

# Overview of Operations

To reinforce our integrated corporate strength further, from April 2001 we strategically rationalized our business structure from the aspects of both the business field and function, reorganizing our previous six Groups and 21 Divisions into nine Business Units and 28 Divisions.

The heads of the business units will create and promote global business strategies related to the products for which they are responsible in cooperation with each regional business unit, and run the business more flexibly, intensively, and speedily than before.

To strengthen management activities in the Kansai region, we have organized the new Kansai Regional Business Unit that combines the Osaka organization with the surrounding offices.

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# METAL PRODUCTS BUSINESS UNIT

There is a recent trend among Japanese trading companies to spin off their metal products business units. However, we have no intention to follow suit as our basic business strategy is to utilize our integrated corporate strength fully, and the Metal Products Business Unit's advantage lies in its extensive customer-centered services.

## OPERATING ENVIRONMENT

Although exports to Asia and domestic demand recovered last year, demand for steel products has declined sharply since the beginning of 2001 following the slowdown of the U.S. economy. For the full year, while exports have showed slight recovery partly due to the weak yen, the business environment remains unfavorable. In our metal business, demand for OCTG and steel pipe for pipelines is growing steadily as new investments by oil companies

increase with the price of crude oil stabilizing at a high level. In Japan, reorganization of the industry is progressing rapidly, as witnessed in the recent move toward consolidation among major steel companies and the spin-off of steel businesses by major trading companies.

Traditional business practices are also undergoing significant changes, prompted among other factors by the recent move by automakers, which are large users of steel sheet, to cut costs drastically.

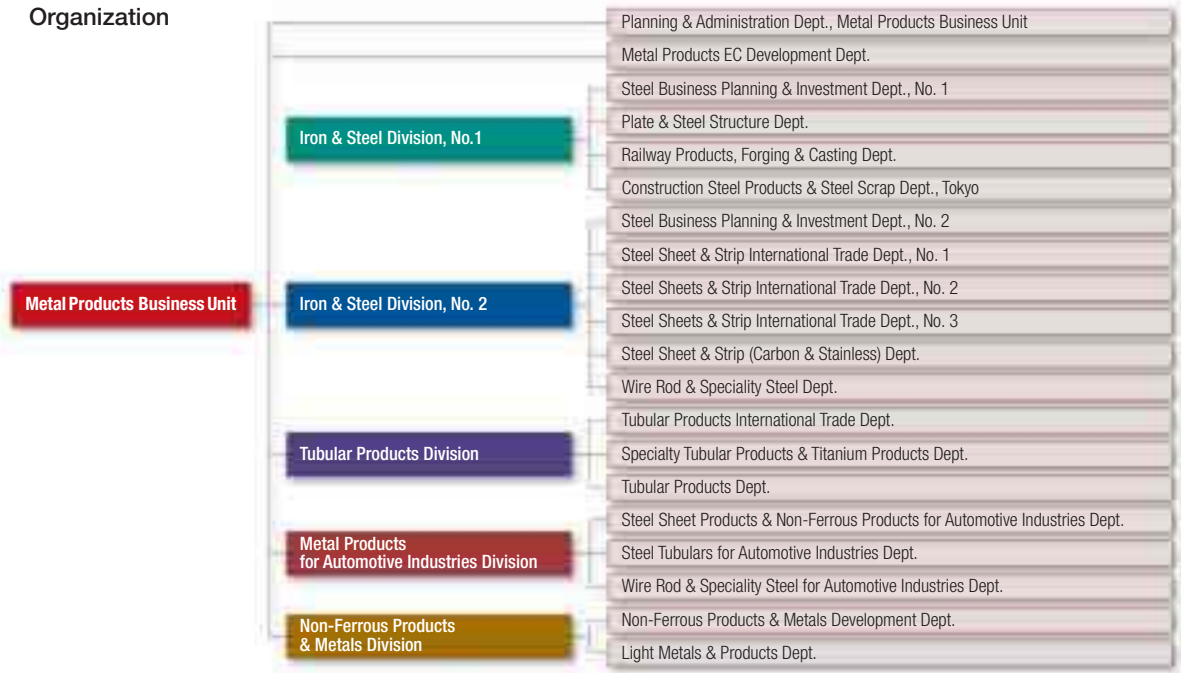
## STRATEGIES

Some major Japanese trading firms have moved to spin off their metal products business units recently, but we do not intend to follow suit as our basic business strategy is the full utilization of our integrated corporate strength to provide our customers with various advanced services. The core philosophy of our metal business lies in customer serv-

ice. To meet customers' needs swiftly, we are operating our own steel service centers in Japan, Asia, and the U.S., as well as enhancing our capabilities by making full use of IT.

The structure of our metal business has been strengthened in the recent organizational reform to provide even better customer service. The newly created Metal Products for Automotive Industries Division handles every type of metal product used for motor vehicles, including aluminum, mechanical tube, and magnesium alloy, rather than trading only steel sheet. The division will also provide proactive support to customers in their efforts to achieve objectives such as reducing car weights. By incorporating the Non-ferrous Products & Metals Division in the Metal Products Business Unit, we have strengthened the relations between our steel business and non-ferrous business to meet our customers' needs for these essential materials.

## Organization



We are also stepping up our use of IT in providing customer service. For instance, SC Grainger Co., Ltd., the leading distributor of indirect materials in Japan, will promote maintenance, repair, and operating (MRO) supplies for plant use and will start full fledged operations with Japanese strategic partners in 2001. On the other hand, MetalSite Japan is now providing e-commerce services for steel sheet and plate and is planning to extend service to non-ferrous products.

Fibercoat Co., Ltd., a company manufacturing fiber-coated steel sheet by coating hot-dipped galvanized steel sheet and coil using an electrostatic technique, was established. We are promoting the product as an effective material to prevent condensation dripping from air supply ducts, and are marketing it for home appliances and interior applications as the product can effectively shield heat and its surface is soft to the touch.

With regard to investments, we have aggressively restructured our portfolio. As part of such moves, we sold Auburn Steel Co., Ltd., an electric furnace mill in the U.S., to improve return on investment by reducing risk assets.



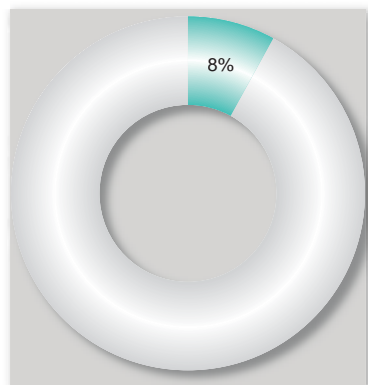
We have launched an online procurement site for indirect materials for plant use, MonotaRO.com, to support manufacturing in Japan.

### HIGHLIGHTS

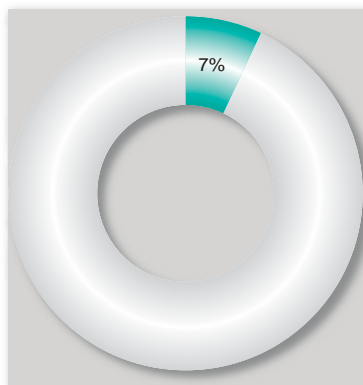
We are developing an advanced business model that incorporates IT into the steel business and adding the know-how of our U.S. partners to suit Japanese business practices. SC Grainger, a joint venture with W.W. Grainger, Inc. of the U.S., the largest wholesaler of MRO supplies for plants, launched MonotaRO.com in November 2000 to sell indirect materials online in Japan. MetalSite Japan, a B2B online marketplace specializing in steel sheet and plate, was launched in July 2000 jointly

with two other Japanese trading companies and MetalSite Inc. of the U.S. Both Web sites enable customers to increase their operational efficiency and offer various support facilities, like financial services such as providing credit and logistics services such as arranging trucks to transport the goods.

Net Sales



Total Assets



# TRANSPORTATION & CONSTRUCTION SYSTEMS BUSINESS UNIT

In order to win high-grade, high-value contracts, we are building a business system that enables us to provide integrated services by making full use of our strong leadership and our comprehensive coordination capabilities that we have been cultivating over the years.

## OPERATING ENVIRONMENT

Ship, aerospace, and rolling stock businesses have generally been brisk. With demand for new ships growing thanks to the strong shipping market, orders received by Japanese shipyards are increasing. In the aircraft business, demand for leasing remains strong. In the rail-related field, new investments in railroads in the U.S. have grown vigorously due to growing concern about traffic congestion and environmental issues, while a number of official development assistance (ODA) projects have been initiated in Asia.

Concurrent with the major regroupings in the automobile industry worldwide, including parts suppliers, the profit structure itself is undergoing significant changes as more automakers enter the value chain, providing financing and

insurance services, selling used cars, and launching online marketing.

