

# Presentation for the First Half of Fiscal Year 2006 (ending March 31, 2006)

November 14, 2005

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II . FY2006 Targets

# Forward-looking Statement

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 Be advised that developments subsequent to this presentation are likely to cause these statements to become outdated with the passage of time.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

# I . The First Half of FY 2006 Results

## 1. Overview

< Consolidated >

(100 million yen)

	FY2005 Second Half	FY2006 First Half	Change
Sales	6,630	7,305	675
Operating profit	1,045	1,448	402
Recurring profit	1,016	1,318	302
Non-recurring profit and loss	△ 38	△ 13	24
Corporate taxes and minority interests	△ 320	△ 383	△ 63
Net income	657	920	263
Outstanding retained earnings	1,158	1,832	674
Total assets	19,231	20,005	774

< Non-consolidated >

(100 million yen)

	FY 2005 Second Half	FY 2006 First Half	Change
Sales	4,155	4,500	344
Operating profit	711	1,042	331
Recurring profit	634	902	267
Non-recurring profit and loss	2	△ 241	△ 243
Corporate taxes, etc.	△ 204	△ 230	△ 25
Net income	432	430	△ 1
Outstanding retained earnings	1,313	1,502	189
Total assets	14,578	15,259	680

## 2. Sales and Operating profit

< Consolidated >

(100 million yen)

	FY 2005 Second Half		FY 2006 First Half		Change	
	Sales	Operating profit	Sales	Operating profit	Sales	Operating profit
Steel	5,782	1,052	6,606	1,443	824	391
Engineering	351	△ 26	192	△ 22	△ 159	3
Electronics	256	3	302	14	45	10
Other	239	19	204	15	△ 35	△ 4
(Elimination method)		(△3)		(△3)		(△0)
Total	6,630	1,045	7,305	1,448	675	402

Reasons for change ←

	Reasons
Steel	In the midst of significant increases in raw material prices and the popularization in steel supply and demand, both income and profit increased due to our efforts to improve steel prices and reduce costs while maintaining our high-grade focused product lines.
Engineering	Income decreased due to the reduction in the public sector investment.
Electronics	Income and profit increased due to high demand in the semiconductor sector.

<Total for Sumitomo Metals, Sumitomo Metals (Kokura), Sumitomo Metals (Naoetsu), and Sumikin Iron & Steel Corporation>

	FY2005 Second Half	FY2006 First Half	Change
	(yen/US dollar)		
Exchange rate	105	109	Down 4 yen
	(10,000 tons)		
Sales volume	589	600	11
	(1,000yen/ton)		
Average price of steel products	77.4	88.5	11.1
Price fluctuation, change in product mix		9.6	
Exchange rate fluctuation		1.5	
<hr/>			
Total			

<Non-consolidated> (100 million yen)

	FY2005 Second Half	FY2006 First Half	Change
	Sales	Sales	Sales
Steel	3,811	4,314	502
Engineering	343	185	△ 157
Electronics	—	—	—
Total	4,155	4,500	344

	FY2005 Second Half	FY2006 First Half	Change
	(yen/US dollar)		
Exchange rate	105	109	Down 4 yen
	(10,000 tons)		
Sales volume	468	451	△ 17
	(1,000yen/ton)		
Average price of steel products	81.4	95.7	14.3
Price fluctuation, change in product mix		12.8	
Exchange rate fluctuation		1.5	
<hr/>			
Total			

### 3. Change in consolidated recurring profit

FY05 First Half→FY06 First Half      Increase by 60.2 billion yen (71.6 billion yen → 131.8 billion yen)

Reasons for improvement of profit & loss		Reasons for deterioration of profit & loss	
(100 million yen)		(100 million yen)	
Cost improvement	80	Raw material prices, etc.	△ 790
Changes in product mix and prices, etc.	1,337	Exchange rate fluctuation	△ 25
Total	1,417		△ 815

FY05 Second Half→FY06 First Half      Increase by 30.2 billion yen (101.6 billion yen → 131.8 billion yen)

Reasons for improvement of profit & loss		Reasons for deterioration of profit & loss	
(100 million yen)		(100 million yen)	
Cost improvement	65	Raw material prices, etc.	△ 590
Changes in product mix and prices, etc.	837	Exchange rate fluctuation	△ 10
Total	902		△ 600

#### 4. Non-recurring profit and loss

<Consolidated>

(100 million yen)

	FY 2005 Second Half	FY 2006 First Half
Gains on sales of investment securities	259	68
Gain on sales of property, plant and equipment and other assets	11	
Other	8	
<b>Total non-recurring profit</b>	<b>279</b>	<b>68</b>
Loss on asset impairment		△ 31
Loss on business restructuring	△ 68	△ 50
Charge for transitional obligations for employees' retirement benefits	△ 32	
Loss on disposal and sales of property, plant, equipment and other assets	△ 168	
Loss resulting from disaster damage	△ 34	
Other	△ 13	
<b>Total non-recurring loss</b>	<b>△ 318</b>	<b>△ 82</b>
<b>Total non-recurring profit and loss</b>	<b>△ 38</b>	<b>△ 13</b>

## 5. Cash flow

<Consolidated>

	FY 2005 Second Half	FY 2006 First Half	Change
Cash flow from operations	1,470	1,502	32
Cash flow from investments	31	△ 502	△ 534
Cash flow from financing	△ 1,555	△ 1,208	347
Cash and cash equivalents at the end of the first/second half of the fiscal year	424	219	△ 205

## 6. Consolidated shareholder's equity

(100 million yen)

	FY 2005 Second Half	FY 2006 First Half	Change
Opening balance of additional paid-in capital	618	618	0
Gains on disposal of treasury stocks	0	—	△0
Closing balance of additional paid-in capital	618	618	—
Opening balance of retained earnings	499	1,158	659
Net income	657	920	263
Dividend	—	△ 240	△ 240
Bonuses to directors and corporate auditors	—	△ 1	△ 1
Increase due to inclusion or decrease due to exclusion of certain subsidiaries into/from consolidation and certain associated companies, etc.	2	△ 5	△ 7
Closing balance of retained earnings	1,158	1,832	674

## Supplementary figures

### (1) Financial income and expenditure

< Consolidated > (100 million yen)

	FY2005 Second Half	FY2006 First Half
Interest earned and dividend received	16	25
Interest payments	△ 81	△ 64
Financial income and expenditure	△ 65	△ 39

< Non-consolidated > (100 million yen)

	FY2005 Second Half	FY2006 First Half
Interest earned and dividend received	18	40
Interest payments	△ 52	△ 44
Financial income and expenditure	△ 33	△ 4

## (2) Investment and Depreciation (Tangible fixed assets)

<Consolidated>

(Acceptance base, 100 million yen)

		FY2005	FY2006		
			First Half	Second Half (planned)	Total
Investment A	Steel	556	379	420	800
	Non-steel	47	32	50	80
	Total	603	411	470	880
Depreciation B		792	365	390	750
B-A		189	△ 46	△ 80	△ 130

<Non-consolidated>

(Acceptance base, 100 million yen)

		FY2005	FY2006		
			First Half	Second Half (planned)	Total
Investment A		366	271	290	560
Depreciation B		480	212	230	440
B-A		114	△ 59	△ 60	△ 120

### (3) Steel sales by internal company

<Consolidated>

Internal company	FY2005		FY2006		Change
	Second Half	First Half	Second Half	First Half	
Steel Sheet, Plate, Titanium & Structural Steel	3,054	3,375			320
Pipe & Tube	1,509	1,876			366
Railway, Automotive & Machinery Parts	406	445			38

(100 million yen)

<Non-consolidated>

Internal company	FY 2005		FY 2006		Change	
	Second Half		First Half		Volume	Value
	Volume	Value	Volume	Value		
Steel Sheet, Plate, Titanium & Structural Steel	370	2,396	354	2,580	△ 15	183
Pipe & Tube	88	1,071	85	1,356	△ 3	285
Railway, Automotive & Machinery Parts	10	343	11	376	1	33

(10,000 tons, 100 million yen)

#### (4) Steel Business (Domestic/export sales)

< Non-consolidated >

(10,000 tons, 100 million yen)

	FY 2006 First Half	
	Volume	Value
Domestic	284	2,463
Export	167	1,851
Total	451	4,314

< Non-consolidated >

Percentage of total exports per region

(%, value basis)

	FY 2006 First Half
Asia	57
North America	12
Middle East	14
EU	12
Other	5

## II. FY 2006 Targets

## 1. Targets

1-(1) Basis for FY2006 performance targets

		FY2006		
		First half results	Second half targets	Full-year targets
Exchange rate	yen/US dollar	109	110	110
Japan total crude steel production	Million tons	56.8	55.8	Approx 113
Sumitomo Metals Group crude steel production ( * )	10,000 tons	670	Approx. 660	Approx. 1,330

( \* ) includes Sumitomo Metals (Kokura), Sumitomo Metals (Naoetsu), and Sumikin Iron & Steel Corporation

Exchange balance (100 million US dollars/year)

(US dollar receipt excess)	Non-consolidated	12
	Group companies	1
	Consolidated	13

## 1-(2) Targets of FY2006 Business

< Consolidated >

(100 million yen)

			Full-year targets (Approximate)	Change (Approximate)
	First half results	Second half targets (Approximate)		
Sales	7,305	7,800	15,100	500
Operating profit	1,448	1,300	2,750	△150
Recurring profit	1,318	1,200	2,500	△120
Non-recurring profit & loss	△ 13	200	200	210
Corporate taxes and minority interests	△ 383	△350	△730	30
Net income	920	1,050	1,970	130

< Non-consolidated >

(100 million yen)

			Full-year targets (Approximate)	Change (Approximate)
	First half results	Second half targets (Approximate)		
Sales	4,500	4,750	9,250	250
Operating profit	1,042	950	2,000	△90
Recurring profit	902	850	1,750	△50
Non-recurring profit & loss	△ 241	120	△120	360
Corporate taxes, etc.	△ 230	△290	△520	△60
Net income	430	680	1,110	250

