

## **Report of the 87th Period** **(from April 1, 2009 to March 31, 2010)**

### **Business Report**

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## **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 87th Period are prepared in accordance with the accounting principles and practices generally accepted in Japan.
3. Shareholders who live in countries outside Japan should exercise their voting rights through the custodians of their shares. Please communicate with your custodian regarding the appropriate procedures to exercise your voting rights.

# **Business Report (from April 1, 2009 to March 31, 2010)**

## **1. Business overview of the SMI Group**

### **(1) The SMI Group management policies**

The Sumitomo Metal Industries, Ltd. (“SMI”) 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.

Our investment strategy calls for investments that are designed to help accelerate our distinctiveness and bring cash flows in excess of the cost of capital to contribute to our corporate value. We will pass on appropriate returns to our shareholders and all stakeholders alike.

Our dividends are generally paid under a stable dividend policy. Our medium- and long-term targeted D/E ratio\* is under 1.0.

\*Note: D/E ratio = Debt / Shareholders’ equity

### **(2) Business results for the fiscal year ended March 31, 2010**

#### **1) Business environment in the 87th period ended March 31, 2010**

The SMI Group’s business environment was generally difficult in FY2010. Demand for steel remained at a low level in the first half the period under review, due to the effects of the global economic recession, and headed towards a recovery in the second half of the fiscal year, but remained weak throughout the period. Demand for steel products in the energy sector where the SMI Group is focusing its efforts remained particularly low.

#### **2) Reporting-period management projects in each business sector**

Although the SMI Group had no choice but to scale back production in the face of low demand in the first half of the period under review, we prepared for the next cycle of demand growth by taking advantage of reduced work levels to give technical training to employees, conduct extensive facility maintenance and carry out full-scale trial manufacture of new products under development using the actual production

facilities. Throughout the period we made every effort to reduce costs and control expenses. We continued the management policies needed to “accelerate our distinctiveness” and “strengthen our strengths” to achieve our medium- and long-term policies of maximizing our corporate value through sustainable growth.

### **Iron & Steel-making process**

In July 2009 the new No. 1 blast furnace at the Wakayama Steel Works began operations.

### **Pipe & Tube**

The Pipe & Tube Company continued its involvement in a joint-venture project with the Vallourec Group of France and another partner, to construct an integrated steel plant to produce seamless pipe in Brazil. The plant is expected to begin operations in the fall of 2010. The Pipe & Tube Company is deepening its cooperative relationship with Vallourec S.A. through joint capital investment.

The SMI Group and the Nippon Steel Corporation Group merged their arc-welded stainless steel pipe and tube businesses in July 2009 to maximize the strengths of both Groups, and formed a new company: Sumikin & Nippon Steel Stainless Steel Pipe Co., Ltd.

In February 2010 the Pipe & Tube Company decided to make investments to increase the production of boiler heat-transfer tubes at the Steel Tube Works at Amagasaki. These kinds of tubes are in greater demand for use in nuclear power plants. The new facilities are expected to begin operation in April 2013. The Company invested in plant and equipment at the Kashima Steel Works to increase production of ultra-high-strength, large-diameter welded steel pipe. These new facilities are expected to begin operation in March 2011.

### **Steel Sheet and Plate**

The Steel Sheet, Plate & Structural Steel Company collaborated with its business partners to expand its steel sheet business in emerging foreign markets that are expected to grow in the medium and long term.

The Company promoted 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 received official approval from the Vietnamese government in May 2009. The plant is expected to commence operations in 2012.

In India, in December 2009, the Steel Sheet, Plate & Structural Steel Company concluded an agreement with a local company, Bhusan Steel Limited, for Bhusan to supply some of the sheet steel manufactured at its Orissa plant as OEM product to be sold under the SMI brand. The Company is providing technical assistance to Bhusan Steel Limited.

### **Railway, Automotive & Machinery Parts**

The Railway, Automotive & Machinery Parts Company expects automobile demand in India to increase. The Company concluded an agreement with a local

company, Amtek Auto Limited, and another partner to form a joint venture to manufacture and sell forged crankshafts. Its business commenced in April 2010.

### **Specialty Steel Bars and Wire Rods**

Sumitomo Metals (Kokura), Ltd., the SMI Group's manufacturer of specialty steel bars and wire rods, installed the world's most advanced bar finishing mill at its factory in August 2009. As part of its program to renew its steel-making process, the company's new refining furnace and continuous casting mill began operation in December 2009. The program will be completed in October 2010 when a new dephosphorization furnace enters service.

These new facilities will ensure both high quality and high production efficiency in the specialty steel bar and wire rod sectors, and will enable the company to better meet the more sophisticated needs of its customers.

### **Other segments**

Businesses in other segments are selecting and integrating their operations in line with SMI's intention to build an effective business structure for the SMI Group.

SMI and Chuo Denki Kogyo Co., Ltd. (an affiliated company for which the equity method is applied) are aiming to develop their business in the field of secondary battery material for electric vehicles and other applications, where demand for products is expected to greatly increase. Both companies have combined their operations in this sector under the leadership of Chuo Denki Kogyo Co., Ltd.

SMI transferred 60% of its shareholding in its consolidated subsidiary, Sumikin Bridge Co., Ltd., to Yokogawa Bridge Holdings Corporation, and began joint operations in bridge construction with Yokogawa Bridge Holdings Corporation in October 2009.

SMI expects to merge its 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 following table (Table 1) summarizes major business strategies in the reporting period.

**Table 1. Major business projects in the reporting period**

Segment	Target	Detail	Investment Amount (billion yen)	Timeline
Iron & Steel-making process	Enable annual capacity of 5 million tons at Wakayama Steel Works	1 <sup>st</sup> step <Construction of a new No.1 blast furnace, etc. included in the project>	160.0 <118.0>	Began operations in July 2009
		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 another partner to set up a integrated steel plant to produce seamless pipe	(*) 200.0	Scheduled to begin operation in the fall of 2010
	Closer cooperative relationship with Vallourec S.A.	Share acquisition as part of a capital alliance with Vallourec S.A.	11.3	Completed in the first half of FY2009
	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	Scheduled to begin operations in Mar., 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 assistance)	-
			(OEM supply)	Basic agreement reached in Dec. 2009
	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	(*) 115.0	Scheduled to begin operations in April 2012
Railway, Automotive & Machinery Parts	Establish a sales and manufacturing hub for forged crankshafts in India	A joint venture with Amtek Auto Limited and other partner to manufacture and sell forged crankshafts	(*) 1.0	Business began in April 2010
Specialty Steel Bars and Wire Rods	Enhance competitiveness of steel bars at Sumitomo Metals (Kokura), Ltd.	Renewal of finishing roll equipment for steel bars	2.0	Began operations in Aug. 2009
	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)		Scheduled to begin operations in Oct. 2010

Note: (\*) Total Investment by joint venture

### **3) 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.

#### **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 our 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 both Toyota Motor Corporation and Toyota Motor Engineering & Manufacturing North America, Inc. acknowledged the high quality of SMI Group's steel sheet, crankshafts, shaped steel and bar steel products by giving us several awards including Excellent Quality Award. By using a new simulation process that we developed, Panasonic Corporation was able to make their air-conditioner outdoor units lighter, improve the performance of their products and help reduce CO<sub>2</sub> emissions. For this achievement, Panasonic granted us their ECO-VC Initiative Silver Award. These are just a few of the many other awards we received from our customers.

