

Medium-Term Business Plan 2006 ~ 2008



April 2006



SUMITOMO METALS

Forward-looking Statement

This presentation contains certain forward-looking statements. The company has tried, whenever possible, to identify these forward-looking statements using words such as “anticipated,” “believes,” “estimates,” “expects,” “plans,” “intends,” “targets,” and similar expressions. Similarly, statements herein that describe the company’s business strategy, outlook, objectives, plans, intentions or goals are also forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause the company’s actual results, performance or achievements to differ from those expressed in, or implied by, such statements. These risks and uncertainties may include, but are not limited to: the company’s ability to successfully implement its strategies to restructure the steel business and reinforce its financial structure; the effects of and changes in Japanese and worldwide general economic conditions and in the steel industry in particular, including the severity of any economic slowdown, technological and other changes affecting the manufacture of and demand for Sumitomo Metal Industries Group’s products, changes in Japan’s and other countries’ laws and regulations, including with regard to taxation, and other risks and uncertainties set forth in subsequent press releases and in Sumitomo Metal Industries Group’s public filings. These statements reflect the company’s current beliefs and are based upon information currently available to it. Be advised that developments subsequent to this presentation are likely to cause these statements to become outdated with the passage of time.

The company disclaims any intent or obligation to update these forward-looking statements.

Agenda

- ⑧ *Plan Positioning and Corporate Direction*
- ⑧ *Accelerating Distinctiveness*
- ⑧ *Enhancing Intangible Assets*
- ⑧ *Building a Solid Operating Base*
- ⑧ *Financial Plans*
- ⑧ *Sumitomo's Business Spirit*

Plan Positioning and Corporate Direction

2006

2008

2015



Plan Positioning

Historical Milestones

Established

- 1897 Sumitomo Copper Plant / 1901 Sumitomo Steel Foundry
- 1912 First private company to produce cold drawn seamless pipes

End of WWII

High Growth Era

- 1949 Sumitomo Metal Industries, Ltd. established
- 1953 Kokura Steel Works begins operation
- 1961 Wakayama No.1 BF begins operation / 1968 Kashima Steel Works begins operation
- 1972 Crude steel production in Japan peaks
- 1974 Sumitomo Metals reports highest non-consolidated declared income in Japan

Weakening steel demand, "Heisei Recession"

Building a Solid Operating Base

- Structural reform steel business
- 2005 Sumitomo Metals reports second consecutive year of record consolidated earnings

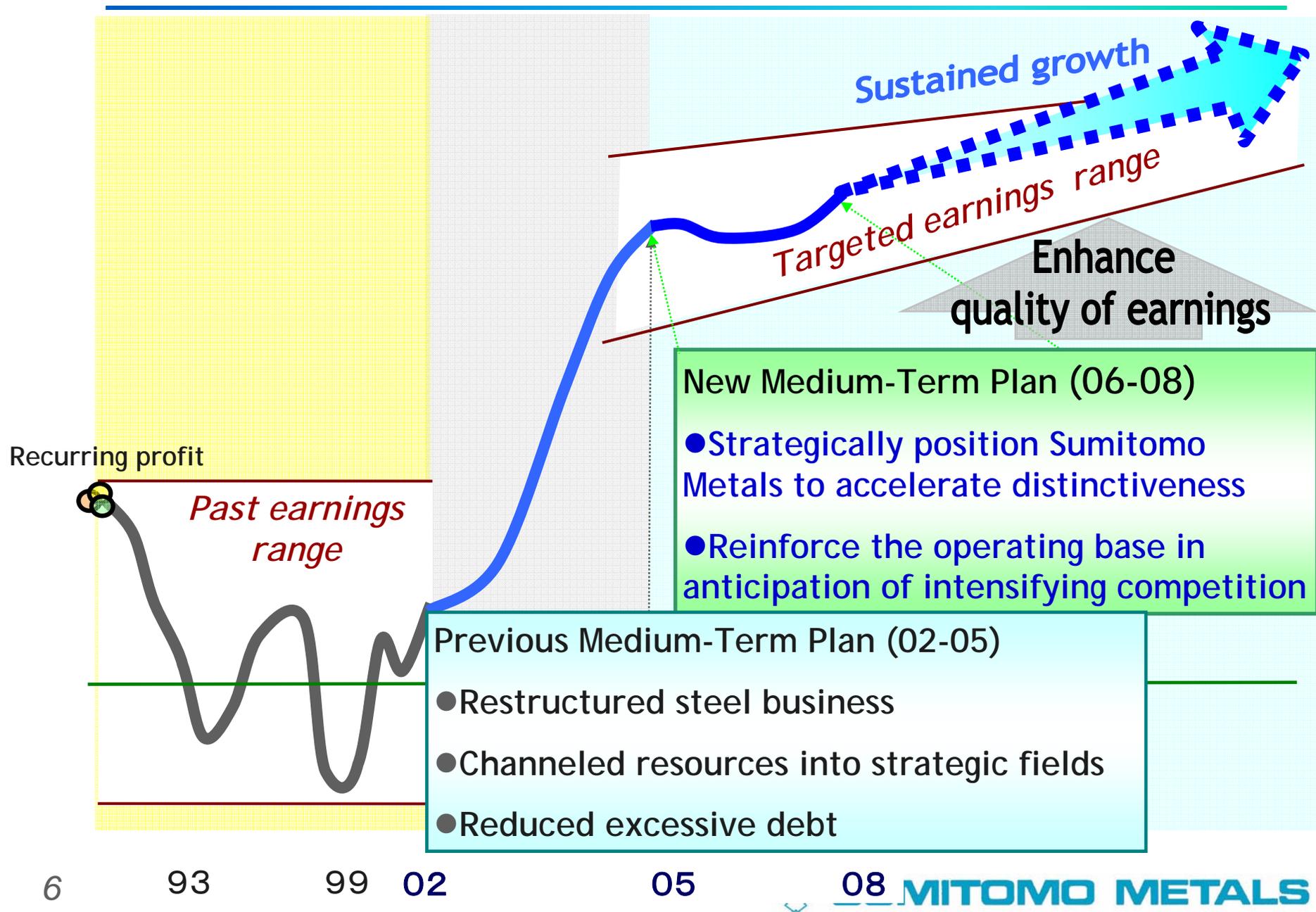
Medium-Term Business Plan (02-05)

Accelerating Distinctiveness

Visualizing the next ten years

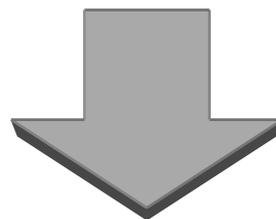
Medium-Term Business Plan (06-08)