< Consolidated >

	FY2005 results		FY2006 targets (Approximate)	
	Sales	Operating profit	Sales	Operating profit
Steel	10,857	1,837	13,750	2,735
Engineering	571	△ 48	350	△ 50
Electronics	490	12	600	35
Other	448	27	400	30
Total	12,369	1,828	15,100	2,750

(100 million yen)

Change form previous year (Approximate)	
Sales	Operating profit
2,890	900
△ 220	Remained unchanged
110	20
△ 50	Remained unchanged
2,730	920

< Consolidated >

	FY2006 first half results		FY2006 second half targets (Approximate)	
	Sales	Operating profit	Sales	Operating profit
Steel	6,606	1,443	7,140	1,290
Engineering	192	△ 22	160	△ 30
Electronics	302	14	300	20
Other	204	12	200	20
Total	7,305	1,448	7,800	1,300

(100 million yen)

Change from previous year (Approximate)	
Sales	Operating profit
530	△ 150
△ 30	△ 10
Remained unchanged	10
Remained unchanged	10
500	△ 150

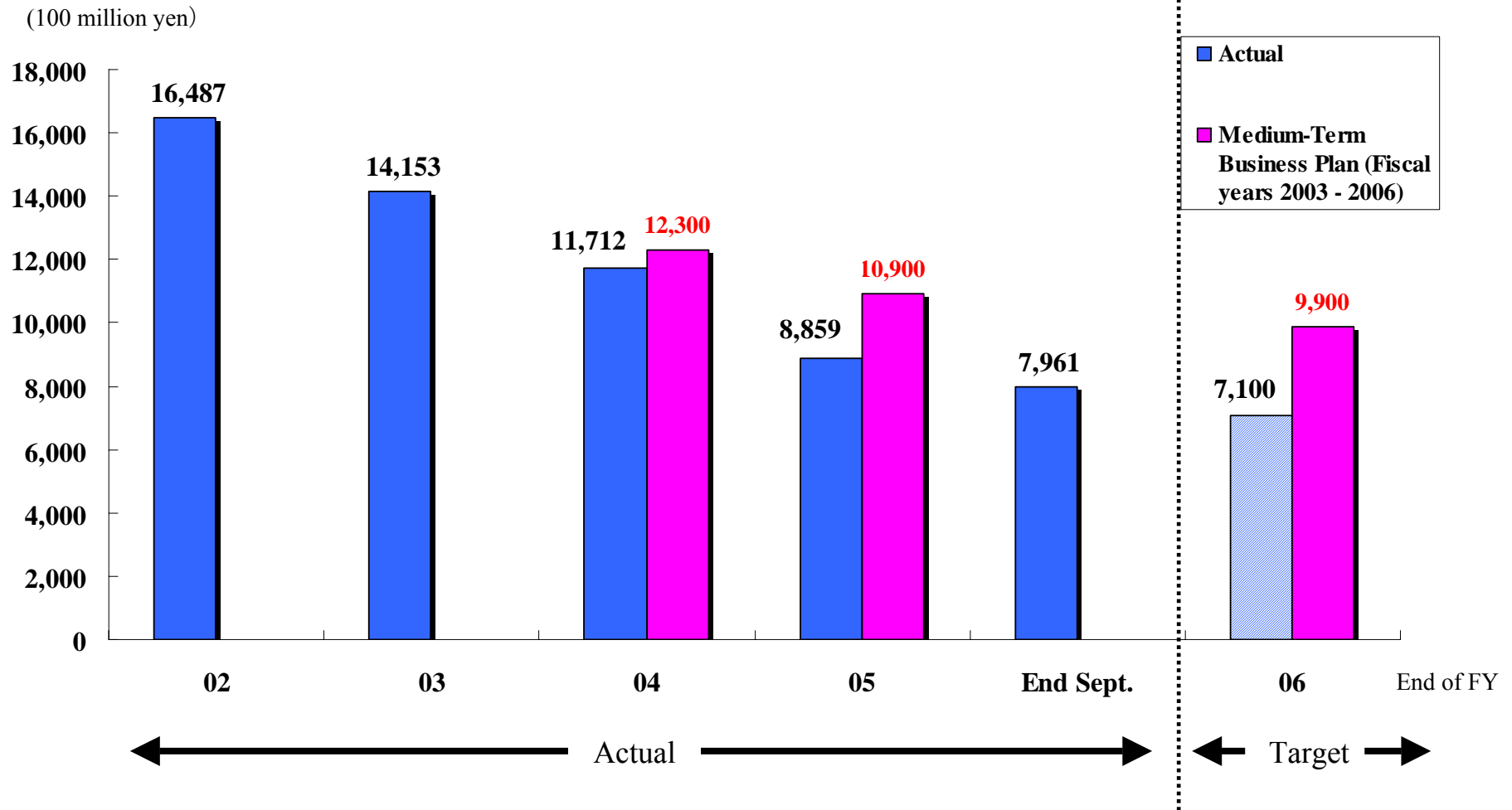
#### 1-(4) Change in consolidated recurring profit

FY05→FY06 Target		Increase by approx. 76.8 billion yen (173.2 billion yen→250 billion yen)	
Reasons for expected improvement of profit and loss		Reasons for expected deterioration of profit and loss	
(100 million yen)		(100 million yen)	
Cost improvement	160	Raw material prices, etc.	△ 1,350
Changes in product mix and prices, etc.	1,958	Exchange rate fluctuation	0
Total	2,118	Total	△ 1,350

FY06 First Half→FY06 Second Half Target		Decrease by approx. 11.8 billion yen (131.8 billion yen→120 billion yen)	
Reasons for expected improvement of profit and loss		Reasons for expected deterioration of profit and loss	
(100 million yen)		(100 million yen)	
Cost improvement	15	Raw material prices, etc.	△ 50
Changes in product mix and prices, etc.	117	Profit or loss from valuation	△ 200
Total	132	Total	△ 250

# Improvement of Financial Position

## Consolidated debt



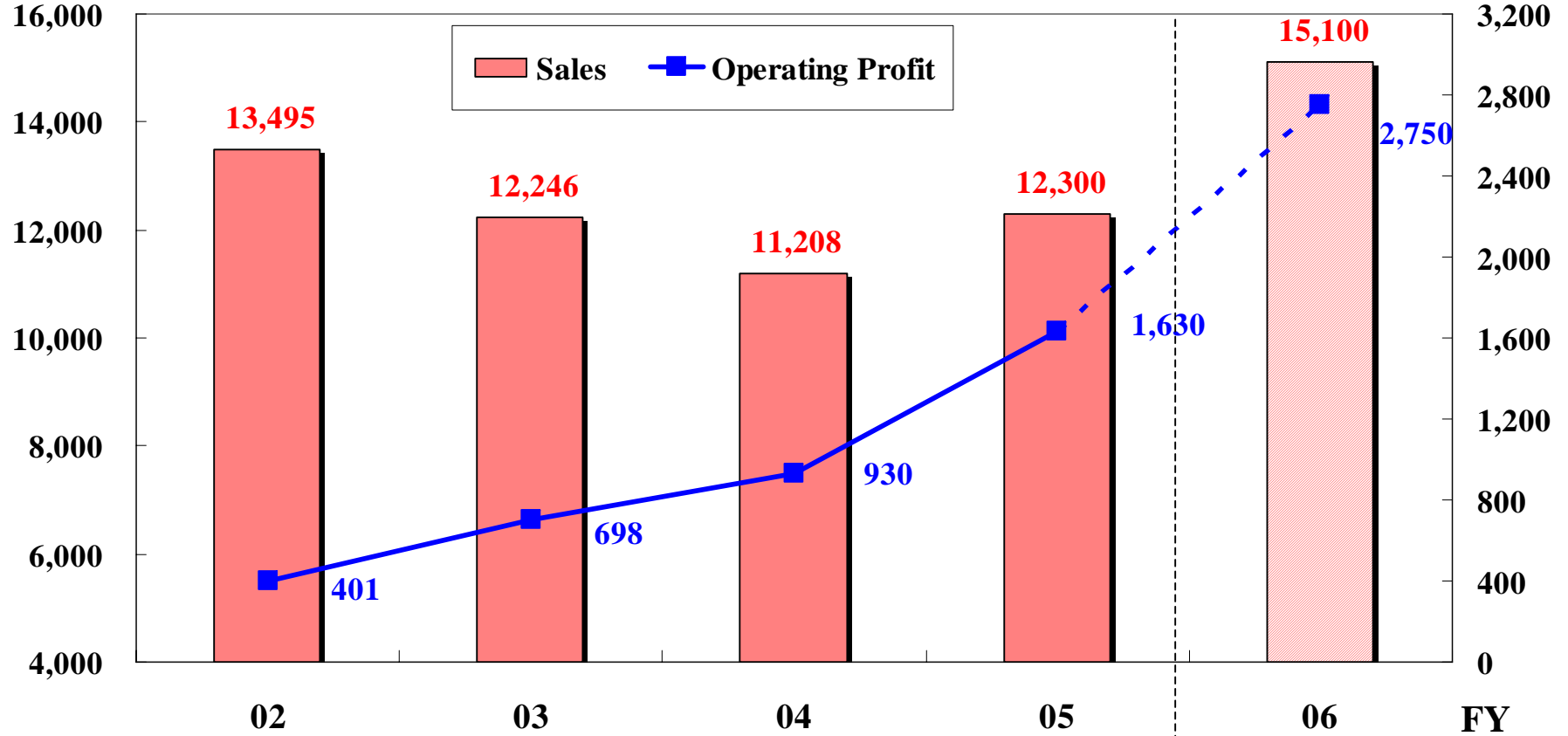
Sales

# Sales and Operating Profit

Operating Profit

(100 million yen)

(100 million yen)