#### **Technology assets**

As a manufacturer, technological development is always a central operational issue for us. Our Group's basic 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. The outcomes of these developmental projects are well received by both our customers and many other organizations. In the reporting period under review, among many awards and commendations, we received a Commendation for Science and Technology from the Minister of Education, Culture, Sports, Science and Technology for our development of a highly efficient crash-test crash-box. In the steel plate sector, we received a Contribution Award of Ichimura Industrial Prize from the New Technology Development Foundation for our development and commercialization of new steels that have improved fatigue strength. The Ministry of Economy, Trade and Industry awarded us with a Monodzukuri Nippon Grand Award, and The Japan Institute of Metals granted us a Technical Development Award.

The global environment is an important issue for the SMI Group. Our CO<sub>2</sub> emissions per ton of crude steel production are among the lowest among the world's blast furnace steel makers. In addition, the products we make also help to reduce CO<sub>2</sub> emissions. By offering global environmentally friendly products that our customers can use to develop cleaner energy sources and build lighter vehicles, we

are helping to reduce CO<sub>2</sub> emissions. The products that we manufacture are estimated to help reduce CO<sub>2</sub> emissions by 8 times more than the CO<sub>2</sub> emitted in their initial manufacture. Together with Kashima Senko Co., Ltd. we are working to expand our operations to recover the resources contained in furnace dust at the Kashima Steel Works. In June 2009 the second resource recovery furnace began operation and is making a tangible contribution both to the further reduction of CO<sub>2</sub> emissions and the creation of a pro-recycling society.

### **Our human assets**

Enhancing the ability of employees is the most important factor in maximising the performance of a company. We are taking on new staff constantly and are training the next generation who will carry the Company into the future. Through our human resource training programs that utilize knowledge and experience we have gained over many years as a manufacturer, we are continuously enhancing our human assets.

### **Organizational assets**

The SMI Group is working to improve its internal control systems to ensure the properness of its operations. We are enhancing our compliance program, strengthening the Auditing Department's monitoring and supervision of the execution of duties, and checking to see how our operations comply with both the law and our Articles of Incorporation. We have an executive officer system in place, and are enhancing the effectiveness of supervisory functions and the efficiency of officers' duties. We have set up systems to enable the Company to make a unified response in a time of emergency following a major disaster or accident, and have put in place systems to prevent or manage risk during normal times. We are also improving our systems to ensure the reliability of financial reports in line with legal requirements.

Following the settlement of a shareholder lawsuit brought against the directors of SMI and others, the Company established the Inspection & Proposal Committee for Compliance. Taking into consideration the Committee's suggestions, we will further strengthen our system of compliance.

## **4) Current period business results**

Business results in the period under review deteriorated as a result of several factors. Firstly, the decline in sales volume and prices of steel materials due to the deteriorating economic environment; secondly, the SMI Group's use of raw materials purchased through contracts in the previous period; and lastly, temporary losses arising from the revaluation of inventories as a result of falls in raw material prices. As a result, our Group's business performance in the current period, as shown in Tables 2 and 3, was net sales of 1,285.8 billion yen (a year-on-year decline of 558.5

billion yen), an operating loss of 900 million yen (a year-on-year decline in income of 226.9 billion yen), an ordinary loss of 36.6 billion yen (a year-on-year decline in income of 262.3 billion yen), and a net loss of 49.7 billion yen (a year-on-year decline in income of 147.0 billion yen).

**Table 2. Consolidated business results**

(billion yen)

	FY2008	FY2009	Increase/(decrease)	
			Amount	Percentage
Net sales	1,844.4	1,285.8	(558.5)	(30.3%)
Operating income (loss)	226.0	(0.9)	(226.9)	-
Ordinary income (loss)	225.7	(36.6)	(262.3)	-
Net income (loss)	97.3	(49.7)	(147.0)	-

**Table 3. Segment performance in the reporting period**

(billion yen)

	Net sales	(*) Increase/ (decrease)	Operating profit (Note 1)	(*) Increase/ (decrease)
Steel	1,205.8	(30.7%)	(7.6)	-
Pipe & Tube Company	472.9	(34.0%)		
Steel Sheet, Plate & Structural Steel Company	498.5	(28.8%)		
Railway Automotive & Machinery Parts Company	86.6	(17.8%)		
Sumitomo Metals (Kokura), Ltd.	101.6	(31.3%)		
Sumitomo Metals (Naoetsu), Ltd.	23.4	(43.2%)		
Other	22.6	(21.5%)		
Other business	79.9	(22.8%)	6.7	-
Corporate or eliminations	-	-	(0)	-
Total	1,285.8	(30.3 %)	(0.9)	-

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

In the reporting period, Group investment in plant and equipment totaled 136.6 billion yen, of which 134.3 billion yen was invested in Steel, and 2.2 billion yen in other business sectors. As a result, outstanding debt as of the end of the reporting period was 1,138.3 billion yen – an increase of 148.3 billion yen from the previous period.

We expect to make a year-end dividend of 2.5 yen per share, bringing the total cash dividend for the full fiscal year, including the earlier interim dividend payment, to 5 yen per share.

#### **(4) Issues facing the SMI Group**

The business environment in FY2010 (to March 31, 2011) remains unclear. The prices of raw materials such as iron ore and coal are rising, spurred on by demand, and large raw material cost increases are unavoidable. What is more, structural changes in the raw materials market now mean that the pricing system is changing and that most of the procurement of raw materials will have to be conducted via quarterly rather than annual contracts. Given these business conditions, the SMI Group will seek the understanding of our customers while working to reflect these raw material cost changes in our product prices. At the same time, we will reduce costs and control expenditure to improve our financial footing and make necessary investments to achieve growth with an optimum balance between quality and scale in line with our medium- and long-term policies.

Business globalization is an important issue for our Company, against a background of growing global demand for steel products — particularly in emerging nations. To meet these challenges, we have entered into partnerships around the world: seamless pipe manufacture in Brazil, sheet steel in Vietnam, sheet steel and forged crankshafts in India, to name but a few. We are considering entering into a partnership with Bhusan Steel Limited of India in a project to build an integrated blast furnace and steel works in West Bengal. We will continue to push ahead with plans to use the strengths of the SMI Group to their maximum effect in overseas markets.

