Accelerating Our Global Strategy for High-grade Seamless Pipe

—Establishing a world leading seamless pipe production base in Brazil—

SUMITOMO METALS
Earnings forecasts and forward-looking statements in this document are forecasts the Company has made using available information at the present time, and contain potential risks and uncertainties. For this reason, please note that due to changes in various factors, actual results may differ from the forecasts stated here.

*All Output Figures in this presentation are metric tons.*
Overview of Joint Venture
Overview of Joint Venture

1. Business
   Manufacture of Seamless pipes
   (Manufacturing company;
each parent company to conduct sales activities)

2. Capacity
   - 600,000 tons/year of Seamless pipe
     (Each parent company to sell 300,000 tons)
   - One million tons/year of crude steel

3. Facilities
   Integrated steel works including
   - Upstream facilities such as blast furnace and steel making plants
   - Seamless pipe mill (product size range: 168.3mm~406.4mm)
   - Finishing facilities, other related facilities

4. Location
   State of Minas Gerais, Brazil

5. Scheduled startup
   By mid 2010

6. Total investment
   Approx. US$1,600 million

7. Investors
   Sumitomo Metals / Sumitomo Corporation, Vallourec
   (Vallourec will have the majority)
Concept Behind Joint Venture Company

30-year cooperation on leading VAM brand

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Steelmaking technology
Pipe manufacturing technology
Quality control

vallourec
Mannesmann facility technology
More than 50 years business track record in Brazil

Construction of state-of-the-art seamless pipe production base by Sumitomo Metals and Vallourec, the strongest global players

Good access to growing markets
Optimal location
Railroad, Port, Labor force
Ore mines, Energy costs

Brazil

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**Business Scheme**

- Joint venture (manufacturing subsidiary)
  - Crude steel: 1 million tons
  - Billets: 300,000 tons
  - Seamless pipe: 600,000 tons

- Constant full-capacity operation
  - Roughly same output as Wakayama medium-diameter mill

- vallorec
  - Reducing external Steel supply
  - 300,000 tons

- SUMITOMO METALS
  - 300,000 tons
Increase in Seamless Pipe Sales Volume

- Crude steel: 1 million tons
- Seamless pipe: 600,000 tons
- Billets: 300,000 tons

Constant full-capacity operation

300,000 tons

Optimal level of output for high-grade seamless pipe global sales

- Meet demands of customers—who we have built close relationships with—by boosting sales of high-grade seamless pipe
- Sales of seamless pipe assured even considering short-term demand fluctuations

Joint venture

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vallorec
### Basis of Respective Capital Investment in Joint Venture

<table>
<thead>
<tr>
<th>SUMITOMO METALS</th>
<th>Vallourec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal Partners</td>
<td>50 : 50</td>
</tr>
<tr>
<td>No. of officers in managing committee</td>
<td>50 : 50</td>
</tr>
<tr>
<td>Seamless pipe sales volume</td>
<td>50 : 50</td>
</tr>
<tr>
<td>Crude steel usage volume</td>
<td>35 : 65</td>
</tr>
<tr>
<td>Total (ratio of capital investment)</td>
<td>50 − α : 50 + α</td>
</tr>
</tbody>
</table>
Accelerating Our Global Strategy for High-grade Seamless Pipe
Outlook for Global Energy Demand and OCTG

Present estimate 8.4 million tons → 2015 estimate 10 million tons

Vital to overcome challenges of severe drilling environments

Source: IEA World Energy Outlook 2005
IEA=International Energy Agency
Increasingly Severe Drilling Environments

Distance from onshore base to offshore rig

- Subsea oil drilling facility
- Subsea gas drilling facility

Source: Worldwide Progression of Water Depth Capabilities for Drilling & Production • As of March 2006, offshoreMagazine
Full lineup of materials capable of meeting all user needs

- **Duplex stainless steel**
  - 13Cr
  - Super 13 Cr

- **High Ni alloy**
  - Super high-end products

- **Carbon steel**
  - Low alloy steel
  - (Commodity grade products)

