

Accelerating Distinctiveness
—Seamless Pipe

- Invest in more cutting-edge products -

April 2006

<Reference>

Energy Sector

Seamless Pipe

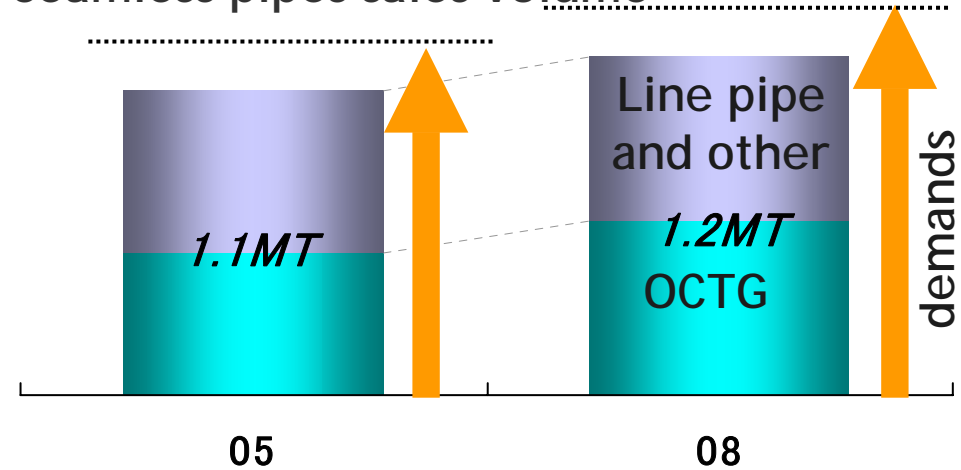
Current position



Dominant position

No.1 brand in the field

Seamless pipes sales volume



Accelerating distinctiveness



Focus on high-grade products

Reinforce SCM with major oil companies

Respond to increased customer demand for high-grade OCTG

→ *Invest in more*

cutting-edge products

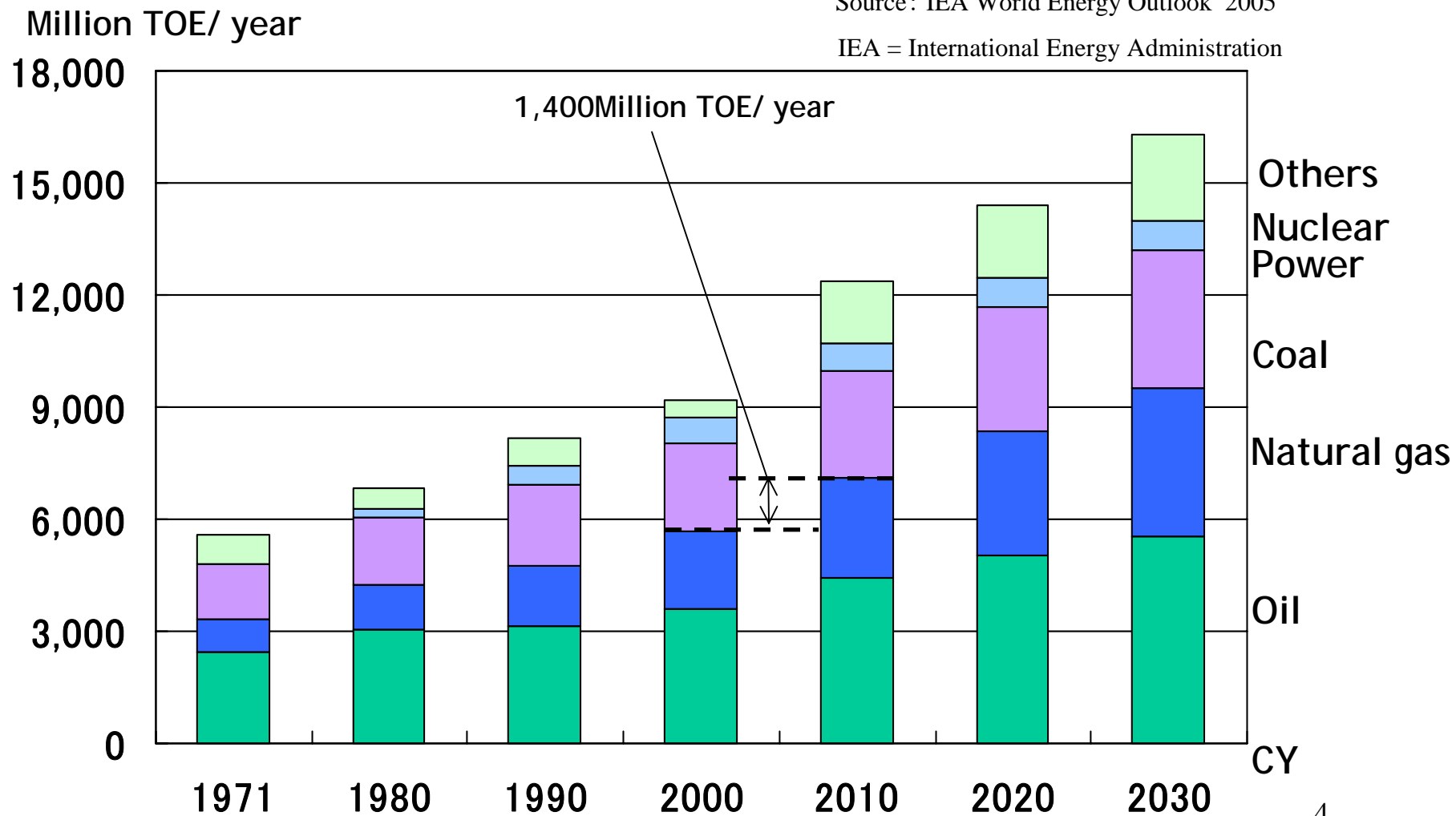
1. Seamless Pipe Business

- | | |
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| (1) Global Energy Trends | 4- 6 |
| (2) Changes in Supply/Demand Structure | 7-10 |
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Outlook for Energy Demand

