

**Summit Agriculture Co., Inc. (U.S.A.)**  
Investment in carnation seedling production and sale

**Oregon Hay Products, Inc. (U.S.A.)**  
Recompressing and processing of feed grass

**Summit Pulp & Paper Inc. (U.S.A.)**  
Processing and sale of wastepaper

**Treadways Corp. (U.S.A.)**  
Sale of tires

**600 Third Avenue Associates (U.S.A.)**  
Office building leasing

**Atlantic Hills Corp. (U.S.A.)**  
Investment in residential area development company

**SCOA Finance Co. (U.S.A.)**  
Financial services

**SCOA Investment Corp. (U.S.A.)**  
Financial investments

**Bluewell (U.S.A.), Inc. (U.S.A.)**  
Casualty insurance brokerage and reinsurance

**Sumitrans Corp. (U.S.A.)**  
International intermodal transport

**Sunland Hay Exports Inc. (U.S.A.)**  
Recompressing and processing of feed grass in northern California

**Presidio Venture Partners, L.L.C. (U.S.A.)**  
Investments in IT ventures

**Uniq Distributing Corp. (U.S.A.)**  
Sale of tiles



# GLOBAL NETWORK

## ASIA

■ **Branches**  
Kuala Lumpur  
Manila

■ **Offices**  
Beijing  
Jinan  
Nanjing  
Guangzhou  
Xiamen  
Shenyang  
Chengdu  
Shenzhen  
Ulaanbaatar  
Kuching

Kota Kinabalu  
Hanoi  
Ho Chi Minh City  
Vung Tau  
Danang  
Phnom Penh  
Vientiane  
Yangon  
Karachi  
Lahore  
Islamabad  
Colombo  
Dhaka  
Chittagong  
Kathmandu

■ **Trading Subsidiary Offices**  
Beijing  
Shanghai  
Tianjin  
Dalian  
Qingdao  
Guangzhou  
Shenzhen  
Hong Kong  
Taipei  
Kaohsiung  
Seoul  
Bangkok  
Singapore  
Kuala Lumpur  
Jakarta  
Surabaya  
Bandung  
Medan  
New Delhi  
Calcutta  
Bombay  
Madras  
Bangalore

## MIDDLE EAST

■ **Offices**  
Abu Dhabi  
Dubai  
Amman  
Beirut  
Damascus  
Kuwait  
Sanaa  
Tel Aviv  
Doha  
Baghdad  
Bahrain  
Muscat  
Riyadh  
Jeddah  
Alkhobar

■ **Trading Subsidiary Offices**  
Bahrain  
Teheran  
Istanbul  
Ankara

## EUROPE AND CIS

■ **Offices**  
Moscow  
Khabarovsk  
Vladivostok  
Nakhodka  
Yuzhno-Sakhalinsk  
St. Petersburg  
Kiev  
Almaty  
Tashkent  
Bishkek  
Ashgabat  
Baku



■ **Trading Subsidiary Offices**

London  
Oslo  
Stockholm  
Prague  
Vienna  
Budapest  
Bucharest  
Sofia  
Warsaw  
Milan  
Turin  
Athens  
Madrid  
Barcelona  
Düsseldorf  
Paris  
Brussels  
Rotterdam  
Moscow

**AFRICA**

■ **Branch**  
Johannesburg

■ **Offices**  
Algiers  
Cairo  
Casablanca  
Nairobi  
Addis Ababa  
Dar es Salaam  
Lusaka  
Harare  
Antananarivo  
Maputo  
Luanda  
Abidjan  
Dakar

**NORTH AMERICA**

■ **Trading Subsidiary Offices**

Vancouver  
Calgary  
Toronto  
Montreal  
New York  
Philadelphia  
Detroit  
Pittsburgh  
Washington, D.C.  
Atlanta  
Chicago  
Houston  
Denver  
Seattle  
San Francisco  
Portland  
Santa Clara  
Los Angeles

**CENTRAL AMERICA AND SOUTH AMERICA**

■ **Offices**  
Guatemala  
San Salvador  
Managua  
Havana

■ **Trading Subsidiary Offices**

Panama  
Mexico City  
Monterrey  
Quito  
Caracas  
Port of Spain  
Santafé de Bogota  
Lima  
Buenos Aires  
Santiago  
São Paulo  
Rio de Janeiro  
Diadema  
Porto Alegre  
Recife

**OCEANIA**

■ **Trading Subsidiary Offices**

Sydney  
Melbourne  
Perth  
Brisbane  
Auckland

(As of June 1, 2000)

**Sumitomo Corp. Overseas**

**88 Countries**

**86 Trading Subsidiary Offices**

**3 Branches**

**69 Offices**

**158 Total**

**Sumitomo Corp. in Japan**

**34 Offices**

# OFFICERS



*Left to Right:* Fumio Wada, Executive Vice-President; Takashi Nomura, Executive Vice-President; Kenji Miyahara, President and CEO; Kunihiro Ashida, Executive Vice-President; Keitaro Yokohata, Executive Vice-President.

---

## ■ PRESIDENT AND CHIEF EXECUTIVE OFFICER

**Kenji Miyahara**

---

## ■ EXECUTIVE VICE-PRESIDENTS

**Kunihiro Ashida**

Administration Div., Osaka  
Western Japan  
Machinery & Electric Group, No. 1

**Takashi Nomura**

Internal Auditing Div.  
Finance & Accounting Div.  
Risk Management Div.

