# Sumitomo Metals FY 2011 the First Quarter Performance (ending March 31, 2012)

July 28, 2011

This presentation contains certain forward-looking statements. The Company has tried, whenever possible, to identify these forward-looking statements using words such as "anticipated", "believes", "estimates", "forecasts", "expects", "plans", "intends", "targets" and similar expressions. Similarly, statements herein that describe the Company's business strategy, outlook, objectives, plans, intentions or goals are also forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause the Company's actual results, performance or achievements to differ from those expressed in, or implied by, such statements. These risks and uncertainties may include, but are not limited to: the Company's ability to successfully implement its strategies to restructure the steel business and reinforce its financial structure; the effects of and changes in Japanese and worldwide general economic conditions and in the steel industry in particular, including the severity of any economic slowdown, technological and other changes affecting the manufacture of and demand for the Sumitomo Metals Group's products, changes in Japan's and other countries' laws and regulations, including with regard to taxation, and other risks and uncertainties set forth in subsequent press releases and in the Sumitomo Metals Group's public filings. These statements reflect the Company's current beliefs and are based upon information currently available to it. Be advised that developments subsequent to this presentation are likely to cause these statements to become outdated with the passage of time. The Company disclaims any intent or obligation to update these forward-looking statements.

This presentation includes "forward-looking statements" that reflect the plans and expectations of Nippon Steel Corporation and Sumitomo Metal Industries, Ltd. in relation to, and the benefits resulting from, their possible business combination (or integration). To the extent that statements in this presentation do not relate to historical or current facts, they constitute forward-looking statements. These forward-looking statements are based on the current assumptions and beliefs of the two companies in light of the information currently available to them, and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may cause the actual results, performance, achievements or financial position of one or both of the two companies (or the post-transaction group) to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements. The two companies undertake no obligation to publicly update any forward-looking statements after the date of this document. Investors are advised to consult any further disclosures by the two companies (or the post-transaction group) in their subsequent domestic filings in Japan and filings with the U.S. Securities and Exchange Commission.

The risks, uncertainties and other factors referred to above include, but are not limited to:

- (1)economic and business conditions in and outside Japan;
- (2) changes in steel supply, raw material costs and exchange rates;
- (3) changes in interest rates on loans, bonds and other indebtedness of the two companies, as well as changes in financial markets;
- (4) changes in the value of assets (including pension assets), such as marketable securities;
- (5) changes in laws and regulations (including environmental regulations) relating to the two companies' business activities;
- (6) rise in tariffs, imposition of import controls and other developments in the two companies' main overseas markets;
- (7) interruptions in or restrictions on business activities due to natural disasters, accidents and other causes;
- (8) the two companies' being unable to reach a mutually satisfactory agreement on the detailed terms of the possible business combination (or integration) or otherwise unable to complete it; and
- (9) difficulties in realizing the synergies and benefits of the post-transaction group.

All output figures in this presentation are metric tons.

All output figures of "crude steel", "steel sales volume" and "average price of steel product" are including Sumitomo Metals (Kokura), Sumitomo Metals (Naoetsu) and Sumikin Iron & Steel Corporation.

EBITDA= Operating income + Depreciation of property, plant and equipment



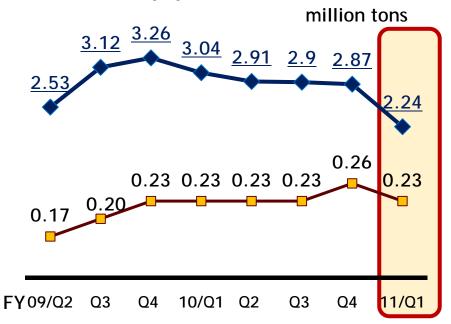
## FY11/Q1 Consolidated Results Highlights

JPY billion	FY11/Q1	<yoy></yoy>
Sales	306.8	<-34.7>
Operating income	16.8	< 2.5>
Ordinary income	19.0	< 9.5>
Net income	3.2	< -1.2>
■ FRITDA	45.6	< 1 4>

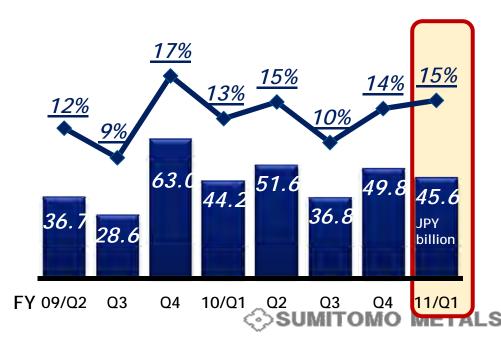
- We achieved Kashima's full recovery from the quake damage by the end of May.
- Seamless pipe prices are trending up.An op. income increased YoY as a result of cost reduction by carrying out our recovery plan and the increased metal spreads\* of pipe products despite the decreased production by the quake impacts.

