‘Step Up Plan’ Based on ‘Reform Package’

We attach importance to the continual revamping of our business thinking and our corporate structure and are putting this into practice vigorously. In October 1998, to promote profit growth and strengthen our corporate constitution through "qualitatively improving the Integrated Business Enterprise and realizing global consolidated management," we adopted the "Reform Package" as our two-year mid-term management plan and promoted it whole-heartedly through March 2001.

From April of this year, we have launched the "Step Up Plan" as a mid-term management plan to follow the measures put into place under the Reform Package and to promote further progress. In this section, we provide a summary of the Step Up Plan as well as an overview of the Reform Package.

1. Reform Package

Background

While trade has always been a principal pillar of Sumitomo Corp.’s business activities, in the late 1980s we adopted the mid- to long-term corporate strategy of transforming our profit structure to add the new pillar of becoming an "Integrated Business Enterprise." As we entered the 1990s, following the collapse of the so-called bubble economy, which further increased the importance of efficient management, we reviewed our efforts to become an Integrated Business Enterprise. We began to work toward revamping our business thinking and our corporate structure in order to strive for "qualitatively improving the Integrated Business Enterprise and realizing global consolidated management."

Selecting core businesses by applying the ‘Three Strategic Measures’

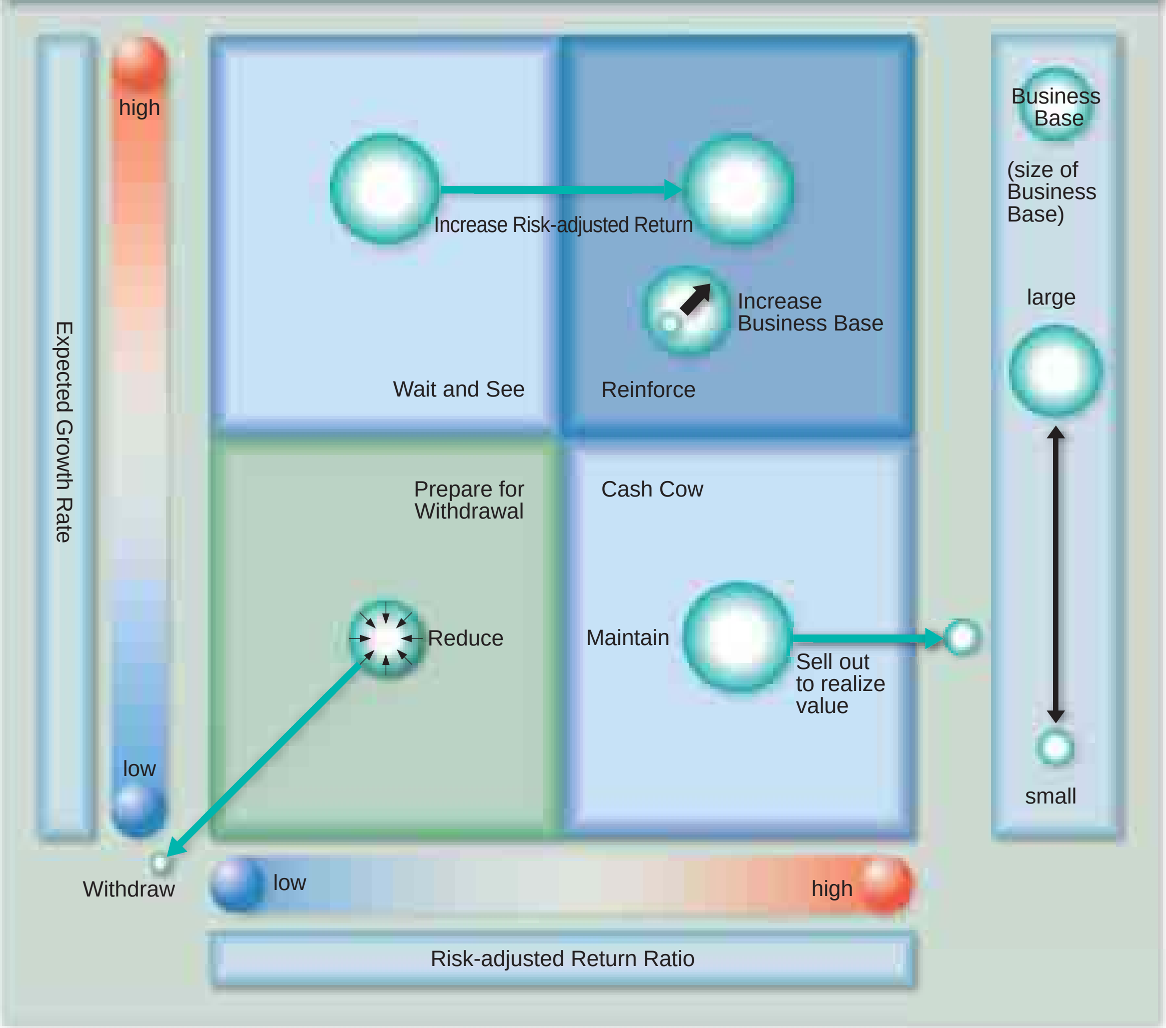
To utilize limited management resources to the fullest extent possible, we must select core businesses and strategically allocate management resources. To select core businesses a common yardstick for the entire company that is both objective and quantitative must be employed, since a trading company carries out business operations in a variety of fields in many different locations throughout the world. To that end, we organized the "Quantitative Analysis Working Group," representing a cross section of the entire company by recruiting members from different departments, and engaged in wide-ranging discussions involving outside consultants. Focusing on the common nature of a trading company’s businesses which is "increasing returns while managing risks" and the "cost of capital" entrusted by our investors, we created the "Three Strategic Measures" composed of "Consolidated Risk-adjusted Return Ratio," "Business Base," and "Expected Growth Rate" to serve as a common company-wide yardstick for objectively selecting and evaluating each of our businesses.

