

Boosting Our Expansion Strategy

—New Medium-Term Management Plan “AG Plan”

1. From AA Plan to AG Plan: Accelerating Growth Momentum

Complementing Improved Profitability with Dynamic Expansion in Scale

Since 1999, we have targeted a risk-adjusted return ratio to cover the shareholders' capital cost of 7.5%. Under the AA Plan, we adopted a more aggressive stance in promoting investments in profitable businesses, further approaching this target. Our existing core businesses have consequently grown to become pillars of profit, and our new businesses have contributed to earnings. Over the past two years, we achieved net income totaling ¥151.7 billion and an average risk-adjusted return ratio of 8.2%—well above our 7.5% target.

Our next challenge under the AG Plan is to generate even greater value in excess of shareholders' capital cost. Creating higher levels of value requires two key elements: profitability and business scale. We will continue working to replace assets and boost profitability of our existing businesses. However, strategies that only emphasize profitability have limited effect in terms of achieving strong growth in the future. Our most important task under the AG Plan is to expand our business base through new investments and reinforcing core businesses.

Achievement & Growth Plan (AG Plan)

Securing a 7.5% risk-adjusted return ratio
and aiming for further growth

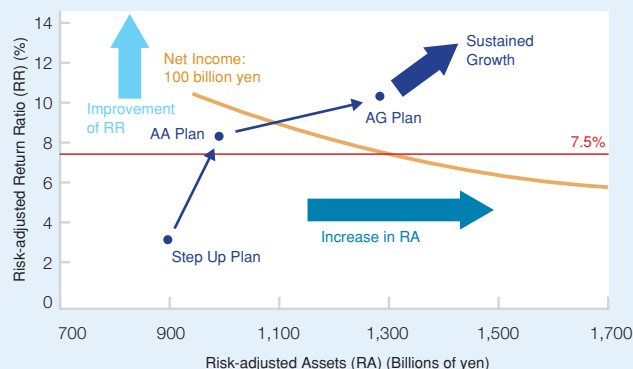
Targets

- Risk-adjusted return ratio:
Over 7.5% (each year)
- Net income:
230 billion yen (two-year total)
FY2005 110 billion yen
FY2006 120 billion yen

Basic policies

- Expansion of our earnings base through dynamic growth strategies
- Implementation of human resource strategies matching our growth strategies
- Pursuit of soundness and efficiency

Growth Image of AG Plan



Key Financial Indicators: Six-year Results and Outlook for AG Plan

	Reform Package		Step Up Plan		AA Plan		AG Plan
	FY99	FY00	FY01	FY02	FY03	FY04	FY06 Outlook
Net Income (Billions of yen)	32.3	50.5	47.7	13.9	66.6	85.1	120.0
Total Assets (Billions of yen)	4,904.6	4,954.1	4,860.2	4,856.2	5,012.5	5,533.1	around 6,300.0
Total Shareholders' Equity (Billions of yen)	629.8	627.0	658.0	618.7	730.8	934.9	around 1,100.0
Shareholders' Equity Ratio (%)	12.8	12.7	13.5	12.7	14.6	16.9	around 18.0
ROE (%)	5.4	8.0	7.4	2.2	9.9	10.2	around 11.0
ROA (%)	0.6	1.0	1.0	0.3	1.4	1.6	around 2.0
Interest-Bearing Liabilities (Net) (Billions of yen)	2,503.8	2,447.7	2,528.8	2,502.8	2,377.6	2,376.0	around 2,850.0
Debt-Equity Ratio (Net) (Times)	4.0	3.9	3.8	4.0	3.3	2.5	less than 3.0

Measures to Support Our Growth Strategy

Achievement of dynamic growth requires a company-wide effort, not just by individual Business Units. To support the growth strategies of each Business Unit, we have set aside a special “AG Plan Growth Support Package,” with a ¥5 billion budget for fiscal year 2005 that will be used to promote growth strategies and manage supporting entities.

To step up new investment initiatives and broaden our earnings base, we must be able to make investments and cultivate them by managing business risk, which requires competent human resources. Hence, to successfully implement our future growth strategies, each Business Unit and the Company as a whole will strive to secure and foster human resources from a long-term perspective.

2. Advancing Business Portfolio Management

Carefully Selected Investments

Since initiating management reforms in fiscal year 1999, we have been advancing our business portfolio management. For new investment opportunities, we strictly screen and adopt common company-wide hurdle rates. In addition to quantitative criteria, the Loan and Investment Committee examines all large-scale investments from multiple perspectives, including strategic significance, the business environment, plans for adding further value after investment, and exit-related complexity. The ¥240 billion in risk-adjusted assets that we increased in the two years of the AA Plan were all acquired after stringent screening processes. Many of them have generated profits from the date of initial investment, and we expect them to contribute to our future performance.