\*Metal spreads: Steel product prices less material costs

### Sales volume and seamless pipe sales volume



### **EBITDA and EBITDA margin**



# Update: the Earthquake & the Recovery Plan

1. Losses caused by the earthquake ( ): Forecast as of Apr. 28

JPY billion	FY10	FY11	Total	
Effect on ordinary income	-2.0	<i>(-5)</i> -4.0	<i>(-7)</i> -6.0	
Restoration cost of damaged facilities Production disruption Impairment loss of fixed assets	-49.0 -8.1 -4.8	- 0 -11.8 -0.3	-49.1 -20.0 -5.2	Investment in
Extraordinary loss	-62.0	<i>(-15)</i> -12.3	<i>(-77)</i> -74.3	facility recovery
Effect on income before taxes	-64.0	<i>(-20)</i> -16.3	<i>(-84)</i> -80.3	<i>(-20)</i> -20

The negative impact on cash balance

*(-100)* -100

### 2. Recovery Plan

JPY billion		st as of 8,2011	FY11
	Total	FY11	forecast
Deferment of investment in plant and equipment Reduction of costs / expenses Decrease in FY10 year-end & FY11 interim dividends Fixed costs	30 55 14 Exceeding 3	9 24 14 Exceeding 3	
Improvement in cash balance		Exceeding 50	58

## Global Expansion of Railway Products Business

# Acquisition of Standard Steel, the only manufacturer of forged railway wheels & axles in the U.S.

-The U.S. railway wheel market:
12 times as big as Japan's market
Mainly cast wheels and imports
Expected growth of demand for high grade wheels

- Our strategy:

Transfer technologies: Steel making and wheel making Invest in equipments: Our proprietary rotary forging machine Multi-site supplier: The U.S. site makes us less vulnerable to the earthquakes.

Aim: Global No.1 forged railway wheel maker

6

## Overview of the Acquisition

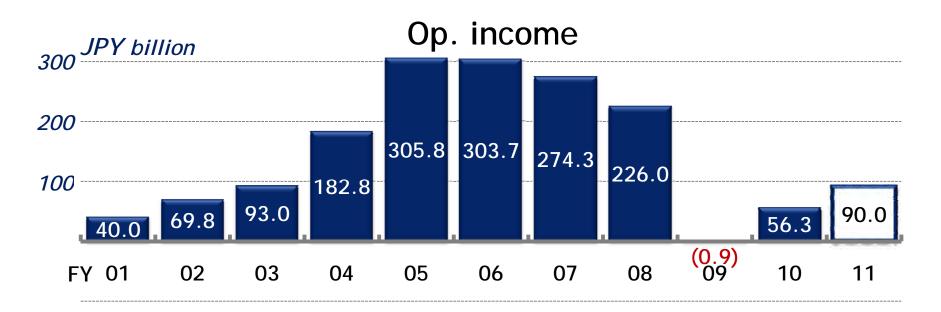
Corporate name	Standard Steel, LLC	
Location	Head office: Pittsburgh, Pennsylv Plant: Burnham, Pennsylvania, U	
Establishment	1795	
Sales	209 USD million (2010)	STANDARD STEEL
Number of employees	620 (as of February, 2011)	
Business activities	Manufacture and sale of railway wheels and axles	
Manufacturing capacity	300,000 railway wheels/year cf. Sumitomo Metals: 240, 000	
Acquisition price	325 USD million	
Shareholder composition after acquisition	Sumitomo Metals 90% Sumitomo Corporation 10%	

Aim: Global No.1 forged railway wheel maker

### **FY11 Forecast**

/		
JPY billion	FY11	<yoy></yoy>
Sales	1,530	<127.5>
Operating income	90	< 33.6>
Ordinary income	100	< 65.9>
Net income	50	< 57.1>
EBITDA	215	< 32.4>

- Demand from energy sector is steady and strong, especially for natural gas.
- In FY11/H2, we expect a sharp increase in sales volume for autos with the strong recovery of demand from the sector.
- -We expect op. income to improve to 90 JPY billion as a result of increased metal spreads of seamless pipe and cost reduction, while demand/supply for commodity grade products and raw material prices are still uncertain.



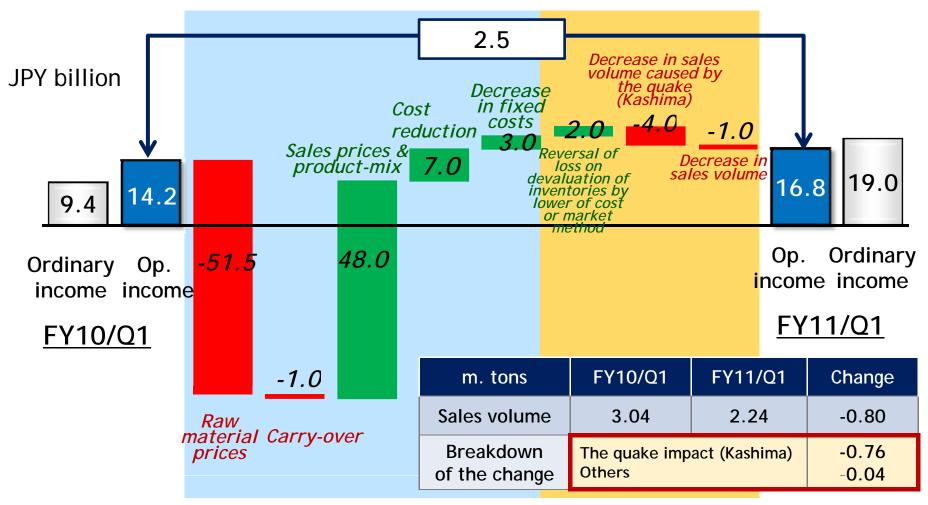
# FY2011/Q1 Results

## Overview of Consolidated Results for FY11/Q1

1577 1 1111		F	Y10		FY11	Cha	ange
JPY billion	Q1	Q2	Q3	Q4	Q1	YoY	QoQ
Sales	341.6	352.1	351.9	356.6	306.8	-34.7	-49.7
Op. income(loss)	14.2	20.4	4.9	16.5	16.8	2.5	0.2
Ordinary income(loss)	9.4	19.4	(2.0)	7.1	19.0	9.5	11.8
Extraordinary income (loss)	-	-	-	(62.0)	(14.3)	-14.3	47.7
Income taxes and minority interest	(5.0)	10.9	2.1	12.8	(1.4)	3.5	-14.2
Net income	4.4	30.4	0.0	(42.0)	3.2	-1.2	45.3
EPS (JPY)	0.97	6.56	0.01	-9.08	0.70	-0.27	9.78
EBITDA	44.2	51.6	36.8	49.8	45.6	1.4	-4.2
FOREX rate (JPY/USD)	92	86	83	82	82	-10	-