Corporate responses to issues concerning the global environment are becoming increasingly important. The SMI Group is working to both reduce CO<sub>2</sub> emissions during product manufacture and to produce products that will in turn help in the reduction of emissions of this greenhouse gas. One example of how we are cutting CO<sub>2</sub> emissions during product manufacture is 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 CO<sub>2</sub> released in the process is then reabsorbed by the growing eucalyptus trees so that the net CO<sub>2</sub> emissions of the entire process are effectively zero. Examples of how our products help reduce CO<sub>2</sub> 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 of 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 will seek to become 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

### New No.1 Blast Furnace at Wakayama Steel Works Begins Operation

In July 2009 the SMI Group shut down the No. 4 blast furnace at the Wakayama Steel Works that had been in operation for more than 27 years. As far as the Company knows, no other blast furnace in the world had been in service for so many days. The SMI Group built the new No. 1 blast furnace to take over the role of No.4 furnace in steel production. This new furnace makes full use of our extensive know-how in the field of steel making, and will support SMI Group's sustainable growth over the long term.

#### **1. The Wakayama Steel Works' No. 4 blast furnace — a record for days of operation**

Blast furnaces usually have to be taken out of service and relined (with refractory bricks) after several years of operation. When the No. 4 blast furnace re-entered surface after relining in 1982 it was initially thought that it would stay in service for 7 years; however, through the steady development of technology to overcome the various problems that shorten the life of a furnace, such as the molten steel eroding the lining at the bottom of the furnace, and by replacing the stove cooler (which cools the furnace body but can limit its service life) we were able to lengthen the service life and achieve a world record for continuous blast furnace operation. Our work and achievements were recognized, and in 2007 we received a Nikkei Monozukuri Grand Prize.

#### **2. The Wakayama Steel Works' new No. 1 blast furnace that will support sustainable growth of the SMI Group over the long term**

The new No. 1 blast furnace, that entered service to coincide with the shutting down of the No. 4 blast furnace, benefits from the knowledge that the SMI Group has accumulated in many years of steel-making, and features a range of technologies that were not present on the No. 4 furnace. For example, we used the latest analytical technology when we designed the shape of the new furnace (which sets the furnace's performance). We also installed furnace charging equipment that can handle variations in the quality of raw materials such as iron ore and coke.

We introduced a coke dry quenching system to the coke oven that entered service ahead of the new No. 1 blast furnace. This quenching system is more friendly towards the global environment because after it bakes the coal into coke it does not cool the hot coke by spraying it with water which causes releasing of fine particles to the atmosphere; instead, the hot coke is cooled inside a sealed container and the thermal energy is recovered by a heat exchanger and can be used to generate electricity.

The new No. 1 blast furnace utilizes the technology that the SMI Group has

accumulated over many years and will help support our sustainable growth into the future.

## **The SMI Group's Global Strategies**

The SMI Group is responding to increasing global demand for steel products and is developing its overseas production and supply systems.

### **1 . Seamless pipe for crude oil and natural gas drilling**

The SMI Group, in partnership with the Vallourec Group of France and another partner, is engaged in a joint venture that is building an integrated steel plant to produce seamless pipe in Brazil. The plant is expected to begin operations in the fall of 2010. Together with the Wakayama Steel Works and the Amagasaki Steel Tube Works, this project will create three high-grade seamless production and supply bases for the SMI Group.

### **2 . High-grade steel sheet**

The SMI Group has established a joint-venture company 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. The plant is expected to commence operations in 2012 and will supply the ASEAN region where demand for steel products is expected to increase.

### **3 . Forged crankshafts for automotive engines**

The SMI Group reached agreement with Amtek Auto Limited of India to establish a local joint venture to manufacture and sell forged crankshafts in India, and started business in April 2010. By establishing a production base in India where the car market is expected to rapidly grow, along with its existing bases in Japan, the US and China, the SMI Group is setting up a four-polar global manufacturing and sales system.

**(5) 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		FY2006 ended March 31, 2007	FY2007 ended March 31, 2008	FY2008 ended March 31, 2009	Reporting period (FY2009 ended March 31, 2010)
(units: million tons)					
Crude steel production volume		13.38	13.62	12.87	11.65
Steel product sales volume		12.15	12.49	11.44	10.89
Sales (yen bil.)	Steel	1,488.8	1,622.3	1,740.7	1,205.8
	Other business	113.8	122.2	103.6	79.9
	Total (Sales overseas (out of total sales))	1,602.7 (662.3)	1,744.5 (712.3)	1,844.4 (774.9)	1,285.8 (511.8)
Ordinary income (loss) (yen bil.)		327.6	298.2	225.7	(36.6)
Net income (loss) (yen bil.)		226.7	180.5	97.3	(49.7)
Net income (loss) per share		47.89 yen	39.43 yen	20.98 yen	(10.74 yen)
Total assets (yen bil.)		2,301.5	2,418.3	2,452.5	2,403.6
Net assets (yen bil.)		924.7	949.3	904.3	879.2

- 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. From the current period onwards the Engineering and Electronics segments have been included under the category "Other business" following their reorganization into bridge building operations and other business as the Company pursues its objective of focussing its resources on selected business fields. Sales figures from FY2006 to FY2008 have been altered to reflect this change and provide a meaningful comparison with those of FY2009.
3. 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		FY2006 ended March 31, 2007	FY2007 ended March 31, 2008	FY2008 ended March 31, 2009	Reporting period (FY2009 ended March 31, 2010)
Sales (yen bil.)	Steel	1,020.6	1,126.0	1,235.3	828.4
	Other business	10.7	15.3	10.7	2.0
	Total	1,031.4	1,141.4	1,246.0	830.4
Ordinary income (yen bil.)		240.6	214.9	191.1	18.4
Net income (loss) (yen bil.)		139.2	129.3	90.7	(9.6)
Net income (loss) per share		29.41 yen	28.25 yen	19.57 yen	(2.07 yen)
Total assets (yen bil.)		1,873.7	1,940.6	1,988.6	2,032.5
Net assets (yen bil.)		690.8	672.9	643.1	639.8

### Notes:

1. From the current period onwards the Engineering segment have been included under the category "Other business" following their reorganization into bridge building operations and other business as the Company pursues its objective of focussing its resources on selected business fields. Sales figures from FY2006 to FY2008 have been altered to reflect this change and provide a meaningful comparison with those of FY2009.
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.