In the construction equipment field, while the domestic market remains weak with the market size contracting to 60% of its peak, demand for rental equipment is growing. On the other hand, international markets are showing signs of softening, as a drop in demand for construction equipment in the U.S., which remained brisk until recently, is affecting Europe and other parts of the world.

## STRATEGIES

We will promote sophisticated, high-value project contracts, shifting our emphasis from exporting only equipment to full-turnkey contracts. As projects become larger and more complex, the ability to undertake a package contract covering the whole operation from planning to completion is becoming increasingly important. Such contracts require, for instance, the ability to organize a team of specialists consisting of manufacturers, construction companies, etc., and making the preparations for on-site assembly. In response to such trends, we are developing a business to provide integrated services that makes full

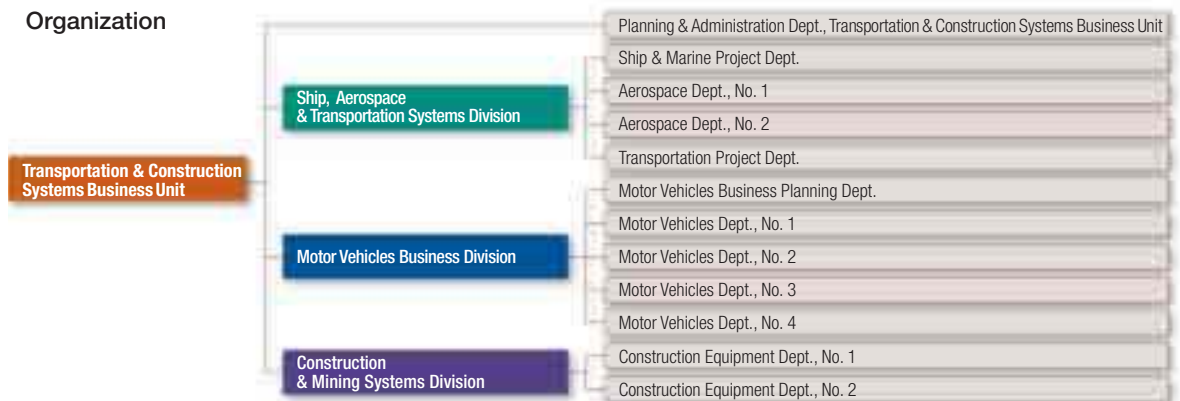
use of our comprehensive coordination capability that has been cultivated over the years, as well as our strong leadership.

Recent contracts we have won include delivery of a 300,000-ton tanker (to be built by Hitachi Zosen Corp.) to China, which has started to import crude oil as its economy expands rapidly. In addition to the 540 various types of passenger carriages that we have already delivered to the U.S., we have received an order for 300 double-decker passenger carriages from Northeast Illinois Regional Commuter Railroad Corp. (METRA). This is one of the largest contracts for rolling stock export won by a Japanese company.

In the aircraft field, we have incorporated our know-how in risk management and financial technology into the existing operating lease business to enhance its value. We have contracted to lease four A320 aircraft to Iberia Airlines and started to provide services to domestic investors.

In the automobile business, we will promote finance-related services such as leasing, insurance sales, and credit management. We have already started these services in Thailand, Indonesia, Hungary, and

## Organization



Slovenia, and plan to introduce them in the Czech Republic, Poland, Turkey, and the Middle East. As an Internet-based new business, in April 2001 we launched a used car auction service on Rakuten, a Japanese online marketplace. We also plan to provide used car loans.

In the construction business, we will strengthen our ties with leading rental companies in Japan and develop original services aimed at niche markets. We will also step up our operations in North America and Europe, as well as enhance our logistics services by introducing a Supply Chain Management (SCM) system for logistics provided for the overseas plants of Japanese manufacturers.



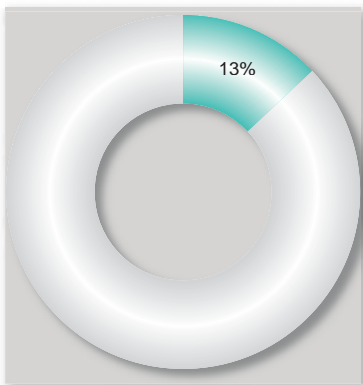
A model of the double-decker passenger cars we delivered to METRA in the U.S.

**HIGHLIGHTS**

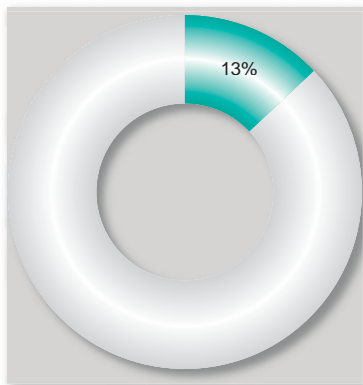
In February 2001 we received an order for 300 double-decker passenger cars from Northeast Illinois Regional Commuter Railroad Corp. for its METRA, located in the U.S. This is one of the largest export contracts of its kind won by a Japanese company, bringing the total of new rolling stock orders we have won in the U.S. to about 840 units, including half of METRA’s entire rolling

stock. While our U.S. subsidiary, Sumitomo Corporation of America, is the prime contractor and handles all contractual matters, the Transportation & Construction Systems Business Unit will engage in sourcing major equipment in Japan and assist local sourcing and assembly in cooperation with Nippon Sharyo, Ltd., to maintain the required ratio of local procurement. With public works on railroad infrastructure in the U.S. increasing due to environmental concerns, we will use this contract as a foundation from which to strengthen our business in this field.

Net Sales



Total Assets



# MACHINERY & ELECTRIC BUSINESS UNIT

We are acting as a new type of business organizer in a wide variety of projects, making full use of our domestic and international networks as well as providing finance and capital. We are also actively developing our business in new fields with high growth potential, such as IT, biotechnology, and environmental conservation.

## OPERATING ENVIRONMENT

In Japan, although the overall economy remains sluggish, new business areas of IT, biotechnology, and environmental conservation are showing high growth potential. In international business, we have received or secured a number of contracts for large-scale projects around the world, against the backdrop of economic recovery in Asia in the first half of 2000 and the rising oil prices benefiting the Middle East. In particular, as many developing countries are deregulating work on infrastructure, such as power generation, water supply and drainage, pipelines, harbors, and telecommunications, private-sector demand in these fields led by international groups is expected to grow, in addition

to existing public-sector demand.

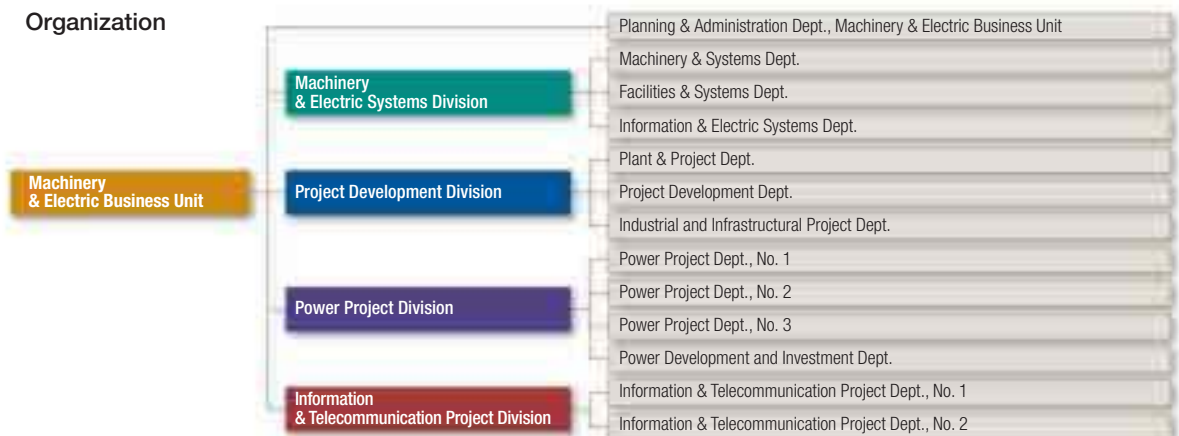
## STRATEGIES

Making full use of our comprehensive corporate strength as a global trading company, we will continue to develop our business to provide value-added integrated services for large-scale overseas projects. These services include: analyzing and managing risks by taking into account complicated legal and other systems and regulations in the country where a project is implemented; providing financial services for funding; and creating an efficient logistics structure for the transportation of construction materials and equipment. One such example is the water supply project in Saudi Arabia, for which we obtained the license in January 2001. We will operate an integrated utility business to supply water and electricity to the Riyadh metropolitan area by building a desalination plant and power plant in Al Jubayl on the coast of the Arabian Gulf. Also, in October 2000 we won a ¥20 billion contract to supply a 350-megawatt combined power generator (to be manufactured by General Electric) from SKS

Ventures Sdn. Bhd., a leading independent power producer (IPP) in Malaysia. This is the first IPP power station to be built in Malaysia since the Asian economic crisis. The construction work is scheduled to commence in the spring of 2001 and be completed in March 2003.

