

To Our Stakeholders



President and CEO
Motoyuki Oka

- Through our reforms to strengthen our financial position, as well as to invest proactively for future growth, we at Sumitomo Corporation have expanded our earnings base and increased our efficiency and soundness.
- As society's needs diversify and grow increasingly sophisticated, we are offering indispensable value-added services by fully leveraging our integrated corporate strength.
- Now that our actual results firmly support our confidence in future growth, we are ready for a great leap forward. It is time to further enhance our predominance, while also ensuring sustainable growth and maximizing corporate value.

Looking Back on Fiscal Year 2003

(April 1, 2003 – March 31, 2004)

— Steady Expansion of Our Earnings Base Results in Record-High Profits

In fiscal year 2003, Sumitomo Corporation recorded consolidated net income of ¥66.6 billion, a record high. This is a major increase over the ¥13.9 billion earned in fiscal year 2002, when we recorded a significant amount of revaluation losses on securities holdings and real estate. In our view, fiscal year 2003's strong earnings result stemmed from our efforts to expand our earnings base by developing core businesses. Looking at results by business unit, in Metal Products, strategic M&A activities, such as the acquisition of Nichimen Corporation's steel products business, contributed to earnings. Our steel service center businesses, particularly in Asia, also performed strongly. In Transportation & Construction Systems, earnings from auto financing operations in Japan and other parts of Asia were robust. In Media, Electronics & Network, cable TV operator Jupiter Telecommunications Co., Ltd. increased its subscriber count steadily and made its first contribution to our earnings. In Mineral Resources & Energy, the performance of our copper and gold mining project in Indonesia improved substantially thanks to cost cutting, structural improvements, and a turnaround in market prices. In addition to the progress made in these core businesses, we reduced our shareholdings and thus recorded gains on the sale of marketable securities. Basic profit totaled ¥66.8 billion, up 7.3% year on year, and shareholders' equity amounted to ¥730.8 billion, up 18.1%. These are both record highs. Along with earnings growth, the Group made progress in bolstering its financial structure. As a result, ROE for fiscal year 2003 reached 9.9%, a vast improvement over the 2.2% recorded for fiscal year 2002. ROA came in at 1.4%, also a record high.

Basic Policies of the AA Plan

- 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
 - Exploring and developing various businesses by maximizing our “integrated corporate strength”
 - Tackling new technology, potential market and region
 - Human resources management for strengthening our “business foundation”
- Enhancing our corporate strength with efficiency and soundness
 - Efficient group operation on a global basis
 - Advancing risk management
 - Thorough legal compliance

We are making **excellent progress** in implementing the offense-oriented AA Plan. We have yet to adequately address the need to **accelerate expansion of profitable assets** to ensure continuing future growth.

— Steady Progress in Implementing the AA Plan

Fiscal year 2003 was the first year of the AA Plan, our current medium-term management plan. This plan is basically an “offense-oriented” plan, but also has “defense” aspects. On offense, the plan calls for expanding our earnings base and opening up new areas of business by leveraging our integrated corporate strengths, as well as proactively increasing operating assets in profitable business areas. The plan also calls for us to reinforce our corporate structure by pursuing greater efficiency and soundness, particularly to secure a solid earnings base. The quantitative targets contained in the plan include net income of ¥60 billion for fiscal year 2003 and ¥70 billion for fiscal year 2004. We exceeded the target for fiscal year 2003, and we are now more confident of achieving the fiscal year 2004 target, as well, since we foresee continued growth in core businesses. We consider the risk-adjusted return ratio* our most important management indicator. The AA Plan targets a ratio of 6.0% or above, compared with the average 3.0% result under the Step Up Plan, our previous medium-term management plan. We are also on track to achieve this goal. One issue to address in fiscal year 2004 is to accelerate our expansion of profitable risk assets to enable further growth going forward. In fiscal year 2003, we acquired steel products businesses and auto leasing businesses, as well as additional interests in mineral resources interests, thereby increasing our risk assets by approximately ¥70 billion and contributing to profits. Because we also sold stockholdings and replaced low-profit assets, however, the term-end balance of risk assets was almost unchanged. In fiscal year 2004, we will continue to replace assets, but we will also invest aggressively in high-profit fields, and plan to increase our risk assets by approximately ¥180 billion. I consider fiscal year 2004 an extremely important year in terms of preparing the ground for the next period of substantial growth. Accordingly, we are committed to working together to expand our earnings base and enhance corporate strength.