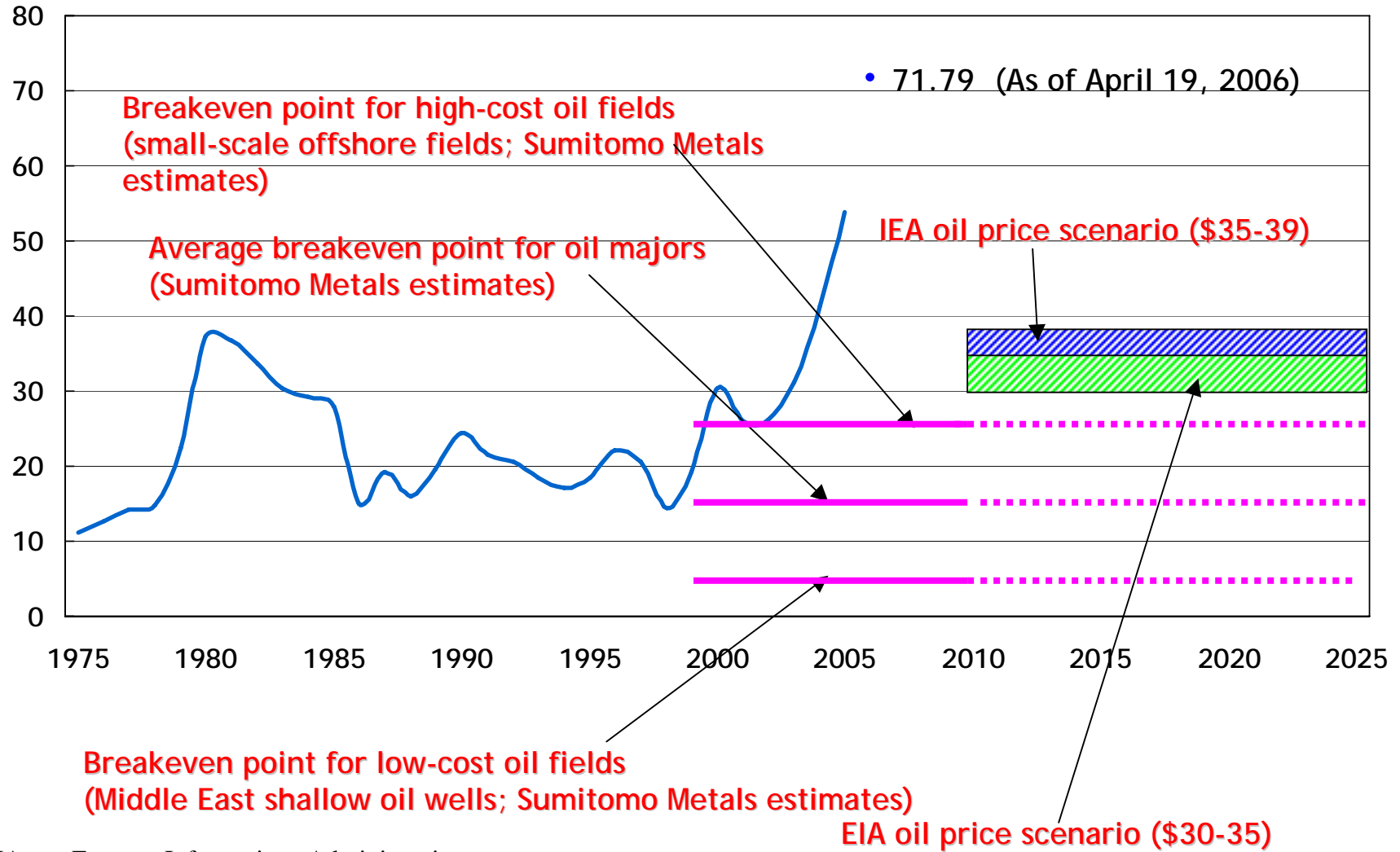
Source: IEA World Energy Outlook 2005

IEA = International Energy Administration



Crude Oil Prices

(US\$/Barrel) Crude Oil Prices Since 1970s Oil Shocks (Average Annual WTI Price)

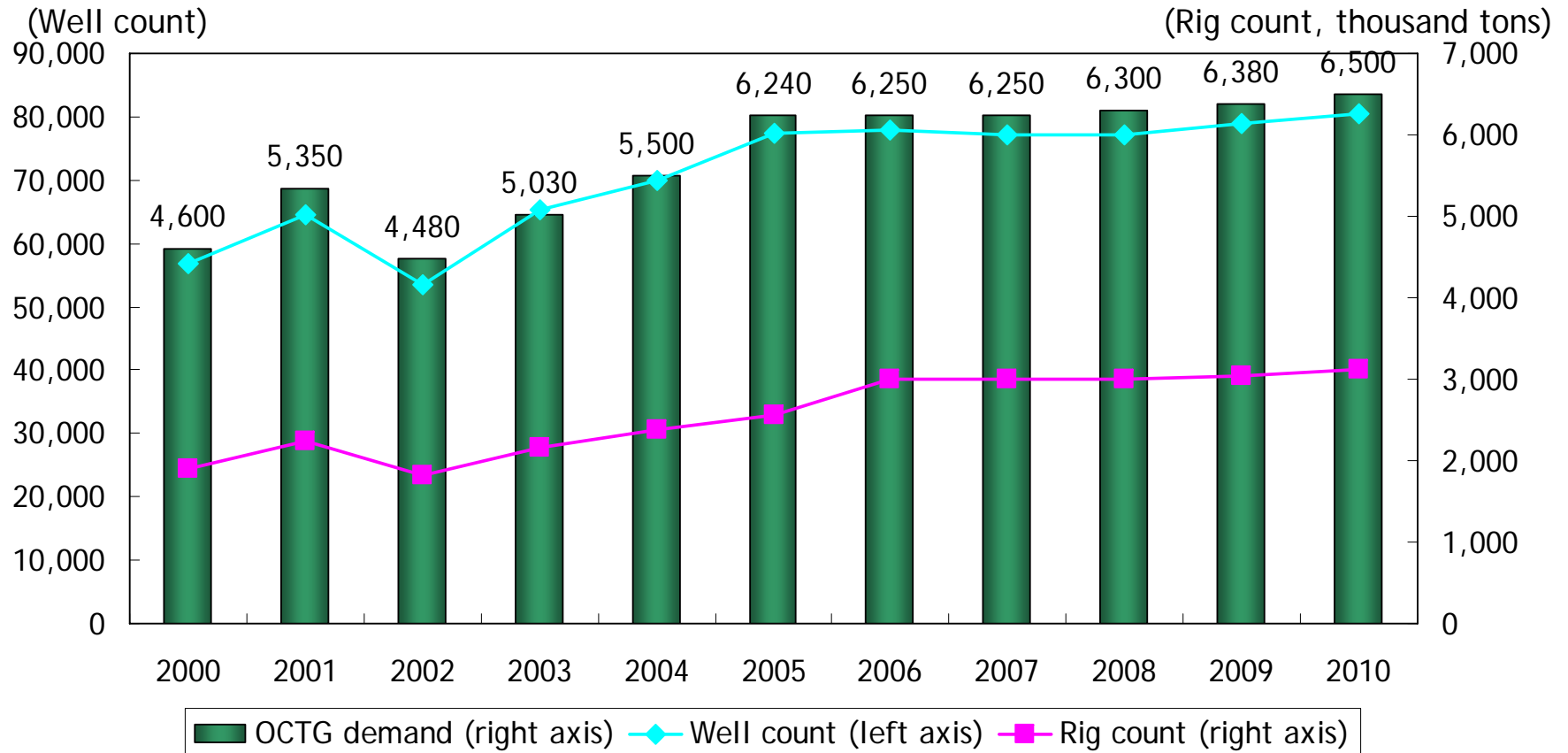


EIA = Energy Information Administration

IEA = International Energy Administration

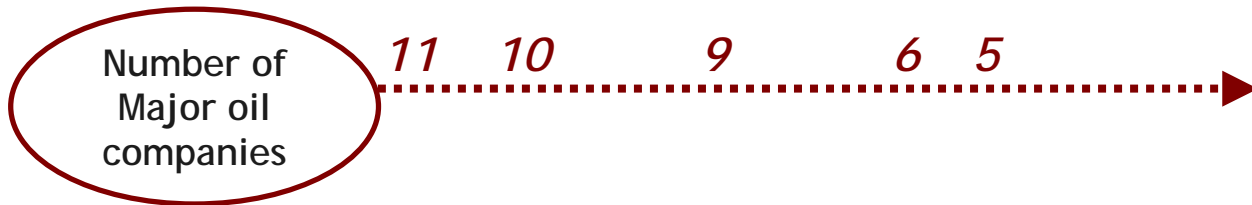
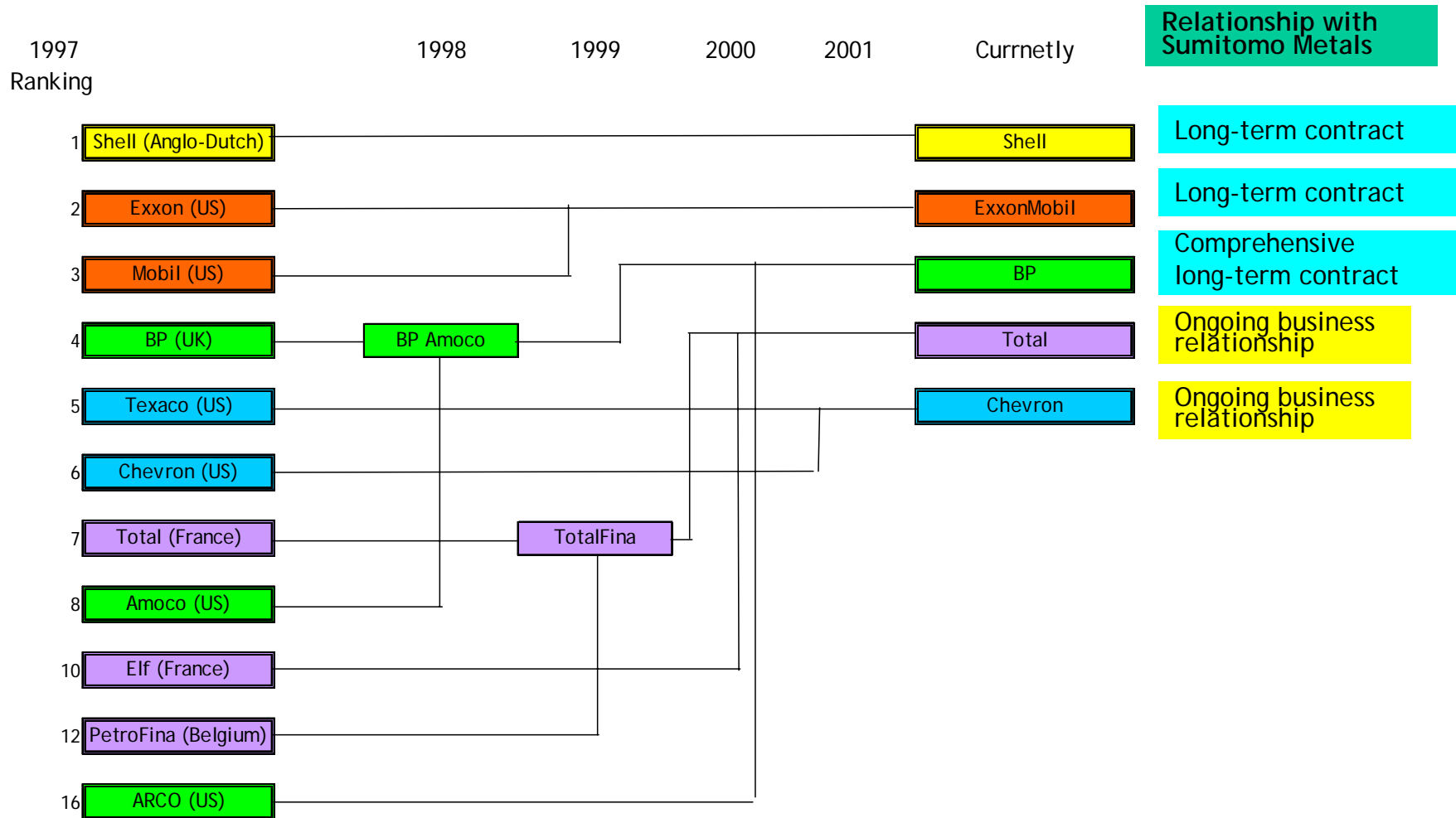
Global Rig/Well Count and Projected OCTG Demand