In addition to the stable revenue base we have in the international project and equipment/machinery businesses, we are expanding revenue opportunities dramatically through investment returns and initial public offerings (IPOs). To this end, we are strengthening our ties with Japanese and overseas venture firms that specialize in high-growth areas such as IT and biotechnology. For instance, in a move to expand our presence in the biotechnology field, in September 2000 we established SC BioSciences Corp., a wholly owned subsidiary to oversee our entire biotechnology business. SC BioSciences will focus on supporting drug discovery using biotechnology. It imports and markets equipment and technologies for genome (single-nucleotide polymorphism) and proteome analysis developed by venture companies in the U.S. and Europe, as well as undertaking contract research for drug dis-

## Organization



covery at its own laboratory in Kamakura. The company is also considering entering the application service provider (ASP) business to support biotechnology companies' bioinformatics that involve an enormous amount of data concerning genes and proteins. Argonaut Technologies, Inc., developer of the Automatic Compound Synthesizing Robot, and CIPHERGEN Biosystems, Inc., developer of the protein analysis system, both of which we are investing in and collaborating in marketing, have been successfully listed on the NASDAQ in the U.S.



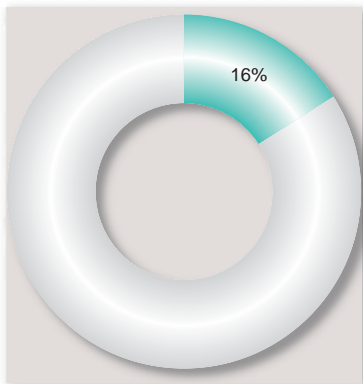
Coal-fired thermal power station we are constructing in Vietnam through a partnership with manufacturers in Korea, the U.S., the U.K., and Australia.

### HIGHLIGHTS

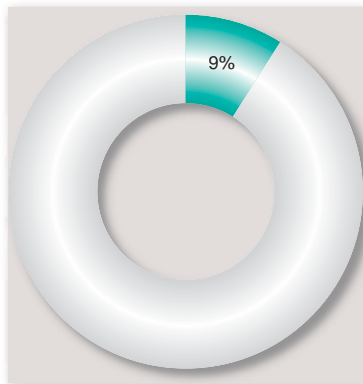
Construction of the Pha Lai Thermal Plant in Vietnam, the contract for which we won in 1999, is nearing completion. Large-scale overseas projects such as this require global organization and project management capabilities to meet various conditions such as local regulations, the type of equipment required, and funding. Making full use of our global network, we organized the best team of specialists for the Pha Lai project, including a U.S. genera-

tor manufacturer and engineering company, a U.K. boiler manufacturer, an Australian coal transport equipment firm, and a Korean construction company. In managing projects, we provide comprehensive services such as risk management based on a thorough knowledge of local regulations together with logistics services for efficient transportation of equipment.

Net Sales



Total Assets



# MEDIA, ELECTRONICS & NETWORK BUSINESS UNIT

Having identified the broadband-related business in information and communications and the network-related business at the convergence of broadcasting and telecommunications as the most important areas, we created the Network Division to consolidate our operations relating to information and communications, the Internet, and network systems.

## OPERATING ENVIRONMENT

Despite the bursting of the “Internet bubble” in the U.S. last autumn, new markets are growing in the information and communications industry, mainly for products and services for broadband-based cable, asynchronous digital subscriber line (ADSL), and satellite infrastructure, thanks to the rapid spread of broadband connection. In Japan, digital broadcasting via broadcasting satellite began at the end of 2000, and a communications satellite at 110° east longitude is scheduled to start operating in the spring of 2002\*, promoting further convergence of telecommunications and broadcasting. As a result, demand for high-speed, high-capacity, and interactive content delivery services is increasing steadily. In the electronics field, although the semi-

conductor market is currently in oversupply it is expected to pick up quickly thanks to brisk demand in IT.

\* In addition to conventional services, multifunctional and high-valued (data broadcasting/interactive) services are offered through a communications satellite (CS) located at 110° east longitude with the Broadcasting Satellite (BS). Because the satellite dish is compatible with both BS and CS services, we expect the number of customers to increase.

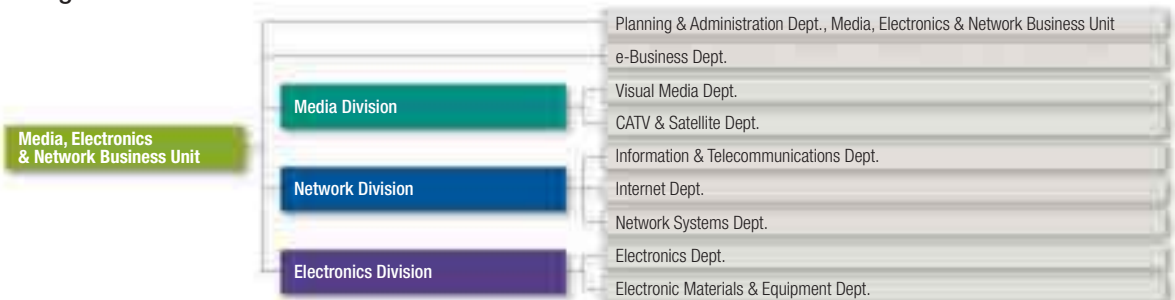
## STRATEGIES

Having identified our two most important areas — broadband-related business in information and communications and the network-related business involving the convergence of broadcasting and telecommunications — we created the Network Division to consolidate our operations relating to information and communications, the Internet, and network systems. Under this new organizational structure, we will further reinforce our operations in network-related hardware and software sales and systems integration, as well as accelerate the development of new e-commerce initiatives. In addition, as part of our network business strategy, we set up SC ComTex Inc., a sales company specializing in network products and services. We also created the “e-Business Department” to develop

new B2B e-commerce businesses and adapt existing businesses to an e-commerce model. With a major shakeup in the Internet industry under way in the U.S., we are reducing and hedging risks when introducing Internet-related new technologies to the Japanese market by forming alliances with other firms and carefully selecting technologies that show high viability and meet market needs.

We have been developing a number of infrastructure-related businesses as our core operations. Their fields include CATV (Jupiter Telecommunications Co., Ltd.), satellite (JSAT Corp. and SKY PerfecTV!), Internet service provider (@Home Japan Co., Ltd.), and portal (Lycos Japan, Inc.). In these businesses, we are shifting our emphasis to the development and provision of content for broadband-based services. Specifically, we will expand the content business for cable operators provided by @Home Japan, a high-speed Internet service provider. The number of channels to which Jupiter Programming Co., Ltd. provides programming will be increased from eight to 14 to strengthen the content business for digital broadcasting via communications satellite. Finally, we will

## Organization





expand Lycos Japan's revenue base by shifting its present business model based on advertising to one based on paid content, corporate portals,\*\* and broadband support (including video images).

\*\* Corporate portal: In addition to consumer portal services, Lycos provides excellent corporate homepage content to increase the number of visitors.



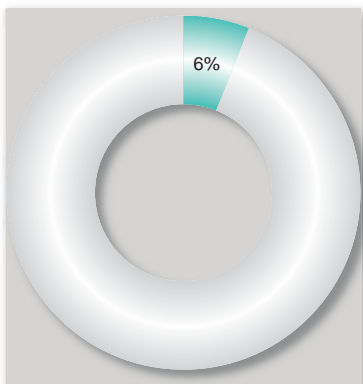
SC ComTex showcases its expertise in "INTEROP 2001 Tokyo," the largest networking, telecommunications, and Internet/intranet exhibition in Asia.

### HIGHLIGHTS

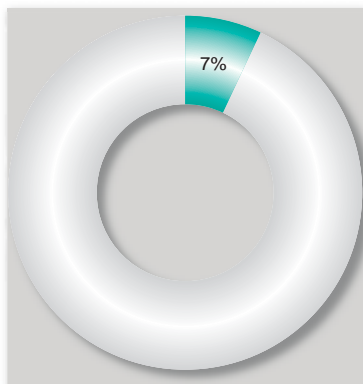
Established in April 2001, SC ComTex Inc. markets next-generation communications equipment that uses the latest technologies such as Voice over Internet Protocol (VoIP) and Wavelength Division Multiplexing (WDM), data storage systems, routers, security-related products, and database software to meet the increasing demand for broadband-based communications infrastructure. SC ComTex plans to develop new businesses based on extensive

information about cutting-edge technology provided by Presidio Venture Partners, our U.S.-based strategic investment company specializing in IT. In addition to Sumitomo Corp., the company's shareholders comprise NTT Advanced Technology Corp., which has a fine reputation in assessing the potential of new technology, Sumisho Computer Systems Corp., whose expertise lies in systems integration among other system-related services, and Sumisho Electronics Co., Ltd., which has strong software-related operations. Taking advantage of the expertise and know-how of its shareholders, SC ComTex aims to provide a full range of network products and solutions.