Three Strategic Measures

Consolidated Risk-adjusted Return Ratio	The ratio of consolidated cash-based return (free cash flow = net profit - net depreciable assets investment + depreciation) to consolidated risk-adjusted assets (the sum of (a) advance, inventory, fixed assets, and securities multiplied by each risk weight on the balance sheet and (b) off-balance sheet risk such as market risk).
Business Base	The amount of added value generated by the business (operating profit + labor costs + depreciation + interest expenses).
Expected Growth Rate	The rate of increase of the above-mentioned business base.

While verifying whether the risk borne in the company's business activities as a whole remains within the company's capacity, we also analyzed our business portfolio in regard to all 119 departments and all subsidiaries by using a matrix quadrant composed of the Risk-adjusted Return Ratio and the Expected Growth Rate. All businesses were classified into one of the following four quadrants: 1) "Reinforce," anticipating a high return ratio and high growth; 2) "Cash Cow," anticipating a high return ratio but low growth; 3) "Wait and See," anticipating a low return ratio but high growth; and 4) "Prepare for Withdrawal," anticipating both a low return ratio and low growth. Applying this "Business Portfolio Strategy" to select and strengthen core businesses, we set our sights on replacing assets and achieving optimum allocation of management resources.

Quadrant Analysis



By using the Three Strategic Measures as a base in the company-wide movement, we were able to accomplish revamping of our business thinking from management to the worksite level. We were also able to promote reform in the area of our management system, such as improving our budgeting system and adopting targets of the Risk-adjusted Return Ratio as a management tool for each business division.

Results of Reform Package

With the aim of promoting profit growth and strengthening our corporate constitution, we formulated a mid-term management plan for the period up to March 2001, consisting of three quantitative targets and the following set of concrete measures to achieve these targets: 1) profit growth by expansion of core businesses; 2) strengthening the corporate constitution through improving quality of assets; 3) realization of effective, efficient management; and 4) reinforcement of cost competitiveness. Taken together, these constitute our Reform Package.

In carrying out the various measures in the Reform Package for revamping our business thinking and our corporate structure, the united effort of the entire company resulted in basically achieving the quantitative targets, steadily improving cost competitiveness, and suitably strengthening our corporate constitution. We can safely say that satisfactory results were achieved regarding the targets.

