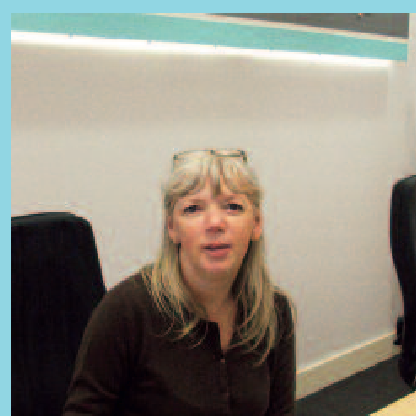
PURSUING THE SUMITOMO CORPORATION WAY









Sumitomo Corporation is pursuing the expansion of its business base as well as the advancement of risk management. Such "offensive" and "defensive" initiatives unique to Sumitomo Corporation are the source of our competitiveness.

Topic 1 : Expanding Our Business Base

We are fortifying and expanding our business base by implementing various measures in diverse business fields. Explained as follows, these measures are unique to an integrated trading company.

1. Upgrade operational functions and enhance the values in existing businesses
2. Expand our business fields to both upstream and downstream areas vertically and establish value chains
3. Apply business models established as core businesses in other business fields and geographical regions horizontally
4. Expand the business base by taking advantage of such opportunities as industry restructuring and effectively undertaking mergers and acquisitions

In the following section under Topic 1, we will present a close-up view of our Metal Products Business and Media Business, which have become our core businesses through the above measures.

We will also introduce our Environmental Business, in which we are optimally applying our multifaceted functions as an integrated trading company.

Topic 2 : Advances in Sumitomo Corporation's Risk Management

Sumitomo Corporation is expanding its business base with the aim of achieving long-term and stable growth. Our risk management functions are part of the indispensable infrastructure supporting this growth. We adapt our risk management approach in response to changes in the surrounding operating environment and the changing times, and our capabilities in risk management have become a source of competitiveness in our businesses.

Under Topic 2, we will provide the overview of Sumitomo Corporation's risk management.

1. Metal Products Business

In the past, trading companies' business operations centered on the procurement and sale of goods. Today, however, our functions and the ways we serve our customers are becoming ever more advanced. Particularly in metal products, such as steel sheets and tubular products, we have established a comprehensive supply chain management (SCM) system and offer high-value-added services.

Expanding Our Steel Service Centers Network

Situated in the proximity of production bases operated by automobile and home appliance manufacturers in Japan and overseas, we own steel service centers (SSCs), which are facilities for processing steel sheets. Based on customers' production schedules, SSCs operations cover procuring coiled steel sheets from steel manufacturers, controlling inventories, processing the steel sheets to customers' specifications, and providing just-in-time delivery. Since the 1977 launch of the first SSC in Singapore, we have expanded our SSC network mainly in Asia covering Malaysia, Indonesia, Thailand, Taiwan, and China as well as the Czech Republic, the United Arab Emirates, the U.S., and Mexico. Also, in Japan, we have reinforced our network through such means as mergers and acquisitions. As of June 2007, we were operating a total of 43 SSCs worldwide and boasted a total annual processing capacity of over six million tons, ranking among the top tier of trading companies.

We expect the steady growth of our SSC operations in accordance with the continuous expansion of demand in the automobile and home appliance industries. In such an environment, we will promote the expansion of the SSC network and the upgrading of our quality of service.

Reinforcing the Functions of Tubular Products SCM

Among the various types of tubular products, we excel particularly in the area of Oil Country Tubular Goods (OCTG) for crude oil drilling and natural gas extraction, where we utilize our Tubular Information Management System (TIMS), a proprietary SCM system. Our service covers managing and forecasting the use of and demand for pipes, ordering to manufacturers and providing maritime transportation, inventory control, and transportation to installation sites. We also provide pipe maintenance and storage services. As of June 2007, we are providing such services at 11 locations in 10 countries for oil and natural gas development projects.

We anticipate that oil and natural gas resources will be actively explored and developed on a global basis. However, future planned projects are facing severe drilling and extraction conditions and demand for high-end tubular products is expected to increase. The tubular products we supply are mainly such high-end products, and we also have an equity stake in V&M Star LP, a high-end tubular products manufacturer in the U.S.

