

## Sumitomo Metals FY2011 IR Briefing on April 27, 2012

### Summary of Q&A

Representatives from Sumitomo Metals:

Kenji Takahashi, Managing Executive Officer

Seiji Kato, General Manager, Treasury Department

Nobuaki Masuda, General Manager, Public Relations and Investor Relations Department

Masato Hoshi, Manager, Head of Investor Relations Group

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#### **(FY2011 earnings results)**

**Q1) Operating income of the Steel Sheet, Plate & Structural Steel Company was 6 JPY billion less than your most recent forecast. What are the reasons?**

**A1) The main reasons are the impact from deteriorating markets mainly for structural steel and exports, a decrease in sales volume caused by softening supply/demand conditions, and a delay in shipments caused by strong winds on March 31.**

**Q2) The slab business generated losses in FY2011 again. Is it difficult to drastically improve your present contracts in order to eliminate losses?**

**A2) Improving profitability of the slab business is a big challenge for us. We have been negotiating with China Steel Corporation (CSC) of Taiwan, our customer, for eliminating losses while maintaining our good relationship.**

**Q3) I was struck that Sumitomo Metals was profitable in steel business while your peers were not. You are profitable not only in the pipe & tube business but also in other steel businesses on a full-year basis, where your peers have struggled. Do you think that your differentiating strategy has worked?**

**A3) We cannot comment on our competitors but we believe that our unique business portfolio and our strategy to accelerate the distinctiveness of each product category have worked favorably. For example, we have unique distinctive businesses such as pipe & tube as well as railway, automotive & machinery parts. Even in the steel sheet, plate & structural steel business, we focus on specific user sectors such as the energy sector for steel plates.**

**(FY2012 earnings forecasts)**

**Q4) Disclosure of FY2012 earnings forecasts has been deferred. Will you disclose them when the business environment outlook becomes more certain at the time of announcing the first quarter results?**

**A4) Yes, we intend to disclose earning forecasts for the first half of FY2012 at the time of announcement of the first quarter results.**

**Q5) Please tell us your general thoughts for depreciation expenses, CAPEX, production levels and cost reductions in FY2012.**

**A5) Depreciation expenses are expected to decrease slightly year-on-year, while CAPEX is planned to increase slightly due to restoration of Kashima Steel Works after the earthquake damage and construction of the new No. 2 blast furnace in Wakayama Steel Works. We are looking for reducing costs by about close to 30 JPY billion including the impact of the recovery plan. However, the guidance is on Sumitomo Metals' stand-alone basis. Please keep in mind that we are merging with Nippon Steel on October 1<sup>st</sup>.**

**Q6) In FY2011, your recovery plan led to a significant cost reduction. Are you expecting a reversal from this as a negative factor of change in operating income year-on-year?**

**A6) No. Our cost reduction has already factored in that effect.**

**Q7) What is your outlook for crude steel production in the first quarter of FY2012?**

**A7) We are expecting 3.1 million tons, which means a decrease compared to the previous quarter, due to a drop in automobile production levels.**

**Q8) How is your pricing negotiation with domestic automobile manufacturers going?**

**A8) It is difficult to elaborate as we are in the midst of negotiations with our customers. We are trying to explain and ask them to understand not only the conditions in the present quarter but also the background up to the present.**

**Q9) What is your demand outlook for products other than steel pipes and tubes?**

**A9) Demand for steel plates is firm for the energy sector and partly due to a large order for large-diameter steel pipes in the second half of FY2012. Demand for the railway, automotive & machinery parts segment continues to be strong, in particular for railway wheels and axles. With regard to demand for steel sheets, crankshafts and bar & wire rod products, we are closely watching export demand for automobiles.**

**(Seamless pipe)**

**Q10) The business environment for seamless pipe continues to be robust but the U.S. spot market is showing some weakness in pricing and the supply/demand balance due to an increase of imports. How do you look at the supply/demand balance for high-end products, which you supply?**

**A10) We expect that demand for high-end products will continue to be firm in Y2012.**

**Q11) The number of deep-well rigs in the U.S. has dropped recently. Does it have any impact on demand for seamless pipe?**

**A11) The number of rig counts fluctuates on a short-term basis, depending on energy prices. However, we do not expect much impact on the supply/demand conditions for high-end products as we believe that the long-term uptrend of drilling activities in deeper and harsher environment remains unchanged in line with a growth in energy demand.**

**Q12) Regarding OCTG\*s to oil majors on the basis of long-term contracts, do sales prices fluctuate according to raw material prices? Is it difficult to expand your margin?**

**\*OCTG: Oil Country Tubular Goods**

**A12) We sign long-term contracts with major oil companies, based on long-term relationships of trust. In our view, sales prices basically follow the pricing trend of raw materials.**

**Q13) What are your production volume forecasts for seamless pipe and VSB in Brazil in FY2012? At the previous briefing, you mentioned targeting 50% capacity utilization at VSB this year. Any change to that view?**

**A13) We expect domestic production of seamless pipe will continue to be at full capacity. VSB is focusing on obtaining approvals from customers and is overcoming the usual challenges of a start-up. Our portion of sales volume of VSB for this fiscal year is projected to be 50,000 – 100,000 tons. With regard to VSB's capacity utilization, we cannot give you specific figures at present, as we need to incorporate a portion of sales volume forecasts for Vallourec, VSB's joint venture partner.**

**In addition, please keep in mind that, due to the business integration with Nippon Steel, the full-year production volume of seamless pipe aggregates that of Nippon Steel.**

**Q14) Any change in product mix?**

**A14) Regarding seamless pipe, we are working on increasing high-end products while operating at full capacity in Japan. VSB, on the other hand, will manufacture medium-grade products based on our grade categories.**

Let me remind you once again that the product mix of our new integrated company is expected to change by incorporating steel pipe and tube of Nippon Steel.

**Q15) What is VSB's earnings outlook for FY2012?**

**A15 ) We project VSB to generate higher losses than in FY2012, as start-up costs will exceed profits from sales volume of VSB's products.**

**(Business integration and overseas business)**

**Q16) Six months have passed since the basic agreement on business integration was signed in September 2011. Your expected synergy impacts of 150 JPY billion have become more specific and clearer?**

**A16) We are still in the process of reviewing details. We are coming up with various viable ideas in particular on improving steel making process in upstream and raising yield in downstream operations. We are becoming more enthusiastic and confident in realizing the synergy impact as much as 150 JPY billion.**

**Q17) Please give us an update on the steel plate mill construction project with the Canadoil Group in Thailand.**

**A17) The Canadoil Group is facing some management issues and the steel plate mill project is currently on hold. As we cannot foresee that the project would be resumed, we are thinking of recovering our invested capital from the project.**

**Q18) Bhushan Steel in India began OEM shipment from March 2012. Is this going to contribute directly to Sumitomo Metals' sales and profit? Or are you receiving licensing income? Please also tell us your sales volume forecast for OEM products.**

**A18) The OEM products are accounted for as Sumitomo Metals' sales and profit. We do not receive licensing income. The products are currently being evaluated by our customers. We therefore cannot give a specific sales volume outlook yet.**