

Sumitomo Metals FY2008 IR Briefing on April 28, 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

(FY2008 results)

Q1. Will you explain the difference between your forecasts at the previous briefing and the actual results of FY2008?

A1. Operating income exceeded the recent forecast by about 6 billion yen. It was mainly due to improvement in the sales mix, especially an increase in sales of steel plates.

In terms of our internal companies, the Steel Sheet, Plate & Structural Steel Company did better than expected, while the Pipe & Tube Company showed results which were short of our forecast because we adopted the lower-of-cost-or-market method for sales of slabs.

Q2. How far have you adopted the lower-of-cost-or-market method?

A2. The lower-of-cost-or-market method was adopted to the extent of devaluing inventories by about 20 billion yen for the whole group, as forecast.

(FY2009 forecasts)

Q3. What is your forecast in earnings from equity-method affiliates?

A3. We are forecasting equity-method losses of about 7 billion yen in the first half of FY2009.

Q4. How much cost reduction are you anticipating?

A4. In FY2008 we reduced costs by 25 billion yen, 10 billion yen more than the previous year, thanks to our emergency measure. In FY2009, we are planning to enhance our measures and further reduce costs.

Q5. How do you see the demand and supply conditions in general for FY2009?

A5. We are expecting that the conditions in the first quarter of FY2009 will stay at a similar level to those of the fourth quarter of FY2008. Demand is expected to improve gradually from the second quarter onward but there remains various uncertain factors.

Q6. Will you explain how each quarter in the first half of FY2009 will look like?

A6. We are expecting to record losses in the first quarter, mainly due to one-off factors such as evaluation losses caused by decline in raw material prices and carry-over of raw materials. From the second quarter onward, however, these factors will have less impact and we are expecting to return to earning a profit.

Q7. What are the factors behind the anticipated increase in consolidated operating income from the first half to the second half?

A7. It will be similar to the factors that increase operating income in the second quarter from the first quarter. Specifically, a decrease in impact from one-off negative factors is expected to be the main factor contributing to the increase.

Q8. Among the factors that change operating income from the second half of FY2008 to the first half of FY2009, you are forecasting a decrease of 20 billion yen from the market deterioration. Does this include a decline in sales price of slabs for exports?

A8. Yes, we have taken into account a sales price decline in slabs, as the steel sheet market/spot prices have already declined significantly in East Asia.

Q9. In FY2009, you are forecasting a net loss of 20 billion yen, while expecting to break even in ordinary income and show zero yen in net extraordinary income. Will you explain the factors behind it?

A9. We are expecting to break even in ordinary income on a consolidated basis but to have 60 billion ordinary income on a parent basis. We are projecting 20 billion yen in tax payment on a parent basis.

(By product)

Q10. Please give us an update on seamless pipe.

A10. Our super high-end seamless pipe continues to do well and we are expecting y-o-y growth in sales volume in FY2009. Our primary customers with long-term contracts for seamless pipe OCTG are showing stable performance. On the other hand, we see that the spot market for exports products is challenging, as some customers have been holding off from buying.

Q11. How is the pricing for seamless pipe? Is your spread sustainable?

A11. Our spread has been maintained, excluding factors such as evaluation loss, carry-over, foreign exchange fluctuation, changes in depreciation expenses, etc. This is because we determine prices based on mutual agreements with our customers who have signed long-term contracts with us, similar to our Japanese customers with whom we have close relationships of trust based on our excellent quality and service.

Q12. Will you comment on the specialty steel market and inventories?

A12. We are still running at a low capacity-utilization rate for specialty steel. In addition to decline in demand, we face a significant impact from customers' inventory reduction for specialty steel, which has a long lead time to finished products. Since the inventory level of semi-finished products remains high, we expect there will be a time lag between the timing of recovery in demand and the timing of recovery in manufacturing at Sumitomo Metals (Kokura), Ltd..

Q13. Your customers for slabs are implementing significant production cutbacks. Do you see any change in the amount of slabs to supply from your Wakayama Steel Works?

A13. The amount of slabs we supply to our customers has been stable.

Q14. When will the new No. 1 furnace at Wakayama start operation?

A14. We will start in July 2009, as planned. Production volume will depend on the adjusting speed of capacity utilization after the start-up. We plan to be flexible, responding to changes in the demand/supply outlook, by adjusting production volume.