

TO OUR STAKEHOLDERS

>Sumitomo Corporation's latest performance showed excellent results. Based on our solid performance, we have set a consolidated net income target of ¥170.0 billion for fiscal year 2006. In the event of achieving this target, we plan to pay an annual dividend of ¥27 per share, thus returning to shareholders the benefits of our broader earnings base.

>Our favorable performance was not due solely to changes in the operating environment. It also stemmed from management reforms based on the risk-adjusted return approach that we pioneered in 1999. These reforms have brought considerable changes to the business activities and management scheme of Sumitomo Corporation.

>Under the AG Plan, our current medium-term management plan, we are steadily broadening our earnings base. We are also upgrading management systems, including our risk management and internal control systems, to support expansion of our business base. In another major initiative for ensuring growth, we are working hard to recruit, train and place employees of the highest quality.

>While proceeding with these initiatives, all officers and employees, including myself, must reaffirm the "basics" underpinning Sumitomo Corporation—the business spirit founded on trust, the risk-adjusted return approach, and integrated corporate strength. This process will enable our sustained growth and "realize prosperity and dreams" of all stakeholders.

Fiscal Year 2005 Review and Fiscal Year 2006 Outlook

Our financial results for fiscal year 2005 showed an excellent performance. Consolidated net income reached ¥160.2 billion, greatly exceeding the ¥110.0 billion target set at the initial formulation of the AG Plan, and achieving a third consecutive year of record high income.

The soaring prices of crude oil and other natural resources in recent years have turned the spotlight on the profit growth of integrated trading companies. Sumitomo Corporation has a well-balanced business portfolio,

supported by various pillars of profits. A number of our core businesses are expanding earnings by seizing new business opportunities. These include developing natural resources through coal mining in Australia, crude oil and gas interests in the North Sea and the Gulf of Mexico, overseas automobile finance, strengthening supply chain management (SCM) covering tubular products and steel plates, expanding media-related businesses in Japan, and developing high-rise condominiums in the Tokyo metropolitan area.

At present, we are actively pursuing an expansion-oriented management approach focused on broadening our business base by increasing profitable assets. We have invested in a well-balanced manner in businesses with high future growth potential, as well as in those which have an immediate effect on earnings. Recent acquisitions of crude oil interests and an overseas power generation business, for example, are making a solid contribution to our earnings.

Shareholders' equity also increased, thanks not only to our improved business performance, but also to increases in unrealized gains on securities available for sale. Higher shareholders' equity both enhances our financial position and improves our ability to absorb risks.

We have revised upward our initial net income target for fiscal year 2006 under the AG Plan, from ¥120.0 billion to ¥170.0 billion. We are not overly optimistic about the operating environment, due to concerns about the risk of a drop in natural resource prices and a rise in interest rates. Nevertheless, we will steadily improve our performance by expanding major businesses and making new investments. As a result, we are targeting consolidated net income of ¥330.0 billion for the two-year period covered by the AG Plan. Moreover, we have raised our targeted risk-adjusted return ratio, an important management indicator, from the initial plan of 10.4% to 14.2%.

Sumitomo Corporation's policy concerning appropriation of profit is to pay dividends that reflect consolidated financial results. Under the AG Plan, we have set a payout ratio of 20%. For fiscal year 2005, we paid an annual dividend of ¥25 per share, up ¥14 from the previous year. In the event of achieving the net income target set for fiscal year 2006, we plan to increase this dividend further, to ¥27 per share. In this way, we intend to provide returns to shareholders reflecting the expansion of our earnings base. In light of the higher investment amount necessary to realize one voting unit for our shares—due to the rise in our share price since the previous fiscal year—in September 2006 we will reduce the voting unit from 1,000 to 100 shares. This change will provide investment opportunities to more investors, including individuals.



President and CEO **MOTOYUKI OKA**

Our solid performance was due not only to temporarily favorable business conditions or an expansion of our operations, but also to management reforms initiated in the late 1990s.

