

# Interim Business Report of the 86th Period

First Half of FY2008

(from April 1, 2008 to September 30, 2008)



This document is a translated excerpt of the Interim Business Report that was issued on November 28, 2008, originally in Japanese. To the extent there is any discrepancy between this English translation and the original Japanese version, please refer to the Japanese version. Financial information was prepared in accordance with generally accepted accounting principles in Japan.

## **Note: Forward-Looking Statements**

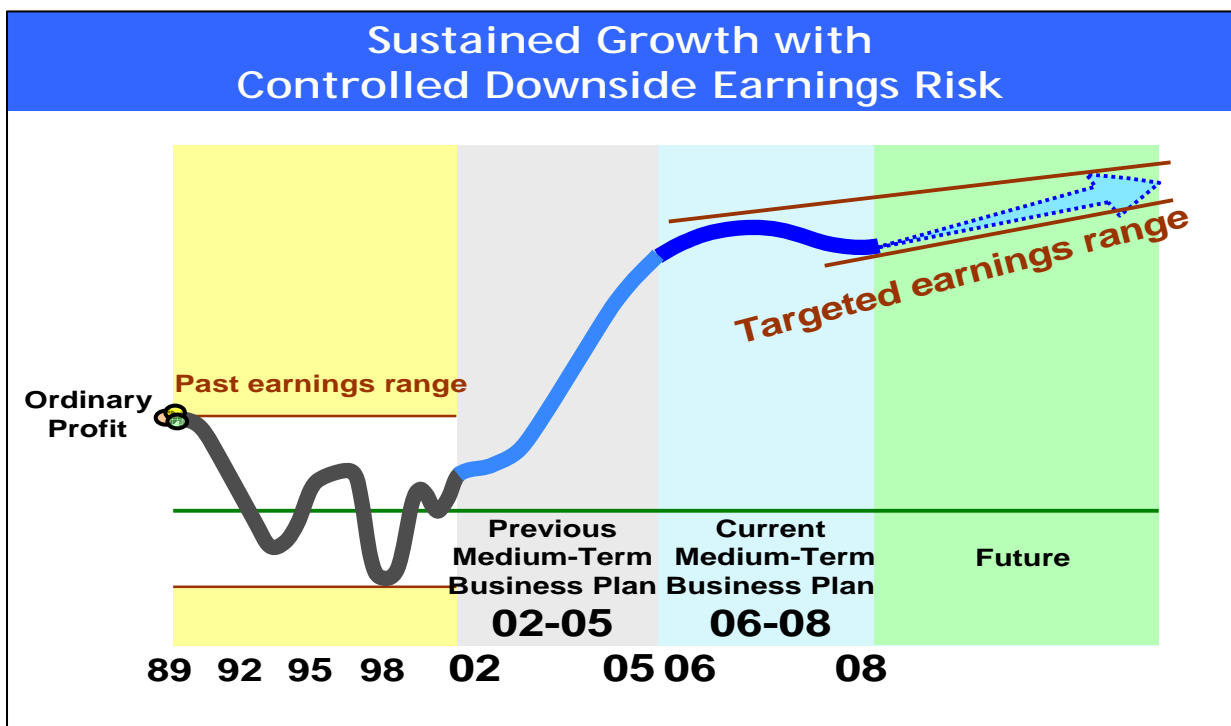
The business forecasts and forward-looking statements in this annual report are based on information available at the time of publication, and contain potential risks and uncertainties. Consequently, actual results may differ from forecasts stated in the report due to a range of factors.

# Message from the President



I would like to report to you that in the first half of the current fiscal year Sumitomo Metals recorded ordinary income of 151.7 billion yen, which was similar to the level in the first half of the previous year. For the full period of the current fiscal year, we are expecting ordinary income to be at around 300 billion yen, which will again be similar to the level in the previous year. Consequently, we have decided to pay an interim dividend of five yen per share. We are expecting that shareholders will receive an annual dividend of ten yen per share, including the interim dividend.