Also, we are aggressively investing in other fields related to tubular products. In March 2007, we entered into an agreement with France-based Vallourec regarding investment in a premium pipe joint threading business that Vallourec has established in China. In China, many large-scale development projects are in progress, and the drilling environments for these projects are becoming increasingly severe. As a result, the demand for durable and premium pipe joints for oil well tubes to drill deeper is rapidly rising.

In December 2006, we invested in the HOWCO Group, which produces and markets metal components for oil well equipment manufacturers. Used in oil and natural gas wells, this equipment controls the drilling and extraction processes. The market for the materials and components used in such equipment is expanding.

Through these efforts, we are aiming to become a total service provider for oil and natural gas developers all over the world.

One of our steel service centers in Hanoi, Vietnam

A yard for tubular goods to be used in the oil fields of the North Sea

2. Media Business

Since the 1980s, the Sumitomo Corporation Group has carried out the media business in both the infrastructure and content domains, including cable television (CATV), multichannel programming and film-related businesses. We are broadening our business base by upgrading and expanding services and utilizing M&A. The media business has grown into one of our core businesses by leveraging the Group's comprehensive strengths.

Footprints of the Media Business

We entered the CATV business in the 1980s, eyeing the market's growth potential. In 1995, we established the CATV multiple system operator (MSO) Jupiter Telecommunications Co., Ltd. (J:COM) and have been promoting wide-area operations by establishing new operators and acquiring neighboring operators.* As of March 2007, J:COM provided services through 41 operators under 24 franchises with approximately 2.64 million households as subscribers and a 35% share of the Japanese CATV market, making it the largest MSO in Japan. J:COM has expanded its services from CATV to high-speed Internet, fixed-line telephony, and mobile telecommunications, and its one-stop services in four fields give it an advantage over competitors, including satellite broadcasting services.

We entered the multichannel programming business along with the start-up of our CATV business. In 1996, we established the multiple channel operator (MCO) Jupiter Programming Co., Ltd., renaming it Jupiter TV Co., Ltd. (JTV) in January 2006. JTV has continuously increased the number of programs it provides in such genres as movies, sports, documentaries, animation, and TV shopping and has been supplying these programs to J:COM and other CATV operators and satellite broadcasters. As of March 2007, JTV was the largest MCO in Japan, providing services through 17 channels under 12 franchises. JTV is also expanding its business through launching video-on-demand business for CATV and providing programs to IP broadcasters.

Among JTV's channels, Jupiter Shop Channel Co., Ltd. (JSC), Japan's No. 1 TV shopping channel, is continuing dynamic growth. JSC's strength lies in providing attractive and high-quality merchandise through 24-hour-a-day, year-round live broadcasting. JSC had sales of about ¥100 billion in 2006, and secured the industry-leading position by capturing a roughly 30% share of the market.

The Future Path of the Media Business

We decided to reorganize the businesses of J:COM and JTV in May 2007. We made JSC a subsidiary, while J:COM took over JTV's other operations.

We anticipate further growth in TV shopping and intend to enhance the value of JSC through our direct initiatives. In addition, considering the increase of e-commerce (EC), we will expand our new consumer direct business (Web Retail Business), with JSC as a core player, by merging retail and media businesses. As a part of these efforts, we are promoting EC for various retail operations with actual stores.

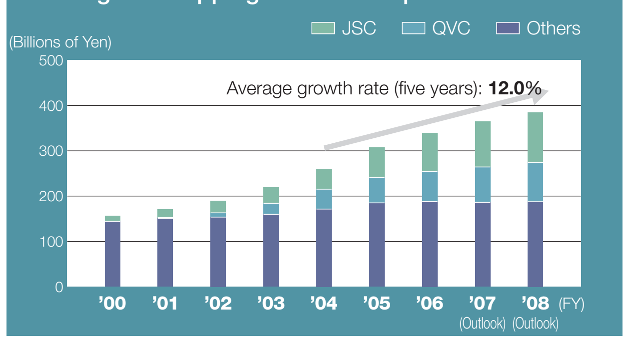
J:COM, with the consolidation of JTV, has become an "integrated media company" and its business ranges from contents production and procurement to distribution. J:COM will reinforce both its CATV operations and programming services by providing viewer-oriented attractive programs and contents that match customer needs. J:COM will also aim to be a "community service provider," leveraging its strengths as a community-based media company and contributing to communities in various ways.