**(6) Main businesses of the SMI Group (as of March 31, 2010)**

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, 2010)**

		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, Aomori
	Overseas offices	Chicago, Houston, ASEAN (Bangkok, Singapore), Shanghai, Guangzhou
	Laboratories	Corporate Research & Development Laboratories (Amagasaki and Kamisu) Center of Application Technology for Customers (Amagasaki)
Consolidated subsidiaries	Domestic works	Sumitomo Metals (Kokura), Ltd. (Kitakyushu) Sumikin Iron & Steel Corporation (Wakayama) Sumitomo Metals (Naoetsu), Ltd. (Joetsu) Sumitomo Pipe & Tube Co., Ltd. (Kashima, etc.) Sumitomo Metal (SMI) Electronics Devices Inc. (Mine) Sumikin Steel & Shapes, Inc. (Wakayama, etc.) Sumikin & Nippon Steel Stainless Steel Pipe Co., Ltd. (Koga, et c.)
	Overseas works	Western Tube & Conduit Corp. (United States) Seymour Tubing, Inc. (United States) International Crankshaft Inc. (United States) Huizhou Sumikin Forging Co., Ltd. (China)

- Notes: 1. As of April 1, 2009, the Center of Application Technology for Customers (Amagasaki) was transferred to the Tokyo Head Office.
2. As of March 31, 2009, the Aomori sales office (listed in “Domestic offices” section above) was closed and its functions transferred to the Tohoku sales office (Sendai).
3. From the current period onwards, Sumikin & Nippon Steel Stainless Steel Pipe Co., Ltd. (Koga, etc.) will be listed as a domestic works under the category “Consolidated subsidiaries” due to the Group’s merger of its arc-welded stainless steel pipe and tube businesses with that of the Nippon Steel Corporation Group.

**(8) Employment by the SMI Group (as of March 31, 2010)**

Segment	No. of employees
Steel	19,253
Others	4,421
Total	23,674

Notes:

1. The number of employees decreased by 571 compared with the figure at the end of the previous fiscal year.
2. Of this number, 7,079 are SMI employees (excluding personnel on loan to other companies), a decrease of 5 compared with the figure at the end of the previous fiscal year.

## (9) Principal subsidiaries

### 1) Principal consolidated subsidiaries (as of March 31, 2010)

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	Electronic s	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
(*2) 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
Huizhou Sumikin Forging Co., Ltd.	yuan mil. 239	Steel	51.0	Manufacture and sales of small forged crankshafts for automotive use

#### Notes:

1. \*1 Includes shares held by subsidiaries.

2. \*2. From the current period onwards, Sumikin & Nippon Steel Stainless Steel Pipe Co., Ltd. is listed as a principal subsidiary due to the Group's merger of its arc-welded stainless steel pipe and tube businesses with that of the Nippon Steel Corporation Group.

## 2) Principal companies accounted for using the equity method (as of March 31, 2010)

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	*1 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	*1 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	*1 20.0	Manufacture and sale of welding materials and equipment
VAM USA LLC	\$US thousand 20,000	Steel	*1 34.0	Processing of premium joints for oil well pipe
Vallourec & Sumitomo Tubos do Brasil Ltda.	real mil. 3,000	Steel	39.0	Manufacture of seamless pipes

Notes: 1. \*1: Includes shares held by subsidiaries

## (10) Principal SMI Group creditors and loans outstanding (as of March 31, 2010)

Name of creditors	Loans outstanding		
	SMI	Consolidated subsidiaries	Total
	(yen. bil.)	(yen. bil.)	(yen. bil.)
Sumitomo Mitsui Banking Corporation	111.2	5.6	116.9
The Sumitomo Trust and Banking Co., Ltd.	106.8	3.5	110.3
Development Bank of Japan Inc.	50.5	0.2	50.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	38.9	4.2	43.2
The Norinchukin Bank	39.8	0.3	40.1

## 2. Stock information (as of March 31, 2010)

### (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)	(169,861,868 shares)

### (2) Number of shareholders

262,924

### (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)	155,263	3.35
The Master Trust Bank of Japan, Ltd. (account in trust)	136,245	2.94
Kobe Steel, Ltd.	112,565	2.43
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
Mitsui Sumitomo Insurance Company, Limited	68,206	1.47
Japan Trustee Services Bank, Ltd., The Sumitomo Trust and Banking Corporation retirement benefit trust (*2)	55,000	1.19
Sumitomo Life Insurance Company	51,503	1.11
Total	1,668,105	35.98

Notes: 1. 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	25.5	1.1	31.5	21.7	20.2	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, 2010)

(\* 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, 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	Yoshinari Ishizuka	Treasury and Public Relations & Investor Relations Departments
Director	Mitsunori Okada	President of Railway, Automotive & Machinery Parts Company Chairman of Huizhou Sumikin Forging Co., Ltd.,
Director	Michiharu Takii	Corporate Planning, Information Systems, and Internal Auditing Departments
Director	Shinichi Miki	Bhusan Steel Technical Collaboration Department, President of Steel Sheet, Plate & Structural Steel Company
Standing Corporate Auditor (full-time)	Shigeru Sakurai	
Standing Corporate Auditor (full-time)	Kitaro Yoshida	
Corporate Auditor	Eiji Asada	Certified Public Accountant, Outside corporate auditor of Fudo Tetra Corporation, and R-Tech Ueno, Ltd.
Corporate Auditor	Keiichi Murakami	Lawyer, Distinguished Visiting Professor of Doshisha University Law School
Corporate Auditor	Toshiro Mutoh	Chairman of Daiwa Institute of Research Ltd.

Notes:

1. Eiji Asada, Keiichi Murakami and Toshiro Mutoh are the Outside corporate auditors as stipulated in Article 2 Item 16 of the Companies Act.
2. Corporate auditor Eiji Asada 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 Eiji Asada, Keiichi Murakami and Toshiro Mutoh 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
Director	Yoshinari Ishizuka	March 31, 2010
Corporate Auditor	Shogo Takai	June 19, 2009

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

	No. of persons	Payments in the reporting period	Remarks
Directors	13	(yen mil.) 738	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	6	133	
Total (Number of and amount paid to Outside Corporate Auditors included in the total figure)	19 (4)	872 (43)	

Note: The figures above include the three (3) Directors who retired from the Company at the conclusion of their terms upon the conclusion of the Annual General Shareholders' Meeting for the 86th period on June 19, 2009 and one (1) Corporate Auditor who resigned on the same date.

### (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 28 Board of Corporate Auditors meetings. Attendance of each the Outside Corporate Auditors is as follows:

Name	Attendance	
	Board of Directors' meeting	Board of Corporate Auditors' meeting
Shogo Takai	4 meetings	8 meetings
Eiji Asada	18 meetings	28 meetings
Keiichi Murakami	15 meetings	27 meetings
Toshiro Mutoh	14 meetings	20 meetings

Shogo Taki, resigned as a Corporate Auditor on June 19, 2009. 4 Board of Directors' meetings and 8 Board of Corporate Auditors' meetings were held prior to his resignation. Toshiro Mutoh was newly elected and appointed on June 19, 2009. 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

On July 1, 2009, Deloitte Touche Tohmatsu became a limited liability company and changed its name to 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.) 102
(b) Total remuneration and other fees to be paid to Independent Auditors by the Company and its subsidiaries	315

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 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 also established Sumitomo Metals' Corporate Code that sets forth the essential policies for the Company's business and requires that the duties of Directors strictly comply with laws, regulations and business ethics.