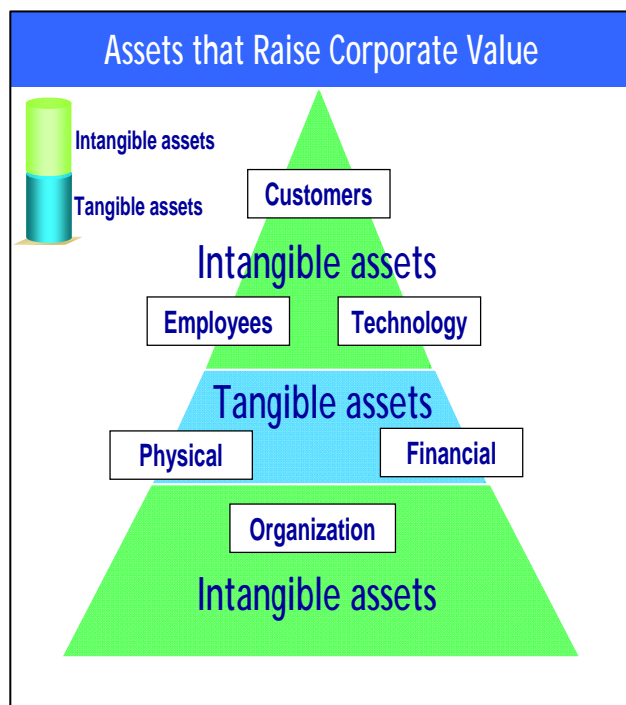
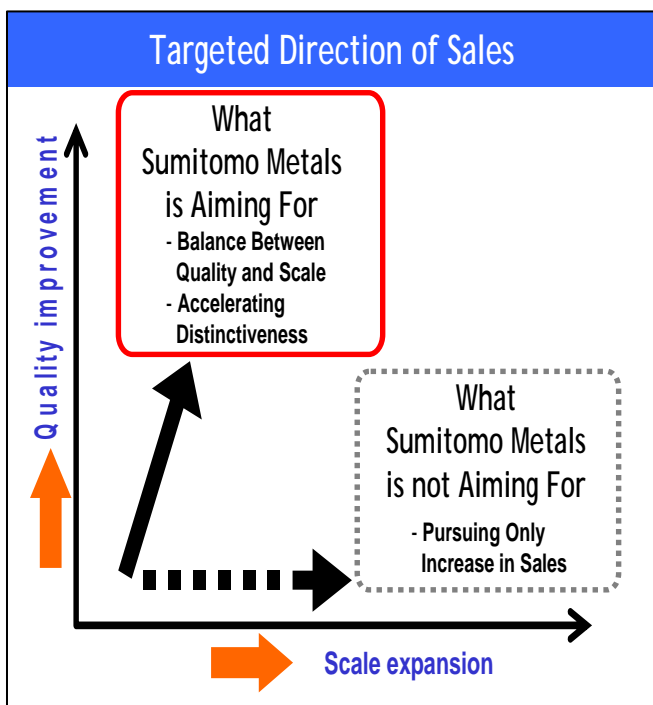
There is a growing concern that the global financial crisis, triggered by the financial crunch in the United States, will greatly damage the real economy. In this business environment, we at Sumitomo Metals will continue to strive to “accelerate distinctiveness” and make our earnings structure more resilient to downside earning risks.



All of us at Sumitomo Metals focus on developing and manufacturing distinctive products such as seamless pipe, steel sheets for automotives, and railway wheels and axles. We pursue this strategy to realize sustained growth that balances both quality and scale. In addition to this strategy, we believe that it is quite important to strengthen our intangible assets such as Sumitomo's Business Spirit which is typically represented by the phrase of "Sumitomo shall place prime importance on integrity and sound management." The intangible assets also include our long-term relationship of trust with customers, our employees who are dedicated to their work and missions, and our prominent technological capabilities.

Through these managerial strategies, we aim to win and retain trust of all stakeholders, including shareholders, customers, business partners, local communities, and employees. We believe that it is truly important to build a closer relationship with all of our stakeholders through close dialogue. We welcome opportunities to hear your views and comments.

