

Annual Report 2010

Year ended March 31, 2010



Make steel

1901 OSAKA

More than one hundred years ago in Osaka,
Sumitomo Metals began steelmaking.



Railway wheel (outer wheel) rolling mill at Sumitomo Steel Foundry

Make our future

2010

BRAZIL

Now in Brazil,
Sumitomo Metals will make seamless pipe.



Integrated seamless pipe manufacturing plant under construction in Brazil

The Sumitomo Spirit

Sumitomo's Business Philosophy of Over 400 Years

"You should exercise prudence in business and in all aspect of your life."

This was a message written by Masatomo Sumitomo (1585-1652), the founding father of the Sumitomo Family, in "Monjuin Shiigaki" where he preached about behaviors and knowledge for merchants. The message, incorporated into the "Rules Governing the Sumitomo Family," has been long respected as the business principle of the Family, and is even today the very basis of the activities of Sumitomo Metals.

Sumitomo shall place prime importance on integrity and sound management in the conduct of its business.

Sumitomo's business interest must always be in harmony with public interest, and Sumitomo shall manage its activities with the flexibility to cope with the changing times.

Under no circumstances, shall it pursue immoral business.

Business Principles from the "Rules Governing the Sumitomo Family," 1891

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

Personal motto of Teigo Iba, appointed Second Director-General of Sumitomo in 1900

The Sumitomo Spirit, which we trace back 400 years to Masatomo Sumitomo, the founding father, remains an integral part of Sumitomo Metals' management policy today. It forms the basis for the company's policy for sustained growth strategy, risk management, and compliance.



"Monjuin Shiigaki"

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Note: Forward-looking Statements

The business forecasts and forward-looking statements in this annual report are based on information available at the time of publication, and contain potential risks and uncertainties. Consequently, actual results may differ from forecasts stated in the report due to a range of factors.

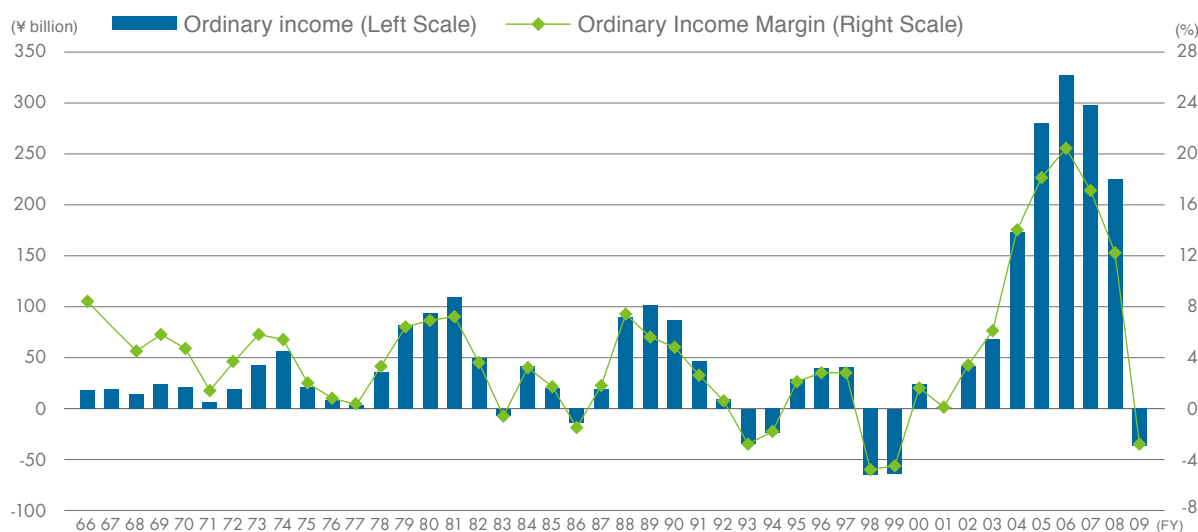
Resume Sustained Growth that Balances Quality and Scale

Sumitomo Metals has overcome diverse economic challenges and has improved profitability during its history of over 100 years. In fiscal 2009, however, the deterioration of the economic environment forced us to post an operating loss. This experience has reinforced our dedication to maintain and rely on the Sumitomo Spirit that is

underpinned by 400 years of tradition, leading technologies, relationships of trust with our customers, and the dedication and pride of our employees to their work that we have accumulated through our business activities over so many decades. By doing so, we are determined to resume sustained growth in earnings.

Economic Environment and Company Performance	Business Policies and Measures
〈 End of World War II to 1980s 〉	
<ul style="list-style-type: none"> · Rapid economic growth in Japan · Swing in ordinary income margin within a range of -1 to 8% 	<ul style="list-style-type: none"> · Promote growth in scale · Promote diversification after oil shocks of 1970s
〈 1990s 〉	
<ul style="list-style-type: none"> · “The lost decade” after the bubble burst in Japan · Stagnant profit 	<ul style="list-style-type: none"> · Continual investments that were needed for sustained growth · Return to core business through the strategy of “focusing resources to core competencies”
〈 From 2000 〉	
<ul style="list-style-type: none"> · Worldwide demand growth · Ordinary income margin exceeded 20% in fiscal 2006 · In fiscal 2009, demand declined sharply and posted an ordinary loss 	<ul style="list-style-type: none"> · Reinforcement of earnings structure through asset reduction and other structural reform measures · Balanced growth in quality and scale based on strategy of “accelerating distinctiveness” · Establishment of a seamless pipe steelworks in Brazil

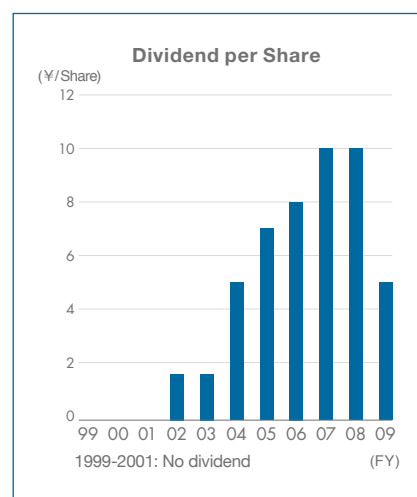
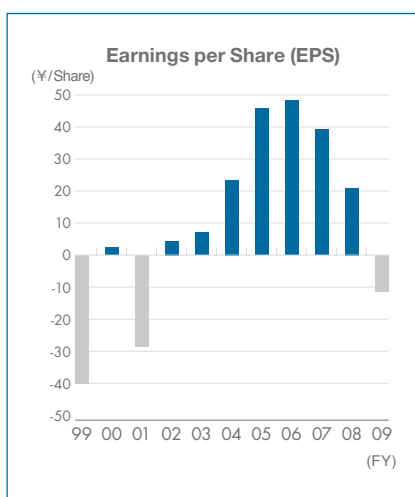
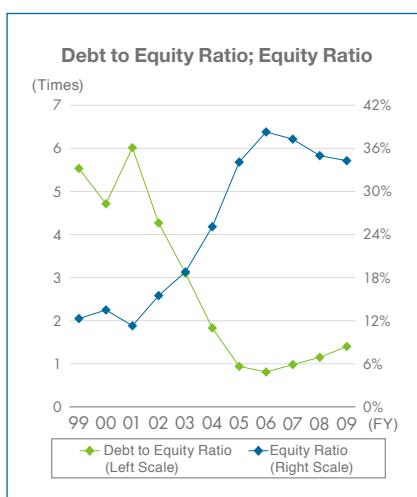
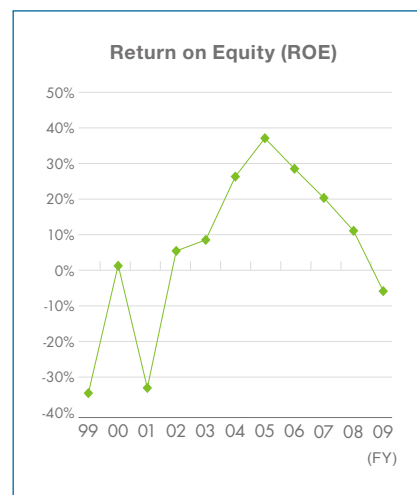
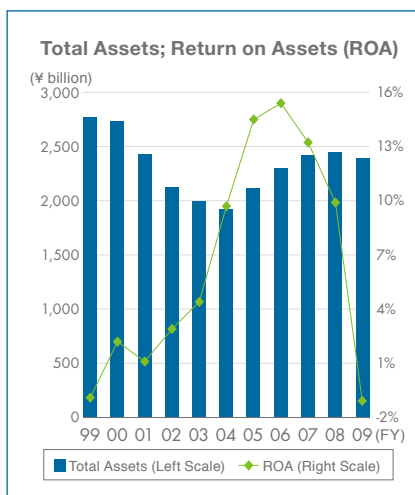
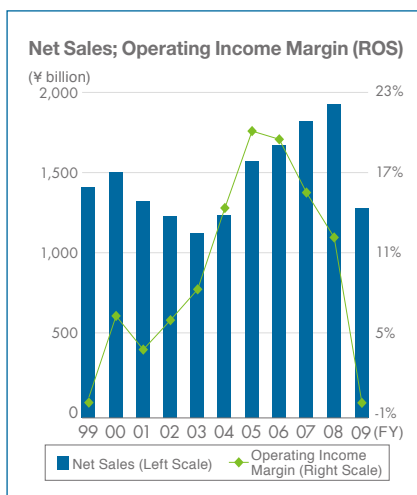
Ordinary Income (1966 – 2009)



1966-1977 Non-consolidated basis; 1978-2009 Consolidated basis

Note: Ordinary income is an important management indicator at Sumitomo Metals and a common item on financial statements in Japan; calculated by adding to or subtracting from operating income items such as interest and dividend income, equity in earnings of unconsolidated subsidiaries and associated companies, interest expenses and exchange gain or loss.

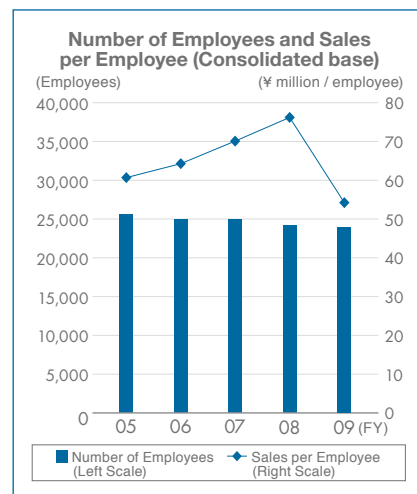
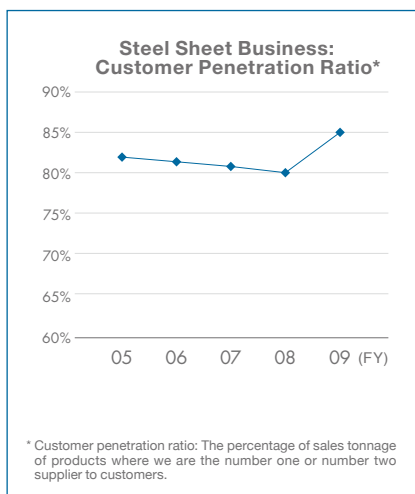
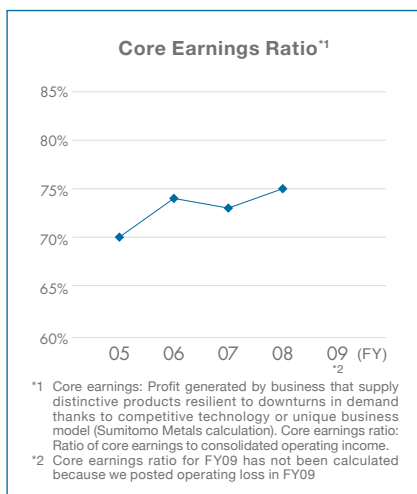
Financial Indicators



Please refer to "11-Year Financial Performance" on page 7-8 for detailed numbers and numerical formulas.

Non-Financial Indicators (Intangible Assets)

Sumitomo Metals' management focuses not only on tangible assets that appear on financial statements (financial and physical assets), but also on intangible assets that do not appear on the balance sheet, which include customers, human, technology, and organizational assets. Below are some representative data that we monitor on a regular basis.



11-Year Financial Performance

	FY1999 March 31, 2000	FY2000 March 31, 2001	FY2001 March 31, 2002	FY2002 March 31, 2003
Unit: Millions of yen				
Operating Results:				
Net sales	1,424,104	1,497,641	1,349,528	1,224,633
Operating income	9,300	90,598	40,096	69,828
Ordinary income*1	- 63,791	23,626	748	41,309
Income before income taxes and minority interests..	- 212,990	20,777	- 105,167	33,278
Net income	- 145,124	5,836	- 104,720	17,076
Capital expenditures on property, plant and equipment (Construction base)*2	106,600	77,000	74,600	50,906
Depreciation of property, plant and equipment*2 ...	146,800	132,200	121,100	91,762
Research and development expenses	23,989	20,980	18,646	13,555
Financial Position:				
Total assets	2,774,496	2,733,114	2,433,431	2,122,370
Shareholders' equity:				
Total equity - Minority interests	341,598	368,116	274,432	328,754
Total equity	389,659	415,593	325,917	347,632
Debt*3	1,882,335	1,780,694	1,648,779	1,415,303
Cash Flows				
Operating cash flow	46,711	158,721	18,478	161,127
Investing cash flow	- 80,516	9,982	39,633	58,329
Financing cash flow	- 101,028	- 142,602	- 89,466	- 164,935
Free cash flow	- 33,804	168,704	58,111	219,457
Cash and cash equivalent at end of period	79,274	101,092	70,390	121,712
Unit: Yen				
Amounts per Share of Common Stock				
Net income	- 39.95	1.61	- 28.83	4.36
Yearly dividend (yen / share)	0	0	0	1.5
Unit: %				
Financial Index				
Operating income margin (ROS)	0.7	6.0	3.0	5.7
Return on assets (ROA):				
Ordinary income before interest payment / Total assets (yearly average)	- 0.9	2.2	1.1	2.9
Return on equity (ROE):				
Net income / Shareholders' equity (yearly average) ...	- 34.4	1.6	- 32.6	5.7
Equity ratio:				
Shareholders' equity / Total assets	12.3	13.5	11.3	15.5
Unit: Times				
Debt-to-equity ratio:				
Debt / Shareholders' equity	5.51	4.84	6.01	4.31
Price earnings ratio (PER):				
Share price / Net income per share	—	44.1	—	12.4
Unit: Billions of yen				
Market capitalization at end of period	290.5	257.8	174.3	258.1
Unit: millions of shares				
Number of shares issued as of end of period ... (including treasury shares)	3,632.2	3,632.2	3,632.2	4,782.2
Unit: Yen				
Share price at end of period	80	71	48	54

*1 Ordinary income is an important management indicator at Sumitomo Metals and a common item on financial statements in Japan; calculated by adding to or subtracting from operating income items such as interest and dividend income, equity in earnings of unconsolidated subsidiaries and associated companies, interest expenses and exchange gain or loss.

*2 Capital expenditure and depreciation amounts for FY1999 through FY2001 are calculated based on unit of 100 million yen.

*3 Debt=(Short-term loans payable) + (Commercial papers) + (Current portion of bonds) + (Bonds payable) + (Long-term loans payable)

FY2003 March 31, 2004	FY2004 March 31, 2005	FY2005 March 31, 2006	FY2006 March 31, 2007	FY2007 March 31, 2008	FY2008 March 31, 2009	FY2009 March 31, 2010
Unit: Millions of yen						
1,120,855	1,236,920	1,552,765	1,602,720	1,744,572	1,844,422	1,285,845
93,041	182,878	305,804	303,774	274,396	226,052	– 928
68,715	173,245	280,733	327,676	298,218	225,736	– 36,634
39,901	169,577	306,183	341,725	281,298	194,459	– 39,758
30,792	110,864	221,252	226,725	180,547	97,327	– 49,772
67,190	60,374	82,679	135,868	178,887	159,118	136,643
78,371	79,238	75,255	72,291	102,565	109,854	120,853
13,590	14,732	16,427	18,769	20,102	22,120	22,845
2,001,727	1,923,142	2,113,391	2,301,556	2,418,310	2,452,535	2,403,670
376,036	483,237	720,866	880,807	901,946	857,697	829,219
399,428	517,311	762,172	924,798	949,303	904,371	879,209
1,171,216	885,918	679,778	717,984	883,888	990,010	1,138,353
220,820	277,389	311,943	171,833	230,043	190,582	67,002
– 27,418	– 12,013	– 63,892	– 108,934	– 274,316	– 214,977	– 172,933
– 240,841	– 297,336	– 258,367	– 83,456	48,751	52,623	87,843
193,402	265,376	248,050	62,899	– 44,273	– 24,395	– 105,931
74,025	42,416	32,596	13,020	16,669	42,979	26,233
Unit: Yen						
6.42	23.05	46.03	47.89	39.43	20.98	– 10.74
1.5	5.0	7.0	8.0	10.0	10.0	5.0
Unit: %						
8.3	14.8	19.7	19.0	15.7	12.3	– 0.1
4.4	9.7	14.5	15.4	13.2	9.9	– 0.9
8.7	25.8	36.7	28.3	20.3	11.1	– 5.9
18.8	25.1	34.1	38.3	37.3	35.0	34.5
Unit: Times						
3.11	1.83	0.94	0.82	0.98	1.15	1.37
21.6	8.4	11.0	12.7	9.6	9.4	—
Unit: Billions of yen						
667.7	927.0	2,425.2	2,826.2	1,753.6	913.7	1,312.0
Unit: millions of shares						
4,805.9	4,805.9	4,805.9	4,805.9	4,805.9	4,805.9	4,805.9
Unit: Yen						
139	193	505	609	378	197	283

Message from the President



To All Our Stakeholders

Sumitomo Metals aims for sustained growth by adhering to long-term strategy.

We will strengthen our intangible assets and continue to enhance corporate value through growth that balances quality and scale.

To realize sustained growth, it is vital to expand business operations in locations close to our customers in the world's growth markets.

We will expand business in such growth markets as Brazil, India and Vietnam, in addition to existing overseas operations.



Message from the President

We aim for a rapid earnings recovery and sustained growth.

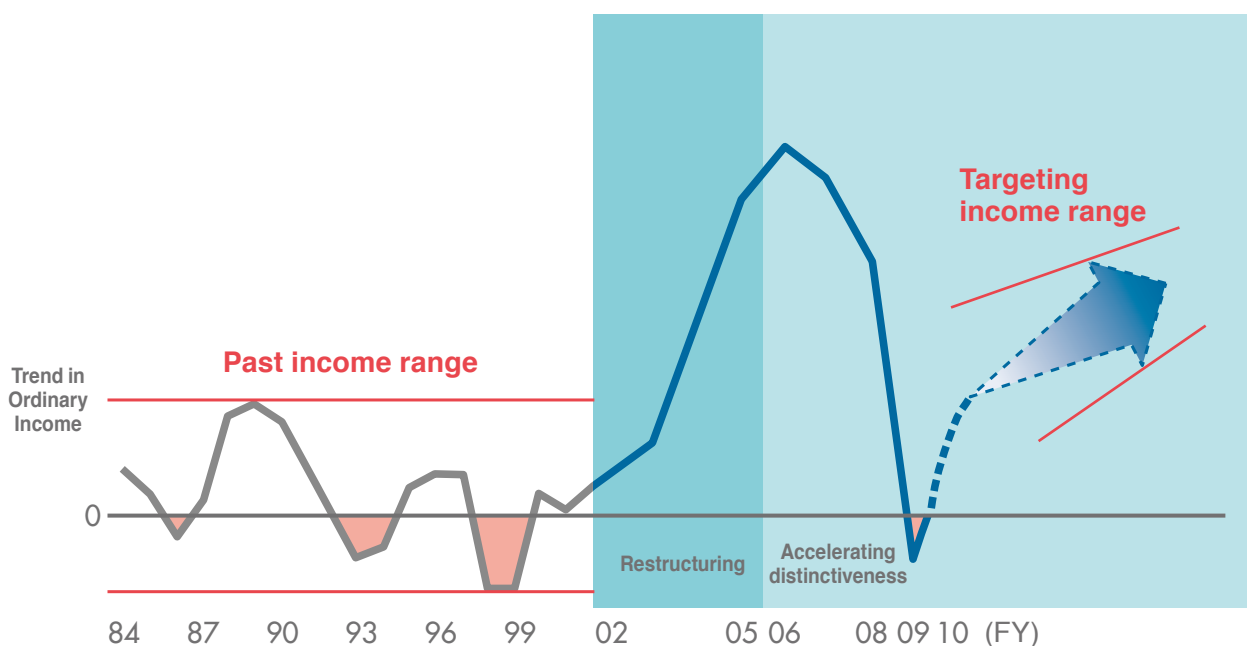
In fiscal 2009, demand for steel products fell sharply due to the deterioration of the economic environment. Although we strove to compensate for this by implementing thorough cost improvements, we posted an operating loss due in part to temporary factors such as inventory valuation loss associated with declining raw material prices. I firmly believe, however, that our capability to contribute to our stakeholders through steel making and our capability to achieve sustained growth are not impaired and we will devote maximum efforts to ensuring a prompt earnings recovery.

It is crucial to stick to our long-term goal to emphasize quality and continue necessary investments for sustained growth. For instance, we steadily keep investing in R&D no matter how the business

environment becomes. I believe that we are actually utilizing only a very small performance from the huge physical potential of the iron element. The Sumitomo Metals Group will continue development activities to extract the utmost possibilities from iron. We will also steadily invest in plant, equipment and businesses while examining necessity and timing.

Quick responses to a changing environment are another essential. This year, the operating environment has changed dramatically, with the pricing term of iron ore and coal shifting from annual to quarterly and the yen appreciating rapidly. However, the Sumitomo Metals Group will put earnings onto a recovery trend by making efforts to overcome challenges at all its work sites and revising steel material prices according to changes in raw material prices.

Aiming for a Sustained Growth



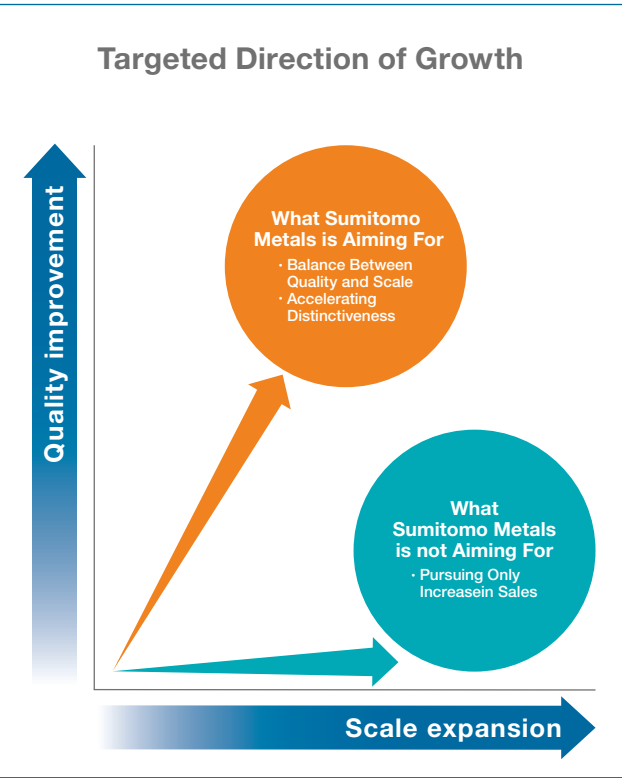
We emphasize quality and promote the acceleration of distinctiveness.

The Sumitomo Metals Group aims for sustained growth that balances quality and scale. We emphasize improvement in quality, rather than expansion in scale such as higher production volume and sales. By refining technologies, quality, skills, productivity and services, we will satisfy these customers, and eventually all our stakeholders.

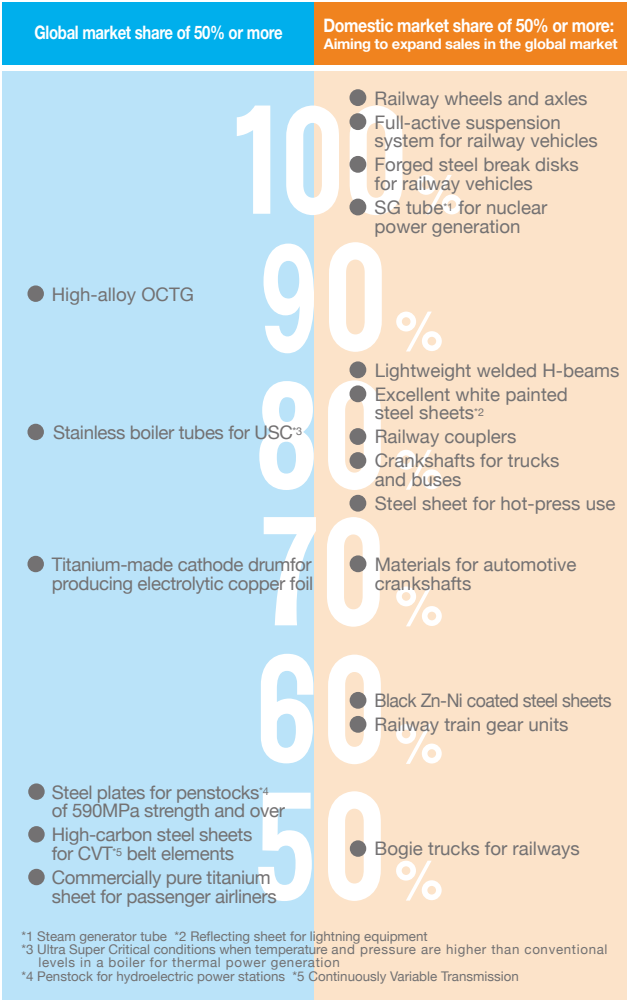
Achieving distinctiveness in technologies, products and services is the key to improving quality. We have realized distinctiveness in each of our businesses. In the pipe and tube sector, our distinctive high-end product line-up includes OCTG (Oil Country Tubular Goods) tubes that can withstand increasingly severe oil and gas development environments and SG tubes that are indispensable in PWR nuclear power generation. In the railway parts sector, which contributes to the

reduction of CO₂ emissions, Sumitomo Metals, the sole supplier of wheels and axles in Japan, will penetrate the world market for high-speed railways, which are expected to grow rapidly, by leveraging its technological prowess. In the steel sheet sector, we offer stable quality and our services extend to the design stage of automobiles. Such services have won high acclaim from auto makers.

Sumitomo Metals continues to allocate resources to areas of strength and develop new distinctive products.



Major products for which Sumitomo Metals has 50-100% market share (Company estimates)



Message from the President

We expand in overseas growth markets.

The Sumitomo Metals Group is establishing an integrated steelworks that produces seamless pipe in Brazil, a steel sheet manufacturing business in Vietnam, and a forged crankshaft and steel sheet business in India.

