Message from the President

Performance in Fiscal Year 2002 (April 1, 2002 - March 31, 2003)

In fiscal year 2002, a weak Japanese economy and increasing uncertainty in the global economy shadowed our business environment. The gradual recovery of the world economy expected at the start of fiscal year 2002 proved to be disappointing as the situation in Iraq intensified in the second half of the year. In Japan, consumer spending remained sluggish amidst lingering deflation, and public spending was restrained due to tight budgets. Stock prices were on a downtrend throughout the year as a result of uncertainty in international affairs and concerns over the domestic financial system.

In spite of such difficult conditions, we devoted ourselves to globally expanding our earnings base. We thereby achieved ¥496.4 billion in gross trading profit, and ¥9.8 billion in equity in earnings of associated companies, which were both record highs. However, we closed the year with a net income of ¥28.3 billion, as we posted large valuation losses on marketable securities due to the sharp decline in stock prices toward the fiscal year-end, and impairment losses on real estate affected by deflation.

Assessment of the Step Up Plan

I would like to report to you on our achievements under the Step Up Plan, our medium-term management plan spanning fiscal years 2001 and 2002.

While we achieved our profit targets in fiscal year 2001, we came up short of the ¥55 billion target set for net income in fiscal year 2002, primarily because we took large valuation losses on marketable equity securities. As a result, the two-year average of our cash flow-based consolidated risk-adjusted return ratio ended at 4.4% (net income-based ratio: 3.6%) versus our target of 5.0%. We did, however, achieve many of the specific objectives we had set out in order to succeed in the three core areas of the plan: significant expansion of our earnings base, enhancement of corporate strength, and increased efficiency.

Significant expansion of our earnings base

Under the Step Up Plan, we focused on developing business models by leveraging information technology (IT), logistics technology (LT) and financial technology (FT), and concentrated our management resources into strategic business areas while promoting the reallocation of risk-adjusted assets, based upon the Business Portfolio Strategy.

In response to the changing economic environment, consolidation and restructuring are taking place in a range of industries and companies. We swiftly took advantage of these movements, acquiring businesses and forming alliances while drawing on our business foundation as an integrated trading company *(sogo shosha)* with close relationships to a wide variety of industries. The following are some examples of our achievements.

We acquired the steel export business from Nomura Trading Holdings Co., Ltd., and reached a general agreement with Nichimen Corporation regarding the acquisition of their steel products business. We also purchased a construction equipment distributor in the U.S. Additionally, we reinforced our relationships with The Seiyu, Ltd. and Wal-mart Stores, Inc. in supermarket business, and also acquired control of IG Kogyo Co., Ltd., a top manufacturer of metal siding. Sumisho Lease Co., Ltd. and Sumisho Auto Leasing Corporation have initiated strategic business acquisitions as well.

In our steel, electronic components and chemical businesses, we utilized our supply chain management system to respond to the various needs of our clients, providing sales and procurement services on a global basis.

We also laid the foundations for further extension of our business frontiers. In the area of medicine and drug discovery, we have been supporting our clients' research and development activities and providing them with the most advanced equipment. Other ways in which we expanded business frontiers include establishment of bio-venture funds and development of new financial products such as weather derivatives.

In an effort to build alliances with newly emerging leading companies in China, mainly in the private sector, we sent nine delegations of Business Unit heads to China during the Step Up Plan. This has led to the establishment of more than 100 new partnerships and expansion of new businesses with them.

We also worked to reallocate management resources away from businesses which were underperforming in terms of their risk-adjusted return ratio. We scaled down or

The "risk-adjusted return" is a measure of the profitability of a business against the risks involved in it. It is calculated as a fraction whose numerator is the return on the business as measured by the return that it is expected to generate during an accounting period and whose denominator is the value of the maximum losses that could be incurred if all the potential risks were actually to occur during the same period ("risk-adjusted assets").

withdrew from the golf course business, the farming business in the U.S., e-commerce related businesses, and other activities from which sufficient returns or future growth could not be expected.