- **Alloy steel for sour service**
  - (High-end products)

**H₂S partial pressure (atm)** → **Severe**

**CO₂ partial pressure (atm)** → **Severe**
Breakdown of OCTG Global Demand (2015)

- **Grade**
  - Super high end (High-alloy/13 Cr/sour service)
  - Global Output: Approx. 700,000 tons
  - Suppliers: 2 to 3 companies worldwide
  - Price Index: 5 to 30 times

Barriers to market entry

- **High end** (Heat treated P/J)
  - Global Output: Approx. 2.3 million tons
  - Suppliers: 3 companies worldwide, plus α
  - Price Index: 2 to 3 times

Barriers to market entry

- **Commodity (API)**
  - Global Output: Approx. 7 million tons
  - Suppliers: China, Russia and many others

API: steel based on standards set by the American Petroleum Institute
P/J: premium joints
Global OCTG Value Structure

Super high end
(High-alloy/13 Cr/sour service)

- Global Output: Approx. 70,000 tons
- Price Index: 5 to 30 times

Barriers to market entry <material development/patents/all-round capabilities>

High end
(Heat treated P/J)

- Global Output: Approx. 2.3 million tons
- Price Index: 2 to 3 times

Barriers to market entry <in-house expertise/advanced joint technology>

Commodity grade
(API)

- Global Output: Approx. 7 million tons
- Price Index: Base price

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# Seamless Pipe Mill Construction and Expansion Projects Worldwide

<table>
<thead>
<tr>
<th>Country</th>
<th>Establishing Company</th>
<th>Partners</th>
<th>Production Capacity (millions tons/year)</th>
<th>Scheduled Startup</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>TAQA</td>
<td>Local investors, etc.</td>
<td>(New mill) 40</td>
<td>2009</td>
<td>Facilities ordered</td>
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<tr>
<td>Saudi Arabia</td>
<td>Arcelor Mittal</td>
<td>Local investors</td>
<td>(New mill) 50</td>
<td>2010</td>
<td>Planning phase</td>
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<tr>
<td>Saudi Arabia</td>
<td>Zamil</td>
<td>Considering potential technical alliances</td>
<td>(New mill)</td>
<td>Pending</td>
<td>Early planning phase</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Al Tuwairqi</td>
<td>N/A</td>
<td>(New mill) 75</td>
<td>2008</td>
<td>Early planning phase</td>
</tr>
<tr>
<td>UAE</td>
<td>Wuxi Seamless Pipe Corp</td>
<td>N/A</td>
<td>(New mill) 100</td>
<td>Pending</td>
<td>Indefinite delay</td>
</tr>
<tr>
<td>UAE</td>
<td>Tianjin Pipe Co., Ltd</td>
<td>Local investors</td>
<td>(New mill)</td>
<td>Pending</td>
<td>Early planning phase</td>
</tr>
<tr>
<td>UAE</td>
<td>TMK Volzhsky</td>
<td>Under consideration</td>
<td>(New mill)</td>
<td>Pending</td>
<td>Early planning phase</td>
</tr>
<tr>
<td>UAE</td>
<td>Boulder</td>
<td>N/A</td>
<td>(New mill)</td>
<td>Pending</td>
<td>Early planning phase</td>
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<tr>
<td>Oman</td>
<td>Shaded</td>
<td>Jindal Saw Pipe</td>
<td>(New mill) 100</td>
<td>Pending</td>
<td>Planning phase</td>
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<tr>
<td>China (Tianjin)</td>
<td>Tianjin Pipe Co., Ltd</td>
<td>None</td>
<td>(Mill expansion) 50</td>
<td>2007</td>
<td>Construction phase</td>
</tr>
<tr>
<td>China (Shandong)</td>
<td>Anshan Seamless Steel Pipe</td>
<td>None</td>
<td>(Mill expansion) 20</td>
<td>2008</td>
<td>Construction phase</td>
</tr>
<tr>
<td>China (Liaoning)</td>
<td>Shandong Shouguang Juneng</td>
<td>Shengli Oilfield</td>
<td>(New mill) 25–30</td>
<td>N/A</td>
<td>Construction phase</td>
</tr>
<tr>
<td>China (Hunan)</td>
<td>Hengyang Steel Tube Co., Ltd</td>
<td>None</td>
<td>(Mill expansion) 20</td>
<td>2007</td>
<td>Construction phase</td>
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<tr>
<td>China (Jiangsu)</td>
<td>Wuxi Seamless Pipe Corp</td>
<td>None</td>
<td>(Mill expansion) 25</td>
<td>N/A</td>
<td>Construction phase</td>
</tr>
<tr>
<td>China (Shanxi)</td>
<td>Changzhi I&amp;S (Group) Co.</td>
<td>None</td>
<td>(Mill expansion) 11</td>
<td>2007</td>
<td>Construction phase</td>
</tr>
<tr>
<td>China (Shandong)</td>
<td>Lubao Steel Tube Corp.</td>
<td>Shanghai BAOSTEEL Group</td>
<td>(Mill expansion) 50</td>
<td>Pending</td>
<td>Early planning phase</td>
</tr>
<tr>
<td>Russia</td>
<td>Pervouralsk</td>
<td>None</td>
<td>(Mill expansion)</td>
<td>2010</td>
<td>Planning phase</td>
</tr>
</tbody>
</table>