Net Sales



Total Assets



# CHEMICAL BUSINESS UNIT

We have reorganized our structure, previously consisting of the two divisions of Fine & Inorganic Chemicals Division and Plastics & Organic Chemicals Division, to create a three-division system of Inorganic & Specialty Chemicals Division, Life Science Division, and Plastics & Organic Chemicals Division. The new structure is designed to enable us to focus our management resources on areas where we have strong expertise and to specialize in them.

## OPERATING ENVIRONMENT

In the fine and inorganic chemicals business, the specialty chemical market, including new and raw materials, is showing a strong upward trend. In the life science field, we are expanding business opportunities in the rapidly growing biotechnology sector. We are also exploring new opportunities in international operations in the pharmaceutical and agricultural chemical sectors, where competition is intensifying.

In the plastics and organic chemicals business, although there are some signs of oversupply due to an output increase in Asia coupled with weakening demand caused by the slowdown of the U.S. economy, the domestic and international markets

are gradually improving. We are implementing a number of strategies, including the promotion of our Supply Chain Management (SCM) system, to expand business in this field.

In addition, we are developing various e-commerce initiatives. As part of this effort, we set up Chemical Mall Asia-Pacific Co., Ltd. together with other trading companies.

## STRATEGIES

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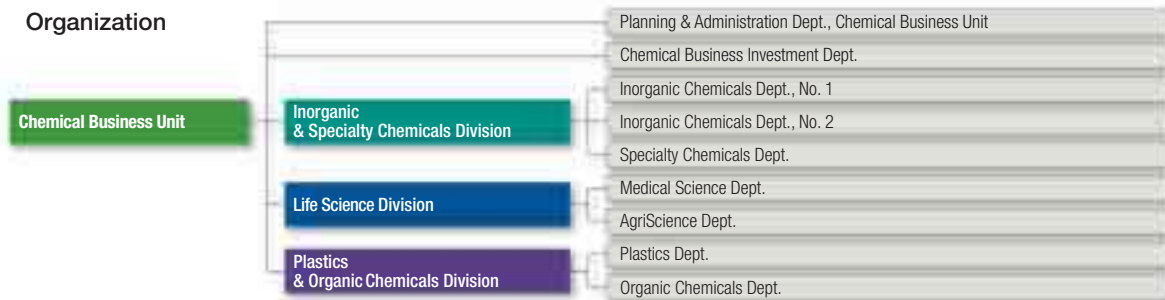
We currently handle 60% of the sulfuric acid traded worldwide using Interacid Trading S.A., our subsidiary based in Switzerland, as our main agency. The Inorganic & Specialty Chemicals Division will continue to strengthen this operation as one of our core businesses. The division is also developing a number of new businesses in cooperation

with Sumitomo Shoji Chemicals Co., Ltd., a wholly owned subsidiary, in IT-related fields such as materials for electronic components and other areas with high growth potential.

In the agricultural chemicals business, the Life Science Division is vigorously expanding sales in Eastern Europe by making full use of our SCM system, as well as building a sales network in China. In the highly specialized pharmaceutical and biotechnology businesses, the division will focus on niche markets where we have strong expertise. Also, we have decided to establish SC Bio Capital Co., Ltd., a biotechnology venture firm with total funds of ¥10 billion. Furthermore, Summit Pharmaceuticals International Corporation, our wholly owned subsidiary, is steadily expanding its services relating to drug discovery for pharmaceutical companies.

The Plastics & Organic Chemicals Division is increasing operational efficiency in the general plastics business undertaken by Sumitomo Shoji Plastics Co., Ltd., a wholly owned subsidiary. It is also working to expand the business in materials for electronic components. Cantex Inc., a Sumitomo Group company in the U.S., is improving its logistics significantly by introducing the latest enterprise resource planning (ERP) system and warehouse man-

## Organization



agement system (WMS)\* to increase operational efficiency and expand the revenue base. In the phenol business, we are boosting our capability to match supply with demand in Korea, Singapore, Thailand, the U.S., and other countries, thereby expanding our activities in this field.

\* Warehouse management system. Real-time inventory control system with a bar code linkage with ERP (Enterprise Resource Planning) system.



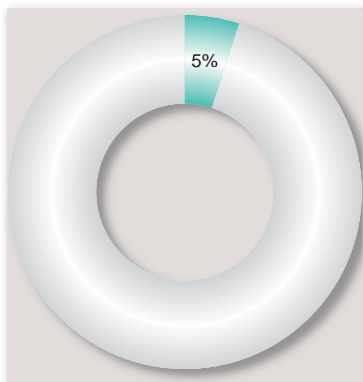
Cantex's new switch box product, "EZ BOX."

### HIGHLIGHTS

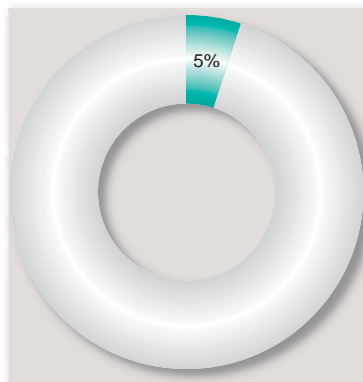
In 1992 we acquired the PVC pipe division of Hersco Corp. in the U.S. to set up Cantex Inc. Based in Mineral Wells, Texas, Cantex has plants in five states. In the U.S., Cantex enjoys a 30% market share in PVC conduit for electric wires and telephone lines, its main products, with annual sales of 360 million pounds in volume and U.S. \$ 200 million in net sales. Annual sales of PVC fittings and accessories stand at U.S.\$56 million, commanding a 35% market share. The Chemical Business Unit is supplying Cantex with cost-competitive raw

materials, ensuring stable supplies, as well as conferring creditworthiness on the company. Cantex has grown steadily since we acquired the business, recording the highest profits for the year ending December 31, 2000. The company is currently building a distribution center, and introducing WMS and ERP systems to expand its revenue base by increasing manufacturing and logistics efficiency.

Net Sales



Total Assets



# MINERAL RESOURCES & ENERGY BUSINESS UNIT

The need to develop clean energy resources is increasing against the background of rising concern about the global environment. At the same time, deregulation in the energy sector, particularly in the electricity industry, is progressing. With energy becoming ever more important, we established the Mineral Resources & Energy Business Unit to consolidate and strengthen our operational structure in the resources and energy field.

## OPERATING ENVIRONMENT

Coal and iron ore imports have increased due to growth in domestic crude steel production. In the energy field, while crude oil prices remained at high levels, we were able to secure some profit margin by transferring the extra cost to the domestic prices of petroleum products. The price of copper has remained sluggish since the autumn of 2000 due to the slowdown of the U.S. economy, following an upward trend prompted by increased demand in the U.S. and a recovery in Asian demand. In the electricity business, new business opportunities have emerged thanks to the deregulation of electricity retailing.

## STRATEGIES

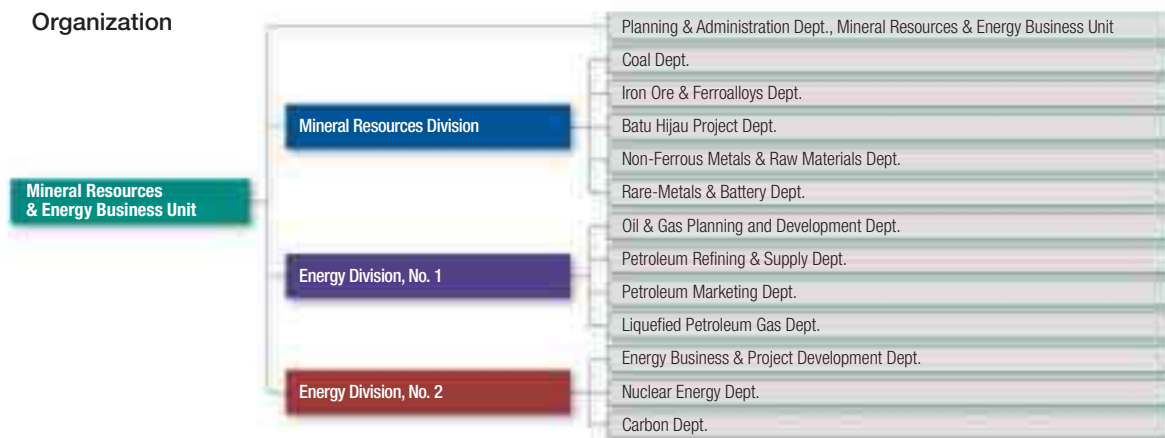
In June 2001, we reached a basic agreement with Nissho Iwai Corporation to forge a strategic alliance, including a capital tie-up in the field of liquefied natural gas (LNG), in order to leap to the top position in the industry and to establish a firm business foundation in this field. LNG is expected to become the leading energy source for coming generations. To implement this, Sumitomo Corp. and Nissho Iwai will form an equally owned joint company. The new company will take over Nissho Iwai's business resources including existing interests in such countries as Indonesia and Qatar, as well as its sales organization and workforce, which will be integrated with Sumitomo's business foundation and workforce. The new company will aim to develop its overall LNG business by expanding existing interests and by actively undertaking new projects.