Building a Solid Operating Base to Underpin Future Growth



Fundamental Policy for New Medium-Term Business Plan

**Deliver sustained growth in corporate value
by emphasizing quality**

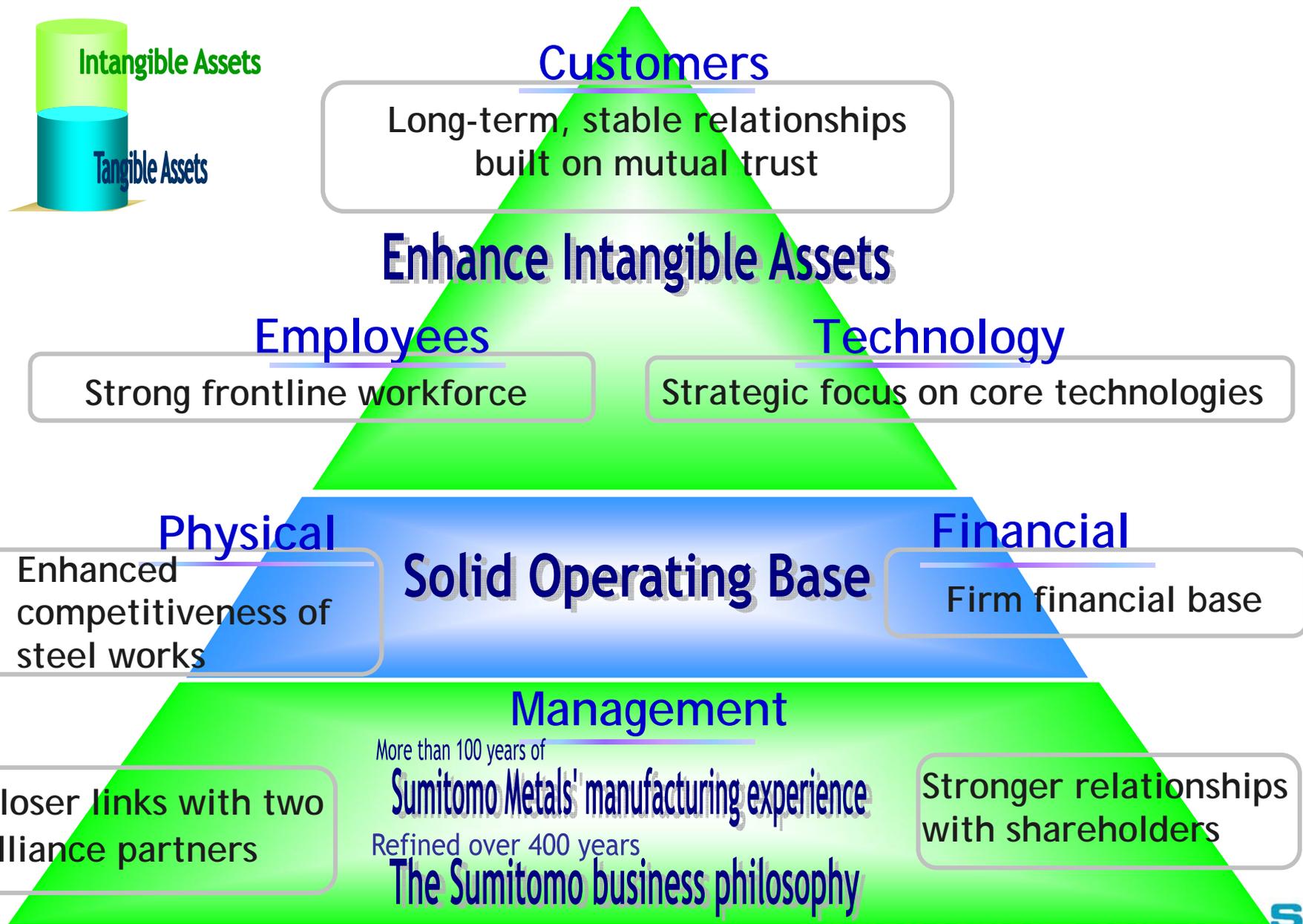


**Become a company
trusted by all stakeholders**

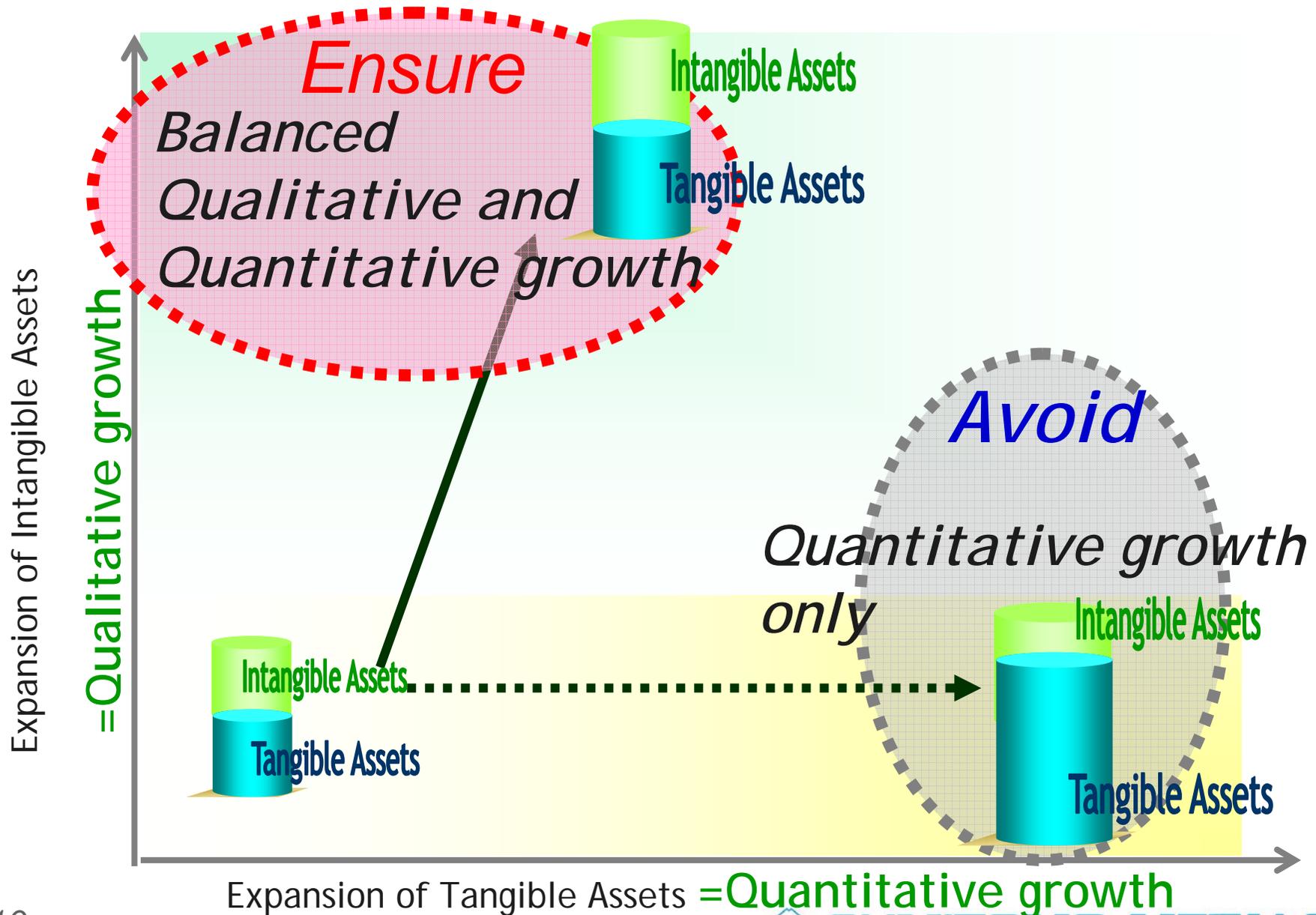
Corporate Value Structure



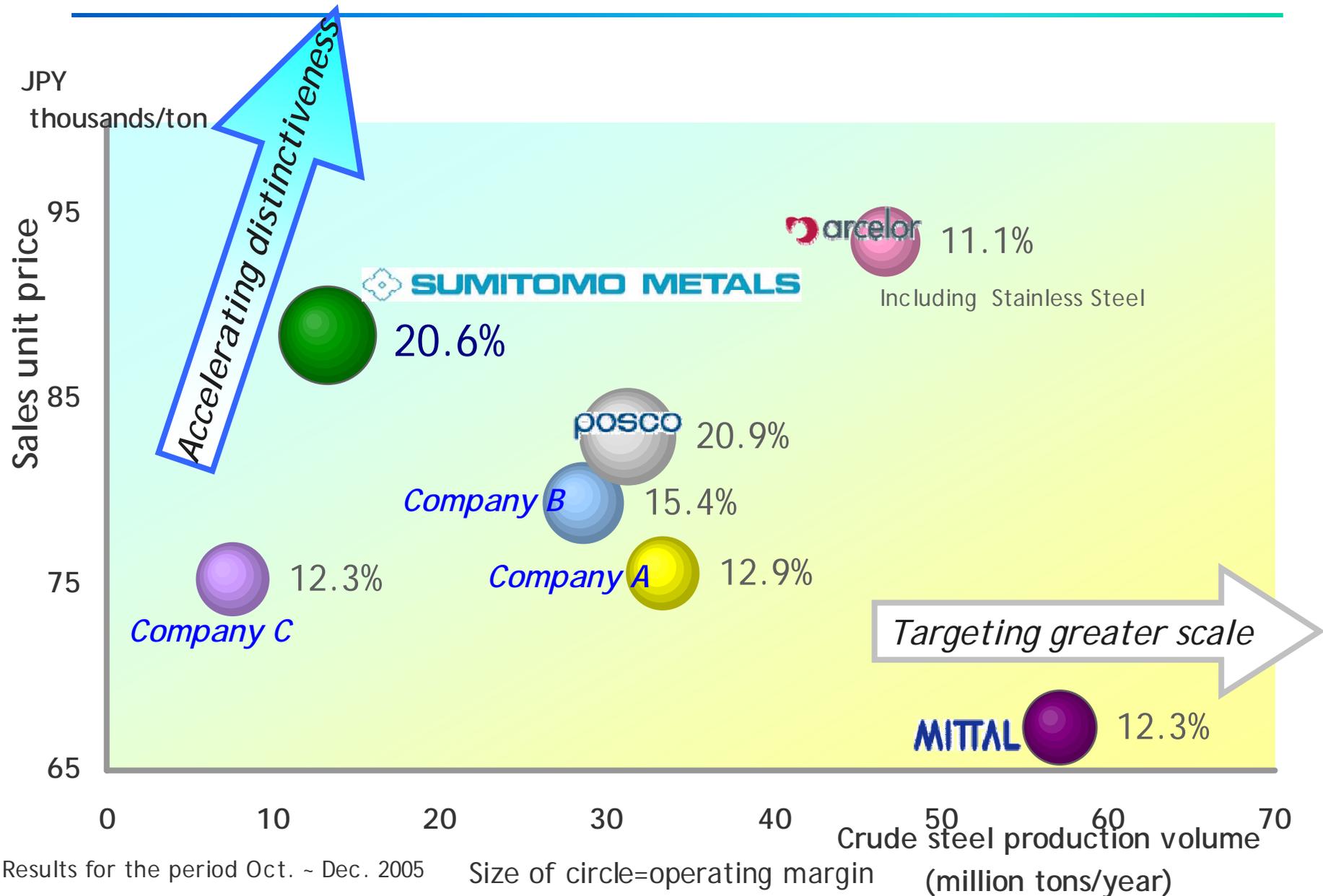
Working to Raise Corporate Value