### **(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 will be 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 is setting 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**

The Internal Auditing Department will monitor and supervise performance of the duties of executive officers and employees. The Compliance Committee will be set up to prevent violations of law, and the following compliance programs will be put in place.

- 1) The Sumitomo Metals' Corporate Code will require employees, executive officers and Directors to strictly comply with laws, regulations and business ethics. 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.

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

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

- 1) The Group Company Management Council will assess 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 will be required to be discussed with and reported to the Company, following a defined standard procedure.
- 3) Each subsidiary will be 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 will receive 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 will 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 will be set up to assist the Corporate Auditors. The number of such employees and the functions of the Office will 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 will 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 will 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, 2010

Millions of yen	Millions of yen
<b>Assets</b>	<b>Liabilities</b>
<b>Current assets:</b>	<b>Current liabilities:</b>
Cash and deposits	Notes and accounts payable-trade
Notes and accounts receivable-trade	Short-term loans payable
Merchandise and finished goods	Commercial papers
Work in process	Current portion of bonds
Raw materials and supplies	Deferred tax liabilities
Deferred tax assets	Other
Other	<b>Total current liabilities</b>
Allowance for doubtful accounts	
<b>Total current assets</b>	
	<b>Noncurrent liabilities:</b>
<b>Noncurrent assets:</b>	Bonds
<b>Property, plant and equipment:</b>	Long-term loans payable
Buildings and structures, net	Deferred tax liabilities
Machinery, equipment and vehicles, net	Deferred tax liabilities for land
Land	revaluation
Construction in progress	Provision for retirement benefits
Other, net	Provision for special repairs
<b>Total property, plant and equipment</b>	Other
	<b>Total noncurrent liabilities</b>
<b>Intangible assets:</b>	
Goodwill	<b>Total liabilities</b>
Other	
<b>Total intangible assets</b>	
	<b>Net assets</b>
<b>Investments and other assets:</b>	<b>Shareholders' equity:</b>
Investment securities	Capital stock
Deferred tax assets	Capital surplus
Other	Retained earnings
Allowance for doubtful accounts	Treasury stock
<b>Total investments and other assets</b>	<b>Total shareholders' equity</b>
<b>Total noncurrent assets</b>	<b>Valuation and translation adjustments:</b>
	Valuation difference on
	available-for-sale securities
	Deferred gains or losses on hedges
	Revaluation reserve for land
	Foreign currency translation adjustment
	<b>Total valuation and translation</b>
	<b>adjustments</b>
	<b>Minority interests</b>
	<b>Total net assets</b>
<b>Total assets</b>	<b>Total liabilities and net assets</b>

Note: Figures in parentheses are negative values.

## Consolidated Statement of Operations

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2010

Millions of yen

<b>Net sales</b>		<b>¥1,285,845</b>
<b>Cost of sales</b>		<b>1,163,191</b>
<b>Gross profit</b>		<b>122,654</b>
<b>Selling, general and administrative expenses</b>		
Shipment expenses	33,108	
Employees' salaries and allowances	37,376	
Research and development expenses	20,821	
Other	32,276	123,583
<b>Operating loss</b>		<b>928</b>
<b>Non-operating income</b>		
Interest income	764	
Dividends income	3,380	
Other	17,241	21,386
<b>Non-operating expenses</b>		
Interest expenses	15,730	
Equity in losses of affiliates	22,524	
Loss on sales and retirement of noncurrent assets	7,023	
Other	11,813	57,091
<b>Ordinary loss</b>		<b>36,634</b>
<b>Extraordinary loss</b>		
Loss on change in equity	1,592	
Restructuring loss	1,532	3,124
<b>Loss before income taxes and minority interests</b>		<b>39,758</b>
Income taxes-current	5,050	
Income taxes-deferred	4,205	9,255
Minority interests in income		757
<b>Net loss</b>		<b>¥49,772</b>

## Consolidated Statement of Changes in Net Assets

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2010

Millions of yen

<b>Shareholders' equity</b>	
<b>Capital stock</b>	
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>
<b>Capital surplus</b>	
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>
<b>Retained earnings</b>	
Balance at the end of previous period	680,807
Changes of items during the period	
Dividends from surplus	(34,780)
Net loss	(49,772)
Total changes of items during the period	<u>(84,552)</u>
Balance at the end of current period	<u>596,254</u>
<b>Treasury stock</b>	
Balance at the end of previous period	(90,528)
Changes of items during the period	
Purchase of treasury stock	(578)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Total changes of items during the period	<u>(578)</u>
Balance at the end of current period	<u>(91,106)</u>
<b>Total shareholders' equity</b>	
Balance at the end of previous period	914,180
Changes of items during the period	
Dividends from surplus	(34,780)
Net loss	(49,772)
Purchase of treasury stock	(578)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Total changes of items during the period	<u>(85,130)</u>
Balance at the end of current period	<u>829,050</u>

Note: Figures in parentheses are negative values.

Millions of yen

<b>Valuation and translation adjustments</b>	
<b>Valuation difference on available-for-sale securities</b>	
Balance at the end of previous period	(41,542)
Changes of items during the period	
Net changes of items other than shareholders' equity	43,866
Total changes of items during the period	43,866
Balance at the end of current period	2,324
<b>Deferred gains or losses on hedges</b>	
Balance at the end of previous period	(690)
Changes of items during the period	
Net changes of items other than shareholders' equity	(288)
Total changes of items during the period	(288)
Balance at the end of current period	(979)
<b>Revaluation reserve for land</b>	
Balance at the end of previous period	11,833
Changes of items during the period	
Net changes of items other than shareholders' equity	0
Total changes of items during the period	0
Balance at the end of current period	11,834
<b>Foreign currency translation adjustment</b>	
Balance at the end of previous period	(26,083)
Changes of items during the period	
Net changes of items other than shareholders' equity	13,074
Total changes of items during the period	13,074
Balance at the end of current period	(13,009)
<b>Total valuation and translation adjustments</b>	
Balance at the end of previous period	(56,483)
Changes of items during the period	
Net changes of items other than shareholders' equity	56,653
Total changes of items during the period	56,653
Balance at the end of current period	169
<b>Minority interests</b>	
Balance at the end of previous period	46,674
Changes of items during the period	
Net changes of items other than shareholders' equity	3,315
Total changes of items during the period	3,315
Balance at the end of current period	49,989
<b>Total net assets</b>	
Balance at the end of previous period	904,371
Changes of items during the period	
Dividends from surplus	(34,780)
Net loss	(49,772)
Purchase of treasury stock	(578)
Change in equity in affiliates accounted for by equity method-treasury stock	(0)
Net changes of items other than shareholders' equity	59,968
Total changes of items during the period	(25,161)
Balance at the end of current period	¥879,209

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: 72

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.  
Huizhou Sumikin Forging Co., Ltd.

