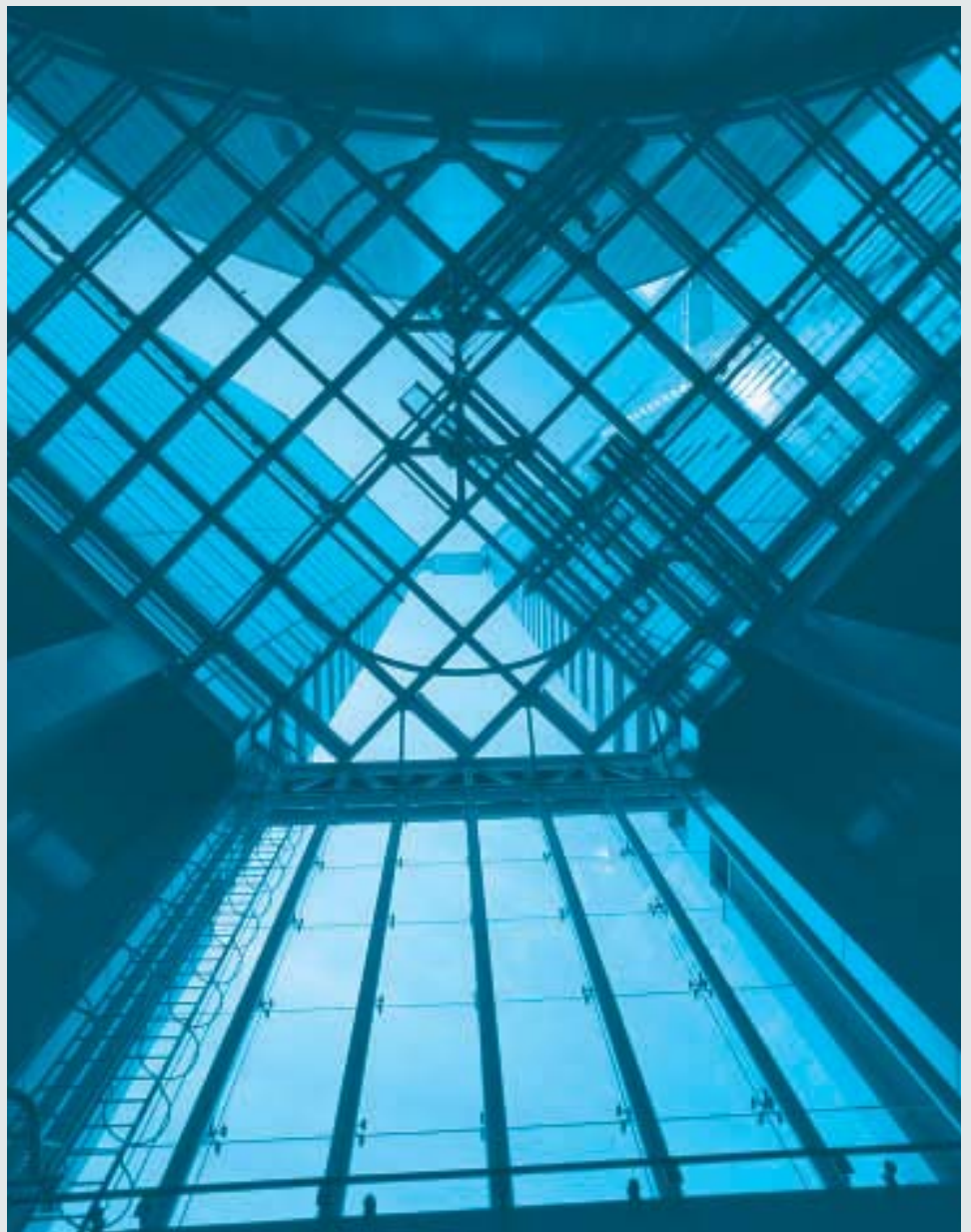


# Overview of Operations

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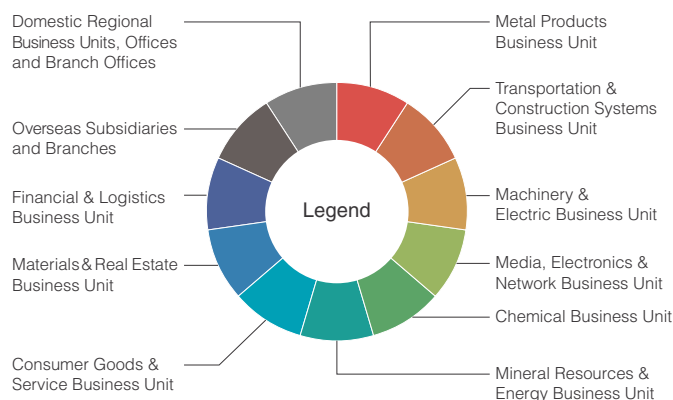
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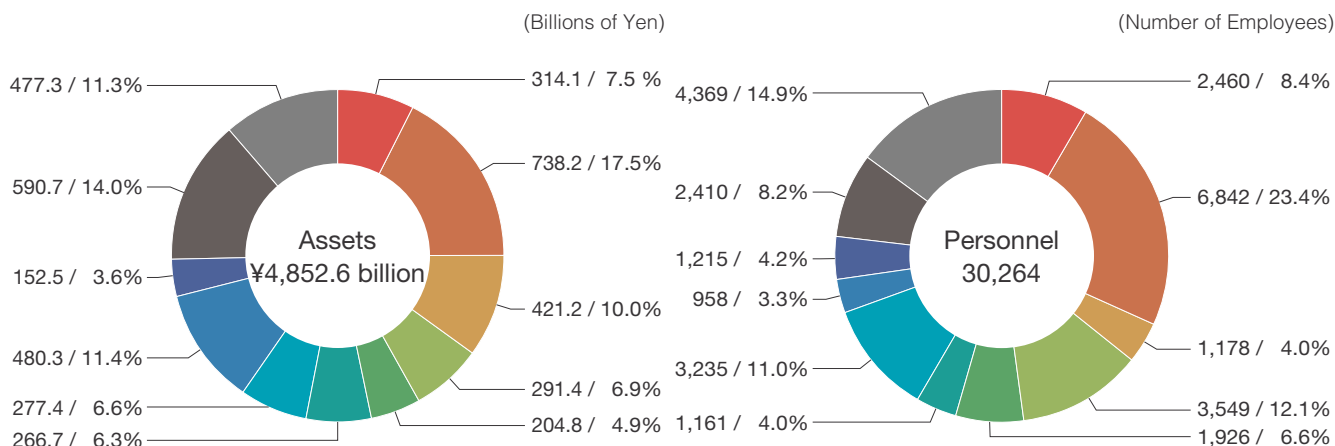
# A Glance at Performance by Business Unit

In April 2001, we launched our two-year management plan, the "Step Up Plan." The most important theme of this plan is the drastic expansion of our earning base through strategic allocation of our management resources. Our consolidated net income for the first year of the plan ended March 31, 2002 was ¥45.2 billion, which exceeded our original budget of ¥45.0 billion. All Business Units achieved profit.

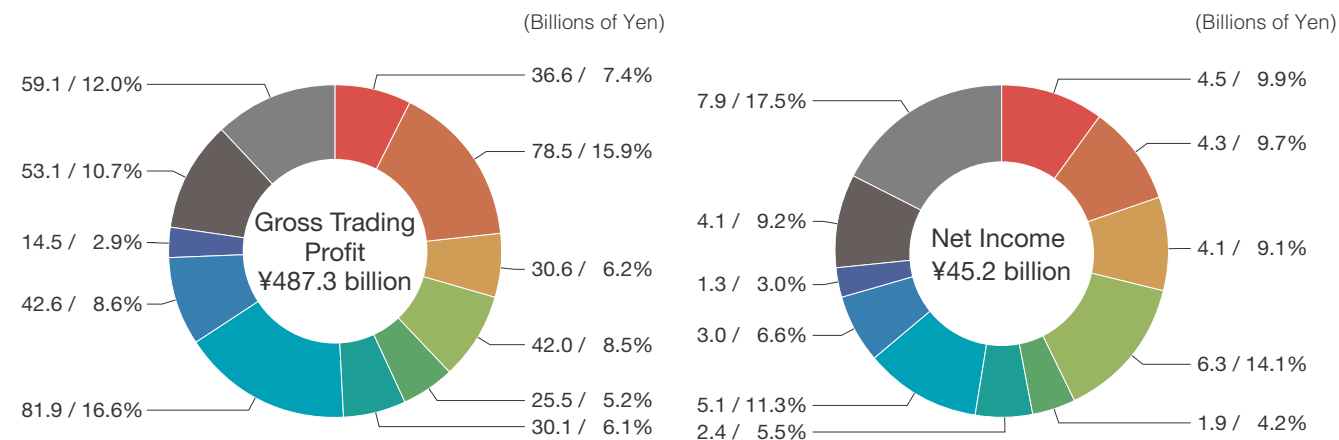
We continue to aggressively replace low-return assets with high-return assets and further expand our earning base to achieve a consolidated net income of ¥55.0 billion in the current year ending March 31, 2003.



## INPUT per Business Unit (Year ended March 31, 2002)



## OUTPUT per Business Unit (Year ended March 31, 2002)



■ Outline for performance per Business Unit (For the years ended March 31, 2002, 2001)

(Billions of Yen)

		Assets	Gross Trading Profit	Net Income
Metal Products Business Unit	2001	332.0	35.7	3.3
	2002	314.1	36.6	4.5
Transportation & Construction Systems Business Unit	2001	660.5	73.0	2.6
	2002	738.2	78.5	4.3
Machinery & Electric Business Unit	2001	440.1	26.5	△6.0
	2002	421.2	30.6	4.1
Media, Electronics & Network Business Unit	2001	361.3	49.5	15.4
	2002	291.4	42.0	6.3
Chemical Business Unit	2001	225.0	28.9	2.9
	2002	204.8	25.5	1.9
Mineral Resources & Energy Business Unit	2001	252.1	30.1	△7.1
	2002	266.7	30.1	2.4
Consumer Goods & Service Business Unit	2001	269.3	77.9	3.0
	2002	277.4	81.9	5.1
Materials & Real Estate Business Unit	2001	524.8	37.0	△3.7
	2002	480.3	42.6	3.0
Financial & Logistics Business Unit	2001	114.5	13.4	1.3
	2002	152.5	14.5	1.3
Domestic Regional Business Units, Offices and Branch Offices	2001	706.0	55.7	2.6
	2002	590.7	53.1	4.1
Overseas Subsidiaries and Branches	2001	482.9	60.9	6.0
	2002	477.3	59.1	7.9

# METAL PRODUCTS BUSINESS UNIT

The Metal Products Business Unit has been engaged in domestic and international transactions of steel and non-ferrous metal products, processing and other related metals business leveraging our “integrated corporate strength” and adhering to our “customer-centered” strategy. We have been developing our business by closely responding to customer needs, including setting up a customer-oriented “Metal Products for Automotive Industries Division,” in addition to the divisions by product.