# Change in Consolidated Operating Income (FY10/Q1 → FY11/Q1)

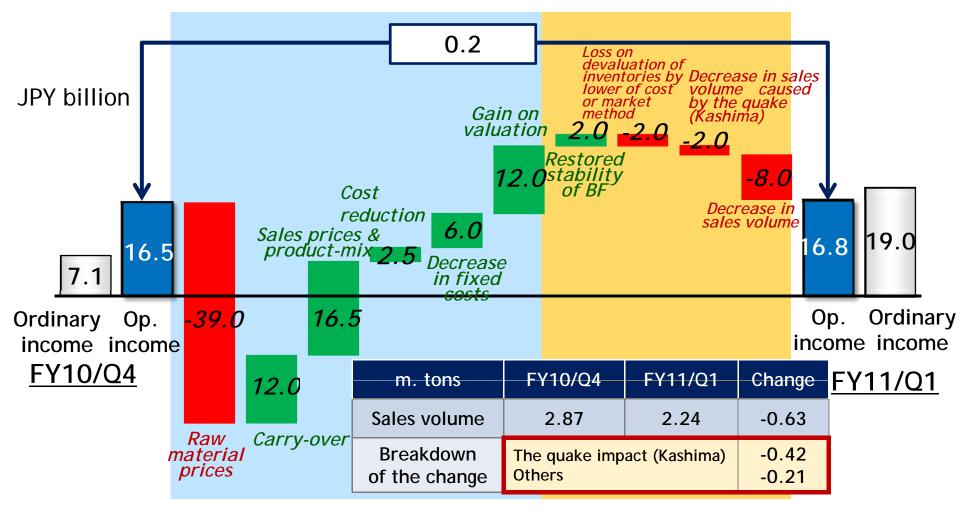
-Op. income improved by 2.5 JPY billion as a result of product prices hike such as seamless pipe and cost reduction despite soaring raw material costs and decreased sales volume due to the quake impact.



•Earnings from equity-method affiliates: <FY10/Q1> 1.2JPY billion → <FY11/Q1>4.7JPY billion

# Change in Consolidated Operating Income (FY10/Q4 → FY11/Q1)

-Op. income remained flat as a result of product prices hike and cost reduction despite soaring raw material costs and decreased sales volume due to the quake impact.



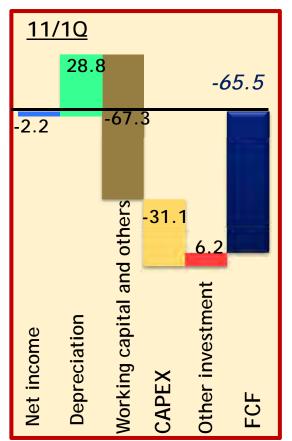
•Earnings from equity-method affiliates: <FY10/Q4> -6.8JPY billion → <FY11/Q1>4.7JPY billion → SUMITOMO METAL

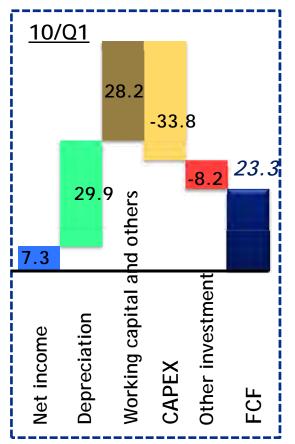
### **Consolidated Balance Sheets**

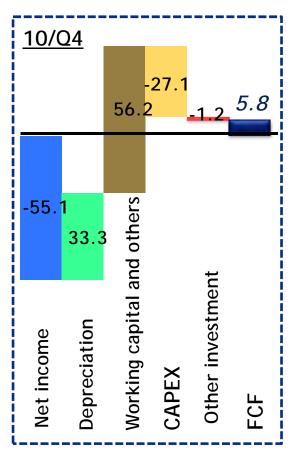
- Debt increased mainly due to an extraordinary loss caused by the quake.

		10		1	1	0/	Change
JPY billion	6E	9E	12E	3E	6E	%	vs. 10/3E
[Assets]							
Current assets	607.9	622.6	618.9	647.9	632.8	-2.3	-15.0
Fixed assets	1,775.4	1,775.2	1,793.6	1,792.8	1,791.5	-0.1	-1.2
Total assets	2,383.4	2,397.8	2,412.6	2,440.7	2,424.4	-0.7	-16.3
[Liabilities and Shar	reholders'	Equity]					
Current liabilities	666.1	661.5	699.5	800.6	793.1	-0.9	-7.4
Long-term liabilities	871.6	867.9	849.2	822.0	813.6	-1.0	-8.4
Net assets	845.6	868.2	863.7	818.0	817.6	-0.1	- 0.4
Debt	1,128.0	1,117.0	1,111.1	1,173.3	1,197.4	2.1	24.0
D/E ratio	1.42	1.37	1.37	1.53	1.56	-	0.03