Hiroshi Tomono  
Representative Director and President



# Consolidated Financial Indicators

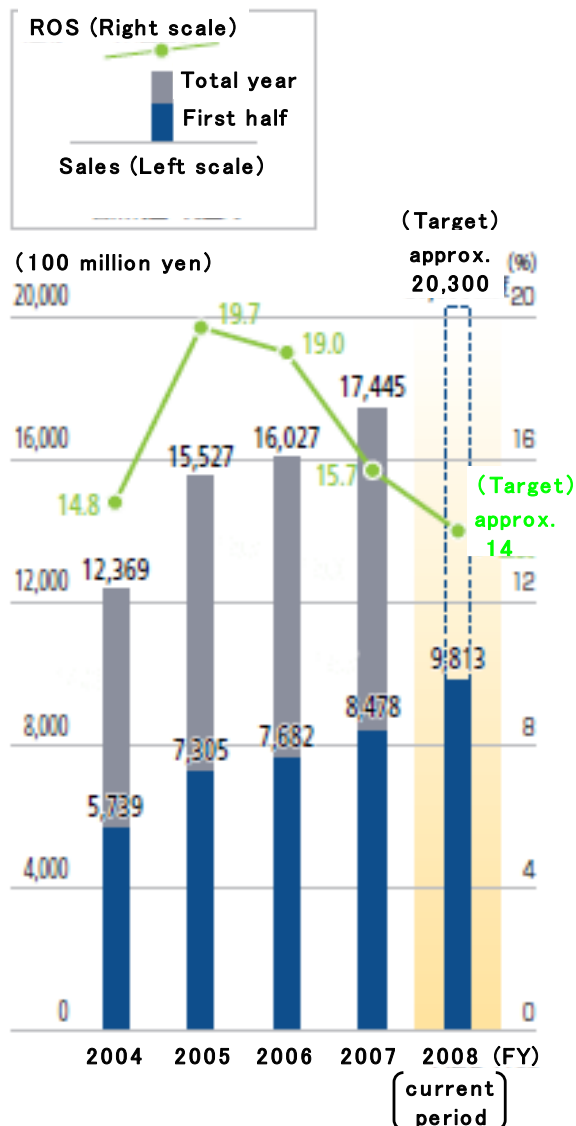
Sumitomo Metals recorded ordinary income of 151.7 billion yen for the first half of the current fiscal year, similar to the level in the first half of the previous year.

There is a concern that the real economy would be negatively affected by the global financial crisis triggered by a financial crunch in the United States. Given these circumstances, we will keep pursuing and strengthening the earnings structure characteristic of our company - one which is resilient to downside earning risks - by “accelerating distinctiveness”.

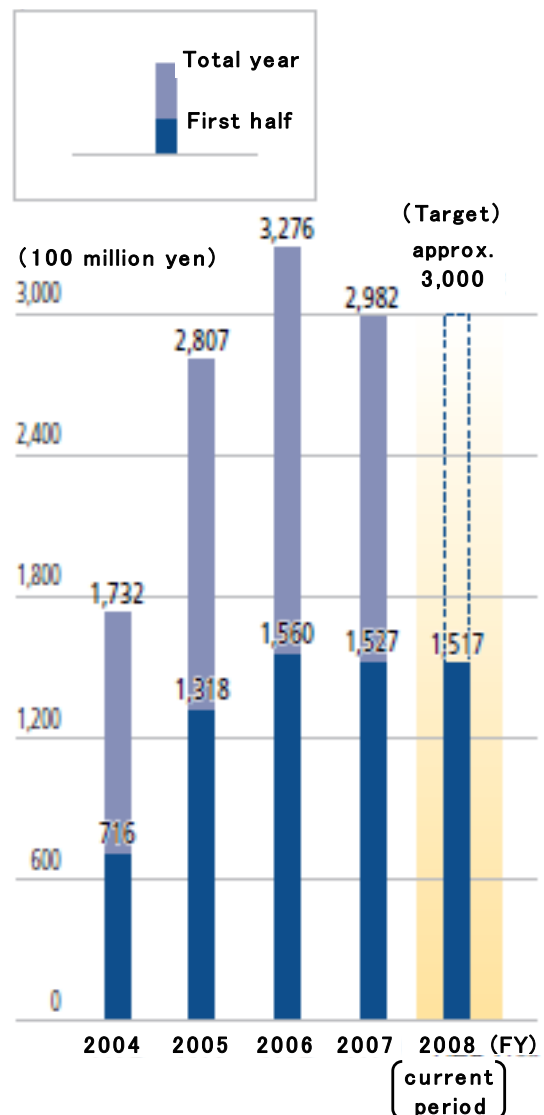
For the full period of the current fiscal year, we are expecting ordinary income to be at around 300 billion yen, similar to the level in the previous year.