## OPERATING ENVIRONMENT

With continued stagnant domestic steel demand, the operating environment in fiscal year 2001 remained extremely tough with a historical high level of excess inventory until the calendar year end. Steel exports from Japan were sluggish in the first half of the fiscal year, affected by the IT recession in the U.S., especially for our main markets in Asia. Despite this, demand showed signs of recovery in the second half of the fiscal year. In contrast with steel exports, demand for steel pipes and plates for the energy industry has been relatively favorable throughout the fiscal year. Industry consolidation has further progressed against the backdrop of worldwide oversupply, characterized by business integration and alliances among domestic and international steel manufacturing companies, as well as the consolidation of steel divisions among Japanese trading companies.

## STRATEGIES

Under the severe business environment, the Metal Products Business Unit is aiming to reinforce its earning power by enhancing its capabilities from a customer point of view.

We created the Metal Products for Automotive Industries Division to be more directly responsive to customer needs. This division is designed to have a function as a One Stop Shop of all metal products for the automotive manufacturers, beyond the conventional separation of steel and non-ferrous metal products. Responding to globalization of automobile production, its main role is to provide extensive supply systems on a local basis. We are prepared to meet this need with our “integrated corporate strength,” ensured by a network of steel service centers developed in Asia and North America. In Asia, we further reinforced our competitive position by acquiring four steel service centers, as well as other facilities, from Nomura Trading Holdings.

In the oil and gas pipe business, we are supplying comprehensive support services to oil and natural gas companies worldwide through “TIMS”(Tubular Information Management System), our

proprietary online Supply Chain Management (SCM) system for steel pipes. TIMS is an innovative system which not only supplies steel pipes, but also provides comprehensive support for inventory management, from the processing, inspection, transportation and repair at the resource development site. This TIMS management system is recognized as a most effective scheme among customers worldwide.

In our aluminum business, we are ranked at the top of the industry by handling 100,000 tons of aluminum sheet for cans per year. Our integrated processing system ranges from procurement of aluminum ingots manufactured in our overseas aluminum smelting facility to aluminum can stock. A subsidiary, Summit Aluminum Ltd. is engaged in the aluminum recycling business in Japan.

We are also focusing on developing new services. SC Grainger Co., Ltd. developed a web site, MonotaRO.com, which began operation in November 2001. It allows customers to search approximately 500,000 MRO (maintenance, repair and operating) materials used in plants, such as machinery tool items. During 2002, it plans to expand the number of items to 1 million, and offer online procurement of MROs. This one-stop service has a lot of potential, as it will take advantage of e-commerce to search for a wide range of specialized products and materials.

### ■ Organization

Planning & Administration Dept., Metal Products Business Unit

Metal Products IT Solution Dept.

Iron & Steel Division, No.1

Steel Business Planning & Investment Dept., No.1  
Plate & Steel Structure Dept.  
Railway Products, Forging & Casting Dept.  
Construction Steel Products & Steel Scrap Dept., Tokyo

Iron & Steel Division, No.2

Steel Business Planning & Investment Dept., No.2  
Steel Sheet & Strip International Trade Dept., No.1  
Steel Sheet & Strip International Trade Dept., No.2  
Steel Sheet & Strip International Trade Dept., No.3  
Steel Sheet & Strip Dept.  
Stainless Steel, Wire Rod & Speciality Steel Dept.

Tubular Products Division

Tubular Products International Trade Dept.  
Specialty Tubular Products & Titanium Products Dept.  
Tubular Products Dept.

Metal Products for Automotive Industries Division

Steel Sheet Products & Non-Ferrous Products for Automotive Industries Dept.  
Steel Tubulars for Automotive Industries Dept.  
Wire Rod & Speciality Steel for Automotive Industries Dept.

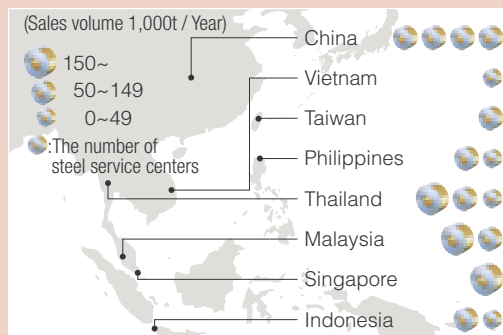
Non-Ferrous Products & Metals Division

Non-Ferrous Products & Metals Development Dept.  
Light Metals & Products Dept.

## BUSINESS TOPICS

### Acquisition of steel business from Nomura Trading Holdings Co., Ltd.

It is indispensable to assure a solid business base to fully utilize our “integrated corporate strength.” We acquired Nomura Trading’s steel export division, which had been developing a wide range of steel business in Asia, as well as nine related subsidiaries. Three of these companies are located in Thailand, four in Vietnam, one in Malaysia and one in China. Before the acquisition, we had already established the No.1 position in the steel sheet and coil business in Asia with 12 steel service centers. This acquisition resulted in a total of 16 steel service centers. The aims of this acquisition include reinforcement of our business in Vietnam, an untapped market up until then, further expansion of our steel sheet business network, increased responsiveness to a wide range of customer needs of large global customers such as automobile manufacturers, and strengthening of our metal processing business, including zinc-coated steel sheets.



Our steel service center business in Asia enjoys the No.1 position.

### Malaysia: Oil pipe CORAL (Cost Reduction Alliance) Project



Steel pipe installation and inventory operation site in Malaysia.

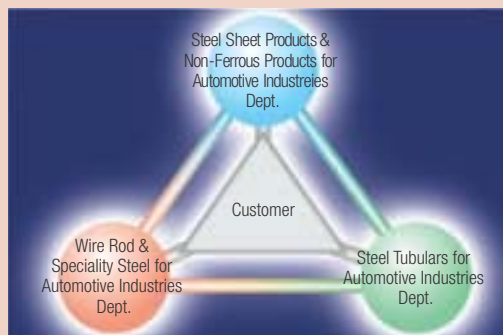
We won the contract to deliver oil pipes, including comprehensive SCM support on a local basis, for two years extendable to a maximum of five years for the CORAL Project. In the project, PETRONAS - CARIGALI and three major petroleum companies in Malaysia will jointly purchase oil pipes. The successful contract award, from which we expect a demand of approximately 50,000 tons of oil pipes, is due to our comprehensive support system using “TIMS,” our proprietary online SCM system for steel pipes.

In addition, our SCM system is highly recognized by oil and gas companies worldwide, as demonstrated by our track record of winning oil pipe contracts in Australia, Chad and North Sea. This is a typical example that illustrates how we expand business by offering comprehensive solutions.

### Metal Products for Automotive Industries Division – Seeking for fully customer-oriented services

To best meet specific customer needs, we established the Metal Products for Automotive Industries Division. This division handles every type of metal products used in automobiles, including steel sheet, wire rod, specialized steel, steel pipe and aluminum products.

Its steel service center processes expanded materials in a customized manner and provides just-in-time (JIT) delivery with expanded facilities in the northern Kanto and Shiga Prefecture areas besides the facility in Hiroshima Prefecture. Also, the division demonstrates the Company’s competitiveness in improving the efficiency of its customer procurement process on customer needs. We contribute to component downsizing with value-added proposals (VA proposals). In addition, we offer SCM services to facilitate the efficient procurement of various components purchased from suppliers worldwide. The division is pursuing new business opportunities to get ahead of the competition by capitalizing on our strength in providing a One Stop Shop for steel and aluminum.



Metal Products for Automotive Industries Division that handles every type of metal products used in automobiles.

# TRANSPORTATION & CONSTRUCTION SYSTEMS BUSINESS UNIT

We are engaged in domestic and international trade of ships, aircraft, railroad transportation systems, automobiles, construction equipment and related components and spare parts, as well as other related business. In each business, we are developing new structures for complex, high value-added transactions by making full use of our comprehensive coordinating capability and consulting capability, in addition to our traditional trading know-how.

## OPERATING ENVIRONMENT

Demand for new ships was relatively strong despite the stagnant shipping market. During 2001, Japanese companies regained the lead from Korea in shipbuilding by receiving 14.55 million gross tons in ship orders, accounting for 40% of worldwide ship orders.

The commercial aviation market has hit the bottom and some gradual recovery is seen after experiencing a sharp reduction in air traffic, which resulted in pushing some airlines with financial weaknesses into liquidation or restructuring, after the September 11, 2001 terrorist attacks in the U.S.

Urban transportation systems have attracted attention worldwide for their environmental contribution and as one solution to traffic congestion. Demand for transportation systems has been growing in the U.S., Taiwan, the Philippines, India and Indonesia.

In addition, overseas railroad projects financed through Japanese government official development assistance (ODA) are conducted on an ongoing basis.

In the automobile business, each automobile manufacturer has been increasingly focusing on enhancing its profitability and brand name by concentrating on core businesses, as the first wave of international consolidation has occurred.

As for construction equipment business in Japan, growth in the rental market is accelerating, making up for the prolonged slump in new equipment sales.

## STRATEGIES

We are developing a system to provide complex and high value-added services in each area, while maintaining our traditional trading capabilities.

In the commercial jetliner market, we were successful in achieving steady growth in our aircraft lease portfolio by carefully selecting high-value aircraft and reputable lessees. Recently, we were awarded multiple lease contracts for a total of 11 aircraft with European first-tier lessees, of which two aircraft have already been

sold in the investors market. In the shipbuilding field, during fiscal year 2001, we won contracts with a total value of more than ¥100 billion for approximately 40 mainly mid-sized bulk carriers and product tankers.

