



SUMITOMO METALS

ANNUAL REPORT 2012 Year ended March 31, 2012



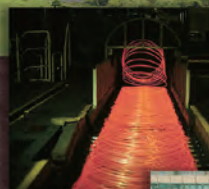
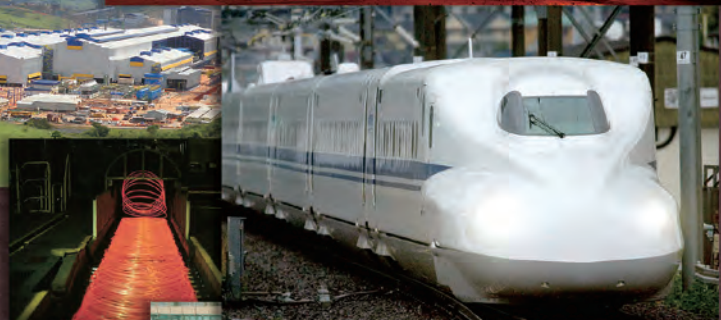
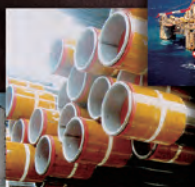


Make steel

On October 1, 2012, we will integrate
with Nippon Steel to become

**NIPPON STEEL &
SUMITOMO METAL**

Make Our future



Sumitomo Metals has contributed to society through steelmaking for more than 100 years, with indispensable support given by customers, employees, shareholders, and many others. Once integrated, we will aim at higher accomplishments with abiding determination to "contribute to society through steelmaking."

“Contributing to society through steelmaking” is the cornerstone of the Sumitomo Metals Group management. The objectives of our doing business are:

Contributing to our customers by enhancing technologies and providing superior products and services;

contributing to our employees by offering jobs and workplaces where they can work safely with a passion for their work;

contributing to our shareholders and business partners by achieving sustained profitable growth; and

contributing to our communities by preserving the environment and complying with regulations.

Make steel,

On October 1, 2012, Sumitomo Metals will integrate with Nippon Steel Corporation (“Nippon Steel”), and make a fresh start as Nippon Steel & Sumitomo Metal Corporation (“Nippon Steel & Sumitomo Metal”)

“Contributing to society through steelmaking” is a common philosophy we share with Nippon Steel.

Nippon Steel & Sumitomo Metal aims to become “the Best Steelmaker” and contribute to our customers, employees, shareholders, and all other stakeholders through steelmaking.

Sumitomo Metals' Corporate Philosophy

We will preserve the Sumitomo Spirit and transmit it to the future, treasure people and technologies, and contribute to society through manufacturing.

Nippon Steel Group's Corporate Philosophy

Nippon Steel Group, focused on steel manufacturing, will contribute to industrial development and the enhancement of peoples' lives through creating and supplying valuable and attractive products and ideas.

Contribute to society

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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

Becoming “the Best Steelmaker” through integration with Nippon Steel

Facing various changes in business environment in its history of over 100 years, the Sumitomo Metals Group has overcome each of those crises and has expanded its operations.

Our Kashima Steel Works' facilities had been damaged by the Great East Japan Earthquake of March, 2011. Sumitomo Metals Group made extra efforts and managed to restore those facilities and resumed production in a short period of time. On October 1, 2012, we will integrate with Nippon Steel and make a fresh start as Nippon Steel & Sumitomo Metal. We aim to become “the Best Steelmaker” and achieve sustainable growth by consolidating the resources of both companies based on the common belief of “contributing to society through steelmaking.”

Economic Environment and Company Performance

Business Policies and Measures

End of World War II to 1980s

Rapid economic growth in Japan
Swing in ordinary income margin within a range of -1 to 8%

Growth in line with economy of Japan
Promote diversification after oil shocks of 1970s

1990s

“The lost decade” after the bubble burst in Japan
Stagnant profit

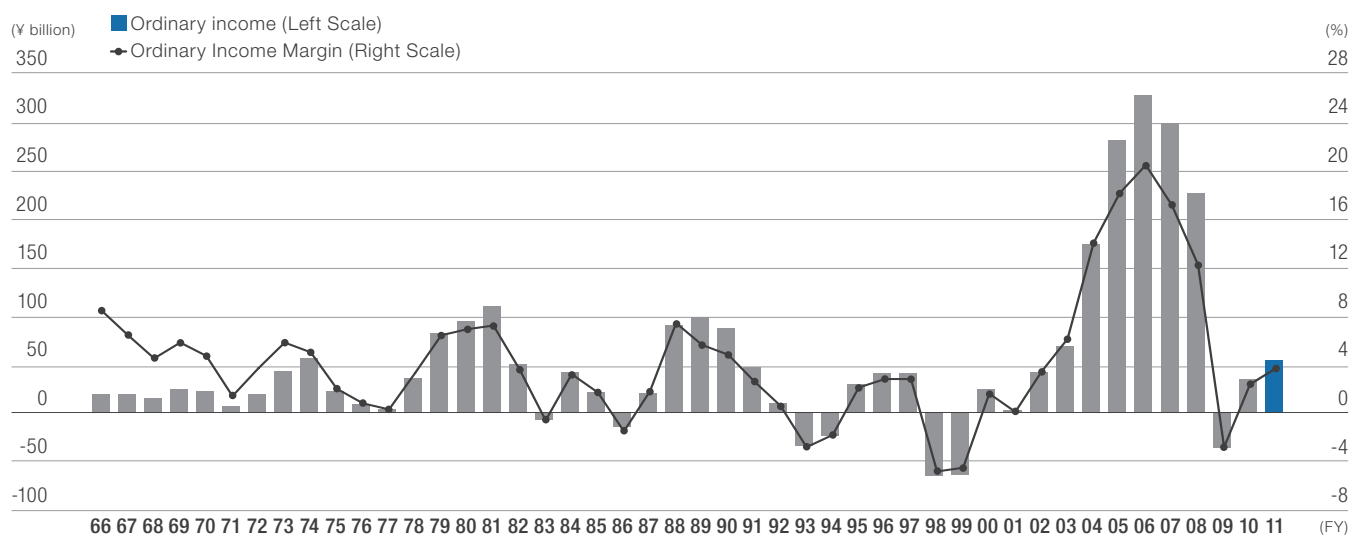
Continual investments that were needed for sustained growth
Return to core business through the strategy of “strengthen our strengths”

From 2000

Worldwide demand growth
Fiscal 2004-2008: Ordinary income margin of more than 10%
Fiscal 2009: Demand declined sharply and posted losses
Fiscal 2010-2011:
Kashima Steel Works damaged by the Earthquake, but achieved the early restoration.
Improved ordinary income two years in a row

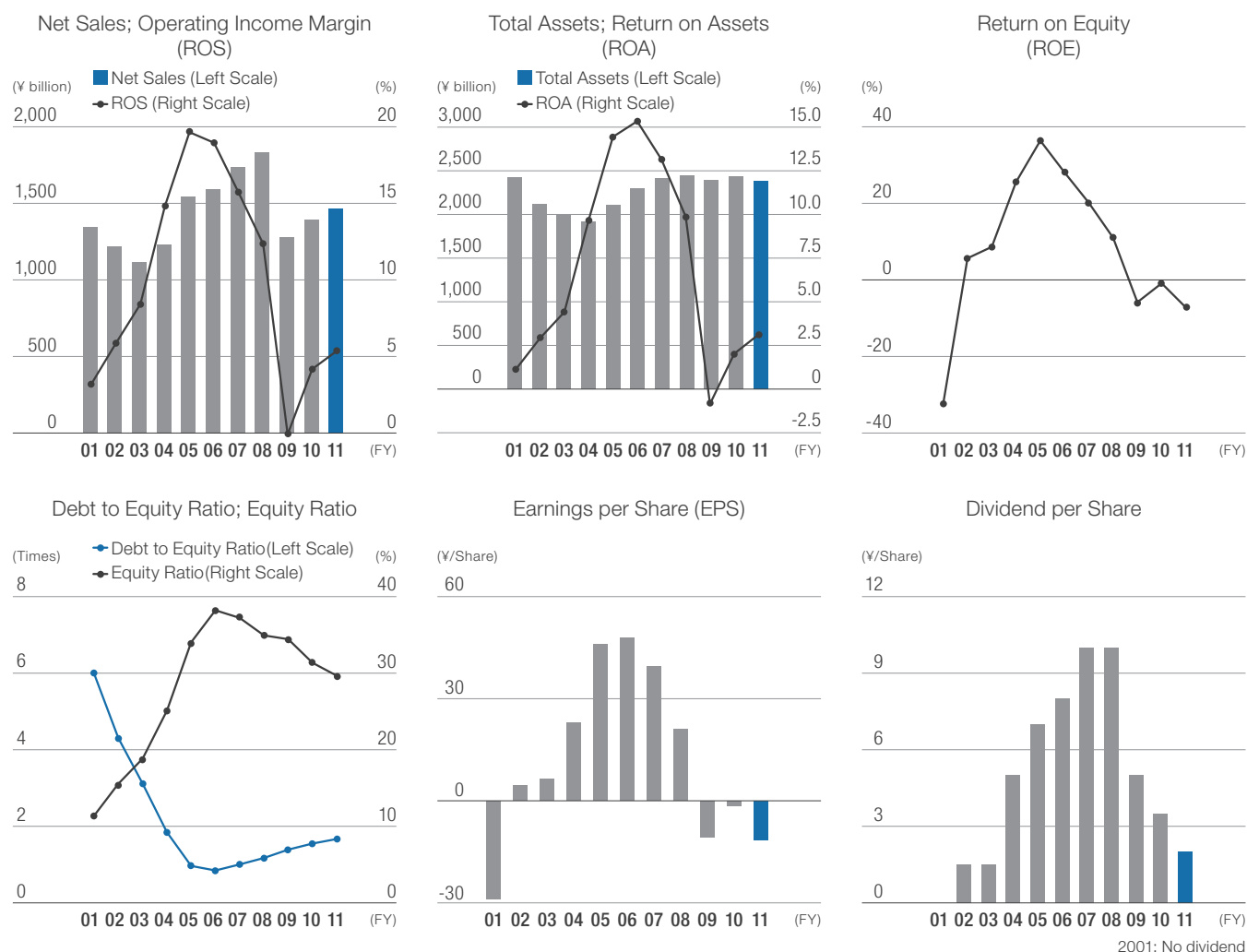
Asset reduction and other structural reform measures
Balanced growth in quality and scale based on strategy of “accelerating distinctiveness”
2010: Steelworks that produce seamless pipe in Brazil manufactured its first pipe
2011: Started consideration of merger with Nippon Steel. Implement the plan to recover the losses caused by the Earthquake
October 2012 : Integrate with Nippon Steel to become “Nippon Steel & Sumitomo Metal” (scheduled)

Ordinary Income



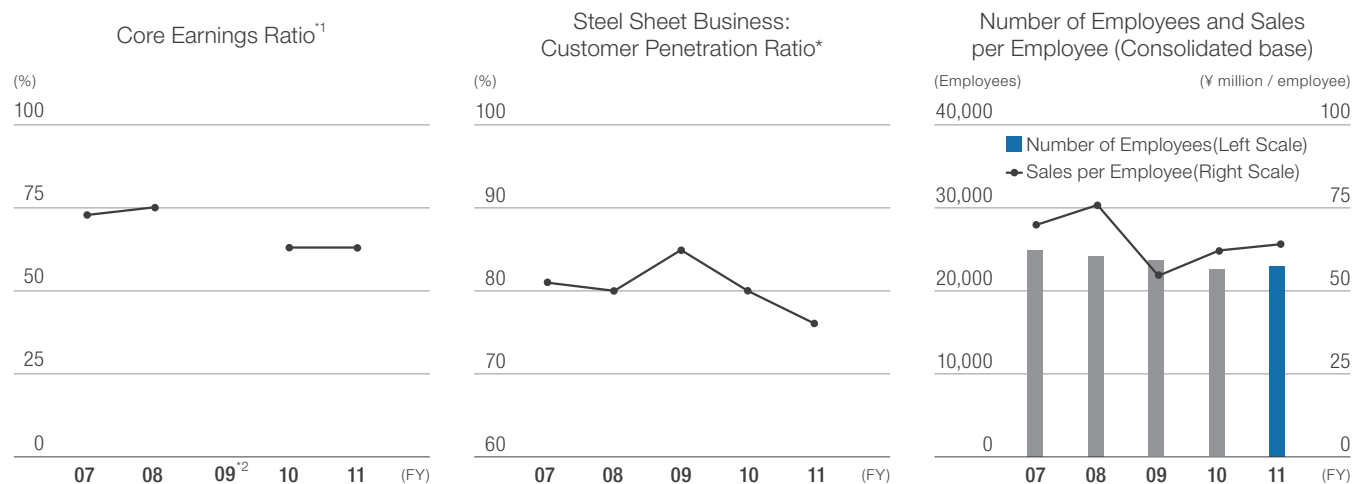
1966-1977 Non-consolidated basis; 1978-2011 Consolidated basis

Financial Indicators (Please refer to "11-Year Financial Performance" on page 13-14 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.



^{*1} Core earnings: Profit generated by business that supply distinctive products resilient to downturns in demand thanks to competitive technology or unique business model (Sumitomo Metals' calculation). Core earnings ratio: Ratio of core earnings to consolidated operating income.

^{*2} Core earnings ratio for FY09 has not been calculated because we posted operating losses in FY09

^{*} Customer penetration ratio: The percentage of sales tonnage of products where we are the number one or number two supplier to customers.

Message from the President



My job is to raise the corporate value of Sumitomo Metals and thereby contribute to our customers, colleagues, shareholders, and other stakeholders.

On October 1, 2012, we will integrate with Nippon Steel to become Nippon Steel & Sumitomo Metal, with the aim of becoming “the Best Steelmaker.”

Our efforts will be concentrated on four fronts: to globalize our steel business, to enhance our technological superiority, to improve cost competitiveness, and to reinforce non-steel businesses.



T o b e f o u n d e d o n O c t o b e r 1 , 2 0 1 2



**NIPPON STEEL &
SUMITOMO METAL**

Aim to be “the Best Steelmaker”

Nippon Steel & Sumitomo Metal aims to become the best in the world

By integrating with Nippon Steel, we aim to become “the Best Steelmaker with World-Leading Capabilities”

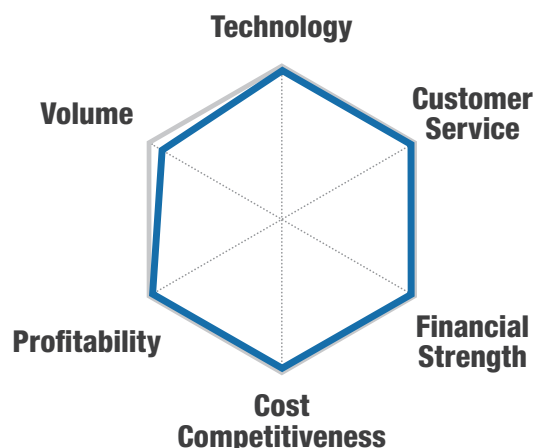
On October 1, 2012, Sumitomo Metals will integrate with Nippon Steel to make a new start as Nippon Steel & Sumitomo Metal.

We will pursue four initiatives to become “the Best Steelmaker,” namely:

- 1 **Expand the business in overseas growth markets;**
- 2 **Enhance our technological superiority;**
- 3 **Attain cost competitiveness so as to be superior to rivals in the world; and**
- 4 **Seek greater synergies between steel and non-steel businesses.**

Integration with Nippon Steel is the best avenue for Sumitomo Metals. This is the best way to “accelerate distinctiveness” and “add strengths to strengths” and thereby raise our corporate value.

Aim to be the best



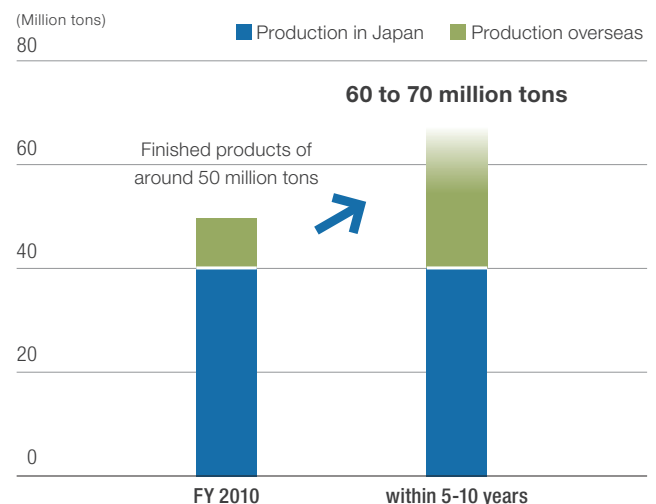
Expanding the businesses in overseas growth markets

World steel demand will continue to grow mainly in China, South East Asia, India, and South America. Demand for high-end products such as seamless pipe, which is used for development of offshore oilfields is expected to grow even faster. These high-end markets are where we intend to grow. The integrated steelworks that produces seamless pipe in Brazil is an example.

The more we go abroad, the more important roles our manufacturing and R&D sites in Japan will play. Our sites in Japan must grow in quality by developing new cutting edge products and manufacturing them. Our overseas sites will grow in volume. Every site will have its own mission. High-end products will continue to be manufactured in Japan. Keeping in mind our identity as a Japan-originated company, we will expand our businesses which we are good at in overseas growth markets.

Nippon Steel & Sumitomo Metal is targeting global steel production of 60-70 million tons, which compares to the present combined volume of around 50 million tons.

Targeting global steel production of 60-70 million tons by globalizing steel business

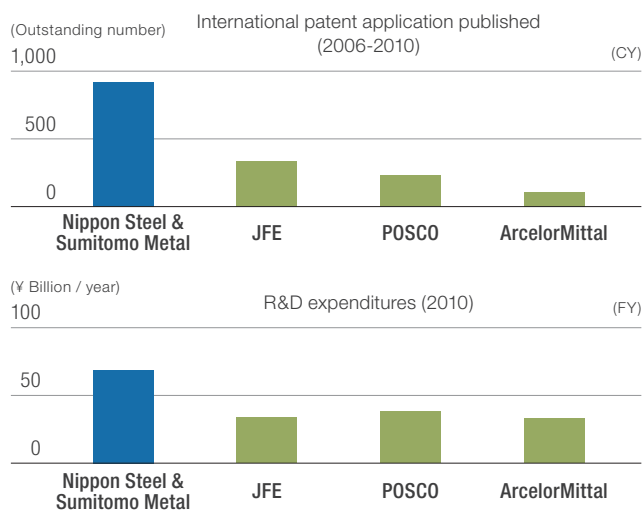


Enhancing our technological superiority

Technological superiority is a life and death matter for a manufacturing company like ours. Our goal is to satisfy our customers through unrivalled technologies. Sumitomo Metals has called it “Distinctiveness,” Nippon Steel “Leading Edge.” The integrated company will aim to grow by satisfying customers through technologies with “Leading Distinctiveness.” Both companies have already been on the top of the technological ladder but we can further sharpen our technological edge by integrating our technological and R&D resources.

Sumitomo Metals’ products have contributed in many areas such as environmentally friendly energy developments and light-weight eco-cars. The examples include boiler tubes indispensable for highly efficient power generation, pipes and tubes used for exploring natural gas, high-tensile steel sheets for light-weight vehicle bodies, and electromagnetic steel sheets for motors in hybrid vehicles. Technology is the key to reducing environmental costs in manufacturing processes and to manufacturing eco-friendly products. Here again, sharing technology with Nippon Steel will create corporate value.

Our combined patent output and resources are unrivalled

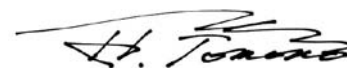


Aim to be “the Best Steelmaker” with the best profitability

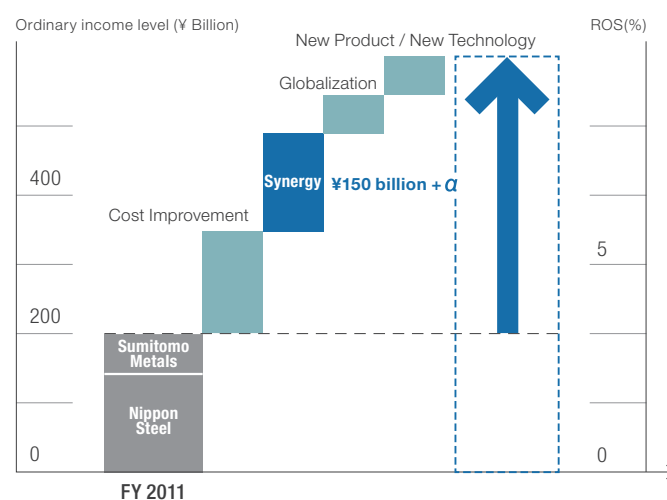
When we say “aim to be the best,” that includes profitability. To achieve the best profitability, we need to have cost competitiveness in addition to growth through business expansion in overseas growth markets and improve profits by using superior technologies. In the steel business, it is difficult to fill the manufacturing lines only with cutting edge products, thus we need to be able to efficiently manufacture and sell middle-grade products to be truly competitive. That is why the integrated company aims to be globally cost competitive by reducing every cost and realizing 150 billion yen synergies.

“Contributing to society through steelmaking” is the goal that we share with Nippon Steel. This integration is a fresh start to achieve higher aims. We will make utmost efforts to be the best in profitability and enhance corporate value. As we pursue our aims, I ask for your support.

President



Become the best in profitability and raise our corporate value



Message from Director in Charge of Finance

Sumitomo Metals plans to raise corporate value through the integration with Nippon Steel

Fiscal 2011: Operating income and ordinary income continued to improve

In fiscal 2011, we had positive factors in profitability such as cost improvement and firm demand for our seamless pipe, despite our suffering from the aftermath of the huge earthquake and tsunami of March 11, 2011. We slashed every cash outlay and generated 60 billion yen out of the 100 billion yen of cash required to realize the recovery plan to restore the Kashima Steel Works that was damaged by the earthquake.

We have managed to stay on our post-Lehman Shock recovery trend and recorded operating income and ordinary income of 76.8 billion yen and 60.8 billion yen, respectively. However, we posted a net loss of 53.7 billion yen due to impairment loss of investment securities holdings. Our free cash flow in this fiscal year was an outflow of 32.0 billion yen because of the cash outlay for restoring damage caused by the earthquake.

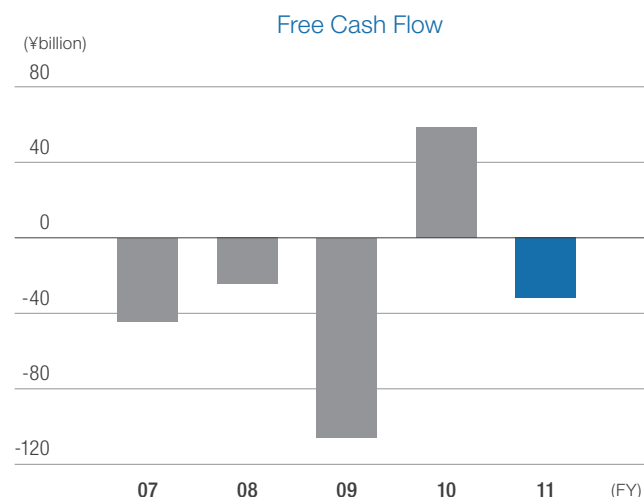
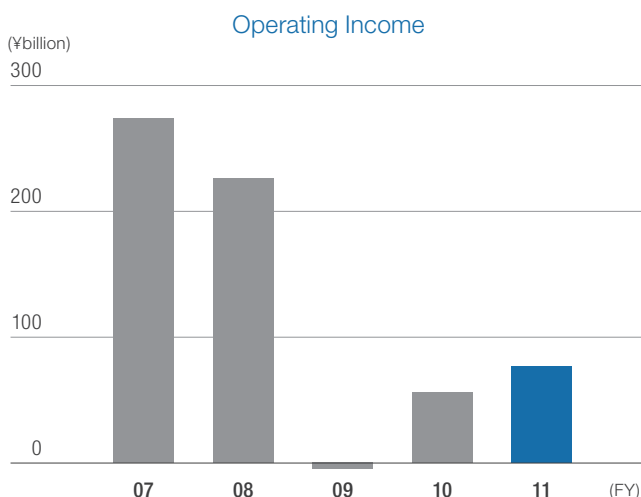
Debt remained at about the similar level to the previous year at 1,172.1 billion yen, resulting in the debt-equity-ratio of 1.65.

For fiscal 2011, we paid a dividend of 2 yen per share (1 yen interim and 1 yen year-end), although we posted a net loss mainly due to the extraordinary loss.

We are determined to raise shareholders' value through the integration with Nippon Steel

The creation of Nippon Steel & Sumitomo Metal through the integration with Nippon Steel has been approved by our shareholders. The integration ratio is Sumitomo Metals 0.735 : Nippon Steel 1, which means 0.735 Nippon Steel share will be allotted for one Sumitomo Metals share. We are confident that this ratio reflects the fair value of both companies. We will accelerate the value creating process through this integration.

Operating Income Continued Improving; Free Cash Negative because of Cash Demand Caused by the Earthquake



We aim to achieve “world top-level profitability”

Nippon Steel & Sumitomo Metal will seek to combine capabilities and resources of the two companies and upgrade ourselves in all aspects including scale, technology, cost management, and customer services with the aim of becoming the “the best steelmaker with world-leading capabilities.” We will accelerate overseas expansion by utilizing both companies’ managerial resources such as human resources, capital, technology, and manufacturing facilities. The integrated company will aim to realize synergies of around 150 billion yen per year within approximately three years after the integration. We seek for a sustainable growth with “world top-level profitability.” The integrated company’s medium-term management goals and major initiatives will be announced promptly after the business integration.

Fiscal 2012: We will augment efforts to raise shareholder value as Nippon Steel & Sumitomo Metal

In fiscal 2012, steel demand for energy areas is expected to continue growing but, given the economic slowdown in China and other factors, the overall steel demand outlook is uncertain while raw material prices are projected to remain at high levels. We will continue

to make efforts to improve profitability through cost reduction and improvement in selling prices.

Business performance and dividend forecasts for fiscal 2012 are yet to be decided and we will announce those forecasts when possible. The basic dividend policy of Nippon Steel & Sumitomo Metal will be to distribute profit to shareholders based on its business performance. Dividends will be paid with due consideration of factors such as capital requirements for investment and other activities aimed at raising corporate value, business prospects, and financial strength. The new company’s consolidated payout ratio is targeted to be approximately 20% a year.

Sumitomo Metals will integrate with Nippon Steel to be Nippon Steel & Sumitomo Metal and aim to further enhance shareholders' value. I would like to ask you for your continued support.



Fumio Hombe

Executive Vice President and
Representative Director

We will realize synergies of around 150 billion yen per year at an early stage after the integration.