Direction of Growth



Direction of Growth



Accelerating Distinctiveness

2006

2008

2015



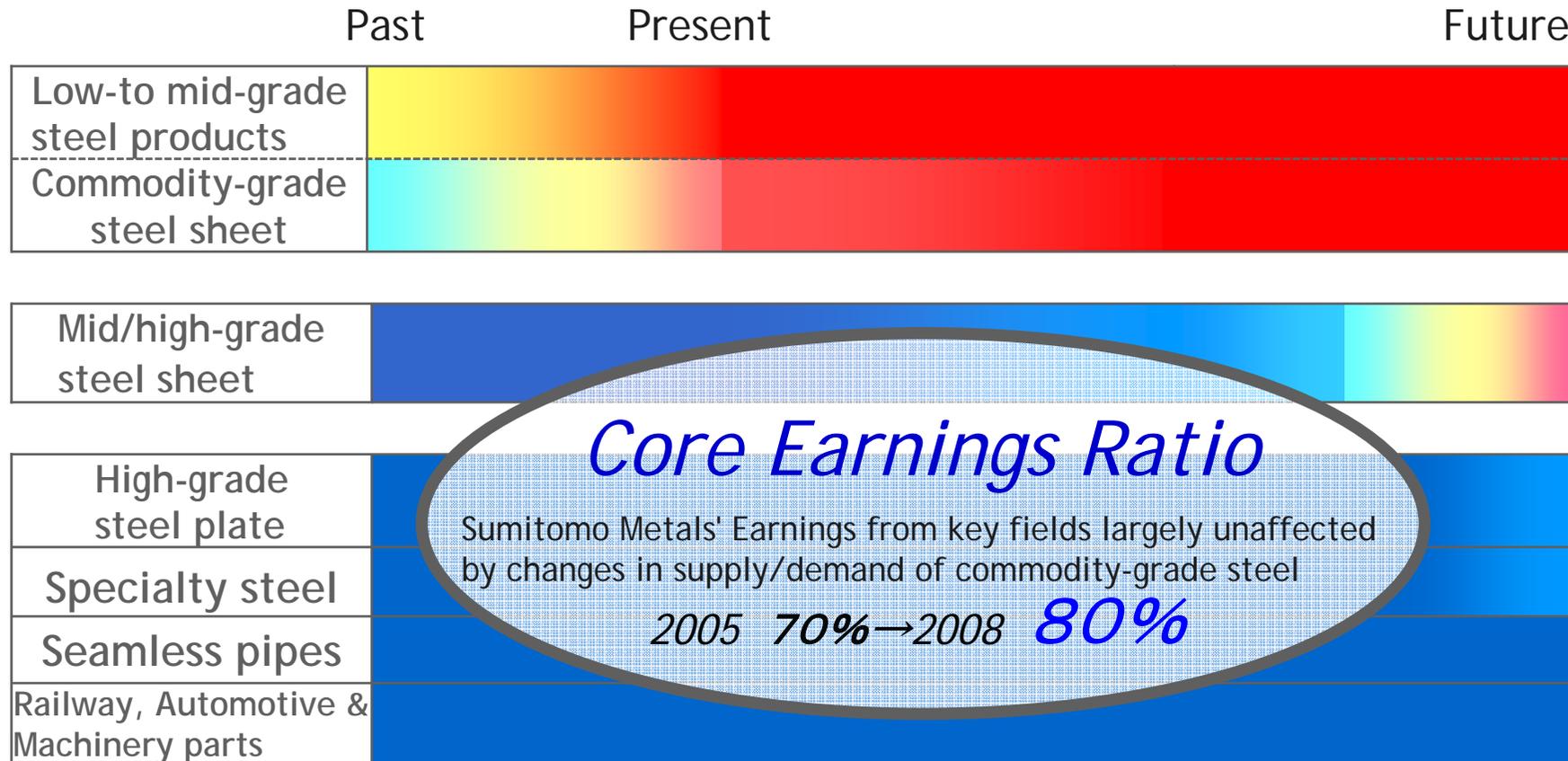
Structural Changes in the Market

Steel supply/demand projections

☒ Rapidly rising demand for steel in China

☒ Changes in commodity-grade steel sheet supply/demand

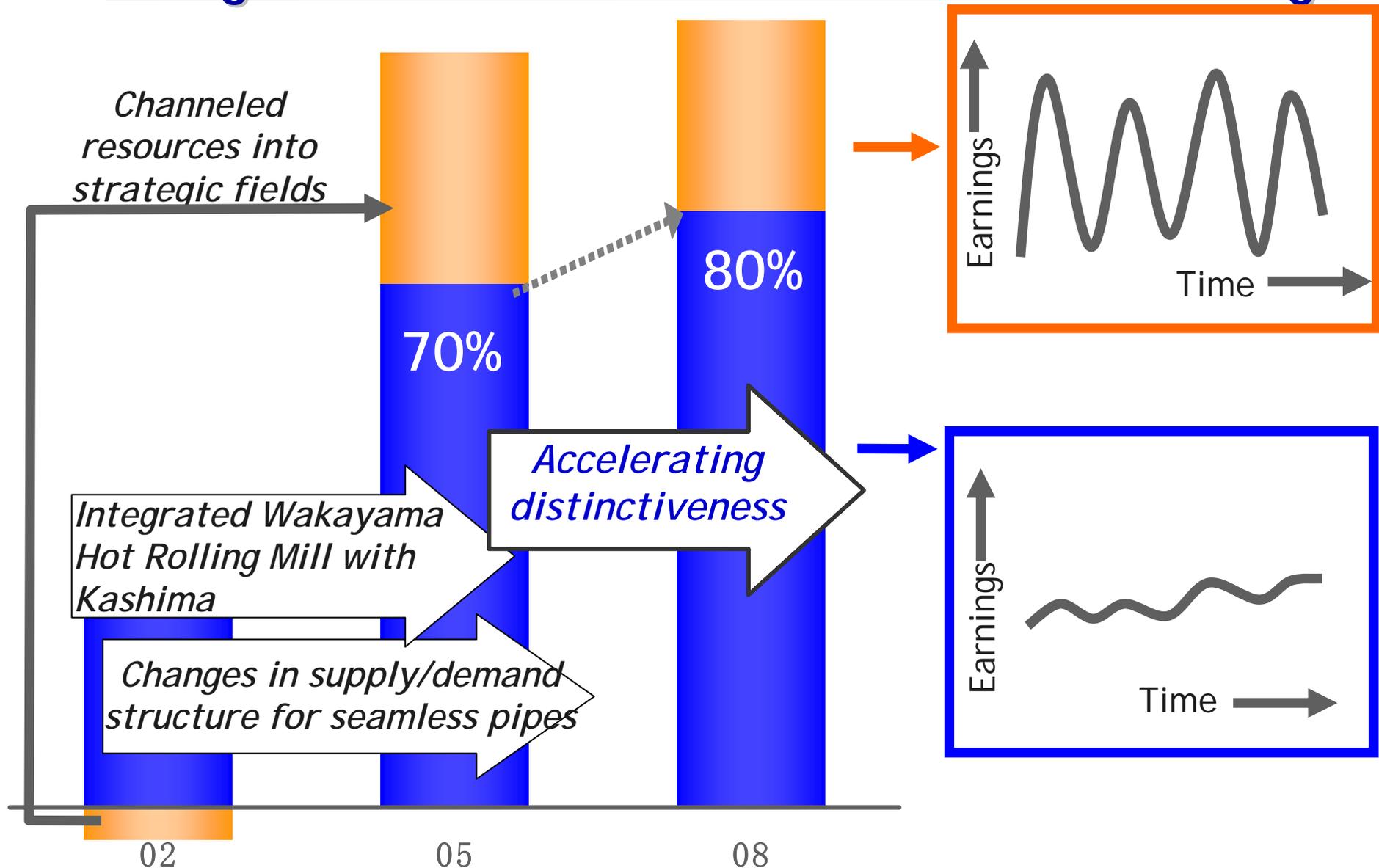
☒ Changes in mid/high-grade steel sheet supply/demand



