

# Interim Business Report of the 89th Period

First Half of FY 2011 (from April 1, 2011 to September 30, 2011)



**SUMITOMO METALS**

# Message from the President to Shareowners



I am Hiroshi Tomono, President of Sumitomo Metals.

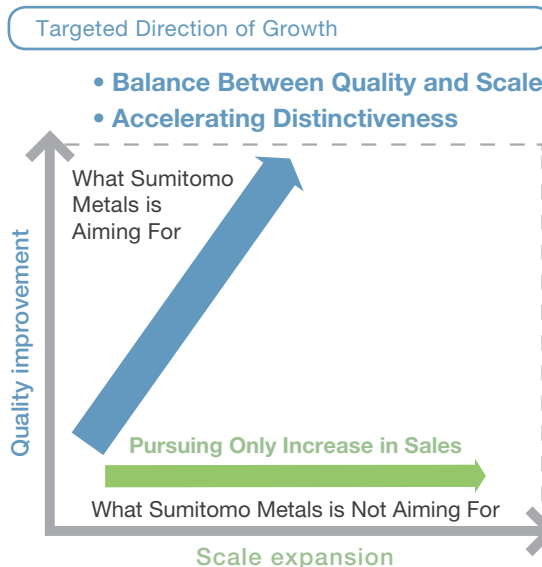
We at Sumitomo Metals appreciate your continued support as a shareowner.

Sumitomo Metals recorded ordinary income of 41.3 billion yen in the first half of the fiscal year 2011. Thanks mainly to a recovery in sales of seamless pipe, we have increased income by 36.2 billion yen compared to the second half of the previous year. For the full year, we are forecasting 100 billion yen in ordinary income, as we expect sales of steel sheet for automobiles to recover from a drop caused by the Great East Japan Earthquake of March 2011. We are

expecting to break even on a net income basis, after incorporating a valuation loss on investment securities of approximately 80 billion yen.

As for the dividend for the first half, we decided to pay an interim dividend of 1 yen per share, the same amount as the year-end dividend for the previous year, in order to minimize the financial damage caused by the earthquake. As we plan to increase the year-end dividend to 2.5 yen per share, the annual dividend, including the interim dividend, will amount to 3.5 yen per share.

Sumitomo Metals aims to focus on its areas of strength and achieve growth that balances quality and scale. Specific products include seamless pipe and steel plate used for energy development,



railway wheels and axles for high-speed railways, and high-grade steel sheets for automobiles. We will grow in overseas markets with the technology nurtured in Japan under our belt. At our integrated steelworks that produces seamless pipe in Brazil, we will soon start operating a blast furnace. In Vietnam and India, we are working on the construction of a new plant and the expansion of mill capacity, respectively. In the United States, we have acquired a manufacturer of railway wheels and axles.

On September 22, 2011, we entered into a Master Integration Agreement with Nippon Steel to merge our businesses on October 1, 2012. The new company name will be Nippon Steel & Sumitomo Metal Corporation. We aim to become “the Best Steelmaker with World-Leading Capabilities” under the shared philosophy of contributing to society through steel making.

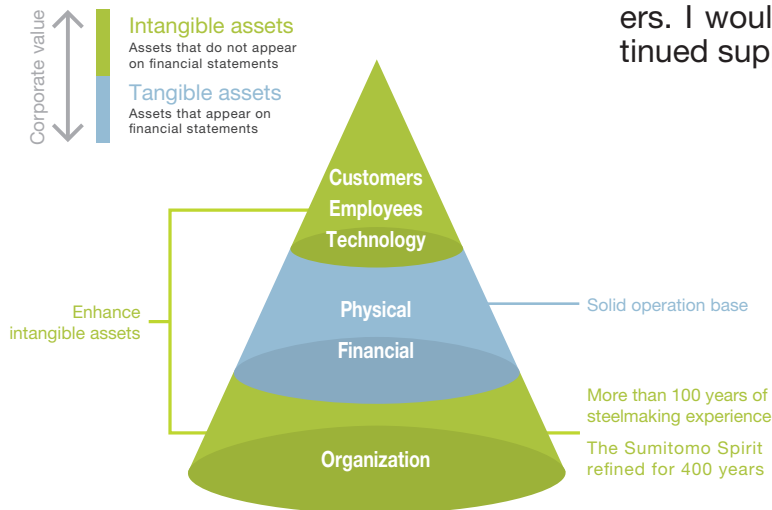
Sumitomo Metals has inherited the Sumitomo Spirit and has developed intangible assets which include relationships of trust with customers and business partners, superior technologies, and the passion and pride of employees in their work. We are determined to pass on these intangible assets to Nippon Steel & Sumitomo Metal

Corporation that will be born in October 2012 and to contribute to our shareholders and all other stakeholders. I would like to ask for your continued support in this endeavor.