Rig count: No. of working rigs
Well count: Wells drilled during the year

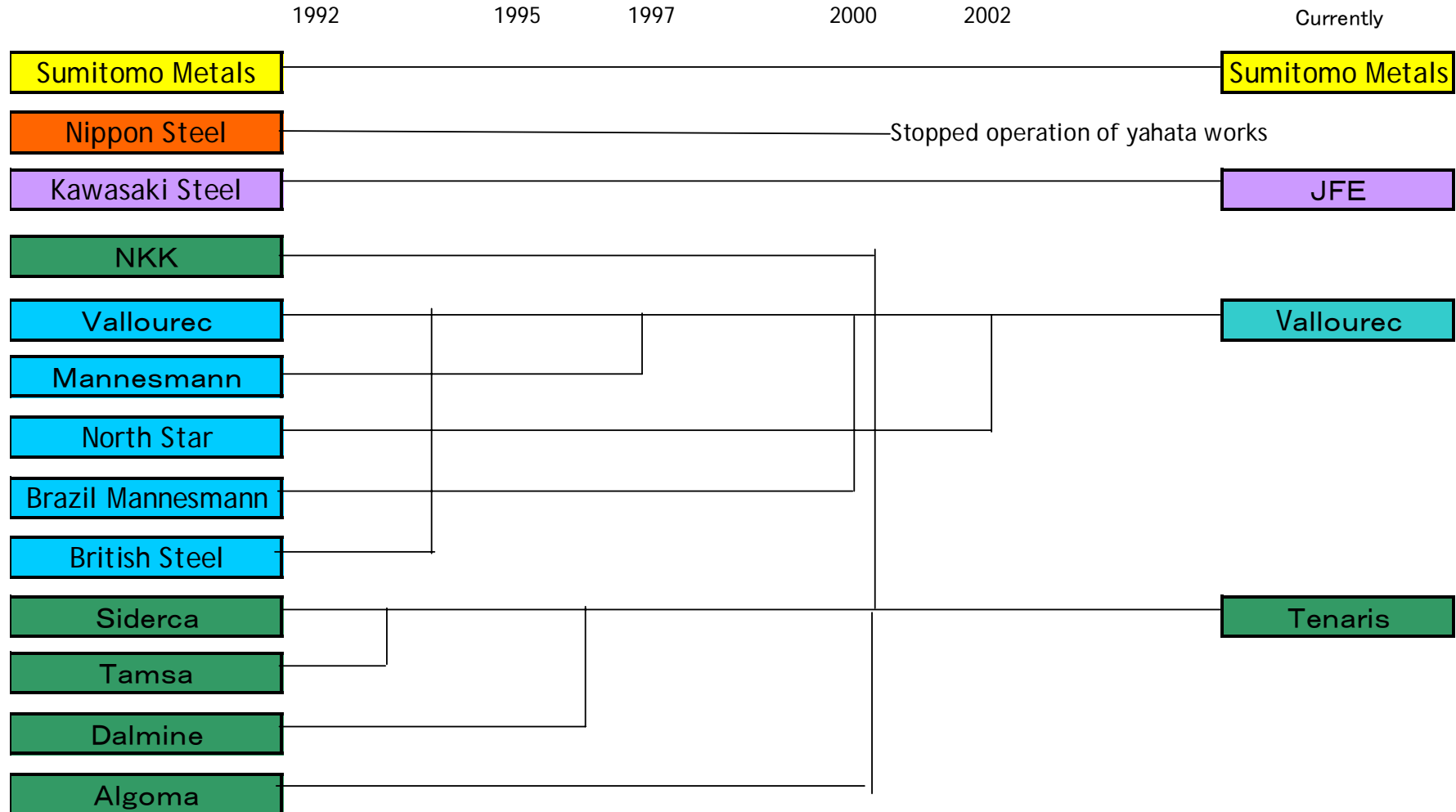


Source: Sumitomo Metals estimates compiled from available statistics

Mergers and Acquisition in the Oil and Gas Industry



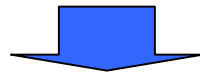
Mergers and Acquisition in the Seamless Pipe Supplier



Changes in Supply/Demand Structure for Seamless Pipe

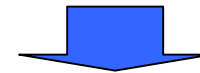
(1) Changes in Demand Structure

Rising energy needs in BRICs is supporting high demand for seamless pipe



Higher and stable demand

Demand-side mergers have created "super majors" that employ even longer timeframes for oil and gas field development



Smaller fluctuation in demand

(2) Changes in Supply Structure

Supply-side mergers have resulted in fewer manufacturers



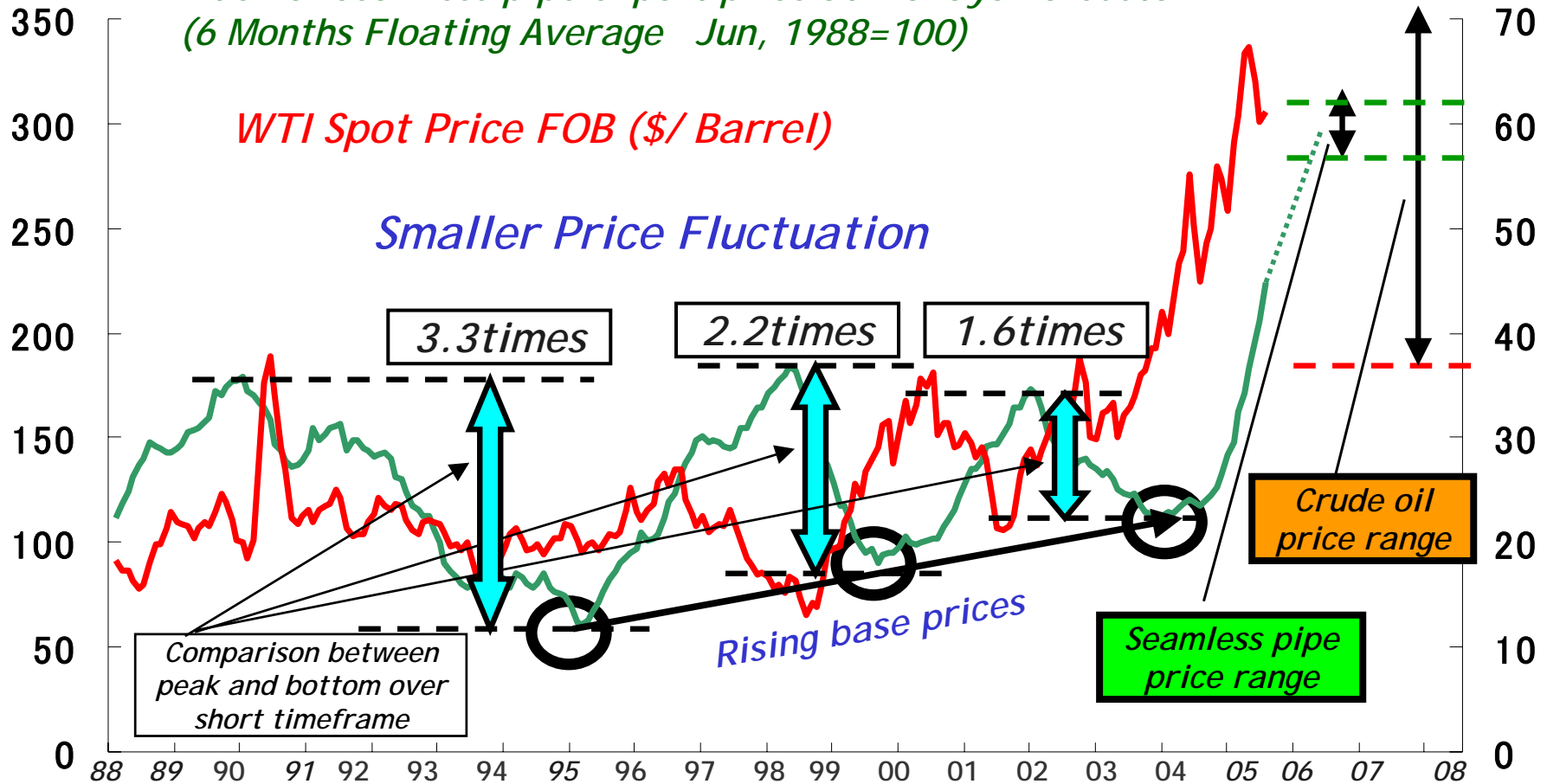
Higher prices with smaller fluctuation

Smaller Price Fluctuation/Rising Base Prices

June, 1988=100

Index of Seamless pipe export price at Wakayama Custom.
(6 Months Floating Average Jun, 1988=100)