## **Consolidated Cash Flows**







Net income: Income before income taxes and minority interests +Income taxes paid

Net income: income before income taxes an	a minority inte	Coto iniconic t	ancs para		
JPY billion	10/6E	10/9E	10/12E	11/3E	11/6E
D/E ratio	1.42	1.37	1.37	1.53	1.56
Debt	1,128.0	1,117.0	1,111.1	1,173.3	1,197.4
Cash and equivalents	23.6	18.9	19.7	82.5	33.4
Net debt	1,104.3	1,098.1	1,091.3	1,090.8	1,164.0

# FY2011 Forecast

### **Production & Prices**

product (000JPY/ton)

**Total** 

87.7

91.6

94.2

- We expect sales volume to recover steadily over FY11/H2.
- Forecast of seamless pipe sales volume for FY11: One million tons

		Q1	H1	FY10	Q1	Q2 forecast	H1 forecast	H2 forecast	FY11 forecast	YoY
FOREX r	ate (JPY/USD)	92	89	86	82	80	81	80	80	-6
Crude ste	el production (million tons)	3.35	6.78	12.90	2.77	3.45	6.20	7.10	13.30	0.40
Steel sale	es volume (million tons)	3.04	5.95	11.72	2.24	3.12	5.37	6.58	11.95	0.23
	pipe sales million tons)	0.23	0.46	0.96	0.23	0.25	0.47	0.54	1.00	0.04
Ave. price	Domestic	92.7	98.1	101.5	113.2					
of steel	Export	82.3	84.3	86.3	96.6				EV.	1.1

104.5

U	BS billion	FY10	FY11 forecast
	Receipts	5.2	6.7
	Payments	-5.2	-7.6
Bal	ance	0	-0.9

#### Overview of Consolidated Business Forecast for FY11

- We expect op. income to improve to 90 JPY billion as a result of increased metal spreads of seamless pipe and cost reduction, while demand/supply for commodity grade products and raw material prices are still uncertain.

JPY billion	FY10	H1			H2	FY11	YoY
		Q1	Q2 forecast Approx.	forecast Approx.	forecast Approx.	forecast Approx.	
Sales	1,402.4	306.8		700	830	1,530	127.5
Op. income (loss)	56.3	16.8	18	35	55	90	33.6
Ordinary income(loss)	34.0	19.0	21	40	60	100	65.9
Extraordinary income (loss)	(62.0)	(14.3)	-	(14)	-	(14)	48.0
Net income (loss)	(7.1)	3.2	12	15	35	50	57.1
EPS (JPY)	-1.54	0.70	2.59	3.24	7.55	10.79	12.33
EBITDA	183	45.6	49	95	120	215	32.4
Debt	1,173	1,197	1,210	1,210	1,210	1,210	36.6
D/E ratio	1.53	1.56	1.56	1.56	1.50	1.50	-0.03

## Change in Income

#### FY11/Q1 $\rightarrow$ Q2 forecast

JPY billion	Q1	Q2 forecast	QoQ
Op. income (loss)	16.8	18	1.1
Ordinary income(loss)	19.0	21	1.9
Extraordinary income (loss)	(14.3)	-	14.3
Net income (loss)	3.2	12	8.7
EPS (JPY)	0.70	2.59	1.89

#### FY11/H1 forecast → H2 forecast

JPY billion	H1 forecast	H2 forecast	НоН
Op. income (loss)	35	55	20
Ordinary income(loss)	40	60	20
Extraordinary income (loss)	(14)	-	14
Net income (loss)	15	35	20
EPS (JPY)	3.24	7.55	4.31

#### Positive factors

- Increase in sales volume: 0.9 m tons
- Domestic contract prices hike
- Cost reduction

#### **Negative factors**

- ✓ Carry-over
- ✓ Decline in commodity grade steel sheet prices for export

#### Positive factors

- Increase in sales volume: 1.2 m tons
- Metal spreads
- Cost reduction

#### **Negative factors**

- ✓ Carry-over
- ✓ Loss on valuation

## Trends in Demand/Supply by Steel Product

#### Steel sheet, plate & structural steel

- \*Steel sheet: Demand from auto sector recovers sharply. We expect sales volume to increase to almost our record level in FY11/H2.
- \*Steel plate: Demand is firm. We continue our effort to raise product prices.
- \*Structural steel: Steel demand to reconstruct quake stricken communities will materialize in FY11/H2.

#### Pipe & Tube

- \*Seamless pipe: Resilient energy exploration bolsters demand.
- \*Large-diameter welded steel pipe: We expect sales volume to recover in FY11/H2, mainly due to big projects in Middle East, despite decrease of production caused by the quake.

#### Slabs

\*We asked our domestic slab customers for delivery adjustment because of the quake.

# Specialty steel

\*Sales volume sharply recovers over FY11/H2 after bottoming in Apr.

#### Railway, automotive & machinery

- \*Railway parts: Domestic demand remains stable. Demand from U.S. market is picking up.
- \*Crankshaft: In FY11/H2, we expect the H2 sales will recoup the sales decrease caused by the quake in H1.
- \*Titanium mill products: Demand is firm for power plants, aircraft and saline-water conversion plants.

## Outlook of Seamless Pipe Demand/Supply

#### OCTG / line pipe

- → Drilling activities are globally strong due to high energy prices. Natural gas exploration is especially strong because of the expected growth of gas-fired power plant due to the nuclear accident in Fukushima.
- → Stable demand for OCTG should bolster product prices going forward.
- **→** Demand for line pipe remains strong over FY11/H2.

#### **Specialty tube**

- Demand for boiler tubes for gas-fired combined cycle power generator is trending up.
- → USC boiler tubes for coal-fired power plants is also recovering.
- → We continue to watch the consequences of the nuclear accidents on the demand for SG tubes.