We aim to broaden our business base by upgrading services, strengthening wide-area operations and utilizing M&A.

* The most recent example is the September 2006 acquisition of Cable West Inc., the largest CATV operator in the Kansai region, with approximately 360 thousand households as subscribers.

Sakura Cable TV Co., Ltd., acquired by J:COM in April 2006

Growing TV Shopping Market in Japan



Source: Report by FUJI KEIZAI Co., Ltd. and data of Sumitomo Corporation

3. Environmental Business

We are promoting various environmental businesses utilizing our diversified functions as an integrated trading company. Through business activities, we are focusing on contributing to the improvement of environmental issues.

Greenhouse Gas Emissions Reduction Projects

Our activities are characterized by being involved from the incubation stage, including in the preparation of business proposals for our customers. Such an approach enables us not only to contribute to solving environmental problems in many countries but also to obtain emission credits, which helps Japan in achieving the emission reduction targets for greenhouse gases set under the Kyoto Protocol.

Our project in India was the first Clean Development Mechanism project registered at the United Nations (UN) by a Japanese corporation. This project collects and disposes of hydrofluorocarbon gases in India. This project is showing steady progress and the UN started to grant us emission credits from 2007. Also, in Indonesia, we are engaged in biogas (methane) power generation. We extract methane gas from wastewater discharged by a starch manufacturing plant and use this gas to generate electricity. We are currently developing the same type of business in Thailand and Vietnam. In addition, we are working on various projects in Asian, CIS, and African countries.

Renewable Energy Supply Projects

The potential of such clean renewable energy as wind power, solar power, and geothermal power is widely watched. We are pursuing wind power generation projects in Yamagata and Ibaraki prefectures while supplying solar power generation modules and promoting the solar cell materials business. Also, we are aggressively promoting geothermal power generation projects in Indonesia, the home of the world's largest reserve of geothermal resources.

In Indonesia, we received four consecutive orders for geothermal power generation projects in collaboration with Fuji Electric Systems Co., Ltd., a leading manufacturer in this field. Upon their completion, our total geothermal power generation capacity in Indonesia will reach 500 megawatts, including that of plants already constructed. The Indonesian government is planning to increase the country's geothermal power generation capacity to 6,000 megawatts by 2015. Our future focus will be placed on securing sustained orders in Indonesia and developing new projects in countries having geothermal resources such as New Zealand, the Philippines, Iceland, and countries in Central and South America.

Water Treatment Business

Many countries are currently confronting the need to construct water treatment systems due to their economic growth and urbanization. In Mexico, private-sector capital is being introduced to address the issue. We are actively developing sewage treatment projects together with Degrémont S.A., a French company that boasts the top market share in the Mexican water and sewage treatment industry. Together with Degrémont, we are operating three projects that process a total of 540,000 m^3 a day. These projects have newly brought sewage treatment service to approximately two million citizens. Treated water from the projects is reused for agricultural and industrial purposes and as cooling water at power plants.

In addition to Mexico and anticipating that Australia and countries in Asia and the Middle East will tap their respective private sectors for the development of water treatment systems, we are aiming to further expand our water treatment business on a global basis.

We are operating wind power generation in Kashima City, Ibaraki Prefecture

The San Luis Potosi Wastewater Treatment Plant we operate in Mexico

Topic 2 : Advances in Sumitomo Corporation's Risk Management

In response to changes in the business environment and changing times, our risk management approach has also been advancing. Until the early 1990s, we put priority on micro-perspective risk management, focusing to minimize unexpected losses arising from each transaction to prevent us from suffering losses and ensure that we achieve sustained growth. However, since the mid-1990s, following the collapse of Japan's economic bubble, the effective and efficient utilization of management resources has become key to enhancing corporate value. Responding to these changing times, our risk management approach also shifted its priority to macro-perspective risk management that sets priority on maximizing corporate value strictly in line with the management plan. For the purpose of coping with increasingly diversified risk issues in an effective manner, the advance in our risk management approach never ends.