## Sales; ROS \*

\* ROS = Operating Profit / Sales



## Ordinary income



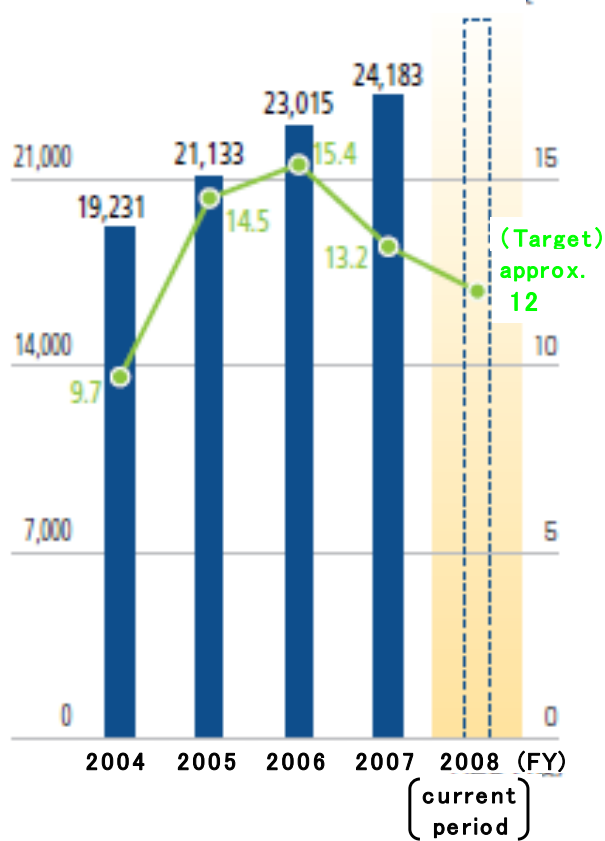
## Total assets; ROA\*

\* ROA = Ordinary profit before interest payment / Total assets (yearly average)



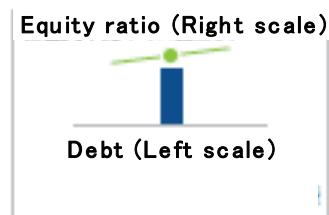
(100 million yen)  
28,000

(Target)  
approx.  
27,000 (%)



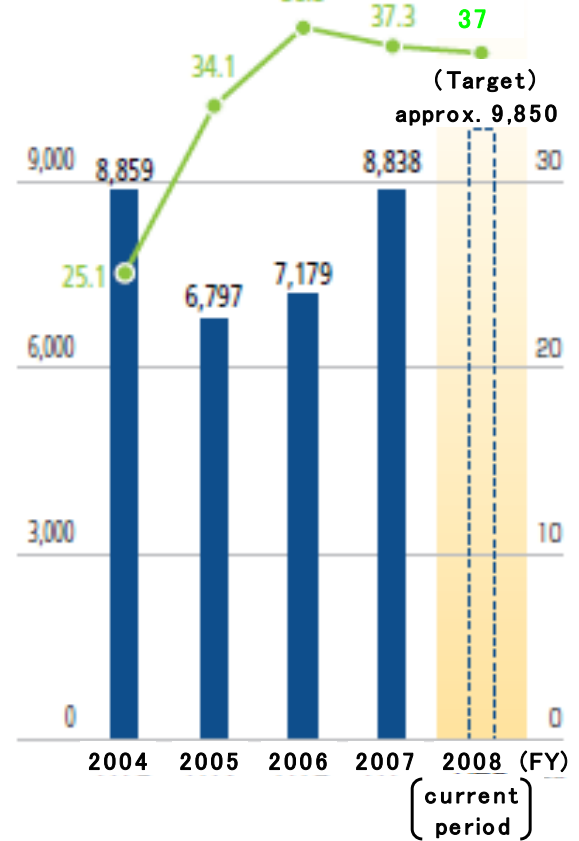
## Debt; Equity ratio\*

\* Equity ratio = Shareholders' equity / Total assets



(100 million yen)  
12,000

(Target)  
approx.  
40 (%)