In overseas railroad projects, we, as a member of a Japanese consortium, won the first-ever contract to export the Shinkansen, Japan's bullet train, to Taiwan. We also received a train control & signaling and telecommunication system order for a Delhi subway construction project in India, which is on yen-loan financed by the Japanese government (ODA).

In the automobile industry, in addition to our traditional trading business, we are supplying basic services to meet a wide range of industry requirements, such as development and delivery of production facilities and equipment, development and production of OEM parts, and investment in and management support for overseas automobile manufacturing plants. We also act as a distributor in overseas markets. We are striving to expand business by providing high value-added specialized financial, logistics and system services in addition to our basic services.

In the construction equipment industry, we will strengthen our rental business in the domestic market and used construction equipment business, which is an expanding market around the world. On the other hand, we are starting a project to support logistics for overseas plants of Komatsu Ltd. We will also work with Kobelco Construction Machinery Co., Ltd. to supply components for plants of a joint venture between a local partner and Kobelco in Italy, in which we also have an investment. In this way, we will continue to enhance our integrated services for our clients both in Japan and overseas.

### ■ Organization

Planning & Administration Dept., Transportation & Construction Systems Business Unit

Ship, Aerospace & Transportation Systems Division

Ship & Marine Project Dept.  
Aerospace Dept., No.1  
Aerospace Dept., No.2  
Transportation Project Dept.

Motor Vehicles Business Division

Motor Vehicles Business Planning & Coordination Dept.  
Motor Vehicles Dept., No.1  
Motor Vehicles Dept., No.2  
Motor Vehicles Dept., No.3  
Motor Vehicles Dept., No.4

Construction & Mining Systems Division

Construction Equipment Dept., No.1  
Construction Equipment Dept., No.2  
Construction Equipment Dept., No.3

## BUSINESS TOPICS

### Award of lease contracts with European first-tier lessees

In December 2001, we were awarded a sales and lease back deal for Airbus A320 type aircraft (6 units) with Spanish national flag carrier Iberia, and Boeing B737 type aircraft (5 units) with Danish Maersk Air. Total equipment cost exceeded US\$247 million. This contract was the first major aircraft lease transaction arranged by Japanese lessors in the stagnant market environment following the September 11, 2001 terrorist attacks in the U.S. Both Iberia and Maersk Air have solid reputations for their aircraft maintenance, operation, service and financial strength, exempt from any serious impact from the repercussions of the turmoil in the US aviation market following the terrorist attacks. Our selection of conservative lease deals concentrating on placing aircraft only with reliable lessees kept us away from the effects of the market slump post September 11. We will continue to vigorously step up our core aircraft operating lease business by seeking further high quality opportunities.



Our aircraft operating lease business is growing.

### Developing our automobile business focusing on financial, logistics and system services



Summit Motors Hungary Rt develops the automobile sales business.

Sumisho Auto Leasing Co., Ltd., which is ranked second in the industry in Japan, has been steadily developing business. In addition, one of our subsidiaries, Real Business Incubator Co., Ltd. is developing an innovative financial product for the liquidation of outstanding used car debt and offering it to major used car franchises. We also set up subsidiaries providing automobile credit services worldwide. These companies have become industry leaders in many countries, including Indonesia and Slovenia.

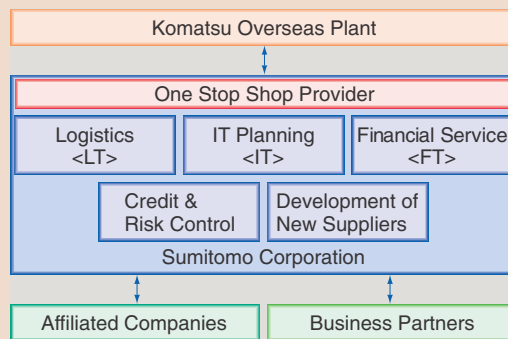
We work with the logistics subsidiary of Nissan Motor Co., Ltd., which Nissan spun off in July 2001. Through an alliance with this leading automobile logistics company, we will focus on making automobile distribution more efficient, open and active.

Our in-house developed ordering system is used by automobile manufacturers such as BMW Japan. In our business overseas, we started sales of a financial support system for car dealers, which was originally developed by our subsidiary in Hungary for its own use.

### Integrated logistics service for Komatsu to start

Komatsu Ltd., one of our major construction equipment business clients, decided to outsource component procurement function for construction equipment production in their overseas plants as a series of their business strategy to expand their global production and enhance their international competitiveness. In order to meet such needs, we set up a logistics business account for Komatsu to be launched toward autumn of 2002, jointly with our Logistics & Insurance Division. We are preparing a system to offer our integrated services, which will enable us to respond quickly and efficiently to a variety of situations by capitalizing on our logistics technology (LT), information technology (IT) and financial technology (FT).

Although Komatsu's current logistics outsourcing is targeted mainly for plants in North America and Europe, it is expected to expand it to plants in other regions, including Asia, where we will focus on new opportunities. We will also aim to obtain logistics outsourcing business for other domestic and overseas manufactures with the expertise to be gained from this project.



Our function in the logistics business.

# MACHINERY & ELECTRIC BUSINESS UNIT

Fully utilizing domestic and international networks, the Machinery & Electric Business Unit is engaged in a wide range of infrastructure development business including power generation, telecommunications facilities, water and sewage, natural gas-related projects and pipelines by project participation, investment and finance. The unit is also strengthening its role and function as a leader and organizer in new and innovative area of business, such as biotechnology, clean energy and IT (information technology).

## OPERATING ENVIRONMENT

The environment for domestic infrastructure facilities business continues to be very challenging due to sluggish domestic demand and declining domestic production by Japanese manufacturers, which are generally increasing production facilities overseas. On the other hand, our relatively new areas of business, such as biotechnology, clean energy and IT solutions are still expected to continually expand.

In our business overseas, the infrastructure development business in Asia and Middle East markets, mainly in power generation and natural gas-related areas, has shown signs of recovery, and private-sector projects, primarily financed by foreign investment funds started to become active along with conventional public-sector projects.

## STRATEGIES

In our international business, which is mainly focused on infrastructure projects in developing countries, we are focusing on private-sector business and projects through project participation, investment and finance in addition to Japanese Government-supported projects, such as ODA (Official Development Assistance), Public Export Credit, and Government-guaranteed Projects.

A typical example of our project participation in business is a power plant project in Vietnam coordinated through a consortium we have formed with EDF (Electricite de France) and the Tokyo Electric Power Company, Incorporated. The project involves the construction and operation of a 715-megawatt power plant in Phu My region in south Vietnam. The consortium will construct and operate the plant and sell electricity generated there to EVN (Electricity of Vietnam) for 20 years, at which time the plant will be transferred to EVN, the government organization.

Another example of this business is a 25-year US\$3 billion water supply and electric power BOT (Build, Operate, Transfer) project in Al Jubayl in the east of Saudi Arabia. The project involves the construction of a desalination plant, a 2,000-megawatt power generator designed to take advantage of the plant's wasted heat and steam and a 400-kilometer pipeline to transport the desalinated drinking water to Riyadh, the capital of Saudi Arabia. We have the experience and know-how to plan and organize this kind of large-scale BOT project, including provision of related finance structure arrangements and risk management. In Information & Telecommunication projects, we are actively seeking for an alliance with system integrators from around the world to strengthen capability to match new customer needs in addition to existing full turnkey business of information and telecommunication systems.

As for new area businesses, we are focusing on three specific areas: biotechnology to target "tailor-made medicine," clean energy, such as "solar energy," as well as "fuel cell" and "on-site power generation systems" and IT as "basic industry infrastructure for 21st century industries." We have been especially active in the biotechnology industry, in which we have been supporting drug discovery in pharmaceutical and biotechnology companies with hardware and software through SC BioSciences Corporation.

We will continue to focus on the joint development of cutting-edge technologies for analyzing genes and proteins through alliances with biotechnology venture companies in Japan, Europe and the U.S. In 2001, we founded the "Summit Biotechnology Fund" (¥10 billion) jointly with Summit Pharmaceuticals International.

### ■ Organization

Planning & Administration Dept., Machinery & Electric Business Unit

#### Machinery & Electric Systems Division

Machinery & Systems Dept.  
Facilities & Systems Dept.  
Information & Electric Systems Dept.

#### Project Development Division

Plant & Project Dept.  
Project Development Dept.  
Industrial and Infrastructural Project Dept.

#### Power Project Division

Power Project Dept., No.1  
Power Project Dept., No.2  
Power Project Dept., No.3  
Power Project Dept., No.4

#### Information & Telecommunication Project Division

Information & Telecommunication Project Dept., No.1  
Information & Telecommunication Project Dept., No.2



## BUSINESS TOPICS

### Won a contract for the power generator facility in Malaysia

Recently in Malaysia, where the economy has been growing substantially compared to other Southeast Asian countries, the role of IPPs (independent power producers) and IPP developers in the country's power generation business has increased due to liberalization and deregulation of the electric power market. Construction of large-scale power generation facilities in the country is becoming urgent as the electricity supply tightens over growing demand.

In October 2000, we won a ¥20 billion contract to supply a 350-megawatt power generator (to be manufactured by General Electric) to SKS Ventures Sdn. Bhd., a leading IPP developer in Malaysia. The project, which is recognized as the most promising project to deal with the anticipated shortage of electricity around 2003 to 2004, will be completed in March 2003.

We aim to expand the number of orders for large-scale projects overseas by appealing our track record and offering optimal solutions.



The PRAI combined-cycle power station under construction in Malaysia.

### Blue Stream Project – Black Sea Gas Pipeline Project



Installation site of offshore gas pipelines that run across the Black Sea.

Together with other Japanese trading companies, we participated in the Black Sea Gas Pipeline Project of Blue Stream Pipeline Company, B.V., which is a gas pipeline joint venture between two major gas companies, Gazprom in Russia and ENI in Italy.