Initiatives	Approximate amount of synergies per annum
Technology/R&D	40 billion yen
Production/Sale	40 billion yen
Procurement	40 billion yen
Improvement in Efficiency of the Head Office, Divisions, etc.	30 billion yen
Total	150 billion yen

Dividend Policy of Nippon Steel & Sumitomo Metal

Distribute profit to shareholders based on business performance

With due consideration of

i) investments for raising corporate value,

ii) business prospects, and

iii) financial strength

Target consolidated payout ratio of approximately **20%**

11-Year Financial Performance

FY2001
March 31, 2002

FY2002
March 31, 2003

FY2003
March 31, 2004

Operating Results:

Net sales	1,349,528	1,224,633	1,120,855
Operating income	40,096	69,828	93,041
Ordinary income ^{*1}	748	41,309	68,715
Income before income taxes and minority interests	-105,167	33,278	39,901
Net income	-104,720	17,076	30,792
Capital expenditures on property, plant and equipment (Construction base) ^{*2}	74,600	50,906	67,190
Depreciation of property, plant and equipment ^{*2}	121,100	91,762	78,371
Research and development expenses	18,646	13,555	13,590

Financial Position:

Total assets	2,433,431	2,122,370	2,001,727
Shareholders' equity: Total net assets – Minority interests	274,432	328,754	376,036
Total net assets	325,917	347,632	399,428
Debt ^{*3}	1,648,779	1,415,303	1,171,216

Cash Flows

Operating cash flow	18,478	161,127	220,820
Investing cash flow	39,633	58,329	-27,418
Financing cash flow	-89,466	-164,935	-240,841
Free cash flow	58,111	219,457	193,402
Cash and cash equivalent at end of period	70,390	121,712	74,025

Amounts per Share of Common Stock

Net income (EPS)	-28.83	4.36	6.42
Yearly dividend (yen / share)	0	1.5	1.5

Financial Index

Operating income margin (ROS): Operating income / Net sales	3.0	5.7	8.3
Return on assets (ROA): Ordinary income before interest payment / Total assets (yearly average)	1.1	2.9	4.4
Return on equity (ROE): Net income / Shareholders' equity (yearly average)	-32.6	5.7	8.7
Equity ratio: Shareholders' equity / Total assets	11.3	15.5	18.8
Debt-to-equity ratio: Debt / Shareholders' equity	6.01	4.31	3.11
Price earnings ratio (PER): Share price / Net income per share	-	12.4	21.6
Market capitalization at end of period	174.3	258.1	667.7
Number of shares issued as of end of period (including treasury shares)	3,632.2	4,782.2	4,805.9
Share price at end of period	48	54	139

^{*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 losses.

FY2004 March 31, 2005	FY2005 March 31, 2006	FY2006 March 31, 2007	FY2007 March 31, 2008	FY2008 March 31, 2009	FY2009 March 31, 2010	FY2010 March 31, 2011	FY2011 March 31, 2012
Unit: Millions of yen							
1,236,920	1,552,765	1,602,720	1,744,572	1,844,422	1,285,845	1,402,454	1,473,367
182,878	305,804	303,774	274,396	226,052	-928	56,301	76,801
173,245	280,733	327,676	298,218	225,736	-36,634	34,049	60,803
169,577	306,183	341,725	281,298	194,459	-39,758	-27,991	-51,251
110,864	221,252	226,725	180,547	97,327	-49,772	-7,144	-53,799
60,374	82,679	135,868	178,887	159,118	136,643	109,934	115,797
79,238	75,255	72,291	102,565	109,854	120,853	126,267	122,937
14,732	16,427	18,769	20,102	22,120	22,845	22,783	22,842
Unit: Millions of yen							
1,923,142	2,113,391	2,301,556	2,418,310	2,452,535	2,403,670	2,440,761	2,386,158
483,237	720,866	880,807	901,946	857,697	829,219	766,777	709,315
517,311	762,172	924,798	949,303	904,371	879,209	818,080	761,484
885,918	679,778	717,984	883,888	990,010	1,138,353	1,173,382	1,172,120
Unit: Millions of yen							
277,389	311,943	171,833	230,043	190,582	67,002	202,340	88,065
-12,013	-63,892	-108,934	-274,316	-214,977	-172,933	-144,009	-120,110
-297,336	-258,367	-83,456	48,751	52,623	87,843	-1,325	-32,714
265,376	248,050	62,899	-44,273	-24,395	-105,931	58,331	-32,044
42,416	32,596	13,020	16,669	42,979	26,233	82,512	17,558
Unit: Yen							
23.05	46.03	47.89	39.43	20.98	-10.74	-1.54	-11.61
5.0	7.0	8.0	10.0	10.0	5.0	3.5	2.0
Unit: %							
14.8	19.7	19.0	15.7	12.3	-0.1	4.0	5.2
9.7	14.5	15.4	13.2	9.9	-0.9	2.0	3.1
25.8	36.7	28.3	20.3	11.1	-5.9	-0.9	-7.3
25.1	34.1	38.3	37.3	35.0	34.5	31.4	29.7
Unit: Times							
1.83	0.94	0.82	0.98	1.15	1.37	1.53	1.65
8.4	11.0	12.7	9.6	9.4	-	-	-
Unit: Billions of yen							
927.0	2,425.2	2,826.2	1,753.6	913.7	1,312.0	862.2	774.1
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	4,805.9
Unit: Yen							
193	505	609	378	197	283	186	167

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

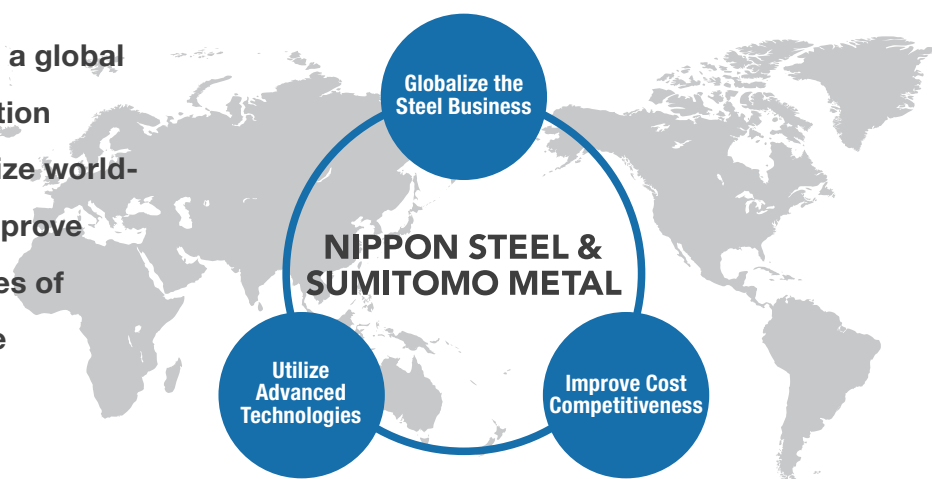
*3 Debt=(Loans payable) + (Bonds) + (Commercial papers)

Feature1:

By integrating with Nippon Steel, we aim to become “the Best Steelmaker”

Aim to be "the Best Steelmaker"

Our major initiatives is to establish a global supply system (with global production capacity of 60-70 million tons), utilize world-leading advanced technologies, improve cost competitiveness with synergies of 150 billion yen a year, and reinforce non-steel business segments.



Corporate Profile

Company Name	NIPPON STEEL & SUMITOMO METAL CORPORATION
Head Office	Chiyoda-ku, Tokyo, Japan
Leadership	Chairman and CEO : Shoji Muneoka President and COO : Hiroshi Tomono
Date of Integration	October 1, 2012 (scheduled)
Share Exchange Ratio	Nippon Steel : 1, Sumitomo Metals : 0.735 (0.735 shares of common stock of Nippon Steel will be allotted for each share of common stock of Sumitomo Metals.)
Stock Listings	Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo

Integrated Company's Organizational Operation

1. Organizational operation of consolidated management

The integrated company will be a business holding company which comprises five businesses: steel, engineering, chemicals, new materials, and system solutions.

2. Organizational operation within the steel business

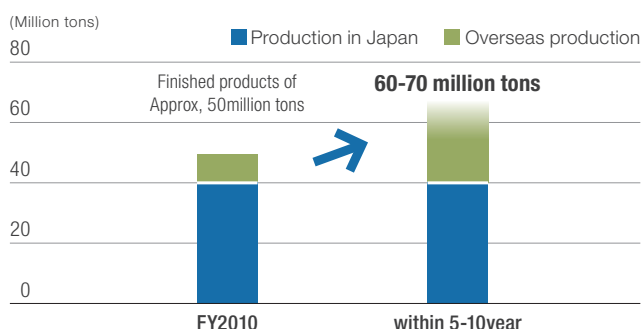
- (1) The Integrated Company will have product-based units. It will operate through these product-based units including its group companies to swiftly formulate and implement strategies for each product unit, where cooperation of manufacturing, sales and technology forces is essential.
- (2) Each steelworks will secure a supply system best suited to each area and customer, and will reinforce and improve the efficiency of coordination among steelworks.
- (3) The R&D division will accelerate and improve development operations and pursue efficient R&D by integrating the operations of both companies.
- (4) The head office will be efficient where human resources efficiency will be pursued.

Integrated Company's Management Policy

Nippon Steel & Sumitomo Metal aims to become “the Best Steelmaker” at an early stage after the establishment by strongly advancing the following four initiatives.

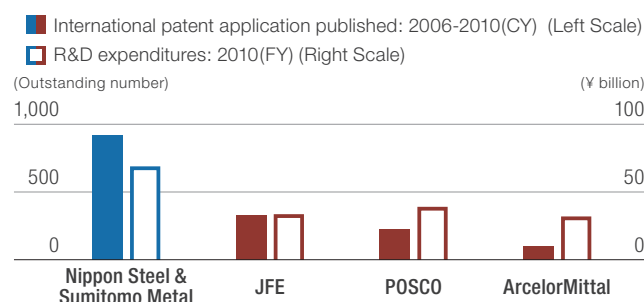
1 Globalizing the steel business

Worldwide demand for steel will increase. Nippon Steel & Sumitomo Metal will strengthen its capability to provide solutions to customers worldwide and expand overseas manufacturing and processing bases, particularly in the growing sectors such as automotive, environment and resources/energy sectors. Nippon Steel & Sumitomo Metal aims to achieve global production of 60 to 70 million tons.



2 Utilizing advanced technologies

The integrated company will further improve its world-leading technologies by aggregating technological strengths of Nippon Steel and Sumitomo Metals. There is still a huge frontier of potential for steel to perform better as a physical element. Nippon Steel & Sumitomo Metal will lead the world in product development with a focus on growing sectors and development of manufacturing technology including innovative production processes with the goal of “maximizing the potential of steel as material.”



3 Improving cost competitiveness

The integrated company aims to realize synergies of around 150 billion yen per year within approximately three years after the establishment. Nippon Steel and Sumitomo Metals will endeavour to increase the above target synergies amount and to achieve the synergies at an early stage. In addition, Nippon Steel & Sumitomo Metal will continue to make further efforts to reduce costs to attain cost competitiveness which enables itself to compete more effectively on a global basis.

Main measures	Amount of synergies per annum (approx.)
Technology/ R&D <ol style="list-style-type: none"> Improving development speed and quality by consolidation in technology and R&D Pursuing the best practices for operational and manufacturing technologies (top-runner technologies/know-how) 	40 billion yen
Production/ Sale <ol style="list-style-type: none"> Improving productivity by optimal allocation of tasks among production lines Establishing an efficient production system and preventing redundant investments Securing sufficient production of high-functioning products by mutually complementing bottleneck processes Cooperation among steelworks (including raw material, coke, energy, maintenance, investment and workforce) Integration and cooperation among group companies and improving efficiency on an integrated basis from upstream to downstream processes (including rolling, processing and logistics) 	40 billion yen
Procurement <ol style="list-style-type: none"> Reducing costs by improving efficiency in procurement and transport of raw materials Reducing equipment cost, repair cost and material cost by standardizing equipment specifications and promoting efficiency in orders and contracts Integration and cooperation among group companies (including raw materials, construction, repair and operations) 	40 billion yen
Improvement in Efficiency of the Head Office, Divisions, etc. <ol style="list-style-type: none"> Integrating and improving the efficiency of the head office and branches in and outside Japan, etc., and re-allocating human resources for overseas business development and other related activities Reducing general administrative expenses Reducing system development cost (including avoidance of redundant investments) Adjusting redundant assets and inventory (including raw materials, finished products, semi-finished products and materials) 	30 billion yen
Total	150 billion yen

4 Reinforcing non-steel business segments

Each business segment of the engineering, chemicals, new materials and system solutions will seek greater inter-business synergies with the steel business, thus contributing to improvement in the consolidated profits of the integrated company.

By promoting the four initiatives above, Nippon Steel & Sumitomo Metal will respond to changes in the management environment and will secure “world top-level profitability” at any time, and will aim to increase its corporate value and to improve the evaluation by shareholders and capital markets. Nippon Steel & Sumitomo Metal plans to announce promptly after its establishment its medium-term management goals and major measurement policy.



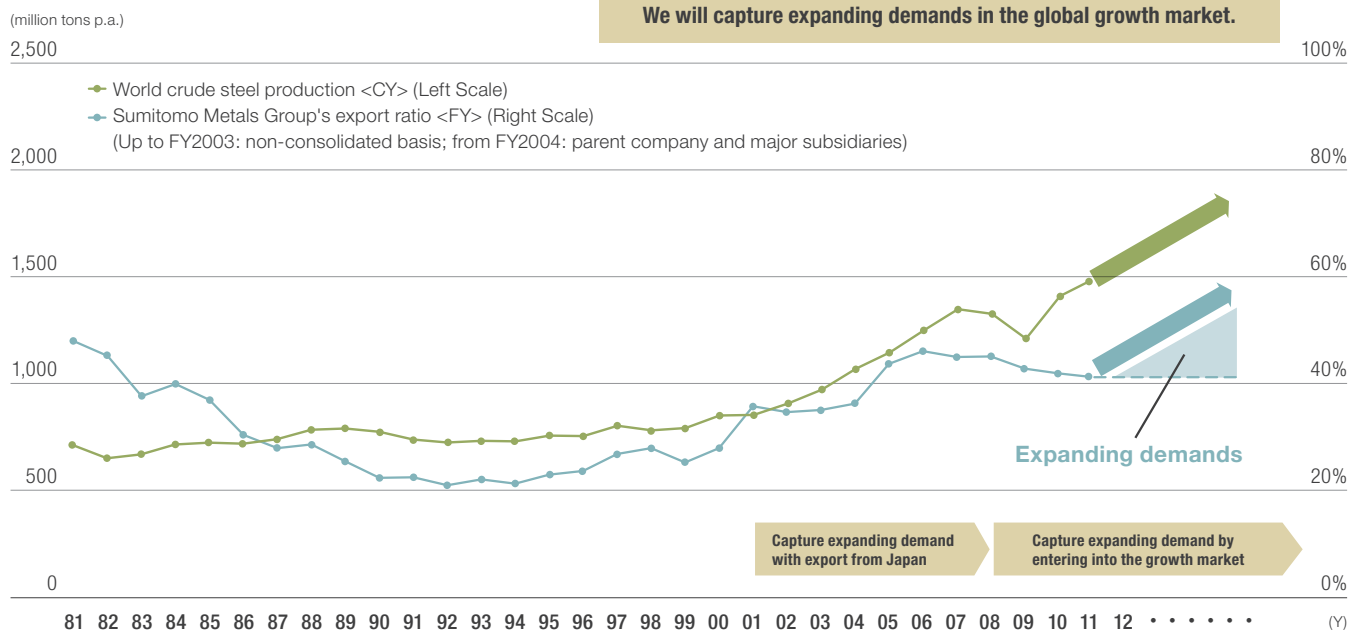
Logo of the Integrated Company

The triangle in the logo with dark blue represents a blast furnace and the people who create steel. It reflects the fact that steel, indispensable for civilization, brightens the world. The center point can be viewed as a peak, which represents the best steelmaker. It can be also viewed as the destination of a road, which represents the unlimited future of steel as a material. The blue color represents leading technology and reliability.

Feature2:

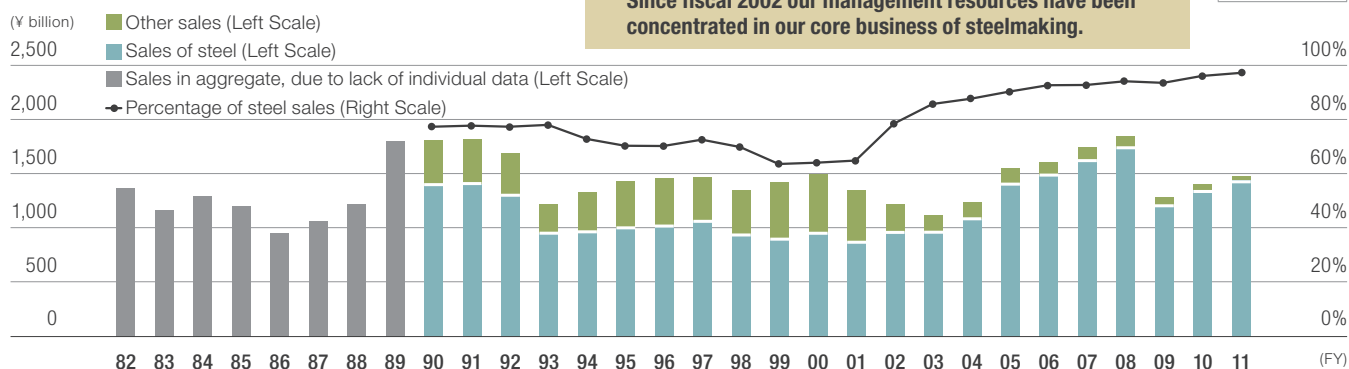
Sumitomo Metals takes a long-term perspective

We will expand overseas and capture more of the global growth market

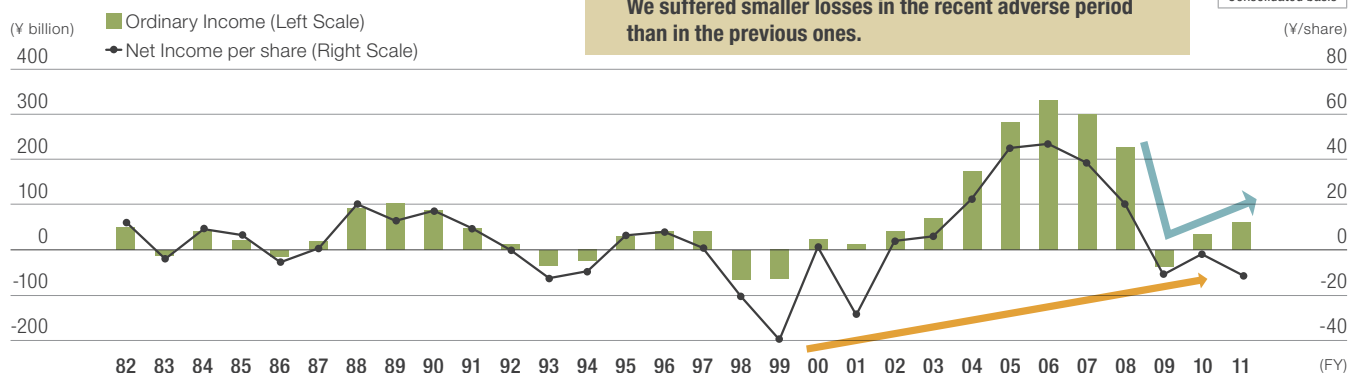


30-year trend of Sumitomo Metals

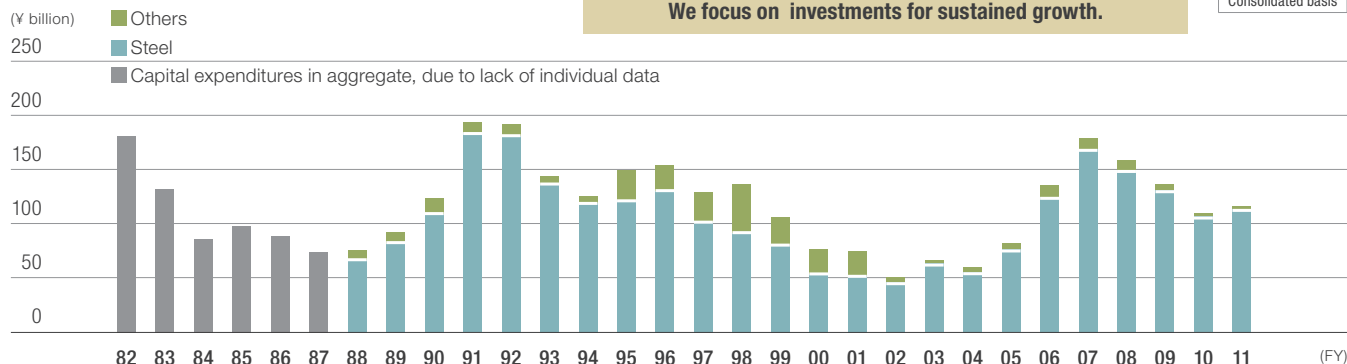
Net Sales



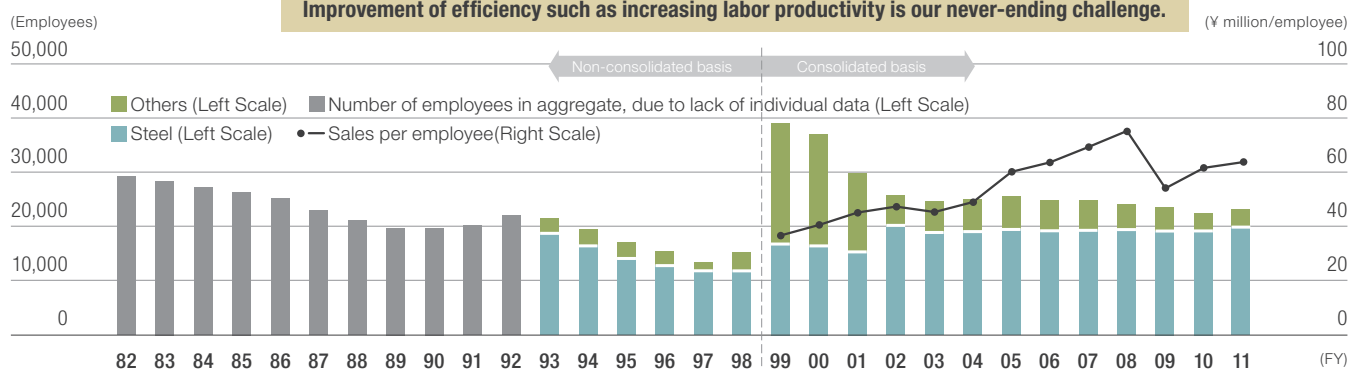
Ordinary Income and Net Income per Share



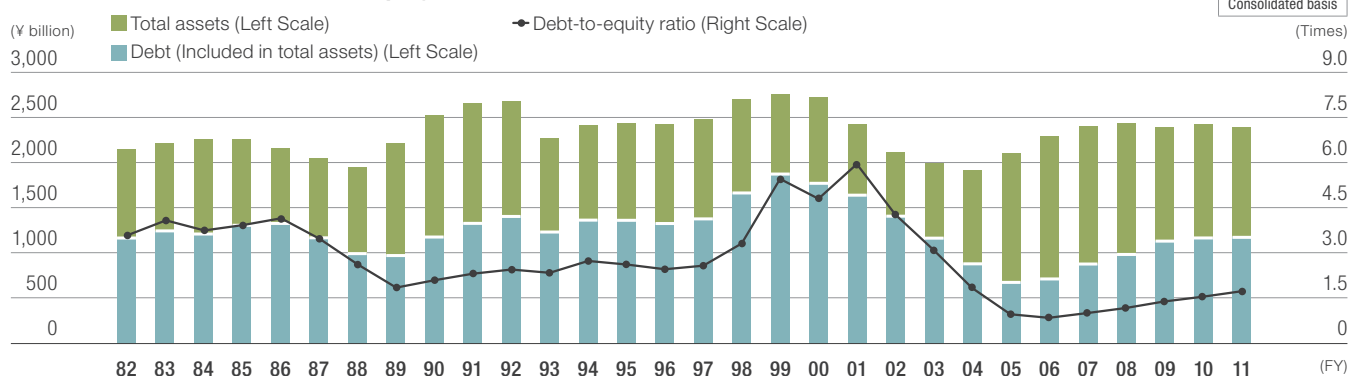
Capital Expenditures



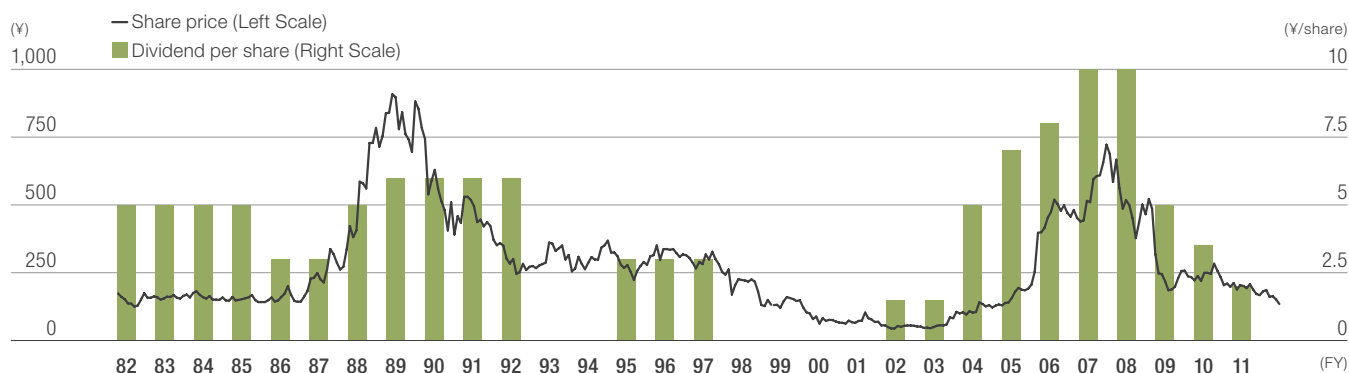
Number of Employees



Total Assets; Debt and Debt-to-Equity Ratio



Share Price and Dividend per Share



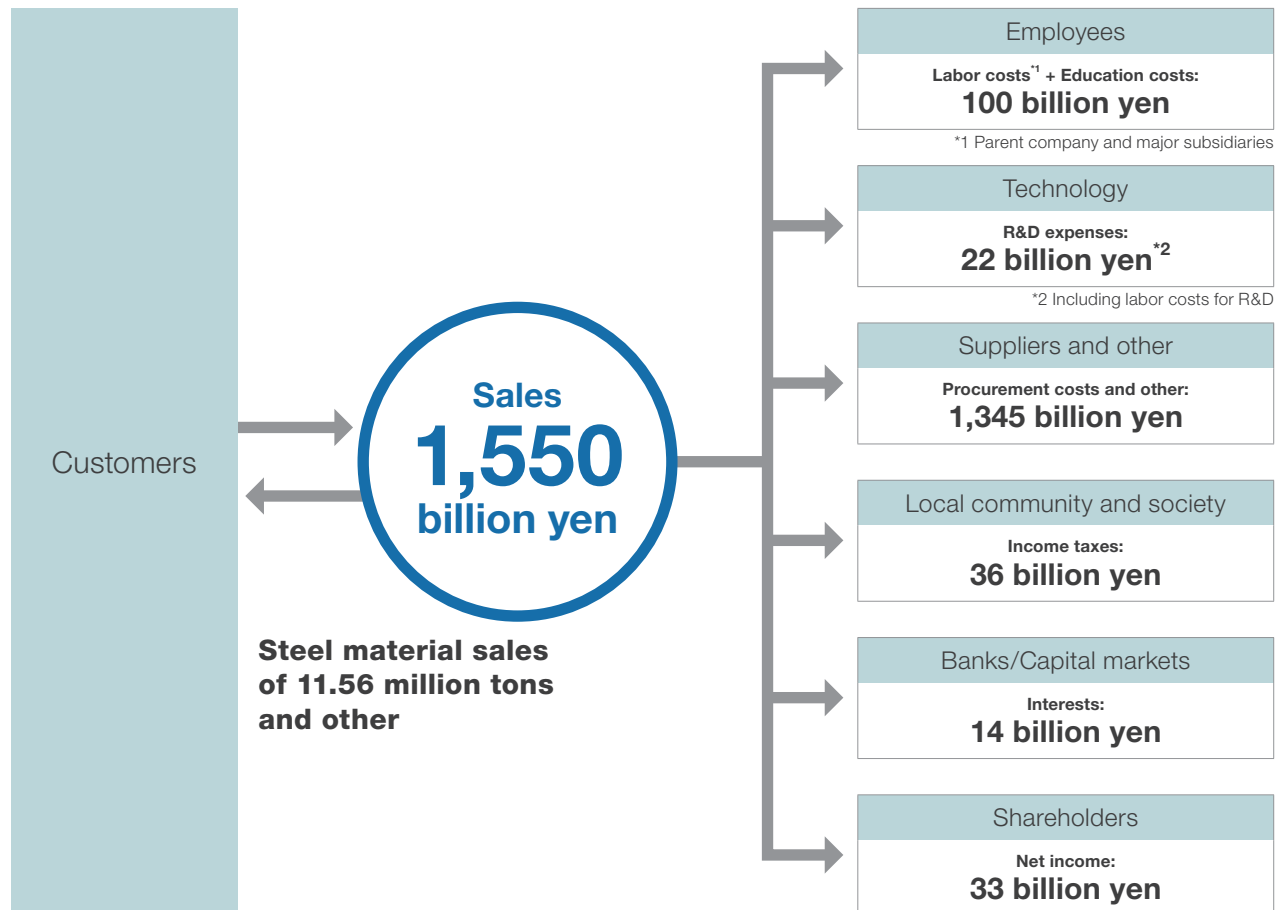
26-Year Major Financial Indicators

Year	Net sales (¥billion)	Operating income (¥billion)	Ordinary income (¥billion)	Net income (¥billion)	Total assets (¥billion)	Debt (¥billion)	Equity ratio (%)	EPS (¥)
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
2010	1,402	56	34	-7	2,440	1,173	31.4%	-1.54
2011	1,473	76	60	-53	2,386	1,172	29.7%	-11.61