We will continue to concentrate our management resources on the coal business as one of our core operations. Petroleum and liquefied petroleum gas (LPG) are our core revenue bases, and we are reinforcing our trading activities to increase

sales volumes in these fields. In the LPG business, we have established a third terminal for imported LPG in Chiba Prefecture, part of the Tokyo metropolitan area, in a bid to attain the 1 million-ton mark in domestic sales. Furthermore, we have entered new contracts with suppliers in Iran and Indonesia to expand the volume of international trading significantly. In the petroleum business, the Back Office Team was set up to deal with all paperwork, thereby enabling the sales staff to concentrate on sales activities. We also established e-OSN.com Pte. Ltd. in Singapore, the operating company of an e-commerce site for naphtha trading, jointly with other Japanese trading companies and major overseas traders to increase market liquidity in the Far East for greater business opportunities. In the nuclear power field, we concluded an agency agreement with Heathgate Resources Pty. Ltd., a uranium concentrate supplier in Australia.

Responding to the deregulation of domestic electricity retailing, in February 2001 we set up Summit Energy Corp., a licensed power supplier, together with Niihama-based Sumitomo Joint Electric Power Co., Ltd. to establish a foothold in the

## Organization



electricity retailing business. Summit Energy is planning to sell surplus electricity supplied by Sumitomo Joint Electric Power and Amagasaki Utility Service Corp. to customers who are major users of high supply-voltage in western Japan (60-Hz area). The company intends to extend its services to eastern Japan (50-Hz area) once a stable supply is secured in the region.

In mineral resources development, we are progressing with our policy of pulling out of low-return businesses. On the other hand, our most important strategy remains strengthening the global supply network of copper, coal, and iron ore. To this end, we are working to secure high-quality sources in Indonesia, Australia, the U.S., Chile, and South Africa. One such source is the Batu Hijau copper and gold mine in Indonesia, one of the largest in existence. Since it began production in September 1999, the mine has steadily increased its output while endeavoring to cut production costs.

We are currently deploying unique functions to hold the highest share in the niche market for carbon electrode products exported from Japan, including electrodes, cathodes, and needle coke. In this field, we are



The Batu Hijau copper and gold mine passed completion tests in October 2000 and is now in full operation.

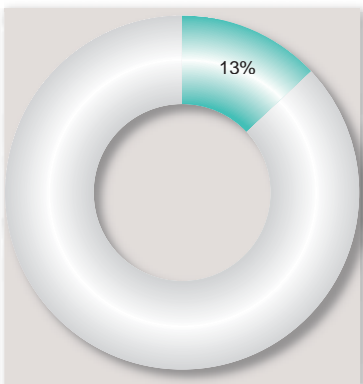
developing a global business that is not limited to exporting from Japan. As part of this strategy, we are enhancing the value of our services by providing additional ones relating to the sales infrastructure, such as those pertaining to our specialist staff, credit, information, and capital. As a result, we won distribution rights for the U.S. market from a European electrode manufacturer.

Finally, in the battery field, we established the Rare-Metals & Battery Department to step up our operations, which range from resource development to the trading of raw materials of battery products.

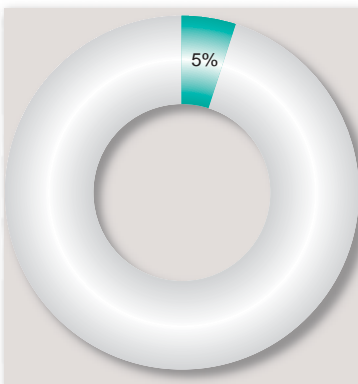
#### HIGHLIGHTS

The Batu Hijau copper and gold mine in Indonesia successfully began production in September 1999. We arranged U.S.\$1 billion project financing together with Newmont Mining Corp. of the U.S., our partner in this project. Having passed the lenders' completion tests in October 2000, the project financing became non-recourse to the partners. The mine is now in full operation with approximately 4,000 employees. Batu Hijau is one of the largest mines in the world, with ore reserves of approximately 1 billion tons (copper content 0.5%), and has an expected operational life of more than 20 years. Batu Hijau is anticipated to produce 700,000 – 900,000 tons of copper concentrate annually in the medium and long term to become a valuable source for copper smelting companies around the world.

Net Sales



Total Assets



# CONSUMER GOODS & SERVICE BUSINESS UNIT

The Consumer Goods & Service Business Unit operates in businesses that deal directly with consumers. Its basic strategy is twofold: to strengthen and expand the retail business by quickly responding to quantitative and qualitative changes in consumption patterns, and to promote upstream materials-related operations that reflect changing consumer needs.

## OPERATING ENVIRONMENT

The retail environment is undergoing a significant change as consumer spending remains sluggish with shoppers increasingly opting for lower-priced goods, prompting a sharp increase in the imports of cheap apparel and agricultural products. Simultaneously, globalization and the spread of the IT revolution are accelerating a change in the consumption structure, which is also prompted by the aging of the population and declining birth rates. These changes are opening up new business opportunities for us on an unprecedented scale, and we will

take full advantage of this situation by closely responding to shifting consumer needs.

## STRATEGIES

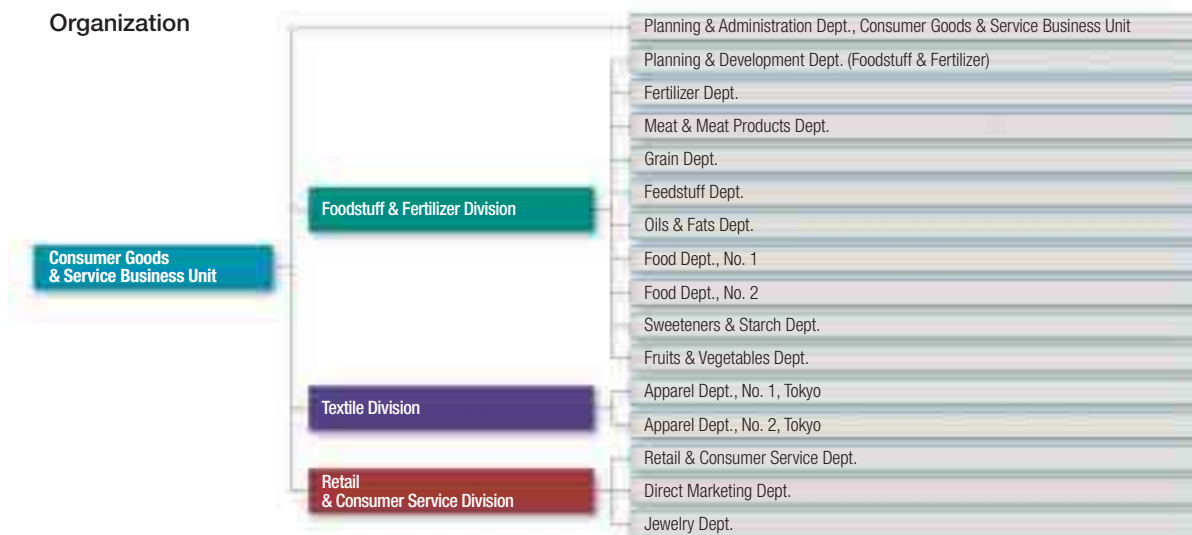
The Consumer Goods & Service Business Unit operates in business areas that deal directly with consumers. Our basic strategy is twofold: to strengthen and expand the retail business by closely responding to quantitative and qualitative changes in the consumption pattern, and to promote upstream materials-related operations that reflect varying consumer needs.

In April 2000 we acquired a stake in The Seiyu, Ltd., a leading supermarket chain with approximately 200 stores located mainly in the Tokyo metropolitan area. We are currently developing a variety of collaborative projects with Seiyu. For example, we will provide Seiyu with merchandise that is popular with consumers, such as tinned fruits, meat, and bananas in the agricultural and fisheries product sector and clothing manufactured abroad in the textile sector. Joint merchandise

sourcing and cooperation in a wide range of fields, such as information systems, logistics, and store development, are also planned.