In November 1999, the consortium of the three Japanese trading companies, together with Italian and French companies, won a US\$1.7 billion contract for a pipeline compressor station construction project from Blue Stream. The consortium has already delivered 310,000 tons of special pipes and its related materials worth US\$390 million, by utilizing Japanese official export credit facilities. The project includes laying down two offshore pipelines across approximately 390 km of the Black Sea from Dzhubga in the Russian Federation to Samsun in the Republic of Turkey, and constructing the related compressor station on the Russian coast of the Black Sea. The first pipeline is scheduled for operation in August 2002, and the second one in May 2003.

### Mobile telephone business in Mongolia – The first full-scale private investment by a Japanese company

In 1995, we established a joint venture, MobiCom Corporation, with KDDI and NEWCOM Co., a Mongolian communication consulting company. We hold a 44.44% stake in MobiCom. MobiCom began operation in 1996. KDDI is in charge of technical support, and we are in charge of procurement of system equipment for mobile telephone communication and operation of MobiCom. Since MobiCom adopted the GSM system which is a de facto of mobile telephone standard and also introduced pre-paid cards for payment, MobiCom's subscribers increased beyond expectations to 160,000 subscribers which represents 80% of the current market in Mongolia. In addition to mobile telephone, MobiCom provides a wide range of services, including mobile Internet, fixed wireless telephone and satellite telephone. MobiCom aims to become a comprehensive telecommunication company leading the information and communication field in Mongolia.



MobiCom Corporation, with 80% of the mobile phone market share in Mongolia.

# MEDIA, ELECTRONICS & NETWORK BUSINESS UNIT

Our business covers a broad range of media and communications areas, from cable TV and satellite broadcasting to supplying content, as well as sales and development of telecommunications and electronics equipment and related components, systems and devices. We are strengthening our infrastructure and content business to maximize the synergy of our hardware and software products and to take advantage of the current growth in broadband communications services and the rapid convergence of broadcasting and communications.

## OPERATING ENVIRONMENT

During 2001, the information field was very challenging, characterized by the difficulties major telecommunications carriers experienced in their international business and excess inventory resulted from stagnant sales of mobile hand-sets. On the other hand, a growing number of ADSL and cable TV subscribers suggests the beginning of full-scale broadband penetration. Another example of continued progress in communication integration is the initiation of CS Digital broadcasting via the 110° east longitude communications satellite, which began operation in the spring of 2002 to take advantage of the digital broadcasting market.

The market for infrastructure and content to support high-speed, high-capacity, and interactive content delivery services has been vibrant due to growing demand. Corporate IT investments have been robust seen in server sales growth of 15% compared with the same period in the previous year, and investment in core corporate IT systems were also very positive.

In the electronics field, demand recovered as shipping of core components such as semi-conductors and LCDs (liquid crystal displays) increased. Despite this, manufacturers in Japan, the U.S. and Europe have accelerated transferring production to China to cope with intensified global competition.

## STRATEGIES

With Jupiter Telecommunications Co., Ltd., Japan's largest cable TV multiple system operator (MSO), we have expanded our business area from cable TV to cable telephony and to high-speed Internet access services utilizing Jupiter's cable TV network as a powerful infrastructure for broadband technology. We have formed a competitive media group focused around Jupiter Telecommunications, composed of Jupiter Programming Co., Ltd., an MCO, or multi-channel programming satellite broadcasting

operator; @NetHome Co., Ltd., a provider of high-speed Internet access service and content via broadband; and SkyPerfecTV!, a satellite broadcasting company. We will continue to develop our content business to match growing broadband service needs.

On the other hand, we will enhance our broadband support network-related business mainly through three core companies, Sumisho Computer Systems Corporation, Sumisho Electronics Co., Ltd. and SC ComTex Inc. In our Internet business, we expanded the focus of Lycos Japan to broadband and mobile portals. We also set up AlphaBridge Corporation, an automatic digital content delivery and storage company. We aim to build a successful integrated content delivery platform based on these two companies. In e-commerce, we are elaborating profitable business models in collaboration with other business units, mainly in BtoB areas, and assuring profitability by partnering with major companies in Japan.

In electronics, we are focusing on expansion of fabless EMS (Electronics Manufacturing Service) operation, expansion of business in China and entrance into new high-growth opportunities. In EMS, we are expanding our international procurement organization (IPO) services for electronic components, and aiming at assembly of large scaled printed circuit boards for printers, cameras and mobile telephones. In China, we established Sumitronics (Shanghai) Co., Ltd. and are promoting post-processing of LCDs with local partners. We are also developing business of next-generation displays such as LCDs and plasma modules and their related products.

### ■ Organization

Planning & Administration Dept., Media, Electronics & Network Business Unit

e-Business Dept.

Media Division

Visual Media Dept.  
CATV & Satellite Dept.

Network Division

Information & Telecommunications Dept.  
Internet Dept.  
Network Systems Dept.

Electronics Division

Electronics Dept.  
Electronic Materials & Equipment Dept.

## BUSINESS TOPICS

### Jupiter Telecommunications and Jupiter Programming – Synergy of infrastructure and content

Jupiter Telecommunications Co., Ltd. is offering high-speed Internet access and cable telephone communication services in addition to its basic multi-channel broadcasting service via cable TV. The number of subscribers to either of these services approximately totals 1,360,000 as of the end of March 2002 and is growing. Jupiter Telecommunications was awarded “Operator of the Year” from “Multichannel News International,” an international broadcasting industry magazine, for its contribution as a leader of the cable TV industry in Japan.

Jupiter Programming Co., Ltd. manages 11 broadcasting stations, a total of 14 channels. It enjoys a high market share with efficient management using an integrated MCO (multi-channel operator) system. It also boasts superior content through alliances with leading media companies in Japan and overseas, and a successful 24-hour TV shopping company.

Jupiter Programming posted its first profit in fiscal year 2001 and is further strengthening its earning base.



Meguro Broadcast Center of Jupiter Programming Co., Ltd.

### AlphaBridge Corporation – Automatic digital content delivery and storage service



Partners' content which was downloaded into PC  
Copyright © Shogakukan Inc. 2002  
Doraemon © FUJIKO PRO

AlphaBridge Corporation, jointly created by the Company, NEC Corporation and Microsoft Corporation, as well as other companies, has launched Japan's first integrated digital content delivery and storage service which combines company-developed patent pending automatic delivery and storage management technologies via ADSL, cable TV and fiber optic infrastructure. AlphaBridge will provide a wide range of content, including newspapers and magazines, catalogs, educational programs and securities transactions through alliances with major Japanese content producers, such as newspapers, publishers, catalog retailers and securities companies. With AlphaBridge's free software, users can download movie content from suppliers. When a supplier updates its content, AlphaBridge will automatically deliver the new information to the users to be stored in their computer hard disks. The service is scheduled to be launched in October 2002, and is expected to have 50,000 users by the end of 2002.

### Sumitronics – A group of specialized trading companies providing an effective SCM of electronic devices

Sumitronics Corporation is providing Supply Chain Management (SCM), which consolidates and manages a series of processes, ranging from ordering components to services for delivery of those components as well as inventory, by integrating various functions such as logistics technology (LT), information technology (IT) and financial technology (FT). Also, the group is developing fabless electronics manufacturing services (EMS) from designing, testing of prototype, components procurement to production of electronics modules.

The group, first incorporated in 1988 in Singapore, expanded its business in China, Hong Kong, Taiwan, Southeast Asia and the U.S. It established a presence back here in Japan in 1999. Through international procurement alliances with more than 500 Japanese and local suppliers and assemblers of printed circuit boards, the group companies offer just-in-time (JIT) delivery of assembled printed circuit boards. In July 2002, Sumitronics (Shanghai) Co., Ltd. was established and is now developing its sales network in China.

Sumitronics' success is based on our “integrated corporate strength.”



The mounting line of electronics devices for Sumitronics, which offers electronics manufacturing services.

# CHEMICAL BUSINESS UNIT

We handle raw materials and products for inorganic and specialty chemicals, pharmaceuticals, agricultural chemicals, biotechnology-related materials and services, and plastics, plastic products and organic chemicals, as well as their related businesses. We created the Life Science Division in fiscal year 2001, which enables us to become more specialized in the life science field while making use of our “integrated corporate strength.”

## OPERATING ENVIRONMENT

In the inorganic and specialty chemicals business, there has been a growing need for a total delivery system using Supply Chain Management (SCM) for various new materials and basic ingredients for the semi-conductor and electronic industries. Also, the importance of comprehensive logistics for inorganic bulk goods, including construction of storage depots, has been increasing.

In the life science-related field, as the competition for genomic drug discovery efforts for personalized medication has been intensifying, pharmaceutical companies began actively outsourcing research, development and production to enhance their efficiency. Concurrently, a number of promising biotechnology ventures have been growing in Japan, the U.S. and Europe. In the medical field, computerization of medical systems, such as the introduction of electronic medical charts and electronic billing has rapidly progressed. In the agricultural chemicals field, under continued regrouping of global manufacturers, we have seen increased opportunities to leverage our global marketing expertise to develop new business such as development of new products.

In plastics and organic chemicals field, we have found new opportunities to expand our trade mainly with China, despite weakened domestic demand due to an economic slowdown and a trend in production sites being relocated to Asia.

## STRATEGIES

In the Inorganic & Specialty Chemicals Division, we aim to further expand our sulfuric acid and sulfur business as a core business, through Interacid Trading S.A., our Swiss-based subsidiary.

For business related to hydrogen gas, which is considered as a next-generation energy, we, in cooperation with Sumisho Air Water Co., Ltd., are negotiating with the related government agencies to expand the business. We are also promoting new businesses, including materials for electronic components and other IT-related areas jointly with Sumitomo Shoji Chemicals Co., Ltd., our wholly owned subsidiary.

In the Life Science Division, our biotechnology-related drug discovery support business through Summit Pharmaceuticals International Corporation, our major owned subsidiary, has remained robust. In addition, we are expanding our activity for arranging research and development collaborations and new drug licenses for Japanese pharmaceutical companies, mainly in the genomic drug discovery area. We are also searching for promising venture firms worldwide through Summit Biotechnology Fund. Furthermore, we are actively looking at new business opportunities, including an investment in APIUS, which handles electronic medical charts. In the agricultural chemicals field, we will expand our profitability base by setting up distribution companies for agricultural chemicals in China, Argentina and the Czech Republic, as well as focusing on development of new products.

