

Sumitomo Metals FY2009 the First Quarter IR Briefings on July 30, 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

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(Pipe & Tube Company's Performance)

Q1. Will you break down the Pipe & Tube Company's operating income into pipes and slabs?

A1. The Company's operating loss of approximately 3 billion yen in the first quarter is made up of operating income of about 8 billion yen in pipes and operating loss of about 11 billion yen in slabs. In the second quarter, we are expecting operating income of about 2 billion yen in pipes and operating loss of about 9 billion yen in slabs, resulting in operating loss of about 7 billion yen in total.

Q2. When do you think that the demand/supply conditions of seamless pipe will start improving?

Some weakness is seen at present in products such as OCTG (Oil Countries Tubular Goods) spot products although we expected that sales volume of Sumitomo Metals' seamless pipe would stay firm because of long-term contracts and a large portion being concentrated on high-end products. Having said that, I wonder if it would be difficult to achieve your projection back in April of one million metric tons in annual sales of seamless pipe, if the economy will recover slowly?

A2. Products with long-term contracts and super high-end products have been selling steadily even in the current environment. Our rate of decline in sales volume is less than our peers in the world. We have managed to keep generating operating income despite some negative temporary factors such as carry-over of raw materials in the first half.

As for sales volume in the second half, we are currently examining the situation.

Q3. Your sales forecast for super high-end seamless pipe for the first half is about one-third of your annual forecasts made in April. That would mean you have to sell in the second half twice as much as the first half. Do you still think that the annual forecast can be achieved with a demand recovery in the second half?

A3. Our sales forecast for super high-end products in the first half was 52 thousand metric tons. We are currently examining the market conditions in and after the second half.

Let me briefly explain the conditions in the first half by products. The 13 Cr pipes have been selling basically in line with our forecast. Sales of alloy steel for sour service are

being affected by delay in projects in the Middle East and Russia as well as inventory adjustment and are expected to increase in the second half. Sales of high-alloy products have been impacted by delays in opening letters of credit.

Q4. How big was the impact of Chinese tubes on deterioration in the OCTG spot market?

A4. They have a direct negative effect on both volumes and prices of commodity grade products. In addition, they have also caused customers to hold off on buying high-end products with anticipation of falling prices. Having said that, once actual demand picks up, we believe that the Chinese tubes would primarily affect commodity grade market and affect only slightly in high-end market, our target market.

We will reduce our cost through measures such as the start-up of integrated steel works with a seamless pipe mill in Brazil. Also, we will accelerate our distinctiveness through development of new products.

Q5. We have seen some significant changes in economic conditions since you released the projected profitability of the new mill in Brazil. Have you made any changes to your profit forecast since then?

A5. We have not made any changes. We are currently pre-marketing our seamless pipe to be made in Brazil to our target customers: national oil companies and line pipe companies.

Q6. After the seamless pipe mill in Brazil starts operation, will you become more exposed to OCTG spot markets?

A6. Our strategies to accelerate distinctiveness remain unchanged. We would like to become less exposed to products that are sensitive to commodity markets. When the mill in Brazil starts operation, we believe that our ratio of high-end products will increase. We will make sales efforts to build stable relationships with national oil companies, which are expected to increase demand for our products.

Q7. How about the demand/supply trend in large-diameter pipe?

A7. We are in a cyclical drop-off year in demand. We expect a recovery next year.

(Other businesses)

Q8. Please explain the trend in volume and pricing of steel sheets and other products from the first to the second quarter.

A8. We are expecting an increase of 450 thousand metric tons from 1,980 thousand tons in the first quarter to 2,430 thousand tons in the second. Roughly 400 thousand tons of the increase will be attributable to a recovery in sales of steel sheets. Steel plates and slabs will slightly increase.

We expect a decline in average sales price in the second quarter caused by a worsening of the product mix: in case of domestic products, a volume increase is expected in steel sheets and slabs which are relatively low-priced on average; in case of exports, seamless pipes' sales volume is expected to decline.

Q9. There are two accounting methods for the first quarter price revisions agreed in July: to charge them in July or to accrue them in the first quarter results. How about Sumitomo Metals?

A9. We have made an allowance in the first quarter results when the impact of price revision could be reasonably calculated, even in the case that the price negotiations had not been settled yet with our customers as of June-end. Thus, we are not expecting an impact on the second quarter results.

Q10. Your monthly increase in crude steel production is weaker than that of your peers. Is this due to a difference in product mix, or an impact on production by switching of blast furnaces?

A10. Our decline of sales volume was milder than our peers' in the last quarter because of our steady sales of slabs through long-term contracts. That is why our sales increase is weaker than peers'. Production in the second quarter will be affected by halting of operation of Kokura's steel bar mill for two months for renovation, in addition to the switching of the blast furnaces in Wakayama, namely the blowing-out of the No. 4 blast furnace and the subsequent blowing-in of the No. 1 blast furnace.

We would like to cut back inventories which are now slightly more than optimal.

Q11. Please give us an update on Sumitomo Metals (Kokura).

A11. Sumitomo Metals (Kokura) was at breakeven in the operating line in the first quarter and is projecting an operating loss of about 10 billion yen in the second quarter because of two-month construction project to upgrade the mill. However, we believe that profitability will start improving, thanks to rising competitiveness in quality after completing investment in steel manufacturing process innovation, in line with a recovery in sales volume.

Q12. Due to a rise in the hot-rolled coil market, some of your peers plan to increase their sales in Asia. Does Sumitomo Metals have a plan to sell semi-manufactured products in Asia?

A12. We will continue our sales activities under our business policy to customers with a long and trust relationship.

(Business outlook)

Q13. The difference in your operating income forecast for the first half of FY2009 from the previous briefings on April 28 to this time is identified as a 23 billion yen negative change in metal spread. Is this mainly caused by a decline in sales volume of seamless pipe?

A13. Yes, that is the primary reason. Another factor was sales volume in exports of steel plates for shipbuilding which was lower than initially expected in the first quarter. However, demand has started to recover more recently.

Q14. Your forecast for an operating loss in the first half has increased by 30 billion yen since April. Will you explain operating profit of each internal company?

A14. Major reasons for the downward revision are the Pipe & Tube Company which experienced a decline in sales volume of seamless pipe and the Steel Sheet, Plate & Structural Steel Company which adopted a lower of cost or market method for steel sheets. We have already explained about Sumitomo Metals (Kokura). The Railway, Automotive & Machinery Parts Company generated income in the first quarter and is projected to do so again in the second quarter, while Sumitomo Metals (Naoetsu) anticipates an operating loss in the first half.

Q15. You recorded an operating loss of 34.5 billion yen in the first quarter. Is this in line with your expectation, when compared to the previous forecast?

A15. The profit conditions in the first quarter are in line with the initial expectation.

Q16. Regarding changes in operating income from the first half to the second half, will you give us as much details as you could tell us at the moment?

A16. The factor of carry-over will cause 40 billion yen loss in the first half but is expected not to affect the second half result. The impact on devaluation of inventories by the lower of cost or market method is expected to be loss of 20 billion yen in the first half but can be positive in the second half as business starts improving. We are expecting an evaluation loss of 27 billion in the first half and similar loss in the second half. In terms of earnings from equity-method affiliates, we expect that the first half will be the bottom and an improvement can be seen in the second half. In addition to these factors, we will promote cost reduction to improve profitability and strive to achieve our annual plans.