Medium-Term Business Plan
2006 ~ 2008

April 2006
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 Be advised that developments subsequent to this presentation are likely to cause these statements to become outdated with the passage of time.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

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

High Growth Era

Established

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

End of WWII

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”

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

Visualizing the next ten years

Medium-Term Business Plan (02-05)
Medium-Term Business Plan (06-08)
Building a Solid Operating Base to Underpin Future Growth

Previous Medium-Term Plan (02-05)
- Restructured steel business
- Channeled resources into strategic fields
- Reduced excessive debt

New Medium-Term Plan (06-08)
- Strategically position Sumitomo Metals to accelerate distinctiveness
- Reinforce the operating base in anticipation of intensifying competition

Past earnings range

Recurring profit

Enhance quality of earnings

Sustained growth

Targeted earnings range

6 93 99 02 05 08
Deliver sustained growth in corporate value by emphasizing quality

Become a company trusted by all stakeholders
Emphasize the Quality of Assets
Achieve balanced growth in all Assets
Working to Raise Corporate Value

- Closer links with two alliance partners
- Stronger relationships with shareholders
- Long-term, stable relationships built on mutual trust

Enhance Intangible Assets

- Employees: Strong frontline workforce
- Technology: Strategic focus on core technologies
- Customers: Long-term, stable relationships built on mutual trust

Solid Operating Base

- Physical: Enhanced competitiveness of steel works
- Financial: Firm financial base
- Management: More than 100 years of Sumitomo Metals’ manufacturing experience, refined over 400 years, the Sumitomo business philosophy

Intangible Assets

Employees

Technology

Financial

Physical

Management

Customers
Avoid

Balanced Qualitative and Quantitative growth

Ensure

Expansion of Tangible Assets = Quantitative growth

Expansion of Intangible Assets = Qualitative growth

Quantitative growth only

Direction of Growth
Direction of Growth

Results for the period Oct. - Dec. 2005

- **SUMITOMO METALS**: 20.6%
- **Company B**: 20.9%
- **Company A**: 12.9%
- **Company C**: 12.3%
- **arcelor**: 11.1%
- **MITTAL**: 12.3%

Size of circle = operating margin
Crude steel production volume (million tons/year)

- **Accelerating distinctiveness**
- **Targeting greater scale**

Including Stainless Steel
Accelerating Distinctiveness
## Structural Changes in the Market

### Steel supply/demand projections

<table>
<thead>
<tr>
<th>Past</th>
<th>Present</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-to mid-grade steel products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity-grade steel sheet</td>
<td></td>
<td></td>
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</tbody>
</table>

| Mid/high-grade steel sheet | | |
| High-grade steel plate | | |
| Specialty steel | | |
| Seamless pipes | | |
| Railway, Automotive & Machinery parts | | |

### Rapidly rising demand for steel in China

### Changes in commodity-grade steel sheet supply/demand

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

### Core Earnings Ratio

Sumitomo Metals’ Earnings from key fields largely unaffected by changes in supply/demand of commodity-grade steel

2005 70% → 2008 80%
Changes in Sumitomo Metals’ Core Earnings

- Channeled resources into strategic fields
- Accelerating distinctiveness
- Changes in supply/demand structure for seamless pipes

\[ \text{Ratio} = \frac{\text{core operating earnings}}{\text{consolidated operating profit}} \]

Integrated Wakayama Hot Rolling Mill with Kashima
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

Before Service

Material sales

After Service

Provide Technology

Before Service

Material sales

Provide Solutions

After Service

Sumitomo Metals is aiming to

Sumitomo Metals
Seamless Pipes

Current position

Dominant position
No. 1 brand in the field

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

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

Supply/demand gap for steel plate in East Asia by grade
(Sumitomo Metals estimates; million tons/year)

Oversupply of commodity-grade plate

- 1.0
- 1.5
- 2.5

Shortfall of high-grade plate

- 1.3
- 1.5
- 2.5

05 08

Respond to growing demand for high-grade steel plate

Invest in expansion of heating furnace and water cooling facilities
Strengthen Sumitomo Metals’ coil center network with a view to boosting customer satisfaction; create a lineup comprising more high-end products

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

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
Specialty Steel

Current position

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

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*
Crankshafts

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
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

Projected demand for new railroad cars (05=100)

100

High-speed rail systems in China and Taiwan
Private and public rail companies
JR conventional lines
JR bullet train lines

05 08

115

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
Enhancing Intangible Assets
Strengthening Employees Assets

- Low birthrate + ageing population
- Diversify recruitment channels in response to labor market changes
- Maintain/reinforce frontline capabilities by managing “overall skill levels”
- Large numbers of retirees
- Eliminate major workplace accidents within the Group
- Maintain leading safety record among Japanese blast furnace companies

Consistently attracting the best people

Projected workforce composition in 2015

- Rehires
- Mid-career hires
- New graduates
- Existing employees
- Workforce composition in 2006
Plan to Enhance “Overall Skill Levels”

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

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

Simulated total skill levels at Kashima Steel Works
- Rehires + new hires, etc.
- New hires only
- No new recruitment

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

Targeted individual skill levels
- Change in individual skills using existing measures

Quickly acquire skills
- Years of continuous work experience
- Skill level
Reinforcing Technology Assets

