

**Question & Answer at Investor Day 2022 Part 1
(Metal Products Business Unit)**

[Date] September 14th, 2022, 1:55pm - 2:35pm

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< Questioner 1 >

I think the tubular products business has undergone various structural reforms, and it can be divided into two parts: the effects of these reforms and the changes in the external environment.

Regarding the external environment, although the rig count has been slowly increasing in Q1, it seems as the profit suddenly became very strong from Q1. What is the background to this and what is your outlook for the future?

< Inubushi >

First, the invasion of Ukraine by Russia caused a great deal of anxiety in the steel environment, which led to a surge of market price, affecting both steel sheets and tubular products.

Actually, North America was the cause of the major earnings rise for both tubular products and steel products. The US steel market has a very high proportion of electric furnaces, which is a major difference between the US and other regions. Therefore, when the scrap price suddenly rose due to the uncertainty of scrap suppliers, the selling price from the electric furnace, which is linked to scrap prices, has risen dramatically.

Furthermore, in the case of tubular products, same as iron sources such as scrap and pig iron, Russian products used to come into North America, but no longer come into the region due to the sanctions. The supply-demand situation became very tight, and this was the reason why developers who were looking for tubular products were placing the highest priority on securing volume rather than price, which further accelerated the situation.

< Questioner 1 >

Please tell us how much of the tubular products in North America market were originally made in Russia.

< Yoshimura >

I would say that Russia and Ukraine had accounted for about 15% of total import.

< Questioner 1 >

Let me assume that Russian-made products will probably still be subject to sanctions, and what is the situation with Ukrainian-made products right now?

< Yoshimura >

I must admit that we have not been able to capture what is going on with Ukraine. However, we have already begun to study the possibility of India as an alternative.

< Questioner >

Then, would it be correct to say that you expect the tubular products to remain in a tight situation from Q2 onward?

< Inubushi >

We see it that way as well. Our current view is that it will continue throughout this year.

< Questioner 2 >

I would like to know the outlook on the demand and supply of tubular products. As you explained earlier, the market environment continues to be quite favorable, and I understand that the supply capacity is starting to catch up with the current increase in demand but not enough yet.

Also, I would like to know about your company's strategy and measures in this environment.

< Yoshimura >

Regarding North America, manufacturers are quite cautious about increasing capacity because, in the past, they increased capacity during the upswing, only to be hit hard by the downswing.

For example, regarding a manufacturing facility that has been closed, based on interviews, there is not much intention to reopen it. So, relatively speaking, they are thinking of concentrating on new manufacturing facilities. There is not much momentum to invest in equipment right now to increase the capacity. In addition, as reported in the news, it is very difficult to recruit workers in the US. Another tightening factor is the anti-dumping, which targets Argentina, Mexico, and Russia. Our current view is that this one is more of an impact.

In terms of non-US, high-end products are used especially for gas development. Given the gas shortage in Europe, the Middle East, for example Qatar, is moving to increase production. It will take lead time, but we still expect an increase in this area.

Aside from oil and gas, as we mentioned earlier, we are expecting our customers, the oil majors, as well as the national oil companies, having demand of other uses of pipe such as CCS and hydrogen transportation.

We would also like to work on offshore wind power or digitalization that was mentioned earlier.

< Questioner 3 >

Regarding the shift to electric furnaces, will you be affected in any way? And please tell us how you see the shift to electric furnaces as an opportunity.

< Inubushi >

As explained, we are expecting that the need for electric furnace products will increase. The steel industry is now actually planning to invest in electric furnaces and we are expecting that the scrap distribution route and supply-demand balance will change. In this context, there will be a movement in the mid- to long-term to make steel making more renewable and greener. Therefore, we would like to seek opportunities to participate in such business plans.

As a result, we will make the entire supply chain, which is our specialty, green from upstream to downstream. We would like to seek business opportunities in specific areas where we can function in response to the major theme of the steel industry, not only as Metal Product Unit, but also by combining each functions which Sumitomo Corporation Group have.

