

Sumitomo Metals FY 2008 the Second Quarter IR Briefing on October 30, 2008

Summary of Q&A

Attendees from Sumitomo Metals:

Yoshinari Ishizuka, Director and Senior Managing Executive Officer

Shin Nishiura, General Manager, Treasury Department

Nobuaki Masuda, General Manager, Public Relations and Investor Relations Department

Masato Hoshi, Manager, Investor Relations Group

(Assumption on production cutbacks and risks for earnings forecasts)

Q1. What kind of risk factors are discounted in the Company's earnings forecasts for the full year?

Wouldn't the harsh conditions in automobile sales have an effect on sales of steel sheets and specialty steel for automobile applications?

A1. We have discounted some downside risks mainly for commodity-grade products and construction materials for the 4th quarter, when updating the annual forecasts. Forecasts for steel sheets for automobiles are based on the assumption of 11.6-11.7 million units in Japan's automobile production for 2008, which would be a decline from the previous year.

Q2. Compared to the previous annual forecasts, the company lowered its production forecast by 130,000 tons. Given an upward revision of 10,000 tons in sales forecasts for seamless pipe, does it mean that you are now forecasting a 140,000 tons decline in production of steel sheets?

A2. Production cuts are forecasted mainly for commodity-grade steel sheets and construction materials including H-beams, to be sold in Japan and for exports.

Q3. Will you give us the present sales breakdown of steel sheets by end markets?

A3. According to our forecasts for this fiscal year, the breakdown is as follows: about 60% for automobiles, 20% for the electric industry, 10% for other specific customers, and the remaining 10% for retail and others. This is on a combined basis of domestic sales and exports.

(Seamless pipe)

Q4. Commodity-grade makers of OCTG (Oil Country Tubular Goods) in seamless pipe are concerned about the weakened oil market and the constraints on purchasing on the demand side, resulting in project postponement of projects. How are the high-end makers like Sumitomo Metals being affected?

A4. As projected, the inventory adjustment in seamless pipe has been completed in the first half of this fiscal year. Since the beginning of the second half, sales of seamless pipe have been on an uptrend. We have raised our forecast in terms of sales volume of seamless pipe by 10,000 tons, compared to our previous forecast announced three months ago.

On the other hand, we lowered our sales forecasts for OCTG high-end products by 5,000 tons from the previous forecasts. It was because some delivery has been pushed off to the first half of the next fiscal year. So far, our sales of seamless pipe have not been affected by the oil market and other factors.

Q5. Oil prices may soon break past the \$60/barrel mark. How do you look at the demand for seamless pipe in the next year? Do you think that the sales level of the current second half will be sustained in the next year?

A5. We see that demand is solid and we have completed capacity expansion. We do marketing activities based on the assumption of full production. Since energy development projects have a long lead time for construction of rigs and other facilities, it is hard to imagine a sudden halt of the projects. Please note that a breakeven point for oil and natural gas projects is set at a crude price of \$30-50 in general and at around \$60 at most even in expensive projects.

Q6. Have you been seeing any changes in the OCTG market, such as a difference in business inquiries according to the different regions of the world, and inventory adjustment?

A6. We have not seen any noteworthy changes.

Q7. Is it OK to think that the prices of seamless pipe are on an uptrend, excluding the impacts from nickel?

A7. We have completed a pass-through of the increased costs of raw materials, approximately \$300 per ton, to our customers, for this year. We are currently working on passing along the higher costs caused by the appreciation of the yen.

Q8. Will prices of seamless pipe rise again in the next year?

A8. We believe that will be the case.

Q9. Do you see any changes in the demand/supply condition and the demand outlook for seamless pipe for power generation?

A9. We have not seen any changes in particular. The mills have received orders for pretty far in advance.

(Raw material prices)

Q10. Will you tell us the details of changes in the past three months, in terms of raw material prices and sales improvement?

A10. Concerning raw material prices, both charges for freight including bunker oil and the cost of ferrous alloy each have decreased by 20 billion yen per annum. Regarding sales improvement,

we have discounted the fact that the price improvements have been implemented ahead of schedule.

Q11. Evaluation gains for this fiscal year have been revised down by 11 billion yen, compared to the previous forecasts of three months ago. Is this due to a decline in prices of nickel?

A11. The decrease in evaluation gains is caused by the fall in the commodity market of nickel and other raw materials.

Q12. You are forecasting a negative impact of 397 billion yen from the surge in raw material prices. At which time of the market for freight rates or ferrous alloy are you using in forecasting?

A12. For freight rates, we are not taking into account the present sharp fall in the market. For other factors, we basically use the present market.

(Business conditions by internal company)

Q13. Annual operating profit forecasts for the Steel Sheet and Plate Company and the Pipe & Tube Company have been revised, compared to three months ago. Is it due to a change in foreign exchange rates?

A13. That is part of the reasons. However, the Steel Sheet and Plate Company is a net payer of U.S. dollars, while the Pipe & Tube Company has a net receipt of U.S. dollars. Revenues and payments in U.S. dollars are basically matched for the overall company.

Q14. The Pipe & Tube Company is forecasting a year-on-year decline in operating profit. What are the reasons?

A14. For the first half, the main reason was the time lag for the pass-through of the rise in the cost of raw materials. For the second half, the appreciation of the yen is projected to become a primary reason.

Q15. Could we say that operating profits are pretty much flat, when we exclude the factors such as time lag and currency exchanges?

A15. Yes, more or less. An expected increase in depreciation is another factor caused by our investment in capacity expansion. However, our profit levels have not changed essentially.

Q16. The Railway and Automotive Company lowered its sales forecasts. Please explain its reasons and the impact on earnings.

A16. The main factor is an expected slowdown in the automobile market in the U.S., affecting our crankshaft business in the U.S. Its impact on earnings of the overall company should be minimal.