

THE YEAR IN REVIEW

Performance by Operating Segment	13
----------------------------------	----

IRON & STEEL

Iron & Steel Division, No. 1	14
Iron & Steel Division, No. 2	15
Iron & Steel Division, No. 3	16

MACHINERY & ELECTRIC/MEDIA, ELECTRONICS & INFORMATION BUSINESS

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

NONFERROUS METALS/CHEMICALS/PETROLEUM & CARBON

Nonferrous Metals	24
Fine & Inorganic Chemicals	25
Plastics & Organic Chemicals	26
Petroleum & Carbon	27

LIVING RELATED/RETAIL & CONSUMER SERVICES

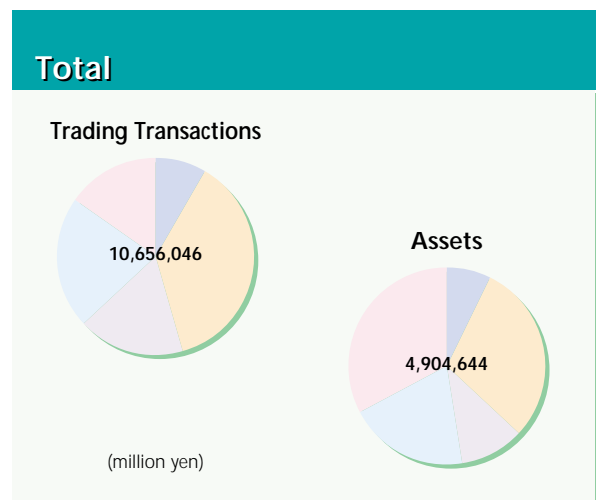
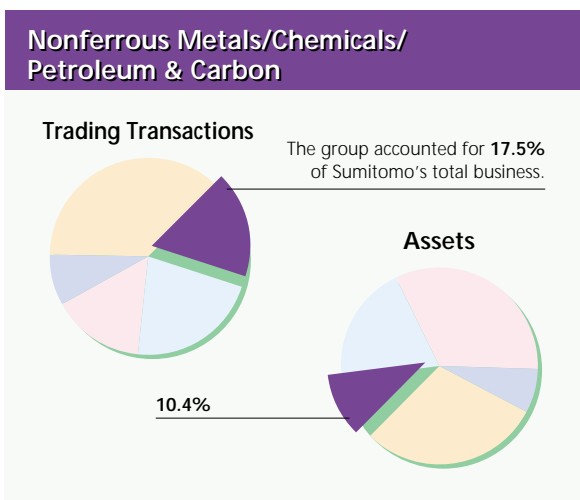
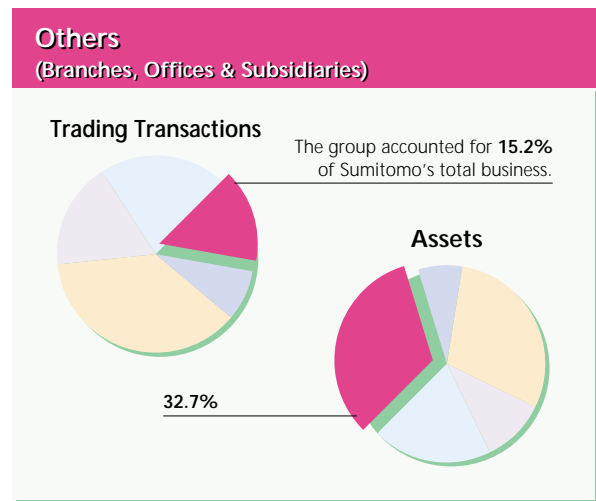
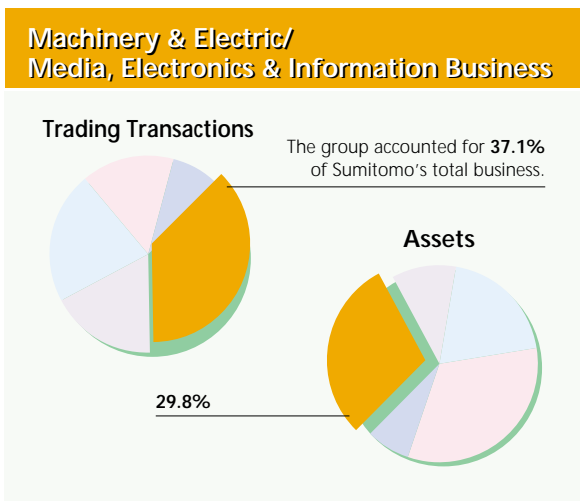
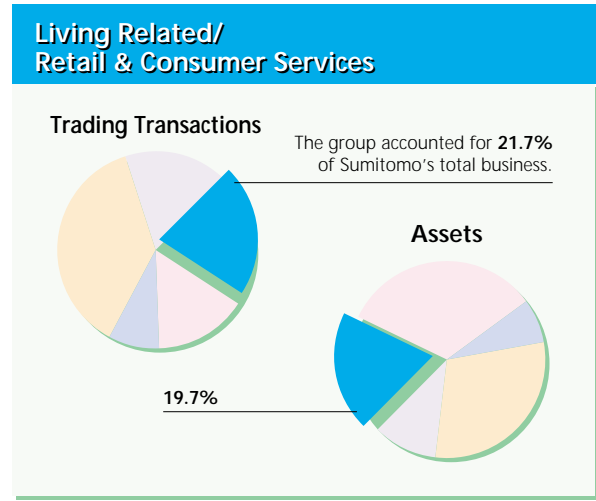
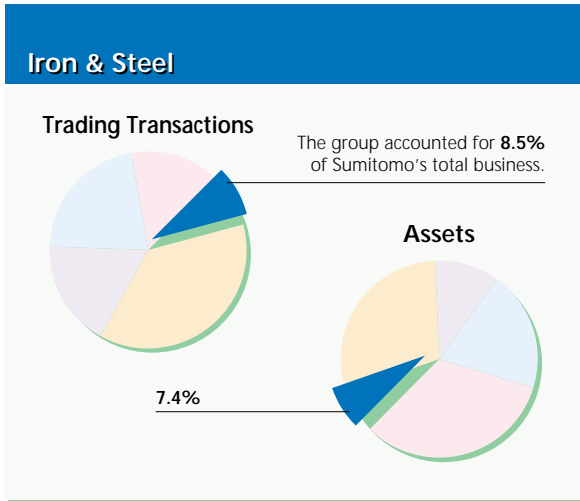
Foodstuff & Fertilizer	28
Textile	29
General Products	30
Construction & Real Estate	31
Retail & Consumer Services	32

