Special Feature 2:

Sumitomo Corporation's Risk Management

Sophisticated Risk Management

— Another Way Sumitomo Corporation Differentiates Itself from Competitors

- Maximizing our corporate value involves more than just increasing our growth potential and profitability. We are well aware that 'stability' (i.e., improving the quality of our earnings) enables us to win the trust and support of all our stakeholders, including our investors.
- Integrated trading companies (*sogo sosha*) constantly seek new markets and new business fields. In such a sector, what supports our stability – the quality of our earnings – are our unceasing efforts to improve our risk management capabilities, one of our integrated corporate strengths.
- Centering on the concept of risk-adjusted return, which Sumitomo Corporation pioneered within the sector, and using a variety of frameworks and methods, we seek to further improve the quality of our earnings.

The Aims and Need for Risk Management

— Sophisticated Risk Management Qualifies Us to Engage in Various Complicated Businesses

Even with strong growth potential and profitability, a company's value will have to be discounted if it is highly vulnerable to various risks. To maximize corporate value, it is essential to achieve stability—in other words, improve the quality of earnings. Integrated trading companies regularly establish new businesses that lead the way in their respective regions or business fields. We believe that sophisticated risk management capabilities are a prerequisite for managing the risks associated with the numerous and complicated businesses involved when tackling new fields, as well as for sound and sustainable growth. At Sumitomo Corporation, each of our nine Business Units aims for returns commensurate with allocated management resources and seeks to create an optimal business portfolio that avoids extreme concentration risk and controls earnings volatility. At the same time, we apply our sophisticated risk management expertise in each business segment in an effort to minimize the emergence of risks.

Risk Management Structures and Systems

At the Business Unit Level

— Combining Expertise in Each Business Sphere with Sophisticated Risk Management Expertise

Sumitomo Corporation's current nine Business Units were initiated in April 2001, aiming to rapidly and properly manage our organization and operations based on the principles of autonomous management and independent responsibility. The head of each Business Unit and Division manages risk for its respective businesses within the company-wide risk management framework. To support this, each Business Unit also has staff dedicated to risk management in the Unit's Planning and Administration Department. When the present nine Business Units were first implemented, a substantial part of risk management personnel, who to that point had been concentrated in the Corporate Group, were assigned to each Business Unit's Planning and Administration Department to act as dedicated risk management administrative staff. Combining risk management expertise accumulated over many years at the Corporate Group with the kind of information that can only be acquired at the front line of business operations makes possible timely and precise risk management.

Strategy Meeting

— Dialogue on Strategy Between Business Units and the Corporate Group

Based on the principles of autonomous management, each Business Unit studies its business lines, considering whether to expand or to downsize from the perspective of profitability and growth potential, then formulates a Business Portfolio Strategy. The President, the senior managers of the Corporate Group, and the heads of each Business Unit and Division discuss these strategies at the Strategy Meeting, which is held four times a year. This system makes it possible to check on the direction of major business lines and to quickly identify and provide a direction for problematic business lines.

At the Company-wide Level

— Creating a Common Framework for Risk Management

Being an integrated trading company entails having a variety of business segments, and what is appropriate for individual segments is not necessarily appropriate for the whole group.

A framework for managing risk in a manner that spans the entire company is an essential part of an integrated trading company's infrastructure. Such a framework entails having risk management yardsticks and tools for evaluating various business models from a perspective common to the whole company. It also involves creating systems that prevent the Company from taking on more risk than it can handle and that avoid the risk of over-concentrating in any specific country, region, or business field.

At Sumitomo Corporation, we have established dedicated departments within the Financial Resources Management Group to engage in risk management. In addition to the above risk management duties, these departments carry out risk analyses of major countries, regions, and business fields, and assign credit ratings to our customers based on a sophisticated ratings system developed by Sumitomo Corporation.

