

## **Report of the 86th Period** **(from April 1, 2008 to March 31, 2009)**

### **Business Report**

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#### **Financial Statements**

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

#### **Independent Auditors' Report (certified copy)**

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

## **Sumitomo Metal Industries, Ltd.** **Osaka, Japan**

#### **Editor's notes:**

1. Please note that the official text of this document has been prepared in Japanese. The information herein stated is provided only for reference purposes. The company is not responsible for the accuracy of the information. To the extent there is any discrepancy between the English translation and original Japanese version, please refer to the Japanese version.
2. The financial statements included in this Report of the 86th Period are prepared in accordance with the accounting principles and practices generally accepted in Japan.
3. Shareholders who live in countries outside Japan should exercise their voting rights through the custodians of their shares. Please communicate with your custodian regarding the appropriate procedures to exercise your voting rights.

# **Business Report (from April 1, 2008 to March 31, 2009)**

## **1. Business overview of the SMI Group**

### **(1) The SMI Group management policies**

The SMI Group (Sumitomo Metal Industries, Ltd. and its affiliates) conducted business in line with the Medium-Term Business Plan (FY2006 to FY2008) announced in April 2006. The fundamental policy of the Plan is to maximise corporate value through continuous growth in which there is a balance between quality and scale.

In line with these fundamental policies, the SMI Group has conducted strategies to “accelerate distinctiveness” and “add strength to strong areas” to create an earnings structure resilient to downside risk in the business environment. To promote these business strategies, we believe it is essential that we continue to enhance our intangible assets that do not appear on our financial statements. Examples of these intangible assets are our relationship of trust built through businesses with our customers, our world-leading technology, and the pride and commitment of our employees to their work.

Cash generated by our business will be used in investments aimed to increase corporate value. Our investment strategy calls for investments that are designed to help accelerate distinctiveness and bring cash returns in excess of the cost of capital to contribute to increase our corporate value. We will pass on appropriate returns to our shareholders and all stakeholders.

Our basic dividend policy is to produce a steady dividend. Our medium- and long-term targeted D/E ratio is below 1.0.

(Note: D/E ratio = Debt / Shareholders' equity)

### **(2) Business results for the fiscal year ended March 31, 2009**

#### **1) Business environment in the 86th period ended March 31, 2009**

The SMI Group's business environment drastically changed from the third quarter to the fourth quarter of the current fiscal year.

During the first three quarters of the current fiscal year there was steady demand for steel products in both the domestic and international markets, particularly in the automotive and energy sectors – areas the SMI Group is emphasizing as its core businesses. Meanwhile, raw material costs increased significantly due to a surge in prices of raw materials such as iron ore and coal.

From the fourth quarter of the current fiscal year, steel demand, particularly in the automotive and electronics sectors, decreased sharply due to the decline in the global economy stemming from the financial crisis in the United States. (U.S.) However, there was steady demand for high-quality products in the energy sector, such as seamless pipe, and for rolling stock components, where the SMI Group is highly competitive.

#### **2) Reporting-period management projects in each business sector**

The SMI Group is steadily implementing investment plans and business measures to enhance our corporate value in the medium and long term by adhering to our strategies of “accelerating distinctiveness” and “adding strength to strong areas”. We have reduced production to cope with the drastic decline in steel demand during the fourth quarter of the current fiscal year.

With respect to the making process of crude steel, we are investing in plant and equipment at the Wakayama Steel Works to achieve an annual production capacity of 5 million tons of crude steel at the Works. The new No.1 blast furnace is scheduled to start operations in July 2009.

Sumitomo Metal Industries, Ltd. (hereinafter “SMI” or “The Company”) participated in the equity of Nacional Minerios S.A., a Brazilian iron ore mining company, through an investor group consists of the Company, ITOCHU Corporation, JFE Steel Corporation, Nippon Steel Corporation, Kobe Steel, Ltd. Nisshin Steel Co., Ltd. and Korean steel producer POSCO.

The Pipe & Tube Company completed its work at Wakayama Steel Works and Steel Tube Works in Amagasaki to expand our capacity to produce high-end seamless pipes used in the exploration of oil and natural gas. Steel Tube Works, in response to increased demand for steam generator tubes used in advanced nuclear power plants that will help reduce carbon dioxide emissions (CO<sub>2</sub>), has also made investments to increase its productive capacity. At Kashima Steel Works, construction is underway to increase our capacity to produce ultra-high-strength line pipe which is scheduled to start operation in March 2011.

In February 2009, together with Vallourec S.A. of France, we merged two companies: VAM USA Company (our joint venture with the Vallourec Group and Sumitomo Corporation Group) and Atlas Bradford LLC, to enhance our competitiveness in premium joints business for connecting seamless pipe with screws. At the same time, the Company reached agreement with Vallourec S.A. for mutual equity investments to deepen our cooperative relationship. The construction of an integrated steel plant to produce seamless pipe in Brazil, a joint project with the Vallourec Group, has been proceeding as scheduled and the plant is expected to commence operation in 2010.

The Company also reached agreement with Nippon Steel Corporation to integrate our two companies’ arc-welded stainless steel pipe and tube businesses in order to leverage the strengths of each party and to achieve greater competitiveness.

The Steel Sheet, Plate & Structural Steel Company has collaborated with its business partners to expand its steel sheet business in the emerging foreign markets that are expected to grow in the medium- and long-term. At the beginning of 2012, the Company is expected to commence operations of the joint venture project with China Steel Corporation regarding the production and sales of cold-rolled steel sheet, electromagnetic steel sheet and hot-dip galvanized steel sheet in Vietnam for establishment of a hub of production and sales in Southeast Asia region. In India, the Company is participating in an integrated steel works construction project of Bhushan Steel Limited and providing technical assistances.

At the Railway, Automotive & Machinery Parts Company, Osaka Steel Works completed an investment project to expand its capacity to produce railway wheels by 20 percent to 240 thousand units per annum. The Company, together with Sumitomo Corporation, advanced its forged crankshaft business by acquiring Norton Manufacturing Company Inc., a crankshaft machining company in the U.S.. International Crankshaft Inc., our joint venture in forged crankshaft production in the U.S., started operation of its new No.3 forging press line.

Growth in demand in India for automobiles is expected. In May 2009, the Company is expected to enter into an agreement with a local automotive parts manufacturer, Amtek Auto Limited, regarding the formation of a joint venture company to manufacture and sell forged crankshafts.

Sumitomo Metals (Kokura), Ltd., our manufacturer of specialty steel bars and wire rods, is currently implementing a project to introduce new plant and equipment that will innovate its steel-making process, including a refining furnace and continuous casting mill. The new plant is expected to come on stream in August 2010, to accelerate the distinctiveness of the SMI Group from our competitors. Sumitomo Metals (Kokura), Ltd. is also proceeding with a renewal of finishing roll equipment for steel bars to introduce the equipment of the newest standard available in the world, in order to enhance its competitiveness in this sector.

Our engineering business, electronics business and other sectors are reorganizing their businesses in line with the SMI Group’s intention to focus its resources on its core

competencies, and enhance its corporate value. In March 2009, the Company concluded an agreement with Yokogawa Bridge Holdings Corporation to form a joint venture in bridge construction business.

The following table (Table 1) summarizes major business strategies in the reporting period.

**Table 1. Major business projects in the reporting period**

(billion yen)

Segment	Target	Detail	Investment Amount	Timeline
Iron & Steel-making process	Enable annual capacity of 5 million tons at Wakayama Steel Works	1 <sup>st</sup> step <Construction of a new No.1 blast furnace, etc. included in the project>	160.0 <118.0>	Scheduled to begin operation in Jul.,2009
		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
Raw materials	Acquisition of interest in an iron ore mining operation	Equity participation in Nacional Minerios S.A. in Brazil	19.1	Participated in Dec., 2008
Pipe & Tube	Expand production capacity of super high-end seamless pipe products	Capacity improvement of new pipe-production mill and secondary line	35.0	Started operation in Jul., 2008
	Expand production capacity of steam generator tubes for nuclear power plants	Remodeling of a production line, capacity increase of packaging equipment	2.3	Started operation in Oct., 2008
	Enhance competitiveness of seamless pipe premium joint business	VAM USA Company (a joint venture for the manufacture of premium joints) merged with V&M Atlas Bradford LLC	8.0	Merged in Feb., 2009
	Deepen cooperative relationship with Vallourec S.A.	Mutual equity investments with Vallourec S.A.	12.0	Scheduled to complete by the end of Dec., 2009
	Establish a manufacturing hub for seamless pipe in Brazil	Establishment of a joint venture with Vallourec Group for integrated seamless pipe mill	(*) 200.0	Scheduled to begin operation in 2010
	Expand production capacity of ultra-high-strength line pipes	Equipment improve at the plate mill and large-diameter (UOE) pipe mill	10.0	Scheduled to begin operation in Mar., 2011
Steel Sheet Plate & Structural Steel	Strengthen relationship with a partner in the steel sheet sector in India	Participation in an integrated steel works project of Bhushan Steel Limited in India	(Technical Assistance)	-
	Establish a manufacturing hub for steel sheet in Vietnam	Establishment of a steel sheet manufacturing joint venture with China Steel Corporation	(*) 115.0	Scheduled to begin operation in the beginning of 2012
Railway, Automotive & Machinery Parts	Expand capacity to produce railway wheels	Renovation of heat treatment furnace (Increase in production capacity from 200 thousand to 240 thousand units per year)	2.0	Started operation in April, 2008

	Enter the crankshaft machining business	Acquisition, with Sumitomo Corporation, of a crankshaft machining company, Norton Manufacturing Company Inc., in the U.S.	1.5	Completed in Nov., 2008
	Expand forged crankshaft business in North America	Introduction of 3 <sup>rd</sup> forging line at International Crankshaft Inc.	4.5	Started operation in Jan., 2009
	Establish a sales and manufacturing hub for forged crankshafts in India	Establishment of a joint-venture company with Amtek Auto Limited	(*) 1.0	Scheduled to be established in July 2009
Specialty steel	Enhance competitiveness of steel bars at Sumitomo Metals (Kokura), Ltd.	Renewal of finishing roll equipment for steel bars	2.0	Scheduled to start operation in Aug., 2009
	Achieve steel-making process innovation at Sumitomo Metals (Kokura), Ltd.	Introduction of new refining furnace, continuous casting mill and other facilities	27.0	Scheduled to begin operation in Aug., 2010

Note: (\*) Total Investment by joint venture

### 3) Intangible assets and achievements that support Group business

We believe that our intangible assets support our business and play an important role as we promote our business strategies to enhance our corporate value. Guided by the Sumitomo business philosophy which has been refined over 400 years and epitomized by the words “Steadiness and reliability are of the greatest importance,” it is essential to improve these intangible assets: our relationships of trust with our customers; our world-leading technology; and the pride and commitment of our employees.

Our reputation in the minds of our customers and the trust that they place in us are some of the SMI Group’s most valuable assets. In the reporting period, we held a large-scale technical exchange event in February 2009 to celebrate 30 years of business with Exxon Mobil Corporation of the U.S. who is a customer of the SMI Group’s seamless pipes and line pipes. In November 2008, we received a letter of appreciation from the National Petroleum Construction Company of the United Arab Emirates in recognition of the high quality and timely deliveries of line pipe from the SMI Group. In January 2009 we held a celebration to mark the attainment in December 2008 of a total sales milestone of 4 million tons of thick plate steel to South Korea’s world-class shipbuilder Hyundai Heavy Industries Co., Ltd. in a relationship spanning almost 40 years.

As a manufacturer, technical development has always been a main issue and basis for our business management. Based on the SMI Group’s technical development policy that places great importance on the development of utility technology that will increase our value in our customers’ eyes, we will carefully select the fields to which we will devote our resources, and will actively collaborate with industry, government and academia. Our technical achievements have been recognized not only by our customers but also by various groups outside our industry. In the reporting period, we were awarded “*the Imperial Invention Prize (National Commendation for Invention)*” for our innovation in super-high-strength low-alloy steel oil country tubular goods. We also received “*the 55th Okochi Memorial Foundation Grand Production Prize*” for our development of advanced stainless boiler tube for ultra-supercritical (USC) coal-fired thermal power plants.

When maximising the power of all corporate assets, the most important thing to do is to enhance the abilities of our employees. In order to achieve this, we have fostered our human resources in the medium and long term through continuous and steady employment, to enhance our corporate value. We are using the knowledge and experience

we have gained over many years as a manufacturer and are putting effort into personnel training and working to correct the age imbalance among our employees.