President



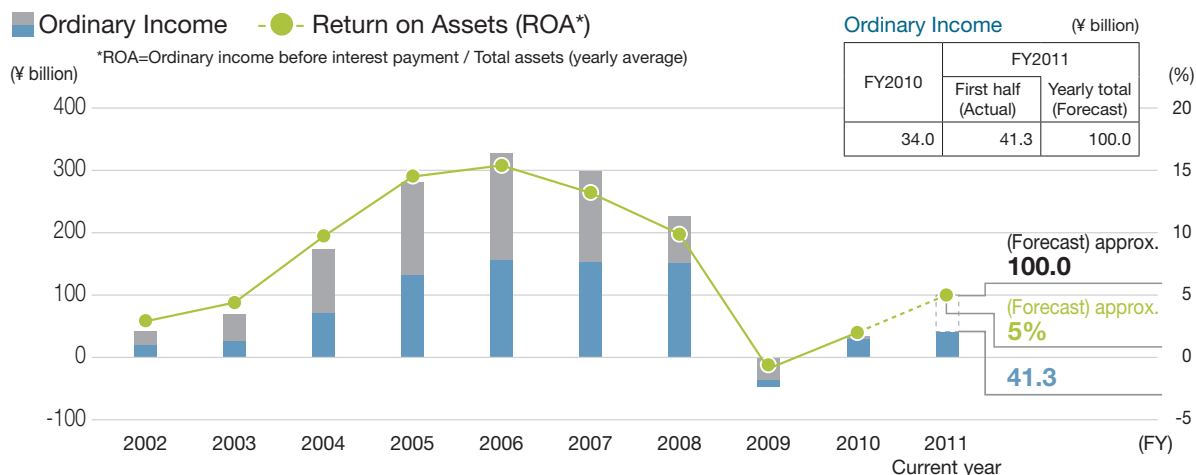
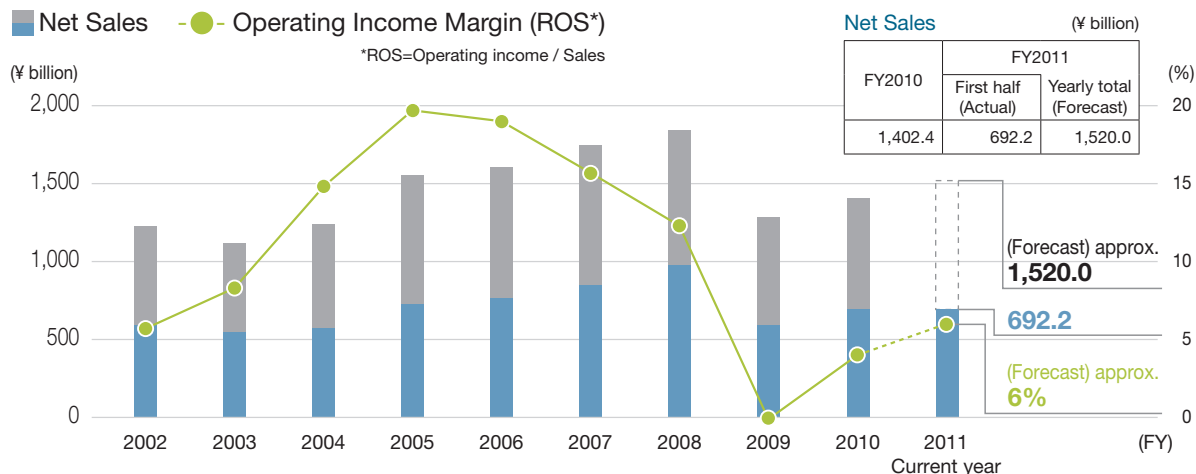
Assets that Raise Sumitomo Metals Group's Corporate Value



