Progress of Expanding Earnings Base under the AG Plan

Aiming for sustained growth, we are actively increasing profitable assets under the AG Plan focusing on further expansion of our earnings base. Over the two-year period covered by the AG Plan, we have an aggressive plan intended to increase risk-adjusted assets by a further ¥340 billion, representing growth of more than 30% compared to risk-adjusted assets of around ¥950 billion at the end of fiscal year 2004.

In fiscal year 2005, the first year of the AG Plan, we increased risk-adjusted assets by around ¥230 billion. Of this amount, ¥170 billion resulted from strategic investments, acquisition of fixed assets, and increases in receivables and inventories accompanying growth in business operations. The remaining ¥60 billion stemmed from external factors, such as rises in the market prices of our shareholdings and increase of risk-adjusted assets in foreign currency reflecting the yen's depreciation. In our view, our plan to increase profitable assets is proceeding steadily in accordance with our initial plan.

In fiscal year 2006, the second year of the AG Plan, we anticipate a further ¥190 billion increase in risk-adjusted assets, which we expect to result in a total ¥420 billion increase over the two-year period of the AG Plan—well above our initial plan of ¥340 billion.

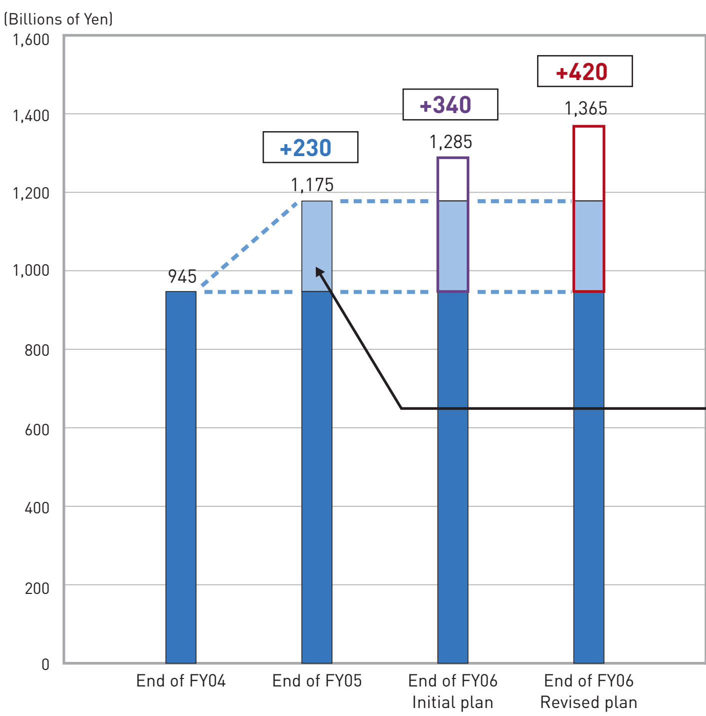
During the term of the AG Plan, we will proactively increase profitable assets and free cash flow is planned to result in cash out. Free cash flow in fiscal year 2005, the first year of the AG Plan, resulted in a ¥204.2 billion outflow and we anticipate another cash out in fiscal year 2006. Although necessary capital will be funded through interest-bearing liabilities, increases in net income will reinforce shareholders' equity. At the end of the AG Plan, we expect shareholders' equity ratio to be around 20% and debt-equity ratio to be around two times. Thus, we expect to improve our financial position as well as to actively broaden our earnings base.

Progress by Segments

Although the AG Plan calls for increases in risk-adjusted assets across all business segments, we anticipate large increases particularly in the Metal Products, Transportation & Construction Systems, Media, Electronics & Network, and Mineral Resources & Energy Business Units, as well as in Overseas Subsidiaries and Branches.

Taking a look at the growth progress in risk-adjusted assets for fiscal year 2005 by segment, in Metal Products, we steadily increased our risk-adjusted assets in expanding our network of domestic and overseas steel service center operations for steel sheets, and reinforcing our supply chain management (SCM) for tubular products on a global basis.

RISK-ADJUSTED ASSETS PLAN



Increase in risk-adjusted assets

Initial plan +340 billion yen → **Revised plan +420** billion yen

Increased in FY05: approx.**+230** billion yen

- **Strategic investments and increase in operating assets:** approx.+170 billion yen
- **Rise in stock price and depreciation of yen:** approx.+60 billion yen

Outlook of FY06: approx.**+190** billion yen

Transportation & Construction Systems made Sumisho Auto Leasing Corporation into a wholly owned subsidiary, strived to expand its automobile lease and finance businesses in Asia, and broadened its overseas construction equipment business. These activities led to growth in risk-adjusted assets exceeding our initial plan.