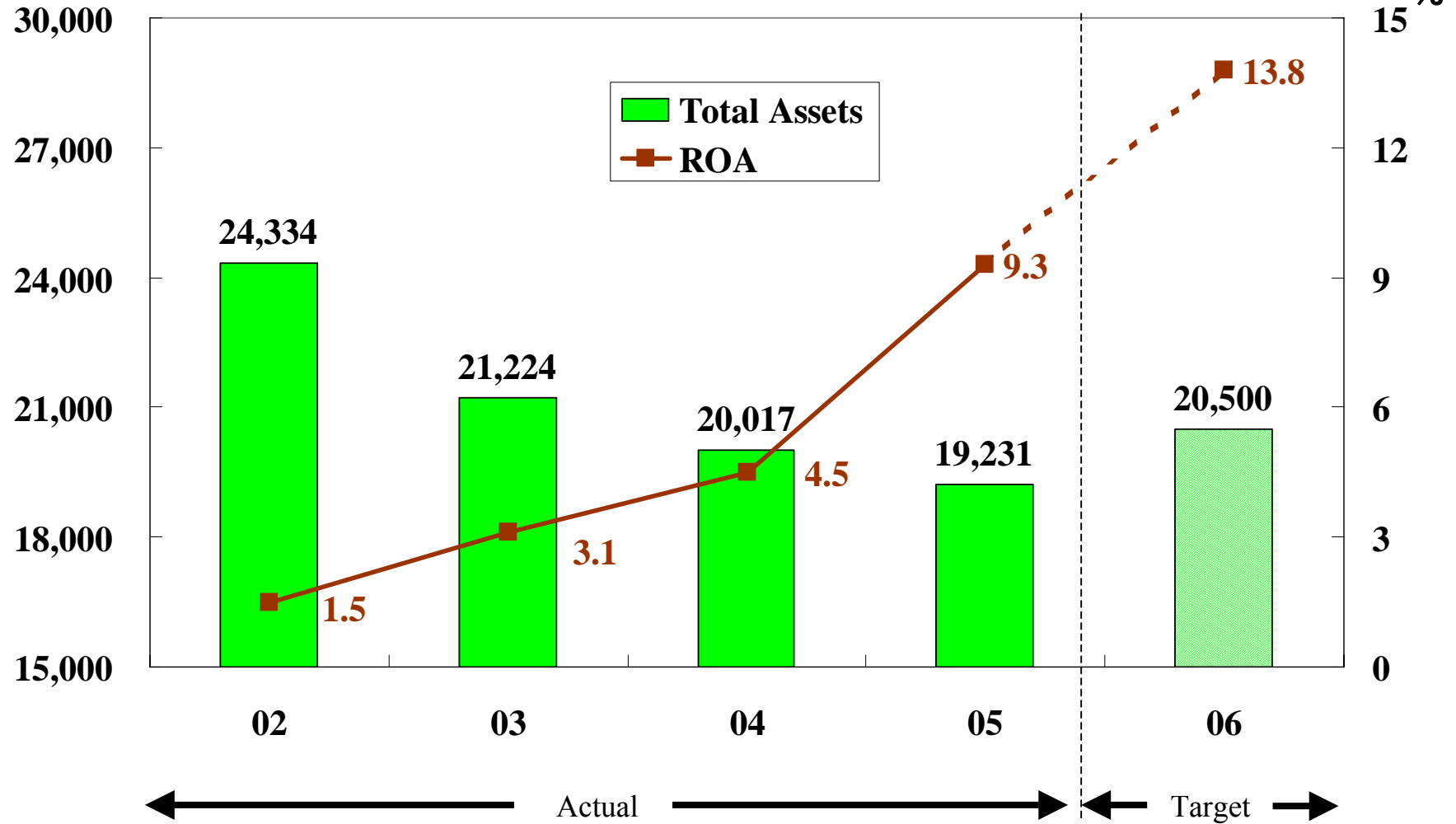
← Actual → Target →

Total Assets

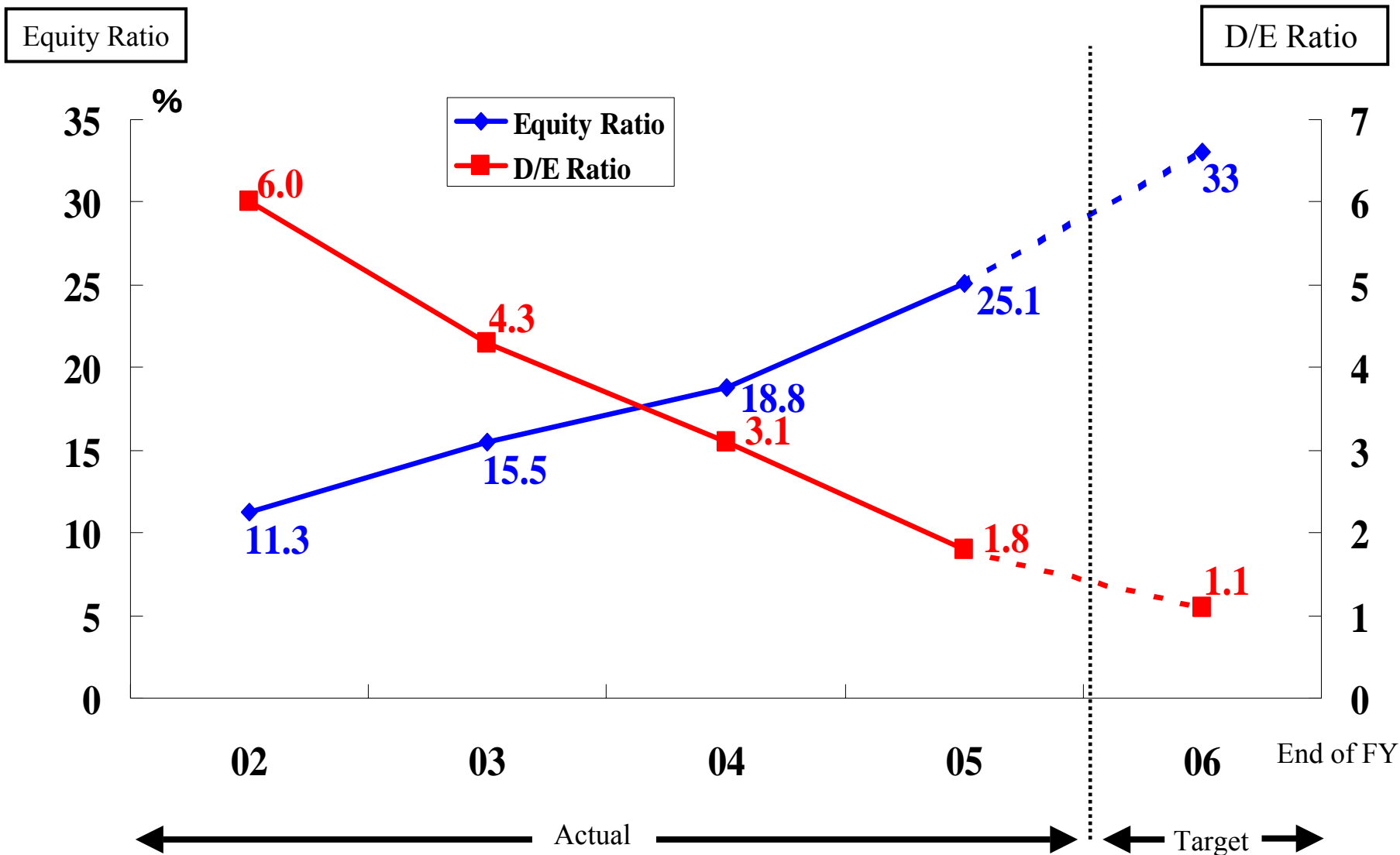
# Total Assets and ROA

ROA

(100 million yen)



# Equity Ratio and D/E Ratio (Consolidated)



## 2. SUMCO Listing

Silicon wafer business (SUMCO) was listed on the Tokyo Stock Exchange on November 17, 2005

Our shareholding ratio: 50% → 31.8%  
(Sale of 12,210,000 shares, excl. 2,190,000 over-allotments shares.)

SUMCO will use 56.2 billion yen raised by issuing new shares for capital investment to increase the production capacity of 300mm wafers.

- To enhance our competitive advantage by concentrated investment in the Kyushu Imari Plant
- To be the best in the 300mm wafer business

## Effect of SUMCO listing on our business results for Fiscal Year 2006

### Profit from sale of our shares

(Consolidated) Approx. 37 billion yen

(Non-consolidated) Approx. 19 billion yen

(Excl. 2,190,000 over-allotments shares)

3. In the midst of the polarization in steel supply and demand

Further increase of our strength  
in energy and automobile sectors

## Our Goals

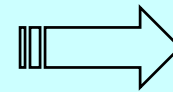
“Ordinary company” to “Excellent company”

Before



After

Ordinary



Future

Excellent

Further increase of our strength

Being prepared for downside risks

## Structural Reforms Implemented by Sumitomo Metals

(Change in the steel sheet production system)

Concentration of steel sheets mass-production at Kashima Steel Works

- Operation of new No.1 blast furnace started at Kashima Steel Works (September 2004)
- Shutdown of the hot rolling mill at Wakayama Steel Works to concentrate mass-production of steel sheets at Kashima Steel Works (March 2005)

(Splitting the upstream process of Wakayama Steel Works) (November 2003)

(Integration of stainless steel businesses of Sumitomo Metals and Nippon Steel Corporation) (October 2003)