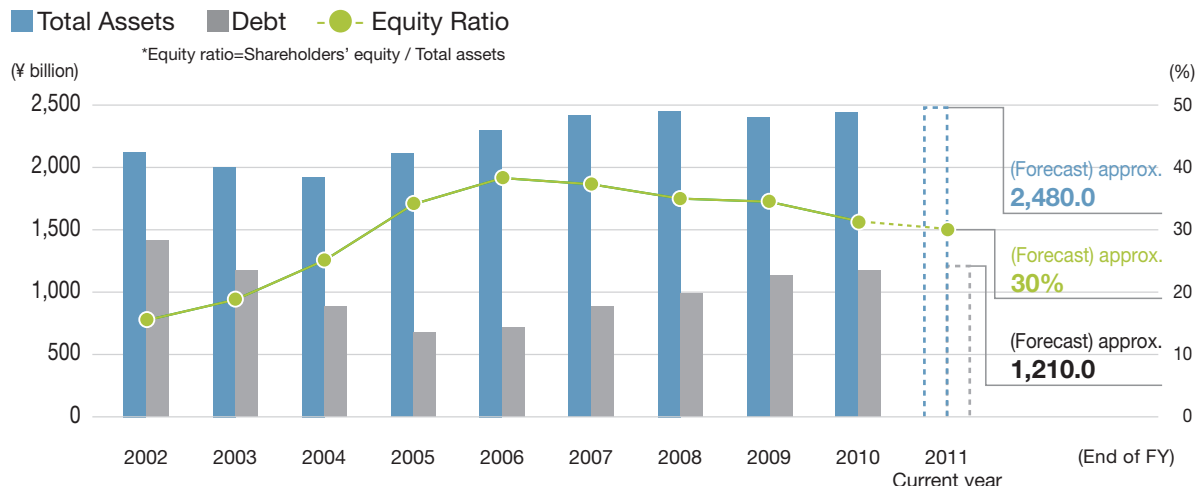
# Consolidated Financial Highlights

Sumitomo Metals posted net sales of 692.2 billion yen and ordinary income of 41.3 billion yen for the first half of the fiscal year 2011. For the full year, we forecast net sales of 1,520.0 billion yen and ordinary income of 100.0 billion yen.

■ First half ■ Yearly total ● Yearly total



The Sumitomo Metals Group will put earnings onto a recovery trend by “adding strength to strength” and “accelerating distinctiveness,” and aim for sustained growth.



< Consolidated Balance Sheet >  
(As of end of September 2011)

(¥ billion)

(Assets)		(Liabilities & Net assets)	
Current assets	693.5	Current liabilities	830.4
Property, plant and equipment & Intangible assets	1,113.5	Noncurrent liabilities	826.1
Investments and other assets	651.5	Net assets	802.1

< Consolidated Statement of Income >  
(First half of fiscal 2011)

(¥ billion)

Net sales	692.2
Operating income	41.2
Ordinary income	41.3
Net income	-32.3

# Sumitomo Metals will integrate with Nippon Steel.

## 1 Sumitomo Metals and Nippon Steel have entered into a Master Integration Agreement.

On September 22, 2011, we entered into a Master Integration Agreement to integrate our businesses on October 1, 2012. The integration is subject to the approval of the relevant authorities and approval by our shareholders and Nippon Steel’s shareholders at their respective shareholders meetings.

Company name	Nippon Steel & Sumitomo Metal Corporation
Location of head office	Chiyoda-ku, Tokyo, Japan
Date of merger	October 1, 2012 (planned)
Form of integration	Business integration through merger, with Nippon Steel as the surviving company
Merger ratio	0.735 shares of common stock of the new integrated company (currently common stock of Nippon Steel) will be allocated for each share of common stock of Sumitomo Metals.



Hiroshi Tomono, President of Sumitomo Metals (Right) and Shoji Muneoka, President of Nippon Steel (Left)

## 2 The new integrated company aims to become “the Best Steelmaker with World-Leading Capabilities.”

Nippon Steel & Sumitomo Metal Corporation endeavors to realize theoretical possibilities of iron into steel products by utilizing world-leading technology and manufacturing know-how, and contribute to building the affluent global society.



Please refer to page 9-10 for information on Sumitomo Metals shares.