We expand overseas not because of the yen's recent appreciation. The Group has developed businesses in overseas growth markets over a period of many years, having aimed for sustained growth that balances quality and scale.

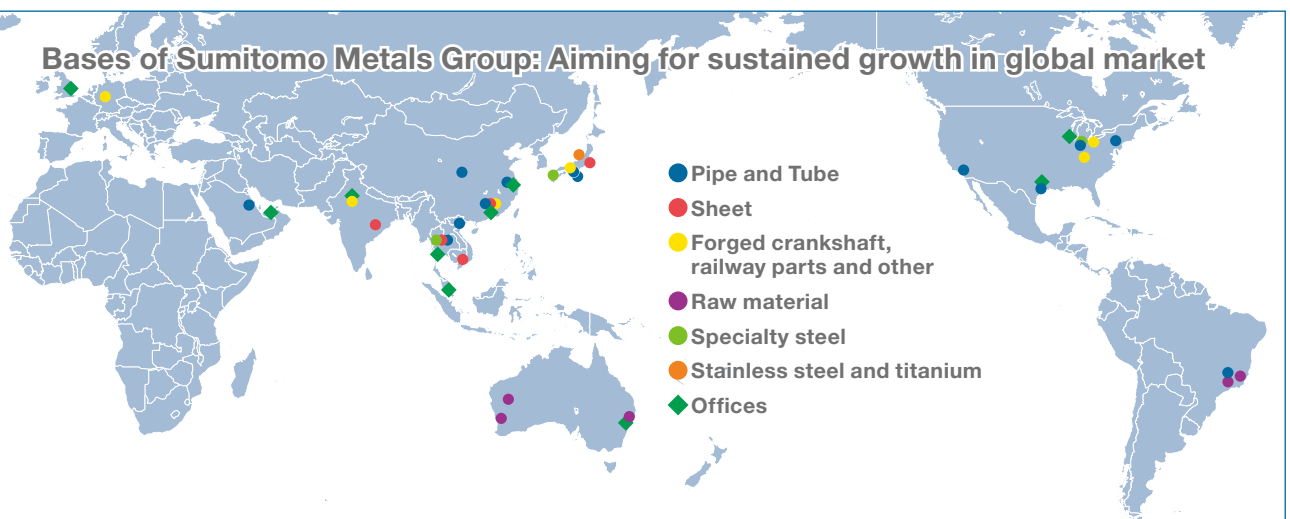
The foundation of this growth strategy is the competency of manufacturing bases in Japan. The principle of achieving success overseas is to refine the human assets, technological assets, customer assets, and organizational assets of manufacturing bases in Japan.

We will make the most of our domestic competency

as well as nearby location to and close cooperation with customers in our overseas expansion. We will fulfill increasing demand with less environmental impact and achieve growth by leveraging the technological capabilities we have transplanted from Japan. In this way, by promoting the sharing of our product mix among manufacturing bases around the world according to the feature of each base, we will end up increasing the high-end product manufacturing in Japan.

For instance, Brazil's new integrated steelworks that produces seamless pipe will boost our seamless pipe production capacity by 25%, from 1.2 million tons to 1.5 million tons. We will make the most of our closer location to customers around the world by producing seamless pipe on the other side of the world from Japan. We will also increase the proportion of higher-end products in Japan as we will share our product mix between Japan and Brazil.

Bases of Sumitomo Metals Group: Aiming for sustained growth in global market



- Expand business operations in locations close to our customers in the world's growth markets.
- Domestic manufacturing bases shift to distinctive and high-end products.

We protect the environment with technologies.

The Sumitomo Metals Group acts according to its tradition of “protecting the environment with technologies.”

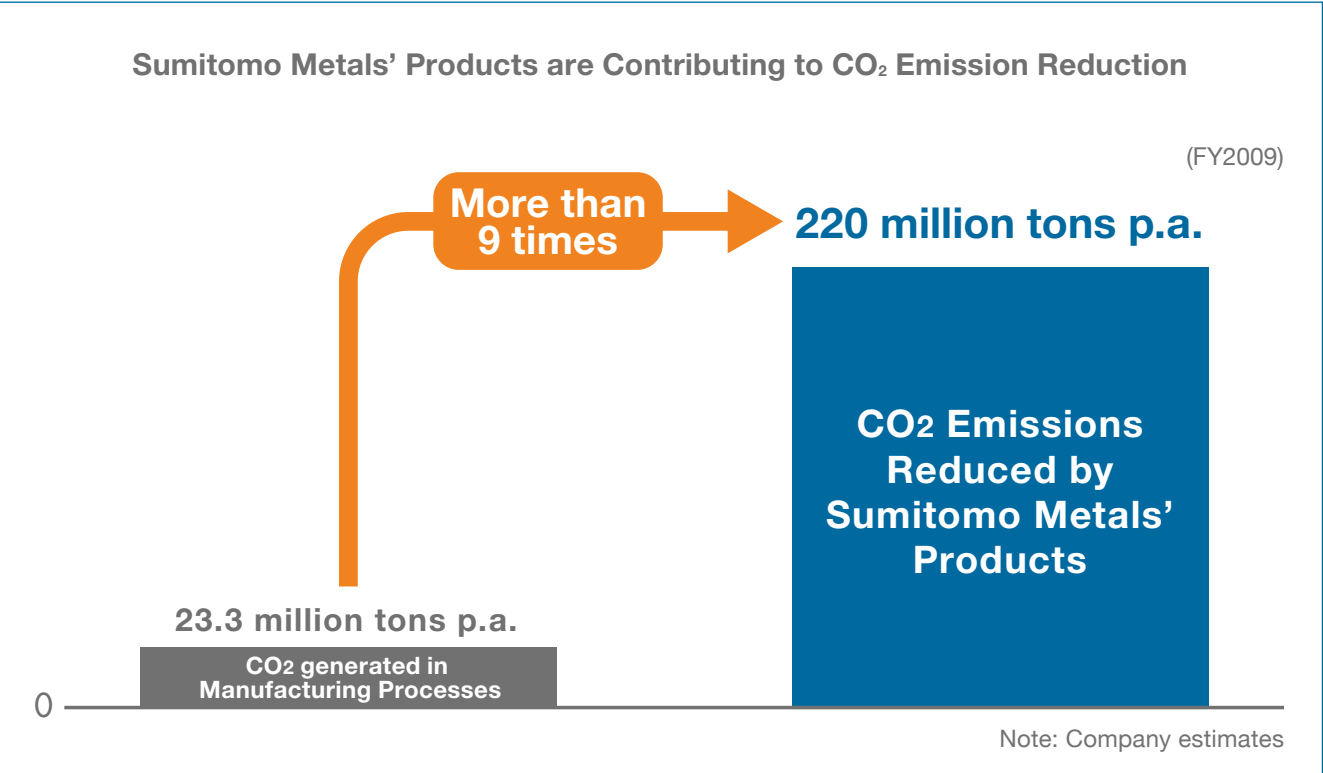
The integrated steelworks that produces seamless pipe, currently under construction in Brazil, is planning to change the reducing agents in the blast furnace from coke to charcoal made from eucalyptus wood grown and harvested under contracts at plantations. The CO₂ that the eucalyptus trees absorb when growing is equivalent to the volume of CO₂ emitted from the blast furnace operation, resulting in zero net emissions of CO₂. We aim to establish an eco-friendly steelworks that contributes to the prevention of global warming.

In addition to reducing CO₂ emissions from the manufacturing process, the Group contributes to

the curbing of CO₂ emissions via its products. These products include: steam generator (SG) tubes used as the core components in nuclear power plants, which do not emit CO₂; high tensile strength steel sheet that reduces the weight of automobiles; and electromagnetic steel sheet for hybrid vehicle motors.* The effect of reducing CO₂ emissions through these products has been evaluated at more than nine times larger than the CO₂ emissions of our manufacturing processes.

The Group’s Corporate Research & Development Laboratories allocate around 80% of their R&D expenses to environment-related research.

* Regarding products that contribute to CO₂ reduction, please refer to page 56.



Message from the President

We aim to be a company that can be of service to and gain the trust of all its stakeholders.

My job is to maintain long-term growth and increase corporate value. Long term in the steel business means 10 years, 20 years, or even a very long period of 100 years. For instance, the No. 4 blast furnace at the Wakayama Steel Works, which was blown-out in 2009, operated continuously from 1982 for as long as 27 years, marking the world's longest operation. Our actions are based on such a time frame.

“Tangible assets” shown in the form of physical assets and numerical figures, such as plant and equipment and financial assets, are very important. However, assets difficult to quantify are more important in terms of raising our corporate value over the long term. These include relationships of trust with customers, technological capabilities, the enthusiasm and pride of every single employee toward their work, and the Sumitomo Spirit, a core culture that has permeated our organization. We call these “intangible assets,” and they comprise “customer assets,” “technology assets,” “human assets” and “organizational assets.” To measure “intangible assets,” we have introduced indicators that we monitor and aim to strengthen. It is crucial

to bolster these intangible assets to make our businesses succeed.

Paying stable dividends is our fundamental principle of returning profits to shareholders. By stable, I mean that we have set 5 yen per share as the minimum dividend and we will gradually increase the dividend level. This year, despite various uncertain factors, we intend to reward our long-term shareholders by paying a minimum dividend of 5 yen per share.

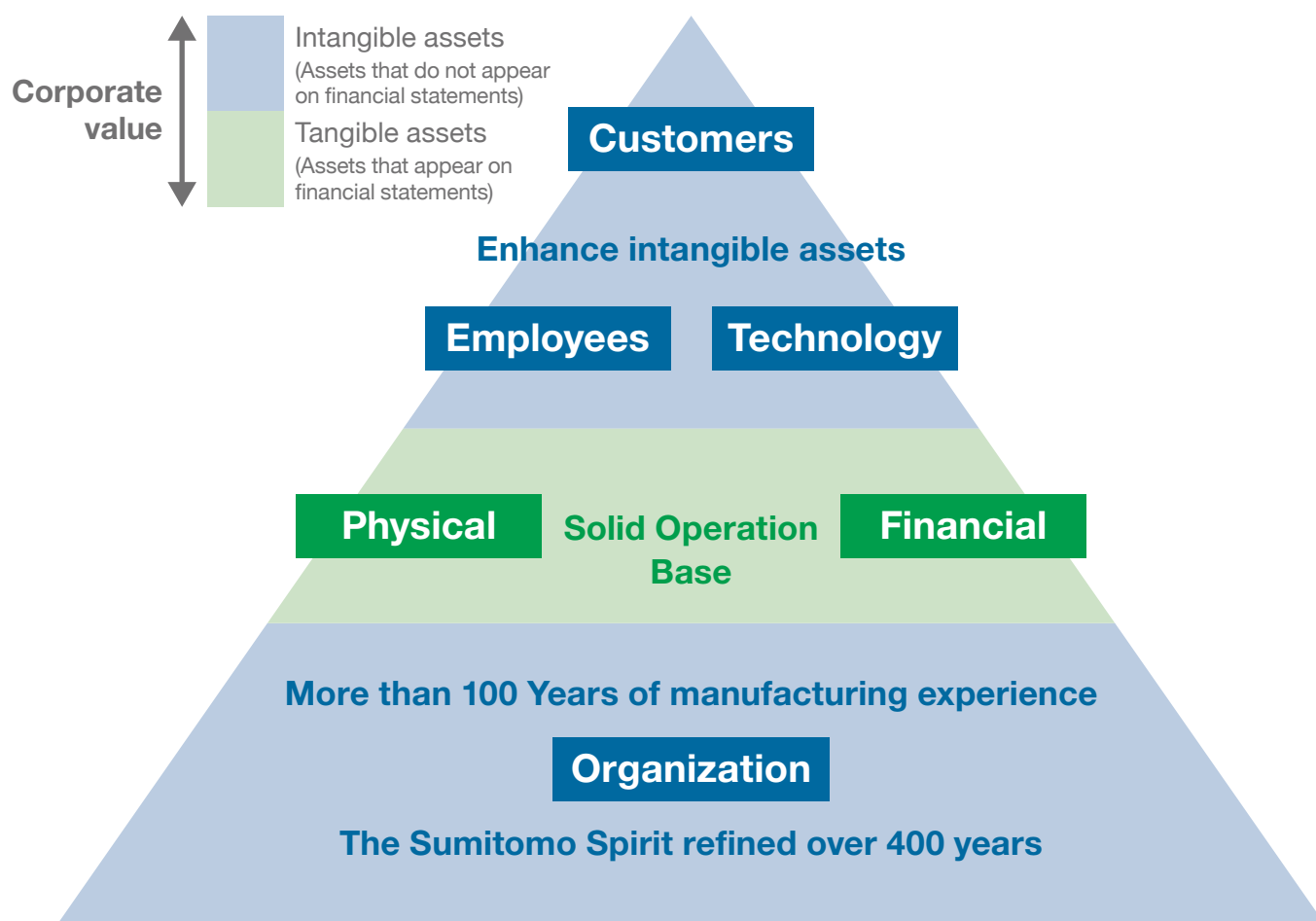
The Sumitomo Metals Group aims to strengthen its “intangible assets” based on a long-term vision and achieve growth that balances quality and scale. Through these measures, we aim to create sustained value, and thereby be a company that can be of service to and gain the trust of all its stakeholders.



Hiroshi Tomono

Representative Director and President

Assets that Raise Sumitomo Metals Group's Corporate Value



Message from the Management in Charge of Finance



With an aim to achieve growth that balances quality and scale, the finance team will support the strategy to “add strength to strength” by

1. Financing investment worldwide
2. Ensuring financial stability, and
3. Creating corporate value by capturing growth opportunities and rewarding shareholders with stable dividend payments.

Support corporate value creation with financial activities

I am in charge of treasury and corporate planning. Sumitomo Metals’ financial challenges have dramatically changed in the past ten years. I have personally gone through this change in the workplace as an officer.

Up to fiscal 2005, the biggest challenge had been to reduce our debt of ¥1.6 trillion when our debt-to-equity ratio mounted to 6.0. We all strived the best we could to reduce the debt in order to recover financial stability. We restrained Investments, restructured our production line-up, and sold non-core businesses and assets.

By the end of fiscal 2005, our debt went down to ¥0.7 trillion and the debt-to-equity ratio dropped to

below 1.0, mainly due to improvement in operating cash flow. I believe such rapid improvement was realized thanks to a sea-change in the mind-set of us all, especially people on the manufacturing front line, to become increasingly conscious of cash flow and return on assets.

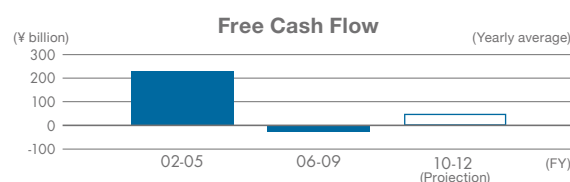
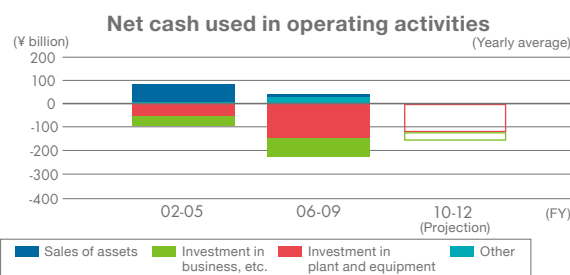
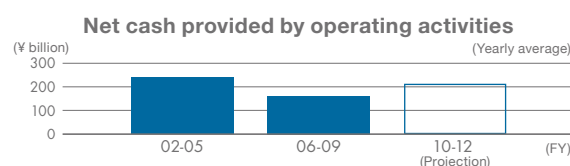
My mission is to financially support the strategy to “add strength to strength” for growth that balances quality and scale. Specifically, my tasks are (1) to finance investment in Japan and overseas; (2) to ensure financial stability; and (3) to create corporate value by capturing growth opportunities and rewarding shareholders with stable dividend payments.

Cash flow: Improve free cash flow

The global economic slowdown that began in fall 2008 forced Sumitomo Metals to post an ordinary

Principles of Capital Policy

Use of cash	a) Invest to enhance corporate value b) Return to shareholders
Investment standard	a) Balanced growth in quality and scale b) Accelerating distinctiveness c) Return exceeding cost of capital
Return to shareholders	Maintain stable dividend
Financial leverage	Medium- and long-term targeted debt-to-equity ratio of less than 1.0



loss in fiscal 2009. Operating cash flow decreased significantly from the previous year and free cash flow deteriorated.

However, we are projecting an improvement in free cash flow from fiscal 2010 onward. We are already experiencing a rapid recovery in sales volume compared to fiscal 2009 and operating cash flow is improving. With regard to investment, we will focus on investment to accelerate our distinctiveness.

For the medium term, our capital expenditures for a seamless pipe manufacturing joint venture in Brazil and other projects will start contributing to improve free cash flow.

Financial stability:

Aim a debt-to-equity ratio of below 1.0

Sumitomo Metals' debt balance amounted to ¥1,138.3 billion at the end of fiscal 2009, up ¥148.3 billion in a year, while its debt-to-equity (D/E) ratio was 1.37, up 0.22 points from a year ago. This increase in debt balance and the rise in the D/E ratio were caused by the peak in strategic investment in fiscal 2009. Our plan is to reduce debt balance to less than ¥1 trillion, which we find to be an appropriate level, and to return the D/E ratio to below 1.0 by the end of fiscal 2013. In our view, the D/E ratio of 1.0 is a realistic and

appropriate target, given consideration to our aim to capture opportunities and invest for growth, and to ensure financial stability at the same time.

Capital policy:

Ensure stable dividend payment

Our principle is to pay stable dividends and ensure stable return to shareholders with a long-term perspective. We intend to pay a dividend of minimum 5 yen per share and gradually increase it, in line with a recovery in earnings.

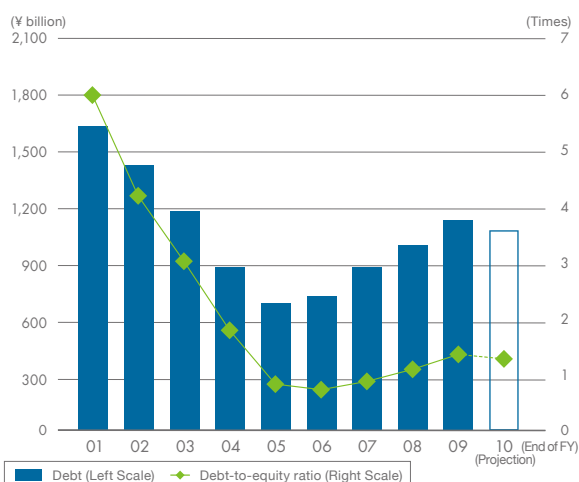
We posted an ordinary loss, partly due to temporary factors, in fiscal 2009 but generated ordinary income of ¥22 billion in the 4th quarter alone. This led us to judge that Sumitomo Metals has annual earnings capacity of about ¥80 billion, resulting in our decision on a per-share dividend payment of 5 yen for fiscal 2009. We plan to pay the same amount of dividend per share in fiscal 2010.

I would like to ask our shareholders for their continued support.

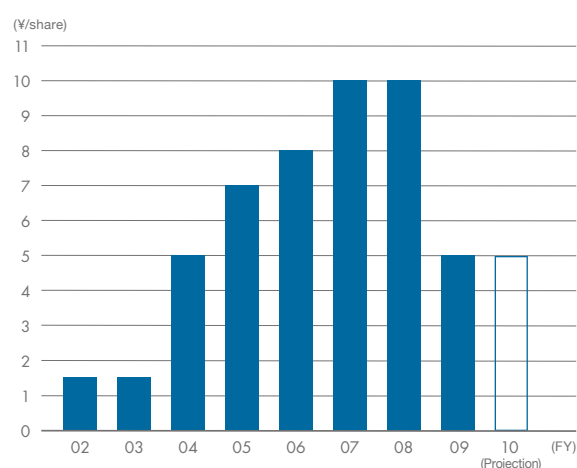
Michiharu Takii

Director and Senior Managing Executive Officer

Debt and Debt-to-Equity Ratio



Dividend per Share



Feature 1: Growth Strategy in Seamless Pipe Business – Manufacturing Base in Brazil

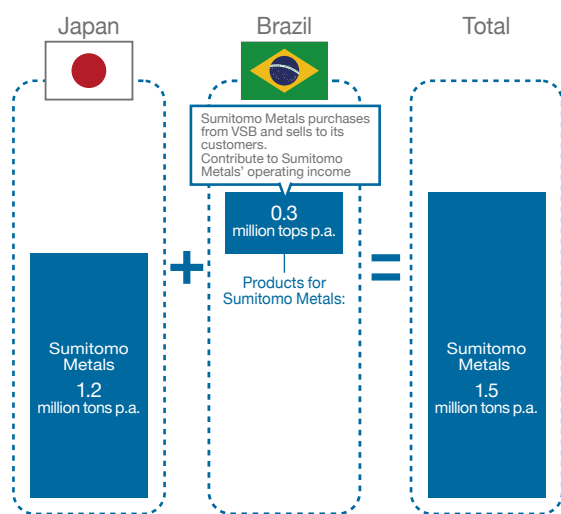
The Sumitomo Metals Group is the number one seamless pipe producer in the world, in terms of technology and product line-up with its primary customers being the energy industry. The seamless pipe demand from the global energy industry is steadily increasing and the quality requirements are getting tougher. Thus this business grows both in quality and scale. We embrace growth opportunities in the seamless pipe business by “adding strength to strength.”

Sumitomo Metals’ joint venture with Vallourec (Vallourec & Sumitomo Tubos do Brasil; VSB) is currently constructing a new steelworks in Brazil. Upon completion, our seamless pipe manufacturing capacity will increase by 0.3 million tons, or up 25%, from present 1.2 million tons to 1.5 million

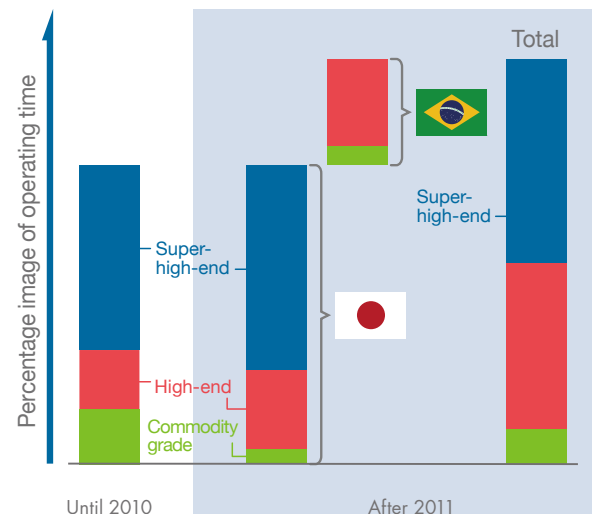
tons. VSB will sell one-half of its seamless pipe products, 0.3 million tons per year, to each of its parent companies, Sumitomo Metals and Vallourec, and the parents will sell the products to their respective customers. Thus the 0.3 million tons of seamless pipe produced by VSB will contribute to the Sumitomo Metals Group’s operating income.

Steelworks in Japan and Brazil will share production responsibility in keeping with their characteristics. This should help make Sumitomo Metals’ overall product mix to be more value-added and high-end, as Brazil takes some production burden of more commodity grade products away from Japanese facilities, which will then be able to raise production of super-high-end products.

Sumitomo Metals’ seamless pipe production capacity will increase to 1.5 million tons per year



Sumitomo Metals Group's seamless pipe product mix: Raise a ratio of super high-end products



Brazil is located on the opposite side of the earth from Japan. Adding Brazil's new steelworks to existing facilities in Japan will make an ideal geographic combination to cover the entire world. The main sales target areas for our operation in Brazil are South and North Americas, West Africa, and the Middle East. Other reasons behind our selection of Brazil as manufacturing location include having an iron ore mine nearby, ability to make steel carbon-neutral by use of charcoal made from eucalyptus trees, and a good transportation infrastructure, including railway and port facilities.

The Vallourec Group has conducted business in Brazil for about ten years and has accumulated local know-how. Sumitomo Metals and Vallourec have been long-term partners, proud of their bonds

of trust strengthened by having jointly developed high-grade premium joints for OCTG tubes for more than three decades.

Brazil's steelworks will have an annual production capacity of 0.6 million tons for seamless pipe. The Sumitomo Metals Group and the Vallourec Group will each sell one-half of the seamless pipe produced there. In addition, Vallourec Group will purchase 0.3 million tons of semi-finished products called billets from VSB. Accordingly, investment shares are 56% from the Vallourec Group and 44% from Sumitomo Metals side. Of our portion, 5% will be invested by Sumitomo Corporation, our sales partner. Both Sumitomo and Vallourec will have the same number of directors on the board of VSB. The company will virtually be managed on a 50-50 basis.



Profile of VSB:
Sumitomo Metals Group takes a 44% stake and runs VSB with an equal initiative with Vallourec

		Sumitomo Metals	Vallourec
Semi-finished and finished product	Billet (semi-finished)	—	300,000 tons
	Seamless pipe	300,000 tons	300,000 tons
Investment shares		44%*	56%
Number of directors		5 (50%)	5 (50%)

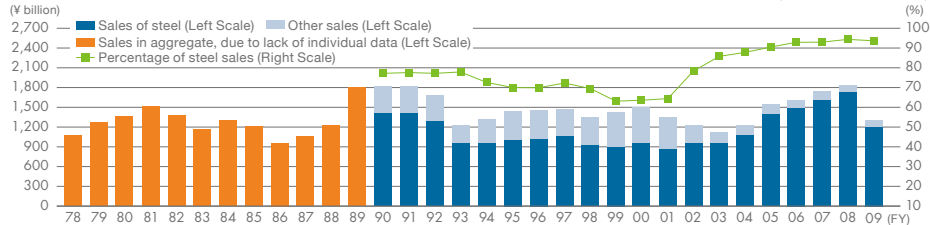
* Of the 44%, 5% will be invested by Sumitomo Corporation, our sales partner.