Media, Electronics & Network is expanding its business base in each core businesses through M&A activities such as acquiring new cable TV operators, a mobile phone sales company, and a cineplex operation.

Mineral Resources & Energy increased risk-adjusted assets through investments in oil and gas projects in the North Sea and the Gulf of Mexico. Amid surging prices for natural resources such as crude oil, however, we strictly applied hurdle rates for investment and selected only profitable projects. As a result, the increase in assets was moderate compared with our initial plan.

In addition, we acquired TBC CORPORATION, a tire marketer in the U.S. (Overseas Subsidiaries and Branches, Materials & Real Estate), invested in power generation projects in Asia and the Middle East (Machinery & Electric), acquired stake in a pharmaceuticals manufacturer in China (Chemical), and made fund-related investments (Financial & Logistics). Thus, we increased profitable assets in all segments.

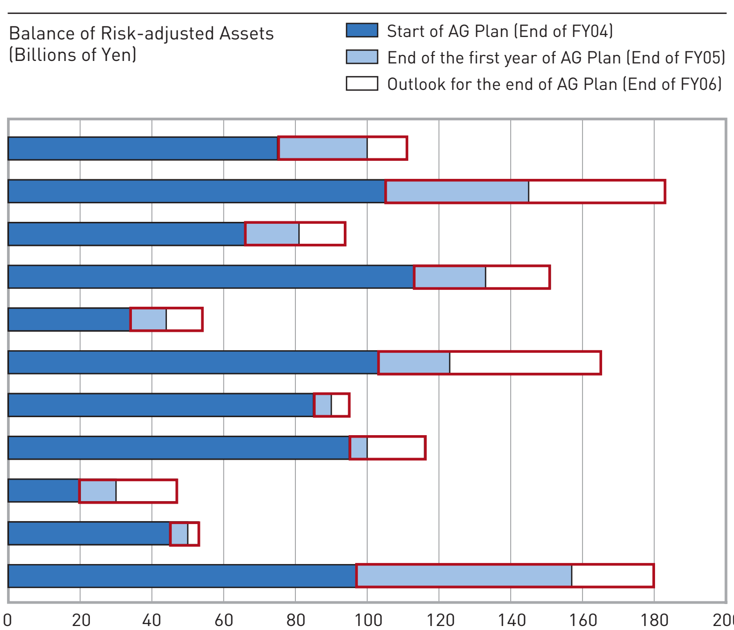
We are also replacing assets continuously and promoting further selection and concentration of businesses. For example, we sold our stake in Coach Japan, Inc., (Consumer Goods & Service), realizing value in a timely manner, and we promoted liquidation of assets, including our headquarters building in Tokyo (Materials & Real Estate).

In fiscal year 2006, we will continue to actively increase risk-adjusted assets, centering on the core businesses and their surrounding fields in each segment, and promote expansion of the value chain and development of global operations in each business.

Under the AG Plan, the two-year average risk-adjusted return ratios of all segments are expected to exceed the results of the previous AA Plan. In addition, all segments will greatly surpass 7.5% risk-adjusted return ratio, the level of earning power which covers shareholders' capital cost, and will improve to over 10%. Thus, along with the expansion of our earnings base, we are further enhancing our profitability.

RISK-ADJUSTED ASSETS/RISK-ADJUSTED RETURN BY SEGMENT

	Risk-adjusted Return Ratio (%) AA Plan FY03-FY04 Result	Risk-adjusted Return Ratio (%) AG Plan FY05-FY06 Revised plan
Metal products	15.4	19.0
Transportation & Construction Systems	13.0	14.2
Machinery & Electric	4.7	12.4
Media, Electronics & Network	12.8	12.9
Chemical	7.1	14.5
Mineral Resources & Energy	10.6	17.4
Consumer Goods & Service	7.1	11.7
Materials & Real Estate	0.3	12.4
Financial & Logistics	13.5	17.8
Domestic Regional Business Units and Offices	6.2	11.7
Overseas Subsidiaries and Branches	18.4	20.8
Consolidated	8.2	14.2



*Risk-adjusted return ratios are two-year averages