Financial & Commodity Markets	33
-------------------------------	----

Logistics & Insurance	34
-----------------------	----

PERFORMANCE BY OPERATING SEGMENT

Fiscal Year 2000



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.

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, Sumitomo 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.

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.

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.

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

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

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

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.



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



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

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.

Textile

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

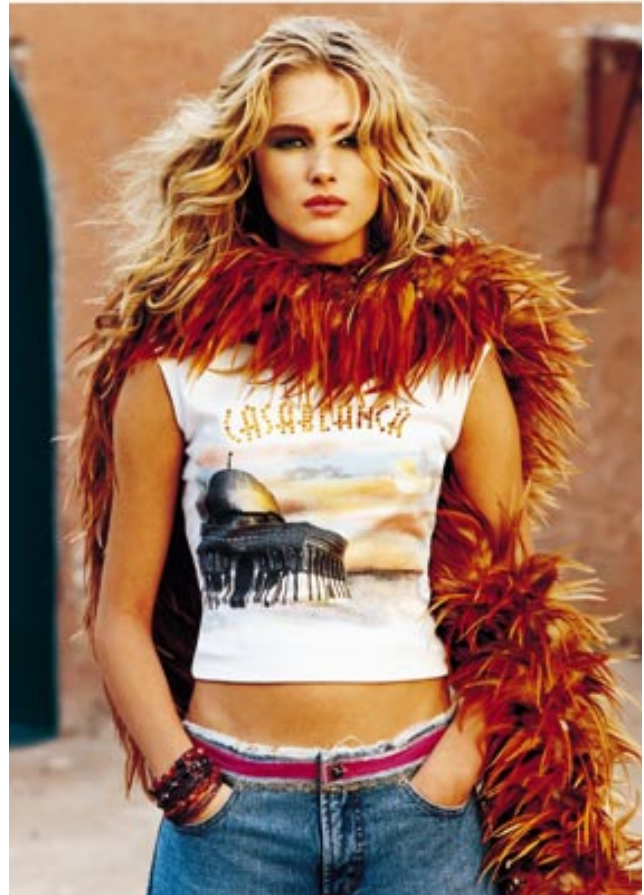
Although some indications of recovery were observed in the second half of the fiscal year, domestic consumer spending remained weak. The markets for clothing and other textile goods continued to face difficulties, with retail prices dropping further. The raw materials and textile markets also remained 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.