In the first half of the fiscal year 2010 ending March 31, 2011 (hereinafter FY2010), Sumitomo Metals posted ordinary income of 28.9 billion yen. We showed an improvement in profitability compared to the fiscal year ended March 31, 2010 (hereinafter FY2009), when we posted an ordinary loss. This improvement resulted from increased sales volume and our efforts to improve profitability through measures that included reducing costs and raising product prices.

For the full period of FY2010, we intend to put earnings onto a recovery trend and project ordinary income of 70 billion yen. The business environment is uncertain amidst the rapid appreciation of the yen and falling steel prices in Asian markets. However, we will endeavor to improve our profitability by taking such measures as making steel prices reflect raw material prices on a quarterly basis.

Paying stable dividends is our fundamental policy of returning profits to shareholders. We have decided to pay an interim dividend of 2.5 yen per share. We plan to pay an annual dividend of 5 yen per share, including the interim dividend.

Sumitomo Metals aims for sustained growth that balances quality and scale, by “adding strength to strength” and “accelerating distinctiveness.”

Growth that Balances Quality and Scale

What Sumitomo Metals is Aiming For
- Balance between Quality and Scale
- Accelerating Distinctiveness

What Sumitomo Metals is not Aiming For
- Pursuing Only Increase in Sales

Scale expansion
Based on this strategy, the Sumitomo Metals Group will grow by strengthening its areas of distinctiveness, such as in the energy sector, high-speed railways, and high-end steel sheets. The seamless pipe manufacturing base in Brazil will soon start operation, and we are now developing business in India, Vietnam, and Thailand. We will continue to grow by developing business in overseas growth markets based on the high competency of our manufacturing bases in Japan.

We firmly believe that “intangible assets” that do not appear on the balance sheet are critical to the achievement of sustained growth. An example of these “intangible assets” is technological capability that is indispensable to satisfying customers’ needs. Sumitomo Metals is endeavoring to bolster its “intangible assets” in order to raise its corporate value and contribute to all stakeholders, including shareholders, customers, employees, business partners, and local communities.

We welcome your views and comments.

Hiroshi Tomono
Representative Director and President
Sumitomo Metals posted net sales of 693.7 billion yen and ordinary income of 28.9 billion yen for the first half of the current fiscal year. For the full year, we forecast net sales of 1,500.0 billion yen and ordinary income of 70.0 billion yen.
The Sumitomo Metals Group will put earnings onto a recovery trend by “adding strength to strength” and “accelerating distinctiveness,” and aim for sustained growth.

### Total assets; Debt: Equity ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Assets (¥ billion)</th>
<th>Debt (¥ billion)</th>
<th>Equity ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2,433</td>
<td>1,648</td>
<td>67.1</td>
</tr>
<tr>
<td>2002</td>
<td>2,122</td>
<td>1,415</td>
<td>62.0</td>
</tr>
<tr>
<td>2003</td>
<td>2,001</td>
<td>1,171</td>
<td>64.9</td>
</tr>
<tr>
<td>2004</td>
<td>2,123</td>
<td>885</td>
<td>60.8</td>
</tr>
<tr>
<td>2005</td>
<td>2,301</td>
<td>679</td>
<td>64.3</td>
</tr>
<tr>
<td>2006</td>
<td>2,458</td>
<td>717</td>
<td>65.2</td>
</tr>
<tr>
<td>2007</td>
<td>2,462</td>
<td>883</td>
<td>63.7</td>
</tr>
<tr>
<td>2008</td>
<td>2,403</td>
<td>990</td>
<td>62.8</td>
</tr>
<tr>
<td>2009</td>
<td>2,403</td>
<td>1,138</td>
<td>63.6</td>
</tr>
<tr>
<td>2010</td>
<td>2,452</td>
<td>1,138</td>
<td>62.8</td>
</tr>
</tbody>
</table>

A broken line indicates the forecast for the current fiscal year.