Summit Inc. is a wholly owned supermarket chain specializing in foodstuffs. It was launched in 1963, making it our first retail operation. The chain now operates 70 stores, mainly in the Tokyo metropolitan area. Despite the continuous slump in consumer spending, Summit recorded a 50% year-on-year increase in annual profits in the fiscal year ending March 31, 2001. In 1999 we acquired a 20% stake in Mammy Mart Corp., a supermarket chain that operates about 40 stores mainly in Saitama Prefecture, and it is also steadily expanding its revenues. We will consider forming further alliances to expand our operational base in this field. We are planning to expand our retail business drastically through the approximately 300 stores operated by Seiyu, Summit, and Mammy Mart. To this end, we will optimize our manufacturing and sourcing operations worldwide by making full use of our global network and our expertise in

## Organization



organizing efficient logistics to provide Japanese consumers with merchandise that meets their increasingly diverse and complex needs.

In the foodstuff business, we are strengthening our supply capacity for perishables (vegetables, meat, and fish) in cooperation with Sumisho Fresh Meat Co., Ltd. and SC Foods Co., Ltd., which recently expanded its procurement and processing bases in China. In the textile business, we are expanding our production capacity in Vietnam, one of our key manufacturing bases. As part of such efforts, in November 2000 we opened Summit Garment Saigon (SGS), a plant under our direct management, to manufacture products exclusively for the Japanese market. Furthermore, in addition to the supermarket business we are developing and expanding various chain store operations, including the TomoD's and American Pharmacy dispensing drugstore chains and the Segafredo Zanetti chain of Italian-style café bars.

In e-commerce, Otto-Sumisho Inc., a mail-order company mainly selling European-designed women's clothing, and Eddie Bauer Japan Inc., a retail operation specializing



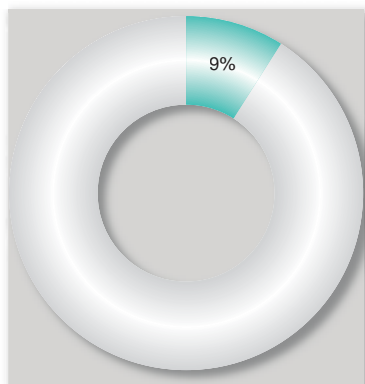
With approximately 700 employees, the SGS factory produces 250,000 outer garments and trousers and 300,000 shirts a year.

in outdoor clothing, are now marketing their merchandise online in addition to the existing sales channels of catalogs and specialty stores. We are developing a number of new e-commerce businesses that meet changing consumer needs. For instance, we launched the Hanacupid flower gift site in May 2000 in partnership with the Japan Florist's Telegraph Delivery Association (<http://www.i879.com>) and Asia Min<sup>2</sup> Market (<http://store.lycos.co.jp/asia>), an online sales site for frozen ethnic foods, jointly with Lycos Japan, Inc. in December 2000.

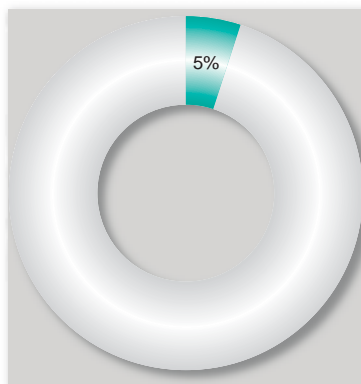
### HIGHLIGHTS

The Textile Division is expanding its production capacity in Vietnam, one of our key production bases. We are operating eight apparel manufacturing plants in the country, including three under our direct management. In addition, more than 10 plants are on standby to take orders when we require extra capacity. In November 2000 we consolidated and relocated two plants, out of our three directly managed plants, to a new site and reorganized them to form the SGS plant to increase production capacity and the number of items handled. In addition, we started CAD data transmission tests via the Internet. By 2001, SGS will introduce a Supply Chain Management (SCM) system. Regarding logistics, in cooperation with group companies, we support total distribution from production sites in Vietnam to individual customers' stores in Japan.

Net Sales



Total Assets



# MATERIALS & REAL ESTATE BUSINESS UNIT

In the materials business, we will strengthen our operations in areas where we have strong expertise, such as cement, timber, paper pulp, used paper, and tires. In the construction and real estate business, we aim to expand our business with rental, sales, and fee-based operations as our core revenue bases.

## OPERATING ENVIRONMENT

In the materials business, demand for timber and cement remained sluggish owing to the prolonged slump in the construction market. On the other hand, demand for paper grew, with annual sales of paper and cardboard increasing 1.1% and 2.1%, respectively, compared with the previous year. Tire exports, mainly to the U.S. market, increased steadily thanks to the previously brisk U.S. economy.

In the construction and real estate business, overall sales of condominiums were steady despite a record supply. However, with the growing popularity of city-center housing, the market is showing signs of increasing polarization, with a greater contrast in popularity observed between properties. In the

office building market, demand for offices in the Tokyo metropolitan area is improving, in particular for centrally located, new, and large buildings, as the concentration of firms in Tokyo has accelerated owing to increasing investments in IT and the consolidation of management resources. On the other hand, demand for office buildings in local cities remains depressed.

## STRATEGIES

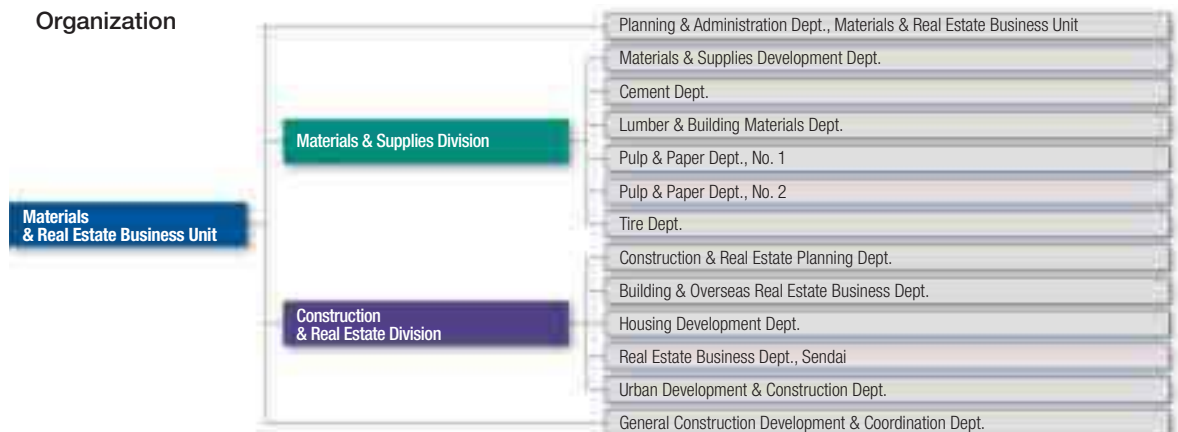
In the materials business, we have the largest share in cement trading among Japanese trading companies. We will strengthen sales of ready-mixed concrete to general contractors, while expanding cement sales to ready-mixed concrete manufacturers. In the timber business, we are bolstering the operations of Sumisho Building Materials Co., Ltd., currently the second-largest distributor of building materials in Japan. We are securing a stable supply of timber from sustainable sources in Russia, where we operate two timber plants, by building strong relations with our local partners. To ensure a long-term, stable supply of paper pulp, we are implementing reforestation projects in Chile, Ecuador, and

South Africa. In the used paper field, as demand for paper recycling grows rapidly, we will step up our yard operation to collect and sort used paper, while expanding our network in Asia and other parts of the world.

In the tire business, we are currently the fourth-largest distributor of own-brand tires in the U.S. We set up a new logistics center in Memphis, Tennessee, in a bid to increase our share in the country.

The main areas of our construction and real estate business are rental (office buildings and commercial facilities), sales (condominiums, housing plots, and houses), and fee-based operations (consultancy and management services). We are working to expand our business by adjusting the balance between these asset-, turnover-, and know-how-based operations in accordance with changes in the economic environment. In each sector, we are promoting strategic areas of business. In the rental sector, we are focusing on efficient management of buildings we own in the Kanda and Harumi areas of Tokyo. In sales, we are concentrating on the sale of high-grade condominiums in the Tokyo metropolitan area, where steady demand exists. In the fee-based business, we

## Organization





are promoting local-authority projects in response to new trends in public-sector work such as private finance initiative (PFI). Furthermore, we have highly sophisticated expertise in the management of commercial complexes. In the past fiscal year we opened three major commercial facilities: Universal City Walk Osaka; Chishima Garden Mall in Osaka; and DECKS Tokyo Beach Island Mall in Daiba, Tokyo. In April 2001 we opened Harumi Triton in Tokyo. As consumer spending remains sluggish, commercial facilities are facing a major shake-up. In this situation, the importance of management know-how is increasing. We have consolidated our commercial facilities management companies in Tokyo, Osaka, and Sendai to unify the information system, strengthen tenant recruitment, and enhance negotiation power.



