

Report of the 88th Period **(from April 1, 2010 to March 31, 2011)**

Business Report

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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 88th Period are prepared in accordance with the accounting principles and practices generally accepted in Japan.
3. Shareholders who live in countries outside Japan are recommended to exercise their voting rights electronically through the voting platform operated by Investor Communications Japan Inc. Please communicate with your custodian regarding the appropriate procedures.

Business Report (from April 1, 2010 to March 31, 2011)

1. Business overview of the SMI Group

(1) The SMI Group management policies

The Sumitomo Metal Industries, Ltd. (“SMI” or the “Company”) and its affiliates’ (“SMI Group” collectively) basic management policy is to maximize its corporate value through sustainable growth with an optimum balance between quality and scale. Under this policy, the SMI Group is carrying out strategies that “accelerate our distinctiveness” and “strengthen our strengths” to create an earnings structure resilient to downside risk. In order to do so, we believe it is essential that we continue to enhance our intangible assets that do not appear on our financial statements, such as our own technology that we believe to be very different from our competitors’, our relationship of trust built through businesses with our customers, and the pride and commitment of our employees to their work.

(2) Consideration of business integration with Nippon Steel Corporation

SMI and Nippon Steel Corporation are considering the integration of their entire business by October 1, 2012, with the aim to becoming a truly world-leading comprehensive steel manufacturer. This integration will accelerate our global strategies and will create a level of global competitiveness that is outstanding on all aspects, including technology, quality, and cost.

(3) Business results for the fiscal year ended March 31, 2011

1) Business environment in the 88th period ended March 31, 2011

Demand for steel products in the period under review was firm in the first half of the year, and came mainly from the automotive sector and other manufacturers. Seamless pipe, one of our main products, made a gradual recovery throughout the financial year. On the other hand, the business environment was generally difficult due to several factors. We had no choice but to change the method used to set the prices of iron ore and almost all of the coking coal we purchase, from the conventional one-year procurement contracts to quarterly contracts. Moreover, increasing demand in China pushed up the prices of raw materials. In the 4th quarter, we put great effort into getting the Kashima Steel Works back up and running following the Great East Japan Earthquake.

2) The aftermath of the Great East Japan Earthquake and our response

The Great East Japan Earthquake on March 11, 2011 damaged the facilities at the

Kashima Steel Works. All operations at the Works were halted temporarily; however, thanks to disaster training programs and day-to-day risk management procedures, a restart system was quickly put into place. With the cooperation and assistance from our business partners, government and other bodies, we were able to work together towards the recovery of the Works. As a result of these efforts, we soon restarted operations at the Works and gave priority to the manufacture and shipment of building materials to play a role in the recovery of the areas in Japan affected by the disaster. We restarted the operation of the Kashima Thermal Power Station (Kashima Power Station) at the Kashima Steel Works. The power station is supplying its entire generating output of 475 megawatts to the Tokyo Electric Power Company.

3) Reporting-period management projects in each business sector

In response to the rapid rise in the prices of raw materials and to changes in the method used to set these prices, SMI Group made efforts to reflect these in the prices of our steel products, while seeking the understanding of our customers. At the same time, we strove to improve profitability by reducing costs and curbing expenditure. We maintained our basic policy of seeking to maximize corporate value through sustainable growth, and continued to implement measures necessary to “accelerate our distinctiveness” and “strengthen our strengths.”

Steel business

Iron & Steel-making process

Construction of the New No. 2 blast furnace at the Wakayama Steel Works is underway, and the furnace is expected to enter service in the second half of FY2012. Together with the New No. 1 Blast Furnace that began operations in July 2009, Wakayama Steel Works aims to achieve an annual production capacity of 5 million tons of crude steel at the Works.

Pipe & Tube

In partnership with the Vallourec Group of France and another partner, the Pipe & Tube Company is engaged in an integrated steel plant joint venture that produces seamless pipe in Brazil, in response to growing demand for the development of energy resources. In December 2010, the joint venture successfully manufactured its first seamless pipe. In the same month, the Pipe & Tube Company established a local subsidiary to sell this seamless pipe to countries in North, Central and South America. The blast furnace and other upstream processes at the plant are scheduled to begin operation in mid-2011.

At the Kashima Steel Works, facilities to increase the production of ultra-high-strength, large-diameter welded steel pipe began operation in January 2011.

Steel Sheet and Plate

The Steel Sheet, Plate & Structural Steel Company is providing technical assistance in a project to build a steel works for a local company, Bhusan Steel Limited, in the Indian state of Orissa. The Company has reached a basic agreement with Bhusan Steel concerning OEM supply in which some of the steel sheet produced at the plant will be sold under the SMI brand. To provide a footing for the SMI Group in the growing Indian automobile market, the Company has made a capital contribution in Steel Strips Wheels Limited, a local manufacturer of automotive steel wheels.

The Company is promoting its joint-venture business in Vietnam with China Steel Corporation (CSC) of Taiwan and other partners for the manufacture and sale of cold-rolled coil, electro-magnetic steel sheet and hot-dipped galvanized steel sheet, and is aiming to commence operations in 2012.

In Thailand, the Company made a capital contribution and provided technical assistance in connection with the construction of a steel plate mill for the Canadoil Group. Together with the Steel Plate Mill at Kashima Steel Works, the Company is responding to medium- and long-term growth in demand for steel plate, particularly from sectors engaged in energy production.

Railway, Automotive & Machinery Parts

The Railway, Automotive & Machinery Parts Company's joint venture in India, with a local company Amtek Auto Limited and another partner, to manufacture and sell forged crankshafts began operations in April 2010. With this addition of the operation in India to our current bases in Japan, the U.S. and China, the Company now has a four-polar global manufacturing and sales system for our forged crankshafts, and we will be able to respond to demand from the growing Indian automotive market.

Specialty Steel Bars and Wire Rods

Sumitomo Metals (Kokura), Ltd., the SMI Group's manufacturer of specialty steel bars and wire rods, completed its program to renew its steel-making process with the entry into service of its dephosphorization furnace in October 2010. This has made it possible for the Company to produce higher-quality specialty steel bars and wire rods more efficiently and with a lower burden on the environment, enabling us to meet our customers' needs for higher-quality products.

Research and development

Construction of a new main building and laboratory wing at our Corporate Research & Development Laboratories in Amagasaki City commenced in June

2010. By having our researchers together in one location and by creating an environment where they can interact and encourage one another, we will accelerate the pace of technological and product development. These new facilities are scheduled to enter service in September 2011.

Other segments

We are continuing to select and integrate the operations in other segments. In August 2010, we merged our consolidated subsidiary Sumitomo Metal Micro Devices, Inc. with a new company that will be 80% owned by Hokuriku Electric Industry Co., Ltd. and 20% owned by SMI. The new company is an affiliated company of SMI to which the equity method is applied. The new company has changed its name to HDK Micro Devices Co., Ltd.

The following table summarizes major business strategies in the reporting period.

Major business projects in the reporting period

Segment	Target	Detail	Investment amount (bil. yen)	Timeline
Iron & Steel-making process	Enable annual capacity of 5 million tons at Wakayama Steel Works	2nd step (Construction of a new No.2 blast furnace, reinforcement of steel making facilities, etc.)	115.0	Scheduled to begin operation in second half of FY2012
Pipe & Tube	Establish a manufacturing hub for seamless pipe in Brazil	A joint venture with the Vallourec Group and Sumitomo Corporation to set up a integrated steel plant to produce seamless pipe	(*1) 4,700 million real	First pipe manufactured in Dec. 2010 Mid-2011 Blast furnace is scheduled to begin operation.
	Expand production capacity of ultra-high-strength large-diameter line pipes	Equipment improvement at the plate mill and large-diameter (UOE) pipe mill	10.0	Began operation in Jan. 2011
	Expand production capacity of boiler heat-transfer tubes for nuclear power plants	Expansion of facilities for cold processing, refining and product inspection	14.0	Scheduled to begin operations in April 2013
Steel Sheet and Plate	Strengthen relationship with a partner in the steel sheet sector in India	Participation in an integrated steel works project with Bhusan Steel Limited in India (technical support and OEM supply)	-	-
	Establish a manufacturing hub for steel sheet in Vietnam	Establishment of a joint venture with China Steel Corporation and other partners for the manufacturer and sale of cold-rolled coil, electro-magnetic steel sheet and hot-dipped galvanized steel sheet	(*2) 115.0	Scheduled to begin operations in April 2012
	Participation in the planning of a steel plate business in Thailand	Capital contribution and technical assistance to a steel plate business run by the Canadoil Group.	4.2	Scheduled to begin operations in 2013
	Expanding our presence in the Indian automobile market	Capital contribution to Steel Strips Wheels Limited (a local manufacturer of automotive steel wheels).	0.8	Completed in December 2010
Railway, Automotive & Machinery Parts	Establish a sales and manufacturing hub for forged crankshafts in India	A joint venture with Amtek Auto Limited and Sumitomo Corporation to manufacture and sell forged crankshafts	(*2) 1.0	Business began in April 2010
Specialty Steel Bars and Wire Rods	Achieve steel-making process innovation at Sumitomo Metals (Kokura), Ltd.	Stage I (Construction of secondary refining facility and continuous casting line)	27.0	Began operations in Dec. 2009
		Stage II (Construction of a dephosphorization furnace)		Began operations in Oct. 2010

Research and development	Promotion of technological development and product development, through the strengthening of the functions of our research facilities.	Construction of a new main building and laboratory wing at our Corporate Research & Development Laboratories (in Amagasaki City).	10	Scheduled to enter service in September 2011.
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- Notes: 1. (*1) Total capital of the joint venture
2. (*2) Total investment by joint venture

4) Intangible assets and achievements that support Group business

We believe that our intangible assets that do not appear in our financial statements are essential to support the business base of the SMI Group and raise our corporate value. These are the “unseen assets” that enabled us to quickly respond to the Great East Japan Earthquake and soon get the Kashima Steel Works back up and running. The SMI Group will continue to refine these assets with the aim of achieving sustainable growth.