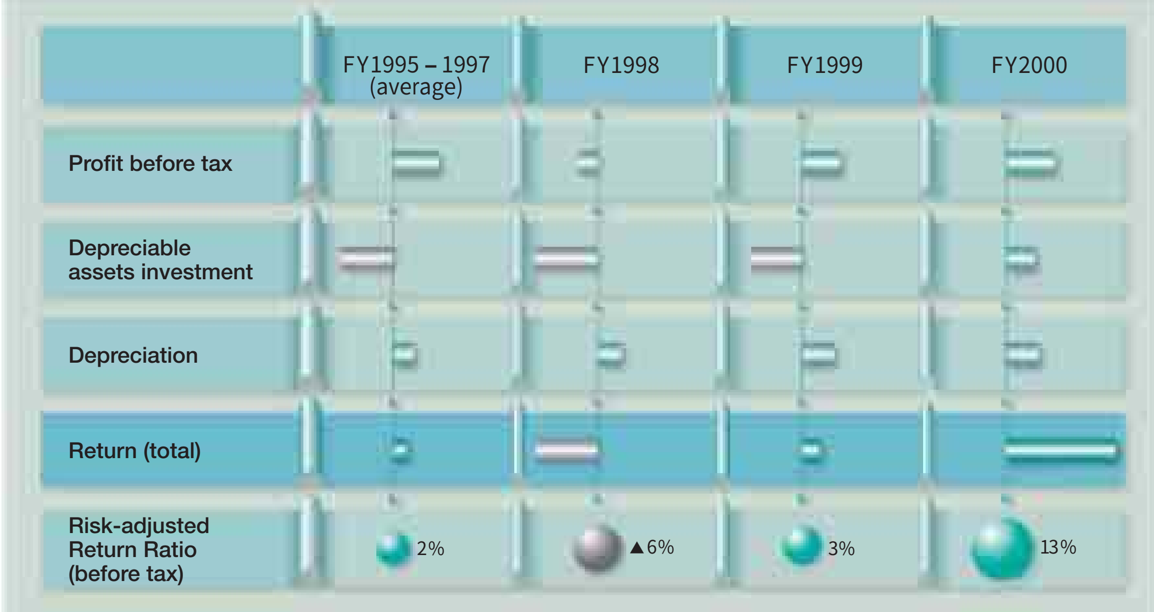
Targets

	Targets	FY2000 Results
Consolidated Risk-adjusted Return Ratio (before tax)	more than 8% (FY2000)	13%
Consolidated Risk-adjusted Assets	reduce by ¥200 billion (by the end of FY2000)	reduced by ¥190 billion
Consolidated Shareholders' Equity	recover to minimum of ¥700 billion* (by the end of FY2001)	to be realized (by the end of FY2001)

*¥600 billion on a non consolidated basis

In the Reform Package, we strove to manage risk-adjusted assets balanced to risk buffers. As assets were being replaced, pulling out of businesses with low profitability resulted in a reduction of ¥190 billion in consolidated risk-adjusted assets. While reducing risk-adjusted assets, we greatly improved our cash flow with the large amount of cash inflow generated by asset disposal as well as capital gain exceeding cash outflow by new investments. As a result, the Risk-adjusted Return Ratio was substantially improved by 13%, well beyond our target of 8%.

Risk-adjusted Return Ratio



Profit growth through expansion of core businesses

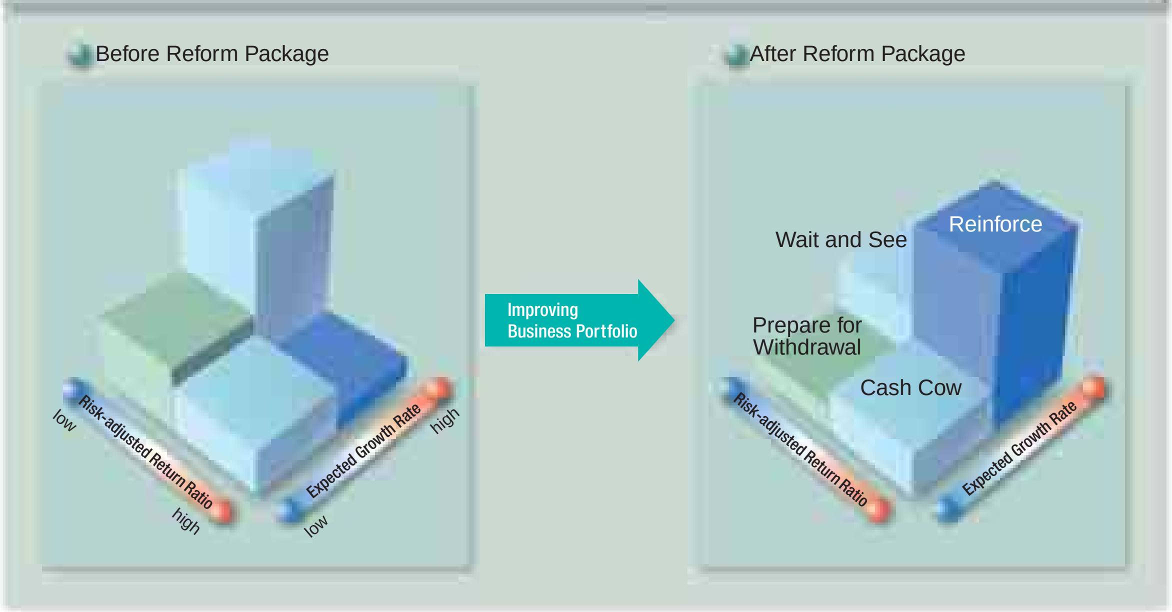
Targets were set for improving the consolidated Risk-adjusted Return Ratio for each division and office, and we worked to select and expand core businesses with the application of the Three Strategic Measures. In addition, we carried out various promotional measures such as the core business promotion program, which has a total budget of ¥1 billion, to provide support to the forward-looking efforts in core business expansion at each division and office. As a result, the Risk-adjusted Return Ratio improved in many divisions and offices, contributing to an overall increase in profits.