# Summary of Consolidated Interim Financial Statements

## (1) Consolidated Interim Balance Sheet, as of September 30, 2008

Items	100 millions of yen (Rounded down)
(Assets)	
Current assets:	8,164
Noncurrent assets:	17,457
Property, plant and equipment	11,200
Intangible assets	49
Investments and other assets:	6,207
<b>Total assets</b>	<b>25,622</b>
(Liabilities)	
Current liabilities:	8,350
Noncurrent liabilities:	7,435
<b>Total liabilities</b>	<b>15,786</b>
(Net assets)	
Shareholders' equity:	9,322
Capital stock	2,620
Capital surplus	618
Retained earnings	6,987
Treasury stock	(904)
Valuation and translation adjustments:	32
Minority interests:	481
<b>Total net assets</b>	<b>9,835</b>
<b>Liabilities and net assets</b>	<b>25,622</b>

## (2) Consolidated Interim Statement of Income (Unaudited) (For the six months ended September 30, 2008)

Items	100 millions of yen (Rounded down)
Net sales	9,813
Cost of sales	(7,803)
Gross profit	2,010
Selling, general and administrative expenses	(702)
Operating income	1,307
Non-operating income	387
Non-operating expenses	(178)
Ordinary income	1,517
Income before income taxes and minority interests	1,517
Income taxes-current	(498)
Income taxes-deferred	(73)
Minority interests in income	(24)
<b>Net income</b>	<b>920</b>

## (3) Consolidated Interim Statement of Cash Flows (Unaudited)(For the six months ended September 30, 2008)

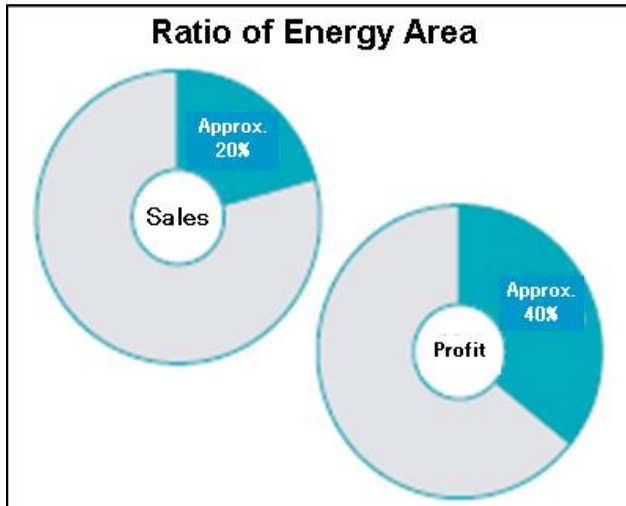
Items	100 millions of yen (Rounded down)
Net cash provided by operating activities:	922
Net cash used in investing activities:	(935)
Net cash used in financial activities:	(11)
Effect of exchange rate change on cash and cash equivalents	2
Net decrease in cash and cash equivalents	(21)

# Sumitomo Metals Group's Business Operation – Putting emphasis on energy-related business areas.

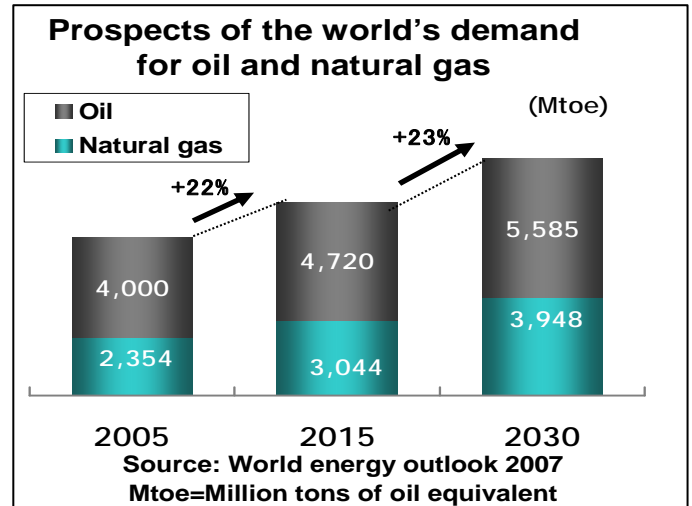
1

We are competitive in energy-related business areas which have high growth potential.