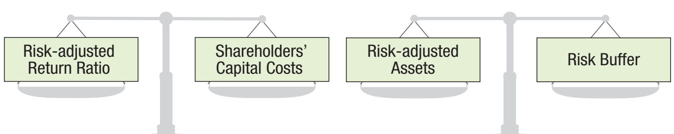
Meanwhile, decisions regarding large, important projects that could have a major impact on the entire company are not made solely by individual Business Units based on their autonomous management; the Corporate Group has a restraining function on business segments through the Loan and Investment Committee, which analyzes project risks from a specialist view point and assesses whether or not to go ahead with them.

Frameworks for Managing Each Type of Risk

1. Managing Quantifiable Risks
— The Tradeoff between Risk and Return

Quantifiable risks are those from which one can expect to earn returns by assuming the risk, and whose size can be expressed numerically. These risks include investment risks, e.g. the risk of a company in which we have invested losing value, credit risks, e.g. the risk of a business partner breaching a sales or loan contract, and market risks, e.g. the risk of changes in profits owing to fluctuations in product prices. In 1998, Sumitomo Corporation pioneered the sector's adoption of the concepts of risk-adjusted assets and risk-adjusted return. Since then, the Company's policy regarding these kinds of quantifiable risks has been to ensure that profits are commensurate with risk, while managing the overall risk taken. This policy has thoroughly permeated the Company.

Management Based on Risk-adjusted Return Ratio



Risk-adjusted Return Ratio

Profitability of a business against the risks involved in it, calculated as consolidated net income / risk-adjusted assets. We target a risk-adjusted return ratio of 7.5%, a figure which would cover shareholders' capital costs.

Risk-adjusted Assets

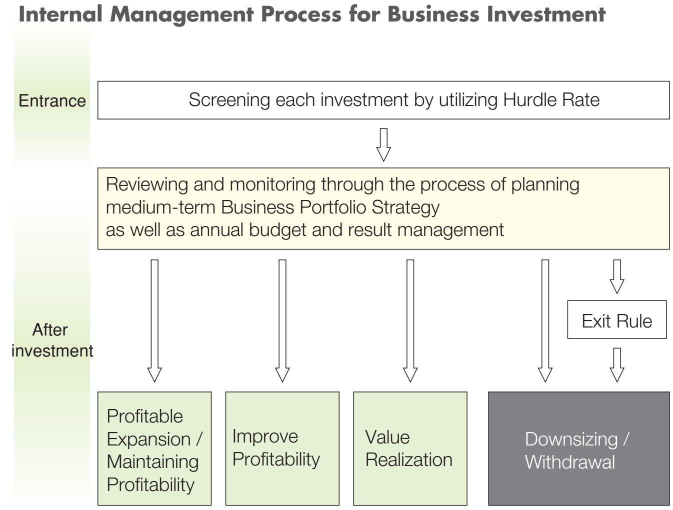
The value of maximum losses that could be incurred if all the potential risks were actually to occur during the accounting period. This is calculated as a sum of (a) receivables, inventory, fixed assets, and securities multiplied by the risk weight for each business segment plus (b) amount of potential losses with respect to derivative transactions, commitments, and guarantees.

Managing Investment Risks
— Strict Screening Prior to Investment, Thorough Monitoring After Investment, and Clarifying Standards for Withdrawal

Once an investment has been made, deciding to withdraw is difficult in many cases. With that in mind, Sumitomo Corporation closely monitors each stage of the investment process. The Company only goes forward with investments that are likely to generate returns in excess of a certain hurdle rate, which is determined based on the cost of shareholder's capital and long-term interest rates. After making the investment, the head of the Business Division is responsible for following its performance. The direction of the operating companies, which are important structural elements of our business portfolio, is debated as part of the process of considering the strategies of the Business Unit and Division. We also apply "Exit Rules," principles for withdrawing from investments, when investments have been unprofitable for a certain period, or if the debt amount of the operating company in question exceeds its total assets for even one fiscal year.

As a means of quantitatively evaluating business risk, we are working to introduce a more accurate way of evaluating the potential of a business, in which we run simulations based on business profit and risk analysis, and formulate a probability distribution of future cash flows and their present value (Dynamic Discounted Cash Flow analysis).