Strengthening corporate constitution by improving quality of assets

As a result of our efforts to strengthen the corporate constitution through risk asset management, such as positive replacement of assets, total risk control by business field, and country risk management, we were able to improve the corporate constitution significantly. In addition, as a result of promoting the streamlining of our subsidiaries, we were nearly able to accomplish the original plan that the number of principal subsidiaries, totaling 300 at the end of September 1998, would be reduced by 40% (about 120)* by pulling out of unprofitable businesses and consolidating smaller companies involved in the same areas to enhance efficiency of our overall business management for improving consolidated business results.

*Restructuring of about 100 companies was completed by the end of March 2001. Restructuring is projected for 40% of the total (about 120 companies), including those now in process.

Mapping of Risk-adjusted Assets in Quadrant Analysis (image)



Realization of effective, efficient management

We strove to realize effective, efficient management through such means as outsourcing accounting as well as cashiers' operations and foreign exchange operations, and by creating a leaner structure of the Corporate Group. In addition, we boosted productivity at the worksite through improving daily business activities, such as by simplifying the internal booking rules and introducing the Cashless Petty Payment System.

Reinforcement of cost competitiveness

For further cost competitiveness, we primarily focused on reducing the cost of sales. We achieved major reductions in the areas of entertainment and travel expenses, cutting entertainment costs by approximately 40% and travel costs by about 27% compared with the period before the start of the program in the FY 1997.

To reduce labor costs, nearly 1,000 jobs were cut during the Reform Package period. With a reduction target of ¥10 billion in labor costs, we actually achieved a decrease of ¥11.2 billion.

2. Step Up Plan

Stepping up by strategically allocating management resources and utilizing "integrated corporate strength"

Following the success of our Reform Package, we are targeting a further major increase in corporate value through our mid-term management plan for the two-year period starting in April 2001. Based on continuation and further development of the Reform Package, under this new plan we intend to strengthen our earning base through strategic allocation of our management resources and by utilizing the corporate infrastructure that has been upgraded.