Our Management Plans and Risk Management Initiatives

Medium-Term Management Plans	Risk Management Initiatives and Surrounding Operating Environments	
Before the Reform Package	• Back and middle office functions independent from front office functions • Hurdle rates on investments • Business assessment systems • Credit rating based on bankruptcy probability • Company-wide risk-adjusted asset quantification • Country risk management	Various deregulatory measures introduced worldwide since the mid-1980s has promoted the globalization of business. In response to this market transition, we began transforming our business model that only emphasized mid-stream business to include upstream and downstream businesses. This transformation led our investments to expand, diversifying the nature of the risks we take. Under such circumstances, our business faced severe events externally and internally through the 1990s. The collapse of bubble economy in Japan and the currency crisis in Asia adversely affected our performance. We also suffered substantial losses through an incident involving illegal copper trading. In response to these significant environmental changes, we have introduced a number of measures to cope with the diversified risks during this time, and this is the foundation of the risk management structure that we have today.
FY1999 to FY2000 Reform Package Enhanced corporate strength by selecting core businesses and withdrawing from non-core businesses **FY2001 to FY2002 Step Up Plan** Increased profitability by replacing low return assets with potentially higher return assets	• Managing the total quantified risks in specified fields • Managing the total quantity of funds • Exit Rule • Business risk assessments based on the Monte-Carlo DCF (MDCF) method • Database operation for loss-incurring events • Integrated Risk Management	To cope with tightened credit conditions in the overall financial market during the late 1990s to early 2000s, we introduced the company-wide risk management system to control the volume of risks we take. Since our risk-adjusted assets exceeded our buffer (shareholders' equity), we set the target to reduce risk-adjusted assets by ¥200 billion under the Reform Package by promoting withdrawal from the low-profit and non-core businesses. At the same time, the "Exit Rule," a continuous performance monitoring rule for Group companies, was introduced, in which the rule allows us to effectively withdraw from underperforming investments. We also established the Integrated Risk Management Promoting Team to counter non-quantifiable risks on a cross-divisional basis.
FY2003 to FY2004 AA Plan Strategic investments in assets with potential profitability **FY2005 to FY2006 AG Plan** Strategic moves for further growth and development	• Internal Control Program • Introduction and permeation of the "Business Line" concept • Risk-adjusted asset quantification based on MDCF method • Major projects monitoring/supporting systems • Management Resources Reallocation Task Force (reassessment of small-scale Group companies)	In the wake of a series of corporate accounting fraud cases in 2001 and 2002, the Sarbanes-Oxley Act was enacted in the U.S. Similarly, a number of illegal activities also were found at major corporations in Japan. Against this backdrop, we introduced the Internal Control Program for the purpose of comprehensive review of our internal control system and improvement of the quality of our business operations. We started to focus on increasing profitable assets from the AA Plan, and have aggressively engaged in large-scale business acquisitions using the new assessment methods. We started to fully utilize the MDCF method when making business profitability assessments and risk-adjusted asset quantification. At the same time, a system to monitor the progress of initial implementation on major investments was also put in place to ensure the planned increase in value.

1. Overview of Our Risk Management

(1) The Purpose of Risk Management

In response to the shift of our risk management focus from “probability of losses” to “probability of discrepancy between the budget plan and the actual result,” we have set the following three items as the purpose for our risk management activities.