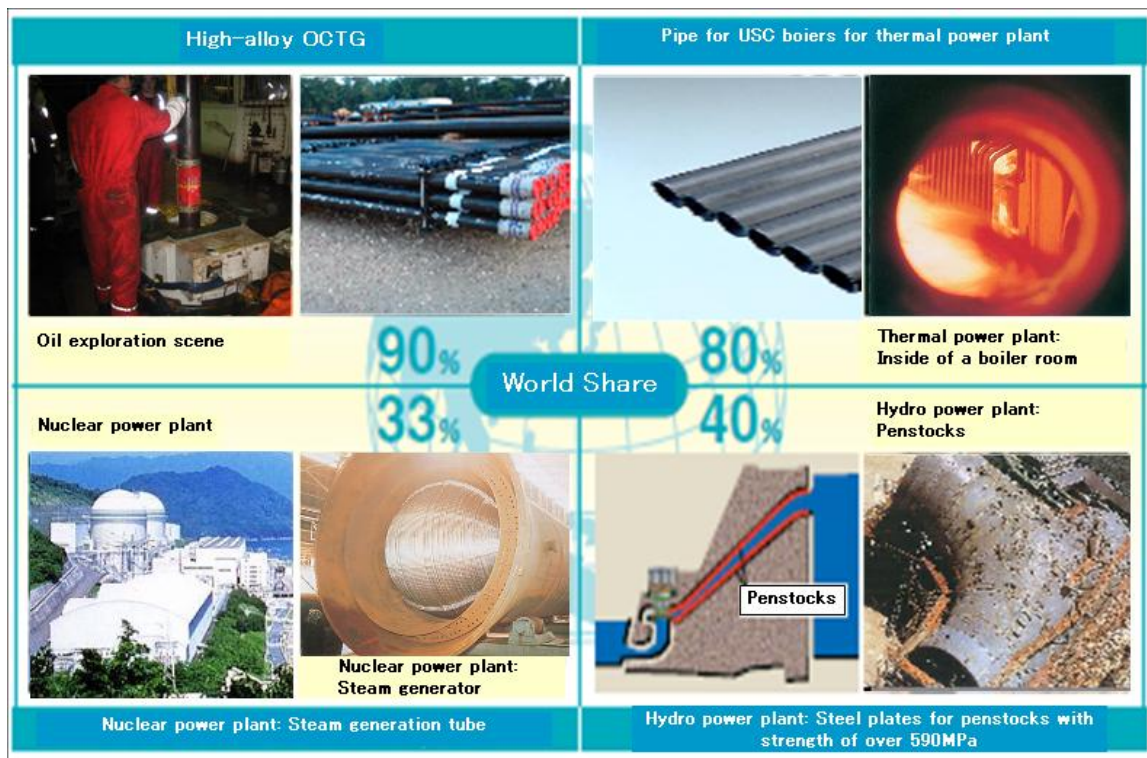
The energy-related business areas generate approximately 20% of our sales and 40% of our profit.



The world's energy demand is expected to grow, thanks to economic growth in the BRICs and other developing countries.



We have attained high global shares in various critical products in the energy sector.