Step Up Plan

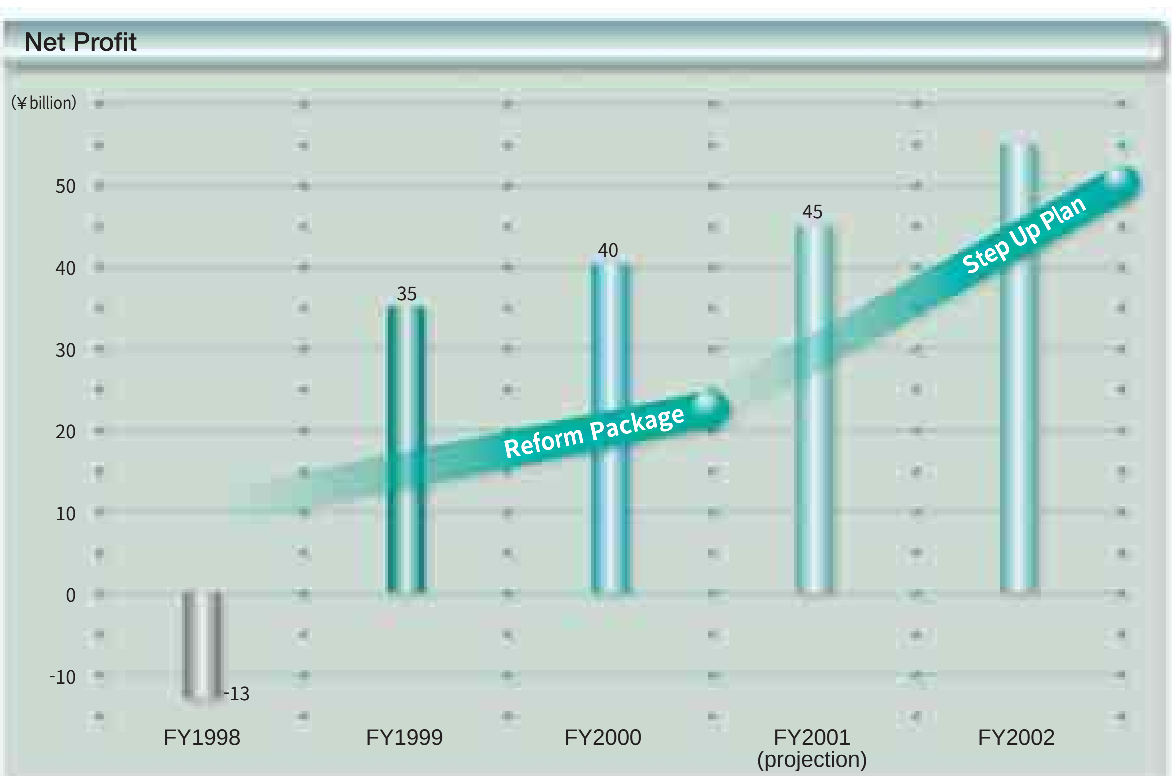
Target	Consolidated Risk-adjusted Return Ratio = more than 5%* (after tax, two-year average)	
Management stance	Manage risk-adjusted assets balanced to risk buffers	
Plan framework	Step up by allocating corporate resources strategically and by utilizing integrated corporate strength	
Drastic expansion of the earning base	Creation and expansion of core businesses based on the Business Portfolio Strategy	
	Development of business models leveraging information technology (IT), logistics technology (LT), and financial technology (FT)	
	Maximizing sales force by harmonizing product strategy and regional strategy	
Further strengthening of the corporate constitution	Advancing risk-asset management	
	Promoting integrated risk management	
	Thorough legal compliance	
Promoting further efficiency	Further reinforcement of cost competitiveness	
	Improvement of business process efficiency	
	Enhancing functions with higher productivity in the Corporate Group	
Upgraded corporate infrastructure	New organization	Risk-management rules
	New system for human resource development	Self-auditing system
	New budgeting system	New Head Office building
	New information system (SIGMA21)	

*ca.10% on before-tax base. For a two-year period, the level required is ca. ¥100 billion net profit.

While promoting the Reform Package, we have been actively reforming company systems and the organization with the aim of achieving optimum allocation of management resources and supporting utilization of our integrated strength. The Step Up Plan applies to the maximum extent possible to the in-house infrastructure that has been upgraded. Specifically, its basis consists of new reorganized systems consisting of "Business Units operating on the principles of autonomous management and independent responsibility" and "streamlined Corporate Group focusing on core functions."

In addition, we are aiming to achieve drastic expansion of our earning base by strategically allocating our management resources through applying new budgeting systems, for example, by planning from the mid-term viewpoint based on the Three Strategic Measures, improving the budgeting process, introducing an award system for budget achievement, and renovating in-house capital systems to accelerate reallocation of management resources. Furthermore, we are incorporating infrastructure such as self-auditing systems, risk management infrastructure such as an internal Credit Rating System, and the new information system SIGMA21 now being developed to support rapid and appropriate management decision-making.

By implementing the Reform Package, the corporate constitution has been strengthened, and at the same time the awareness of "considering returns through risk contrast" has been spread and shared throughout the company. Following this series of measures for revamping our business thinking and our corporate structure, we aimed at reinforcing profitability to achieve the mid-term target of a Risk-adjusted Return Ratio that will cover our company's capital costs (i.e., 7.5% after tax). The Step Up Plan seeks a rapid expansion of the earning base by increasing exclusively consolidated net profit to reach a more than 5% Risk-adjusted Return Ratio after tax as a foothold to meet mid-term targets.



GENBAKA
Conveying Corporate Strategy Throughout All Sites

We are constantly striving for "GENBAKA — conveying corporate strategy throughout all sites" to penetrate the farthest outreaches of our organization, and we feel confident that this effort will produce meaningful results in our corporate strategies. For that purpose, we have adopted a series of opportunities by which management communicates directly with front-line employees to complement the regular communication routes through the company organization.

Linked to this concept are such activities as our "CEO channel on the Web," through which the CEO keeps in close contact with all employees via our intranet. Other means of direct communication include exclusive meetings between the CEO and department managers, and gatherings of the CEO and team leaders.

In these ways, not only can our front-line employees learn directly of managerial topics and directions, but management is also provided with the opportunity of learning at firsthand of local conditions and the thoughts of the employees. In addition, "GENBAKA — conveying corporate strategy throughout all sites" plays a key role in building teamwork, which is a base of the integrated corporate strength that forms the core competence of Sumitomo Corp.