The global environment is an important issue for the SMI Group. Among the world's blast furnace steel makers, the SMI Group's CO<sub>2</sub> emission per ton of steel is one of the lowest. In addition to reducing the amount of CO<sub>2</sub> generated during the manufacturing process, it is also important to contribute to emission reductions through our products that enable the manufacture of lighter cars and the development of energy sources that will place lower burdens on the environment. We have calculated that this CO<sub>2</sub>-emission reducing effect of the products that the SMI Group manufactures is about 6 times greater than the levels of CO<sub>2</sub> that the SMI Group emits during the manufacturing process itself. An example of a product we manufacture that has CO<sub>2</sub>-emission reducing effects is our stainless steel boiler tubing, which is used in thermal power plants to raise the efficiency of the boilers and help our customers control the level of their CO<sub>2</sub> emissions. Other examples include our oil well pipes that are used in the development of natural gas resources (a clean energy source) as well as our steam generator tubes used in advanced nuclear power plants that will help reduce CO<sub>2</sub> emissions.

The SMI Group is working to improve its internal control systems to ensure the fairness of its operations. We are enhancing our compliance program, strengthening the Auditing Department's monitoring and supervision of the execution of duties, and checking to see how our operations comply with the law and our Articles of Incorporation. We have an executive officer system in place, and are enhancing the effectiveness of supervisory functions and the efficiency of officers' duties. We have set up systems to enable the Company to make a unified response in a time of emergency following a major disaster or accident, and have put in place systems to prevent or manage risk during normal times. We are also improving our systems to ensure the reliability of financial reports.

#### 4) Current period business results

To counter the significantly higher costs of raw materials, we have made every effort to achieve across-the-board cost reductions and to improve prices, while seeking the understanding of our customers. As a result, the SMI Group's business performance as of the end of the third quarter of the current fiscal year was at the same level as that of the previous fiscal year. Business performance since the fourth quarter, however, deteriorated as a result of a huge decline in sales volume due to a drop in steel demand (chiefly in the automotive and electronics sectors) during the fourth quarter of the current fiscal year. As a result, as shown in the following tables, our Group's business performance on a consolidated basis for the current fiscal year was 1,844.4 billion yen in net sales (a 99.8 billion yen year-on-year increase), 226.0 billion yen in operating income (a 48.3 billion yen year-on-year decrease), 225.7 billion yen in ordinary income (a 72.4 billion yen year-on-year decrease) and 97.3 billion yen in net income (a 83.2 billion yen year-on-year decrease).

**Table 2. Consolidated business results**

	FY2007	FY2008	Increase/(decrease)	
			Amount	Percentage
Net sales	1,744.5	1,844.4	99.8	5.7%
Operating income	274.3	226.0	(48.3)	(17.6%)
Ordinary income	298.2	225.7	(72.4)	(24.3%)
Net income	180.5	97.3	(83.2)	(46.1%)

**Table 3. Segment performance in the reporting period**

(billion yen)

	Net sales	(*) Increase/ (decrease)	Operating profit	(*) Increase/ (decrease)
Steel	1,740.7	7.3%	230.8	(14.2%)
Pipe & Tube Company	716.9	6.3%		
Steel Sheet, Plate & Structural Steel Company	700.1	11.3%		
Railway Automotive & Machinery Parts Company	105.4	2.3%		
Sumitomo Metals (Kokura), Ltd.	148.0	(4.2%)		
Sumitomo Metals (Naoetsu), Ltd.	41.3	43.1%		
Other	28.8	(10.7%)		
Engineering	11.6	(24.1%)	(0.2)	-
Electronics	45.3	(26.4%)	(4.6)	-
Other	46.5	3.1%	0	(98.6%)
Corporate or eliminations	-	-	(0)	-
Total	1,844.4	5.7%	226.0	(17.6%)

Note: (\*) Percentage compared with the previous period.

### (3) Investment, fund procurement and the return of profits to shareholders

In the reporting period, the SMI Group investment in plant and equipment totaled 159.1 billion yen, of which 152.8 billion yen was invested in Steel, 1.7 billion yen in Electronics and 4.4 billion yen in other business sectors. As a result, outstanding debt as of the end of the current fiscal year was 990.0 billion yen with an increase of 106.1 billion yen from the previous fiscal year.

The Company expects to make a year-end dividend of 5 yen per share, bringing the total cash dividend for the full fiscal year, including the interim dividend payment already made earlier in this fiscal year, to 10 yen per share.

### (4) Issues facing the SMI Group

The business environment in FY 2009 is severe, and we assume that the conditions will continue for the time being. In the medium- and long-term, however, we believe that global steel demand will increase; therefore, we are steadily implementing investment plans and business measures to enhance our corporate value by adhering to our medium- and long-term strategies.

In order to cope with this severe business environment, we will strive to achieve further cost reductions, effective operation even under low operation ratios and reduction of expenditures to enhance our financial strength. At the same time, we will emphasize the maintenance of equipment, trials for development using working equipment and the education of employees that is difficult to conduct during busy times.

The global environment is a crucial issue. A global movement to try to overcome the current economic crisis by the leverage of investments for global environmental protection has begun. The SMI Group will contribute to this movement through our technology and products. We believe it is important to contribute to CO<sub>2</sub> emission reductions through our products as well as reducing CO<sub>2</sub> emissions in our manufacturing process. At our blast furnace integrated seamless steel pipe plant in Brazil, the plant is planning to change the reducing agents in the blast furnace from coke to charcoal to enable far greater control of CO<sub>2</sub> emissions. Going forward, we will continue to enhance our corporate value and contribute to society through management that gives careful consideration to the global environment.

The SMI Group, adhering to the Sumitomo business philosophy, history and business experience refined over 400 years and epitomized by the words “Placing prime importance on integrity and sound management”, as well as inheriting over a century of Sumitomo Metals’ manufacturing history, is making efforts to respond to the uncertain business environment and maximize corporate value. Based on this approach, the SMI Group will seek to become a company trusted by its shareholders and all stakeholders alike.

## Topics

### Development of Products that Contribute to CO<sub>2</sub> Emission Reduction

The SMI Group's technology and the contribution that our products have made towards reductions in CO<sub>2</sub> emissions have been well recognized. In the reporting period, the Company received one of the Japan's highest awards in the industry, "*the Imperial Invention Prize (National Commendation for Invention)*", and "*the Okochi Memorial Foundation Grand Production Prize*". This is the second time in three years that the Company has won the Okochi Memorial Foundation Grand Production Prize (the new steelmaking plant at Wakayama Steel Works was awarded the Prize in 2007 for the development of new-generation technologies for a high-quality, highly efficient and environmentally friendly steelmaking process).

#### **1. Receipt of "*the National Commendation for Invention, Imperial Invention Prize*" (June 2008) for "Innovation in super-high-strength low-alloy steel oil country tubular goods"**

##### **(1) Description of the invention**

Natural gas is a clean energy source that releases less CO<sub>2</sub> than oil does. Unfortunately, natural gas wells often need to be much deeper than oil wells, into subterranean environments that are exceedingly harsh – where there are high levels of corrosive hydrogen sulfide (so-called "sour environments"). In this invention, SMI gained a clear understanding of the mechanism that causes steel pipes to crack under a sour environment, and succeeded in controlling the quality of the steel. As a result, the Company was able to produce steel pipes that are resistant to corrosion in a sour environment and approximately 14% stronger than conventional pipes.

##### **(2) Outcome of the invention**

Following a joint research program between BP of the United Kingdom and StatoilHydro of Norway, both companies approved the super-high-strength low-alloy steel oil country tubular goods that utilize the SMI Group's invention. These new goods have made it possible to develop natural gas fields that were hitherto considered unreachable (via 4,000- to 6,000-meter super-deep, super-corrosive environmental natural gas wells). This invention has contributed towards the achievement of a stable supply of natural gas – the clean energy that emits low amounts of CO<sub>2</sub>. This product is contributing to the preservation of the global environment, as the reduction effect of CO<sub>2</sub> emission is calculated as approximately 8 million tons, which is equivalent to the yearly CO<sub>2</sub> emission amount at Wakayama Steel Works.

The SMI Group has the world's top share in the market of the super-high strength, low-alloy steel oil country tubular goods, and this product has made a considerable contribution to enhancing corporate value.

#### **2. Receipt of "*the 55th Okochi Memorial Foundation Grand Production Prize*" (March 2009) for the development of advanced stainless boiler tube for Ultra-Supercritical (USC) coal-fired thermal power plants**

##### **(1) Description of the innovation**

Coal-fired thermal power generation is one of the important means to satisfy the forecast growth in demand for electricity worldwide. Making coal-fired thermal power plants more efficient is one of the major paths to reducing both energy consumption and CO<sub>2</sub> emissions. The key to raising the efficiency of thermal power generation is to make the boilers

produce hotter steam at higher pressures. The SMI Group succeeded in using its own manufacturing technology to control both the constituents and the properties of steel at the crystalline level. The development of these new steel boiler tubes has enabled boilers to operate at highly efficient ultra-supercritical (USC) pressures with higher temperature and pressure for the first time.

## **(2) Outcome of the innovation**

These newly developed boiler tubes have enabled thermal power generation to make the leap from supercritical to ultra-supercritical pressures. This is the first major advance boiler tubes in some 30 years. In Japan and overseas there are more than 190 ultra-supercritical boilers thanks to these tubes. By using less coal, these plants are contributing to reductions in CO<sub>2</sub> emissions and are helping to protect the global environment. It is estimated that our new boiler tubes are responsible for an annual global reduction in CO<sub>2</sub> emissions of approximately 66 million tons, which is equivalent to approximately 2.5 times the amount of the yearly CO<sub>2</sub> emission by the entire SMI Group.

Our tubes described above have an approximately 80% share of the global market and make a major contribution to enhancing our corporate value.

**(5) Trends in business results, and assets and liabilities of the SMI Group and the Company in the reporting period and the previous three fiscal years**

**1) Business results and assets and liabilities of the SMI Group**

Summary		FY2005 ended March 31, 2006	FY2006 ended March 31, 2007	FY2007 ended March 31, 2008	Reporting period (FY2008 ended March 31, 2009)
Sales		yen bil.	yen bil.	yen bil.	yen bil.
	Steel	1,405.4	1,488.8	1,622.3	1,740.7
	Engineering	39.0	10.7	15.3	11.6
	Electronics	60.8	59.3	61.6	45.3
	Other	47.4	43.6	45.1	46.5
Total		1,552.7	1,602.7	1,744.5	1,844.4
Ordinary income		280.7	327.6	298.2	225.7
Net income		221.2	226.7	180.5	97.3
Net income per share		46.03 yen	47.89 yen	39.43 yen	20.98 yen
Total assets		2,113.3	2,301.5	2,418.3	2,452.5
Net assets		720.8	924.7	949.3	904.3

Note: "Net income per share" is calculated based on the average number of outstanding shares throughout the fiscal year. The number of shares outstanding excludes treasury stock.

**2) Business results and assets and liabilities of the Company**

Summary		FY2005 ended March 31, 2006	FY2006 ended March 31, 2007	FY2007 ended March 31, 2008	Reporting period (FY2008 ended March 31, 2009)
Production volume	mil. tons Crude steel	7.78	7.86	7.92	7.67
Sales volume	mil. tons Steel materials	8.98	9.00	9.03	8.32
Sales (yen bil.)	Steel	916.4	1,020.6	1,126.0	1,235.3
	Engineering	38.4	10.7	15.3	10.7
	Total	954.9	1,031.4	1,141.4	1,246.0
	Exports	402.6	477.2	513.4	544.7
Ordinary income (yen bil.)		194.5	240.6	214.9	191.1
Net income (yen bil.)		129.7	139.2	129.3	90.7
Net income per share		26.97 yen	29.41 yen	28.25 yen	19.57 yen
Total assets (yen bil.)		1,656.5	1,873.7	1,940.6	1,988.6
Net assets (yen bil.)		625.7	690.8	672.9	643.1

Note: "Net income per share" is calculated based on the average number of outstanding shares throughout the fiscal year. The number of shares outstanding excludes treasury stock.