**Fumio Wada**

Living Related Group

**Keitaro Yokohata**

General Manager for Americas  
Director & President, Sumitomo Corporation of America

---

## ■ MANAGING DIRECTORS

### Shigemi Hiranuma

Iron & Steel Group

### Naoki Kuroda

Nonferrous Metals/Chemicals/Petroleum & Carbon Group

### Masabumi Kimura

Deputy General Manager, Iron & Steel Group  
General Manager, Iron & Steel Div. No.1

### Muneo Shigematsu

Financial & Commodity Markets Div.  
Logistics & Insurance Div.

### Atsushi Nishijo

Media, Electronics & Information Business Group  
Chief Information Officer

### Kosaburo Morinaka

Machinery & Electric Group, No. 2  
General Manager, Power & Telecommunication Project Div.

### Motoyuki Oka

Legal Div.  
Personnel & General Affairs Div.  
Planning & Coordination Div.  
General Manager, Planning & Coordination Div.

### Hironori Kato

Deputy General Manager,  
Nonferrous Metals/Chemicals/Petroleum & Carbon Group  
General Manager, Plastics & Organic Chemicals Div.

### Tsunehiro Ichiki

General Manager, Nonferrous Metals Div.

### Hideki Yamane

General Manager for China  
General Manager, Beijing Office  
President, Sumitomo Corporation (China) Holding Ltd.

### Kenichi Nagasawa

General Manager for Chubu Area  
General Manager, Chubu Office

### Koji Nakajima

Senior Assistant to Executive Vice-President,  
Responsible for Western Japan  
Deputy General Manager, Living Related Group  
General Manager, Textile Div.

### Yuji Tamura

General Manager, Media Business Div.

### Takaaki Shibata

General Manager for Europe  
Director & President, Sumitomo Corporation Europe Holding Ltd.  
Director, Chairman & President, Sumitomo Corporation Europe Plc

### Shuji Hirose

Deputy General Manager, Machinery & Electric Group, No. 1  
General Manager, Ship, Aerospace & Transportation Systems Div.

---

## ■ DIRECTORS

### Tetsu Kiriishi

General Manager, Retail & Consumer Services Div.

### Shigeki Sato

General Manager, Risk Management Div.

### Kenzo Okubo

Senior Assistant to Executive Vice-President,  
Responsible for Western Japan  
General Manager, Iron & Steel Div. No. 2

### Tadahiko Mizukami

General Manager, Logistics & Insurance Div.

### Shizuka Tamura

Senior Assistant to Executive Vice-President,  
Responsible for Western Japan  
General Manager, Fine & Inorganic Chemicals Div.

### Masaomi Bando

General Manager, Construction & Real Estate Div.  
General Manager, General Construction Development Dept.

### Minoru Imai

General Manager, Plant Div.

### Noriaki Shimazaki

Senior Assistant to Managing Director,  
Responsible for Planning & Coordination Div.  
General Manager, Finance & Accounting Div.

### Nobuhide Nakaido

General Manager, Electronics Div.

### Takehiro Yamanaka

General Manager, Iron & Steel Div. No. 3

### Katsuichi Kobayashi

General Manager, Motor Vehicles & Construction Equipment Div.

### Sakuo Namba

Executive Vice-President and Chief Financial Officer,  
Sumitomo Corporation of America

### Susumu Kato

General Manager, Personnel & General Affairs Div.

---

## ■ STANDING CORPORATE AUDITOR

### Takehiko Yonezu

---

## ■ CORPORATE AUDITORS

### Isao Yamamoto

### Hiroshi Maeda

### Itsuo Sonobe

(As of June 23, 2000)

# ORGANIZATION



(As of June 1, 2000)



## Corporate Information

(As of March 31, 2000)

|  |   |                    |
|--|---|--------------------|
| Date of Establishment:                   | December 24, 1919   |                    |
| Paid-in Capital:                         | ¥169,432 million  |                    |
| Numbers of Offices:*                     | Overseas  | 158 (88 countries) |
|  | Domestic  | 34                 |
|  | Total   | 192                |
| Numbers of Consolidated Subsidiaries:    | Overseas  | 346                |
|  | Domestic  | 207                |
| Associated Companies:<br>(equity method) | Overseas  | 132                |
|  | Domestic  | 82                 |
|  | Total   | 767                |
| Stock Listings:                          | Tokyo, Osaka, Nagoya, Kyoto,<br>Fukuoka, Frankfurt                        |                    |
| Business Term ends:                      | March 31  |                    |
| Headquarters:                            |   |                    |
| Osaka:                                   | 5-33, Kitahama 4-chome, Chuo-ku, Osaka 541-8666                           |                    |
| Tokyo:                                   | 2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo 100-8601                     |                    |
| Number of Employees:                     | 8,192   |                    |
| (Overseas Staff incl. in above figure:   | 2,756)  |                    |
| Total, incl. Consolidated Subsidiaries:  | 33,057  |                    |
| Homepage Address:                        | <a href="http://www.sumitomocorp.co.jp">http://www.sumitomocorp.co.jp</a> |                    |

\*As of June 1



The distinctive *igeta* (well frame) symbol, adopted as the company emblem by Sumitomo Corporation and most other enterprises of the Sumitomo Group, represents a frame placed around wells in old Japan.

The *igeta* emblem symbolizes the fresh, sparkling water gushing from a fountainhead, which forms a mighty river and finally flows into the vast ocean.

### *For further information contact:*

Corporate Communications Dept., Sumitomo Corporation  
2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo 100-8601, Japan  
Telephone: 81(3)-3217-5155 Facsimile: 81(3)-3217-5128  
E-mail: [info@sumitomocorp.co.jp](mailto:info@sumitomocorp.co.jp)