Allocation of Value and Cash, by Stakeholder and Business

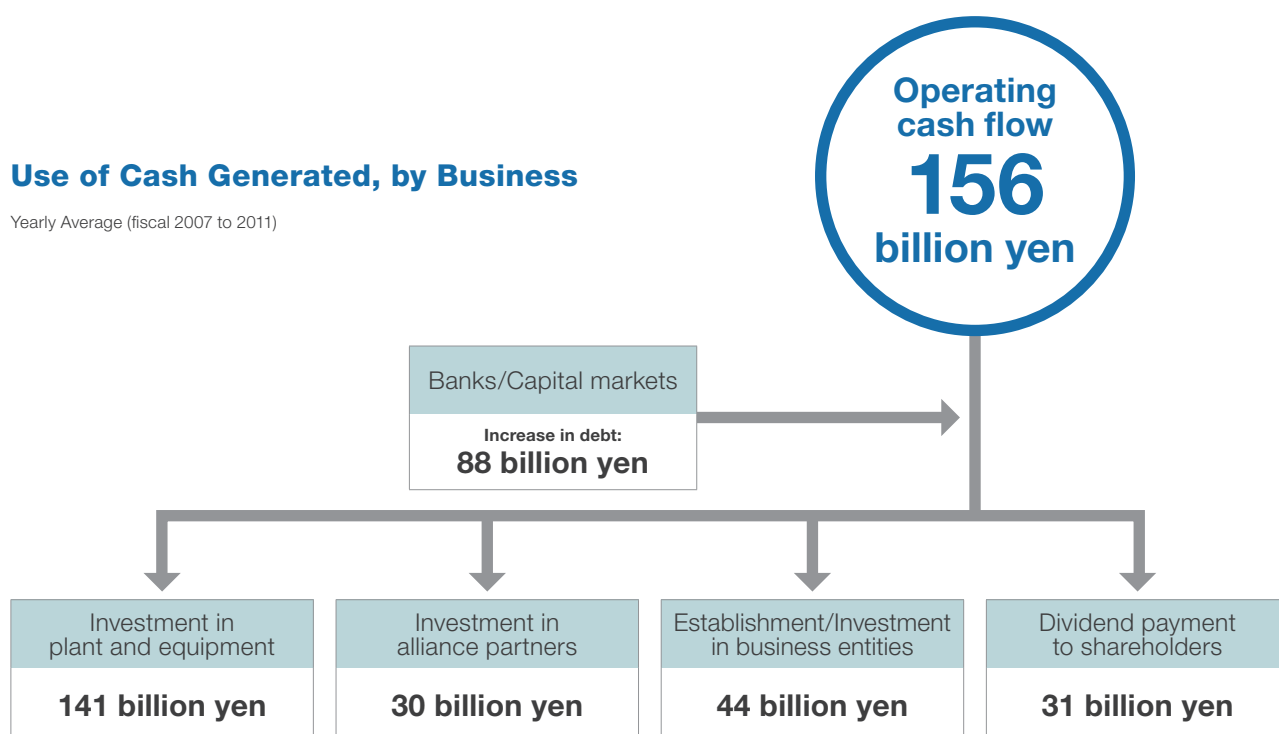
Allocation of Value, by Stakeholder

Yearly Average (fiscal 2007 to 2011)

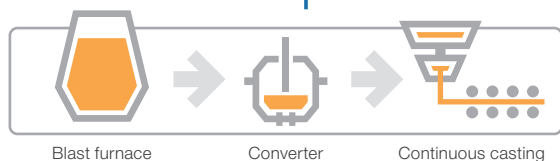


Use of Cash Generated, by Business

Yearly Average (fiscal 2007 to 2011)



Review of Operations

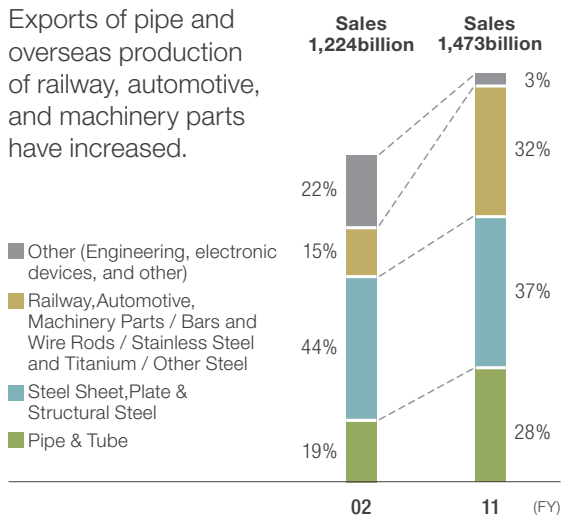
Mannesmann
mandrel millUgine-Sejournet
extrusion millEhrhardt push
bench mill

Seamless pipe

Small welded
steel pipeLarge welded
steel pipe

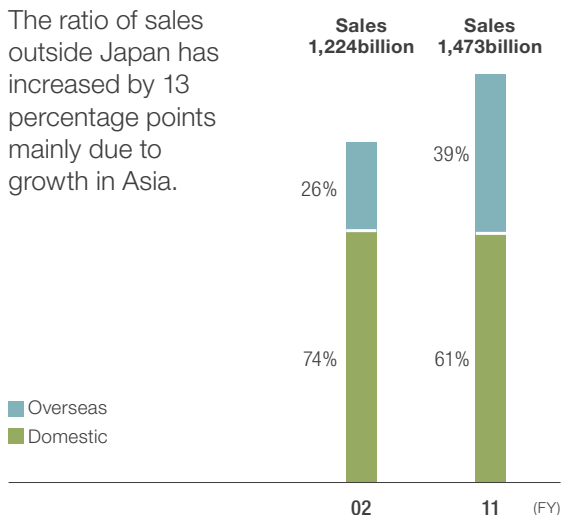
Sales Composition by Business Segment

Exports of pipe and overseas production of railway, automotive, and machinery parts have increased.



Sales Composition by Region

The ratio of sales outside Japan has increased by 13 percentage points mainly due to growth in Asia.



Pipe & Tube

Main products

Seamless pipe for exploration of oil and natural gas, boiler tubes, line pipe, mechanical tubes

Main users

Major oil companies, national oil companies, electric power companies, automotive and construction equipment manufacturers

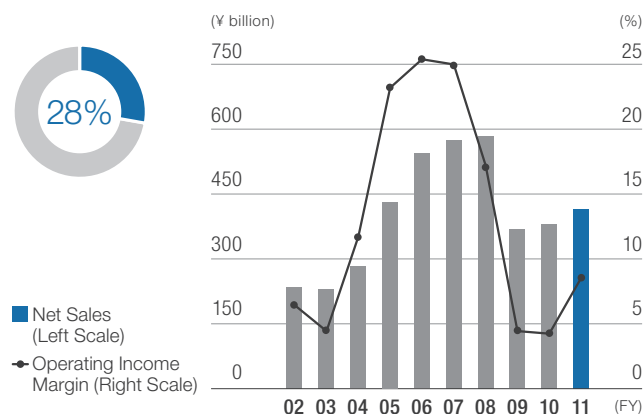
Production sites

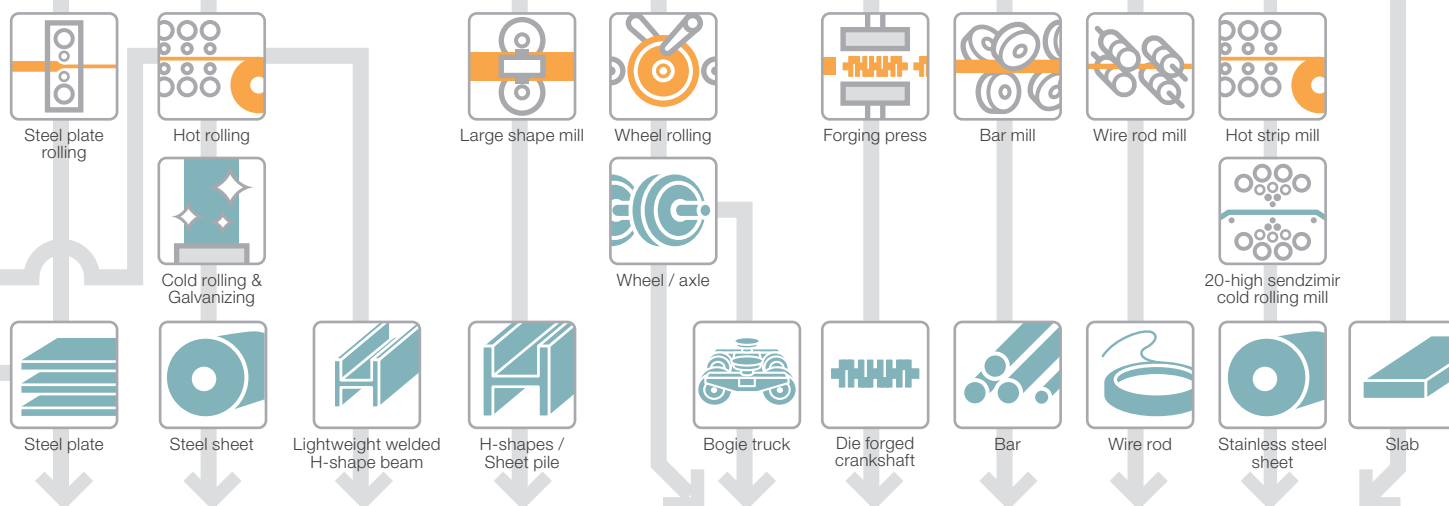
Wakayama Steel Works, Steel Tube Works, Kashima Steel Works, VSB (steelworks that produces seamless pipe in Brazil)

Strength

High-end seamless pipes that can withstand severe development environments of oil and natural gas in the world. Have the world-class technological capabilities and product line-up.

Share of Total Sales





Main products

Steel sheets for automotive and home appliances, steel plates for energy sector and shipbuilding applications, steel beams and sheet piles for construction sector

Main users

Automotive, home appliance, and shipbuilding manufacturers, energy-related companies, major construction companies

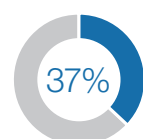
Production sites

Kashima Steel Works, Wakayama Steel Works

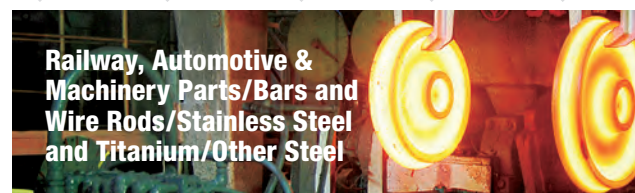
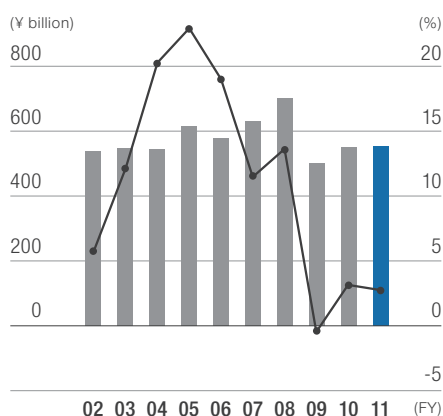
Strength

Transcending the boundaries of a materials manufacturer, our development, production and sales forces work together to resolve customers' needs and challenges.

Share of Total Sales



■ Net Sales (Left Scale)
◆ Operating Income Margin (Right Scale)



Main products

Railway wheels and axles, automotive forged crankshaft, specialty steel bars and wire rods, stainless precision rolled strips, titanium

Main users

Railway companies, automotive and aircraft manufacturers

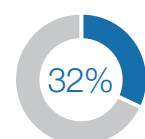
Production sites

Osaka Steel Works, Kokura Steel Works, Naoetsu Works

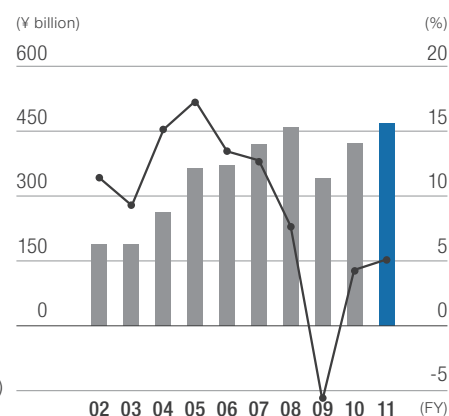
Strength

Railway wheels and axles have a 100% share in Japan and are expanding globally. Automotive crankshafts are manufactured at four sites worldwide with its global market share approaching 10%

Share of Total Sales

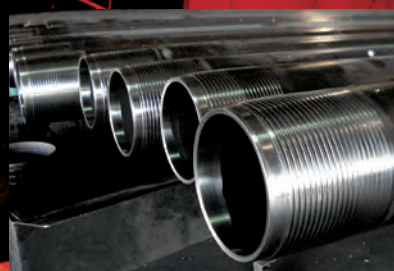


■ Net Sales (Left Scale)
◆ Operating Income Margin (Right Scale)



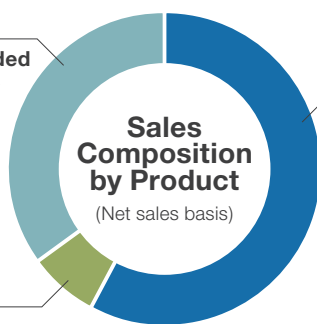
Pipe & Tube

With our high-end seamless pipe, which boasts the world's paramount technological capabilities and product line-up, we will capture growing energy development demand.



35%

Electric-resistance welded pipe and other business



58%

Seamless pipe

7%

Large-diameter welded steel pipe

Market Environment

The world's energy market will continue to grow

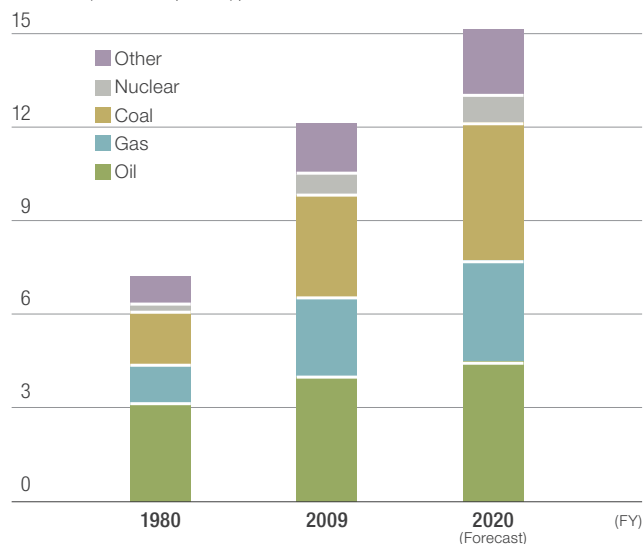
Worldwide energy demand is expected to increase strongly due to global economic growth, primarily in emerging countries.

Consequently, oil and natural gas development is vigorous. Well development environments are becoming severer year by year because the easier wells to drill got developed and depleted first. Needs for high-end Oil Country Tubular Goods(OCTG), which can withstand such environments, are constantly growing. Furthermore, power generation efficiency improvements are being promoted worldwide, and demand for ultra-supercritical (USC) boiler tubes, which are indispensable in high-efficiency thermal power generation, is also projected to increase.

Nuclear power generation is also growing mainly in emerging countries as a substitute for fossil fuels, and demand for SG tubes used in this power generation is also robust.

Worldwide Energy Demand

Billion TOE (tons of oil equivalent) p.a



Source: IEA World Energy Outlook 2011

Sumitomo Metals Group's Strategies

Accelerate distinctiveness through high-end products by utilizing advanced technological capabilities

Sumitomo Metals is a world leader in technologies for seamless pipes that can withstand severe development environments such as high pressure and corrosion. Only Sumitomo Metals can provide products that meet customers' diverse needs. By refining our sophisticated technological capabilities, we will promote distinctiveness through high-end products.

Technology of premium joints that connect pipes together is a key to distinctiveness in high-grade seamless pipes for oil and gas development, and is an important factor for the safety of development sites. We are setting ourselves apart from our competitors by selling VAM21[®], which has excellent air tightness and handling properties, and high-quality special screw joints such as environmentally friendly CLEANWELL[®] DRY as a package with high-grade seamless pipe.

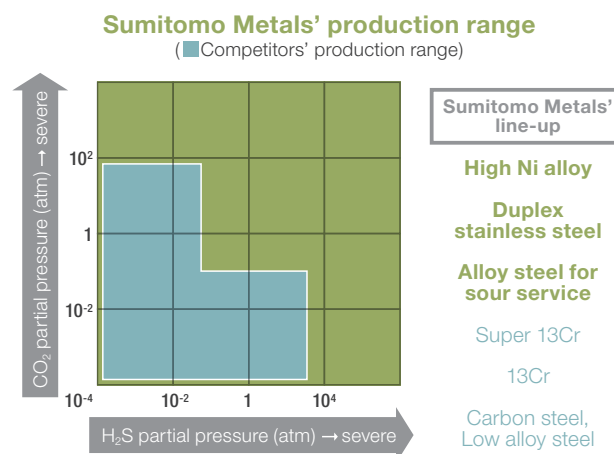
Establish a global supply system

Our integrated steelworks that produces seamless pipe in Brazil shipped its first products in fiscal 2011 and the blast furnace is scheduled to start operation in fiscal 2012. Our bases in Japan and Brazil can serve our customers' needs all over the world.

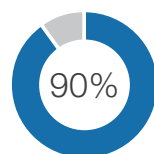
Raise our cost competitiveness through integration

In high-quality pipe manufacturing, superior pipe-making process technology is not good enough. Steelmaking technology and quality control that covers every process are essential. The integrated company will combine the manufacturing technologies of Sumitomo Metals and Nippon Steel and enhance our quality competitiveness. By combining both companies' human resources, capital, technologies, and manufacturing facilities, we will grow in the expanding energy market and raise corporate value.

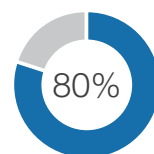
Oil & Gas Development Environment and Sumitomo Metals' Line-up of Materials



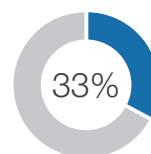
Products with High Shares of the Global Market



High-alloy OCTG



Stainless boiler tubes for USC*¹ coal-fired thermal power plants



SG*² tubes

*1 USC: Ultra super critical conditions when temperature and pressure are higher than conventional levels in a boiler for thermal power generation

*2 SG: Steam Generator

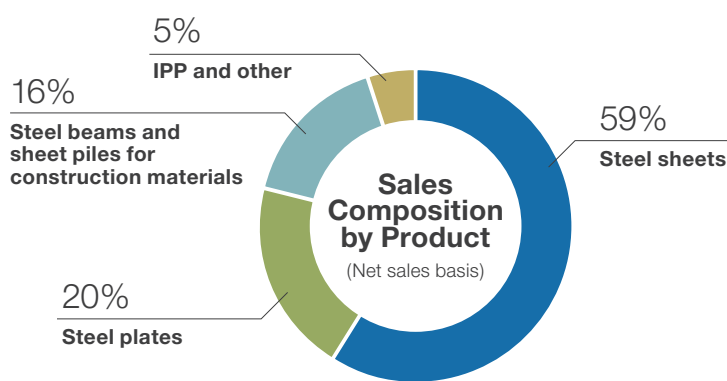
(Market share based on Sumitomo Metals' estimates)



Blast furnace of Brazil steel works scheduled to start operation in fiscal 2012

Steel Sheet, Plate & Structural Steel

Our core products are high-grade steel sheets for automobile body parts, steel plates for energy-related applications as well as the shipbuilding industry, and construction materials. While transcending the boundaries of a materials manufacturer, we are providing products and services that resolve customers' needs and challenges.



Market Environment

Steel sheet

Demand for automotive steel sheet is growing, performance requirement is rising

Global demand for steel sheets for automobile body parts is expected to grow, particularly in emerging markets. With the growing popularity of lighter automobiles, our customers are requiring higher quality and performance in vehicle structures and parts.

Steel plate

Energy demand is growing and development environments are becoming increasingly severe year by year

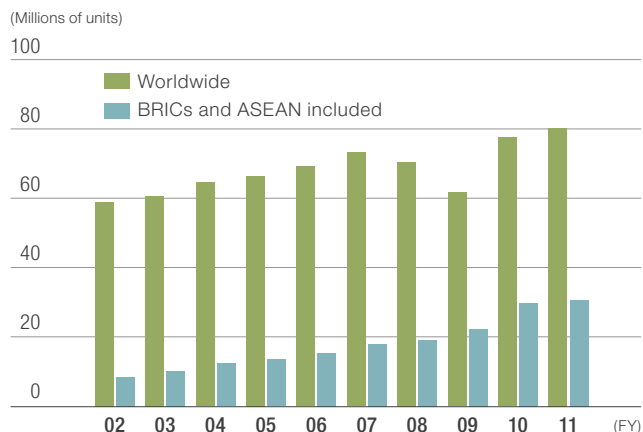
The development environments of oil and gas tend to become severer year by year because the easier sites are developed first and therefore depleted first. That is why the demand for our high-end steel plates for energy-related projects is growing more than ordinary steel plates. The plates we supply to the LNG projects in Australia is an example.

Structural steel

Demand is expanding primarily in emerging countries

In Japan, demand increase for structural steel products with advanced functions in terms of earthquake resistance and disaster prevention is projected. In addition, we will capture infrastructure-related demand for high-end products in emerging countries.

World Automobile Production



Source: Organisation Internationale des Constructeurs d'Automobiles (OICA)

Sumitomo Metals Group's Strategies

Steel sheet

Core strategies: expand overseas, focus on high-end products, and provide solutions

In Vietnam, Sumitomo Metals and China Steel Corporation (CSC) of Taiwan are constructing steel sheet manufacturing facilities with an annual capacity of 1.6 million tons. In India, we are providing technical assistance to Bhushan Steel, and started receiving the steel sheet manufactured there as OEM product to be sold under the Sumitomo Metals brand in March 2012. We value customers that demand high quality such as automobile makers. To realize lighter weight and super toughness, we will provide customers with not only high-end materials but also solutions such as the 3-dimensional hot bending process, hot pressing, and tailored blanks. Sumi Quench 1800, a high-tensile product for hot pressing has been selected for automobile bumper parts. The world's highest tensile strength of 1800 MPa has been realized through combination with application technologies.

Steel plate

Focus on the energy sector and aim for distinctiveness with high-end products

We focus on the energy sector, which requires high-end products, as this is a growing market in the long term. We will make full use of new equipment at the Kashima Steel Works, including the new dynamic accelerated cooling (DAC-n) machine, and provide distinctive high-end products such as fatigue-resistant steel, steel for offshore structures in extremely cold climates, and steel for very low temperature use such as LNG.

Structural steel

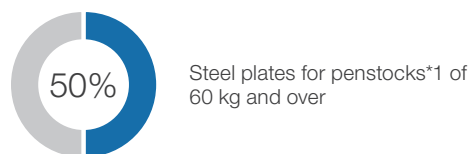
Promote the development of high-value-added products

We will develop higher value added products such as high-strength, ultrahigh tensile materials, in response to increasing needs for earthquake resistance. We will also expand the variety of distinctive products, including ultrathick outer dimension H-shaped steel.

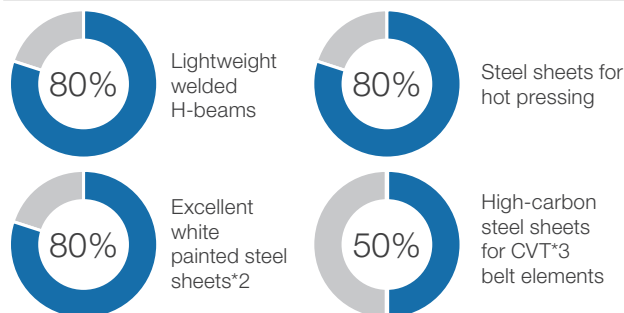
Aim to be the world's leading steelmaker through integration with Nippon Steel

The integration with Nippon Steel will result in the world's No.1 product line-up in sectors such as automobiles, home appliances, energy, construction and civil engineering. Through the combination of world-leading technologies and the streamlining of manufacturing processes, we aim to "add strengths".

Products with High Shares of the Global Market



Products with High Shares of the Domestic Market



*1 Penstock for hydroelectric power stations

*2 Reflecting steel sheet for lightning equipment

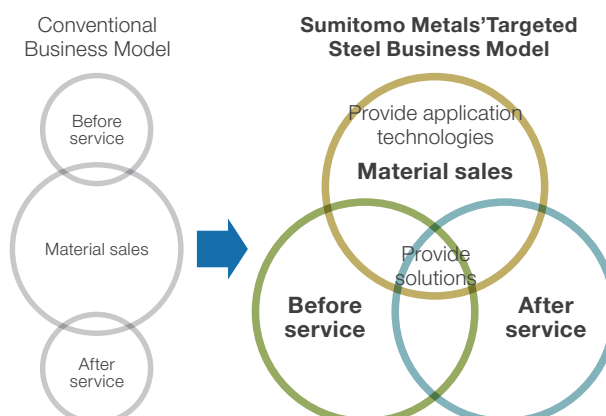
*3 Continuously Variable Transmission

(Market share based on Sumitomo Metals' estimates)

Entering Growth Markets

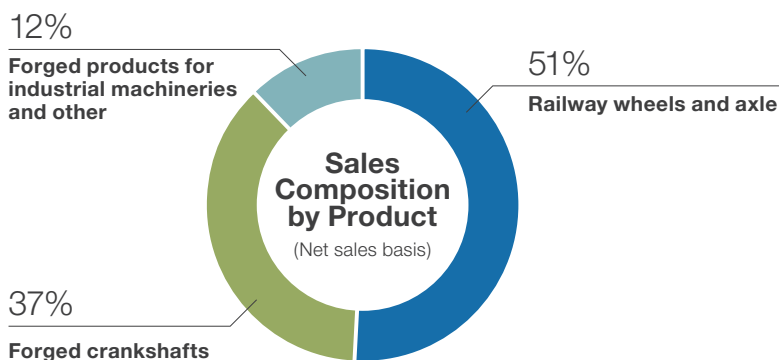


Sumitomo Metals' Steel Business Model



Railway, Automotive & Machinery Parts

Main products are railway wheels and axles, and forged crankshafts for automobiles. We will expand sales of railway wheels and axles from our two manufacturing bases in Japan and the United States. We are aiming for 10% and more of the global market for crankshafts through our global manufacturing network.