Client assets

Our good standing in the eyes of our customers and the high level of mutual trust that stems from this are some of SMI Group’s most valuable assets. We believe that the awards and commendations that we receive from our customers are indicators of our business results.

In the current period under review, Toyota Motor Corporation acknowledged the high quality of SMI Group’s steel products by granting us several awards: a Commendation for Quality for our steel sheet; a Quality Award for Toyota Housing Corporation for our structural steel; and both an Excellent Quality Award and a Special Prize for Special Steel Quality for our high-performance steel products used for crankshafts, etc. We received two gold awards for EC-VC (Value Creation) Initiative from Panasonic Corporation for our steel sheet and structural steel. Panasonic grants this award to acknowledge suppliers’ materials that have played a role in reducing its CO₂ emissions and helping to make its products more competitive. We received an Excellent Supplier Award from TTX Company (U.S.A.) for our railway rolling stock components. In addition to these awards, we received numerous other prizes and commendations from many other customers.

We have worked with Tokyo Metro Co., Ltd. in the development of a new product: a special railway bogie trucks that make less noise and generates less wheel friction when the train goes around tight corners. The new bogie trucks are being used in trains that run on the Tokyo Metro’s Ginza Line.

Technology assets

As a manufacturer, technological development is always a central operational issue for us. Our Group’s approach is to develop technology that our customers can

use and evaluate. Our strategy is to select the field and then concentrate our resources into that area, often in partnership with academic institutions and industry. The outcomes of these developmental projects are well received by both our customers and many other organizations.

In the period under review, our achievement of the continuous operation of the No. 4 blast furnace at Wakayama Steel Works for 10,001 days (27 years and 4 months) was recognized and we received the 57th Okochi Memorial Foundation Production Prize for our “development of technology to extend the service life of blast furnaces.” We also received two FY2010 Commendations for Science and Technology (Development Division) from the Minister of Education, Culture, Sports, Science and Technology for our “development of stainless steel sheet for making high-fatigue-strength gaskets” and for our “development of a fine composite steel sheet that possesses the ability to extend fatigue life.” Our Group also received many other awards, among them the 33rd Technical Development Prize from The Japan Institute of Metals, a 2009 JSME Medal for New Technology from the Japan Society of Mechanical Engineers (JSME), and a JSTP Medal for Innovative Technology from the Japan Society for Technology of Plasticity.

The global environment is an important issue for the SMI Group. We are contributing to the reduction of CO₂ emissions not only by reducing the amount of CO₂ emissions during our manufacturing processes, but also by supplying environmentally friendly products to customers. In this way, the products that we manufacture are estimated to help reduce CO₂ emissions of an amount about nine times greater than the CO₂ emitted in their initial manufacture.

Our human assets

Enhancing the ability of our employees is the most important factor in maximizing the performance of a company. While taking on new staff constantly, we are continuously enhancing our human assets through our human resource training programs that utilize knowledge and experience we have gained over many years. The SMI Group is training employees that will be able to work in growing overseas markets where we are doing business, to increase our corporate value.

Organizational assets

The SMI Group is working to improve its internal control systems to ensure proper operations in order to enhance its sustainable corporate value, under Sumitomo Metal’s Corporate Philosophy: “We will preserve the Sumitomo Spirit and transmit it to the future, treasure people and technologies, and contribute to society through manufacturing.”

We have established a comprehensive risk management system that will address issues of compliance and include the setting up of systems to be used in responding to disasters and accidents. The actual measures we are taking include:

- Setting up a compliance program
- Introducing an executive officer system and raising the effectiveness of supervisory functions and the efficiency of officers' duties by separating decision-making/supervisory functions from executive functions
- Setting up a risk management and risk prevention system to cope with day-to-day risk within a changing business environment
- Setting up a system that will enable all Group companies to respond to serious disasters, accidents and other emergencies
- Establishing systems to ensure the reliability of financial reports
- Strengthening the Auditing Department's monitoring and supervision of the execution of duties

Following the settlement in March 2010 of a shareholders' representative suit brought against the directors of SMI and others, SMI established the Inspection & Proposal Committee for Compliance. In April 2011, the Committee proposed that SMI establish a corporate philosophy that encourages compliance and make efforts to seek clarification of the facts when scandals come to light. Respecting such proposals by the Committee, SMI will continue to take concrete steps to ensure greater levels of compliance.

5) Current period business results

Sales volumes of steel materials in the period under review continued to recover, following the global recession of the previous period. As a result, the SMI Group achieved sales in the period under review of 1,402.4 billion yen. The SMI Group made efforts to improve profitability through increased sales volume and through efforts to reduce costs. We made efforts to reflect the steep rises in the cost of raw materials in the prices of our steel products, while seeking the understanding of our customers. In addition, there was temporary production instability at Kashima Steel Works' blast furnace, as well as accounting gains from the revaluation of inventory assets accompanying the steep rises in raw material prices. As a result, operating income was 56.3 billion yen and ordinary income was 34.0 billion yen. Due to the Great East Japan Earthquake in March, we posted an extraordinary loss of 62.0 billion yen due to damage to the Kashima Steel Works, which resulted in a net loss of 7.1 billion yen.

Consolidated business results

(billion yen)

	FY2009	FY2010	Increase/(decrease)	
			Amount	Percentage
Net sales	1,285.8	1,402.4	116.6	9.1%
Operating income (loss)	(0.9)	56.3	57.2	-
Ordinary income (loss)	(36.6)	34.0	70.6	-
Net income (loss)	(49.7)	(7.1)	42.6	-

Segment performance in the reporting period

(billion yen)

	Consolidated Net sales	(*) Increase/ (decrease)	Consolidated Operating profit (Note 1)	(*) Increase/ (decrease)
Steel	1,351.6	12.1%	50.2	-
Other business	50.8	(36.4%)	6.2	(6.5%)-
Adjustment	-	-	(0.2)	-
Total	1,402.4	9.1%	56.3	-

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

In the reporting period, the SMI Group investment in plant and equipment totaled 109.9 billion yen, of which 107.0 billion yen was invested in Steel business, and 2.9 billion yen in other business sectors. Outstanding debt as of the end of the reporting period was 1,173.3 billion yen (an increase of 35.0 billion yen from the previous period), which includes the debts arising as a result of meeting the demand for funds in responding to the earthquake. As a result, our D/E ratio* became 1.53; however, we will manage our business with the aim to control this ratio at a level below 1.0 over the medium and long term.

Our investment strategy calls for investments that are designed to bring cash flows generated by business to contribute to our corporate value. We will pass on appropriate returns to our shareholders and all stakeholders alike.

We expect to make a year-end dividend of 1 yen per share — as we have placed a priority on the recovery of our facilities that were damaged in the Great East Japan Earthquake and the minimization of financial damage. This will bring the total cash dividend for the full fiscal year, including the earlier interim dividend payment, to 3.5 yen per share.

* Note: D/E ratio = Debt / Shareholders' equity

(5) Issues facing the SMI Group

On February 3, 2011, SMI and Nippon Steel Corporation agreed to commence consideration of the integration of their entire business with the spirit of their relationship being based on equality. The integration is targeted for October 1, 2012

The objective is to build the most competitive comprehensive steel-making company in the world from the synergistic effects that will be created by the integration of the strengths of both companies. To oversee this process, Integration Study Committee has been set up, co-chaired by the Presidents of both companies.

The recovery from the damage to our plant and equipment caused by the Great East Japan Earthquake is a pressing issue for us. The demand for funding for investment in the recovery of damaged facilities at Kashima Steel Works is estimated to be approximately 100 billion yen. We will review our investment plans, and make efforts to raise funds through controlling costs and expenses in all possible areas. We expect to obtain at least half the funds needed for damage recovery in FY2011.

Business globalization is an important issue for the SMI Group, against a background of medium- and long-term growing global demand for steel products — particularly in emerging nations. Building on the high level of technical expertise that we have built up in Japan, the SMI Group is expanding its businesses in growing markets overseas. We are making progress with several joint ventures in overseas growth markets, namely, the steelworks to produce seamless pipe in Brazil, the plant to produce steel sheet business in Vietnam, the plants to produce steel sheet and crankshaft in India, and the steel plate business in Thailand. We are pushing ahead with plans to meet demands for products in growing overseas markets, including a study into the feasibility of a steel business in India..

Coping with issues concerning the global environment are becoming increasingly important. SMI Group is working to both reduce CO₂ emissions during manufacturing processes and to produce products that will in turn help restrict CO₂ emissions. One example of how we are cutting back on CO₂ emissions during the manufacturing process can be found at our Brazilian blast furnace integrated seamless steel pipe plant where the blast furnace is charcoal-fired. The charcoal produced from eucalyptus trees grown on our own plantation is used to reduce the iron ore to iron in the furnace, and the CO₂ released in the process is then reabsorbed by the growing eucalyptus trees so that the net CO₂ emissions of the entire process are effectively zero. Examples of how our products help reduce CO₂ emissions are the seamless stainless steel pipes for highly efficient thermal power generation and for the development of clean-burning natural gas fields. Our high-quality sheet steel and other products enable automobiles to be lighter and therefore more fuel efficient. Going forward, the SMI Group will continue to enhance our corporate value and contribute to society through management practices that give 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 SMI’s manufacturing history, is working to maximize corporate value. The SMI Group aims to be a company trusted by its shareholders and all stakeholders alike.