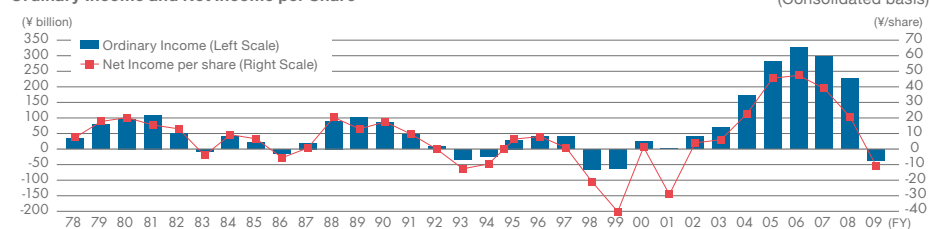
Feature2: Learning from Past Experience, Sumitomo Metals Aims for Sustainable Growth

Net Sales and Percentage of Steel Sales



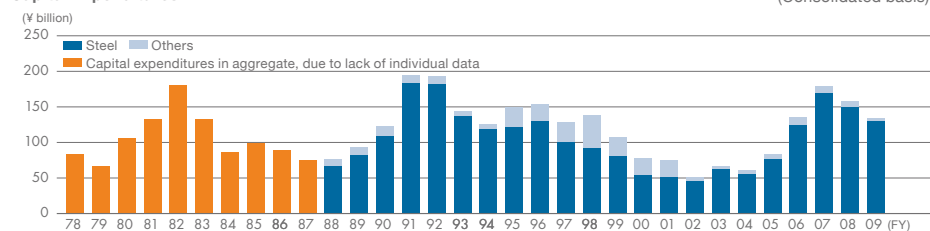
- Since fiscal 2002 our management resources have been concentrated in our core business of steelmaking.

Ordinary Income and Net Income per Share



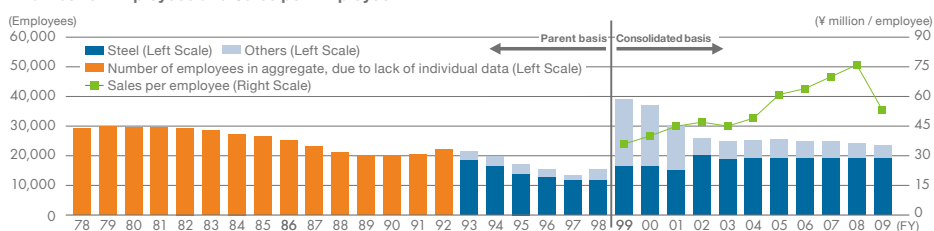
- Since fiscal 2003 our strategies bore fruit and improved our earnings structure.
- In fiscal 2009 we posted a loss due to the economic downturn but will not fall into a prolonged slump in earnings, unlike the past.

Capital Expenditures



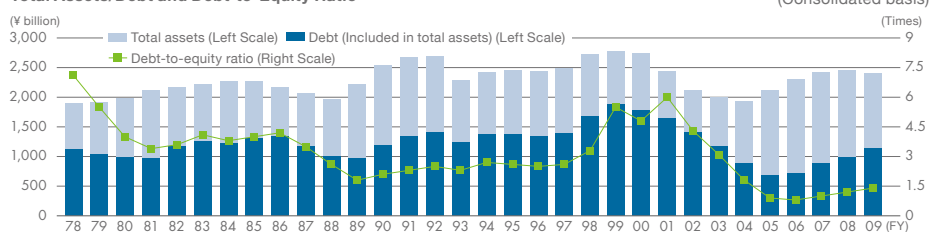
- Capital expenditures have peaked out.

Number of Employees and Sales per Employee



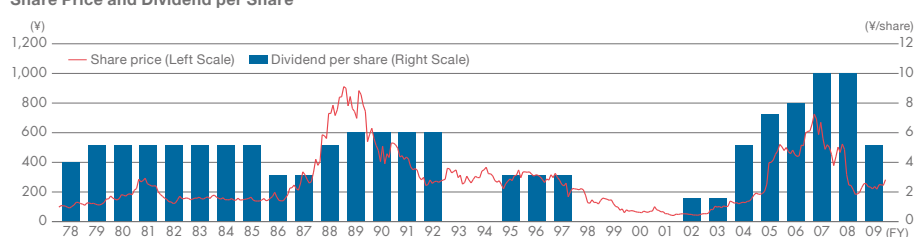
- Improvement of efficiency such as increasing labor productivity is our never-ending challenge.

Total Assets/Debt and Debt-to-Equity Ratio



- Our aim is to bring the debt balance at less than 1 trillion yen and debt-to-equity (D/E) at less than 1.0.

Share Price and Dividend per Share

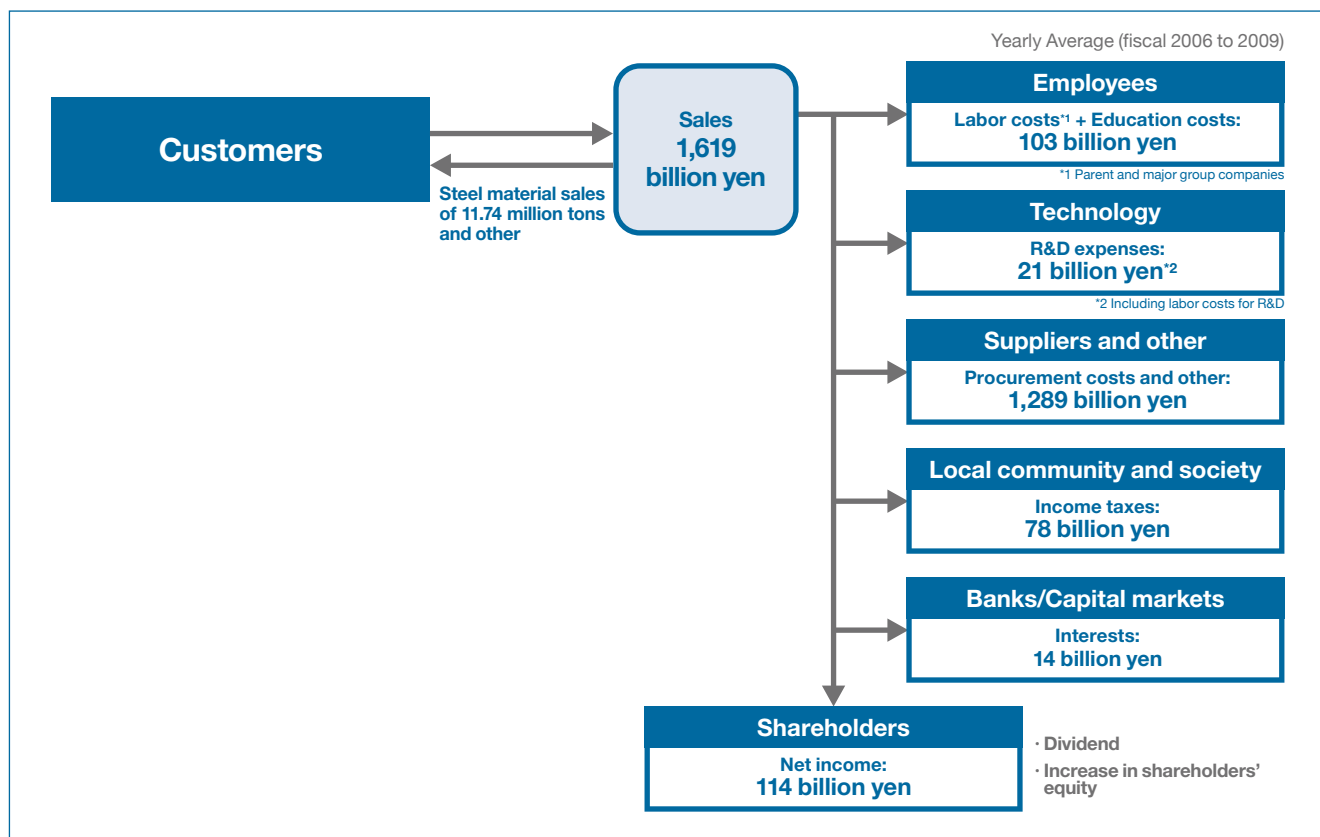


- We aim to deliver steady dividend payment with a minimum dividend of 5 yen per share.

Allocation of Value and Cash, by Stakeholder and Business

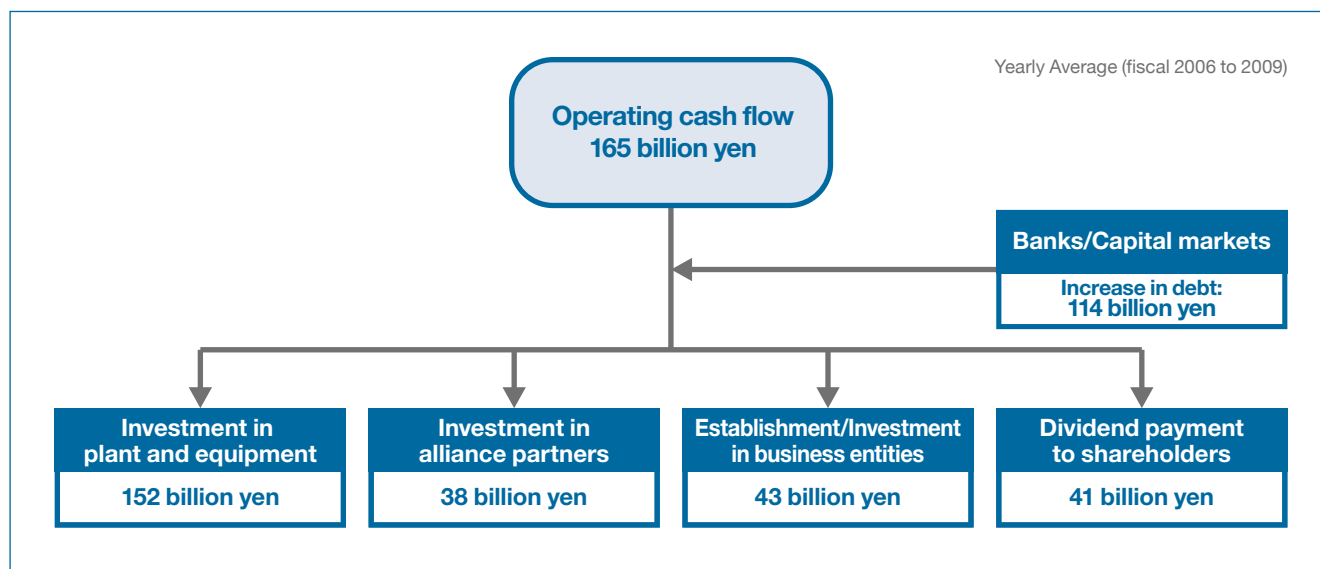
Allocation of Value, by Stakeholder

Our objective is to become a trusted company that contributes to our stakeholders.



Use of Cash Generated, by Business

Sumitomo Metals makes investment to “accelerate distinctiveness.” Cash generated from our business will fund our investment to raise corporate value and reward shareholders with dividend payments.



Review of Operations

Pipe & Tube



Manufacturing process



Products



Application

Steel Sheet, Plate & Structural Steel



Manufacturing process



Products



Application

Railway, Automotive, Machinery Parts & Other Steel



Manufacturing process

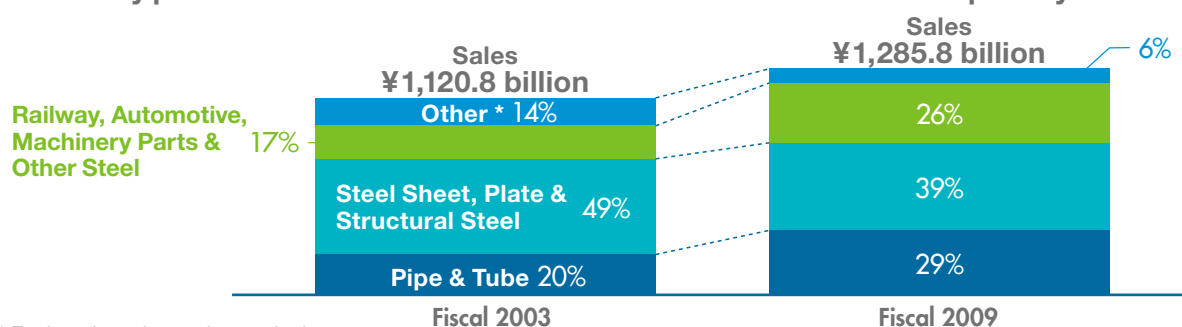


Products



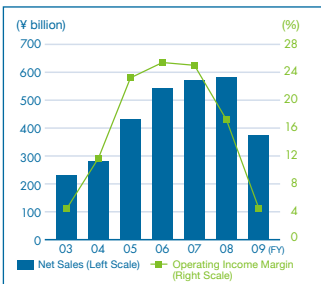
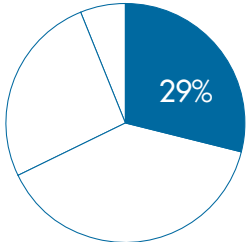
Application

Sales Composition by Business Segment: Sales of pipe & tube business and railway, automotive, machinery parts & other steel businesses have increased the most in the past 6 years.



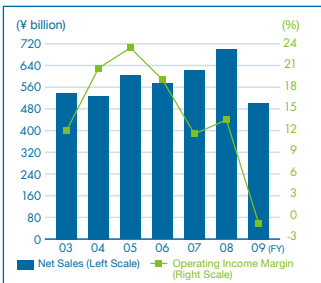
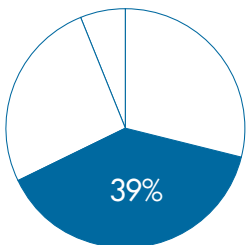
Core products are tubes and pipes used for energy development projects such as exploration of oil and natural gas. We are world class in development capability, product quality, and diverse product offering. This status makes us to be an unparalleled presence in the global high-end seamless pipe market. We are currently building a seamless pipe manufacturing base in Brazil to enhance Sumitomo Metals' global supply system.

Share of Total Sales



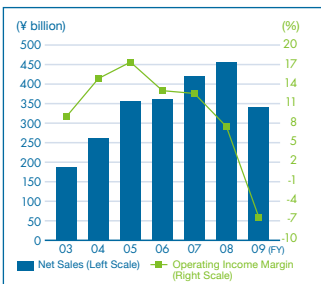
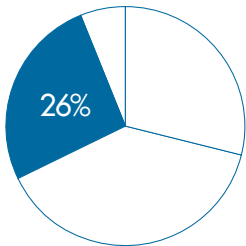
Production is mainly focused on steel sheets for automotive applications, steel plates for the energy and shipbuilding industries, and steel beams and sheet piles for construction. Our business is closely tied to the needs of our customers, with whom we have built a long-term relationship of trust. We are promoting the expansion in overseas markets where we intend to raise our presence.

Share of Total Sales

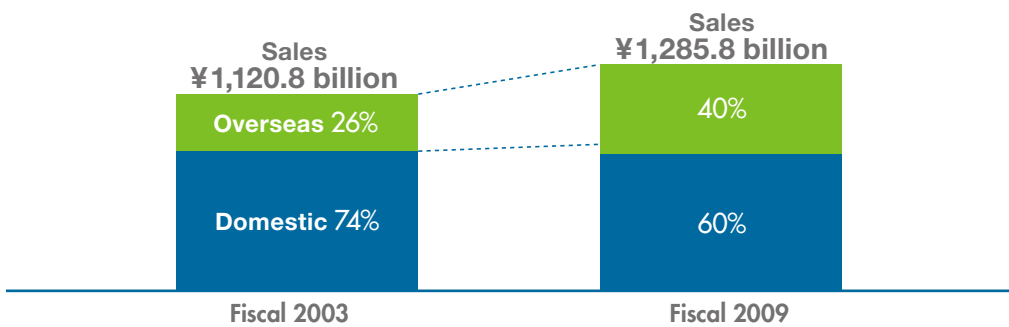


Sumitomo Metals has a dominant presence supported by distinctive products. These include wheels and axles for rolling stock, in which we command a 100% market share in Japan, and automotive forged crankshafts, in which our global share is approximately 8%. Our subsidiaries are focusing on developing their own distinctive products: Sumitomo Metals (Kokura), Ltd. focuses on specialty steel bars and wire rods and Sumitomo Metals (Naoetsu), Ltd. on stainless precision rolled strips and titanium. Contracted slab sales to our alliance partners contribute in stable operating rate of upstream manufacturing processes.

Share of Total Sales



Sales Composition by Region: Overseas sales have drastically increased in the past 6 years.



Pipe & Tube

Our product line-up ranks top in the world.
We have a relationship of trust with our customers.
An integrated steelworks that produces seamless pipe is under construction in Brazil. We will capture more of the global growth market and thus raise corporate value.

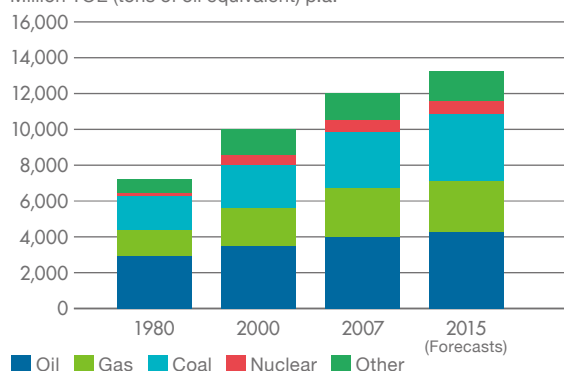
Market Environment

Energy demand will continue to expand worldwide

- 1) Medium- to long-term energy demand is expected to grow, in line with economic growth of emerging countries.
- 2) Demand for natural gas, which is considered clean energy because of its low emission of CO₂, is expected to grow.

Worldwide Energy Demand

Million TOE (tons of oil equivalent) p.a.

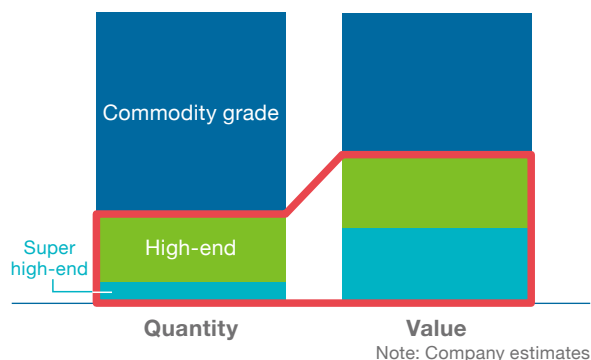


Source: IEA World Energy Outlook 2009

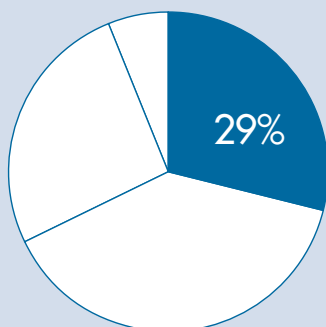
More severe drilling environment results in demand growth for high-end pipe and tube

- 1) Oil and gas development projects are nowadays demanding more vigorous requirements such as to withstand higher pressure and more corrosive environment, as drilling wells are made much deeper than in the past.
- 2) Safety has become more critical for energy development. Needs for more reliable and safe products are expected to grow.

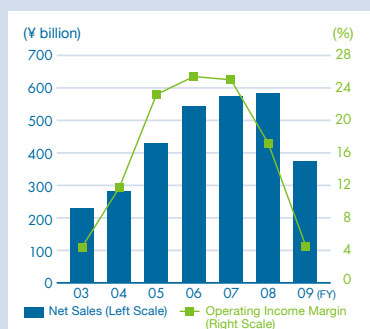
Structure of Oil Country Tubular Goods ("OCTG") Market (Projected Market in 2015)



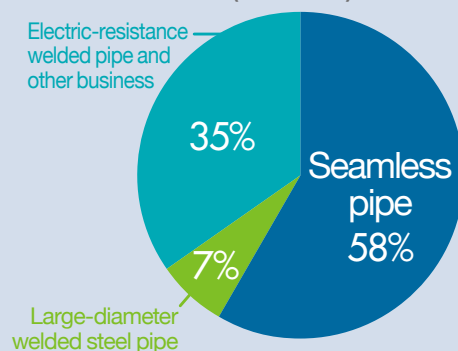
Share of Total Sales



Operating Results



Sales Composition by Product (Value base)



Sumitomo Metals Group's Strategies

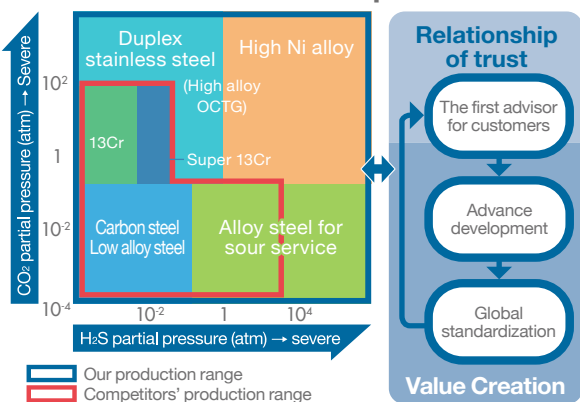
Enhance our line-up of already competitive products

We have the most competitive line-up of seamless pipe. In order to strengthen our leading position, we develop high-end products ahead of our competitors, make such products recognized as the global standard, and strengthen our relationship of trust with customers.

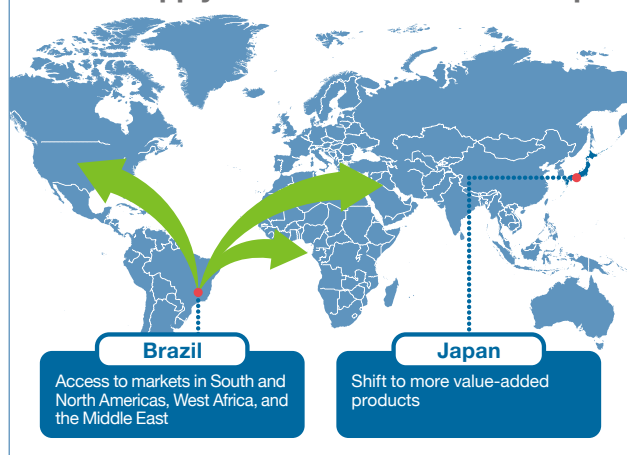
Construct a manufacturing base in Brazil to enhance our supply system

- 1) An integrated steelworks that produces seamless pipe is under construction in Brazil. It will start full-scale manufacturing in 2011. We will begin marketing and sales activities near our customers in South and North Americas, West Africa, and the Middle East, with an aim to raise our global share.
- 2) In Japan, our production will be shifted to emphasize higher value-added products, in order to raise profitability.

Oil & Gas Development Environment and Sumitomo Metals' Line-up of Materials



Global Supply Framework of Seamless Pipe



Steel Sheet, Plate & Structural Steel

We aim for a sustained improvement in corporate value by entering the Vietnam, India, and other emerging markets having growth potential, providing solutions which could lead to No.1 customer evaluation, and developing distinctive high-grade products.



Market Environment

Global demand for steel sheet, plate & structural steel is expected to expand.

1) Steel sheet

World automotive production and demand for steel sheets for automobile body parts are estimated to continue growing, particularly in emerging markets.

2) Steel plate

Energy-related demand (i.e., power stations, LNG storage tanks, line pipes, and offshore structures) is expected to grow.

3) Structural steel

Growth potential is limited in the Japanese market but steel demand for establishing infrastructure is likely to grow in Southeast Asia and other emerging markets.

Customers are demanding higher quality

1) Steel sheet

Lighter and stronger automobiles require higher-tensile steel sheet. Emergence of hybrid and electric vehicles raises the performance requirements for vehicle structure and parts.

2) Steel plate

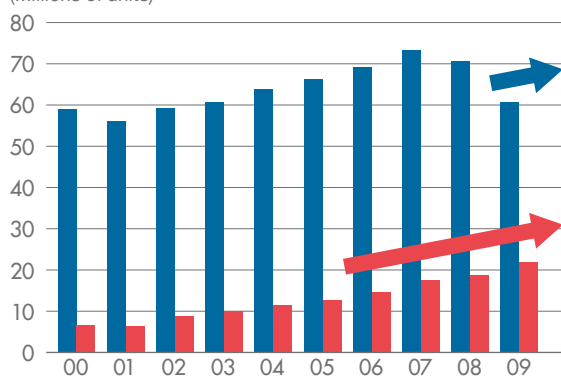
Energy development will shift into locations in severe environments such as in deep sea and cold climates. Demand for high-performance steel plate that withstands such environment is expected to grow.

3) Structural steel

The Japanese market is demanding safe and environmentally-friendly products with disaster-prevention performance features.

World Automobile Production

(Millions of units)

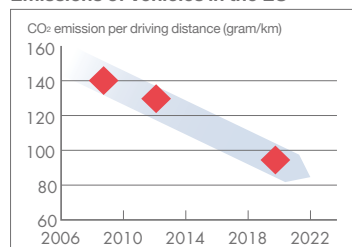


■ Worldwide ■ BRICs and ASEAN (included)
Source: Japan Automobile Manufacturers Association, Inc.

Customers' Requirements are Becoming More Sophisticated

1. Stricter environmental requirements

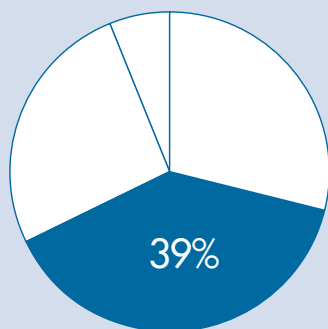
Changes in Regulations on CO₂ Emissions of Vehicles in the EU



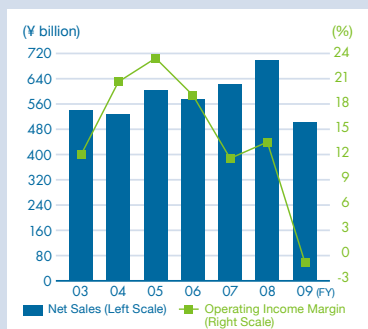
Demand for lighter weight and greater strength

2. Demand for higher safety

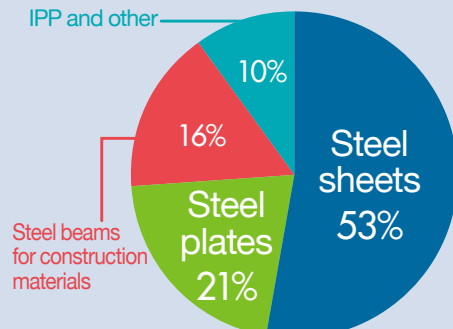
Share of Total Sales



Operating Results



Sales Composition by Product (Value base)



Sumitomo Metals Group's Strategies

Embrace overseas growth opportunities

1) Steel sheet

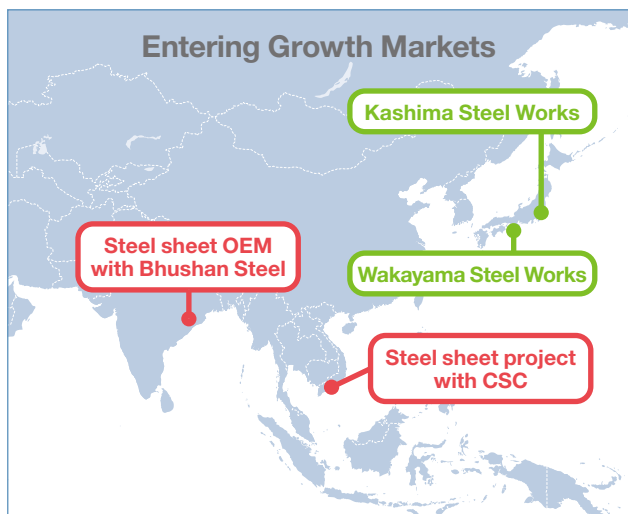
- Vietnam: Sumitomo Metals and China Steel (CSC) of Taiwan have formed a joint venture to construct steel sheet manufacturing facilities with annual capacity of 1.6 million tons. Operation is scheduled to begin in 2012.
- India: We have an agreement with Bhushan Steel Limited, for Bhushan to supply the steel sheet manufactured at its Orissa plant as OEM product to be sold under the SMI brand. We are also looking to acquire a stake in Bhushan's new steelworks project in West Bengal.