Market Environment

Railway parts

Demand growth and requirements for higher quality are expected

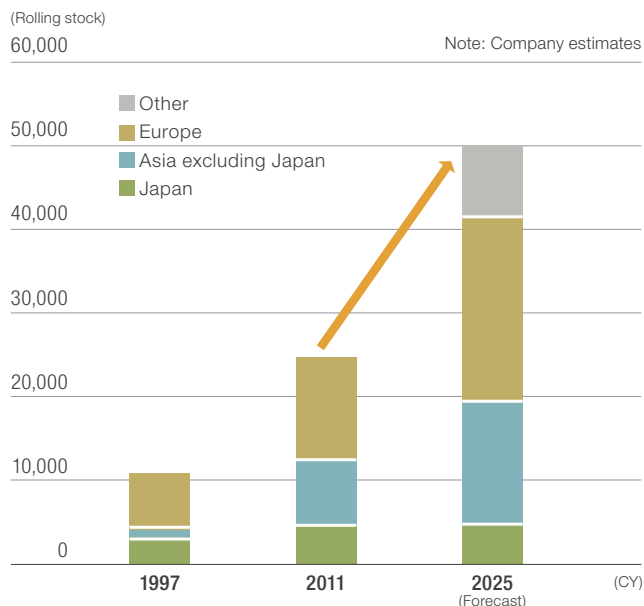
Demand for parts used in railways, eco-friendly means of transportation, is expected to grow over the long term. As speed increases for passenger railways, needs for safety and advanced functions (low vibration, low noise) will become higher. In the case of freight cars, demand for high-strength, long-life high-end products that can handle increased loading capacity per car is expanding.

Forged crankshafts

Market expansion is expected in emerging nations

Demand for crankshafts is also rising in tandem with growing automobile production, particularly in emerging nations such as China and India. The move into smaller and higher-performance engines is producing a shift from cast steel crankshafts to high-quality forged crankshafts.

Number of Rolling Stock in Operation on High-Speed Railways Worldwide



Sumitomo Metals Group's Strategies

Railway parts

Focus on high-quality, high-value-added products and boost global sales from Japan and the United States

While leveraging our high technological prowess, we will focus on products for high-speed railways as well as high value-added areas such as heavy-load abrasion-resistant wheels used in mining railways. In August 2011, we acquired Standard Steel, LLC, the top U.S. manufacturer of railway wheels and axles. By introducing Sumitomo Metals' human resources, technologies, and equipment, we will raise the company's competitiveness and expand sales in the global market. Standard Steel will also function as a backup steel works at the time of a disaster in Japan. In addition, we will strive to expand operations in other regions, including Europe and Asian countries.

Forged crankshafts

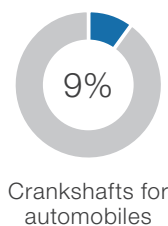
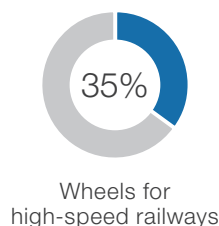
Aim for more than 10% global market share, supported by four bases worldwide

At our joint venture in India, which started operation in 2010, we will expand production lines in November 2012 to cater for rapidly growing local automobile production. As a result, the combined crankshaft production capacity of our four bases around the world will increase 18% to 11 million units, and we will aim for global market share of more than 10% in fiscal 2013.

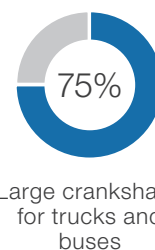
Increase presence in railway sector through integration with Nippon Steel

Nippon Steel ranks top in the world in rail technology. We will realize synergies with our railway wheels and axles and bogie trucks, thereby raising our corporate value.

Products with High Shares of the Global Market

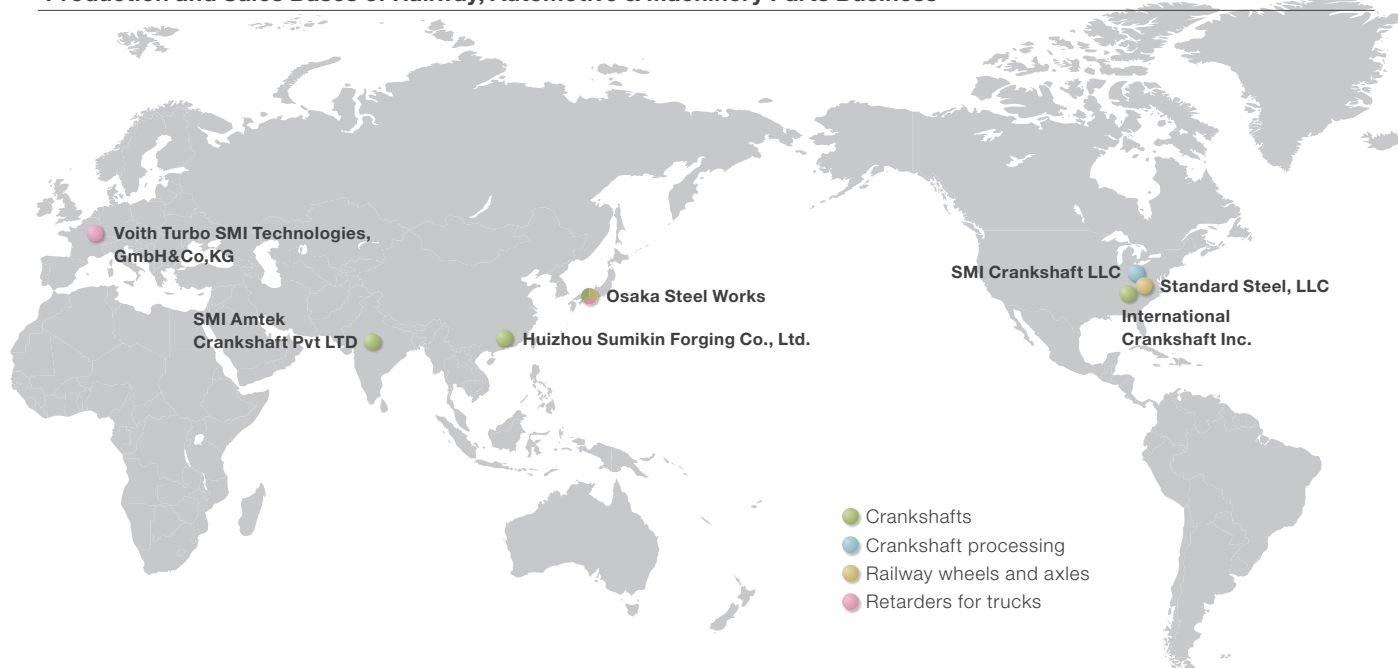


Products with High Shares of the Global Market



(Market share based on Sumitomo Metals' estimates)

Production and Sales Bases of Railway, Automotive & Machinery Parts Business



Bars and Wire Rods

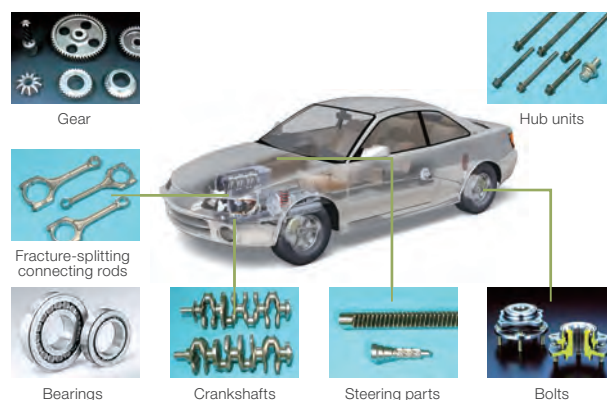
We are focusing on high-grade specialty bars and wire rods used in automobiles and industrial machinery. Those products have achieved distinctiveness through integrated quality control from the blast furnace.

Market Environment

The customers' demand for quality is rising

We manufacture special steel for important parts related to vehicle safety, such as engines, powertrains, and underbodies. More advanced functions are being demanded by customers due to the development of more lightweight and safer vehicles.

Supplying Safety-critical Parts for Automobiles



Sumitomo Metals Group's Strategies

Concentrate on specialty steel and high-end products

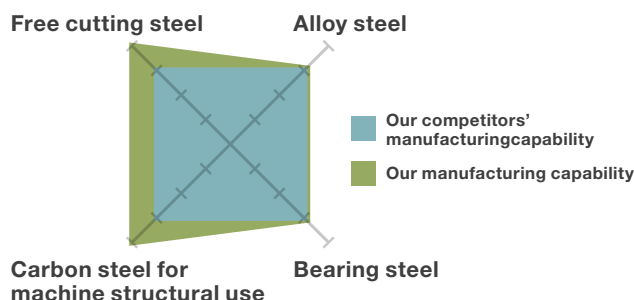
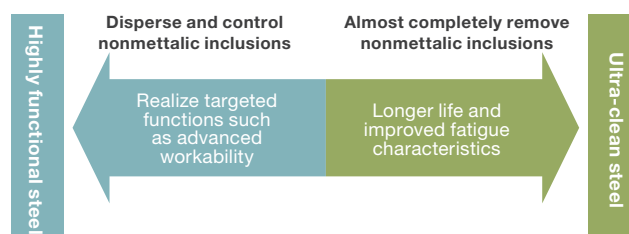
Our priority sectors are automobiles and industrial machinery. We will concentrate on two areas: highly functional steel (with advanced workability due to control of non-metallic inclusions) and ultra-clean steel (with longer life and improved fatigue characteristics, due to maximum reduction of non-metallic inclusions.)

Expand overseas with a base in Japan

In Japan, following investment in new steelmaking plant and new finishing roll equipment for steel bars, remodelling of two wire rod plant rolling lines into a single line was completed in 2011, thereby being able to efficiently produce high-end products.

We will expand into overseas growth markets for automobiles such as Asia and the United States.

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



Stainless Steel and Titanium

The stainless steel business will achieve distinctiveness with highly functional products that have excellent heat-resistance, corrosion-resistance and workability.
The titanium business will expand sales by leveraging its quality and delivery handling capabilities.

Market Environment

The highly functional materials market will expand

Demand for highly functional stainless steel materials, such as parts and materials for automobile engines, fuel cells, and lithium-ion batteries are expected to grow. The expansion of demand for high-end titanium will be led mainly by aerospace and heat exchangers for power plants.

Our titanium products are used in passenger airliners such as A380



AIRBUS A380

©AIRBUS

Sumitomo Metals Group's Strategies

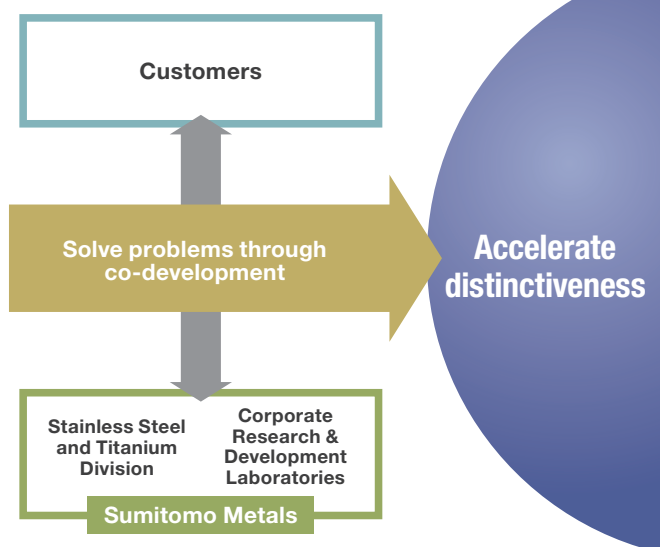
Provide solutions by jointly developing highly functional materials with customers

We will focus on developing new products and enhance customer appraisal.

In the stainless steel sector, we will focus on developing new highly functional materials.

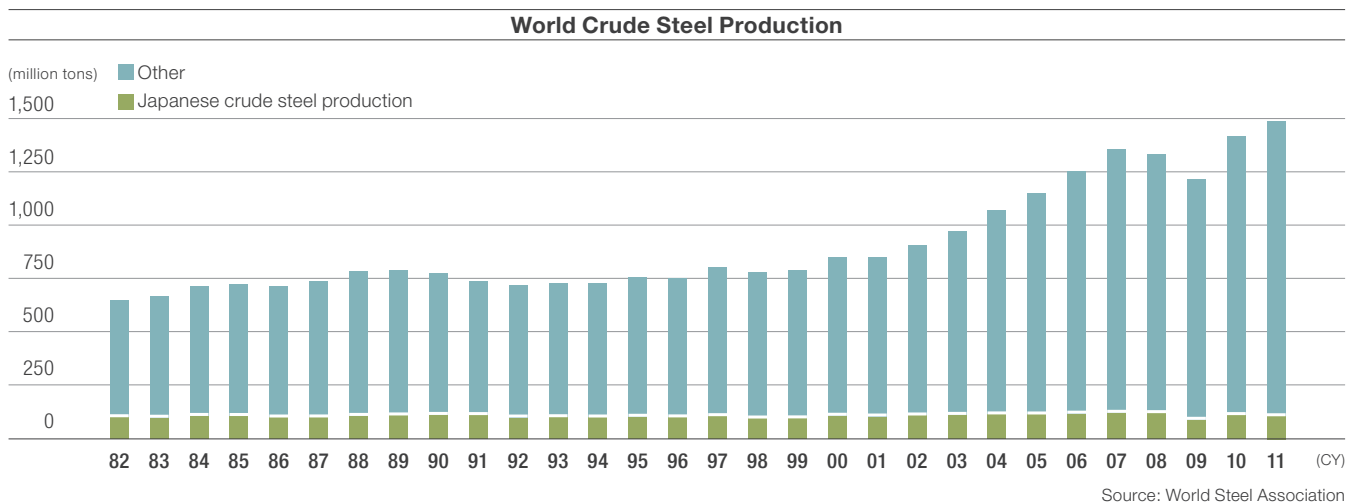
For titanium, we will achieve distinctiveness through stable quality and expand sales in growth markets such as aerospace and heat exchangers.

Enhancing Customers' Appraisal by Providing Solutions

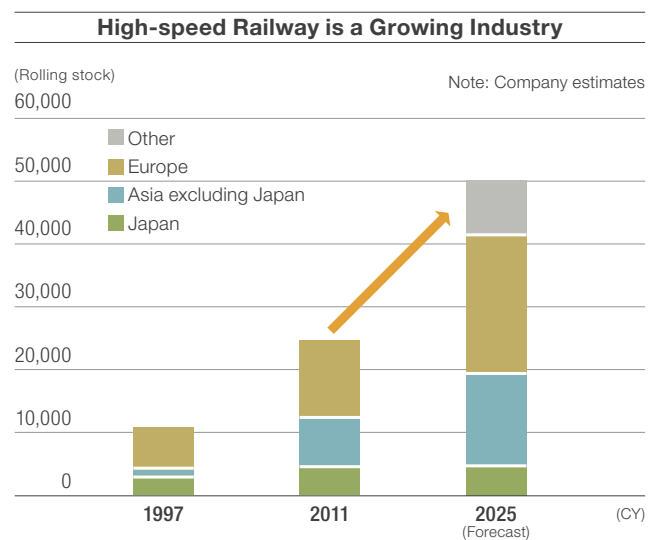
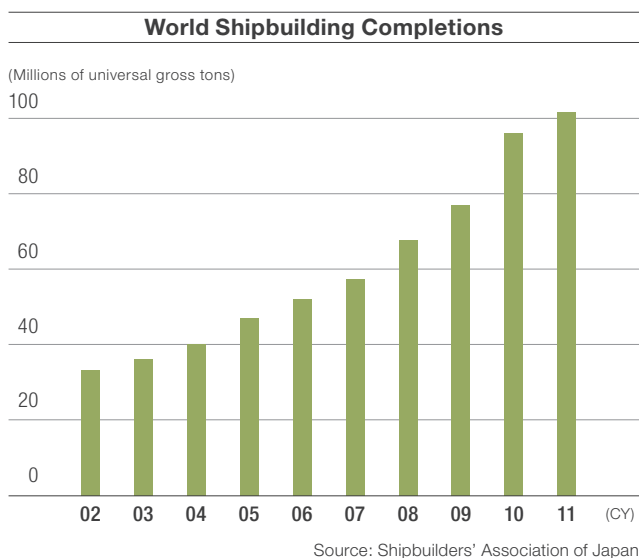
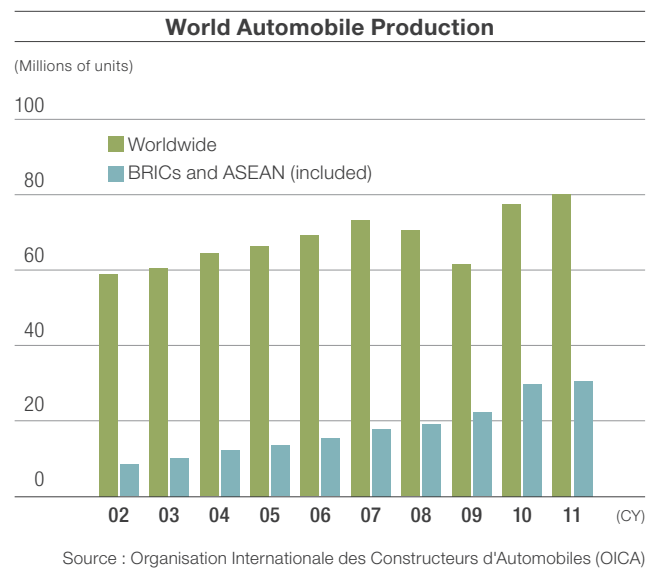
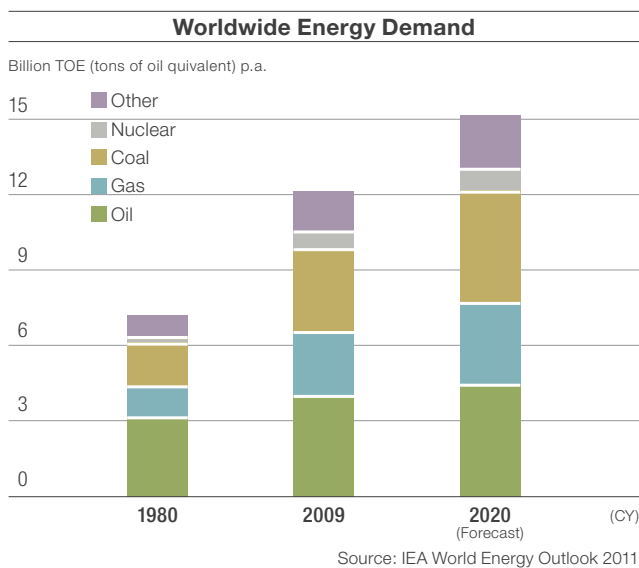


Business Environment Data

Steel is a growth industry



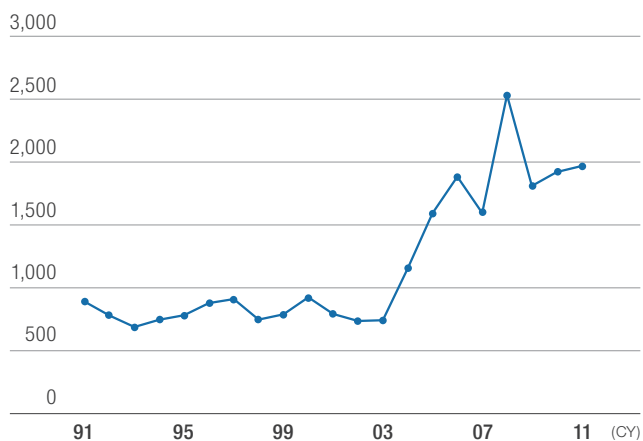
Sumitomo Metals Group sees a growth in demand in its major business markets



Market Price Trends

OCTG in U.S.A. (Casing, Heat treated)

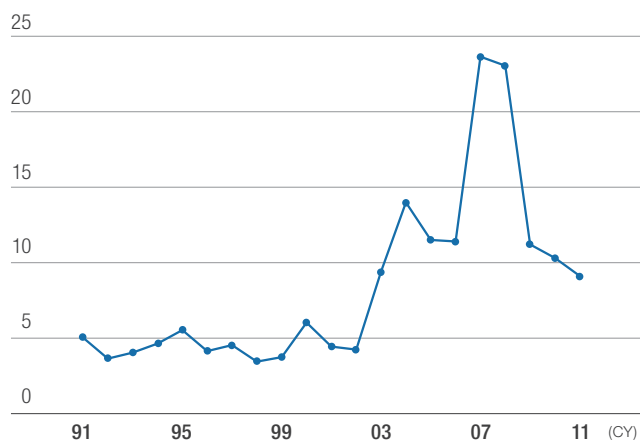
(US\$ / short ton)



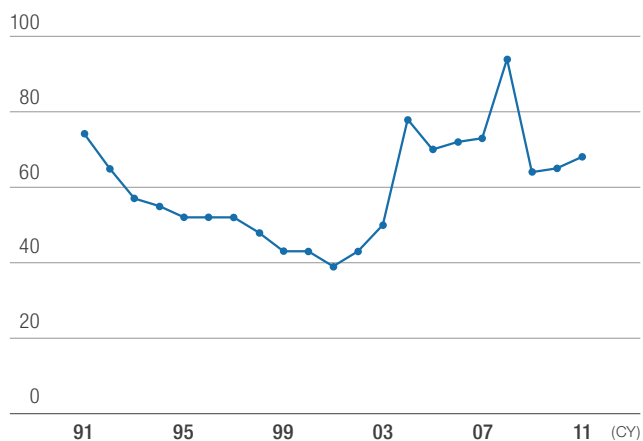
Source: Preston Pipe & Tube Report

Freight Rates (Cape-size, Pacific)

(US\$ / ton)


Hot Strip Steel Sheets in Japan

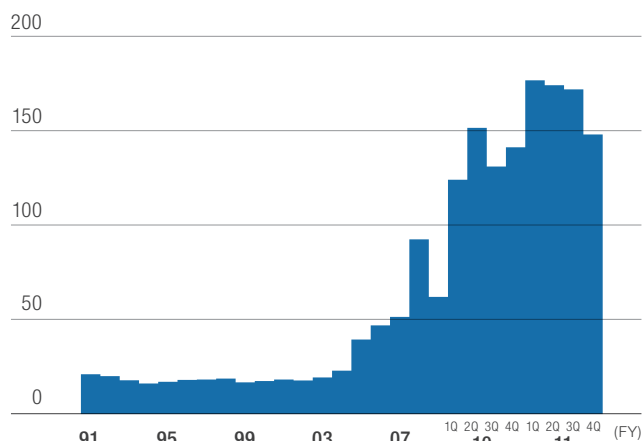
(¥ thousand / ton)



Source: Japan Metal Daily

Iron Ore (Fine ore, Fe 64%: Contracted price*)

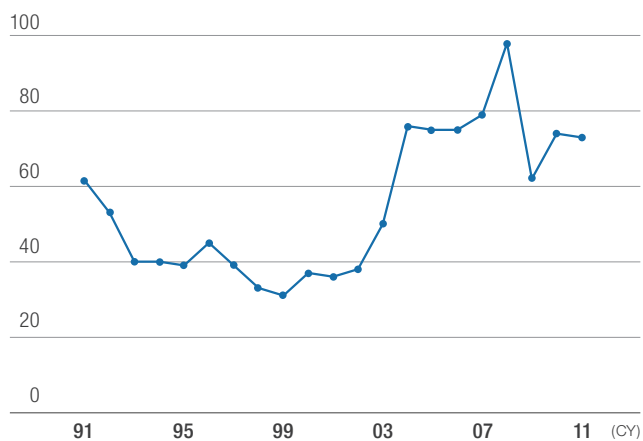
(US\$ / ton)



*Yearly contract until the end of fiscal 2009, quarterly contract after fiscal 2010

H-beams in Japan

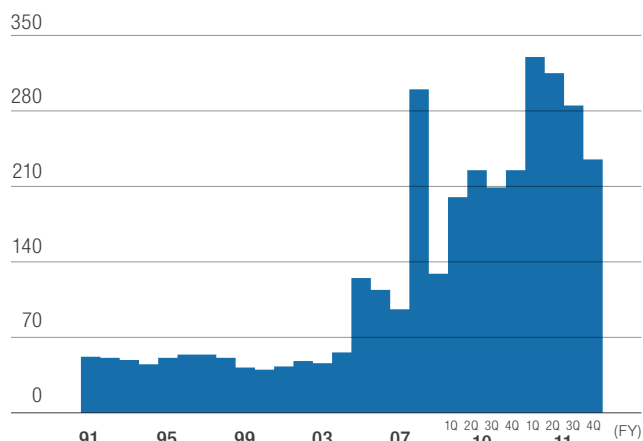
(¥ thousand / ton)



Source: Japan Metal Daily

Coal (Hard coking coal: Contracted price)

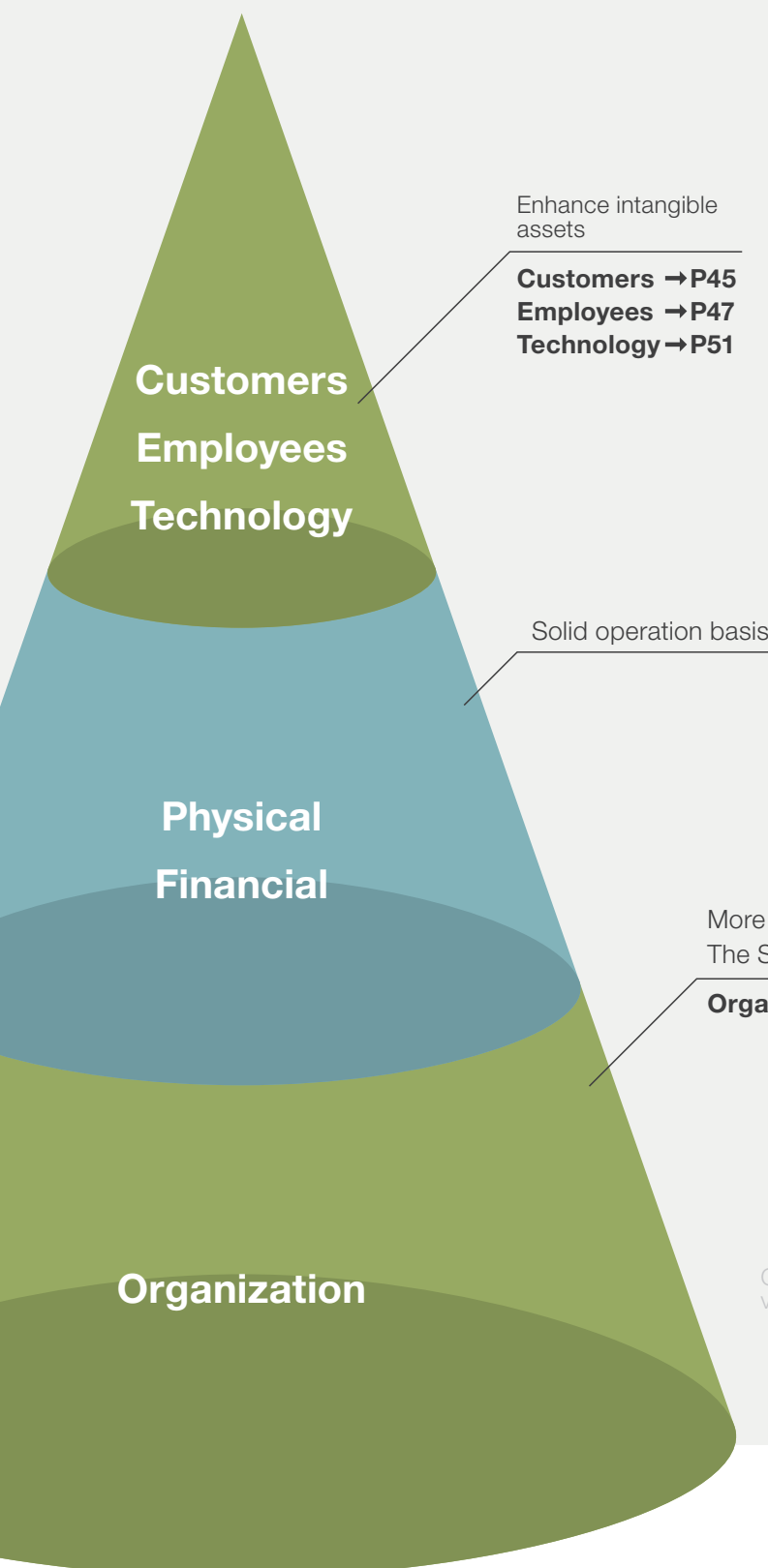
(US\$ / ton)



*Yearly contract until the end of fiscal 2009, quarterly contract after fiscal 2010

How We Create Value





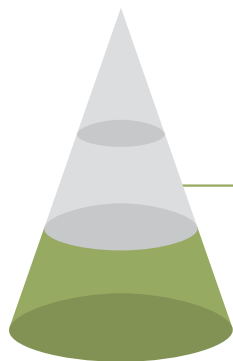
Creating value, contributing to stakeholders

We take corporate social responsibility (CSR) seriously and intend to increase corporate value in order to win the trust of all of our stakeholders. To achieve this goal, we believe sustained growth that balances quality and scale is essential. “Intangible Assets” such as technology, people, and organization are critical elements to be trusted by all of our stakeholders including customers, and to raise quality of Sumitomo Metals.