\$/Barrel



Number of Major oil companies

11

10 9 6 5

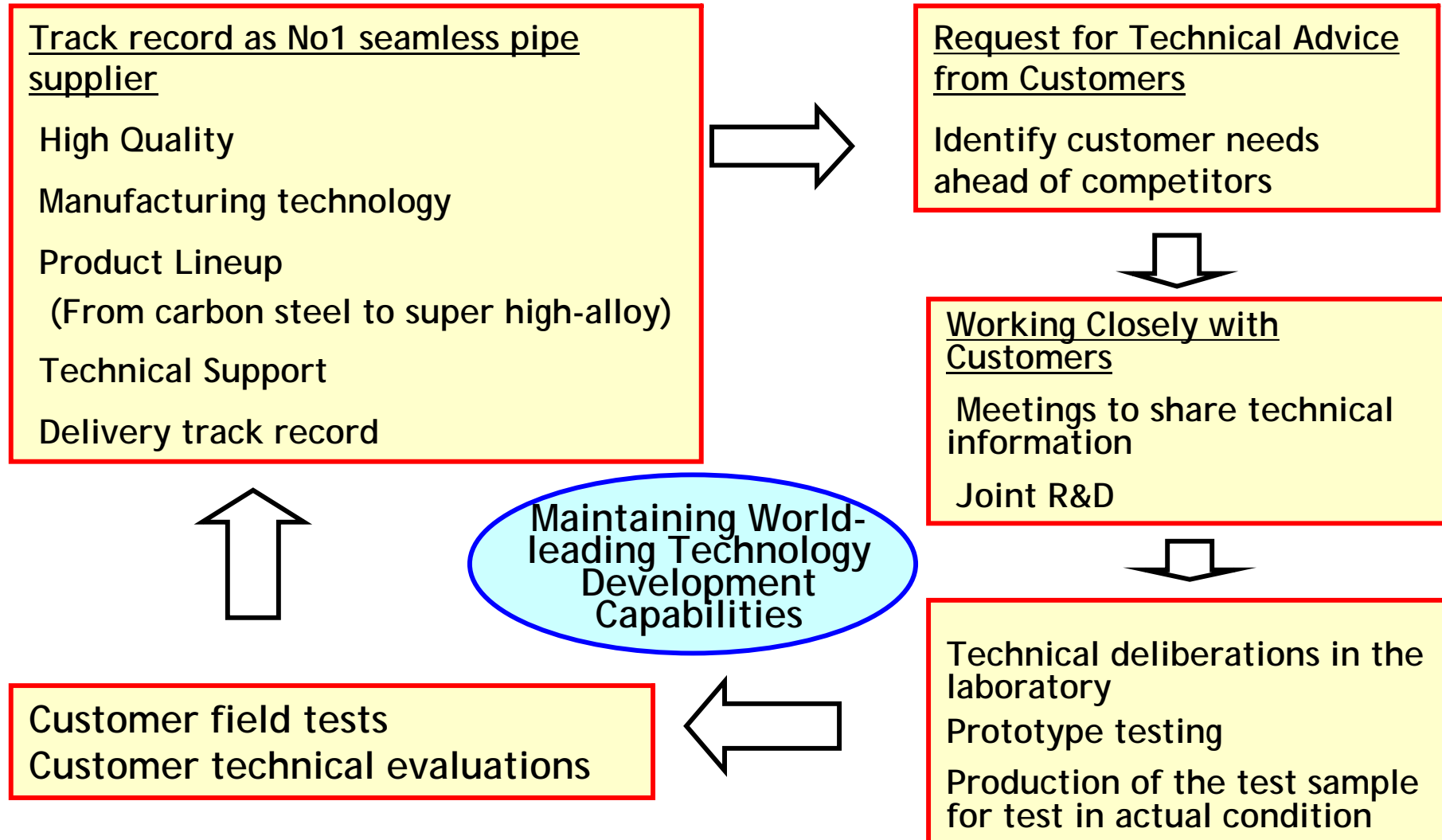
Number of Major Supplier

13 12 11 10 9

6 5 4

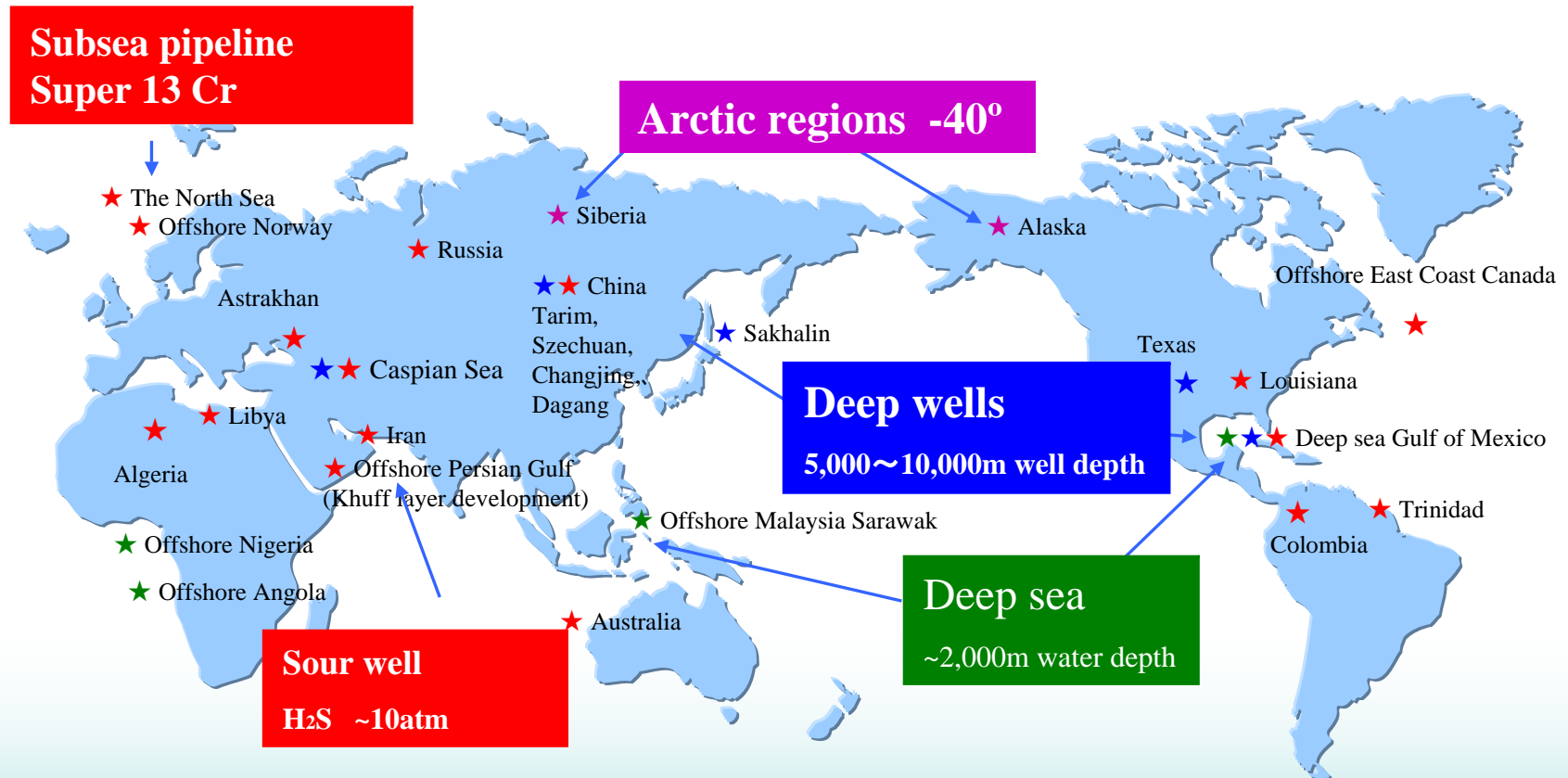
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Sumitomo Metals' Strengths: Working Closely with Customers