2) Steel plate

We intend to embrace business opportunities that are generated from energy demand growth worldwide.

3) Structural steel

We promote exports of structural steel in overseas growth markets.



Focus on gaining trust and high evaluation from our customers

1) Steel sheet

Sumitomo Metals proposes technological solutions such as 3-dimensional hot bending (for weight reduction) and hot pressing (for collision safety) to customers.

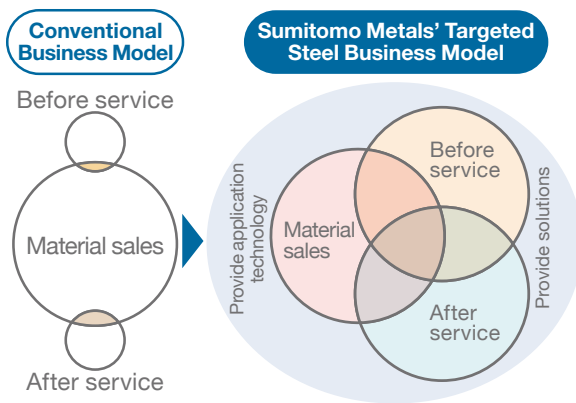
2) Steel plate

We will expand our line-up of high-end products (i.e., fatigue-resistant steel, steel for offshore structures) and establish mass production system (i.e., new heat treatment furnaces.)

3) Structural steel

We continue to develop high-grade structural steel such as eco-friendly low-noise rotary penetration pipe pile with no soil displacement and ultra-strength steel materials that enable to construct earthquake-resistant high-strength structures.

Sumitomo Metals' Steel Business Model



Railway, Automotive, Machinery Parts & Other Steel

This segment consists of the railway, automotive, and machinery parts operation that manufactures railway parts and forged crankshafts; Sumitomo Metals (Kokura), Ltd. that makes high-grade specialty steel; and Sumitomo Metals (Naoetsu), Ltd. that makes stainless steel and titanium.

Railway, automotive, and machinery parts operations

Major products are railway wheels and axles (100% share in Japan) and forged crankshafts for automobiles (approximately 8% global share.)

Market Environment

Global demand is expected to expand

1) Railway parts

The world market for railways, as an ecologically friendly means of transportation, is expected to grow rapidly, in particular for high-speed passenger railways.

2) Forged crankshafts

Although electric vehicles will become popular, we expect steady demand for crankshafts as rapid growth is projected for conventional engine cars and hybrid cars, which use crankshafts, in particular in emerging countries.

Customers are demanding higher quality

1) Railway parts

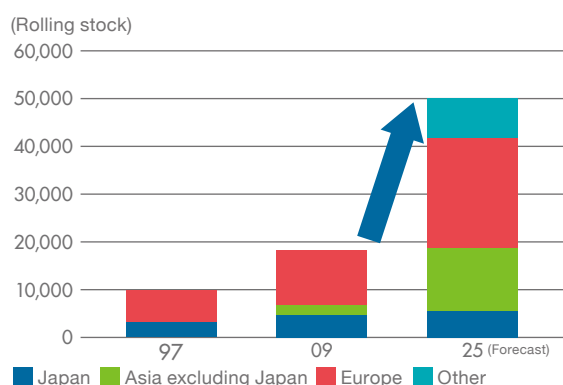
Requirements for safety and advanced functions (low vibration, low noise) will be heightened as railway operating speed increases.

2) Forged crankshafts

Smaller and lighter crankshafts have encouraged a shift in materials to high-grade forged steel.

Railway parts

High-speed Railway is Growing Industry



Railway parts

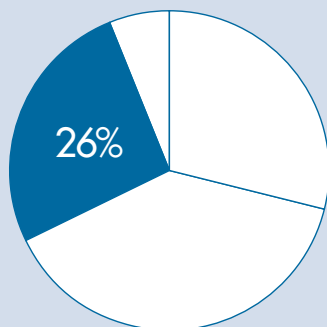
Customers Demand Higher Quality as Railways' Operating Speed is Goes Up Higher

Railways with higher operating speed

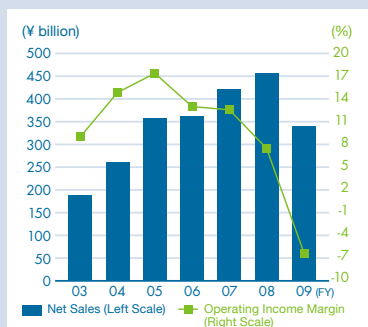
Demand for higher quality

- 1) High-speed (safety operation)
 - Function to keep the balance of train
 - Ultra-stable quality
- 2) High functionality (comfortable ride)
 - Low vibration
 - Low noise

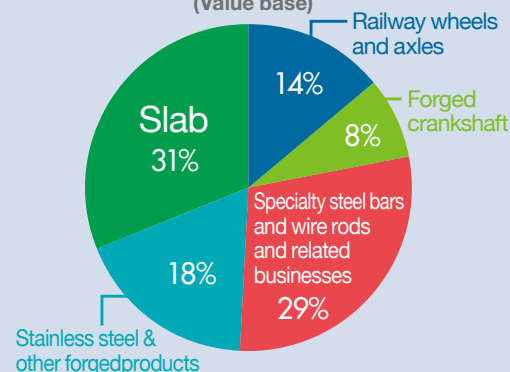
Share of Total Sales



Operating Results



Sales Composition by Product (Value base)



Sumitomo Metals Group's Strategies

Accelerate distinctiveness

1) Railway parts

Sumitomo Metals has a 100% share in Japan of railway wheels and axles. We will leverage our technological strength, accumulated in Japan's high-speed railway markets, to expand our global share.

2) Forged crankshafts

We have introduced lighter crankshafts and other new technologies ahead of our competitors. We endeavor to meet customers' demands by supplying high-quality crankshafts in global market with our superior forging technology and worldwide manufacturing bases.

Railway parts

We Supply Customers with Added Value Based on High Competency

Our strength

- 1) Designing and manufacturing know-how of railway wheel for high-speed operation
- 2) High quality realized by integrated manufacturing starting from blast furnace

Meet our customers' demand

- 1) Safety operation (high-speed)
 - High competency of railway wheels and axles
 - Tilting control technology of railway carriage
- 2) Comfortable ride (high functionality)
 - Noise damped wheels
 - Light-weight corrugated wheels
 - Low-noise gears
 - Active suspension system

Enhance manufacturing and sales networks

1) Railway parts

Railway wheel production capacity increased by 20% to 240,000 units in fiscal 2008. The added capacity has encouraged us to make aggressive sales efforts in the global market.

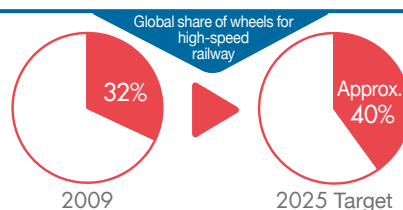
2) Forged crankshafts

In April 2010, we began a joint venture business for sales and manufacturing of crankshafts in India. We now have a global manufacturing system, together with operations in Japan, China, and the U.S., accelerate local production, and aim for a global share of over 10%.

Railway parts

We Promote Sales Expansion of Wheels for High-speed Railway

In global market, for instance, We deliver wheels, axles, disk brakes, and gear units for high-speed railways in Taiwan and China, and have a long term contract of supplying wheels for high-speed railway in Germany.



Note: Share calculation is company estimate

Railway, Automotive, Machinery Parts & Other Steel

Specialty Steel – Sumitomo Metals (Kokura), Ltd.

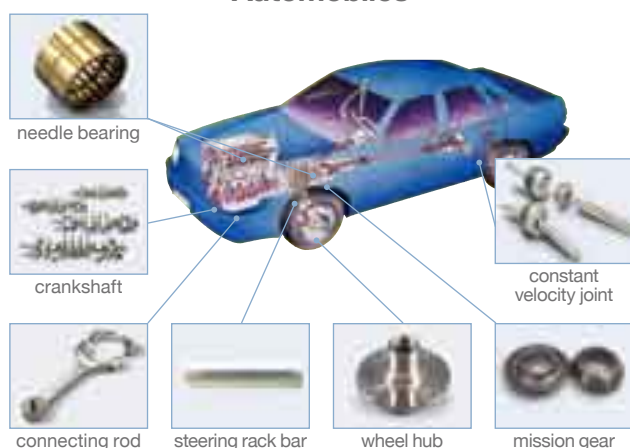
We manufacture and sell high-grade specialty bars and wire rods at our integrated steelworks equipped from a blast furnace to downstream facilities. The products are used for automobiles and industrial machineries. Being highly competitive in quality and cost, we contribute to raise corporate value.

Market Environment

The automobile market is expected to grow in particular in emerging markets

- We supply materials for important safety-critical parts such as automotive power train and underbody parts.

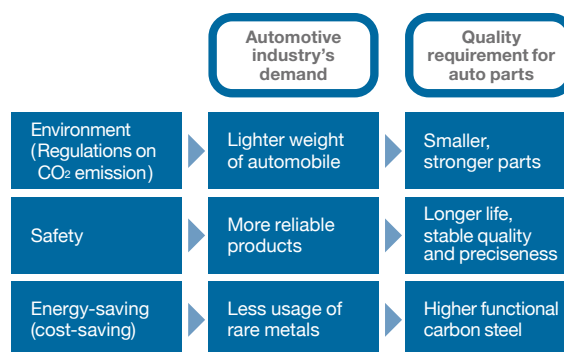
Supplying Safety-critical Parts for Automobiles



Customers are demanding higher quality

- Customers are demanding improvement of materials, such as higher strength and longer service life, in order to reduce CO₂ and improve safety of automobiles.

Automotive Industry's Demands: Higher quality requirements for auto parts



Sumitomo Metals Group's Strategies

We will enhance our manufacturing bases

- We renewed finishing roll equipment for steel bars in August 2009.
- Investment and construction for innovative steelmaking processes will be completed in October 2010.

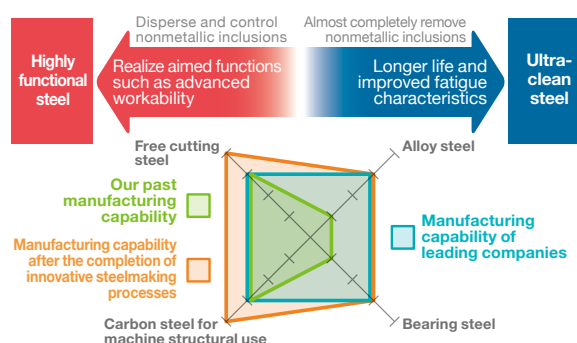


New No.4 continuous casting

We will create new technologies/products

- We will enhance product quality and cost competitiveness by complete separation of manufacturing process of highly functional steel and ultra-clean steel. Creation of new technologies and new products leads to accelerate distinctiveness.

We Rank Top as a Manufacturer of Highly Functional Steel and Ultra-Clean Steel



Stainless Steel and Titanium - Sumitomo Metals (Naoetsu), Ltd.

For stainless steel business, we will accelerate distinctiveness with products that are superior in heat-resistance, corrosion-resistance and excellent workability.

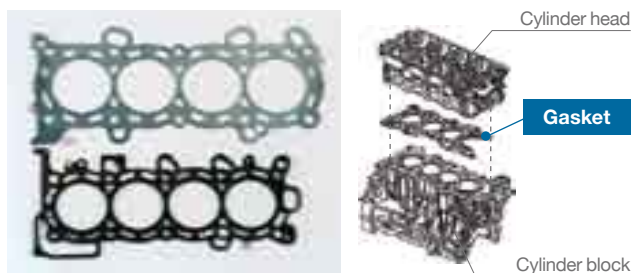
For titanium products, we will expand the business by emphasizing its high quality.

Market Environment

The market for highly functional materials for automobiles is expected to grow

- We supply highly functional engine gasket materials and next-generation automotive materials.
- Developed markets are anticipated to see penetration of next-generation vehicles (hybrid, clean diesel, electric, and fuel cell vehicles) and fuel-efficient gas vehicles, while emerging markets are likely to experience a surge in production of low-priced vehicles.

Engine gasket materials for automobiles



Customers are demanding higher quality

- Demand for titanium, mainly for aerospace, power generation, and heat exchangers, will continue to grow.
- In particular, customers in the aerospace field are most demanding with regard to advanced quality.

Our titanium products are used in the latest passenger airliners.



Sumitomo Metals Group's Strategies

We will continuously develop highly functional steel and respond to demands for high quality

- We provide highly functional stainless steel materials for automobiles and environmental/energy-related use, and pure titanium products of advanced-quality to our areas of focus. We plan to raise corporate value by entering expanding markets.

We will deepen relationship of trust with our customers

We closely respond to customer needs and become a partner to our customers. By deepening relationships of trust with our customers, we will accelerate distinctiveness and raise our corporate value.

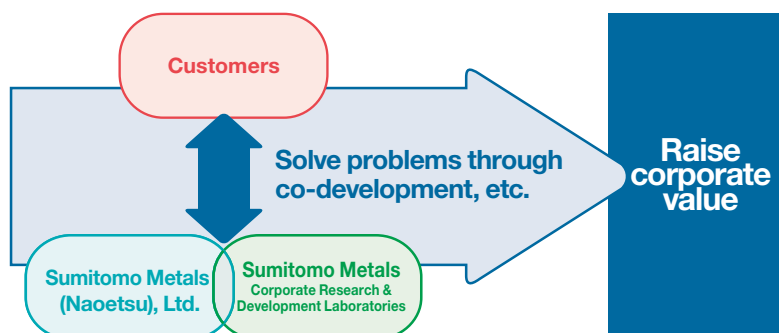
We Concentrate on our Core Competence to Grow in Expanding Markets and Respond to Customer Needs

Highly functional stainless steel

Engine gasket material
Separation unit material for a fuel cell
Lead material for lithium ion secondary batteries
Heat-resistant and corrosion resistant materials for environmental/energy-related uses

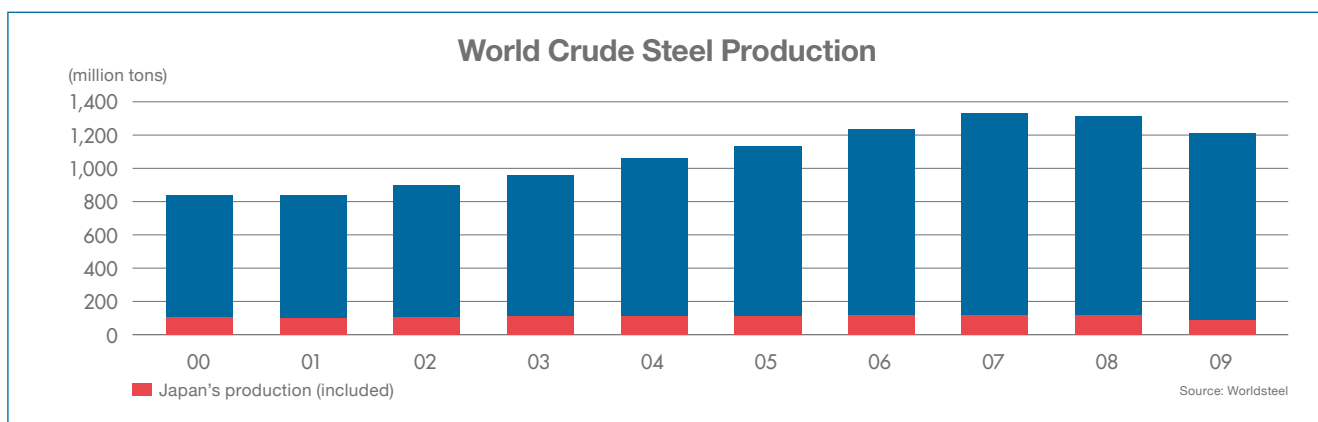
High quality pure titanium sheet

Aerospace
Power generation (thermal, nuclear)
Heat exchanger
Chemical
Automotive

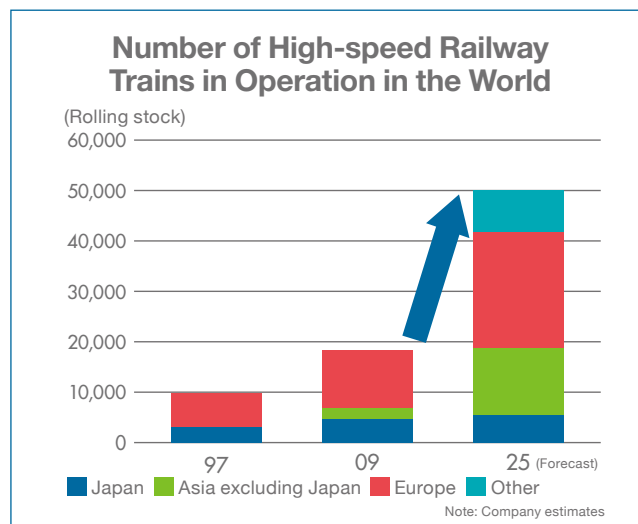
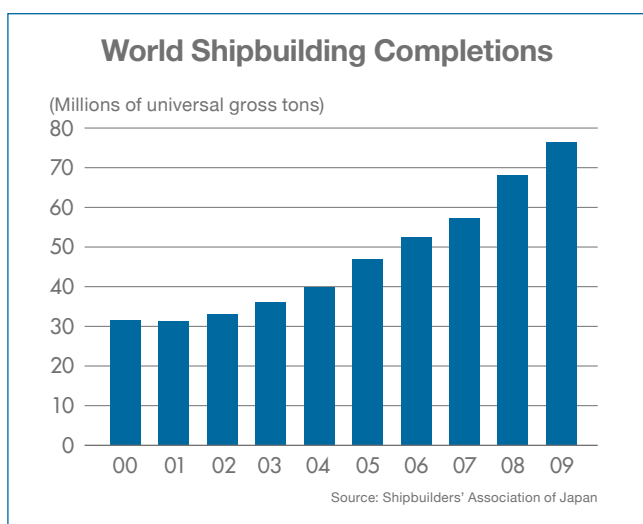
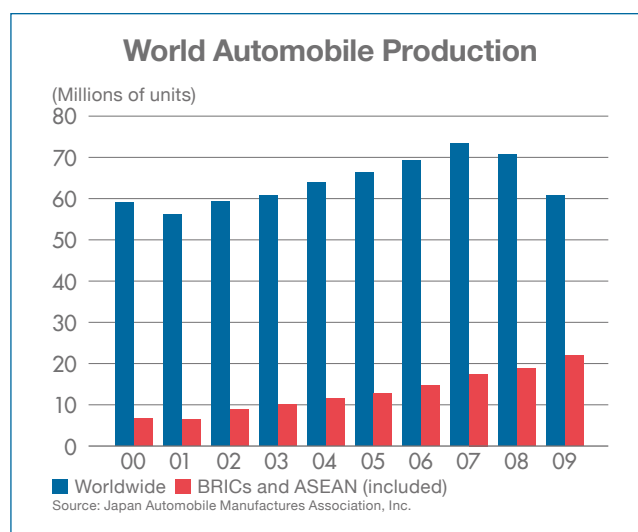
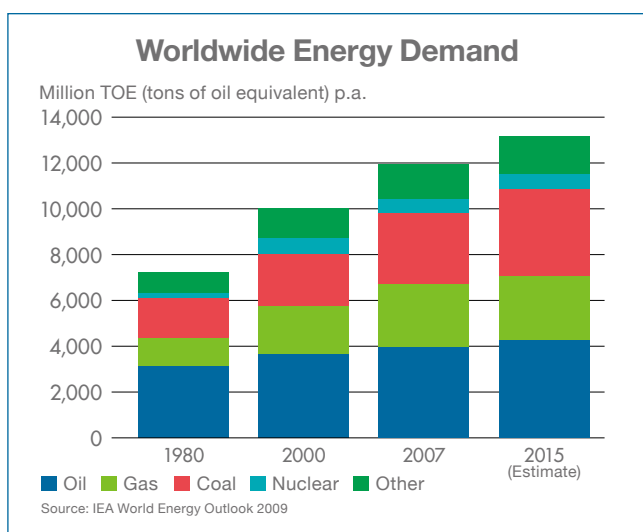


Business Environment (Reference Data)

Steel is a medium- to long-term growth industry

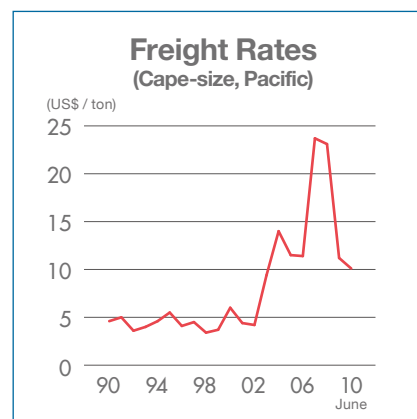
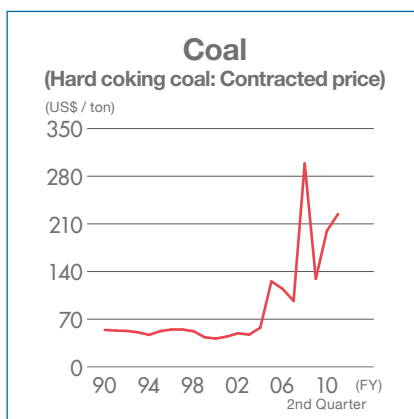
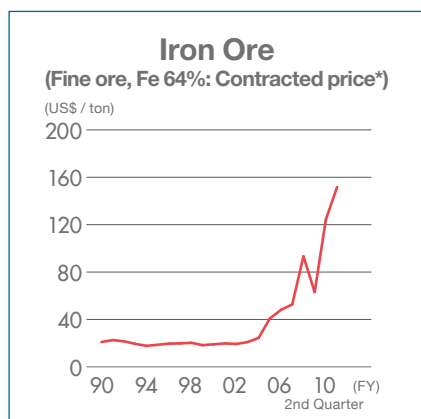
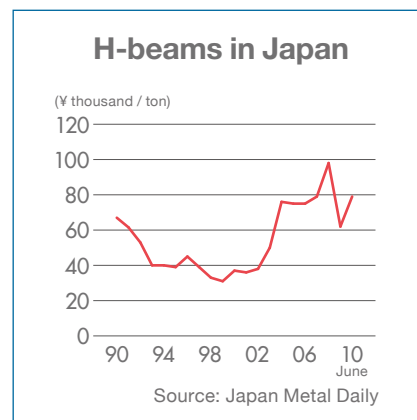
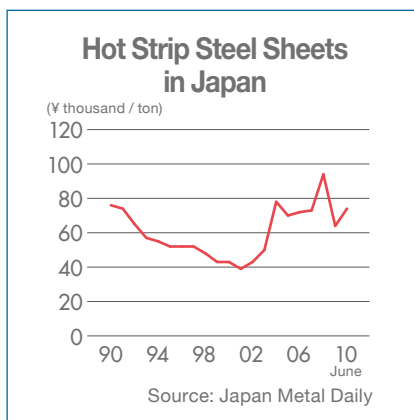
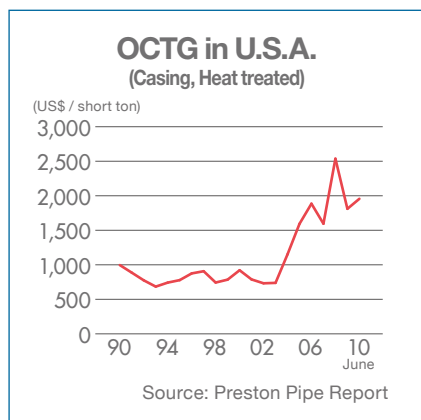


Sumitomo Metals Group sees a medium- to long-term growth in demand in its major business markets



Market Price Trends

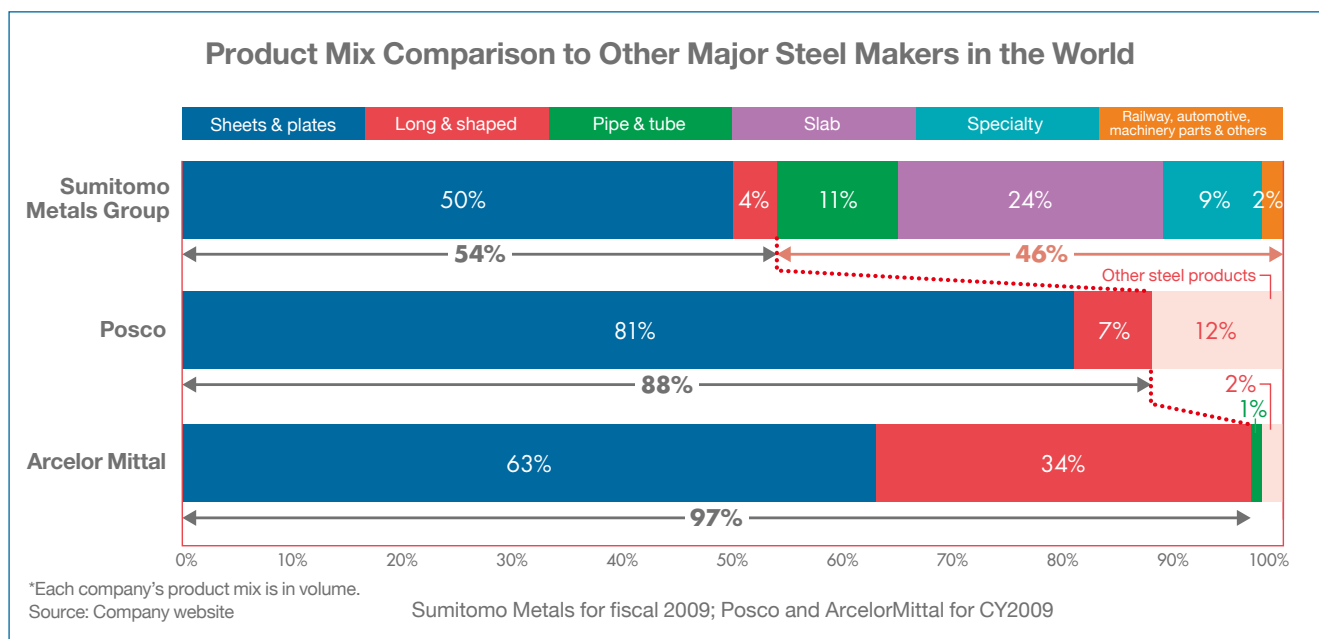
(December-end price except for 2010)



*Yearly contract until the end of fiscal 2009
Quarterly contract after fiscal 2010

*Yearly contract until the end of fiscal 2009
Quarterly contract after fiscal 2010

Sumitomo Metals Group is unique and prominent with high sales ratios in pipe & tube; railway, automotive and machinery parts



Sumitomo Metals Group's Vision on Raising Corporate Value

Resources that drive creation and growth of corporate value include "intangible assets" such as customers assets, human assets, technology assets, and organizational assets in addition to "tangible assets" such as physical assets and financial assets. We at the Sumitomo Metals Group strive to grow both types of assets in order to improve and maximize corporate value.