Further enhance Sumitomo Metals’ strengths

- Introduce unique R&D facilities
- Select and concentrate on element technologies
- Increase use of external R&D resources
- Enhance output capability + 10% (05→08)
- Strategic allocation of R&D personnel

No. 1 Manufacturer in customer satisfaction

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

- If the acquiring party follows the set process:
  - Sumitomo Metals’ management team declares its position on the proposal/announces counter proposal with management plans, etc.
  - Shareholders decide on proposals

- If the acquiring party does not follow the set process:
  - Sumitomo Metals’ Board of Directors initiates defensive measures
Creating Closer Links With Two Alliance Partners

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**

<table>
<thead>
<tr>
<th>Company</th>
<th>Collaboration Activities</th>
</tr>
</thead>
</table>
| 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
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

<table>
<thead>
<tr>
<th>Project</th>
<th>Investment</th>
<th>Year</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. 3 Blast Furnace relining</td>
<td>29 JPY billion</td>
<td>05-08</td>
<td>Achieve output of 8 million tons/year</td>
</tr>
<tr>
<td>New CGL</td>
<td>25 JPY billion</td>
<td></td>
<td>Strengthen production of steel sheet for automotive sector</td>
</tr>
<tr>
<td>Increase high-grade plate output</td>
<td>7 JPY billion</td>
<td></td>
<td>Focus on energy sector</td>
</tr>
<tr>
<td>IPP</td>
<td>57 JPY billion</td>
<td></td>
<td>Underpins stable earnings</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Project</th>
<th>Investment</th>
<th>Year</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewal of upstream processes</td>
<td>160 JPY billion</td>
<td>2010</td>
<td>Achieve output of 4.5 million tons/year</td>
</tr>
<tr>
<td>Environmental protection</td>
<td></td>
<td></td>
<td>Relocation of Coke ovens</td>
</tr>
<tr>
<td>Increased capacity for seamless steel pipes</td>
<td>40 JPY billion</td>
<td></td>
<td>Focus more on cutting-edge products</td>
</tr>
</tbody>
</table>

**Sumitomo Metals (Kokura)**
Goal: Establish Kokura as the leading brand in specialty steel

<table>
<thead>
<tr>
<th>Project</th>
<th>Investment</th>
<th>Year</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel making process innovations</td>
<td>20 JPY billion</td>
<td>2010</td>
<td>Boost quality of specialty steel and cost competitiveness</td>
</tr>
</tbody>
</table>

Total investment
Wakayama Steel Works: Renewal of Upstream Processes/Environmental Protection

- New No. 1 blast furnace
- Improvement of sintering machine
- New coke ovens

Establish a long-term business foundation by becoming the dominant supply base for high-grade, No. 1 brand seamless pipes

Enhance environmental measures as a steel works that coexists positively with the local community

Green buffer zone
Financial Plans
## Consolidated Financial Targets in Medium-Term Business Plan

<table>
<thead>
<tr>
<th>JPY billion</th>
<th>FY 2005 forecast (approximate figures)</th>
<th>FY 2008 plan (approximate figures)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>1,530</td>
<td>1,620</td>
</tr>
<tr>
<td>Operating profit</td>
<td>288</td>
<td>300</td>
</tr>
<tr>
<td>Recurring profit</td>
<td>260</td>
<td>290</td>
</tr>
<tr>
<td>Net income</td>
<td>203</td>
<td>180</td>
</tr>
<tr>
<td>Total assets</td>
<td>2,120</td>
<td>2,380</td>
</tr>
<tr>
<td>Debt</td>
<td>690</td>
<td>680</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>696</td>
<td>1,070</td>
</tr>
<tr>
<td>ROA</td>
<td>13.8%</td>
<td>13%</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>32.8%</td>
<td>45%</td>
</tr>
<tr>
<td>D/E ratio</td>
<td>0.99</td>
<td>0.6</td>
</tr>
</tbody>
</table>
Breakdown of Changes in Consolidated Recurring Profit

Approx. 260

-30
06 Valuation gains

-30
Downside risk

-40
Increase in fixed costs

30
Shift to high-end products

20
Cost rationalization

Improvements at Group companies,

Approx. 290

Forecast for FY2005

Plan for FY2008

(JPY billion)
Three-year Consolidated Cash Flow and Use of Cash

03~05

- Operating cash flow (before tax): 920 JPY billion
- Asset sales, etc.: 390 JPY billion
- Operating cash flow: 730
  - Capex: 320
  - Investment, loans, etc.: 60
  - Interest: 50

06~08

- Operating cash flow (before tax): 920 JPY billion
- Debt repayment: 10
- Dividends: 90
- Tax: 290
- Investment, loans, etc.: 480
- Capex: 50

SUMITOMO METALS
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

- Customer-Oriented Approaches
- Environmental Management
- Industry and the Public Good
- Flexible Operations in Step with the Times
- Compliance and Corporate Governance
- Business Continuity
- 政令遵奉、家則確守
- 事業變遷、企図理財得失、弛張興廃
- 君子愛財、取之有道
- 取之有人
- 一意殖産興業数千万人利共
- 別子植林
- 事業万世不朽
Deliver sustained growth in corporate value by emphasizing quality

Become a company trusted by all stakeholders