Large-scale oil and natural gas development projects

Major Customers of OCTG and Linepipe

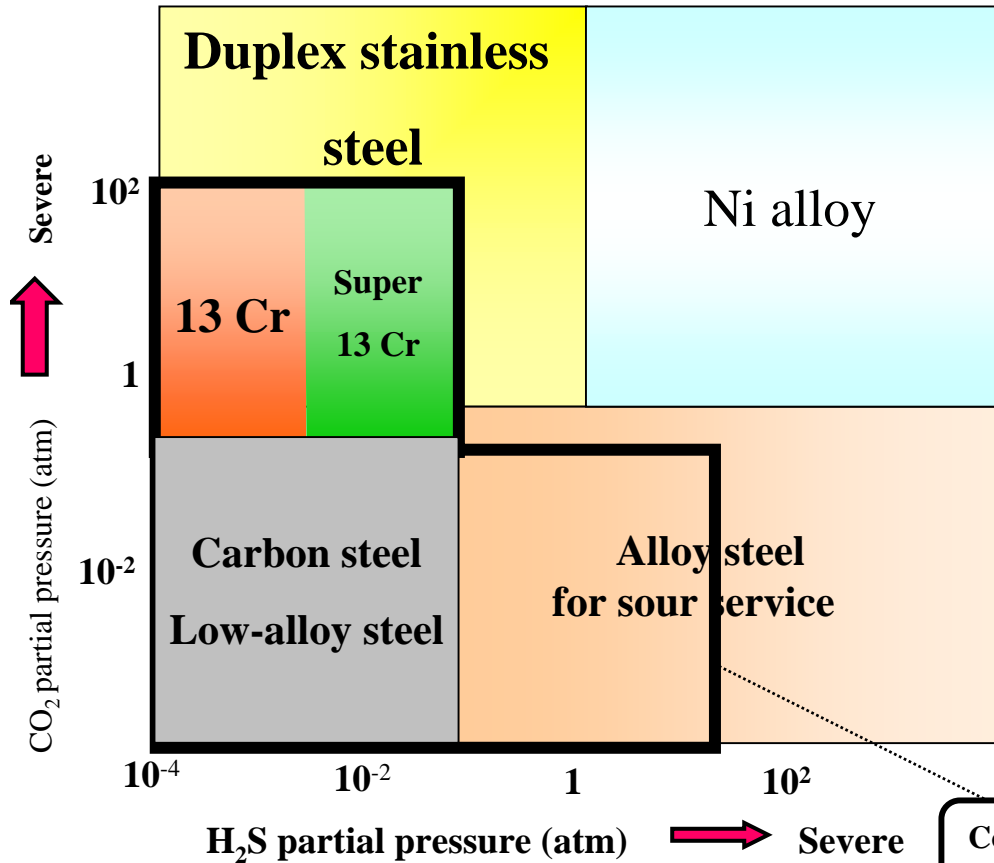


- ★ Deep sea
- ★ Deep well
- ★ Highly corrosive environment

Rising number of OCTG and line pipe projects worldwide

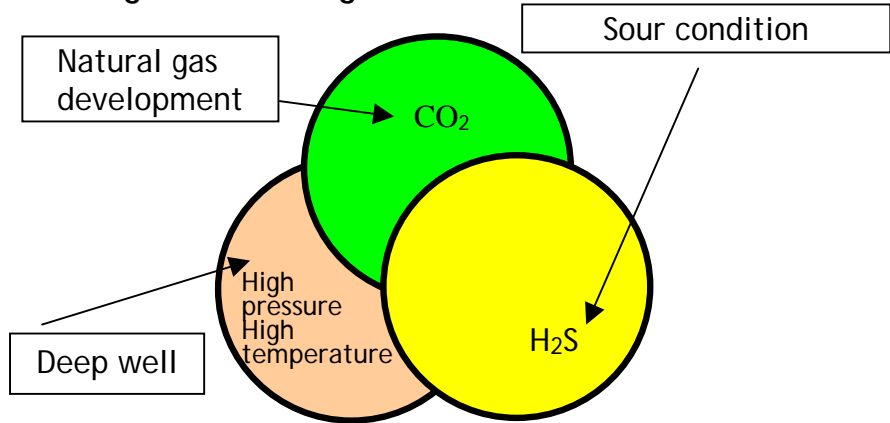
World's top lineup of materials

Application of Sumitomo Metals Material

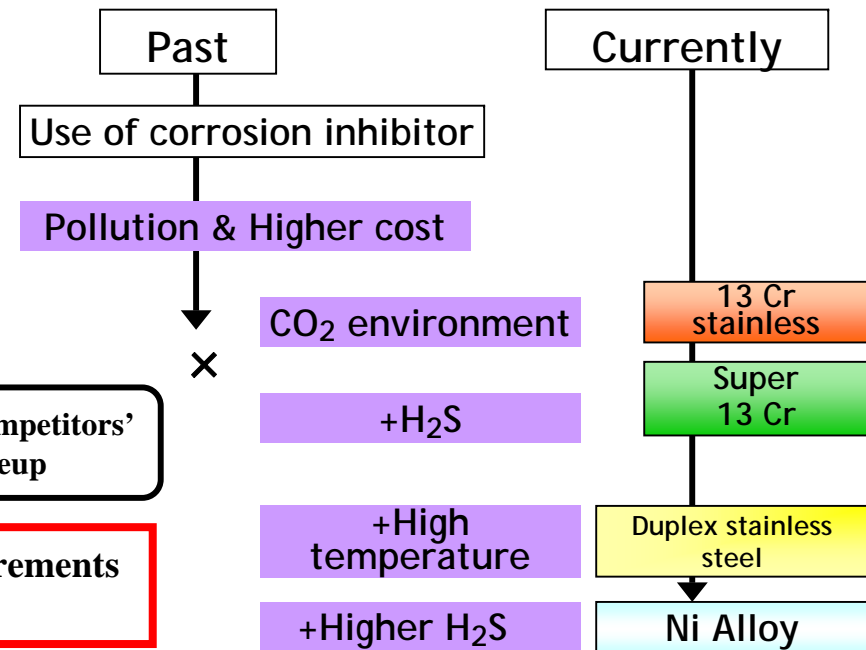


Only Sumitomo Metals can fully cover customer requirements for extreme well conditions