Weak

Intense

Changes in Sumitomo Metals' Core Earnings



Ratio = core operating earnings / consolidated operating profit

Building on Sumitomo Metals' Strengths

Further enhance strengths in key fields

Energy and Automotive sectors

High-end products

Sumitomo Metals' Strengths

Reinforce relationships with customers

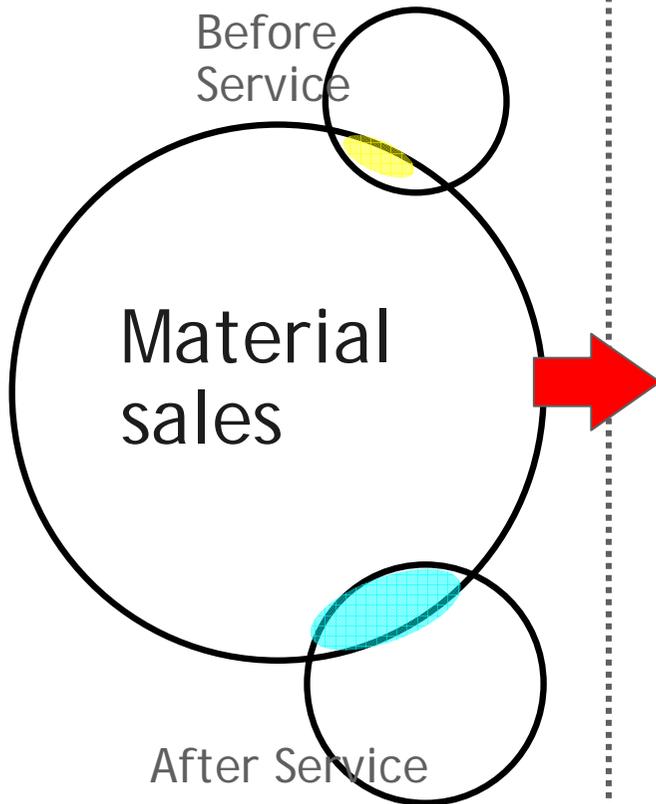
Channel resources

**"No. 1 Manufacturer"
in customer satisfaction**

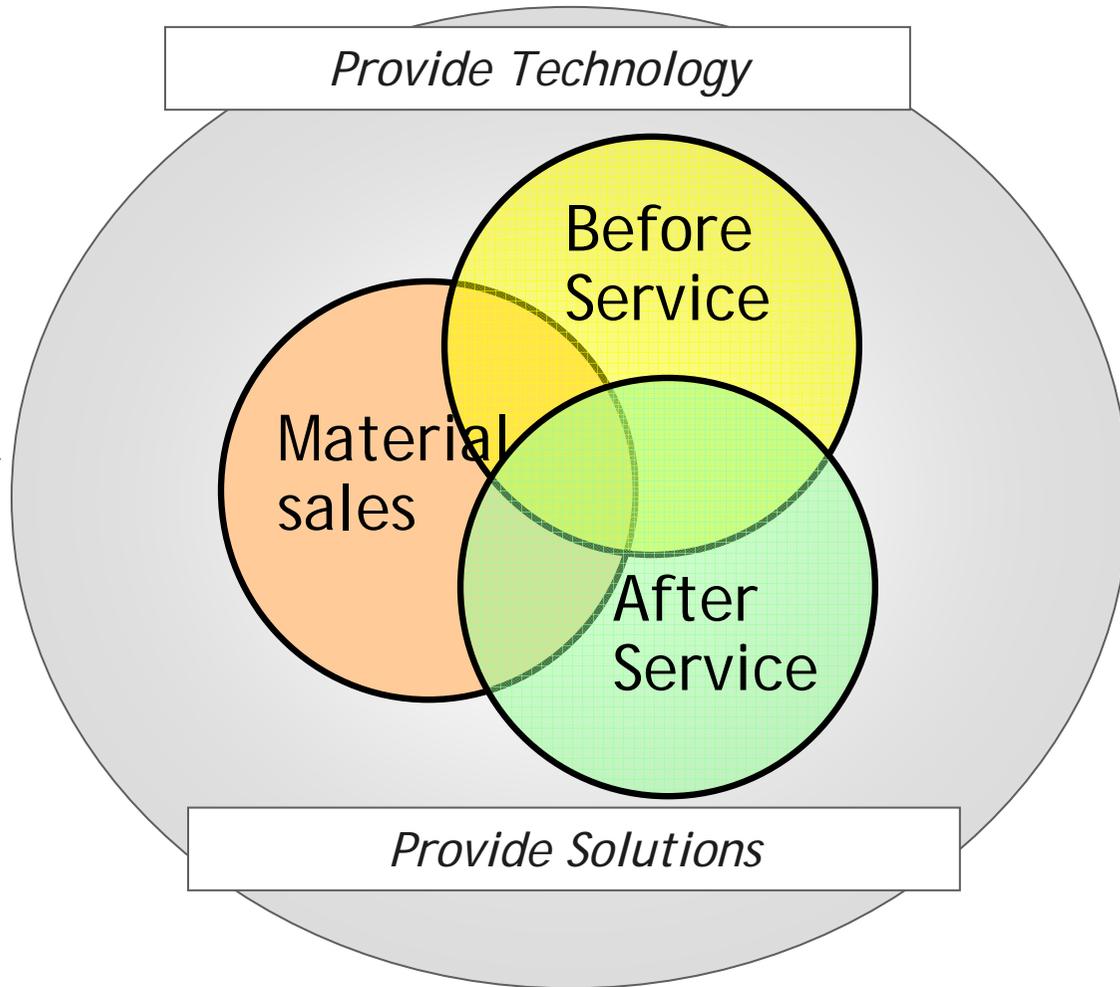
**Balanced qualitative and
quantitative growth**

Approach in the Steel Business

Conventional steel business



Sumitomo Metals is aiming to



Seamless Pipes

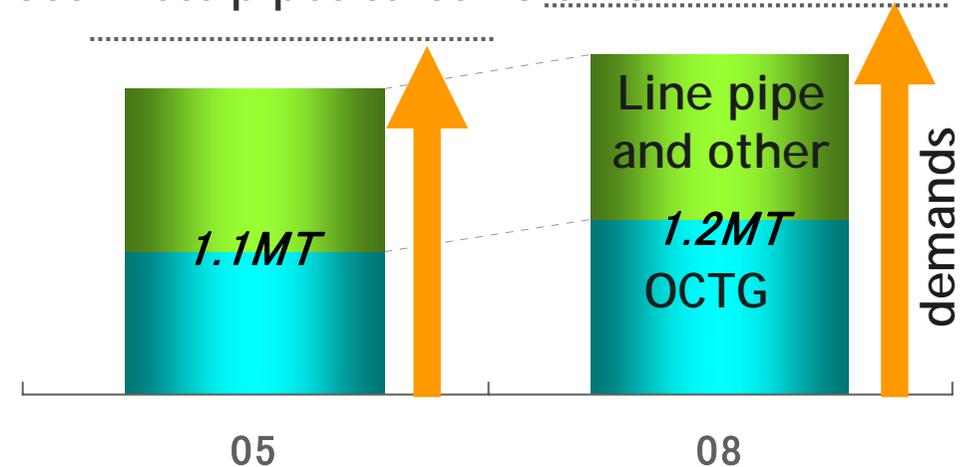
Current position



Dominant position

No.1 brand in the field

Seamless pipes sales volume



Accelerating distinctiveness

Focus on high-grade products
Reinforce SCM with major oil companies

Respond to increased customer demand for high-grade OCTG

→ *Invest in more cutting-edge products*

Steel Plate

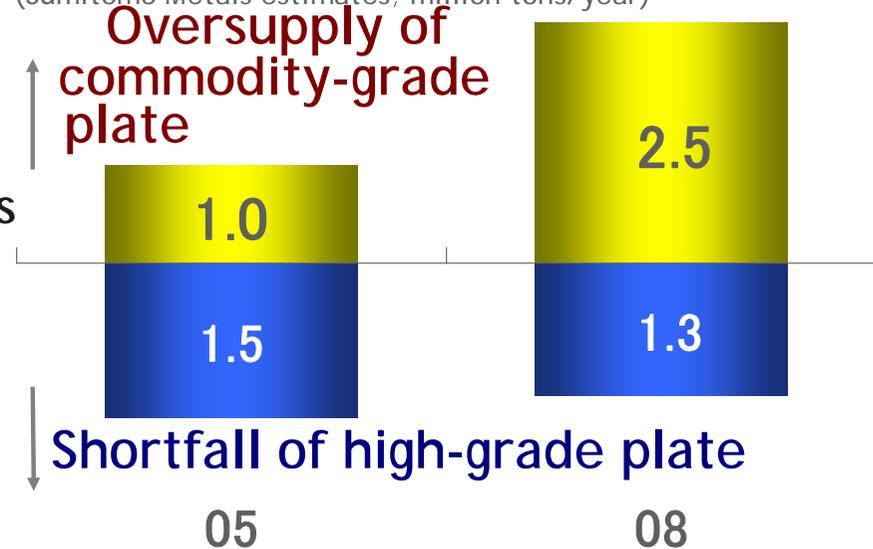
Current position

- All-round capabilities
- Technological expertise
- Co-work with our pipes & tube business

Accelerating distinctiveness

Supply/demand gap for steel plate in East Asia by grade

(Sumitomo Metals estimates; million tons/year)