#### **Autos & construction machinery**

→ For autos: The quake impact is small. We expect it to recover over FY11/H2.

Rig count	05 Avg.	06 Avg.	07 Avg.	08 Avg.	09 Avg.	10 Avg.	The latest
US	1,383	1,649	1,768	1,879	1,089	1,546	(Jul.22/11) 1,916
Deep well (>=15,000ft)	199	225	222	283	249	249	(Jun./11) 370
International (except N. America, Russia and China)	908	925	1,005	1,079	997	1,094	(Jun./11) 1,158

出所: Baker Hughes, Smith international

## Start-up of VSB in Brazil

- -BF and steel making plant will be operational in FY11/Q2. The inauguration ceremony will be on Sep. 1, 2011.
- -We intend to increase sales volume gradually over FY12 with obtaining approvals from API\* and the customers.
- We expect VSB to lose money in FY11 due to its initial cost.

•API: the American Petroleum Institute



Blast furnace

Threading facility

## Electricity-saving & In-house power generation

- -We can cope with electricity-saving target without any disruption on our production, because integrated steel works is an electricity supplier rather than consumer.
- We plan to increase electricity generation of our in-house generators such as IPP and Kyodo Power, thereby contributing to improve the electricity supply for the local community.

	Kashima	ı Kyodo Ele	ectric Pow	er Com.	Kashima	ma Wakayama Kyodo Power Com			
	No.1	No.2	No.3	No.4	IPP*	No.1	No.2	No.3	
Maximum output (m. kw)	0.35	0.35	0.35	0.35	0.475	0.075	0.075	0.156	
Before the quake	Working		Working	Mainte-	Working	Long-term	Working	Working	
Right after the quake	Suspended	Long-term planning	Suspended	nance	Suspended	planning terminated	Working	Working	
Now	Resumed on Apr.16	terminated	Resumed on Jun.7		Resumed on Mar. 25	Resumed on Jul.12	Working	Working	





\*IPP: Independent Power Producer

## Consolidated Sales & Op. Income by Internal Company

				•				•	
	IPV	hillion					FY10	FY11	0.6 1.9 0.9 -27.4 -7.2
ı	JPY billion		Q1	Q2	Q3	Q4	1110	Q1	101
		sheet, plate ructural steel	135.6	143.7	141.2	129.0	549.6	104.3	-31.2
	Pi	pe & tube	122.0	121.4	127.3	135.8	506.7	122.3	0.2
		ailway & utomotive	23.4	25.0	23.2	27.3	99.1	24.1	0.6
		Kokura	30.4	36.7	37.4	40.1	144.7	32.3	1.9
	Naoet	su and others	13.0	12.9	12.2	13.1	51.4	14.0	0.9
	Total st	eel segment	324.6	339.8	341.5	345.4	1,351.6	297.2	-27.4
	C	Others	16.9	12.2	10.4	11.2	50.8	9.6	-7.2
	Tota	l sales	341.6	352.1	351.9	356.6	1,402.4	306.8	-34.7
	Op. Incom	e (loss) by In	ternal Comp	oany (Appi	rox.)				
		et, plate and ural steel	6	11	(6)	5	16	2	-4
	Pipe &	Pipe &tube	0	4	4	8	16	7	7
- 1	•								

	et, plate and ural steel	6	11	(6)	5	16	2	-4
Pipe &	Pipe &tube	0	4	4	8	16	7	7
tube	Slabs	2	(3)	1	(5)	(5)	2	0
Ko	okura	0	2	2	2	6	0	0
Total s	teel segment	12.6	18.4	3.4	15.6	50.2	16.4	3.8
	Others	1.6	2.1	1.5	0.8	6.2	0.4	-1.2

4.9

16.5

56.3

14.2

Total Op. income

20.4

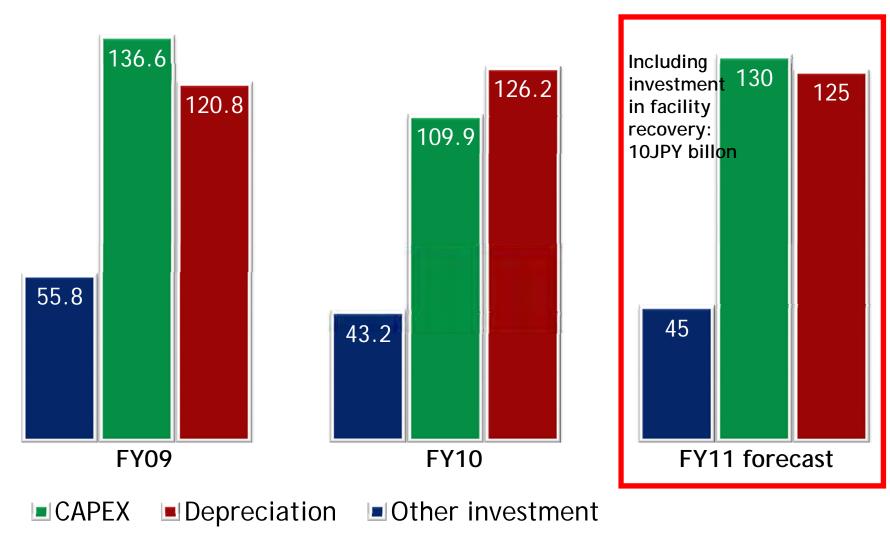
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## Capital and Dividend Policy

