

Sumitomo Metals FY2010 First Quarter IR Briefing on July 29, 2010

Summary of Q&A

Representatives from Sumitomo Metals:

Michiharu Takii, Director and Senior Managing Executive Officer

Seiji Kato, General Manager, Treasury Department

Masato Hoshi, Manager, Investor Relations Group

(FY2010 forecasts)

- Q1) What are the factors behind your expecting significant earnings growth in the 2H over the 1H?
- A1) In the 2H, positive factors include a favorable impact from improvement of seamless pipe prices as a result of shortened time lag in passing on higher raw material costs, better sales product mix, sales volume growth of other products, and progress in cost-reduction efforts. We expect such positive factors will offset negative factors such as a decrease in raw material carry-over which in fact positively affected the 1H results.**
- Q2) You are expecting a downward trend in raw material prices in the 3Q. Is this incorporated in your earnings forecasts for the 2H?
- A2) No. We have not changed our initial forecast, since negotiation on raw materials prices over the 2H is still uncertain.**
- Q3) You have revised upward sales volume estimates for seamless pipe, specialty steel and other products but have kept your previous estimate of 80 billion yen for ordinary income. Will you comment on this?
- A3) Regarding the 2H of FY2010, our sales volume estimate has been raised from the initial forecasts. However, given uncertainties over raw material pricing and hence selling prices, we have not changed profit forecasts from the initial ones.**
- Q4) Any change in the external environment from the time of your initial forecasts?
- A4) The market has progressed pretty much as we expected. A better-than-expected factor was a gradual improvement in demand for high-end products, which is an area of our strength. In contrast, demand in the construction industry has been weaker than initially expected.**
- Q5) You explained that the accumulated cost increase in the 1Q was around 20,000 yen per ton. Can you pass on this increase to selling prices by the end of September?
- A5) We were able to pass it on fully to some customers but only partially to others. We thus expect some portion of the cost increase will not be reflected in the selling price until the 3Q.**

Q6) You have slightly lowered your forecasts for crude steel production volume and steel sales volume for the 1H of FY2010 from the previous business result announcement. Why?

A6) The blast furnace in the Wakayama Steel Works had a minor problem, which resulted in expected a crude steel production cut of about 100,000 tons for the 1H. This has also led to some adjustment in delivery of slab exports between the 1H and the 2H. The problem of the furnace has already been resolved.

Q7) It is said that Toyota and Nissan will lower production plan for the 2H. However, you mentioned that sales to domestic automakers have been good and sales volume forecasts have been raised.

A7) Japan's car production for this year is expected to exceed the initial forecast of 9.2 million units.

Q8) It appears that the inventory of steel plate and sheet products in overall Asia is building up. Is there any possibility that you cut production in order to improve pricing in the 2H?

A8) We sell such products mostly to customers through direct contracts. This means that our expected volume reflects the amount of sales volume to satisfy our customers' demand. Conversely, it also means that our production volume would not exceed the amount which customers have required from us.

Q9) A question regarding the impact of change in foreign exchange rates in your internal companies. The Pipe & Tube Company is a net receiver of dollars because of large amounts of exports of both steel tube and slab, while the Steel Sheet, Plate & Structural Steel Company and Sumitomo Metals (Kokura) are net payers in dollars. Is this the correct understanding?

A9) Yes, that is correct.

(Seamless pipe)

Q10) You have raised forecasts for annual sales volume from around 900,000 tons to around 950,000 tons. Weren't you affected by the Gulf of Mexico oil spill incident? How do you look at its impacts for FY2011?

A10) First, please understand that global energy demand is on a rising trend. We believe the impact of the incident will be minimal because only about 12,000 tons out of our annual seamless pipe sale of 950,000 tons are destined to the Gulf of Mexico. For this FY2010 we are experiencing only a mild delivery adjustment for the Gulf of Mexico. For the next year, it would depend on rig count there but we believe our sales shall not be meaningfully affected.

Q11) What about the impact on your business with BP? How about impacts on your overall business related to deep sea oil wells?

A11) Our annual steel pipe sale to BP in the Gulf of Mexico amounts to merely about 1,000 tons. Moreover, BP's assets under review for possible sale, according to some media reports, are not under Sumitomo Metals' long-term contracts. We therefore believe that we shall not be affected.

Exploration activities for deep water oil wells may get stalled for a short time but, considering the overall demand/supply conditions of energy, total stoppage of deep water oil drilling is hard to assume. Rather, we expect that safety standards will be tightened.

We believe we can contribute to safety enhancement of oil wells with our specialized high-end products.

Q12) When will a cost increase in raw materials be reflected in the selling price of seamless pipe?

A12) We believe that selling prices bottomed out in the 1Q on a shipment base. As the prices will rise to \$200-300 over the 2H, we see that the raw material cost increase will be fully passed on.

Q13) Will you give an update on price negotiations with your seamless pipe customers with long-term contracts? Have you shifted to quarterly pricing reviews?

A13) We have made progress in obtaining customer acceptance of our passing on the cost increase to selling prices. Oil majors have generally agreed with us to shift to quarterly reviews on pricing.

Q14) You have slightly lowered sales volume forecasts for super high-end seamless pipe for FY2010. What are the reasons?

A14) No specific reason. It is merely because our forecast accuracy has been enhanced. We find the rising trend in sales volume for super high-alloy OCTG (Oil Country Tubular Goods) is promising.

Q15) You mentioned that pricing improvement for seamless pipe tends to lag improvement for other products. Is it OK to assume that the time lag to reflect cost increase will be shortened by shifting to quarterly reviews of selling prices?

A15) Seamless pipe has a longer lead time from orders receipt to shipment, compared to general steel products. The quarterly pricing reviews will shorten the time lag for seamless pipe but that difference in time lag with other products will be sustained.

Q16) In the April-June quarter, Vallourec increased its sales volume by 40%, while Sumitomo Metals' sales volume was basically flat. Such difference must have been caused by the weak Euro and the strong yen. Is it OK to interpret that Sumitomo Metals decided to focus on selling prices in seamless pipe sales?

A16) As you said, we are promoting a strategy to focus on pricing when receiving orders, because we believe we should improve pricing in the present environment.

Q17) Has the impact of Chinese products on the seamless pipe demand/supply balance diminished?

A17) We think that products made in China continue to affect the market for commodity-grade products. However, Sumitomo Metals, with its mainstay products being high-grade, is not significantly affected.

Q18) In the U.S. market, inventories for OCTG are decreasing while its demand is picking up. At the same time, however, products made in China are flowing into this market via Hong Kong. Against this backdrop, if commodity-grade seamless pipe prices fall from this summer to the fall in the U.S. market, will your high-grade product business and selling prices be negatively affected?

A18) We wouldn't say zero impact but we are unlikely to be materially impacted even if such a situation emerges. This is because the commodity-grade market and the high-grade market have tended to move quite differently up to now.

Please note also that Sumitomo Metals does not rely on the North American market for demand for its OCTG products.

Q19) Will you give us an update on VSB, your steel mill in Brazil due to begin operation this fall? What about the market reaction to your marketing efforts for VSB products? How will you proceed from here?

A19) We are making progress in line with the schedule to begin test operation this fall. The start-up phase will start in FY2011 and we expect profit contribution to start from around FY2012.

Given such operation schedule, we will consider targeting Middle East, North America, Africa, and South America for our marketing plans.