

Message from the President and CEO



In the fiscal year ended March 31, 2002, increased uncertainty overshadowed our business during the latter half of the year. The September 11 terrorist attacks in the U.S. darkened the mood and in Japan, deflation increased due to stagnant demand.

In this unfavorable environment, we achieved a ¥45.2 billion consolidated net income exceeding our original budget of ¥45.0 billion. Further, we are pleased to report that all segments were profitable and over 80% of 720 companies on our consolidated accounts reported profits.

For the fiscal year ending March 31, 2003, we project a consolidated net income target of ¥55.0 billion. This will be a record high.

*Three Strategic Measures

1. **Consolidated Risk-adjusted Return Ratio**
= consolidated free cash flow / consolidated risk-adjusted assets
= (net profit – net depreciable assets investment + depreciation) / (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 business base mentioned above

Step Up Plan

In April 2001, we launched the “Step Up Plan,” our current two-year management plan. Under the previous mid-term management plan, the “Reform Package,” we established a sound financial and earning base by eliminating non-core businesses and expanding core businesses. The Reform Package was successfully completed and the key to success was applying the Three Strategic Measures.* The Step Up Plan is based on continuing and further developing of the Reform Package. We are moving forward

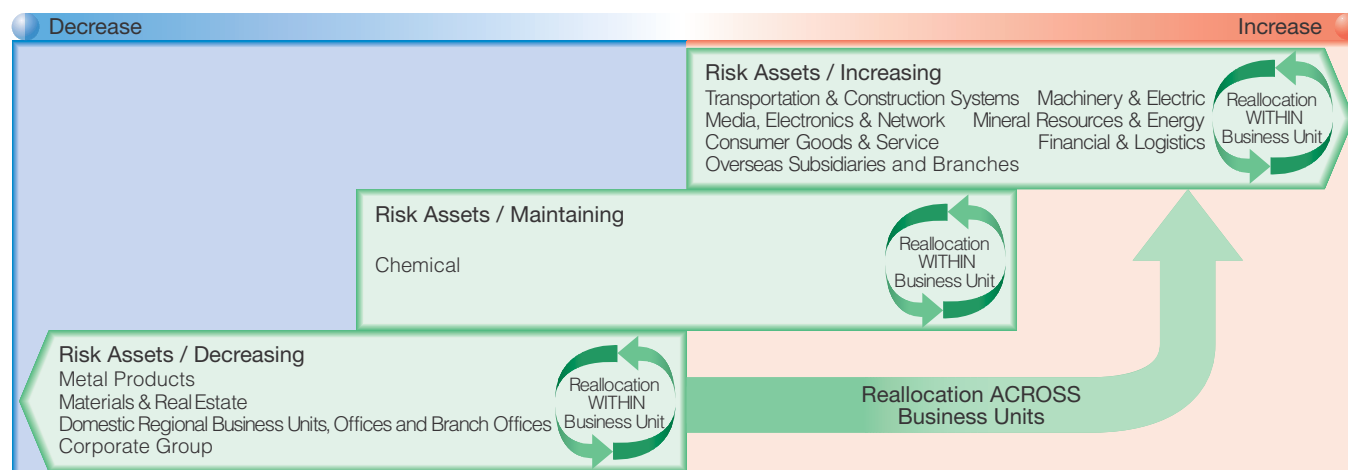
■ Step Up Plan : Step up by allocating corporate resources strategically and by utilizing "integrated corporate strength"

Target	
Consolidated Risk-adjusted Return Ratio = more than 5% after tax (two-year average)	Taking all the actions to expand return, while managing risk assets well-balanced to risk buffers
Two-year aggregate consolidated net income of ¥100 billion	FY2001 Budget ¥45.0 billion → Result ¥45.2 billion 82% of all the consolidated companies made profit in FY2001 (75% in FY2000) Striving to achieve the FY2002 Budget of ¥ 55.0 billion of consolidated net income
Recovery of Consolidated Shareholders' Equity to ¥700 billion	Striving to recover consolidated shareholders' equity to ¥700 billion by the end of FY2002,* by achieving ¥55.0 billion of consolidated net income as budgeted

*Postponed the original plan by one year.