As a result of these efforts, Basic Profit, (the sum of gross trading profit, selling, general and administrative expenses, interest expenses, net of interest income and dividends multiplied by 58% and combined with net equity in earnings of associated companies), which had been continuously growing since fiscal year 1999, reached ¥62.2 billion in fiscal year 2002. This represents a 43% increase from the ¥43.3 billion posted in fiscal year 2000, prior to implementing the Step Up Plan. I see this as evidence of steady growth in our earnings base.

Further enhancement of corporate strength

As an integrated trading company, the fundamental objective of our activities is to obtain high returns by managing the various risks incurred in a broad array of business areas. It is not an exaggeration to say that risk management is at the core of our business.

To manage risk levels for the Group as a whole, we have quantified risk to the extent possible in categories ranging from credit risk to market risk and business investment risk. We have also been introducing and utilizing risk management infrastructures, which include a credit rating system for counterparties, and criteria for decisions regarding business investment or withdrawal.

At the same time, risks associated with a company's businesses are becoming increasingly diverse. In particular, risks designated as non-measurable, including natural disasters and reputation risk, are difficult to predict or quantify, and may put the company in danger if they materialize. Preventive actions and contingency plans are therefore becoming more important than ever.

Under the Step Up Plan, we reviewed our counter-risk measures company-wide, and restructured risk management frameworks in areas including legal compliance, information security, food safety, and environmental conservation.

We also believe it is essential that all our employees engage in businesses with a higher level of awareness regarding risk and compliance issues, especially in the current business environment in which uncertainty prevails. In other words, our basic stance of being aggressive but cautious has become increasingly important.

While each individual must constantly keep his or her consciousness attuned to risk and compliance issues when carrying out business activities, we as a company have also implemented measures in support of this. For example, we have set up risk case studies and built a database of risk-related information for use by our employees.

Achieving full compliance is another area that top management, including myself, is working hard to ensure meaningful and complete action. In addition, awareness among employees is steadily growing owing to the constant stream of activities promoted by the Legal Compliance Committee.

We are committed to constantly improving risk management and compliance, as there is no end to the progress that can be made in these areas.

Promoting further efficiency

Increasing efficiency is not limited to eliminating waste and cutting costs. It also intends to maximize the use of personnel, time and other resources that are freed to this end, and strengthen earning power.

Under the Step Up Plan, we raised efficiency and productivity by thoroughly reviewing business processes and implementing the SIGMA21 Project, an enterprise resource planning (ERP) system. We also streamlined the Corporate Group in terms of size and cost, by reviewing its business processes, transferring personnel to Business Units and outsourcing routine tasks. As a result of these steps, we restructured the Corporate Group's organization, from six groups to two groups, one office and one department specializing in core functions.

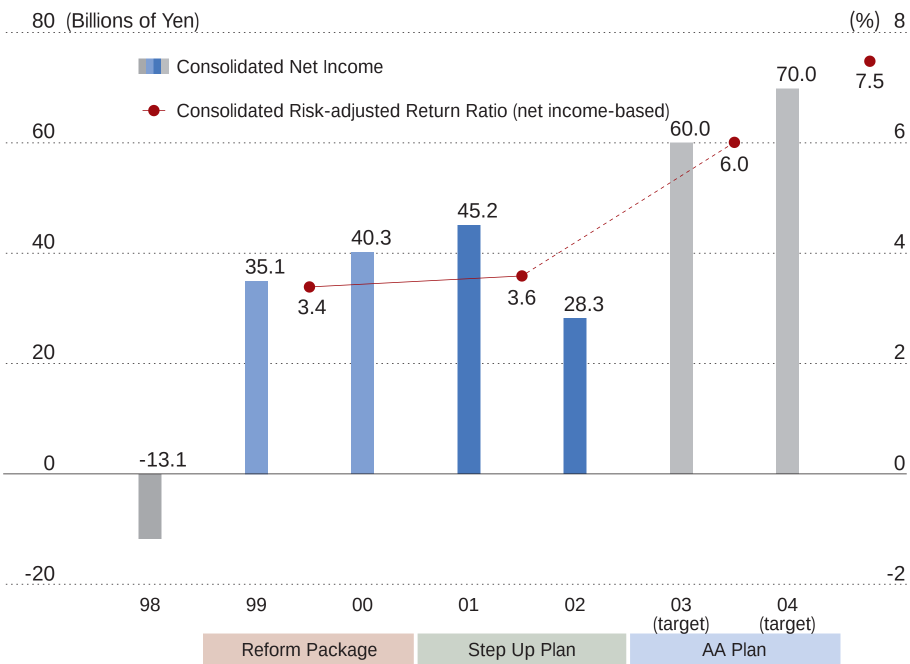
Approach for Achievement — Our new medium-term management plan