Customers Assets: Seeking the Number One Position in Customer Evaluation



Customers' high evaluation and customer trust are Sumitomo Metals' starting point for value creation.
We focus on contributing to the solution of customers' problems and becoming an indispensable supplier of those customers.

1. Becoming “Number One” in customer evaluation

The Sumitomo Metals Group assigns great importance to customers who find our technology, quality products, and services indispensable to their business. We believe that building longstanding relationships of trust with such customers is more important than solely attempting to increase the number of customers or sales volume.

We believe that expanding business with such customers contributes to generate long-term stable earnings. In our steel sheet business, we define the ratio of sales of which we are the number one or number two supplier to the customer as our “Customer Penetration Ratio,” and we strive to improve this ratio.

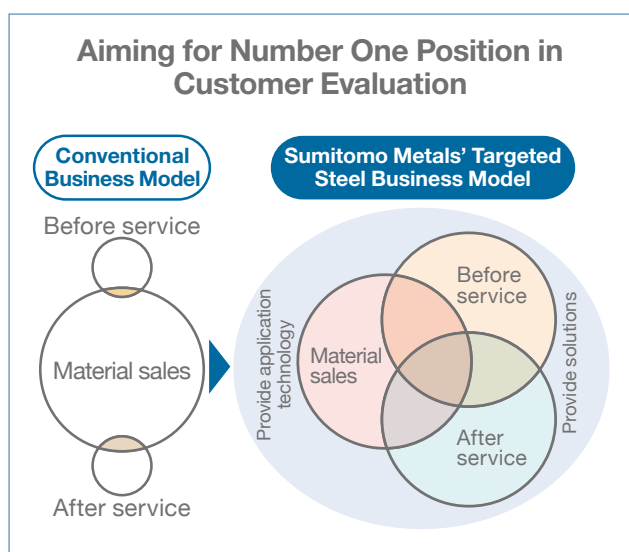
We have recently obtained the following awards and commendations from customers.

Year of award	Customer	Industry	Award name	Evaluated points of award
Fiscal 2009	Navistar Inc. (U.S.A.)	Automotive	Diamond Supplier Award	Quality, customer service, delivery, and design etc
	Toyota Motor North America Inc.	Automotive	Quality Award	High-standard of quality
	American Honda Motors Co., Inc.	Automotive	Delivery Performance Award	Excellent performance of delivery
	Mitsubishi Heavy Industries, Ltd. Nagasaki Shipyard & Machinery Works	Energy	Customer Satisfaction Award	Cost reduction and delivery improvement of specialty tube, technical development of boiler tube
	Toyota Motor Corporation	Construction	Quality Award for Toyota Housing Corporation	Achievement of quality target of lightweight welded H-beams for Toyota Housing Corporation (Zero claim for stock out, defect, market complaint, delivery delay: 4 consecutive years)
	Mitsubishi Heavy Industries, Ltd.	Power generator	Value Engineering Award	Value Engineering achievement (cost reduction)
	Panasonic Corporation	Electric	ECO-VC Silver Award	Value Analysis proposition
	Defense Procurement Structure Improvement Foundation	Industrial machinery	Defense Procurement Structure Improvement Foundation Award	Value Analysis achievement (cost reduction)
	Honda Motor Co., Ltd.	Automotive	Quality Award	Excellent evaluation of quality
	Toyota Motor Corporation	Automotive	Letter of Appreciation	Activity for quality control activity
	Toyota Motor Corporation	Automotive	Letter of Appreciation	Achievement of quality target (2 consecutive years)
	Toyota Motor North America Inc.	Automotive	Excellent Quality Award	High-standard of quality
	Toyota Motor Corporation	Automotive	Excellent Quality Award	Achievement of Zero quality claims in a year (3 consecutive years)
	JTEKT Corporation	Automotive	Excellent Technology Award	Quality improvement
	Saudi Arabian Oil Company (Saudi Aramco : Saudi Arabia)	Energy	Commemorative gift	Responding to urgent delivery request
	Panasonic EV Energy Co., Ltd. (Current "Primearth EV Energy Co., Ltd")	Energy	Excellent Award	Excellent evaluation of quality
Fiscal 2010 (Up to May, 2010)	Mitsubishi Heavy Industries, Ltd.	Construction machinery	Special Award Value Engineering Award	Comprehensive evaluation regarding delivery, quality, and cost Value Engineering achievement (cost reduction)
	Daihatsu Motor Co., Ltd.	Automotive	Superior Quality Performance Award	Activities toward decrease of defective ratio, improvement of operating ratio and reduction of stock
	Toyota Industries Corporation	Automotive	Letter of Commendation	High standard of quality (Zero claim in fiscal 2009)
	Toyota Motor Corporation	Construction	Quality Award for Toyota Housing Corporation (5 years in a row)	Achievement of quality target (Zero claim for stock out, defect, market complaint, delivery delay: 5 consecutive years)
	Toyota Motor Kyushu, Inc.	Automotive	Lexus Quality Award	High standard of quality (3 consecutive years)
	TTX Company (U.S.A.)	Railway	Excellent Supplier	Comprehensive evaluation regarding quality performances (defect, delivery, customer service and cost)

2. Offering solutions to problems

Not only supplying steel materials but also offering solutions to problems

Let us introduce a case of our automobile-related business. We help customers solve problems in all of their manufacturing processes, namely, development and production of materials and structures in accordance to the design of automobiles, processing, inventory warehousing, and their production of final products. This is our way to win the number one evaluation of our customers.



In the energy businesses, the relationship of trust with customers leads us to create a momentum for developing new products and technologies that set next global standard. This then results in earning more trust of customers. We seek to build such a virtuous cycle of trust: gain trust of customers ➡ become the first to be consulted for solving their problems ➡ develop new products ➡ set global standards ➡ gain trusts of customers.

“SMICAT” (SMI Customer Service in Application Technology)

SMICAT is a technical concierge for customers. It provides solutions for customer needs. We leverage the integrated technological abilities of Sumitomo Metals and its group companies. The latter includes affiliated companies that have knowledge in non-steel areas. Element technologies accumulated within the Sumitomo Metals Group have been compiled in a database, enabling us to respond to needs of our customers in a comprehensive manner.

Before Service

Sumitomo Metals dispatches its own engineers (called “guest engineers”) to a design department of automobile companies for supporting their design process. Sumitomo Metals was the first company to provide this kind of “pre-production service” which includes our organizational support scheme. In addition to material technologies, we also focus on application technology that covers how the specific steel materials are to be used by the customer. We receive the world’s top class recognition from automobile manufacturers.

After Service

Our “Roving Quality Squads” visit the customers’ manufacturing sites on a regular basis. Veterans in manufacturing at our steel mills bring back the information and knowledge they acquired at the customers’ manufacturing scene to their worksites, for further improvement.



Roving Quality Squad

Human Assets: The Individual Employee is the Basic Unit



What matters most is that each of our employees is able to work in safety, with passion and pride in safety.

1. Hire employees on a steady basis and nurture them

Sumitomo Metals finds that human resources are the driving force of the creation of corporate value. We hire personnel every year and invest in their training and education on a constant basis. We continued hiring on a steady basis, despite the economic slowdown that began in the fall of 2008. We have various educational programs which aim to maximize employees' ability.

For example, a new "Fundamental Technology Training" program was introduced in 2010. In this program, young engineers at our steelworks are sent to study at Corporate Research & Development Laboratories, and get exposed to the labs' know-how. We also put emphasis on language training programs.

2. Hand down Sumitomo Metals' manufacturing traditions to next generation

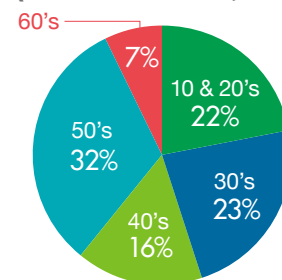
Our veteran employees, representing roughly 40% of our manufacturing workforce, are close to retirement age. It is vital to preserve and improve our accumulated skills and know-how by transmitting them to the next generation of workers. We rehire some of our retirees, and make them engage in training young employees so that skills are retained and accumulated within the company.

In our Steel Tube Works in the City of Amagasaki, over 300 young workers have been hired in the past five years. In order to train them, a veteran employee pairs with the first-year employee to give thorough one-on-one training.



Conducting various educational programs including language training

Employee Composition by Age (As of March 31, 2010)



One-on-one training

3. Create an employee-friendly environment

In order for our employees to bring out the best of their ability, we establish a good work-life environment for our employees and their families. We offer various welfare benefit programs that accommodate needs of employees in each life stage. These include dormitories and company housing, the "Life Plan Support Lump-sum Payment" to support life after retirement. In 2010, we made an arrangement with nearby childcare centers of Tokyo Headquarters for supporting employees having young children.

4. Put utmost importance in safety and health of workforce

Safety and health of our workforce are fundamental elements of management. We put together the Safety and Health Basic Principles and implement various measures.

For example, we greet each other by saying "For your safety" at worksites. Sumitomo Metals was the first to promote Kiken Yochi (KY; risk assessment) activities, which predicts latent risks prior to operations and proposes preventive measures. "Hands-on safety training" is to enable workers to experience risk operations through simulation. This program was recognized as highly effective and the number of trained workers, including those from other companies, has amounted to 160,000. Each manufacturing and business unit is vigorously working on various safety activities.

We are also promoting health preservation programs for our employees, including a mental health care program.

5. Respect human rights and hire the disadvantaged

Sumitomo Metals respects basic human rights, gives due attention to the rights of workers, and eliminates the use of forced and child labor. This is the prerequisite of our corporate activities. Our group has promoted human rights enlightening activities since 1979 when we set up a dedicated committee. As we have assigned high priority to employing disadvantaged persons, their ratio to all our employees exceeds the legal requirement.



Contracted childcare center

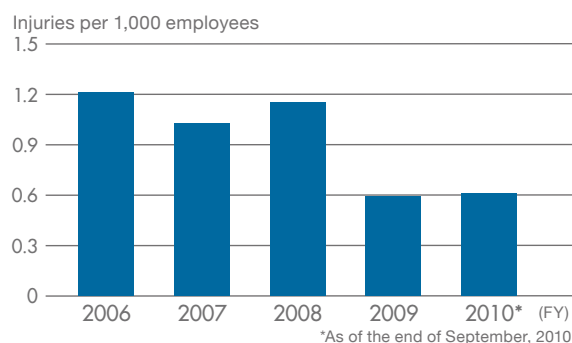


In accordance with Japan's Act for Measures to Support the Development of the Next Generation, Sumitomo Metals has been certified as a General Business Operator Conforming to Standards in recognition of its activities to support employees' efforts to balance work and child raising.



Safety competition at Kashima Steel Works

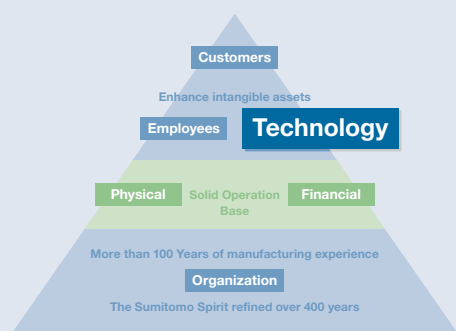
Safety Record of Sumitomo Metals Group







Technology Assets: Driving the Acceleration of Distinctiveness

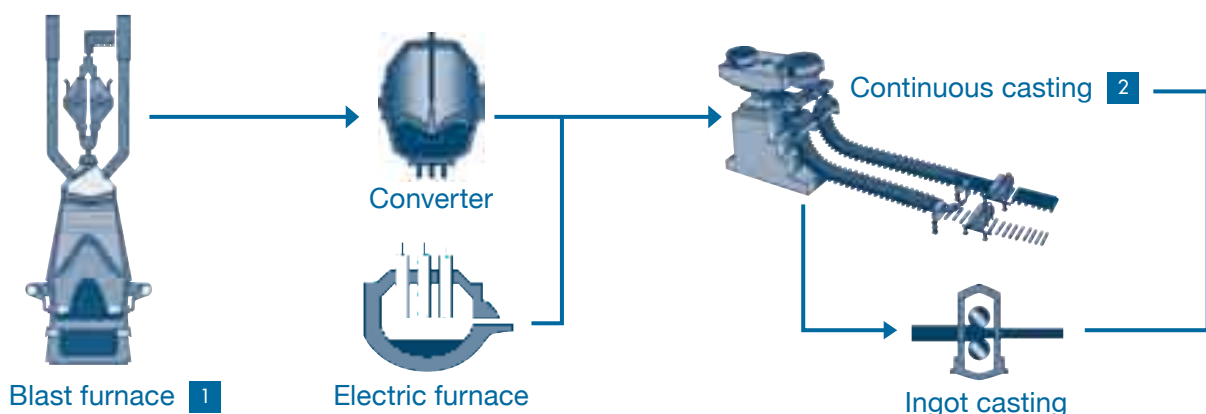


We at Sumitomo Metals allocate most of R&D resources to the areas of our strength in an effort to accelerate distinctiveness against our competitors. We focus on developing application technologies and solutions needed by our customers to earn trust of our customers.

■ Sumitomo Metals' technological development has received high acclaim in many areas.

Major awards in recent years

: Highest-ranked award



1 Blast furnace

Nikkei Monozukuri Grand Prize
Monozukuri Nippon Grand Award / Excellence Prize

Longest campaign life of No.4 Blast Furnace of the Wakayama Steel Works

2 Continuous casting

National Commendation for Invention/ Invention Prize

Development of mold flux for high-speed continuous casting

Monozukuri Nippon Grand Award / Prime Minister's Prize

Innovation in manufacturing method of high-quality steel plates using nano-size particles

The Japan Institute of Metals / Technical Development Award

Development of new continuous casting technologies for very thick plate (PCCS)

3 Hot rolling

Monozukuri Nippon Grand Award / Excellence Prize

Development of an innovative production method allowing the production of flat hot-rolled high-tensile steel plates

4 Stainless steel sheet

The Japan Institute of Metals / Technical Development Award
<Joint development with Honda R&D Co., Ltd.>

Science and Technology Commendation from Minister of Education, Culture, Sports, Science and Technology, in the Development Category for Science and Technology
<Joint development with Honda R&D Americas, INC.>

Development of high fatigue strength stainless steel for cylinder head gasket

The Japan Institute of Metals / Technical Development Awards

Development of stainless steel foils for bipolar plates of polymer electrolyte fuel cells

5 Steel

Ichimura Industrial Prize / Contribution Prize

Science and Technology Commendation from Minister of Education, Culture, Sports, Science and Technology, in the Development Category for Science and Technology

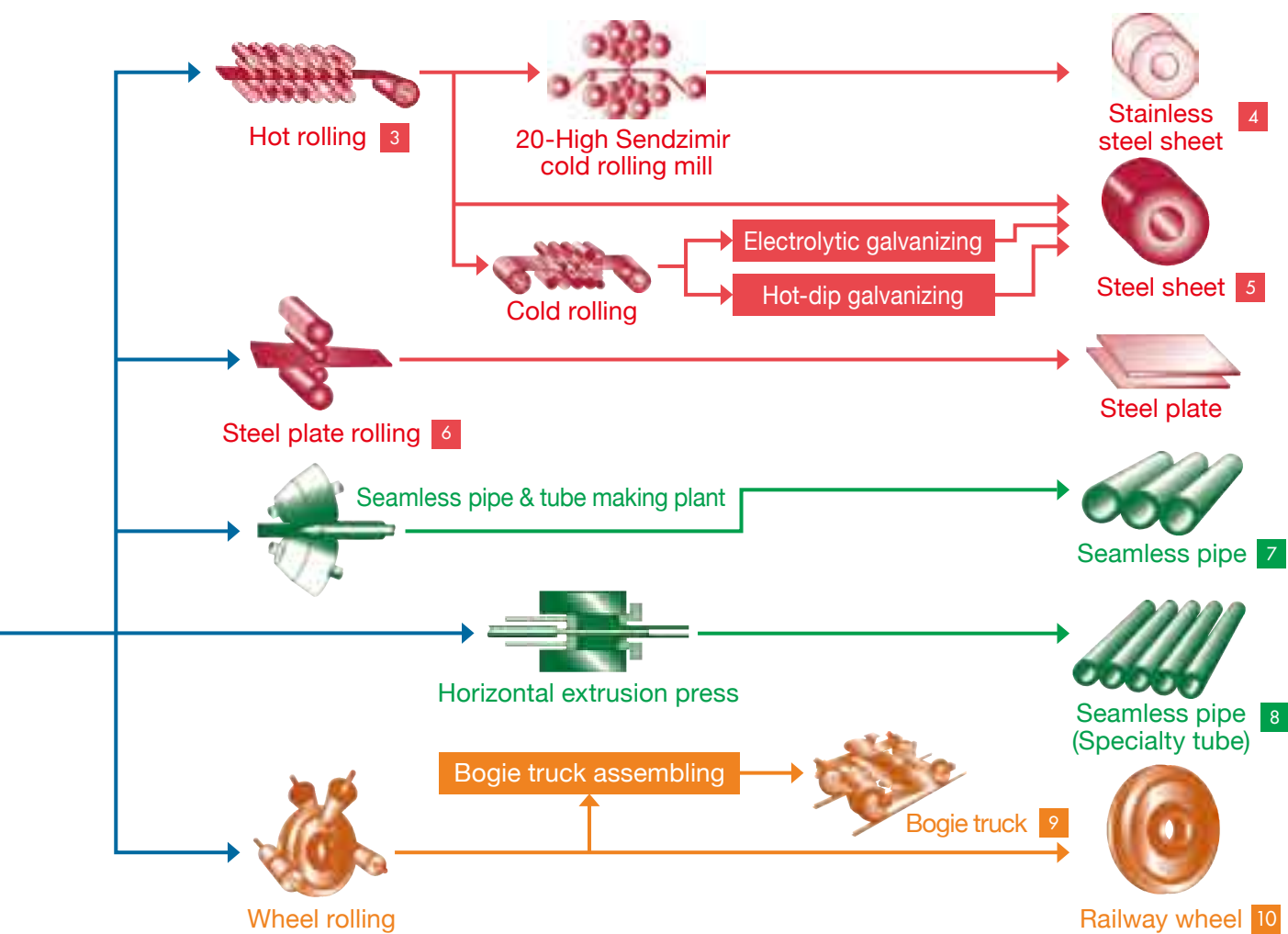
Development of non-oriented electromagnetic steel sheet for high-efficiency motors

CHO' MONODZUKURI Innovative Parts and Components Award / Encouragement Award
<Joint development with Asahi Chemical Co., Ltd.>

Chromium-free surface-treated steel sheet "NEO Coat T2" for case materials for the small motor

Science and Technology Commendation from Minister of Education, Culture, Sports, Science and Technology, in the Development Category for Science and Technology
<Joint development with Toyoda Iron Works Co.>

Development of crash-box that improves fuel and crash safety



sheet

The Japan Society of Mechanical Engineers / JSME Young Engineers Award

Development of small specimen testing technique and its application to strength evaluation of spot weld of steel sheets for automotive body

6 Steel plate rolling

Ichimura Industrial Prize / Contribution Prize

Science and Technology Commendation from Minister of Education, Culture, Sports, Science and Technology, in the Development Category for Science and Technology

Development and commercial application of new functional steel material with an extended fatigue-life

7

Seamless pipe



National Commendation for Invention / Imperial Invention Prize

Invention for super-high strength low-alloy steel oil country tubular goods

9

Bogie truck

The Society of Materials Science, Japan / JSMS Award for Technical Developments

Fatigue design approach for railway bogie frames

8

Seamless pipe (Specialty tube)

The Japan Institute of Metals / Technical Development Award

Development of a high-strength austenitic steel tube, SUPER304H, for USC boilers



Okochi Memorial Foundation Grand Production Prize

Development of advanced stainless boiler tube for Ultra-Supercritical (USC) coal-fired thermal power plants

10

Railway wheel

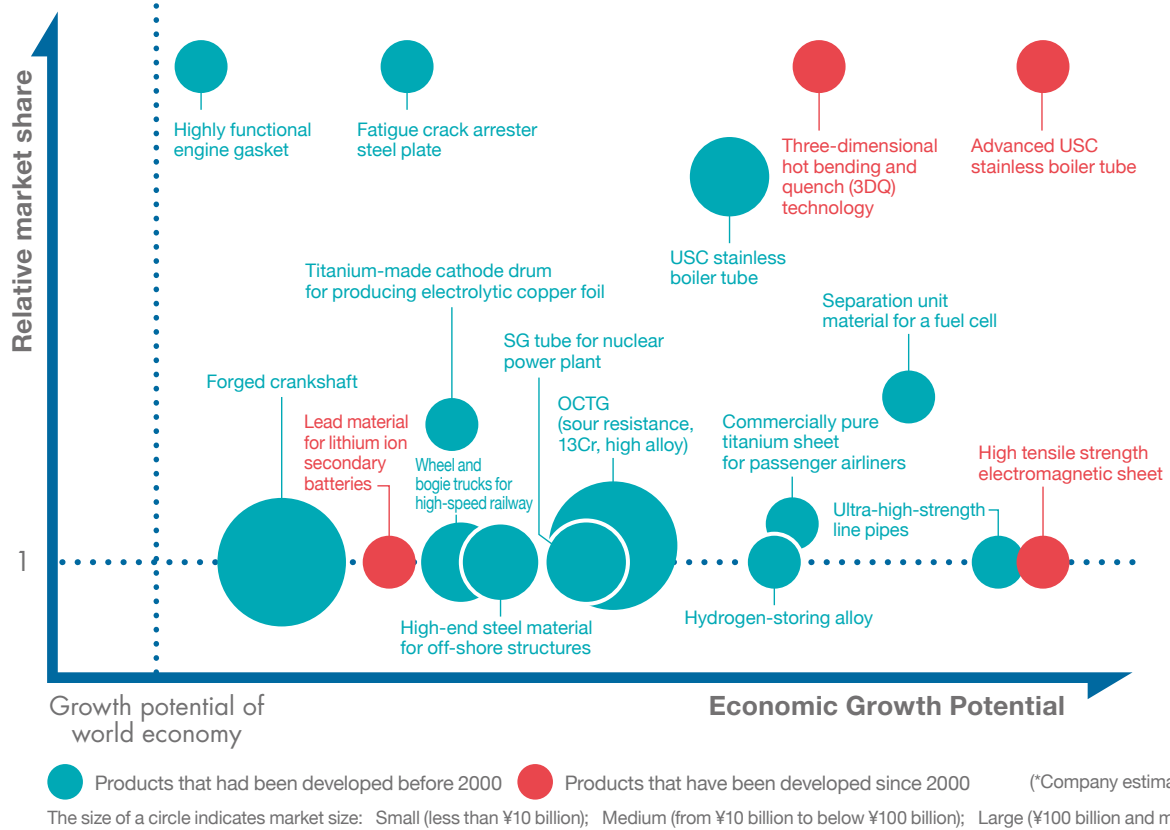
The Japan Society of Mechanical Engineers / JSME Young Engineers Award

Development of fatigue evaluation method for railway wheel under multiaxial stress state

National Commendation for Invention / Invention Prize
<Joint development with Mitsubishi Heavy Industries, Ltd.>

Invention of strengthened low-alloy steel for economical boilers

Bringing Up Next-Generation Core Products for Future Growth



(Note) Relative market share (vertical axis):

Comparison of market shares of Sumitomo Metals and the global No.1 company in the same market excluding Sumitomo Metals.

For example,

Relative market share = 1 (Another company has the same global share as Sumitomo Metals does and shares the No. 1 position.)

Relative market share = 2 (Sumitomo has the global No. 1 share, which is twice as much as the global No. 2 company's share.)

Economic Growth Potential (Horizontal axis):

The markets for the products on the dotted vertical line have a potential growth rate similar to that of the global economy.

Products locate further on the right side have a higher growth potential.

Distinctive Technologies are Strong Foundation of Sumitomo Metals Group

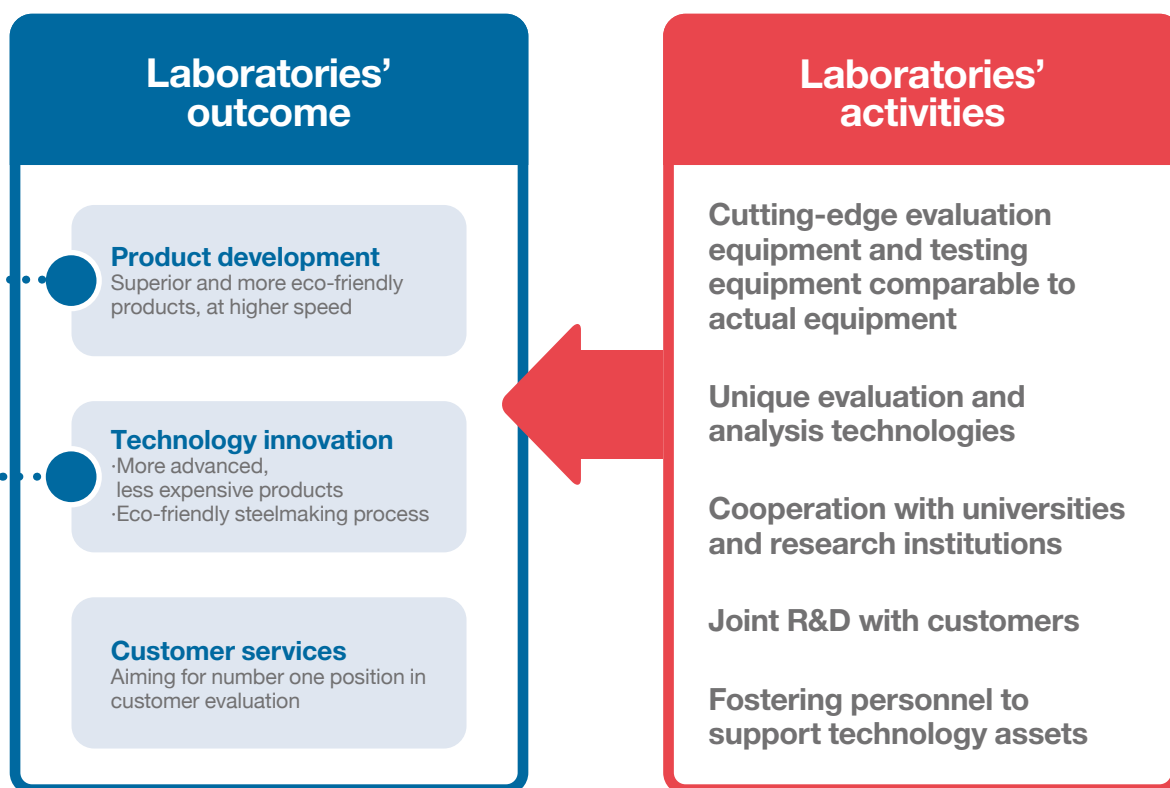
Technology assets are a driver to “accelerate distinctiveness.” We concentrate technology assets in areas of strength: “add strength to strength.” The Sumitomo Metals Group has developed new distinctive products and technologies in growth areas. Most of our current highly-profitable products have been developed since 1990's.