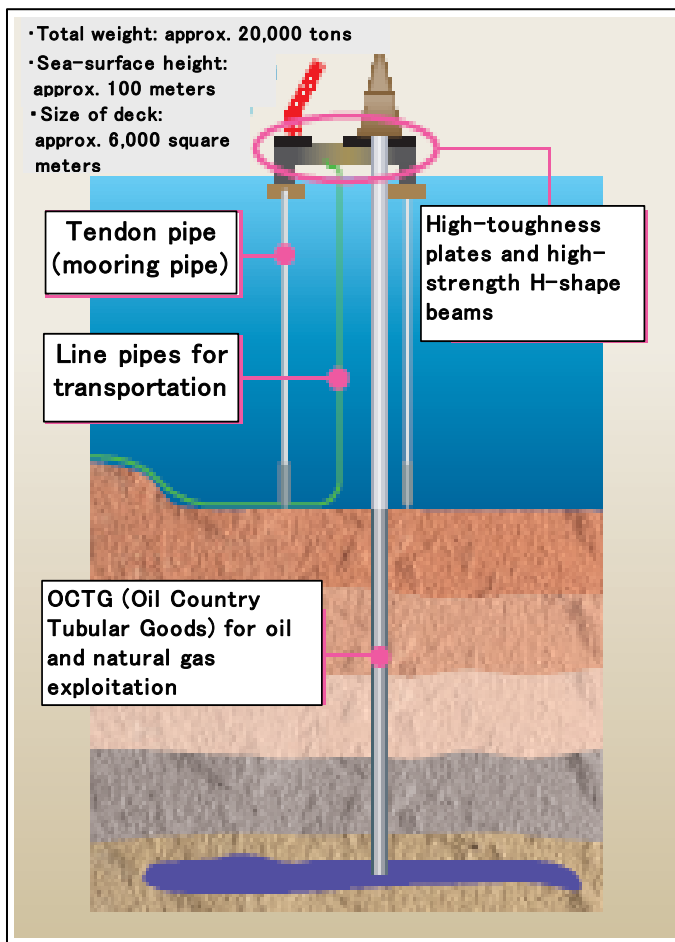


## 2

# Sumitomo Metals' products prevail in various areas of the energy sector.

### Development and exploitation

Seamless pipe, plates and others used in oil and natural gas development.



### Transportation

We produce plates and large-diameter welded pipes for oil and gas transportation.



Construction scene of pipeline

### Storage

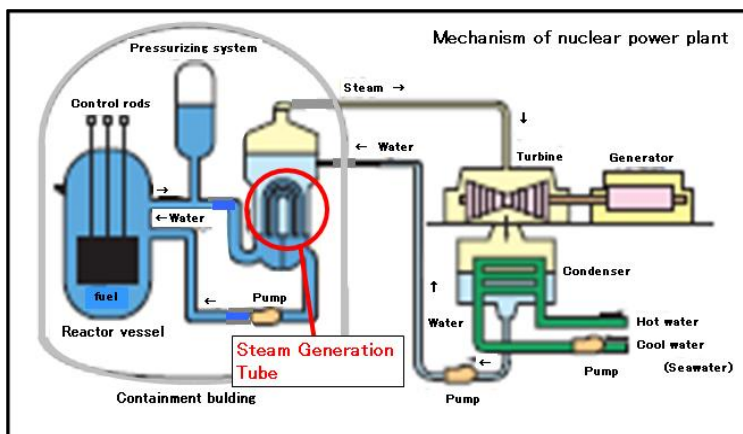
We produce plates that are used in extreme-low-temperature storage tanks for LNG (Liquefied Natural Gas).



LNG tank

### Power Generation

We produce boiler tubes used in thermal power plants of super critical conditions which enable more efficient power generation. Our products also include steam generation tube for nuclear power plant and steel plate for penstocks with strength of over 590MPa.





### 3

## Investments in New Facilities

Our investments to expand manufacturing capacity of super high-end OCTG have been completed in June 2008, resulting in an increase of 100,000 tons in its annual manufacturing capacity to 1.2 million tons.



New Finishing Line Facility of the Small-size Seamless Pipe & Tube Plant at Wakayama Steel Works (located at Kainan City)

### 4

## High Evaluation from our Customers

During the first half of the current year, we received a commemorative gift from Keppel FELS (head office: Singapore), the world's largest oil and gas offshore drilling rig builder, for our relationship of trust which has been nurtured for more than 20 years in steel plate business,.