The AA Plan is our new medium-term management plan for the two-year period from fiscal year 2003. "AA" is an abbreviation of Approach for Achievement, a phrase that expresses our resolute determination to achieve a longer-term target of a risk-adjusted return ratio of 7.5% (net income-based), a figure which would cover shareholders' capital costs.

Under the previous management plans of the Reform Package and the Step Up Plan, we steadily expanded our earnings base, promoted strategic alliances and

Quantitative Targets

Consolidated Risk-adjusted Return Ratio (net income-based): two-year average ≧ 6%
Consolidated Net Income: two-year total ¥130 billion



Note: Consolidated Risk-adjusted Return Ratios are the average over the two years during each Plan.

Basic Policies

Expansion of the earnings base and strategic moves to the future by maximizing our “integrated corporate strength”

Utilizing management resources to the fullest extent by advancing the Business Portfolio Strategy

- Well defined strategies and objectives of each business line
- Shifting management resources (human resources and risk adjusted assets) to more profitable or more potential business lines

Exploring and developing various businesses by maximizing our “integrated corporate strength”

- Adding diversified values by realizing strategic and organic integration of our “business foundation” and “functional power”
  - Promoting strategic alliance
  - Multiple business approaches to business partners
  - Promoting logistics related businesses (SCM, etc.)
  - Applying financial technology to traditional trading businesses
- Strengthening our earning power by harmonizing product and regional strategies

Tackling new technology, potential market and region

- Exploring and fostering businesses with new technology (biotechnology, nanotechnology, clean energy, network-related information technology, etc.)
- Strategic field: consumer business, energy-related business, life science field, broadband-related and cable TV business
- Developing global businesses with China

Human resources management for strengthening our “business foundation”

- Developing and maintaining professional human resources in each area to realize business plan (diversified hiring process, strategic alliance, etc.)
- Strategic allocation of human resources and “right person in a right place” policy in the group (job bid system, etc.)
- Enriching human resource training programs (exchange of personnel with outside organization, short-term executive courses, etc.)

Enhancing our corporate strength with efficiency and soundness

Efficient group operation on a global basis

- Upgrading and full use of infrastructures for group management (Group Finance, etc.)
- Enhancing functions with higher productivity in the Corporate Group
- Cutting cost by streamlining operation (promoting shared-service and back-office, etc.)

Advancing risk management

- Enlightening sense of risks
- Emphasizing risk asset management
- Employing integrated risk management

Thorough legal compliance

- Higher transparency with full disclosure
- Ensuring “Speak-up System” works better

business acquisitions, made active use of information, logistics and financial technologies, and commercialized new technologies, and further enhanced corporate strength through replacement of assets. As a result of these efforts, a risk-adjusted return ratio of 7.5% is now well within our reach.

Given the difficult business climate and the sweeping scope of change, many companies are selecting certain areas of business, concentrating investment in them, and pushing forward with globalization initiatives. With our global business foundation and diverse array of functions, such moves offer us a wealth of opportunities to increase investment and trade in promising areas. Against this favorable background, the AA Plan will serve as a beacon for aggressively investing resources to achieve higher returns.

At the end of fiscal year 2002, our risk-adjusted assets stood at ¥910 billion. We plan to increase this number by about ¥170 billion by the end of fiscal year 2004, and vigorously work to expand our earnings base, as we take advantage of every possible business opportunity. Our targets under the AA Plan are a risk-adjusted return ratio of 6% or above on a two-year average basis, and a total net income of ¥130 billion over two years. We are targeting ¥60 billion in net income for fiscal year 2003 and ¥70 billion for fiscal year 2004, hoping to renew record profit levels for two consecutive years.