Our Corporate Research & Development Laboratories are now doing research on next-generation core products, in areas centered in the energy and

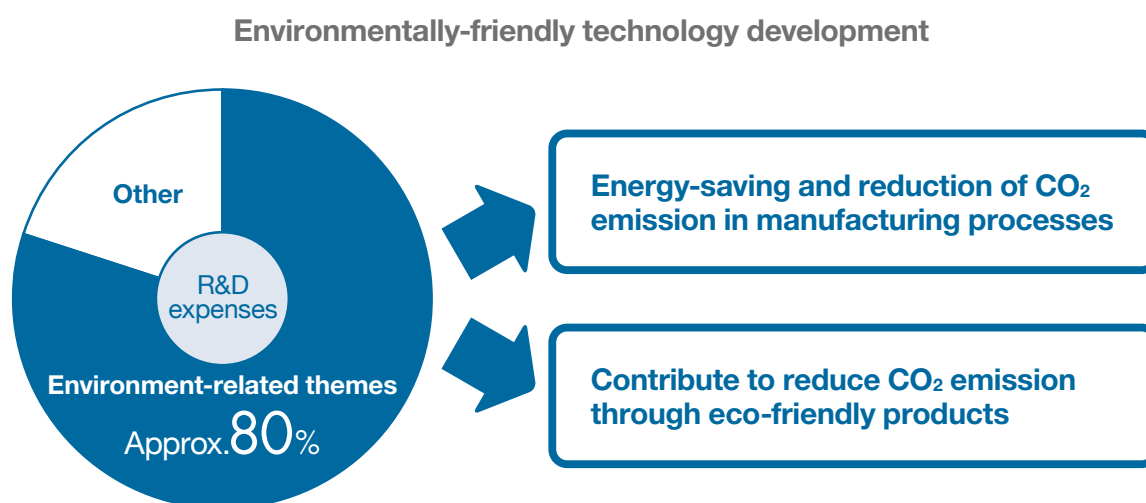
automobile fields. Next-generation Ultra Super Critical (USC) boiler tubes, to be used in the energy area, and 3 Dimensional Hot Bending and Quench (3DQ) processing technology for automotive parts are such examples. Sumitomo Metals' R&D policies are to specialize in areas of strength, to be close to customers' needs, and to act speedily. By implementing such policies, we seek the number one position in customer evaluation and raise corporate value.

Technology Assets: Raising Corporate Value through Corporate R&D

Corporate Research & Development Laboratories



Research and Development Toward Solving Environmental Problems



The Sumitomo Metals Group allocates around 80% of R&D expenses of the Corporate Research & Development Laboratories to environment-related projects. Those are aimed to contribute to save energy and reduce CO₂ emission in manufacturing processes and to reduce CO₂ emission through eco-friendly products.

Organizational Assets: Inheriting “The Sumitomo Spirit” and “Sumitomo Metals’ Tradition in Manufacturing”



Organizational assets include our corporate culture, management philosophy, and management structure. The most important of all are “The Sumitomo Spirit” and “Sumitomo Metals’ Tradition in Manufacturing.”

The Sumitomo Spirit

The history of the Sumitomo Group started when Masatomo Sumitomo opened his own business in Kyoto in the 1600s. He advocated a business philosophy for merchants in “Monjuin Shiigaki.” His business principles were later incorporated into the “Rules Governing the Sumitomo Family.”

The Sumitomo Spirit includes elements of corporate governance, compliance, risk management, and corporate social responsibility. This Spirit persists today, as Sumitomo Metals’ guiding principles as much as ever.

“You should exercise prudence in business and in all aspects of your life.”

Masatomo Sumitomo, the founding father of the Sumitomo Family, in Monjuin Shiigaki

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

Personal motto of Teigo Iba, appointed Second Director-General of Sumitomo in 1900.

Under no circumstances, shall Sumitomo pursue immoral business.

Business Principles from the “Rules Governing the Sumitomo Family,” 1891



“Monjuin Shiigaki”

Sumitomo Metals’ Tradition in Manufacturing

In 1901, Sumitomo Steel Foundry began producing cast-steel in Osaka. For over 100 years since then, Sumitomo Metals has contributed to society by making

steel. Today, we continue steelmaking to contribute to society through environment-friendly work and products, and by making use of our advanced technology.

Make Steel, Make Our Future



Sumitomo Steel Foundry in early 1900s



Wakayama Steel Works in 1969



Integrated steelworks in Brazil under construction

Organizational Assets: Our Approach to Corporate Governance

1. The Sumitomo Spirit and governance

Sumitomo Metals, as a member of the Sumitomo Group, has gone about its business with dedication to the proper and true maintenance of Sumitomo traditions, and with an emphasis given “to place prime importance on sound management,” “not to pursue immoral business,” and “to benefit the nation and society.” With an aim to achieve a sustained increase in corporate value based on the Sumitomo Spirit, we have established a system to ensure that our decision-making, execution of business, and oversight are all properly performed.

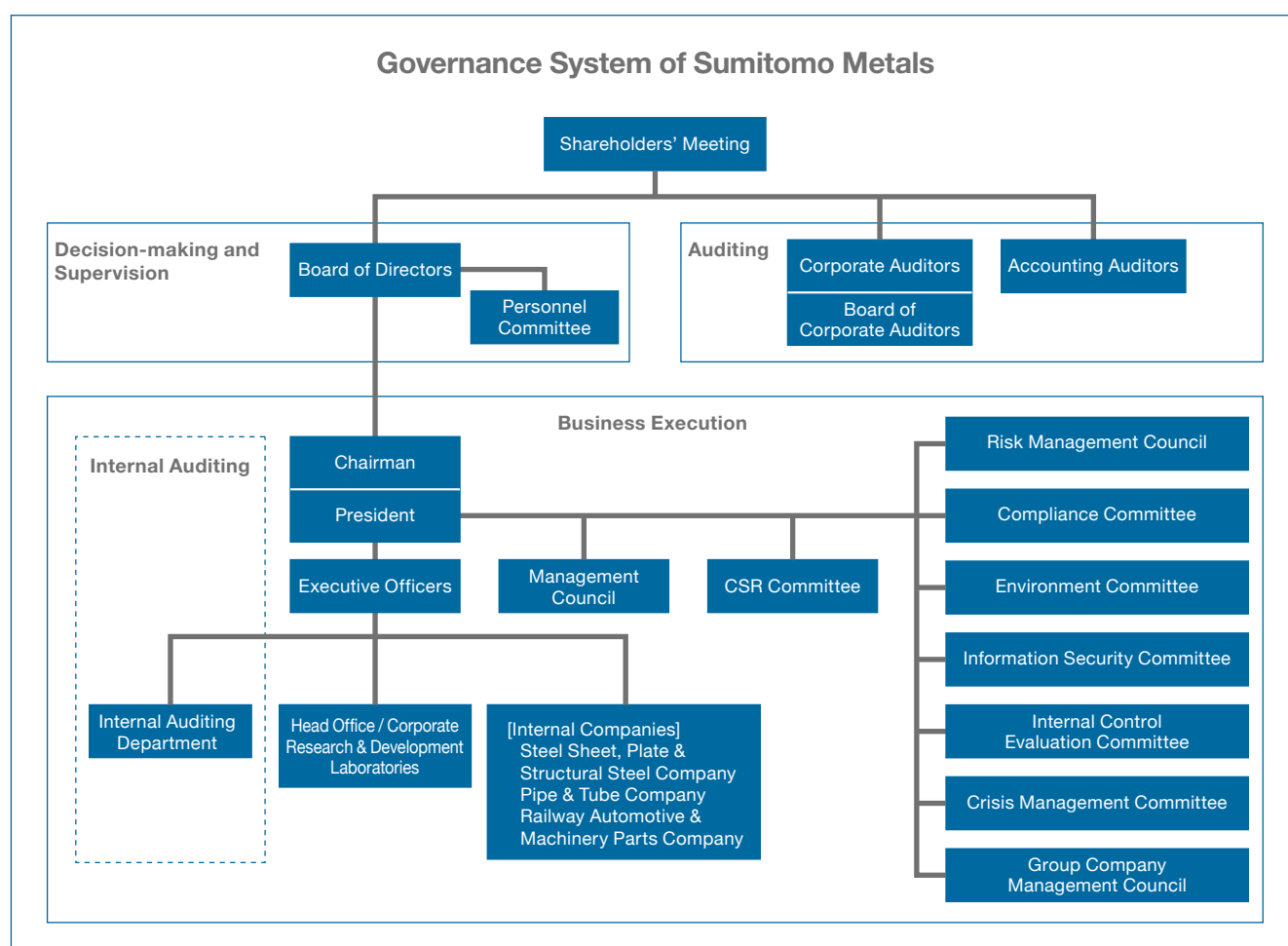
2. Structure and management

We firmly believe that corporate value is an important indicator to gauge the degree of our contribution to each stakeholder. We strive to build an appropriate corporate governance structure and manage it appropriately.

(1) General meeting of shareholders

The general meeting of shareholders forms the basis of our corporate governance. It is a valuable opportunity to provide shareholders with information of their interests and for us to hear their views on management. The term of office of our directors is set at 1 year. We hold our annual meeting on a day that does not coincide with the annual peak for Japanese annual meetings and have brought forward the meeting date in the recent 5 years.

Period	Date	The number of shareholders present
83th	June 27, 2006	887
84th	June 26, 2007	1,234
85th	June 19, 2008	1,193
86th	June 19, 2009	1,346
87th	June 18, 2010	1,245



Organizational Assets: Our Approach to Corporate Governance

(2) Board of Directors

Important decisions of our corporate group are discussed at the Board of Directors meetings. The issues are first reviewed by a meeting of the Management Council, which is attended by all directors and standing corporate auditors, in addition to executive officers who are related to the issues at hand, and then are presented to the Board for its decision. This procedure is intended to deepen awareness and understanding of the persons involved.

We have 10 directors and 27 executive officers, some of whom are concurrently directors. In order to ensure transparency with regard to responsibility during any given business year, our directors' term of office is limited to 1 year.

(3) Auditors, internal audits, and accounting audits

To provide oversight of our management activities, Sumitomo Metals has adopted an auditor system consistent with Japan's Companies Act. Auditors supervise and audit decision-making of our Board of Directors as well as executions of our officers. A majority of our auditors, 3 out of 5, are outside auditors. Their term is 4 years. The Internal Auditing Department supports auditors' works and its size of staff, function, and personal affairs are decided by the Board of Auditors.

Auditing of our accounts and financial statements is conducted by Deloitte Touche Tohmatsu LLC-Japan. In coordination with this certified public accountant and our auditors, our Internal Auditing Department supervises and audits decision-making of our Board of Directors as well as executions of our officers.

Fiscal year	Directors		Corporate Auditors	
	Number	Term	Standing	Outside
1998 (Before introduction of executive officer system)	38	2 years	2	2
2010	10	1 year	2	3

(4) Internal controls

Sumitomo Metals strives to improve its internal control systems so as to conduct all activities in an appropriate manner.

(5) Appointment of candidates for director

Candidates for directors and executive officers are screened by the Personnel Committee, and are appointed by the Board of Directors.

Candidates for auditors are nominated by the Board of Directors, and are reviewed and appointed by the Board of Auditors. Important criteria for our external auditors are to have broad experience and insight from their respective field of expertise and to have no vested interests in Sumitomo Metals or its major business partners.

After we established the corporate governance structure we set the term of office for directors to 1 year. No external director is in office at present.

(6) Remuneration paid to directors and auditors

Regarding remuneration provided to directors and auditors, the general meeting of shareholders approves the lump sum monetary amount appropriate for each board to perform its functions needed to raise corporate value. The amount for each individual is determined by discussion at the Board of Directors for directors, and at the Board of Auditors for auditors, with due consideration given to business results and other factors within the total amount determined by the resolution of the general meeting of shareholders.

Fiscal year	Ordinary income (¥ billion)	ROE (%)	Dividend (¥/share)	Payment to Directors (¥ million)	Payment to Auditors (¥ million)
2005	280.7	36.7	7.0	450	90
2006	327.6	28.3	8.0	840	160
2007	298.2	20.3	10.0	730	150
2008	225.7	11.1	10.0	780	140
2009	-36.6	-5.9	5.0	740	130

Dialogues with the Investment Community, Including Shareholders

Investor relations (IR) activities are important for Sumitomo Metals. We supply corporate information needed for investment decision-making in a timely and accurate manner.

Recognizing the value of our activities, the Securities Analysts Association of Japan awarded Sumitomo Metals the Excellence in Corporate Disclosure Award in fiscal 2008 and 2009, for two years in a row.

Institutional investors	Results briefing	Quarterly	
	Plant tour	At all times	
	One-on-one meetings	Many	
Individual shareholders	Plant tour*1 (5 locations)	2009 1,930 participants	2010 2,030 participants
	Invitation to the J-league football games of Kashima Antlers*2	2009 Season 5,200 invitees	2010 Season 5,700 invitees
Individual investors	Business briefing	2009 2 times	2010 4 times

*1 Shareholders who own more than 10,000 shares are eligible.

*2 Shareholders who own more than 5,000 shares are eligible.

Compliance and Risk Management

Compliance

Compliance is a crucial precondition for the very existence of a corporation. It is also a significant part of the Sumitomo Spirit which we have inherited, as expressed as "Sumitomo shall respect statutes and honor the Family rules." Sumitomo Metals strives to enhance its compliance system based on the Spirit.

Organization to Promote Compliance	
Compliance Committee	
Basic Rule Regarding Compliance	
Compliance Manual	
Providing access to counseling on compliance	Obtaining compliance pledges
Conducting compliance training sessions	Other measures



Sumitomo Metal Industries Compliance Card

Action Declaration

We declare that we shall take actions with pride and consciousness as employees of Sumitomo Metals and act in compliance with laws, internal regulations and other rules.

Self-Check Points

Do I take actions

- ☒ in compliance with laws, internal regulations and other rules?
- ☒ that satisfy the Sumitomo Spirit?
- ☒ that I can talk to my family and friends with confidence?
- ☒ that I can explain to my customers and business partners?
- ☒ that I can be proud of, when reported in media?

Risk Management

Sumitomo Metals is taking preventive measures against diverse potential risks and has been prepared for such risks. At the same time, we have made arrangements to carry on business in an integrated fashion in the event of emergency.

Normal Times	Emergency Situations
<ul style="list-style-type: none"> Risk Management Conference (twice a year) to identify, evaluate, and establish preventive measures against risks. Preparation of guidelines for action in the event of a major earthquake; emergency supplies; drills for setting up a recovery headquarters. 	<ul style="list-style-type: none"> Set up a Crisis Management Committee and respond in an integrated, immediate, and appropriate manner.

Organizational Assets: Board of Directors



Hiroshi Shimosuma
Representative Director
(Chairman)



Hiroshi Tomono
Representative Director
(President)



Fumio Hombe
Representative Director
(Executive Vice President)

Responsible for Corporate Planning, Information Systems, Internal Auditing, Treasury, Public Relations & Investor Relations, Steel Sales & Production Administration and Project Development Departments, Domestic and Overseas Offices, Sales of all internal Companies.



Yasuyuki Tozaki
Director
(Executive Vice President)

Responsible for Environment, Technology & Quality Administration, Plant Technology & Purchasing, Blast Furnace Project, Intellectual Property and Automotive Technology Planning & Development Departments, Technical Consulting & Machinery Development Project Team, Corporate Research & Development Laboratories, Titanium Division, Safety Technology, Technology and Quality of all internal Companies.



Yasuo Imai
Director
(Executive Vice President)
President of Pipe & Tube Company

Organizational Assets: Auditors



Kitaro Yoshida
Standing Corporate
Auditor



Hirohiko Minato
Standing Corporate
Auditor



Keiichi Murakami
Outside Corporate
Auditor

Attorney, Adjunct Lecturer of Doshisha University Law School



Toshiro Mutoh
Outside Corporate
Auditor

Chairman of Daiwa Institute of Research, Ltd., Visiting Professor of Research Center for Advanced Science and Technology at the University of Tokyo



Hirotake Abe
Outside Corporate
Auditor

Certified Public Accountant

We, Corporate Auditors, have the role of ensuring, through auditing, the corporate governance structure which allows the company to achieve sustained growth. As a corporate body trusted by shareholders, the Board of Auditors verifies whether directors execute their duties in accordance with laws, regulations, and the Articles of Incorporation and whether decisions made by the Directors are considered reasonable as business judgments. In particular, our focus has been on whether the internal control systems that the Company has developed, such as the compliance and risk management systems,

are appropriately established and are being used effectively at the Company and its group companies.

We always cooperate with the Internal Auditing Department and the Department responsible for Corporate Governance. We also work together with the Outside Auditors who have experiences and insight in their respective field, in order to realize enhanced appropriate auditing. Moreover, we communicate in a timely manner with our Accounting Auditors and verify credibility of their audits.

Kitaro Yoshida
Chair of the Board of Auditors



Syuichiro Kozuka

Director
(Executive Vice President)
Responsible for General Affairs, Legal,
Personnel & Industrial Relations and
Safety & Health Departments, General
Manager of Osaka Head Office



Mitsunori Okada

Director
(Senior Managing
Executive Officer)
President of Railway, Automotive &
Machinery Parts Company



Michiharu Takii

Director
(Senior Managing
Executive Officer)
Responsible for Corporate Planning,
Information Systems, Internal Auditing,
Treasury and Public Relations & Investor
Relations Departments



Shinichi Miki

Director
(Senior Managing
Executive Officer)
President of Steel Sheet, Plate &
Structural Steel Company
Responsible for Bhushan Steel Technical
Collaboration Department



Yoshitaka Hotta

Director
(Senior Managing
Executive Officer)
Responsible for General Affairs,
Personnel & Industrial Relations and
Safety & Health Departments

Organizational Assets: Accounting Auditors



Hiroshi Yoshida

Certified Public
Accountant
Deloitte Touche Tohmatsu LLC-Japan



Yukitaka Maruchi

Certified Public
Accountant
Deloitte Touche Tohmatsu LLC-Japan



Tsuguo Ito

Certified Public
Accountant
Deloitte Touche Tohmatsu LLC-Japan

Based on our mission and duty as Certified Public Accountant (CPA) and our management philosophy that states, “Ensure fairness within our economic society and take the lead in contributing to its development,” Deloitte Touche Tohmatsu LLC-Japan is reaffirming its social mission and responsibility and putting the greatest priority on quality in all its operations.

We endeavor to constantly listen to the views of the public and to ensure independence, probably one of the most important principles a CPA should observe.

We also endeavor to ensure integrity, an approach that all professionals should naturally have. By observing these principles, we will continue to strive to carry out accurate audits that satisfy the expectations of all stakeholders and work to meet the needs of society.

Corporate Social Responsibility: Utilizing technology to resolve environmental problems

Providing service to society through our business is at the core of the Sumitomo Spirit.

This means that we consistently create values, serve our stakeholders, and strive to be a trusted company.

We set up a CSR (Corporate Social Responsibility) committee on July 1, 2010, with an objective of systematizing our CSR activities.

1. Sumitomo Metals inherits Sumitomo's tradition to protect the environment by innovating technologies

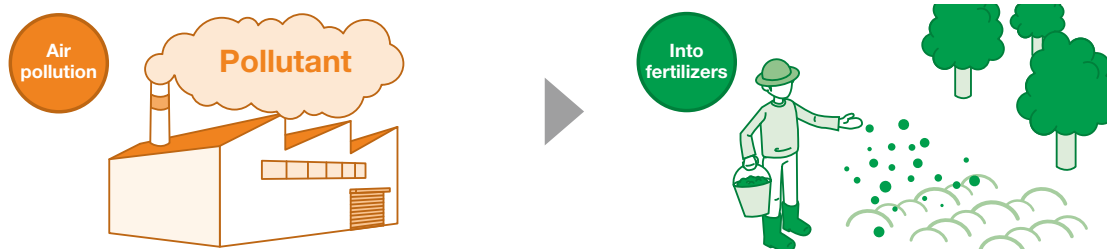
The Sumitomo Metals Group believes it is important to contribute to society by utilizing technology to resolve environmental problems.

(1) About 100 years ago, Sumitomo resolved an environmental problem

Back in the early 1900s, Sumitomo's copper refinery in Besshi on Shikoku Island released harmful sulfurous gas to the surrounding areas. Sumitomo

then developed technologies that enabled processing of the sulfurous gas to make fertilizers and resolved the problem.

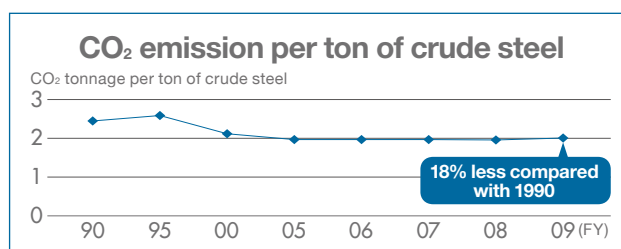
Harmful sulfurous gas has been processed into useful resources, thanks to new technology.



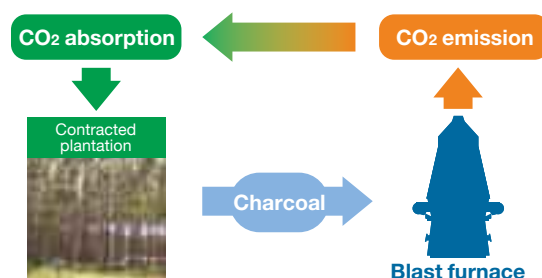
(2) We reduce CO₂ emissions in our steelmaking processes

Our CO₂ emissions per ton of crude steel has been reduced by 18% from fiscal 1990 to fiscal 2009.

At present, an integrated steelworks that produces seamless pipe is under construction in Brazil. It is planning to switch the reducing agents in the blast furnace from coke to charcoal made from eucalyptus trees that will be grown and harvested at plantations. The CO₂ that the eucalyptus trees absorb when growing is projected to be nearly equivalent to the volume of CO₂ emitted from the blast furnace operation, resulting in close to zero net emission of CO₂.



A Furnace that Utilizes Charcoal Reduces CO₂ Emission



(3) We reduce CO₂ emissions by making our products more eco-friendly

The Sumitomo Metals Group also contributes to the curbing of CO₂ emissions via various eco-friendly products. One good example is the stainless boiler tube for Ultra-Supercritical (USC) coal-fired thermal power plants.

Improvement in energy efficiency is a key to achieve reduction in CO₂ emission for thermal power generation. High temperature and high pressure of steam is critical for efficiency improvement. For about 30 years, the levels of temperature and pressure of steam had stayed at the supercritical (SC) level.

Sumitomo Metals' newly-developed boiler tube for Ultra-Supercritical (USC) coal-fired thermal power plants had made a breakthrough for the first time in 30 years by enabling an advance from the conventional supercritical (SC) power plant to the USC plant. Sumitomo Metals has an 80% global share for such tube that withstands USC conditions. The effect of reduction in CO₂ emissions through improved power-generation efficiency is estimated to be around 66 million tons per year. This amount is 3 times larger than Sumitomo Metals' CO₂ emission during the manufacturing process of all products.

Other products that contribute to the curbing of CO₂ emissions include steam generator (SG) tubes used as the core components in nuclear power plants, and hydrogen-storing alloy used for nickel-hydrogen batteries of hybrid vehicles.

The effect of reducing CO₂ emissions through these products has been evaluated at 220 million tons per year, which is more than 9 times larger than the CO₂ emissions of our manufacturing processes.



Sumitomo Metals' boiler tube for USC power generation

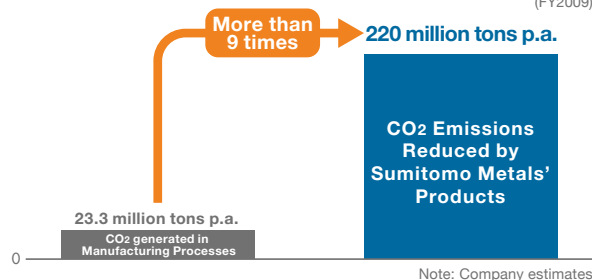
Technical breakthrough, first time in **30 years.**

Estimated to reduce around **66 million tons** of CO₂ emission.

Domestic share: **100%**,
Global share: around **80%**

Sumitomo Metals' Products are Contributing to CO₂ Emission Reduction

(FY2009)



2. Sumitomo's silvicultural tradition is ongoing even now

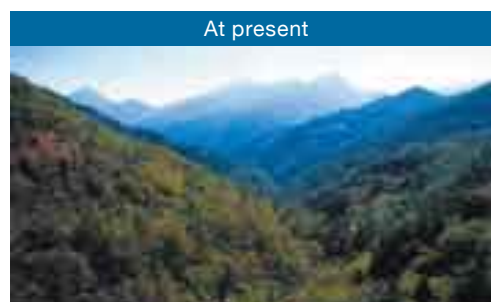
(1) Sumitomo's silvicultural activities date back to more than 100 years ago

In Bessi in Shikoku Island, Sumitomo initiated a planting of trees, for restitution of the mountains that had been damaged by air pollution

caused by its copper refinery. The once-damaged mountain slopes are now covered with beautiful trees.



©Sumitomo History Museum



©Sumitomo Forestry Co.

(2) Sumitomo's silvicultural activities have been inherited to this day

Sumimetal Mining, a group company which mines limestone sponsors a program to plant about 30 native species on the slopes of the mine site. This project aims to prevent landslide disaster and to establish bountiful forests where a variety of wildlife can live. Nearby residents and Sumitomo employees join in their annual event of planting trees called "Kamoshika Forest Tree-Planting Festival." Since the project began in 2005, 113,000 trees have been planted.