SMI wishes to ask its shareholders for their further support and understanding of the situation of the SMI Group.

Topics

The early recovery of Kashima Steel Works from the aftermath of the Great East Japan Earthquake

The Great East Japan Earthquake on March 11, 2011 caused extensive damage to the facilities at Kashima Steel Works and brought all operations to a temporary halt. In the response and recovery process immediately after the earthquake, our staff demonstrated the benefits of their daily training and emergency preparation programs. Following the earthquake we immediately set up crisis control centers and started up the initial systems. The centers and systems enabled us to send quickly emergency relief supplies and support personnel to the site, as well as formulate a recovery plan. Based on well-defined policies and a chain of command, we resumed operations at the Works, giving a priority to the manufacture and shipment of building materials that will play a role in the recovery of the areas in Japan affected by the disaster. We restarted the operation of the Kashima Power Station at the Kashima Steel Works. The power station is supplying its entire generating output of 475 megawatts to the Tokyo Electric Power Company.

Kashima Steel Works timeline to recovery

1. Initial systems

Date	Time	Events
March 11	2:46 p.m.	A huge earthquake halts all production lines
	4:20 p.m.	Crisis control centers set up at the SMI head office and at each plant Situation assessed. Kashima support system put into operation The process of mobilizing people who will help out in the recovery of Kashima begins at each plant and at our affiliated companies
	Evening	The sending of relief supplies from each plant to Kashima Steel Works begins
	7:30 p.m.	Safety of all related personnel at Kashima Steel Works confirmed
March 12	Morning	Relief supplies from head office and each plant, our customers and others continue to arrive Details of the damage at Kashima Steel Works are gathered. Recovery plan proposed
	From evening to late at night	Support personnel from our plants arrive at Kashima and start work (approx. 300 people from our other plants, plus about 2,500 people from partner companies)

2. The road to recovery

Date	Response
March 15	Shipment of lightweight welded H-beams, pipe piles and steel sheet rolls resumed
March 20	No. 3 blast furnace resumes operations
March 25	Kashima Power Plant starts generating power again
March 26	No. 1 blast furnace resumes operations
March 29	No. 2 coke oven resumes operations
April 3	No. 1 steel making plant resumes steel making and continuous casting
April 5	Plate mill restarts rolling operations
April 12	Hot strip mill restarts rolling operations
April 24	Large shape mill restarts rolling operations
April 25	No. 1 cold strip & galvanizing mill resumes operations, bringing the entire line at Kashima Steel Works back into service
April 30	All the tuyeres (hot air nozzles) of the No. 1 and No. 3 blast furnaces are opened, returning both furnaces to a state where they are ready to operate normally

Awarded the 57th Okochi Memorial Foundation Production Prize for our technology to extend the service life of blast furnaces

The Okochi Prize is one of the oldest and most authoritative awards in Japan, and is granted in recognition and appreciation of outstanding contributions to society in various technical fields. The SMI Group's achievement of the continuous operation of the No. 4 blast furnace at Wakayama Steel Works for 10,001 days (27 years and 4 months) until its decommissioning in July 2009 was recognized, and we received the 57th Okochi Memorial Foundation Production Prize for our "development of technology to extend the service life of blast furnaces."

1. A range of technologies helping to extend service life

The initial planned service life of the No. 4 blast furnace when it was refitted in 1980 was 7 years. The driving force that made it possible for us to run the furnace for 27 years (instead of 7) was the technology that we developed ourselves to simulate the conditions inside an operating blast furnace. This simulation technology enabled us to gain a quantitative understanding of what was going on inside the furnace. Based on this data, we were able to prolong the life of the blast furnace through operational and maintenance techniques. Continuing to operate a blast furnace after it has reached the end of its service life requires a lengthy period of refitting and a very large amount of money (about 30 billion yen for a blast furnace of comparable scale to that of the No. 4 furnace). Being able to avoid three rounds of refitting, the No. 4 blast furnace has allowed us to achieve a huge cost reduction thanks to the technology that we developed. The simulation model that we developed also enables us to design blast furnaces that are both highly efficient and capable of steady operation. The use of this technology during furnace refitting and the design of new furnaces will help us to reduce CO₂ emissions.

2. From the blast furnace to the products: we have now received Okochi Prizes for each main step in the process of seamless pipe manufacture

The SMI Group had previously won the Okochi Prize for technological development in three stages of steel-making, pipe-making in the process of manufacture of high-grade seamless pipe, and the end product itself. With our latest award for our blast furnace technology we have achieved the first quadruple-crown in the Japanese steel industry: Okochi Prizes for technological developments in each of the four main production stages in the manufacture of seamless pipe. This shows that the SMI Group's seamless pipe is manufactured in a process that is backed by the world's best technology.

(6) 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		FY2007 ended March 31, 2008	FY2008 ended March 31, 2009	FY2009 ended March 31, 2010	Reporting period (FY2010- ended March 31, 2011)
(units: million tons)					
Crude steel production volume		13.62	12.87	11.65	12.90
Steel product sales volume		12.49	11.44	10.89	11.72
Sales (yen bil.)	Steel	1,622.3	1,740.7	1,205.8	1,351.6
	Other business	122.2	103.6	79.9	50.8
	Total (Sales overseas (out of total sales))	1,744.5 (712.3)	1,844.4 (774.9)	1,285.8 (511.8)	1,402.4 (563.1)
Ordinary income (loss) (yen bil.)		298.2	225.7	(36.6)	34.0
Net income (loss) (yen bil.)		180.5	97.3	(49.7)	(7.1)
Net income (loss) per share		39.43 yen	20.98 yen	(10.74 yen)	(1.54 yen)
Total assets (yen bil.)		2,418.3	2,452.5	2,403.6	2,440.7
Net assets (yen bil.)		949.3	904.3	879.2	818.0

- Notes: 1. Crude steel production and steel product sales figures are the totals for SMI, Sumitomo Metals (Kokura), Ltd., Sumikin Iron & Steel Corporation and Sumitomo Metals (Naoetsu), Ltd.
2. Net income per share is calculated from the average of total number of issued shares in the period under review. The total number of issued shares excludes treasury stock.

2) Business results and assets and liabilities of the Company

Summary		FY2007 ended March 31, 2008	FY2008 ended March 31, 2009	FY2009 ended March 31, 2010	Reporting period (FY2010 ended March 31, 2011)
Sales (yen bil.)	Steel	1,126.0	1,235.3	828.4	907.7
	Other business	15.3	10.7	2.0	
	Total	1,141.4	1,246.0	830.4	907.7
Ordinary income (yen bil.)		214.9	191.1	18.4	35.4
Net income (loss) (yen bil.)		129.3	90.7	(9.6)	15.9
Net income (loss) per share		28.25 yen	19.57 yen	(2.07 yen)	3.44 yen
Total assets (yen bil.)		1,940.6	1,988.6	2,032.5	2,131.4
Net assets (yen bil.)		672.9	643.1	639.8	612.5

Note: Net income per share is calculated from the average of total number of issued shares in the period under review. The total number of issued shares excludes treasury stock.

(6) Main businesses of the SMI Group (as of March 31, 2011)

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.
Other business	Electronic components, real estate leasing and sale, etc.	

(7) Principal offices of the SMI Group (as of March 31, 2011)

		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
	Overseas offices	ASEAN (Bangkok)
	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)
Overseas offices		Sumitomo Metal USA, Inc. (U.S.A.) Sumitomo Metal do Brasil Ltda. (Brazil) Sumitomo Metals Singapore Pte. Ltd. Sumikin Consulting (Shanghai) Co., Ltd.

Notes: 1. As of March 31, 2011 the Shizuoka sales office (listed in the “Domestic offices” section above) was closed and its functions transferred to the Nagoya branch office.

2. As of March 31, 2011 the ASEAN Office (Bangkok) (listed in the “Overseas offices” section above) was closed and from April 1, 2011 the operations of Sumitomo Metals (Thailand) Co., Ltd. commenced.

3. The following overseas offices that were listed as “Overseas offices” (of SMI) in the previous period are now listed as “Overseas offices” (of Consolidated subsidiaries) as a result of the establishment of overseas subsidiaries, etc.

(FY2009)

Chicago Office, Houston Office
ASEAN Office (Singapore)
Shanghai Office, Guangzhou office

(FY2010)

Sumitomo Metal USA, Inc. (U.S.A.)
Sumitomo Metals Singapore Pte. Ltd. (Singapore)
Sumikin Consulting (Shanghai) Co., Ltd. (China)

4. Sumitomo Metal do Brasil Ltda. was established in FY2010 and is listed in the “Overseas offices” (of Consolidated subsidiaries).

(8) Employment by the SMI Group (as of March 31, 2011)

Segment	No. of employees
Steel	19,272
Others	3,325
Total	22,597

Notes:

1. The number of employees decreased by 1,077 compared with the figure at the end of the previous fiscal year.
2. Of this number, 7,104 are SMI employees (excluding personnel on loan to other companies), an increase of 25 compared with the figure at the end of the previous fiscal year.