In addition to one company that began operations as a consolidated subsidiary in the fiscal year, another new subsidiary has been newly added to the list of consolidated subsidiaries. One company which is no longer a subsidiary and one company that became an affiliated company accounted for using the equity method have been removed from the list of consolidated subsidiaries; furthermore, the number of consolidated subsidiaries has decreased by one following the merger of two 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 because they are small-scale enterprises whose total assets, net sales, net income (corresponding to holding) and retained earnings (corresponding to holding) 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: 1

Name of company:

Kanto Special Steel Works, Ltd.

##### b. Number of affiliated companies accounted for using the equity method: 36

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.

This fiscal year, one company that had been a consolidated subsidiary in the previous fiscal year was added to the scope of application of 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 slight impact their exclusion would exert 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
Sumikin Financial Service Co., Ltd.	December 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 disposed using the total net asset value input method, and the cost of disposal by sale 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 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; 14 years for machinery and equipment.

(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 (0).

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 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 within the average number of remaining years of service of employees when 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 (mainly 11 years) that is less than the average number of remaining years of service of employees as of the time such differences actually arise.

(Change to accounting policy)

From the current consolidated period under review, ASBJ Statement No.19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)"(July 31, 2008) has been applied. There are no differences to projected benefit obligations arising from this change in standards.

(c) Provision for special repairs

The liability for rebuilding furnaces is provided for the 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 under review, 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

(Change to accounting policy)

Prior to the current period under review, the percentage-of-completion method was used as the accounting standard for reporting income from long-term and large construction contracts (mainly those taking more than one year to complete and having a total undertaking of 100 million yen), whereas the completed contract method was applied in reporting income from other construction projects; however, from the current consolidated period under review onwards, both ASBJ Statement No.15, "Accounting Standard for Construction Contracts", and ASBJ Guidance No.18, "Guidance on Accounting Standard for Construction Contracts"(December 27, 2007) have been applied. The 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) is applied to construction projects begun in the current consolidated financial period under review for which the accuracy of the outcomes can be determined for the work in progress up until the end of the consolidated financial period under review. The completed contract method is applied to other construction works. These changes had no material impact on the Company's consolidated financial statements in the current consolidated financial period under review.

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 a special way.

(b) Means of hedging and subjects of hedging

Derivatives such as interest rate swaps and exchange contracts 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 fluctuations 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, the 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. Consumption taxes

Consumption tax is recorded as a liability and an asset, and is excluded from the relevant revenue, costs or expenses.

5. Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries are calculated using the overall fair price valuation method.

6. Goodwill and negative goodwill accounts

Goodwill and negative goodwill accounts are amortized using the straight-line method, mainly over 5 years.

7. Material changes to basis for preparation of consolidated financial statements

Changes to the method of presentation

Consolidated balance sheet

The category "Income taxes payable" listed under "Current liabilities" in the consolidated balance sheet as of March 31, 2009 has been included in the category "Other" in Current liabilities in the consolidated balance sheet as of March 31, 2010 due to a decline in its level of importance.

The category "Lease obligation" listed under "Noncurrent liabilities" in the consolidated balance sheet as of March 31, 2009 has been included in the category "Other" in Noncurrent liabilities in the consolidated balance sheet as of March 31, 2010 due to a decline in its level of importance.

## **2. Notes to the Consolidated Balance Sheet**

1. Assets pledged as collateral for debt

a. Assets pledged as collateral

Property, plant and equipment	¥16,623	million
<u>Total</u>	<u>¥16,623</u>	<u>million</u>

b. Secured debts

Notes and accounts payable-trade	¥1,345	million
<u>Long-term loans payable</u>	<u>1,148</u>	
<u>Total</u>	<u>¥2,494</u>	<u>million</u>

2. Accumulated depreciation for property, plant and equipment

¥2,391,024 million

3. Contingent liabilities

a. Guarantees

Bank loans and other which the Group guarantees, as follows:

Hibikinada Development Co., Ltd.	¥472	million
Baoji-SMI Petroleum Steel Pipe Corporation	321	
<u>3 other companies</u>	<u>93</u>	
<u>Total</u>	<u>¥887</u>	<u>million</u>

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

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

¥3,448 million

### **3. 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 12, 2009	Common stock	23,190	5.0	March 31, 2009	May 28, 2009
Board of Directors held on October 29, 2009	Common stock	11,589	2.5	September 30, 2009	December 1, 2009

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 11, 2010	Common stock	Retained earnings	11,589	2.5	March 31, 2010	May 27, 2010

#### 4. Financial instruments

##### 1 The status of financial instruments

The SMI 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 note and accounts payable-trade are denominated in foreign (non-yen) currency as they relate to product export and the purchase of raw materials, etc.; therefore, exchange rate fluctuations may have an impact on the Company's business results and financial position. Change in the value of company 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 values listed in the Consolidated Balance Sheet as of March 31, 2010, are listed in the table below.

Millions of yen			
	Book value	Fair value	Difference
(1) Cash and deposits	19,710	19,710	—
(2) Notes and accounts receivable-trade	151,507	151,507	—
(3) Short-term investments and investment securities	431,486	516,825	85,338
Total assets	602,705	688,044	85,338
(1) Notes and accounts payable-trade	204,969	204,969	—
(2) Short-term loans payable(*1)	157,047	157,047	—
(3) Commercial papers	24,000	24,000	—
(4) Bonds (*2)	195,658	200,022	4,364
(5) Long-term loans payable(*1)	761,649	769,325	7,676
Total liabilities	1,343,324	1,355,365	12,040
Derivatives (*3)	(2,496)	(2,496)	—

(\*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 debt.

##### 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 is 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. The fair values of long-term loans payable that is treated as an exceptional case of interest rate swapping is calculated from the total of the principal and the interest.

Derivatives

Since derivatives from interest rate 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. (109,496 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 the cash flow in the future.

**5. Per share information**

- |                         |            |
|-------------------------|------------|
| 1. Net assets per share | 178.87 yen |
| 2. Net loss per share   | 10.74 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, 2010

	Billions of yen
Net cash provided by operating activities	¥67.0
Net cash used in investing activities	(172.9)
Net cash provided by financing activities	87.8
Effect of exchange rate change on cash and cash equivalents	1.4
Net decrease in cash and cash equivalents	¥(16.6)

Note: Figures in parentheses are negative values.

### Summary of Segment Information

Sumitomo Metal Industries, Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2010

	Billions of yen				
	Steel	Other	Total	Corporate or eliminations	Consolidated
Sales to customers	1,205.8	79.9	1,285.8	—	1,285.8
Intersegment sales	2.0	18.5	20.5	(20.5)	—
Total sales	1,207.8	98.5	1,306.4	(20.5)	1,285.8
Operating profit	(7.6)	6.7	(0.8)	(0)	(0.9)

(Note) All figures in these references above are expressed to the nearest 100 million yen; values of less than 100 million yen have been rounded down. Figures in parentheses are negative values.