**(6) Main businesses of the SMI Group (as of March 31, 2009)**

Main business areas		
Steel	Steel sheets and plates	Steel plates for structural uses, steel plates for low-temperature service, steel plates for line pipe, high-tensile-strength steel plates and sheets, hot strip, cold strip, electro-magnetic steel sheets, hot-dip galvanized steel sheets, electrolytic galvanized steel sheets, pre-painted steel sheets, pre-coated steel sheets, stainless steel precision rolled strips, pure nickel sheet, etc.
	Construction materials	H-shapes, fixed outer dimension H-shapes, lightweight welded beams, sheet piles, steel pipe piles, etc.
	Steel tubes and pipe	Seamless steel tubes and pipes, electric resistance welded tubes and pipes, large-diameter arc-welded pipes, hot ERW, specially shaped tubes, various coated tubes and pipes, stainless steel tubes and pipes, etc.
	Steel bars and wire rods	Special quality bars, cold heading quality wire rods, spring quality bars, machining steel, bearing steel, stainless bars and wire rods, etc.
	Railway, automotive, and machinery parts	Wheels, axles, bogie trucks, gear units for electric cars, couplers, etc.
	Steel castings and forgings	Die forged crankshafts, materials for molds, aluminum wheels, flange for transmission tower, crane wheels, rolls, etc.
	Semi-finished iron products	Steel billets and slabs, pig iron for steel making, etc.
	Others	Titanium products, steel making technology, electric power, land and sea transport of steel materials, maintenance of machinery and facilities, pipelines, energy plant, sale of limestone, etc.
Engineering	Steel bridge, materials for civil engineering, etc.	
Electronics	Electronic modules, etc.	
Others	Lease and sale of real estate, research and testing specializing in materials analysis and evaluation, etc.	

**(7) Principal offices of the SMI Group (as of March 31, 2009)**

		Names
SMI	Head offices	Osaka (registered head office), Tokyo
	Domestic works	Steel Sheet, Plate & Structural Steel Company Kashima Steel Works (Kashima), Pipe & Tube Company Wakayama Steel Works (Wakayama and Kainan), Steel Tube Works (Amagasaki) Railway Automotive & Machinery Parts Company Osaka Steel Works (Osaka)
	Domestic offices	Branch offices Kyushu (Fukuoka), Chugoku (Hiroshima), Shikoku (Takamatsu), Nagoya, Hokuriku (Toyama), Niigata, Kitakanto (Mito), Tohoku (Sendai), Hokkaido (Sapporo) Sales offices Kagoshima, Okinawa (Naha), Wakayama, Hamamatsu, Shizuoka, Aomori
	Overseas offices	Chicago, Houston, ASEAN (Bangkok, Singapore), Shanghai, Guangzhou
	Laboratories	Corporate Research & Development Laboratories (Amagasaki and Kamisu) Center of Application Technology for Customers (Amagasaki)
	Consolidated subsidiaries	Domestic works
Overseas works		Western Tube & Conduit Corp. (United States) Seymour Tubing, Inc. (United States) International Crankshaft Inc. (United States) Huizhou Sumikin Forging Co., Ltd. (China)

**(8) Employment by the SMI Group (as of March 31, 2009)**

Segment	No. of employees
Steel	19,520
Engineering	125
Electronics	2,821
Others	1,779
<b>Total</b>	<b>24,245</b>

- Notes: 1. The number of employees decreased by 681 compared with the figure at the end of the previous fiscal year.  
2. Of this number, 7,084 are SMI employees (excluding personnel on loan to other companies), an increase of 134 compared with the figure at the end of the previous fiscal year.

## (9) Principal subsidiaries

### 1) Principal consolidated subsidiaries (as of March 31, 2009)

Company name	Capital (yen bil.)	Segment	Ownership as a % of total issued shares	Main business
Sumitomo Metals (Kokura), Ltd.	27.0	Steel	100.0	Manufacture and sale of steel bars and wire rods
East Asia United Steel Corporation	17.2	Steel	54.6	Holding company of Sumikin Iron & Steel Corporation
Sumikin Iron & Steel Corporation	17.2	Steel	* 54.6	Manufacture and sale of semi-finished iron products
Sumitomo Metals (Naoetsu), Ltd.	5.5	Steel	100.0	Manufacture and sale of stainless precision rolling products, stainless shaped products and titanium products,
Sumitomo Pipe & Tube Co., Ltd.	4.8	Steel	* 57.1	Manufacture and sale of steel pipes for use as electrical cable conduits, piping, structural members, drawn steel pipe
Sumitomo Metal (SMI) Electronics Devices Inc.	3.4	Electronics	100.0	Manufacture and sale of electronic modules
Sumikin Steel & Shapes, Inc.	3.0	Steel	100.0	Manufacture and sale of steel H-shapes
Sumitomo Metal Logistics Service Co., Ltd.	1.5	Steel	* 100.0	Land and sea transport of steel materials, etc. and incidental business
Western Tube & Conduit Corp.	\$US thousand 17,000	Steel	* 96.7	Manufacture and sales of power cable conduits, fence pipes and other welded steel tubes
Seymour Tubing, Inc.	\$US thousand 10,000	Steel	* 80.0	Manufacture and sales of steel tubing for automotive use
International Crankshaft Inc.	\$US thousand 22	Steel	* 80.0	Manufacture and sales of small forged crankshafts for automotive use
Huizhou Sumikin Forging Co., Ltd.	yuan mil. 239	Steel	51.0	Manufacture and sales of small forged crankshafts for automotive use

Note: \*: Includes shares held by subsidiaries

## 2) Principal companies accounted for using the equity method (as of March 31, 2009)

Company name	Capital (yen bil.)	Segment	Ownership as a % of total issued shares	Main business
SUMCO Corporation	114.1	Electronics	27.8	Manufacture and sale of semiconductor silicon wafers
Kashima Kyodo Electric Power Co.	22.0	Steel	50.0	Thermal power generation
Kyoei Steel, Ltd.	18.5	Steel	25.8	Manufacture and sale of steel billets, steel bars, shaped steel, flat steel, etc. Processing and sale of steel materials
Daiichi Chuo Kisen Kaisha	13.2	Steel	*1 15.1	Marine transport and incidental business
Sumikin Bussan Corporation	12.3	Steel	*1 38.2	Sale and export/import of iron and steel products, textiles and foodstuffs, etc.
Nippon Steel & Sumikin Coated Sheet Corporation	11.0	Steel	23.3	Manufacture and sale of coated steel sheets, surface-treated steel sheet, cold-rolled steel sheets and construction materials
Sumitomo Precision Products Co., Ltd.	10.3	Other	*1 40.6	Manufacture and sale of aerospace hydraulics, heat exchangers, industrial environmental equipment, etc.
OSAKA Titanium technologies Co., Ltd.	8.7	Steel	23.9	Manufacture and sale of titanium, polycrystalline silicon, processed products of silicon and titanium
Nippon Steel & Sumikin Metal Products Co., Ltd.	5.9	Steel	15.0	Manufacture and sale of construction and civil engineering materials, PVC-coated steel and powder for steel making
Nippon Steel & Sumikin Stainless Steel Corporation	5.0	Steel	20.0	Manufacture and sale of stainless steel
Chuo Denki Kogyo Co., Ltd.	3.6	Steel	29.3	Manufacture and sale of manganese ferroalloys, alloys that absorb and store hydrogen, etc.
Nippon Steel & Sumikin Welding Co., Ltd.	2.1	Steel	*1 20.0	Manufacture and sale of welding materials and equipment
*2 VAM USA LLC	\$US thousand 20,000	Steel	*1 34.0	Processing of premium joints for oil well pipe
Vallourec & Sumitomo Tubos do Brasil Ltda.	real mil. 979	Steel	39.0	Manufacture of seamless pipes

Notes: 1. \*1: Includes shares held by subsidiaries

2. \*2: VAM USA LLC is recorded as a principal affiliated company, as VAM USA Company has merged with Atlas Bradford LLC to form VAM USA LLC in the reporting period.

## (10) Principal SMI Group creditors and loans outstanding (as of March 31, 2009)

Name of creditors	Loans outstanding		
	SMI (yen. bil.)	Consolidated subsidiaries (yen. bil.)	Total (yen. bil.)
Sumitomo Mitsui Banking Corporation	84.2	7.4	91.7
The Sumitomo Trust and Banking Co., Ltd.	79.5	9.7	89.3
Development Bank of Japan	34.7	1.4	36.1
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	28.9	4.4	33.4
Sumitomo Life Insurance Company	32.0	0	32.0

## 2. Stock information (as of March 31, 2009)

### (1) Number of shares

Number of shares authorized to be issued	10,000,000,000 shares
Number of shares issued	4,805,974,238 shares
(Number of treasury stock)	(167,591,500 shares)

### (2) Number of shareholders

288,175

### (3) Principal Shareholders

Name	Investment in SMI	
	No. of shares owned (thou.)	Ownership as a % of total issued shares
Sumitomo Corporation	458,326	9.88
Nippon Steel Corporation	451,761	9.74
Japan Trustee Services Bank, Ltd. (account in trust)	207,716	4.48
Japan Trustee Services Bank, Ltd. (account in trust "4G")	192,324	4.15
The Master Trust Bank of Japan, Ltd. (account in trust)	151,958	3.28
Kobe Steel, Ltd.	112,565	2.43
Japan Trustee Services Bank, Ltd. (*1)	90,315	1.95
Nippon Life Insurance Company	88,919	1.92
Mitsui Sumitomo Insurance Company, Limited	68,206	1.47
Japan Trustee Services Bank, Ltd. (*2)	55,000	1.19
Total	1,887,091	40.47

- 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. Sumitomo Mitsui Banking Corporation holds 28,090 thousand shares (0.61% of total issued shares) in addition to those described above.
3. (\*2) The 55,000 thousand shares registered in the name of Japan Trustee Services Bank, Ltd. are owned beneficially by The Sumitomo Trust and Banking Corporation and held as a retirement benefit trust by Japan Trustee Services Bank, Ltd. The Sumitomo Trust and Banking Corporation holds the right to direct the voting of these shares.

### (4) Distribution ownership by shareholder group

Group	Japanese				Foreign	Total
	Financial institutions	Securities companies	Other corporations	Private individuals, etc.		
% ownership	27.4	0.7	31.5	23.1	17.3	100.0

Note: The distribution in the table above is calculated with treasury stock being subtracted from the total number of issued shares.

### 3. Directors and Corporate Auditors

#### (1) Names, positions, responsibilities and directorship in other companies and organizations (as of March 31, 2009)

(\* denotes Representative Directors)

Position	Name	Responsibilities and directorship in other companies and organizations
* Chairman of the Board of Directors	Hiroshi Shimozuma	Chairman of the Kansai Economic Federation
* Director and President	Hiroshi Tomono	Chairman of the Iron & Steel Institute of Japan
* Director	Tsutomu Ando	Steel Sales & Production Administration and Project Development Departments, Domestic and Overseas Offices, Sales of all Internal Companies, General Manager of Osaka Head Office
* Director	Fumio Hombe	Corporate Planning, Information Systems, Internal Auditing, Treasury, Public Relations & Investor Relations, General Affairs, Legal, Personnel & Industrial Relations and Safety & Health Departments, President of East Asia United Steel Corporation
Director	Yasuyuki Tozaki	Environment, Technology & Quality Administration, Blast Furnace Project and Intellectual Property Departments, Corporate Research & Development Laboratories, Center of Application Technology for Customers, Safety Technology, Technology and Quality of all Internal Companies
Director	Yasuo Imai	President of Pipe & Tube Company
Director	Kouji Morita	President of Railway, Automotive & Machinery Parts Company, Titanium Division, Chairman of Huizhou Sumikin Forging Co., Ltd.,
Director	Syuichiro Kozuka	General Affairs, Legal, Personnel & Industrial Relations and Safety & Health Departments
Director	Yoshinari Ishizuka	Treasury and Public Relations & Investor Relations Departments
Director	Ichiro Miyasaka	President of Steel Sheet, Plate & Structural Steel Company
Standing Corporate Auditor (full-time)	Shigeru Sakurai	
Standing Corporate Auditor (full-time)	Kitaro Yoshida	
Corporate Auditor	Shogo Takai	Lawyer
Corporate Auditor	Eiji Asada	Certified Public Accountant
Corporate Auditor	Keiichi Murakami	Lawyer, Distinguished visiting professor of Doshisha University law School

- Notes: 1. Shogo Takai, Eiji Asada and Keiichi Murakami are the outside corporate auditors as stipulated in Article 2, Item 16 of the Companies Act.
2. Corporate auditor Eiji Asada is a Certified Public Accountant, and has considerable knowledge of finance and accounting.

