

Sumitomo Metals FY2010 Third Quarter IR Briefing on February 4, 2011

Summary of Q&A

Representatives from Sumitomo Metals:

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(FY2010 third quarter results and forecast)

Q1) Looking at the factor analysis of change in operating income from the third quarter results to the fourth quarter forecast, an increase of 300,000 tons in sales volume is estimated to result in a 3 billion yen improvement in operating income. Considering marginal profit, this improvement in income seems to be too low.

A1) Impact of the restored stability of the blast furnace (BF), which is a major reason for the increase in sales volume, is presented separately from the ordinary classification in factor analysis. Specifically, an income contribution from the increase in sales volume due to the recovery of the BF is included in the 13 billion yen improvement in the “restored stability of the BF.” Thus, it is excluded from the 3 billion yen improvement from an “increase in sales volume.”

(FY2010 forecast)

Q2) The factor analysis of change in operating income from FY2009 to FY2010 is suggesting that an increase in raw material prices has not been fully passed on to an increase in sales prices. Will you explain us why?

A2) The biggest reason is that it takes time to reflect a rise of raw material prices in sales prices. We spent a lot of time in the first half of FY2010 to show our customers why there was need for a change in price negotiations for raw materials to a quarterly basis from this year. There has not been any significant change in metal spread in general steel products over the second half.

Q3) Assuming that the amount of operating income excluding temporary factors such as the impact from the BF instability is the real comparable operating income, this amount appears to decrease in the fourth quarter from the third quarter. Was this caused by a delay in passing through a rise in raw material prices to sales prices?

A3) No. We believe that a rise in coking coal prices caused by the floods in Australia will be a major reason. In addition, we curbed inventories to a significantly lower-than-normal level in order to minimize the impact of our unstable BF operation on delivery to our customers in the third quarter. We now have to recover our inventory from that emergency level to a normal one in the fourth quarter. This will also have an impact on operating income.

Q4) Will you explain earnings fluctuation at each internal company?

A4) The major difference in operating income of the steel sheet, plate and structural steel business between the third and fourth quarter is the operating conditions of one of the BFs in the Kashima Steel Works. They became instable in the third quarter but recovered by the end of December 2010. The slab business gained a positive contribution from an increase in capacity utilization that was related to a production transfer from Wakayama to Kashima in the third quarter. The fourth quarter in turn will be negatively affected by the absence of this temporary factor as well as a delayed impact of falling market prices of hot-rolled steel products in the third quarter.

Regarding specialty steel products, we are operating at almost full capacity, including upstream processes, thanks to favorable knock-down production of automobiles.

Q5) How about sales prices in the second half?

A5) We are still in the midst of negotiation of fourth quarter sales prices with some specific contract-based domestic customers. We believe that influence of sales price revisions, in accordance with rises in raw material prices, will appear with a delay in the case of seamless pipe, a distinctive product of Sumitomo Metals, compared to general steel products.

(Seamless pipe)

Q6) Are you expecting higher sales prices of pipe now than projected at the time of the previous financial result announcement?

A6) Sales prices are not rising sharply. Our long-term customers, however, have understood the reason for our revision in sales prices, which is in accordance with a rise in raw material prices.

Q7) How much recovery are you expecting in sales volume of seamless pipe in FY2011, compared to your forecast for FY2010? How about sales prices?

A7) We are in the midst of preparing a budget and cannot say anything concrete with regard to sales volume outlook. However, the overall trend of a moderate recovery is expected to continue. Sales prices are likely to largely depend on raw material prices.

Q8) Will you give us an update on boiler tubes?

A8) Production of boiler tubes for nuclear power plants continues to be at full capacity. In contrast, sales of USC boiler tubes for coal-fired power plants remain stagnant but are anticipated to recover from FY2011.

Q9) It is said that there are more oil shale development projects these days. Does it have any impact on Sumitomo Metals' seamless pipe product mix?

A9) This will have little impact on our product mix, because the development projects of oil shale and tight oil are mainly in the U.S., where our ratio of sales has always been low.

(FY2011 forecasts)

Q10) Will you give us an update on the start-up schedule of the Vallourec & Sumitomo Tubos do Brasil Ltda (VSB)? Will VSB's earnings be accounted for using the equity-method?

A10) VSB's earnings will impact Sumitomo Metals' operating income, not equity-method earnings, as it is our manufacturing subsidiary. VSB successfully pierced its first billet in December 2010 and is expected to begin integrated production including steelmaking in the second half of 2011. It plans to obtain approvals from the American Petroleum Institute (API) and its customers by the second half of FY2011 and fully ramp up the steelworks by 2012.

Q11) Please comment on your outlook on capital expenditures for FY2011.

A11) Based on the present investment plans, capital expenditures peaked in FY2010 and are expected to amount to around 100 billion yen in FY2011. The major items include construction of the new No. 2 BF in the Wakayama Steel Works, an increase in capacity for SG tubes, and the renewal of Corporate Research & Development Laboratory.

Q12) Factors such as the instability of Kashima's BF and SUMCO's downward revision in earnings affected FY2010 results but will have no impact in FY2011. Is this the correct understanding?

A12) Yes. They are one-off factors for FY2010.