(10) Principal subsidiaries

1) Principal consolidated subsidiaries (as of March 31, 2011)

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	*1 100.0	Manufacture and sale of half-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 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	*1 100.0	Land and sea transport of steel materials, etc. and incidental business
Sumikin & Nippon Steel Stainless Steel Pipe Co., Ltd.	9	Steel	60.0	Manufacture and sale of stainless steel pipe
Western Tube & Conduit Corp.	\$US thousand 17,000	Steel	*1 96.7	Manufacture and sales of power cable conduits, fence pipes and other welded steel tubes
Seymour Tubing, Inc.	\$US thousand 10,000	Steel	*1 80.0	Manufacture and sales of steel tubing for automotive use
International Crankshaft Inc.	\$US thousand 22	Steel	*1 80.0	Manufacture and sales of small forged crankshafts for automotive use
*2 Sumitomo Metal do Brasil Ltda.	real mil. 905	Steel	*1 100.0	Sale of seamless steel pipe
Huizhou Sumikin Forging Co., Ltd.	yuan mil. 239	Steel	51.0	Manufacture and sales of small forged crankshafts for automotive use

Notes:

- *1 Includes shares held by subsidiaries.
- *2 Sumitomo Metal do Brasil Ltda. was established in FY2010 and is listed as a principle subsidiary.

2) Principal companies accounted for using the equity method (as of March 31, 2011)

Company name	Capital (yen bil.)	Segment	Ownership as a % of total issued shares	Main business
SUMCO Corporation	114.1	Other	27.8	Manufacture and sale of semiconductor silicon wafers for semiconductors and solar panels
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	* 15.1	Marine transport and incidental business
Sumikin Bussan Corporation	12.3	Steel	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	* 40.4	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	38.2	Manufacture and sale of manganese ferroalloys, secondary battery material, etc.
Nippon Steel & Sumikin Welding Co., Ltd.	2.1	Steel	* 20.0	Manufacture and sale of welding materials and equipment
VAM USA LLC	\$US thousan ds 20,000	Steel	* 34.0	Processing of premium joints for oil well pipe
Vallourec & Sumitomo Tubos do Brasil Ltda.	real mi l. 4,700	Steel	* 39.9	Manufacture of seamless pipes

Note:* Includes shares held by subsidiaries

(11) Principal SMI Group creditors and loans outstanding (as of March 31, 2011)

Name of creditor	Loans outstanding		
	SMI	Consolidated subsidiaries	Total
	(yen. bil.)	(yen. bil.)	(yen. bil.)
Sumitomo Mitsui Banking Corporation	104.5	4.1	108.7
The Sumitomo Trust and Banking Co., Ltd.	100.4	2.1	102.6
Development Bank of Japan Inc.	50.3	0.1	50.4
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	36.6	1.8	38.4
The Norinchukin Bank	37.4	0.3	37.7

2. Stock information (as of March 31, 2011)

(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)	(170,122,545 shares)

(2) Number of shareholders

272,737

(3) Ten largest shareholders

Name	Investment in SMI	
	No. of shares owned (thou.)	Ownership as a % of total issued shares
Sumitomo Corporation	458,326	9.89
Nippon Steel Corporation	451,761	9.74
Japan Trustee Services Bank, Ltd. (account in trust)	169,793	3.66
Kobe Steel, Ltd.	112,565	2.43
The Master Trust Bank of Japan, Ltd. (account in trust)	111,275	2.40
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation retirement benefit trust account re-entrusted by The Sumitomo Trust and Banking Co., Ltd.)(*1)	90,315	1.95
Nippon Life Insurance Company	88,919	1.92
SSBT OD05 Omnibus Account Treaty Clients	67,711	1.46
Japan Trustee Services Bank, Ltd., The Sumitomo Trust and Banking Corporation retirement benefit trust (*2)	55,000	1.19
NT RE GOVT OF SPORE INVT CORP P.LTD	54,651	1.18
Total	1,660,318	35.81

- Notes:
- Ownership as a % of total issued shares is calculated with treasury stock being subtracted from the total number of issued shares.
 - (*1) The 90,315 thousand shares registered in the name of “Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation retirement benefit trust account re-entrusted by The Sumitomo Trust and Banking Co., Ltd.)” are owned beneficially by Sumitomo Mitsui Banking Corporation and held as a retirement benefit trust by Japan Trustee Services Bank, Ltd. Sumitomo Mitsui Banking Corporation holds the right to direct the voting of these shares. In addition to the listings above, Sumitomo Mitsui Banking Corporation holds 28,090 thousand shares (0.61% of total issued shares).
 - (*2) The 55,000 thousand shares registered in the name of “Japan Trustee Services Bank, Ltd., The Sumitomo Trust and Banking Corporation retirement benefit trust” are owned beneficially by The Sumitomo Trust and Banking Co., Ltd. and held as a retirement benefit trust by Japan Trustee Services Bank, Ltd. The Sumitomo Trust and Banking Co., Ltd. holds the right to direct the voting of these shares. In addition to the listings above, The Sumitomo Trust and Banking Co., Ltd. holds 20,000 thousand shares (0.43% of total issued shares).

(4) Distribution ownership by shareholder group

Group	Japanese				Foreign	Total
	Financial institutions	Securities companies	Other corporations	Private individuals, etc.		
% ownership	24.9	1.4	31.6	24.1	18.0	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 important roles in other companies and organizations (as of March 31, 2011)

(* denotes Representative Directors)

Position	Name	Responsibilities and important roles in other companies and organizations
* Chairman of the Board of Directors	Hiroshi Shimosuma	Chairman of the Kansai Economic Federation
* Director and President	Hiroshi Tomono	
* Director	Fumio Hombe	Corporate Planning, Information Systems, Internal Auditing, Treasury, Public Relations & Investor Relations, Steel Sales & Production Administration, Project Development Departments, Domestic and Overseas Offices, Sales of all Internal Companies, President of East Asia United Steel Corporation
Director	Yasuyuki Tozaki	Environment, Technology & Quality Administration, Plant Technology & Purchasing, Blast Furnace Projects, Intellectual Property, Automotive Technology Planning & Development Departments, Corporate Research & Development Laboratories, Safety Technology, Technology and Quality of all Internal Companies, General Manager of Titanium Division
Director	Yasuo Imai	President of Pipe & Tube Company
Director	Syuichiro Kozuka	General Affairs, Legal, Personnel & Industrial Relations and Safety & Health Departments, General Manager of Osaka Head Office
Director	Mitsunori Okada	President of Railway, Automotive & Machinery Parts Company Chairman of Huizhou Sumikin Forging Co., Ltd.,
Director	Michiharu Takii	Corporate Planning, Information Systems, Internal Auditing, Treasury, and Public Relations & Investor Relations Departments
Director	Shinichi Miki	Bhusan Steel Technical Collaboration Department, President of Steel Sheet, Plate & Structural Steel Company
Director	Yoshitaka Hotta	General Affairs, Personnel & Industrial Relations and Safety & Health Departments
Standing Corporate Auditor (full-time)	Kitaro Yoshida	
Standing Corporate Auditor (full-time)	Hirohiko Minao	
Corporate Auditor	Keiichi Murakami	Lawyer
Corporate Auditor	Toshiro Mutoh	Chairman of Daiwa Institute of Research Ltd., Outside Director of Mitsui & Co., Ltd.
Corporate Auditor	Hirotake Abe	Certified Public Accountant, Outside Corporate Auditor of ITC Networks Corporation, Visiting Professor at the Chuo Graduate School of International Accounting

Notes:

1. Keiichi Murakami and Toshiro Mutoh and Hirotake Abe are Outside Corporate Auditors as stipulated in Article 2 Item 16 of the Companies Act.
2. Corporate auditor Hirotake Abe is a Certified Public Accountant, and has considerable knowledge of finance and accounting.
3. There are no special relationships between SMI and the other companies and organizations where the outside corporate auditors have roles.
4. In accordance with the requirements of the Tokyo Stock Exchange Inc., etc., SMI has designated corporate auditors Keiichi Murakami, Toshiro Mutoh and Hirotake Abe to be Independent Auditors/Directors and has reported to the relevant stock exchanges of this designation.

(2) Resignation of Directors and Corporate Auditors during the period under review

Position resigned	Name	Date of resignation
Standing Corporate Auditor (full-time)	Shigeru Sakurai	June 18, 2010
Corporate Auditor	Eiji Asada	June 18, 2010

(3) Total fees and other remuneration paid to Directors and Corporate Auditors

	No. of persons	Payments in the reporting period	Remarks
Directors	10	(yen mil.) 655	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	7	122	
Total (Number of and amount paid to Outside Corporate Auditors included in the total figure)	17 (4)	777 (43)	

Note: The figures above include the two (2) Corporate Auditor who resigned at the conclusion of the Annual General Shareholders' Meeting for the 87th period on June 18, 2010.

(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 subsidiaries.

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 18 Board of Directors meetings and 27 Board of Corporate Auditors meetings. Attendance of each of the Outside Corporate Auditors is as follows:

Name	Attendance	
	Board of Directors' meeting	Board of Corporate Auditors' meeting
Eiji Asada	4 meetings	7 meetings
Keiichi Murakami	18 meetings	27 meetings
Toshiro Mutoh	17 meetings	25 meetings
Hirotake Abe	14 meetings	20 meetings

Eiji Asada resigned as a Corporate Auditor on June 18, 2010. 4 Board of Directors' meetings and seven Board of Corporate Auditors' meetings were held prior to his resignation. Hirotake Abe was newly elected and appointed on June 18, 2010. 14 Board of Directors' meetings and 20 Board of Corporate Auditors' meetings held after his appointment.