## (2) Total of fees and other remuneration paid to Directors and Corporate Auditors

	No. of persons	Payments in the reporting period	Remarks
Directors	11	(yen mil.) 779	The shareholders' meeting adopted a resolution to limit directors' fees to 80 million yen per month for Directors and 15 million yen per month for Corporate Auditors.
Corporate Auditors	6	141	
Total (Outside Corporate Auditors)	17 ( 3)	920 ( 42)	

Note: The figures above include the one (1) Director and one (1) Corporate Auditor who retired from the Company at the conclusion of the Annual General Shareholders' Meeting for the 85th period on June 19, 2008.

## (3) An Outside Corporate Auditors to two companies

Outside Corporate Auditor Eiji Asada is an outside corporate auditor of both Fudo Tetra Corporation and R-Tech Ueno, Ltd.

## (4) Principal activities of Outside Corporate Auditors in the reporting period

Each Outside Corporate Auditor attends meetings of the Board of Directors, receives reports from the Directors on the business operations, checks the Board's decision-making process and details, and gives opinions to the Board as necessary. The Outside Corporate Auditors hold regular meetings with Representative Directors, Directors of accounting and Independent Auditors, and conduct inspections and other auditing activities in the offices of the Company and its affiliates.

The Board of Corporate Auditors receives necessary reports from the Standing Corporate Auditors, Directors, employees and Independent Auditors and exchanges opinions amongst its members. The Board of Corporate Auditors checks and reviews the state of the Company's internal control systems as well as the appropriateness of the audits conducted by the Independent Auditors, to make sure that the Company has adequate auditing functions required by the Companies Act.

In the reporting period, there were 17 Board of Directors meetings and 28 Board of Corporate Auditors meetings. Attendance of each the Outside Corporate Auditors is as follows:

Name	Attendance	
	Board of Directors' meeting	Board of Corporate Auditors' meeting
Shogo Takai	15 meetings	28 meetings
Eiji Asada	17 meetings	28 meetings
Keiichi Murakami	16 meetings	28 meetings

Although the Fair Trade Commission handed down a ruling in June 2008 that the Company violated the Antimonopoly Act from April 2004 to June 2005 in the sale of steel pipe piles and sheet piles, the Company received neither a surcharge payment order nor a cease and desist order.

Each Outside Corporate Auditor, as an Outside Corporate Auditor, is proposing ways to improve systems that aim to ensure that the Company strictly abides by the Antimonopoly Act, and is working to ensure that the business activities of the Company's directors and employees comply with the requirements of laws and regulations.

## 4. Independent Auditors

### (1) Name of the Auditors

Deloitte Touche Tohmatsu

### (2) Total fees and other remuneration paid to Independent Auditors

Remarks	Amount of payment
(a) Total remuneration and other fees	(yen mil.) 113
(b) Total remuneration and other fees to be paid to Independent Auditors by the Company and its subsidiaries	325

- Notes:
1. The auditor engagement between the Company and our Independent Auditor does not differentiate audit remuneration based on the Companies Act from audit remuneration based on the Financial Instruments and Exchange Law, and the two types of remuneration cannot be differentiated; therefore, the agreement amount is shown in the figures above.
  2. The Company pays remuneration to the Independent Auditors for their guidance of internal control concerning the financial reporting, suggestions and advice, apart from their duties stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Law.
  3. Of the Company's principal subsidiaries, the accounts (including documents equivalent to these) of Western Tube & Conduit Corp., Seymour Tubing, Inc., International Crankshaft Inc., and Huizhou Sumikin Forging Co., Ltd. are audited (as defined by the provisions by the Companies Act or the Financial Instruments and Exchange Law (or equivalent foreign laws or regulations)) by certified public accountants or auditors (or persons having foreign qualifications equivalent to these) other than the Company's Independent Auditors.

### (3) Policy concerning the decision to dismiss or to not reappoint the Independent Auditor

Article 340 of the Companies Act stipulates that the Board of Corporate Auditors shall be entitled to dismiss the independent auditor for reasons stipulated therein. In addition, when it is recognized that the independent auditor is no longer able to perform its duties appropriately, the Company, subject to the consent of, or request from, the Board of Corporate Auditors, will propose to the Shareholders' Meeting to dismiss the independent auditor or adopt a decision not to reappoint the independent auditor.

## 5. A summary of resolutions to put in place systems to ensure that operations are conducted correctly

The Company has decided upon the following basic policies concerning the putting in place of systems to ensure that operations are correctly carried out, and is working to ensure that in accordance with these basic policies, the Company's operations are lawfully and efficiently conducted, risk management is carried out, and that these systems are improved in response to changes in the business environment and other factors.

### (1) Systems to ensure that Directors' performance of duties complies with laws, regulations and the Company's Articles of Incorporation, and systems to ensure that these duties are efficiently carried out.

The Company, as a corporate institution based on laws, regulations and its Articles of Incorporation, has in place its Shareholders' Meetings, Directors, Board of Directors,

Corporate Auditors, Board of Corporate Auditors and Independent Auditors, and has established the following systems to ensure that these bodies can perform their duties in an efficient manner.

- 1) Introduce an “executive officer” system and raise the effectiveness of supervisory functions and the efficiency of officers’ duties by separating decision-making/supervisory functions from management functions.
- 2) Establish standards for Board of Director discussions, and stipulate what matters are to be decided upon at meetings of the Board of Directors and what matters need to be reported to the Board of Directors.
- 3) Have matters of importance to management discussed at the Management Meeting, in accordance with standards for Management Meeting discussions, and then make decisions at a meeting of the Board of Directors.
- 4) Have the Personnel Committee discuss the selection of Director candidates and other personnel matters and report these to the Board of Directors for decision-making.

The Company has also established Sumitomo Metals’ Corporate Code that sets forth the essential policies for the Company’s business and requires that the duties of Directors strictly comply with laws, regulations and business ethics.

## **(2) Systems for the storage and management of information concerning Directors’ execution of their duties.**

In accordance with the Company’s regulations, this information should be properly preserved and managed.

## **(3) Regulations and systems concerning crisis management**

The Crisis Management Committee will be established to enable the Company to make a unified response in a time of emergency following a major disaster, accident or violation of law. Systems will be put in place that will enable a swift and appropriate response to a crisis. The Company is setting up the following systems to prevent or manage risk in ordinary times.

- 1) Systems to manage losses, to swiftly respond to changes in the business environment and put in place regulations concerning significant assets and manage those assets thereunder.
- 2) Establish a Risk Management Committee, conduct assessment to uncover and examine risk and set basic policies governing risk management. In accordance with these basic policies, determine the departments that will be responsible for managing specific risks, set down regulations, put systems in place, and conduct effective risk management. Set up an Environment Committee to manage environmental risks, and set up an Information Security Committee to manage information security risks.
- 3) Systems to ensure the reliability of financial reports.

## **(4) Systems to ensure that employees carry out their duties in compliance with laws, regulations and the Company’s Articles of Incorporation**

The Internal Auditing Department will monitor and supervise performance of the duties of executive officers and employees. The Compliance Committee will be set up to prevent violations of law, and the following compliance programs will be put in place.

- 1) The Sumitomo Metals’ Corporate Code will require employees, executive officers and Directors to strictly comply with laws, regulations and business ethics. Publish a Compliance Manual which lists the practices that must be followed in the course of duties.
- 2) Set up a curriculum for training personnel in all aspects of compliance. If necessary, the management of each office may produce manuals and hold training meetings.
- 3) Set up a Compliance Consultation Office in order to provide consultations to executive officers and other employees.

**(5) Systems to ensure that the Group comprising the Company and its subsidiaries carries out its duties correctly**

The following “Group Company Management Systems” will be set up for the management of subsidiaries (excluding listed subsidiaries).

- 1) The Group Company Management Council will assess the level of achievement of management targets at principal subsidiaries and discuss the remuneration of the president of each subsidiary.
- 2) Important decisions taken at each subsidiary will be required to be discussed with and reported to the Company, following a defined standard procedure.
- 3) Each subsidiary will be required to set up a compliance program based on the Company’s program, adapted to the business and scale of operations of the subsidiary.
- 4) The Company will receive periodic reports from each subsidiary concerning the management of their operations and their financial circumstances. The Internal Auditing Department will regularly inspect each subsidiary.

The Company will set up basic policies to ensure that the Company correctly conducts business with its subsidiaries, and that minority shareholders will not suffer unfair losses.

**(6) Systems concerning the personnel to assist Corporate Auditors in their duties**

With the consent of the Board of Corporate Auditors, a Corporate Auditors’ Office will be set up to assist the Corporate Auditors. The number of such employees and the functions of the Office will be determined with the consent of the Board of Corporate Auditors.

**(7) Matters concerning the independence of the personnel in (6) above from the Directors.**

The personnel to be assigned to the Corporate Auditors’ Office will be determined with the consent of the Board of Corporate Auditors.

**(8) Systems for Directors or employees to report to the Corporate Auditors and other systems for reporting to Corporate Auditors**

In accordance with the Company’s regulations, the following matters will be reported in a prompt and appropriate manner to Corporate Auditors or the Board of Corporate Auditors.

- 1) Important matters concerning the management of the Company and the SMI Group
- 2) The Performance of the Company’s Directors’ duties
- 3) The state of preparation and operation of systems to ensure that Directors and employees are carrying out their duties in compliance with laws, regulations and the Company’s Articles of Incorporation
- 4) The state of preparation and operation of systems to ensure that operations within the SMI Group are being correctly carried out
- 5) The state of establishment and operation of systems to ensure that important matters concerning the preparation of accounts and financial statements are verified and that the accounts and statements are correctly prepared
- 6) Audits by the Internal Auditing Department
- 7) Measures taken to respond to the following: matters that may cause considerable losses to the Company and the SMI Group, actual or suspected unlawful acts by a Director(s); violations of laws, regulations and the Company’s Articles of Incorporation or extremely unfair acts
- 8) Important public announcements concerning the Company and the SMI Group

## **(9) Other systems to ensure the effectiveness of the audit function of the Corporate Auditors**

If deemed necessary, the Corporate Auditors may request the Internal Auditing Department to report the results of their internal audits. If deemed necessary, the Corporate Auditors may call upon lawyers, accountants and other outside specialists to assist them.

## **6. Basic policy on control over the Company**

### **(1) Outline of the Basic Policy**

The SMI Group has promoted its management with the basic policy to maximize corporate value through continuous development, with a balance between quality and scale. The Company believes that the Company's shareholders should make the final decisions as to whether or not a Large-scale Purchase (as set forth in (2) below, the same shall apply hereinafter) is acceptable. The Company also believes that such decision will be properly made based upon the shareholders' understanding of the management policy stated above and the corporate value to be realized through such management policy. Accordingly, the Company ensures that the Company's shareholders shall be provided with sufficient and appropriate information, from both of the Large-scale Purchaser (as set forth in (2) below, the same shall apply hereinafter) and the Board of Directors, including information on the content of the Large-scale Purchase and the influence of the Large-scale Purchase affecting the Company and its group companies, and furthermore, the Company's shareholders shall be given the time and opportunity to carefully consider the provided information.

### **(2) Implementation**

#### **A. Special Implementation to Realize the Basic Policy**

The SMI Group, in order to realize the basic policy stated above in (1), has enhanced its corporate competitiveness to cope with the business environment downside risk by carrying out the measures that "strengthen the SMI Group's advantage" and "accelerate the SMI Group's differentiation from others." To carry out such measures, the SMI Group believes that it is important to enhance the value of "intangible assets" such as superior technology, a trust relationship with customers, and the passion and pride of each employee. Through such enhancement of the value of "intangible assets," the SMI Group aims to be a corporation trusted by its stakeholders, including the Company's shareholders.