**Total increase in output (identified): 5.7 million tons**

All mills for commodity-grade products (API)
Our Global Strategy for High-grade Seamless Pipe

Materials Development Capabilities
Unique Technologies

The Long-term Leader in the High-grade Market

Manufacturing framework
Two sites in Japan and Brazil

Supply framework
Global SCM with Sumitomo Corporation

Joint technology and service capabilities
Strong alliance with Vallourec
VAM Joint Users—Supermajors

1997

- Shell (Anglo-Dutch)
- Exxon (US)
- Mobil (US)
- BP (UK)
- Texaco (US)
- Chevron (US)
- Total (France)
- Amoco (US)
- Elf (France)
- PetroFina (Belgium)
- ARCO (US)

Currently

- Shell
- ExxonMobil
- BP
- Total
- Chevron

Long-term contracts with Sumitomo Metals

Other companies with long-term contracts

- Statoil-Hydro

VAM share of global market for high-grade OCTG

40%
The World’s Leading VAM Joint Service Network
(Joint manufacturing, repair and training)

2002
96 sites in 39 countries worldwide

2007
137 sites in 46 countries worldwide

2010 ~
To be reinforced

- Sumitomo Metals
- Vallourec
- Service centers
- Joint ventures for threading
- New factory
Sumitomo Metals and Vallourec - A Partnership of Over 30 Years

- 1976 Start of VAM joint alliance
- 1984 VAM/USA (VAM-PTS)
- 1985 Citra Tubindo
- 1993 VAM Far East
- 1995 Vietubes
- 2007 VAM Changzhou
- 2010 Brazil Integrated Steel Works including S’less Mill

Joint venture for threading
Deep sea Oil and Natural Gas Development Projects Worldwide

Source: Offshore Magazine
Global Strategy

As part of global strategy, establish and upgrade manufacturing sites to improve access to growth markets.

- Gain access to the growth markets of North America, West Africa and Middle East.
- Technology development center.
- Concentrate resources to high-end products.
- Supply products worldwide that only the Wakayama and Amagasaki site can manufacture.

Brazil

Japan
Change in Sumitomo Metals OCTG Sales Composition

Price Index

2006

After Brazil Mill

Japan

Japan + Brazil

100

33

8

0

Commodity

Volume Index

Super High-end

High-end

High-end Commodity

2006 Price Index

Japan

Japan + Brazil

After Brazil Mill

Super High-end

High-end

High-end Commodity
Wakayama Mill: Accelerating Shift to Advanced Products

Proportion of mill operating time

2006

Commodity

High-end

Super High-end

Product categories transferred to Brazil

After Brazil Mill

Commodity

High-end

Super High-end

Further enhance earnings power
Accelerating Distinctiveness

Expansion of core earning ratio

Reinforce the strategic position of Sumitomo Metals

Sumitomo Metals' Strengths

Balanced qualitative and quantitative growth

Further enhance strengths in key fields

"No. 1 Manufacturer" in customer satisfaction
Overview of Impact on Profits
**Accelerating Distinctiveness—Steel Pipe Business**