(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, 2010

Millions of yen		Millions of yen	
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets:</b>		<b>Current liabilities:</b>	
Cash and deposits	¥4,110	Notes payable-trade	¥6,492
Accounts receivable-trade	83,041	Accounts payable-trade	151,821
Short-term investments	7,525	Short-term loans payable	236,792
Merchandise and finished goods	94,779	Commercial papers	24,000
Work-in-process	7,336	Current portion of bonds	10,000
Raw materials and supplies	124,321	Lease obligations	4,926
Advance payments-trade	926	Accounts payable-other	94,671
Prepaid expenses	1,053	Accrued expenses	11,087
Deferred tax assets	7,317	Income taxes payable	582
Accounts receivable-other	98,382	Advances received	3
Short-term loans receivable	321,897	Deposits received	629
Other	1,589	Other	3,262
Allowance for doubtful accounts	(101)	<b>Total current liabilities</b>	<b>544,269</b>
<b>Total current assets</b>	<b>752,180</b>		
<b>Noncurrent assets:</b>		<b>Noncurrent liabilities:</b>	
<b>Property, plant and equipment:</b>		Bonds	185,658
Buildings, net	95,775	Long-term loans payable	628,637
Structures, net	52,146	Lease obligations	21,742
Machinery and equipment, net	235,656	Provision for retirement benefits	550
Vehicles, net	591	Provision for special repairs	170
Tools, furniture and fixtures, net	4,850	Other	11,680
Land	215,104	<b>Total noncurrent liabilities</b>	<b>848,438</b>
Lease assets, net	878	<b>Total liabilities</b>	<b>1,392,708</b>
Construction in progress	38,509		
<b>Total property, plant and equipment</b>	<b>643,513</b>	<b>Net assets</b>	
<b>Intangible assets:</b>		<b>Shareholders' equity:</b>	
Patent right	0	<b>Capital stock</b>	<b>262,072</b>
Right of using facilities	837	<b>Capital surplus:</b>	
Other	674	Legal capital surplus	61,829
<b>Total intangible assets</b>	<b>1,512</b>	<b>Total capital surplus</b>	<b>61,829</b>
<b>Investments and other assets:</b>		<b>Retained earnings:</b>	
Investment securities	302,848	Legal retained earnings	38,374
Stocks of subsidiaries and affiliates	250,136	Other retained earnings:	
Investments in capital	98	Reserve for special depreciation	2,752
Investments in capital of subsidiaries and affiliates	66,952	Reserve for overseas investment loss	215
Long-term loans receivable	0	Reserve for rebuilding furnaces	2,098
Long-term loans receivable from employees	33	Reserve for reduction entry	2,518
Long-term loans receivable from subsidiaries and affiliates	16,499	Retained earnings brought forward	363,079
Claims provable in bankruptcy, claims provable in rehabilitation and other	551	<b>Total retained earnings</b>	<b>409,039</b>
Long-term prepaid expenses	2,914	<b>Treasury stock</b>	<b>(91,086)</b>
Deferred tax assets	8,127	<b>Total shareholders' equity</b>	<b>641,855</b>
Other	1,768		
Allowance for doubtful accounts	(13,754)	<b>Valuation and translation adjustments:</b>	
Allowance for investment loss	(783)	Valuation difference on available-for-sale securities	(1,043)
<b>Total investments and other assets</b>	<b>635,392</b>	Deferred gains or losses on hedges	(921)
<b>Total noncurrent assets</b>	<b>1,280,418</b>	<b>Total valuation and translation adjustments</b>	<b>(1,964)</b>
<b>Total assets</b>	<b>¥2,032,599</b>	<b>Total net assets</b>	<b>639,890</b>
		<b>Total liabilities and net assets</b>	<b>¥2,032,599</b>

Note: Figures in parentheses are negative values.

## Non-consolidated Statement of Operations

Sumitomo Metal Industries, Ltd.  
Year ended March 31, 2010

Millions of yen

<b>Net sales</b>		<b>¥830,486</b>
<b>Cost of sales</b>		
Beginning finished goods	45,226	
Cost of products manufactured	740,337	
Total	785,563	
Transfer to other account	157	
Ending finished goods	36,382	749,023
<b>Gross profit</b>		<b>81,462</b>
<b>Selling, general and administrative expenses</b>		
Shipment expenses	20,576	
Employees' salaries and allowances	11,057	
Provision for retirement benefits	1,580	
Depreciation	316	
Rents	1,366	
Research and development expenses	17,824	
Other	9,211	61,932
<b>Operating income</b>		<b>19,530</b>
<b>Non-operating income</b>		
Interest income	2,988	
Dividends income	15,725	
Gain on sales of goods	305	
Other	7,971	26,990
<b>Non-operating expenses</b>		
Interest expense	11,907	
Interest on bonds	2,837	
Loss on sales and retirement of noncurrent assets	3,406	
Other	9,878	28,030
<b>Ordinary income</b>		<b>18,491</b>
<b>Extraordinary loss</b>		
Loss on valuation of stocks of subsidiaries and affiliates	20,952	
Restructuring loss	1,000	21,952
<b>Loss before income taxes</b>		<b>3,460</b>
Income taxes-deferred	6,155	6,155
<b>Net loss</b>		<b>¥9,616</b>

## Non-consolidated Statement of Changes in Net Assets

Sumitomo Metal Industries, Ltd.  
Year ended March 31, 2010

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

##### 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	<u>61,829</u>

##### 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	<u>61,829</u>

#### 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	<u>38,374</u>

##### Other retained earnings

##### Reserve for special depreciation

Balance at the end of previous period	3,364
Changes of items during the period	
Reversal of reserve for special depreciation	(612)
Total changes of items during the period	<u>(612)</u>
Balance at the end of current period	<u>2,752</u>

##### Reserve for overseas investment loss

Balance at the end of previous period	237
Changes of items during the period	
Reversal of reserve for overseas investment loss	(21)
Total changes of items during the period	<u>(21)</u>
Balance at the end of current period	<u>215</u>

##### Reserve for rebuilding furnaces

Balance at the end of previous period	1,646
Changes of items during the period	
Provision of reserve for rebuilding furnaces	452
Total changes of items during the period	<u>452</u>
Balance at the end of current period	<u>2,098</u>

##### Reserve for reduction entry

Balance at the end of previous period	2,469
Changes of items during the period	
Provision of reserve for reduction entry	48
Reversal of reserve for reduction entry	(0)
Total changes of items during the period	<u>48</u>
Balance at the end of current period	<u>2,518</u>