4. Independent Auditors

(1) Name of the Auditors

Deloitte Touche Tohmatsu LLC

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

Remarks	Amount of payment
(a) Total remuneration and other fees	(yen mil.) 90
(b) Total remuneration and other fees to be paid to Independent Auditors by the Company and its subsidiaries	317

- 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 aggregate amount is shown in the figures above.
2. 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 for such reasons as occurrence of an event which impairs the eligibility of the independent auditor, 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 properly

The SMI Group is working to improve its internal control systems to ensure the properness of its operations in order to enhance its sustainable corporate value, under Sumitomo Metal's Corporate Philosophy that states: "We will preserve the Sumitomo Spirit and transmit it to the future, treasure people and technologies, and contribute to society through manufacturing." Under this fundamental policy, the Company will maintain the legality and efficiency of its business, manage risks, and strive to enhance and improve its response to changes in the business environment.

The Company has decided upon the following basic policies concerning the putting in place of systems to ensure that operations are properly 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 established Sumitomo Metals' Corporate Code and requires

that the Directors not only strictly comply with laws, regulations and business ethics but also actively practice corporate social responsibility (CSR). The Company has established the CSR Committee to enable the centralized handling of CSR matters, and is encouraging management that integrates the Company's business strategy with social responsibility.

(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 has been 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 has set up the following systems to prevent or manage risk in ordinary times.

- 1) Establish 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) Establish systems to ensure the reliability of financial reports and hold Internal Control System Assessment Meeting to assess the effectiveness of these systems.

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

Sumitomo Metals' Corporate Code requires that the executive officers and employees not only strictly comply with laws, regulations and business ethics but also actively practice corporate social responsibility.

The Compliance Committee has been set up to prevent violations of law, and the following compliance programs have been put in place.

1. 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.
4. The Internal Auditing Department will monitor and supervise performance of the duties of executive officers and employees to ensure that compliance systems like the ones listed above are effectively maintained.

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

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

- 1) The Group Company Management Council assesses 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 are required to be discussed with and reported to the Company, following a defined standard procedure.
- 3) Each subsidiary is 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 receives 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 has set up basic policies to ensure that the Company properly 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 has been set up to assist the Corporate Auditors. The number of such employees and the functions of the Office shall 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 shall 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 shall 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 SMI Group
- 2) The performance of the 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 properly 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 properly prepared
- 6) Methods and results of audits by the Internal Auditing Department
- 7) Occurrence of the following events, together with the measures taken to respond to the following: matters that may cause considerable losses to 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 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 was approved by the shareholders at the Annual General Shareholders' Meeting held on June 19, 2009. 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 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.

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, 2011

Millions of yen	Millions of yen		
Assets	Liabilities		
Current assets:	Current liabilities:		
Cash and deposits	¥83,264	Notes and accounts payable-trade	¥221,195
Notes and accounts receivable-trade	109,571	Short-term loans payable	279,818
Merchandise and finished goods	144,655	Commercial papers	105,000
Work in process	23,476	Current portion of bonds	35,000
Raw materials and supplies	230,533	Deferred tax liabilities	11
Deferred tax assets	29,622	Provision for bonuses	16,814
Other	27,467	Provision for loss on disaster	49,307
Allowance for doubtful accounts	(660)	Other	93,452
Total current assets	647,930	Total current liabilities	800,600
Noncurrent assets:		Noncurrent liabilities:	
Property, plant and equipment:		Bonds	180,664
Buildings and structures, net	262,229	Long-term loans payable	572,899
Machinery, equipment and vehicles, net	413,400	Deferred tax liabilities	4,557
Land	350,518	Deferred tax liabilities for land revaluation	6,919
Construction in progress	79,819	Provision for retirement benefits	20,318
Other, net	11,743	Provision for special repairs	197
Total property, plant and equipment	1,117,712	Other	36,524
		Total noncurrent liabilities	822,080
Intangible assets:		Total liabilities	1,622,681
Goodwill	1,314		
Other	4,894	Net assets	
Total intangible assets	6,208	Shareholders' equity:	
Investments and other assets:		Capital stock	262,072
Investment securities	485,511	Capital surplus	61,829
Deferred tax assets	49,889	Retained earnings	565,931
Other	133,718	Treasury stock	(91,161)
Allowance for doubtful accounts	(209)	Total shareholders' equity	798,671
Total investments and other assets	668,910		
Total noncurrent assets	1,792,830	Accumulated other comprehensive income	
		Valuation difference on available-for-sale securities	(18,877)
		Deferred gains or losses on hedges	(594)
		Revaluation reserve for land	11,203
		Foreign currency translation adjustment	(23,627)
		Total accumulated other comprehensive income	(31,894)
		Minority interests	51,303
		Total net assets	818,080
Total assets	¥2,440,761	Total liabilities and net assets	¥2,440,761

Note: Figures in parentheses are negative values.

Consolidated Statement of Operations

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2011

Millions of yen

Net sales		¥1,402,454
Cost of sales		1,222,407
Gross profit		180,047
Selling, general and administrative expenses		
Shipment expenses	37,482	
Employees' salaries and allowances	34,252	
Research and development expenses	20,910	
Other	31,100	123,745
Operating income		56,301
Non-operating income		
Interest income	1,459	
Dividends income	4,627	
Other	11,519	17,606
Non-operating expenses		
Interest expenses	15,135	
Equity in losses of affiliates	3,493	
Loss on sales and retirement of noncurrent assets	8,663	
Other	12,566	39,858
Ordinary income		34,049
Extraordinary losses		
Loss on disaster	62,041	62,041
Loss before income taxes and minority interests		27,991
Income taxes-current	13,722	
Income taxes-deferred	(37,694)	(23,972)
Loss before minority interests		4,019
Minority interests in income		3,125
Net loss		¥7,144

Consolidated Statement of Changes in Net Assets

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries

Year ended March 31, 2011

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

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

Balance at the end of previous period	596,254
Changes of items during the period	
Dividends from surplus	(23,178)
Net loss	(7,144)
Reversal of revaluation reserve for land	0
Total changes of items during the period	<u>(30,323)</u>
Balance at the end of current period	<u>565,931</u>

Treasury stock

Balance at the end of previous period	(91,106)
Changes of items during the period	
Purchase of treasury stock	(55)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Total changes of items during the period	<u>(55)</u>
Balance at the end of current period	<u>(91,161)</u>

Total shareholders' equity

Balance at the end of previous period	829,050
Changes of items during the period	
Dividends from surplus	(23,178)
Net loss	(7,144)
Purchase of treasury stock	(55)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Reversal of revaluation reserve for land	0
Total changes of items during the period	<u>(30,378)</u>
Balance at the end of current period	<u>798,671</u>

Note: Figures in parentheses are negative values.

Accumulated other comprehensive income	
Valuation difference on available-for-sale securities	
Balance at the end of previous period	2,324
Changes of items during the period	
Net changes of items other than shareholders' equity	(21,201)
Total changes of items during the period	(21,201)
Balance at the end of current period	(18,877)
Deferred gains or losses on hedges	
Balance at the end of previous period	(979)
Changes of items during the period	
Net changes of items other than shareholders' equity	385
Total changes of items during the period	385
Balance at the end of current period	(594)
Revaluation reserve for land	
Balance at the end of previous period	11,834
Changes of items during the period	
Net changes of items other than shareholders' equity	(630)
Total changes of items during the period	(630)
Balance at the end of current period	11,203
Foreign currency translation adjustment	
Balance at the end of previous period	(13,009)
Changes of items during the period	
Net changes of items other than shareholders' equity	(10,617)
Total changes of items during the period	(10,617)
Balance at the end of current period	(23,627)
Total accumulated other comprehensive income	
Balance at the end of previous period	169
Changes of items during the period	
Net changes of items other than shareholders' equity	(32,064)
Total changes of items during the period	(32,064)
Balance at the end of current period	(31,894)
Minority interests	
Balance at the end of previous period	49,989
Changes of items during the period	
Net changes of items other than shareholders' equity	1,313
Total changes of items during the period	1,313
Balance at the end of current period	51,303
Total net assets	
Balance at the end of previous period	879,209
Changes of items during the period	
Dividends from surplus	(23,178)
Net loss	(7,144)
Purchase of treasury stock	(55)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Reversal of revaluation reserve for land	0
Net changes of items other than shareholders' equity	(30,750)
Total changes of items during the period	(61,129)
Balance at the end of current period	¥818,080

Note: Figures in parentheses are negative values.

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

1. Scope of consolidation

a. Number of consolidated subsidiaries: 68

Names of principal companies:

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

Sumitomo Metal do Brasil Ltda., established in the consolidated accounting period, has been added to the list of consolidated subsidiaries. Four companies that are no longer subsidiaries, as well as one company that became an affiliated company during the accounting period and is now accounted for using the equity method is applied, have been removed from the list of consolidated subsidiaries.

b. Names of principal non-consolidated subsidiaries

Aritakaiun Co., Ltd. and others

(Reason for exclusion from the scope of consolidation)

These companies are excluded from the scope of consolidation of Sumitomo Metal Industries, Ltd. (the “Company”) and consolidated subsidiaries (collectively the “Group”) because they are small-scale enterprises whose total assets, net sales, net income (corresponding to interests) and retained earnings (corresponding to interests) 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: -

In the consolidated accounting period, one company that is no longer a subsidiary has been removed from the list of subsidiaries accounted for using the equity method.

b. Number of affiliated companies accounted for using the equity method: 37

Names of principal companies:

SUMCO Corporation
Kashima Kyodo Electric Power Co.
Kyoei Steel, Ltd.
Daiichi Chuo Kisen Kaisha
Sumikin Bussan Corporation
Nippon Steel & Sumikin Coated Sheet Corporation
Sumitomo Precision Products Co., Ltd.
OSAKA Titanium technologies Co., Ltd.
Nippon Steel & Sumikin Metal Products Co., Ltd.
Nippon Steel & Sumikin Stainless Steel Corporation
Chuo Denki Kogyo Co., Ltd.
Nippon Steel & Sumikin Welding Co., Ltd.
VAM USA LLC
Vallourec & Sumitomo Tubos do Brasil Ltda.