Kamoshika Forest Tree-Planting Festival

3. Contributing to local communities as their members

The Sumitomo Metals Group aims to be a desirable citizen in each community where it operates business.

(1) Contributing to local communities via sports

Sumitomo Metals Group contributes to revitalize local communities via sports. Sumitomo Metals' Kashima baseball team participated in the 81th Inter-City Baseball Tournament as a representative of Kashima City. The team finished the tournament in third place. Sumitomo Metals sponsors various sports events in local communities.



The 81th Inter-City Baseball Tournament

(2) Plant tours

At each of our manufacturing location, we host plant tours for primary and middle school students and residents in the community. In fiscal 2009 about 40,000 persons participated in such tours. We find it valuable that residents in the communities understand our business.



Plant tour at Wakayama Steel Works

26-Year Major Financial Indicators

Year	Net sales (¥billion)	Operating income (¥billion)	Ordinary income (¥billion)	Net income (¥billion)	Total assets (¥billion)	Debt (¥billion)	Equity ratio (%)	EPS (¥)
1984	1,297	125	41	25	2,268	1,217	14.7	9.65
1985	1,206	74	20	18	2,277	1,314	14.6	6.98
1986	957	-1	-14	-13	2,168	1,334	14.7	-5.21
1987	1,061	74	19	2	2,060	1,174	16.3	1.09
1988	1,223	167	90	58	1,959	999	19.4	20.84
1989	1,805	180	101	39	2,221	977	23.8	13.37
1990	1,815	170	86	54	2,534	1,183	22.3	17.92
1991	1,818	133	46	30	2,673	1,335	21.6	9.96
1992	1,687	75	9	0	2,698	1,412	21.3	0.22
1993	1,222	22	-34	-38	2,285	1,239	23.1	-12.34
1994	1,329	55	-24	-28	2,422	1,371	20.6	-9.20
1995	1,431	104	29	21	2,451	1,369	21.3	6.85
1996	1,457	102	40	26	2,436	1,333	22.2	8.43
1997	1,469	98	40	4	2,493	1,385	21.5	1.28
1998	1,347	12	-64	-69	2,720	1,673	18.5	-20.59
1999	1,424	9	-63	-145	2,774	1,882	12.3	-39.95
2000	1,497	90	23	5	2,733	1,780	13.5	1.61
2001	1,349	40	0	-104	2,433	1,648	11.3	-28.83
2002	1,224	69	41	17	2,122	1,415	15.5	4.36
2003	1,120	93	68	30	2,001	1,171	18.8	6.42
2004	1,236	182	173	110	1,923	885	25.1	23.05
2005	1,552	305	280	221	2,113	679	34.1	46.03
2006	1,602	303	327	226	2,301	717	38.3	47.89
2007	1,744	274	298	180	2,418	883	37.3	39.43
2008	1,844	226	225	97	2,452	990	35.0	20.98
2009	1,285	-0	-36	-49	2,403	1,138	34.5	-10.74

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Editor's notes:

1. The financial information set out herein is an English translation of the audited Balance Sheet, Statement of Operations, the Statement of Changes in Net Assets and the Financial Notes, which were prepared in accordance with the provisions set forth in the Companies Act of Japan and related regulations and in conformity with the accounting principles and practices generally accepted in Japan. A statement of cash flows is not required as a part of the basic financial statements under the Companies Act of Japan and, accordingly, is not presented herein. The information provided in the Financial Notes is limited to that required by Japanese laws and regulations.
2. The financial statements have been audited in accordance with auditing standards generally accepted in Japan, by Deloitte Touche Tohmatsu LLC, independent auditors of the Company, as stated in their report (which expresses an unqualified opinion). Deloitte Touche Tohmatsu LLC has given and has not withdrawn their written agreement to being named as independent auditors and to the inclusion of their report for the fiscal year ended March 31, 2010.

Analysis of Financial Condition and Results of Operations

1. Business Environment in Fiscal 2009 (ended March 31, 2010)

In 2009 (January 2009 to December 2009), world crude steel production decreased by approximately 8% year-on-year to 1,227 million tons, while Japan's crude steel production in fiscal 2009 (April 2009 to March 2010) decreased by approximately 9% year-on-year to 96.4 million tons.

Crude Steel Production				
				(Tons in million)
	2007	2008	2009	Source
World (Calendar year)	1,346	1,329	1,227	worldsteel
Japan (Calendar year)	120.2	118.7	87.5	Japan Iron and Steel Institute
Japan (Fiscal year)	121.5	105.5	96.4	

It was the first time in ten years (since fiscal 1999) that domestic production fell below 100 million tons. This drop was caused by the global economic recession. Demand fell in particular in the first half of the year. In the second half, demand picked up mostly in emerging countries, but overall demand for the entire year was at a low level.

Sumitomo Metals Group's Crude Steel Production and Net Sales				
	FY 2007	FY 2008	FY 2009	
(Tons in million)				
Crude Steel Production*	13.62	12.87	11.65	
(\$ billion)				
Net Sales	1,744	1,844	1,285	
Steel	1,622	1,740	1,205	
Other	122	103	79	

*Including Sumitomo Metals (Kokura), Ltd. and Sumikin Iron & Steel Corporation

In fiscal 2009, Sumitomo Metals' steel business (representing 94% of total net sales) generally faced adverse conditions. Our crude steel production decreased in the

first half of the year, reflecting depressed demand for steel materials, but improved in the second half, on the back of a recovery in manufacturing industries, such as automobiles and exports. Demand for seamless pipe and energy-related products, for which our strength is well established, was stagnant.

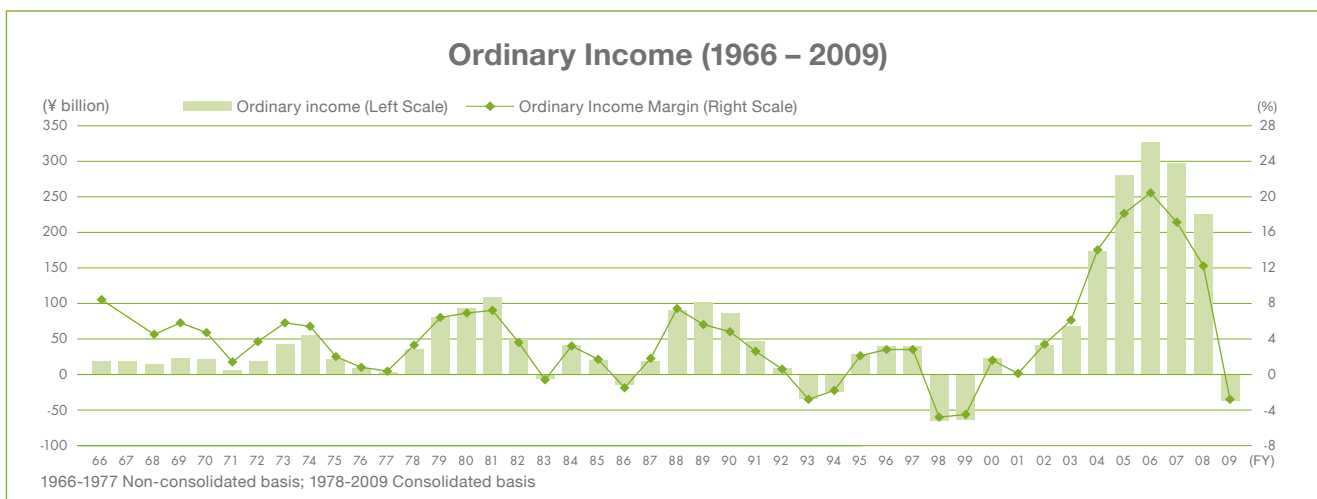
Other business (6% of sales) experienced firm sales, as demand in the electronics area picked up.

The engineering business and the electronics business were combined as an "other business" segment from fiscal 2009, as our business portfolio has become more focused.

2. Operating Results

Japan's steel industry, including Sumitomo Metals, suffered from depressed earnings for about a decade after the bubble burst in the early 1990's. The Sumitomo Metals Group carried out structural reform of its steel business and withdrew from non-core businesses under its medium-term business plan from fiscal 2002 to 2005. We also paid down excess debts and improved financial stability. Aided by a worldwide phase of rapid growth in steel demand, the Sumitomo Metals Group's profitability improved greatly since 2003. In addition to our structural reforms, our efforts of continuing technology development and strategic investments even during the period of low profitability of 1990's bore fruit.

Under the medium-term business plan from fiscal 2006 to 2008, we concentrated on delivering measures to "add strength to strength" and "accelerate distinctiveness" in order to achieve sustained growth that balances quality and scale. By taking firm actions, more resources have been concentrated on our competent areas and financial indicators such as the equity ratio and debt to equity ratio have greatly improved.



Analysis of Financial Condition and Results of Operations

In fiscal 2009, our business results significantly deteriorated due in part to temporary factors such as inventory valuation loss associated with declining raw material prices and use of raw materials procured under the previous fiscal year's contracts (carry-over materials), in addition to a decrease in sales of steel products caused by the deteriorated economic environment.

	(¥ billion)		
	FY 2007	FY 2008	FY 2009
Net Sales	1,744	1,844	1,285
Operating income/(losses)	274	226	(0.9)
Ordinary income/(losses)	298	225	(36)
Net income/(Losses)	180	97	(49)

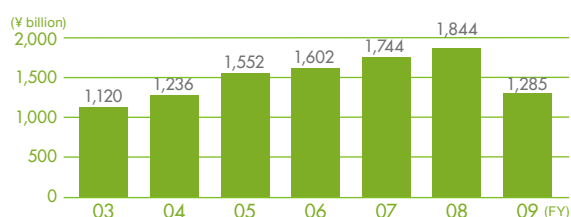
<Results for Fiscal 2009, Compared to Fiscal 2008>

1) Net Sales

	(¥ billion)		
	FY 2007	FY 2008	FY 2009
Net Sales	1,744	1,844	1,285
Steel	1,622	1,740	1,205
Other	122	103	79

The steel business recorded a decrease in sales in fiscal 2009, due to a fall in sales volume caused by a drop in demand in the first half and lower sales prices associated with declining raw material prices.

Net Sales

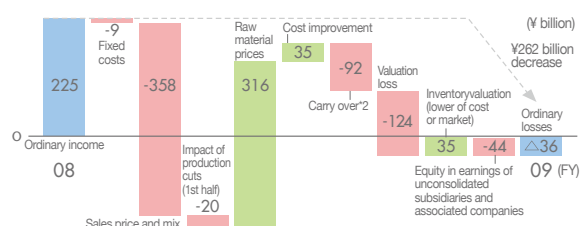


2) Operating Income and Ordinary Income

In fiscal 2009, we recorded a ¥ 0.9 billion operating loss and a ¥ 36.6 billion ordinary loss.

	FY 2007	FY 2008	FY 2009
Operating income/(losses) (¥ billion)	274	226	(0.9)
Operating income margin (%)	15.7%	12.3%	-0.1%
Ordinary income/(losses) (¥ billion)	298	225	(36)
Ordinary income margin (%)	17.1%	12.2%	-2.8%

Contributors to Change in Ordinary Income^{*1} (FY2008 to FY2009)



^{*1} Ordinary income: An important management indicator at Sumitomo Metals and a common item on financial statements in Japan; calculated by adding to or subtracting from operating income items such as interest and dividend income, equity in earnings of unconsolidated subsidiaries and associated companies, interest expenses and foreign exchange gain or loss.

^{*2} Raw material carry-over: Raw materials such as iron ore and coal had been procured based on an annual contract price, up to fiscal 2009. In fiscal 2009 raw material contract prices decreased significantly but we could not fully profit from such lower prices, as we had to use the remainder of high-priced raw materials procured under fiscal 2008 contracts. We name such difference from the previous year a carry-over portion.

	(¥ billion)		
	FY 2007	FY 2008	FY 2009
Interest expense (a)	13	14	15
Interest income (b)	1	1	0.7
Net interest expense (a-b)	12	13	15
Dividend income	5	7	3
Equity in earnings/(losses) of unconsolidated subsidiaries and associated companies	41	22	(22)

3) Other Income (Expenses) and Net Income

	(¥ billion)		
	FY 2007	FY 2008	FY 2009
Ordinary income/(losses)	298	225	(36)
Extraordinary income	6	-	-
Extraordinary losses	23	31	3
Income taxes	96	94	9
Minority interests in income	4	2	0.7
Net income/(losses)	180	97	(49)

Other expenses of ¥3.1 billion in fiscal 2009 was attributable to loss associated with business restructuring of Sumitomo Metal Micro Devices, Inc. in electronics business.

	FY 2007	FY 2008	FY 2009
EPS(¥)	39.43	20.98	(10.74)

3. Financial Position

1) Assets, Liabilities, and Equity

	FY 2007	FY 2008	FY 2009
	(¥ billion)		
Total assets	2,418	2,452	2,403
Current assets	677	737	606
Noncurrent assets	1,740	1,715	1,797
Total liabilities	1,469	1,548	1,524
Debt balance	883	990	1,138
Shareholders' equity	901	857	829
	(%)		
Equity ratio	37.3	35.0	34.5

As of March 31, 2010, current assets decreased from a year ago mainly due to a fall in raw material costs. Fixed assets, on the other hand, increased mainly due to an increase in property, plant and equipment, as we implemented capital expenditures, and a rise in market value of investment securities.

An increase in the debt balance was attributable to funding needs associated with our capital spending. Debt balance is an aggregated amount of short-term borrowings, commercial paper, current portion of long-term debt, corporate bonds, and loans.

A decrease in shareholders' equity was caused mainly by a decrease in retained earnings as we recorded a net loss. The equity ratio slightly decreased from the previous year to 34.5%.

Major Financial Indicators Regarding Financial Position

	FY 2007	FY 2008	FY 2009
(¥ billion)			
Short-term loans payable (a)	219	237	286
Long-term loans payable (b)	478	568	631
Bonds, commercial papers (c)	185	184	219
Total debt balance (a+b+c)	883	990	1,138
Shareholders' equity	901	857	829
Total assets	2,418	2,452	2,403
(%)			
Equity ratio	37.3	35.0	34.5
ROA	13.2	9.9	-0.9
ROE	20.3	11.1	-5.9
(Times)			
Debt-equity ratio	0.98	1.15	1.37

Note: Definition and calculation of each indicator are provided on pages 7 and 8.

4. Sources of Fund and Maintenance of Liquidity

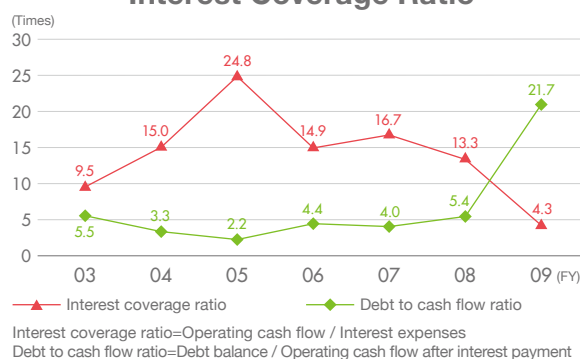
1) Fund Procurement Policy

The Sumitomo Metals Group's funding activities emphasize a balance between stability and low costs. In addition to the establishment of commitment lines of credit with major banks to maintain liquidity, the group works to improve the efficiency of funds, including efficiency at consolidated subsidiaries, by operating a shared cash management system. Sumitomo Metals' long-term debt was rated AA- with a stable outlook and its short-term debt was rated J-1+ with a stable outlook by Japan Credit Rating, Ltd. (as of the end of September 2010).

2) Cash Flow

	FY 2007	FY 2008	FY 2009
(¥ billion)			
Net cash provided by operating activities	230	190	67
Net cash provided by (used in) investment activities	(274)	(214)	(172)
Free cash flow	(44)	(24)	(105)

Debt to Cash Flow Ratio; Interest Coverage Ratio



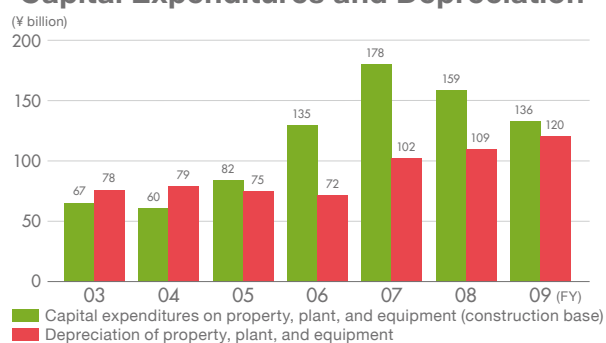
5. Capital Expenditures

	FY 2007	FY 2008	FY 2009
(¥ billion)			
Capital expenditures on property, plant, and equipment*	178	159	136
Steel	169	150	131
Other	9	9	5
Depreciation of property, plant, and equipment	102	109	120

*Construction base

During fiscal 2009, for the iron & steel making process, we made an investment in construction of the new No. 1 blast furnace at the Wakayama Steel Works. With regard to the pipe & tube business, we invested in adding capacities for the ultra high-strength large-diameter pipe at the Kashima Steel Works. In the specialty steel business, major investments included steelmaking process innovation at Sumitomo Metals (Kokura).

Capital Expenditures and Depreciation



Analysis of Financial Condition and Results of Operations

<Major projects>

Area	Target	Details	Investment Amount (¥ billion)	Timeline
Iron & Steel- making Process	An annual capacity of 5 million tons at Wakayama Steel Works	1st step	160	Began operation in July 2009
		2nd step (Construction of a new No.2 blast furnace, reinforcement of steel making facilities, etc.)	115	Scheduled to begin operation in second half of FY 2012
Pipe & Tube	Establish a manufacturing hub for seamless pipe in Brazil	Establishment of a joint venture with Vallourec Group for integrated steelworks producing seamless pipe	*200	Scheduled to be operational in 2010
	Deepening cooperative relationship with Vallourec	Purchasing Vallourec's stock for the mutual equity investments	11	Completed in the first half of FY 2009
	Expand production capacity of ultra-high-strength line pipes	Equipment improvement at the plate mill and large-diameter (UOE) pipe mill	10	Scheduled to begin operation in March 2011
	Expand production capacity of steam generator tubes for nuclear power plants	Capacity expansion of processing, finishing and inspection facilities.	14	Scheduled to begin operation in April 2013
Steel Sheet	Strengthen relationship with a partner in the steel sheet sector in India	Participation in an integrated steelworks project of Bhushan Steel Limited in India	(Technical Assistance)	—
			(OEM Supply)	Reached basic agreement in December 2009
	Establish manufacturing and sales hub of steel sheet in Vietnam	Establishment of a joint venture for production and sales of cold-rolled steel sheet, electromagnetic steel sheet and hot-dip galvanized steel sheet with China Steel	*115	Scheduled to begin operation in 2012
Railway, Automotive & Machinery Parts	Establish manufacturing and sales hub of forged crankshaft in India	Establishment of a joint venture with Amtek Limited	1	Began operation in April 2010
Specialty Steel	Enhance competitiveness of steel bars at Sumitomo Metals (Kokura), Ltd.	Renewal of finishing roll equipment for steel bars	2	Began operation in August 2009
	Achieve steel-making process innovation at Sumitomo Metals (Kokura), Ltd.	Introduction of new refining furnace and continuous casting mill	27	Began operation in December 2009
		Introduction of a new phosphorous removal furnace		Began operation in October 2010

*Total investment amount with joint venture partners.

6. Research and Development Activities

Sumitomo Metals highly values R&D activities. Based on the strategy to “add strength to strength” and “accelerate distinctiveness,” our technology development, manufacturing, and sales departments work in an integrated manner. We are channeling research resources into strategic areas, focusing on elemental technologies, and utilizing external research resources, with the objectives of raising corporate value and enriching technology assets.

Seeking the number one position in customer evaluation, we are tailoring R&D to customer needs, by providing high-performance materials, application technologies that match customer needs, and solutions to customers. Furthermore, we are developing eco-friendly technologies with a focus on products and manufacturing processes that can contribute to energy savings or reduction in CO₂ emission. In fiscal 2009, research and development expenses totaled ¥22.8 billion.

7. Profit Distribution to Shareholders(Dividend Policy)

Profits generated from operations are first used to investments that raise corporate value. Our investment criteria are to accelerate distinctiveness and to provide a return that exceeds the cost of capital, in order to help increase corporate value.

Return generated from such investments is to be distributed to shareholders and other stakeholders. Our basic policy is to pay a stable dividend. By stable, we mean to set 5 yen per share as the minimum dividend and we will gradually increase the dividend level.

Regarding financial leverage, our medium- and long-term targeted debt to equity ratio is below 1.0.

Principles of Capital Policy

Use of cash	a) Invest to enhance corporate value b) Return to shareholders
Investment standard	a) Balanced growth in quality and scale b) Accelerating distinctiveness c) Return exceeding cost of capital
Return to shareholders	Maintain stable dividend
Financial leverage	Medium- and long-term targeted debt-to-equity ratio of less than 1.0

In fiscal 2009, we were forced to post an operating loss due in part to temporary factors such as inventory valuation losses associated with declining raw material prices. However, in the 4th quarter alone, we generated ordinary income of ¥22 billion. This led us to judge that Sumitomo Metals has annual earnings capacity of

about ¥80 billion, resulting in our decision on a per-share dividend payment of 5 yen.

	FY 2007	FY 2008	FY 2009
Per-share dividend (¥)	10.00	10.00	5.00

8. Outlook for Fiscal 2010 (Ending March 31, 2011)

In fiscal 2010, the operating environment has changed dramatically, with the determination of prices for iron ore and coal shifting from annual contracts to quarterly contracts, resulting in an uncertain outlook for raw material prices and steel material prices, and the yen appreciating rapidly. However, we endeavor to improve our profitability by making unceasing efforts to cut costs at all our work sites and to improve steel material prices according to changes in raw material prices.

In the medium- to long-term, we believe that the world steel demand will steadily grow. We will adhere to our medium- to long-term policies and take measures to raise our corporate value.

9. Risk Factors Relating to the Sumitomo Metals Group and its Business

The Sumitomo Metals Group's business areas face macro risk factors, such as economic conditions and currency fluctuations, as well as particular risks associated with its business. Listed below are some of the items that could have a material bearing on the decisions of investors. However, risks are not limited to these items. The group recognizes these risks and makes every effort to prevent their occurrence and take timely appropriate action as necessary or required.

- ① Changes in supply and demand for steel
- ② Changes in raw material prices
- ③ Fluctuation in foreign exchange rates
- ④ Changes in fund procurement conditions
- ⑤ Changes in the value of investment securities
- ⑥ Retirement benefit liabilities
- ⑦ Changes in laws and regulations
- ⑧ Changes in environmental laws and regulations
- ⑨ Changes in management of business partners
- ⑩ Defects in products and services
- ⑪ Accidents
- ⑫ Disputes and litigation
- ⑬ Breach of compliance
- ⑭ Deterioration in competitiveness
- ⑮ Changes in political and economical systems and regulations
- ⑯ Natural disasters and conflicts

Consolidated Balance Sheet

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries
March 31, 2010

Assets	Millions of yen	Liabilities	Millions of yen
Current assets:		Current liabilities:	
Cash and deposits	¥ 19,710	Notes and accounts payable-trade ...	¥ 204,969
Notes and accounts receivable-trade ...	151,507	Short-term loans payable	286,893
Merchandise and finished goods ...	147,581	Commercial papers	24,000
Work in process	24,940	Current portion of bonds	10,000
Raw materials and supplies	213,607	Deferred tax liabilities	428
Deferred tax assets	12,331	Other	113,063
Other	36,905	Total current liabilities	639,355
Allowance for doubtful accounts ...	(153)		
Total current assets	606,431		
Noncurrent assets:		Noncurrent liabilities:	
Property, plant and equipment:		Bonds	185,658
Buildings and structures, net	267,460	Long-term loans payable	631,802
Machinery, equipment and vehicles, net ...	439,740	Deferred tax liabilities	4,364
Land	340,324	Deferred tax liabilities for land	
Construction in progress	80,985	revaluation	6,919
Other, net	13,334	Provision for retirement benefits ...	19,948
Total property, plant and equipment...	1,141,845	Provision for special repairs	208
		Other	36,203
		Total noncurrent liabilities	885,105
Intangible assets:			
Goodwill	1,609		
Other	4,860	Total liabilities	1,524,461
Total intangible assets	6,470		
Investments and other assets:		Net assets	
Investment securities	533,458	Shareholders' equity:	
Deferred tax assets	15,917	Capital stock	262,072
Other	100,533	Capital surplus	61,829
Allowance for doubtful accounts ...	(986)	Retained earnings	596,254
Total investments and other assets...	648,923	Treasury stock	(91,106)
Total noncurrent assets	1,797,239	Total shareholders' equity	829,050
		Valuation and translation adjustments:	
		Valuation difference on	
		available-for-sale securities	2,324
		Deferred gains or losses on hedges ...	(979)
		Revaluation reserve for land	11,834
		Foreign currency translation adjustment ...	(13,009)
		Total valuation and translation	
		adjustments	169
		Minority interests	49,989
		Total net assets	879,209
Total assets	¥ 2,403,670	Total liabilities and net assets	¥ 2,403,670

Note: Figures in parentheses are negative values.

Consolidated Statement of Operations

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2010

Millions of yen

Net sales		¥1,285,845
Cost of sales		1,163,191
Gross profit		122,654
Selling, general and administrative expenses		
Shipment expenses	33,108	
Employees' salaries and allowances	37,376	
Research and development expenses	20,821	
Other	32,276	123,583
Operating loss		928
Non-operating income		
Interest income	764	
Dividends income	3,380	
Other	17,241	21,386
Non-operating expenses		
Interest expenses	15,730	
Equity in losses of affiliates	22,524	
Loss on sales and retirement of noncurrent assets	7,023	
Other	11,813	57,091
Ordinary loss		36,634
Extraordinary loss		
Loss on change in equity	1,592	
Restructuring loss	1,532	3,124
Loss before income taxes and minority interests		39,758
Income taxes-current	5,050	
Income taxes-deferred	4,205	9,255
Minority interests in income		757
Net loss		¥ 49,772

Consolidated Statement of Changes in Net Assets

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2010

Shareholders' equity	Millions of yen
Capital stock	
Balance at the end of previous period	¥ 262,072
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	262,072
Capital surplus	
Balance at the end of previous period	61,829
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	61,829
Retained earnings	
Balance at the end of previous period	680,807
Changes of items during the period	
Dividends from surplus	(34,780)
Net loss	(49,772)
Total changes of items during the period	(84,552)
Balance at the end of current period	596,254
Treasury stock	
Balance at the end of previous period	(90,528)
Changes of items during the period	
Purchase of treasury stock	(578)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Total changes of items during the period	(578)
Balance at the end of current period	(91,106)
Total shareholders' equity	
Balance at the end of previous period	914,180
Changes of items during the period	
Dividends from surplus	(34,780)
Net loss	(49,772)
Purchase of treasury stock	(578)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Total changes of items during the period	(85,130)
Balance at the end of current period	829,050
Valuation and translation adjustments	
Valuation difference on available-for-sale securities	
Balance at the end of previous period	(41,542)
Changes of items during the period	
Net changes of items other than shareholders' equity	43,866
Total changes of items during the period	43,866
Balance at the end of current period	2,324

Note: Figures in parentheses are negative values.