At this point, I would like to focus your attention on what lies behind our excellent financial results. I believe that our performance is driven not only by a favorable external environment and asset expansion, but also by Sumitomo Corporation’s management reforms implemented since 1999. Consolidated net income for fiscal year 1999, the year we started the reforms, was ¥32.3 billion, and total assets amounted to around ¥4.9 trillion. Our performance in fiscal year 2005 shows that total assets have grown by around 40%, while consolidated net income has surged five-fold. This is indeed a tremendous improvement. It can be attributed to the huge changes that have taken place in Sumitomo Corporation’s businesses and management as a result of our reforms.

“Risk-adjusted Return” Approach

In the autumn of 1998, we introduced the concept of “risk-adjusted return” as a key management indicator. At the time, this was a revolutionary approach, because until that time integrated trading companies had competed on the scale of total trading transactions and the establishment of new businesses ahead of their rivals. However, the late 1990s saw a worsening business environment and the relative inability, compared with the present, of companies to grasp the full extent of their business risks.

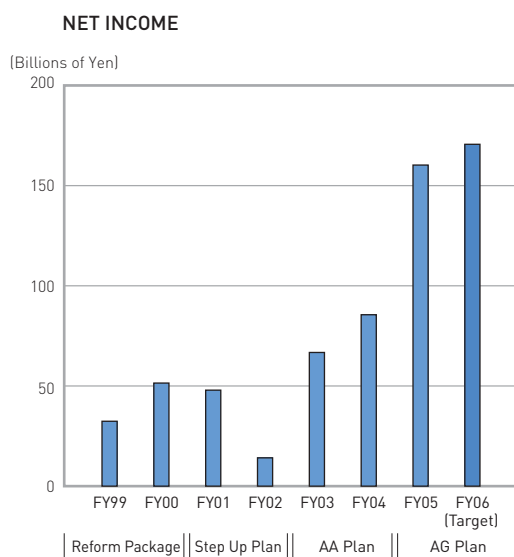
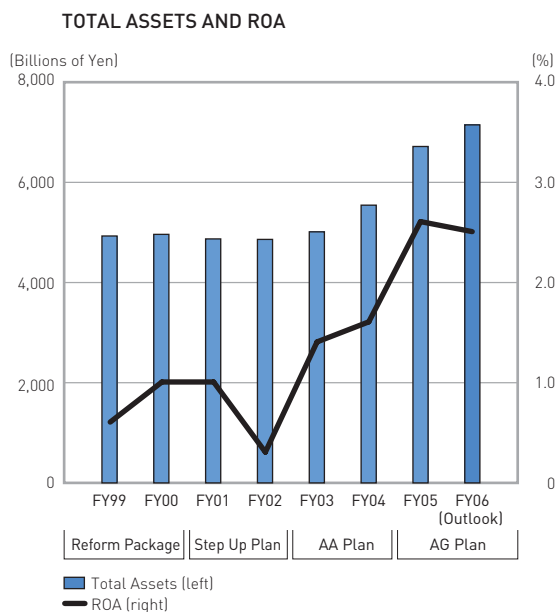
As a result, companies that held onto unprofitable businesses recorded weak results. Consequently, business restructuring became imperative as a means of improving profitability and financial position.

In 1998, we set a medium-term risk-adjusted return ratio target of 7.5% to cover shareholders’ capital cost. We shifted from our existing strategy of expansion to the selection of and concentration on key businesses. Previously, it was difficult for integrated trading companies to make such selections since they operated diverse businesses. However, by quantifying the risks accompanying each business and using the risk-adjusted return ratio as a common yardstick, we made it possible to compare different operations. We have revolutionized our management through this approach.

Changes in Business Portfolio: Emphasizing Integrated Corporate Strength

Under the Reform Package, which began in fiscal year 1999, and the Step Up Plan, which started in fiscal year 2001, we sought to improve our balance sheet through a process of business rationalization and replacement. Under the AA Plan, which began in fiscal year 2003, our reforms centered on active investment in profitable assets. Through consistent selection and concentration of businesses, we not only reduced unprofitable businesses, but also developed an approach to decide where to allocate our management resources. This approach took into account our core competence and the operating environment.