In the consolidated accounting period, in addition to one company that was a consolidated subsidiary in the previous period, one other company was added to the list of applying the equity method in view of its importance. Moreover, one company that is no longer an affiliated company has been removed from the list of subsidiaries accounted for using the equity method.

The equity method was applied to SUMCO Corporation based on its consolidated financial statements.

- c. Investments in non-consolidated subsidiaries and other affiliated companies not accounted for using the equity method (Katakura Steel Tube Co., Ltd. and others) were excluded from the scope of application of the equity method because of their lack of overall materiality and the insignificant impact they would have on the Company's consolidated financial statements, due to their net income (corresponding to holding) and retained earnings (corresponding to holding).
3. The accounting period of consolidated subsidiaries
The following subsidiaries have fiscal year ending dates that are different from the consolidated balance sheet date.

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

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

4. Accounting policies
- a. Valuation standards and methods of significant assets
- (a) Securities
- Marketable available-for-sale securities:
Valued based on their market price on the consolidated balance sheet date. (The valuation excess is accounted using the total net asset value input method, and the cost of sales is mainly determined by the moving average method.)
- Non-marketable available-for-sale securities:
Stated at cost, mainly determined by the moving average method
- (b) Inventories
- Inventories held for sale in the ordinary course of business
Inventories are stated mainly at cost, determined by the average method. (The valuation of inventories that appears in the balance sheet is calculated from a reduction in book value based on a decline in profitability.)
- (c) Derivatives
- Measured at fair value
- b. Method of depreciation of significant depreciable assets
- (a) Property, plant and equipment (Excluding lease assets)
- Depreciation of the buildings of the Company and the domestic consolidated subsidiaries is calculated mainly by the straight-line method. The depreciation of other assets is calculated by the declining-balance method.
- Depreciation of assets of the overseas subsidiaries is calculated mainly by the straight-line method. The useful lives are principally 31 years for buildings and structure and 14 years for machinery, equipment and vehicles.

(b) Intangible assets (Excluding Lease assets)

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

(c) Lease assets

Lease assets subject to finance lease that deem to transfer ownership of the leased property to the lessee

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

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

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

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

c. Significant deferred assets

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

d. Significant allowances

(a) Allowance for doubtful accounts

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

(b) Provision for bonuses

The provision for bonuses is to provide for the payment of bonuses to employees and is based on the latest experience of payment and other sources.

(c) Provision for loss on disaster

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

(d) Provision for retirement benefits

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

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

(e) Provision for special repairs

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

- e. Accounting standards for reporting significant income and expense
 (Accounting standards for net sales of completed construction contracts and cost of completed construction work)
 For construction work in progress up until the consolidated balance sheet date, for which the accuracy of the outcomes can be determined:
 Percentage-of-completion method (Progress to date is assumed to be the proportion of the project's costs incurred to date divided by total estimated costs.)
 Other construction work:
 Completed contract method
- f. Foreign currency transactions and financial statements
 All short-term and long-term monetary receivables and payables determined in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange-gains and losses from translation are recognized in the consolidated statement of operations. The balance sheet assets and liabilities of the consolidated foreign subsidiaries are translated into Japanese yen at the exchange rates at the balance sheet date, while revenue and expenses are translated at the average exchange rate during the period. Differences arising from such translation are included as "Foreign currency translation adjustment" and "Minority interests" in the "Net assets" section of the consolidated balance sheet.
- g. Hedging activities
- (a) Hedge accounting methods
 Deferred hedge accounting is used. In addition, a portion of interest rate swaps are treated in an exceptional method, and an assigning method for currency swaps has been applied.
- (b) Means of hedging and subjects of hedging
 Derivatives such as interest rate swaps, currency swaps, exchange contracts, currency options, etc., are used to hedge against the following risks: risks associated with market interest rate and cash flow fluctuations in relation to loans payable and bonds, risks associated with changes in foreign exchange rates in relation to foreign currency transactions.
- (c) Policy of hedging
 Derivatives are used 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, hedge effectiveness is confirmed by comparing the total change in the market price that is being hedged with the total change in the market price that is being used as the means of hedging.
- h. Goodwill account
 Goodwill account is amortized, using the straight-line method, mainly over 5 years.
- i. Consumption taxes
 Consumption taxes are recorded as a liability and an asset, and are excluded from the relevant revenue, costs and expenses.
5. Material changes to basis for preparation of consolidated financial statements
- A. Application of "Accounting Standard for Equity Method of Accounting for Investments" and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method"
 From the current consolidated period, both Accounting Standards Board of Japan (the "ASBJ") Statement No.16, "Accounting Standard for Equity Method of Accounting for Investments" (announced on March 10, 2008), and PITF No.24, "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (March 10, 2008), have been applied. These changes had no impact on the Company's consolidated financial statements in the current consolidated financial period.
- B. Application of the Accounting Standard for Asset Retirement Obligations
 From the current consolidated period, both ASBJ Statement No.18, "Accounting Standard for Asset Retirement Obligations" (March 31, 2008), and ASBJ Guidance No.21, "Guidance on Accounting Standard for Asset Retirement Obligations" (March 31, 2008), have been applied. These changes had no material impact on the Company's consolidated financial statements in the current consolidated financial period.

C. Application of Accounting Standard for Business Combinations and related standards

From the current consolidated period, ASBJ Statement No.21, "Accounting Standard for Business Combinations" (December 26, 2008), ASBJ Statement No.22, "Accounting Standard for Consolidated Financial Statements" (announced on December 26, 2008), ASBJ Statement No.23, "Partial Amendments to the Accounting Standard for Research and Development Costs" (December 26, 2008), ASBJ Statement No.7, "Accounting Standard for Business Divestitures" (December 26, 2008), ASBJ Statement No.16, "Accounting Standard for Equity Method of Accounting for Investments" (announced on December 26, 2008), and ASBJ Guidance No.10, "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (December 26, 2008) have been applied.

2. Notes to the Consolidated Balance Sheet

1. Assets pledged as collateral for debt

a. Assets pledged as collateral

Property, plant and equipment	¥15,572	million
Total	¥15,572	million

b. Secured debts

Notes and accounts payable-trade	¥1,446	million
Short-term loans payable	340	
Long-term loans payable	672	
Total	¥2,459	million

2. Accumulated depreciation for property, plant and equipment

¥2,463,843 million

3. Contingent liabilities

a. Guarantees

Bank loans which the Group guarantees are as follows:

Vallourec & Sumitomo Tubos do Brasil Ltda.	¥6,271	million
4 other companies	484	
Total	¥6,755	million

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

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

¥7,058 million

3. Notes to the Consolidated Statement of Operations

Loss on disaster

Loss on disaster, which is the result of the Great East Japan Earthquake, is comprised of 49,048 million yen for restoration expenses, 8,173 million yen for cost of products manufactured under extraordinary capacity utilization, and 4,818 million yen for loss on damaged assets, etc. Provision for loss on disaster amounting to 49,307 million yen is included in Loss on disaster in the Consolidated Statement of Operations.

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

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

Common stock 4,805,974,238 shares

2. Dividends

a. Cash dividends paid in the fiscal year

Resolved at	Type of stock	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date of issue of dividends
Board of Directors held on May 11, 2010	Common stock	11,589	2.5	March 31, 2010	May 27, 2010
Board of Directors held on October 28, 2010	Common stock	11,589	2.5	September 30, 2010	December 1, 2010

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

Resolved at	Type of stock	Source of dividend funding	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date of issue of dividends
Board of Directors held on May 10, 2011	Common stock	Retained earnings	4,635	1.0	March 31, 2011	May 26, 2011

5. Financial instruments

1 The status of financial instruments

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

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

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

2 The fair value of financial instruments

The differences between the fair values of financial instruments and their book values in the Consolidated Balance Sheet as of March 31, 2011, are listed in the table below.

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and deposits	83,264	83,264	—
(2) Notes and accounts receivable-trade	109,571	109,571	—
(3) Short-term investments and investment securities	374,058	462,976	88,917
Total assets	566,893	655,811	88,917
(1) Notes and accounts payable-trade	221,195	221,195	—
(2) Short-term loans payable (*1)	147,608	147,608	—
(3) Commercial papers	105,000	105,000	—
(4) Bonds (*2)	215,664	219,124	3,460
(5) Long-term loans payable (*1)	705,110	719,874	14,764
Total liabilities	1,394,577	1,412,802	18,225
Derivatives (*3)	(1,095)	(1,095)	—

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

(*2) Includes current portion of bonds.

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

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

Assets:

(1) Cash and deposits

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

(2) Notes and accounts receivable-trade

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

(3) Short-term investments and investment securities

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

Liabilities:

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

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

- (4) Bonds

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

- (5) Long-term loans payable

The fair values of long-term loans payable are calculated by taking the total of the principal and interest and discounting it by the interest rate that would be expected if the same long-term loan were to be taken out at the balance sheet date. The present value of long-term loans payable that are subject of hedging by interest rate swaps or currency swaps is calculated from the total value of the principal and interest which integrates the value of the applicable interest rate swaps or currency swaps.

Derivatives

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

2. Unlisted securities, etc. (111,477 million yen in the Consolidated Balance Sheet) are not included in “Assets (3) Short-term investments and investment securities” as it is significantly difficult to determine their fair values due to the fact that they have no market prices and it is difficult to estimate future cash flows.