* The risk-adjusted return ratio 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 consolidated net income (after taxes) 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”).

The 21st Century: The Age of the Integrated Trading Company (*Sogo Shosha*)

Our business opportunities are growing in line not only with economic expansion but also with changes taking place globally, namely, the diversification and increasing sophistication of customer needs.

The External Environment and Our Basic Strategy

— Signs of Sustained Global Economic Growth

We recognize that, despite the presence of such risk factors as terrorism and exchange rate fluctuations, the world economy is showing unprecedented soundness in the current expansionary phase. Compared with the past 10 years, the present economic expansion is less volatile. The overdependence of the world economy on the United States is abating as new economic drivers emerge. Chief among these is the persistently rapid growth of many Asian economies, particularly China, making the region today one of the world's major economic zones. Although we envisage a short-lived adjustment in China's economic expansion, we believe it is remarkable that the Chinese economy has become less vulnerable to business fluctuations of the advanced economies as a result of its successful transition from the world's factory into the world's largest consumer market. As a result, international commodities prices are robust and show signs of unprecedented sustainability. In Japan, private-sector capital investment, which had long been anemic, has regained strength thanks to the emergence and growth of industries where Japanese companies have a technological edge and are demonstrating originality, particularly digital home electronics and nanotechnology-related fields.

— Never Before Has So Much Been Expected of Integrated Trading Companies

I expect the global economy to continue growing and changing rapidly. Under any circumstances, I believe it to be an executive's duty to pursue three factors constituting corporate value—profitability, growth potential, and stability—as well as work to steadily achieve targets. In my view, the phenomenon of rapid diversification and increasing sophistication of customer needs is a golden opportunity—and one that we intend to capitalize on. As lifestyles diversify, the products and services demanded by consumers are diversifying, as well. In addition, the evolution of information technology has broadened the range of products and services readily available to consumers. All these changes mean that consumers are increasingly eager to search out unique and distinctive products and services. Amid global competition among corporations, differentiation and efficiency are now the keys to corporate survival. As a result, the needs of corporate customers, like the needs of individual consumers, are diversifying and becoming increasingly sophisticated. In this environment, Sumitomo Corporation, an integrated trading company (*sogo shosha*) is well positioned, as we can comprehensively harness our specialized knowledge and capabilities over a wide range of business fields to create and provide products and services that are high in added value. For this reason, much is expected of *sogo shosha*, a type of business organization unique to Japan.

— Core Competence of Sumitomo Corporation

We at Sumitomo Corporation are fortunate in that we have a business foundation that comprises trust, intellectual capital (such as personnel, experience, and expertise), a global network (spanning 156 bases worldwide), and global relations (including wide-ranging business partnerships with over 100,000 companies). In addition, we have diverse capabilities in such areas as financial services, logistics solutions, IT solutions, risk manage-

ment, and business development. What we term “integrated corporate strength” is this: our ability to draw upon our diverse capabilities to the fullest in analyzing and utilizing information gathered from throughout our business base to create businesses that meet the needs of our customers and partners. Even now, in the Internet Age with its deluge of information, we remain steady in our view that the integrated corporate strength that we have built up over the years is our core competence. We are committed to fully applying this core competence to differentiate ourselves from the competition.