“Intangible Assets” drives value creation

“Intangible Assets” do not appear on financial statements. They are, however, by no means less important than ordinary assets such as inventories and facilities. We try to measure and improve them as we do with ordinary assets. It is how we achieve growth that balances quality and scale.





Organizational Assets Assets that support quality

Examples of organizational assets include corporate culture, corporate philosophy, and, in short, how we do business. The Sumitomo Metals Group has a history of steelmaking of over 100 years, and maintains the philosophy of contributing to society through steelmaking, by making the best use of human resources and technological capabilities. Sumitomo Metals will integrate with Nippon Steel under the banner of a shared similar philosophy. The integrated company is intent on gaining the trust of all stakeholders and achieving sustained growth.

Sumitomo Metals' Corporate Philosophy

We will preserve the Sumitomo Spirit and transmit it to the future, treasure people and technologies, and contribute to society through manufacturing.

Sumitomo Metals' Code of Conduct

01 Respect the Sumitomo Spirit, comply with laws and regulations, and maintain high ethical standards.	02 Develop and provide high-quality and safe products and services that benefit society, and earn the satisfaction and trust of our customers.	03 Promote fair and free competition and proper business practices, prohibit improper expenditures, and ensure a healthy and proper relationship with government administrations.
04 Keep the public informed, disclose proper and accurate corporate information, and safeguard all confidential and proprietary information.	05 Create a healthy and safe work environment, and appreciate the diversity of our employees.	06 Contribute to global environmental preservation and to local communities.
07 Permit no relationships of any kind with anti-social forces and organizations, and take firm action against all improper demands.	08 Comply with laws and regulations of each country and region, and fully respect all international norms, cultures, and customs in conducting our business operations.	09 Comply with this Code of Conduct and establish a company system to enforce it. In the event of a violation of this Code, identify the cause promptly and take the appropriate action to prevent its recurrence, and be held accountable.

Sumitomo Metals' Governance Structure

01

Corporate Governance

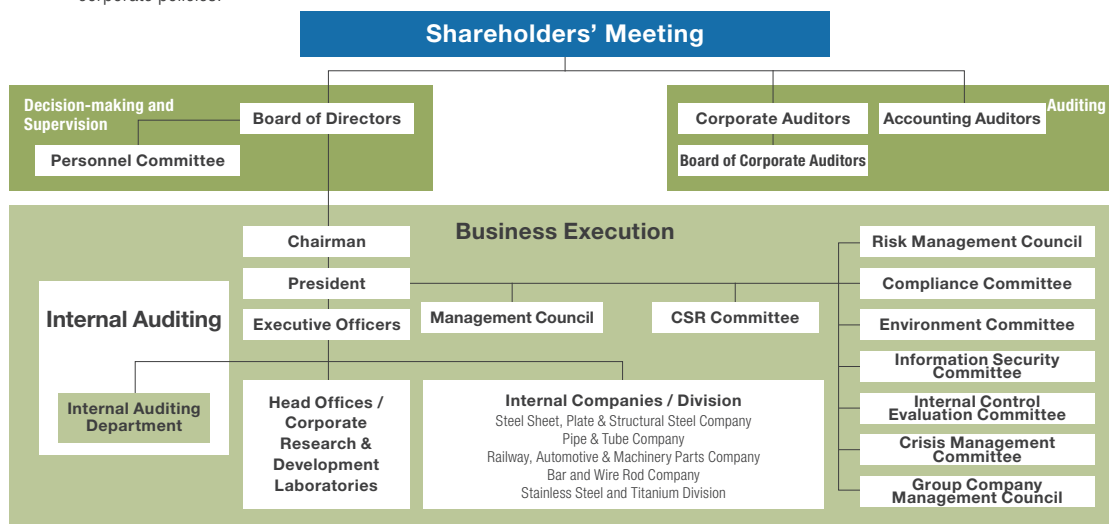
We have established a system to ensure that our decision-making, execution of business, and oversight are all properly performed.

Sumitomo Metals' Governance Structure

- 1 The directors' term of office is set at one year in order to ensure transparency with regard to responsibility during any given business year.
- 2 Three out of five auditors are external auditors.
- 3 The general meeting of shareholders is held on a day that does not coincide with the annual peak day for Japanese annual meetings, with the aim of facilitating attendance by more shareholders.
- 4 Presentation meetings and plant tours are held for our shareholders and investors, so that they can better understand our actual conditions and corporate policies.



The 89th shareholders meeting (June, 2012)



01-1 General meeting of shareholders

The general meeting of our shareholders forms the basis of our corporate governance. It is a valuable opportunity to provide shareholders with information that matches their interests and for us to hear their views on management. We hold our annual meeting on a day that does not coincide with the annual peak for Japanese annual meetings.

Period	Date	The number of shareholders present
84th	June 26, 2007	1,234
85th	June 19, 2008	1,193
86th	June 19, 2009	1,346
87th	June 18, 2010	1,245
88th	June 17, 2011	1,439
89th	June 26, 2012	1,525

01-2 Board of Directors

Important decisions related to the management of our corporate group are discussed at the Board of Directors meetings. Important managerial 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. We have 8 directors, who have a term of office of one year, and 24 executive officers, some of whom are concurrently directors.

01-3 Auditors, internal audits, and accounting audits

Sumitomo Metals has adopted an auditor system based on the Companies Act of Japan. Auditors supervise and audit the decision-making of our Board of Directors as well as execution by 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' work and the size of its 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 executions by the executive officers.

01-4 Appointment of candidates for directors, executive officers, and auditors

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 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 at one year in order to ensure transparency with regard to responsibility during any given business year. No external director is in office at present.

01-5 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 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)
2006	327	28.3	8.0	836	161
2007	298	20.3	10.0	733	147
2008	225	11.1	10.0	779	141
2009	-36	-5.9	5.0	738	133
2010	34	-0.9	3.5	655	122
2011	60	-7.3	2.0	601	116

01-6 Management of group companies

Regarding management of group companies (excluding listed companies), we ask them to consult with us concerning their important decision-making matters and report on their operations and execution on a regular basis.

01-7 Dialogues with the investment community, including shareholders

Investor relations (IR) activities are important for Sumitomo Metals. We conduct a wide range of IR activities, so that shareholders and other investors can understand actual conditions, policies, practices, and "intangible assets" of the company. We supply corporate information needed for investment decision-making in a timely and accurate manner.

We invite shareholders to our plant tours in the spring and fall. In the spring of 2012, a total of 650 shareholders visited five of our steelworks. In addition, shareholders are invited to the J-League football games (home and away) of the Kashima Antlers.



Shareholders plant tour at Kashima Steel Works

Institutional investors		Individual investors	
Results briefing	Quarterly	Business briefing	2010: 4 times
Plant tour	At all times		2011: -
One-on-one meetings	Many		
Individual shareholders			
Plant tour* ¹ (5 locations)		2010 2,060 participants	2011 1,850 participants
Business briefing* ¹ (5 locations)		-	2,850 participants
Invitation to the J-league football games of Kashima Antlers ²		2010 Season 5,700 invitees	2011 Season 5,800 invitees

^{*1} Shareholders who own more than 10,000 shares are eligible

^{*2} Shareholders who own more than 5,000 shares are eligible

Organizational Assets



01-8 Board of Directors



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, General Affairs, Legal, Steel Sales & Production Administration and Project Development Departments, Sales Offices, Sales of all Internal Companies and Division



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, Safety Technology, Technology and Quality of all Internal Companies and Division, General Manager of Stainless Steel & Titanium Division



Syuichiro Kozuka

Director
(Executive Vice President)

Responsible for Personnel & Industrial Relations and Safety & Health Departments, General Manager of Osaka Head Office, President of Pipe & Tube Company



Yoshitaka Hotta

Director
(Senior Managing Executive Officer)

Responsible for General Affairs, Legal, Personnel & Industrial Relations and Safety & Health Departments



Kiyotaka Nogi

Director
(Senior Managing Executive Officer)

President of Railway, Automotive & Machinery Parts Company



Shinya Okuda

Director
(Senior Managing Executive Officer)

General Manager of Nagoya Sales Office



Kinya Yanagawa

(Senior Managing Executive Officer)

President of Steel Sheet, Plate & Structural Steel Company

01-9 Auditors



Kitaro Yoshida
Standing Corporate Auditor



Hirohiko Minato
Standing Corporate Auditor



Keiichi Murakami
Outside Corporate Auditor
Attorney



Toshiro Mutoh
Outside Corporate Auditor
Chairman of Daiwa Institute
of Research, Ltd.,
Outside Director of Mitsui &
Co., Ltd.



Hirotake Abe
Outside Corporate Auditor
Certified Public Accountant,
Outside Corporate Auditor of
ITC Networks Corporation,
Outside Corporate Auditor
of Honda Motor Co., Ltd.

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 Departments in charge of internal governance. We also work together with the Outside Auditors who have experience 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 the credibility of their audits.

Kitaro Yoshida
Chair of the Board of Auditors

01-10 Accounting Auditors



Hiroshi Yoshida
Certified Public Accountant
Deloitte Touche Tohmatsu
LLC-Japan



Yasuyoshi Ichikawa
Certified Public Accountant
Deloitte Touche Tohmatsu
LLC-Japan



Tsuguo Ito
Certified Public Accountant
Deloitte Touche Tohmatsu
LLC-Japan



Eiichi Izumo
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 carry out accurate audits that satisfy the expectations of all stakeholders and work to meet the needs of society.



02

CSR Management

We believe management and CSR are inseparable. The Sumitomo Metals Group strives to improve CSR and improve the quality of its business and management by incorporating the CSR committee into its corporate governance structure. To us, CSR means achieving sustained growth in corporate value by cultivating “intangible assets” such as organizational assets, customer assets, human assets, and technology assets. It also means growing in harmony with environment and society.

03

Risk management

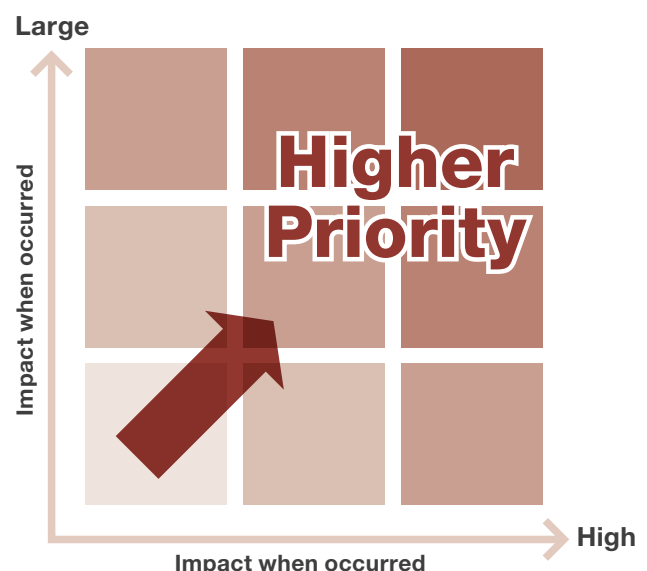
Continual business operation is a prerequisite for the sustained growth of a company. Sumitomo Metals identifies potential risks and takes preventive measures against the possible impact of such risks. We have set priorities to take measures against potential business risk factors, with due consideration to the following factors:

(i) Expected frequency

(ii) Impact when occurred

We are taking preventive measures for each factor by learning lessons from what occurred and how we acted at the time of the Great East Japan Earthquake.

Set priorities to take measures against potential business risk factors



Risk Management System

The Risk Management Conference identifies, evaluates, and establishes preventive measures against risks.

By learning lessons from our experience in the earthquake of March 2011, we set our priority issues as follows:

(i) Prevent harm to humans

(ii) Prevent critical damage to facilities

(iii) Restore and resume production quickly after the disaster

In the case of an emergency, a Crisis Management Committee is set up, and then makes quick appropriate decision and takes action as needed. Training is conducted to prepare for this.

Primary risk items	Primary countermeasures and other responses
Compliance violations	Observe the Anti-Monopoly Law, insider trading restrictions, labor related laws, Public Offices Election Act, Political Fund Control Law, and other laws and regulations, and carry out quality management, security trade control management, and correct subcontractor management.
Natural disaster, war, or civil disturbance	Conduct disaster-prevention management, safety and health management, and stable procurement of raw materials and supplies.
Environment	Observe environmental regulations.
Accident	Conduct equipment diagnosis and create information backup systems.
Litigation	Intellectual property management.

[An example of our risk management]

Promoting BCP*

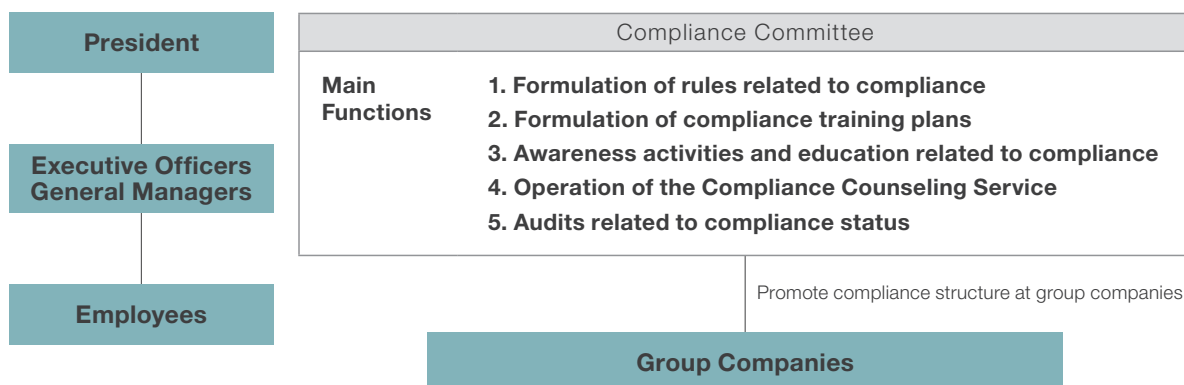
We always prepare for natural disasters with drills and manuals. The experiences of the earthquake in March 2011 gave us lessons: We have improved our drills reflecting what we had not expected and what we could not act as drilled. We try to make our drills as real as possible.

* Business Continuity Plan: Planning and preparation aimed at ensuring the continued business operation in the event of a disaster



04 Compliance

Under the belief that compliance is a foundation of corporate management and a precondition for the very existence of business, the Compliance Committee takes the lead in promoting and enhancing compliance. The corporate entity as well as all individuals including directors and employees engage in business in a way that is in compliance with laws, regulations, and social norms.



Prevailing Compliance

We have the “Compliance Manual”, in which the basic rules of compliance are described, and the “Compliance Counseling Service” has been established. All employees carry a compliance card with them, while directors and officers submit compliance pledges, with an aim to be conscious about it. Moreover, the company holds various kinds of training sessions regarding compliance.



Compliance Card: “Can you explain it to your friends and family?”



05

Quality management

For a manufacturing company like ours, quality is a must on the one hand and an eternal objective on the other. We have stipulated the Basic Quality Policy and the Quality Management Action Policy and are engaged in thorough quality management.

Quality management and promotion system

The executive vice president in charge of quality has been assigned to enhance quality management system. We have established a Quality Planning Department, which is independent of the Quality Assurance Department, at each steelworks, to strengthen the checking system. In addition, a Chief Quality Officer (CQO) has been assigned at each group company to improve quality as the Sumitomo Metals Group.

Basic Quality Policy

Provide high-quality products and services that meet the needs of our customers.

Quality Management Action Policy

1. Understand that quality is one of the most important issues for our business, and work to maintain and improve the quality management system.
2. Employees in production, sales, engineering, research, and all other areas shall continuously carry out quality improvement activities in line with our basic policy.

06

Environmental management

It is important to live together in the community or society, or on the Earth, with due consideration for the environment. The Sumitomo Metals Group has a structure to improve or solve environmental problems as a group.

Basic Environmental Management Policy

We conserve environment globally and contribute to creating recycle-oriented society from a long-term perspective.

Environmental management system

Group-wide organization

Sumitomo Metals and the group companies have established an organization for environmental protection, based on the "Action Guidelines for the Global Environment". It includes Sumitomo Metals' Environmental Committee, the Group Environmental Committee, and the Group Environment Supervisor Council. We also have a system to respond in an environmentally friendly and legal way with the consideration for the environment in the event of emergency, through the "Crisis Management Committee" and the "Compliance Committee".

Environmental audit

Internal and external audits for raising the level of our personnel and technologies

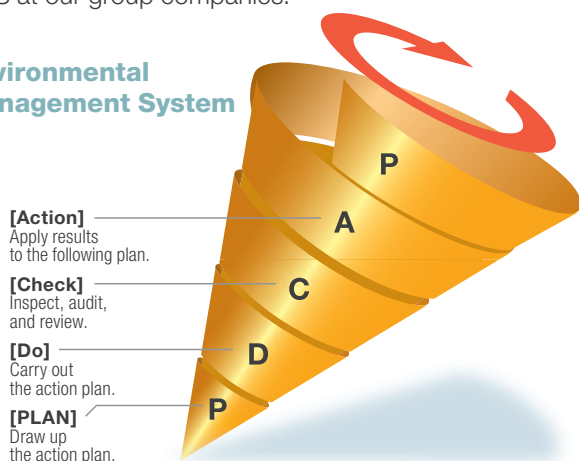
In addition to internal audits, each business site is periodically audited by an external auditing agency for certification of the ISO 14001. The Environment Department of the head office and members at other business sites inspect each other. Sumitomo Metals audits group companies to continuously raise the levels of both the personnel and technologies involved in environmental preservation activities.

Environmental Management System (EMS)

Constructing a system for environmental preservation activities

Sumitomo Metals has acquired ISO 14001 certifications at all works. The ISO 14001 standard requires improvements in the level of environmental management through the “plan-do-check-action” (PDCA) cycle. We are also working toward the acquisition of certification for EMS at our group companies.

Environmental Management System



Green Purchasing

Reducing environmental burden throughout the product life cycle

When purchasing raw materials and parts, we take into account reducing environmental burden throughout the product life cycle such as longer service life and recyclability. We also use low-emission vehicles and utilize lumber from forest trimming as cushioning materials for product transport. We conform to the green purchasing programs of our customers. Furthermore, we have established a system to check contents of chemical substances in advance to avoid the inadvertent use of hazardous substances.

Disclosure of Environmental Information

Keeping the public informed on environment

<“Environmental Public Relations Center” at Wakayama Steel Works>

In April 1996, Wakayama Steel Works opened the Environmental Public Relations Center outside the steelworks. This center provides real-time environmental information, such as information on air quality, noise, and vibration inside and in the vicinity of the works, to local residents. The center is also used to learn about the environment and is visited by more than 1,000 people every year.

Environmental education

Raising environmental awareness among all employees

Appropriate environmental education is provided for employees at every level, from new hires to senior executives. In 1983, we became the first steelmaker to conduct company-wide environmental study and training, which we still conduct regularly today. Sumitomo Metals also provides training programs and lectures specifically designed for each business site, works, and our group companies.

Processing supply chain environmental impact information based on international standards

Amid the tightening of regulations governing chemical substances on a global basis, we are endeavoring to reduce the use of regulated substances and are also actively respond to inquiries regarding chemical substances contained in our products.

Environmental Accounting

For environmental preservation and energy conservation

We compile environment-related capital investment and maintenance costs and use them as a benchmark to evaluate our efforts in environmental preservation and energy conservation. In fiscal 2011, environment-related investment and maintenance costs amounted to 7.6 billion yen and 61.1 billion yen respectively, while related R&D expenditures were 17.0 billion yen.



07

Information Security

Information securities management system

The "Information Security Committee" maintains and improves the management systems of our entire Group in order to protect company information assets from various potential threats, including the risk of inadvertent leakage.

Protection of personal information

Sumitomo Metals has created the "Guidelines for Handling of Personal Information" and the "Personal Information Protection Manual" for promotion of proper handling of personal information.

Prevention of information leakage

Company information is divided into three categories according to the degree of damage that might incur if leaked, and information control methods have been established for each category. We also take measures such as education and equipment to prevent information leakage.

Category	How to store documents		
	Storage	Office environment	Key management
Top-secret documents	Kept under lock and key.	Kept under lock and key.	Managed by a designated person. Permission is required for use.
Secret documents	Kept under lock and key.	Not left unattended on a desk, put under lock and key before leaving the office.	Can be co-used in a designated storage site.
Controlled documents	Not to be left unattended, kept in storage or a desk.	Not left unattended on a desk; placed in storage or a desk before leaving the office.	

08

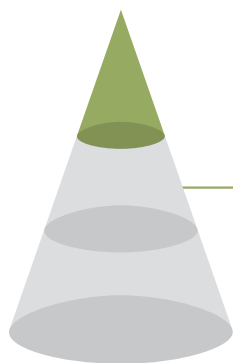
Protection of intellectual property

Intellectual property management system

Sumitomo Metals recognizes that its business strategies and intellectual property strategies are inseparable. The head of each internal company serves as the top administrator of intellectual property, and a Patent Portfolio Manager (PPM) is assigned under that person. With this system, each internal company is able to function as a team to execute the intellectual property strategy. The Intellectual Property Department provides support and coordination for each business area.

Efforts for the protection of intellectual property

We acquire and utilize rights related to the proprietary technologies and eliminate imitation products that violate our rights. At the same time we respect the intellectual property rights of other companies, and conduct the necessary investigations to avoid violating them. We also carry out intellectual property training and in-house workshops each year to improve understanding and awareness of our employees.



Customer Assets

Relationships of trust with our customers is our priority.

We seek to be No.1 in customers' evaluations.

We build strong relationships of trusts with our customers by making us to be valuable to them by helping them solve problems.

01

We seek to be No.1 in customers' evaluations

The Sumitomo Metals Group assigns great importance to customers who find our technology, quality products, and services indispensable to their businesses. We make our best efforts to help our customers solve problems and to build strong relationships of trust, and thus achieve sustained growth.

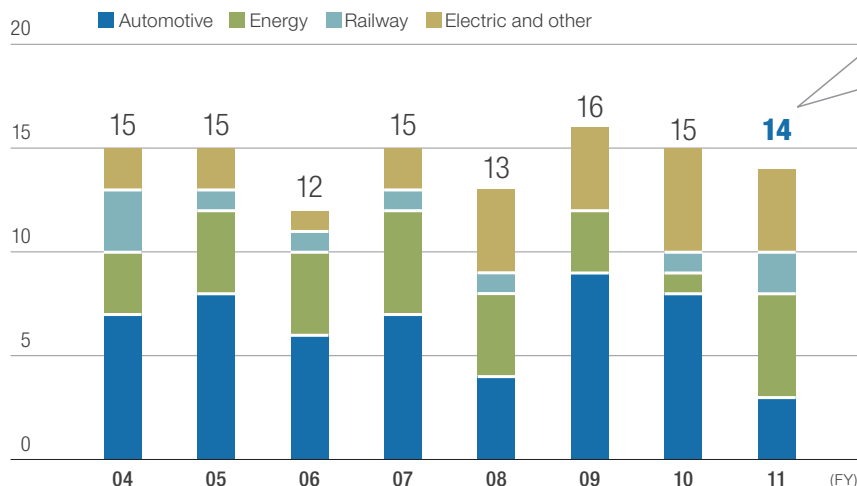
Our group is making various efforts to increase such customers, depending on the characteristics of a business. For example, in steel sheets, pipe & tube, and specialty steel businesses, we have defined the ratio of sales of which our products and services are evaluated to be indispensable to the customers' businesses, as our "Customer Penetration Ratio," and we focus on improving this ratio. In the OCTG business, we have long-term contracts with major oil companies such as Exxon Mobile, Royal Dutch Shell, and BP. Business with these companies accounts for over a half of the OCTG sales and contributes to sustained growth in our seamless pipe business.

We are also involved in joint research or technological exchange meetings with customers.



"Roving Quality Squads" bring back the voices of our customers.

Awards and commendations from customers: Consistently highly evaluated from our customers



Customers and other

Electric appliance and other

Panasonic Corporation (3 awards)
Toyota Housing Corporation

Railway

East Japan Railway Company
TTX Company

Energy

RasGas Company Limited
Samsung Heavy Industries Co., Ltd.
Samsung C&T Corporation Co., Ltd.
Exxon Mobil Corporation
American Petroleum Institute (API)

Automotive

Toyota Motor Engineering & Manufacturing North America, Inc.
Suzuki Motor Corporation
Toyota Motor Kyushu, Inc.