Bird's-eye view of Harumi Island Triton Square.

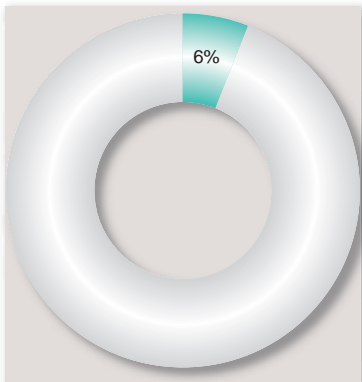
### HIGHLIGHTS

Facing Tokyo Bay, Harumi Island Triton Square is a large-scale redevelopment project covering approximately 100,000 m<sup>2</sup> to create a new town that combines work space (offices) with leisure space (cultural and commercial facilities) and living space (housing). Its total floor area amounts to approximately 600,000 m<sup>2</sup>.

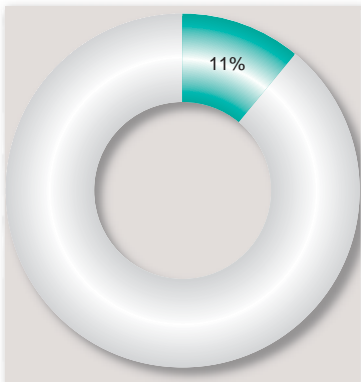
Since we acquired a parcel of land within the redevelopment area 17 years ago, we have been playing a leading role in the project, providing

the partnership of Urban Renewal Cooperative, Urban Development Corp., and the government with sophisticated know-how and coordination capabilities in every step of the project, ranging from the creation of the master plan to the management of facilities. In May 2001 we moved our Tokyo Head Office, which had been spread over several buildings in Chiyoda-ku, Tokyo, to Harumi Island Triton Square together with 35 of our Group companies, marking the beginning of our "Harumi era" at the start of the new century.

Net Sales



Total Assets



# FINANCIAL & LOGISTICS BUSINESS UNIT

We aim to create businesses based on entirely new concepts that transcend the traditional function of a trading company by making full use of financial technology (FT) and logistics technology (LT). In the logistics business, we set up the Logistics Business Development Department to enhance our capability to provide logistics services, including the development of Supply Chain Management (SCM) systems by making full use of IT.

## OPERATING ENVIRONMENT

In the financial business area, although a temporary slowdown in merger and acquisition activities and venture fund business was observed due to a sharp fall in U.S. stock prices in the technology sector, demand for new financial services such as products for diversification in asset management remains strong. Against this backdrop, the financial industry is expected to undergo further deregulation and reorganization. In addition, as a global trend, the emergence of new financial markets such as emissions trading and weather derivatives is being observed.

In the logistics sector, the rapid spread of IT is promoting the creation of new businesses relating to SCM that make full use of IT and LT.

## STRATEGIES

We are aiming at creating businesses with new concepts that are unlike conventional *sogo shosha* by making full use of FT and LT.

In the financial business, in November 2000 we set up Digitalnonbank Co., Ltd., an Internet financial service company, jointly with Sumitomo Group financial companies. Digitalnonbank plans to provide various financial services to the B2B e-commerce community, including the provision of credit.

In the venture fund sector, we established a biotechnology venture fund in partnership with Summit Pharmaceuticals International Corp. and SC BioSciences Corp.

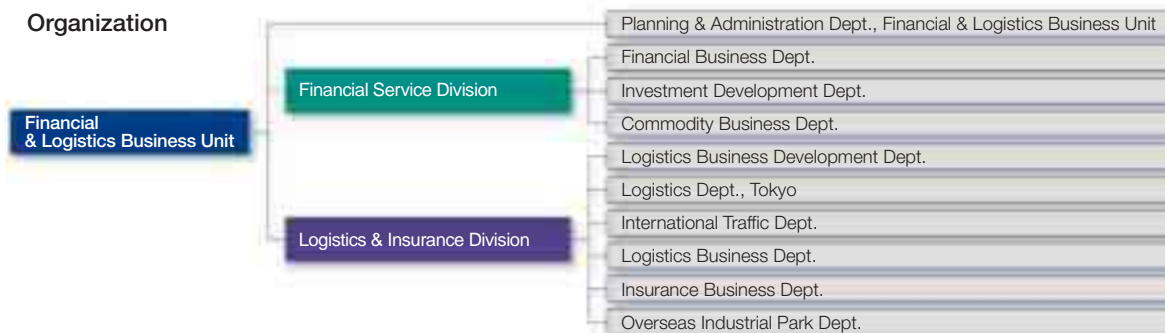
Sumisho Capital Management Co., an investment adviser founded in fiscal 2000, started providing alternative investment products that make use of our expertise in managing financial and commodity futures. This service has been expanding steadily since its launch.

In the logistics business, we are

building a network by connecting our distribution centers and logistics capabilities across the world to produce their synergistic effects. We set up the Logistics Business Development Department to enhance our capabilities in providing logistics services, including the development and implementation of SCM systems by making full use of IT. Working jointly with our third-party logistics (3PL)\* subsidiary, All Trans Co., Ltd., we are rendering a wide range of logistics solutions to create and optimize the value chains with our customers. We also continue to develop new business in logistics. One such example is Logilink Japan Co., Ltd., which we established in September 2000 jointly with other integrated trading companies in Japan. The company provides a logistics portal site on the Internet with a nationwide Matching Site for demand and supply of cargoes, empty trucks, and warehouse space.

The transportation of semiconductor production equipment to overseas production bases is a highly specialized operation and requires sophisticated know-how. Sumitrans (Japan) Corp., our wholly owned subsidiary, enjoys an enviable reputation in this field, serving leading Japanese and U.S. semiconductor

## Organization



manufacturers.

In the overseas industrial park business, we began marketing the first phase of the Thang Long Industrial Park in Vietnam, where tenants, mainly Japanese companies, are already moving in. The Thang Long Industrial Park is our third industrial park project, following the East Jakarta Industrial Park in Indonesia and the First Philippine Industrial Park. Our involvement in these projects is not limited to their development and marketing: we are also providing tenants with comprehensive support services, aiming to establish the industrial park operation as one of the core bases for development of our logistics business.

\* Third-Party Logistics. Outside contractors of comprehensive corporate logistic activities to achieve logistics optimization.



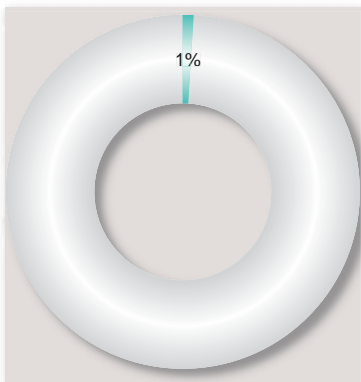
Universal Studios Japan opened in March 2001. We undertook the transportation of all its 18 attractions to the site from the U.S. and other countries, delivering them on time in accordance with its construction schedule.  
*Universal elements, Universal Studios Japan™ & © Universal Studios. All rights reserved. CR01-3028.*

### HIGHLIGHTS

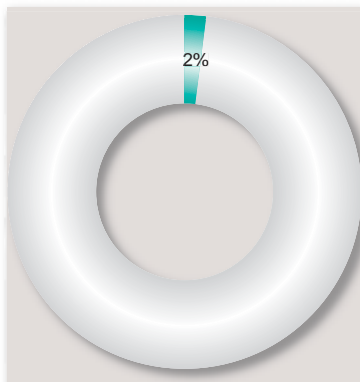
The Logistics & Insurance Division, together with the Machinery & Electric Systems Division, transported the equipment for all of the 18 attractions installed at Universal Studios Japan, which opened in

Osaka in March 2001. This project involved transporting equipment supplied by some 85 companies spread across the U.S., Europe, and Japan to Universal Studios Japan. We ensured smooth logistics operations by stationing our staff members in the U.S. and at the construction site in Japan. We also set up dedicated warehouses in both countries to manage shipping from each vendor and organized just-in-time delivery in accordance with the construction schedule. In addition, we provided process management information to Universal Studios Japan and contractors using an Internet-based cargo tracking system we developed in 1999 to obtain status information on equipment in transit.