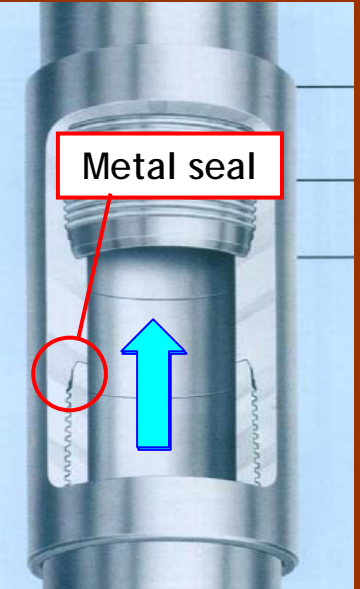
<Changes in drilling environment>

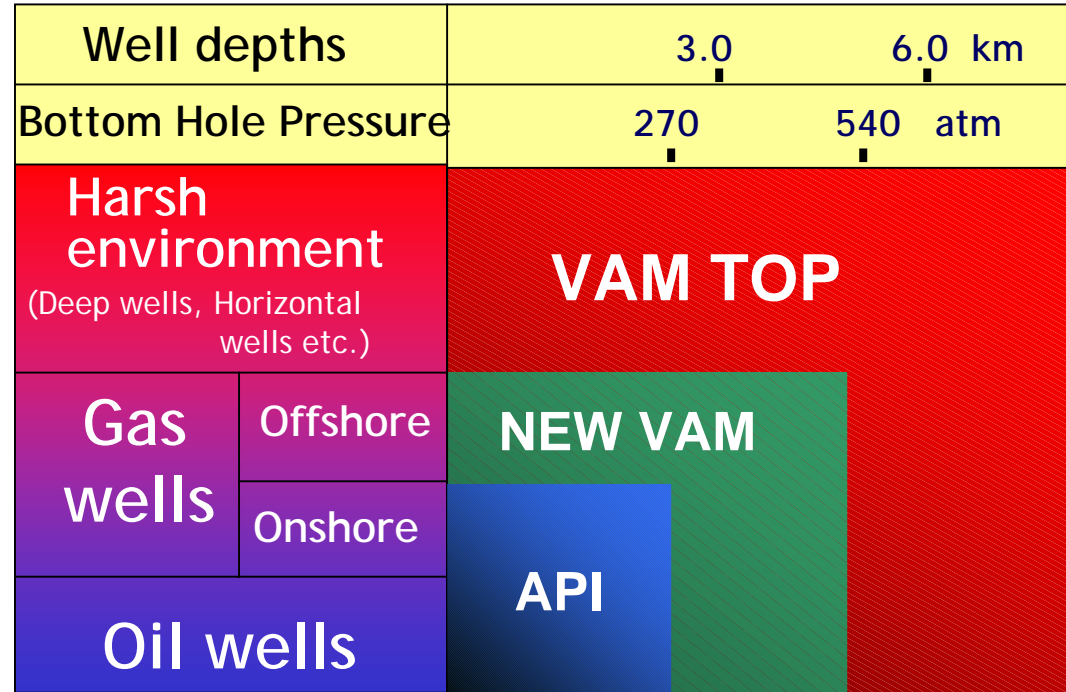


<Material selection for Natural gas development>



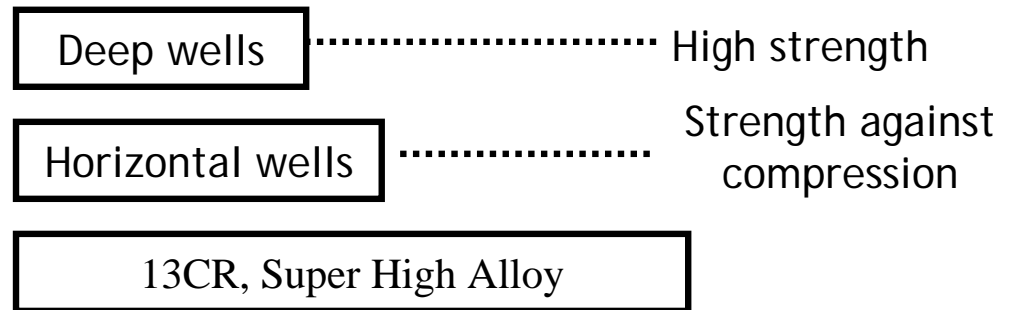
Sumitomo Metals' Strengths: World-leading VAM Series premium joint

API Joints (Round Thread)	VAM Joints (T&C type)
	
<ul style="list-style-type: none"> * Leak * Low Strength (Jump out) * Erosion caused by turbulence 	<ul style="list-style-type: none"> * Gas-tight * High strength * Internal flushness



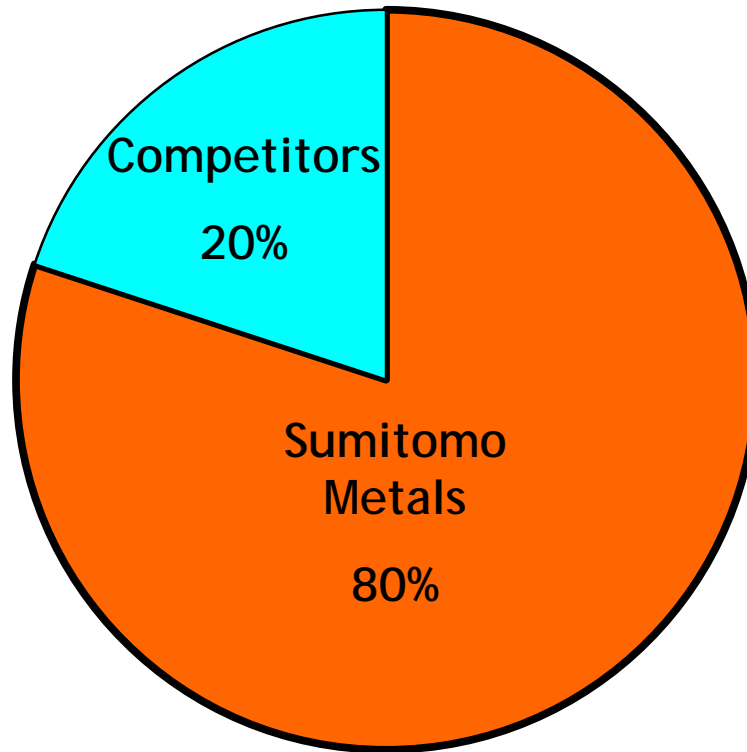
Ratio of VAM series high-grade joints
 2005: 83% → 2008: 85%

<VAM TOP application>



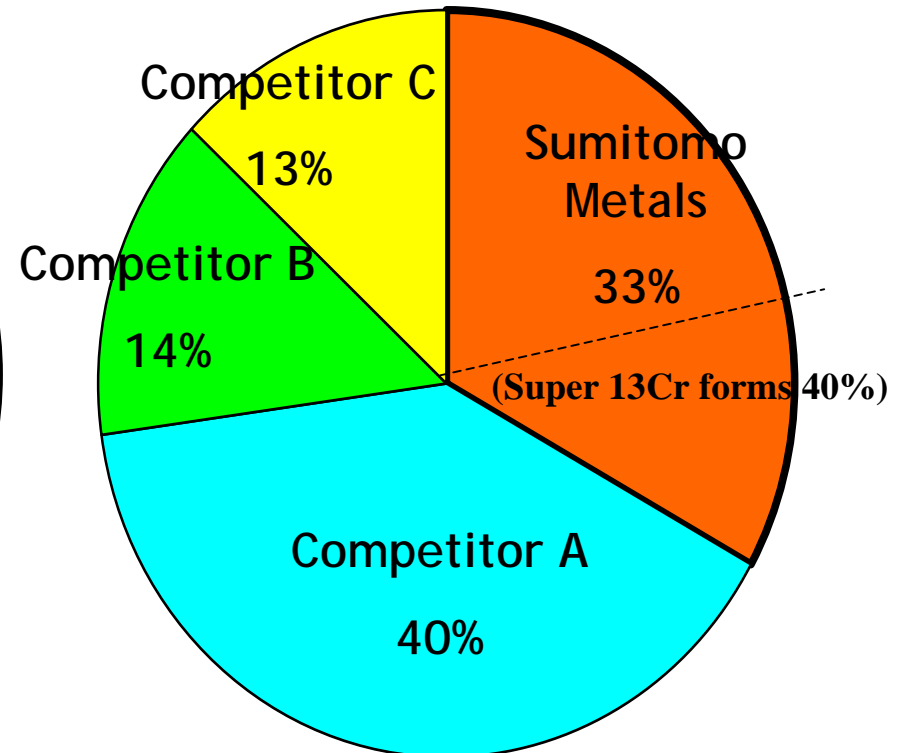
Global Market Share of high-grade products

Share of super high-alloy OCTG sales
(Sumitomo Metals estimates for 2005)



Sumitomo Metals has captured roughly 80% of the market for super high-alloy OCTG

Share of 13Cr OCTG sales
(Sumitomo Metals estimates for 2005)