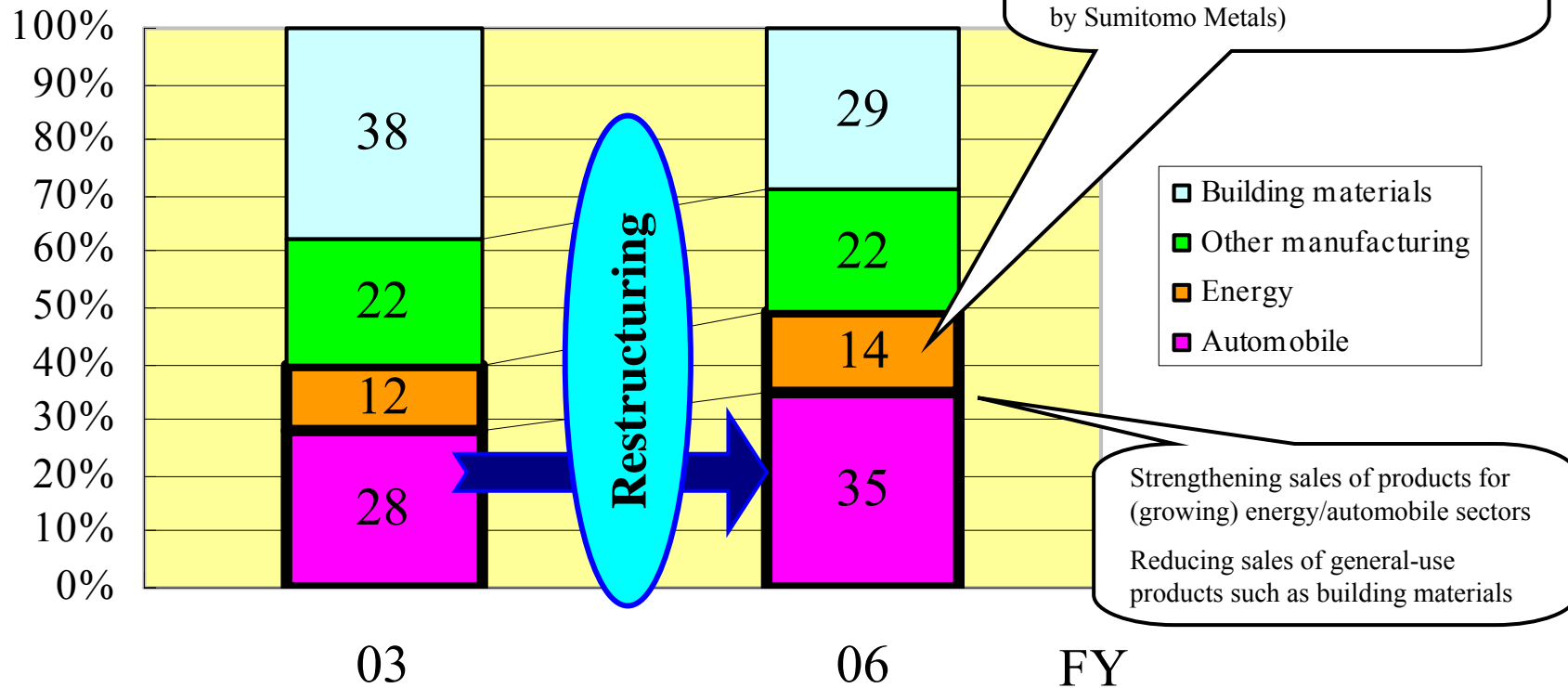
(Supply of 1.8 million tons/year of steel slabs to CSC) (April 2005)

(Enhancement of Cooperation with Nippon Steel & Kobe Steel) (March 2005)  
Joint Use of upstream production facilities at Wakayama Steel Works

# Changes in steel sales breakdown

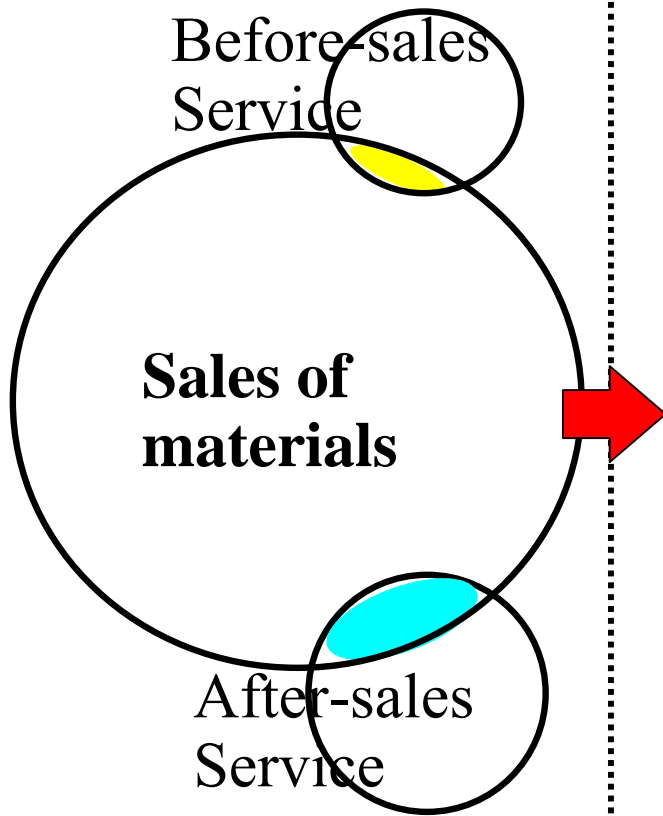
Ratio by Volume

(Excl. slab)