- **Pipe & Tube Company Consolidated Operating Profit**
  - **2006**
    - ¥ 135 billion
  - **After current Medium-Term Management Plan**
    - ¥ 147 billion
  - **After Brazil mill startup**
    - ¥ 184 billion

**Investment plan**

<table>
<thead>
<tr>
<th>Scale Description</th>
<th>Amount</th>
<th>Scheduled startup</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boost seamless pipe output</td>
<td>¥ 35 billion</td>
<td>From first half of FY08</td>
<td>+100,000 tons/year</td>
</tr>
<tr>
<td>Boost stainless steel boiler tube output</td>
<td>¥ 6.5 billion</td>
<td>From second half of FY07</td>
<td>+6,000 tons/year</td>
</tr>
<tr>
<td>Boost ultra high-strength line pipe output</td>
<td>¥ 10 billion</td>
<td>FY10</td>
<td>+100,000 tons/year</td>
</tr>
</tbody>
</table>

*Brazil New seamless pipe joint venture*

- (Total joint investment ) ¥ Approx. 200 bil
- By mid 2010
- +300,000 tons/year in sales
Building a Solid Operating Base to Underpin Future Growth

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

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

2010 Brazil Integrated Steel Works including S’less Mill

Boost consolidated recurring profit by approx. ¥35 billion/year
Export Price Trends for Seamless Pipe

Index of Seamless pipe export price at Wakayama Custom.
(US$ calculations: January 1988=100)

WTI Spot Price FOB ($/Barrel)

Smaller Price Fluctuation

Rising base prices

Projected crude oil price range

Number of major customers: 11 10 9 6 5

Number of Major Suppliers: 13 12 11 10 9 6 5 4

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Risk Analysis

<table>
<thead>
<tr>
<th>Risk scenario</th>
<th>Impact</th>
<th>Our position</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-grade seamless pipe</td>
<td>Drop in sales</td>
<td>Extremely difficult for new companies to enter market</td>
</tr>
<tr>
<td>Intensifying competition</td>
<td>Drop in price</td>
<td>Possibility that one other company may boost output/purchase commodity-grade mill</td>
</tr>
<tr>
<td>High-grade seamless pipe</td>
<td>Drop in sales</td>
<td>Continue sales to existing customer base</td>
</tr>
<tr>
<td>Falling demand</td>
<td>Drop in price</td>
<td>Significant shift in demand structure possible</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Long-term global economic slowdown</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Increased popularity of lower cost alternatives due to innovation in biomass fuels</td>
</tr>
<tr>
<td>Commodity-grade seamless pipe</td>
<td>Drop in price</td>
<td>Structure of commodity-grade market different to that for high-grade seamless pipe but could be marginally affected</td>
</tr>
<tr>
<td>Deterioration in supply-demand conditions</td>
<td>Increased costs</td>
<td>10% appreciation in the Real/US$ rate → negative impact on ordinary income of ¥2 billion</td>
</tr>
<tr>
<td>Exchange rates</td>
<td>Increased costs</td>
<td>Vallourec has strong track record of over 50 years in running local facilities</td>
</tr>
<tr>
<td>Appreciation of the Real</td>
<td></td>
<td>Can purchase Vallourec’s stake in case of acquisition partner’s equity stake if needed</td>
</tr>
<tr>
<td>Brazil/Japan</td>
<td>Increased costs</td>
<td></td>
</tr>
<tr>
<td>Difference in manufacturing capability</td>
<td>Dissolution of business</td>
<td></td>
</tr>
<tr>
<td>Vallourec acquired</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Deliver sustained growth in corporate value by emphasizing quality.

Become a company trusted by all stakeholders.