### Aiming for a Sustained Growth

**<Consolidated Balance Sheet>**
(As of end of September 2010) (¥ billion)

<table>
<thead>
<tr>
<th>(Assets)</th>
<th>(Liabilities &amp; net assets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>622.6</td>
</tr>
<tr>
<td>Property, plant and equipment &amp; intangible assets</td>
<td>1,134.9</td>
</tr>
<tr>
<td>Investments and other assets</td>
<td>640.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>868.2</strong></td>
</tr>
</tbody>
</table>

**<Consolidated Statement of Income>**
(First half of Fiscal 2010) (¥ billion)

<table>
<thead>
<tr>
<th>Income</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>693.7</td>
</tr>
<tr>
<td>Operating income</td>
<td>34.7</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>28.9</td>
</tr>
<tr>
<td>Net income</td>
<td>34.8</td>
</tr>
</tbody>
</table>
Sumitomo Metals “accelerates distinctiveness” by strengthening its manufacturing bases in Japan and focusing on high-end products. The foundation of our technological competency always resides in Japan. By leveraging this competency, we develop business in overseas growth markets and aim for sustained growth.

Competency in Japan’s Manufacturing Bases is the Foundation of Our Growth Strategy

New No. 2 blast furnace at Wakayama Steel Works is under construction

It is scheduled to replace the No.5 blast furnace in the latter half of fiscal 2012. We are aiming for efficient and stable operation.
Kokura Steel Works has completed investments in innovative steelmaking process

Investment was completed in October 2010. We introduced new refining facilities to remove carbon and phosphorus, and a new continuous casting facility, which will help us enhance competency in quality and cost, and thus accelerate distinctiveness.

We will increase production capacity for steam generator tubes (SG tubes)

The SG tube is the core component of nuclear power plants. There has been a worldwide surge in the construction of nuclear power plants that do not emit carbon dioxide. Increased production of the SG tube is scheduled to start in April 2013.

Corporate Research & Development Laboratories will renew their facilities

The new facilities are now under construction. The purpose of the renewal is to enhance our technological capabilities with the aim of better responding to our customers’ needs. The renewal is scheduled for completion in May 2012.
Entering Overseas Growth Markets

We are developing business in overseas growth markets such as Brazil, Vietnam, India, and Thailand

1. **Brazil: An integrated steelworks that produces seamless pipe**

An integrated steelworks that produces high-end seamless pipe is now under construction. We will be establishing a global supply system, together with our existing manufacturing bases in Japan. The steelworks plans to switch reducing agents for iron production from coke to charcoal, which will result in close to zero net emissions of CO₂ as illustrated in the chart below.

![Integrated seamless pipe manufacturing plant under construction in Brazil](image)

2. **Vietnam: Steel sheet**

A steel sheet mill with capacity of 1.6 million tons is now under construction. We will establish a production base for steel sheet used in automobiles and electric products in the growing ASEAN market by 2012.

![High-end Steel Sheet: Entering ASEAN Markets](image)
3 India:

(1) Integrated steelworks
We are planning to sell steel sheets produced at Bhushan Steel Limited’s steelworks in Orissa, with our technical assistance, to local customers under the Sumitomo Metals brand as OEM products. We are also looking to acquire a stake in Bhushan’s new steelworks project in West Bengal.

(2) Forged crankshafts
In April 2010, we started to manufacture forged crankshafts in India. We now have a global supply system, in coordination with operations in Japan, the U.S., and China.

4 Thailand: Steel plate
In Thailand, we are taking part in the new steel plate mill business of the Canadoil Group, one of the world’s largest suppliers of piping solutions. The new plate mill is scheduled to begin operation in 2013. This added capacity will enable a plate mill at the Kashima Steel Works to shift its production to more high-end products.
Together with our Shareholders

1. Returning profit to shareholders

Paying stable dividends is Sumitomo Metals’ fundamental policy. We plan to pay an annual dividend of 5 yen per share, including the interim dividend, to reward our shareholders.

2. Providing our shareholders hands-on knowledge on Sumitomo Metals Group

(1) Inviting shareholders to our factories

We invite our shareholders to visit five of our factories twice a year: the Kashima Steel Works, the Wakayama Steel Works, the Steel Tube Works (Amagasaki-City), the Osaka Steel Works, and Sumitomo Metals (Kokura), Ltd.

(2) Inviting shareholders to Kashima Antlers’ games

We invite our shareholders to official games of the Kashima Antlers, a professional football team, at home in Kashima-City as well as at away games nationwide.

(3) Renewed our corporate website

We present our business activities, aims, and other information on our renewed website.

(4) Newly Published Annual Report (Society and Environment Volume)

We present our CSR activities including global environment protection and social contribution.

(5) Business briefings for individual investors

Since 2009, we have been conducting business briefings for individual investors so that they can better understand our business strategies. This fiscal year, we plan to conduct five briefings in total, in Osaka, Kyoto, Nagoya, and the Tohoku region.
Note: Forward-looking Statements

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