Selecting businesses requires a multifaceted approach.

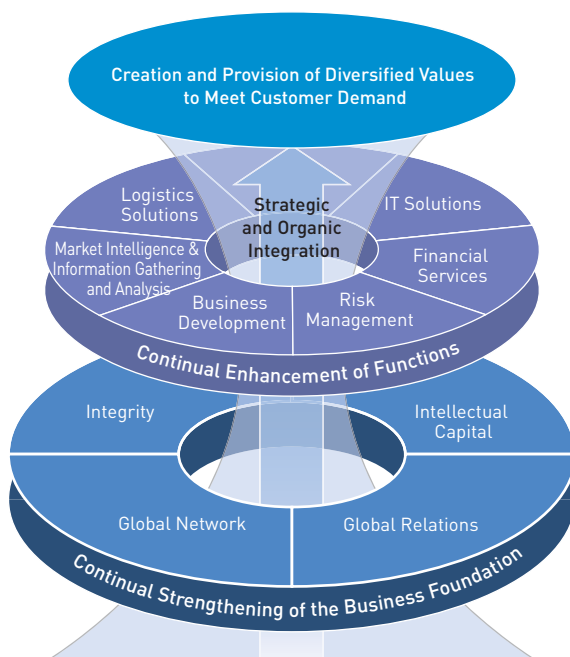


When making decisions on which new businesses to establish and which existing businesses to maintain, I, as President, place particular emphasis on whether the business in question is able to capitalize on our “integrated corporate strength.”

“Integrated corporate strength” is the strength that creates new value to meet customer needs through strategic and organic integration of business foundations—such as integrity, expertise, experience, global network of operations spanning the globe, and good business partnerships with over 100,000 companies—with our diverse capabilities in such areas as financial services, logistics solutions, risk management, IT solutions, market intelligence & information gathering and analysis, and business development. This strength is our core competence, which is unique and can be exhibited only by us. I am devoting my energies to further strengthening our integrated corporate strength and to creating a corporation that is able to take full advantage of it.

Today, our businesses which have become pillars of profits include supply chain management (SCM) for steel products and chemical products, value chains in the segments of Transportation & Construction Systems; Media, Electronics and Network; Mineral Resources & Energy, and power plants and industrial parks businesses, through which we demonstrate our organizing capabilities. These businesses are all high-value-added, meeting customer needs by exerting integrated corporate strengths derived from our business foundation and multifaceted capabilities. All have the potential for stable growth even though the external environment may

**INTEGRATED CORPORATE STRENGTH:
SUMITOMO CORPORATION'S CORE COMPETENCE**



slightly affect their individual performances. By selecting and increasing the number of businesses in which we can fully leverage our integrated corporate strength, we are able to achieve levels of performance even beyond what might be expected from analysis of our financial statements.

Changes in Management: Advancing Risk Management and Business Portfolio Management

In addition to reform of our businesses, we have also introduced reforms in our management, particularly in the area of risk management. First, by recognizing risk in the form of risk-adjusted assets, and sharing this recognition among employees, we have witnessed substantial improvements in “risk awareness” among each employee. This was a significant step towards introducing the risk-adjusted return concept in management.

We manage risk-adjusted assets not only within each business separately, but also from the perspective of total risks affecting the entire corporation. At present, our basic policy of management is to maintain the balance between total risk-adjusted assets within a buffer centering on shareholders’ equity, and to ensure against excessive risk.

We also select businesses applying quantitative criteria, based on common company-wide hurdle rates and exit rules. Top management, the Corporate Group and Business Units share information and regularly monitor the business portfolio and core businesses of each Business Unit. We have incorporated into our management system a framework which prevents unexpected losses when the operating environment changes.

Growth Strategy and the AG Plan

Expanding Our Earnings Base

Our current task in order to ensure strong growth in the future is to expand our earnings base. Under the AG Plan, each segment is promoting investments in profitable assets and the Corporate Group is supporting the company-wide business expansion.