1. **Stabilize Performance:** Minimize discrepancies between the budget plan and the actual results
2. **Strengthen Financial Base:** Maintain risk-adjusted assets within the buffer (shareholders’ equity)
3. **Maintain Corporate Reputation:** Fulfill CSR requirements and preserve corporate reputation

(2) Risk Management Basic Policy

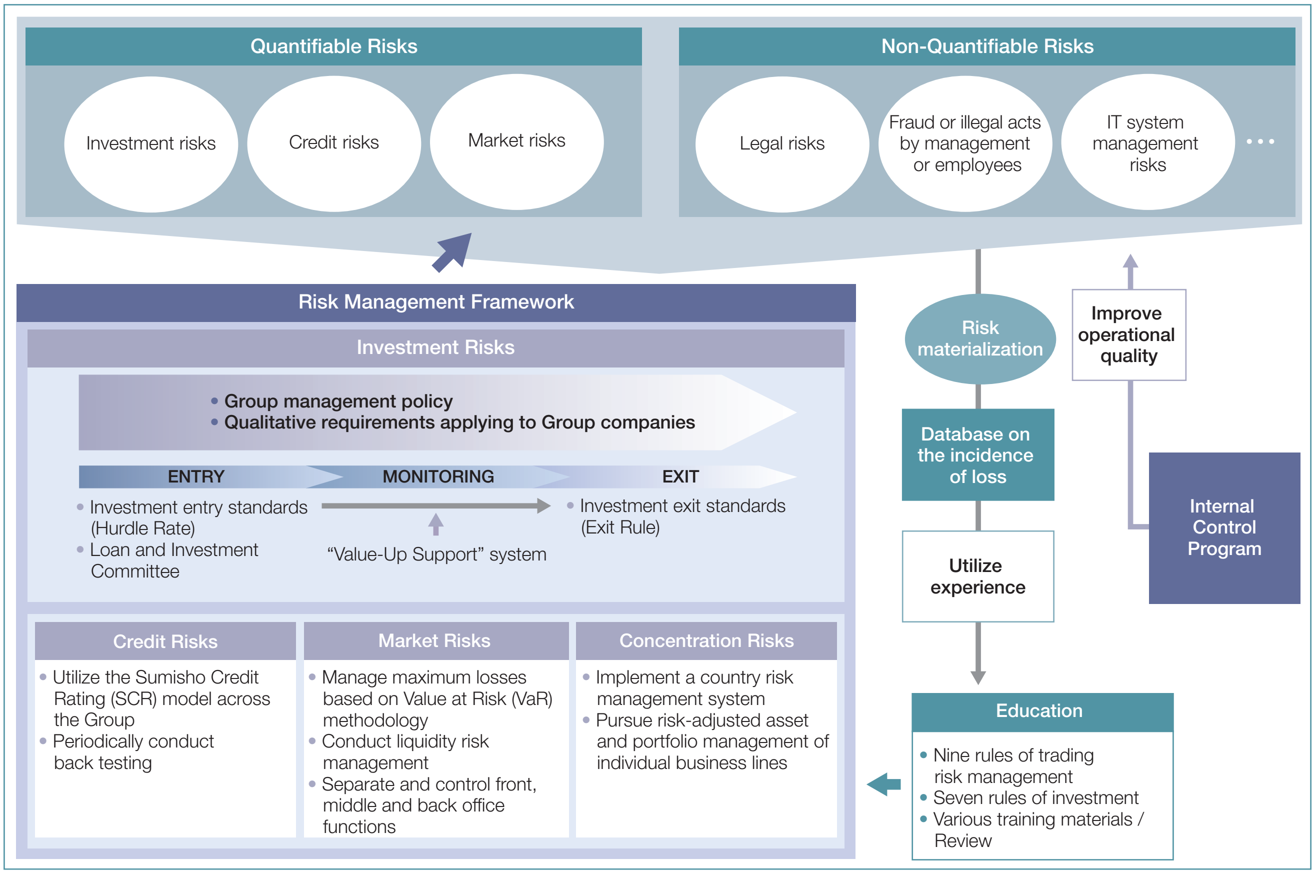
We classify our risks into two categories: Quantifiable risk and Non-quantifiable risk. Quantifiable risk is defined as “Value creating risk,” where we proactively take to gain the return. Our policy is to maximize the risk-adjusted return while maintaining risk-adjusted assets within our buffer. Non-quantifiable risk is defined as “Value breaking risk,” which only generates losses when it surfaces. We are building a framework that prevents or minimizes the probability of this risk to materialize.