In the Plastics and Organic Chemicals Division, two of our subsidiaries, Sumitomo Shoji Plastics Co., Ltd. and Sumisho Plaschem Co., Ltd. have merged in July 2002, to enhance profitability through the synergy of their operations and cost reductions.

In our overseas business, while consolidating or withdrawing from joint ventures showing poor results, we will expand production capacity of a packaging film manufacturer in Wuxi in China, which has been reporting favorable results. We will also focus on development of new business mainly in China’s Huadong region, where the joint venture company has a strong sales network. In the organic chemicals field, we intend to enhance profitability by strengthening our abilities in raw material procurement, sales and logistics for our aromatic series, through an alliance with Sumitomo Shoji Chemicals Co., Ltd.

### ■ Organization

Planning & Administration Dept., Chemical Business Unit

Inorganic & Specialty Chemicals Division

Inorganic Chemicals Dept., No.1  
Inorganic Chemicals Dept., No.2  
Specialty Chemicals Dept.

Life Science Division

Medical Science Dept.  
AgriScience Dept.

Plastics & Organic Chemicals Division

Plastics Dept.  
Organic Chemicals Dept.

## BUSINESS TOPICS

### APIUS – Aiming to provide high quality and efficient medical services by introducing EMR systems

Medical services in the 21st century need to be reliable and convenient, under a high quality and efficient system that respects patient needs, choices and satisfaction. In response to these needs, to promote the use of information technology (IT) in the medical field is crucial. We recently started an electronic medical record (EMR) business through APIUS, as a 27.7 % shareholder as of the end of March 2002, in which we invested in November 2000. An introduction of EMR system brings a wide range of merits to the medical field. For example,

- 1) patients can easily understand medical explanations by physicians,
- 2) hospitals can manage patient records in an integrated system and can easily share such data among medical specialists,
- 3) consumption of medical supplies, such as X-ray film, can be reduced.

First, we developed a web-based EMR system that supports intra-hospital networks, and are promoting the system mainly to small and medium size hospitals and clinics. The EMR system developed by APIUS has already been introduced to 30 medical institutions, as of the end of April 2002. Remarkably, its introduction to 17 clinics in Bousou area, Chiba Prefecture, was supported by the Ministry of Economy, Trade and Industry through a national project called “Initiative to develop a network focused on medical services, capitalizing on advanced information technology.” The introduction was budgeted in 2001.

In addition, the Ministry of Health, Labour and Welfare, is also supporting the promotion of IT in the medical field and announced its basic strategy at the end of 2001 in “Health Information Strategy 21” with its goal to realize 60% of all medical institutions to introduce the EMR system by fiscal year 2006. APIUS raised ¥315 million in new funds, in March 2002, by allocating new shares to seven companies, including venture capital companies, to start a full-scale EMR business.

In the near future, in parallel to the penetration of broadband communication networks, we will grow our application service provider (ASP) business and develop a medical information network among hospitals, clinics, drugstores, testing laboratories and pharmaceutical companies. Based on this system, we aim to make hospital management more efficient with precise medical treatment. We also aim to make it more convenient for patients by enhancing the quality of medical services from the perspective of a patient.



Electronic medical records are expected to become popular in medical treatment.



An electronic medical record which can save various patient data.

### Wuxi KuanYu Packing Material Co., Ltd. – Expansion of BOPP packaging film production in China



Wuxi KuanYu Packing Material Co., Ltd., a BOPP packaging film manufacturer, shows a good performance in China.

Wuxi KuanYu Packing Material Co., Ltd., incorporated in Wuxi Jiangsu Province in China in 1993, is a joint venture with a local partner, in which Sumitomo Corporation Group invested 25%. The company specializes in manufacturing BOPP film (biaxially oriented polypropylene film) used mainly for packaging food and tobacco.

As there is a strong demand for packaging film in China, where there is a shortage of paper materials, the company made a profit in the first year of production. Sales have been growing since then due to product quality and a sales network developed across the Huadong region. For fiscal year 2001, the company reported sales of 162 million yuan (approximately ¥2,534 million) and net income of 42 million yuan (approximately ¥644 million), recording the highest profit since its establishment. Anticipating further growth, we built an additional facility and started to expand production in August 2002. Production capacity after the completion of the new facility jumped up to 40,000 tons/year from 15,000 tons/year. The company's capital was increased to US\$20.70 million and our net investment to US\$46.00 million following the capital increase for the new facility.

# MINERAL RESOURCES & ENERGY BUSINESS UNIT

We are engaged in the development, export/import and domestic sales of coal, iron ore, ferrous and non-ferrous raw materials, petroleum, natural gas, liquefied natural gas (LNG) and liquefied petroleum gas (LPG). We also handle raw materials, semi-manufactured goods and finished products related to petroleum, LPG, batteries and carbon electrodes. In addition, we promote domestic electricity and energy-related business. In 2001, LNG Japan Corporation, which is expected to lead our future LNG business, started operation.

## OPERATING ENVIRONMENT

During 2001, coking coal and iron ore imports have decreased due to reduced production of domestic crude steel, while imports of steam coal have increased due to the growing number of coal-fired power plants. Coal prices surged worldwide due to a shortage of electricity in the U.S. Consequently, earnings in the coal businesses, in which we invest, were significantly improved. The non-ferrous metal market was stagnant due to the worldwide economic slowdown, including the IT slump. In the energy business, prices of petroleum and LPG were very volatile due to the sluggish economy, social uncertainties caused by the terrorist attacks in the U.S. and an unusually warm winter. In the domestic LPG industry, there is an accelerating trend to regroup to survive. In the electricity field, new power suppliers are entering into the market following the deregulation of domestic electricity retailing. In the battery field, environmental consideration highlighted the future potential of electric vehicle (hybrid cars) batteries and solar battery, in addition to the batteries for traditional consumer use.

## STRATEGIES

LNG is expected to become a next-generation energy source because it produces no SO<sub>x</sub> and less CO<sub>2</sub> when compared with petroleum and coal. LNG Japan Corporation, established in October 2001 and equally owned by Sumitomo Corporation and Nissho Iwai Corporation has been steadily expanding its business, aiming to leap to the top position in the industry. Making full use of our “integrated corporate strength” in cooperation with our several Business Units such as Metal Products, Machinery & Electric, Transportation & Construction Systems and Financial & Logistics, LNG Japan Corporation is further upgrading its entire business. Its business ranges from investment in natural gas field development, LNG transportation and import agency services.

In the LPG business, in April 2002, we reestablished Sumisho Ekika Gas Kaisha, Ltd. as a new nationwide LPG wholesaler by merging the

former Sumisho Ekika Gas Kaisha, Ltd. and Sumisho Kyueki Gas Co., Ltd. In the future, we will further integrate both Sumisho Daiichi Sekiyu Gas Kaisha, Ltd. and new Sumisho Ekika Gas to make our LPG business realize more efficiencies and economies of scale. We intend to expand and upgrade the LPG business and list the company in the future.

In the coal business, we decided to invest in the Hail Creek Project, a new coking coal development project in Australia, which is scheduled to begin operation at the end of 2003. Also, we established Bussan Sumisho Carbon Energy Co., Ltd., an alliance with Mitsui & Co., Ltd., to increase the volume of steam coal we handle for industrial use.

For the Batu Hijau copper and gold mine development project in Indonesia, we are reinforcing its financial strength and expanding its mill capacity as well as undertaking further cost reductions to cope with the severe environment due to sluggish copper prices.

In the nuclear power business, we concluded an agency agreement with Heathgate Resources Pty. Ltd., a uranium concentrate supplier in Australia. We are currently promoting sales activities for electric power companies.

In energy retailing, Summit Energy Corporation, a licensed Power Producer and Supplier (PPS), jointly established with Sumitomo Joint Electric Power Co., Ltd. started electricity retailing in western Japan. We will strengthen our electricity retailing business by securing our own power generating source and increasing purchases of surplus power and will expand the business to all area of Japan.

The Rare-Metals and Battery Department, newly established to focus on the growing and diverse demands for rechargeable battery, aims to provide comprehensive services covering from raw materials to finished products by investing in raw materials (nickel, cobalt, silicon and others) and securing a stable supply of these raw materials to produce semi-manufactured goods.

### ■ Organization

Planning & Administration Dept., Mineral Resources & Energy Business Unit

#### Mineral Resources Division

Coal Dept.  
Iron Ore & Ferroalloys Dept.  
Batu Hijau Project Dept.  
Non-Ferrous Metals & Raw Materials Dept.  
Rare-Metals & Battery Dept.

#### Energy Division, No.1

Oil & Gas Planning and Development Dept.  
Petroleum Refining & Supply Dept.  
Petroleum Marketing Dept.  
Liquefied Petroleum Gas Dept.

#### Energy Division, No.2

Energy Business & Project Development Dept.  
Nuclear Energy Dept.  
Carbon Dept.

## BUSINESS TOPICS

### LNG Japan – Aiming to leap to the top position in the LNG business

LNG Japan Corporation, a specialized LNG company established in October 2001 by Sumitomo Corporation and Nissho Iwai Corporation, has made a significant contribution to our consolidated earnings beginning its first year. The annual handling volume of the company's LNG import agency service was 15 million tons, which represented 27% share of the market. In order to secure sustainable resources for the long-term, the company is working on the acquisitions upstream in gas fields, as a development investment business. Also, in the ship holding and operation business, in cooperation with other companies including Mitsui O.S.K. Lines, Ltd., the company holds and operates 14 LNG ships for transportation between Indonesia and Japan by utilizing Sumitomo Corporation's "integrated corporate strength."

LNG Japan Corporation will expand our business scope through investments in new gas fields, LNG spot trading, and enter into new markets such as China and India, as well as expanding our client base such as electric power companies and utility gas companies. Further, we are actively involved in projects for GTL (Gas to Liquids) and DME (Di-Methyl Ether), a new eco-friendly energy.



The LNG carrier "Senshu Maru."

### The Oaky Creek coal mine project, one of the most productive coal mines in Australia



A plant on Oaky Creek coal mine.

MIM Holdings Limited, a major mining company in Australia has a 75% interest in Oaky Creek coal mine and is responsible for its operation. We have held a 15% interest in this joint venture since we offered capital in 1997, when MIM decided to increase production.

