

## Sumitomo Metals FY2010 Second Quarter IR Briefing on October 28, 2010

### Summary of Q&A

Representatives from Sumitomo Metals:

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#### (FY2010 2Q Results)

Q1) A question on the first-half (1H) operating income. Raw material prices were 5 billion yen higher and sales prices and others were 8 billion yen higher than forecasted. What were the reasons behind those?

A1) The difference in raw material prices was within the allowable margin of error. Regarding sales prices, an increase of 8 billion yen compared to the forecast was thanks to faster progress in implementing price revisions than initially expected. Thus, there was no special factor.

#### (FY2010 forecasts)

Q2) What are the major reasons for the 10 billion yen downward revision in annual operating income?

A2) The downward revision is not mainly attributable to a decrease in sales volume. It is rather caused by margin deterioration in commodity products, such as slabs, structural steel and steel sheets for export, as these products are susceptible to the soft market conditions.

In particular, slabs for export tend to move in tandem with the Asian market and their weakness accounts for more than half of the downward revision.

Q3) A question on profit structure of your internal companies. I understand that the pipe & tube business and slabs are net exporters, while other companies are net importers. Thus, the appreciation of the yen must be negative for the Pipe & Tube Company but positive for other companies. At the current exchange rate, the earnings outlook for the pipe & tube business must have been lowered. Is this the correct understanding?

**A3) Yes, that is correct.**

Q4) Why have you lowered estimates for the domestic steel product price from 104,000 yen per ton in the 2Q to 102,000 yen for the second half (2H)? Is this mainly due to a drop in prices for slabs and some commodity products such as structural steel?

**A4) Yes, we are expecting a price decline in some commodity products such as structural steel.**

Q5) Your steel sales volume in the second quarter (2Q) was 2.91 million tons, which was less than your initial forecast of 3.04 million tons. Despite this, you have revised up sales volume forecast for the 2H. Given the current economic conditions and inventory levels, the sales environment appears to be deteriorating. What are your assumptions for the 2H? Also, what is your level of confidence in your third quarter (3Q) volume forecast of 3.32 million tons?

**A5) We are expecting sales volume growth in slabs in the 2H and a rebound in steel pipe & tube sales volume by the fourth quarter (4Q). Orders in the 3Q have so far been favorable.**

Q6) How about your assumption in raw material prices for the 2H?

**A6) Roughly speaking, raw material prices were up 15,000 yen per ton of steel in the first quarter (1Q) and additional 6,000 yen in the 2Q, and down 4,000 yen in the 3Q. Thus, the accumulated change is an increase of approximately 17,000 yen.**

**Taking into account the current market conditions, we are incorporating a slight increase in price for the 4Q.**

Q7) Will you give us an update on export trend of steel plates for UO tubes and shipbuilding?

**A7) Demand for steel plates is robust, thanks to brisk activities in energy-related projects.**

**(Seamless pipe)**

Q8) Despite steady growth in global rig counts, the U.S. seamless pipe market appears to have higher inventory level. How are you looking at the market environment for seamless pipe?

**A8) We believe that the market will gradually recover in the medium term but it would take time to return to the previous peak level.**

Q9) Will the present soft OCTG (Oil Country Tubular Goods) market have an impact on Sumitomo Metals? If so, when would it be?

**A9) Sumitomo Metals' seamless pipe is mainly in the high-grade product category, which is different from the commodity-grade category and does not directly respond to the latter market's fluctuations. In addition, our seamless pipe has a long lead time of about six months from order receipt to shipment. Hence the current weak market conditions should not immediately affect our earnings.**

**We aim to improve earnings by further shifting our product mix to high-margin products that are leveraged by our quality competitiveness. One good example is VAM21, the product we have recently announced.**

Q10) You are forecasting that the pipe & tube business is to generate operating income of 9 billion yen in the 2H, or 4.5 billion yen on a quarterly basis. This means a subdued growth from the actual operating income of 4.0 billion in the 2Q. During the previous IR briefing, however, you mentioned that there was a time lag in passing on higher raw material costs to sales prices and that earnings should gradually improve toward the 2H. Has anything changed regarding the expected progress in margin improvement of seamless pipe?

**A10) We are still expecting a slight increase in sales volume of seamless pipe in the 2H.**

However, price increases have so far been rather slower than initially expected, partly due to the OCTG market conditions. We believe that the fluctuations in currency exchange rates have also contributed to this slow improvement in profitability.

Q11) You are projecting that operating income in the 2H will improve by 31 billion yen in changes in sales prices and product mix from the 1H. How much of this change is expected to be attributable to the Pipe & Tube Company?

**A11) We would say a substantial portion but we do not disclose any specific figures.**

Q12) Have seamless pipe prices for the 2H been mostly determined by now?

**A12) We have firm orders up to about February 2011.**

Q13) Super high-end seamless pipe sales volume forecast for a full year has been revised downward from the previous forecast. Do you see order inquiries weakening?

**A13) Not necessarily. Sales volume for alloy steel for sour service is significantly growing, while the demand/supply conditions for 13CR is steadily recovering. While the overall level has not reached the previous peak yet, the recovery trend has been sustained.**

Q14) How about a negative impact from a decrease in the ratio of super high-end pipe in the overall seamless pipe product mix?

**A14) The impact of lower sales volume of super high-end products to the overall seamless pipe sales is not that substantial, partly due to impacts from other products.**

Q15) Will you give us an update on price negotiations with your seamless pipe customers with long-term contracts?

**A15) We have mostly obtained customer acceptance of our passing on the cost increase to selling prices.**

(Other)

Q16) Please comment on your outlook on capital expenditures, business investments and depreciation expenses for FY2011.

**A16) Based on the present investment plans, capital expenditures have already peaked out and are expected to amount to around 100 billion yen p.a. for FY2011 and FY2012. Depreciation amounts are projected to decrease steadily after hitting a peak this year. With regard to business investment, we review each opportunity whenever it arises. Our investment in the Canadoil Group in Thailand is already incorporated in our business investment for FY2010.**

Q17) A question on your investment in the Canadoil Group's steel plate mill construction. You have actually invested in their holding company but have obtained the right to sell 300,000 tons of steel plate. Is this the correct understanding?

**A17) Yes, for our sales portion of 300,000 tons we will supply slabs to the Canadoil Group's new mill and control production under integrated management. This manufacturing and sales arrangement is more like a subcontracted plate rolling operation by the Canadoil Group. We plan to incorporate this steel plate sales volume growth and improve our overall product mix by having our Japanese mill produce higher-grade products.**

Q18) Will you give us an update on the joint venture in Brazil with Vallourec?

**A18) We are making solid progress in construction of a steel mill and the test operation is scheduled to start within this year. We plan to obtain various certifications in 2011 and expect to start generating profit from around 2012.**

Q19) Assuming no change in raw material prices in the current 2H toward the 1H of next year, would you be able to project margin expansion in the 1H of next year?

**A19) Negotiation on sales prices for the 2H has not even started. Thus, we find it too early to mention anything about the margin next year.**