In fiscal year 2005, for example, we acquired TBC CORPORATION, a leading marketer of automotive tires in the United States. This was the largest investment we have ever undertaken. From a company-wide perspective, as well, we made steady progress in expanding our earnings base. During the year, risk-adjusted assets rose ¥170.0 billion, as a result of new strategic investments and an increase in operating assets. When taking into account the rise in market value of our shareholdings and the effect of the yen’s depreciation, the increase was ¥230.0 billion. Our revised plan for risk-adjusted asset

increases will be ¥420.0 billion over the two-year period covered by the plan, considerably higher than our initial plan of ¥340.0 billion. Based on this outlook, we expect gross investments and loans to be around ¥800.0 billion over the same period.

In addition to increasing assets, we have also been replacing assets, one example being the sale of our stake in the brand-related business, Coach Japan, Inc. With this strategy, we are continuously promoting business selection and concentration through a dynamic business portfolio strategy involving value realization.

At a time when we are expanding our business base, I am frequently asked by investors and business partners, as President, which businesses we will emphasize in the future. The background for this question is the fact that we operate in diverse fields and regions through nine Business Units and regional offices all over the world. Also the business environment for each segment and region has constantly changing and the speed of change has been increasing.

My answer to the original question is that rather than focusing on certain business segment, we believe it is more important to evaluate the growing segment from time to time and flexibly adjust our strategy to grasp such change in the business environment. As a result, Sumitomo Corporation has built up a well-balanced and highly stable business portfolio. As an integrated trading company, we must also become involved in a wide range of business fields. Having operating bases, customer bases, and sources of information in a diverse range of industries reinforces our integrated corporate strength, which is our core competence.

Enhancing Our Corporate Strength

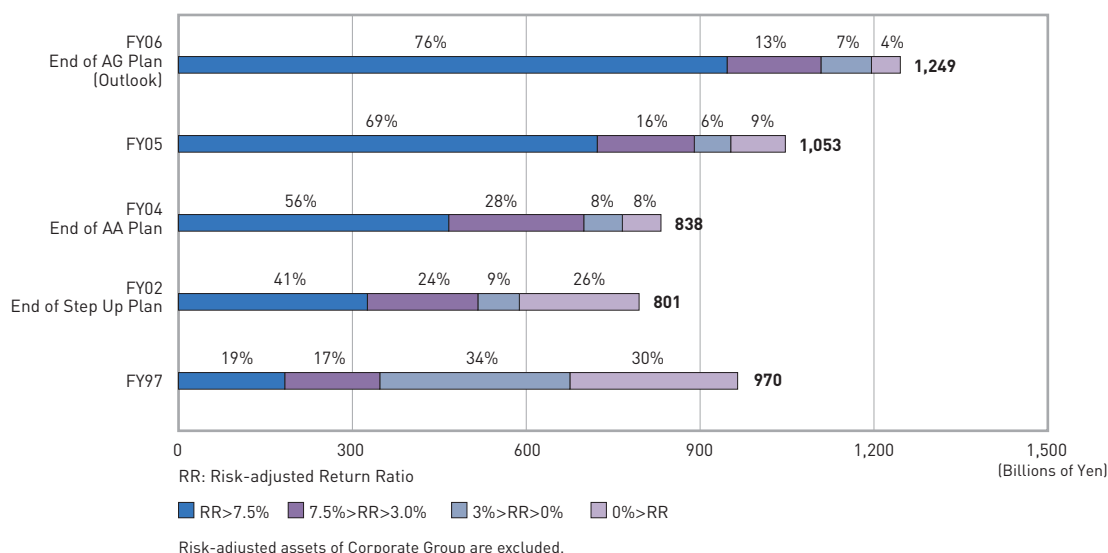
In addition to expanding our earnings base, we have stepped up our focus on strengthening and upgrading management systems that support this base. Through our reforms to date, we have strengthened risk management through a quantitative approach. In addition, we are currently implementing a company-wide initiative addressing internal controls. The business base of the Sumitomo Corporation Group, including subsidiaries and associated companies, is necessarily broad, and a mistake made in any part of the Group may have a significantly adverse effect on our corporate value. On a global consolidated basis, therefore, we must establish a reliable internal control system and improve operational quality.