6. Per share information

- | | |
|-------------------------|------------|
| 1. Net assets per share | 165.41 yen |
| 2. Net loss per share | 1.54 yen |

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

(References)

Summary of the Consolidated Statement of Cash Flows

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries

Year ended March 31, 2011

	Billions of yen
Net cash provided by operating activities	¥202.3
Net cash used in investing activities	(144.0)
Net cash used in financing activities	(1.3)
Effect of exchange rate change on cash and cash equivalents	(1.0)
Net increase in cash and cash equivalents	¥55.9

Summary of Segment information

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries

Year ended March 31, 2011

	Billions of yen				
	Steel	Other	Total	Adjustment	Consolidated Statement of Operations
Sales to customers	1,351.6	50.8	1,402.4	—	1,402.4
Inter-segment sales	1.1	18.9	20.1	(20.1)	—
Total sales	1,352.7	69.8	1,422.5	(20.1)	1,402.4
Segment profit	50.2	6.2	56.5	(0.2)	56.3

Note: "Segment profit" is operating profit.

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

Non-consolidated Balance Sheet

Sumitomo Metal Industries, Ltd.

March 31, 2011

Millions of yen		Millions of yen	
Assets		Liabilities	
Current assets:		Current liabilities:	
Cash and deposits	¥67,398	Notes payable-trade	¥6,876
Notes receivable	1,899	Accounts payable-trade	170,769
Accounts receivable-trade	46,707	Short-term loans payable	235,540
Short-term investments	25	Commercial papers	105,000
Merchandise and finished goods	93,512	Current portion of bonds	35,000
Work-in-process	7,095	Lease obligations	5,694
Raw materials and supplies	134,351	Accounts payable-other	113,611
Advance payments-trade	4,435	Accrued expenses	5,002
Prepaid expenses	1,132	Income taxes payable	711
Deferred tax assets	23,916	Advances received	3
Accounts receivable-other	122,815	Deposits received	585
Short-term loans receivable	278,623	Provision for bonuses	5,971
Other	1,240	Provision for loss on disaster	47,569
Allowance for doubtful accounts	(91)	Other	1,199
Total current assets	783,061	Total current liabilities	733,535
Noncurrent assets:		Noncurrent liabilities:	
Property, plant and equipment:		Bonds	180,664
Buildings, net	93,650	Long-term loans payable	570,660
Structures, net	51,825	Lease obligations	22,334
Machinery and equipment, net	219,536	Provision for retirement benefits	1,298
Vehicles, net	449	Provision for special repairs	170
Tools, furniture and fixtures, net	4,267	Other	10,254
Land	246,291	Total noncurrent liabilities	785,381
Lease assets, net	814	Total liabilities	1,518,916
Construction in progress	47,979		
Total property, plant and equipment	664,816	Net assets	
Intangible assets:		Shareholders' equity:	
Right of using facilities	980	Capital stock	262,072
Other	654	Capital surplus:	
Total intangible assets	1,634	Legal capital surplus	61,829
Investments and other assets:		Total capital surplus	61,829
Investment securities	275,402	Retained earnings:	
Stocks of subsidiaries and affiliates	251,533	Legal retained earnings	38,374
Investments in capital	88	Other retained earnings:	
Investments in capital of subsidiaries and affiliates	102,803	Reserve for special depreciation	2,349
Long-term loans receivable from employees	27	Reserve for overseas investment loss	215
Long-term loans receivable from subsidiaries and affiliates	11,066	Reserve for rebuilding furnaces	2,551
Claims provable in bankruptcy, claims provable in rehabilitation and other	170	Reserve for reduction entry	2,597
Long-term prepaid expenses	5,186	Retained earnings brought forward	355,724
Deferred tax assets	42,179	Total retained earnings	401,813
Other	5,413	Treasury stock	(91,141)
Allowance for doubtful accounts	(11,161)	Total shareholders' equity	634,574
Allowance for investment loss	(783)		
Total investments and other assets	681,926	Valuation and translation adjustments:	
Total noncurrent assets	1,348,377	Valuation difference on available-for-sale securities	(21,583)
		Deferred gains or losses on hedges	(468)
		Total valuation and translation Adjustments	(22,052)
		Total net assets	612,522
Total assets	¥2,131,438	Total liabilities and net assets	¥2,131,438

Note: Figures in parentheses are negative values.

Non-consolidated Statement of Income

Sumitomo Metal Industries, Ltd.
Year ended March 31, 2011

Millions of yen

Net sales		¥907,749
Cost of sales		
Beginning finished goods	36,382	
Cost of products manufactured	807,173	
Total	843,555	
Transfer to other account	1,683	
Ending finished goods	33,039	808,832
Gross profit		98,917
Selling, general and administrative expenses		
Shipment expenses	23,454	
Employees' salaries and allowances	10,281	
Provision for bonuses	300	
Provision for retirement benefits	1,203	
Depreciation	334	
Rents	1,301	
Research and development expenses	18,125	
Other	9,230	64,233
Operating income		34,684
Non-operating income		
Interest income	2,549	
Dividend income	16,344	
Gain on sales of goods	967	
Other	5,261	25,122
Non-operating expenses		
Interest expense	10,898	
Interest on bonds	2,880	
Loss on sales and retirement of noncurrent assets	3,283	
Other	7,322	24,384
Ordinary income		35,421
Extraordinary income		
Reversal of allowance for doubtful accounts of subsidiaries and affiliates	2,600	2,600
Extraordinary losses		
Loss on disaster	58,816	58,816
Loss before income taxes		20,794
Income taxes-current	200	
Income taxes-deferred	(36,948)	(36,748)
Net income		¥15,954

Non-consolidated Statement of Changes in Net Assets

Sumitomo Metal Industries, Ltd.

Year ended March 31, 2011

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	262,072
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	61,829
Total capital surplus	
Balance at the end of previous period	61,829
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	61,829
Retained earnings	
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	38,374
Other retained earnings	
Reserve for special depreciation	
Balance at the end of previous period	2,752
Changes of items during the period	
Provision of reserve for special depreciation	158
Reversal of reserve for special depreciation	(562)
Total changes of items during the period	(403)
Balance at the end of current period	2,349
Reserve for overseas investment loss	
Balance at the end of previous period	215
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	215
Reserve for rebuilding furnaces	
Balance at the end of previous period	2,098
Changes of items during the period	
Provision of reserve for rebuilding furnaces	452
Total changes of items during the period	452
Balance at the end of current period	2,551
Reserve for reduction entry	
Balance at the end of previous period	2,518
Changes of items during the period	
Provision of reserve for reduction entry	90
Reversal of reserve for reduction entry	(11)
Total changes of items during the period	79
Balance at the end of current period	2,597

	Millions of yen
Retained earnings brought forward	
Balance at the end of previous period	363,079
Changes of items during the period	
Provision of reserve for special depreciation	(158)
Reversal of reserve for special depreciation	562
Provision of reserve for rebuilding furnaces	(452)
Provision of reserve for reduction entry	(90)
Reversal of reserve for reduction entry	11
Dividends from surplus	(23,180)
Net income	15,954
Total changes of items during the period	<u>(7,354)</u>
Balance at the end of current period	<u>355,724</u>
Total retained earnings	
Balance at the end of previous period	409,039
Changes of items during the period	
Dividends from surplus	(23,180)
Net income	15,954
Total changes of items during the period	<u>(7,226)</u>
Balance at the end of current period	<u>401,813</u>
Treasury stock	
Balance at the end of previous period	(91,086)
Changes of items during the period	
Purchase of treasury stock	(55)
Total changes of items during the period	<u>(55)</u>
Balance at the end of current period	<u>(91,141)</u>
Total shareholders' equity	
Balance at the end of previous period	641,855
Changes of items during the period	
Dividends from surplus	(23,180)
Net income	15,954
Purchase of treasury stock	(55)
Total changes of items during the period	<u>(7,281)</u>
Balance at the end of current period	<u>634,574</u>

Note: Figures in parentheses are negative values.

Valuation and translation adjustments

Valuation difference on available-for sale securities	
Balance at the end of previous period	(1,043)
Changes of items during the period	
Net changes of items other than shareholders' equity	(20,540)
Total changes of items during the period	(20,540)
Balance at the end of current period	(21,583)
Deferred gains or losses on hedges	
Balance at the end of previous period	(921)
Changes of items during the period	
Net changes of items other than shareholders' equity	453
Total changes of items during the period	453
Balance at the end of current period	(468)
Total valuation and translation adjustments	
Balance at the end of previous period	(1,964)
Changes of items during the period	
Net changes of items other than shareholders' equity	(20,087)
Total changes of items during the period	(20,087)
Balance at the end of current period	(22,052)

Note: Figures in parentheses are negative values.

Millions of yen

Total net assets	
Balance at the end of previous period	639,890
Changes of items during the period	
Dividends from surplus	(23,180)
Net income	15,954
Purchase of treasury stock	(55)
Net changes of items other than shareholders' equity	(20,087)
Total changes of items during the period	<u>(27,368)</u>
Balance at the end of current period	<u>¥612,522</u>

Note: Figures in parentheses are negative values.