### Net Sales



### Total Assets



# Domestic Offices and Subsidiaries Overseas Offices and Subsidiaries

## ■ Domestic Offices and Subsidiaries

### Kansai Regional Business Unit

From April 2001, the business administrative structure of the Kansai-Shikoku region has been renovated. In addition to reorganizing the 23 departments in Osaka, the Kobe office and the Kyoto, Wakayama, Himeji, Okayama, Shikoku (Takamatsu), and Niihama branch offices have all become part of the Kansai Regional Business Unit.



Universal City Walk Osaka. The shopping complex boasts unique specialty stores and restaurants direct from Hollywood, offering customers a completely new shopping experience. Many of them are the first such outlets opened in Japan or in the Kansai region.

Taking this opportunity, along with converting to the wide-area management system of regional leadership, we are working toward implementing more efficient management, further strengthening our business, and responding promptly and energetically to customer needs in the Kansai-Shikoku region. We of course intend to promote our business activities in the Kansai region and we will also strive to develop business globally, placing great attention on our integrated strength and networking with each Business Unit of the Tokyo Head Office, the corporate departments, domestic and international local headquarters, and every group company in Sumitomo Corp.

### Universal City Walk Osaka Business Launched

Located at the entrance to Universal Studios Japan, which opened in Konohana-ku, Osaka, is the Universal City Walk Osaka. This commercial facility, in which Sumitomo Corp. was a major developer, began operations in March 2001. Universal City Walk Osaka's facilities provide streets brimming with Hollywood ambiance, with 56 unique shops and restaurants. The office building on which construction had started at the same time was completed in March 2001, and two hotels (Keihan and Kintetsu) are scheduled to open in July 2001.

### Chubu Regional Business Unit

Central Japan (Chubu) International Airport (CJIA) will be constructed 35 km south of Nagoya in the waters offshore of Tokoname, and will play an important role as an international hub airport along with New Tokyo (Narita) Airport and Kansai International Airport.

The CJIA will be an offshore airport, following Kansai International Airport, enabling aircraft to land and take off 24 hours a day without time constraints.

It is scheduled to open in March 2005, and construction started in August 2000. The total business budget of this airport comes to ¥768 billion, or ¥1,200 billion if related business is included.

The Chubu Regional Business Unit is working energetically to ensure that it concludes a number of contracts for construction materials, such as steel, ready-mixed concrete, and sand and

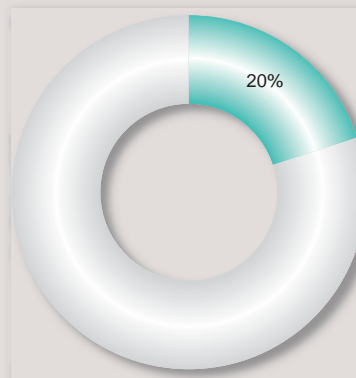
gravel. As a result, a consortium of Sumitomo Corp., Sumitomo Osaka Cement Co., Ltd., and related organizations has been selected as the official supplier of ready-mixed concrete to the airport island.

### Kyushu-Okinawa Regional Business Unit

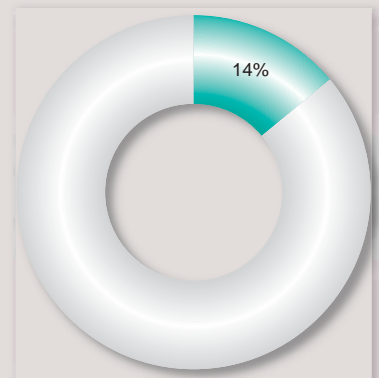
Japan's first modern steel manufacturing began in Kyushu 100 years ago. Today, this southern island accounts for 10% of national GDP and hosts one-third of Japan's semiconductor manufacturing, earning it the nickname of Japan's "Silicon Island." Seven offices have been established in the Kyushu-Okinawa Regional Business Unit, and are contributing to the development of the regional economy.

With strong geographical and historical ties to Asian countries, Sumitomo Corp. is energetically striving to increase imports, for example, of high-quality textile products manufactured under Japanese guidance from countries such as China. We have also invested in companies engaging in IT such as Koala, an asymmetric digital subscriber line (ADSL) communications business in Fukuoka, and Okinawa Digital Center, an archive business in Okinawa, in preparation for the era of electronic administration.

Net Sales



Total Assets



Our aim is to integrate the global product strategy of our business units and the regional strategy of our overseas and domestic offices and subsidiaries, and thus employ our integrated strength to its fullest potential.

We are striving to build stronger and more efficient business of our overseas and domestic offices and subsidiaries through regionally based operations, and are promoting wide-scale operations, by which a wider area is covered in cooperation with neighboring offices.

■ Overseas Offices and Subsidiaries

America

Sumitomo Corporation of America (SCOA) is actively supporting the global product strategy of each business unit of the Tokyo Head Office, and is simultaneously engaging in a wide range of enterprises. In addition to PVC pipe manufacturing, residential development, automobile dealerships, and steel service centers, we are also making optimum use of information technology (IT) and logistics technology (LT) in globally promoting our oil well casing pipe business with major oil companies. We are also cooperating with 54 corporate groups in developing businesses throughout the Americas.

Making the most of Sumitomo Corp.'s integrated strength, we have received orders for equipment for major projects, such as an Automated People Mover system for the Miami International Airport and gallery cars for the Chicago METRA commuter rail system. We are strategically meeting the challenges in such fields as the IT industry, pharmaceuticals, and biotechnology. Through Presidio Venture Partners, we are investing in venture businesses in the IT field, and in addition to capital gains we are striving to discover new businesses and investment enterprises.

With the expanded trade and investment among the U.S., Canada, and Mexico under the North American Free Trade Agreement (NAFTA), as well as the Free Trade Area of the Americas (FTAA) to be inaugurated in 2005, ties are deepening among the Sumitomo Corp. offices throughout North and South America. As a result, we will be able to employ our fully integrated strength throughout the region to expand

investment opportunities and promote even more efficient management.

Europe

The accelerating move to expand and strengthen the EU by introducing the euro into circulation in January 2002, and the EU's continuing strong economy are leading to a large-scale reorganization of European industry. Against this economic backdrop, Sumitomo Corp. Europe Plc (SCEU) is shouldering its share of implementing the important strategy of each business unit of the Tokyo Head Office. In addition to expanding existing business in the various countries and branches, we are energetically constructing new businesses according to our all-encompassing integrated management system that goes beyond the limits of individual regions and national borders and fully utilizes our offices in 19 cities and 16 countries of Europe.

In recent years in particular, Central Europe (Poland, the Czech Republic, and Hungary) has enjoyed steadily improving economic health as a manufacturing region in which the major impetus comes from the automotive and home appliance industries, and their peripheral industries. This region is expected to establish a firm position as a world-class manufacturing base to rival the Asian region within two or three years. To support the efforts of Japanese enterprises to expand into the region, Sumitomo Deutschland GmbH and others are relocating many specialists to reside in the area and assist companies there. We are striving to broaden our regional operations by exhibiting our integrated strength while utilizing



This 42-story skyscraper in Manhattan, New York symbolizes Sumitomo Corporation of America (SCOA)'s office building business. In addition, SCOA's office space occupies the upper four floors.

our own logistics, financial, and information technologies.

China

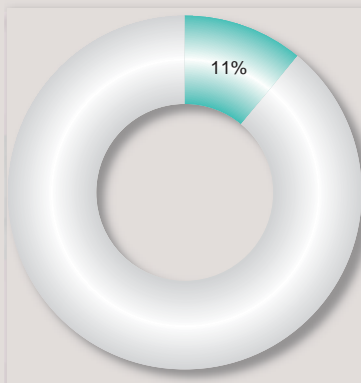
Over 20 years have passed since China began its Economic Liberalization Policies, and in that time the manufacturing structure has been modernized and the market economy has permeated the country. Private enterprises have also emerged, and today the Chinese economy is undergoing profound change.

China is moving toward joining the World Trade Organization (WTO) in the latter half of 2001. Entering this global organization will result in regulations being loosened and accelerate an inrush of foreign-funded enterprises mindful of the fact that this is a vast territory with an enormous consumer market comprising 1.3 billion people. China is surely the most important market of the 21st century, and without doubt will become a crucial manufacturing base from the global business perspective of seeking lower production costs.

While striving against that backdrop to build efficient operations in three regions such as the north, east, and south of China through promoting unified management that utilizes our integrated strength, our entire organization in China is setting its sights on further expanding its scope by taking full advantage of its wealth of IT-related businesses and Supply Chain Management (SCM), and is energetically promoting transactions utilizing its logistics functions.

Through Sumitomo Corp. (China) Holding Ltd. we will also expand our investments in various local businesses that contribute to the achievements of each of our offices in China.

Net Sales



Total Assets