#### **B. Implementation in Light of the Basic Policy to Prevent Inappropriate Persons from Controlling Decisions on Financial and Business Policies of the Company**

In accordance with a resolution of the meeting of the Board of Directors held on March 31, 2009, the Company decided to adopt a policy, as a so-called "anti-takeover defense plan to be introduced in advance", toward (i) a purchase of the Company's shares and other securities with the intent to hold 20% or more of the total voting rights of the Company, or (ii) a purchase of the Company's shares and other securities resulting in holding 20% or more of the total voting rights of the Company (a purchase of the Company's shares and other securities set out in (i) or (ii) above shall be hereinafter referred to as a Large-scale Purchase, a person or a company that intends to conduct a Large-scale Purchase shall be hereinafter referred to as a Large-scale Purchaser). This policy is (i) to make a necessary revision regarding the amendment of laws, etc., to a part of the policy approved by the shareholders upon the Annual General Shareholders' Meeting held on June 27, 2006 (hereinafter referred to as the Original Policy) and (ii) to continue the Original Policy with substantially the same content (such policy after revision shall be hereinafter referred to as the Policy).

The Policy is to set up the rules regarding the Large-scale Purchase (hereinafter

referred to as the Large-scale Purchase Rules) and an outline of which as follows:

## **a. Content of the Large-scale Purchase Rules**

### **(a) Submission of Intention Letter**

First, when a Large-scale Purchaser intends to commence a Large-scale Purchase, such Large-scale Purchaser is required to submit to the Company a letter of intention to comply with the Large-scale Purchase Rules.

### **(b) Provision of Information**

The Large-scale Purchaser is required to provide the Company's Board of Directors with sufficient information (hereinafter referred to as the Large-scale Purchase Information) so that the company's shareholders may make decisions and the Board of Directors may form its opinion regarding such Large-scale Purchase. The Large-scale Purchase Information includes the following:

- (i) an outline of the Large-scale Purchaser and its group;
- (ii) the purposes and conditions of the Large-scale Purchase;
- (iii) the basis for determination of the purchase price and funds for purchase;
- (iv) management policies which the Large-scale Purchaser intends to adopt after the completion of the Large-scale Purchase;
- (v) policies to be implemented after the completion of the Large-scale Purchase on customers, suppliers, local community, employees and any other interested parties of the Company and its group companies; and
- (vi) in case where the Large-scale Purchaser conducts business of the same kind as the Company's or its group companies' business, view on the legality of the Large-scale Purchase in terms of the Antimonopoly Act of Japan and overseas competition laws.

In order for the Large-scale Purchaser to provide the Large-scale Purchase Information, the Company will, within five (5) business days after receipt of the Intention Letter, deliver to the Large-scale Purchaser a list of the Large-scale Purchase Information to be provided by the Large-scale Purchaser. If the Board of Directors regards the information initially provided by the Large-scale Purchaser is deemed insufficient as Large-scale Purchase Information, the Company may require additional information to the extent necessary and appropriate for the above-mentioned purpose. The Board of Directors will disclose all or part of the Large-scale Purchase Information submitted to the Board of Directors at the time it deems appropriate, if such disclosure is considered necessary for shareholders to make decisions.

### **(c) Assessment Period**

The Board of Directors of the Company believe that after the provision of the Large-scale Purchase Information is completed, the Board of Directors should be allowed a sixty-business-day period (in case of the purchase of all the Company shares by a tender offer with cash-only (yen) consideration) or a ninety-business-day period (in case of any other Large-scale Purchase) as the period during which it will assess, examine, negotiate, form an opinion and seek any alternative plans (hereinafter referred to as the Assessment Period). The Large-scale Purchaser may commence the Large-scale Purchase only after the Assessment Period has elapsed.

The Board of Directors will thoroughly examine and assess the provided Large-scale Purchase Information with advice from outside experts including lawyers, accountants and financial advisors during the Assessment Period, and form and disclose its opinion. The Board of Directors may negotiate with the Large-scale Purchaser in order to improve the terms of the proposed Large-scale Purchase or it may offer the alternative plan to shareholders, if necessary.

## **b. Countermeasures against Non-compliance with the Large-scale Purchase Rules**

If a Large-scale Purchaser does not comply with the Large-scale Purchase Rules, the Company's Board of Directors may take countermeasures against the Large-scale Purchaser to protect the interests of all of its shareholders as a whole. Countermeasures include the issuance of stock acquisition rights or any other measures that the Board of Directors is permitted to take under the Companies Act of Japan or other laws and the company's Articles of Incorporation. The Board of Directors will adopt specific countermeasures which it deems appropriate at that time.

## **c. Effective Date and Effective Term of the Policy, etc.**

The Policy was adopted by the meeting of the Company's Board of Directors held on March 31, 2009, and took effect as of said date. The Policy will remain effective until the first meeting of the Board of Directors to be held after the Annual General Shareholders' Meeting in 2012. However, the Board of Directors plans to propose the outline of the Policy to the Annual General Shareholders' Meeting to be held on June 19, this year (the SH Meeting) as an agenda item for affirmative votes. In case not more than a half of the Company's shareholders present or represented at the SH Meeting vote for the affirmative, then the Policy will be abolished immediately.

The Company intends to review the Policy from time to time from the viewpoint of enhancing the benefit of its shareholders as a whole, taking into account the enactments of various legislations and any development of its Business Plan, and may amend or abolish the Policy if necessary even during the effective term of the Policy by a resolution of the Board of Directors.

## **(3) Evaluation by the Board of Directors and Its Reasons**

The implementations stated in (2) above are carried out to maximize the corporate value of the SMI Group, which is the management policy of the SMI Group, and to establish necessary procedures that enable the Company's shareholders to judge appropriately whether or not they accept a large scale purchase of the Company's shares and other securities that could influence such Company's management, once such purchase commences.

Further, with regard to the Large-scale Purchase Rules, as long as a Large-scale Purchaser complies with the Large-scale Purchase Rules, the Board of Directors does not intend to prevent the Large-scale Purchase based on its own discretion. On the other hand, if a Large-scale Purchaser does not comply with the Large-scale Purchase Rules, the Board of Directors may take countermeasures against the Large-scale Purchaser to protect the interests of all its shareholders as a whole. As a function of a countermeasure itself, however, the Board of Directors is not assuming that such countermeasure taken will cause any specific legal or economic damage or loss to the Company's shareholders (excluding a Large-scale Purchaser who does not comply with the Large-scale Purchase Rules).

Accordingly, the Board of Directors believes that the implementations stated in (2) above (i) comply with the basic policy stated in (1), (ii) do not impair the common benefit of the Company's shareholders and investors as a whole, and (iii) are not a tool for the Directors to preserve their status.

(Note)

The monetary figures and number of shares in this Business Report have been rounded down and other figures have been rounded off to the nearest unit.

## Consolidated Balance Sheet

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries  
March 31, 2009

Millions of yen		Millions of yen	
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets:</b>		<b>Current liabilities:</b>	
Cash and deposits	¥41,056	Notes and accounts payable-trade	¥313,706
Notes and accounts receivable-trade	135,804	Short-term loans payable	237,323
Merchandise and finished goods	208,713	Current portion of bonds	24,000
Work in process	37,278	Income taxes payable	36,841
Raw materials and supplies	264,257	Deferred tax liabilities	275
Deferred tax assets	18,762	Other	131,821
Other	32,576	<b>Total current liabilities</b>	<b>743,969</b>
Allowance for doubtful accounts	(1,087)		
<b>Total current assets</b>	<b>737,362</b>		
<b>Noncurrent assets:</b>		<b>Noncurrent liabilities:</b>	
<b>Property, plant and equipment:</b>		Bonds payable	160,652
Buildings and structures, net	247,065	Long-term loans payable	568,035
Machinery, equipment and vehicles, net	379,805	Lease obligations	26,516
Land	341,477	Deferred tax liabilities	4,505
Construction in progress	153,098	Deferred tax liabilities for land	
Other, net	11,759	revaluation	6,919
<b>Total property, plant and equipment</b>	<b>1,133,207</b>	Provision for retirement benefits	22,510
		Provision for special repairs	225
		Other	14,829
		<b>Total noncurrent liabilities</b>	<b>804,194</b>
<b>Intangibles assets:</b>		<b>Total liabilities</b>	<b>1,548,163</b>
Goodwill	381		
Other	4,845	<b>Net assets</b>	
<b>Total intangibles assets</b>	<b>5,226</b>	<b>Shareholders' equity:</b>	
		Capital stock	262,072
<b>Investments and other assets:</b>		Capital surplus	61,829
Investment securities	483,001	Retained earnings	680,807
Deferred tax assets	42,519	Treasury stock	(90,528)
Other	51,475	<b>Total shareholders' equity</b>	<b>914,180</b>
Allowance for doubtful accounts	(258)		
<b>Total investments and other assets</b>	<b>576,738</b>	<b>Valuation and translation adjustments:</b>	
		Valuation difference on	
<b>Total noncurrent assets</b>	<b>1,715,172</b>	available-for-sale securities	(41,542)
		Deferred gains or losses on hedges	(690)
		Revaluation reserve for land	11,833
		Foreign currency translation adjustment	(26,083)
		<b>Total valuation and translation</b>	
		<b>adjustments</b>	<b>(56,483)</b>
		<b>Minority interests</b>	<b>46,674</b>
		<b>Total net assets</b>	<b>904,371</b>
<b>Total assets</b>	<b>¥2,452,535</b>	<b>Total liabilities and net assets</b>	<b>¥2,452,535</b>

## Consolidated Statement of Income

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2009

Millions of yen

<b>Net sales</b>		<b>¥1,844,422</b>
<b>Cost of sales</b>		<b>1,481,158</b>
<b>Gross profit</b>		<b>363,264</b>
<b>Selling, general and administrative expenses</b>		
Shipment expenses	41,622	
Employees' salaries and allowances	39,773	
Research and development expenses	20,342	
Other	35,473	137,211
<b>Operating income</b>		<b>226,052</b>
<b>Non-operating income</b>		
Interest income	1,355	
Dividends income	7,783	
Equity in earnings of affiliates	22,179	
Other	15,662	46,981
<b>Non-operating expenses</b>		
Interest expenses	14,577	
Foreign exchange losses	5,797	
Loss on sales and retirement of noncurrent assets	8,363	
Other	18,558	47,297
<b>Ordinary income</b>		<b>225,736</b>
<b>Extraordinary loss</b>		
Impairment loss	11,144	
Loss on valuation of investment securities	16,776	
Environmental expenses	3,355	31,276
<b>Income before income taxes and minority interests</b>		<b>194,459</b>
Income taxes-current	82,038	
Income taxes-deferred	12,838	94,877
Minority interests in income		2,254
<b>Net income</b>		<b>¥97,327</b>

## Consolidated Statement of Changes in Net Assets

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2009

(Millions of yen)

### Shareholders' equity

<b>Capital stock</b>	
Balance at the end of previous period	262,072
Changes of items during the period	
Total changes of items during the period	<u>-</u>
Balance at the end of current period	<u>262,072</u>
<b>Capital surplus</b>	
Balance at the end of previous period	61,829
Changes of items during the period	
Total changes of items during the period	<u>-</u>
Balance at the end of current period	<u>61,829</u>
<b>Retained earnings</b>	
Balance at the end of previous period	630,063
Changes of items during the period	
Dividends from surplus	(46,386)
Net income	97,327
Change of scope of consolidation	(279)
Reversal of revaluation reserve for land	81
Total changes of items during the period	<u>50,743</u>
Balance at the end of current period	<u>680,807</u>
<b>Treasury stock</b>	
Balance at the end of previous period	(90,210)
Changes of items during the period	
Purchase of treasury stock	(317)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Total changes of items during the period	<u>(318)</u>
Balance at the end of current period	<u>(90,528)</u>
<b>Total shareholders' equity</b>	
Balance at the end of previous period	863,754
Changes of items during the period	
Dividends from surplus	(46,386)
Net income	97,327
Change of scope of consolidation	(279)
Purchase of treasury stock	(317)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Reversal of revaluation reserve for land	81
Total changes of items during the period	<u>50,425</u>
Balance at the end of current period	<u>914,180</u>

Note: Figures in parentheses are negative values.