1. Balanced Business Development from Upstream to Downstream

We believe that we have achieved both differentiation and superiority by developing businesses in which we can exert our integrated corporate strength. In an era of diversification and increasing sophistication, quickly grasping changes in downstream needs is critical to unearthing new business opportunities. Our greatest strength derives from a significant presence in downstream areas across a wide spectrum of business fields. Based on this downstream strength, we are able to intelligently develop upstream businesses. For example, we were able to build our overseas steel service center business, centered on Asia, because we fully comprehended the increasingly sophisticated needs of automakers and consumer electronics manufacturers. Jupiter Telecommunications, Japan’s largest cable TV operator, is another business that is keenly aware of the increasingly diverse nature of its customers’ needs. Furthermore, our auto financing business, the largest among our peers, is a value chain that provides wide-ranging services, including leasing, insurance, fleet management, and maintenance. Finally, our food supermarket business and condominium sales business are both in close touch with consumers and their needs, enabling us to achieve predominance in such upstream fields as food safety and urban development.

2. Management Reforms That Balance “Offense” and “Defense”

The second source of Sumitomo Corporation’s differentiation and superiority is our ongoing implementation of management reforms aimed at increasing efficiency and soundness while enhancing profitability—in other words, management that balances “offense” and “defense.” In fiscal year 1998, we were the first among our peers to introduce the risk-adjusted return ratio as a key indicator, and management based on a balance of risk-adjusted assets and risk buffers. In the five years through fiscal year 2003, we have lowered our interest-bearing liabilities (gross) by around ¥450 billion and improved our debt-equity ratio (net) from 5.1 times to 3.3 times. Meanwhile, we have also selected and developed our core businesses and invested aggressively in human resources in order to retain talented personnel. As a result, over a period during which we reduced risk assets by roughly ¥300 billion we also increased gross profit from ¥472.9 billion to ¥501.3 billion, and basic profit, our measure of profitability, from ¥25.0 billion to ¥66.8 billion. Thus, even in a challenging business environment we have steadily expanded our earnings base.

Never forgetting the need for “offense” is precisely what enables us to achieve sustainable growth. Opportunities come as they will, **but the degree to which we benefit from them depends largely on what we have done heretofore.**

— Now Is the Time to Assess What We Have Done Thus Far

Under our two previous medium-term management plans, the Reform Package and the Step Up Plan, we made steady progress both in expanding our earnings base, by leveraging our integrated corporate strengths, and in improving our corporate structure by replacing assets. Using the results of our management reforms implemented to date as a foundation, we aim through the AA Plan to dramatically expand our earnings base by investing aggressively in profitable businesses. We believe that full implementation of the AA Plan will further consolidate our long-established predominance. As a near-term goal, we aim to achieve sufficient profitability to cover the cost of shareholders' equity—in other words, a risk-adjusted return ratio of 7.5%. And while maintaining a healthy sense of crisis, we intend to further leverage our integrated corporate strength and carry on with management reform.

A Message from President Oka to All Stakeholders

— Achieving Prosperity and Realizing Dreams

“To achieve prosperity and realize dreams through sound business activities”—this is one of Sumitomo Corporation's Corporate Mission Statements. The management philosophy expressed therein is identical to the notion of corporate social responsibility (CSR), which has attracted much attention recently. To turn this ideal into a reality, I believe the Corporation must achieve continuous growth by strengthening core competencies and maintaining an optimal balance between profitability, growth potential, and stability. With regard to higher profitability, efforts to expand our earnings base have brought us close to reaching our goal of a 7.5% risk-adjusted return ratio. To ensure long-term growth potential, we are aggressively investing in high-quality assets, superior personnel, and cutting-edge technologies. In terms of stability, we are constantly working to strengthen our corporate structure by upgrading our risk management and further ensuring legal compliance.

As one of Japan's leading global companies, Sumitomo Corporation will continue to conduct business activities in harmony with the environment and to the benefit of the societies where we operate, while maximizing corporate value and thereby enabling stakeholders to achieve prosperity and realize dreams as never before.

Thank you sincerely for your continuing support.

Motoyuki Oka
President and CEO

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