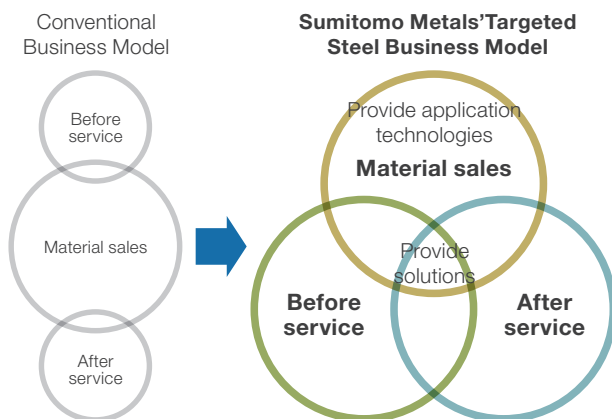
02

We get close to customers and help solve their problems

Automobile-related business

Our business is not simply to deliver products required by our customers. We help customers solve problems in all of their manufacturing processes; from development of materials and structures at the design stage of an automobile by a customer ("Before Service,") to subsequent production and processing ("After Service"). This is our way to win the world's top class evaluation among our customers.

Contributing to customers' problem-solving with "Before Service" and "After Service"



Before Service

Sumitomo Metals dispatches its own engineers to assignments at the design departments of automobile companies (called "visiting engineers".) Sumitomo Metals was the first company to provide this kind of "pre-production service" which includes use of our organizational support scheme. We also enhance our distinctiveness by developing materials with a focus on application technology that takes into consideration how the specific steel materials are to be used by the customers.

After Service

"Roving Quality Squads" of our engineers visit customers' manufacturing sites on a regular basis. Veterans in manufacturing at our steel mills bring back the voices of the customers to their own worksites, for further improvement.

Energy-related business

In the energy businesses, on the basis of the relationship of trust that was established by our high grade products and superior services, we seek to build a virtuous cycle of trust: to offer high quality products and services to customers ➡ gain trust of customers ➡ become the first to be consulted for solving their problems ➡ develop new products ➡ set global standards ➡ gain greater trusts of customers.



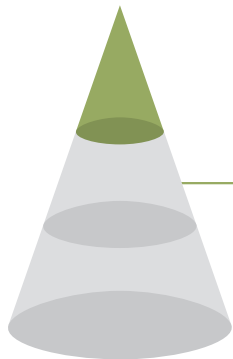
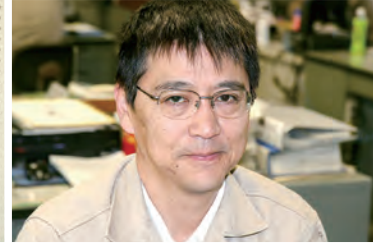
At oil and gas development sites, our distinctive products such as seamless pipe and steel plate are contributing to customers.

03

"SMICAT" (Sumitomo Metal Industries' Customer Service in Application Technology)

We solve customers' problems by deploying our group's integrated technological capabilities. SMICAT is available to provide solutions for customers' problems. This is a system that fully utilizes the Sumitomo Metals Group's integrated technological capabilities that combine

knowledge and experiences of Sumitomo Metals and its group companies, including those for non-steel areas. Element technologies accumulated within the Group have been compiled in a database, for use in solving customers' problems.



Human Assets

**We nurture employees who drive expansion in overseas growth markets.
The integration with Nippon Steel will enrich our human resources.
Their fields of work will expand in terms of regions and business domains.**





01

Diverse people work together

The Sumitomo Metals Group has a global business operation. From Japan, around 130 employees in our managerial career positions, roughly twice the number from five years ago, are sent to work in 12 countries overseas. People who can perform on a global stage are increasingly in need. The capability to work in a different cultural environment is as critical as the language skill. The training program for fresh recruits in managerial career positions has been enhanced by adding overseas study or training programs to acquire specialized knowledge or practical work experience.

It is also important to hire and invest in engineers who lead us to advance our technological edge. There are three pillars in their training programs: "Fundamental Technology Training Programs," "Technological Training Sessions" that aim to develop experts, and the "Field-based Manager System" that nurtures experts for each element technology.

02

Skill transfer and constant hiring support our sustained growth

About 40% of our manufacturing workforces are veteran employees aged 50 or higher. They are relaying their accumulated skills and know-how to the next generation of young workers. The method of transferring skills and know-how has been evolved by systematized teaching methods. For example, work procedures are visualized, and comprehension tests are conducted.

Taking a long-term perspective, we hire personnel every year and provide them the systematic training programs with the aim of raising productivity.

Our employees are working in the global field



- Japan
- USA
- China
- Thailand
- Singapore
- Vietnam
- India
- Saudi Arabia
- UAE
- UK
- Germany
- Australia
- Brazil



03

Diverse people work for business development

Approximately 4,300 employees of diverse background are working in 30 overseas bases of the Sumitomo Metals Group. In the steelworks that produces seamless pipe in Brazil (VSB) and the steel sheet mill which is under construction in Vietnam (CSVC), our engineers are working together with employees from our joint venture partners and local employees. In addition, Standard Steel, the U.S. railway wheel and axle manufacturer we acquired in 2011, is headed by a local executive as CEO. The integration with Nippon Steel will accelerate our diversity.



Standard Steel : Employees and Mr. Condon, CEO

04

Creating an employee-friendly environment

In order for our employees to bring out the best of their capacity, a good work environment and a good work-life environment for their families are equally important. We offer various welfare benefit programs that accommodate the needs of employees. These include dormitories, company housing, and the "Life Plan Support Lump-sum Payment." In 2010 we made an arrangement with childcare centers near our Tokyo Headquarters to support employees with young children.

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.



Technical assistance to Bhushan Steel by our engineers.



05

Safety and health of workforce are of utmost importance

The safety and health of our workforce are of utmost importance for corporate growth. Based on Sumitomo Metals' Basic Health and Safety Policy, we aim to eliminate all industrial accidents. As an example, our "Hands-on Safety Training" program enables employees to experience risk operation through simulation. This program has been recognized as highly effective by many industries in Japan and overseas. Thanks to its contribution to safety activities in industrial communities, Sumitomo Metals was awarded the special prize in the Japan Steel and Iron Federation Iron and Steel Safety Awards for 2011. We also offer mental health care and other health-promoting programs.



Virtual experience training for high-location risk: Drop a doll from a high place and virtually feel the impact it felt when falling.

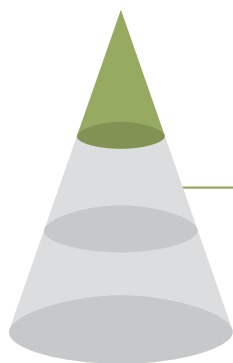
06

Respect human rights and hire the disadvantaged

Sumitomo Metals respects human rights, gives due attention to the rights of workers, and staunchly opposes the use of forced and child labor. These are prerequisites of our corporate activities. Our group has prohibited unjust discriminatory treatment of workers since 1979 when we set up a dedicated committee. In addition, the ratio of disadvantaged people in our workforce exceeds the legal requirement. We also give careful consideration to the traditions and cultures of each country as we accelerate overseas business development.

Changes in the ratio of disabled persons employed





Technology Assets

Driving the acceleration of
Distinctiveness

At the Sumitomo Metals Group, we focus on areas of strengths and technologies that differentiate us from our competitors, in order to raise corporate value. Our integrated operation of R&D, production, marketing and sales will help earn the trust of our customers.

Major awards in recent years



Highest-ranked award

Blast furnace



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

2010 **Okochi Memorial Foundation Production Prize**

2009 **Monodzukuri Nippon Grand Award / Excellence Prize**

Continuous casting



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

2011 **Monodzukuri Nippon Grand Award / Minister of Economy, Trade and Industry Prize**

2009 **The Japan Institute of Metals / Technical Development Award**

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

2007 **Monodzukuri Nippon Grand Award / Prime Minister's Prize**

Seamless pipe



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

2011 **National Commendation for Invention / Chairman's Prize**

2008 **Okochi Memorial Foundation Grand Production Prize**

Invention of strengthened low-alloy steel for economical boilers

2009 **National Commendation for Invention / Invention Prize** <Joint development with Mitsubishi Heavy Industries, Ltd.>

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

2008 **National Commendation for Invention / Imperial Invention Prize**

Hot rolling



Development of the world's first hot rolling steel sheet thermometer with high precision even during a cooling process and the high-tensile steel sheet manufacturing technology by using this thermometer

2011 **Monodzukuri Nippon Grand Award / Excellence Prize**

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

2009 **Monodzukuri Nippon Grand Award / Excellence Prize**

Steel sheet



Development of non-oriented electromagnetic steel sheet for high-efficiency motors / Development of resource-saving, high-strength electromagnetic steel "SXRC"

2010 **The Japan Institute of Metals / Technical Development Award**

2008 **Science and Technology Commendation from Minister of Education, Culture, Sports, Science and Technology, in the Development Category for Science and Technology**

Development of crash-box that improves fuel and crash safety

2009 **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., Ltd.>

Steel plate rolling



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

2010 **Science and Technology Commendation from Minister of Education, Culture, Sports, Science and Technology, in the Development Category for Science and Technology**

2009 **Ichimura Industrial Prize / Contribution Prize**

Wheel / axle



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

2009 **The Japan Society of Mechanical Engineers / JSME Young Engineers Award**

Bogie truck



Development of onboard friction control devices to improve curving performance of railway vehicle and the onboard friction control system

2011 **The Japan Society of Mechanical Engineers / JSME Medal for New Technology**

Bars and wire rods



Development of low-carbon non-leaded free cutting steel "Smigreen CS"

2011 **The Japan Institute of Metals / Technical Development Award**

Stainless steel sheet



Development of fine-precipitates dispersed stainless steel sheet (NAR-301L HSX)

2011 **The Japan Institute of Metals / Technical Development Award**

Development of heat resistant stainless steel sheet "NAR-AH-7" for advanced high-temperature heat exchangers

2010 **The Japan Institute of Metals / Technical Development Award**

Development of high fatigue strength stainless steel for cylinder head gasket

2010 **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 stainless steel foils for bipolar plates of polymer electrolyte fuel cells

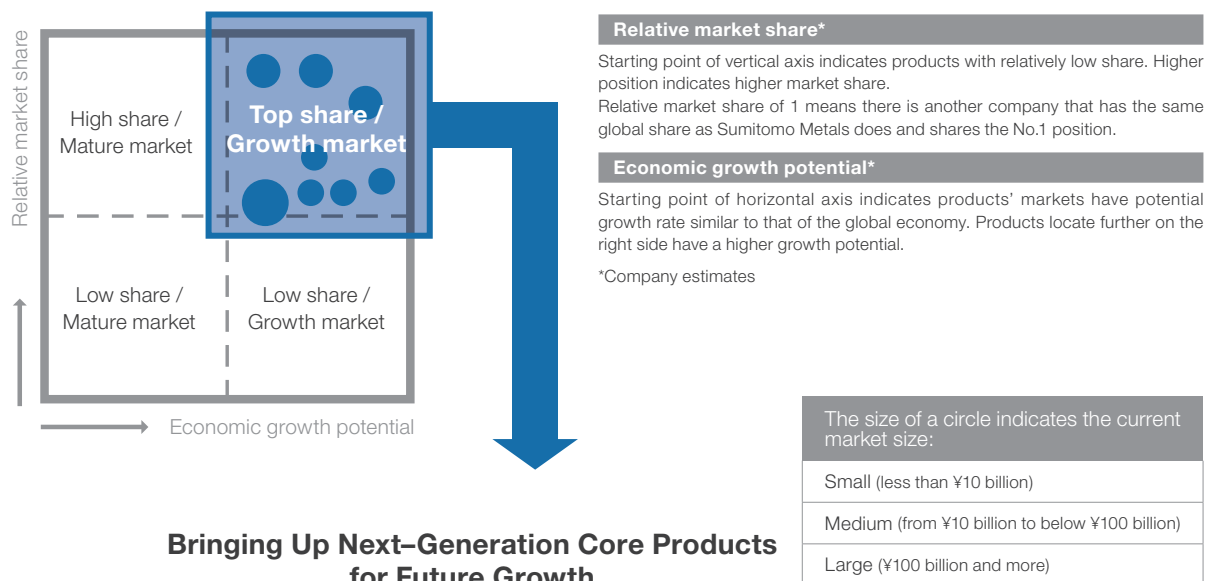
2009 **The Japan Institute of Metals / Technical Development Awards**

01

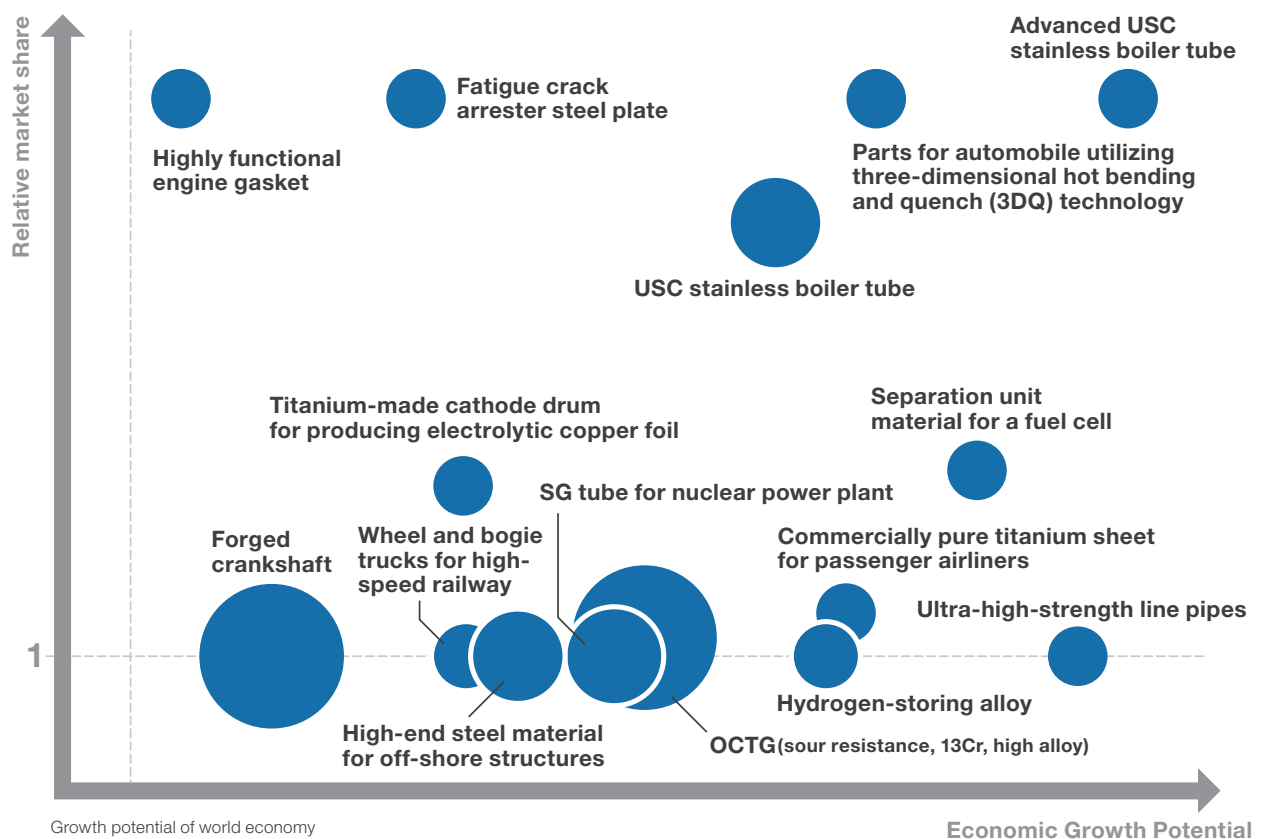
We will consistently develop distinctive products

The Sumitomo Metals Group's strength comes from its distinctive products line-up in the growing sector. Most of our current highly-profitable products have been identified as focused areas and developed since the 1990's. Our Corporate Research & Development Laboratories are

now doing research on next generation core products. We will continue to allocate development resources to our areas of strength and make sure to "add strengths to strengths," with the aim of raising corporate value.



Bringing Up Next-Generation Core Products for Future Growth





02

Utilize technologies that have been developed in Japan in overseas operations

In 2011 Sumitomo Metals acquired Standard Steel, the leading manufacturer of railway wheels and axles with more than 200 years of operation in the U.S. We plan to transfer some of our highly skilled human resources and certain technologies, such as the SIRD press (proprietary rotary forging machine for wheels) and our ultra clean steel technology to this company. We aim to raise our corporate value by enhancing competitiveness and expanding sales in overseas growth markets.



We will expand global sales with manufacturing bases in Japan and the U.S.

03

Speed up technological and product development at our new R&D buildings

Our Corporate Research & Development Laboratories in Amagasaki, Hyogo Prefecture, opened a new research building and a new laboratory in October 2011. Researchers who were previously dispersed among different buildings have been relocated to the new building, 2nd to 4th floor being a pillar-free open space office as wide as a soccer ground in total. This should facilitate communication and exchange among researchers and speed up their technological and product development.



A new research building of Corporate Research & Development Laboratories in Amagasaki City



Pillar-free open space office will facilitate communication among researchers and speed up R&Ds.

Environmental Initiatives

The Sumitomo Metals Group conserves the environment through technology. Having solved smoke problems of Besshi Copper Mine some 70 years ago has become Sumitomo's heritage.

We have developed new technology to reduce CO₂ emission from our manufacturing processes and new products that help curb emissions by our customers. Our researchers are trying to invent totally revolutionary steelmaking methods that dramatically decrease carbon emissions. We also transfer environmental technologies overseas to help the global steel industry become more eco-friendly.

Sumitomo Metals solves environmental problems through technology

Sumitomo Metals'

Four Actions for Better Environment

1

Manufacture in an
environmentally
friendly way

2

Decrease carbon
emissions by our
customers with
Sumitomo's products

3

Invent a new
steelmaking
technology that is
revolutionary

4

Transfer technologies
overseas to make steel
more eco-friendly

1

2

Reducing the environmental burden in our manufacturing processes

3

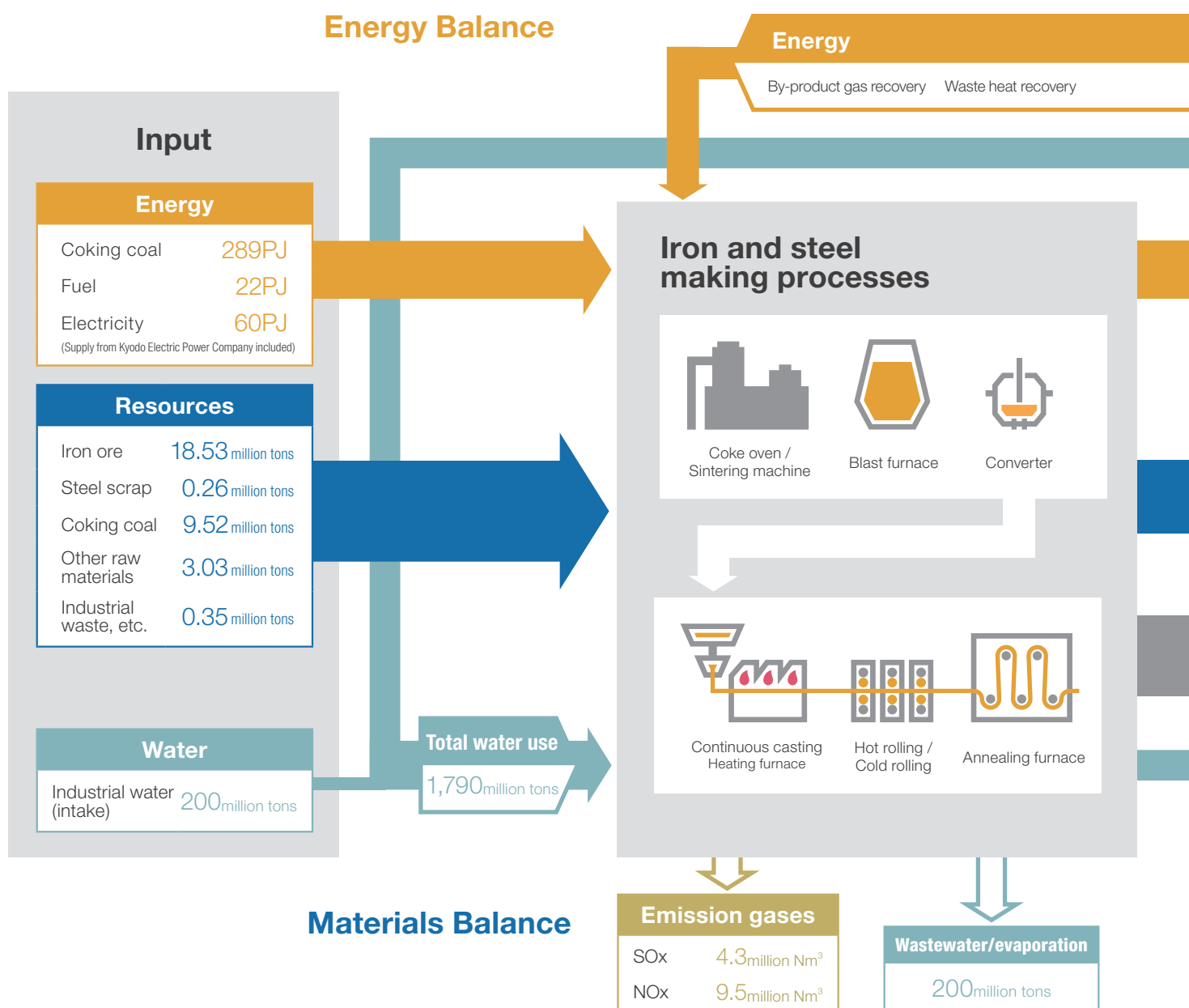
4

Energy Balance and Materials Balance

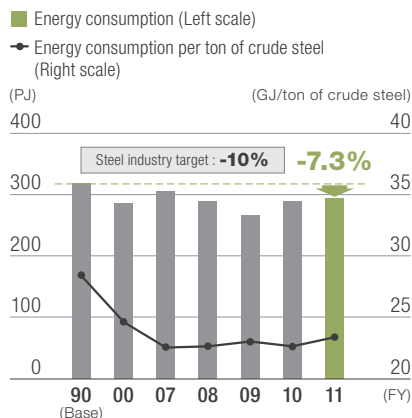
Continuing efforts to eliminate waste in the use of resources and energy in all processes

In our steelworks and workplaces, we have enacted thorough energy-saving measures in all processes with the aim of reducing CO₂ emissions as well as costs. Examples of these efforts include improving equipment efficiency, raising the efficiency of furnaces, and saving

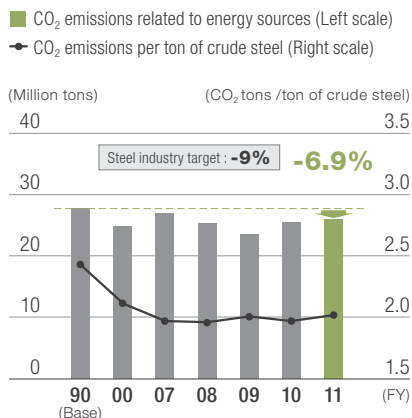
electricity. The water used for cooling and cleaning is recycled within the works. We also recycle by-products of steelmaking, and are making effective use of resources and energy, with our long-accumulated knowledge and technologies.



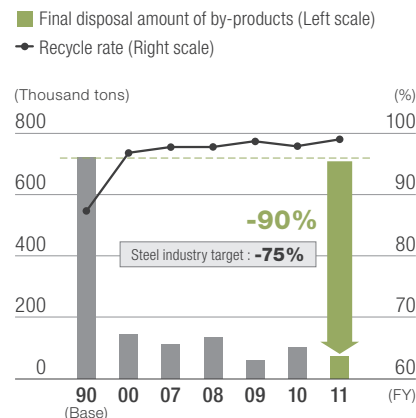
Energy consumption



CO₂ emissions related to energy sources



Final disposal amount of by-products and recycle rate



Results relative to the targets of the steel industry's Voluntary Action Plan

Electricity recovery
(power generation by waste heat and pressure)

Products sold

Energy

By-product gases (To Kyodo Electric Power Company)	38PJ
Electricity (To group companies)	20PJ
Others	16PJ

Resources

Steel(crude steel) 12.72million tons

By-products

Slag products 5.32million tons
(Including products reused within the company)

By-products, etc.

5.39million tons

Re-circulating water

1,590million tons

Water
recirculating rate

89%

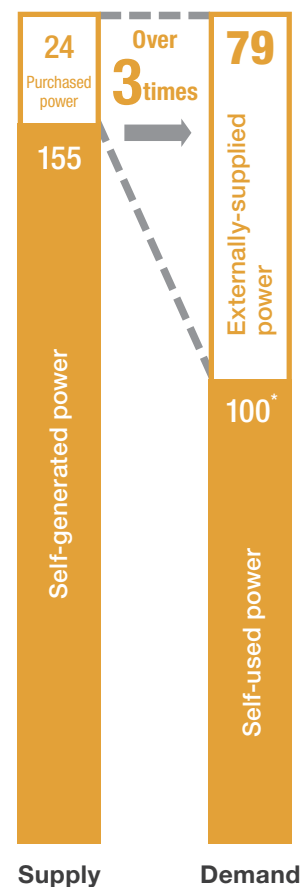
Final disposal

0.07million tons

By-product
recycling rate

99%

Sumitomo Metals Group contributes to electric power supply in Japan



* The amount of electric power used by the Sumitomo Metals Group as equal to 100



Our Products that Contribute to Environment

We reduce environmental burden of our customers through our products

Our products of high functionality, technical capability, and reliability are used in energy, transport equipment, construction, and other areas. They typically help our customers become more efficient, their products lighter,

or their facility life longer. That translates into saving of resources, energy or both, and reduction of carbon emission at the point of use at our customers.

Energy related products

Boiler tube for efficient power generation

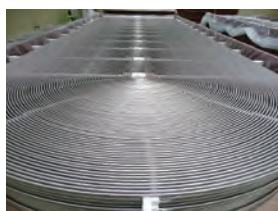
Higher temperature and pressure is the key for coal fired power station to be efficient. Our "ultra supercritical (USC)" stainless steel tube has contributed to realize highly efficient coal-fired thermal power generation.



Stainless steel boiler tubes

SG tube for PWR nuclear reactor

Steam generator (SG) tubes are a critical element of a pressurized water reactor (PWR) core. We are one of the only three SG tube manufacturers worldwide.



SG tubes for PWR nuclear power plants

Super 13 Chromium Pipe

Our "super 13 chromium pipe," which was first applied at North Sea sites, is now in use at many development sites of natural gas, the cleaner energy than oil with less production of carbon emissions.



Super 13 Cr steel pipe for seabed pipeline

Eco-friendly "CLEANWELL® DRY"

Seamless pipe for oil exploration must be lubricated when connected by joints. Our premium joint "CLEANWELL® DRY" is grease-free and therefore eco-friendly.



CLEANWELL® DRY structure

Transportation Related Products

Electromagnetic steel sheet for efficient motors

Our electromagnetic steel sheet is used for fuel-efficient and powerful hybrid and electric vehicles.



Example of high-efficiency motor using electromagnetic steel sheet

New steel material for crankshafts and cracking connecting rods

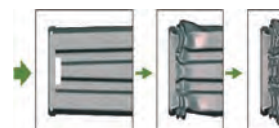
We developed the new steel for crankshafts that can reduce CO₂ emission by 22% in manufacturing by omitting the heat treatment process. We also developed a steel material for connecting rods, which can be separated (or cracked) from a forged single part on the same line into two parts. This helps to reduce its weight by 13% and CO₂ emission. Jointly developed with Honda Motor Co.



Connecting rod and cracking surface

Light-weighted crash box

An automobile's crash box absorbs crash energy during a collision. Our crash box is 30% lighter but absorbs more than two times of crash energy than do conventional ones, contributing to make safer and fuel-efficient vehicles.