(Millions of yen)

<b>Valuation and translation adjustments</b>	
<b>Valuation difference on available-for-sale securities</b>	
Balance at the end of previous period	35,403
Changes of items during the period	
Net changes of items other than shareholders' equity	(76,946)
Total changes of items during the period	(76,946)
Balance at the end of current period	(41,542)
<b>Deferred gains or losses on hedges</b>	
Balance at the end of previous period	(1,162)
Changes of items during the period	
Net changes of items other than shareholders' equity	471
Total changes of items during the period	471
Balance at the end of current period	(690)
<b>Revaluation reserve for land</b>	
Balance at the end of previous period	11,561
Changes of items during the period	
Net changes of items other than shareholders' equity	272
Total changes of items during the period	272
Balance at the end of current period	11,833
<b>Foreign currency translation adjustments</b>	
Balance at the end of previous period	(7,611)
Changes of items during the period	
Net changes of items other than shareholders' equity	(18,472)
Total changes of items during the period	(18,472)
Balance at the end of current period	(26,083)
<b>Total valuation and translation adjustments</b>	
Balance at the end of previous period	38,191
Changes of items during the period	
Net changes of items other than shareholders' equity	(94,675)
Total changes of items during the period	(94,675)
Balance at the end of current period	(56,483)
<b>Minority interests</b>	
Balance at the end of previous period	47,356
Changes of items during the period	
Net changes of items other than shareholders' equity	(682)
Total changes of items during the period	(682)
Balance at the end of current period	46,674
<b>Total net assets</b>	
Balance at the end of previous period	949,303
Changes of items during the period	
Dividends from surplus	(46,386)
Net income	97,327
Change of scope of consolidation	(279)
Purchase of treasury stock	(317)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Reversal of revaluation reserve for land	81
Net changes of items other than shareholders' equity	(95,357)
Total changes of items during the period	(44,931)
Balance at the end of current period	904,371

Note: Figures in parentheses are negative values.

## **Significant Accounting Policies**

### 1. Scope of consolidation

#### a. Number of consolidated subsidiaries: 73

Names of principal companies:

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

In addition to the company that began operations in the fiscal year, two companies have been added to the list of consolidated subsidiaries on account of their importance.

Furthermore, one company has been removed from the list of consolidated subsidiaries as it is no longer a subsidiary of the Company.

#### b. Names of principal non-consolidated subsidiaries

Aritakaiun Co., Ltd. and others

(Reason for exclusion from the scope of consolidation)

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

### 2. Application of the equity method

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

Name of company:

Kanto Special Steel works, Ltd.

#### b. Number of associated companies accounted for using the equity method: 35

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 this fiscal year two companies have been added to the scope of application of the equity method on account of their importance.

The equity method was applied to SUMCO Corporation, based on the company's consolidated financial statements.

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

3. The accounting period of consolidated subsidiaries

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

<u>Company name</u>	<u>Fiscal year ending</u>
Kashima Antlers Football Club Co., Ltd.	January 31
Sumikin Recycling Co., Ltd.	January 31
Sumikin Financial Service Co., Ltd.	December 31
A total of 21 overseas subsidiaries, including Western Tube & Conduit Corp.	December 31

The figures on 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 closing dates are accounted for by necessary adjustments to the consolidated financial statements.

4. Accounting policies

a. Valuation standards and methods of significant assets

(a) Securities

Marketable available-for-sale securities:

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

Non-marketable available-for-sale securities:

Valued at cost, mainly determined by the moving average method

(b) Inventories

Inventories held for the purpose of ordinary sale

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

(Changes to accounting policy)

Before the current consolidated fiscal year, inventories held for the purpose of ordinary sale have been stated at cost, by the average method. From the current consolidated fiscal year and onwards, with the application of the "Accounting Standard for Measurement of Inventories" (Accounting Standard Statement No. 9, the Accounting Standards Board of Japan (ASBJ) July 5, 2006) inventories are stated at cost, by the average method (the valuation of inventories that appears in the balance sheet is calculated from a reduction in book value based on a decline in profitability).

As a result of these changes, operating income, ordinary income and net income before income taxes and others have each declined by 20,415 million yen in the current consolidated fiscal year.

(c) Derivatives

Measured at fair value

b. Method of depreciation

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

Depreciation of the buildings of the Company and the domestic consolidated subsidiaries is calculated chiefly by the straight-line method; the depreciation of other properties is computed by the declining-balance method.

Depreciation of assets of the overseas subsidiaries is calculated chiefly by the straight-line method. The useful lives are principally 31 years for buildings and structure; 14 years for machinery and equipment.

(Additional information)

Following a partial amendment to the ministerial ordinance concerning the useful lives of depreciated assets, from the current consolidated fiscal year, we took the opportunity to review our utilization of property, plant and equipment, and altered the useful lives of these tangible assets.

As a result of these changes, operating income, ordinary income and net income before income taxes and others have each declined by 3,047 million yen in the current consolidated fiscal year.

(b) Intangibles (Excluding leased assets)

The depreciation of intangibles is calculated by the straight-line method.

(c) Leased assets

Leased assets subject to finance leasing transaction where the ownership of the asset is transferred to the lessee

A method of depreciation that is equivalent to the method applied to assets owned by the Company shall be used.

Leased assets subject to finance leasing transaction where the ownership of the asset is not transferred to the lessee

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

In financial leasing transactions of the Company and its domestic consolidated subsidiaries concluded before April 1, 2008 where the ownership of the asset is not transferred to the lessee, the accounting methods are based on those used for ordinary leasing transactions.

(Changes to accounting policy)

Before the current consolidated fiscal year, the Company and its domestic consolidated subsidiaries used accounting methods based on those used for ordinary leasing transactions to account for leasing transactions where the ownership of the asset is not transferred to the lessee; however, from the current consolidated fiscal year and onwards, they have applied the Accounting Standard for Lease Transactions (Accounting Standard Statement No. 13 (June 17, 1993 (the Accounting Standards Board of Japan (ASBJ)) revised March 30, 2007) and the Guidance on Accounting Standard for Lease Transactions (Guidance No. 16 (January 18, 1994 (The Japan Institution of Certified Public Accountants)) revised March 30, 2007) and have based the accounting methods on those used for ordinary sales transactions.

In financial leasing transactions concluded before April 1, 2008 where the ownership of the asset is not transferred to the lessee, the accounting methods are based on those used for ordinary leasing transactions.

The effect of these changes on the consolidated financial statements of the current consolidated fiscal year are only slight.

c. Deferred assets

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

d. Allowances

(a) Allowance for doubtful receivables

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

(b) Liability for employees' retirement benefits

The amount of the liability for employees' retirement benefits is determined based on the projected benefit obligations and plan assets of the pension fund as at the end of the fiscal year. Prior service cost is amortized using the straight-line method over a specific number of years (typically 1 year) that is within the average number of remaining years of service of employees when liabilities are incurred. Actuarial differences are amortized from the year following the year in which such actuarial differences arise, mainly using the straight-line method over a specific number of years (typically 11 years) that is less than the average number of remaining years of service of employees as of the time such differences actually arise.

(c) Liability for rebuilding furnaces

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

e. Foreign currency transactions and financial statements

All short-term and long-term monetary receivables and payables determined in foreign currencies are translated into Japanese yen at the exchange rates at the balance-sheet date. The foreign exchange-gains and losses from translation are recognized in the statement of income. The balance sheet assets and liabilities of the consolidated foreign subsidiaries are translated into Japanese yen at the exchange rates at the balance sheet day, 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 adjustments” and “Minority interests” in the “Net assets” section of the consolidated balance sheet.

(Changes to accounting policy)

Before the current consolidated fiscal year, the revenues and expenses of consolidated foreign subsidiaries were translated into Japanese yen at the exchange rates at the balance-sheet date; however, from the current consolidated fiscal year the accounting policy has been changed, so that revenues and expenses arising from ordinary transactions throughout the period will be translated into yen at the (more realistic) average exchange rate throughout the period. This change was carried out due to the fact that a significant trend has been observed that, due to drastic change in the foreign exchange market, the exchange rate at the balance-sheet date is not similar to the average exchange rate throughout the period, as well as the increasing importance of consolidated foreign subsidiaries.

As a result of this change, in the current consolidated period, sales increased by 6,119 million yen, operating income rose by 621 million yen, ordinary income gained 2,872 million yen, and net income before income taxes and others rose by 2,195 million yen.

f. Revenue recognition

The percentage of completion method is applied to long-term, large-sized construction projects (mainly those taking more than one year to complete and having a total undertaking of 100 million yen).

g. Hedge activities

(a) Hedge accounting methods

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

(b) Means of hedging and subjects of hedging

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

(c) Policy of hedging

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

(d) Methods used to assess the effectiveness of hedging

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

h. Consumption taxes

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

5. Valuation of assets and liabilities of consolidated subsidiaries

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

6. Goodwill and negative goodwill accounts

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

7. Material changes to basis for preparation of consolidated financial statements
- a. Application of Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements
- Starting from the current consolidated fiscal year, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No. 18, May 17, 2006) is applied.
- Such application had no effect on the operating income, the ordinary income and the income before income taxes and others.
- b. Changes to the method of expressions
- (a) Regarding consolidated balance sheet
- Due to the commencement of application of Cabinet office ordinance amending the Regulation on Financial Statements, etc. (Cabinet office ordinance No. 50, August 7, 2008), the item expressed under the heading “Inventories” in the previous consolidated fiscal year is now separately expressed under the headings “Merchandise and finished goods”, “Work in progress” and “Raw materials and supplies” beginning the current consolidated fiscal year. For reference, the amount that was expressed under the heading “Inventories” in the previous consolidated fiscal year would have been classified as follows: 190,409 million yen under “Merchandise and finished goods”, 39,369 million yen under “Work in progress” and 209,023 million yen under “Raw materials and supplies.”
- “Lease obligations”, which was included in the “Other” section of noncurrent liabilities in the previous consolidated fiscal year is now separately indicated as “Lease obligations” beginning the current consolidated fiscal year, as the amount exceeds 1/100 of the amount of the total liabilities and net assets. For reference, the amount of the lease obligations that was included in the “Other” section of noncurrent liabilities in the previous consolidated fiscal year was 17,932 million yen.
- (b) Regarding consolidated statement of income
- The new heading “Loss on sales and retirement of noncurrent assets” is used beginning the current consolidated fiscal year in order to improve the ease of comparison of the consolidated financial statements, in light of introduction of XBRL to EDINET. The item under the new heading was previously included in “Dismantlement expenses” and “Other” in the previous consolidated fiscal year.
- For reference, the amount of “Loss on sales and retirement of noncurrent assets” that was included in “Dismantlement expenses” and “Others” for the previous consolidated fiscal year was respectively 6,943 million yen and 3,549 million yen.

## Notes to Consolidated Balance Sheet

1. Assets pledged as collateral for debt

a. Assets pledged as collateral

Property, plant and equipment	¥17,033	million
Total	¥17,033	million

b. Secured debts

Trade notes payable and trade accounts payable	¥1,880	million
Short-term borrowings	200	
Long-term borrowings	2,130	
Total	¥4,210	million

2. Accumulated depreciation for property, plant and equipment

¥2,313,187 million

3. Contingent liabilities

a. Guarantees

The bank loans and other which the Group guarantees, as follows:

Hibikinada Development Co., Ltd.	¥716	million
Kyoei Recycling Co., Ltd.	133	
5 other companies	164	
Total	¥1,014	million

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

b. Obligation to repurchase transferred receivables under certain conditions

¥5,865 million

## **Notes to the Consolidated Statement of Changes in Net Assets**

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

Common stock                      4,805,974,238 shares

2. Dividends

- a. Cash dividends paid in the fiscal year

Resolved at	Type of stock	Total dividend (million yen)	Dividend per share	Record date	Effective date of issue of dividends
Board of Directors held on May 13, 2008	Common stock	23,194	5.0	March 31, 2008	May 30, 2008
Board of Directors held on October 30, 2008	Common stock	23,191	5.0	September 30, 2008	December 1, 2008

- 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	Record date	Effective date of issue of dividends
Board of Directors held on May 12, 2009	Common stock	Retained earnings	23,190	5.0	March 31, 2009	May 28, 2009

## **Financial information on a per-share basis**

1. Net assets per share                      184.92 yen
2. Net income per share                      20.98 yen

(Note) The monetary figures in this Consolidated Financial Statements have been rounded down to the nearest unit.

## (References)

### Summary of the Consolidated Statement of Cash Flows

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2009

	Billions of yen
Net cash provided by operating activities	¥190.5
Net cash used in investing activities	(214.9)
Net cash provided by financing activities	52.6
Foreign currency translation adjustments on cash and cash equivalents	(2.2)
Net increase in cash and cash equivalents	¥26.0

Note: Figures in parentheses are negative values.

