Advancing Our Business Portfolio Strategy

Implementing management reforms since 1999, we have achieved major advances in our business portfolio management. Under the Reform Package (fiscal years 1999 and 2000), we improved our balance sheet by disposing of unprofitable businesses. Then, under the Step Up Plan (fiscal years 2001 and 2002), we focused on improving profitability through replacing assets. On our Strategy Map, which has profitability and growth potential as its axes, we plotted all of the businesses in our portfolio and considered into which core businesses we should put our limited management resources. We took into account, not only the profitability of each business, but also the profitability, growth potential, and stability of our entire portfolio, and clarified the position of each business, determining which businesses were to be allocated management resources, and which ones were to be withdrawn or sold.

Under the subsequent AA Plan (fiscal years 2003 and 2004) and AG Plan (fiscal years 2005 and 2006), we switched to an "aggressive" management approach promoting expansion of our business base. In addition to enhancing profitability, we are aiming for an optimal allocation of management resources considering growth potential and synergistic effects in each business. Our Sumitomo Shoji Research Institute, Inc. carries out detailed analysis of the industrial environments and risks of our core businesses, as well as their competitive advantages in their respective industries. Having a grasp of business conditions and our strengths, we are now shifting to businesses which are highly strategic and where we can utilize our core competence.

In accordance with company-wide management strategies, our nine Business Units, which cover a broad array of business fields, are developing businesses in a strategic way. All Business Units are examining which areas of their industries still have potential for further growth, and which parts along the business flow of products and services from upstream manufacturers to downstream end users they should enter, and whether the expertise accumulated through the business operations so far can be utilized in other fields.

Management with "Grip"

In addition to our business portfolio management based on autonomous management by each Business Unit, the Corporate Group controls and supports the activities of the Business Units. From our past experience, we have learned that participating in a project without an adequate business plan, or remaining in unprofitable businesses, will lead to increased losses when withdrawing from those businesses. For this reason, we have established common, clear company-wide criteria, including hurdle rates and exit rules, employing them as a basic standard for the selection of businesses. Projects that could have a major impact on our financial results are examined and deliberated upon by the Loan and Investment Committee including the Corporate Group and the relevant Business Units. Analyses are multifaceted, taking into account not only profitability but also strategic significance, compatibility with the vision of the investment partner, exit strategies, and the impact of losses in worst-case scenarios. Large projects in particular are regularly followed up on by the Company-wide Project Promotion & Support Committee to track the progress of strategies, even after investments have been made. Furthermore, through monitoring the progress of the plans of each Business Unit at meetings, including Strategy Meetings four times a year, management and Business Units share a clear understanding of strategies and their implementation status. These initiatives are contributing to the continuous improvement of our financial results.

Company-wide Optimal Allocation of Management Resources and Risk Management

The Corporate Group is promoting optimal allocation of management resources and risk management from a company-wide perspective. Ensuring that the risks that arise from the activities of the Business Units are appropriate to the Company's overall strength, we maintain a balance between company-wide risk-adjusted assets and a risk buffer centering on shareholders' equity. In addition, from a financial standpoint, we verify whether funds required for company-wide business strategies can be procured at an appropriate cost while maintaining sufficient liquidity. From the perspective of the balance of our company-wide business portfolio, we are controlling risk so that excessive risk does not concentrate in any particular industry or region.

As for one important initiative under the current AG Plan, our Management Resources Reallocation Task Force is aiming for an optimal allocation of management resources including human resources, and promoting company-wide review of our Group companies. The Task Force has been evaluating our consolidated subsidiaries and associated companies, which numbered 836 at the end of fiscal year 2004. In addition to existing quantitative exit rules, the Task Force is adopting qualitative criteria, such as whether or not each company has drawn up a growth strategy, whether or not its employees are working with vitality, and whether or not it has thoroughgoing internal control and compliance frameworks in place. As a result, we have decided to withdraw or merge around 200 companies, and, by the end of fiscal year 2005, had reduced the number of companies by 89.

Our management with grip, based on autonomous management by Business Units supported by top management and the Corporate Group, is the strength of Sumitomo Corporation.