

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

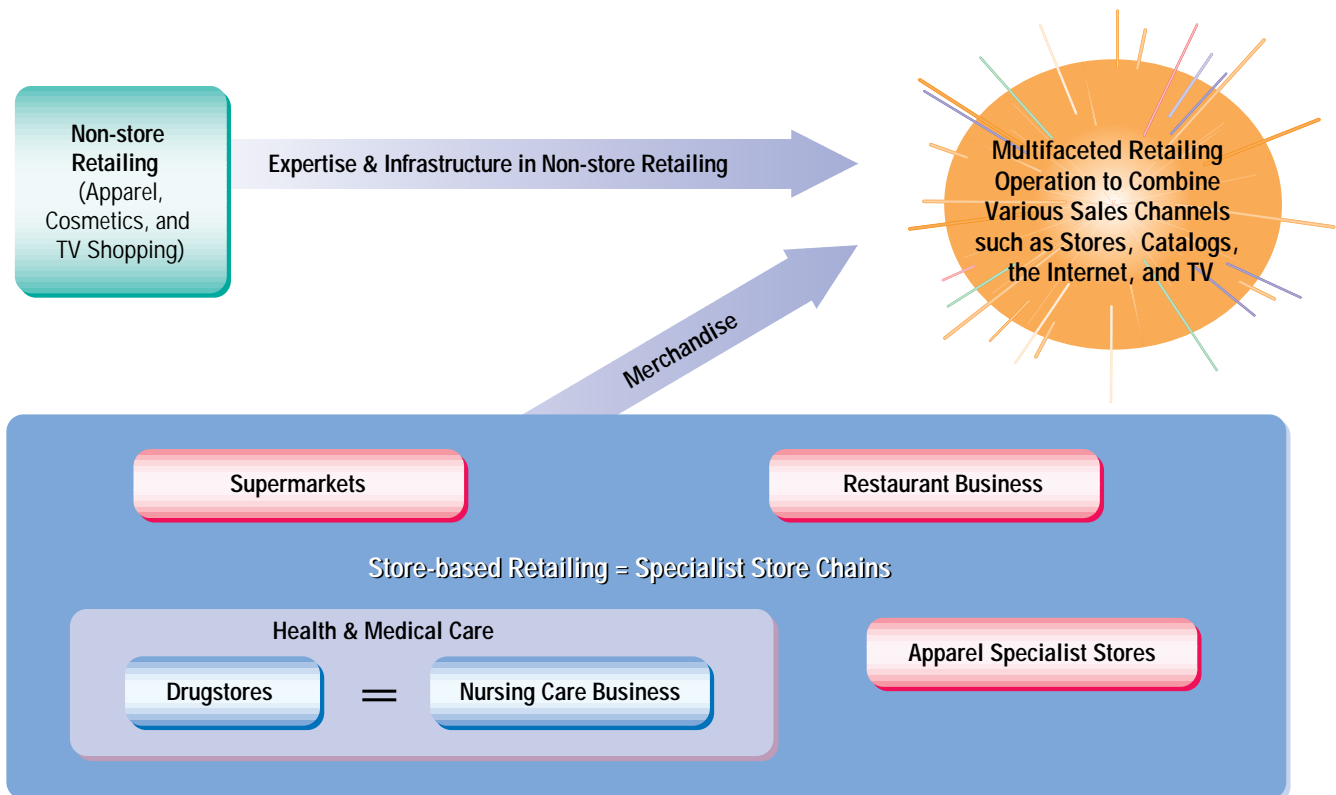
the communications business, as strategic business areas. With business environments rapidly being transformed due to the increasing popularity of the Internet, our existing businesses are developing and new opportunities are emerging. We will explore these, taking full advantage of our strong business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