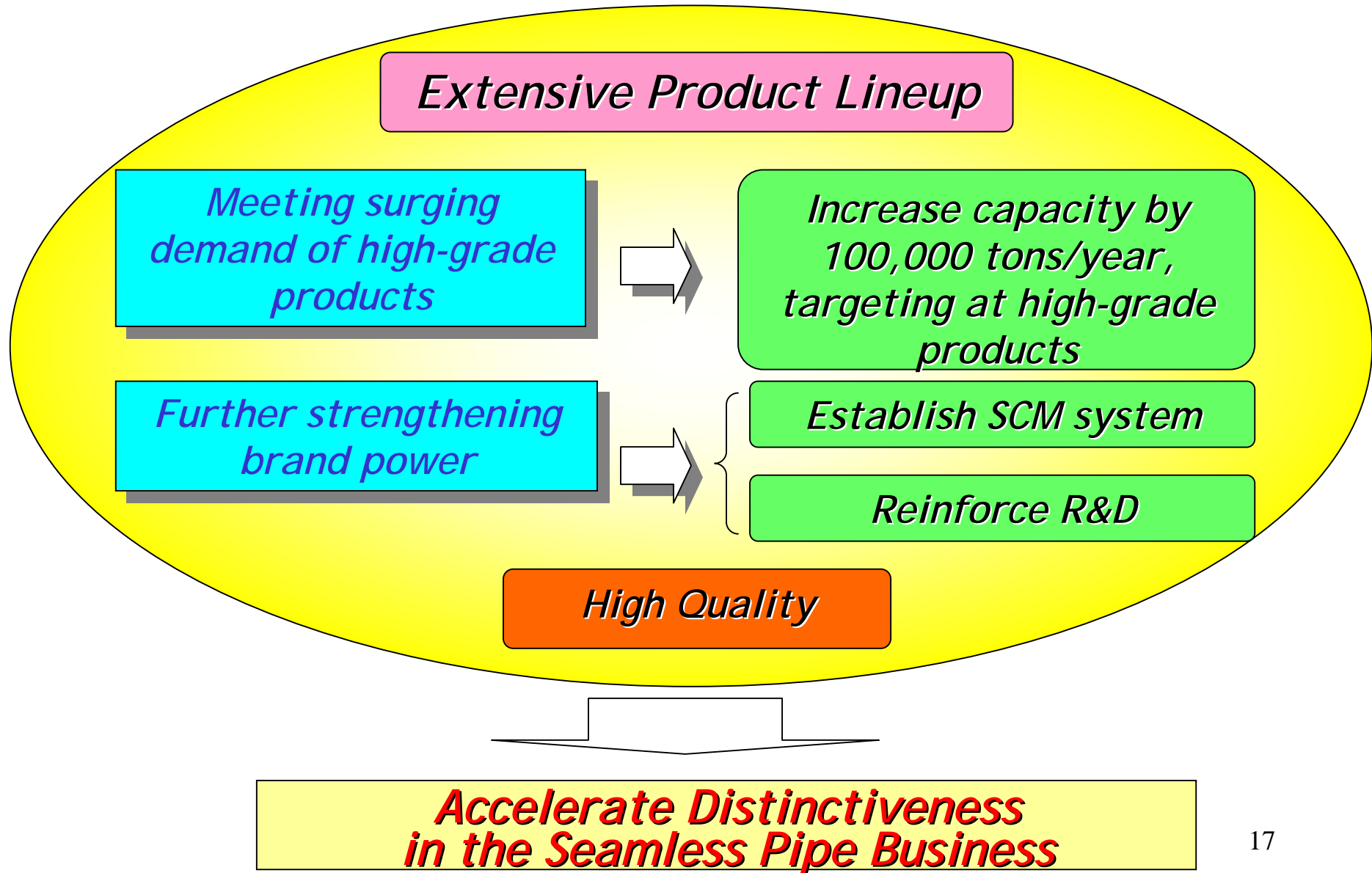


Top two companies have captured more than 70% of the market for 13Cr OCTG

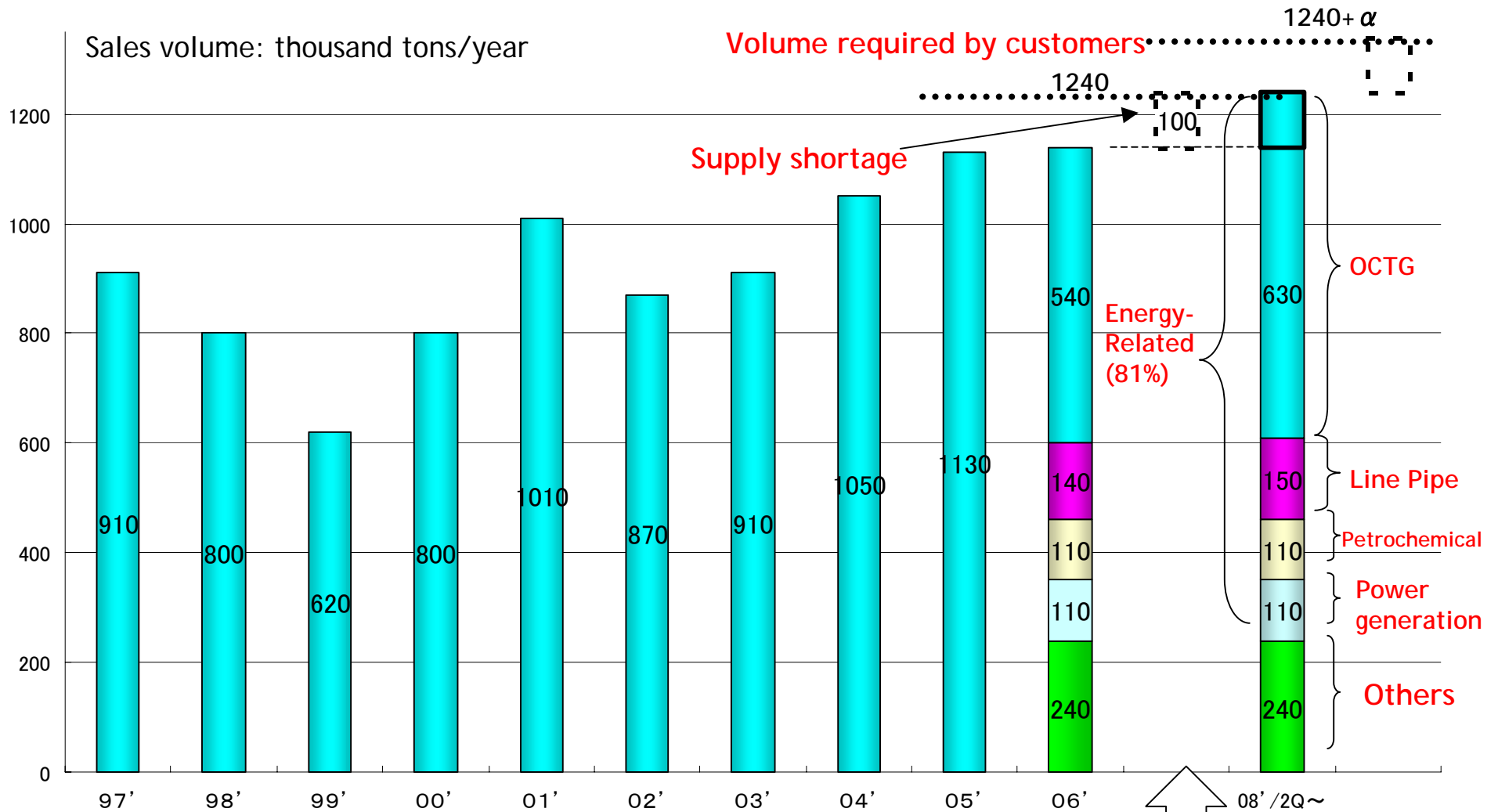
2. Seamless Pipe Business Strategy

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Key Strategy

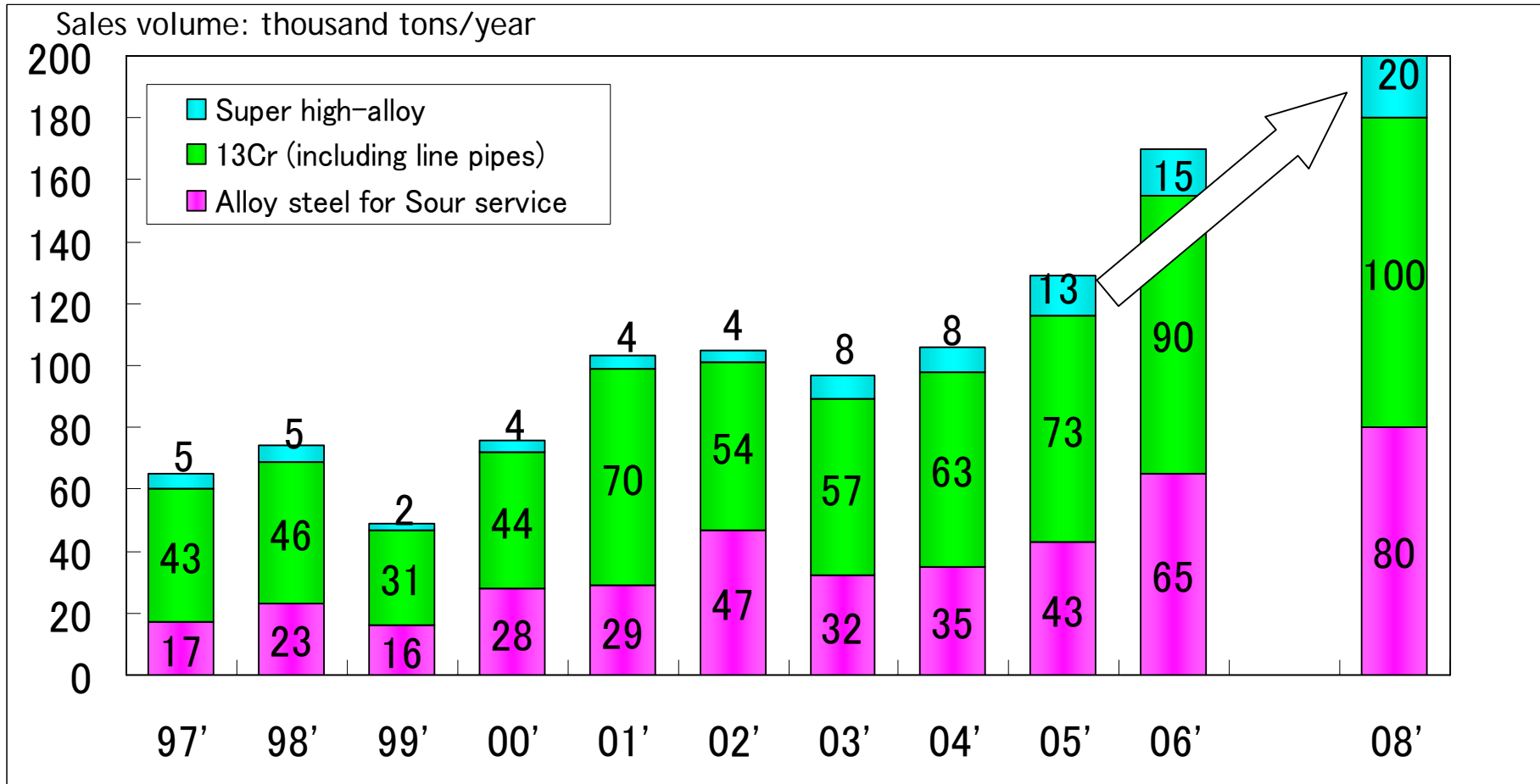


Increase Seamless Pipe Capacity by 100,000 tons/year



Invest to increase production capacity

Expand Sales of high-grade OCTG



Invest to increase the capacity of high-grade products

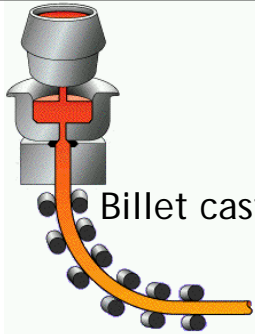
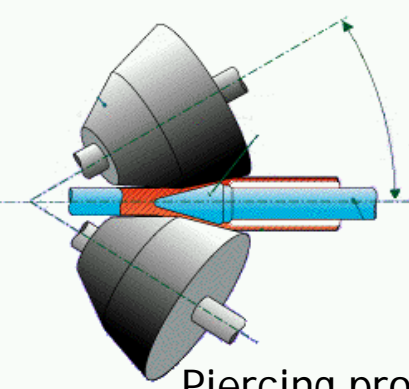

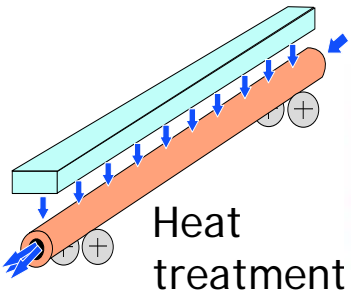
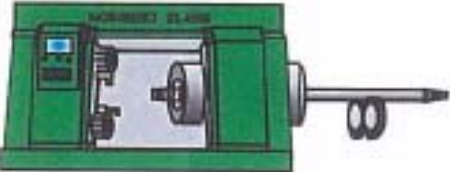
Overview of Investment in more Cutting-edge Products

1. Investment

Target	Capacity increase	Implementation Period
Pipe Rolling	Invest to boost capacity utilization rate by faster change over → Establish 1.24million tons of capacity	Phased increases by first half of fiscal 2008
Heat-treatment	Increase heat treatment capacity for small diameter pipe (2 lines→ 3 lines) Heat treatment capacity 490,000 tons → 660,000 tons	During first half of fiscal 2008