Focus on “high-strength” “ high-tensile” “long-life”
Create dedicated sales team for energy sector

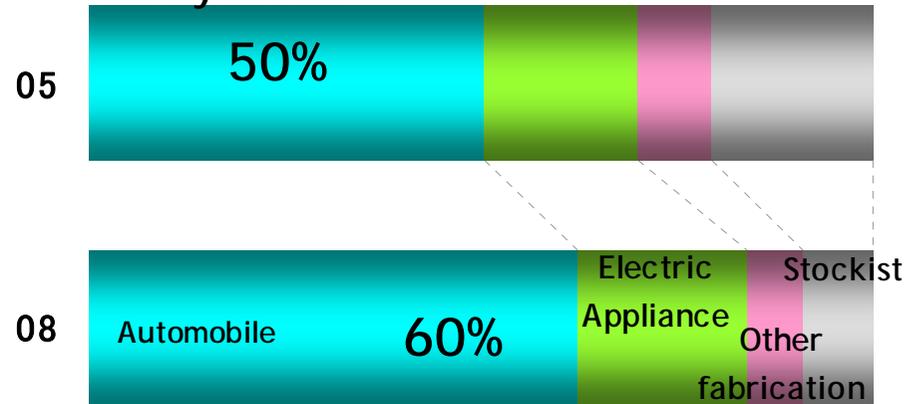
Respond to growing demand for high-grade steel plate

→ *Invest in expansion of heating furnace and water cooling facilities*

Current position

Integration of Wakayama and Kashima hot rolling mills has led to full capacity utilization and created a resilient operating framework responsive to downturns and capable of generating stable earnings

Breakdown of Sumitomo Metals' steel sheet orders by sector



Accelerating distinctiveness

- Strengthen Sumitomo Metals' coil center network with a view to boosting customer satisfaction; create a lineup comprising more high-end products

Invest to build stronger customer base*

→ *Start up new continuous galvanizing line (CGL) and pickling line*

*Stronger customer base : a ratio of customers with whom our share is No.1 or No. 2

Current position

- Channeling resources into the automotive sector for 30 years has resulted in a competitive position backed by extensive technical expertise

Breakdown of production at Sumitomo Metals (Kokura)



Accelerating distinctiveness

Focus on specialty steel with enhanced processability and super clean steel

Respond to moves into global markets by Japanese manufacturers

→ *Invest in innovative steel making processes*

Current position

10% share of global crankshaft market

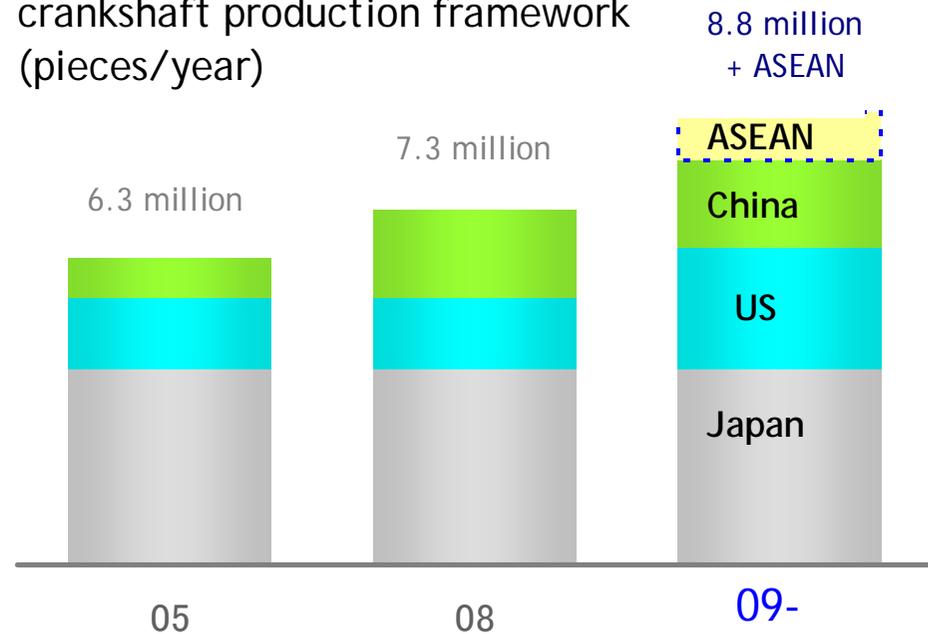
Design capabilities to satisfy increasing engine performance

Accelerating distinctiveness

Expand overseas operations to respond to rising local production by automakers

- *China: Invest in second production line at Huizhou Sumikin Forging Co., Ltd.*
- *US: Invest in third production line at International Crankshaft Inc. (ICI)*
- *ASEAN: Examine supply network*

Sumitomo Metals Group's crankshaft production framework (pieces/year)



Railway Parts

Current position

Share of Japanese Market

Wheels & axles: 100% (No. 1)
 Couplers: 80% (No. 1)
 Gear units: 60% (No. 1)
 Bogie trucks: 25% (No. 1)

Technical expertise to meet the rising speeds of state-of-the-art rail systems

Accelerating distinctiveness

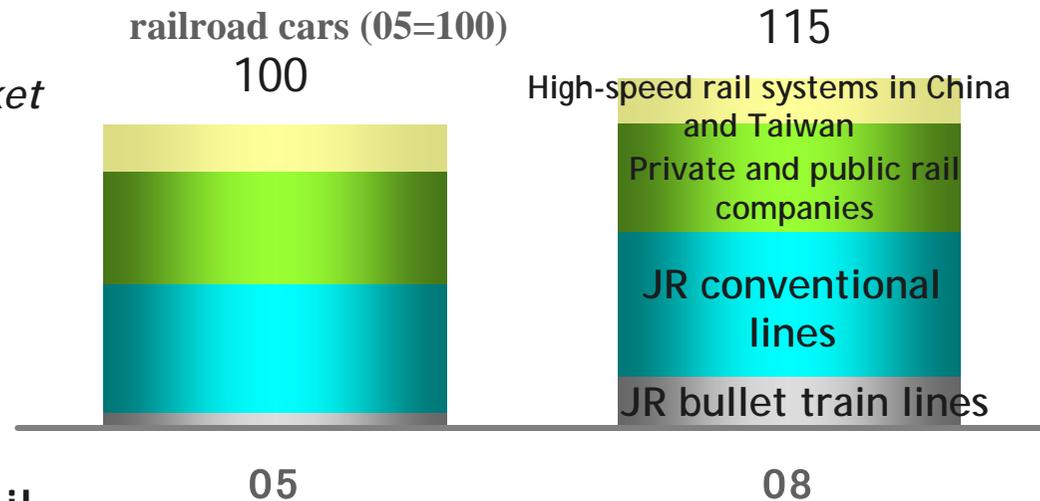
Stay in step with growing rolling stock markets in East Asia