Summary of the Plan	
Drastic expansion of the earning base	Creation and expansion of core businesses based on the Business Portfolio Strategy
	Development of business models leveraging information technology (IT), logistics technology (LT), and financial technology (FT)
	Maximizing sales force by harmonizing product strategy and regional strategy
Further strengthening of the corporate strength	Advancing risk asset management
	Promoting integrated risk management
	Thorough legal compliance
Promoting further efficiency	Further reinforcement of cost competitiveness
	Improvement of business process efficiency
	Enhancing functions with higher productivity in the Corporate Group

■ Risk Asset Management



aiming to increase our corporate value by stepping up to the next stage for further challenges. We also set a quantitative target to achieve a consolidated risk-adjusted return ratio of more than 5% on a two-year average basis. This is just an interim milestone to achieve a risk-adjusted return ratio of 7.5% to cover the shareholders' capital cost. Also, in the context of an uncertain economic environment, we will continue to seek to manage risks associated with business activities (consolidated risk-adjusted assets) by maintaining our financial strength during the Step Up Plan.

The most important theme of the Step Up Plan is rapidly expanding our earning base. We are actively replacing low-return assets with those of higher-return, and strategically allocating management resources. Currently, this process is in good shape and the plan is on track. We will continue to focus on achieving the Step Up Plan.

Infrastructure supporting the Step Up Plan

In the Step Up Plan, we have been actively utilizing our upgraded internal infrastructure of our organization, management and information systems.

We reorganized our business units effective as of April 2001 to further promote autonomous management style of each business unit. The highlight of the organizational change was that we integrated Planning and Administration Departments into each business unit. Key human resources were transferred from the Corporate Group into these new departments. This change enabled prompt decision-making and contributed to more efficient operation. For the Corporate Group, we will further focus on core functions and will proceed with streamlining and strengthening of our earning power by shifting resources to business units.

We have employed a risk control method based upon a quota of business fields as well as geographical regions to minimize concentration of risk exposure to any particular area. We have realized efficient credit risk management with an internal Credit Rating System. We are also working on comprehensive risk management to cope with diverse and increasing business risks, which includes a warning system in the event that a potential risk is evolving.

As the Step Up Plan started, we introduced a new budgeting system consisting of a planning process based on the Three Strategic Measures, in-house capital systems and a reward system for achieving profitability targets. It is essential for each business unit and our management as well to set a plan, execute the plan and make sure it is achieved. This "Plan-Do-See" process is now working.

Also, we organized and developed information infrastructure to support management decision-making by implementing the SIGMA21 Project. It provides management with all the necessary consolidated information to initiate appropriate action in a timely manner.

Development and expansion of core businesses

Let me introduce a couple of examples to show how we create and expand our core businesses.

In the telecommunication industry, Jupiter Telecommunications Co., Ltd., which is providing cable TV, Internet and telephone services, has steadily expanded its business. Jupiter Programming Co., Ltd., a multi-channel operator providing programs for cable TV and satellite broadcasting, has increased its sales through an alliance with Jupiter Telecommunications. As for the Internet, we are developing a web-based electronic medical record (EMR) system that enables medical institutions to share data.

In applying a Supply Chain Management (SCM) system, we supply various electronic components for customer production plans. In addition, we obtained a package contract to conduct total logistics for the food industry, which demands advanced and prompt logistics technology. We also developed a system to conduct optimum inventory management and just-in-time delivery at a theme park, by sharing sales information. We are fully committed to this area.

In the retail industry, The Seiyu, Ltd. of which we are the largest shareholder, Wal-Mart Stores Inc., a major retailer in the U.S., and Sumitomo Corporation agreed on a capital and strategic alliance. In this alliance, Wal-Mart values our outreach and experience in the domestic retail business. Also, we established a joint venture, Coach Japan, Inc., with Coach, Inc. (U.S.), to promote the Coach brand in Japan, offering its high-end bags and accessories. The flagship store was launched this spring in Ginza, Tokyo.