Efficient crash box

Fuel injection nozzle for diesel engines

Diesel engines nowadays excel petrol engines in fuel efficiency, CO₂ emission, and black smoke exhaust. Higher compressed fuel injection leads to higher performance. We developed with Usui Kokusai Kogyo KK the first fuel injection nozzles that withstand more than 200 MPa pressure.



Common Rail Fuel Injection Tube

Dual-wall exhaust manifold pipe

The stainless steel we developed is used in this dual-wall exhaust pipe, which promptly cleans exhaust gas of an engine when started. Jointly developed with Toyota Motor Corporation and Sango Co., Ltd.



Dual-wall Exhaust Manifold Pipe

"FCA-W Steel Plate," high-tensile plate with superior fatigue strength of welded joints

Thick plates are used to prevent fatigue cracks occur in LNG carriers. Our FCA-W steel plates are thinner and lighter but exhibit superior fatigue strength at welded joints. Sumitomo Metals is an exclusive supplier of this type of steel plate.



Natural gas carrier ship

Pure titanium sheet for aircraft and titanium alloy rods for aircraft engines

Use of titanium contributes to lighter and more eco-friendly aircraft. We supply titanium alloy rods used in aircraft engine blades and pure titanium sheet used in pylons that connect the wings and engines.



Airbus A380 ©AIRBUS

High-speed railway wheels, axles, and bogies

High-speed railway transport has a high growth potential. Our wheels and axles have a 100% share in Japan and around 35% share in the global high-speed railway market. Our unique active suspension technology, that reduces car body vibration and improves riding comfort, has been used for the Tohoku Shinkansen Line and the Narita Sky Access Line.



Railway wheels and axles

Steering bogies for subway that made commuting smooth

We developed, jointly with Tokyo Metro Co., Ltd., steering bogies which equip the steering devices that enable the bogie to run stably on curved track and reduce noise and wear of the wheels. The bogies are used for the new 1000 Series cars of the Ginza Line of Tokyo Metro, which began operation from spring 2012.

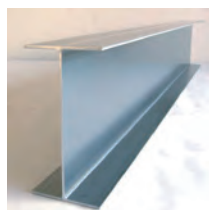


New 1000 Series cars of the Ginza Line of Tokyo Metro

Household Related Products

Lightweight welded "Smart BEAM™"

Our lightweight welded H-beams are 20-30% lighter than conventional rolled H-beams and highly regarded for their durability. They are used in pre-fabricated houses as well as in beams of wooden houses.



Smart BEAM™

Heat release steel sheet for ultra thin TV displays

TV display units require a heat sink on their back. We developed the steel sheet that releases heat near to the theoretical limit. It is thinner and emits significantly less CO₂ than an aluminum sheet. This has been adopted by Panasonic Corporation for ultra thin TV displays.



Heat release component for ultra thin TV displays

1

2

Developing revolutionary manufacturing technologies

3

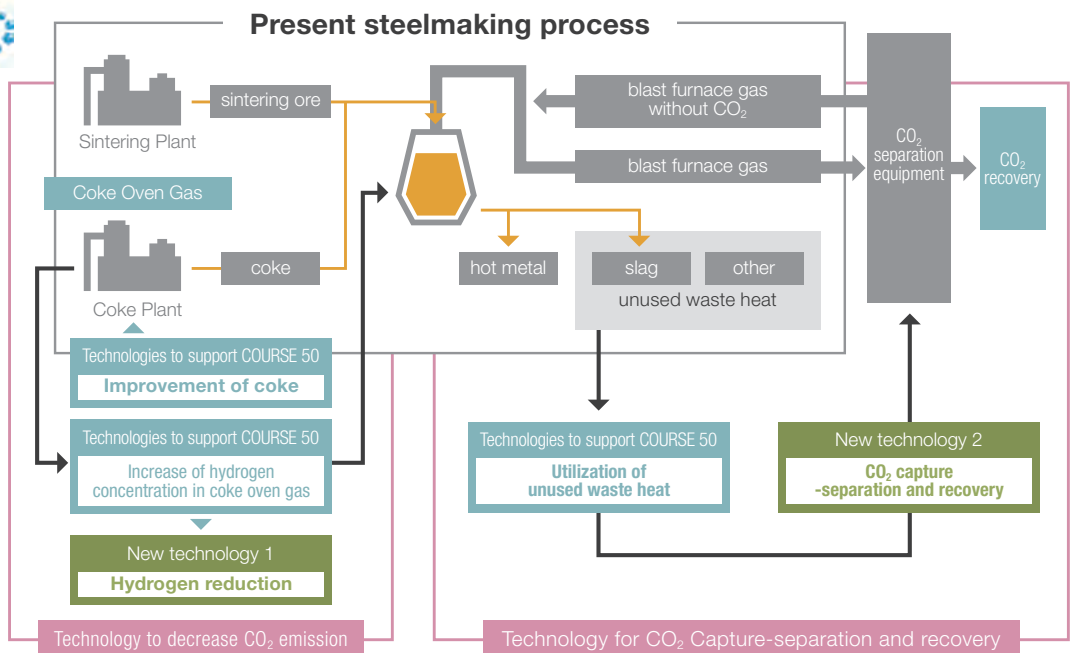
4

We develop technologies that help improve the environmental burden substantially

Environmentally Harmonized Steelmaking Process Technology Development (COURSE50)^{*1}

We are working to develop revolutionary steelmaking processes aimed at large-scale CO₂ reductions. The Japanese steel industry is already the lowest energy consumer in the global steel industry. This means that we have realized steelmaking processes that emit the least amount of CO₂. Any further improvements in efficiency would require the development of a revolutionary new steelmaking process. Under contracts

from NEDO^{*2}, various steel companies are working to develop eco-conscious steelmaking process technologies. Sumitomo Metals is developing technologies that can be applied in COURSE50, such as the use of 3D simulation analysis technologies to analyze reactions inside a blast furnace with hydrogen reduction and the Kalina Cycle power generator, which we commercialized first in the world.



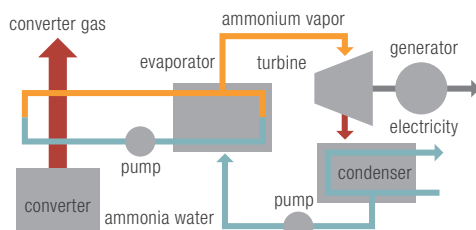
^{*1} COURSE50: CO₂ Ultimate Reduction in Steelmaking process by Innovative technology for cool Earth 50

^{*2} NEDO: New Energy and Industrial Technology Development Organization

Kalina Cycle power generators that produce no CO₂

The Kalina Cycle power generating system is a revolutionary new technology that uses a water-ammonia mixture medium to recover low-temperature (100°C or less) waste heat for use as electric power. This waste heat had previously been difficult to recover. We are working to develop a high-efficiency heat exchanger, integrated thermal recovery system, and other components to overcome the challenge of lowering equipment cost.

An example of Kalina Cycle power generation system



World's First Kalina Cycle Power Generator (Kashima)



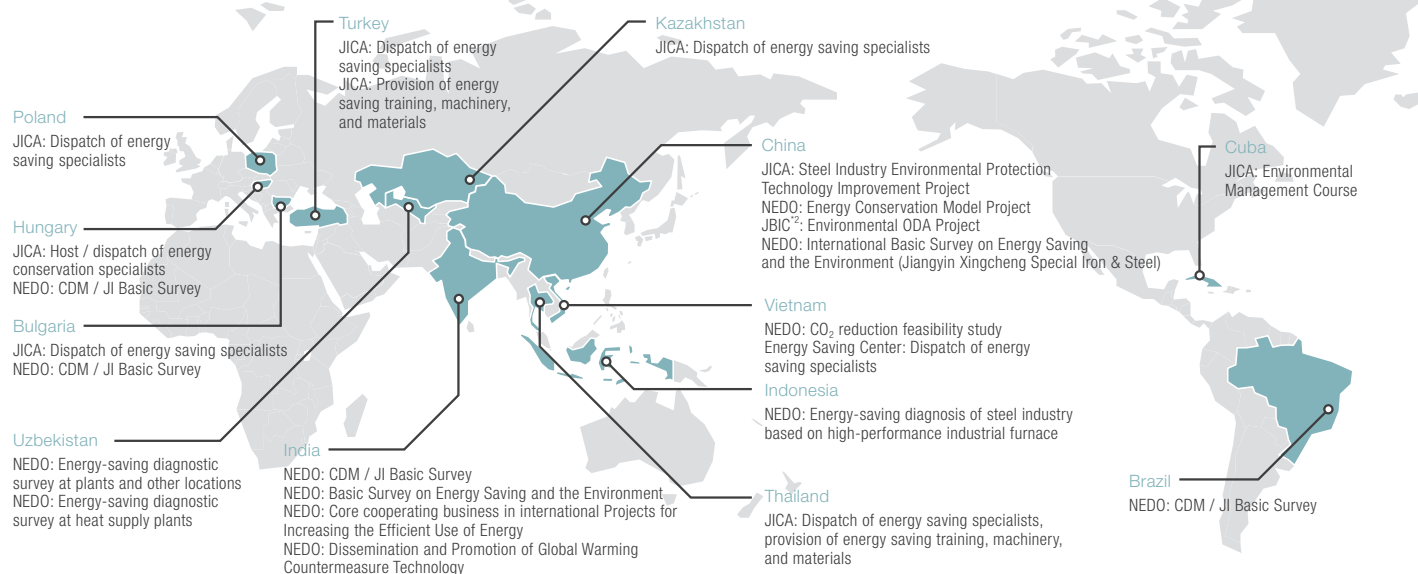
Contributing to the global environment through overseas deployment of our technologies

We make use of the Group's environmental technologies worldwide

Sumitomo Metals Group's technologies are resolving environmental issues around the world

We are participating in a wide range of environmental projects worldwide and helping to prevent global warming through the use of our superior environmental technologies. In Indonesia, for example, we are involved

in the JICA^{*1} project to turn peatland and other poor land for agriculture into rich farmland, with our Group's soil improvement technologies that use iron and steel slag.



*1 JICA: Japan International Cooperation Agency

*2 JBIC: Japan Bank for International Cooperation

Steel companies around the world cooperate in addressing environmental issues

Japan-China steel industry exchange meetings regarding advanced technologies related to environmental preservation and energy saving

Experts from Japan and China have met every year since 2005 to discuss a wide range of environmental issues, including the reduction of greenhouse gases and the treatment of waste gases and waste water.



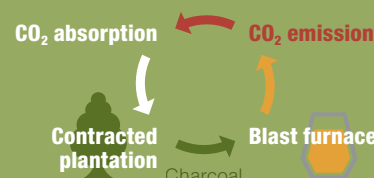
Major steel companies cooperate in drawing up measures to prevent climate change (World Steel Association)

The World Steel Association, which comprises more than 130 major steel companies, is carrying out activities aimed at reducing CO₂ emissions on a global scale. It calculates the specific CO₂ emissions from steel production based on the global common industry standard, and promotes an improvement in these figures.



We will soon start operating the blast furnace with close to zero net emission of CO₂ in Brazil.

We are planning to switch the reducing agents in the blast furnace from coke to charcoal made from eucalyptus trees 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.



Together with Communities and Society

Sumitomo Metals contributes to its communities and society with the spirit of “Make steel, make our future”

The Sumitomo Metals Group stands firm in its dedication to engage in business that contributes to society by being in harmony with local communities.

Consideration to environmental preservation, activities such as sports events and plant tours, and volunteer activities are another ways we realize our commitment to contribute to communities for a better future.

Sumitomo’s silvicultural history has been handed down for a better society rich in green and nature

In the early 20th century, Sumitomo converted the mountain slopes in Besshi of Shikoku Island, that was once ruined by Sumitomo’s copper refinery operation, into the greenery-covered mountains by planting many trees over a period of many years. Inheriting this spirit, the Sumitomo Metals Group is engaged in tree-planting activities in many local communities.

01

Contributing to create local communities with greenery environment

The Amagasaki Steel Tube Works has participated in the 21st Century Forest Project of Amagasaki City and Hyogo Prefecture and began promoting greater setbacks of building walls to create more space for greenery. Hyogo Prefecture has designated our activities as a “promotional model of greening side roads.”



Steel Tube Works: Before setbacks



After setbacks

02

Sumitomo Metals Wakayama Forest Project to preserve natural environment

The Wakayama Steel Works is participating in the “Company Forest” program for preservation of forest environments in Wakayama Prefecture. This program involves tree-planting and other volunteer work with the aim of preserving Wakayama’s natural environment by maintaining local forests. This project calls for planting and cultivating approximately 5,000 trees over a 10-year period, starting from 2005.



Sumitomo Metals Wakayama Forest project

03

Kamoshika* Forest is reborn in the former mining site

At the Hachinohe limestone quarry (locally referred to as “Hachinohe Canyon”) of Sumimetal Mining Co., Ltd., the “Kamoshika Forest Tree-Planting Festival” has been held every year since 2005. The plan calls for planting approximately 310,000 trees of 30 different kinds that are native to the area over a period of 20 years. Local residents and employees of related companies also join our festival every year. So far, 130,000 trees have been planted.

*Kamoshika is Japanese serow that inhabits in deep mountains.



Kamoshika Forest Tree-Planting Festival

Sumitomo Metal Group is engaged in community activities for a better future

01

Contributing to local communities via sports

The Sumitomo Metals Group contributes to vitalization of local communities via sports. Sumitomo Metals' Kashima baseball team is one of the strongest teams in Japan and has been selected 14 times to participate Japan's Inter-City Baseball Invitation Tournament. The team organizes baseball classes and other activities for children in the community. Sumitomo Metals' steelworks and offices also engage in various volunteer activities such as sports events in their local communities.

The Kashima Antlers, one of top professional J-League teams, originated as Sumitomo Metals' own in-house soccer team, holds football classes by coaches for local children and to help vitalize local communities.



A baseball class held by Kashima baseball team



Football class for children by coaches of Kashima Antlers

02

Plant tours as an opportunity to exchange with people in communities

We consider it important that residents in the communities where we operate understand our business. The Sumitomo Metals Group invites many local residents from primary and middle school students to adults for tours of our steelworks and plants each year. During fiscal 2011 about 37,000 persons participated in such tours.



Plant tour at Kashima Steel Works

03

Support Japan-Switzerland youth exchange program

Sumitomo Metals has been the primary source of support for Kansai Association Switzerland-Japan, which promotes exchanges and contributes to mutual understanding and friendship between the two countries. A program of youth exchanges between Japan and Switzerland is sponsored jointly with the Osaka Board of Education. Since the program launch in 1984, a total of 167 students have been sent abroad from both countries.



Youth exchange members at Wakayama Steel Works

Financial Section

- 64** Analysis of Financial Condition and Results of Operations
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- 70** Consolidated Statement of Operations
- 71** Consolidated Statement of Changes in Net Assets
- 73** Notes to the Consolidated Financial Statements
- 79** (Reference) Consolidated Statement of Cash Flows (Unaudited)
- 80** (Reference) Summary of Segment Information
- 81** (TRANSLATION) Independent Auditors' Report for the Consolidated Financial Statements (certified copy)
- 83** (TRANSLATION) Audit Report of the Board of Corporate Auditors (certified copy)

Editor's notes:

1. The financial information set out herein is an English translation of the audited Consolidated Balance Sheet, Consolidated Statement of Operations, Consolidated 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. In addition to the above financial information, we included in this report the Consolidated Statement of Cash Flows prepared in accordance with the Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements for the readers' convenience, although this statement is not required as a part of the basic financial statements under the Companies Act of Japan. Please note that the Consolidated Statement of Cash Flows reported herein is not subject to an audit conducted by the independent auditors of the Company (reported in the "Independent Auditors' Report for the Consolidated Financial Statements"; a translated version of the certified copy is attached.)
2. The financial statements, excluding the Consolidated Statement of Cash Flows, 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, 2012.

Analysis of Financial Condition and Results of Operations

01 Business Environment

In 2011 (January 2011 to December 2011,) world crude steel production amounted to 1,490 million tons (up 6% year-on-year,) while Japan's crude steel production was 107.6 million tons (down 2% year-on-year.) World steel demand has recovered since the significant drop triggered by the global economic recession in 2009. In Japan, steel demand decreased due to the impact from the Great East Japan Earthquake of March 2011.

(Metric tons in million)				
Crude steel production	2008	2009	2010	Source
World (Calendar year)	1,211	1,405	1,490	World Steel Association
Japan	(Calendar year)	87.5	109.6	Japan Iron and Steel Federation
	(Fiscal year)	96.4	110.8	
Sumitomo Metals* (Fiscal year)	11.7	12.9	12.7	

*Including Sumitomo Metals (Kokura), Ltd., been merged with Sumitomo Metals on January 1, 2012, and Sumikin Iron & Steel Corporation.

In fiscal 2011 (April 2011 to March 2012,) Sumitomo Metals' crude steel production amounted to 12.72 million tons (down 1% year-on-year.) Domestic steel demand, mainly for automobiles, decreased significantly due to the earthquake but recovered from the latter stage of the first half of the fiscal year through the second half. Overseas market environment was tough because of the ongoing weakness in the steel sheet market and floods in Thailand, resulting in a decline in export volume.

Under these circumstances, the Sumitomo Metals Group restored damaged facilities and resumed production promptly at the Kashima Steel Works after the earthquake and tsunami.

We are preparing to merge with Nippon Steel and

establish Nippon Steel & Sumitomo Metal Corporation. We aim to become "the Best Steelmaker with World-Leading Capabilities."

02 Operating Results

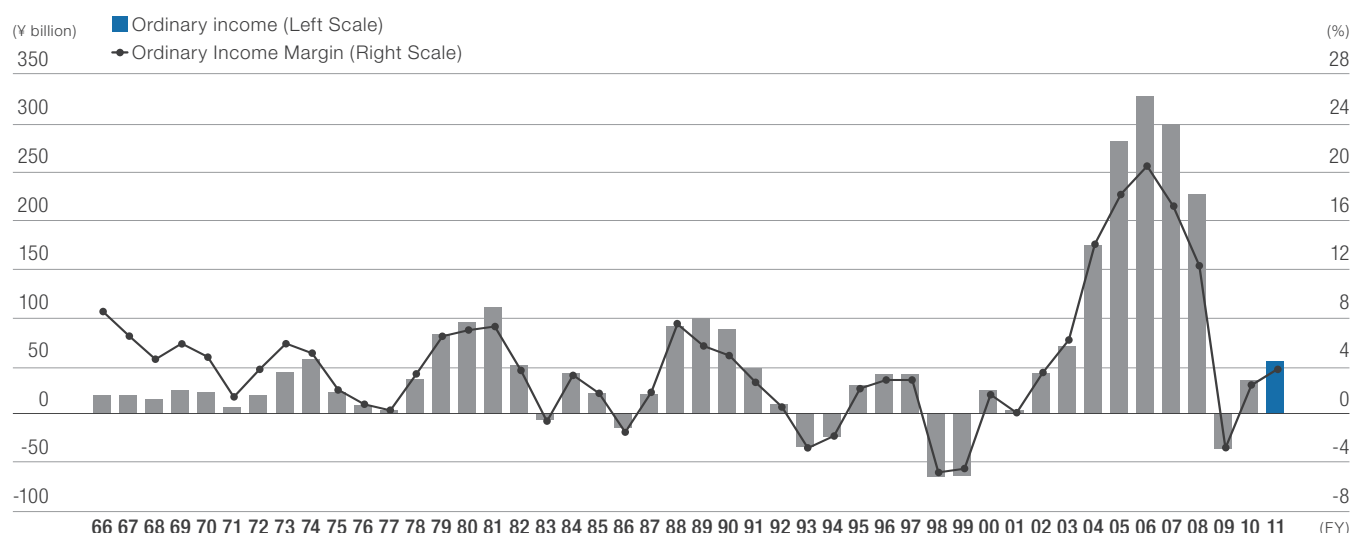
The Japanese steel industry, including Sumitomo Metals, suffered from depressed earnings for about a decade after the bubble burst in 1990's. The Sumitomo Metals Group carried out structural reform of its steel business and withdrew from non-core businesses under its medium-term business plan (fiscal 2002 to 2005). We also paid down excess debts and improved financial stability.

Since 2003, Sumitomo Metals' profitability has improved greatly. Our structural reforms, our efforts aimed at continuous technology development and strategic investments even during the period of low profitability in the 1990's have borne fruit. Rapid growth in global steel demand was another important factor.

Under the next medium-term business plan (fiscal 2006 to 2008), we delivered measures to "add strengths to strengths" and "accelerate distinctiveness" with the aim of achieving sustained growth that balances quality and scale. After we allocated our profit and resources to our areas of greatest competence, our profit and financial indicators such as the equity ratio and the debt-to-equity ratio improved substantially.

In fiscal 2009, however, our business results significantly deteriorated due to a decrease in sales volume for steel products caused by the worldwide recession. Then from fiscal 2010, operating income and ordinary income improved thanks to improvement in sales prices and our cost reduction, despite raw material prices staying at persistently high levels.

Ordinary Income



In fiscal 2011, although we had adverse factors such as a rise in raw material prices and a sales decrease caused by the impact of the earthquake, seamless pipe enjoyed stable demand and we made a stronger effort at cost reduction. We were able to improve operating income and ordinary income for two consecutive years and generated ¥76.8 billion and ¥60.8 billion respectively. Nevertheless, we recorded a net loss of ¥53.7 billion due to extraordinary losses which include losses on the revaluation of investment securities. We formulated an earthquake recovery plan and restrained spending in all areas, which resulted in generating around ¥60 billion for total cash requirements of approximately ¥100 billion to fund the recovery from the earthquake.

(¥ billion)

	FY 2009	FY 2010	FY 2011
Net Sales	1,285	1,402	1,473
Operating income/(losses)	(0)	56	76
Ordinary income/(losses)	(36)	34	60
Net income/(losses)	(49)	(7)	(53)

Results for Fiscal 2011, Compared to Fiscal 2010

02-1 Net Sales

(¥ billion)

	FY 2009	FY 2010	FY 2011
Net Sales	1,285	1,402	1,473
Steel	1,205	1,351	1,433
Other	79	50	40

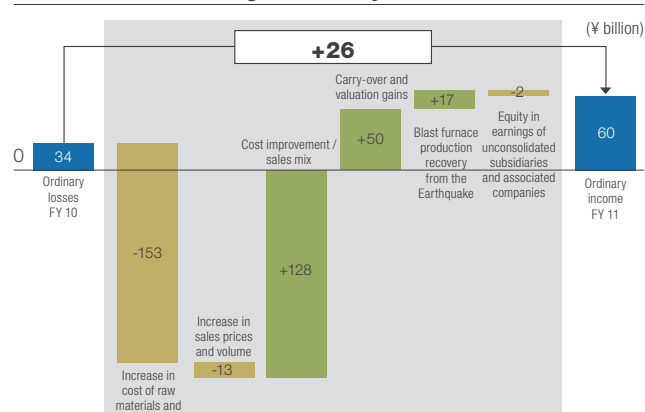
Net sales amounted to ¥1,473.3 billion (up 5% year-on-year.) The steel sales increased from the previous year, thanks to strong demand for seamless pipe.

02-2 Operating Income and Ordinary Income

In fiscal 2011, we recorded operating income of ¥76.8 billion (up ¥20.5 billion year-on-year) and ordinary income of ¥60.8 billion (up ¥26.7 billion year-on-year.)

	FY 2009	FY 2010	FY 2011
Operating income/(losses) (¥ billion)	(0)	56	76
Operating income margin (%)	-0.1%	4.0%	5.2%
Ordinary income/(losses) (¥ billion)	(36)	34	60
Ordinary income margin (%)	-2.8%	2.4%	4.1%

Contributors to Change in Ordinary Income (FY2010 to FY 2011)



Major Financial Indicators Regarding Non-Operating Income / losses

(¥ billion)

	FY 2009	FY 2010	FY 2011
Interest expense (a)	15	15	13
Interest income (b)	0	1	1
Net interest expense (a-b)	15	13	12
Dividend income	3	4	6
Equity in earnings/(losses) of unconsolidated subsidiaries and associated companies	(22)	(3)	(6)

02-3 Extraordinary Income/Losses and Net Income

Extraordinary Income / Losses and Net Income

(¥ billion)

	FY 2009	FY 2010	FY 2011
Ordinary income/(losses)	(36)	34	60
Extraordinary income	-	-	-
Extraordinary losses	3	62	112
Income taxes	9	(23)	0
Minority interests in income	0	3	1
Net income/(losses)	(49)	(7)	(53)

The extraordinary losses of ¥112.0 billion in fiscal 2011 is mainly attributable to losses on the revaluation of investment securities. As a result, we recorded net losses of ¥53.7 billion.

(¥)

	FY 2009	FY 2010	FY 2011
EPS	-10.74	-1.54	-11.61

03 Financial Position

03-1 Assets, Liabilities, and Equity

(¥ billion)

	FY 2009	FY 2010	FY 2011
Total assets	2,403	2,440	2,386
Current assets	606	647	658
Noncurrent assets	1,797	1,792	1,728
Total liabilities	1,524	1,622	1,624
Debt balance	1,138	1,173	1,172
Shareholders' equity	829	766	709
Equity ratio	34.5	31.4	29.7

As of March 31, 2012 total assets stood at ¥2,386.1 billion (a decrease of ¥54.6 billion from a year ago.) Although we had the earthquake-related outlay, the debt balance as of March 31, 2012 was as same level as the previous fiscal year-end of ¥1,172.1 billion (a decrease of ¥1.2 billion from a year ago) as a result of utilizing cash on hand.

Shareholders' equity was ¥709.3 billion (a decrease of ¥57.4 billion from a year ago) and the debt-equity ratio stood at 1.65.

Major Financial Indicators Regarding Financial Position

(¥ billion)

	FY 2009	FY 2010	FY 2011
Short-term loans payable (a)	286	279	224
Long-term loans payable (b)	631	572	660
Bonds, commercial papers (c)	219	320	287
Debt balance (a+b+c)	1,138	1,173	1,172
Shareholders' equity	829	766	709
Total assets	2,403	2,440	2,386
Equity ratio	34.5	31.4	29.7
ROA	-0.9	2.0	3.1
ROE	-5.9	-0.9	-7.3
Debt-equity ratio	1.37	1.53	1.65

Note: Please refer to "11-year Financial Performance" on page 17-18 for detailed numbers and numerical formulas.

04 Sources of Fund and Maintenance of Liquidity

Fund Procurement Policy

The Sumitomo Metals Group's funding activities emphasize a balance between stability and low costs. In addition to the commitment lines of credit with banks to maintain liquidity, the group continually strives 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+ by Japan Credit Rating Agency, Ltd. (as of the end of May 2012).