- Capital policy
  - Sumitomo Metals intends to maximize corporate value by delivering sustained growth that balances quality and scale.
  - Cash generated from operations will be used for investments that raise corporate value.
  - Criteria for investments include whether they may accelerate distinctiveness of our group, and whether their returns could exceed the cost of capital, and thereby help raise our value.
  - We will return profits to shareholders through stable payment of dividends.
- Financial target
  - Our target for financial leverage is a D/E ratio of below one.
- Dividend forecast in FY11
  - 3.5 JPY/share (Interim: 1.0 JPY/share, Year-end: 2.5 JPY/share)

# Forecast for Consolidated CAPEX, Depreciation and Other Investment

JPY billion



\*CAPEX: Construction-base

\*Other investment: Cash paid-base

## CAPEX Plan and Overseas Business Investment Update

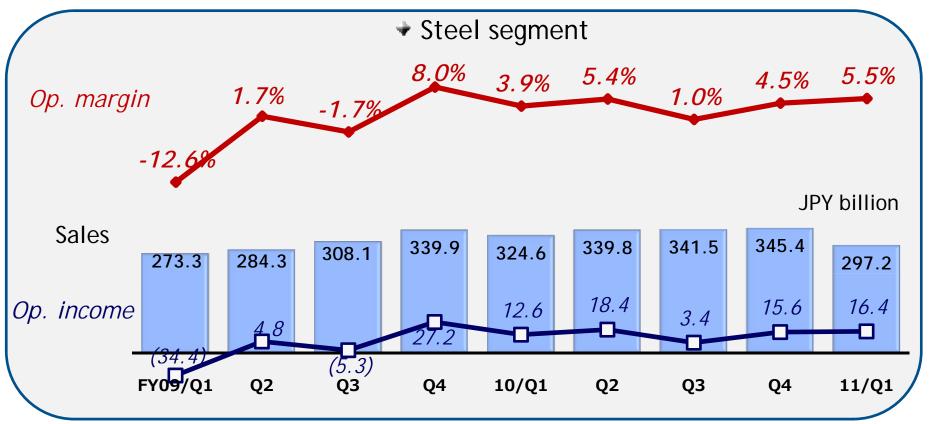
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Invest. amount JPY billion Schedule for starting operation FY10 **FY11** FY12 FY13 **FY14** FY15 **CAPEX** Renewal of upstream processes (Wakayama) -New No.2 BF + reinforcement of CC 115 → H2/12 Pipe & 10 Increasing capacity for ultra high strength line pipes → Jan. 11 Tube Increasing capacity for SG tubes for nuclear Apr. 13 14 power plants Steelmaking process innovations (Kokura) 27 Oct. 10 Others Renewal of Corporate Research & Development 10 May 12 Laboratory (Amagasaki) Other investment (J/V: Joint Venture total investment amount, []: Sumitomo Metals' investment amount) **→** 12 Steel sheet J/V in Vietnam (CSVC) 115 -Technical Bhushan Steel in India Orissa P.J. assistance Sheet & West Bengal PJ -Feasibility Plate study Canadoil Group's steel plate mill [4.2]**→** 13 In Thailand Dec. 10 First piercing 4.7 Pipe & Integrated steel works with Seamless pipe mill J/V in Brazil (VSB) Tube billion BRI The midst of 11 VSB's capital) BF/Steel making plant Forged crankshaft business J/V in India • Apr. 10 (SMAC) Railway & Auto. 325 •Jun. 11 Acquisition of Standard Steel in the U.S. **USD** million

# Supplement

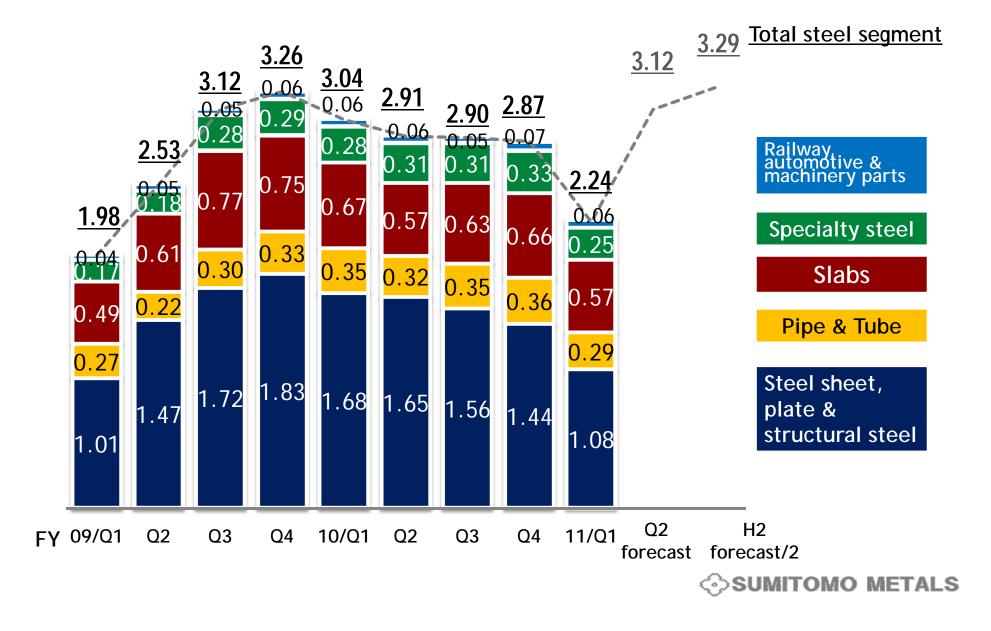
Consolidated Sales and Operating Income by Business Segment 27