As supply of good quality coking coal, including the one from Oaky Creek is limited worldwide, we can expect coal prices of that kind to be stable long-term. We intend to maintain stable earnings by securing high quality coking coal with a competitive advantage added through MIM's competent management and excellent cost control.

We are also searching for another high quality project, besides Oaky Creek and Hail Creek, to stabilize our supply capacity.

### Wind Power Generation

We are aggressively promoting the wind power generation business to respond to clean/new energy needs.

Our new wind firm in Sakata City, Yamagata Prefecture, which is Japan's first wind power generating system on the ocean, was selected as one of the final candidates for Tohoku Electric Power's electricity purchase plan in the year 2002.

This project will start construction following expected government approval at the end of September 2002 for subsidies to support companies promoting new energy.

We will install eight 2,000 kW wind power generators, largest unit size in Japan, resulting in a 16,000 kW wind firm producing 40 million kWh of electricity per year.

Total cost for the system is around ¥3 billion. The full-scale operation will start in January 2004.

We are currently monitoring wind conditions at about 30 places throughout Japan with plans to commercialize them as they become feasible.

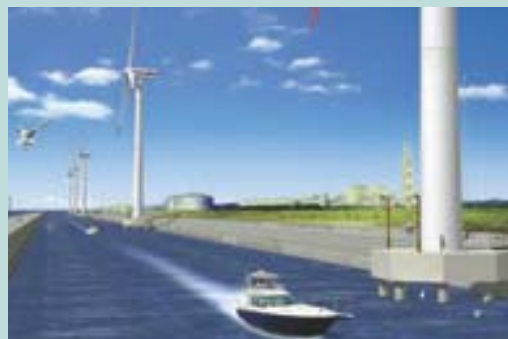


Image of our new wind power plant in Sakata City.

# CONSUMER GOODS & SERVICE BUSINESS UNIT

Of all of our Business Units, we are positioned closest to consumers, whose spending accounts for approximately 60% of Japan's GDP. Our Unit comprises the Foodstuff & Fertilizer Division and the Textile Division, which handle raw materials and products including foodstuff and textiles on a global basis, and the Retail & Consumer Service Division, involved in many retail businesses directly connected to consumers. Covering from upstream to downstream, we are active in international trade and in businesses in which we take on a principle role.

## OPERATING ENVIRONMENT

In the current deflationary environment, we cannot expect an expansion in domestic consumption. Instead, we have seen various opportunities in structural changes in consumer needs and behavior, such as: "polarization of consumption," in which preferences for lower-priced goods and high grade goods exist at the same time; aging society with a declining birthrate; diversified methods of purchase driven by prevailing e-commerce and; increased emphasis on safety caused by malpractice in the food industry, such as BSE scares and false representation of meat products. The distribution industry has seen increasing consolidation and restructuring, triggered by bankruptcies of large retailers amidst ongoing deregulation, such as the Large-Scale Retail Stores Location Law. In addition, this trend was further accelerated as more foreign companies have entered into the market on a full scale. We intend to create various businesses arising from these significant structural changes.

## STRATEGIES

Our primary basic strategy is "enhancing our presence in each industry by expanding our business base." In March 2002, we agreed to enter into strategic alliance involving capital relationship with The Seiyu, Ltd. and Wal-Mart Stores, Inc., which helps us to further expand our supermarket business mainly in the Tokyo Metropolitan area. We also merged the drugstore business of Asahi Medix Co., Ltd., acquired in 2000, and the drugstore business of Sumisho Retail Stores Inc., into one company, Sumisho Drugstores, Inc. This resulted in an expansion of the drugstore chain that provides prescription drug services. On the other hand, we sold the DPE business of Asahi Medix, which was not adding value to our existing business.

In our food business, Yoshihara Oil Mill, Ltd., in which we are the largest shareholder, became a member of the top group in the edible oil industry through an alliance agreement with Honen Ajinomoto Oil Mills, Inc. This alliance covers production, logistics and materi-

als procurement for those companies preparing for the scheduled management integration in 2003. We expect increased transactions arising from this development.

The second basic strategy is "flexible and speedy response to the changes, such as consumer trends." In our Retail & Consumer Service Division, we are enhancing the efficiency of the business by proactively leveraging our intelligence, expertise and human resources accumulated through our consumer business. With the expansion of the base of our operating companies, we can expect synergy in the existing businesses in other business divisions. Furthermore, we established Coach Japan, Inc. as a new business model embodying various opportunities generated from the change in consumer trends, aiming at full-fledged entry in the fashion brand business. Also, we established Sumisho Hermes General Service Inc., which provides comprehensive support services to direct marketing companies by capitalizing on the infrastructure of Otto-Sumisho Inc.

In the food-related business, we are distributing SMITHFIELD PORK produced in the U.S. through an integrated logistics system that enables us to follow pork from the plants in North Carolina, U.S. to the shelves of supermarkets in Japan.

In the textile-related area, we are upgrading our planning and proposal capabilities to our clients and building a vertically integrated value chain covering from materials to finished products. In addition to clothing, we are also strengthening other areas, including bed linen, nightwear and industrial materials.

We are consistently promoting the business by leveraging the "integrated corporate strength," our core competence.

## ■ Organization

Planning & Administration Dept., Consumer Goods & Service Business Unit

### Foodstuff & Fertilizer Division

Planning & Development Dept. (Foodstuff & Fertilizer)  
Fertilizer Dept.  
Meat & Meat Products Dept.  
Grain Dept.  
Feedstuff Dept.  
Oils & Fats Dept.  
Food Dept., No.1  
Food Dept., No.2  
Sweeteners & Starch Dept.  
Fruits & Vegetables Dept.

### Textile Division

Apparel Dept., No1, Tokyo  
Apparel Dept., No2, Tokyo

### Retail & Consumer Service Division

Retail & Consumer Service Dept.  
Direct Marketing Dept.  
Jewelry Dept.



## BUSINESS TOPICS

### Strategic alliance with Seiyu and Wal-Mart – Expanding our supermarket business base

In March 2002, Sumitomo Corporation, Seiyu and Wal-Mart Stores created strategic alliance involving capital relationship. This is the first step in developing a long-term partnership, capitalizing on the expertise, experience and human resource strengths of the three companies. The management team intends to create opportunities and develop new businesses in the Japanese retail market.

The alliance will allow Wal-Mart to take advantage of the human resources and market knowledge of the Seiyu group, which operates approximately 400 stores in Japan, and will allow Seiyu to introduce Wal-Mart's sophisticated merchandise procurement system and management expertise on low cost operation backed by IT. This alliance expanded our business opportunities with Seiyu and Wal-Mart, and gave further momentum to our overall supermarket business expansion plan.



In March 2002, the Company, Seiyu and Wal-Mart Stores announced strategic alliance involving capital relationship.

### Establishment of Coach Japan, Inc. – Launch of full-fledged brand business



A flagship store of Coach Japan, Inc. in Ginza, Tokyo opened in May 2002.

In August 2001, we established Coach Japan, Inc., equally owned by the Company and Coach, Inc., to develop our first full-fledged brand business. With the help of Coach's strong brand power from 60 years of its history, we intend to significantly expand the world-renowned brand business in Japan, where the brand is supported by our fine-meshed distribution strategy and competent marketing system. We will make full use of our existing infrastructure, such as our various networks, financing and credit capability, and sales expertise accumulated from store and direct marketing operations. The new company took over the existing stores from Mitsukoshi's subsidiary, which had been distributing the Coach brand products in Japan. The total number of stores is expected to expand to around 100 in a year or so, including the first flagship store opened in May 2002 in Ginza. The Coach brand is serving the needs of a wide range of people with products that optimize the beauty of the materials used through excellent craftsmanship focused to give them durability and functionality as well. In Japan, it has already established a firm footing among imported handbag and accessory brands.

### Sumitex Hong Kong Limited – Solid reputation in supplying clothing to the U.S.

Sumitex Hong Kong Limited, our subsidiary, engaged in sales of textile products, received the "Vendor of the Year" for years 2000 and 2001, from Target, a major discount store chain in the U.S.

Sumitex Hong Kong has sold casual clothing to Target for many years and earned a reputation for the quality of the goods they have supplied. In addition, they created a flexible and timely supply system for the goods, making full use of electronic data interchange (EDI) transactions provided by Atlanta office of Sumitomo Corporation of America. Sumitex Hong Kong also demonstrated its cost competitiveness by winning Target's international bid for denim jeans for the year 2002. The comprehensive support of Sumitex Hong Kong contributed significantly to the improvement of sales, profit and inventory turnover rate at Target, which resulted in the award. Currently, the supply base of Sumitex Hong Kong ranges from Asia, Jordan and Gulf countries in Middle East, and Africa to Central America.



Sumitex Hong Kong was awarded the "Vendor of the Year" for the years 2000 and 2001 from Target, a major US discount store.

# MATERIALS & REAL ESTATE BUSINESS UNIT

In the materials business, we are handling various materials related to daily life and our surroundings, including timber, paper pulp, used paper and tires, as well as cement, in which we have the largest trading share among Japanese trading companies. In the construction and real estate business, we are focusing on three areas for our core revenue base: rental, sales and fee-based operations. Recently, we have been strengthening our “management service for commercial facilities,” which focuses on creating maximum value of locations.

## OPERATING ENVIRONMENT

In the materials business, demand for cement and building materials remained weak due to sluggish construction demand, including housing starts. In contrast to overall weak construction demand, in the Tokyo Metropolitan area, demand for ready-mixed concrete and cement was vibrant, bolstered by large-scale redevelopment projects. Demand for pulp also declined. Leading manufacturers have not seen satisfactory results yet, with reduced production for paper and cardboard production. Despite this, demand for used paper was favorable with exports growing mainly to China, which is increasing used paper imports. Strong tire exports, mainly to the U.S. market, were supported by firm demand.

In the construction and real estate business, the sales of condominiums in the Tokyo Metropolitan area during 2001 were robust, exceeding 80,000 units for three consecutive years, due to continued low interest rates and housing tax breaks. However, now there is a substantial difference in the types of property sales with the market between favorable sales in competitive properties and stagnant sales in less competitive properties. In the office rental business in Tokyo Metropolitan area, there is a prevailing trend toward smaller space and lower rent partly influenced by sluggish business in IT-related companies and foreign companies leaving the area. Future expectations are less than optimistic as the market will experience large-scale tenant relocation expected in 2003 due to the completion of many large-scale projects.

