

Sumitomo Metals FY2009 IR Briefing on April 28, 2010

Summary of Q&A

Representatives from Sumitomo Metals:

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(FY2009 results)

Q1) The Steel Sheet, Plate & Structural Sheet Company recorded an operating loss of 4.0 billion yen. Does this mean a deterioration of 4.0 billion yen compared to the previous forecast?

A1) Yes. However, this was not caused by a supply/demand problem. The major reason was a delay in shipments of steel sheet compared to the plan. We initially projected record-high shipments for the 4Q but some losses arose in quay operations because of the issuance of tsunami warnings after the Chile Earthquake at the end of February, strong winds in March, and other factors.

Q2) Please explain why the ordinary loss for FY2009 improved from your estimate of 45.0 billion yen to an actual 36.6 billion yen?

A2) This is because the net non-operating balance was better than initially expected. Losses on sales and retirement of noncurrent assets, dismantlement costs, and other items ended up lower in aggregate.

(FY2010 forecasts)

Q3) What are the factors behind anticipating operating income of 90 billion yen for FY2010, despite the present uncertain outlook regarding various factors?

A3) Our forecasts for FY2010 are based on the level of income in 4Q FY2009. In addition, they incorporate some impacts from our efforts aimed at improvement and discount some risks. These forecasts also reflect our commitment to make every effort to maintain the current level of profits.

Q4) Your projections for FY2010 appear to incorporate favorable factors such as the absence of one-off negative factors of about 100 billion yen recorded in FY2009, about 30 billion yen in carry-over of raw materials for FY2010, and about 40 billion yen from an increase in shipment volume. Assuming an increase in depreciation expenses is covered by cost reduction and other factors, the favorable factors should

amount to around 170 billion yen. Then, the spread between higher material prices and improved selling prices needs to be incorporated. Is this the correct way to make an estimate?

A4) We don't think that disclosing our assumption on the spread at this moment would lead to a rise in our corporate value. Therefore, please forgive us for not disclosing any specific figures.

Q5) Using the results of 4Q FY2009 as a base, your FY2010 forecasts for sales volume appear to be lower, while crude steel production estimates are higher. How can you explain this?

A5) The balance between crude steel production and steel sales volume was different in FY2009, compared to the projection for FY2010. Inventory was reduced more than normally in 4Q and the same was true for the full year of FY2009.

Q6) Your sales volume forecasts for FY2010 appear less than the amount in 4Q FY2009 multiplied by 4 times. Do you foresee any risk in supply/demand?

A6) Seasonally, sales volume is highest in 4Q. In addition, automobile production tends to be higher in 2H than in 1H in Japan. Our forecasts for FY2010 incorporate the risk of a decline in demand caused by the expiration of eco-car tax incentives.

Q7) What is your estimated export ratio for steel products in FY2010? The export ratio for steel sheet must have increased in FY2009. Are you anticipating a similar trend will continue in FY2010?

A7) As you pointed out, the export ratio of the Steel Sheet, Plate & Structural Sheet Company increased in FY2009, thanks to favorable sales of steel sheet for automobiles to China and South Korea.

For FY2010, negotiations on sales prices have not been concluded yet, which makes it hard to predict a specific export ratio. However, we expect that the export trend will continue to be robust, as in the previous year.

Q8) You are expecting an improvement in the non-operating balance for FY2010. What are the reasons for this?

A8) The biggest factor is an improvement in the earnings of SUMCO, our equity-owned affiliate.

Q9) Is it correct that your negotiations on sales price revisions with domestic customers are moving toward a quarterly basis?

A9) We are currently asking our customers with traditional annual or semi-annual contracts to understand our situation and move to a quarterly contract.

(Pipe & Tube)

Q10) You are projecting 0.90 million tons in seamless pipe sales volume for FY2010. This is less than the amount generated by multiplying 0.23 million tons in 4Q FY2009 by four. Are you expecting a difference in the speed of improvement between 1H and 2H?

A10) Our most important challenge in FY2010 is to improve selling prices, which have declined. We will focus on improving pricing and expect seamless pipe sales volume in 1H FY2010 to be similar to the level of 2H FY2009. Then, a full-scale recovery in volume is likely to take place in 2H FY2010.

Q11) Regarding super high-end seamless pipe, the appreciation of the yen may be negative but an increase in sales volume should have a significant impact on earnings. Your projection of an increase in sales volume from 105,000 tons in FY2009 to 156,000 tons in FY2010 seems to suggest that Sumitomo Metals' earnings could improve more than you are forecasting.

At the previous briefing, you mentioned that a pick-up in sales of high-end products leading to a favorable product mix would happen on a full scale in FY2011, rather than in 2H FY2010. Now, looking at current conditions, is the time for a recovery moving forward?

A11) I hope you understand that we refrain from disclosing any specific profit breakdown on this occasion, as I mentioned earlier. Having said that, I can assure you that sales conditions for seamless pipe are steadily improving in line with the leading indicators shown on the briefing materials.

Q12) You said that you will focus on pricing improvement. Does this suggest that this year's price hikes will occur earlier than in normal years?

A12) We foresee that demand will keep improving as time goes on in FY2010. Selling prices are at their bottom at present and are expected to improve steadily toward 2H FY2010, without much time lag in relation to a pick-up in demand.

Q13) Will Sumitomo Metals' independent efforts alone be sufficient to achieve price hikes for seamless pipe? Given the fact that seamless pipe is more value added than general steel products, are there any differences between seamless pipe and other steel products as to passing on an increase in raw material costs to selling prices?

A13) We believe that an improvement in the supply/demand balance will be the determinant factor for pricing in FY2010. There is no difference between seamless pipe and others in terms of passing on the increase in raw material

costs. The U.S. seamless pipe market has already begun to see price hikes, which makes us think that our pricing will improve similarly.

Q14) Have you changed your views on the impact of Chinese products on the supply/demand balance for seamless pipe?

A14) No. We think that products made in China will continue to affect the supply/demand balance for commodity grade products. However, Sumitomo Metals' products are high-grade and in a different category from Chinese products. Thus, we are not expecting any direct impact.

Q15) Will an increase in the development of shale gas in the U.S. have any impact on Sumitomo Metals' earnings?

A15) When developing shale gas, pipes that withstand high pressure are needed in order to inject high-pressure water into the geological layer. Moreover, shale gas development in sour environments has been increasing. We believe the use of high-strength steel for sour services, which is our area of strength, will tend to increase similarly.

In the medium term, we believe that demand for sour-resistant steel will rise in the development of not only shale gas but also natural gas in general.

Q16) Is it correct to assume that the new seamless pipe mill (VSB: Vallourec & Sumitomo Tubos do Brasil Ltda.) in Brazil will have little impact on earnings in FY2010?

A15) Yes. The VSB is scheduled to start test operation this fall and full-scale operation in FY2011.