JPY billion	FY09/Q1	Q2	Q3	Q4	FY10/Q1	Q2	Q3	Q4	FY11/Q1
Steel	273.3	284.3	308.1	339.9	324.6	339.8	341.5	345.4	297.2
Others	17.1	23.8	17.8	21.1	16.9	12.2	10.4	11.2	9.6
Sales	290.4	308.2	326.0	361.0	341.6	352.1	351.9	356.6	306.8
Steel	(34.4)	4.8	(5.3)	27.2	12.6	18.4	3.4	15.6	16.4
Others	(0.1)	1.4	2.2	2.9	1.6	2.0	1.5	0.8	0.4
Op. income (loss)	(34.5)	6.3	(3.1)	30.2	14.2	20.4	4.9	16.5	16.8



# Sales Volume by Product

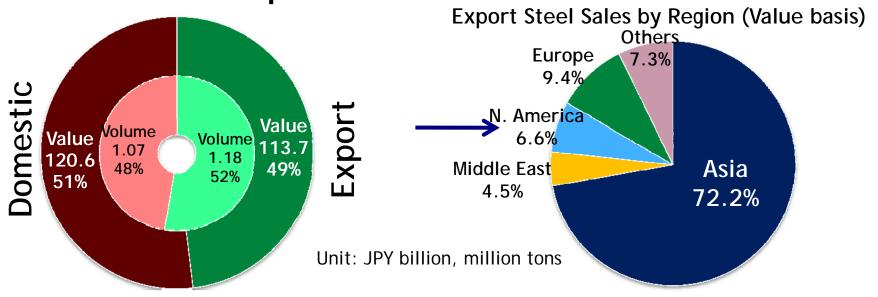
million tons/Q



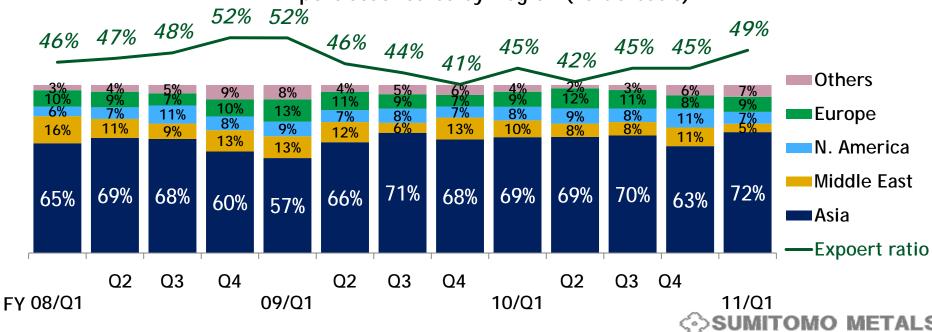
# **Temporary Factors**

JPY billion	Q1	Q2	Q3	Ω4	FY10	FY11/Q1	YoY
Carry-over	19	9	(9)	6	25	18	-1
Gain (loss) on inventory valuation	16	4	6	(2)	24	24	
Allocation of cost variance	(9)	2	7	(3)	(3)	(17)	
Total gain (loss) on inventory valuation	7	6	13	(5)	21	7	0
Reversal	5	5	4	7	5	3	
Devaluation	(5)	(4)	(7)	(3)	(3)	(1)	
Net devaluation of inventories by lower of cost or market method	0	1	(4)	4	1	2	2

## Domestic and Export Steel Sales for FY11/Q1



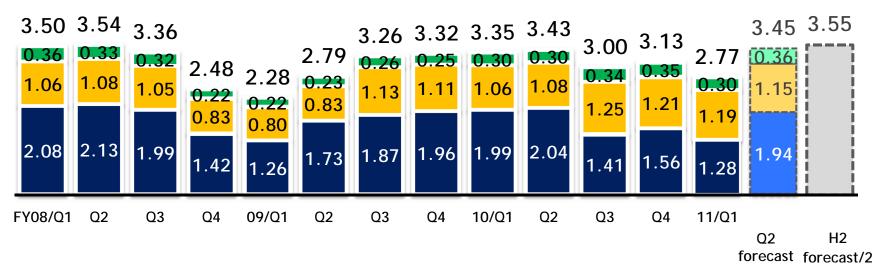
#### **Export Steel Sales by Region (Value basis)**