Expand exports of wheels to North America

→ *Introduce large-scale simulation facilities*

→ *Invest to keep up with rising output of wheels*

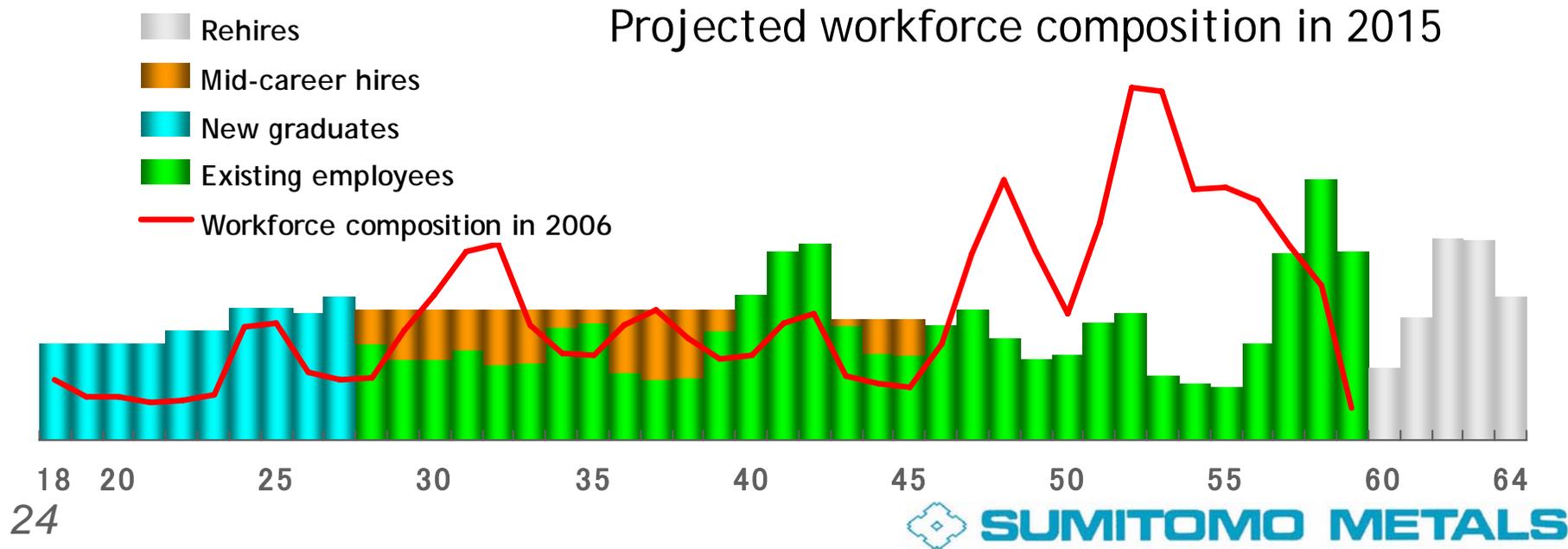
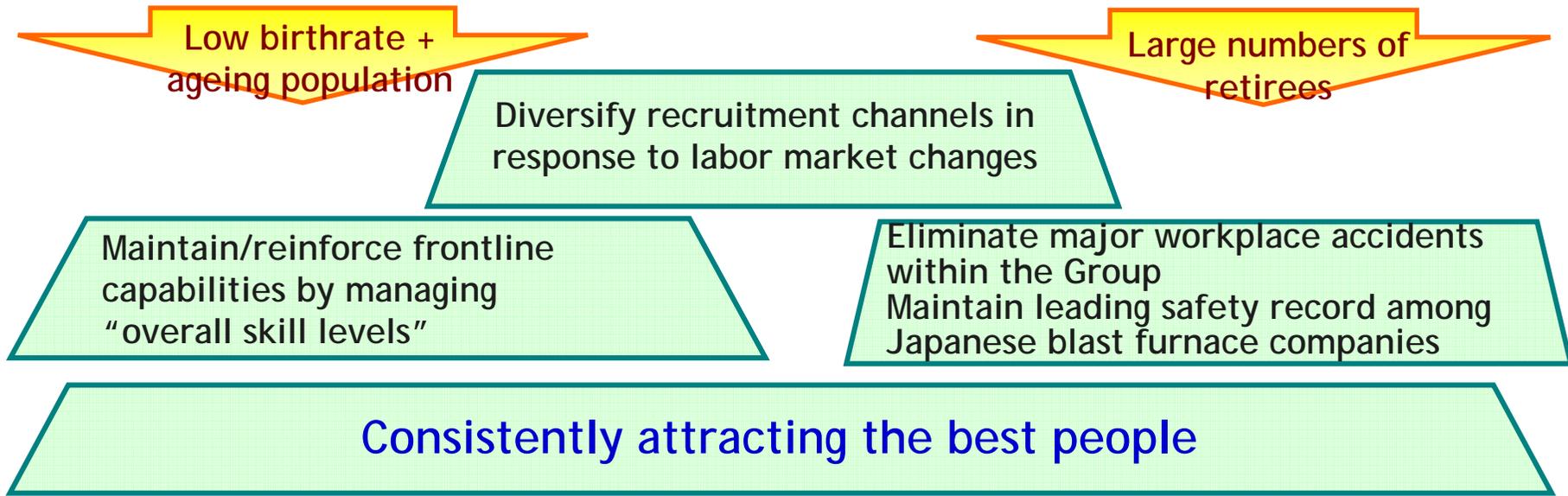
Projected demand for new railroad cars (05=100)



Enhancing Intangible Assets

2006  *2008* *2015*

Strengthening Employees Assets



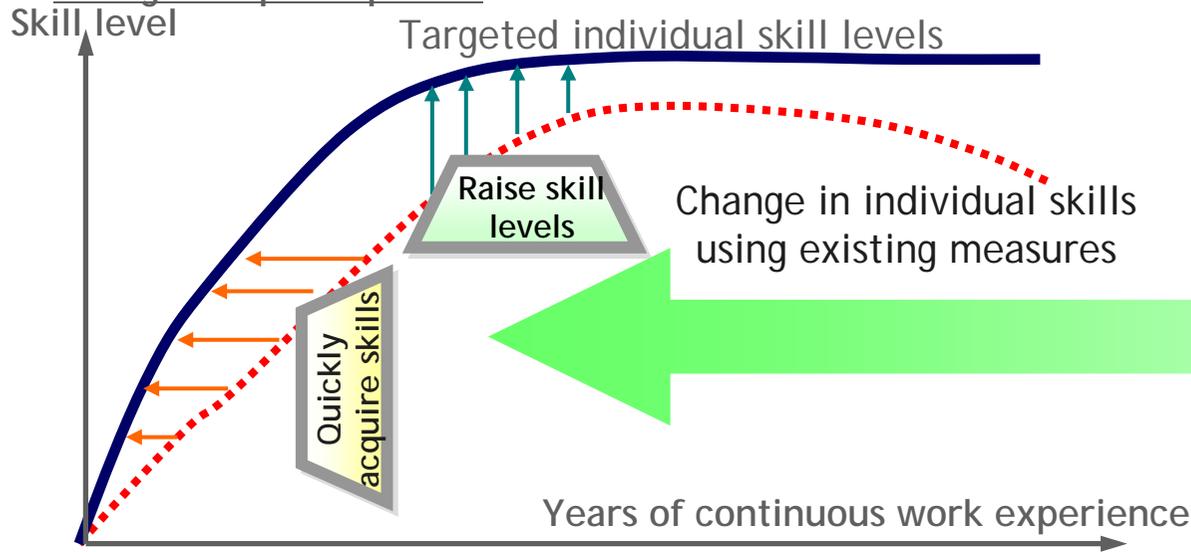
Plan to Enhance "Overall Skill Levels"

Quantitative Focus

- ⑥ Actively rehire retired employees
- ⑥ Secure human resources using diverse recruitment channels
- ⑥ Upgrade training programs



Boost individual skills and ensure new hires are rapidly brought "up-to-speed"



Qualitative Focus

- ⑥ Acquisition of skills required for the long term using frontline skills map profile
- ⑥ Upgrade training programs
Programs, methods, time, personnel

Reinforcing Technology Assets

Further enhance Sumitomo
Metals' strengths

Introduce
unique R&D
facilities

Select and
concentrate
on element
technologies

R&D expenditure
+20%
*(compared to the previous
medium-term business plan)*

**Boost
R&D
output**

*Enhance output
capability + 10%*
(05→08)

Increase use
of external R&D
resources

Strategic
allocation of
R&D personnel

No.1 Manufacturer in
customer satisfaction

Building Stronger Relationships with Shareholders

- Enhance disclosure content and methods/Announce earnings forecasts more quickly

Announce earnings forecasts on a quarterly basis

Provide more information on business developments

Hold earnings announcements/tours for individual shareholders at steel works

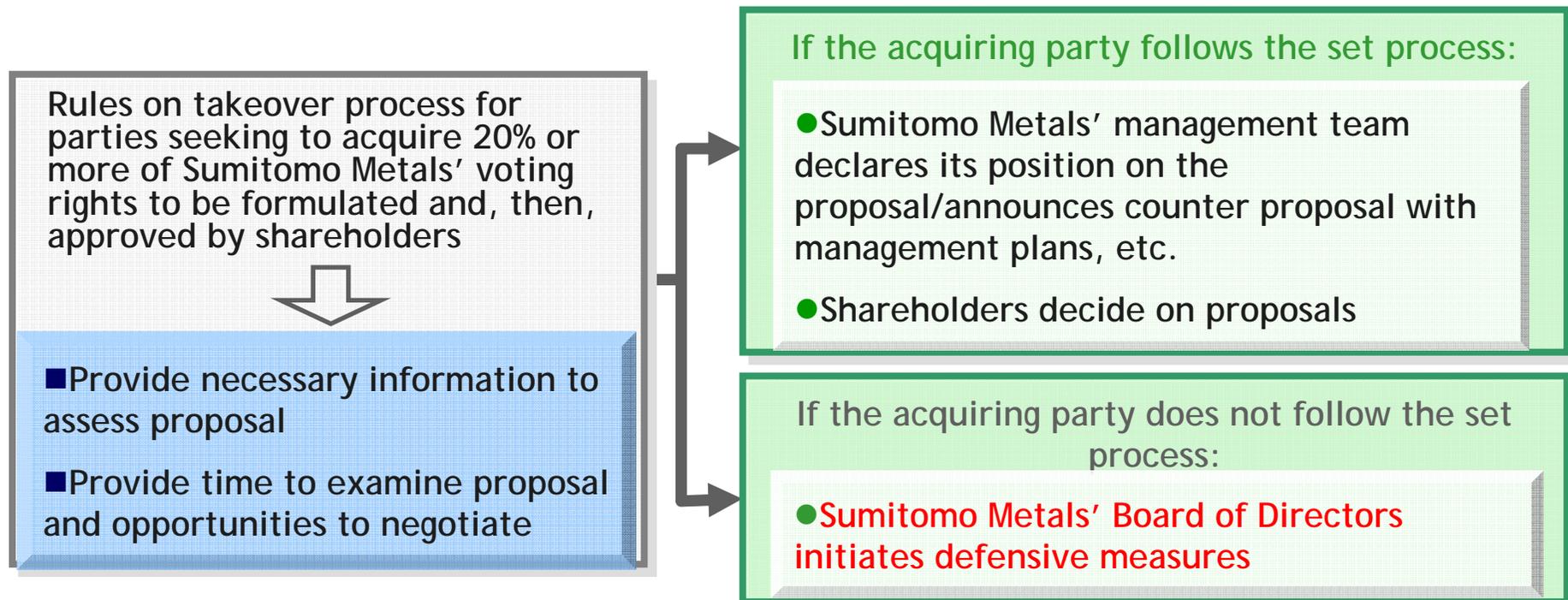
- Consistently pay stable dividends
- Reinforce corporate governance