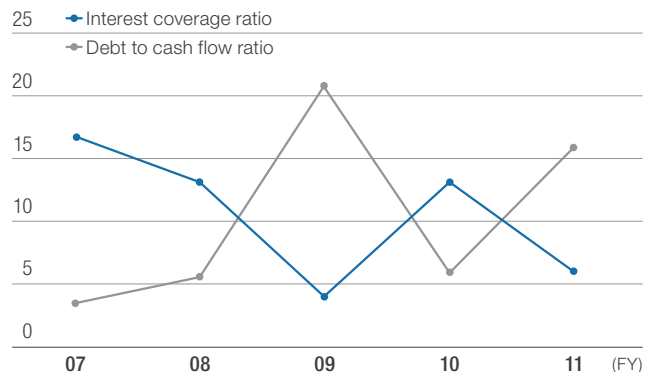
Cash Flow

(¥ billion)

	FY 2009	FY 2010	FY 2011
Net cash provided by operating activities	67	202	88
Net cash used in investment activities	-172	-144	-120
Free cash flow	-105	58	-32

Debt to Cash Flow Ratio; Interest Coverage Ratio

(Times)



Interest coverage ratio = Operating cash flow / Interest expenses

Debt to cash flow ratio = Debt balance / Operating cash flow after interest payment

05 Capital Expenditures

(¥ billion)

	FY 2009	FY 2010	FY 2011
Capital expenditures on property, plant, and equipment*	136	109	115
Steel	131	107	113
Other	5	2	2
Depreciation of property, plant, and equipment	120	126	122

*Construction base

During fiscal 2011 capital expenditures on property, plant and equipment (construction base) were ¥115.7 billion (a decrease of ¥5.8 billion from the previous year.) Major investments included those related to the recovery from the earthquake, construction of the new No. 2 blast furnace at the Wakayama Steel Works for the iron & steel making process, and construction of a new research building and a new laboratory at the Corporate Research & Development Laboratories (Amagasaki.)

Major investments and overseas projects

Segment	Target	Details	Investment Amount (¥ billion)	Timeline
Iron & Steel-making process	Enable annual capacity of 5 million tons at Wakayama Steel Works	2nd step (Construction of a new No.2 blast furnace, reinforcement of steel making facilities, etc.)	115.0	Scheduled to begin operation in second half of FY2012
Pipe & Tube	Establish a manufacturing hub for seamless pipe in Brazil	A joint venture with Vallourec Group and Sumitomo Corporation to set up a integrated steel works to produce seamless pipe	5,376 million real ^{(*)1}	Blast furnace scheduled to begin operation in FY 2012.
	Expand production capacity of steam generator tubes for nuclear power plants	Expansion of capacity for cold drawing, bending and product inspection	14.0	Scheduled to begin operations in April 2013
Steel Sheet	Establish a manufacturing hub for steel sheet in Vietnam	Establishment of a joint venture with China Steel Corporation and other partners for the manufacturer and sale of cold-rolled coil, electromagnetic steel sheet and hot-dipped galvanized steel sheet	115.0 ^{(*)2}	Operations scheduled to begin in 2012
	Strengthen relationship with a partner in the steel sheet sector in India	Participation in an integrated steel works project with Bhushan Steel Limited in India (technical support and OEM supply)		Started OEM supply in March 2012
Railway, Automotive & Machinery Parts	Establish a base for the manufacture and sale of forged railway wheels and axles in the US	Acquisition of Standard Steel, LLC, the leading manufacturer of forged railway wheels and axles in the US	US\$325 million ^{(*)3}	Acquisition completed in August 2011
	Expand sales and manufacturing base for forged crankshafts in India	Installation of a 2nd forging press line at SMI Amtek Crankshaft	1.0 billion rupees ^{(*)4}	Scheduled to begin operations in November 2012
R & D	Promotion of technological and product development	Construction of a new main building and laboratory wing at our Corporate Research & Development Laboratories	10	Building construction completed in October 2011
Other	Subscription to SUMCO preferred shares	-	15	Payment completed in May 2012

Notes: 1. (*)1 Total equity of the joint venture
2. (*)2 Total investment by joint venture
3. (*)3 Cost of acquisition of Standard Steel, LLC
4. (*)4 Investment by joint venture

06 Research and Development Activities

Based on the fundamental strategy to “add strengths to strengths” and “accelerate distinctiveness,” the Sumitomo Metals Group’s technology development, manufacturing, and sales departments work in an integrated manner. We are channeling research resources on our areas of strengths, prioritizing selective 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 our R&D activities to customer needs, by providing high-performance materials, application technologies that match customer needs, and solutions. We recognize the importance of global environmental preservation. We engage in eco-friendly R&D activities that focus on products and manufacturing processes that can contribute to energy savings or reduction in CO₂ emission. In fiscal 2011, research and development expenses totaled ¥22.8 billion.

07 Profit Distribution to Shareholders (Dividend Policy)

Profits generated from operations are used to fund investments that raise our corporate value. Returns generated from such investments are to be distributed to shareholders and other stakeholders.

Regarding dividend payments for fiscal 2011, we have decided to pay the year-end dividend per share of 1 yen, making an annual dividend of 2 yen, when combined with the previously-paid interim dividend of 1 yen, despite having recorded net losses mainly due to an extraordinary loss.

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

The basic dividend policy of Nippon Steel & Sumitomo Metal will be to distribute profit to shareholders based on its business performance. Dividends will be paid with due consideration of factors such as capital requirements for investment and other activities aimed at raising corporate value, performance prospects, and consolidated and non-consolidated financial strength. The integrated company’s consolidated payout ratio is targeted to be approximately 20% per annum.

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	Aim for stable dividend
Financial leverage	Medium- and long-term targeted debt-to-equity ratio of less than 1.0

(¥)

	FY 2009	FY 2010	FY 2011
Per-share dividend	5.0	3.5	2.0

08 Outlook for Fiscal 2012 (ending March 31, 2013)

In fiscal 2012, steel demand for energy areas is expected to grow but, given the economic slowdown in China the overall steel demand outlook is uncertain while raw material prices are projected to remain at high levels. Sumitomo Metals will continue to make efforts for improving profitability through cost reduction including the earthquake recovery plan, and improvement in selling prices.

On October 1, 2012, we will integrate with Nippon Steel to become Nippon Steel & Sumitomo Metal. With the aim to be “the Best Steelmaker with World-Leading Capabilities,” both companies will combine our respective management resources, realize synergy at an early stage, and meet the expectations of our stakeholders.

09 Risk factors Relating to the Sumitomo Metals Group and its Business

The Sumitomo Metals Group’s business domains face macro risk factors, such as economic conditions and currency fluctuations, as well as particular risks associated with the business concerned. 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 and appropriate action as necessary or required.

- Changes in supply and demand for steel
- Changes in raw material prices
- Fluctuation in foreign exchange rates
- Changes in fund procurement conditions
- Changes in the value of investment securities
- Retirement benefit liabilities
- Changes in laws and regulations
- Changes in environmental laws and regulations
- Changes in management of business partners
- Defects in products and services
- Accidents
- Disputes and litigation
- Breach of compliance
- Deterioration in competitiveness
- Changes in political and economical systems and regulations
- Natural disasters and conflicts

Consolidated Balance Sheet

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries
March 31, 2012

Assets	Millions of yen
Current assets:	
Cash and deposits	¥17,637
Notes and accounts receivable-trade	139,656
Merchandise and finished goods	175,345
Work in process	26,824
Raw materials and supplies	244,723
Deferred tax assets	25,066
Other	29,429
Allowance for doubtful accounts	(616)
Total current assets	658,067

Noncurrent assets:

Property, plant and equipment:	
Buildings and structures, net	258,733
Machinery, equipment and vehicles, net	390,554
Land	346,501
Construction in progress	98,804
Other, net	10,863
Total property, plant and equipment	1,105,457

Intangible assets:

Goodwill	13,449
Other	6,659
Total intangible assets	20,108

Investments and other assets:

Investment securities	411,651
Deferred tax assets	44,696
Other	146,451
Allowance for doubtful accounts	(275)
Total investments and other assets	602,524

Total noncurrent assets	1,728,090
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Total assets	¥2,386,158
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Note: Figures in parentheses are negative values.

Liabilities	Millions of yen
Current liabilities	
Notes and accounts payable-trade	¥251,443
Short-term loans payable	224,685
Commercial papers	46,000
Current portion of bonds	35,000
Deferred tax liabilities	7
Provision for loss on disaster	10,687
Other	123,212
Total current liabilities	691,035

Noncurrent liabilities:

Bonds	206,266
Long-term loans payable	660,169
Deferred tax liabilities	7,091
Deferred tax liabilities for land revaluation	5,353
Provision for retirement benefits	18,918
Provision for special repairs	220
Other	35,617
Total noncurrent liabilities	933,637

Total liabilities	1,624,673
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Net assets

Shareholders' equity:

Capital stock	262,072
Capital surplus	61,829
Retained earnings	504,065
Treasury stock	(91,186)
Total shareholders' equity	736,781

Accumulated other comprehensive income

Valuation difference on available-for-sale securities	6,122
Deferred gains or losses on hedges	(188)
Revaluation reserve for land	11,021
Foreign currency translation adjustment	(44,422)
Total accumulated other comprehensive income	(27,465)

Minority interests	52,169
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Total net assets	761,484
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Total liabilities and net assets	¥2,386,158
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Consolidated Statement of Operations

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2012

Millions of yen

Net sales		¥1,473,367
Cost of sales		1,274,599
Gross profit		198,767
Selling, general and administrative expenses		
Shipment expenses	36,998	
Employees' salaries and allowances	34,293	
Research and development expenses	20,541	
Other	30,131	121,966
Operating income		76,801
Non-operating income		
Interest income	1,030	
Dividends income	6,568	
Insurance income	5,602	
Other	10,521	23,723
Non-operating expenses		
Interest expenses	13,265	
Equity in losses of affiliates	6,420	
Loss on sales and retirement of noncurrent assets	4,929	
Other	15,106	39,721
Ordinary income		60,803
Extraordinary losses		
Impairment loss	5,516	
Loss on disaster	16,722	
Loss on sales of investment securities	1,990	
Loss on valuation of investment securities	80,816	
Restructuring loss	3,366	
Loss related to carbon emission credits	3,642	112,055
Loss before income taxes and minority interests		51,251
Income taxes-current	9,489	
Income taxes-deferred	(8,653)	835
Loss before minority interests		52,087
Minority interests in income		1,712
Net loss		¥53,799

Consolidated Statement of Changes in Net Assets

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2012

Shareholders' equity

Millions of yen

Capital stock

Balance at the beginning of current 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 beginning of current 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 beginning of current period	565,931
Changes of items during the period	
Dividends from surplus	(9,271)
Net loss	(53,799)
Reversal of revaluation reserve for land	1,204
Total changes of items during the period	(61,866)
Balance at the end of current period	504,065

Treasury stock

Balance at the beginning of current period	(91,161)
Changes of items during the period	
Purchase of treasury stock	(24)
Change in equity in affiliates accounted for by equity method-treasury stock	0
Total changes of items during the period	(24)
Balance at the end of current period	(91,186)

Total shareholders' equity

Balance at the beginning of current period	798,671
Changes of items during the period	
Dividends from surplus	(9,271)
Net loss	(53,799)
Purchase of treasury stock	(24)
Change in equity in affiliates accounted for by equity method-treasury stock	0
Reversal of revaluation reserve for land	1,204
Total changes of items during the period	(61,890)
Balance at the end of current period	736,781

Note: Figures in parentheses are negative values.

Accumulated other comprehensive income

Millions of yen

Valuation difference on available-for-sale securities

Balance at the beginning of current period	(18,877)
Changes of items during the period	
Net changes of items other than shareholders' equity	24,999
Total changes of items during the period	24,999
Balance at the end of current period	6,122

Deferred gains or losses on hedges

Balance at the beginning of current period	(594)
Changes of items during the period	
Net changes of items other than shareholders' equity	405
Total changes of items during the period	405
Balance at the end of current period	(188)

Revaluation reserve for land

Balance at the beginning of current period	11,203
Changes of items during the period	
Net changes of items other than shareholders' equity	(181)
Total changes of items during the period	(181)
Balance at the end of current period	11,021

Foreign currency translation adjustment

Balance at the beginning of current period	(23,627)
Changes of items during the period	
Net changes of items other than shareholders' equity	(20,795)
Total changes of items during the period	(20,795)
Balance at the end of current period	(44,422)

Total accumulated other comprehensive income

Balance at the beginning of current period	31,894
Changes of items during the period	
Net changes of items other than shareholders' equity	4,429
Total changes of items during the period	4,429
Balance at the end of current period	(27,465)

Minority interests

Balance at the beginning of current period	51,303
Changes of items during the period	
Net changes of items other than shareholders' equity	865
Total changes of items during the period	865
Balance at the end of current period	52,169

Total net assets

Balance at the beginning of current period	818,080
Changes of items during the period	
Dividends from surplus	(9,271)
Net loss	(53,799)
Purchase of treasury stock	(24)
Change in equity in affiliates accounted for by equity method-treasury stock	0
Reversal of revaluation reserve for land	1,204
Net changes of items other than shareholders' equity	5,295
Total changes of items during the period	(56,595)
Balance at the end of current period	¥761,484

Note: Figures in parentheses are negative values.

Notes to the Consolidated Financial Statements

01 Summary of Significant Accounting Policies

01-1 Scope of consolidation

a. Number of consolidated subsidiaries: 72

Names of principal companies:

East Asia United Steel Corporation
Sumikin Iron & Steel Corporation
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.
Standard Steel, LLC
Western Tube & Conduit Corp.
Seymour Tubing, Inc.
International Crankshaft Inc.
Sumitomo Metal do Brasil Ltda.
Huizhou Sumikin Forging Co., Ltd.

From the consolidated accounting period, Standard Steel, LLC, two companies that newly began operations, and three companies (in view of their importance) have been added to the list of consolidated subsidiaries. Sumitomo Metals (Kokura), Ltd., an Sumitomo Metals (Naoetsu), Ltd. that merged with Sumitomo Metal Industries, Ltd. (the “Company” or “SMI”) have been removed from the list of consolidated subsidiaries.

b. Names of principal nonconsolidated subsidiaries

Aritakaiun Co., Ltd. and others

(Reason for exclusion from the scope of consolidation)
These companies are excluded from the scope of consolidation of the Company and consolidated subsidiaries (collectively the “Group”) because they are small-scale enterprises whose total assets, net sales, net income (corresponding to shareholding ratio) and retained earnings (corresponding to shareholding ratio) have no material impact on the Company’s consolidated financial statements.

01-2 Application of the equity method

a. Number of affiliated companies accounted for using the equity method: 38

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.

In the consolidated accounting period, one company was added to the scope of applying the equity method in view of its importance. The equity method was applied to SUMCO Corporation, based on its consolidated financial statements.

- b. Investments in nonconsolidated 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 insignificant impact they would have on the Company’s consolidated financial statements, due to their net income (corresponding to shareholding ratio) and retained earnings (corresponding to shareholding ratio).

01-3 The accounting period of the 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
A total of 25 overseas subsidiaries, including Standard Steel, LLC.	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.

01-4 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 accounted using the total net asset value input method, and the cost of sales is mainly determined by the moving average method.)

Nonmarketable 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 after adjusting for any reduction in the book value based on a decline in profitability.)

(c) Derivatives

Measured at fair value

b. Method of depreciation of significant depreciable 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 structures and 14 years for machinery, equipment and vehicles.

(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 leases 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 leases 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.

In financial lease transactions of the Company and its domestic consolidated subsidiaries concluded before April 1, 2008 where the ownership of the leased property is not 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 nonrecovery, and b) for other specific receivables, the estimated possibility of recovery considered on a case-by-case basis.

(b) Provision for loss on disaster

The provision for loss on disaster is stated at the amount considered to be appropriate based on the estimation of expenses for the restoration of plant and equipment damaged by the Great East Japan Earthquake and other losses.

(c) 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 1 year) that is less than the average number of remaining years of service of the employees when the 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 the employees as of the time such differences actually arise.

(d) Provision for special repairs

The liability for rebuilding furnaces, etc. is recorded considering the estimated future costs based on past experience.

e. Accounting policy for reporting significant income and expense

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

For construction work in progress on the consolidated balance sheet date, 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

f. Foreign currency transactions and financial statements

All short-term and long-term monetary receivables and payables denominated 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 which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income. Currency swaps are translated at the contracted rates if the contracts qualify for hedge accounting.

(b) Means of hedging and subjects of hedging

Derivatives such as interest rate swaps, currency swaps, exchange contracts, etc., 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 in relation to foreign currency transactions.

(c) Policy of hedging

Derivatives are used to cover 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, hedge effectiveness is assessed 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. Goodwill account

Goodwill is amortized, using the straight-line method, mainly over 20 years.

i. Consumption taxes

Consumption taxes are recorded as a liability and an asset, and are excluded from the relevant revenue, costs and expenses.

02 Additional information

Both Accounting Standards Board of Japan (ASBJ) Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" (announced on December 4, 2009), and ASBJ Guidance No. 24, "Guidance on Accounting Changes and Error Corrections" (announced on December 4, 2009), have been applied to accounting changes and error corrections, which are made after the beginning of the consolidated accounting period.

03 Notes to the Consolidated Balance Sheet

03-1 Assets pledged as collateral for debt

a. Assets pledged as collateral

Accounts receivable-trade	¥1,872	million
Inventories	1,554	
Property, plant and equipment	21,631	
Total	¥25,058	million

b. Secured debts

Short-term loans payable	¥309	million
Bonds	10,595	
Long-term loans payable	356	
Total	¥11,261	million

03-2 Accumulated depreciation for property, plant and equipment

¥2,554,373 million

03-3 Contingent liabilities

a. Guarantees

Bank loans which the Group guarantees are as follows:

Vallourec & Sumitomo Tubos do Brasil Ltda.	¥6,073	million
4 other companies	814	
Total	¥6,888	million

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

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

¥4,182 million

04 Notes to the Consolidated Statement of Operations

Loss on disaster

Loss on disaster, which is the result of the Great East Japan Earthquake, etc., is comprised of 11,900 million yen for the cost of products manufactured under extraordinary capacity utilization, 3,959 million yen for restoration expenses, and 863 million yen for loss on damaged assets, etc. Of this loss, 3,837 million yen is recorded as a provision for loss on disaster.

05 Notes to the Consolidated Statement of Changes in Net Assets

05-1 Type and number of stock issued at the end of the fiscal year

Common stock	4,805,974,238 shares
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05-2 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 10, 2011	Common stock	4,635	1.0	March 31, 2011	May 26, 2011
Board of Directors held on October 31, 2011	Common stock	4,635	1.0	September 30, 2011	December 1, 2011

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 15, 2012	Common stock	Retained earnings	4,635	1.0	March 31, 2012	June 5, 2012

06 Financial instruments

06-1 The status of financial instruments

The 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 notes and accounts payable-trade are denominated in foreign (non-yen) currency as they relate to product exports and purchases of raw materials, etc. Therefore, exchange rate fluctuations may have an impact on the Company's business results and financial position. Changes in the value of 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.

06-2 The fair value of financial instruments

The difference between the fair value of financial instruments and their book value in the Consolidated Balance Sheet as of March 31, 2012, are listed in the table below.

Millions of yen

	Book value	Fair value	Difference
(1) Cash and deposits	17,637	17,637	-
(2) Notes and accounts receivable-trade	139,656	139,656	-
(3) Short-term investments and investment securities	319,276	358,571	39,294
Total assets	476,571	515,866	39,294
(1) Notes and accounts payable-trade	251,443	251,443	-
(2) Short-term loans payable ^{(*)1}	118,793	118,793	-
(3) Commercial papers	46,000	46,000	-
(4) Bonds ^{(*)2}	241,266	244,570	3,304
(5) Long-term loans payable ^{(*)1}	766,061	778,956	2,895
Total liabilities	1,423,563	1,439,763	16,199
Derivatives ^{(*)3}	(240)	(240)	-

(*)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 liability.

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. Hence, 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. Hence, 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. Hence, their book values are reported. The fair values of investment securities are the current market values.

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. Hence, their book values are reported.

(4) Bonds

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

(5) Long-term loans payable

The fair values of long-term loans payable are 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 initiated on the balance sheet date. The present value of long-term loans payable that are subject of hedging by interest rate swaps or currency swaps is calculated based on the total value of the principal and interest which integrates the value of the applicable interest rate swaps or currency swaps.

Derivatives

Since derivatives from interest rate swaps or currency 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. (92,399 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 future cash flows.**

07 Per share information

1.	Net assets per share	153.02 yen
2.	Net loss per share	11.61 yen

08 Significant subsequent events

SMI and Nippon Steel reached a final agreement to integrate their businesses on October 1 of this year using a two-step legal procedure, consisting of a share exchange followed by an absorption-type merger on the same day, and after obtaining approvals by the Board of Directors of each of SMI and Nippon Steel at the meetings of the Board of Directors held on April 27, 2012, the companies concluded a share exchange agreement and a merger agreement.

(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.

(Reference)**Consolidated Statement of Cash Flows (Unaudited*)**

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries

Year ended March 31, 2012

Operating activities:	Millions of yen
Loss before income taxes and minority interests	¥ (51,251)
Depreciation and amortization	124,020
Increase in allowance for doubtful accounts	20
Decrease in provision for loss on disaster	(38,620)
Decrease in provision for retirement benefits	(1,443)
Increase in provision for special repairs	22
Interest and dividend income	(7,598)
Interest expenses	13,265
Equity in losses of affiliates	6,420
Impairment loss	5,516
Loss on sales of investment securities	1,990
Loss on valuation of investment securities	80,816
Restructuring loss	3,366
Loss related to carbon emission credits	3,642
Increase in notes and accounts receivable-trade	(28,473)
Increase in inventories	(46,613)
Increase in notes and accounts payable-trade	29,724
Others, net	6,251
Subtotal	101,055
Income taxes paid	(12,989)
Net cash provided by operating activities	88,065
Investing activities:	
Interest and dividends income received	23,097
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(13,026)
Purchase of investment securities	(5,738)
Proceeds from sales of investment securities	17,856
Payments for investments in capital	(14,874)
Purchase of property, plant and equipment and intangible assets	(109,019)
Payments of loans receivable	(19,518)
Others, net	1,114
Net cash used in investing activities	(120,110)
Financing activities:	
Interest expenses paid	(13,607)
Net decrease in short-term loans payable	(28,317)
Decrease in commercial papers	(59,000)
Proceeds from long-term loans payable	204,430
Repayment of long-term loans payable	(143,468)
Proceeds from issuance of bonds	50,000
Redemption of bonds	(35,000)
Cash dividends paid	(9,271)
Others, net	1,520
Net cash used in financing activities	(32,714)

Effect of exchange rate change on cash and cash equivalents	(547)
Net decrease in cash and cash equivalents	(65,306)
Cash and cash equivalents at beginning of period	82,512
Increase in cash and cash equivalents resulting from change of scope of consolidation	352
Cash and cash equivalents at end of period	¥17,558

* "Unaudited" indicates the above Statement of Cash Flows is not subject to audit under the Companies Act of Japan. The above Statement of Cash Flows prepared in accordance with the Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements, however, has been audited by the independent auditors of the Company as a part of the financial statements based on the regulation for their preparation in Japan.

(Reference)

Summary of Segment information

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries

Year ended March 31, 2012

Billions of yen

	Steel	Other	Total	Adjustment	Consolidated Statement of Operations
Sales to customers	1,433.2	40.1	1,473.3	-	1,473.3
Inter-segment sales	1.1	19.4	20.6	(20.6)	-
Total sales	1,434.3	59.5	1,493.9	(20.6)	1,473.3
Segment profit	72.9	3.9	76.8	(0.0)	76.8

Note: "Segment profit" is operating profit.

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

May 9, 2012

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Hiroshi YoshidaDesignated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Yasuyoshi IchikawaDesignated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Tsuguo ItoDesignated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Eiichi Izumo

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, 2012 of Sumitomo Metal Industries, Ltd. (the "Company") and consolidated subsidiaries, and the related consolidated statements of operations and changes in net assets for the fiscal year from April 1, 2011 to March 31, 2012, and the related notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating

the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit 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, 2012, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

As mentioned in the "Significant subsequent events", following approval at a meeting of the Board of Directors held on April 27, 2012, the Company concluded a share exchange agreement and a merger agreement with Nippon Steel Corporation.

Our opinion is not qualified in respect of this matter.

Interest

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

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**

May 11, 2012

In respect of the execution of duties by the Directors during the 89th business year commenced on April 1, 2011 and ended on March 31, 2012, 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, receiving explanations from Directors and employees and expressing their opinions, 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 where necessary, 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.

The Board of Corporate Auditors

Sumitomo Metal Industries, Ltd.

Kitaro Yoshida, Standing Corporate Auditor (full-time)

Hirohiko Minato, Standing Corporate Auditor (full-time)

Keiichi Murakami, Corporate Auditor

Toshiro Mutoh, Corporate Auditor

Hirotake Abe, Corporate Auditor

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

Investor Information (As of March 31, 2012)

Corporate Data

Company Name:	Sumitomo Metal Industries, Ltd.
Paid-in Capital:	¥262,072,369,221
Incorporated:	July 1949
Annual General Meeting of Shareholders :	June
Employees:	8,413
Shareholder Record Date:	for the Year : March 31 for the Interim Period : September 30
Fiscal year:	April 1 - March 31



Osaka Head Office

For Further Information

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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/>



Tokyo Head Office

Stock Information

Stock Code:	5405
Shares Authorized:	10 billion shares
Shares Issued:	4,805,974,238 shares (including 170,275,671 treasury shares)
Trading Unit:	1,000 shares
Administrator of Register of Shareholders:	Stock Transfer Agency Business Planning Department, Sumitomo Mitsui Trust Bank, Limited 4-5-33 Kitahama, Chuo-ku, Osaka 540-8639, Japan
(Mailing Address):	Stock Transfer Agency Business Planning Department, Sumitomo Mitsui Trust Bank, Limited 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 outside Japan: +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, and Sapporo

Principal Shareholders (As of March 31, 2012)

Name	Investment in Sumitomo Metals	
	Shares owned (thousands)	Shareholding ratio (%)
Sumitomo Corporation	458,326	9.89
Nippon Steel Corporation	451,761	9.75
Japan Trustee Services Bank, Ltd. (account in trust)	181,744	3.92
The Master Trust Bank of Japan, Ltd. (account in trust)	119,411	2.58
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.)(*1)	90,315	1.95
Nippon Life Insurance Company	88,919	1.92
SSBT OD05 Omnibus Account Treaty Clients	76,308	1.65
Japan Trustee Services Bank, Ltd., The Sumitomo Trust and Banking Corporation retirement benefit trust (*2)	55,000	1.19
Sumitomo Life Insurance Company	51,503	1.11
Total	1,685,854	36.37

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

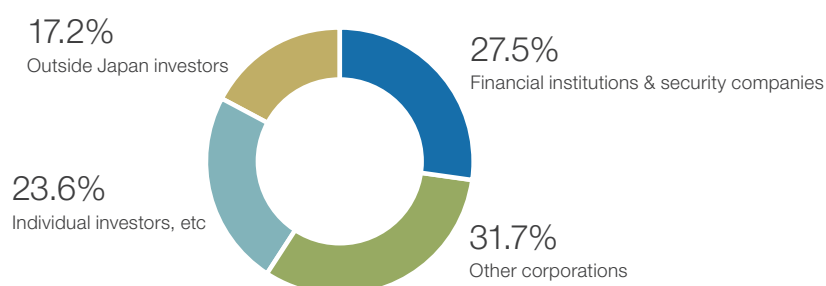
2. (*1) The 90,315 thousand shares registered in the name of "Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation retirement benefit trust account re-entrusted by The Sumitomo Trust and Banking Co., Ltd.)" are owned beneficially by Sumitomo Mitsui Banking Corporation and held as a 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. (*2) 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).

4. On April 1, 2012, The Sumitomo Trust and Banking Co., Ltd. merged with The Chuo Mitsui Trust Banking Co., Ltd. and Chuo Mitsui Asset Trust and Banking Co., Ltd. to become Sumitomo Mitsui Trust Bank, Ltd.

Share Ownership by Category*
(As of March 31, 2012)

*Excluding treasury stock



Sumitomo Metals' Share Price on the Tokyo Stock Exchange





<http://www.sumitomometals.co.jp/e/>