In the growing biotechnology industry, Summit Pharmaceuticals International Corporation, our subsidiary, is developing a support business for drug discovery. SC BioSciences Corporation, handling sales of related equipment, is engaged in developing cutting-edge equipment, mainly in the rapidly growing area of gene and protein analysis. Along with these subsidiaries, we established Summit Biotechnology Fund, a ¥10 billion venture fund which will pursue potential investments and explore business opportunities mainly in the U.S. and Japan.

In nano-technology, widely viewed as a promising technology for this century, we

made an alliance with Carbon Nanotechnologies Inc., in the U.S., which develops and manufactures carbon nano tubes. This is an innovative material with superior conductivity for heat and electricity and with superior durability. We started to expand marketing across various industries in Japan and Asian countries based on this alliance.

We are actively promoting business integration and alliances in particular business areas to improve our earning power by combining our strength with that of other trading companies. In marketing mobile telephones and telephone lines, we expanded the range of business by setting up MS Communications Co., Ltd. by merging our wholly owned subsidiary with that of Mitsubishi Corporation. We also established LNG Japan Corporation, a joint venture with Nissho Iwai Corporation, to get involved on a full-fledged basis in the LNG (liquefied natural gas) import and sales business and in related investment and lending activities. Furthermore, in the building materials marketing area, we consolidated the business into Sumisho & Mitsuibussan Kenzai Co., Ltd. through an alliance with Mitsui & Co., Ltd.

The potential of the Chinese market is huge, particularly after it joined the WTO. We have been watching the market and actively working there. We developed an industrial park in Wuxi, participated in the TCL Group, a major home electric company in China, and launched parcel delivery service in Shanghai. We are prepared and will move further.

It is our “integrated corporate strength,” our core competence, that always drives us to create and expand our core businesses. We are making utmost effort to empower our “integrated corporate strength,” and to strengthen diverse functions in order to maximize our business.

Corporate Governance and Legal Compliance

Compliance is a cornerstone of daily activities and is reflected in development and expansion of core businesses. We have a Corporate Mission Statement, which all officers and employees are required to follow. Among other things, I believe our top priority is to place prime importance on integrity and sound management and to comply with laws and regulations while maintaining the highest ethical standards. We must always conduct our activities in a lawful and fair manner, which will enhance our trust. In addition to promoting this idea, we set up a compliance committee to closely monitor our efforts.

With respect to corporate governance, recognizing the prime importance of enhanc-

ing the efficiency and soundness of our management and of providing transparency, we will strive to build a flexible and efficient management structure. This should fully consider global trends and changes in Japanese company law, and at the same time, build on the positive aspects of Japan's own management culture.

“To achieve prosperity and realize dreams”

I delivered my message that we shall work to further develop Sumitomo Corporation to be a truly “high-performance global company,” at my inauguration last year because it is my desire to develop the Company into a global leader. For that purpose, it is essential to achieve a consolidated risk-adjusted return ratio that covers shareholders' capital cost of 7.5%, by further expanding our earning base.

We are in the era of rapid change. I am convinced such changes always bring us opportunities. Many companies are reforming their business structures by active utilization of outside resources and functions. As business becomes even more international, many companies are expanding globally, which creates opportunities for an integrated trading company like ourselves. We have the resources to satisfy various needs generated in this changing environment with our “integrated corporate strength.” We intend to expand our earning base, managing diverse and complicated risks.

We are fully committed to make the utmost effort to provide value with all respects to stakeholders. We are aiming “to achieve prosperity and realize dreams” of stakeholders by sharing and implementing our Corporate Mission Statement across the Company, as well as strengthening and maximizing our “integrated corporate strength.”

I appreciate your ongoing support.

(As of July, 2002)

A handwritten signature in black ink, appearing to be 'M. Oki', written in a cursive style.

President and CEO