AG Plan Growth Support Package

- **Company-Wide Project Promotion Committee**
This Committee supports the activities of Business Units, company-wide organizations, and task forces in carrying out ultra large-scale projects, cross-organizational projects, and new business development in order to promote dynamic growth strategies.
- **M&A Promotion Support Team**
Mainly led by M&A experts from the Financial Service Division, this Team provides support for large-scale M&A deals undertaken by Business Units and regional operations. Specifically, it helps uncover, analyze, and evaluate M&A opportunities and assists with contract negotiations.
- **New Technology Committee**
Established under the AA Plan, the New Technology Committee provides ongoing support for cultivating and commercializing new technological domains—such as nanotechnology, biotechnology, and clean energy—that could drastically expand our earnings base in the future.

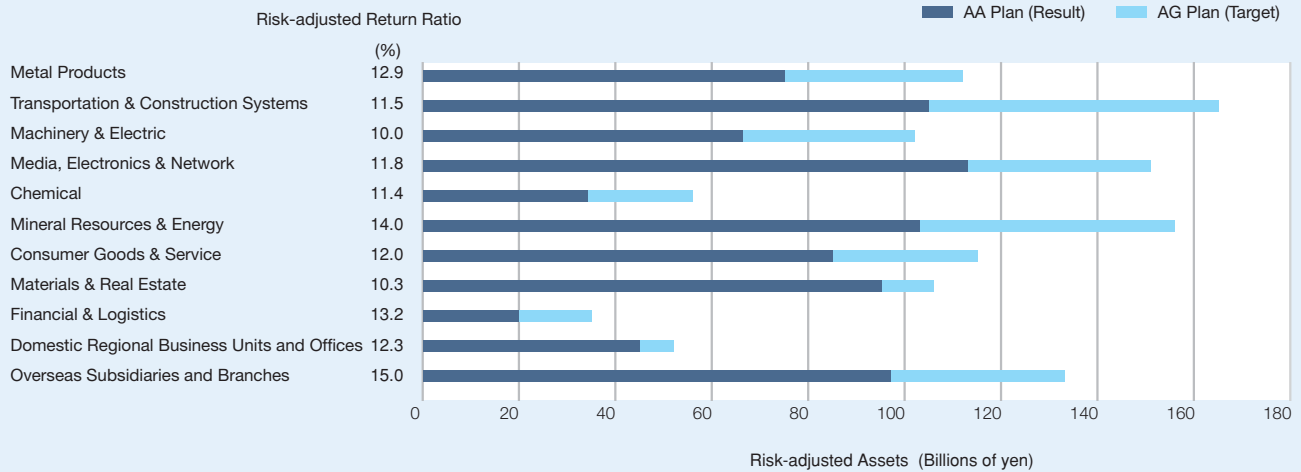
Human Resource Strategies

- **Human Resources Management Committees**
Established in each Business Unit, these Committees formulate long-term plans for recruiting and developing the human resources necessary to realize our growth strategies.
- **H.R.D. Committee**
Headed by the President and CEO, this Committee examines the Corporation’s human resource development needs over the medium and long terms from various angles.

Principal Strategic Investments Under AA Plan

- We complemented and reinforced our portfolio of steel products through the acquisition of Nichimen Corporation’s steel products business.
- We developed our automobile-related value chain in the upstream area through the acquisition of KIRIU Corporation, an automotive parts manufacturer.
- We secured long-term, stable income sources by investing in electric power businesses, such as the Hermiston power plant in the United States.
- We built a well-balanced mineral resources portfolio through the purchase of oil-field rights in the British North Sea and elsewhere, coal mine rights in Australia, and LNG rights in Indonesia.
- We acquired The Hartz Mountain Corporation, a pet care business that represents a new growth area.

AG Plan Targets by Segment



Dynamic and Flexible Strategies for Accelerating Growth

Under the AG Plan, we will further implement dynamic and flexible strategies to boost our growth. We intend to increase company-wide risk-adjusted assets by ¥340 billion through M&As and a reinforcement of our core businesses. To ensure that management resources are effectively allocated to expand our earnings base, we conducted an in-depth examination of our business portfolio strategies. Specifically, our Business Units closely examined and analyzed our main business lines in terms of their competitor's relations, the growth potential of respective industries, and the value chain structures of industries, and they also investigated the existence of potential business opportunities.

With respect to investments, we will focus on cultivating areas peripheral to our core businesses, where we expect steady income growth. We will also expand both the upstream and downstream aspects of the value chains we have built in various fields, while developing our core business models on a global basis. In these ways, we will strengthen our assured method for winning which we are able to exert our core competence.

We are reviewing our business portfolio and monitoring progress in our growth strategy as well as the status of our individual businesses at all times. Furthermore, we will carefully assess the environment and growth potential of individual businesses and promote flexible strategies such as IPOs, Group company mergers, and asset replacements, and maximize the corporate value of the Sumitomo Corporation Group.