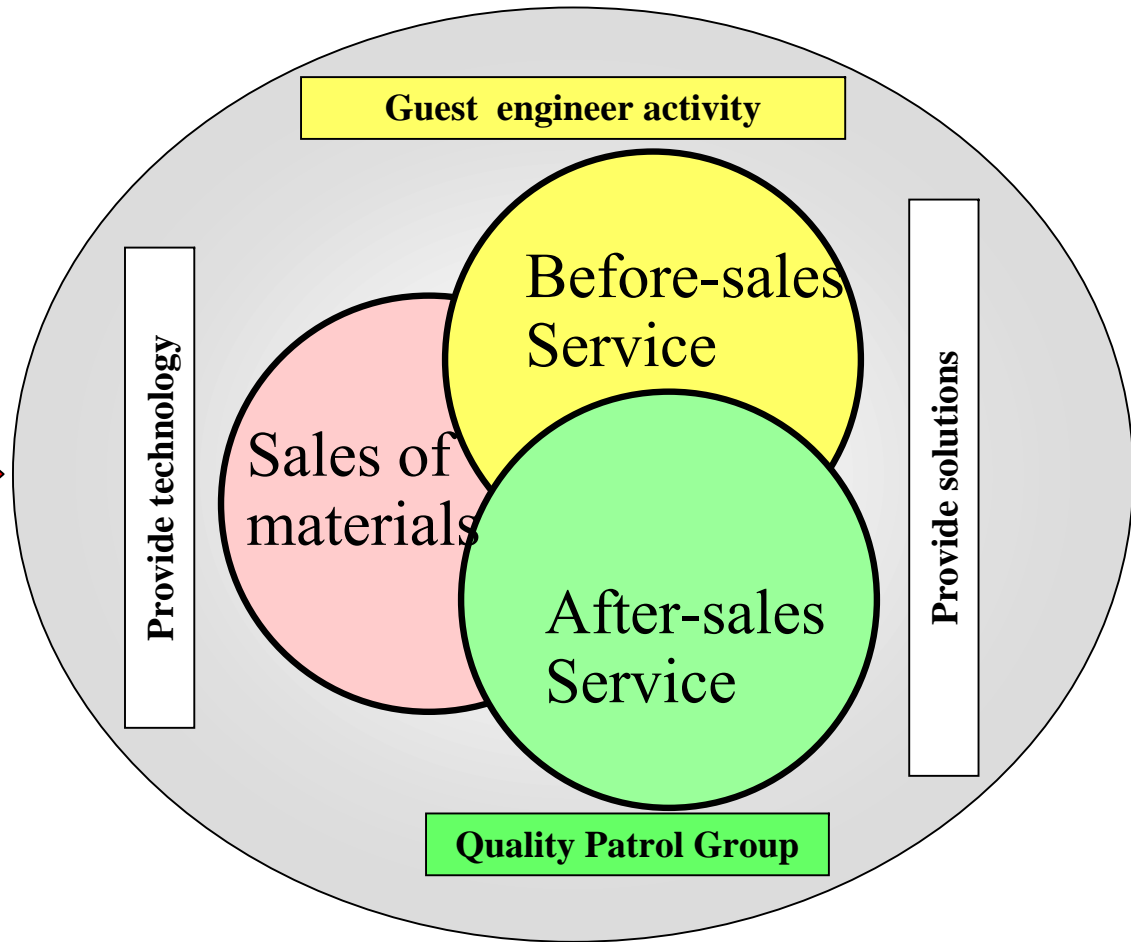


# Target for Our Business

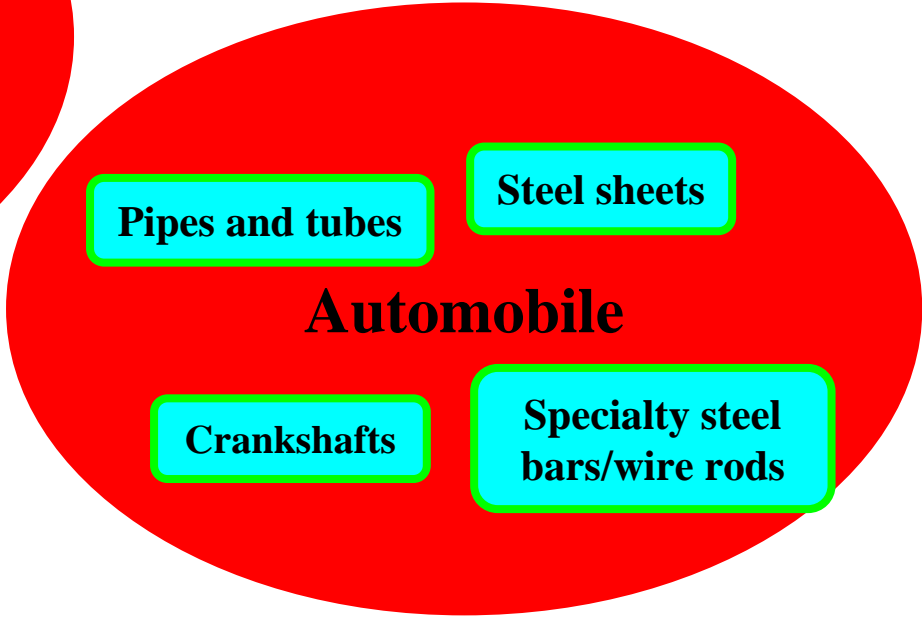
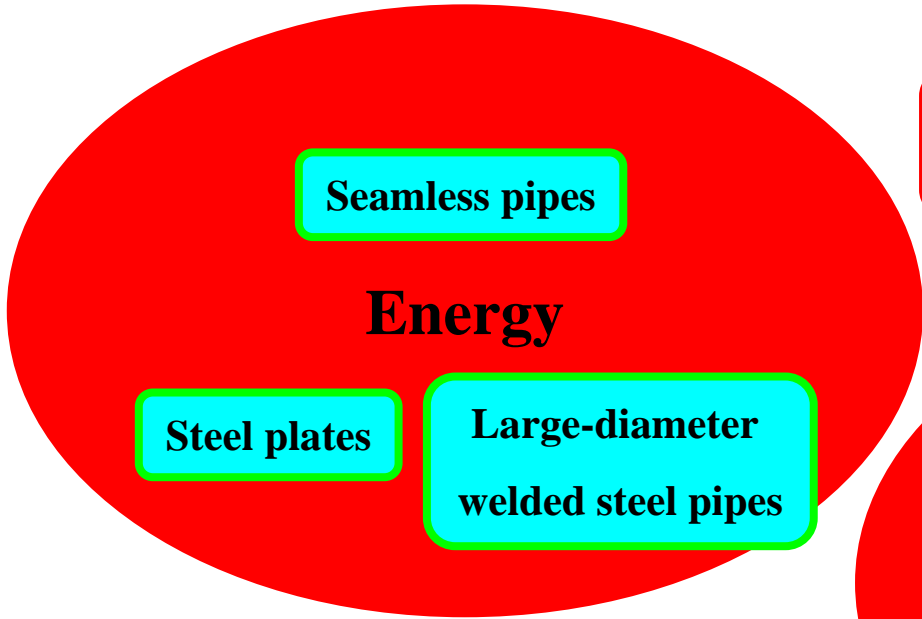
Conventional steel sheet business



Target for our steel business



**Growing Areas**



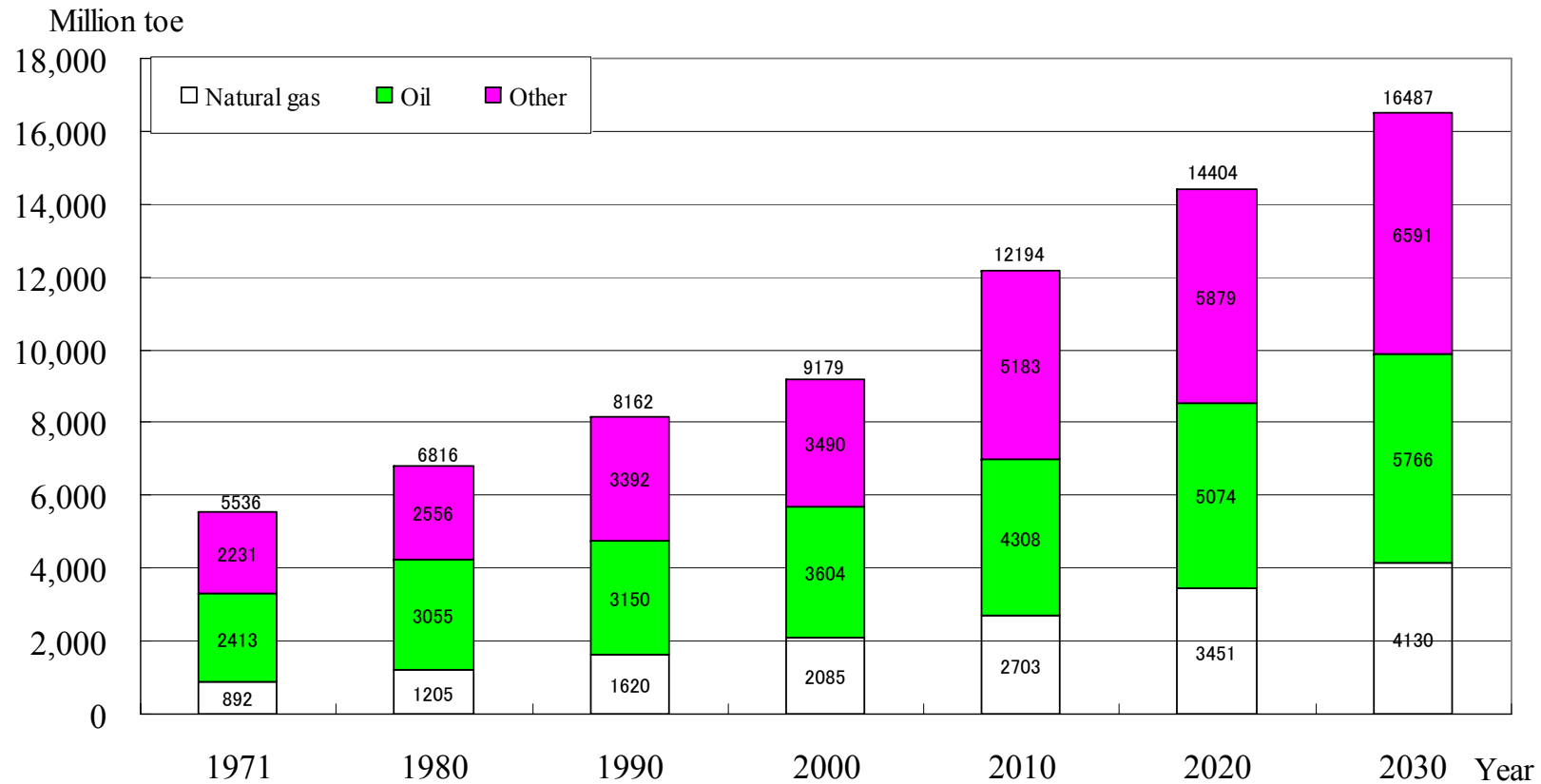
**Steady supply of high-grade products**

**Highest customer evaluation**

**Establishment of the business structure that is less sensitive to the fluctuations in the general-use product market and has resistance to downside risks**

# Outlook for Energy Demand

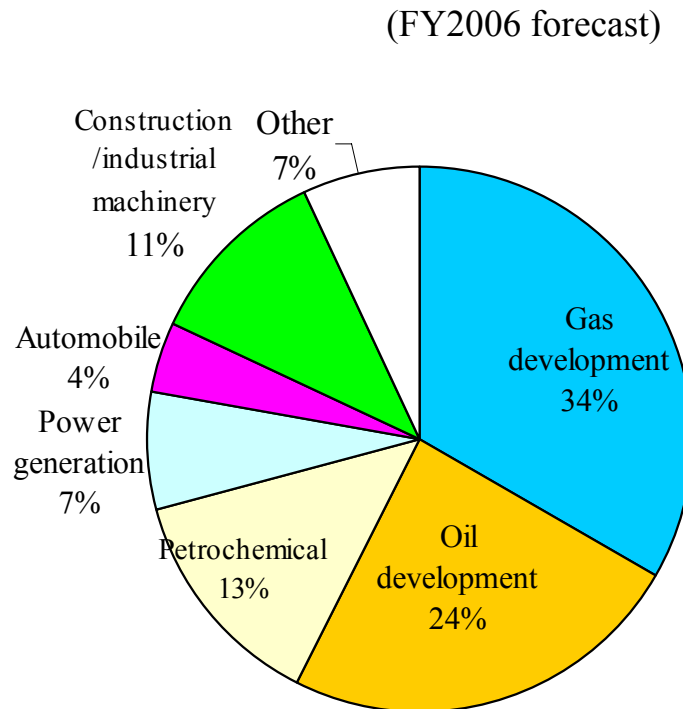
Source: IEA World Energy Outlook 2004  
IEA = International Energy Agency



# Energy Sector

## Seamless Pipes

Sales breakdown by sector (In weight)



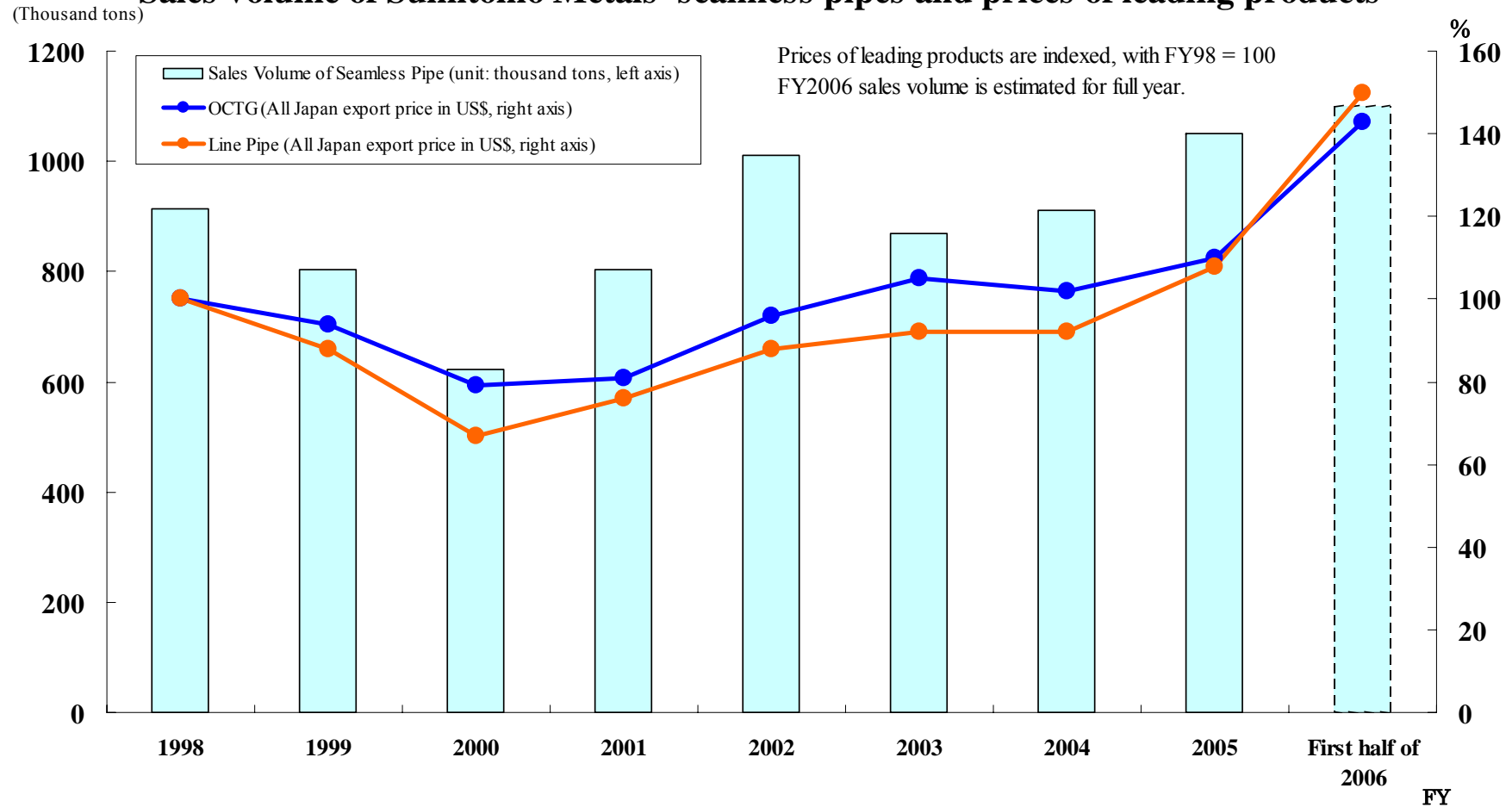
**Group of highly value-added products unsurpassed by competitors**

