

## Sumitomo Metals FY2011 First Quarter IR Briefing on July 28, 2011

### Summary of Q&A

Representatives from Sumitomo Metals:

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#### (FY2011 first quarter results)

Q1) Operating income in slabs improved from a 5 billion yen loss in the fourth quarter of FY2010 to a 2 billion yen income in the first quarter of FY2011. What is the reason?

A1) The major reason is an improvement in the steel sheet market in FY2010. Sales prices of slabs to our customers were based on the sheet prices of the previous quarter and tended to move with some time lag to the steel sheet market.

#### (Earnings forecasts)

Q2) You have not disclosed average price forecasts for steel products in the second quarter. Will you give us some explanation for reference?

A2) Our projected foreign exchange rate for the second quarter is 80 yen against the U.S. dollar, which means the yen appreciation from the previous quarter. This will have some impact on average price for steel exports.

In addition, fluctuation in the sales mix is expected in the second quarter, as Kashima Steelworks, which cut production of steel sheet after the earthquake of March, will return to normal operation, and shipment of slabs, of which we asked customers for a delivery adjustment during the aftermath of the earthquake, will also return to a normal level.

With regard to passing on an increase in raw material prices to sales prices, negotiations began late and price hikes were delayed in the first quarter. In the second quarter, we are expecting some price hikes to pass through.

Q3) What kind of impact are you expecting from carry-over, evaluation gain or loss, and the lower of cost or market method in the second quarter?

A3) Carry-over is not expected from the second quarter onward as long as raw material prices would not change significantly. Regarding evaluation gain or loss, we expect a similar effect in the second quarter as in the first quarter, but almost zero impact for the second half. The impact from the lower of cost or market method, which was about 2 billion yen in the first quarter, is likely to be insignificant in the second half.

Q4) You explained that the second-half operating income forecast of 55 billion yen does not incorporate improvement in sales prices. However, 55 billion yen appears to be high compared to the second quarter forecast of 18 billion yen. Is this second-half forecast achievable only with an increase in sales volume?

A4) Let me restate that sales prices are expected to be maintained at the current level in the second half, rather than not to improve. The impact of the revised sales prices, that were implemented during the first half, will be fully reflected in the second half, resulting in improvement in average sales price, even if there were no further price revision in the second half and beyond.

In addition to sales volume improvement, progress in cost reduction, including a contribution through the recovery plan, is expected.

Q5) Are you suggesting that average sales prices will significantly increase in the second half vs. the first half?

A5) All we can say is that we will strive hard on sales price improvement, including our ongoing negotiations with our customers.

Q6) What are the major reasons for a significant increase of 65.9 billion yen in ordinary income for a year ago to 100 billion yen in FY2011?

A6) Major positive factors for operating income are 40 billion yen in cost reduction, 17 billion yen due to a recovery from the loss caused by unstable operation of one of blast furnaces at Kashima in FY2010, and 5-6 billion yen in fixed cost reduction.

Sales price improvement which offset a surge in raw material prices and favorable demand-supply condition of seamless pipes are also factored in.

Moreover, on an ordinary income basis, a 29 billion yen improvement in equity-method income is expected, mainly due to SUMCO's earnings improvement.

Q7) Does it mean that your equity-method income for FY2011 is expected to be around 25.5 billion yen, because of 29 billion yen improvement on top of 3.4 billion yen equity-method loss of FY2010?

A7) That is correct.

Q8) Will you give us some details on FY2011 operating income by internal companies?

A8) For the Pipe & Tube Company, robust demand-supply conditions will be the main contributor to an increase in operating income in FY2011 from 16 billion yen in FY2010. The Steel Sheet, Plate and Structural Steel Company is also expecting operating income growth, from 16 billion yen in FY2010, mainly due to improvement in sales volume and costs, a recovery from last year's losses caused by unstable blast furnace operation, and effects from fixed cost reduction.

(Seamless pipe)

Q9) You explained that the demand-supply environment for seamless pipe was stable. However, sales volume of 230,000 tons in the first quarter showed a slight decrease from the previous quarter. Was there any specific reason for this decrease?

A9) We think this is within a margin of error caused by changes in shipment schedules. The shipment of seamless pipe for automobiles and construction machinery in Japan was affected but only slightly by the impact from the earthquake damage at our clients, especially in April and May.

Q10) The first quarter earnings appeared to have benefited from a delayed impact from last fiscal year's price hike in seamless pipe. Are you expecting a similar impact to continue in the second quarter?

A10) Due to the production lead time, the impact of the price hike can be expected to continue. Our order book for seamless pipe has already been filled up to December 2011 and our order backlog is on a rising trend.

Q11) I have the impression that your sales volume forecast of 1 million tons in seamless pipe for FY2011 are rather weak when considering your explanation of extremely robust demand-supply environment.

A11) We are projecting a sequential uptrend in sales volume of seamless pipe: 230,000 tons in the first quarter, 250,000 tons in the second quarter, and 540,000 tons in the second half.

Q12) Is there a room to increase production volume of seamless pipe in Japan, by overcoming a capacity bottleneck caused by progress into higher-grade products?

A12) Our product mix is shifting in the direction of higher grade products and we are operating almost at full capacity. In response to favorable orders received, we are thus considering measures to raise our production capacity and improve the operating rate. In terms of capacity, VSB in Brazil is expected to contribute gradually.

Q13) Is it OK to assume that VSB's projected loss in FY2011 shall not have material impact on your earnings?

A13) Yes, no significant change is expected, other than what has already been incorporated.

Q14) Am I correct to say that your margin is likely to expand in line with a rise in sales volume from the second quarter?

A14) The recent foreign exchange rates are a concern but we could say that the second-half earnings would at least exceed the first-half earnings.

Q15) How is the demand for high-end products?

A15) We are seeing very favorable demand for super high-end seamless pipe such as alloy steel for sour service and 13CR. They are used in the severe well environment for natural gas exploration.

Q16) Any update on China's low-end commodity grade products or Korea's welded OCTGs?

A16) We are not aware of any particular change in the market. Our products, which are mainly high-end products, are in a different category and do not compete with those Chinese or Korean products.