

Sumitomo Metals FY2010 IR Briefing on April 28, 2011

Summary of Q&A

Representatives from Sumitomo Metals:

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(Effect of the East Japan Earthquake)

Q1) You are expecting an earthquake-related extraordinary loss of 15 billion yen in FY2011. Please explain its details.

A1) This is the amount of loss caused by an expected decrease of 600,000 tons in shipments in the first quarter before Kashima Steelworks could return to normal full operation. The expected additional cost to be incurred before this full recovery was already incorporated into the 62 billion yen extraordinary loss posted in FY2010.

Q2) If demand conditions of steel forces Kashima's recovery back to normal operation to be postponed beyond June, would it raise the amount of extraordinary loss from the current estimate of 15 billion yen?

A2) No, that would not affect the amount of extraordinary loss. If such delay is incurred, that would affect ordinary income.

Q3) Regarding the expected loss caused by the earthquake in FY2011, how does the negative impact on ordinary income (5 billion yen) relate to a decrease in marginal profit? I saw a newspaper article that suggested that it would take 18 months for a full recovery at Kashima Steelworks. If it turns out to be true, would you need to account for additional cost of losses such as a deteriorated energy balance?

A3) The predicted 5 billion yen negative impact on ordinary income is for the sales margin deterioration, after deducting manufacturing costs from a sales amount for the 600,000 ton of reduction which we expect in the first quarter of FY2011. Consequently, the decrease in marginal profits is estimated to total 20 billion yen in FY2011, by combining this negative impact (5 billion yen) and the expected extraordinary loss (15 billion yen) to be caused by reduced capacity utilization because of this shipment reduction.

The additional costs that we expect until the full recovery have already been accounted for as a recovery expense in the extraordinary loss in FY2010. Thus, no additional loss is expected.

Q4) The impact of the earthquake on pre-tax free cash flow is 100 billion yen. When are you expecting to pay it?

Q4) We are expecting most of the payment within FY2011 but some investment in facilities may be paid for in FY2012.

Q5) You mentioned that sales volume of slabs will be adjusted in the first quarter of FY2011 because Wakayama Steelworks is supplying slabs instead to Kashima Steelworks. Does this involve only domestic customers, or overseas alliance partners as well?

A5) We have been asking domestic alliance partners to adjust delivery timing of slabs.

Q6) How much normal cost reduction and further cost reduction based on the post-quake recovery plan are you expecting in FY2011?

A6) In FY2010 cost reduction amounted to 20 billion yen. In FY2011, in addition to a similar cost reduction, we are aiming to achieve additional reduction of 24 billion yen for the recovery plan.

Q7) Any earthquake-related impact on raw materials?

A7) Shipment of raw materials is a little behind schedule, as there was a period when Kashima Steelworks is unable to receive raw materials, because its blast furnaces suspended production due to the earthquake. We are expecting to purchase this delayed portion at the previous year's contracted price, not at this year's price.

As always, we expect a delay in incurring new year's raw materials cost: we call it carry-over. We are not yet able to know how much carry-over we will have this year.

Q8) What is the current operating rate at Sumitomo Metals (Kokura), Ltd. (Sumikin Kokura)?

A8) Sumikin Kokura is operating at 80-90% of its capacity, partly because its exposure to automobiles is high. However, please note that automobile production is not the only factor being reflected in the production level. Sumikin Kokura is helping other mills by supplying its products.

(Seamless pipe)

Q9) OCTG (Oil Country Tubular Goods) prices are rising in the spot market. Are you seeing any impact on demand-supply balance? What is the trend in sales volume?

A9) The spot market is rising and that is affecting our orders for pipes and tubes. We expect that sales volume in FY2011 will increase from the previous year.

Q10) We are witnessing a rise in raw material prices in the first quarter of FY2011. Can you pass this through to your sales prices? Or are you expecting your margin to deteriorate?

A10) Our long-term contracts for seamless pipes permit passing an increase in raw material prices on to the prices of seamless pipes. Hence, a time lag is expected but margin deterioration is not anticipated.

Q11) Have you reached a point where you can expand your metal spreads*?

A11) Our sales force aims for a recovery in the spread when negotiating sales prices with customers, with the current demand-supply balance in mind. An uptrend in energy demand is positive, but the sustained overproduction in China is negative on the supply side. *Metal spreads: Steel product prices less material costs

Q12) It is reported that Baoshan Iron & Steel Co., Ltd. began production of high-end seamless pipes. What is your response? What is your outlook for super high-end products for this year?

A12) Most steel pipe manufacturers in China produce low-end products. But it is true that companies such as Baoshan and Tianjin Pipe (Group) Corp. aim to enter into the high-end market. However, we believe that we will be able to maintain our distinctiveness even in the future because of our overall strengths that include our high level development of steel material, the world's best joint technology, and the quality and reliability of customer services. Demand for super high-end products may fluctuate in the short term but is expected to grow in the medium to long run, because drilling environment will get tougher, not easier.