Reduce terms for directors to one year; strengthen governance of directors by shareholders

Clarification of Sumitomo Metals' Rules on Takeover Proposals

- Ensure shareholders have sufficient information and time to make informed judgments

Sumitomo Metals' rules regarding takeover proposals



Sumitomo Metals has been implementing tie-up cooperative measures with Nippon Steel and Kobe Steel



- Integration of Group companies: Stainless Steel and welding materials
- Partners supply Sumitomo Metals with hot rolled coil following integration of Wakayama and Kashima hot rolling mills
- Joint use of iron and steelmaking facilities at Wakayama Steel Works
- Equity tie-ups
- Provision of technical expertise
 - Mutual transfer of iron-making technology**
- Response to changes in capital markets
 - Memorandum of understanding signed by all three companies that they will jointly examine any takeover proposals for any one of the three companies**

Overseas Alliance Partners Teaming Up With Powerful Partners in Key Fields

csc ■ Joint upstream operations for the Wakayama Steel Works
■ Technology exchange

CORUS ■ Technical tie-up in steel sheet
Joint development of high-tensile products and creation of joint catalogs/Global EVI (early vendor involvement)
■ Technical tie-up in specialty steel bars: joint development of free-cutting engineering steel products/technology exchange

VALLOUREC ■ Technical collaboration in oil country tubular goods (OCTG)/OCTG processing joint venture in US

Thyssen Krupp ■ Crankshaft joint venture in China/collaboration in raw material transportation

TIMKEN ■ Transfer of lead-free cutting steel technology to Timken/support for Japanese customers

Building a Solid Operating Base

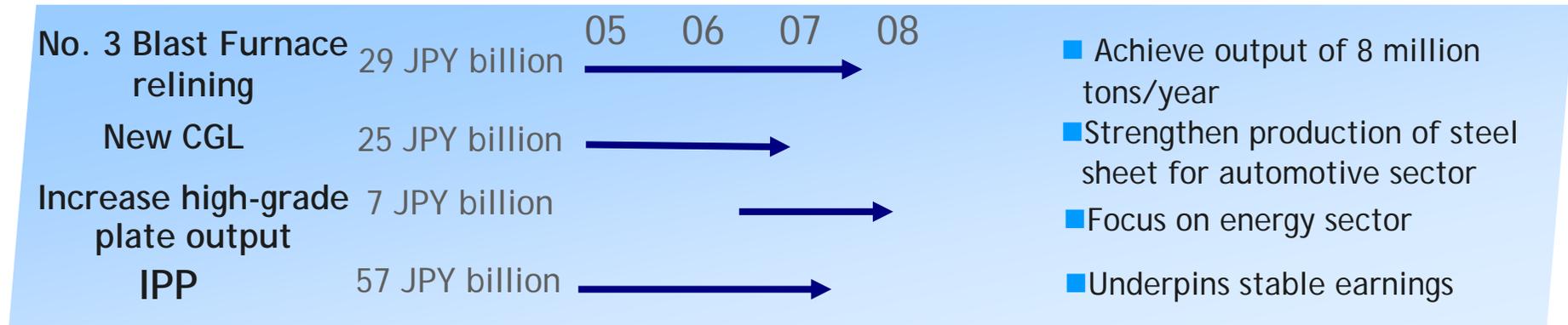
2006 ————— *2008* ————— *2015*



Major Steps to Enhance the Competitiveness of Sumitomo Metals' Steel Works

Kashima Steel Works

Goals: Output of 8 million tons/year, full capacity utilization, globally competitive on cost and quality



Wakayama Steel Works

Goals: Leading brand in seamless pipes, full capacity utilization through long-term contracts for steel slab

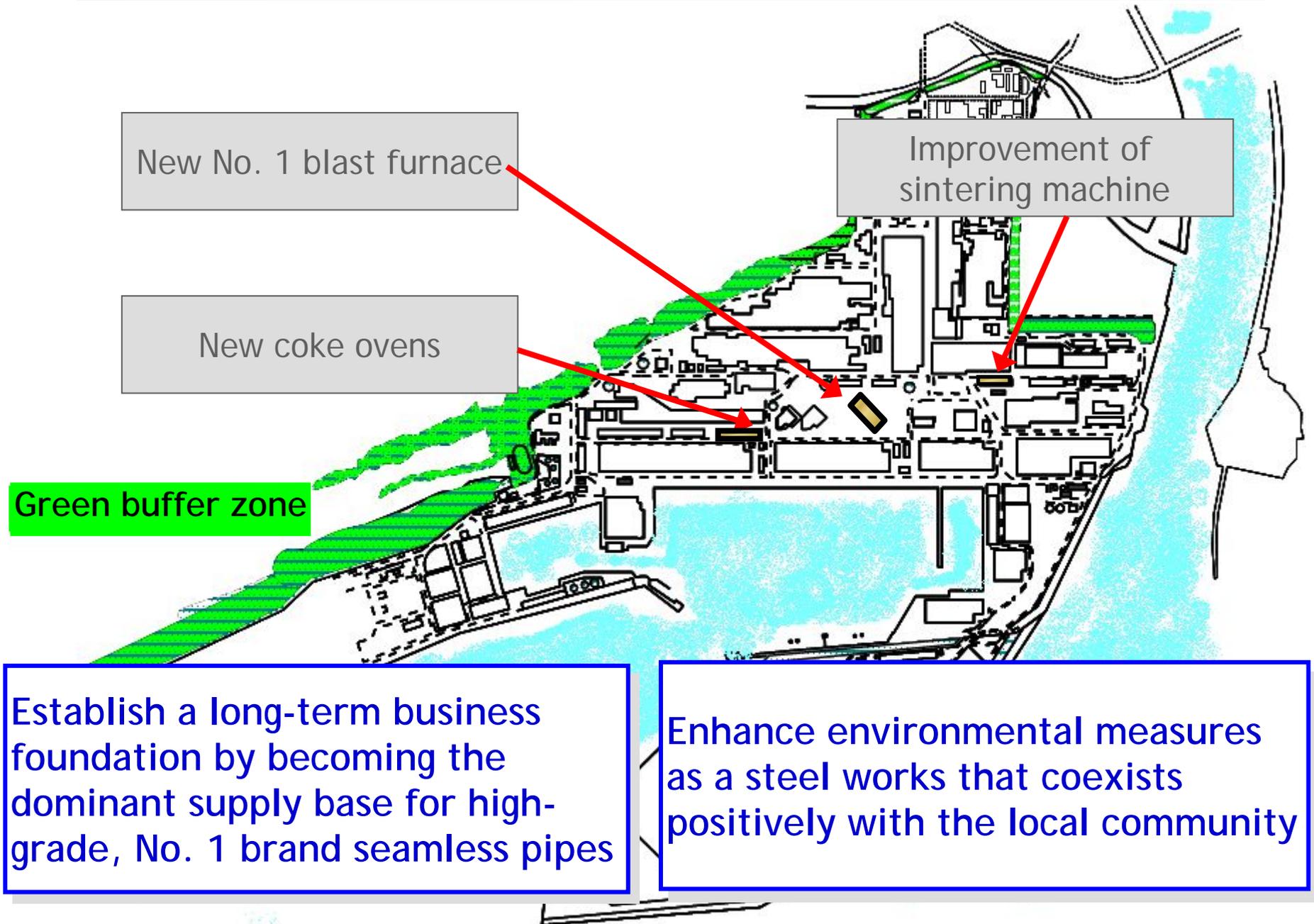


Sumitomo Metals (Kokura)