# We strengthen manufacturing and R&D bases in Japan.

## 1 We are constructing a new blast furnace at our Wakayama Steel Works.

The new No. 2 blast furnace of Wakayama Steel Works is scheduled to start operation in the second half of the fiscal year 2012. Combined with the capacity of the new No. 1 blast furnace, which began operation in the fiscal year 2009, Wakayama Steel Works' steel production capacity will increase to 5 million tons.



The new No.2 blast furnace under construction.

## 2 Our Corporate Research & Development Laboratories began operation of their new research building and new laboratory.

In October 2011, our Corporate Research & Development Laboratories completed construction of their new research building and new laboratory. We aim to accelerate development of technologies and products through intellectual exchanges among our researchers in different fields, who used to be dispersed but are now brought together to work in an expansive pillar-free open space office of 2,300m<sup>2</sup>.



Researchers in different fields work together in the same expansive pillar-free open space office.



# We expand business in overseas growth markets.

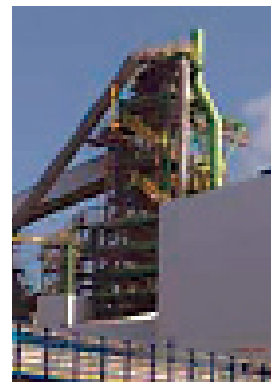
## 1 Brazil: Our integrated steelworks that produces seamless pipe will soon start operating its blast furnace.

Construction of a blast furnace in Brazil is being completed and will soon start production. This opens a new era of having two manufacturing bases for seamless pipe, our main product, in the world.

The steelworks has adopted a “charcoal blast furnace,” which uses charcoal made from eucalyptus trees grown in the contracted plantation, as a reducing material. The steelworks will help preserve the global environment by achieving close to zero net emissions of CO<sub>2</sub>.



Hiroshi Tomono (right) shaking hands with Dilma Vana Rousseff, President of Brazil (left)



Blast furnace in the Steelworks in Brazil

## 2 Vietnam: Construction of a high-grade steel sheet production plant has begun.

In September 2011, a ground breaking ceremony was held for the construction of a plant to produce high-grade steel sheet such as galvanized steel sheet and electromagnetic steel sheet. Upon completion, scheduled in 2012, this will become a foothold in the growing ASEAN market.



Hiroshi Tomono at the ground breaking ceremony

## 3 U.S.A.: We have acquired a manufacturer of forged wheels and axles for railway.

In August 2011, we acquired Standard Steel in the United States. We plan to transfer our personnel, equipment and certain technology to the company and aim to become a global railway wheel manufacturer with particular strength in the high-grade, high-speed segment in regions including North America and Europe.



# We achieved a quick recovery from the aftermath of the Earthquake.

## Kashima Steel Works returned to normal operation during May 2011.

Kashima Steel Works was damaged by the earthquake of March 11, 2011. All facilities suspended operation initially but both production and shipments returned to normal operation during May. We believe that no human casualties and restoration in such a short period were enabled by our constant disaster training drills and support from our business partners and all concerned.



A crane was damaged by a tsunami-wrecked ship.



One of Wakayama's cranes was moved to Kashima.

## ■ Together with our shareholders

### 1 Inviting shareholders our facilities

We hold plant tours at Kashima, Osaka, Amagasaki, Wakayama, and Kokura for our shareholders twice a year.



Manufacturing process of steel sheets for automobile body parts at the Kashima Steel Works.

### 2 Inviting shareholders to Kashima Antlers games

We invite shareholders to the J1 League football games played by the Kashima Antlers at their home in Kashima city and their away games to be held in various locations nationwide.

### 3 Holding corporate strategy meetings for shareholders

From December 2011 to February 2012, we will hold corporate strategy meetings to explain to our shareholders the business integration with Nippon Steel at Tokyo, Nagoya, Osaka, Hiroshima, and Fukuoka.

