

Sumitomo Metals FY2008 the Third Quarter IR Briefing on February 4, 2009

Summary of Q&A

Attendees from Sumitomo Metals:

Yoshinari Ishizuka, Director and Senior Managing Executive Officer

Seiji Kato, General Manager, Treasury Department

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

Masato Hoshi, Manager, Investor Relations Group

(Production cutbacks)

Q1. In the 4th quarter compared to the 3rd quarter, you are forecasting steel sales volume to decrease by 930,000 tons and production cutbacks to reduce operating income by 40 billion yen. The magnitude of this impact, when calculated on a per-ton basis, appears quite significant. Would you explain why?

A1. In addition to the impact from a decline in sales volume, we are discounting a risk of cost increase associated with production cutbacks.

Q2. With such a low operating rate, is there a risk of triggering problems such as a blast furnace being cooled down?

A2. We are taking all possible measures to avoid such occurrence.

Q3. How do you explain the difference between production cutbacks of crude steel and those of steel products?

A3. We expect that the inventory of semi-finished products will be built up a little, because the demand/supply situation is rapidly changing and, in addition, we plan to increase slab inventory to be prepared for an initial firing of the new No. 1 blast furnace at Wakayama, scheduled for July 2009. With regard to finished goods, we are managing to avoid an inventory build-up.

Q4. You said that the new No.1 blast furnace at Wakayama will start operation as scheduled. If the alliance partners continue to cut back production, won't you change your sales forecast of slab?

A4. We are currently making a plan for sales and production in the coming fiscal year. The sales forecast of slab has not been changed so far.

(Steel pipe & tube business)

Q5. Will you comment on the demand and supply outlook and pricing in the pipe & tube business? I heard that the market pricing of carbon-grade OCTG (Oil Country Tubular Goods) is declining in the North American market.

A5. We at Sumitomo Metals have the major oil companies as our primary customers for seamless pipe OCTG. We have signed long-term contracts with them. These oil majors make their schedules for development and investment from a long-term perspective. We therefore believe that, in general, the supply/demand balance in this market will stay firm, although some joint-venture projects of oil majors with state-run companies may be reviewed due to a request from those state enterprises.

Having said that, we supply about 20% of our seamless pipe to domestic customers. In this segment, demand is declining, primarily from customers in automobile and construction machinery.

As to products based on long-term contracts, we will soon start price negotiations for the coming fiscal year. A decline in raw material prices, if it happens, may be passed on to the selling price. However, when raw materials prices rose last year, there was a time lag before revision of the selling price. Thus, we would like our customers to consider the issue of the timing in implementing price change.

Q6. You are expecting operating income in the Pipe & Tube Company to drop by 10 billion yen in the 4th quarter compared to the 3rd quarter. What is the main reason?

A6. The appreciation of the yen is the primary factor. We have assumed that the yen rate to the U.S. dollar will rise from 96 yen in the 3rd quarter to 90 yen in the 4th quarter.

Q7. Please comment about the demand/supply outlook in large-diameter welded steel pipe for pipelines.

A7. Delays of some projects have been reported. We are expecting the situation will be a bit harsh, partly due to the fact that in the next fiscal year there will be a kind of cyclical drop in demand.

Q8. How about boiler tubes?

A8. They started to be affected by the economic crisis. Not too long ago, we could not satisfy the demand even at full-capacity operation. At present, the tight demand/supply balance eased a little.

(Other businesses)

Q9. What are the trends in demand/supply in the railway, automotive, and machinery parts businesses?

A9. Regarding crankshafts, we have cut back production. By having about 10% market share in the world, we are being affected by the current dire condition of the automobile industry. The railway parts business continues to run steadily.

Q10. Sumitomo Metals Kokura that makes specialty steel bars and wire rods is expecting about a 60% decrease in sales in the 4th quarter compared to the 3rd quarter. Does this reflect the trend in sales volume?

A10. Yes, the sales volume is similarly declining. We are trying not to let inventory of finished products rise, in this area as in others.

(Performance analysis)

Q11. In the expected q-o-q change in operating income for the 4th quarter, you are expecting losses of 20 billion yen in valuation of inventories using the lower of cost or market basis. What is this specifically?

A11. We will write down book value of some products manufactured at Sumitomo Metals Kokura and the steel sheet department of the Steel Sheet, Plate & Structural Steel Company, which are expecting to generate operating losses in the quarter. This is because these products may not be able to be sold at the year-end book value in the future.

Q12. Your 4th quarter outlook shows that the above two companies are expected to record operating losses of 15 billion yen in aggregate. Does this mean that, if the inventory devaluation losses of 20 billion yen were excluded, they will be profitable?

A12. As we said earlier, Sumitomo Metals Kokura and the steel sheet department of the above Company are running at low operation and are unprofitable. We are therefore devaluing inventories. However, the steel plate and other departments of the Company are profitable.