Internal Management Process for Business Investment



Managing Credit Risks
— Strict Classification of Risk Weight Based on Credit Ratings

We assign our customers one of nine credit ratings. The credit that can be authorized for each customer differs according to these ratings, and a risk weight ranging from 2% to 80% is set for each credit rating. This makes it harder to set a large credit limit for customers with a low credit rating, which relatively strengthens our credit risk management of customers with low credit ratings. In addition, because credit ratings are taken into consideration in calculating risk-adjusted assets, each Business Unit has an incentive to reduce credit extended to customers with low credit ratings.

Managing Market Risks
— Establishing Segregation of Duties and Internal Checks and Balances

We believe that our system for monitoring price changes and our trading positions for market-traded products, as well as our internal checks and balances, and our reporting system all satisfy the international standards used by financial institutions and others. When trading market-traded products, we set limits on the gross volume (or value) of contract balances and the balance of our net positions. We also set loss limits by product for the interim or full-year period, and we continually monitor our positions so that losses including value at risk (VaR; a statistical measure of the maximum risk potential) do not exceed these limits. The Financial Resources Management Group is responsible for back office functions such as trade confirmation and balance verification, and middle office functions such as risk analysis, monitoring profits and losses and our positions. They are completely separate from the front office, which executes trades, enabling us to maintain our internal checks and balances.

Risk Concentration
— Avoiding an Excessive Concentration of Risk in Specific Risk Factors

Integrated trading companies operate in a variety of business fields on a global basis and they must ensure that risks are not excessively concentrated in particular areas. Our country risk management system limits the exposure of our global business activities to certain countries and regions. In addition, the Strategy Meeting and Loan and Investment Committee hold extensive discussions regarding major business lines that maintain significant exposure to particular business fields.

2. Managing Non-Quantifiable Risks
— Cross-Sectional Efforts Spanning the Entire Company

Non-quantifiable risks are those that must be borne, but for which we cannot expect returns. These include litigation and other legal risks, operational risk such as administrative errors and fraud, and natural disasters. Some of these risks involve events that do not occur frequently but can have a major negative impact on our operation when they do. Sumitomo Corporation manages such risks on an ongoing basis through its dedicated departments within the Corporate Group that are responsible for various non-quantifiable risks and its business departments. In addition, in 2002 we established the Supporting Team for Integrated Risk Management to conduct comprehensive reviews of such risks on a company-wide basis. This team clarifies which non-quantifiable risks exist and prioritizes them according to their importance. The team also reviews the status of the Company's responses to these risks and works to improve them. The team has investigated around 30 non-quantifiable risks to date, including fraudulent acts by executives and employees, fictitious transactions, insider trading, IT and data security, and harassment in the workplace.

There has been progress internationally in developing standards for corporations' internal control systems. These include the Sarbanes-Oxley Act, which stemmed from accounting scandals in the United States, and the Enterprise Risk Management (ERM) Framework drafted by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). We have started working to upgrade our internal control systems based on the framework from COSO.

Fostering a Sense for Risk Management and a Legal Compliance Mindset

— Improving Each Employees' Risk Management Capabilities Raises the Company's Competitiveness and Profitability

In order for us to exert our risk management capabilities, one of our integrated corporate strengths, we must of course take maximum advantage of the expertise of dedicated personnel assigned to risk management. However, because we engage in various businesses with limited human resources, upgrading the risk management capabilities of individual employees can act as a base for increasing the profitability and competitiveness of the Company as a whole. Regardless of how superior our risk management methods and indicators are, they will not yield satisfactory results unless all employees fully master them. Sumitomo Corporation's senior managers are working to raise awareness of this point throughout the company, often state that risk management is an integral part of business, and that business without risk management is not truly business.

Constantly Upgrading Risk Management

Sumitomo Corporation's risk management has undergone major changes over almost the last 10 years. We have maintained a high level of risk management within our sector, and have studied and adopted a number of new risk management methods and frameworks. Even now, we are trying out several new methods and frameworks. Risk management is essential to an integrated trading company, and a source of competitiveness. Our efforts to improve our capabilities in this area will never end.