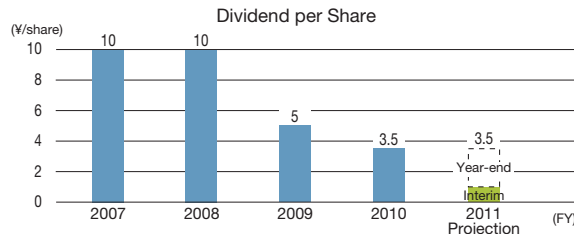
### 4 Renewed CSR contents on Sumitomo Metals' website

We have fully revised our Corporate Social Responsibility (CSR) pages on our website. Your accesses are welcomed. (<http://www.sumitomometals.co.jp/e/csr/index.html>)

# Dividend policy and stock information

## 1 Profit distribution to shareholders

Our basic policy is to pay stable dividends. We plan to increase the year-end dividend to 2.5 yen per share and pay an annual dividend of 3.5 yen, including the interim dividend.



## 2 Concerning the handling of your shares

(1) Please let us ask you about your Sumitomo Metals shares

▶Q Are your shares being managed in the account of a securities broker?

▶A If you have shares that are not managed in the account of a broker (e.g., you hold the share certificates yourself), please carry out the procedures to transfer them to the account of a securities broker. If you have any queries regarding this, please contact the Stock Transfer Agency Department of the Sumitomo Trust and Banking Co., Ltd., as shown below.

▶Q Do you hold 1,000 shares or more?

▶A If you have odd-lot shares (shares less than the minimum trading unit of 1,000 shares), you are restricted from exercising voting rights at shareholders meetings and executing normal trades on the stock market. You can sell your odd-lot shares by requesting their repurchase in a “system for trading shares of less than one unit”. The explanation sheet regarding this system is enclosed in the case of shareholders with odd-lot shares.

▶Q Do you receive payment of dividends via bank transfer?

▶A For shareholders who have selected dividend payment via bank transfer, a “Dividend Calculation Sheet” is enclosed. For shareholders who have not done so, receipt of dividends via bank transfer is recommended as a means to ensure faster and safer receipt of dividends.

### Contact information

If your shares are managed in the account of a securities broker	Contact the securities broker where you have an account	
If your shares are not managed in the account of a securities broker	Contact the Sumitomo Trust and Banking Co., Ltd., Stock Transfer Agency Department	Tel: 0120-176-417* Operating hours (JST): 9 a.m. to 5 p.m., (excluding Saturdays, Sundays and public holidays) *Toll-free number for domestic phone calls only. Inquiries from overseas: +81-42-351-2225

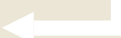
## (2) Here is an explanation regarding the handling of shares after the inauguration of the new integrated company (scheduled on October 1, 2012).

Sumitomo Metals is preparing toward the merger with Nippon Steel on October 1, 2012 on the premise of the approval of the relevant authorities and approval by our shareholders and Nippon Steel's shareholders at their respective shareholders meetings. Because of legal proceedings associated with this merger, Sumitomo Metals shares are expected to be traded on stock exchanges until September 25, 2012. Up to that date, normal trading will be executed. From October 1, 2012, trading of the new integrated company's shares will begin.

In September 2011, Sumitomo Metals agreed with Nippon Steel on the merger ratio of Nippon steel : 1.0, Sumitomo Metals : 0.735. When the new integrated company is inaugurated (scheduled on October 1, 2012), 0.735 shares of common stock of the new integrated company (currently common stock of Nippon Steel) will be allocated for each share of common stock of Sumitomo Metals. **It is not necessary for our shareholders to adopt any special procedures to receive shares in the new integrated company.** The shares that your securities broker has custody of on your behalf will convert to shares in the new integrated company on the merger date (scheduled on October 1, 2012).

You can find out the number of your new integrated company's shares according to the following formula:

$$\text{Number of your Sumitomo Metals shares} \times \text{Merger ratio of } 0.735 = \text{Number of your new integrated company's shares}$$

Please let us ask you about the number of shares calculated by the above formula. 

### ▶ Q Are the number of shares 1,000 or more?

▶ A The minimum share trading unit in the new integrated company is 1,000 shares. Share trading will be carried out in units of 1,000 shares, and shareholders that own 1,000 shares or more will have the right to vote at general shareholders' meetings. If you are allocated less than 1,000 shares (shares that are less than the minimum unit), you cannot execute normal trades on the stock market. Please use the new integrated company's system for trading shares constituting less than one unit of shares, or the system for increased purchases of shares of less than one unit of shares, after the inauguration date (scheduled on October 1, 2012.)

The system for trading shares of less than one unit of shares is a system for selling less than 1,000 shares to the new integrated company.