Threading	Invest in threading facility to increase capacity (7units → 8units) Threading capacity 410,000 tons → 550,000 tons	Phased increases by first half of fiscal 2008
Super high-alloy	Production capacity 14,000 tons → 20,000 tons	Second half of fiscal 2006
13CR	Production capacity 80,000 tons → 100,000 tons	Phased increases by end of fiscal 2006

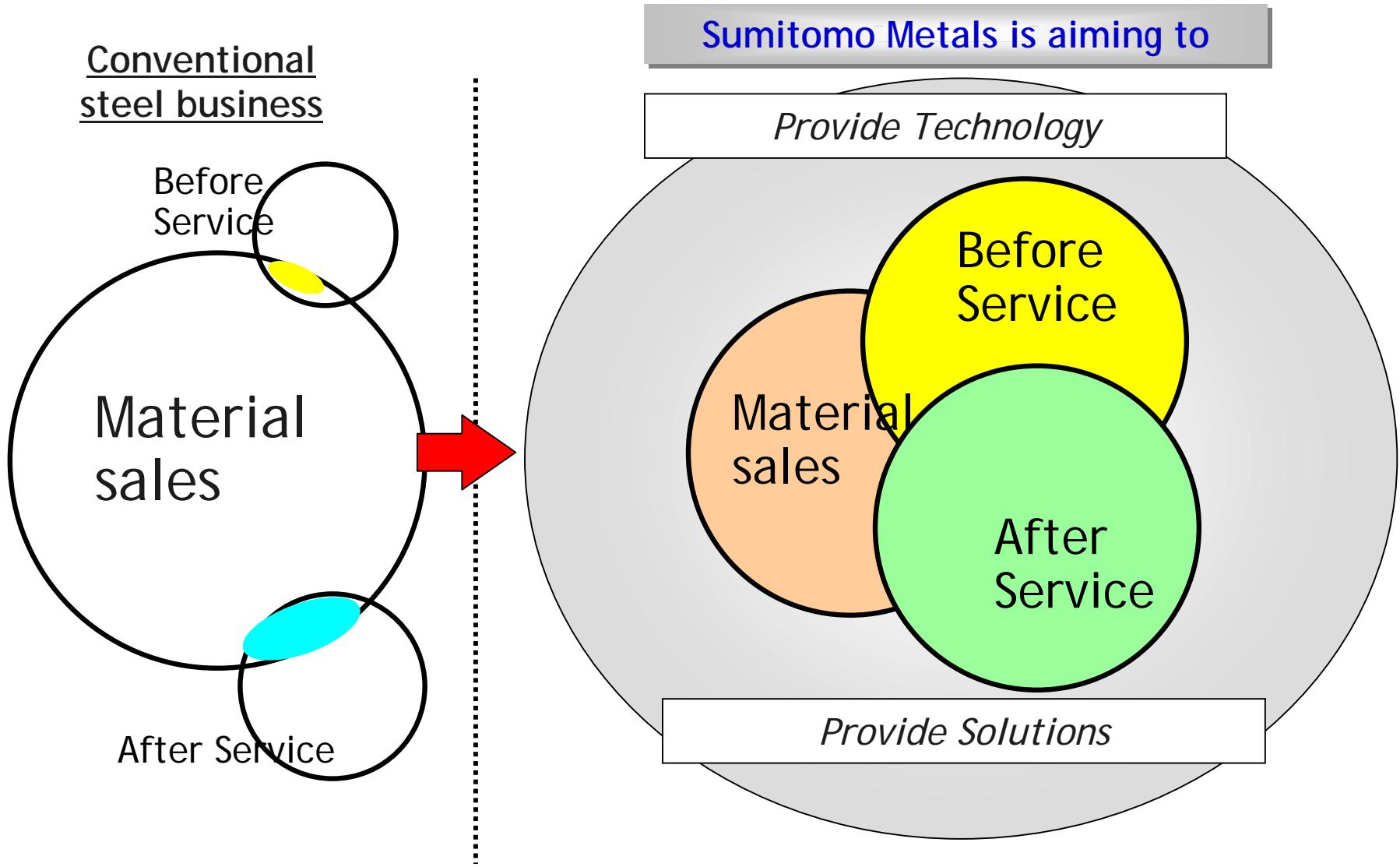
2. Capex : 40 JPY billion

(Reference) Seamless Steel Pipe Manufacturing Process and Key Areas of Investment

 <p>Billet casting</p>	<h3>Steel Making Process</h3>	<p>Iron ore is melted in the blast furnace to obtain a pig iron Billet is casted after the chemical compositions are adjusted to the customers' requirement</p>
 <p>Piercing process</p>	<h3>Pipe Rolling Process</h3>	<p>Billet is pierced to be a hollow shape and rolled to a designated size</p>
 <p>Rolling process</p>	<h3>Finishing Process</h3>	<p>Heat-treatment and threading is applied based on the requirement of the customers</p>
 <p>Heat treatment</p>	 <p>Threading</p>	

Super high-alloy	13Cr	Alloy steel for Sour Service
○	○	
		○
○	○	○

Sumitomo Metals' Steel Business



Solid Partnership with Key Customers