## STRATEGIES

In the cement trading business, in which we have the No.1 position among Japanese trading companies, we aim to further upgrade our integrated sales system by reinforcing sales of ready-mixed concrete with a distribution and logistics system, as well as strengthening cement sales to ready-mixed concrete manufacturers. In our timber business, we have secured a stable supply source of Russian timber

through firm relationships with local partners in Russia. We intend to expand sales of timber products as well as raw wood using timber processing plants in Russia. We are implementing reforestation projects in Chile, Ecuador, and South Africa to maintain resources for pulp.

For used paper, we formed Green Group, by forming partnerships with medium and small size paper recycling firms, to expand and stabilize our used paper business network beyond our yard operation subsidiaries. In the tire business, we became the second largest distributor of private-brand tires in the U.S. We intend to further expand our share through our newly established comprehensive logistics center in Memphis, Tennessee.

The main areas of our operation in construction and real estate business are rental (office buildings and others), sales (condominiums, housing plots and housing), and fee-based services (consulting and management). Based on these three core areas, we are working to expand our business by adjusting the balance between these asset-, turnover-, and know-how-based operations in response to changes in the economic environment. In the office space rental business, we are focusing on making management more efficient by introducing area management—managing a group of buildings. In the housing sales business, we are focusing on super-high-rise condominiums and large-scale condominiums development projects which are still showing favorable demand. We are also offering viable consulting on usage of vacant land after a plant has been closed, such as creating proposals for optimal site use and inviting prospective operators of residential or commercial properties. In complex commercial facility management, we manage 13 facilities throughout Japan, representing 410,000 m<sup>2</sup> of floor space and 645 tenants as of March 2002. We also opened “Harumi Island Triton Square” in Harumi in Tokyo’s Chuo Ward in April 2001 and “mewe Hashimoto” located in front of Hashimoto station in Sagami-hara City of Kanagawa Prefecture in September 2001.

### ■ Organization

Planning & Administration Dept., Materials & Real Estate Business Unit

#### Materials & Supplies Division

Materials & Supplies Development Dept.  
Cement Dept.  
Lumber & Building Materials Dept.  
Woodchip Dept.  
Pulp & Paper Dept.  
Tire Dept.

#### Construction & Real Estate Division

Construction & Real Estate Planning Dept.  
Building & Overseas Real Estate Business Dept.  
Housing Development Dept.  
Real Estate Business Dept., Sendai  
Urban Development & Construction Dept.

General Construction Development & Coordination Dept.

## BUSINESS TOPICS

### Established Sumisho & Mitsuibussan Kenzai Co., Ltd. and secured the No.1 position in the industry

In February 2002, Sumisho Building Materials Co., Ltd. and the Building Materials Group Division of Mitsui & Co., Ltd. were integrated to create Sumisho & Mitsuibussan Kenzai Co., Ltd., in which our building materials business secured the No.1 position in the industry with approximately ¥300 billion sales. This merger will benefit each party because of the expected economies of scale and cost reduction.

Taking advantage of this momentum, we will promote alliances with leading building materials wholesalers and will strengthen relationships with housing-related product manufacturers. We aim to expand our business base and play a leading role in the industry in alliance with these companies. We will integrate our strength in research, financing, planning, development and logistics to become a comprehensive building materials trading company and better serve our customers by making full use of our “integrated corporate strength” throughout the whole value chain.

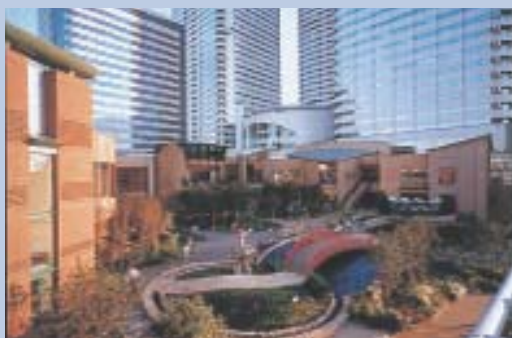


Sumisho & Mitsuibussan Kenzai Co., Ltd. constructed the structural frame of a wooden school building (multipurpose hall).

### Strengthening management services for complex commercial facilities



"Daiba little Hong Kong" in the Island Mall, the DECKS Tokyo Beach.



"Flower Terrace" in the center of Harumi Island Triton Square.

In recent years, various commercial facilities have been developed, mainly in the Tokyo Metropolitan and Kinki areas. A typical example, is the new business and shopping district, the Tokyo Waterfront City, which has been transformed into a popular leisure area boasting 37.5 million visitors annually. The first of such projects was DECKS Tokyo Beach, which we, as a member of the project, developed in Daiba, Tokyo, in July 1996. We also opened an additional annex Island Mall in December 2000. The facility has been experiencing stable growth. We also opened “Harumi Island Triton Square,” a redevelopment project in Tokyo’s Harumi area in April 2001 and opened “mewe Hashimoto” in front of Hashimoto station in Sagami-hara City in September 2001. In Osaka, we opened Universal City Walk Osaka at the entrance of Universal Studios Japan in March 2001, where the number of first-year visitors reached 6.5 million, exceeding the original 5 million estimate.

We are promoting business by developing suitable commercial facilities for certain locations and their environment by following a basic strategy of “maximizing location value.” This includes our management service, which continues even after the site opens. From the planning stage, we are providing management know-how, ranging from recruitment of shops with strong sales potential and promotion activities for a whole facility to providing business guidance to the tenants.

Experience with retail tenants is an important factor in creating an attractive facility. We are inviting competent retailers to the facility by capitalizing on our “integrated corporate strength,” our core competence, in cooperation with our Consumer Goods and Service Business Unit, which has access to many retailers in Japan and overseas.

We are also considering playing a role as an incubator to foster retailers with growth potential, eventually incorporating them into our consumer business. We intend to expand our business range by identifying various business opportunities obtained through these management services.

# FINANCIAL & LOGISTICS BUSINESS UNIT

In our Financial & Logistics Business Unit, we have financial-related businesses, logistics, insurance and overseas industrial park-related businesses. We are aiming at unique business development, utilizing “integrated corporate strength,” our core competence, by identifying opportunities to initiate new businesses resulting from the progress of information technology (IT), financial technology (FT), and logistics technology (LT).

## OPERATING ENVIRONMENT

Deregulation in the financial industry and progress in financial and information technology have accelerated diversification of investment products and generated new business opportunities. In this trend, the new financial products, such as emissions allowances and weather derivatives are traded just like other commodities.

In the logistics field, the concept of logistics has changed from traditional logistics as operation to logistics as a strategy to enhance efficiency of business by making use of LT. At the same time, the superiority of Supply Chain Management (SCM) utilizing IT has become an important factor in successful logistics business.

As Japanese companies are aggressively transferring production to overseas countries, particularly in Asia, infrastructure to support this in those countries, has become an important issue. Overseas industrial parks are now recognized as an optimal solution for foreign companies setting up production facilities.

## STRATEGIES

Our Unit focuses on finance and logistics and contributes to our “integrated corporate strength” by developing its own profitable financial and logistics business, as well as supporting development of new business models for other Business Units.

In our financial business, we are engaged in trading of commodity derivatives, one of our core sources of profit, and are expanding the range of products we trade, from precious metals such as gold, silver and platinum; to energy products including crude oil and gasoline; and agricultural products such as corns and soy beans. Furthermore, we have initiated trading in various OTC (Over The Counter) derivatives, including carbon credit and weather derivatives, by leveraging our experience in commodity trading and risk management. Our know-how is also utilized in alternative investments through Sumisho Capital Management Co., an investment advisory company. As a new business initiative, following the for-

mation of an approximately ¥10 billion biotechnology venture fund in July 2001, we established Summit Biotech Inc. in the U.S. west coast in March 2002, as a base to search for new investment opportunities in biotechnology ventures and to expand biotechnology business.

In logistics business, we intend to upgrade our logistics services by organically integrating our domestic and overseas distribution center business, our internationally integrated complex transportation business and overseas industrial park business. In the domestic logistics business, we have a good track record for obtaining complex logistics contracts for various consumer goods. Recently, we won a contract to conduct a full logistics service in the food business, in which the most advanced logistics technology is required. In our overseas regional logistics strategy, we regard China as an important region and will develop logistics network covering all of China, with a focus on Huapei, Huadong and Huanan. In response to the rapidly growing demand for small cargo delivery in China, we set up a joint venture with Dazhong Transportation (Group) Co., Ltd. and Sagawa Express Co., Ltd., which will become the first company providing door-to-door delivery service in China. In our overseas industrial park business, we are taking a comprehensive approach in Indonesia, the Philippines, Vietnam and China. In these countries, we are involved in development and marketing of industrial parks, as well as in various support services such as logistics for tenant companies.

### ■ Organization

Planning & Administration Dept., Financial & Logistics Business Unit

#### Financial Service Division

Financial Business Dept.  
Investment Development Dept.  
Commodity Business Dept.

#### Logistics & Insurance Division

Logistics Business Development Dept.  
Logistics Dept., Tokyo  
International Traffic Dept.  
Logistics Business Dept.  
Insurance Business Dept.  
Overseas Industrial Park Dept.

## BUSINESS TOPICS

### Sumisho Capital Management Co. – Providing alternative investment products

In Japan, like in the U.S., institutional investor needs for alternative investment products, besides traditional investment products such as stocks and bonds, has been increasing. Alternative investment products are well suited to complement traditional products, because of appealing features such as low correlation with stock and bond prices, and relatively high return against risk. We established Sumisho Capital Management Co., an investment advisor in May 2000 and have been actively involved in this field. A combination of managed futures and hedge funds is highly respected by institutional investors for its high return with relatively low risk. This has contributed to the steady increase of entrusted assets from pension funds. Our strength lies in our expertise accumulated over many years in trading interest rate, foreign exchange and commodities. This is complemented by our worldwide information network and risk management capability capitalizing on our own position as an integrated trading company.



Sumisho Capital Management Co. staff is talking about the FOREX market forecast in a major radio economic program on air.

