

# MESSAGE FROM THE PRESIDENT



President and Chief Executive Officer Kenji Miyahara

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

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

## **Business Environment**

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

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

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

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

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

The members of the European Union (EU) are

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

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

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

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

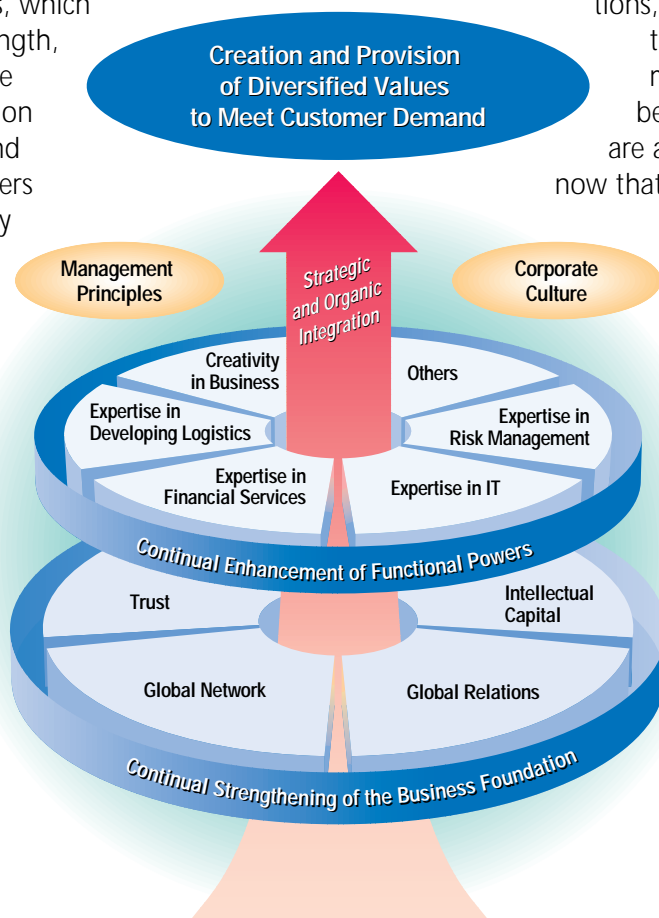
Our core competencies, which we call our integrated strength, lie in our ability to integrate our solid business foundation and variety of advanced and specialized functional powers strategically and organically in a way that meets the diverse needs of our clients and creates new value in ways

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

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

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

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



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

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

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

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

## Completion of the Reform Package

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



### Definitions of "Three Strategic Measures"

- ① **Consolidated Risk Adjusted Return Ratio:**  
 The ratio of consolidated cash-based return (free cash flow = operating profit + depreciation - cash used for investment) to consolidated risk adjusted assets (the sum of (a) advance, inventory, fixed assets, and securities multiplied by each risk weight on the balance sheet and (b) off-balance sheet risk such as market risk).
- ② **Business Base:**  
 The amount of added value generated by the business (operating profit + labor costs + depreciation + interest expenses).
- ③ **Expected Growth Rate:**  
 The rate of increase of the above-mentioned business base.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **● Environmental management**

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

## ● Introduction of the SC Values

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

## ● Copper trading incident

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

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

July 2000



Kenji Miyahara  
President  
and Chief Executive Officer

## SC VALUES

### For Managerial Staff

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

### For Non-Managerial Staff

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