**World's only all-round supplier of pipes for drilling, refinement and transportation**

Sales for energy sectors: 78%

# Seamless Pipes

**Sales volume of Sumitomo Metals' seamless pipes and prices of leading products**



## Strength of Sumitomo Metals' Seamless Pipes

Research and  
Development

### Joint research with customers

Joint product development with major oil companies including BP

Manufacturing  
Technology

### Upstream Process and Medium-Size Seamless Mill at Wakayama Steel Works

- All hot metal receives desulfurization, dephosphorization and degassing treatments
- The world fastest refining technology
- Original high toe angle piercer

### World's top lineup of materials

OCTG capable of withstanding even the severest environment (full lineup in a variety of materials including super high alloy)

## Steel Plate

Supply of highly value-added products for energy sector, in addition to providing a stable supply of products for ship building sector where demand continues to be high

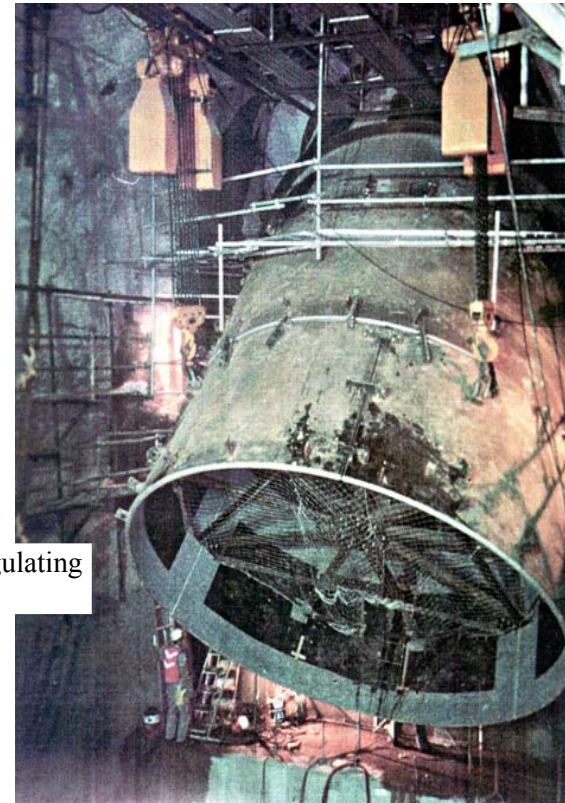
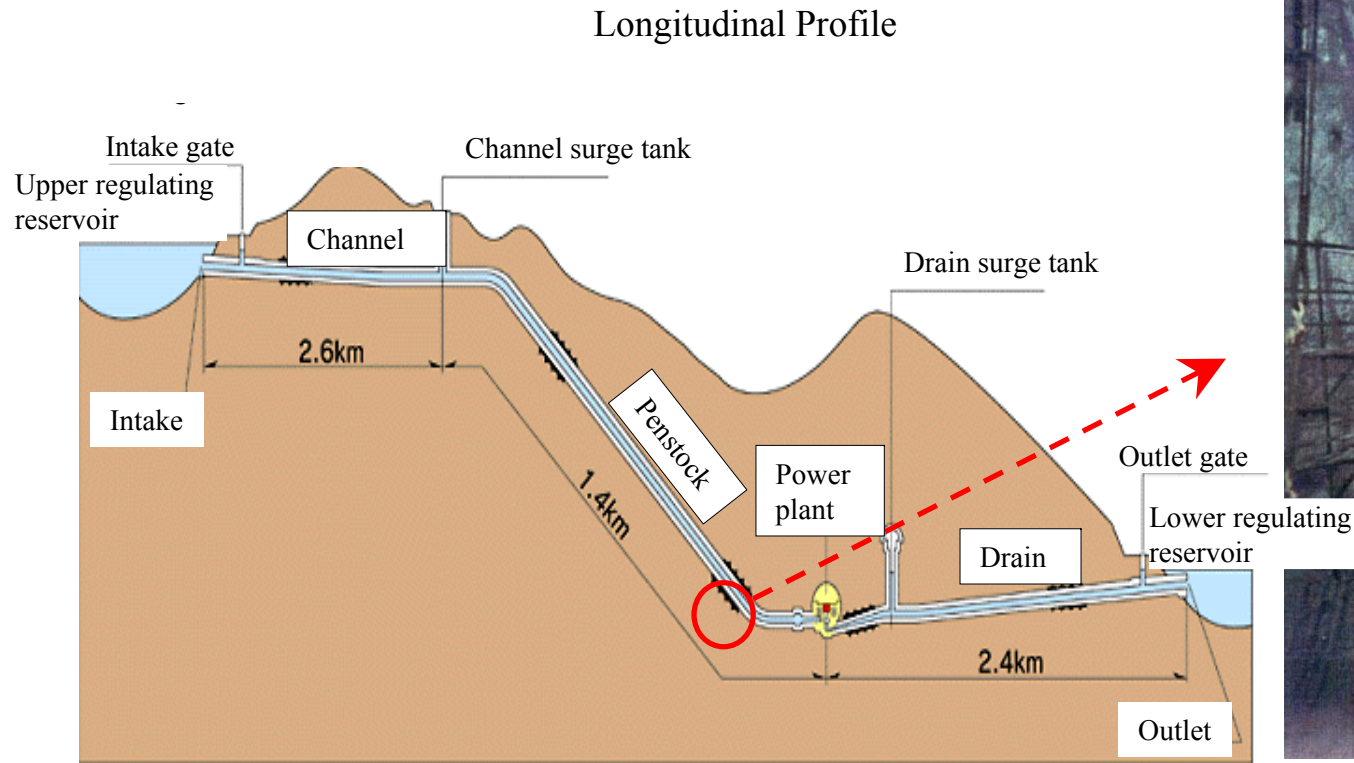
Kashima: Keeping high production level at one mill

## Steel plates for penstocks

**We are the world's most experienced supplier in the area of high-tensile- strength steel plates for penstocks for large hydroelectric power plants.**

# Penstocks Usage

Steel Plate



Penstocks under construction

## Large-diameter Welded Steel Pipes

Customers' high confidence in our products for natural gas transportation (high pressure of 100 – 150 atm.) that requires absolute safety