Millions of yen

Deferred gains or losses on hedges

Balance at the end of previous period	¥ (690)
Changes of items during the period	
Net changes of items other than shareholders' equity	(288)
Total changes of items during the period	(288)
Balance at the end of current period	(979)

Revaluation reserve for land

Balance at the end of previous period	11,833
Changes of items during the period	
Net changes of items other than shareholders' equity	0
Total changes of items during the period	0
Balance at the end of current period	11,834

Foreign currency translation adjustment

Balance at the end of previous period	(26,083)
Changes of items during the period	
Net changes of items other than shareholders' equity	13,074
Total changes of items during the period	13,074
Balance at the end of current period	(13,009)

Total valuation and translation adjustments

Balance at the end of previous period	(56,483)
Changes of items during the period	
Net changes of items other than shareholders' equity	56,653
Total changes of items during the period	56,653
Balance at the end of current period	169

Minority interests

Balance at the end of previous period	46,674
Changes of items during the period	
Net changes of items other than shareholders' equity	3,315
Total changes of items during the period	3,315
Balance at the end of current period	49,989

Total net assets

Balance at the end of previous period	904,371
Changes of items during the period	
Dividends from surplus	(34,780)
Net loss	(49,772)
Purchase of treasury stock	(578)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Net changes of items other than shareholders' equity	59,968
Total changes of items during the period	(25,161)
Balance at the end of current period	¥ 879,209

Note: Figures in parentheses are negative values.

01. Summary of Significant Accounting Policies

1. Scope of consolidation

a. Number of consolidated subsidiaries: 72

Names of principal companies:

Sumitomo Metals (Kokura), Ltd.
East Asia United Steel Corporation
Sumikin Iron & Steel Corporation
Sumitomo Metals (Naoetsu), Ltd.
Sumitomo Pipe & Tube Co., Ltd.
Sumitomo Metal (SMI) Electronics Devices Inc.
Sumikin Steel & Shapes, Inc.
Sumitomo Metal Logistics Service Co., Ltd.
Sumikin & Nippon Steel Stainless Steel Pipe Co., Ltd.
Western Tube & Conduit Corp.
Seymour Tubing, Inc.
International Crankshaft Inc.
Huizhou Sumikin Forging Co., Ltd.

In addition to one company that began operations as a consolidated subsidiary in the fiscal year, another new subsidiary has been newly added to the list of consolidated subsidiaries. One company which is no longer a subsidiary and one company that became an affiliated company accounted for using the equity method have been removed from the list of consolidated subsidiaries; furthermore, the number of consolidated subsidiaries has decreased by one following the merger of two consolidated subsidiaries.

b. Names of principal non-consolidated subsidiaries

Aritakaiun Co., Ltd. and others

(Reason for exclusion from the scope of consolidation)

These companies are excluded from the scope of consolidation because they are small-scale enterprises whose total assets, net sales, net income (corresponding to holding) and retained earnings (corresponding to holding) have no material impact on the Company's consolidated financial statements.

2. Application of the equity method

a. Number of non-consolidated subsidiaries accounted for using the equity method: 1

Name of company:

Kanto Special Steel Works, Ltd.

b. Number of affiliated companies accounted for using the equity method: 36

Names of principal companies:

SUMCO Corporation
Kashima Kyodo Electric Power Co.
Kyoei Steel, Ltd.
Daiichi Chuo Kisen Kaisha
Sumikin Bussan Corporation
Nippon Steel & Sumikin Coated Sheet Corporation
Sumitomo Precision Products Co., Ltd.
OSAKA Titanium technologies Co., Ltd.
Nippon Steel & Sumikin Metal Products Co., Ltd.

Nippon Steel & Sumikin Stainless Steel Corporation
 Chuo Denki Kogyo Co., Ltd.
 Nippon Steel & Sumikin Welding Co., Ltd.
 VAM USA LLC
 Vallourec & Sumitomo Tubos do Brasil Ltda.

This fiscal year, one company that had been a consolidated subsidiary in the previous fiscal year was added to the scope of application of the equity method. The equity method was applied to SUMCO Corporation, based on its consolidated financial statements.

c. Investments in non-consolidated subsidiaries and other affiliated companies not accounted for using the equity method (Katakura Steel Tube Co., Ltd. and others) were excluded from the scope of application of the equity method because of their lack of overall materiality and the slight impact their exclusion would exert on the Company's consolidated financial statements, due to their net income (corresponding to holding) and retained earnings (corresponding to holding).

3. The accounting period of consolidated subsidiaries

The following subsidiaries have fiscal year ending dates that are different from the consolidated balance sheet date.

Company name	Fiscal year ending
Kashima Antlers Football Club Co., Ltd.	January 31
Sumikin Recycling Co., Ltd.	January 31
Sumikin Financial Service Co., Ltd.	December 31
A total of 22 overseas subsidiaries, including Western Tube & Conduit Corp.	December 31

The figures as of the fiscal year ending dates of the subsidiaries listed above are used in the consolidated financial statements. Significant transactions that occur between these subsidiaries' fiscal year ending dates and the consolidated balance sheet date are accounted for by necessary adjustments to the consolidated financial statements.

4. Accounting policies

a. Valuation standards and methods of significant assets

(a) Securities

Marketable available-for-sale securities:

Valued based on their market price on the consolidated balance sheet date (the valuation excess is disposed using the total net asset value input method, and the cost of disposal by sale is mainly determined by the moving average method)

Non-marketable available-for-sale securities:

Stated at cost, mainly determined by the moving average method

(b) Inventories

Inventories held for sale in the ordinary course of business

Inventories are stated mainly at cost, determined by the average method. (The valuation of inventories that appears in the balance sheet is calculated from a reduction in book value based on a decline in profitability.)

(c) Derivatives

Measured at fair value

b. Method of depreciation of significant assets

(a) Property, plant and equipment (Excluding lease assets)

Depreciation of the buildings of the Company and the domestic consolidated subsidiaries is calculated mainly by the straight-line method; the depreciation of other assets is calculated by the declining-balance method. Depreciation of assets of the overseas subsidiaries is calculated mainly by the straight-line method. The useful lives are principally 31 years for buildings and structure; 14 years for machinery and equipment.

(b) Intangible assets (Excluding lease assets)

Amortization of intangible assets is calculated by the straight-line method.

(c) Lease assets

Lease assets subject to finance lease that deem to transfer ownership of the leased property to the lessee
A method of depreciation that is equivalent to the method applied to assets owned by the Company shall be used.

Lease assets subject to finance lease that do not deem to transfer ownership of the leased property to the lessee

The period of the lease is the useful life of the asset. A straight-line method of depreciation is applied and the residual value of the asset is taken to be zero (0).

In financial lease transactions of the Company and its domestic consolidated subsidiaries concluded before April 1, 2008 where the ownership of the leased property has not been deemed to be transferred, the accounting methods are based on those used for ordinary leasing transactions.

c. Significant deferred assets

Stock issuance costs and bond issuance costs are recorded at total cost when expended.

d. Significant allowances

(a) Allowance for doubtful accounts

The allowance for doubtful accounts is the estimated unrecoverable amount calculated based on a) for receivables in general, the rate of occurrence of non-recovery, and b) for other specific receivables, the estimated possibility of recovery considered on a case-by-case basis.

(b) Provision for retirement benefits

The amount of the provision for retirement benefits is determined based on the projected benefit obligations and plan assets of the pension fund at the end of the fiscal year. Prior service cost is amortized using the straight-line method over a specific number of years (mainly 12 years) that is within the average number of remaining years of service of employees when liabilities are incurred.

Actuarial differences are amortized from the year following the year in which such actuarial differences arise, mainly using the straight-line method over a specific number of years (mainly 11 years) that is less than the average number of remaining years of service of employees as of the time such differences actually arise.

(Change to accounting policy)

From the current consolidated period under review, ASBJ Statement No.19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)"(July 31, 2008) has been applied. There are no differences to projected benefit obligations arising from this change in standards.

(c) Provision for special repairs

The liability for rebuilding furnaces is provided for the estimated future costs based on past experience.

e. Accounting standards for reporting significant income and expense

(Accounting standards for net sales of completed construction contracts and cost of completed construction work)

For construction work in progress up until the consolidated balance sheet date under review, for which the accuracy of the outcomes can be determined:

Percentage-of-completion method (Progress to date is assumed to be the proportion of the project's costs incurred to date divided by total estimated costs)

Other construction work:

Completed contract method

(Change to accounting policy)

Prior to the current period under review, the percentage-of-completion method was used as the accounting standard for reporting income from long-term and large construction contracts (mainly those taking more than one year to complete and having a total undertaking of 100 million yen), whereas the completed contract method was applied in reporting income from other construction projects; however, from the current consolidated period under review onwards, both ASBJ Statement No.15, "Accounting Standard for Construction Contracts", and ASBJ Guidance No.18,

“Guidance on Accounting Standard for Construction Contracts”(December 27, 2007) have been applied. The percentage-of-completion method (progress to date is assumed to be the proportion of the project's costs incurred to date divided by total estimated costs) is applied to construction projects begun in the current consolidated financial period under review for which the accuracy of the outcomes can be determined for the work in progress up until the end of the consolidated financial period under review. The completed contract method is applied to other construction works. These changes had no material impact on the Company's consolidated financial statements in the current consolidated financial period under review.

f. Foreign currency transactions and financial statements

All short-term and long-term monetary receivables and payables determined in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of operations. The balance sheet assets and liabilities of the consolidated foreign subsidiaries are translated into Japanese yen at the exchange rates at the balance sheet date, while revenue and expenses are translated at the average exchange rate during the period. Differences arising from such translation are included as “Foreign currency translation adjustment” and “Minority interests” in the “Net assets” section of the consolidated balance sheet.

g. Hedging activities

(a) Hedge accounting methods

Deferred hedge accounting is used. In addition, a portion of interest rate swaps are treated in a special way.

(b) Means of hedging and subjects of hedging

Derivatives such as interest rate swaps and exchange contracts are used to hedge against the following risks: risks associated with market interest rate and cash flow fluctuations in relation to loans payable and bonds, risks associated with changes in foreign exchange rates fluctuations in relation to foreign currency transactions.

(c) Policy of hedging

Derivatives are used within the scope of the outstanding balance of the debts and receivables being hedged against. The Group does not hold derivatives for short-term trading or highly leveraged speculative purposes.

(d) Methods used to assess the effectiveness of hedging

During the period from the beginning of hedging until the point at which the hedging is considered to be effective, the hedge effectiveness is confirmed by comparing the total change in the market price that is being hedged with the total change in the market price that is being used as the means of hedging.

h. Consumption taxes

Consumption tax is recorded as a liability and an asset, and is excluded from the relevant revenue, costs or expenses.

5. Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries are calculated using the overall fair price valuation method.

6. Goodwill and negative goodwill accounts

Goodwill and negative goodwill accounts are amortized using the straight-line method, mainly over 5 years.

7. Material changes to basis for preparation of consolidated financial statements

Changes to the method of presentation

Consolidated balance sheet

The category “Income taxes payable” listed under “Current liabilities” in the consolidated balance sheet as of March 31, 2009 has been included in the category “Other” in Current liabilities in the consolidated balance sheet as of March 31, 2010 due to a decline in its level of importance.

The category "Lease obligation" listed under "Noncurrent liabilities" in the consolidated balance sheet as of March 31, 2009 has been included in the category "Other" in Noncurrent liabilities in the consolidated balance sheet as of March 31, 2010 due to a decline in its level of importance.

02. Notes to the Consolidated Balance Sheet

1. Assets pledged as collateral for debt

a. Assets pledged as collateral

Property, plant and equipment	¥16,623	million
Total	¥16,623	million

b. Secured debts

Notes and accounts payable-trade	¥1,345	million
Long-term loans payable	1,148	
Total	¥2,494	million

2. Accumulated depreciation for property, plant and equipment

¥2,391,024 million

3. Contingent liabilities

a. Guarantees

Bank loans and other which the Group guarantees, as follows:

Hibikinada Development Co., Ltd.	¥472	million
Baoji-SMI Petroleum Steel Pipe Corporation	321	
3 other companies	93	
Total	¥887	million

"Guarantees" includes guarantees and items of a similar nature.

b. Maximum amount of obligation to repurchase transferred receivables under certain conditions

¥3,448 million

03. Notes to the Consolidated Statement of Changes in Net Assets

1. Type and number of stock issued at the end of the fiscal year

Common stock 4,805,974,238 shares

2. Dividends

a. Cash dividends paid in the fiscal year

Resolved at	Type of stock	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date of issue of dividends
Board of Directors held on May 12, 2009	Common stock	23,190	5.0	March 31, 2009	May 28, 2009
Board of Directors held on October 29, 2009	Common stock	11,589	2.5	September 30, 2009	December 1, 2009

b. Dividends of which record date is within the fiscal year, but the effective date of issue of the dividends belongs to next fiscal year.

Resolved at	Type of stock	Source of dividend funding	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date of issue of dividends
Board of Directors held on May 11, 2010	Common stock	Retained earnings	11,589	2.5	March 31, 2010	May 27, 2010

04. Financial instruments

1. The status of financial instruments

The SMI Group's use of financial instruments is limited to short-term deposits, etc. Funding is procured from financial institutions in the form of borrowings, etc.

A portion of notes and accounts receivable-trade as well as note and accounts payable-trade are denominated in foreign (non-yen) currency as they relate to product export and the purchase of raw materials, etc.; therefore, exchange rate fluctuations may have an impact on the Company's business results and financial position. Change in the value of company equity shares that the Company holds as investment securities may influence the Company's business results and financial position. The Company procures funding in the form of loans, etc., from financial institutions, and any change in the ease with which funding can be procured will have an impact on the Company's business results and financial position.

The Company utilizes derivatives solely to offset the risks listed above.

2. The fair value of financial instruments

The differences between the fair values of financial instruments and their values listed in the Consolidated Balance Sheet as of March 31, 2010, are listed in the table below.

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and deposits	19,710	19,710	-
(2) Notes and accounts receivable-trade	151,507	151,507	-
(3) Short-term investments and investment securities	431,486	516,825	85,338
Total assets	602,705	688,044	85,338
(1) Notes and accounts payable-trade	204,969	204,969	-
(2) Short-term loans payable(*1)	157,047	157,047	-
(3) Commercial papers	24,000	24,000	-
(4) Bonds (*2)	195,658	200,022	4,364
(5) Long-term loans payable(*1)	761,649	769,325	7,676
Total liabilities	1,343,324	1,355,365	12,040
Derivatives (*3)	(2,496)	(2,496)	-

(*1) Current portion of long-term loans payable is included in "(5) Long-term loans payable" and not "(2) Short-term loans payable".

(*2) Includes current portion of bonds.

(*3) Net amount of credit and liability arising from derivatives is shown. The figures are indicated in parenthesis if the aggregate amount is a net debt.

1. Methods used to calculate the fair value of financial instruments

Assets:

(1) Cash and deposits

The fair values of deposits are almost identical to their book values as they are settled in the short term, so their book values are reported.

(2) Notes and accounts receivable-trade

The fair values of these are almost identical to their book values as they are settled in the short term, so their book values are reported.

(3) Short-term investments and investment securities

The fair values of short-term investments are almost identical to their book values as they are settled in the short term, so their book values are reported. The fair values of investment securities are the values listed on the stock exchanges.

Liabilities:

(1) Notes and accounts payable-trade, (2) Short-term loans payable, and (3) Commercial papers

The fair values of these are almost identical to their book values as they are settled in the short term, so their book values are reported.

(4) Bonds

The fair values of bonds are determined by the current market values.

(5) Long-term loans payable

The fair values of long-term loans payable is calculated by taking the total of the principal and interest and discounting it by the interest rate that would be expected if the same long-term loan were to be taken out. The fair values of long-term loans payable that is treated as an exceptional case of interest rate swapping is calculated from the total of the principal and the interest.

Derivatives

Since derivatives from interest rate swaps are treated as part of long-term hedged loans payable, the fair value of these derivatives is included in the fair value of the long-term loans payable.

2. Unlisted securities, etc. (109,496 million yen in the Consolidated Balance Sheet) are not included in “Assets (3) Short-term investments and investment securities” as it is significantly difficult to determine their fair values due to the fact that they have no market prices and it is difficult to estimate the cash flow in the future.

05. Per share information

1. Net assets per share 178.87 yen
2. Net loss per share 10.74 yen

(Note) The monetary figures in these Consolidated Financial Statements have been rounded down to the nearest unit and other figures have been rounded off to the nearest unit.

(References)

Summary of the Consolidated Statement of Cash Flows

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2010

	Billions of yen
Net cash provided by operating activities	¥67.0
Net cash used in investing activities	(172.9)
Net cash provided by financing activities	87.8
Effect of exchange rate change on cash and cash equivalents	1.4
Net decrease in cash and cash equivalents	¥(16.6)

(Note) Figures in parentheses are negative values.

Summary of Segment Information

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2010

	Billions of yen				
	Steel	Other	Total	Corporate or eliminations	Consolidated
Sales to customers	1,205.8	79.9	1,285.8	-	1,285.8
Intersegment sales	2.0	18.5	20.5	(20.5)	-
Total sales	1,207.8	98.5	1,306.4	(20.5)	1,285.8
Operating profit	(7.6)	6.7	(0.8)	(0)	(0.9)

(Note) All figures in these references above are expressed to the nearest 100 million yen; values of less than 100 million yen have been rounded down. Figures in parentheses are negative values.

(Note) All figures in these references above are rounded down to the nearest unit. Figures in parentheses are negative values.

(TRANSLATION) Independent Auditors' Report for the Consolidated Financial Statements (certified copy)

INDEPENDENT AUDITORS' REPORT

May 7, 2010

To the Board of Directors of Sumitomo Metal Industries, Ltd.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Hiroshi Yoshida

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Yukitaka Maruchi

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Tsuguo Ito

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2010 of Sumitomo Metal Industries, Ltd. (the "Company") and consolidated subsidiaries, and the related consolidated statements of operations and changes in net assets, and the related notes for the fiscal year from April 1, 2009 to March 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and consolidated subsidiaries as of March 31, 2010, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Our firm and the engagement partners do not have any financial interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Law.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(TRANSLATION)

Audit Report of the Board of Corporate Auditors (certified copy)

AUDIT REPORT

In respect of the execution of duties by the Directors during the 87th business year commenced on April 1, 2009 and ended on March 31, 2010, we, the Board of Corporate Auditors, based on the audit reports prepared by each Corporate Auditor and following the deliberation among us, have prepared this audit report and hereby report as follows:

1. Auditing methods employed by Corporate Auditors and the Board of Corporate Auditors and details of such methods

(1) Corporate Auditors

Each Corporate Auditor, following the Auditing Rules and the auditing policy and plan determined by the Board of Corporate Auditors, has attended the Board of Directors' meetings and other important meetings, confirmed the details of reports and discussions, received reports from the Directors and employees on the execution of their duties including those relating to subsidiaries, received explanations, reviewed important documents, and investigated the status of the operations and financial status at the head office and other principal plants. Each Corporate Auditor has also received reports on the business of principal subsidiaries from the directors, corporate auditors and other personnel of the subsidiaries.

Each Corporate Auditor has reviewed the resolutions of the Board of Directors concerning the development of systems necessary to ensure the properness of operations described in the business report (Article 362, Paragraph 4, Item 6 of the Companies Act), as well as the status of the systems developed based on the resolutions. Each Corporate Auditor has reviewed the basic policy on control over the Company and the measures to be taken (Article 118, Item 3 of the Enforcement Regulation of the Companies Act) with regard to it in the business report, verifying the deliberations of the Board of Directors and other meetings and receiving explanations from Directors and employees where necessary.

Each Corporate Auditor has reviewed the business reports and their supplementary schedules of the reporting business year by means of the receipt of reports from Directors and employees and the examination of related documents to determine whether these accurately indicate the state of the Company, in accordance with the Law and the Company's Articles of Incorporation.

In regard to the non-consolidated financial statements, their supplementary schedules and the consolidated financial statements of the reporting business year, each Corporate Auditor has examined the related documents, received explanations from the Directors and employees in charge, and has verified the deliberations of the Board of Directors. Each Corporate Auditor has received from the Independent Auditor (Deloitte Touche Tohmatsu LLC) an explanation of the auditing policy in the reporting business year, the auditing working plan and audit methods, the results of the audit, a report and explanation of the state of preparation and operation of the system to ensure that duties are performed properly (each item of Article 131 of the Accounting Regulations), and has examined whether the Independent Auditor has maintained its independence and has conducted appropriate audits.

(2) The Board of Corporate Auditors

The Board of Corporate Auditors has received reports from each Corporate Auditor regarding performance of their audits and results thereof; as well as reports from the Directors, employees and the Independent Auditor regarding execution of their duties, and has discussed and verified the details of these reports and requested explanations where necessary.

2. Results of the audit

(1) Business reports and the execution of the duties of the Directors

- 1) We have found that the business report and its supplementary schedules fairly represent the Company's conditions in accordance with the laws and regulations and the Company's Articles of Incorporation.
- 2) We have found no significant facts relating to wrongful act or violation of laws and regulations or the Company's Articles of Incorporation, with respect to the execution of duties by the Directors.
- 3) We confirm that the resolutions of the Board of Directors concerning the development of systems necessary to ensure the properness of operations are appropriate and that the Directors are preparing and operating these necessary systems in accordance with the resolutions.
- 4) We have found the basic policy on control over the Company and the measures to be taken with regard to it are appropriate as rules concerning the large-scale purchase of Company shares, and will not unfairly harm the rights of shareholders.

(2) The Independent Auditor's audit of the Non-consolidated Financial Statements, their supplementary schedules, and the Consolidated Financial Statements

- 1) We have found no matters to raise concerning the system (explained to us by the Independent Auditor) to ensure that duties are performed properly.
- 2) We have found that the methods and results of the audit conducted by the Independent Auditor are appropriate and sufficient.

May 11, 2010

The Board of Corporate Auditors
Sumitomo Metal Industries, Ltd.

Shigeru Sakurai, Standing Corporate Auditor (full-time)
Kitaro Yoshida, Standing Corporate Auditor (full-time)
Eiji Asada, Corporate Auditor
Keiichi Murakami, Corporate Auditor
Toshiro Mutoh, Corporate Auditor

(Note) Eiji Asada, Keiichi Murakami and Toshiro Mutoh are Outside Corporate Auditors as provided for in Article 2, Item 16 of the Companies Act.

Corporate Data

Company Name: Sumitomo Metal Industries, Ltd.
Incorporated: July 1949
Employees: 7,079
Fiscal year: April 1 – March 31
Paid-in Capital: ¥262,072,369,221

Annual General Meeting of Shareholders: June
Shareholder Record Date
for the Year: March 31
for the Interim Period: September 30



Osaka Head Office



Tokyo Head Office

For Further Information

Public Relations & Investor Relations Department
Sumitomo Metal Industries, Ltd.
1-8-11 Harumi, Chuo-ku, Tokyo 104-6111, Japan
Tel: +81-3-4416-6111
E-mail: ir@sumitomometals.co.jp
Website: <http://www.sumitomometals.co.jp/e/>

Stock Information

Stock Code: 5405
Shares Authorized: 10 billion shares
Shares Issued: 4,805,974,238 shares (including 169,861,868 treasury shares)
Trading Unit: 1,000 shares
Administrator of Register of Shareholders: Stock Transfer Agency Department,
The Sumitomo Trust and Banking Co., Ltd.
4-5-33 Kitahama, Chuo-ku, Osaka 540-8639, Japan
(Mailing Address): Stock Transfer Agency Department,
The Sumitomo Trust and Banking Co., Ltd.
1-10 Nikko-cho, Fuchu-shi, Tokyo 183-8701, Japan
(Phone Inquiries): ☎ 0120-176-417*
*Toll-free number for domestic phone calls only
Inquiries from overseas: +81-42-351-2225
American Depositary Receipts: The Bank of New York Mellon
101 Barclay Street, New York, NY 10286, U.S.A.
Toll-free number (U.S.A.): 888-269-2377
Inquiries from outside U.S.A.: +1-866-680-6825
Stock Listings: Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

Principal Shareholders (As of March 31, 2010)

Shareholders	Investment in Sumitomo Metals	
	Shares owned (thousands)	Shareholding ratio (%)
Sumitomo Corporation	458,326	9.89
Nippon Steel Corporation	451,761	9.74
Japan Trustee Services Bank, Ltd. (account in trust)	155,263	3.35
The Master Trust Bank of Japan, Ltd. (account in trust)	136,245	2.94
Kobe Steel, Ltd.	112,565	2.43
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation retirement benefit trust account re-entrusted by The Sumitomo Trust and Banking Co., Ltd.)	90,315	1.95
Nippon Life Insurance Company	88,919	1.92
Mitsui Sumitomo Insurance Company, Limited	68,206	1.47
Japan Trustee Services Bank, Ltd., The Sumitomo Trust and Banking Corporation retirement benefit trust	55,000	1.19
Sumitomo Life Insurance Company	51,503	1.11
Total	1,668,105	35.98

Notes: 1. Ownership as a % of total issued shares is calculated with treasury stock being subtracted from the total number of issued shares.

2. The 90,315 thousand shares registered in the name of "Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation retirement benefit trust account re-entrusted by The Sumitomo Trust and Banking Co., Ltd.)" are owned beneficially by Sumitomo Mitsui Banking Corporation and held as a retirement benefit trust by Japan Trustee Services Bank, Ltd. Sumitomo Mitsui Banking Corporation holds the right to direct the voting of these shares. In addition to the listings above, Sumitomo Mitsui Banking Corporation holds 28,090 thousand shares (0.61% of total issued shares.)

3. The 55,000 thousand shares registered in the name of "Japan Trustee Services Bank, Ltd., The Sumitomo Trust and Banking Corporation retirement benefit trust" are owned beneficially by The Sumitomo Trust and Banking Co., Ltd. and held as a retirement benefit trust by Japan Trustee Services Bank, Ltd. The Sumitomo Trust and Banking Co., Ltd. holds the right to direct the voting of these shares. In addition to the listings above, The Sumitomo Trust and Banking Co., Ltd. holds 20,000 thousand shares (0.43% of total issued shares.)

Share Ownership by Category (As of March 31, 2010)



*Excluding treasury stock

Sumitomo Metals' Share Price on the Tokyo Stock Exchange