We believe that trading such finished or semi-finished products will lead to business opportunities. Rather than just aiming for trading, we would like to demonstrate such functions to realize the themes demanded by society, to get us to the new business.

< Questioner 3 >

As for Sekal, please explain the current scale and how much you expect it to expand in the future,.

< Inubushi >

We are currently in a situation where the installations of Sekal's software for rigs are in procedure, mainly in the North Sea area. We will promote this installation globally, including the Middle East and North America, where our Tubular division excels. At the same time as getting a service fee from that, we are thinking of utilizing the data, while running.

< Questioner 4 >

I understand that you have been pursuing a more stable business model with less volatility as part of the structural reform of the pipe business. And my impression about current fundamentals are such that the oil price has somewhat peaked out, and the rig count has been sluggish for the past month or two. As normalization progresses during next year or two, please explain what move should we expect to prepare for changes in this area.

Secondly, in the section on the medium- to long-term vision, I think you are talking about a very long-time horizon about CCS and green steel, which the steel industry is currently working on. How quick would it be and at what milestones do you plan to develop your business?

< Yoshimura >

First, I will start with North America. Since the late 2000s, we increased our sales networks to capture the growing demand from China, India, and other countries. At its peak, there were six companies in North America alone, and we had distributors for OCTG alone, but as explained in the presentation, we have consolidated those into two companies. We think this as a structural reform to create a system under new normal.

In addition, regarding the downward resilience, especially in North America, the price to buy from manufacturers and to sell to customers were not necessarily linked which differs considerably from the SCM business in the non-US. There used to be dozens of companies, but after a shakeout, there are now only about three or four companies left. Therefore, taking this opportunity, we improved inventory risk profile to minimize price risk in preparation for future price fluctuations. We believe that this will be a supporting factor for possible OCTG price drop, especially in North America. Another thing we have done through restructuring is to increase long-term contracts. If we only deal with spot contracts, we will really have nothing to endure when the demand is no longer there, but there is some degree of protection if we have long-term contracts.

With the same idea, for Sekal mentioned earlier, as long as we are operating under a long-term contract, we can earn a certain amount of income through the subscription model. This is the kind of downward resilience we would like to continue to develop in the cyclical industry.

< Inubushi >

This is not a business model that we can envision and develop on our own, so we need to work together with the steel industry and the movement of raw materials. Therefore, although it is a very vague expression, as the current goal for carbon neutrality in developed countries is set at 2050, I think that the year 2030 will be a major theme for us to work backward from there. And I think it will still take time to verify the technology and whether it is really functional for carbon neutrality. Therefore, we need to be involved in the market and work together to ride the tide of the major trends.

< Questioner 5 >

I would like to know about what is the size of each in this overall picture, the volatility of their revenues, and their growth potential for each 6 types of metal Sproducts.

< Tsuda >

As mentioned in the presentation, we have a varied menu of steel products. Regarding the business scale, steel sheets are handled worldwide with overwhelming volume of several million tons, in which we can say that the steel sheet is currently our main business and profit-driver.

Other products such as steel plates, wire rods, and railway-related products are not always full-lineup in each market, but our main business field is the North American market and the North American railroad-related business is a unique area that not many other companies have. The manufacturing and sales of wheels, axles, and tie-plates in the US have remained strong, supported by to stable demand.

< Inubushi >

Let me add that in the steel industry, even among the blast furnaces' wide variety of product line-up, the percentage of steel sheets is high, and said ratio is linked to the product composition of our steel sheets SBU.

Another thing is that, in terms of customer composition by industry, automobile-related industries stands at very high ratio due in part to the size of the market itself and wide-spread related business field.

Therefore, in terms of automobiles, although we are not only working on steel sheets but also other types of products, as I mentioned earlier, because that our trade volume of steel sheets is high in relation with the production composition of blast furnaces, and that the ratio of automobile is high within the entire market, I would say that automobile-related products are consequently the main business.

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