Low temperature  
toughness

Corrosion  
resistance

Weldability

Strength

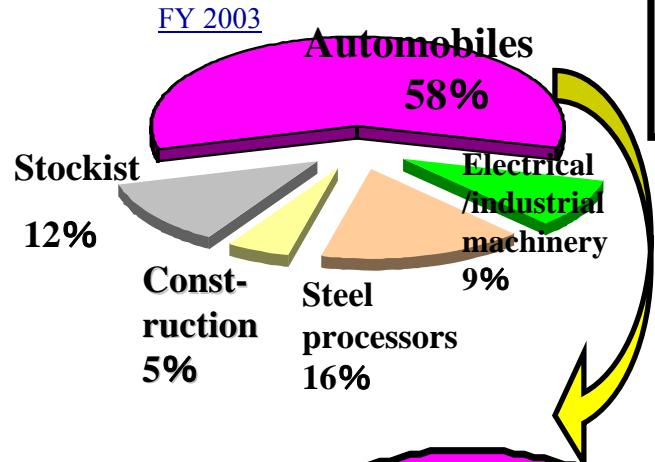
Dimensional accuracy



# Automobile Sector

## Steel Sheets

### Changes in Breakdown of Steel Sheet Sales by Sector

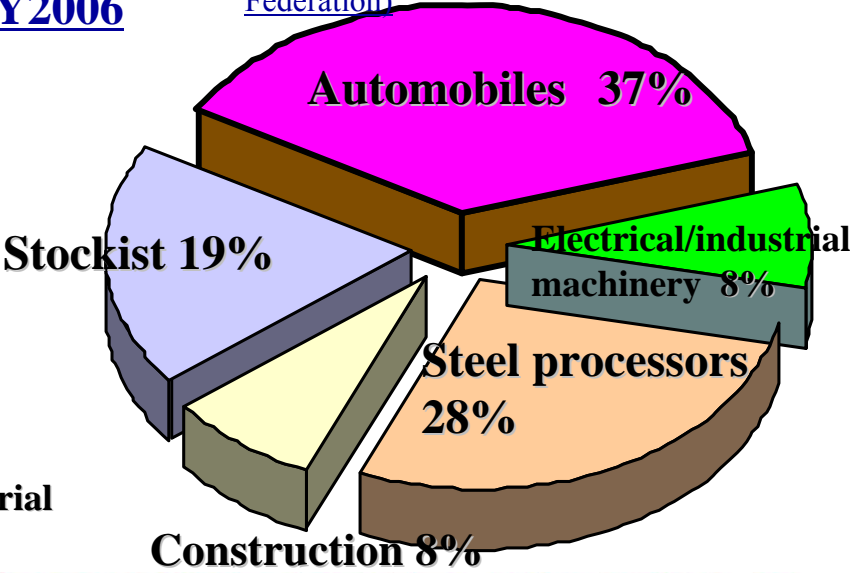
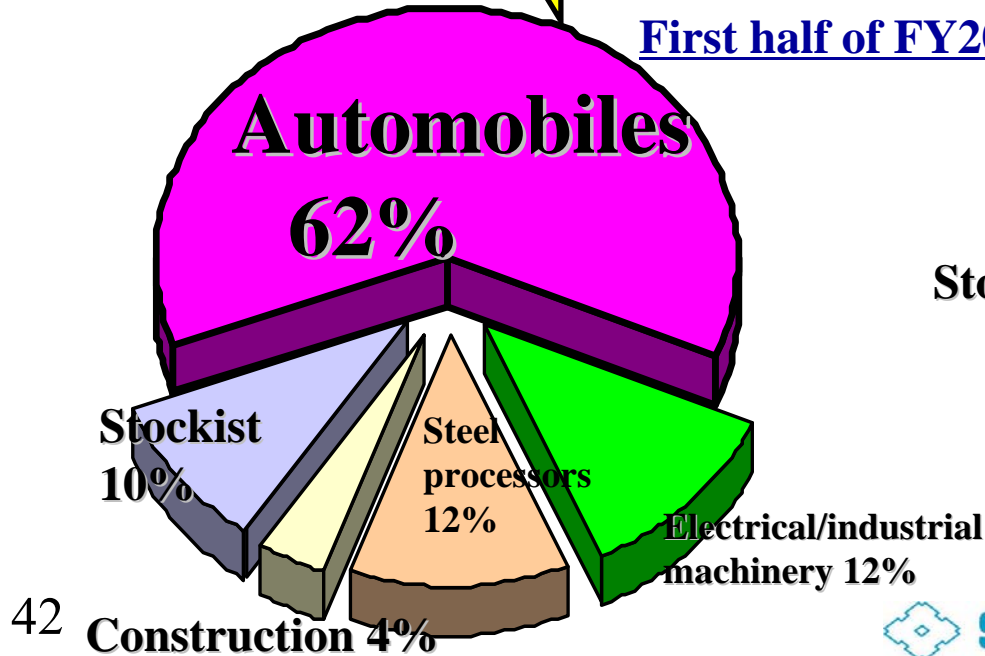


### Our domestic sales

### Domestic sales by all companies

Source: [FY2005 Order Booked of Ordinary Finished Steel Products by Domestic Steel-Consuming Sector \(Japan Iron and Steel Federation\)](#)

### First half of FY2006



# Automobile Business Environment

# Steel Sheets

## Environment/Fuel Consumption

- Exhaust gas standard
- Mileage efficiency
- Noise standard
- Recycling
- Clean energy

High-strength steel sheets contribute to lighter auto body

## Globalization

- Overseas production
- Global sales
- Business alliance

## Safety

- Technical approaches to improve crash-absorbing capacity  
**(Technology to improve auto body safety)**  
etc.

Development of a body having better crash-energy absorbing capacity  
"Crash box"

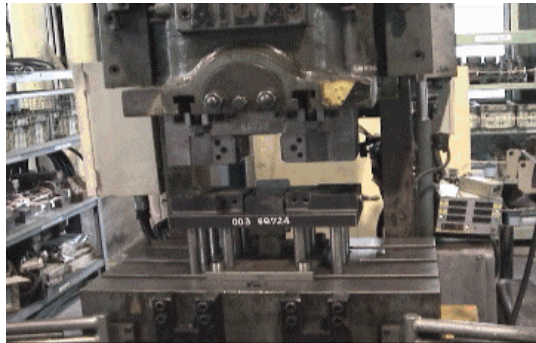
-Development of the production method for new high-strength members:  
Hot Stamping  
-"Award for Technology & Development" from Toyota for "Prius" in 2004