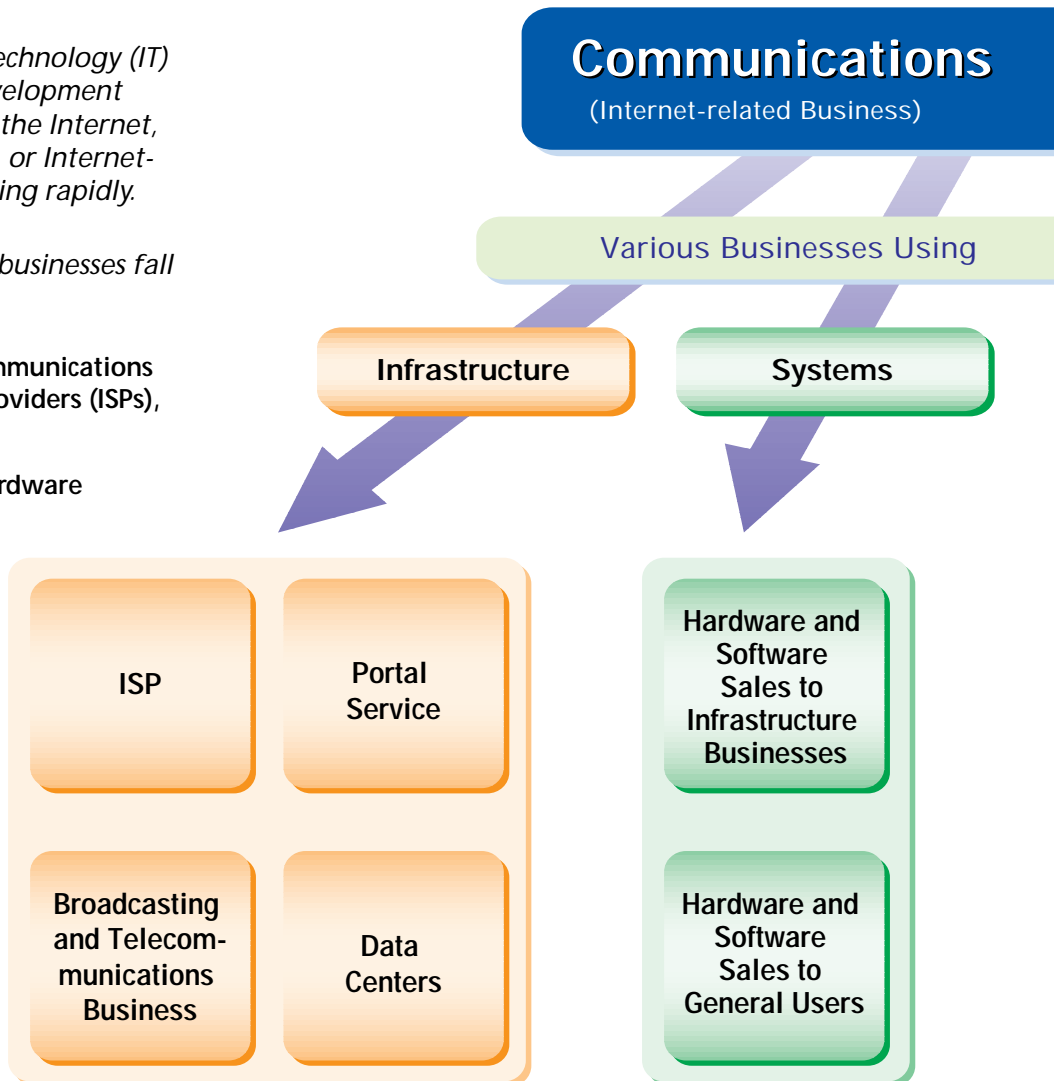
We are considering entering into nursing care-related business in partnership with Pasona Caregiver Inc. We plan to expand our operations in this area aggressively, enhancing synergy with our drugstore chain.

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)

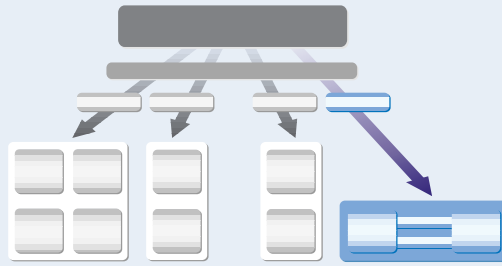
Portal Service

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

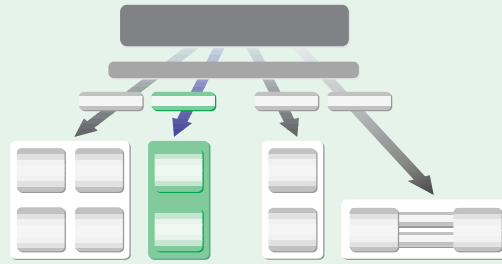
As well as marketing apparel and other items via the Internet as mentioned previously, we are engaged in a number of ventures in the B2C area. These include launching a flower gift site in partnership with JFTD, the largest flower delivery service in Japan with a network of 8,000 flower shops nationwide, 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



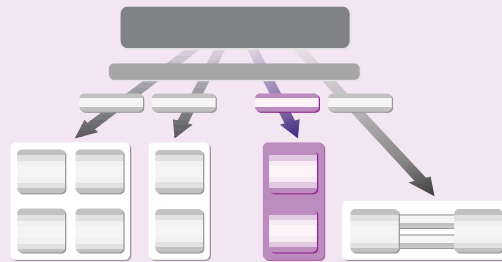
Hardware and Software Sales to Infrastructure Businesses

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.