Notes to the Non-consolidated Financial Statements

1. Summary of Significant Accounting Policies

1. Valuation standards and methods of assets
 - a. Securities
 - (a) Stocks of subsidiaries and affiliates
Stated at cost, determined by the moving average method
 - (b) Other securities:
Marketable available-for-sale securities:
Valued based on their market price on the non-consolidated balance sheet date. (The valuation excess is accounted using the total net asset value input method, and the cost of sales determined by the moving average method.)
Non-marketable available-for-sale securities:
Stated at cost, determined by the moving average method
 - b. Inventories
Inventories held for sale in the ordinary course of business
Inventories are stated at cost, determined by the average method. (The valuation of inventories that appears in the balance sheet is calculated from a reduction in book value based on a decline in profitability.)
 - c. Derivatives
Measured at fair value
2. Method of depreciation
 - a. Property, plant and equipment (Excluding lease assets)
Depreciation of buildings is calculated by the straight-line method (the useful lives are mainly 31 years). Depreciation of other assets is calculated by the declining-balance method (the useful lives are mainly 14 years).
 - b. Intangible assets (Excluding lease assets)
Amortization of intangible assets is calculated by the straight-line method.
 - c. Lease assets
Lease assets subject to finance leases that deem to transfer ownership of the leased property to the lessee
A method of depreciation that is equivalent to the method applied to assets owned by the Company shall be used.
Lease assets subject to finance leases that do not deem to transfer ownership of the leased property to the lessee
The period of the lease is the useful life of the asset. A straight-line method of depreciation is applied and the residual value of the asset is taken to be zero.
In financial lease transactions of the Company concluded before April 1, 2008 where the ownership of the leased property has not been deemed to be transferred, the accounting methods are based on those used for ordinary leasing transactions.

3. Deferred assets
 - Bond issuance costs are recorded at total cost when expended.
4. Allowances
 - a. Allowance for doubtful accounts
 - The allowance for doubtful accounts is the estimated unrecoverable amount calculated based on a) for receivables in general, the rate of occurrence of non-recovery, and b) for other specific receivables, the estimated possibility of recovery considered on a case-by-case basis.
 - b. Allowance for investment loss
 - This allowance was set up for anticipated losses on investments in subsidiaries and affiliated companies.
 - c. Provision for bonuses
 - The provision for bonuses is to provide for the payment of bonuses to employees and is based on the latest experience of payment and other sources.
 - d. Provision for loss on disaster
 - The provision for loss on disaster is stated at the amount considered to be appropriate based on the estimation of expenses for the restoration of plants and equipment damaged by the Great East Japan Earthquake and other losses.
 - e. Provision for retirement benefits
 - The amount of the provision for retirement benefits is determined based on the projected benefit obligations and plan assets of the pension fund at the end of the fiscal year. Actuarial differences are amortized from the 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.
 - f. Provision for special repairs
 - The liability for rebuilding furnaces is provided for 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 operations.
6. Hedging activities
 - a. Hedge accounting methods
 - Deferred hedge accounting is used. In addition, a portion of interest rate swaps are treated in an exceptional method, and an assigning method for currency swaps has been applied.
 - b. Means of hedging and subjects of hedging
 - Derivatives such as interest rate swaps, currency swaps, exchange contracts, currency options, etc., are used to hedge against the following risks: risks associated with market interest rate and cash flow fluctuations in relation to loans payable and bonds, risks associated with changes in foreign exchange rates in relation to foreign currency transactions.
 - c. Policy of hedging
 - Derivatives are used 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 considered to be effective, hedge effectiveness is confirmed by comparing the total change in the market price that is being hedged with the total change in the market price that is being used as the means of hedging.
7. Consumption taxes
 - Consumption taxes are recorded as a liability or an asset, and are excluded from the relevant revenue, costs and expenses.

8. Material change to accounting policy

Application of Accounting Standard for Asset Retirement Obligations

From the current period, both ASBJ Statement No.18 “Accounting Standard for Asset Retirement Obligations” (March 31, 2008), and ASBJ Guidance No.21 “Guidance on Accounting Standard for Asset Retirement Obligations” (March 31, 2008) have been applied. These changes had no impact on the Company’s financial statements in the current period.

2. Notes to Balance Sheet

1. Accumulated depreciation for property, plant and equipment
¥ 1,798,207 million

2. Contingent liabilities

a. Guarantees

Bank loans and other which the Company guarantees are as follows:

Vallourec & Sumitomo Tubos do Brasil Ltda.	¥6,271	million
Sumikin Financial Service Co., Ltd.	3,241	
Sumikin Kogyo Co., Ltd.	1,490	
SMI Crankshaft LLC	1,297	
International Crankshaft, Inc.	1,130	
Huizhou Sumikin Forging Co., Ltd.	635	
19 other companies	2,889	
Total	¥16,956	million

“Guarantees” includes guarantees and items of a similar nature.

b. Maximum amount of obligations to repurchase transferred receivables under certain conditions
¥4,197 million

3. Receivables and payables to subsidiaries and affiliated companies

Short-term receivables	¥410,600	million
Long-term receivables	¥11,066	million
Short-term payables	¥128,359	million

3. Note to Statement of Income

1. Transactions with subsidiaries and affiliated companies

Business transactions

Sales to subsidiaries and affiliated companies	¥195,697	million
Purchases from subsidiaries and affiliated companies	¥483,931	million
Other transactions with subsidiaries and affiliated companies	¥394,205	million

2. Loss on disaster

Loss on disaster, which is the result of the Great East Japan Earthquake, is comprised of 47,302 million yen for restoration expenses, 7,683 million yen for cost of products manufactured under extraordinary capacity utilization, and 3,830 million yen for loss on damaged assets. Provision for loss on disaster amounting to 47,569 million yen is included in loss of disaster in the Non-consolidated Statement of Operations.

4. Note to Statement of Changes in Net Assets

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

Common stock	170,122,545	shares
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5. Note to accounting for deferred taxes

Deferred tax assets mainly arise from temporary differences on valuation of assets such as noncurrent assets and inventories.

6. Note to leased noncurrent assets

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

7. Notes to related party disclosures

Subsidiaries and affiliated companies

Class	Company name	Ownership ratio to voting rights (%)	Relationship details
Subsidiary	Sumikin Iron & Steel Corporation	(Ownership) Indirect: 100	Purchase of steel half-finished products that SMI uses. Directors are transferred or serve concurrently.
Affiliated company	Sumikin Bussan Corporation	(Ownership) Direct: 38.5	Sumikin Bussan sells SMI's products and purchases raw materials. Directors are transferred.
Affiliated company	Vallourec & Sumitomo Tubos do Brasil Ltda.	(Ownership) Direct: 20.9 Indirect: 19.0	Company for integrated seamless pipe manufacturing jointly set up in Brazil with Vallourec Group and Sumitomo Corporation. Directors are seconded or serve concurrently.

Transactions	Trading volume (Millions of yen)	Account	Balance at the end of the fiscal year (Millions of yen)
Purchase of steel half-finished products, etc. (*1)	249,284	Accounts payable-trade	48,671
Sale of steel products, etc. (*2)	137,503	Accounts receivable - trade	5,393
Subscription of new shares (*3)	35,202	—	—

Trade conditions and their determination

- Notes:
- *1: The purchase of steel half-finished products follows consideration of the listed prices of SMI, market prices and selling price negotiations.
 - *2 The sale of steel products follows consideration of the listed prices of SMI, market prices and selling price negotiations.
 - *3 Pursuant to the agreement for joint incorporation of a company for integrated high-grade seamless pipe manufacturing in Brazil, the Company has subscribed allotted shares under the same conditions as the other partners.
 - 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.

8. Per share information

1. Net assets per share 132.13 yen
2. Net income per share 3.44 yen

(Note) The monetary figures in these Non-consolidated 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, 2011

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

Deloitte Touche Tohmatsu LLC

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

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

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

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Eiichi Izumo

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2011 of Sumitomo Metal Industries, Ltd. (the "Company") and consolidated subsidiaries, and the related consolidated statements of operations and changes in net assets, and the related notes for the fiscal year from April 1, 2010 to March 31, 2011. 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, 2011, 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 Act.

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, 2011

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

Deloitte Touche Tohmatsu LLC

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

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

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

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Eiichi Izumo

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of March 31, 2011 of Sumitomo Metal Industries, Ltd. (the "Company"), and the related statements of Income and changes in net assets, and the related notes for the 88th fiscal year from April 1, 2010 to March 31, 2011, 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, 2011, 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 Act.

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

May 10, 2011

In respect of the execution of duties by the Directors during the 88th business year commenced on April 1, 2010 and ended on March 31, 2011, we, the Board of Corporate Auditors, based on the audit reports prepared by each Corporate Auditor and following the deliberation among us, have prepared this audit report and hereby report as follows:

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

(1) Corporate Auditors

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

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

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

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

(2) The Board of Corporate Auditors

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

2. Results of the audit

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

1) We have found that the business report and its supplementary schedules fairly represent the Company's conditions in accordance with the laws and regulations and the Company's Articles of Incorporation.

2) We have found no significant facts relating to wrongful act or violation of laws and regulations or the Company's Articles of Incorporation, with respect to the execution of duties by the Directors.

3) We confirm that the resolutions of the Board of Directors concerning the development of systems necessary to ensure the properness of operations are appropriate and that the Directors are preparing and operating these necessary systems in accordance with the resolutions.

4) We have found the basic policy on control over the Company and the measures to be taken with regard to it are appropriate as rules concerning the large-scale purchase of Company shares, and will not unfairly harm the rights of shareholders.

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

1) We have found no matters to raise concerning the system (explained to us by the Independent Auditor) to ensure that duties are performed properly.

2) We have found that the methods and results of the audit conducted by the Independent Auditor are appropriate and sufficient.

The Board of Corporate Auditors

Sumitomo Metal Industries, Ltd.

Kitaro Yoshida, Standing Corporate Auditor (full-time)

Hirohiko Minato, Standing Corporate Auditor (full-time)

Keiichi Murakami, Corporate Auditor

Toshiro Mutoh, Corporate Auditor

Hirotake Abe, Corporate Auditor

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