### Summary of Segment Information

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2009

	Billions of yen						
	Steel	Engineering	Electronics	Other	Total	Corporate or Eliminations	Consolidated
Sales to customers	¥1,740.7	¥11.6	¥45.3	¥46.5	¥1,844.4	-	¥1,844.4
Inter-segment sales	2.5	0	-	20.0	22.5	(¥22.5)	-
Total sales	1,743.2	11.6	45.3	66.6	1,866.9	(¥22.5)	1,844.4
Operating profit	¥230.8	(¥0.2)	(¥4.6)	¥0	¥226.0	(¥0)	¥226.0

Note: Figures in parentheses are negative values.

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

## Balance Sheet

Sumitomo Metal Industries, Ltd.  
March 31, 2009

	Millions of yen		Millions of yen
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets:</b>		<b>Current liabilities:</b>	
Cash and deposits	¥26,406	Notes payable-trade	¥9,080
Notes receivable-trade	258	Accounts payable-trade	201,946
Accounts receivable-trade	58,161	Short-term loans payable	173,237
Short-term investment securities	2,300	Current portion of bonds	24,000
Finished goods	45,226	Lease obligations	9,781
Semi-finished goods	87,680	Accounts payable-other	123,832
Work-in-process	9,791	Accrued expenses	11,846
Raw materials	60,817	Income taxes payable	25,569
Supplies	90,881	Advances received	826
Advance payments-trade	2,350	Deposits received	582
Prepaid expenses	1,092	Unearned revenue	0
Deferred tax assets	10,511	Other	1,342
Accounts receivable-other	150,580	<b>Total current liabilities</b>	<b>582,047</b>
Short-term loans receivable	169,513		
Other	1,123	<b>Noncurrent liabilities:</b>	
Allowance for doubtful accounts	(74)	Bonds payable	160,652
<b>Total current assets</b>	<b>716,622</b>	Long-term loans payable	562,373
<b>Noncurrent assets:</b>		Lease obligations	25,853
<b>Property, plant and equipment:</b>		Provision for retirement benefits	2,788
Buildings, net	98,748	Provision for special repairs	170
Structures, net	52,022	Other	11,541
Machinery and equipment, net	258,416	<b>Total noncurrent liabilities</b>	<b>763,378</b>
Vehicles, net	777	<b>Total liabilities</b>	<b>1,345,426</b>
Tools, furniture and fixtures, net	4,731		
Land	215,322	<b>Net assets</b>	
Lease assets, net	135	<b>Shareholders' equity</b>	
Construction in progress	26,920	<b>Capital stock</b>	<b>262,072</b>
<b>Total property, plant and equipment</b>	<b>657,074</b>	<b>Capital surplus:</b>	
<b>Intangibles assets:</b>		Legal capital surplus	61,829
Patent right	5	<b>Total capital surplus</b>	<b>61,829</b>
Right of using facilities	664	<b>Retained earnings:</b>	
Other	672	Legal retained earnings	38,374
<b>Total intangibles assets</b>	<b>1,342</b>	Other retained earnings:	
<b>Investments and other assets:</b>		Reserve for special depreciation	3,364
Investment securities	231,515	Reserve for overseas investment loss	237
Stocks of subsidiaries and affiliates	267,260	Reserve for rebuilding furnaces	1,646
Investments in capital	103	Reserve for reduction entry	2,469
Investments in capital of subsidiaries and affiliates	27,707	Retained earnings brought forward	407,345
Long-term loans receivable	0	<b>Total retained earnings</b>	<b>453,438</b>
Long-term loans receivable from employees	27	<b>Treasury stock</b>	<b>(90,508)</b>
Long-term loans receivable from subsidiaries and affiliates	54,193	<b>Total shareholders' equity</b>	<b>686,832</b>
Claims provable in bankruptcy, claims provable in rehabilitation and other	566	<b>Valuation and translation adjustments:</b>	
Long-term prepaid expenses	4,556	Valuation difference on available-for-sale securities	(43,003)
Deferred tax assets	39,584	Deferred gains or losses on hedges	(649)
Other	1,813	<b>Total valuation and translation adjustments</b>	<b>(43,652)</b>
Allowance for doubtful accounts	(13,761)	<b>Total net assets</b>	<b>643,180</b>
<b>Total investments and other assets</b>	<b>613,568</b>		
<b>Total noncurrent assets</b>	<b>1,271,984</b>		
<b>Total assets</b>	<b>¥1,988,606</b>	<b>Total liabilities and net assets</b>	<b>¥1,988,606</b>

## Statement of Income

Sumitomo Metal Industries, Ltd.  
Year ended March 31, 2009

Millions of yen

<b>Net sales</b>		<b>¥1,246,074</b>
<b>Cost of sales</b>		
Beginning finished goods	41,473	
Cost of products manufactured	992,415	
Total	1,033,888	
Transfer to other account	221	
Ending finished goods	45,226	988,440
<b>Gross profit</b>		<b>257,634</b>
<b>Selling, general and administrative expenses</b>		
Shipment expenses	27,250	
Employees' salaries and allowances	11,994	
Provision for retirement benefits	1,124	
Depreciation	328	
Rents	1,270	
Research and development expenses	17,114	
Other	10,940	70,024
<b>Operating income</b>		<b>187,609</b>
<b>Non-operating income</b>		
Interest income	2,277	
Dividends income	28,724	
Gain on sales of goods	1,361	
Other	4,862	37,226
<b>Non-operating expenses</b>		
Interest expense	10,111	
Interest on bonds	2,567	
Foreign exchange losses	5,110	
Loss on sales and retirement of noncurrent assets	4,335	
Other	11,546	33,672
<b>Ordinary income</b>		<b>191,163</b>
<b>Extraordinary income</b>		
Gain on sales of subsidiaries and affiliates' stocks	2,578	2,578
<b>Extraordinary loss</b>		
Loss on valuation of investment securities	16,753	
Loss on valuation of stocks of subsidiaries and affiliates	5,099	
Provision of allowance for doubtful accounts for subsidiaries and affiliates	13,600	
Environmental expenses	3,355	38,809
<b>Income before income taxes</b>		<b>154,933</b>
Income taxes-current	58,200	
Income taxes-deferred	5,962	64,162
<b>Net income</b>		<b>¥90,771</b>

## Statement of Changes in Net Assets

Sumitomo Metal Industries, Ltd.  
Year ended March 31, 2009

(Millions of yen)

### Shareholders' equity

#### Capital stock

Balance at the end of previous period	262,072
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	<u>262,072</u>

#### Capital surplus

##### Legal capital surplus

Balance at the end of previous period	61,829
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	<u>61,829</u>

##### Capital surplus

Balance at the end of previous period	61,829
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	<u>61,829</u>

#### Retained earnings

##### Legal retained earnings

Balance at the end of previous period	38,374
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	<u>38,374</u>

##### Other retained earnings

###### Reserve for special depreciation

Balance at the end of previous period	3,890
Changes of items during the period	
Provision of reserve for special depreciation	98
Reversal of reserve for special depreciation	(623)
Total changes of items during the period	<u>(525)</u>
Balance at the end of current period	<u>3,364</u>

###### Reserve for overseas investment loss

Balance at the end of previous period	-
Changes of items during the period	
Provision of reserve for overseas investment loss	237
Total changes of items during the period	<u>237</u>
Balance at the end of current period	<u>237</u>

###### Reserve for rebuilding furnaces

Balance at the end of previous period	1,194
Changes of items during the period	
Provision of reserve for rebuilding furnaces	452
Total changes of items during the period	<u>452</u>
Balance at the end of current period	<u>1,646</u>

###### Reserve for reduction entry

Balance at the end of previous period	2,466
Changes of items during the period	
Provision of reserve for reduction entry	3
Reversal of reserve for reduction entry	(0)
Total changes of items during the period	<u>3</u>
Balance at the end of current period	<u>2,469</u>

<b>Retained earnings brought forward</b>	
Balance at the end of previous period	363,131
Changes of items during the period	
Provision of reserve for special depreciation	(98)
Reversal of reserve for special depreciation	623
Provision of reserve for overseas investment loss	(237)
Provision of reserve for rebuilding furnaces	(452)
Provision of reserve for reduction entry	(3)
Reversal of reserve for reduction entry	0
Dividends from surplus	(46,389)
Net income	90,771
Total changes of items during the period	<u>44,214</u>
Balance at the end of current period	<u>407,345</u>
<b>Total retained earnings</b>	
Balance at the end of previous period	409,057
Changes of items during the period	
Dividends from surplus	(46,389)
Net income	90,771
Total changes of items during the period	<u>44,381</u>
Balance at the end of current period	<u>453,438</u>
<b>Treasury stock</b>	
Balance at the end of previous period	(90,190)
Changes of items during the period	
Purchase of treasury stock	(317)
Total changes of items during the period	<u>(317)</u>
Balance at the end of current period	<u>(90,508)</u>
<b>Total shareholders' equity</b>	
Balance at the end of previous period	642,768
Changes of items during the period	
Dividends from surplus	(46,389)
Net income	90,771
Purchase of treasury stock	(317)
Total changes of items during the period	<u>44,063</u>
Balance at the end of current period	<u>686,832</u>

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Note: Figures in parentheses are negative values.

(Millions of yen)

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**Valuation and translation adjustments**

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**Valuation difference on available-for sale securities**

Balance at the end of previous period	31,220
Changes of items during the period	
Net changes of items other than shareholders' equity	<u>(74,223)</u>
Total changes of items during the period	<u>(74,223)</u>
Balance at the end of current period	<u>(43,003)</u>

**Deferred gains or losses on hedges**

Balance at the end of previous period	(1,073)
Changes of items during the period	
Net changes of items other than shareholders' equity	<u>424</u>
Total changes of items during the period	<u>424</u>
Balance at the end of current period	<u>(649)</u>

**Total valuation and translation adjustments**

Balance at the end of previous period	30,146
Changes of items during the period	
Net changes of items other than shareholders' equity	<u>(73,799)</u>
Total changes of items during the period	<u>(73,799)</u>
Balance at the end of current period	<u>(43,652)</u>

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Note: Figures in parentheses are negative values.

(Millions of yen)

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**Total net assets**

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Balance at the end of previous period	672,915
Changes of items during the period	
Dividends from surplus	(46,389)
Net income	90,771
Purchase of treasury stock	(317)
Net changes of items other than shareholders' equity	(73,799)
Total changes of items during the period	<u>(29,735)</u>
Balance at the end of current period	<u>643,180</u>

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Note: Figures in parentheses are negative values.

## **Significant Accounting Policies**

1. Valuation standards and methods of assets
  - a. Securities
    - (a) Investment in subsidiaries and associated companies  
Valued at cost, determined by the moving average method
    - (b) Marketable available-for-sale securities:  
Valued based on their market price on the fiscal year ending dates (the valuation excess is disposed using the total net asset value input method, and the cost of disposal by sale is determined by the moving average method)
    - Non-marketable available-for-sale securities:  
Valued at cost, determined by the moving average method
  - b. Inventories  
Inventories held for the purpose of ordinary sale  
Inventories are stated at cost, by the average method. (The valuation of inventories that appears in the balance sheet is calculated from a reduction in book value based on a decline in profitability.)  
(Changes to accounting policy)  
Before the current fiscal year, inventories held for the purpose of ordinary sale have been stated at cost, by the average method. From the current fiscal year and onwards, with the application of the "Accounting Standard for Measurement of Inventories" (Accounting Standard Statement No. 9, the Accounting Standards Board of Japan (ASBJ) July 5, 2006) inventories are stated at cost, by the average method (the valuation of inventories that appears in the balance sheet is calculated from a reduction in book value based on a decline in profitability).  
As a result of these changes, operating income, ordinary income and net income before income taxes and others have each declined by 8,972 million yen in the current fiscal year.
  - c. Derivatives  
Measured at fair value
2. Method of depreciation
  - a. Property, plant and equipment (Excluding leased assets)  
Depreciation of buildings is calculated by the straight-line method (the useful lives are principally 31 years). Depreciation of machinery and vehicles is calculated by the declining-balance method (the useful lives are principally 14 years).  
(Additional information)  
Following a partial amendment to the ministerial ordinance concerning the useful lives of depreciated assets, from the current fiscal year, we took the opportunity to review our utilization of property, plant and equipment, and altered the useful lives of these tangible assets.  
As a result of these changes, operating income, ordinary income and net income before income taxes and others have each declined by 2,040 million yen in the current consolidated reporting period.
  - b. Intangibles (Excluding leased assets)  
The depreciation of intangibles is calculated by the straight-line method.
  - c. Leased assets  
Leased assets subject to finance leasing transaction where the ownership of the asset is transferred to the lessee  
A method of depreciation that is equivalent to the method applied to assets owned by the Company shall be used.  
Leased assets subject to finance leasing transaction where the ownership of the asset is not transferred to the lessee  
The period of the lease is the useful life of the asset. A straight-line method of depreciation is applied and the residual value of the asset is taken to be zero(0).  
In financial leasing transactions of the Company and its domestic consolidated subsidiaries concluded before April 1, 2008 where the ownership of the asset is not transferred to the lessee, the accounting methods are based on those used for ordinary leasing transactions.