We will continue to further reinforce our risk management and internal control systems. Going back to our origins, we have strong DNA that enables us to pursue expansion and growth. By making the most of this inherent strength and implementing a robust control system, we will maintain a balance between expanding our earnings base and reinforcing our corporate strength aiming for sustained growth. We believe the fruits of such efforts will steadily appear along the path to long-term growth.

Human Resources and Communication

Human resources are an essential element to expand and manage businesses. When we invest in a new business, we do not seek to simply make a monetary return. We get involved in the business to raise its value, acquire

RISK-ADJUSTED ASSETS BY RISK-ADJUSTED RETURN RATIO



expertise, and maximize synergies with existing businesses—in order to enhance the corporate value of the entire Sumitomo Corporation Group. The recruitment, training, and placement of the required human resources on a global consolidated basis is one of the basic policies of the AG Plan.

From fiscal year 2006, we overhauled the human resources management system and introduced a framework in which all employees, irrespective of position, can fully display their talent. It is important to recruit highly competent people, maximize each individual's talent, and create a dynamic workplace environment. We are continuously reviewing our businesses in order to reallocate our management resources. The major purpose of this review is to effectively allocate human resources, valuable management resource, to business segments where we see growth.

Thanks to reforms implemented to date, we have reduced the number of businesses suffering from unprofitable operation. In addition to such quantitative measures, we are reviewing businesses from qualitative criteria—does the business have a growth strategy, are its employees working with vitality, and does the company have an adequate management system.

When it comes to the utilization of human resources, I emphasize the importance of teamwork, and its prerequisite, communication. One key to maximizing integrated corporate strength is the organic fusion of individual strengths, so I have repeatedly urged the creation of a dynamic workplace with excellent communication.

The head of each organization must take the lead in displaying solid communication. Since I became the President and CEO, I have put a great effort into establishing good communication, and spent considerable time to communicate directly with employees. Even now, I interact with more than 1,000 employees over the course of a year.

For example, at first it was not easy to introduce the risk-adjusted return concept leading to the reforms of Sumitomo Corporation. However, repeated discussions with employees in the workplace finally made this possible. I believe, with smooth and effective communication, we have been able to embrace management policies on a company-wide basis and steadily achieve the targets of management plans.

Back to Basics

In fiscal year 2006, the second year of the AG Plan, we will continue to expand our business base. Together, we will enhance our corporate strength and expedite recruitment, training, and placement of competent human resources in order to pursue sustained growth.

At this time, it is important that we return to the basics. By "basics," I mean the Sumitomo Business Spirit and the sense of values set out in the Sumitomo Corporation Group's Corporate Mission Statement—values based on trust that have been passed down over 400 years since Sumitomo's founding. Although trends and times change, I want to see this sense of values instilled in each and every employee of Sumitomo Corporation. I sincerely believe that without trust, business cannot survive for a long time.

Other "basics" are our risk-adjusted return approach and the integrated corporate strength. The risk-adjusted return approach was introduced across the company as part of the reforms, and has been the driving force behind the huge advances we have made over the past several years. We cannot afford to lose sight of this approach since we constantly address risks as we develop new businesses.

Integrated corporate strength is our core competence and the source of our competitiveness. As we strive to build even more effective communication, and work together as a team to meet common targets in all organizations and levels, we must maximize this strength in our quest and further strengthen it in the future.

All officers and employees, including myself, must reaffirm the "basics" of Sumitomo Corporation and to undertake continuous reforms aimed at expanding our earnings base and enhancing our corporate strength. Through these initiatives, we are committed to achieving sustained growth and "realizing prosperity and dreams" for all stakeholders.

We look forward to your continued understanding and support.



Motoyuki Oka
President and CEO

July 2006