(3) Risk Management Framework

Managing Quantifiable Risks

● Managing Investment Risks

Once an investment is made, it is often difficult to make a withdrawal decision and the loss impact of the withdrawal is usually significant in scale. To manage the investment risk, we have in place an integrated framework covering the entry process to the exit process. For the entry process, we have set a hurdle rate, an indicator that returns from the new investments must overcome. In case of new investments that are large-scale important projects, the case will be raised to the Loan and Investment Committee for thorough examinations. After making an investment, related business plans are thoroughly monitored. If the performance of an investment is below the standard set under the Exit Rule, the investment is placed as an “Investment required to withdraw.”



Managing Credit Risks

We have incorporated our original credit rating model, the Sumisho Credit Rating (SCR), to assess our customer's credit risk. The authority level to provide credit exposure to customers depends on the assigned credit rating, and the risk weight ranging from 1.5% to 50% is set for each rating criteria. Higher ranked officers' approval is required to provide credit to lower credit profile customers, with larger risk-adjusted assets being calculated. This provides each Business Unit an incentive to reduce credit extended to customers with lower credit ratings.

Managing Market Risks

We use Value at Risk (VaR) methodology to measure the potential losses related to any market traded products that we deal in. We set limits on trading positions as well as on the maximum losses (sums of the VaR amount and revaluation losses) for the interim and/or full year based on each product. In addition, we conduct liquidity risk management for each product and market in order to be prepared in the event that product dealing becomes difficult due to contracting liquidity. The Financial Resources Management Group undertakes both the back and middle office functions in order to completely separate those functions from the Business Units, thereby enabling us to maintain our sound internal checks.

Managing Concentration Risks

As we are operating globally and engaging in a variety of business fields, we need to ensure that the risks are not excessively concentrated in particular areas. In order to avoid overly concentrated exposure in certain countries and regions, we have in place a country risk management system. For the purpose of avoiding risk concentration in particular business fields and to create a balanced business portfolio, thorough asset allocation is deliberated at the Strategy Meeting, held between the President and heads of each Business Unit, and the Loan and Investment Committee.

Managing Non-Quantifiable Risks

Non-quantifiable risks are those that must be borne, but for which we cannot expect returns. These include litigation and other legal risks, operational risks such as clerical mistakes or fraud acts, and natural disaster risk. Some of these risks involve events that rarely occur but could have a significant negative impact on our operation once it arises. Our basic policy is to prevent or minimize the probability of these risks to materialize. We have built a framework to periodically and comprehensively assess the effectiveness of our internal control system over these risks through our Internal Control Program, which enables us to monitor the situation on a global and consolidated basis. Based on the assessment result, we continuously search for a more efficient and effective organizational structure and procedures to improve the quality of our business operations.

Embedding the Sense of Risk Management

Although we have been constructing the best possible risk management framework to cope with diversified risks, we cannot completely prevent the incurrence of loss in the course of business activities only by the framework itself. We are putting our efforts into implementing the initiatives that enable us to quickly identify the occurrence of losses in order to suppress loss accumulation and prevent the contagion effects that lead to secondary losses. These initiatives include devising ways to quickly identify the cause of losses and share such information among top management and related departments. We have compiled a database of such loss information that allows for the systematic analysis of the causes of loss-incurring events. These analyses are used as training materials for employees as part of various educational programs. Through this knowledge feedback process, individual employees can upgrade their risk management capabilities, supporting the prevention of the same kind of loss events.

2. Eyeing the Future of Risk Management

Over the past 10 years, Sumitomo Corporation has created a formidable risk management framework by studying advanced methods and processes. Our goal was to make advances toward best practice risk management that preemptively accommodates changes in the business environment. The surrounding environment is continually changing, however, and new business models that we could never have imagined are emerging on a daily basis. Responding to the changing circumstances in a timely and effective manner, we continually upgrade our risk management under the direction of the top management. We are convinced that the never-ending evolution of our risk management contributes to the improvement of operational quality on a global consolidated basis while simultaneously supporting us to maximize our corporate value.