(Changes to accounting policy)

Before the current fiscal year, the Company used accounting methods based on those used for ordinary leasing transactions to account for leasing transactions where the ownership of the asset is not transferred to the lessee; however, from the current fiscal year and onwards, the Accounting Standard for Lease Transactions (Accounting Standard Statement No. 13 (June 17, 1993 (the Accounting Standards Board of Japan (ASBJ)) revised March 30, 2007) and the Guidance on Accounting Standard for Lease Transactions (Guidance No. 16 (January 18, 1994 (The Japan Institution of Certified Public Accountants)) revised March 30, 2007) have been applied and accounting methods have based on those used for ordinary sales transactions. In financial leasing transactions of the Company and its domestic consolidated subsidiaries concluded before April 1, 2008 where the ownership of the asset is not transferred to the lessee, the accounting methods are based on those used for ordinary leasing transactions.

The effect of these changes on the financial statements of the current fiscal year is only slight.

3. Deferred assets

Bond issue costs are recorded at total cost when expended.

4. Allowances

a. Allowance for doubtful receivables

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

b. Liability for employees' retirement benefits

The amount of the liabilities for retirement benefits is determined based on the projected benefit obligations and plan assets of the pension fund as at the end of the fiscal year.

Prior service cost is amortized using the straight-line method over a specific number of years (1 year) that is within the average number of remaining years of service of employees when liabilities are incurred.

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

c. Liability for rebuilding furnaces

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

5. Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates on the balance-sheet date. The foreign exchange gains and losses from translation are recognized in the statement of income.

6. Revenue recognition

The percentage of completion method is applied to long-term, large sized construction projects taking more than one year to complete and having a total undertaking of 100 million yen.

7. Hedge activities

a. Hedge accounting methods

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

b. Means of hedging and subjects of hedging

Interest swaps, currency swaps and exchange contracts are used to hedge against the following risks: risks associated with market interest rate and cash flow fluctuations in relation to debts and bonds, risks associated with foreign exchange rates fluctuation in relation to foreign-currency-denominated transactions.

c. Policy of hedging

Derivative trading is used within the scope of the outstanding balance of the debts and receivables being hedged against. The Company 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 judged to be effective, the hedge effectiveness is confirmed by comparing the total change in the market price that is being hedged against with the total change in the market price that is being used as the means of hedging.

8. Consumption taxes

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

9. Changes to the method of expressions

a. Regarding balance sheet

Due to the commencement of application of Partial Revision of Cabinet Office Ordinance on Disclosure of Corporate Information, etc. (Cabinet office ordinance No. 65, August 15, 2007), the items expressed under the heading "Accounts payable-other" in "Current liabilities" section and the heading "Long-term accounts payable-other" in "noncurrent liabilities" section in the previous fiscal year are now separately expressed under the headings "Lease obligations" under respective sections beginning the current fiscal year. For reference, the amount of lease obligations included in the amount expressed as "Accounts payable-other" in current liabilities section in the previous fiscal year was 7,816 million yen and such amount included in the amount expressed as "Long-term accounts payable-other" in noncurrent liabilities section in the previous fiscal year was 17,194 million yen.

b. Regarding statement of income

From the current fiscal year, the new heading "Gain on sales of goods" is used in place of "Gain on sales of current assets" that was used in the previous fiscal year, in order to improve the ease of comparison of the financial statements, in light of introduction of XBRL to EDINET.

"Foreign exchange losses", which was included in the "Other" section of non-operating expenses in the previous fiscal year, is now separately indicated as "Foreign exchange losses" beginning current fiscal year, as the amount exceeds 10/100 of the amount of the total non-operating expenses. For reference, the amount of the foreign exchange losses that was included in the "Other" section of non-operating expenses in the previous fiscal year was 1,595 million yen.

The new heading "Loss on sales and retirement of noncurrent assets" is used beginning this fiscal year in order to improve the ease of comparison of the financial statements, in light of introduction of XBRL to EDINET. The item under the new heading was previously included in "Dismantlement expenses" and "Other" in the previous fiscal year. For reference, the amount of "Loss on sales and retirement of noncurrent assets" that was included in "Dismantlement expenses" and "Others" for the previous fiscal year was respectively 4,908 million yen and 1,908 million yen

## **Notes to Balance Sheet**

1. Accumulated depreciation for property, plant and equipment  
¥ 1,684,945 million

2. Contingent liabilities

a. Guarantees

The bank loans and other which the Company guarantees, as follows:

Sumikin Kosan Co., Ltd.	¥6,890	million
Sumikin Financial Service Co., Ltd.	3,415	
Sumikin Mining Co., Ltd.	1,370	
SMI Crankshaft LLC	1,355	
Sumitomo Metals (Kokura), Ltd.	1,287	
Sumitomo Metal Fine Technology Co., Ltd.	1,081	
Huizhou Sumikin Forging Co., Ltd.	876	
17 other companies	3,920	
Total	¥20,196	million

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

- b. Obligation to repurchase transferred receivables under certain conditions.  
¥1,211 million

3. Receivables and payables to subsidiaries and associated companies

Short-term receivables	¥334,347	million
Long-term receivables	¥54,193	million
Short-term payables	¥140,512	million

## **Note to Statement of Income**

Transactions with subsidiaries and associated companies

Business transactions

Sales to subsidiaries and associated companies	¥269,953	million
Purchases from subsidiaries and associated companies	¥615,924	million

Other transactions with subsidiaries and associated companies

¥510,038 million

## **Note to Statement of Changes in Net Assets**

Type and number of treasury stock issued at the end of the fiscal year

Common stock 167,591,500 shares

## **Note to Accounting for deferred taxes**

Deferred tax assets mainly arise from unrealized gain on available-for-sale securities and from temporary difference on valuation of assets such as noncurrent assets and inventories.

## **Note to leased noncurrent assets**

In addition to the noncurrent assets on balance sheet, some tools, furniture and fixtures are leased under finance lease agreements where the ownership is not transferred.

## Notes to related party transactions

### Subsidiaries and affiliated companies

Class	Company name	Ownership ratio to voting rights (%)	Relationship details	
			Directors serving on both companies (No of directors:)	Business relationship
Associated company	Sumikin Bussan Corporation	Direct: 38.5 Indirect: 0.0	Serving concurrently: 1 On transfer: 5	Sumikin Bussan sells the SMI's products and procures raw materials.

Transactions	Trading volume (Millions of yen)	Account	Balance at the end of the fiscal year (Millions of yen)
Sale of steel products (*1)	179,312	Accounts receivable	7,068
Purchase of raw materials for steel production, steel semi-finished products, etc (*2)	256,480	Accounts payable	54,793

#### Trade conditions and their determination

- Notes:
- \*1: The sale of steel products follows consideration of the listed prices of SMI, market prices and selling price negotiations.
  - \*2: The purchase of steel raw materials and steel semi-finished products follows consideration of the listed prices, market prices and purchase price negotiations.
  - Although consumption tax and other taxes are not included in the trading volume, these taxes are included in the balance at the end of the fiscal year.

## Financial information on a per-share basis

- Net assets per share 138.66yen
- Net income per share 19.57 yen

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

(TRANSLATION)

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

**INDEPENDENT AUDITORS' REPORT**

May 7, 2009

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

Deloitte Touche Tohmatsu

Designated Partner,  
Engagement Partner,  
Certified Public Accountant:  
Osami Yoshida

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

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

Pursuant to the fourth clause of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2009 of Sumitomo Metal Industries, Ltd. (the "Company") and consolidated subsidiaries, and the related statements of income, notes to the consolidated financial statements and changes in net assets for the fiscal year from April 1, 2008 to March 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and consolidated subsidiaries as of March 31, 2009, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

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

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

**(TRANSLATION)**

**Independent Auditors' Report (certified copy)**

**INDEPENDENT AUDITORS' REPORT**

May 7, 2009

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

Deloitte Touche Tohmatsu

Designated Partner,  
Engagement Partner,  
Certified Public Accountant:  
Osami Yoshida

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

Designated Partner,  
Engagement Partner,  
Certified Public Accountant:  
Tsuguo Itou

Pursuant to the first item, second clause of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of March 31, 2009 of Sumitomo Metal Industries, Ltd. (the "Company"), and the related statements of income, notes to the financial statements and changes in net assets for the 86th fiscal year from April 1, 2008 to March 31, 2009, and the accompanying supplemental schedules. These financial statements and the accompanying supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules 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 financial statements and the accompanying supplemental schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and the accompanying supplemental schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and the accompanying supplemental schedules presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2009, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

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

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

(TRANSLATION)

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

### **AUDIT REPORT**

In respect of the execution of duties by the Directors during the 86th business year commenced on April 1, 2008 and ended on March 31, 2009, 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, received reports from the Directors and employees on the execution of their duties including those relating to subsidiaries, requested explanations when necessary, reviewed important documents, and investigated the status of the operations and financial status at the head office and other principal plants. In respect of subsidiaries, each Corporate Auditor has also received reports on the business from the directors, corporate auditors and other personnel of the subsidiaries when necessary. Furthermore, each Corporate Auditor has reviewed the resolution of the Board of Directors concerning the development of systems necessary to ensure the properness of operations (Article 362, Paragraph 4, Item 6 of the Companies Act), as well as the status of the systems developed based on the resolution. Each Corporate Auditor has reviewed the basic policy on control over the Company (*former* Article 127 of the Enforcement Regulation of the Companies Act) and the measures to be taken with regard to it that are described in the business report. Based on this approach, each Corporate Auditor has reviewed the business report and their supplementary schedules of the reporting business year.

In addition, each Corporate Auditor has been explained, by the Accounting Auditor, the policies, working plans and methods of accounting audit as well as the audit results, has been notified and explained that “systems to ensure that duties are performed properly” (matters set forth in each item of Article 131 of the Company Accounting Regulations) have been developed in accordance with “Quality Management Standards Regarding Audits” (October 28, 2005, the Business Accounting Council) and other relevant standards, and has examined whether the Accounting Auditor has maintained its independence and has conducted appropriate audits. Based on this approach, each Corporate Auditor has considered whether the methods and results of the audits conducted by the Accounting Auditor on the financial statements, their supplementary schedules and the consolidated financial statements for the reporting business year have been appropriate and sufficient.

##### (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 Accounting Auditor regarding execution of their duties, and has requested explanations where necessary.

## 2. Results of the audit

### (1) Business report, etc.

- 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 have found that the resolutions of the Board of Directors concerning the development of systems necessary to ensure the properness of operations are appropriate. In addition, we have found no matters to be noted in regards to the development thereof.
- 4) We have found that the basic policy on control over the Company and the measures to be taken with regard to it, as described in the business report, are appropriate as rules concerning the large-scale purchase of Company shares, and will not unfairly harm the rights of shareholders.

### (2) Financial Statements and their supplementary schedules

We have found that the methods and results of the audit conducted by the Accounting Auditor, Deloitte Touche Tohmatsu (the independent auditing firm) are appropriate and sufficient.

### (3) Consolidated Financial Statements

We have found that the methods and results of the audit conducted by the Accounting Auditor, Deloitte Touche Tohmatsu (the independent auditing firm) are appropriate and sufficient.

May 11, 2009

The Board of Corporate Auditors  
Sumitomo Metal Industries, Ltd.

Shigeru Sakurai, Standing Corporate Auditor (full-time)

Kitaro Yoshida, Standing Corporate Auditor (full-time)

Shogo Takai, Corporate Auditor

Eiji Asada, Corporate Auditor

Keiichi Murakami, Corporate Auditor

(Note) Shogo Takai, Eiji Asada and Keiichi Murakami are the outside corporate auditors as provided for in Article 2, Item 16 of the Companies Act.