# Providing World-leading application technology for steel sheet use

## Steel Sheets

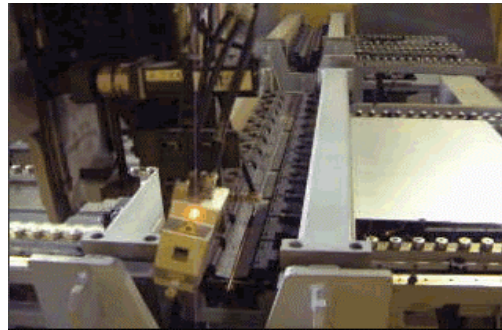
● **Japan's first**

**Hot Stamping**



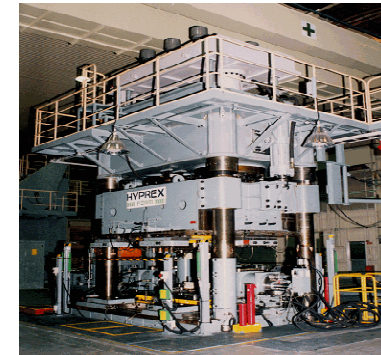
● **Unique Package**

**Tailored Blank package proposal of  
Material, Software and Equipment**



● **No.1 adoption**

**Hydroform**



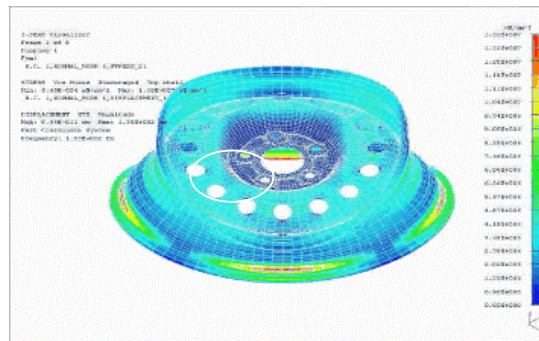
● **Fastest and largest in Japan**

**Drop weight impact  
testing equipment**



● **World's most advanced**

**Simulation technology**



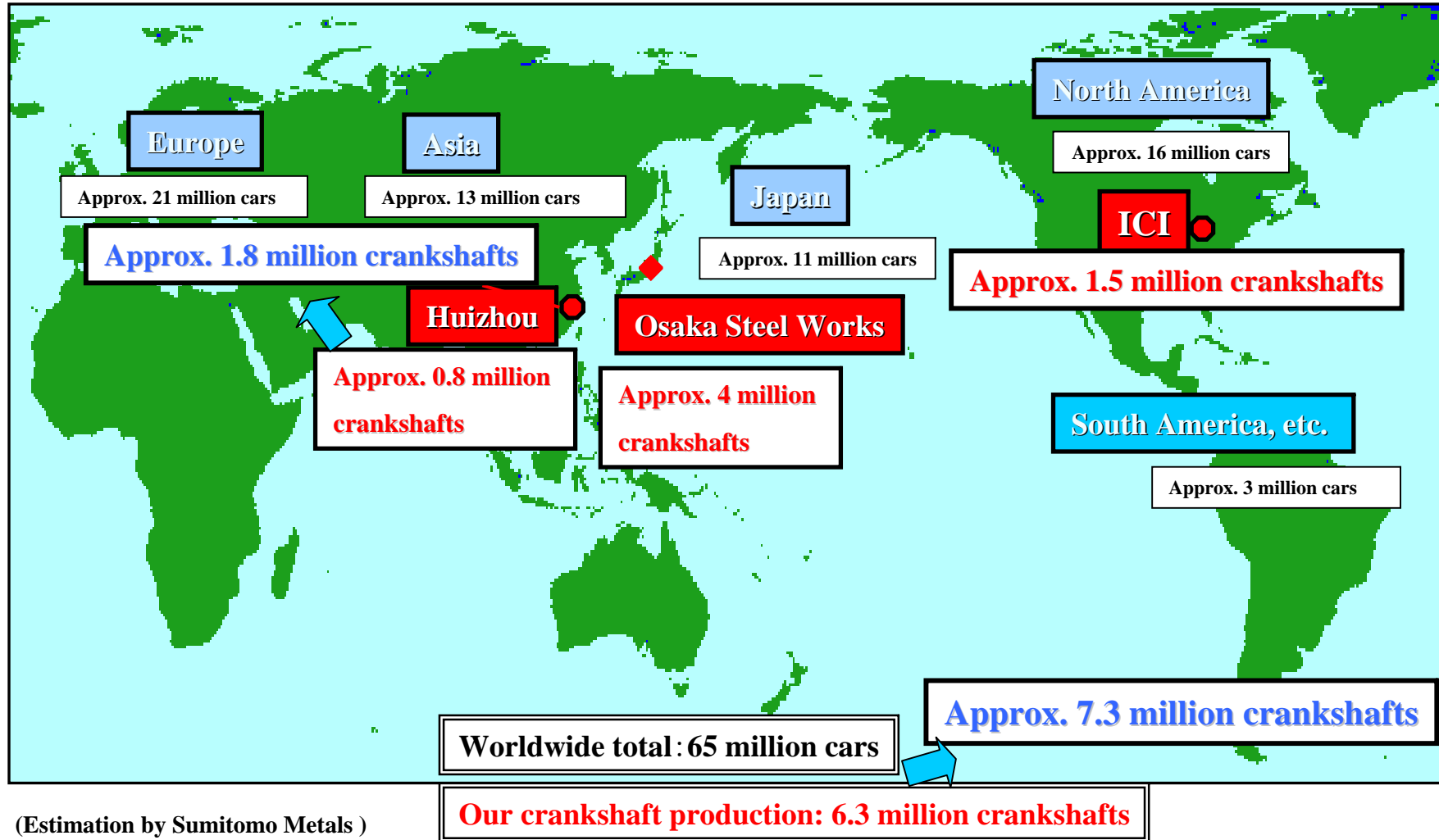
● **World's first**

**Friction analysis for galvanealed  
steel sheet (Dr. STAMP)**



# Crankshafts

## Worldwide annual automobile production and Our crankshaft production

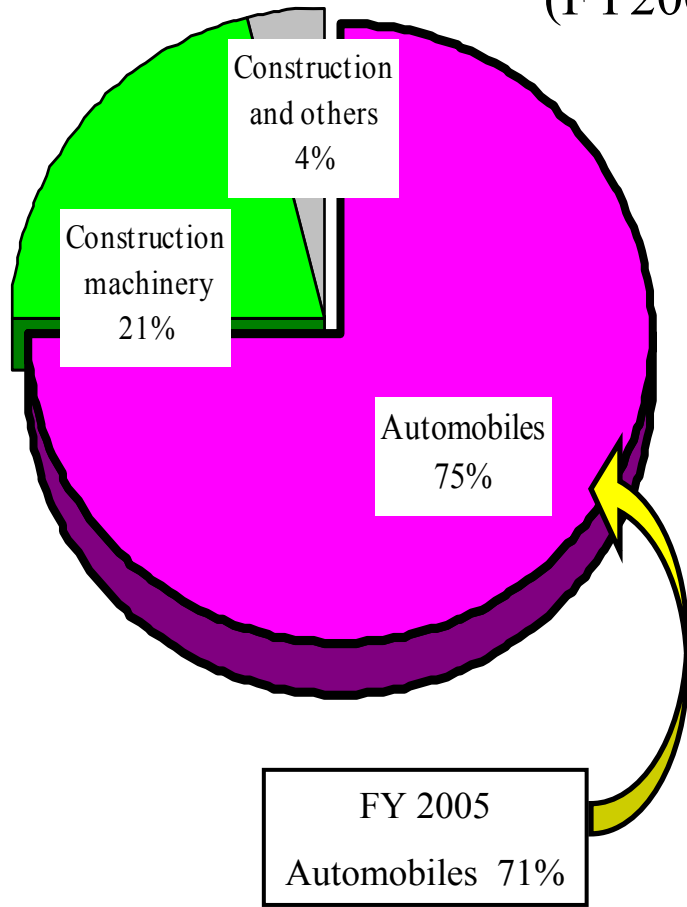


(Estimation by Sumitomo Metals)

# Specialty Steel Bars and Wire Rods

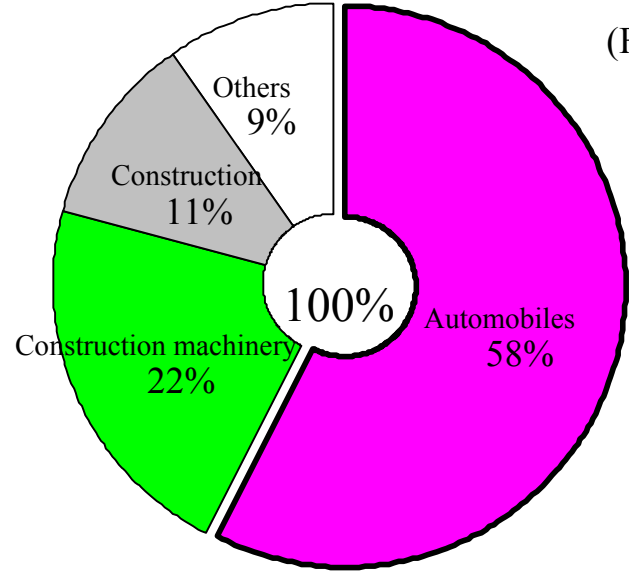
## Sales Breakdown by Sector (Sumitomo Metals (Kokura), Ltd.)

(FY2006 target)



### Sales breakdown for specialty steel by sector (All companies in Japan) (%)

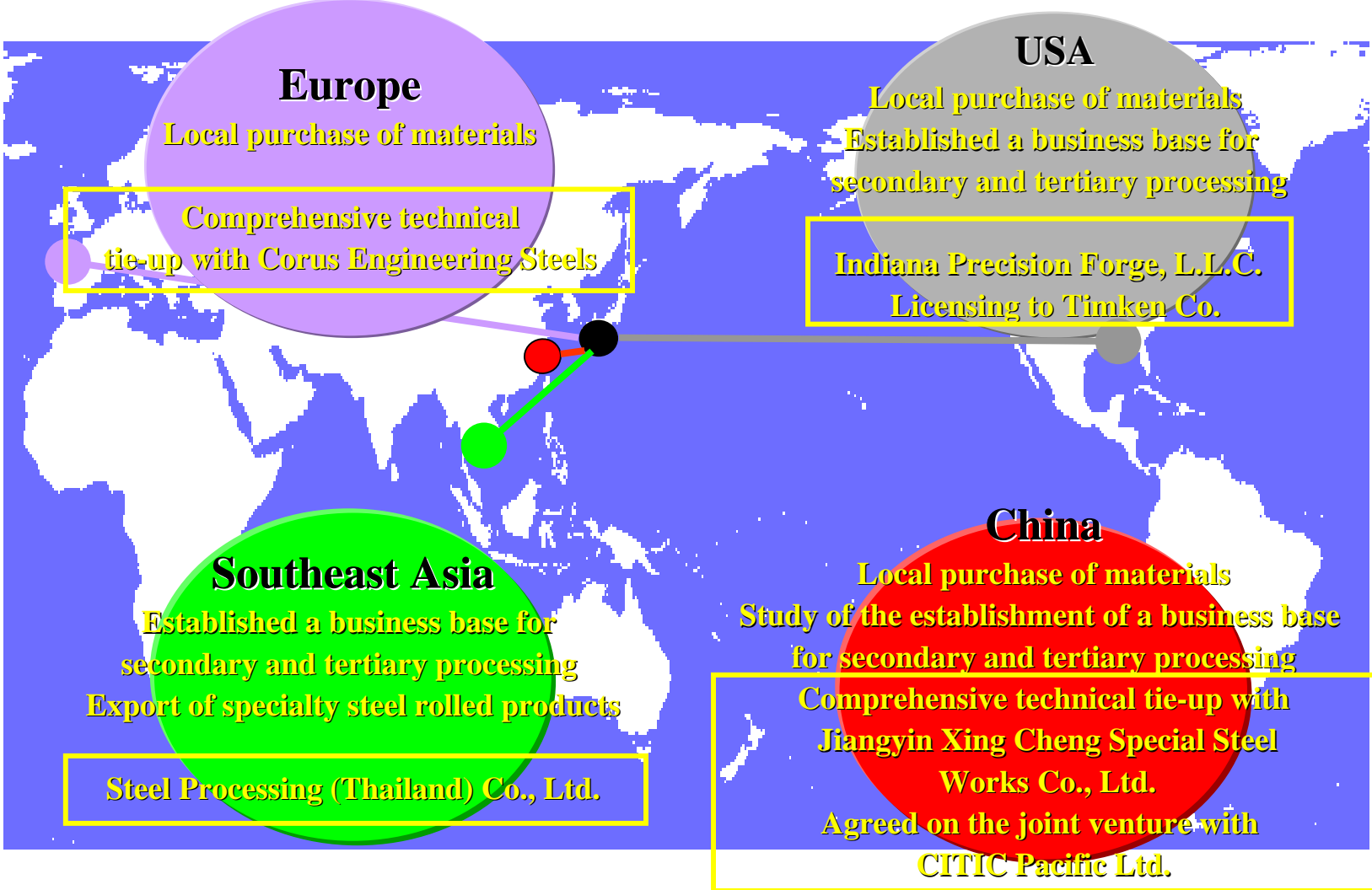
(FY2005)



Estimated by Sumitomo Metals (Kokura) Based on Monthly Statistics for Specialty Steel

# Global operational presence in four regions

# Specialty Steel Bars and Wire Rods



## Major investments to supply products for energy and automobile sectors

		Investment amount (billion yen)	Start of operation	Product/Capacity	
				Product	Capacity
Domestic	Kashima Steel Works • Installation of a new hot-dip galvanizing line • Installation of a new continuous pickling line	18 7	Autumn of 2006 Summer of 2006	Hot-dip galvanized sheets Pickled sheets	0.3 million tons/year 1.5 million tons/year
	Installation of a new bright annealing furnace at the cold drawing pipe & tube making plant, Wakayama Steel Works	0.3	Jan. 2005	High-grade boiler tubes High-grade mechanical pipes	8,000 tons/year
	Installation of an additional heat-treatment furnace and other finishing facilities at Steel Tube Works	0.5	Jan. 2006	Stainless boiler tubes	2,000 to 3,000 tons/year
	Sumitomo Metals (Kokura), Ltd. • Installation of an additional inspection and maintenance line for specialty steel bars	1.5	Oct. 2005	Specialty steel bars	8,000 tons/month
	• Increase of rolling size at the wire rod mill	0.3	Oct. 2005	Bar-in-coils	4,000 tons/month
Overseas	Huizhou Sumikin Forging Co., Ltd. <Sumitomo Metals: 51%, Sumitomo Corporation: 15%, ThyssenKrupp Automotive: 34%>	3	2008	Crankshafts for automotive engines	1 million crankshafts/year
	Guangzhou You-Ri Automotive Parts Co., Ltd. <Sumitomo Pipe & Tube Co., Ltd.: 51%, Sumitomo Corporation: 34%, Nippon Steel Corporation: 15%>	0.9	Jan. 2005	Mechanical pipes for automobiles	1,000~1,500 tons/month
	Guangzhou Ring Techs Co., Ltd. <Ring Techs Co., Ltd.: 80%, Metal One Corporation: 20%>	1.6	Beginning of 2006	Steel wheels for automobiles	2.3 million steel wheels/year