Goal: Establish Kokura as the leading brand in specialty steel



Wakayama Steel Works: Renewal of Upstream Processes/Environmental Protection



Financial Plans

2006 ————— *2008* ————— *2015*

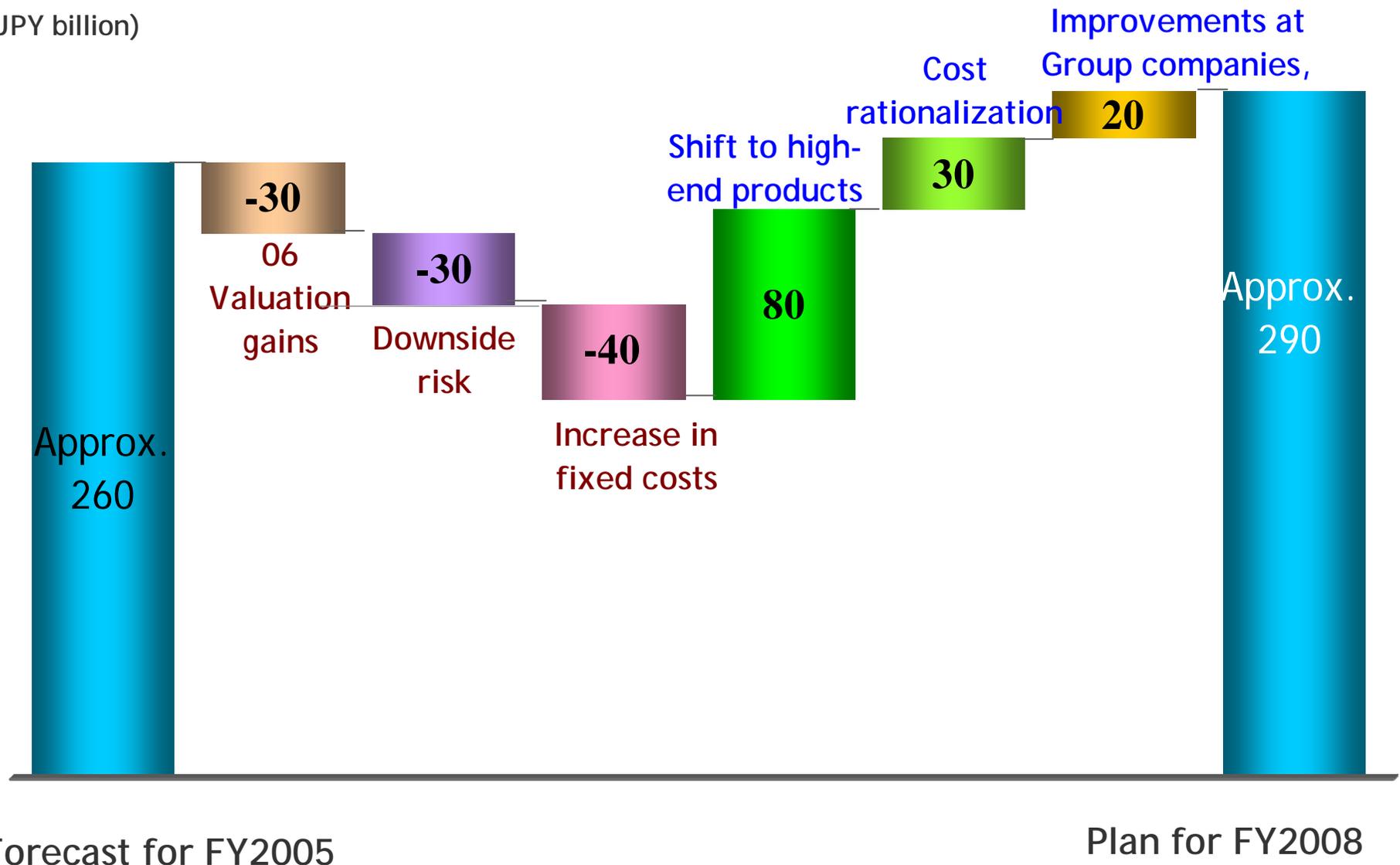
A horizontal timeline bar with a blue-to-teal gradient. The years 2006, 2008, and 2015 are written in italics above the bar. The bar is divided into segments by vertical lines, with the years 2006, 2008, and 2015 marking specific points in time.

Consolidated Financial Targets in Medium-Term Business Plan

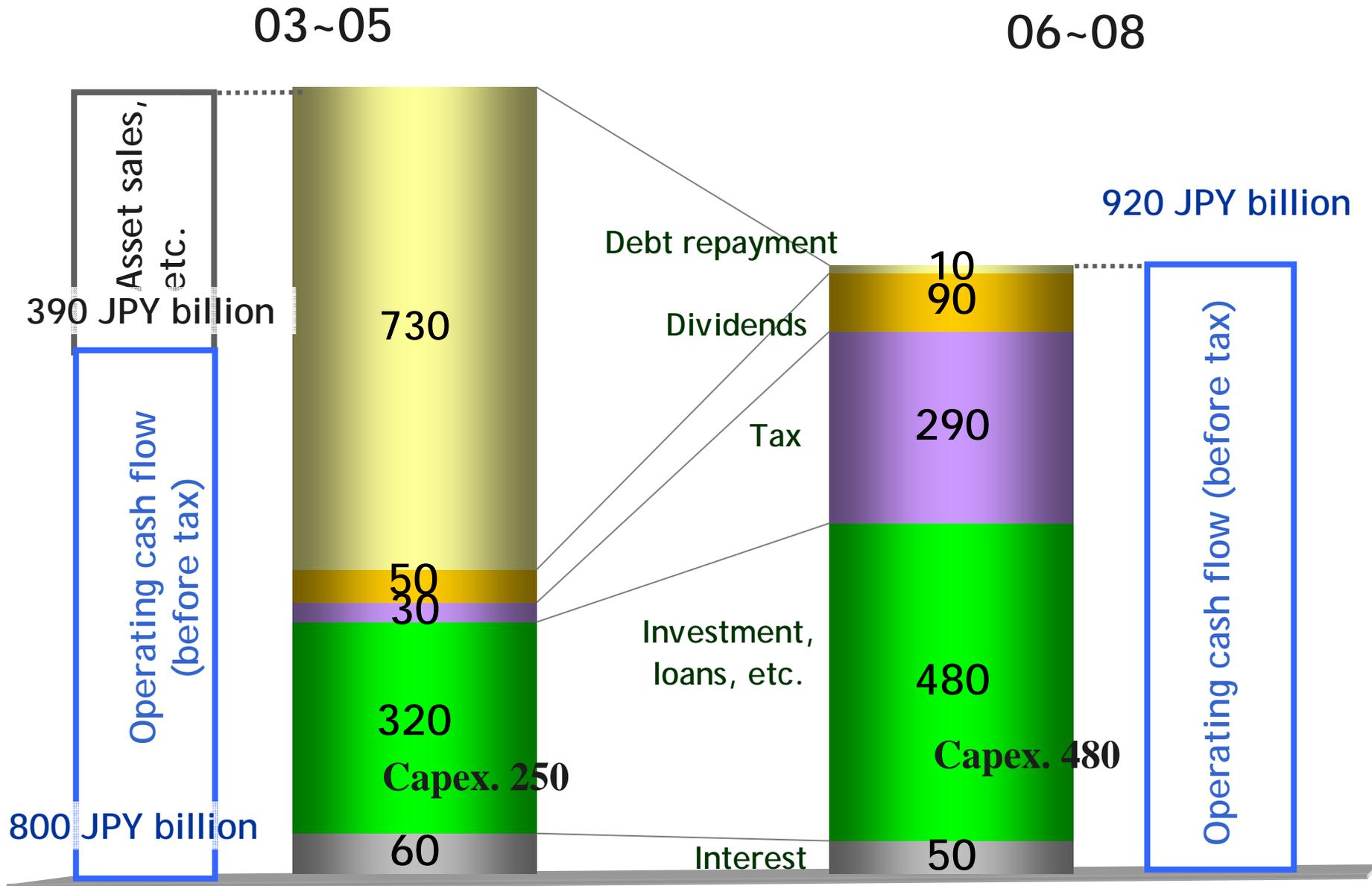
JPY billion	FY 2005 forecast (approximate figures)		FY 2008 plan (approximate figures)
Net Sales	1,530	106%	1,620
Operating profit	288	104%	300
Recurring profit	260	112%	290
Net income	203	89%	180
Total assets	2,120	112%	2,380
Debt	690	99%	680
Shareholders' equity	696	154%	1,070
ROA	13.8%		13%
Equity ratio	32.8%		45%
D/E ratio	0.99		0.6

Breakdown of Changes in Consolidated Recurring Profit

(JPY billion)



Three-year Consolidated Cash Flow and Use of Cash



Sumitomo's Business Spirit



Sumitomo's business spirit emphasizes the following concepts

Placing prime importance on integrity and sound management in the conduct of business

A man of noble character esteems wealth and is scrupulous in seeking the way to acquire it

君子愛財、取之有道

商賈信用

*Customer-Oriented
Approaches*

別子植林

*Environmental
Management*

取之有人

一意殖產興業
數千萬人利共

Industry and the Public Good

事業變遷、
企圖理財得失、
弛張興廢

Flexible Operations in Step with the Times

事業萬世不朽

Business Continuity

政令遵奉、家則確守

Compliance and Corporate Governance

Deliver sustained growth in corporate value
by emphasizing quality



SUMITOMO METALS

Become a company
trusted by all stakeholders