The system for increased purchases of shares of less than one unit of shares is a system for buying shares from the new integrated company to create a total of 1,000 shares.

If you have any queries, please contact your securities broker or the Stock Transfer Agent Department of the Sumitomo Trust and Banking Co., Ltd.

### ▶ Q Does the number of shares have fractional number that is less than one?

▶ A In accordance with the provisions of relevant laws and ordinances, amounts corresponding to fractional share that is less than one share will be paid in cash by the new integrated company. Details will be provided by the new integrated company.

With regard to queries concerning the handling of your Sumitomo Metals shares, please contact your securities broker or the Sumitomo Trust and Banking Securities, Transfer Agent Department which is the Administrator of the Shareholder Registry of the Company (Tel: 0120-176-417\*; Operating hours (JST): 9 a.m. to 5 p.m., excluding Saturdays, Sundays and public holidays).

\*Toll-free number for domestic phone calls only. Inquiries from overseas: +81-42-351-2225

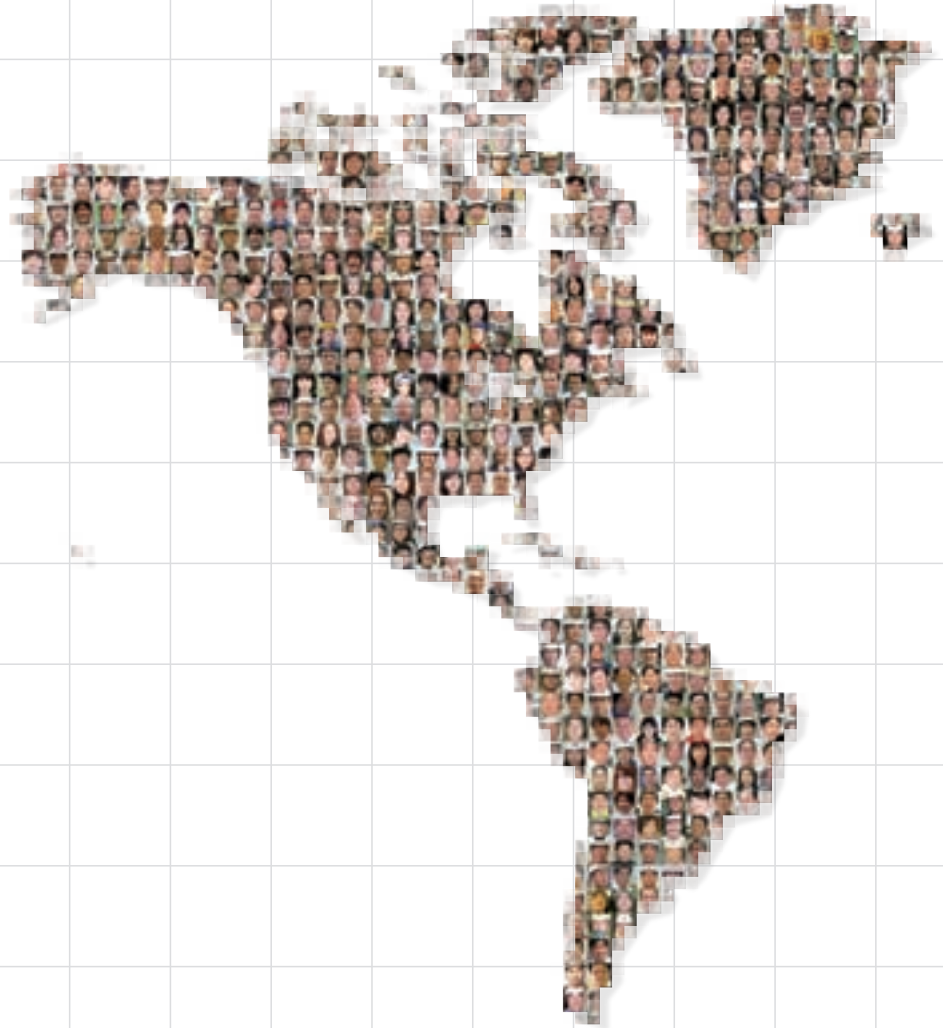
### Forward-Looking Statements

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



## Sumitomo Metals' Corporate Philosophy

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



For Further Information

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