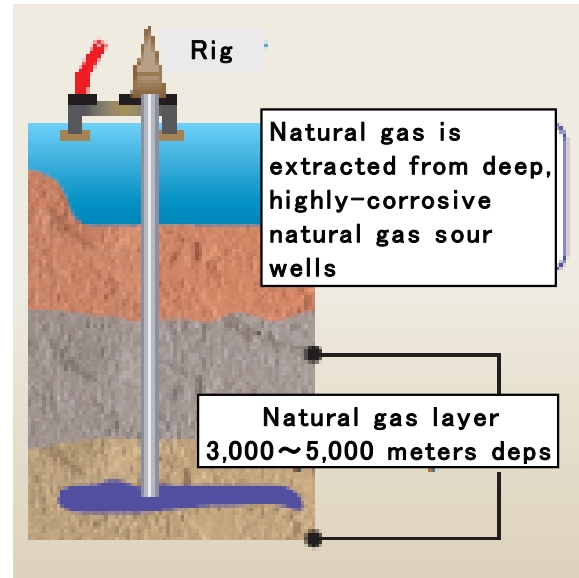


The commemorative gift of the model of the rig awarded by Keppel FELS

# 5

## Reputation for High Capability in Technological Development

In June 2008, we received the Imperial Invention Prize, the highest honor of the National Commendation for Invention from the Japan Institute of Invention and Innovation for our super-high-strength low alloy steel oil country tubular goods. This product plays a significant role in exploiting natural gas, a cleaner energy source that emits less carbon dioxide than the primary energy sources it replaces.



## Making a Contribution to Preserving the Environment: Aim to be an environment-friendly company.

Sumitomo Metals is greatly contributing to reduce emission of carbon dioxide.

We have been highly evaluated outside the Company.

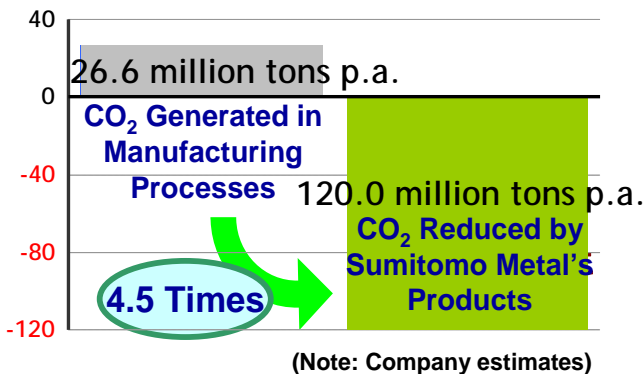
CO<sub>2</sub> generated in manufacturing processes



CO<sub>2</sub> reduced by Sumitomo Metals' products

CO<sub>2</sub> emission (millions of tons, p.a.)

(2007)



We received a Development Bank of Japan loan by having been rated as "a company with particularly impressive environmental programs."

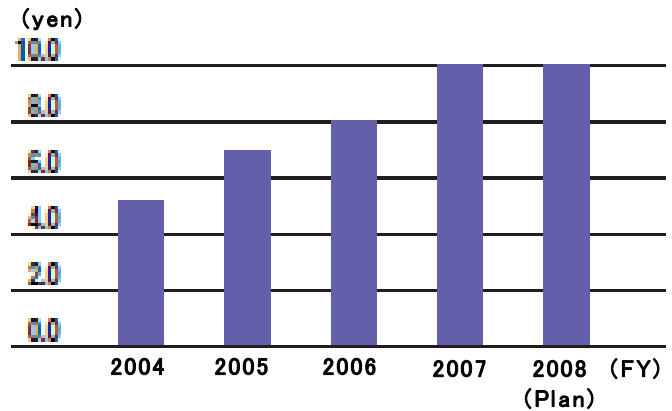


# Together with our Shareholders: Meet your expectations through stable dividend payment

## 1

### Return Profit to Shareholders

Our basic policy is to deliver stable dividend payment with a hope to encourage our shareholders to hold our shares for a long term.



## 2

### Invite Shareholders to Factory Visits

We invite our shareholders who own more than 10,000 shares to visit our factories, so that they could better understand our business operation. We conduct the factory visits at the Kashima Steel Works, the Wakayama Steel Works, the Osaka Steel Works, and Sumitomo Metals (Kokura), Ltd.

#### One-day Factory Visits by our Shareholders (An example of our factory visits at the Kashima Steel Works held in October 2008)

- 12:00 Lunch
- 12:40 General briefing of Kashima Steel Works
- 13:10 Bus tour to storage yards of products and raw materials
- 13:40 Site tour at No.1 blast furnace
- 14:20 Site tour at the hot strip mill
- 15:10 Presentation of Sumitomo Metals managerial strategy with a Q&A session
- 15:15 Closing



Bus tour at a berth for unloading raw material.



Tour at No.1 blast furnace.



Tour at the hot strip mill.