### Won a contract for full logistics services in the food industry



The logistics center in Urayasu boasts a complete temperature control system with freezing, chilled and room temperature settings.

In October 2001, we obtained a full contract to provide logistics services in Chiba Prefecture and the surrounding areas for the only nationwide delicatessen chain in Japan, Wakana Co., Ltd., a subsidiary of The Seiyu, Ltd. This is our first third-party logistics (3PL) agreement in the food industry. Since February 2002, we have provided logistics services to 95 shops, all of which are Wakana's clients, through All Trans Co., Ltd., our wholly owned 3PL subsidiary.

In the logistics service for the food industry, which is known to demand advanced and prompt logistics technology, All Trans Co., Ltd. has a competitive advantage by having its own food distribution center (approximately 3,000 m<sup>2</sup>) in Urayasu City in Chiba Prefecture. This center is equipped with temperature control system with freezing, chilled and room temperature settings, operating 24 hours, 365 days a year.

We have experience in 3PL business in a variety of fields, including apparel, jewelry, cosmetics and sundry goods. Based on this development with Wakana, we will concentrate our efforts on the food industry, which is the largest market for the 3PL business.

### The second phase development of Thang Long Industrial Park in Vietnam

We provide “industrial parks fully equipped with hard and soft infrastructure” to companies expanding overseas operation, through a specialized department created in this Unit. Thang Long Industrial Park, located in the northern area of Hanoi (our investment ratio is 58%, total development area is 121 ha, construction completed in June 2000) is on sale and has been well received. Major Japanese companies, including Canon Inc., Denso Corporation and Sumitomo Bakelite Co., Ltd. are already renting space in the Park. Also, construction of a logistics center located in the Park completed in the middle of 2002. This center enables us to offer a comprehensive logistics services covering transportation of production facilities, procurement of raw materials and transportation of finished products.

We launched the second phase of development (total development area: 78 ha, scheduled to be completed in 2004) to expand the existing area. This project is also a typical example that demonstrates our “integrated corporate strength” to provide total support to clients.



Thang Long Industrial Park in Vietnam, in which many Japanese companies already became tenants.

# Domestic Offices and Subsidiaries

## Overseas Offices and Subsidiaries

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 corporate 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.

### Domestic Offices and Subsidiaries

#### Kansai Regional Business Unit

Sumisho Montblanc Co., Ltd., is one of the unique subsidiaries of our Unit covering Kansai and Shikoku regions.

It is engaged in planning, production and sales of various types of uniforms, including montblanc brand sanitary gowns for the medical and food industries and Careermate brand uniforms for the service industry. Our “integrated corporate strength” starts with procurement of raw materials and extends to product sales. Sumisho Montblanc capitalized on this strength as the main manufacturer, including planning and logistics, for the various uniforms worn by the staff of Universal Studios Japan™.

Sumisho Montblanc, with ISO14001 certification, is aiming to become an environment conscious manufacturer through developing uniforms made from recycled textile of plastic bottles (certified for eco-labeling).



The staff in Universal Studios Japan wearing uniforms manufactured by Sumisho Montblanc, the USJ's main uniform supplier. Universal elements and Universal Studios Japan™ & ©Universal Studios. All rights reserved. CR02-1167

We also set up a China Committee within our Kansai Regional Business Unit to strengthen our China business, particularly textiles, metals, machinery and electric and logistics. In our Machinery & Electric Systems Department, Osaka, we delivered the facilities for the “initial assembly production line of cdma one mobile phones” to Hisense Co., Ltd. (Qingdao), a major Chinese home electronics companies. It has a production capacity of 500,000 units per year.

China’s mobile phone market is a growing area with more than 2 million new users every month. We deliver products to Hisense Co., Ltd., authorized by the Chinese government to produce cdma-type mobile phone terminals.

#### Chubu Regional Business Unit

Central Japan (Chubu) International Airport (CJIA), located 35 km south of Nagoya in the waters offshore of Tokoname will open in March 2005 as the third international hub airport in Japan. This project includes the development of access roads and the surrounding area. The total budget of this airport is ¥768 billion, or ¥1,200 billion including related business. Our Unit has already concluded contracts for construction materials, such as steel, ready-mixed concrete, sand and gravel. A consortium of Sumitomo Corporation, Sumitomo Osaka Cement Co., Ltd. and related organizations has been supplying ready-mixed concrete for the airport island since May 2002.

Following the opening of the airport, the “Aichi World Exhibition” will be held in Seto City, Aichi Prefecture, from March to September 2005. Road improvement work in the surrounding area has started. Our Unit is proactively developing businesses in the Chubu region to



Image of Chubu International Airport set to open in March 2005. Total investment is expected to be ¥768 billion. It is a large government project along with Aichi World Exhibition that will be held from March to September 2005.

take advantage of these two major 21st century projects and to fulfill the growing needs of important industries with a base in the area, such as the automobile industry.

### Kyushu-Okinawa Regional Business Unit

The Kyushu region economy suffered from an even worse recession than the national average due to reduced public works spending combined with a slump in the semiconductor industry. General demand in our traditional businesses has been weak. Despite this, our Kyushu-Okinawa Regional Business Unit actively invested in venture businesses to develop new business for the future. To obtain contracts for related businesses and future IPOs, we have invested in venture companies, including Okinawa Digital Center Inc. (an archive business), Coara Inc. (business providing ADSL service), Marine Giken Co., Ltd. (lake purifying system) and i-Business Center Corporation (promoting an electric market place, called “Nextr@de” jointly with Fukuoka Prefecture).

We won a contract for comprehensive logistics to the construction site, including cargo booking in Europe and transportation of nearly 100,000 materials and equipment items for the construction of two luxury cruise ships ordered by P&O Princess Cruises (UK), and constructed by Mitsubishi Heavy Industries, Ltd./Nagasaki Shipyard and Machinery Works. The project, jointly with our Logistics Department in Osaka and Sumitrans (Europe) Corporation, has been steadily progressing. This is a new type of business capitalizing on trading company strengths, including overseas networks, advanced total logistics (LT), IT and total planning and coordination.



The launching ceremony of Diamond Princess under construction at Mitsubishi Heavy Industries.



“Smithfield Pork” and “All Natural Pork” brands are popular in Japan.

### Overseas Offices and Subsidiaries

#### America

The recovery of the U.S. economy from the September 11 terrorist attacks, following the collapse of IT bubble, came earlier than expected. The U.S. economy seems to have modestly emerged from its slowdown.

To enhance profitability with turnaround, Sumitomo Corporation of America (SCOA) will reorganize and reinforce its sales divisions and affiliated companies, expand its business lines and improve the efficiency of our administrative departments with a new ERP system. In the Tubular Products Division, our proposals for comprehensive management of a total supply chain utilizing the Company-developed inventory and delivery management IT software “TIMS” (Tubular Information Management System) for Oil Country Tubular Goods (OCTG) used for oil and gas wells were successfully received by major oil companies such as Exxon-Mobil and BP. This resulted in OCTG Supply Chain Management contracts for major oil development projects in western Africa as well as the North Sea. Our IT, logistics and procurement expertise and teamwork among our business units in North America, Africa, Europe and Japan brought us business.

It is the seventh year since our Foodstuff & Fertilizer Division entered into an agreement with Smithfield, the world’s largest pork processing company, for an exclusive sales right in Japan. We built an integrated supply system for pork that meets Japanese consumer tastes and safety requirements. This supply system is bolstered by our various capabilities, including marketing, logistics and data analysis, under the policy of “Farm to Fork.” We also started supplying products of Creekstone Farms Inc. utilizing this system. Creekstone beef is renowned for its high quality.



SCEU became the first Japanese company to be a Main Partner of the Association for Foreign Investment (AFI) in the Czech Republic. SCEU works with the Association in attracting foreign capital to the country. This was a photo taken in the award ceremony "INVESTOR OF THE YEAR 2001."

## Europe

As the single currency (Euro) began to circulate from January 2002 in 12 countries, formation of the world's largest single market is nearing completion with accelerated deregulation of tax systems and other measures, following the formation of monetary union. Responding to this economic backdrop, Sumitomo Corporation Europe (SCEU) is implementing the strategies of each Business Unit of the Tokyo Headquarters. In addition to increasing profitability through expanding and upgrading existing businesses, we are energetically starting new businesses through our comprehensive integrated management system. This system goes beyond individual regions and national borders and fully utilizes our offices in 16 cities in 13 countries in Europe.

We are focusing on companies entering into Central European markets (Poland, the Czech Republic, and Hungary), growing in recent years as a new manufacturing region. We will actively respond to their needs by dynamically arranging task forces, including specialists from relevant areas, as well as actively investing in businesses in the region.

We are also aggressively developing and providing Supply Chain Management (SCM) utilizing logistics technology (LT), financial technology (FT) and information technology (IT) to contribute to cost reduction of corporate clients which are manufacturing in Europe. Our efforts have already achieved results for several clients, including Toshiba Carrier UK. We will further expand our business lines by selectively allocating management resources in the European market, where further expansion and revitalization is expected.



Sumitomo Corporation supplied the security check system made by Heimann Systems in Germany, and the boarding bridge made by Shenzhen Cimc - Tianda Airport Support Ltd. in China, in the Xi'an Xianyang International Airport Terminal Expansion Project. This project was conducted with the first application of Special Yen Loan.

## China

The year 2001 was full of events enhancing the global presence of China. In July, China was selected as the host country of the Olympic games to be held in 2008, the APEC Summit Conference was held in Shanghai in October, and a resolution passed allowing China to join the WTO in December. All of these events significantly accelerated a worldwide interest in China.

Each of our offices in China is striving to build an efficient operation that utilizes our "integrated corporate strength" through integrating business management in the north, east and south of China, three major regions of economic activity in the country. In addition, we started strengthening our own logistics capabilities to prepare for future expansion in trading. We aim to significantly expand our business lines with the slogan of "Expand China Business more and more," by increasing transactions with emerging private companies, as well as with existing clients, through making full use of Supply Chain Management (SCM) system.

In our project-related business, we won major contracts, including delivery of large steel pipes for a gas pipeline project to "transport gas in west to east," equipment related to the Beijing subway system and facilities for Xi'an Airport.

We will also continue active investments in various businesses focused on local markets and that contribute to the business of our offices in China.