Expansion of the earnings base and strategic moves to the future by maximizing our integrated corporate strength

Our business strategy targeting a risk-adjusted return ratio of 7.5% is comprised of two basic elements. Each of the nine Business Units will build a strong, broadly-based business portfolio, selecting promising business lines and concentrating resources in them. At the same time, management will allocate resources to strategic business areas and regions from the perspective of the whole Group.

Under the AA Plan, each Business Unit will expand businesses that leverage our integrated corporate strength by promoting strategic alliances, developing multifaceted businesses with partners, expanding logistics activities, and utilizing our financing capabilities. We will put management resources in strategic areas such as media and information, supermarkets, and mineral resource development businesses.

In addition, we will commit ourselves to identifying and commercializing new technologies to further extend our business frontier, focusing on medicine and biotechnology, nanotechnology, clean energy, and network-related information technologies.

Geographically, China will be positioned as our chief strategic region both as a production base and an expanding market. In China, we are focusing on building our own logistics networks and partnering with leading local firms in order to develop globally-based businesses there.

We will also focus on Russia as a promising market, with its macroeconomic growth stabilizing and its business infrastructure rapidly developing. We are promoting businesses in line with Russia's potential as a major supplier of natural resources, and its demands for industrial facility replacement and social infrastructure development in areas such as telecommunications services.

In the Middle East, we will devote ourselves to projects mainly in water- and energy-related areas in response to the immediate need to redevelop industrial infrastructures as populations grow and get younger, urbanization advances and consumer markets expand.

In Iraq, we hope to help stabilize the lives of the people there. We have set up a company-wide task force not only to consider reconstruction-related businesses but also to discuss building close and broad relationships with the country after its recovery.

Enhancing our corporate strength by pursuing efficiency and soundness

To further strengthen our corporate strength, there is more to do in addition to improving our asset quality through expansion and consolidation of our earnings base. It is also essential to efficiently utilize our limited management resources such as financing capabilities and human resources to achieve optimal operation for the Group on a global, consolidated basis. Under the AA Plan, we will improve efficiency by enhancing our group management infrastructure through group financing, global tax planning and the globally-optimized allocation of human resources. At the same time, maintaining and heightening corporate soundness is also important for increased corporate strength. To achieve this, we will further advance risk management and ensure legal compliance.

Corporate Governance

Recent outbreaks of corporate scandals have undermined trust in the economic system, and corporate governance is under a spotlight as a universal issue. Meanwhile in Japan, revision of the commercial laws has been discussed to give more options for corporate governance.

In April of 2003, we released the Sumitomo Corporation Corporate Governance Principles with a view to enhancing efficiency, maintaining soundness, and improving transparency of our management. What are notable in the principles are the following five elements: increasing the number of outside auditors; reducing the number of board members; appointing advisors from outside the Company; adopting an executive officer system; and setting a limit to the terms of office of the chairman and president.

Studying several approaches and looking at current movement in the industry, we have reached the above principles with approval of the Board. At the same time, we reaffirmed that the essence of corporate governance is not the system per se. Rather, it is our basic and unchangeable philosophy that upper management should conduct business with a sense of noblesse oblige and a passion for the mission in accordance with Sumitomo's Business Spirit and Management Principles.

Prosperity and Dreams

Our business environment is going through manifold changes, including value systems further diversifying, technological innovations continuously advancing, various geopolitical issues arising, trend towards global environmental conservation growing, and more. These changes taking place across the globe are likely to grow in both speed and magnitude.

However, Sumitomo Corporation is well prepared to cope with such circumstances. We will continue to grow to become a leading global company that realizes our Corporate Mission Statement, "to achieve prosperity and realize dreams," as well as provides diverse values to our stakeholders. To achieve these goals, we are steadily and continuously making progress with our reforms to consolidate our earnings base and reinforce our financial soundness. As a further step, we are tackling the ambitious targets set out in the AA Plan, building on our achievements in reforms to date.

Thank you all for your continuous support.

Motoyuki Oka
President and CEO
July, 2003