	Millions of yen
<b>Retained earnings brought forward</b>	
Balance at the end of previous period	407,345
Changes of items during the period	
Reversal of reserve for special depreciation	612
Reversal of reserve for overseas investment loss	21
Provision of reserve for rebuilding furnaces	(452)
Provision of reserve for reduction entry	(48)
Reversal of reserve for reduction entry	0
Dividends from surplus	(34,782)
Net loss	(9,616)
Total changes of items during the period	<u>(44,266)</u>
Balance at the end of current period	<u>363,079</u>
<b>Total retained earnings</b>	
Balance at the end of previous period	453,438
Changes of items during the period	
Dividends from surplus	(34,782)
Net loss	(9,616)
Total changes of items during the period	<u>(44,399)</u>
Balance at the end of current period	<u>409,039</u>
<b>Treasury stock</b>	
Balance at the end of previous period	(90,508)
Changes of items during the period	
Purchase of treasury stock	(578)
Total changes of items during the period	<u>(578)</u>
Balance at the end of current period	<u>(91,086)</u>
<b>Total shareholders' equity</b>	
Balance at the end of previous period	686,832
Changes of items during the period	
Dividends from surplus	(34,782)
Net loss	(9,616)
Purchase of treasury stock	(578)
Total changes of items during the period	<u>(44,977)</u>
Balance at the end of current period	<u>641,855</u>

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Note: Figures in parentheses are negative values.

Millions of yen

<b>Valuation and translation adjustments</b>	
<b>Valuation difference on available-for sale securities</b>	
Balance at the end of previous period	(43,003)
Changes of items during the period	
Net changes of items other than shareholders' equity	41,960
Total changes of items during the period	41,960
Balance at the end of current period	(1,043)
<b>Deferred gains or losses on hedges</b>	
Balance at the end of previous period	(649)
Changes of items during the period	
Net changes of items other than shareholders' equity	(271)
Total changes of items during the period	(271)
Balance at the end of current period	(921)
<b>Total valuation and translation adjustments</b>	
Balance at the end of previous period	(43,652)
Changes of items during the period	
Net changes of items other than shareholders' equity	41,688
Total changes of items during the period	41,688
Balance at the end of current period	(1,964)

Note: Figures in parentheses are negative values.

	Millions of yen
<b>Total net assets</b>	
Balance at the end of previous period	643,180
Changes of items during the period	
Dividends from surplus	(34,782)
Net loss	(9,616)
Purchase of treasury stock	(578)
Net changes of items other than shareholders' equity	41,688
Total changes of items during the period	<u>(3,289)</u>
Balance at the end of current period	<u>¥639,890</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 disposed using the total net asset value input method, and the cost of disposal by sale is 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

Leases 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.

Leases 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 (0).

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 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.

(Change to accounting policy)

From the current period under review, ASBJ Statement No.19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)"(July 31, 2008) has been applied. There are no differences to projected benefit obligations arising from this change in standards.

d. Provision for special repairs

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

5. Accounting standards for reporting 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 balance sheet date under review, 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

(Change to accounting policy)

Prior to the current period under review, the percentage-of-completion method was used as the accounting standard for reporting income from long-term and large construction contracts, whereas the completed contract method was applied in reporting income from other construction projects; however, from the current period under review onwards, both ASBJ Statement No.15, "Accounting Standard for Construction Contracts", and ASBJ Guidance No.18, "Guidance on Accounting Standard for Construction Contracts"(December 27, 2007), have been applied. The 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) is applied to construction projects begun in the current financial period under review for which the accuracy of the outcomes can be determined for the work in progress up until the end of the financial period under review. The completed contract method is applied to other construction works. These changes had no material impact on the Company's financial statements in the current financial period under review.

6. 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.
7. Hedging activities
  - a. Hedge accounting methods  
Deferred hedge accounting is used. In addition, a portion of interest rate swaps are treated in a special way.
  - b. Means of hedging and subjects of hedging  
Derivatives such as interest rate swaps and exchange contracts 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 foreign exchange rates fluctuation in relation to foreign-currency-denominated 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, the 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.
8. Consumption taxes  
Consumption tax is recorded as a liability or an asset, and is excluded from the relevant revenue, costs or expenses.

## **2. Notes to Balance Sheet**

1. Accumulated depreciation for property, plant and equipment  
¥ 1,741,936 million

2. Contingent liabilities

a. Guarantees

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

Sumikin Financial Service Co., Ltd.	¥3,334	million
Sumikin Kogyo Co., Ltd.	1,530	
SMI Crankshaft LLC	1,283	
SVA-Sumikin Micro Devices Co., Ltd.	953	
Sumikin Kosan Co., Ltd.	880	
Huizhou Sumikin Forging Co., Ltd.	854	
International Crankshaft, Inc.	818	
Ring Techs Co., Ltd.	426	
Sumitomo Metal Fine Technology Co., Ltd.	379	
17 other companies	2,169	
Total	¥12,630	million

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

- b. Maximum amount of obligation to repurchase transferred receivables under certain conditions  
¥464 million

3. Receivables and payables to subsidiaries and affiliated companies

Short-term receivables	¥439,322	million
Long-term receivables	¥16,499	million
Short-term payables	¥108,388	million

## **3. Note to Statement of Operations**

Transactions with subsidiaries and affiliated companies

Business transactions

Sales to subsidiaries and affiliated companies	¥168,932	million
Purchases from subsidiaries and affiliated companies	¥391,209	million

Other transactions with subsidiaries and affiliated companies

¥287,368 million

## **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 169,861,868 shares

## **5. Note to accounting for deferred taxes**

Deferred tax assets mainly arise from temporary difference 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: 39.0	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)	184,428	Accounts payable-trade	32,416
Sale of steel products, etc. (*2)	122,808	Accounts receivable - trade	16,248
Subscription of new shares (*3)	39,153	—	—

### 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 together with other shareholders in proportion to its shareholding ratio.
  - 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 138.02 yen
2. Net loss per share 2.07 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, 2010

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

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, 2010 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, 2009 to March 31, 2010. 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, 2010, 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 Law.

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, 2010

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

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, 2010 of Sumitomo Metal Industries, Ltd. (the "Company"), and the related statements of operations and changes in net assets, and the related notes for the 87th fiscal year from April 1, 2009 to March 31, 2010, 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, 2010, 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 Law.

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**

In respect of the execution of duties by the Directors during the 87th business year commenced on April 1, 2009 and ended on March 31, 2010, 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 and receiving explanations from Directors and employees 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, 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.

May 11, 2010

The Board of Corporate Auditors

Sumitomo Metal Industries, Ltd.

Shigeru Sakurai, Standing Corporate Auditor (full-time)

Kitaro Yoshida, Standing Corporate Auditor (full-time)

Eiji Asada, Corporate Auditor

Keiichi Murakami, Corporate Auditor

Toshiro Mutoh, Corporate Auditor

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