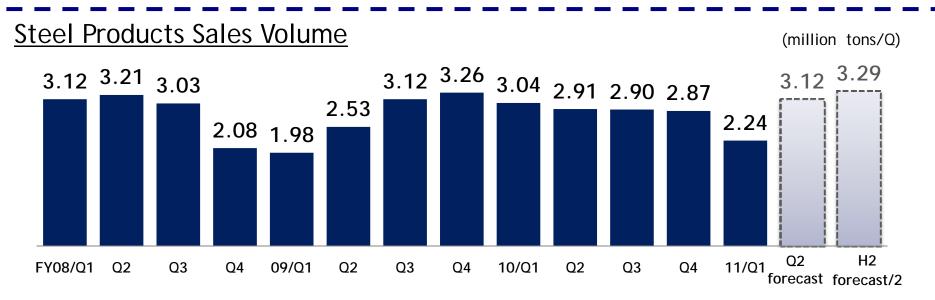


# Reference (1)

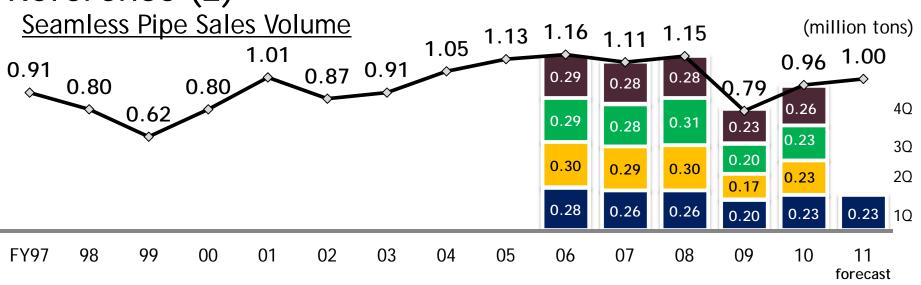
#### **Crude Steel Production**

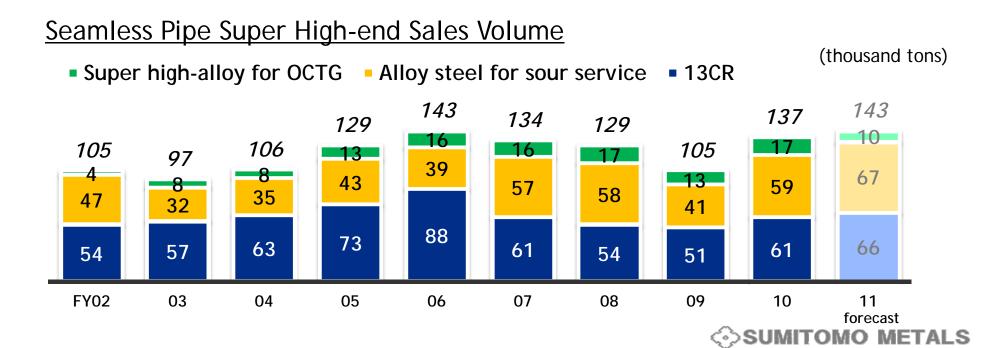
(million tons/Q)



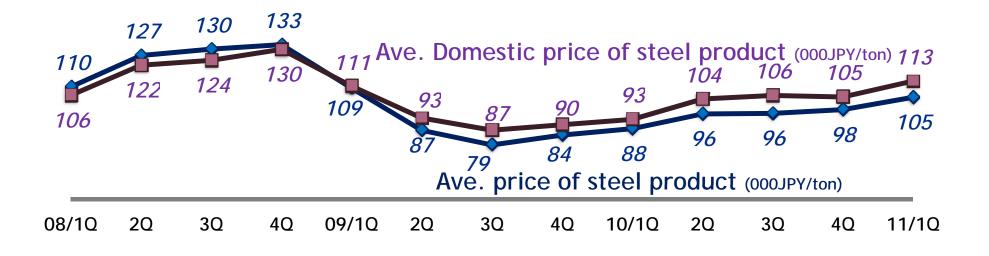


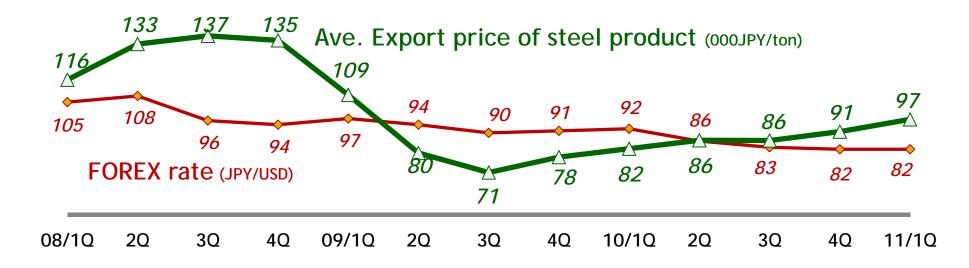




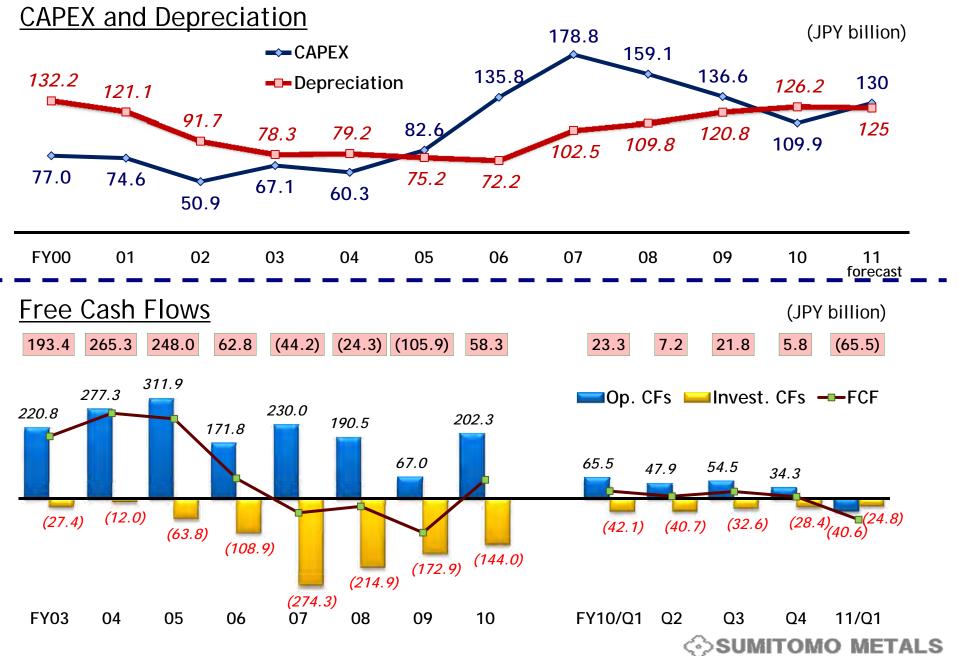


# Reference (3)





# Reference (4)



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